

Canadian
Transportation
Agency



Office
des transports
du Canada

Western Grain: Railway Revenue Cap



Canada



WHAT CHANGES HAVE OCCURRED CONCERNING GRAIN RATES?

Effective August 1, 2000, the Canadian Transportation Agency no longer establishes maximum rates for the movement of western grain by rail. CN and CP can price their western grain movements in response to market conditions. However, their revenues must not exceed a certain entitlement (the “revenue cap”). Every year, the Agency will determine each railway’s revenue cap and whether each railway has met its obligation. This new revenue cap regime stems from recent reviews and government policy reforms of the western grain handling and transportation system.

HOW IS THE REVENUE CAP DETERMINED?

The revenue cap for a given crop year will be derived using “base year” information. For each crop year, starting in 2000/2001, the Agency will adjust each railway’s base year revenue figure to reflect inflation, the actual tonnage moved and the corresponding actual average length of haul. The Agency will determine the level of inflation before each crop year begins (by April 30), and will determine the actual tonnage moved and actual average length of haul after each crop year ends (by December 31). These determinations will be applied to a formula set out in the legislation to generate each railway’s revenue cap.

WHAT MOVEMENTS ARE ELIGIBLE?

Not all western grain movements are subject to the revenue cap. Grain movements that are subject to the revenue cap must originate west of Armstrong or Thunder Bay and must move by a prescribed railway (currently, CN or CP). Shipments destined to export markets are eligible movements but must be handled

through a west coast port, Churchill, Thunder Bay or Armstrong. Shipments destined to Eastern Canadian domestic markets are also eligible but must be routed via Thunder Bay or Armstrong. Shipments through a west coast port for export to the U.S. for consumption are excluded.

There are over 50 types of grains defined in the legislation as eligible grains under the revenue cap. These include the six major grains – wheat, barley, canola, oats, rye and flax.

WHO ENSURES COMPLIANCE?

After each crop year, the Agency will determine whether each railway has or has not exceeded its revenue cap. The Agency is required to make its determinations by December 31 each year. In determining compliance, the Agency will reduce the railway revenues to account for incentives, rebates or other reductions negotiated between railways and shippers.

If the Agency determines that a railway has exceeded its revenue cap for the crop year, the railway must repay the excess amount and any penalty. The Governor in Council can develop regulations respecting the paying out of these amounts.

HOW WILL THE NEW REGIME AFFECT MY RATES?

Under the new revenue cap provision, the average maximum allowable freight rate for crop year 2000/2001 – assuming base year average length of haul – will be \$27.00 per tonne, or about \$6 per tonne (18 percent) lower than what it would have been without the grain reform legislation. Under the new regime, the railways will have pricing flexibility in developing their tariffs. Accordingly, rates

for the many origin-destination combinations may vary considerably from the average \$27.00 per tonne rate. Such variances may arise, for example, because of differences in length of haul, service requirements for the different commodities being shipped, time of year and other demands on the transportation system. However, while rates for specific shipments will vary, each railway must ensure that its total revenues from all regulated grain shipments in a crop year do not exceed its revenue cap. Single car rates from branch line points may exceed single car rates for substantially similar movements from main line points by a maximum of three percent.

WHAT IF I HAVE A RATE DISPUTE?

If a shipper and a railway cannot agree on rates, they may ask the Agency to mediate the disagreement. (See the Agency's brochure, *Resolving Disputes Through Mediation*.) Alternatively, the shipper may submit the matter to the Agency for final offer arbitration. (See the Agency's brochure, *Final Offer Arbitration*.)

REVENUE DETERMINATION METHODOLOGY

This table summarizes how various items and factors will be treated in the Agency's determination of "Railway Revenue" under the REVENUE CAP REGIME for western grain movements by prescribed railways (currently CN and CP).

REVENUE	
<p>INCLUDES:</p> <ul style="list-style-type: none"> • 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 	<p>DOES NOT include:</p> <ul style="list-style-type: none"> • incentives, rebates, or any other similar reduction • performance penalties paid by shippers • demurrage or car storage charges • running rights compensation
REDUCTIONS TO REVENUE	
<p>INCLUDE:</p> <ul style="list-style-type: none"> • Industrial Development Fund contributions made by railway for the development of grain-related facilities to a grain company • amounts paid by railway for interswitching or exchange switching services 	<p>DO NOT include:</p> <ul style="list-style-type: none"> • 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

This table is a supplement to the Agency's brochure entitled Western Grain: Railway Revenue Cap. Both are available on the Agency's internet site at the following address: <http://www.cta-otc.gc.ca>

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This guide has been prepared for information purposes only. In all cases, the language of the legislation and the regulations is the final authority.

Further information about the revenue cap legislation, as well as the Agency, its responsibilities, decisions, and orders, can be found on the Agency's Internet site at the following address: <http://www.cta-otc.gc.ca>.