

SERVICE DATE – APRIL 22, 2019

SURFACE TRANSPORTATION BOARD

NOTICE

Docket No. EP 689 (Sub-No. 10)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—
2017 RSAM and R/VC_{>180} CALCULATIONS

Decided: April 22, 2019

In this decision, the Board is publishing the most recent revenue shortfall allocation methodology (RSAM) and revenue-to-variable cost greater than 180% (R/VC_{>180}) ratios for the Class I carriers (for the years 2014-2017)¹, as well as their four-year averages, for use in Three-Benchmark cases.

Under 49 U.S.C. § 10701(d)(3), the Board is directed to “establish a simplified and expedited method for determining the reasonableness of challenged rail rates in those cases in which a full stand-alone cost presentation is too costly, given the value of the case.” In Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1) (STB served Sept. 5, 2007),² the Board modified and clarified its guidelines for such proceedings by establishing a Simplified Stand-Alone Cost test, clarifying its Three-Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case.³ The Three-Benchmark approach

¹ In Railroad Revenue Adequacy—2017 Determination, EP 552 (Sub-No. 22) et al. (STB served Dec. 6, 2018), the Board, after seeking public comment, adopted its proposal to make one-time adjustments to its 2017 annual cost-of-capital determination, revenue adequacy determination, and Uniform Railroad Costing System calculations to remove the accounting impacts of the Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017), on rail carriers’ deferred tax liability to more accurately reflect the rail carriers’ financial state for 2017. In that decision, the Board ordered the Class I carriers to file recalculated figures with the accounting impacts removed for any R-1 reporting schedule affected by the Board’s one-time adjustments. The carriers’ submitted revised schedules, including Schedule 210 (Results of Operations), which impacts the Weighted Average State Tax Rates used in RSAM. Consistent with other recent determinations, this decision reflects the recalculated figures submitted by the carriers. See Quarterly Rail Cost Adjustment Factor, EP 290 (Sub-No. 5) (STB served Mar. 20, 2019).

² Aff’d sub nom. CSX Transp., Inc. v. STB, 568 F.3d 236 (D.C. Cir. 2009), and vacated in part on reh’g, CSX Transp., Inc. v. STB, 584 F.3d 1076 (D.C. Cir. 2009).

³ Subsequently, in Rate Regulation Reforms, EP 715 (STB served July 18, 2013), appeal docketed sub nom. CSX Transp., Inc. v. STB, 754 F.3d 1056 (D.C. Cir. 2014), the Board

(continued . . .)

compares a challenged rate to three measures of the defendant railroad's revenues and variable costs.

The first benchmark, RSAM, measures the average markup that the railroad would need to charge all its "potentially captive" traffic for the railroad to earn adequate revenues as measured by the Board under 49 U.S.C. § 10704(a)(2). Potentially captive traffic is defined as all traffic priced at or above the 180% R/VC level, which is the statutory floor for regulatory rail rate intervention. See 49 U.S.C. § 10707(d); Burlington N. R.R. v. STB, 114 F.3d 206, 210 (D.C. Cir. 1997); W. Tex. Util. v. Burlington N. R.R., 1 S.T.B. 638, 677-78 (1996). The RSAM benchmark is calculated by adding the carrier's revenue shortfall (or subtracting the overage) shown in the Board's annual revenue adequacy determination, adjusted for taxes, to the numerator of the R/VC_{>180} benchmark. Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2), slip op. at 2-3 (STB served May 11, 2009).

The second benchmark is R/VC_{>180}. This benchmark measures the average markup over variable cost earned by the defendant railroad on its potentially captive traffic. Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 10. The R/VC_{>180} benchmark is calculated using the Board's confidential Waybill Sample data⁴ by dividing the total revenues earned by the carrier on potentially captive traffic by the carrier's total variable costs for that traffic. Id. at 20. The ratio of RSAM to R/VC_{>180} provides an estimate of how much more or less the railroad would need to charge its potentially captive traffic to be revenue adequate. Id.

The third benchmark is revenue-to-variable cost comparison (R/VC_{COMP}). This benchmark is used to compare the markup on the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity with similar transportation characteristics. Id. at 10. The R/VC_{COMP} ratio for appropriate comparison traffic is computed using traffic data from the Waybill Sample and applying the Board's Uniform Rail Costing System (URCS). Id. at 10-11.

The Board publishes tables each year showing the most recent RSAM and R/VC_{>180} ratios for each Class I railroad, as well as their rolling four-year averages. Because R/VC_{COMP} is case specific, that ratio is calculated only after a shipper files a Three-Benchmark rate complaint.

increased the rate relief caps in both the Simplified Stand-Alone Cost test and the Three-Benchmark approach.

⁴ The Waybill Sample is a statistical sampling of railroad waybills that is collected and maintained for use by the Board and by the public (with appropriate restrictions to protect the confidentiality of individual traffic data). See 49 C.F.R. pt. 1244.

The attached tables contain the most recent RSAM and $R/VC_{>180}$ ratios. Tables I and II represent percentages for the most recent four-year period from 2014 to 2017 for all Class I carriers. Interested readers may review the workbooks used to compute the data in these tables by visiting the Board's website at: https://www.stb.gov/stb/industry/econ_reports.html. Once there, scroll down to the paragraph titled "Revenue Shortfall Allocation Method (RSAM)" and select the "RSAM 2014-2017 Tables" and "2017 RSAM Computation" hyperlinks.

By the Board, Dr. William J. Brennan, Director, Office of Economics.

Table I**RSAM Mark-up Percentages 2014 – 2017**

Railroad	4-Year Average	2017	2016	2015	2014
BNSF	183%	205%	194%	158%	176%
CSXT	269%	290%	265%	267%	254%
GTC	282%	340%	277%	244%	266%
KCS	355%	391%	366%	343%	320%
NS	251%	248%	247%	267%	243%
SOO	250%	233%	239%	176%	350%
UP	179%	190%	185%	171%	171%

Table II**R/VC_{>180} Percentages 2014 – 2017**

Railroad	4-Year Average	2017	2016	2015	2014
BNSF	221%	221%	223%	221%	220%
CSXT	257%	266%	260%	256%	247%
GTC	273%	278%	270%	268%	277%
KCS	244%	247%	248%	245%	234%
NS	254%	248%	253%	256%	258%
SOO	244%	243%	251%	247%	235%
UP	237%	242%	241%	234%	232%