

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 28)

RAILROAD REVENUE ADEQUACY—2023 DETERMINATION

Digest:<sup>1</sup> The Board finds that three Class I railroads (BNSF Railway Company, CSX Transportation, Inc., and Union Pacific Railroad Company) are revenue adequate for the year 2023, meaning that those railroads achieved a rate of return equal to or greater than the Board’s calculation of the average cost of capital for the freight rail industry.

Decided: August 30, 2024

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—2023, EP 558 (Sub-No. 27) (STB served Aug. 07, 2024), the Board determined that the 2023 railroad industry cost of capital was 9.87%. By comparing this figure to the 2023 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, 2023.<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 the ROIs. The Board finds three carriers (BNSF Railway Company, CSX Transportation, Inc.,

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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).

and Union Pacific Railroad Company) to be revenue adequate for 2023.<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, 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 (and thus include certain railroad affiliates).

**APPENDIX A**

Railroad	ROI
BNSF Railway Company	10.63%
CSX Transportation, Inc.	14.27%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	7.81%
Norfolk Southern Combined Railroad Subsidiaries	8.03%
Soo Line Corporation/Kansas City Southern Railway Company (including U.S. affiliates of Canadian Pacific Kansas City Limited)	5.10%
Union Pacific Railroad Company	15.98%

## APPENDIX B

(Dollars in Thousands)

Railroad	BNSF	CSX	GT	NS	SOO/KCSR	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	5,226,169	3,392,225	932,988	1,567,884	729,263	6,718,907
Add: Interest Income from Working Capital Allowance – Cash Portion	9,814	13,029	341	52,755	540	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	374,013	210,773	273	402,484	5,068	96,925
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	1,033	24,649	381	15,894	139	43,420
<b>** Adjusted Net Railway Operating Income **</b>	<b>5,611,029</b>	<b>3,640,676</b>	<b>933,983</b>	<b>2,039,017</b>	<b>735,010</b>	<b>6,859,252</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	68,218,601	32,279,021	14,906,280	32,058,301	18,376,222	54,925,066
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	65,347,676	31,706,972	14,631,762	30,905,739	18,010,306	53,706,745
<b>Combined Investment in Railroad Property Used in Transportation Service – Average</b>	<b>66,783,139</b>	<b>31,992,997</b>	<b>14,769,021</b>	<b>31,482,020</b>	<b>18,193,264</b>	<b>54,315,906</b>
Interest During Construction – Ending Balance	0	0	0	2,580	8,044	43,238
Interest During Construction – Beginning Balance	0	0	0	2,580	4,927	43,246
<b>Interest During Construction – Average</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,580</b>	<b>6,486</b>	<b>43,242</b>
Other Elements of Investment – Ending Balance	0	0	0	0	0	0
Other Elements of Investment – Beginning Balance	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>
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	224,033	0	6,866	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	204,353	0	6,268	0
<b>Net Rail Assets of Rail Related Affiliates – Average</b>	<b>-</b>	<b>-</b>	<b>214,193</b>	<b>-</b>	<b>6,567</b>	<b>-</b>
Working Capital Allowance – Ending Balance	1,204,889	581,454	189,115	988,949	107,125	862,672
Working Capital Allowance – Beginning Balance	1,157,086	489,775	176,177	683,669	192,313	921,174
<b>Working Capital Allowance – Average</b>	<b>1,180,988</b>	<b>535,615</b>	<b>182,646</b>	<b>836,309</b>	<b>149,719</b>	<b>891,923</b>
Accumulated Deferred Income Tax Credits – Ending Balance	15,210,887	7,071,384	3,250,998	6,889,653	3,909,726	12,291,910
Accumulated Deferred Income Tax Credits – Beginning Balance	15,101,812	6,977,100	3,162,999	6,952,295	3,972,786	12,209,505
<b>Accumulated Deferred Income Tax Credits – Average</b>	<b>15,156,350</b>	<b>7,024,242</b>	<b>3,206,999</b>	<b>6,920,974</b>	<b>3,941,256</b>	<b>12,250,708</b>
Tax Adjusted Net Investment Base – Ending Balance	54,212,603	25,789,091	12,068,430	26,155,017	14,572,443	43,452,590
Tax Adjusted Net Investment Base – Beginning Balance	51,402,950	25,219,647	11,849,293	24,634,533	14,231,174	42,375,168
<b>* Tax Adjusted Net Investment Base *</b>	<b>52,807,777</b>	<b>25,504,369</b>	<b>11,958,862</b>	<b>25,394,775</b>	<b>14,401,809</b>	<b>42,913,879</b>
<b>TAX ADJUSTED RETURN ON INVESTMENT</b>	<b>10.63%</b>	<b>14.27%</b>	<b>7.81%</b>	<b>8.03%</b>	<b>5.10%</b>	<b>15.98%</b>