NGFA proposes a new maximum rate approach for Ag commodities -- The Ag Commodities Maximum Rate Methodology ("ACMRM")

1. ACMRM uses a comparison group approach similar to the Board's current Three Benchmark Methodology.

2. The comparison group includes rates for shipments above and below the 180% R/VC cost level.

3. The comparison group includes shipments from all railroads, not just shipments from the incumbent carrier.

4. The shipper would select all comparable moves that meet the selection criteria for the movement at issue from Confidential Waybill Samples.

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5. Comparability to the issue movement will be based on the following factors:
   a. Distance (+/- 20% of issue movement miles);
   b. Commodity;
   c. Railcar Type;
   d. Railcar Ownership; and
   e. Movement Type (originate/terminate, originate/deliver, etc.).

6. Even though the comparison group would include movements with R/VC ratios below 180%, the maximum reasonable rate produced by the analysis would be subject to the statutory 180% floor.

7. NGFA's ACMRM approach *will not* allow for examination of "other relevant factors."

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8. The ACMRM also makes commodity specific adjustments to reflect each Class I carrier's revenue adequacy status.

The proposed ACMRM Revenue Adequacy Adjustment Factor (“RAAF”)

RAAF = {[(COC – ROI) x RRIB] ÷ (1 – Tax Rate)} x (STCC Rev $_{>180}$ ÷ RR Rev $_{>180}$) ÷ STCC Rev

Where:

RAAF	=	Revenue Adequacy Adjustment Factor
COC	=	Railroad Industry Cost of Capital
ROI	=	Railroad Specific Return on Investment
RRIB	=	Railroad Specific Tax Adjusted Net Investment Base
Tax Rate	=	Railroad Specific Marginal Tax Rate
STCC Rev $_{>180}$	=	Railroad Specific Revenue by STCC from Movements with R/VC Ratios Greater Than 180%
RR Rev $_{>180}$	=	Railroad Specific Revenues from Movements with R/VC Ratios Greater Than 180%
STCC Rev	=	Railroad Specific Revenues by STCC

The RAAF calculation is based on data already calculated by the STB

Example - 2014 Union Pacific RAAF For STCC 01132 - Corn

	Item	Source	Statistic 1/
	(1)	(2)	(3)
1.	Railroad Industry Cost of Capital	STB Ex Parte No. 558	10.65%
2.	Return on Investment	STB Ex Parte No. 552	17.35%
3.	Investment Base	STB Ex Parte No. 552	$30,455,169
4.	Tax Rate	STB Ex Parte No. 682	38.83%
5.	UP Total Revenues for STCC 01132	QCS or Waybill Sample 2/	$748,869
6.	UP Revenues >180% for STCC 01132	Waybill Sample 2/	$314,525
7.	UP Total Revenues >180%	STB Ex Parte 689 2/	$11,213,960
8.	Total Railroad Shortfall/(Overage)	[(L.1 - L.2) x L.3] ÷ (1-L.4)	($3,335,780)
9.	STCC 01132 Shortfall/(Overage)	(L.6 ÷ L.7) x L.8	($93,561)
10.	**UP STCC 01132 RAAF**	**L.9 ÷ L.5**	**-12.5%**

1/ Dollars in thousands.

2/ Figures assumed for this example.

Applying the ACMRM approach provides a straightforward assessment of the reasonableness of an Ag commodity rate

Example of the Ag Commodity Maximum Rate Methodology

Issue Movement Parameters

1. 5-Digit STCC	01132 - Corn
2. Distance - Miles	120.0
3. Total Revenue Per Car	$1,800
4. Variable Cost (Per Car)	$400
5. Revenue to Variable Cost ("R/VC") Ratio	450.0%
6. Jurisdictional Threshold (Per Car)	$720

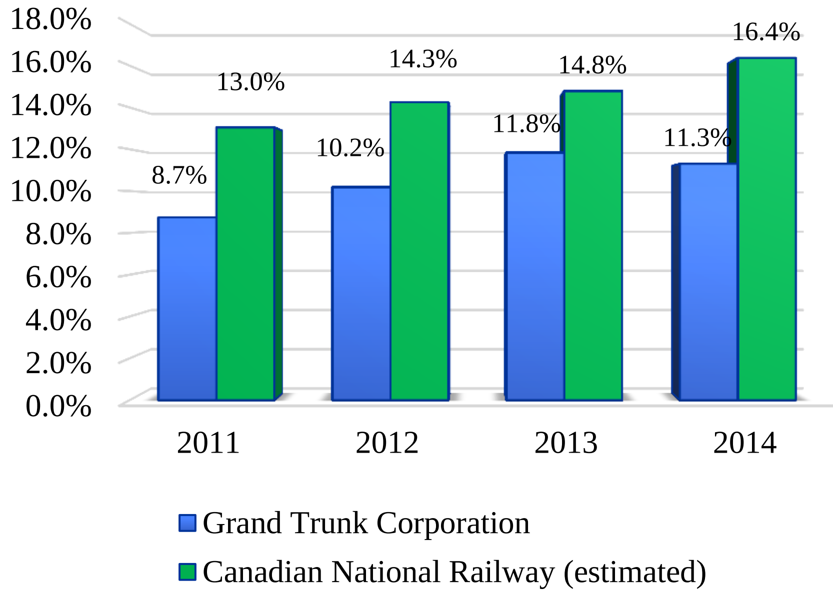
Comp Group Analysis

Movement	Railroad	Distance	Revenue	RAAF	Adjusted Revenue	Variable Cost	Adjusted R/VC Ratio
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
a.	UP	115.0	$935	-12.5%	$818	$580	141.0%
b.	UP	112.0	$835	-12.5%	$731	$400	182.8%
c.	UP	112.0	$835	-12.5%	$731	$383	190.9%
d.	UP	115.0	$1,900	-12.5%	$1,663	$432	385.0%
e.	UP	110.0	$1,200	-12.5%	$1,050	$571	183.9%
f.	BNSF	110.0	$440	-4.2%	$422	$330	127.9%
g.	BNSF	96.0	$350	-4.2%	$335	$255	131.4%
h.	CSXT	140.0	$890	2.8%	$915	$384	238.3%
i.	CSXT	96.0	$450	2.8%	$463	$309	149.8%
j.	CSXT	132.0	$450	2.8%	$463	$372	124.5%

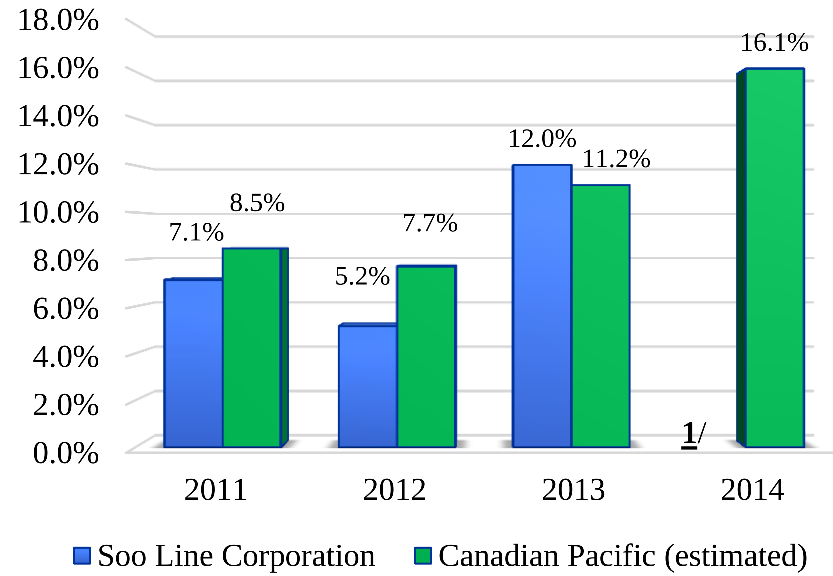
7. Simple Average R/VC (Line a. through Line j.)	185.5%
8. Adjusted Issued Traffic Rate (Line 4 x Line 7)	$742
9. Maximum Reasonable Rate (Greater of Line 6 or Line 8)	$742

The choice of including some, but not all, of a railroad's subsidiary companies impacts the railroad's ROI

Grand Trunk Corporation and Canadian National Railway Return On Investment – 2011 to 2014



Soo Line Corporation and Canadian Pacific Return On Investment – 2011 to 2014



1/ Soo Line's 2014 Schedule 250 shows an Adjusted Net Railway Operating Income of negative $12.1 million due to write downs from its sale of the DME.