

STB Ex Parte No. 664

Methodology to Be Employed in Determining the Railroad Cost of Capital

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**Summary of December 4, 2007 Testimony by
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- I. The Board's Cost of Capital Determinations Are Very Important to BNSF and to the Public's Interest in an Adequate Transportation Network
 - Railroads are capital intensive and they devote a large portion of their resources to capital infrastructure investments.
 - Capital investment decisions are based upon business cases/economic justification, balancing returns against risk.
 - A low cost of capital calculation used for regulatory purposes could dramatically reduce returns and corresponding reinvestment in infrastructure.
 - Railroads will have less incentive to invest in the rail network if the permitted returns are lower than those they can anticipate from alternative investments.
 - Demand for rail transportation is growing and the rail network will need to expand substantially to meet this demand.
- II. The Board Must Approach Its Cost of Capital Determinations Carefully
 - Given the importance of the cost of capital determinations to the expansion of the railroad network, the Board must be sure not to set an artificially low cost of capital.
 - The Board appears to have chosen inputs that are all at or below the low end of any realistic range of assumptions.
 - The Board's assumptions ignore the business risks facing railroads like BNSF.
 - Any significant change to the methodology for calculating the cost of equity capital should be implemented gradually over a number of years.