

## **SURFACE TRANSPORTATION BOARD ADOPTS REVISIONS TO ITS COST OF CAPITAL METHODOLOGY**

The Surface Transportation Board (Board) today issued its final decision revising its method for calculating the railroad industry's cost of capital. The Board uses the cost of capital figure in evaluating the adequacy of individual railroads' revenues each year, and 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 changed its method for calculating a key component of the cost of capital—the cost of equity. The Board will use a Capital Asset Pricing Model (CAPM), rather than the single-stage discounted cash flow (DCF) method that it has applied since 1982. As discussed in today's decision, CAPM is a well-known, widely used and theoretically sound model that is simple and transparent compared to other approaches to calculating the cost of equity. Today's decision also announced the Board's intention to begin a new proceeding to seek public comments on how to construct a useable, multi-stage DCF for future use in conjunction with CAPM.

The Board's [decision today in the proceeding entitled Methodology To Be Employed in Determining the Railroad Industry's Cost of Capital, STB Ex Parte No. 664](#), is based upon comments received in response to the Board's August 14, 2007, notice of proposed rulemaking in STB Ex Parte No. 664. Today's decision 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 "1/17/08." 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](mailto:asapdc@verizon.net).

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