Cost/Price Analysis - USA

For a major electric generator Vanness examined probable future trends of rail pricing of coal transport, in specific context as to:

- Generating plants served by one or more carriers
- Routes used to reach the plants
- Equipment used

Using the following proprietary data variables to forecast railroad revenue requirements to cover:

- Operations and Maintenance expenses
  - Topography of the routes, train performance and fuel consumption
  - Crew and support personnel needs
  - Operating overheads expenses
  - System average general and administrative expenses

- Financial expenses and return on capital

  - Estimated average assets employed in the service rendered, times

  - Tax adjusted Weighted Average Cost of Capital (generated using expected return on shareholders' equity blended with fixed financial obligations consisting of debt and leases);

  - Equaled financial return markup over O&M expenses.

The total expenses and return expectations were then forecast for specified future periods and the resulting forecasts were subjected to simple and compound sensitivity analysis by varying:

  - Regulatory thresholds
  - Change of blend Eastern versus Western coal
  - Routes used
  - Load factors
  - Interest rates
  - Shareholders' return expectations

The results have proven to be quite accurate despite changing circumstances, proving the value of such exercises.