36027 SERVICE DATE – NOVEMBER 23, 2005
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This decision will be included in the bound volumes of the STB
printed reports at a later date.

SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 552 (Sub-No. 9)

RAILROAD REVENUE ADEQUACY - 2004 DETERMINATION

Decided: November 17, 2005

One Class I railroad (Norfolk Southern Railway Company) is found to be revenue adequate for the year 2004. All other Class I railroads are found to be revenue inadequate.

BY THE BOARD:

This annual determination of railroad revenue adequacy is made in accordance with the standards and procedures developed in Standards for Railroad Revenue Adequacy, 364 I.C.C. 803 (1981), Standards for Railroad Revenue Adequacy, 3 I.C.C.2d 261 (1986), and Supplemental Reporting of Info. for Revenue Adequacy, 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. We perform the annual revenue adequacy exercise because we have been directed to do so by Congress.

The Board's procedures use data and information furnished by each Class I railroad entity in accordance with the Instructions for Railroad Annual Report Form R-1, Schedule No. 250. This facilitates a uniform, consistent reporting mechanism that is verifiable through the Board's audit process. These regulatory procedures are intended to provide a uniform determination of revenue adequacy for each Class I railroad. In contrast, the parent companies of the various Class I railroads use their own unique methodologies and calculations to determine rates of return for various purposes, including their presentations to the investment community. Because of the differing methodologies, these will differ from rates of return calculated according to the Board's uniform approach in this proceeding.

In Railroad Cost of Capital — 2004, STB Ex Parte No. 558 (Sub-No. 8) (STB served June 30, 2005) we determined that the 2004 railroad industry cost of capital was 10.1%. By comparing this figure to the 2004 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have made revenue adequacy calculations for each of the Class I freight railroads that were in operation as of December 31, 2004.

A summary of the ROIs for all Class I railroads is set forth in the Appendix to this decision. We find one carrier (Norfolk Southern Railway Company) to be revenue adequate for 2004. Our findings with respect to the Class I carriers will be final on the effective date of this decision.

Environmental and Energy Considerations

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

Regulatory Flexibility Analysis

Pursuant to 5 U.S.C. 603(b), we conclude that our action in this proceeding will not have a significant economic impact on a substantial number of small entities. The purpose and effect of the action are merely to update the annual railroad industry revenue adequacy finding. No new reporting or other regulatory requirements are imposed, directly or indirectly, on small entities.

It is ordered*:*

This decision is effective November 23, 2003.

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

Vernon A. Williams
Secretary

APPENDIX

Railroad	ROI
BNSF Railway Company	5.84%
CSX Transportation, Inc.	4.43%
Grand Trunk Corporation	5.95%
Kansas City Southern Railway Company	8.30%
Norfolk Southern Railway Company	11.64%
Soo Line Railroad Company	3.28%
Union Pacific Railroad Company	4.54%

NOTE: The ROIs shown above for BNSF Railway Company, CSX Transportation, Inc., Soo Line Railroad Company, and Union Pacific Railroad Company allow for the inclusion of special charges related to asbestos and environmental issues as expenses in the calculation of net railway operating income. The After-Tax Special Charges for these railroads are: BNSF Railway Company: $274 million, CSX Transportation, Inc.: $10.5 million, Soo Line Railroad Company: $38 million, and Union Pacific Railroad Company: $154 million. Had these Special Charges not been included in expenses then the ROIs would have been as follows: BNSF Railway Company: 7.43%, CSX Transportation, Inc.: 4.51%, Soo Line Railroad Company: 7.56%, and Union Pacific Railroad Company: 5.27%.