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SERVICE DATE – NOVEMBER 10, 2010

This decision will be included in the bound volumes of the STB printed reports at a later date.

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 14)

RAILROAD REVENUE ADEQUACY—2009 DETERMINATION

Digest:¹ The agency finds that no Class I railroad is revenue adequate for the year 2009, meaning none 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: November 9, 2010

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 Consolidated Information for Revenue Adequacy Purposes, 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.

In Railroad Cost of Capital—2009, EP 558 (Sub-No. 13) (STB served Sept. 30, 2010), we determined that the 2009 railroad industry cost of capital was 10.43%. By comparing this figure to the 2009 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, 2009.

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 no carrier to be revenue adequate for 2009. Our findings with respect to the Class I carriers will be final on the effective date of this decision.

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).

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 November 10, 2009.

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

APPENDIX A

Railroad	ROI
BNSF Railway Company	8.67%
CSX Transportation, Inc.	7.30%
Grand Trunk Corporation Consolidated (Including all Canadian National U.S. affiliates)	6.04%
Kansas City Southern Railway Company	6.51%
Norfolk Southern Railway Company	7.69%
Soo Line Railroad Company (Including all Canadian Pacific U.S. affiliates)	6.28%
Union Pacific Railroad Company	8.62%

APPENDIX B

Railroad	BNSF	CSX	GT Corp Consolidated	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	2,057,795	1,157,969	374,260	124,296	1,137,416	162,784	2,098,871
Add: Interest Income from Working Capital Allowance – Cash Portion	0	0	0	515	2,136	1,850	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	(1,080)	1,165	2,362	66	23,939	(171)	28,877
Add: Gain or (Loss) from Transfer/Reclassification to Nonrail-Status (net of income taxes)	14,895	5,158	950	2,479	12,294	3,135	98,623
** Adjusted Net Railway Operating Income **	2,071,610	1,164,292	377,572	127,356	1,175,785	167,598	2,226,371
** Calculating the Adjusted Investment in Railroad Property For The Reporting Entity**							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	32,007,171	22,480,486	9,194,395	2,454,152	21,619,944	3,641,226	36,205,298
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	30,735,750	21,981,626	8,705,976	2,299,961	21,368,898	3,603,149	34,607,013
Combined Investment in Railroad Property Used in Transportation Service – Average	31,371,461	22,231,056	8,950,186	2,377,057	21,494,421	3,622,188	35,406,156
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	4,187	2,580	19,085	43,373
Interest During Construction – Beginning Balance	0	0	2,113	2,910	2,580	8,790	43,422
Interest During Construction – Average	0	0	2,113	3,549	2,580	13,938	43,398
Net Rail Assets of Rail Related Affiliates – Ending Balance	304,353	0	41,957	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	295,567	0	43,809	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	299,960	0	42,883	0	0	0	0
Working Capital Allowance – Ending Balance	652,172	215,072	41,582	68,370	592,919	64,312	735,086
Working Capital Allowance – Beginning Balance	732,481	279,983	43,651	68,328	693,388	47,677	742,881
Working Capital Allowance – Average	692,327	247,528	42,617	68,349	643,154	55,995	738,984
Accumulated Deferred Income Tax Credits – Ending Balance	8,885,297	6,689,339	2,825,863	513,261	7,071,020	1,025,981	10,657,037
Accumulated Deferred Income Tax Credits – Beginning Balance	8,074,698	6,362,122	2,727,841	454,967	6,634,807	966,769	9,872,580
Accumulated Deferred Income Tax Credits – Average	8,479,998	6,525,731	2,776,852	484,114	6,852,914	996,375	10,264,809
Tax Adjusted Net Investment Base – Ending Balance	24,078,399	16,006,219	6,448,095	2,005,074	15,139,263	2,659,337	26,239,974
Tax Adjusted Net Investment Base – Beginning Balance	23,689,100	15,899,487	6,061,619	1,910,412	15,424,899	2,674,132	25,433,892
* Tax Adjusted Net Investment Base *	23,883,750	15,952,853	6,254,857	1,957,743	15,282,081	2,666,735	25,836,933
TAX ADJUSTED RETURN ON INVESTMENT	8.67%	7.30%	6.04%	6.51%	7.69%	6.28%	8.62%

The line item descriptions contained 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.