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RAILROAD-SHIPPER TRANSPORTATION ADVISORY COUNCIL  
Washington D.C.

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**2007 ANNUAL REPORT**  
**March 24, 2008**

Pursuant to Section 726 of the Interstate Commerce Commission Termination Act (ICCTA), the Chair of the Surface Transportation Board (STB) in mid-1996 announced the formation of the Railroad-Shipper Transportation Advisory Council (“RSTAC”). As required by section 726(f) (4) of ICCTA, RSTAC hereby submits this Annual Report for 2007.

**I. Membership**

The following are the current designated members of the 15-member Council by category:

Small Railroad (4) - Reilly McCarren, Arkansas & Missouri Railroad; Charles Marshall, Farmrail System; Rick Webb, Watco Companies, Inc.; Larry Parsons, Wheeling & Lake Erie Railway

Small Shipper (4) - Connie Thede, Muscatine Power & Water; Terry Voss, Ag Processing; Roger Fray, West Central Cooperative; Bruce Ridley, Packaging Corporation of America

Large Railroad (3) - Dean Piacente, CSX Transportation; Eric Butler, UP; Owen Zidar, KCS

Large Shipper (3) - Robert Pugh, G-P (Koch Industries); Doug Kratzberg, Exxon Mobil; Bill Matheson, Schneider National Inc.

At Large Member (1) - James Brunkenhoefer, United Transportation Union

Ex officio members are The Honorable Charles D. Nottingham, Chairman of the Surface Transportation Board; The Honorable W. Douglas Buttrey, Vice Chairman of the Surface Transportation Board; The Honorable Francis P. Mulvey, Commissioner of the Surface Transportation Board; and The Honorable Mary Peters, Secretary of Transportation, who is represented at Council meetings by William Gelston of the Federal Railroad Administration.

Current Council officers for 2007 include – Connie Thede, Chair; Rick Webb, Vice Chair and Reilly McCarren, Secretary. The Executive Committee is composed of the Officers and At Large Member, James Brunkenhoefer. Elections for new officers were held at the October 2007 Council meeting. Officers for 2008 will include Rick Webb, Chair; Reilly McCarren, Vice Chair and Terry Voss, Secretary.

## II. Council Meetings - The Council met four times in 2007.

- **February 1, 2007 meeting:**

- ❖ The meeting opening was given by Chairman Nottingham. The Board reviewed upcoming Board hearings, discussed STB relocations and outlined STB staff support available to RSTAC. The financial report was reviewed before moving on to Council Business, which included approving November 8, 2006 minutes for placement on the STB site, continued discussion and finalization of RSTAC Guidelines, review and approval of 2006 Annual Report, title change from “Public Member” to “Member at Large” with full voting rights, and review and approval of Position Paper.

- ❖ **General Discussion**

- Durability of recent improvements in rail service and equipment utilization
- Impact of rail price increases on rail market share
- Anticipated attrition of boxcar fleet significantly in excess of replacement over next decade
  - Mechanical condition as fleet ages
  - Potential for changes in fleet ownership
  - Financial challenges associated with fleet reinvestment
- Improved definition of service levels and changes; how to factor breadth of service offerings into measurement systems
- Changes in intermodal service offerings and marketplace
  - Recent improvements in intermodal service quality
- Approaches to general merchandise product improvement
  - Potential pilot project
  - Conversion of high-volume flows to unit train service freeing up terminal capacity for growth in general merchandise and improving car utilization
  - Huge potential benefits from improving cycle time for private equipment; possibility to pool empty equipment among shippers
- Status of data transparency effort
  
- **Fall Peak Shipper’s Forum**
  - Council discussed suggestions for improvements to the AAR Annual Shipper’s Forum in an effort to improve utility to rail customers.

- **May 2, 2007 meeting:**

- ❖ The meeting opening was given by Chairman Nottingham. The Board reviewed upcoming Board hearings, discussed legislation in Congress that could affect STB jurisdiction and reviewed affirmation of *Otter Tail* decision by 8<sup>th</sup> Circuit Court of Appeals. The financial report was reviewed and Members approved a 50% retroactive dues increase before moving to Council Business which included approving February 1, 2007 minutes for placement on the STB site, review of the Consolidation of Rail Shipper meeting with North American Rail Shippers’

Association meeting in DC and review and approval of the Shortline Investment Tax Credit Position Paper.

❖ **General Discussion**

- ❖ Pending legislation in Congress
  - Tax credits
  - Safety regime
  - Regulatory framework
  - Pre-emption issues
- ❖ Rail volume trends and changes in market share
- ❖ Recent improvements in rail service
- ❖ Hazardous material liability issues
- ❖ Customer difficulties adapting to mileage-based fuel surcharge programs
- ❖ Merchandise service pilot project
- ❖ Rail network capacity issues
  - Failure of highway network capacity to keep pace with demand
  - Motor carrier issues recruiting and retaining drivers
  - Shift of demand from Northeast and Midwest to Southwest and Southeast (areas historically without much excess capacity)
  - Institutional challenges to full utilization of rail network for regional traffic
  - Customer concerns that any tax credit investment will be spent for expansion
  - Issues associated with long planning horizon associated with rail investments
  - Impact of private equity/hedge fund investment
  - Passenger v. freight capacity allocation issues in urban areas

• **July 26, 2007 meeting:**

- ❖ The meeting opening was given by Commissioner Francis Mulvey. The Board reviewed discussion regarding Minnesota Regional Railroad in Duluth and reviewed the recent energy transportation hearing in Kansas City before reviewing the financial report. In Council Business, the May 2, 2007 minutes were approved for posting on the STB site and discussion was held on combined NARS/Customer Forum Meeting.

❖ **General Discussion**

- Proposed NITL “Rail Compromise Plan”
  - Alternative Dispute Resolution
  - Opt-in/opt-out provisions
  - Likely course for negotiation
- Private Equity impact on rail industry – comments at NARS meeting May, 2007
- Current Freight Environment
  - Volume slumping across all sectors
  - Impact of housing downturn underestimated
  - Significant overcapacity in dry van trucking markets

- Recovery may not occur until 2008
    - Minimal impact railroad industry capital plans to date
  - Noted significant, recent improvements in rail service
    - Modest traffic reductions coupled with new capacity
    - Some cars being stored due to improved velocity
  - Merchandise service pilot project
  - RSTAC Shipper Survey efforts
- **October 17, 2007 meeting:**
  - ❖ The meeting began with a presentation by Mark Meitzen of Christensen Associates regarding the Rail Competition Study. Competitive dimensions and study methodology were discussed. The financial report was reviewed before Council Business that included approval of the July 26, 2007 minutes for posting on STB site. 2008 officers were elected: Rick Webb, Chairman; Reilly McCarren, Vice-Chairman; and Terry Voss, Secretary. Resignations of Bill Matheson and James Brunkenhoefer were accepted.
  - ❖ **Review of STB Activity by Chairman Nottingham**
    - High level of STB activity noted
    - Multiple congressional hearings planned requiring STB testimony
    - Several cases pending before the Board
    - Two merger cases pending (CP-DM&E, filed October 5, 2007; CN-EJ&E, filed October 30, 2007)
    - Service of Connie Thede as Chairman and Bill Gelston (retiring) as DOT representative noted and commended
  - ❖ **Presentation of “National Rail Freight Infrastructure Capacity and Investment Study”**
    - Presentation by Frank Hardesty of AAR
    - Study of freight rail capacity needs by Cambridge Systematics, funded by AAR
    - Study shows significant shortfalls in available private investment for rail network capacity
    - Separate study underway for rail passenger capacity requirements
    - RSTAC discussion of assumptions and mechanisms for projections
  - ❖ **Presentation of Rail Competition Study**
    - Presentation by Mark Meitzen of Christensen Associates
    - Sponsored but not directed by STB
    - Discussion of competitive dimensions to be analyzed
    - Review of study methodology to be employed
    - Opportunity for public input presented

## ❖ General Discussion

- Proposed NITL “Rail Compromise Plan”
- Review of Pilot Project
- RSTAC Shipper Survey efforts – new survey distributed
- Extensive discussion of HR 2125 and railroad competition issues
  - Differential pricing
  - Modal equity
  - Funding capacity improvement
  - Potential for further industry consolidation
  - Possible unintended consequences

### Future Plans:

- Continue to pursue Council charge to address small shipper/railroad concerns, being accessible to shippers, monitoring and discussing the issues and providing knowledge and education where possible.
- Encourage improved communications between shippers and railroads toward a goal of improved customer service and ability for both to do a better job of planning for unexpected cost increases or capacity and car shortages instead of reacting.
- Bring forth issues for discussion that impact the access of shippers to a viable, healthy and stable rail transportation option to meet their shipping needs.
- Continue to pursue a balanced assessment of the issues including the frustrations of shippers and the realities of carriers.
- Consider recommendations regarding rail policy and the STB’s role to create more effective oversight in a capacity-constrained environment.
- Utilize the diversity of the RSTAC Council to conduct frank discussions of the issues in an effort to present all aspects

Although the Council is comprised of a diverse group of small shippers, small railroads, large shippers and large railroads, we all share the common objective of improving the industry. Each of us brings a unique perspective to all issues resulting in larger opportunities to solve or at least improve issues that rail shippers and service providers face. As rail advocates, we appreciate the opportunity to play a role in meeting the needs of those in this ever-changing industry.

Additional RSTAC information is available at:

[http://www.stb.dot.gov/stb/rail/railshipper\\_council.html](http://www.stb.dot.gov/stb/rail/railshipper_council.html)