

**BEFORE THE  
SURFACE TRANSPORTATION BOARD  
Washington, DC 20423**

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**In the Matter of:**

**METHODOLOGY TO BE EMPLOYED IN  
DETERMINING THE RAILROAD INDUSTRY'S  
COST OF CAPITAL**

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) **STB Ex Parte No. 664**  
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**COMMENTS OF  
ARKANSAS ELECTRIC COOPERATIVE CORPORATION**

Arkansas Electric Cooperative Corporation ("AECC") is a membership-based generation and transmission cooperative that provides wholesale electric power to electric cooperatives, which in turn serve approximately 460,000 customers located in each of the 75 counties in Arkansas. In order to serve its member distribution cooperatives, AECC has entered into arrangements with other utilities within the state to share generation and transmission facilities. The largest of AECC's generation assets are its ownership interests in the White Bluff plant at Redfield, AR and the Independence plant at Newark, AR, each of which typically burns in excess of 6 million tons of Powder River Basin (PRB) coal annually. AECC holds a 35 percent interest in each of these plants (for which Entergy is the operator and majority owner). In

addition, AECC holds a 50 percent interest (with AEP) in the Flint Creek plant, which is located in Gentry, AR. This plant normally burns in excess of 2 million tons of PRB coal annually.

As a result of the need to utilize rail transportation for these high-volume, long-distance coal movements, AECC has a direct interest in matters that relate to the financial health of the rail industry, and has been an active participant in numerous rail-related proceedings before the Board. AECC accepts the general principle that railroads should be able to earn returns sufficient to support required capital investment. However, the methods used to measure the cost of capital must be unbiased. Otherwise, the Board may be misled regarding the actual status of the industry's financial health, and the cost of capital used in rail rate cases and other Board procedures will be unreliable.

AECC commends the Board for opening this proceeding, and the Western Coal Traffic League (WCTL) for its efforts to bring this issue to the Board's attention. Much has changed since the current methodology was adopted – rail traffic has burgeoned, dramatic productivity improvements and cost reductions have been achieved and a wave of mergers has transformed the Class I rail industry into a small number of mega-carriers. On their face, these developments could reasonably be expected to have reduced the financial risk associated with rail equity to a comparatively low level. Indeed, the industry has been able to support extensive private investment in needed infrastructure.<sup>1</sup> However, as WCTL has observed, the results of the current cost-of-capital methodology seem inconsistent with the risk level, stability and influx of capital

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<sup>1</sup> Union Pacific (UP) recently estimated the total Class I rail investment related to infrastructure and equipment at \$360 billion between 1980 and 2005. See STB Ex Parte No. 646 (Sub-No.-1), Simplified Standards for Rail Rate Cases, "Opening Submission of Union Pacific Railroad Company" at 7-8 (October 24, 2006).

that appear to have been achieved in practice. Under these circumstances, a fresh look at cost-of-capital issues is certainly warranted.

Respectfully submitted,

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