

# Contracting (Away) From Regulatory Rate Review: Evidence From Freight Rail

Economics and Regulation of the Freight Rail Industry  
Third Annual Research Colloquium

**JEFFREY T. MACHER**  
McDonough School of Business  
Georgetown University  
Washington, DC 20057  
[jeffrey.macher@georgetown.edu](mailto:jeffrey.macher@georgetown.edu)

**JOHN W. MAYO**  
McDonough School of Business  
Georgetown University  
Washington, DC 20052  
[mayoj@georgetown.edu](mailto:mayoj@georgetown.edu)

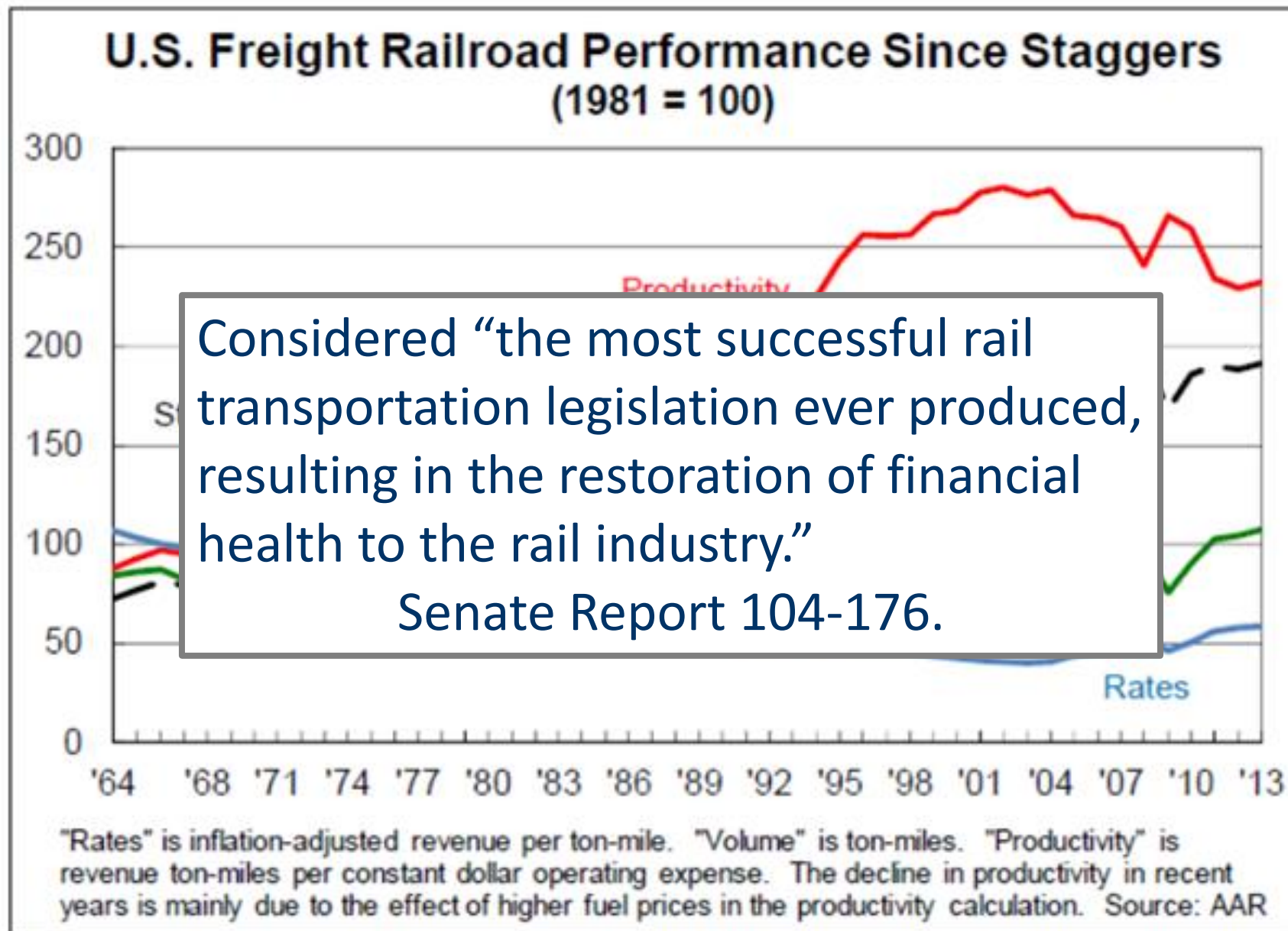
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# Contracting and Regulatory Rate Review

## – US Freight Rail Performance Post-Staggers



## – Staggers Act and Contracts

- Allowance (Section 208)

- Complaint processes expedited.
- Confidential contracts allowed.
- Regulatory challenges to approved contracts prohibited.
- Future restrictions to ensure RRs meet common carrier obligations.

- Early Assessment

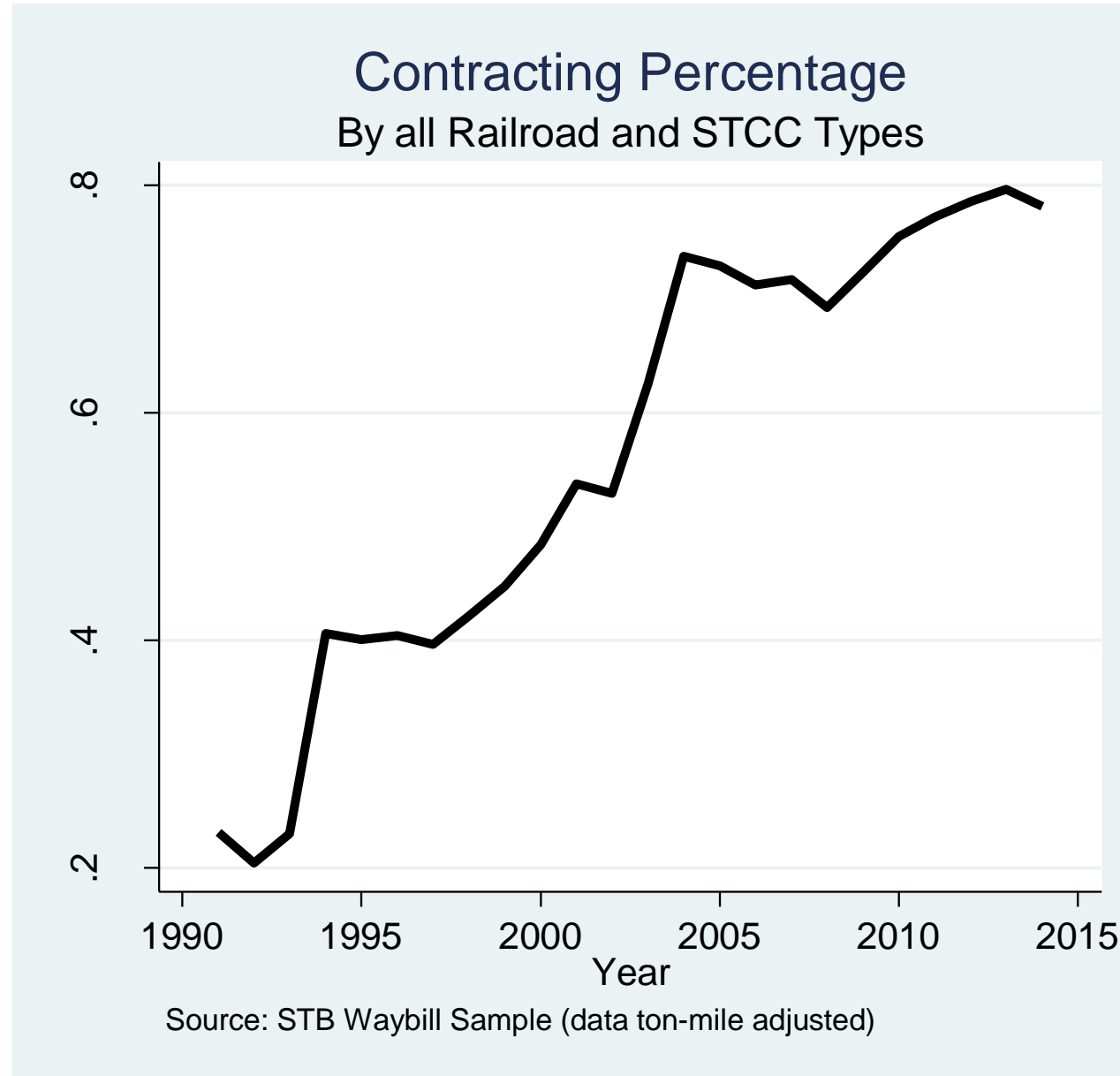
- “contract rate-making has proven to be one of the most successful deregulatory measures provided by the Staggers Act.”
  - ICC, March 1984, p. 3.
- “[C]ontracting was mutually beneficial to railroads and shippers.”
  - ICC, March 1984, p. 5.

- Main Arguments

- Stable / Predictable business.
- Flexible pricing.
- Tailoring (to shipper needs).
- Confidentiality.

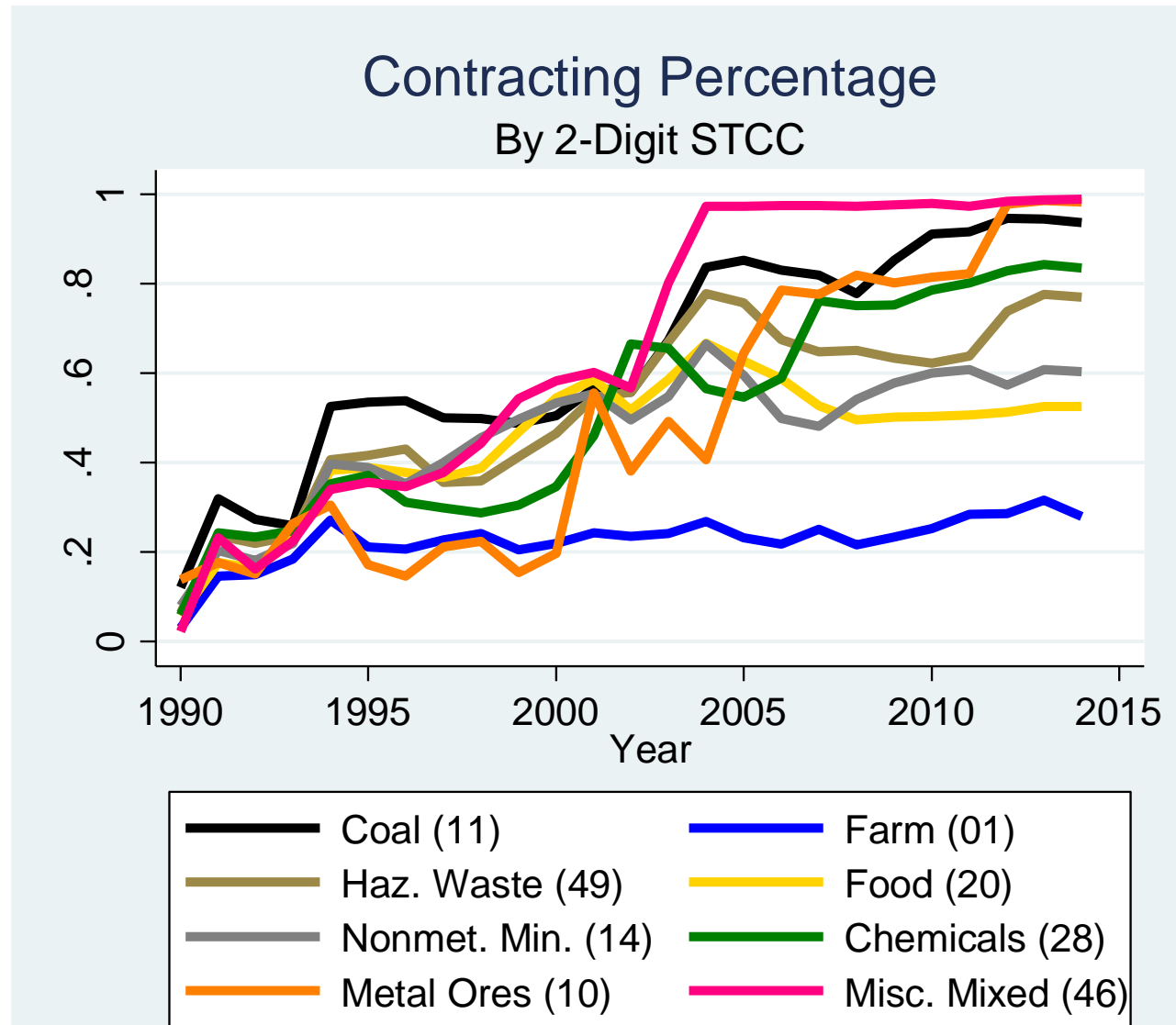
# Contracting and Regulatory Rate Review

## – All STCCs (ton-mile adjusted)



# Contracting and Regulatory Rate Review

## – Two-Digit STCCs (ton-mile adjusted)



Source: STB Waybill Sample (data ton-mile adjusted)

## – Research Questions

### • STB Rate Reviews

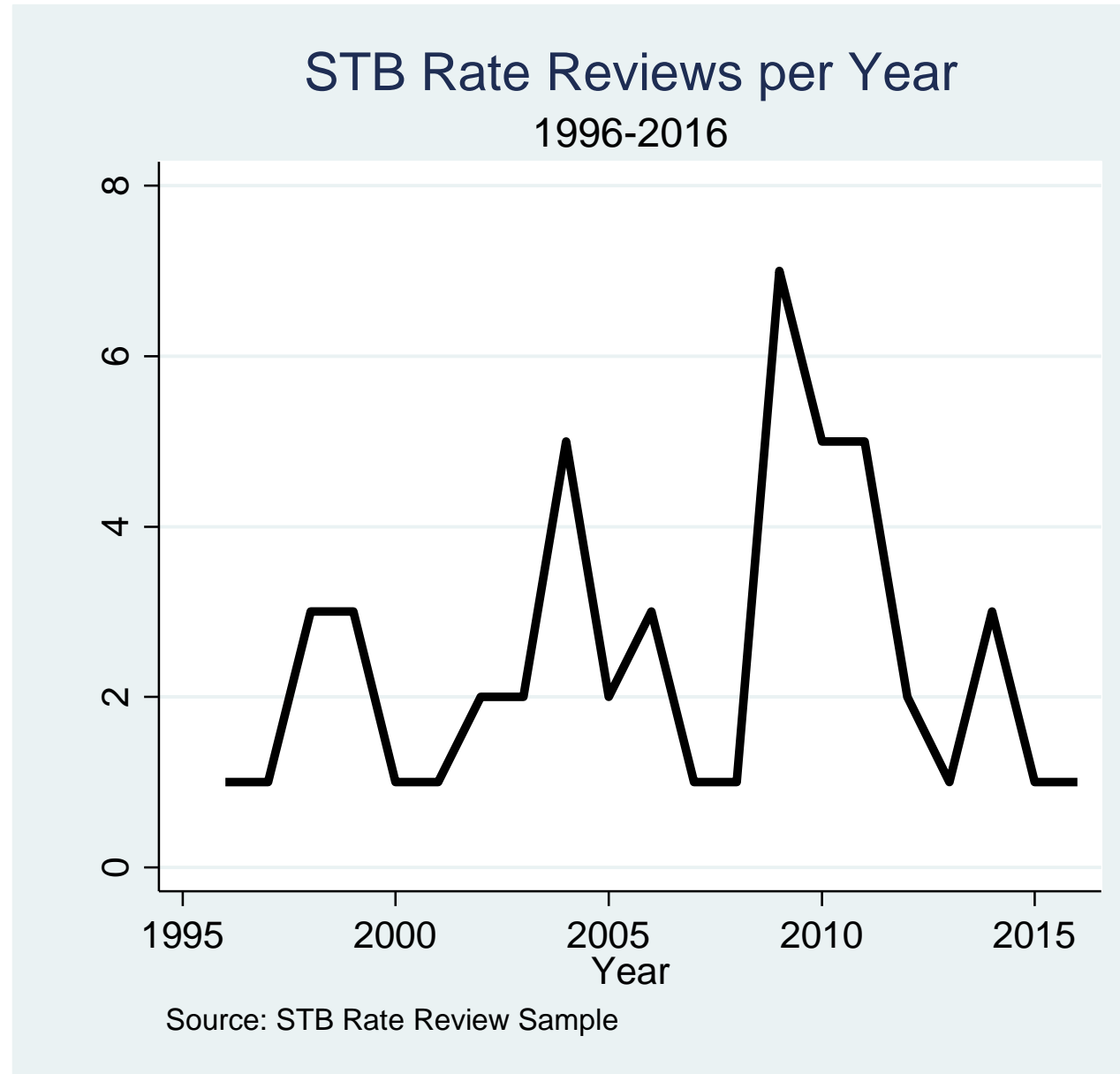
- Stand-Alone Cost (SAC)
  - “...time, complexity, and costs of filing complaints are barriers that often preclude [shippers] from seeking rate relief.” GAO (1999).
- Three-Benchmark
  - “...the shipper community perceives [3B] as too vague, and as requiring prolonged litigation over whether a shipper even qualifies to use them.” STB (2007).
- Simplified-SAC
  - “...too complex and too costly relative to the expected benefits.” Intervistas (2016).

### • Research Questions

- Have STB rate reviews spurred railroads and shippers to shift from common to contract carriage?
- Does this vary by STB rate-reviewed vs. non-STB rate-reviewed commodities (STCCs)?
- Does this vary by STB rate-reviewed vs. non-STB rate-reviewed freight railroads (RRs)?

# Contracting and Regulatory Rate Review

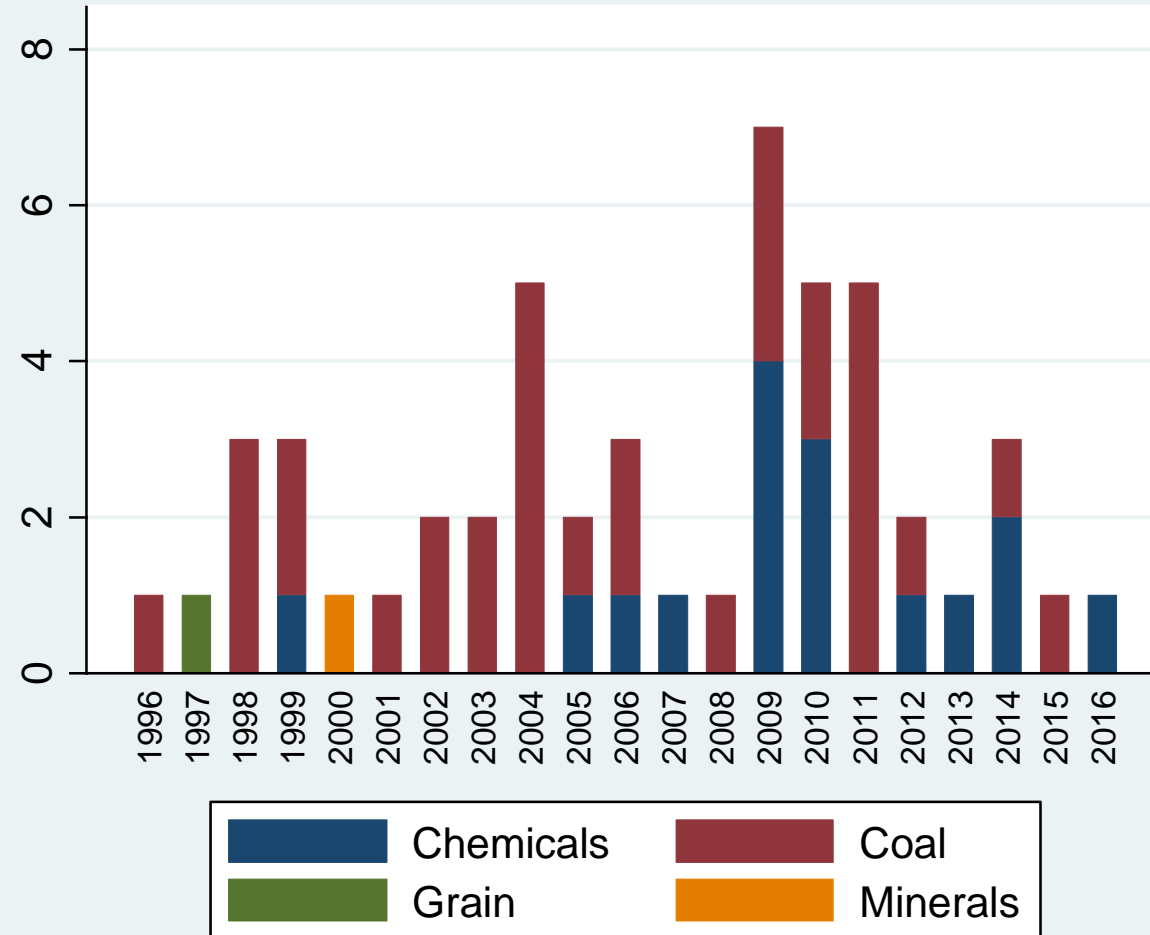
## – STB Rate Reviews



# Contracting and Regulatory Rate Review

## – STB Rate Reviews

### STB Rate Reviews by Commodity per Year 1996-2016



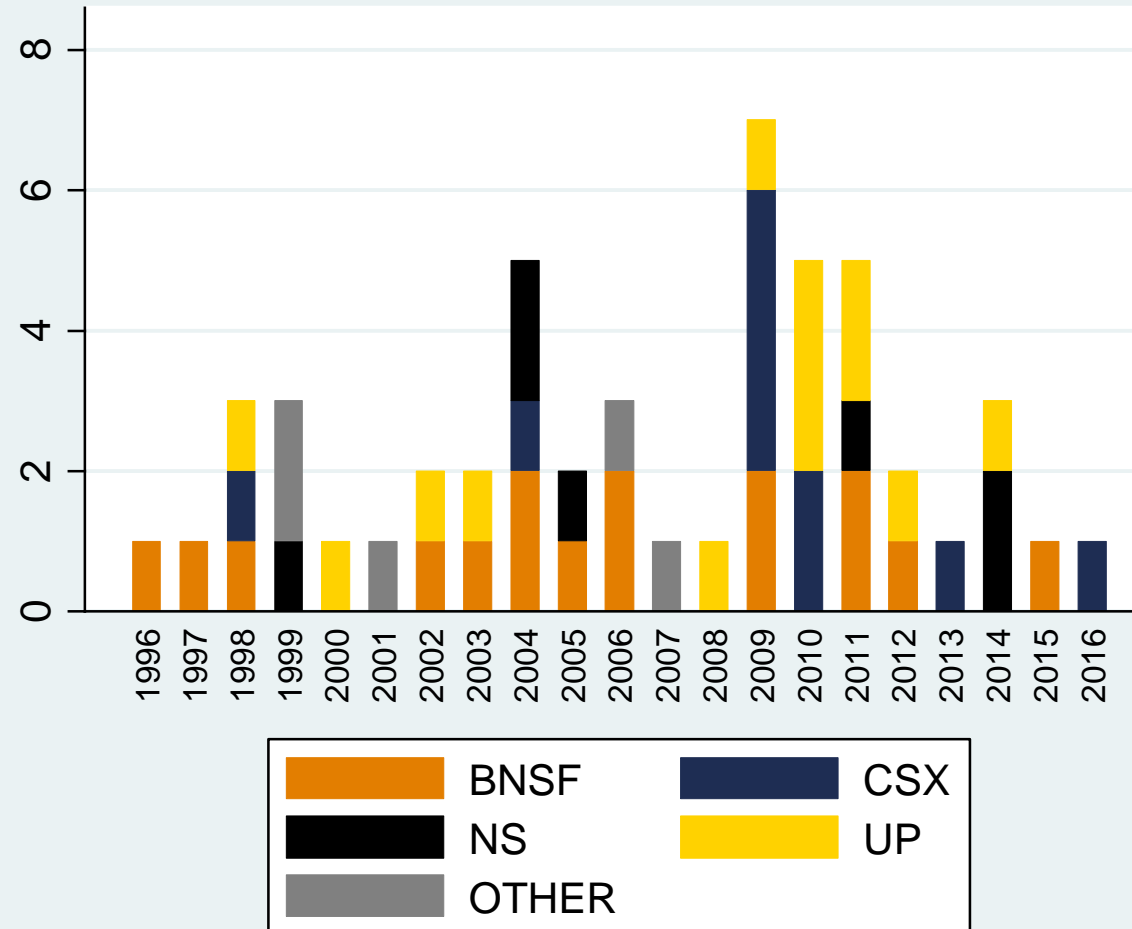
Source: STB Rate Review Sample



# Contracting and Regulatory Rate Review

## – STB Rate Reviews

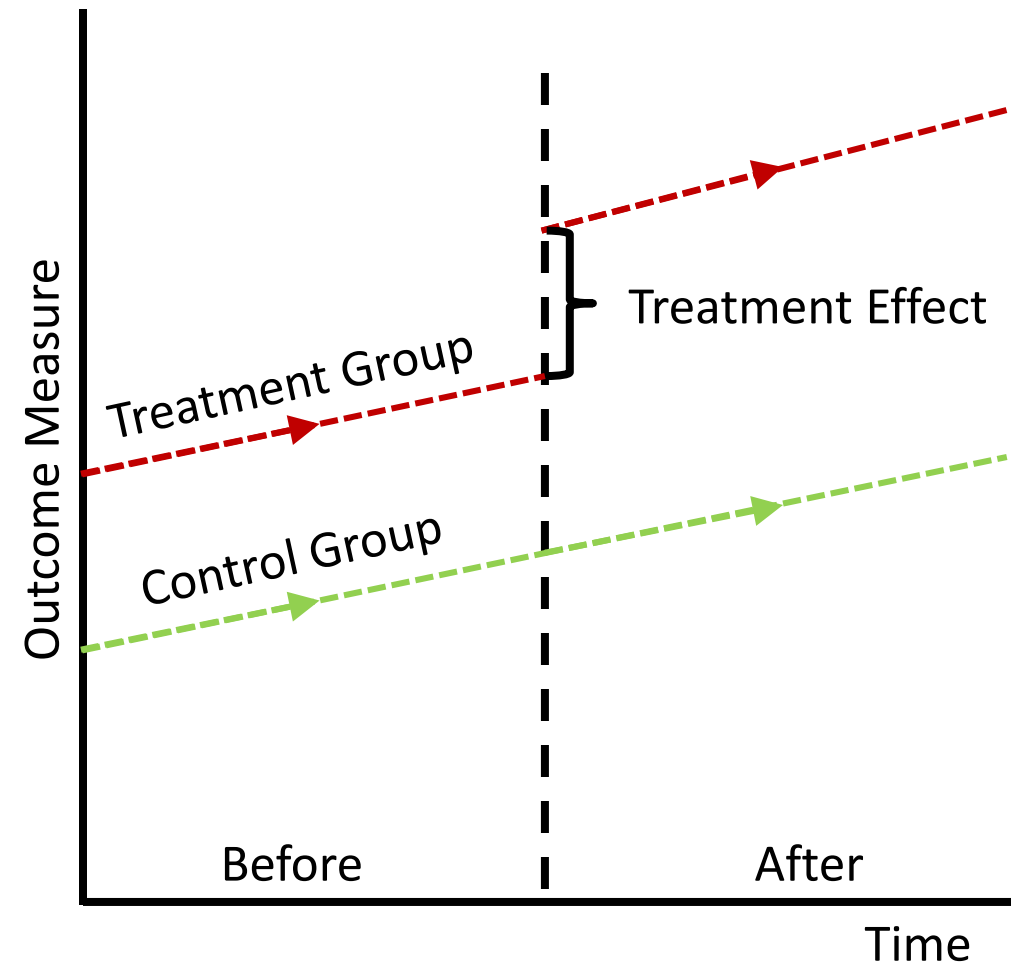
### STB Rate Reviews by Defendant per Year 1996-2016



Source: STB Rate Review Sample; Other includes DMIR, GTC & LNW

## – Estimation Approach

- **Difference-in-Difference (DiD)**
  - Effect of a “treatment” at a particular point in time on an outcome measure.
  - Average change over time of treatment group compared to control group.
- **Treatments**
  - STCC: Chemicals or Coal.
  - RR: BNSF, CSX, NS, UP, etc.
- **Time**
  - Before: Pre-1999.
  - After: Post-1999.



## – Data and Outcome Measure

- **STB Carload Waybill Sample**

- 1990-2014.
- Drop RRs where ton-mile market share < 0.1% in any STCC-year.

- **STB Rate Review Sample**

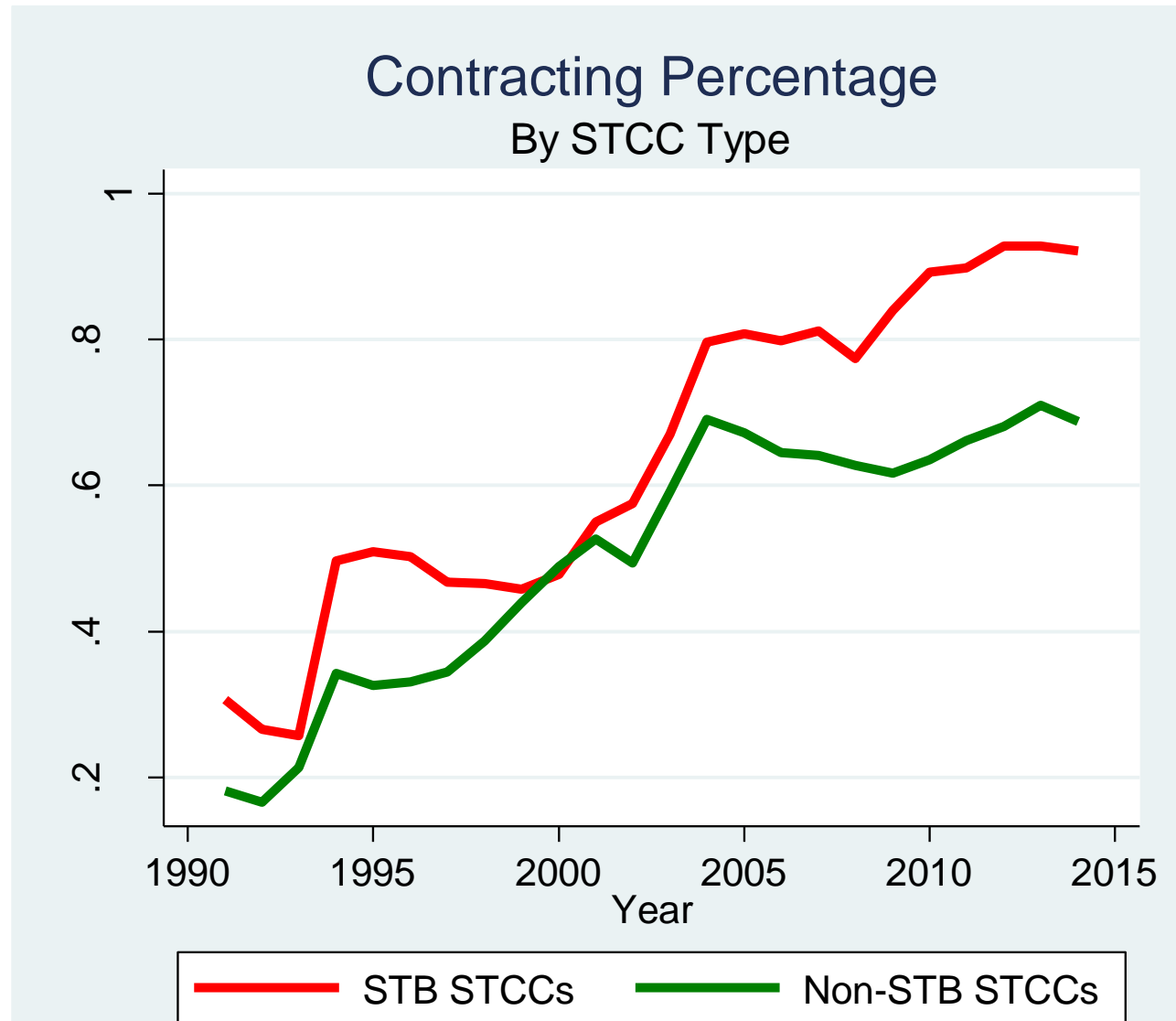
- 1996-2014.
- Information on commodity, defendant, date of ruling and outcome.

- **Outcome Measure**

- Contract carriage percentage (in ton-miles) of Railroad  $i$  for STCC  $j$  in Year  $t$ .

# Contracting and Regulatory Rate Review

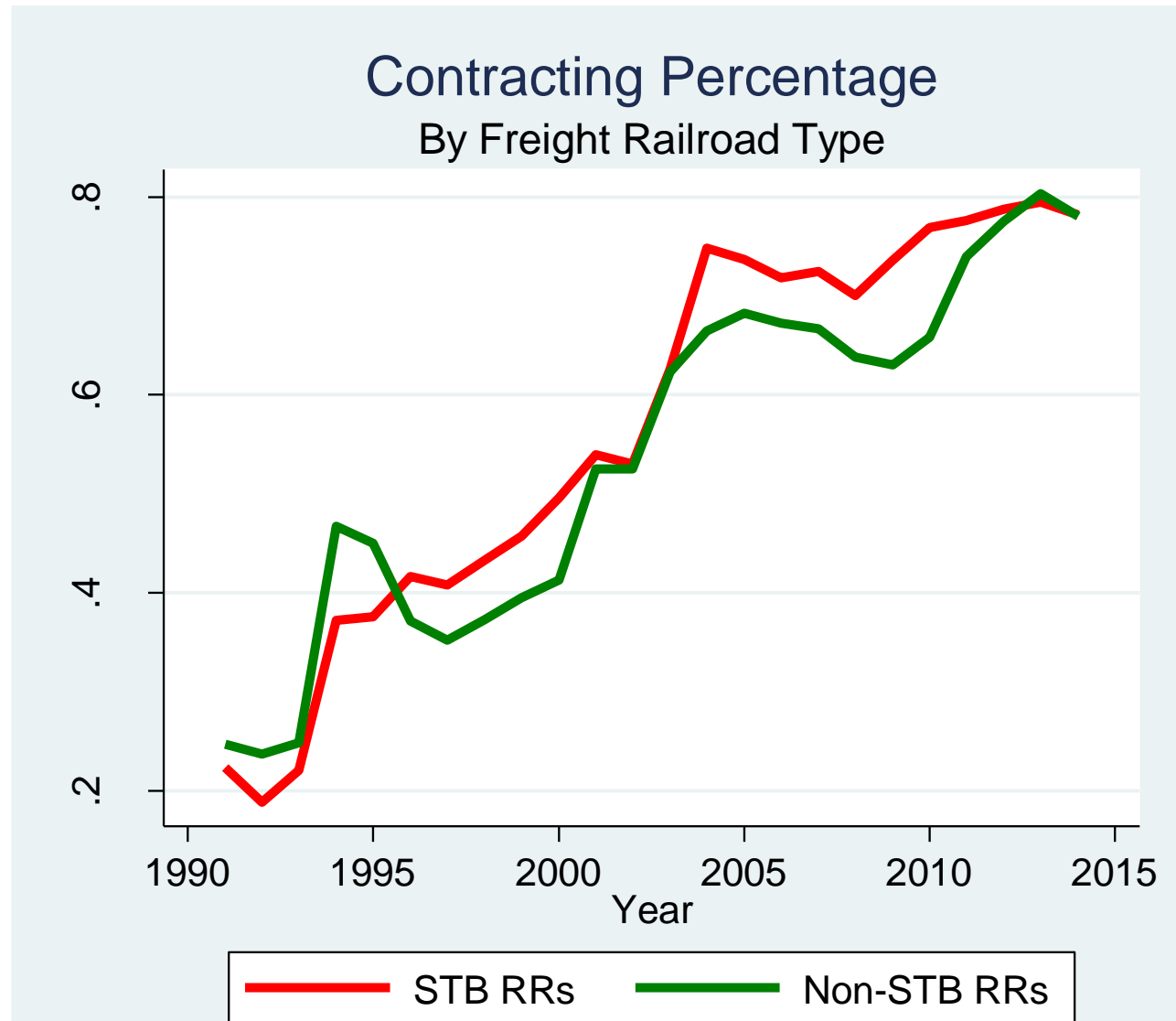
## – Contract Carriage by STCC Type



Source: STB Waybill Sample; (data ton-mile adjusted)

# Contracting and Regulatory Rate Review

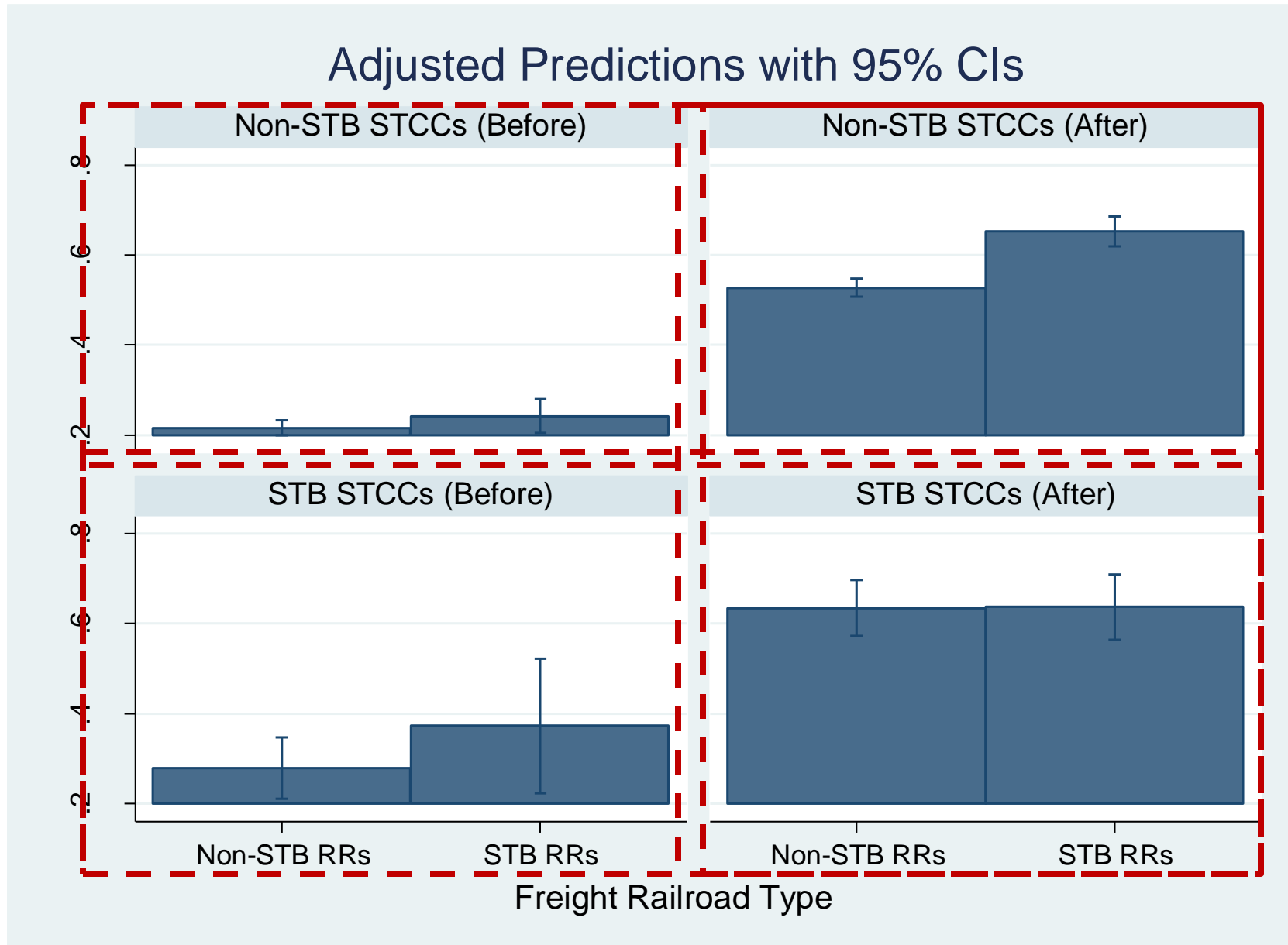
## – Contract Carriage by RR Type



Source: STB Waybill Sample (data ton-mile adjusted)

# Contracting and Regulatory Rate Review

## – Contract Carriage Predications



## – Discussion

### • Findings

- Contracting differences over time.
  - Less before STB rate reviews versus more after.
- Contracting differences by commodity.
  - More in coal & chemical versus non-coal & non-chemical (in general).
- Contracting differences by freight railroad post-STB rate review:
  - STB RRs similar across commodities:
    - Non-STB STCCs (65%) vs. STB STCCs (64%).
  - Non-STB RRs different across commodities:
    - Non-STB STCCs (53%) vs. STB STCCs (64%).

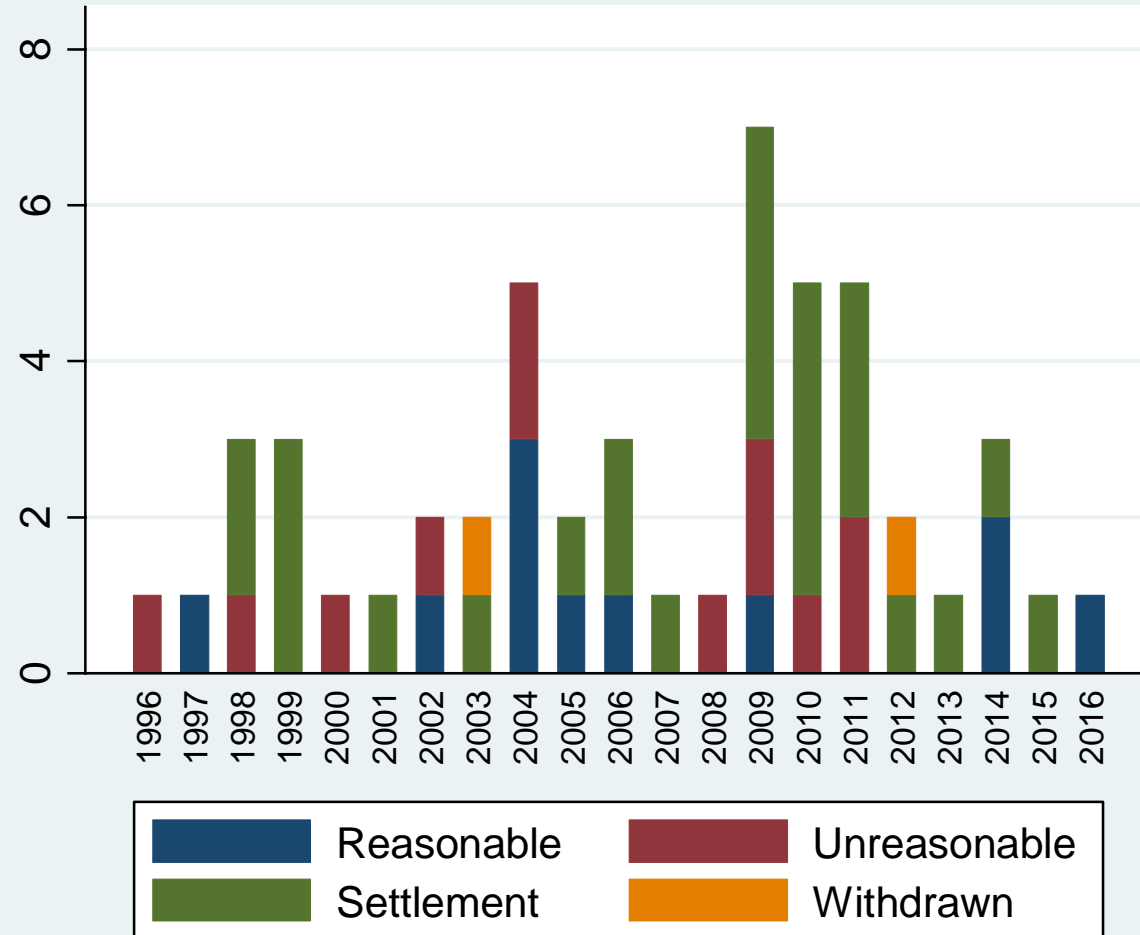
### • Discussion

- STB RRs: Experience spillovers?
    - I.e., writing contracts across all STCCs.
  - Non-STB RRs: Comparative adjustments?
    - I.e., avoiding rate reviews in specific STCCs.
  - Shippers: Contract preferences?
    - I.e., confidentiality and tailoring benefits.
- ### • Next Steps
- Different time windows.
    - E.g., 2003-04 had 7 rate reviews for 4 RRs.
  - Particular STB rate review outcomes.
    - I.e., reasonable; unreasonable; settlement.

# Contracting and Regulatory Rate Review

## – STB Rate Reviews

### STB Rate Reviews by Finding per Year 1996-2016



Source: STB Rate Review Sample