

SURFACE TRANSPORTATION BOARD CALCULATES RAIL INDUSTRY'S COST OF CAPITAL & REVENUE ADEQUACY FOR 2007

The Surface Transportation Board announced today that it has issued its decision calculating the railroad industry's cost of capital for 2007 and its decision determining the revenue adequacy for the seven Class I freight railroads for 2007.

In *Railroad Cost of Capital—2007*, STB Ex Parte No. 558 (Sub-No. 11), the Board found that the rail industry's after-tax cost of capital for 2007 was 11.33 percent, a 1.39-percent increase from the 2006 cost of capital. The Board uses the cost of capital figure in evaluating the adequacy of 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). Today's decision was the second one to use the Capital Asset Pricing Method (CAPM) to calculate the cost of equity, a key component of the cost of capital. This methodological change was adopted in the Board's January 17, 2008 decision in *Methodology to be Employed in Determining the Railroad Industry's Cost of Capital*, STB Ex Parte No. 664.

In a separate decision, also issued today, *Railroad Revenue Adequacy—2007 Determination*, STB Ex Parte No. 552 (Sub-No. 12), the Board found that two Class I railroads, the Norfolk Southern Railway Company and the Soo Line Railroad Company (a subsidiary of Canadian Pacific Railway Company), were revenue adequate for 2007. All other Class I freight railroads were found to be revenue inadequate for that year. The Board considers a railroad revenue adequate if it achieves a rate of return on net investment (ROI) equal to at least the current cost of capital (i.e., the cost of borrowing) for that railroad. Congress has directed the Board to conduct a revenue adequacy determination annually.

Below is a summary of the 2007 ROIs for all Class I freight railroads is as follows:

Railroad	ROI
BNSF Railway Company	9.97%
CSX Transportation, Inc.	7.61%
Grand Trunk Corporation Consolidated (including all Canadian National U.S. affiliates)	10.11%
Kansas City Southern Railway Company	9.37%
Norfolk Southern Railway Company	13.55%
Soo Line Railroad Company (including all Canadian Pacific U.S. affiliates)	15.25%
Union Pacific Railroad Company	8.90%

The Board's [cost of capital decision in Ex Parte 558 \(Sub-No. 11\)](#) and its [revenue adequacy decision in STB Ex Parte No. 552 \(Sub-No. 12\)](#) are 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 "9/26/08."

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