SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2014-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Digest:[1] 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 (AAR) 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 first quarter of 2014. In addition,
the Board is including the restated RCAFs for the fourth quarter of 2011 through
the fourth quarter of 2013, which AAR filed in compliance with the Board's
November 27, 2013 decision directing AAR to restate the 2011, 2012, and 2013
RCAFs using BNSF Railway Company's and Union Pacific Railroad Company's
revised R-1 reports. The Board has also included the restated fourth quarter 2012
basing factor.

Decided: December 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

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[1] 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).

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 calculated as if a five-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

In EP 290 (Sub No. 5) (2013-1), served December 20, 2012, the Board noted that AAR's proposed rebasing calculations were verified, and complied with the statute. Because the revisions calculated by AAR affected the fourth quarter 2012 basing factor, this decision contains the revised 2012 fourth quarter basing factor, from 297.5 to 297.6. The revised rebasing calculations are shown in Table C of the Appendix.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the first quarter of 2014 are shown in Table A of the Appendix to this decision. Table B shows the restated third 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.

We have examined AAR's calculations and we find that AAR has complied with our procedures, as well as the Board's November 27, 2013 decision directing AAR to restate the 2011, 2012, and 2013 RCAFs using BNSF Railway Company's (BNSF) and Union Pacific Railroad Company's (UP) revised R-1 reports. The restated RCAFs for the fourth quarter of 2011 through the fourth quarter of 2013 were recalculated as if AAR had made the revisions in 2013 for the original filings.[2] We find that the first quarter 2014 RCAF (Unadjusted) is 0.980, an increase of 0.5% from the restated fourth quarter 2013 RCAF of 0.975. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a five-year moving geometric average of productivity change for U.S. Class I railroads from 2007-2011, which is 1.009 (0.9% per year). We find that the RCAF (Adjusted) is 0.424, an increase of 0.2% from the restated fourth quarter 2013 RCAF (Adjusted) of 0.423.[3]

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 2007-2011, which is 1.009

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[2] See Table D.

[3] The first quarter 2014 RCAF Adjusted (0.424) is calculated by dividing the first quarter 2014 RCAF Unadjusted (0.980) by the first quarter productivity adjustment factor of 2.3110. The first quarter 2014 productivity adjustment factor is calculated by multiplying the fourth quarter 2013 productivity adjustment of 2.3059 by the fourth root (1.0022) of the 2007-2011 annual average productivity growth rate of 0.9%.

(0.9% per year). We find that the RCAF-5 for the first quarter of 2014 is 0.400, an increase of 0.3% from the restated fourth quarter 2013 RCAF-5 of 0.399.[4]

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 first quarter 2014 RCAF (Unadjusted) of 0.980, RCAF (Adjusted) of 0.424, and RCAF-5 of 0.400.

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

3. The effective date of this decision is January 1, 2014.

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

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[4] The first quarter 2014 RCAF-5 (0.400) is calculated by dividing the first quarter 2014 RCAF Unadjusted (0.980) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.4480. The first quarter 2014 PAF-5 is calculated by multiplying the fourth quarter 2013 PAF-5 of 2.4426 by the fourth root (1.0022) of the 2007-2011 annual average productivity growth rate of 0.9%.

APPENDIX

TABLE A

EP 290 (Sub-No. 5) (2014-1)
All Inclusive Index of Railroad Input Costs[1]
(Endnotes Following Table D)

LINE NO.	INDEX COMPONENT	2012 WEIGHTS	FOURTH QUARTER 2013 FORECAST	FIRST QUARTER 2014 FORECAST
1	LABOR	31.3%	387.1	386.2
2	FUEL	22.4%	399.6	377.9
3	MATERIALS AND SUPPLIES	4.9%	261.4	265.9
4	EQUIPMENT RENTS	5.6%	207.7	208.7
5	DEPRECIATION	11.9%	221.0	217.8
6	INTEREST	2.0%	76.6	76.6
7	OTHER ITEMS[2]	21.9%	220.0	220.5
8	WEIGHTED AVERAGE	100.0%	311.1	306.0
9	LINKED INDEX[3]		297.8	292.9
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR[4]		100.1	98.4
11	FORECAST ERROR ADJUSTMENT[5]		-0.026	-0.004
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		0.975	0.980
13	RCAF (ADJUSTED)		0.423	0.424
14	RCAF-5		0.399	0.400

TABLE B

EP 290 (Sub-No. 5) (2014-1)
Comparison of Third Quarter 2013 Index
Calculated on Both a Forecasted and an Actual Basis[6]

Line No.	INDEX COMPONENT	2011 WEIGHT	THIRD QUARTER 2013 FORECAST	THIRD QUARTER 2013 ACTUAL
1	LABOR	31.4%	391.3	391.3
2	FUEL	22.6%	375.6	376.0
3	MATERIALS AND SUPPLIES	5.1%	264.2	264.2
4	EQUIPMENT RENTS	5.6%	208.0	207.6
5	DEPRECIATION	11.5%	218.9	217.8
6	INTEREST	2.3%	87.3	87.3
7	OTHER ITEMS	21.5%	221.4	218.8
8	WEIGHTED AVERAGE	100.0%	307.7	307.0
9	LINKED INDEX		294.4	293.1
10	RAIL COST ADJUSTMENT FACTOR		98.9	98.5

TABLE C

**Rebasing the Denominator of the RCAF
to the Fourth Quarter 2012 Level (Restated)[7]**

1.	Fourth Quarter 2012 Linked Index	299.1
2.	Second Quarter 2012 Linked Index Calculated Using Actual Data	295.5
3.	Second Quarter 2012 Linked Index Calculated Using forecasted Data	297.0
4.	Difference	-1.5
5.	Rounding adjustment to force 1.000	0.0
6.	Fourth Quarter 2012 Linked Index Adjusted for Second Quarter 2012 Forecast Error (Line 1 plus Line 4 plus Line 5)	297.6

TABLE D

Restated RCAFs 2011Q4 through 2013Q4

	Original					Restated[8]		
	PAF	PAF-5	RCAF (Unadjusted)	RCAF (Adjusted)	RCAF-5	RCAF (Unadjusted)	RCAF (Adjusted)	RCAF -5
2007Q4=100								
2011Q4	2.2645	2.3894	1.208	0.533	0.506	1.209	0.534	0.506
2012Q1	2.2724	2.3978	1.169	0.514	0.488	1.170	0.515	0.488
2012Q2	2.2769	2.4062	1.185	0.520	0.492	1.187	0.521	0.493
2012Q3	2.2815	2.4146	1.171	0.513	0.485	1.172	0.514	0.485
2012Q4	2.2861	2.4231	1.209	0.529	0.499	1.210	0.529	0.499
2012Q4=100								
2013Q1	2.2907	2.4279	0.997	0.435	0.411	0.997	0.435	0.411
2013Q2	2.2957	2.4328	1.006	0.438	0.414	1.006	0.438	0.414
2013Q3	2.3008	2.4377	0.977	0.425	0.401	0.977	0.425	0.401
2013Q4	2.3059	2.4426	0.975	0.423	0.399	0.975	0.423	0.399

Endnotes:

[1] AAR has restated the 2012 weights in compliance to our November 27, 2013 decision. The 2013 fourth quarter forecast is the restated version, not the September 5, 2013 filing. The 2012 basing factor has also been restated from 297.5 to 297.6.

[2] "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.

[3] Linking is necessitated by a change to the 2012 weights beginning in the fourth quarter 2013. The following formula was used for the current quarter's index:

1st Qr. 2014 Index
<u>(2012 Weights)</u>   Times 4th Quarter Linked Index   Equals Linked Index
4th Qr. 2013 Index   (1980 = 100 Linked)   (Current Quarter)
(2012 Weights)

Or

$\frac{306.0}{311.1}$ X 297.8 = 292.9

[4] 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). In compliance to our November 27, 2013 decision, AAR has restated the October 1, 2012 level of 297.5 to 297.6.

[5] The first quarter 2014 forecast error adjustment was calculated as follows: (a) restated third quarter 2013 RCAF using forecasted data equals 98.9; (b) restated third quarter 2013 RCAF using actual data equals 98.5; and (c) the difference equals the forecast error (b-a) of -0.4. Because the actual third quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF. Both the fourth quarter 2013 and the first quarter 2014 forecast error adjustments are recalculated using the restated October 1, 2012 level of 297.6.

[6] AAR has restated the 2011 weights in compliance to our November 27, 2013 decision. The 2013 third quarter forecast and actual are also restated versions. The 2012 fourth quarter basing factor has been restated from 297.5 to 297.6.

[7] The fourth quarter 2012 basing factor was restated using revised data from UP and BNSF.

[8] The shaded cells contain RCAF numbers that did not change as a result of the restatement.