SURFACE TRANSPORTATION BOARD

Decision

STB Ex Parte No. 290 (Sub-No. 5) (2008-1)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Decided: December 19, 2007

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, 1 S.T.B 739 (Productivity Adjustment), 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.

As required by statute, the RCAF is rebased using the fourth quarter 2007 index value as the denominator and first quarter 2008 index value as the numerator. AAR's proposed rebasing calculations were verified, and they comply with the statute. The rebasing calculations are shown in Table C of the Appendix. As the forecast error calculations are part of the prescribed indexing methodology, those figures are shown on a rebased October 1, 2007 level to provide consistency.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the first quarter 2008 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 2007 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 1.017 (1.7%) per year for the period 2001-2005 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 2008 RCAF (Unadjusted) is 1.050, a increase of 5.0% from the fourth quarter 2007 RCAF of 1.000. The RCAF (Adjusted) is 0.486, an increase of 4.5% from the fourth quarter 2007 RCAF (Adjusted) of 0.465. The RCAF-5 is 0.461, an increase of 4.5% from the fourth quarter 2007 RCAF-5 of 0.441.

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 2008 Rail Cost Adjustment Factor (Unadjusted) of 1.050; RCAF (Adjusted) of 0.486; and RCAF-5 of 0.461.

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

3. The effective date of this decision is January 1, 2008.

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

Vernon A. Williams
Secretary

TABLE A
Ex Parte No. 290 (Sub-No. 5) (2008-1)
All Inclusive Index of Railroad Input Costs

LINE NO.	INDEX COMPONENT	2006 WEIGHTS	FOURTH QUARTER 2007 FORECAST	FIRST QUARTER 2008 FORECAST
1	LABOR	34.5%	307.9	312.8
2	FUEL	19.2%	276.4	334.8
3	MATERIALS AND SUPPLIES	5.0%	218.4	218.5
4	EQUIPMENT RENTS	7.8%	192.9	193.1
5	DEPRECIATION	10.6%	200.2	200.1
6	INTEREST	2.7%	90.2	90.2
7	OTHER ITEMS[1]	20.2%	194.1	194.3
8	WEIGHTED AVERAGE	100.0%	248.1	261.1
9	LINKED INDEX[2]		241.7	254.4
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR [3]		98.3	103.5
11	FORECAST ERROR ADJUSTMENT[4]		0.017	0.015
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.000	1.050
13	RCAF (ADJUSTED)[5]		0.465	0.486
14	RCAF-5[6]		0.441	0.461

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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 2006 weights beginning with the fourth quarter 2007. The following formula was used for the current quarter's index:

$$\frac{\text{1}^{st}\text{ Qr. 2008 Index (2006 Weights)}}{\text{4}^{Th}\text{ Qr. 2007 Index (2006 Weights)}} \quad \text{Times} \quad \text{4}^{th}\text{ Quarter Linked Index (1980 = 100 Linked)} \quad \text{Equals} \quad \text{Linked Index (Current Quarter)}$$

Or

$$\frac{261.1}{248.1} \quad X \quad 241.7 = 254.4$$

[3] The first quarter 2008 RCAF was rebased using the October 1, 2007, level of 245.9 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/07 = 1.00).

[4] The first quarter 2008 forecast error adjustment was calculated as follows: a. Third quarter 2007 RCAF calculated using forecasted data equals 95.2; b. Third quarter 2007 RCAF calculated using actual data equals 96.7; c. The difference equals the forecast error (b-a) of 1.5. Because the actual third quarter value is greater than the forecast value, the difference is added to the preliminary RCAF.

[5] The first quarter 2008 RCAF Adjusted (0.486) is calculated by dividing the first quarter 2008 RCAF Unadjusted (1.050) by the first quarter productivity adjustment factor of 2.1618. The first quarter 2008 productivity adjustment factor is calculated by multiplying the fourth quarter 2007 productivity adjustment factor of 2.1528 by the fourth root (1.0042) of the 2001-2005 annual average productivity growth rate of 1.7 %.

[6] The first quarter 2008 RCAF-5 (0.461) is calculated by dividing the first quarter 2008 RCAF Unadjusted (1.050) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.2763. The first quarter 2008 productivity adjustment factor is calculated by multiplying the fourth quarter 2007 PAF-5 of 2.2668 by the fourth root (1.0042) of the 2001-2005 annual average productivity growth rate of 1.7 %.

TABLE B

Ex Parte No. 290 (Sub-No. 5) (2008-1)
Comparison of Third Quarter 2007 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2005 WEIGHT	THIRD QUARTER 2007 FORECAST	THIRD QUARTER 2007 ACTUAL
1	LABOR	35.3%	298.5	298.5
2	FUEL	16.0%	253.9	276.0
3	MATERIALS AND SUPPLIES	4.6%	212.6	212.6
4	EQUIPMENT RENTS	8.2%	192.5	192.0
5	DEPRECIATION	11.1%	199.9	196.5
6	INTEREST	3.1%	96.9	96.9
7	OTHER ITEMS	21.7%	193.2	191.9
8	WEIGHTED AVERAGE	100.0%	238.7	241.5
9	LINKED INDEX		234.0	237.7
10	RAIL COST ADJUSTMENT FACTOR		95.2	96.7

APPENDIX

TABLE C

**Rebasing the Denominator of the RCAF
to the Fourth Quarter 2007 Level** [7]

1.	Fourth Quarter 2007 Linked Index	241.7
2.	Second Quarter 2007 Linked Index Calculated Using Actual Data	234.1
3.	Second Quarter 2007 Linked Index Calculated Using forecasted Data	230.0
4.	Difference	4.1
5.	Rounding adjustment to force 1.000	0.1
6.	Fourth Quarter 2007 Linked Index Adjusted for Second Quarter 2007 Forecast Error (Line 1 plus Line 4 plus Line 5)	245.9

[1] The actual and forecasted second quarter 2007 indices were rebased to adjust for forecast error in the rebasing of the denominator of the RCAF to the fourth quarter (10/1/07) level. Line six of this table (245.9) is the new denominator to be used in calculating the quarterly RCAF.