

SURFACE TRANSPORTATION BOARD

NOTICE

STB Ex Parte No. 347 (Sub-No. 2)

RATE GUIDELINES - NON-COAL PROCEEDINGS

Decided: December 10, 2007

In Rate Guidelines—Non-Coal Proceedings, 1 S.T.B. 1004 (1996), the Board established guidelines for handling rate complaints in cases where the constrained market pricing (CMP) guidelines cannot practicably be applied. CMP was adopted as the preferred procedure for evaluating the reasonableness of challenged rates in Coal Rate Guidelines—Nationwide, 1 I.C.C.2d 520 (1985)

In its 1996 decision, the Board provided tables containing “Revenue Shortfall Allocation Method” (RSAM) and “Average Revenue-to-Variable Cost >180” (R/VC>180) percentages for each Class I railroad for the 4-year period 1991-1994. The RSAM percentage measures the average mark-up above a carrier’s variable cost that the carrier would need to charge all its potentially captive traffic (traffic priced above 180% of variable costs) in order for the carrier to recover all of its non-variable costs under the Board’s Uniform Rail Costing System (URCS). RSAM accounts for a railroad’s need to earn adequate revenues as required by 49 U.S.C. 10704(a)(2).

The R/VC>180 percentage represents the average mark-up above variable cost that a carrier receives on its high-rated traffic (traffic priced above 180% of variable cost). The Board updates the RSAM and R/VC>180 tables annually.

In its decision in STB Ex Parte No. 646 (Sub-No. 1), the Board revised its methodology for calculating the R/VC>180 and RSAM percentages.<sup>1</sup> For R/VC>180, the Board will no longer adjust those calculations to match the total revenue and cost information reported by the carriers in their annual filings to the Board. For RSAM, the Board will add to the numerator of the R/VC>180 calculation the carrier’s revenue shortfall (or subtract any overage) shown in the Board’s revenue adequacy determination. In addition, the Board will no longer calculate an RSAM range representing its “managerial efficiency adjustment,” choosing instead to publish a single, unadjusted RSAM figure.

The Board made certain other modifications that affect the waybill revenues underlying the R/VC>180 calculations. First, miscellaneous charges have been included

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<sup>1</sup> See Simplified Standards for Rail Rate Cases, STB Ex Parte No. 646 (Sub-No. 1), slip op. at 19-20 (STB served Sept. 5, 2007).

in the railroad revenues in order to capture fuel surcharges for those railroads that do not include fuel surcharges in the total revenue field of the waybill record. Second, new programming logic has been implemented to identify those portions of each movement that travel within the United States, which are included in the R/VC calculation, and those portions that travel outside the United States. Third, as a result of an internal audit of our waybill processing procedures, the waybill revenues prior to 2005 reflect adjustments to the formula for unmasking BNSF revenues on certain records.

The attached tables contain RSAM and R/VC>180 percentages for the period 2002 to 2005 for all Class I carriers. Previous decisions excluded values for GTC (the reporting entity for Canadian National's U.S. operations) prior to 2002 because of significant reporting changes due to the consolidation of Illinois Central, Grand Trunk Western and the Wisconsin Central LTD. Those values can now be published because GTC is reported consistently for all years covered by this decision. Previous decisions included regional and national composite percentages. Those composite percentages have been eliminated because the Board found that the Three-Benchmark approach, which uses the RSAM and R/VC>180 percentages, is not applicable to Class II and Class III carriers.<sup>2</sup>

By the Board, Leland L. Gardner, Director, Office of Economics, Environmental Analysis, and Administration.

Vernon A. Williams  
Secretary

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<sup>2</sup> See *id.*, slip op. at 101-02.

**Table I**  
**RSAM Mark-up Percentages 2002 - 2005**

<b>Railroad</b>	<b>4-Year Average</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
BNSF	289%	267%	301%	283%	306%
CSXT	293%	300%	294%	292%	286%
GTC	354%	330%	358%	356%	371%
KCS	338%	378%	259%	385%	329%
NS	245%	241%	230%	248%	261%
SOO	289%	268%	301%	329%	257%
UP	295%	321%	323%	271%	264%

**Table II**  
**R/VC>180 Percentages 2002-2005**

<b>Railroad</b>	<b>4-Year Average</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
BNSF	235%	238%	235%	233%	234%
CSXT	237%	236%	233%	239%	238%
GTC	245%	249%	223%	245%	264%
KCS	248%	241%	223%	266%	263%
NS	249%	249%	245%	246%	254%
SOO	228%	234%	234%	222%	221%
UP	238%	229%	233%	243%	248%