

ASSOCIATION
OF AMERICAN
RAILROADS

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June 5, 2014

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

Dear Ms. Brown:

This submission is the AAR forecast of the third quarter 2014 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2014-3) *Quarterly Rail Cost Adjustment Factor*. The versions of RCAF-related indices covered in this filing are: the All-Inclusive Index (initiated in the second quarter of 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the third quarter 2014 results on the fourth quarter 2012 base, revised in the 2014Q1 filing, and shows the percentage changes from the previous quarter.

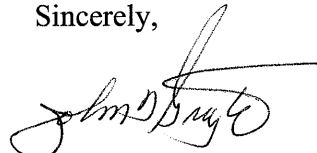
	<u>2014Q2</u>	<u>2014Q3</u>	<u>% Change</u>
All-Inclusive Index	99.7	99.5	-0.2
Preliminary RCAF	0.997	0.995	-0.2
Forecast Error Adjustment	-0.022	-0.010	
RCAF (Unadjusted)	0.975	0.985	1.0
Productivity Adjustment Factor	2.3168	2.3226	
RCAF (Adjusted)	0.421	0.424	0.7
PAF-5	2.4534	2.4588	
RCAF-5	0.397	0.401	1.0

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.

On May 23, 2014, the AAR received revisions to data used for the 2013Q3 and 2012Q3 RCAFs. Indexes have been recalculated to incorporate all changes. See Appendix AA for more detail. Appendix AC shows the recalculations, and Appendix AD summarizes changes for the RCAF. No revisions to any RCAF were larger than 0.001.

Our quarterly non-proprietary work papers underlying this submission are e-filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures*, served February 8, 1990. We have notified Paul Aguiar, in the STB office handling this proceeding, of our plan to e-file the submission and non-proprietary work papers. A second copy of the submission and non-proprietary work papers, plus selected highly confidential work papers, will be hand-delivered to a member of Mr. Aguiar's Data Collection and Auditing Team. All work papers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,



John T. Gray

Attachments

**Third Quarter 2014
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2014-3)

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

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

June 5, 2014

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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 third quarter 2014.

During May 2014, the AAR received revisions to data used for the 2013Q3 and 2012Q3 RCAFs. Indices have been recalculated. See Appendix AA for more information, and Appendix AD for a summary of the changes to the RCAF.

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.

In a decision (Docket No. FD 35506) served July 25, 2013, the Surface Transportation Board ordered BNSF Railway to "refile its R-1 report for 2010, 2011, and 2012...." In addition, Union Pacific Railroad revised its interest expense for years 2010 through 2012 during the same month. The BNSF revisions became available in late October 2013. The revisions caused changes to the weights used by the RCAF's All-Inclusive Index. Weights for all three years were revised in the 2014Q1 filing. The STB approved the revised weights in its December 20, 2013, decision. An additional railroad revised its 2011 and 2012 annual report during February and March 2014. The revisions did not affect the rounded version of 2011 weights, but caused small changes in the 2012 weights (shown below) in Q2. No changes were made to weights in the 2014Q3 submission.

Weights for RCAF's All-Inclusive Index		
	Old 2012	Rev Q2 2012
Labor	31.3 %	31.2 %
Fuel	22.4	22.3
Materials & Supplies	4.9	4.9
Equipment Rents	5.6	5.6
Depreciation	11.9	11.9
Interest	2.0	2.0
Other	<u>21.9</u>	<u>22.1</u>
Total	100.0	100.0

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 Third Quarter 2014

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.

	2012 Weights	Forecast		Percent Change
		Previous 2014Q2	Current 2014Q3	
1. Labor	31.2%	388.1 *	395.4	1.9 %
2. Fuel	22.3%	386.2	375.9	-2.7
3. M&S	4.9%	274.8	271.2	-1.3
4. Equipment Rents	5.6%	212.6	212.2	-0.2
5. Depreciation	11.9%	216.9	217.1	0.1
6. Interest	2.0%	76.6	76.6	0.0
7. Other	22.1%	225.2	222.9	-1.0
8. Weighted Average				
a. 1980 = 100		309.7	309.0	
b. 1980 = 100 (linked)		296.8	296.1 ¹	
c. 4Q12 = 100		99.7	99.5 ²	-0.2

* Although a small revision was made to the health & welfare portion of the 2014Q2 Labor Index, the index continued to round to 388.1.

$$\begin{aligned}
 {}^1 \text{ Index80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\
 &= (309.0 / 309.7) * 296.8 \\
 &= 296.1
 \end{aligned}$$

² To calculate the 4Q12 = 100 index:

$$\begin{aligned}
 \text{Index4Q12} &= (\text{Current Linked Index} / \text{4Q12 Basing Factor}) * 100 \\
 &= 296.1 \text{ divided by } 297.6 \text{ times } 100 \\
 &= 99.5
 \end{aligned}$$

Indexes based on other periods:

- 4Q07 based index = 296.1 / 245.9 x 100 = 120.4
- 4Q02 based index = 296.1 / 192.1 x 100 = 154.1
- 4Q97 based index = 296.1 / 173.2 x 100 = 171.0
- 4Q92 based index = 296.1 / 156.9 x 100 = 188.7
- 4Q87 based index = 296.1 / 132.2 x 100 = 224.0

Forecast vs. Actual All-Inclusive Index First Quarter 2014

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the first quarter actual index of 97.5 is 1.0 index points below the forecast value of 98.5. Therefore, the forecast error adjustment for third quarter 2014 is -1.0 index points.

	2012 Weights	First Quarter 2014		Amt Difference
		Forecast	Actual	
1. Labor	31.2%	386.2	386.2	
2. Fuel	22.3%	377.9	367.4	
3. M&S	4.9%	265.9	265.9	
4. Equipment Rents ¹	5.6%	208.7	209.7	
5. Depreciation	11.9%	217.8	216.9	
6. Interest	2.0%	76.6	76.6	
7. Other	22.1%	220.5	221.2	
8. Weighted Average				
a. 1980 = 100		305.7	303.4	
b. 1980 = 100 (linked)		293.0	290.2 ²	
c. 4Q12 = 100 ³		98.5	97.5	-1.0

Forecast error \longrightarrow **-1.0 index points**

Note:

The Q1 forecast is the revised version (weights only, no components changed) found in Appendix AA of 2014Q2 RCAF submission filed March 18, 2014. A small May 2014 revision made to health & welfare had no impact on the Labor Index for 2014Q1.

1	2012 Weights	First Quarter 2014	
		Forecast	Actual
Car-Hire	48.2%	180.6	181.3
Lease Rentals	51.8%	220.5	221.2
Weighted Average		201.3	202.0
Weighted Average (linked)		208.7	209.7

² Linked actual index = (actual index / previous actual index) x previous linked actual index.
 $290.2 = 303.4 / 304.6 \times 291.3$

³ The 4Q12 based indexes are 1980 based indexes divided by the 4Q12 basing factor (297.6/100). Other basing factors are: 4Q07 = 245.9; 4Q02 = 192.1; 4Q97 = 173.2; 4Q92 = 156.9; and 4Q87 = 132.2.

Productivity

On March 4, 2014, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2012 to the Productivity Adjustment Factor (PAF) and removed the year 2007. This creates a geometric average annual productivity change, for the five-year period 2008 through 2012, of 1.0 percent per year. The components of this average annual value are shown on the following table in ratio format – therefore, 1.010 is the same as an increase of 1.0 percent.

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

Comparison of Output, Input, & Productivity			
2008 - 2012			
Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (3)
2008	0.990	0.970	1.021
2009	0.847	0.861	0.984
2010	1.109	1.070	1.037
2011	1.041	1.039	1.001
2012	1.007	0.999	1.008
Average			1.010
Previous Average (2007-2011)			1.009

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 2008-2012, use fourth root of avg. productivity change = 1.0025			
For 2007-2011, use fourth root of avg. productivity change = 1.0022			
Quarter	Year	PAF	PAF-5
Q1	2014	2.3110	2.4480
Q2	2014	2.3168	2.4534
Q3	2014	2.3226	2.4588
Q4	2014	2.3284	2.4642
Q1	2015	2.3342	2.4704

Rail Cost Adjustment Factor

Third Quarter 2014

Four RCAF values are presented in this filing. Two are not modified for productivity (Preliminary RCAF and RCAF Unadjusted), and two incorporate a productivity calculation (RCAF Adjusted and RCAF-5). The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below. Note that, beginning with 2013Q1, the All-Inclusive Index is on a 2012Q4=100 basis. **In this 2014Q3 filing, revisions were made back to 2012Q3. See Appendices AA and AC for more information. RCAF revisions are listed in Appendix AD.**

	Previous 2014Q2	Current 2014Q3	Percent Change
All-Inclusive Index ¹	99.7	99.5	-0.2
Preliminary RCAF ²	0.997	0.995	-0.2
Forecast Error Adjustment ³	<u>-0.022</u>	<u>-0.010</u>	
RCAF (Unadjusted) ⁴	0.975	0.985	1.0
Productivity Adjustment Factor ⁵	<u>2.3168</u>	<u>2.3226</u>	
RCAF (Adjusted) ⁶	0.421	0.424	0.7
PAF-5 ⁷	2.4534	2.4588	
RCAF-5 ⁸	0.397	0.401	1.0

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

Third Quarter 2014

The third quarter 2014 Labor Index is forecast to increase 1.9 percent from the previous quarter. Much of the increase was caused by general wage increases scheduled for July for most unions.

Wage Rate Index

The Wage Rate Index portion of the Labor Index increased 2.3 percent. The major change was a general wage increase effective July 1.

Wage Increases: Most unions in the national agreements will receive a 3.8 percent general wage increase effective July 1. UTU and UTU-Yardmasters will receive a 3.5 percent general wage increase. Most independent labor agreements follow the same pattern.

Lump Sums: The third quarter lump sum rate increased by one tenth of one cent, as five new labor agreements (affecting a small number of employees) had provisions for a lump sum payment.

Back Pay: The third quarter back pay rate increased 7.3 cents, caused mostly by 7 new labor agreements that contained retroactive wage increases.

Other: In wages, "Other" contains the amortization of incentive payments that a railroad makes each year to its dispatchers, yardmasters, and engineers. The previous year's payment is now completely amortized, and has been replaced with this year's payment. This year's payment, made in early 2014, has a substantially lower payout rate compared to the previous year, and this caused the 7.1 cent decrease.

Supplements Index

The Supplements Index increased 1.3 percent because of higher employer 401(k) matches and an increase in Railroad Retirement taxes corresponding with the increase in taxable wages.

Health & Welfare: The Health & Welfare rate decreased slightly (0.7 cents) from the previous quarter, which has been revised slightly. New labor agreements, with higher employee health & welfare cost sharing, caused the railroad contributions to go down.

Railroad Retirement: The Railroad Retirement rate increased 1.7 percent. The increase was caused by higher taxable earnings related to general wage increases scheduled for July.

Unemployment Insurance: The Unemployment Insurance rate was unchanged for the third quarter. Despite higher taxable earnings for Q3, taxable earnings in the prior quarter were already beyond the maximum taxable amount.

Labor

Third Quarter 2014

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains known employer contributions to employee 401(k) accounts and employer contributions to employee stock plans that are recorded as fringe benefits. For the third quarter, the rate increased 8.1 cents mostly because of an annual employer 401(k) contribution to certain union employees.

Labor Index Calculation

As shown in Table A-1 on the next page, the 2.3 percent increase in the Wage Rate Index and the 1.3 percent increase in the Supplements Index combined to cause a 1.9 percent increase in the Labor Index. The linked third quarter 2014 Labor Index is 395.4.

Labor Third Quarter 2014

Table A-1 Labor Index

	2014Q2	2014Q3	Change	
			Percent	Amount
<u>Base Wage</u> – Straight Time & Pay For Time Not Worked	\$38.739	\$39.639	2.3%	\$0.900
Adjustments:				
Lump Sum	0.315	0.316	0.3%	\$0.001
Back Pay	0.020	0.093	365.0%	\$0.073
Other	0.208	0.137	-34.1%	-\$0.071
Total Wages	<u>39.282</u>	<u>40.185</u>	2.3%	\$0.903
Health & Welfare Benefits	7.618 r	7.611	-0.1%	-\$0.007
RR Retirement & Medicare	7.767	7.896	1.7%	\$0.129
Unemployment Insurance	0.059	0.059	0.0%	\$0.000
Other	0.182	0.263	44.5%	\$0.081
Total Supplements	<u>\$15.626 r</u>	<u>\$15.829</u>	1.3%	\$0.203
Total Labor (as info only)	\$54.908 r	\$56.014		
Wage Index¹	336.2	343.9	2.3%	
Supplements Index²	577.5 r	585.0	1.3%	
Total labor Index, 2012 Weights ³	410.5 r	418.2		
Labor Index (linked)⁴	388.1	395.4	1.9%	

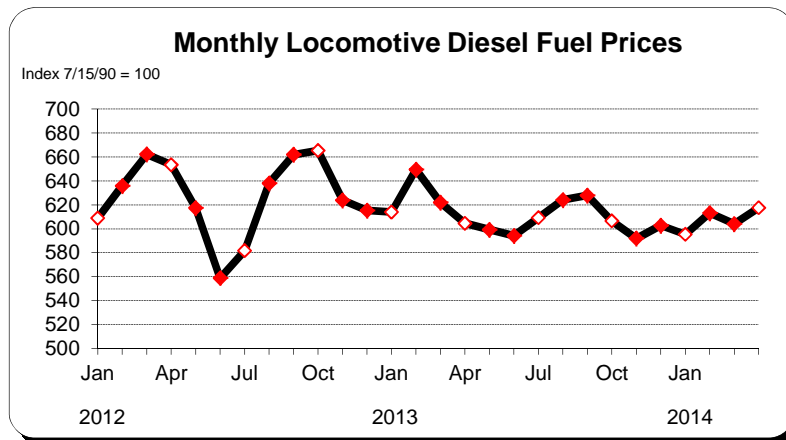
Note: Labor data have been revised, although the 2014Q2 linked index rounds to the same number. See Appendix AA for more information.

¹ 1980 wage rate \$11.685
² 1980 supplements rate \$2.706
³ 2012 weights: wages, supplements 69.2% 30.8%
⁴ 2014Q3 linked Index = 2014Q2 linked x (2014Q3 / 2014Q2)
= 388.1 x 418.2 / 410.5

Fuel Third Quarter 2014

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. Fuel purchases are assumed to remain in inventory for 30 days before the fuel is consumed (and therefore expensed). Therefore, prices paid in the first month of each quarter are for fuel expensed in the second (or middle) month of the quarter, and the middle month is used to represent each quarter.

Locomotive diesel fuel prices increased in April. The chart below shows the AAR's Monthly Locomotive Diesel Fuel Price Index from January 2012 through April 2014.



While the latest average prices for locomotive diesel fuel are available only through April 2014, data through most of May are available for related fuel types. Weekly crude oil* futures prices were rising in May. However, impacts from the fuel supply side may put downward pressure on prices. Crude exports for May were rising sharply because of increased domestic production, and crude oil stocks were near the top of their typical range. Because of the supply side pressure, railroads believe prices for July 2014 (Q3) will be 2.7 percent lower than the second quarter forecast (represented by April 2014), and 1.4 percent lower than the average price actually paid in April.

Forecast Fuel Index (1980 = 100)	375.9
Change from previous quarter forecast	-2.7%
Change from previous quarter actual	-1.4%

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

Materials & Supplies

Third Quarter 2014

The third quarter 2014 Materials & Supplies Index decreased 1.3 percent from the previous quarter. The change was caused by a decrease in average prices for Miscellaneous Products, partially offset by increases in prices for Forest Products. Averages for Metal Products had little change.

2014Q3 Materials & Supplies Index = 271.2

2014Q2 Materials & Supplies Index = 274.8

Difference	-3.6 basis points
	or
	-1.3 %

Equipment Rents Third Quarter 2014

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

Lease Rentals

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

Equipment Rents Index Calculation

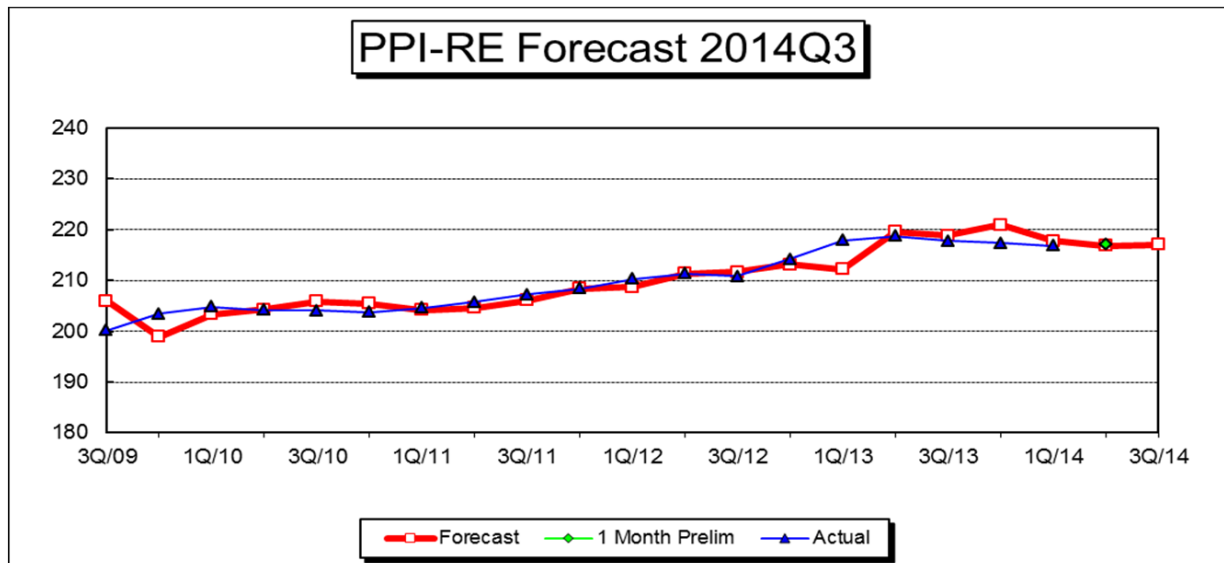
The table below calculates the Equipment Rent Index, which decreased 0.2 percent. The third quarter Car Hire portion of the Index increased 0.9 percent, caused mostly by increases for privately-owned cars. A 1.0 percent decrease for the projected PPI-LF (see Appendix G) used as a proxy for Lease Rentals, combined with the 0.9 percent increase for Car Hire, caused the Equipment Rent Index to decrease 0.2 percent.

	2012 Weight	2014Q2	2014Q3	Percent Change
Car Hire	48.2%	183.5	185.1	0.9 %
Lease Rentals	51.8%	225.2	222.9	-1.0
Weighted Average		205.1	204.7	-0.2
Weighted Average (Linked)		212.6	212.2	-0.2

Depreciation Third Quarter 2014

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA (Auto-Regressive Integrated Moving Average) process where a statistical package picks the model that best fits the historical data set (see next page), and that model is then used for the forecast. The historical data set contains 6 years of monthly data (a sample size of 72), where the most recent available data point is the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent period available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix on a 1982=100 basis. The figure forecast by the model reflects PPI-RE figures that have been up and down during recent months.

Forecast of Depreciation Index (1982=100)	196.3
Forecast of Depreciation Index (1980=100)	217.1
Change from previous quarter forecast	0.1%
Change from actual first month of previous quarter	0.0%
Change from same quarter of prior year (actual)	-0.3%



Depreciation Third Quarter 2014

PPI RAILROAD EQUIPMENT

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

Within-Sample Statistics

Sample size 72	Number of parameters 0
Mean 187.8	Standard deviation 5.618
R-square 0.9558	Adjusted R-square 0.9564
Durbin-Watson 2.379	Ljung-Box(18)=22.92 P=0.8062
Forecast error 1.173	BIC 1.173
MAPE 0.003843	RMSE 1.173
MAD 0.7264	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2013-11	195.200
2013-12	196.900
2014-01	196.100
2014-02	195.500
2014-03	196.800
2014-04	196.300

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2014-05	193.985	196.300	198.615
2014-06	193.025	196.300	199.575
2014-07	192.290	196.300	200.310
2014-08	191.669	196.300	200.931
2014-09	191.123	196.300	201.477
QTR AVG	191.694	196.300	200.906

Interest Third Quarter 2014

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.

The current Interest Index is based on revised 2012 annual report data submitted by 2 railroads during the Summer and Fall of 2013. Annual report revisions received from a third railroad in February and March 2014 had no impact on this calculation.

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

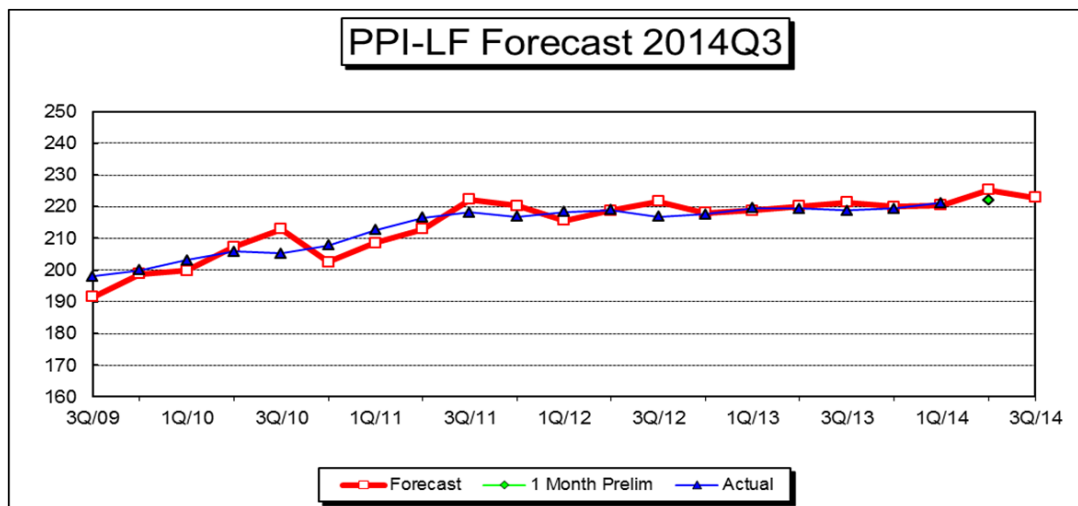
2012	Interest Rate	6.01%
1980	Interest Rate	7.85%
2014Q3	Interest Index	76.6
2014Q2	Interest Index	76.6
	Percent Change	0.0%

Other Expenses Third Quarter 2014

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

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent month available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. Although recent monthly PPI-LF figures have been increasing, the figure forecast by the model is down from a previous quarter forecast that was probably too high.

Forecast of Other Expense Index (1982=100)	198.8
Forecast of Other Expense Index (1980=100)	222.9
Change from previous quarter forecast	-1.0%
Change from actual first month of previous quarter	0.5%
Change from same quarter of prior year (actual)	1.9%



Other Expenses Third Quarter 2014

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

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

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.7279	0.0797	9.1323	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 188.4	Standard deviation 7.513
R-square 0.9908	Adjusted R-square 0.9908
Durbin-Watson 1.674	Ljung-Box(18)=19.19 P=0.62
Forecast error 0.7201	BIC 0.7366
MAPE 0.00278	RMSE 0.7151
MAD 0.5215	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2013-11	195.500
2013-12	195.900
2014-01	196.900
2014-02	197.600
2014-03	197.400
2014-04	197.900

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2014-05	196.853	198.264	199.675
2014-06	195.711	198.529	201.347
2014-07	194.468	198.722	202.975
2014-08	193.204	198.862	204.520
2014-09	191.961	198.964	205.967
QTR AVG	193.211	198.849	204.487

Railroad and Union Abbreviations

Third Quarter 2014

Railroads

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

Major Unions Involved with Railroads

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

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

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

Revisions to RCAF Data Third Quarter 2014

During May 2014, one railroad sent revisions to data used in the 2012Q3 and 2013Q3 Rail Cost Adjustment Factors.

On May 23, 2014, one railroad revised fringe benefit data used by the AAR to calculate the Other Supplements portion of the Labor Index. The revised numbers were more-than double the numbers originally reported, and directly affected Total Supplements for 2012Q3 and 2013Q3. In addition, the revisions caused changes in the 2012 benchmark for health & welfare. (Benchmarks using 2013 data will not be used until September 2014.) The revised benchmark caused small decreases for health & welfare in all quarters that have used a 2012 benchmark: 2013Q4, 2014Q1, and 2014Q2.

The revisions caused the 2012Q3 Labor Index to change, which causes the linked versions of following quarters to change even when they contained no revised data. (For example, a 5 percent increase in an index of 100.00 results in an index of 105.00, while a 5 percent increase in an index of 101.00 results in an index of 106.05.) A total of 6 Labor Indices in the All-Inclusive Index were revised, while changes to 2 quarters were small enough to have no impact.

Appendix AB calculates the Labor Index, All-Inclusive Index, RCAF, and Forecast Error Adjustment *prior to* the May revisions. Appendix AC uses the same spreadsheet to recalculate the RCAF *after* the May revisions, including recalculations of Labor and the Forecast Error Adjustment. Appendix AD is a summary table that shows the RCAF changes caused by the May revisions. Despite the revisions affecting 8 Labor Indexes, the RCAF changed very little.

Labor Index Before May 2014 Revisions

	Weights				2010	2010	2010	2010	2011	2011	2011	2011	2012	2012	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q2r	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Straight Time					\$28.627	\$28.896	\$28.896	\$29.794	\$29.902	\$30.313	\$30.317	\$30.866	\$31.500	\$31.853	\$31.865
PFTNW					\$7.006	\$7.060	\$7.060	\$7.288	\$7.265	\$7.298	\$7.292	\$7.440	\$6.844	\$6.871	\$6.874
Total					\$35.633	\$35.956	\$35.956	\$37.082	\$37.167	\$37.611	\$37.609	\$38.306	\$38.344	\$38.724	\$38.739
Adjustments															
Lump Sum					\$0.226	\$0.414	\$0.414	\$0.446	\$0.446	\$0.446	\$0.278	\$0.244	\$0.217	\$0.214	\$0.315
Back Pay					\$0.347	\$0.707	\$0.707	\$1.092	\$1.060	\$0.780	\$0.324	(\$0.044)	(\$0.063)	(\$0.077)	\$0.020
Other					\$0.195	\$0.195	\$0.195	\$0.128	\$0.121	\$0.121	\$0.121	\$0.213	\$0.208	\$0.208	\$0.208
Total Wages					\$36.401	\$37.272	\$37.272	\$38.748	\$38.794	\$38.958	\$38.332	\$38.719	\$38.706	\$39.069	\$39.282
H & W					\$8.642	\$8.642	\$8.642	\$8.068	\$7.969	\$7.863	\$7.862	\$8.062	\$8.080	\$7.623	\$7.623
RR Ret & Medicare					\$7.228	\$7.363	\$7.363	\$7.588	\$7.709	\$7.988	\$7.893	\$7.952	\$7.613	\$7.736	\$7.767
Unemp. Insurance					\$0.433	\$0.433	\$0.433	\$0.434	\$0.431	\$0.059	\$0.059	\$0.059	\$0.057	\$0.059	\$0.059
Other					\$0.134	\$0.133	\$0.133	\$0.219	\$0.107	\$0.146	\$0.122	\$0.155	\$0.103	\$0.147	\$0.182
Total Supplements					\$16.437	\$16.571	\$16.571	\$16.309	\$16.216	\$16.056	\$15.936	\$16.228	\$15.853	\$15.565	\$15.631
Total Labor (as info only)					\$52.838	\$53.843	\$53.843	\$55.057	\$55.010	\$55.014	\$54.268	\$54.947	\$54.559	\$54.634	\$54.913
Wage Rate Index	70.1%	69.7%	68.3%	69.2%	311.5	319.0	319.0	331.6	332.0	333.4	328.0	331.4	331.2	334.4	336.2
Supplements Index	<u>29.9%</u>	<u>30.3%</u>	<u>31.7%</u>	<u>30.8%</u>	607.4	612.4	612.4	602.7	599.3	593.3	588.9	599.7	585.8	575.2	577.6
	100.0%	100.0%	100.0%	100.0%											
Total Labor Index					401.2	407.9	407.9	413.7	416.7	415.8	410.7	416.5	409.6	408.6	410.6
Total Labor New Wts								417.5				414.0			
Labor Index (Linked)					380.4	386.8	386.8	392.3	391.5	390.7	385.9	391.3	387.1	386.2	388.1

**All Inclusive Index
Before May 2014 Revisions**

	Weights				2010	2010	2010	2010	2011	2011	2011	2011	2012	2012	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q2r	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Labor	34.7%	33.4%	31.4%	31.2%	380.4	386.8	386.8	392.3	391.5	390.7	385.9	391.3	387.1	386.2	388.1
Fuel	14.9%	18.1%	22.6%	22.3%	387.7	409.4	409.4	353.4	403.3	396.5	404.3	375.6	399.6	377.9	386.2
M&S	5.1%	5.0%	5.1%	4.9%	263.7	274.1	274.0	274.8	266.1	263.4	261.0	264.2	261.4	265.9	274.8
Equip. Rents	7.1%	6.2%	5.6%	5.6%	203.5	204.9	204.9	205.8	205.8	206.7	207.0	208.0	207.7	208.7	212.6
Depreciation	13.9%	12.7%	11.5%	11.9%	208.7	211.4	211.4	211.7	213.2	212.2	219.6	218.9	221.0	217.8	216.9
Interest	3.0%	2.9%	2.3%	2.0%	91.2	91.2	91.2	91.2	87.3	87.3	87.3	87.3	76.6	76.6	76.6
Other	<u>21.3%</u>	<u>21.7%</u>	<u>21.5%</u>	<u>22.1%</u>	215.6	218.8	218.8	221.6	218.0	218.8	220.2	221.4	220.0	220.5	225.2
	100.0%	100.0%	100.0%	100.0%											
Weighted Avg.					299.0	306.7	306.7	299.1	312.6	310.8	312.1	307.7	310.8	305.7	309.7
Weighted Avg New Wts								302.7				307.2			
Linked					289.5	297.0	297.0	289.6	299.1	297.4	298.6	294.4	297.9	293.0	296.8
10/1/80 basis	102.7				281.9	289.2	289.2	282.0	291.2	289.6	290.7	286.7	290.1	285.3	289.0
10/1/82	120.9				239.5	245.7	245.7	239.5	247.4	246.0	247.0	243.5	246.4	242.3	245.5
4Q/87	132.2				219.0	224.7	224.7	219.1	226.2	225.0	225.9	222.7	225.3	221.6	224.5
4Q/92	156.9				184.5	189.3	189.3	184.6	190.6	189.5	190.3	187.6	189.9	186.7	189.2
4Q/97	173.2				167.1	171.5	171.5	167.2	172.7	171.7	172.4	170.0	172.0	169.2	171.4
4Q/02	192.1				150.7	154.6	154.6	150.8	155.7	154.8	155.4	153.3	155.1	152.5	154.5
4Q/07	245.9				117.7	120.8	120.8	117.8	121.6	120.9	121.4	119.7	121.1	119.2	120.7
4Q/12 basis	297.6				97.3	99.8	99.8	97.3	100.5	99.9	100.3	98.9	100.1	98.5	99.7
Car Hire	42.2%	46.0%	48.7%	48.2%	175.5	174.8	174.8	173.6	177.3	178.4	177.4	178.3	179.1	180.6	183.5
Lease Rents	<u>57.8%</u>	<u>54.0%</u>	<u>51.3%</u>	<u>51.8%</u>	<u>215.6</u>	<u>218.8</u>	<u>218.8</u>	<u>221.6</u>	<u>218.0</u>	<u>218.8</u>	<u>220.2</u>	<u>221.4</u>	<u>220.0</u>	<u>220.5</u>	<u>225.2</u>
	100.0%	100.0%	100.0%	100.0%											
Wtd Avg Eq Rents					197.2	198.6	198.6	199.5	198.2	199.1	199.4	200.4	200.3	201.3	205.1
New Wtd Avg Eq Rents								198.2				200.6			
Linked Equipment Rents					203.5	204.9	204.9	205.8	205.8	206.7	207.0	208.0	207.7	208.7	212.6

**Rail Cost Adjustment Factor
Before May 2014 Revisions**

RCAF 4Q/07 basis

Quarter used to calculate forecast error adjustment -->	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Actual	117.9	116.2	117.1	120.2	117.5	122.0	119.4	118.3	119.2	118.5
Forecast	<u>118.6</u>	<u>118.3</u>	<u>117.7</u>	<u>120.8</u>	<u>117.8</u>	<u>121.6</u>	<u>120.9</u>	<u>121.4</u>	<u>119.7</u>	<u>121.1</u>
Difference	-0.7	-2.1	-0.6	-0.6	-0.3	0.4	-1.5	-3.1	-0.5	-2.6
RCAF Quarter -->	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Preliminary RCAF	1.177	1.208	1.178	1.216	1.209	1.214	1.197	1.211	1.192	1.207
Forecast Error Adj.	<u>(0.007)</u>	<u>(0.021)</u>	<u>(0.006)</u>	<u>(0.006)</u>	<u>(0.003)</u>	<u>0.004</u>	<u>(0.015)</u>	<u>(0.031)</u>	<u>(0.005)</u>	<u>(0.026)</u>
RCAF Unadjusted	1.170	1.187	1.172	1.210	1.206	1.218	1.182	1.180	1.187	1.181
PAF	2.2724	2.2769	2.2815	2.2861	2.2907	2.2957	2.3008	2.3059	2.3110	2.3168
RCAF Adjusted	0.515	0.521	0.514	0.529	0.526	0.531	0.514	0.512	0.514	0.510
PAF-5	2.3978	2.4062	2.4146	2.4231	2.4279	2.4328	2.4377	2.4426	2.4480	2.4534
RCAF-5	0.488	0.493	0.485	0.499	0.497	0.501	0.485	0.483	0.485	0.481

RCAF 4Q/12 basis

Quarter used to calculate forecast error adjustment -->	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Actual	97.4	96.0	96.8	99.3	97.1	100.8	98.7	97.7	98.5	97.9
Forecast	<u>98.0</u>	<u>97.8</u>	<u>97.3</u>	<u>99.8</u>	<u>97.3</u>	<u>100.5</u>	<u>99.9</u>	<u>100.3</u>	<u>98.9</u>	<u>100.1</u>
Difference	-0.6	-1.8	-0.5	-0.5	-0.2	0.3	-1.2	-2.6	-0.4	-2.2
RCAF Quarter -->	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Preliminary RCAF	0.973	0.998	0.973	1.005	0.999	1.003	0.989	1.001	0.985	0.997
Forecast Error Adj.	<u>(0.006)</u>	<u>(0.018)</u>	<u>(0.005)</u>	<u>(0.005)</u>	<u>(0.002)</u>	<u>0.003</u>	<u>(0.012)</u>	<u>(0.026)</u>	<u>(0.004)</u>	<u>(0.022)</u>
RCAF Unadjusted	0.967	0.980	0.968	1.000	0.997	1.006	0.977	0.975	0.981	0.975
PAF	2.2724	2.2769	2.2815	2.2861	2.2907	2.2957	2.3008	2.3059	2.3110	2.3168
RCAF Adjusted	0.426	0.430	0.424	0.437	0.435	0.438	0.425	0.423	0.424	0.421
PAF-5	2.3978	2.4062	2.4146	2.4231	2.4279	2.4328	2.4377	2.4426	2.4480	2.4534
RCAF-5	0.403	0.407	0.401	0.413	0.411	0.414	0.401	0.399	0.401	0.397

**All-Inclusive Index - Actual Before Revisions
(for Forecast Error Adjustment Calculation)**

Actual	Weights				2010	2010	2010	2011	2011	2011	2011	2011	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	
Labor	34.7%	33.4%	31.4%	31.2%	380.4	386.8	392.3	391.5	390.7	385.9	391.3	387.1	
Fuel	14.9%	18.1%	22.6%	22.3%	375.7	403.2	359.0	410.6	378.8	373.1	376.0	374.3	
M&S	5.1%	5.0%	5.1%	4.9%	263.6	274.0	274.8	266.1	263.4	261.0	264.2	261.4	
Equip. Rents	7.1%	6.2%	5.6%	5.6%	205.3	204.3	203.7	206.1	207.6	207.0	207.6	208.0	
Depreciation	13.9%	12.7%	11.5%	11.9%	210.3	211.4	210.8	214.2	217.9	218.8	217.8	217.4	
Interest	3.0%	2.9%	2.3%	2.0%	91.2	91.2	91.2	87.3	87.3	87.3	87.3	76.6	
Other	21.3%	21.7%	21.5%	22.1%	218.3	218.9	216.8	217.6	219.5	219.4	218.8	219.4	
Weighted Avg.	100.0%	100.0%	100.0%	100.0%	297.7	305.5	298.8	314.3	307.6	304.7	307.0	304.6	
Weighted Avg New Wts Linked							302.7				306.5		
					288.0	295.5	289.0	300.1	293.7	290.9	293.1	291.3	
10/1/80 basis	102.7				280.4	287.7	281.4	292.2	286.0	283.3	285.4	283.6	
10/1/82	120.9				238.2	244.4	239.0	248.2	242.9	240.6	242.4	240.9	
4Q/87	132.2				217.9	223.5	218.6	227.0	222.2	220.0	221.7	220.3	
4Q/92	156.9				183.6	188.3	184.2	191.3	187.2	185.4	186.8	185.7	
4Q/97	173.2				166.3	170.6	166.9	173.3	169.6	168.0	169.2	168.2	
4Q/02	192.1				149.9	153.8	150.4	156.2	152.9	151.4	152.6	151.6	
4Q/07	245.9				117.1	120.2	117.5	122.0	119.4	118.3	119.2	118.5	
4Q/12 basis	297.6				96.8	99.3	97.1	100.8	98.7	97.7	98.5	97.9	
Car Hire	42.2%	46.0%	48.7%	48.2%	176.2	173.3	174.3	178.1	179.1	178.0	179.7	179.9	
Lease Rents	57.8%	54.0%	51.3%	51.8%	218.3	218.9	216.8	217.6	219.5	219.4	218.8	219.4	
	100.0%	100.0%	100.0%	100.0%									
Wtd Avg Eq Rents					198.9	197.9	197.3	198.4	199.8	199.2	199.8	200.4	
New Wtd Avg Eq Rents							196.1				200.0		
Linked Equipment Rents					205.3	204.3	203.7	206.1	207.6	207.0	207.6	208.0	

Labor Index with May 2014 Revisions

	Weights				2010	2010	2010	2010	2011	2011	2011	2011	2012	2012	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q2r	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Straight Time					\$28.627	\$28.896	\$28.896	\$29.794	\$29.902	\$30.313	\$30.317	\$30.866	\$31.500	\$31.853	\$31.865
PFTNW					\$7.006	\$7.060	\$7.060	\$7.288	\$7.265	\$7.298	\$7.292	\$7.440	\$6.844	\$6.871	\$6.874
Total					\$35.633	\$35.956	\$35.956	\$37.082	\$37.167	\$37.611	\$37.609	\$38.306	\$38.344	\$38.724	\$38.739
Adjustments															
Lump Sum					\$0.226	\$0.414	\$0.414	\$0.446	\$0.446	\$0.446	\$0.278	\$0.244	\$0.217	\$0.214	\$0.315
Back Pay					\$0.347	\$0.707	\$0.707	\$1.092	\$1.060	\$0.780	\$0.324	(\$0.044)	(\$0.063)	(\$0.077)	\$0.020
Other					\$0.195	\$0.195	\$0.195	\$0.128	\$0.121	\$0.121	\$0.121	\$0.213	\$0.208	\$0.208	\$0.208
Total Wages					\$36.401	\$37.272	\$37.272	\$38.748	\$38.794	\$38.958	\$38.332	\$38.719	\$38.706	\$39.069	\$39.282
H & W					\$8.642	\$8.642	\$8.642	\$8.068	\$7.969	\$7.863	\$7.862	\$8.062	\$8.075	\$7.618	\$7.618
RR Ret & Medicare					\$7.228	\$7.363	\$7.363	\$7.588	\$7.709	\$7.988	\$7.893	\$7.952	\$7.613	\$7.736	\$7.767
Unemp. Insurance					\$0.433	\$0.433	\$0.433	\$0.434	\$0.431	\$0.059	\$0.059	\$0.059	\$0.057	\$0.059	\$0.059
Other					\$0.134	\$0.133	\$0.133	\$0.242	\$0.107	\$0.146	\$0.122	\$0.177	\$0.103	\$0.147	\$0.182
Total Supplements					\$16.437	\$16.571	\$16.571	\$16.332	\$16.216	\$16.056	\$15.936	\$16.250	\$15.848	\$15.560	\$15.626
Total Labor (as info only)					\$52.838	\$53.843	\$53.843	\$55.080	\$55.010	\$55.014	\$54.268	\$54.969	\$54.554	\$54.629	\$54.908
Wage Rate Index	70.1%	69.7%	68.3%	69.2%	311.5	319.0	319.0	331.6	332.0	333.4	328.0	331.4	331.2	334.4	336.2
Supplements Index	29.9%	30.3%	31.7%	30.8%	607.4	612.4	612.4	603.5	599.3	593.3	588.9	600.5	585.7	575.0	577.5
	100.0%	100.0%	100.0%	100.0%											
Total Labor Index					401.2	407.9	407.9	414.0	416.7	415.8	410.7	416.7	409.6	408.5	410.5
Total Labor New Wts								417.8				414.3			
Labor Index (Linked)					380.4	386.8	386.8	392.6	391.6	390.8	386.0	391.6	387.2	386.2	388.1

All Inclusive Index with May 2014 Revisions

	Weights				2010	2010	2010	2010	2011	2011	2011	2011	2012	2012	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q2r	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Labor	34.7%	33.4%	31.4%	31.2%	380.4	386.8	386.8	392.6	391.6	390.8	386.0	391.6	387.2	386.2	388.1
Fuel	14.9%	18.1%	22.6%	22.3%	387.7	409.4	409.4	353.4	403.3	396.5	404.3	375.6	399.6	377.9	386.2
M&S	5.1%	5.0%	5.1%	4.9%	263.7	274.1	274.0	274.8	266.1	263.4	261.0	264.2	261.4	265.9	274.8
Equip. Rents	7.1%	6.2%	5.6%	5.6%	203.5	204.9	204.9	205.8	205.8	206.7	207.0	208.0	207.7	208.7	212.6
Depreciation	13.9%	12.7%	11.5%	11.9%	208.7	211.4	211.4	211.7	213.2	212.2	219.6	218.9	221.0	217.8	216.9
Interest	3.0%	2.9%	2.3%	2.0%	91.2	91.2	91.2	91.2	87.3	87.3	87.3	87.3	76.6	76.6	76.6
Other	21.3%	21.7%	21.5%	22.1%	215.6	218.8	218.8	221.6	218.0	218.8	220.2	221.4	220.0	220.5	225.2
	100.0%	100.0%	100.0%	100.0%											
Weighted Avg.					299.0	306.7	306.7	299.2	312.6	310.8	312.1	307.8	310.8	305.7	309.7
Weighted Avg New Wts								302.8				307.3			
Linked					289.5	297.0	297.0	289.7	299.1	297.4	298.6	294.5	297.9	293.0	296.8
10/1/80 basis	102.7				281.9	289.2	289.2	282.1	291.2	289.6	290.7	286.8	290.1	285.3	289.0
10/1/82	120.9				239.5	245.7	245.7	239.6	247.4	246.0	247.0	243.6	246.4	242.3	245.5
4Q/87	132.2				219.0	224.7	224.7	219.1	226.2	225.0	225.9	222.8	225.3	221.6	224.5
4Q/92	156.9				184.5	189.3	189.3	184.6	190.6	189.5	190.3	187.7	189.9	186.7	189.2
4Q/97	173.2				167.1	171.5	171.5	167.3	172.7	171.7	172.4	170.0	172.0	169.2	171.4
4Q/02	192.1				150.7	154.6	154.6	150.8	155.7	154.8	155.4	153.3	155.1	152.5	154.5
4Q/07	245.9				117.7	120.8	120.8	117.8	121.6	120.9	121.4	119.8	121.1	119.2	120.7
4Q/12 basis	297.6				97.3	99.8	99.8	97.3	100.5	99.9	100.3	99.0	100.1	98.5	99.7
Car Hire	42.2%	46.0%	48.7%	48.2%	175.5	174.8	174.8	173.6	177.3	178.4	177.4	178.3	179.1	180.6	183.5
Lease Rents	57.8%	54.0%	51.3%	51.8%	215.6	218.8	218.8	221.6	218.0	218.8	220.2	221.4	220.0	220.5	225.2
	100.0%	100.0%	100.0%	100.0%											
Wtd Avg Eq Rents					197.2	198.6	198.6	199.5	198.2	199.1	199.4	200.4	200.3	201.3	205.1
New Wtd Avg Eq Rents								198.2				200.6			
Linked Equipment Rents					203.5	204.9	204.9	205.8	205.8	206.7	207.0	208.0	207.7	208.7	212.6

RCAF with May 2014 Revisions

RCAF 4Q/07 basis

Quarter used to calculate forecast error adjustment -->	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4				
Actual	No changes prior to 2012Q3. Figures should match Appendix AC of 2014Q1 filing for those quarters.				117.9	116.2	117.1	120.2	117.6	122.0	119.4	118.3	119.2	118.5
Forecast					<u>118.6</u>	<u>118.3</u>	<u>117.7</u>	<u>120.8</u>	<u>117.8</u>	<u>121.6</u>	<u>120.9</u>	<u>121.4</u>	<u>119.8</u>	<u>121.1</u>
Difference					-0.7	-2.1	-0.6	-0.6	-0.2	0.4	-1.5	-3.1	-0.6	-2.6
RCAF Quarter -->	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2				
Preliminary RCAF	1.177	1.208	1.178	1.216	1.209	1.214	1.198	1.211	1.192	1.207				
Forecast Error Adj.	<u>(0.007)</u>	<u>(0.021)</u>	<u>(0.006)</u>	<u>(0.006)</u>	<u>(0.002)</u>	<u>0.004</u>	<u>(0.015)</u>	<u>(0.031)</u>	<u>(0.006)</u>	<u>(0.026)</u>				
RCAF Unadjusted	1.170	1.187	1.172	1.210	1.207	1.218	1.183	1.180	1.186	1.181				
PAF	2.2724	2.2769	2.2815	2.2861	2.2907	2.2957	2.3008	2.3059	2.3110	2.3168				
RCAF Adjusted	0.515	0.521	0.514	0.529	0.527	0.531	0.514	0.512	0.513	0.510				
PAF-5	2.3978	2.4062	2.4146	2.4231	2.4279	2.4328	2.4377	2.4426	2.4480	2.4534				
RCAF-5	0.488	0.493	0.485	0.499	0.497	0.501	0.485	0.483	0.484	0.481				

RCAF 4Q/12 basis

Quarter used to calculate forecast error adjustment -->	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4				
Actual	No changes prior to 2012Q3. Figures should match Appendix AC of 2014Q1 filing for those quarters.				97.4	96.0	96.8	99.3	97.1	100.8	98.7	97.8	98.5	97.9
Forecast					<u>98.0</u>	<u>97.8</u>	<u>97.3</u>	<u>99.8</u>	<u>97.3</u>	<u>100.5</u>	<u>99.9</u>	<u>100.3</u>	<u>99.0</u>	<u>100.1</u>
Difference					-0.6	-1.8	-0.5	-0.5	-0.2	0.3	-1.2	-2.5	-0.5	-2.2
RCAF Quarter -->	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2				
Preliminary RCAF	0.973	0.998	0.973	1.005	0.999	1.003	0.990	1.001	0.985	0.997				
Forecast Error Adj.	<u>(0.006)</u>	<u>(0.018)</u>	<u>(0.005)</u>	<u>(0.005)</u>	<u>(0.002)</u>	<u>0.003</u>	<u>(0.012)</u>	<u>(0.025)</u>	<u>(0.005)</u>	<u>(0.022)</u>				
RCAF Unadjusted	0.967	0.980	0.968	1.000	0.997	1.006	0.978	0.976	0.980	0.975				
PAF	2.2724	2.2769	2.2815	2.2861	2.2907	2.2957	2.3008	2.3059	2.3110	2.3168				
RCAF Adjusted	0.426	0.430	0.424	0.437	0.435	0.438	0.425	0.423	0.424	0.421				
PAF-5	2.3978	2.4062	2.4146	2.4231	2.4279	2.4328	2.4377	2.4426	2.4480	2.4534				
RCAF-5	0.403	0.407	0.401	0.413	0.411	0.414	0.401	0.400	0.400	0.397				

**A-I Index with May 2014 Revisions - Actual
(for Forecast Error Adjustment Calculation)**

Actual	Weights				2010	2010	2010	2011	2011	2011	2011	2011	2012
	2009	2010	2011	2012	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	
Labor	34.7%	33.4%	31.4%	31.2%	380.4	386.8	392.6	391.6	390.8	386.0	391.6	387.2	
Fuel	14.9%	18.1%	22.6%	22.3%	375.7	403.2	359.0	410.6	378.8	373.1	376.0	374.3	
M&S	5.1%	5.0%	5.1%	4.9%	263.6	274.0	274.8	266.1	263.4	261.0	264.2	261.4	
Equip. Rents	7.1%	6.2%	5.6%	5.6%	205.3	204.3	203.7	206.1	207.6	207.0	207.6	208.0	
Depreciation	13.9%	12.7%	11.5%	11.9%	210.3	211.4	210.8	214.2	217.9	218.8	217.8	217.4	
Interest	3.0%	2.9%	2.3%	2.0%	91.2	91.2	91.2	87.3	87.3	87.3	87.3	76.6	
Other	21.3%	21.7%	21.5%	22.1%	218.3	218.9	216.8	217.6	219.5	219.4	218.8	219.4	
Weighted Avg.	100.0%	100.0%	100.0%	100.0%	297.7	305.5	298.9	314.3	307.6	304.8	307.1	304.6	
Weighted Avg New Wts Linked					288.0	295.5	289.1	300.1	293.7	291.0	293.2	291.3	
10/1/80 basis	102.7				280.4	287.7	281.5	292.2	286.0	283.3	285.5	283.6	
10/1/82	120.9				238.2	244.4	239.1	248.2	242.9	240.7	242.5	240.9	
4Q/87	132.2				217.9	223.5	218.7	227.0	222.2	220.1	221.8	220.3	
4Q/92	156.9				183.6	188.3	184.3	191.3	187.2	185.5	186.9	185.7	
4Q/97	173.2				166.3	170.6	166.9	173.3	169.6	168.0	169.3	168.2	
4Q/02	192.1				149.9	153.8	150.5	156.2	152.9	151.5	152.6	151.6	
4Q/07	245.9				117.1	120.2	117.6	122.0	119.4	118.3	119.2	118.5	
4Q/12 basis	297.6				96.8	99.3	97.1	100.8	98.7	97.8	98.5	97.9	
Car Hire	42.2%	46.0%	48.7%	48.2%	176.2	173.3	174.3	178.1	179.1	178.0	179.7	179.9	
Lease Rents	57.8%	54.0%	51.3%	51.8%	218.3	218.9	216.8	217.6	219.5	219.4	218.8	219.4	
	100.0%	100.0%	100.0%	100.0%									
Wtd Avg Eq Rents					198.9	197.9	197.3	198.4	199.8	199.2	199.8	200.4	
New Wtd Avg Eq Rents							196.1				200.0		
Linked Equipment Rents					205.3	204.3	203.7	206.1	207.6	207.0	207.6	208.0	

Summary of RCAF Corrections

	PAF	PAF-5	Before May 2014 Revisions			Corrected with May 2014 Revisions			Difference		
			RCAF Unadj.	RCAF Adj.	RCAF-5	RCAF Unadj.	RCAF Adj.	RCAF RCAF-5	RCAF Unadj.	RCAF Adj.	RCAF-5
2007Q4=100											
2012Q3	2.2815	2.4146	1.172	0.514	0.485	1.172	0.514	0.485	0.000	0.000	0.000
2012Q4	2.2861	2.4231	1.210	0.529	0.499	1.210	0.529	0.499	0.000	0.000	0.000
2012Q4=100											
2013Q1	2.2907	2.4279	0.997	0.435	0.411	0.997	0.435	0.411	0.000	0.000	0.000
2013Q2	2.2957	2.4328	1.006	0.438	0.414	1.006	0.438	0.414	0.000	0.000	0.000
2013Q3	2.3008	2.4377	0.977	0.425	0.401	0.978	0.425	0.401	0.001	0.000	0.000
2013Q4	2.3059	2.4426	0.975	0.423	0.399	0.976	0.423	0.400	0.001	0.000	0.001
2014Q1	2.3110	2.4480	0.981	0.424	0.401	0.980	0.424	0.400	-0.001	0.000	-0.001
2014Q2	2.3168	2.4534	0.975	0.421	0.397	0.975	0.421	0.397	0.000	0.000	0.000
Restated to 2012Q4=100 for comparison purposes											
2012Q3	2.2815	2.4146	0.968	0.424	0.401	0.968	0.424	0.401	0.000	0.000	0.000
2012Q4	2.2861	2.4231	1.000	0.437	0.413	1.000	0.437	0.413	0.000	0.000	0.000