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By Hand

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

Re: Duke Energy Corp. v. Norfolk Southern Railway Co, STB Docket No.
42069

Dear Secretary Williams:

We write on behalf of Defendant Norfolk Southern Railway Company ("NS") to clarify a comparison made by Complainant Duke Energy Corporation ("Duke") in its March 15, 2004 Reply to NS' Reconsideration Petition ("Duke Reply"). Duke's Reply states that "the SARR's operating costs (15.2 mills per net ton-mile) exceed NS's fully allocated costs (11.9 mills per net ton-mile) for Duke's large move from the High Power Mountain origin to its Belews Creek station." Duke Reply at 18. Duke's assertion might erroneously be read as comparing SARR costs for moving coal from the High Power Mountain mine to the Belews Creek generating station, with NS' costs for that same single, specific movement. Because Duke's language is ambiguous, and because Duke provided no workpapers to support or further explain its claim, it is possible that the Board (or others) could misunderstand what Duke is alleging.

Based on NS' analysis of Duke's allegation and the record, it has determined that Duke's Reconsideration Reply is comparing: (a) the SARR's overall *system-average* operating costs determined by the Decision, with (b) Duke's own *approximation* of NS' "fully allocated" costs for *one selected movement* – arguably the most efficient movement on the lines of the SARR – based on the low variable costs that *Duke claimed* in its evidence that NS *should* incur for that movement. See Duke Reply at 18 & n.8; NS' Supplemental Reconsideration Exhibit (attached) (showing how Duke apparently arrived at its "mills-per-ton-mile" numbers).

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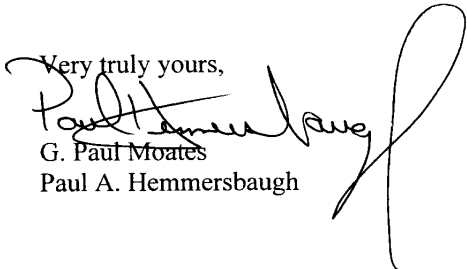
WASHINGTON, D.C.

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Thus, Duke's Reply is *not* comparing the Board's SARR operating costs for the High Power Mountain to Belew's Creek movement with NS' actual fully allocated costs for that same movement. Nor is Duke comparing SARR system-average operating costs with NS' actual average operating costs for the lines traversed by the SARR. Rather, Duke's comparison is between the system average operating costs for the entire SARR and Duke's rough approximation (based on Duke's own estimate of NS' variable costs, *not* on NS' actual variable costs) of NS' fully allocated costs for one selected, highly efficient movement that originates on the only loop-track loading mine on the entire Duke SARR.

We appreciate the Board's consideration of this clarification. Please contact the undersigned if you have any questions or require further information concerning this matter.

Very truly yours,


G. Paul Moates

Paul A. Hemmersbaugh

cc: William L. Slover
David Konschnik
George A. Aspatore

Duke Energy v. Norfolk Southern, STB Docket No. 42069
NS' Supplemental Reconsideration Exhibit

**Duke Reconsideration Reply's "Fully Allocated" Cost Calculation
for the High Power Mountain to Belews Creek Move**

	<i>Category</i>	<i>Amount</i>	<i>Source</i>
1	Duke's Variable Costs per Carload	\$439.38	Exhibit II-A-117, Page 17, Line 20
2	Duke's Variable Road Property Ownership Costs per Carload	\$112.53	Exhibit II-A-117, Page 17, Line 6, Column D and E
3	Duke's Variable Costs, Excluding Road Property Ownership, per Carload	\$326.85	Line 1 - Line 2
4	RFA-URCS Linking Factor	0.9934	Exhibit II-A-117, Page 17, Line 23
5	Duke's Linked Variable Costs, Excluding Road Property Ownership, per Carload	\$324.69	Line 3 x Line 4
6	Net Tons per Carload	111.4	Exhibit II-A-117, Page 17, Line 21
7	Loaded Miles	325.6	Exhibit II-A-116, Page 5
8	Net Ton-Miles	36,272	Line 6 x Line 7
9	Duke's Linked Variable Costs, Excluding Road Property Ownership, per Net Ton-Mile (mills)	8.95	Line 5 / Line 8 * 1000
10	URCS Fully Allocated Cost Ratio	1.3255	NS Rebuttal WP "PHSEIIE.NSREBUT," Worktable E2, Line 220
11	Duke's Linked Fully Allocated Costs, Excluding Road Property Ownership, per Net Ton-Mile (mills)	11.9	Line 9 x Line 10

Duke Reconsideration Reply's Calculation of Operating Expenses for the ACC System

	<i>Category</i>	<i>Amount</i>	<i>Source</i>
1	ACC System Operating Expenses (millions)	\$227.05	STB WP "stb OP EXP (Modified Off Jct)-recon-1-30-04.xls," worksheet "DCF"
2	ACC System Net Ton-Miles (millions)	14,914	STB WP "NEW REVISED REV AND TONS TECH CORRECTIONS.xls," worksheet "REV-TON MILE CALC," Column R
3	ACC System Operating Expense per Net Ton-Mile (mills)	15.2	Line 1 / Line 2 * 1000