

CONTAINS NO CLASSIFIED MATERIAL

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No. EP 431 (Sub-No. 4)

REVIEW OF THE GENERAL PURPOSE COSTING SYSTEM

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**REPLY COMMENTS OF
ARKANSAS ELECTRIC COOPERATIVE CORPORATION**

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Dated: September 5, 2013

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In accordance with the Board's decisions served February 4, 2013 and April 25, 2013 in this docket, Arkansas Electric Cooperative Corporation (AECC) 1/ submits these reply comments regarding the Board's proposed changes to the Uniform Railroad Costing System (URCS). These reply comments address elements of the opening comments of other parties that pertain to the Board's proposals for URCS costing of unit train movements, 2/ and to AECC's recommended refinements to ensure the reasonable accuracy of URCS costs for such movements. AECC's recommended refinements include the following:

- Allow the user to specify the tare weight of cars, the actual number of locomotives used by a unit train, the terms applicable to the use of private cars and any other optional inputs available in URCS as needed to ensure that cost components not relevant or applicable to a particular movement are excluded from its URCS costs;
- Do not adopt the proposed change (from 50 cars to 80 cars) in the threshold for a shipment to be deemed a trainload or unit train;
- Modify reporting requirements to ensure that shipments moved as unit trains are distinguished from shipments moved in way/through train service;

1/ A description of AECC and its interests in this proceeding was presented in "Comments of Arkansas Electric Cooperative Corporation" ("AECC Comments") at page 1.

2/ Some of the issues raised in the opening comments of other parties are not directly relevant to URCS costing of unit train movements and are not addressed herein.

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- Ensure consistency between URCS and the best current evidence regarding unit train fuel use, subject to refinement pending further study;
- Segregate road property investments that are necessitated by specific types or categories of traffic to ensure that URCS does not cross-subsidize such investments by allocating their depreciation expenses to other traffic;
- Eliminate Return on Road Property Investment (RPI) as a variable cost; and,
- Ensure railroad compliance with all reporting requirements that support URCS, and remove or subject to a higher standard of review any Board edits that overwrite or substitute for reported values.

These reply comments address: (1) the demonstrated commonality of interest between shippers and carriers to ensure that the accuracy of URCS is preserved and enhanced in any changes to URCS that the Board chooses to implement; (2) the implications for URCS of the fact that the “Big Four” rail carriers collectively have achieved revenue adequacy, one of the goals that Congress set for regulatory policy under the Staggers Act; (3) specific issues related to LUM (Locomotive Unit-Mile) costs that require clarification after the carriers’ responses to the Board’s proposal in this area; (4) the implications for URCS costing of fuel cost issues that were raised in a recent Board decision; and, (5) how AECC’s proposed segregation of road property investments is consistent with a recent Board decision.

Overall, these reply comments, together with AECC’s opening comments, demonstrate that the Board would promote the interests of both rail carriers and rail shippers – and the public interest – by revising URCS to reflect more accurately the diversity of rail operations that has evolved, and the specific circumstances of individual movements within different traffic types.

Railroads And Shippers Agree That Improving The Accuracy of URCS For Unit Train Costs Is An Important Goal

It cannot be denied – and is not denied by any participant in this proceeding – that unit train operations are significantly more efficient than way/through trains. The evidence is overwhelming. For example, the econometric analysis performed by Board consultant Wesley Wilson referenced in AECC’s opening comments (at page 3, footnote 6) found that the marginal cost of a unit train ton-mile was between 0.71-0.76 cents over a wide range of lengths-of-haul. This is on the order of 1/3 of the corresponding marginal cost level found in the same analysis for way/through train service (1.98-2.29 cents). ^{3/} However, the efficiencies of unit train service currently are not adequately captured by URCS, as demonstrated by the very substantial difference that exists between URCS results based on the current unit train adjustments and URCS results for analogous traffic where detailed “movement-specific” adjustments have been permitted. ^{4/} For accuracy, URCS must be modified to reflect the very substantial efficiencies associated with unit train service that are achieved on individual movements in practice, but currently not reflected in URCS.

^{3/} See Bitzan, John D. and Wesley W. Wilson, “A Hedonic Cost Function Approach to Estimating Railroad Costs”, as published in Dennis, Scott M. and Wayne K. Talley eds., Railroad Economics (Research in Transportation Economics, Volume 20) (2007) at pages 83, 91. Professor Wilson has served as a consultant to the Board on URCS. See “Surface Transportation Board Report to Congress Regarding the Uniform Rail Costing System”, submitted pursuant to Transportation and Housing and Urban Development, and Related Agencies Appropriations Bill, S. Rep. No. 111-69 (May 27, 2010) at page 12, footnote 44.

^{4/} See STB Ex Parte No. 681, Class I Railroad Accounting and Financial Reporting - Transportation of Hazardous Materials, “Comments of Arkansas Electric Cooperative Corporation on Proposed Rule-Making” (February 4, 2009) at pages 8-10. In the example discussed therein, it was estimated that the Board’s mandated use of unadjusted URCS caused the prescribed rate to exceed by approximately 42 percent the rate that would have been prescribed if the actual cost-causing characteristics of the movement were used in the analysis.

It is particularly important for the Board to note the broad agreement between shippers and railroads in their opening comments in this proceeding regarding the importance of URCS accuracy. Shippers like ACC et al. 5/ and railroads like UP 6/ agree on the importance of accuracy in URCS. Indeed, in support of accuracy, AAR argues – as does AECC – that the Board has no real foundation for eliminating the discontinuity that currently exists in URCS and the make-whole adjustment. 7/

Likewise, BNSF argues 8/ -- as does AECC 9/ -- that the definition of a trainload should not be increased to 80 cars as the Board has proposed. This is a noteworthy position for a major railroad to take, given that a change to an 80-car standard would, by the Board's own description, leave higher costs associated with the unit train movements that are typically involved in major rate cases. 10/ Similarly noteworthy is UP's opposition to the Board's proposal to change the current URCS treatment of the costs of railroad-owned cars during switching, 11/ even though the change would decrease the unit train cost savings recognized by URCS.

5/ See "Joint Comments of The American Chemistry Council; The Chlorine Institute; The Fertilizer Institute; and The National Industrial Transportation League" ("ACC et al. Comments") at page 2.

6/ See "Comments of Union Pacific Railroad Company" ("UP Comments") at pages 7, 16.

7/ See "Comments of the Association of American Railroads" ("AAR Comments") at pages 10, 11; AECC Comments at pages 7-8.

8/ See "Comments of BNSF Railway Company" at pages 14-15.

9/ See AECC Comments at pages 8-10.

10/ See February 4 Decision at pages 9-10, footnote 13.

11/ See UP Comments at page 11.

Even on core issues like the movement-specificity of data inputs used in costing, there is broad agreement on the principle that URCS needs to be as accurate as practical. Of course it is not surprising that WCTL and AECC agree on the importance of expanding the movement-specificity allowed by URCS, 12/ because WCTL and AECC have had a close-up view of the costing inaccuracies introduced in recent years by the Board's restrictions on use of movement-specific information. 13/ What is noteworthy is that even UP recognizes that the actual number of locomotives should be used in rate case costing, 14/ and that movement-specific information regarding the actual method of movement (i.e., unit train vs. way/through train) – rather than shipment size – should determine the costing parameters to be used. 15/ This parallels a proposal advanced independently by AECC. 16/

In short, the Board initiated this proceeding with proposals that were focused on eliminating the type of discontinuity that arose in Docket No. NOR 42124, State of Montana v. BNSF Railway Company, and did so by eliminating the make-whole adjustment. The Board did not try to expand the recognition by URCS of unit train efficiencies (such as AECC's evidence has highlighted). On the contrary, aspects of the Board's proposals would reduce the recognition of

12/ See "Comments of the Western Coal Traffic League" at pages 1, 6; AECC Comments at pages 21-22.

13/ AECC's opening comments described and quantified substantial inaccuracies that have resulted from the Board's prohibition of movement-specific information regarding the actual number of locomotives (and other relevant characteristics, including the actual tare weights of railcars) used in a given movement. See AECC Comments at pages 17-19.

14/ See UP Comments at page 15.

15/ See UP Comments at page 14.

16/ See AECC Comments at pages 10-11.

those efficiencies, and increase URCS variable costs in major rate cases. Although these proposals might seem to benefit railroads, they have not been broadly embraced by rail parties. Instead, rail parties have shown greater interest in accuracy than expediency as the guiding principle in specific URCS changes the Board may consider. 17/

Several parties have expressed concern that new cost studies have not been undertaken to support changes in URCS, which might make the revisions vulnerable to a challenge as arbitrary and capricious. 18/ The validity of the URCS revisions supported by AECC does not require new cost studies, as is demonstrated by cases cited by ACC et al., Federal Communications Comm'n v. Fox Television Stations, Inc., 556 U.S. 502 (2009), and National Ass'n Of Home Builders v. Environmental Protection Agency, 682 F.3d 1032, 401 U.S. App. D.C. 227 (2012).

In Fox Television, the Supreme Court rejected as incorrect Circuit Court rulings that imposed a heightened standard of scrutiny when an agency adopts a rule that substantially changes a previously-adopted rule. “[N]o basis” for such requirement is found in the Administrative Procedure Act, the Supreme Court said, nor in previous decisions of the Court. 556 U.S. at 514. As with any rule-making, “the agency must show that there are good reasons for the new policy”, and it must “display awareness that it *is* changing position.” 556 U.S. at 515.

17/ The broad support for accuracy in the opening comments affirms, at least indirectly, the propriety of AECC’s suggestions that the URCS costing of individual moves exclude costs not relevant or applicable to the subject traffic and allow input of actual private car compensation payments. See AECC Comments at pages 12, 22.

18/ See, e.g., AAR Comments at page 7; ACC et al. Comments at 11; WCTL Comments at page 2.

But [the agency] need not demonstrate to a court's satisfaction that the reasons for the new policy are *better* than the reasons for the old one; it suffices that the new policy is permissible under the statute, that there are good reasons for it, and that the agency *believes* it to be better, which the conscious change of course adequately indicates. [555 U.S. at 515.]

In National Ass'n Of Home Builders, the D.C. Circuit rejected a claim that the EPA's failure to provide justification for changing a regulation made its action arbitrary and capricious. This argument, the D.C. Circuit said, was foreclosed by Fox Television. 682 F. 3d at 231, 401 U.S. App. D.C. at 1036.

No special cost studies are required for the Board to conclude that URCS does not presently reflect adequately the efficiencies of unit train service, nor are such studies required for the Board to determine that the changes to URCS that AECC is supporting would better reflect those efficiencies. The evidence and analyses in this record, including the analyses cited in the Decision initiating this proceeding, demonstrate plainly that unit train operations have a substantial efficiency advantage over way/through train service, that this advantage is not adequately reflected in the current URCS treatment of unit trains, and that the URCS changes supported by AECC would reflect that advantage better than does the current version of URCS. Although it might be prudent for the Board to delay making changes to other aspects of URCS until cost studies are undertaken (AECC expresses no opinion on that issue), no such delay is appropriate with respect to these changes regarding the costing of unit trains. Any delay in implementing reasonable refinements that effectively address this issue will perpetuate – rather than avoid – significant costing inaccuracies.

In Considering Refinements To URCS, The Board Ought To Give Due Consideration To The Fact That The "Big Four" Railroads Collectively Have Achieved Revenue Adequacy

A heightened sensitivity to accuracy is consistent with, and essentially mandated by, the Board's revenue adequacy determination for 2011. As outlined in AECC's opening comments, the Board's findings indicated that the four large Class I railroads as a group achieved revenue adequacy in 2011. 19/ The achievement of revenue adequacy by the Big Four Class I railroads carries with it a particular significance with respect to URCS.

The Board operates under a specific statutory mandate to "make an adequate and continuing effort to assist . . . carriers in attaining" revenue adequacy. 20/ "Attaining" denotes reaching or coming to the end of a progression, 21/ so by the plain language of the statute the Board has now fulfilled that statutory mandate. 22/ Importantly, the statute does

19/ See AECC Comments at page 4, footnote 9. While the Board identified NS and UP as having achieved revenue adequacy, and CSX as "very nearly so", the four large railroads as a group were revenue adequate. The principles of Constrained Market Pricing apply to "any group" of rail services, not just to individual rates or individual carriers. This was documented for the ICC in a consensus verified statement of economists. See ICC Ex Parte No. 347 (Sub-No. 1), Coal Rate Guidelines – Nationwide, "Verified Statement of Economists Supporting the Principles of Constrained Market Pricing" (June 1983) ("VS Economists") at page 7 (original pagination). A copy of this document is accessible in STB Docket No. EP 657 (Sub-No. 1), Major Issues in Rail Rate Cases, "Comments of BNSF Railway Company" (May 1, 2006), VS Willig, Exhibit RDW-2.

20/ See Section 10704(a)(2).

21/ <http://www.merriam-webster.com/dictionary/attain>

22/ AECC and many others have for a long time expressed concerns with the accuracy of the Board's cost-of-capital methodology, and have contended that the rail industry long ago became functionally revenue adequate pursuant to the financial and economic criteria articulated in the statute. However, even without taking account of these issues, the Board's determination now establishes that this group of railroads has achieved revenue adequacy as of no later than 2011.

not authorize the Board to assist carriers in achieving earnings that are above the revenue adequacy level. This is fully consistent with the economic theory underlying the entire rail regulatory framework, which does not contemplate, justify, or even tolerate “supracompetitive” (i.e., producing above a market rate of return) revenues. 23/

Having achieved the goal set by Section 10704(a)(2), the Board now faces an environment that is substantially different from the one in which it, and the ICC before it, have operated since the Staggers Act. In an environment of revenue adequacy for the big Class I railroads, Board actions that in the past may have been justified or rationalized as assisting rail carriers to achieve revenue adequacy must be reevaluated. Such actions may now constitute inadequate or ineffectual regulation that promotes resource misallocation and causes demonstrable economic harm.

High on the list of examples of this is the 42% overstatement of actual costs – and of prescribed rates under the 180 percent jurisdictional threshold – caused in a major rate case solely by Board-imposed requirements that average values of specific cost-causing factors be used in place of accurate movement-specific values on highly efficient unit train traffic. 24/ Absent the (now achieved) goal of assisting carriers to attain revenue adequacy, Board

23/ See VS Economists at pages 1-2 (original pagination). (“...the role of proper regulation is to prevent any abuse of monopoly power by ensuring that revenues derived from the rates for any particular rail service or group of rail services do not exceed...the minimum current costs of providing that service or group of services...”).

24/ See STB Ex Parte No. 681, Class I Railroad Accounting and Financial Reporting - Transportation of Hazardous Materials, "Comments of Arkansas Electric Cooperative Corporation on Proposed Rule-Making" (February 4, 2009) at pages 8-10. It should be noted that AECC first brought this information to light over four years ago. During the intervening time, AECC is aware of no effort by any party or any other new information that would refute AECC's findings.

practices that have the effect of allowing increased differential pricing to occur on the basis of known and avoidable errors in the Board's costing procedures provide glaring opportunities for judicial reversal. Congress has already directed the Board "to ensure the availability of accurate cost information in regulatory proceedings", 25/ "to foster sound economic conditions in transportation", 26/ and to provide "fair and expeditious regulatory decisions when regulation is required". 27/ In the new environment of revenue adequacy, Board practices that prevent the use of accurate cost data, and foster supracompetitive carrier earnings, while providing no countervailing public benefits, would violate these Congressional directives and harm the public interest.

Coal users operate daily under market forces or regulatory regimes that effectively limit their earnings to market rates of return. Many coal users have been burdened during the past 30+ years by Board practices that have facilitated the exercise of railroad market power to shippers' detriment. Now that the Big Four carriers have been found to be revenue adequate under the Board's own criteria, the rationale for facilitating the exercise of these carriers' market power is no longer operative. There is no rationale for the Board to continue to follow lax competitive and regulatory practices that subject coal users to excessive exercises of rail market power.

For these reasons, the Board should use the opportunity provided by this proceeding to implement a new focus on truly enhancing the accuracy of unit train costing in

25/ See Section 10101(13).

26/ See Section 10101(5).

27/ See Section 10101(2).

URCS. In an environment of revenue adequacy, refinements like allowing actual locomotive counts or tare weights must be viewed and valued on the basis of the advancement in accuracy they provide. The accuracy of unit train costs in URCS is a primary determinant of the legitimacy of the Board's major rate case procedures, and should be afforded the highest priority by the Board.

URCS Should Be Revised To Reflect Differences In The Productivity Of LUMs Within And Between Types Of Rail Service

The opening comments have introduced information showing that revisions to URCS are needed to improve accurate costing of LUM ("Locomotive Unit-Mile") costs. In the course of responding to the Board's proposal on LUM costs, railroads have made general statements to the effect that locomotive assignments are governed by train weight. ^{28/} While these observations are correct as generalities when they are taken in context, they should not be allowed to obscure the fact that the productivity of locomotives in moving trailing weight varies substantially within and between service types, and this has an important role in determining actual LUM costs.

LUMs accrued in unit train service tend to be highly productive because the determinants of trailing weight, including number of cars, tare weights, and net weights, generally are stable, and can be matched efficiently to the capabilities of locomotives assigned to such service. Way and through trains, on the other hand, inherently experience greater stochastic variations in trailing weight (i.e., because of variations in the numbers of cars, tare

^{28/} See, for example, UP Comments at page 15: "Indeed, train tonnage drives UP's assignment of locomotives to trains. . . . [I]n general, heavier trains require more locomotives and thus have higher LUM costs than lighter trains. Moreover, heavier trains generally consume more fuel than lighter trains, which is another reason why heavier trains have higher LUM costs than lighter trains."

weights, and net weights in less-than-trainload shipments tendered by shippers at different points in time), so the productivity of assigned power tends to be lower than the productivity achieved by locomotive power assigned to unit trains. Locomotive productivity in intermodal services may also be adversely affected because intermodal trains generally use locomotive resources that are disproportionate to their weight in order to counteract the comparatively poor aerodynamic profile of most intermodal equipment moving at the comparatively high speeds at which such services typically operate.

Data from various sources show that there are significant differences in the relationship between LUMs and trailing weight within and between service types. At one end of the spectrum, a prototypical loaded PRB unit coal train made up of 135 freight cars pulled by 3 locomotives moves approximately 6,435 trailing GTM per LUM if each car is loaded to 286k GWR. Even taking into account the empty return movement, assuming (a) the tare weight of each car is approximately 23 tons; 29/ (b) that all 3 locomotives remain in place for the return movement; and, (c) that loaded and empty miles are equal, the average trailing GTM per LUM for the entire unit train cycle is 3,735. In other words, each locomotive in a prototypical PRB unit coal train on average is moving 3,735 trailing gross tons.

Toward the other extreme, press reports in 2009 described BNSF's efforts to develop efficient intermodal operations to serve the high volume container/trailer flow out of

29/ The values of 135 railcars per train and 23 tons tare weight per car are validated by information appearing in STB Docket No. NOR 42111, Oklahoma Gas & Electric Company v. Union Pacific Railroad Company (rate case involving PRB unit coal train movements to the OG&E Muskogee plant), decision served July 24, 2009 at Table 2 on page 6. This table shows freight cars per train ranging from 134.1-135.1 and net tons per car ranging from 118.5-121.0, which leaves a tare weight of no more than 22.0-24.5 tons per car to comply with the 286,000 lb. GWR limitation.

Southern California. 30/ Based on the reported use of 7 locomotives to move 11,256 total tons, each locomotive in that intermodal service on average moved only 1,608 trailing gross tons. 31

Averages by service type for the western region (both of the foregoing examples – PRB unit coal trains and Southern California TOFC/COFC trains – involve western region service) lie between these extreme values. Western region locomotives in unit train service 32/ in 2011 on average moved 2,986 trailing gross tons, 33/ while those in through train service on average moved 1,885 trailing gross tons. 34/

These data show that the relationship between LUMs and weight is not constant either across or within service types, and must be assessed carefully to ensure costing accuracy. Unit train LUMs move far more trailing weight than do LUMs in other services, affirming the importance of their separate treatment by URCS. Because of the unique factors that contribute to comparatively low LUM productivity for intermodal services, the Board may wish to consider gathering GTM, LUM, and possibly other data for intermodal as a separate category, and refining the URCS analysis to provide separate treatment of intermodal LUMs. At least for less-

30/ See, for example, 3PLNEWS.com, “BNSF Crosses into New Frontiers with Longer Trains” (August 13, 2009), as presented at <http://www.3plnews.com/rail-freight/bnsf-crosses-into-new-frontiers-with-longer-trains.html> .

31/ This figure assumes the weight of the 7 locomotives was not included in the reported total of 11,256 tons. If the weight of the locomotives was included in that figure, the trailing gross tons per locomotive would be lower than the figure computed above.

32/ In addition to highly productive PRB coal unit trains, western region locomotives move substantial quantities of western bituminous coal, grain, and other commodities in unit train service.

33/ Source: URCS Western Region Worktable A1 Part 1 (Line 119/Line 105).

34/ Source: URCS Western Region Worktable A1 Part 1 (Line 121/Line 107).

than-trainload shipments, this will help to ensure accuracy in the analysis of LUM costs, and alleviate the concerns of some non-trainload shippers.

However, this refinement will not ensure accuracy in the analysis of LUM costs for unit trains. As the above data showed, there is considerable variation in LUM productivity within the category of unit train services, with a LUM on a prototypical PRB coal unit train moving 25 percent more trailing gross tons than the average of LUMs in unit train service in the same region. In other words, these data show that costing a PRB coal unit train based on the overall average productivity of unit train LUMs overstates very substantially the actual LUMs required to move the trailing tonnage. This confirms the point raised by AECC in its opening comments regarding the need for URCS to allow movement-specific information regarding the actual number of locomotives used to move the shipment. ^{35/} Fortunately, in the costing of unit trains there is little room to argue about the number of locomotives used to move the train. That simple and noncontroversial parameter is needed to ensure accurate LUM costing of unit trains. ^{36/}

URCS Should Not Include As Railroad Costs Fuel Costs Paid By A Shipper Under A Board-Sanctioned Fuel Surcharge

In its decision served August 12, 2013 in Docket No. NOR 42120, Cargill,

Incorporated v. BNSF Railway Company, the Board found that BNSF's fuel surcharge program

^{35/} See AECC Comments at page 18.

^{36/} AECC's opening comments also documented analogous considerations regarding the need for URCS to allow movement-specific information regarding the actual tare weight of railcars used to move the shipment. URCS currently relies on average tare weights, which prevents recognition of the improved unit coal train efficiency that results from use of lightweight cars. Yet actual tare weight information is readily available and can be used to enhance the accuracy of costing. See AECC Comments at pages 17-18.

produced revenues that not only defrayed, but materially exceeded, BNSF's actual incremental fuel costs:

The record here shows that, if measured by BNSF's internal fuel costs (instead of the safe harbor HDF Index), BNSF's fuel surcharge revenues exceeded its incremental fuel costs by some \$181 million over the five-year period.^[37/]

In the context of AECC's recommendations regarding fuel costs and the need to exclude from URCS costs that the railroads do not incur, the Board's finding raises the question whether URCS can legitimately treat as a railroad's cost fuel costs that are borne by shippers under a Board-sanctioned surcharge. If the railroads are fully indemnified against fuel price levels above those associated with the strike price, and simply act as a billing agent to place on shippers the costs of fuel above that level, there does not appear to be a legitimate rationale for continuing the past URCS practice of treating all fuel costs (including those borne by shippers) as railroad costs.

The Board's Recent Decision In EP 706 Is Consistent With The Rationale For AECC's Proposal For Treatment Of Road Property Investment

In a decision served August 14, 2013 in Docket No. EP 706, Reporting Requirements for Positive Train Control Expenses and Investments, the Board established reporting requirements that enable PTC expenditures to be viewed separately from other capital investments and expenses. While this decision does not establish any specific separate treatment for such expenditures, the rationale for establishing the capability to perform separate analyses of such costs is fully consistent with AECC's recommendation that road property investments necessitated by specific types or categories of traffic be segregated to

^{37/} Docket No. NOR 42120, August 12 Decision at page 14.

ensure that URCS does not cross-subsidize such investments by allocating their depreciation expenses to other traffic.

Summary And Conclusion

Within the constraints of available resources, the Board should be making sure that its URCS methodology accurately reflects cost causality. This task undoubtedly has been made more challenging by the proliferation of service offerings that has occurred since the enactment of the Staggers Act. In earlier days, most traffic moved in way/through trains, and only small amounts moved in unit trains and intermodal service. Therefore, the make-whole adjustment for unit train savings was comparatively small, and any unique cost characteristics of intermodal service had little effect on other traffic.

Today, because unit trains and intermodal services, which have such different cost characteristics, have grown to form such large proportions of total traffic, the methods used to differentiate costs by traffic type have come to be of great importance in achieving accurate costing.

Under these circumstances, a "one-size sort of fits all" methodology based on overall system averages does not protect the legitimate interests of shippers and carriers in accurate costing of different traffic types and movements. Such a methodology cannot be accurate for much (if any) of the traffic to which it is applied. Unit train, way/through train, and intermodal operations differ from each other in fundamental ways that go beyond differences in shipment size that influence unit costs for cost components specified on a "per shipment" basis. The existence of discontinuities between the costs associated with different types of movements is a reality that should be adequately reflected in the costing system, not an

aberration to be smoothed away. ^{38/} Likewise, there can be substantial variations in operating circumstances and efficiencies achieved on different movements within a given traffic type, particularly unit trains. The interests of the parties – and the public interest – are served by having the Board adapt and extend URCS to correspond to the diversification of operations that has occurred and the specific circumstances of individual movements within different traffic types that have demonstrable impacts on costs.

In this light, accuracy can best be provided by broadening URCS and its underlying data collections as needed to reflect properly the fundamental differences among the several ways that have evolved for railroads to move traffic. If the costing system reflects the functions performed during the different methods of moving traffic, and individual movements are costed according to the way they actually move, the type of discontinuity that was problematic in Docket No. NOR 42124 will be eliminated while the accuracy of costing is enhanced.

^{38/} AECC's opening comments included a description of the way system average costs can be "decomposed" into the unit costs applicable to different services without use of a make-whole adjustment. AECC Comments at page 11, footnote 20.

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Certificate of Service

I hereby certify that this 5th day of September, 2013, I caused this document to be served, electronically or by first class mail, on all Parties of Record on the Board's Service List for this docket.


Eric Von Salzen