

BEFORE THE
SURFACE TRANSPORTATION BOARD

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February 23, 2018
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In the Matter of:

RAILROAD COST RECOVERY
PROCEDURES - PRODUCTIVITY
ADJUSTMENT

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) Ex Parte No. 290 (Sub-No. 4)
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COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

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Its Attorneys

Dated: February 23, 2018

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OPENING COMMENTS OF THE WESTERN COAL TRAFFIC LEAGUE

In response to the decision that the Surface Transportation Board (“Board” or “STB”) served in the above-captioned proceeding on February 8, 2018⁷, the Western Coal Traffic League (“WCTL”)¹ submits the following comments regarding the Board’s proposed calculation of railroad industry productivity for 2016 and the 2012-2016 average for use in the Rail Cost Adjustment Factor (“RCAF”) productivity adjustment.

WCTL concurs in the Board’s calculation of the input index value of 0.941 for 2016. WCTL notes that the input index value utilizes publicly-available information and that the calculation is thus transparent.

¹ WCTL is a voluntary association, whose regular membership consists entirely of shippers of coal mined west of the Mississippi River that is transported by rail. WCTL members currently ship and receive in excess of 125 million tons of coal by rail each year. WCTL’s members are: Ameren Missouri, Arizona Electric Power Cooperative, Inc., Austin Energy (City of Austin, Texas), CLECO Corporation, CPS Energy, Entergy Services, Inc., Kansas City Power & Light Company, Lower Colorado River Authority, MidAmerican Energy Company, Minnesota Power, Nebraska Public Power District, Omaha Public Power District, Western Fuels Association, Inc., and Wisconsin Public Service Corporation.

WCTL is unaware of any information that directly undermines the accuracy of the Board's calculation of the output index value of 0.955 for 2016. However, the figure cannot be verified. The Board uses the costed waybill sample to calculate the output index, and the costed waybill sample is generally not available to shippers. Moreover, the workpapers that the Board makes available for its calculation show only the ton-mile output for each year, and not any of the constituent data or calculations. Consequently, the Board's output calculations amount to hard-coded figures taken from a "black box," as they cannot be replicated or verified

WCTL does note that Class I revenue ton-miles as reported on Schedule 755 of the R-1s in 2016 (1,585,439,854) were 0.9121 of those reported for 2015 (1,738,283,304).² Based on the Board's calculations, the change in ton-miles would not be a very good proxy for the change in output for 2016.

The significant divergence between the change in STB-measured output and the change in reported revenue ton-miles for 2016 raises additional concern about the Board's decision to rely on a regression-based approach to measure the change in output for 2015 due to the AAR's switch in its methodology for measuring waybill mileage. The difference between ton-miles and calculated ton-mile output vary by year and is larger in some years, such as 2016. For 2015, the Board used a multi-year regression to

² The equivalent ratio for total (revenue and non-revenue) ton-miles is 0.9119 (1,600,114,941 in 2016 divided by 1,754,623,853 in 2015).

develop a linking factor of 0.9579. However, just because the linking factor is accurate, on average, over a number of years does not mean that it is accurate as applied to any single year, as was done for 2015. Furthermore, the regression was based on total output, and not the 189 individual cells in the output matrix. Stated differently, if 2015 was like 2016, the proxy would not have performed well.

A further exacerbating factor is the use of a different measure for a single year within a multiple-year average. When all years in the average are measured in the same manner, there is some potential for anomalies to be self-correcting. For example, artificially increased output in one year create an offsetting value the next year.³ But using an ad hoc methodology in just a single year compromises that potential since the internal consistency is lost.

Otherwise, the 2016 calculations, assuming the output estimate is accurate, demonstrate that productivity can improve despite decreasing output in an industry ostensibly distinguished by its economies of density, scale, and scope.

In sum, the productivity calculation for 2016 appears accurate based on the limited information available, but the 2012-2016 average remains more suspect.

³ Consider three sequences: 1-3-5, 1-4-5, and 1-0.5-5. The growth factors are 3.0 and 1.66 for the first sequence, 4.0 and 1.25 for the second, and 0.5 and 10 for the third. However, the compound growth rate (geometric average) is the same, 2.24 (or $5^{1/2}$), for all three.

Respectfully submitted,

WESTERN COAL TRAFFIC LEAGUE

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Certificate of Service

I hereby certify that today, February 23, 2018, copies of the foregoing Comments of the Western Coal Traffic League have been served on all parties of record in this proceeding in accordance with the Board's Rules of Practice.

/s/ Robert D. Rosenberg