

Brennan, William

From: Tim Crowley <tim@lepeabody.com> 247294
Sent: Monday, March 18, 2019 10:31 AM
To: Ramirez, Pedro ENTERED
Cc: Brennan, William; Thomas Crowley; Robert Rosenberg Office of Proceedings
Subject: EP 290 (Sub-No. 5) Quarterly Rail Cost Adjustment Factor March 18, 2019
 Part of
 Public Record

Mr. Ramirez,

In my review of the AAR's second quarter 2019 Rail Cost Adjustment Factor ("RCAF") workpapers, submitted on March 5, 2019 in response to EP 290 (Sub-No. 5) Quarterly Rail Cost Adjustment Factor, I noticed the AAR has not updated the 2017 weights used in the RCAF calculations based on the revised R-1's submitted by the Class I railroads in response to EP 552 (Sub-No. 22) Railroad Revenue Adequacy—2017 Determination.

These 2017 R-1 revisions were taken into account by the STB in the 2017 productivity calculations released on March 11, 2019 in EP 290 (Sub-No. 4) Railroad Cost Recovery Procedures—Productivity Adjustment.

The revisions to the 2017 R-1 result in changes to the 2017 weights relied upon by the AAR in calculating the 4Q18-2Q19 all-inclusive indexes, which leads to further changes in the RCAF (Unadjusted) and RCAF-5.

The table below displays the impact on the RCAF when the 2017 revised weights are applied to 4Q18-2Q19.

<u>RCAF Comparison Based on Revised 2017 Weights</u>						
<u>Item</u> (1)	<u>AAR</u>			<u>4Q18-3Q19 Weight Revised</u>		
	<u>4Q18</u> (2)	<u>1Q19</u> (3)	<u>2Q19</u> (4)	<u>4Q18</u> (5)	<u>1Q19</u> (6)	<u>2Q19</u> (7)
<u>A. 2017 Weights</u>						
1. Labor	35.0%	35.0%	35.0%	34.8%	34.8%	34.8%
2. Fuel	13.0%	13.0%	13.0%	12.9%	12.9%	12.9%
3. M&S	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
4. Equipment	5.2%	5.2%	5.2%	5.7%	5.7%	5.7%
5. Depreciation	15.8%	15.8%	15.8%	15.7%	15.7%	15.7%
6. Interest	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
7. Other	24.0%	24.0%	24.0%	23.9%	23.9%	23.9%
8. Total	100%	100%	100%	100%	100%	100%
<u>B. All-Inclusive Index Weighted Average</u>						
1. 1980=100	309.3	306.6	305.2	308.9	306.2	304.8
2. 1980=100	285.8	283.3	282.0	285.9	283.4	282.1
(linked)						
3. 4Q17=100	108.1	107.1	106.6	108.1	107.1	106.7
<u>C. RCAF</u>						
1. Preliminary RCAF	1.081	1.071	1.066	1.081	1.071	1.067
2. Forecast Error Adjustment	-0.002	-0.013	-0.003	-0.002	-0.013	-0.002
3. RCAF-U	1.079	1.058	1.063	1.079	1.058	1.065

4.	Productivity Adj. Factor	<u>2.3617</u>	<u>2.3593</u>	<u>2.3593</u>	<u>2.3617</u>	<u>2.3593</u>	<u>2.3593</u>
5.	RCAF-A	0.457	0.448	0.451	0.457	0.448	0.451
6.	PAF-5	2.5260	2.5235	2.5235	2.5260	2.5235	2.5235
7.	RCAF-5	0.427	0.419	0.421	0.427	0.419	0.422
<i>Values have changed based on revised 2017 weights.</i>							

Please let me know if you have any questions.

Sincerely,

Timothy D. Crowley
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