

SERVICE DATE - MARCH 20, 2002

SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2002-2)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: March 19, 2002

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, 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.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the second quarter 2002 are shown in Table A of the Appendix to this decision. Table B shows the fourth quarter 2001 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 1.042 (4.2% per year) for the period 1996-2000 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will continue to use the 1995-1999 average productivity change rate of 1.028 (2.8%) until January 1, 2003.

We have examined AAR's calculations for compliance with our procedures and find that the second quarter 2002 RCAF (Unadjusted) is 1.062, a decrease of 1.3% from the first quarter

2002 RCAF of 1.076. The RCAF (Adjusted) is 0.563, a decrease of 2.3% from the first quarter 2002 RCAF (Adjusted) of 0.576. The RCAF-5 is 0.541, a decrease of 1.8% from the first quarter 2002 RCAF-5 of 0.551

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 2002 Rail Cost Adjustment Factor (Unadjusted) of 1.062, RCAF (Adjusted) of 0.563, and RCAF-5 of 0.541.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is April 1, 2002.

By the Board, Chairman Morgan and Vice Chairman Burkes.

Vernon A. Williams
Secretary

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2002-2)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	2000 WEIGHTS	FIRST QUARTER 2002 FORECAST	SECOND QUARTER 2002 FORECAST
1	LABOR	36.5%	260.3	257.3
2	FUEL	10.7%	87.4	82.5
3	MATERIALS AND SUPPLIES	4.8%	155.5	150.0
4	EQUIPMENT RENTS	11.1%	178.9	176.6
5	DEPRECIATION	10.2%	150.1	149.7
6	INTEREST	4.6%	108.8	108.8
7	OTHER ITEMS ¹	22.1%	159.2	159.2
8	WEIGHTED AVERAGE	100.0%	187.2	185.0
9	LINKED INDEX ²		186.4	184.2
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		107.6	106.4
11	FORECAST ERROR ADJUSTMENT ⁴		0.000	-0.002
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.076	1.062
13	RCAF (ADJUSTED) ⁵		0.576	0.563
14	RCAF-5 ⁶		0.551	0.541

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 1999 weights beginning with the fourth quarter 2000. The following formula was used for the current quarter's index:

$$\frac{\text{2nd Qr. 2002 Index}}{\text{1st Qr. 2002 Index}} \times \frac{\text{2000 Weights}}{\text{2000 Weights}} \text{ Times } \frac{\text{1st Quarter Linked Index}}{\text{(1980 = 100 Linked)}} \text{ Equals } \frac{\text{Linked Index}}{\text{(Current Quarter)}}$$

Or

$$\frac{185.0}{187.2} \times 186.4 = 184.2$$

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 second quarter 2002 forecast error adjustment was calculated as follows: a. Fourth quarter 2001 RCAF calculated using forecasted data equals 107.4; b. Fourth quarter 2001 RCAF calculated using actual data equals 107.2; c. The difference equals the forecast error (b-a) of 0.2. Since the actual fourth quarter value is less than the forecast, the difference is subtracted from the preliminary RCAF.

⁵ The second quarter 2002 RCAF Adjusted (0.563) is calculated by dividing the second quarter 2002 RCAF Unadjusted (1.062) by the second quarter productivity adjustment factor of 1.8878. The second quarter 2002 productivity adjustment factor is calculated by multiplying the first quarter 2002 productivity adjustment factor of 1.8686 by the fourth root (1.0103) of the 1996-2000 annual average productivity growth rate of 1.042%.

⁶ The second quarter 2002 RCAF-5 (0.541) is calculated by dividing the second quarter 2002 RCAF Unadjusted (1.062) by the second quarter productivity adjustment factor-5 (PAF-5) of 1.9648. The second quarter 2002 productivity adjustment factor is calculated by multiplying the first quarter 2002 PAF-5 of 1.9513 by the fourth root (1.0069) of the 1995-1999 annual average productivity growth rate of 1.028%.

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2002-2)
Comparison of Fourth Quarter 2001 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2000 WEIGHT	FOURTH QUARTER 2001 FORECAST	FOURTH QUARTER 2001 ACTUAL
1	LABOR	36.5%	253.0	253.0
2	FUEL	10.7%	108.5	97.7
3	MATERIALS AND SUPPLIES	4.8%	153.8	153.8
4	EQUIPMENT RENTS	11.1%	179.2	179.2
5	DEPRECIATION	10.2%	150.0	149.3
6	INTEREST	4.6%	108.8	108.8
7	OTHER ITEMS	22.1%	160.2	159.5
8	WEIGHTED AVERAGE	100.0%	186.9	185.6
9	LINKED INDEX		186.1	185.7
10	RAIL COST ADJUSTMENT FACTOR		107.4	107.2