

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 680 (Sub-No. 1)

**March, 2009 Supplemental Report on Capacity and Infrastructure Investment
To the October, 2008 Final Report of
Laurits R. Christensen Associates, Inc.**

**COMMENTS OF
EDISON ELECTRIC INSTITUTE
ON THE SUPPLEMENTAL REPORT**

The Edison Electric Institute (EEI) is pleased to provide the following comments on the Supplemental Report to the U.S. Surface Transportation Board on Capacity and Infrastructure Investment by Laurits R. Christensen Associates, Inc. (Supplemental Report) as to which the Surface Transportation Board (Board) sought comments in a notice issued on April 8, 2009. EEI is the association of U.S. shareholder-owned electric companies. EEI's members serve 95 percent of the ultimate customers in the shareholder-owned segment of the industry, and they represent approximately 70 percent of the U.S. electric power industry. EEI's diverse membership includes utilities operating in all regions, including in regions with Regional Transmission Organizations and Independent System Operators ("RTO/ISOs"), and companies supplying electricity at wholesale in all regions.

On December 22, 2008, EEI filed Comments on the Christensen Report submitted to the STB in October 2008. EEI continues to rely on those Comments with respect to the original Christensen Report; these Comments are limited to Christensen's Supplemental Report.

EEI's interest in the Christensen Supplemental Report primarily focuses on the transportation of coal to power plants for the production of electricity. Electricity produced from coal represents approximately 50 percent of the total sources of electric production, but has declined somewhat recently. Much of that coal is moved by railroad; railroad transportation is a relatively minor factor in other forms of electricity generation. Hence, the interest of EEI in reviewing this Supplemental Report is primarily focused on

coal transportation. The electric power production industry consumes slightly over one billion tons of coal per year, according to the Energy Information Administration (EIA). EEI thus has a vital interest in the ability of the railroad industry to deliver coal in a reliable and cost-efficient manner.

The Supplemental Report devotes considerable effort, especially in Chapter 5, to suggesting that the DOT's Freight Analysis Framework (FAF) may both overstate the growth in future coal movements and understate the growth in intermodal movements. EEI does not believe that the Board intends this proceeding to be used primarily as a vehicle for debating the relative merits or accuracy of various forecasts, and EEI will thus refrain from doing so.

That said, EEI does believe it is appropriate to note, especially for purposes of the capacity and infrastructure investment issues addressed by the Supplemental Report, that to the extent there is substantial growth in coal traffic in future years, it will be associated primarily with additional coal plants, and the lead time for the permitting and construction of a new coal plant is very lengthy. Accordingly, future growth in coal consumption should come as no surprise to the railroads, and they should have more than ample opportunity to prepare their networks for such growth that may occur. There is thus no sound reason for a recurrence of the delivery problems that confronted coal shippers in the aftermath of the UP/SP merger, the CSX/NS/Conrail control transaction, or the UP PRB meltdown. Nor should the railroads have to rush to expand their coal-related infrastructure in the face of uncertainty as to whether that coal traffic will materialize.

In contrast, other railroad traffic, especially intermodal traffic, is subject to much greater volatility in volume. This greater volatility is confirmed by the fluctuations in the railroads' volumes during the current recession. A substantial reason for that volatility in other traffic segments is that other shippers have competitive options to a much greater extent. In that regard, EEI's own view is that the railroads might have avoided a significant portion of the decline in their intermodal volumes if they had been willing to discount their services. However, the railroads have gone out of their way to make public statements that they would prefer to turn away business rather than lower their rates. Accordingly, the railroads are at least somewhat to blame for their traffic declines. In contrast, railroad coal shippers are largely captive, and even those that benefit from the presence of ostensible competition have seen that competition substantially diminish in recent years, as EEI and other electric utility representatives explained in comments on the original Christensen Report.

In gauging the adequacy of capacity and infrastructure investment, it is also important to note the different ways in which growth in coal and intermodal (and some other non-coal) traffic is addressed. Much of the growth in coal traffic has been achieved by increasing the number of cars on individual trains and increasing the lading of individual cars on those trains. (Of course, a substantial portion of those costs have been absorbed by shippers, particularly those who provide the cars for their individual movements.) In contrast, for intermodal shippers, the individual containers and trailers are relatively light. As a consequence, growth in intermodal volumes is likely to have a disproportionate impact,

relative to coal, on the number of trains, as noted in the Supplemental Report at 5-18. The growth in the number of trains is a heavy contributor to congestion and to the need to expand track and interchange/switching/junction capacity.

It is also appropriate to note that the investment needed to handle growth in intermodal traffic are not necessarily, and often are not, the same investments needed to handle growth in coal traffic. In particular, much of the intermodal traffic currently arrives on the West Coast and traverses substantial portions of the networks of at least the Western carriers that see relatively little coal traffic. Likewise, there are other lines, especially in the Powder River Basin, that handle primarily coal traffic and see little non-coal traffic. Indeed, the density maps in the Cambridge Systematics Report prepared for the AAR showed train densities that did not necessarily correspond to volume densities. It is thus important to ensure that coal shippers are not burdened with the costs of serving intermodal shippers. While intermodal shippers presumably have the converse concern, EEI respectfully submits that the concern of coal shippers has substantially greater basis in fact, as confirmed by the earlier Christensen Report, flawed as it was.

In conclusion, EEI believes that the Supplemental Report represents a far better expenditure of the Board's resources than the original Christensen Report. While differences in growth projections are to be expected, as are changes in forecasts over time, it is important that the Board be cognizant that the electric industry is in the midst of major transitions to new generating technologies, some of which are coal-based, as well as to a carbon-constrained environment, the impacts of which are difficult to model or

forecast with precision. Furthermore, all railroad traffic is not the same, especially where capacity and infrastructure investment are concerned, any more than the needs of all shippers are the same.

Respectfully submitted,


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