

SERVICE DATE — SEPTEMBER 5, 2023

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 552 (Sub-No. 27)

RAILROAD REVENUE ADEQUACY—2022 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 2022, 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, 2023

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—2022, EP 558 (Sub-No. 26) (STB served Aug. 3, 2023), the Board determined that the 2022 railroad industry cost of capital was 10.58%. By comparing this figure to the 2022 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, 2022.<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 2022.<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 (and thus include certain railroad affiliates).

**APPENDIX A**

Railroad	ROI
BNSF Railway Company	12.89%
CSX Transportation, Inc.	16.17%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	8.99%
Kansas City Southern Railway Company	9.19%
Norfolk Southern Combined Railroad Subsidiaries	14.55%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	13.31%
Union Pacific Railroad Company	17.96%

## APPENDIX B

(Dollars in Thousands)

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income for Reporting Entity	6,231,491	3,633,590	1,069,723	444,597	3,321,667	515,204	7,295,205
Add: Interest Income from Working Capital Allowance – Cash Portion	1,617	2,456	1,567	0	17,590	61	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	310,422	159,131	3,298	231	162,372	5,714	94,749
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	27,300	181,932	590	0	47,501	5,070	132,737
<b>** Adjusted Net Railway Operating Income **</b>	<b>6,570,830</b>	<b>3,977,109</b>	<b>1,075,178</b>	<b>444,828</b>	<b>3,549,130</b>	<b>526,049</b>	<b>7,522,691</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	65,612,607	31,711,388	14,631,762	5,839,365	30,905,739	4,958,585	53,737,070
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	64,582,755	30,451,714	14,809,152	5,699,724	30,436,002	4,807,139	52,629,394
<b>Combined Investment in Railroad Property Used in Transportation Service – Average</b>	<b>65,097,681</b>	<b>31,081,551</b>	<b>14,720,457</b>	<b>5,769,545</b>	<b>30,670,871</b>	<b>4,882,862</b>	<b>53,183,232</b>
Interest During Construction – Ending Balance	0	0	0	4,320	2,580	607	43,246
Interest During Construction – Beginning Balance	0	0	0	4,320	2,580	431	43,247
<b>Interest During Construction – Average</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,320</b>	<b>2,580</b>	<b>519</b>	<b>43,247</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	204,353	6,398	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	208,976	6,294	0	0	0
<b>Net Rail Assets of Rail Related Affiliates – Average</b>	<b>-</b>	<b>-</b>	<b>206,665</b>	<b>6,346</b>	<b>-</b>	<b>-</b>	<b>-</b>
Working Capital Allowance – Ending Balance	1,157,473	489,775	176,177	111,661	683,669	80,652	959,300
Working Capital Allowance – Beginning Balance	864,065	340,510	171,952	81,967	613,147	67,434	649,462
<b>Working Capital Allowance – Average</b>	<b>1,010,769</b>	<b>415,143</b>	<b>174,065</b>	<b>96,814</b>	<b>648,408</b>	<b>74,043</b>	<b>804,381</b>
Accumulated Deferred Income Tax Credits – Ending Balance	15,101,812	6,977,100	3,162,999	1,048,033	6,952,295	1,013,939	12,237,457
Accumulated Deferred Income Tax Credits – Beginning Balance	15,190,640	6,837,073	3,123,768	1,007,006	6,881,750	994,773	11,880,969
<b>Accumulated Deferred Income Tax Credits – Average</b>	<b>15,146,226</b>	<b>6,907,087</b>	<b>3,143,384</b>	<b>1,027,520</b>	<b>6,917,023</b>	<b>1,004,356</b>	<b>12,059,213</b>
Tax Adjusted Net Investment Base – Ending Balance	51,668,268	25,224,063	11,849,293	4,905,071	24,634,533	4,024,691	42,415,667
Tax Adjusted Net Investment Base – Beginning Balance	50,256,180	23,955,151	12,066,312	4,776,659	24,164,819	3,879,369	41,354,640
<b>* Tax Adjusted Net Investment Base *</b>	<b>50,962,224</b>	<b>24,589,607</b>	<b>11,957,803</b>	<b>4,840,865</b>	<b>24,399,676</b>	<b>3,952,030</b>	<b>41,885,154</b>
<b>TAX ADJUSTED RETURN ON INVESTMENT</b>	<b>12.89%</b>	<b>16.17%</b>	<b>8.99%</b>	<b>9.19%</b>	<b>14.55%</b>	<b>13.31%</b>	<b>17.96%</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.