

SERVICE DATE – MARCH 20, 2007

SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2007-2)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: March 16, 2007

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 direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF. In Productivity Adjustment-Implementation, 1 S.T.B. 739 (Productivity Adjustment), 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.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the second quarter 2007 are shown in Table A of the Appendix to this decision. Table B shows the fourth quarter 2006 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 1.017 (1.7% per year) for the period 2001-2005 is currently used for the RCAF (Adjusted). In accordance with Productivity Adjustment, 1 S.T.B. at 748-49, the RCAF-5 will continue to use the 2000-2004 average productivity change rate of 1.019 (1.9%) until January 1, 2008.

We have examined AAR's calculations for compliance with our procedures and find that the second quarter 2007 RCAF (Unadjusted) is 1.147, a decrease of 5.0% from the first quarter 2007 RCAF of 1.208. The RCAF (Adjusted) is 0.537, a decrease of 5.5% from the first quarter 2007 RCAF (Adjusted) of 0.568. The RCAF-5 is 0.511, a decrease of 5.4% from the first quarter 2007 RCAF-5 of 0.540.

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

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 second quarter 2007 Rail Cost Adjustment Factor (Unadjusted) of 1.147, RCAF (Adjusted) of 0.537, and RCAF-5 of 0.511.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is April 1, 2007.

By the Board, Chairman Nottingham, Vice Chairman Buttrey, and Commissioner Mulvey.

Vernon A. Williams
Secretary

APPENDIX

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2007-2)
All Inclusive Index of Railroad Input Costs
(Refer to Endnotes Page 5)

LINE NO.	INDEX COMPONENT	2005 WEIGHTS	FIRST QUARTER 2007 FORECAST	SECOND QUARTER 2007 FORECAST
1	LABOR	35.3%	297.4	298.2
2	FUEL	16.0%	245.9	235.9
3	MATERIALS AND SUPPLIES	4.6%	207.1	206.1
4	EQUIPMENT RENTS	8.2%	188.2	190.2
5	DEPRECIATION	11.1%	191.6	200.9
6	INTEREST	3.1%	96.9	96.9
7	OTHER ITEMS ¹	21.7%	188.6	189.8
8	WEIGHTED AVERAGE	100.0%	234.5	234.6
9	LINKED INDEX ²		229.9	230.0
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		119.7	119.7
11	FORECAST ERROR ADJUSTMENT ⁴		0.011	-0.050
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.208	1.147
13	RCAF (ADJUSTED) ⁵		0.568	0.537
14	RCAF-5 ⁶		0.540	0.511

APPENDIX**TABLE B**

Ex Parte No. 290 (Sub-No. 5) (2007-2)
Comparison of Fourth Quarter 2006 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2004 WEIGHT	FOURTH QUARTER 2006 FORECAST	FOURTH QUARTER 2006 ACTUAL
1	LABOR	35.3%	293.0	293.0
2	FUEL	16.0%	287.0	225.1
3	MATERIALS AND SUPPLIES	4.6%	204.3	204.3
4	EQUIPMENT RENTS	8.2%	189.5	188.1
5	DEPRECIATION	11.1%	190.6	189.6
6	INTEREST	3.1%	96.9	96.9
7	OTHER ITEMS	21.7%	190.9	188.2
8	WEIGHTED AVERAGE	100.0%	239.9	229.2
9	LINKED INDEX		235.2	225.6
10	RAIL COST ADJUSTMENT FACTOR		122.4	117.4

Endnotes:

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 2005 weights beginning in the fourth quarter 2006. The following formula was used for the current quarter’s index:

$$\frac{\text{2nd Qr. 2007 Index (2005 Weights)}}{\text{1st Qr. 2006 Index (2005 Weights)}} \text{ Times 1st Quarter Linked Index (1980 = 100 Linked)} = \text{Equals Linked Index (Current Quarter)}$$

Or

$$\frac{234.6}{234.5} \times 229.9 = 230.0$$

³ The first quarter 2003 RCAF was rebased using the October 1, 2002, level of 192.1 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2002 = 100).

⁴ The second quarter 2007 forecast error adjustment was calculated as follows: a. fourth quarter 2006 RCAF using forecasted data equals 122.4; b. fourth quarter 2006 RCAF using actual data equals 117.4; c. The difference equals the forecast error (b-a) of -0.50. Since the actual third quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.

⁵ The second quarter 2007 RCAF Adjusted (0.537) is calculated by dividing the second quarter RCAF Unadjusted (1.147) by the second quarter productivity adjustment factor of 2.1348. The second quarter 2007 productivity adjustment factor is calculated by multiplying the first quarter 2007 productivity adjustment of 2.1259 by the fourth root (1.0042) of the 2001-2005 annual average productivity growth rate of 1.7%.

⁶ The second quarter 2007 RCAF-5 (0.511) is calculated by dividing the second quarter 2007 RCAF Unadjusted (1.147) by the second quarter productivity adjustment factor-5 (PAF-5) of 2.2456. The second quarter 2007 productivity adjustment factor is calculated by multiplying the first quarter 2007 PAF-5 of 2.2351 by the fourth root (1.0047) of the 2000-2004 annual average productivity growth rate of 1.9%.