

EX PARTE NO. 431 (SUB-NO. 2)

REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM

Decided December 5, 1997

In this decision, we reconsider and modify (subject to receiving no comments in opposition) certain of the recently adopted procedures used to determine the variable costs associated with rail movements of intermodal traffic. We also adopt, as permanent, new procedures for determining the variable costs of using privately-owned rail cars.

BY THE BOARD:

BACKGROUND

In *Review of the General Purpose Costing System*, 2 S.T.B. 659 (1997) (*October 1997 Decision*), we made various changes to the Uniform Railroad Costing System (URCS) procedures used to determine the variable costs associated with rail movements of intermodal traffic. Also, we solicited comments on a proposed procedure for determining the variable cost of using privately-owned rail cars.

The Association of American Railroads (AAR) was the only party to respond to the *October 1997 Decision*. In a statement submitted October 31, 1997, AAR suggests changes to the proposed procedures for determining the variable cost of using privately-owned rail cars and also asks that we reconsider several modifications to the intermodal costing procedures adopted in the *October 1997 Decision*. AAR notes the passage of time since the parties had an opportunity to suggest improvements in the costing system, and that during this period the operating characteristics of intermodal transportation continued to evolve. AAR suggests that we consider the new information and data, relating to the movement of intermodal traffic, now available.

DISCUSSION

Volume Adjustments for TOFC/COFC Traffic

In the *October 1997 Decision*, we concluded that, because most TOFC/COFC¹ traffic moves in dedicated trains, more accurate costs would be obtained by applying many of the standard trainload volume adjustments.² However, we did not apply the trainload volume adjustment that eliminates the costs associated with intertrain and intratrain (I&I) switching. While we concluded that TOFC/COFC traffic receives less switching than general single-car traffic, we were unable on the record to determine the amount of switching that occurs within TOFC/COFC trains. Absent any basis for estimating the amount of I&I switching associated with intermodal traffic, we had no choice but to continue to apply the I&I switching factor traditionally used, which assumes that I&I switching occurs, on average, every 200 miles.

In its October 31st pleading, AAR submitted data from the business records of three of the largest U.S. railroads demonstrating that I&I switching of intermodal trains is relatively uncommon and usually involves large blocks of cars rather than single cars.³ Based on this data, the AAR suggests that we include an I&I switch only every 4,163 miles.

AAR's data, which encompasses 55% of current rail intermodal movements, appears to be superior to our continued reliance on a 50 year-old study that predates the advent of TOFC/COFC service. Thus, under our general policy of implementing costing modifications whenever the change will improve our current procedures, we will, subject to receiving no adverse comments, use an I&I switching factor of 4,163 miles for all future TOFC/COFC waybill and URCS movement costing.

¹ Trailer-on-flat-car and container-on-flat-car (TOFC/COFC) operations involve the loading of truck trailers or shipping containers onto rail cars.

² In the *October 1997 Decision* (at 2 S.T.B. 664 n.15), we discussed the standard volume adjustments. However, we incorrectly stated that the volume adjustments called for station clerical cost to be reduced by 25% for each car. The standard adjustments actually reduces station clerical cost by 25%, less the amount of the 25% reduction divided by the number of cars in the shipment.

³ The three railroads are: Consolidated Rail Corporation, Burlington Northern and Santa Fe Railway, and Norfolk Southern Railway.

Spotted-to-Pulled Ratio for TOFC/COFC Traffic

In the *October 1997 Decision*, we decided to use a spotted-to-pulled ratio of 1.0 for TOFC/COFC traffic.⁴ While we recognized that not all TOFC/COFC traffic is reloaded at the termination point, we concluded that 1.0 more closely reflected today's TOFC/COFC operations than the old 1.5 factor. AAR asked that we reconsider this decision and instead use the empty return ratio as a proxy for the spotted-to-pulled ratio.⁵ AAR notes that the empty return ratio for intermodal equipment measures the movement of empty intermodal cars into and out of intermodal yards. Use of this ratio, unlike the 1.0 value, recognizes that some intermodal rail cars are pulled from the intermodal yard empty. Further, the empty return ratio is calculated from verified loaded and empty mileage values reported in the R-1 Annual Reports.

Because of the unique nature of intermodal operations, which move rail cars between intermodal yards and not to and from a shipper's facility, it seems reasonable to use the empty return ratio as a proxy for the spotted-to-pulled ratio. Further, it has the advantage of being updated annually without cost to us or the railroad industry. Thus, subject to comment, we propose to use the empty return ratio as a proxy for the spotted-to-pulled ratio for all future TOFC/COFC waybill and URCS intermodal movement costing.

RoadRailer Operations

In the *October 1997 Decision*, we made a number of modifications to our RoadRailer costing procedures.⁶ AAR asks that we reconsider two of these. First, AAR points out that the 5.8 ton tare weight we adopted for RoadRailer units only reflects the rail wheel bogie portion of the units. Inclusion of the Mark V RoadRailer van bodies (8.1 tons), which now comprise almost the entire RoadRailer fleet, increases the total RoadRailer tare weight to 13.9 tons. AAR

⁴ A revenue rail car is "spotted" when it is placed at the siding of the shipper or consignee. It is "pulled" when it is removed from that siding empty (i.e., in non-revenue service). A spotted-to-pulled ratio of 1.5 assumes that 50% of the time rail cars are pulled empty; a spotted-to-pulled ratio of 1.0 assumes that all rail cars are reloaded.

⁵ The empty return ratio compares the number of miles rail cars move (both loaded and empty) to the number of miles they move empty.

⁶ RoadRailer operations involve the movement of highway trailers with retractable or detachable rail wheels directly over the tracks of the rail system.

is correct that we failed to consider the weight of the van bodies. Therefore, we propose to use a 13.9 ton tare weight for all future RoadRailer waybill and URCS movement costing.

Second, AAR suggests that due to the increasing size of RoadRailer trains, we should raise the number of locomotives used in RoadRailer train operations from 1.0 to 1.4. When we last studied RoadRailer traffic, the Federal Railroad Administration (FRA) regulations limited RoadRailer trains to 75 units. Since then, FRA has increased the maximum number of permitted RoadRailer units to 125. A recent AAR survey of the railroads providing RoadRailer service reveals that RoadRailer operations vary among railroads and, depending on the size of train and route/terrain considerations, RoadRailer trains often require two locomotives.

AAR's comments and survey convinces us that the evolving nature of RoadRailer operations makes it unwise to set a fixed number of locomotive units for the calculation of RoadRailer movement cost. We instead propose to default to our standard waybill and URCS costing procedure that assigns the number of locomotives based on total train weight. This procedure has the advantage of being more railroad-specific and does not require continual updating.

Privately-Owned Rail Car Costing

For many years, we have used the Car Hire Accounting Rate Master (CHARM) file maintained by the AAR to develop private rail car mileage rates for waybill costing. In the *October 1997 Decision*, we proposed to apply a zero car rental cost to privately-owned rail cars that do not have mileage rates shown in the CHARM file, under the assumption that the railroads paid no rental for the use of these cars.

AAR objects both to our proposal to assign no rental cost to certain private cars and to our continued reliance on the CHARM file to develop any private rail car mileage rates. AAR points out that it assigns a zero rental allowance whenever any of several critical data elements are unreported, not just when the railroads pay no rental fee. Thus, AAR contends that it is inappropriate to assume that a zero rental allowance always indicates a shipper-owned rail car being supplied at no cost to the railroad. Further, AAR states that, since the deregulation of railroad car hire rates, most privately-owned rail cars are now made available to railroads at rates set by confidential contracts. These agreed-upon levels of remuneration are frequently different from what AAR describes

as "the base/tariff/default rate listed in the CHARM file." AAR suggests that, in place of the CHARM rate, we use the average rail car hire values developed from the R-1 Annual Reports. AAR contends these average values produce a more accurate measure of private rail car costs than the rates in the CHARM file, and are adequate for waybill costing.

In view of the AAR's practice of assigning a zero rental allowance whenever any of several data requirements are unavailable for a particular car, we withdraw our proposal to assume that certain privately-owned cars are offered at no cost to the railroads. Further, since the CHARM files do not reflect the actual contract rate, we concur that it is inappropriate to use the CHARM file to develop any privately-owned rail car mileage rates. We will instead use, as suggested by AAR, the mileage rates developed from the R-1 Annual Report currently used in URCS movement costing. These rates will not be perfect, as they represent system averages, but they should be more accurate than the rates in the CHARM file.

CONCLUSION

The revisions in our costing procedures adopted here will improve our URCS costing process by recognizing recent technological and operational changes in the railroad industry. The cost of making the revisions is minimal both to us and to the railroad industry, because we have relied on readily available data, rather than on expensive special studies.

Finally, we appreciate the AAR's continued interest in URCS and its associated waybill and movement costing procedures. Without the support of the railroad industry and shippers, it is difficult to keep our general purpose costing system current given the dynamic nature of today's railroad operations. Thus, we encourage AAR and all other interested parties to come forth at anytime with supported improvements.

ENVIRONMENTAL AND ENERGY CONSIDERATIONS

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

REGULATORY FLEXIBILITY ACT CERTIFICATION

We conclude that our action will not have a significant economic impact on a substantial number of small entities. No new reporting requirements are imposed and reporting requirements for switching and terminal companies are eliminated. Only class I railroads (those with revenues in excess of \$255,049,990 for the year 1996) will continue to be required to provide data for use in URCS. The impact on small entities, if any, will be to provide them with better cost estimates.

It is ordered:

1. The changes described above to our method of calculating URCS and waybill cost estimates for intermodal traffic are adopted on an interim basis. If no comments opposing these changes are received within 30 days, the changes will become effective on February 10, 1998.
2. The method described above to develop private rail car costs is adopted and is effective on December 12, 1997.
3. Notice of this decision will be published in the *Federal Register* on December 12, 1997.

By the Board, Chairman Morgan and Vice Chairman Owen.