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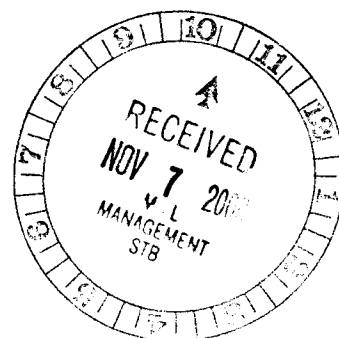
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BEFORE THE
SURFACE TRANSPORTATION BOARD

STB EX PARTE NO. 634

CONSOLIDATED FINANCIAL REPORTING BY
COMMONLY CONTROLLED RAILROADS

COMMENTS OF THE
U.S. DEPARTMENT OF AGRICULTURE



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Washington, D.C. 20250

Date: November 27, 2000

AUTHORITY AND INTEREST

The Secretary of Agriculture is charged with the responsibility under the Agricultural Adjustment Act of 1938 and the Agricultural Marketing Act of 1946 to represent the interests of agricultural producers and shippers in improving transportation services and facilities by, among other things, initiating and participating in Surface Transportation Board proceedings involving rates, charges, tariffs, practices, and services.

The U.S. Department of Agriculture (USDA) offers the following comments on the Surface Transportation Board's (Board) proposal to require consolidated financial reporting by commonly controlled U.S. railroads. USDA is particularly interested because of the possible adverse effects this proposal could have upon the operating costs of short line and regional railroads. Since any increase in shipping costs are borne by the agricultural producer, any policy change that may increase short line and regional railroad operating costs could be harmful to agricultural producers, shippers and rural communities. In addition, if any of these changes result in the abandonment of lines operated by short line and regional railroads, agricultural producers would lose vital rail connections to markets and would have to use more expensive transportation modes. The diversion of rail traffic to truck—one railcar can haul up to four truck loads—also dramatically affects road maintenance costs. Although USDA generally supports the Board's proposal, USDA requests that the Board give special consideration to the effects that consolidated reporting of commonly-owned U.S. railroads and U.S. railroad-related affiliates could have upon the cost structure of short line railroads.

BACKGROUND

By the end of 1998, 550 short line and regional railroads operated 49,985 route miles in the United States— more than 29 percent of the rail network—and accounted for nearly 9 percent of all railroad freight revenues. In many agricultural States, the importance of these smaller railroads has become even greater; by the end of 1998, they operated 58 percent of the rail network in Wisconsin, 52 percent in South Dakota, 49 percent in Michigan, 43 percent in Iowa, and 42 percent in Kansas.

Short line and regional railroads provide an important gathering and supply function for producers of grain and oilseed crops. Nationwide, short line and regional railroads in the U.S. now participate in the movement of an estimated 33 percent of the total carloads, 45 percent of the lumber carloads, 34 percent of the farm product carloads, and 23 percent of the food product carloads. Short line railroads also originated nearly 20 percent of all U.S. railcar loadings of grain in 1996.

The Board intends, consistent with Financial Accounting Standards Board (FASB) Statement No. 94, to require consolidated reporting by commonly controlled U.S. railroads and their U.S. railroad-related affiliates. FASB No. 94 requires the preparer of financial statements to use consolidated reporting for all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner.

In Supplemental Reporting of Information for Revenue Adequacy, 5 I.C.C.2d 65 (1988), the Interstate Commerce Commission (ICC) required railroads to use consolidated reporting in conformance with Generally Accepted Accounting Principles (GAAP) for reports related to the calculation of "revenue adequacy." Over the past decade, that decision has been interpreted to

require mandatory consolidated reporting only for Annual Report Form R-1, Schedule 250 (related to revenue adequacy filings), and to permit, but not require, consolidated reporting for other R-1 schedules and reports filed with the Board.

The Board intends to require reporting of all U.S. railroad and U.S. railroad-related activities on a consolidated basis for all regulatory purposes since it believes that consolidated data would provide more meaningful and accurate information on major rail systems operating in the United States.

POSSIBLE EFFECTS UPON SMALLER RAILROADS SERVING RURAL AREAS

USDA agrees with the Board that consolidated reporting of data would add uniformity and consistency to the U.S. railroad data that is reported to the Board. Allowing railroad firms to report data on a consolidated basis on one form, but not requiring it for all forms, makes it more difficult to interpret and compare the reports.

However, USDA wishes to caution the Board that vital information may be lost due to the aggregation of many firms' data into that of only one firm. For instance, consider the SOO and the Delaware and Hudson, which are railroads owned by Canadian Pacific. These railroads have very different characteristics and are distant from each other. USDA would have much more interest in data reported by the SOO Railroad only, which serves a major agricultural production region, than for combined data for the SOO and the Delaware and Hudson railroads.

Furthermore, consolidated reporting of financial data could result in the unintended disclosure of proprietary information for those short line and regional railroads owned by Class I railroads. Should the data reported for Class I railroads by the AAR not include data from those

smaller railroads owned by Class I firms, then a competitor may be able to calculate data for the Class I railroad owned smaller railroad by subtracting the AAR data from that reported to the Board. Thus, the Board should consider the impacts that combined reporting could have upon the comparability of data obtained from R-1 reports and that available in publications obtained from the Association of American Railroads (AAR).

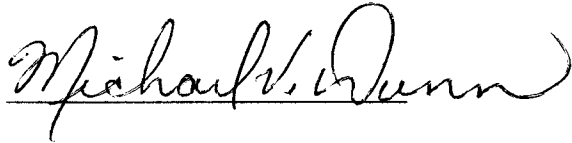
In addition, the re-classification of commonly-owned short line and regional railroad firms as either Class I or Class II railroads could have effects upon reporting requirements, merger rules, and labor protection. Smaller railroads, although they have preserved rail service to agricultural and other regions, are often only marginally profitable since they typically operate lines having lower railcar traffic densities. Many of these lines were a result of Class I railroad bankruptcies or abandonments.

Thus, to preserve rail service on these lines, the regulatory requirements have been relaxed for these smaller firms, particularly with regard to the burdensome Federal reports required of Class I railroads that smaller railroads are not required to file. Should the Board require consolidated reporting of commonly-owned U.S. railroads, USDA is concerned that the additional costs of the reporting requirements could result in some of these smaller lines no longer being competitive. Furthermore, reclassification as either a Class I or Class II railroad would result in the application of more stringent rules regarding labor protection and mergers, adding to costs and making it more difficult to sell some of these lines. USDA also asserts that commonly-owned non-contiguous lines should not have the same reporting requirements as those that are commonly-owned contiguous lines.

CONCLUSION

Due to the importance of short line and regional railroad service to agricultural producers, shippers, and communities, USDA requests that the Board give special consideration to the effects that consolidated reporting of commonly-owned U.S. railroads and U.S. railroad-related affiliates could have upon the cost structure of short line railroads.

Respectfully submitted,

A handwritten signature in cursive script, reading "Michael V. Dunn". The signature is written in dark ink and is positioned above a horizontal line.

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