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SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2012-1)

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 (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. The Board has reviewed the submission and adopts the RCAF figures for the first quarter of 2012.

Decided: December 19, 2012

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 reflects national average productivity changes as originally developed and applied by the ICC, the calculation of which is currently based on a 5-year moving average. The RCAF-5 is an index that also reflects national average productivity changes; however, those productivity changes are

[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).

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 first quarter 2012 are shown in Table A of the Appendix to this decision. Table B shows the third 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.

In its submission, AAR states that during late October, one railroad revised its 2010 wage statistics that had been used as benchmarks in the fourth quarter 2011 calculation. According to AAR, this revision caused the original fourth quarter Labor index of 375.3 to change, resulting in a corrected Labor index of 373.9. AAR proposes that the Board use the second quarter 2012 forecast error calculation to account for any differences caused by this revision.

The Board has used the forecast error adjustment procedure to remedy similar errors, and we believe it is the best available method to correct the Labor index.[2] Therefore, we will not restate the fourth quarter 2011 RCAF figures, but will allow the correction to be made using the second quarter 2012 forecast error calculation. As a result, the second quarter 2012 forecast error calculation will include the forecast version of the fourth quarter 2011 Labor index of the original 375.3, and the actual version of the Labor index of the corrected 373.9 index. In the current first quarter 2012 RCAF calculations, the Labor index has been calculated as if the fourth quarter 2011 version had used the corrected price.

We have examined AAR's calculations and we find that AAR has complied with our procedures. We find that the first quarter 2012 RCAF (Unadjusted) is 1.169, a decrease of 3.2% from the fourth quarter 2011 RCAF of 1.208.[3] 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 0.514, a decrease of 3.6% from the previously reported fourth quarter 2011 RCAF (Adjusted) of 0.533.[4]

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[2] See Quarterly Rail Cost Adjustment Factor, EP 290 (Sub-No. 5) (2011-4), slip op. at 2 (correcting, but not restating, the third quarter 2011 Materials and Supplies index using the first quarter 2012 forecast error calculation); see also Quarterly Rail Cost Adjustment Factor, EP 290 (Sub-No. 5) (2001-1), slip op. at 2 (STB served Dec. 20, 2000) (noting that the forecast error adjustment was the best available method to correct an earlier overstated RCAF calculation and not restating that earlier overstated RCAF).

[3] The percent changes for the first quarter 2012 RCAF (Unadjusted), RCAF (Adjusted), and the RCAF-5 are all based on the original fourth quarter 2011 decision.

[4] The first quarter 2012 RCAF Adjusted (0.514) is calculated by dividing the first quarter 2012 RCAF Unadjusted (1.169) by the first quarter productivity adjustment factor of 2.2724. The first quarter 2012 productivity adjustment factor is calculated by multiplying the fourth quarter 2011 productivity adjustment of 2.2645 by the fourth root (1.0035) of the 2005-2009 annual average productivity growth rate of 1.4%.

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 2005-2009, which is 1.014 (1.4% per year). We find the RCAF-5 for the first quarter of 2012 is 0.488, a decrease of 3.6% from the previously reported fourth quarter 2011 RCAF-5 of 0.506.[5]

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 first quarter 2012 RCAF (Unadjusted) of 1.169, RCAF (Adjusted) of 0.514, and RCAF-5 of 0.488.

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

3. The effective date of this decision is January 1, 2012.

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

[5] The first quarter 2012 RCAF-5 (0.488) is calculated by dividing the first quarter 2012 RCAF Unadjusted (1.169) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.3978. The first quarter 2012 PAF-5 is calculated by multiplying the fourth quarter 2011 PAF-5 of 2.3894 by the fourth root (1.0035) of the 2005-2009 annual average productivity growth rate of 1.4%.

APPENDIX

TABLE A

EP 290 (Sub-No. 5) (2012-1)
All Inclusive Index of Railroad Input Costs
(Endnotes Following Table B)

LINE NO.	INDEX COMPONENT	2010 WEIGHTS	FOURTH QUARTER 2011 FORECAST	FIRST QUARTER 2012 FORECAST
1	LABOR[1]	33.3%	373.9	379.4
2	FUEL	18.0%	396.9	387.7
3	MATERIALS AND SUPPLIES	5.0%	265.7	263.7
4	EQUIPMENT RENTS	6.2%	205.9	203.4
5	DEPRECIATION	12.8%	208.4	208.7
6	INTEREST	2.9%	90.6	90.6
7	OTHER ITEMS[2]	21.8%	220.3	215.6
8	WEIGHTED AVERAGE	100.0%	299.3	298.3
9	LINKED INDEX[3]		290.2	289.2
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR[4]		118.0	117.6
11	FORECAST ERROR ADJUSTMENT[5]		0.026	-0.007
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.206	1.169
13	RCAF (ADJUSTED)		0.533	0.514
14	RCAF-5		0.505	0.488

TABLE B

EP 290 (Sub-No. 5) (2012-1)
Comparison of Third Quarter 2011 Index
Calculated on Both a Forecasted and an Actual Basis

Line No.	INDEX COMPONENT	2009 WEIGHT	THIRD QUARTER 2011 FORECAST	THIRD QUARTER 2011 ACTUAL
1	LABOR	34.7%	382.1	382.1
2	FUEL	14.9%	392.3	387.0
3	MATERIALS AND SUPPLIES	5.1%	257.8	257.9
4	EQUIPMENT RENTS	7.1%	208.8	207.0
5	DEPRECIATION	13.9%	206.1	207.3
6	INTEREST	3.0%	84.5	84.5
7	OTHER ITEMS	21.3%	222.3	218.2
8	WEIGHTED AVERAGE	100.0%	297.5	295.9
9	LINKED INDEX		291.7	289.8
10	RAIL COST ADJUSTMENT FACTOR		118.6	117.9

Endnotes:

[1] For calculation purposes, the fourth quarter 2011 forecast includes a revision made to the Labor index.

[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 2010 weights beginning in the fourth quarter 2011. The following formula was used for the current quarter's index:

1st Qr. 2012 Index (2010 Weights) / 4th Qr. 2011 Index (2010 Weights)	Times	4th Quarter Linked Index (1980 = 100 Linked)	Equals Linked Index (Current Quarter)

Or

$$\frac{298.3}{299.3} \times 290.2 = 289.2$$

[4] 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).

[5] The first quarter 2012 forecast error adjustment was calculated as follows: (a) third quarter 2011 RCAF using forecasted data equals 118.6; (b) third quarter 2011 RCAF using actual data equals 117.9; and (c) the difference equals the forecast error (b-a) of -0.7. Because the actual third quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.