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EXECUTIVE SUMMARY FUTURE OF COAL: TRANSPORTATION

STATEMENT OF PROBLEM:

Currently, over 50% of the nation's electricity is generated by facilities that use coal as the primary fuel. Given natural gas price and supply issues and the uncertain future of nuclear power, the nation is likely to experience an increase in the amount of electricity generated from the use of coal. In fact, the planned development of a number of new coal-based generating facilities has been announced by investor owned, rural electric cooperatives and municipal power generators.

The norm in the transportation of coal from a mine to a power plant is that the owner of the power plant purchases the coal at the mine and arranges for its transportation to the generating facility. Unless a generating facility is located at or very near a mine or on a water system that exists between the source of the coal and the power plant, the transportation of the coal to the power plant is by rail.

The current problem with coal transportation by rail is that a very high percentage of the movements of coal from mine to generating facility remain subject to railroad monopoly pricing power. The railroad industry enjoys an exemption from the nation's antitrust laws. When Congress deregulated the railroad industry in 1980, it charged the Interstate Commerce Commission (ICC), now the Surface Transportation Board (STB), with the responsibility of both implementing deregulation and ensuring that railroads not charge their "captive" rail customers (those subject to monopoly pricing power) rates that are unreasonably high.

Both the ICC and now the STB have allowed the railroads to avoid rail-to-rail competition and have constructed a "rate reasonableness" process that does not constrain rail rates. The result of this unrestrained railroad monopoly power is that the transportation cost of coal is unreasonably high and coal customers often receive very poor service because, frankly, the railroads can take these customers for granted. The result is higher electricity costs, lower coal producer profitability and, all too often, low supplies of coal at power plants.

PROPOSED SOLUTION

Utilities that transport coal for electricity generation must have access to transportation competition where it exists.