

SURFACE TRANSPORTATION BOARD

NOTICE

Docket No. EP 689 (Sub-No. 5)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—
2012 RSAM and R/VC_{>180} CALCULATIONS

Decided: April 18, 2014

In this decision, the Board is publishing the most recent revenue shortfall allocation methodology (RSAM) and revenue-to-variable cost greater than 180% (R/VC_{>180}) ratios for the Class I carriers (for the years 2009-2012), as well as their four-year averages, for use in Three-Benchmark cases. This decision also provides updates for 2011 and 2010 to reflect BNSF's and CSXT's revised R-1s, as explained later in this decision.

Under 49 U.S.C. § 10701(d)(3), the Board is directed to “establish a simplified and expedited method for determining the reasonableness of challenged rail rates in those cases in which a full stand-alone cost presentation is too costly, given the value of the case.” In Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1) (STB served Sept. 5, 2007),¹ the Board modified and clarified its guidelines for such proceedings by establishing a simplified Stand-Alone Cost test, clarifying its Three-Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case.² The Three-Benchmark approach compares a challenged rate to three measures of the defendant's revenues and variable costs.

The first benchmark, RSAM, measures the average markup that the railroad would need to charge all of its “potentially captive” traffic in order for the railroad to earn adequate revenues as measured by the Board under 49 U.S.C. § 10704(a)(2). Potentially captive traffic is defined as all traffic priced at or above the 180% R/VC level, which is the statutory floor for regulatory rail rate intervention. See 49 U.S.C. § 10707(d); Burlington N. R.R. v. STB, 114 F.3d 206, 210 (D.C. Cir. 1997); W. Tex. Util. v. Burlington N. R.R., 1 S.T.B. 638, 677-78 (1996). The RSAM benchmark is calculated by adding the carrier's revenue shortfall (or subtracting the overage)

¹ Aff'd sub nom. CSX Transp., Inc. v. STB, 568 F.3d 236 (D.C. Cir. 2009), and vacated in part on reh'g, CSX Transp., Inc. v. STB, 584 F.3d 1076 (D.C. Cir. 2009).

² Subsequently, in Rate Regulation Reforms, EP 715 (STB served July 18, 2013), appeal docketed sub nom. CSX Transp., Inc. v. STB, No. 13-1230 (D.C. Cir. July 29, 2013), the Board increased the rate relief caps in both the simplified Stand-Alone Cost test and the Three-Benchmark approach.

shown in our annual revenue adequacy determination, adjusted for taxes, to the numerator of the $R/VC_{>180}$ benchmark. Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2), slip op. at 2-3 (STB served May 11, 2009).

The second benchmark is $R/VC_{>180}$. This benchmark measures the average markup over variable cost earned by the defendant railroad on its potentially captive traffic. Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 10. The $R/VC_{>180}$ benchmark is calculated using the Board's confidential Waybill Sample data³ by dividing the total revenues earned by the carrier on potentially captive traffic by the carrier's total variable costs for that traffic. Id. at 20. The ratio of RSAM to $R/VC_{>180}$ provides an estimate of how much more or less the railroad would need to charge its potentially captive traffic to be revenue adequate. Id.

The third benchmark is revenue-to-variable cost comparison (R/VC_{COMP}). This benchmark is used to compare the markup on the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity with similar transportation characteristics. Id. at 10. The R/VC_{COMP} ratio for appropriate comparison traffic is computed using traffic data from the rail industry Waybill Sample and applying the Board's Uniform Rail Costing System (URCS). Id. at 10-11.

The Board publishes tables each year showing the most recent RSAM and $R/VC_{>180}$ ratios for each Class I railroad, as well as their rolling 4-year averages. Because R/VC_{COMP} is case specific, that ratio is calculated only after a shipper files a Three-Benchmark rail rate complaint.

The attached tables contain the most recent RSAM and $R/VC_{>180}$ ratios.⁴ Tables I and II represent percentages for the most recent four-year period from 2009 to 2012 for all Class I carriers. Interested readers may review the workbooks used to compute the data in these tables by visiting our website at <http://www.stb.dot.gov/stb/index.html> (open "Industry Data" menu; then open "Economic Data" menu; then follow "Financial & Statistical Reports" hyperlink; then follow "RSAM 2009-2012 Tables" and "2012 RSAM Computation" hyperlinks).

³ The Waybill Sample is a statistical sampling of railroad waybills that is collected and maintained for use by the Board and by the public (with appropriate restrictions to protect the confidentiality of individual traffic data). See 49 C.F.R. § 1244.

⁴ Note that the RSAM and $R/VC_{>180}$ ratios shown here for 2011 and 2010 are different from the corresponding information in past decisions showing those years. These differences are due to changes that BNSF made to its R-1 in response to a Board decision directing BNSF to recognize, over a period of four years, the acquisition premium paid by Berkshire Hathaway when purchasing the railroad. W. Coal Traffic League—Pet. for Declaratory Order, FD 35506 (STB served July 25, 2013). Although it has not been the Board's general practice to revise prior year URCS for R-1 revisions, and the Board does not anticipate doing so in the future unless warranted by special circumstances such as those present in this instance, we are also including revisions from CSXT's R-1s because they are applicable to URCS.

Because the RSAM computations for 2010 and 2011 have also been revised, we include with this decision the RSAM table and $R/VC_{>180}$ table for each of those two years as well (see Tables III-VI).

By the Board, Dr. William F. Huneke, Chief Economist.

Table I**RSAM Mark-up Percentages 2009 – 2012**

Railroad	4-Year Average	2012	2011	2010	2009
BNSF	217%	177%	204%	234%	253%
CSXT	280%	267%	269%	273%	313%
GTC	318%	284%	330%	287%	371%
KCS	306%	288%	267%	281%	387%
NS	283%	272%	268%	276%	318%
SOO	362%	397%	338%	317%	395%
UP	222%	182%	207%	230%	268%

Table II**R/VC_{>180} Percentages 2009 – 2012**

Railroad	4-Year Average	2012	2011	2010	2009
BNSF	221%	220%	220%	221%	221%
CSXT	265%	262%	269%	270%	259%
GTC	260%	267%	268%	252%	251%
KCS	243%	234%	243%	244%	251%
NS	276%	277%	287%	275%	266%
SOO	229%	222%	225%	225%	245%
UP	233%	230%	230%	238%	233%

Table III**RSAM Mark-up Percentages 2008 – 2011**

Railroad	4-Year Average	2011	2010	2009	2008
BNSF	233%	204%	234%	253%	242%
CSXT	284%	269%	273%	313%	282%
GTC	320%	330%	287%	371%	290%
KCS	316%	267%	281%	387%	331%
NS	275%	268%	276%	318%	238%
SOO	342%	338%	317%	395%	319%
UP	241%	207%	230%	268%	257%

Table IV**R/VC_{>180} Percentages 2008 – 2011**

Railroad	4-Year Average	2011	2010	2009	2008
BNSF	221%	220%	221%	221%	221%
CSXT	261%	269%	270%	259%	246%
GTC	256%	268%	252%	251%	250%
KCS	243%	243%	244%	251%	236%
NS	273%	287%	275%	266%	266%
SOO	231%	225%	225%	245%	230%
UP	233%	230%	238%	233%	232%

Table V**RSAM Mark-up Percentages 2007 – 2010**

Railroad	4-Year Average	2010	2009	2008	2007
BNSF	246%	234%	253%	242%	254%
CSXT	293%	273%	313%	282%	304%
GTC	308%	287%	371%	290%	285%
KCS	327%	281%	387%	331%	308%
NS	265%	276%	318%	238%	226%
SOO	301%	317%	395%	319%	171%
UP	258%	230%	268%	257%	278%

Table VI**R/VC_{>180} Percentages 2007 – 2010**

Railroad	4-Year Average	2010	2009	2008	2007
BNSF	224%	221%	221%	221%	232%
CSXT	255%	270%	259%	246%	245%
GTC	253%	252%	251%	250%	260%
KCS	246%	244%	251%	236%	255%
NS	265%	275%	266%	266%	255%
SOO	233%	225%	245%	230%	232%
UP	233%	238%	233%	232%	230%