

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 19)

RAILROAD REVENUE ADEQUACY—2014 DETERMINATION

Digest:¹ The Board finds that four Class I railroads (BNSF Railway Company, Grand Trunk Corporation, Norfolk Southern Combined Railroad Subsidiaries, and Union Pacific Railroad Company) are revenue adequate for the year 2014, 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 3, 2015

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.²

In Railroad Cost of Capital—2014, EP 558 (Sub-No. 18) (STB served August 7, 2015), we determined that the 2014 railroad industry cost of capital was 10.65%. By comparing this figure to the 2014 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, 2014.

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. We find four carriers (BNSF Railway Company, Grand Trunk Corporation, Norfolk

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 In a separate proceeding, Railroad Revenue Adequacy, EP 722, the Board invited comments and held a public hearing on July 22-23, 2015, to explore the Board’s methodology for determining railroad revenue adequacy and the use of revenue adequacy in rate reasonableness cases. The record in EP 722 is now closed, and the Board is reviewing the arguments and issues raised by the parties participating in that proceeding.

Southern Combined Railroad Subsidiaries, and Union Pacific Railroad Company) to be revenue adequate for 2014.³ 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 its service date.
2. Notice of this decision will be published in the Federal Register.

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

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	12.88%
CSX Transportation, Inc.	10.18%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	11.30%
Kansas City Southern Railway Company	8.18%
Norfolk Southern Combined Railroad Subsidiaries	11.69%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	-0.42% ⁴
Union Pacific Railroad Company	17.35%

⁴ The Soo Line Corporation's negative ROI is calculated using values submitted by that carrier, and is attributable, in part, to the one-time loss recognized in the carrier's Schedules 210 and 250 associated with the 2014 sale of the Dakota, Minnesota & Eastern Railroad Corporation's lines located west of Tracy, Minn. See Rapid City, Pierre & E. R.R.—Acquis. & Operation Exemption Including Interchange Commitment—Dakota, Minn. & E. R.R., FD 35799 (STB served Mar. 27, 2014), pet. for recons. denied (STB served May 14, 2015).

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	4,261,455	1,805,897	839,291	259,158	2,135,136	390,782	5,198,214
Add: Interest Income from Working Capital Allowance – Cash Portion	35	411	209	18	233	54	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	27,856	7,488	2,866	(3)	17,847	(274,371)	43,487
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	7,493	3,125	1,283	457	8,603	(128,595)	42,783
** Adjusted Net Railway Operating Income **	4,296,839	1,816,921	843,649	259,630	2,161,819	(12,130)	5,284,484
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	48,736,139	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 – Beginning Balance	45,567,285	25,409,168	10,427,524	3,651,515	25,685,833	4,193,700	41,693,204
Combined Investment in Railroad Property Used in Transportation Service – Average	47,151,712	25,950,329	10,664,951	3,973,084	26,204,563	4,045,745	42,873,734
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	10,403	43,282
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	6,365	43,287
Interest During Construction – Average	0	0	2,113	4,320	2,580	8,384	43,285
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	146,757	5,709	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	143,560	5,014	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	0	0	145,159	5,362	0	0	0
Working Capital Allowance – Ending Balance	1,153,723	277,568	110,184	80,537	846,285	68,676	1,246,818
Working Capital Allowance – Beginning Balance	1,175,490	244,082	92,522	82,561	825,851	103,227	1,222,302
Working Capital Allowance – Average	1,164,607	260,825	101,353	81,549	836,068	85,952	1,234,560
Accumulated Deferred Income Tax Credits – Ending Balance	15,333,160	8,516,314	3,491,581	947,398	8,663,298	1,158,508	13,835,891
Accumulated Deferred Income Tax Credits – Beginning Balance	14,577,203	8,221,301	3,387,475	816,597	8,416,867	1,323,703	13,383,789
Accumulated Deferred Income Tax Credits – Average	14,955,182	8,368,808	3,439,528	881,998	8,540,083	1,241,106	13,609,840
Tax Adjusted Net Investment Base – Ending Balance	34,556,702	18,252,744	7,663,836	3,429,180	18,903,700	2,796,420	31,421,908
Tax Adjusted Net Investment Base – Beginning Balance	32,165,572	17,431,949	7,272,230	2,918,173	18,092,237	2,965,724	29,488,430
* Tax Adjusted Net Investment Base *	33,361,137	17,842,347	7,468,033	3,173,677	18,497,969	2,881,072	30,455,169
TAX ADJUSTED RETURN ON INVESTMENT	12.88%	10.18%	11.30%	8.18%	11.69%	-0.42%	17.35%

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.