SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2005-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided:  December 17, 2004

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 2005 are shown in Table A of the Appendix to this decision.  Table B shows the third quarter 2004 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.

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 1.022 (2.2% per year) for the period 1998-2002 is currently used for both the RCAF (Adjusted) and the RCAF-5.

We have examined AAR's calculations for compliance with our procedures and find that the first quarter 2005 RCAF (Unadjusted) is 1.107, an increase of 0.9% from the fourth quarter

2004 RCAF of 1.097.  The RCAF (Adjusted) is 0.546, an increase of 0.4% from the fourth quarter 2004 RCAF (Adjusted) of 0.544.  The RCAF-5 is 0.521, an increase of 0.4% from the fourth quarter 2004 RCAF-5 of 0.519.

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 2005 Rail Cost Adjustment Factor (Unadjusted) of 1.107, RCAF, (Adjusted) of 0.546, and RCAF-5 of 0.521.

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

3.  The effective date of this decision is January 1, 2005.

By the Board, Chairman Nober, Vice Chairman Mulvey, and Commissioner Buttrey.


Vernon A. Williams
Secretary

**TABLE A**
**Ex Parte No. 290 (Sub-No. 5) (2005-1)**
**All Inclusive Index of Railroad Input Costs**

| LINE No. | INDEX COMPONENT | 2003 WEIGHTS | FOURTH QUARTER 2004 FORECAST | FIRST QUARTER 2005 FORECAST |
|---|---|---|---|---|
| 1 | LABOR | 37.5% | 286.8 | 290.3 |
| 2 | FUEL | 10.6% | 148.3 | 171.5 |
| 3 | MATERIALS AND SUPPLIES | 4.4% | 169.7 | 165.2 |
| 4 | EQUIPMENT RENTS | 9.4% | 178.3 | 179.9 |
| 5 | DEPRECIATION | 10.7% | 162.4 | 161.3 |
| 6 | INTEREST | 3.2% | 90.2 | 90.2 |
| 7 | OTHER ITEMS[1] | 24.2% | 173.3 | 176.3 |
| 8 | WEIGHTED AVERAGE | 100.0% | 209.7 | 214.0 |
| 9 | LINKED INDEX[2] | | 206.5 | 210.7 |
| 10 | PRELIMINARY RAIL COST ADJUSTMENT FACTOR [3] | | 107.5 | 109.7 |
| 11 | FORECAST ERROR ADJUSTMENT[4] | | .022 | .010 |
| 12 | RCAF (UNADJUSTED) (LINE 10 + LINE 11) | | 1.097 | 1.107 |
| 13 | RCAF (ADJUSTED)[5] | | 0.544 | 0.546 |
| 14 | RCAF-5[6] | | 0.519 | 0.521 |

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[1] "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.

[2] Linking is necessitated by a change to the 2003 weights beginning with the fourth quarter 2004. The following formula was used for the current quarter's index:

$$\frac{\text{1}^{\text{st}}\text{ Qr. 2005 Index (2003 Weights)}}{\text{4}^{\text{Th}}\text{ Qr. 2004 Index (2003 Weights)}} \quad \text{Times} \quad \frac{\text{4}^{\text{th}}\text{ Quarter Linked Index}}{\text{(1980 = 100 Linked)}} \quad \text{Equals} \quad \frac{\text{Linked Index}}{\text{(Current Quarter)}}$$

Or

$$\frac{214.0}{209.7} \quad \text{X} \quad 206.5 = 210.7$$

[3] The first quarter 1998 RCAF was rebased using the October 1, 2002, level of 192.1 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2002 = 1.00).

[4] The first quarter 2005 forecast error adjustment was calculated as follows: a. Third quarter 2004 RCAF calculated using forecasted data equals 105.5; b. Third quarter 2003 RCAF calculated using actual data equals 106.5; c. The difference equals the forecast error (b-a) of 1.0. Since the actual third quarter value is greater than the forecast value, the difference is added to the preliminary RCAF.

[5] The first quarter 2005 RCAF Adjusted (0.546) is calculated by dividing the first quarter 2005 RCAF Unadjusted (1.107) by the first quarter productivity adjustment factor of 2.0274. The first quarter 2005 productivity adjustment factor is calculated by multiplying the fourth quarter 2004 productivity adjustment factor of 2.1147 by the fourth root (1.0055) of the 1998-2002 annual average productivity growth rate of 2.2%.

[6] The first quarter 2005 RCAF-5 (0.521) is calculated by dividing the first quarter 2005 RCAF Unadjusted (1.107) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.1263. The first quarter 2005 productivity adjustment factor is calculated by multiplying the fourth quarter 2004 PAF-5 of 2.1147 by the fourth root (1.0055) of the 1998-2002 annual average productivity growth rate of 2.2%.

**APPENDIX**

**TABLE B**

**Ex Parte No. 290 (Sub-No. 5) (2005-1)**
**Comparison of Third Quarter 2004 Index**
**Calculated on Both a Forecasted and an Actual Basis**

| Line No. | INDEX COMPONENT | 2002 WEIGHT | THIRD QUARTER 2004 FORECAST | THIRD QUARTER 2004 ACTUAL |
|---|---|---|---|---|
| 1 | LABOR | 38.0% | 281.9 | 281.9 |
| 2 | FUEL | 9.0% | 137.7 | 144.7 |
| 3 | MATERIALS AND SUPPLIES | 4.6% | 160.3 | 160.3 |
| 4 | EQUIPMENT RENTS | 10.3% | 177.0 | 177.2 |
| 5 | DEPRECIATION | 10.9% | 159.6 | 160.3 |
| 6 | INTEREST | 3.7% | 98.0 | 98.0 |
| 7 | OTHER ITEMS | 23.5% | 171.4 | 171.1 |
| 8 | WEIGHTED AVERAGE | 100.0% | 206.4 | 207.1 |
| 9 | LINKED INDEX | | 202.6 | 204.5 |
| 10 | RAIL COST ADJUSTMENT FACTOR | | 105.5 | 106.5 |