

ASSOCIATION  
OF AMERICAN  
RAILROADS

Craig F. Rocky  
Vice President - Policy & Economics

March 5, 2004

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 second quarter 2004 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2004-2), *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 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 2004 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	<u>2004Q1</u>	<u>2004Q2</u>	<u>% Change</u>
All-Inclusive Index	101.8	102.6	0.8
Preliminary RCAF	1.018	1.026	0.8
Forecast Error Adjustment	0.007	0.007	
RCAF (Unadjusted)	1.025	1.033	0.8
Productivity Adjustment Factor	1.9834	1.9943	
RCAF (Adjusted)	0.517	0.518	0.2
PAF-5	2.0852	2.0950	
RCAF-5	0.492	0.493	0.2

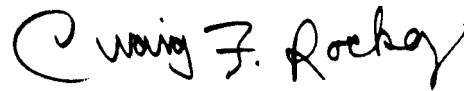
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March 5, 2004

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 (202 639-2309) 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 initial "C".

Craig F. Rockey

Attachments

**Second Quarter 2004  
All-Inclusive Index**

**Ex Parte No. 290 (Sub-No. 5) (2004-2)**

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

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

**March 5, 2004**

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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 second quarter of 2004.

## 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 previous (2001) weights were used for the fourth quarter of 2002 through the third quarter of 2003. Beginning with the fourth quarter of 2003, the 2002 weights are used. The biggest change in the weights was for Fuel, which decreased by 1.5 percentage points, close to its weight based on 1996 data. The Other component increased by 1.3 percentage points. The changes for the remaining components were by three tenths of a percentage point or less. The 2002 (current) and 2001 (previous) weights are shown below.

RCAF Weights		
	Previous 2001	Current 2002
Labor	37.8 %	38.0 %
Fuel	10.5	9.0
Materials & Supplies	4.6	4.6
Equipment Rents	10.5	10.3
Depreciation	10.6	10.9
Interest	3.8	3.7
Other	22.2	23.5

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 2004

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.

	2002 Weights	Forecast		Percent Change
		Previous 2004Q1	Current 2004Q2	
1. Labor	38.0%	276.8	279.5	1.0 %
2. Fuel	9.0%	110.8	120.8	9.0
3. M&S	4.6%	160.3	155.0	-3.3
4. Equipment Rents	10.3%	176.7	173.1	-2.0
5. Depreciation	10.9%	150.7	152.3	1.1
6. Interest	3.7%	98.0	98.0	0.0
7. Other	23.5%	163.9	163.9	0.0
8. Weighted Average				
a. 1980 = 100		199.3	200.8	
b. 1980 = 100 (linked)		195.6	197.1 <sup>1</sup>	
c. 4Q02 = 100		101.8	102.6 <sup>2</sup>	0.8

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

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

$$= 200.8 \text{ divided by } 199.3 \text{ times } 195.6$$

$$= 197.1$$

<sup>2</sup> To calculate the 4Q02 = 100 index:  

$$\text{Index}_{4Q02} = (\text{Current Linked Index} / 4Q02 \text{ Linking Factor}) * 100$$

$$= 197.1 \text{ divided by } 192.1 \text{ times } 100$$

$$= 102.6$$

4Q97 based index = 113.8  
 4Q92 based index = 125.6  
 4Q87 based index = 149.1

## Forecast vs. Actual All-Inclusive Index Fourth Quarter 2003

As shown below, the fourth quarter actual index of 102.7 is 0.7 index points above the forecast value of 102.0. Like the previous quarter, the forecast error adjustment is 0.7 index points.

	2002 Weights	Fourth Quarter 2003		Amt Difference
		Forecast	Actual	
1. Labor	38.0%	278.3	278.3	
2. Fuel	9.0%	113.3	111.2	
3. M&S	4.6%	154.8	154.8	
4. Equipment Rents <sup>1</sup>	10.3%	175.7	176.8	
5. Depreciation	10.9%	152.4	152.0	
6. Interest	3.7%	98.0	98.0	
7. Other	23.5%	162.6	163.8	
8. Weighted Average				
a. 1980 = 100		199.6	199.8	
b. 1980 = 100 (linked)		195.9	197.2 <sup>2</sup>	
c. 4Q02 = 100 <sup>3</sup>		102.0	102.7	0.7

**Forecast error**       $\longrightarrow$       **0.7 index points**

1	2002 Weights	Fourth Quarter 2003	
		Forecast	Actual
Car-Hire	50.6%	177.8	178.0
Lease Rentals	49.4%	162.6	163.8
Weighted Average		170.3	171.0
Weighted Average (linked)		175.7	176.8

<sup>2</sup> Linked actual index = (actual index / previous actual index) x previous linked actual index.  
 $197.2 = 199.8 / 197.2 \times 194.6$

Note: the previous actual index has been recalculated using 2002 weights.

<sup>3</sup> The 4Q02 based indexes are 1980 based indexes divided by the 4Q02 linking factor (192.1/100).  
 4Q97 based indexes are the 1980 based indexes divided by the 4Q97 linking factor (173.2/100).  
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 linking factor (156.9/100).



# Productivity

On January 12, 2004, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2002 to the Productivity Adjustment Factor (PAF) and deleted the year 1997. This creates an average annual productivity for 1998 through 2002 of 2.2 percent – an increase from the 1997 through 2001 average of 1.9 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 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.

<b>Comparison of Output, Input, &amp; Productivity</b>			
<b>1998 - 2002</b>			
Year	Output Index (1)	Input Index (2)	Productivity <sup>1</sup> Changes (3)
1998	1.006	1.018	0.988
1999	1.032	1.008	1.024
2000	1.029	0.953	1.079
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
Average			<u>1.022</u>
Previous Average (1997-2001)			1.019

<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 1998-2002 use fourth root of avg. productivity change			1.0055
For 1997-2001 use fourth root of previous avg. change			1.0047
Quarter	Year	PAF	PAF-5
Q1	2004	1.9834	2.0852
Q2	2004	1.9943	2.0950
Q3	2004	2.0053	2.1048
Q4	2004	2.0163	2.1147
Q1	2005	2.0274	2.1263

1997-2001

1998-2002

## Rail Cost Adjustment Factor Second Quarter 2004

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 2004Q1	Current 2004Q2	Percent Change
All-Inclusive Index <sup>1</sup>	101.8	102.6	0.8
Preliminary RCAF <sup>2</sup>	1.018	1.026	0.8
Forecast Error Adjustment <sup>3</sup>	<u>0.007</u>	<u>0.007</u>	
RCAF (Unadjusted) <sup>4</sup>	1.025	1.033	0.8
Productivity Adjustment Factor <sup>5</sup>	1.9834	1.9943	
RCAF (Adjusted) <sup>6</sup>	0.517	0.518	0.2
PAF-5 <sup>7</sup>	2.0852	2.0950	
RCAF-5 <sup>8</sup>	0.492	0.493	0.2

<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 2004

The second quarter 2004 Labor Index is forecast to increase 1.0 percent as a result of new agreements with the Brotherhood of Locomotive Engineers.

#### New Contracts

**National BLE Contract:** On December 16, 2003, the Brotherhood of Locomotive Engineers (BLE) signed a new agreement with the National Carriers' Conference Committee. The agreement affects a group of railroads that includes five Class I railroads for health & welfare, and four of the five railroads are affected for wages and lump sums. Highlights are as follows.

- Longevity bonus of \$1,200 (applies to about two thirds of BLE employees for four railroads)
- Lump sum payment of \$774
- Roll in of 48 cents of the cost-of-living allowance effective June 30, 2002
- COLAs discontinued June 30, 2002
- Retroactive wage increase of 4 percent effective July 1, 2002
- Retroactive wage increase of 2.5 percent effective July 1, 2003
- Employee health & welfare cost sharing: Monthly Rates of
  - \$33.39 effective July 1, 2001
  - \$81.18 effective July 1, 2002
  - \$79.74 effective July 1, 2003
- Future wage increases and changes in cost sharing rates
- Service Scale "bump up" to full rate effective July 1, 2004
- Pay system simplification and trip rates

BNSF is using the Article II Optional Alternative Compensation Program, and has some differences in wage increases and bonuses from the main Article.

**Norfolk Southern BLE Contract:** On November 1, 2003, the BLE signed an independent agreement with Norfolk Southern. The new agreement continues the annual Thoroughbred Performance Bonus, adds wage increases in 2005 and 2007, and pays a \$2,000 signing bonus. A general provision aligns the NS BLE with the national agreement health & welfare cost sharing.

#### Wage Index

The Wage Index is forecast to increase 1.6 percent. The new BLE contract (see above) was the only national contract that affected this quarter's wage index. No wage increases from independent contracts were added to the index. Norfolk Southern's independent BLE contract affected lump sums and back pay.

## **Labor**

### **Second Quarter 2004**

**Lump Sums:** The lump sum adjustment increased significantly because of the BLE agreements. The national BLE contract contained a \$1,200 longevity bonus that affected about two thirds of the BLE employees for four railroads. The new contract also contained a \$774 signing bonus that affected three railroads. The Norfolk Southern Thoroughbred Bonus paid to its BLE employees in early 2003 was completely amortized and removed, but it was replaced with the new Thoroughbred Performance Bonus paid in early 2004 – which was more than double the amount of the previous year. In addition, the NS BLE employees signed a new agreement, and each employee received a \$2,000 signing bonus.

**Back Pay:** The back pay adjustment increased 10.5 cents because of the new national BLE contract. This amount is a net figure since COLAs paid after June 30, 2002 were offset against the back pay amount. In addition, retroactive health and welfare cost sharing amounts were also offset against back pay.

**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 early 2003 for performance in 2002. This hourly adjustment was unchanged.

### **Supplements Index**

The Supplements Index is forecast to increase by 0.1 percent from the first quarter filing. All of the changes were caused by new BLE contracts.

**Health & Welfare:** The Health & Welfare hourly rate decreased 1.1 percent from the first quarter level because of employee cost sharing added under the new BLE contracts.

**Railroad Retirement:** The Railroad Retirement and Medicare hourly rate increased 1.0 percent as a result of the higher wage rate caused by the new BLE contracts.

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

**Other:** The "Other" category, a reflection of a quarterly employer matching 401(k) contribution by BNSF to certain BMWE and Brotherhood of Locomotive Engineers employees was unchanged.

### **Labor Index Calculation**

As shown in table A-1 on the next page, the 1.6 percent increase in the Wage Index and the 0.1 percent increase in the Supplements Index had a combined effect of a 1.0 percent increase in the Labor Index. The linked second quarter 2004 index is 279.5.

## Labor Second Quarter 2004

**Table A-1 Labor Index**

	2004Q1	2004Q2	Change	
			Percent	Amount
<u>Base Wage</u> – Straight Time & Pay For Time Not Worked	\$28.271	\$28.465	0.7%	\$0.194
Adjustments:				
Lump Sum	0.051	0.215	321.6%	0.164
Back Pay	0.025	0.130	420.0%	0.105
Other	0.010	0.010	0.0%	0.000
<b>Total Wages</b>	<u>28.357</u>	<u>28.820</u>	1.6%	0.463
Health & Welfare Benefits	4.623	4.570	-1.1%	-0.053
RR Retirement & Medicare	6.038	6.098	1.0%	0.060
Unemployment Insurance	0.207	0.207	0.0%	0.000
Other	0.011	0.011	0.0%	0.000
<b>Total Supplements</b>	<u>\$10.879</u>	<u>\$10.886</u>	0.1%	0.007
Total Labor	\$39.236	\$39.706		
<b>Wage Index<sup>1</sup></b>	242.7	246.6	1.6%	
<b>Supplements Index<sup>2</sup></b>	402.0	402.3	0.1%	
Total labor Index, 2002 Weights <sup>3</sup>	290.0	292.8		
<b>Labor Index (linked)<sup>4</sup></b>	<b>276.8</b>	<b>279.5</b>	1.0%	

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<sup>1</sup> 1980 wage rate \$11.685  
<sup>2</sup> 1980 supplements rate \$2.706  
<sup>3</sup> 2002 weights: wages, supplements 70.3% 29.7%  
<sup>4</sup> 2004Q2 linked Index = 2004Q1<sub>linked</sub> x (2004Q2 / 2004Q1)  
 = 276.8 x 292.8 / 290.0

## Fuel

### Second Quarter 2004

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.

Once again, railroad fuel prices are very difficult to forecast. An OPEC announcement in February and recent events in Venezuela signaled possible higher oil prices; while in early March, OPEC hinted that it might take steps to moderate crude oil prices. (According to the New York Mercantile Exchange, about one quarter of the U.S. crude oil consumption is used to produce heating oil\*.)

On February 10, the Organization of the Petroleum Exporting Countries (OPEC) announced that it would take a pre-emptive action against a spring decrease in oil prices. Members committed to comply with the current agreed production levels, and also decided to decrease production by four percent effective April 1. Recent unrest in Venezuela, the world's fifth largest oil exporter, has troubled the oil markets, and crude oil prices in early March are above \$35 per barrel. Concern over high crude oil prices prompted OPEC officials to say on March 4 that they would consider raising output if prices remain too high.

The railroads' second quarter (April 2004) fuel prices are expected to increase 9.0 percent from the first quarter forecast. This is a 1.1 percent decrease from the first quarter (January) actual level, as a cold and snowy winter in the northeast (19 percent colder according to the Department of Energy) pushed heating oil prices higher than expected.

Forecast fuel index	120.8
Change from previous quarter forecast	9.0%
Change from previous quarter actual	-1.1%

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\* Heating oil is very similar in composition to the diesel fuel used by locomotives, and is produced at the same refineries.

## Materials & Supplies

### Second Quarter 2004

The Materials & Supplies Index decreased 3.3 percent from the first quarter of 2004. Regional purchases of ballast were primary causes of the decline. Despite the decrease, the Index is still slightly above the level from two quarters ago (2003Q4), and is 1.5 percent above its level of a year ago.

2004Q2 Materials & Supplies Index = 155.0

2004Q1 Materials & Supplies Index = 160.3

Difference -5.3 basis points  
or  
-3.3 %



## Equipment Rents Second Quarter 2004

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 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 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 Rent Index Calculation

The table below calculates the Equipment Rent Index. The decrease in the Car Hire portion of the Index was caused mostly by lower rates for privately-owned tank cars and autoracks.

	2002	2004Q1	2004Q2	Percent
	Weight			Change
Car Hire	50.6%	178.6	171.6	-3.9 %
Lease Rentals	49.4%	163.9	163.9	0.0
Weighted Average		171.3	167.8	-2.0
Weighted Average (Linked)		176.7	173.1	-2.0

## Depreciation Second Quarter 2004

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 normally 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, up by 1.1 percent from the previous quarter's forecast, is slightly below the fourth quarter forecast, and equal to the December level.

Forecasted depreciation index (1982=100)	137.7
Forecasted depreciation index (1980=100)	152.3
Change from previous quarter forecast	1.1%
Change from actual first month of previous quarter	0.0%
Change from same quarter of prior year (actual)	1.0%

## Depreciation Second Quarter 2004

### PPI RAIL EQUIPMENT

Forecast Model for PPIRE  
ARIMA(0,1,0)

#### Within-Sample Statistics

Sample size 72	Number of parameters 0
Mean 135.4	Standard deviation 0.7372
R-square 0.7613	Adjusted R-square 0.7646
Durbin-Watson 2.257	Ljung-Box(18)=8.806 P=0.03593
Forecast error 0.3577	BIC 0.3577
MAPE 0.001712	RMSE 0.3577
MAD 0.2319	

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

Date	Actual
2003-07	136.700
2003-08	136.500
2003-09	136.900
2003-10	136.900
2003-11	137.600
2003-12	137.700

#### Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2004-01	136.994	137.700	138.406
2004-02	136.702	137.700	138.698
2004-03	136.477	137.700	138.923
2004-04	136.288	137.700	139.112
2004-05	136.122	137.700	139.278
2004-06	135.971	137.700	139.429
<b>QTR AVG</b>	<b>136.127</b>	<b>137.700</b>	<b>139.273</b>
2004-07	135.832	137.700	139.568
2004-08	135.703	137.700	139.697
2004-09	135.582	137.700	139.818

## Interest Second Quarter 2004

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

2002	Interest Rate	7.69%
1980	Interest Rate	7.85%
<b>2004Q2</b>	<b>Interest Index</b>	<b>98.0</b>
2004Q1	Interest Index	98.0
	Percent Change	0.0%

## Other Expenses Second Quarter 2004

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. 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 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 reflects monthly PPI-LF figures that have had very small increases for the three most recent months available.

Forecasted Other Expense (1982=100)	146.2
Forecasted Other Expense (1980=100)	163.9
Change from previous quarter forecast	0.0%
Change from actual first month of previous quarter	0.0%
Change from same quarter of prior year (actual)	1.0%

## Other Expenses Second Quarter 2004

**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]	0.3223	0.1124	2.8670	0.9945

**Within-Sample Statistics**

Sample size 72	Number of parameters 1
Mean 4.956	Standard deviation 0.01577
R-square 0.9836	Adjusted R-square 0.9836
Durbin-Watson 2.025	Ljung-Box(18)=15.91 P=0.4011
Forecast error 0.002023	BIC 0.2939
MAPE 0.001555	RMSE 0.287
MAD 0.2216	

*Actual Values for the Most Recent 6 Periods:*

Date	Actual
2003-07	144.600
2003-08	144.800
2003-09	145.100
2003-10	145.900
2003-11	146.100
2003-12	146.200

*Forecasted Values*

Date	2.5 Lower	Forecast	97.5 Upper
2004-01	145.654	146.232	146.813
2004-02	145.284	146.243	147.207
2004-03	144.983	146.246	147.520
2004-04	144.730	146.247	147.780
2004-05	144.511	146.247	148.005
2004-06	144.315	146.247	148.205
<b>QTR AVG</b>	<b>144.519</b>	<b>146.247</b>	<b>147.997</b>
2004-07	144.138	146.248	148.388
2004-08	143.975	146.248	148.556
2004-09	143.823	146.248	148.713

## Railroad and Union Abbreviations

### Second Quarter 2004

#### *Railroads*

ATSF	The Atchison, Topeka & Santa Fe Railway (Merged with Burlington Northern to form BNSF.)
BNSF	The Burlington Northern and Santa Fe Railway
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 (Most of CN's U.S. operations.)
CP	Canadian Pacific Railway (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
DWP	Duluth, Winnipeg & Pacific 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 (Most of Canadian Pacific Railway's western U.S. operations.)
SSAM	Sault Saint Marie Bridge Company (Part of CN's Grand Trunk Corp.)
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 Department of the Brotherhood of Locomotive Engineers
BLE	Brotherhood of Locomotive Engineers
BMWE	Brotherhood of Maintenance of Way Employees
BRC	(see TCU-Carmen)
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
IBFO	International Brotherhood of Firemen and Oilers (predecessor to NCFO)
NCFO	National Conference of Firemen and Oilers (labeled in AAR data bases as IBFO)
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)