

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 20)

RAILROAD REVENUE ADEQUACY—2015 DETERMINATION

Digest:¹ The Board finds that four Class I railroads (BNSF Railway Company, Grand Trunk Corporation, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2015, meaning that four of the Class I 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 6, 2016

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—2015, EP 558 (Sub-No. 19) (STB served Aug. 5, 2016), the Board determined that the 2015 railroad industry cost of capital was 9.61%. By comparing this figure to the 2015 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, 2015.

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, Grand Trunk Corporation, Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2015.² 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, Standards II, and Supplemental Reporting, 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, Chairman Elliott, Vice Chairman Miller, and Commissioner Begeman.

APPENDIX A

Railroad	ROI
BNSF Railway Company	12.82%
CSX Transportation, Inc.	9.00%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	10.77%
Kansas City Southern Railway Company	7.20%
Norfolk Southern Combined Railroad Subsidiaries	9.03%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	14.50%
Union Pacific Railroad Company	15.54%

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	4,736,517	1,610,312	838,782	257,662	1,710,790	353,127	4,842,445
Add: Interest Income from Working Capital Allowance – Cash Portion	35	74	726	36	188	32	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	41,883	35,561	2,629	3	23,246	24,371	100,704
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	33,350	54,189	3,420	40	18,549	37,251	88,946
** Adjusted Net Railway Operating Income **	4,811,785	1,700,136	845,557	257,741	1,752,773	414,781	5,032,095
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	55,421,875	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 – Beginning Balance	51,798,739	26,491,490	10,902,377	4,294,652	26,723,293	3,897,790	44,054,263
Combined Investment in Railroad Property Used in Transportation Service – Average	53,610,307	27,265,229	11,180,604	4,458,255	27,369,932	3,963,116	45,362,062
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	0	0	1,788	0	0	1,135	0
Interest During Construction – Ending Balance	0	0	2,113	4,320	2,580	13,506	43,272
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	10,403	43,282
Interest During Construction – Average	0	0	2,113	4,320	2,580	11,955	43,277
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	150,297	5,762	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	146,757	5,709	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	0	0	148,527	5,736	0	0	0
Working Capital Allowance – Ending Balance	966,930	426,830	108,385	93,808	778,986	85,801	1,131,299
Working Capital Allowance – Beginning Balance	1,153,723	277,568	110,184	80,537	846,285	68,676	1,246,818
Working Capital Allowance – Average	1,060,327	352,199	109,285	87,173	812,636	77,239	1,189,059
Accumulated Deferred Income Tax Credits – Ending Balance	17,700,235	8,950,321	3,668,559	983,190	8,866,522	1,173,997	14,434,358
Accumulated Deferred Income Tax Credits – Beginning Balance	16,547,834	8,516,314	3,491,581	947,398	8,663,298	1,158,508	13,835,891
Accumulated Deferred Income Tax Credits – Average	17,124,035	8,733,318	3,580,070	965,294	8,764,910	1,166,253	14,135,125
Tax Adjusted Net Investment Base – Ending Balance	38,688,570	19,515,476	8,045,052	3,733,917	19,926,454	2,925,604	33,323,530
Tax Adjusted Net Investment Base – Beginning Balance	36,404,628	18,252,744	7,663,836	3,429,180	18,903,700	2,796,420	31,421,908
* Tax Adjusted Net Investment Base *	37,546,599	18,884,110	7,854,444	3,581,549	19,415,077	2,861,012	32,372,719
TAX ADJUSTED RETURN ON INVESTMENT	12.82%	9.00%	10.77%	7.20%	9.03%	14.50%	15.54%

The line item descriptions in this schedule 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.