

SURFACE TRANSPORTATION BOARD

UPDATED DECISION

Docket No. EP 552 (Sub-No. 17)

RAILROAD REVENUE ADEQUACY—2012 DETERMINATION

Digest:¹ Taking into consideration BNSF Railway Company's refiled 2012 R-1 data, the Board finds that three Class I railroads (BNSF Railway Company, Norfolk Southern Combined Railroad Subsidiaries, and Union Pacific Railroad Company) were revenue adequate for the year 2012, meaning that three 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: December 31, 2013

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 (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—2012, EP 558 (Sub-No. 16) (STB served Aug. 30, 2013), we determined that the 2012 railroad industry cost of capital was 11.12%. By comparing this figure to the 2012 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have calculated a revenue adequacy figure for each of the Class I freight railroads that were in operation as of December 31, 2012.²

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 The Board determined the revenue adequacy for 2012 of each Class I railroad except BNSF Railway Company (BNSF) in a decision served in this docket on October 17, 2013. Now that BNSF has refiled its R-1 reports for 2010-2012 in compliance with Western Coal Traffic League—Petition for Declaratory Order, FD 35506 (STB served July 25, 2013), this decision reflects that filing and includes a determination of BNSF's revenue adequacy for 2012. The October 17, 2013 decision remains unchanged in all other respects.

A summary of the ROIs for all Class I railroads is set forth in Appendix A to this decision. Appendix B provides those railroads' R-1 Schedule 250 data that was used to compute the ROIs. We find three carriers (BNSF, Norfolk Southern Combined Railroad Subsidiaries,³ and Union Pacific Railroad Company) to be revenue adequate for 2012. Our findings will be final on the effective date of this decision.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. This decision is effective on January 2, 2014.
2. Notice of this decision will be published in the Federal Register.

By the Board, Chairman Elliott, Vice Chairman Begeman, and Commissioner Mulvey.

³ 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.

APPENDIX A

Railroad	ROI
BNSF Railway Company ⁴	13.47%
CSX Transportation, Inc.	10.81%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	10.19%
Kansas City Southern Railway Company	9.54%
Norfolk Southern Combined Railroad Subsidiaries	11.48%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	5.15%
Union Pacific Railroad Company	14.69%

⁴ See n. 2.

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	3,542,140	1,757,154	696,009	227,333	1,866,382	159,458	4,039,060
Add: Interest Income from Working Capital Allowance – Cash Portion	643	16	132	239	533	43	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	33,964	18,257	1,531	44	33,978	(737)	67,788
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	32,830	31,062	216	43	2,941	(12,608)	13,003
** Adjusted Net Railway Operating Income **	3,609,577	1,806,489	697,888	227,659	1,903,834	146,156	4,119,851
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	37,389,135	24,470,837	10,055,224	3,117,098	24,572,800	3,958,749	40,102,455
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	35,554,772	23,920,332	9,760,234	2,841,407	23,346,518	3,889,931	38,392,908
Combined Investment in Railroad Property Used in Transportation Service – Average	36,471,954	24,195,585	9,907,729	2,979,253	23,959,659	3,924,340	39,247,682
Other Elements of Investment – Ending Balance	0	0	1,863	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	1,863	0	0	1,135	0
Other Elements of Investment – Average	0	0	1,863	0	0	1,135	0
Interest During Construction – Ending Balance	0	0	2,113	4,320	2,580	2,626	43,295
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	21,504	43,302
Interest During Construction – Average	0	0	2,113	4,320	2,580	12,065	43,299
Net Rail Assets of Rail Related Affiliates – Ending Balance	340,188	0	141,883	4,155	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	331,245	0	143,737	3,246	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	335,717	0	142,810	3,701	0	0	0
Working Capital Allowance – Ending Balance	1,150,143	289,227	73,221	92,300	830,664	137,428	972,578
Working Capital Allowance – Beginning Balance	1,032,167	239,548	36,233	73,782	479,292	38,109	971,985
Working Capital Allowance – Average	1,091,155	264,388	54,727	83,041	654,978	87,769	972,282
Accumulated Deferred Income Tax Credits – Ending Balance	11,373,891	7,924,005	3,289,708	678,074	8,123,071	1,188,572	12,474,139
Accumulated Deferred Income Tax Credits – Beginning Balance	10,835,189	7,576,556	3,217,372	673,659	7,943,800	1,132,870	11,789,873
Accumulated Deferred Income Tax Credits – Average	11,104,540	7,750,281	3,253,540	675,867	8,033,436	1,160,721	12,132,006
Tax Adjusted Net Investment Base – Ending Balance	27,505,575	16,836,059	6,976,644	2,531,159	17,277,813	2,903,844	28,557,599
Tax Adjusted Net Investment Base – Beginning Balance	26,082,995	16,583,324	6,718,856	2,240,456	15,879,430	2,772,531	27,531,718
* Tax Adjusted Net Investment Base *	26,794,285	16,709,692	6,847,750	2,385,808	16,578,622	2,838,188	28,044,659
TAX ADJUSTED RETURN ON INVESTMENT	13.47%	10.81%	10.19%	9.54%	11.48%	5.15%	14.69%

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.