



March 5, 2026

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The Honorable Cynthia T. Brown
 Chief, Section of Administration
 Office of Proceedings
 Surface Transportation Board
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This submission is the AAR forecast of the second quarter 2026 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2026-2) 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 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 second quarter 2026 results and compares them to the previous quarter. Both quarters are shown on a 4Q/2022=100 base.

	<u>2026Q1</u>	<u>2026Q2</u>	<u>% Change</u>
All-Inclusive Index	100.6	102.2	1.6
Preliminary RCAF	1.006	1.022	1.6
Forecast Error Adjustment	0.009	-0.006	
RCAF (Unadjusted)	1.015	1.016	0.1
Productivity Adjustment Factor ¹	2.6068	2.6159	
RCAF (Adjusted) ¹	0.389	0.388	-0.3
PAF-5 ¹	2.7510	2.7606	
RCAF-5 ¹	0.369	0.368	-0.3

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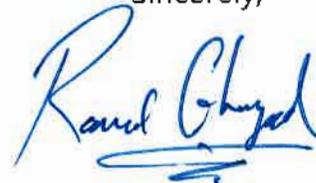
¹ The productivity adjustment factor used in this filing reflects the most recently released productivity decision from the Surface Transportation Board. Because an updated productivity adjustment has not yet been issued by the Board, the prior decision has been carried forward consistent with direct guidance received from Board staff on March 4, 2026.

March 5, 2026

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 Laura Schneider, 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 the 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,

A handwritten signature in blue ink that reads "Rand Ghayad". The signature is written in a cursive style with a horizontal line underneath the name.

Rand Ghayad

Attachments

**Second Quarter 2026
All - Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2026-2)

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

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

March 5, 2026

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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 Second Quarter 2026. The productivity adjustment factor used in this filing reflects the most recently released productivity decision from the Surface Transportation Board. Because an updated productivity adjustment has not yet been issued by the Board, the prior decision has been carried forward consistent with direct guidance received from Board staff on March 4, 2026.

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%

Reweightings 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

Second 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 2026Q1	Current 2026Q2	
Labor	32.4%	573.0	575.6	0.5
Fuel	14.6%	299.8	304.3	1.5
Materials & Supplies	4.9%	387.1	389.2	0.5
Equipment Rents	4.4%	301.3	304.6	1.1
Depreciation	16.6%	242.7	243.5	0.3
Interest	2.4%	58.1	58.1	0.0
Other	24.7%	303.5	320.2	5.5
Weighted Average				
a.1980 = 100		378.3	384.3	1.6
b.1980 = 100 (linked)		344.3	349.8 ¹	1.6
c.4Q22 = 100		100.6	102.2 ²	1.6

1 Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
 = (384.3 / 378.3) x 344.3
 = 349.8

2 To calculate the 4Q22 = 100 index:
 Index4Q22 = (Current Linked Index / 4Q22 Basing Factor) * 100
 = (349.8 / 342.3) x 100
 = 102.2

Indexes based on other periods:

4Q17 based index = (349.8 / 264.5) x 100 = 132.2

4Q12 based index = (349.8 / 297.6) x 100 = 117.5

4Q07 based index = (349.8 / 245.9) x 100 = 142.3

4Q02 based index = (349.8 / 192.1) x 100 = 182.1

4Q97 based index = (349.8 / 173.2) x 100 = 202.0

4Q92 based index = (349.8 / 156.9) x 100 = 222.9

Forecast vs. Actual All - Inclusive Index Fourth Quarter 2025

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the fourth quarter actual index of 97.2 is 0.6 below the forecast value of 97.8. Therefore, the forecast error adjustment for second quarter 2026 is -0.6 index points (reflected as -0.006 adjustment).

	2024 Weights	Fourth Quarter 2025		Amount Difference
		Forecast	Actual	
Labor	32.4%	542.3	542.3	
Fuel	14.6%	298.8	295.4	
Materials & Supplies	4.9%	369.0	369.0	
Equipment Rents ¹	4.4%	301.7	297.8	
Depreciation	16.6%	242.8	241.5	
Interest	2.4%	58.1	58.1	
Other	24.7%	305.7	304.1	
Weighted Average				
a.1980 = 100		367.9	366.6	
b.1980 = 100 (linked)		334.8	332.8 ²	
c.4Q22 = 100 ³		97.8	97.2	-0.6
Forecast Error		→ -0.6 index points		

	2024 Weight	Fourth Quarter 2025	
		Forecast	Actual
1 Car Hire	68.2%	268.2	268.4
Lease Rents	31.8%	305.7	304.1
Weighted Average		280.1	279.8
Weighted Average (Linked)		301.7	297.8

² Linked Actual Index = (Actual Index / Previous Actual Index) x Previous Linked Actual Index
= (366.6 / 366.3) x 332.5
= 332.8

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% 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%. 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.

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

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
Q2	2026	2.6159	2.7606

2018 - 2022

2019 - 2023

Rail Cost Adjustment Factor

Second 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 2026Q1	Current 2026Q2	% Change
All-Inclusive Index ¹	100.6	102.2	1.6
Preliminary RCAF ²	1.006	1.022	1.6
Forecast Error Adjustment ³	0.009	-0.006	
RCAF (Unadjusted) ⁴	1.015	1.016	0.1
Productivity Adjustment Factor ⁵	2.6068	2.6159	
RCAF (Adjusted) ⁶	0.389	0.388	-0.3
PAF-5 ⁷	2.7510	2.7606	
RCAF-5 ⁸	0.369	0.368	-0.3

1 See All-Inclusive Index on page 3.

2 All-Inclusive Index divided by the All-Inclusive Index in the base period (100.0).

3 The current figure is from Forecast vs. Actual All-Inclusive Index in this filing (page 4). The previous quarter figure is shown in a similar section of the previous quarter's filing.

4 Preliminary RCAF plus the forecast error adjustment.

5 See Productivity on page 5.

6 RCAF (Unadjusted) divided by the Productivity Adjustment Factor (PAF).

7 See Productivity on page 5.

8 RCAF (Unadjusted) divided by the PAF-5.

Note: The productivity adjustment factor used in this filing reflects the most recently released productivity decision from the Surface Transportation Board. Because an updated productivity adjustment has not yet been issued by the Board, the prior decision has been carried forward consistent with direct guidance received from Board staff on March 4, 2026.

Appendixes

Labor

Second Quarter 2026

The second quarter 2026 Labor Index is 0.5% higher than the previous quarter.

Wage Rate Index:

The Wage Rate Index portion of the Labor Index increased by 0.7%.

Wage Increase:

Wages increased 0.4% compared to the prior quarter. The increase in the second quarter was primarily driven by the capture of newly ratified labor contracts, including both national and independent agreements. The agreements are structured similar to previously ratified contracts, with 4% general wage increases effective July 1, 2025 and includes retroactive pay. 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 second quarter lump sum increased by 6.1%. Fully amortized payments were removed and replaced with new lump sum amounts. These new lump sum payments were higher, due to higher wages than last year.

Back Pay:

The back pay increased from \$0.0 to \$0.147. Retroactive wage increases from newly ratified contracts resulted in an increase in the back pay rate. As always, back pay amounts will be removed from the index after they have been amortized for four quarters. Index procedure, decided by the Interstate Commerce Commission in 1988, is to amortize lump sums and/or back pay over four quarters using the rates for 13-week (a.k.a. 3-month) U.S. Treasury bills.

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 second quarter rate is unchanged from the prior quarter.

Labor

Second Quarter 2026

Supplements Index

The Supplements Index increased 0.1% 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.

Health & Welfare:

The Health & Welfare rate was essentially flat with zero percent change. There was an update to employee contributions for independent contacts which caused an insignificant increase.

Railroad Retirement:

The Railroad Retirement rate increased 0.5%. This increase is driven by slightly higher taxable wages.

Unemployment Insurance:

The Unemployment Insurance stayed unchanged in the second quarter 2026.

Other:

The second quarter rate is 19.1% lower 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 0.7% increase in the Wage Rate Index and the 0.1% increase in the Supplements Index combined to cause the Labor Index to be 0.5% higher than the previous quarter. The linked second quarter 2026 Labor index is 575.6, which is 8.2% higher than one year ago.

Labor
Second Quarter 2026
Table A-1 Labor Index

	2026Q1	2026Q2	Change	
			Percent	Amount
Base Wage ¹	\$57.354	\$57.604	0.4%	\$0.250
Adjustments:				
Lump Sum	\$0.244	\$0.259	6.1%	\$0.015
Back Pay	\$0.000	\$0.147		\$0.147
Other	\$0.137	\$0.137	0.0%	\$0.000
Total Wages	\$57.735	\$58.147	0.7%	\$0.412
Health & Welfare Benefits	\$10.823	\$10.822	-0.0%	-\$0.001
RR Retirement & Medicare	\$12.252	\$12.313	0.5%	\$0.061
Unemployment Insurance	\$0.088	\$0.088	0.0%	\$0.000
Other	\$0.241	\$0.195	-19.1%	-\$0.046
Total Supplements	\$23.404	\$23.418	0.1%	\$0.014
Total Labor (as info only)	\$81.14	\$81.57		
Wage Rate Index ²	494.1	497.6	0.7%	
Supplements Index ³	864.9	865.4	0.1%	
Total labor Index, 2024 Weights ⁴	596.4	599.1	0.5%	
Labor Index (Linked) ⁵	573.0	575.6	0.5%	

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)

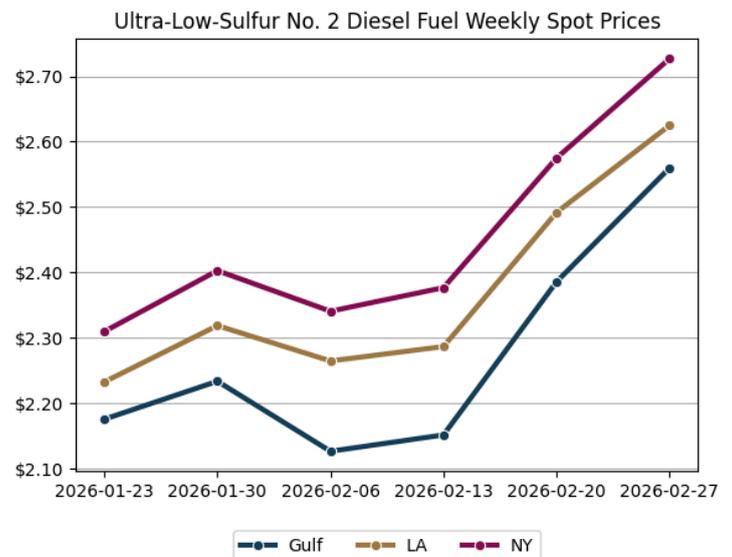
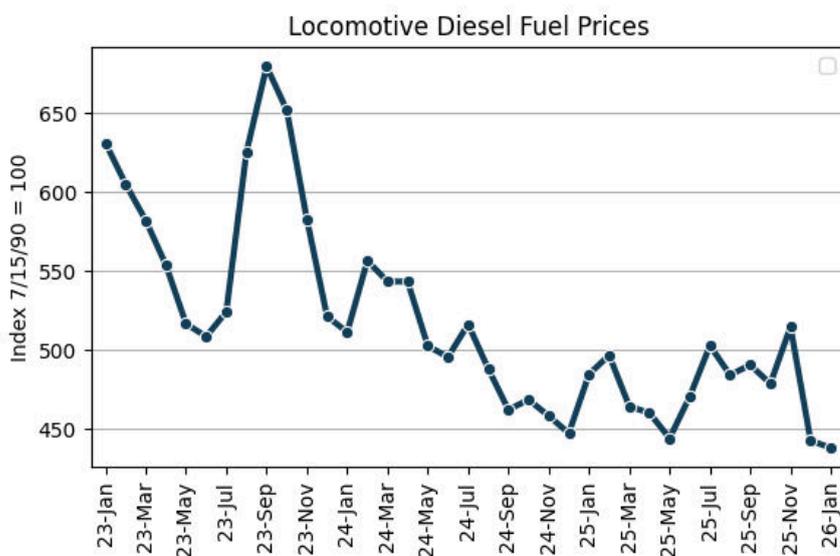
5. 2026Q2 linked index = 2026Q1 linked x (2026Q2 / 2026Q1) = 573.0 x (599.1 / 596.4)

Fuel

Second 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. While average prices for locomotive diesel fuel are available only through January 2026, data through four weeks of February are available for related fuel types. According to the Energy Information Administration, the daily spot price as of March 2nd for Ultra-Low-Sulfur No. 2 Diesel Fuel* is an average of 20.4% higher than the average for February. The chart below (on left) shows the AAR's Monthly Locomotive Diesel Fuel Price Index through January 2026. 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 toward the end of February are higher than prices that actually occurred in January. Railroads that responded to the AAR's forecast survey expect prices to increase by April (Q2) compared to prices that actually occurred for January (Q1). The second quarter 2026 forecast is 1.5% higher than the previous quarter forecast, and 12.5% higher than the prior quarter actual.

Forecast Fuel Index (1980=100)	304.3
Change from previous quarter forecast	1.5 %
Change from previous quarter actual	12.5 %

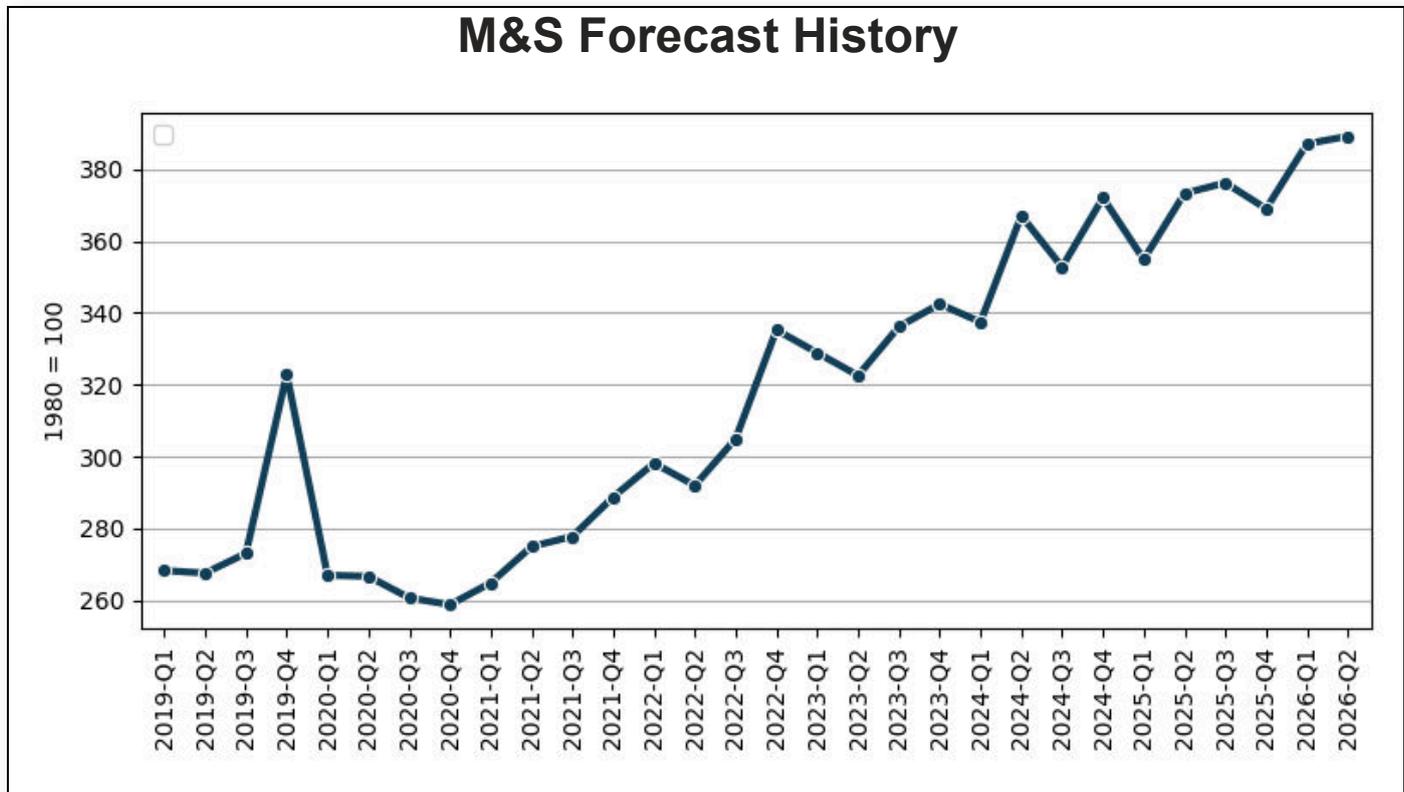
* Heating oil, Ultra-Low-Sulfur No. 2 Diesel Fuel, and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

Materials & Supplies

Second Quarter 2026

The second quarter 2026 Materials & Supplies Index increased 0.5% from the previous quarter. Prices increased for Forest and Metal Products. Prices decreased for Miscellaneous Products.

2026Q2	Materials & Supplies Index =	389.2
2026Q1	Materials & Supplies Index =	387.1
Basis Points Difference		2.1 basis points
Percentage Difference		0.5%



Equipment Rents

Second 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:

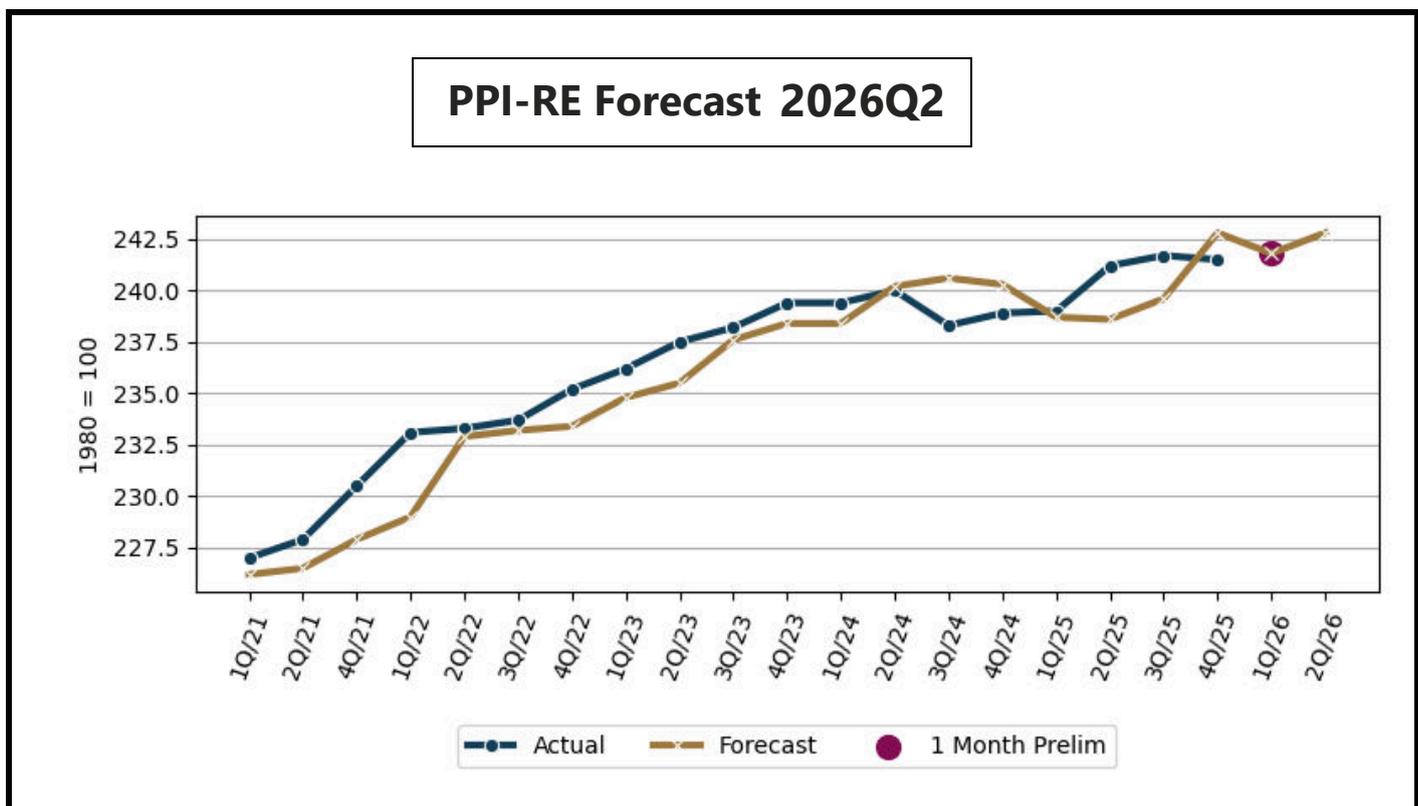
The table below calculates the Equipment Rents Index. The second quarter Car Hire portion of the Index decreased 1.2% as the latest rates for privately-owned cars were lower compared to three months ago. A 5.5% increase in the projected PPI-LF (See Appendix G) used as a proxy for Lease Rentals, combined with the 1.2% decrease for Car Hire, caused the Equipment Rents Index to increase by 1.095% – rounded to 1.1% in the table below.

Component	2024 Weights	2026Q1	2026Q2	% Change
Car Hire	68.2%	268.6	265.4	-1.2
Lease Rents	31.8%	303.5	320.2	5.5
Weighted Average		279.7	282.8	1.1
Weighted Average (Linked)		301.3	304.6	1.1

Depreciation Second 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 0.3296% (rounded to 0.3%) higher than the previous quarter's forecast.

Forecast of Depreciation Index (1982 = 100)	220.1
Forecast of Depreciation Index (1980 = 100)	243.5
<hr/>	
Change from previous quarter forecast	0.3 %
Change from actual first month of previous quarter	0.3 %
Change from same quarter of prior year (actual)	1.0 %



Depreciation

Second 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 1.12 and for Box-Jenkins was 1.42. 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(0.854, 0.018)

Component	Smoothing Wgt	Final Value
Level	0.8538	219.4
Trend	0.01794	0.1911

Within-Sample Statistics

Sample size	72.00	No. parameters	2
Mean	212.06	Std. deviation	5.05
R-square	0.98	Adj. R-square	0.98
Durbin-Watson	1.95	Ljung-Box(18)	15.1 P=0.34
Forecast error	0.63	BIC	0.66
MAPE	0.16	SMAPE	0.16
RMSE	0.62	MAD	0.34

Actual Values for the Most Recent 6 Periods

2025-Aug	218.3
2025-Sep	218.3
2025-Oct	218.2
2025-Nov	218.3
2025-Dec	218.3
2026-Jan	219.5

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2026-Feb	218.254	219.546	220.837
2026-Mar	218.026	219.737	221.447
2026-Apr	217.882	219.928	221.974
2026-May	217.785	220.119	222.452
2026-Jun	217.720	220.310	222.899
Qtr Avg	217.796	220.119	222.442

Interest

Second 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

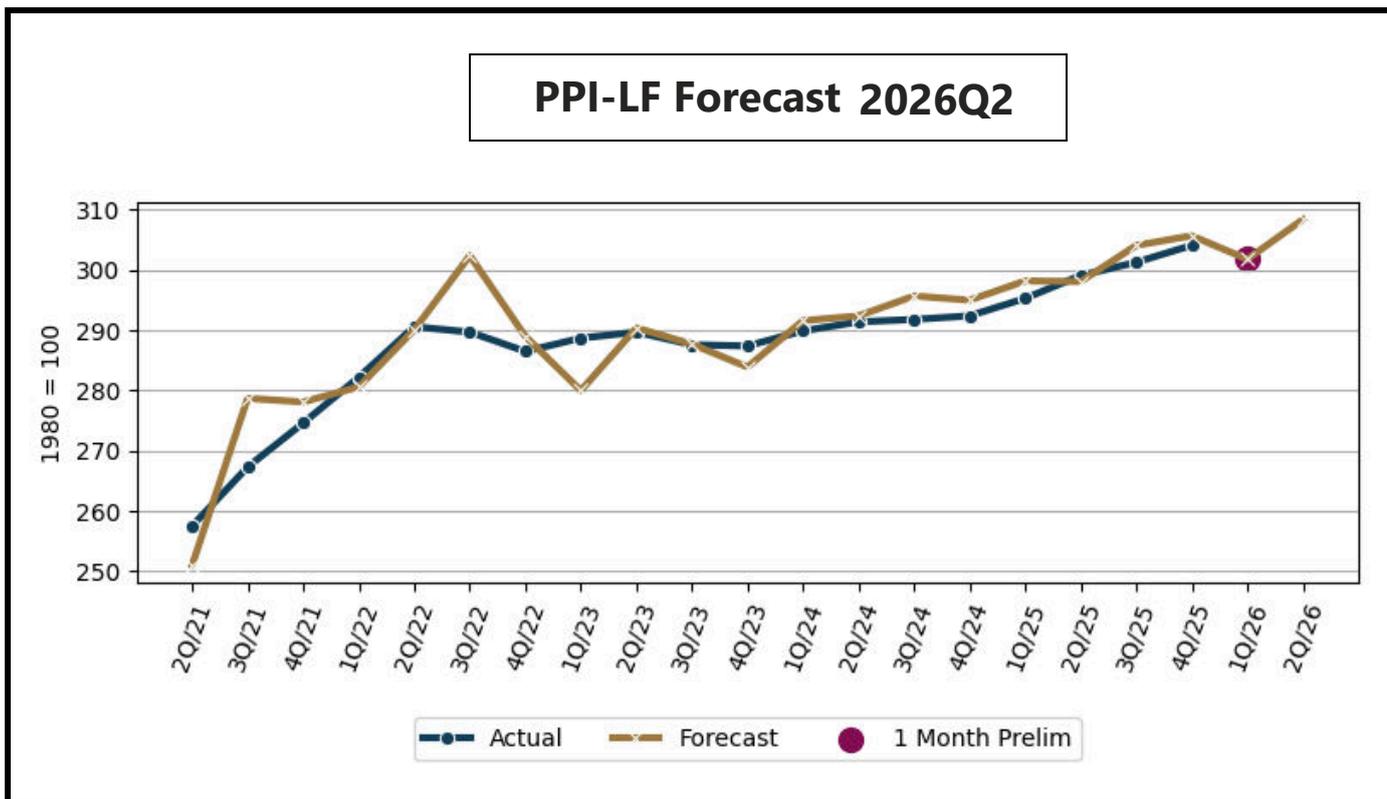
- 29 Current Liabilities, Loans and Notes Payable
- 38 Equipment Obligations and Other Long Term Debt Due Within One Year
- 40 Non-Current Liabilities: Funded Debt Unmatured
- 41 Non-Current Liabilities: Equipment Obligations
- 42 Non-Current Liabilities: Capitalized Lease Obligations
- 43 Non-Current 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%
2026Q1	Interest Index	58.1
2026Q2	Interest Index	58.1
	Percent Change	0.00%

Other Expenses Second 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 5.5025% (rounded to 5.5%) higher than the previous quarter's forecast.

Forecast of Other Index (1982 = 100)	285.6
Forecast of Other Index (1980 = 100)	320.2
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Change from previous quarter forecast	5.5 %
Change from actual first month of previous quarter	3.8 %
Change from same quarter of prior year (actual)	7.1 %



Other Expenses

Second 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 2.25 and for Box-Jenkins was 1.72. 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 Box-Jenkins.

Model Details(Expert Selection)

Box-Jenkins

ARIMA(0, 2, 0)*(0, 0, 1)

Term	Coefficient	Std. Error	t-Statistic	Significance
B[12]	-0.8498	0.04758	-17.86	1

Within-Sample Statistics

Sample size	72.00	No. parameters	1
Mean	247.78	Std. deviation	21.08
R-square	1.00	Adj. R-square	1
Durbin-Watson	2.53	Ljung-Box(18)	21.6 P=0.75
Forecast error	0.76	BIC	0.77
MAPE	0.24	SMAPE	0.24
RMSE	0.75	MAD	0.59

Actual Values for the Most Recent 6 Periods

2025-Aug	269.0
2025-Sep	269.2
2025-Oct	270.5
2025-Nov	270.9
2025-Dec	272.5
2026-Jan	275.1

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2026-Feb	276.143	277.637	279.130
2026-Mar	277.480	280.820	284.159
2026-Apr	277.743	283.331	288.920
2026-May	277.457	285.637	293.818
2026-Jun	276.746	287.823	298.900
Qtr Avg	277.315	285.597	293.879

Abbreviation

Second 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 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
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.