

BEFORE THE  
SURFACE TRANSPORTATION BOARD

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Office of Proceedings  
July 8, 2015  
Part of  
Public Record

STB Ex Parte No. 722

RAILROAD REVENUE ADEQUACY

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STB Ex Parte No. 664 (Sub-No. 2)

PETITION OF THE WESTERN COAL TRAFFIC LEAGUE TO INSTITUTE A  
RULEMAKING PROCEEDING TO ABOLISH THE USE OF THE MULTI-STAGE  
DISCOUNTED CASH FLOW MODEL IN DETERMINING THE RAILROAD  
INDUSTRY'S COST OF CAPITAL

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NOTICE OF THE ASSOCIATION OF AMERICAN RAILROADS'  
INTENT TO PARTICIPATE AT THE JULY 22-23, 2015 HEARING

Pursuant to the Board's notice served May 8, 2015, the Association of American Railroads ("AAR") hereby notifies the Board of its intent to participate in the oral hearing scheduled for July 22 and 23, 2015, in the captioned proceedings. AAR will present its views through two separate groups of witnesses. AAR will address issues raised in Ex Parte No. 722 through the testimony of four witnesses, and the issues raised in Ex Parte No. 664 (Sub-No. 2) through the testimony of two witnesses. The witnesses and the topics they will address are identified below.

**Ex Parte No. 722:**

**Edward R. Hamberger** – Mr. Hamberger, who is President and Chief Executive Officer of the Association of American Railroads, will address:

- The important role that financially healthy railroads serve in meeting the public interest in a strong national transportation system.
- The massive investments required to achieve the public benefits of efficient and reliable rail transportation.

- The negative impact on investment that would result from regulation designed to limit or cap a railroad's overall revenues.

**Roger E. Brinner** – Dr. Brinner, who is currently Chief Economist of SandPointe, LLC, and was formerly Co-Chief Economist and a partner of The Parthenon Group, submitted verified statements in support of AAR's opening and reply comments in Ex Parte No. 722 on September 5 and November 4, 2014. Dr. Brinner will elaborate on aspects of his prior statements, including:

- The evidence that railroad returns are substantially lower than the returns of comparable firms in unregulated markets that routinely earn substantially more than their cost of capital.
- The irrelevance of short-term financial metrics and railroad practices regarding stock buy-backs and dividends in assessing railroad revenue adequacy.
- The importance of evaluating railroad revenue adequacy with reference to an appropriately valued investment base and over an appropriate time period.

**Joseph P. Kalt** – Professor Kalt, Ford Foundation Professor (Emeritus) of International Public Economy at the John F. Kennedy School of Government at Harvard University, submitted verified statements in support of AAR's opening and reply comments in Ex Parte No. 722 on September 5 and November 4, 2014. Professor Kalt will elaborate on aspects of his prior statements, including:

- The public interest in a sound economic regulatory policy founded on the principles of competitive markets.
- The measurement and economic interpretation of revenue adequacy.
- The flaws in shipper proposals to implement a revenue adequacy constraint on railroad rates based on a railroad's overall revenues.
- The public interest in using an economically valid, objective mechanism for evaluating the reasonableness of railroad rates.

**Samuel M. Sipe, Jr.** – Mr. Sipe is outside counsel for AAR in these proceedings. His firm filed opening and reply comments in Ex Parte No. 722 on behalf of AAR on September 5 and November 4, 2014. Mr. Sipe will address issues raised by comments filed in that proceeding, including:

- The lack of legal justification for a revenue adequacy constraint on railroad rates.
- AAR’s responses to questions raised in the Board’s hearing notice.

**Ex Parte No. 664 (Sub-No. 2):**

**Bente Villadsen** – Dr. Villadsen, who is a principal with The Brattle Group, submitted verified statements in support of AAR’s opening and reply comments in Ex Parte 664 (Sub-No. 2) on September 5 and November 4, 2014. Dr. Villadsen will elaborate on aspects of her prior statements, including:

- The Multi-Stage Discounted Cash Flow model is not overstating the cost of equity for the railroad industry.
- The Capital Asset Pricing Model can produce low estimates because of extremely low interest rates.
- The historical arithmetic Market Risk Premium (MRP) based on as long a history as is available provides an easy-to-calculate, objective, stable, and commonly used measure of the MRP.
- Best practice is to use multiple models to estimate the cost of equity so as to glean useful information from each model based on its relative strengths.

**Raymond A. Atkins** – Mr. Atkins is outside counsel for AAR in these proceedings. His firm filed opening and reply comments in Ex Parte No. 664 (Sub-No. 2) on behalf of AAR on September 5 and November 4, 2014. Mr. Atkins will address issues raised by comments filed in that proceeding, including:

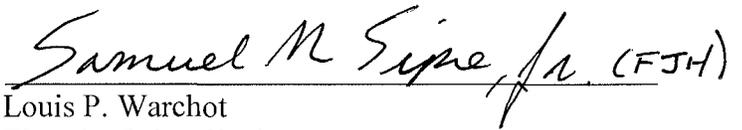
- The absence of any compelling evidence to justify another exhaustive journey to reexamine how to estimate the cost of equity for the railroad industry.

AAR requests that, to facilitate clarity of presentation and appropriate treatment of discrete issues raised in the two proceedings covered by the hearing, its witnesses present their testimony as members of two separate panels, one devoted to Ex Parte No. 722 and the other devoted to Ex Parte No. 664 (Sub-No. 2). As indicated above, the four witnesses for the Ex Parte No. 722 panel would be Messrs. Hamberger, Brinner, Kalt, and Sipe. The two witnesses for the Ex Parte No. 664 (Sub-No. 2) panel would be Ms. Villadsen and Mr. Atkins. AAR requests that the Ex Parte No. 722 panel be allotted 60 minutes to present testimony and that the Ex Parte no. 664 (Sub-No. 2) panel be allotted 30 minutes.

Respectfully submitted,

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