

SURFACE TRANSPORTATION BOARD

DECISION

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

RAILROAD COST RECOVERY PROCEDURES—PRODUCTIVITY ADJUSTMENT

Decided: March 26, 2010

By decision served on February 1, 2010, the Board proposed to adopt 1.010 (1.0% per year) as the 2008 productivity adjustment, as measured by the average change in railroad productivity for the years 2004 through 2008. The February 1, 2010 decision provided an opportunity to file comments regarding any perceived data and computational errors in the Board's calculation. The Board's decision also stated that the proposed productivity adjustment would become effective on March 1, 2010, unless the Board issued a further order postponing the effective date.

On February 22, 2010, the Board received timely comments from the Western Coal Traffic League (WCTL) regarding the output index calculation for 2008. To allow for adequate consideration of WCTL's comments, the Board issued a decision on February 26, 2010, postponing the effective date of the 2008 productivity adjustment pending further order of the Board.

In its comments, WCTL questioned the 2008 output index as compared to the 2007 output index. In response to WCTL's comments, we reviewed the calculations for the output indices for both of those years. This review revealed the inadvertent use of masked revenues from the waybill records in both the 2007 and 2008 calculations, and the exclusion of certain waybill records in the 2007 calculations. Once these errors were discovered and corrected, we verified that the output index calculations for the entire 2004-2008 averaging period used unmasked revenues and did not improperly exclude waybill records.

Accordingly, for the corrected 2008 productivity adjustment, the Board's calculation of the output index for 2007 of 1.014 should be modified to 1.000, and the Board's calculation of the output index for 2008 of 0.967 should be modified to 0.990. As a result, the corrected 5-year geometric mean of the annual change in productivity for the 2004-2008 period is 1.012 (or 1.2% per year).

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

It is ordered:

1. The 2008 productivity adjustment is 1.012 (or 1.2% per year).
2. This decision is effective on the date of service.

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.¹ 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 1.012 (1.2% 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.

¹ 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 ² 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	1.000	0.996	1.004
2008	0.990	0.970	1.021

The 5-year (2004-2008) productivity trend calculated using a geometric average is 1.012, or 1.2% per year.

² 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.