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June 15, 2006

**Via HAND DELIVERY**

The Honorable Vernon A. Williams  
Secretary  
Surface Transportation Board  
1925 K Street, NW  
Washington, DC 20423

ENTERED  
Office of Proceedings  
JUN 16 2006  
Part of  
Public Record



Re: *Western Fuels Association, Inc. and Basin Electric Cooperative, Inc. v. BNSF Railway Company, STB Docket No. 42088*

Dear Secretary Williams:

Enclosed are the original and ten copies of the Reply Supplemental Evidence of BNSF Railway Company ("BNSF"). Also enclosed are three CDs containing an electronic version of BNSF's Reply Supplemental Evidence and three DVDs containing electronic workpapers supporting BNSF's filing. BNSF's electronic workpapers contain Highly Confidential materials subject to the Board's Protective Order in the above-referenced proceeding.

Please date stamp the extra copy of this letter and return it with our messenger.

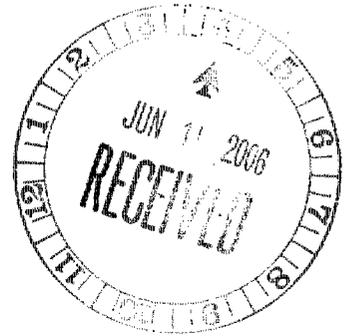
Sincerely,

Brooke L. Gaede  
Counsel for BNSF Railway Company

Enclosures

cc: Counsel for Complainant

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**BEFORE THE  
SURFACE TRANSPORTATION BOARD**

**STB Docket No. 42088**

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**WESTERN FUELS ASSOCIATION, INC. AND  
BASIN ELECTRIC POWER COOPERATIVE, INC.**

v.

**BNSF RAILWAY COMPANY**

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**Reply Supplemental Evidence of  
BNSF Railway Company**

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ENTERED  
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June 15, 2006

ATTORNEYS FOR  
BNSF RAILWAY COMPANY

## **I. COUNSEL'S ARGUMENT AND SUMMARY OF EVIDENCE**

This is the reply supplemental evidence of BNSF Railway Company ("BNSF") in STB Docket No. 42088, *Western Fuels Association, Inc. and Basin Electric Power Cooperative, Inc. v. BNSF Railway Company* (hereafter "WFA/Basin v. BNSF"). In a decision served March 17, 2006, the Board required the parties to file supplemental evidence in this proceeding based on a common set of assumptions identified in the decision. In response to that decision, the complainants, Western Fuels Association, Inc. ("WFA") and Basin Electric Power Cooperative, Inc. ("Basin") (collectively "WFA/Basin") filed their supplemental opening evidence on May 15, 2006. BNSF's reply supplemental evidence responds to WFA/Basin's supplemental opening evidence. The format of this reply supplemental evidence conforms to the format for SAC presentations set out in STB Ex Parte No. 347 (Sub-No. 3), *General Procedures for Presenting Evidence in Stand-Alone Rate Cases* (served March 12, 2001).

As discussed below, BNSF has reviewed WFA/Basin's supplemental opening evidence and has determined that WFA/Basin properly implemented the Board's instructions in the March 17, 2006 Decision. BNSF has concluded that WFA/Basin accurately modified the SARR traffic volumes in accordance with the Board's instructions. However, BNSF believes that the Board's instruction to use an updated EIA forecast to determine SARR volumes as of 2006 without also adjusting 2005 volumes is in error and significantly overstates SARR traffic volumes. Consequently, BNSF urges the Board to use in its final SAC analysis one of the volume forecasts proposed by the parties in the prior round of evidence (and BNSF believes its proposed forecast is the better evidence for reasons set forth in its previous filings), rather than attempting partially to update traffic data with a new EIA forecast.

In addition, BNSF has reviewed WFA/Basin's modified RTC analysis and has concluded that it provides a reasonable basis for assessing the SARR's capacity requirements and SARR train transit times for purposes of this supplemental evidence. BNSF accepts WFA/Basin's conclusion that the SARR configuration does not need to be changed as a result of the changes in assumptions identified by the Board in its March 17, 2006 Decision. However, since the SARR traffic volumes and SARR train transit times have changed, BNSF has modified its reply evidence to account for the new assumptions, using the same unit costs and costing methodologies identified in its reply evidence. BNSF modified its construction cost assumptions only to correct a few minor technical errors. BNSF has also updated the RCAF index and the cost of capital, consistent with the practice in recent cases. BNSF presents in Section III.H the results of its modified SAC calculations.

### III. STAND-ALONE COST

#### A. TRAFFIC GROUP

In its March 17, 2006 Decision, the Board directed the parties to submit supplemental evidence using the traffic group tonnages contained in BNSF's Errata, filed August 25, 2005, with an adjustment to reflect the most recent Energy Information Administration (EIA) Annual Energy Outlook (AEO) forecast for Wyoming PRB low-sulfur (sub-bituminous) coal tonnage for the period 2006-2024. The most recent EIA forecast was published in February 2006 (hereafter "Updated EIA Forecast"). WFA/Basin calculated these tonnages in their supplemental opening evidence filed May 15, 2006, consistent with the Board's Order.<sup>1</sup>

While BNSF has followed the Board's instructions to use tonnages based on the Updated EIA Forecast for purposes of this reply supplemental evidence, BNSF believes that use of that updated forecast from 2006 forward is improper for the reasons set out in BNSF's April 6, 2006 Petition for Reconsideration (hereafter "BNSF's Petition"). The Board denied BNSF's Petition on April 19, 2006, but BNSF believes the Board's decision was in error.

This case presents the unusual circumstance where all SAC traffic volumes from the first quarter of the DCF period, 4Q2004, through the end of the DCF period were based on projected traffic volumes. In its petition for reconsideration, BNSF explained that the Board's decision to modify SARR volume assumptions from 2006 through 2024 based on an updated EIA forecast required that the Board also update the assumptions regarding pre-2006 SARR volumes. Otherwise, the Board would significantly overstate total SARR volumes. The Board denied BNSF's petition, concluding that BNSF offered no basis to reconsider the March 17, 2006 Order "[g]iven that the most recent EIA forecast shows traffic growth from 2004 to 2005 that is

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<sup>1</sup> See WFA/Basin Supp. e-WP "LRR Traffic and Revenues WFABasinSupplemental.xls" at worksheet "ProjTonRev."

comparable to that agreed to by the parties.”<sup>2</sup> Specifically, the Board concluded that the 7.3% increase from full year 2004 to full year 2005 projected by the Updated EIA Forecast was comparable to the 6.1 % increase purportedly “agreed to by the parties,” which was derived by comparing a 4Q04 annualized tonnage number (193.4 million tons) to a full year 2005 tonnage number (205.3 million tons).<sup>3</sup>

The Board appeared to agree with BNSF that it is important for the forecasts of 2004/2005 volumes to be consistent with the forecasts of post-2005 volumes. If one forecast assumed high 2004/2005 volumes and low post-2005 volumes and a second forecast assumed low 2004/2005 volumes but high post-2005 volumes, it would clearly be wrong to combine the high 2004/2005 volumes from the first forecast with the high post-2005 volumes from the second forecast. But the Board concluded that the forecasts used by the parties to establish the 2004/2005 volumes were not inconsistent with the Updated EIA Forecast. It reached this conclusion by comparing what it concluded erroneously was the parties’ assumed rate of growth from 2004 to 2005 (6.1%) to the EIA’s assumed rate of growth from 2004 to 2005 (7.3%). But 6.1% was not the parties’ assumed rate of growth from 2004 to 2005. It was the parties’ assumed rate of growth from the *annualized* 4Q04 level to 2005. If the 4Q04 volumes were higher than average, then the *annualized* 4Q04 volumes will be higher than the actual 2004 volumes. The rate of growth from the annualized 4Q04 volumes to 2005 volumes cannot properly be compared to the rate of growth from actual full year 2004 to 2005 volumes.

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<sup>2</sup> *WFA/Basin v. BNSF*, STB Docket No. 42088 (served April 21, 2006) (hereafter “April Decision”).

<sup>3</sup> BNSF Petition, *WFA/Basin v. BNSF*, STB Docket No. 42088 (filed April 6, 2006) at 2, n.2. The parties did not agree that volumes for the SARR traffic group would increase by a specific percentage from 4Q04 to 2005. Rather, the parties agreed to use the projected volumes for the specific shippers in the traffic group that appeared in BNSF’s origin-destination forecasts (hereafter “BNSF O/D Forecast”) for 4Q04 and 2005.

Indeed, evidence in this case demonstrates that 4Q04 volumes were higher than average and therefore that full year 2004 volume for the SARR traffic group (186.2 million tons) was substantially less than 4Q04 annualized volume (193.4 million tons).<sup>4</sup> Using the full year 2004 volumes rather than the annualized 4Q04 volumes, it is clear that the parties actually assumed that traffic to the shippers in the SARR traffic group would increase by 10.3% between 2004 and 2005, not 6.1%.<sup>5</sup> This 10.3% increase substantially exceeds the 7.3% increase projected by the Updated EIA Forecast. In other words, contrary to the Board's conclusion in the April 19, 2006 Decision, the Updated EIA Forecast *did* assume a far slower rate of growth from 2004 to 2005 than the parties did. Therefore, to make the 2004/2005 volume assumptions consistent with the post-2005 volume assumptions in the Updated EIA Forecast, the 2005 volumes should be reduced.

In a case like this, where all traffic is based on forecasts, it is important for the Board to ensure that the forecasts used to establish volumes for different DCF periods are based on a consistent set of assumptions. If the Board uses the Updated EIA Forecast to establish post-2005 volumes, it should ensure that the post-2005 volumes are consistent with the 2004/2005 volumes by applying the adjustment to 2005 volumes described by BNSF in its Petition for Reconsideration. But if the Board is unwilling to adjust pre-2006 volumes, then the Board should not use the Updated EIA Forecast to modify 2006-2024 SARR traffic volumes. Rather, the Board should rely on the forecasts proposed by one of the parties (and BNSF contends that its proposed forecast is the best evidence) to project volumes from 2006 forward. Other things

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<sup>4</sup> BNSF derived full year 2004 traffic group volumes from WFA/Basin's electronic workpapers by adding together actual volumes for 1Q04, 2Q04 and 3Q04 to projected volumes for 4Q04. See WFA/Basin Supp. e-WP "LRR Traffic and Revenues\_WFABasinSupplemental.xls" at worksheet "SARR Traffic\_2004."

<sup>5</sup> 205.3 million tons / 186.2 million tons = 1.103.

being equal, volume forecasts prepared at around the same time are likely to be based on similar assumptions about historical data and expectations regarding future demand. The BNSF O/D Forecast used by the parties to project 2005 volumes and the forecasts initially used by BNSF and WFA/Basin to project volumes from 2006 forward were prepared at approximately the same time in late 2004 or early 2005.<sup>6</sup> On the other hand, the Updated EIA Forecast that the Board proposes to use from 2006 forward was prepared in November of 2005, nearly a year later than the BNSF O/D Forecast used to estimate 2005 volumes.<sup>7</sup>

Combining forecasts prepared at different points in time to project volumes throughout the DCF period, as the Board proposes to do in this case by using the BNSF O/D Forecast to develop 2005 volumes and the Updated EIA Forecast to develop volumes from 2006 forward, will improperly introduce distortions. The forecasts were prepared at different times and, consequently, reflect different knowledge regarding historical volumes and future demand expectations. Those distortions would not result if the Board used the BNSF O/D Forecast for 2005 volumes and contemporaneous forecasts proposed by one of the parties for post-2005 volumes.

The Board's March 17, 2006 Order did not contemplate any changes to the methodology used by the parties to calculate SARR revenues or the assumptions underlying those revenue calculations, apart from the changes in SARR tonnage discussed above. BNSF notes, however,

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<sup>6</sup> BNSF O/D Forecast was prepared in 12/04 (BNSF Reply e-WP "2005 BNSF Coal Plan.pdf"), BNSF Macro Coal forecast proposed by BNSF was prepared in 08/04 (BNSF Reply e-WP "BNSF LRP.pdf"), and the EIA forecast used by WFA/Basin was prepared in 10/04 (WFA/Basin Opening workpaper "EIA AEO Tonnage and Rate Forecast\_012605.xls").

<sup>7</sup> At the time the SAC evidence was being prepared, the projections used by the parties assumed high traffic volumes for 2005 with moderate increases thereafter. However, traffic volumes were actually below those expected levels and more recent projections of PRB coal traffic assume higher traffic volumes for 2006 and beyond in part to make up for the lower historical volumes.

that in the pending rulemaking proceeding,<sup>8</sup> the Board is contemplating the adoption of rules relating to, among other things, the allocation of revenue on cross-over traffic. All traffic except the issue traffic on WFA/Basin's SARR consists of cross-over traffic, and much of that traffic moves only a very short distance on the SARR. As BNSF has explained at length, WFA/Basin's SARR was configured to take advantage of the highly generous revenue allocation that the MSP methodology affords to short-haul cross-over traffic. One of the Board's proposals in the pending rulemaking involves the adoption of more accurate cost-based revenue allocation rules that would address the distortion created by the use of short-haul cross-over traffic. The Board's NPRM states that additional evidence may be needed at the conclusion of the rulemaking to address the impact of the new rules on the pending cases. However, the parties were instructed not to change their revenue assumptions for purposes of this supplemental evidence.

BNSF therefore presents its evidence on SARR revenues without changing the methodologies used in its previous filings. As described in detail in BNSF's previous filings, BNSF calculated SARR revenues on cross-over traffic using the contestability pricing approach.<sup>9</sup> BNSF presents the results of those calculations below. In addition, BNSF developed a conservative mechanism to deal with the effect of any cross-subsidy from the large volume of traffic originating at mines north of Donkey Creek that exit the SARR without ever touching the principal SARR facilities used by the issue traffic. Under that approach, BNSF excluded from the SAC analysis the revenue generated by these short-haul movements, but BNSF also excluded

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<sup>8</sup> See *Major Issues in Rail Rate Cases*, STB Ex Parte No. 657 (Sub-No. 1), at 17-20 (served Feb. 27, 2006) ("NPRM").

<sup>9</sup> See BNSF Reply Nar. at III.A-35 to 50 (filed July 20, 2005). BNSF also presented alternative revenue calculations on cross-over traffic using the MSP methodology with 25-mile origination/termination credits. See *id.* at III.A-50 to 57. BNSF updated its calculations using the alternative MSP approach and they are shown in BNSF Reply Supp. e-WP "LRR Traffic and Revenues\_6-15-06 Reply Adj MSP.xls," tab "Summary."

from the SAC calculations all construction costs for the northern stub of the SARR used by these movements, as well as the operating costs associated with these short hauls. The revenues presented below therefore also show the effect of applying BNSF's cross-subsidy adjustment.

It is common practice in SAC proceedings for the Board and the parties to update the SARR index assumptions to reflect the impact of historical RCAF changes known at the time of filing. In its supplemental opening evidence, WFA/Basin did not update its RCAF forecast for projected SARR rates. As discussed below in Section III.G, both historical RCAF changes and RCAF projections should be updated for consistency. Therefore, BNSF has updated the SARR revenues to reflect the First Quarter 2006 RCAF forecast.<sup>10</sup>

In Table III.A-1 below, BNSF compares the SARR revenues developed by WFA/Basin with the revenues developed by BNSF, both before and after the cross-subsidy adjustment discussed above:

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<sup>10</sup> See BNSF Reply Supp. e-WP "LRR Traffic and Revenues 6-15-06 Reply.xls" at worksheet "ProjTonRev."

**Table III.A-1**  
**LRR Traffic Revenues**  
**Comparison of WFA/Basin and BNSF Calculations**  
(Dollars in Millions)

	WFA/Basin 5-15-06	BNSF 6-15-06 Contestability Pricing*	
		Full-SARR	Cross-Subsidy
4Q2004	\$76.6	\$56.9	\$52.2
2005	\$329.4	\$245.2	\$221.9
2006	\$343.1	\$254.9	\$229.2
2007	\$343.9	\$264.1	\$238.4
2008	\$344.6	\$266.4	\$240.4
2009	\$352.6	\$274.3	\$247.8
2010	\$356.7	\$276.2	\$249.6
2011	\$364.6	\$279.8	\$252.9
2012	\$371.8	\$284.9	\$257.6
2013	\$379.5	\$289.9	\$262.2
2014	\$385.7	\$293.6	\$265.6
2015	\$384.6	\$293.1	\$265.2
2016	\$394.4	\$299.1	\$271.1
2017	\$409.6	\$308.5	\$279.7
2018	\$424.8	\$317.0	\$287.5
2019	\$437.1	\$323.5	\$293.5
2020	\$451.4	\$331.8	\$301.2
2021	\$466.7	\$340.0	\$308.8
2022	\$479.0	\$347.5	\$315.8
2023	\$492.6	\$354.9	\$322.6
1Q - 3Q2024	\$380.8	\$272.0	\$247.3

Note: As discussed in BNSF's October 20, 2005 Motion to Strike and for Leave to File Limited Surrebuttal, BNSF's Contestability Pricing calculations improperly include a substantial, non-existent interchange switching cost. See Motion at 10-11, Klick/Fisher VS at 16-18. BNSF Surrebuttal e-WP "LRRCoal.xls" shows how such costs can be eliminated.

Source: BNSF Reply Supp. e-WP "LRR Traffic and Revenues\_6-15-06 Reply.xls."

B. STAND-ALONE RAILROAD SYSTEM

Both parties tested the adequacy of the SARR configuration using the RTC Model. In response to the Board's March 17, 2006 Order, WFA/Basin presented a new RTC analysis and concluded that no changes were needed to the SARR configuration. BNSF has reviewed the updated RTC analysis presented by WFA/Basin and concludes that it properly implements the Board's March 17, 2006 instructions. BNSF therefore accepts WFA/Basin's conclusion that the SARR configuration is not affected by the changes identified in the Board's March 17, 2006 Order. BNSF therefore makes no changes to the SARR configuration here but uses the same assumptions it presented on reply.<sup>11</sup>

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<sup>11</sup> See BNSF Reply Nar. at III.B-1 to 5.

C. OPERATING PLAN

In its March 17, 2006 Order, the Board directed the parties to submit supplemental evidence incorporating several changes in the parties' RTC simulations:

- Adjust peak year tonnages, as described in Section III.A above;
- Include all random signal outages contained in BNSF's reply evidence (with two adjustments specified in the Board's Order);
- Exclude UP and residual BNSF train loadings contained in BNSF's reply evidence;
- Use BNSF's reply evidence of 19.18 hours for dwell time at LRS; and
- Use WFA/Basin's rebuttal evidence dwell time at Guernsey Yard.

As explained in Section III.B, BNSF has reviewed WFA/Basin's supplemental RTC simulation, which incorporates the Board's changes, and has concluded that it can be used for this supplemental evidence. Therefore BNSF uses the SARR transit times generated by WFA/Basin's simulation to calculate relevant operating costs.

WFA/Basin used their revised transit times from the peak week to generate new annualized locomotive and car requirements for the SARR. As explained in BNSF's reply evidence, BNSF does not agree with WFA/Basin's approach to developing SARR equipment requirements.<sup>12</sup> BNSF used WFA/Basin's revised transit times to calculate new locomotive and car counts for the SARR based on the methodology previously described in BNSF's reply evidence.<sup>13</sup> The results of BNSF's revised calculations are set out below:

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<sup>12</sup> See BNSF Reply Nar. at III.C-8 to 16.

<sup>13</sup> See *id.* The Board accepted BNSF's approach in *Otter Tail Power Co. v. BNSF Railway Co.*, STB Docket No. 42071, slip op. at C-2 (served Jan. 27, 2006).

**Table III.C-1  
Comparison of Locomotive and Coal Car Requirements**

	<b>WFA 5/15/06</b>	<b>BNSF 6/15/06</b>	<b>Difference</b>
<b>Locomotives</b>			
SD70MAC	99	104	5
SD40-2	13	13	0
Total Locomotives	112	117	5
<b>Coal Cars</b>			
Hoppers	87	181	94
Aluminum Gondolas	279	500	221
Steel Gondolas	89	108	19
Total Cars	455	789	334

D. OPERATING EXPENSES

In this supplemental reply evidence, BNSF revised the SARR's operating expenses to reflect the SARR's revised tonnages and revised transit times and equipment requirements, which are discussed in Sections III.A and III.C. BNSF used the same unit costs and methodologies to calculate these operating expenses that were described in BNSF's reply evidence.

Locomotive Expenses: BNSF revised all expenses associated with the SARR's locomotives.<sup>14</sup> Locomotive lease expenses were revised to reflect the new number of locomotives required by the SARR. Locomotive maintenance expenses were revised to reflect the new number of locomotives and locomotive unit miles ("LUMs"), both of which factor into the calculation of total SARR maintenance expenses. Locomotive service and fueling expenses were revised to reflect the SARR's new LUMs.

Railcar Expenses: Using the same unit costs and methodology discussed in BNSF's reply evidence, BNSF revised the SARR's railcar lease and maintenance expenses to reflect the new SARR railcar count and car miles.<sup>15</sup>

Crew Expenses: BNSF accepts WFA/Basin's calculation of peak-year road crew requirements based on the revised SARR volumes calculated by WFA/Basin.<sup>16</sup> However, this crew number reflects only the minimum number of crew required to operate each train in the peak year and must be adjusted to account for re-crews or turn crews who are unable to complete a turn. Using the results of WFA/Basin's revised RTC analysis, BNSF revised the re-crew and

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<sup>14</sup> See BNSF Reply Supp. e-WP "III D Operating Expenses.xls" at worksheet "Summary."

<sup>15</sup> See *id.*

<sup>16</sup> See *id.*

turn crew analyses presented in its reply evidence to develop a new crew requirement. In addition, BNSF has corrected an error in the calculation of crew wages that was pointed out by WFA/Basin on rebuttal and that was previously discussed in BNSF's brief in this proceeding.<sup>17</sup> BNSF uses the revised crew count and corrected crew wages to calculate crew expenses for this supplemental reply.<sup>18</sup>

Maintenance-Of-Way Expenses: Using the same unit costs and methodology discussed in BNSF's reply evidence, BNSF revised the SARR's MOW expenses to reflect the SARR's new gross ton-miles.<sup>19</sup> BNSF also reviewed the new traffic and revenue assumptions used in this reply supplemental evidence and concluded that no changes to the SARR's MOW personnel were required.

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The following table compares the SARR's operating expenses calculated by BNSF for the full SARR in this supplemental reply with the expenses shown in WFA/Basin's supplemental evidence.

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<sup>17</sup> See WFA/Basin Reb. Nar. at III-D-42 (filed Sept. 30, 2005) and BNSF Final Brief at 17 n.18 (filed Dec. 6, 2005). For purposes of the brief, BNSF pointed out that WFA/Basin's rebuttal workpaper suggested a nine (9) percent reduction to BNSF's wage calculations to correct BNSF's error. In this reply supplemental evidence, BNSF has used the materials that were the basis for the original wage calculations to make the correction rather than rely on WFA/Basin's workpaper. See BNSF Reply Supp. e-WPs "NEW III D 3 Wages.xls," "III D 3 Conductors\_Corrected.xls," and III D 3 Engineers\_Corrected.xls."

<sup>18</sup> See BNSF Reply Supp. e-WP "III D Operating Expenses.xls" at worksheet "Summary."

<sup>19</sup> See *id.*

**Table III.D-1**  
**Operating Expenses for 2005**  
(\$ millions)

Item	WFA/Basin LRR Supplemental Opening	BNSF LRR Supplemental Reply
1. T&E Personnel	18.5	28.8
2. Locomotive Lease Expense	12.3	15.4
3. Locomotive Maintenance Expense	11.9	13.2
4. Locomotive Operating Expense	28.2	40.0
5. Railcar Lease Expense	3.7	6.0
6. Material and Supply Operating	1.1	1.6
7. Ad Valorem Taxes	1.4	1.4
8. Operating Managers	9.6	11.8
9. General and Administrative (including IT)	15.0	25.2
10. Loss and Damage	0.04	0.04
11. Insurance	4.0	6.9
12. Maintenance of Way	10.7	18.5
<b>13. Total</b>	<b>116.4</b>	<b>168.8</b>

E. NON-ROAD PROPERTY INVESTMENT

BNSF's supplemental reply evidence does include any changes to this section of BNSF's reply evidence.

F. ROAD PROPERTY INVESTMENT

As explained in Section III.B, BNSF accepts WFA/Basin's conclusion that the SARR configuration does not need to be changed as a result of the modified assumptions contained in the Board's March 17, 2006 Order. Therefore, the SARR track configuration BNSF uses for purposes of this reply supplemental evidence is the same as the configuration used in BNSF's reply evidence.

The only changes BNSF makes for purposes of this reply supplemental evidence in its previously filed road property investment result from the following technical corrections to errors in BNSF's calculation of construction costs in its reply evidence. All of these errors were identified by WFA/Basin in their rebuttal evidence:

- Ballast Unit Cost: BNSF uses the unit cost identified in its narrative and in the source documents. WFA/Basin accepted that unit cost on rebuttal;<sup>20</sup>
- Sub-Ballast Indexing: BNSF properly indexes sub-ballast;<sup>21</sup>
- Rail and Tie Unit Cost: BNSF uses the correct route for the delivery of SARR construction materials from Pueblo/Denver to Bridger/Shawnee Junction;<sup>22</sup>
- Communications Tower Equipment: BNSF adds survey and permitting costs;<sup>23</sup> and
- Headquarters Building: BNSF indexes associated costs from July 2004 to October 2004.<sup>24</sup>

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<sup>20</sup> WFA/Basin Reb. Nar. at III-F-90 n.12.

<sup>21</sup> *Id.* at III-F-94.

<sup>22</sup> *Id.* at III-F-101 and 108.

<sup>23</sup> *Id.* at III-F-138.

<sup>24</sup> *Id.* at III-F-141 to 142.

G. DISCOUNTED CASH FLOW ANALYSIS

In its supplemental evidence, WFA/Basin updated the AAR index used to inflate the LRR quarterly capital recovery requirement to reflect actual historical index values for the third and fourth quarters of 2005 and for the first quarter of 2006. WFA/Basin also updated the RCAF used to index LRR operating expenses in Table K of the DCF model to reflect the historical RCAF for the first and second quarters of 2006. WFA/Basin did not, however, update the projections of either the AAR or the RCAF indexes for future periods of the DCF to reflect the most recent forecast available from Global Insights.

If forecasts of future inflation are replaced in the DCF with actual historical values, then the remaining forecasts of future inflation should also be updated to reflect forecast information of comparable vintage. Otherwise the inflation indexes could exhibit artificial fluctuations in inflation – both upward and downward – caused only by the difference in timing between forecasted and actual occurrences. By updating the index forecast along with the actual index values, such anomalies are eliminated. BNSF therefore updates the RCAF index to reflect the most recent historical information and also incorporates the most current RCAF projections in its reply supplemental evidence.<sup>25</sup>

In addition, consistent with past practices,<sup>26</sup> BNSF has updated the cost of capital calculations to reflect the AAR's proposed 2005 cost of capital submitted in Ex Parte No. 558

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<sup>25</sup> In updating the AAR indices, BNSF found an error in the value used by WFA/Basin for the third quarter of 2004 for the Wage Rates and Supplements. WFA/Basin used 373.8 rather than the correct value of 377.8.

<sup>26</sup> See, e.g., *Xcel v. BNSF*, STB Docket No. 42057, at 19-20 (served Jan. 19, 2005); *Duke Energy Corp. v. Norfolk Southern Railway Co.*, STB Docket No. 42069, *Duke Energy Corp. v. CSX Transportation, Inc.*, STB Docket No. 42070, and *Carolina Power & Light Co. v. Norfolk Southern Railway Co.*, STB Docket No. 42072, at 4 (served Oct. 20, 2004).

(Sub-No. 9) Railroad Cost of Capital – 2005 and expanded the calculation of the LRR 2006 through 2024 average cost of equity to include the 2005 data.

BNSF also identified a technical error in its reply DCF analysis that has been corrected in this reply supplemental evidence. Although WFA/Basin did not advocate that the LRR restructure its debt at some point during the 20-year DCF period, the DCF model it submitted on opening included formulas associated with debt restructuring. These formulas were presumably left over from a version of the DCF model used in a different proceeding. BNSF intended to remove in its reply submission all of the formulas related to restructuring from the DCF. However, BNSF failed to remove the formulas from the “Federal Taxes” and “State Taxes” tabs of the DCF.<sup>27</sup> This oversight produced an overstatement of the LRR’s taxable income and consequently, overstated the LRR’s tax liability. This error has been corrected in BNSF’s current version of the DCF.

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<sup>27</sup> The affected cells are B17:B58 and B69:B110 for both “Federal Taxes” and “State Taxes.”

#### H. RESULTS OF SAC ANALYSIS

The total SAC for the LRR based on investment and operating costs is summarized in Table L of Reply Supplemental Exhibit III.H-1, which is included in BNSF's electronic workpapers.<sup>28</sup> The capital requirement from Table I and the annual operating expenses from Table K are presented and summed in Table L for each year the LRR operates. The following table summarizes these results in a manner consistent with contestability theory by showing separately the LRR's revenue requirements (stand-alone costs), the amount of revenue available from cross-over shippers, the amount of revenue that would be required from end-to-end shippers (here Laramie River), the amount of revenue actually available from the end-to-end shippers, and the shortfall.

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<sup>28</sup> Consistent with its reply evidence, BNSF also submits Reply Supplemental Exhibit III.H-2, which presents a separate DCF analysis based on the Board's MSP methodology but applying a 25-mile block instead of a 100-mile block. See Section III.A n.9 above.

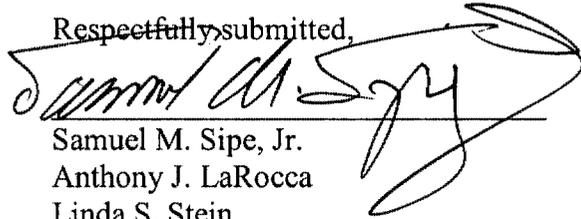
**Table III.H-1**  
**Summary of Stand-Alone Cost Results – LRR**  
**After Elimination of Potential Cross-Subsidy**  
**(All Figures in Millions of Dollars)**

Year	SAC Requirement	Revenues Available from Cross-Over Traffic	Amount to be Recovered From End to End Shippers	Issue Traffic Revenues	Overpay (Underpay)	PV Overpay (Underpay)
2004 Q4	\$77.1	\$37.9	\$39.2	\$14.3	(\$24.9)	(\$24.6)
2005	\$274.6	\$166.5	\$108.1	\$55.4	(\$52.7)	(\$48.8)
2006	\$286.8	\$171.6	\$115.2	\$57.7	(\$57.6)	(\$48.8)
2007	\$292.5	\$172.7	\$119.8	\$65.7	(\$54.1)	(\$41.8)
2008	\$299.1	\$172.9	\$126.2	\$67.5	(\$58.7)	(\$41.3)
2009	\$305.2	\$179.2	\$126.0	\$68.6	(\$57.3)	(\$36.7)
2010	\$310.3	\$179.9	\$130.4	\$69.6	(\$60.7)	(\$35.4)
2011	\$316.2	\$182.5	\$133.7	\$70.4	(\$63.3)	(\$33.6)
2012	\$323.1	\$185.2	\$137.9	\$72.4	(\$65.5)	(\$31.6)
2013	\$331.2	\$187.9	\$143.3	\$74.3	(\$69.0)	(\$30.3)
2014	\$339.4	\$190.1	\$149.3	\$75.5	(\$73.8)	(\$29.5)
2015	\$345.5	\$189.2	\$156.3	\$76.0	(\$80.3)	(\$29.3)
2016	\$354.6	\$192.8	\$161.7	\$78.2	(\$83.5)	(\$27.7)
2017	\$364.9	\$198.5	\$166.5	\$81.3	(\$85.2)	(\$25.7)
2018	\$374.8	\$203.0	\$171.8	\$84.5	(\$87.3)	(\$24.0)
2019	\$384.4	\$206.9	\$177.5	\$86.6	(\$90.9)	(\$22.7)
2020	\$395.1	\$212.4	\$182.8	\$88.8	(\$93.9)	(\$21.4)
2021	\$406.1	\$217.8	\$188.3	\$91.1	(\$97.2)	(\$20.2)
2022	\$416.8	\$222.4	\$194.4	\$93.4	(\$101.0)	(\$19.1)
2023	\$427.6	\$226.8	\$200.8	\$95.8	(\$105.1)	(\$18.1)
2024 Q1						
- Q3	\$328.2	\$173.6	\$154.5	\$73.7	(\$80.8)	(\$12.9)

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June 15, 2006

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Samuel M. Sipe, Jr.", written over a horizontal line. The signature is stylized and cursive.

Samuel M. Sipe, Jr.  
Anthony J. LaRocca  
Linda S. Stein  
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*Attorneys for BNSF Railway Company*

#### **IV. WITNESS VERIFICATIONS**

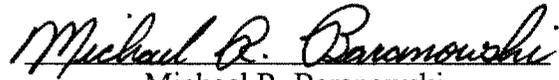
This Section contains verifications submitted by the following BNSF witnesses who sponsored evidence contained in this reply supplemental evidence:

- Michael R. Baranowski is sponsoring evidence incorporated in Sections III.G and III.H relating to the Board's DCF model and SAC calculations.
- Benton V. Fisher is sponsoring evidence incorporated in Section III.A relating to traffic volume and revenue.
- Cassie M. Gouger is sponsoring evidence incorporated in Sections III.B and III.F relating to track configuration and construction.
- Robert J. Plum, III is sponsoring evidence incorporated in Sections III.C and III.D relating to operating statistics and expenses.
- Heather S. Viola is sponsoring evidence incorporated in Section III.D relating to operating expenses.

Each of these witnesses previously sponsored evidence in BNSF's reply evidence filed July 20, 2005, and qualifications for each witness are contained therein.

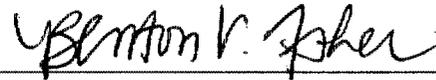
I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 15, 2006

  
Michael R. Baranowski

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 15, 2006

  
Benton V. Fisher

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 13, 2006

Cassie M. Gouger  
Cassie M. Gouger

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 15, 2006



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Robert J. Plum, III

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 14, 2006



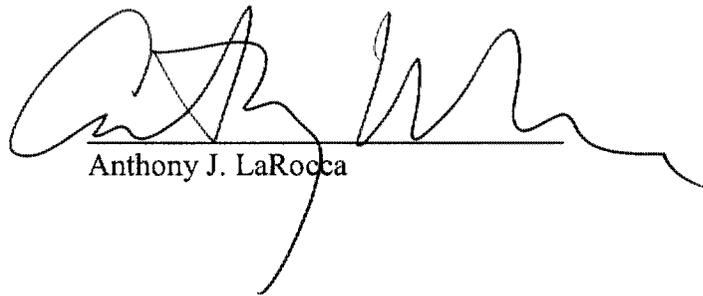
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Heather Viola

**CERTIFICATE OF SERVICE**

I hereby certify that on June 15, 2006, I caused a copy of the foregoing Reply Supplemental Evidence of BNSF Railway Company to be served by hand upon the following counsel:

John H. LeSeur  
Christopher A. Mills  
Peter A. Pfohl  
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Anthony J. LaRocca