

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2013-3)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Digest:<sup>1</sup> 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 third quarter of 2013.

Decided: June 18, 2013

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 5-year moving average. The RCAF-5 is an index that also reflects national average productivity changes; however, those productivity changes are

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<sup>1</sup> 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 5-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 third quarter of 2013 are shown in Table A of the Appendix to this decision. Table B shows the first 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. We find that the third quarter 2013 RCAF (Unadjusted) is 0.977, a decrease of 2.9% from the second quarter 2013 RCAF of 1.006. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a 5-year moving geometric average of productivity change for U.S. Class I railroads from 2007-2011, which is 1.009 (0.9% per year). We find the RCAF (Adjusted) is 0.425, a decrease of 3.0% from the previously reported second quarter 2013 RCAF (Adjusted) of 0.438.<sup>2</sup>

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 2006-2010, which is 1.008 (0.8% per year). We find the RCAF-5 for the third quarter of 2013 is 0.401, a decrease of 3.1% from the previously reported second quarter 2013 RCAF-5 of 0.414.<sup>3</sup>

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 third quarter 2013 RCAF (Unadjusted) of 0.977, RCAF (Adjusted) of 0.425, and RCAF-5 of 0.401.
2. Notice of this decision will be published in the Federal Register.

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<sup>2</sup> The third quarter 2013 RCAF Adjusted (0.425) is calculated by dividing the third quarter 2013 RCAF Unadjusted (0.977) by the third quarter productivity adjustment factor of 2.3008. The third quarter 2013 productivity adjustment factor is calculated by multiplying the second quarter 2013 productivity adjustment of 2.2957 by the fourth root (1.0022) of the 2007-2011 annual average productivity growth rate of 0.9%.

<sup>3</sup> The third quarter 2013 RCAF-5 (0.401) is calculated by dividing the third quarter 2013 RCAF Unadjusted (0.977) by the third quarter productivity adjustment factor-5 (PAF-5) of 2.4377. The third quarter 2013 PAF-5 is calculated by multiplying the second quarter 2013 PAF-5 of 2.4328 by the fourth root (1.0020) of the 2006-2010 annual average productivity growth rate of 0.8%.

3. The effective date of this decision is July 1, 2013.

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

**APPENDIX****TABLE A**

**EP 290 (Sub-No. 5) (2013-3)**  
**All Inclusive Index of Railroad Input Costs**  
 (Endnotes Following Table B)

<b>LINE NO.</b>	<b>INDEX COMPONENT</b>	<b>2011 WEIGHT</b>	<b>SECOND QUARTER 2013 FORECAST</b>	<b>THIRD QUARTER 2013 FORECAST</b>
1	LABOR	31.3%	384.9	390.4
2	FUEL	22.5%	404.3	375.6
3	MATERIALS AND SUPPLIES	5.1%	261.0	264.2
4	EQUIPMENT RENTS	5.6%	206.9	208.0
5	DEPRECIATION	11.6%	219.6	218.9
6	INTEREST	2.5%	92.9	92.9
7	OTHER ITEMS <sup>1</sup>	21.4%	220.2	221.4
8	WEIGHTED AVERAGE	100.0%	311.3	306.9
9	LINKED INDEX <sup>2</sup>		298.5	294.3
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR <sup>3</sup>		100.3	98.9
11	FORECAST ERROR ADJUSTMENT <sup>4</sup>		0.003	-0.012
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.006	0.977
13	RCAF (ADJUSTED)		0.438	0.425
14	RCAF-5		0.414	0.401

**TABLE B**

**EP 290 (Sub-No. 5) (2013-3)**  
**Comparison of First Quarter 2013 Index**  
**Calculated on Both a Forecasted and an Actual Basis**

<b>LINE NO.</b>	<b>INDEX COMPONENT</b>	<b>2011 WEIGHT</b>	<b>FIRST QUARTER 2013 FORECAST</b>	<b>FIRST QUARTER 2013 ACTUAL</b>
1	LABOR	31.3%	389.7	389.7
2	FUEL	22.5%	396.5	378.8
3	MATERIALS AND SUPPLIES	5.1%	263.4	263.4
4	EQUIPMENT RENTS	5.6%	206.7	207.6
5	DEPRECIATION	11.6%	212.2	217.9
6	INTEREST	2.5%	92.9	92.9
7	OTHER ITEMS	21.4%	218.8	219.5
8	WEIGHTED AVERAGE	100.0%	310.0	306.8
9	LINKED INDEX		297.3	293.6
10	RAIL COST ADJUSTMENT FACTOR		99.9	98.7

**Endnotes:**

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<sup>1</sup> “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.

<sup>2</sup> Linking is necessitated by a change to the 2011 weights beginning in the fourth quarter of 2012. The following formula was used for the current quarter’s index:

$$\frac{\text{3rd Qr. 2013 Index (2011 Weights)}}{\text{2nd Qr. 2013 Index (2011 Weights)}} \text{ Times } \text{2nd Quarter Linked Index (1980 = 100 Linked)} = \text{Equals Linked Index (Current Quarter)}$$

Or

$$\frac{306.9}{311.3} \times 298.5 = 294.3$$

<sup>3</sup> 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).

<sup>4</sup> The third quarter 2013 forecast error adjustment was calculated as follows: (a) first quarter 2013 RCAF using forecasted data equals 99.9; (b) first quarter 2013 RCAF using actual data equals 98.7; (c) the difference equals the forecast error (b-a) of -1.2. Because the actual first quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.