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SERVICE DATE - DECEMBER 20, 2004

SURFACE TRANSPORTATION BOARD

DECISION

STB Ex Parte No. 558 (Sub-No. 8)

RAILROAD COST OF CAPITAL – 2004

Decided: December 13, 2004

By this decision, we are instituting a proceeding to determine the railroad industry's cost of capital for 2004. The most recent finding regarding the railroads' cost of capital was made in Railroad Cost of Capital - 2003, Ex Parte No. 558 (Sub-No. 7) (STB served June 28, 2003) (Cost 03), which determined the industry's 2003 cost of capital. The cost of capital finding made in this proceeding will be used in the determination of railroad revenue adequacy for 2004. It may also be used in other Board railroad proceedings, including, but not necessarily limited to, those involving the prescription of maximum reasonable rate levels; the determination of trackage rights compensation; proposed abandonments of rail lines; railroad mergers; and applications to purchase feeder lines.

The Cost of Capital for 2004

In this proceeding, we seek comment on: (1) the railroads' 2004 current cost of debt capital; (2) the railroads' 2004 current cost of preferred equity capital (if any); (3) the railroads' 2004 cost of common equity capital; and (4) the 2004 capital structure mix of the railroad industry on a market value basis. Our conclusions regarding these matters will be used in our computation of the industry's overall, or composite, cost of capital for 2004.¹ The Board is also seeking comments from all interested persons on this proceeding.

As in the past, the railroad industry's cost of capital will be determined on the basis of data for a sample of railroads. Using the criteria set forth in Railroad Cost of Capital - 1984, 1 I.C.C.2d 989 (1985), a railroad will be included in the sample base if and only if it meets all of the following criteria during 2003:

- The company is a Class I line-haul railroad.

¹ As in the past, the current cost of debt and market-value based capital structure mix will be used in this cost of capital determination. For purposes of consistency, the current cost of preferred equity will also be used. No consideration will be afforded to evidence depicting the embedded costs of debt or preferred equity or the book value capital structure mix.

- If the Class I railroad is controlled by another company, the controlling company is primarily a railroad company and is not already included in the study frame.²
- The company's bonds are rated at least BBB by Standard & Poor's and Baa by Moody's.
- The company's stock is listed on either the New York or the American Stock Exchange.
- The company has paid dividends throughout 2004.

All railroads that meet these criteria shall be included in the sample base for this proceeding.

Comments should focus on the various cost of capital components listed above and the underlying techniques and methodologies used to develop them.

Procedural Matters

All Class I railroads shall be respondents in this proceeding. They shall, and other interested parties may, submit evidence to enable the Board to update the cost of capital findings in Cost 03. Two copies of all underlying workpapers and background material used to develop that evidence shall be furnished to the Board and be made available, upon request, to other participants in this proceeding.

Railroads and others that intend to participate in this proceeding shall file an original and one copy of a notice of intent to participate with the Secretary by the date specified below. Evidentiary statements are to be filed with the Board on or before the dates set forth below. An original and 10 copies of each statement shall be filed with the Board. In addition, the evidence contained in the statement shall be submitted on a 3.5 inch disk in WordPerfect 9.0 or its equivalent.

Notices of intent to participate are due no later than January 17, 2005. Statements of the railroads are due by March 28, 2005. Statements of other interested persons are due by April 25, 2005. Rebuttal statements by the railroads are due by May 16, 2005.

² A company is considered to be primarily in the railroad business if at least 50% of its total assets are devoted to railroad operations.

Environmental and Energy Considerations

We preliminarily conclude that the proposed action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. This proceeding is instituted pursuant to 49 U.S.C. 10704(a)(2) to determine the railroad industry's cost of capital for 2004. Comments on this matter are required of all Class I railroads and are invited from all other interested persons.

2. Notice will be published in the Federal Register on December 20, 2004.

By the Board, Chairman Nober, Vice Chairman Mulvey, Commissioner Buttrey.

Vernon A. Williams
Secretary