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SERVICE DATE – MARCH 28, 2008

SURFACE TRANSPORTATION BOARD

DECISION

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

RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: March 27, 2008

In a decision served on February 22, 2008, we proposed to adopt 1.008 (0.8% per year) as the measure of average change in railroad productivity for the 2002-2006 (5-year) averaging period. This value was a decline of 0.9 of a percentage point from the current measure of 1.7% that was developed for the 2001-2005 period. That decision stated that comments may be filed addressing any perceived data and computational errors in our calculation. It also stated that, if there were no further action taken by the Board, the proposed productivity adjustment would become effective on March 17, 2008.

On March 13, 2008, the Board received comments from both the Association of American Railroads and the Western Coal Traffic League. Both parties requested that the Board revisit the development of the output index calculation and make certain other clarifications. By a decision served on March 17, 2008, we postponed the effective date of the annual productivity adjustment.

We have reviewed the calculations of the output index for 2006. During that review, we found inconsistencies in the weights associated with certain movements reported in the waybill sample data, and found that these inconsistencies caused a distortion in the resulting productivity calculation. This circumstance has been rectified and the Board is issuing modifications to its annual productivity decision. The Board's original calculation of the output index for 2006 of 0.994 should be modified to 1.018.

We will adopt 1.013 (1.3% per year) as the measure of average change in railroad productivity for the 2002-2006 (5-year) averaging period. This value is a decline of 0.4 of a percentage point from the current measure of 1.7% that was developed for the 2001-2005 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

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

Productivity change for the year 2006 is 0.994 based on changes in input and output levels from 2005, representing a decrease of 6.9% from the rate of productivity growth in 2005 relative to 2004 (1.068). Incorporating the 2006 value with the values for the 2002-2005 periods produces a geometric average productivity growth of 1.012 for the 5-year period 2002-2006, or 1.2% per year. The decrease in the 5-year geometric average productivity growth was caused by the replacement of the higher 2001 productivity value of 1.016 with the lower 2006 productivity value of 0.994 in the 5-year rolling average. A detailed discussion of our calculations is contained in the Appendix to this decision.

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 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. This decision is effective on the date of service.

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 2006 RCR index value (397) by the RCR index values for 2001 and each subsequent year through 2005, inclusive. Because 2006 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 2006 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 2002-2006 is calculated by taking a geometric average. The growth in productivity over the period 2002-2006 is 1.013 (1.3% per year). The input index, the output index, the annual productivity change, and the calculation of the 2002-2006 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
2002-2006

Year	Total Expense Unadjusted (000's) (1)	RCR Indices 2001-2006 (2)	Total Expense Constant Dollars (000's) (2006 Levels) (3)	Input Index Column (3) 2002/2001 etc. (4)
2001	30,215,650	303.4	39,537,288	xxxxx
2002	30,635,036	305.7	39,784,460	1.006
2003	32,368,909	316.7	40,576,119	1.020
2004	36,097,189	334.1	42,893,098	1.057
2005	38,927,852	376.8	41,014,749	0.956
2006	41,989,707	397	41,989,707	1.024

Table B
Comparison of Output, Input, and Productivity
2002-2006

Year	Output Index (1)	Input Index (2)	Productivity Change ³ Col (1)÷Col (2) (3)
2002	1.012	1.006	1.006
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

The 5-year (2002-2006) 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.