

## Other

## Outline of Government's Regulations on Railway Fares and Charges

## THE PRICE-CAP METHOD UNDER THE TOTAL-COST METHOD

- Railway companies are required to obtain approval from the Minister of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) prior to establishing or adjusting the upper limit on basic railway fares or express charges for Shinkansen services.
- Prior notification is only required to be submitted to the Minister of the MLIT when newly establishing or adjusting basic railway fares or express charges for Shinkansen services, other express train services, or other train services if the amount of the fare or charge after its establishment or after its adjustment is below the upper limit.
- Prior to giving approval for establishing or adjusting the upper limit on basic railway fares, the Minister of the MLIT must confirm that the new upper limit does not exceed "total cost," which is the sum of the proper operating costs incurred by the relevant railway companies if it were to carry out efficient management and the proper profit calculated pursuant to specified methods.

- The calculation of total cost is as follows:

$$\text{Total cost} = \text{Operating costs, etc.} + \text{Operational return}$$

Operating costs, etc. = Optimal cost calculated by "Yard-stick formula" + Taxes, depreciation, etc.

Operational return = Assets utilized in railway business operations (rate base) × Operational return rate

Notes: 1. Assets utilized in railway business operations = Fixed assets for railway operations + Construction in progress + Deferred assets + Operating capital  
 2. Operational return rate = Equity ratio (30%) × Return rate on equity + Borrowed capital ratio (70%) × Return rate on borrowed capital  
 3. Return rate on equity is the average of the subscriber bond yield, all-industry average return rate on equity, and required level of dividends on equity.  
 4. Return rate on borrowed capital is the actual average rate of loans, etc.

		Expenses		Revenues	
Total cost	Operational return	Profit	Dividends, etc.		Increased revenues from revised fares
			Interest expense		Revenues from current fares
	Operating costs, etc.	Optimal cost calculated by "Yard-stick formula" (Personnel cost, overheads)		Revenues from express charges	
		Taxes, depreciation, etc.			Transportation incidentals