

SERVICE DATE – MARCH 20, 2012

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2012-2)

QUARTERLY RAIL COST ADJUSTMENT FACTOR

Digest:<sup>1</sup> 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 second quarter of 2012.

Decided: March 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

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<sup>1</sup> 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 second quarter 2012 are shown in Table A of the Appendix to this decision. Table B shows the fourth 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 and we find that AAR has complied with our procedures. We find that the second quarter 2012 RCAF (Unadjusted) is 1.185, an increase of 1.4% from the first quarter 2012 RCAF of 1.169. 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 2006-2010, which is 1.008 (0.8% per year). We find the RCAF (Adjusted) is 0.520, an increase of 1.2% from the previously reported first quarter 2012 RCAF (Adjusted) of 0.514.<sup>2</sup>

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 second quarter of 2012 is 0.492, an increase of 0.8% from the previously reported first quarter 2012 RCAF-5 of 0.488.<sup>3</sup>

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 second quarter 2012 RCAF (Unadjusted) of 1.185, RCAF (Adjusted) of 0.520, and RCAF-5 of 0.492.
2. Notice of this decision will be published in the Federal Register.

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<sup>2</sup> The second quarter 2012 RCAF Adjusted (0.520) is calculated by dividing the second quarter 2012 RCAF Unadjusted (1.185) by the second quarter productivity adjustment factor of 2.2769. The second quarter 2012 productivity adjustment factor is calculated by multiplying the first quarter 2012 productivity adjustment of 2.2724 by the fourth root (1.0020) of the 2006-2010 annual average productivity growth rate of 0.8%.

<sup>3</sup> The second quarter 2012 RCAF-5 (0.492) is calculated by dividing the second quarter 2012 RCAF Unadjusted (1.185) by the second quarter productivity adjustment factor-5 (PAF-5) of 2.4062. The second quarter 2012 PAF-5 is calculated by multiplying the first quarter 2012 PAF-5 of 2.3978 by the fourth root (1.0035) of the 2005-2009 annual average productivity growth rate of 1.4%.

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

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

**APPENDIX****TABLE A**

**EP 290 (Sub-No. 5) (2012-2)**  
**All Inclusive Index of Railroad Input Costs**  
(Endnotes Following Table B)

<b>LINE NO.</b>	<b>INDEX COMPONENT</b>	<b>2010 WEIGHT</b>	<b>FIRST QUARTER 2012 FORECAST</b>	<b>SECOND QUARTER 2012 FORECAST</b>
1	LABOR	33.3%	379.4	385.8
2	FUEL	18.0%	387.7	409.4
3	MATERIALS AND SUPPLIES	5.0%	263.7	274.1
4	EQUIPMENT RENTS	6.2%	203.4	204.8
5	DEPRECIATION	12.8%	208.7	211.4
6	INTEREST	2.9%	90.6	90.6
7	OTHER ITEMS <sup>1</sup>	21.8%	215.6	218.8
8	WEIGHTED AVERAGE	100.0%	298.3	306.0
9	LINKED INDEX <sup>2</sup>		289.2	296.7
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR <sup>3</sup>		117.6	120.7
11	FORECAST ERROR ADJUSTMENT <sup>4</sup>		-0.007	-0.022
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		1.169	1.185
13	RCAF (ADJUSTED)		0.514	0.520
14	RCAF-5		0.488	0.492

**TABLE B**

**EP 290 (Sub-No. 5) (2012-2)**  
**Comparison of Fourth Quarter 2011 Index**  
**Calculated on Both a Forecasted and an Actual Basis**

<b>Line No.</b>	<b>INDEX COMPONENT</b>	<b>2010 WEIGHT</b>	<b>FOURTH QUARTER 2011 FORECAST</b>	<b>FOURTH QUARTER 2011 ACTUAL</b>
1	LABOR	33.3%	375.3	373.9
2	FUEL	18.0%	396.9	375.4
3	MATERIALS AND SUPPLIES	5.0%	265.7	265.7
4	EQUIPMENT RENTS	6.2%	205.9	204.2
5	DEPRECIATION	12.8%	208.4	208.4
6	INTEREST	2.9%	90.6	90.6
7	OTHER ITEMS	21.8%	220.3	216.9
8	WEIGHTED AVERAGE	100.0%	299.8	294.6
9	LINKED INDEX		290.6	285.3
10	RAIL COST ADJUSTMENT FACTOR		118.2	116.0

**Endnotes:**

<sup>1</sup> “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.

<sup>2</sup> 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:

$$\frac{\text{2nd Qr. 2012 Index (2010 Weights)}}{\text{1st Qr. 2012 Index (2010 Weights)}} \text{ Times 1st Quarter Linked Index (1980 = 100 Linked) Equals Linked Index (Current Quarter)}$$

Or

$$\frac{306.0}{298.3} \times 289.2 = 296.7$$

<sup>3</sup> 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).

<sup>4</sup> The second quarter 2012 forecast error adjustment was calculated as follows: (a) fourth quarter 2011 RCAF using forecasted data equals 118.2; (b) fourth quarter 2011 RCAF using actual data equals 116.0; and (c) the difference equals the forecast error (b-a) of -2.2. Because the actual fourth quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.