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SERVICE DATE – JANUARY 26, 2006

SURFACE TRANSPORTATION BOARD

DECISION

STB EX PARTE NO. 290 (SUB-NO. 4)

RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: January 23, 2006

We propose to adopt 1.019 (1.9% per year) as the measure of average change in railroad productivity for the 2000-2004 (5-year) averaging period. This value is a decline of 1% from the current measure of 2.9% that was developed for the 1999-2003 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 (49 U.S.C. 10708, as revised). The long-run measure of productivity is computed using a 5-year moving geometric average.¹

Productivity change for the year 2004 is 0.977 (a decrease of 0.022% from the prior year) based on changes in input and output levels from 2003. Incorporating the 2004 value with the values for the 2000-2003 period produces a geometric average productivity growth of 1.019 for the 5-year period 2000-2004, or 1.9% per year. A detailed discussion of our calculations is contained in the Appendix to this decision.

Approximately half the decline in the 2004 measure of productivity was caused by: (1) the inclusion of environmental and asbestos related special charges recorded by several Class I railroads, and (2) the replacement of the higher 1999 productivity value of 1M24 by the lower 2004 productivity value of 0.997 in the 5-year rolling average.² The remainder was caused by an increase in Class I railroad expenses and a decrease in output as measured by the Waybill Sample from the 2003 level.

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.

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

² Although including special charges as a lump sum in a single year reduces that year's productivity measure, those expenses will not affect future years' productivity measurements. They will, however, continue to be accounted for in the moving average for the next 5 years.

ENVIRONMENTAL AND ENERGY CONSIDERATIONS

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

REGULATORY FLEXIBILITY ANALYSIS

Pursuant to 49 U.S.C. 605(b), we conclude that our action in this proceeding will not have a significant economic impact on a substantial number of small entities. No new regulatory requirements are imposed directly or indirectly on such entities. The purpose of our action in this proceeding is to update the data used to measure railroad productivity changes. Reporting requirements remain unchanged. The economic impact on small entities, if any, is not likely to be significant within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708, as revised.

It is ordered:

1. Comments are due by February 15, 2006.
2. An original and 10 copies must be filed with:

Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423-0001
3. Comments must be served on all parties appearing on the current service list.
4. Unless a further order is issued postponing the effective date, the productivity adjustment will become effective March 1, 2006.

By the Board, Chairman Buttrey and Vice Chairman Mulvey.

Vernon A. Williams
Secretary

APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.³ 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 5 years was calculated by dividing the 2004 RCR index value (334.1) by the RCR index values for 1999 and each subsequent year through 2003, inclusive. Because 2004 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 2004 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 2000-2004 is calculated by taking a geometric average. The growth in productivity over the period 2000-2004 is 1.019 (1.9% per year). The input index, the output index, the annual productivity change, and the calculation of the 2000-2004 average are shown in Table B.

³ 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
2000-2004**

Year	Total Expense Unadjusted (000's) (¹)	RCR Indices 1998-2003 (2)	Total Expense Constant Dollars (000's) (2003 Levels) (3)	Input Index 1999/1998 etc. (4)
1999	29,557,600	270.3	\$36,534,200	xxxxx
2000	30,751,071	295.0	\$34,826,891	0.953
2001	30,215,650	303.4	\$33,373,067	0.955
2002	30,635,036	305.7	\$33,481,078	1.006
2003	32,368,909	316.7	\$34,147,308	1.020
2004	36,097,189	334.1	\$36,097,189	1.057

**Table B
Comparison of Output, Input, and Productivity
2000-2004**

Year	Output Index (¹)	Input Index (2)	Productivity Change ⁴ Col (1)=Col (2) (³)
2000	1.029	0.953	1.079
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	1.020	1.019
2004	1.033	1.057	0.977

The proposed 5-year (2000-2004) productivity trend calculated using a geometric average is 1.019, or 1.9% per year.

⁴ 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.