ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy & Economics

December 5, 2005

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 2006 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2006-1), *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 2006 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	2005Q4	2006Q1	% Change
All-Inclusive Index	117.3	116.6	-0.6
Preliminary RCAF	1.173	1.166	-0.6
Forecast Error Adjustment	0.012	0.011	
RCAF (Unadjusted)	1.185	1.177	-0.7
Productivity Adjustment Factor	2.0715	2.0864	
RCAF (Adjusted)	0.572	0.564	-1.4
PAF-5	2.1616	2.1772	
RCAF-5	0.548	0.541	-1.3

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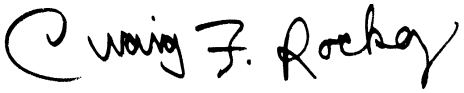
In its October 3, 1996 decision in Ex Parte No. 290 (Sub-No. 7), *Productivity Adjustment - Implementation,* the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always 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,



Craig F. Rockey

Attachments

First Quarter 2006
All-Inclusive Index

Ex Parte No. 290 (Sub-No. 5) (2006-1)

Quarterly Rail Cost Adjustment Factor
Surface Transportation Board

Policy and Economics Department
Association of American Railroads

December 5, 2005

Table of Contents

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 2006.

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 (2003) weights were used for the fourth quarter of 2004 through the third quarter of 2005. Beginning with the fourth quarter of 2005, the 2004 weights are used. Like the previous year, Fuel and Other Expenses had the biggest increases in weights. Expenses used for each category's weight calculation all increased by a minimum of five percent, but Fuel and Other experienced the two largest percentage increases in expenses, resulting in an increase in their weights. Labor expenses did not increase as much as most of the others, and had the biggest percentage point (1.5) drop in weighting. All other changes in weights ranged from zero to a decrease of one half of a percentage point. The 2004 (current) and 2003 (previous) weights are shown below.

RCAF Weights

	Previous 2003	Current 2004
Labor	37.5 %	36.0 %
Fuel	10.6	12.1
Materials & Supplies	4.4	4.4
Equipment Rents	9.4	8.9
Depreciation	10.7	10.6
Interest	3.2	3.0
Other	24.2	25.0

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

First Quarter 2006

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.

	2004 Weights	Forecast Previous 2005Q4	Forecast Current 2006Q1	Percent Change
1. Labor	36.0%	287.7	292.1	1.5 %
2. Fuel	12.1%	276.2	226.4	-18.0
3. M&S	4.4%	179.9	185.6	3.2
4. Equipment Rents	8.9%	181.4	184.6	1.8
5. Depreciation	10.6%	185.1	195.0	5.3
6. Interest	3.0%	92.7	92.7	0.0
7. Other	25.0%	176.2	182.1	3.3
8. Weighted Average				
a. 1980 = 100		227.5	226.1	
b. 1980 = 100 (linked)		225.3	223.9 [1]	
c. 4Q02 = 100		117.3	116.6 [2]	-0.6

[1] To calculate the 1980 = 100 Linked Index:
Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= 226.1 divided by 227.5 times 225.3
= 223.9

[2] To calculate the 4Q02 = 100 index:
Index4Q02 = (Current Linked Index / 4Q02 Linking Factor) * 100
= 223.9 divided by 192.1 times 100
= 116.6

4Q97 based index = 129.3
4Q92 based index = 142.7
4Q87 based index = 169.4

Forecast vs. Actual All-Inclusive Index
Third Quarter 2005

As shown below, the third quarter actual index of 114.1 is 1.1 index points above the forecast value of 113.0. Therefore, the forecast error adjustment for the first quarter 2006 is 1.1 index points.

	2003 Weights	Third Quarter 2005 Forecast	Third Quarter 2005 Actual	Amt Difference
1. Labor	37.5%	291.1	290.9 [1]	
2. Fuel	10.6%	193.6	212.3	
3. M&S	4.4%	179.8	179.8	
4. Equipment Rents[2]	9.4%	182.8	181.8	
5. Depreciation	10.7%	180.3	178.9	
6. Interest	3.2%	90.2	90.2	
7. Other	24.2%	179.5	176.8	
8. Weighted Average				
a. 1980 = 100		220.4	221.4	
b. 1980 = 100 (linked)		217.0	219.2 [3]	
c. 4Q02 = 100[4]		113.0	114.1	1.1

Forecast error ⟶ 1.1 index points

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[1] Actual Labor includes July Employee H&W Cost Sharing rates that were not available at time of filing. See page 2 of Appendix A from June 6 filing.

[2]

	2003 Weights	Third Quarter 2005 Forecast	Third Quarter 2005 Actual
Car-Hire	50.1%	175.1	175.1
Lease Rentals	49.9%	179.5	176.8
Weighted Average		177.3	175.9
Weighted Average (linked)		182.8	181.8

[3] Linked actual index = (actual index / previous actual index) x previous linked actual index.

219.2 = 221.4 / 219.4 x 217.2

[4] 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 February 18, 2005, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2003 to the Productivity Adjustment Factor (PAF) and deleted the year 1998. This creates an average annual productivity for 1999 through 2003 of 2.9 percent – an increase from the 1998 through 2002 average of 2.2 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.

Comparison of Output, Input, & Productivity

1999 - 2003

Year	Output Index (1)	Input Index (2)	Productivity[1] Changes (3)
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
2003	1.039	1.020	1.019
Average			1.029
Previous Average (1998-2002)			1.022

[1] 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.

Calculation of PAF and PAF-5

For 1999-2003 use fourth root of avg. productivity change 1.0072
For 1998-2002 use fourth root of previous avg. change 1.0055

Quarter	Year	PAF	PAF-5
Q1	2005	2.0274	2.1263
Q2	2005	2.0420	2.1380
Q3	2005	2.0567	2.1498
Q4	2005	2.0715	2.1616
Q1	2006	2.0864	2.1772

1998-2002

1999-2003

Rail Cost Adjustment Factor
First Quarter 2006

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 2005Q4	Current 2006Q1	Percent Change
All-Inclusive Index[1]	117.3	116.6	-0.6
Preliminary RCAF[2]	1.173	1.166	-0.6
Forecast Error Adjustment[3]	0.012	0.011	
RCAF (Unadjusted)[4]	1.185	1.177	-0.7
Productivity Adjustment Factor[5]	2.0715	2.0864	
RCAF (Adjusted)[6]	0.572	0.564	-1.4
PAF-5[7]	2.1616	2.1772	
RCAF-5[8]	0.548	0.541	-1.3

[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 2006

The first quarter 2006 Labor Index is forecast to rise 1.5 percent. January 1 cost-of living allowance (COLA) increases, and increased health & welfare premiums, were the biggest contributors to the increase.

Wage Index

The Wage Index portion of the Labor Index is forecast to increase 0.7 percent. A non-union wage increase and an increase in cost-of-living allowances (COLA) for most unions caused the increase. Appendix H lists the major railroad unions and their abbreviations.

National Increases: As done in previous years, non-union employees were given a wage increase similar to that of the largest union. In this case, a 15 cent non-union wage increase matches the COLA increase received by the UTU effective July 1. All of the major unions receive a COLA increase of 31 cents effective January 1, with the exception of the BRS, IAM, and BMWE. The BRS does not have a provision for COLAs in its contract, and the IAM COLAs do not begin until July 2006. The BMWE, which embeds Health & Welfare cost sharing in its wage rate, had a cost-of-living wage adjustment that nets to 19 cents.

Independent Agreements: CN's DW&P and DMIR were part of a 2005 agreement that added BMWE employees from those railroads to an agreement already in place with CN's WC employees. This contract was recently received by the AAR and added to the index. A new contract was also added for the IAM and all of CN's U.S. operations. In addition, a new contact was received and added to the index for the CC&P's TCU-Carmen. CN railroads B&LE, DMIR, and GTW all had new (and separate) agreements with the NCFO. In addition to the new contracts, many independent agreements also received COLA increases effective January 1. Some of the independent groups receiving COLA increases were: most of the SOO unions, dispatchers for BNSF and KCS, yardmasters for CSX and UP, BLET members for BNSF and GTW, and GTW's UTU.

Lump Sums: The lump sum rate decreased by a 1.3 cents mostly because of the complete amortization and removal of an amount paid by BNSF to its dispatchers. Small amounts (totaled less than one half of a cent per hour) were added to the rate for bonuses paid in new contracts with various CN railroads.

Back Pay: The back pay rate decreased 6.7 cents mostly because of the complete amortization and removal of amounts relating to last year's new national IBEW contract. Two smaller amounts were also removed, and one new back pay amount was added for various new CN contracts (see Independent Agreements herein).

Labor
First Quarter 2006

Supplements Index

The Supplements Index is forecast to increase 2.9 percent from the fourth quarter filing. Health & Welfare premiums, and payroll tax rates, changed effective January 1.

Health & Welfare: The Health & Welfare hourly rate increased 3.3 percent because of new Health & Welfare premiums effective January 1. Group Health & Life accounted for almost all of the increase (see pages 4 and 5 of this Appendix). New (and higher) employee Health & Welfare cost sharing rates, effective January 1 for most unions, offset a portion of the increase in Health & Welfare premiums – reducing the increase in employer contributions.

Railroad Retirement: The Railroad Retirement and Medicare hourly rate increased 1.5 percent because of higher taxable wage rates for first quarter 2006 and higher taxable earnings for 2006. The Tier I and Tier II tax rates for 2006 are unchanged from 2005. Employer tax rates and taxable earnings for 2004 through 2006 are shown on page 4 of this Appendix.

Unemployment Insurance: The Unemployment Insurance rate increased by 1.1 cents because of slightly higher tax rates and taxable earnings for 2006.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts that are recorded as fringe benefits. The increase of 6.2 cents was caused by higher employer contributions.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.7 percent increase in the Wage Index and the 2.9 percent increase in the Supplements Index had a combined effect of a 1.5 percent increase in the Labor Index. The linked first quarter 2006 index is 292.1.

Labor

First Quarter 2006

Table A-1 Labor Index

	2005Q4	2006Q1	Change Percent	Change Amount
Base Wage – Straight Time & Pay For Time Not Worked	$29.192	$29.486	1.0%	$0.294
Adjustments:				
Lump Sum	0.132	0.119	-9.8%	-0.013
Back Pay	0.258	0.191	-26.0%	-0.067
Other	0.118	0.121	2.5%	0.003
Total Wages	29.700	29.917	0.7%	0.217
Health & Welfare Benefits	4.874	5.035	3.3%	0.161
RR Retirement & Medicare	6.106	6.199	1.5%	0.093
Unemployment Insurance	0.159	0.170	6.9%	0.011
Other	0.041	0.103	151.2%	0.062
Total Supplements	$11.180	$11.507	2.9%	0.327
Total Labor	$40.880	$41.424		
Wage Index[1]	254.2	256.0	0.7%	
Supplements Index[2]	413.2	425.2	2.9%	
Total labor Index, 2004 Weights[3]	298.4	303.0		
Labor Index (linked)[4]	**287.7**	**292.1**	1.5%	

[1] 1980 wage rate $11.685

[2] 1980 supplements rate $2.706

[3] 2004 weights: wages, supplements 72.2% 27.8%

[4] 2006Q1 linked Index = $2005Q4_{linked}$ x (2006Q1 / 2005Q4)

= 287.7 x 303.0 / 298.4

Labor

First Quarter 2006

Supplement Comparisons

Health and Welfare Rates

Plan	Railroad Contribution Per Employee Per Month			Change	
	2004	2005	2006	'04-'05	'05-'06
Group Health & Life	$935.45	$948.19	$1,001.02	1.4%	5.6%
Early Retirement Major Medical	70.93	90.57	87.86	27.7%	-3.0%
Group Dental	52.20	47.20	47.20	-9.6%	0.0%
Group Vision	9.37	10.84	10.66	15.7%	-1.7%
Supplemental Sickness					
Maintenance of Way	38.00	36.00	36.00	-5.3%	0.0%
Shop Crafts	61.00	61.00	61.00	0.0%	0.0%
Signalmen	33.00	32.00	32.00	-3.0%	0.0%
Yardmasters	40.74	44.48	47.06	9.2%	5.8%

Railroad Retirement and Medicare

	Earnings Base			Employer Rate		
	2004	2005	2006	2004	2005	2006
Tier I	$87,900	$90,000	$94,200	6.20%	6.20%	6.20%
Tier II	65,100	66,900	69,900	13.10%	12.60%	12.60%
Medicare	no limit	no limit	no limit	1.45%	1.45%	1.45%

Unemployment Insurance

Monthly Taxable Earnings Base			Weighted Avg. Class I Rate		
2004	2005	2006	2004	2005	2006
$1,130	$1,150	$1,195	2.88%	2.28%	2.36%

Labor
First Quarter 2006

NATIONAL RAILWAY LABOR CONFERENCE
EMPLOYEE BENEFITS DEPARTMENT
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November 7, 2005

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, 2006 are as follows:

UNUMProvident - Supplemental Sickness Plans	
ShopCrafts	$ 61.00
Signalmen	$ 32.00
Maintenance of Way	$ 36.00
Trustmark - Supplemental Sickness Plans	
Yardmasters	$ 47.06
Railroad Employees National Health & Welfare Plan & National Railway Carriers/United Transportation Union H&W Plan	
Non-Hospital Road	$1,001.02
Railroad Employees National Early Retirement Major Medical Benefit Plan	
Non-Hospital Road	$ 87.86
Aetna - National Dental Plan	$ 47.20
VSP - National Vision Plan	$ 10.66

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

Very truly yours,

Susan E. Parks

cc: Glen Williams

Fuel
First Quarter 2006

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.

Railroad fuel prices have increased every month in 2005 except January and May, and both September and October prices jumped over 10 percent. Much of the September-October fuel price increase was supply related, as Hurricanes Katrina (Gulf Coast August 29) and Rita (Gulf Coast September 24) caused significant damage to the U.S. oil-production infrastructure. The hurricanes inflicted their wrath on 192 oil and natural gas drilling rigs and producing platforms, which were damaged, set adrift, or sunk. Domestic refineries* suffered from wind damage, flooding, and power outages – about 25 percent of domestic refining capacity was out of commission for the last week of September. The refineries have been faster than the crude oil production facilities in restoring capacity, but both are expected to have capacity at pre-hurricane levels by the second quarter of 2006. As production capacity increases, prices should retreat from their October highs, especially if extra import oil becomes available. During November, heating oil** prices have already begun declining. The railroads believe that January (first quarter) prices will be lower than their record October levels, but still higher than third quarter pre-Katrina fuel prices. Therefore, the Fuel Index has been forecast to decrease 18.0 percent from the previous quarter forecast, which means an 20.1 percent decrease from the previous quarter actual price.

Forecast fuel index	226.4
Change from previous quarter forecast	-18.0%
Change from previous quarter actual	-20.1%

* Diesel fuel used by locomotives is made from refined crude oil.

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

Materials & Supplies
First Quarter 2006

The Materials & Supplies Index increased 3.2 percent from the fourth quarter of 2005. Locomotive lubrication oil prices increased by over 10 percent for every railroad. In addition, price increases for both the entire metal products and forest products categories averaged 2.0 and 2.5 percent, respectively.

2006Q1	Materials & Supplies Index =	185.6
2005Q4	Materials & Supplies Index =	179.9
	Difference	5.7 basis points or 3.2 %

Equipment Rents
First Quarter 2006

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 0.2 percent increase in the Car Hire portion of the Index was caused by higher rates for privately-owned tank cars. A 3.3 percent increase in Lease Rentals combined with the increase in Car Hire to cause the overall Equipment Rent Index to rise 1.8 percent.

	2004 Weight	2005Q4	2006Q1	Percent Change
Car Hire	51.0%	175.6	176.0	0.2 %
Lease Rentals	49.0%	176.2	182.1	3.3
Weighted Average		175.9	179.0	1.8
Weighted Average (Linked)		181.4	184.6	1.8

Depreciation
First Quarter 2006

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 figure forecast by the model reflects monthly PPI-RE figures that increased at annual rates of about ten percent for August and September.

Forecasted depreciation index (1982=100)	176.3
Forecasted depreciation index (1980=100)	195.0
Change from previous quarter forecast	5.3%
Change from actual first month of previous quarter	8.3%
Change from same quarter of prior year (actual)	13.6%

Depreciation
First Quarter 2006

PPI RAIL EQUIPMENT

Recommended model: Box-Jenkins
Forecast Model for PPIRE
ARIMA(0,1,0)*(0,1,0) with log transform

Term	Coefficient	Std. Error	t-Statistic	Significance
b[1]	-0.1195	0.1208	-0.9889	0.6730
b[2]	-0.0601	0.1012	-0.5937	0.4448
b[3]	-0.4849	0.1049	-4.6227	1.0000
b[4]	0.4110	0.1203	3.4177	0.9988

Within-Sample Statistics

Sample size 72	Number of parameters 0
Mean 4.942	Standard deviation 0.06
R-square 0.9866	Adjusted R-square 0.9868
Durbin-Watson 1.831	Ljung-Box(18)=21.37 P=0.7389
Forecast error 0.006903	BIC 0.967
MAPE 0.003413	RMSE 1.03
MAD 0.4991	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-05	161.300
2005-06	161.200
2005-07	160.300
2005-08	161.800
2005-09	163.000
2005-10	162.800

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-11	162.597	165.046	167.531
2005-12	168.409	172.007	175.681
2006-01	167.830	172.231	176.748
2006-02	169.992	175.150	180.465
2006-03	175.474	181.438	187.604
QTR AVG	**171.099**	**176.273**	**181.606**
2006-04	174.374	180.876	187.621
2006-05	174.079	181.101	188.406
2006-06	173.497	180.989	188.804

Interest
First Quarter 2006

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

2004	Interest Rate	7.28%
1980	Interest Rate	7.85%
2006Q1	**Interest Index**	**92.7**
2005Q4	Interest Index	92.7
	Percent Change	0.0%

Other Expenses
First Quarter 2006

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 did not increase much during the middle of the year, but jumped in September and October at annual rates over ten percent.

Forecasted Other Expense (1982=100)	162.4
Forecasted Other Expense (1980=100)	182.1
Change from previous quarter forecast	3.3%
Change from actual first month of previous quarter	1.4%
Change from same quarter of prior year (actual)	3.5%

Other Expenses
First Quarter 2006

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model: Exponential Smoothing
Forecast Model for PPILF
Additive Winters: Linear trend, Additive seasonality

Component	Smoothing Weight	Final Value
Level	0.86423	159.86
Trend	0.23375	0.61793
Seasonal	0.99998	

Seasonal Indexes

January - March	0.0053721	0.017126	0.070923
April - June	0.053130	-0.009571	-0.039851
July - September	-0.044504	-0.10243	-0.0094451
October - December	0.33806	-0.032599	-0.24621

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 146.7	Standard deviation 5.574
R-square 0.9958	Adjusted R-square 0.9957
Durbin-Watson 1.094	** Ljung-Box(18)=40.27 P=0.9981
Forecast error 0.3654	BIC 0.3911
MAPE 0.001768	RMSE 0.3577
MAD 0.2624	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-05	157.400
2005-06	157.000
2005-07	157.100
2005-08	157.300
2005-09	158.700
2005-10	160.200

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2005-11	159.681	160.447	161.214
2005-12	159.731	160.852	161.972
2006-01	160.334	161.721	163.108
2006-02	160.741	162.351	163.961
2006-03	161.217	163.023	164.828
QTR AVG	**160.764**	**162.365**	**163.966**

Railroad and Union Abbreviations

First Quarter 2006

Railroads

ATSF	The Atchison, Topeka & Santa Fe Railway (Merged with Burlington Northern to form BNSF.)
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 Railway (Also noted as CPR. Owns the U.S. Class I railroad Soo Line.)
CSX	CSX Transportation
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.)
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 (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 Association
BLET	Brotherhood of Locomotive Engineers and Trainmen Division 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)