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SERVICE DATE - DECEMBER 20, 2000

SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2001-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: December 19, 2000

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 on the fifth day of the last month of each calendar quarter. In Railroad Cost Recovery Procedures, 5 I.C.C.2d 434 (1989), aff'd sub nom. Edison Electric Institute, et al. 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, Ex Parte No. 290 (Sub-No. 7) (STB served Oct. 3, 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 (Adjusted), which reflects national average productivity changes as originally developed and applied by the ICC, is currently based on a 5-year moving average. The RCAF-5 reflects national average productivity changes 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 first quarter 2001 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 2000 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 Board's rules mandate that the weights for each major cost component of the all-inclusive cost index, on which the RCAF is based, be updated annually in order to reflect the changing mix of index components. The procedure also requires the wages and supplement rates used in the labor index to be rebenchmarked in the fourth quarter of each year. See Railroad Cost Recovery Procedures, 364 I.C.C. 841 (1981). The expenses used by AAR to calculate the updates are based on the railroads' 1999 operating expenses. We have reviewed the revised

reweighting and rebenchmarking calculations performed by AAR, and we find that they comply with the prescribed method.

We note that in October of this year, CSX Transportation revised its 1999 R-1 Annual Report to reflect its new financial reporting system. Those revisions produced very minor changes in the weights used to calculate the all-inclusive index, but somewhat more meaningful changes in the benchmark for health and welfare benefits. Cumulatively, the changes result in a lower labor index and a slightly lower (105.6 instead of 105.9) preliminary RCAF. This also means that the decision issued on September 20, 2000, slightly overstated the RCAF calculations for that period. We believe that this overstatement should be corrected using the agency's forecast error adjustment procedure for the second quarter 2001 RCAF figures. Although the situation here is not exactly what the ICC had in mind when it first established the forecast error adjustment procedure, we believe the procedure represents the best available method for correcting this slight overstatement.

Both the RCAF (Adjusted) and the RCAF-5 are currently calculated using a moving 5-year average of productivity change for U.S. Class I railroads. An average productivity change rate of 1.035 (3.5% per year) for the period 1994-1998 is currently used for the RCAF (Adjusted). In accordance with Ex Parte No. 290 (Sub-No. 7), *supra*, the RCAF-5 will also use the 1994-1998 average productivity change rate of 1.035 (3.5%) until January 1, 2002.

We have examined AAR's calculations for compliance with our procedures and find that the first quarter 2001 RCAF (Unadjusted) is 1.085, an increase of 2.2% from the fourth quarter 2000 RCAF of 1.062. The RCAF (Adjusted) is 0.597, an increase of 1.4% from the fourth quarter 2000 RCAF (Adjusted) of 0.589. The RCAF-5 is 0.574, an increase of 1.2% from the fourth quarter 2000 RCAF-5 of 0.567.

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

Pursuant to 5 U.S.C. 605(b), we conclude that our action will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708.

It is ordered:

1. The Board has approved the first quarter 2001 Rail Cost Adjustment Factor (Unadjusted) of 1.085, RCAF (Adjusted) of 0.597, and RCAF-5 of 0.574.

2. Notice of this decision will be published in the Federal Register.
3. The effective date of this decision is January 1, 2001.

By the Board, Chairman Morgan, Vice Chairman Burkes, and Commissioner Clyburn.

Vernon A. Williams
Secretary

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2001-1)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	1999 ¹ WEIGHTS	FOURTH QUARTER 2000 FORECAST	FIRST QUARTER 2001 FORECAST
1	LABOR	39.3%	245.5	254.4
2	FUEL	7.1%	123.4	129.7
3	MATERIALS AND SUPPLIES	5.3%	150.1	148.7
4	EQUIPMENT RENTS	11.4%	174.2	174.7
5	DEPRECIATION	10.6%	150.3	150.3
6	INTEREST	4.6%	94.9	94.9
7	OTHER ITEMS ²	21.7%	160.3	161.0
8	WEIGHTED AVERAGE	100.0%	188.1	192.2
9	LINKED INDEX ³		182.9	186.9
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ⁴		105.6	107.9
11	FORECAST ERROR ADJUSTMENT ⁵		0.003	0.006
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.062	1.085
13	RCAF (ADJUSTED) ⁶		0.589	0.597
14	RCAF-5 ⁷		0.567	0.574

¹ The 1999 weights were revised to reflect the revised 1999 CSX Transportation R-1 Annual Report.

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 1999 weights beginning with the fourth quarter 2000. The following formula was used for the current quarter's index:

$$\frac{\text{1st Qr. 2001 Index (1999 Weights)}}{\text{4th Qr. 2000 Index (1999 Weights)}} \text{ Times } \text{4th Quarter Linked Index (1980 = 100 Linked)} \text{ Equals } \text{Linked Index (Current Quarter)}$$

Or

$$\frac{192.2}{188.1} \times 182.9 = 186.9$$

⁴ The first quarter 1998 RCAF was rebased using the October 1, 1997, level of 173.2 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/97 = 1.00).

⁵ The first quarter 2001 forecast error adjustment was calculated as follows: a. Third quarter 2000 RCAF calculated using forecasted data equals 104.8; b. Third quarter 2000 RCAF calculated using actual data equals 105.4; c. The difference equals the forecast error (b-a) of 0.6. Since the actual second quarter value is greater than the forecast, the difference is added to the preliminary RCAF.

⁶ The first quarter 2001 RCAF Adjusted (0.597) is calculated by dividing the first quarter 2001 RCAF Unadjusted (1.085) by the first quarter productivity adjustment factor of 1.8180. The first quarter 2001 productivity adjustment factor is calculated by multiplying the fourth quarter 2000 productivity adjustment factor of 1.8025 by the fourth root (1.0086) of the 1994-1998 annual average productivity growth rate of 1.035%.

⁷ The first quarter 2001 RCAF-5 (0.574) is calculated by dividing the first quarter 2001 RCAF Unadjusted (1.085) by the first quarter productivity adjustment factor-5 (PAF-5) of 1.8888. The first quarter 2001 productivity adjustment factor is calculated by multiplying the fourth quarter 2000 PAF-5 of 1.8727 by the fourth root (1.0086) of the 1994-1998 annual average productivity growth rate of 1.035%.

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2001-1)
Comparison of Third Quarter 2000 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	1998 WEIGHT	THIRD QUARTER 2000 FORECAST	THIRD QUARTER 2000 ACTUAL
1	LABOR	39.9%	245.7	245.7
2	FUEL	7.0%	98.7	108.2
3	MATERIALS AND SUPPLIES	5.5%	147.6	147.6
4	EQUIPMENT RENTS	10.8%	175.0	175.0
5	DEPRECIATION	10.6%	150.2	150.2
6	INTEREST	4.8%	98.0	98.0
7	OTHER ITEMS	21.4%	161.3	159.9
8	WEIGHTED AVERAGE	100.0%	187.1	187.5
9	LINKED INDEX		181.6	182.5
10	RAIL COST ADJUSTMENT FACTOR		104.8	105.4