



THE WESTERN COAL TRAFFIC LEAGUE

1224 Seventeenth Street, N.W.
Washington, D.C. 20036-3003

(202) 659-1445

Officers

Mark W. Schwartz
Arizona Electric Power Coop., Inc.
Benson, Arizona
President

Paul Freund
MidAmerican Energy Co.
Davenport, Iowa
Vice President

David Laffere
Kansas City Power & Light Co.
Kansas City, Missouri
Treasurer

Executive Board

Mark W. Schwartz
Arizona Electric Power Coop., Inc.
Benson, Arizona

Paul Freund
MidAmerican Energy Co.
Davenport, Iowa

David Laffere
Kansas City Power & Light Co.
Kansas City, Missouri

Mark D. Werner
City Public Service Board
San Antonio, Texas

Robert Davis
Minnesota Power
Duluth, Minnesota

Dan D. Kloock
Omaha Public Power District
Omaha, Nebraska

Randall Rahm
Westar Energy
Topeka, Kansas

Marc D. Flippin
Lower Colorado River Authority
Austin, Texas

August 27, 2004

The Honorable Roger Nober
Chairman
Surface Transportation Board
1925 K Street, N.W., Suite 810
Washington, D.C. 20423-0001

Dear Mr. Chairman:

I write in connection with the letters you received from the railroads on the subject of Fall Peak Service Demand which you made public on August 6, 2004.

Therein, to varying degrees, the nation's major coal hauling railroads suggest that their current inability to enjoy rates of return equal to the cost of their capital will impair their capacity to make future capital investments. The replicant for BNSF is particularly outspoken in this connection and uses coal traffic as an example of a commodity whose transportation by the railroads requires huge capital investments which investments generate anemic returns.

It merits note that BNSF offers no support for its aspersions of coal traffic other than its vague complaint that the "value" received by railroads for coal transportation services has declined in recent years. You and I heard similar claims from various railroad spokesmen during the course of the Board's recent Site Visit to the Powder River Basin.

The purpose of this letter is to dispel the notion that coal traffic is, in some undefined manner, contributing to the railroads' inadequate revenues. At my direction, William Whitehurst, a prominent transportation economist, prepared the attached computations which demonstrate that for the last two years for which data is available from the Board (2001 and 2002)

ENTERED
Office of Proceedings

SEP 08 2004

Part of
Public Record

211956

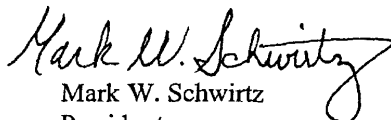
The Honorable Roger Nober
August 27, 2004
Page 2

coal traffic earned returns for its rail transporters very appreciably greater than the capital costs of their invested capital. Specifically, for the years 2001 and 2002, the major coal haulers reaped revenues of \$1.2 and \$1.4 billion more than their full costs for transporting coal traffic which costs, as computed by your staff, include a return on investment at a rate equal to the cost of capital (14.1 percent and 13.7 percent).

As the attached data demonstrates, railroad claims that coal traffic is not paying its way are unsupported by the railroad cost and profit data prepared by the Board.

On behalf of the Western Coal Traffic League, I ask that you include my letter together with Mr. Whitehurst's attached computations in the record in Ex Parte No. 655, Powder River Basin Site Visit. I also want to use this opportunity to thank you on the League's behalf for including our delegation on your Site Visit.

Sincerely,


Mark W. Schwirtz
President

MWS:kfm
Enclosure

cc: Hon. Frank Mulvey
Hon. Doug Buttrey
Mr. Matt Rose
Mr. Richard Davidson

W. W. Whitehurst & Associates, Inc.

Comparison of Revenues to Fully-Allocated Costs (including Cost of Capital)
for Coal Traffic (STCC 11)
Handled by the Four Major U.S. Class I Railroads

Line No.	Description (1)	Source or Computation (2)	BNSF + UP + NS + CSXT	
			2001 (3)	2002 (4)
1	Coal Traffic Revenues	Note 1	\$ 7,799,615,922	\$ 7,677,558,395
2	Railroad Cost of Capital	Note 2	14.1%	13.7%
3	Coal Traffic Fully-Allocated Costs (incl Cost of Capital)	Note 3	\$ 6,615,751,358	\$ 6,276,324,957
4	Coal Traffic Revenue to Fully-Allocated Costs (incl Cost of Capital) Ratio	L.1 / L.3	1.18	1.22
5	Coal Traffic Revenues Over/(Under) Coal Traffic Fully-Allocated Costs (incl Cost of Capital)	L.1 - L.3	\$ 1,183,864,564	\$ 1,401,233,438

¹ Sum of Revenues for BNSF, UP, NS, and CSXT from STB Costed Waybill Sample for 2001 and 2002.

² URCS WT A4L205C1 for 2001 and 2002, derived from STB Ex Parte No. 558 (Sub-No. 5) decided 06/14/2002 for 2001 and STB Ex Parte No. 558 (Sub-No. 6) decided 06/11/2003 for 2002.

³ Sum of Fully-Allocated Costs for BNSF, UP, NS, and CSXT, calculated by applying each RRs Constant Cost Markup Ratio from URCS WT D8L617C1 to its Coal Traffic Variable Costs for each year.