

SERVICE DATE — OCTOBER 1, 2020

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 24)

RAILROAD REVENUE ADEQUACY—2019 DETERMINATION

Digest:¹ The Board finds that five Class I railroads (BNSF Railroad Company, CSX Transportation, Inc., Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2019, 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: October 1, 2020

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—2019, EP 558 (Sub-No. 23) (STB served Aug. 5, 2020), the Board determined that the 2019 railroad industry cost of capital was 9.34%.² By comparing this figure to the 2019 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, 2019.

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

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 Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

² On August 24, 2020, the Western Coal Traffic League (WCTL) filed a petition seeking reconsideration of the Board's 2019 railroad industry cost of capital in Docket No. EP 558 (Sub-No. 23). That petition is currently under consideration with the Board. Should WCTL's petition be granted, the Board will take appropriate action in this proceeding with regard to its 2019 revenue adequacy determination.

the ROIs. The Board finds five carriers (BNSF Railroad Company, CSX Transportation, Inc., Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2019.³ 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, and Oberman.

³ 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	12.04%
CSX Transportation, Inc.	12.84%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.47%
Kansas City Southern Railway Company	6.20%
Norfolk Southern Combined Railroad Subsidiaries	11.59%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	11.34%
Union Pacific Railroad Company	15.55%

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	5,756,579	2,837,857	849,107	283,118	2,688,331	406,108	6,326,140
Add: Interest Income from Working Capital Allowance – Cash Portion	4,325	100	1,257	47	11,539	630	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	212,996	76,872	28	-68	74,545	2,514	41,149
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	22,088	114,727	737	599	39,640	298	15,209
** Adjusted Net Railway Operating Income **	5,995,988	3,029,556	851,129	283,696	2,814,055	409,550	6,382,498
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending 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 – Beginning Balance	62,335,029	29,761,120	13,395,444	5,364,429	29,814,555	4,485,107	50,523,112
Combined Investment in Railroad Property Used in Transportation Service – Average	62,952,325	29,867,307	13,872,991	5,380,560	30,119,986	4,534,798	51,132,970
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	7,093	43,250
Interest During Construction – Beginning Balance	0	0	0	4,320	2,580	14,293	43,250
Interest During Construction – Average	-	-	-	4,320	2,580	10,693	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	1135	0
Other Elements of Investment – Average	-	-	-	-	-	568	-
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	219,170	6,450	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	191,056	6,186	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	-	-	205,113	6,318	-	-	-
Working Capital Allowance – Ending Balance	861,267	257,768	175,680	92,422	681,162	68,759	1,002,188
Working Capital Allowance – Beginning Balance	1,133,987	259,087	163,594	98,535	519,900	34,765	989,414
Working Capital Allowance – Average	997,627	258,428	169,637	95,479	600,531	51,762	995,801
Accumulated Deferred Income Tax Credits – Ending 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 – Beginning Balance	13,861,647	6,416,363	2,759,188	885,075	6,275,508	955,032	10,743,429
Accumulated Deferred Income Tax Credits – Average	14,139,820	6,527,071	2,849,439	903,326	6,442,782	962,201	11,043,830
Tax Adjusted Net Investment Base – Ending 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 – Beginning Balance	49,607,369	23,603,844	10,990,906	4,579,755	24,056,367	3,549,412	40,725,847
* Tax Adjusted Net Investment Base *	49,810,133	23,598,664	11,398,302	4,574,711	24,275,155	3,613,099	41,041,691
TAX ADJUSTED RETURN ON INVESTMENT	12.04%	12.84%	7.47%	6.20%	11.59%	11.34%	15.55%

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.