

SERVICE DATE – FEBRUARY 6, 2020

SURFACE TRANSPORTATION BOARD

DECISION

Docket No. EP 290 (Sub-No. 4)

RAILROAD COST RECOVERY PROCEDURES—PRODUCTIVITY ADJUSTMENT

Digest:¹ Each year the Board calculates the change, if any, in the rail industry's productivity, i.e., how efficiently railroads move freight. The Board calculates this figure by comparing year-to-year the average cost of producing a unit of railroad output. Here, the Board presents its calculation for the change in railroad productivity for the 2014-2018 averaging period.

Decided: February 4, 2020

The Board proposes to adopt 1.010 (1.0% per year) as the measure of average (geometric mean) change in railroad productivity for the 2014-2018 (five-year) period. This represents an increase of 0.5% from the average for the 2013-2017 period.

Since 1989, the cost recovery procedures have required that the quarterly rail cost adjustment factor (RCAF)² be adjusted for long-run changes in railroad productivity. R.R. Cost Recovery Procedures—Productivity Adjustment, 5 I.C.C.2d 434 (1989); see also 49 U.S.C. § 10708. This long-run measure of productivity is computed using a five-year moving geometric average. Productivity Adjustment—Implementation, 9 I.C.C.2d 1072 (1993).

The productivity change for the year 2018 is 1.028, based on changes in input and output levels from 2017, and represents a decrease of 2.4% from the rate of productivity growth in 2017 relative to 2016 (1.053). Incorporating the 2018 value with the values for the 2014-2017 period produces a geometric average productivity growth of 1.010 for the five-year period 2014-2018, or 1.0% per year. As the new geometric mean was computed by replacing the 2013 figure of 1.003 with the larger figure of 1.028 for 2018, there was an increase of 0.5% in the geometric mean from last year's value. A detailed discussion of the Board's calculations is contained in the Appendix to this decision.

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).

² The RCAF is an index of railroad input prices that is published by the Board on a quarterly basis. See, e.g., Quarterly Rail Cost Adjustment Factor, EP 290 (Sub-No. 5) (2020-1) (STB served Dec. 19, 2019).

Comments may be filed addressing any perceived data and computational errors in the Board's calculation.³ Any party proposing a different estimate of productivity growth must, at the time it files comments, furnish the Board with one set of detailed workpapers and documentation underlying its calculations. The same information must be made available to other parties upon request.

It is ordered:

1. Comments are due by February 21, 2020.
2. Notice of this decision will be published in the Federal Register.
3. Unless a further order postponing the effective date is issued, this decision is effective on March 1, 2020.

By the Board, Board Members Begeman, Fuchs, and Oberman.

³ Comments may be filed with the Board either via e-filing or in writing addressed to: Surface Transportation Board, Attn: Docket No. EP 290 (Sub-No. 4), 395 E Street, S.W., Washington, DC 20423-0001. Comments must be served on all parties appearing on the service list. Comments will be posted to the Board's website at www.stb.gov.

APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.⁴ The annual rate of productivity change is calculated by dividing an output index by an input index.

The input index uses constant dollar-adjusted expenses. The inputs in this index—freight expenses, fixed charges and contingent interest—are stated on a constant dollar basis using the most recent year available as the base, and updating the base by the Series Rail Cost Recovery (RCR) Index published by the Association of American Railroads. Freight expenses, fixed charges, and contingent interest were obtained from railroad Annual Report (Form R-1) data. The 2018 Total Expense Constant Dollars for each of the six years was calculated by dividing a given year's RCR index value into the RCR index values for 2018 (549.8) and then multiplying that ratio by the Total Expense Unadjusted. The calculation of the input indices and values used are shown in Table A.

The 2018 output index was developed from the costed Waybill Sample, a commonly used data source. The costed Waybill Sample excludes movements lacking sufficient information for the application of unit costs.

Using the costed Waybill Sample as a base, each movement is assigned to one of the 189 segments or categories used to develop the output index. Segmentation is based on three mileage blocks, seven car types, three weight brackets, and three shipment sizes. The output

⁴ The development and application of the productivity adjustment is explained in R.R. Cost Recovery Procedures, 5 I.C.C.2d at 434.

index is a composite of the year-to-year change in ton-miles for each of the 189 segments weighted by each segment's base-year share of total revenues.

The change in productivity is calculated by dividing the output index by the input index. The multi-year average for the period 2014-2018 is calculated by taking a geometric mean, which was found to be 1.010 (1.0% per year). The input index, the output index, the annual productivity change, and the calculation of the 2014-2018 average are shown in Table B.

Table A Calculation of Input Indices 2013-2018				
Year	Total Expense Unadjusted (000s) (1)	RCR Indices 2013-2018 (2)	Total Expense Constant Dollars (3)	Input Index Column (3) 2014/2013 etc (4)
2013	52,366,102	526.3	54,704,319	
2014	54,753,917	531.0	56,692,474	1.036
2015	49,465,744	493.3	55,131,291	0.972
2016	45,711,184	484.3	51,893,473	0.941
2017	48,307,054	515.9	51,481,330	0.992
2018	51,698,466	549.8	51,698,466	1.004

Table B Comparison of Output, Input, and Productivity 2014-2018			
Year	Output Index (1)	Input Index (2)	Productivity Change ⁵ Col (1)/Col (2) (3)
2014	1.055	1.036	1.018
2015	0.913 ⁶	0.972	0.939
2016	0.955	0.941	1.015
2017	1.045	0.992	1.053
2018	1.032	1.004	1.028
Productivity Change Five-Year Moving Avg			1.010

⁵ The values shown in Column 3 are taken from the spreadsheet used to calculate productivity and, due to rounding, may not equal numbers calculated using the rounded numbers shown in Columns 1 and 2.

⁶ The 2015 output index was developed from the costed Waybill Sample and then adjusted by a linking factor due to a change in the miling methodology associated with the Waybill Sample. See R.R. Cost Recovery Procedures—Productivity Adjustment, EP 290 (Sub-No. 4), slip op. at 2, 5 (STB served Jan. 29, 2018).

The five-year (2014-2018) productivity trend calculated using a geometric average is 1.010, or 1.0%.