SURFACE TRANSPORTATION BOARD

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SURFACE TRANSPORTATION BOARD PROPOSES TO REVISE ITS METHODOLOGY FOR CALCULATING THE RAIL INDUSTRY'S COST OF CAPITAL

The Surface Transportation Board today announced a notice of proposed rulemaking (NPRM) to enhance its methodology for determining the railroad industry's cost of capital by incorporating an additional model, called "Step MSDCF," into the calculation.

Each year, the Board determines the railroad industry's cost of capital. This figure, which the Board calculates as the weighted average of the cost of debt and the cost of equity, is used in a variety of regulatory proceedings. The Board's present methodology for calculating the cost-of-equity component of the industry's cost of capital relies on two models: the Morningstar/Ibbotson Multi-Stage Discounted Cash Flow Model and the Capital Asset Pricing Model. In the NPRM issued today, the Board proposes to add a third model, Step MSDCF, which when used in combination with the current two models, would enhance the robustness of the resulting cost-of-equity estimate during periods, like the present one, in which certain railroads are undertaking significant operational changes.

Comments to the NPRM are due by November 4, 2019, and replies are due by December 3, 2019.

The Board's decision in Revisions to the Board's Methodology for Determining the Railroad Industry's Cost of Capital, Docket No. EP 664 (Sub-No. 4), may be viewed and downloaded here.

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