



## **FREIGHT RAIL & REVENUE ADEQUACY**

Today's U.S. freight railroads have invested well above \$23 billion a year over the past five years to maintain and modernize their nearly 140,000-mile network.

These investments have made North American freight railroads the best in the world, with the most competitive rail rates in the world. In fact, the average rail shipper today can move much more freight for the same price it paid 40 years ago. At the same time, multiple forces place competitive constraints on railroads.

The intensity of the [competition](#) railroads face means they are not guaranteed any piece of the freight transportation market. Instead, they must earn it by providing their customers with better value than competitors. Competition and demand for services are ultimately the best way to govern rail rates. With demand for freight transportation expected to grow 27% by 2040, railroads must be able to earn the revenue necessary to ensure safe and reliable service.

### **YOUR ULTRA BRIEF** ⚡

- **Revenue adequacy** means earning enough to cover costs and attract investment.
- **Railroads compete** hard and reinvest billions annually.
- **Capping rates** based on adequacy risks safety and growth.

### **THE STB DETERMINES IF A RAILROAD IS REVENUE ADEQUATE.**

Current statute directs the Surface Transportation Board (STB) to enact policies that allow railroads to earn adequate revenues to operate and maintain their network. These policies should also enable railroads to attract investment in capital markets like other private businesses in the economy. The STB and its predecessor, the Interstate Commerce Commission, have made "revenue adequacy" determinations annually for nearly 40 years.

### **ROI MUST EQUAL OR EXCEED THE INDUSTRY'S COC.**

A railroad is deemed "revenue adequate" when its rate of return on net investment (ROI) equals or exceeds the industry's cost of capital (COC). The idea is that a revenue adequate railroad is earning enough to cover the costs of efficient operation, including a competitive return on invested capital. Only in recent years has ROI collectively exceeded the COC for the industry, as individual railroads vary in terms of when and how often they have been deemed revenue adequate.

### **THE STB SHOULD REGULATE RAIL RATES WHEN THERE IS NOT EFFECTIVE COMPETITION.**

Railroads' financial performance has improved in recent years, enabling them to keep their infrastructure and equipment in top condition, improve service, respond to changing markets and add new capacity as needed. Congress charged the STB with regulating rail rates when there is **not** effective competition and the potential for market abuse. Using revenue adequacy to constrain an individual railroad's rates is disconnected from the system and would:

- Violate the statute that governs the STB.
- Threaten railroads' ability to adapt to operational, regulatory, and structural change over time.
- Push away capital from the industry, hindering railroads' ability to reinvest in their networks, potentially harming safety and ultimately harming rail shippers and the overall economy.
- Undermine long-term planning as railroads invest in infrastructure that will be in place for a long time. They must be able to expect to generate an adequate return over a long period.