

**CHAIRMAN NOTTINGHAM'S OPENING STATEMENT**  
**EP 664 Cost of Capital Hearing**  
**February 15, 2007**

Good morning. Welcome to the final hearing to be held in the STB's headquarters here on K Street. I'd like to extend a warm welcome to all of our visitors today. I hope the delay in the hearing time today was helpful to you. We wanted to make sure you could make it here safely and that there were people to check you in and to staff this hearing when you arrived.

Today's hearing focuses on the methodology the STB uses to calculate the railroad industry's cost of capital, the subject of an advanced notice of proposed rulemaking issued by the Board in September 2006. Some parties believe that our current method overstates the freight rail industry's cost of capital.

I have come to learn just how important the cost-of-capital calculation is both to the work of the Board and to the rail industry and its customers. It is relied upon in many regulatory proceedings including those prescribing maximum reasonable rate levels, setting compensation for disputed trackage rights fees, in the proposed

abandonment of rail lines, and in our rail costing methodology.

Perhaps most significantly, it is relied upon in the Board's annual revenue adequacy determination – a finding that has received even more attention in recent years.

I am pleased to see here today representatives from the Federal Reserve to discuss its method of calculating cost of capital. I am looking forward to hearing why the Federal Reserve chose the method it now relies upon. I am sorry to report that the witnesses from the Canadian Transportation Agency (CTA) will not be here to testify as planned. I understand that their flight was cancelled and they were not able to get another flight in time to attend the hearing today. Nevertheless, the CTA's comments will be considered as part of the record in this matter.

I am also look forward to our second panel where we have experts with differing views of the methodology that should be relied upon by the Board. I hope that by having the opportunity to probe this issue with you together on one panel we will have a productive dialogue.

As an aside, let me also take this opportunity to remind you that we will be moving to 395 E Street, S.W. within a few weeks – right now it looks like we will be officially closed for normal business operations at this location as of 5 pm Wednesday, Feb. 28 and reopening at the new location on Monday, March 5. We have put out a press release detailing the impacts of the move on our operations, and we will issue another release prior to the move letting you know how to reach us should an emergency come up while our normal business operations are suspended. We'll keep our website updated with the current information.

Now, before we begin, let me just take a few minutes to review a few procedural points about today's hearing. We will hear from Panels with breaks as appropriate. We will hear from all the speakers on a Panel. Speakers, our timing and light system is not operating today. Thus, you will not see the red and green light you may be accustomed to from prior hearings. Please do your best to keep to the time you have been allotted, and I will try to keep an eye on the clock as well and let you know if it is time for you to wrap up. After hearing from the entire panel, we will rotate with questions from each

Board Member until we have exhausted the questions. Consistent with Board practice, we will allow all the witnesses on each panel to make full presentations before the Members ask any questions. Finally, just a reminder to please turn off your cell phones.

I certainly look forward to a very interesting day of testimony, and with that, I will recognize Vice Chairman Buttrey for any opening statement he may have.