HIGHROAD CONSULTING, LTD.
Linking Logistics to Profitability™

May 29, 2009

Surface Transportation Board
Attn: STB EX Parte No. 431 (Sub-No. 3)
395 E Street S.W.
Washington, DC 20423-0001

RE: Review of the Surface Transportation Board's General Costing System

Attached is comments submitted by Sandra Dearden as follow up to the hearing.

This original is being filed electronically.

Sincerely,

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Before the

SURFACE TRANSPORTATION BOARD

Washington, D.C. 20423

REVIEW OF THE SURFACE TRANSPORTATION BOARD'S GENERAL COSTING SYSTEM	)	**STB Ex Parte No. 431 (Sub-No. 3)**

COMMENTS SUBMITTED OF HIGHROAD CONSULTING. LTD. REGARDING REVIEW OF THE SURFACE TRANSPORTATION BOARD'S GENERAL COSTING SYSTEM

By: Sandra J. Dearden
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Dated: May 29, 2009

Highroad Consulting, Ltd. (Highroad) respectfully submits these comments regarding the Board's review of its General Costing System, STB Ex Parte No. 431 (Sub-No. 3).

The Board's General Costing System, Uniform Rail Costing System (URCS) is very important, as it is the cost system adopted by the Board for use in regulatory proceedings. As set forth in our previous filings, URCS has not been updated in more than a decade, and the special studies behind URCS were performed in the 1950's. Therefore, we commend the Board for initiating this proceeding and we encourage the Board to initiate an update of the URCS model. These comments will focus on: (i) Replacement cost methodology as proposed by the Association of American Railroads (AAR); and (ii) clarification and additional information regarding Highroad's rail costing model, INSIGHT: Rail Edition©.

I. REPLACEMENT COST METHODOLOGY SHOULD NOT BE ADOPTED AS IT COULD GROSSLY OVERSTATE THE ACTUAL COSTS.

It is generally accepted accounting principle that there is risk when using replacement costs to calculate costs, as replacement costs may overestimate the actual economic value of the assets.

Replacement costs (also called current accounting or CCA) values assets based on what it would cost to replace them if they were acquired today. There are a number of disadvantages associated with the use of replacement costs[1], including: (1) costs are subjective as "current prices" change (for example, the cost of railcar construction fluctuates with the price

[1] Approaches to Regulation, pp31, Chapter 4: Unit 3: Instruments of Regulation.

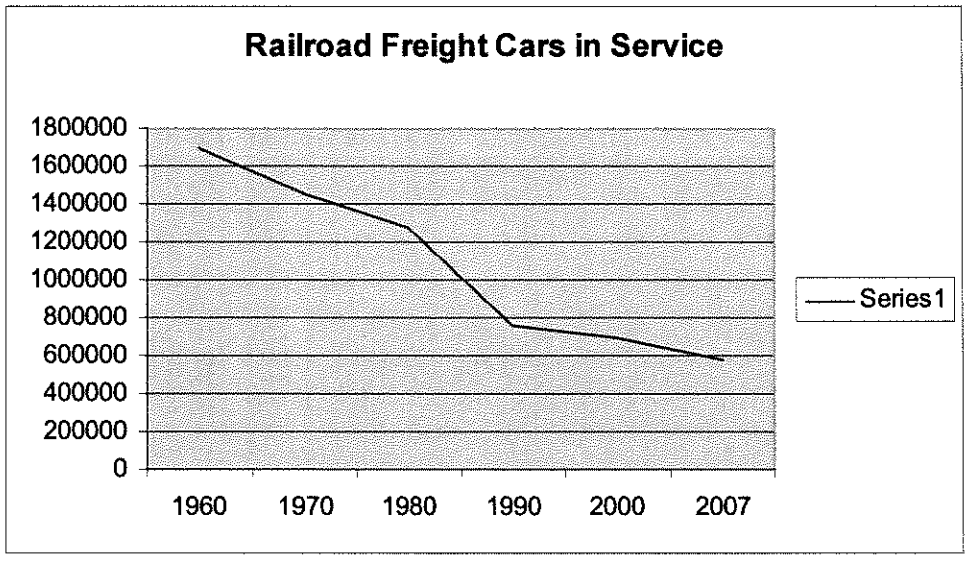
of steel); (2) this method requires exact inventories of assets and methods of compensating for technological change if the current-price method is used; and (3) replacement costs gives more money back to investors than they have provided.

On the other hand, the advantage of calculating costs based on original cost valuation is costs are not subjective because values are tied to financial records of actual transactions. Also, because depreciation affects the amount of taxes paid, depreciation has a positive funds effect that is recognized in the amount of income taxes that are deducted before arriving at net income.

I submit that the use of replacement costs would overstate the railroads' equipment costs. For various reasons, railroads have adopted strategies not to replace some cars. For example, car design and standards have changed rendering some cars as obsolete. Further, it is likely that cars which are considered as obsolete and will not be replaced have already been fully depreciated.

Also, the railroads have changed policies, pushing responsibility for car ownership onto the shippers. Since 1929, railroads freight cars in service declined from 2,323,683 cars to 580,635 cars in 2007. The following graph illustrates the decline in railroad owned freight cars in service since 1960.[2]

[2] Freight Cars in Service, Railroad Facts, 2008 Edition, Association of American Railroads, pp. 51.



[3]

Finally, the railroads submit changing URCS to reflect replacement costs is justified to fund future capital programs. Replacement cost methodology should not be adopted as it is subjective and would not accurately state costs. Further, it could grossly overstate the costs when the purpose of URCS is to calculate railroad costs for regulatory purposes, not to fund future railroad capital programs.

II. CLARIFICATION AND ADDITIONAL INFORMATION REGARDING HIGHROAD'S RAIL COSTING MODEL, INSIGHT: RAIL EDITION©.

Knowing that railroad marketing personnel do not use Uniform Rail Cost System (URCS) costs for decision making, shortly after I founded Highroad I conceived and directed development of a rail costing model. To my knowledge, it is the only rail costing model in the industry that is not based on URCS, and it is the only model that includes costs for Canadian railroads.

[3] Beginning with 2001 data, Canadian-owned U.S. railroads are excluded. The Canadian-owned railroads controlled over 46,000 freight cars in 2000. Additional U.S. railroads have been acquired by Canadian railroads since 2001, and their freight cars were excluded after each acquisition.

INSIGHT: Rail Edition© is software that was developed by Highroad for calculation of rail costs for Class I railroads, for single car or multiple car shipment moving in manifest train service. Cost components can also be adjusted to reflect movement specific information for calculation of unit train costs.

Costs are based on the railroads' own financial data filed in the R-1 reports with the Surface Transportation Board (U.S. railroads), and Statistics Canada's Rail-In-Canada report (Canadian railroads). Costs for all Class I railroads, collectively, and rail costs grouped by eastern and western regions, are also available on the model. Because shortline and regional railroads are not required to file R-1 reports, when routes include those railroads, eastern or western regional costs are used for the shortline/regional segment of the move.

In July 1999, HIGHROAD and ALK Technologies, Inc. formed a strategic alliance and INSIGHT: Rail Edition©, was enhanced with ALK's PC*Rail®. Making the cost model interactive with ALK's PC*Rail®, which is based on operating miles, strengthens the model's functionality, as the program automatically accesses rail mileage from ALK's rail software.

INSIGHT: Rail Edition© is recognized as a user friendly system that offers the Client the ability to assess costs based on system averages, or to customize the cost studies with movement specific information. In December, 2002, HIGHROAD announced release of a new version of INSIGHT: Rail Edition© with additional enhancements that include:

- INSIGHT: Rail Edition© was raised to a Visual Basics platform from the former Excel database.
- INSIGHT: Rail Edition© has a new appearance and additional user-friendly features including drop down menus.
- The new model is project oriented. With the new INSIGHT: Rail Edition©, users can save cost studies as PDF, Excel, or Word files.

Information entered by the user includes:

- Empty Return Ratio, if known, otherwise the model defaults to 100% empty return.
- Type of Traffic – overhead, received, forwarded, local.
- Car Type – the model includes a two-digit code for each car type and size.
- Percent System Cars.
- Origin, Destination, and/or Interchange Points.
- Lading Weight.
- Hazardous – yes or no.

Expenses are reported under *Movement Specific Expenses* and *System Average Expenses*, which allow the user to customize the studies by entering information that may be known as specific to the study in question rather than the averages built into the formulae.

Movement Specific Expenses:

Per Diem Payable – Per diem paid on foreign cars.

Mileage Payable – Mileage portion of car hire paid on foreign cars.

Loss and Damage – An allocation of carrier's loss and damage expenses to this carload. Based on net ton-miles, and is included in Movement Specific Expenses because it could be customized to be commodity specific.

Joint Facility Charges – Joint facility charges paid to other carriers; usually specific by carrier and junction.

Absorbed Switching – Switch charges paid to other carriers for either (a) intermediate switching to or from another line haul carrier, or (b) industry switching.

Per Diem Reclaim – Per diem relief granted to switch carrier.

Car Depreciation and Interest – That portion of a car's depreciation and interest allocated to this particular shipment, based on turnaround time.

Heavy Repairs – That portion of a car type's heavy repair history allocated to this particular shipment, based on turnaround time.

Running Repairs – Car type's running repair history, allocated based on round trip miles.

Hazardous Risk – An allocation of carrier's hazardous commodity liability.

Hazardous Switching – Additional switching expenses incurred when handling hazardous commodities.

System Average Expenses:

The following expenses are based on carrier specific average costs per ton-mile or car-mile:

Locomotive Repairs and Maintenance – Per gross ton-mile.

Locomotive Depreciation and Rental – Per gross ton-mile.

Train Servicing – Servicing and preparation of locomotives, per gross ton-mile.

Fuel – Per gross ton-mile.

Maintenance of Way – Per gross ton-mile.

Train Supplies and Expense – Per car-mile.

Crew Wages – Per car-mile.

Casualties – Carrier's historical casualty claims, per car mile.

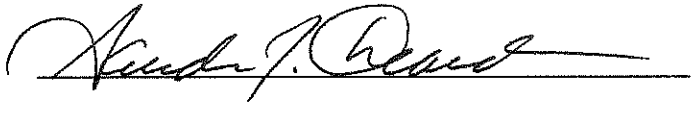
Heavy Wheel Loading – Maintenance of Way related costs; it is incurred if the lading weight is greater than 90 tons per loaded gross ton-mile.

Switching – Average classification, industry and interchange switching minutes are estimated for the movement and multiplied by the carrier specific cost per minute.

At the hearing on April 30, Chairman Mulvey asked if Highroad's model was linear. All individual cost allocation calculations on INSIGHT: Rail Edition© are linear, but in total are non-linear because of the switching cost calculations. The production unit of measure is the ton-mile for all cost allocations except switching which is based on switching minutes and distance; so when switch costs are calculated based on a system average distance, costs per ton-mile increase for shorter distances, which is also true in real operating conditions. To alleviate the problem the exact distance and number of switches is required.

When the model was developed, we applied the accepted standard of one Intertrain/Intratrain (I&I) switch every 200 miles. Again, this should be revisited since the railroads have improved the efficiency of operations and increased operations of unit trains. The railroads have blocking and car movement histories that can be used to perform new studies. Further, since the railroads have the data, this factor could be carrier specific.

Respectfully Submitted,



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