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September 4, 2026

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

	<u>2026Q3</u>	<u>2026Q4</u>	<u>% Change</u>
All-Inclusive Index	110.6	112.5	1.7
Preliminary RCAF	1.106	1.125	1.7
Forecast Error Adjustment	-0.010	0.068	
RCAF (Unadjusted)	1.096	1.193	8.9
Productivity Adjustment Factor	2.6261	2.6358	
RCAF (Adjusted)	0.417	0.453	8.6
PAF-5	2.7703	2.7800	
RCAF-5	0.396	0.429	8.3

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,

A handwritten signature in black ink, appearing to read "Rand Ghayad", with a horizontal line drawn underneath the signature.

Rand Ghayad

Attachments

Fourth Quarter 2026
All - Inclusive Index

Ex Parte No. 290 (Sub-No. 5) (2026-4)

Quarterly Rail Cost Adjustment Factor
Surface Transportation Board

Policy and Economics Department
Association of American Railroads

September 4, 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 fourth quarter 2026. The All-Inclusive Index utilizes new weights (see page 2), which are based on 2025 Annual Report Form R-1 data. New annual report and wage statistics data have also been utilized to rebenchmark labor (see Appendix A), and the annual report data have also been used to update the Interest Index (see Appendix F).

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 2025 (current) and 2024 (previous) weights are shown below. Weights calculated from 2024 data were used for the fourth quarter of 2025 through the third quarter of 2026. Beginning with the fourth quarter of 2026, weights calculated using 2025 data are used. The component with the biggest change in weight was Depreciation, which increased by 0.8 percentage points. Labor increased by 0.3 percentage points, and Materials & Supplies increased by 0.2 percentage points. Interest decreased by 0.2 percentage points. Other decreased by 0.4 percentage points. Fuel decreased by 0.7 percentage points. Equipment Rents remained the same.

Weights for RCAF's All-Inclusive Index		
	2025	2024
Labor	32.7%	32.4%
Fuel	13.9%	14.6%
Materials & Supplies	5.1%	4.9%
Equipment Rents	4.4%	4.4%
Depreciation	17.4%	16.6%
Interest	2.2%	2.4%
Other	24.3%	24.7%
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

Fourth 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.

	2025 Weights	Forecast		% Change
		Previous 2026Q3	Current 2026Q4	
Labor	32.7%	588.3	595.4	1.2
Fuel	13.9%	465.1	500.2	7.5
Materials & Supplies	5.1%	436.1	430.5	-1.3
Equipment Rents	4.4%	307.4	310.2	0.9
Depreciation	17.4%	242.9	246.6	1.5
Interest	2.2%	58.1	60.3	3.8
Other	24.3%	327.7	324.5	-1.0
Weighted Average				
a.1980 = 100		416.0	422.9	1.7
b.1980 = 100 (linked)		378.7	385.0 ¹	1.7
c.4Q22 = 100		110.6	112.5 ²	1.7

1 Index80 = (Current Index / Previous Index) * the Previous Quarter Linked Index
= (422.9 / 416.0) x 378.7
= 385.0

2 To calculate the 4Q22 = 100 index:
Index4Q22 = (Current Linked Index / 4Q22 Basing Factor) * 100
= (385.0 / 342.3) x 100
= 112.5

Indexes based on other periods:

4Q17 based index = (385.0 / 264.5) x 100 = 145.6

4Q12 based index = (385.0 / 297.6) x 100 = 129.4

4Q07 based index = (385.0 / 245.9) x 100 = 156.6

4Q02 based index = (385.0 / 192.1) x 100 = 200.4

4Q97 based index = (385.0 / 173.2) x 100 = 222.3

4Q92 based index = (385.0 / 156.9) x 100 = 245.4

Forecast vs. Actual All - Inclusive Index

Second Quarter 2026

Because of data availability, the forecast error adjustment has a two-quarter lag from each filing. As shown below, the second quarter actual index of 109.0 is 6.8 above the forecast value of 102.2. Therefore, the forecast error adjustment for fourth quarter 2026 is 6.8 index points (reflected as 0.068 adjustment).

	2024	Second Quarter 2026		
	Weights	Forecast	Actual	Amount Difference
Labor	32.4%	575.6	575.6	
Fuel	14.6%	304.3	487.4	
Materials & Supplies	4.9%	389.2	389.2	
Equipment Rents ¹	4.4%	304.6	301.2	
Depreciation	16.6%	243.5	243.8	
Interest	2.4%	58.1	58.1	
Other	24.7%	320.2	320.2	
Weighted Average				
a.1980 = 100		384.3	410.9	
b.1980 = 100 (linked)		349.8	373.0 ²	
c.4Q22 = 100 ³		102.2	109.0	6.8
Forecast Error			6.8	index points

	2024	Second Quarter 2026	
	Weight	Forecast	Actual
1 Car Hire	68.2%	265.4	265.6
Lease Rents	31.8%	320.2	320.2
Weighted Average		282.8	283.0
Weighted Average (Linked)		304.6	301.2

² Linked Actual Index = (Actual Index / Previous Actual Index) x Previous Linked Actual Index
= (410.9 / 375.6) x 341.0
= 373.0

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 March 31, 2026, the Surface Transportation Board served a decision which proposed to adopt 1.5% as the geometric average productivity change for the five most recent years available. Their five year rolling geometric average calculation added the year 2024 and removed the year 2019. The components of this average annual value are shown on the following table in ratio format - therefore, 1.015 is the same as an increase of 1.5%. 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)
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
2024	1.016	1.002	1.014
Average			1.015
Previous Average (2019-2023)			1.014

Calculation of PAF and PAF - 5

For 2020 -2024, use fourth root of avg. productivity change = 1.0037

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

Quarter	Year	PAF	PAF-5
Q1	2026	2.6068	2.7510
Q2	2026	2.6164	2.7606
Q3	2026	2.6261	2.7703
Q4	2026	2.6358	2.7800
Q1	2027	2.6456	2.7903

2019 - 2023

2020 - 2024

Rail Cost Adjustment Factor

Fourth 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 2026Q3	Current 2026Q4	% Change
All-Inclusive Index ¹	110.6	112.5	1.7
Preliminary RCAF ²	1.106	1.125	1.7
Forecast Error Adjustment ³	-0.010	0.068	
RCAF (Unadjusted) ⁴	1.096	1.193	8.9
Productivity Adjustment Factor ⁵	2.6261	2.6358	
RCAF (Adjusted) ⁶	0.417	0.453	8.6
PAF-5 ⁷	2.7703	2.7800	
RCAF-5 ⁸	0.396	0.429	8.3

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 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

Fourth Quarter 2026

The fourth quarter 2026 Labor Index is 1.2% higher than the previous quarter.

Rebenchmarking and Reweighting

Each year in the fourth quarter, the index is rebenchmarked to newer annual data. The internal weights used to determine the proportion of labor costs represented by wages and supplements are also updated in the fourth quarter. The Labor rate is basically a group of benchmarks from annual data that are updated each quarter using additional information such as labor agreements, payroll taxes, health & welfare rates, and other data. By rebenchmarking the index to newer annual data, the distance between the benchmark year and the current quarter becomes smaller, making the index a more accurate picture of the current reality. The impact of rebenchmarking is captured in the Labor Index, and by itself can cause a change in the index.

The new benchmark year is 2025, and this replaces data for 2024. One of the major data sources underlying the fourth quarter rebenchmarking is the Annual Report Form R-1 submitted to the Surface Transportation Board (STB) by each Class I Railroad. The other major data source is the 112-Class Wage Statistics report received by the AAR from each Class I railroad. The totals in each of the 112-Class Wage Statistics Report matches the corresponding total in the less-detailed Wage Form A&B submitted to the STB. The extra detail allows the AAR to divide the wage statistics by labor union, which enables wage rate updates to be more accurate. Data from the two major sources are used for labor benchmarks, and the annual report data are also used to calculate index weights. The source for the wage and supplements internal weights, like the external weights, is the Annual Report Form R-1 Summary. Unlike rebenchmarking, reweighting by itself is prevented from causing a change in the index. A linking procedure, where the previous quarter unlinked index is recalculated using the new weights, eliminates changes that would be caused solely by changing weights.

Wage Rate Index:

The Wage Rate Index portion of the Labor Index increased by 3.6%.

Wage Increase:

Wages increased 3.5% compared to the prior quarter. The increase reflects newly ratified labor agreements between railroads and unions engaged in national and independent collective bargaining, which generally align with broader wage adjustments. An additional portion of the increase results from updated wage statistics incorporated through the annual benchmarking and weighting process.

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 fourth quarter rate increased by 3.6% from the prior quarter.

Labor

Fourth Quarter 2026

Lump Sum:

The fourth quarter lump sum increased by 2.7%. Fully amortized payments were removed and replaced by new similar amounts. The annual benchmarking and weighting process drove an increase in lump sums.

Back Pay:

The back pay increased from \$0.147 to \$0.189. 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.

Supplements Index

The Supplements Index decreased 2.5% this quarter. The impact of rebenchmarking is captured in the Supplements Index, and caused a change in the Health and Welfare, Railroad Retirement, and Unemployment portions of the index. 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 decreased 6.4%. This decrease is driven by the annual benchmarking and weighting process.

Railroad Retirement:

The Railroad Retirement rate increased 2.1%, due to updated RRB data and rebenching.

Unemployment Insurance:

The Unemployment Insurance rate decreased 1.1% or \$0.001 cents, which remains relatively unchanged.

Other:

The fourth quarter rate is 43.7% 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 3.6% increase in the Wage Rate Index and the 2.5% decrease in the Supplements Index combined to cause the Labor Index to be 1.2% higher than the previous quarter. The linked fourth quarter 2026 Labor Index is 595.4, which is 9.8% higher than one year ago.

Labor

Fourth Quarter 2026

Table A-1 Labor Index

	2026Q3		2026Q4	
	Used in Previous Index Filing	Updated to Reflect New Benchmarks	Based on 2025 Data	% Change From Prev. Filing
Base Wage ¹	\$59.040	\$61.059	\$61.111	3.5%
Adjustments:				
Lump Sum	\$0.258	\$0.268	\$0.265	2.7%
Back Pay	\$0.147	\$0.152	\$0.189	28.6%
Other	\$0.168	\$0.174	\$0.174	3.6%
Total Wages	\$59.613	\$61.653	\$61.739	3.6%
Health & Welfare Benefits	\$10.822	\$10.127	\$10.127	-6.4%
RR Retirement & Medicare	\$12.532	\$12.776	\$12.789	2.1%
Unemployment Insurance	\$0.088	\$0.087	\$0.087	-1.1%
Other	\$0.371	\$0.384	\$0.209	-43.7%
Total Supplements	\$23.813	\$23.374	\$23.212	-2.5%
Total Labor (as info only)	\$83.43	\$85.03	\$84.95	
Wage Rate Index ²	510.2	527.6	528.4	3.6%
Supplements Index ³	880.0	863.8	857.8	-2.5%
Total labor Index, 2024 Weights ⁴	612.3			
Total labor Index, 2025 Weights ⁵	608.9	617.4	616.3	
Labor Index (Linked) ⁶	588.3		595.4	1.2%

1. Base wage: Straight Time & Pay For Time Not Worked

2. 1980 wage rate : \$11.685

3. 1980 supplements rate: \$2.706

4. 2024weights: Wage, Supplements 72.4%, 27.6%

5. 2025weights: Wage, Supplements 73.3%, 26.7%

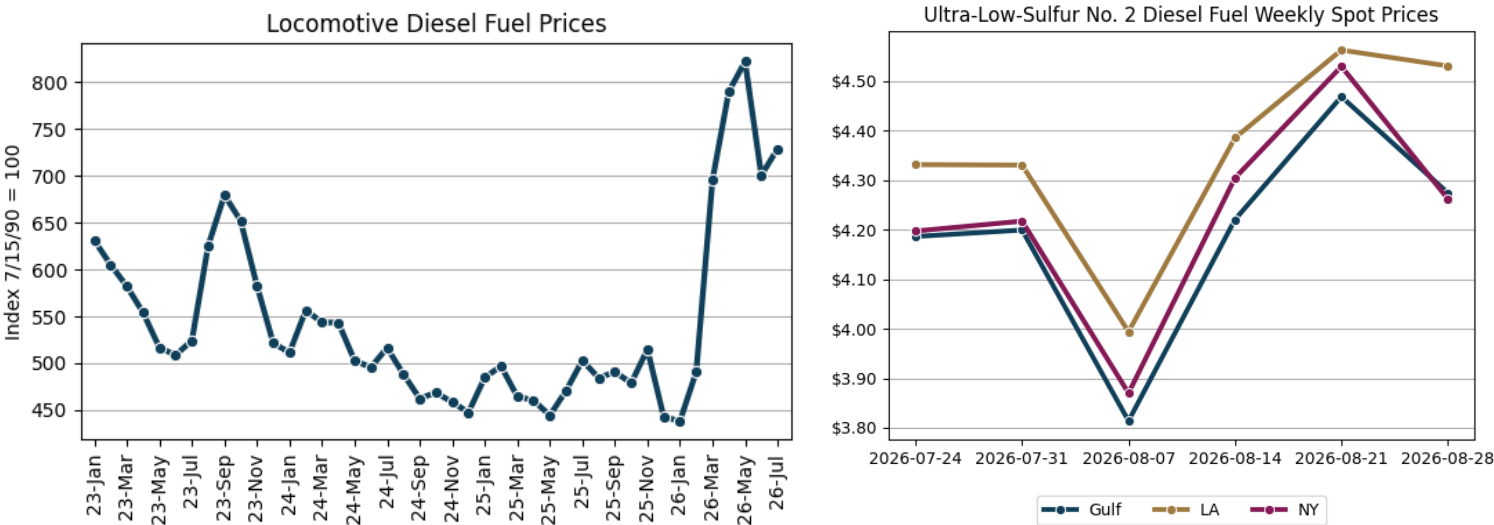
6. 2026Q4 linked index = 2026Q3 linked x (2026Q4 / 2026Q3) = 588.3 x (616.3 / 608.9)

Fuel

Fourth 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 low point in January 2026, but has trended up since then. While average prices for locomotive diesel fuel are available only through July 2026, data through four weeks of August are available for related fuel types. According to the Energy Information Administration, the daily spot price as of September 1st for Ultra-Low-Sulfur No. 2 Diesel Fuel* is an average of 14.1% higher than the average for August. The chart below (on left) shows the AAR's Monthly Locomotive Diesel Fuel Price Index through July 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 August are higher than prices that actually occurred in July. Railroads that responded to the AAR's forecast survey expect prices to increase by October (Q4) compared to prices that actually occurred for July (Q3). The fourth quarter 2026 forecast is 7.5% higher than the previous quarter forecast, and 11.2% higher than the prior quarter actual.

Forecast Fuel Index (1980=100)	500.2
Change from previous quarter forecast	7.5 %
Change from previous quarter actual	11.2 %

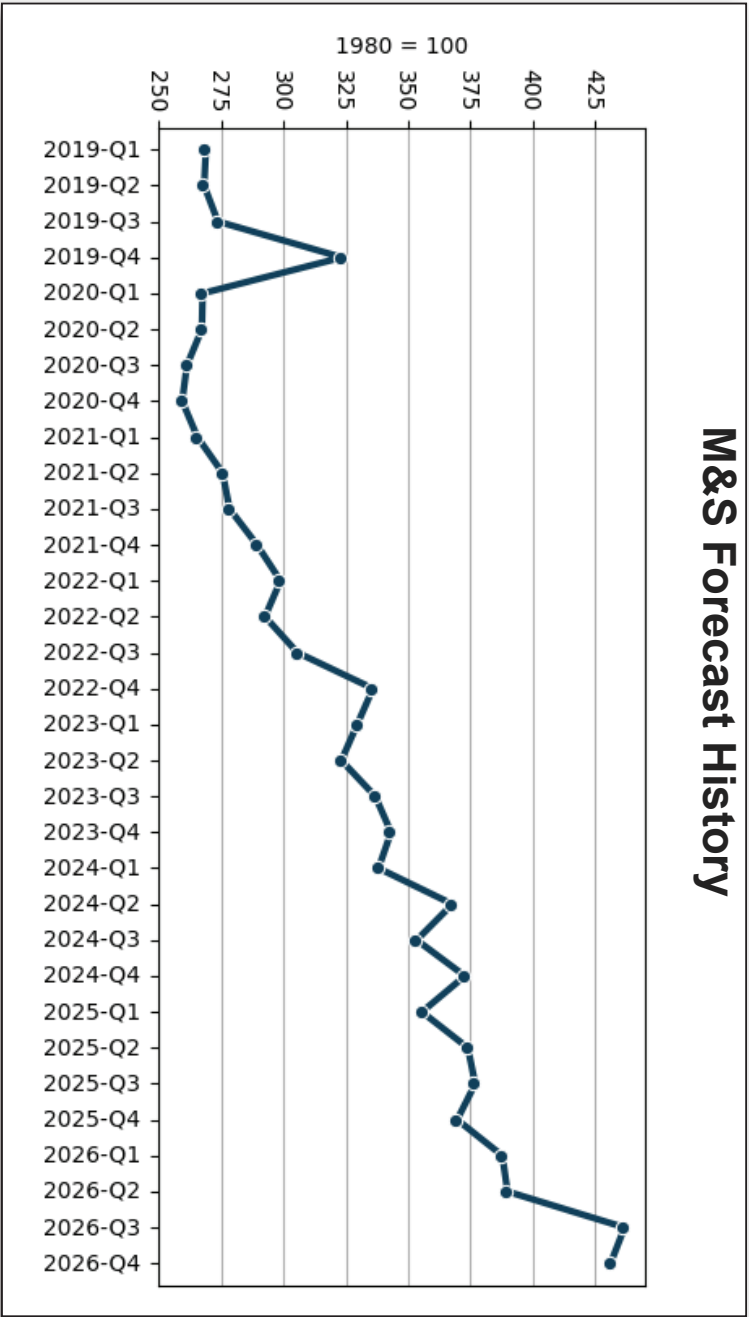
* Heating oil, Ultra-Low-Sulfur No. 2 Diesel Fuel, and locomotive diesel fuel are part of a group of closely related products, commonly labeled as distillates, that differ mostly by their sulfur content. Because of these similarities, these fuels are produced together and have similar pricing trends.

Materials & Supplies Fourth Quarter 2026

The fourth quarter 2026 Materials & Supplies Index decreased 1.3% from the previous quarter. Prices increased for Metal and Miscellaneous Products. Prices decreased for Forest Products.

2026Q4	Materials & Supplies Index =	430.5
2026Q3	Materials & Supplies Index =	436.1
Basis Points Difference		-5.6 basis points
Percentage Difference		-1.3%

M&S Forecast History



Equipment Rents

Fourth 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 fourth quarter Car Hire portion of the Index increased 2.0 percent as the latest rates for privately-owned cars were higher compared to three months ago. A 1.0 percent decrease in the projected PPI-LF (See Appendix G) used as a proxy for Lease Rentals, combined with the 2.0 percent increase for Car Hire, caused the Equipment Rents Index to increase by 0.914 percent – rounded to 0.9 percent in the table below.

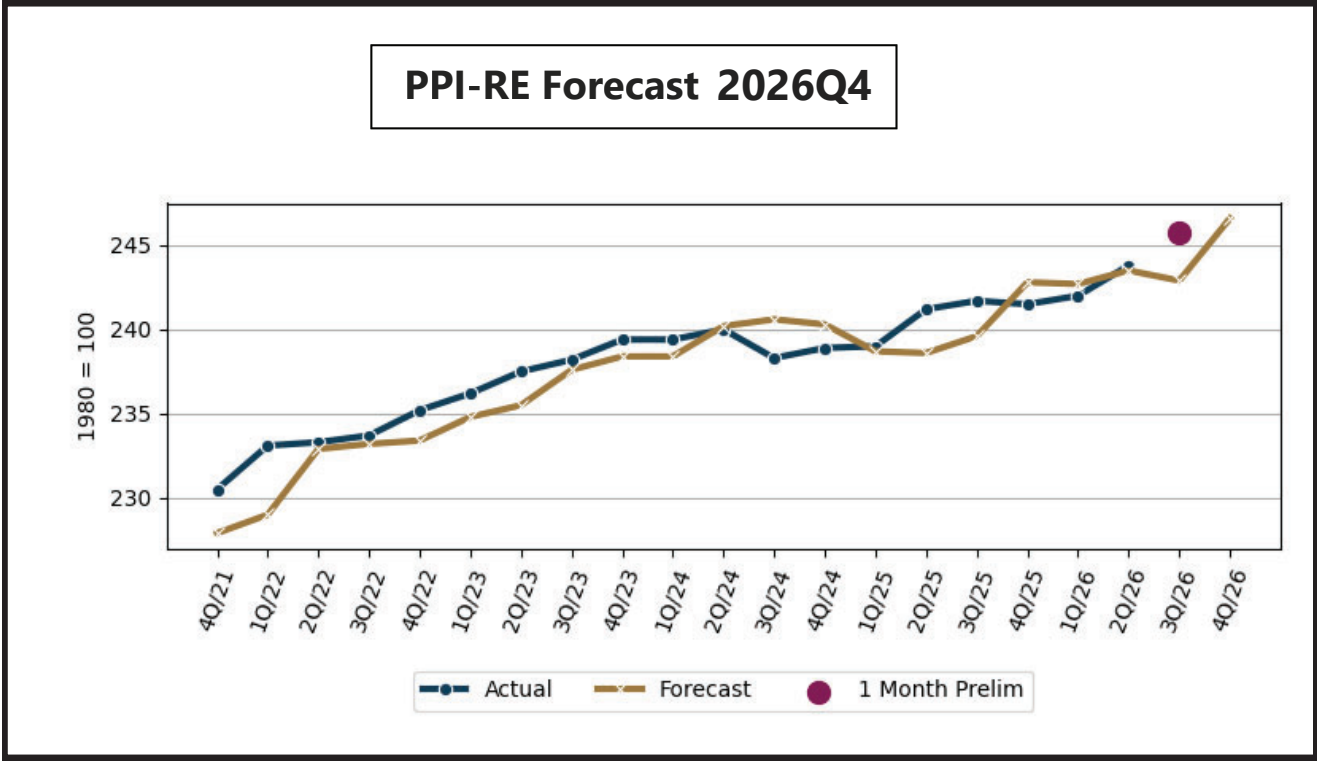
Component	2025 Weights	2026Q3	2026Q4	% Change
Car Hire	68.4%	265.7	271.0	2.0
Lease Rents	31.6%	327.7	324.5	-1.0
Weighted Average		285.3	287.9	0.9
Weighted Average (Linked)		307.4	310.2	0.9

Depreciation

Fourth 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 1.5% higher than the previous quarter's forecast.

Forecast of Depreciation Index (1982 = 100)	222.9
Forecast of Depreciation Index (1980 = 100)	246.6
Change from previous quarter forecast	1.5 %
Change from actual first month of previous quarter	0.3 %
Change from same quarter of prior year (actual)	2.1 %



Depreciation

Fourth 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 0.77 and for Box-Jenkins was 1.34. 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(0.843, 0.019)

Component	Smoothing Wgt	Final Value
Level	0.843	222
Trend	0.01938	0.2337

Within-Sample Statistics

Sample size	72.00	No. parameters	2
Mean	213.38	Std. deviation	4.94
R-square	0.98	Adj. R-square	0.98
Durbin-Watson	1.91	Ljung-Box(18)	15.3 P=0.36
Forecast error	0.65	BIC	0.68
MAPE	0.17	SMAPE	0.17
RMSE	0.64	MAD	0.37
MAD/Mean Ratio	0.00		

Actual Values for the Most Recent 6 Periods

2026-Feb	218.9
2026-Mar	219.4
2026-Apr	220.3
2026-May	220.4
2026-Jun	220.6
2026-Jul	222.2

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2026-Aug	220.893	222.216	223.539
2026-Sep	220.705	222.450	224.194
2026-Oct	220.601	222.683	224.766
2026-Nov	220.544	222.917	225.290
2026-Dec	220.520	223.151	225.782
Qtr Avg	220.555	222.917	225.279

Interest

Fourth 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 2025 data, and was updated in the Q4 filing submitted in September 2026. The Interest Index based on 2025 increased from 58.1 in 2024 to 60.3 in 2025.

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

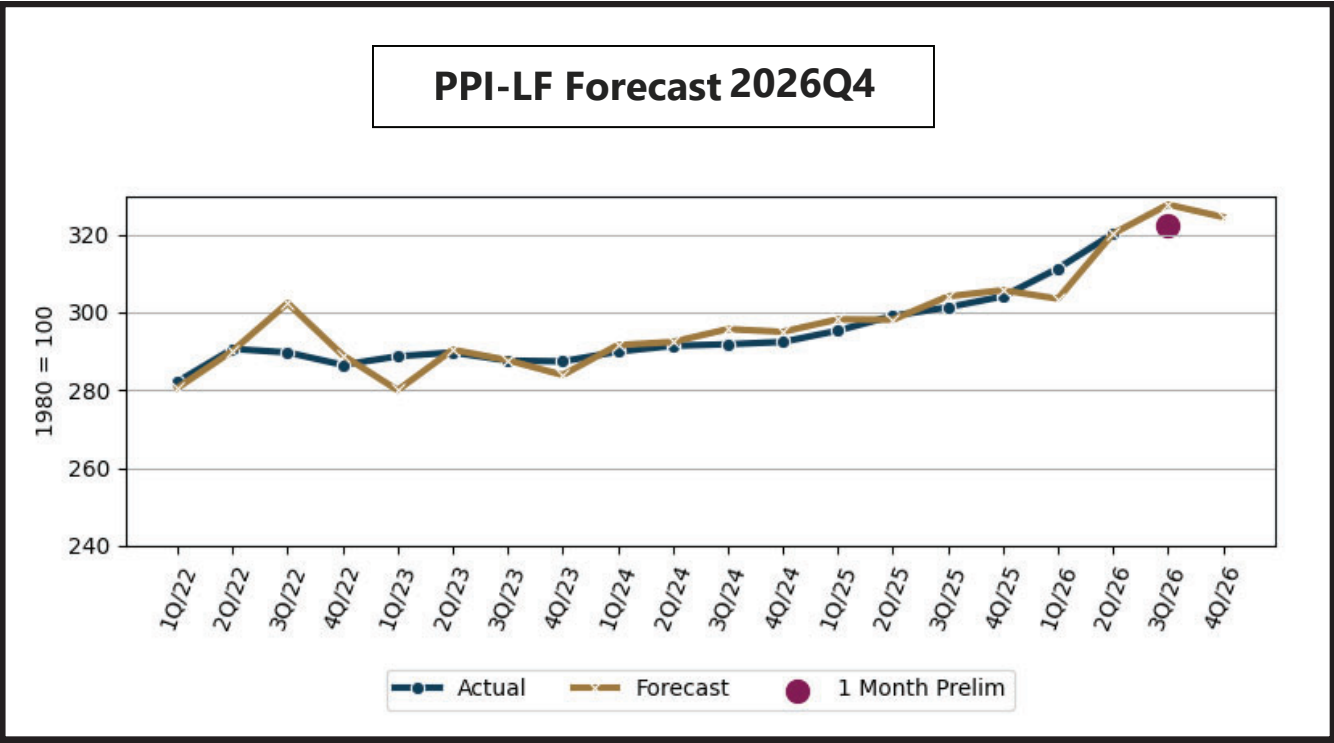
2025	Interest Rate	4.73%
1980	Interest Rate	7.85%
2026Q3	Interest Index	58.1
2026Q4	Interest Index	60.3
	Percent Change	3.79%

Other Expenses

Fourth 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 1.0% lower than the previous quarter's forecast.

Forecast of Other Index (1982 = 100)	289.4
Forecast of Other Index (1980 = 100)	324.5
Change from previous quarter forecast	-1.0 %
Change from actual first month of previous quarter	0.7 %
Change from same quarter of prior year (actual)	6.7 %



Other Expenses

Fourth 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 4.65 and for Box-Jenkins was 8.99. 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(1.000, 0.751)

Component	Smoothing Wgt	Final Value
Level	1	287.6
Trend	0.7514	0.4618

Within-Sample Statistics

Sample size	72.00	No. parameters	2
Mean	254.30	Std. deviation	19.06
R-square	1.00	Adj. R-square	1
Durbin-Watson	1.94	Ljung-Box(18)	33.3 P=0.98
Forecast error	1.00	BIC	1.05
MAPE	0.31	SMAPE	0.31
RMSE	0.99	MAD	0.77
MAD/Mean Ratio	0.00		

Actual Values for the Most Recent 6 Periods

2026-Feb	277.9
2026-Mar	279.8
2026-Apr	282.8
2026-May	286.6
2026-Jun	287.5
2026-Jul	287.6

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2026-Aug	286.009	288.062	290.115
2026-Sep	284.383	288.524	292.664
2026-Oct	283.501	288.985	294.470
2026-Nov	282.889	289.447	296.005
2026-Dec	282.430	289.909	297.388
Qtr Avg	282.940	289.447	295.954

Abbreviation

Fourth 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.