

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2013-4)

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 fourth quarter of 2013.

Decided: September 19, 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 fourth quarter of 2013 are shown in Table A of the Appendix to this decision. Table B shows the second 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.

The weights for each major cost component of the all-inclusive cost index, on which the RCAF is based, are updated annually in order to reflect the changing mix of index components. See 49 U.S.C. § 10708. This includes rebenchmarking the wages and supplemental rates used in the labor index in the fourth quarter of each year. The weights used by AAR are based on the distribution of railway expenses for the year 2012. Similarly, AAR has used wage and supplemental rates for the year 2012 to calculate hourly labor rates that reflect the changing mix of employees.

In a decision served July 25, 2013,<sup>2</sup> the Board directed BNSF Railway Company (BNSF) to refile its R-1 report for 2010, 2011, and 2012, 60 days after the decision's August 24, 2013 effective date (October 23, 2013). In July 2013, Union Pacific Railroad Company (UP) submitted to the Board its own revised R-1 Schedules 210 and 510 for the years 2010, 2011, and 2012, to correct certain errors, yet AAR notes that it used only the corrected data from 2012 to calculate the new weights and interest index herein because BNSF's data were not yet available. This is not, however, our preferred approach, which is to use all available data to generate the most accurate calculation at any given time. While BNSF's anticipated R-1 resubmission may require further adjustments to the RCAF calculation, all known errors in the relevant data should have been addressed in the current filing. However, the Board understands that its publication of the RCAF figures in a timely fashion is important to a number of interested parties, and hence, in this instance, the Board will rely on the AAR for this calculation. While AAR states that it plans to examine the changes to all indexes once it has BNSF's revisions, AAR is directed to use all the data available to it at the time it submits its quarterly calculations. Therefore, we will direct AAR to make the adjustment for the UP 2010, 2011, and 2012 interest expense restatement, to the extent not already made, in its next quarterly submission.<sup>3</sup>

We have examined AAR's calculations, including its reweighting and rebenchmarking calculations, and we find that AAR has complied with our procedures with respect to the available data for 2012. We find that the fourth quarter 2013 RCAF (Unadjusted) is 0.975, a decrease of 0.2% from the third quarter 2013 RCAF of 0.977. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a 5-year moving geometric average of

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<sup>2</sup> Western Coal Traffic League—Petition for Declaratory Order, FD 35506, slip op. at 2.

<sup>3</sup> Interested parties may submit a petition for reconsideration to propose alternative approaches for addressing the need to correct for restated data while awaiting further modifications.

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 0.423, a decrease of 0.5% from the previously reported third quarter 2013 RCAF (Adjusted) of 0.425.<sup>4</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 fourth quarter of 2013 is 0.399, a decrease of 0.5% from the previously reported third quarter 2013 RCAF-5 of 0.401.<sup>5</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 fourth quarter 2013 RCAF (Unadjusted) of 0.975, RCAF (Adjusted) of 0.423, and RCAF-5 of 0.399.

2. AAR is directed to make the adjustment for the UP 2010, 2011, and 2012 interest expense restatement, to the extent not already made, in its next quarterly submission.

3. Notice of this decision will be published in the Federal Register.

4. The effective date of this decision is October 1, 2013.

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

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<sup>4</sup> The fourth quarter 2013 RCAF Adjusted (0.423) is calculated by dividing the fourth quarter 2013 RCAF Unadjusted (0.975) by the fourth quarter productivity adjustment factor of 2.3059. The fourth quarter 2013 productivity adjustment factor is calculated by multiplying the third quarter 2013 productivity adjustment of 2.3008 by the fourth root (1.0022) of the 2007-2011 annual average productivity growth rate of 0.9%.

<sup>5</sup> The fourth quarter 2013 RCAF-5 (0.399) is calculated by dividing the fourth quarter 2013 RCAF Unadjusted (0.975) by the fourth quarter productivity adjustment factor-5 (PAF-5) of 2.4426. The fourth quarter 2013 PAF-5 is calculated by multiplying the third quarter 2013 PAF-5 of 2.4377 by the fourth root (1.0020) of the 2006-2010 annual average productivity growth rate of 0.8%.

**APPENDIX****TABLE A**

**EP 290 (Sub-No. 5) (2013-4)**  
**All Inclusive Index of Railroad Input Costs**  
 (Endnotes Following Table B)

<b>LINE NO.</b>	<b>INDEX COMPONENT</b>	<b>2012 WEIGHT</b>	<b>THIRD QUARTER 2013 FORECAST</b>	<b>FOURTH QUARTER 2013 FORECAST</b>
1	LABOR	31.2%	390.4	385.8
2	FUEL	22.4%	375.6	399.6
3	MATERIALS AND SUPPLIES	4.9%	264.2	261.4
4	EQUIPMENT RENTS	5.6%	208.0	207.7
5	DEPRECIATION	12.1%	218.9	221.0
6	INTEREST	1.9%	92.9	73.5
7	OTHER ITEMS <sup>1</sup>	21.9%	221.4	220.0
8	WEIGHTED AVERAGE	100.0%	307.3	310.6
9	LINKED INDEX <sup>2</sup>		294.3	297.5
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR <sup>3</sup>		98.9	100.0
11	FORECAST ERROR ADJUSTMENT <sup>4</sup>		-0.012	-0.025
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		0.977	0.975
13	RCAF (ADJUSTED)		0.425	0.423
14	RCAF-5		0.401	0.399

**TABLE B**

**EP 290 (Sub-No. 5) (2013-4)**  
**Comparison of Second 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>SECOND QUARTER 2013 FORECAST</b>	<b>SECOND QUARTER 2013 ACTUAL</b>
1	LABOR	31.3%	384.9	384.9
2	FUEL	22.5%	404.3	373.1
3	MATERIALS AND SUPPLIES	5.1%	261.0	261.0
4	EQUIPMENT RENTS	5.6%	206.9	207.0
5	DEPRECIATION	11.6%	219.6	218.8
6	INTEREST	2.5%	92.9	92.9
7	OTHER ITEMS	21.4%	220.2	219.4
8	WEIGHTED AVERAGE	100.0%	311.3	304.0
9	LINKED INDEX		298.5	290.9
10	RAIL COST ADJUSTMENT FACTOR		100.3	97.8

**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 2012 weights beginning in the fourth quarter of 2013. The following formula was used for the current quarter’s index:

$$\frac{\text{4th Qr. 2013 Index (2012 Weights)}}{\text{3rd Qr. 2013 Index (2012 Weights)}} \text{ Times 3rd Quarter Linked Index (1980 = 100 Linked) Equals Linked Index (Current Quarter)}$$

Or

$$\frac{310.6}{307.3} \times 294.3 = 297.5$$

<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 fourth quarter 2013 forecast error adjustment was calculated as follows: (a) second quarter 2013 RCAF using forecasted data equals 100.3; (b) second quarter 2013 RCAF using actual data equals 97.8; (c) the difference equals the forecast error (b-a) of -2.5. Because the actual second quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.