ASSOCIATION OF AMERICAN RAILROADS

December 5, 2025

Rand Ghayad
Senior Vice President - Policy & Economics

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

This submission is the AAR forecast of the first quarter 2026 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2026-1) *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 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 first quarter 2026 results and compares them to the previous quarter. Both quarters are shown on a 4Q/2022=100 base.

	2025Q4	2026Q1	% Change
All-Inclusive Index	97.8	100.6	2.9
Preliminary RCAF	0.978	1.006	2.9
Forecast Error Adjustment	-0.012	0.009	
RCAF (Unadjusted)	0.966	1.015	5.1
Productivity Adjustment Factor	2.5977	2.6068	
RCAF (Adjusted)	0.372	0.389	4.6
PAF-5	2.7414	2.7510	
RCAF-5	0.352	0.369	4.8

425 Third Street, SW . Suite 1000 . Washington, DC 20024
Phone (202) 639-2319 . Fax (202) 639-2499 . rghayad@aar.org

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.

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 Pedro Ramirez, 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 provided to Mr. Ramirez's Data Collection and Auditing Team. All work papers are available for STB inspection. Questions should be directed to me or Kiara Carter (202-639-2327) of this office.

Sincerely,

Rand Ghayad

Attachments

425 Third Street, SW . Suite 1000 . Washington, DC 20024
Phone (202) 639-2319 . Fax (202) 639-2499 . rghayad@aar.org

First Quarter 2026

All - Inclusive Index

Ex Parte No. 290 (Sub-No. 5) (2026-1)

Quarterly Rail Cost Adjustment Factor
Surface Transportation Board

Policy and Economics Department
Association of American Railroads

December 5, 2025

Table of Contents

Appendices

Introduction

On January 2, 1985, the Interstate Commerce Commission (ICC) adopted the All-Inclusive Index 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 the RCAF-5, which was instituted by a Surface Transportation Board decision served October 3, 1996 in Ex Parte No. 290 (Sub-No. 7), Productivity Adjustment - Implementation. The AAR and its members do not believe the additional productivity - adjusted index is required or permitted by the applicable statute, and do not endorse its publication.

This quarter's projection of railroad costs is for the first quarter 2026. Each year's first quarter calculation utilizes new health and welfare rates, which are listed in Appendix A on page 5. New payroll tax rates and maximum taxable earnings (Tier I, Tier II, and Unemployment Insurance) also become effective January 1, and are listed on page 4 of Appendix A.

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 expense 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 2024 (current) and 2023 (previous) weights are shown below. Weights calculated from 2023 data were used for the fourth quarter of 2024 through the third quarter of 2025. Beginning with the fourth quarter of 2025, weights calculated using 2024 data are used. The component with the biggest change in weight was Labor, which increased by 2.2 percentage points. Depreciation increased by 0.9 percentage points, and Equipment Rents increased by 0.2 percentage points. Materials & Supplies decreased by 0.1 percentage points. Other decreased by 1.4 percentage points. Fuel decreased by 1.8 percentage points. Interest remained the same.

Weights for RCAF's All-Inclusive Index

	2024	2023
Labor	32.4%	30.2%
Fuel	14.6%	16.4%
Materials & Supplies	4.9%	5.0%
Equipment Rents	4.4%	4.2%
Depreciation	16.6%	15.7%
Interest	2.4%	2.4%
Other	24.7%	26.1%
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 by 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 2026

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.

	2024 Weights	Forecast		% Change
		Previous 2025Q4	Current 2026Q1	
Labor	32.4%	542.3	573.0	5.7
Fuel	14.6%	298.8	299.8	0.3
Materials & Supplies	4.9%	369.0	387.1	4.9
Equipment Rents	4.4%	301.7	301.3	-0.1
Depreciation	16.6%	242.8	242.7	0.0 [3]
Interest	2.4%	58.1	58.1	0.0
Other	24.7%	305.7	303.5	-0.7
Weighted Average				
a.1980 = 100		367.9	378.3	2.8
b.1980 = 100 (linked)		334.8	344.3 [1]	2.8
c.4Q22 = 100		97.8	100.6 [2]	2.9

---

1 Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= (378.3 / 367.9) x 334.8
= 344.3

2 To calculate the 4Q22 = 100 index:
Index4Q22 = (Current Linked Index / 4Q22 Basing Factor) * 100
= (344.3 / 342.3) x 100
= 100.6

Indexes based on other periods:
4Q17 based index = (344.3 / 264.5) x 100 = 130.2
4Q12 based index = (344.3 / 297.6) x 100 = 115.7
4Q07 based index = (344.3 / 245.9) x 100 = 140.0
4Q02 based index = (344.3 / 192.1) x 100 = 179.2
4Q97 based index = (344.3 / 173.2) x 100 = 198.8
4Q92 based index = (344.3 / 156.9) x 100 = 219.4

3 The current figure forecasted by the model is 0.0412% (rounded to 0.0%) lower than the previous quarter's forecast. See Appendix E for details.

Forecast vs. Actual All - Inclusive Index

Third Quarter 2025

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the third quarter actual index of 97.1 is 0.9 above the forecast value of 96.2. Therefore, the forecast error adjustment for first quarter 2026 is 0.9 index points (reflected as 0.009 adjustment).

	2023 Weights	Third Quarter 2025 Forecast	Third Quarter 2025 Actual	Amount Difference
Labor	30.2%	536.2	536.2	
Fuel	16.4%	276.0	310.3	
Materials & Supplies	5.0%	376.3	376.3	
Equipment Rents[1]	4.2%	298.5	294.1	
Depreciation	15.7%	239.6	241.7	
Interest	2.4%	55.0	55.0	
Other	26.1%	304.1	301.3	
Weighted Average				
a.1980 = 100		356.9	361.9	
b.1980 = 100 (linked)		329.2	332.5[2]	
c.4Q22 = 100[3]		96.2	97.1	0.9
Forecast Error	→	**0.9**	**index points**	

		2023 Weight	Third Quarter 2025 Forecast	Third Quarter 2025 Actual
1	Car Hire	67.1%	264.5	264.6
	Lease Rents	32.9%	304.1	301.3
	Weighted Average		277.5	276.7
	Weighted Average (Linked)		298.5	294.1

2 Linked Actual Index = (Actual Index / Previous Actual Index) x Previous Linked Actual Index
= (361.9 / 355.5) x 326.6
= 332.5

3 The 4Q22 based indexes are 1980 based indexes divided by the 4Q22 basing factor (342.3/100).
Other basing factors are: 4Q17 = 264.5; 4Q12 = 297.6; 4Q07 = 245.9; 4Q02 = 192.1; 4Q97 = 173.2; 4Q92 = 156.9

Productivity

On February 28, 2025, the Surface Transportation Board served a decision which proposed to adopt 1.4 percent as the geometric average productivity change for the five most recent years available. Their five year rolling geometric average calculation added the year 2023 and removed the year 2018. The components of this average annual value are shown on the following table in ratio format - therefore, 1.014 is the same as an increase of 1.4 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

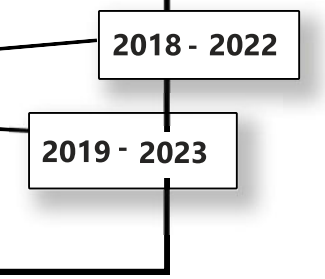
Year	Output Index (1)	Input Index (2)	Productivity Changes (3)
2019	0.968	0.961	1.007
2020	0.923	0.904	1.021
2021	1.028	0.999	1.029
2022	0.992	1.020	0.972
2023	0.995	0.956	1.040
Average			**1.014**
Previous Average (2018-2022)			**1.011**

Calculation of PAF and PAF - 5

For 2019-2023, use fourth root of avg. productivity change = 1.0035

For 2018-2022, use fourth root of avg. productivity change = 1.0027

Quarter	Year	PAF	PAF-5
Q1	2025	2.5706	2.7193
Q2	2025	2.5796	2.7266
Q3	2025	2.5886	2.7340
Q4	2025	2.5977	2.7414
Q1	2026	2.6068	2.7510



Rail Cost Adjustment Factor

First Quarter 2026

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 the 2023Q1 index, the All-Inclusive Index was rebased to a 2022Q4=100 basis as required in the applicable statute.

	Previous 2025Q4	Current 2026Q1	% Change
All-Inclusive Index [1]	97.8	100.6	2.9
Preliminary RCAF [2]	0.978	1.006	2.9
Forecast Error Adjustment [3]	-0.012	0.009	
RCAF (Unadjusted) [4]	0.966	1.015	5.1
Productivity Adjustment Factor [5]	2.5977	2.6068	
RCAF (Adjusted) [6]	0.372	0.389	4.6
PAF-5 [7]	2.7414	2.7510	
RCAF-5 [8]	0.352	0.369	4.8

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 2026

The first quarter 2026 Labor Index is 5.7% higher than the previous quarter.

Wage Rate Index:

The Wage Rate Index portion of the Labor Index increased by 1.7%.

Wage Increase:

Wages increased 1.7% compared to the prior quarter. The increase in the first quarter was primarily driven by the capture of newly ratified labor contracts, including both national and independent agreements. The agreements are structured similar to the 4% general wage increase, effective July 1, 2025. For railroads and unions which have not reached national or independent labor agreements (according to the NRLC), no wage increase has been applied.

Lump Sum:

The first quarter lump sum fell 0.8%. One amount was fully amortized and removed, and it was replaced by one new, similar amount which drove a slight decrease.

Back Pay:

The back pay remains unchanged from the prior quarter.

Other:

In wages, "Other" contains the amortization of incentive compensation payments (similar to lump sums) that one railroad makes each year to its dispatchers, yardmasters, and locomotive engineers. The first quarter rate is unchanged from the prior quarter.

Labor
First Quarter 2026

Supplements Index

The Supplements Index increased 12.3% this quarter. Health and Welfare premiums, payroll tax rates, maximum taxable earnings, and the rate for unemployment insurance, are all typically adjusted once per year, effective on January 1. All of the components of the Supplements Index increased in the first quarter.

Health & Welfare:

The Health & Welfare rate increased 25.8%. Employer premiums (the amount the employer contributes for their employees' insurance) increased for 2026. See pages 4 and 5 of this appendix for details.

Railroad Retirement:

The Railroad Retirement rate increased 2.5%. The combination of increased taxable compensation and maximum taxable earnings thresholds for Railroad Retirement's Tier I and Tier II caused an increase for 2026. Employer tax rates, however, remained constant with no modifications. Page 4 of this appendix lists tax rates and maximum taxable earnings for 2024 through 2026.

***Unemployment Insurance*:**

The Unemployment Insurance rate increased 3.5% or $0.003 cents, which remains relatively unchanged. Effective January 1, the weighted average Class I railroad rate for 2026 is 0.65%, which remains unchanged from 2025. Basic tax rates can range from a minimum of 0.65% to a maximum of 12%, with no surcharge applied to the rate for 2026. Page 4 of this appendix lists tax rates for 2024 through 2026.

Other:

The first quarter rate is 24.2% higher than last quarter. 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.

Labor Index Calculation

As shown in Table A-1 on the next page, the 1.7% increase in the Wage Rate Index and the 12.3% increase in the Supplements Index combined to cause the Labor Index to be 5.7% higher than the previous quarter. The linked first quarter 2026 Labor index is 573.0, which is 7.6% higher than one year ago.

Labor

First Quarter 2026

Table A-1 Labor Index

	2025Q4	2026Q1	Change Percent	Change Amount
Base Wage [1]	$56.407	$57.354	1.7%	$0.947
Adjustments:				
Lump Sum	$0.246	$0.244	-0.8%	-$0.002
Back Pay	$0.000	$0.000		$0.000
Other	$0.137	$0.137	0.0%	$0.000
Total Wages	**$56.790**	**$57.735**	**1.7%**	**$0.945**
Health & Welfare Benefits	$8.602	$10.823	25.8%	$2.221
RR Retirement & Medicare	$11.955	$12.252	2.5%	$0.297
Unemployment Insurance	$0.085	$0.088	3.5%	$0.003
Other	$0.194	$0.241	24.2%	$0.047
Total Supplements	**$20.836**	**$23.404**	**12.3%**	**$2.568**
Total Labor (as info only)	$77.63	$81.14		
Wage Rate Index [2]	486.0	494.1	1.7%	
Supplements Index [3]	770.0	864.9	12.3%	
Total labor Index, 2024 Weights [4]	564.4	596.4	5.7%	
Labor Index (Linked) [5]	**542.3**	**573.0**	**5.7%**	

1. Base wage: Straight Time & Pay For Time Not Worked
2. 1980 wage rate: $11.685
3. 1980 supplements rate: $2.706
4. 2024 weights: 72.4% (Wage), 27.6% (Supplements)
5. 2026Q1 linked index = 2025Q4 linked x (2026Q1 / 2025Q4) = 542.3 x (596.4 / 564.4)

Labor

First Quarter 2026

Supplement Comparisons

Health and Welfare Rates	Railroad Payment Per Employee Per Month			% Change	
	2024	2025	2026	'24 - '25	'25 - '26
Group Health & Welfare	$1,972.43	$1,773.58	$1,965.04	-10.1%	10.8%
Early Retirement Major Medical	$48.95	$33.15	$48.63	-32.3%	46.7%
Group Dental	$69.15	$55.38	$69.15	-19.9%	24.9%
Group Vision	$8.56	$10.06	$11.15	17.5%	10.8%
Supplemental Sickness					
a. Maintenance of Way	$30.00	$32.19	$35.10	7.3%	9.0%
b. Shop Crafts	$50.00	$56.19	$39.80	12.4%	-29.2%
c. Signalmen	$30.00	$35.60	$65.01	18.7%	82.6%
d. Yardmasters	$61.75	$81.10	$67.18	31.3%	-17.2%

Railroad Retirement and Medicare

	Earnings Base				Employer Rate		
	2024	2025	2026		2024	2025	2026
Tier I	$168,600	$176,100	$184,500	Tier I	6.2%	6.2%	6.2%
Tier II	$125,100	$130,800	$137,100	Tier II	13.1%	13.1%	13.1%
Medicare	no limit	no limit	no limit	Medicare	1.5%	1.5%	1.5%

Unemployment Insurance

Monthly Taxable Earning Base			Weighted Avg. Class 1 Rate		
2024	2025	2026	2024	2025	2026
$1,985	$2,065	$2,150	0.66%	0.65%	0.65%

Labor

First Quarter 2026

NATIONAL RAILWAY LABOR CONFERENCE
EMPLOYEE BENEFITS DEPARTMENT
251 – 18th Street, South, Suite 750, Arlington, VA 22202 ~~~ PHONE: (571) 336-7600

Eureka Norment
National Health Plan Sr. Manager
(571) 336-7629
enorment@rrnrlc.org

Paul Winters
Director of Benefits
(571) 336-7623
pwinters@rrnrlc.org

Ryan Rabac
National Communications Manager
(571) 336-7625
rrabac@rrnrlc.org

November 7, 2025

Ms. Kiara Carter
Director, Financial Reporting
Association of American Railroads
425 Third Street, SW, Suite 1000
Washington, D.C. 20024

Dear Ms. Carter:

The revised employer monthly Payment Rates which are effective January 1, 2026 are as follows:

Railroad Employees National Health & Welfare Plan & SMART-TD H&W Plan	
Non-Hospital Road	$1,965.04
Railroad Employees National Early Retirement Major Medical Benefit Plan	
Non-Hospital Road	$ 48.63
Aetna - National Dental Plan	$ 69.15
The Hartford - Supplemental Sickness Plans	
Shop Craft	$ 65.01
Signalmen	$ 39.80
Maintenance of Way	$ 35.10
Trustmark - Supplemental Sickness Plans	
Yardmasters	$ 67.18
EyeMed - National Vision Plan	$ 11.15

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

Very truly yours,

Eureka Norment

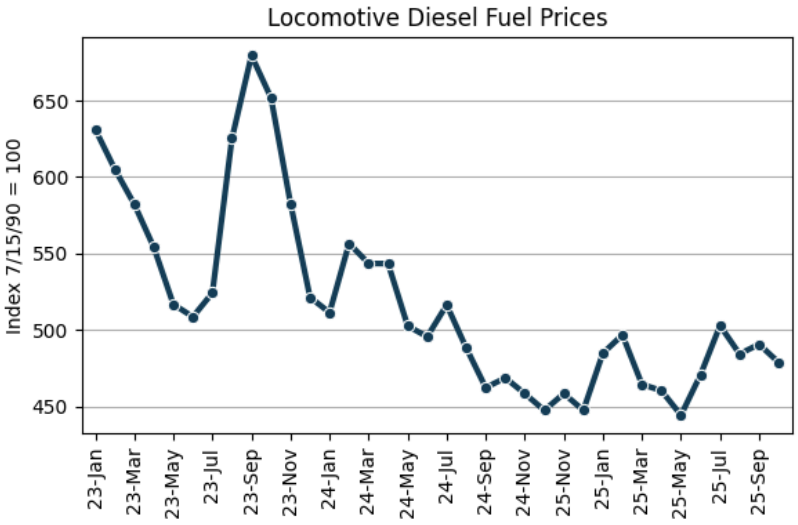
cc: Data@aar.org

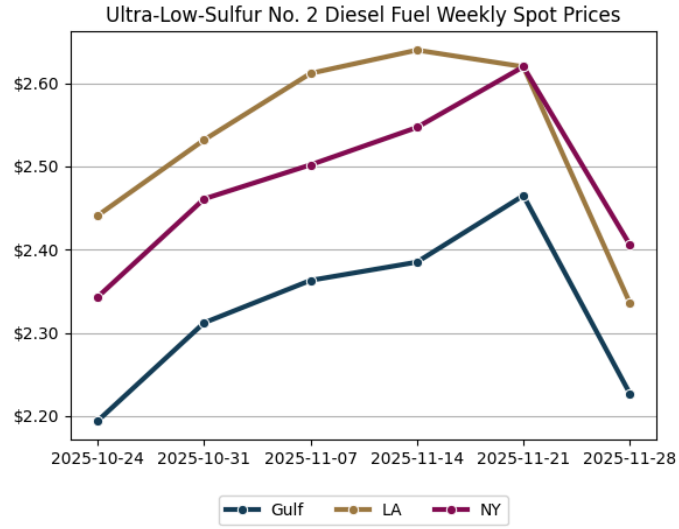
Fuel

First Quarter 2026

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 expensed is used to represent each quarter.

The average locomotive diesel fuel price hit a peak point in September 2023, but has trended down since then, and reached a trough in May 2025. While average prices for locomotive diesel fuel are available only through October 2025, data through four weeks of November are available for related fuel types. According to the Energy Information Administration, the daily spot price as of December 1st for Ultra-Low-Sulfur No. 2 Diesel Fuel* is an average of 6.8% lower than the average for November. The chart below (on left) shows the AAR's Monthly Locomotive Diesel Fuel Price Index through October 2025. The second chart (on right) shows recent spot prices for Ultra-Low-Sulfur No. 2 Diesel Fuel as reported by the Energy Information Administration.





Using information from the EIA, prices towards the end of November are lower than prices that actually occurred in October. Railroads that responded to the AAR's forecast survey expect prices to increase by January (Q1) compared to prices that actually occurred for October (Q4). The first quarter 2026 forecast is 0.3% higher than the previous quarter forecast, and 1.5% higher than the prior quarter actual.

Forecast Fuel Index (1980=100)	299.8
Change from previous quarter forecast	0.3 %
Change from previous quarter actual	1.5 %

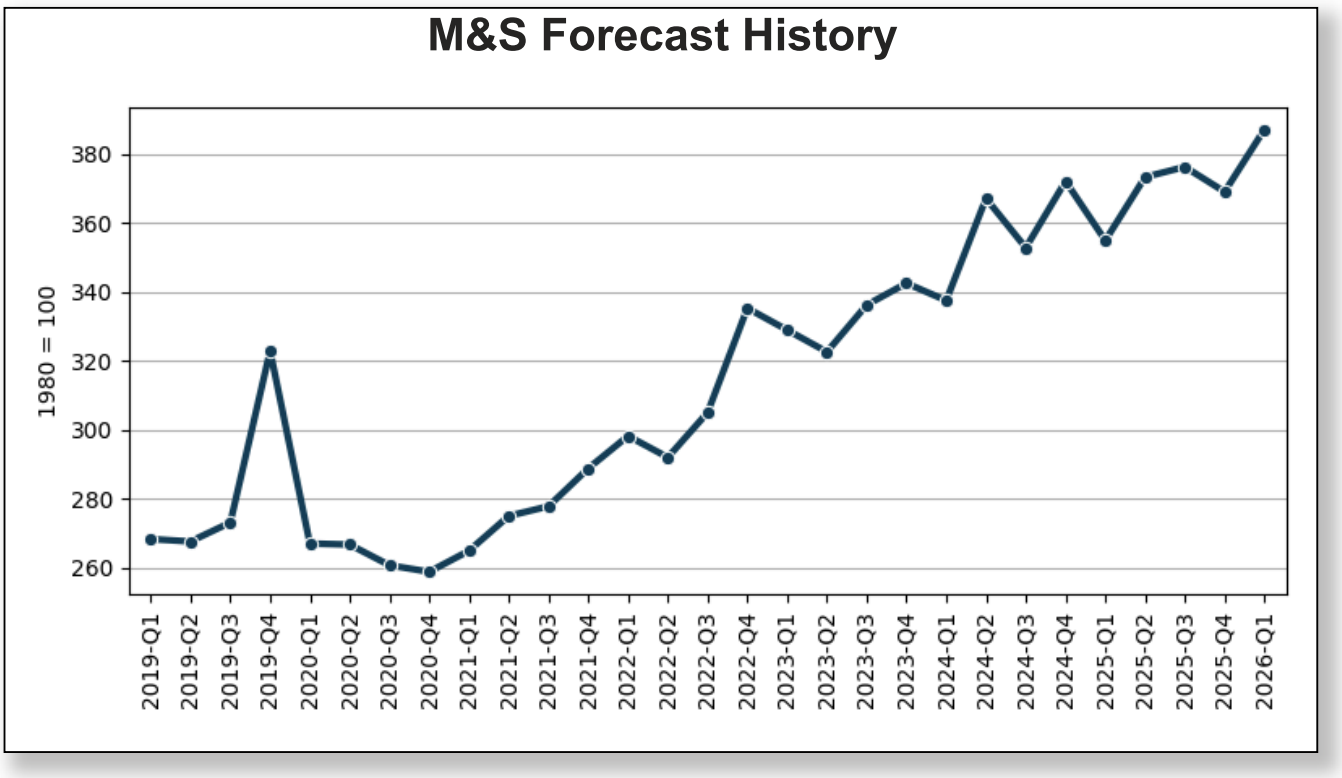
* Heating oil, Ultra-Low-Sulfur No. 2 Diesel Fuel, and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

Materials & Supplies

First Quarter 2026

The first quarter 2026 Materials & Supplies Index increased 4.9% from the previous quarter. Prices increased for Metal and Miscellaneous Products.

2026Q1	Materials & Supplies Index =	387.1	
2025Q4	Materials & Supplies Index =	369.0	
	Basis Points Difference	18.1	basis points
	Percentage Difference	4.9%	



Equipment Rents

First Quarter 2026

The Equipment Rents Index consists of two components – car hire and lease rentals. The methodologies 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 data available. For the first quarter, December 1 of the previous year is typically used. For the second, third, and fourth quarters, March 1, June 1, and September 1 are usually used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into four car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter, and weighted, 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 Interstate Commerce 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 Rents Index. The first quarter Car Hire portion of the Index increased 0.1% as the latest rates for privately-owned cars were higher compared to three months ago. A 0.7% decrease in the projected PPI-LF (See Appendix G) used as a proxy for Lease Rentals, combined with the 0.1% increase for Car Hire, caused the Equipment Rents Index to decrease by 0.1326% – rounded to 0.1% in the table below.

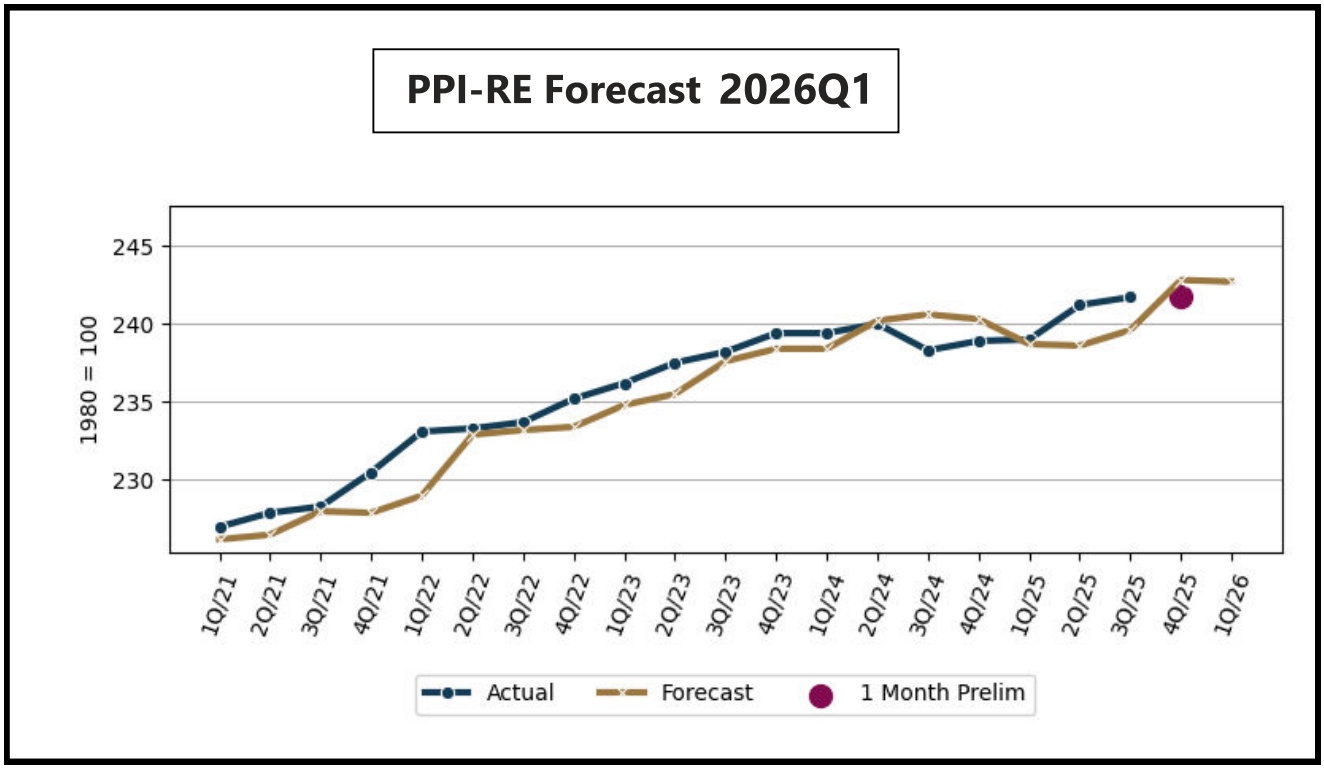
Component	2024 Weights	2025Q4	2026Q1	% Change
Car Hire	68.2%	268.2	268.6	0.1
Lease Rents	31.8%	305.7	303.5	-0.7
Weighted Average		280.1	279.7	-0.1
Weighted Average (Linked)		301.7	301.3	-0.1

Depreciation

First Quarter 2026

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 is 0.0412% (rounded to 0.0%) lower than the previous quarter's forecast.

Forecast of Depreciation Index (1982 = 100)	219.4
Forecast of Depreciation Index (1980 = 100)	242.7
Change from previous quarter forecast	0.0%
Change from actual first month of previous quarter	0.4%
Change from same quarter of prior year (actual)	1.5%



Depreciation

First Quarter 2026

Expert Analysis

Using rule-based logic I have narrowed down the choice to exponential smoothing or Box-Jenkins. I will perform an out-of-sample test to select between these two approaches.

The cumulative MAD for Exponential smoothing was 1.04 and for Box-Jenkins was 1.49. The rolling out-of-sample test used a maximum horizon of 12 and generated 78 forecasts for each method.

Based on the lower MAD, I will use Exponential Smoothing.

Model Details(Expert Selection)

Holt exponential smoothing: Linear trend, No seasonality
LN(0.847, 0.018)

Component	Smoothing Wgt	Final Value
Level	0.8472	218.6
Trend	0.01844	0.1897

Within-Sample Statistics

Sample size	72.00	No. parameters	2
Mean	211.26	Std. deviation	5.12
R-square	0.99	Adj. R-square	0.99
Durbin-Watson	1.98	Ljung-Box(18)	10.6 P=0.09
Forecast error	0.62	BIC	0.65
MAPE	0.15	SMAPE	0.15
RMSE	0.61	MAD	0.32

Actual Values for the Most Recent 6 Periods

2025-Apr	216.0
2025-May	219.2
2025-Jun	218.6
2025-Jul	218.6
2025-Aug	218.3
2025-Sep	218.6

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2025-Oct	217.521	218.785	220.050
2025-Nov	217.305	218.975	220.645
2025-Dec	217.170	219.165	221.159
2026-Jan	217.081	219.355	221.628
2026-Feb	217.023	219.544	222.066
Qtr Avg	**217.091**	**219.355**	**221.618**

Interest

First Quarter 2026

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 finalized. The source data are from a summary of the annual reports (Form R-1) submitted by each of the Class I railroads. Although the data set is received at the end of March, it is not used until the September filing. This enables data to be entered into a database and reviewed – and any revisions made, if necessary, before the data are used in the Index. The current Interest Index is based on 2024 data, and was updated in the Q4 filing submitted in September 2025. The Interest Index based on 2024 increased from 55.0 in 2023 to 58.1 in 2024.

The R-1 source for interest expense is Schedule 210, column b. The lines currently used are listed below. The source for average total debt is Schedule 200. 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 listed below account for the line number changes effective beginning with the 2016 annual report.

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	
29	Current Liabilities, Loans and Notes Payable
38	Equipment Obligations and Other Long Term Debt Due Within One Year
40	Non-Current Liabilities: Funded Debt Unmatured
41	Non-Current Liabilities: Equipment Obligations
42	Non-Current Liabilities: Capitalized Lease Obligations
43	Non-Current Liabilities: Debt in Default
44	Non-Current Liabilities: Accounts Payable: Affiliated Companies
45	Non-Current Liabilities: Unamortized Debt Premium

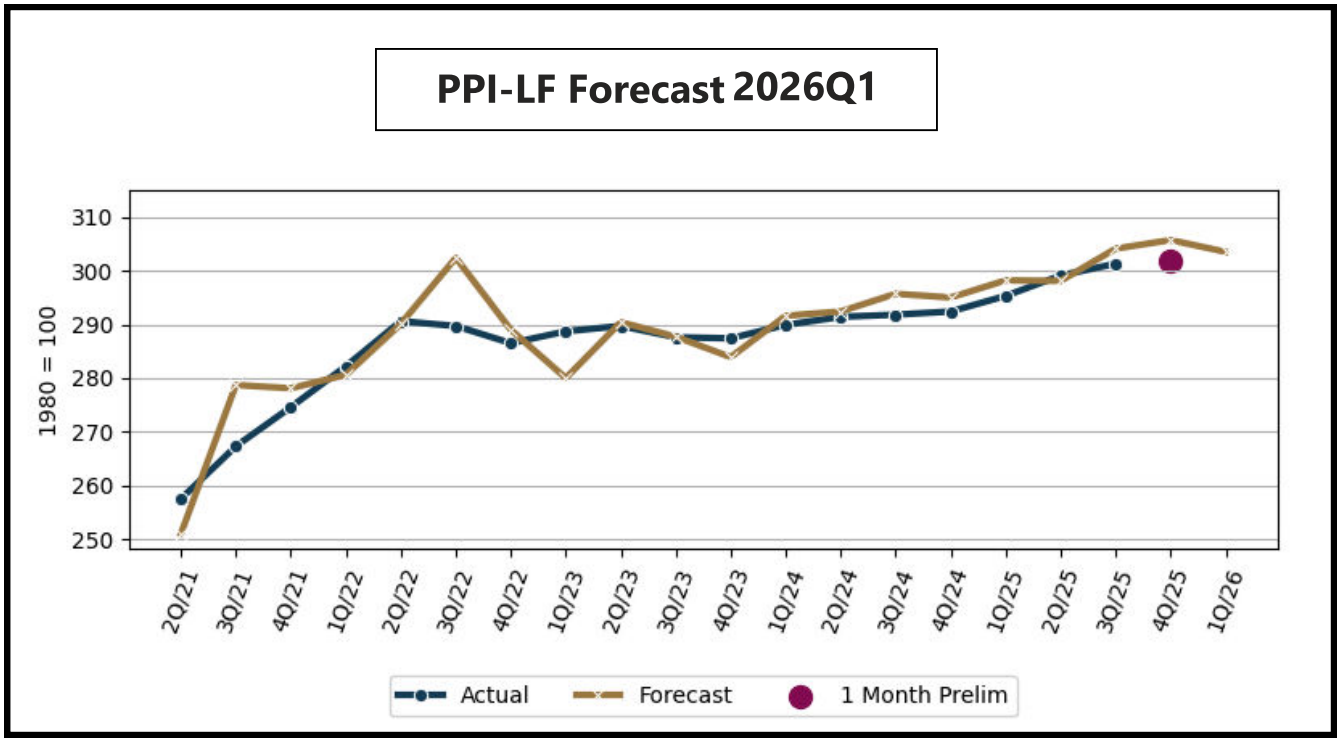
2024	Interest Rate	4.56%
1980	Interest Rate	7.85%
2025Q4	Interest Index	58.1
2026Q1	Interest Index	58.1
	Percent Change	0.00%

Other Expenses

First Quarter 2026

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. The figure forecast by the model is 0.7197% (rounded to 0.7%) lower than the previous quarter's forecast.

Forecast of Other Index (1982 = 100)	270.7
Forecast of Other Index (1980 = 100)	303.5
Change from previous quarter forecast	-0.7%
Change from actual first month of previous quarter	0.6%
Change from same quarter of prior year (actual)	2.8%



Other Expenses

First Quarter 2026

Expert Analysis

Using rule-based logic I have narrowed down the choice to exponential smoothing or Box-Jenkins. I will perform an out-of-sample test to select between these two approaches.

The cumulative MAD for Exponential smoothing was 3.27 and for Box-Jenkins was 5.17. The rolling out-of-sample test used a maximum horizon of 12 and generated 78 forecasts for each method.

Based on the lower MAD, I will use Exponential Smoothing.

Model Details(Expert Selection)

Multiplicative Winters: Linear trend, Multiplicative seasonality
LM(0.930, 1.000, 0.618)
Confidence limits proportional to indexes

Component	Smoothing Wgt	Final Value
Level	0.9297	269.3
Trend	0.9999	0.3565

Within-Sample Statistics

Sample size	72.00	No. parameters	3
Mean	244.14	Std. deviation	22.19
R-square	1.00	Adj. R-square	1
Durbin-Watson	1.93	Ljung-Box(18)	27.1 P=0.92
Forecast error	0.89	BIC	0.95
MAPE	0.28	SMAPE	0.28
RMSE	0.87	MAD	0.68

Actual Values for the Most Recent 6 Periods

2025-Apr	266.1
2025-May	267.1
2025-Jun	267.3
2025-Jul	268.2
2025-Aug	268.9
2025-Sep	269.2

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2025-Oct	267.935	269.807	271.678
2025-Nov	266.365	270.316	274.267
2025-Dec	265.011	270.275	275.540
2026-Jan	264.743	271.052	277.362
2026-Feb	263.714	270.919	278.124
Qtr Avg	**264.489**	**270.749**	**277.009**

Abbreviation

First Quarter 2026

Railroads

BLE	Bessemer & Lake Erie Railroad (Part of CN's Grand Trunk Corporation)
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 (Part of Canadian Pacific's U.S. operations, included beginning 2011Q4)
DME	Dakota, Minnesota & Eastern (Part of Canadian Pacific's U.S. operations, included beginning 2011Q4)
CMQ	Central Maine & Quebec (Part of Canadian Pacific's U.S. operations, included beginning 2021Q4)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corporation)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corporation)
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 part of Canadian Pacific's U.S. operations)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corporation)

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
SMART-TD	International Association of Sheet Metal, Air, Rail, and Transportation Workers - Transportation Division*
SMART-MD	International Association of Sheet Metal, Air, Rail, and Transportation Workers - Mechanical Division**
TCU	Transportation Communication International Union
TCU-Carmen	Brotherhood of Railway Carmen Division of the Transportation Communications International Union

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)
SMWIA	Sheet Metal Workers' International Association (see SMART-MD)
UTU	United Transportation Union (merged into SMART)
UTU-YDMSTRS	United Transportation Union Yardmaster Department (see SMART-TD)

* Represents employees formerly represented by the UTU (conductors and brakemen) and also has a separate yardmasters department.
** Represents employees formerly represented by the SMW (steel workers).
*** Represents legacy CP and KCS prior to the CPKC merger.