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SURFACE TRANSPORTATION BOARD

NOTICE

Docket No. EP 689 (Sub-No. 1)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—
2008 RSAM and $R/VC_{>180}$ CALCULATIONS

Decided: July 23, 2010

In this decision, the Board is publishing the most recent RSAM and $R/VC_{>180}$ ratios for the Class I carriers (for the years 2005-2008), as well as their 4-year averages.

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), the Board modified and clarified its guidelines for such cases by establishing a Simplified Stand-Alone Cost test for medium-sized cases, clarifying its Three Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case.[1]

The Three Benchmark approach compares a challenged rate to three measures of the defendant's revenues and variable costs. 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).

In Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2) (STB served Nov. 21, 2008), the Board found a material error in its RSAM formula. The revenue shortfall (or overage) used in the RSAM formula was stated on an after-tax basis, whereas the other elements of the RSAM formula were stated on a pre-tax basis. The Board concluded that use of the statutory federal tax rate, combined with a railroad-specific state tax rate, should be used to convert the shortfall (or overage) to a pre-tax basis because it best approximates the marginal taxes the carrier would pay on incremental revenue. In

[1] This Board's original small rate case guidelines contained in Rate Guidelines—Non-Coal Proceedings, EP 347 (Sub-No. 2) established an earlier version of the Three Benchmark approach. The Revenue Shortfall Allocation Method (RSAM) and Revenue to Variable Cost ($R/VC_{>180}$) calculations were previously published under that docket.

Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2) (STB served Jan. 22, 2010), the Board adopted railroad-specific average 2008 state tax rates for each Class I railroad for use in the RSAM calculation.

The second benchmark is called $R/VC_{>180}$. This benchmark measures the average markup actually applied by the defendant railroad on its potentially captive traffic. Both RSAM and $R/VC_{>180}$ are measured as 4-year rolling averages. The ratio of RSAM to $R/VC_{>180}$ reflects how far a particular carrier is over or under its revenue adequacy target. The $R/VC_{>180}$ benchmark is calculated from the Board's confidential waybill sample as the total revenue earned by the carrier on potentially captive traffic divided by the total variable costs of the railroad to handle that traffic. Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 20 (STB served Sept. 5, 2007). The RSAM benchmark is calculated by adding the carrier's revenue shortfall (or subtracting the overage) shown in our annual revenue adequacy determination to the numerator of the $R/VC_{>180}$ benchmark. Id.

The third benchmark is called R/VC_{COMP}. This benchmark is used to compare the markup being paid by the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity moving similar distances.

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 4-year averages. The R/VC_{COMP} ratio for appropriate comparison traffic is to be computed after a shipper files a rate complaint, using traffic data from the rail industry Waybill Sample,[2] and applying the Board's Uniform Rail Costing System (URCS).

The attached tables contain the most recent RSAM and $R/VC_{>180}$ ratios. Tables I and II represent percentages for the most recent 4-year period 2005 to 2008 for all Class I carriers.

By the Board, Leland L. Gardner, Director, Office of Economics, Environmental Analysis, and Administration.

[2] 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.

Table I
RSAM Mark-up Percentages 2005 - 2008

Railroad	4-Year Average	2008	2007	2006	2005
BNSF	250%	242%	254%	220%	284%
CSXT	299%	282%	304%	269%	341%
GTC	308%	290%	285%	273%	382%
KCS	344%	331%	308%	277%	462%
NS	227%	238%	226%	207%	235%
SOO	244%	319%	171%	193%	291%
UP	296%	257%	278%	268%	379%

Table II
R/VC>180 Percentages 2005 - 2008

Railroad	4-Year Average	2008	2007	2006	2005
BNSF	232%	221%	232%	238%	238%
CSXT	243%	246%	245%	244%	236%
GTC	256%	250%	260%	264%	249%
KCS	249%	236%	255%	263%	241%
NS	257%	266%	255%	259%	249%
SOO	229%	230%	232%	221%	234%
UP	231%	232%	230%	233%	229%