



Gannett Fleming

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September 18, 2009

Alberta Municipal Affairs
Shelia Young
Director – Regulated Assessment Policy
15th Floor, Commerce Place
10155 – 102 Street
Edmonton, Alberta, T5L 4L4

Dear Ms. Young:

Railway System Cost Modifiers to June 30, 2009

In accordance with our contract to provide cost modifiers for the Provinces' railway plant, Gannett Fleming has calculated the revised cost basis and developed the cost modifiers as indicated in this memo. The cost modifiers have been developed in accordance with the procedures as set out in the procedures document entitled "Procedures followed in the Development of the annual update – Railway Property" provided to Municipal Affairs in June 2006.

I have developed Cost Modifiers to bring the assessment values to a June 30, 2009 cost base. The cost modifiers are as follows:

- Per Mile of Track - 0.92090
- Bridges Greater than 30 meters - 0.96506

The above cost modifiers are based on an June 2008 to June 2009 inflation rate for labour of 3.20% and on decreases in material costs of 23.575%. The main component in the material cost is the cost of steel. The Canadian, North American and World Wide steel prices all have an influence in the railway costs and have all significantly decreased throughout the year. Supply quotes received from vendors have indicated costs decreases in rail of up to 42% over the prices as at June 30, 2008.

Given the ability of rail companies to transport the material required no increase was applied for transportation surcharges. In the view of Gannett Fleming

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the required material can be transported by the rail companies at significantly reduced costs. The strong performance of the Canadian dollar has mitigated some of the world wide cost increases. After consideration was given to all influences, an annual cost decrease of 23.575% for material was applied. These increases have been applied to the adjusted cost base for all cost categories as at June 30, 2009.

If you have any questions with regard to these cost modifiers, please call me at (403) 257-5946.

Respectfully submitted,
GANNETT FLEMING, INC.

A handwritten signature in black ink, appearing to read 'L. Kennedy', written in a cursive style.

LARRY E. KENNEDY.
Director, Canadian Services
Valuation and Rate Division