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SERVICE DATE – FEBRUARY 1, 2010

SURFACE TRANSPORTATION BOARD

DECISION

STB Ex Parte No. 290 (Sub-No. 4)

RAILROAD COST RECOVERY PROCEDURES—PRODUCTIVITY ADJUSTMENT

Decided: January 26, 2010

We propose to adopt 1.010 (1.0% per year) as the measure of average (geometric mean) change in railroad productivity for the 2004-2008 (5-year) averaging period. This value represents a 0.5% decline from the current measure of 1.5% that was developed for the 2003-2007 period.

Since 1989, the cost recovery procedures have required that the quarterly rail cost adjustment factor (RCAF) be adjusted for long-run changes in railroad productivity. The ICC Termination Act of 1995 continues this requirement. See 49 U.S.C. 10708. This long-run measure of productivity is computed using a 5-year moving geometric average.<sup>1</sup>

Productivity change for the year 2008 is 0.997 based on changes in input and output levels from 2007, representing a decrease of 2.1% from the rate of productivity growth in 2007 relative to 2006 (1.018). Incorporating the 2008 value with the values for the 2004-2007 period produces a geometric average productivity growth of 1.010 for the 5-year period 2004-2008, or 1.0% per year. As the new geometric mean was computed by replacing the 2003 figure of 1.019 with the lower figure of 0.997 for 2008, there was a 0.5% decrease in the geometric mean from last year's value. A detailed discussion of our calculations is contained in the Appendix to this decision.

Comments may be filed addressing any perceived data and computational errors in our calculation. Any party proposing a different estimate of productivity growth must, at the time it files comments, furnish the Board with one set of detailed workpapers and documentation underlying its calculations. The same information must be made available to other parties upon request.

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

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<sup>1</sup> Productivity Adjustment-Implementation, 9 I.C.C.2d 1072 (1993).

It is ordered:

1. Comments are due by February 22, 2010.
2. An original and 10 copies must be filed with:

United States Surface Transportation Board  
395 E Street, S.W.  
Washington, DC 20423-0001

3. Comments must be served on all parties appearing on the current service list.
4. Unless further order is issued postponing the effective date, this order becomes effective on March 1, 2010.

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

## APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.<sup>2</sup> The annual rate of productivity change is calculated by dividing an output index by an input index.

The input index uses constant dollar-adjusted expenses. The inputs in this index—freight expenses, fixed charges and contingent interest—are stated on a constant dollar basis using the most recent year as the base, and updating the base by the Series RCR Index published by the Association of American Railroads. Freight expenses, fixed charges, and contingent interest were obtained from railroad Annual Report (Form R-1) data. The constant dollar adjustment factor for each of the 6 years was calculated by dividing the 2008 RCR index value (472.7) by the RCR index values for 2003 and each subsequent year through 2007, inclusive. Because 2008 is the last year in the trend, no constant dollar adjustment was needed for that year. The calculation of the input indices and values used are shown in Table A.

The 2008 output index was developed from the costed waybill sample, a commonly used data source. The costed waybill sample excludes movements originating in Canada and Mexico and movements lacking sufficient information for the application of unit costs.

Using the costed waybill sample as a base, each movement is assigned to one of the 189 segments or categories used to develop the output index. Segmentation is based on three mileage blocks, seven car types, three weight brackets, and three shipment sizes. The output index is a composite of the year-to-year change in ton-miles for each of the 189 segments weighted by each segment's base-year share of total revenues.

The change in productivity is calculated by dividing the output index by the input index. The multi-year average for the period 2004-2008 is calculated by taking a geometric mean, which was found to be 1.010 (1.0% per year). The input index, the output index, the annual productivity change, and the calculation of the 2004-2008 average are shown in Table B.

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<sup>2</sup> The development and application of the productivity adjustment is explained in the decision in this proceeding found at 5 I.C.C.2d 434 (1989).

**Table A**  
**Calculation of Input Indices**  
**2003-2008**

Year	Total Expense Unadjusted (000s) (1)	RCR Indices 2003-2008 (2)	Total Expense Constant Dollars (3)	Input Index Column (3) 2004/2003 etc. (4)
2003	32,368,909	316.7	48,313,177	xxxxx
2004	36,097,189	334.1	51,071,958	1.057
2005	38,927,852	376.8	48,835,445	0.956
2006	41,989,707	397.0	49,996,309	1.024
2007	43,778,699	415.5	49,805,514	0.996
2008	48,294,159	472.7	48,294,159	0.970

**Table B**  
**Comparison of Output, Input, and Productivity**  
**2004-2008**

Year	Output Index (1)	Input Index (2)	Productivity Change <sup>3</sup> Col (1)/Col (2) (3)
2004	1.033	1.057	0.977
2005	1.021	0.956	1.068
2006	1.018	1.024	0.994
2007	1.014	0.996	1.018
2008	0.967	0.970	0.997

The 5-year (2004-2008) productivity trend calculated using a geometric average is 1.010, or 1.0% per year.

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<sup>3</sup> The values shown in Column 3 are taken from the spreadsheet used to calculate productivity and, due to rounding, may not equal numbers calculated using the rounded numbers shown in Columns 1 and 2.