 SERVICE DATE – SEPTEMBER 16, 2026

SURFACE TRANSPORTATION BOARD

DECISION

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

(2026-4)

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 fourth quarter of 2026.

Decided: September 16, 2026

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 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

[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. See Pol'y Statement on Plain Language Digs. in Decisions, EP 696 (STB served Sept. 2, 2010).

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.

The index of railroad input prices, RCAF (Unadjusted), RCAF (Adjusted), and RCAF-5 for the fourth quarter of 2026 are shown in Table A of the Appendix to this decision. Table B shows the second quarter 2026 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.

The weights for each major cost component of the all-inclusive cost index, on which the RCAF is based, are updated annually to reflect the changing mix of index components. See 49 U.S.C. § 10708. This includes re-benchmarking the wages and supplemental rates used in the labor index in the fourth quarter of each year. The weights used by AAR are based on the distribution of railway expenses for the year 2025. Similarly, AAR has used wage and supplemental rates for the year 2025 to calculate hourly labor rates that reflect the changing mix of employees.

AAR's calculations, including its re-weighting and re-benchmarking calculations, have been examined by the Board's Office of Economics, and the Board finds that AAR has complied with agency procedures with respect to the available data for 2025. The Board finds that the fourth quarter 2026 RCAF (Unadjusted) is 1.193, an increase of 8.9% from the third quarter 2026 RCAF (Unadjusted) of 1.096. 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 2020-2024, which is 1.015 (1.5% per year). The fourth quarter 2026 RCAF (Adjusted) is 0.453, an increase of 8.6% from the third quarter 2026 RCAF (Adjusted) of 0.417.[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 2019-2023, which is 1.014 (1.4% per year). The RCAF-5 for the fourth quarter of 2026 is 0.429, an increase of 8.3% from the third quarter 2026 RCAF-5 of 0.396.[3]

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

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[2] The fourth quarter 2026 RCAF Adjusted (0.453) is calculated by dividing the fourth quarter 2026 RCAF Unadjusted (1.193) by the fourth quarter productivity adjustment factor (PAF) of 2.6358. The fourth quarter 2026 PAF is calculated by multiplying the third quarter 2026 productivity adjustment of 2.6261 by the fourth root (1.0037) of the 2020-2024 annual average productivity growth rate of 1.5%.

[3] The fourth quarter 2026 RCAF-5 (0.429) is calculated by dividing the fourth quarter 2026 RCAF Unadjusted (1.193) by the fourth quarter productivity adjustment factor-5 (PAF-5) of 2.7800. The fourth quarter 2026 PAF-5 is calculated by multiplying the third quarter 2026 PAF-5 of 2.7703 by the fourth root (1.0035) of the 2019-2023 annual average productivity growth rate of 1.4%.

<u>It is ordered</u>:

1. The Board finds that the fourth quarter 2026 RCAF (Unadjusted) is 1.193, RCAF (Adjusted) is 0.453, and RCAF-5 is 0.429.

2. Notice of this decision will be published in the <u>Federal Register</u>.

3. The effective date of this decision is October 1, 2026.

By the Board, Board Members Fuchs, Hedlund, Kloster, and Schultz.

APPENDIX

TABLE A

EP 290 (Sub-No. 5) (2026-4)
All Inclusive Index of Railroad Input Costs
(Endnotes Following Table B)

LINE NO.	INDEX COMPONENT	2025 WEIGHTS	THIRD QUARTER 2026 FORECAST	FOURTH QUARTER 2026 FORECAST
1	LABOR	32.7%	588.3	595.4
2	FUEL	13.9%	465.1	500.2
3	MATERIALS AND SUPPLIES	5.1%	436.1	430.5
4	EQUIPMENT RENTS	4.4%	307.4	310.2
5	DEPRECIATION	17.4%	242.9	246.6
6	INTEREST	2.2%	58.1	60.3
7	OTHER ITEMS[1]	24.3%	327.7	324.5
8	WEIGHTED AVERAGE	100.0%	416.0	422.9
9	LINKED INDEX[2]		378.7	385.0
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR[3]		110.6	112.5
11	FORECAST ERROR ADJUSTMENT[4]		-0.010	0.068
12	RCAF (UNADJUSTED) = (LINE 10 × 0.01) + LINE 11		1.096	1.193
13	RCAF (ADJUSTED)		0.417	0.453
14	RCAF-5		0.396	0.429

TABLE B

EP 290 (Sub-No. 5) (2026-4)
Comparison of Second Quarter 2026 Index
Calculated on Both a Forecasted and an Actual Basis

LINE NO.	INDEX COMPONENT	2024 WEIGHTS	SECOND QUARTER 2026 FORECAST	SECOND QUARTER 2026 ACTUAL
1	LABOR	32.4%	575.6	575.6
2	FUEL	14.6%	304.3	487.4
3	MATERIALS AND SUPPLIES	4.9%	389.2	389.2
4	EQUIPMENT RENTS	4.4%	304.6	301.2
5	DEPRECIATION	16.6%	243.5	243.8
6	INTEREST	2.4%	58.1	58.1
7	OTHER ITEMS	24.7%	320.2	320.2
8	WEIGHTED AVERAGE	100.0%	384.3	410.9
9	LINKED INDEX		349.8	373.0
10	RAIL COST ADJUSTMENT FACTOR		102.2	109.0

Endnotes:

[1] "Other Items" is a combination of Purchased Services, Casualties and Insurance, General and Administrative, Other Taxes, Loss and Damage, Lease Rentals, 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 2025 weights beginning in the fourth quarter of 2026. The following formula was used for the current quarter's index:

$$\frac{\text{4th Qr. 2026 Index (2025 Weights)}}{\text{3rd Qr. 2026 Index (2025 Weights)}} \text{ Times } \begin{array}{c}\text{3rd Quarter Linked Index}\\ \text{(1980 = 100 Linked)}\end{array} \quad \begin{array}{l}\text{Equals Linked Index}\\ \text{(Current Quarter)}\end{array}$$

Or

$$\frac{422.9}{416.0} \text{ X } 378.7 = 385.0$$

[3] The first quarter 2023 RCAF was rebased using the October 1, 2022 level of 342.3 in accordance with the requirements of the Staggers Rail Act of 1980 (10/1/2022 = 100).

[4] The fourth quarter 2026 forecast error adjustment was calculated as follows: (a) second quarter 2026 RCAF using forecasted data equals 102.2; (b) second quarter 2026 RCAF using actual data equals 109.0; and (c) the difference equals the forecast error (b-a) of 6.8. Because the actual second quarter value is greater than the forecast value, the difference is added to the Preliminary RCAF.