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HOW DO CAPTIVE RAIL RATES COMPARE TO COMPETITIVE RAIL RATES?

The answer to the question is anything but simple and straight-forward. No federal agency sets rail rates or approves rates, except in those rare cases where a captive rail customer files a complaint with the Surface Transportation Board 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 either are constrained from revealing contract rates or must keep their rates confidential for competitive purposes or for future negotiations with their rail carriers. The railroads do not normally share information on captive rates as compared to competitive rates.

The only known data bank of railroad rates exists at the Surface Transportation Board. The data bank contains information on both contract and tariff rates, which by law must be filed with the Board. The law requires that contract rates be confidential. Thus, 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 a lag time associated with the rates referenced in the periodic Board studies.

Despite these constraints, a compelling showing can be made 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. This “per ton” information is calculated from the 2003 Surface Transportation Board "Revenue Shortfall Allocation Methodology" (RSAM) study, the latest study available from the Board.

	<u>NS</u>	<u>CSX</u>	<u>BN</u>	<u>UP</u>
Farm Products Captive Rate	\$21.37	\$36.74	\$45.28	\$37.99
Farm Products Non-Captive Rate	\$11.88	\$20.83	\$26.09	\$21.29
Coal Captive Rate	\$17.56	\$17.22	\$16.77	\$17.00
Coal Non-Captive Rate	\$9.76	\$9.76	\$9.66	\$9.53
Chemicals Captive Rate	\$36.98	\$34.33	\$42.57	\$38.94
Chemicals Non-Captive Rate	\$20.56	\$19.46	\$24.52	\$21.82
Lumber or Wood Captive Rate	\$29.43	\$36.13	\$59.19	\$59.49
Lumber or Wood Non-Captive Rate	\$16.36	\$20.48	\$34.10	\$33.34
Pulp, Paper Captive Rate	\$39.48	\$40.82	\$62.14	\$55.40
Pulp, Paper Non-Captive Rate	\$21.95	\$23.14	\$35.80	\$31.05

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

What is the Difference in RVC Between Captive and Competitive Rates? (2003 RSAM Study)

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 railroad cost directly attributed to the movement by the railroad. (For example, if the Revenue is \$20 and the VC is \$10, the RVC is 200%). The RVC for captive traffic is the average RVC for every movement paying 180% RVC or greater. For each major railroad in 2003, the average RVC's of captive and competitive traffic was as follows:

	<u>Captive</u>	<u>Competitive</u>
BN	215.6%	109.1%
CSX	186.8%	93.1%
NS	209.2%	102.3%
UP	210.4%	106.8%

Which commodities on the major railroads are captive and what percentage of the revenue derived from these commodities is attributable to captive traffic? (2003 RSAM Study)

<u>Commodity</u>	<u>Percent of Total Freight Revenue</u>	<u>Percentage of Revenue Greater than 180% (Captive Revenue)</u>
Farm Products	7.3%	34.4%
Metallic Ores	1.1%	42.0%
Coal	20.1%	39.9%
Ordinance or Accessories	0.4%	76.7%
Chemicals	12.7%	59.0%
Petroleum or Coal Products	3.0%	50.4%
Stone, Clay and Glass Products	3.3%	38.6%
Fabricated Metal Products	0.12%	44.3%

What percentage of revenue of each major railroad is derived from captive traffic? (2003 RSAM Study)

Burlington Northern	26.6%
CSX	38.1%
Norfolk Southern	41.1%
Union Pacific	31.6%