

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 23)

RAILROAD REVENUE ADEQUACY—2018 DETERMINATION

Digest:<sup>1</sup> The Board finds that three Class I railroads (CSX Transportation, Inc., Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2018, 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 4, 2019

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—2018, EP 558 (Sub-No. 22) (STB served Aug. 6, 2019), the Board determined that the 2018 railroad industry cost of capital was 12.22%. By comparing this figure to the 2018 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, 2018.

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 three carriers (CSX Transportation, Inc., Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2018.<sup>2</sup> The Board’s findings will be final on the effective date of this decision.

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<sup>1</sup> 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).

<sup>2</sup> 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.

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.

## APPENDIX A

<b>Railroad</b>	<b>ROI</b>
BNSF Railway Company	11.89%
CSX Transportation, Inc.	13.18%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.69%
Kansas City Southern Railway Company	8.03%
Norfolk Southern Combined Railroad Subsidiaries	11.63%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	13.49%
Union Pacific Railroad Company	15.80%

## APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	5,698,769	2,939,460	818,273	363,227	2,550,802	448,032	6,268,246
Add: Interest Income from Working Capital Allowance – Cash Portion	5,629	802	767	752	9,907	157	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	144,406	68,062	984	(11)	97,161	4,172	92,538
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	10,838	116,671	891	211	116,739	20,161	22,384
<b>** Adjusted Net Railway Operating Income **</b>	<b>5,859,642</b>	<b>3,124,995</b>	<b>820,915</b>	<b>364,179</b>	<b>2,774,609</b>	<b>472,522</b>	<b>6,383,168</b>
<b>** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **</b>							
Combined Investment in Railroad Property Used in Transportation Service – Ending 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 – Beginning Balance	61,383,025	29,612,357	12,654,069	5,196,420	29,075,615	4,296,271	49,456,306
<b>Combined Investment in Railroad Property Used in Transportation Service – Average</b>	<b>61,859,027</b>	<b>29,686,739</b>	<b>13,024,757</b>	<b>5,280,425</b>	<b>29,445,085</b>	<b>4,390,689</b>	<b>49,989,709</b>
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	14,293	43,250
Interest During Construction – Beginning Balance	0	0	0	4,320	2,580	4,684	43,251
<b>Interest During Construction – Average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,320</b>	<b>2,580</b>	<b>9,489</b>	<b>43,251</b>
Other Elements of Investment – Ending Balance	0	0	0	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	0	0	0	1,135	0
<b>Other Elements of Investment – Average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,135</b>	<b>-</b>
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	191,056	6,186	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	186,295	5,949	0	0	0
<b>Net Rail Assets of Rail Related Affiliates – Average</b>	<b>-</b>	<b>-</b>	<b>188,676</b>	<b>6,068</b>	<b>-</b>	<b>-</b>	<b>-</b>
Working Capital Allowance – Ending Balance	1,133,987	259,087	163,594	98,535	519,900	34,765	989,414
Working Capital Allowance – Beginning Balance	1,100,717	379,715	140,712	95,600	683,547	63,320	1,026,029
<b>Working Capital Allowance – Average</b>	<b>1,117,352</b>	<b>319,401</b>	<b>152,153</b>	<b>97,068</b>	<b>601,724</b>	<b>49,043</b>	<b>1,007,722</b>
Accumulated Deferred Income Tax Credits – Ending Balance	13,851,935	6,416,363	2,759,188	885,075	6,275,508	955,032	10,743,429
Accumulated Deferred Income Tax Credits – Beginning Balance	13,515,951	6,167,323	2,635,557	802,267	6,112,373	896,141	10,371,648
<b>Accumulated Deferred Income Tax Credits – Average</b>	<b>13,683,943</b>	<b>6,291,843</b>	<b>2,697,373</b>	<b>843,671</b>	<b>6,193,941</b>	<b>925,587</b>	<b>10,557,539</b>
Tax Adjusted Net Investment Base – Ending Balance	49,617,081	23,603,844	10,990,906	4,579,755	24,056,367	3,549,412	40,725,847
Tax Adjusted Net Investment Base – Beginning Balance	48,967,791	23,824,749	10,345,519	4,491,382	23,644,209	3,457,631	40,067,436
<b>* Tax Adjusted Net Investment Base *</b>	<b>49,292,436</b>	<b>23,714,297</b>	<b>10,668,213</b>	<b>4,535,569</b>	<b>23,850,288</b>	<b>3,503,522</b>	<b>40,396,642</b>
<b>TAX ADJUSTED RETURN ON INVESTMENT</b>	<b>11.89%</b>	<b>13.18%</b>	<b>7.69%</b>	<b>8.03%</b>	<b>11.63%</b>	<b>13.49%</b>	<b>15.80%</b>

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.