

SURFACE TRANSPORTATION BOARD

DECISION

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

RAILROAD COST RECOVERY PROCEDURES — PRODUCTIVITY ADJUSTMENT

Decided: March 20, 2009

In a decision served on February 5, 2009, we proposed to adopt 1.012 (1.2% per year) as the measure of average change in railroad productivity for the 2003-2007 (5-year) averaging period. This value represented no change from the current measure of 1.2% that was developed for the 2002-2006 period. The 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 1, 2009.<sup>1</sup>

On February 23, 2009, the Board received comments from the Association of American Railroads (AAR). AAR noted that that they could not check the computation of the productivity value without access to certain input data. To ensure that release of this data would not violate our confidentiality practices, we conducted additional analysis of the data AAR referenced. In that review, we found inconsistencies in our application of the program processes used to compute our most recent estimate of productivity change. Therefore, we reopen this proceeding based on material error under 49 U.S.C. 722(c) to correct these inconsistencies and issue a modified annual productivity decision. We find that the increase in productivity in 2007 should have been reported as 1.018 not 1.004. As a result, the 5-year geometric mean of the annual change in productivity is 1.015 (or 1.5% per year), not 1.012 (or 1.2% per year), as originally reported.

In its comments, AAR also requested that we eliminate reference to the arithmetic mean over the previous five years, as that mean is not required by regulation. We had originally reported the 2003-2007 productivity growth using both an arithmetic and geometric mean. The AAR is correct to note that the arithmetic mean is not used in any required applications and can be a source of confusion. Therefore, we will no longer publish the arithmetic mean in future Ex Parte No. 290 (Sub-No. 4) decisions.

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<sup>1</sup> 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 mean. See Productivity Adjustment-Implementation, 9 I.C.C.2d 1072 (1993).

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 Mulvey and Vice Chairman Nottingham.

Anne K. Quinlan  
Acting Secretary

APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.<sup>2</sup> 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 2007 RCR index value (415.5) by the RCR index values for 2002 and each subsequent year through 2006, inclusive. Because 2007 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 mean for the period 2003-2007 is calculated by taking a geometric mean. The input index, the output index, the annual productivity change, and the calculation of the 2003-2007 mean are shown in Table B.

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<sup>2</sup> 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**  
**2002-2007**

Year	Total Expense Unadjusted (000s) (1)	RCR Indices 2002-2007 (2)	Total Expense Constant Dollars (3)	Input Index Column (3) 2003/2002 etc. (4)
2002	30,635,036	305.7	41,638,395	xxxxx
2003	32,368,909	316.7	42,466,946	1.020
2004	36,097,189	334.1	44,891,895	1.057
2005	38,927,852	376.8	42,926,015	0.956
2006	41,989,707	397.0	43,946,406	1.024
2007	43,778,699	415.5	43,778,699	0.996

**Table B**  
**Comparison of Output, Input, and Productivity**  
**2003-2007**

Year	Output Index (1)	Input Index (2)	Productivity Change <sup>3</sup> Col (1)/Col (2) (3)
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
2007	1.014	0.996	1.018

The 5-year (2003-2007) productivity trend calculated using a geometric mean is 1.015, or 1.5% per year.

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<sup>3</sup> The values shown in Column 3 are taken from the spreadsheet used to calculate productivity. Due to rounding, these values may not equal numbers calculated using the rounded numbers shown in Columns 1 and 2.