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SERVICE DATE – DECEMBER 20, 2024

SURFACE TRANSPORTATION BOARD

DECISION

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

(2025-1)

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 first quarter of 2025.

Decided: December 18, 2024

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 first quarter of 2025 are shown in Table A of the Appendix to this decision. Table B shows the third quarter 2024 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 by the Board's Office of Economics, and the Board finds that AAR has complied with agency procedures. The Board finds that the first quarter 2025 RCAF (Unadjusted) is 0.944, a decrease of 1.8% from the fourth quarter 2024 RCAF (Unadjusted) of 0.961. 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 2018-2022, which is 1.011 (1.1% per year). The first quarter 2025 RCAF (Adjusted) is 0.367, a decrease of 2.1% from the fourth quarter 2024 RCAF (Adjusted) of 0.375.[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 2018-2022, which is 1.011 (1.1% per year). The RCAF-5 for the first quarter of 2025 is 0.347, a decrease of 2.0% from the fourth quarter 2024 RCAF-5 of 0.354.[3]

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

It is ordered:

1. The Board finds that the first quarter 2025 RCAF (Unadjusted) is 0.944, RCAF (Adjusted) is 0.367, and RCAF-5 is 0.347.

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

[2] The first quarter 2025 RCAF Adjusted (0.367) is calculated by dividing the first quarter 2025 RCAF Unadjusted (0.944) by the first quarter productivity adjustment factor (PAF) of 2.5706. The first quarter 2025 PAF is calculated by multiplying the fourth quarter 2024 productivity adjustment of 2.5637 by the fourth root (1.0027) of the 2018-2022 annual average productivity growth rate of 1.1%.

[3] The first quarter 2025 RCAF-5 (0.347) is calculated by dividing the first quarter 2025 RCAF Unadjusted (0.944) by the first quarter productivity adjustment factor-5 (PAF-5) of 2.7193. The first quarter 2025 PAF-5 is calculated by multiplying the fourth quarter 2024 PAF-5 of 2.7120 by the fourth root (1.0027) of the 2018-2022 annual average productivity growth rate of 1.1%.

3. The effective date of this decision is January 1, 2025.

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

APPENDIX

TABLE A

EP 290 (Sub-No. 5) (2025-1)
All Inclusive Index of Railroad Input Costs
(Endnotes Following Table B)

LINE NO.	INDEX COMPONENT	2023 WEIGHTS	FOURTH QUARTER 2024 FORECAST	FIRST QUARTER 2025 FORECAST
1	LABOR	30.2%	534.3	532.3
2	FUEL	16.4%	320.5	290.3
3	MATERIALS AND SUPPLIES	5.0%	372.1	354.9
4	EQUIPMENT RENTS	4.2%	292.7	294.6
5	DEPRECIATION	15.7%	240.3	238.7
6	INTEREST	2.4%	55.0	55.0
7	OTHER ITEMS[1]	26.1%	295.0	298.2
8	WEIGHTED AVERAGE	100.0%	360.9	355.1
9	LINKED INDEX[2]		332.9	327.5
10	PRELIMINARY RAIL COST ADJUSTMENT FACTOR[3]		97.3	95.7
11	FORECAST ERROR ADJUSTMENT[4]		-0.012	-0.013
12	RCAF (UNADJUSTED) (LINE 10 +LINE 11)		0.961	0.944
13	RCAF (ADJUSTED)		0.375	0.367
14	RCAF-5		0.354	0.347

TABLE B

EP 290 (Sub-No. 5) (2025-1)
Comparison of Third Quarter 2024 Index
Calculated on Both a Forecasted and an Actual Basis

LINE NO.	INDEX COMPONENT	2022 WEIGHTS	THIRD QUARTER 2024 FORECAST	THIRD QUARTER 2024 ACTUAL
1	LABOR	29.4%	546.6	546.6
2	FUEL	20.4%	329.8	318.7
3	MATERIALS AND SUPPLIES	4.7%	352.8	352.8
4	EQUIPMENT RENTS	4.4%	281.3	276.8
5	DEPRECIATION	15.2%	240.6	238.3
6	INTEREST	2.1%	51.0	51.0
7	OTHER ITEMS	23.8%	295.7	291.8
8	WEIGHTED AVERAGE	100.0%	365.0	361.2
9	LINKED INDEX		336.5	332.1
10	RAIL COST ADJUSTMENT FACTOR		98.3	97.0

Endnotes:

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[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 2023 weights beginning in the fourth quarter of 2024. The following formula was used for the current quarter's index:

$$\frac{\text{1st Qr. 2025 Index (2023 Weights)}}{\text{4th Qr. 2024 Index (2023 Weights)}} \text{ Times } \begin{array}{c}\text{4th Quarter Linked Index}\\ \text{(1980 = 100 Linked)}\end{array} \text{ Equals } \begin{array}{c}\text{Linked Index}\\ \text{(Current Quarter)}\end{array}$$

Or

$$\frac{355.1}{360.9} \times 332.9 = 327.5$$

[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 first quarter 2025 forecast error adjustment was calculated as follows: (a) third quarter 2024 RCAF using forecasted data equals 98.3; (b) third quarter 2024 RCAF using actual data equals 97.0; and (c) the difference equals the forecast error (b-a) of -1.3. Because the actual third quarter value is less than the forecast value, the difference is subtracted from the Preliminary RCAF.