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SERVICE DATE – FEBRUARY 5, 2009

SURFACE TRANSPORTATION BOARD

DECISION

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

RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided February 3, 2009

We propose to adopt 1.012 (1.2% per year) as the measure of average (arithmetic mean) change in railroad productivity for the 2003-2007 (5-year) averaging period. This value represents a 0.1% decline from the current measure of 1.3% that was developed for the 2002-2006 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). This long-run measure of productivity is computed using a 5-year moving geometric average.¹

Productivity change for the year 2007 is 1.004 based on changes in input and output levels from 2006, representing an increase of 1.0% from the rate of productivity growth in 2006 relative to 2005 (0.994). Incorporating the 2007 value with the values for the 2003-2006 period produces a geometric average productivity growth of 1.012 for the 5-year period 2003-2007, or 1.2% per year. As the new geometric mean was computed by replacing the 2002 figure of 1.006 with the nearly identical figure of 1.004 for 2007, there was no discernable change in the geometric mean from last year's value. A detailed discussion of our calculations is contained in the Appendix to this decision.

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.

ENVIRONMENTAL AND ENERGY CONSIDERATIONS

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

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

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 23, 2009.
2. An original and 10 copies must be filed with:

United States Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

3. Comments must be served on all parties appearing on the current service list.
4. Unless further order is issued postponing the effective date, this order becomes effective on March 1, 2009.

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

Anne K. Quinlan
Acting Secretary

APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.² 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 2007 RCR index value (415.5) by the RCR index values for 2003 and each subsequent year through 2006, inclusive. Because 2007 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 2007 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 2003-2007 is calculated by taking a geometric mean, which was found to be 1.012 (1.2% per year). The arithmetic mean for growth in productivity over the period 2003-2007 is also 1.012 (1.2% per year). The input index, the output index, the annual productivity change, and the calculation of the 2003-2007 average are shown in Table B.

² 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
2003-2007

Year	Total Expense Unadjusted (000's) (1)	RCR Indices 2003-2007 (2)	Total Expense Constant Dollars (000's) (2007 Levels) (3)	Input Index Column (3) 2003/2002 etc. (4)
2002	30,635,036	305.7	41,638,395	xxxxx
2003	32,368,909	316.7	42,466,946	1.020
2004	36,097,189	334.1	44,891,895	1.057
2005	38,927,852	376.8	42,926,015	0.956
2006	41,989,707	397.0	43,946,406	1.024
2007	43,778,699	415.5	43,778,699	0.996

Table B
Comparison of Output, Input, and Productivity
2003-2007

Year	Output Index (1)	Input Index (2)	Productivity Change ³ Col (1)÷ Col (2) (3)
2003	1.039	1.020	1.019
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

The 5-year (2003-2007) productivity trend calculated using a geometric average is 1.012, or 1.2% per year.

³ 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.