Digest: The Board finds that four Class I railroads (BNSF Railway Company, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2017, 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: December 17, 2018

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—2017, EP 558 (Sub-No. 21) (STB served Dec. 6, 2018), the Board determined that the 2017 railroad industry cost of capital was 10.04%. By comparing this figure to the 2017 ROI data obtained from the carriers’ Annual Report R-1 Schedule 250 filings, a revenue adequacy figure has been calculated for each of the Class I freight railroads that were in operation as of December 31, 2017.2

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

2 By decision served on July 27, 2018, the Board explained that its revenue adequacy determination, among other calculations for 2017, would be affected by the carriers’ revaluation of their deferred tax liabilities as a result of the Tax Cuts and Jobs Act. R.R. Revenue Adequacy—2017 Determination, EP 552 (Sub-No. 22) et al., slip op. at 2, 4 (STB served July 27, 2018). The Board sought comment on whether it would be appropriate to make one-time adjustments to remove the accounting impacts and proposed, with respect to revenue adequacy, an adjustment to the Class I carriers’ Schedule 250 filings. The Board adopted this proposal in Railroad Revenue Adequacy—2017 Determination, EP 552 (Sub-No. 22) et al., slip op. at 6-9 (STB served Dec. 6, 2018), and, consistent with that decision, the revenue adequacy determination here reflects the adjustments made in the carriers’ Schedule 250 filings.
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 four carriers (BNSF Railway Company, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2017. 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 and Miller.

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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

<table>
<thead>
<tr>
<th>Railroad</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNSF Railway Company</td>
<td>10.70%</td>
</tr>
<tr>
<td>CSX Transportation, Inc.</td>
<td>8.84%</td>
</tr>
<tr>
<td>Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)</td>
<td>7.69%</td>
</tr>
<tr>
<td>Kansas City Southern Railway Company</td>
<td>7.09%</td>
</tr>
<tr>
<td>Norfolk Southern Combined Railroad Subsidiaries</td>
<td>10.05%</td>
</tr>
<tr>
<td>Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)</td>
<td>10.71%</td>
</tr>
<tr>
<td>Union Pacific Railroad Company</td>
<td>14.08%</td>
</tr>
</tbody>
</table>
### APPENDIX B

<table>
<thead>
<tr>
<th>Railroad</th>
<th>BNSF</th>
<th>CSX</th>
<th>GT</th>
<th>KCS</th>
<th>NS</th>
<th>SOO</th>
<th>UP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,299,653</td>
<td>1,743,027</td>
<td>668,730</td>
<td>281,220</td>
<td>1,933,798</td>
<td>315,815</td>
<td>4,571,323</td>
</tr>
<tr>
<td>Add: Interest Income from Working Capital Allowance – Cash Portion</td>
<td>1,498</td>
<td>1,179</td>
<td>539</td>
<td>0</td>
<td>4,021</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Add: Income Taxes Associated with Non-Rail Income and Deductions</td>
<td>102,070</td>
<td>44,662</td>
<td>578</td>
<td>50</td>
<td>56,397</td>
<td>2,711</td>
<td>159,185</td>
</tr>
<tr>
<td>Add: Gain (or loss) from transfer/reclassification to nonrail-status (net of income taxes)</td>
<td>32,106</td>
<td>9,996</td>
<td>3,459</td>
<td>2,639</td>
<td>42,750</td>
<td>1,162</td>
<td>83,563</td>
</tr>
</tbody>
</table>

** Tax Adjusted Net Investment Base **

** Accumulated Deferred Income Tax Credits **

** Working Capital Allowance **

** Net Rail Assets of Rail Related Affiliates **

** Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance **

** Combined Investment in Railroad Property Used in Transportation Service – Ending Balance **

** Combined Investment in Railroad Property Used in Transportation Service – Average **

** Interest During Construction – Ending Balance **

** Interest During Construction – Beginning Balance **

** Interest During Construction – Average **

** Other Elements of Investment – Ending Balance **

** Other Elements of Investment – Beginning Balance **

** Other Elements of Investment – Average **

** Net Rail Assets of Rail Related Affiliates – Ending Balance **

** Net Rail Assets of Rail Related Affiliates – Beginning Balance **

** Net Rail Assets of Rail Related Affiliates – Average **

** Working Capital Allowance – Ending Balance **

** Working Capital Allowance – Beginning Balance **

** Working Capital Allowance – Average **

** Accumulated Deferred Income Tax Credits – Ending Balance **

** Accumulated Deferred Income Tax Credits – Beginning Balance **

** Accumulated Deferred Income Tax Credits – Average **

** Tax Adjusted Net Investment Base – Ending Balance **

** Tax Adjusted Net Investment Base – Beginning Balance **

** Tax Adjusted Net Investment Base **

** TAX ADJUSTED RETURN ON INVESTMENT **

* 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.*