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October 31, 2003

By Hand Delivery

Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

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**Re: STB Docket No. 42069, Duke Energy Corporation v. Norfolk
Southern Railway Company**

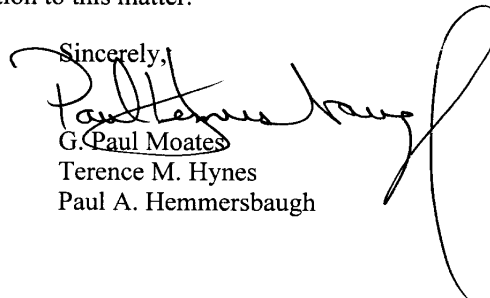
Dear Secretary Williams:

Enclosed for filing on behalf of Norfolk Southern Railway Company ("NS") in the above-referenced proceeding are a signed original and sixteen (16) copies of the Reply of Defendant Norfolk Southern Railway Company to Complainant Duke Energy Corporation's Supplemental Evidence ("Reply"). Also enclosed are seventeen (17) CD ROMs containing an electronic workpaper, and three (3) floppy disks containing electronic versions of the Reply in Word Perfect Version 10.0 and an exhibit in Adobe "PDF" format.

Please acknowledge receipt of this submission for filing by date-stamping the enclosed duplicate paper copy and returning it to our messenger.

If you have any questions concerning this filing, please contact one of the undersigned. Thank you for your attention to this matter.

Sincerely,


G. Paul Moates
Terence M. Hynes
Paul A. Hemmersbaugh

Enclosures

cc: Counsel for Complainant (w/encls.)

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BEFORE THE
SURFACE TRANSPORTATION BOARD

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DUKE ENERGY CORPORATION,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

STB Docket No. 42069

OCT 31 2003

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REPLY OF DEFENDANT NORFOLK SOUTHERN RAILWAY COMPANY
TO COMPLAINANT DUKE ENERGY CORPORATION'S
SUPPLEMENTAL EVIDENCE

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DATED: October 31, 2003



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INTRODUCTION

The parties' supplemental filings are not far apart on their respective estimates of the absolute dollar impact of disallowing the crossover traffic rerouted by Duke. Despite this superficial similarity, Duke's estimate of the costs and revenues associated with rerouted crossover traffic should be rejected because (putting aside the additional errors introduced by Duke's October 24 filing) it carries forward the flaws of its case-in-chief. The fundamental infirmities of Duke's case-in-chief make it impossible for Duke to provide a meaningful response to the question of costs and revenues attributable to a subset of SARR traffic, because any analysis of that question is necessarily derived from, and dependent upon, Duke's case-in-chief. For example, Duke's estimate of the operating costs attributable to the rerouted crossover traffic is based entirely on the output of its same defective string diagram model. Regardless of how Duke allocates operating costs between rerouted traffic and other traffic, it is necessarily allocating erroneous and unsupported costs generated by the string diagram model. See, e.g., NS Brief at 5, 19-23, 27-33 (Jan. 15, 2003).¹

The fundamental errors and failures of proof in Duke's case-in-chief render any derivative attempt to estimate costs and revenues of rerouted crossover traffic based on Duke's previous evidence a futile exercise. Moreover, the methods Duke used to estimate the costs and revenues of its reroutes in its October 24 Supplement introduced additional, compounding errors.

¹ Similarly, Duke's estimates of the revenues attributable to rerouted crossover traffic are derived from the flawed revenue evidence it presented in its case-in-chief, including its overstatement of actual base year traffic by adding millions of tons from origins not served by the SARR, and its manipulation of RCAF projections to inflate SARR revenue projections. See id. at 8-18. Likewise, regardless of the merits of the SARR configuration changes Duke claims would be made if the subject reroutes were eliminated, Duke would still fail to meet its burden of demonstrating that its SARR configuration is feasible, or that its construction costs accurately reflect the costs of building a railroad in the East. As NS previously demonstrated, Duke relied on its string diagram model to determine the capacity and feasibility of its SARR configuration. See, e.g., NS Brief at 5-6, 22-23.

Therefore, if the Board decides to disallow Duke's rerouted crossover traffic, it should rely upon NS' Supplemental Evidence, which is the only reliable evidence in the record regarding the costs attributable to that rerouted traffic.

I. METHODOLOGICAL ERRORS AND ANALYTICAL DEFICIENCIES IN DUKE'S SUPPLEMENTAL EVIDENCE

Given the lengths to which Duke went to reroute crossover traffic, and its staunch defense of those reroutes throughout three rounds of evidence and briefing in this proceeding, it is surprising that Duke now concludes that its SAC results would have been more favorable to it if the ACC had followed the traffic's actual, original routing. See generally, Response of Complainant Duke Energy Corporation to Board Order Served October 10, 2003 ("Duke Supp."); *id.* at 32 (conceding that its claim that eliminating reroutes would entitle Duke to greater rate reductions is "somewhat counterintuitive."). Scrutiny of the methods and assumptions Duke used to generate its cost and revenue revisions (and its about-face concerning the relative profitability of the ACC reroutes) reveals that they are logically and analytically unsound, and inconsistent with the Board's precedent, its October 10 Order, and Duke's own case-in-chief.²

A. The Board Should Exclude Costs and Revenues Attributable to ReRouted Crossover Traffic, Including Duke's "Category 1" Traffic.

Because Duke has not accounted for the full ramifications of rerouted traffic that would not be local to the SARR, nor otherwise demonstrated that those reroutes are reasonable, the Board should exclude that traffic.³ Duke has failed to satisfy its burden of showing that it has

² The similarity, in absolute dollar terms, of the parties' estimates of the costs and revenues attributable to rerouted traffic masks significant differences in the parties' approach and methods. In this Reply, NS briefly addresses some of those differences, and explains errors that Duke introduced or exacerbated in the supplemental evidence it submitted in response to the Board's October 10 Order.

³ NS and Duke agree that the Board need not necessarily remove from the SARR the full route traveled by the rerouted crossover traffic. See Duke Supp. at 7-8. Consistent with the Board's approach in TMPA, it may eliminate the rerouted portion and restore the "original" routing and

fully accounted for the costs and operational ramifications of requiring the residual NS to carry 14 million tons of rerouted traffic per year. As the Board summarized in TMPA:

[t]o re-route non-issue traffic, the complainant's SAC analysis must either take responsibility for the entire movement from origin to destination or fully account for the ramifications of requiring the residual carrier to alter its handling of the traffic . . .

Texas Municipal Power Agency v. Burlington Northern Santa Fe Railway Co., STB Docket No. 42056, Decision at 22 (served March 24, 2003) ("TMPA") (emphasis added). Although Duke's case-in-chief rerouted nearly 14 million tons of "crossover" traffic, it made no attempt to account for the costs and other ramifications of those reroutes to the residual NS. See NS Reply at III-A-54 to 59. Moreover, neither Duke's Rebuttal nor its October 24 Supplemental Evidence attempted to quantify the full costs and other "ramifications of requiring the residual [NS] to alter its handling of the [rerouted crossover] traffic." See TMPA slip op at 22.⁴

Contrary to Duke's suggestion, the Board should eliminate all of Duke's reroutes, not just the subset of rerouted crossover traffic which Duke identifies as "Category 2" and "Category 3"

point of interchange with the residual NS. This is the conceptual approach followed by both parties in their supplemental submissions.

⁴ Duke's Rebuttal made a token attempt to address some of what it described as the residual NS' "directly variable costs," based on an incomplete subset of the existing NS' system average variable costs. See Duke Reb. III-A-57 to 58. Even if Duke's incomplete estimate of some of NS' real world variable costs were accurate, it would fail to address the increased operating costs that the residual NS would incur as a result of the ACC's rerouting 13.5 million tons per year. See TMPA, slip op. at 24, n. 58 (describing some of the numerous "operational variables" that must be considered to account for increases in off-SARR costs due to rerouted traffic). More important, Duke made no attempt whatsoever to determine the additional capital investments the residual NS would be required to make on its lines south of Belmont, North Carolina, in order to handle the increased traffic. See NS Reply III-B-67 to 69 (detailing some of the additional investments that would be necessary to accommodate the additional traffic volume the ACC would divert to NS' already congested line between the Carolinas and Atlanta). Without a complete accounting for such off-SARR costs, the Board simply cannot determine that the complainant's reroutings are reasonable. See TMPA, slip op at 21-25.

reroutes. See Duke Supp. at 8, 11, 31.⁵ The Board directed the parties to “quantify the revenues and costs of the stand-alone railroad attributable to the re-routing of [crossover] traffic.”

October 10 Order.⁶ The Board did not grant the parties discretion to calculate, or to incorporate in their restated DCF, only the costs and revenues attributable to some of the rerouted crossover traffic, nor did it direct the parties to exclude from their calculations such costs and revenues as they see fit. See id. Nor does TMPA provide an exception for reroutes that the complainant unilaterally deems to be less significant. Rather, the clear language of TMPA requires that the complainant fully account for the ramifications of all rerouted crossover traffic to the residual incumbent. TMPA, slip op at 22; see October 10 Order. Duke’s failure to meet its burden of proof on this issue requires the exclusion of all costs and revenues attributable to reroutes, including those Duke has labeled “Category 1” reroutes.⁷

⁵ Duke’s suggestion that NS did not object to “Category 1” reroutes is incorrect. See Duke Supp. 8, n.8. NS objected to all rerouted crossover traffic, and provided specific examples to illustrate how those reroutes inflated SARR revenues. See NS Reply III-A-54 to 59.

⁶ As NS previously advised Duke and the Board, NS discovered a data anomaly in the revenue calculation for one shipment after it filed its Reply evidence. See P. Hemmersbaugh Letter to Secretary Williams (Oct. 31, 2002). At the same time, NS submitted a corrected revenue calculation, showing that the data anomaly resulted in an overstatement of total ACC revenue by approximately 1%. Id. Duke adopted this revenue adjustment in its Rebuttal. Duke Reb. III-A-44. To avoid any suggestion that it exceeded the scope of this limited reopening, NS did not change this number in its revised DCF, but provided the corrected revenue figure to allow the Board to make such an adjustment if it determines it appropriate. NS Supp. at 20-21, n.13. Eliminating this error in both NS’ Reply DCF and its Supplemental DCF would increase the amount by which SARR costs exceed SARR revenues.

⁷ NS directs the Board’s attention to several related errors in Duke’s Supplemental Evidence concerning Category 1 traffic. First, Duke advised the Board and NS on October 28, 2003 (in a letter incorrectly dated October 24), that Exhibit S-3 to Duke’s Supplemental Evidence contained “several errors,” pertaining to Category 1 reroutes, and submitted a revised version of that exhibit. See Letter from Robert Rosenberg to Secretary Vernon Williams (Oct. 24, 2003). Second, in response to NS’ inquiry, Duke counsel advised NS counsel on October 28 that Duke’s table presenting the revenues attributable to rerouted crossover traffic misstated the revenues that Duke estimated were attributable to Category 1 reroutes. See Duke Supp. at 17, Table S-5. Duke advised NS that, in the “ACC Divisions with Reroutes” portion of Duke’s Table S-5, “[t]he [corrected] numbers for Category 1 should be \$11.13 [million] in the “Total ACC Revenues

The remainder of this Reply explains that, although the differences between the parties' estimates of the costs and revenues attributable to reroutes is fairly small in terms of absolute dollars, the methods Duke used to develop its estimates are flawed and unsound in several important respects. If Duke had used sound, consistent methods to calculate those costs and revenues using the numbers and assumptions of Duke's own case-in-chief, that analysis would show that the ACC would lose substantial net revenue if the crossover re-routes were eliminated.

B. Duke's "Ton-Mile" Approach Misallocates Operating Costs.

Duke's allocation of operating costs attributable to the reroutes uses a crude measure that very likely overstates the costs attributable to the (primarily linehaul) rerouted portions of the crossover traffic, and thus very likely understates the net revenue benefit to the ACC from the reroutes. Duke estimated the operating costs attributable to the reroutes by applying an indiscriminate across-the-board reduction of the full operating costs of the entire ACC route, based solely on the proportion of ton-miles the rerouted portions represent as a fraction of the total ton-miles of the full ACC route.⁸ See Duke Supp. at 19. The flaw in this approach is that it

(MMP Method)" and 53.4% in the "ACC Divisions as a % of Total Revenue" column. The numbers in the same columns for "Total" (the last line of the table) should be changed to \$63.00 [million] and 35.7%, respectively." See E-mail from Chris Mills et al to P. Hemmersbaugh et al (4:15 p.m., October 28, 2003). Third, Duke's statement regarding modifications the Board needs to make to adjust Duke's revised DCF calculations to reflect the elimination of Category 1 reroutes is simplistic and incomplete. Duke's statement that the Board would "need to reduce the revenues by \$3.27 million and reduce the operating expenses by \$1.06 million" neglects to state that this is only the adjustment that (by Duke's calculations) would be necessary for the base year. See Duke Supp. at 31. For the remaining 19 years of the DCF period, determination of the necessary adjustments to revenue calculations in particular would be complicated by the parties' divergent projections of traffic volumes and rate increases, a process that Duke has not attempted. Because Duke has not submitted a DCF that purports to eliminate the costs and revenue effects of Category 1 traffic, nor even explained how Duke contends that should be done, it has failed to meet its basic burden of proof with respect to that traffic.

⁸ For purposes of its supplemental evidence, Duke did not apply its ton-mile adjustment to the costs of operating managers, general and administrative costs, and *ad valorem* taxes. See Duke

erroneously assumes that operating costs are uniform and evenly distributed across the entire length of a route from mine origin to destination, and that there is a linear relationship between ton-miles and operating costs. Duke offers no evidence to support its counterintuitive assumption, and evidence in the record demonstrates Duke's assumption is incorrect.

Duke's across-the-board proportionate reduction of operating expenses neglects entirely the significant costs of originating and interchanging traffic.⁹ As NS has abundantly shown, there are very substantial costs associated with the intensive activity in and around the mine origins and mine-gathering areas (e.g., loading and mine-service operations in the Devon mine area), costs the SARR would not incur on straight line-haul operations. See, generally NS Reply at III-C, III-D; NS Supp. at 14-20. Similarly, relocating the points of interchange between the ACC and the residual NS (e.g., moving an interchange from Belmont, NC to St. Paul, VA) would not reduce the additional operating costs attributable to interchange activities. The rerouted segments at issue are almost exclusively line-haul segments, which have lower operating costs because they do not involve mine-service or interchange operations. Duke's flat across-the-board reduction approach fails to take into account the higher costs associated with mine gathering and interchange activities, and hence overstates the operating cost reduction attributable to the rerouted segments.

Supp. at 19.

⁹ Duke's failure to take into account the significant additional costs of originating the traffic is flatly inconsistent with its approach to revenue allocation for this same crossover traffic (there are also additional costs associated with terminating traffic, but those costs are not directly implicated in the present analysis because the residual NS would bear those costs as the terminating carrier of the rerouted crossover traffic). Duke's "modified mileage prorate" ("MMP") methodology adds a "terminal block" to compensate the originating carrier for the additional activity (and hence costs) at the mine origin. Although NS has demonstrated that the MMP approach is not appropriate in this case, logic and analytical consistency require that, at a minimum, Duke must either include or exclude both the revenues and the corresponding costs attributable to originating the traffic.

To illustrate the degree of distortion caused by Duke's approach, NS applied the same cost allocation approach to the operating costs that NS had calculated in its case-in-chief (excluding the same "fixed" costs that Duke excluded from its calculation, see n.8, supra). See NS Supp. Reply Exhibit (attached hereto). The result of applying this blunt instrument to the operating costs developed by NS is a 16 percent reduction in ACC operating expenses in the base year, more than double the 7 percent reduction NS developed from its detailed analysis of the specific operating costs actually attributable to the rerouted segments. See id.; NS Supp. at 17-20. Thus, application of Duke's method would inflate the costs attributable to the reroutes from approximately \$22 million to approximately \$48 million. See NS Supp. Reply Exhibit. This gross overstatement of the ACC's operating costs savings attributable to elimination of the reroutes ultimately results in a similar overstatement of net revenues the ACC would earn without the reroutes, thereby creating the erroneous impression that Duke's circuitous reroutes did not materially increase the hypothetical ACC's net revenues.¹⁰

C. Duke's Investment Cost Analysis Is Inadequate.

It is not clear how Duke calculated the investment costs attributable to the rerouted crossover traffic. While Duke claims to have calculated the investment costs that would be associated with the configuration changes it proposes (see Duke Supp Exh. S-6), it is difficult to determine from Duke's workpapers how Duke developed those costs, or if Duke's revisions properly considered and accounted for all components of road property investment. For example, Duke's evidence provides no indication of how, if at all, Duke adjusted the investment costs associated with bridges, culverts, ballast, sub-ballast, crossings, or signs. Similarly, although Duke's narrative asserts that, as a result of the reroutes, the ACC would adjust the

¹⁰ This is consistent with the common sense conclusion that Duke would not have engaged in the otherwise irrational exercise of creating the circuitous ACC reroutes, unless it believed that

territory covered by Centralized Traffic Control (“CTC”) systems (and corresponding investment costs), there is no indication in Duke’s exhibits or workpapers that it made any such adjustment.

As a result of Duke’s failure to adequately support and explain its investment cost adjustments, it is impossible for NS or the Board to determine the validity or reliability of Duke’s revised investment costs calculations. The only fully supported, adequate evidence in the record on this issue is that submitted by NS.

II. SARR CONFIGURATION

Duke and NS agree upon the alternate gateways at which ACC/NS crossover traffic rerouted by Duke would be interchanged if the rerouted segments were disallowed. Traffic classified by Duke as “Category 1” traffic would be interchanged at West Roanoke, VA, rather than at Winston-Salem, NC. Traffic in “Category 2” and “Category 3” would be interchanged at St. Paul or Appalachia, VA, rather than at Belmont or Catawba, NC. Compare Duke Supp. 8-9, with NS Supp. 4-6.

The parties also agree generally that redirecting ACC/NS crossover traffic to these alternate interchange points would require the ACC to relocate certain track facilities and operating activities, and that certain other facilities provided for in their respective cases-in-chief could be eliminated. See Duke Supp. 19-27; NS Supp. 5-13. However, there remain significant differences between the parties regarding the specific changes in the ACC’s configuration and operations that would be required to accommodate a shift of ACC/NS crossover traffic to St. Paul/Appalachia, VA.

exercise would significantly increase the ACC’s net revenues.

A. St. Paul, VA

The most significant difference between the parties relates to the alternate interchange point at St. Paul, VA. The parties agree that redirecting Category 2 and Category 3 crossover traffic to St. Paul would result in an exponential increase in the volume of traffic interchanged at that location. Duke Supp. 25; NS Supp. 12. The parties likewise agree that shifting crossover traffic to the route via St. Paul would require the ACC to establish an additional empty train inspection location at a point west of Bluefield, VA, because Category 2 and Category 3 traffic would no longer pass through the ACC's inspection facilities at Kenova, WV or West Roanoke, VA. Duke Supp. 26, n. 21; NS Supp. 12-13.

In NS' initial Supplemental Evidence, witness Kimbrough explained that Devon, WV would be the most logical site for such inspection facilities. As NS demonstrated in its case-in-chief, the ACC would, in any event, be required to construct a substantial yard facility at Devon. NS Supp. 13 (citing NS Reply III-B-59). Locating the new car inspection function at Devon would enable the ACC to take advantage of that track capacity in performing car inspections. Mr. Kimbrough determined that the ACC would need only one more 1400-foot inspection/setout track (in addition to the tracks proposed by NS in its case-in-chief) to accommodate the empty train inspection function. NS Supp. 13. Mr. Kimbrough proposed to re-deploy to Devon the car inspectors assigned in NS' case-in-chief to Winston-Salem, NC (which would be a car inspection location under NS' original SAC presentation). NS Supp. 17, Table III. There would be no need for additional supervisory positions at Devon, which (under NS' original presentation) was already staffed full-time with Trainmasters.

In its initial Supplemental Evidence, Duke proposes to conduct car inspections – and to refuel empty trains received from NS – at St. Paul, VA, rather than at Devon. Duke Supp. 28-29. While the selection of St. Paul as a location for inspecting cars and fueling trains is not

inherently illogical, Duke's proposal fails to provide the necessary facilities and staffing to accomplish all of the tasks that would have to be performed at St. Paul.

If all of the functions contemplated by Duke's proposal were assigned to St. Paul, the ACC would need more than the three-track yard facility proposed by Duke (see Duke Supp. 26). A three-track facility would provide the minimum capacity required to accommodate the interchange of 6 (loaded and empty) trains per day, to fuel inbound empty trains, and to perform empty train inspections. The ACC would also need track capacity to hold bad order cars set out by inspectors, and to perform running repairs on those cars (without blocking train activity through the St. Paul terminal). In addition, the ACC would need to keep a supply of spare cars on hand to fill out trains from which bad ordered cars were removed, prior to recycling those trains to the mines. Finally, as NS has previously shown, it does not employ Distributed Power ("DP") on any trains in its Appalachian coal service, and therefore would not accept DP units on trains received from the ACC (NS Reply III-C-24). Accordingly, the ACC would need capacity at St. Paul to hold locomotives removed from the end of loaded trains interchanged to NS. Witness Kimbrough determined that, in order to accommodate all of these functions, the ACC would need – in addition to the three tracks proposed by Duke – two 1800-foot tracks (one each for bad order and spare cars), and one 600-foot track to hold locomotives.

Moreover, Duke's proposal to have a single ACC train crew perform the required empty train inspection, switch out bad order cars, and then operate empty trains from St. Paul all the way to Devon or Elmore, is not feasible. As NS has previously shown (NS Reply III-C-29 to 30; NS Reply WP III-C-00089 to 0010), the train inspection process takes approximately 5 hours.¹¹

¹¹ Duke's assertion that ACC trains could be inspected and fueled, and bad order cars switched out (and replacement cars switched in) in 1.25 hours is nonsense. See NS Br. 29-30. NS' five-hour estimate is consistent with TMPA, where both the parties and the Board agreed that the process of preparing empty trains for movement takes approximately 6 hours. TMPA at 78.

Upon arrival at St. Paul, the ACC crew would conduct a job and safety briefing, and receive their paperwork (activities which typically take about 30 minutes – see NS Reply III-C-26). The crew would then inspect the empty train, and switch out any bad order cars identified during the inspection. Upon completion of these activities, the crew would be required to attach a third locomotive unit to the rear of the empty train (which would not be received from NS in a DP configuration), and synchronize the locomotive consist for DP operations (a process that would take approximately 1 hour – NS Reply III-C-23 to 24). When these tasks were completed, the crew would perform the required air test (which takes 30 minutes – NS Reply III-C-26). Under Duke’s proposal, the crew – which would have been on-duty for at least 7 hours prior to departure – would then operate in “straightaway” service from St. Paul to Devon, a distance of 148.6 miles (Duke Supp. 28). En route, each train would be required to enter a siding at Bluefield, and reverse direction, with the crew walking the length of the train. Duke Supp. 22. The DP would have to be reinitialized (making the rear locomotive the controlling unit for the trip from Bluefield to Devon/Elmore). These activities would involve at least a 1 hour stay at Bluefield.

It is simply not feasible for a single train crew to complete all of these operations within a twelve-hour shift. Indeed, as NS has previously shown, ACC trains operating between Devon and St. Paul/Appalachia would need to be re-crewed en route, even if crews were not assigned the additional task of conducting train inspections prior to departure from St. Paul. See NS Reply WP “LUMs and Carmiles (NS) v2.xls, tab “Crew Districts.” Assigning train inspection duties to ACC train crews at St. Paul would assure that every ACC train departing St. Paul would require a second crew to complete the movement to Devon or to Elmore – indeed, saddling ACC

train crews with car inspection duties could result in the need to employ a third crew to handle many ACC trains.

If the ACC were to make St. Paul (rather than Devon) the new ACC train inspection point, Mr. Kimbrough determined that it would be more efficient for the ACC to assign car inspectors to handle the inspection process rather than impairing the productivity of train crews by requiring them to perform that function. In any event, Duke's Supplemental Evidence makes no provision at all for personnel to perform repairs on bad order cars at St. Paul. Car inspectors assigned to St. Paul could perform such repairs. Assuming that the ACC performed empty train inspections at St. Paul, the inspectors provided for at Winston-Salem in NS' case-in-chief should be reassigned to St. Paul (rather than Devon). In addition, witness Kimbrough determined that four (4) Trainmasters would be needed at St. Paul to provide continuous supervision of the interchange, inspection, repair, switching, fueling and locomotive handling activities proposed by Duke for that location.

Witness Kimbrough's original suggestion that the ACC inspect empty trains at Devon (rather than at St. Paul) would reduce the ACC's track requirements as well as its supervisory personnel needs, consistent with the behavior of a least-cost replacement. Trainmasters already deployed at Devon could supervise car inspection/repair and train fueling activities as well.

B. Bluefield, VA

Duke acknowledges the need for additional track facilities at Bluefield to accommodate the reverse movement of trains operating between Devon/Elmore and St. Paul/Appalachia without interference to other trains on the ACC main line through Bluefield. Duke Supp. 22. Duke proposes to construct a 7000-foot siding east of the connection to the ACC's Wentz line for this purpose. Id.

NS witness Kimbrough determined that the longer third track between MP 366 and MP 362 discussed in NS' initial Supplemental Evidence is required at Bluefield. As NS showed, this track would be utilized by the ACC not only for the reverse movement of loaded and empty trains operating to/from St. Paul, but also in connection with a variety of other operations (including the light movement of helper units and staging cars for movement to/from the power plants at Celco and Glen Lyn, VA). See NS Supp. 6-7. The 7000-foot siding proposed by Duke would not provide adequate capacity for these purposes.

C. West Roanoke – Belmont

The parties agree that redirecting ACC crossover traffic from interchanges at Belmont and Catawba, NC to St. Paul and Appalachia, VA would reduce the ACC's facility requirements south of West Roanoke. Duke witness Lyman suggested that two of the three sidings between Barbar and Belmont proposed in Duke's case-in-chief be eliminated. He also proposed that the ACC eliminate CTC signaling on the line south of Barbar. Duke Supp. 23-24. NS witness Kimbrough determined that even more facilities could safely be removed from the West Roanoke – Belmont line if Duke's improper reroutes are disallowed. Specifically, Mr. Kimbrough recommended that a total of seven (7) sidings between West Roanoke and Belmont be eliminated (NS Supp. 9, Table I), and that CTC signaling be removed south of Belews Creek, NC (id. 10). The elimination of these additional facilities would further reduce the ACC's capital costs.

III. OPERATING EXPENSES

Duke's initial Supplemental Evidence contains several incorrect statements regarding the impact of redirecting ACC crossover traffic to the St. Paul/Appalachia interchanges on the ACC's capacity and operating expenses. First, Duke asserts that "[t]he unit cost for the fueling activities (and the fuel) at St. Paul is identical to that at West Roanoke." Duke Supp. 29. Duke

proposes that refueling at St. Paul would be conducted by contractors using tanker trucks. *Id.* 28. As NS has previously shown, the cost of fuel provided by contractors is approximately 10 cents per gallon higher than the railroad's cost of fuel. *See* NS Reply WP III-C-0002.

Second, Duke contends that redirecting ACC crossover traffic to St. Paul/Appalachia would reduce the number of trains operating on the ACC's line east of Bluefield, VA, and that "the [remaining] trains would consequently achieve faster transit times." Duke Supp. 10. Duke then posits that this (assumed, but unsupported) improvement in transit times would generate "indirect" operating cost savings in addition to those identified in Duke's Supplemental Evidence. *Id.*; Duke Supp. 20. However, for the reasons previously discussed in NS' Supplemental Evidence (at 18, n.11), a reduction in daily train activity – accompanied by a corresponding reduction in the ACC's track facilities – would not necessarily produce faster average transit times for ACC trains.

Finally, Duke asserts that redirecting ACC crossover traffic to its original routings "should alleviate any potential concerns regarding the ACC's capacity [presumably, as designed by Duke] to handle its peak-period traffic." Duke Supp. 20-21. The purported basis for this assertion is that redirecting crossover traffic in this manner would (according to Duke) reduce the number of daily trains operating between Bluefield and West Roanoke by 20 percent. *Id.* 21. However, a prospective reduction in train activity between Bluefield and West Roanoke would do little (if anything) to remedy the serious flaws in Duke's proposed SARR configuration. As NS Reply Exh. III-B-2-2 graphically illustrates, the vast majority of the shortcomings in Duke's proposed design for the ACC occur on lines west of Bluefield, or between West Roanoke and Belmont, not on the Bluefield-West Roanoke segment. Indeed, the only additions to the ACC's track configuration between Bluefield and West Roanoke proposed in NS' case-in-chief were

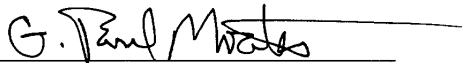
(i) two sidings between MP 362 and 364 (which are used in connection with service to Celco and Glen Lyn, and which would be needed even if ACC crossover traffic were redirected – NS Supp. 6-7); and (ii) a third track between MP 366 and 354 east of Bluefield (a portion of which would still be required to accommodate reverse movements of ACC trains operating to/from St. Paul – see p. 13 supra; NS Supp. 6-7).¹² Thus, redirecting ACC crossover traffic to its original gateways would not eliminate the need for the substantial additions to the ACC's physical capacity described in Part III.B of NS' Reply.

CONCLUSION

NS respectfully requests that the Board adopt NS' estimates of the revenues and costs attributable to the crossover traffic rerouted by Duke.

Respectfully submitted,

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Counsel for Defendant Norfolk Southern Railway Company

DATED: October 31, 2003

¹² In its case-in-chief, NS also proposed to relocate and combine two sidings proposed by Duke itself between Whitethorne and Merrimac, VA, in order to better utilize that capacity. See NS Reply Exh. III-B-2-2.

EXHIBIT

NS Supp. Reply Exhibit: Sensitivity Analysis of Parties' Approaches to Calculating Operating Costs Attributable to Rerouted Crossover Traffic

Item	NS Reply Base Case	NS Approach Modified Scenario for Reopen	2002	Percent Difference Between Duke Approach and NS Reply
			Duke Approach Modified Scenario	
1. Train & Engine Personnel	\$47,790,939	\$43,425,651	\$38,215,469	-20.04%
2. Locomotive Lease Expense	38,997,304	34,755,037	31,183,741	-20.04%
3. Locomotive Maintenance Expense	30,402,445	27,132,709	24,310,962	-20.04%
4. Locomotive Operating Expense	34,231,778	27,371,113	27,373,044	-20.04%
5. Railcar Lease Expense	26,744,840	26,149,575	21,386,201	-20.04%
6. Material & Supply Operating	1,937,913	1,890,309	1,549,630	-20.04%
7. Ad Valorem Tax	6,774,038	6,774,038	6,774,038	0.00%
8. Operating Managers	13,884,605	13,791,962	13,884,605	0.00%
9. General & Administration	36,435,813	35,335,096	36,435,813	0.00%
10. Other Expenses	3,944,765	4,125,061	3,154,386	-20.04%
11. Loss and Damage	87,329	87,329	69,832	-20.04%
12. Payment to Mines				
13. Insurance *	7,300,368	6,756,828	6,123,643	-16.12%
14. Maintenance of Way	50,782,959	49,435,244	40,608,003	-20.04%
Total	\$299,315,096	\$277,029,952	\$251,069,367	-16.12%
Difference		(\$22,285,144)	(\$48,245,730)	
Percent Difference		-7.45%	-16.12%	
Total Ton-Miles				
With Re-Routes:		23,956,316,674		
Without Re-Routes:		19,156,390,431		
% Difference:		-20.04%		

* In Duke's October 24 supplemental submission, Duke did not apply the ton-mile ratio approach to Insurance. Duke allowed the Insurance calculation to flow through based on a percentage of total operating costs.

DUKE ENERGY CORPORATION,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

MICHAEL R. BARANOWSKI

In this Response to Complainant Duke Energy Corporation's supplemental evidence, I am sponsoring those portions of NS' Response which address the development of road property investment costs for the stand-alone railroad.

I declare under the penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this testimony.

Michael R. Baranowski
Michael R. Baranowski

DUKE ENERGY CORPORATION,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

BENTON V. FISHER

In this Response to Complainant Duke Energy Corporation's supplemental evidence, I am sponsoring those portions of NS' Response which address the development of operating expenses for the stand-alone railroad.

I declare under the penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this testimony.

Benton V. Fisher
Benton V. Fisher

DUKE ENERGY CORPORATION,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

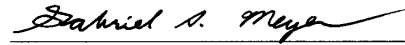
Defendant.

Don M. Kimbrough
Don M. Kimbrough

CERTIFICATE OF SERVICE

I hereby certify that, on this 31st day of October, 2003, I served the foregoing
“Reply of Defendant Norfolk Southern Railway Company to Complainant Duke Energy
Corporation’s Supplemental Evidence” by causing two (2) copies thereof to be delivered, in the
manner indicated, to:

William L. Slover
Robert D. Rosenberg
Christopher A. Mills
Andrew B. Kolesar III
Slover & Loftus
1224 Seventeenth Street, N.W.
Washington, D.C. 20036
(*By Hand Delivery*)



Gabriel S. Meyer