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SERVICE DATE - JANUARY 12, 2004

SURFACE TRANSPORTATION BOARD

DECISION

STB EX PARTE NO. 290 (SUB-NO. 4)
RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: January 6, 2004

We propose to adopt 1.022 (2.2% per year) as the measure of average change in railroad productivity for the 1998-2002 (5-year) averaging period. We currently use a value of 1.9% that was developed for the 1997-2001 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 2002 is 1.006 (a decrease of 1.0% from the prior year) based on changes in input and output levels from 2001. Incorporating the 2002 value with the values for the 1998-2001 period produces a geometric average productivity growth of 1.022 for the 5-year period 1998-2002, or 2.2% per year. This is 0.3% higher than the value developed for the 1997-2001 5-year period currently used. A detailed discussion of our calculations is contained in the Appendix to this decision.

In 2001 the Board approved the acquisition of the Wisconsin Central Transportation Corporation (WC) by the Canadian National Railway Company (CN). In 2002 CN reported WC freight operating expenses and revenue ton-miles as part of their U.S. operations. Thus, the WC's freight expenses and revenue ton-miles are now included in total Class I data for the first time. However, we required the CN to break out the WC's 2002 operating expenses and revenue ton miles separately to determine the WC's effect on productivity.

The productivity calculation is based on changes in input and output from year to year using a consistent set of railroad expense and operating data for a six year period. Ordinarily, we would require six years of data to include the WC in the productivity calculation. However, we only have one year of WC data that is consistent with the Board's Uniform System of Accounts (USOA). Alternatively, it is difficult to exclude the WC from the productivity calculation because we can not accurately separate the WC's operations from the CN's as reported in the STB Carload Waybill Sample (Waybill) used to calculate the output index. Although we could require the CN to continue to report expenses and revenue ton-miles separately, as we did in 2002, separate reporting in the

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

Waybill would not reflect actual CN operations and could bias the output index in the future. Therefore, given these circumstances, we have decided to include the WC's data in this year's calculation.

More importantly, we believe the inclusion of WC in the productivity calculation has a minimal material impact. Using the WC's 2002 operating expenses and revenue ton-miles, we found that the WC's expenses and revenue ton-miles are less than 1% of both U.S. Class I expenses and revenue ton-miles.

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 work papers 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 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 15 days after the date of this order.
2. An original and 10 copies must be filed with:

Office of the Secretary
Case Control Branch
Surface Transportation Board
Washington, D.C. 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 30 days after the date of service.

By the Board, Chairman Nober.

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 AAR. 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 five years was calculated by dividing the 2002 RCR index value (305.7) by the RCR index values for 1997 and each subsequent year through 2001, inclusive. Because 2002 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 2002 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 1998-2002 is calculated by taking a geometric average. The growth in productivity over the period 1998-2002 is 1.022 (2.2% per year). The input index, the output index, the annual productivity change, and the calculation of the 1998-2002 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
1998-2002³

Year	Total Expense Unadjusted (000's) (1)	RCR Indices 1997-2002 (2)	Total Expense Constant Dollars (000's) (2002 Levels) (3)	Input Index Column (3) 1998/1997 etc. (4)
1997	28,479,279	267.1	\$32,594,967	xxxxx
1998	29,401,587	270.9	\$33,178,535	1.018
1999	29,557,600	270.3	\$33,428,629	1.008
2000	30,751,071	295.0	\$31,866,449	0.953
2001	30,215,650	303.4	\$30,444,707	0.955
2002	30,635,036	305.7	\$30,635,036	1.006

Table B
Comparison of Output, Input, and Productivity
1998-2002

Year	Output Index (1)	Input Index (2)	Productivity Change ⁴ Col (1)÷Col (2) (3)
1998	1.006	1.018	0.988
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

The proposed 5-year (1998-2002) productivity trend calculated using a geometric average is 1.022, or 2.2% per year.

³ The data used to calculate the 1998 to 2002 productivity trend includes Wisconsin Central Railroad expenses and revenue ton-miles for the year 2002.

⁴ 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.