

SERVICE DATE – DECEMBER 21, 2018

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 22)

RAILROAD REVENUE ADEQUACY—2017 DETERMINATION

Digest:¹ 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 2017.³ 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 and Miller.

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	10.70%
CSX Transportation, Inc.	8.84%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.69%
Kansas City Southern Railway Company	7.09%
Norfolk Southern Combined Railroad Subsidiaries	10.05%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	10.71%
Union Pacific Railroad Company	14.08%

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	4,299,653	1,743,027	668,730	281,220	1,933,798	315,815	4,571,323
Add: Interest Income from Working Capital Allowance – Cash Portion	1,498	1,179	539	0	4,021	7	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	102,070	44,662	578	50	56,397	2,711	159,185
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	32,106	9,996	3,459	2,639	42,750	1,162	83,563
** Adjusted Net Railway Operating Income **	4,435,327	1,798,864	673,306	283,909	2,036,966	319,695	4,814,071
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	61,383,025	29,612,357	12,654,069	5,196,420	29,075,615	4,296,271	49,456,306
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	60,328,103	29,147,682	12,120,000	4,935,207	28,507,378	4,155,337	48,238,785
Combined Investment in Railroad Property Used in Transportation Service – Average	60,855,564	29,380,020	12,387,035	5,065,814	28,791,497	4,225,804	48,847,546
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	4,684	43,251
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	10,374	43,253
Interest During Construction – Average	-	-	1,057	4,320	2,580	7,529	43,252
Other Elements of Investment – Ending Balance	0	0	0	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	1,788	0	0	1,135	0
Other Elements of Investment – Average	-	-	894	-	-	1,135	-
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	186,295	5,949	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	172,089	5,797	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	-	-	179,192	5,873	-	-	-
Working Capital Allowance – Ending Balance	1,100,717	379,715	140,712	95,600	683,547	63,320	1,026,029
Working Capital Allowance – Beginning Balance	856,162	456,274	111,129	106,125	678,045	60,780	892,689
Working Capital Allowance – Average	978,439	417,995	125,921	100,863	680,796	62,050	959,359
Accumulated Deferred Income Tax Credits – Ending Balance	20,835,003	9,549,038	3,998,160	1,257,619	9,391,268	1,342,982	16,005,995
Accumulated Deferred Income Tax Credits – Beginning Balance	19,963,817	9,337,412	3,871,368	1,072,686	8,993,592	1,247,656	15,133,143
Accumulated Deferred Income Tax Credits – Average	20,399,410	9,443,225	3,934,764	1,165,153	9,192,430	1,295,319	15,569,569
Tax Adjusted Net Investment Base – Ending Balance	41,648,739	20,443,034	8,982,916	4,036,030	20,365,314	3,010,790	34,433,089
Tax Adjusted Net Investment Base – Beginning Balance	41,220,448	20,266,544	8,527,949	3,970,123	20,189,251	2,956,952	33,955,078
* Tax Adjusted Net Investment Base *	41,434,593	20,354,789	8,755,433	4,003,077	20,277,283	2,983,871	34,194,084
TAX ADJUSTED RETURN ON INVESTMENT	10.70%	8.84%	7.69%	7.09%	10.05%	10.71%	14.08%

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.