

ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy

December 5, 2000

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board, Room 711
1925 K Street, N.W.
Washington, DC 20423-0001

Dear Mr. Williams:

This submission is the AAR forecast of the first quarter 2001 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2001-1), *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 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 first quarter 2001 results, and shows the percentage changes from the previous quarter.

	<u>2000Q4</u>	<u>2001Q1</u>	<u>% Change</u>
All-Inclusive Index	105.9	107.9	1.9
Preliminary RCAF	1.059	1.079	1.9
Forecast Error Adjustment	0.003	0.006	
RCAF (Unadjusted)	1.062	1.085	2.2
Productivity Adjustment Factor	1.8025	1.8180	
RCAF (Adjusted)	0.589	0.597	1.4
PAF-5	1.8727	1.8888	
RCAF-5	0.567	0.574	1.2

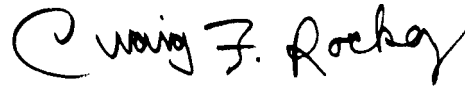
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December 5, 2000

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.

Two copies of the quarterly non-proprietary workpapers underlying this submission are 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. A third copy of the working papers has been delivered to Jeff Warren in the STB office handling this proceeding. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (639-2309) of this office.

Sincerely,

A handwritten signature in black ink that reads "Craig F. Rockey". The signature is written in a cursive style with a large, stylized initial "C".

Craig F. Rockey

Attachments

**First Quarter 2001
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2001-1)

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

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

December 5, 2000

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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, employs 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 first quarter of 2001.

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. The 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.

Weights based on 1998 data were used for the fourth quarter of 1999 through the third quarter of 2000. For the fourth quarter of 2000, the weights based on the 1999 R-1 Annual Reports were used. Reweighting from 1998 to 1999 caused little change. All changes in the weights were by less than 1 percentage point. In October 2000, one railroad revised its 1999 R-1 annual report, causing changes in some of the internal and external weights. However, the revised weights by themselves had minimal impact and fourth quarter 2000 versions of the All-Inclusive Index and RCAF recalculated with the new weights match the original filing. The current (1999 with revision) and both previous weights (original 1999 and 1998 data) are shown below. For more on the revision, see note 1 on page 3 of Appendix A.

RCAF Weights			
	1998 Based	Original 1999	Revised 1999
Labor	39.9 %	39.5 %	39.3 %
Fuel	7.0	7.1	7.1
Materials & Supplies	5.5	5.2	5.3
Equipment Rents	10.8	10.9	11.4
Depreciation	10.6	10.6	10.6
Interest	4.8	4.6	4.6
Other	21.4	22.1	21.7

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 linked in order to eliminate the effect of the change in weighting.

All-Inclusive Index First Quarter 2001

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.

	1999r ¹ Weights	Forecast		Percent Change
		Previous ¹ 2000Q4	Current 2001Q1	
1. Labor	39.3%	245.5	254.4	3.6 %
2. Fuel	7.1%	123.4	129.7	5.1
3. M&S	5.3%	150.1	148.7	-0.9
4. Equipment Rents	11.4%	174.2	174.7	0.3
5. Depreciation	10.6%	150.3	150.3	0.0
6. Interest	4.6%	94.9	94.9	0.0
7. Other	21.7%	160.3	161.0	0.4
8. Weighted Average				
a. 1980 = 100		188.1	192.2	
b. 1980 = 100 (linked)		182.9	186.9 ²	
c. 4Q97 = 100		105.6	107.9 ³	2.2

¹ The fourth quarter has been recalculated with revised weights and a revised labor index. For this calculation, the revised figure of 105.6 replaces the filed figure of 105.9. See note 1 on page 3 of Appendix A.

² To calculate the 1980 = 100 Linked Index:

$$\text{Index}_{80} = (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index}$$

$$= 192.2 \text{ divided by } 188.1 \text{ times } 182.9$$

$$= 186.9$$

³ To calculate the 4Q97 = 100 index:

$$\text{Index}_{4Q97} = (\text{Current Linked Index} / 4Q97 \text{ Index}) * 100$$

$$= 186.9 \text{ divided by } 173.2 \text{ times } 100$$

$$= 107.9$$

4Q92 based index = 119.1
4Q87 based index = 141.4

Forecast vs. Actual All-Inclusive Index Third Quarter 2000

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

	1998 Weights	Third Quarter 2000		Amt Difference
		Forecast	Actual	
1. Labor	39.9%	245.7	245.7	
2. Fuel	7.0%	98.7	108.2	
3. M&S	5.5%	147.6	147.6	
4. Equipment Rents ¹	10.8%	175.0	175.0	
5. Depreciation	10.6%	150.2	150.2	
6. Interest	4.8%	98.0	98.0	
7. Other	21.4%	161.3	159.9	
8. Weighted Average				
a. 1980 = 100		187.1	187.5	
b. 1980 = 100 (linked)		181.6	182.5 ²	
c. 4Q97 = 100 ³		104.8	105.4	0.6

Forecast error —————▶ **0.6 index points**

1	1998 Weights	Third Quarter 2000	
		Forecast	Actual
Car-Hire	58.8%	178.0	178.7
Lease Rentals	41.2%	161.3	159.9
Weighted Average		171.1	171.0
Weighted Average (linked)		175.0	175.0

² Linked actual index = (actual index / previous actual index) x previous linked actual index.
 $182.5 = 187.5 / 185.8 \times 180.8$

³ The 4Q97 based indexes are 1980 based indexes divided by the 4Q97 index (173.2/100).
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 index (156.9/100).
 2000Q3 actual index based on 4Q92: —————▶ 116.3

Productivity

On January 27, 2000, the STB served a decision in Ex Parte 290 (Sub-No. 4) which added the year 1998 to the Productivity Adjustment Factor (PAF) and deleted the year 1993. This creates an average annual productivity for 1994 through 1998 of 3.5 percent – a decrease from the 1993 through 1997 average of 5.7 percent. The components of this average annual value are shown on the following table. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the the five productivity changes together and taking the result to the one fifth power. The quarterly 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 average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

Comparison of Output, Input, & Productivity			
1994 - 1998			
Year	Output Index (1)	Input Index (2)	Productivity Changes (3)
1994	1.084	1.025	1.058
1995	1.058	1.045	1.012
1996	1.038	0.913	1.137
1997	1.007	1.019	0.988
1998	1.005	1.018	<u>0.987</u>
Average			1.035
Previous Average (1993-1997)			1.057

Calculation of PAF and PAF-5			
For 1994-1998 use fourth root of avg. productivity change			1.0086
For 1993-1997 use fourth root of previous avg. change			1.0140
Quarter	Year	PAF	PAF-5
Q4	1999	1.7325	1.7714
Q1	2000	1.7568	1.7962
Q2	2000	1.7719	1.8213
Q3	2000	1.7871	1.8468
Q4	2000	1.8025	1.8727
Q1	2001	1.8180	1.8888

1993-1997

←

1994-1998

←

Rail Cost Adjustment Factor First Quarter 2001

Four RCAF values are presented in this filing. Two of the indexes, the All-Inclusive Index and the Unadjusted RCAF, are not modified for productivity, while the Adjusted RCAF and the RCAF-5 incorporate a productivity calculation. The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below.

	Previous 2000Q4	Current 2001Q1	Percent Change
All-Inclusive Index ¹	105.9	107.9	1.9
Preliminary RCAF ²	1.059	1.079	1.9
Forecast Error Adjustment ³	0.003	0.006	
RCAF (Unadjusted) ⁴	1.062	1.085	2.2
Productivity Adjustment Factor ⁵	1.8025	1.8180	
RCAF (Adjusted) ⁶	0.589	0.597	1.4
PAF-5 ⁷	1.8727	1.8888	
RCAF-5 ⁸	0.567	0.574	1.2

¹ See All-Inclusive Index on page 3.

² All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).

³ 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.

⁴ Preliminary RCAF plus the forecast error adjustment.

⁵ See Productivity on page 5.

⁶ RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).

⁷ See Productivity on page 5.

⁸ RCAF (Unadjusted) divided by the PAF-5.

Appendixes

Labor

First Quarter 2001

The first quarter 2001 wage index is forecast to increase 0.9 percent, while the supplements index will increase 8.7 percent. These changes are caused largely by wage increases and an increase in health and welfare costs. The overall impact of these changes in wages and supplements is an increase of 3.6 percent in the overall labor index. (See note 1 on page 3 of this appendix concerning recent annual report revisions made by 1 railroad.)

Wage Index

Natonal Contracts: The 1996 national agreements with the major railroads unions provide for a cost-of-living allowance (COLA) to be added to basic rates of pay effective January 1, 2001. In the case of the BLE, UTU, UTU-Yardmasters, BMW, and BRS; the adjustment is their third COLA, and it will be 12 cents. In the case of the Clerks and Shopcrafts; the adjustment is a combination of a second COLA (15 cents) and a third COLA (12 cents) for a total of 27 cents. There is no health and welfare offset for either group of unions.

The 1996 national agreement with the Brotherhood of Railroad Signalmen provides, in Side Letter #8, for a general wage increase of 3.5 percent effective July 1, 2000. This increase was not added to the wage index until the first quarter 2001, causing the third and fourth quarter 2000 to be captured as backpay. This wage increase adds 2.2 cents to the labor rate.

Independent Contracts: Grand Trunk Western had 3 percent increases for the TCU, BRS, BLE, and UTU-Yardmasters. Illinois Central had a new contract signed for the TCU that included a 3 percent wage increase retroactive to July 1, 2000 plus a signing bonus. IC also had COLA wage increases for seven unions. The Soo Line had COLA wage increases similar to the national contracts.

Lump Sums: The lump sum adjustment for the first quarter decreased by \$0.003 as one small independent lump sum was completely amortized in the fourth quarter while the IC TCU signing bonus was added.

Back Pay: The first quarter rate increased with the addition of the July BRS national wage increase that was not captured in the third or fourth quarter. The IC TCU retroactive increase caused a back pay amount for 2 quarters to be added. Two additional quarters of back pay were added for small COLA increases for 6 smaller IC unions that were effective July 1, 2000, but were not captured in the third or fourth quarter. The sum of these increases was only partially offset by the removal of a GTW back pay amount that was completely amortized in the fourth quarter.

Other: This component contains the amortization of a profit sharing payment that the BNSF made to its Brotherhood of Locomotive Engineers employees from the former Atchison, Topeka and Santa Fe Railway in the spring of 2000. The first quarter figure remains \$0.008.

Labor

First Quarter 2001

Supplements Index

The Supplements index is forecast to increase by 8.7 percent from the revised* fourth quarter or 6.9 percent from the original. New health & welfare costs increased substantially once again, railroad retirement increased by a small amount, supplemental annuities decreased slightly, and unemployment insurance increased by a high percentage although the amount of the increase was small compared to health & welfare.

Health & Welfare: The health and welfare hourly rate increased 19.3 percent from the revised* fourth quarter level due to the use of the new 2001 health and welfare figures supplied by the National Railway Labor Conference. Page 4 of this appendix compares the health and welfare rates for 1999 through 2001. The National Railway Labor Conference memo that lists the 2001 rates is shown on page 5 of this appendix.

Railroad Retirement: Payroll taxes for Railroad Retirement and Medicare will increase 2.4 percent in the first quarter 2001, caused by an increase in the taxable earnings base and by the higher wage rate. Taxable earnings bases for years 1999 through 2001 are compared on page 4 of this appendix.

Supplemental Annuities: The supplemental annuities rate is expected to decrease slightly in 2001.

Unemployment Insurance: Railroad unemployment insurance rates are experience-rated by employer, and will range from 2.15 percent (0.65 plus a 1.5 percent surcharge) to a maximum of 12 percent on monthly employee compensation up to \$1,050. In 2001, 76 percent of covered employers will be assessed the 2.15 minimum. The weighted-average 2001 unemployment insurance rate for Class I railroads is also equal to the 2.15 percent minimum. Because of the higher insurance rate, the hourly rate for unemployment insurance increased by 7 cents to 10.8 cents. While this level is 184 percent higher than the 2000 hourly rate, it is lower than the hourly rate for 1999 or 1998.

Other: The "Other" category reflects a quarterly employer matching contribution by BNSF to certain BLE and BMWWE employees. First quarter's \$0.009 is unchanged from the previous quarter.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.9 percent increase in the Wage Index and the 8.7 percent increase in the Supplements Index had a combined effect of a 3.6 percent increase in the revised Labor Index or 3.0 percent from the 2000Q4 filing.

* See Note 1 on page 3 of this Appendix A.

Labor First Quarter 2001

Table A-1 Labor Index

	2000Q4 ¹	2001Q1	Change	
			Percent	Amount
Base Wage – Straight Time & Pay For Time Not Worked	\$25.858	\$26.100	0.9%	\$0.242
Adjustments:				
Lump Sum	0.009	0.006	-33.3%	-0.003
Back Pay	0.050	0.059	18.0%	0.009
Other	0.008	0.008	0.0%	0.000
Total Wages	<u>\$25.925</u>	<u>26.173</u>	1.0%	0.248
Health & Welfare Benefits	3.089	3.684	19.3%	0.595
RR Retirement & Medicare	5.808	5.947	2.4%	0.139
Supplemental Annuities	0.237	0.232	-2.1%	-0.005
Unemployment Insurance	0.038	0.108	184.2%	0.070
Other	0.009	0.009	0.0%	0.000
Adjustments	0.000	0.000		
Total Supplements	<u>\$9.181</u>	<u>\$9.980</u>	8.7%	0.799
Total Labor	\$35.106	\$36.153		
Wage Index²	221.9	224.0	0.9%	
Supplements Index³	339.3	368.8	8.7%	
Total labor Index, 1999 Weights ⁴	251.8	260.9		
Labor Index (linked)⁵	245.5	254.4	3.6%	

¹ Revised figures - In October 2000, CSX revised its 1999 R-1 Annual Report causing changes in the weights used to calculate the All-Inclusive Index and changes in the benchmark for Health & Welfare Benefits. The impact of the weights change by itself causes the linked labor index to decrease by 0.1 index points and no change to the Preliminary RCAF. However, the revised Health & Welfare figure significantly affects the Supplements Index and along with the weights change results in a lower Labor Index and a slightly lower (105.6 instead of 105.9) All-Inclusive Index. All differences caused by the revision will be captured in the 2001Q2 Forecast Error Adjustment which is based on forecast-verses-actual for fourth quarter 2000. The Labor Index shown on this page (245.5), will be the labor figure used for the Actual column of the Forecast Error Adjustment calculation, and the original labor index filed (247.1) will be used in the Forecast column.

² 1980 wage rate \$11.685

³ 1980 supplements rate \$2.706

⁴ 1999r weights: wages, supplements 74.5% 25.5%

⁵ 2001Q1 linked Index = 2000Q4r_{linked} X (2001Q1 / 2000Q4r)
= 245.5 x 260.9 / 251.8

Labor
First Quarter 2001

Supplement Comparisons

Health and Welfare Rates

Plan	Railroad Contribution Per Employee Per Month			'00-'01 Chg
	1999	2000	2001	
Group Health & Life	447.85	598.26	705.52	17.9%
Early Retirement Major Medical	17.46	22.35	30.35	35.8%
Group Dental	35.15	34.15	43.27	26.7%
Group Vision	7.51	7.51	7.51	0.0%
Supplemental Sickness				
Maintenance of Way	18.80	18.04	24.53	36.0%
Shop Crafts	21.26	20.24	38.51	90.3%
Signalmen	12.01	7.25	23.59	225.4%
Yardmasters	24.16	30.78	29.65	-3.7%

Railroad Retirement and Medicare

	Earnings Base			Employer Rate 1999 = 2000 = 2001
	1999	2000	2001	
Tier I	\$72,600	\$76,200	\$80,400	6.2%
Tier II	53,700	56,700	59,700	16.1%
Medicare	no limit	no limit	no limit	1.5%

Unemployment Insurance

Monthly Taxable Earnings Base			Weighted Avg. Class I Rate		
1999	2000	2000	1999	2000	2001
\$970	\$1,005	\$1,050	3.67%	0.79%	2.15%

Supplemental Annuity rate

	For all 4 quarters		Q-1
	1999	2000	2001
RRB Rate	27.0¢	26.5¢	26.0¢
Rate based on R-1	24.1¢	23.7¢	23.2¢

Labor
First Quarter 2001

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NRLC

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P.02

NATIONAL RAILWAY LABOR CONFERENCE
EMPLOYEE BENEFITS DEPARTMENT

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November 17, 2000

Mr. Clyde Crimmel
Director Statistical Information
Policy & Communications Department
AAR-5th Floor
50 F Street N.W.
Washington, D.C. 20009

Dear Mr. Crimmel:

The revised employer Payment Rates which are effective January 1, 2001 are as follows:

Table with 2 columns: Plan Name and Amount. Rows include UNUMProvident - Supplemental Sickness Plans (ShopCrafts \$38.51, Signalmen \$23.59, Maintenance of Way \$24.53), Trustmark - Supplemental Sickness Plans (Yardmasters \$29.65), Railroad Employees National Health & Welfare Plan & National Railway Carriers/United Transportation Union H&W Plan (Non-Hospital Road \$705.52), Railroad Employees National Early Retirement (Major Medical Benefit Plan Non-Hospital Road \$30.35), Aetna US Healthcare - National Dental Plan (\$43.27), and VSP - National Vision Plan (\$7.51).

If you have any questions or need clarification, please contact me.

Very truly yours,

[Handwritten signature of Susan E. Parks]
Susan E. Parks

cc: Carol Kearns

TOTAL P.02

Fuel

First Quarter 2001

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 discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

Railroad fuel prices are not expected to be much different in the first quarter (January) from the fourth quarter average (October). Heating oil prices have already increased substantially, and prices will remain somewhat level unless the Northeast experiences extremely cold weather or an oil crisis arises in the Middle East.

Forecasted fuel index	129.7
Increase from previous quarter forecast	5.1%
Increase from previous quarter actual	-0.8%

Materials & Supplies

First Quarter 2001

The materials and supplies index for first quarter 2001 is 0.9 percent lower than the previous quarter.

2001Q1 Materials & Supplies Index = 148.7

2000Q4 Materials & Supplies Index = 150.1

Difference	-1.4 basis points
	or
	-0.9 %

Equipment Rents First Quarter 2001

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 the Car Hire Rate Master File (CHARM). First, an average rate per car is developed. Second, those average rates are grouped into car type categories to create an overall summary of car hire rates. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. The summary rates are then compared from quarter to quarter to determine the car hire index.

Lease Rentals

The lease rental 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 forecast of the PPI-LF is discussed in Appendix G.

Equipment Rent Index Calculation

The table below calculates the Equipment Rent Index.

	1999r Weight	2000Q4	2001Q1	Percent Change
Car Hire	54.9%	177.5	177.7	0.1 %
Lease Rentals	45.1%	160.3	161.0	0.4
Weighted Average		169.7	170.2	0.3
Weighted Average (Linked)		174.2	174.7	0.3

The Car Hire forecast uses the latest CHARM File rates. 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.

The Lease Rental forecast uses the AAR PPI-LF forecast for that quarter.

r - In October 2000, CSX revised its R-1 1999 annual report causing revisions to the weights used in the 2000Q4 RCAF filed September 5, 2000. The weights change did not affect the 2000Q4 linked Car Hire index or the linked Equipment Rent Index.

Depreciation First Quarter 2001

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE 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 be the most recent monthly data 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 value for the forecast, unchanged from the previous quarter's forecast, reflects a PPI-RE that has changed very little over the last 7 months.

Forecasted depreciation index (1982=100)	135.9
Forecasted depreciation index (1980=100)	150.3
Increase from previous quarter forecast	0.0%
Increase from actual first month of previous quarter	0.0%
Increase from same quarter of prior year	0.3%

Depreciation First Quarter 2001

PPI RAIL EQUIPMENT

Forecast Model for PPIRE

Recommended model: Exponential Smoothing, no trend, no seasonality

<u>Component</u>	<u>Smoothing Weight</u>	<u>Final Value</u>
Level	0.80625	135.88

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 135.3	Standard deviation 1.806
R-square 0.5227	Adjusted R-square 0.5227
Durbin-Watson 1.867	Ljung-Box(18)=16.35 P=0.4316
Forecast error 1.248	BIC 1.277
MAPE 0.004385	RMSE 1.239
MAD 0.5947	Forecast Report

Actual Values for the Most Recent 6 Periods:

<u>Date</u>	<u>Actual</u>
2000-05	135.700
2000-06	135.800
2000-07	135.900
2000-08	135.800
2000-09	135.800
2000-10	135.900

Forecasted Values

<u>Date</u>	<u>2.5 Lower</u>	<u>Forecast</u>	<u>97.5 Upper</u>
2000-11	133.379	135.881	138.383
2000-12	132.667	135.881	139.096
2001-01	132.086	135.881	139.676
2001-02	131.583	135.881	140.179
2001-03	131.133	135.881	140.629
QTR AVG	131.601	135.881	140.161
2001-04	130.722	135.881	141.040
2001-05	130.342	135.881	141.420
2001-06	129.986	135.881	141.776

Interest First Quarter 2001

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.

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 Obligations - Non-Current
44	Debt in Default - Non-Current
45	Accounts Payable: Affiliated Companies - Non-Current
46	Unamortized Debt Premium - Non-Current

1999	Interest Rate	7.45%
1980	Interest Rate	7.85%
2001Q1	Interest Index	94.9
2000Q4	Interest Index	94.9
	Percent Change	0.0%

Other Expenses

First Quarter 2001

The Producer Price Index for Industrial Commodities less Fuel 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. 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 be the most recent monthly data 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 is 0.4 percent above the previous quarter forecast.

Forecasted Other Expense (1982=100)	143.6
Forecasted Other Expense (1980=100)	161.0
Increase from previous quarter forecast	0.4%
Increase from actual first month of previous quarter	0.4%
Increase from same quarter of prior year	1.3%

Other Expenses First Quarter 2001

**PPI INDUSTRIAL COMMODITIES LESS FUEL
AND RELATED PRODUCTS AND POWER**

Forecast Model for PPILF
ARIMA(1,1,0) with log transform

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.5778	0.0955	6.0498	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 4.937	Standard deviation 0.01052
R-square 0.9658	Adjusted R-square 0.9658
Durbin-Watson 2.265	Ljung-Box(18)=23.8 P=0.8384
Forecast error 0.001944	BIC 0.2772
MAPE 0.001408	RMSE 0.2679
MAD 0.1962	Forecast Report

Actual Values for the Most Recent 6 Periods:

Date	Actual
2000-05	142.500
2000-06	142.600
2000-07	142.700
2000-08	142.500
2000-09	142.500
2000-10	143.000

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2000-11	142.745	143.290	143.837
2000-12	142.440	143.457	144.482
2001-01	142.100	143.554	145.024
2001-02	141.761	143.610	145.484
2001-03	141.438	143.643	145.882
QTR AVG	141.766	143.602	144.320
2001-04	141.136	143.662	146.233
2001-05	140.853	143.672	146.548
2001-06	140.591	143.679	146.835