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procedure for each horsepower classification shall be the locomotive fuel cost assignable to the branch line.

(iii) *Electric power purchased or produced for motive power*—All accounts designated XX-31-68 shall be assigned to the branch on the ratio of road electric locomotive unit hours on the branch to the total system road electric locomotive unit hours.

(iv) *Servicing locomotives*—All accounts designated XX-31-69 shall be assigned to the branch on the ratio of road locomotive unit miles on the branch to the total system road locomotive unit miles.

(2) *Yard operations*—(i) *Switch Crews—Materials, Account 21-32-64, and Servicing Locomotives*, all accounts designated XX-32-69. The costs for these accounts shall be assigned to the branch on the ratio of yard locomotive unit hours on the branch to the system total yard locomotive unit hours.

(ii) *Locomotive fuel*—All accounts designated XX-32-67 shall be assigned to the branch on the ratio of yard diesel locomotive unit hours on the branch to the total system yard diesel locomotive unit hours.

(iii) *Electric power purchased or produced for motive power*—All accounts designated XX-32-68 shall be assigned to the branch on the ratio of yard electric locomotive unit hours on the branch to the total system yard electric locomotive unit hours.

(3) *Administrative support operations*—(i) *Loss and damage claims processing*—All accounts designated XX-35-78 shall be assigned to the branch on the ratio of the number of claims processed for loss or damage occurring on the branch to the total number of claims processed by the railroad.

(ii) [Reserved]

(4) *Transportation fringe benefits*. Fringe benefits shall be assigned to the branch separated between train operations, yard operations, train and yard operations common, specialized service operations, and administrative support operations. The costs for each activity shall be assigned to the branch on the ratio that the total branch salary and wages bear to the total system salary and wages for each activity shown below.

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(i) *Train Operations, Account 12-31-00*, total of all 11-31-XX accounts branch to system.

(ii) *Yard Operations, Account 12-32-00*, total of all 11-32-XX accounts branch to system.

(iii) *Train and Yard Operations Common, Account 12-33-00*, total of all 11-33-XX accounts branch to system.

(iv) *Specialized Service Operations, Account 12-34-00*, total of all 11-34-XX accounts branch to system.

(v) *Administrative Support, Account 12-35-00*, total of all 11-35-XX accounts branch to system.

(d) *General administrative*. (1) *Fringe Benefits, Account 12-61-00*, shall be assigned to the branch on the ratio that the total branch salary and wages in all 11-61-XX accounts bear to the system total salary and wages in all 11-61-XX accounts.

(2) [Reserved]

§ 1152.34 Return on investment.

Return on investment for road property shall be computed according to the procedures set forth in this section.

(a)–(b) [Reserved]

(c) *Return on investment—road properties*. Return on investment—road properties shall be computed according to the following procedures:

(1) The investment base to which the nominal return element shall apply shall be the sum of:

(i) The allowable working capital computed at 15 days on-branch cash avoidable costs (on branch avoidable costs less depreciation).

(ii) The amount of current income tax benefits resulting from abandonment of the line which would have been applicable to the period of the subsidy agreement. (Conversely, if the railroad would incur an income tax liability from abandonment, the liability should be deducted from the investment base.) This information is to be furnished by the railroad and subject to audit by the person offering the subsidy.

(iii) The net liquidation value for the highest and best use for non-rail purposes of the rail properties on the line to be subsidized which are used and required for performance of the services requested by the persons offering the subsidy. This value shall be determined by computing the current appraised

market value of such properties for other than rail transportation purposes, less all costs of dismantling and disposition of improvements necessary to make the remaining properties available for their highest and best use and complying with applicable zoning, land use, and environmental regulations. If rehabilitation has been performed along the line during a subsidy year and rehabilitation expenses have been paid by the subsidizer under 49 CFR 1152.32(m)(2), the investment base shall exclude the increment to the net liquidation value of the line caused by the rehabilitation project. For these purposes:

(A) In calculating the net liquidation values for the Forecast Year, no asset on the line shall be excluded from the determination of net liquidation value because it contributes negatively to that value, i.e., the removal costs exceed the market value after removal. All such assets shall be included in the net liquidation value determination if the carrier is required by law to remove them or if the carrier intends to remove them, even if it is not required to do so. The parties shall fully support and explain the exclusion for net liquidation purposes of all assets having a negative salvage value.

(1) In calculating the net liquidation value of railroad properties for the purpose of determining the operating subsidy under an offer of financial assistance, any asset with a negative salvage value shall be included at a value of zero (0).

(2) Determination of the net liquidation value of rail properties for the purpose of purchasing the rail properties under an offer of financial assistance shall include any asset with a negative salvage value at a value of zero (0).

(B) All adjustments to the appraised fair market value of right-of-way land, including a downward adjustment to reflect an imputed real estate Board or selling expense, shall be fully supported and explained.

(C) Parties shall fully support and explain their use of unadjusted across-the-fence (ATF) values as a surrogate for the value of railroad right-of-way land, given that the physical and economic characteristics (grading and ele-

vation) usually are different from those of surrounding parcels. All adjustments to ATF values to arrive at the right-of-way values shall also be supported and explained.

(2) [Reserved]

(d) *Reasonable return.* A rail carrier shall furnish to the Board, and to any financially responsible person considering making an offer of a rail service continuation payment, a substantiated statement showing its current nominal cost of capital. The railroad's nominal cost of capital shall be the current before tax cost of capital, weighted to the capital structure, and adjusted for the effects of the combined statutory Federal and state income tax rates. This rate of return expressed as a percent, shall be calculated as follows:

(1) The railroad shall determine its permanent capital structure ratio for debt and equity capital such that the two numbers total 100 percent. This capital structure will be the actual capital structure of the railroad. If this calculation is not possible or also not representative because the railroad is part of a conglomerate, the debt-equity ratio from the Board's latest Determination of Adequate Railroad Revenues will be used. However, if the debt-equity ratio for the railroad industry is used then the industry average equity and debt rate from the Board's latest revenue adequacy finding must also be used in paragraphs (d)(2) and (d)(3) of this section.

(2) The current nominal cost of debt shall be determined by taking the average of all debt instruments (including bonds, equipment trust certificates, financial lease arrangements, et cetera) issued by the carrier in the most recent 12-month period. The debt cost calculated by this procedure is a before-tax rate and is not adjusted for inflation or income taxes.

(3) The current nominal after tax cost of equity shall be an amount equal to that which a prudent investor would expect to earn through investment in the market place. The current after tax nominal cost of equity is divided by 1 minus the combined statutory Federal and state income tax rates. This will develop the nominal cost of equity on a before tax basis.

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(4) The current nominal before-tax cost of debt is multiplied by the current percentage of debt to total capital to obtain a weighted before-tax nominal cost of current debt.

(5) The current nominal before-tax cost of equity is multiplied by the current percentage of equity to total capital to obtain a weighted nominal before-tax cost of current equity.

(6) The results of paragraphs (d)(4) and (d)(5) of this section are added together to determine the current nominal cost of capital.

(e) *Holding gain (loss)-road properties.* The railroad shall determine the holding gain (loss) that is projected to occur during the forecast and/or subsidy year. In any instance where the holding gain is not specifically deter-

mined for road properties, the Gross Domestic Product deflator calculated by the U.S. Department of Commerce shall be used.

§ 1152.35 [Reserved]

§ 1152.36 Submission of revenue and cost data.

The following information shall be submitted by applicant as Exhibit 1 to an abandonment or discontinuance application (§1152.22(d)) and shall be developed in accordance with the methodology established in §§1152.31 through 1152.35, as applicable. Such information, form and methodology shall also be used by an offeror of financial assistance to formulate a Proposed Subsidy Payment (§1152.27).

	Base year operations	Forecast year operations	Projected subsidy year operations
Revenues attributable for:			
1. Freight originated and/or terminated on branch			
2. Bridge traffic			
3. All other revenue and income			
4. Total revenues attributable (lines 1 through 3)			
Avoidable costs for:			
5. On-branch costs (lines 5a through 5k)			
a. Maintenance of way and structures			
b. Maintenance of equipment			
c. Transportation			
d. General administrative			
e. Deadheading, taxi, and hotel			
f. Overhead movement			
g. Freight car costs (other than return on freight cars)			
h. Return on value-locomotives			
i. Return on value-freight cars			
j. Revenue taxes			
k. Property taxes			
6. Off-branch costs			
a. Off-branch costs (other than return on freight cars)			
b. Return on value-freight cars			
7. Total avoidable costs (line 5 plus line 6)			
Subsidization costs for:			
8. Rehabilitation ¹			
9. Administration costs (subsidy year only) ²			
10. Casualty reserve account ²			
11. Total subsidization costs (lines 8 through 10)			
Return on value:			
12. Valuation of property (lines 12a through 12c)			
a. Working capital	XXXX.		
b. Income tax consequences	XXXX.		
c. Net liquidation value	XXXX.		
13. Nominal rate of return	XXXX.		
14. Nominal return on value (line 12 times line 13) ³	XXXX.		
15. Holding gain (loss)	XXXX.		
16. Total return on value (line 14 minus line 15) ³	XXXX.		
17. Avoidable loss from operations (line 4 minus line 7)			
18. Estimated forecast year loss from operations (line 4 minus lines 7 and 16)			
19. Estimated subsidy (line 4 minus lines 7, 11 and 16)			

¹ This projection shall be computed in accordance with § 1152.32(m).

² Omit in applications pursuant to §§ 1152.22 and 1152.23.

³ If the amount in line 12c is a negative for the "Forecast Year operations" insert "0" in this line.