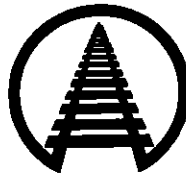


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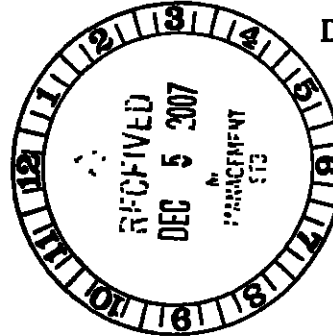
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ASSOCIATION
OF AMERICAN
RAILROADS

Craig F. Rockey
Vice President - Policy & Economics

December 5, 2007



The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
395 E Street, SW.
Washington, DC 20423-0001

Dear Mr. Williams

This submission is the AAR forecast of the first quarter 2008 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2008-1) *Quarterly Rail Adjustment Factor*. The versions of RCAF-related indices covered in this filing are the All-Inclusive Index (initiated in the second quarter 1985), the Unadjusted RCAF (produced since October 1982), the Adjusted RCAF (first published in the second quarter of 1989), and the RCAF-5 (created by the STB in its Ex Parte No. 290 (Sub-No. 7) decision served October 3, 1996). The table below summarizes the first quarter 2008 results on the fourth quarter 2007 base, and shows the percentage changes from the previous quarter.

220902

220903

	<u>2007Q4</u>	<u>2008Q1</u>	<u>% Change</u>
All-Inclusive Index	98.3	103.5	5.3
Preliminary RCAF	0.983	1.035	5.3
Forecast Error Adjustment	0.017	0.015	
RCAF (Unadjusted)	1.000	1.050	5.0
Productivity Adjustment Factor	2.1528	2.1618	
RCAF (Adjusted)	0.465	0.486	4.5
PAF-5	2.2668	2.2763	
RCAF-5	0.441	0.461	4.5

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December 5, 2007

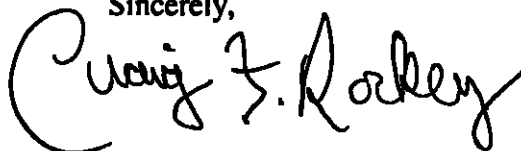
The Staggers Act requires the RCAF to be rebased every five years. The procedure necessary to calculate this rebasing was outlined by the ICC in Ex Parte No 290 (Sub-No 5) effective January 1, 1988. The rebasing calculation which will bring the index to the fourth quarter 2007 base is shown on page 1A of the attached filing.

Due to the fact that many people may need to compare the current RCAF to an older version that was calculated using a different base, the AAR has provided Attachment A, which contains historical RCAFs converted to a fourth quarter 2007 base. The AAR's recommended method for converting to another base is shown in the same attachment, as well as factors and indexes necessary to make those calculations.

In its October 3, 1996 decision in Ex Parte No 290 (Sub-No 7), Productivity Adjustment - Implementation, the STB noted its intent to publish, in addition to the RCAF (Unadjusted) and RCAF (Adjusted), an RCAF-5 (i.e., a calculation of the productivity adjusted RCAF values as if the agency had always used a 5-year rolling average to calculate the productivity adjustment). In response to a request by STB staff, the AAR is including a calculation of the RCAF-5 in its quarterly RCAF filing. The AAR and its members, however, do not believe the publication of a third RCAF index is required or permitted by the applicable statute (49 U.S.C. § 10708) and do not endorse its publication.

Two copies of the quarterly non-proprietary workpapers underlying this submission are filed herewith, in accordance with the ICC's order in Ex Parte No. 290 (Sub-No. 2), *Railroad Cost Recovery Procedures*, served February 8, 1990. A third copy of the working papers has been delivered to Mac Frampton in the STB office handling this proceeding. All workpapers are available for STB inspection. Questions should be directed to me or Clyde Crimmel (202 639-2309) of this office.

Sincerely,

A handwritten signature in black ink that reads "Craig F. Rockey". The signature is written in a cursive, flowing style with a large initial "C".

Craig F. Rockey

Attachments

Rail Cost Adjustment Factor — 2007Q4 Base

Attachment A
Page 1 of 5

Yr/Qtr (Col 1)	Preliminary RCAF (Col 2)	Forecast Error Adjustment (Col 3)	RCAF (Unad- justed) (Col 4)	Productivity-Adjusted RCAF		STB's 2nd Productivity- Adjusted RCAF (Not endorsed by AAR)	
				Productivity Adjustment Factor (Col 5)	RCAF (Adjusted) (Col 6)	PAF-5 (Col 7)	RCAF-5 (Col 8)
1997 Q1	0 710	0 002	0 712	1 4426	0 494	1 4733	0 483
Q2	0 706	0 005	0 711	1 4603	0 487	1 4945	0 476
Q3	0 710	-0 001	0 709	1 4783	0 480	1 5160	0 468
Q4	0 704	0 000	0 704	1 4965	0 470	1 5378	0 458
1998 Q1	0 702	-0 001	0 701	1 5149	0 463	1 5567	0 450
Q2	0 697	0 004	0 701	1 5503	0 452	1 5758	0 445
Q3	0 705	-0 002	0 703	1 5866	0 443	1 5952	0 441
Q4	0 705	0 002	0 707	1 6237	0 435	1 6148	0 438
1999 Q1	0 704	-0 002	0 702	1 6617	0 422	1 6526	0 425
Q2	0 700	-0 001	0 699	1 6850	0 415	1 6913	0 413
Q3	0 708	-0 003	0 705	1 7086	0 413	1 7309	0 407
Q4	0 708	0 004	0 712	1 7325	0 411	1 7714	0 402
2000 Q1	0 730	0 005	0 735	1 7568	0 418	1 7962	0 409
Q2	0 733	0 006	0 739	1 7719	0 417	1 8213	0 406
Q3	0 739	0 001	0 740	1 7871	0 414	1 8468	0 401
Q4	0 746	0 002	0 748	1 8025	0 415	1 8727	0 399
2001 Q1	0 760	0 003	0 763	1 8180	0 420	1 8888	0 404
Q2	0 755	0 003	0 758	1 8305	0 414	1 9050	0 398
Q3	0 760	0 000	0 760	1 8431	0 412	1 9214	0 396
Q4	0 757	0 003	0 760	1 8558	0 410	1 9379	0 392
2002 Q1	0 758	0 000	0 758	1 8686	0 406	1 9513	0 388
Q2	0 749	-0 002	0 747	1 8878	0 396	1 9648	0 380
Q3	0 755	-0 007	0 748	1 9072	0 392	1 9784	0 378
Q4	0 772	0 009	0 781	1 9268	0 405	1 9921	0 392
2003 Q1	0 775	0 003	0 778	1 9466	0 400	2 0126	0 387
Q2	0 790	0 008	0 798	1 9557	0 408	2 0333	0 392
Q3	0 786	0 011	0 797	1 9649	0 406	2 0542	0 388
Q4	0 797	-0 003	0 794	1 9741	0 402	2 0754	0 383
2004 Q1	0 795	0 005	0 800	1 9834	0 403	2 0852	0 384
Q2	0 802	0 005	0 807	1 9943	0 405	2 0950	0 385
Q3	0 824	0 013	0 837	2 0053	0 417	2 1048	0 398
Q4	0 840	0 017	0 857	2 0163	0 425	2 1147	0 405
2005 Q1	0 857	0 008	0 865	2 0274	0 427	2 1263	0 407
Q2	0 874	0 023	0 897	2 0420	0 439	2 1380	0 420
Q3	0 882	0 005	0 887	2 0567	0 431	2 1498	0 413
Q4	0 916	0 009	0 925	2 0715	0 447	2 1616	0 428
2006 Q1	0 911	0 009	0 920	2 0864	0 441	2 1772	0 423
Q2	0 910	0 010	0 920	2 0962	0 439	2 1929	0 420
Q3	0 935	-0 004	0 931	2 1061	0 442	2 2087	0 422
Q4	0 956	0 020	0 976	2 1160	0 461	2 2246	0 439
2007 Q1	0 935	0 008	0 943	2 1259	0 444	2 2351	0 422
Q2	0 935	-0 039	0 896	2 1348	0 420	2 2456	0 399
Q3	0 952	-0 016	0 936	2 1438	0 437	2 2562	0 415
Q4	0 983	0 017	1 000	2 1528	0 465	2 2668	0 441
2008 Q1	1 035	0 015	1 050	2 1618	0 486	2 2763	0 461

Rail Cost Adjustment Factor — 2007Q4 Base

Attachment A
Page 2 of 5

Yr/Qtr (Col 1)	Preliminary RCAF (Col 2)	Forecast Error Adjustment (Col 3)	RCAF (Unad- justed) (Col 4)	Productivity-Adjusted RCAF	
				Productivity Adjustment Factor (Col 5)	RCAF (Adjusted) (Col 6)
1985 Q2	0 512			Beginning 1985Q2, the All-Inclusive Index was used to calculate the RCAF. The term "Preliminary RCAF" was not used, and the RCAF was calculated using a method like today's Preliminary RCAF calculation. There was no productivity adjustment. [In this table, the RCAF for 1985Q2-1986Q4 is in the Preliminary RCAF column.]	
Q3	0 511				
Q4	0 497				
1986 Q1	0 526				
Q2	0 503			Beginning 1987Q1, a forecast error adjustment was added. The terms "Preliminary RCAF", "Forecast Error Adjustment", and "RCAF" were used. [In this table, the RCAF for 1987Q1-1989Q1 is in the RCAF Unadjusted column.]	
Q3	0 511				
Q4	0 513				
1987 Q1	0 527	-0 004	0 523		
Q2	0 525	0 000	0 525	Beginning 1989Q2, a productivity adjustment was added. What was formerly called the RCAF is now called the "RCAF (Unadjusted)" because it does not have a productivity adjustment. The productivity-adjusted RCAF is called the "RCAF (Adjusted)". In its October 3, 1996 decision, the Surface Transportation Board added another version of a productivity-adjusted RCAF called the "RCAF-5".	
Q3	0 530	0 003	0 533		
Q4	0 534	0 004	0 538		
1988 Q1	0 549	0 003	0 552		
Q2	0 557	0 004	0 561		
Q3	0 556	0 001	0 557		
Q4	0 555	0 004	0 559		
1989 Q1	0 563	-0 001	0 562		
Q2	0 567	-0 002	0 565	1 0042	0 563
Q3	0 570	0 003	0 573	1 0084	0 568
Q4	0 576	0 005	0 581	1 0193	0 570
1990 Q1	0 587	-0 002	0 585	1 0303	0 568
Q2	0 588	0 003	0 591	1 0414	0 568
Q3	0 587	0 003	0 590	1 0526	0 561
Q4	0 606	0 000	0 606	1 0640	0 570
1991 Q1	0 615	0 000	0 615	1 0755	0 572
Q2	0 606	0 008	0 614	1 0871	0 565
Q3	0 622	-0 005	0 617	1 0988	0 562
Q4	0 632	-0 001	0 631	1 1107	0 568
1992 Q1	0 628	-0 001	0 627	1 1227	0 558
Q2	0 622	0 003	0 625	1 1348	0 551
Q3	0 624	-0 001	0 623	1 1471	0 543
Q4	0 635	0 003	0 638	1 1595	0 550
1993 Q1	0 643	0 003	0 646	1 1720	0 551
Q2	0 640	0 001	0 641	1 1847	0 541
Q3	0 645	0 001	0 646	1 1975	0 539
Q4	0 654	0 001	0 655	1 2104	0 541
1994 Q1	0 659	-0 002	0 657	1 2253	0 536
Q2	0 652	0 001	0 653	1 2404	0 526
Q3	0 667	0 000	0 667	1 2557	0 531
Q4	0 666	0 002	0 668	1 2711	0 526
1995 Q1	0 673	0 002	0 675	1 2867	0 525
Q2	0 680	0 003	0 683	1 3052	0 523
Q3	0 686	0 003	0 689	1 3240	0 520
Q4	0 687	0 002	0 689	1 3431	0 513
1996 Q1	0 683	-0 003	0 680	1 3624	0 499
Q2	0 681	-0 003	0 678	1 3820	0 491
Q3	0 687	-0 001	0 686	1 4019	0 489
Q4	0 693	0 004	0 697	1 4221	0 490

Sample Rebasing Calculations

Attachment A
Page 3 of 5

Preliminary RCAF:

Recommended Method

The All-Inclusive Index (All) Forecast is divided by the appropriate Linking Factor

Example calculations (All and Linking Factors are listed on page 4)

2007Q1 on a 4Q07 basis = $229.9 / 245.9 = 0.9349329 = 0.935$

2007Q1 on a 4Q02 basis = $229.9 / 192.1 = 1.1967725 = 1.197$

2007Q1 on a 4Q97 basis = $229.9 / 173.2 = 1.3273672 = 1.327$

Alternative Method

An alternative method can be used to convert a Preliminary RCAF from one basis to another basis without knowing the All-Inclusive Index. This method will occasionally have small rounding differences, and is not recommended except as a "check" or in cases where the All-Inclusive Index is not available. New base Index = (Old Linking Factor / New Linking Factor) x Old Base Index

Example for converting 2007Q1 on a 4Q02 basis to a 4Q07 basis

$(192.1 / 245.9) \times 1.197 = 0.9351106 = 0.935$

Forecast Error Adjustment:

Recommended Method

- 1 Use the All-Inclusive Indexes (All) for the two quarters prior to the quarter to be adjusted
- 2 The All Actual is divided by the appropriate Linking Factor and rounded 3 digits after decimal
- 3 The All Forecast is divided by the appropriate Linking Factor and rounded
- 4 Take the result from step 2 and subtract the result from step 3

Example calculation for 2007Q1

1 Use A-I Index from 2 quarters prior, 2006Q3 $232.0 = \text{Actual}$, $230.0 = \text{Forecast}$

2 Actual = $232.0 / 245.9 = 0.9434730 = 0.943$

3 Forecast = $230.0 / 245.9 = 0.9353396 = 0.935$

4 Forecast Error = $0.943 - 0.935 = 0.008$

Alternative Method

This method has occasional rounding differences, and is not recommended except as a check or in cases where the All-Inclusive Indexes are not available. The new base Forecast Error Adjustment equals (Old Linking Factor / New Linking Factor) x Old Forecast Error Adjustment

Example for converting 2006Q3 on a 4Q02 basis to a 4Q07 basis

Forecast Error 4Q07 basis = $(192.1 / 245.9) \times 0.011 = 0.0085933 = 0.009$ (which is close, but not exact)

RCAF (Unadjusted)

RCAF (Unadjusted) = Preliminary RCAF + Forecast Error Adjustment

Example for 2007Q1, on a 4Q07 basis $0.935 + 0.008 = 0.943$

Productivity Adjustment Factor

Use the Productivity Adjustment Factor as originally calculated for each quarter

For 2007Q1, the Productivity Adjustment Factor is 2.1259

RCAF (Adjusted)

RCAF (Adjusted) = RCAF (Unadjusted) / Productivity Adjustment Factor

Example for 2007Q1, on a 4Q07 basis $0.943 / 2.1259 = 0.4435768 = 0.444$

PAF-5

Use the STB's alternative productivity adjustment factor, PAF-5, as originally calculated

For 2007Q1, the Productivity Adjustment Factor is 2.2351

RCAF-5

RCAF-5 = RCAF (Unadjusted) / PAF-5

Example for 2007Q1, on a 4Q07 basis $0.943 / 2.2351 = 0.4219051 = 0.422$

Indexes & Factors for RCAF

Attachment A
Page 4 of 5

Yr/Qtr	All Inclusive Index 1980 = 100		Prod Adj Factor	PAF-5	Original Prelim RCAF	Original Forecast Error	Linking Factor
	Forecast	Actual					
1985 Q1	-	-	-	-	0 000		120 9
Q2	126 0	126 6	-	-	1 042		120 9
Q3	125 7	125 1	-	-	1 040		120 9
Q4	122 3	123 3	-	-	1 012		120 9
1986 Q1	129 3	128 4	-	-	1 069		120 9
Q2	123 7	124 2	-	-	1 023		120 9
Q3	125 7	124 7	-	-	1 040		120 9
Q4	126 2	126 1	-	-	1 044		120 9
1987 Q1	129 5	130 4	-	-	1 071	-0 009	120 9
Q2	129 2	130 1	-	-	1 069	-0 001	120 9
Q3	130 4	131 1	-	-	1 079	0 008	120 9
Q4	131 4	132 3	-	-	1 087	0 006	120 9
1988 Q1	135 1	135 2	-	-	1 022	0 005	132 2
Q2	137 0	137 9	-	-	1 036	0 007	132 2
Q3	136 7	136 4	-	-	1 034	0 001	132 2
Q4	136 5	136 1	-	-	1 033	0 007	132 2
1989 Q1	138 5	139 3	-	-	1 048	-0 002	132 2
Q2	139 5	140 7	1 0042	1 0040	1 055	-0 003	132 2
Q3	140 2	139 7	1 0084	1 0080	1 061	0 006	132 2
Q4	141 6	142 3	1 0193	1 0120	1 071	0 009	132 2
1990 Q1	144 4	145 2	1 0303	1 0264	1 092	-0 004	132 2
Q2	144 5	144 6	1 0414	1 0410	1 093	0 005	132 2
Q3	144 3	144 4	1 0526	1 0558	1 092	0 006	132 2
Q4	148 9	150 9	1 0640	1 0707	1 126	0 000	132 2
1991 Q1	151 2	150 1	1 0755	1 0834	1 144	0 001	132 2
Q2	149 1	148 8	1 0871	1 0962	1 128	0 015	132 2
Q3	153 0	152 8	1 0988	1 1091	1 157	-0 009	132 2
Q4	155 5	156 1	1 1107	1 1222	1 176	-0 002	132 2
1992 Q1	154 5	154 1	1 1227	1 1351	1 169	-0 001	132 2
Q2	152 9	153 7	1 1348	1 1481	1 157	0 005	132 2
Q3	153 5	154 1	1 1471	1 1613	1 161	-0 003	132 2
Q4	156 1	156 5	1 1595	1 1747	1 181	0 006	132 2
1993 Q1	158 1	158 4	1 1720	1 1926	1 008	0 004	156 9
Q2	157 3	157 5	1 1847	1 2107	1 003	0 002	156 9
Q3	158 6	158 0	1 1975	1 2291	1 011	0 002	156 9
Q4	160 7	161 0	1 2104	1 2478	1 024	0 001	156 9
1994 Q1	162 1	162 1	1 2253	1 2621	1 033	-0 004	156 9
Q2	160 4	160 7	1 2404	1 2766	1 022	0 002	156 9
Q3	164 1	164 6	1 2557	1 2913	1 046	0 000	156 9
Q4	163 7	164 4	1 2711	1 3062	1 043	0 002	156 9
1995 Q1	165 5	166 2	1 2867	1 3222	1 055	0 003	156 9
Q2	167 1	167 6	1 3052	1 3385	1 065	0 005	156 9
Q3	168 8	168 0	1 3240	1 3550	1 076	0 004	156 9
Q4	168 9	168 2	1 3431	1 3716	1 076	0 003	156 9
1996 Q1	168 0	167 6	1 3624	1 3914	1 071	-0 005	156 9
Q2	167 4	168 4	1 3820	1 4114	1 067	-0 004	156 9
Q3	169 0	169 4	1 4019	1 4317	1 077	-0 003	156 9
Q4	170 4	171 6	1 4221	1 4524	1 086	0 006	156 9
1997 Q1	174 7	174 4	1 4426	1 4733	1 113	0 003	156 9
Q2	173 7	173 7	1 4603	1 4945	1 107	0 008	156 9
Q3	174 6	174 4	1 4783	1 5160	1 113	-0 001	156 9
Q4	173 2	174 2	1 4965	1 5378	1 104	0 000	156 9

Indexes & Factors for RCAF

Attachment A
Page 5 of 5

Yr/Qtr	All Inclusive Index 1980 = 100		Prod Adj. Factor	PAF-5	Original Prelim RCAF	Original Forecast Error	Linking Factor
	Forecast	Actual					
1998 Q1	172.7	172.1	1.5149	1.5567	0.997	-0.001	173.2
Q2	171.5	171.8	1.5503	1.5758	0.990	0.006	173.2
Q3	173.4	172.9	1.5866	1.5952	1.001	-0.003	173.2
Q4	173.3	173.2	1.6237	1.6148	1.001	0.002	173.2
1999 Q1	173.0	172.3	1.6617	1.6526	0.999	-0.003	173.2
Q2	172.1	173.2	1.6850	1.6913	0.994	-0.001	173.2
Q3	174.2	175.4	1.7086	1.7309	1.006	-0.004	173.2
Q4	174.1	175.6	1.7325	1.7714	1.005	0.006	173.2
2000 Q1	179.4	179.8	1.7568	1.7962	1.036	0.007	173.2
Q2	180.3	180.8	1.7719	1.8213	1.041	0.009	173.2
Q3	181.6	182.5	1.7871	1.8468	1.048	0.002	173.2
Q4	183.5	184.1	1.8025	1.8727	1.059	0.003	173.2
2001 Q1	186.9	186.8	1.8180	1.8888	1.079	0.006	173.2
Q2	185.6	186.4	1.8305	1.9050	1.072	0.004	173.2
Q3	186.9	186.8	1.8431	1.9214	1.079	0.000	173.2
Q4	186.1	185.7	1.8558	1.9379	1.074	0.004	173.2
2002 Q1	186.4	184.7	1.8686	1.9513	1.076	0.000	173.2
Q2	184.2	186.4	1.8878	1.9648	1.064	-0.002	173.2
Q3	185.6	186.4	1.9072	1.9784	1.072	-0.010	173.2
Q4	189.9	191.7	1.9268	1.9921	1.096	0.012	173.2
2003 Q1	190.6	193.3	1.9466	2.0126	0.992	0.004	192.1
Q2	194.3	193.6	1.9557	2.0333	1.011	0.009	192.1
Q3	193.3	194.6	1.9649	2.0542	1.006	0.014	192.1
Q4	195.9	197.2	1.9741	2.0754	1.020	-0.003	192.1
2004 Q1	195.6	198.7	1.9834	2.0852	1.018	0.007	192.1
Q2	197.1	201.3	1.9943	2.0950	1.026	0.007	192.1
Q3	202.6	204.5	2.0053	2.1048	1.055	0.016	192.1
Q4	206.5	212.2	2.0163	2.1147	1.075	0.022	192.1
2005 Q1	210.7	211.9	2.0274	2.1263	1.097	0.010	192.1
Q2	214.9	217.2	2.0420	2.1380	1.119	0.030	192.1
Q3	217.0	219.2	2.0567	2.1498	1.130	0.006	192.1
Q4	225.3	227.8	2.0715	2.1616	1.173	0.012	192.1
2006 Q1	223.9	223.1	2.0864	2.1772	1.166	0.011	192.1
Q2	223.8	228.7	2.0962	2.1929	1.165	0.013	192.1
Q3	230.0	232.0	2.1061	2.2087	1.197	-0.005	192.1
Q4	235.2	225.6	2.1160	2.2246	1.224	0.026	192.1
2007 Q1	229.9	226.0	2.1259	2.2351	1.197	0.011	192.1
Q2	230.0	234.1	2.1348	2.2456	1.197	-0.050	192.1
Q3	234.0	237.7	2.1438	2.2562	1.218	-0.021	192.1
Q4	241.7	-	2.1528	2.2668	1.258	0.022	192.1
2008 Q1	254.4	-	2.1618	2.2763	1.035	0.015	245.9

Preliminary RCAF = All-Inclusive Index Forecast / Linking Factor
Forecast Error = (All Actual/Linking Factor) - (All Forecast/Linking Factor)
where each is rounded to 3 digits after the decimal
where All for forecast error calculation is from 2 quarters earlier
RCAF Unadjusted = Preliminary RCAF less Forecast Error
RCAF Adjusted = RCAF Unadjusted divided by Productivity Adjustment Factor
Note: Each RCAF is rounded to 3 digits after the decimal

Linking Factors
10/1/80 = 102.7
10/1/82 = 120.9
4Q/87 = 132.2
4Q/92 = 156.9
4Q/97 = 173.2
4Q/02 = 192.1
4Q/07 = 245.9

**First Quarter 2008
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2008-1)

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

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

December 5, 2007

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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 first quarter 2008.

Rebasing

The statute relating to the Rail Cost Adjustment Factor (49 U S C § 10708) requires the RCAF to be rebased every five years. This means that the new base period will be the fourth quarter of 2007, since the previous base period was the fourth quarter of 2002. The calculations are shown below.

Rebasing the Denominator of the RCAF to the Fourth Quarter 2007

1. Fourth Quarter 2007 Linked Index	241.7
2. Second Quarter 2007 Linked Index	
Calculated Using Actual Data	234.1
Calculated Using Forecasted Data	<u>230.0</u>
Difference	4.1
3. Fourth Quarter 2007 Linked Index	
Adjusted for Second Quarter 2007 Forecast Error	245.8
Rounding Adjustment to Force 1 000	<u>0.1</u>
New Basing Factor for 2007Q4 = 100	245.9

Note: Linked Indexes on this page refer to the All Inclusive Index, 1980=100 basis

Test of Basing Factor Fourth Quarter 2007 = 100

1. Fourth Quarter 2007 Linked Index (1980 = 100)	241.7
Divided by 2007Q4 Basing Factor	245.9
Fourth Quarter 2007 Linked Index (2007Q4 = 100)	0.983
2. Second Quarter 2007 Linked Index	
Calculated Using Actual Data (1980 = 100)	234.1
Calculated Using Forecasted Data (1980 = 100)	230.0
Divide both by 2007Q4 Basing Factor	245.9
Calculated Using Actual Data (2007Q4 = 100)	0.952
Calculated Using Forecasted Data (2007Q4 = 100)	<u>0.935</u>
Difference (Forecast Error Adjustment)	0.017
3. Fourth Quarter 2007 Linked Index (2007Q4 = 100)	
Adjusted for Second Quarter 2007 Forecast Error	1.000

Note: Fourth Quarter 2007 Linked Index (2007Q4 = 100) must equal 1 000

Index Weights

In the Ex Parte No. 290 (Sub-No. 2) final rules, issued in April 1981, the Interstate Commerce Commission mandated that the weights of each major cost component be updated annually. These "external" weights are calculated using data from Schedules 410 and 210 of the R-1 annual report filed with the Surface Transportation Board by the Class I railroads. The weights are typically updated with the fourth quarter projection.

The 2006 (current) and 2005 (previous) weights are shown below. The previous (2005) weights were used for the fourth quarter of 2006 through the third quarter of 2007. Beginning with the fourth quarter of 2007, the 2006 weights are used. As those familiar with the U.S. economy in 2006 would expect, Fuel and Materials & Supplies increased their weight – especially Fuel. Labor, despite a 5.4 percent increase in the amount of labor expenses, decreased as a percentage of total expenses because of double-digit increases in Fuel and Materials & Supplies expenses. The biggest weight changes were Fuel's increase of 3.2 percentage points, and Other's decrease of 1.5 percentage points. Absolute changes for all of the remaining categories were by less than one percentage point.

RCAF Weights		
	Previous 2005	Current 2006
Labor	35.3 %	34.5 %
Fuel	16.0	19.2
Materials & Supplies	4.6	5.0
Equipment Rents	8.2	7.8
Depreciation	11.1	10.6
Interest	3.1	2.7
Other	21.7	20.2

Reweighting of the index is accomplished by calculating both the current quarter (normally the fourth) and prior (normally the third) quarter indexes with the new weights. The relative change between the two quarters is then multiplied times the prior quarter (usually the third) *linked* index. Use of this method ensures that the weight change, by itself, does not cause a change in the level of the All-Inclusive Index.

Internal weights in the labor and equipment rents components are updated at the same time as the external weights. When these weights are changed, they are also linked using the procedure described above in order to eliminate the effect of the change in weighting.

All-Inclusive Index First Quarter 2008

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

	2006 Weights	Forecast		Percent Change
		Previous 2007Q4	Current 2008Q1	
1 Labor	34.5%	307.9	312.8	1.6 %
2 Fuel	19.2%	276.4	334.8	21.1
3 M&S	5.0%	218.4	218.5	0.0
4 Equipment Rents	7.8%	192.9	193.1	0.1
5 Depreciation	10.6%	200.2	200.1	0.0
6 Interest	2.7%	90.2	90.2	0.0
7 Other	20.2%	194.1	194.3	0.1
8 Weighted Average				
a 1980 = 100		248.1	261.1	
b 1980 = 100 (linked)		241.7	254.4 ¹	
c 4Q07 = 100		98.3	103.5 ²	5.3

¹ To calculate the 1980 = 100 Linked Index.

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= 261.1 \text{ divided by } 248.1 \text{ times } 241.7 \\ &= 254.4 \end{aligned}$$

² To calculate the 4Q07 = 100 index

$$\begin{aligned} \text{Index}_{4Q07} &= (\text{Current Linked Index} / 4Q07 \text{ Linking Factor}) * 100 \\ &= 254.4 \text{ divided by } 245.9 \text{ times } 100 \\ &= 103.5 \end{aligned}$$

4Q02 based index = 132.4

4Q97 based index = 146.9

4Q92 based index = 162.1

4Q87 based index = 192.4

Forecast vs. Actual All-Inclusive Index Third Quarter 2007

As shown below, the third quarter actual index of 96.7 is 1.5 index points above the forecast value of 95.2. Therefore, the forecast error adjustment for first quarter 2008 is 1.5 index points.

	2005	Third Quarter 2007		Amt
	Weights	Forecast	Actual	Difference
1 Labor	35.3%	298.5	298.5	
2. Fuel	16.0%	253.9	276.0	
3 M&S	4.6%	212.6	212.6	
4 Equipment Rents ¹	8.2%	192.5	192.0	
5 Depreciation	11.1%	199.9	196.5	
6 Interest	3.1%	96.9	96.9	
7 Other	21.7%	193.2	191.9	
8 Weighted Average				
a 1980 = 100		238.7	241.5	
b 1980 = 100 (linked)		234.0	237.7 ²	
c 4Q07 = 100 ³		95.2	96.7	1.5

Forecast error → 1.5 index points

¹	2005	Third Quarter 2007	
	Weights	Forecast	Actual
Car-Hire	49.2%	179.8	179.9
Lease Rentals	50.8%	193.2	191.9
Weighted Average		186.6	186.0
Weighted Average (linked)		192.5	192.0

² Linked actual index = (actual index / previous actual index) x previous linked actual index

$$237.7 = 241.5 / 237.8 \times 234.1$$

³ The 4Q07 based indexes are 1980 based indexes divided by the 4Q07 linking factor (245.9/100)
 4Q02 based indexes are the 1980 based indexes divided by the 4Q02 linking factor (192.1/100)
 4Q97 based indexes are the 1980 based indexes divided by the 4Q97 linking factor (173.2/100)
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 linking factor (156.9/100)

Productivity

On January 31, 2007, the Surface Transportation Board (STB) served a decision in Ex Parte 290 (Sub-No 4) which added the year 2005 to the Productivity Adjustment Factor (PAF) and deleted the year 2000. This creates an average annual productivity change for 2001 through 2005 of 1.7 percent – a 0.2 percentage point decrease from the 2000 through 2004 average of 1.9 percent. The components of this average annual value are shown on the following table in ratio format – therefore, 1.017 is the same as an increase of 1.7 percent. Productivity changes are calculated by dividing the output index by the input index. The average annual rate is calculated by multiplying each of the five productivity changes together and taking the result to the one fifth power. The quarterly productivity adjustment factors (PAF) are calculated by increasing the previous quarter's PAF by quarterly versions of the annual rate which are the fourth root of the average annual growth rate. The difference between the PAF and the PAF-5 is the timing of the 5-year productivity trend.

Comparison of Output, Input, & Productivity

2001 - 2005

Year	Output Index (1)	Input Index (2)	Productivity ¹ Changes (3)
2001	0.971	0.955	1.016
2002	1.012	1.006	1.006
2003	1.039	1.020	1.019
2004	1.033	1.057	0.977
2005	1.021	0.956	1.068
Average			1.017
Previous Average (2000-2004)			1.019

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 2001-2005, use fourth root of avg. productivity change = 1.0042

For 2000-2004, use fourth root of avg. productivity change = 1.0047

Quarter	Year	PAF	PAF-5	
Q1	2007	2.1259	2.2351	← 2000-2004
Q2	2007	2.1348	2.2456	←
Q3	2007	2.1438	2.2562	← 2001-2005
Q4	2007	2.1528	2.2668	
Q1	2008	2.1618	2.2763	

Rail Cost Adjustment Factor

First Quarter 2008

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 the All-Inclusive Index is on a 2007Q4=100 basis.

	Previous 2007Q4	Current 2008Q1	Percent Change
All-Inclusive Index ¹	98.3	103.5	5.3
Preliminary RCAF ²	0.983	1.035	5.3
Forecast Error Adjustment ³	<u>0.017</u>	<u>0.015</u>	
RCAF (Unadjusted) ⁴	1.000	1.050	5.0
Productivity Adjustment Factor ⁵	2.1528	2.1618	
RCAF (Adjusted) ⁶	0.465	0.486	4.5
PAF-5 ⁷	2.2668	2.2763	
RCAF-5 ⁸	0.441	0.461	4.5

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 2008

The first quarter 2008 Labor Index is forecast to increase 1.6 percent. Wage increases and new labor agreements were the major contributors to the increase.

New Labor Contracts

New National Agreements: Three major railroad unions finalized new national agreements since the previous (September 5) RCAF filing, including the International Brotherhood of Electrical Workers (IBEW), the Transportation Communication International Union (TCU), and the Brotherhood of Railway Carmen Division of the Transportation Communication International Union (TCU-Carmen). [For a list of all common railroad and union abbreviations, see Appendix H.] These agreements are similar to those signed by other unions on July 1. Highlights typical of the new agreements are as follows:

- Cost of Living Allowances (COLA) eliminated, and COLAs on and after July 1, 2005 recovered from any retroactive wage increase payments
- Retroactive general wage increase of 2.5 percent effective July 1, 2005
- Retroactive general wage increase of 3.0 percent effective July 1, 2006
- Retroactive general wage increase of 3.0 percent effective July 1, 2007
- General wage increase of 4.0 percent effective July 1, 2008 [Added to RCAF at that time]
- General wage increase of 4.5 percent effective July 1, 2009 [Added to RCAF at that time]
- Employee Health & Welfare Cost Sharing monthly rate of \$166.25 effective January 1, 2007
- Future adjustments to the Cost Sharing rate in 2008, 2009, and 2010, all on January 1

The retroactive wage increases will cause back pay amounts that, following the standard RCAF procedure, will be amortized over four quarters. COLA payments already made, and the new 2007 employee Health & Welfare cost sharing rate (less the payments already made), serve as credit against gross retroactive pay.

Wage Index

The Wage Index portion of the Labor Index increased 2.0 percent from the previous quarter. January 1 wage increases plus new labor agreements caused the increase.

Wage Increases: In addition to the three new national agreements mentioned earlier, the three major national unions (IAM, UTU, UTU-YMD) that have not ratified new contracts are scheduled to receive a 1.6 cent increase in their cost-of-living allowance (COLA) effective January 1. A few of the independent unions will also receive either a wage increase or a COLA increase on January 1. Following past index procedure, non-union employees were assigned a January 1 wage increase (3 percent) equal to the amount that most unions received last July.

Labor

First Quarter 2008

Lump Sums: The lump sum rate was unchanged

Back Pay: The back pay rate increased 20.2 cents mostly because of three new national labor agreements that featured retroactive general wage increases. Back pay amounts were also added for a few independent agreements involving railroads owned by CN and Canadian Pacific. A few small amounts involving CN-owned railroads were completely amortized and removed from the rate.

Other: Other wages contains the amortization of profit sharing payments that the BNSF Railway makes each year to its dispatchers, yardmasters, and engineers. The first quarter rate is slightly lower because of the lower interest rate used for amortization.

Supplements Index

Higher wages, combined with higher maximum taxable earnings effective January 1, caused most of the 0.9 percent increase in the Supplements Index.

Health & Welfare: New Health & Welfare premiums (see pages 4 and 5 of this Appendix) become effective on January 1, and (unlike recent years) were mostly lower than the previous year. In addition, the new national agreements (see previous page) had higher employee health & welfare cost sharing rates, and the national unions without new agreements have increases scheduled for their employee cost sharing. Therefore, the Health & Welfare rate is lower by 1.4 percent.

Railroad Retirement: Wage increases combined with higher maximum taxable earnings, effective January 1, caused the increase in the Railroad Retirement rate.

Unemployment Insurance: Railroad unemployment insurance rates are experience-rated by employer and will range from 2.15 (0.65 plus a 1.5 percent surcharge for 2008) to 12 percent on monthly employee compensation up to \$1,280. A January increase in the maximum taxable earnings caused the unemployment insurance hourly rate to increase 0.9 cents.

Other: The "Other" category is a reflection of all other fringe benefits, and currently contains employer contributions to employee 401(k) accounts, plus employer contributions to employee stock plans that are recorded as fringe benefits. The increase of 1.4 cents was caused by increased benefits associated with new labor agreements.

Labor Index Calculation

As shown in Table A-1 on the next page, the 2.0 percent increase in the Wage Index and the 0.9 percent increase in the Supplements Index had a combined effect of a 1.6 percent increase in the Labor Index. The linked first quarter 2008 index is 312.8.

Labor

First Quarter 2008

Table A-1 Labor Index

	2007Q4	2008Q1	Change	
			Percent	Amount
Base Wage – Straight Time & Pay For Time Not Worked Adjustments.				
Lump Sum	0 136	0.136	0 0%	0.000
Back Pay	0 448	0 650	45.1%	0 202
Other	0.171	0 170	-0.6%	-0.001
Total Wages	<u>31 397</u>	<u>32.028</u>	2 0%	0 631
Health & Welfare Benefits	5 584	5.506	-1 4%	-0 078
RR Retirement & Medicare	6.362	6.530	2 6%	0 168
Unemployment Insurance	0 186	0 195	4.8%	0 009
Other	0.066	0.080	21 2%	0 014
Total Supplements	<u>\$12 198</u>	<u>\$12 311</u>	0.9%	0 113
Total Labor	\$43 595	\$44.339		
Wage Index¹	268 7	274 1	2 0%	
Supplements Index²	450 8	455 0	0.9%	
Total labor Index, 2006 Weights³	319.5	324.6		
Labor Index (linked)⁴	307.9	312.8	1.6%	

¹ 1980 wage rate \$11 685

² 1980 supplements rate \$2 706

³ 2006 weights wages, supplements 72 1% 27 9%

⁴ 2008Q1 linked Index = 2007Q4 linked x (2008Q1 / 2007Q4)
 = 307 9 x 324 6 / 319 5

Labor

First Quarter 2008

Supplement Comparisons

Health and Welfare Rates

Plan	Railroad Contribution Per Employee Per Month				
	2006	2007	2008	Change	
				'05-'06	'06-'07
Group Health & Life	\$1,001.02	\$1,097.66	\$1,076.61	9.7%	-1.9%
Early Retirement Major Medical	87.86	89.06	110.98	1.4%	24.6%
Group Dental	47.20	47.14	45.72	-0.1%	-3.0%
Group Vision	10.66	10.70	10.16	0.4%	-5.0%
Supplemental Sickness					
Maintenance of Way	36.00	36.06	14.89	0.2%	-58.7%
Shop Crafts	61.00	61.06	30.04	0.1%	-50.8%
Signalmen	32.00	32.06	8.55	0.2%	-73.3%
Yardmasters	47.06	41.13	33.21	-12.6%	-19.3%

Railroad Retirement and Medicare

	Earnings Base			Employer Rate		
	2006	2007	2008	2006	2007	2008
Tier I	\$94,200	\$97,500	\$102,000	6.20%	6.20%	6.20%
Tier II	69,900	72,600	75,900	12.60%	12.10%	12.10%
Medicare	no limit	no limit	no limit	1.45%	1.45%	1.45%

Unemployment Insurance

Monthly Taxable Earnings Base			Weighted Avg. Class I Rate		
2006	2007	2008	2006	2007	2008
\$1,195	\$1,230	\$1,280	2.36%	2.47%	2.48%

Labor First Quarter 2008

NATIONAL RAILWAY LABOR CONFERENCE EMPLOYEE BENEFITS DEPARTMENT

~~1901 L STREET, N.W., WASHINGTON, D.C. 20036-3514 ♦♦♦♦ PHONE (202) 862-7200 FAX (202) 862-7253~~

JOSEPH EPSTEIN Director Employee Benefits (202) 862-7244 E-mail jepstein@rrnrlc.org	SUSAN E. PARKS, CEBS Benefits Administrator (202) 862-7225 E-mail sparks@rrnrlc.org
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November 8, 2007

Mr. Clyde Cimmel
 Director Statistical Information
 Policy & Communications Department
 AAR-5th Floor
 50 F Street N.W.
 Washington, D.C. 20009

Dear Mr. Cimmel:

The revised employer Payment Rates which are effective January 1, 2008 are as follows:

Aetna - Supplemental Sickness Plans	
ShopCrafts	\$ 30.04
Signalmen	\$ 8.55
Maintenance of Way	\$ 14.89
Trustmark - Supplemental Sickness Plans	
Yardmasters	\$ 33.21
Railroad Employees National Health & Welfare Plan & National Railway Carriers/United Transportation Union H&W Plan	
Non-Hospital Road	\$1,076.61
Railroad Employees National Early Retirement Major Medical Benefit Plan	
Non-Hospital Road	\$ 110.98
Aetna - National Dental Plan	\$ 45.72
VSP - National Vision Plan	\$ 10.16

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

Very truly yours,



Susan E. Parks

cc: Glen Williams

Fuel

First Quarter 2008

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

Crude oil* prices have trended upward throughout 2007. The average daily posted price for West Texas Intermediate crude oil averaged \$75.69 per barrel in September, \$82.31 in October, and will average over \$90 for November. Although oil prices reached all-time highs after concern caused by a northern Minnesota pipeline fire, prices began falling at the end of November, possibly because of unfavorable economic news (housing, lower forecast for economic growth by White House) and probable increased production by the Organization of the Petroleum Exporting Countries (OPEC). Prices began rising again in December after OPEC announced it would leave output unchanged.

Heating oil** followed a pattern similar to crude oil, with NYMEX prices trending upward from January throughout the year, falling at the end of November, and moving back up in early December. The average for November is expected to be close to 261 cents per gallon, while October's average is 230.11 cents per gallon. Weekly prices for residential heating oil reported by the Energy Information Administration revealed that prices at the end of November were over 11 percent higher than they were at the end of October.

The October 2007 average price for locomotive diesel fuel is the highest price ever recorded. Locomotive diesel fuel prices have trended upward all year, and the October average is 41 percent higher than January's.

The railroads believe that January (first quarter) locomotive diesel fuel prices will be 21.1 percent higher than the October (third quarter) forecast, but 12.5 percent above the fourth quarter price actually experienced. This difference was caused by a fourth quarter forecast that was too low.

Forecast Fuel Index	334.8
Change from previous quarter forecast	21.1%
Change from previous quarter actual	12.5%

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

** Heating oil 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 2008

The Materials & Supplies Index changed little from the fourth quarter level. A slight increase in the average price for metal products was mostly offset by slight decreases in prices for ties and ballast.

2008Q1 Materials & Supplies Index = 218.5

2007Q4 Materials & Supplies Index = 218.4

Difference	0.1 basis points
	or
	0.0 %

Equipment Rents

First Quarter 2008

The Equipment Rents Index consists of two components – car hire and lease rentals. The methodology used to create these two components and the final Equipment Rents Index are explained below.

Car Hire

The car hire component is indexed using data from the Car Hire Accounting Rate Master (CHARM) file. Car hire rates for the forecast quarter are estimated based on data for the most recent month available. For the first quarter, December 1 of the previous year is used. For the second, third and fourth quarters, March 1, June 1, and September 1 are used, respectively. Using data retrieved from the latest CHARM file, an average rate per car is developed. Next, those average rates are grouped into car type categories to create an overall summary of car hire rates. The summary rates are then compared from quarter to quarter to determine the Car Hire Index.

Lease Rentals

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

Equipment Rent Index Calculation

The table below calculates the Equipment Rent Index, which increased only slightly. The Car Hire portion of the Index increased slightly because of rate increases for privately-owned tank cars and covered hoppers. A 0.1 percent increase for both the PPI-LF (See Appendix G) used as a proxy for Lease Rentals, and the Car Hire Index, resulted in the overall Equipment Rent Index rising just 0.1 percent.

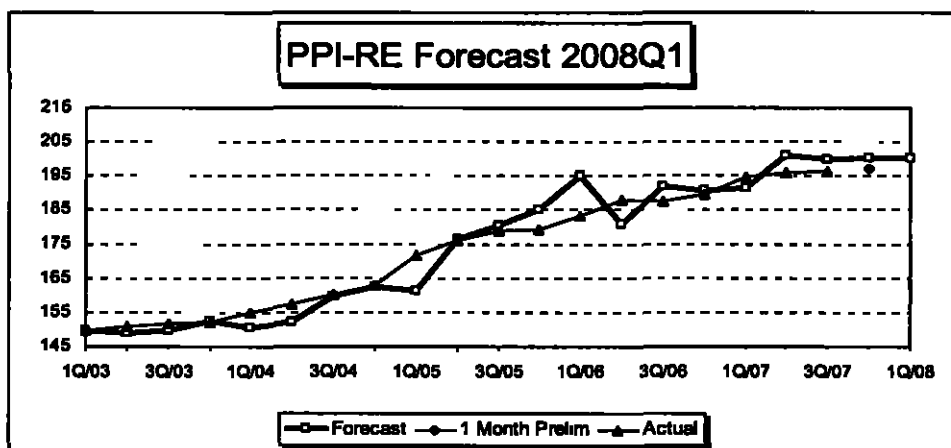
	2006 Weight	2007Q4	2008Q1	Percent Change
Car Hire	46.3%	179.7	179.9	0.1 %
Lease Rentals	53.7%	194.1	194.3	0.1
Weighted Average		187.4	187.6	0.1
Weighted Average (Linked)		192.9	193.1	0.1

Depreciation

First Quarter 2008

The Producer Price Index for Railroad Equipment (PPI-RE) is used to index depreciation expense. The PPI-RE is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent monthly data available. April and July would be the most recent months available for third and fourth quarter forecasts, respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-RE figures that do not reflect a significant change in any direction.

Forecast of Depreciation Index (1982=100)	180.9
Forecast of Depreciation Index (1980=100)	200.1
Change from previous quarter forecast	0.0%
Change from actual first month of previous quarter	1.5%
Change from same quarter of prior year (actual)	2.7%



Depreciation

First Quarter 2008

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model Exponential Smoothing
 Forecast Model for PPIRE
 Multiplicative Winters Linear trend, Multiplicative seasonality
 Confidence limits proportional to indexes and level

Component	Smoothing Weight	Final Value	Seasonal Indexes			
Level	0.94692	178.35	January - March	0.99898	0.99950	1.00269
Trend	0.08126	0.62996	April - June	0.99865	1.00014	1.00049
Seasonal	0.99978		July - September	1.00011	0.99999	0.99965
			October - December	0.99971	0.99899	1.00109

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 152.4	Standard deviation 16.17
R-square 0.9944	Adjusted R-square 0.9943
Durbin-Watson 1.548	** Ljung-Box(18)=34.99 P=0.9905
Forecast error 1.224	BIC 1.31
MAPE 0.0052	RMSE 1.198
MAD 0.8161	

Actual Values for the Most Recent 6 Periods

Date	Actual
2007-05	175.600
2007-06	176.400
2007-07	178.100
2007-08	177.500
2007-09	177.100
2007-10	178.300

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2007-11	175.895	178.800	181.706
2007-12	175.644	179.807	183.970
2008-01	174.940	180.057	185.174
2008-02	174.861	180.781	186.701
2008-03	175.358	181.989	188.619
QTR AVG	175.053	180.942	186.831

Interest

First Quarter 2008

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. Beginning with fourth quarter 2007, the Interest Index is based on data for 2006.

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

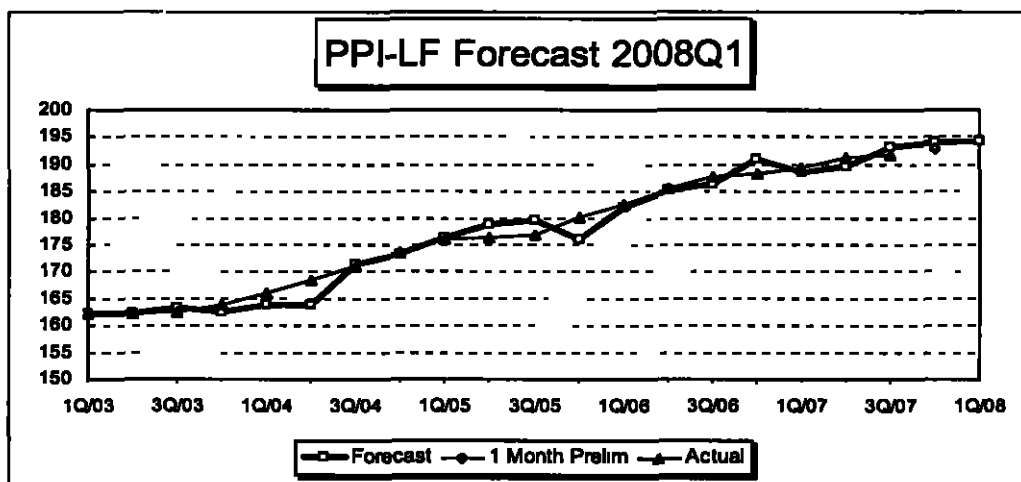
2006	Interest Rate	7.08%
1980	Interest Rate	7.85%
2008Q1	Interest Index	90.2
2007Q4	Interest Index	90.2
	Percent Change	0.0%

Other Expenses First Quarter 2008

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

Like the PPI-RE, the PPI-LF is forecast using an ARIMA process on 6 years of monthly data (a sample size of 72) with the most recent available monthly data being the first month of the quarter prior to the forecast quarter. For a first quarter forecast, the most recent month of data available would be for October of the prior year. For a second quarter forecast, January would normally be the most recent month available. April and July would be the most recent months available for third and fourth quarter forecasts respectively. The output from the forecast model is shown on page 2 of this appendix for 1982=100. The figure forecast by the model reflects monthly PPI-LF figures have not revealed a clear trend in the most recent months.

Forecast of Other Expense Index (1982=100)	173.3
Forecast of Other Expense Index (1980=100)	194.3
Change from previous quarter forecast	0.1%
Change from actual first month of previous quarter	0.8%
Change from same quarter of prior year (actual)	2.5%



Other Expenses

First Quarter 2008

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Recommended model Box-Jenkins
Forecast Model for PPILF
ARIMA(1,1,0)*(2,0,0)

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.6381	0.0940	6.7899	1.0000
A[12]	0.0832	0.0805	1.0343	0.6953 <-
A[24]	0.8102	0.0821	9.8636	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 3
Mean 154.9	Standard deviation 10.3
R-square 0.9988	Adjusted R-square 0.9987
Durbin-Watson 1.953	Ljung-Box(18)=26.95 P=0.9201
Forecast error 0.367	BIC 0.3928
MAPE 0.001713	RMSE 0.3593
MAD 0.2713	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2007-05	170.800
2007-06	171.000
2007-07	171.400
2007-08	171.000
2007-09	171.200
2007-10	172.000

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2007-11	171.279	171.988	172.697
2007-12	170.607	171.968	173.329
2008-01	170.803	172.792	174.781
2008-02	170.707	173.282	175.856
2008-03	170.650	173.764	176.878
QTR AVG	170.720	173.279	175.838

Railroad and Union Abbreviations

First Quarter 2008

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 Railway (Also noted as CPR Owns the U S Class I railroad Soo Line)
CSX	CSX Transportation
DMIR	Duluth, Missabe & Iron Range Company (Part of CN's Grand Trunk Corp)
DWP	Duluth, Winnipeg & Pacific Railway (Part of CN's Grand Trunk Corp)
GTW	Grand Trunk Western Railroad (Part of CN's Grand Trunk Corp)
IC	Illinois Central Railroad (Part of CN's Grand Trunk Corp)
KCS	Kansas City Southern Railway
NS	Norfolk Southern Combined Railroad Subsidiaries (a k a Norfolk Southern Railway or NS Rail)
SOO	Soo Line Railroad (Canadian Pacific Railway's western U S operations)
SSAM	Sault Saint Marie Bridge Company (Part of CN's Grand Trunk Corp)
UP	Union Pacific Railroad
WC	Wisconsin Central and subsidiaries (Part of CN's Grand Trunk Corp)

Major Unions Involved with Railroads

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

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

BLE	Brotherhood of Locomotive Engineers (predecessor to BLET)
BMWED	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)