

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM)))))	Docket No. EP 431 (Sub-No. 4)
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**COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE
234439**

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The Western Coal Traffic League (“WCTL”) submits these Comments in response to the Board’s notice served in this proceeding on February 4, 2013 (“Notice”), as supplemented by the Board’s decisions served on March 11, 2013 and April 25, 2013 (corrected).

SUMMARY

The Board’s stated purpose in this proceeding is to modify its Uniform Railroad Costing System (“URCS”) to produce more accurate costs. WCTL agrees that the Board’s costing procedures should produce accurate costs. In order to achieve this objective, the Board must fully capture the efficiencies inherent in the unit train transportation of western coal.

WCTL has long advocated that the best way to capture unit train cost efficiencies is to make movement-specific adjustments to URCS system-average costs. However, that is not the approach the Board has chosen to take in this proceeding, so WCTL has limited its comments here to addressing the proposals the Board has put forward.

WCTL generally has no theoretical objections to most of the Board's proposals. However, it is unclear to WCTL exactly how the proposals will be applied, and whether they will achieve their intended objectives because the Board's notice does not provide a detailed step-by-step explanation on how the proposals will be implemented in URCS, nor has the Board conducted any new supporting cost studies based on actual traffic and operating data.

WCTL strongly object to the Board's proposal to eliminate the use of the 2.0 empty-loaded ("E/L") ratio when costing dedicated unit train moves. The Board's proposal to base the E/L ratios on system-average empty and loaded car miles by car type is fundamentally flawed because the reported car type data does not distinguish between the type of service the car is used to provide (*i.e.*, single car, multiple car or unit train).

Western coal moves in dedicated unit trains that cycle between origin and destination. Retention of the 2.0 E/L ratio – which is based on how western unit coal trains actually operate – is far more accurate than the Board's proposed approach. WCTL also urges the Board not to eliminate appropriate switching-related efficiency adjustments when calculating the equipment costs for the use of railroad-owned equipment.

IDENTITY OF INTEREST

WCTL is composed of coal shippers that pay for rail transportation of coal mined in the western United States. Currently WCTL members ship approximately 175 million tons of coal annually. WCTL actively participated in the Board's initial

development of URCS, as well as in the Board's subsequent proceedings in which adjustments have been made to URCS.

WCTL members ship their coal in unit trains. The Board and its predecessor the Interstate Commerce Commission have long recognized that unit train service in general – and unit train service of western coal in particular – is far and away the most efficient and cost effective form of rail transportation.¹

WCTL has emphasized in past proceedings, and does so again in this proceeding, that the Board's regulatory cost models, and its application of those models in individual Board proceedings, must fully recognize unit coal train cost efficiencies. Otherwise, the resulting costs will be arbitrarily inflated to the detriment of WCTL member companies and their customers – the nation's electric consumers.

BACKGROUND

In this proceeding the Board is proposing to make the following changes in its current URCS procedures:

1. Eliminate the URCS “make-whole” adjustment.
2. Calculate Switch Engine Minute (“SEM”) costs in URCS Phase II on a per-shipment basis for all five types of switching accounted for by URCS.

¹ See, e.g., *Review of General Purpose Costing System*, 2 S.T.B. 659, 665 n.17 (1997) (“While URCS develops system-average costs, it has long been recognized that trainload . . . shipments move at lower-than-system-average cost”); *Rate Guidelines – Non-Coal Proceedings*, 1 S.T.B. 1004, 1037 n.104 (1996) (“movement-specific adjustments are more likely to arise with unit-train traffic (because those train operations are more discrete and dissimilar from the carrier's general operations)”).

3. Adjust reporting requirements in Form STB-54 and Form QCS to require information on shipments loaded and terminated.
4. Continue to calculate equipment costs for the use of railroad-owned cars during switching on a per-car basis in Phase II, but eliminate the subsequent adjustment in Phase III for switching efficiencies.
5. Calculate station clerical costs in Phase II on a per-shipment basis.
6. Calculate the E/L ratio for trainload movements by car type using data supplied by Class I railroads.
7. Increase the distance between inter-train & intra-train (“I&I”) switching on single-car and multi-car shipments from 200 miles to 320 miles.
8. Define a trainload as consisting of 80 cars or more.
9. Allocate an entire train’s Locomotive Unit-Mile (“LUM”) costs to the trainload shipment.
10. Allocate LUM costs for single and multi-car shipments based on the ratio of the number of cars in the shipment relative to the minimum number of cars in a trainload shipment.

The Board states that its proposed changes are intended to “produce more accurate costs” and “more accurately reflect the current state of rail industry operations.” Notice at 10. The Board also states that “the modifications to our reporting requirements . . . would not impose a significant burden on the railroads.” *Id.*

COMMENTS

WCTL directs its comments to the Board’s proposed changes that will impact the costing of unit train coal movements.

A. Elimination of the Make-Whole Adjustment

As the Board observes, the purpose of the make-whole adjustment is to offset “efficiency savings” associated with high volume shipments:

The make-whole adjustment is applied by URCS to correct the fact that, when disaggregating data and calculating system-average unit costs in Phase II, URCS currently does not take into account the economies of scale realized from larger shipment sizes. The purpose of the make-whole adjustment, which is calculated and applied in Phase III, is to recognize the efficiency savings that a carrier obtains in its higher-volume shipments and thus render more accurate unit costs.

Notice at 3.

The Board is proposing to eliminate the make-whole adjustment because of the “step function” that results from its application to single and multiple car moves and because the adjustment procedure “does not adequately account for economies of scale.” Notice at 3-4. The Board also states that “[r]ather than attempting to refine the make-whole adjustment as it is currently applied, we believe the best course of action is to more accurately calculate system-average unit costs in Phase II.” Notice at 4.

WCTL has no objection to the Board’s elimination of the make-whole adjustment provided that the Board replaces it with costing procedures that properly account for unit train cost efficiencies. WCTL emphasizes, as it has in past proceedings, that the Board’s current URCS procedures capture only a small fraction of the total cost efficiencies associated with unit train coal transportation.²

² See *Major Issues in Rail Rate Cases*, STB Ex Parte No. 657 (Sub-No. 1) (STB served Oct. 30, 2006), slip op. at 55 (“*Major Issues*”) (“URCS does not, by design, reflect the actual costs and efficiencies associated with each specific unit-train coal movement . . .

The best way to capture unit train efficiencies is to make movement-specific adjustments to variable costs in addition to, or as a substitute for, the efficiencies offset by to the make-whole adjustment. However, that is not the approach the Board has chosen to take in this proceeding. Accordingly, WCTL limits its comments to the approach the Board has proposed, while maintaining its long-held support for the use of movement-specific cost adjustments.

B. The Board’s Proposal to Calculate Phase II SEM Costs on a Per-Shipment Basis

The Board’s first proposal to “more accurately calculate system average costs in Phase II” (Notice at 4) is to switch from calculating SEM costs on a per-car basis to a per-shipment basis. According to the Board, this switch should “better reflect actual operating costs” and “properly reflect[] economies of scale”:

Operationally, a shipment of rail cars is generally connected to a contiguous block of cars prior to loading, and is handled as a contiguous block from origin to destination. As such, the costs to handle a switch of a four car-block should be the same as the costs to switch a shipment of an eight-car block. For this reason, the costs for each type of SEM switching are better accounted for on a per-shipment basis rather than a per-car basis. This change would not only better reflect actual

. . .”); Joint Opening Comments of WCTL, *et al.*, *Major Issues*, filed May 1, 2006, at 89 (“Over the years, the ICC and now the Board repeatedly have held that adjustments are called for to reflect the economies and efficiencies of unit train service, and are preferable to system-average costs.”) (citing *Tex. Mun. Power Agency v. Burlington N. & Santa Fe Ry.*, 6 S.T.B. 579, 617 (2003) (“Because a carrier’s system-wide average costs are not necessarily representative of the cost of providing a particular service, movement-specific adjustments are sometimes introduced into evidence to better reflect the variable costs attributable to providing that service.”); *Carolina Power & Light Co. v. Norfolk S. Ry.*, 7 S.T.B. 235, 315 (2003) (same); *Wis. Power & Light Co. v. Union Pac. R.R.*, 5 S.T.B. 955, 989 (2001) (same); *FMC Wyo. Corp. v. Union Pac. R.R.*, 4 S.T.B. 699, 747 (2001) (same); *W. Tex. Utils. Co. v. Burlington N. R.R.*, 1 S.T.B. 638, 717 (1996).

operating costs, but the per-car cost of switching would drop as shipment size increases, thus properly reflecting economies of scale. As a result, URCS would no longer need to make a separate make-whole adjustment because the operating efficiencies of larger shipments would already be reflected in the unit costs.

Notice at 5. WCTL agrees that there are economies of scale associated with rail switching, and that in the absence of a make-whole adjustment, these economies of scale could be captured, in part, on a per-shipment basis in Phase II. However, WCTL is not in a position to comment whether the Board's proposed change will achieve its intended objective because the Board has not released a detailed step-by-step method it intends to follow to modify current URCS procedures to convert the calculation of switching costs from a car-based approach to a shipment-based approach.

WCTL is also unaware of any studies recently prepared that compare actual switching costs incurred on unit trains to the system-average figures calculated using either the current car-based approach or the proposed shipment-based approach.³ WCTL notes that there is very little "switching" actually taking place on unit train movements of western coal, as the trains typically cycle as a unit from origin to destination and back to origin.

In the absence of actual data, and subject to a review of the Board's actual implementation procedures, WCTL has no objection on theoretical grounds to the Board's calculation of Phase II switching costs on a per-shipment basis.

³ WCTL does not have access to the data or facilities necessary to undertake such studies.

C. The Board’s Proposal to Require Reporting of Shipments Loaded And Terminated

The Board proposes to modify Form STB-54 to “require information on shipments loaded and terminated” and to modify Form QCS to “require information on the number of shipments.” Notice at 5. In each instance, the Board proposes to define the term “shipment,” as “a block of one or more cars moving under the same waybill from origin to destination.” *Id.*

WCTL agrees with the Board that it needs to obtain shipment information from carriers in order to apply its proposed new switching cost procedures. The Board’s definition of a “shipment” is easy to apply in the context of unit coal trains, as these trains move under the same waybill from origin to destination. WCTL will review the comments made by others concerning the application of this proposed definition to other forms of service.

D. The Board’s Proposal for Calculating Equipment Costs for the Use of Railroad-Owned Cars During Switching

The Board proposes to continue to calculate equipment costs in Phase II on a per-car basis, but eliminate the current efficiency adjustments to these costs currently made in Phase III.

The Board offers the following rationale for this approach:

Currently, URCS calculates the costs for use of railroad-owned cars on a per-car basis in Phase II, and then applies the make-whole adjustment in Phase III to account for efficiencies in multi-car and unit-train movements. We believe that these costs, which are distance and time-related, are properly accounted for by URCS on a per-car basis. In other words, unlike SEM

switching costs, we believe that a two-car shipment will incur twice the car-miles and car-days as a one-car shipment

Although we propose to continue calculating these costs on a per-car basis in Phase II, this proposal nonetheless would affect how these costs are applied in Phase III. Under our new proposal, which eliminates the separate make-whole adjustment in Phase III, the costs for the use of railroad-owned cars would not receive a subsequent adjustment because it does not appear that there are efficiencies associated with these costs.

Notice at 6.

WCTL agrees that equipment costs incurred for the use of railroad-owned cars during switching are “distance and time-related,” but disagrees with the Board’s statement that “it does not appear that there are efficiencies associated with these costs.”

Notice at 6.

For example, unit coal trains seldom incur terminal switching costs since little or no terminal switching is involved, and even if the movement of unit coal trains of railroad-supplied cars over origin and destination loop tracks is characterized (wrongly) as terminal switching, this “switching” usually involves only a few hours of railroad equipment time, not the current system-average of several days of equipment time (which includes equipment time for single car and multiple car shipments).

WCTL suggests that the Board continue to apply an efficiency adjustment when calculating equipment costs for the use of railroad-owned cars during unit train switching.

E. The Board’s Proposal to Calculate Station Clerical Costs on a Per-Shipment Basis

The Board proposes to calculate Phase II station clerical costs on a per-shipment basis, not the current per-car basis. The Board states that this change is appropriate because calculating station clerical costs on a per-shipment basis “properly reflect[s] actual railroad operations or economies of scale” and reflects the fact that “there is little difference in the administrative costs between shipments of different sizes.” Notice at 7.

WCTL agrees with the Board that there are economies of scale associated with station clerical costs. For example, most unit train shipments of western coal – which typically include 135 individual railcars – are invoiced on a single invoice, not 135 separate invoices. However, WCTL is not in a position to comment whether the Board’s proposed change will achieve its intended objective because the Board has not released a detailed step-by-step method it intends to follow to modify current URCS procedures to convert the calculation of station clerical costs from a car-based approach to a shipment-based approach.

WCTL is also unaware of any studies recently prepared that compare actual station clerical costs incurred on coal unit trains to the system-average figures calculated using either the current car-based approach or the proposed shipment-based approach.⁴

WCTL notes that station clerical costs on unit train coal moves should be very low when

⁴ WCTL does not have access to the data or facilities necessary to undertake such studies.

compared to the station clerical costs incurred on other moves given the highly efficient nature of unit coal train service.

In the absence of actual data, and subject to a review of the Board's actual implementation procedures, WCTL has no objection on theoretical grounds to the Board's calculation of Phase II station clerical costs on a per-shipment basis.

F. The Board's Proposal to Calculate E/L Ratios for Unit Train Moves by Car Type

URCS Phase III currently sets the E/L ratio for trainload moves at 2.0. The Board proposes to change the Phase III calculation on trainload moves to calculate E/L ratios by car-type, using carrier-provided data that specifies the total system loaded and empty miles by car-type.

The Board explains that use of an E/L ratio of 2.0 is appropriate for "a unit train of privately-owned cars that cycles between point A and point B" but is not appropriate for other trainload moves that do not cycle like unit trains:

A trainload movement's E/L ratio might be greater or less than 2.0 for a variety of reasons, including whether the shipment at issue is moved in railroad-owned cars or privately-owned cars. In the case of the former, where the rail carrier typically controls the movement of its cars across its network, a shipment may travel from point A (loading origin) to point B (unloading destination) to point C (next loading origin). If point C is farther from point B than point A, then the E/L ratio would be greater than 2.0. That is in contrast to, for example, the latter case involving a unit train of privately-owned cars that cycles between point A and point B, such that the movement's E/L ratio would be equal to 2.0.

Notice at 7 n.10. The Board goes on to observe that with its proposed change, "URCS would no longer treat all trainload movements as unit trains, but would instead reflect

unit train service only to the extent that such service is indicated in the E/L Ratio.”

Notice at 8.

The Board is correct that under its proposal, the E/L ratio would be used to reflect the existence of unit train service, but the E/L ratio, as calculated under the Board’s proposal, cannot be rationally used for this purpose. Carriers report empty and loaded car miles by car-type, not by type of service. For example, assume that a unit train shipper’s cars cycle from A to B. Under the current procedure, the E/L ratio would be correctly set at 2.0. However, further assume that the system average E/L ratio for the shipper’s car type is 2.3. In this example, the unit train shipper’s URCS costs will be grossly inflated because the E/L ratio used would be 2.3, not 2.0.

The Board is mixing apples and oranges here. The car data supplied by the carriers for any car type can include data for single car, multiple car and unit train shipments. There is no way to know what the mix is for any particular car type because the carriers do not report this information. Nor, as illustrated in the example above, can a data set that does not distinguish between shipment types be used to fairly distinguish between shipment types for costing purposes.

The Board could easily solve this problem by creating a new shipment entry type in Phase III for dedicated trainload movements – *i.e.*, trains that cycle – and retain use of the 2.0 E/L ratio on these moves. Virtually all western coal trains would be dedicated unit trains for Phase III purposes, whether in trains of privately-owned cars (the predominant car type) or in trains of railroad-owned cars. Use of the 2.0 E/L ratio will

produce far more accurate – and fair – cost results when applied to dedicated unit train movements than the arbitrary procedure proposed by the Board.

G. The Board’s Proposal to Increase the Distance Between I&I Switches

URCS Phase III correctly excludes I&I switching when computing costs on trainload moves. WCTL takes no position on the Board’s proposal to assume the distance between I&I switches is 320 miles rather than the current 200 miles.

H. The Board’s Proposal to Change the Definition of Trainload

The Board proposes to define a trainload shipment for URCS costing purposes as a shipment containing 80 or more cars. Currently, URCS defines a trainload as containing 50 or more cars. WCTL has no objection to the Board’s change in the definition of “trainload” for costing purposes. WCTL notes this change will not impact unit train shippers of western coal, as their trains already contain far more than 80 cars.

I. The Board’s Proposal to Adjust LUM Cost Allocations on Trainload Shipments

The Board proposes to modify its calculation of the locomotive unit miles used in calculating trainload costs. Specifically, the Board proposes that “the entire train’s LUM costs would be allocated to the trainload shipment, regardless of the gross tons of the trainload shipment relative to the average gross tons of a particular train.” Notice at 9. The Board asserts that this approach “should be more accurate than the current approach because, by definition, a trainload shipment has no other shipments that should share the LUM costs of that train.” *Id.*

WCTL agrees that as between the two approaches posited by the Board – its current approach to calculating URCS LUM costs and its new proposed approach, the Board’s proposed approach should produce more accurate results for the reason articulated by the Board.

J. The Board’s Proposal to Adjust LUM Cost Allocations on Non-Trainload Movements

WCTL takes no position at this time on the Board’s proposals to modify its current procedures for calculating LUM costs on non-trainload movements.

CONCLUSION

WCTL requests that the Board take actions in this proceeding in a manner consistent with the Comments set forth above.

Respectfully submitted,

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Dated: June 20, 2013

CERTIFICATE OF SERVICE

I hereby certify that this 20th day of June, 2013, I have served a copy of the Comments of the Western Coal Traffic League, by U.S. Mail, postage prepaid, upon all known parties of record in this case.

/s Daniel M. Jaffe