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March 4, 2013

Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423

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ENTERED
Office of Proceedings
March 4, 2013
Part of
Public Record

Re: STB Docket No. EP 431 (Sub-No. 4), *Review of the General Purpose Costing System*

Dear Ms. Brown:

Pursuant to the Notice of Proposed Rulemaking served in this proceeding on February 4, 2013, attached please find the Association of American Railroads' Petition for Clarification and Additional Information.

Respectfully submitted,

Timothy J. Strafford
Counsel for the Association of
American Railroads

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 431 (Sub-No. 4)

REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM

PETITION FOR CLARIFICATION AND ADDITIONAL INFORMATION
OF THE ASSOCIATION OF AMERICAN RAILROADS

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By this Petition, the Association of American Railroads (“AAR”), on behalf of its member railroads, seeks: (1) clarification from the Surface Transportation (“Board”) as to certain aspects of the Notice of Proposed Rulemaking (“NPR”) served in this proceeding on February 4, 2013; and (2) the release of any materials that underlie the proposed rule changes contained in the NPR.

The NPR proposes certain changes to the Board’s general purpose costing system, the Uniform Railroad Costing System (“URCS”). Specifically, the NPR proposes to eliminate the so-called “make-whole” adjustment that accounts for the economies of scale realized from larger shipment sizes in the URCS Phase III calculation. The NPR proposes to replace the make-whole adjustment with changes to URCS Phase II and Phase III and would require modification of related reporting requirements.

The NPR states that URCS develops railroad cost estimates through three distinct phases. In Phase I, which was completed one time when URCS was originally developed, regression analyses were performed using the annual reports submitted by Class I rail carriers (R-1 reports) at the time and equations linking expense account groupings with particular measures of railroad activities were estimated. In Phase II, which is performed annually, URCS takes the aggregated

cost data provided by Class I carriers in their most recent R-1 reports and disaggregates them by calculating the system-average unit costs associated with specific rail activities. In Phase III, URCS takes the unit costs from Phase II and applies them to the characteristics of a particular movement in order to calculate the system-average variable and total costs of that movement.

According to the NPR, the make-whole adjustment is applied by URCS in Phase III to correct the fact that, when disaggregating data and calculating system-average unit costs in Phase II, URCS currently does not take into account the economies of scale realized from larger shipment sizes. The purpose of the make-whole adjustment is to recognize the efficiency savings that a carrier obtains in its higher-volume shipments and thus render more accurate unit costs.

The NPR states that URCS applies the make-whole adjustment through a three-step process. First, URCS assumes that a movement's costs are equal to that of a system-average movement. Next, URCS applies "efficiency adjustments" to higher-volume movements (multi-car and trainload), thereby reducing the system-average unit costs of such movements. Last, URCS redistributes the total savings obtained in all of the higher-volume shipments across all of the lower volume shipments (single-car and multi-car), so that the sum of variable costs across all of the carrier's movements remains the same. Currently, single-car shipments are defined as 1 to 5 cars, multi-car shipments are defined as 6 to 49 cars, and trainload shipments are defined as 50 or more cars.

The NPR proposes to eliminate the make-whole adjustment and in its place make changes to three unit cost calculations in Phase II. The NPR proposes Phase II changes to: (1) switching costs related to switch engine minutes ("SEM"); (2) equipment costs for the use of railroad owned cars during switching; and (3) station category costs. Specifically, the NPR

proposes to account for SEM switching on a per-shipment basis rather than a per-car basis and make a corresponding change to the reporting requirements of both the Annual Report of Cars Loaded and Cars Terminated (Form STB-54) and the Quarterly Report of Freight Commodity Statistics (Form QCS). In contrast to SEM switching costs, the NPR proposes to continue calculating equipment costs for the use of railroad-owned cars during switching on a per-car basis, but notes that this proposal nonetheless would affect a change in how these costs are applied in Phase III because there would be no separate make-whole adjustment. Finally, the NPR proposes to also calculate station clerical costs in Phase II on a per-shipment rather than a per-car basis, relying on the proposed changes to the Form QCS and the Form STB-54 described above.

In addition, the NPR proposes four changes to URCS Phase III. First, the NPR proposes to alter car mile costs by applying the empty/loaded ratio to all movements and eliminate the use of the figure 2.0 for trainload movements. Second, the NPR also proposes to change the assumption of inter-train and intra-train switching mileage from 200 to 320 miles to reflect the 60% increase in length of haul from 1990 (pre-mergers) to 2011 (post-mergers). Third, the NPR would change to definition trainload from 50 to 80 cars. Finally, the NPR proposes two changes to locomotive unit-mile ("LUM") costs: (1) entire LUM costs would be allocated to the trainload shipment, regardless of the gross tons of the trainload shipment relative to the average gross tons of a particular train; and (2) the allocation of LUM costs for single and multi-car shipments would be based on the number of cars in the shipment relative to the minimum number of cars in trainload.

To fully evaluate these proposed changes, the AAR requests that the Board provide additional information as to the formula that it uses to calculate the make-whole adjustment and

make available an electronic version of the work papers applying the formula to generate the 2011 make-whole adjustments for all Class I carriers. While the NPR's description of the make-whole adjustment is consistent with how the Board has described the make-whole adjustment previously, the Board has never made public the mechanics of how it conducts the calculations underlying the adjustment. Without such information, the proposed changes cannot be properly evaluated. In addition, the AAR requests that the Board release any materials underlying the proposed changes which provide details of the formulas proposed for the new calculations of the cost per switch event and the clerical cost per origination and termination event. To the extent that such materials implicate confidential information, the Board should require appropriate confidentiality agreements be undertaken by interested parties receiving the confidential information.

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Respectfully Submitted,



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