

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2010-3)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: June 17, 2010

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 established procedures, the Association of American Railroads (AAR) is required to calculate the index on a quarterly basis and submit it to the Board on the fifth day of the last month of each calendar quarter. In Railroad Cost Recovery Procedures—Productivity Adjustment, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Electric Institute 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 Board to publish both an unadjusted RCAF and a productivity-adjusted RCAF. The RCAF (Adjusted) reflects national average productivity changes as originally developed and applied by the ICC. In Productivity Adjustment—Implementation, 1 S.T.B. 739 (1996), the Board decided to publish a second productivity-adjusted RCAF called the RCAF-5. 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. Consequently, three indices are now published by the Board: the RCAF (Unadjusted), the RCAF (Adjusted), and the RCAF-5.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the third quarter 2010 are shown in Table A of the Appendix to this decision. Table B shows the first quarter 2010 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.

We have examined the AAR's calculations for compliance with our procedures and find that the third quarter 2010 RCAF (Unadjusted) is 1.068, an increase of 0.8% from the second quarter 2010 RCAF of 1.060. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and the 2008 productivity adjustment, a 5-year moving geometric average of productivity change for U.S. Class I railroads from 2004-2008, which is 1.012 (1.2% per year).

We find the RCAF (Adjusted) is 0.479, an increase of 0.4% from the previously reported second quarter 2010 RCAF (Adjusted) of 0.477.¹

In accordance with Productivity Adjustment—Implementation, 1 S.T.B. at 748-49, the RCAF-5 for the second, third, and fourth quarters of 2010 will use a productivity trend for the years 2003-2007, which is 1.012 (1.2% per year). We find the RCAF-5 for the third quarter of 2010 is 0.454, an increase of 0.4% from the previously reported second quarter 2010 RCAF-5 of 0.452.²

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

AUTHORITY: 49 U.S.C. § 10708.

It is ordered:

1. The third quarter 2010 Rail Cost Adjustment Factor (Unadjusted) is 1.068, RCAF (Adjusted) is 0.479, and RCAF-5 is 0.454.
2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is July 1, 2010.

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

¹ The third quarter 2010 RCAF adjusted (0.479) is calculated by dividing the third quarter RCAF Unadjusted (1.068) by the third quarter productivity adjustment factor of 2.2275. The third quarter 2010 productivity adjustment factor is calculated by multiplying the second quarter 2010 productivity adjustment of 2.2208 by the fourth root (1.0030) of the 2004-2008 annual average productivity growth rate of 1.2%.

² The third quarter 2010 RCAF-5 (0.454) is calculated by dividing the third quarter 2010 RCAF Unadjusted (1.068) by the third quarter productivity adjustment factor-5 (PAF-5) of 2.3539. The third quarter 2010 productivity adjustment factor -5 (PAF-5) is calculated by multiplying the second quarter 2010 PAF-5 of 2.3469 by the fourth root (1.0030) of the 2003-2007 annual average productivity growth rate of 1.2%.

APPENDIX**TABLE A**

Ex Parte No. 290 (Sub-No. 5) (2010-3)
All Inclusive Index of Railroad Input Costs
(Refer to Endnotes Page 5)

LINE NO.	INDEX COMPONENT	2008 WEIGHTS	SECOND QUARTER 2010 FORECAST	THIRD QUARTER 2010 FORECAST
1	LABOR	30.2%	357.3	356.3
2	FUEL	25.2%	255.2	270.9
3	MATERIALS AND SUPPLIES	5.1%	240.0	241.0
4	EQUIPMENT RENTS	6.3%	201.6	204.9
5	DEPRECIATION	10.4%	204.3	205.9
6	INTEREST	2.3%	83.9	83.9
7	OTHER ITEMS ¹	20.5%	207.3	212.9
8	WEIGHTED AVERAGE	100.0%	262.8	268.1
9	LINKED INDEX ²		256.8	262.0
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		104.4	106.5
11	FORECAST ERROR ADJUSTMENT ⁴		0.016	0.003
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.060	1.068
13	RCAF (ADJUSTED)		0.477	0.479
14	RCAF-5		0.452	0.454

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2010-3)
Comparison of First Quarter 2010 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2008 WEIGHTS	FIRST QUARTER 2010 FORECAST	FIRST QUARTER 2010 ACTUAL
1	LABOR	30.2%	356.9	356.9
2	FUEL	25.2%	262.6	258.6
3	MATERIALS AND SUPPLIES	5.1%	242.7	243.8
4	EQUIPMENT RENTS	6.3%	198.7	199.6
5	DEPRECIATION	10.4%	203.3	204.8
6	INTEREST	2.3%	83.9	83.9
7	OTHER ITEMS	20.5%	199.8	203.1
8	WEIGHTED AVERAGE	100.0%	262.9	262.8
9	LINKED INDEX		256.9	257.6
10	RAIL COST ADJUSTMENT FACTOR		104.5	104.8

Endnotes:

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 2008 weights beginning in the fourth quarter 2009. The following formula was used for the current quarter’s index:

$$\frac{3^{\text{rd}} \text{ Qr. 2010 Index}}{\text{(2008 Weights)}} \text{ Times } 2^{\text{nd}} \text{ Quarter Linked Index} \text{ Equals Linked Index}$$

$$2^{\text{nd}} \text{ Qr. 2010 Index} \text{ (2008 Weights)} \text{ (1980 = 100 Linked)} \text{ (Current Quarter)}$$

Or

$$\frac{268.1}{262.8} \times 256.8 = 262.0$$

³ The first quarter 2008 RCAF was rebased using the October 1, 2007, level of 245.9 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2007 = 1.00).

⁴ The third quarter 2010 forecast error adjustment was calculated as follows: a. first quarter 2010 RCAF using forecasted data equals 104.5; b. first quarter 2010 RCAF using actual data equals 104.8; c. the difference equals the forecast error (b-a) of 0.3. Since the actual first quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.