

SERVICE DATE – MARCH 16, 2018

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 5) (2018-2)

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 Surface Transportation Board (Board) is required by law 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 2018. In addition, the Board is including recalculated RCAF figures for the second quarter of 2017 through the first quarter of 2018, which AAR submitted pursuant to the Board's January 29, 2018 decision.

Decided: March 15, 2018

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 to the agency 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

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).

national average productivity changes as originally developed and applied by the ICC, the calculation of which is currently based on a five-year moving average. The RCAF-5 is an index that also reflects national average productivity changes; however, those productivity changes are calculated as if a five-year moving average had been applied consistently from the productivity adjustment's inception in 1989.

On February 14, 2017, the Board tentatively adopted a productivity adjustment figure for the 2011-2015 five-year period. See R.R. Cost Recovery Procedures—Productivity Adjustment, EP 290 (Sub-No. 4) (STB served Feb. 14, 2017). On January 29, 2018, the Board adopted as final a revised productivity adjustment figure of 0.994 in Docket No. EP 290 (Sub-No. 4), and in this docket directed AAR to recalculate and submit the affected 2017 and 2018 RCAF figures using the final productivity adjustment figure in its next quarterly RCAF submission.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the second quarter of 2018 are shown in Table A of the Appendix to this decision. Table B shows the fourth quarter 2017 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.

AAR's calculations have been examined, and the Board finds that AAR has complied with agency procedures, as well as the Board's January 29, 2018 decision directing AAR to recalculate the affected 2017 and 2018 RCAF figures. The recalculated RCAF figures for the second quarter of 2017 through the first quarter of 2018 were recalculated as if AAR had used the geometric average productivity growth of 0.994 for the 2011-2015 five-year period in its original filings.² The Board finds that the second quarter 2018 RCAF (Unadjusted) is 1.041, an increase of 1.4% from the first quarter 2018 RCAF (Unadjusted) of 1.027. The RCAF (Adjusted) is calculated, in part, using the RCAF (Unadjusted) and a five-year moving geometric average of productivity change for U.S. Class I railroads from 2012-2016, which is 0.996 (-0.4% per year). The RCAF (Adjusted) is 0.440, an increase of 1.4% from the recalculated first quarter 2018 RCAF (Adjusted) of 0.434.³

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 2011-2015, which is recalculated to be 0.994 (-0.6% per year). The RCAF-5 for the second quarter of 2018 is 0.411, an increase of 1.5% from the recalculated first quarter 2018 RCAF-5 of 0.405.⁴

² See Table C.

³ The second quarter 2018 RCAF Adjusted (0.440) is calculated by dividing the second quarter 2018 RCAF Unadjusted (1.041) by the second quarter productivity adjustment factor of 2.3665. The second quarter 2018 productivity adjustment factor is calculated by multiplying the recalculated first quarter 2018 productivity adjustment of 2.3689 by the fourth root (0.9990) of the 2012-2016 annual average productivity growth rate of -0.4%.

⁴ The second quarter 2018 RCAF-5 (0.411) is calculated by dividing the second quarter 2018 RCAF Unadjusted (1.041) by the second quarter productivity adjustment factor-5 (PAF-5) of 2.5336. The second quarter 2018 PAF-5 is calculated by multiplying the recalculated first

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This action is categorically excluded from environmental review under 49 C.F.R. § 1105.6(c).

Authority: 49 U.S.C. § 10708.

It is ordered:

1. The Board finds that the second quarter 2018 RCAF (Unadjusted) is 1.041, RCAF (Adjusted) is 0.440, and RCAF-5 is 0.411.

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

3. The effective date of this decision is April 1, 2018.

By the Board, Board Members Begeman and Miller.

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quarter 2018 PAF-5 of 2.5374 by the fourth root (0.9985) of the 2011-2015 annual average productivity growth rate of -0.6%.

APPENDIX**TABLE A**

EP 290 (Sub-No. 5) (2018-2)
All Inclusive Index of Railroad Input Costs
 (Endnotes Following Table C)

LINE NO.	INDEX COMPONENT	2016 WEIGHTS	FIRST QUARTER 2018 FORECAST	SECOND QUARTER 2018 FORECAST
1	LABOR	35.6%	423.8	422.5
2	FUEL	10.7%	248.4	248.9
3	MATERIALS AND SUPPLIES	5.0%	251.0	258.0
4	EQUIPMENT RENTS	5.9%	226.7	228.9
5	DEPRECIATION	15.6%	226.8	224.6
6	INTEREST	2.2%	60.5	60.5
7	OTHER ITEMS ¹	25.0%	226.9	229.5
8	WEIGHTED AVERAGE	100.0%	296.8	297.2
9	LINKED INDEX ²		274.5	274.9
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR ³		103.8	103.9
11	FORECAST ERROR ADJUSTMENT ⁴		-0.011	0.002
12	RCAF (UNADJUSTED) (LINE 10 + LINE 11)		1.027	1.041
13	RCAF (ADJUSTED)		0.434	0.440
14	RCAF-5		0.405	0.411

TABLE B

EP 290 (Sub-No. 5) (2018-2)
Comparison of Fourth Quarter 2017 Index
Calculated on Both a Forecasted and an Actual Basis

LINE NO.	INDEX COMPONENT	2016 WEIGHT	FOURTH QUARTER 2017 FORECAST	FOURTH QUARTER 2017 ACTUAL
1	LABOR	35.6%	415.1	415.1
2	FUEL	10.7%	215.5	233.3
3	MATERIALS AND SUPPLIES	5.0%	254.8	254.8
4	EQUIPMENT RENTS	5.9%	223.9	226.6
5	DEPRECIATION	15.6%	226.3	224.7
6	INTEREST	2.2%	60.5	60.5
7	OTHER ITEMS	25.0%	221.4	225.8
8	WEIGHTED AVERAGE	100.0%	288.8	291.7
9	LINKED INDEX		267.1	267.7
10	RAIL COST ADJUSTMENT FACTOR		101.0	101.2

TABLE C

Original and Recalculated RCAF for Second Quarter 2017 through First Quarter 2018

	Original					Recalculated⁵				
	RCAF (Unadjusted)	PAF	RCAF (Adjusted)	PAF-5	RCAF-5	RCAF (Unadjusted)	PAF	RCAF (Adjusted)	PAF-5	RCAF-5
2012Q4=100										
2017Q2	0.904	2.3952	0.377	2.5235	0.358	0.904	2.3797	0.380	2.5235	0.358
2017Q3	0.903	2.4072	0.375	2.5323	0.357	0.903	2.3761	0.380	2.5323	0.357
2017Q4	0.889	2.4192	0.367	2.5412	0.350	0.889	2.3725	0.375	2.5412	0.350
2017Q4=100										
2018Q1	1.027	2.4313	0.422	2.5539	0.402	1.027	2.3689	0.434	2.5374	0.405

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 2016 weights beginning in the fourth quarter of 2017. The following formula was used for the current quarter’s index:

$$\frac{\text{2nd Qr. 2018 Index (2016 Weights)}}{\text{1st Qr. 2018 Index (2016 Weights)}} \text{ Times 1st Quarter Linked Index (1980 = 100 Linked) Equals Linked Index (Current Quarter)}$$

Or

$$\frac{297.2}{296.8} \times 274.5 = 274.9$$

³ The first quarter 2018 RCAF was rebased using the October 1, 2017 level of 264.5 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2017 = 100). For the purpose of calculating the fourth quarter 2017 linked index (2017Q4 = 100), where the fourth quarter 2017 linked index equals 100 after the forecast error adjustment, the fourth quarter 2017 RCAF is also recalculated using the October 1, 2017 level of 264.5.

⁴ The second quarter 2018 forecast error adjustment was calculated as follows: (a) fourth quarter 2017 RCAF using forecasted data equals 101.0; (b) fourth quarter 2017 RCAF using actual data equals 101.2; and (c) the difference equals the forecast error (b-a) of 0.2. Because the actual fourth quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.

⁵ The shaded cells contain RCAF numbers that did not change as a result of the recalculations.