

Canadian
Transportation
Agency



Office
des transports
du Canada

Understanding the MRE

Farmers' Forum on Grain Transportation 2015

Saskatoon, Saskatchewan
July 20, 2015

The Canadian Transportation Agency

- Focus on federal transportation system under authority of Parliament, as set out in the *Canada Transportation Act*
- Two main roles:
 - independent, quasi-judicial tribunal
 - economic regulator



Economic Determinations

- Western Grain Maximum Revenue Entitlement Program
 - Maximum Revenue Entitlement Determinations
 - Price Index Determinations
- Financial Analysis
- Railway Costing
- Economic Analysis



Revenue Entitlement

MRE is railway specific

$$\text{MRE} = [A/B + ((C - D) \times \$0.022)] \times E \times F$$

- ❖ A = Base Year Revenues
- ❖ B = Base Year Tonnes
- ❖ D = Base Year Average Length of Haul
- ❖ F = Agency's Forecasted Volume Related Commodity Price Index (VRCPI)
- ❖ C = Crop Year Average Length of Haul
- ❖ E = Crop Year Tonnes



Revenue Entitlement Formula

The first part of the formula

$$[A/B + ((C - D) \times \$0.022^*)]$$

- ❖ A = Base Year Revenues
- ❖ B = Base Year Tonnes
- ❖ D = Base Year Average Length of Haul
- ❖ C = Crop Year Average Length of Haul

Determines an average rate

*The \$0.022 figure is the coefficient of change in railway economic costs, when plotted against miles.



Revenue Entitlement Formula

The second part of the formula determines the MRE by multiplying the average rate per tonne by:

- ❖ E = Crop Year Tonnes
- ❖ F = Agency's Forecasted Volume Related Commodity Price Index(VRCPI)

...so the average rate multiplied by the volume and inflation.



Determining Revenue

Revenue includes:

- ❖ amounts received by railway from the application of tariff and contract rates
- ❖ amounts received by railway to ensure car supply
- ❖ amounts received by railway for premium service
- ❖ amounts received by railway for providing interswitching or exchange switching service
- ❖ amounts for additional switching requested by shipped
- ❖ Car Hire
- ❖ B.C. Carbon Tax



Revenue does not include:

- ❖ performance penalties paid by shippers
- ❖ demurrage or car storage charges
- ❖ running rights compensation



Reductions to revenue include:

- ❖ Industrial Development Fund contributions made by railway to a grain company for the development of grain-related facilities
- ❖ multi-car block incentives, rebates, or any other similar reduction
- ❖ amounts paid by railway for interswitching or exchange switching services
- ❖ weekend loading



Determining Revenue

Reductions to revenue do not include:

- ❖ amounts paid by railway to shippers as dispatch
- ❖ amounts paid by railway to municipalities (at \$10,000/mile) for the discontinuance of grain-dependent branch lines
- ❖ amounts paid by railway as a performance penalty



CN Maximum Revenue Entitlement 2013-2014

$$\text{MRE} = [A/B + ((C - D) \times \$0.022)] \times E \times F$$

The values for A, B, C, D, E and F were:

❖ A (base year revenues)	= \$348,000,00
❖ B (base year tonnes)	= 12,437,000
❖ C (crop year average length of haul)	= 1,017 miles
❖ D (base year average length of haul)	= 1,045 miles
❖ E (Crop year tonnes)	= 19,209,590
❖ F (VRCPI)	= 1.12919

MRE	= \$667,128,937
Actual Revenue	= \$672,110,582
Amount above MRE	= \$4,981,915
Payment to WGRF	= \$5,231,011 (under appeal)



CP Maximum Revenue Entitlement 2013-2014

The values for A, B, C, D, E and F were:

❖ A (base year revenue)	= \$362,900,000
❖ B (base year tonnes)	= 13,893,000
❖ C (crop year average length of haul)	= 873 miles
❖ D (base year average length of haul)	= 897 miles
❖ E (crop year tonnes)	= 19,252,363
❖ F (VRCPI)	= 1.12919

MRE	= \$625,273,950
Actual revenue	= \$623,620,236
Amount below MRE	= \$1,653,714



Annual Amounts Under and Over MRE

CN

CP

Crop Year	Amount Under MRE	Amount Over MRE	Amount Under MRE	Amount Over MRE
	\$ millions	\$ millions	\$ millions	\$ millions
2000-01	3.1		2.7	
2001-02	13.5		8.7	
2002-03	17.3		6.6	
2003-04	1.2			0.3
2004-05		0.1	0.8	
2005-06		2.6		0.7
2006-07	2.4			3.4
2007-08		24.3		33.6
2008-09		0.7	1.1	
2009-10	3.7		1.7	
2010-11	0.9			1.4
2011-12		0.2		0.4
2012-13	6.3			0.2
2013-14		4.9	1.6	



Volume Related Composite Price Index

- In subsection 151(1) of the *Canada Transportation Act* (CTA) one of the inputs to the MRE formula is the VRCPI.
- The VRCPI started at 1.0 in the base year (2000-2001).
- The VRCPI for 2014-15 is 1.3257.
- The hopper car maintenance decision resulted in the index dropping from 1.1611 to 1.0639 for crop year 2007-08.



VRCPI 2015-2016

Major Component	Effective Weight (%)	Change (%)
• Labour	35	+1.6
• Fuel	23	-8.3
• Material	32	+1.6
• Other	<u>10</u>	<u>-6.7</u>
• Total weighted changes	100	-1.5
• Actuals adjustment to forecasts		-4.1
• Total weighted price changes since 2014-2015 VRCPI determination		-5.6



VRCPI Major Components

Labour Price Index

Captures price changes in:

- wages,
- wage-related items (such as bonuses and stock-based compensation), and
- fringe benefits (such as government and railway company pensions, and employment insurance).



VRCPI Major Components

Fuel Price Index

Model based on the relationship of railway fuel prices and the price of crude oil.

- Agency draws on expert third-party forecasters and evaluates the range of these forecasts.
- Agency analyzes the track record of the various forecasters and, when appropriate, drops those that are less accurate in predicting the price of crude oil.
- In 2010-11 Agency removed two forecasters from the list.



VRCPI Major Components

Material Price Index

Railway companies purchase thousands of different material items each year, far too numerous to track individually.

The material price index reflects changes in the average annual price of a basket of railway materials.

The Agency continues to use its long-established methodology of a series of regressions based on the major railway material components to forecast (based on third-party data) the average material price change.



VRCPI Major Components

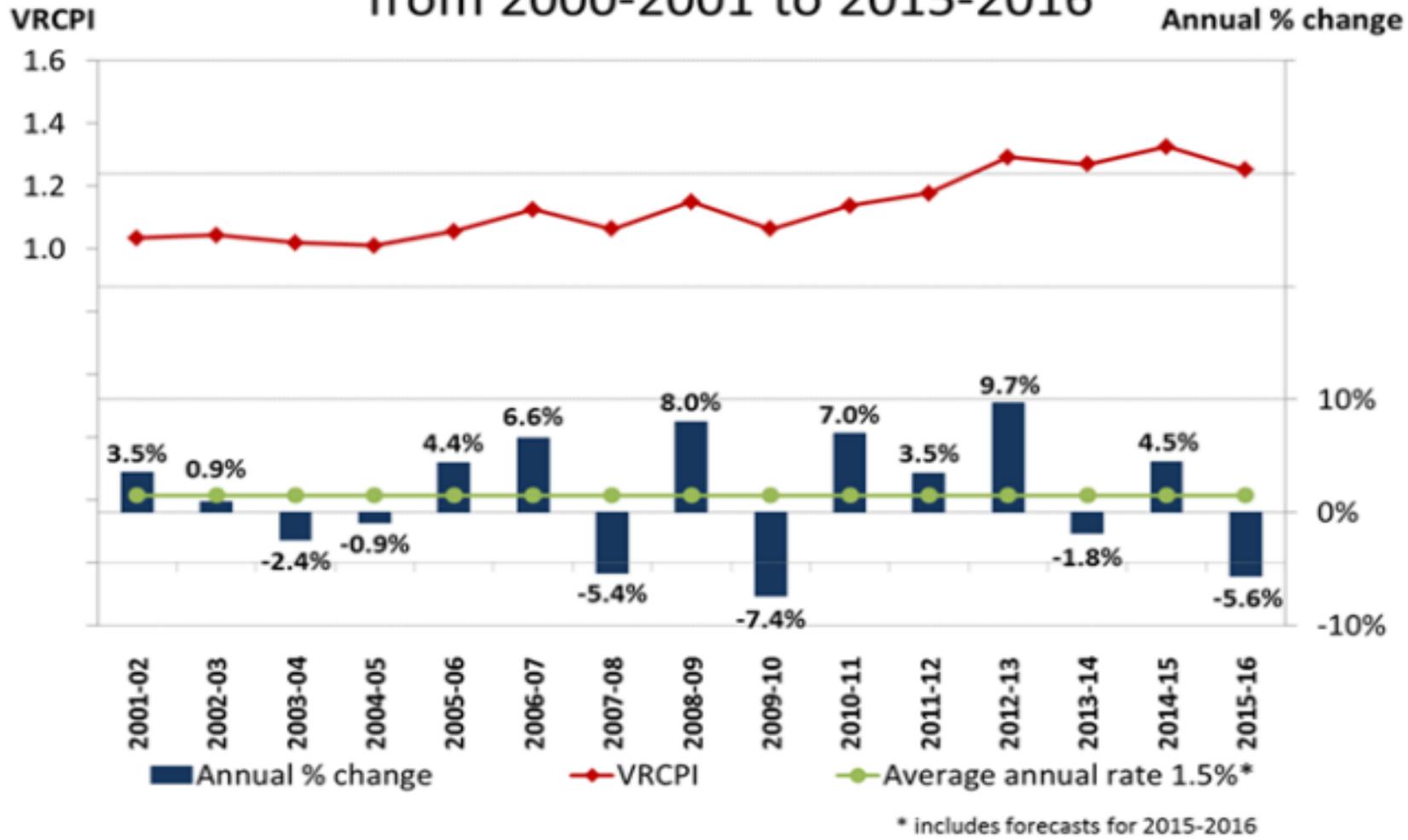
Other Price Index

Includes:

- cost of capital (which includes the cost of capital rate)
- amortization of investments
- leased hopper car rates
- cost of leasing CWB cars
- the net impact of replacing 1992 hopper car maintenance costs with more recent actual costs as determined and implemented pursuant to Clause 57 of Bill C-11 passed in June 2007
- the cost of leasing cars to replace the Saskatchewan cars and CWB cars no longer used
- replacement of federal government cars taken out of service



VRCPI and VRCPI Annual % Change from 2000-2001 to 2015-2016



Myth: The MRE is a cap on how much grain the railways can move

- While the program is misleadingly referred to as the "revenue cap", it is not in fact a cap on how much grain the railways can move. Railways have the flexibility to set differential rates for moving Western grain as long as the total revenue they earn does not exceed the entitlement determined by the Agency.
- There is no cap on how much grain CN and CP can move. While there is a "cap" on the average rate, adjusted for railway inflation and distance travelled, they can charge per tonne—the more grain that CN and CP move, the more they earn.



Questions?

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