

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 21)

RAILROAD REVENUE ADEQUACY—2016 DETERMINATION

Digest:¹ The Board finds that four Class I railroads (BNSF Railway Company, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2016, meaning that those railroads achieved a rate of return equal to or greater than the Board's calculation of the average cost of capital to the freight rail industry.

Decided: September 5, 2017

This annual determination of railroad revenue adequacy under 49 U.S.C. § 10704(a)(3) is made in accordance with the standards and procedures developed in Standards for Railroad Revenue Adequacy (Standards I), 364 I.C.C. 803 (1981); Standards for Railroad Revenue Adequacy (Standards II), 3 I.C.C.2d 261 (1986); and Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes (Supplemental Reporting), 5 I.C.C.2d 65 (1988). Pursuant to those procedures, which are essentially mechanical, a railroad is considered revenue adequate under 49 U.S.C. § 10704(a) if it achieves a rate of return on net investment (ROI) equal to at least the current cost of capital for the railroad industry.

In Railroad Cost of Capital—2016, EP 558 (Sub-No. 20) (STB served Aug. 7, 2017), the Board determined that the 2016 railroad industry cost of capital was 8.88%. By comparing this figure to the 2016 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, a revenue adequacy figure has been calculated for each of the Class I freight railroads that were in operation as of December 31, 2016.

A summary of the ROIs for all Class I railroads is set forth in Appendix A to this decision. Appendix B provides the railroads' R-1 Schedule 250 data that was used to compute the ROIs. The Board finds four carriers (BNSF Railway Company, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2016.² The Board's findings will be final on the effective date of this decision.

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. Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

² Pursuant to Standards I, 364 I.C.C. 803, Standards II, 3 I.C.C.2d 261, and Supplemental Reporting, 5 I.C.C.2d 65, revenue adequacy determinations for Class I carriers are made on a system-wide basis, which includes certain railroad affiliates.

It is ordered:

1. This decision is effective on its service date.
2. Notice of this decision will be published in the Federal Register.

By the Board, Board Members Begeman, Elliott, and Miller.

APPENDIX A

Railroad	ROI
BNSF Railway Company	10.11%
CSX Transportation, Inc.	8.62%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	8.60%
Kansas City Southern Railway Company	6.23%
Norfolk Southern Combined Railroad Subsidiaries	9.20%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	9.58%
Union Pacific Railroad Company	13.39%

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	4,068,677	1,590,756	707,646	239,671	1,780,821	274,354	4,334,851
Add: Interest Income from Working Capital Allowance – Cash Portion	245	112	555	199	1194	99	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	51,039	45,705	593	(25)	38,900	3,351	109,879
Add: Gain or (Loss) from Transfer/Reclassification to Nonrail-status (Net of Income Taxes)	12,407	77,695	3,803	322	24,173	3,888	58,527
** Adjusted Net Railway Operating Income **	4,132,368	1,714,268	712,597	240,167	1,845,088	281,692	4,503,257
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	60,328,103	29,147,682	12,120,000	4,935,207	28,507,378	4,155,337	48,238,785
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	58,532,225	28,038,967	11,458,830	4,621,857	28,016,570	4,028,441	46,669,861
Combined Investment in Railroad Property Used in Transportation Service – Average	59,430,164	28,593,325	11,789,415	4,778,532	28,261,974	4,091,889	47,454,323
Interest During Construction – Ending Balance	0	0	2,113	4,320	2,580	10,374	43,253
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	13,506	43,272
Interest During Construction – Average	-	-	2,113	4,320	2,580	11,940	43,263
Other Elements of Investment – Ending Balance	0	0	1,788	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	1,788	0	0	1,135	0
Other Elements of Investment – Average	-	-	1,788	-	-	1,135	-
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	172,089	5,797	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	150,297	5,762	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	-	-	161,193	5,780	-	-	-
Working Capital Allowance – Ending Balance	856,162	456,274	111,129	106,125	678,045	60,780	892,689
Working Capital Allowance – Beginning Balance	966,930	426,830	108,385	93,808	778,986	85,801	1,131,299
Working Capital Allowance – Average	911,546	441,552	109,757	99,967	728,516	73,291	1,011,994
Accumulated Deferred Income Tax Credits – Ending Balance	19,963,817	9,337,412	3,871,368	1,072,686	8,993,592	1,247,656	15,133,143
Accumulated Deferred Income Tax Credits – Beginning Balance	18,936,690	8,950,321	3,668,559	983,190	8,866,522	1,173,997	14,434,358
Accumulated Deferred Income Tax Credits – Average	19,450,254	9,143,867	3,769,964	1,027,938	8,930,057	1,210,827	14,783,751
Tax Adjusted Net Investment Base – Ending Balance	41,220,448	20,266,544	8,527,949	3,970,123	20,189,251	2,956,952	33,955,078
Tax Adjusted Net Investment Base – Beginning Balance	40,562,465	19,515,476	8,045,052	3,733,917	19,926,454	2,925,604	33,323,530
* Tax Adjusted Net Investment Base *	40,891,457	19,891,010	8,286,501	3,852,020	20,057,853	2,941,278	33,639,304
TAX ADJUSTED RETURN ON INVESTMENT	10.11%	8.62%	8.60%	6.23%	9.20%	9.58%	13.39%

The line item descriptions in Schedule 250 used in this Appendix are defined in the instructions to the Schedule 250 appearing in Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes, 5. I.C.C.2d 65, 80-82 (1988). The Schedule 250 form and instructions are not published in the Code of Federal Regulations.