

**Grain Transportation
Policy Session**

Overview of Issues
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The Transportation File is Full

- CN delisting of producer car loading sites
- Cost of Capital Methodology Review (CTA)
- Industry Development Fund (IDF) Review (CTA)
- Rail Freight Service Review
- Costing Review
- Discontinuance Payment Indexing
- Overpayments to railways for hopper car maintenance

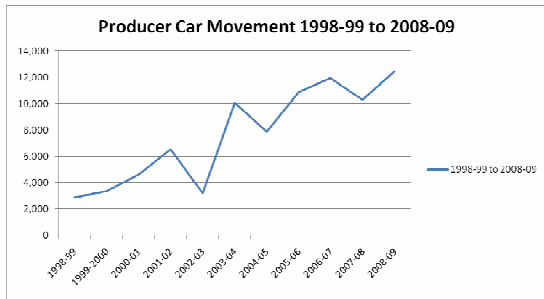
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CN delisting of loading sites

- CN now delisting 53 sites, leaving about 120
- 55 closures in 2006-09: CN 31, CP 24
- Trend is toward greater use
- No process or structure in the Act to deal with loading sites
- We are awaiting confirmation that the costs of maintaining producer car sites are already embedded in the revenue cap

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CWB Producer Car Movement 1998-2009



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Cost of Capital Methodology Review (CTA)

- Market value vs Book Value – Railways want market value capital structure.
- Deferred taxes given weight in capital structure and assigned a zero cost rate – Railways favour excluding deferred taxes from capital structure.
- Non-rail debt. One railway submits that certain types of debt should be classified as non-rail debt and included in equity.
- Cost of Debt: One railway, in the current climate of rising financing costs, wants a method of projecting future debt costs. This was not an issue when financing cost rates were declining year over year.
- Cost of equity (includes ROI required by shareholders, e.g. retained earnings, dividends, share value appreciation) – Calculated by three methods (CAPM, DCF & ERP), with Agency giving primary weight to CAPM – One railway favours use of the average of CAPM & DCF.
- Market risk premium component of CAPM. CTA uses 45 yr. time period and Canadian data. Railways want a longer time and American data.
- Railways want a grain premium. CTA had minus 1% until 1997, has been zero since then.

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Industry Development Fund (IDF) Review (CTA)

- KAP's analysis of three key railway requests under this review show:
 - RE **Ownership of IDF contributions**, railways are not allowed under the Act to retain ownership of investments "... for the development of grain-related facilities to a grain handling undertaking that is not owned by the railway company ..." (as the Act states)
 - RE **amortization**, that the amortization period should be the approximate life expectancy of the assets, not 10 yrs. as the railways want, and should take into account salvage value.
 - RE **cost of capital**, the CTA is not authorized under the Act to grant railways a cost of capital allowance on top of their contribution to the fund, rather the contribution is defined as the "... amortized amount of the contribution by the company..." (as the Act states)

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Two CTA Reviews Bottom Line

- There's money on the table.
- Between Cost of Capital and IDF, at least 10 items that could result in increased revenue to railways under the cap.
- While a costing review is being refused, costing issues are currently being reviewed at the railways' initiative.

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Rail Freight Service Review

- Phase 1: Data Gathering
 - Four projects have been awarded to consultants, now complete
- Phase 2: Recommendation Development
 - Panel of Three Eminent Persons Named September 23
 - Walter Paszkowski (chair), former Minister in Alberta government
 - David Edison, former VP of CN
 - Bill LeGrow, formerly with CN and West Fraser Mills
 - Panel will meet with shippers and those affected by rail service
 - Panel will develop recommendations
 - Stakeholders to be consulted on draft recommendations
 - Interim report available for final comment by stakeholders
 - Final report to the Minister of Transport

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Costing Review

- Last review was 1999 Kroeger Commission (from cost- to revenue-based, with cap).
 - **It recommended a full costing review be done in 2004-05.**
- GFOs (e.g. APAS, KAP, CFA, WCWGA) are calling for a costing review
- CPR: "...needs less regulation, not these kind of archaic solutions."
- CN: "creeping regulation" is transferring income from railways to farmers, it's "unfair".

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Discontinuance Payment Indexing

- KAP's analysis shows that the CTA needs to review and increase the amount of money paid to municipal governments if CN or CP salvages a short line in a community.
- Current legislation sets \$10,000 per year per mile for three years.
- This is **not indexed for inflation** and should be.
- (The index would reflect either material costs to invest in new road infrastructure or tax rates if tax revenue is lost, depending on the situation.)

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Overpayments to railways for hopper car maintenance

- Farmer Rail Car Coalition's work
- \$72 million owed to farmers (\$2.59/tonne)
- Railways appealed CTA decision to the Federal Court but did not win
- APAS recommended payment directly to farmers
- Money being paid to Western Grain Research Foundation

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