

SERVICE DATE – NOVEMBER 3, 2011

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SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 15)

RAILROAD REVENUE ADEQUACY—2010 DETERMINATION

Digest:¹ The agency finds that one Class I railroad (Union Pacific Railroad Company) is revenue adequate for the year 2010, meaning that one of the Class I 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: November 2, 2011

BY THE BOARD:

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, 364 I.C.C. 803 (1981), Standards for Railroad Revenue Adequacy, 3 I.C.C. 2d 261 (1986), and Supplemental Reporting of Consolidated Information for Revenue Adequacy, 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—2010, EP 558 (Sub-No. 14) (STB served Oct. 3, 2011), we determined that the 2010 railroad industry cost of capital was 11.03%. By comparing this figure to the 2010 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have calculated a revenue adequacy figure for each of the Class I freight railroads that were in operation as of December 31, 2010.

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. We find one carrier (Union Pacific Railroad Company) to be revenue adequate for 2010. Our findings with respect to the Class I carriers will be final on the effective date of this decision.

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).

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. This decision is effective November 3, 2011.
2. Notice of this decision will be published in the Federal Register.

By the Board, Chairman Elliott, Vice Chairman Begeman, and Commissioner Mulvey.

APPENDIX A

Railroad	ROI
BNSF Railway Company	9.22%
CSX Transportation, Inc.	10.85%
Grand Trunk Corporation Consolidated (Including all Canadian National U.S. affiliates)	9.21%
Kansas City Southern Railway Company	9.77%
Norfolk Southern Railway Company	10.96%
Soo Line Railroad Company (Including all Canadian Pacific U.S. affiliates)	8.01%
Union Pacific Railroad Company	11.54%

APPENDIX B

Railroad	BNSF	CSX	GT Corp Consolidated	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	2,598,968	1,741,030	604,011	198,094	1,599,947	209,736	3,007,423
Add: Interest Income from Working Capital Allowance – Cash Portion	0	0	0	126	1,643	2,768	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	25,716	5,266	165	50	39,618	158	24,047
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	51,185	(2,217)	799	1,090	26,767	429	14,112
** Adjusted Net Railway Operating Income **	2,675,869	1,744,079	604,975	199,360	1,667,975	213,091	3,045,582
** Calculating the Adjusted Investment in Railroad Property for The Reporting Entity**							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	46,300,386	22,927,514	9,433,123	2,572,767	22,141,872	3,703,035	36,912,303
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	32,703,496	22,480,486	9,194,395	2,454,152	21,619,944	3,641,226	35,995,999
Combined Investment in Railroad Property Used in Transportation Service – Average	39,501,941	22,704,000	9,313,759	2,513,460	21,880,908	3,672,131	36,454,151
Other Elements of Investment – Ending Balance	0	0	1,863	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	1,863	0	0	1,135	0
Other Elements of Investment – Average	0	0	1,863	0	0	1,135	0
Interest During Construction – Ending Balance	0	0	2,113	4,320	2,580	21,504	43,309
Interest During Construction – Beginning Balance	0	0	2,113	4,187	2,580	19,085	43,373
Interest During Construction – Average	0	0	2,113	4,254	2,580	20,295	43,341
Net Rail Assets of Rail Related Affiliates – Ending Balance	318,021	0	200,443	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	304,353	0	41,957	0	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	311,187	0	121,200	0	0	0	0
Working Capital Allowance – Ending Balance	662,693	218,469	51,939	65,931	649,032	86,135	900,106
Working Capital Allowance – Beginning Balance	652,172	215,072	41,582	68,370	592,919	64,312	735,086
Working Capital Allowance – Average	657,433	216,771	46,761	67,151	620,976	75,224	817,596
Accumulated Deferred Income Tax Credits – Ending Balance	14,019,998	7,010,537	2,985,545	558,326	7,489,154	1,105,164	11,092,135
Accumulated Deferred Income Tax Credits – Beginning Balance	8,885,297	6,689,339	2,825,863	513,261	7,071,020	1,025,981	10,577,315
Accumulated Deferred Income Tax Credits – Average	11,452,648	6,849,938	2,905,704	535,794	7,280,087	1,065,573	10,834,725
Tax Adjusted Net Investment Base – Ending Balance	33,261,102	16,135,446	6,695,984	2,076,052	15,299,170	2,661,367	26,676,965
Tax Adjusted Net Investment Base – Beginning Balance	24,774,724	16,006,219	6,448,095	2,005,074	15,139,263	2,659,337	26,110,397
* Tax Adjusted Net Investment Base *	29,017,913	16,070,833	6,572,040	2,040,563	15,219,217	2,660,352	26,393,681
TAX ADJUSTED RETURN ON INVESTMENT	9.22%	10.85%	9.21%	9.77%	10.96%	8.01%	11.54%

The line item descriptions in this schedule 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.