

SURFACE TRANSPORTATION BOARD AFFIRMS UNION PACIFIC'S ACCOUNTING FOR VARIOUS MERGER & CONGESTION-RELATED EXPENSES

Surface Transportation Board (Board) Chairman Linda J. Morgan announced today that the Board has dismissed a complaint alleging that the Union Pacific Railroad Company (UP), in its 1997 Annual Report to the Board, improperly recorded certain expenses associated with its service crisis and with its merger with the Southern Pacific Transportation Company (SP). The Board found that UP's accounting procedures were consistent with the Board's accounting rules, with precedent, and with generally accepted accounting principles.

The Western Coal Traffic League (WCTL), which brought the complaint, took the position that three types of costs were improperly recorded in UP's annual report: (1) expenses associated with the congestion that developed during the service crisis of 1997-1998; (2) UP's restructuring expenses associated with the UP-SP merger (involving costs resulting from severing, relocating and training UP employees, rationalizing facilities, and upgrading equipment); and (3) restructuring costs that were incurred by SP in preparation for the merger with UP, and for which UP became responsible once the merger was consummated. WCTL argued that these costs were so "unusual" or "infrequent" that they should not be treated as ordinary expenses associated with operating the railroad.

The Board noted that, under its accounting regulations, congestion-related costs have historically not been considered unusual or infrequent expenses, but rather ordinary expenses associated with railroad operations, and it found no basis for treating UP's expenses differently. It observed that:

[r]ail traffic ebbs and flows, and traffic surges can produce congestion at various points. Track maintenance can temporarily slow down rail traffic, and will likely continue to do so in the future. Weather can cause all sorts of disruptions to rail service. Derailments unfortunately do occur and will likely continue to occur. WCTL has not shown that any of the individual events that contributed to this particular service crisis were unrelated to normal railroad operations. The fact that the combined costs resulting from these various events were large does not warrant their treatment as unusual or infrequent under the [governing accounting regulations], as the focus of the [regulations] is on individual events or transactions.

The Board also noted that expenses such as the UP restructuring expenses, and the SP restructuring expenses that UP assumed, have historically not been considered unusual or infrequent. It observed that it "has long been recognized that expenses associated with labor buyouts, asset dispositions, and corporate restructuring--which are incurred regularly by virtually all major carriers--are directly-related costs of running a railroad." The Board accepted WCTL's argument that some of these expenses constituted "special charges" (significant one-time expenses that are specifically identified in a railroad's financial statements), but pointed out that rail-related special charges are excluded from cost computations only when the charge recorded in a particular year relates to expenses incurred in other years. Here, all of the expenses that UP included in its accounts for 1997 were in fact incurred in 1997. Thus, the Board found that, regardless of whether or not they are labeled as special charges, the expenses at issue were normal costs of 1997 railroad operations.

The Board's decision was issued today in *Western Coal Traffic League v. Union Pacific Railroad Company*, STB Finance Docket No. 33726. Vice Chairman Burkes commented with a separate expression.

A printed copy of the decision is available for a fee by contacting: **Da-To-Da Office Solutions, Room 405, 1925 K Street, N.W., Washington, DC 20006, telephone (202) 466-5530**. The decision also is available on the Board's web site at **www.stb.dot.gov**.

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