

**Acting Chairman Mulvey's Opening Statement  
April 30, 2009**

**STB Ex Parte No. 431 (Sub-No. 3): Review of the Surface  
Transportation Board's General Purpose Costing System**

Good morning, and welcome to our hearing on a Review of the Surface Transportation Board's General Purpose Costing System, STB Ex Parte No. 431 (Sub-No. 3). The purpose of this hearing is to examine issues related to the Board's Uniform Railroad Costing System, commonly known as "URCS." This hearing is a first step in what will be a continuing dialogue on this issue. As a reminder, we will keep the docket open until June 1, 2009 to receive comments in response to this hearing.

The Board uses URCS to determine a rail carrier's variable costs in a variety of our regulatory proceedings. URCS determines, for example, for each Class I railroad, the portion of each category of expenses shown in the carrier's Annual Report to

the Board (STB Form R-1) that represents its system-average variable unit cost for that cost category for that year.

More specifically, URCS consists of a series of computer programs and manual procedures organized into three phases.

- Phase I compiles the raw data provided by the Class I carriers, and then uses statistical estimation procedures to determine the portion of specific expense account groupings that vary with changes in the volume of activity.
- In Phase II, these cost/volume relationships are then used to develop the variable unit costs that allow costing of specific rail movements.
- Finally, in Phase III, these variable unit costs are applied to determine the costs of specific movements via an interactive computer program that permits the user to enter operating characteristic data for the specific movements under consideration.

URCS was initially adopted in 1989 by our predecessor agency, the Interstate Commerce Commission, as the general purpose costing system for the agency. The Railroad Accounting Principles Board Final Report of September 1987, on which the ICC relied, calls for a periodic review of URCS.

The Board completed its first review of URCS in 1997, at which time the system was modified to: (1) alter the procedures used to determine the variable costs associated with rail movements of intermodal traffic; (2) revise the train switching conversion factor used in the costing procedures; (3) discontinue the collection of cost data on switching and terminal companies; and (4) revise the procedure for determining the variable cost of using privately-owned rail cars. I note that, during that review, the Board was unable to take a broader effort to revise and update URCS regression equations due to a “lack of resources.” This means that the regression analyses – which establish the variability

factors -- have not been updated since 1987, more than two decades ago.

In addition to the regression analyses, it might be that the engineering relationships on which URCS relies are also in need of significant revision. Most of these special engineering and time-and-motion studies that are the foundation for the constant factors in URCS were undertaken or presented to the ICC in various proceedings from the 1930s to the 1960s. Given the enormous increase in unit train traffic as well as the rationalization and enhanced productivity of railroad operations over the past 30 years since the Staggers Act, it might well be that these engineering relationships need updating.

Finally, URCS relies on a variety of computer programs, some of which are now obsolete. At present, URCS uses FORTRAN, C++, VB Net, and VB 6, but all of our current programming is done in Visual Basic Access (VBA). If we

determine that recoding the URCS Phase II Worktables is necessary to transition URCS to current program standards, we might need to reverse-engineer the legacy program code.

In short, it is time for a new, more comprehensive review of URCS to determine whether, and to what extent, modifications are needed to account for changes in railroad operations as well as recent changes in Board procedures. I am committed to continuing to review and refinement of our costing system through periodic analyses – such as the effort we begin today – which will include public participation.

I have long indicated my personal interest in revising and updating URCS. The purpose of this hearing is to determine whether and in what ways revisions to URCS would benefit the public. We are hoping that the key stakeholders before us today can help us to define the scope of potential reform of our general purpose costing system. We know that we cannot demand

perfection. Rather, we will look at whether proposed changes would improve current procedures, and whether such changes can be implemented at a reasonable cost and without undue burden on our railroad and rail shipping industries, the public, and this agency. Our ultimate goal, however, is to ensure that the Board has a costing tool that is as accurate as possible, to enable the Board to more effectively carry out its statutory duties fairly and expeditiously.