



## **SURFACE TRANSPORTATION BOARD**

### **OFFICE OF ECONOMICS**

#### **DEPRECIATION MESSAGE TO CLASS I RAILROADS**

*March 2, 2012*

49 U.S.C. 11143 provides that the Surface Transportation Board (STB) is charged with prescribing depreciation rates for Class I railroads. A rail carrier may not charge to operating expenses a depreciation charge on a class of property other than that prescribed by the Board.

Railroads are required to submit a depreciation study to the Board every 3 years for equipment and every 6 years for other property [49 CFR Part 1201, §4-2(b)]. The depreciation study report and supporting working papers should be filed electronically. Depreciation rate prescriptions state the period for which the depreciation rates are applicable. Continued application of rates after the prescription period is in non-compliance with effective regulations. Railroads are urged to monitor their submission schedules and submit depreciation studies in advance of the expiration of their current depreciation rates.

To minimize impacts of regulatory lag in completing our review of proposed rates, we adopt the following practice. The Office of Economics (OE), upon receipt of a railroad's depreciation study, will permit the railroad to implement the proposed rates on an interim basis. The study must be submitted directly by the railroad to the attention of the Director, OE with a cover letter indicating the railroad's intention to implement the proposed rates and the date the railroad wishes the rates to become effective. Interim depreciation rates will remain in effect until the Board completes its analysis of the railroad's Depreciation Study and formally prescribes the depreciation rates. OE will complete its analysis of the study within 90 days of its submission by the railroad and advise the railroad of adoption, adoption with modification, or rejection of the proposed rates. Proposed rates may be rejected on the basis of methodology or for lack of supporting documentation, including failure to timely provide requested information.

To expedite our review, the study must include the following data and information.

- 1) Table showing the impact of the proposed depreciation rates for each subaccount using the previous year's end-of-year ledger balances.
- 2) Comparison of the proposed depreciation rates, average service lives (ASLs), Iowa Curves, and salvage ratios to those currently used by the railroad.

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- 3) Discussion of any significant issues affecting the railroad's ASLs, salvage, and accumulated depreciation.
- 4) All life and salvage analyses performed for the subject property.
- 5) Calculation of the variance between the calculated accumulated depreciation (CAD) and the book accumulated depreciation for each subaccount.
- 6) Calculations supporting the CAD for each subaccount.
- 7) Amortization of the variance in accumulated depreciation over the average remaining life (ARL) for each subaccount.
- 8) Calculations supporting the ARL for each subaccount.
- 9) All Excel files used to prepare tables in the submitted Depreciation Study.

Historical property records with adequate retirement and salvage history by subaccount shall be maintained for a sufficient period of time to enable analyses to yield usable indications of the service life and expected salvage for each class of property. The detail required in the historical property records is listed below by category of property:

- 1) **Equipment** property records must include the following information *by vintage within each subaccount*: additions (classified as new or secondhand), betterments, retirements (classified as regular, sales, reimbursable, for rebuilding, or outliers), transfers (in and out), and acquisitions.
- 2) **Track** property records must include annual additions and retirements *by density within each account*.
- 3) Other **road** property records must include annual additions and retirements *for each account*.

*Paul A. Aquiar*  
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Data Collection & Auditing Team