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SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 552 (Sub-No. 2)

RAILROAD REVENUE ADEQUACY - 1997 DETERMINATION

Decided: August 24, 1998

Three Class I railroads, Illinois Central Railroad Company, Norfolk Southern Railroad Company, and Soo Line Railroad Company, are found to be revenue adequate, having a return on investment that exceeds the target cost of capital for 1997.

BY THE BOARD:

This annual determination of railroad revenue adequacy is made in accordance with the standards 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 will be 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. Although some interests have recently questioned the standards that have been used for many years, we perform the annual revenue adequacy exercise because we have been directed to do so by Congress.

In *Railroad Cost of Capital - 1997*, STB Ex Parte No. 558 (Sub-No. 1) (STB served July 20, 1998), we determined that the 1997 railroad industry cost of capital was 11.8%. By comparing this figure to the 1997 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, 1997.

A summary of the ROI's for all Class I railroads is set forth in the appendix to this decision. We find three carriers, Illinois Central Railroad Company, Norfolk Southern Railroad Company, and Soo Line Railroad Company, to be revenue adequate for 1997. 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 is 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 September 2, 1998.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams  
Secretary

## APPENDIX

<b>Railroad</b>	<b>ROI</b>
Burlington Northern and Santa Fe Railway Company	8.4%
Consolidated Rail Corporation	1.9%
CSX Transportation, Incorporated	9.8%
Grand Trunk Western Railroad, Incorporated	5.2%
Illinois Central Railroad Company	15.8%
Kansas City Southern Railway Company	3.6%
Norfolk Southern Railroad Company	13.1%
Soo Line Railroad Company	12.3%
Union Pacific Railroad Company	5.2%