

SERVICE DATE – JANUARY 22, 2020

SURFACE TRANSPORTATION BOARD

NOTICE

Docket No. EP 689 (Sub-No. 11)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—
2018 RSAM and R/VC_{>180} CALCULATIONS

Decided: January 21, 2020

In this decision, the Board is publishing the most recent revenue shortfall allocation methodology (RSAM) and revenue-to-variable cost greater than 180% (R/VC_{>180}) ratios for the Class I carriers (for the years 2015-2018), as well as their four-year averages, for use in Three-Benchmark cases.

Under 49 U.S.C. § 10701(d)(3), the Board is directed to “establish a simplified and expedited method for determining the reasonableness of challenged rail rates in those cases in which a full stand-alone cost presentation is too costly, given the value of the case.” In Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1) (STB served Sept. 5, 2007),¹ the Board modified and clarified its guidelines for such proceedings by establishing a Simplified Stand-Alone Cost test, clarifying its Three-Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case.² The Three-Benchmark approach compares a challenged rate to three measures of the defendant railroad’s revenues and variable costs.

The first benchmark, RSAM, measures the average markup that the railroad would need to charge all its “potentially captive” traffic for the railroad to earn adequate revenues as measured by the Board under 49 U.S.C. § 10704(a)(2). Potentially captive traffic is defined as all traffic priced at or above the 180% R/VC level, which is the statutory floor for regulatory rail rate intervention. See 49 U.S.C. § 10707(d); Burlington N. R.R. v. STB, 114 F.3d 206, 210 (D.C. Cir. 1997); W. Tex. Util. v. Burlington N. R.R., 1 S.T.B. 638, 677-78 (1996). The RSAM benchmark is calculated by adding the carrier’s revenue shortfall (or subtracting the overage) shown in the Board’s annual revenue adequacy determination, adjusted for taxes, to the numerator of the R/VC_{>180} benchmark. Simplified Standards for Rail Rate Cases—Taxes in

¹ Aff’d sub nom. CSX Transp., Inc. v. STB, 568 F.3d 236 (D.C. Cir. 2009), and vacated in part on reh’g, CSX Transp., Inc. v. STB, 584 F.3d 1076 (D.C. Cir. 2009).

² Subsequently, in Rate Regulation Reforms, EP 715 (STB served July 18, 2013), appeal docketed sub nom. CSX Transp., Inc. v. STB, 754 F.3d 1056 (D.C. Cir. 2014), the Board increased the rate relief caps in both the Simplified Stand-Alone Cost test and the Three-Benchmark approach.

Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2), slip op. at 2-3 (STB served May 11, 2009).

The second benchmark is $R/VC_{>180}$. This benchmark measures the average markup over variable cost earned by the defendant railroad on its potentially captive traffic. Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 10. The $R/VC_{>180}$ benchmark is calculated using the Board's confidential Waybill Sample data³ by dividing the total revenues earned by the carrier on potentially captive traffic by the carrier's total variable costs for that traffic. Id. at 20. The ratio of RSAM to $R/VC_{>180}$ provides an estimate of how much more or less the railroad would need to charge its potentially captive traffic to be revenue adequate. Id.

The third benchmark is revenue-to-variable cost comparison (R/VC_{COMP}). This benchmark is used to compare the markup on the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity with similar transportation characteristics. Id. at 10. The R/VC_{COMP} ratio for appropriate comparison traffic is computed using traffic data from the Waybill Sample and applying the Board's Uniform Rail Costing System (URCS). Id. at 10-11.

The Board publishes tables each year showing the most recent RSAM and $R/VC_{>180}$ ratios for each Class I railroad, as well as their rolling four-year averages. Because R/VC_{COMP} is case specific, that ratio is calculated only after a shipper files a Three-Benchmark rate complaint.

The attached tables contain the most recent RSAM and $R/VC_{>180}$ ratios. Tables I and II represent percentages for the most recent four-year period from 2015 to 2018 for all Class I carriers. Interested readers may review the workbooks used to compute the data in these tables by visiting the Board's website at www.stb.gov. Once there, click on the headings "Reports & Data," and then "Economic Data," scroll down to the heading titled "Data Issued in Regulatory Proceedings," open the tab titled "Revenue Shortfall Allocation Method (RSAM)," and select the "2018 RSAM Calculation" and "2015-2018 RSAM Table" hyperlinks.

By the Board, Dr. William J. Brennan, Director, Office of Economics.

³ The Waybill Sample is a statistical sampling of railroad waybills that is collected and maintained for use by the Board and by the public (with appropriate restrictions to protect the confidentiality of individual traffic data). See 49 C.F.R. pt. 1244.

Table I**RSAM Mark-up Percentages 2015 – 2018**

Railroad	4-Year Average	2018	2017	2016	2015
BNSF	197%	231%	205%	194%	158%
CSXT	266%	244%	290%	265%	267%
GTC	313%	392%	340%	277%	244%
KCS	384%	436%	391%	366%	343%
NS	255%	258%	248%	247%	267%
SOO	218%	225%	233%	239%	176%
UP	185%	196%	190%	185%	171%

Table II**R/VC_{>180} Percentages 2015 – 2018**

Railroad	4-Year Average	2018	2017	2016	2015
BNSF	222%	222%	221%	223%	221%
CSXT	260%	260%	266%	260%	256%
GTC	273%	274%	278%	270%	268%
KCS	247%	248%	247%	248%	245%
NS	251%	248%	248%	253%	256%
SOO	246%	244%	243%	251%	247%
UP	240%	241%	242%	241%	234%