

SURFACE TRANSPORTATION BOARD

DECISION

STB Ex Parte No. 290 (Sub-No. 5) (2010-2)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: March 31, 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, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Elec. Inst. 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 second quarter 2010 are shown in Table A of the Appendix to this decision. Table B shows the fourth quarter 2009 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.

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. The 2008 productivity adjustment is 1.012 (1.2% per year). AAR timely filed the index of railroad input prices on March 5, 2010. Because the 2008 productivity adjustment was not yet in effect when AAR's filing was due,¹ AAR used the

¹ See Railroad Cost Recovery Procedures—Productivity Adjustment, STB Ex Parte
(continued . . .)

Board's previously published 2007 productivity adjustment in its March 5, 2010 calculation of the RCAF (Adjusted). Subsequently, on March 30, 2010, AAR submitted updated calculations based upon the 2008 productivity adjustment in the Board's March 26, 2010 decision. We have examined AAR's most recent calculations for compliance with our procedures and find that the second quarter 2010 RCAF (Unadjusted) is 1.060. Consistent with our March 26, 2010 decision, AAR modified certain of the RCAF (Adjusted) productivity adjustment factors and we concur with this approach.² We find the RCAF (Adjusted) is 0.477, an increase of 2.1% from the previously reported first quarter 2010 RCAF (Adjusted) of 0.467.

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. We have examined AAR's most recent calculation for compliance with our procedures. Consistent with our March 26, 2010 decision, AAR adjusted certain of the RCAF-5 productivity adjustment factors, and we concur with this approach.³ We find the RCAF-5 for the

(. . . continued)

No. 290 (Sub-No. 4) (STB served Feb. 26, 2010) (postponing the effective date of the 2004-2008 productivity adjustment to consider comments filed regarding the adjustment proposed by the Board in a decision served February 1, 2010).

² The second quarter 2010 RCAF Adjusted (0.477) is calculated by dividing the second quarter RCAF Unadjusted (1.060) by the second quarter productivity adjustment factor of 2.2208. The second quarter 2010 productivity adjustment factor is calculated by multiplying the first quarter 2010 productivity adjustment by the fourth root (1.0030) of the 2004-2008 annual average productivity growth rate of 1.2%. The first quarter 2010 productivity adjustment of 2.2204 was developed, however, prior to the Board's March 26, 2010 decision noting an adjustment to the 2007 productivity adjustment solely for purposes of determining the 2008 adjustment factor. Similarly, in this instance, we adjust the 2007 productivity adjustment solely for the purpose of determining the first quarter 2010 productivity adjustment of 2.2142. We conclude that this adjustment is appropriate, because this is not a case where we are attempting to preserve settled expectations in previously published numbers or where the public has an interest in maintaining the expectation of administrative finality with regard to the Board's release of periodic calculations. Cf. Edison Elec. Inst. v. ICC, 969 F.2d 1221, 1228 (D.C. Cir. 1992).

³ The second quarter 2010 RCAF-5 (0.452) is calculated by dividing the second quarter 2010 RCAF Unadjusted (1.060) by the second quarter productivity adjustment factor-5 (PAF-5) of 2.3469. The second quarter 2010 productivity adjustment factor-5 (PAF-5) is calculated by multiplying the first quarter 2010 PAF-5 by the fourth root (1.0030) of the 2003-2007 annual average productivity growth rate of 1.2%. The first quarter 2010 PAF-5 of 2.3415 was developed, however, prior to the Board's March 26, 2010 decision noting an adjustment to the 2007 productivity adjustment solely for purposes of determining the 2008 adjustment factor. Similarly, in this instance, we adjust the 2007 productivity adjustment solely for the purpose of determining the first quarter 2010 PAF-5 of 2.3399. The RCAF-5 will continue to use a productivity adjustment of 1.2% until January 1, 2011.

second quarter of 2010 is 0.452, an increase of 2.0% from the previously reported first quarter 2010 RCAF-5 of 0.443.

As part of its March 30, 2010 submission, AAR also asks the Board to “correct the productivity calculation for the period 2003-2007,” and requests that the Board recalculate earlier RCAF (Adjusted) and RCAF-5 values that were determined with the 2003-2007 productivity adjustment factor. AAR’s additional request will be considered in a separate proceeding.

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 second quarter 2010 Rail Cost Adjustment Factor (Unadjusted) is 1.060, RCAF (Adjusted) is 0.477, and RCAF-5 is 0.452.

2. Notice of this decision will be published in the Federal Register.

3. The effective date of this decision is April 1, 2010.

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

APPENDIX**TABLE A**

Ex Parte No. 290 (Sub-No. 5) (2010-2)
All Inclusive Index of Railroad Input Costs
(Refer to Endnotes Page 5)

LINE NO.	INDEX COMPONENT	2008 WEIGHTS	FIRST QUARTER 2010 FORECAST	SECOND QUARTER 2010 FORECAST
1	LABOR	30.2%	356.9	357.3
2	FUEL	25.2%	262.6	255.2
3	MATERIALS AND SUPPLIES	5.1%	242.7	240.2
4	EQUIPMENT RENTS	6.3%	198.7	201.6
5	DEPRECIATION	10.4%	203.3	204.3
6	INTEREST	2.3%	83.9	83.9
7	OTHER ITEMS ¹	20.5%	199.8	207.3
8	WEIGHTED AVERAGE	100.0%	262.9	262.8
9	LINKED INDEX ²		256.9	256.8
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		104.5	104.4
11	FORECAST ERROR ADJUSTMENT ⁴		-0.007	0.016
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.038	1.060
13	RCAF (ADJUSTED)		0.467	0.477
14	RCAF-5		0.443	0.452

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2010-2)
Comparison of Fourth Quarter 2009 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2008 WEIGHTS	FOURTH QUARTER 2009 FORECAST	FOURTH QUARTER 2009 ACTUAL
1	LABOR	30.2%	344.8	344.8
2	FUEL	25.2%	234.4	244.0
3	MATERIALS AND SUPPLIES	5.1%	238.8	238.8
4	EQUIPMENT RENTS	6.3%	197.9	198.8
5	DEPRECIATION	10.4%	198.9	203.5
6	INTEREST	2.3%	83.9	83.9
7	OTHER ITEMS	20.5%	198.7	199.9
8	WEIGHTED AVERAGE	100.0%	251.2	254.4
9	LINKED INDEX		245.5	249.4
10	RAIL COST ADJUSTMENT FACTOR		99.8	101.4

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:

$$\frac{\text{2nd Qr. 2010 Index}}{\text{(2008 Weights)}} \times \text{1st Quarter Linked Index (1980 = 100 Linked)} = \text{Equals Linked Index (Current Quarter)}$$

Or

$$\frac{262.8}{262.9} \times 256.9 = 256.8$$

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 second quarter 2010 forecast error adjustment was calculated as follows: a. fourth quarter 2009 RCAF using forecasted data equals 99.8; b. fourth quarter 2009 RCAF using actual data equals 101.4; c. The difference equals the forecast error (b-a) of 1.6. Since the actual fourth quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.