

SERVICE DATE — SEPTEMBER 7, 2021

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 25)

RAILROAD REVENUE ADEQUACY—2020 DETERMINATION

Digest:¹ The Board finds that five Class I railroads (BNSF Railway Company, CSX Transportation, Inc., The Kansas City Southern Railway Company, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2020, meaning that those 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, 2021

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 Purposes (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—2020, EP 558 (Sub-No. 24) (STB served Aug. 6, 2021), the Board determined that the 2020 railroad industry cost of capital was 7.89%. By comparing this figure to the 2020 ROIs, calculated from data reported in the carriers' Annual Report R-1 Schedule 250 filings, a revenue adequacy figure has been determined for each of the Class I freight railroads that were in operation as of December 31, 2020.

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. The Board finds five carriers (BNSF Railway Company, CSX Transportation, Inc., The Kansas City Southern Railway Company, Soo Line Corporation, and Union Pacific Railroad

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. See Pol'y Statement on Plain Language Digs. in Decisions, EP 696 (STB served Sept. 2, 2010).

Company) to be revenue adequate for 2020.² The Board's findings will be final on the effective date of this decision.

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, Board Members Begeman, Fuchs, Oberman, Primus, and Schultz.

² Pursuant to Standards I, 364 I.C.C. at 803, Standards II, 3 I.C.C.2d at 261, and Supplemental Reporting, 5 I.C.C.2d at 65, 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	11.60%
CSX Transportation, Inc.	11.35%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.20%
Kansas City Southern Railway Company	8.06%
Norfolk Southern Combined Railroad Subsidiaries	7.52%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	10.68%
Union Pacific Railroad Company	14.44%

APPENDIX B
(Dollars in Thousands)

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	5,680,414	2,612,864	847,858	370,183	2,058,595	390,760	5,813,503
Add: Interest Income from Working Capital Allowance – Cash Portion	144	30	987	0	3,356	130	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	119,961	43,709	3,773	201	46,744	3,871	60,338
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	12,148	26,202	576	806	(280,068)	4,694	86,230
** Adjusted Net Railway Operating Income **	5,812,667	2,682,805	853,194	371,190	1,828,627	399,455	5,960,071
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	64,090,523	30,184,332	14,597,372	5,552,142	30,163,002	4,696,978	51,978,023
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	63,569,621	29,973,494	14,350,538	5,396,690	30,425,417	4,584,489	51,742,827
Combined Investment in Railroad Property Used in Transportation Service – Average	63,830,072	30,078,913	14,473,955	5,474,416	30,294,210	4,640,734	51,860,425
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	756	43,249
Interest During Construction – Beginning Balance	0	0	0	4,320	2,580	7,093	43,250
Interest During Construction – Average	-	-	-	4,320	2,580	3,925	43,250
Other Elements of Investment – Ending Balance	0	0	0	0	0	0	0
Other Elements of Investment – Beginning Balance	0	0	0	0	0	0	0
Other Elements of Investment – Average	-	-	-	-	-	-	-
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	232,172	6,443	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	219,170	6,450	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	-	-	225,671	6,447	-	-	-
Working Capital Allowance – Ending Balance	802,795	300,857	173,978	77,497	619,484	65,905	770,882
Working Capital Allowance – Beginning Balance	861,267	257,768	175,680	92,422	681,162	68,759	1,002,188
Working Capital Allowance – Average	832,031	279,313	174,829	84,960	650,323	67,332	886,535
Accumulated Deferred Income Tax Credits – Ending Balance	14,674,925	6,806,443	3,125,815	987,331	6,646,902	955,528	11,527,112
Accumulated Deferred Income Tax Credits – Beginning Balance	14,417,992	6,637,778	2,939,690	921,576	6,610,056	969,370	11,344,231
Accumulated Deferred Income Tax Credits – Average	14,546,459	6,722,111	3,032,753	954,454	6,628,479	962,449	11,435,672
Tax Adjusted Net Investment Base – Ending Balance	50,218,393	23,678,746	11,877,707	4,644,431	24,133,004	3,806,599	41,178,544
Tax Adjusted Net Investment Base – Beginning Balance	50,012,896	23,593,484	11,805,698	4,569,666	24,493,943	3,676,785	41,357,534
* Tax Adjusted Net Investment Base *	50,115,645	23,636,115	11,841,703	4,607,049	24,313,474	3,741,692	41,268,039
TAX ADJUSTED RETURN ON INVESTMENT	11.60%	11.35%	7.20%	8.06%	7.52%	10.68%	14.44%

The line item descriptions in Schedule 250 used in this Appendix 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.