

SERVICE DATE — SEPTEMBER 6, 2022

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 26)

RAILROAD REVENUE ADEQUACY—2021 DETERMINATION

Digest:<sup>1</sup> The Board finds that five Class I railroads (BNSF Railway Company, CSX Transportation, Inc., Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) are revenue adequate for the year 2021, 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: August 31, 2022

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—2021, EP 558 (Sub-No. 25) (STB served Aug. 2, 2022), the Board determined that the 2021 railroad industry cost of capital was 10.37%. By comparing this figure to the 2021 ROIs, calculated from data reported in the carriers’ Annual Report R-1 Schedule 250 filings, a revenue adequacy figure has been determined for each of the Class I freight railroads that were in operation as of December 31, 2021.<sup>2</sup>

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

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<sup>1</sup> 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. See Pol’y Statement on Plain Language Digs. in Decisions, EP 696 (STB served Sept. 2, 2010).

<sup>2</sup> Annual Report R-1 filings do not include rail operations in Canada or Mexico. The Board implements accounting and cost reporting rules (pursuant to 49 U.S.C. § 11164) for rail carriers subject to the Board’s jurisdiction, which encompasses transportation in the United States pursuant to 49 U.S.C § 10501(a)(2).

the ROIs. The Board finds five carriers (BNSF Railway Company, CSX Transportation, Inc., Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation, and Union Pacific Railroad Company) to be revenue adequate for 2021.<sup>3</sup> 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 Fuchs, Hedlund, Oberman, Primus, and Schultz.

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<sup>3</sup> 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	13.19%
CSX Transportation, Inc.	15.51%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.79%
Kansas City Southern Railway Company	8.25%
Norfolk Southern Combined Railroad Subsidiaries	13.18%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	13.51%
Union Pacific Railroad Company	17.03%

**APPENDIX B**  
**(Dollars in Thousands)**

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	6,429,663	3,217,139	923,549	388,582	3,085,882	476,048	6,889,149
Add: Interest Income from Working Capital Allowance – Cash Portion	0	65	519	0	700	4	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	121,895	133,096	7,214	126	40,838	10,727	71,721
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	73,872	343,537	805	18	55,660	32,308	66,771
<b>** Adjusted Net Railway Operating Income **</b>	<b>6,625,430</b>	<b>3,693,837</b>	<b>932,087</b>	<b>388,726</b>	<b>3,183,080</b>	<b>519,087</b>	<b>7,027,641</b>
<b>** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **</b>							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	64,582,755	30,451,714	14,809,152	5,699,724	30,436,002	4,807,139	52,629,394
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	64,090,523	30,184,332	14,597,372	5,552,142	30,163,002	4,696,978	51,978,023
<b>Combined Investment in Railroad Property Used in Transportation Service – Average</b>	<b>64,336,639</b>	<b>30,318,023</b>	<b>14,703,262</b>	<b>5,625,933</b>	<b>30,299,502</b>	<b>4,752,059</b>	<b>52,303,709</b>
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	431	43,247
Interest During Construction – Beginning Balance	0	0	0	4,320	2,580	756	43,249
<b>Interest During Construction – Average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,320</b>	<b>2,580</b>	<b>594</b>	<b>43,248</b>
Other Elements of Investment – Ending Balance	0	0	0	0	0	0	0
Other Elements of Investment – Beginning Balance	0	0	0	0	0	0	0
<b>Other Elements of Investment – Average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	208,976	6,294	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	232,172	6,443	0	0	0
<b>Net Rail Assets of Rail Related Affiliates – Average</b>	<b>-</b>	<b>-</b>	<b>220,574</b>	<b>6,369</b>	<b>-</b>	<b>-</b>	<b>-</b>
Working Capital Allowance – Ending Balance	864,065	340,510	171,952	81,967	613,147	67,434	649,462
Working Capital Allowance – Beginning Balance	802,795	300,857	173,978	77,497	619,484	65,905	770,882
<b>Working Capital Allowance – Average</b>	<b>833,430</b>	<b>320,684</b>	<b>172,965</b>	<b>79,732</b>	<b>616,316</b>	<b>66,670</b>	<b>710,172</b>
Accumulated Deferred Income Tax Credits – Ending Balance	15,190,640	6,837,073	3,123,768	1,007,006	6,881,750	994,773	11,880,969
Accumulated Deferred Income Tax Credits – Beginning Balance	14,674,925	6,806,443	3,125,815	987,331	6,646,902	955,528	11,527,112
<b>Accumulated Deferred Income Tax Credits – Average</b>	<b>14,932,783</b>	<b>6,821,758</b>	<b>3,124,792</b>	<b>997,169</b>	<b>6,764,326</b>	<b>975,151</b>	<b>11,704,041</b>
Tax Adjusted Net Investment Base – Ending Balance	50,256,180	23,955,151	12,066,312	4,776,659	24,164,819	3,879,369	41,354,640
Tax Adjusted Net Investment Base – Beginning Balance	50,218,393	23,678,746	11,877,707	4,644,431	24,133,004	3,806,599	41,178,544
<b>* Tax Adjusted Net Investment Base *</b>	<b>50,237,287</b>	<b>23,816,949</b>	<b>11,972,010</b>	<b>4,710,545</b>	<b>24,148,912</b>	<b>3,842,984</b>	<b>41,266,592</b>
<b>TAX ADJUSTED RETURN ON INVESTMENT</b>	<b>13.19%</b>	<b>15.51%</b>	<b>7.79%</b>	<b>8.25%</b>	<b>13.18%</b>	<b>13.51%</b>	<b>17.03%</b>

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.