

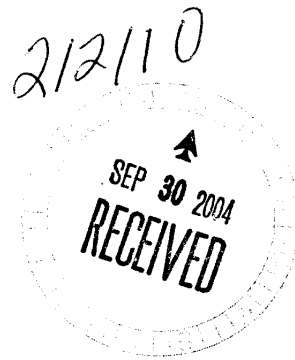
STEPTOE & JOHNSON^{LLP}

ATTORNEYS AT LAW

Samuel M. Sipe Jr.
202.429.6486
ssipe@steptoe.com

1330 Connecticut Avenue, NW
Washington, DC 20036-1795
Tel 202.429.3000
Fax 202.429.3902
steptoe.com

September 30, 2004



By Hand Delivery

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

ENTERED
Office of Proceedings
SEP 30 2004
Part of
Public Record

Re: *STB Docket No. 41185. Arizona Public Service Company and PacifiCorp
v. The Burlington Northern and Santa Fe Railway Company*

Dear Secretary Williams:

The Burlington Northern and Santa Fe Railway Company ("BNSF") submits an original and 10 copies of the slides that were used during BNSF's oral argument on September 29, 2004 in the above-referenced matter.

Under separate cover, BNSF is submitting under seal an original and ten copies of the unredacted Confidential Memorandum of Understanding ("MOU") entered into by BNSF and Arizona Public Service Company ("APS"). Vice Chairman Mulvey inquired at the oral argument whether the parties were willing to make an unredacted copy of the document available to the Board. Counsel for BNSF consulted with counsel for APS/PacifiCorp today about filing an unredacted copy of the MOU with the Board and it was agreed that counsel for BNSF would file the unredacted MOU.

Sincerely,

A handwritten signature of Samuel M. Sipe, Jr. in black ink, featuring a stylized 'S' and 'J'.

Samuel M. Sipe, Jr.

cc: C. Michael Loftus, Esq., w/enclosures

**Parties Agree that the Cumulative Present Value of
Overage Has Declined as a Result of Changed Circumstances**

1994 Dollars, in Millions

\$80

\$70

\$60

\$50

\$40

\$30

\$20

\$10

38%

61%

STB
Original Decision

APS
Reopening

BNSF
Reopening

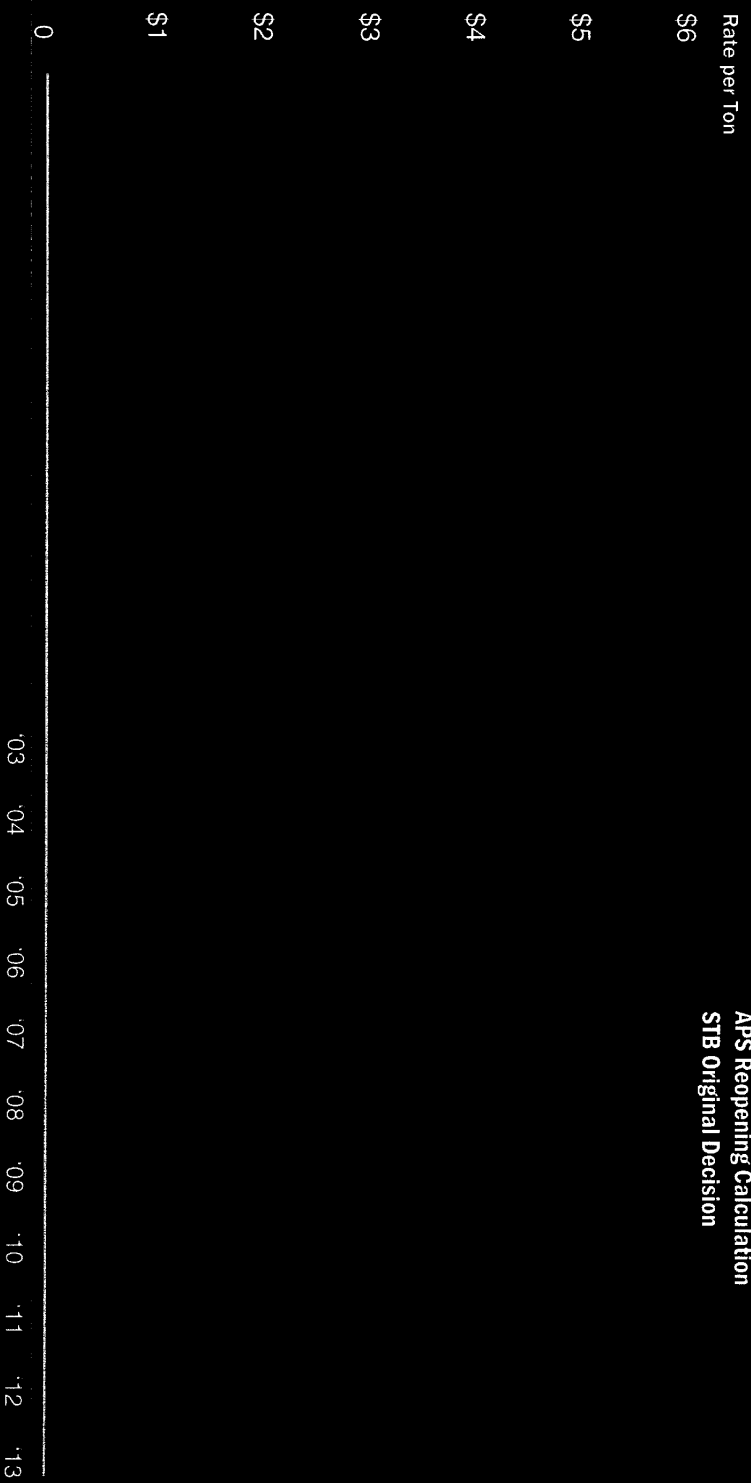
0



While Lower Overage Should Result in Higher Rates, APS Calculates Lower Rates

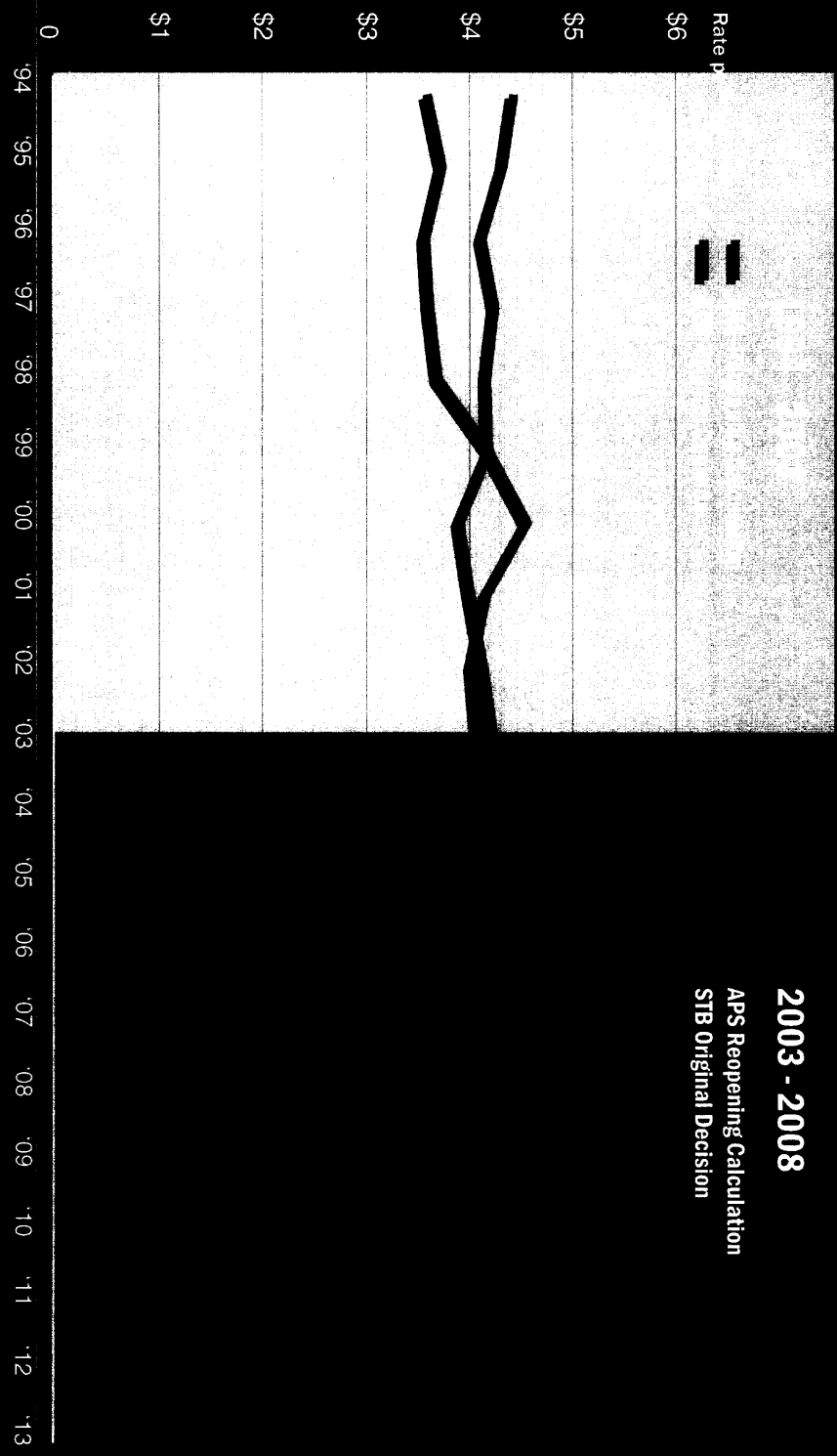
2003 - 2008

APS Reopening Calculation
STB Original Decision





APS Ignores Implications of its Reopening Calculations for the Elapsed Period



2003 - 2008
APS Reopening Calculation
STB Original Decision

APS Approach Does Not Provide for Full Cost Recovery



1994 Dollars, in Millions

\$200

\$150

\$100

0

STB Original Decision

APS Reopening

BNSF Reopening

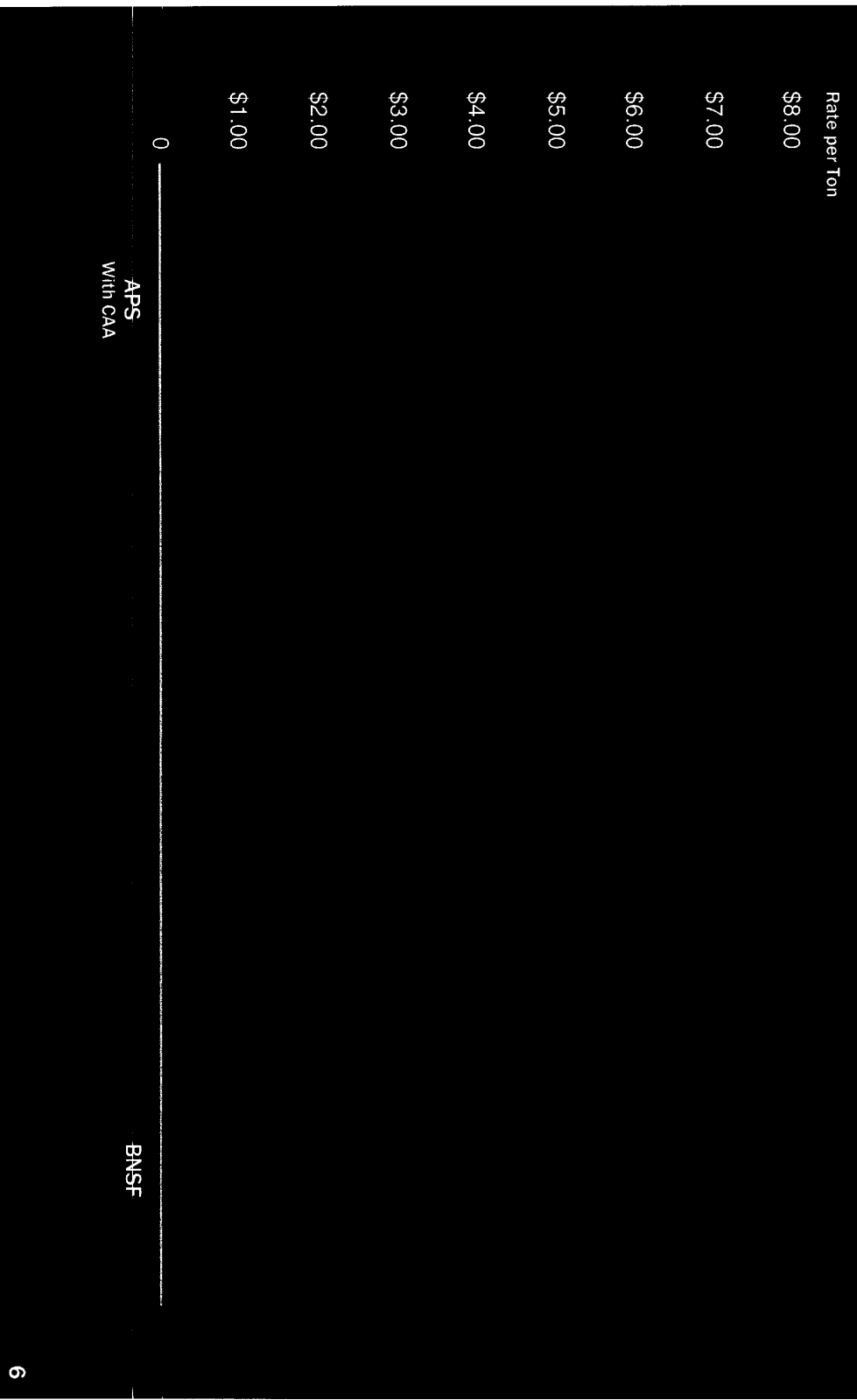
**The Fundamental SAC Principle is that Costs
Must Equal Revenues over the 20-Year DCF Period**

“Netting is essential, however, because without it the railroad would have no means to recover the revenue shortfalls that would be incurred in certain periods. The netting procedure balances out overpayments and shortfalls so that the sum of the present value of all overpayments and shortfalls for the 20-year DCF period equals zero.”

*“Arizona Public Service Company and PacifiCorp v. The Atchison, Topeka and Santa Fe Railway Company,
STB Docket No. 41185 (Decided July 21, 1997), 2 S.T.B. 367, 393.”*



Range of Potential 2003 Outcomes with Capital Allocation Adjustment



Range of Potential 2003 Outcomes with Capital Allocation Adjustment

Rate per Ton					
					\$8.00
					\$7.00
					\$6.00
					\$5.00
					\$4.00
					\$3.00
					\$2.00
					\$1.00
					0

APS With CAA	APS With CAA and BNSF Cross-over Revenue Divisions	APS With CAA and McKinley Tons Only Pre-2007	APS With CAA and With BNSF Inflation	APS With CAA and Prior Three Issues Combined	BNSF
-----------------	---	---	---	---	------