ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy & Economics

March 6, 2006

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 2006 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2006-2), *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 2006 results on the fourth quarter 2002 base, and shows the percentage changes from the previous quarter.

	2006Q1	2006Q2	% Change
All-Inclusive Index	116.6	116.5	-0.1
Preliminary RCAF	1.166	1.165	-0.1
Forecast Error Adjustment	0.011	0.013	
RCAF (Unadjusted)	1.177	1.178	0.1
Productivity Adjustment Factor	2.0864	2.0962	
RCAF (Adjusted)	0.564	0.562	-0.4
PAF-5	2.1772	2.1929	
RCAF-5	0.541	0.537	-0.7

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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

Craig F. Rockey

Attachments

Second Quarter 2006
All-Inclusive Index

Ex Parte No. 290 (Sub-No. 5) (2006-2)

Quarterly Rail Cost Adjustment Factor
Surface Transportation Board

Policy and Economics Department
Association of American Railroads

March 6, 2006

Table of Contents

Subject	Page
Introduction	1
Index Weights	2
All-Inclusive Index - Second Quarter 2006	3
Forecast vs. Actual All Inclusive Index - Fourth Quarter 2005	4
Productivity	5
Rail Cost Adjustment Factor - Second Quarter 2006	6

Appendices

A Labor

B Fuel

C Materials & Supplies

D Equipment Rents

E Depreciation

F Interest

G Other Expenses

H Railroad and Union Abbreviations

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 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
Second 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 2006Q1	Forecast Current 2006Q2	Percent Change
1. Labor	36.0%	292.1	292.5	0.1 %
2. Fuel	12.1%	226.4	227.9	0.7
3. M&S	4.4%	185.6	187.5	1.0
4. Equipment Rents	8.9%	184.6	186.8	1.2
5. Depreciation	10.6%	195.0	180.9	-7.2
6. Interest	3.0%	92.7	92.7	0.0
7. Other	25.0%	182.1	185.3	1.8
8. Weighted Average				
a. 1980 = 100		226.1	226.0	
b. 1980 = 100 (linked)		223.9	223.8 [1]	
c. 4Q02 = 100		116.6	116.5 [2]	-0.1

[1] To calculate the 1980 = 100 Linked Index:
Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= 226.0 divided by 226.1 times 223.9
= 223.8

[2] To calculate the 4Q02 = 100 index:
Index4Q02 = (Current Linked Index / 4Q02 Linking Factor) * 100
= 223.8 divided by 192.1 times 100
= 116.5

4Q97 based index = 129.2
4Q92 based index = 142.6
4Q87 based index = 169.3

Forecast vs. Actual All-Inclusive Index

Fourth Quarter 2005

As shown below, the fourth quarter actual index of 118.6 is 1.3 index points above the forecast value of 117.3. Therefore, the forecast error adjustment for the second quarter 2006 is 1.3 index points.

	2004 Weights	Fourth Quarter 2005 Forecast	Fourth Quarter 2005 Actual	Amt Difference
1. Labor	36.0%	287.7	287.7	
2. Fuel	12.1%	276.2	283.4	
3. M&S	4.4%	179.9	179.9	
4. Equipment Rents[1]	8.9%	181.4	183.8	
5. Depreciation	10.6%	185.1	179.4	
6. Interest	3.0%	92.7	92.7	
7. Other	25.0%	176.2	180.2	
8. Weighted Average				
a. 1980 = 100		227.5	229.0	
b. 1980 = 100 (linked)		225.3	227.8 [2]	
c. 4Q02 = 100[3]		117.3	118.6	1.3

Forecast error → 1.3 index points

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[1]

	2004 Weights	Fourth Quarter 2005 Forecast	Fourth Quarter 2005 Actual
Car-Hire	51.0%	175.6	175.5
Lease Rentals	49.0%	176.2	180.2
Weighted Average		175.9	177.8
Weighted Average (linked)		181.4	183.8

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

227.8 = 229.0 / 220.4 x 219.2

Note: The standard linking procedure has been used to eliminate any changes to indexes that would be caused by updating weights. The Q3 unlinked weighted averages for the All-Inclusive Indexes (forecast and actual) and for Equipment Rents (forecast and actual) were recalculated using the new (2004) weights.

[3] 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 26, 2006, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2004 to the Productivity Adjustment Factor (PAF) and deleted the year 1999. This creates an average annual productivity for 2000 through 2004 of 1.9 percent – a decrease from the 1999 through 2003 average of 2.9 percent. The 1.9 percent matches the figure used three years prior. 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

2000 - 2004

Year	Output Index (1)	Input Index (2)	Productivity[1] Changes (3)
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
2004	1.033	1.057	0.977
Average			1.019
Previous Average (1999-2003)			1.029

[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 2000-2004 use fourth root of avg. productivity change 1.0047
For 1999-2003 use fourth root of previous avg. change 1.0072

Quarter	Year	PAF	PAF-5
Q1	2006	2.0864	2.1772
Q2	2006	2.0962	2.1929
Q3	2006	2.1061	2.2087
Q4	2006	2.1160	2.2246
Q1	2007	2.1259	2.2351

1999-2003

2000-2004

Rail Cost Adjustment Factor
Second 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 2006Q1	Current 2006Q2	Percent Change
All-Inclusive Index[1]	116.6	116.5	-0.1
Preliminary RCAF[2]	1.166	1.165	-0.1
Forecast Error Adjustment[3]	0.011	0.013	
RCAF (Unadjusted)[4]	1.177	1.178	0.1
Productivity Adjustment Factor[5]	2.0864	2.0962	
RCAF (Adjusted)[6]	0.564	0.562	-0.4
PAF-5[7]	2.1772	2.1929	
RCAF-5[8]	0.541	0.537	-0.7

[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
Second Quarter 2006

The second quarter 2006 Labor Index is forecast to rise 0.1 percent. Small changes were caused by the addition of new independent labor agreements, changes in 401(k) matches, and changes in a performance bonus. Table A-1 on page 3 of this appendix lists the hourly rates for wages and supplements used to calculate the Labor Index. Appendix H lists abbreviations for railroads and unions used in the text below.

Wage Index

The Wage Index portion of the Labor Index is forecast to decrease 0.1 percent. Despite the addition of some independent contracts for a group of CN railroads, the Labor Index decreased because of drops in the lump sum and back pay adjustments.

Wage Increases: No wage increases for national or independent agreements were scheduled for the second quarter. New independent agreements were added that affected four railroads that are part of Canadian National Railway's (CN) U.S. operations. Agreements with the Brotherhood of Railway Signalmen (BRS) were added for CN's Grand Trunk Western, Sault Saint Marie Bridge Company (SSAM), and Wisconsin Central (WC). Agreements between SSAM and the Brotherhood of Maintenance of Way Employees Division, and between WC and the TCU-Carmen, were also added. Another CN railroad, the Duluth, Winnipeg & Pacific Railway, has a new agreement with the International Brotherhood of Electrical Workers (IBEW). Some of these new agreements featured general wage increases retroactive to July 1, 2005.

Lump Sums: Small lump sums were added relating to the new labor agreements added for various CN railroads. The lump sum rate decreased by 2.2 cents because of the Norfolk Southern Thoroughbred bonus. The bonus paid one year ago, which was for 15 percent of BLET employee earnings, has been completely amortized and removed. This year's bonus is for 10 percent of BLET employee earnings plus 5 percent of dispatcher earnings – meaning that the total bonus amount paid is less than last year.

Back Pay: The back pay rate decreased 0.9 cents mostly because of the complete amortization and removal of an amount relating to a new Union Pacific yardmaster contract from a year ago. A small negative amount was added relating to the new CN agreements and employee health & welfare cost sharing.

Other: Other wages contains the amortization of a profit sharing payment that the BNSF Railway made to its dispatchers, yardmaster, and engineers. This amount is unchanged from the previous quarter.

Labor
Second Quarter 2006

Supplements Index

The Supplements Index is forecast to increase 0.4 percent from the first quarter filing. Most of this change is caused by an annual employee stock distribution for one union that is recorded as a fringe benefit.

Health & Welfare: The Health & Welfare hourly rate was almost unchanged – it decreased $0.001 because of the new CN contracts that include employee Health & Welfare cost sharing.

Railroad Retirement: The Railroad Retirement and Medicare hourly rate also had a very slight decrease, $0.003, caused slightly lower taxable earnings.

Unemployment Insurance: The Unemployment Insurance rate was unchanged for the quarter.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts, plus employer contributions to employee stock plans that are recorded as fringe benefits. The increase of 5.2 cents was caused mostly by an annual employer contribution to an annual employee stock ownership plan for one large union.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.1 percent decrease in the Wage Index and the 0.4 percent increase in the Supplements Index had a combined effect of a 0.1 percent increase in the Labor Index. The linked second quarter 2006 index is 292.5.

Labor

Second Quarter 2006

Table A-1 Labor Index

	2006Q1	2006Q2	Change Percent	Change Amount
Base Wage – Straight Time & Pay For Time Not Worked	$29.486	$29.496	0.0%	$0.010
Adjustments:				
Lump Sum	0.119	0.097	-18.5%	-0.022
Back Pay	0.191	0.182	-4.7%	-0.009
Other	0.121	0.121	0.0%	0.000
Total Wages	29.917	29.896	-0.1%	-0.021
Health & Welfare Benefits	5.035	5.034	0.0%	-0.001
RR Retirement & Medicare	6.199	6.196	0.0%	-0.003
Unemployment Insurance	0.170	0.170	0.0%	0.000
Other	0.103	0.155	50.5%	0.052
Total Supplements	$11.507	$11.555	0.4%	0.048
Total Labor	$41.424	$41.451		
Wage Index[1]	256.0	255.8	-0.1%	
Supplements Index[2]	425.2	427.0	0.4%	
Total labor Index, 2004 Weights[3]	303.0	303.4		
Labor Index (linked)[4]	**292.1**	**292.5**	0.1%	

[1] 1980 wage rate $11.685

[2] 1980 supplements rate $2.706

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

[4] 2006Q2 linked Index = 2006Q1 $_{linked}$ x (2006Q2 / 2006Q1)

= 292.1 x 303.4 / 303.0

Fuel

Second 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 locomotive diesel fuel prices have retreated from their post-hurricane spike in September and October, but they are still trending upward. For January 2006, railroad fuel prices increased 1.3 percent from their December level to an average higher than all of the first seven months of 2005 – and also higher than any average price in 2004.

Crude oil* prices and winter weather also have the potential to impact locomotive diesel fuel prices. One of these factors is causing upward pressure on diesel fuel prices, while the other factor is not. In early March, crude oil prices were rising because of supply concerns relating to Nigerian militants. Nigeria, the world's eighth largest oil exporter, has faced a shut of one fifth of its oil exports. Militants have stated that they intend to stop all Nigerian oil exports. In the U.S., January was much warmer than normal – easing the demand for heating oil** and having a favorable impact on locomotive diesel fuel prices, especially in the East.

The railroads believe that April (second quarter) prices will be modestly higher than their January level. The expected April average price is 3.4 percent higher than the actual average experienced for January, and 0.7 percent higher than the first quarter forecast.

Forecast Fuel Index	227.9
Change from previous quarter forecast	0.7%
Change from previous quarter actual	3.4%

* 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

Second Quarter 2006

The Materials & Supplies Index increased 1.0 percent from the first quarter of 2006. Increasing prices for metal products, such as wheel sets and rail, were offset by decreases in ballast prices caused by regional purchases.

2006Q2	Materials & Supplies Index =	187.5
2006Q1	Materials & Supplies Index =	185.6
	Difference	1.9 basis points
		or
		1.0 %

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

Equipment Rent Index Calculation

The table below calculates the Equipment Rents Index. The 0.6 percent increase in the Car Hire portion of the Index was caused by higher rates for privately-owned cars. A 1.8 percent increase in Lease Rentals combined with the increase in Car Hire to cause the overall Equipment Rent Index to rise 1.2 percent.

	2004 Weight	2006Q1	2006Q2	Percent Change
Car Hire	51.0%	176.0	177.0	0.6 %
Lease Rentals	49.0%	182.1	185.3	1.8
Weighted Average		179.0	181.1	1.2
Weighted Average (Linked)		184.6	186.8	1.2

Depreciation
Second 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 have shown no apparent pattern over the last six months: increase, no-change, increase, decrease, no-change, big increase. This lack of a clear pattern, after some large increases in early 2005, accounts for the recent difficulty forecasting this index. The current forecast is close to the actual first month of the previous quarter, and represents a 7.2 percent decrease from the previous quarter forecast.

Forecast of Depreciation Index (1982=100)	163.5
Forecast of Depreciation Index (1980=100)	180.9
Change from previous quarter forecast	-7.2%
Change from actual first month of previous quarter	0.2%
Change from same quarter of prior year (actual)	2.8%

Depreciation
Second Quarter 2006

PPI RAIL EQUIPMENT

Recommended model: Box-Jenkins
Forecast Model for PPIRE
ARIMA(0,1,3) with log transform

Term	Coefficient	Std. Error	t-Statistic	Significance
b[1]	-0.2974	0.0886	-3.3553	0.9987
b[2]	-0.0771	0.0943	-0.8169	0.5832
b[3]	-0.7382	0.0893	-8.2715	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 4.95	Standard deviation 0.06642
R-square 0.9918	Adjusted R-square 0.9915
Durbin-Watson 1.863	Ljung-Box(18)=18.57 P=0.5812
Forecast error 0.006113	BIC 0.9234
MAPE 0.003726	RMSE 0.8938
MAD 0.5466	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-08	161.800
2005-09	161.800
2005-10	162.800
2005-11	161.900
2005-12	161.900
2006-01	163.300

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2006-02	160.386	162.292	164.220
2006-03	159.517	162.634	165.811
2006-04	159.392	163.469	167.650
2006-05	157.767	163.469	169.377
2006-06	156.527	163.469	170.719
QTR AVG	**157.895**	**163.469**	**169.249**
2006-07	155.488	163.469	171.860
2006-08	154.577	163.469	172.873
2006-09	153.758	163.469	173.794

Interest

Second 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

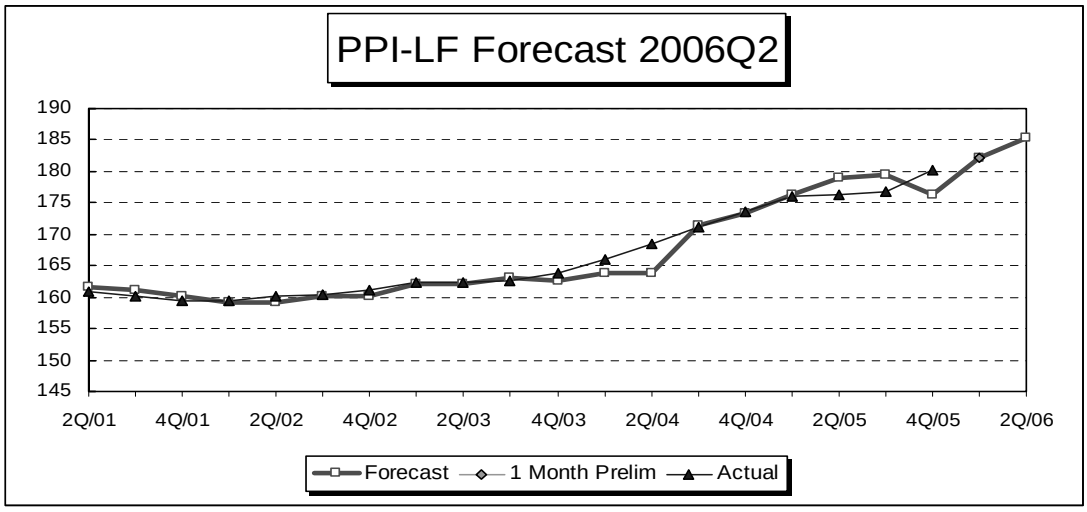
2004	Interest Rate	7.28%
1980	Interest Rate	7.85%
2006Q2	**Interest Index**	**92.7**
2006Q1	Interest Index	92.7
	Percent Change	0.0%

Other Expenses
Second 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 month available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-LF figures that have been increasing steadily since the summer. The monthly figure for January jumped at an annual rate of over 10 percent.

Forecast of Other Expense Index (1982=100)	165.3
Forecast of Other Expense Index (1980=100)	185.3
Change from previous quarter forecast	1.8%
Change from actual first month of previous quarter	1.8%
Change from same quarter of prior year (actual)	5.1%



Other Expenses
Second Quarter 2006

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

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

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.5230	0.1117	4.6832	1.0000
A[12]	-0.6377	0.1134	-5.6215	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 4.993	Standard deviation 0.04116
R-square 0.9973	Adjusted R-square 0.9972
Durbin-Watson 2.238	* Ljung-Box(18)=29.6 P=0.9585
Forecast error 0.002173	BIC 0.3351
MAPE 0.001496	RMSE 0.3207
MAD 0.2233	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2005-08	157.500
2005-09	158.700
2005-10	160.200
2005-11	160.800
2005-12	161.100
2006-01	162.400

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2006-02	162.689	163.445	164.205
2006-03	162.965	164.348	165.743
2006-04	163.150	165.098	167.070
2006-05	162.950	165.395	167.877
2006-06	162.649	165.534	168.471
QTR AVG	**162.916**	**165.342**	**167.806**
2006-07	162.787	166.075	169.429
2006-08	163.260	166.923	170.668
2006-09	163.859	167.873	171.987

Railroad and Union Abbreviations
Second 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)