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BEFORE THE
SURFACE TRANSPORTATION BOARD

AEP TEXAS NORTH COMPANY

Complainant,

v.

BNSF RAILWAY COMPANY

Defendant.

Docket No. 41191 (Sub-No. 1)

OPENING SECOND SUPPLEMENTAL EVIDENCE OF
COMPLAINANT AEP TEXAS NORTH COMPANY
IN RESPONSE TO MARCH 17, 2006 COMPLIANCE ORDER

NARRATIVE AND EXHIBIT

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Complainant, AEP Texas North Company ("AEP Texas"), hereby submits its Opening Second Supplemental Evidence in compliance with the Board's Decision served March 17, 2006 ("*Compliance Order*"). In the *Compliance Order*, the Board requested that AEP Texas make certain modifications to (1) the coal volume and revenue forecasts for the stand-alone railroad ("SARR") in this case,¹ and (2) the inputs used in the computerized modeling of the peak-period operations of the TNR, using the Rail Traffic Controller ("RTC") Model, all as set forth in AEP Texas' Rebuttal and Supplemental Evidence in this proceeding.

¹ AEP Texas' SARR was designated the Texas & Northern Railroad ("TNR").

I. INTRODUCTION AND SUMMARY

This case has been pending before the Board since August 11, 2003. In the intervening period, multiple rounds of evidence were submitted by the parties, culminating in the simultaneous filing of post-evidentiary briefs on June 9, 2005. Almost nine months after the filing of briefs, the Board's *Compliance Order* required the submission of additional evidence directed at specific components of the record concerning the TNR's projected coal volumes and revenues, and elements of its operating network.² This filing addresses the specifics of that *Compliance Order*. Briefly summarized, the myriad of minor adjustments directed by the Board did not substantially alter the results of AEP Texas' earlier submissions. As supplemented in response to the *Compliance Order*, the record still confirms that the jurisdictional threshold governs the lawful rate that BNSF may charge for coal service to Oklahoma.

II. CHANGES TO THE STAND-ALONE TRAFFIC GROUP

In its *Compliance Order*, the Board requested that the parties make a series of modifications to the TNR's coal volumes and revenues presented by AEP Texas in its

² In its Decision served February 27, 2006 in *Ex Parte No. 657 (Sub-No. 1)*, the Board also indicated that it might require or permit yet another round of filings in this proceeding following the conclusion of that rulemaking. In its May 1, 2006 Opening Comments in *Ex Parte No. 657 (Sub-No. 1)*, AEP Texas explained why such a procedure would be unjust and inequitable, and should not be pursued. *Id.* at 5-7.

First Supplemental filing.³ The result of the required modifications is that the TNR would experience a net reduction in total coal volume of 149 million tons or 3.5 percent over the 20-year DCF period, and the TNR would see its revenues decline by \$1,164 million or 6.1 percent over the same period.⁴ Each modification is discussed below.

1. Changes in Coal Volumes

**a. Changes to the TNR Coal Volumes
Based on a New EIA Forecast**

The Board's *Compliance Order* required the parties to restate the TNR's coal volumes for the period 2009-2020 using the most recent EIA Annual Energy Outlook ("AEO") forecasts for Western Montana and Wyoming PRB low-sulfur (sub-bituminous) coal. *Id.* at 2. AEP Texas and BNSF subsequently agreed that the Compliance Order contemplated the use of AEO Western Montana and Wyoming Powder River Basin Low Sulfur (Sub-Bituminous) coal tonnage forecasts for the years 2009-2020 set forth in the February 2006 AEO at Supplemental Table 110.⁵ Details of the coal volume adjustments and annual percentage changes are shown in OSS electronic workpaper "SARR Traffic Group Tonnage Model 5-15-2006-FINAL.xls," tab "AEP Texas TNR Tonnage."

³ AEP Texas' First Supplemental filing, then titled simply "Supplemental Evidence of Complainant AEP Texas North Company," was submitted on November 8, 2004.

⁴ None of the Board's requested changes in the Compliance Order resulted in changes to the TNR's general freight tonnages or revenues.

⁵ See Opening Second Supplemental ("OSS") electronic workpaper "forecast letter.pdf." Table 110 was also used in *Otter Tail Power Co. v. BNSF Railway Co.*, STB Docket No. 42071, slip op. at B-5 (STB served Jan. 27, 2006).

b. Changes to TNR Coal Volumes for Springerville and Holcomb

The *Compliance Order* directed the parties to utilize BNSF's assumptions regarding future volumes to Tucson Electric's Springerville Plant. *Id.* at 2. On Opening, AEP Texas included { } additional tons, beginning in { }, to fuel a new coal-fired unit at Springerville. *See* AEP Texas Op. electronic workpaper "SARR Traffic Group Tonnage Model 12-31-2003 Delivered.xls," tab "Springerville." On Reply, BNSF argued that the tonnage level was too high because AEP Texas assumed that the unit would run at an 85 percent capacity factor. *See* BNSF Reply Narr. at III.A-60 to 61. Instead, BNSF proposed a lower figure of { } based on certain "statements" made to a BNSF marketing officer by unnamed "Springerville Unit 3 Holding, LLC representatives" *Id.* The *Compliance Order*, therefore, requires that AEP Texas remove { } tons in { }. With the new EIA forecast, the total loss of Springerville volume is { } tons over the DCF period. *See* OSS electronic workpaper "SARR Traffic Group Tonnage Model 5-15-2006-FINAL.xls," tab "AEP Texas TNR Tonnage."

The Board also ordered the parties to use AEP Texas' assumptions regarding future volumes for Sunflower's Holcomb Unit 2 starting in 2012. *Compliance Order* at 2. This changes the start date for the inclusion of Holcomb Unit 2 traffic from { }, the year used in AEP Texas' First Supplemental filing, to 2012. Thus, for purposes of the *Compliance Order*, AEP Texas removed { } tons covering the

years { }-2011. No other modifications were made to the period from 2012-2020 other than the application of the new EIA tonnage forecast discussed above. The specific tonnages are set forth in OSS electronic workpaper "SARR Traffic Group Tonnage Model 5-15-2006-FINAL.xls," tab "Sand Sage."

c. Changes in Coleta Creek Volumes

The *Compliance Order* required the parties to make several changes in the calculation of Coleta Creek tonnages. *Id.* at 2. First, the Board ordered that the parties begin in 2000 with the volume utilized by AEP Texas in earlier filings, { } tons. *Id.* Next, the parties were instructed to develop separate southbound and northbound volumes for 2001 and 2002 utilizing the directional gross tons that AEP Texas calculated from BNSF's train movement records.⁶ *Id.* Finally, the Board ordered that northbound and southbound volumes for the remainder of the DCF period should be calculated by indexing the 2002 volumes, in gross tons, forward using the EIA tonnage forecast discussed above. *Id.* The total change in net ton volume is an increase of { } tons, which is attributable to the change in the EIA forecast. *See* OSS electronic workpaper "TNR Coal Revenue Forecast 5-15-2006 FINAL.xls," tab "Coleta

⁶ The Board's *Compliance Order* contemplates that after September 3, 2003, southbound trains would move from Pueblo, CO to Oklaunion, TX via the TNR, *id.* at 2, whereas, northbound movements would only move from Oklaunion to Amarillo, TX on the TNR. The empty northbound trains would then continue on the residual BNSF to Pueblo, CO via Dalhart, TX and Trinidad, CO.

Creek_STB.” The above changes also impact the trackage rights fee revenues as discussed below.

The revised coal volumes reflecting all of the Board’s requested modifications are shown in Table 1 below.⁷

⁷ In addition to the changes noted above, AEP Texas excluded { } tons of coal destined for Flint Creek that were incorrectly included in the 2004 TNR coal traffic in prior submissions.

TABLE 1 <u>Comparison of AEP Texas Coal Tonnage Forecasts</u>				
	Year	AEP Texas First Supplemental^{1/}	AEP Texas Opening Second Supplemental^{2/}	Difference
1.	2000	96,571,980	96,571,980	0
2.	2001	189,919,913	189,920,572	659
3.	2002	189,256,471	189,234,933	(21,538)
4.	2003	184,079,501	184,103,796	24,295
5.	2004	195,490,006	193,900,718	(1,589,288)
6.	2005	189,858,765	190,030,310	171,544
7.	2006	191,915,686	192,121,818	206,132
8.	2007	195,315,168	195,187,605	(127,563)
9.	2008	197,996,465	195,211,261	(2,785,204)
10.	2009	203,343,923	197,138,139	(6,205,784)
11.	2010	205,103,269	195,912,268	(9,191,001)
12.	2011	207,263,979	200,123,767	(7,140,211)
13.	2012	212,490,061	204,417,054	(8,073,006)
14.	2013	215,979,302	204,887,384	(11,091,918)
15.	2014	217,791,893	204,535,912	(13,255,981)
16.	2015	220,436,200	202,511,596	(17,924,605)
17.	2016	221,183,525	203,257,591	(17,925,933)
18.	2017	222,019,018	205,384,439	(16,634,579)
19.	2018	221,946,271	207,399,153	(14,547,118)
20.	2019	222,956,240	209,170,967	(13,785,273)
21.	2020	<u>223,942,774</u>	<u>215,217,343</u>	<u>(8,725,431)</u>
22.	Total	4,224,860,409	4,076,238,606	(148,621,803)

^{1/} From AEP Texas Supp. electronic workpaper “SARR Traffic Group Tonnage Model 7-12-2004-FINAL.xls.”

^{2/} From OSS electronic workpaper “SARR Traffic Group Tonnage Model 5-15-2006-FINAL.xls”

2. Changes to Revenues

a. Changes in Coletto Creek Trackage Rights Fees

As noted above, the Board’s directive to split the southbound and northbound routing for Coletto Creek traffic impacts the number of gross ton-miles traveling on the TNR and, therefore, the trackage rights fees that the TNR would collect from the Union Pacific Railroad. As discussed on Opening, the Coletto Creek trackage rights fees are governed by two agreements that set the { } charge and the fee escalation procedures. *See* AEP Texas Op. Narr. at III-A-41 to 42. The trackage rights fee inputs were not changed for AEP Texas’ revised calculation. Over the DCF period, the Board’s revised methodology results in a revenue reduction of { }. *See* OSS electronic workpaper “TNR Coal Revenue Forecast 5-15-2006-FINAL.xls,” tab “SAC Rev.”

b. Changes in Revenues Due to EIA AEO Transportation Rate Escalator and Formula Change

The *Compliance Order* directed the parties to:

Incorporate the EIA AEO transportation rate escalator for the Western U.S. and the EIA AEO Gross Domestic Product-Implicit Price Deflator (GDP-IPD) forecast available as of the date of this order into the methodology reflected in

The revised annual revenue totals, incorporating all of the above changes, are shown in Table 2 below.⁸ This table also includes the revenues from general freight traffic from AEP Texas' First Supplemental Evidence, which are unchanged.

⁸ In addition to the changes noted above, AEP Texas excluded \${ }\$ dollars in TNR revenue for TVA's Shawnee Plant that were incorrectly included in the 2000-2020 TNR coal revenue in prior filings.

TABLE 2 TNR Revenues – Coal and General Freight				
	Year	AEP Texas First Supplemental^{1/}	AEP Texas Opening Second Supplemental^{2/}	Difference
1.	2000 ^{3/}	\$ 407,283,127	\$ 407,219,528	\$ (63,599)
2.	2001	763,261,404	763,269,738	8,334
3.	2002	764,822,170	764,526,347	(295,823)
4.	2003	749,821,547	740,093,596	(9,727,952)
5.	2004	790,414,506	770,596,329	(19,818,176)
6.	2005	784,783,352	761,565,874	(23,217,479)
7.	2006	806,268,344	782,452,091	(23,816,253)
8.	2007	836,590,850	808,601,186	(27,989,665)
9.	2008	875,546,563	820,448,004	(55,098,558)
10.	2009	911,866,250	848,896,375	(62,969,875)
11.	2010	943,186,507	862,588,061	(80,598,446)
12.	2011	971,430,349	891,421,064	(80,009,286)
13.	2012	1,002,227,818	941,786,167	(60,441,651)
14.	2013	1,039,173,106	967,044,243	(72,128,863)
15.	2014	1,069,312,838	988,000,981	(81,311,857)
16.	2015	1,104,383,170	1,000,925,417	(103,457,754)
17.	2016	1,133,625,585	1,027,815,213	(105,810,372)
18.	2017	1,161,328,770	1,061,781,088	(99,547,682)
19.	2018	1,197,573,951	1,096,473,575	(101,100,376)
20.	2019	1,223,022,586	1,132,203,223	(90,819,362)
21.	2020	<u>1,251,340,745</u>	<u>1,185,565,757</u>	<u>(65,774,988)</u>
22.	TOTAL	19,787,263,540	18,623,273,857	(1,163,989,683)

^{1/} From AEP Texas Supp. electronic workpaper "All Traffic Summary Reb revised.xls" tab "Rebuttal."

^{2/} From OSS electronic workpaper "Table - Revenue Comparison.xls."

^{3/} June 16 - December 31

III. RTC SIMULATION CHANGES AND RESULTS

The *Compliance Order* directed the parties to model the operations of the TNR based on a revised set of assumptions, detailed by the Board, so it might better match up the parties' conflicting evidentiary presentations. To that end, the Board requested that the parties make a series of specific modifications to the inputs of the RTC Model:

1. Include 137 random outages used by BNSF on Reply;
2. Increase slow order speeds from 10 to 20 mph;
3. Exclude UP train loadings at the PRB mines served by the TNR;
4. Model the Las Animas Yard as AEP Texas did in its First Supplemental filing; and
5. Reconcile the time zone used in the Form B outage file and the RTC train file.

Id. at 2 to 3.

The *Compliance Order* also required that the parties agree to use a single version of the RTC. *Id.* at 3. In addition, the changes to the TNR's coal volumes, discussed above, necessitated minor adjustments to the list of peak-period trains used in the RTC model. Finally, the Board required the parties to revise the methods used to

compare RTC and BNSF historic transit times. The individual elements of the RTC-related modifications and results are discussed below.

1. **Changes to the RTC Model**

a. **Version of the Model**

The *Compliance Order* directed the parties to select and use the same version of the RTC Model for these supplemental filings. AEP Texas and BNSF have selected version RTC 2.70L19C, which was made available to all RTC licensees on March 20, 2006.⁹ Berkeley Simulation Software, the developer of the RTC model, confirmed that this version of the model is also available to the Board. Nevertheless, AEP Texas has included this release in its electronic workpapers as it did with the versions of the model used in prior filings. See OSS electronic workpaper “RTC2.7L19C.zip.”

b. **Changes to the RTC Train File**

As discussed above, the *Compliance Order* directed the parties to make certain changes to the traffic group coal volumes used in AEP Texas’ First Supplemental Evidence. The results, shown in Table 1 above, are that the TNR’s peak-year (2020) tonnage is reduced by almost 9 million tons. Therefore, the total number of trains operating in the peak-year and the in 19-day simulation period must be reduced.

⁹ The parties advised the Board of their selection by letter dated April 3, 2006.

Before addressing the particular changes to the train file that AEP Texas has made, a brief review of the process is appropriate. On Opening, AEP Texas developed the peak-week simulation train counts by identifying the seven-day period in which the most loaded train starts occurred. Additional loaded trains for a four-day warm-up and a four-day cool down period then were added to the list of peak-week trains. However, to avoid the “disappearing train” problem, AEP Texas used the empty train arrival at interchange as the start time rather than the loaded train departure from the mines, and based the empty arrival times on an estimate keyed to the loaded train start time. On Reply, BNSF accepted AEP Texas’ peak-period calculation method, but changed the start times of the simulation trains to reflect actual arrival times of the empty trains at the SARR interchange points, which were derived from BNSF’s train movement records.

On Rebuttal, AEP Texas accepted BNSF’s approach and ultimately adopted BNSF’s train file as the basis for its Rebuttal RTC Simulation, which led to some of the missing train problems addressed in AEP Texas’ First Supplemental Evidence. For this Opening Second Supplemental, AEP Texas again has determined the number of loaded train starts in the peak simulation period in light of the changes in traffic volumes using the same approach as on Opening, but otherwise retained the train file used in its First Supplemental Evidence. The net result is that the number of trains during the modeling period dropped from 848 to 810. Thus, AEP Texas removed 38 growth trains from its

First Supplemental train list.¹⁰ The revised train list is shown in OSS electronic workpaper “TNR Operating Statistics – Supp Open.xls,” tabs “2020 WY Coal Train List” and “2020 CC Coal Train List.”

c. Changes to Random Outages, Speed Restrictions and UP Trains

The *Compliance Order* directed the parties to utilize the 137 track and signals outages that BNSF included in its Reply RTC Form B. *Id.* at 2. However, the parties also were told to raise any 10 mph slow order speed restrictions in that Form B to 20 mph. *Id.* In addition, the parties were directed to remove any UP train loadings at the mines from BNSF’s Form B. *Id.* at 3. AEP Texas’ revisions to BNSF’s Form B included 101 slow orders that were raised from 10 to 20 mph and the removal of 334 UP train loadings.

d. Time Zone Reconciliation

The *Compliance Order* instructed the parties to “synchronize the time zone used in [the] RTC TRAIN file with the time zone in the random outages Form B file.” *Id.*

¹⁰ The peak-period that both parties have modeled is the 19 days covering June 21, 2020 to July 11, 2020. In revising the train counts for this Opening Second Supplemental Evidence, AEP Texas’ experts determined that the actual peak-week dates shifted from July 1 through July 7, 2020 to September 3 through September 9, 2020. *See* electronic workpaper “Simulation Trains - peak calc suppl 5-15-2006 v2.xls,” tab “Peak Calc.” In order to avoid an unnecessary, wholesale revision to the train file *and* the random outages, AEP Texas experts reduced the number of trains being modeled to reflect the number of trains in the new peak-week and its attendant warm-up and cool-down period. Thus, the mix of trains is not an exact match to the recalculated peak-period trains. This same phenomenon occurred at previous points in this proceeding, and was handled by both parties in the same manner.

at 2. From AEP Texas' research on this issue, it appears that BNSF's random outages are recorded using Central Time, regardless of the actual local time that might apply (*e.g.*, Mountain Time). *See, e.g.*, BNSF Reply Workpapers Vol. I, p. III-B-0044 {
} and BNSF Reply electronic workpaper "June to July Engineering Data.xls," tab "Black Hills 6-26-02 to 7-11-02," row "15" (matching the referenced outage condition, location and start time). The Form B outages use the time stamps from BNSF's data, but the Form B and RTC Train file are both set to Mountain Time. Therefore, the Form B outages are off by one hour. AEP Texas has moved the start and end times of the outages back by one hour to reflect the proper time when operating in the Mountain Time zone.

e. **Other Changes to the RTC Model**

As noted above, the Board ordered that the parties model the Las Animas Yard as AEP Texas did in its First Supplemental Evidence. *Compliance Order* at 2. Since AEP Texas utilized its First Supplemental RTC simulation as a start point, no changes to the Las Animas Yard were required.

Finally, AEP Texas' RTC modeling expert, Mr. Walter Schuchmann, made several minor adjustments to reflect improvements in the RTC model since the First Supplemental Evidence. For example, the model now incorporates additional diagnostic tools that help the model operators improve node programming. No physical track configuration changes were made.

2. Results of Revised Simulation

When the changes outlined above were incorporated into AEP Texas' Second Supplemental RTC configuration, the model ran to completion. *See* OSS electronic workpaper "TNR SECOND SUPPLEMENTAL.HISTORY." Transit times remained consistent with those developed in earlier RTC submissions, and the overall operating costs of the TNR were reduced by \$14.2 million. Furthermore, the one manual adjustment that AEP Texas had made in its First Supplemental Evidence, holding an empty train at Las Animas Yard for one hour longer than usual, was no longer required. Thus, no manual adjustments were made in the Second Supplemental RTC simulation.

a. Changes in Transit Times

The TNR's round-trip transit times between the origin mines and Alliance produced by the Second Supplemental RTC simulation do not differ materially from those produced by AEP Texas' First Supplemental simulation. Indeed, the round-trip transit times between the origin mines and points south of Alliance are generally lower than the times produced by the First Supplemental simulation. AEP Texas' operating experts, Messrs. Reistrup and Schuchmann, attribute the improved cycle times to the reduction in peak-period trains and general performance improvements in the RTC model itself.

Before turning to the details of the results, an explanation of the revised transit time calculations is in order. The Board's *Compliance Order* directed the parties to:

1. Calculate BNSF historic transit times as reflected in AEP Texas First Supplemental Evidence; and
2. Calculate SARR transit times excluding interchange yard dwell times, but including all other yard dwell times.

Id. at 3.

AEP Texas' calculation of BNSF historic transit time included yard or other dwell time at non-interchange points. All other train dwell times were excluded, including empty dwell time in Alliance Yard, mine loading time, and unloading time at local destinations. Likewise, AEP Texas' methodology for calculating the TNR's transit times was identical to the process used to develop BNSF historic transit times, except that AEP Texas also excluded dwell times at the TNR's empty train inspection yard, Alliance South, and its loaded train servicing yard, Las Animas. Since trains stopping in the Alliance South and Las Animas yards are not interchanged with the BNSF,¹¹ but instead continue operating on the TNR, the time spent in the yards should have been included in the TNR's transit time calculation as it was with the calculation of BNSF's historic transit times. AEP Texas has made the necessary corrections.

Turning to the results, the TNR's round-trip transit times for rerouted coal trains produced by AEP Texas' First Supplemental simulation were shown in Supplemental Exhibit S-3. A revised version of this Exhibit, reflecting the transit times

¹¹ There is one exception: Holcomb-bound trains are interchanged with the BNSF at Las Animas.

for rerouted coal trains produced by the Second Supplemental RTC simulation and the correction noted above, is included as Opening Second Supplemental Exhibit OSS-1. In addition, the TNR train cycle times for the rerouted coal traffic originating at the five southernmost PRB mines were compared with the real-world BNSF 2002 cycle times in Revised Table III-C-6 on page 13 of AEP Texas' First Supplemental filing. A second revised version of this table, which shows the round-trip transit times from both the First and Second Supplemental RTC simulations, is set forth below.

TABLE III-C-6 (Opening Second Supplemental Revision) Comparative Coal Train Cycle Times (Hours:Minutes:Seconds) For Selected Movements from PRB Mines Served by the TNR					
<u>Origin</u>	<u>Destination</u>	<u>BNSF 2002 Cycle Time</u>	<u>TNR Peak Cycle Time (First Supplemental)^{1/}</u>	<u>TNR Peak Cycle Time (Second Supplemental)</u>	<u>Difference (BNSF 2002- TNR Second Supplemental)</u>
NacJct, WY ^{2/}	Alliance, NE	{ }	21:35:24	22:01:48	{ }
NacJct, WY	Denver, CO	{ }	45:58:12	48:27:36	{ }
NacJct, WY	HarPowPla, TX	{ }	104:04:48	87:06:36	{ }
NRocMine, WY ^{3/}	Alliance, NE	{ }	19:01:12	19:55:48	{ }
ConJct, WY ^{4/}	Alliance, NE	{ }	20:49:12	21:51:36	{ }
ConJct, WY	HarPowPla, TX	{ }	97:42:36	92:37:48	{ }
JacJct, WY ^{5/}	Alliance, NE	{ }	20:10:48	21:47:24	{ }
ThuJct, WY ^{6/}	Alliance, NE	{ }	20:01:48	20:05:24	{ }
Sources: First Supplemental Exhibit S-3; Opening Second Supplemental Exhibit OSS-3 and OSS electronic workpaper "Exhibit OSS-1.xls" BNSF cycle times shown are via Guernsey, WY. ^{1/}The First Supplemental transit times have been adjusted to match the transit time methodology employed in the calculation of Second Supplemental RTC transit times. ^{2/} North Antelope/Rochelle Mine. ^{3/} North Rochelle Mine. ^{4/} Antelope Mine. ^{5/} Jacobs Ranch Mine. ^{6/} Black Thunder Mine.					

As demonstrated by this latest revision of Table III-C-6, AEP Texas' Second Supplemental RTC simulation shows that the TNR's internal "reroute" of coal traffic via Alliance instead of Guernsey continues to result in substantially faster round-trip transit times than those experienced by the real-world BNSF from the five southernmost PRB mines. Thus, the TNR's route continues to serve shippers in a manner consistent with the Board's requirements for the rerouting of traffic.

The changes in the TNR transit times resulting from the Second Supplemental RTC simulation result in some minor changes in the TNR's peak-period operating statistics. Consequently, AEP Texas updated the TNR's operating expenses as well. For example, the TNR's base-year (2000) road locomotive requirements are reduced from 217 to 205, including 194 base locomotives and 11 peak locomotives.¹² The revised operating statistics and revised operating expenses are shown in OSS electronic workpapers "TNR Operating Statistics – Supp Open.xls" and "TNR_OP_EXP_Rebut.xls," respectively.

IV. REVISED DCF ANALYSIS

AEP Texas has revised the DCF analyses presented in its First Supplemental filing to reflect the changes in the TNR's revenues and annual operating

¹² The TNR's revised locomotive count by year is shown in OSS electronic workpaper file "Exh III-C-3 AEP locomotives by year Open Supp.xls." This is a revised version of AEP Texas Rebuttal Exhibit III-C-3.

expenses described above.¹³ The results are shown in OSS electronic workpaper “III-H-3 SPS.xls.” As was the case with AEP Texas’ previous evidentiary submissions, the maximum SAC rates for the Oklahoma coal movement were determined using two alternative methodologies for the allocation of surplus SARR revenues over stand-alone costs: the equalized percentage reduction method employed by the Board in recent rate cases and AEP Texas’ proposed generalized percentage reduction method.¹⁴

The results for the period from 2Q00 through 1Q04 using the generalized percentage reduction method are shown in Column (5) of the revised version of Table III-H-4 from pp. 16 to 17 of AEP Texas’ First Supplemental Evidence, which is set forth below. The net result is that SAC during the first year of the 20-year DCF period decreases by approximately 35 cents per ton to \$10.56, which is similar to the SAC levels reflected in AEP Texas’ First Supplemental Evidence.

¹³ No changes to the TNR’s capital investments were required.

¹⁴ AEP Texas’ continuing support of the generalized percentage reduction method is addressed fully in its Opening Comments in *Ex Parte No. 657 (Sub-No. 1)*. *Id.* at 10-16.

Table III-H-4
(Opening Second Supplemental Revision)
Summary of Maximum Rate Calculations for Issue Traffic- 2Q00 through 1Q04

<u>Time Period</u> (1)	<u>BNSF Rate Per Ton ^{1/}</u> (2)	<u>BNSF Variable Cost Per Ton ^{2/}</u> (3)	<u>Jurisdictional Threshold Per Ton ^{3/}</u> (4)	<u>Stand-Alone Cost Per Ton ^{4/}</u> (5)	<u>Maximum Rate Per Ton ^{5/}</u> (6)
Buckskin Mine Originations					
2Q00	\$13.68	\$6.53	\$11.75	\$10.56	\$11.75
3Q00	15.78	6.55	11.79	10.56	11.79
4Q00	15.78	6.77	12.19	10.56	12.19
1Q01	15.78	6.96	12.53	10.82	12.53
2Q01	15.78	6.98	12.56	10.82	12.56
3Q01	15.78	7.03	12.65	11.13	12.65
4Q01	15.78	6.92	12.46	10.82	12.46
4Q03	18.04	7.23	13.01	9.85	13.01
Eagle Butte Mine Originations					
1Q03	\$17.25	\$7.31	\$13.16	\$9.77	\$13.16
2Q03 117 Cars	18.04	6.94	12.49	9.85	12.49
2Q03 128 Cars	18.04	6.88	12.38	9.85	12.38
3Q03	18.04	7.08	12.74	9.85	12.74
4Q03	18.04	7.08	12.74	9.85	12.74
1Q04	18.83	7.16	12.89	10.09	12.89
Jacobs Ranch Mine Originations					
2Q00	\$13.68	\$5.97	\$10.75	\$10.56	\$10.75
3Q00	15.78	6.33	11.39	10.56	11.39
1Q01	15.78	6.80	12.24	10.82	12.24
2Q01	15.78	6.80	12.24	10.82	12.24
3Q01	15.78	6.66	11.99	11.13	11.99
4Q01	15.78	6.73	12.11	10.82	12.11
1Q02	15.78	6.39	11.50	9.95	11.50
4Q02	17.25	7.28	13.10	9.78	13.10
Black Thunder Mine Originations					
1Q01	\$15.78	\$6.47	\$11.65	\$10.82	\$11.65
3Q01	15.78	7.01	12.62	11.13	12.62
4Q01	15.78	6.54	11.77	10.82	11.77
2Q02	15.78	6.77	12.19	9.95	12.19
4Q02	17.25	7.29	13.12	9.78	13.12
4Q03	18.04	7.12	12.82	9.85	12.82
1Q04	18.83	7.24	13.03	10.09	13.03
Caballo Rojo Mine Originations					
2Q00	\$13.68	\$6.44	\$11.59	\$10.56	\$11.59
4Q00	15.78	6.65	11.97	10.56	11.97
1Q01	15.78	6.85	12.33	10.82	12.33
2Q01	15.78	6.69	12.04	10.82	12.04
3Q01	15.78	6.99	12.58	11.13	12.58
4Q01	15.78	7.00	12.60	10.82	12.60
North Antelope Mine Originations					
3Q03	\$18.04	\$7.01	\$12.62	\$9.85	\$12.62
Caballo Mine Originations					
2Q02	\$15.78	\$7.27	\$13.09	\$9.95	\$13.09
3Q02	17.25	6.67	12.01	9.95	12.01
4Q02	17.25	7.58	13.64	9.78	13.64

2Q03	18.04	7.28	13.10	\$9.85	13.10
Cordero Mine Originations					
2Q03	\$18.04	\$6.87	\$12.37	\$9.85	\$12.37
North Rochelle Mine Originations					
3Q02	\$17.25	\$7.33	\$13.19	\$9.95	\$13.19
4Q03	18.04	6.72	12.10	9.85	12.10
Antelope Mine Originations					
4Q03	\$18.04	\$5.97	\$10.75	\$9.85	\$10.75
1Q04	18.83	7.06	12.71	10.09	12.71

1/ The Pricing Letters.
2/ Rebuttal Exhibit II-A-151.
3/ Column (3) x 180 percent.
4/ OSS electronic workpaper "III-H-3 SPS.xls."
5/ Greater of jurisdictional threshold (Column (4)) or stand-alone cost (Column (5)).

V. CONCLUSION

AEP Texas' Opening Second Supplemental Evidence demonstrates the continued feasibility of the TNR's operating plan and the SARR's ability to meet the transportation needs of its traffic group after revising the First Supplemental RTC train simulation in accordance with the Board's *Compliance Order*. The modest revisions to annual operating expenses resulting from the latest RTC simulation coupled with the TNR's changes in revenues result in minor changes in the SAC results. However, these results continue to demonstrate the unreasonableness of the common carrier rates charged by BNSF for the movement of PRB coal to AEP Texas' Oklaunion Generating Station, and continue to support the maximum rate relief and reparations sought by AEP Texas.

Respectfully submitted,

AEP TEXAS NORTH COMPANY
1 Riverside Plaza
Columbus, OH 43215

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Senior Counsel
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Columbus, OH 43215

OF COUNSEL:

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

Dated: May 15, 2006

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Kelvin J. Dowd
Christopher A. Mills
Daniel M. Jaffe 
Slover & Loftus
1224 Seventeenth Street N.W.
Washington, D.C. 20036
(202) 347-7170

Attorneys & Practitioners

CERTIFICATE OF SERVICE

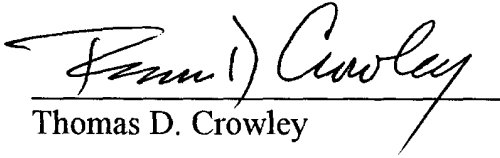
I hereby certify that on this 15th day of May 15, 2006, I caused a copy of the foregoing Opening Second Supplemental Evidence of Complainant AEP Texas North Company to be served by hand delivery on counsel for BNSF, as follows:

Samuel M. Sipe, Jr.
Anthony J. LaRocca
Linda S. Stein
Steptoe & Johnson, L.L.P.
1330 Connecticut Avenue, N.W.
Washington, D.C. 20036-1795


Daniel M. Jaffe

VERIFICATION

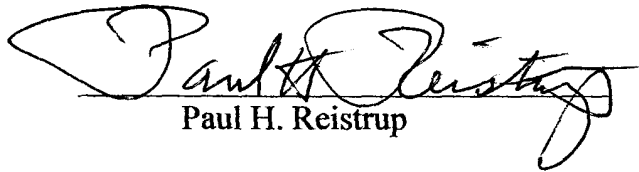
I, Thomas D. Crowley, verify under penalty of perjury that I am the same Thomas D. Crowley whose Statement of Qualifications appears in Part IV of the Narrative portion of the Opening Evidence of Complainant AEP Texas North Co. ("AEP Texas") filed in this proceeding on March 1, 2004; that I am responsible for the portions of the foregoing Opening Second Supplemental Evidence of AEP Texas in Response to March 17, 2006 Compliance Order related to the changes to the SARR traffic group volumes and revenues, the changes in peak period trains used in the second supplemental RTC Model simulation based on the revised SARR tonnages, the changes in SARR operating expenses (jointly with AEP Texas Witness Philip Burris), and the revised DCF analysis and reparations; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.


Thomas D. Crowley

Executed on: May 12, 2006

VERIFICATION

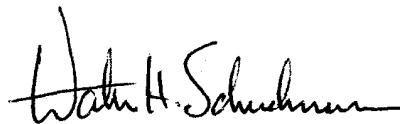
I, Paul H. Reistrup, verify under penalty of perjury that I am the same Paul H. Reistrup whose Statement of Qualifications appears in Part IV of the Narrative portion of the Opening Evidence of Complainant AEP Texas North Co. ("AEP Texas") filed in this proceeding on March 1, 2004; that I am responsible (jointly with AEP Texas Witness Walter Schuchmann) for the portions of the foregoing Opening Second Supplemental Evidence of AEP Texas in Response to March 17, 2006 Compliance Order related to the changes in the operating inputs for purposes of the second supplemental RTC Model simulation and the results of the second supplemental RTC Model simulation; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.


Paul H. Reistrup

Executed on: May 9, 2006

VERIFICATION

I, Walter H. Schuchmann, verify under penalty of perjury that I am the same Walter H. Schuchmann whose Statement of Qualifications appears in Part IV of the Narrative portion of the Opening Evidence of Complainant AEP Texas North Co. ("AEP Texas") filed in this proceeding on March 1, 2004; that I am responsible (jointly with AEP Texas Witness Paul Reistrup) for the portions of the foregoing Opening Second Supplemental Evidence of AEP Texas in Response to March 17, 2006 Compliance Order relating to the changes in operating inputs and the train file for purposes of the second supplemental RTC simulation, running the RTC Model for purposes of the second supplemental simulation, and the results of the second supplemental RTC Model simulation; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.



Walter H. Schuchmann

Executed on: May 12, 2006

Washington, District of Columbia

The foregoing instrument was acknowledged before me this

12th day of May, 2006

by Walter H. Schuchmann

 Notary Public

My commission expires GWENDOLYN M. PENN

NOTARY PUBLIC, DISTRICT OF COLUMBIA
MY COMMISSION EXPIRES 9-14-2009

VERIFICATION

I, Philip H. Burris, verify under penalty of perjury that I am the same Philip H. Burris whose Statement of Qualifications appears in Part IV of the Narrative portion of the Opening Evidence of Complainant AEP Texas North Co. ("AEP Texas") filed in this proceeding on March 1, 2004; that I am responsible (jointly with AEP Texas Witness Thomas D. Crowley) for the portions of the foregoing Opening Second Supplemental Evidence of AEP Texas in Response to March 17, 2006 Compliance Order related to the changes in SARR operating expenses; that I know the contents thereof; and that the same are true and correct. Further, I certify that I am qualified and authorized to file this statement.



Philip H. Burris

Executed on: May 12, 2006

Exhibit OSS-1
Redacted