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EB

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2011-3)

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 to publish the RCAF on at least a quarterly basis. Each quarter, the Association of American Railroads computes three types of RCAF figures and submits those figures to the Board for approval. After review, the Board is adopting the RCAF figures submitted for the third quarter of 2011.

Decided: June 20, 2011

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—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 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 does reflect national average productivity changes as originally developed and applied by the ICC; the calculation of those productivity changes is currently based on a 5-year moving average. And the RCAF-5 is an index that also reflects national average productivity changes; those

[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).

productivity changes are calculated 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 third quarter of 2011 are shown in Table A of the Appendix to this decision. Table B shows the first quarter 2011 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 for compliance with our procedures and find that the third quarter 2011 RCAF (Unadjusted) is 1.206, an increase of 2.6% from the second quarter 2011 RCAF of 1.176. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a 5-year moving geometric average of productivity change for U.S. Class I railroads from 2005-2009, which is 1.014 (1.4% per year). We find the RCAF (Adjusted) is 0.534, an increase of 2.1% from the previously reported second quarter 2011 RCAF (Adjusted) of 0.523.[2]

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 2004-2008, which is 1.012 (1.2% per year). We find the RCAF-5 for the third quarter of 2011 is 0.506, an increase of 2.2% from the previously reported second quarter 2011 RCAF-5 of 0.495.[3]

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 has approved the third quarter 2011 RCAF (Unadjusted) of 1.206, RCAF (Adjusted) of 0.534, and RCAF-5 of 0.506.

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

[2] The third quarter 2011 RCAF Adjusted (0.534) is calculated by dividing the third quarter 2011 RCAF Unadjusted (1.206) by the third quarter productivity adjustment factor of 2.2566. The third quarter 2011 productivity adjustment factor is calculated by multiplying the second quarter 2011 productivity adjustment of 2.2487 by the fourth root (1.0035) of the 2005-2009 annual average productivity growth rate of 1.4%.

[3] The third quarter 2011 RCAF-5 (0.506) is calculated by dividing the third quarter 2011 RCAF Unadjusted (1.206) by the third quarter productivity adjustment factor-5 (PAF-5) of 2.3823. The third quarter 2011 PAF-5 is calculated by multiplying the second quarter 2011 PAF-5 of 2.3752 by the fourth root (1.0030) of the 2004-2008 annual average productivity growth rate of 1.2%.

3. The effective date of this decision is July 1, 2011.

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

APPENDIX

TABLE A

EP 290 (Sub-No. 5) (2011-3)
All Inclusive Index of Railroad Input Costs
(Endnotes Following Table B)

LINE NO.	INDEX COMPONENT	2009 WEIGHT	SECOND QUARTER 2011 FORECAST	THIRD QUARTER 2011 FORECAST
1	LABOR	34.7%	379.6	382.1
2	FUEL	14.9%	368.4	392.3
3	MATERIALS AND SUPPLIES	5.1%	249.0	257.8
4	EQUIPMENT RENTS	7.1%	203.1	208.8
5	DEPRECIATION	13.9%	204.6	206.1
6	INTEREST	3.0%	84.5	84.5
7	OTHER ITEMS[1]	21.3%	212.9	222.3
8	WEIGHTED AVERAGE	100.0%	290.1	297.5
9	LINKED INDEX[2]		284.4	291.7
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR[3]		115.7	118.6
11	FORECAST ERROR ADJUSTMENT[4]		0.019	0.020
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.176	1.206
13	RCAF (ADJUSTED)		0.523	0.534
14	RCAF-5		0.495	0.506

TABLE B

EP 290 (Sub-No. 5) (2011-3)
Comparison of First Quarter 2011 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2009 WEIGHT	FIRST QUARTER 2011 FORECAST	FIRST QUARTER 2011 ACTUAL
1	LABOR	34.7%	378.3	378.3
2	FUEL	14.9%	296.5	324.6
3	MATERIALS AND SUPPLIES	5.1%	248.1	248.1
4	EQUIPMENT RENTS	7.1%	203.9	206.2
5	DEPRECIATION	13.9%	204.2	204.6
6	INTEREST	3.0%	84.5	84.5
7	OTHER ITEMS	21.3%	208.6	212.6
8	WEIGHTED AVERAGE	100.0%	277.9	283.2
9	LINKED INDEX		272.4	277.4
10	RAIL COST ADJUSTMENT FACTOR		110.8	112.8

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 2009 weights beginning in the fourth quarter 2010. The following formula was used for the current quarter's index:

3rd Qr. 2011 Index (2009 Weights) / 2nd Qr. 2011 Index (2009 Weights)	Times	2nd Quarter Linked Index (1980 = 100 Linked)	Equals Linked Index (Current Quarter)

Or

$$\frac{297.5}{290.1} \times 284.4 = 291.7$$

[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 (10/1/2007 = 100).

[4] The third quarter 2011 forecast error adjustment was calculated as follows: (a) first quarter 2011 RCAF using forecasted data equals 110.8; (b) first quarter 2011 RCAF using actual data equals 112.8; (c) the difference equals the forecast error (b-a) of 2.0. Because the actual first quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.