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SURFACE TRANSPORTATION BOARD FINDS CERTAIN SANTA FE RATES UNREASONABLY HIGH, AWARDS COMPLAINING SHIPPERS MILLIONS IN DAMAGES

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SURFACE TRANSPORTATION BOARD FINDS
CERTAIN SANTA FE RATES UNREASONABLY HIGH,
AWARDS COMPLAINING SHIPPERS MILLIONS IN DAMAGES

Surface Transportation Board (Board) Chairman Linda J. Morgan announced today that the Board has found that the rates charged by the Atchison, Topeka and Santa Fe Railway Company (Santa Fe) Santa Fe is now part of the Burlington Northern Santa Fe Railway Company. for carrying coal from a mine near Gallup, New Mexico, to the Cholla electrical generating plant at Joseph City, Arizona, are unreasonably high. The Board ordered Santa Fe to reduce the rate and to pay damages to the shippers involved, Arizona Public Service Company and Pacificorp (Arizona).
The Board has jurisdiction to find railroad common carriage rates unreasonable, but only after finding that the carrier has market dominance over the traffic involved. Market dominance refers to “an absence of effective competition from other carriers or modes of transportation for the transportation to which a rate applies.”

To address whether coal rates are unreasonable, the Board uses a concept known as “constrained market pricing” (CMP). CMP principles recognize that railroads may price their services “differentially” (by charging higher mark-ups on captive traffic), but they permit shippers to limit the carrier's rates to levels necessary for efficient carriers to make a profit.

The complaining shippers in this case, as in most other rail coal rate complaint cases, sought to limit Santa Fe's rates by presenting a “stand-alone cost” (SAC) analysis. The SAC analysis seeks to determine the lowest cost at which a hypothetical, efficient railroad could transport the traffic at issue, together with other selected traffic. Thus, under the SAC constraint, the shipper designs a hypothetical new railroad specifically tailored to serve an optimum traffic group with an efficient physical plant and operating characteristics needed for that traffic. The rates at issue can be no higher than what the hypothetical carrier would have to charge to provide the needed service to the complaining shipper while fully covering all of its costs, including a reasonable return.

In this case, Arizona filed a complaint with the Board challenging the reasonableness of the tariff rate that has applied to its coal traffic since the expiration of a contract rate in December 1993. After finding that Santa Fe has market dominance over the traffic at issue, the Board addressed the SAC presentations made by the parties.

Arizona based its SAC presentation on a hypothetical railroad that would serve only its facility and one other coal-burning facility in the same State. Using a discounted cash flow analysis, the Board found that, over a 20-year period, the combined revenue stream produced by Santa Fe's rates on the traffic to these two facilities would exceed the total costs (including a reasonable return) that the hypothetical railroad would need to recover. The Board then calculated the portion of the surplus revenues that should be allocated to Arizona's traffic, by hypothetically reducing each shipper's rates by a uniform percentage. Based on that analysis, the Board concluded that Santa Fe's rates on the Arizona traffic are too high, and ordered them reduced.

The Board also ordered Santa Fe to return to Arizona a portion of the charges for shipments that have already moved. The Board calculated the reparations due for shipments made during the first 18 months covered by the complaint (January 1994 through June 1995) at over $12 million plus interest. It directed the parties to compute the reparations owed on subsequent shipments following the same procedures.

The Board's decision, in *Arizona Public Service Company and Pacificorp v. The Atchison, Topeka and Santa Fe Railway Company*, Docket No. 41185, was issued to the public today, with a separate commenting expression by Vice Chairman Owen.

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