

204987



**ASSOCIATION
OF AMERICAN
RAILROADS**

ENTERED
Office of the Secretary

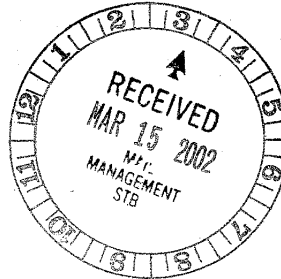
Craig F. Rockey
Vice President - Policy & Economics

MAR 15 2002

Part of
Public Record

March 15, 2002

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board, Room 711
1925 K Street, N.W.
Washington, DC 20423-0001



Dear Mr. Williams:

This submission is the *revised* AAR forecast of the second quarter 2002 All-Inclusive Index and Rail Cost Adjustment Factor, filed in Ex Parte No. 290 (Sub-No. 5) (2002-2), *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 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 2002 results, and shows the percentage changes from the previous quarter.

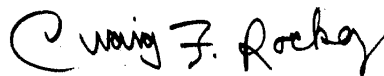
	<u>2002Q1</u>	<u>2002Q2</u>	<u>% Change</u>
All-Inclusive Index	107.6	106.4	-1.1
Preliminary RCAF	1.076	1.064	-1.1
Forecast Error Adjustment	0.000	-0.002	
RCAF (Unadjusted)	1.076	1.062	-1.3
Productivity Adjustment Factor	1.8686	1.8878	
RCAF (Adjusted)	0.576	0.563	-2.3
PAF-5	1.9513	1.9648	
RCAF-5	0.551	0.541	-1.8

Page 2
March 15, 2002

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.

Since our March 5 filing, new information concerning the impact of the recently enacted Railroad Retirement and Survivors' Improvement Act of 2001 has been made available to us. Because the Act will cause a large increase in the number of railroad employees who will retire this year, the Early Retirement Major Medical employer contribution has been raised effective March 1, 2002. This change affects the Supplements Index portion of the Labor Index. While we have submitted a complete revised filing, only 5 pages plus this cover letter are different from the March 5 filing. Those pages are pages 3 and 6, and Appendix A pages 1, 2 and 3. Two copies of the workpapers underlying the revisions in 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 Jeff Warren 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, slightly slanted style.

Craig F. Rockey

Attachments

**Second Quarter 2002
All-Inclusive Index**

Ex Parte No. 290 (Sub-No. 5) (2002-2)

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

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

March 15, 2002

Table of Contents

Subject	Page
Introduction	1
Index Weights	2
All-Inclusive Index - Second Quarter 2002.	3
Forecast vs. Actual All Inclusive Index - Fourth Quarter 2001	4
Productivity	5
Rail Cost Adjustment Factor - Second Quarter 2002.	6
Appendices	
A Labor	
B Fuel	
C Materials & Supplies	
D Equipment Rents	
E Depreciation	
F Interest	
G Other Expenses	

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 second quarter of 2002.

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 previous (1999) weights were used for the fourth quarter of 2000 through the third quarter of 2001. Beginning with the fourth quarter of 2001, the 2000 weights are used. The major changes in the weights were for Fuel and Labor as the railroads experienced lower labor expenses while fuel prices soared. The changes for the remaining components were by one half of a percentage point or less. The 2000 (current) and 1999 (previous) weights are shown below.

RCAF Weights		
	Previous 1999	Current 2000
Labor	39.3 %	36.5 %
Fuel	7.1	10.7
Materials & Supplies	5.3	4.8
Equipment Rents	11.4	11.1
Depreciation	10.6	10.2
Interest	4.6	4.6
Other	21.7	22.1

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 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

Revised Second Quarter 2002

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.

	2000 Weights	Forecast		Percent Change
		Previous 2002Q1	Current 2002Q2	
1. Labor	36.5%	260.3	257.3	-1.2 %
2. Fuel	10.7%	87.4	82.5	-5.6
3. M&S	4.8%	155.5	150.0	-3.5
4. Equipment Rents	11.1%	178.9	176.6	-1.3
5. Depreciation	10.2%	150.1	149.7	-0.3
6. Interest	4.6%	108.8	108.8	0.0
7. Other	22.1%	159.2	159.2	0.0
8. Weighted Average				
a. 1980 = 100		187.2	185.0	
b. 1980 = 100 (linked)		186.4	184.2 ¹	
c. 4Q97 = 100		107.6	106.4 ²	-1.1

¹ To calculate the 1980 = 100 Linked Index:

$$\begin{aligned} \text{Index}_{80} &= (\text{Current Index} / \text{Previous Index}) * \text{the Previous Quarter Linked Index} \\ &= 185.0 \text{ divided by } 187.2 \text{ times } 186.4 \\ &= 184.2 \end{aligned}$$

² To calculate the 4Q97 = 100 index:

$$\begin{aligned} \text{Index}_{4Q97} &= (\text{Current Linked Index} / 4Q97 \text{ Index}) * 100 \\ &= 184.2 \text{ divided by } 173.2 \text{ times } 100 \\ &= 106.4 \end{aligned}$$

$$4Q92 \text{ based index} = 117.4$$

$$4Q87 \text{ based index} = 139.3$$

Forecast vs. Actual All-Inclusive Index Fourth Quarter 2001

As shown below, the fourth quarter actual index of 107.2 is 0.2 index points below the forecast value of 107.4. Thus, the forecast error adjustment in the second quarter 2002 is -0.2 index points.

	2000 Weights	Fourth Quarter 2001		Amt Difference
		Forecast	Actual	
1. Labor	36.5%	253.0	253.0	
2. Fuel	10.7%	108.5	97.7	
3. M&S	4.8%	153.8	153.8	
4. Equipment Rents ¹	11.1%	179.2	179.2	
5. Depreciation	10.2%	150.0	149.3	
6. Interest	4.6%	108.8	108.8	
7. Other	22.1%	160.2	159.5	
8. Weighted Average				
a. 1980 = 100		186.9	185.6	
b. 1980 = 100 (linked)		186.1	185.7 ²	
c. 4Q97 = 100 ³		107.4	107.2	-0.2

Forecast error —————> -0.2 index points

¹	2000 Weights	Fourth Quarter 2001	
		Forecast	Actual
Car-Hire	52.8%	186.5	186.6
Lease Rentals	47.2%	160.2	159.5
Weighted Average		174.1	173.8
Weighted Average (linked)		179.2	179.2

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

$$185.7 = 185.6 / 186.7 \times 186.8$$

Note: the previous actual index has been recalculated using 2000 weights.

³ The 4Q97 based indexes are 1980 based indexes divided by the 4Q97 index (173.2/100).
 4Q92 based indexes are the 1980 based indexes divided by the 4Q92 index (156.9/100).
 2001Q4 actual index based on 4Q92: —————> 118.4

Productivity

On February 1, 2002, the STB served a decision in Ex Parte 290 (Sub-No. 4) which added the year 2000 to the Productivity Adjustment Factor (PAF) and deleted the year 1995. This creates an average annual productivity for 1996 through 2000 of 4.2 percent – an increase from the 1995 through 1999 average of 2.8 percent. The components of this average annual value are shown on the following table. 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			
1996 - 2000			
Year	Output Index (1)	Input Index (2)	Productivity Changes (3)
1996	1.038	0.913	1.137
1997	1.007	1.019	0.988
1998	1.005	1.018	0.987
1999	1.028	1.003	1.025
2000	1.028	0.950	1.082
Average			1.042
Previous Average (1995-1999)			1.028

Calculation of PAF and PAF-5			
For 1996-2000 use fourth root of avg. productivity change			1.0103
For 1995-1999 use fourth root of previous avg. change			1.0069
Quarter	Year	PAF	PAF-5
Q1	2002	1.8686	1.9513
Q2	2002	1.8878	1.9648
Q3	2002	1.9072	1.9784
Q4	2002	1.9268	1.9921
Q1	2003	1.9466	2.0126

Rail Cost Adjustment Factor

Revised Second Quarter 2002

Four RCAF values are presented in this filing. Two of the indexes, the All-Inclusive Index and the Unadjusted RCAF, are not modified for productivity, while the Adjusted RCAF and the RCAF-5 incorporate a productivity calculation. The All-Inclusive Index and all four RCAF values, plus the percent change for each, are shown below.

	Previous 2002Q1	Current 2002Q2	Percent Change
All-Inclusive Index ¹	107.6	106.4	-1.1
Preliminary RCAF ²	1.076	1.064	-1.1
Forecast Error Adjustment ³	<u>0.000</u>	<u>-0.002</u>	
RCAF (Unadjusted) ⁴	1.076	1.062	-1.3
Productivity Adjustment Factor ⁵	1.8686	1.8878	
RCAF (Adjusted) ⁶	0.576	0.563	-2.3
PAF-5 ⁷	1.9513	1.9648	
RCAF-5 ⁸	0.551	0.541	-1.8

¹ See All-Inclusive Index on page 3.

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

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

⁴ Preliminary RCAF plus the forecast error adjustment.

⁵ See Productivity on page 5.

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

⁷ See Productivity on page 5.

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

Appendixes

Labor

Revised Second Quarter 2002

The second quarter 2002 Labor Index is forecast to decrease 1.2 percent, caused mostly by the Railroad Retirement and Survivors' Improvement Act of 2001, which was signed into law by President Bush on December 21, 2001. Among other things, the Act lowered the Tier II rate for Railroad Retirement contributions by employers. The new law also repealed the supplemental annuity tax.

The *first* quarter 2002 labor rate forecast, which was filed on December 5, used Tier II and supplemental annuity rates that were announced by the Railroad Retirement Board in October and November. Therefore, the impact of the new Act on the first quarter was not reflected in the first quarter labor rate forecast, but will be accounted for in the forecast error adjustment made in the June 5 (third quarter) filing.

Wage Index

The Wage Index is expected to increase 0.1 percent. The most significant changes in the Wage Index were a large independent lump sum bonus and the addition of one new independent contract.

National Contracts: The wage rates tied to national contracts were unchanged for the second quarter. The next change should be for the *third* quarter, since the contracts currently in place have a cost-of-living allowance adjustment to be made on July 1.

Independent Contracts: The Association of American Railroads recently received a copy of a contract calling for a 3 percent independent increase for the CN/Grand Trunk Western's Transportation Communication International Union (TCU), effective January 1, 2002. This newly added contract caused all of the change in the base wage rate.

Lump Sums: The lump sum adjustment increased by 2.8 cents as 3 adjustments were completely amortized and removed, but two amounts (one was large) were added. The lump sum amounts removed were for Kansas City Southern, CN/Illinois Central's Brotherhood of Maintenance of Way Employees (BMWE) and International Brotherhood of Fireman and Oilers (IBFO), and Norfolk Southern's Brotherhood of Locomotive Engineer's (BLE) 2000 Thoroughbred Bonus. Lump sum amounts were added for the CN/GTW's TCU signing bonus and the NS BLE Thoroughbred Bonus for 2001. The NS bonus caused the most change, and it was double the NS amount for the prior period.

Back Pay: The back pay adjustment was unchanged. A small back pay amount was added to the wage rate for the new CN/GTW TCU contract (1 quarter of back pay), and a small amount for the CN/IC TCU was completely amortized and removed.

Labor

Revised Second Quarter 2002

Other: This component contains the amortization of a profit sharing payment that the BNSF made to its Brotherhood of Locomotive Engineers employees from the former Atchison, Topeka and Santa Fe Railway in early 2001. The second quarter 2002 figure is unchanged from the first quarter filing.

Supplements Index

The Supplements Index is forecast to decrease by 3.2 percent from the first quarter filing. The change is mostly caused by the newly signed Railroad Retirement and Survivors' Improvement Act of 2001, which lowered some payroll taxes and made it necessary to raise some health & welfare rates.

Health & Welfare: The Health and Welfare hourly rate increased slightly from the first quarter. Because the newly enacted Railroad Retirement and Survivor's Improvement Act of 2001 will cause more railroad workers to retire this year than previously expected, the Early Retirement Major Medical employer contribution rate was raised from \$31.00 to \$40.09 effective March 1. (The rate is per employee per month.) This caused all of the change in Health and Welfare.

Railroad Retirement: The Railroad Retirement and Survivors' Improvement Act of 2001 changed the Tier II employer contribution rate from 16.1 to 15.6 percent. This caused most of the 1.9 percent decrease in the Railroad Retirement rate.

Supplemental Annuities: The Supplemental Annuity Tax rate was repealed by the Railroad Retirement and Survivors' Improvement Act of 2001.

Unemployment Insurance: The railroad Unemployment Insurance rate was unchanged from the prior quarter.

Other: The "Other" category, a reflection of a quarterly employer matching contribution by BNSF to certain BLE and BMWE employees, is unchanged.

Labor Index Calculation

As shown in table A-1 on the next page, the 0.1 percent increase in the Wage Index and the 3.2 percent decrease in the Supplements Index had a combined effect of a 1.2 percent decrease in the Labor Index.

Labor

Revised Second Quarter 2002

Table A-1 Labor Index

	2002Q1	2002Q2	Change	
			Percent	Amount
Base Wage – Straight Time & Pay For Time Not Worked	\$26.703	\$26.705	0.0%	\$0.002
Adjustments:				
Lump Sum	0.030	0.058	93.3%	0.028
Back Pay	0.053	0.053	0.0%	0.000
Other	0.004	0.004	0.0%	0.000
Total Wages	<u>26.790</u>	<u>26.820</u>	0.1%	0.030
Health & Welfare Benefits	3.069	3.099	1.0%	0.030
RR Retirement & Medicare	6.616	6.487	-1.9%	-0.129
Supplemental Annuities	0.231	0.000	-100.0%	-0.231
Unemployment Insurance	0.269	0.269	0.0%	0.000
Other	0.010	0.010	0.0%	0.000
Adjustments	0.000	0.000		
Total Supplements	<u>\$10.195</u>	<u>\$9.865</u>	-3.2%	-0.330
Total Labor	\$36.985	\$36.685		
Wage Index¹	229.3	229.5	0.1%	
Supplements Index²	376.8	364.6	-3.2%	
Total labor Index, 2000 Weights ³	268.5	265.4		
Labor Index (linked)⁴	260.3	257.3	-1.2%	

¹ 1980 wage rate \$11.685

² 1980 supplements rate \$2.706

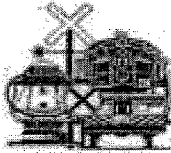
³ 2000 weights: wages, supplements 73.4% 26.6%

⁴ 2002Q2 linked Index = 2002Q1 _{linked} x (2002Q2 / 2002Q1)

= 260.3 x 265.4 / 268.5

Labor

Second Quarter 2002



RRB News

U.S. Railroad Retirement Board

Office of Public Affairs 844 North Rush Street Chicago, Illinois 60611-2092

312-751-4777
312-751-7154 (fax)
www.rrb.gov

No. 01-14

For Immediate Release
December 2001

Revised Year 2002 Railroad Retirement Payroll Taxes

The Railroad Retirement and Survivors' Improvement Act of 2001, signed into law by President Bush on December 21, 2001, among other provisions, amended the Internal Revenue Code to reduce tier II railroad retirement tax rates on rail employers, including rail labor organizations, in 2002 and 2003, and provided for future adjustments in the tier II railroad retirement tax rates assessed on both rail employers and rail employees, depending on railroad retirement fund levels. The new law also repealed the railroad retirement supplemental annuity tax paid by rail employers.

Under the new law, rail employers and rail labor organizations will pay a tier II retirement tax of 15.60 percent in 2002 and 14.20 percent in 2003. Under prior law, the rate was 16.10 percent. The tier II tax rate for rail employee representatives will be 14.75 percent in 2002 and 14.20 percent in 2003. The new law does not affect the tier II earnings bases, and the maximum amount of an employee's railroad earnings subject to the tier II tax will be \$63,000 in 2002, as previously announced.

While there is no change in the tier II tax rate of 4.90 percent for rail employees in the years 2002 and 2003, the new law provides future automatic adjustments in the tier II tax rates for employees as well as for employers. Beginning with the taxes payable for calendar year 2004, tier II taxes will be based on the ratio of certain asset balances to the sum of benefits and administrative expenses. Depending on this ratio, tier II tax rates for employers will range between 8.20 percent and 22.10 percent, while the tier II tax rates for employees will be between 0 percent and 4.90 percent.

The new law does not change the railroad retirement tier I tax on rail employers and employees. The tier I tax rate remains at 7.65 percent for rail employers and employees, which is the same as the social security tax, and for withholding and reporting purposes is divided into 6.20 percent for retirement and 1.45 percent for Medicare hospital insurance. The maximum amount of an employee's earnings subject to the 6.20 percent rate is still \$84,900 in 2002; there is no maximum on earnings subject to the 1.45 percent Medicare rate.

In 2002, a rail employer's tier I and tier II retirement taxes on an employee earning \$84,900 will be \$16,322.85. Under prior law, the amount would have been \$16,637.85 in 2002.

(More)

Association of American Railroads

Labor

Second Quarter 2002

2

The new law also repealed the railroad retirement supplemental annuity tax, which is no longer payable for years after 2001. This work-hours tax had been paid solely by rail employers and employee representatives and at a rate determined quarterly by the Board, 26 cents per work-hour throughout 2001.

The new law does not affect railroad unemployment insurance taxes in any way. These taxes, paid by rail employers, are experience-rated by employer, and in 2002, the unemployment insurance tax rates range from 3.15 percent (the minimum basic rate of 0.65 percent plus a 2.50 percent surcharge) to a maximum of 12 percent on monthly compensation up to \$1,100.

The 2.50 percent surcharge does not apply to new employers in 2002. New employers pay an unemployment insurance tax rate of 2.71 percent, which represents the average rate paid by all employers in the period 1998-2000.

###

Fuel

Second Quarter 2002

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 discussions with their major suppliers, and (3) a consensus of petroleum industry experts and general business publications.

The railroads expect second quarter (April) fuel prices to increase 8.7 percent from the first quarter (January) actual level, although this is a 5.6 percent decrease from the first quarter forecast. Fuel prices had been decreasing faster than expected, but the trend began changing in December and January. March heating oil* prices are already higher than January and February's prices, as supply has been going down while demand is beginning to pick up.

Forecast fuel index	82.5
Change from previous quarter forecast	-5.6%
Change from previous quarter actual	8.7%

* Heating oil is very similar to the diesel fuel used by locomotives. Heating Oil spot prices and futures prices are monitored by the U.S. Department of Energy and other energy industry groups.

Materials & Supplies

Second Quarter 2002

The Materials & Supplies index for second quarter 2002 is 3.5 percent lower than the previous quarter. Much of this decrease was caused by ballast purchases. Recent ballast purchases by the Eastern railroads have been predominantly in the Southern regions instead of the higher-priced Northeast.

2002Q2 Materials & Supplies Index = 150.0

2002Q1 Materials & Supplies Index = 155.5

Difference	-5.5 basis points
	or
	-3.5 %

Equipment Rents

Second Quarter 2002

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 rental 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. Lower auto rack rates for both railroad-owned and privately-owned cars plus lower tank car rates caused the decrease in the Car Hire index.

	2000 Weight	2002Q1	2002Q2	Percent Change
Car Hire	52.8%	186.8	182.6	-2.2 %
Lease Rentals	47.2%	159.2	159.2	0.0
Weighted Average		173.8	171.6	-1.3
Weighted Average (Linked)		178.9	176.6	-1.3

Depreciation

Second Quarter 2002

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 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 value for the forecast, slightly lower than the previous quarter's forecast, reflects a PPI-RE that has not changed much during the last two years, but recently began decreasing.

Forecasted depreciation index (1982=100)	135.3
Forecasted depreciation index (1980=100)	149.7
Change from previous quarter forecast	-0.3%
Change from actual first month of previous quarter	0.9%
Change from same quarter of prior year (actual)	-0.3%

Depreciation

Second Quarter 2002

PPI RAIL EQUIPMENT

Forecast Model for PPIRE
ARIMA(1,0,0)

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.6243	0.0904	6.9023	1.0000
_CONST	50.9003			

Within-Sample Statistics

Sample size 72	Number of parameters 1
Mean 135.5	Standard deviation 1.411
R-square 0.3815	Adjusted R-square 0.3815
Durbin-Watson 1.873	Ljung-Box(18)=13.11 P=0.2148
Forecast error 1.11	BIC 1.135
MAPE 0.004254	RMSE 1.102
MAD 0.5788	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2001-08	135.100
2001-09	135.000
2001-10	135.800
2001-11	134.700
2001-12	134.500
2002-01	134.100

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2002-02	132.459	134.618	136.778
2002-03	132.396	134.942	137.488
2002-04	132.462	135.144	137.825
2002-05	132.537	135.270	138.002
2002-06	132.596	135.348	138.100
QTR AVG	132.532	135.254	137.976
2002-07	132.638	135.398	138.157
2002-08	132.666	135.428	138.191
2002-09	132.684	135.447	138.211

Interest

Second Quarter 2002

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.

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

2000	Interest Rate	8.54%
1980	Interest Rate	7.85%
2002Q2	Interest Index	108.8
2002Q1	Interest Index	108.8
	Percent Change	0.0%

Other Expenses

Second Quarter 2002

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 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 is unchanged from the previous quarter forecast.

Forecasted Other Expense (1982=100)	142.0
Forecasted Other Expense (1980=100)	159.2
Change from previous quarter forecast	0.0%
Change from actual first month of previous quarter	-0.1%
Change from same quarter of prior year (actual)	-1.1%

Other Expenses Second Quarter 2002

PPI INDUSTRIAL COMMODITIES LESS FUEL AND RELATED PRODUCTS AND POWER

Forecast Model for PPILF
ARIMA(1,1,0)*(0,0,1) with log transform

Term	Coefficient	Std. Error	t-Statistic	Significance
a[1]	0.4298	0.1059	4.0590	0.9999
B[12]	-0.5325	0.1018	-5.2324	1.0000

Within-Sample Statistics

Sample size 72	Number of parameters 2
Mean 4.944	Standard deviation 0.01324
R-square 0.9878	Adjusted R-square 0.9876
Durbin-Watson 2.132	Ljung-Box(18)=20.84 P=0.7125
Forecast error 0.001473	BIC 0.2163
MAPE 0.001156	RMSE 0.2042
MAD 0.1625	

Actual Values for the Most Recent 6 Periods:

Date	Actual
2001-08	142.800
2001-09	142.800
2001-10	142.500
2001-11	142.300
2001-12	142.000
2002-01	142.200

Forecasted Values

Date	2.5 Lower	Forecast	97.5 Upper
2002-02	141.686	142.093	142.501
2002-03	141.345	142.054	142.766
2002-04	141.046	142.010	142.981
2002-05	140.866	142.049	143.243
2002-06	140.628	142.002	143.389
QTR AVG	140.847	142.020	143.204
2002-07	140.276	141.818	143.376
2002-08	140.018	141.712	143.426
2002-09	139.886	141.721	143.580