



February 2008

HOW DO CAPTIVE RAIL RATES COMPARE TO COMPETITIVE RAIL RATES?

The answer to the question is anything but simple and straight-forward. The railroads know the answer to the question but aren't telling. Some railroads even continue to insist that there is no such thing as a captive rail customer. Only a captive rail customer can challenge a rate at the Surface Transportation Board (STB). No federal agency sets rail rates or approves rates, except in those rare cases where a captive rail customer files a complaint with the STB alleging that its rate is "unreasonably high." Rates vary by origin, destination, distance and commodity. Most rail rates are pursuant to contract and are confidential. Most rail customers are constrained from revealing contract rates and must keep their rates confidential for competitive purposes or for future negotiations with their rail carriers.

The only data bank of railroad rates exists at the STB. The data bank contains information on a sampling of both contract and tariff rates. For confidentiality purposes, the Board restricts access to the data bank to studies that will provide aggregate information and to plaintiffs in rate reasonableness cases. There is also about a two year lag time associated with the data referenced in the periodic Board studies.

Despite these constraints, a compelling case can be made from data filed with the STB that captive rates are much higher than competitive rates.

On a Per Ton Basis, What is the Difference Between Captive and Competitive Rates By Commodity and Major Railroad?

The following information was calculated by Escalation Consultants, Inc. of Gaithersburg, Maryland.

The Average 2007 Cost of Captivity by Commodity Per Ton

	<u>NS</u>	<u>CSX</u>	<u>BN</u>	<u>UP</u>
Farm Products Captive Rate	\$25.67	\$40.46	\$46.28	\$44.50
Farm Products Non-Captive Rate	\$14.15	\$22.31	\$25.52	\$24.53
Coal Captive Rate	\$22.92	\$22.63	\$21.11	\$21.34
Coal Non-Captive Rate	\$9.84	\$9.72	\$9.07	\$9.17
Chemicals Captive Rate	\$44.20	\$40.99	\$43.23	\$43.78
Chemicals Non-Captive Rate	\$22.08	\$20.48	\$21.60	\$21.87
Food or Kindred Products Captive Rate	\$44.61	\$48.31	\$69.09	\$74.20
Food or Kindred Products Non-Captive Rate	\$21.58	\$23.36	\$33.41	\$35.88
Pulp, Paper Captive Rate	\$59.81	\$61.97	\$89.97	\$91.32
Pulp, Paper Non-Captive Rate	\$25.44	\$26.36	\$38.27	\$38.85

Escalation Consultants has also calculated the captive and non-captive rates on 8 other commodities.

What is the Difference in RVC Between Captive and Competitive Rates?

Another indicator of the difference between the rates paid by captive and competitive rail customers is reflected in the average Revenue to Variable Cost (RVC) of these two customer groups. The Revenue is the rate charged by the railroad; the Variable Cost (VC) is the direct cost to the railroad of moving the freight in question and includes the cost of fuel, labor, locomotives, rail cars and so forth. VC does not include system costs such as track, rail bed maintenance, rail bridges, headquarters overhead and so forth. (For example, if the Revenue is \$200 and the VC is \$100, the RVC is 200%.) The RVC for captive traffic is the average RVC for every movement paying 180% RVC or greater. By law, captive rail customers must pay a minimum of 180% RVC and the STB has no jurisdiction to lower a challenged rate to below 180% RVC. For each major railroad in 2005, the average RVCs of captive and competitive traffic, the average RVC of all traffic, and the percentage of revenue derived by the railroad from captive rail traffic was as follows:

<u>Railroad</u>	<u>Captive</u>	<u>Competitive</u>	<u>Avg. RVC for All Traffic</u>	<u>Percent of Revenue Supplied by Captive Traffic</u>
BNSF	238%	116%	134%	26%
CSX	236%	120%	148%	39%
NS	249%	117%	154%	45%
UP	229%	110%	125%	23%

Which commodities on the major railroads are captive and what percentage of the revenue derived from these commodities is attributable to captive traffic?

<u>Commodity</u>	<u>Percent of Total Freight Revenue</u>	<u>Percentage of Revenue Greater than 180% (Captive Revenue)</u>
Farm Products	8.0%	29%
Metallic Ores	1.2%	46%
Coal	19.9%	39%
Ordinance or Accessories	4.0%	87%
Chemicals	11.8%	48%
Petroleum or Coal Products	3.3%	43%
Stone, Clay and Glass Products	3.4%	35%
Fabricated Metal Products	0.1%	36%

Source of Data:

All of the information in this document was developed by Escalation Consultants, Inc. of Gaithersburg, Maryland. The freight rate data are the average rate per ton for the first three quarters of 2007 Freight Commodity Statistics Report also known as the Quarterly Commodity Statistics report. Escalation Consultants, Inc. applied factors taken from the CS-54 Report (Commodity Stratification Report) to calculate the captive and competitive rates. The railroad summary data listing the average, captive and competitive RVCs by railroad are taken from latest Revenue Shortfall Allocation Markup Report (RSAM) for 2005.