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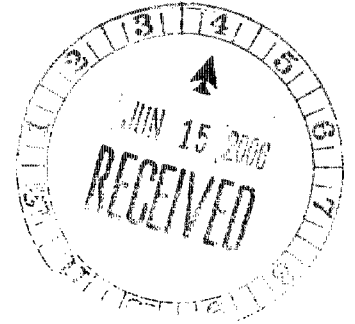
216777

June 15, 2006

Via HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423

ENTERED
Office of Proceedings
JUN 16 2006
Part of
Public Record



Re: ***AEP Texas North Company v. BNSF Railway Company,***
STB Docket No. 41191 (Sub-No. 1)

Dear Secretary Williams:

Enclosed are the original and ten copies of the Reply Supplemental Evidence of BNSF Railway Company ("BNSF"). Also enclosed are three CDs containing an electronic version of BNSF's Reply Supplemental Evidence and three DVDs containing electronic workpapers supporting BNSF's filing. BNSF's electronic workpapers contain Highly Confidential materials subject to the Board's Protective Order in the above-referenced proceeding.

Please date stamp the extra copy of this letter and return it with our messenger.

Sincerely,

A handwritten signature in black ink, appearing to be 'B. Gaede'.

Brooke L. Gaede
Counsel for BNSF Railway Company

Enclosures

cc: Counsel for Complainant

216777



**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB Docket No. 41191 (Sub-No. 1)

AEP TEXAS NORTH COMPANY

v.

BNSF RAILWAY COMPANY

**Reply Supplemental Evidence of
BNSF Railway Company**

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Public Record

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June 15, 2006

ATTORNEYS FOR
BNSF RAILWAY COMPANY

I. COUNSEL'S ARGUMENT AND SUMMARY OF EVIDENCE

This is the reply supplemental evidence of BNSF Railway Company ("BNSF") in STB Docket No. 41191 (Sub-No. 1), *AEP Texas North Company v. BNSF Railway Company*. In a decision served March 17, 2006, the Board instructed the parties to file supplemental evidence in this proceeding based on a common set of assumptions identified in the decision. In response to that decision, the complainant, AEP Texas North Company ("AEP Texas"), filed what it calls its opening second supplemental evidence on May 15, 2006.¹ BNSF's reply supplemental evidence responds to AEP Texas' opening second supplemental evidence. The format of this reply supplemental evidence conforms to the format set out by the Board in STB Ex Parte No. 347 (Sub-No. 3), *General Procedures for Presenting Evidence in Stand-Alone Rate Cases* (served March 12, 2001).

For purposes of this reply supplemental evidence, BNSF reviewed AEP Texas' second supplemental evidence to determine whether AEP Texas accurately made changes required by the Board's March 17, 2006 Decision and whether AEP Texas' supplemental calculations were consistent with the methodologies it used previously. As explained in the following sections, BNSF concluded that AEP Texas properly established SARR tonnages based on the Board's instructions. BNSF also concluded that AEP Texas properly implemented the Board's instructions as to revenue calculations, although for reasons explained below, BNSF does not agree with AEP Texas' calculation of revenues associated with the Coletto Creek traffic. The Board's March 17, 2006 Decision also required AEP Texas to submit a revised RTC analysis based on certain assumptions, which AEP Texas used to test the adequacy of SARR capacity and

¹ AEP Texas styled this pleading its "second" supplemental evidence because it has already filed supplemental evidence in this proceeding on November 8, 2004 in response to a motion to strike filed by BNSF on September 9, 2004.

to establish operating statistics. BNSF uses AEP Texas' RTC modeling results and mainline and yard configuration for this reply supplemental evidence. BNSF also uses the transit times generated by AEP Texas' RTC analysis to develop the SARR's operating statistics.

Using the new operating statistics and construction assumptions, BNSF revised the operating expenses and construction costs submitted in its reply evidence to reflect the changes identified in the Board's March 17, 2006 Decision. Since the SARR traffic volume in this reply supplemental evidence is larger than in BNSF's reply evidence, the SARR's revised operating expenses reflect increased costs associated with additional locomotives, cars, crews, personnel and maintenance-of-way expenses. BNSF also revised construction costs associated with the SARR's mainline and yard configuration proposed by AEP Texas.

Finally, BNSF updated certain indices used in calculating the SARR revenues and expenses over the 20-year DCF period. This practice has been accepted by the Board in previous decisions. Based on the changes identified in this reply supplemental evidence, BNSF generated new SAC results, which indicate that even using the Board's prescribed assumptions, SAC costs substantially exceed SAC revenues.

III. STAND-ALONE COST

A. TRAFFIC GROUP

In its March 17, 2006 Order, the Board directed the parties to submit supplemental evidence using the traffic group tonnages contained in AEP Texas' first supplemental evidence, filed November 8, 2004, with the following adjustments:

- for the period 2009-2020, rely upon the most recent Energy Information Administration (EIA) Annual Energy Outlook (AEO) forecasts for Western Montana and Wyoming PRB low-sulfur (sub-bituminous) coal tonnage;
- for the period 2012-2020, incorporate increased tonnage to Sunflower's Holcomb Unit 2 set forth in AEP Texas' supplemental evidence;
- rely on the tonnage to Tucson Electric Power's Springerville Plant contained in BNSF's reply evidence, filed May 24, 2004; and
- for the Coletto Creek movement, develop tonnages (1) for 2000 based on AEP Texas' first supplemental evidence, (2) for 2001 and 2002 separately for southbound loads and northbound empties based upon the gross tons calculated in the AEP Texas first supplemental evidence workpapers that use BNSF's train movement data (without the average gross to net ton ratio), and (3) for 2003 to 2020 by indexing the 2002 volumes using EIA's AEO as noted above.

AEP Texas made the required changes to its original traffic group assumptions. BNSF agrees that the traffic group, as modified by AEP Texas, reflects accurately the Board's May 17, 2006 instructions, and BNSF therefore uses the tonnages as calculated by AEP Texas for purposes of this reply supplemental evidence.²

BNSF continues to object to the Board's decision to include the rerouted cross-over traffic in the traffic group used for this supplemental evidence for the reasons described in

² For the reasons stated in BNSF's reply evidence, BNSF continues to believe that the Coletto Creek traffic is not appropriate for inclusion in the SARR. See BNSF Reply Nar. at III.A-40 to 45.

BNSF's previous filings.³ While that traffic shares only a few facilities with the issue traffic, it is assumed to make an extremely large revenue contribution to the SARR. AEP Texas seeks to use the revenues generated by this rerouted traffic to reduce the rates paid by the issue traffic, even though there is only a minimal sharing of facilities in the real world. AEP Texas has created a cross-subsidy in which the rerouted traffic contributes revenues to cover the cost of facilities it does not use. As BNSF has explained in prior filings, such an abuse of cross-over traffic undermines the SAC test as a test for cross-subsidy. Cross-over traffic is supposed to be used to simplify the presentation of SAC evidence, not as a device for complainants to skew SAC results in their favor.⁴

The Board's March 17, 2006 Order required two changes to the parties' calculation of revenues. The parties were instructed to:

- incorporate the latest 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 the Order into the methodology reflected in AEP Texas' opening evidence with one exception. Calculate the nominal transportation escalator as: $(1 + \text{real growth rate}) \times (1 + \text{GDP-IPD growth rate}) - 1$; and

³ See BNSF Petition for Reconsideration (filed April 5, 2006); BNSF Motion to Strike at 13-20 (filed Sept. 9, 2004); BNSF Reply Nar. at III.A-24 to 40 (filed May 24, 2004).

⁴ Complainants have found various ways to create cross-subsidies using cross-over traffic. One is to create an artificial SARR in which a high density segment is engrafted onto the lines used by the issue traffic. While the traffic on that high density segment shares little or no facilities with the issue traffic, it is assumed to contribute revenues to pay for the issue traffic facilities. A second cross-subsidy approach is to re-route traffic that shares little or no facilities with the issue traffic in the real world onto SARR lines. The cross-subsidy test described in *PPL and Otter Tail* works well to address the cross-subsidy created by the first approach. See *PPL Montana, LLC v. The Burlington Northern & Santa Fe Railway Co.*, STB Docket No. 42054, slip op. at 10-13 (served Aug. 19, 2002); *Otter Tail Power Co. v. BNSF Railway Co.*, STB Docket No. 42071, slip op. at 8-11 (served Jan. 27, 2006). But it is not as effective in addressing the cross-subsidy created by the re-routing of traffic. The Board needs to be vigilant in excluding rerouted traffic that does not meet the standards governing rerouted traffic, including the presumption against including traffic that is rerouted over longer SARR lines.

- attribute revenue to the Coletto Creek traffic to conform to the modified handling of that traffic, as discussed above.

No other changes in the methodologies used to calculate SARR revenue were permitted. Thus, while the Board is contemplating adopting the ATC methodology for calculating revenues on cross-over traffic in the pending rulemaking proceeding,⁵ neither party has modified the methodologies used in prior filings in this proceeding to calculate revenues on cross-over traffic. Any changes implemented in the pending Ex Parte No. 657 (Sub-No. 1) proceeding will be addressed in a subsequent round of evidence.

AEP Texas made the required changes to incorporate the EIA AEO transportation rate escalator in its revenue calculations. BNSF agrees that the revenue calculations, as modified by AEP Texas, reflect accurately the Board's May 17, 2006 instructions. However, for the reasons stated in BNSF's reply evidence, BNSF disagrees with AEP Texas' approach to calculating revenues for cross-over traffic, and BNSF therefore calculates SARR revenues on cross-over traffic using the same methodologies described in BNSF's reply evidence.⁶

AEP Texas also attributed revenue to the revised Coletto Creek traffic, as instructed by the Board. BNSF reviewed those revenue calculations and concluded that AEP Texas distorted the revenues the SARR would collect for handling UP's traffic by applying different assumptions to movements in the loaded and empty directions.

⁵ See *Major Issues in Rail Rate Cases*, STB Ex Parte No. 657 (Sub-No. 1), at 17-20 (served Feb. 27, 2006).

⁶ See BNSF Reply Supp. e-WP "TNR Coal Revenue Forecast 6-15-06 Reply.xls" at worksheet "6-15 Changes;" "AEP Coal Move 6-15-06 Reply.xls" at worksheet "Summary;" and "AEP Coal Move MSP 6-15-06 Reply.xls" at worksheet "Summary."

In its supplemental evidence, AEP Texas calculated the ton-miles that would be generated from the Coletto Creek traffic over different SARR segments.⁷ Specifically, for the period after BNSF commenced directional routing operations between Pueblo and Amarillo, AEP Texas assumed that the TNR would handle the loaded trains between Pueblo and Oklaunion (a distance of 495 miles on the SARR) and the empty trains only between Oklaunion and Amarillo (177 miles), under the presumption that the residual BNSF would handle the empty trains between Amarillo and Pueblo. By calculating the TNR revenues on the basis of ton-miles from specific segments of the movement rather than train-miles, AEP Texas allowed the TNR to collect significantly more revenues, leaving the residual BNSF with disproportionately lower revenues for handling the traffic over its portion of the segment.

The revenues that UP pays to BNSF are based on a trackage-rights fee that applies to shipments in both the loaded and empty directions. AEP Texas's work papers indicate that, under its approach, UP would pay *more than six times as much* for each train-mile in the loaded direction than in the empty direction.⁸ As a result of handling the traffic for the entire Pueblo-Oklaunion segment in the loaded direction, but only one-third of this segment in the empty direction, the TNR would collect more than 93 percent of the total trackage-rights fees for handling less than three-quarters of the train-miles between Pueblo and Oklaunion. This imbalance is not relevant in the real world, where BNSF enjoys a balance between loaded and empty shipments and collects a total trackage-rights fee for ton-miles that are generated in each direction. To correct the disparity between the loaded and empty shipments – and the fact that the TNR would unfairly leave the residual BNSF to handle only the lower-rated empty shipments

⁷ See AEP Texas 2nd Supp. e-WP "TNR Coal Revenue Forecast 5-15-2006 FINAL.xls" at worksheet "Coletto Creek_STB."

⁸ *Id.*

without getting any of the offsetting higher-rated moves in the loaded direction – BNSF recalculates the revenue division to account for the actual split in train-miles.⁹

In its second supplemental opening evidence, AEP Texas did not update its RCAF assumptions for either actual or projected SARR rates, although AEP Texas did update historical RCAF changes for prior time periods in the DCF as discussed in Section III.G. Consistent with the approach accepted by the Board in prior cases, BNSF has updated the SARR revenues to reflect actual changes in the RCAF through 2005 and projected RCAF changes beginning in 2006.¹⁰

In Table III.A-1 below, BNSF compares the SARR revenues developed by AEP Texas with the revenues developed by BNSF:

⁹ See BNSF Reply Supp. e-WP “Coletto Creek Rate.xls” at worksheet “Coletto Creek STB.”

¹⁰ See BNSF Reply Supp. e-WP “TNR Coal Revenue Forecast 6-15-06 Reply.xls” at worksheets “RCAF-U Forecast” and “RCAF-A Forecast.”

Table III.A-1
TNR Total Traffic Revenues
Comparison of AEP Texas and BNSF Estimates
(Dollars in Millions)

	AEP Texas 5-15-06	BNSF 6-15-06 (DARA)	BNSF 6-15-06 (Adjusted MSP)
2000*	\$407.2	\$371.4	\$382.0
2001	\$763.3	\$697.3	\$717.5
2002	\$764.5	\$700.4	\$724.7
2003	\$740.1	\$677.7	\$762.8
2004	\$770.6	\$713.6	\$737.3
2005	\$761.6	\$711.7	\$734.9
2006	\$782.5	\$735.4	\$759.5
2007	\$808.6	\$751.8	\$777.1
2008	\$820.4	\$766.4	\$791.8
2009	\$848.9	\$785.9	\$812.3
2010	\$862.6	\$769.9	\$795.5
2011	\$891.4	\$796.2	\$822.9
2012	\$941.8	\$834.7	\$872.9
2013	\$967.0	\$851.5	\$888.9
2014	\$988.0	\$871.7	\$909.8
2015	\$1,000.9	\$882.5	\$921.0
2016	\$1,027.8	\$906.8	\$946.5
2017	\$1,061.8	\$935.3	\$976.5
2018	\$1,096.5	\$965.1	\$1,007.8
2019	\$1,132.2	\$995.8	\$1,040.1
2020	\$1,185.6	\$1,041.0	\$1,088.0

*Year 2000 figures are partial year figures from June 16 through December 31

Source: BNSF Reply Supp. e-WP "TNR Coal Revenue Forecast 6-15-06 Reply.xls," "TNR Coal Revenue Forecast MSP 6-15-06 Reply.xls," and "BNSFgrft_6-15-06 Reply.xls"

B. STAND-ALONE RAILROAD SYSTEM

As the parties have discussed in prior filings in this proceeding, both parties tested the adequacy of the SARR capacity using the RTC Model. In response to the Board's March 17, 2006 Order, AEP Texas presented a new RTC analysis in its second supplemental evidence. Based on that analysis, AEP Texas concluded that no changes were needed to the SARR configuration used in its first supplemental evidence. BNSF has not made any changes in that RTC analysis for purposes of this reply supplemental evidence, therefore BNSF uses the mainline and yard capacity of the SARR as posited by AEP Texas in its first supplemental evidence in this filing.

Since BNSF has used AEP Texas' proposed mainline and yard configuration for this reply supplemental evidence, BNSF also uses AEP Texas' proposed route miles. However, for reasons explained in BNSF's reply evidence, BNSF does not agree with AEP Texas' calculation of track miles for certain mine leads, interchange locations and set-out track.¹¹ BNSF's reply supplemental evidence is therefore based on the corrected track miles described in BNSF's reply evidence.¹²

¹¹ See BNSF Reply Nar. at III.B-27 to 31 and III.F-113 to 114.

¹² BNSF Reply Supp. e-WP "III F TNR Construction_6-15-06 Reply.xls" at worksheet "Track Data." See also BNSF's revised TNR track charts provided as Reply Supplemental Exhibit III.B-1, included with BNSF's electronic workpapers.

C. OPERATING PLAN

In its March 17, 2006 Order, the Board directed the parties to submit supplemental evidence incorporating the following changes in the parties' RTC simulations:

- Adjust peak year tonnages, as described in Section III.A above;
- Include all random outages contained in BNSF's reply evidence (with two adjustments specified in the Board's Order);
- Exclude UP train loadings contained in BNSF's reply evidence;
- Model the Las Animas Yard as reflected in AEP Texas' first supplemental evidence; and
- Use a 6-hour unloading time for Oklaunion trains, as reflected in AEP Texas' first supplemental evidence.

BNSF has reviewed the changes made by AEP Texas in its second supplemental RTC simulation. AEP Texas' RTC results reflect the Board's instructions and BNSF therefore does not make any changes to those results for purposes of this reply supplemental evidence.

AEP Texas used its revised transit times from the peak week to generate new annualized locomotive and car requirements for the SARR. As explained in BNSF's reply evidence, BNSF does not agree with AEP Texas' approach to developing SARR equipment requirements using the results of its RTC simulation.¹³ There are more direct and accurate ways to calculate those requirements. BNSF used the transit times from AEP Texas' revised RTC analysis to calculate new locomotive and car counts for the SARR based on the methodology previously described in BNSF's reply evidence.¹⁴

¹³ See BNSF Reply Nar. at III.C-8 to 16. BNSF also notes that there are technical errors in AEP Texas' calculation of car hours in its second supplemental evidence (e-WP "TNR Operating Statistics--Supp Open.xls" at worksheet "Car Hours"). Without these errors, AEP Texas would have calculated 1,261 coal cars.

¹⁴ See *id.* The Board accepted BNSF's approach in *Otter Tail*, STB Docket No. 42071, slip op. at C-2 (served Jan. 27, 2006).

The following table compares the SARR's locomotive and car requirements calculated in BNSF's reply supplemental and AEP Texas' second supplemental evidence.

Table III.C-1
Comparison of TNR Road Locomotive and Coal Car Requirements

Equipment Category	AEP Texas 2nd Supplemental Evidence	BNSF 6-15-06 Reply Supplemental Evidence	Difference
SD70MAC Road Locomotives	194	258	64
Coal Cars	1,948	2,643	695

D. OPERATING EXPENSES

In this reply supplemental evidence, BNSF modified the SARR's operating expenses to reflect the SARR's revised tonnages and revised transit times and equipment requirements, which are discussed in Sections III.A and III.C. BNSF used the same unit costs and methodologies to calculate these operating expenses as those described in BNSF's reply evidence, with the exception of fuel costs at certain locations, as discussed below.

Locomotive Expenses: BNSF revised all expenses associated with the SARR's locomotives.¹⁵ Locomotive lease expenses were revised to reflect the new number of locomotives required by the SARR. Locomotive maintenance expenses were revised to reflect the new number of locomotives and locomotive unit miles ("LUMs"), both of which factor into the calculation of total SARR maintenance expenses. Locomotive service expenses were also revised to reflect the SARR's new LUMs.

BNSF revised the SARR's locomotive fuel expenses to account for three changes in this reply supplemental evidence. First, fuel expenses were revised to reflect the SARR's new LUMs. Second, the Board's March 17, 2006 Order required the parties to assume the Las Animas Yard configuration designed by AEP Texas, which includes a fueling facility.¹⁶ BNSF revised the SARR's expenses to reflect fueling at Las Animas, instead of at Amarillo, as contemplated in BNSF's reply evidence. BNSF's reply evidence included location-specific fuel costs at the Amarillo fueling location, which are not applicable to the Las Animas facility where BNSF does not have a fueling operation. Since BNSF does not have location-specific fuel costs

¹⁵ See BNSF Reply Supp. e-WP "OPR_EXP.xls" at worksheet "Summary."

¹⁶ BNSF continues to believe that the Board should require AEP Texas to fuel its coal trains at Amarillo instead of Las Animas, for the reasons stated in BNSF's reply evidence. See BNSF Reply Nar. at III.B-33 to 38.

for Las Animas, BNSF used its system-average fuel price, before accounting for any benefits or losses from BNSF's fuel hedging program ("pre-hedged"), as the SARR fuel price at Las Animas.¹⁷

Third, BNSF revised the SARR's fueling expenses to account for SARR trains fueled at Las Animas that will also need to be fueled on the residual BNSF system. As BNSF showed in its reply evidence, if the SARR trains are fueled at Las Animas, they will have insufficient fuel to return to Alliance unless they are fueled off-SARR by BNSF.¹⁸ BNSF does not currently engage in the fueling activity that would be required, and it is inappropriate to assume that it would agree to carry out that activity just because the SARR wished to site its fueling facilities at a location that is different from the location used by the incumbent in the real world. For purposes of this reply supplemental evidence, BNSF has nevertheless assumed that it will perform fueling as needed for SARR trains that are fueled at Las Animas and require additional fuel before returning to the SARR system. BNSF does not have location-specific fueling prices

¹⁷ The pre-hedged system-average fuel price is calculated in BNSF's reply supplemental electronic workpaper "Total TNR Fuel.xls," worksheet "Sheet 2" at cells A54-F67. It is unreasonable to include the impact of hedging in the calculation of fuel expense in a SAC analysis. Hedging is a risk management strategy that produces benefits in some years and losses in other years. The purpose in the real world is to ensure some stability in fuel costs in the face of uncertainty. That uncertainty is not a factor in the SAC calculations, where specific assumptions are included using a forecast of operating costs throughout the DCF period. More important, use of post-hedged fuel prices in the SAC analysis would produce major distortions based on the hedging results of the incumbent in the base year of the SARR's operation. If the incumbent had large hedge benefits in that year, those benefits would be perpetuated through the entire DCF period, with no rational basis for such an assumption. Of course, the same would be true when the incumbent has hedging losses in the base year, although a complainant would almost certainly not include those losses in its cost calculations. The effects of the incumbent's hedging activity have no place in the SAC analysis.

¹⁸ See BNSF Reply Nar. at III.B-33 to 38.

for these trains, and therefore it used the pre-hedged system-average fuel price to develop SARR expenses associated with off-SARR fueling of SARR trains, both coal and non-coal.¹⁹

Railcar Expenses: Using the same unit costs and methodologies discussed in BNSF's reply evidence, BNSF revised the SARR's railcar lease and maintenance expenses to reflect the new SARR railcar count and car miles.²⁰ In updating its workpapers, BNSF also noted a linking error in its reply workpapers which has been corrected in this reply supplemental evidence.²¹

Operating Personnel Expenses: BNSF used the same methodology it used on reply to develop crew statistics, substituting the results of AEP Texas' RTC analysis for the prior RTC statistics.²² In addition, BNSF's operating expert Mr. Mueller reviewed and revised the operating personnel requirements identified in BNSF's reply evidence to account for the increased coal traffic in this reply supplemental evidence. Most of that traffic will impact the SARR operations in and around Alliance, Nebraska, which is the SARR's largest and most congested yard. The average trains per day at Alliance have increased from 51 to 69 during the peak year, while crew starts for the Donkey Creek – Alliance crew district have increased from

¹⁹ BNSF Reply Supp. e-WP "Total TNR Fuel.xls," worksheet "Sheet 2" at cells A54-F67. As the SARR's non-coal trains are also assumed to be fueled by the residual BNSF, BNSF uses the same pre-hedged system-average fuel price for the fuel used on those trains.

²⁰ See BNSF Reply Supp. e-WP "OPR_EXP.xls" at worksheet "Summary."

²¹ Although BNSF included the correct freight car ownership percentage workpaper ("AEPTX.BNSF cars stats by destination.xls") in its reply workpapers, that file was not linked to the workpaper calculating the car requirements ("LUMs and Carmiles (AEPTX-BNSF).xls"). The linking error becomes apparent when the "LUMs and Carmiles (AEPTX-BNSF).xls" workpaper from BNSF's reply evidence is opened and the links to the subsidiary files are updated.

²² See BNSF Reply Supp. e-WP "OPR_EXP.xls" at worksheet "Summary."

380 to 554 for the peak week.²³ As a result of the increased traffic and crew requirements at the Alliance Yard, Mr. Mueller identified the need for two additional hostler crews and one crew hauler at that location.

G&A Expenses: BNSF's witness Mr. McCarren reviewed the new traffic and revenue assumptions used in this reply supplemental evidence. While the increases in tonnage and revenues would increase the workload of the SARR's marketing and revenue accounting staff, Mr. McCarren concluded that it is possible for the staff he identified on reply to handle the additional work. Therefore, BNSF has not made any changes in G&A costs for purposes of this filing.

Maintenance-Of-Way Expenses: BNSF revised the SARR's MOW expenses to reflect the SARR's new gross ton-miles.²⁴ BNSF's witness Mr. Albin also reviewed the new traffic and revenue assumptions used in this reply supplemental evidence to determine whether any MOW personnel changes were required. Mr. Albin concluded that the new SARR configuration used in this reply supplemental evidence would increase the number of AAR signal units from approximately 39,000 to 41,000 and therefore the number of signal maintainers must be increased from 39 to 41.²⁵

* * *

²³ See BNSF Reply e-WP "LUMS and Carmiles (AEPTX-BNSF).xls" at worksheet "GTM Summary;" BNSF Reply Supp e-WP "LUMS and Carmiles (AEPTX-BNSF 6-15-06).xls" at worksheet "GTM Summary;" BNSF Reply e-WP "BNSF Crew Count.xls" at worksheet "Summary;" BNSF Reply Supp e-WP "TIME STAMP REPORT (BNSF 6-15-06 Reply.xls" at worksheet "New Summary."

²⁴ See BNSF Reply Supp. e-WP "III D 4 Maintenance of Way_6-15-06 Reply.xls" at worksheet "summary."

²⁵ See *id.* at worksheet "Personnel." See also BNSF Reply Nar. at III.D-193 to 194.

The following table compares the SARR's operating expenses calculated by BNSF in this reply supplemental evidence with the expenses shown in AEP Texas' opening second supplemental evidence.

Table III.D-1
Annual Operating Expense for the TNR – 2001

Item	AEP Texas Opening 2nd Supplemental (\$ millions)	BNSF Reply Supplemental (\$ millions)
1. T&E Personnel	45.1	64.6
2. Locomotive Lease Expense	27.4	37.7
3. Locomotive Maintenance Expense	22.6	34.1
4. Locomotive Operating Expense	79.2	107.1
5. Railcar Lease Expense	15.9	19.2
6. Material and Supply Operating	1.2	2.5
7. Ad Valorem Taxes	6.1	7.5
8. Joint Facility	3.9	4.4
9. Operating Managers	12.8	19.6
10. General and Administrative (including IT)	13.3	28.5
11. Loss and Damage	0.8	0.7
12. Insurance	7.6	21.6
13. Maintenance of Way	30.0	65.9
14. Total	265.9	413.4

E. NON-ROAD PROPERTY INVESTMENT

BNSF's reply supplemental evidence does not include any changes to this section of BNSF's reply evidence.

F. ROAD PROPERTY INVESTMENT

As explained in Section III.B, BNSF uses the SARR configuration posited by AEP Texas for purposes of this reply supplemental evidence, except that BNSF corrected minor route and track mile calculations. Accordingly, the SARR track configuration used by BNSF for this reply supplemental evidence differs in some respects from the SARR configuration posited by BNSF in its reply evidence. BNSF has revised the SARR's road property investment to reflect those changes. BNSF did not modify the unit costs previously used to determine SAC investment costs and it did not change the methodologies it previously used.

To account for the higher traffic volumes going through Alliance, the SARR configuration BNSF uses in this reply supplemental evidence includes an additional seven (7) tracks at the East Alliance Yard and two (2) tracks at the South Alliance Yard, which BNSF has included in the SARR's configuration and costed using the same methodology and unit costs discussed in its reply evidence.

The SARR configuration also includes additional facilities at the Las Animas Yard. As discussed in Section III.D, AEP Texas' configuration of the Las Animas Yard includes a fueling facility, which BNSF located at Amarillo in its reply evidence. For purposes of this reply supplemental evidence, BNSF has developed costs for the Las Animas Yard based on the configuration posited by AEP Texas and using the same methodology and unit costs discussed in BNSF's reply evidence. BNSF has also reduced the costs for the remaining Amarillo Yard to reflect BNSF's use of AEP Texas' configuration for that yard.

In addition, BNSF has made minor technical corrections to the construction costs in its reply evidence. All of these errors were identified by AEP Texas in its rebuttal evidence:

- Clearing and Grubbing: BNSF includes the route miles for Crawford Hill Realignment and Harrington Spur in its calculation of clearing and grubbing expenses;²⁶
- Lateral Drainage: BNSF includes the route miles for Harrington Spur in its calculation of lateral drainage expenses;²⁷
- Retaining Walls: BNSF includes the route miles for Crawford Hill Realignment and Harrington Spur in its calculation of retaining wall expenses;²⁸
- Transition Ties: BNSF eliminates the double-counted grade crossing transition ties;²⁹
- Anchors at Grade Crossings: BNSF eliminates the double-counted anchors on all ties 200 feet on both sides of grade crossings;³⁰ and
- Bridge Inventory: BNSF includes the costs of only one bridge over the South Platte River.³¹

Finally, BNSF identified a further technical error when it was preparing this reply supplemental evidence, which it has corrected in this filing:

- Denver Crew Change Facility: Although the existence of this facility was clearly identified, BNSF inadvertently omitted this facility from its reply calculations.³²

²⁶ AEP Texas Reb. Nar. at III-F-14 to17.

²⁷ *Id.* at III-F-70.

²⁸ *Id.* at III-F-75.

²⁹ *Id.* at III-F-105.

³⁰ *Id.* at III-F-116.

³¹ *Id.* at III-F-123.

³² AEP Texas Opening Nar. at III.F-93.

G. DISCOUNTED CASH FLOW ANALYSIS

Although not discussed in its second supplemental evidence, AEP Texas updated the AAR index used to inflate the TNR quarterly capital recovery requirement to reflect actual historical index values through the first quarter of 2006 and the RCAF used to index operating expenses in Table K of the DCF model to reflect the historical RCAF through the second quarter of 2006. AEP Texas did not, however, update the projections of either the AAR or the RCAF indexes for future periods of the DCF to reflect the most recent forecast available from Global Insights.

If forecasts of future inflation are replaced in the DCF with actual historical values, then the remaining forecasts of future inflation should also be updated to reflect forecast information of comparable vintage. Otherwise the inflation indexes could exhibit artificial fluctuations in inflation – both upward and downward – caused only by the difference in timing between forecasted and actual occurrences. By updating the index forecast along with the actual index values, such anomalies are eliminated. BNSF therefore updates the RCAF index to reflect the most recent historical information and also incorporates the most current RCAF projections in its reply supplemental evidence.³³

In addition, consistent with past practices,³⁴ BNSF has updated the cost of capital calculations to reflect the AAR's proposed 2005 cost of capital submitted in Ex Parte No. 558 (Sub-No. 9) Railroad Cost of Capital – 2005 and expanded the calculation of the 2006 through 2020 average cost of equity to include the 2005 data.

³³ See BNSF Reply Supp. e-WP "RCAF 2006Q1.pdf."

³⁴ See, e.g., *Xcel v. BNSF*, STB Docket No. 42057, at 19-20 (served Jan. 19, 2005); *Duke Energy Corp. v. Norfolk Southern Railway Co.*, STB Docket No. 42069, *Duke Energy Corp. v. CSX Transportation, Inc.*, STB Docket No. 42070, and *Carolina Power & Light Co. v. Norfolk Southern Railway Co.*, STB Docket No. 42072, at 4 (served Oct. 20, 2004).

H. RESULTS OF SAC ANALYSIS

The total SAC for the TNR based on investment and operating costs is summarized in Table L of BNSF's Reply Supplemental Exhibit III.H-1, which is included in BNSF's electronic workpapers. The capital requirement from Table I and the annual operating expenses from Table K are presented and summed in Table L for each year the TNR operates. The following table summarizes these results.

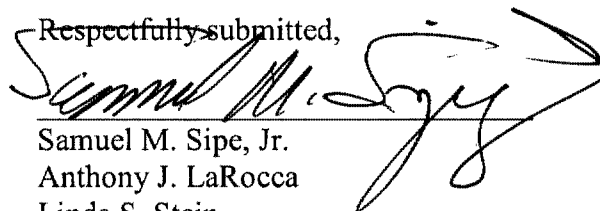
Table III.H-1
Summary of Stand-Alone Cost Results – TNR
(All Figures in Millions of Dollars)

Year	Annual Revenue	Stand-Alone Cost	Difference
2000	\$371.4	\$471.2	(\$99.8)
2001	\$697.3	\$849.4	(\$152.1)
2002	\$700.4	\$852.2	(\$151.8)
2003	\$677.7	\$873.0	(\$195.3)
2004	\$713.6	\$927.6	(\$214.1)
2005	\$711.7	\$974.2	(\$262.5)
2006	\$735.4	\$1,015.4	(\$280.1)
2007	\$751.8	\$1,039.1	(\$287.3)
2008	\$766.4	\$1,054.4	(\$288.1)
2009	\$785.9	\$1,075.8	(\$289.9)
2010	\$769.9	\$1,091.4	(\$321.5)
2011	\$796.2	\$1,117.4	(\$321.2)
2012	\$834.7	\$1,147.8	(\$313.2)
2013	\$851.5	\$1,175.7	(\$324.2)
2014	\$871.7	\$1,203.5	(\$331.8)
2015	\$882.5	\$1,228.2	(\$345.7)
2016	\$906.8	\$1,259.9	(\$353.1)
2017	\$935.3	\$1,295.7	(\$360.4)
2018	\$965.1	\$1,332.3	(\$367.2)
2019	\$995.8	\$1,369.4	(\$373.6)
2020	\$1,041.0	\$1,417.8	(\$376.8)

Richard E. Weicher
Michael Roper
BNSF RAILWAY COMPANY
2500 Lou Menk Drive
Fort Worth, TX 76131
(817) 352-2353

June 15, 2006

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Samuel M. Sipe, Jr.", written over a horizontal line.

Samuel M. Sipe, Jr.
Anthony J. LaRocca
Linda S. Stein
STEPTOE & JOHNSON LLP
1330 Connecticut Avenue, N.W.
Washington, DC 20036
(202) 429-3000

Attorneys for BNSF Railway Company

IV. WITNESS VERIFICATIONS

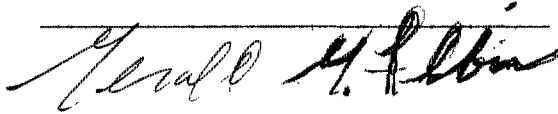
This Section contains verifications submitted by the following BNSF witnesses who sponsored evidence contained in this reply supplemental evidence:

- Gerald G. Albin is sponsoring evidence incorporated in Section III.D relating to maintenance-of-way.
- Michael R. Baranowski is sponsoring evidence incorporated in Sections III.G and III.H relating to the Board's DCF model and SAC calculations.
- Harry W. Bues, III is sponsoring evidence incorporated in Section III.D relating to fuel.
- Benton V. Fisher is sponsoring evidence incorporated in Section III.A relating to traffic volume and revenue.
- Cassie M. Gouger is sponsoring evidence incorporated in Sections III.B and III.F relating to track configuration and construction.
- J. Reilly McCarren is sponsoring evidence incorporated in Section III.D relating to G&A.
- Loren E. Mueller is sponsoring evidence incorporated in Section III.D relating to operating personnel.
- Robert J. Plum, III is sponsoring evidence incorporated in Sections III.C and III.D relating to operating statistics and expenses.
- Heather S. Viola is sponsoring evidence incorporated in Section III.D relating to operating expenses.
- David R. Wheeler is sponsoring evidence incorporated in Sections III.B and III.C relating to capacity requirements and cycle times.

Each of these witnesses previously sponsored evidence in BNSF's reply evidence filed May 24, 2004, and qualifications for each witness are contained therein.

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

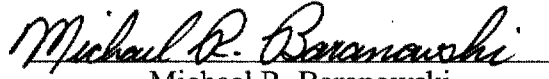
Executed on June 14, 2006

A handwritten signature in cursive script, appearing to read "Gerald G. Albin", written over a horizontal line.

Gerald G. Albin

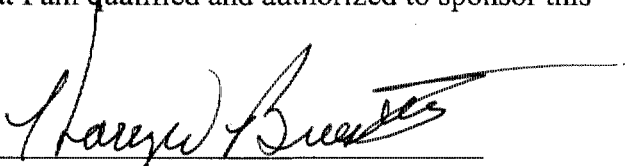
I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 15, 2006


Michael R. Baranowski

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Executed on June 15, 2006



Harry W. Bues, III

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 15, 2006

Benton V. Fisher

Benton V. Fisher

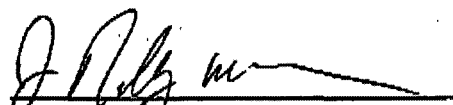
I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 13, 2006

Cassie M. Gouger
Cassie M. Gouger

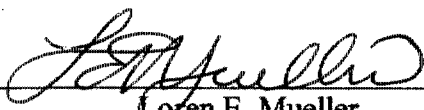
I declare under penalty of perjury that I have read the Supplemental Reply Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 14th, 2006


J. Reilly McCarren

I declare under penalty of perjury that I have read the Supplemental Reply Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June ____, 2006


Loren E. Mueller

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

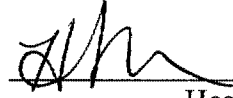
Executed on June 15, 2006



Robert J. Plum, III

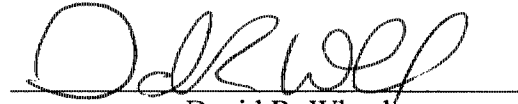
I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

Executed on June 14, 2006


Heather Viola

I declare under penalty of perjury that I have read the Reply Supplemental Evidence that I have sponsored, as described in the foregoing Statement of Qualifications, and that the contents thereof are true and correct. Further, I certify that I am qualified and authorized to sponsor this testimony.

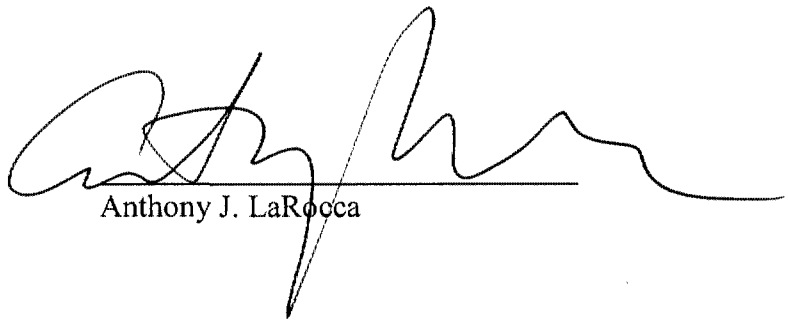
Executed on June 14, 2006


David R. Wheeler

CERTIFICATE OF SERVICE

I hereby certify that on June 15, 2006, I caused a copy of the foregoing Reply
Supplemental Evidence of BNSF Railway Company to be served by hand upon the following
counsel:

William L. Slover
Kelvin J. Dowd
Christopher A. Mills
Daniel M. Jaffe
SLOVER & LOFTUS
1224 Seventeenth Street, N.W.
Washington, DC 20036



Anthony J. LaRocca