Voting Conference Statement

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STB Docket No. 42069

DUKE ENERGY CORPORATION
v.
NORFOLK SOUTHERN RAILWAY COMPANY

STB Docket No. 42070

DUKE ENERGY CORPORATION
v.
CSX TRANSPORTATION, INC.

STB Docket No. 42072

CAROLINA POWER & LIGHT COMPANY
v.
NORFOLK SOUTHERN RAILWAY COMPANY

Good morning Chairman Nober, Vice-Chairman Mulvey, and Commissioner Buttrey.

To more fully explain the draft decision, I would like to address the use of forecasts within the scope of a Stand Alone Cost case.

The results of Stand Alone Cost cases are, in large part, driven by forecasts. Forecasts are by their very nature imprecise, especially as the time horizon for the forecast is increased. These cases are no different.

In the original decisions issued in these cases, the Board had taken official notice of the latest Energy Information Agency (EIA) forecasts for coal production in the Central Appalachian region. However, soon after the decisions were issued, EIA published new forecasts. The 2004 forecast accounted for the latest data and information available to EIA. Moreover, the 2004 forecast showed that the 2003 forecast that the Board had relied on was overly optimistic.

EIA's Annual Energy Outlook Report for 2004 identified five factors that would limit the ability of Central Appalachian coal mines to service the increased coal demand projected in the 2003 forecast. First, lawsuits had temporarily prevented the issuance of permits to open new mines. Second, several coal companies have experienced financial difficulties. Third, mines in many Central Appalachian states have experienced geological problems and underground fires. Fourth, Central Appalachia's newer mines are projected to have higher strip ratios, thinner seams, lower yields, and other characteristics that will result in reduced productivity. Fifth, several mines reached the end of their reserve base and were compelled to shut down production.

The staff recommends updating the traffic group projections using the newest EIA data. Use of the most recent EIA forecasts results in a reduction of the volume of traffic that would be available to the Stand-Alone Railroads in these cases.

As mentioned earlier, the draft decision recommends revising the equity component of the cost of capital, which reduces the cost of financing the Stand-Alone Railroads in each of the cases.

As for technical errors, certain favor the shippers' cases, while others favor the railroads'.

The aggregate effect of the changes is to reduce the revenues generated by the traffic group. Though Road Property Investment for the Stand-Alone Railroads remains relatively constant, operating expenses are lower due to the reduction in the volume of traffic moving over the Stand-Alone Railroads, with the exception of the distributed power costs as addressed by Mr. Strafford earlier.

This reduction of revenues coupled with the costs associated with each Stand-Alone Railroad results in expenses that exceed revenues when flowed through the Discounted Cash Flow model. The final result of the various changes is that in all three cases the challenged rates are not shown to be unreasonable under the SAC test.

I would like to return the presentation back to Mr. Strafford at this point. Thank you.

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