Quorum Corporation

A Review of the Revenue Cap

- The Revenue Cap provides a statutory limit on the amount of revenue a prescribed railway can earn from the movement of regulated grain in western Canada.
  - Applies currently to the revenues earned by CN and CP.
  - Affects all export shipments from western Canada handled through the west coast ports, Churchill, Thunder Bay or Armstrong.
    - Precludes grain handled at Churchill since it terminates on the lines of a "non-prescribed" carrier (the Hudson Bay Railway).
  - Shipments destined to eastern Canadian domestic markets are also eligible but must be routed through Thunder Bay or Armstrong.
  - Shipments through a west coast port for export to the U. S. for consumption are excluded.

- The Revenue Cap *<u>does not incorporate static railway revenue limits</u>*.
  - The revenue limits for CN and CP were based on an estimate of each carrier's total tonnage, average length of haul, and revenues for the 2000-01 crop year.

	CN Estimation	**CP Estimation**	**Total Estimation**
Tonnes Moved (000)	12,437.0	13,894.0	26,331.0
Average Length of Haul (miles)	1,045.0	897.0	966.9
Allowable Revenue ($000)	$348,000.0	$362,900.0	$710,900.0
Average Revenue per Tonne (dollars)	$27.98	$26.12	$27.00

- The Revenue Cap is *<u>a dynamic revenue regulating mechanism</u>*
  - Based on the estimates shown above, but provides for adjustments that take into consideration changes in:
    - The total number of tonnes of grain actually moved by the carrier.
    - The carrier's actual average length of haul (in miles).
    - Inflation.
  - Defined by the formula: Revenue Cap = $[(A/B) + ((C-D) \times \$0.022)] \times E \times F$

    Where: A is the carrier's revenue for the movement in the base year;
    B is the tonnage moved by the carrier in the base year;
    C is the carrier's average length of haul for the movement of grain in the crop year;
    D is the carrier's average length of haul for the movement in the base year;
    E is the tonnage moved by the carrier in the crop year; and
    F is the volume-related composite price index determined by the Agency.

- The Revenue Cap *<u>does not penalize</u>* the railways for:
  - Handling more grain than originally expected in the 2000-01 crop year.
    - Provides for a proportional gain in compensation when traffic volumes increase, and a proportional reduction when it declines.
    - Similar adjustments are made for any increase or decrease in a carrier's average length of haul.
  - The incursion of additional costs arising from inflation.
    - Railway input costs are reviewed annually by the Agency.
    - Compensation for additional per-units costs is factored into total revenues through the Volume-Related Composite Price Index.
      - Also declines in the event of input cost rollbacks.