

Ms. Cynthia T. Brown
Chief, Section of Administration
STB Office of Proceedings
395 E Street, SW
Washington, DC 20423

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Re: EP No. 664 (Sub-No. 2), Use of a Multi-Stage Discounted Cash Flow Model
In Determining the Railroad Industry's Cost of Capital

Dear Ms. Brown:

This letter is being filed to notify the STB of the support of Alliance for Rail Competition ("ARC") for the Petition for Rulemaking filed August 27, 2013 by Western Coal Traffic League in the above referenced proceeding.

ARC agrees with WCTL on the importance of a new look at the Board's decision, made almost 5 years ago, to combine multi-stage discounted cash flow (MSDCF) data with more accurate Capital Asset Pricing Model (CAPM) data in making railroad industry cost of capital determinations. Assuming that caution and a preference for incremental change played a role in the Board's 2009 decision to adopt its hybrid approach, that decision is not justifiable today.

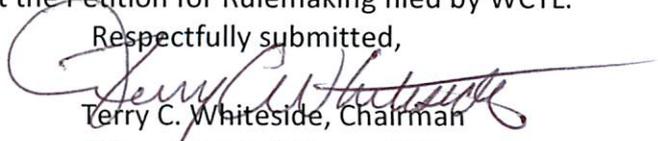
Not only has the hybrid led to erroneous results, but the errors are significant and benefit only the railroads, with consistent adverse effects on their captive shipper customers. As the Supreme Court observed in Phillips Petroleum Co. v. Wisconsin, 347 U.S. 678 (1954), "consistent error is still error."

While error-free regulation may be difficult to achieve, improvement should still be pursued when errors and corrective action are demonstrated, as here. Moreover, persistent error that always favors monopoly railroads is particularly objectionable. Most captive shippers have no choice but to pay the resulting higher rail rates. Railroads that believe the Board's test understates their cost of capital can easily raise rates or reduce costs to preserve margins. Depending on the commodity, their risk of a shipper challenge ranges from slim to none.

Accordingly, ARC urges the Board to grant the Petition for Rulemaking filed by WCTL.

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Respectfully submitted,



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Cc: Attorneys for WCTL