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December 10, 2019
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Hearing on Railroad Revenue Adequacy

*Surface Transportation Board
Docket No. EP 761*

**Testimony of
BNSF Railway**

12/12/2019



Overall Rate of Return Is an Improper Basis for Railroad Regulation

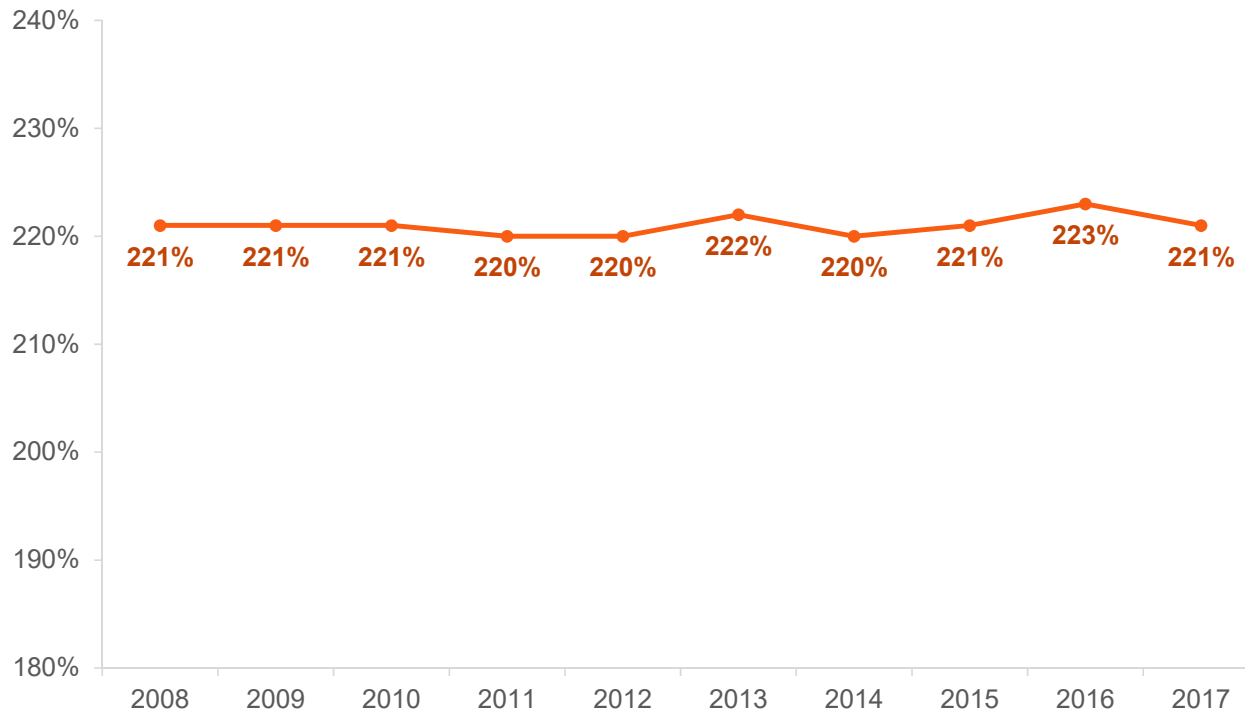


- The Task Force proposes using the overall financial return of a railroad as the trigger for various mechanisms to drive rates below market levels.
- The STB should continue to regulate by allowing competition in dynamic markets to set transportation rates and drive service innovations, focusing regulatory intervention when markets fail allowing abuses of market power.
- A stable, balanced regulatory environment encourages investment & innovation. This incents the right behavior for railroads.
- The STB should refrain from adopting regulations that penalize a railroad for being successful in competitive markets without regard for what has driven its return levels.

STB Docket Ex Parte 689: BNSF's Annual R/VC>180 Benchmark



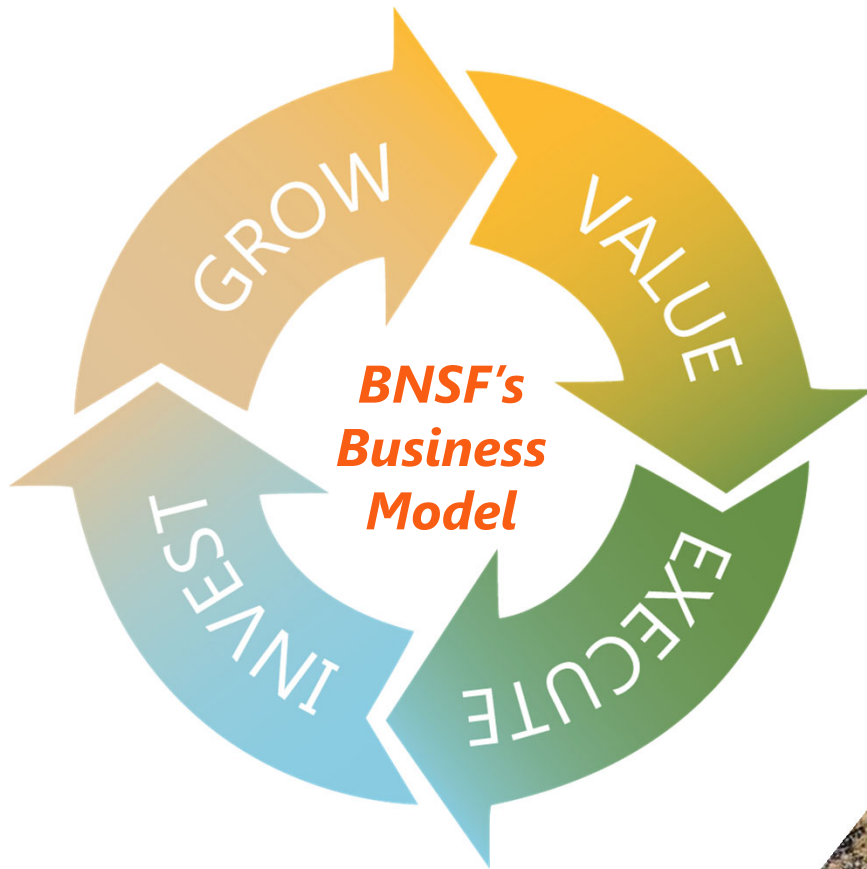
BNSF Average RVC>180



- In 2017, less than 1/3rd of BNSF traffic was transported at levels >180 R/VC.
- About 50% of revenue >180 was earned on traffic not subject to STB jurisdiction, including BNSF intermodal traffic.
- BNSF's average R/VC on all traffic above 180% R/VC has been notably steady.

BNSF's Business Model is Focused on Investing Returns to Drive Safety, Efficiency and Growth with Customers

BNSF
RAILWAY

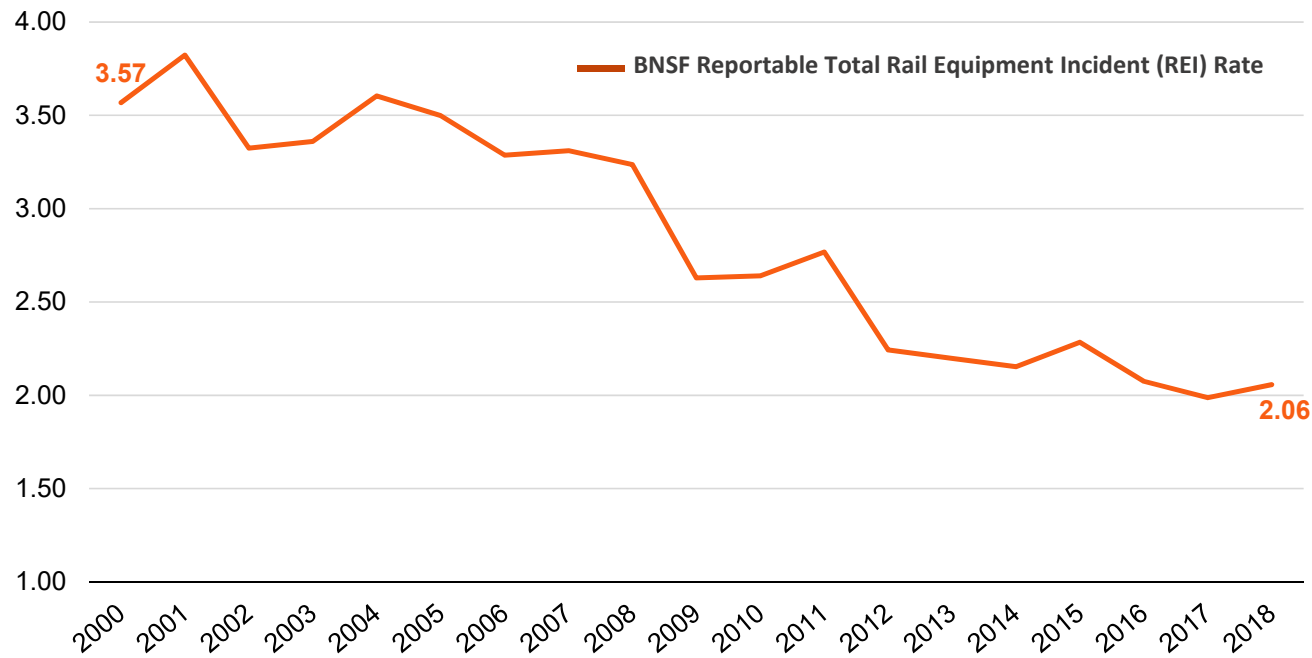


Capital Investment Decisionmaking

- Invest to maintain railroad first
- Additional investments must earn adequate risk adjusted return
- Significant risk already exists
 - Regulatory process risk
 - Business risk
- Rail assets are long-lived
- Spending front-end loaded
- Returns earned over assets' life

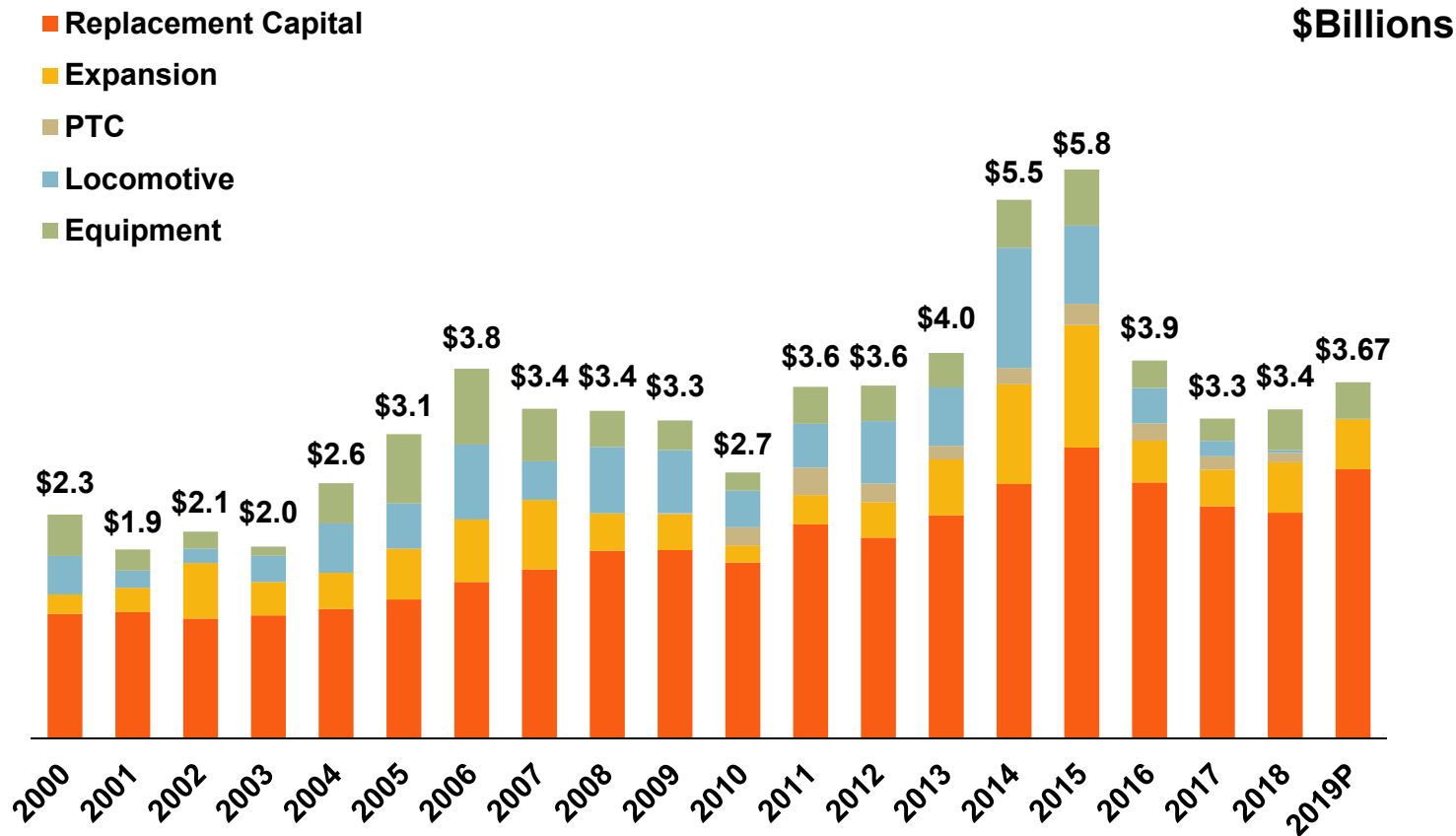


Capital Investments Drive Efficiency and Reliability



Source: FRA 1.12 – Ten Year Accident/Incident Overview through Dec 2019, as of March 2019

BNSF is Investing In Our Network



BNSF HAS
MADE OVER
\$65
BILLION
IN CAPITAL
INVESTMENTS
IN OUR RAILROAD
SINCE 2000.

BNSF Response to 2019 Flooding: Importance of Replacement Cost in Considering Revenue Adequacy

BNSF
RAILWAY



BNSF Coal Volume, Gas Price and Fuel Mix

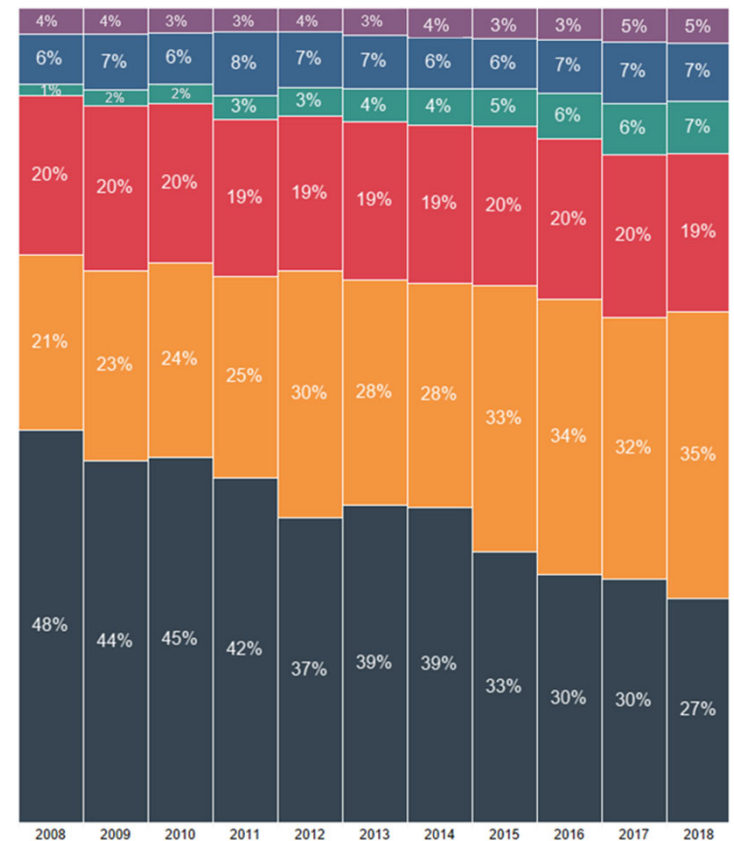


BNSF Volumes and Natural Gas Price



Source: AAR; EIA

Electricity – Share of Net Generation by Fuel



BNSF Concerns about RRTF LTRA Proposals:



- Both proposals divorced from market outcomes, sound economic principles and statutory requirements
- Fails to recognize when profitability results from competing successfully, including on exempt traffic
- Creates unintended consequences: all shippers will want to be regulated (and on a LTRA railroad) to get the STB's below-market rate
- Hugely disruptive to functioning markets, creation of winners and losers in transportation and shipper commodity markets

RIC:

- Freeze means railroad must decrease rates to retain traffic but no ability to increase with market
- Allocates enterprise-wide surplus earned on competitive and <180 R/VC traffic to subset of shippers
- Disincentives contracting
- Relies on flawed URCS and R/VCs; rewards high cost railroad

Bottleneck:

- Statutory long-haul protection only revoked in narrow circumstances—not LTRA
- Replaces existing efficient single-line long-haul moves with inefficient multi-carrier bridge moves
- Allows individual shipper to mandate grossly inefficient routing to get below-market rate
- Expect serious operational impacts; inability to invest in facilities

Regulatory Policy Should Promote, Not Threaten, Competition, Investment and Growth



- A stable, balanced regulatory environment allows investment & innovation. This incents the right behavior for railroads.
- Regulatory changes that disrupt the current balance will have unintended consequences, lowering capital investment that has driven safety, service, efficiency and growth for customers.
- Continue to address rate concerns through an individualized rate review analysis that maintains the important regulatory balance that currently exists.
- Continue to focus on improving rate reasonableness methodologies, not on the development of a wholesale new revenue adequacy constraint

