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November 26, 2013

**BY HAND DELIVERY**

Cynthia T. Brown, Chief  
Section of Administration, Office of Proceedings  
Surface Transportation Board  
395 E Street, SW  
Washington DC 20423-0001



Re: *Norfolk Southern Railway Company – Discontinuance of Service Exemption – In Isle of Wight, Southampton, Greensville, and Brunswick Counties, Virginia*, STB Docket No. AB-290 (Sub-No. 359X)

Dear Ms. Brown:

Enclosed please find an original and eleven copies of a petition for exemption by Norfolk Southern Railway Company to discontinue rail service over a line of railroad in Isle of Wight, Southampton, Greensville, and Brunswick Counties, Virginia (and the independent Cities of Franklin and Emporia, Virginia). Please date stamp the extra copy and return to my courier. This submission also includes an electronic copy of the entire petition and a separate electronic file of the draft Federal Register notice pursuant to 49 C.F.R. § 1152.60(c) for the Board's use.

Finally, pursuant to 49 C.F.R. § 1002.2(f)(21)(iii), I have enclosed a filing fee check in the amount of \$6,700.00. If there are any questions about this matter, please contact me directly, either by telephone: 202-663-7824 or by e-mail: rwimbish@bakerandmiller.com.

Respectfully submitted,

*R.A. Wimbish*

Robert A. Wimbish

**FEE RECEIVED**

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**SURFACE  
TRANSPORTATION BOARD**

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BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC

ENTERED  
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STB Docket No. AB-290 (Sub-No. 359X)

NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA

PETITION FOR EXEMPTION

**FILED**  
NOV 26 2013  
SURFACE  
TRANSPORTATION BOARD



**FEE RECEIVED**  
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SURFACE  
TRANSPORTATION BOARD

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Attorney for Norfolk Southern  
Railway Company

November 26, 2013

**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC**

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**STB Docket No. AB-290 (Sub-No. 359X)**

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**NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA**

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**PETITION FOR EXEMPTION**

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**INTRODUCTION**

Pursuant to 49 U.S.C. § 10502 and rules applicable thereto at 49 C.F.R. Parts 1121 and 1152, Norfolk Southern Railway Company (“NSR”), a Class I common carrier by railroad, files this petition (the “Petition”) seeking an exemption from the provisions of 49 U.S.C. § 10903 to discontinue its common carrier service obligation over approximately 53.2 miles of railroad line (the “Line”) located in Isle of Wight, Southampton,<sup>1</sup> Greensville,<sup>2</sup> and Brunswick Counties, Virginia, extending from milepost FD 37.0 near Franklin, Virginia, to the end of the line at milepost FD 90.2 at Edgerton, Virginia.

The Line traverses ZIP Codes 23829, 23837, 23844, 23847, 23851, 23856, and 23868. Based on information in NSR’s possession, the Line does not contain federally granted rights-of-way. Any documentation in NSR’s possession concerning title will be

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<sup>1</sup> The Line also passes through Franklin, Virginia, an independent city located within Southampton County.

<sup>2</sup> The Line also passes through Emporia, Virginia, an independent city located within Greensville County.

made available to those requesting it. The following stations are located along the Line: Lawrenceville, Edgerton, Kingsberry, Emporia, Green Plain, Drewryville, Capron, and Courtland.

The Line is a burden on NSR and interstate commerce because the potential annual revenue that could be generated by shippers remaining on the Line would be heavily outweighed by the costs of maintaining and operating it. Moreover, the hardship that NSR would face from operation of the Line (at a substantial avoidable cost loss, as is shown herein) would be exacerbated by the fact that the Line is no longer in operable condition (recently the subject of a service embargo) and needs substantial rehabilitation, the costs of which cannot be recouped because the Line cannot be operated profitably. In sum, the requested exemption should be granted because –

- the costs of operating the Line exceed the potential traffic revenues;
- the Line needs substantial rehabilitation (at considerable cost) to return it to service; and
- in keeping with the standards of section 10502 – (a) application of the Board’s formal discontinuance process is unnecessary to carry out the Rail Transportation Policy (“RTP”) of 49 U.S.C. § 10502; (b) the proposed action is of limited scope; and (c) regulation is not necessary to protect the remaining on-Line customers from market power abuse.

Accordingly, NSR’s Petition should be granted in keeping with agency policy and precedent.

### **MAPS AND EXHIBITS**

A map of the Line is attached as Exhibit A. A draft Federal Register notice is attached as Exhibit B, and the certifications of compliance with 49 C.F.R. §§ 1105.12 and 1152.60(d) are included as Exhibit C. Exhibit D consists of the Verified Statement of

Marcellus C. Kirchner (“V.S. Kirchner”), Director Strategic Planning – Norfolk Southern Corporation (“NS”), who offers testimony in support of the proposed discontinuance, and through whom NSR supplies traffic and economic (cost) evidence to demonstrate, among other things, the rehabilitation costs and avoidable cost losses that NSR would incur were the subject Petition to be denied.

### **FACTUAL BACKGROUND**

As indicated above, the proposed discontinuance would protect NSR from the substantial (and wholly unrecoverable) rehabilitation costs as well as operating losses that otherwise would flow from returning the Line to operating condition and resuming service over it. The circumstances leading to this Petition are set forth in the attached Verified Statement of Marcellus C. Kirchner (Exhibit D), and much of the discussion following borrows from Mr. Kirchner’s testimony and the appendices attached thereto.

The Line, which today exists as the westernmost extension of NSR’s Franklin District, originally was built as a through route from the Virginia Tidewater area to Danville, Virginia. The Tidewater-Danville line, completed by the Atlantic & Danville Railway (“A&D”), soon came under the control of the Southern Railway Company (“SOU”) – A&D’s principal interline connection at Danville – by virtue of SOU’s 50-year lease of the railroad. The A&D was subsequently returned to independent operation in 1949, and it remained an independent railroad until after it filed for bankruptcy in the early 1960s. The, Norfolk and Western Railway Company (“N&W”) – like SOU, an NSR predecessor railroad – acquired the A&D railroad assets, and placed them under the control of a newly-established N&W subsidiary, the Norfolk, Franklin and Danville Railway Company (“NF&D”). In time, the NF&D’s line west of Edgerton was

abandoned – the route having “devolved” from a secondary trunk line to a branch line relying upon local traffic – and the NF&D was absorbed into NSR as the aforementioned Franklin District. See, generally, V.S. Kirchner at 2.

In recent years, the Line depended upon a mix of high-tonnage (but low-rated) stone traffic from a quarry near Edgerton, and highly-truck-competitive lumber products (primarily plywood) from shippers based at Emporia. The stone traffic, however, ended in 2012, as the quarry operator shifted much of its production to off-line facilities and curtailed rail shipments from the Edgerton facility. In view of the Line’s modest traffic density, NSR sought to preserve service to the remaining customers under either a short line arrangement covering the entire Line, or a short line operation involving only the portion of the Line serving the two largest remaining customers at Emporia (which would require the installation at substantial cost of a new connection between the Line and a north-south-oriented main line of CSX Transportation, Inc. (“CSXT”) also passing through Emporia). When those endeavors proved fruitless, NSR began to face the reality that it would have to seek Board relief from continued operation of the Line, particularly in the face of deteriorated track and bridge conditions that recently have required that the Line be removed from service under an embargo. See *id.* at 3.

The Line needs \$5,894,900 in up-front track and bridge rehabilitation to restore it to service under FRA Class I safety standards. See *id.* at 6, and Appendix 2. As is shown in the cost data supplied herein (and in the V.S. Kirchner), such rehabilitation costs are not economically justified, because the remaining traffic levels would subject NSR to operating losses going forward (regardless of the rehabilitation costs). Such economic considerations, coupled with the recognition that NSR cannot rely on its embargo

indefinitely, have prompted NSR to invoke the Board's individual petition for exemption procedures for authority to discontinue service over the Line.

Over the 12-month period ending June 2013 (prior to the embargo), NSR handled a total of 414 carloads over the Line, the vast majority of which was plywood and other wood products to or from customers at Emporia, resulting in annual traffic density on the line of roughly 7.8 carloads per mile. See *id.*, Appendix 2. As a stub-ended branch, the Line has no overhead traffic. In 2010, the Line had six active customers, all of which are identified in Appendix 2 to the *Kirchner V.S.* One of these past rail users, RG Steel, LLC, has since filed for bankruptcy, and its facility is for sale (*id.*). Another, Vulcan Construction Materials, has shifted most of its stone production to off-Line facilities, and no longer uses the Line for rail shipments. The four extant on-Line customers that had used NSR service prior to the embargo have been served with a copy of the Petition.

#### **PETITIONER'S REPRESENTATIVE**

NSR is represented by Robert A. Wimbish, Baker & Miller PLLC, 2401 Pennsylvania Avenue, NW, Suite 300, Washington, DC 20037; telephone: (202) 663-7824; facsimile: (202) 663-7849; email: [rwimbish@bakerandmiller.com](mailto:rwimbish@bakerandmiller.com).

#### **THE EXEMPTION STANDARDS HAVE BEEN MET**

Under 49 U.S.C. § 10903, service over a rail line cannot be discontinued without prior Board approval. However, under 49 U.S.C. § 10502, the Board must exempt a transaction from application of section 10903 when it finds that – (1) regulation of the transaction is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either (a) the transaction is of limited scope, or (b) regulation is not needed to protect shippers from the abuse of market power. The proposed discontinuance

meets section 10502's statutory requirements.

**A. Regulation Is Not Necessary To Carry Out The Rail Transportation**

**Policy**

The RTP obviates the need for detailed Board scrutiny under 49 U.S.C. § 10903 in this instance. Granting NSR's Petition – rather than requiring it to incur the substantial costs and potential delays involved in submitting a full-blown application – promotes a fair and expeditious regulatory decision-making process; ensures the development and continuation of a sound rail transportation system with effective competition among rail carriers and other modes to meet the needs of the public; reduces regulatory barriers to exit from the industry; and provides for the expeditious handling and resolution of proceedings required or permitted to be brought under this part. See 49 U.S.C. §§ 10101(2), (4), (7), and (15).

Moreover, allowing NSR to discontinue service over the Line will promote a safe and efficient rail transportation system by enabling the railroad to avoid losses and, in turn, facilitate the railroad's ability to earn adequate revenues. See 49 U.S.C. § 10102(3). And finally, granting NSR's Petition for a line segment that the evidence proves is not remunerative will foster sound economic conditions, and will encourage efficient management in accordance with the RTP. See 49 U.S.C. §§ 10101(5) and (9).

As indicated in the discussion on avoidable costs (losses) below, NSR faces Base Year operating losses of \$2,394,857, and Forecast Year Losses of \$935,839. But that is only part of the story. To even be in a position to incur such avoidable losses, NSR would first have to complete Line rehabilitation work at a cost of \$5,894,900. It would be entirely illogical and economically unsound for NSR to undertake such costly track

and bridge repair work for the purposes of restoring to service a rail line that would operate at a substantial loss.

For these reasons, the Board need not, and should not, require NSR to use the formal discontinuance application procedures in order to carry out the RTP. Indeed, the proposed discontinuance and NSR's use of the Board's exemption procedures is consistent with that policy.

**B. The Proposed Discontinuance Is of Limited Scope**

The proposed discontinuance is of limited scope, involving 53.2 miles of low-density branch line<sup>3</sup> that is already inactive due to the recently-issued embargo, and that, if reopened, would be expected to handle less than eight carloads per mile per year.

There were only four active customers on the line prior to the embargo, two of which – Lawrenceville Brick Inc. at Edgerton and Carolina Eastern Company at Courtland – have tendered less than 50 carloads combined in the past twelve months ending June 30, 2013. As indicated above, there is no overhead traffic.

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<sup>3</sup> The Board has granted individual exemptions in similar circumstances for lines of comparable mileage and traffic density. See, e.g., Escanaba & Lake Superior Railroad Company – Abandonment Exemption – In Ontonagon and Houghton Counties, Mich., STB Docket No. AB-4154 (Sub-No. 2X) (STB served Sept. 27, 2010) (Board granted abandonment petition for 42.93 miles of rail line); Arizona & California Railroad Company – Abandonment Exemption – In San Bernardino and Riverside Counties, CA., STB Docket No. AB-1022 (Sub-No. 1X) (STB served Jun. 30, 2009) (“Arizona & California”) (Board granted abandonment of a 49.4-mile rail line that was projected to handle approximately nine carloads per mile); Georgia Southwestern Railroad, Inc. – Abandonment and Discontinuance Exemption – In Harris and Meriwether Counties, GA., STB Docket No. AB-1000 (Sub-No. 1X) (STB served Dec. 10, 2007) (“Georgia Southwestern”) (Board granted abandonment petition for exemption involving a 43-mile rail line); SWKR Operating Company – Abandonment Exemption – In Cochise County, AZ., STB Docket No. AB-441 (Sub-No. 2X) (STB served Feb. 14, 1997) (Board granted abandonment of a 41.5-mile line of railroad that was projected to handle approximately 11 carloads per mile).

**C. Regulation of the Discontinuance Is Not Necessary to Protect Shippers from Market Power Abuse**<sup>4</sup>

Because the proposed discontinuance is of limited scope, NSR need not show that regulation is not needed to protect shippers from market power abuse. But it is clear that the use of the Board's formal discontinuance procedures is not necessary to protect shippers from any potential abuse of market power in this case.

Attached to the V.S. Kirchner as Appendix 2 is a table entitled "Commodities by Carloads and Tonnage." On the far right column of that table are listed the number of carloads that NSR handled on the Line during the base year ended June 30, 2013. As one can see, of the 414 total Base Year carloads, 375 involved lumber or wood products (lumber or timber – STCC 24-211-84; oriented strand board – STCC 24-991-10; and plywood – STCC 24-321-53), all of which are "exempt commodities" pursuant to 49 C.F.R. § 1039.11; and 17 more carloads were of brick (STCC 32-511-15), also an exempt commodity under section 1039.11. In other words, 392 (roughly 95%) of the 414 Base Year carloads involve commodities that this agency has found are subject to effective multi-modal competition. Moreover, NSR has reason to believe that most, if not all, of the remaining on-Line customers regularly make use of trucks. In fact, such competitive constraints preclude NSR from exploring the sizeable rate increases that would make restoring service economically practicable.

Under the circumstances, there is no basis to presume that NSR's decision to seek discontinuance authority is driven by any consideration aside from the avoidance of future operating losses and the unwise expenditure of millions of dollars of company

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<sup>4</sup> The discussion set forth here will be revisited in the section entitled "Public Interest Factors."

funds to rehabilitate a Line whose traffic levels cannot support economical operations. NSR has neither the leverage nor the propensity to subject the Line's past customers to market power abuse. In fact, if anyone could be said to be engaging in "abusive" behavior, it would be an opponent to the discontinuance attempting to use the Board's regulatory oversight to subject NSR to additional legal costs associated with its efforts to shield itself from avoidable losses.

### **PUBLIC INTEREST FACTORS**

Future operation of the Line would be wholly uneconomical, due to both the unrecoverable and substantial rehabilitation costs, and operating losses that would flow from Line reactivation. Even when factoring community and shipper interests against the Line's economic circumstances, the public interest militates in favor of the proposed discontinuance.

#### **A. NSR's Economic Analysis**

As has been mentioned above, NSR has employed as a Base Year for purposes of its costing analysis the 12-month period ending June 30, 2013 (prior to the embargo that now applies to the Line), during which time NSR handled 414 carloads. NSR submits that such traffic volumes are representative of current rail service demand, were the Line still in operating condition. Accordingly, NSR has applied the same 414 carloads assumption, broken down according to the same commodity mix in the Base Year, for its Forecast Year and Projected Subsidy Year analyses.

Such low on-Line traffic levels make the Line unattractive to a potential short line operator. Even a scaled-down switching operation at Emporia, which would preserve service for 375 of the Line's 414 Base Year/Forecast Year carloads, was found to be

economically impracticable in light of the costs of installing a connecting track from the Line to a nearby CSXT line. Yet NSR explored both avenues before reaching the conclusion that STB exit authority was the only plausible remedy. See V.S. Kirchner at 3-4.

**B. Avoidable Costs Loss (See Also V.S. Kirchner Appendix 1 – Pro Forma Income Statement)**

As is detailed in Appendix 1 to Mr. Kirchner’s verified statement, NSR earned \$1,473,261 in Base Year revenues, which, far from offsetting NSR’s avoidable costs of \$2,394,857, resulted in an avoidable loss from rail operations of \$921,596. Drawing from its Base Year figures and making certain cost adjustments accounting for inflation, NSR estimates that, for purposes of the Forecast Year and Projected Subsidy Year, it would incur operating losses of \$935,839 (total revenues of \$1,496,029 less total avoidable costs of \$2,431,868). *Id.* and Appendix 2. Such losses, of course, presuppose the rehabilitation of the Line to meet Class I track safety conditions (and to correct bridge deterioration) at a cost of \$5,894,900.

Mr. Kirchner testifies as to the Line’s revenue and to the computation of various on-branch and off-branch cost inputs that comprise the total avoidable costs figures employed here. His testimony demonstrates NSR’s compliance with the applicable Board rules for calculating such cost inputs. Mr. Kirchner’s testimony speaks for itself. One input, however, warrants additional discussion here – annual costs attributable to the maintenance of way and structures, otherwise known as “normalized maintenance” (line 5a, V.S. Kirchner, Appendix 1).

NSR has presented Base Year and Forecast/Subsidy Year maintenance of way and structures costs of \$755,257 and \$766,929, respectively, with both figures tied to

maintaining the Line to FRA Class I condition. These cost calculations translate into maintenance costs of roughly \$14,197/mile for the Base Year and \$14,416/mile for the Forecast/Subsidy Year. Mr. Kirchner explains the basics of this cost input in his verified statement, and the figures are further supported by the Normalized Maintenance Projection attached as the second page of Appendix 2 to his verified statement.

NSR stands behind its normalized maintenance figures as the most accurate and realistic estimate based upon actual track maintenance costs and data. NSR's normalized maintenance figures, for example, are, in NSR's view, more accurate and reliable than would be an off-the-shelf maintenance estimate tied to a previously-Board-endorsed (or accepted) flat, per-mile maintenance estimate. But even if the Board were to apply a "default" per-mile normalized maintenance cost estimate reducing the normalized maintenance input by half, the result would nevertheless be avoidable losses from operations for the Base and Forecast/Subsidy Years in excess of half-a-million dollars in each year.

**C. Rehabilitation (Including Beyond-Forecast-Year Rehabilitation) Costs**

In his verified statement, Mr. Kirchner explains that NSR's Engineering Department has ordered that the Line be removed from service (and thus be made subject to the recently-issued embargo notice) due to deteriorated track and bridge conditions making continued rail operations unsafe. *Id.* at 3-4. He adds that, for the Line to be returned to safe operating condition in compliance with FRA Class I track safety conditions and under FRA and internal NSR bridge safety standards, NSR would have to expend an estimated total of \$5,894,900 for the timbering and surfacing (installation of new crossties and ballast) of two segments of track totaling 32.2 miles (at a cost of

\$4,411,400), and the replacement of two bridges (at a total cost of \$1,483,500). *Id.* at 6. Such rehabilitation would permit the reactivation of the Line, for the time being, at FRA Class I (ten miles-per-hour) maximum track speeds.<sup>5</sup> *Id.* at 4-5.

Even if NSR were to undertake such costly rehabilitation to restore the Line to operable condition, that up-front rehabilitation would not be the end of the story. Rather, as Mr. Kirchner explains, it would be just the beginning of other forecasted “program maintenance” (capital improvements not accounted for under normalized maintenance) in the years to follow. For example, Mr. Kirchner notes that other bridges along the Line (aside from two in need of immediate replacement) will have to be addressed in years following. Such additional bridge replacement costs, which Mr. Kirchner states will have to be incurred beginning in 2016 (assuming the Line were returned to service), and that such bridge costs (applicable to the replacement of yet other deteriorated bridges) will recur thereafter through 2023.<sup>6</sup>

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<sup>5</sup> FRA Class I (10 miles per hour) track speeds, while subjecting NSR to lower per-mile maintenance costs than would be the case for higher-speed operations, presents an operational challenge of its own. As is explained in the V.S. Kirchner, the local train that had served the Line prior to the embargo – Virginia Division local V31 – is based out of Suffolk, Virginia. Round trip local operations from Suffolk to Emporia and return entail a total of 111.8 miles, while a Suffolk-Edgerton-Suffolk turn involves a 145.8-mile round trip. *Id.* at 12. Given the terminal and en-route switching that this local train would have to engage in as part of the trip, it would be impossible in either case for a single train crew operating a train at a maximum speed of 10 miles per hour to complete its run before exhausting its maximum hours of service. As a result, restored operations at FRA Class I maximum speeds would require two train crews and would increase transportation costs accordingly.

<sup>6</sup> As is reflected in his testimony, Mr. Kirchner forecasts mandatory 2016 bridge replacement costs of \$2,045,500. Such costs will continue to arise as other bridges reach the ends of their useful lives in each year thereafter, with annual estimate bridge replacement costs ranging from \$299,000 in 2021, to over \$1.8 million in 2017. V.S. Kirchner at 8, Appendix 3 at page 2 (10-YEAR PROJECTION OF BRIDGE COSTS).

**D. Opportunity Cost/Return on Value**

NSR has prepared and is submitting evidence on return on value in this proceeding to comply with the Board's Forecast Year Operations and Projected Subsidy Year Operations requirements, and in the event that an interested party were to propose to subsidize NSR's operation of the Line. Because NSR is not seeking to abandon the Line and liquidate its assets at this time, but is instead seeking to be relieved of its rail service obligation, NSR is not relying on opportunity cost considerations as a basis for Board approval of the subject Petition.

Under the circumstances, NSR believes that opportunity costs are at best a secondary factor in the Board's handling of the Petition, while NSR's avoidable losses and rehabilitation cost evidence demonstrate that NSR's request for discontinuance authority should be granted. Nevertheless, NSR has supplied evidence and figures (contained in the V.S. Kirchner and the appendices thereto) for all of the usual inputs for calculating total return on value (opportunity cost), including the following: working capital, income tax consequences, net liquidation value, nominal return on value, rate of return, and holding gain. As these cost and rate of return factors are not central to NSR's case for discontinuance, NSR will not address these further in this legal narrative. To the extent that the Board or any interested party wishes to examine the elements of NSR's return on value evidence, NSR respectfully refers the Board to the V.S. Kirchner and Appendix 1 thereto (both parts of Exhibit D to this Petition).

**E. Alternative Transportation**

NSR believes that the four on-Line rail customers that received rail service over the Line prior to the embargo have access to viable alternative sources of transportation.

For example, NSR explained above that the proposed discontinuance would not subject shippers to market power abuse, pointing out that the vast majority of the on-Line traffic in the Base Year was forest products and brick, exempted commodities under 49 U.S.C. § 1039.11. As has been found in prior agency decisions, such commodities are extremely truck competitive. Moreover, the two forest products shippers on the Line – Georgia Pacific and Toll Integrated – are located at Emporia, immediately adjacent to U.S. Interstate Highway 95, which affords these businesses with ready truck access to markets throughout the Mid-Atlantic and Northeast.

In addition, the former A&D route (of which the Line is a part) runs parallel to U.S. route 58, which is the principal east-west highway through southern Virginia, connecting communities located along the Line with the Virginia Tidewater area; Interstates 95 and 85; and U.S. Routes 29 and 220. Each of the customers that recently had made use of NSR service via the Line is either located on or within a very short distance of Route 58, and thus each of the affected shippers will have extensive truck service options via that highway.

Of the 414 Base Year carloads, 22 involve commodities that NSR understands are not subject to a commodity exemption, specifically – ammonium polyphosphate (3 carloads) primarily used as a phosphorous-based fertilizer for plants; potassium chloride (16 carloads) also primarily used in the production of agricultural fertilizers; and potassium-magnesium sulfate (3 carloads), again a compound used primarily for agriculture. NSR believes that the low volumes for each of these three non-exempt commodities makes each suited for highway transportation.

For all of these reasons, NSR submits that alternative (and competitive)

transportation service is readily available to the past users of the Line.

**F. Other Policy and Public Interest Considerations**

NSR believes that the proposed discontinuance of service will have no significant impact upon any of the communities through which the Line passes, in large part because its rail service has been a convenient and cost-effective, but non-essential, competitive alternative to truck transportation for the Line's customers. Accordingly, NSR is confident that its proposed discontinuance will have a very modest impact upon the communities it serves, if it has any meaningful impact at all. While it is likely true that the subject discontinuance will result in on-Line NSR customers making more use of trucks than before – (1) such a diversion to truck probably has already begun as a result of the embargo; and (2) NSR has determined that the truck diversions are so modest that the impacts need not be examined under the Board's environmental assessment processes, as is discussed in the "Environmental Impacts Review" section below. Here, the very strong likelihood that the proposed discontinuance will minimally impact the communities through which the Line traverses, if at all, must be balanced against evidence presented herein showing that NSR would be subjected to millions of dollars of unrecoverable costs going forward if its Petition were to be denied and NSR were required to resume service on the Line.

NSR has explained above that holding it to an exacting, expensive, and potentially protracted formal discontinuance application process, especially in light of the evidence that NSR has supplied in support of discontinuance, would be unnecessary and wholly contrary to the RTP. The process that NSR has invoked and the evidence it has supplied in its case-in-chief affords interested parties a fair opportunity to express their views on

NSR's proposed action, and to comment on the propriety of NSR's use of the individual petition for exemption process. However, to the extent that any objector may raise convenient but ultimately hollow procedural arguments (as some have attempted to do in other abandonment/discontinuance cases), asserting, essentially, that the Petition should be denied because the existence of such opposition gives rise to "controversy," and arguing that NSR should be made to prepare and file a formal application, NSR urges the Board to consider the substance of the evidence offered herein, which clearly militates in favor of acting upon and granting the Petition.<sup>7</sup>

### **LABOR PROTECTIVE CONDITIONS**

The interests of NSR employees who may be adversely affected by the proposed discontinuance will be adequately protected by the labor protective conditions in Oregon Short Line R. Co. – Abandonment – Goshen, 360 I.C.C. 91 (1979).

### **ENVIRONMENTAL IMPACTS REVIEW**

As a general rule, the Board does not require a carrier seeking to discontinue service over a particular rail line to prepare and submit for review a combined

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<sup>7</sup> Such an approach would be consistent with the Board's case-by-case evaluation of evidence and arguments for and against the use of the individual exemption process for rail line abandonments and discontinuances. See, e.g., Arizona & California slip op. at 2 (noting that "opposition to an abandonment proposal will not alone defeat a petition for exemption," the Board granted the railroad's petition for exemption despite vocal opposition where the record was sufficient for the Board to act); Dakota Rail, Inc. – Abandonment Exemption – In McLeod, Carver, and Hennepin Counties, MN, STB Docket No. AB-472 (Sub-No. 1X) (STB served Nov. 30, 2001) slip op. at 4 (railroad's petition for exemption found to "fully comport[] with our regulations and, when viewed in the light of the comments that have been filed, provide[] a sufficient basis for us to determine whether a need for service over the line exists. Thus, the petition will not be denied on the basis that [the petitioner] should be required to file an application for abandonment authority" in light of the numerous comments and statements of opposition); cf. Georgia Southwestern (Board granted abandonment petition for exemption over the opposition of the Georgia Department of Transportation).

environmental and historic report.<sup>8</sup> That rule generally applies, however, where the line in question has been out of service for some time, and the only practical outcome of the discontinuance is the legal cessation of service over the discontinuing carrier's already unused rail line. On the other hand, NSR does not anticipate engaging in any salvage activities, including the removal of any potentially historic structures (such as bridges) as a result of obtaining discontinuance authority, and, because no historic resources will be affected, NSR understands that a historic report is unnecessary.

In preparing the subject Petition, NSR conferred with the Board's Office of Environmental Analysis ("OEA") to determine whether the proposed discontinuance would require OEA's preparation of an environmental assessment, and, in turn, NSR's preparation of a full or partial environmental report pursuant to 49 C.F.R. § 1105.7. NSR has been advised that a full or partial environmental report would be required only if it appeared that the proposed discontinuance would result in the diversion of freight traffic from rail to trucks exceeding the thresholds for air quality impacts set forth at 49 C.F.R. § 1105.7(e)(5)(i). NSR has calculated total daily rail-to-truck diversions using Base Year traffic figures and applying the following total truck traffic multipliers:

- For all non-lumber traffic: four truckloads per carload and four corresponding

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<sup>8</sup> See, e.g., Everett Railroad Company – Discontinuance of Service Exemption – In Blair County, PA, STB Docket No. AB-271X slip op. at 2 n.2 (STB served Nov. 16, 2007) (“Because this is a discontinuance proceeding and not an abandonment, . . . no environmental or historical documentation is required here under 49 CFR 1105.6(c) and 1105.8(b), respectively”); Columbus and Greenville Railway Company – Discontinuance of Service Exemption – in Greenwood, MS, STB Docket No. AB-297 (Sub-No. 103X), slip op. at 2 n.2 (STB served July 3, 2007) (same); Norfolk Southern Railway Company—Discontinuance Exemption—in Mahoning County, OH, STB Docket No. AB-290 (Sub-No. 292X), slip op. at 2 n.2 (STB served March 15, 2007) (same); Chillicothe-Brunswick Rail Maintenance Authority—Discontinuance Exemption—in Livingston, Linn, and Chariton Counties, MO, STB Docket No. AB-1001X, slip op. at 2 n.3 (STB served Feb 23, 2007) (same).

empty truck movements.

- For lumber traffic: three truckloads per carload and three corresponding empty truck movements.

On the basis of such calculations (apportioning as appropriate Base Year traffic to each affected customer's location along the Line), NSR has consulted the most recent available data from the Virginia Department of Transportation and, to the extent necessary and where available, local road authorities to determine if the daily new truck traffic anticipated to result from the proposed discontinuance would exceed the section 1105.7(e)(5)(i) thresholds. NSR has determined that the subject air quality impact thresholds will not be exceeded on any road that would likely support new or additional truck traffic, and that neither a full nor partial environmental report, will be required. NSR is prepared to consult further with OEA on this issue as necessary.

### **CONCLUSION**

NSR seeks an exemption from the provisions of 49 U.S.C. § 10903 to discontinue service over 53.2 miles of rail line located in southern Virginia. The exemption is warranted in light of the substantial burden that the reactivation and subsequent operation of the Line would impose upon NSR, as has been demonstrated in the foregoing sections of this Petition and in the attached verified statement of Marcellus C. Kirchner. For the reasons supplied herein, application of the Board's formal discontinuance procedures at section 10903 is not needed to carry out the RTP set forth at 49 U.S.C. § 10901, and, in fact, granting NSR's Petition would promote many of the elements of that policy. Likewise, the proposed discontinuance is of limited scope, and no potential for abuse of market power would result from the requested exemption. Accordingly, NSR urges

prompt Board action to grant an exemption for the proposed discontinuance of service over the Line.

Respectfully submitted,



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BAKER & MILLER PLLC  
2401 Pennsylvania Ave., NW  
Suite 300  
Washington, DC 20037  
Tel: (202) 663-7824  
rwimbish@bakerandmiller.com

Dated: November 26, 2013

Attorney for Norfolk Southern Railway Company

**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC**

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**STB Docket No. AB-290 (Sub-No. 359X)**

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**NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA**

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**EXHIBIT A**

**MAP**



**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC**

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**STB Docket No. AB-290 (Sub-No. 359X)**

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**NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA**

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**EXHIBIT B**

**DRAFT FEDERAL REGISTER NOTICE**

DEPARTMENT OF TRANSPORTATION

Surface Transportation Board

[Docket No. AB 290 (Sub-No. 359X)]

Norfolk Southern Railway Company – Discontinuance of Service Exemption – In Isle of Wight, Southampton, Greensville, and Brunswick Counties, Virginia

Norfolk Southern Railway Company (NSR) has filed on November 26, 2013, an individual exemption for the discontinuance of service over a line of railroad comprising the western portion of NSR's Franklin District extending from milepost FD 37.0 near Franklin, Virginia, to the end of the line at milepost FD 90.2 at Edgerton, Virginia. The subject rail line traverses through United States Postal Service ZIP Codes 23829, 23837, 23844, 23847, 23851, 23856, and 23868, a total distance of 53.2 miles in Isle of Wight, Southampton, Greensville, and Brunswick Counties, Virginia, including the independent cities of Franklin and Emporia, Virginia. The line for which the discontinuance exemption request was filed includes the stations of Lawrenceville, Edgerton, Kingsberry, Emporia, Green Plain, Drewryville, Capron, and Courtland.

The Line does not contain federally-granted rights-of-way. Any documentation in the railroad's possession will be made available promptly to those requesting it.

The interest of railroad employees will be protected by the conditions set forth in Oregon Short Line Railroad – Abandonment Portion Goshen Branch Between Firth & Ammon, in Bingham & Bonneville Counties, Idaho, 360 I.C.C. 91 (1979).

By issuance of this notice, the Board is instituting an exemption proceeding pursuant to 49 U.S.C. § 10502(b). A final decision will be issued by \_\_\_\_\_, 2014.

Any offer of financial assistance (OFA) under 49 C.F.R. § 1152.27(b)(2) to subsidize

continued rail service will be due no later than 10 days after service of a decision granting the petition for exemption. Each offer must be accompanied by a \$1,600 filing fee. See 49 C.F.R. § 1002.2(f)(25).<sup>9</sup>

All filings in response to this notice must refer to Docket No. AB 290 (Sub-No. 359X) and must be sent to: (1) Surface Transportation Board, 395 E Street, S.W., Washington, DC 20423-0001, and (2) Robert A. Wimbish, Baker & Miller PLLC, 2401 Pennsylvania Ave., N.W., Suite 300, Washington, DC 20037. Replies to the petition are due on or before \_\_\_\_\_.

Persons seeking further information concerning the Board's discontinuance procedures may contact the Surface Transportation Board or refer to the full abandonment and discontinuance regulations at 49 CFR Part 1152. Questions concerning environmental issues may be directed to the Board's Office of Environmental Analysis (OEA) at (202) 245-0295.

Board decisions and notices are available on our website at "WWW.STB.DOT.GOV."

Decided: \_\_\_\_\_.

By the Board, Rachel D. Campbell, Director, Office of Proceedings.

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<sup>9</sup> Because this is a discontinuance proceeding and not an abandonment proceeding, trail use/rail banking and public use conditions are not appropriate. Similarly, based upon the information NSR has supplied in its petition, no environmental or historic documentation is required under 49 C.F.R. §§ 1105.6(c)(2) and 1105.8.

**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC**

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**STB Docket No. AB-290 (Sub-No. 359X)**

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**NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA**

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**EXHIBIT C**

**CERTIFICATIONS OF  
SERVICE/PUBLICATION**

**Certificate of Service**

**49 C.F.R. § 1152.60(d) – Notice**

I certify that, in keeping with 49 C.F.R. § 1152.60(d), I caused the following parties to be served with a copy of Norfolk Southern Railway Company's foregoing discontinuance petition for exemption:

Virginia Department of Transportation  
1401 E. Broad St.  
Richmond, VA 23219

Division of Utility and Railroad Safety  
P.O. Box 1197  
Richmond, Virginia 23218

David Dorfman  
SDDC TEA  
Railroads for National Defense  
709 Ward Dr., Bldg. 1990  
Scott AFB, IL 62225  
(618) 220-5741

Charlie Stockman  
National Park Service  
Rivers & Trails Conservation Program  
1201 Eye Street, NW, 9th Floor (Org. Code 2220)  
Washington, D.C. 20005  
(202) 354-6900

Thomas L. Tidwell, Chief  
Forest Service  
U.S. Department of Agriculture  
Sidney R. Yates Federal Building  
201 14th Street SW  
Washington, DC 20024  
(202) 205-8439  
S/W Sandy Berg, Office Manager

In addition, I also hereby certify that I have served the following past users of the subject rail line with a copy of the foregoing discontinuance petition for exemption:

Lawrenceville Brick, Inc.  
PO Box 45  
Lawrenceville, VA 23868  
(434) 848-3151

Georgia Pacific, LLC  
634 Davis Street  
PO Drawer D  
Emporia, VA 23847  
(804) 634-5123

Carolina Eastern Company  
22187 High Street  
PO Box 370  
Courtland, VA 23837  
(804) 653-9431

Toll Integrated Systems  
510 Davis Street  
PO Box 431  
Emporia, VA 23847  
(434) 634-8888

November 26, 2013

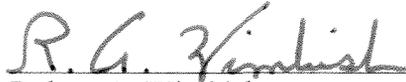
  
\_\_\_\_\_  
Robert A. Wimbish  
Attorney for Norfolk Southern  
Railway Company

**Certificate of Newspaper Publication**

**49 C.F.R. § 1105.12 – Newspaper Notice**

I hereby certify that a “Notice of Intent to Discontinue Rail Service” was published in the form prescribed by the Board for a Petition for Exemption (49 C.F.R. § 1105.12). The notice was published one time in the *Brunswick Times-Gazette*, the *Independent Messenger*, and the *Tidewater News*, newspapers of general circulation in Isle of Wight, Southampton, Greensville, and Brunswick Counties, Virginia (and the independent Cities of Franklin and Emporia, Virginia).

November 26, 2013



Robert A. Wimbish  
Attorney for Norfolk Southern  
Railway Company

**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
WASHINGTON, DC**

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**STB Docket No. AB-290 (Sub-No. 359X)**

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**NORFOLK SOUTHERN RAILWAY COMPANY  
– DISCONTINUANCE OF SERVICE EXEMPTION –  
IN ISLE OF WIGHT, SOUTHAMPTON, GREENSVILLE, AND  
BRUNSWICK COUNTIES, VIRGINIA**

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**EXHIBIT D**

**VERIFIED STATEMENT OF  
MARCELLUS C. KIRCHNER  
WITH APPENDICES**

VERIFIED STATEMENT  
OF  
MARCELLUS C. KIRCHNER

My name is Marcellus C. Kirchner. I am employed by Norfolk Southern Corporation (Norfolk Southern or NS) in the capacity of Director Strategic Planning. My office is in Norfolk, Virginia. I have been employed by NS or an NS subsidiary or predecessor since 1978 and have occupied my present position since January 1993. I previously occupied the positions of Director Human Resources and Director Labor Relations. I have a Bachelor of Arts degree, *cum laude*, from Duke University and a Master of Business Administration degree from Cornell University. Since April 2004, the responsibilities of my present position have included management of Norfolk Southern's line abandonment program and the preparation of economic exhibits to support line abandonment and discontinuance filings made by Norfolk Southern's railroad subsidiaries.

My office prepared Appendix 1(Financial Statement) and Appendix 2 (Commodities by Carloads and Tonnage) to my statement in support of Norfolk Southern Railway Company's (NSR) Petition for Exemption to discontinue rail common carrier service over an NSR-owned and operated rail line extending between milepost FD 37.0 at Franklin, Virginia, and the end of the line at milepost FD 90.2 at Edgerton, Virginia, and I am sponsoring those appendices. I am also sponsoring Appendix 3 covering the normalized maintenance expense for the line, and Appendix 4 (Net Liquidation Value). Finally, attached as Appendix 5 are the workpapers from which

much of the cost evidence set forth in my testimony and in the other Appendices to my testimony derives.

The subject line segment is part of a line of railroad that extended between Tidewater Virginia and the City of Danville, Virginia, originally constructed and operated by the Atlantic & Danville Railway (A&D). From 1899 to 1949, A&D was leased and controlled by NSR predecessor Southern Railway Company (SOU). In 1949, SOU elected not to renew its lease, and A&D became an independent carrier until the railroad filed for bankruptcy in early 1962. The A&D properties were acquired by the Norfolk and Western Railway Company (NW), another NSR predecessor, in 1962. NW established a subsidiary carrier, the Norfolk, Franklin and Danville Railway Company (NF&D), to own and operate the former A&D lines. In 1983, the NF&D was absorbed into NSR. Over time, portions of the former A&D line between Edgerton and Danville were abandoned.

Rail traffic on the Edgerton-Franklin line has declined 89% since 2010, as shown in Appendix 2. This is largely attributable to the curtailment of rail shipments from the quarry at the end of the line near Edgerton, and the transfer of that stone production to another, off-line facility. Remaining traffic on the line is disadvantaged by the significant circuitry arising from the fact that it must move eastward to the Tidewater area and then move westward via a roughly parallel east-west route situated to the north of the former A&D route to connect with the remainder of the NSR rail system. Such circuitry subjects NSR and its customers to additional transportation and equipment cost. Moreover, the former A&D line is limited structurally to freight cars with a maximum gross weight of 263,000 pounds.

NSR realized that the line was in need of substantial rehabilitation that could not be economically justified by the very limited remaining traffic. In the face of such circumstances, NSR pursued several alternative options in 2012 and 2013 to keep the line, or at least critical parts of it, open. First, an attempt was made to transfer operation of the line to a prospective short line operator. This was unsuccessful because of the low level of traffic per mile which would have made the enterprise economically unsustainable, particularly in light of the substantial rehabilitation work that would be required to retain the line in operation.

Second, NSR investigated the possibility of establishing an island operation at Emporia, Virginia, where most of the remaining traffic on the line is concentrated. Such an arrangement would, however, require re-establishing a connection<sup>1</sup> with CSX Transportation, Inc. (CSXT), whose north-south mainline running roughly parallel to Interstate Highway 95 crosses the former A&D at Emporia. Several short line operators were asked to evaluate the Emporia island operation proposal, but none was interested, due to the low volume of traffic and the substantial capital cost to rebuild the connection with CSXT.

Following several extensions of the date by which the line would be taken out-of-service due to deteriorating track conditions, NSR's Engineering Department determined that the line could no longer be safely operated after October 1, 2013. Remaining customers on the line were notified of the line's closing and were offered assistance in making alternative transportation arrangements, and, at that time, NSR arranged for the imposition of a service embargo, pending the outcome of the subject

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<sup>1</sup> There is no registered interchange at Emporia between NSR and CSXT and no connecting track.

discontinuance proceeding at the Surface Transportation Board. Revenue traffic ceased to move on the line as of October 1.

### **Maintenance and Rehabilitation Required on the Line**

I will discuss below two separate estimates of engineering costs: First, the cost of the immediate rehabilitation of the line which, in the opinion of NSR's engineers, would be required for resumed operation; and second, the average annual cost of normalized maintenance required for the entire line. Each of these cost estimates relate to the restoration and maintenance of the line to Federal Railroad Administration (FRA) Class I track safety standards set forth in 49 CFR Part 213, which would permit operation of the line at track speeds not greater than ten miles per hour.<sup>2</sup> The costs, production rates and other parameters embodied in these estimates (much of which is included in the attached workpapers) were developed from company records maintained in the normal course of conducting business.

### **Rehabilitation**

#### Track Rehabilitation

As stated above, the line was taken out of service by NSR's Engineering Department October 1, 2013, due to track conditions. In order to resume service on the

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<sup>2</sup> The line was last maintained at the FRA Class II level, as the crew could not traverse the line and return within a single tour of duty operating at 10 mph. In fact, it would not be possible for a single Suffolk-based crew to serve customers on the far-western end of the line under FRA Class I track conditions, as that crew would not be able to complete its turn-around run under the hours of service laws, and it would be very difficult at best for a Suffolk crew to make a Suffolk-Emporia turn under the hours of service limitations as well. Thus, this assumption of Class I operation for the purpose of this analysis understates the real maintenance cost.

line, two segments of track totaling 32.2 miles would require immediate timbering and surfacing<sup>3</sup>. The first segment is between mileposts FD 45.0 and 66.0, which was last timbered and surfaced in 2001, and the second is between milepost FD 79.0 and the end of the line at milepost FD 90.2, which was last timbered and surfaced in 1996.

In the opinion of NSR's Engineering Department, timbering and surfacing over these 32.2 miles using 800 new Grade 5 crossties and 800 tons of ballast per mile would be required immediately to restore the line to safe operating condition in keeping with the FRA Class I standard which requires 5 to 7 good ties every 39 feet. The poor tie condition on the 32.2 miles of the line in need of rehabilitation is a result of tie age (the newest of the ties are between 11 and 17 years old) combined with the wear associated with the significant stone tonnage that until recently has traversed the line. This work would be done by a production system gang using efficient track equipment. NSR practice is to have a single mechanized gang perform both timbering and surfacing at the same time. The estimated total cost to perform this work is \$4,411,400.

#### Bridge Replacement

There are fourteen bridges along the line, eleven of which are timber trestles, collectively comprising over 1,200 track feet. These timber trestles are in various stages of decay, and NSR's Bridge Department has determined that each of these timber trestles would need to be replaced over the next ten years if the line were to be restored to service. The following two bridges would require replacement during 2014:

**FD 84.5** This open-deck timber pile trestle crossing Reedy Creek is 140 feet long and consists of 16 spans. It is 36 feet high. Decay is evident throughout the

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<sup>3</sup> *Timbering* refers to the replacement of defective crossties; *surfacing* refers to restoration of the track's cross level and vertical alignment.

wooden structure, including cracked or soft bents<sup>4</sup>, sills<sup>5</sup> and caps<sup>6</sup>. Some steel piles were driven in 2010 in an attempt to extend the life of the bridge. Replacement of the trestle is required at an estimated cost of \$938,500, as it would not be cost-effective to attempt to replace each of the individual defective wooden bridge members.

**FD 60.3** This 40-foot, open-deck timber trestle crossing of an unnamed watercourse consists of three spans. This trestle is 8 feet high and shows significant decay throughout the structure. The entire trestle must be replaced at an estimated cost of \$545,000.

### Rehabilitation Summary

In summary, the following work would need to be done during the Forecast/Subsidy Year in order for the line to resume operation:

Timbering and surfacing 32.2 miles	\$4,411,400
Replace bridge at MP FD 84.5	938,500
Replace bridge at MP FD 63.1	<u>545,000</u>
Total Forecast/Subsidy Year projects	\$5,894,900

### **Normalized Maintenance**

The Normalized Maintenance Projection for the line is contained in Appendix 3 to the Petition. Routine (or “normalized”) maintenance tasks are itemized in the projection, and include weekly inspection of the line in accordance with FRA regulations, general track repairs (such as gauging, spot surfacing and sinkhole repair), periodic testing of

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<sup>4</sup> A bent is a vertical bridge support structure composed of multiple piles secured by bracing.

<sup>5</sup> A sill is a piece of timber, or unit composed of two or more timbers placed upon a soil foundation as a support for a framed bent, or other similar member of a structure.

<sup>6</sup> A cap is the topmost horizontal member of a bent serving to distribute the loads upon the columns.

the rail to detect internal defects, and vegetation control to prevent fouling of ballast. Various routine bridge and culvert repairs are also required, as are periodic testing and maintenance of the signals at the Emporia interlocking (crossing of CSXT's line) and at the thirty-four signaled public crossings on the line, as required by FRA regulations. Brush cutting will be scheduled on a three-year cycle, and the ballast will be sprayed with herbicide twice annually, while ditching will be required annually.

### **Additional Capital Maintenance Expenditures Required**

Additional capital maintenance expenditures would be required in the years beyond the Forecast/Subsidy year were the line to resume service and be retained in operation. While these costs do not appear in the cost presentation in the *pro forma* income statement in Appendix 1, they do provide context to those costs and demonstrate that the rehabilitation cost is not an isolated event, but is part of a continuum of ongoing maintenance requirements.

For example, timbering and surfacing of the remainder of the line between mileposts FD 37.0 and FD 45.0 and mileposts FD 66.0 and FD 79.0 would be required in 2017. These two segments were last timbered and surfaced in 2007, and by that time ten years would have elapsed. The estimated cost for these 21 miles of timbering and surfacing work is \$2,877,000. The remaining nine timber trestles on the line are in a state of decay and would require replacement beginning in 2016 as forecast by NSR's Bridge Department at a total estimated cost of \$7,488,800. The timber bridges are listed below, along with the forecast replacement date and estimated cost<sup>7</sup>:

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<sup>7</sup> These bridge replacement costs are listed on sheet 2 of Appendix 3, which also includes an additional \$88,000 of culvert replacement costs which have not been reflected in these cost figures.

### Forward Bridge Replacement Costs

Bridge Location	Length	Spans	Replacement Year	Estimated Cost
FD 37.5	244'	20	2016	\$1,635,000
FD 65.6	54'	4	2016	410,500
FD 51.3	302'	23	2017	1,888,000
FD 47.1	64'	5	2018	564,500
FD 56.0	150'	11	2019	1,013,000
FD 44.0	26'	2	2020	329,800
FD 41.2	38'	3	2021	299,000
FD 72.6	65'	5	2022	631,000
FD 41.7	79'	6	2023	718,000
<b>Total</b>				<b>\$7,488,800</b>

### Financial Analysis

The Base Year is July 2012 through June 2013. In accordance with the Board's regulations found at 49 CFR §1152.2(h), the Forecast Year is November 2013 through October 2014. The Subsidy Year is the same as the Forecast Year. The NSR Financial Exhibits appended to this statement incorporate information gathered from a variety of NS departments which is maintained in the ordinary course of business by custodians who have a business duty to do so.

Appendix 1 illustrates the branch's revenues, expenses and opportunity costs for the Base, Forecast and Subsidy years, based on a *pro forma* operation of the line. As discussed above, substantial rehabilitation of the line would be required in order for

operations to resume. Appendix 2 to my statement shows that the cars NSR originated or terminated on the line declined from 3,730 in 2010 to 473 in 2012 to 414 in the Base Year. Line 17 on Appendix 1 shows that the branch's avoidable loss was \$921,596 for the Base Year and an avoidable loss of \$935,839 is projected for the Forecast Year. I do not believe that this line can be operated profitably, and the cost evidence NS has assembled bears this out. Moreover, these operating losses do not include any part of the rehabilitation costs of \$5,894,900, which NSR would have to incur to return the line to service.

Revenue attributable (lines 1-4)

Revenues attributable to the branch were developed from sources that are available in the normal course of conducting business. The settled carload freight revenue of \$1,473,261 for the Base Year, and each carload's related statistical information which includes the origin, destination; commodity; lading weight; car type; class of traffic; and rail miles, were developed from NS' Traffic History databases. Carloads and tons for the 414 cars in NS' account during the Base Year are shown in Appendix 2.

Forecast Year carloads attributable to the branch are assumed to be the same as for the Base Year. Forecast year revenues were developed by indexing the base year revenues using the Gross Domestic Product Implicit Price Deflator, Seasonally Adjusted, Quarterly Series, 2005=100 (GDP Deflator). GDP Deflator values for the period encompassing the base year were derived from quarterly data published by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). Forecast year GDP Deflator values were derived from forecasted values for the four quarters ending

with the quarter in which the forecast year terminates. Forecast year GDP deflator projected values were provided by Global Insight (formerly DRI). The adjustment factor produced by comparing the Base and Forecast/Subsidy Year GDP deflators is 1.55%. The indexed forecast year total revenue is therefore \$1,496,029.

#### Maintenance of Way and Structures expense (line 5a)

The calculation of the normalized maintenance expense included in Appendix 1, line 5a, is discussed above. The Forecast/Subsidy Year normalized maintenance expense, is \$766,929, the average annual routine maintenance cost shown in Appendix 3, which is denominated in 2014 dollars. The Base Year normalized Maintenance expense, indexed to the GDP Deflator, is therefore \$755,257.

#### Locomotive replacement cost

Locomotive replacement cost is determined in accordance with the Board's regulations found at 49 CFR §1152.32(o)(1). General Managers Association (GMA) Horsepower Classification Category 7 locomotives<sup>8</sup> are used on the line. The last acquisition by NSR of a locomotive in this category occurred in 2010. NSR's accounting department has supplied the original acquisition cost of these 2010-acquired locomotives, which is \$1,571,904. This original acquisition cost has been indexed to the base and forecast years using the U.S. Department of Labor, Bureau of Labor Statistics monthly Producer Price Index – Railroad Equipment, 1982=100 (PPI-RE). The composite PPI-RE for the months comprising the base year is 194.73. The average of forecasted values for PPI-RE for August – December 2013 as contained in the Association of American Railroads (AAR) submission to the Board for the fourth quarter 2013 Rail Cost Adjustment Factor (RCAF), which is 199.43, has been used as a proxy

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<sup>8</sup> A 3,000 horsepower six-axle unit is used.

for the forecast year PPI-RE. The 2010 index value in the PPI-RE series 1982=100 is 184.4. The Base and Forecast/Subsidy Year locomotive replacement costs thus produced are \$1,659,918 and \$1,700,058, respectively.

Maintenance of equipment (line 5b)

Maintenance of equipment expenses included in Appendix 1 were developed in accordance with the Board's regulations found at 49 CFR §1152.32(o) and 49 CFR §1152.33(b)(1),(2), and (3). Train operations are discussed in the Transportation section below.

Locomotive repair and maintenance expenses were calculated in accordance with the Board's regulations found at 49 CFR §1152.33(b)(1).

The maintenance of equipment fringe benefits cost was calculated in accordance with 49CFR 1152.33(b)(3). The fringe benefit rate calculated for the Base Year is 42.44%.

The locomotive depreciation expenses were calculated in accordance with the Board's regulations found at 49 CFR §1152.32(o) and 49 CFR §1152.33(b)(2). The NSR composite locomotive depreciation rate specified in 49 CFR §1152.32(o)(2) is 3.37% for 2012, the latest year for which Form R-1 data is available, and according to information developed from NSR's Locomotive Information System, the average age of Category 7 locomotives in 2012 was 34.2 years. As 3.37% times 34.2 exceeds 100%, Category 7 locomotives are considered fully depreciated and have a zero book value for the purpose of these calculations, and thus the depreciation expense is zero.

Transportation (line 5c)

Transportation expenses included in Appendix 1 were developed for the *pro forma* train operations in accordance with the Board's regulations. When it was last in operation earlier this year before the embargo,<sup>9</sup> the Franklin – Edgerton, Virginia line was served five days per week by local assignment V31, which used one six-axle 3,000 horsepower locomotive. Local train V31 had a three-person crew which went on and off duty at Suffolk, Virginia, which is approximately 20 miles east of Franklin. A total of 240 crew starts were operated during the Base Year. The crew makes up its train at Suffolk and proceeds westward, switching as required enroute. The crew would either turn at Emporia or at Edgerton, depending on whether switching were required beyond Emporia. As 17 carloads of freight were handled at Edgerton during the Base Year, I am assuming that the crew turned at Edgerton 34 times (once each for the loaded and empty car) and at Emporia the remaining 206 times.

On days the crew turns at Emporia, the total round trip mileage is 111.8, of which 72.4 are on-branch; if the crew turns at Edgerton, the total round trip mileage is 145.8, of which 106.4 are on-branch. These parameters were used to construct a weighted average round trip of 77.2 miles.

On a mileage pro-rata basis, the crew spends 66% of its time on duty on the line and thus 66% of the assignment's actual compensation during the Base Year is attributed to the branch as crew costs, for a total of \$192,134, including fringe benefits.

Expenses for engine and train crew materials, train inspection and lubrication labor and materials were calculated in accordance with the Board's regulations found at 49 CFR §1152.33(c)(1)(i). Forecast/Subsidy Year expenses for engine and train crew

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<sup>9</sup> Operations on the line were terminated October 1, 2013, as discussed above.

materials, train inspection and lubrication labor and materials were developed by indexing Base Year expenses by the GDP deflator.

Locomotive fuel expenses were calculated in accordance with the Board's regulations found at 49 CFR §1152.33(c)(1)(ii). Forecast/Subsidy Year locomotive fuel expenses were developed by indexing Base Year expenses by the GDP deflator.

Locomotive servicing expenses were calculated in accordance with the Board's regulations found at 49 CFR §1152.33(c)(1)(iv). Forecast/Subsidy Year locomotive servicing expenses were developed by indexing base year expenses by the GDP deflator.

Transportation fringe benefit costs were calculated in accordance with the Board's regulations found at 49 CFR §1152.33(c)(4)(i). The fringe benefit rate thus calculated for the base year is 41.3%. Forecast/Subsidy Year fringe benefit costs were developed by indexing base year expenses by the GDP deflator.

#### Freight car costs (lines 5g and 5i)

Freight car costs calculations required the development of separate unit cost factors for car-day rates per day and car-mile rates per mile by car type for repair and depreciation, return on value, depreciation only, and holding gain (loss). NSR's Costs Department developed those rates in accordance with the Board's regulations found at 49 CFR §1152.32(g).

The Costs Department also calculated the actual car days on branch based on NSR car movement records. The average car spent 4.8 days on-branch. My office developed the total car days and the car miles on-branch for the line's traffic and calculated the freight car costs. The return on value for the forecast year includes an

adjustment for the holding gain (loss). Forecast/Subsidy Year freight car costs were indexed by the GDP Deflator.

Return on value for locomotives (line 5h)

Locomotive return on value expenses were calculated in accordance with the Board's regulations found at 49 CFR §1152.32(h). NSR locomotive purchase cost is discussed above in the section captioned: *Transportation*. Because book value for Category 7 locomotives is zero for the purpose of these calculations, return on value expense for locomotives is also zero.

Off-branch costs (line 6)

"Off-branch costs" are those costs incurred by NSR on the remainder of its railroad system in moving rail shipments to and from the line segment which is the subject of this abandonment. Off-branch costs are computed in accordance with 49 CFR § 1152.32(n) and are determined using the Uniform Rail Costing System (URCS) formula, which is applied to the Form R-1 filed with this Board by NSR. Off-branch costs to or from an NSR origin, destination or point of interchange not on the branch line reflect characteristics of the movement such as car type, car ownership, weight and distance.

The unit costs used to compute off-branch costs result from the application of 2012 URCS data, which is the latest available. The Costs Department calculated the Base Year off-branch costs at my request and supplied car movement information to permit calculation of freight car returns and holding gain or loss. Forecast/Subsidy Year off-branch costs were indexed by the GDP Deflator.

Valuation of property (lines 12a, b and c)

The valuation of property (lines 12a, b and c) is the sum of working capital and net liquidation value less income tax consequences. Working capital expenses for the forecast year were calculated in accordance with the Board's regulations found at 49 CFR §1152.34(c)(1)(i) for the branch by calculating forecast year on-branch avoidable costs less locomotive depreciation and freight car depreciation and then multiplying the result by 15/365 or 0.0411 to produce 15 days' worth:

A. On-branch avoidable costs (Appendix 1, line 5)	\$1,304,364
B. Locomotive depreciation	0
C. Freight car depreciation	<u>2,769</u>
D. Avoidable costs less depreciation (A-B-C)	1,301,595
E. Working capital (D x 0.041)	\$53,490

Income tax consequences are \$1,723,857, the estimated net liquidation value of the track at the end of the forecast year, \$4,659,072, multiplied by 37%, the composite federal and state tax income rate. The net liquidation value is the sum of the net salvage value of the track and structures on the right-of-way plus the net liquidation value of the right-of-way land which is held in fee for the branch. The current net salvage value of the track and structures for the line is \$4,588,165. Although the underlying land has value, I have elected to exclude that value for the purposes of NSR's case-in-chief.. The net liquidation value is adjusted for a holding gain projected to occur during the forecast year. A figure of 1.55%, developed using predicted changes in the GDP Deflator during the forecast year, was applied to the current net liquidation value to produce the estimated holding gain, \$70,907. The net liquidation value at the end of the forecast year is thus \$4,659,072.

Nominal rate of return and nominal return on road properties (lines 13 and 14)

The nominal rate of return, Appendix 1, line 13, was calculated in accordance with the Board's decision in Railroad Cost of Capital – 2012, Ex Parte No. 558 (Sub-No. 16), served August 30, 2013 and the Board's regulations found at 49 CFR §1152.34(d). The current nominal before tax cost of capital rate thus calculated is 17.65%.

The nominal return on road properties, Appendix 1, line 14, was calculated by multiplying the valuation of property by 17.65%.

Holding gain (loss) on road properties (line 15)

As discussed in the Valuation of Property section above, the estimated holding gain during the Forecast/Subsidy Year is \$70,907.

Verification

I, Marcellus C. Kirchner, verify under penalty of perjury that I am Director Strategic Planning of Norfolk Southern Corporation, that I have read the foregoing document and know its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on November 19, 2013.



Marcellus C. Kirchner

**Surface Transportation Board Docket No. AB 290 (Sub-No. 359X)****Norfolk Southern Railway Company****Pro Forma Income Statement****Proposed Discontinuance of Service****Franklin, VA to Edgerton, VA - Milepost FD 37.0 to FD 90.2**

Railway operating revenues and expenses\* for the Franklin to Edgerton, VA line segment; a total distance of approximately 53.2 miles.

	Base Year Operations <sup>1</sup>	Forecast Year Operations <sup>2</sup>	Projected Subsidy Year Operations <sup>2</sup>
<b>CARLOADS:</b>	<b>414</b>	<b>414</b>	<b>414</b>
<b>REVENUES ATTRIBUTABLE FOR:</b>			
1 Freight originated and/or terminated on branch	\$ 1,473,261	\$ 1,496,029	\$ 1,496,029
2 Bridge traffic	0	0	0
3 All other revenue and income	0	0	0
4 TOTAL REVENUES ATTRIBUTABLE (Lines 1 through 3)	\$ 1,473,261	\$ 1,496,029	\$ 1,496,029
<b>AVOIDABLE COSTS FOR:</b>			
5 ON-BRANCH COSTS:	\$ 1,284,512	\$ 1,304,364	\$ 1,304,364
a. Maintenance of Way and Structures	755,257	766,929	766,929
b. Maintenance of Equipment	38,499	39,095	39,095
c. Transportation	442,634	449,474	449,474
d. General Administrative	0	0	0
e. Deadheading, Taxi and Hotel	0	0	0
f. Overhead Movement	0	0	0
g. Freight Car Costs (other than return on freight cars)	34,388	34,919	34,919
h. Return on Value - Locomotives	0	0	0
i. Return on Value - Freight Cars	13,735	13,947	13,947
j. Revenue Taxes	0	0	0
k. Property Taxes	0	0	0
6 OFF-BRANCH COSTS:	\$ 1,110,345	\$ 1,127,504	\$ 1,127,504
a. Off-Branch Costs (other than return on freight cars)	1,056,001	1,072,320	1,072,320
b. Return on Value - Freight Cars	54,344	55,184	55,184
7 TOTAL AVOIDABLE COSTS (line 5 plus line 6)	\$ 2,394,857	\$ 2,431,868	\$ 2,431,868
<b>SUBSIDIZATION COSTS FOR:</b>			
8 Rehabilitation		\$ 5,894,900	\$ 5,894,900
9 Administration Costs (subsidy year only)			14,960
10 Casualty Reserve Account			
11 TOTAL SUBSIDIZATION COSTS (lines 8 through 10)		\$ 5,894,900	\$ 5,909,860
<b>RETURN ON VALUE:</b>			
12 Valuation of property (lines 12a through 12c)		\$ 6,436,419	\$ 6,436,419
a. Working capital		53,490	53,490
b. Income tax consequences		1,723,857	1,723,857
c. Net liquidation value		4,659,072	4,659,072
13 Nominal rate of return		17.21%	17.21%
14 Nominal return on value (line 12 times line 13)		\$ 1,107,708	\$ 1,107,708
15 Holding gain (loss)		70,907	70,907
16 TOTAL RETURN ON VALUE (line 14 minus line 15)		\$ 1,036,801	\$ 1,036,801
17 AVOIDABLE LOSS FROM OPERATIONS (line 4 minus line 7)	\$ (921,596)	\$ (935,839)	\$ (935,839)
18 ESTIMATED FORECAST YEAR LOSS FROM OPERATIONS (line 4 minus lines 7 and 16)		\$ (1,972,640)	\$ (1,972,640)
19 ESTIMATED SUBSIDY (line 4 minus lines 7, 11 and 16)			\$ (7,882,500)

\* Derived from Norfolk Southern Corporation (NS) combined railroad subsidiaries information.

1. July 2012 - June 2013 is the Base Year.

2. November 2013 - October 2014 is the forecast year and the subsidy year

## Appendix 2

Docket No. AB 290 (Sub-No. 359X)

COMMODITIES BY CARLOADS AND TONNAGE  
49 C.F.R. § 1152.22(e)(2)

Commodity	STCC	2010		2011		2012		12 Months Ending June 2013 (Base year)	
		Cars	Tons	Cars	Tons	Cars	Tons	Cars	Tons
Ammonium Polyphosphate	2871451	5	496	4	399	2	198	3	299
Brick, Common Building	3251115	8	668	6	495	19	1,405	17	1,247
Lumber or Timber	2421184	30	2,846	60	5,596	54	5,123	81	7,665
Oriented Strand Board	2499110	6	516	1	74	0	0	6	537
Plywood	2432153	327	23,769	580	42,508	300	22,514	288	22,054
Potassium Chloride	2812534	10	1,011	19	1,915	15	1,513	16	1,608
Potassium-Magnesium Sulfate	2812567	4	392	4	392	3	295	3	296
Sheet Steel	3312332	0	0	13	1,172	1	70	0	0
Stone, Riprap or Breakwater	1421950	248	24,333	193	18,963	7	691	0	0
Stone, Natural, Broken or Crushed	1421991	3,084	315,905	4,872	496,409	72	7,326	0	0
Strip Steel	3312344	8	640	0	0	0	0	0	0
<b>Totals:</b>		<b>3,730</b>	<b>370,576</b>	<b>5,752</b>	<b>567,923</b>	<b>473</b>	<b>39,135</b>	<b>414</b>	<b>33,706</b>

## Customers on line:

Lawrenceville Brick, Inc.  
 PO Box 45  
 Lawrenceville, VA 23868  
 (434) 848-3151

Georgia Pacific, LLC  
 634 Davis Street  
 PO Drawer D  
 Emporia, VA 23847  
 (804) 634-5123

Vulcan Construction Materials  
 2500 Belfield Road  
 Freeman, VA 23856  
 (434) 848-4775

Carolina Eastern Company  
 22187 High Street  
 PO Box 370  
 Courtland, VA 23837  
 (804) 653-9431

Toll Integrated Systems  
 510 Davis Street  
 PO Box 431  
 Emporia, VA 23847  
 (434) 634-8888

RG Steel, LLC\*  
 20 Three Creek Drive  
 Emporia, VA 23847  
 (434) 336-9098

*\*RG Steel is the last known owner of this location. The company filed for bankruptcy on May 31, 2012 and the property is currently for sale.*

NORMALIZED MAINTENANCE PROJECTION  
2014 to 2023  
FRANKLIN DISTRICT - CLASS 1

MILEPOSTS FD 37.00 90.20 53.20 ROUTE MILES

Year  
1 2 3 4 5 6 7 8 9 10  
2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>ROUTINE WORK</b>											
INSPECTION - 5 days per week - 7 in summer	\$220,836 PER YEAR	220,836	220,836	220,836	220,836	220,836	220,836	220,836	220,836	220,836	220,836
GENERAL TRACK REPAIR	\$3,000 PER MILE	159,600	159,600	159,600	159,600	159,600	159,600	159,600	159,600	159,600	159,600
DITCHING - 34 days per year	\$47,435 PER YEAR	47,435	47,435	47,435	47,435	47,435	47,435	47,435	47,435	47,435	47,435
BRUSH CUTTING - not needed due to spraying	\$0 PER MILE										
RAIL TESTING - twice per year	\$146 PER MILE	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800	7,800
<b>VEGETATION CONTROL</b>											
BALLAST - annual	\$26,866 PER YEAR	26,866	26,866	26,866	26,866	26,866	26,866	26,866	26,866	26,866	26,866
CROSSINGS - annual - 103 crossings	\$52,677 PER YEAR	52,677	52,677	52,677	52,677	52,677	52,677	52,677	52,677	52,677	52,677
BRUSH - every third year - \$277.17/ mi.	\$15,022 PER YEAR		15,022			15,022		15,022		15,022	
SIGNAL SYSTEM	\$3,143 PER MILE	167,208	167,208	167,208	167,208	167,208	167,208	167,208	167,208	167,208	167,208
BRIDGE REPAIRS	\$80,000 BRIDGE DEPT.	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
<b>ROUTINE SUBTOTAL</b>		<b>\$762,422</b>	<b>\$777,444</b>	<b>\$762,422</b>	<b>\$762,422</b>	<b>\$777,444</b>	<b>\$762,422</b>	<b>\$762,422</b>	<b>\$777,444</b>	<b>\$762,422</b>	<b>\$762,422</b>
<b>PROGRAM WORK</b>											
RAIL RENEWAL (NEW) Var Miles	\$688,000 PER MILE										
DUAL RENEWAL (NEW) Var Miles	\$634,000 PER MILE										
TIMBER AND SURFACE Var Miles	\$137,000 PER MILE	4,411,400			2,877,000						
SURFACING Var Miles	\$38,000 PER MILE										
SIGNAL	SIGNAL DEPT.										
BRIDGE - replace trestles	BRIDGE DEPT.	1,483,500	0	2,045,500	1,888,000	564,500	1,057,000	329,800	299,000	631,000	762,000
<b>PROGRAM SUBTOTAL</b>		<b>\$5,894,900</b>	<b>\$0</b>	<b>\$2,045,500</b>	<b>\$4,765,000</b>	<b>\$564,500</b>	<b>\$1,057,000</b>	<b>\$329,800</b>	<b>\$299,000</b>	<b>\$631,000</b>	<b>\$762,000</b>
<b>MAINTENANCE TOTAL</b>		<b>\$6,657,322</b>	<b>\$777,444</b>	<b>\$2,807,922</b>	<b>\$5,527,422</b>	<b>\$1,341,944</b>	<b>\$1,819,422</b>	<b>\$1,092,222</b>	<b>\$1,076,444</b>	<b>\$1,393,422</b>	<b>\$1,524,422</b>

MAINTENANCE SUMMARY:	ROUTINE MAINTENANCE WORK				PROGRAM MAINTENANCE WORK				LINE TOTAL
	RDWY	BRIDGE	SIGNAL	TOTAL	RDWY	BRIDGE	SIGNAL	TOTAL	
TEN YEAR PROJECTED TOTAL =	\$5,197,210	\$800,000	\$1,672,076	\$7,669,286	\$7,288,400	\$9,060,300	\$0	\$16,348,700	\$24,017,986
ANNUAL COST FOR LINE =	\$519,721	\$80,000	\$167,208	<b>\$766,929</b>	\$728,840	\$906,030	\$0	\$1,634,870	\$2,401,799
ANNUAL COST PER MILE =	\$9,769	\$1,504	\$3,143	\$14,416	\$13,700	\$17,031	\$0	\$30,731	\$45,147

\* Program T&S work in 2014 is for mileposts FD 45.0 - 66.0, and 79.0 - 90.2 (32.2 miles total)

\* Program T&S work in 2017 is for mileposts FD 37.0 - 45.0 (8.0 miles) and FD 66.0 - 79.0 (13.0 miles)

\* Signal System = Crossing Inspections. This figure includes 1.25 signal maintainers for the year inspecting the 103 crossings. The cost also includes the maintenance of the vehicle the signal maintainers drive.

## 10-YEAR PROJECTION OF BRIDGE COSTS

LINE SEGMENT : FRANKLIN, VA (MP FD-37.0) TO EDGERTON, VA (MP FD-90.2)

10-YEAR CAPITAL & MAINTENANCE PROGRAM

YEAR	ROUTINE BRIDGE MAINTENANCE	TIE DECK RENEWALS		CULVERTS		BRIDGE REPAIRS/REPLACEMENTS		YEAR TOTAL		CASH EXCEPT ROUTINE	COSTS YEAR TOTALS				
		MILEPOST	CAPITAL	EXPENSE	MILEPOST	CAPITAL	EXPENSE	MILEPOST	DESCRIPTION			CAPITAL	EXPENSE		
2014	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-63.1 FD-84.5	Replace Trestle Replace Trestle	\$530,000 \$900,000	\$15,000 \$38,500	\$1,430,000 \$133,500	\$545,000 \$938,500	\$1,483,500	
2015	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0			0	0	0	\$80,000		
2016	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-37.5 FD-65.6	Replace Trestle Replace Trestle	\$1,560,000 \$394,000	\$75,000 \$16,500	\$1,954,000 \$171,500	\$1,635,000 \$410,500	\$2,045,500	
2017	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-51.3	Replace Trestle	\$1,800,000	\$88,000	\$1,800,000	\$168,000	\$1,888,000	\$1,888,000
2018	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-47.1	Replace Trestle	\$545,000	\$19,500	\$545,000	\$99,500	\$564,500	\$564,500
2019	\$80,000	NONE	\$0	\$0	Various	\$40,000	\$4,000	FD-56.0	Replace Trestle	\$975,000	\$38,000	\$1,015,000	\$122,000	\$1,057,000	\$1,057,000
2020	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-44.0	Replace Trestle	\$320,000	\$9,800	\$320,000	\$89,800	\$329,800	\$329,800
2021	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-41.2	Replace Trestle	\$288,000	\$11,000	\$288,000	\$91,000	\$299,000	\$299,000
2022	\$80,000	NONE	\$0	\$0	NONE	\$0	\$0	FD-72.6	Replace Trestle	\$605,000	\$26,000	\$605,000	\$106,000	\$631,000	\$631,000
2023	\$80,000	NONE	\$0	\$0	Various	\$40,000	\$4,000	FD-41.7	Replace Trestle	\$690,000	\$28,000	\$730,000	\$112,000	\$762,000	\$762,000
10-YEAR TOTAL	\$800,000		\$0	\$0		\$80,000	\$8,000			\$8,607,000	\$365,300	\$8,687,000	\$1,173,300	\$9,060,300	\$9,060,300
10-YEAR AVG.	\$80,000		\$0	\$0		\$8,000	\$800			\$860,700	\$36,530	\$868,700	\$117,330		

Net Liquidation Value Estimate							
Franklin - Edgerton. VA							
MP FD 37.0 - 90.2							
53.2 Miles of Track							
Gross Value							
Item	Total Length	Quantity	Unit	Unit Value	Gross Value		
132	#RAIL	14287	ft	597	NT @	\$399	/NT= \$238,281
	#OTM			234	NT @	\$411	/NT= \$96,174
131	#RAIL		ft	0	NT @	\$399	/NT= \$0
	#OTM			0	NT @	\$411	/NT= \$0
130	#RAIL	2639	ft	109	NT @	\$399	/NT= \$43,347
	#OTM			43	NT @	\$411	/NT= \$17,765
115	#RAIL		ft	0	NT @	\$399	/NT= \$0
	#OTM			0	NT @	\$411	/NT= \$0
112	#RAIL	98719	ft	3501	NT @	\$399	/NT= \$1,396,992
	#OTM			1571	NT @	\$411	/NT= \$645,845
110	#RAIL	89287	ft	3110	NT @	\$399	/NT= \$1,240,955
	#OTM			1421	NT @	\$411	/NT= \$584,138
100	#RAIL	31739	ft	1005	NT @	\$399	/NT= \$401,022
	#OTM			315	NT @	\$411	/NT= \$129,441
90	#RAIL	44874	ft	1279	NT @	\$399	/NT= \$510,285
	#OTM			443	NT @	\$411	/NT= \$182,113
75	#RAIL	0	ft	0	NT @	\$399	/NT= \$0
	#OTM			0	NT @	\$411	/NT= \$0
60	#RAIL	0	ft	0	NT @	\$399	/NT= \$0
	#OTM			0	NT @	\$411	/NT= \$0
<b>Turnouts</b>				27	EA @	\$2,000	EA= \$54,000
<b>Crossties</b>	0	%		0	EA @	\$5	EA= \$0
<b>Gross Value Subtotal=</b>							<b>\$5,540,358</b>
Removal Costs							
Remove Track and Repair		281545	ft @	\$2.85	/ft =		\$802,403
Grade Crossings							
Remove Turnouts		27	EA @	\$500	EA=		\$13,500
Handling Costs		13629	NT @	\$10.00	/NT=		\$136,290
<b>Removal Costs Subtotal=</b>							<b>\$952,193</b>
<b>Estimated Net Liquidation Value=</b>							<b>\$4,588,165</b>
<b>Value per Mile =</b>							<b>\$86,244</b>

**STB Docket No. AB-290 (Sub-No. 359X)  
Norfolk Southern Railway Company Discontinuance of Service  
Franklin – Edgerton, Virginia**

**WORKPAPERS**

Locomotive Cost

Category	GMA Horsepower Classification	Year of Last Purchase or Rebuild	Unit Initial	Unit Number	Historic Cost	2010	2011	2012	7/12 - 6/13	12/13 - 11/14
1	999 HP and under									
2	1,000 HP - 1,499 HP	2008	NS							
3	1,500 HP - 1,749 HP	1982	NS							
4	1,750 HP - 1,999 HP	1952	NS							
5	2,000 HP - 2,499 HP	2007	NS							
6	2,500 HP - 2,999 HP									
7	3,000 HP - 3,599 HP	2010	NS	6324	\$1,571,904	\$1,571,904	\$1,594,067	\$1,634,984	<b>\$1,659,918</b>	<b>\$1,700,058</b>
8	3,600 HP and over	2012	NS							
9	Booster	2008	NS							

**Producer Price Index-Commodities**  
**Original Data Value**

Series Id: WPU144  
 Not Seasonally Adjusted  
 Group: Transportation equipment  
 Item: Railroad equipment  
 Base Date: 198200  
 Years: 1984 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
1984	101.5	101.5	101.6	102.3	102.3	102.3	102.9	103.2	103.2	103.6	103.6	103.6	102.6
1985	103.9	104.4	104.7	104.8	104.6	105.0	105.1	105.2	105.2	105.2	105.1	105.2	104.9
1986	105.9	105.5	105.6	105.6	105.3	105.3	106.1	104.9	105.2	105.2	105.2	105.3	105.4
1987	105.2	104.6	104.7	104.6	104.5	104.4	104.7	104.8	104.8	104.6	105.0	105.0	104.7
1988	105.3	104.8	105.5	106.2	107.0	108.1	108.2	108.6	108.8	108.8	109.0	110.2	107.5
1989	111.8	112.2	112.2	114.2	114.2	114.3	114.6	114.6	114.7	114.8	114.9	115.6	114.0
1990	116.3	117.5	117.4	117.6	117.7	118.5	118.5	118.5	119.9	119.9	120.9	120.9	118.6
1991	122.0	121.9	122.2	122.1	122.2	122.2	122.6	122.8	122.8	122.3	121.9	121.8	122.2
1992	122.5	123.2	123.6	123.6	123.7	123.9	124.0	123.9	124.2	124.2	123.8	123.3	123.7
1993	123.6	124.2	124.3	124.5	124.5	124.6	125.0	125.8	126.1	125.7	125.7	127.6	125.2
1994	127.9	128.1	128.5	128.5	128.7	129.0	129.1	129.8	129.9	130.0	130.1	130.2	129.2
1995	130.9	132.7	133.2	134.2	134.7	135.2	135.5	135.7	135.6	136.1	136.6	136.9	134.8
1996	136.7	137.7	137.6	137.8	137.7	137.3	137.3	137.2	137.0	137.0	136.5	136.3	137.2
1997	142.4	136.6	132.2	131.6	134.2	134.3	133.8	133.5	134.2	134.7	134.2	134.3	134.7
1998	134.6	134.5	134.5	135.5	135.3	135.6	135.2	135.3	135.3	134.5	134.3	135.2	135.0
1999	134.6	134.6	134.6	134.5	134.5	135.8	135.9	135.9	135.8	135.7	135.3	135.5	135.2
2000	135.3	135.3	135.6	135.8	135.7	135.8	135.8	135.7	135.9	135.8	135.8	135.8	135.7
2001	135.9	135.9	135.4	135.5	135.6	135.7	135.1	135.1	135.0	134.6	134.5	134.5	135.2
2002	134.9	134.6	135.1	135.0	135.2	135.4	134.9	135.0	134.6	134.5	134.5	134.5	134.9
2003	134.5	135.4	135.5	136.0	136.3	136.3	136.7	136.5	136.9	137.2	137.7	137.3	136.3
2004	137.9	140.1	142.2	142.8	143.5	143.7	143.2	143.5	144.2	145.0	147.0	153.2	143.9
2005	153.4	156.0	161.6	161.1	161.3	161.2	161.5	161.8	161.8	161.7	161.9	162.2	160.4
2006	164.2	165.5	168.2	168.2	169.6	171.3	170.6	170.9	170.4	170.2	170.3	172.7	169.4
2007	173.9	175.6	176.1	174.2	175.6	176.4	177.4	177.9	177.9	177.5	177.7	177.5	176.4
2008	178.4	178.2	177.6	178.7	178.0	181.2	180.8	181.7	182.9	181.9	181.6	180.7	180.2
2009	181.6	181.8	181.6	183.1	180.0	180.0	179.9	179.9	183.8	183.6	183.6	184.4	181.9
2010	184.5	184.7	184.5	184.5	184.6	184.6	184.5	184.5	184.5	184.2	184.2	184.2	184.4
2011	184.9	185.1	187.0	186.6	186.7	186.8	187.3	187.4	187.5	187.5	187.7	189.9	187.0
2012	190.1	190.1	190.6	191.8	191.6	191.5	192.0	190.4	190.9	194.9	193.9	194.1	191.8
2013	196.0	195.2	195.8	196.7	198.4	198.4	198.4						

Apr - Jul 2013 is preliminary

Forecast of PPI - Rail Equipment in AAR submission to STB for the Fourth Quarter 2013 quarterly Rail Cost Adjustment Factor (RCAF)

2013	198.799	199.116	199.434	199.751	200.069
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Shading Legend:  
 (no shading) AAR forecasted values  
 Actual values

Locomotive Cost Indices

Category	Horsepower	Year of Last Purchase or Rebuild	Adjustment Factor	7/12 - 11/2013 -				
				2010	2011	2012	6/13	10/2014
				184.40	187.00	191.80	194.73	199.43
1	999 HP and under							
2	1,000 HP - 1,499 HP	2008						
3	1,500 HP - 1,749 HP	1982						
4	1,750 HP - 1,999 HP	1952						
5	2,000 HP - 2,499 HP	2007						
6	2,500 HP - 2,999 HP							
7	3,000 HP - 3,599 HP	2010	184.40	1.00	1.01	1.04	1.06	1.08
8	3,600 HP and over	2012						
9	Booster	2008						

**Quarterly Rail Cost Adjustment Factor**

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**Depreciation  
Fourth Quarter 2013**

**PPI RAILROAD EQUIPMENT**

Recommended model: Exponential Smoothing  
Forecast Model for PPIRE  
Holt exponential smoothing: Linear trend, No seasonality

<b>Component</b>	<b>Smoothing Weight</b>	<b>Final Value</b>
Level	0.70470	198.48
Trend	0.02138	0.31741

**Within-Sample Statistics**

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Sample size 72	Number of parameters 2
Mean 185.7	Standard deviation 5.788
R-square 0.9682	Adjusted R-square 0.9678
Durbin-Watson 1.975	Ljung-Box(18)=18.18 P=0.5564
Forecast error 1.039	BIC 1.088
MAPE 0.003515	RMSE 1.025
MAD 0.653	

*Actual Values for the Most Recent 6 Periods:*

<b>Date</b>	<b>Actual</b>
2013-02	195.200
2013-03	195.800
2013-04	196.700
2013-05	198.400
2013-06	198.400
2013-07	198.400

*Forecasted Values*

<b>Date</b>	<b>2.5 Lower</b>	<b>Forecast</b>	<b>97.5 Upper</b>
2013-08	196.667	198.799	200.931
2013-09	196.490	199.116	201.743
2013-10	196.392	199.434	202.476
2013-11	196.344	199.751	203.158
2013-12	196.332	200.069	203.805
<b>QTR AVG</b>	<b>196.356</b>	<b>199.751</b>	<b>203.146</b>

Background

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

Background Data

	Dates	Ending Quarter
Base Year	07/12 - 06/13	2013 Q2
Forecast Year	11/13 - 10/14	2014 Q3

	To Edgerton	To Emporia
Beginning Milepost	37.00	37.00
Ending Milepost	90.20	73.20
Total Miles	53.20	36.20

	Miles to Discontinue	53.20
Annual Trips	240	Crew Starts

Traffic Originating or Terminating On Branch		
Cars	Revenue	Per Car
414	\$ 1,473,261	\$ 3,559

Calculating time on-branch assuming 25 mph operation for Franklin - Emporia and Franklin - Edgerton trips, with weighting

Franklin - Emporia

Service Days per Week			5.0
Crew Size			3
Roundtrip Mileage Crew Taxied			0
Hours Required to Serve Line (includes switching)			5.90
Average MPH Service On Line			25

Task	Minutes	Hours	Miles
36.2 Miles Transit @ 25 MPH	87.0	1.45	
Switching at Emporia and other customers	180.0	3.00	
36.2 Miles Transit @ 25 MPH	87.0	1.45	
Total Round Trip Time On Branch	<b>354.0</b>	<b>5.90</b>	<b>72.40</b>
206 Trips	Weighted	<b>303.9</b>	<b>5.06</b>
			<b>62.14</b>

Franklin - Edgerton/Lawrenceville

Service Days per Week			5.0
Crew Size			3
Roundtrip Mileage Crew Taxied			0
Hours Required to Serve Line (includes switching)			7.26
Average MPH Service On Line			25

Task	Minutes	Hours	Miles
53.2 Miles Transit @ 25 MPH	127.8	2.13	
Switching at Emporia and other customers	180.0	3.00	
53.2 Miles Transit @ 25 MPH	127.8	2.13	
Total Round Trip Time On Branch	<b>435.6</b>	<b>7.26</b>	<b>106.40</b>
34 Trips	Weighted	<b>61.7</b>	<b>1.03</b>
			<b>15.07</b>

240 Trips	Composite weighted average	<b>365.6</b>	<b>6.09</b>	<b>77.22</b>
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Background

**Calculating % of distance on-branch (west of Franklin) vs. Suffolk - Franklin using one-way mileage**

	Begin MP	End MP	Miles	Trips	Total Miles	On-branch miles
Suffolk - Edgerton	17.3	90.2	72.9			
Suffolk - Franklin	17.3	37.0	19.7	240.0	4,728	
Franklin - Emporia	37.0	73.2	36.2	240.0	8,688	8,688
Emporia Edgerton	73.2	90.2	17.0	34.0	578	578
Totals					13,994	9,266
% on-branch (milesge weighted)					66.2%	

**Crew Statistics**

Crew V31		Gross Earnings	Productivity	Fringe (41%)	Add to Net	Hours	Total Hours/Day	% On Branch (mileage weighted)	Total Earnings Attributable to Branch
						Attributable to Branch			
	Conductor	\$ 88,415		\$ 36,515		8		66.2%	\$ 82,722
	Brakeman	\$ 21,883		\$ 9,038		8		66.2%	\$ 20,474
	Engineer	\$ 95,060		\$ 39,260		8		66.2%	\$ 88,939
	<b>Totals</b>	<b>\$ 205,358</b>		<b>\$ 84,813</b>					<b>\$ 192,134</b>

**Locomotive Statistics (from Loco Master)**

Category Locomotive Used	7
Number Used	1
Average Tons	168.4
2012 average age	34.2

**1. Loco Unit Hours**

A. For ownership (Depreciation & ROI)	6.09	x	240	<b>1,462.2</b>	<b>Annual Locomotive Unit Hours (LUH)</b>
B. For Usage (fuel)	6.09	x	240	<b>1,462.2</b>	<b>Annual Locomotive Unit Hours (LUH)</b>

**2. Loco Unit Miles**

Running					<b>38.6</b>	<b>One-Way Miles</b>
					<b>77.2</b>	<b>Round Trip Miles</b>
					<b>18,532.0</b>	<b>Annual Miles</b>
Switching	77.2	x	240.0	=		
	3.0	x	6.0	x	240.0	= <b>4,320.0</b> <b>Switching Miles</b>
<b>TOTAL</b>						
	18,532.0	+	4,320.0	=	<b>22,852.0</b>	<b>Locomotive Unit Miles (LUM)</b>

**3. Loco Gross Ton Miles**

	22,852.0	x	168.4	=	<b>3,848,276.8</b>	<b>Locomotive Gross Ton Miles (LGTM)</b>
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Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	ACCOUNT NO.	BASE YEAR		F'CAST/SUB YEAR	Spreadsheet/Source
		07/12 - 06/13	11/13 - 10/14		
GDP Deflator Adjustment:				1.55%	From GDP Deflator Spreadsheet
<b>Revenues:</b>					
1 a. Freight Originated or Terminated On Branch	101	\$1,473,261	\$1,496,029		
2 Bridge Traffic (assignable to branch)		0	0		
3 All Other Revenue and Income		0	0		
4 Total Revenues Attributable (Lines 1 through 3)		1,473,261	1,496,029		
<b>Avoidable Cost:</b>					
5 On-Branch Costs (from spreadsheets)		1,284,512	1,304,364		
a. Maintenance of Way and Structures		755,257	766,929		From Engineering
b. Maintenance of Equipment					
1 Locomotives:					
Repairs & Maintenance	11-21-41 L	10,783	10,950		Loco Repairs
	21-21-41 M	20,681	21,001		Loco Repairs
	41-21-41 P	2,429	2,467		Loco Repairs
	61-21-41 G	29	29		Loco Repairs
Fringe Benefits	12-21-00 G	4,577	4,648		Loco Repairs
Depreciation	62-21-00 G	0	0		Loco Depreciation
Total Locomotives		38,499	39,095		
2 Other		0	0		
Total Equipment		38,499	39,095		
c. Transportation					
1 Train Operations					
Engine Crews	11-31-56 L	88,939	90,313		Transportation
	21-31-56 M	0	0		Crew Materials
Train Crews	11-31-57 L	103,195	104,790		Transportation
	21-31-57 M	7	7		Crew Materials
Train Inspection & Lubrication	11-31-62 L	186	189		Crew Materials
	21-31-62 M	0	0		Crew Materials
Locomotive Fuel		250,301	254,169		Loco Fuel
Servicing Locomotives	11-31-69 L	4	4		Loco Service
	21-31-69 M	1	1		Loco Service
	41-31-69 P	1	1		Loco Service
	61-31-69 G	0	0		Loco Service
Fringe Benefits	12-31-00 G	0	0		Included in labor
Total Transportation		442,634	449,474		
d. General Administrative		0	0		
e. Deadhead, Taxi and Hotel		0	0		Transportation
f. Overhead Movement		0	0		
g. Freight Car Costs (other than return on freight cars)		34,388	34,919		Car Cost
h. Return on Value - Locomotives		0	0		Loco ROI
i. Return on Value - Freight Cars		13,735	13,947		Car Cost
j. Revenue Taxes		0	0		
k. Property Taxes		0	0		
l. Total (Lines 5a through 5k)					
6 Off-Branch Costs		1,110,345	1,127,504		
a. Off-Branch Costs (other than return on freight cars)		1,056,001	1,072,320		Cost Department
b. Return on Value - Freight Cars		54,344	55,184		Cost Department
7 Total Avoidable Costs		2,394,857	2,431,868		
<b>Subsidization Costs:</b>					
8 Rehabilitation			5,894,900		Replace bridges @ MP FD 63.1, FD 84.5 and timber and surface 32.2 miles
9 Administrative Costs			14,960		1% of total revenue on branch
10 Casualty Reserve Account			0		
11 Total Subsidation Costs (Lines 8 through 10)			5,909,860		
12 Valuation of Road Properties (Lines 12a through 12c)					
(a) Working Capital			53,490		Working Capital
(b) Income Tax Consequences			1,723,857		Working Capital
(c) Net Liquidation Value			4,659,072		Working Capital
Total Valuation of Properties			6,436,419		Working Capital
13 Nominal Rate of Return			17.21%		Pre Tax nominal rate
14 Nominal Return on Value (Line 12 * Line 13)			1,107,708		
15 Holding Gain/Loss on Road Properties			70,907		
16 Return on Value (Line 14-15)			1,036,801		
17 Avoidable Loss from Operations (Line 4-7)		(921,596)	(935,839)		
18 Avoidable Loss Including Return on Value (Line 4-7-16)			(1,972,640)		
19 Estimated Subsidy (line 4-7, 11 and 16)			(7,882,560)		

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

11/13/2013

**LOCOMOTIVE RETURN ON INVESTMENT**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	<u>Base Year</u> <u>07/12 - 06/13</u>
	<u>GMA'S LOCO</u> <u>CAT 7</u>
A. SYSTEM LOCO UNIT HOURS	10,147,666
B. SYSTEM LOCO UNITS	2,566.0
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,955
D. REPLACEMENT COST	<b>\$1,659,918</b>
E. DEPRECIATION RATE	3.37%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$55,939
G. LOCO AGE	34.2
H. ACCUMULATED DEPRECIATION (LINE F x LINE G)	\$1,913,114
I. NET INVESTMENT (LINE D - LINE H)	\$0
J. COST OF CAPITAL	17.21%
K. ANNUAL ROI (LINE I x LINE J)	\$0
L. LOCO UNITS BY CATEGORY (100% SAMPLE)	1
M. TOTAL LOCO UNITS IN SAMPLE	1
N. RATIO LOCO UNITS BY CATEGORY (LINE L / LINE M)	1.00
O. LOCO UNIT HOURS ON BRANCH	1,462.2
P. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE N x LINE O)	1,462.2
Q. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE P / LINE C)	0.370
R. ANNUAL ROI ON BRANCH (LINE K x LINE Q)	\$0
S. TOTAL ROI (SUM OF LINE R AMOUNTS)	

**Net Investment for Category 5 locomotives is equal to zero because the annual depreciation rate times the average age exceeds 100%.**

Loco ROI

	<b>Forecast Year 11/13 - 10/14</b>
	<b>GMA'S LOCO CAT 7</b>
A. SYSTEM LOCO UNIT HOURS	10,147,666
B. SYSTEM LOCO UNITS	2,566
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,955
D. REPLACEMENT COST	<b>\$1,700,058</b>
E. DEPRECIATION RATE	3.37%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$57,292
G. LOCO AGE	35.2
H. ACCUMULATED DEPRECIATION (LINE F x LINE G)	\$2,016,678
I. NET INVESTMENT (LINE D - LINE H)	\$0
J. COST OF CAPITAL	17.21%
K. ANNUAL ROI (LINE I x LINE J)	\$0
L. LOCO UNITS BY CATEGORY (100% SAMPLE)	1
M. TOTAL LOCO UNITS IN SAMPLE	1
N. RATIO LOCO UNITS BY CATEGORY (LINE L / LINE M)	1.00
O. LOCO UNIT HOURS ON BRANCH	1462.24
P. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE N x LINE O)	1462.0
Q. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE P / LINE C)	0.370
R. ANNUAL ROI ON BRANCH (LINE K x LINE Q)	\$0
S. TOTAL ROI (SUM OF LINE R AMOUNTS)	

**Net Investment for Category 5 locomotives is equal to zero because the annual depreciation rate times the average age exceeds 100%.**

Loco Depreciation

**LOCOMOTIVE DEPRECIATION**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	<u>Base Year</u> <u>07/12 - 06/13</u>
	<u>GMA'S LOCO</u> <u>CAT 7</u>
A. SYSTEM LOCO UNIT HOURS	10,147,666
B. SYSTEM LOCO UNITS	2,566
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,955
D. REPLACEMENT COST	\$1,659,918
E. DEPRECIATION RATE	3.37%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$0
G. LOCO UNITS BY CATEGORY (100% SAMPLE)	1
H. TOTAL LOCO UNITS IN SAMPLE	1
I. RATIO LOCO UNITS BY CATEGORY (LINE G / LINE H)	1.0
J. LOCO UNIT HOURS ON BRANCH	1,462
K. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE I x LINE J)	1,462
L. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE K / LINE C)	0.370
M. ANNUAL DEPRECIATION ON BRANCH (LINE F x LINE L)	\$0
N. TOTAL DEPRECIATION (SUM OF LINE M AMOUNTS)	

**Net Investment for Category 5 locomotives is equal to zero because the annual depreciation rate times the average age exceeds 100%.**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2  
11/13/2013

Loco Depreciation

**LOCOMOTIVE DEPRECIATION**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	<u>Forecast Year</u> <u>11/13 - 10/14</u>
	<u>GMA'S LOCO</u> <u>CAT 7</u>
A. SYSTEM LOCO UNIT HOURS	10,147,666
B. SYSTEM LOCO UNITS	2,566
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,955
D. REPLACEMENT COST	\$1,700,058
E. DEPRECIATION RATE	3.37%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$0
G. LOCO UNITS BY CATEGORY (100% SAMPLE)	1
H. TOTAL LOCO UNITS IN SAMPLE	1
I. RATIO LOCO UNITS BY CATEGORY (LINE G / LINE H)	1.0
J. LOCO UNIT HOURS ON BRANCH	1,462
K. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE I x LINE J)	1,462
L. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE K / LINE C)	0.370
M. ANNUAL DEPRECIATION ON BRANCH (LINE F x LINE L)	\$0
N. TOTAL DEPRECIATION (SUM OF LINE M AMOUNTS)	\$0

**Net Investment for Category 5 locomotives is equal to zero because the annual depreciation rate times the average age exceeds 100%.**

Crew Materials

**CREW MATERIALS (TRAIN & ENGINE) AND TRAIN INSPECTION AND LUBRICATION**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

**Base Year  
07/12 - 06/13**

	ENGINE CREW MATERIAL (21-31-56)	TRAIN CREW MATERIAL (21-31-57)	TRAIN INSPECTION & LUBRICATION	
			WAGES (11-31-62)	MATERIALS (21-31-62)
A. SYSTEM EXPENSES	\$158	\$2,478	\$65,123	\$114
B. CAR MILE PORTION RATIO	27%	27%	27%	27%
C. SYSTEM CAR MILE EXPENSES (LINE A x LINE B)	\$43	\$674	\$17,704	\$31
D. SYSTEM CAR MILES L & E (RR OWN & LEA, PVT & NO PAY MI)	4,241,398	4,241,398	4,241,398	4,241,398
E. SYSTEM EXPENSES PER CAR MILE L/E (LINE C / LINE D)	\$0.0000101	\$0.0001588	\$0.0041742	\$0.0000073
F. BRANCH CAR MILES L & E	44,050	44,050	44,050	44,050
G. BRANCH CAR MILE EXPENSES (LINE E x LINE F)	\$0	\$7	\$184	\$0
<hr/>				
H. CARLOAD PORTION RATIO	73%	73%	73%	73%
I. SYSTEM CAR LOAD EXPENSES (LINE A x LINE H)	\$115	\$1,804	\$47,419	\$83
J. SYSTEM CARLOADS (QCS-COST DEPT)	11,359,957	11,359,957	11,359,957	11,359,957
K. SYSTEM EXPENSES PER CARLOAD (LINE I / LINE J)	\$0.00001	\$0.00016	\$0.00417	\$0.00001
L. BRANCH CARLOADS	414	414	414	414
M. BRANCH CARLOAD EXPENSES (LINE K x LINE L)	\$0	\$0	\$2	\$0
<hr/>				
TOTAL EXPENSES (LINE G + LINE M)	\$0	\$7	\$186	\$0

Loco Service

**SERVICING LOCOMOTIVES**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	<u>Base Year</u> <u>07/12 - 06/13</u>
A. BRANCH LOCO UNIT MILES	22,852
B. SYSTEM LOCO UNIT MILES	173,977,897
C. RATIO (LINE A/ LINE B)	0.000131
D. SYSTEM LABOR EXPENSE (ACC 11-31-69) (R-1, Sch. 410, Line 411)	\$30,058
E. BRANCH LABOR EXPENSE (LINE C x LINE D)	\$4
F. SYSTEM MATERIAL EXPENSE (ACC 21-31-69)	\$5,321
G. BRANCH MATERIAL EXPENSE (LINE C x LINE F)	\$1
H. SYSTEM PURCHASED EXPENSE (ACC 41-31-69)	\$9,026
I. BRANCH PURCHASED EXPENSE (LINE C x LINE H)	\$1
J. SYSTEM GENERAL EXPENSE (ACC 61-31-69)	\$12
K. BRANCH GENERAL EXPENSE (LINE C x LINE J)	\$0

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2  
11/13/2013

Loco Repairs

**LOCOMOTIVE REPAIRS AND MAINTENANCE**

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

**Base Year**  
**07/12 - 06/13**

A. BRANCH TONS PER UNIT	168
B. BRANCH LOCO UNIT MILES	22,852
C. BRANCH LOCO GTM (LINE A x LINE B)	3,848,277
D. SYSTEM LOCO GTM	33,553,923
E. RATIO (LINE C / LINE D)	0.114689
F. RATIO ROAD PORTION	0.928
G. SYSTEM LABOR EXPENSE (ACC 11-21-41)	\$101,303
H. BRANCH LABOR EXPENSE (LINE'S E x F x G)	\$10,783
I. SYSTEM MATERIAL EXPENSE (ACC 21-21-41)	\$194,296
J. BRANCH MATERIAL EXPENSE (LINE'S E x F x I)	\$20,681
K. SYSTEM PURCHASED EXPENSE (ACC 41-21-41)	\$22,816
L. BRANCH PURCHASED EXPENSE (LINE'S E x F x K)	\$2,429
M. SYSTEM GENERAL EXPENSE (ACC 61-21-41)	\$270
N. BRANCH GENERAL EXPENSE (LINE'S E x F x M)	\$29
O. FRINGE RATE	42.44%
P. TOTAL FRINGES (LINE H x LINE O)	\$4,577

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2  
11/13/2013

Loco Fuel

**LOCOMOTIVE FUEL**

**Franklin, VA - Edgerton, VA Milepost FD 37.0 - 91**

**Base Year  
07/12 - 06/13**

	GMA'S LOCO CAT 7 -----
A. GMA'S REPAIR & SUPPLIES COSTS PER LOCO UNIT HR. (AS OF 7/1/82)	\$81.50
B. GMA'S FUEL PORTION	0.64
C. FUEL EXPENSE PER LOCO UNIT HR. (LINE A x LINE B)	\$52.16
D. AAR'S CRC INDEX - FUEL (ANNUAL 1982 TO CURRENT YEAR)	3.282
E. FUEL EXPENSE PER LOCO UNIT HR. (LINE C x D)	\$171.18
F. LOCO UNITS BY CATEGORY (20% SAMPLE)	1
G. TOTAL LOCO UNITS IN SAMPLE	1
H. RATIO LOCO UNITS BY CATEGORY (LINE F / LINE G)	1.00
I. TOTAL LOCO UNIT HOURS ON BRANCH	1,462
J. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE H x LINE I)	1,462
K. FUEL EXPENSES BY CATEGORY (LINE E x LINE J)	\$250,301
L. TOTAL FUEL EXPENSES (SUM OF LINE K AMOUNTS)	\$250,301

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2  
11/13/2013

**Table A**  
**ANNUAL INDEXES OF CHARGEOUT PRICES AND WAGE RATES (1977=100)**  
**EAST**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Wage rates	305.2	312.0	317.3	331.1	338.1	340.8	353.0	362.8	393.3	384.9	395.4	426.2
Wage supplements	455.3	525.7	564.8	505.1	585.2	605.9	622.7	624.1	684.4	768.2	800.9	775.7
Fuel	234.9	202.5	247.4	323.7	475.5	527.5	557.0	845.2	458.9	605.6	829.5	852.6
Materials and supplies	182.9	182.9	182.0	196.1	211.5	236.0	262.9	291.1	309.9	310.8	321.3	340.9
Equipment rents	242.4	242.0	239.7	240.8	252.5	260.1	267.1	271.6	273.8	275.6	271.9	268.7
Purchased services	309.4	325.5	335.3	337.0	362.4	372.2	388.2	400.4	434.3	442.3	456.6	477.0
Depreciation	377.3	385.0	391.3	468.6	651.8	655.0	686.1	706.9	733.7	834.3	886.4	914.3
Interest	196.9	213.8	183.7	194.9	319.4	335.0	338.2	307.1	314.9	368.4	376.2	400.3
Taxes (other than income and payroll)	292.2	239.5	229.9	280.2	347.1	370.3	405.1	387.3	346.8	418.6	502.8	508.2
All other operating expenses	206.6	202.1	212.8	225.7	242.5	253.8	266.2	292.5	266.5	284.9	310.0	311.6
Wage rates and supplements	338.2	358.2	370.5	369.2	393.9	400.2	413.5	421.9	458.9	468.7	483.7	504.0
All materials (incl. fuel)	213.4	198.3	218.0	264.6	343.8	382.0	409.1	575.9	375.8	454.6	577.7	598.4
Matl. prices & wage rates combined (excl. fuel)	277.2	282.3	286.2	300.1	310.7	318.2	333.6	347.4	375.4	369.0	379.5	407.9
Matl. prices & wage rates combined (incl. fuel)	285.0	281.5	294.2	322.1	369.8	388.3	408.0	487.4	419.6	448.5	508.4	537.6
Materials prices, wage rates and supplements combined (excl. fuel)	309.4	325.5	335.3	337.0	362.4	372.2	388.2	400.4	434.3	442.3	456.6	477.0
Materials prices, wage rates and supplements combined (incl. fuel) - QMPW	313.9	321.1	337.8	353.3	415.2	434.7	454.8	526.0	474.1	511.8	570.3	592.9
Taxes, purchased serv. and other expenses	242.5	240.0	250.7	261.5	272.5	282.5	296.4	310.2	313.5	328.3	349.0	359.1
Equip. rents, deprec. and interest	267.6	273.9	269.3	299.1	374.3	381.5	394.9	397.7	408.6	455.0	473.1	486.5
Equip. rents, taxes, deprec., purch. serv., interest & other expenses	261.3	263.3	266.8	287.0	329.3	338.6	353.0	362.9	369.6	397.8	418.8	430.8
Total excl. fuel	291.3	300.8	306.5	318.7	355.7	365.5	381.2	392.4	411.1	431.0	449.4	465.7
Total excl. interest	298.2	303.2	314.9	333.5	382.5	396.8	415.0	457.1	435.2	467.6	509.5	526.9
Total excl. interest and depreciation	288.7	293.4	305.6	318.4	356.7	371.8	388.8	432.2	406.6	433.3	473.9	490.2
Railroad Cost Recovery Index	293.9	299.9	309.4	327.7	380.5	394.9	412.4	451.5	430.9	464.2	504.7	522.4

Note: The final annual wage rates and wage supplements are derived from the Annual Wage Statistics and the Annual Report Form R-1, consequently the final annual values may not equal the average of the four quarterly figures. The preliminary annual indexes, which appear in the December publication each year (indicated by a "p"), are averages of the four quarters.

Working Capital

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

	<b>11/13 - 10/14</b>
	<b>Forecast Year</b>
On Branch Avoidable Cost	<u>\$ 1,304,364</u>
Less Locomotive Depreciation	\$ -
Less Freight Car Depreciation	\$ 2,769
Subtotal	<u>\$ 1,301,595</u>

15 days on branch cash avoidable cost (provision 49 CFR 1152.34) 0.041

**Working Capital** \$ **53,490**

Present (Begin Forecast Year) NLV \$ 4,588,165

End of Forecast Year NLV \$ 4,659,072

Income Tax Consequences (NLV\*37% Tax Rate) \$ 1,723,857

Holding Gain Road Properties \$ 70,907

Nominal Opportunity Cost \$ 789,623

Opportunity Cost \$ 718,716

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

11/13/2013

Loco Holding

**LOCOMOTIVE RETURN ON INVESTMENT  
LESS HOLDING GAIN(LOSS)  
Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2**

	FORECAST YEAR GMA'S LOCO CAT 7
A. SYSTEM LOCO UNIT HOURS	10,147,666
B. SYSTEM LOCO UNITS	2,566
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,955
D. REPLACEMENT COST (END OF FORECAST YEAR)	\$ 1,700,058
E. REPLACEMENT COST (BEGINNING OF FORECAST YEAR)	\$ 1,659,918
F. HOLDING GAIN(LOSS) AT REPLACEMENT (LINE D - LINE E)	\$ 40,140
G. TOTAL YEARS DEPRECIATION ( 100% / 3.86% )	29.7
H. LOCOMOTIVE AGE	35.2
I. NET BASE INVESTMENT YEARS (LINE G - LINE H)	0.0
J. REPL. LESS DEPR. ADJUSTMENT RATIO (LINE I / LINE G)	0.000
K. HOLDING GAIN(LOSS) AT REPL. LESS DEPR. (LINE F x LINE J)	\$ -
L. LOCO UNITS BY CATEGORY	1
M. TOTAL LOCO UNITS IN SAMPLE	1
N. RATIO LOCO UNITS BY CATEGORY (LINE L / LINE M)	1.0
O. LOCO UNIT HOURS ON BRANCH	1462
P. LOCO UNIT HOURS ON BRANCH BY LOCO CAT. (LINE N x LINE O)	1462
Q. RATIO LUH ON BR. TO SYS LUH PER LOCO UNIT (LINE P / LINE C)	0.370
R. HOLDING GAIN(LOSS) BY LOCO CAT. (LINE K x LINE Q)	0
S. HOLDING GAIN(LOSS) (SUM OF LINE R AMOUNTS)	0
T. RETURN ON INVESTMENT (SEE BASE YEAR ROI SHEET)	\$ -
U. ROI MINUS HOLDING GAIN(LOSS) (LINE T - LINE S)	\$ -

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2  
11/13/2013

Return on Value and Holding Gain/Loss

R-1 Sch. 415 (g) R-1 Sch. 415 (f) R-1 Sch. 710 (b)

CAR DESCRIPTION	AAR Car Type	STB Car Type	Investment Base (000)	Accumulated Depreciation (000)	Net Investment (000)	Units at End of Year	Net Investment per Unit	Return on Value per car-day	Holding Gain/Loss per car-day
Box Car - Unequipped	B	1	\$ 1,252	\$ 778	\$ 474	504	\$ 940	\$ 0.44	\$ 0.04
Box Car - Equipped	A	3	\$ 424,255	\$ 224,392	\$ 199,863	13,996	\$ 14,280	\$ 6.73	\$ 0.60
Gondola - Equipped	E	5	\$ 409,108	\$ 144,818	\$ 264,290	17,897	\$ 14,767	\$ 6.96	\$ 0.63
Hopper - Covered	C	6	\$ 411,387	\$ 142,276	\$ 269,111	11,304	\$ 23,807	\$ 11.23	\$ 1.01
Flat Car - Other	F	14	\$ 72,640	\$ 36,767	\$ 35,873	1,884	\$ 19,041	\$ 8.98	\$ 0.81
All other	M	99	\$ 63,000	\$ 36,772	\$ 26,228	4,443	\$ 5,903	\$ 2.78	\$ 0.25

Cost of Capital	GDP Deflator
17.21%	1.55%

On-Branch Costs

CAR DESCRIPTION	AAR Car Type	STB Car Type	Car Owner	Elapsed Days	Carloads	Average Car Days/Carload	Sum of Car Miles	Sum of Car Hire Per Diem Pay	Sum of Car Hire Mileage Pay	Sum of Estimated Car Depreciation	Sum of Maintenance	Return on Value	Holding Gain/Loss
Box Car - Equipped	A	3	FOREIGN	730	110	6.6	12,479	\$ 15,187.00	\$ 1,000.00	\$ -	\$ -	\$ 4,915.18	\$ 441.38
Box Car - Equipped	A	3	SYSTEM	1,131	192	5.9	21,933	\$ -	\$ -	\$ 2,583.00	\$ 10,188.00	\$ 7,615.16	\$ 683.83
Box Car - Unequipped	B	1	FOREIGN	17	3	5.7	425	\$ 265.00	\$ 33.00	\$ -	\$ -	\$ 7.54	\$ 0.68
Box Car - Unequipped	B	1	SYSTEM	10	4	2.5	456	\$ -	\$ -	\$ 124.00	\$ 396.00	\$ 4.43	\$ 0.40
Hopper - Covered	C	6	FOREIGN	19	3	6.3	178	\$ 267.00	\$ 11.00	\$ -	\$ -	\$ 132.29	\$ 11.88
Hopper - Covered	C	6	PRIVATE	100	17	5.9	991	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gondola - Equipped	E	5	SYSTEM	10	5	2.0	530	\$ -	\$ -	\$ 13.00	\$ 107.00	\$ 89.78	\$ 8.06
Flat Car - Other	F	14	FOREIGN	259	77	3.4	8,733	\$ 4,001.00	\$ 213.00	\$ -	\$ -	\$ 2,325.28	\$ 208.81
All other	M	99	PRIVATE	15	3	5.0	178	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
				<b>2,291</b>	<b>414</b>	<b>4.8</b>	<b>45,903</b>	<b>\$ 19,720.00</b>	<b>\$ 1,257.00</b>	<b>\$ 2,720.00</b>	<b>\$ 10,691.00</b>	<b>\$ 15,089.66</b>	<b>\$ 1,355.03</b>

TOTALS		
Repair & Depreciation	\$ 13,411.00	\$ 15,089.66
Per Diem	\$ 19,720.00	
Mileage	\$ 1,257.00	
<b>TOTAL</b>	<b>\$ 34,388.00</b>	<b>\$ 15,089.66</b>
Holding Gain/Loss		\$ 1,355.03
ROV less Holding Gain/Loss		<b>\$ 13,734.63</b>

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Off-Branch Costs

CAR DESCRIPTION	AAR Car Type	STB Car Type	Car Owner	Car Days	Carloads	Avg. Car Days/Car load	Return on Value	Holding Gain/(Loss)
Box Car - Unequipped	B	1	FOREIGN	66	3	22.0	\$ 29.27	\$ 2.63
Box Car - Unequipped	B	1	SYSTEM	50	4	12.5	\$ 22.17	\$ 1.99
Box Car - Equipped	A	3	FOREIGN	2,422	110	22.0	\$ 16,307.62	\$ 1,464.40
Box Car - Equipped	A	3	SYSTEM	4,279	192	22.3	\$ 28,811.03	\$ 2,587.19
Gondola - Equipped	E	5	SYSTEM	89	5	17.8	\$ 619.70	\$ 55.65
Hopper - Covered	C	6	FOREIGN	60	3	20.0	\$ 673.50	\$ 60.48
Hopper - Covered	C	6	PRIVATE	198	17	11.6		
Flat Car - Other	F	14	FOREIGN	1,475	77	19.2	\$ 13,242.40	\$ 1,189.15
All other	M	99	PRIVATE	103	3	34.3		
				<b>8,742</b>	<b>414</b>	<b>21.12</b>		

<b>TOTAL</b>	<b>\$ 59,705.69</b>
Holding Gain/Loss	\$ 5,361.49
ROV less Holding Gain/Loss	<b>\$ 54,344.20</b>

## 2012 Railroad Cost of Capital

	Debt	Common Equity	
<b>1) Nominal Cost</b>	3.29%	13.40%	
<b>2) Real Cost <math>((1+L1)/\text{deflator})-1</math></b>	1.43%	11.36%	
<b>3) Market Weight</b>	22.56%	77.44%	
<b>4) After Tax</b>			
a. Nominal $L1*L3$	0.74%	10.38%	11.12%
b. Real $L2*L3$	0.32%	8.80%	9.12%
<b>5) Pre-tax (change in equity only)</b>			
a) Nominal $L4a/(1-\text{tax rate}^*)$	0.74%	16.47%	<b>17.21%</b>
b) Real $L4b/(1-\text{tax rate}^*)$	0.32%	13.96%	14.28%
<b>6) Holding Gain</b>			2.93%

\*Assume 37% tax rate

**Year to Year Deflator Delta:                      1.83%**

Implicit Price Deflators for Gross Domestic Product  
[Index Numbers, 2005=100] Seasonally Adjusted  
IHS Global Insight (courtesy of NS MR&E)

Year	Quarter	Implicit Price Deflator	Rolling Four Quarter Average	Period Represented	Change vs. Prior Period	Notes
2005	1	98.784				
	2	99.444				
	3	100.467				
	4	101.305	100.000	2005		
2006	1	102.055	100.818	Q2 05 - Q1 06		
	2	102.955	101.696	Q3 05 - Q2 06		
	3	103.731	102.512	Q4 05 - Q3 06		
	4	104.206	103.237	2006	3.24%	
2007	1	105.396	104.072	Q2 06 - Q1 07	3.23%	
	2	106.116	104.862	Q3 06 - Q2 07	3.11%	
	3	106.457	105.544	Q4 06 - Q3 07	2.96%	
	4	106.956	106.231	2007	2.90%	
2008	1	107.623	106.788	Q2 07 - Q1 08	2.61%	
	2	108.282	107.330	Q3 07 - Q2 08	2.35%	
	3	109.107	107.992	Q4 07 - Q3 08	2.32%	
	4	109.247	108.565	2008	2.20%	
2009	1	109.526	109.041	Q2 08 - Q1 09	2.11%	
	2	109.318	109.300	Q3 08 - Q2 09	1.84%	
	3	109.463	109.389	Q4 08 - Q3 09	1.29%	
	4	109.820	109.532	2009	0.89%	
2010	1	110.234	109.709	Q2 09 - Q1 10	0.61%	
	2	110.686	110.051	Q3 09 - Q2 10	0.69%	
	3	111.248	110.497	Q4 09 - Q3 10	1.01%	
	4	111.838	111.002	2010	1.34%	
2011	1	112.389	111.540	Q2 10 - Q1 11	1.67%	
	2	113.109	112.146	Q3 10 - Q2 11	1.90%	
	3	113.937	112.818	Q4 10 - Q3 11	2.10%	
	4	114.041	113.369	2011	2.13%	
2012	1	114.608	113.924	Q2 11 - Q1 12	2.14%	
	2	115.050	114.409	Q3 11 - Q2 12	2.02%	
	3	115.856	114.889	Q4 11 - Q3 12	1.84%	
	4	116.276	115.448	2012	1.83%	Cost of Capital Reference
2013	1	116.699	115.970	Q2 12 - Q1 13	1.80%	
	2	117.121	116.488	Q3 12 - Q2 13	1.82%	Base Year
	3	117.617	116.928	Q4 12 - Q3 13	1.78%	
	4	118.035	117.368	2013	1.66%	
2014	1	118.511	117.821	Q2 13 - Q1 14	1.60%	
	2	118.972	118.284	Q3 13 - Q2 14	1.54%	
	3	119.424	118.735	Q4 13 - Q3 14	1.55%	Forecast Year (Exhibit 1)
	4	119.883	119.198	2014	1.56%	

2012 NSR R-1 Data

R-1 INFORMATION 2012

<u>Sch 755:</u>		<u>Freight</u>	<u>Passenger</u>
A)	Ln 7 Train Miles	76,271,904	
B)	Ln 11 Locomotive Unit Miles	173,977,897	
C)	Ln 12 Locomotive Unit Miles Trn Swtg	6,897,752	
D)	Ln 98 GTM Road Locomotives (000s)	33,553,923	
E)	Ln 115 Trn Hrs Rd Svc	3,836,213	
F)	Ln 116 Trn Swtg Hrs	667,593	
G)	(Ln 116 * 6 mph) Trn Mi Rd Trn Swtg	4,005,558	
H)	(A+G) Total Freight Train Miles	80,277,462	
I)	[(Ln 11+Ln12)/Item H] Loco Units per Train	2.25	
J)	[(Ln 115+Ln 116)*Item I] Loco Units Hours	10,147,666	
K)	Ln 117 Yard Switching Hours	2,302,548	
L)	Ln 13 Loco Unit Miles Yard Switching	13,815,288	
M)	(Ln 117*6mph) Yard Switching Miles	13,815,288	
N)	(Ln 13/Item M) Loco Units per Yard Switch	1.00	
O)	(Ln 117*Item N) Loco Unit Hours Yard Switch	2,302,548	

2012 NSR R-1 Data

NS 2012 System Car Miles L&E

R-1, Sch 755:

Line 30	1,039,266 RR L
Line 46	708,395 RR E
Line 64	1,456,881 PVT L
Line 82	1,036,856 PVT E
Line 84	0 No Payment
	<u>4,241,398</u>

NS 2012 O&T's (excl DUP & incl TRL/CONT)

FCS 2012

	Carloads		
Ln 98 Col (i)	Local	4,336,093 * 2 =	8,672,186
Ln 98 Col (k)	Forward	491,175 * 1 =	491,175
Ln 98 Col (m)	Received	2,196,596 * 1 =	2,196,596
Ln 98 Col (o)	Bridge	63,360 * 0 =	0
		<u>7,087,224</u>	<u>11,359,957</u>

**2012 NSR R-1 Data**

**FRINGE BENEFITS (Sch 410)**

Accounting Group		2012 Labor (000)	2012 Fringes (000)	2012 Fringe %	2011 Labor (000)	2011 Fringe (000)	2011 Fringe %
WS	Running	117,464	152,632	129.94%	119,735	147,990	123.60%
	Switching	9,102	3,998	43.92%	10,589	4,361	41.18%
	Other	32,626	22,379	68.59%	31,384	15,199	48.43%
ME	Locomotive	120,940	51,331	42.44%	119,850	52,904	44.14%
	Freight Cars	69,554	25,499	36.66%	66,641	25,757	38.65%
	Other	523	3,409	651.82%	1,315	3,611	274.60%
TRANS	Train Op	833,802	336,471	40.35%	864,892	350,038	40.47%
	Yard Op	226,132	100,662	44.51%	229,333	103,683	45.21%
	Train & Yard Op	655	945	144.27%	533	299	56.10%
GA	SPSVCOP	36,254	7,225	19.93%	34,683	6,133	17.68%
	Admin Supp	28,684	12,961	45.19%	24,199	13,747	56.81%
	Gen & Admin	8,301	3,058	36.84%	8,357	2,426	29.03%
	MWS Composite	159,192	179,009	112.45%	161,708	167,550	103.61%
	Trans Composite	1,060,589	438,078	<b>41.31%</b>			

**R-1 2012 Information**

		Investment in Equipment: Diesel Loco	
		Beg Yr	
Sch 710	Ln 1 Col (b)	Fght	2,537
	Ln 2 Col (b)	Psgr	0
	Ln 4 Col (b)	Swtg	119
	Ln 9 Col (b)	Aux	116
			<u>2,772</u>
Sch 332	Ln 31 col(d)	Depr	3.37%
(Repairs)			
Sch 415	Ln 1 Col (b)	Yd	22,800
	Ln 2 Col (b)	Rd	294,220
	Ln 5 Col (b)	Total	<u>\$317,020</u>
(Loco Fuel)			
Sch 410	Ln 409 Col (h)	Rd	1,348,336
	Ln 425 Col (h)	Yd	88,842
		Total	<u>\$1,437,178</u>
(Svc Loco)			
Sch 410	Ln 411 Col (h)		47,628
	Ln 427 Col (h)		545
			<u>\$48,173</u>

2012 NSR R-1 Data

			<b><u>CREW MATERIALS (Sch 410)</u></b>	
			Engine Crew Material	
			Ln 402 Col (c)	158
			Train Crew Material	
			Ln 403 Col (c)	2,478
			Train Inspection & Lubrication	
			Wages Ln 408 Col (b)	65,123
			Materials Ln 408 Col (c)	114
			<b><u>SERVICING LOCOMOTIVES (Sch 410)</u></b>	
			System Labor Expense	
			Ln 411 Col (b)	30,058
			System Material Expense	
			Ln 411 Col (c)	5,321
			System Purchased Expense	
			Ln 411 Col (d)	9,026
			System General Expense	
			Ln 411 Col (e)	12
			<b><u>LOCOMOTIVE REPAIR (Sch 410)</u></b>	
			System Labor Expense	
			Ln 202 Col (b)	101,303
			System Material Expense	
			Ln 202 Col (c)	194,296
			System Purchased Expense	
			Ln 202 Col (d)	22,816
			System General Expense	
			Ln 202 Col (e)	270

<b>Locomotives</b>				
	End Yr	Avg Yr		
Col (J)	2,595	2,566		
Col (J)	0	0		
Col (J)	106	113		
Col (J)	122	119		
	<u>2,823</u>	<u>2,798</u>		
Labor				
7.2%				
92.8%				
93.8%	65,123	Ln 408 Col (b)		
6.2%	<u>0</u>	<u>Ln 425 Col (b)</u>		
	\$65,123	\$1,372,055		
98.9%	30,058	Ln 411 Col (b)		
1.1%	<u>578</u>	<u>Ln 427 Col (b)</u>		
	\$30,636	\$17,537		

Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

Carloads: 414  
 Total Revenue: \$ 1,473,261

Sum of Carloads	Average of Tons/Car	URCS OFF BRANCH COST	STCC	Loaded Miles	On Branch Miles	Off Branch	URCS Car Ty	Description
1	92	\$ 3,968	2421184	1,213	36	1,177	14	Flat Car - Other
6	99	\$ 3,897	2421184	1,154	36	1,118	14	Flat Car - Other
1	98	\$ 3,826	2421184	1,137	36	1,101	14	Flat Car - Other
1	90	\$ 3,693	2421190	1,136	36	1,100	14	Flat Car - Other
1	100	\$ 3,064	2812534	1,110	9	1,101	6	Hopper - Covered
8	95	\$ 3,873	2421184	1,167	36	1,131	14	Flat Car - Other
1	91	\$ 3,509	2421184	1,072	36	1,036	14	Flat Car - Other
3	99	\$ 3,565	2812567	1,314	9	1,305	6	Hopper - Covered
1	83	\$ 3,641	2421184	1,156	36	1,120	14	Flat Car - Other
2	76	\$ 3,700	2421184	1,216	36	1,180	14	Flat Car - Other
1	73	\$ 3,645	2421184	1,215	36	1,179	14	Flat Car - Other
4	98	\$ 3,700	2421184	1,098	36	1,062	14	Flat Car - Other
5	96	\$ 3,742	2421184	1,121	36	1,085	5	Gondola - Equipped
6	97	\$ 3,768	2421184	1,124	36	1,088	14	Flat Car - Other
5	90	\$ 2,505	2499110	868	36	832	3	Box Car - Equipped
2	79	\$ 2,675	2432158	997	36	961	3	Box Car - Equipped
8	78	\$ 2,285	2432158	837	36	801	3	Box Car - Equipped
3	89	\$ 2,435	2432158	845	36	809	1	Box Car - Unequipped
179	76	\$ 2,333	2432158	868	36	832	3	Box Car - Equipped
5	84	\$ 2,407	2432158	858	36	822	3	Box Car - Equipped
2	88	\$ 2,276	2432158	786	36	750	3	Box Car - Equipped
1	64	\$ 1,895	2432158	733	36	697	3	Box Car - Equipped
2	72	\$ 2,150	2432158	809	36	773	3	Box Car - Equipped
3	89	\$ 2,167	2432158	738	36	702	3	Box Car - Equipped
1	71	\$ 3,110	2432158	1,241	36	1,205	3	Box Car - Equipped
2	87	\$ 1,875	2432158	687	36	651	3	Box Car - Equipped
4	74	\$ 777	2432158	262	36	226	1	Box Car - Unequipped
26	79	\$ 932	2432158	260	36	224	3	Box Car - Equipped
2	87	\$ 2,404	2432158	900	36	864	3	Box Car - Equipped
5	59	\$ 2,367	2432158	1,054	36	1,018	3	Box Car - Equipped
1	91	\$ 2,633	2432158	970	36	934	3	Box Car - Equipped
9	73	\$ 2,633	2432158	1,016	36	980	3	Box Car - Equipped
14	78	\$ 2,642	2432158	989	36	953	3	Box Car - Equipped
9	79	\$ 2,682	2432158	1,000	36	964	3	Box Car - Equipped
2	87	\$ 2,999	2432158	1,140	36	1,104	3	Box Car - Equipped
7	80	\$ 2,196	2432158	850	36	814	3	Box Car - Equipped
3	100	\$ 4,665	2421184	1,384	36	1,348	14	Flat Car - Other

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Franklin, VA - Edgerton, VA Milepost FD 37.0 - 90.2

Carloads: 414  
 Total Revenue: \$ 1,473,261

Sum of Carloads	Average of Tons/Car	URCS OFF BRANCH COST	STCC	Loaded Miles	On Branch Miles	Off Branch	URCS Car Ty	Description
4	99	\$ 3,790	2421184	1,121	36	1,085	14	Flat Car - Other
1	98	\$ 3,816	2421184	1,134	36	1,098	14	Flat Car - Other
3	101	\$ 3,197	2812534	1,099	9	1,090	6	Hopper - Covered
2	82	\$ 3,474	2421190	1,106	36	1,070	14	Flat Car - Other
2	92	\$ 4,661	2421184	1,433	36	1,397	14	Flat Car - Other
1	98	\$ 3,790	2421184	1,126	36	1,090	14	Flat Car - Other
1	88	\$ 2,489	2421184	757	36	721	14	Flat Car - Other
4	96	\$ 4,301	2421184	1,295	36	1,259	14	Flat Car - Other
1	74	\$ 2,819	3251115	1,112	57	1,055	3	Box Car - Equipped
3	74	\$ 2,189	3251115	837	57	780	3	Box Car - Equipped
1	74	\$ 2,159	3251115	824	57	767	3	Box Car - Equipped
1	74	\$ 1,844	3251115	749	57	692	3	Box Car - Equipped
11	73	\$ 2,108	3251115	869	57	812	3	Box Car - Equipped
3	100	\$ 2,214	2871451	698	9	689	15	Tank Car (<22,000 Gallons)
1	87	\$ 3,888	2421184	1,215	36	1,179	14	Flat Car - Other
3	98	\$ 3,810	2421184	1,132	36	1,096	14	Flat Car - Other
1	87	\$ 2,898	2499110	1,099	36	1,063	6	Hopper - Covered
7	98	\$ 3,790	2421184	1,126	36	1,090	14	Flat Car - Other
1	81	\$ 3,413	2421184	1,091	36	1,055	14	Flat Car - Other
9	101	\$ 1,473	2812534	426	9	417	6	Hopper - Covered
3	100	\$ 3,024	2812534	1,094	9	1,085	6	Hopper - Covered
3	96	\$ 3,672	2421184	1,099	36	1,063	14	Flat Car - Other
2	89	\$ 3,655	2421184	1,129	36	1,093	14	Flat Car - Other
4	97	\$ 3,745	2421184	1,117	36	1,081	14	Flat Car - Other
2	85	\$ 3,808	2421184	1,200	36	1,164	14	Flat Car - Other
3	94	\$ 3,809	2421184	1,152	36	1,116	14	Flat Car - Other
1	90	\$ 3,737	2421184	1,150	36	1,114	14	Flat Car - Other
<b>414</b>	<b>85</b>	<b>\$</b>	<b>1,056,001</b>					

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**V31 Crew Data**  
**July 2012 - June 2013**

201207 - 201306 Payroll Data

Total Wages	\$ 205,358
Fringe (41.3%)	\$ 84,813
Total	<u>\$ 290,171</u>
Count of days	240

	B1	CO	EN	
	Gross Amt	Gross Amt	Gross Amt	
V31V1 C5 CONDUCTOR CERTIFICATION ALLOWANCE	\$ -	\$ 1,185	\$ -	
V31V1 D7 WEEKEND/HOL DIF	\$ -	\$ -	\$ 1,029	
V31V1 DE DETENTION TIME	\$ -	\$ 393	\$ -	
V31V1 HW WORKING HOLIDAY	\$ -	\$ 904	\$ 931	
V31V1 MA AWAY FROM HOME TERMINAL MEAL	\$ -	\$ -	\$ -	
V31V1 OM OVERMILES	\$ 9,868	\$ 33,330	\$ 38,878	
V31V1 RC REDUCED CREW	\$ 72	\$ 2,587	\$ -	
V31V1 SE STU ENG ALLOW	\$ -	\$ -	\$ 300	
V31V1 SM STRAIGHT TIME (MILES)	\$ 11,943	\$ 50,015	\$ 53,923	
TOTAL WAGES	<u>\$ 21,883</u>	<u>\$ 88,415</u>	<u>\$ 95,060</u>	\$ 205,358
FRINGE (41.3%)	<u>\$ 9,038</u>	<u>\$ 36,515</u>	<u>\$ 39,260</u>	\$ 84,813
TOTAL	\$ 30,921	\$ 124,930	\$ 134,320	\$ 290,171