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BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 681
CLASS I RAILROAD ACCOUNTING AND FINANCIAL REPORTING—
TRANSPORTATION OF HAZARDOUS MATERIALS

Shipper Organizations' Joint Submission Regarding Advance Notice of Proposed Rulemaking

The American Chemistry Council, the Chlorine Institute, The Fertilizer Institute, and the Edison Electric Institute respectfully submit these comments in response to the Board's Advance Notice of Proposed Rulemaking served January 5, 2009 ("ANPR"). For the reasons stated below, instituting a rulemaking proceeding as proposed would be arbitrary and ill-advised.

I. Introduction and Executive Summary

The Board's ANPR states that the Board "seeks public comment on whether and how it should improve its informational tools to better identify and attribute the costs of hazardous-material transportation movements." It states that "[t]here may be unique operating costs associated with the transportation of hazardous materials" and invites suggestions for revising the Uniform System of Accounts ("USOA") as well as URCS to attribute these costs to hazardous materials transportation

A rulemaking on this subject would be particularly arbitrary given that the Board has recently received evidence, in Ex Parte No 677 (Sub-No. 1), Common Carrier Obligation of Railroads – Transportation of Hazardous Materials, that while some railroads have faced one-time costs from settlements of claims relating to several accidental releases in past years, the railroads have reported few if any ongoing, quantifiable costs relating solely to hazardous materials transportation. There is no justification for allocating to hazardous materials shipments costs associated with general casualty insurance or umbrella coverage, which cover all traffic.

If the Board believes it advisable to reopen and recalculate URCS costs, on the basis that URCS may not accurately reflect the railroads' true current costs of operations, the Board may not limit its review to a single area. The Board's statutory mandate of 49 U.S.C. Sec 11161 requires that the Board "shall periodically review its cost accounting rules and shall make such changes in those rules as are required to achieve the regulatory purposes of this part " It would be grossly inconsistent with that mandate to engage in selective tinkering with URCS regarding hazardous materials transportation. Such attempts to make selective adjustments in place of system-average costs may bias the entire URCS analysis,[1] and would deal with only a small portion of total rail transportation while neglecting the many more significant points on which URCS is seriously in need of review, revision and updating

URCS has not been adequately adjusted to reflect the tremendous changes in rail operations in the past decades, including the growing use of double stack container cars and the

[1] See Ex Parte No 657 (Sub-No 1), Major Issues in Rail Rate Cases (decision served Oct 30, 2006), at pages 51-52

increased use of unit trains for coal. In fact, some of the calculations that are still embodied in URCS were derived from studies that date back to the age of steam engines.[2]

Intermodal and coal shipments are currently two of the largest sources of revenue in the railroad industry. *Intermodal shipments are increasingly efficient due to double-stack* technology. Coal shipments have long benefited from unit train operations. Yet in URCS, coal *shipments are costed using methods and factors based on studies which are decades old. The last* adjustment for intermodal traffic (and in fact one of the only significant adjustments to URCS *since its inception) was made more than a decade ago, in 1997. It is hence seriously out of date;* the Board's 1997 decision did not even mention double-stack containers.

While URCS uses data from the USOA adopted in 1978, URCS costs are still heavily driven by factors developed decades earlier for use in Rail Form A, the predecessor regulatory cost system. Including railroad origin switch costs for trains assembled and switched by the shipper is a prominent example of the departure of URCS costs from observable and unchallenged facts. URCS costs the origin switch as if it was performed by the railroad when in many cases these costs are largely borne by the shipper. The switching costs associated with multiple car shipments, unit train and trainload shipments are also areas in which data is readily observable. Yet URCS (phase III) still uses outdated factors developed in ICC regulatory cases

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[2] A brief background on the origin of URCS and USOA may be found in Appendix A to this submission. URCS was first adopted by the ICC in 1989. Some of the URCS allocation factors source to Rail Form A, the predecessor of URCS, which was introduced in 1939. Some of those allocation procedures have not been updated for 60 years or more. See for example the ICC Bureau of Accounts (BOA) Statement entered in ICC Docket No. 34013, commenting on a shipper's opposing use of switch engine minute studies which did not recognize the change to full diesel–electric power. (ICC Docket No. 34013 Statement of S. N. Crewe, September 1964, page 11.) See also BOA discussion of Comments by the U.S. Secretary of Agriculture and other parties calling for an update to switching factors based on studies introduced prior to 1939. ICC Docket No. 34013, Statement of S. N. Crewe, September 1964, pages 26, 46.

dating back 40 years or more.[3] These factors drive the results for freight car costs and clerical costs as well as origin and destination switch costs With Station Clerical costs, an outdated adjustment persists in URCS to estimate a cost which has largely disappeared as Electronic Data Interchange has replaced manual clerical processing. These distortions could easily be remedied, and should be.

In fact, one well-designed independent costing methodology, which has been used by both railroads and shippers to estimate actual costs in real-world applications, shows that variable costs developed using URCS are double the actual costs.[4] This only confirms the evidence from many other sources that URCS cries out for substantial review and revision Even if an URCS adjustment for hazardous materials transportation had any validity, which it does not, attempting to graft a small and arbitrary adjustment on top of costs that have a huge error factor will not produce more accurate costs – they will only provide a somewhat different but no less inaccurate result

II. Statement of Interest of Shipper Organizations

The American Chemistry Council represents the leading companies engaged in the business of chemistry. Products supplied by the chemistry sector are essential in manufacturing, agriculture, energy, transportation, technology, communications, health, education, defense, and virtually every aspect of our lives Basic industrial chemicals are the raw materials for thousands

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[3] Ex Parte No 270 (Sub-No 4), Investigation of Railroad Freight Rate Structure--Coal, 345 I C C 71 (1974) was an ICC investigation of the railroad freight rate structure Switching and other cost adjustments developed in that proceeding were applied frequently in ICC studies using Rail Form A.

[4] See discussion of Highroad Consulting's INSIGHT· Rail Edition© costing system, below

of other products including plastics, water treatment chemicals, detergents, pharmaceuticals and agricultural chemicals. These applications include medicines and medical technologies that save our lives, computers that expand our horizons, foods we eat, water we drink, cars we drive, homes in which we live, and the clothes we wear. The business of chemistry depends on the nation's railroads to deliver approximately 170 million tons of products each year, accounting for more than $6 billion in annual railroad freight revenues, making chemicals the second-largest railroad commodity, behind only coal, in terms of volume, and third-largest revenue contributor to rail revenues, behind only coal and intermodal

The Chlorine Institute, Inc. (CI) is a 220-member, not-for-profit trade association of chlor-alkali producers worldwide, as well as packagers, distributors, users, and suppliers The Institute's mission is the promotion of safety and the protection of human health and the environment in the manufacturer, distribution and use of chlorine, sodium hydroxide, potassium hydroxide, and sodium hypochlorite, plus the distribution and use of hydrogen chloride. The Institute's North American Producer members account for more than 98 percent of the total chlorine production capacity of the U S., Canada, and Mexico.

The Fertilizer Institute ("TFI") is the national trade association of the fertilizer industry whose membership consist of fertilizer producers, importers, retailers, wholesalers and others involved in the business of fertilizer The mission of TFI is to represent, promote and protect the fertilizer industry. Fertilizer nutrients provide the "food" plants need to grow and ensure there is an adequate supply of nutritious food and animal feed, and a bountiful supply of fiber as well as biofuels to help meet the nation's food security and energy needs Many TFI members ship via rail, and therefore have a strong interest in rules and regulations applying to the carriage of goods by rail.

The Edison Electric Institute ("EEI") is the association of U.S. shareholder-owned electric companies Its members serve 95% of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70% of the U.S. electric power industry. It also has as Affiliate members more than 65 international electric companies and, as Associate members, more than 170 industry suppliers and related organizations Electric energy is the life-blood of the economy in the 21st century Without reliable electric supplies, the technical advancements in medicine, automobiles, computing, communications and biotechnology that society takes for granted would be difficult to imagine. Today, coal represents about 50% of the fuel used for the production of electricity; and to maintain that level will require greater levels of environmental compliance and thus the increasingly widespread use of TIH substances, such as anhydrous ammonia for compliance with environmental standards.

III. The Entire URCS Must Be Updated

The failure to update URCS persists despite clear statutory language requiring the Board to keeps URCS current. Sec. 11161 of Title 49, entitled "Implementation of cost accounting principles" states that:

> The Board shall periodically review its cost accounting rules and shall make such changes in those rules as are required to achieve the regulatory purposes of this part. The Board shall insure that the rules promulgated under this section are the most efficient and least burdensome means by which the required information may be developed for regulatory purposes. To the maximum extent practicable, the Board shall conform such rules to generally accepted accounting principles.

Since its adoption in 1989,[5] the URCS has not once undergone a systematic review and revision, despite (1) substantial changes in the number of railroads and configuration of the rail system because of mergers, acquisitions, abandonments, and line sales, (2) significant changes in

[5] The background of URCS and USOA is set out in Appendix 1.

the traffic and operations of the rail industry, and (3) significant advances in the use of computer, signaling and other technology.

While the Board did conduct a limited review of URCS in 1997 relating to TOFC/COFC intermodal shipments, its findings did more to confirm the existence of problems than to provide solutions. Ex Parte No 431 (Sub-No 2), Review of the General Purpose Costing System (decision served October 1, 1997) In that proceeding the Board recognized the fact that many key URCS factors were based on studies 50 years old, and some factors, like the variability of URCS return on investment costs, were based on tradition or guesswork rather than data analysis Indeed the Board stated that the data submitted in that proceeding "appears to be superior to our continued reliance on a 50 year-old study that predates the advent of TOFC/COFC service." Yet that study, which is now more than 60 years old, continues to be applied in non-TOFC/COFC service.[6]

The results of the Ex Parte No. 431 (Sub-No. 2) are also instructive. As the 1997 review began, TOFC/COFC Intertrain and Intratrain ("I&I") switching was assumed to occur, on average, every 200 miles. Although the Board in its initial decision concluded that TOFC/COFC traffic receives less switching than general single-car traffic, the Board initially said it had no choice but to continue to apply the I&I switching factor traditionally used, which assumes that I&I switching occurs, on average, every 200 miles. After reviewing current data routinely captured by several railroads, the Board changed its mind and subsequently changed the frequency for TOFC/COFC I&I switching from once every 200 miles to once every 4,163 miles,

[6] Ex Parte No 431 (Sub-No. 2), Review of the General Purpose Costing System (decision served October 1, 1997)

implying that until the update, that factor had been yielding an error for that cost factor of over 2000%!

We submit that there may well be numerous instances in which obsolete factors still built into the URCS in use today produce variable cost calculations containing similar large errors. In fact, there is evidence from independent commercially-accepted costing systems that URCS very substantially overstates current actual rail costs. Testimony submitted by Sandra Dearden of Highroad Consulting, Ltd. in Fin. Dkt. 35064[7] discussed Highroad's INSIGHT Rail Edition© costing system This system is based on financial data filed by the Class I railroads in their R-1 reports to the Board, and has been used by both shipper and railroad clients of Highroad. Ms Dearden testified:

> Five years ago, we were asked to perform parallel cost studies, using URCS and INSIGHT: Rail Edition© At that time, URCS costs averaged about 40% higher than the costs calculated by our cost model In 2007 when [we] performed parallel studies for a client with URCS and INSIGHT, URCS costs were more than double the costs calculated with our model [Emphasis added.]

Among the important changes in the rail industry since 1989, one of the most notable is the growth of intermodal traffic As the following chart shows, intermodal traffic grew dramatically in the years following 1980, and has continued its rapid growth since the last partial adjustment to URCS for intermodal traffic in 1997.

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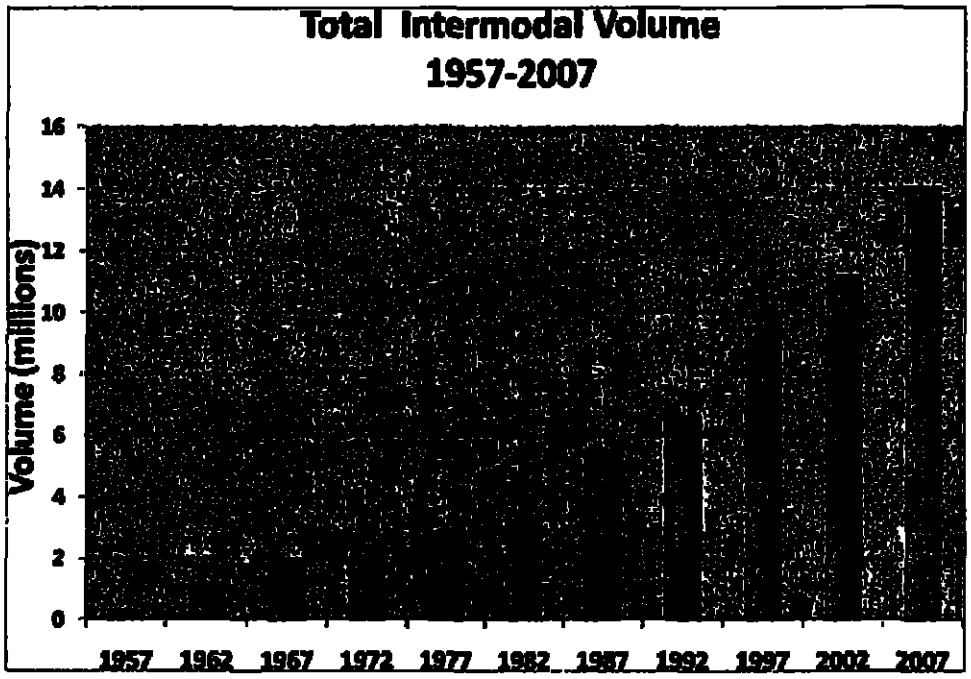
[7] Fin. Dkt No 35064, Watco Companies, Inc and Watco Transportation Services, Inc. – Continuance in Control Exemption – Michigan Central Railway, LLC (reply filed August 2, 2007)

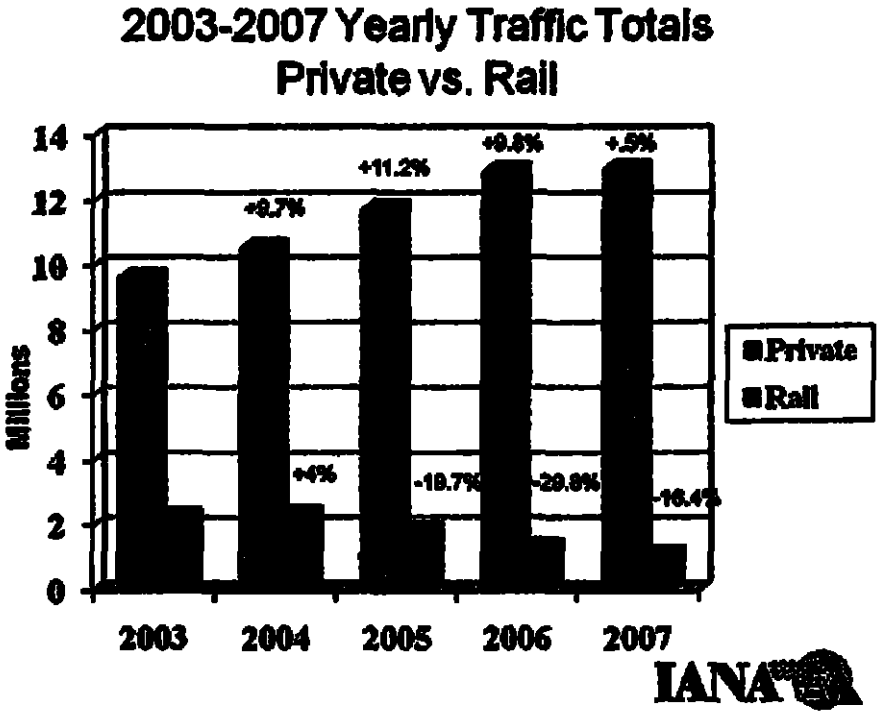


Source: Container and Trailer Shipment Volume Compiled by The Intermodal Association of North America (IANA)

Intermodal traffic absorbs increasing expenditures by railroads including double tracking necessitated by speed requirements, raising bridge and tunnel clearances for double-stack containers,[8] and maintenance of properties devoted exclusively to intermodal yards (often in costly urban or suburban locations) URCS has not been adapted to reflect the various unique costs attributable to intermodal traffic. While the USOA records investment and computes costs such as depreciation, the significant railroad cost reductions associated with intermodal double-stack operations have not been directly or specifically addressed by the Board in URCS

[8] For example, Norfolk Southern is undertaking a $151 million project raising clearances on its "Heartland Corridor" from Hampton Roads to Chicago, including modifying 28 tunnels, to accommodate double stack containers See http://www.nscorp.com/nscportal/nscorp/Media/News%20Releases/2007/heartland.html

Likewise, URCS has not adapted to significant changes in intermodal equipment ownership, namely increasing private ownership, as presented in the following chart [9]



Equipment ownership for other types of traffic highlights other glaring and persistent anomalies in URCS For example, URCS still reflects a component for car costs even when the URCS is being used in proceedings involving private tank car shipments of chemical products. Unlike double-stack intermodal, which is a relatively recent innovation, rail tank car ownership by shippers and private car companies has existed for many decades. This is particularly important for the chemical and petrochemical industries which ship most of their production in private tank cars. The disconnect between car cost paid by the shipper and car compensation

[9] Source Intermodal Association of North America, http://www.intermodal.org/statistics_files/stats11.shtml

paid by the railroads has led many if not most tank car shippers to convert to "zero mileage" rates which separate the car cost and the transportation cost.

Similarly, despite the growing use of unit trains to move coal from the Powder River Basin and elsewhere, unit train cost calculation based upon the URCS phase III cost model still use a variable cost for switching that is based upon non-unit train movements This point relates to the Ex Parte No 270 (Sub-No 4) studies mentioned above. That ICC proceeding estimated multiple car and unit train costs by applying adjustment factors to the cost of single car shipments. The use of such factors, while an improvement at the time over the prior methods, is now clearly out of date after decades of application without systematic review. Unit train costs in particular have been thoroughly studied and quantified in numerous stand-alone cost cases. Extensive current data is available which could enable fact-based adjustments rather than continued reliance on assumptions and general adjustment factors based on studies conducted decades ago.

Indeed, as noted above, several components of URCS are based upon data dating back to the era of steam locomotives. Studies conducted and submitted in evidence before the ICC were used more broadly in RFA. Factors based on those studies became part of the structure of RFA. When URCS was first introduced and subsequently adopted by the ICC many of the factors based on RFA studies migrated into URCS Some justification for this may exist if URCS had been intended to be used only during some transitional phase. However such justification is weaker with each passing year since 1989, when URCS was adopted by the ICC, and is completely untenable when Congress has mandated that URCS be kept updated.

In light of these glaring shortcomings in URCS, proposing to make a selective adjustment relating to the supposed extra costs of hazardous materials transportation – especially when

recent evidence casts serious doubt on the existence of such costs – would be arbitrary and unwarranted.

IV. Existing Evidence Does Not Indicate a Need to Update URCS With Reference to Hazardous Materials Shipments

In its recent proceeding in Ex Parte No 677 (Sub-No. 1), Common Carrier Obligation of Railroads – Transportation of Hazardous Materials, the Board expended considerable effort exploring the claims of the major railroads that the transportation of hazardous materials was imposing "ruinous liability" on the rail freight industry. Following the submission of comments, a day of public hearings, and invitations to railroads to submit evidence indicating what their costs relating to hazardous materials shipments actually were, the picture that emerged was far removed from the rhetorical claims of "ruinous liability." Instead, the evidence showed that, while some railroads have faced one-time costs from the settlement of claims arising from accidental releases of hazardous materials, these costs are not recurring.

In fact, Chlorine Institute testimony submitted in Ex Parte No 677 (Sub-No. 1) showed that railroad casualties and insurance costs had declined considerably over the 2003 to 2007 period Railroads have not substantiated nor quantified their asserted increases in casualties and insurance premiums, much less associated those claimed premiums with "hazmat" traffic To the extent railroad insurance policies cover general operations, it would be arbitrary and unsupportable to allocate those costs to hazmat shipments. In the absence of evidence that there are *ongoing, quantifiable costs relating solely to hazardous materials transportation, there is no*

warrant whatever to expend scarce Board resources on an adjustment to URCS for hazardous material shipments.[10]

To underscore some of the evidence showing that any identifiable costs are non-recurring and within the range of year-to-year fluctuation in casualty costs, the following excerpt from the Norfolk Southern 2004 10 K report[11] discusses the estimated costs of the Graniteville incident. The cost increases related to the Graniteville incident of $30 to $40 million projected by NS for the first Quarter 2005 were comparable in magnitude to the cost decreases of $30 million reported by NS for casualties and other claims in 2004

> **Casualties and other claims** expenses (including the estimates of costs related to personal injury, property damage and environmental matters) decreased 17% in 2004 compared to 2003 The decline reflected favorable personal injury and freight claims development and higher insurance settlements, partially offset by increased derailment expenses.
>
> On Jan 6, 2005, a derailment occurred in Graniteville, SC. NS Rail expects the first quarter of 2005 to reflect operating expenses related to this incident of between $30 million and $40 million (pretax) The amount includes NS Rail's self-insured retention under its insurance policies, as well as other uninsured costs. Although potential losses may exceed self-insured retention amounts, NS Rail expects at this time that insurance coverage is adequate to cover such potential claims or settlements This amount does not include any fines or penalties that could be imposed
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> * * *
>
> **Operating Expense Variances Increases (Decreases) 2004 vs. 2003*** ***($ in millions)***
>
> | | |
> |---|---|
> | Compensation and benefits | $ 83 |
> | Materials, services and rents | 120 |
> | Conrail rents and services | (115) |

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[10] See, e g., Fin Dkt. No. 33726, Western Coal Traffic League v Union Pacific R. Co (decision served May 10, 2000) (non-recurring special charges may be excluded from URCS). For example, certain costs associated with service degradations following the UP-SP merger were treated as special charges

[11] Source: NS 2004 10 K Report to SEC, pages 24 and 26.
http://www.sec gov/Archives/edgar/data/702165/000070216505000071/nsc10k04.pdf

Depreciation	90
Diesel fuel	69
Casualties and other claims	(30)
Other	27
Total	$244

*Includes $107 million of costs related to NS' voluntary separation in 2003.

Although NS has never provided complete or transparent information about its costs relating to Graniteville, it appears from the foregoing that such costs were within the bounds of normal year-to-year fluctuations in costs, and able to be met using a combination of self-insurance and NS's general casualty insurance coverage. To the extent that Graniteville did impose a quantifiable cost, therefore, it was non-recurring [12]

General umbrella or excess insurance coverage (which appears to have paid for some of NS's Graniteville liability) cannot fairly be allocated to hazardous materials transportation because such insurance covers all traffic Under longstanding processes for applying costs under URCS, these generally applicable charges cannot be apportioned arbitrarily to one narrow category of traffic. In fact, the casualties and insurance costs are broadly allocated in URCS costs to diverse cost areas including freight car costs, locomotive unit mile costs, gross ton mile costs and switching costs.

Were the Board nonetheless to initiate a rulemaking on this subject and undertake an examination of whether there are costs associated uniquely with hazardous materials transportation, there would be additional difficult issues. For example, what would be the scope

[12] The NS R-1 Annual Reports to the Board include on Schedule 410 changes in NS Casualties and Insurance costs corresponding to the increases and decreases described above and reported in the NS 10K Reports to the SEC. The data for all the major Class I railroads confirm that with rare exceptions the casualties and insurance data reported on the Schedule 410 for the years 2003 through 2007 flowed through into URCS costs. The data indicates that the casualties and insurance costs associated with Graniteville were reported on the R-1 Annual Report and were included in URCS

of the definition of "hazardous materials"? Thousands of substances are classified as hazardous materials, and many types of rail shipments incorporate some quantity of hazardous materials, including new automobiles routinely shipped with gasoline tanks partially full, shipments of packaged household products moved in boxcars, trailers and containers, and many more

Needless to say, if the Board were to initiate the contemplated rulemaking, shippers could not even begin to comment in a fully informed manner without extensive discovery of railroad costs and their communications with their insurers concerning how their insurance rates are calculated, what they cover, etc. Based upon past experience, railroads would be reluctant, to say the least, to disclose this information, and the Board would doubtless be called up to adjudicate numerous disputes regarding discovery

V. The Board's Proposal Is Inconsistent with Its Decisions Rejecting Movement-Specific Adjustments to URCS

The Board should not engage in piece-meal modifications to URCS for many of the same reasons it has decided not to permit movement-specific adjustments to URCS in large and small rate cases The underlying objective of movement-specific adjustments to URCS is to more accurately reflect the variable cost of providing a specific transportation service, in contrast to the system-average variable cost produced by URCS. In the ANPR, the Board proposes to modify URCS itself to better capture the costs of hazardous material transportation. Both types of URCS modifications have the same objective.

In Ex Parte No. 657 (Sub-No. 1), Major Issues in Rail Rate Cases (decision served Oct. 30, 2006), at page 51, the Board concluded that, "as a matter of econometric theory, piecemeal or incomplete adjustments to URCS are suspect." The Board noted that there are hundreds of individual expense categories that URCS uses to estimate the variable cost of a movement, and

that selective replacement of system-average costs with movement-specific costs may bias the entire analysis *Id.* at 51-52 Similarly, the many components of URCS means that a change to just one component without proper modifications to other components is likely to create a similar bias.

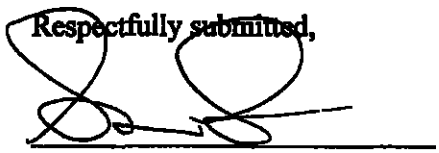
The Board also concluded that the complexity, expense and time associated with movement-specific URCS adjustments require "massive discovery." *Id* at 50. This is even more true for any proposed change to URCS itself. Most of the cost data is in the possession of the railroads, to the extent it exists at all Although shippers are seriously affected by any change to URCS, they cannot meaningfully participate in this proceeding without such discovery.

The rail industry has not demonstrated any need for this rulemaking. Rather, the Board initiated this proceeding *sua sponte* Despite ample opportunities to present evidence of hazardous material transportation in prior Board proceedings, the rail industry has made only broad generalizations without any attempt at quantification. For example, in Ex Parte No. 677 (Sub-No. 1), Common Carrier Obligation of Railroads—Transportation of Hazardous Materials, the railroads reported very few recurring and quantifiable costs associated solely with the transportation of hazardous materials. In Ex Parte No. 646 (Sub-No. 1), Simplified Standards for Rail Rate Cases, at 58 (decision served Sept. 5, 2007), some railroads identified broad categories of cost associated with hazardous material movements, but made no attempt to quantify them In the absence of any ability to quantify these alleged costs, this proceeding is premature

VI. Conclusion

For all of the foregoing reasons, initiating a rulemaking that would contemplate a piecemeal adjustment of URCS to reflect costs that are supposedly recurring and uniquely associated with the transportation of hazardous materials would be arbitrary and unwarranted.

Respectfully submitted,



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APPENDIX 1

.Background of the Uniform Rail Costing System and Uniform System of Accounts

A. Foundation and purpose of URCS/USOA

Class I railroads are required to keep records in accordance with the USOA and to file annual reports and other cost and operational data These data are used by the Board to determine a carrier's system-wide average variable cost of providing service, using the URCS, the Board's general purpose costing system. The predecessor of URCS was Rail Form A. Both are general purpose costing systems which produce estimates of variable costs.

Variable costs are railroad expenses that vary with output or the level of service provided by the carrier. These costs are key components in the Board analyses of rate reasonableness. The Board may consider the reasonableness of a challenged rail rate only if the carrier has "market dominance" over the traffic at issue. The relevant statute precludes a finding of market dominance where the revenue produced by the movement is less than 180 percent of the carrier's variable cost of providing the service Moreover, if the Board finds that a carrier has market dominance and that its rate is unreasonably high, the Board may not prescribe a maximum rate that is less than 180 percent of the variable cost of providing the service at issue.[1]

The USOA was adopted by the Interstate Commerce Commission ("ICC") in 1906 The 1906 USOA was later used as the primary input to Rail Form A ("RFA"), the general purpose costing system introduced by the ICC in 1939. The 1906 USOA was substantially revised when

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[1] Source Numerous Board proceedings including Ex Parte No. 589, Calculation of Variable Costs in Rate Complaint Proceedings Involving Non-Class I Railroads (decision served March 21, 2003)

a new and expanded USOA was adopted by the ICC in 1978 The 1978 USOA greatly expanded the specificity and detail of the accounting system. This greater detail and specificity was one of the foundations of URCS.

URCS was introduced by the ICC as a replacement for the RFA general purpose costing system in 1981. URCS and RFA were both used in ICC proceedings during the 1980's and URCS was adopted by the ICC as its general purpose costing system in 1989.

B. The basic structure of URCS and RFA

The basic structures of the URCS and RFA general purpose costing systems are similar. The accounts recorded in the USOA and reported in Annual Reports to the ICC and Board comprise the most important inputs to both the URCS and RFA general purpose costing systems Both URCS and RFA systems produce estimates of average variable costs Both URCS and RFA systems apply variability factors to total freight expense to develop variable costs. Variable costs are then allocated to service units and output metrics in both URCS and RFA to enable estimates of shipment costs.

C RFA Cost variability factors

RFA generally followed a simpler process than URCS. One of the most important components of variable cost estimates is the variability factor applied to total freight expense Under Rail Form A the estimates of cost variability had developed to the following level by the 1970's. As the decade of the 1970's opened, an overall RFA variability factor of 80 percent was applied to freight operating expenses, rents and taxes. This overall 80% factor was replaced by a series of factors ranging from 44% to 97% for individual expense accounts and groupings of expense accounts. That series of factors was based on a study by the ICC Section of Cost and

Valuation [2] The data used in the study consisted of a cross section analysis of the expenses of all Class I railroads for five study years· 1966, 1967, 1968, 1969 and 1970.

Return on Road Property was not included in the ICC data analysis and was assigned a variability of 50%. Return on Equipment Property was not included in the data analysis and was assigned a variability of 100% Net rents (Accts. 503-508 and 536-541) was also not included in the data analysis and was assigned a variability of 100%.[3]

D. URCS Cost variability factors

URCS develops costs through three Phases.[4] Phase I develops the data base and cost relationships. Phase II develops unit costs Phase III applies the unit costs to develop shipment costs.

Phase I consists of three parts

- Development of a rail data base based on the USOA, the Annual reports of the carriers and other data
- Development of relationships among the expenses and various measures of output
- Regression analysis to produce cost relationships and cost equations linking specific accounts or account groups with metrics of railroad activity

Phase II applies the regressions, relationships and equations of Phase I to produce unit costs. Phase II uses as a fall back or default the treatment of similar accounts and it also uses the Rail

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[2] Source ICC Bureau of Accounts, Washington, D.C. See for example, The 1975 Rail Carload cost Scales, Statement No 1C1-75 issued by the ICC Bureau of Accounts

[3] Source ICC Bureau of Accounts, Washington, D C. 1975 Rail Carload cost Scales, Statement No 1C1-75 op cit. Appendix F

[4] Source: ICC Bureau of Accounts, Washington, D.C. 1981 Preliminary 1979 Rail Cost Study, Uniform Rail Costing System, September 14, 1981.

Form A results as a default. Phase III applies the Phase II unit costs to develop the average variable costs of a given shipment.

E. Comparison of Rail Form A and URCS

RFA and URCS are similar in design and structure. Each adopts an approach based on accounting data. Each relies on "special studies", and in many instances the same "special studies" to allocate costs when the annual data and regression analyses are inconclusive URCS still uses many outdated Rail Form A factors and Rail Form A "special studies" The use of RFA "special studies" and factors, while understandable in 1981, is difficult to support more than 27 years later, in 2009. URCS makes far too much use of outdated Rail Form A factors and Rail Form A "special studies."