

BEFORE THE
SURFACE TRANSPORTATION BOARD

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February 24, 2022
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In the Matter of:

RAILROAD COST RECOVERY
PROCEDURES - PRODUCTIVITY
ADJUSTMENT

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) Ex Parte No. 290 (Sub-No. 4)
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COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

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Its Attorneys

Dated: February 24, 2022

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In response to the decision that the Surface Transportation Board (“Board” or “STB”) served in the above-captioned proceeding on February 19, 2021, the Western Coal Traffic League (“WCTL”)¹ submits the following comments regarding the Board’s proposed calculation of railroad industry productivity for 2020 and the 2016-2020 average for use in the Rail Cost Adjustment Factor (“RCAF”) productivity adjustment.

WCTL concurs in the Board’s calculation of the input index value of 0.904 for 2020. The input index value utilizes publicly-available information, and the calculation is thus transparent. WCTL is unaware of any information that directly undermines the technical accuracy of the Board’s calculation of the output index value of 0.923 for 2020, representing a 7.7% decline.

¹ WCTL is a voluntary association, whose regular membership consists entirely of shippers of coal mined west of the Mississippi River that is transported by rail. WCTL’s members are: Ameren Missouri, Arizona Electric Power Cooperative, Inc., Austin Energy (City of Austin, Texas), CLECO Corporation, CPS Energy, Entergy Services, Inc., Evergy, Inc. Lower Colorado River Authority, MidAmerican Energy Company, Minnesota Power, Nebraska Public Power District, and Western Fuels Association, Inc.

WCTL notes that 2.5% annual average increase in productivity is the highest that the industry has achieved since 2004. The achievement is a significant one, especially as the 2020 gain occurred during the first year of the pandemic. At the same time, shippers are concerned that the gain was achieved in substantial part by reducing employee headcounts, that those reduced headcounts left the railroad industry unable to move available volumes that that might have ameliorated the reduction in output, and that those headcount and volume reductions are contributing to the current supply chain problems that plague the economy and contribute to inflation. *E.g.*, <https://www.wsj.com/articles/union-pacific-says-covid-19-left-railroad-understaffed-11642706298> (Wall Street Journal Jan. 20, 2022).

Moreover, the measurement of inputs and waybill output is limited in that it does not take, or only partially takes, into account how the railroads have used Precision Scheduled Railroading (“PSR”) to degrade the quality of service and shift costs to shippers through, *e.g.*, increased reliance on manifest service, holding such trains until they achieve preferred length, reducing the number of days per week that shippers receive service, resulting decreases in service reliability, and increased charges for demurrage and accessorial services. The productivity calculation takes into account the cost savings on the railroad end, but not the direct costs that are shifted to shippers, the additional costs that shippers might pay or experience due to demurrage and bunching, and the

operational costs that shippers experience when inputs and products do not arrive or depart on time.

The productivity gains that the railroads achieve through PSR might be of less concern if the resulting savings were being passed through to shippers. However, the evidence is otherwise. In particular, railroads have reduced their operating ratios during the pandemic, demonstrating that they are retaining their savings and not passing them through to shippers. The Board's Tornqvist data also shows an increase in real rates in recent years, coinciding with broad adoption of PSR. See https://www.stb.gov/wp-content/uploads/Annual_Rail_Rate_Index_Study_2019.pdf (Figure 1 on p. 1, utilizing GPD-IPD as the deflator as noted on p. 6).

WCTL has previously noted that the change in the mileage methodology that occurred starting in 2015 may have contributed to a reduction in the measured output for that year and suppressed the measurement of productivity in related years. That potential distortion was eliminated for the 2016-2020 average because all years use the same mileage methodology, *i.e.*, 2015 serves as the base for calculating the change in 2016 output. In other words, a contributing factor to the 2.5% productivity average may be the removal of distortions associated with the changeover in 2015.

Notwithstanding the above, WCTL is particularly concerned that the total revenues utilized in the Board's workpapers do not reconcile with the total revenue reported by the railroads in their R-1s. For 2020, for example, the STB's workpaper

identifies a value of \$61,247,184,896, but a value of \$66,049,239,000 appears in the 4Q20 data posted by the Board,² and corresponds to the sum of the figures reported on line 13 of Schedule 210 of the Class I R-1s for 2020. The discrepancy may stem from the fact that the waybill records contain three revenue fields (freight revenues, transit charges, and miscellaneous charges), and WCTL cannot discern (a) what the latter two fields do and do not include, and (b) whether and how the Board utilizes those fields in its output index calculation.

Respectfully submitted,

WESTERN COAL TRAFFIC LEAGUE

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² The revenue figures are those posted by the Board at <https://www.stb.gov/reports-data/economic-data/quarterly-earnings-report/>.

Certificate of Service

I hereby certify that today, February 24, 2022, copies of the foregoing Comments of the Western Coal Traffic League have been served on all parties of record in this proceeding in accordance with the Board's Rules of Practice.

/s/ Robert D. Rosenberg