BEFORE THE
SURFACE TRANSPORTATION BOARD

THE 25TH ANNIVERSARY OF THE STAGGERS RAIL ACT OF 1980; A REVIEW AND LOOK AHEAD	))))))	**Ex Parte No. 658**

ORAL STATEMENT OF
THOMAS D. CROWLEY

Chairman Nober, Vice Chairman Buttrey and Commissioner Mulvey.

My name is Thomas Crowley. I am the President of L. E. Peabody & Associates, Inc. Our firm has provided economic consulting services to the Western Coal Traffic League since the League's creation in 1976. I appear here this morning on behalf of the Coal League.

As Mr. Richards observed, the Staggers Act has been an unqualified success for the rail industry. Simply stated, since 1980, Class I railroad revenues have increased significantly, Class I railroad operating expenses have decreased significantly and Class I railroad profits are currently at record levels. The Coal League's written filing illustrates these facts through reference to a number of standard industry metrics.

The financial markets have also taken notice. As shown in my first slide, over the last five years Class I railroad stock prices have increased by 133%. During the same five-year period, the S&P 500 stock price index dropped by 16%. Obviously, a company's stock price is an important forward indicator of the financial health of a business – reflecting current operations and the market's expectation of future earnings. The debt rating agencies are also positive on the railroad sector. In its July 15, 2005 transportation industry report card, Standard & Poor's, the leading debt rating agency, stated, and I quote, "[the] fundamentals in the North American rail sector remain very favorable."

Despite their record profitability levels, the nation's major railroads now frequently claim they need to raise shippers' rates to fund new rail infrastructure investments. Typically, the railroads cite to the declining average freight rates since 1980 in support of their rate increase arguments. What the railroads never show in these presentations is their declining operating expenses.

My second slide compares Class I railroad revenue per ton-mile and Class I operating expenses per ton-mile from 1980 to 2004 for all rail traffic. This side shows that railroad operating expenses per ton-mile are consistently and substantially below railroad revenues per ton-mile.

This trend is particularly true for coal traffic, as is illustrated by my third slide. This slide compares the average revenue per ton-mile, the average variable cost per ton-mile and the annual dollar contribution the railroads receive for handling western coal traffic.

As shown, the cost for western coal moves has been declining significantly since 1980. This makes sense given the large increases in productivity realized by western coal hauling roads under the Staggers Act. At the same time, the western carriers' annual revenues have stayed substantially above their costs of providing service. Overall, the differential between revenues and costs has produced significant coal shipper annual contributions to western coal hauling carrier's financial positions. These contributions are approximately $2.0 billion annually over the last 10 years.

Almost all of this contribution is captured by the two major western coal hauling railroads – the BNSF and the UP.

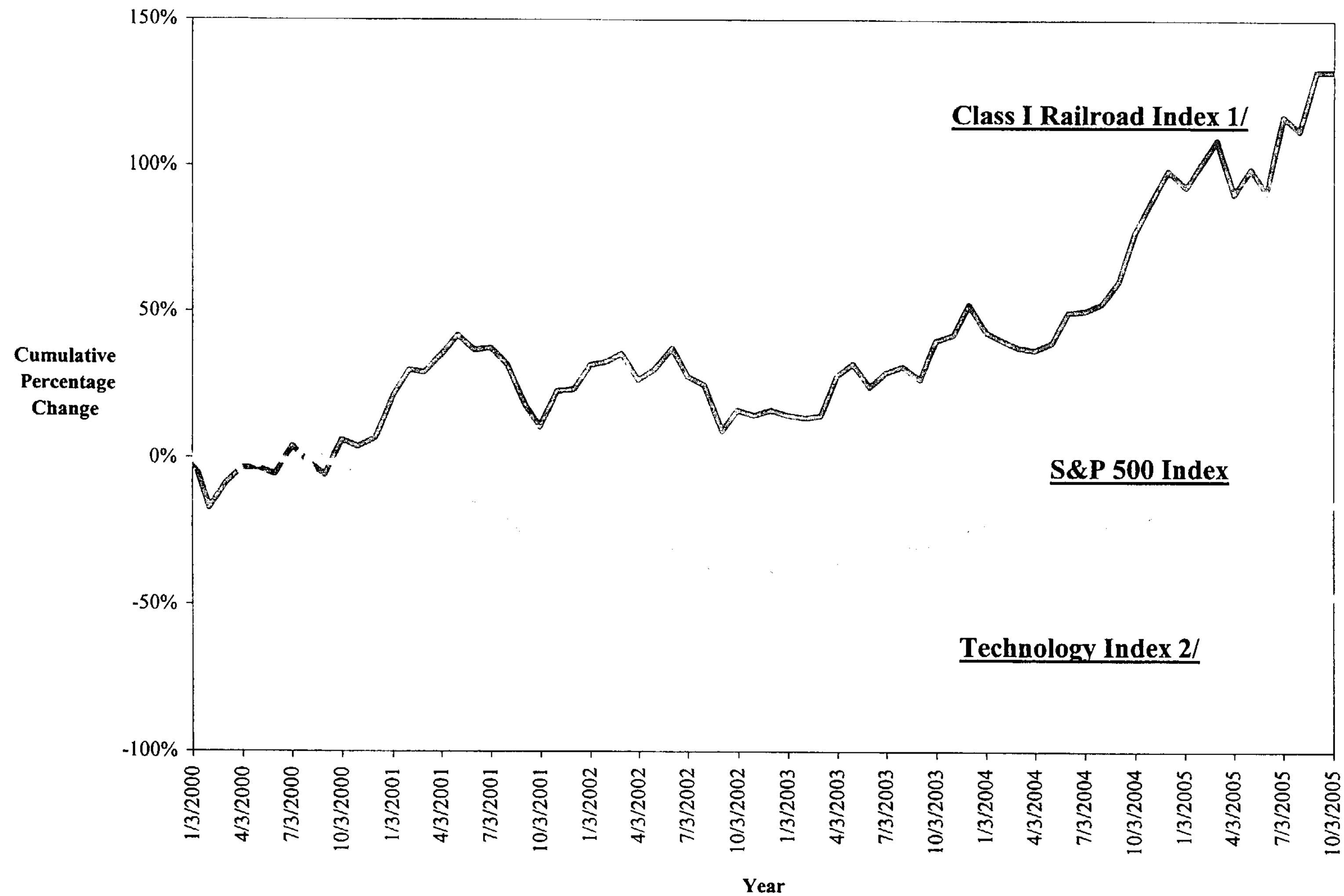
The Class I railroads record revenues and profits have allowed them to make significant infrastructure investments in the last several years while, at the same time, permitting them to pay record dividends to their shareholders and permitting them to buy-back significant segments of their own stock. These results are illustrated in my fourth and fifth slides.

My fourth slide shows that, over the last five years, Class I railroads' capital spending has approximated $6 billion annually (in 2004 dollars). My fifth slide shows the Class I railroad's free cash flow. This metric measures cash available for the railroads' debt and equity holders after paying for capital expenditures. As shown in this slide, the Class I railroads' free cash flow has been approaching or exceeding $3 billion annually in 2004.

The record is clear. The Staggers Act has produced significant financial benefits to the railroad industry. It is also clear that, in these times of railroad financial prosperity, the railroad industry does not need to increase shipper rates – and particularly does not need to increase coal shipper rates – to fund new infrastructure investments. Thank you.

Cumulative Percentage Change In An Index Of Class I Railroad Stocks Versus An Index Of Representative Technology Stocks And The S&P 500 Index

January 2000 To September 2005

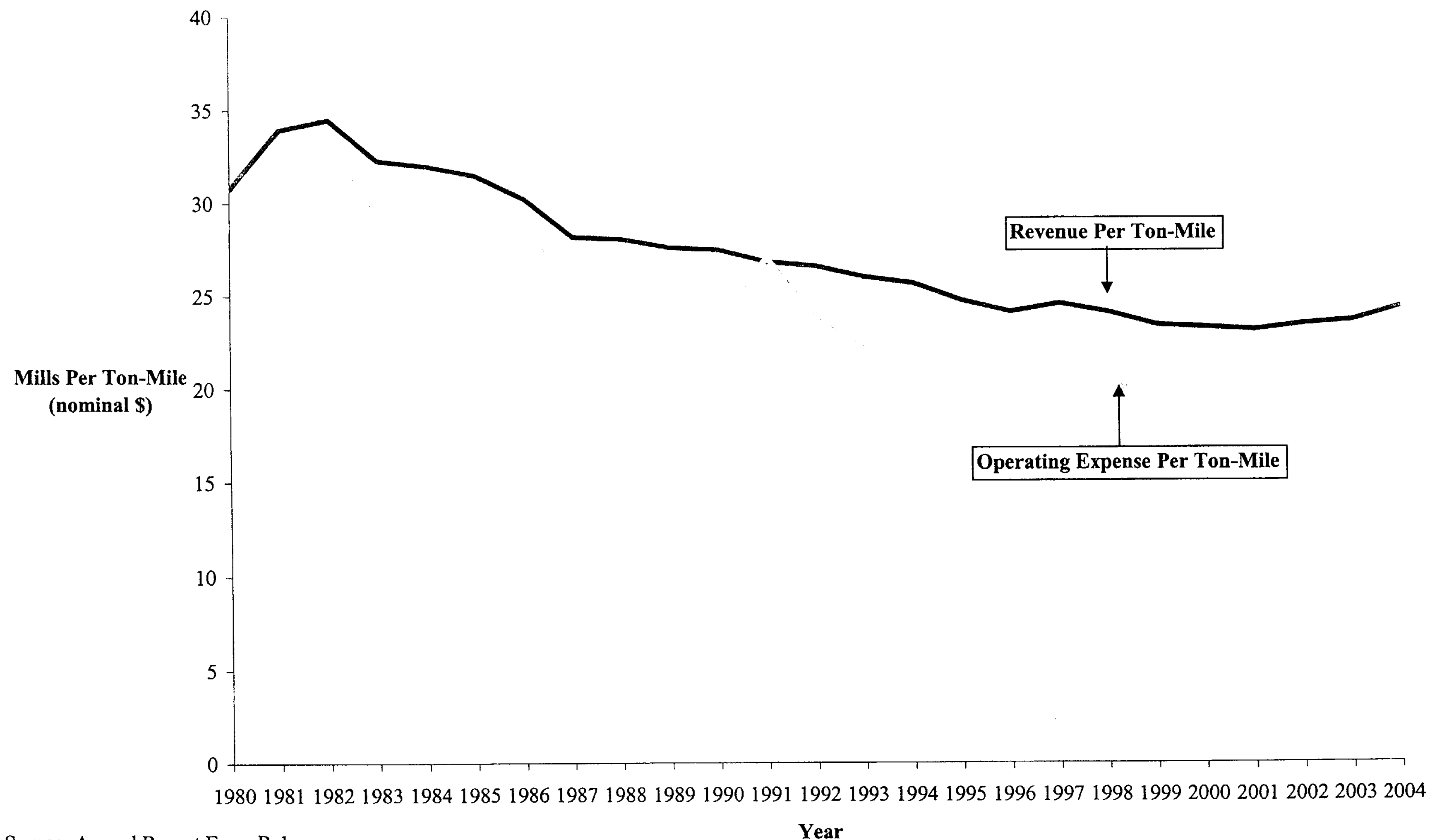


1/ Class I Railroad Index includes Burlington Northern Santa Fe Corp., Canadian National Railway Co., Canadian Pacific Railway Ltd., CSX Corp., Norfolk Southern Corp., and Union Pacific Corp.

2/ Technology Index includes Amazon.com Inc., Cisco Systems, Inc., Computer Sciences Corp., eBay Inc., Intel Corp., International Business Machines Corp., Microsoft Corp., Sun Microsystems, Inc., VeriSign Inc., and Yahoo! Inc.

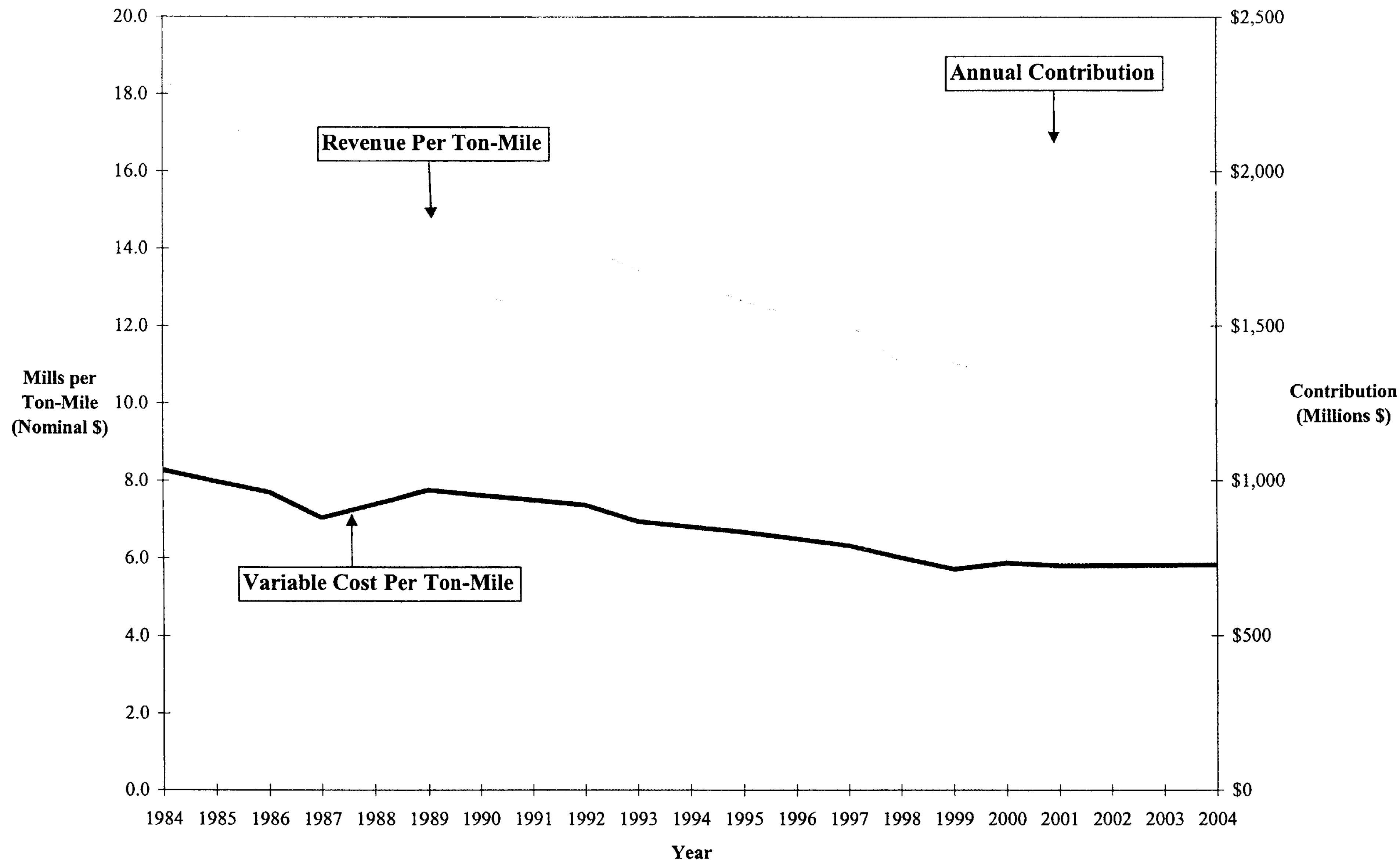
Source: http://finance.yahoo.com; historical prices reflect stock splits.

Class I Railroad Revenue and Operating Expense Per Ton-Mile
(1980 to 2004)

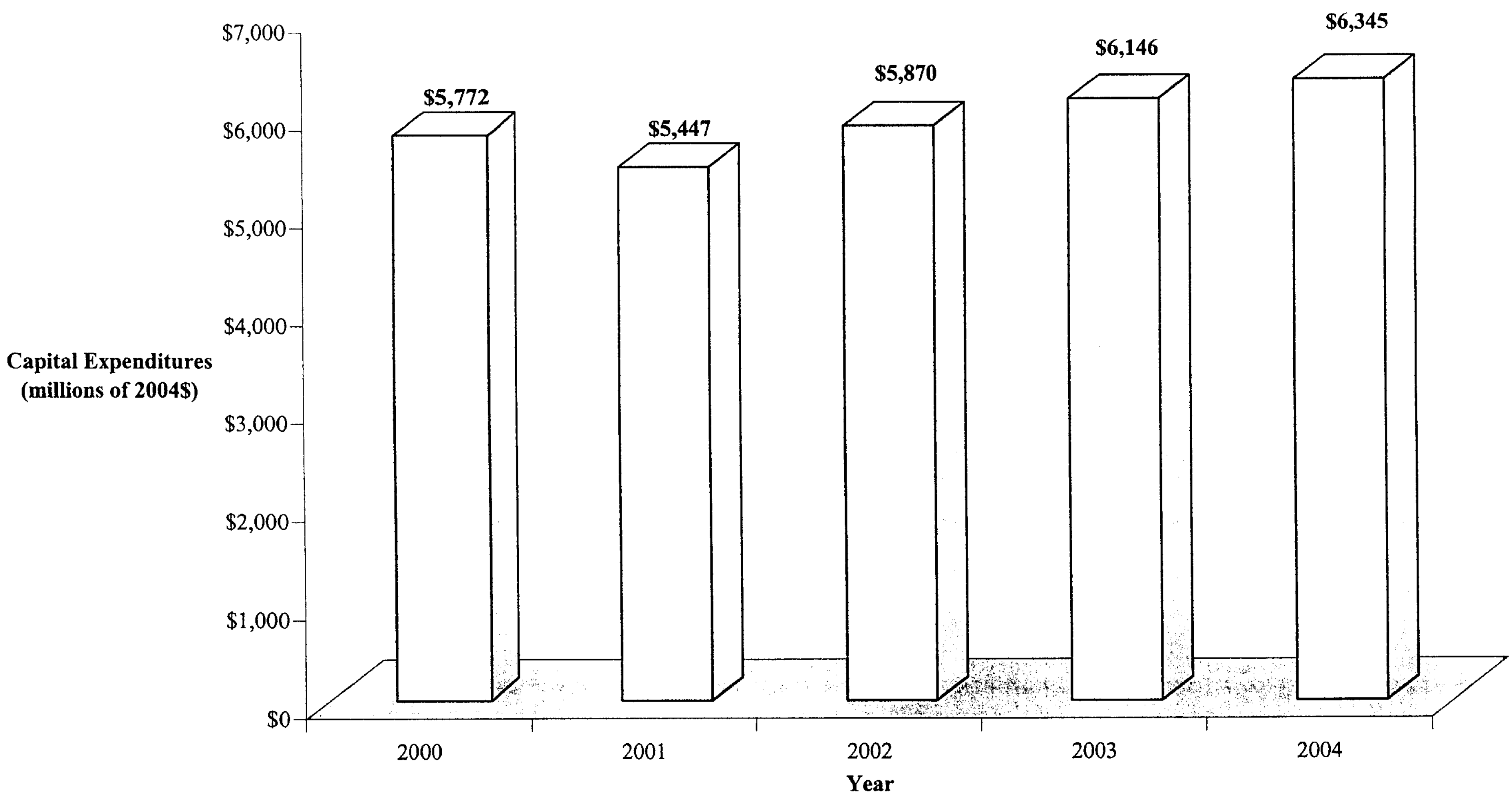


Source: Annual Report Form R-1

Average Revenue and Variable Cost Per Ton-Mile, and Annual Contribution for Western Coal Transportation

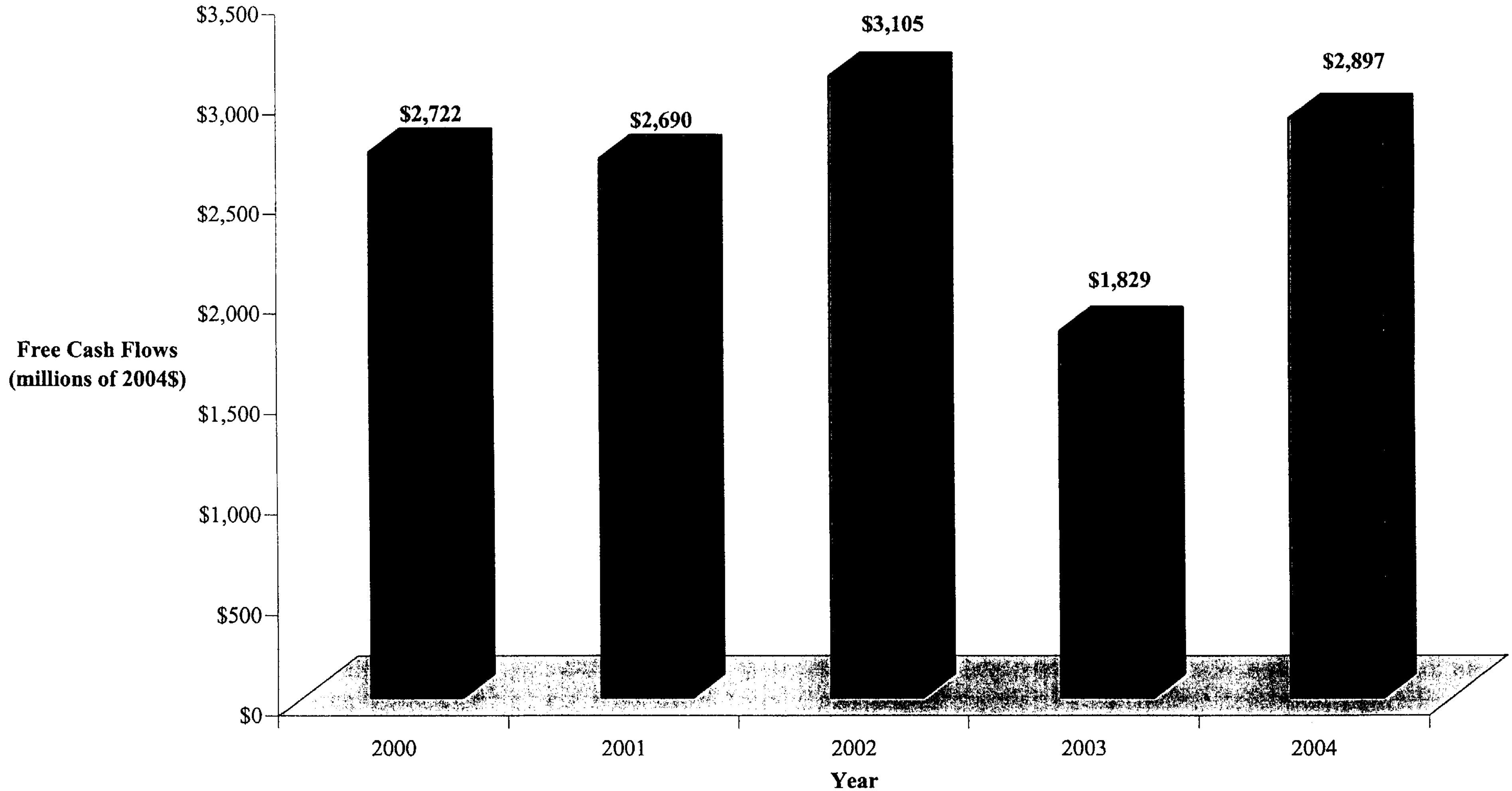


Class I Railroad Capital Expenditures
(2000 to 2004)



Source: Annual Report Form R-1

Class I Railroad Free Cash Flow
(2000 to 2004)



Source: Annual Report Form R-1. Free Cash Flow is defined as net cash flow from operating activities and fixed charges less net cash flow used in investing activities.