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May 7, 2004

BY HAND

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



Re: STB Docket No. 42058, Arizona Electric Power Cooperative, Inc. v.
The Burlington Northern and Santa Fe Railway Company and
Union Pacific Railroad Company

Dear Secretary Williams:

I have enclosed for filing in the above-captioned matter an original and ten copies of Defendants' Clarification. I have also enclosed a 3.5-inch diskette containing an electronic copy of the Clarification and three compact discs containing an electronic workpaper related to the Clarification.

Please date-stamp the enclosed extra copy of this letter and the Clarification and return it to the messenger who delivered the filing.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Rosenthal".

Michael L. Rosenthal

cc: Robert D. Rosenberg, Esq. (by hand)
Samuel M. Sipe, Jr., Esq. (by hand)
Patricia E. Cooper, Esq. (by overnight mail)
Louise A. Rinn, Esq. (by overnight mail)

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

ARIZONA ELECTRIC POWER
COOPERATIVE, INC.,

Complainant,

v.

THE BURLINGTON NORTHERN AND
SANTA FE RAILWAY COMPANY and
UNION PACIFIC RAILROAD COMPANY,

Defendants.

Docket No. 42058



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DEFENDANTS' CLARIFICATION

Defendants The Burlington Northern and Santa Fe Railway Company ("BNSF") and Union Pacific Railroad Company ("UP") (jointly, the "Railroads") submit this filing to clarify their evidence regarding revenue divisions for intermodal cross-over traffic.¹ In its Supplemental Rebuttal, Arizona Electric Power Cooperative, Inc. ("AEPCO"), criticized the Railroads' effort to improve upon the generic "Modified Straight-Mileage Prorate" ("MSP") approach by more accurately apportioning the residual incumbents' costs of originating, terminating, interchanging, and switching cross-over traffic. Most of the criticisms are baseless, and the Railroads will address them in their brief. However, AEPCO's claim that the Railroads' calculation of intermodal divisions incorporated an "apples-to-oranges" comparison of line-haul and terminal costs requires a clarification of the Railroads' evidence.

In their Supplemental Reply, the Railroads improved upon the generic MSP approach to revenue divisions for intermodal cross-over traffic by developing costs for handling

¹ To the extent necessary, the Railroads hereby request leave to file this brief clarification of their position.

intermodal traffic that are more accurate than those that could be developed using the Board's Uniform Rail Costing System. They retained William K. Berry to develop the costs associated with terminal activities, such as lift costs, switching costs, equipment costs, and facility costs, and they used TTX Company's "Basic Mileage Rate" to develop line-haul costs. Using these terminal and line-haul costs, the Railroads calculated line-haul mileage-block equivalents for intermodal terminal events. The Railroads substituted those mileage-block equivalents for the arbitrary 100-mile block used in the generic MSP approach to calculate revenue divisions for AEPCO's stand-alone railroad. Railroad Supp. Reply at III.A-14 to 32.

In its Supplemental Rebuttal, AEPCO asserted that the Railroads miscalculated the mileage-block equivalents for intermodal traffic because they allegedly compared the variable costs of providing line-haul service with the full costs of providing terminal services. AEPCO Supp. Reb. at III-A-29 to 30. The Railroads submit that their calculations are the best evidence in the record of the appropriate revenue divisions for intermodal traffic and should be accepted by the Board for that reason. However, we provide further clarification of the Railroads' evidence below. If the Board concludes that the Railroads erroneously mixed variable costs and full costs, it can implement a simple adjustment that would preserve the many advantages of using actual costs for intermodal activities, as opposed to questionable URCS costs or the arbitrary 100-mile block used in the generic MSP approach.

In fact, Mr. Berry did not limit his terminal costs to variable costs. However, the terminal costs are nearly 100 percent variable.² Thus, even if the Board accepted AEPCO's criticism, the line-haul and terminal costs are largely comparable.

² The only significant exception is facility capital costs, which URCS considers to be 50 percent variable. See Exh. A.

If the Board believed that this comparison was not sufficient, it could make a simple adjustment to address the situation. The Board could eliminate the non-variable portion of terminal costs by applying the relevant URCS variability percentages to the associated terminal cost categories. This would allow a comparison of variable line-haul costs to variable terminal costs, producing a more precise allocation of revenues than the generic MSP approach permits.³ Mr. Benton Fisher of FTI Consulting has performed the necessary calculations, and the results are presented in Exhibit A.⁴ This adjustment reduces the mileage-block equivalent for intermodal originations or terminations from 502 miles to 400 miles.

AEPCO proposes its own “correction,” but that correction would introduce a new “apples-to-oranges” comparison, one that produces absurd results. AEPCO would reject the TTX Basic Mileage Rate in favor of an URCS-based full-cost measure of line-haul costs. First, AEPCO would use the 30-movement sample of BNSF intermodal traffic developed by its witness Whitehurst to calculate URCS variable line-haul costs. Second, it would apply the URCS constant cost markup ratio for BNSF to develop full line-haul costs. Finally, it would compare those URCS-based line-haul costs to the non-URCS costs for intermodal terminal activities that its witnesses developed to calculate mileage-block equivalents. AEPCO Supp. Reb. at III-A-49 to 51.⁵ Plainly, however, AEPCO’s proposal seeks to compare two non-comparable sets of costs: (i) URCS-based line-haul costs, and (ii) non-URCS-based terminal

³ AEPCO’s claim that the Railroads erred in converting the TTX Basic Mileage Rate into a per-platform measure of line-haul costs is incorrect. The Railroads will address that claim in their brief.

⁴ Mr. Fisher also applied this adjusted mileage-block equivalent to the affected traffic. We provide the results in BNSF/UP Clarification electronic workpaper “Intermodal cost matrix revised.xls.”

⁵ AEPCO’s claim that Mr. Berry overstated the applicable terminal costs is without merit. The Railroads will address that claim in their brief.

costs. Moreover, the AEPCO “correction” produces a wholly unrealistic result – that the residual incumbents’ terminal activities for intermodal traffic are less costly relative to their line-haul costs than their terminal activities for manifest or automotive traffic: AEPCO calculates a mileage credit of 137 miles for each intermodal origination or termination, while accepting credits of 180 miles (for BNSF) and 195 miles (for UP) for manifest traffic, and credits of 167 miles (for BNSF) and 215 miles (for UP) for automotive traffic. AEPCO Supp. Reb. at III-A-52, 54-60.

The costs that Mr. Whitehurst developed in his 30-movement sample of intermodal traffic in AEPCO’s Reply evidence (*see* AEPCO Rebuttal Ex. III-A-10) confirm the inappropriateness of AEPCO’s proposed fix. Mr. Fisher determined that calculation of mileage block equivalents using the URCS variable line-haul and terminal costs in Mr. Whitehurst’s intermodal sample (applying the methodology the Railroads used for manifest and automotive traffic) would result in an average credit of 376 miles for each intermodal origination or termination event – an amount far in excess of the 137 miles proposed by AEPCO. *See* Exh. B.

Based on this clarification, the Board should accept the Railroads’ evidence of intermodal terminal costs and intermodal revenue divisions (adjusted as discussed herein, if the Board deems it appropriate) as superior to both the generic MSP approach and AEPCO’s proposal to mix URCS-based and non-URCS based costs.

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May 7, 2004

Respectfully submitted,

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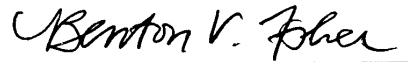
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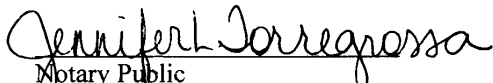
VERIFICATION

CITY OF WASHINGTON)
) ss
DISTRICT OF COLUMBIA)

I, Benton V. Fisher, Managing Director of FTI Consulting, being duly sworn,
depose and state that I have read the Defendants' Clarification, that I know its contents, and that
those contents are true as stated to the best of my knowledge, information and belief.


BENTON V. FISHER

Subscribed and sworn to before me on this
7 day of May, 2004


Notary Public

My Commission expires: May 14, 2007

CERTIFICATE OF SERVICE

I hereby certify that on May 7, 2004, I caused copies of "Defendants'

Clarification" to be served by hand or overnight mail upon:

William L. Slover
Christopher A. Mills
Robert D. Rosenberg
Andrew B. Kolesar III
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Michael L. Rosenthal

EXHIBIT A

Cost Matrix for Intermodal Origination or Termination, Restated in Response to AEPCO Supplemental Rebuttal

Intermodal Terminal Activity	Cost per O/T Event, URCS Variability 2/ As Filed 1/			UP		Cost per O/T Event, RR Restated
	BNSF	UP	Average			
I. Lift	\$30.00	98.1%	97.8%	98.0%		\$26.52 3/
II. Switching/Yard Transfer	\$9.38	75.0%	74.6%	74.8%		\$7.01
III. Sales, Billing, Claims, Collections	\$10.00	85.0%	85.0%	85.0%		\$8.50
IV. Flat Car	\$3.78	87.7%	99.8%	93.8%		\$3.54
V. Trailer & Container	\$33.00	94.5%	98.8%	96.7%		\$31.89
VI. Drayage	\$3.00	100.0%	100.0%	100.0%		\$3.00
VII. Facility Capital	\$16.50	50.0%	50.0%	50.0%		\$8.25
Total Intermodal Terminal Cost for Railroad- Provided Trailers or Containers	\$105.66					\$88.72
Total Intermodal Terminal Cost for Private Trailers or Containers (excluding Activity V. Trailer and Container Equipment Costs)	\$72.68					\$56.83
Weighted-Average Intermodal Terminal Cost, based on 20:80 Mix of Railroad-Provided and Private Trailers and Containers 4/	\$79.26					\$63.21
Line-Haul Cost per Mile, based on TTX Basic Mileage Rate 5/	\$0.158					\$0.158
Miles per Intermodal Origination or Termination	502					400

Footnotes:

1/ Source: BNSF/UP Suppl. Reply Exhibit No. III.A-4

2/ Source: 2001 BNSF and UP URCS from opening work papers, summarized in Clarification E-WP "Intermodal Cost Matrix Revised.xls"

3/ Based on applying 98% variability to \$24 direct lift cost and 50% variability to \$6 remainder to account for terminal equipment.

4/ Source: BNSF/UP Suppl. E-WP "brn2001 matchback route2.xls," worksheet "summary"

5/ Source: BNSF/UP SUPPRP.WP.III.A-0062 and BNSF/UP Suppl. E-WP "Intermodal Cost Matrix.xls," worksheet "costs & miles"

EXHIBIT B

Analysis of Whitehurst Sample of BNSF Intermodal Moves

Move	BNSF Orig Miles (1)	ACE Bridge Miles (2)	BNSF Term Miles (3)	BNSF Orig Cross (4)	BNSF Term Cross (5)	Modified Straight-Mileage Prorate (MSP) Res. BNSF (6)	ACE (7)	Res. BNSF (8)	ACE (9)	Variable Costs per Car 1/ Res. BNSF (10) = 8 / (8+9)	Variable-Cost Prorate ACE (11) = 9 / (8+9)	Line-Haul Variable Costs Linehaul Per Car 1/ (12)	Linehaul Per Mile (13)	O&T Terminal Costs Terminal Per Car 1/ (14) = 12 / (1+2+3)	Terminal Per Term (15) = 14 / (4+5)	Miles Per Term (16) = 15 / 13
1	1,017	259	1,224	1	1	90.4%	9.8%	\$670	\$39	90.7%	9.3%	\$258	\$0.34	\$211	\$106	308
2	1,205	259	748	1	1	89.3%	10.7%	\$815	\$80	91.0%	9.0%	\$680	\$0.31	\$215	\$108	350
3	1,220	259	723	1	1	89.2%	10.8%	\$703	\$79	89.9%	10.1%	\$570	\$0.28	\$211	\$106	406
4	1,205	259	783	1	1	89.4%	10.6%	\$793	\$89	89.9%	10.1%	\$670	\$0.30	\$211	\$106	354
5	996	259	1,255	1	1	90.4%	9.8%	\$1,061	\$98	91.5%	8.5%	\$849	\$0.38	\$211	\$106	280
6	756	259	586	1	0	84.8%	15.2%	\$428	\$70	85.9%	14.1%	\$383	\$0.25	\$106	\$106	431
7	732	259	791	1	0	86.2%	13.8%	\$751	\$109	87.4%	12.6%	\$754	\$0.42	\$106	\$106	250
8	732	259	575	1	0	84.4%	15.6%	\$593	\$85	86.2%	13.8%	\$580	\$0.37	\$106	\$106	290
9	732	259	1,211	1	0	88.7%	11.3%	\$982	\$103	89.8%	10.4%	\$879	\$0.40	\$106	\$106	265
10	732	259	1,211	1	0	88.7%	11.3%	\$987	\$102	90.7%	9.3%	\$869	\$0.39	\$220	\$220	567
11	585	259	722	1	1	85.3%	14.7%	\$533	\$83	86.5%	13.5%	\$404	\$0.28	\$211	\$106	409
12	1,205	259	588	1	1	88.5%	11.5%	\$727	\$89	89.1%	10.9%	\$604	\$0.29	\$211	\$106	359
13	1,205	259	681	1	1	88.9%	11.1%	\$873	\$91	90.8%	9.4%	\$748	\$0.35	\$215	\$108	308
14	1,105	259	778	1	1	88.8%	11.1%	\$787	\$90	89.6%	10.5%	\$642	\$0.30	\$215	\$108	359
15	1,205	259	783	0	1	88.0%	11.0%	\$903	\$110	89.2%	10.8%	\$807	\$0.40	\$106	\$106	282
16	732	259	575	1	1	85.3%	14.7%	\$541	\$84	86.8%	15.4%	\$409	\$0.28	\$215	\$108	411
17	732	259	1,201	1	0	88.7%	11.3%	\$596	\$71	89.3%	10.7%	\$561	\$0.28	\$106	\$106	413
18	585	259	649	1	1	84.7%	15.3%	\$648	\$91	86.8%	14.2%	\$426	\$0.29	\$211	\$106	371
19	1,205	259	740	1	1	89.2%	10.8%	\$906	\$93	90.7%	9.3%	\$783	\$0.36	\$215	\$108	363
20	1,017	259	574	1	0	86.7%	13.3%	\$702	\$96	88.0%	12.0%	\$693	\$0.37	\$106	\$106	282
21	658	259	1,211	1	1	88.9%	11.1%	\$841	\$88	90.6%	9.5%	\$717	\$0.34	\$211	\$106	314
22	1,205	259	1,031	0	1	90.0%	10.0%	\$778	\$83	90.4%	9.6%	\$755	\$0.30	\$106	\$106	349
23	732	259	1,139	1	1	88.9%	11.1%	\$599	\$82	90.0%	10.0%	\$409	\$0.19	\$211	\$106	551
24	826	259	1,219	1	0	89.2%	10.8%	\$841	\$93	90.1%	9.9%	\$829	\$0.36	\$106	\$106	294
25	732	259	1,106	1	1	88.7%	11.3%	\$851	\$76	89.6%	10.4%	\$516	\$0.25	\$211	\$106	430
26	732	259	1,213	1	1	89.2%	10.8%	\$897	\$77	90.0%	10.0%	\$569	\$0.25	\$215	\$108	424
27	585	259	649	1	1	84.7%	15.3%	\$471	\$74	86.4%	13.6%	\$330	\$0.22	\$215	\$108	486
28	607	259	916	0	1	86.2%	13.8%	\$808	\$84	87.8%	12.2%	\$584	\$0.33	\$106	\$106	323
29	732	259	1,139	1	1	88.9%	11.1%	\$542	\$59	90.1%	9.9%	\$390	\$0.18	\$211	\$106	577
30	732	259	1,213	1	1	89.2%	10.8%	\$562	\$80	90.4%	9.6%	\$410	\$0.19	\$211	\$106	568

Simple Average for All 30 Moves:

88.0% 12.8% \$721 \$88 88.1% 10.8% \$629 \$0.31 \$177 \$110 378

1/ Excludes unit train adjustments and corrects formulaic error in Whitehurst rebuttal work paper. See Clarification E-WP "Intermodal_Train_Sample_BNSF Revised.xls," tabs "INTOUT" and "Outputs"