SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2006-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: December 19, 2005

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 2006 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 2005 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 1.029 (2.9% per year) for the period 1999-2003 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 2006 RCAF (Unadjusted) is 1.177, a decrease of .7% from the fourth quarter

2005 RCAF of 1.185. The RCAF (Adjusted) is 0.564, a decrease of 1.4% from the fourth quarter 2005 RCAF (Adjusted) of 0.572. The RCAF-5 is 0.541, a decrease of 1.3% from thefourth quarter 2005 RCAF-5 of 0.548.

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 2006 Rail Cost Adjustment Factor (Unadjusted) of 1.177, RCAF (Adjusted) of 0.564, and RCAF-5 of 0.541.

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

3. The effective date of this decision is January 1, 2006.

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

Vernon A. Williams
Secretary

APPENDIX

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2006-1)
All Inclusive Index of Railroad Input Costs
(Refer to Endnotes Page 5)

LINE NO.	INDEX COMPONENT	2004 WEIGHTS	FOURTH QUARTER 2005 FORECAST	FIRST QUARTER 2006 FORECAST
1	LABOR	36.0%	287.7	292.1
2	FUEL	12.1%	276.2	226.4
3	MATERIALS AND SUPPLIES	4.4%	179.9	185.6
4	EQUIPMENT RENTS	8.9%	181.4	184.6
5	DEPRECIATION	10.6%	185.1	195.0
6	INTEREST	3.0%	92.7	92.7
7	OTHER ITEMS [1]	25.0%	176.2	182.1
8	WEIGHTED AVERAGE	100.0%	227.5	226.1
9	LINKED INDEX [2]		225.3	223.9
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR [3]		117.3	116.6
11	FORECAST ERROR ADJUSTMENT [4]		0.012	0.011
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.185	1.177
13	RCAF (ADJUSTED) [5]		0.572	0.564
14	RCAF-5 [6]		0.548	0.541

APPENDIX

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2006-1)
Comparison of Third Quarter 2005 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2003 WEIGHT	THIRD QUARTER 2005 FORECAST	THIRD QUARTER 2005 ACTUAL
1	LABOR	37.5%	291.1	290.9
2	FUEL	10.6%	193.6	212.3
3	MATERIALS AND SUPPLIES	4.4%	179.8	179.8
4	EQUIPMENT RENTS	9.4%	182.8	181.8
5	DEPRECIATION	10.7%	180.3	178.9
6	INTEREST	3.2%	90.2	90.2
7	OTHER ITEMS	24.2%	179.5	176.8
8	WEIGHTED AVERAGE	100.0%	220.4	221.4
9	LINKED INDEX		217.0	219.2
10	RAIL COST ADJUSTMENT FACTOR		113.0	114.1

Endnotes:

[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 2004 weights beginning in the fourth quarter 2005. The following formula was used for the current quarter's index:

$$\frac{\text{1st Qr. 2006 Index (2004 Weights)}}{\text{4th Qr. 2005 Index (2004 Weights)}} \quad \text{Times} \quad \text{4}^{\text{th}} \text{ Quarter Linked Index} \quad \text{Equals Linked Index}$$
$$\text{(1980 = 100 Linked)} \quad \text{(Current Quarter)}$$

Or

$$\frac{226.1}{227.5} \quad \text{X} \quad 225.3 \quad = \quad 223.9$$

[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 = 100).

[4] The first quarter 2006 forecast error adjustment was calculated as follows: a. third quarter 2005 RCAF using forecasted data equals 113.0; b. third quarter 2005 RCAF using actual data equals 114.1; c. The difference equals the forecast error (b-a) of 1.1. Since the actual first quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.

[5] The first quarter 2006 RCAF Adjusted (0.564) is calculated by dividing the first quarter RCAF Unadjusted (1.177) by the first quarter productivity adjustment factor of 2.0864. The first quarter 2006 productivity adjustment factor is calculated by multiplying the fourth quarter 2005 productivity adjustment of 2.0715 by the fourth root (1.0072) of the 1999-2003 annual average productivity growth rate of 2.9%.

[6] The first quarter 2006 RCAF-5 (0.541) is calculated by dividing the first quarter 2006 RCAF Unadjusted (1.177) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.1772. The first quarter 2006 productivity adjustment factor is calculated by multiplying the fourth quarter 2005 PAF-5 of 2.1616 by the fourth root (1.0072) of the1999-2003 annual average productivity growth rate of 2.9%.