

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2014-2)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Digest:¹ The rail cost adjustment factor (RCAF) is an index formulated to represent changes in railroad costs incurred by the nation's largest railroads over a specified period of time. The statute requires the Surface Transportation Board (Board) to publish the RCAF on at least a quarterly basis. Each quarter, the Association of American Railroads computes three types of RCAF figures and submits those figures to the Board for approval. The Board has reviewed the submission and adopts the RCAF figures for the second quarter of 2014.

Decided: March 20, 2014

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 to the agency 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 Surface Transportation Board (Board) to continue to publish both an unadjusted RCAF and a productivity-adjusted RCAF. In Productivity Adjustment—Implementation, 1 S.T.B. 739 (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 (Unadjusted) is an index reflecting cost changes experienced by the railroad industry, without reference to changes in rail productivity. The RCAF (Adjusted) is an index that reflects national average productivity changes as originally developed and applied by the ICC, the calculation of which is currently based on a five-year moving average. The RCAF-5 is an index that also reflects national average productivity changes; however, those productivity changes are

¹ The digest constitutes no part of the decision of the Board but has been prepared for the convenience of the reader. It may not be cited to or relied upon as precedent. Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

calculated as if a five-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 second quarter of 2014 is shown in Table A of the Appendix to this decision. Table B shows the fourth quarter 2013 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 AAR's calculations, and we find that AAR has complied with our procedures.² We find that the second quarter 2014 RCAF (Unadjusted) is 0.975, a decrease of 0.6% from the first quarter 2014 RCAF of 0.981. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a five-year moving geometric average of productivity change for U.S. Class I railroads from 2008-2012, which is 1.010 (1.0% per year). We find that the RCAF (Adjusted) is 0.421, a decrease of 0.7% from the first quarter 2014 RCAF (Adjusted) of 0.424.³

In accordance with Productivity Adjustment—Implementation, 1 S.T.B. at 748-49, the RCAF-5 for this quarter will use a productivity trend for the years 2007-2011, which is 1.009 (0.9% per year). We find that the RCAF-5 for the second quarter of 2014 is 0.397, a decrease of 1.0% from the first quarter 2014 RCAF-5 of 0.401.⁴

² AAR filed its quarterly submission on March 5, 2014, noting that one railroad had submitted revisions to that railroad's Annual Report form R-1 (R-1), which AAR uses in calculating the RCAF figures that it submits to the Board. AAR stated that it did not have time to include those revisions in its March 5 submission. By decision served March 12, 2014, AAR was directed to re-file its second quarter 2014 RCAF submission using all available data. On March 18, 2014, in accordance with the Board's March 12 decision, AAR resubmitted its second quarter calculations. The second quarter 2014 RCAF figures adopted in this decision are calculated using the data from AAR's March 18 filing. As a result of the revisions, some of the 2012 weights have changed. Because those weights were also used to calculate the fourth quarter 2013 and first quarter 2014 RCAF figures adopted in the Board's December 20, 2013 decision, we are noting the modified figures in Tables A and B in the Appendix.

³ The second quarter 2014 RCAF Adjusted (0.421) is calculated by dividing the second quarter 2014 RCAF Unadjusted (0.975) by the second quarter productivity adjustment factor of 2.3168. The second quarter 2014 productivity adjustment factor is calculated by multiplying the first quarter 2014 productivity adjustment of 2.3110 by the fourth root (1.0025) of the 2008-2012 annual average productivity growth rate of 1.0%.

⁴ The second quarter 2014 RCAF-5 (0.397) is calculated by dividing the second quarter 2014 RCAF Unadjusted (0.975) by the second quarter productivity adjustment factor-5 (PAF-5)

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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 Board approves the second quarter 2014 RCAF (Unadjusted) of 0.975, RCAF (Adjusted) of 0.421, and RCAF-5 of 0.397.

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

3. The effective date of this decision is April 1, 2014.

By the Board, Chairman Elliott and Vice Chairman Begeman.

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of 2.4534. The second quarter 2014 PAF-5 is calculated by multiplying the first quarter 2014 PAF-5 of 2.4480 by the fourth root (1.0022) of the 2007-2011 annual average productivity growth rate of 0.9%.

APPENDIX**TABLE A**

EP 290 (Sub-No. 5) (2014-2)
All Inclusive Index of Railroad Input Costs
 (Endnotes Following Table B)

LINE NO.	INDEX COMPONENT	2012 WEIGHT	FIRST QUARTER 2014 FORECAST	SECOND QUARTER 2014 FORECAST
1	LABOR	*31.2%	386.2	388.1
2	FUEL	*22.3%	377.9	386.2
3	MATERIALS AND SUPPLIES	4.9%	265.9	274.8
4	EQUIPMENT RENTS	5.6%	208.7	212.6
5	DEPRECIATION	11.9%	217.8	216.9
6	INTEREST	2.0%	76.6	76.6
7	OTHER ITEMS ¹	*22.1%	220.5	225.2
8	WEIGHTED AVERAGE	100.0%	*305.7	309.7
9	LINKED INDEX ²		*293.0	296.8
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		*98.5	99.7
11	FORECAST ERROR ADJUSTMENT ⁴		-0.004	-0.022
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		*0.981	0.975
13	RCAF (ADJUSTED)		0.424	0.421
14	RCAF-5		*0.401	0.397

* Calculations based on revised 2012 weights.

TABLE B

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Comparison of Fourth Quarter 2013 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2012 WEIGHT	FOURTH QUARTER 2013 FORECAST	FOURTH QUARTER 2013 ACTUAL
1	LABOR	*31.2%	387.1	387.1
2	FUEL	*22.3%	399.6	374.3
3	MATERIALS AND SUPPLIES	4.9%	261.4	261.4
4	EQUIPMENT RENTS	5.6%	207.7	208.0
5	DEPRECIATION	11.9%	221.0	217.4
6	INTEREST	2.0%	76.6	76.6
7	OTHER ITEMS	*22.1%	220.0	219.4
8	WEIGHTED AVERAGE	100.0%	*310.8	304.6
9	LINKED INDEX		*297.9	291.3
10	RAIL COST ADJUSTMENT FACTOR		100.1	97.9

* Calculations based on revised 2012 weights.

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 2012 weights beginning in the fourth quarter 2013. The following formula was used for the current quarter’s index:

$$\frac{\text{2nd Qr. 2014 Index (2012 Weights)}}{\text{1st Qr. 2014 Index (2012 Weights)}} \text{ Times 1st Quarter Linked Index (1980 = 100 Linked) Equals Linked Index (Current Quarter)}$$

Or

$$\frac{309.7}{305.7} \times 293.0 = 296.8$$

³ The first quarter 2013 RCAF was rebased using the October 1, 2012, level of 297.5 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2012 = 100). In compliance to our November 27, 2013 decision, AAR has restated the October 1, 2012, level of 297.5 to 297.6.

⁴ The second quarter 2014 forecast error adjustment was calculated as follows: (a) fourth quarter 2013 RCAF using forecasted data equals 100.1; (b) fourth quarter 2013 RCAF using actual data equals 97.9; and (c) the difference equals the forecast error (b-a) of -2.2. Because the actual fourth quarter value is less than the forecast value, the difference is subtracted to the Preliminary RCAF.