

237977

BAKER & MILLER PLLC

ATTORNEYS and COUNSELLORS

2401 PENNSYLVANIA AVENUE, NW
SUITE 300
WASHINGTON, DC 20037

TELEPHONE: (202) 663-7820
FACSIMILE: (202) 663-7849

WILLIAM A. MULLINS

ENTERED
Office of Proceedings
March 17, 2015
Part of
Public Record

(202) 663-7823 (Direct Dial)
E-Mail: wmullins@bakerandmiller.com

March 17, 2015

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 Chicago, Cook County, Illinois, STB Docket No. AB-290 (Sub-No.
365X)*

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 an approximately 1.5 mile line of railroad in Chicago, Cook County, Illinois. 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 \$6,600.00. If there are any questions about this matter, please contact me directly, either by telephone: 202-663-7823 or by e-mail: wmullins@bakerandmiller.com.

Respectfully submitted,



William A. Mullins

Enclosures

FEE RECEIVED
March 17, 2015
SURFACE
TRANSPORTATION BOARD

FILED
March 17, 2015
SURFACE
TRANSPORTATION BOARD

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

STB Docket No. AB-290 (Sub-No. 365X)

**NORFOLK SOUTHERN RAILWAY COMPANY
– DISCONTINUANCE OF SERVICE EXEMPTION –
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

**MAQUILING B. PARKERSON
NORFOLK SOUTHERN CORPORATION
Three Commercial Place
Norfolk, VA 23510
Tel: (757) 533-4939
Fax: (757) 533-4872**

**WILLIAM A. MULLINS
CRYSTAL M. ZORBAUGH
BAKER & MILLER PLLC
2401 Pennsylvania Ave., NW
Suite 300
Washington, DC 20037
Tel: (202) 663-7820
wmullins@bakerandmiller.com**

**Attorneys for Norfolk Southern
Railway Company**

March 17, 2015

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

STB Docket No. AB-290 (Sub-No. 365X)

**NORFOLK SOUTHERN RAILWAY COMPANY
– DISCONTINUANCE OF SERVICE EXEMPTION –
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

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 (“NS”), a Class I common carrier by railroad, files this petition (“Petition”) seeking an exemption from the provisions of 49 U.S.C. § 10903 to discontinue its common carrier service obligation over approximately 1.5 miles of rail line (the “Line”) extending from milepost KN 4.0 to milepost KN 5.5, which is located on NS’s LeMoyne Industrial Track in Chicago, Cook County, Illinois.¹

The Line traverses United States Postal Zip Code territory 60632. Based on information in NS’ possession, the Line does not contain federally granted rights-of-way. Any documentation in NS’ possession concerning title will be made available to those requesting it. There are no stations on the Line to be discontinued.

The Line is a burden on NS and interstate commerce because the potential annual revenue that could be generated by the two existing shippers on the Line, Tower Oil (“Tower”) and Bagcraft Corporation of America (“BCA”) would be heavily outweighed by the costs of maintaining and

¹ The LeMoyne Industrial Track extends for 5.5 miles from the NS Ashland Avenue Yard southwest past the BNSF Corwith Yard. The last mile and a half of the LeMoyne Industrial Track, between milepost KN 4.0 and KN 5.5, is the subject of this Petition.

operating the Line. NS faces significant hardship from continued operation of the Line (at a substantial avoidable cost loss), because rail traffic on the Line has decreased by two-thirds over the past two years (from 2012 to 2014), and the current traffic volume is not anticipated to increase significantly. In fact, the Total Avoidable Costs for the base year exceeds the Total Revenues Attributable by over 77%. In sum, the requested exemption should be granted because –

- the costs of operating the Line currently exceeds the revenue generated on the Line by over 77%;
- rail traffic on the Line has decreased by two-thirds over the past two years, and rail traffic volumes are not anticipated to increase significantly;
- the Line’s remaining two shippers, Tower and BCA, can use alternative modes (trucking and transload) for their transportation needs; 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 two remaining customers on the Line from market power abuse.

Accordingly, NS’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 NS supplies traffic and economic (cost) evidence to demonstrate, among other things, the avoidable cost losses that NS would continue to incur (totally unrecoverable due to insufficient revenues generated by the Line) were the subject Petition denied.

FACTUAL BACKGROUND

As indicated above, NS's proposed discontinuance would protect NS from substantial and wholly unrecoverable operating losses that otherwise would flow from NS continuing service over the Line. The circumstances leading to this Petition are set forth in the attached V.S. Kirchner (Exhibit D).

The Line, which is proposed for discontinuance, is part of an NS branch known as the LeMoyne Industrial Track, which currently extends for 5.5 miles from NS's Ashland Avenue Yard southwestwardly past BNSF's Corwith Yard.² The last mile and a half of the LeMoyne Industrial Track, between milepost KN 4.0 and KN 5.5, is the subject of this Petition.³

In recent years, the Line has served two customers, Tower and BCA. The customers receive inbound petroleum products and the volumes received are insufficient to sustain the Line.⁴ Because the Line is situated in the highly congested Chicago Terminal, it is extremely costly and inefficient for a switch crew to serve these customers with sporadic shipments of individual cars.⁵ In fact, the operating losses are likely understated as the off-branch costs under URCS do not capture the significant cost of handling individual single cars across the Chicago Terminal.⁶ In view of the Line's modest traffic density and lack of projected future traffic, NS must seek Board relief from continued operation of the Line because there is no way the Line can be operated profitably.

Over the 12-month period ending September 2014, NS handled a total of 7 carloads⁷ over the Line, including Paraffin Wax (STCC 2911990) and Petroleum Lube Oil (STCC 2911415), resulting in an annual traffic density on the Line of roughly 4.7 carloads per mile. See V.S. Kirchner at 7,

² See V.S. Kirchner at 2.

³ Id.

⁴ Id.

⁵ Id.

⁶ Id. at 3.

⁷ The Line was served 6 times to deliver loads during the Base Year, and 7 trips would be required to pick up the empties, for a total of 13 trips. On one occasion, two loads were delivered on the same trip.

Appendix 2. The Line does not have any overhead traffic. NS last served the Line's two existing shippers, in January of 2014, for a total of 3 carloads.⁸ To ensure that the existing customers have knowledge of this proceeding, NS has served both Tower and BCA with a copy of this Petition.

PETITIONER'S REPRESENTATIVE

NS is represented by William A. Mullins, Baker & Miller PLLC, 2401 Pennsylvania Avenue, NW, Suite 300, Washington, DC 20037; telephone: (202) 663-7820; facsimile: (202) 663-7849; email: wmullins@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 (“RTP”); 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 NS' 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).

⁸ BCA received one carload on January 13, 2014 and Tower received 2 carloads on January 14, 2014.

Moreover, allowing NS 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). Finally, granting NS's Petition to discontinue 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, NS faces Base Year operating losses of \$16,953, and Forecast Year operating losses of \$17,423. See V.S. Kirchner at 3 and Appendix 1. These losses are not short-term losses, but rather the losses will likely continue into perpetuity, because rail traffic on the Line has decreased by two-thirds over the past two years, and rail traffic volumes are not anticipated to increase significantly anytime in the foreseeable future.

For these reasons, the Board need not, and should not, require NS to use the formal discontinuance application procedures in order to carry out the RTP. Indeed, the proposed discontinuance and NS'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 1.5 miles of a low-density branch line that is expected to handle less than 5 carloads per mile per year.⁹ There are only two active

⁹ The Board has granted individual exemptions in similar circumstances for comparable circumstances. See, CSX Transportation, Inc. – Discontinuance of Service Exemption – In Clark, Floyd, Lawrence, Orange, and Washington Counties, IN, STB Docket No. AB-55 (Sub-No. 698X) (STB served April 7, 2010) (Board granted discontinuance petition for approximately 62.93 miles of rail line that was projected to handle 3 carloads of traffic during the forecast year); Norfolk Southern Railway Company – Discontinuance of Service Exemption – In Norfolk, VA, STB Docket No. AB-290 (Sub-No. 269X) (STB served July 7, 2006) (Board granted discontinuance petition for approximately 1.63 mile rail line that was projected to handle 12 carloads annually); New York Central Lines, LLC – Discontinuance Exemption – In Henry County, IN; CSX Transportation, Inc. – Discontinuance Exemption – In Henry County, IN, STB Docket No. AB-565 (Sub-No. 15X), STB Docket No. AB-55 (Sub-No. 639X) (STB served December 5, 2003) (Board granted discontinuance petition for a 1.64-mile line of railroad that handled 19 carloads in the base year).

customers on the Line, and those customers' traffic decreased by two-thirds from 2012 to 2014. See V.S. Kirchner at 2 and Appendix 2. As indicated above, there is no overhead traffic.

C. Regulation of the Discontinuance Is Not Necessary to Protect Shippers from Market Power Abuse

The proposed discontinuance is of limited scope. As a result, NS does not need to prove that regulation is not needed to protect shippers from market power abuse. But given the limited amount of carloads at issue and the fact that the commodities transported are subject to intermodal competition, 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 NS handled on the Line during the base year ending September 2014. The Line handled 7 total Base Year carloads; three involved Paraffin Wax (STCC 2911990), while the other four involved Petroleum Lube Oil (STCC 2911415). NS has reason to believe that Tower and BCA, the last two customers on the Line, regularly make use of trucks. In fact, such competitive constraints preclude NS from exploring the sizeable rate increases that would make continuing service economically practicable. Clearly, regulation is not needed to protect these shippers from market abuse. Such shippers will have more than adequate transportation alternatives.

Under the circumstances, there is no basis to presume that NS's decision to seek discontinuance authority is driven by any consideration aside from the avoidance of future operating losses and continued investment in a Line whose traffic levels cannot support economical operations. NS has neither the leverage nor the propensity to subject the Line's customers to market power abuse.

PUBLIC INTEREST FACTORS

Continued operation of the Line would be wholly uneconomical, due to the unrecoverable and substantial operating losses that would flow from the Line remaining active. Even when factoring

community and shipper interests against the Line's economic circumstances, the public interest militates in favor of the proposed discontinuance.

A. NS's Economic Analysis

As has been mentioned above, NS has employed as a Base Year for purposes of its costing analysis the 12-month period ending September 2014, during which time NS handled seven (7) carloads. NS submits that such traffic volumes are representative of current rail service demand on the Line currently. Accordingly, NS has applied the same seven (7) 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.

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, NS earned \$21,922 in Base Year revenues, which, when offset against NS's avoidable costs of \$38,875, results in an avoidable loss from rail operations of \$16,953. Drawing from its Base Year figures and making certain cost adjustments accounting for inflation, NS estimates that, for purposes of the Forecast Year and Projected Subsidy Year, it would incur operating losses of \$17,423 (total revenues of \$22,528 less total avoidable costs of \$39,951). Id.

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 NS's compliance with the applicable Board rules for calculating such cost inputs. Mr. Kirchner's testimony speaks for itself. Two line items, warrant 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) and Off-Branch Cost (line 6a, V.S. Kirchner Appendix 1).

NS has presented Base Year and Forecast/Subsidy Year maintenance of way and structures costs of \$8,278 and \$8,507, respectively, with both figures tied to maintaining the Line to FRA Class I condition. These cost calculations translate into maintenance costs of roughly \$5,519/mile for the Base Year and \$5,671/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, which is Appendix 3 to his verified statement. NS stands behind its normalized maintenance figures as the most accurate and realistic estimate based upon actual track maintenance costs and data.¹⁰

Aside from the expense of the maintenance cost per mile (described above), NS also faces significant off-branch costs, which is likely understated because URCS does not capture the true cost of handling individual single cars across the Chicago Terminal. In this case the off-branch cost associated with continued operation of the Line (\$17,563) absorbs at a minimum approximately 80% of the revenue to be earned by the Line (without factoring in maintenance and transportation costs).

C. Opportunity Cost/Return on Value

NS 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 NS's operation of the Line. Because NS 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, NS is not relying on opportunity cost considerations as a basis for Board approval of the subject Petition. Nonetheless, NS Witness Kirchner has calculated such costs.

Under the circumstances, NS believes that opportunity costs are at best a secondary factor in the Board's handling of the Petition, while NS's avoidable losses demonstrate that NS's request for

¹⁰ While NS's calculated normalized per mile maintenance costs appear to be consistent with the levels that the Board has found to be acceptable dating back over the decades, there are many other instances where actual per mile maintenance costs far exceed that historic \$5,000-\$6,000 range. NS submits that the Board's continual reliance on that old precedent should be reevaluated.

discontinuance authority should be granted. Nevertheless, NS 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 NS's case for discontinuance, NS 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 NS's return on value evidence, NS respectfully refers the Board to the V.S. Kirchner and Appendix 1 thereto (both parts of Exhibit D to this Petition).

D. Alternative Transportation

NS believes that both of the Line's two existing customers have access to viable alternative sources of transportation. Both Tower and BCA have competitive trucking options via Illinois' highways. Both are located near Interstate 55, which is commonly known as Stevenson Expressway.¹¹ NS submits that alternative (and competitive) transportation service is readily available to the two current users of the Line. Given the low volumes, and that the principal commodities transported over the Line can be safely transported using other modes, there is no possibility of any shippers suffering market abuse, and therefore, there is no justification for requiring NS to continue to operate as a common carrier at such avoidable loss levels. BNSF and Belt Railway Company of Chicago also operate in the vicinity and may be available for service as part of a transload arrangement. Accordingly, NS submits that alternative (and competitive) transportation service is readily available to past users of the Line.

¹¹ Interstate 55 is a north-south highway in Illinois that extends over 290 miles and is maintained by the Illinois Department of Transportation. The highway extends from East St. Louis on the Poplar Street Bridge over the Mississippi River at the Missouri - Illinois state line and runs southwest to northeast through the state, ending in Chicago at US 41, Lake Shore Drive.

E. Other Policy and Public Interest Considerations

NS 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, but non-essential, competitive alternative to truck transportation for the Line's customers. Accordingly, NS 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 the Line's two existing customers making more use of trucks than before, NS 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 NS would be subjected to significant unrecoverable costs going forward if its Petition were to be denied and NS were required to continue to provide service over the Line.

The process that NS has invoked and the evidence it has supplied in its case-in-chief fully supports the grant of its discontinuance Petition. It also affords interested parties a fair opportunity to express their views on NS's proposed action, and to comment on the propriety of NS's use of the individual petition for exemption process. NS believes the evidence supports the grant of the Petition and that holding it to an exacting, expensive, and potentially protracted formal discontinuance application process, especially in light of the evidence that NS has supplied in support of discontinuance, would be unnecessary and wholly contrary to the RTP.

LABOR PROTECTIVE CONDITIONS

The interests of NS 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

The Board does not normally require a carrier seeking to discontinue service over a particular rail line to prepare and submit for review a combined environmental and historic report.¹² Here, the discontinuance is exempt from environmental reporting requirements under 49 C.F.R. § 1105.6(c) and from historic reporting requirements under 49 C.F.R. § 1105.8(b) because NS seeks only to discontinue service. NS does not anticipate engaging in any salvage activities, including the removal of any potentially historic structures as a result of obtaining discontinuance authority. Further Board approval is required for NS to abandon service on the Line. Accordingly, no environmental or historic report was prepared.

Nonetheless, in an abundance of caution, NS undertook an analysis to ensure that the proposed discontinuance would not 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)(C) or § 1105.7(e)(5)(ii)(C). NS has calculated total daily rail-to-truck diversions using Forecast Year traffic figures and applying the following total truck traffic multiplier: 4 truckloads per rail carload and 4 corresponding empty truck movements.¹³

On the basis of such calculations (apportioning as appropriate Base Year traffic to the two remaining customers' location along the Line), NS has consulted the most recent available data from the City of Chicago's Average Daily Traffic Counts ("Chicago ADTC") to determine if the daily new

¹² 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).

¹³ NS's ratio assumes that the affected traffic (Paraffin Wax and Petroleum Lube Oil) would require 4 inbound/outbound truck movements per carload.

truck traffic anticipated to result from the proposed discontinuance would exceed the section 1105.7(e)(5)(i) thresholds.¹⁴ NS has determined that the subject impact thresholds will not be exceeded on any road that would likely support new or additional truck traffic to warrant additional environmental analysis.

CONCLUSION

NS seeks an exemption from the provisions of 49 U.S.C. § 10903 to discontinue service over 1.5 miles of rail line located in Chicago, Cook County, Illinois. The exemption is warranted in light of the substantial burden that continued operation of the Line would impose upon NS, as has been demonstrated in the foregoing sections of this Petition and in the attached verified statement of Mr. 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 NS'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, NS urges prompt Board action to grant an exemption for the proposed discontinuance of service over the Line.

Respectfully submitted,



William A. Mullins
Crystal M. Zorbaugh
BAKER & MILLER PLLC
2401 Pennsylvania Ave., NW
Suite 300
Washington, DC 20037
Tel: (202) 663-7823
wmullins@bakerandmiller.com

Maquiling B. Parkerson
NORFOLK SOUTHERN CORPORATION
Three Commercial Place
Norfolk, VA 23510
Tel: (757) 533-4939
Fax: (757) 533-4872

Dated: March 17, 2015

Attorneys for Norfolk Southern Railway
Company

¹⁴ Based on the calculations performing using, the Average Annual Daily Traffic indicates that neither threshold established in 1105.7(e)(5)(i) will be exceeded.

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

STB Docket No. AB-290 (Sub-No. 365X)

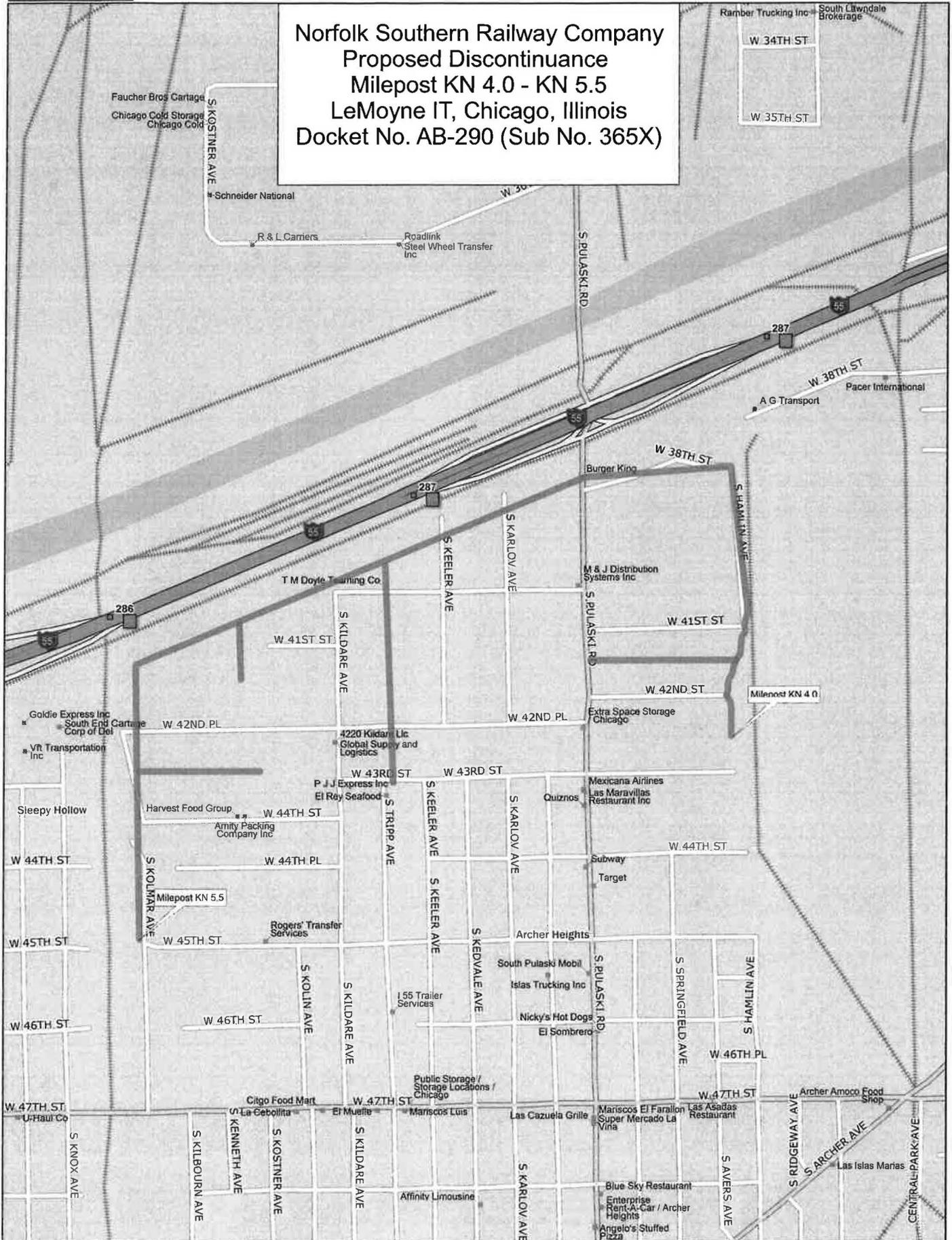
**NORFOLK SOUTHERN RAILWAY COMPANY
– DISCONTINUANCE OF SERVICE EXEMPTION –
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

EXHIBIT A

MAP

Norfolk Southern Railway Company
 Proposed Discontinuance
 Milepost KN 4.0 - KN 5.5
 LeMoine IT, Chicago, Illinois
 Docket No. AB-290 (Sub No. 365X)

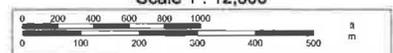


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Scale 1 : 12,800



1" = 1,066.7 ft

Data Zoom 14-0

**BEFORE THE
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STB Docket No. AB-290 (Sub-No. 365X)

**NORFOLK SOUTHERN RAILWAY COMPANY
– DISCONTINUANCE OF SERVICE EXEMPTION –
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

EXHIBIT B

DRAFT FEDERAL REGISTER NOTICE

DEPARTMENT OF TRANSPORTATION

Surface Transportation Board

[Docket No. AB 290 (Sub-No. 365X)]

Norfolk Southern Railway Company – Discontinuance of Service Exemption – In Chicago,
Cook County, Illinois

Norfolk Southern Railway Company (NS) has filed on March 17, 2015, an individual petition for exemption seeking authority to discontinue service over a line of railroad which comprises 1.5 miles of NS's LeMoyne Industrial Track extending from milepost KN 4.0 to milepost KN 5.5 on NS's LeMoyne Industrial Track. The subject rail line traverses United States Postal Zip Code territory 60632 for a total distance of 1.5 miles in Chicago, Cook County, Illinois. There are no stations on the Line to be discontinued. 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 _____, 2015.

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).¹⁵

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) William A. Mullins, 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.

¹⁵ 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 NS 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
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**NORFOLK SOUTHERN RAILWAY COMPANY
– DISCONTINUANCE OF SERVICE EXEMPTION –
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

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:

Bureau of Transportation
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Illinois Department of Transportation
2300 S. Dirksen Parkway
Springfield, IL 62764

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

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:

Bagcraft Corporation of America
3900 W 43rd St.
Chicago, IL 60632

Tower Oil & Technology Co.
4300 S. Tripp Ave
Chicago, IL 60632

March 17, 2015



William A. Mullins
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 Herald-News a newspaper of general circulation in Chicago, Cook County, Illinois.

March 17, 2015



William A. Mullins
Attorney for Norfolk Southern
Railway Company

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

STB Docket No. AB-290 (Sub-No. 365X)

**NORFOLK SOUTHERN RAILWAY COMPANY
- DISCONTINUANCE OF SERVICE EXEMPTION -
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

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) which are attached to this statement which I am filing in support of Norfolk Southern Railway Company's ("NSR") Petition for Exemption (Petition) to discontinue rail common carrier service over an NSR-owned and operated rail line located on the LeMoyne Industrial Track between milepost KN 4.0 and KN 5.5 (referred to herein as the "Line") in Chicago, Cook County, Illinois, 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 this testimony and in the other Appendices to this verified statement derives.

The LeMoyne Industrial Track extends for 5.5 miles from the NSR Ashland Avenue Yard southwest past the BNSF Corwith Yard. The last mile and a half of the LeMoyne Industrial Track, between milepost KN 4.0 and KN 5.5, is the subject of this Petition. .

Rail traffic on the Line declined by two-thirds from 2012 to 2014, as shown in Appendix 2. The customers on the Line, Tower Oil and Bagcraft Corporation of America, receive inbound petroleum products and the volumes received are insufficient to sustain the Line. Because the Line is situated in the highly congested Chicago Terminal, it is extremely costly and inefficient for a switch crew to serve these customers with sporadic shipments of individual cars.

Normalized Maintenance Required on the Line

I will discuss below the average annual cost of normalized maintenance required for the Line. The cost estimate relates to 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. The costs 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.

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 monthly inspection of the Line in accordance with FRA

regulations, general track repairs (such as gauging, spot surfacing and sinkhole repair), periodic testing of the rail to detect internal defects, and vegetation control to prevent fouling of ballast. Periodic testing and maintenance of signaled public crossings on the Line is required by FRA regulations.

Financial Analysis

The designated Base Year for this abandonment proceeding is October 2013 through September 2014. In accordance with the Board's regulations found at 49 CFR §1152.2(h), the Forecast Year is March 2015 through February 2016. 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. Appendix 2 to my statement shows that the carloads NSR originated or terminated on the Line were 9 in 2012, 11 in 2013 and declined to 3 in 2014, with a modest 7 carloads in the Base Year. Line 17 on Appendix 1 shows that the branch's avoidable loss was \$16,953 for the Base Year (or 77% of revenue), and we project an avoidable loss of \$17,423 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, I believe the operating losses are understated as the off-branch costs under URCS do not capture the significant cost of handling individual single cars across the Chicago Terminal.

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 is \$21,922 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 NSR's Traffic History databases. Carloads and tons for the 7 cars in NSR's 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, 2010=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 IHS Global Insight. The adjustment factor produced by comparing the Base and Forecast/Subsidy Year GDP deflators is 2.76%. The indexed forecast year total revenue is therefore \$22,528.

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 Base Year normalized maintenance expense is

\$8,278, the average annual routine maintenance cost shown in Appendix 3, which is denominated in 2014 dollars. The Forecast/Subsidy normalized Maintenance expense, indexed to the GDP Deflator, is therefore \$8,507.

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 5 locomotives¹ are used on the Line. The last acquisition by NSR of a locomotive in this category occurred in 2007. NSR's accounting department has supplied the original acquisition cost of these 2007-acquired locomotives, which is \$1,300,178. 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 196.60. The average of forecasted values for PPI-RE for January-March 2015 as contained in the Association of American Railroads (AAR) submission to the Board for the first quarter 2015 Rail Cost Adjustment Factor (RCAF), which is 1987.64, has been used as a proxy for the forecast year PPI-RE. The 2007 index value in the PPI-RE series 1982=100 is 176.40 The Base and Forecast/Subsidy Year locomotive replacement costs thus produced are \$1,449,065 and \$1,456,723, 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

¹ A 2,100 horsepower four-axle unit is used.

§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 49 CFR §1152.33(b)(3). The fringe benefit rate calculated for the Base Year is 40.76%.

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 3.44% for 2013, 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 5 locomotives in 2014 was 40.6 years. As 3.44% times 40.6 exceeds 100%. Category 5 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 service is necessary on the Line, it is provided by Chicago Terminal yard assignment BC08, which uses one four-axle 2,100 horsepower locomotive. Yard assignment BC08 has a two-person crew which goes on and off duty at NSR's Ashland Avenue yard. A total of 250 crew starts were operated during the Base Year.

Traffic records indicate that the Line was served 6 times² to deliver loads during the Base Year, and 7 trips would be required to pick up the resulting 7 empties, for a total of 13 trips. Thus 13/250 or 5.2% of the BC08 crew tours of duty were attributable to service on the Line. Thus 5.2% of the BC08 assignment's actual compensation during the Base Year is attributed to the branch as crew costs, for a total of \$10,976, 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 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 44.01%. Forecast/Subsidy Year fringe benefit costs were developed by indexing base year expenses by the GDP deflator.

² On one occasion, two loads were delivered on the same trip.

Freight car costs (lines 5g and 5i)

Freight car costs were not incorporated in this analysis as all of the equipment used was private.

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 5 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. 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 that NSR annually files with the Board. 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 2013 URCS data, which is the latest available. The Costs Department calculated the Base Year off-branch costs at my request. 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 segment forecast year were calculated in accordance with the Board's regulations found at 49 CFR §1152.34(c)(1)(i) 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)	\$21,902
B. Locomotive depreciation	0
C. Freight car depreciation	0
D. Avoidable costs less depreciation (A-B-C)	\$21,711
E. Working capital (D x 0.041)	\$900

Income tax consequences are \$41,638, the estimated net liquidation value of the track at the end of the forecast year, \$112,534, 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 \$109,507 (Appendix 4). 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 2.76%, 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, \$3,027. The net liquidation value at the end of the forecast year is thus \$112,534.

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 – 2013, Ex Parte No. 558 (Sub-No. 17), served July 31, 2014 and the Board's regulations found at 49 CFR §1152.34(d). The current nominal before tax cost of capital rate thus calculated is 17.58%.

The nominal return on road properties, Appendix 1, line 14, was calculated by multiplying the valuation of property by 17.58%.

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 \$3,027.

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 February 20, 2015.



Marcellus C. Kirchner

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

STB Docket No. AB-290 (Sub-No. 365X)

**NORFOLK SOUTHERN RAILWAY COMPANY
- DISCONTINUANCE OF SERVICE EXEMPTION -
IN CHICAGO, COOK COUNTY, ILLINOIS**

PETITION FOR EXEMPTION

EXHIBIT D

MARCELLUS C. KIRCHNER

APPENDIX 1 – PRO FORMA INCOME STATEMENT

Surface Transportation Board Docket No. AB 290 (Sub-No. 365X)

Norfolk Southern Railway Company

Pro Forma Income Statement

Proposed Discontinuance of Service

LeMoyne Industrial Track, Chicago, IL - Milepost KN 4.0 to KN 5.5

Railway operating revenues and expenses* for the line segment (1.50 miles total distance).

	Base Year Operations ¹	Forecast Year Operations ²	Projected Subsidy Year Operations ²
CARLOADS:	7	7	7
REVENUES ATTRIBUTABLE FOR:			
1 Freight originated and/or terminated on branch	\$ 21,922	\$ 22,528	\$ 22,528
2 Bridge traffic	0	0	0
3 All other revenue and income	0	0	0
4 TOTAL REVENUES ATTRIBUTABLE (Lines 1 through 3)	\$ 21,922	\$ 22,528	\$ 22,528
AVOIDABLE COSTS FOR:			
5 ON-BRANCH COSTS:	\$ 21,312	\$ 21,902	\$ 21,902
a. Maintenance of Way and Structures	8,278	8,507	8,507
b. Maintenance of Equipment	76	78	78
c. Transportation	12,958	13,317	13,317
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)	0	0	0
h. Return on Value - Locomotives	0	0	0
i. Return on Value - Freight Cars	0	0	0
j. Revenue Taxes	0	0	0
k. Property Taxes	0	0	0
6 OFF-BRANCH COSTS:	\$ 17,563	\$ 18,049	\$ 18,049
a. Off-Branch Costs (other than return on freight cars)	17,563	18,049	18,049
b. Return on Value - Freight Cars	0	0	0
7 TOTAL AVOIDABLE COSTS (line 5 plus line 6)	\$ 38,875	\$ 39,951	\$ 39,951
SUBSIDIZATION COSTS FOR:			
8 Rehabilitation		\$ -	\$ -
9 Administration Costs (subsidy year only)			225
10 Casualty Reserve Account			
11 TOTAL SUBSIDIZATION COSTS (lines 8 through 10)		\$ -	\$ 225
RETURN ON VALUE:			
12 Valuation of property (lines 12a through 12c)		\$ 155,072	\$ 155,072
a. Working capital		900	900
b. Income tax consequences		41,638	41,638
c. Net liquidation value		112,534	112,534
13 Nominal rate of return		17.58%	17.58%
14 Nominal return on value (line 12 times line 13)		\$ 27,262	\$ 27,262
15 Holding gain (loss)		3,027	3,027
16 TOTAL RETURN ON VALUE (line 14 minus line 15)		\$ 24,235	\$ 24,235
17 AVOIDABLE LOSS FROM OPERATIONS (line 4 minus line 7)	\$ (16,953)	\$ (17,423)	\$ (17,423)
18 ESTIMATED FORECAST YEAR LOSS FROM OPERATIONS (line 4 minus lines 7 and 16)		\$ (41,658)	\$ (41,658)
19 ESTIMATED SUBSIDY (line 4 minus lines 7, 11 and 16)			\$ (41,883)

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

1. October 2013 - September 2014 is the Base Year.

2. March 2015 - February 2016 is the forecast year and the subsidy year

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EXHIBIT D

MARCELLUS C. KIRCHNER

APPENDIX 2 – COMMODITIES BY CARLOAD AND TONNAGE

Appendix 2

Docket No. AB 290 (Sub-No. 365X)

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

Commodity	STCC	2012		2013		2014		12 Months Ending September 2014 (Base Year)	
		Cars	Tons	Cars	Tons	Cars	Tons	Cars	Tons
Paraffin Wax	2911990	3	203	3	220	1	64	3	210
Petroleum Lube Oil	2911415	6	524	8	686	2	172	4	354
Totals:		9	727	11	906	3	236	7	564

Customers on line:

Bagcraft Corporation of America
3900 W. 43rd Street
Chicago, IL 60632
(773) 254-8000

Tower Oil & Technology Company
4300 Tripp Avenue
Chicago, IL 60632
(773) 927-6161

**BEFORE THE
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WASHINGTON, DC**

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MARCELLUS C. KIRCHNER

APPENDIX 3 – NORMALIZED MAINTENANCE PROJECTION

**NORMALIZED MAINTENANCE PROJECTION
2014 to 2023
LEMOYNE IT - KN4.0 to KN5.5 - DEARBORN DIVISION**

Class I			MILEPOSTS		4.00	5.50	1.50 ROUTE MILES					
			Year	Year	Year	Year	Year	Year	Year	Year	Year	
			1	2	3	4	5	6	7	8	9	10
			<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
MAINTENANCE EXPENSE WORK												
INSPECTION - Monthly	\$1,428 PER YEAR		1,428	1,428	1,428	1,428	1,428	1,428	1,428	1,428	1,428	1,428
GENERAL TRACK REPAIR	\$2,000 PER MILE		3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
RAIL TESTING - None	\$0 PER MILE		0	0	0	0	0	0	0	0	0	0
VEGETATION CONTROL - Once per year	\$600 PER YEAR		600	600	600	600	600	600	600	600	600	600
RAIL GRINDING - None	\$0 PER YEAR		0	0	0	0	0	0	0	0	0	0
SIGNAL INSPECTIONS - (1) Signalized Crossing	\$1,250 PER YEAR		1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
BRIDGE INSPECTIONS / REPAIRS	\$2,000 PER YEAR		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
EXPENSE	SUBTOTAL		\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278
MAINTENANCE CAPITAL WORK												
DUAL RENEWAL (RELAY) None	\$377,000 PER MILE		0	0	0	0	0	0	0	0	0	0
TIMBER AND SURFACE None	\$137,400 PER MILE		0	0	0	0	0	0	0	0	0	0
SMOOTHING None	\$15,000 PER YEAR		0	0	0	0	0	0	0	0	0	0
TURNOUT REPLACEMENT None	\$65,000 EACH		0	0	0	0	0	0	0	0	0	0
BRIDGETIE RENEWAL None	\$871 EACH		0	0	0	0	0	0	0	0	0	0
CAPITAL	SUBTOTAL		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
MAINTENANCETOTAL			\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278	\$8,278

MAINTENANCE SUMMARY:	EXPENSE MAINTENANCE WORK				CAPITAL MAINTENANCE WORK				LINE TOTAL
	RDWY	BRIDGE	SIGNAL	TOTAL	RDWY	BRIDGE	SIGNAL	TOTAL	
TEN YEAR PROJECTED TOTAL =	\$50,275	\$20,000	\$12,500	\$82,775	\$0	\$0	\$0	\$0	\$82,775
ANNUAL COST FOR LINE =	\$5,028	\$2,000	\$1,250	\$8,278	\$0	\$0	\$0	\$0	\$8,278
ANNUAL COST PER MILE =	\$3,352	\$1,333	\$833	\$5,518	\$0	\$0	\$0	\$0	\$5,518

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APPENDIX 4 – NET LIQUIDATION VALUE ESTIMATE

Net Liquidation Value Estimate						
LeMoyne Industrial Track Chicago, IL						
MP KN 4.0 - 5.5						
1.5 Miles of Track						
Gross Value						
Item	Total Length		Quantity	Unit	Unit Value	Gross Value
132	#RAIL	ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
131	#RAIL	0 ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
130	#RAIL	0 ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
115	#RAIL	0 ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
112	#RAIL	0 ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
110	#RAIL	0 ft	0	NT @	\$399	/NT= \$0
	#OTM		0	NT @	\$411	/NT= \$0
100	#RAIL	7920 ft	251	NT @	\$399	\$100,069
	#OTM		79	NT @	\$411	\$32,300
90	#RAIL	0 ft	0	NT @	\$399	\$0
	#OTM		0	NT @	\$411	\$0
75	#RAIL	0 ft	0	NT @	\$399	\$0
	#OTM		0	NT @	\$411	\$0
60	#RAIL	0 ft	0	NT @	\$399	\$0
	#OTM		0	NT @	\$411	\$0
Turnouts			2	EA @	\$2,000	EA= \$4,000
Crossties	0	%	0	EA @	\$5	EA= \$0
Gross Value Subtotal=						\$136,369
Removal Costs						
Remove Track and Repair	7920	ft @	\$2.85	/ft =		\$22,572
Grade Crossings						
Remove Turnouts	2	EA @	\$500	EA=		\$1,000
Handling Costs	329	NT @	\$10.00	/NT=		\$3,290
Removal Costs Subtotal=						\$26,862
Estimated Net Liquidation Value=						\$109,507
Value per Mile =						\$73,005

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APPENDIX 5 - WORKPAPERS

**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
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	134.8	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	177.4	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	195.2	198.1	196.3	195.4	194.5	194.6	195.1	195.2	196.9	195.7
2014	196.0	197.4	196.8	196.3	196.0	196.8	197.8	197.9	197.0	196.8	196.9	201.4	197.3

Forecast of PPI - Rail Equipment in AAR submission to STB for the Fourth Quarter 2014 quarterly Rail Cost Adjustment Factor (RCAF)

2015	197.450	197.639	197.828										
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Shading Legend:

	AAR forecasted values
	BLS estimates
	(no shading) Actual values

Locomotive Cost Indices

Category	Horsepower	Year of Last Purchase or Rebuild	Adjustment Required to 1982 Series	Adjustment Factor	2013	10/13 - 9/14	3/15 - 2/16
					195.70	196.60	197.64
1	999 HP and under						
2	1,000 HP - 1,499 HP	2008	2008 to 1982	180.20	1.09	1.09	1.10
3	1,500 HP - 1,749 HP	1982	None	100.00	1.96	1.97	1.98
4	1,750 HP - 1,999 HP	1952	Not Calculated	Not Calculated			
5	2,000 HP - 2,499 HP	2007	2007 to 1982	176.40	1.11	1.11	1.12
6	2,500 HP - 2,999 HP						
7	3,000 HP - 3,599 HP	2010	2010 to 1982	184.40	1.06	1.07	1.07
8	3,600 HP and over	2012	2012 to 1982	191.80	1.02	1.03	1.03
9	Booster	2008	2008 to 1982	180.20	1.09	1.09	1.10

Category	Horsepower	Year of Last Purchase or Rebuild	Unit Initial	Unit Number	Historic Cost	2013	10/13 - 9/14	3/15 - 2/16
1	999 HP and under							
2	1,000 HP - 1,499 HP	2008	NS	999	\$395,450	\$429,465		
3	1,500 HP - 1,749 HP	1982	NS	2400	\$246,532	\$482,463		
4	1,750 HP - 1,999 HP	1952	NS	4271				
5	2,000 HP - 2,499 HP	2007	NS	301	\$ 1,300,178	\$1,442,431	\$1,449,065	\$1,456,723
6	2,500 HP - 2,999 HP							
7	3,000 HP - 3,599 HP	2010	NS	6324	\$1,571,904	\$1,668,230		
8	3,600 HP and over	2012	NS	8115	\$2,599,445	\$2,652,302		
9	Booster	2008	NS	883	\$556,790	\$604,682		

Background

LeMoyno IT, Chicago IL - Milepost KN 4.0- KN 5.5

Background Data

	Dates	Ending Quarter
Base Year	10/13 - 09/14	2014 Q3
Forecast Year	03/15 - 02/16	2016 Q1

LeMoyno IT				
Beginning Milepost	4.00			
Ending Milepost	5.50			
Total Miles	1.50	3.00	RT	

Miles to Discontinue	1.50	
Annual Trips	14	Crew Starts

Traffic Originating or Terminating On Branch		
Cars	Revenue	Per Car
7	\$ 21,922	\$ 3,132

Peavine-Central Division

Service Days per Week	<1
Crew Size	2
Roundtrip Mileage Crew Taxied	0
Hours Required to Serve Line (includes switching)	1.30
Average MPH Service On Line	10

Winchester, OH is at CT 57.0

Task	Minutes	Hours
1.5 Miles Transit @ 10 MPH	9.0	0.15
Switching at customers	60.0	1.00
1.5 Miles Transit @ 10 MPH	9.0	0.15
Total Round Trip Time On Branch	78.0	1.30

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Crew Statistics

Crew BC08	Gross Earnings	Productivity	Fringe (44%)	Add to Net	Hours Attributable to Branch	Total Hours/Day	% On Branch (mileage weighted)	Total Earnings Attributable to Branch
Conductor	\$ 71,893		\$ 31,633				5.2%	\$ 5,383
Engineer	\$ 74,689		\$ 32,863				5.2%	\$ 5,593
Totals	\$ 146,582		\$ 64,496					\$ 10,976

Locomotive Statistics (from Loco Master)

Category Locomotive Used	5
Number Used	1
Average Tons	127.6
2014 Age	40.6

1. Loco Unit Hours

Background

A. For ownership (Depreciation & ROI)								
	1.30	x	14	18.2	Annual Locomotive Unit Hours (LUH)			
B. For Usage (fuel)								
	1.30	x	14	18.2	Annual Locomotive Unit Hours (LUH)			
2. Loco Unit Miles								
Running					1.5	One-Way Miles		
					3.0	Round Trip Miles		
					42.0	Annual Miles		
Switching	3.0	x	14.0	=				
	1.0	x	1.0	x	14.0	=	14.0	Switching Miles
TOTAL								
	42.0	+	14.0	=	56.0	Locomotive Unit Miles (LUM)		
3. Loco Gross Ton Miles								
	56.0	x	127.6	=	7,145.6	Locomotive Gross Ton Miles (LGTM)		

LeMoyné IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/19/2015

ACCOUNT NO.	BASE YEAR		FORECAST YEAR		Spreadsheet/Source	
	10/13 - 09/14	03/15 - 02/16	10/13 - 09/14	03/15 - 02/16		
GDP Deflator Adjustment:					2.76%	From GDP Deflator Spreadsheet
Revenues:						
1 a Freight Originated or Terminated On Branch	101	\$21,922	\$22,528			
b Haulage Performed On Branch	104	0	0			
c Demurrage	106	0	0			
d Other		0	0			
2 Bridge Traffic (assignable to branch)		0	0			
3 All Other Revenue and Income		0	0			
4 Total Revenues Attributable (Lines 1 through 3)		21,922	22,528			
Avoidable Cost:						
5 On-Branch Costs (from spreadsheets)						
a Maintenance of Way and Structures		8,278	8,507		From Engineering	
b Maintenance of Equipment						
1 Locomotives:						
Repairs & Maintenance						
11-21-41 L		21	22	Loco Repairs		
21-21-41 M		42	43	Loco Repairs		
41-21-41 P		4	4	Loco Repairs		
61-21-41 G		0	0	Loco Repairs		
Fringe Benefits	12-21-00 G	9	9	Loco Repairs		
Depreciation	62-21-00 G	0	0	Loco Depreciation		
Total Locomotives		76	78			
2 Other		0	0			
Total Equipment		76	78			
c Transportation						
1 Train Operations						
Engine Crews						
11-31-56 L		5,593	5,748	Transportation		
21-31-56 M		0	0	Crew Materials		
Train Crews						
11-31-57 L		5,383	5,532	Transportation		
21-31-57 M		0	0	Crew Materials		
Train Inspection & Lubrication						
11-31-62 L		0	0	Crew Materials		
21-31-62 M		0	0	Crew Materials		
Locomotive Fuel						
11-31-69 L		1,982	2,037	Loco Fuel		
21-31-69 M		0	0	Loco Service		
41-31-69 P		0	0	Loco Service		
61-31-69 G		0	0	Loco Service		
12-31-00 G		0	0	Included in labor		
Service Locomotives						
Total Transportation		12,958	13,317			
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)		0	0	Car Cost		
h Return on Value - Locomotives		0	0	Loco ROI		
i Return on Value - Freight Cars		0	0	Car Cost		
j Revenue Taxes		0	0			
k Property Taxes		0	0			
l Total (Lines 5a through 5k)		21,312	21,902			
o Net On-Branch Costs (Lines 5l-(5m+5n))		21,312	21,902			
6 Off-Branch Costs		17,563	18,049			
a Off-Branch Costs (other than return on freight cars)		17,563	18,049	Cost Department		
b Return on Value - Freight Cars		0	0	Cost Department		
7 Total Avoidable Costs (Line 5o + 6d)		38,875	39,951			
Subsidization Costs:						
8 Rehabilitation			0			
9 Administrative Costs			225	1% of total revenue on branch		
10 Casualty Reserve Account			0			
11 Total Subsidization Costs (Lines 8 through 10)			225			
12 Valuation of Road Properties (Lines 12a through 12c)						
(a) Working Capital			900	Working Capital		
(b) Income Tax Consequences			41,638	Working Capital		
(c) Net Liquidation Value			112,534	Working Capital		
Total Valuation of Properties			155,072	Working Capital		
13 Nominal Rate of Return			17.58%	Pre Tax nominal rate		
14 Nominal Return on Value (Line 12 * Line 13)			27,282			
15 Holding Gain/Loss on Road Properties			3,027			
16 Return on Value (Line 14-15)			24,235			
17 Avoidable Loss (profit) from Operations (Line 7-4)		16,953	17,423			
(excludes nominal return on value and opportunity cost, which are avoidable costs)						
18 Avoidable Loss Including Return on Value (Line 7-4+16)			41,558			
19 Avoidable Loss Including Subsidization Costs and Return on Value (Line 4-7+11+16)			41,883			

Loco ROI

LOCOMOTIVE RETURN ON INVESTMENT

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

	<u>Base Year</u> <u>10/13 - 09/14</u>
	<u>GMA'S LOCO</u> <u>CAT 5</u>
A. SYSTEM LOCO UNIT HOURS	10,062,857
B. SYSTEM LOCO UNITS	2,615.0
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,848
D. REPLACEMENT COST	\$1,449,065
E. DEPRECIATION RATE	3.44%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$49,848
G. LOCO AGE	38.6
H. ACCUMULATED DEPRECIATION (LINE F x LINE G)	\$1,924,133
I. NET INVESTMENT (LINE D - LINE H)	\$0
J. COST OF CAPITAL	17.58%
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	18.2
P. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE N x LINE O)	18.0
Q. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE P / LINE C)	0.005
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%.

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/20/2015

Loco ROI

	<u>Forecast Year</u> <u>03/15 - 02/16</u>
	<u>GMA'S LOCO</u> <u>CAT 5</u>
A. SYSTEM LOCO UNIT HOURS	10,062,857
B. SYSTEM LOCO UNITS	2,615
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,848
D. REPLACEMENT COST	\$1,456,723
E. DEPRECIATION RATE	3.44%
F. ANNUAL DEPRECIATION (LINE D x LINE E)	\$50,111
G. LOCO AGE	39.6
H. ACCUMULATED DEPRECIATION (LINE F x LINE G)	\$1,984,396
I. NET INVESTMENT (LINE D - LINE H)	\$0
J. COST OF CAPITAL	17.58%
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	18.2
P. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE N x LINE O)	18.0
Q. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE P / LINE C)	0.005
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%.

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/20/2015

Loco Repairs

LOCOMOTIVE REPAIRS AND MAINTENANCE

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

Base Year
10/13 - 09/14

A. BRANCH TONS PER UNIT	128
B. BRANCH LOCO UNIT MILES	56
C. BRANCH LOCO GTM (LINE A x LINE B)	7,146
D. SYSTEM LOCO GTM	32,831,044
E. RATIO (LINE C / LINE D)	0.000218
F. RATIO ROAD PORTION	0.930
G. SYSTEM LABOR EXPENSE (ACC 11-21-41)	\$103,836
H. BRANCH LABOR EXPENSE (LINE'S E x F x G)	\$21
I. SYSTEM MATERIAL EXPENSE (ACC 21-21-41)	\$205,878
J. BRANCH MATERIAL EXPENSE (LINE'S E x F x I)	\$42
K. SYSTEM PURCHASED EXPENSE (ACC 41-21-41)	\$21,326
L. BRANCH PURCHASED EXPENSE (LINE'S E x F x K)	\$4
M. SYSTEM GENERAL EXPENSE (ACC 61-21-41)	\$170
N. BRANCH GENERAL EXPENSE (LINE'S E x F x M)	\$0
O. FRINGE RATE	40.76%
P. TOTAL FRINGES (LINE H x LINE O)	\$9

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/19/2015

Loco Depreciation

LOCOMOTIVE DEPRECIATION

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

	<u>Base Year</u> <u>10/13 - 09/14</u>
	<u>GMA'S LOCO</u> <u>CAT 5</u>
A. SYSTEM LOCO UNIT HOURS	10,062,857
B. SYSTEM LOCO UNITS	2,615
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,848
D. REPLACEMENT COST	\$1,449,065
E. DEPRECIATION RATE	3.44%
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	18
K. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE I x LINE J)	18
L. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE K / LINE C)	0.005
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%.

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/20/2015

Loco Depreciation

LOCOMOTIVE DEPRECIATION

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

**Forecast Year
03/15 - 02/16**

**GMA'S LOCO
CAT 5**

A. SYSTEM LOCO UNIT HOURS	10,062,857
B. SYSTEM LOCO UNITS	2,615
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,848
D. REPLACEMENT COST	\$1,456,723
E. DEPRECIATION RATE	3.44%
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	18
K. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE I x LINE J)	18
L. RATIO LOCO UNIT HOURS ON BRANCH TO SYS LOCO UNIT HOURS PER LOCO UNIT (LINE K / LINE C)	0.005
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%.

Loco Holding

**LOCOMOTIVE RETURN ON INVESTMENT
LESS HOLDING GAIN(LOSS)
LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5**

	FORECAST YEAR GMA'S LOCO CAT 5
A. SYSTEM LOCO UNIT HOURS	10,062,857
B. SYSTEM LOCO UNITS	2,615
C. SYS LOCO UNIT HRS./LOCO UNIT (LINE A / LINE B)	3,848
D. REPLACEMENT COST (END OF FORECAST YEAR)	\$ 1,456,723
E. REPLACEMENT COST (BEGINNING OF FORECAST YEAR)	\$ 1,449,065
F. HOLDING GAIN(LOSS) AT REPLACEMENT (LINE D - LINE E)	\$ 7,658
G. TOTAL YEARS DEPRECIATION (100% / 3.86%)	29.1
H. LOCOMOTIVE AGE	39.6
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	18
P. LOCO UNIT HOURS ON BRANCH BY LOCO CAT. (LINE N x LINE O)	18
Q. RATIO LUH ON BR. TO SYS LUH PER LOCO UNIT (LINE P / LINE C)	0.005
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)	\$ -

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/20/2015

Loco Fuel

LOCOMOTIVE FUEL

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

**Base Year
10/13 - 09/14**

	GMA'S LOCO CAT 5
A. GMA'S REPAIR & SUPPLIES COSTS PER LOCO UNIT HR. (AS OF 7/1/82)	\$55.60
B. GMA'S FUEL PORTION	0.64
C. FUEL EXPENSE PER LOCO UNIT HR. (LINE A x LINE B)	\$35.58
D. AAR'S CRC INDEX - FUEL (ANNUAL 1982 TO CURRENT YEAR)	3.061
E. FUEL EXPENSE PER LOCO UNIT HR. (LINE C x D)	\$108.92
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	18
J. LOCO UNIT HOURS ON BRANCH BY LOCO CATEGORY (LINE H x LINE I)	18
K. FUEL EXPENSES BY CATEGORY (LINE E x LINE J)	\$1,982
L. TOTAL FUEL EXPENSES (SUM OF LINE K AMOUNTS)	\$1,982

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/20/2015

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Wage rates	317.3	331.1	338.1	340.8	353.0	362.8	393.3	384.9	395.4	426.2	433.1	447.5 p
Wage supplements	564.8	505.1	585.2	605.9	622.7	624.1	684.4	768.2	800.9	775.7	772.7	765.2 p
Fuel	247.4	323.7	475.5	527.5	557.0	845.2	458.9	605.6	829.5	852.6	833.8	795.2
Materials and supplies	182.0	196.1	211.5	236.0	262.9	291.1	309.9	310.8	321.3	340.9	336.7	348.7
Equipment rents	239.7	240.8	252.5	260.1	267.1	271.6	273.8	275.6	271.9	268.7	275.0	
Purchased services	335.3	337.0	362.4	372.2	388.2	400.4	434.3	442.3	456.6	477.0	480.3	
Depreciation	391.3	468.6	651.8	655.0	686.1	706.9	733.7	834.3	886.4	914.3	945.5	
Interest	183.7	194.9	319.4	335.0	338.2	307.1	314.9	368.4	376.2	400.3	464.1	
Taxes (other than income and payroll)	229.9	280.2	347.1	370.3	405.1	387.3	346.8	418.6	502.8	508.2	534.2	
All other operating expenses	212.8	225.7	242.5	253.8	266.2	292.5	266.5	284.9	310.0	311.6	313.5	
Wage rates and supplements	370.5	369.2	393.9	400.2	413.5	421.9	458.9	468.7	483.7	504.0	509.1	519.5 p
All materials (incl. fuel)	218.0	264.6	343.8	382.0	409.1	575.9	375.8	454.6	577.7	598.4	586.6	571.4
Matl. prices & wage rates combined (excl. fuel)	286.2	300.1	310.7	318.2	333.6	347.4	375.4	369.0	379.5	407.9	412.3	426.3 p
Matl. prices & wage rates combined (incl. fuel)	294.2	322.1	369.8	388.3	408.0	487.4	419.6	448.5	508.4	537.6	537.0	539.9 p
Materials prices, wage rates and supplements combined (excl. fuel)	335.3	337.0	362.4	372.2	388.2	400.4	434.3	442.3	456.6	477.0	480.3	491.1 p
Materials prices, wage rates and supplements combined (incl. fuel) - QMPW	337.8	353.3	415.2	434.7	454.8	526.0	474.1	511.8	570.3	592.9	591.9	593.5 p
Taxes, purchased serv. and other expenses	250.7	261.5	272.5	282.5	296.4	310.2	313.5	328.3	349.0	359.1	362.9	
Equip. rents, deprec. and interest	269.3	299.1	374.3	381.5	394.9	397.7	408.6	455.0	473.1	486.5	512.3	
Equip. rents, taxes, deprec., purch. serv., interest & other expenses	266.8	287.0	329.3	338.6	353.0	362.9	369.6	397.8	418.8	430.8	443.5	
Total excl. fuel	306.5	318.7	355.7	365.5	381.2	392.4	411.1	431.0	449.4	465.7	474.3	
Total excl. interest	314.9	333.5	382.5	396.8	415.0	457.1	435.2	467.6	509.5	526.9	530.4	
Total excl. interest and depreciation	305.6	318.4	356.7	371.8	388.8	432.2	406.6	433.3	473.9	490.2	491.5	
Railroad Cost												
Recovery Index	309.4	327.7	380.5	394.9	412.4	451.5	430.9	464.2	504.7	522.4	528.4	

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

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5

	<u>03/15 - 02/16</u> <u>Forecast Year</u>
On Branch Avoidable Cost	\$ 21,711
Less Locomotive Depreciation	\$ -
Less Freight Car Depreciation	\$ -
Subtotal	<u>\$ 21,711</u>

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

Working Capital \$ **892**

Present (Begin Forecast Year) NLV \$ 109,507
End of Forecast Year NLV \$ 112,534

Income Tax Consequences (NLV*37% Tax Rate) \$ 41,638
Holding Gain Road Properties \$ 3,027
Nominal Opportunity Cost \$ 19,251
Opportunity Cost \$ 16,224

LeMoyne IT, Chicago IL - Milepost KN 4.0- KN 5.5
2/19/2015

Implicit Price Deflators for Gross Domestic Product
[Index Numbers, 2010=100] Seasonally Adjusted
Forecast - Cost Services Pricing and Purchasing 10 year
IHS Global Insight

Year	Quarter	Implicit Price Deflator	Rolling Four Quarter Average	Period Represented	Change vs. Prior Period	Notes
2010	1	100.520	100.520	Q2 09 - Q1 10		
	2	100.981	100.751	Q3 09 - Q2 10		
	3	101.444	100.982	Q4 09 - Q3 10		
	4	101.963	101.227	2010		
2011	1	102.409	101.699	Q2 10 - Q1 11	1.17%	
	2	103.170	102.247	Q3 10 - Q2 11	1.48%	
	3	103.770	102.828	Q4 10 - Q3 11	1.83%	
	4	103.913	103.316	2011	2.06%	
2012	1	104.461	103.829	Q2 11 - Q1 12	2.09%	
	2	104.937	104.270	Q3 11 - Q2 12	1.98%	
	3	105.475	104.697	Q4 11 - Q3 12	1.82%	
	4	105.821	105.174	2012	1.80%	
2013	1	106.172	105.601	Q2 12 - Q1 13	1.71%	
	2	106.495	105.991	Q3 12 - Q2 13	1.65%	
	3	106.943	106.358	Q4 12 - Q3 13	1.59%	
	4	107.347	106.739	2013	1.49%	Cost of Capital Reference
2014	1	107.694	107.120	Q2 13 - Q1 14	1.44%	
	2	108.261	107.561	Q3 13 - Q2 14	1.48%	
	3	108.646	107.987	Q4 13 - Q3 14	1.53%	Base Year
	4	109.194	108.449	2014	1.60%	
2015	1	109.614	108.929	Q2 14 - Q1 15	1.69%	
	2	110.161	109.404	Q3 14 - Q2 15	1.71%	
	3	110.758	109.932	Q4 14 - Q3 15	1.80%	
	4	111.201	110.434	2015	1.83%	
2016	1	111.769	110.972	Q2 15 - Q1 16	1.88%	Forecast Year (Exhibit 1)
	2	112.259	111.497	Q3 15 - Q2 16	1.91%	
	3	112.748	111.994	Q4 15 - Q3 16		
	4	113.272	112.512	2016.000		
					2.76%	Base - Forecast Year (Exhibit 1)

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2013 Railroad Cost of Capital

	Debt	Preferred Equity	Common Equity	
1) Nominal Cost	3.68%	3.87%	12.96%	
2) Real Cost $((1+L1)/\text{deflator})-1$	2.16%	2.35%	11.30%	
3) Market Weight	17.69%	0.0004%	82.31%	
4) After Tax				
a. Nominal $L1*L3$	0.65%	0.0000%	10.67%	11.32%
b. Real $L2*L3$	0.38%	0.0000%	9.30%	9.69%
5) Pre-tax (change in equity only)				
a) Nominal $L4a/(1-\text{tax rate}^*)$	0.65%	0.0000%	16.93%	17.58%
b) Real $L4b/(1-\text{tax rate}^*)$	0.38%	0.0000%	14.77%	15.15%
6) Holding Gain				2.43%

*Assume 37% tax rate

Year to Year Deflator Delta: 1.49%

LeMoyne IT URCS Off-Branch Cost

Destination City	D St	STCC	STCC Description	Sum of Carloads	Average of Tons/Car	Average of Avg Loaded Miles	URCS Cost per Unit	Totals
CHICAGO ASHLAND AVE	IL	2911990	PARAFFIN WAX	3	70	946	\$3,061	9,183
CHICAGO	IL	2911415	PET LUB OIL	4	86	644	\$2,095	8,380
				7	76	825		
							*Tank Cars >= 22000 gallons	17,563

LeMoyne IT BC08 Crew Wages

Oct 2013 - Sept 2014		CQ - QUALIFYING CONDUCTOR	EN - ENGINEER	FO - YARD CONDUCTOR	GRAND TOTAL
79201 - CHICAGO VAN YARD	BC08	\$1,138	\$74,689	\$71,893	\$147,720

2004 NSR R-1 Data

R-1 INFORMATION 2013

Sch 755:

		<u>Freight</u>	<u>Passenger</u>
A)	Ln 7 Train Miles	74,795,669	
B)	Ln 11 Locomotive Unit Miles	173,310,561	
C)	Ln 12 Locomotive Unit Miles Trn Swtg	6,756,113	
D)	Ln 98 GTM Road Locomotives (000s)	32,831,044	
E)	Ln 115 Trn Hrs Rd Svc	3,750,324	
F)	Ln 116 Trn Swtg Hrs	646,253	
G)	(Ln 116 * 6 mph) Trn Mi Rd Trn Swtg	3,877,518	
H)	(A+G) Total Freight Train Miles	78,673,187	
I)	[(Ln 11+Ln12)/Item H] Loco Units per Train	2.29	
J)	[(Ln 115+Ln 116)*Item I] Loco Units Hours	10,062,857	
K)	Ln 117 Yard Switching Hours	2,187,017	
L)	Ln 13 Loco Unit Miles Yard Switching	13,122,102	
M)	(Ln 117*6mph) Yard Switching Miles	13,122,102	
N)	(Ln 13/Item M) Loco Units per Yard Switch	1.00	
O)	(Ln 117*Item N) Loco Unit Hours Yard Switch	2,187,017	

2004 NSR R-1 Data

NS 2013 System Car Miles L&E

R-1, Sch 755:

Line 30	1,054,738 RR L
Line 46	728,142 RR E
Line 64	1,526,445 PVT L
Line 82	1,090,065 PVT E
Line 84	0 No Payment
	<hr/>
	4,399,390

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

FCS 2013

	Carloads		
Ln 98 Col (i)	Local	4,405,639 * 2 =	8,811,278
Ln 98 Col (k)	Forward	525,099 * 1 =	525,099
Ln 98 Col (m)	Received	2,367,023 * 1 =	2,367,023
Ln 98 Col (o)	Bridge	58,167 * 0 =	0
		<hr/>	<hr/>
		7,355,928	11,703,400

2004 NSR R-1 Data

FRINGE BENEFITS (Sch 410)

Accounting Group		2013 Labor (000)	2013 Fringes (000)	2013 Fringe %	2012 Labor (000)	2012 Fringe (000)	2012 Fringe %
WS	Running	158,300	125,995	79.59%	117,464	152,632	129.94%
	Switching	11,211	4,384	39.10%	9,102	3,998	43.92%
	Other	32,703	12,434	38.02%	32,626	22,379	68.59%
ME	Locomotive	123,746	50,440	40.76%	120,940	51,331	42.44%
	Freight Cars	58,866	26,068	44.28%	69,554	25,499	36.66%
	Other	1,379	3,382	245.25%	523	3,409	651.82%
TRANS	Train Op	827,322	354,537	42.85%	833,802	336,471	40.35%
	Yard Op	222,703	107,600	48.32%	226,132	100,662	44.51%
	Train & Yard Op	629	238	37.84%	655	945	144.27%
GA	SPSVCOP	43,493	6,334	14.56%	36,254	7,225	19.93%
	Admin Supp	21,946	13,489	61.46%	28,684	12,961	45.19%
	Gen & Admin	8,475	3,771	44.50%	8,301	3,058	36.84%
	MWS Composite	202,214	142,813	70.62%	159,192	179,009	112.45%
	Trans Composite	1,050,654	462,375	<u>44.01%</u>			

2004 NSR R-1 Data

R-1 2013 Information

Investment in Equipment: Diesel Locomotives

		Beg Yr	End Yr	Avg Yr
Sch 710	Ln 1 Col (b) Fght	2,595 Col (J)	2,635	2,615
	Ln 2 Col (b) Psgr	0 Col (J)	0	0
	Ln 4 Col (b) Swtg	106 Col (J)	101	104
	Ln 9 Col (b) Aux	122 Col (J)	131	127
		<u>2,823</u>	<u>2,867</u>	<u>2,845</u>
Sch 332	Ln 31 col(d) Depr	3.44%		
(Repairs)			Labor	
Sch 415	Ln 1 Col (b) Yd	22,979 7.0%		
	Ln 2 Col (b) Rd	304,222 93.0%		
	Ln 5 Col (b) Total	<u>\$327,201</u>		
(Loco Fuel)				
Sch 410	Ln 409 Col (h) Rd	1,382,142 93.8%	68,087 Ln 408 Col (b)	
	Ln 425 Col (h) Yd	91,041 6.2%	0 Ln 425 Col (b)	
	Total	<u>\$1,473,183</u>	<u>\$68,087</u>	<u>\$1,405,096</u>
(Svc Loco)				
Sch 410	Ln 411 Col (h)	48,313 99.2%	31,578 Ln 411 Col (b)	
	Ln 427 Col (h)	382 0.8%	381 Ln 427 Col (b)	
		<u>\$48,695</u>	<u>\$31,959</u>	<u>\$16,736</u>

CREW MATERIALS (Sch 410)

Engine Crew Material		
	Ln 402 Col (c)	264
Train Crew Material		
	Ln 403 Col (c)	2,336
Train Inspection & Lubrication		
Wages	Ln 408 Col (b)	68,087
Materials	Ln 408 Col (c)	100

SERVICING LOCOMOTIVES (Sch 410)

System Labor Expense		
	Ln 411 Col (b)	31,578
System Material Expense		
	Ln 411 Col (c)	7,460
System Purchased Expense		
	Ln 411 Col (d)	9,268
System General Expense		
	Ln 411 Col (e)	7

LOCOMOTIVE REPAIR (Sch 410)

System Labor Expense		
	Ln 202 Col (b)	103,836
System Material Expense		
	Ln 202 Col (c)	205,878
System Purchased Expense		
	Ln 202 Col (d)	21,326
System General Expense		
	Ln 202 Col (e)	170

Crew Materials

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

LeMoyné IT, Chicago IL - Milepost KN 4.0- KN 5.5

Base Year
10/13 - 09/14

	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	\$264	\$2,336	\$68,087	\$100
B. CAR MILE PORTION RATIO	27%	27%	27%	27%
C. SYSTEM CAR MILE EXPENSES (LINE A x LINE B)	\$72	\$638	\$18,602	\$27
D. SYSTEM CAR MILES L & E (RR OWN & LEA, PVT & NO PAY MI)	4,399,390	4,399,390	4,399,390	4,399,390
E. SYSTEM EXPENSES PER CAR MILE L/E (LINE C / LINE D)	\$0.0000164	\$0.0001451	\$0.0042283	\$0.0000062
F. BRANCH CAR MILES L & E	21	21	21	21
G. BRANCH CAR MILE EXPENSES (LINE E x LINE F)	\$0	\$0	\$0	\$0
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H. CARLOAD PORTION RATIO	73%	73%	73%	73%
I. SYSTEM CAR LOAD EXPENSES (LINE A x LINE H)	\$192	\$1,698	\$49,485	\$73
J. SYSTEM CARLOADS (QCS-COST DEPT)	11,703,400	11,703,400	11,703,400	11,703,400
K. SYSTEM EXPENSES PER CARLOAD (LINE I / LINE J)	\$0.00002	\$0.00015	\$0.00423	\$0.00001
L. BRANCH CARLOADS	7	7	7	7
M. BRANCH CARLOAD EXPENSES (LINE K x LINE L)	\$0	\$0	\$0	\$0
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TOTAL EXPENSES (LINE G + LINE M)	\$0	\$0	\$0	\$0