



**U.S. Department of  
Transportation**  
Office of the Secretary  
of Transportation

**General Counsel**

1200 New Jersey Avenue, S.E.  
Washington, D.C. 20590

May 28, 2009

Hon. Anne K. Quinlan  
Acting Secretary  
Surface Transportation Board  
395 E Street, S.W.  
Washington, D.C. 20423

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

Dear Secretary Quinlan:

Enclosed herewith for filing please find the Reply Comments of the United States Department of Transportation in the above-referenced proceeding. Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Paul Samuel Smith".

PAUL SAMUEL SMITH  
Senior Trial Attorney

(202) 366-9280

Enclosure



Comments of the Western Coal Traffic League at 3-5; Opening Comments of NASSTRAC, Inc. at 6-7; Comments of the Edison Electric Institute at unnumbered page 2. By contrast, the railroads emphasize that the Supplemental Report neither disputes the need for additional infrastructure investment to accommodate anticipated future traffic growth, nor finds it economically irrational for capacity constraints to precede capital investment. *See* Comments of the Association of American Railroads (“AAR”) at 2-3, 6-7.

The FAF underpins the Supplemental Report and other freight analyses that are central to this proceeding. It is therefore most important that all parties have an accurate understanding of the FAF, including its uses and limitations. Only with such an understanding can analyses based on the FAF, such as the Supplemental Report and others, be properly taken into account in the formulation of public policy.

The Department’s most important point for present purposes is that long-term projections (beyond ten years) of any kind are replete with uncertainties. Their very nature counsels caution and the advisability of additional information; they should not be used in isolation. They are, however, valuable in helping to frame a discussion against which any number of “what if” scenarios could be played out.

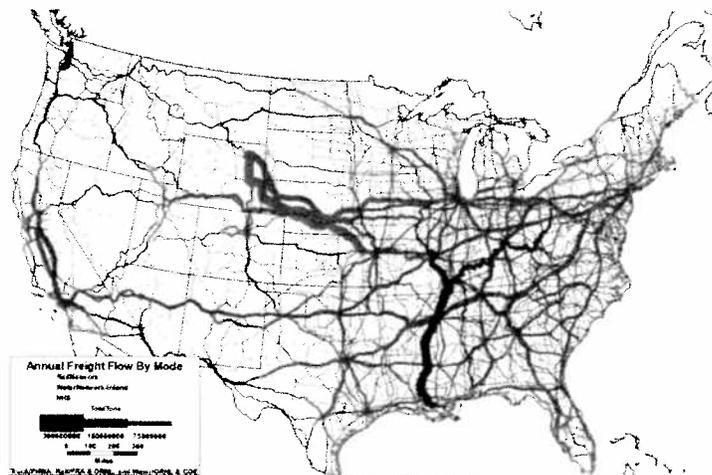
DOT will first summarize the FAF, and then reply to the comments of record that address it in their discussion of the Christensen Report.

#### The Freight Analysis Framework

The Freight Analysis Framework is the most comprehensive publicly available database of the movement of goods in the United States. DOT’s Federal Highway

Administration (“FHWA”) created the FAF as a strategic policy tool to enable the agency to better understand freight flows across the U.S. transportation network. The FAF helps signal current and emerging freight transportation issues by providing a multimodal view of both current freight movements on the existing national transportation network and projected future freight flows on that network based on estimated shifts in economic conditions.

The FAF is a key analytical resource for the study of freight movements. Federal agencies other than DOT use the FAF; states and metropolitan areas employ it to better understand how national and global freight flows impact their infrastructure; and the consultant and contractor communities rely upon the FAF in the delivery of their services. Below is a graphic rendering of freight flows in the U.S. in 2002, from the most recent FAF.



FHWA updates the FAF with contemporary empirical data every five years, in concert with the Commodity Flow Survey administered by the U.S. Census Bureau and the Bureau of Transportation Statistics, in years ending in 2 and 7 (*e.g.*, 2002, 2007) -- which become FAF "base years."<sup>1</sup> The data reflected in each FAF base year come exclusively from publicly available sources.<sup>2</sup> To project future freight flows, FHWA purchases the econometric model used by Global Insight, a highly respected source of economic and financial analyses. By taking these steps FHWA seeks to maximize the credibility and utility of each iteration of the FAF.

Moreover, the FHWA has continually updated and improved the FAF to provide the most accurate and current national freight statistics for federal policy evaluation, for the development of national investment strategies, and as the starting point for understanding freight activities at state and metropolitan levels. Improvements made to FAF have aimed to balance accuracy, completeness, transparency, timeliness, and comparability.

After assembling and processing data from the base year (currently 2002 -- 2007 data will be available from the U.S. Census Bureau in late 2009), the FAF generates a freight flow map (comparable to the one above) reflecting the impact of estimated future freight volumes on the existing transportation network under a moderate growth scenario. The FAF assigns projected freight flows to the transportation network and generates one map for projections thirty years into the future, but includes forecast data on the volumes

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<sup>1/</sup> The next FAF, using 2007 as the base year, will be available in 2010.

<sup>2/</sup> These include Transborder Freight Data and the Commodity Flow Survey, both from the Bureau of Transportation Statistics, Army Corps of Engineers waterborne data, and rail data.

of freight movements in five-year increments between the base year and the end of the thirty year period (2035 for the current FAF).

FHWA produces a long-term forecast only every five years, after data for each base year are compiled, for annual updates are of limited value. However, the FAF does generate provisional estimates for the years between base years, which reflect current economic conditions.

The FAF was not developed as an operational tool that estimates freight growth or volume variations on a daily, monthly, or annual basis. Nor are the FAF's forecasts of the transportation mode used by each commodity sensitive to factors that could affect future modal choices, such as policy changes (e.g., changes in truck taxes or weights) or energy prices.<sup>3</sup> The FAF holds modal shares constant for each commodity origin-destination pair, although this share may vary from the base year as a result of changes in the commodity mix or projected changes in origin and destination patterns by commodity.

The grid below clarifies the uses and limits of the FAF. They should be kept in mind in the policymaking process.

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<sup>3/</sup> Such capability is currently beyond existing models, but a number of ongoing research projects seek to overcome this challenge to the entire freight community.

<b>WHAT THE FAF DOES:</b>	<b>WHAT THE FAF DOES NOT DO:</b>
Provide a comprehensive national picture of freight moving between and within FAF regions by mode and commodity.	Estimate flows accurately for areas smaller than FAF regions.
Assign long distance freight flows (among places at least 50 miles apart) to corridors.	Accurately estimate flows for individual routes with alternative paths and for places less than 50 miles apart.
Forecast future volume of freight moving between and within FAF regions by mode and commodity.	Estimate temporal variations in freight flows.
Forecast the pressure that future freight flows may place on the existing transportation network and provide baseline forecast to support policy studies.	Forecast effect of changes in cost of transportation or fuel price, capacity limitations, or future capacity expansion.
Indicate to states and metro areas their major trading partners and sources of through traffic at a corridor level.	Provide local detail for planning and project analysis.

### Discussion

The Supplemental Report compares the FAF commodity flow forecasts with other commodity-specific projections to develop alternative scenarios of future rail freight volumes. The Supplemental Report also analyzes a study by Cambridge Systematics, commissioned by the AAR, to estimate the capital investment needed to meet the current FAF's projections of rail traffic volumes through 2035. *Notice* at 2. In stark terms, the Supplemental Report finds that the traffic projections, and the infrastructure required to accommodate such levels, are unrealistically high in light of the ongoing severe recession.

The Department has already noted some uses made of this finding by various parties. What they do not do is acknowledge other, more pertinent points made by the Supplemental Report and their implications.

The Supplemental Report confirms the lack of sufficient, publicly available data to allow a more thorough examination of rail network capacity that would identify with precision potential “chokepoints” that generate or exacerbate congestion. Supplemental Report at 2-24. In the face of more recent lower forecasts for coal and grain volumes than are found in the current (base year 2002) FAF, and its own surmise that intermodal traffic far in the future may well be higher than estimated by the FAF, the Supplemental Report confirms the value of periodically updating *any* long-run projections for rail transportation services. *Id.* at 4-14; see note 1, *supra.* . The unpredictability of technological change, legislative developments, and economic conditions are all factors contributing to the need for such updating.

The Department submits that such uncertainty requires policymakers to use long-term projections of traffic and infrastructure capacity, whatever their source, with care. The STB should remain flexible in its oversight of the industry, and be guided in any given case by fundamental economic and legal realities: Railroads must earn the cost of capital in order to provide the networks and capacities required by shippers; and captive shippers must be protected from unreasonable rates and practices by rail carriers. Long-term forecasts ultimately contribute little to resolving the tensions between these groups.

### Conclusion

The Supplemental Report not surprisingly finds that, when based on increasingly older data compiled prior to the most severe economic conditions in the better part of a century, even the most comprehensive database yields inaccurate forecasts. Although it has proven possible to draw disparate conclusions from this finding, what is important is

the Supplemental Report's candid acknowledgement of the inherent inaccuracy of long-term projections whatever their source. The Board needs to appreciate that such forecasts are intended to understand transportation trends in order to plan for long-term economic growth. More reliable information must undergird the agency's decision in any given proceeding.

Respectfully submitted,

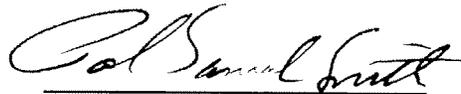
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ROBERT S. RIVKIN  
General Counsel

May 28, 2009

**CERTIFICATE OF SERVICE**

I hereby certify that on this date I caused to be served a copy of the foregoing Reply Comments of the United States Department of Transportation via either e-mail or first-class mail, postage prepaid, on the all Parties of Record in STB Ex Parte No. 680 (Sub-No. 1).

A handwritten signature in black ink, appearing to read "Paul Samuel Smith", written over a horizontal line.

Paul Samuel Smith  
Senior Trial Attorney  
U.S. Department of Transportation

May 28, 2009