

ASSOCIATION  
OF AMERICAN  
RAILROADS

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Senior Vice President - Policy & Economics

March 4, 2011

The Honorable Cynthia T. Brown  
Chief, Section of Administration  
Office of Proceedings  
Surface Transportation Board  
395 E Street, SW.  
Washington, DC 20423-0001

Dear Ms. Brown:

This submission is the AAR forecast of the second quarter 2011 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2011-2) *Quarterly Rail Cost Adjustment Factor*. The versions of RCAF-related indices covered in this filing are: the All-Inclusive Index (initiated in the second quarter of 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the second quarter 2011 results on the fourth quarter 2007 base, and shows the percentage changes from the previous quarter.

	<u>2011Q1</u>	<u>2011Q2</u>	<u>% Change</u>
All-Inclusive Index	110.8	115.7	4.4
Preliminary RCAF	1.108	1.157	4.4
Forecast Error Adjustment	-0.015	0.019	
RCAF (Unadjusted)	1.093	1.176	7.6
Productivity Adjustment Factor	2.2409	2.2487	
RCAF (Adjusted)	0.488	0.523	7.2
PAF-5	2.3681	2.3752	
RCAF-5	0.462	0.495	7.1

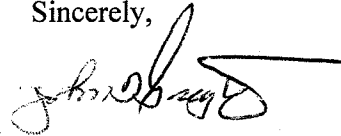
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March 4, 2011

In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment). In response to a request by STB staff, the AAR is including a calculation of the RCAF-5 in its quarterly RCAF filing. The AAR and its members, however, do not believe the publication of a third RCAF index is required or permitted by the applicable statute (49 U.S.C. § 10708) and do not endorse its publication.

Our quarterly non-proprietary workpapers underlying this submission are e-filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures*, served February 8, 1990. We have notified the STB office handling this proceeding of our plan to e-file the submission and non-proprietary workpapers. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,

A handwritten signature in black ink, appearing to read "John T. Gray", with a long horizontal flourish extending to the right.

John T. Gray

Attachments

**Second Quarter 2011  
All-Inclusive Index**

**Ex Parte No. 290 (Sub-No. 5) (2011-2)**

**Quarterly Rail Cost Adjustment Factor  
Surface Transportation Board**

**Policy and Economics Department  
Association of American Railroads**

**March 4, 2011**

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## Introduction

On January 2, 1985, the Interstate Commerce Commission (ICC) [now the Surface Transportation Board (STB)] adopted the All-Inclusive Index of Railroad Costs as the basis for the Rail Cost Adjustment Factor (RCAF). The quarterly projection of railroad costs, as documented herein, employ the All-Inclusive Index as required by the regulations. Also presented in this submission is the RCAF, both Adjusted and Unadjusted, as required by the ICC in its decision in Ex Parte No. 290 (Sub-No. 4), *Rail Cost Recovery Procedures - Productivity Adjustment*, served March 24, 1989. In addition, the AAR has included (but does not endorse) the RCAF-5, which was instituted by an STB decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation*. This quarter's projection of railroad costs is for the second quarter 2011.

## Index Weights

In the Ex Parte No. 290 (Sub-No. 2) final rules, issued in April 1981, the Interstate Commerce Commission mandated that the weights of each major cost component be updated annually. These "external" weights are calculated using data from Schedules 410 and 210 of the R-1 annual report filed with the Surface Transportation Board by the Class I railroads. The weights are typically updated with the fourth quarter projection.

The 2009 (current) and 2008 (previous) weights are shown below. The previous (2008) weights were used for the fourth quarter of 2009 through the third quarter of 2010. Beginning with the fourth quarter of 2010, the 2009 weights are used. The year 2009 was different from recent years. Instead of increases in the expenses used for the calculation of weights, declining demand for freight service caused the variable portion of expenses to decrease. Fuel is probably the most variable expense category, and fuel expenses dropped even more because of a lower cost per gallon and improving efficiency for locomotives. Not surprisingly, Fuel's weight decreased from 25.2 percent to 14.9 percent. Labor expenses decreased, but did not decrease as much as many of the other categories. Thus, Labor's weight increased from 30.2 percent to 34.7 percent. Depreciation and Interest expense have little or no variability, and those expenses actually increased. Weights for those two categories increased. Changes for the remaining categories were less than one percentage point.

RCAF Weights		
	Previous 2008	Current 2009
Labor	30.2 %	34.7 %
Fuel	25.2	14.9
Materials & Supplies	5.1	5.1
Equipment Rents	6.3	7.1
Depreciation	10.4	13.9
Interest	2.3	3.0
Other	20.5	21.3

Reweighting of the index is accomplished by calculating both the current quarter (normally the fourth) and prior (normally the third) quarter indexes with the new weights. The relative change between the two quarters is then multiplied times the prior quarter (usually the third) *linked* index. Use of this method ensures that the weight change, by itself, does not cause a change in the level of the All-Inclusive Index.

Internal weights in the labor and equipment rents components are updated at the same time as the external weights. When these weights are changed, they are also linked using the procedure described above in order to eliminate the effect of the change in weighting.

## All-Inclusive Index Second Quarter 2011

The components and values of the current and previous All-Inclusive Indexes are shown below. Details of the construction of each component of the index are contained in the Appendices.

	2009 Weights	Forecast		Percent Change
		Previous 2011Q1	Current 2011Q2	
1. Labor	34.7%	378.3	379.6	0.3 %
2. Fuel	14.9%	296.5	368.4	24.2
3. M&S	5.1%	248.1	249.0	0.4
4. Equipment Rents	7.1%	203.9	203.1	-0.4
5. Depreciation	13.9%	204.2	204.6	0.2
6. Interest	3.0%	84.5	84.5	0.0
7. Other	21.3%	208.6	212.9	2.1
8. Weighted Average				
a. 1980 = 100		277.9	290.1	
b. 1980 = 100 (linked)		272.4	284.4 <sup>1</sup>	
c. 4Q07 = 100		110.8	115.7 <sup>2</sup>	4.4

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<sup>1</sup> To calculate the 1980 = 100 Linked Index:

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= (290.1 / 277.9) \times 272.4 \\ &= 284.4 \end{aligned}$$

<sup>2</sup> To calculate the 4Q07 = 100 index:

$$\begin{aligned} \text{Index}_{4Q07} &= (\text{Current Linked Index} / \text{4Q07 Linking Factor}) * 100 \\ &= 284.4 \text{ divided by } 245.9 \text{ times } 100 \\ &= 115.7 \end{aligned}$$

Indexes based on other periods:

- 4Q02 based index = 284.4 / 192.1 x 100 = 148.0
- 4Q97 based index = 284.4 / 173.2 x 100 = 164.2
- 4Q92 based index = 284.4 / 156.9 x 100 = 181.3
- 4Q87 based index = 284.4 / 132.2 x 100 = 215.1

## Forecast vs. Actual All-Inclusive Index Fourth Quarter 2010

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the fourth quarter actual index of 108.8 is 1.9 index points above the forecast value of 106.9. Therefore, the forecast error adjustment for second quarter 2011 is 1.9 index points.

	2009 Weights	Fourth Quarter 2010		Amt Difference
		Forecast	Actual	
1. Labor	34.7%	367.4	367.4	
2. Fuel	14.9%	264.5	290.2	
3. M&S	5.1%	251.7	251.8	
4. Equipment Rents <sup>1</sup>	7.1%	199.8	203.3	
5. Depreciation	13.9%	205.5	203.8	
6. Interest	3.0%	84.5	84.5	
7. Other	21.3%	202.6	207.8	
8. Weighted Average				
a. 1980 = 100		268.2	273.1	
b. 1980 = 100 (linked)		262.9	267.5 <sup>2</sup>	
c. 4Q07 = 100 <sup>3</sup>		106.9	108.8	1.9

**Forecast error** —————> **1.9 index points**

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**Note:** The standard linking procedure has been used to eliminate any changes to indexes that would be caused by updating weights. The Q3 unlinked weighted averages for the All-Inclusive Indexes (forecast and actual) and for Equipment Rents (forecast and actual) were recalculated using the new (2009) weights.

	2009 Weights	Fourth Quarter 2010	
		Forecast	Actual
Car-Hire	42.2%	185.0	185.5
Lease Rentals	57.8%	202.6	207.8
Weighted Average		195.2	198.4
Weighted Average (linked)		199.8	203.3

<sup>2</sup> Linked actual index = (actual index / previous actual index) x previous linked actual index.  

$$267.5 = 273.1 / 263.7 \times 258.3$$

<sup>3</sup> The 4Q07 based indexes are 1980 based indexes divided by the 4Q07 linking factor (245.9/100). Other linking factors are: 4Q02 = 192.1; 4Q97 = 173.2; 4Q92 = 156.9; and 4Q87 = 132.2.



# Productivity

On February 7, 2011, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2009 to the Productivity Adjustment Factor (PAF) and removed the year 2004. This creates a geometric average annual productivity change, for the five-year period 2005 through 2009, of 1.4 percent per year. The components of this average annual value are shown on the following table in ratio format – therefore, 1.014 is the same as an increase of 1.4 percent.

Productivity changes are calculated by multiplying each of the five productivity changes together and taking the result to the one-fifth power. The quarter productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate, which are the fourth root of the geometric average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the five-year productivity trend.

<b>Comparison of Output, Input, &amp; Productivity</b>			
<b>2005 - 2009</b>			
Year	Output Index (1)	Input Index (2)	Productivity <sup>1</sup> Changes (3)
2005	1.021	0.956	1.068
2006	1.018	1.024	0.994
2007	1.000	0.996	1.004
2008	0.990	0.970	1.021
2009	0.847	0.861	0.984
<b>Average</b>			<b>1.014</b>
Corrected Previous Avg. (2004-2008)			1.012

<sup>1</sup> The values shown in Column 3 are based on full float calculations and may not exactly match numbers calculated using the rounded numbers displayed in Columns 1 and 2.

<b>Calculation of PAF and PAF-5</b>			
For 2005-2009, use fourth root of avg. productivity change = 1.0035			
For 2004-2008, use fourth root of avg. productivity change = 1.0030			
Quarter	Year	PAF	PAF-5
Q1	2011	2.2409	2.3681
Q2	2011	2.2487	2.3752
Q3	2011	2.2566	2.3823
Q4	2011	2.2645	2.3894
Q1	2012	2.2724	2.3978

## Rail Cost Adjustment Factor Second Quarter 2011

Four RCAF values are presented in this filing. Two are not modified for productivity (Preliminary RCAF and RCAF Unadjusted), and two incorporate a productivity calculation (RCAF Adjusted and RCAF-5). The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below. Note that the All-Inclusive Index is on a 2007Q4=100 basis.

	Previous 2011Q1	Current 2011Q2	Percent Change
All-Inclusive Index <sup>1</sup>	110.8	115.7	4.4
Preliminary RCAF <sup>2</sup>	1.108	1.157	4.4
Forecast Error Adjustment <sup>3</sup>	<u>-0.015</u>	<u>0.019</u>	
RCAF (Unadjusted) <sup>4</sup>	1.093	1.176	7.6
Productivity Adjustment Factor <sup>5</sup>	2.2409	2.2487	
RCAF (Adjusted) <sup>6</sup>	0.488	0.523	7.2
PAF-5 <sup>7</sup>	2.3681	2.3752	
RCAF-5 <sup>8</sup>	0.462	0.495	7.1

<sup>1</sup> See All-Inclusive Index on page 3.

<sup>2</sup> All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).

<sup>3</sup> The current figure is from Forecast vs. Actual All-Inclusive Index in this filing (page 4). The previous quarter figure is shown in a similar section of the previous quarter's filing.

<sup>4</sup> Preliminary RCAF plus the forecast error adjustment.

<sup>5</sup> See Productivity on page 5.

<sup>6</sup> RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).

<sup>7</sup> See Productivity on page 5.

<sup>8</sup> RCAF (Unadjusted) divided by the PAF-5.

# Appendixes

## Labor

### Second Quarter 2011

The second quarter 2011 Labor Index is forecast to increase 0.3 percent. Almost all of the increase was caused by annual bonus payments and an employee stock plan.

#### Wage Rate Index

The Wage Rate Index portion of the Labor Index increased 0.2 percent from the previous quarter. Independent contract performance bonuses that were higher than the bonuses for last year caused almost all of the increase.

**Wage Increases:** There are no wage increases scheduled for the second quarter. One newly-received independent contract was added to the index.

**Lump Sums:** The second quarter lump sum rate increased 7.2 cents. Two major independent performance bonuses from last year were completely amortized and removed from the index. This year's performance bonuses (which replace the completely amortized bonuses in the index) were higher, causing the increase.

**Back Pay:** The second quarter back pay rate increased 1.2 cents because of a newly-received independent labor agreement that affected one of the larger unions for two CN railroads. [Appendix H contains a list of railroad and union abbreviations.]

**Other:** In wages, "Other" contains the amortization of incentive compensation payments that the BNSF Railway makes each year to its dispatchers, yardmasters, and engineers. Currently, this amount is a payment made in 2010 for profit in 2009. Amortized over 4 quarters, this payment is on the fourth (and final) quarter of amortization. The 2011-Q2 rate is unchanged from the previous quarter.

#### Supplements Index

The Supplements Index increased 0.5 percent from the previous quarter. Almost all of the increase was caused by a railroad's independent employee stock plan contribution to employees of one of the largest unions.

**Health & Welfare:** The Health & Welfare rate was essentially unchanged on a percentage basis – it actually decreased by \$0.002. The change was caused by one newly-received independent labor agreement that had higher employee cost sharing (which lowers employer costs).

**Railroad Retirement:** The Railroad Retirement rate increased 0.2 percent, as taxable income was up slightly.

## **Labor**

### **Second Quarter 2011**

*Unemployment Insurance:* The unemployment insurance hourly rate was unchanged.

*Other:* The "Other" category is a reflection of all other fringe benefits, and currently contain known employer contributions to employee 401(k) accounts and employer contributions to employee stock plans that are recorded as fringe benefits. The hourly rate increased seven cents, as one railroad made its annual contribution to an employee stock plan.

### **Labor Index Calculation**

As shown in Table A-1 on the next page, the 0.2 percent increase in the Wage Index and the 0.5 percent increase in the Supplements Index had a combined effect of a 0.3 percent increase in the Labor Index. The linked second quarter 2011 index is 379.6.

## Labor Second Quarter 2011

Table A-1 Labor Index

	2011Q1	2011Q2	Change	
			Percent	Amount
<u>Base Wage</u> – Straight Time & Pay For Time Not Worked	\$36.036	\$36.039	0.0%	\$0.003
Adjustments:				
Lump Sum	0.153	0.225	47.1%	0.072
Back Pay	0.025	0.037	48.0%	0.012
Other	0.087	0.087	0.0%	0.000
<b>Total Wages</b>	<u>36.301</u>	<u>36.388</u>	0.2%	0.087
Health & Welfare Benefits	8.633	8.631	0.0%	-0.002
RR Retirement & Medicare	6.951	6.963	0.2%	0.012
Unemployment Insurance	0.606	0.606	0.0%	0.000
Other	0.103	0.173	68.0%	0.070
<b>Total Supplements</b>	<u>\$16.293</u>	<u>\$16.373</u>	0.5%	0.080
 Total Labor	 \$52.594	 \$52.761		
 <b>Wage Index<sup>1</sup></b>	 310.7	 311.4	 0.2%	
<b>Supplements Index<sup>2</sup></b>	602.1	605.1	0.5%	
 Total labor Index, 2009 Weights <sup>3</sup>	 397.8	 399.2		
<b>Labor Index (linked)<sup>4</sup></b>	<b>378.3</b>	<b>379.6</b>	0.3%	

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<sup>1</sup> 1980 wage rate                                      \$11.685

<sup>2</sup> 1980 supplements rate                                      \$2.706

<sup>3</sup> 2009 weights: wages, supplements                                      70.1%          29.9%

<sup>4</sup> 2011Q2 linked Index = 2011Q1 linked x (2011Q2 / 2011Q1)  
= 378.3                      x    399.2 / 397.8

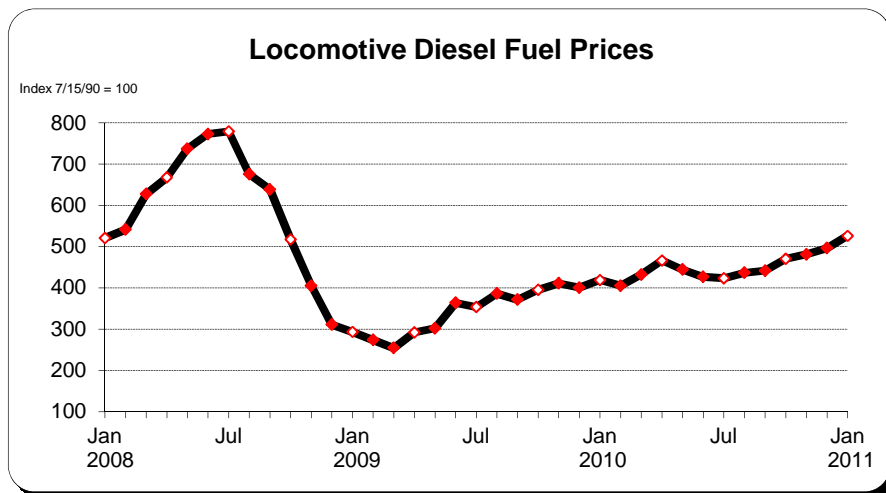
## Fuel Second Quarter 2011

The forecast for fuel is based on: (1) a survey of railroad fuel purchasing officers concerning current price and volume levels, (2) expectations of railroad purchasing officers based on their own forecast models and discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

During the first week of March, crude oil prices were rising toward \$100 per barrel.\* Anxiety over the uprising in Libya, which has Africa's largest oil reserves, contributed to the rising prices. Anti-government protesters and general unrest elsewhere in the Middle East also caused concern.

Locomotive diesel fuel prices have trended upward (with a few "dips") since a March 2009 "trough". January 2011 is the latest month available for locomotive diesel fuel prices, but data for heating oil prices, which have a reasonable degree of correlation with locomotive diesel fuel, are available for later periods\*\*. A comparison of New York Harbor No. 2 Heating Oil spot prices from the U.S. Energy Information Administration, for March 1 and the January average, shows an increase of 16.3 percent.

Railroads believe locomotive diesel fuel prices for April 2011 (Q2) will be 13.5 percent higher than the first quarter's (represented by January in the Fuel Index) average price actually paid. However, because the first quarter *forecast* was much too low, the second quarter 2011 forecast is 24.2 percent higher than the first quarter forecast.



Forecast Fuel Index	368.4
Change from previous quarter forecast	24.2%
Change from previous quarter actual	13.5%

\* Diesel fuel used by locomotives is made from refined crude oil, and therefore usually has some price correlation.

\*\* Heating oil and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

## Materials & Supplies

### Second Quarter 2011

The second quarter 2011 Materials & Supplies Index increased 0.4 percent from its first quarter value. The increase was caused by higher prices paid for two of the three major materials categories: Metals and Forest products. The index is still below its all-time high of 258.8 set for the first quarter of 2009.

2011Q2 Materials & Supplies Index = 249.0

2011Q1 Materials & Supplies Index = 248.1

Difference	0.9 basis points
	or
	0.4 %



## Equipment Rents Second Quarter 2011

The Equipment Rents Index consists of two components – car hire and lease rentals. The methodology used to create these two components and the final Equipment Rents Index are explained below.

### Car Hire

The car hire component is indexed using data from the Car Hire Accounting Rate Master (CHARM) file. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. For the first quarter, December 1 of the previous year is used. For the second, third and fourth quarters; March 1, June 1, and September 1 are used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter to determine the Car Hire Index.

### Lease Rentals

The lease rentals portion of the Equipment Rents Index uses the Producer Price Index for Industrial Commodities less Fuel and Related Products and Power (PPI-LF). The Commission adopted this surrogate in its decision served March 13, 1987. The AAR uses six years of historical data to derive its forecast for the PPI-LF. The forecast is used not only for lease rentals, but also for the "Other" component of the All-Inclusive Index. Appendix G discusses the forecast in more detail.

### Equipment Rents Index Calculation

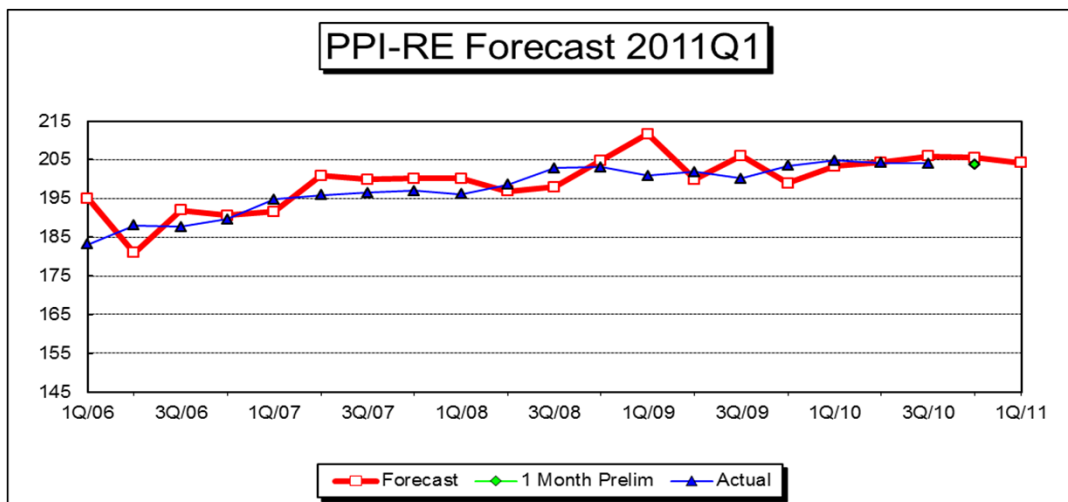
The table below calculates the Equipment Rents Index, which decreased 0.4 percent. The second quarter Car Hire portion of the Index decreased 4.1 percent, caused mostly by rates for auto racks and tank cars. A 2.1 percent increase for the PPI-LF (see Appendix G) used as a proxy for Lease Rentals, combined with the 4.1 percent decrease for Car Hire, caused the Equipment Rents Index to decrease 0.4 percent.

	2009 Weight	2011Q1	2011Q2	Percent Change
Car Hire	42.2%	186.3	178.6	-4.1 %
Lease Rentals	57.8%	208.6	212.9	2.1
Weighted Average		199.2	198.4	-0.4
Weighted Average (Linked)		203.9	203.1	-0.4

## Depreciation Second Quarter 2011

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA (Auto-Regressive Integrated Moving Average) process where a statistical package picks the model that best fits the historical data set (see next page), and that model is then used for the forecast. The historical data set contains 6 years of monthly data (a sample size of 72), where the most recent available data point is the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent period available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix on a 1982=100 basis. The figure forecast by the model reflects monthly PPI-RE figures that have changed by only small amounts during 2010, with no clear pattern up or down.

Forecast of Depreciation Index (1982=100)	185.0
Forecast of Depreciation Index (1980=100)	204.6
Change from previous quarter forecast	0.2%
Change from actual first month of previous quarter	0.0%
Change from same quarter of prior year (actual)	0.2%



## Depreciation Second Quarter 2011

### PPI RAILROAD EQUIPMENT

Recommended model: Box-Jenkins

Forecast Model for PPIRE

ARIMA(0,1,0)\*(1,0,0)

Term	Coefficient	Std. Error	t-Statistic	Significance
A[12]	0.4127	0.0931	4.4332	1.0000

#### Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 175.9	Standard deviation 8.161
R-square 0.9797	Adjusted R-square 0.9797
Durbin-Watson 2.192	Ljung-Box(18)=20.45 P=0.6918
Forecast error 1.163	BIC 1.19
MAPE 0.004371	RMSE 1.155
MAD 0.7689	

#### Actual Values for the Most Recent 6 Periods:

Date	Actual
2010-08	184.500
2010-09	184.500
2010-10	184.100
2010-11	184.200
2010-12	184.200
2011-01	185.000

#### Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2011-02	182.803	185.083	187.362
2011-03	181.777	185.000	188.223
2011-04	181.052	185.000	188.948
2011-05	180.483	185.041	189.600
2011-06	179.945	185.041	190.138
<b>QTR AVG</b>	<b>180.493</b>	<b>185.027</b>	<b>189.562</b>

## Interest Second Quarter 2011

The Interstate Commerce Commission, in its decision served February 28, 1989, revised the All-Inclusive Index methodology to include a specific interest component, which is to track changes in the average interest rate from year to year. The interest rate is essentially the embedded cost of debt, i.e., total interest expense divided by average total long term debt. The interest rate is calculated for the most recent year and used until the next year's figures are available. Typically in the fourth quarter filing, the interest rate is updated to the new level. The source for interest expense is Schedule 210, column b, from the R-1 annual report. The lines used from current R-1 annual reports are listed below. The source for average total debt is Schedule 200 from the R-1 annual report. The sums of data from columns b and c (ending and beginning balances) are combined and divided by 2 to compute an average balance. The line numbers are listed below. Beginning with fourth quarter 2010, the Interest Index is based on data for 2009.

### Interest Expense (Schedule 210)

Line	
42	Total Fixed Charges
44	Contingent Interest
less	
22	Release of Premium on Funded Debt

### Average Total Debt (Schedule 200)

Line	
30	Current Loans and Notes Payable
39	Equipment Obligations and Other Long Term Debt Due Within One Year
41	Funded Debt Unmatured - Non-Current
42	Equipment Obligations - Non-Current
43	Capitalized Lease Obligatons - Non-Current
44	Debt in Default - Non-Current
45	Accounts Payable: Affiliated Companies - Non-Current
46	Unamortized Debt Premium - Non-Current

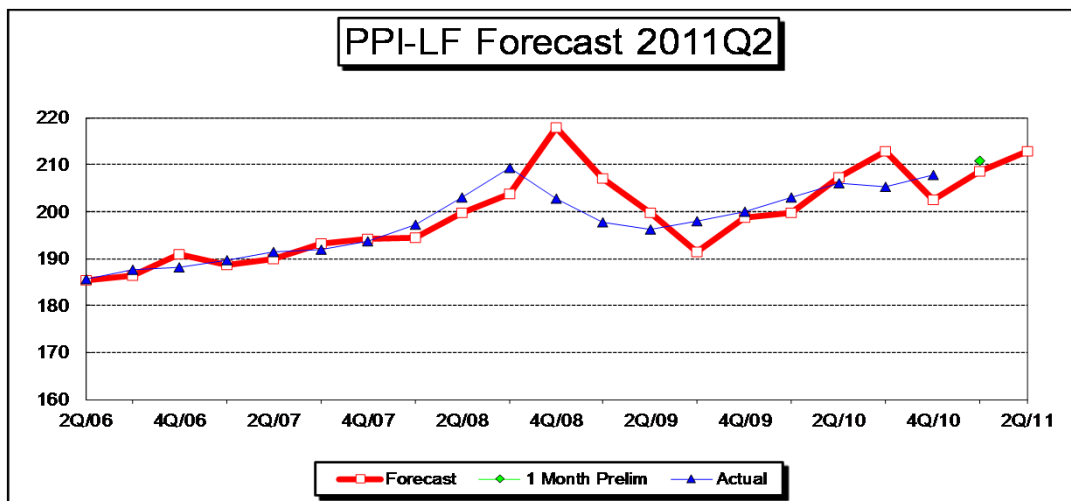
2009	Interest Rate	6.63%
1980	Interest Rate	7.85%
<b>2011Q2</b>	<b>Interest Index</b>	<b>84.5</b>
2011Q1	Interest Index	84.5
	Percent Change	0.0%

## Other Expenses Second Quarter 2011

The Producer Price Index for Industrial Commodities less Fuels and Related Products and Power (PPI-LF) is used to index purchased services, casualties and insurance, loss and damage, taxes (other than income and payroll), general and administrative expenses, and lease rentals. These expenses, when grouped together, are usually called "Other" expenses.

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent month available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model for the second quarter reflects monthly PPI-LF figures that are increasing at higher rates. Preliminary indications are (see chart) that the first quarter forecast may have been slightly low, which would exacerbate the increase from the prior quarter forecast.

Forecast of Other Expense Index (1982=100)	189.9
Forecast of Other Expense Index (1980=100)	212.9
Change from previous quarter forecast	2.1%
Change from actual first month of previous quarter	0.9%
Change from same quarter of prior year (actual)	3.4%



## Other Expenses Second Quarter 2011

### PPI INDUSTRIAL COMMODITIES LESS FUELS AND RELATED PRODUCTS AND POWER

Recommended model: Exponential Smoothing  
 Forecast Model for PPILF  
 Holt exponential smoothing: Linear trend, No seasonality  
 Confidence limits proportional to level

Component	Smoothing Weight	Final Value
Level	1.00000	188.10
Trend	0.03165	0.44215

#### Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 173.1	Standard deviation 8.991
R-square 0.987	Adjusted R-square 0.9868
Durbin-Watson 0.5585	** Ljung-Box(18)=94.62 P=1
Forecast error 1.033	BIC 1.081
MAPE 0.003897	RMSE 1.018
MAD 0.686	

#### Actual Values for the Most Recent 6 Periods:

Date	Actual
2010-08	183.100
2010-09	183.500
2010-10	184.600
2010-11	185.500
2010-12	186.200
2011-01	188.100

#### Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2011-02	186.310	188.542	190.775
2011-03	185.777	188.984	192.192
2011-04	185.478	189.426	193.375
2011-05	185.298	189.869	194.440
2011-06	185.192	190.311	195.429
<b>QTR AVG</b>	<b>185.323</b>	<b>189.869</b>	<b>194.415</b>

## Railroad and Union Abbreviations

### Second Quarter 2011

#### *Railroads*

BLE	Bessemer & Lake Erie Railroad (Part of CN's Grand Trunk Corp.)
BNSF	BNSF Railway Company
CC	Chicago, Central & Pacific (Part of CN's Grand Trunk Corp. Sometimes noted as CC&P.)
CN	Canadian National Railway (Commonly known as CN, owns Grand Trunk Corporation.)
CNGT	AAR's abbreviation for Grand Trunk Corporation (Almost all of CN's U.S. operations.)
CP	Canadian Pacific (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
D&H	Delaware & Hudson (Canadian Pacific's U.S. operations, to be included beginning 2011Q4.)
DME	Dakota, Minnesota & Eastern (Canadian Pacific's U.S. operations, to be included beginning 2011Q4.)
DMIR	Duluth, Missabe & Iron Range Company (Part of CN's Grand Trunk Corp.)
DWP	Duluth, Winnipeg & Pacific Railway (Part of CN's Grand Trunk Corp.)
EJE	Elgin, Joliet & Eastern Railway (Part of CN's Grand Trunk Corp.)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corp.)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corp.)
KCS	Kansas City Southern Railway
NS	Norfolk Southern Combined Railroad Subsidiaries (a.k.a. Norfolk Southern Railway or NS Rail)
SOO	Soo Line Railroad (the largest of Canadian Pacific's U.S. operations.)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corp.)

#### *Major Unions Involved with Railroads*

ATDA	American Train Dispatchers Association
BLET	Brotherhood of Locomotive Engineers and Trainmen Div. of the International Brotherhood of Teamsters
BMWED	Brotherhood of Maintenance of Way Employees Division of the International Brotherhood of Teamsters
BRS	Brotherhood of Railroad Signalmen
IAM	International Association of Machinists and Aerospace Workers
IBBM	International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers & Helpers
IBEW	International Brotherhood of Electrical Workers
NCFO	National Conference of Firemen and Oilers
SMW	Sheet Metal Workers' International Association
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union
UTU	United Transportation Union
UTU-Yard	United Transportation Union Yardmaster Department (also noted as UTU-YMD)

#### *Predecessor Unions (Some AAR databases use these old abbreviations.)*

BLE	Brotherhood of Locomotive Engineers (predecessor to BLET)
BMWE	Brotherhood of Maintenance of Way Employees (predecessor to BMWED)
BRC	Brotherhood of Railway Carmen (predecessor to TCU-Carmen)
IBFO	International Brotherhood of Firemen and Oilers (predecessor to NCFO)