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PRICING FOR STRATEGIC ADVANTAGE

Staggers Act deregulation broadly empowered rail carriers' contracting and pricing freedom, high and low. This freedom includes pricing strategically for long term market share and freight lane development purposes. A minimum reasonable rate need only recover “directly variable” cost – essentially direct out-of-pocket cost for the movement. Pricing below recovery of 100% of “variable” cost is, we believe, an appropriate tool for testing and promoting strategic marketing objectives that will contribute to and enhance the rail carrier's long term going concern value.

What circumstances are appropriate for use of “PSA Rates” – Pricing for Strategic Advantage? Here are some examples (not intended to be exhaustive):

- Commitment of the PSA rate traffic, with other targeted traffic, is part of a plan to increase volume or density and, thus, lower the threshold for contribution to going concern value and enhance sustainability and competitive service on specific lines or line segments.
- Advance commitment of the PSA rate traffic will advance the business case and reduce risk of investment by the Railroad, the shipper, other shippers and/or communities in rail and rail-related infrastructure necessary to achieve the plan objectives.
- The PSA rate traffic has transportation characteristics that may enhance asset utilization and opportunity to induce commitment of other freight at competitive market rates and, thus, promote the strategic plan or objective.
- The PSA rate traffic is amenable to contract terms that assure a sufficiently long term commitment and other provisions for operational discipline, *etc.*, that permit the Railroad to adequately test the plan and, thereafter, will contribute to sustaining related investments necessary to achieve the plan objectives.
- If the plan anticipates future reinstatement of an out-of-service segment, the short route miles including that segment may be used as the base for establishing the PSA rate regardless of route pending restoration of service.

PSA-type rates are a means of promoting pilot and/or long term strategic projects and/or objectives by assuring that the target freight traffic is available to satisfy ROI requirements for investments necessary to achieve the project/plan goal and sustainable long term rail operations. PSA-type rates can be established through a confidential contract with one or multiple shippers and/or a shipper association.