

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 22)

RAILROAD REVENUE ADEQUACY—2017 DETERMINATION

Docket No. EP 558 (Sub-No. 21)

RAILROAD COST OF CAPITAL—2017

Docket No. EP 750

UNIFORM RAILROAD COSTING SYSTEM—2017 CALCULATIONS

Digest:¹ The Board adopts its proposal to make one-time adjustments to its 2017 annual cost of capital determination, revenue adequacy determination, and Uniform Railroad Costing System calculations to remove the accounting impacts of the Tax Cuts and Jobs Act on rail carriers' deferred tax liability. The one-time adjustments will ensure that the rail carriers' financial state for 2017 is more accurately reflected in the Board's determinations and calculations.

Decided: December 4, 2018

On February 8, 2018, the Board instituted a proceeding in Railroad Cost of Capital—2017, Docket No. EP 558 (Sub-No. 21), to determine the railroad industry's cost of capital for 2017. The Board received comments from the Association of American Railroads (AAR) providing the information used to make the annual cost-of-capital determination. The data submitted with AAR's filing reflected significant accounting adjustments to the rail carriers' 2017 financial reports, due to a one-time revaluation of deferred tax liabilities resulting from the reduction of the federal corporate income tax rate in the Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017).² The Tax Cuts and Jobs Act, enacted December 22, 2017,

¹ The digest constitutes no part of the decision of the Board but has been prepared for the convenience of the reader. It may not be cited to or relied upon as precedent. See Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

² WCTL replied to AAR's submission in Railroad Cost of Capital—2017 and also docketed its reply in Petition of the Western Coal Traffic League to Institute a Rulemaking Proceeding to Abolish the Use of the Multistage Discounted Cash Flow Model in Determining the Railroad Industry's Cost of Equity Capital (Pet. to Abolish MSDCF), Docket No. EP 664 (Sub-No. 2). WCTL argued that the Morningstar/Ibbotson

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reduced the federal corporate income tax rate from a maximum of 35% (see 26 U.S.C. § 11(b) (2012)) to a flat 21%, effective January 1, 2018. See Tax Cuts and Jobs Act § 13001(a). As Generally Accepted Accounting Principles (GAAP) require that deferred tax assets and liabilities be revalued in the year in which the change in tax rate is enacted,³ rail carriers revalued their deferred tax liability in 2017, although the reduced tax rate did not go into effect until January 2018. In revaluing their deferred tax liabilities, rail carriers made one-time, downward adjustments on their financial statements, as reported to both the Securities and Exchange Commission and to the Board, and accounted for the reduction in deferred tax liabilities as income.⁴

In a decision served on July 27, 2018, the Board noted that the rail carriers' accounting adjustments would affect several Board determinations and calculations for 2017. Railroad Revenue Adequacy—2017 Determination (July 2018 Decision), EP 552 (Sub-No. 22) et al., slip op. at 2 (STB served July 27, 2018). The Board, therefore, sought comment on whether one-time adjustments to its 2017 annual cost-of-capital determination, revenue adequacy determination, and Uniform Railroad Costing System (URCS) calculations to remove the accounting impacts of the Tax Cuts and Jobs Act on rail carriers' deferred tax liability would be appropriate to more accurately reflect the rail carriers' financial state for 2017. Id. at 3. The Board proposed methodologies for making the one-time adjustments to the 2017 determinations and calculations, but invited comment on the appropriate adjustment methodologies, including alternative methods. Id. at 3-6. Additionally, all Class I railroads were instructed to file, by

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multi-stage discounted cash flow (MSDCF) model was generally unsuitable for estimating the railroad cost of equity (COE) and should not be used to determine the cost of capital, especially in 2017, given the accounting impacts of the Tax Cuts and Jobs Act. WCTL Reply 4-6, R.R. Cost of Capital—2017, EP 558 (Sub-No. 21). WCTL also petitioned the Board to reopen various decisions in Docket No. EP 664 (Sub-No. 2) and eliminate use of the MSDCF in its cost of capital methodology and to delay issuing the 2017 cost of capital until the Board had done so. Id. at 6-7. By decision served on September 28, 2018, the Board denied WCTL's petition to reopen, but noted that the Board was seeking comment on the impacts of the Tax Cuts and Jobs Act on the 2017 annual determination in this proceeding. Pet. to Abolish MSDCF, EP 664 (Sub-No. 2) (STB served Sept. 28, 2018). The Board addresses WCTL's concerns regarding the effects of the Tax Cuts and Jobs Act on the MSDCF in this decision.

³ See Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10-25-47.

⁴ See FASB ASC 740-10-45-15 (“[W]hen deferred tax accounts are adjusted . . . for the effect of a change in tax laws or rates, the effect shall be included in income from continuing operations for the period that includes the enactment date”).

August 16, 2018, revised figures with the accounting impacts of the carriers' deferred tax revaluations removed. Id. at 5.

On August 10, 2018, the Board, at the request of the Western Coal Traffic League (WCTL), extended the deadlines for comments and replies to September 5, 2018, and September 25, 2018, respectively. Timely comments and replies were submitted by AAR and WCTL.

According to AAR, a dramatically-increased net income value in a year when measures of revenue and cashflow were largely flat would not accurately represent the financial state of rail carriers or the rail industry in 2017. (AAR Comment 3.) Thus, AAR states that the Board's proposal to make one-time adjustments in the Board's regulatory proceedings and calculations—cost of capital, revenue adequacy, and URCS—would be appropriate and consistent with the Board's governing statute and past practice. (Id.; AAR Reply 8.)

WCTL states that the year-end 2017 deferred tax liabilities and net-income values “represent a change from the past that warrants review and action where appropriate.” (WCTL Comment 3.) WCTL agrees that the Board's proposal for adjusting URCS is appropriate. WCTL asserts that the Board's proposal for cost of capital is “constructive” in that it addresses the cash flow side of the MSDCF, but argues that it should also address the growth rate side. (Id. at 6-10.) WCTL argues, however, that the Board's proposal for revenue adequacy is “deficient.” (Id. at 10-15.) According to WCTL, the Board's treatment of the accounting impacts need not, and should not, be identical in each instance “because each matter has its own purpose, time perspective, and related calculations and analyses for which internal consistency and integrity are needed.” (Id. at 15.)

As discussed below, the Board will adopt its proposal to make one-time adjustments to its 2017 annual cost of capital determination, revenue adequacy determination, and URCS calculations to remove the accounting impacts of the Tax Cuts and Jobs Act on rail carriers' deferred tax liability. The one-time adjustments will help to ensure that the rail carriers' financial state for 2017 is more accurately reflected in the Board's determinations and calculations.

DISCUSSION AND CONCLUSIONS

The Board responds to AAR's and WCTL's comments regarding the proposed changes to each of the three annual determinations and calculations separately below.

2017 Railroad Cost of Capital

One of the Board’s regulatory responsibilities is to determine annually the rail industry’s cost of capital. In determining the cost of capital, the Board analyzes the financial statements of each Class I carrier comprising the “composite railroad.”⁵ The Board calculates the cost of capital as the weighted average of the cost of debt and the COE. Since 2009, the Board has based its COE estimate on a simple average of the estimates produced by the Capital Asset Pricing Model (CAPM) and the MSDCF model. In the July 2018 Decision, slip op. at 2, the Board stated that the rail carriers’ revaluation of their deferred tax liabilities would affect the Board’s 2017 cost of capital determination through the MSDCF model. Accordingly, the Board proposed to remove the accounting impacts of the carriers’ deferred tax revaluations by increasing the carriers’ deferred taxes figures by the amount of deferred tax liability removed due to the revaluation, while also removing the same amount from the carriers’ net income figures. Id. at 3-4.

In its comments, WCTL notes that the Board’s proposal is useful in that it addresses MSDCF cash flows. (WCTL Comment 9.) WCTL argues, however, that the Board’s proposed methodology fails to address the growth rates that are also affected by the tax cut. (Id.) Specifically, WCTL argues that the MSDCF counts the effects of the one-time tax cut multiple times because the MSDCF has no “transition mechanism;” as such, the MSDCF growth rates in the second stage and the beginning of the third stage are based on growth rate estimates in the first stage. (Id.) WCTL also argues that the MSDCF’s use of earnings per share growth as a proxy for cash flow growth skews the MSDCF COE estimates, particularly in 2017 where the tax cut increased 2017 earnings but not cash flow. (Id. at 7-9.) For these reasons, WCTL argues that for 2017, the Board should instead either discard the MSDCF and rely exclusively on the CAPM, or make an appropriate adjustment to the growth rates to remove the impacts of the tax cut from both sides of the MSDCF equation. (Id. at 4.) WCTL argues that the latter can be accomplished by (1) using growth rates as of an earlier date in the year—when the tax cut, or any anticipation

⁵ The composite railroad includes railroads that meet all of the following criteria during the review year: (1) the company is a Class I line-haul railroad; (2) if the Class I railroad is controlled by another company, the controlling company is primarily a railroad company and is not already included in the study frame (a company is considered to be primarily in the railroad business if at least 50% of its total assets are devoted to railroad operations); (3) the company’s bonds are rated at least BBB by Standard & Poor’s and Baa by Moody’s; (4) the company’s stock is listed on either the New York Stock Exchange (NYSE) or the Nasdaq Stock Market (NASDAQ); and (5) the company has paid dividends throughout the review year. See Revisions to the Cost-of-Capital Composite R.R. Criteria, EP 664 (Sub-No. 3) (STB served Oct. 25, 2017); R.R. Cost of Capital—1984, 1 I.C.C.2d 989 (1985). According to AAR, the following four railroad holding companies meet these criteria: CSX Corporation; Kansas City Southern Corporation; Norfolk Southern Corporation; and Union Pacific Corporation. AAR Comment 3, R.R. Cost of Capital—2017, EP 558 (Sub-No. 21).

thereof, did not figure so prominently in the growth rate estimate; or (2) using the average of the growth rates as of the end of 2016 (beginning of 2017) used in the 2016 MSDCF and the end of 2017 values—which would approximate a value for the middle of the year. (Id. at 10.)

Despite WCTL’s theoretical argument that the MSDCF counts the effects of the tax cut multiple times, WCTL has not demonstrated that the analysts’ forecasted growth rates are based, to any measurable degree, on gains from the reduction in deferred tax liabilities. Financial analysts consider all relevant financial and economic information in developing their growth rates. If the 2017 growth rates are artificially inflated by the accounting treatment of the deferred taxes, as WCTL suggests, presumably there would be negative growth rate returns for 2018.⁶ This is not the case, however, as demonstrated by the positive direction in the available 2018 growth rates submitted by AAR. (AAR Reply, App. A.) Accordingly, WCTL’s concern that the absence of a “transition mechanism” in the MSDCF will result in an overcount due to the effects of the tax cut is misplaced, particularly where there is no evidence that the analyst’s 2017 growth rates are overstated. Moreover, the Board has repeatedly addressed and rejected WCTL’s arguments regarding a “transition mechanism.” See, e.g., Pet. to Abolish MSDCF, EP 664 (Sub-No. 2), slip op. at 5-6 (STB served Sept. 28, 2018).

The Board also rejects WCTL’s argument that the MSDCF COE estimates are skewed because of the MSDCF’s use of earnings per share growth as a proxy for cash flow growth. WCTL’s assertion is a mere restatement of previous claims in which it criticized the Board’s methodology in estimating the COE. The Board has previously addressed WCTL’s specific criticisms and found the use of the MSDCF model (in conjunction with CAPM) to be a reasonable approach to calculate the industry cost-of-capital. Id. at 6-7 (detailing the Board’s prior discussions of WCTL’s MSDCF arguments); Use of a Multi-Stage Discounted Cash Flow Model, EP 664 (Sub-No. 1), slip op. at 11-12 (STB served Jan. 28, 2009) (rejecting WCTL’s arguments that the MSDCF’s use of earnings per share growth as a proxy for cash flow growth is flawed because it does not take into account the exercise of stock options, share buybacks, or changes in working capital).⁷

⁶ Under WCTL’s scenario, analyst growth rates reflecting the one-time adjustment to deferred tax liabilities would occur in 2017, forecasting a huge increase in net income. Such a scenario, however, would require the same analysts to forecast negative growth in 2018 when the industry’s net income returns to a trend unaffected by the one-time reduction in deferred tax liabilities.

⁷ In its reply, WCTL reiterates its previously-raised arguments that stock buybacks cause earnings-per-share estimates to diverge from total cash flows. According to WCTL, this divergence causes the MSDCF to overestimate future cash flows and the cost of capital, which is exacerbated by the 2017 tax cut. (WCTL Reply 2 n.1, citing *Buybacks Dress Up Profits*, Wall St. J., Sept. 24, 2018, at B9.) The Board finds WCTL’s argument unpersuasive. WCTL has not demonstrated that the analysts’ estimates of earnings growth failed to account for stock buybacks in their estimates. In fact, the language from the article cited by WCTL supports the Board’s

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Because the Board rejects WCTL's criticisms of the MSDCF growth rate, there is no need to consider WCTL's proposed alternatives of relying exclusively on CAPM or making an adjustment to both sides of the MSDCF equation. The Board finds that its proposal to modify the cost-of-capital calculation is sufficient to address the impact on MSDCF estimates for 2017 resulting from the Tax Cuts and Jobs Act, and will adopt it without modification.⁸

2017 Railroad Revenue Adequacy

Each year, the Board calculates whether a Class I railroad is revenue adequate by reviewing the carrier's rate of return on net investment data, as contained in the carrier's annual R-1 Schedule 250 filings.⁹ In the July 2018 Decision, slip op. at 2, 4, the Board noted that its revenue adequacy determination would be affected by the carriers' revaluation because the carriers' revalued deferred tax liabilities during the fourth quarter of 2017 created an inconsistency between the carriers' 2017 beginning-of-year Schedule 250 figures (calculated at a 35% tax rate) and end-of-year Schedule 250 figures (calculated at a 21% tax rate), which are used to calculate revenue adequacy.

The Board, therefore, proposed to adjust the carriers' Schedule 250 filings to remove the accounting changes from the carriers' end-of-year figures. Id. at 5. Specifically, the Board stated that it would remove, for each of the seven Class I carriers, the increase in net income from Line No. 1, "Combined/Consolidated Net Railway Operating Income for Reporting Entity," and add the deferred income tax credits back in to Line No. 12, "Accumulated Deferred Income Tax Credits." Id. The Board noted that the carriers' beginning-of-the-year figures do not reflect

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position: "while the buybacks add to per-share earnings, the effect is clear to investors and baked into the analyst earnings estimates that drive stock prices." Id. Moreover, the Board has previously considered and rejected WCTL's argument. See Pet. of W. Coal Traffic League to Institute Rulemaking Proceeding to Abolish Use of Multi-Stage Discounted Cash Flow Model in Determining R.R. Industry's Cost of Equity Capital, EP 664 (Sub-No. 2), slip op. at 14 (STB served Oct. 31, 2016).

⁸ The Board notes that, in a related decision served today, Railroad Cost of Capital—2017, EP 558 (Sub-No. 21) (STB served Dec. 6, 2018), the Board calculates the annual railroad cost of capital to be 10.04%, after applying the adjustments described herein. Absent such adjustments, the railroad industry cost of capital would have been 10.51%.

⁹ A railroad is considered revenue adequate under 49 U.S.C. § 10704(a) if it achieves a rate of return on net investment equal to at least the current cost of capital for the railroad industry. See R.R. Revenue Adequacy—2016 Determination, EP 552 (Sub-No. 21), slip op. at 1 (STB served Sept. 6, 2017); see also Standards for R.R. Revenue Adequacy, 364 I.C.C. 803, 807 (1981), modified, 3 I.C.C.2d 261 (1986), aff'd sub nom. Consol. Rail Corp. v. United States, 855 F.2d 78 (3d Cir. 1988).

the revaluation of deferred tax liability and therefore would not need to be adjusted. The Board also noted that any adjustment made to the carriers' end-of-year 2017 figures would not be carried over into the carriers' 2018 beginning-of-year Schedule 250 figures. Id. at 5 n.10.

WCTL argues that the Board's justification for adjusting the revenue adequacy determination and its proposal for doing so are fundamentally flawed for several reasons. (WCTL Comment 4.) WCTL argues that the proposal errs by ignoring \$22 billion in net income that Class I railroads earned in 2017. (Id. at 15.) WCTL states that the exclusion of \$22 billion in railroad earnings is irreconcilable with the Board's governing statute, 49 U.S.C. § 11142, that allows the Board to "prescribe a uniform accounting system" for carriers under its jurisdiction and directs the Board to "conform such system to generally accepted accounting principles" "[t]o the maximum extent practicable." (WCTL Comment 13.) WCTL also states that it disagrees with AAR's position that the \$22 billion in non-cash earnings is illusory or nonrepresentative of the financial condition of rail carriers in 2017. (WCTL Reply 2; see also AAR Comment 3-5.) Referring to a letter in a 2017 Annual Report from Warren Buffet to Berkshire Hathaway stockholders, WCTL argues that the \$22 billion in non-cash earnings is real and should be considered in determining revenue adequacy in 2017. (WCTL Comment 11; WCTL Reply 2; see also Letter from Warren E. Buffet to Berkshire Shareholders at 3 (Feb. 24, 2018), <http://www.berkshirehathaway.com/letters/2017ltr.pdf>.) To the extent that the Board is concerned that the carriers' 2017 income represents an atypical spike in one year, WCTL states that revenue adequacy is envisioned as a long-term concept in Coal Rate Guidelines, Nationwide, 1 I.C.C.2d 520, 536 (1985), that calls for a company, over time, to average return on investment equal to its cost of capital. (WCTL Comment 4, 12.) Accordingly, WCTL argues that the long-term significance of the one-year spike can be assessed over time using a multi-year period—and cites as an example the Board's Revenue Shortfall Allocation Method (RSAM), which uses a four-year averaging period.¹⁰ (Id. at 4-5, 13.) While WCTL disagrees with the Board's proposal to ignore the non-cash income resulting from the carriers' reduction in deferred tax liabilities, WCTL agrees that the beginning and end-of-year balances for deferred tax liabilities should be calculated the same way. (Id. at 14.) Citing Railroad Revenue Adequacy—1986 Determination, 3 I.C.C.2d 966, 970 (1987), WCTL states that it has been the Board's practice to adjust the beginning-of-year values to match the tax rate basis for the end-of-year values, and not the converse, as proposed in the Board's notice. (WCTL Comment 14.) WCTL argues that restating the beginning-of-year deferred tax liabilities to reflect how the end-of-year

¹⁰ WCTL states that RSAM would presumably also be affected by adoption of the Board's proposal, "yet RSAM is not included in the Board's Notice." (WCTL Comment 13 n.11.) The Board agrees that RSAM ratios will be affected by this decision insofar as the return on investment and cost of capital figures used in RSAM will be affected by this decision. However, the Board finds that no adjustment to the RSAM methodology itself is necessary.

deferred tax liabilities are calculated further buttresses the need to recognize the associated increase in earnings.¹¹ (Id.)

In response to WCTL’s argument that the Board’s proposal is contrary to the statutory directive to follow GAAP “to the maximum extent practicable,” the Board notes that its proposal was focused on its own regulatory objective to calculate revenue adequacy to more appropriately capture the rail carriers’ financial state for 2017, not on changing the methods by which carriers generally report financial information pursuant to GAAP. Moreover, WCTL itself acknowledges that the Board is permitted to deviate from GAAP when necessary. Here, the Board is concerned with its statutory obligation to assess the financial health of the railroad industry by more accurately capturing the rail carriers’ financial state for 2017 and finds that a deviation from GAAP is warranted. See 49 U.S.C. § 10704(a)(2) (allowing railroads to “attract and retain capital in amounts adequate to provide a sound transportation system in the United States”); see also W. Coal Traffic League—Pet. for Declaratory Order, FD 35506, slip op. at 12 (STB served July 25, 2013) (“Because the statute directs the agency to follow GAAP ‘to the maximum extent practicable,’ we retain discretion to determine what is practicable and when deviations from GAAP are necessary.”)

With respect to WCTL’s argument that the \$22 billion in non-cash earnings is real and should be considered in determining revenue adequacy in 2017, the Board agrees that the impact of the Tax Cuts and Jobs Act is real to the extent that, so long as the tax cut remains in place, there will be an ongoing reduction in the corporate tax rate from 35% to 21%. The Board concludes, however, that the non-cash adjustments to income that affected the carriers’ 2017 fourth quarter filings, while accurate from an accounting standpoint, do not accurately reflect the carriers’ financial status for 2017.

The Board also agrees with WCTL’s assertion that revenue adequacy, as discussed in Coal Rate Guidelines, Nationwide, is a long-term concept. However, WCTL’s argument that the one-year spike in the return on investment can be assessed over a multi-year period is misplaced as it relates to the Board’s *annual* revenue adequacy determination. Under 49 U.S.C. § 10704(a)(3), the Board is mandated to assess annually which carriers are earning adequate revenues. In doing so, the Board maintains, and revises as necessary, its standards and procedures to establish revenue levels for rail carriers that are, among other things, adequate, economical, and sufficient for the infrastructure and investment needed to meet the present and future demand for rail service, and to cover total operating expenses (including depreciation and

¹¹ WCTL also makes a passing reference to the fact that “an excessive amount of future tax liabilities was recognized in earlier years” without any explanation as to why that is relevant to the current situation. (WCTL Comment 12.) First, the Board notes that WCTL concedes that those earlier years cannot and should not be restated. Second, WCTL ignores that deferred taxes are also considered in determining the railroads’ net investment base as part of the Board’s revenue adequacy determination.

obsolescence), plus a reasonable and economic profit or return (or both) on capital employed in the business. See 49 U.S.C. § 10704(a)(2). Thus, despite WCTL’s argument that the carriers’ 2017 income spike could be assessed over time using a multi-year period, the Board finds this approach to be inappropriate in the context of the Board’s statutory revenue adequacy determination, which is a single-year analysis. Additionally, the increase in earnings resulting from a reduction in deferred tax liabilities is a non-cash event.

Finally, although WCTL agrees that the beginning and end-of-year balances for deferred tax liabilities should be calculated the same way it argues that the Board should have adjusted the beginning-of-year values to match the tax rate basis for the end-of-year values, as in Railroad Revenue Adequacy—1986 Determination, 3 I.C.C.2d 966, 970 (1987). In that case, the Board’s predecessor, the Interstate Commerce Commission (ICC), made one-time adjustments to carriers’ beginning-of-year balances by modifying the computation of the return on investment through subtraction of deferred income tax reserves from the investment base and the use of depreciation accounting. Here, a similar adjustment is made, albeit to end-of-year figures. In determining revenue adequacy, in this instance, either beginning or end-of-year values may be adjusted to place the values on an appropriate basis for comparison. In 1986, the ICC chose to adjust the beginning-of-year balances. Here, however, because the Board is attempting to harmonize not only the revenue adequacy determination, but also the cost-of-capital figure and URCS—considerations the ICC did not face in 1986—the Board concludes that the most straightforward way to accomplish its goal is to adjust the carriers’ end-of-year balances.¹² Nevertheless, in both proceedings, the agency sought to eliminate the impact of deferred taxes—to place the two values on an apples-to-apples comparison. Thus, the Board will adopt its proposal to remove the carriers’ increase in net income from Line No. 1, “Combined/Consolidated Net Railway Operating Income for Reporting Entity,” and will add the deferred income tax credits back in to Line No. 12, “Accumulated Deferred Income Tax Credits.”

2017 URCS

In the July 2018 Decision, slip op. at 3-4, the Board explained that the revaluation of the carriers’ deferred taxes would also affect the Board’s 2017 URCS calculations. The Board proposed to remove the accounting impacts of the revaluation from its 2017 URCS calculations by adjusting Line No. 48, “Accumulated Deferred Income Tax Credits Balance at Close of Year,” for each Class I carrier’s annual R-1 Schedule 200 filing, and adding back in to that figure the amount of deferred taxes removed due to the revaluation. Id. at 5. The Board stated that, if it were to make this adjustment, it would calculate the pre-tax cost of capital used in the URCS calculations using the 35% tax rate, rather than the new 21% tax rate, to be consistent with the exclusion of the accounting impacts of the revaluation. Id.

¹² The Board finds that its 2017 URCS calculations and cost-of-capital determination both require year-end adjustments and cannot be addressed by changing beginning-year values.

AAR and WCTL both fully support the Board's proposal to calculate variable costs under URCS. (AAR Comment 3; WCTL Comment 4, 15.) AAR, however, points out that the Board's proposal may implicate other annual R-1 schedules for some railroads, including Schedule 210, Schedule 410, and Schedule 414. (AAR Comment 2 n.3.) AAR states that it does not appear that any changes to those schedules would affect the outcome of any Board calculation. (Id.)

The Board will adopt its proposal to remove the accounting impacts of the revaluation from its 2017 URCS calculations. Additionally, all Class I carriers will be required to file recalculated figures with the accounting impacts of the carriers' deferred tax revaluations removed for Schedules 210, 410, 414, and any other applicable schedule that would be affected by the Board's proposal. Carriers must note where their recalculated figures differ from their original submissions.

Conclusion

The Board concludes that for regulatory purposes, it is important to treat the deferred tax liability issue consistently across all three determinations at issue in these proceedings. A goal of the agency's economic regulation of the railroads is "to foster sound economic conditions in transportation." 49 U.S.C. § 10101(5). WCTL's approach to treat the impact of the Tax Cuts and Jobs Act for cost-of-capital, which is an input to revenue adequacy, differently from revenue adequacy itself would be counter to that goal.¹³

The Board adopts its proposal to make one-time adjustments to its 2017 cost of capital determination, revenue adequacy determination, and URCS calculations to remove the accounting impacts of the Tax Cuts and Jobs Act on rail carriers' deferred tax liability. Implementing the proposals discussed herein will help to ensure that the Board's 2017 determinations and calculations are representative of the financial state of the railroad industry in 2017.

It is ordered:

1. The Board adopts the proposals as set forth in this decision.
2. All Class I carriers are required to file recalculated figures for Schedules 210, 410, 414, and any other applicable schedule that might be affected by the Board's proposals discussed above. Carriers must note where their recalculated figures differ from their original submissions

¹³ WCTL's approach cannot, as AAR argues, be justified by WCTL's vague "different nature and purposes" argument. (See AAR Reply 3.)

and shall submit the applicable data to the Office of Economics on, or before, December 28, 2018.

3. A copy of this decision will be served on all Class I rail carriers.
4. This decision is effective on its service date.

By the Board, Board Members Begeman and Miller.