43498
EB

SERVICE DATE – JANUARY 2, 2014

SURFACE TRANSPORTATION BOARD

UPDATED DECISION

Docket No. EP 552 (Sub-No. 15)

RAILROAD REVENUE ADEQUACY—2010 DETERMINATION

Digest:[1] Taking into consideration BNSF Railway Company's refiled 2010 R-1 data, the Board finds that one Class I railroad (Union Pacific Railroad Company) was revenue adequate for the year 2010, meaning that one 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—2010, EP 558 (Sub-No. 14) (STB served Oct. 3, 2011), we determined that the 2010 railroad industry cost of capital was 11.03%. By comparing this figure to the 2010 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, 2010.[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 2010 of each Class I railroad in a previous decision served in this docket on November 3, 2011. Now that BNSF Railway Company (BNSF) has refiled its R-1 reports for 2010-2012 in compliance with Western Coal Traffic League—Petition for Declaratory Order, FD 35506 (served July 25, 2013), this decision reflects that filing and includes a revised determination of BNSF's revenue adequacy for 2010. This updated decision also replaces the name "Norfolk Southern Railway Company" with "Norfolk Southern Combined Railroad Subsidiaries" and adds a footnote to accompany that change. The November 3, 2011 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 the railroads' R-1 Schedule 250 data that was used to compute the ROIs. We find one carrier (Union Pacific Railroad Company) to be revenue adequate for 2010. Our findings with respect to the Class I carriers 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.

APPENDIX A

Railroad	ROI
BNSF Railway Company[3]	10.28%
CSX Transportation, Inc.	10.85%
Grand Trunk Corporation Consolidated (Including all Canadian National U.S. affiliates)	9.21%
Kansas City Southern Railway Company	9.77%
Norfolk Southern Combined Railroad Subsidiaries[4]	10.96%
Soo Line Railroad Company (Including all Canadian Pacific U.S. affiliates)	8.01%
Union Pacific Railroad Company	11.54%

[3] See n. 2.

[4] 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 B

Railroad	BNSF	CSX	GT Corp Consolidated	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	2,481,841	1,741,030	604,011	198,094	1,599,947	209,736	3,007,423
Add: Interest Income from Working Capital Allowance – Cash Portion	0	0	0	126	1,643	2,768	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	29,161	5,266	165	50	39,618	158	24,047
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	53,663	(2,217)	799	1,090	26,767	429	14,112
**** Adjusted Net Railway Operating Income ****	**2,564,665**	**1,744,079**	**604,975**	**199,360**	**1,667,975**	**213,091**	**3,045,582**
**** Calculating the Adjusted Investment in Railroad Property for The Reporting Entity****							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	33,766,455	22,927,514	9,433,123	2,572,767	22,141,872	3,703,035	36,912,303
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	32,703,496	22,480,486	9,194,395	2,454,152	21,619,944	3,641,226	35,995,999
Combined Investment in Railroad Property Used in Transportation Service – Average	**33,234,976**	**22,704,000**	**9,313,759**	**2,513,460**	**21,880,908**	**3,672,131**	**36,454,151**
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	21,504	43,309
Interest During Construction – Beginning Balance	0	0	2,113	4,187	2,580	19,085	43,373
Interest During Construction – Average	**0**	**0**	**2,113**	**4,254**	**2,580**	**20,295**	**43,341**
Net Rail Assets of Rail Related Affiliates – Ending Balance	318,021	0	200,443	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	304,353	0	41,957	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	**311,187**	**0**	**121,200**	**0**	**0**	**0**	**0**
Working Capital Allowance – Ending Balance	662,693	218,469	51,939	65,931	649,032	86,135	900,106
Working Capital Allowance – Beginning Balance	652,172	215,072	41,582	68,370	592,919	64,312	735,086
Working Capital Allowance – Average	**657,433**	**216,771**	**46,761**	**67,151**	**620,976**	**75,224**	**817,596**
Accumulated Deferred Income Tax Credits – Ending Balance	9,613,174	7,010,537	2,985,545	558,326	7,489,154	1,105,164	11,092,135
Accumulated Deferred Income Tax Credits – Beginning Balance	8,885,297	6,689,339	2,825,863	513,261	7,071,020	1,025,981	10,577,315
Accumulated Deferred Income Tax Credits – Average	**9,249,236**	**6,849,938**	**2,905,704**	**535,794**	**7,280,087**	**1,065,573**	**10,834,725**
Tax Adjusted Net Investment Base – Ending Balance	25,133,995	16,135,446	6,695,984	2,076,052	15,299,170	2,661,367	26,676,965
Tax Adjusted Net Investment Base – Beginning Balance	24,774,724	16,006,219	6,448,095	2,005,074	15,139,263	2,659,337	26,110,397
*** Tax Adjusted Net Investment Base ***	**24,954,360**	**16,070,833**	**6,572,040**	**2,040,563**	**15,219,217**	**2,660,352**	**26,393,681**
TAX ADJUSTED RETURN ON INVESTMENT	**10.28%**	**10.85%**	**9.21%**	**9.77%**	**10.96%**	**8.01%**	**11.54%**

The line item descriptions in this schedule are defined in the instructions to the Schedule 250 appearing in <u>Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes</u>, 5 I.C.C. 2d 65, 80-82 (1988). The Schedule 250 form and instructions are not published in the Code of Federal Regulations.