

SERVICE DATE - DECEMBER 19, 1997

SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (98-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: December 12, 1997

In Railroad Cost Recovery Procedures, 1 I.C.C.2d 207 (1984), the Interstate Commerce Commission (ICC) outlined the procedures for calculating the all-inclusive index of railroad input prices and the method for computing the rail cost adjustment factor (RCAF). Under the procedures, the Association of American Railroads (AAR) is required to calculate the index on a quarterly basis and submit it on the fifth day of the last month of each calendar quarter. In Railroad Cost Recovery Procedures, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Electric Institute, et al. v. ICC, 969 F.2d 1221 (D.C. Cir. 1992), the ICC adopted procedures that require the adjustment of the quarterly index for a measure of productivity.

The provisions of 49 U.S.C. 10708, which were recently revised by the ICC Termination Act of 1995, Pub. L. No. 104-88, 109 Stat. 803, direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF.¹ In Productivity Adjustment-Implementation, Ex Parte No. 290 (Sub-No. 7) (STB served Oct. 3, 1996), the Board decided to publish a second productivity-adjusted RCAF called the RCAF-5. Consequently, three indices are now filed with the Board: the RCAF (Unadjusted), the RCAF (Adjusted), and the RCAF-5. The RCAF (Adjusted), which reflects national average productivity changes as originally developed and applied by the ICC, is currently based on a 5-year moving average. The RCAF-5 reflects national average productivity changes as if a 5-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

As required by statute, the RCAF was rebased using the fourth quarter 1997 index value as the denominator and first quarter 1998 index value as the numerator. AAR's proposed rebasing calculations were verified and they comply with the statute. The rebasing calculations are shown in Table C of the Appendix. Since the forecast error calculations are part of the prescribed indexing methodology, those figures are shown on a rebased October 1, 1997 level to provide consistency.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the first quarter 1998 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 1998 index and the RCAF calculated on both an actual and a forecasted basis. The difference between the actual calculation and the forecasted calculation is the forecast error adjustment.

Both the RCAF (Adjusted) and the RCAF-5 are currently calculated using a moving 5-year average of productivity change for U.S. Class I railroads. An average productivity change rate of 1.050 (5.0% per year) for the period 1991-1995 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will also use the 1991-1995 average productivity change rate of 1.050 (5.0%) until January 1, 1999.

We have examined AAR's calculations for compliance with our procedures and find that the first quarter 1998 RCAF (Unadjusted) is 0.996, a decrease of -0.4% from the fourth quarter 1997 rebased RCAF of 1.000. The RCAF (Adjusted) is 0.657, a decrease of 1.6% from the fourth quarter 1997 rebased RCAF (Adjusted) of 0.668. The RCAF-5 is 0.640, a decrease of 1.5% from the fourth quarter 1997 rebased RCAF-5 of 0.650.

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

¹ The RCAF provisions of former section 10707a were revised and redesignated as 49 U.S.C. 10708.

Pursuant to 5 U.S.C. 605(b), we conclude that our action will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708.

It is ordered:

1. The Board has approved the rebased first quarter 1998 Rail Cost Adjustment Factor (Unadjusted) of 0.996, RCAF (Adjusted) of 0.657, and RCAF-5 of 0.640.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is January 1, 1998.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams
Secretary

APPENDIX

TABLE A
Ex Parte No. 290 (Sub-No. 5) (98-1)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	1996 WEIGHTS	FOURTH QUARTER 1997 FORECAST	FIRST QUARTER 1998 FORECAST
1	LABOR	39.6%	230.0	226.9
2	FUEL	8.9%	80.7	81.3
3	MATERIALS AND SUPPLIES	5.9%	148.5	148.9
4	EQUIPMENT RENTS	11.1%	172.4	172.7
5	DEPRECIATION	10.0%	146.2	148.6
6	INTEREST	4.1%	110.2	110.2
7	OTHER ITEMS ¹	20.4%	155.5	157.1
8	WEIGHTED AVERAGE	100.0%	177.0	176.5
9	LINKED INDEX ²		173.2	172.7
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³ (10/1/97 = 1.00)		100.0	99.7
11	FORECAST ERROR ADJUSTMENT ⁴		.000	-.001
12	RCAF(UNADJUSTED) (LINE 10 + LINE 11)		1.000	0.996
13	RCAF (ADJUSTED) ⁵		0.668	0.657
14	RCAF-5 ⁶		0.650	0.640

¹ "Other Items" is a combination of Purchased Services, Casualties and Insurance, General and Administrative, Other Taxes, Loss and Damage, and Special Charges, price changes for all of which are measured by the Producer Price Index for Industrial Commodities Less Fuel and Related Products and Power.

² Linking is necessitated by a change to the 1996 weights beginning with the fourth quarter 1997. The following formula was used for the current quarter's index:

$$\frac{\text{1st. Qr. 1998 Index (1996 Weights)}}{\text{4th. Qr. 1997 Index (1996 Weights)}} \times \text{4th. Qr. 1997 Index (Linked Index)} = \text{Linked Index (1980-96 Weights)}$$

Or

$$\frac{176.0}{177.0} \times 173.2 = 172.7$$

³ The first quarter 1998 RCAF was rebased using the October 1, 1997, level of 173.2 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/97 = 1.00).

⁴ The first quarter 1998 forecast error adjustment was calculated as follows: a. Third quarter 1997 RCAF calculated using forecasted data equals 111.3; b. Second quarter 1997 RCAF calculated using actual data equals 111.2; c. The difference equals the forecast error (b-a) of -.001. Since the actual third quarter value is less than the forecast, the difference will be subtracted from the preliminary RCAF.

⁵ First quarter 1998 RCAF Adjusted (0.657) is calculated by dividing the first quarter 1998 RCAF Unadjusted (0.996) by the first quarter productivity adjustment factor of 1.5149. The first quarter 1998 productivity adjustment factor is calculated by multiplying the fourth quarter 1997 productivity adjustment factor of 1.4965 by the fourth root (1.0123) of the 1991-1995 annual average productivity growth rate of 1.050%.

⁶ First quarter 1998 RCAF-5 (0.640) is calculated by dividing the first quarter 1998 RCAF Unadjusted (0.996) by the first quarter productivity adjustment factor-5 (PAF-5) of 1.5567. The first quarter 1998 productivity adjustment factor is calculated by multiplying the fourth quarter 1997 PAF-5 of 1.5378 by the fourth root (1.0123) of the 1991-1995 annual average productivity growth rate of 1.050%.

TABLE B

Ex Parte No. 290 (Sub-No. 5) (98-1)
Comparison of Third Quarter 1997 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	1995 WEIGHT	THIRD QUARTER 1997 FORECAST	THIRD QUARTER 1997 ACTUAL
1	LABOR	38.6%	231.5	231.5
2	FUEL	7.3%	83.1	75.9
3	MATERIALS AND SUPPLIES	5.7%	147.8	147.8
4	EQUIPMENT RENTS	10.5%	173.8	172.9
5	DEPRECIATION	11.4%	145.7	147.1
6	INTEREST	3.5%	121.0	121.0
7	OTHER ITEMS	23.0%	155.6	155.8
8	WEIGHTED AVERAGE	100%	178.7	178.3
9	LINKED INDEX		174.6	174.4
10	RAIL COST ADJUSTMENT FACTOR		111.3	111.2

TABLE C

**Rebasing the Denominator of the RCAF
to the Fourth Quarter 1997 Level ¹**

1.	Fourth Quarter 1997 Linked Index	173.2
2.	Second Quarter 1997 Linked Index Calculated Using Actual Data	173.7
3.	Second Quarter 1997 Linked Index Calculated Using forecasted Data	173.7
4.	Difference	0.0
5.	Fourth Quarter 1997 Linked Index Adjusted for Second Quarter 1997 Forecast Error (Line 1 plus Line 4)	173.2

¹ The actual and forecasted second quarter 1997 indices were rebased to adjust for forecast error in the rebasing of the denominator of the RCAF to the fourth quarter (10/1/97) level. Line five of this table (173.2) is the new denominator to be used in calculating the quarterly RCAF.

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Decided: December 12, 1997

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The provisions of 49 U.S.C. 10708, which were recently revised by the ICC Termination Act of 1995, Pub. L. No. 104-88, 109 Stat. 803, direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF.¹ In Productivity Adjustment-Implementation, Ex Parte No. 290 (Sub-No. 7) (STB served Oct. 3, 1996), the Board decided to publish a second productivity-adjusted RCAF called the RCAF-5. Consequently, three indices are now filed with the Board: the RCAF (Unadjusted), the RCAF (Adjusted), and the RCAF-5. The RCAF (Adjusted), which reflects national average productivity changes as originally developed and applied by the ICC, is currently based on a 5-year moving average. The RCAF-5 reflects national average productivity changes as if a 5-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

As required by statute, the RCAF was rebased using the fourth quarter 1997 index value as the denominator and first quarter 1998 index value as the numerator. AAR's proposed rebasing calculations were verified and they comply with the statute. The rebasing calculations are shown in Table C of the Appendix. Since the forecast error calculations are part of the prescribed indexing methodology, those figures are shown on a rebased October 1, 1997 level to provide consistency.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the first quarter 1998 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 1998 index and the RCAF calculated on both an actual and a forecasted basis. The difference between the actual calculation and the forecasted calculation is the forecast error adjustment.

Both the RCAF (Adjusted) and the RCAF-5 are currently calculated using a moving 5-year average of productivity change for U.S. Class I railroads. An average productivity change rate of 1.050 (5.0% per year) for the period 1991-1995 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will also use the 1991-1995 average productivity change rate of 1.050 (5.0%) until January 1, 1999.

We have examined AAR's calculations for compliance with our procedures and find that the first quarter 1998 RCAF (Unadjusted) is 0.996, a decrease of -0.4% from the fourth quarter 1997 rebased RCAF of 1.000. The RCAF (Adjusted) is 0.657, a decrease of 1.6% from the fourth quarter 1997 rebased RCAF (Adjusted) of 0.668. The RCAF-5 is 0.640, a decrease of 1.5% from the fourth quarter 1997 rebased RCAF-5 of 0.650.

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

¹ The RCAF provisions of former section 10707a were revised and redesignated as 49 U.S.C. 10708.

Pursuant to 5 U.S.C. 605(b), we conclude that our action will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708.

It is ordered:

1. The Board has approved the rebased first quarter 1998 Rail Cost Adjustment Factor (Unadjusted) of 0.996, RCAF (Adjusted) of 0.657, and RCAF-5 of 0.640.
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