


# WCTL: STB Regulation – Problems and Concerns

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{ Transportation Research Board Meeting, March 14, 2014

A photograph of a coal train in a rural landscape. The train, consisting of several yellow and black locomotives pulling dark coal cars, is moving along a set of tracks that recede into the distance. The landscape is flat and green, with a clear blue sky and a few utility poles. A semi-transparent white box with a blue border is overlaid on the left side of the image, containing the text:

WCTL Background  
Service  
Rate Regulation  
Revenue Adequacy  
Overview

WCTL Background

Service

Rate Regulation

Revenue Adequacy

Overview

14 Electric Utilities

150+ Million Tons of Western Coal

Active in Almost Every Major  
Proceeding at STB since the  
Staggers Act

WCTL

WCTL members are dependent on reliable efficient service to “keep the lights on”

Railroad service problems are not new 1993, 1997, 2005 and now 2013-2014

Service



STB need to be more proactive

Railroads often seemed  
“surprised” by service difficulties

Service

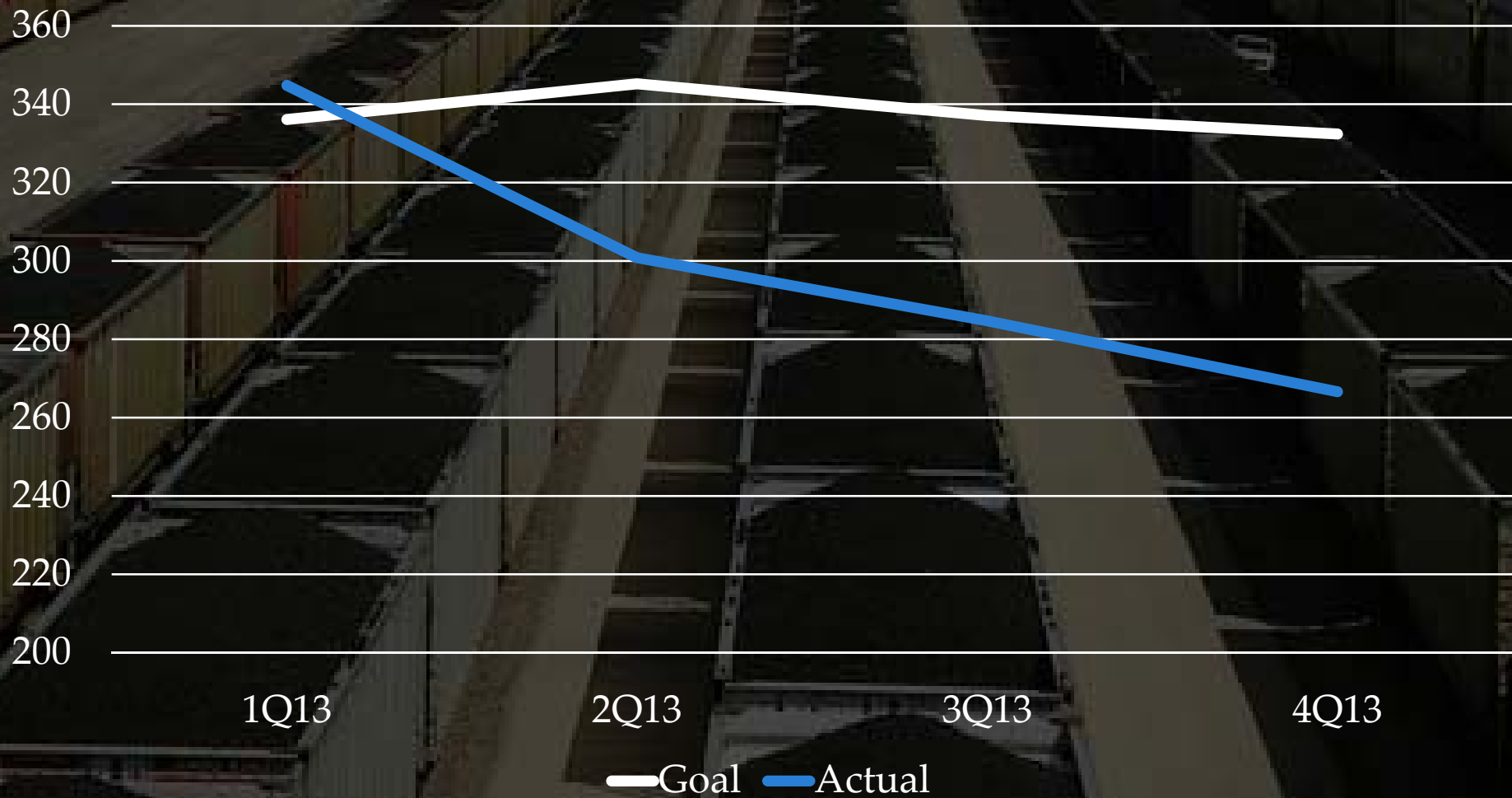
Latest service problems

BNSF struggles

Utilities concerned that there will be no coal thereby jeopardizing electric reliability

2013-2014

# BNSF Coal Car Miles Per Day



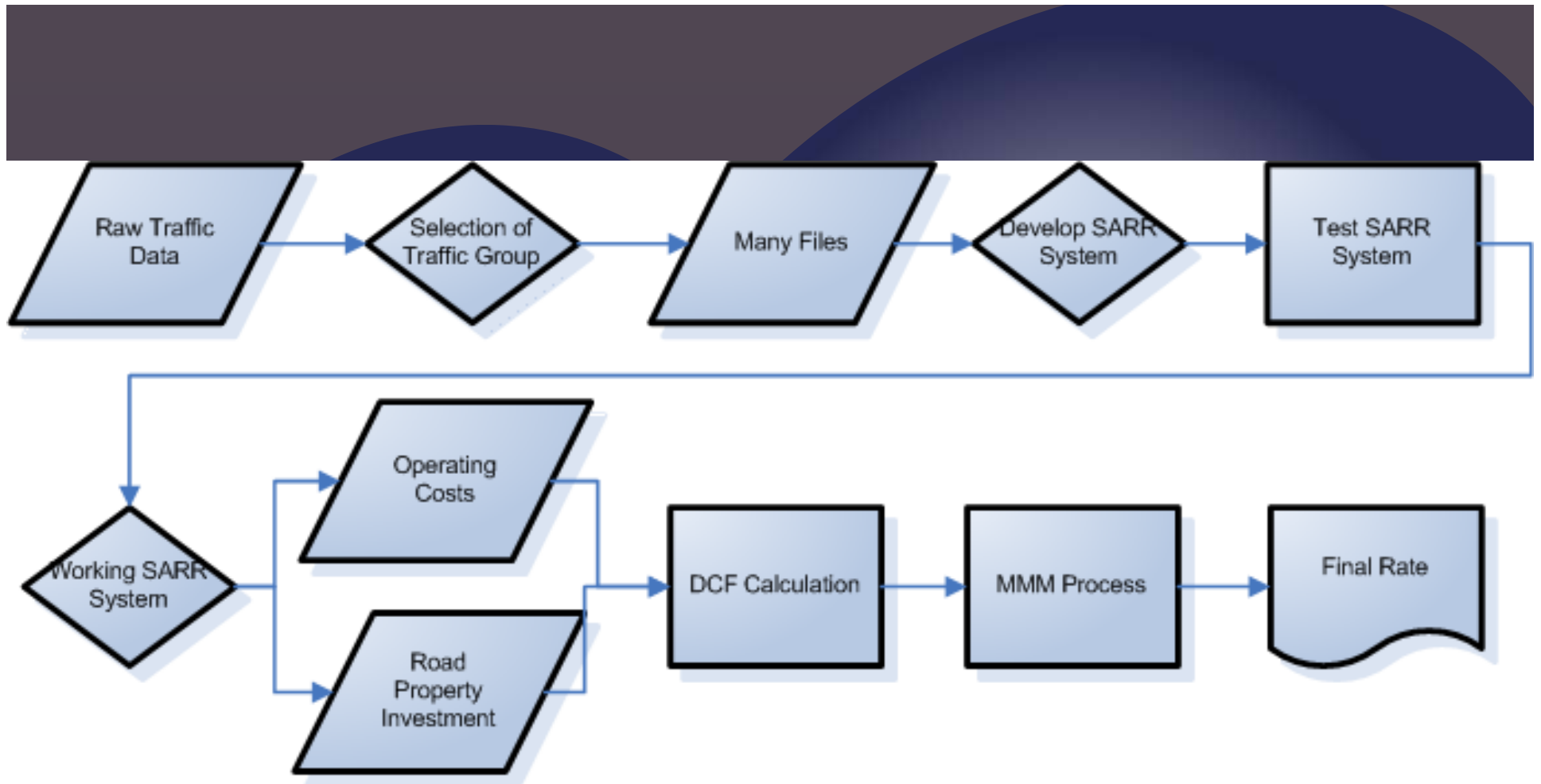
STB rate case process=complicated

STB's rules making the process  
worse

Some rate case standards and  
results defy logic

# Rate Regulation





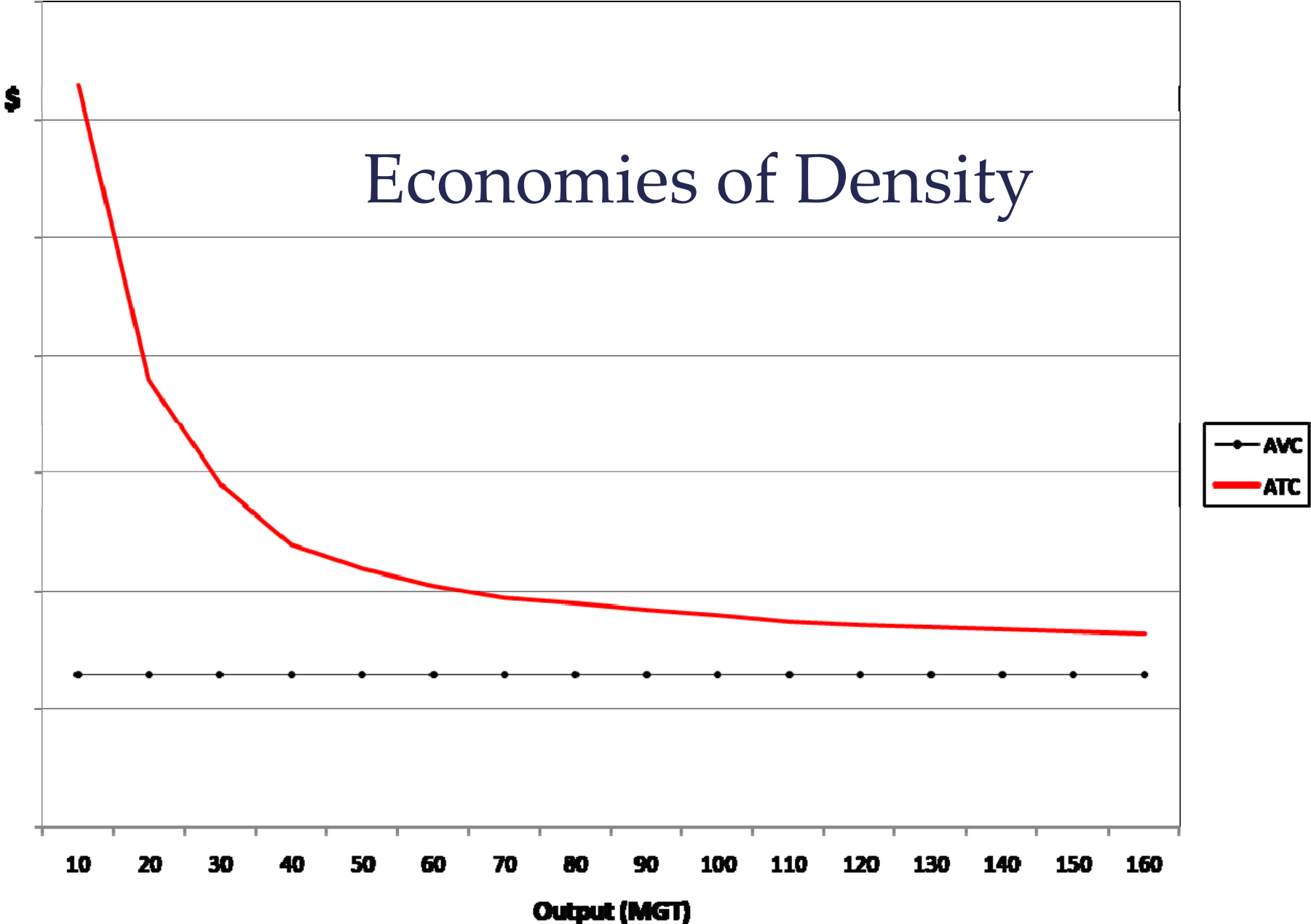
# Stand-Alone Cost Steps



Economies of Density  
Illogical Outcomes

Form Over Substance

# Economies of Density



**Low Density Segments Earn Higher Profits Per Ton Than High Density Segments**  
**Comparison of Revenue Division**  
Methodologies Movement R/VC = 1.50

<u>Item</u> (1)	<u>Original/ Alternative ATC</u> (2)	<u>Modified ATC</u> (3)
1. Revenue	\$15.00	\$15.00
2. SARR Total Costs	\$6.25	\$6.25
3. Residual Incumbent (“RI”) Total Costs	\$7.50	\$7.50
4. SARR Density	High	High
5. RI Density	Low	Low
6. SARR Division	\$6.82	\$7.27
7. RI Division	\$8.18	\$7.73
8. SARR Profit	\$0.57	\$1.02
9. RI Profit	\$0.68	\$0.23
10. Result	<b>Illogical</b>	<b>Logical</b>



Was this man fooled?

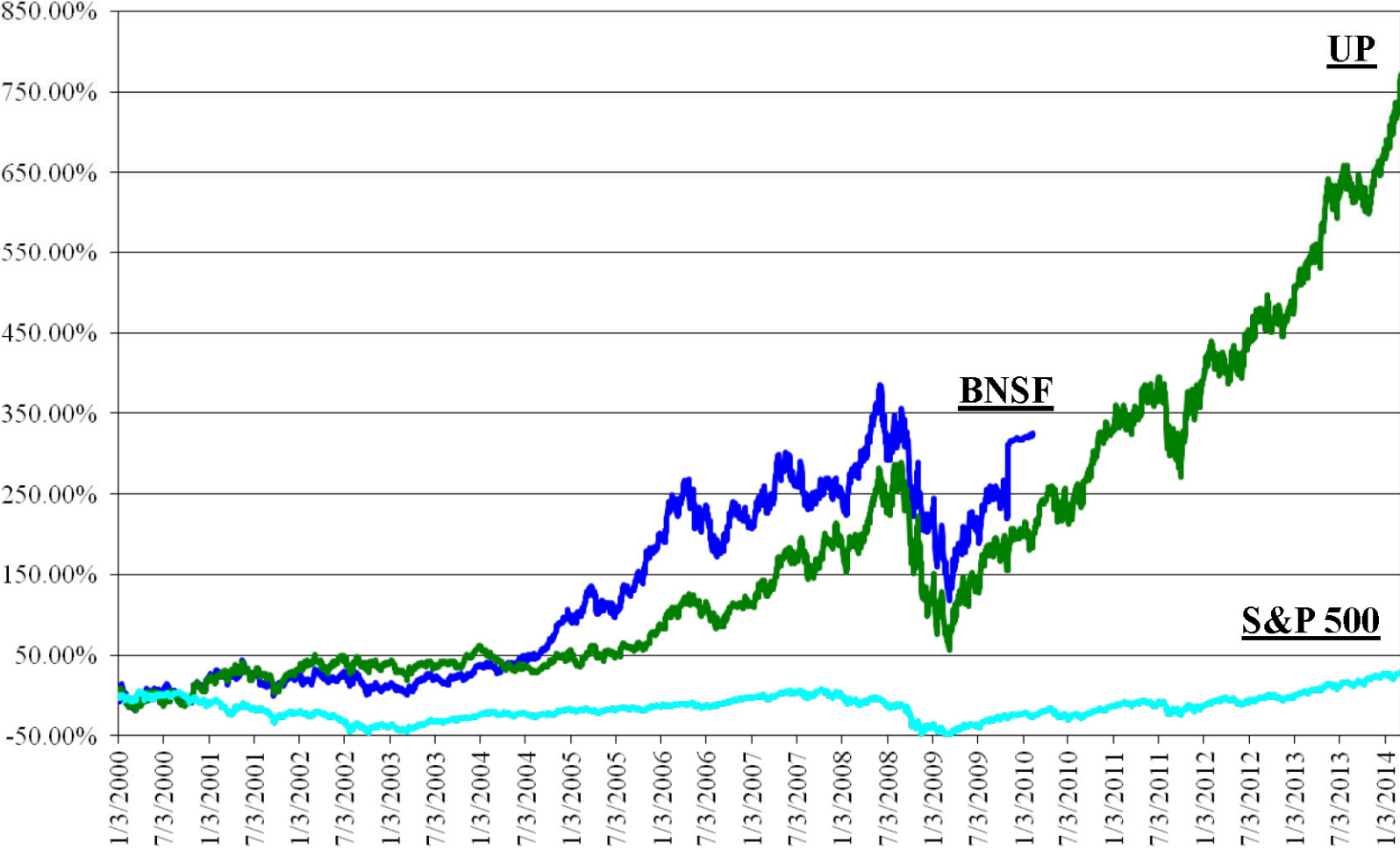


Under the STB's standards, BNSF had only been revenue adequate once in the 15 years before the Berkshire acquisition

Standards don't line up with reality

COC/Revenue Adequacy

# The return on UP and BNSF common stock significantly out performed the market reflecting the railroads' financial health



Note: BNSF stock discontinued trading on February 12, 2010 upon completion of its acquisition by Berkshire Hathaway Inc.

STB should follow markets –  
CAPM

Mixed CAPM/Multi-Stage DCF  
overstates revenue requirements

Cost of Capital

Year	STB Current Cost of Capital	ROI			
		BNSF	CSXT	NS	UP
2010	11.03%	10.28%	10.85%	10.96%	11.54%
2011	11.57%	12.39%	11.54%	12.87%	13.11%
2012	11.12%	13.47%	10.81%	11.48%	14.69%

# Revenue Adequacy

Year	CAPM Cost of Capital	ROI			
		BNSF	CSXT	NS	UP
2010	10.15%	10.28%	10.85%	10.96%	11.54%
2011	9.78%	12.39%	11.54%	12.87%	13.11%
2012	8.69%	13.47%	10.81%	11.48%	14.69%

What ratemaking standards will the STB apply if railroads are revenue adequate?

Revenue Adequacy





Thank you