

SURFACE TRANSPORTATION BOARD PROPOSES REVISIONS TO ITS COST OF CAPITAL METHODOLOGY

The Surface Transportation Board announced today that it has begun a rulemaking proceeding to revise its method for calculating the railroad industry's cost of capital. The Board uses the cost of capital figure in evaluating the adequacy of the individual railroads' revenues each year, as well as in various types of regulatory proceedings (such as determining the reasonableness of a challenged rail rate, considering a proposal to abandon a rail line, or valuing a particular railroad operation in certain other types of cases).

In today's decision, the Board proposes to change its method for calculating a key component of the cost of capital--the cost of equity. The Board proposes to use a Capital Asset Pricing Model (CAPM), rather than the discounted cash flow method that it has applied since 1982. As discussed in today's decision, CAPM has become the private sector norm for measuring cost of capital, although there are different methods of applying the model. The Board seeks comments on its proposal, which are due by September 13, 2007.

The proposal announced today is based upon comments received in response to the Board's [advance notice of proposed rulemaking, issued September 20, 2006](#) in this proceeding entitled *Methodology to be Employed in Determining the Railroad Industry's Cost of Capital*, STB Ex Parte No. 664. The Board's [notice of proposed rulemaking issued today in STB Ex Parte No. 664](#) is available for viewing and downloading via the Board's Web site at <http://www.stb.dot.gov>, under "E-Library," then under "Decisions & Notices," beneath the date "8/14/07." A printed copy of the Board's decision also is available for a fee by contacting **ASAP Document Solutions, 9332 Annapolis Rd., Suite 103, Lanham, MD 20706, telephone (202) 306-4004** or via asapdc@verizon.net.

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