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SERVICE DATE - FEBRUARY 2, 2005

SURFACE TRANSPORTATION BOARD

DECISION

STB EX PARTE NO. 290 (SUB-NO. 4)

RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: January 25, 2005

We propose to adopt 1.035 (3.5% per year) as the measure of average change in railroad productivity for the 1999-2003 (5-year) averaging period. We currently use a value of 2.2% that was developed for the 1998-2002 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). The long-run measure of productivity is computed using a 5-year moving geometric average.¹

Productivity change for the year 2003 is 1.052 (an increase of 4.6% from the prior year) based on changes in input and output levels from 2002. Incorporating the 2003 value with the values for the 1999-2002 period produces a geometric average productivity growth of 1.035 for the 5-year period 1999-2003, or 3.5% per year. This is 1.3% higher than the value developed for the 1998-2002 5-year period currently used. 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.

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

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

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 16, 2005.
2. An original and 10 copies must be filed with:

Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423-0001
3. Comments must be served on all parties appearing on the current service list.
4. Unless a further order is issued postponing the effective date, the productivity adjustment will become effective March 3, 2005.

By the Board, Chairman Nober, Vice-Chairman Buttrey, and Commissioner Mulvey.

Vernon A. Williams
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 2003 RCR index value (316.7) by the RCR index values for 1998 and each subsequent year through 2002, inclusive. Because 2003 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 2003 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 1999-2003 is calculated by taking a geometric average. The growth in productivity over the period 1999-2003 is 1.035 (3.5% per year). The input index, the output index, the annual productivity change, and the calculation of the 1999-2003 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.

Table A
Calculation of Input Indices
1999-2003

Year	Total Expense Unadjusted (000's) (1)	RCR Indices 1998-2003 (2)	Total Expense Constant Dollars (000's) (2003 Levels) (3)	Input Index Column (3) 1999/1998 etc. (4)
1998	29,401,587	270.9	\$34,372,398	xxxxx
1999	29,557,600	270.3	\$34,631,491	1.008
2000	30,751,071	295.0	\$33,013,099	0.953
2001	30,215,650	303.4	\$31,540,199	0.955
2002	30,635,036	305.7	\$31,737,376	1.006
2003	31,326,461	316.7	\$31,326,461	0.987

Table B
Comparison of Output, Input, and Productivity
1999-2003

Year	Output Index (1)	Input Index (2)	Productivity Change ³ Col (1)÷Col (2) (3)
1999	1.032	1.008	1.024
2000	1.029	0.953	1.079
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	0.987	1.053

The proposed 5-year (1999-2003) productivity trend calculated using a geometric average is 1.035, or 3.5% 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.