



ASSOCIATION OF
AMERICAN RAILROADS

226733
226734

Law Department
Louis P. Warchot
Senior Vice President-Law
and General Counsel

ENTERED
Office of Proceedings

MAR 30 2010

Part of
Public Record

March 30, 2010

Honorable Cynthia T. Brown
Chief, Section of Administration
Surface Transportation Board
395 E St., S.W.
Washington, DC 20423

Re: Ex Parte No. 290 (Sub-No. 4), Railroad Cost Recovery Procedures—Productivity Adjustment

Ex Parte No. 290 (Sub-No.5), Quarterly Rail Cost Adjustment Factor (2010-2)

Dear Ms. Brown:

In response to the Board's March 26, 2010 Decision in Ex Parte No. 290 (Sub-No. 4), Railroad Cost Recovery Procedures—Productivity Adjustment, attached please find the comments of the Association of American Railroads (AAR) for filing in the above proceedings. A copy of the AAR's Comments has been served on all parties on the Board's service list in this proceeding.

Respectfully submitted,

Louis P. Warchot
Counsel for the Association of
American Railroads

Attachments

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 290 (Sub – No.4)

RAILROAD COST RECOVERY PROCEDURES—PRODUCTIVITY ADJUSTMENT

STB Ex Parte No. 290 (Sub – No.5)

QUARTERLY RAIL COST ADJUSTMENT FACTOR (2010-2)

COMMENTS OF THE
ASSOCIATION OF AMERICAN RAILROADS

Of Counsel:

Paul A. Guthrie
J. Michael Hemmer
Paul R. Hitchcock
Theodore K. Kalick
Jill K. Mulligan
Roger P. Nober
David C. Reeves
Louise A. Rinn
John M. Scheib
Peter J. Shutz
Richard E. Weicher

Louis P. Warchot
Association of American Railroads
425 3rd St, SW
Washington, DC 20024
(202) 639-2502

Kenneth P. Kolson
10209 Summit Avenue
Kensington, MD 20895

*Counsel for the Association of
American Railroads*

March 30, 2010

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 290 (Sub – No.4)

RAILROAD COST RECOVERY PROCEDURES—PRODUCTIVITY ADJUSTMENT

STB Ex Parte No. 290 (Sub – No.5)

QUARTERLY RAIL COST ADJUSTMENT FACTOR (2010-2)

COMMENTS OF THE
ASSOCIATION OF AMERICAN RAILROADS

Introduction

In a decision served March 26, 2010, the Surface Transportation Board (“Board”) corrected its proposed productivity calculation in its February 1, 2010 decision in the above proceeding and issued a corrected productivity calculation for the 5-year period 2004-2008.¹ The Association of American Railroads (“AAR”), on behalf of its member railroads, hereby submits these comments in response to the Board’s March 26, 2010 decision.

Pursuant to the Board’s decision, Attachment A constitutes the AAR’s quarterly RCAF-A and RCAF-5 productivity-adjusted calculations affected by the respective

¹ The Board noted its inadvertent use of masked revenues from the waybill records in both the 2007 and 2008 calculations and the exclusion of certain waybill records in the 2007 calculations. As found by the Board, “ for the corrected 2008 productivity adjustment, the Board’s calculation of the output index for 2007 of 1.014 should be modified to 1.000, and the Board’s calculation of the output index for 2008 of 0.967 should be modified to 0.990. As a result, the corrected 5-year geometric mean of the annual change in productivity for the 2004-2008 period is 1.012 (or 1.2% per year).” March 26 Decision at 1.

productivity averaging periods of 2004-2008 and 2003-2007 required to be submitted to the Board under the procedures adopted in Ex Parte No. 290 (Sub-No. 5), *Quarterly Rail Cost Adjustment Factor*.

Attachment A provides the calculation of three versions of the RCAF as required by the procedures adopted by the Board in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment—Implementation* (served Oct. 3, 1996), 1 S.T.B. 739 (1996): the Unadjusted RCAF; the RCAF-Adjusted (“RCAF-A”) (i.e., the RCAF adjusted for productivity pursuant to the methodology adopted in Ex Parte No. 290 (Sub-No.4), *Railroad Cost Recovery Procedures—Productivity Adjustment*, 5 I.C.C. 2d 434 (1989); and the RCAF-5 (the RCAF adjusted for productivity pursuant to the methodology created by the Board in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment—Implementation* (served Oct. 3, 1996).

The RCAF-A was originally adopted as a multi-year average of annual productivity growth but was modified to a five-year moving average period in *Productivity Adjustment—Implementation*, 9 I.C.C. 2d 1072 (1993). The RCAF-5 is a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment. The methodology for calculating the RCAF-5 is the same as that used to calculate the RCAF-A. The only difference between the calculation of the RCAF-5 and the RCAF-A is in the timing of the application of the 5-year productivity trend. The RCAF-5 uses 5-year productivity trend data that lag the data used to calculate the RCAF-A by three quarters. See 1 S.T.B. at 749.

The AAR's RCAF filing incorporates the Board's corrected productivity adjustment for the period 2004-2008 and also uses the corrected 2007 output index data to calculate the relevant productivity adjustment factors and the RCAF-A and RCAF-5 that result from the corrected productivity adjustment factors.

As noted above in footnote 1, in its March 26, 2010 decision the Board found errors in and modified the output indices for *both* 2007 and 2008. The Board, however, made no change in the productivity calculation for the 2003-2007 period even though the 2007 output index was wrongly calculated.

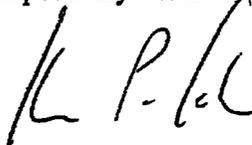
Based on the corrected 2007 output index, the AAR's calculations show an overstatement of productivity (1.5 percent vs. 1.2 percent) for the 2003-2007 period. (The AAR's calculations for the 2003-2007 period are also set forth in Attachment A.) Because this result will be carried forward in future productivity calculations, it affects the current calculation of the RCAF-5 and the RCAF-A.

The AAR accordingly urges the Board to: (1) correct the productivity calculation for the period 2003-2007 (as set forth in Attachment A) so that it conforms to the corrected 2007 output index; (2) recalculate the appropriate productivity adjustment factors affected by the correction to the average 2007 productivity calculation; and (3) recalculate RCAF-A and RCAF-5 values that result from the corrected productivity adjustment factors. The Board's correction of an admitted ministerial error in its productivity calculation for an applicable 5-year productivity averaging period that is the current subject of calculation before the Board would be clearly consistent with the Board's role in the RCAF process.

Conclusion

The AAR has submitted in Attachment A quarterly RCAF-A and RCAF-5 calculations for the five year averaging periods for 2004-2008 and 2003-2007. The calculations for the 2004-2008 period are provided pursuant to the Board's decision. The Board should also accept the AAR's calculations in Attachment A for 2003-2007 and correct its productivity calculation for that period as applicable to both the RCAF-A and RCAF-5 productivity adjustments so that it conforms to the corrected 2007 output index.

Respectfully submitted,



Louis P. Warchot
Association of American Railroads
425 3rd St, SW
Washington, DC 20024
(202) 639-2502

Kenneth P. Kolson
10209 Summit Avenue
Kensington, MD 20895

*Counsel for the Association of
American Railroads*

March 30, 2010

ASSOCIATION
OF AMERICAN
RAILROADS

John T. Gray
Senior Vice President - Policy & Economics

March 30, 2010

The Honorable Cynthia T. Brown
Chief, Section of Administration
Surface Transportation Board
395 E Street, SW.
Washington, DC 20423-0001

Dear Ms. Brown:

This submission is in response to the STB Ex Parte No. 290 (Sub-No. 4) decision served late March 26, 2010, and its impact on the AAR's March 5, 2010, submission in Ex Parte No. 290 (Sub-No. 5)(2010-2), *Quarterly Rail Cost Adjustment Factor*. In the STB's (Sub-No. 4) decision, it corrected its measure of the change in railroad productivity for the 2004-2008 averaging period. The correction involved output indexes for 2007 and 2008 that were used to compute the five-year average. The resulting five-year geometric average change in productivity for the 2004-2008 period was 1.2 percent instead of the 1.0 percent originally calculated. The Board did not address the impact of its revised 2007 output index on the 2003-2007 averaging period. (The average change in productivity for the 2002-2006 period, the 2004-2008 period, and a requested-corrected 2003-2007 period all happen to be 1.2 percent.)

Attached to this letter are six pages. Page A1 shows the RCAF if the 2003-2007 average change in productivity had used the correct output index for 2007. The AAR believes that the Board should revise its 2003-2007 average change in productivity, revise productivity adjustment factors affected (Productivity Adjustment Factor and PAF-5), and revise any RCAF A or RCAF-5 that would change because of revised productivity adjustment factors. Page A2 shows the 2007 productivity change as calculated by the Board in its March 20, 2009 decision. Page A3 shows a corrected version of productivity for 2007, and calculates corrected productivity adjustment factors through 2011Q1. Page A4 compares the RCAF-A and RCAF-5 to their corrected versions, enabling one to see the impact of a revised productivity adjustment. Page B1 shows the RCAF if the 2003-2007 average change in productivity issue is ignored. A companion page B2 shows the productivity adjustment factors through first quarter 2011 without any changes to previously used productivity adjustment factors. We believe this provides the Board with all of the information it needs to correct everything affected by the using a wrong productivity change for 2007's 2003-2007 average (pages A1 through A4).

Page 2
March 30, 2010

Our original March 5, 2010, filing (including all Appendices) is unchanged with the exception of the following pages: the two-page cover letter, the page 5 productivity page, and the page 6 RCAF calculation. There are no workpapers for this submission since the attached pages are self explanatory. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Gray", with a long horizontal flourish extending to the right.

John T. Gray

Attachments

Rail Cost Adjustment Factor

Second Quarter 2010, Revised March 30, 2010

This page has productivity adjustment factors reset to their correct level.

Endorsed by AAR

This page utilizes corrected productivity adjustment factors (PAF and PAF-5) that would result from the STB's 2007 average productivity if it had been based on the output index for 2007 that was corrected on March 26, 2010. The Productivity Adjustment Factor and PAF-5 have been restated to their correct levels, and the resulting RCAF-A and RCAF-5 differ from the numbers filed by the AAR on March 5, 2010.

	Previous 2010Q1	Current 2010Q2	Percent Change
All-Inclusive Index ¹	104.5	104.4	-0.1
Preliminary RCAF ²	1.045	1.044	-0.1
Forecast Error Adjustment ³	-0.007	0.016	
RCAF (Unadjusted) ⁴	1.038	1.060	2.1
Productivity Adjustment Factor ⁵	2.2142	2.2208	
RCAF (Adjusted) ⁶	0.469	0.477	1.7
PAF-5 ⁷	2.3399	2.3469	
RCAF-5 ⁸	0.444	0.452	1.8

¹ Not Impacted by productivity adjustment factor.

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 the March 5 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, not impacted by productivity

⁵ See revised Productivity on page A3.

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

⁷ See revised Productivity on page A3.

⁸ RCAF (Unadjusted) divided by the PAF-5

Productivity - Using STB's March 20, 2009 Decision for 2007
 (These productivity adjustment factors were used to calculate past RCAF-As and RCAF-5s)
The AAR believes this should be corrected.

On March 20, 2009, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which modified its earlier decision that added the year 2007 to the Productivity Adjustment Factor (PAF) and deleted the year 2002. The revised decision creates a geometric average annual productivity change for 2003 through 2007 of 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. **This average productivity change is incorrect based on data from the STB's March 26, 2010 decision.**

This number was later determined to be wrong in the STB's March 26, 2010 decision - meaning the average is wrong.

 The result of the wrong average being used is that the PAF and PAF-5 that used the 2003-2007 average are also wrong.

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	1.048	1.024	0.994
2007	1.014	0.996	1.018
Average			1.015
Previous Average (2002-2006)			1.012

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

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

Productivity for 2007 Recalculated with STB Correction for 2007 Output

As shown below, the 2003-2007 productivity change would have been 1.2 percent instead of 1.5 percent if the STB's March 26, 2010, correction had been used at that time. The difference impacts the Productivity Adjustment Factors (the PAF and PAF-5) that are used to adjust the RCAF-U for productivity. Corrected factors are listed below through 2011-Q1.

**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	1.000	0.996	1.004
Average			1.012
(A 1.012 in ratio format equals 1.2 percent.)			
Previous Average (2002-2006)			1.012

Corrected output index results in 1.2 percent average instead of 1.5 percent.

Bold, numbers, future, past, and present, have been corrected.

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 2004-2008, use fourth root of 1.2% productivity change = 1.0030
 For 2003-2007, use fourth root of avg. productivity change = 1.0030
 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	2.1944	2.3189
Q3	2009	2.2010	2.3259
Q4	2009	2.2076	2.3329
Q1	2010	2.2142	2.3399
Q2	2010	2.2208	2.3469
Q3	2010	2.2275	2.3539
Q4	2010	2.2342	2.3610
Q1	2011	2.2409	2.3681

RCAF-A Comparison

Quarter	RCAF (Unad- justed)	As Filed		If Corrected		Difference RCAF (Adjusted)
		Productivity-Adj. Productivity Adjustment Factor	RCAF (Adjusted)	Productivity-Adj. Productivity Adjustment Factor	RCAF (Adjusted)	
1Q 2009	1.022	2.1878	0.467	2.1878	0.467	
2Q 2009	0.850	2.1959	0.387	2.1944	0.387	0.000
3Q 2009	0.938	2.2040	0.426	2.2010	0.426	0.000
4Q 2009	0.996	2.2122	0.450	2.2076	0.451	0.001
1Q 2010	1.038	2.2204	0.467	2.2142	0.469	0.002
2Q 2010	1.060	2.2271 *	0.476	2.2208	0.477	0.001

* Using STB's March 26, 2010 productivity decision for 2008, but ignoring impact to 2007.

RCAF-5 Comparison

Quarter	RCAF (Unad- justed)	As Filed		If Corrected		Difference RCAF-5
		Productivity-Adj. PAF-5	RCAF-5	Productivity-Adj. PAF-5	RCAF-5	
1Q 2009	1.022	2.3120	0.442	2.3120	0.442	
2Q 2009	0.850	2.3189	0.367	2.3189	0.367	
3Q 2009	0.938	2.3259	0.403	2.3259	0.403	
4Q 2009	0.996	2.3329	0.427	2.3329	0.427	
1Q 2010	1.038	2.3415	0.443	2.3399	0.444	0.001
2Q 2010	1.060	2.3502	0.451	2.3469	0.452	0.001

Rail Cost Adjustment Factor

Second Quarter 2010, Revised March 30, 2010

This page ignores any changes that should have been made to 2007 productivity.

Not endorsed by AAR

The STB's March 26, 2010, 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 2010Q1	Current 2010Q2	Percent Change
All-Inclusive Index ¹	104.5	104.4	-0.1
Preliminary RCAF ²	1.045	1.044	-0.1
Forecast Error Adjustment ³	<u>-0.007</u>	<u>0.016</u>	
RCAF (Unadjusted) ⁴	1.038	1.060	2.1
Productivity Adjustment Factor ⁵	2.2204	2.2271 revised	
RCAF (Adjusted) ⁶	0.467	0.476	1.9
PAF-5 ⁷	2.3415	2.3502	
RCAF-5 ⁸	0.443	0.451	1.8

¹ Not impacted by productivity adjustment factor.

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 the March 5 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, not impacted by productivity.

⁵ See revised Productivity on page B2.

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

⁷ Uses 2007 average productivity change.

⁸ RCAF (Unadjusted) divided by the PAF-5.

Productivity - Using Revised STB Decision for 2008

Revised March 30, 2010

This page ignores any changes that should have been made to 2007 productivity.

Not endorsed by AAR

On March 26, 2010, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which corrected its earlier decision served February 1, 2010, that added the year 2008 to the Productivity Adjustment Factor (PAF) and deleted the year 2003. The revised decision creates a geometric average annual productivity change for 2004 through 2008 of 1.2 percent per year. The components of this average annual value are shown on the following table in ratio format – therefore, 1.010 is the same as an increase of 1.0 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
2004 - 2008**

Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (3)
2004	1.033	1.057	0.977
2005	1.021	0.956	1.068
2006	1.018	1.024	0.994
2007	1.000	0.996	1.004
2008	0.990	0.970	1.021
Average			1.012
Previous Average (2003-2007)			1.015

STB's revised figures.

Revision affects bolded numbers in this table.

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 2004-2008, use fourth root of avg. productivity change = 1.0030
 For 2003-2007, use fourth root of avg. productivity change = 1.0037

Quarter	Year	PAF	PAF-5
Q1	2010	2.2204	2.3415
Q2	2010	2.2271	2.3502
Q3	2010	2.2338	2.3589
Q4	2010	2.2405	2.3676
Q1	2011	2.2472	2.3747

CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of March 2010, I served by first class mail, postage prepaid, a copy of the foregoing on all parties appearing on the Board's current service list as follows:

- Party of Record: Robert D. Rosenberg
Slover & Loftus
1224 Seventeenth Street, NW
Washington, D.C. 20036-3003
- Non-Party Carl Degen
Christensen Associates
4610 University Avenue, Ste 700
Madison, WI 53705-2164
- Non-Party Brian Trower
City of Ames, Electric Administration
P.O. box 811
Ames, IA 50010-0811
- Non-Party William W. Whitehurst, Jr.
W.W. Whitehurst & Associates, Inc.
12421 Happy Hollow Road
Cockeysville, MD 21030-1711



Kenneth P. Kolson