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BY ELECTRONIC FILING

The Honorable Vernon A. Williams
Secretary
Attn: STB Ex Parte No. 664
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

Re: Ex Parte No. 664, Methodology to be Employed in
Determining the Railroad Industry's Cost of Capital

Dear Secretary Williams:

Enclosed is the corrected version of the slide used by the undersigned counsel for the Western Coal Traffic League addressing the "Adjustment of AAR's 2005 Electric Utility COE to Reflect Railroad Leverage." The version of the slide submitted on December 5, 2007, was the version used at the December 4, 2007 hearing, which showed the incorrect 10.75% figure for the average electric utility ROE for 2005 calculated by the AAR. The attached version shows the correct 10.54% figure. All of the calculations on both versions of the slide reflect the correct 10.54% figure.

Counsel apologizes again for any confusion or misunderstanding.

Please advise the undersigned if there are any questions concerning this matter.

Sincerely,



Robert D. Rosenberg
An Attorney for the
Western Coal Traffic League

Enclosure
RDR:rlh

Adjustment of AAR's 2005 Electric Utility COE to Reflect Railroad Leverage

1. AAR Derives 2005 Electric Utility COE of 10.54%, reflecting Equity/Cap Ratio of 46.73%
2. Using the STB's proposed 4.251% risk free rate and 5.2% equity risk premium, the implied levered beta is 1.2094: $\text{COE} = \text{Risk-free rate} + (\text{levered beta}) (\text{Equity Risk Premium}) = 4.251\% + (1.2094 \times 5.2\%) = 10.54\%$
3. The 1.2094 levered beta corresponds to an unlevered beta of 0.5652, derived as follows:
 - a. Levered beta = $(1 + D/E)$ times unlevered beta
 - b. Equity is 46.73% of total cap, so debt is 53.27%, and D/E is $53.27\% / 46.73\%$ or 1.14
 - c. $1.2904 = 2.14$ times unlevered beta, so unlevered beta equals $1.2904 / 2.14$ or 0.5652
4. Applying the railroads' capital structure, the resulting COE for the electric utilities is 8.47%, equivalent to what the STB calculated as the railroad COE for 2005. The derivation is as follows:
 - a. Railroad capital structure is 30.4% debt and 69.6% equity, and so D/E is 0.4368
 - b. Levered beta = $(1 + D/E)$ times unlevered beta = $(1 + 0.4368)$ times 0.5652 = 0.8121
 - c. $\text{COE} = \text{risk-free rate} + (\text{Levered beta}) (\text{ERP}) = 4.251\% + (0.8121 \times 5.2\%) = 8.47\%$