

**ASSOCIATION
OF AMERICAN
RAILROADS**

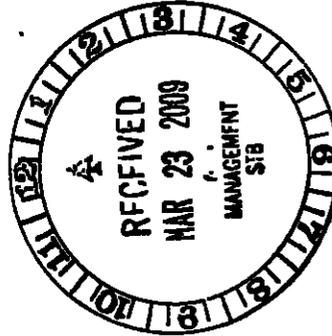
224729

John T. Gray
Senior Vice President - Policy & Economics

March 23, 2009

The Honorable Anne K. Quinlan
Acting Secretary
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

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Dear Ms. Quinlan,

This submission is in response to the STB Ex Parte No. 290 (Sub-No. 4) decision served late March 20, 2009. In that decision, the Surface Transportation Board modified its measure of the change in railroad productivity that went into effect on March 1, 2009. The original decision, served February 5, 2009, calculated the five-year geometric average change in railroad productivity for the period of 2003 through 2007 as 1.2 percent per year. The modified decision revises the change in productivity to 1.5 percent per year. This revision causes the Productivity Adjustment Factor that we submitted on March 5 to change slightly, and a change in the Productivity Adjustment Factor will affect the RCAF (Adjusted). However, the change in the recalculated RCAF (Adjusted) was so small that there is **no change** in its rounded version. Two pages (in addition to the cover letter) from our original submission have therefore been updated, and are attached to this letter.

	<u>2009Q1</u>	<u>2009Q2</u>	<u>% Change</u>
All-Inclusive Index	100.8	94.9	-5.9
Preliminary RCAF	1.008	0.949	-5.9
Forecast Error Adjustment	0.014	-0.099	
RCAF (Unadjusted)	1.022	0.850	-16.8
Productivity Adjustment Factor	2.1878	2.1959 revised	
RCAF (Adjusted)	0.467	0.387 no change	-17.1
PAF-5	2.3120	2.3189	
RCAF-5	0.442	0.367	-17.0

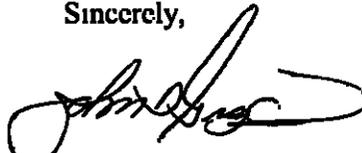
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There are no workpapers for this submission since the attached pages are self explanatory
The table below shows the calculation for the RCAF-Adjusted Questions should be directed to
me or Clyde Crimmel (202 639-2309) of this office

	Original	Modified	Comment
RCAF (Unadjusted)	0 850	0 850	Not affected by STB revision
Productivity Adjustment Factor	2 1944	2 1959	Recalculated using STB revision
RCAF (Adjusted) -- unrounded	0 38735	0 387085	RCAF-U divided by PAF
RCAF (Adjusted)	0.387	0.387	No change

Sincerely,



John T Gray

Attachments

Productivity

Revised March 23, 2009

On March 20, 2009, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No 4) which modified its earlier decision adopting a five-year geometric average change in railroad productivity for 2003-2007 of 1.2 percent. The revised average is 1.5 percent per year. The components of this average annual value are shown on the following table in ratio format – therefore, 1.015 is the same as an increase of 1.5 percent. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the five productivity changes together and taking the result to the one fifth power. The quarterly productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate which are the fourth root of the average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

Comparison of Output, Input, & Productivity			
2003 - 2007			
Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (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
Average			1.015
Previous Average (2002-2006)			1.012

STB's revised figures

Revision causes bolded numbers in this table to change

¹ The values shown in Column 3 are based on full float calculations and may not exactly match numbers calculated using the rounded numbers displayed in Columns 1 and 2.

Calculation of PAF and PAF-5			
For 2003-2007, use fourth root of avg. productivity change = 1.0037			
For 2002-2006, use fourth root of avg. productivity change = 1.0030			
Quarter	Year	PAF	PAF-5
Q1	2009	2.1878	2.3120
Q2	2009	2.1959	2.3189
Q3	2009	2.2040	2.3259
Q4	2009	2.2122	2.3329
Q1	2010	2.2204	2.3415

Rail Cost Adjustment Factor Second Quarter 2009 Revised 3/23/2009

The STB March 20 revision to its change in productivity caused the Productivity Adjustment Factor to change, but the change was not big enough to have an impact on the RCAF (Adjusted) In the second quarter filing, the RCAF-5 does not yet use new productivity numbers, so it is not affected by the STB's revision Two versions of the RCAF are not modified for productivity (Preliminary RCAF and RCAF Unadjusted) The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below The number affected by the STB revision is in bold

	Previous 2009Q1	Current 2009Q2	Percent Change
All-Inclusive Index ¹	100.8	94.9	-5.9
Preliminary RCAF ²	1.008	0.949	-5.9
Forecast Error Adjustment ³	0.014	-0.099	
RCAF (Unadjusted) ⁴	1.022	0.850	-16.8
Productivity Adjustment Factor ⁵	2.1878	2.1959 revised	
RCAF (Adjusted) ⁶	0.467	0.387	-17.1
PAF-5 ⁷	2.3120	2.3189	
RCAF-5 ⁸	0.442	0.367	-17.0

¹ See All-Inclusive Index on page 3

² All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0)

³ The current figure is from Forecast vs Actual All-Inclusive Index in this filing (page 4) The previous quarter figure is shown in a similar section of the previous quarter's filing

⁴ Preliminary RCAF plus the forecast error adjustment

⁵ See Productivity on page 5

⁶ RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF)

⁷ See Productivity on page 5

⁸ RCAF (Unadjusted) divided by the PAF-5