

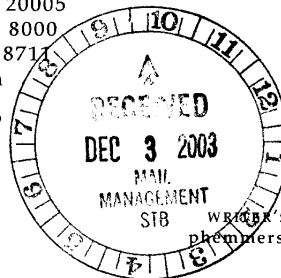
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December 3, 2003

BY HAND

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

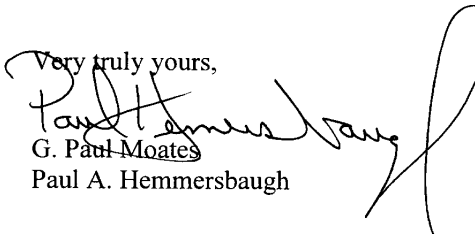
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Re: Carolina Power & Light Company v. Norfolk Southern
Railway Company, STB Finance Docket No. 42072

Dear Secretary Williams:

Yesterday afternoon, Defendant Norfolk Southern Railway Company filed a Reply to Complainant Carolina Power and Light Company's Supplemental Evidence in the above-captioned proceeding (NS' "Reply"). After the Board had closed for the day, we noted two inadvertent omissions from NS' Reply filing. First, although NS' signed original included an exhibit, a copy of that exhibit was omitted from the 10 copies NS filed with the Board. Second, NS did not file a Public Version of its Reply.

To minimize any inconvenience these omissions might cause, we are filing, when the Board opens this morning, ten copies of the exhibit that were omitted from the copies of NS' Reply filed yesterday, an original and a copy of the Public Version of NS' Reply, and a computer diskette containing an electronic copy of the Public version. If you have any questions regarding this filing, please contact one of the undersigned.

Very truly yours,

G. Paul Moates
Paul A. Hemmersbaugh

cc: Complainant's Counsel

BEFORE THE
SURFACE TRANSPORTATION BOARD

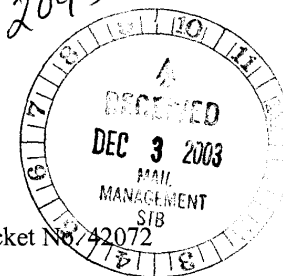
CAROLINA POWER & LIGHT COMPANY,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.



STB Docket No. 42072

REPLY OF DEFENDANT NORFOLK SOUTHERN RAILWAY COMPANY
TO COMPLAINANT CAROLINA POWER & LIGHT COMPANY'S
SUPPLEMENTAL EVIDENCE

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INTRODUCTION

The Supplemental Evidence filed by CP&L and NS on November 24, 2003 (the “CP&L Supplement” and “NS Supplement,” respectively) indicates that the parties effectively agree that disallowing CP&L’s proposed rerouting of certain crossover traffic would not have a material effect on the results of the Board’s SAC analysis. See CPL Supp. at 24-25; NS Supp. at 19-20. The similarity between the parties’ results, however, masks significant differences in the assumptions and methodologies employed by CP&L and NS in developing their respective estimates of the revenues and costs associated with rerouted P&SH/NS crossover traffic. As NS demonstrates below, CP&L’s approach is fundamentally flawed, and introduces new and compounding errors to its SAC presentation. Moreover, the serious errors in CP&L’s case-in-chief make it impossible for CP&L to provide a meaningful response to the question of costs and revenues attributable to a subset of SARR traffic (i.e. rerouted crossover traffic). NS’ analysis in this Reply focuses primarily on the new analytical, factual, and legal errors CP&L introduced in its Supplemental submission.

First, the mileage calculations upon which CP&L’s Supplement is based are demonstrably incorrect. Specifically — and contrary to both logic and CP&L’s case-in-chief — CP&L assigns different mileage values to shipments that are shifted between the same interchange points (Bluefield, VA and Iaeger, WV). This error alone invalidates CP&L’s supplemental analysis. Moreover, CP&L’s Supplemental submission changed the mileages on nearly every rerouted crossover movement from the mileages it used in its case-in-chief, without explanation and without even disclosing to the Board that it was doing so. See infra at 6-7. Even further, CP&L’s Supplement substituted new, materially different volumes for those it used

for its rerouted traffic in its case-in-chief.¹ Together, CP&L's undisclosed changes to overall route mileages; its undisclosed, illogical and contradictory assignment of lengths of the P&SH's portion of rerouted crossover traffic; and its unjustified change in rerouted traffic volumes, should result in rejection of its Supplemental Evidence without further consideration.

Second, disregarding the presumption articulated in the Board's recent Duke Energy decision, CP&L's Supplement assumes that the P&SH would be permitted to retain the challenged reroutes on all crossover shipments for which the total length of haul would increase by fewer than 10 miles. CP&L Supp. at 7-11. (For the reasons discussed below, CP&L's arguments for applying such a rule in this case should be rejected.) By contrast, NS' Supplement is based upon a straightforward application of the Duke Energy rule concerning rerouted crossover traffic — i.e., that reroutes producing shorter combined SARR/Residual Incumbent hauls are presumptively valid, while those generating longer total hauls should be disallowed.

Third, even if CP&L had included all of the relevant traffic and the correct miles for the P&SH segments, its estimates of the costs and revenues associated with rerouted crossover traffic would be unusable, because they are based upon the same flawed methodologies, and assumptions that invalidated its case-in-chief. For example, CP&L's estimate of operating costs attributable to rerouted crossover traffic is based on the same defective operating assumptions, and resulting understatement of operating costs, that characterized its case-in-chief. CP&L's Supplement compounds those operating cost errors by applying a conceptually flawed "ton-mile proportion" methodology to estimate the operating costs savings that the P&SH would experience if reroutings involving greater lengths of haul were disallowed. In all events, regardless of its operating cost allocation methodology, CP&L is necessarily allocating

¹ In its Supplement, CP&L identified 10 re-routed crossover movements for the first time. CPL Supp at 2. With this Reply, NS provides a recalculation of operating expenses, incorporating

erroneous and unsupported costs generated primarily by CP&L's defective string diagram model. See, e.g., NS Br. at 6-8, 21-25, 29-35.²

The fundamental errors and failures of proof in CP&L's case-in-chief render any attempt to estimate changes in CP&L's revenue and cost evidence (based upon the disallowance of certain rerouted crossover movements) a futile exercise. Therefore, the Board should rely upon the revenue and cost estimates presented in NS' Supplement (as modified herein), as the only reliable record evidence regarding the revenues and costs attributable to CP&L's rerouted crossover traffic.

I. METHODOLOGICAL ERRORS AND ANALYTICAL DEFICIENCIES IN CP&L'S SUPPLEMENTAL EVIDENCE

NS and CP&L come to the same general conclusion – that the net result of eliminating rerouted traffic would be a *de minimus* change in the overall SAC result – using very different methods. Compare CP&L Supplement at 6 (asserting that result of eliminating rerouted crossover traffic, without considering capital cost changes, would be to add [REDACTED] in net P&SH costs in the peak year) with NS Supplement at 19, Table VI (showing that result of eliminating rerouted crossover traffic in first year of P&SH operation, including changes in capital costs, would be to increase the net excess of P&SH costs over revenues by [REDACTED]). The methods and assumptions CP&L used to generate its cost and revenue revisions are logically and analytically unsound, and inconsistent with the Board's precedent and its October 14 Order.

these new reroutes. See NS Reply Elec. WPs "Comparison of Op Expenses (Reply).xls"

² Similarly, CP&L's estimate of the revenues attributable to rerouted crossover traffic is 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 NS Brief at 11-20.

A. The Board Should Reject CP&L's Supplemental Evidence Because CP&L's Recalculated Mileages For Crossover Traffic Are Erroneous and Irreconcilable With the Evidence CP&L Submitted In Its Case-In-Chief.

CP&L's Supplement is fatally undermined by serious errors in CP&L's calculation of the difference in route miles that would result from redirecting rerouted crossover traffic back to its historical route of movement. Specifically, CP&L's Supplement assigns inconsistent mileage values to shipments that are shifted between the same interchange points (Bluefield, VA and Iaeger, WV). For example, in CP&L's case-in-chief, CP&L (correctly) stated that, for all traffic classified by CP&L as "Category C" or "Category D" traffic, "[i]nterchange at Bluefield, VA rather than Iaeger, WV adds a total of 40.0 miles to each [rerouted] movement. NS route miles are reduced by 9.3 route miles and Piedmont RR route miles are increased by 49.3 route miles." See CP&L Op. Exh. III-A-4 at 4, n. 5 (reproduced in NS Supp. Exhibit at page 4 of 4, n.5). As NS Supp. Exhibit 2 (attached hereto) illustrates, CP&L's case-in-chief assumption that shifting crossover traffic to a P&SH/NS interchange at Bluefield would add 40 miles to the overall movement in all instances was correct — the P&SH route from Iaeger to Bluefield would add 49 miles to the haul, while the NS route between Bluefield and Cedar Bluff (36 miles) would be nine (9) miles shorter than the route between Iaeger and Cedar Bluff (45 miles).

However, in its Supplement, CP&L assigned a wide variety of mileage differences to the same Category C and Category D movements. For example, CP&L's Supplement assumes that the total route mileage on shipments from the Hull, WV mine to Holt, Alabama would be 26.47 miles shorter via Bluefield, rather than 40 miles longer (as CP&L's case-in-chief assumed). Based upon this inexplicable change in total route mileage, CP&L contends that its decision to reroute the Hull — Holt movement should be allowed, because (according to CP&L's new calculations) it would produce a shorter overall length of haul. CP&L reaches widely varying conclusions with respect to the mileage difference between the "historical" route and the

“rerouted” route for other shipments that were shifted between Iaeger and Bluefield. See, e.g., CP&L Supp. Exh. S-3 at 2-3 (Hull, WV – N. Birmingham, AL (15.24 miles shorter); Biggs – Wansley, GA (4.64 miles longer); Martiki, KY – Richburg, MS (7.27 miles shorter)).

Neither CP&L’s Supplement nor the workpapers underlying that submission explain how CP&L arrived at such inconsistent conclusions about the impact of shifting various movements between the same two interchange points. As NS Supp. Exh. 2 — and CP&L’s case-in-chief — correctly show, CP&L’s “rerouted” movements between Iaeger and Cedar Bluff via Bluefield would, in all instances, be 40 miles longer than a direct Iaeger, WV – Cedar Bluff, VA routing. Moreover, neither the length of haul on the P&SH north or west of Iaeger, nor the length of haul on NS south or west of Cedar Bluff, would be affected by the allowance (or disallowance) of CP&L’s proposed interchange at Bluefield. Thus, the mileage assumptions upon which CP&L’s Supplement is based are demonstrably wrong. This fundamental flaw invalidates the analysis set forth in CP&L’s Supplement, and the Board should reject it for that reason alone.

B. The Board Should Exclude Costs and Revenues Attributable to All Rerouted Crossover Traffic That Results In A Greater Total Length Of Haul.

In the October 14 Order, the Board made clear that it was reopening the record in this case for “the sole purpose of affording the parties the opportunity to present needed evidence” quantifying “the costs and revenues associated with rerouting traffic that would not be local to the standalone railroad[.]” October 14 Order at 1 (emphasis added). The Board plainly directed the parties to submit evidence concerning the costs and revenues of all rerouted crossover traffic — it did not instruct the parties to submit evidence concerning some of the costs and revenues of some of the rerouted traffic, as CP&L has done. See CPL Supp. 11-13.

CP&L did not even attempt to quantify all investment costs the residual NS would bear as a result of rerouted crossover traffic. And, it only quantified some, but not all of the operating

costs the residual NS would incur as a result of CP&L's rerouted crossover traffic. Moreover, CP&L does not explain how, if at all, its overall reroute cost and revenue calculations take into account even the few on-SARR investment cost changes it does identify. See CPL Supp. at 6 (revenue and cost estimate expressly excludes investment costs); id. at 13 (revenue and cost estimate is only for reroutes of 10 miles or more, and does not appear to include capital costs); id. at 24 (conclusion calculates only "revenues less operating expenses," and only for reroutes of more than 10 miles).

Nor did the Board's narrow reopening order invite the parties to make new arguments for a change to the Board's rule regarding rerouted crossover traffic. See CPL Supp. at 6-11, 24 (seeking a new rule that only reroutes involving an increase in total distance of more than 10 miles should be presumptively invalid). As the Board clarified in TMPA, a complainant may reroute non-issue crossover traffic only if it "fully account[s] for the ramifications of requiring the residual carrier to alter its handling of the traffic . . ." TMPA v. BNSF, STB Docket No. 42056, Decision at 22 (served March 24, 2003) (emphasis added); see Duke Energy, STB Docket No. 42069, Decision at 26 (served Nov. 6, 2003) (same, and adding a presumption that reroutes that result in longer total haul are invalid). CP&L offers no rationale for changing the Board's basic presumption to apply only to reroutes resulting hauls that are more than 10 miles longer – there is no more reason to change the presumption to 10 miles than to 2, or 5, or 20 miles.

CP&L's evidence, however, makes readily apparent its motivation for requesting a change in the Board's rule. The rerouted crossover traffic that CP&L now refers to as "Category A" reroutes is primarily traffic destined for Duke Energy's Marshall plant at Catawba, North Carolina. The net mileage difference due to CP&L's reroutes of traffic destined for

Catawba — as calculated by CP&L in its case-in-chief — is 8.7 miles, or slightly less than the new “less than 10-miles” rule CP&L urges in its Supplemental submission. See CP&L Op. Exh. III-A-4 at 1-2 (copy included as NS Supplemental Exhibit).³ CP&L’s supplemental exhibits show that the Catawba traffic alone accounts for [REDACTED] of the total revenue the P&SH would generate by rerouting crossover traffic. See CPL Supp. Exh. S-2 and S-3 (Catawba traffic accounts for [REDACTED] additional revenues generated by CP&L reroutes). Thus, unless the Board adopts the new rule CP&L advocates here, it would lose half of the revenue generated by its reroutes from Category A traffic alone.

Moreover, CP&L’s Supplement substitutes different traffic volumes for those it used in its case-in-chief, apparently — without providing any explanation or justification — substituting 2003 [REDACTED] volumes for the 2002 [REDACTED] volumes it used in its case-in-chief. Compare CP&L Op. Exh. III-A-4 with CP&L Supp. Exh. III-A-4 (Revised). This change to CP&L’s evidence is beyond the narrow scope of the Board’s October 14 Order, and provides yet another independently sufficient reason to reject CP&L’s Supplemental Evidence entirely. In any event, had CP&L used the [REDACTED] tonnages it used to present its reroutes in its case-in-chief, rather than the [REDACTED] volumes it substituted in its Supplemental Evidence (again, without explanation or justification for making this change), Catawba’s proportion of total P&SH revenues generated by rerouted traffic would be even higher. Compare CP&L Op. Exh. III-A-4 with CP&L Supp. Exh. III-A-4 (Revised).

In addition to the foregoing errors and impermissible revisions to its evidence, CP&L provides no real analysis or data to support its conclusory assertions that its less-than-10-mile

³ Without explanation, or even advising NS or the Board that it has done so, CP&L changed the mileages, including the net mileage difference for movements terminating at Catawba, in the version of this exhibit it submitted in support of its Supplemental Evidence. Compare NS Supp. Exhibit with CP&L Supp. Exh. III-A-4 (Revised).

reroutes are more efficient or result in increased densities or other operational efficiencies. See Duke Energy, slip op at 26 (complainant's burden of proof to rebut presumption that longer reroutes are invalid). Because neither CP&L's case-in-chief, its Rebuttal, nor its Supplement attempts to quantify the full costs and other ramifications of requiring the residual NS to alter its handling of rerouted crossover traffic, all of those reroutes should be disallowed. See TMPA, slip op. at 21-23. Similarly, CP&L has not provided evidence sufficient to rebut the Board's presumption that reroutes that result in a longer total haul are invalid. See Duke Energy at 26. CP&L offers only generalized, unsupported assertions that, in theory, some of the reroutes for which the net change in mileage would be less than 10 miles might not be less efficient than the existing route. See CPL Supp. at 7-11. Because CP&L did not offer specific, quantified evidence to support its conclusory assertions, it cannot meet its burden of adducing evidence sufficient to rebut the presumption articulated in Duke Energy.

C. CP&L's "Ton-Mile" Approach Misallocates Operating Costs.

CP&L's Supplement estimates the operating costs attributable to rerouted crossover traffic by using 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 P&SH from the reroutes. Specifically, CP&L estimated the operating costs attributable to the reroutes by applying an indiscriminate across-the-board reduction of the full operating costs of the entire P&SH route, based solely on the proportion of ton-miles the rerouted portions represent as a fraction of the total ton-miles handled by the P&SH system.⁴ See CP&L Supp. at 6, 12-13. The flaw in this approach is that it erroneously assumes that operating costs are uniformly distributed across the entire length of a route from origin to

⁴ For purposes of its supplemental evidence, CP&L did not apply its ton-mile adjustment to the costs of operating managers, general and administrative costs, and *ad valorem* taxes. See CP&L

destination, and, therefore, that there is a linear relationship between ton-miles and operating costs. CP&L offers no evidence to support this counterintuitive assumption, and evidence in the record demonstrates that CP&L's assumption is incorrect.

CP&L's proportionate reduction of operating expenses ignores the significant costs associated with originating and interchanging traffic. As NS has shown, there are very substantial costs associated with loading operations at mine origins. See generally NS Reply at III-C, III-D.⁵ Similarly, relocating the points of interchange between the P&SH and the residual NS (e.g., moving an interchange from Bluefield, VA to Iaeger, WV) would not reduce the operating costs attributable to interchange activities — indeed, CP&L's proposal to create multiple new P&SH/NS interchanges at Iaeger and Morri Branch Jct., WV, while retaining an active interchange at Bluefield, would in all likelihood increase the P&SH's overall operating expenses.

The line segment at issue with respect to most of the subject reroutes is the P&SH main line between Iaeger, WV and Bluefield, VA. See CP&L Supp. at 13-17. The P&SH's proposed operations between those two points would consist entirely of line-haul train movements, with no mine service or local operations at any point along that segment. Yet CP&L's ton-mile-based reduction approach assigns to this line-haul segment a portion of the higher costs associated with mine gathering and interchange activities on other parts of the P&SH system. CP&L's methodology therefore overstates the operating cost reduction attributable to redirecting the interchange of certain crossover traffic from Bluefield to Iaeger (or Morri Branch Jct.).

Supp. at 6.

⁵ Maintenance of way expenses submitted with NS' Supplemental Evidence contained a small error. Those MOW expenses should have been [REDACTED]. A corrected spreadsheet is included with NS' Supplemental Reply workpapers.

D. CP&L's Investment Cost Analysis Is Inadequate.

It is not clear how CP&L calculated the investment costs attributable to the rerouted crossover traffic. While CP&L claims to have calculated the investment costs that would be associated with the configuration changes it proposes (see CP&L Supp. Exh. S-7), it is difficult to determine from CP&L's workpapers how CP&L developed those costs, or if CP&L's revisions properly accounted for all components of road property investment. For example, it appears that CP&L's additional construction cost calculations fail to include costs of key components, including ballast, sub-ballast and track construction. See CP&L Supp. Exh. S-7. As a result of CP&L'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 CP&L's revised investment costs calculations. The only fully supported, adequate evidence in the record on this issue is that submitted by NS.

Further, although CP&L provides its (flawed and incomplete) estimate of the investment costs of the limited P&SH configuration change it concedes would be necessary if reroutes of greater than 10 miles were eliminated, it consistently fails to include even that investment cost in its calculation of the overall revenues and costs attributable to CP&L's rerouting of crossover traffic. See CPL Supp. at 6, 13, 24 (in all three instances, stating only the difference between revenues and operating costs, and only for a single year). In addition, CP&L confines its calculation of costs and revenues of reroutes to a single year, thereby neglecting entirely to quantify the overall cumulative effect of rerouted crossover traffic on SARR revenues and costs over the 20-year DCF period. In contrast, NS provided with its supplemental evidence two alternative full DCF analyses taking into account all costs (i.e. operating costs and investment costs) attributable to rerouted crossover traffic. See NS Supp. at 2, 17-20, Tables V & VI; cf.

October 14 Order (directing parties to quantify costs attributable to rerouted crossover traffic, including operating costs and investment costs).

CP&L also fails to even attempt to account for the investment costs the residual NS would incur as a result of its reroutes, thereby failing to satisfy its burden of proof with respect to rerouted crossover traffic. See TMPA, slip op at 22 (complainant may reroute non-issue crossover traffic only if it “fully accounts for the ramifications of requiring the residual carrier to alter its handling of traffic”). CP&L erroneously asserts that “NS has not alleged that any facility or other capacity enhancements would be needed on its residual system as a result of the Category A reroutes.” To the contrary, NS explicitly addressed this point in its Reply evidence, stating, *inter alia*, that “the NS line segment that would be most affected by CP&L’s decision to divert massive volumes of traffic from more efficient alternative routings to the P&SH’s proposed Kenova-Bluefield-Roanoke is NS’ line between Bluefield, WV and Richlands, VA.” See NS Reply III-B-73 to 74.

II. SARR CONFIGURATION

CP&L and NS agree upon the alternate gateways at which P&SH/NS crossover traffic rerouted by CP&L would be interchanged if the rerouted segments were disallowed, with one exception. Specifically, the parties agree that traffic classified by CP&L as “Category A” traffic would be interchanged at Iaeger, WV, rather than at Altavista, VA, and that traffic in “Category C” and “Category D” would be interchanged at Iaeger rather than at Bluefield, VA. Compare CP&L Supp. 3-5, with NS Supp. 5-6. However, the parties reached different conclusions regarding the appropriate alternate interchange point for traffic classified by CP&L as “Category B” traffic. CP&L would redirect Category B traffic to a new interchange with NS at Morri Branch Jct., WV (CP&L Supp. at 3), while NS assumed that Category B traffic would be interchanged between P&SH and NS at Iaeger (NS Supp. at 5-6).

As an initial matter, CP&L's decision to establish (for the first time in its Supplement) a new P&SH/NS interchange at Morri Branch Jct., WV represents a departure from CP&L's case-in-chief. As CP&L Op. Exh. III-A-4 (reproduced in NS Supp. Exh. 1) shows (at page 2 of 4), CP&L itself assumed, in its case-in-chief, that "Category B" traffic would be rerouted from Iaeger (rather than Morri Branch Jct.) to Bluefield. Moreover, as CP&L observes (CP&L Supp. at 2-3), the Board's prior decisions regarding rerouting of crossover traffic do not express concern about "internal" reroutes necessitated by the fact that a SARR does not replicate all of the residual carrier's lines. [T]he origin carrier (here the P&SH) normally has the right to the longest haul that is reasonable." CP&L Supp. at 9. NS' decision to redirect Category B traffic to an interchange at Iaeger is consistent with these considerations. Routing Category B traffic on the P&SH's lines from Elmore, WV to Iaeger via Bluestone, WV (as NS did) affords the P&SH its longest internal haul, while returning the traffic to its historic route of movement from Iaeger to destination. NS' proposal also avoids the need for the P&SH (and NS) to maintain a low density interchange at Morri Branch Jct., and for the P&SH to build more interchange tracks to support such an interchange. Accordingly, NS' proposal to interchange Category B traffic at Iaeger (rather than Morri Branch Jct.) represents the least-cost, most efficient interchange solution with respect to Category B shipments.

The parties agree generally that redirecting P&SH/NS crossover traffic to alternate interchange points would require the P&SH to relocate certain track facilities and operating activities provided for in the parties' respective cases-in-chief, and to construct certain new facilities to accommodate such changed operations. See CP&L Supp. 13-21; NS Supp. 5-11. However, there remain several significant differences between the parties' evidence regarding

the specific changes that would be required to accommodate a shift of P&SH/NS crossover traffic to Iaeger (or to Morri Branch Jct.).

A. Iaeger, WV

The parties agree that redirecting Category A, Category C and Category D crossover traffic to Iaeger, WV would require the P&SH to establish a substantial new interchange at that location. CP&L Supp. 20-21; NS Supp. 7. In order to accommodate the new interchange at Iaeger, NS witness Kimbrough proposed that three interchange tracks from the Bluefield Yard provided in NS' case-in-chief be constructed instead at Iaeger. NS Supp. 7. Under witness Kimbrough's proposal, the P&SH would retain a six-track yard facility at Bluefield. *Id.* 8-9.

CP&L's Supplement proposes to relocate the four-track Bluefield Yard provided for in CP&L's case-in-chief to Iaeger, WV. CP&L Supp. 20-21. Because there is insufficient room to construct such a facility adjacent to the P&SH right-of-way at Iaeger, CP&L proposed to place the yard on the site of NS' existing yard just south of the Dry Fork Branch. *Id.* 20-21; CP&L Supp. Exh. S-6, S-7. NS agrees that, given the physical constraints at Iaeger (*see* NS Supp. 6), the location for the Iaeger Yard proposed by CP&L makes sense. (NS' Supplement located the yard along the existing P&SH right-of-way, in order to avoid any change in the physical configuration of the SARR at this late stage of the proceeding. However, from a practical standpoint, CP&L's proposed location is more desirable.) NS also agrees that the track facilities (including a bridge over the Dry Fork Branch) identified in CP&L's Supp. Exh. S-7 would need to be constructed in order to site the yard at the location proposed by CP&L.

Under CP&L's proposal, the P&SH would not retain any yard facilities at Bluefield. *Id.* 19. For the reasons discussed in Part II.C below, CP&L's claim that the P&SH would not need any yard facilities at Bluefield is incorrect.

The parties agree that redirecting crossover traffic to a route via Iaeger, WV would require the P&SH to establish an empty train inspection facility at a point west of Bluefield, VA, because the redirected crossover traffic would no longer pass through the P&SH's proposed inspection facilities at Kenova, WV or West Roanoke, VA. CP&L Supp. 20; NS Supp. 6-7. CP&L's proposal to perform such 1000-mile inspections on empty trains received from NS at Iaeger is problematic. In order to conduct inspections at Iaeger, the P&SH would need at least two tracks upon which to inspect empty trains. In addition, the P&SH would need track capacity to hold bad ordered cars for repairs, as well as a supply of spare cars to fill out trains from which bad ordered cars were removed. Because NS does not employ Distributed Power ("DP") on trains in its Appalachian coal service, and therefore would not accept DP units on trains received from the P&SH at Iaeger (NS Reply III-C-23 to 24, 31 to 32), the P&SH would also need track capacity at Iaeger to hold locomotives removed from the rear-end of loaded trains interchanged to NS. The four-track yard facility proposed by CP&L at Iaeger would not be adequate to accommodate these functions, as well as the interchange of [REDACTED] tons of coal traffic annually. As NS' Supplement (at 6-7) showed, Devon, WV would be a more logical point at which to perform such inspections. The larger Devon Yard proposed in NS' Reply — which would be required by the P&SH in any event — would have capacity to accommodate the inspection of empty trains received from NS at Iaeger. No additional track facilities would be required to perform inspections at Devon, while CP&L's proposal would necessitate the construction of more tracks at Iaeger. There would be no need for additional supervisory positions at Devon, which (under NS' case-in-chief presentation) was already staffed full-time with Trainmasters. The personnel (9 carmen and one manager) assigned to Bluefield, VA in NS' case-in-chief (see NS Reply Exh. III-D-1) could be reassigned to perform the same duties at

Devon. Thus, NS' proposal represents the least-cost, most efficient means of inspecting empty trains received from NS at Iaeger.

B. Iaeger, WV – Bluefield, VA

CP&L's Supplement does not propose to eliminate any of the track facilities between Iaeger, WV and Bluefield, VA provided in its case-in-chief, on account of the shift of rerouted crossover traffic from interchanges at Bluefield and Altavista, VA to Iaeger, WV. CP&L Supp. 14. However, CP&L claims that the retention of those facilities "should alleviate any doubts the Board may have as to the ability of the P&SH system configuration [proposed by CP&L] to accommodate its peak-period traffic." *Id.* This assertion is incorrect. As NS' Brief (at 20-26) demonstrated, CP&L's case-in-chief utterly failed to present a feasible SARR. The numerous deficiencies in CP&L's configuration evidence and operating plan — particularly its discredited string diagram model — cannot be remedied simply by shifting the point of interchange for a small subset of the P&SH's traffic.

As CP&L notes, NS' Reply proposed to add approximately 17 miles of second (or third) main track and sidings on the P&SH line between Iaeger and Bluefield. Witness Kimbrough reviewed those proposed additions, and determined that the 11-mile segment of third main track proposed by NS in the vicinity of Bluestone, WV could be eliminated if all CP&L reroutes that resulted in greater total lengths of haul were disallowed. NS Supp. 8. The remaining 5.8 miles of additional track proposed in NS' case-in-chief consisted of extensions of certain double-track segments initially proposed by CP&L between Mohegan and Farm, and between Farm and Welch, as well as a "middle siding" between MP 401.1 and MP 402.9 designed to avoid conflicts between light helper engines and through trains operating on the P&SH main line. *See* NS Reply III-B-41. Mr. Kimbrough determined that these facilities would be required even if the subject crossover traffic were redirected to an interchange at Iaeger, WV. Neither CP&L's Supplement,

nor its case-in-chief, refute Mr. Kimbrough's well-supported analysis of these track requirements.

In any event, a prospective reduction in train activity between Iaeger and Bluefield would do nothing to remedy the serious flaws in CP&L's analysis of track capacity requirements on other portions of the P&SH system. As NS Reply Exh. III-B-2 graphically illustrates, many of the shortcomings in CP&L's proposed design for the P&SH occur on lines north or west of Iaeger (in the coal fields), or east of Bluefield, VA. Redirecting P&SH crossover traffic to its original gateways would not eliminate the need for substantial capacity additions on those portions of the P&SH system described in Part III.B of NS' Reply.

C. Bluefield, VA

CP&L's assertion that, if the subject reroutes were disallowed, the P&SH would no longer require any yard facilities at Bluefield is wrong. This assertion is premised on CP&L's assumption that redirecting crossover traffic to Iaeger would reduce the volume of traffic interlined with NS at Bluefield to [REDACTED] tons per year, or approximately one train per day. CP&L Supp. 18. According to CP&L "one train per day doesn't warrant having a yard there." Id. But CP&L's Supplement itself shows that, in addition to forwarding [REDACTED] tons of crossover traffic to NS at Bluefield, the P&SH would receive more than [REDACTED] tons of coal annually from NS at Bluefield. See CP&L Supp. Exh. S-4, page 1 of 1 ("Total 2003 Tons (Without ReRoutes)"). Thus, CP&L's own evidence confirms that the P&SH and NS would continue to interchange [REDACTED] of coal traffic – or nearly 4 trains per day – at Bluefield, even if the subject crossover traffic was redirected to Iaeger. CP&L's failure to provide any tracks to handle the [REDACTED] interchange at Bluefield is utterly inconsistent with its recognition that a four-track yard would be needed to accommodate the interchange of [REDACTED] tons at Iaeger. Moreover, as NS' Supplement showed, in addition to accommodating this

substantial interchange operation, the P&SH would need facilities at Bluefield to stage trains for delivery to customers at Celco and Glen Lyn, VA, to remove helper units from loaded trains arriving at Bluefield, and to support the P&SH's main line track facilities in handling the high volume of train activity in the area. See NS Supp. 8 (citing NS Reply III-B-68 to 69). Contrary to CP&L's assertions, the six-track yard facility proposed by NS witness Kimbrough would clearly be needed to accommodate these ongoing functions at Bluefield.

D. Morri Branch Jct.

For the reasons discussed above, NS believes that crossover traffic classified by CP&L as "Category B" traffic should be redirected to the P&SH/NS interchange at Iaeger, WV, rather than to a new interchange at Morri Branch Jct., WV. However, Mr. Kimbrough determined that, if Category B traffic were to be interchanged at Morri Branch Jct., the P&SH would be required to construct two 7000-foot interchange tracks at that location. Notwithstanding the relatively small volume of traffic to be interchanged at Morri Branch Jct., the P&SH would need these tracks to avoid blocking its single main line through this area. The P&SH would be required to add rear-end locomotives to, and to conduct a brake test on, all trains received in interchange from NS at Morri Branch Jct. Locomotives removed from the rear-end of trains interchanged to NS would have to be placed on the interchange track until a loaded train was ready for departure. Trains would, on occasion, have to await the arrival of a crew from Devon or Elmore (as Morri Branch Jct. would not be a P&SH home terminal).

E. Bluefield, VA – Hyco, NC

The parties agree that redirecting P&SH crossover traffic from interchanges at Bluefield and Altavista, VA to Iaeger, WV would not result in any material change in the P&SH's facility requirements east of Bluefield. CP&L Supp. 17; NS Supp. 9.

F. NS Lines Southwest of Bluefield, VA

CP&L's Supplement reprises (at some length) CP&L's Rebuttal evidence regarding the reasons why CP&L's decision to reroute P&SH/NS crossover traffic would not (according to it) generate significant capacity problems for NS on its lines southwest of Bluefield, VA. CP&L Supp. 21-24. For the reasons stated in NS' case-in-chief, CP&L's assertions in this regard are incorrect, and certain capital improvements identified by NS would be required to mitigate the impact of CP&L's reroutes on NS' line southwest of Bluefield. See NS Reply III-B-73 to 74.

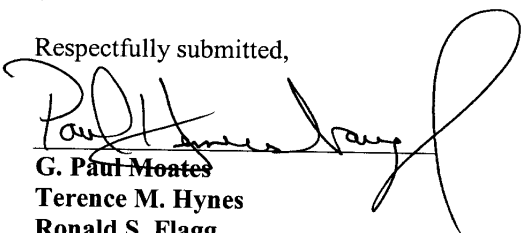
However, if the rerouting of crossover traffic resulting in greater total lengths of haul were disallowed, the off-SARR capacity improvements discussed in NS' Reply would not be necessary, and CP&L's concerns would be moot.

CONCLUSION

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

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Counsel for Defendant Norfolk Southern Railway Company

DATED: December 2, 2003

BEFORE THE
SURFACE TRANSPORTATION BOARD

CAROLINA POWER & LIGHT COMPANY,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

STB Docket No. 42072

VERIFICATION AND STATEMENT OF QUALIFICATIONS

MICHAEL R. BARANOWSKI

My name is Michael R. Baranowski. I previously sponsored portions of the Reply Evidence and the Supplemental Evidence of the Norfolk Southern Railway Company in this matter.

In this Response to Complainant Carolina Power & Light Company's Supplemental Evidence, I am sponsoring those portions of NS' Response that 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.

Executed on this 2nd day of December, 2003.


Michael R. Baranowski

BEFORE THE
SURFACE TRANSPORTATION BOARD

CAROLINA POWER & LIGHT COMPANY,

Complainant,

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

STB Docket No. 42072

VERIFICATION AND STATEMENT OF QUALIFICATIONS

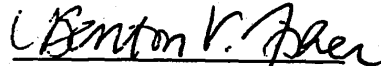
BENTON V. FISHER

My name is Benton V. Fisher. I previously sponsored portions of the Opening, Reply and Rebuttal Evidence and the Supplemental Evidence of the Norfolk Southern Railway Company in this matter.

In this Response to Complainant Carolina Power & Light Company's Supplemental Evidence, I am sponsoring those portions of NS' Response that 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.

Executed on this 2nd day of December, 2003.


Benton V. Fisher

BEFORE THE
SURFACE TRANSPORTATION BOARD

CAROLINA POWER & LIGHT COMPANY,

Complainant.

v.

NORFOLK SOUTHERN RAILWAY COMPANY,

Defendant.

STB Docket No. 42072

VERIFICATION AND STATEMENT OF QUALIFICATIONS

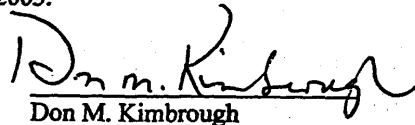
DON M. KIMBROUGH

My name is Don M. Kimbrough. I previously sponsored portions of the Reply Evidence of the Norfolk Southern Railway Company in this matter.

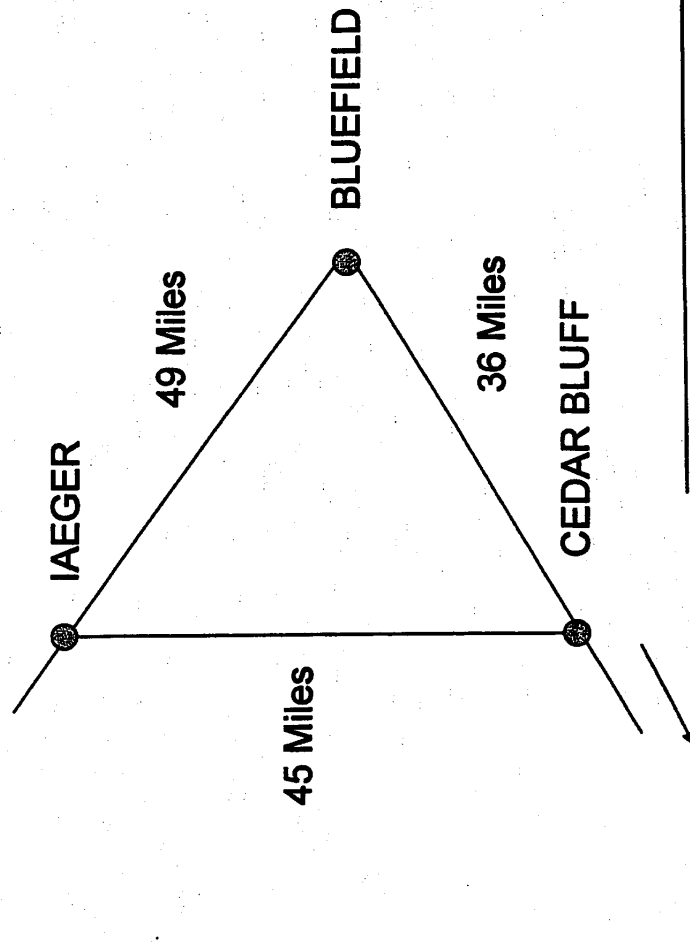
In the Supplemental Evidence Submitted by Defendant Norfolk Southern Railway Company, I am sponsoring Sections II, IIA, IIB, IIC, IID, IIE and IIF.

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.

Executed on this 1ST day of December, 2003.


Don M. Kimbrough

NS Supplemental Reply Exhibit 2



	IAEGER - CEDAR BLUFF	P&SH	Residual NS	Total
CPL Re-Route		49	36	85
UnRe-Route (Actual)		0	45	45
Difference		49	-9	40

CERTIFICATE OF SERVICE

I hereby certify that, on this 2nd day of December, 2003, I served the foregoing
"Reply of Defendant Norfolk Southern Railway Company to Complainant Carolina Power &
Light Company's Supplemental Evidence" by causing five (5) copies thereof to be delivered, via
hand delivery, to:

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Christopher A. Mills
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Slover & Loftus
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Gabriel S. Meyer