Rail Shipper Fairness Act of 2015 One Page Summary

When the Staggers Act of 1980 was enacted, the railroad industry was facing dire financial circumstances that threatened the long-term viability of freight rail transportation in the United States. The Staggers Act ushered in a new era of deregulation that allowed the railroads to price their services unilaterally and rationalize their systems. It also led to massive industry consolidation and ultimately to today's duopoly rail system in the East and West.

Circumstances facing the nation's railroads have improved dramatically since the passage of the Staggers Act. Under the directives of Staggers, the financial health of the railroads was consistently placed ahead of the financial impacts of railroad customers. As the graphic below makes clear, the underpinnings for the financial practices put in place first by the Interstate Commerce Commission (ICC) and its successor agency the Surface Transportation Board (STB) no longer exist. Far from being in financial danger, railroads have emerged as one of the highest performing sectors since the financial crisis.

The Rail Shipper Fairness Act seeks to expand competition and restore balance to the regulatory environment by recognizing the significant market power enjoyed by the railroads and the public interest in reasonable rail rates and service for rail customers. The bill achieves these modest reforms by:

IMPROVING RAIL SERVICE

- Requires rail service to be "efficient and reliable."
- Clarifies STB authority to address service emergencies for shipments moving under contract.
- Expands fines and equitable damages that railroads can be forced to pay for poor service.

IMPROVING COMPETITION

- Allows competitive switching for junctions within 100 miles
- Removes the presumption that market dominance cannot exist when a shipper is served by two carriers.
- Revises rail transportation policy to reflect shippers' priorities in addition to railroads'.

REFORM MAXIMUM RATE CASE REGULATIONS

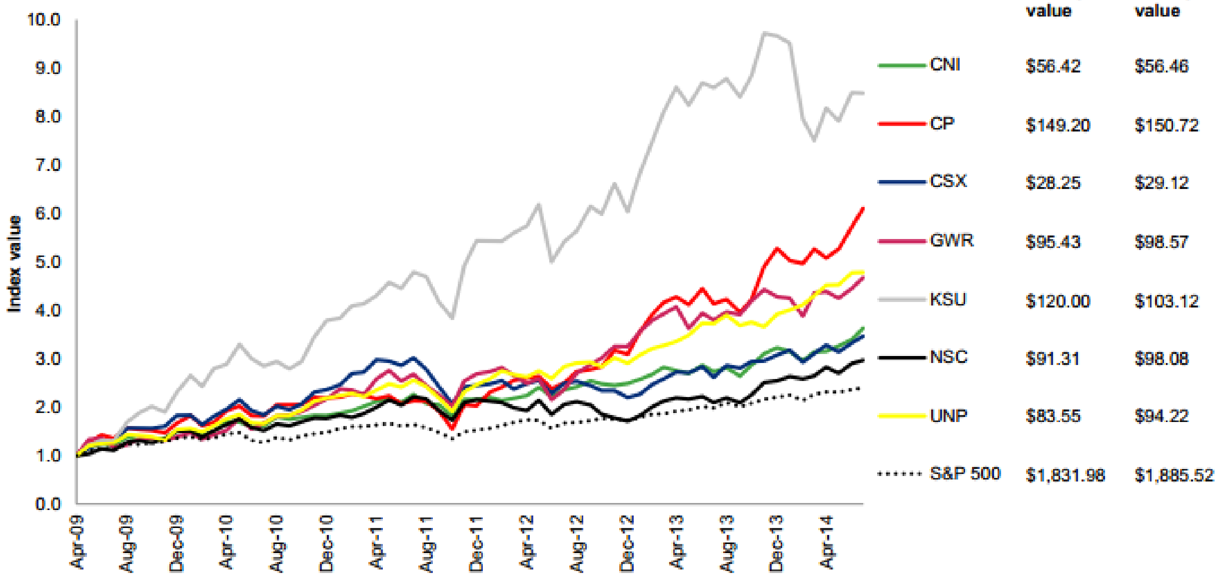
- Suspends collection of rate increase while case is pending (or allows challenges two years in advance of when shipments are anticipated to begin).
- Require use of market-based revenue methodology in stand-alone rate cases.
- Shifts burden of proof to railroads in stand-alone cost cases.
- Eliminates the qualitative market dominance test.
- Removes the revenue adequacy test and caps railroad cost of equity at reasonable level.

STRUCTURAL REFORMS AT THE STB

- Expands STB membership from three to five and allows informal discussions.
- Requires regular public meetings.
- Two Board members must have some rail shipper or consumer advocacy background.

Class 1 stock price performance index

April 2009 to end of Q2 2014

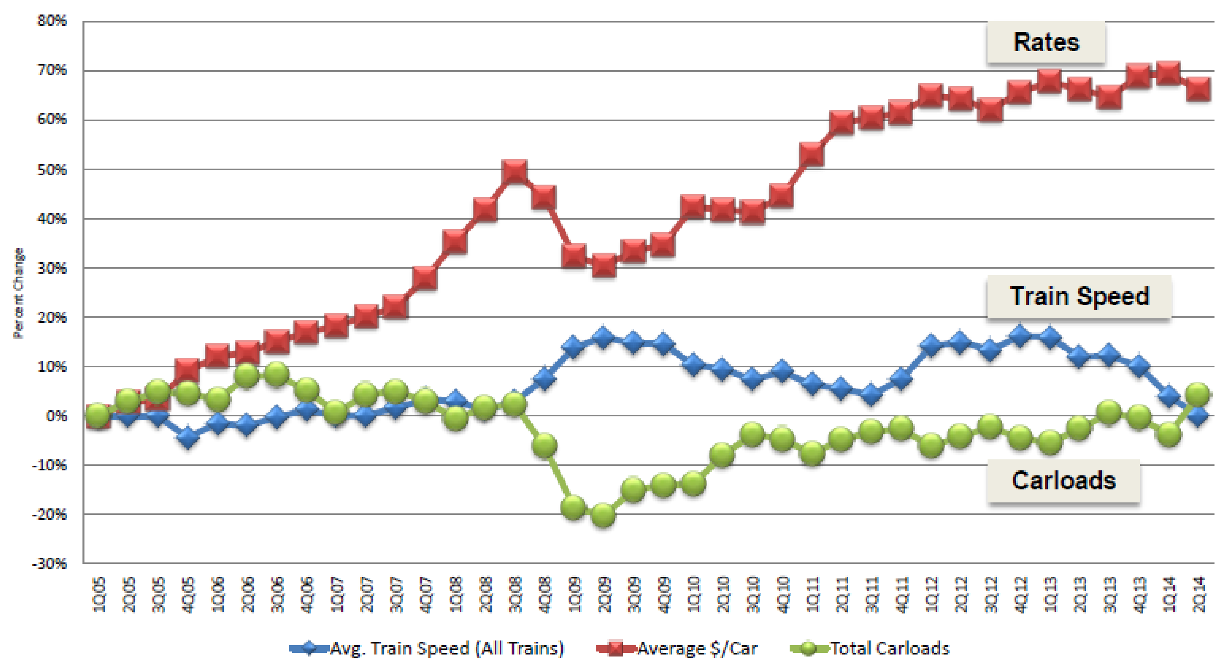


Source: Publicly available stock price data.

Higher Rates and More Money Have Not Improved Rail Service

Percent Change in Big 4 US Railroads' Average Rates, Speed and Total Cars

(1Q2005 - 2Q2014)



Source: Average revenue per car and carloads come from the railroads' SEC filings and Train Speed comes from the railroads' weekly filings to the AAR.