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SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (98-3)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: June 18, 1998

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, which were recently revised by the ICC Termination Act of 1995, Pub. L. No. 104-88, 109 Stat. 803, direct the Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF.¹ 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 third quarter 1998 are shown in Table A of the Appendix to this decision. Table B shows the first quarter 1998 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 1.097 (9.7% per year) for the period 1992-1996 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), supra, the RCAF-5 will use the 1991-1995 average productivity change rate of 1.050 (5.0%) until January 1, 1999.

¹ The RCAF provisions of former section 10707a were revised and redesignated as 49 U.S.C. 10708.

We have examined AAR's calculations for compliance with our procedures and find that the third quarter 1998 RCAF (Unadjusted) is 0.998, an increase of 2.0% from the second quarter 1998 RCAF of 0.996. The RCAF (Adjusted) is 0.629, a decrease of 2.0% from the second quarter 1998 RCAF (Adjusted) of 0.642. The RCAF-5 is 0.626, a decrease of 0.9% from the second quarter 1998 RCAF-5 of 0.632.

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 third quarter 1998 Rail Cost Adjustment Factor (Unadjusted) of 0.998, RCAF (Adjusted) of 0.629, and RCAF-5 of 0.626.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is July 1, 1998.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams
Secretary

TABLE A
Ex Parte No. 290 (Sub-No. 5) (98-3)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	1996 WEIGHTS	SECOND QUARTER 1998 FORECAST	THIRD QUARTER 1998 FORECAST
1	LABOR	39.6%	226.7	230.9
2	FUEL	8.9%	70.3	71.3
3	MATERIALS AND SUPPLIES	5.9%	148.0	148.9
4	EQUIPMENT RENTS	11.1%	174.0	174.1
5	DEPRECIATION	10.0%	148.9	149.0
6	INTEREST	4.1%	110.2	110.2
7	OTHER ITEMS ²	20.4%	156.0	156.4
8	WEIGHTED AVERAGE	100.0%	175.3	177.2
9	LINKED INDEX ³		171.5	173.4
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ⁴		99.0	100.1
11	FORECAST ERROR ADJUSTMENT ⁵		+ .006	- .003
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		0.996	0.998
13	RCAF (ADJUSTED) ⁶		0.642	0.629
14	RCAF-5 ⁷		0.632	0.626

TABLE B

² "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.

³ Linking is necessitated by a change to the 1996 weights beginning with the fourth quarter 1997. The following formula was used for the current quarter's index:

$$\frac{\text{3rd. Qr. 1998 Index}}{\text{(1996 Weights)}} \times \text{Times} = \frac{\text{2nd. Qr. 1998 Index}}{\text{(1996 Weights)}} \times \text{Equals} = \text{Linked Index (1980-96 Weights)}$$

Or

$$\frac{177.2}{175.3} \times 171.5 = 173.4$$

⁴ 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).

⁵ The third quarter 1998 forecast error adjustment was calculated as follows: a. First quarter 1998 RCAF calculated using forecasted data equals 99.7; b. First quarter 1998 RCAF calculated using actual data equals 99.4; c. The difference equals the forecast error (b-a) of -.003. Since the actual first quarter value is less than the forecast, the difference will be subtracted from the preliminary RCAF.

⁶ Third quarter 1998 RCAF Adjusted (0.629) is calculated by dividing the third quarter 1998 RCAF Unadjusted (0.998) by the third quarter productivity adjustment factor of 1.5866. The third quarter 1998 productivity adjustment factor is calculated by multiplying the second quarter 1998 productivity adjustment factor of 1.5503 by the fourth root (1.0234) of the 1992 - 1996 annual average productivity growth rate of 1.097%.

⁷ Third quarter 1998 RCAF-5 (0.626) is calculated by dividing the third quarter 1998 RCAF Unadjusted (0.998) by the third quarter productivity adjustment factor-5 (PAF-5) of 1.5952. The third quarter 1998 productivity adjustment factor is calculated by multiplying the second quarter 1998 PAF-5 of 1.5758 by the fourth root (1.0123) of the 1991-1995 annual average productivity growth rate of 1.050%.

**Ex Parte No. 290 (Sub-No. 5) (98-3)
 Comparison of First Quarter 1998 Index
 Calculated on Both a Forecasted and an Actual Basis**

Line No.	INDEX COMPONENT	1996 WEIGHT	FIRST QUARTER 1998 FORECAST	FIRST QUARTER 1998 ACTUAL
1	LABOR	39.6%	226.9	226.9
2	FUEL	8.9%	81.3	71.1
3	MATERIALS AND SUPPLIES	5.9%	148.9	148.9
4	EQUIPMENT RENTS	11.1%	172.7	173.5
5	DEPRECIATION	10.0%	148.6	148.6
6	INTEREST	4.1%	110.2	110.2
7	OTHER ITEMS	20.4%	157.1	156.2
8	WEIGHTED AVERAGE	100%	176.5	175.5
9	LINKED INDEX		172.7	172.1
10	RAIL COST ADJUSTMENT FACTOR		99.7	99.4