4. Staff review delayed by other priority issues or volume of special permit applications.

**Meaning of Application Number Suffixes**

N—New application.
M—Modification request.
PM—Party to application with modification request.

Issued in Washington, DC, on August 8, 2007.

**Delmer F. Billings,**

*Director, Office of Hazardous Materials, Special Permits and Approvals.*

MODIFICATION TO SPECIAL PERMITS

| Application number | Applicant | Reason for delay | Estimated date of completion |
|---|---|---|---|
| 10481–M | M–1 Engineering Limited, Bradfrod, West Yorkshire | 4 | 09–30–2007 |
| 14167–M | Trinityrail, Dallas, TX | 1,3,4 | 09–30–2007 |
| 8915–M | Matheson Tri Gas, East Rutherford, NJ | 4 | 08–31–2007 |

NEW SPECIAL PERMIT APPLICATIONS

| Application number | Applicant | Reason for delay | Estimated date of completion |
|---|---|---|---|
| 14385–N | Kansas City Southern Railway Company, Kansas City, MO | 4 | 09–30–2007 |
| 14442–N | Trinityrail, Dallas, TX | 4 | 09–30–2007 |
| 14482–N | Classic Helicopters, Woods Cross, UT | 1 | 08–31–2007 |
| 14483–N | WEW Westerwaelder Eisenwerk, Weitefeld Germany | 4 | 10–31–2007 |
| 14470–N | Marsulex, Inc., Springfield, OR | 4 | 08–31–2007 |
| 14457–N | Amtrol Alfa Metalomecanica SA, Portugal | 4 | 09–30–2007 |
| 14436–N | BNSF Railway Company, Topeka, KS | 4 | 09–30–2007 |
| 14402–N | Lincoln Composites, Lincoln, NE | 1 | 12–31–2007 |

[FR Doc. 07–3974 Filed 8–13–07; 8:45 am]
BILLING CODE 4910–60–M

## DEPARTMENT OF TRANSPORTATION

### Surface Transportation Board

**[STB Ex Parte No. 664]**

### Methodology To Be Employed in Determining the Railroad Industry's Cost of Capital

**AGENCY:** Surface Transportation Board, DOT.

**ACTION:** Notice.

**SUMMARY:** The Board proposes to revise its method for calculating the railroad industry's cost of capital by computing the cost of equity using a capital asset pricing model.

**DATES:** Comments on this proposal are due by September 13, 2007. Reply comments are due by October 15, 2007.

**ADDRESSES:** Comments may be submitted either via that Board's e-filing format or in the traditional paper format. Any person using e-filing should attach a document and otherwise comply with the instructions at the E–FILING link on the Board's Web site, at *http://www.stb.dot.gov.* Any person submitting a filing in the traditional paper format should send an original and 10 copies to: Surface Transportation Board, Attn: STB Ex Parte No. 664, 395 E Street, SW., Washington, DC 20423–0001.

Copies of written comments will be available from the Board's contractor, ASAP Document Solutions (mailing address: Suite 103, 9332 Annapolis Rd., Lanham, MD 20706; e-mail address: *asapdc@verizon.net;* telephone number: 202–306–4004). The comments will also be available for viewing and self-copying at the Board's Public Docket Room, Room 131, and will be posted to the Board's Web site.

**FOR FURTHER INFORMATION CONTACT:** Paul A. Aguiar at (202) 245–0323. [Assistance for the hearing impaired is available through the Federal Information Relay Service (FIRS) at 1–800–877–8339.]

**SUPPLEMENTARY INFORMATION:** The Surface Transportation Board (the Board) has issued a notice seeking public comments on the following proposed change to the methodology to calculate the railroad industry's cost of capital. To calculate the cost of equity component of the cost of capital, we propose to replace the Discounted Cash Flow method currently used with a Capital Asset Pricing Model (CAPM).

To calculate the cost of equity, we propose to use the following simple single-Beta version of the CAPM model: Cost of equity = $RF + \beta^{*}RP$. In this equation, RF is the annual economy-wide risk-free rate, RP is the annual market-wide risk premium, and $\beta$ (or Beta) is the measure of systematic, non-diversifiable risk of a particular carrier. The industry-wide cost of capital will be determined as a weighted average of individual railroad costs, using the same methodology as is used now.

To calculate the annual risk-free rate, we propose to use the 10-year Treasury Bond rate. The FRB uses a short-term Treasury Bill rate and the CTA uses both short-term and long-term rates. We believe a longer rate is superior and the 10-year is the longest Treasury Bond that has been continuously issued. A comprehensive study found that 70% of corporate and financial advisors use Treasury bond yields of maturities of 10 years or greater. *See* Bruner, Eades, Harris, and Higgins, *Best Practices in Estimating the Cost of Capital: Survey and Synthesis,* Fin. Practice & Educ. at 13–29 (Spring/Summer 1998) (*Best Practices*). Moreover, the risk-free rate used by investors should be risk free over the time period of the investment, and railroad assets are often long-lived. Finally, an advantage of using long-term rates is that they contain long-term inflation expectations. Using a 10-year risk-free rate therefore makes the proposed CAPM calculation more forward looking.

To calculate the annual market-wide risk premium, we propose to use monthly New York Stock Exchange (NYSE) data over a 50-year time period. Because this calculation is essentially an average return, a longer time period is usually chosen. We invite comments on the appropriate time period. While we propose to calculate the market risk premium each year, we also seek comments on the use of a fixed number instead.

To calculate the Beta for each carrier, we propose to use that carrier's monthly, merger-adjusted [1] stock return data for the prior 10 years in the following standard equation:

$$R - RF = \beta (RM - RF) + \varepsilon$$

R = merger-adjusted monthly stock return for the railroad;
RF = monthly 10-year U.S. Treasury bond rate;
RM = monthly return on the NYSE; and
$\varepsilon$ = random error term

Using a simple, ordinary least squares (OLS) regression technique, the Board would estimate $\beta$, the coefficient of systematic, non-diversifiable risk. OLS regression technique is a simple but accepted statistical tool one can use to develop an unbiased estimate of the true Beta. There would always be 120 months of data. Each year, 12 months of new data would be added to the data set and the oldest 12 months of observations would be removed.

In selecting a 10-year time period to estimate Beta, we seek to balance the desire to eliminate statistical noise and achieve stability in the estimate, while allowing for the fact that Beta may change over time. Using earlier data might cause results to be skewed by events that are no longer important. On the other hand, using a shorter timeframe—while capturing changes in industry risk profiles more rapidly—would introduce more variability and noise in the estimate. We also invite comment on the use of 25-year or 5-year time periods. Anything less than five years appears to add too much noise. Green, Lopez, & Wang, *Formulating the Imputed Cost of Equity Capital for Priced Services at Federal Reserve Banks,* FRBYU Econ. Policy Rev. at 70 (Sept. 2003).

We invite comments on whether it would be reasonable to assume that Beta equals 1, thereby eliminating the need to estimate Beta. Finance theory predicts that Beta will move towards 1 over time, and this has proved true for banks and other firms that provide payment processing services. *See* Hearing Tr. at 25. We also invite comments on the inclusion of an intercept term in the regression.

We have reviewed and reject other suggested changes to our existing procedures. First, we reject WCTL's suggestion that parties should be permitted to argue for an alternate approach to be used in a particular year. Second, we will not adjust the debt portion of capital to reflect the capitalization of operating leases, as requested by WCTL. Third, we reject WCTL's suggestion to replace the current-year debt-to-equity ratio with a multi-year average to avoid alleged ''artificial'' fluctuations in the capital structure used to calculate the weighted average. Finally, we will not expand the scope of this rulemaking to re-examine how this cost-of-capital determination is used in the Board's annual revenue adequacy determinations and consider using a replacement-cost analysis, as suggested by the AAR.

In a decision served on August 14, 2007, the Board has discussed each of these proposals in detail and explained how each addresses concerns raised in this proceeding. Because these proposals have significance for rail carriers and their shippers, all interested parties are invited to comment.

Additional information is contained in the Board's decision. To obtain a free copy of the full decision, visit the Board's *http://www.stb.dot.gov* Web site.

Pursuant to 5 U.S.C. 605(b), the Board certifies that the proposed action should not have a significant economic effect on a substantial number of small entities within the meaning of the Regulatory Flexibility Act.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

Decided: August 8, 2007.

By the Board, Chairman Nottingham, Vice Chairman Buttrey, and Commissioner Mulvey.

**Vernon A. Williams,**

*Secretary.*

[FR Doc. E7–15888 Filed 8–13–07; 8:45 am]

**BILLING CODE 4915–01–P**

[1] ''Merger-adjusted'' means that, in instances where a carrier has been formed by merger of several predecessor railroads, data for the shares of predecessor railroads are included in such a way as to show total performance as if the merger had already occurred.

## DEPARTMENT OF TRANSPORTATION

### Surface Transportation Board

**[STB Finance Docket No. 35044]**

### Buffalo & Pittsburgh Railroad Inc.—Lease and Operation Exemption—Norfolk Southern Railway Company

**AGENCY:** Surface Transportation Board, DOT.

**ACTION:** Notice of exemption.

**SUMMARY:** Under 49 U.S.C. 10502, the Board is granting a petition for exemption from the prior approval requirements of 49 U.S.C. 10902 for Buffalo & Pittsburgh Railroad, Inc., a Class II rail carrier, to lease and operate approximately 35.9 miles of a line of railroad owned by the Norfolk Southern Railway Company. The rail line extends from milepost BR 8.8 near Gravity, NY, to milepost BR 44.7+/−, immediately south of the northbound home signal and insulated joint for CP-Machias near Machias, NY. The exemption is subject to employee protective conditions.

**DATES:** The exemption will be effective on August 27, 2007. Petitions to stay must be filed by August 21, 2007. Petitions to reopen must be filed by September 4, 2007.

**ADDRESSES:** An original and 10 copies of all pleadings, referring to STB Finance Docket No. 35044, must be filed with the Surface Transportation Board, 395 E Street, SW., Washington, DC 20423–0001. In addition, one copy of all pleadings must be served on petitioner's representative: Eric M. Hocky, Gollatz, Griffin & Ewing, P.C., Four Penn Center, Suite 200, 1600 John F. Kennedy Blvd., Philadelphia, PA 19103–2808.

**FOR FURTHER INFORMATION CONTACT:** Joseph H. Dettmar, (202) 245–0395. [Assistance for the hearing impaired is available through the Federal Information Relay Service (FIRS) at 1–800–877–8339.]

**SUPPLEMENTARY INFORMATION:** Additional information is contained in the Board's decision. To purchase a copy of the full decision, write to, e-mail, or call: ASAP Document Solutions, 9332 Annapolis Rd., Suite 103, Lanham, MD 20706; e-mail *asapdc@verizon.net;* telephone: (202) 306–4004. [Assistance for the hearing impaired is available through FIRS at 1–800–877–8339.]

Board decisions and notices are available on our Web site at *http://www.stb.dot.gov.*

Decided: August 8, 2007.

By the Board, Chairman Nottingham, Vice Chairman Buttrey, and Commissioner Mulvey.

**Vernon A. Williams,**

*Secretary.*

[FR Doc. E7–15861 Filed 8–13–07; 8:45 am]

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