



Soo Line Railroad Company
records.

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MAY • 73



6. AT Liberty

6 Looking So

MAY • 73



73



BW

Hump + Tower

K.C

MAY

73



73

BN Hump Yard K.C.

MAY • 73



4. Milw & RI Joint

Tracks - ^{TORC} Looking

No to

MAY • 73



5. At Liberty

Looking No on RI
1/2 mile Tracks -

MAY

73



3. Milw. & RT Joint

Tracks. Looking
So to K.C.

MAY • 73



2. BN Branch to
Liberty - Looking No

MAY • 73



1- BN Branch to
Liberty - Looking So

MAY • 73



10-11-12 Looking East on Kenochi
yards from top of Manchester
Road Br. Future site of new
office and tower

MAY

MAY • 73



7-8-9 Standing on Manchester Rd.
Br. and Looking at Kenochi yards

Looking West Milw ramp left
KES ramp to Right



CHICAGO ROCK ISLAND AND PACIFIC RAILROAD COMPANY/332 S. MICHIGAN AVE./CHICAGO, IL 60604/WILLIAM M. GIBBONS, TRUSTEE

February 8, 1982

Gene Wiens
Data Systems Dept.
Soo Line Railroad Co.
Soo Line Building
Box 530
Minneapolis, Mn. 55440

Dear Gene:

Enclosed is tape volume 008222 with Rock Island Revenue for the year 1978 and a tape format. The tape format shows 2 sets of counters for each of cars, trailers, CWT, freight advances, prepaid and revenue.

The first counter is for the 4th quarter and the second counter for year to date through December (i.e. full year). Traffic included is as discussed with you on the telephone. All traffic where either first or last point on Rock Island was north or west of Kansas City including Kansas City itself.

If you have any difficulties interpreting other fields, please give me a call and I will attempt to explain them.

Sincerely,

H. R. Ingemansen

cc: V. C. Bohne
C. R. Sheets

* ACCOUNT 11 = LOCAL, 21 = INTERLINE RECEIVED, 41 = INTERLINE FORWARDED, 51 = OVERHEAD (NOTE: ROCK ISLAND STATION NUMBERS ALWAYS START WITH 0. 4 digits gives effective station name)

NOTE: In sequence stations 11% = origin - term, 21% = term - ONJC, 41% = ORIGIN - OFFJC, 51% = OFFJC - ONJC

TAPE VOLUME No 008222 9 TRACK 1600 BPI

| | | | | |
|---------------|----------------------|---------------|-----------------|------------|
| Job Number(s) | File Name | Record Length | Blocking Factor | Block Size |
| ALRR 5280 | REVSTATS.YTD78.NORTH | 300 | 20 | 6000 |

[illegible]

| Job Number(s) | File Name | Record Length | Blocking Factor | Block Size |
|---------------|-----------|---------------|-----------------|------------|
| | | | | |

[illegible]

| Job Number(s) | File Name | Record Length | Blocking Factor | Block Size |
|---------------|-----------|---------------|-----------------|------------|
| | | | | |

[illegible]

| Job Number(s) | File Name | Record Length | Blocking Factor | Block Size |
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|---------------|-----------|---------------|-----------------|------------|

[illegible]

| Job Number(s) | File Name | Record Length | Blocking Factor | Block Size |
|---------------|-----------|---------------|-----------------|------------|
| | | | | |

[illegible]

JOB CLASSIFICATION

Procedure Name _____

MAGNETIC TAPE LAYOUT

Procedure No



STANDARD PROCEDURE

CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

Form No. MFCM 4

I. ANALYSIS PROCEDURE

A. Identify or project

1. Carloads by location and direction
 - a. Soo elective at Minneapolis (new or old traffic)
 - b. Possible Chicago diversions
 - c. New potential, market share in Potash and other
 - d. Old Rock Island
 - i. Retained against new systems and abandonments
 - ii. Potential overhead with new configuration
 - e. Possible obsolete traffic sources
 - i. Packing and rendering plants closed?
 - ii. Tire ~~and~~ appliance manufacturing valid?
 - iii. Cement in Mason City?
 - iv. Foundries and agricultural equipment?
 - v. Crushed limestone off branch?
2. Tons and ton-miles
3. Train miles
4. Car miles and days by ownership (and type?)
5. Define operation for three senerios
 - a. Mainline
 - b. Include Iowa Falls branches
 - c. Include Des Moines branches
6. Revenue for each senerio
 - a. Actual current rates vs 1978 escalated:
 - b. Assumed divisions on shortened movements.

B. Determine Operating Contribution for each Senerio

1. Revenue less
2. Expenses based on Soo operation of similar segments
 - a. T&E on straight mileage and three districts
 - b. Other train operating costs
 - i. Include locomotive and caboose
 - ii. Include 12¢ per gallons fuel tax
 - c. Car costs
 - i. Rail owned at car hire rates
 - ii. Privates on loaded mileage
 - d. Administrative overhead
 - e. Normal maintenance (not Normalized if different)
3. Assume existing rehabilitation allowances are cleared in acquistion
4. Assume incremental tax rate of 50 percent

C. Derive Justifiable Segment Costs by Discounting the Net Cash Flows at 15 Percent

D. Determine a Transaction Structure that will Equate to Justifiable Cost, when after Tax Cash Flows are Discounted at the same 15 Percent Rate

1. Equity position with financing
 - a. Assume a purchase price
 - b. Assume a re-hab cost appropriate to operational maintenance judgments.
 - c. Assume an interest rate and payment schedule.
2. Single rental payment for re-habed line similar to Iowa proposal method.
3. Various mixes of segments and structures

*Do as separate
line with property
taxes.*

II. STRATEGY CONSIDERATIONS:

- A. Line and Re-hab Cost are Less to Profit Entities
 - 1. Our ability to use tax benefits from equity position
 - 2. Tax shelter investors for equity
- B. Possible Additional Income from Trackage Rights
 - 1. Parts of lines and connections needed to facilitate
 - 2. Density levels to determine degree of re-hab
- C. Risk Control for Owner or Operator
 - 1. Separate entities or obligations for segments
 - 2. Iowa takes permanent equity interest.
 - 3. Establish relationships
 - a. Assurance of joint rate availability
 - b. Interchange efficiencies
 - c. Equity participation
 - d. Car supply

1339A/D0063A

TC. - KC Route

I. STRATEGY CONSIDERATIONS:

- A. Main Line
- B. Iowa Falls Branches
- C. Des Moines Branches
- D. Trackage Rights Possibilities
 - 1. Parts of lines and connections to include
 - 2. Density levels to determine degree of re-hab
- E. Risk Control for Owner or Operator
 - 1. Separate entities or obligations for segments
 - 2. Iowa purchase the land as permanent equity interest.
 - 3. Establish relationship at KC for operations/equity
 - 4. Investor equity or Railroad

II. ELEMENTS OF ANALYSIS FOR EACH STRATEGY

- A. Acquisition Costs--Negotiated
 - 1. Comparable sales
 - 2. Engineering review
 - 3. Economic justification from captive traffic
- B. Rehabilitation Costs and Timing
 - 1. Appropriate target levels by segment
 - 2. Analyses made by others (KCN, Iowa DOT, FRA)
 - 3. Soo on property
 - 4. Relationship to state's interest in normalized maintenance
 - 5. Capital commitment (vs. rental) for work equipment

C. Contribution from Operation:

1. Revenues:

- a. Traffic
- b. Trackage rights
- c. Industry rental, if any

2. Expenses:

- a. Train operations including locomotive and caboose
- b. Car costs
 - i. Rail owned--incremental capital and interest
 - ii. Pool cars
- c. Re-hab allowances

d. Overhead

e. Normalized maintenance

1339A/D0063A

Incremental

Cars
Ton Miles
Car Miles

Revenue - Rail operation
- Rentals - Industry
- Track Rights

Costs - Direct Operating except line costs
- Overhead
- Industry related related

Gross contribution to line + profit

Normalized Maintenance
Taxes

Net Contribution to line + profit

| | |
|---|----|
| + | |
| + | |
| + | |
| + | \$ |
| + | |
| + | |
| + | |
| - | \$ |
| + | \$ |
| - | |
| - | |

GENERAL GUIDELINES AND ASSUMPTIONS

ROCK ISLAND STUDY

In connection with business originating or terminating on the Rock Island main line Twin Cities-Kansas City we assume that Soo will show as much strength as RI except for changed conditions since 1978 study period. Changed conditions include:

1. Abandonment of other parts of Rock Island or operation of parts by C&NW and other carriers.
2. Abandonment of large sections of Milwaukee Road.
3. Acquisition of Frisco by BN.
4. Purchase of Tucumcari - St. Louis line by SP.
5. Proposed acquisition of Milwaukee Road by GTW.
6. Proposed acquisition of MNS by Soo.

Guidelines will have to consider these changed conditions to properly analyze the 1978 traffic flow and the likelihood of Soo-RI participation in similar traffic.

In parts I and II of the study covering movement to and from RI main line points, RI 1978 revenue should be used to represent revenue after acquisition. Where a different gateway is used revenue from a similar move via the new gateway should be substituted.

We will assume that operation of the new line will be via Northfield and the stations between Northfield and the Twin Cities should not be considered as revenue sources. These stations are Newport, Inver Grove, Rosemount, Farmington, Castle Rock. To the extent it appears in our study St. Paul Park which was a station serving the Ashland Oil Refinery now served by the Milwaukee Road should not be counted as a revenue source.

2/23/82

JTH/vvs

TRAFFIC POTENTIAL GUIDELINES
ROCK ISLAND STUDY


| ORIGINATING ON ROCK ISLAND | FROM | | | | | |
|---|------------|-------------|------------|------------|-------|-------|
| | Des Moines | Kansas City | Mason City | Iowa Falls | Manly | Local |
| TO ROCK ISLAND DESTINATIONS | | | | | | |
| 1. ON MAIN LINE | A | A | A | A | A | A |
| 2. R.I. STATIONS SOUTH OR EAST OF KANSAS CITY | | | | | | |
| A. SERVED BY MAJOR CARRIER | A | O | A | A | A | A |
| B. LOCAL | O | O | O | O | O | O |
| 3. NORTH OF KANSAS CITY | | | | | | |
| A. NO SINGLE LINE COMPETITIVE ROUTE | A | A | A | A | A | A |
| B. LOCAL | O | O | O | O | O | O |
| C. SERVED BY SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | O | A |
| TO CONNECTIONS | | | | | | |
| 1. KANSAS CITY ALL LINES | A | O | A | A | A | A |
| 2. CHICAGO OR PEORIA | | | | | | |
| A. TO OR VIA NEUTRAL LINES ALSO SERVING KC | A | A | A | A | A | A |
| B. NO SINGLE LINE COMPETITIVE ROUTE | A | A | A | A | A | A |
| C. SERVED BY SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | O | A |
| 3. MEMPHIS OR ST. LOUIS | | | | | | |
| A. TO OR VIA NEUTRAL K.C. LINES | A | O | A | A | A | A |
| B. NO SINGLE LINE COMPETITIVE ROUTE | A | O | A | A | A | A |
| C. SERVED BY SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | O | A |
| 4. COUNCIL BLUFFS OR OMAHA | O | O | O | O | O | A |
| 5. TWIN CITIES OR NORTHFIELD (MNS) | | | | | | |
| A. TO ABANDONED STATIONS (IE: MILWAUKEE WEST) | O | O | O | O | O | O |
| B. TO CN OR DWP | A | O | A | A | A | A |
| C. OTHER | A | A | A | A | A | A |
| 6. VARIOUS | | | | | | |
| A. TO FORT WORTH + DENVER | O | O | A | A | A | A |
| B. TO SP OR SSW | A | O | A | A | A | A |
| C. TO OR VIA SOO (COVERED PHASE III + IV) | O | O | O | O | O | O |
| KEY | | | | | | |
| A = SOO WILL HANDLE | | | | | | |
| O = SOO WILL NOT HANDLE | | | | | | |

TRAFFIC POTENTIAL GUIDELINES
ROCK ISLAND STUDY

| RECEIVED ON ROCK ISLAND | TO | | | | | |
|--|------------|-------------|------------|------------|-------|-------|
| | Des Moines | Kansas City | Mason City | Iowa Falls | Manly | Local |
| FROM ROCK ISLAND ORIGINS | | | | | | |
| 1. ON MAIN LINE | A | A | A | A | A | A |
| 2. SOUTH OR EAST OF KANSAS CITY | | | | | | |
| A. SERVED BY NEUTRAL K.C. CARRIER- ^{NO SINGLE LINE} COMPETITIVE RTE. | A | O | A | A | A | A |
| B. LOCAL | O | O | O | O | A | O |
| C. SERVED BY SINGLE LINE COMPETITIVE ROUTE | O | O | A | A | A | A |
| 3. NORTH OF KANSAS CITY | | | | | | |
| A. ALSO SERVED BY NEUTRAL CONNECTING LINE CARRIER- ^{NO SINGLE LINE} COMPETITIVE ROUTE | A | A | A | A | A | A |
| B. LOCAL | O | O | O | O | O | |
| C. SERVED ONLY BY COMPETING CARRIER OR THERE IS NO SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | O | A |
| FROM CONNECTIONS. | | | | | | |
| 1. ON KANSAS CITY | | | | | | |
| A. ALL LINES EXCEPT FRISCO | A | O | A | A | A | A |
| B. ON K.C. LINES FROM FRISCO | O | O | A | A | A | A |
| 2. ON CHICAGO OR PEORIA | | | | | | |
| A. FROM NEUTRAL LINES SERVING K.C. | A | O | A | A | A | A |
| B. NO SINGLE LINE COMPETITIVE ROUTE | A | O | A | A | A | A |
| C. SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | O | A |
| 3. ON MEMPHIS OR ST. LOUIS | | | | | | |
| A. FROM OR VIA NEUTRAL K.C. LINES | A | O | A | A | A | A |
| B. NO SINGLE LINE COMPETITIVE ROUTE | A | O | A | A | A | A |
| C. SINGLE LINE COMPETITIVE ROUTE | O | O | O | O | A | A |
| 4. ON COUNCIL BLUFFS OR OMAHA | O | O | O | O | O | A |
| 5. ON TWIN CITIES AND NORTHFIELD (MNS) | | | | | | |
| A. FROM ABANDONED STATIONS (IE: MILWAUKEE WEST) | O | O | O | O | O | O |
| B. FROM OR VIA CN OR DWP | A | O | O | A | A | A |
| C. OTHER | A | A | A | A | A | A |
| 6. VARIOUS | | | | | | |
| A. FROM FORT WORTH + DENVER | O | O | O | A | A | A |
| B. FROM SP OR SSW | A | O | A | A | A | A |
| C. FROM OR VIA SDG (COVERED PHASE III + IV) | O | O | O | O | O | O |
| KEY. | | | | | | |
| A = SDG WILL HANDLE | | | | | | |
| O = SDG WILL NOT HANDLE | | | | | | |

CONFIDENTIAL

February 16, 1982

TO: T. S. Ness
J. D. Darling 
FROM: D. M. Cavanaugh
RE: RI Project--Iowa Department of Transportation

In order to keep this project moving, we should arrange to meet with the Iowa DOT as soon as possible to start costing a proposed operation.

Our objective is to produce a net income statement and then see what our capital commitment could be if we set a 15 percent earnings objective for this acquisition.

I want to stress that this project be kept in the Executive Department and that conversations concerning our study be kept to a minimum. This is strictly a feasibility study, with no commitments made until firmer numbers can be obtained.

Would you both prepare an outline so we could finalize our strategy.

We should meet March 2, 1982, at 2 p.m., in my office to review your work.

DMC/jmz

cc: R. H. Smith

2-12-82

TMB, DMC, CHC, TSN

~~Tax~~ ~~limit~~
Funding
~~Other taxes~~
State credit

1/3 roads, shippers, state

1040 miles

1300 → 5400 miles

350 miles/year 98% roads

12.15 million/year

38 million 1982
(10 1/2 state + Fed)

Iowa 40% of RI revenues

~~IRFA~~

Limited Partnership / Revenue Bond

Diesel Fuel Tax - Decision in six
weeks to two months, will be
appealed

2 other taxes

7 class 1's

No interest loan, shippers paid by car
plate by credit, rolled
forward

Shippers return in 3 1/2 years
State 1 1/2

Superior IA TS car shippers

AKA petition on CGW line south
of Des Moines.

\$12,000/mile

GUM

SOUTHBOUND

PAGES

REPORT 3 - From 1978 REVTRANS File

CARS

| S00 REVENUE | TOTAL REVENUE |
|----------------|------------------|
| (IN 000) | (000) |

I. Delivered To Rock Island

A. Soo Origins

| | | | |
|--|-----|------|-----|
| 1. RI delivery on Kansas City Mainline | 173 | .072 | .18 |
| 2. RI delivery to connections at Kansas City | 193 | .049 | .21 |
| 3. All Other | 409 | .032 | .32 |

B. Received From CP

| | | | |
|--|------|------|------|
| 1. RI delivery on Kansas City Mainline | 557 | .35 | 1.40 |
| 2. RI delivery to connections at Kansas City | 3017 | 1.21 | 7.16 |
| 3. All Other | 3300 | 1.79 | 8.41 |

C. Received From CN

| | | | |
|--|------|------|-----|
| 1. RI delivery on Kansas City Mainline | 109 | .033 | .2 |
| 2. RI delivery to connections at Kansas City | 1455 | .32 | 3.6 |
| 3. All Other | 3462 | 1.21 | 9.0 |

D. Received From Other Connections

| | | | |
|--|------|------|-----|
| 1. RI delivery on Kansas City Mainline | 26 | .009 | .05 |
| 2. RI delivery to connections at Kansas City | 1216 | .022 | .22 |
| 3. All Other | 100 | .038 | .23 |

II. Delivered to Mainline Points By Roads Other Than RI

| | | | |
|---------------------|------|------|------|
| A. From S00 Origins | 1072 | .54 | 1.22 |
| B. Received From CP | 1293 | .83 | 3.00 |
| C. Received From CN | 60 | .025 | .14 |
| D. All Other | 133 | .075 | .2 |

III. Other Cars Destined To Designated States

| | | | |
|---------------------|--------|-------|-------|
| A. From S00 Origins | 19,771 | 8.88 | 28.33 |
| B. Received From CP | 23,624 | 16.14 | 5.7 |
| C. Received From CN | 4,146 | 2.03 | 1.1 |
| D. All Other | 2922 | 1.00 | 5.32 |

Sort Sequence: Same as Report 1

TOTALS

65,942

34.67

139.5

Detail Required: Same as Report 1

NORTHBOUND

PAGES

REPORT 4 - From 1978 REVTRANS Files

CARS

S00 TOTAL
REV. REV.
(IN 000,000)

1. Received From Rock Island

A. S00 Destination

1-9
10-38
39-57

| | | | |
|--|------|-----|------|
| ✓1. RI origination on Kansas City Mainline | 619 | .21 | .51 |
| 2. RI receipts from connections at Kansas City | 1720 | .49 | 3.61 |
| ✓3. All Other | 1206 | .32 | .71 |

B. Delivered to CP

58-59
60-74
75-88

| | | | |
|--|-----|-----|------|
| ✓1. RI origination on Kansas City Mainline | 66 | .04 | .11 |
| 2. RI receipts from connections at Kansas City | 833 | .49 | 2.44 |
| 3. All Other | 821 | .45 | 1.68 |

C. Delivered to CN

89
90-91
92-95

| | | | |
|--|-----|------|------|
| 1. RI origination on Kansas City Mainline | 14 | .006 | .028 |
| 2. RI receipts from connections at Kansas City | 72 | .016 | .13 |
| 3. All Other | 244 | .09 | .65 |

D. Delivered to Other Connections

96
97-101
92-106

| | | | |
|--|-----|------|------|
| 1. RI origination on Kansas City Mainline | 37 | .031 | .095 |
| 2. RI receipts from connections at Kansas City | 175 | .055 | .47 |
| 3. All Other | 297 | .13 | .54 |

II. Originated at Mainline Points by Roads Other Than RI

07-114
15-116
117
18-121

| | | | |
|------------------------|------|------|------|
| A. To S00 Destinations | ✓497 | .16 | .41 |
| B. Delivered to CP | 74 | .051 | .18 |
| C. Delivered to CN | 12 | .006 | .021 |
| D. All Other | 267 | .20 | .52 |

III. Other Cars Originating in States Designated

22-355
56-411
12-424
25-492

DONE

| | | | |
|--------------------------|-------|------|-------|
| (A.) To S00 Destinations | 15679 | 6.35 | 22.23 |
| (B.) Delivered To CP | 3490 | 2.70 | 10.14 |
| (C.) Delivered to CN | 644 | .41 | 2.10 |
| (D.) All Other | 4159 | 1.42 | 9.10 |

Sort Sequence: Same as Report 2

Detail Required: Same as Report 1

TOTALS 30,926 13.65 55.68

February 12, 1982

File: 2010

TO: J. T. Hartnett
FROM: E. N. Wiens *ENW*
RE: ROCK ISLAND STUDY

Below are specifications agreed upon for Rock Island Study currently in progress.

REPORT 1 - From Rock Island Summary File

I. Kansas City Mainline Originations

- A. Beyond Kansas City
- B. Beyond Twin Cities
- C. Terminating On Mainline
- D. All Other

Sort Sequence: Orig State-City, Commodity, Off Junction,
Off Road, Dest State-City

Detail Required: Above fields, plus weight, total revenue,
RI revenue, RI average revenue

REPORT 2 - From Rock Island Summary File

I. Kansas City Mainline Terminations

- A. Beyond Kansas City
- B. Beyond Twin Cities
- C. Originating On Mainline
- D. All Other

Sort Sequence: Dest State-City, Commodity, On Junction,
On Road, Orig State-City

Detail Required: Same as Report 1

Reports 1 and 2 exclude all traffic in which the Soo Line participated.

? because we have better records on this traffic ?

900
REPORT 3 - From 1978 REVTRANS File

I. Delivered To Rock Island

A. Soo Origins

1. RI delivery on Kansas City Mainline
2. RI delivery to connections at Kansas City
3. All Other

B. Received From CP

1. RI delivery on Kansas City Mainline
2. RI delivery to connections at Kansas City
3. All Other

C. Received From CN

1. RI delivery on Kansas City Mainline
2. RI delivery to connections at Kansas City
3. All Other

D. Received From Other Connections

1. RI delivery on Kansas City Mainline
2. RI delivery to connections at Kansas City
3. All Other

II. Delivered to Mainline Points By Roads Other Than RI 2

- A. From SOO Origins
- B. Received From CP
- C. Received From CN
- D. All Other

III. Other Cars Destined To Designated States

- A. From SOO Origins
 - B. Received From CP
 - C. Received From CN
 - D. All Other
- 3

Sort Sequence: Same as Report 1

Detail Required: Same as Report 1

REPORT 4 - From 1978 REVTRANS Files

1. Received From Rock Island

A. S00 Destination

1. RI origination on Kansas City Mainline
2. RI receipts from connections at Kansas City
3. All Other

B. Delivered to CP

1. RI origination on Kansas City Mainline
2. RI receipts from connections at Kansas City
3. All Other

C. Delivered to CN

1. RI origination on Kansas City Mainline
2. RI receipts from connections at Kansas City
3. All Other

D. Delivered to Other Connections

1. RI origination on Kansas City Mainline
2. RI receipts from connections at Kansas City
3. All Other

II. Originated at Mainline Points by Roads Other Than RI

- A. To S00 Destinations
- B. Delivered to CP
- C. Delivered to CN
- D. All Other

III. Other Cars Originating in States Designated

- A. To S00 Destinations
- B. Delivered To CP
- C. Delivered to CN
- D. All Other

Sort Sequence: Same as Report 2

Detail Required: Same as Report 1

We will need a list of mainline stations showing both FSAC station code and alpha spelling.

Due to the urgency attached to this request, work on most other Traffic projects will have to be suspended until this request is completed.

ENW/bjp

cc: R. H. Smith
D. T. Walen
P. M. McNamee
L. T. Bosacker
W. J. Voigt

JWD
February 5, 1982

To: Messrs. C. H. Clay
D. M. Cavanaugh
J. T. Hartnett
T. S. Ness
D. Darling

From: Thomas M. Beckley

Re: Iowa Department of Transportation

Please attend a meeting with representatives of the Iowa Department of Transportation on Friday, February 12, 1982, at 2:00 p.m., in the third floor conference room.

A copy of a letter dated January 27, 1982, from Warren B. Dunham, director, Iowa D.O.T., is enclosed which briefly describes the objectives of the meeting.

Encl.

RECEIVED
MANAGEMENT INFORMATION
SYSTEMS

AM FEB 5 1982 PM
7 8 9 10 11 12 1 2 3 4 5 6



Department of Transportation

DIRECTOR'S OFFICE
800 Lincoln Way, Ames, Iowa 50010
515/239-1111

REF. NO. 930

January 27, 1982

Mr. Thomas M. Beckley
President
Soo Line Railroad Company
Box I-30
Minneapolis, MN 55400

Dear Mr. Beckley:

The Iowa Department of Transportation, and the State of Iowa, is vitally concerned about the future of railroads in the midwest and the nation. Iowa believes that the most efficient, least-cost alternative for preserving high-level rail service is through the private sector. The railroad programs Iowa has pioneered and developed in recent years reflects that philosophy. Iowa is a state that is heavily dependent upon good, efficient rail service to satisfy the tremendous demands of our evenly balanced agricultural and industrial economy.

We have been active during the past several years developing plans and programs to address our long-term rail system needs. Several of our innovative programs have received national recognition as models and have been implemented or under serious consideration in other states (i.e., a branchline financial assistance program, low cost revenue bonding to finance railroad acquisitions and rehabilitation, grade crossing safety assistance program, and the high-rail track geometry car). Because Iowa is geographically located in the center of the midwestern rail industry restructuring problem and is a major agricultural exporting state, we have much at stake and are working toward our goal of developing a permanent solution to Iowa's needs.

Plans and decisions being made today are critical as they will determine the shape of our midwestern rail network for many years in the future. The states of Iowa, Minnesota, Missouri are in agreement on the need to preserve the Rock Island main line from the Twin Cities to Kansas City because it serves as a funnel for grain moving from the upper midwest states to Kansas City, and to the Texas and Louisiana Gulf ports. Many branch and feeder lines carrying heavy agricultural tonnages feed into the funnel for export markets. Another Iowa goal is to assure the shipping public that we continue to have good main line service connecting Iowa to major gateways to the north and south, and to the east and west.

COMMISSIONERS

BARBARA DUNN
Des Moines

C. ROGER FAIR
Davenport

DARREL RENSINK
Sioux Center

ROBERT R. RIGLER
New Hampton

BRUCE H. VAN DRUFF
Red Oak

DEL VAN HORN
Jefferson

DENNIS W. VOY
Maquoketa

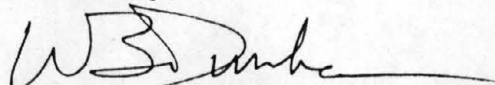
Thomas M. Beckley
January 27, 1982
Page 2

We see some excellent opportunities for northern carriers, such as the Soo Line, to become a part of the midwest solution and to become a part of the needed north-south rail system which would connect north central U.S. markets to the Texas/Louisiana ports via Kansas City. Our analysis of commodity movements flowing from the north to the south and commodity movements from the south to the north indicates an excellent opportunity.

Our Governor and General Assembly are working closely with the Iowa Department of Transportation in an effort to rationalize a permanent solution. In August of 1981, during a special session of the Legislature, the General Assembly passed a rail bonding bill which provides a low-cost financing mechanism for railroads and other interested parties who wish to provide service to Iowa and its neighboring states. This legislation provides some innovative ways to raise needed capital including through limited partnerships involving the Iowa Railway Finance Authority Board and the private sector. Up to \$200 million in revenue bonds can be issued for rail facility acquisition and rehabilitation financing.

We are very much interested in meeting with you and Charles Clay, Executive Vice President, to explain in more detail our goals, plans, and programs. We feel that this type of exploratory meeting may be of value and interest to your Company as it relates to your Company's overall plans and goals. The Planning and Research and Railroad Division Directors of the Iowa Department of Transportation plan to be in the Twin Cities during the second week of February. I would request they have the opportunity to meet with you on February 10 or 12, 1982, for approximately one hour to discuss these matters. We would appreciate hearing from you in the near future regarding your interest in such an exploratory meeting. My staff will be contacting your office in the near future to schedule a time and to make arrangements to meet at your Minneapolis office.

Sincerely,



Warren B. Dunham
Director

WBD:ks

cc: Charles H. Clay, Executive Vice President, Soo Line
Ian MacGillivray, Planning and Research, Iowa DOT
Les Holland, Railroad Division, Iowa DOT

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

JAMES T. HARTNETT
Assistant Vice President Traffic

January 20, 1982

Iowa State University
Center for Agriculture and Rural Development
Ames, Iowa 50011

Gentlemen:

Will you please send me a copy of the following publication for the most recent period available: Volume of Grain and Fertilizer Requiring Transportation (card report 84).

Thank you for your help.

Sincerely,

James T. Hartnett

JTH/dlw

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

JAMES T. HARTNETT
Assistant Vice President Traffic

January 20, 1982

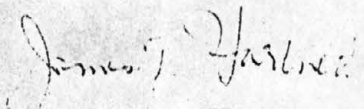
Iowa Development Commission
250 Jewett Building
Des Moines, Iowa 50309

Gentlemen:

I understand that you have available publications entitled Statistical Profile of Iowa and Directory of Iowa Manufacturers.

I would very much appreciate receiving a copy of these publications for the most recent period available.

Sincerely,


James T. Hartnett

JTH/dlw

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

JAMES T. HARTNETT
Assistant Vice President Traffic

January 20, 1982

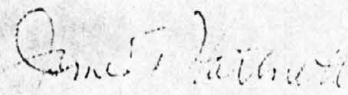
Iowa Grain and Feed Association
806 Walnut Street
Des Moines, Iowa 50309

Gentlemen:

I understand that you have available for distribution a publication entitled Iowa Grain and Feed Directory, which is a listing of grain elevators and capacities.

I would very much appreciate receiving a copy of this publication.

Sincerely,


James T. Hartnett

JTH/dlw

Soo Line Railroad Company



Soo Line Building
Box 530
Minneapolis, Minnesota 55440
(612) 332-1261

JAMES T. HARTNETT
Assistant Vice President Traffic

January 20, 1982

Agri Industries
P.O. Box 4887
Des Moines, Iowa 50306

Gentlemen:

If available, will you please send me a copy of the following: Directory of Iowa Cooperatives.

Thank you for your help.

Sincerely,

A handwritten signature in cursive script that reads "James T. Hartnett".

James T. Hartnett

JTH/dlw



Department of Transportation

PLANNING AND RESEARCH DIVISION
800 Lincoln Way, Ames, IA 50010
515-239-1383

REF. NO. 766
January 7, 1982

Mr. James T. Hartmett
Soo Line Railroad
1602 Soo Line Building
Minneapolis, MN 55402

Dear Mr. Hartmett:

Enclosed, find some additional information regarding freight traffic and industries in Iowa. I would suggest the following as other sources of information for your market study:

- Iowa Development Commission, 250 Jewett Building, Des Moines, IA, 50309, Statistical Profile of Iowa, Directory of Iowa Manufacturers and industrial development information;
- Iowa Grain and Feed Association, 806 Walnut Street, Des Moines, IA, 50309, Iowa Grain and Feed Directory (listing of grain elevators and capacities);
- Agri Industries, P.O. Box 4887, Des Moines, IA, 50306, Directory of Iowa Cooperatives;
- Iowa State University, Center For Agriculture and Rural Development, Ames, IA, 50011, Volume of Grain and Fertilizer Requiring Transportation (Card Report 84), and other publications relating to grain production and marketing.

I hope that your study is progressing well. If I may be of further assistance, please contact me again at 515-239-1383.

Sincerely,

David J. Plazak
Office of Advance Planning

DJP:kmr
Enc.

Rock Island Acquisition

Steps taken to date following CNW agreement.

With Iowa DOT:

Advised Soo could support offer of up to \$60 million on basis of own traffic study.

Tentatively agreed that offer to trustee should be \$80-81 million to be successful in light of C&NW offer of \$76.3 million and top credit authorization of \$80 million.

DOT advised it has expectation of \$7.5 million in property tax payments by Rock Island trustee which might be applied after "friendly" law suit authorizes.

Further \$2 million owed by Rock Island on track improvement loans might be applied.

Approximately \$8 million has accumulated from diesel fuel tax which is tied up in courts.

Final resolution of fuel tax case would give IRFA bonding authority up to \$100 million.

Proposed two tranches of \$20-21 million Iowa public support.

- (1) Include \$10-11 million in Des Moines property in bid to be taken out by Des Moines business group who would be ultimately reimbursed through IRFA purchase plus sales of parcels not needed for railroad purposes.
- (2) Include \$10 million to be funded ultimately by IRFA either on a loan to Soo repayable without interest and after 10 years or traffic related payback.

Endeavor to have legislature appropriate \$10 million in anticipation of funds coming to IRFA from various sources.

With Des Moines group:

Met with shipping and public interests.

Fred Weitz

Des Moines Contractor

Tom Urban

Pioneer Seed Com. Chairman

Maytag

James W. Hubbell

Real Estate developer.

Encourage idea that preservation of East-West corridor is not consistent with C&NW acquisition.

Desirability of strong railroad serving Iowa in competition with C&NW.

Manner in which funds might be generated to be made by Des Moines interests.

With IRFA:

Filed preliminary application for \$21 million.

Hearings on March 8 gave support to Soo proposal and authorized DOT to negotiate with Soo.

With Trustee:

Advised trustee on February 18 of possible Soo interest in making further proposal.

Was told contract with C&NW has escape clause if better offer received.

Approval of contract with C&NW noticed for hearing March 15.

Steps to be Taken

Advise trustee of strength of Soo offer. Seek postponement of March 15 date or in alternative appear before court to indicate size of offer and comparison with C&NW agreement.

TMB
BDO

Obtain ICC approval to negotiate without competitive bidding financing terms.

Negotiate agreement with Iowa DOT for manner in which state funding will be applied and repaid.

Des Moines Group

Contact Minnesota and Missouri DOT to advise and seek support.

Negotiate with KCS and Milwaukee for terms of entry into Kansas City.

BDO

Arrange for transfer of Rock Island trackage right to Soo.

BDO

File with ICC request for authority to acquire lines.

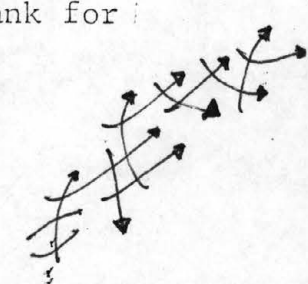
BDO

Negotiate financing with banks including possibly Bank for Cooperatives.

Secure indications of shipper support.

TALK TO SHIPPERS

Contract with Des Moines citizen group.



Contact state and federal legislators.

File application for financing with IRFA.

File application for federal rehabilitation funds (\$15 million) with FRA.

Clarify role of Illinois Central in providing service to Royal Palmer Manson segment.

Prepare purchase agreement following terms of C&NW contract.

Prepare to present on 30 days

Owner Oversight

PRIORITIES.

1. COST OF ACQUISITION
2. COST OF REHABILITATION
3. TRAFFIC AND REVENUE
4. COST OF OPERATION
5. ADDITIONAL CAPITAL EXPENDITURES
 - a. LOCOMOTIVES, CABOOSSES, FREIGHT CARS
 - b. ROADWAY MACHINES

ACQUIRE

MAIN LINE

| | |
|----------------------------------|----------|
| COMAS MN TO NORTHWOOD IA | 71.1 MI |
| MASON CITY IA TO AIR LINE JCT MO | 329.8 MI |
| | <hr/> |
| | 400.9 MI |

IOWA FALLS GATEWAY BRANCHES

| | |
|---------------------------------|----------|
| IOWA FALLS IA TO ESTHERVILLE IA | 109.5 MI |
| ESTHERVILLE IA TO OCHEYEDEN IA | 39.1 MI |
| ESTHERVILLE IA TO RAKE IA | 50.6 MI |
| DOWS IA TO FOREST CITY IA | 44.3 MI |
| | <hr/> |
| | 243.5 MI |
| SUBTOTAL | 644.4 MI |

DES MOINES AREA BRANCHES

| | |
|--------------------------------|----------|
| CARLISLE IA TO INDIANOLA IA | 11.3 MI |
| SHORT LINE JCT IA TO NEWTON IA | 33.1 MI |
| ALTOONA IA TO PELLA IA | 35.9 MI |
| SHORT LINE JCT IA TO DEXTER IA | 37.4 MI |
| | <hr/> |
| | 117.7 MI |
| GRAND TOTAL | 762.1 MI |

ACQUISITION COSTS PER MILE

| | |
|-----------|--|
| \$8,716 | 218 MILES, STATE OF WA FROM MILW |
| \$16,190 | 541 MILES, STATE OF WI FROM MILW |
| \$27,778 | 36 MILES, WEST. KY. RR FROM LN |
| \$32,895 | 760 MILES, STATE OF SD FROM MILW |
| \$44,123 | 519 MILES, UTILITY OFFER TO MILW (REJECTED) |
| \$50,000 | 900 MILES, OKT OFFER TO RI (REJECTED) |
| \$54,830 | 363 MILES, SD FROM MILW |
| \$67,133 | 71.5 MILES, CNW FROM MILW, RI |
| \$104,587 | 545 MILES, SP FROM RI |
| \$116,863 | 36.5 MILES, CNW FROM MILW |
| \$126,657 | 30 MILES, STATE OF OH FROM EL |
| \$148,741 | 13.9 MILES, CNW FROM MILW |
| \$226,553 | 64 MILES, MILW FROM RI |

COST OF ACQUISITION

MAIN LINE

400.9 MILES @ \$66,667 \$26,726,800

IOWA FALLS GATEWAY BRANCHES

243.5 MILES @ \$33,333 \$8,116,586

DES MOINES AREA BRANCHES

47.2 MILES @ \$33,333 \$1,573,318

70.8 MILES @ \$66,667 \$4,700,024

SUBTOTAL

\$6,273,342

GRAND TOTAL

\$41,116,725

COST OF ACQUISITION

MAIN LINE

400.9 MILES @ \$100,000 \$40,090,000

TOWN FALLS GATEWAY BRANCHES

242.5 MILES @ \$50,000 \$12,175,000

DES MOINES AREA BRANCHES

47.2 MILES @ \$50,000 \$2,360,000

70.5 MILES @ \$100,000 \$7,050,000

SUBTOTAL

\$9,410,000

GRAND TOTAL

\$61,675,000

COST OF ACQUISITION

MAIN LINE

400.9 MILES @ \$150,000 \$60,135,000

IOWA FALLS GATEWAY BRANCHES

2 1/2 5 MILES @ \$75,000 \$18,252,500

DES MOINES AREA BRANCHES

47.2 MILES @ \$75,000 \$3,540,000

70.5 MILES @ \$150,000 \$10,575,000

SUBTOTAL

\$14,115,000

GRAND TOTAL

\$92,512,500

NOTE: IZI PROBABLY OWES SHIPPERS AND

STATE OF IA FOR IOWA FALLS GATEWAY

BRANCHES, CARLISLE TO INDIANOLA, AND

ALTOONA TO PELLA

REHABILITATION ESTIMATES

MNDOT

S. ST. PAUL TO MASON CITY, 130.3 MILES

CLASS III - \$15,228,000

\$116,869/MILE

DOT

S. ST. PAUL TO AIRLINE JCT., 422.1 MILES

CLASS III - \$31,439,456

\$74,218/MILE

CLASS IV - \$69,455,928

\$164,549/MILE

KCN

INVERGROVE TO KANSAS CITY

CLASS IV - \$30,323,000

\$119,221/MILE

SP

TUCUMCARI LINE, 545 MILES

CLASS IV-V - \$97,000,000

\$177,982/MILE

ESTIMATE OF REHABILITATION

MAIN LINE

400.9 MILE @ \$120,000

\$48,000,000

IOWA FALLS GATEWAY BRANCHES

IOWA FALLS TO ESTHERVILLE

\$7,030,000

ESTHERVILLE TO OCHEYEDEN

\$2,283,552

ESTHERVILLE TO RAKE

\$4,526,023

\$13,839,575

DES MOINES AREA BRANCHES

CARLISLE TO INDIANOLA

\$499,000

DES MOINES TO NELSON

—

ALTOONA TO PELLA

—

DES MOINES TO DEXTER

—

\$499,000

GRAND TOTAL

\$62,338,575

X 12.8%

\$8,037,890

X 8.9%

\$55,576,162

KCN BRANCH LINE ESTIMATE, MILEAGE ADJUSTED

To Do

1. ENGINEERING DEPT ESTIMATE OF
NET SALVAGE VALUES FROM
PROFILE CHARTS.

R O C K I S L A N D A C Q U I S I T I O N

I. PURCHASE FROM ROCK ISLAND TRUSTEE

- A. Identify Additional Properties
 - 1. East Des Moines-West Des Moines
 - 2. St. Paul-Inver Grove-Newport-Rosemont
 - 3. Ocheyedan-Allendorf-Sibley
 - 4. Forest City-Thompson-Buffalo Center
 - 5. Hayfield Jct.-Woden-Titonka
 - 6. Rake-Albert Lea
- B. Identify Car Outs
- C. Identify Elevator Properties
- D. Obtain and Review Joint Facility Agreements
- E. Obtain Leases
- F. Obtain Easements
- G. Obtain Title and Deeds

II. KANSAS CITY TERMINAL

- A. Review with KCS
- B. Contact SSW
- C. Contact MKT
- D. Contact ATSF
- E. Contact MILW
 - 1. Review KCS-MILW agreement, current costs
 - 2. Negotiate entry into KCS-MILW Joint Agency

III. FINANCING

- A. FRA 4-R Title 5 Preference Share Rehabilitation Financing

- B. Omaha Central Bank for Cooperative's Loan
- C. Iowa DOT Rail Assistance Program Rehabilitation Financing
- D. Iowa DOT Rail Assistance Program Prior Funding owed by Rock Island Trustee
 - 1. Reduce purchase price to Rock Island Trustee
 - 2. Soo assume debt
 - 3. Consider as Iowa DOT grant prior to repayment
- E. Iowa Rail Finance Authority Contribution in the Form of Past Due Ad Valorem Taxes Reducing Price to Rock Island Trustee
- F. L. B. Foster
- G. Evans
- H. North American
- I. Chicago Corporation

IV. ROLLING STOCK

- A. Locomotives. Three per year starting in year one.
- B. Cabooses. None additional.
- C. Freight Cars
 - 1. Survey main line elevators
 - 2. Survey other major shippers
 - a. A. E. Statey, Des Moines
 - b. Ralston Purina, Iowa Falls
 - c. Cargill, Clarion, Emmetsburg, Armstrong, Swea City, Rowan
 - d. Continental, Northwood
 - e. Central Soya, Belmond
 - f. Golf Coast Grain, Hartley
 - 3. Finalize proposed agreement
 - 4. Propose agreement to Agri Industries

5. Propose agreement to Cooperatives
6. Propose agreement to other major shippers
7. Renegotiate leases as necessary

V. TRANSPORTATION

- A. Review Operating Plan
- B. Transportation
 1. Staffing, including T&E
 2. Facilities
 3. Vehicles
 4. Supplies
 5. IDP Equipment
- C. Dispatching
 1. CTC
 2. Operator coverage

VI. ENGINEERING

- A. Track, B&B, Signal and Communications
 1. Staffing
 2. Facilities
 3. Vehicles
 4. Tools and Supplies
 5. Inventory
- B. Public Telephones
- C. Dispatchers Telephones
- D. Radio Coverage
- E. CTC Control Board Relocation
- F. IDP Circuits
- G. Construction at Avon

VII. MECHANICAL

- A. Locomotives
 - 1. Staffing
 - 2. Facilities
 - 3. Vehicles
 - 4. Tools and Supplies
 - 5. Inventory
- B. Car
 - 1. Staffing
 - 2. Facilities
 - 3. Vehicles
 - 4. Tools and Supplies
 - 5. Inventory
 - 6. IDP Equipment
- C. General Service
- D. Wrecker

VIII. ACCOUNTING

- A. Revenue Accounting Staffing
- B. Disbursements Accounting Staffing

IX. MANAGEMENT INFORMATION SYSTEMS

- A. Staffing
- B. Program Maintenance
 - 1. Freight car reporting system
 - 2. Car distribution/home route

X. LABOR RELATIONS

- A. Project Work Force

- B. Review Rock Island Transition and Employee Assistance Act
- C. Get Current Rosters from Railroad Retirement Board
- D. Review Miami Accord of March 1980
- E. Contact Soo and RI Craft Representatives
 - 1. Outline staffing
 - 2. Get master list of eligible employees
 - 3. Reach any necessary agreements

TC. - KC Route

I. STRATEGY CONSIDERATIONS:

- A. Main Line
- B. Iowa Falls Branches
- C. Des Moines Branches
- D. Trackage Rights Possibilities
 - 1. Parts of lines and connections to include
 - 2. Density levels to determine degree of re-hab
- E. Risk Control for Owner or Operator
 - 1. Separate entities or obligations for segments
 - 2. Iowa purchase the land as permanent equity interest.
 - 3. Establish relationship at KC for operations/equity
 - 4. Investor equity or Railroad

II. ELEMENTS OF ANALYSIS FOR EACH STRATEGY

- A. Acquisition Costs--Negotiated
 - 1. Comparable sales
 - 2. Engineering review
 - 3. Economic justification from captive traffic
- B. Rehabilitation Costs and Timing
 - 1. Appropriate target levels by segment
 - 2. Analyses made by others (KCN, Iowa DOT, FRA)
 - 3. Soo on property
 - 4. Relationship to state's interest in normalized maintenance ✓
 - 5. Capital commitment (vs. rental) for work equipment ✓

C. Contribution from Operation:

1. Revenues:

- a. Traffic
- b. Trackage rights ✓
- c. Industry rental, if any ✓

2. Expenses:

- a. Train operations including locomotive and caboose
- b. Car costs
 - i. Rail owned--incremental capital and interest
 - ii. Pool cars ✓
- c. Re-hab allowances
- d. Overhead ✓

1339A/D0063A

| | Mainline | Laura Falls | DeMunn. Fudges | (000) Total |
|------------------------------|----------|-------------|----------------|----------------|
| Makes of truck (owned) | 100.9 | 243.5 | 112.7 | 762.1 |
| Purchase price per unit | 75000 | 70000 | 60000 | |
| Rehabilitation cost per unit | 85000 | 40000 | 50000 | |
| Purchase - | 30068 | 17045 | 7062 | 54175 |
| Re-hab - | 34076 | 9710 | 5885 | 49701 |
| Capital Cost | | | | 103876 |
| Less: Land value | | | | 25000 |
| Depreciable assets | | | | 78876 |
| Equity capital 25% | | | | 26000 |
| Non-recourse debt - 12% | | | | 77876 |
| | | | | 103876 |

| Year | 1982 | 1983 | 1984 | 1985 | 1986 |
|------------------------------|------|-------|-------|-------|-------|
| Deprec. - purchase price | 4376 | 6418 | 6127 | 6127 | 6127 |
| - rehab (4.5 yrs) | 2761 | 2761 | - | - | - |
| | | 3681 | 4908 | 2456 | - |
| | | | 2761 | 4142 | 2071 |
| | | | | 1988 | 3645 |
| | | | | | 2209 |
| (when?) - Normalized Maint - | 7127 | 12860 | 13796 | 14713 | 14052 |
| Tax recovery at 50% | 3569 | 6430 | 6898 | 7356 | 7026 |
| ITC | 3470 | 1104 | 1104 | 1104 | 1105 |
| Tax benefits | 7039 | 7534 | 8002 | 8460 | 8131 |

① ^{4th year} News on Costing!

| | 1987 | 1988 | 1989 | 1990 | 1991 |
|--------------------|------|------|------|------|-------|
| | - | - | - | - | - |
| | 2071 | - | - | - | - |
| | 2761 | 1767 | 884 | - | - |
| | 3531 | 2651 | 1767 | 884 | - |
| | 8366 | 4418 | 2651 | 884 | - |
| | 4183 | 2207 | 1326 | 442 | - |
| | - | - | - | - | - |
| Tax benefits | 4183 | 2207 | 1326 | 442 | 473 |
| Net cost after tax | | | | | 56 |
| ✓ ✓ ✓ ✓ with Land | | | | | 21.52 |

Incremental

Cars
Ton Miles
Car Miles

Revenue - Rail operation
- Rentals - Industry
- Track Rights

Costs - Direct Operating except line costs
- Overhead
- Industry rental Related

Gross contribution to line & profit

Normalized Maintenance
Taxes

Net Contribution to line & profit

+

+

+

+

+

+

+

+

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May 1-3, 1973

MEMORANDUM

Survey of Railroad Operations at Kansas City

This memorandum represents my viewpoints of the various operations in the Kansas City area as a result of a review of these operations by myself and Owen Hartwell, our Kansas City Traffic Representative.

Kansas City is served by twelve railroads and the switching line the Kansas City Terminal Railway. The metropolitan area is one of the largest concentration of railroad tracks and yards that I have seen, other than at Chicago. There are a considerable number of large terminal grain elevators throughout the area. There are numerous large industries and many smaller industries. Mr. Hartwell feels that at this point the Santa Fe is the friendliest road to the Soo Line and favors the Soo with their Kansas City traffic at Chicago as neither road can short haul the other with this arrangement. The city seems to be divided as far as rail service by the larger railroads which serve and tend to control industries that lie within their particular yard areas or areas of influence. The Missouri River flows through Kansas City generally from the West to the East. On the north side of the river is a community known as North Kansas City and this is pretty well dominated by the Burlington Northern and the Union Pacific. The Burlington has a large retarder yard and services several very large terminal elevators. The Burlington

Northern also serves a number of large industries in this area with little or no interference from other railroads. The Union Pacific has several yards in what is known as the Fairfax Industrial Area. This area has the highest concentration of industry. The local G.M. assembly plant is located here. The Burlington Northern has recently completed a rehabilitation of their North Kansas City yard and the yard is in excellent condition with a good TOFC facility. The Burlington Northern enters North Kansas City from the northeast on the Norfolk & Western. The BN has trackage rights over the Norfolk & Western from Kansas City to a small community called Maxwell. From Maxwell they use the old CB&Q line through Galesburg, Quincy and then on to Chicago. The Missouri-Pacific has strong influence and serves most industries on the east side of Kansas City. The Missouri-Pacific has some very large yards including two modern retarder yards. The Santa Fe is influential on the west side of the city and in particular around the very large Argentine retarder yard. ~~The Milwaukee and the Rock Island both enter Kansas City from the northeast.~~ The Milwaukee and the Rock Island both enter Kansas City from the northeast. The Milwaukee and Rock Island enter in on a double main which is a joint track from a little community called Palo; the joint track ends at what is known as Airline Junction. The Milwaukee enters into a joint Kansas City Southern and Milwaukee Yard known as the East Yard. All operations in Kansas City are joint operations with the Kansas City Southern and the Milwaukee. Rosters are merged.

The following represents comments made by employees of the various railroads. The order of the comments are in same sequence as when interviews were held with these employees.

We discussed the Chicago and Northwestern operations with their agent, Mr. Ricketts. He stated that they did some interchange with the Milwaukee Road through the services of the Kansas City Southern and that was about all except for a little interchange with the MKT Railroad. He stated that the Milwaukee and the KCS are planning to build a new terminal tower and office building in their joint yard operations which are located just under the Manchester viaduct, also known as the Knoche Yard. The C&NW has one small yard in Kansas City and that is the old CGW Yard. They have practically no industry and serve one terminal elevator. He stated that their interchange with the Katy has been very difficult because Katy has no power and if the C&NW wants to interchange cars they have to run over with their own engines to get the work done.

Our next discussion was with the Milwaukee Agent, Mr. Kramer. He stated that they run three trains a day, each direction from Kansas City and to Savannah, with one train going to Chicago, one to Milwaukee and one to Minneapolis. He stated that the Kansas City Southern does ten times more business in Kansas City than the Milwaukee. He stated that the BN does not get into their side of the river but has control of the business on the north side of the river.

We made a trip to a small community called Liberty, which is located about 20 miles north of Kansas City, for the purpose of looking at the main line of the Milwaukee coming into KC. In front of the Liberty Depot, I took several photographs looking at the double main used jointly by the Milwaukee and the Rock Island.

The speed limit through here is 40MPH and the local agent stated that the Milwaukee runs three trains a day through here in each direction. He stated that the Rock Island runs about 12 to 14 trains per day doing much more business than the Milwaukee. He stated that all trains are heavily loaded with a minimum of 100 cars per train and averaging somewhere between 110 to 120 cars per train. Both main lines are 132 pound rail, the ties are generally poor with much pumping action visible, very poor ballast and poor surface. We observed the Milwaukee train coming through the area and the joints were in very poor surface and it did not look like a 40MPH railroad. The agent stated that all of the tracks throughout this area were in very poor condition with many of the section crews cut down to the bone; he himself has not had many derailments in his area, but north of this territory it was his understanding that there were a considerable number of derailments.

We discussed the Kansas City Southern operation with their general superintendent, Mr. Burge. This man wasn't too talkative, he seemed to be ailing, but he did furnish us with a small map showing the layout of the KCS yards and capacities of the various yards and tracks in the industrial area.

We then proceeded to the Knoche Yards and took a series of photographs from the top of Manchester viaduct. This is the area where the Milwaukee and the KCS contemplate building their new office facility. The Milwaukee has a ramp facility here, it is not very large and it is a fixed ramp in poor condition. The KCS has a separate ramp facility

adjacent to the Milwaukee which is in little better condition. Each holding roughly 10 to 12 cars. The Milwaukee Superintendent was away on vacation and it is our understanding that he is getting ready to retire so we discussed the operations with the chief clerk. This man stated that the Milwaukee has very little industry in Kansas City and most of the business through the joint operations is with the KCS industry sites. They recently constructed a direct interchange with the Missouri Pacific at this point. This interchange track is not shown on the Kansas City terminal ^{map} ~~map~~. This man said that the Milwaukee and KCS yards are in very bad condition and thought that they did not intend to do any work on yard facilities until the merger situation was finalized. This man stated that the Burlington Northern had recently completed rehabilitating all of their yard and track areas in the Kansas City area.

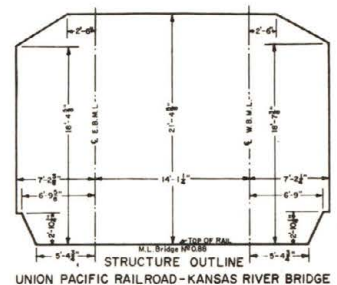
We did take a series of photographs at the Burlington Northern retarder yard.

Discussions were held with Bill Apple, Superintendent of the Kansas City Terminal. Mr. Apple stated that the KC Terminal Railroad is owned by 12 owner lines. It is primarily an industry switching operation serving 220 industries in the Kansas City area. The railroad is separated into fourteen zones, all costs are allocated on a users basis in each zone. Mr Apple stated that the MOPAC does the most business with the Kansas City Terminal and that the Burlington Northern is the second largest contributor of business to the KC Terminal Railroad. He thought that the largest yard operations were in the following order: 1) the Argentine Yard , owned by the Santa Fe;

2) the Burlington Northern Yards; 3) the Missouri Pacific Yards.

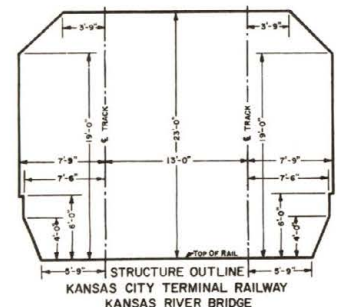
He stated that in recent weeks the entire Kansas City Terminal has been plugged with much difficulty and great delays in getting cars in and out of the Kansas City area. This was due to good business, grain and river floods.

LLW
To read well
1/6/80



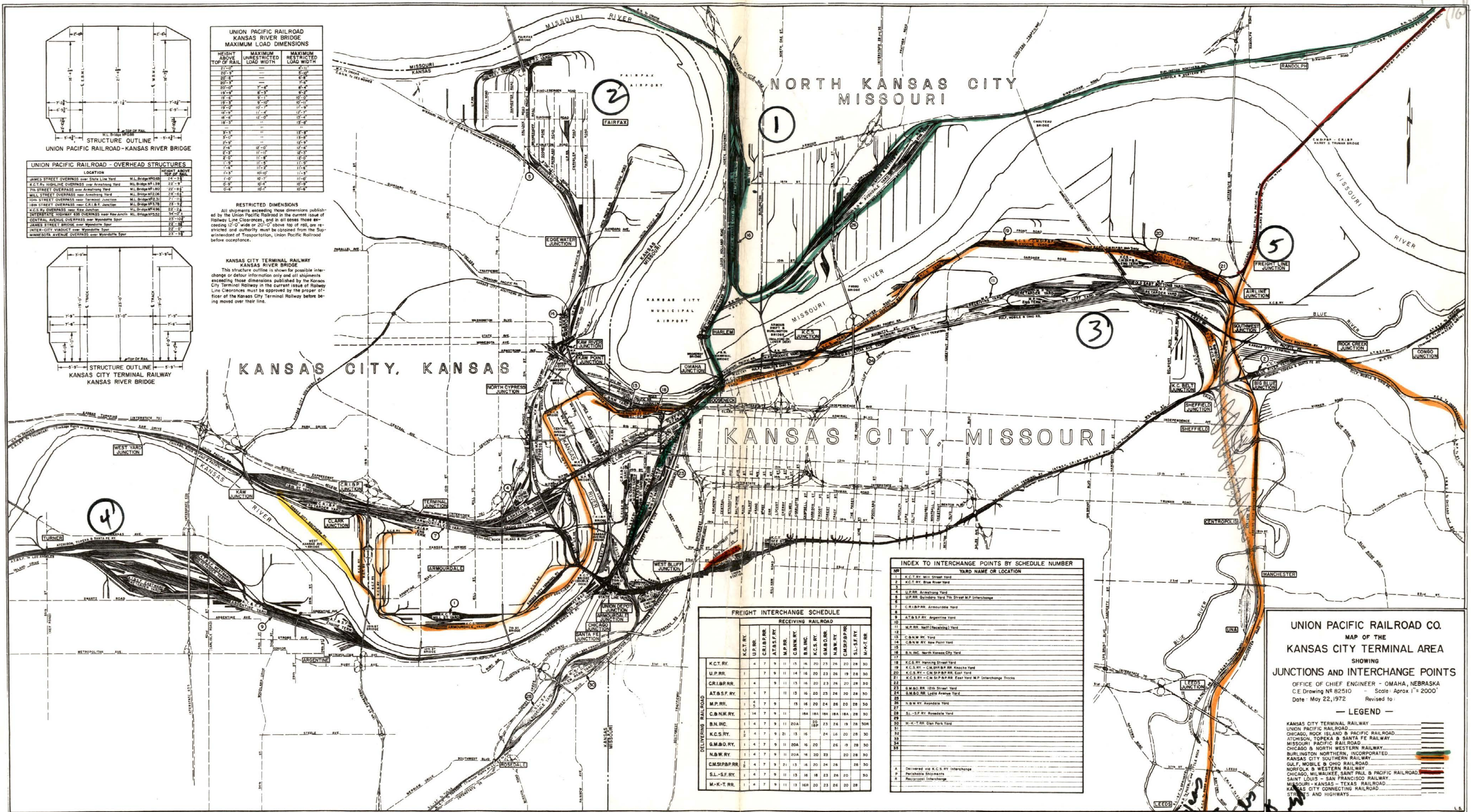
| UNION PACIFIC RAILROAD KANSAS RIVER BRIDGE MAXIMUM LOAD DIMENSIONS | | | |
|--|---------------------------------------|-------------------------------------|--|
| HEIGHT ABOVE TOP OF RAIL | MAXIMUM UNRESTRICTED LOAD WIDTH | MAXIMUM RESTRICTED LOAD WIDTH | |
| 21'-0" | 11'-0" | 11'-0" | |
| 20'-0" | 11'-0" | 11'-0" | |
| 19'-0" | 11'-0" | 11'-0" | |
| 18'-0" | 11'-0" | 11'-0" | |
| 17'-0" | 11'-0" | 11'-0" | |
| 16'-0" | 11'-0" | 11'-0" | |
| 15'-0" | 11'-0" | 11'-0" | |
| 14'-0" | 11'-0" | 11'-0" | |
| 13'-0" | 11'-0" | 11'-0" | |
| 12'-0" | 11'-0" | 11'-0" | |
| 11'-0" | 11'-0" | 11'-0" | |
| 10'-0" | 11'-0" | 11'-0" | |
| 9'-0" | 11'-0" | 11'-0" | |
| 8'-0" | 11'-0" | 11'-0" | |
| 7'-0" | 11'-0" | 11'-0" | |
| 6'-0" | 11'-0" | 11'-0" | |
| 5'-0" | 11'-0" | 11'-0" | |
| 4'-0" | 11'-0" | 11'-0" | |
| 3'-0" | 11'-0" | 11'-0" | |
| 2'-0" | 11'-0" | 11'-0" | |
| 1'-0" | 11'-0" | 11'-0" | |
| 0'-0" | 11'-0" | 11'-0" | |

| UNION PACIFIC RAILROAD - OVERHEAD STRUCTURES | | |
|--|-----------------------------|--|
| LOCATION | HEIGHT ABOVE TOP OF RAIL | |
| JAMES STREET OVERPASS over State Line Yard | 21'-0" | |
| W.C.T.R. HIGHLINE OVERPASS over Armstrong Yard | 21'-0" | |
| 7th STREET OVERPASS over Armstrong Yard | 21'-0" | |
| MILL STREET OVERPASS over Armstrong Yard | 21'-0" | |
| 10th STREET OVERPASS over Terminal Junction | 21'-0" | |
| 18th STREET OVERPASS over C.R.I.B.P. Junction | 21'-0" | |
| N.C.S. Ry OVERPASS over New Junction | 21'-0" | |
| INTERSTATE HIGHWAY 65 OVERPASS over New Junction | 21'-0" | |
| CENTRAL AVENUE OVERPASS over Wyandotte Spur | 21'-0" | |
| JAMES STREET BRIDGE over Wyandotte Spur | 21'-0" | |
| INTER-CITY VIADUCT over Wyandotte Spur | 21'-0" | |
| MINNESOTA AVENUE OVERPASS over Wyandotte Spur | 21'-0" | |



RESTRICTED DIMENSIONS
All shipments exceeding those dimensions published by the Union Pacific Railroad in the current issue of Railway Line Clearances and in all cases those exceeding 12'-0" wide or 20'-0" above top of rail, are restricted and authority must be obtained from the Superintendent of Transportation, Union Pacific Railroad before acceptance.

KANSAS CITY TERMINAL RAILWAY - KANSAS RIVER BRIDGE
This structure outline is shown for possible interchange or detour information only and all shipments exceeding those dimensions published by the Kansas City Terminal Railway in the current issue of Railway Line Clearances must be approved by the proper officer of the Kansas City Terminal Railway before being moved over their line.



| FREIGHT INTERCHANGE SCHEDULE | | RECEIVING RAILROAD | | | | | | | | | | | |
|------------------------------|---|--------------------|----------|--------------|-----------|--------|----------|----------|----------|------------|--------|------------|----------|
| | | K.C.T.R. | U.P.R.R. | C.R.I.B.P.R. | AT&S.F.R. | M.P.R. | CAN.R.Y. | B.N.I.C. | K.C.S.R. | G.M.B.O.R. | N.W.R. | C.M.S.P.R. | M-K-T.R. |
| K.C.T.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| U.P.R.R. | 1 | 7 | 9 | 11 | 14 | 16 | 20 | 23 | 26 | 28 | 30 | | |
| C.R.I.B.P.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| AT&S.F.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| M.P.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| CAN.R.Y. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| B.N.I.C. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| K.C.S.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| G.M.B.O.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| N.W.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| C.M.S.P.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |
| M-K-T.R. | 1 | 4 | 7 | 9 | 11 | 15 | 16 | 20 | 23 | 26 | 28 | 30 | |

| INDEX TO INTERCHANGE POINTS BY SCHEDULE NUMBER | | YARD NAME OR LOCATION |
|--|---|--|
| 1 | 1 | K.C.T.R. Mill Street Yard |
| 2 | 1 | K.C.T.R. Blue River Yard |
| 3 | 1 | U.P.R.R. Armstrong Yard |
| 4 | 1 | U.P.R.R. Overland Yard 7th Street M.P. Interchange |
| 5 | 1 | C.R.I.B.P.R. Armourdale Yard |
| 6 | 1 | AT&S.F.R. Argentine Yard |
| 7 | 1 | M.P.R. North (Receiving) Yard |
| 8 | 1 | CAN.R.Y. Yard |
| 9 | 1 | CAN.R.Y. New Point Yard |
| 10 | 1 | B.N.I.C. North Kansas City Yard |
| 11 | 1 | K.C.S.R. Hanning Street Yard |
| 12 | 1 | K.C.S.R. - C.M.S.P.R. RR Kansas Yard |
| 13 | 1 | K.C.S.R. - C.M.S.P.R. RR East Yard |
| 14 | 1 | K.C.S.R. - C.M.S.P.R. RR East Yard M.P. Interchange Tracks |
| 15 | 1 | G.M.B.O.R. 12th Street Yard |
| 16 | 1 | G.M.B.O.R. Lydia Avenue Yard |
| 17 | 1 | N.W.R. Argoside Yard |
| 18 | 1 | S.L.-S.F.R. Rosedale Yard |
| 19 | 1 | M-K-T.R. Glen Park Yard |
| 20 | 1 | |
| 21 | 1 | |
| 22 | 1 | |
| 23 | 1 | |
| 24 | 1 | |
| 25 | 1 | |
| 26 | 1 | |
| 27 | 1 | |
| 28 | 1 | |
| 29 | 1 | |
| 30 | 1 | |
| 31 | 1 | |
| 32 | 1 | |
| 33 | 1 | |
| 34 | 1 | |
| 35 | 1 | |

UNION PACIFIC RAILROAD CO.
MAP OF THE
KANSAS CITY TERMINAL AREA
SHOWING
JUNCTIONS AND INTERCHANGE POINTS
OFFICE OF CHIEF ENGINEER - OMAHA, NEBRASKA
C.E. Drawing No. 82510 - Scale: Approx 1" = 2000'
Date: May 22, 1972 Revised to:

— LEGEND —

KANSAS CITY TERMINAL RAILWAY
UNION PACIFIC RAILROAD
CHICAGO, ROCK ISLAND & PACIFIC RAILROAD
ATCHISON, TOPEKA & SANTA FE RAILWAY
MISSOURI PACIFIC RAILROAD
CHICAGO & NORTH WESTERN RAILWAY
BURLINGTON NORTHERN, INCORPORATED
KANSAS CITY SOUTHERN RAILWAY
GULF, MOBILE & OHIO RAILROAD
NORFOLK & WESTERN RAILWAY
CHICAGO, MILWAUKEE, SAINT PAUL & PACIFIC RAILROAD
SAINT LOUIS - SAN FRANCISCO RAILWAY
MISSOURI - KANSAS - TEXAS RAILROAD
KANSAS CITY CONNECTING RAILROAD
STREETS AND HIGHWAYS

New Orleans
Port and
Hulltown
Lake Charles
Baton Rouge

December 8, 1981

TO: T. M. Beckley
FROM: B. D. Olsen
RE: Comparable Railroad Sales

I attach a listing I have put together of comparable sales of railroads or portions of railroads which we have extracted from various Commission and court orders and Traffic World articles. Accuracy of the Traffic World reports is somewhat open to question. Most of these sales have occurred within the past two years. Principal exceptions are Itel's purchase of the Green Bay & Western and the SP/BN sale of the Oregon, California & Eastern. In most cases, these are consummated sales except where indicated. The Rock Island sales are taken from the Trustee's report and are the only ones he has stated are concluded or close to being concluded.

In most cases, it is not possible to determine whether any equipment was included. I have noted equipment where it has clearly been mentioned in whatever report or order has been the reference source.

The only prices that appear out of line from a cost-per-mile standpoint (aside from those which obviously include some real estate or yard facilities) are the two Milwaukee sales to the C&NW in Iowa. I have no idea why the normally hard-nosed C&NW paid so much.

BDO/sjp
Attachment

1.

| <u>Seller</u> | <u>Buyer</u> | <u>Location</u> | <u>Mileage</u> | <u>Price</u> | <u>Price Per Mile</u> |
|---------------|--------------------------|---------------------------|----------------|---|---------------------------|
| MILW | UP | Washington State | NA | \$19,000,000 | * |
| MILW | State of WI | 15-lines | 378 | in condemnation state offer: 5,370,000 | \$ 14,206 |
| MILW | Seattle & North Coast | Olympic Peninsula | 51 | 4,510,000 (inc. 2 barges & piers, 3 locos & other equip.) | 88,431 |
| MILW | Unknown | Metaline Falls Branch | | | |
| MILW | EL&S | Ontonagon-Iron Mtn, MI | 117 | 2,550,000 & debt assumption appraised value: 3,052,000 | 21,794 26,085 |
| MILW | E&LS | Channing-Republic, MI | 22 | | |
| MILW | E&LS | Iron Mtn-Pembine | 13 | 600,000 option? | 46,153 |
| MILW | E&LS | Pembine-Green Bay | 81 | 3,150,000 option | 38,888 |
| MILW | State of SD | Canton-Chamberlain | 150.3 | 3,485,000 | 23,233 |
| MILW | State of SD | Chamberlain-Kadoka | 119.6 | 1,287,000 | 10,815 |
| MILW | State of SD | Kadoka-Rapid City | 98 | 1,500,000 | 15,306 |
| MILW | State of SD | Aberdeen-Mitchell | 126.4 | 3,792,000 | 30,000 |
| MILW | State of SD | North Sioux City-Mitchell | 130.8 | 4,825,000 | 36,888 |
| MILW | State of SD | Trent-Sioux Falls | 23.3 | 594,000 | 25,493 |

* Not applicable: includes yard or other real estate.

2.

| <u>Seller</u> | <u>Buyer</u> | <u>Location</u> | <u>Mileage</u> | <u>Price</u> | <u>Price Per Mile</u> |
|---------------|-------------------------|---|-------------------|----------------------|---------------------------|
| MILW | State of SD | Sioux Falls | 5.3 & 72 acres | \$ 1,030,000 | * |
| MILW | State of SD | Sioux Falls-Canton ^{90%} ₁₁ | 18.7 | 1,068,000 | \$ 57,112 |
| MILW | State of SD | Napa-Platte | 82.9 | 1,069,000 | 12,895 |
| MILW | State of SD | Britton-BN | 4.8 | 100,000 | 20,833 |
| MILW | ICG | Cedar Rapids | 26 & 154 acres | 3,200,000 | * |
| MILW | BN | Montana, Idaho & Wash. | 383 | 21,000,000 | 54,830 |
| MILW | C&NW | Slayter-Woodward, IA | 14 | 2,067,000 | 147,642 |
| MILW | C&NW | Albert City, IA | 7 | 1,059,000 | 151,285 |
| MILW | Beaverville Grn. | Hoopeston-Danville, IL ¹⁰⁰ | 57 | 2,542,000 | 44,596 |
| GB&W | Itel | entire railroad | 254 & equip. | 7,500,000 | 29,527 |
| C&NW | Oneida Transit Comm. | Gagen-Eagle River, WI | 21 | 506,600 (pending) | 24,123 |
| Conrail | D&H | Binghamton, NY-Scranton, PA | 60 | 2,300,000 | 38,333 |
| SP/BN | Weyerhaeuser | OC&E (Oregon) | 66 & equip. | 2,380,000 (1974) | 36,060 |
| Rock Isl. | SP/SSW | Tucumcari line | 965 | 57,000,000 | 59,067 |
| Rock Isl. | MoPac | Hot Springs, AR | 40 | 2,200,000 | 40,740 |
| Rock Isl. | Fordyce & Princeton | Fordyce-Crossett, AR | 54 & 112 cars | 2,600,000 | 48,148 |

* Not applicable: includes yard or other real estate.

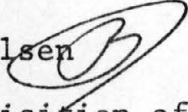
3.

| <u>Seller</u> | <u>Buyer</u> | <u>Location</u> | <u>Mileage</u> | <u>Price</u> | <u>Price Per Mile</u> |
|---------------|--------------------------|----------------------|---------------------|------------------------|---------------------------|
| Rock Isl. | CR & IC | Iowa City, IA | 7 | \$ 175,000 | \$ 25,000 |
| Rock Isl. | Keokuk Jct. RR | Keokuk, IA | 4 & yard | 325,000 | * |
| Rock Isl. | P&PU | Pekin, IL | 2.8 & yard | 170,000 | * |
| Rock Isl. | Continental Grp. | Alexandria-Hodge, LA | 25 & 50 trkg rts | 1,700,000 (pending) | 22,666 inc trkg rts |
| Rock Isl. | Royal-Manson Shippers | Royal-Manson, IA | 55 | 4,350,000 (pending) | 79,090 |

* Not applicable: includes yard or other real estate.

June 12, 1980

TO: T. M. Beckley
C. H. Clay
R. H. Smith
D. M. Cavanaugh
P. M. McNamee
-T. S. Ness

FROM: B. D. Olsen 

RE: SP Acquisition of Rock Island Tucumcari Line

The Interstate Commerce Commission served its Decision in the above matter June 10 in which it approved the SP application and rejected all requests for protective conditions, including so-called DT&I conditions. The Commission also rejected a request by the C&NW to reopen the proceeding because of the recent announcement by Santa Fe and SP of their intention to merge. The Commission stated that to consider that possible merger would be speculative since no application will be filed for some time.

MoPac's inconsistent application for Rock Island trackage between St. Louis and Kansas City was rejected as were UP requests for trackage in the Los Angeles area. No DT&I conditions were imposed, not even for a temporary period.

The SP application actually sought authority for subsidiary Cotton Belt to acquire the Rock Island line to avoid the application of the so-called "Central Pacific" traffic conditions to that route. The Commission declined efforts of protestants to extend the Central Pacific conditions to the Golden State route. Certain related applications based on the assumption that Rock Island would continue as an operating carrier were denied in view of the dissolution of the Rock. The indemnification which was sought by the Katy and the C&NW was also denied on the basis that both of those railroads have shown improvement in financial health in recent years.

It is clear that the days of merger protective conditions are over, at least as far as the Commission is concerned. You may find the attached excerpt from the decision of interest. It is the Commission's explanation of why DT&I conditions were not imposed. They were even disapproved for those carriers which had entered into settlement agreements with SP.

I consider an appeal likely, particularly from the C&NW or the Katy, both of which have fought the SP application strenuously.

BDO/sjp
Attachment

"DT&I" Traffic Conditions

Several protestants urge us to impose on SP the traditional traffic and routing restrictions known as the "DT&I conditions." For the reasons discussed below, we will not impose these conditions in this proceeding.

Background

Standard DT&I protective conditions have been imposed in rail consolidation proceedings since the 1950's. Detroit, T. & I. R. Co., Control, 275 I.C.C. 455, 492 (1950) (DT&I I). These conditions are a distillation of traffic conditions the Commission has imposed since the 1920's. See Chicago Junction Case, 71 I.C.C. 631, 629-41 (1922); Unification of Southwestern Lines, 124 I.C.C. 401, 439 (1927); St. Louis S.W. Ry. Co., Control, 130 I.C.C. 175, 206 (1932).

The conditions were imposed in an effort to preserve rail competition by maintaining neutrality and equal access in traffic routing. For example, the conditions were partially intended to prevent consolidated carriers from closing rail facilities which had previously been neutral and open to all carriers and shippers on equal terms. See Chicago Junction, 71 I.C.C. at 635, 639. Similarly, the conditions were designed to prevent the "commercial closing" of gateways through excessive rate reductions, since commercial closings were feared to reduce competition. See Sand from Marston, NC, to Wyoming, IL, 359 ICC 98 (1978), aff'd. sub nom. Seaboard Coast Line R. Co. v. United States, 599 F.2d 650 (5th Cir. 1979). Further, the conditions were meant to prevent discrimination in such matters as service frequency and scheduling arrangements. In this way, it was hoped that shippers' routing options would be preserved, and harmful diversions of competing carriers' traffic and revenue could be avoided.

More specifically, DT&I I established six specific traffic protective conditions. Condition 1 requires a consolidated carrier to "maintain and keep open all routes and channels of trade via existing junctions and gateways," unless otherwise authorized by the Commission. Condition 3 requires a consolidated carrier to continue "present traffic and operating relationships." Conditions 2 and 4 prohibit, respectively, "discrimination in the arrangement of schedules" and "discrimination in promptness [and] frequency of service." Condition 5 precludes a consolidated carrier from restraining "the right of industries located on the acquired line to route traffic over any or all existing routes and gateways." Condition 6 merely provides standing to seek later modification of the conditions.

Protestants' Arguments

Several protestants argue for DT&I conditions here. They present three reasons for imposing the conditions: (1) the DT&I conditions are not anticompetitive, but rather are needed to preserve competition; (2) only these conditions can protect protestants from harmful diversions which SP can effect after the transaction through commercial closings,

strategic reroutings, and similar traffic realignments; and (3) the record does not support a finding that DT&I conditions are unnecessary here, since all the traffic evidence presupposed continued application of standard DT&I conditions.^{27/}

Indeed, protestants note that SP alleged throughout the proceeding that it would accept the DT&I conditions and did not offer opposition to them until briefs were filed. This allegedly deprived protestants of an opportunity to demonstrate effectively that DT&I conditions are needed here. Protestants call for a reopening of the record if we wish to consider the elimination of traffic conditions. Further, we note that SP has entered into stipulations with four carriers (ICG, Milwaukee, BN, and SLSF) in which it agreed to DT&I-type traffic protection and has requested imposition of the conditions for 2 years for the benefit of all other carriers.

Protestants' specific fears of traffic diversion center on two points. First, protestants fear that, without the DT&I conditions, SP will be able to divert traffic from the Central Corridor, routing this traffic over the Tucumcari line instead. Second, protestants fear that SP will divert substantial traffic between Kansas City and Texas-Gulf points, by virtue of its new single-line access to Kansas City and St. Louis. For instance, MKT claims that its greatest exposure to traffic diversion is on movements between Kansas City and Texas-Gulf points. As an example, MKT contends that the DT&I conditions are needed to prevent SPT from (1) cancelling its joint rates and routes with MKT at the Denison, TX interchange, and (2) establishing its own single-line rates and routes between Kansas City and Texas-Gulf points. Further, MKT notes that without the DT&I conditions, SP could commercially close gateways (such as the Denison interchange) by delaying the interchange of MKT cars, changing SP's train schedules at Denison so they will not connect with MKT trains, and taking other actions to cause shippers to avoid the MKT/SPT route and divert their traffic to SP. While this may offer shippers a new single-line SP service, it would allegedly lead to elimination of the MKT alternative and thus ultimately reduce rail competition in the area.

Discussion

If we believed protestants' allegations of diversion and elimination of competition were likely, we would reopen the record and take additional evidence before deciding whether to impose DT&I conditions. However, our analysis of the transaction indicates that SP will lack the ability to disturb trade or market patterns materially for at least 3-4 years, in view of the need for substantial rehabilitation of the Tucumcari line. Thus, opportunities for harmful activities will not be significant for a substantial period after the purchase. As DOT notes, this should be ample time for protestants to develop competitive responses.

^{27/} We need not address this last argument since we are not relying on the traffic diversion evidence of either applicants or protestants in reaching our conclusions regarding imposition of the DT&I conditions.

The record clearly shows that the Tucumcari line requires extensive rehabilitation which cannot be completed for approximately 3 years. During this time the Tucumcari line will not be much more of a competitive asset to SP than it currently is. Thus, competing carriers will have full opportunity to develop a number of competitive responses, ranging from rate and service improvements to the implementation of defensive acquisitions and consolidations. In BN-Frisco, we found that a 2 year lag time after consummation would provide sufficient opportunity for competing carriers to devise defensive responses to the merger there. The 3-4 year lag time here should provide a sufficient adjustment period.

Moreover, our analysis of the traffic patterns affected by this transaction reveals little support for protestants' fear that SP will divert substantial traffic from the Central Corridor to the Tucumcari line. Even after rehabilitation, the Tucumcari line will be at a competitive disadvantage to the Central Corridor route through Odgen. The superiority of the Central Corridor should encourage shippers to exercise their routing power in its favor. It is shorter, faster, and in better condition than the Tucumcari route. Thus, shippers would have a natural incentive to route this way, thereby obviating the need for the artificial protection of the DT&I conditions and avoiding the anti-competitive byproducts of those conditions.

We believe that interchange neutrality at Kansas City will exist with or without the DT&I conditions. Kansas City has been a major rail gateway for many years. The mere substitution of SSW for RI will not change this. SSW, like RI, simply must interchange at Kansas City in order to do business. The Kansas City/St. Louis line segment is in such deteriorated condition that only local traffic will be handled over it for the next 3 years. Thus, SP will need to continue the prior practice of freely interchanging both eastbound and westbound Tucumcari traffic at Kansas City.

Finally, as we stated in Seaboard Coast Line R. Co.-- Invest. of Control, 360 I.C.C. 582, 603 (1979), shippers and consumers can generally be protected quite adequately by the broad provisions of the Interstate Commerce Act (49 U.S.C. Subtitle IV). As we noted in Seaboard:

The Interstate Commerce Act provides the needed protection of particular interchanges and services, and in the future, we will enforce the statutory provisions to assure open routing, gateways, and interchanges. See 49 U.S.C. §11101 (formerly section 1(4)), imposing the common carrier obligation to provide service and to establish reasonable through routes and rates; 49 U.S.C. §10741 (formerly section 3(4)), requiring equal interchange facilities; and 49 U.S.C. §10705 (formerly section 15(3) and (4)), authorizing the Commission to establish through rates, joint rates and the division of joint rates. Evidence relating to the need for protection against predatory or unfair competitive practices can be submitted with a complaint filed under these provisions. [Id. at 603]

Accordingly, we shall remain open to any complaints which may arise regarding SP's post-transaction marketing practices. In this way, the public interest benefits of the transaction can be obtained without adversely affecting either competing railroads or the shipping and consuming public.

Our preference for individual complaints over blanket protective conditions reflects certain policy considerations. DOJ argues persuasively that the DT&I conditions have anticompetitive consequences which far outweigh any procompetitive effects. For instance, Condition 1 has been interpreted as requiring "rate equalization." Under Condition 1 a consolidated rail carrier "is foreclosed from doing anything which will have the effect of closing, commercially or otherwise, any of the routes which existed at the time of Commission authorization."^{28/} As we noted in Seaboard Coast Line R. Co. -- Invest. of Control, 360 I.C.C. 582, 601 (1979):

[T]he effect of the DT&I conditions has been to keep railroad rates artificially high. A railroad subject to these conditions cannot offer lower rates to obtain the long haul, because of the traditional Commission approach that a reduced rate on a restricted routing is a commercial closing which violates the conditions.

The other DT&I conditions, while smaller in scope and effect, are also anticompetitive in DOJ's view. Condition 3 is similar to the first. By requiring a consolidated carrier to continue "present traffic and operating relationships," it prevents a carrier from changing those relationships by, for example, offering a subsidiary a preferred connection. Southern Pacific Company--Merger--Pacific Railway Company, 354 I.C.C. 100 (1977). Thus, a consolidated carrier cannot change an interchange point to a point more convenient to a subsidiary, but rather must maintain present interchange points for all connecting carriers.

Similarly, the antidiscriminatory provisions of Conditions 2 and 4 can, in conjunction with the commercial closing doctrine, prevent a carrier from offering expedited service or other new service options to related lines without offering them to all connecting carriers. Finally, Condition 5, while intended to preserve shippers' routing rights, can allegedly prevent a consolidated carrier from offering lower rates or improved services to shippers over new routes.

The DT&I conditions may have outlived their purpose. Rather than promoting competition, they may well unduly inhibit individual carrier ratemaking, contrary to the 4R Act's policy in favor of greater pricing freedom. Instead

^{28/} Southern Pacific Company--Merger--Pacific Railway Company, 354 I.C.C. 100, 109 (1977) (Southern Pacific Merger); Enforcement of Conditions in Merger Proceedings, 313 I.C.C. 191, 194 (1961); Seaboard Coast Line R. Co.--Invest. of Control, 360 I.C.C. 582, 601 (1979).

of protecting the public from monopoly and excessive rates, the DT&I conditions appear to decrease inter- and intramodal price competition, to the detriment of the shipping and consuming public. We are currently reexamining our past general policy on standard traffic and routing conditions. However, regardless of what our conclusions on that matter may be, we do not consider the imposition of these conditions in this case either necessary or appropriate.

Stipulations

As previously noted, four carriers entered into stipulations with SP by which they agreed not to oppose the transaction and SP agreed to grant them DT&I-type traffic protection. While carriers are free to enter contracts if they so desire, these agreements would not be immune from the antitrust laws unless approved or imposed by us as part of the overall transaction. See 49 U.S.C. §11341. Thus, we now turn to whether the stipulated DT&I protection is compatible with the public interest in this proceeding.

We believe that the reasons discussed above for not imposing the DT&I conditions apply equally well to the stipulated carriers. The time needed for rehabilitating the Tucumcari Line will both delay the competitive effect of the transaction and permit competing carriers to develop marketplace responses preferable to the imposition of government-imposed protections, which may well be overly broad and stifle beneficial competition. The shipping and consuming public will be better served by the active interplay of competing carriers rather than by freezing the status quo through artificial conditions. As we have repeatedly stated, we are concerned with preserving and enhancing the general competitive environment, rather than with protecting individual carriers' market shares. DT&I II, slip opinion at 41; accord, BN-Frisco, 360 I.C.C. at 951.²⁹ Moreover, should competitive abuses follow consummation of the transaction, we have reaffirmed our receptiveness to any complaints which may arise regarding SP's marketing practices. In short, we do not believe that opposition to a transaction should be a determinative factor in concluding whether the imposition of traffic conditions is consistent with the public interest. Accordingly, no DT&I-type traffic conditions will be imposed or authorized in connection with this proceeding.

²⁹ In BN/Frisco, supra at 951, we made the following observations regarding protective conditions:

We have stated that we would not impose conditions solely to compensate carriers for diversion or protect them from the risks of competition. In connection with transactions such as this, it is not practicable, nor would it be in the public interest, to impose conditions calculated to freeze the flow of traffic into a pre-existing pattern or to protect competing and connecting carriers against all possible adverse effects which might follow [the transaction].

Indemnification

MKT and CNW both argue that the acquisition will result in impairment of their ability to provide essential rail services unless their losses are indemnified by the applicants.^{30/}

In support of its proposed indemnification condition, MKT^{31/} claims that both the 4R Act and Supreme Court decisions impose an absolute duty on the Commission to provide for its protection. It also contends that policy reasons support the imposition of an indemnity requirement. MKT views just and reasonable indemnity provisions as an appropriate means of protecting substantially adversely affected carriers while permitting the transaction to go forward. Further, indemnification of MKT here is argued to be reasonable because it would reduce SSW's incentive to divert Kansas City-Texas traffic from MKT to its more circuitous haul.

Indemnification conditions are opposed by DOJ, DOT, and applicants. DOJ considers them anticompetitive. DOJ objects to indemnification generally because it may generate undesirable responses by both the applicants and the indemnified carriers. Applicants may decide to formulate consolidation plans which purposely minimize potential diversions in order to reduce indemnification payments. The indemnified carriers, with their financial pressures reduced, may lack incentive to develop competitive responses to the acquisition.

Applicants agree with DOJ. They point out that we have only imposed indemnification twice and that both cases involved wholesale restructuring of significant railroad systems, not purchase of a single line. In Rock Island I, the Commission indicated that revenue guarantees would be applied reluctantly, and only where absolutely essential to assure a carrier's continued ability to serve the public.^{32/} Applicants claim that neither CNW nor MKT has proven that indemnification is necessary to ensure their economic survival. In addition, applicants assert that the proposed conditions would compensate the protestants for revenue losses unrelated to this acquisition, including diminution of intercity rail traffic resulting from strong intermodal competition.

We will not require applicants to indemnify MKT and CNW. As we recently stated in BN-Frisco, indemnification conditions were imposed in the past primarily to ensure that existing services would be continued by the same corporate entity.^{33/} Our emphasis is no longer focused on preserving individual carriers; we are more concerned with maintaining essential rail service. As our analysis of protestants' traffic studies shows, neither MKT nor CNW is likely to be injured to the extent that essential services will be impaired.

^{30/} DRGW originally also requested indemnification, but indicated in its brief that it is no longer pursuing that request.

^{31/} CNW gives no arguments in its briefs in support of its indemnification condition.

^{32/} See Rock Island I, and Pennsylvania R. Co.--Merger-New York Central R. Co., 330 I.C.C. 328 (1976).

^{33/} 360 I.C.C. 783, 952-53.

Contrary to MKT's assertions, our refusal to require indemnification neither violates the 4R Act nor ignores Supreme Court precedent. Section 11344 confers upon us the authority to impose conditions, but does not compel us to do so. We have not in the past been liberal in requiring indemnification; that remedy has been reserved for situations in which no alternatives existed to ensure the preservation of essential services.^{34/} In both Supreme Court cases cited by MKT, the Court itself was concerned with issues other than the Commission's decision to impose indemnification conditions. The Court left undisturbed the standard which the Commission had applied in those cases for requiring indemnification. The Commission had found that survival of the railroads in question was essential to the public interest and that their continued survival would be jeopardized by competition with the merged carrier.^{35/} Since we have not made either of these findings here, we are not compelled to indemnify the protestants.

We consider the indemnification of competitors unsound for policy reasons. First, the carrier receiving indemnification may be less likely to provide optimum prices or services, since it will be automatically compensated for any loss of net revenues experienced. Since indemnification is calculated on the difference between 1977 net revenues and those of subsequent years, the payment is triggered by poor financial performance. It therefore can be viewed as a reward for inefficiency or inability to compete.

Indemnification also may result in cross-subsidization by a healthy railroad of the less efficient operations of another carrier. Since a portion of the financial rewards to the acquiring carrier are siphoned off, the benefits to that carrier are reduced. At the same time, the condition creates a disincentive for the acquiring carrier to maximize competition with the lines it is indemnifying, since the latter must be reimbursed for its losses. As a result, shippers served by both carriers would be disadvantaged by an indemnity requirement.

Finally, we are opposed to the imposition of this condition for the same reason that we decline to require other proposed protective conditions: we have determined that the purchase is procompetitive, and no party has demonstrated that essential services will be impaired if the transaction is approved unconditionally.

^{34/} 360 I.C.C. 783, 952-3.

^{35/} Baltimore & Ohio Ry. Co. v. United States, 386 U.S. 372, 378 (1967); Penn-Central Merger and N&W Inclusion Cases, 389 U.S. 486, 495 (1968).

CNW April 1, 1980, \$444,800/month

RI-MSTL 1952 Agreement

cannot be transferred cannot be terminated

Minly, 730 car capacity yard.

Des Moines, 28 tracks, 3500 cars

Regal-Manson Shippers Association

Iowa Falls Gateway Shippers Association

Estherville 10 track, 500 cars

CNW Central Division Headquarters Mason City IA

BN/KCS 493 grain trains

1978 27,000

IA DOT 40,000

AGRI Industries (Farmers Grain Dealers Association) - Iowa-based cooperative

Dan Summa, head of Superior Cooperative Elevator Company

Iowa Railway Finance Authority (IRFA)

Potash Corporation of Saskatchewan, Waterloo, Fort Dodge

\$100,000/mile rehabilitation

1500 miles, \$100 - \$150 million

THE ROCK REFERENCE CATALOG

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7. Soybean Movements in the United States, 1977, University of Illinois at Urbana-Champaign
8. Wheat Movements in the United States, 1977, University of Illinois at Urbana-Champaign

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3. An Economic Analysis of Upgrading Rail Branch Lines, A Study of 71 Lines in Iowa
4. Importance of Rock Island Directed Service to Iowa's Economy, Iowa DOT
5. Evaluation of Alternative Rail Routes for State of Minnesota North/South Corridor Study, W. G. Richmond and Company, February 12, 1981
6. A Study of Potential Soo Line Acquisition or Operation of Various Rock Island Lines in Iowa, Minnesota and Missouri, William M. Edrington, Assistant Manager, Pricing and Market Development, Soo Line Railroad Company, January 5, 1982 (See also bibliography)
7. Review of Program Proposals for Railroad Restructuring, Iowa DOT, June 23, 1981

8. A Discussion of Railroad Finance Program Proposals, Iowa DOT, August 11, 1981
9. The Minnesota North/Sough Alternatives for a Mainline Route and Local Service Needs, Minnesota DOT, June, 1981

Data

1. Rock Island Lines Clearance Diagram
 - a. Blue Island, IL to Rock Island, IL
 - b. Rock Island to Armourdale, KS
 - c. West Davenport, IA to Armourdale, KS
 - d. C.R.I.S.P. Jct., Armourdale, KS to Topeka, KS
 - e. Topeka, KS to Tucumcari, NM
 - f. Rock Island, IL to Des Moines, IA (Sht. Line Jct.)
 - g. Des Moines, IA, Short Line Jct. to Council Bluffs
 - h. Council Bluffs, IA to Albright (So. Omaha)
 - i. Burlington, IA to Cedar Rapids, IA
 - j. Cedar Rapids, IA to Newport, MN
 - k. Cedar Rapids, IA to Rock Rapids, IA
 - l. Des Moines to Newport
 - m. Newport to Minneapolis
 - n. Short Line Jct., Des Moines, IA to C.R.I.S.P. Jct., Armourdale Yard
 - o. Carlisle to Indianola
 - p. Hartley, IA to Palmer, IA
 - q. Lakota, IA to Albert Lea
 - r. Lakota, IA to Estherville
 - s. Dous, IA to Buffalo Center
 - t. Garner, IA to Titonka, IA
 - u. Lake Park to Lismore

2. Rock Island Lines Physical Characteristics
 - a. Allenton, IA to Minneapolis, MN
 - b. Chicago to Colorado Springs
 - c. Davenport (Mo. Divn. Jct.) to Santa Rosa
 - d. Burlington to Manly, Vinton to Souix Fall, Vinton to Watertown
 - e. Branch Lines, Des Moines Division
 - f. Branch Lines, Cedar Rapids Division
3. C.R.I.S.P. Railroad Company, Twin Cities (Minneapolis-St. Paul-MTFR) Interchange, cars, tons, forwarded, received, total, by road, by year 1972-1977
4. C.R.I.S.P Railroad Company, Kansas City Gateway Interchange, cars, tons, forwarded, received, total, by road, by year 1972-1977
5. Iowa DOT Cargo Capacity Comparison, Barge, Jumbo Hopper Car, Large Semi
6. Railroad Commodity Movements, Iowa, 1978, Iowa DOT
7. 1977 Rock Island Density Chart

Maps

1. Iowa Rail Map
 - a. Railroad Map, Iowa, October 1, 1981
 - b. 1978 Railroad Traffic Density, Iowa
 - c. 1977 Railroad Traffic Density, Iowa
 - d. Iowa Minimum Rail Service Needs (Initial Plan 1/7/80)
 - e. State Rail System Plan, September 1977, Iowa DOT
 - f. 1978 Coal Movements Terminating in Iowa
 - g. Major Iowa Utilities, Industries and Mines Receiving and Producing Coal, 1978
 - h. Rail Company Abandonment Plans, Iowa Railroad Map, July, 1981.
 - i. Iowa Rail Map, October 1980

- j. Iowa Highway, Railroads and River Grain Loading Facilities, October 1980
- k. Chicago Rock Island & Pacific Railroad Company Iowa Rail Map
- l. Rock Island Rail Shipper/Receiver Iowa Rail Map
- m. Carrier Interest in Rock Island Railroad Iowa Rail Map, February 4, 1980
- n. Service on the Rock Island, December, 1981 Iowa Rail Map
- o. Rock Island Track Condition, Iowa Rail Map, Preliminary, 10/12/79
- p. Chicago, Milwaukee, St. Paul & Pacific Railroad Iowa Rail Map
- q. The Milwaukee Road Mainline, Branch Line
- r. Carrier Interest in Milwaukee Railroad Iowa Rail Map, February 4, 1980
- s. Burlington Northern Iowa Rail Map
- t. Chicago & Northwestern Transportation Company Iowa Rail Map
- u. Illinois Central Gulf Railroad Company Iowa Rail Map
- 2. Rock Island Lines Sketch Map
 - a. St. Paul, MN and Minneapolis, MN
 - b. Des Moines, IA
 - c. Kansas City, MO and Kansas City, KS
 - d. Siluis, IL to Davenport, IA
- 3. C.R.I. & P. Railroad Company Diagram of Maintenance Zones, Rock Island-MILW Joint Facilities, Polo to Kansas City, MO
- 4. Rock Island Lines Condensed Profile
 - a. Chicago to Davenport, IA
 - b. Davenport to Des Moines, IA
 - c. Des Moines to Council Bluffs, IA
 - d. Lineville to Allerton, IA
 - e. Lineville, IA to Kansas City, MO

- f. Clarksville, IA to Minneapolis, MN
- g. Allerton to Manly, IA
- h. Vinton to Estherville, IA
- i. Estherville, IA to Clear Lake, SD
- j. Carlisle to Indianola, Winear to Winterset, Gowrie to Sibley
- k. Dows to Lakota, Hayfield Jct. to Titonka, IA
- l. Maple Island to Clarks Grove, IA, Albert Lea, MN to Estherville, IA, Lake Park to Hardwick

5. The Rock 1976 Track Chart

a. Des Moines Division

- 1. Short Line Wyes at E. Des Moines, Short Line Jct. to Council Bluffs
- 8. Carlise to Manly, Carlisle to Indianola
- 9. Manly to Minneapolis, Inver Grove to West St. Paul, Clarks Grove to Maple Island
- 11. Hartley to Palmer, W. Des Moines to Gawrie
- 12. Iowa Down Falls to Estherville
- 13. Dows to Buffalo Center, Hayfield Jct. to Titonka
- 14. Albert Lea to Estherville
- 15. Estherville to Little Rock, IA

b. Missouri-Kansas Division

- 7. Elden to Trenton
- 8. Trenton to Air Line Jct., Kansas City Frt. Line Conn.
- 9. Allerton to Carlisle

c. Illinois Division

- 1. Chicago to Joliet
- 2. Joliet, IL to Mo. Division Jct.
- 3. Mo. Division Jct. to Elden

4. Mo. Division Jct. to Des Moines
 5. Burlington to Cedar Rapids
 6. Cedar Rapids to Manly
 7. Bureau to Peoria, Peoria to Keller, Lafayette to Colona
 8. Clinton to Davenport, Clinton to Iowa Falls
 9. Keakuk to Altoona, Iowa City to Hills, Elden, Iowa-K. D. Connections, Evans Jct. to Oskaloosa, Ainsworth to Keota
6. The Rock Timetable No. 1, Sunday, March 18, 1979
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 - b. Des Moines Division
 - c. Missouri Kansas Division
 - d. Southern Division
 7. Rock Island Lines Diagram, Gross Tonnage Moved Daily
 8. The Rock
 9. The Rock Lessees & Service Order Operations, January 1, 1982
 10. The Rock, Rev. April 24, 1981
 11. Rand McNally & Co. Railroad Maps
 - a. Atchison Topeka & Santa Fe Railway Co., March 1, 1980
 - b. Burlington Northern Inc., March 1, 1980
 - c. Chessie System, Rand McNally & Co., Denver & Rio Grande Western, March 1, 1980
 - d. Chicago & Northwestern Transportation Co., March 1, 1980
 - e. Family Lines (SCL/LN)
 - f. Grand Trunk Western
 - g. Illinois Central Gulf
 - h. Kansas City Southern Lines
 - i. Missouri-Kansas-Texas Railroad Co.
 - j. Missouri Pacific, March 1, 1980

- k. Norfolk and Western Railway
 - l. St. Louis San Francisco Railway Company
 - m. Southern Pacific Transportation Co., March 1, 1980
 - n. Southern Railway
 - o. Union Pacific Railroad, March 1, 1980
 - p. Western Pacific, March 1, 1980
 - q. Atchison Topeka & Santa Fe Railway Co., Southern Pacific Transportation Co.
 - r. St. Louis San Francisco Railway, Burlington Northern
 - s. Missouri Pacific, Union Pacific Railroad, Western Pacific
 - t. Chessie System Family Lines (SCL/LN)
 - u. Conrail
 - v. Norfolk and Western Railway, Southern Railway
 - w. Map of Principle Railroads (3 pages)
 - x. Map of Principle Railroads
12. 1980 Iowa Analysis Update
- a. Iowa Rail Map, October 1980
 - b. 1979 Iowa River Terminals
 - c. Iowa's Pipeline System
 - d. Trailer-on-Flat-Car Ramp Facilities
 - e. Iowa Highway, Railway and River Grain Loading Facilities, October, 1980
 - f. Chicago and Northwestern Transportation Company, October, 1980
 - g. Chicago, Rock Island and Pacific Railroad Company, October, 1980
 - h. Chicago, Milwaukee, St. Paul and Pacific Railroad, October, 1980
 - i. Burlington Northern, Inc., October, 1980
 - j. Illinois Central Gulf Railroad Company, October, 1980

- k. Other Class I Rail Carriers, October, 1980
 - l. Class III Rail Carriers, October, 1980
 - m. 1979 Railroad Traffic Density Map
 - n. 1979 Train Speed Map
 - o. 1979 Rail Weight Map
 - p. Abandonments Since 1978 Rail Plan, October, 1980
 - q. 1980 Rail Abandonments Category Map, October, 1980
 - r. Railroad Passenger Service, 1979
 - s. Iowa Branchline Assistance Program, October, 1980
 - t. Grade Crossing Repair Projects 1977-1980
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13. State Transportation Maps, U.S. Geological Survey, 1975
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 - a. MILW and CNW/ROCK Main Line Trackage Between Twin Cities and Kansas City
 - b. Principal Trackage Included, North/South Corridor Study
 - c. Route 1: MSTL/ROCK
 - d. Route 2: ROCK
 - e. Route 3: MILW
 - f. Twin City Terminal Layout
 - g. North/South Corridor Routes
 18. A Study of Potential Soo Line Acquisitions or Operations of Various Rock Island Lines in Iowa, Minnesota, and Missouri, William M. Edrington, Assistant Manager Pricing and Market Development, Soo Line Railroad Company, January 5, 1982

- a. Rock Island Lines Included in Study
- b. Rock Island Lines Study Area
- c. Iowa Falls Gateway
- d. ICG and NW Connections
- e. Rock Island Lines Diagram, Gross Tonnage Moved Daily, 1977
- f. Union Pacific Railroad Co. Map of the Kansas City Terminal Area
- g. BN, MILW and CNW/ROCK Mainline Trackage Between the Twin Cities and Kansas City

JDD/jmz

1308A/D0063A

Steps to be Taken

Advise trustee of strength of Soo offer. Seek postponement of March 15 date or in alternative appear before court to indicate size of offer and comparison with C&NW agreement.

Obtain ICC approval to negotiate without competitive bidding financing terms.

Negotiate agreement with Iowa DOT for manner in which state funding will be applied and repaid.

Contact Minnesota and Missouri DOT to advise and seek support.

Negotiate with KCS and Milwaukee for terms of entry into Kansas City.

Arrange for transfer of Rock Island trackage right to Soo.

File with ICC request for authority to acquire lines.

Negotiate financing with banks including possibly Bank for Cooperatives.

Secure indications of shipper support. *N.*

Contract with Des Moines citizen group. *N.*

Contact state and federal legislators. *N.*

File application for financing with IRFA.

File application for federal rehabilitation funds (\$15 million) with FRA.

Clarify role of Illinois Central in providing service to *Nb*
Royal Palmer Manson segment.

Prepare purchase agreement following terms of C&NW contract.

Rock Island Acquisition

Steps taken to date following CNW agreement.

With Iowa DOT:

Advised Soo could support offer of up to \$60 million on basis of own traffic study.

Tentatively agreed that offer to trustee should be \$80-81 million to be successful in light of C&NW offer of \$76.3 million and top credit authorization of \$80 million.

DOT advised it has expectation of \$7.5 million in property tax payments by Rock Island trustee which might be applied after "friendly" law suit authorizes.

Further \$2 million owed by Rock Island on track improvement loans might be applied.

W/ is for Number 2
Approximately \$8 million has accumulated from diesel fuel tax which is tied up in courts.

Final resolution of fuel tax case would give IRFA bonding authority up to \$100 million.

Proposed two tranches of \$20-21 million Iowa public support.

- (1) Include \$10-11 million in Des Moines property in bid to be taken out by Des Moines business group who would be ultimately reimbursed through IRFA purchase plus sales of parcels not needed for railroad purposes. Ⓢ
- (2) Include \$10 million to be funded ultimately by IRFA either on a loan to Soo repayable without interest and after 10 years or traffic related payback. Ⓢ

Endeavor to have legislature appropriate \$10 million in anticipation of funds coming to IRFA from various sources.

With Des Moines group:

Met with shipping and public interests.

Fred Weitz

Des Moines Contractor *↗*

Tom Urban

Pioneer Seed Com. Chairman

Maytag

James W. Hubbell

Real Estate developer.

Encourage idea that preservation of East-West corridor is not consistent with C&NW acquisition.

Desirability of strong railroad serving Iowa in competition with C&NW.

Manner in which funds might be generated to be made by Des Moines interests.

With IRFA:

Filed preliminary application for \$21 million.

Hearings on March 8 gave support to Soo proposal and authorized DOT to negotiate with Soo.

With Trustee:

Advised trustee on February 18 of possible Soo interest in making further proposal.

Was told contract with C&NW has escape clause if better offer received.

Approval of contract with C&NW noticed for hearing March 15.

Soo Stmt. in RI directed service hearing

Island also switches a refinery at St. Paul Park, Minnesota, approximately two miles east of its Inver Grove Yard on behalf of Soo Line.

Between Inver Grove Yard and the south bank of the Mississippi River at St. Paul, Rock Island has a spur line which provides access to a number of industries along the Mississippi River, the Riverview Industrial Park of the city of St. Paul, and important loading docks of the American Hoist & Derrick Company.

During twelve months ending July 31, 1979, Soo Line interchanged the following carloads with Rock Island:

At Twin Cities

| | <u>Carloads</u> | <u>Soo Revenues</u> |
|--------------------|-----------------|---------------------|
| Soo to Rock Island | 9,000 | \$4,198,648.39 |
| Rock Island to Soo | <u>3,800</u> | <u>1,604,159.47</u> |
| Total | 12,800 | \$5,802,807.86 |

At Chicago

| | | |
|--------------------|--------------|-------------------|
| Soo to Rock Island | 1,700 | \$ 951,614.49 |
| Rock Island to Soo | <u>1,300</u> | <u>611,459.35</u> |
| Total | 3,000 | \$1,563,073.84 |
| Grand Total | 15,800 | \$7,365,881.70 |

The principal commodities delivered by Soo Line to Rock Island during that time were liquified petroleum gas, potash and other fertilizers, grain for domestic processing and export via Texas Gulf ports, lumber and sulphur from western Canadian origins.

Principal commodities delivered by Rock Island to the Soo Line at the Twin Cities are: corn for export via Twin

ADVANTAGES OF SUCH A SYSTEM.

- ACCESS TO KANSAS CITY INTERCHANGE, THE SOO IS THE ONLY UPPER MIDWEST RAILROAD WITH NO SUCH ROUTE. BOTH OF THE SYSTEMS THAT WILL SURVIVE THIS PRESENT CRISIS, BN + C+NW, HAVE THEIR OWN ROUTES TO KANSAS CITY. NOW BOTH ARE TRYING TO LINE UP THEIR OWN ROUTES TO MOVE IOWA + MINNESOTA CORN + SOYBEANS TO THE GULF PORTS WHERE IT IS EXPORTED. BN IS DOING THIS THROUGH ITS MERGER WITH THE FRISCO, C+NW THROUGH ITS CLOSE AFFILIATION WITH THE EMERGING UP-MOPAC-WP SYSTEM. C+NW HAS MENTIONED AN INTEREST IN THE ROCK ISLAND ROUTE FROM KANSAS CITY TO THE GULF, BUT DUE TO LACK OF FUNDS IT IS CONCENTRATING ITS EFFORTS ON GAINING A MONOPOLY ON IOWA GRAIN AND RELYING ON THE UP-MOPAC-WP TO PROVIDE A GULF GRAIN ROUTE.
- APPROXIMATELY $\frac{1}{3}$ OF SOO POTASH TRAFFIC GOES OFFLINE AT THE TWIN CITIES FOR IOWA POINTS. IF A REGIONAL DISTRIBUTION CENTER WERE ESTABLISHED ON THE SOO IN IOWA, THIS WOULD ASSURE US OF A LONGER HAUL FOR OUR POTASH TRAFFIC AND THAT WE WOULD BE ABLE TO DIVERT THE POTASH THAT IS PRESENTLY MOVING FROM THE SOO TO THE MILW, + C+NW ^{AT MINNEAPOLIS} BACK ONTO THE SOO.
- THE TWIN CITIES - KANSAS CITY MAINLINE LINKED UP WITH THE PROPOSED SYSTEM OF GRAIN GATHERING FORMER RI, MILW, + ICG BRANCHLINES PUTS THE SOO IN A STRONG POSITION IN MOVING IOWA GRAIN TO GULF PORTS. THESE LINES COMBINED WOULD MOVE ABOUT 60% OF IOWA'S GRAIN CROP. THE C+NW PRESENTLY MOVES 40%. THE C+NW CONSIDERS THIS TRAFFIC HIGHLY PROFITABLE.

C+NW AND RI MOVE MUCH OF THIS GRAIN IN UNIT TRAINS.

THE TRAINS VARY FROM 25 TO 75 CARS. 25 CAR TRAINS ARE CONSOLIDATED INTO 75 CAR TRAINS BEFORE MOVEMENT TO THE GULF. THE TRAIN IS BROUGHT TO THE ELEVATOR. FROM HERE ON SWITCHING THE CARS AND LOADING THE TRAIN IS THE ELEVATORS RESPONSIBILITY.

THE ELEVATOR HAS ONE DAY TO LOAD THE TRAIN. WHEN THAT TIME IS UP, IF THE WHOLE TRAIN IS NOT LOADED, THE ELEVATOR OPERATOR PAYS ONE DAYS DEMURAGE ON THE WHOLE TRAIN! THE

RATES ARE MADE WITH THE UNDERSTANDING THAT THE TRAIN WILL MOVE AS A UNIT FROM IOWA TO THE PERSCRIBED GULF PORT DESTINATION AND RETURN.

NO TRANSITING, INSPECTION, OR HOLDING IS ALLOWED. THIS MAKES FOR A REAL IMPROVEMENT ON TRANSIT TIMES AND CAR UTILIZATION. ON THE C+NW

ELEVATORS MUST CONTRACT FOR A MINIMUM OF 5 UNIT TRAINS A SEASON IN ADVANCE TO GET THESE LOWER RATES. SOME LOCATIONS GENERATE AS MANY AS 40, 75 CAR UNIT TRAINS A SEASON. CAR TURNAROUND INFORMATION FROM THE GULF PORTS IS SKETCHY BUT 10-20 DAYS SEEM TO REFLECT THE EXTREMES.

MUCH OF THIS GRAIN IS ORIGINATING IN CENTRAL AND NORTH WEST IOWA. AT SMALL TOWNS OF 800 POPULATION IT IS NOT UNUSUAL TO SEE MASSIVE CEMENT ELEVATORS LOADING 75 CAR UNIT TRAINS, WITH SIMILAR SIZED NEW ELEVATORS LOADING 30 CARS ONLY 8-10 MILES AWAY. GRAIN EAST OF A LINE BETWEEN MASON CITY AND DES MOINES GENERALLY MOVES BY TRUCK TO BARGE TERMINALS ON THE MISSISSIPPI RIVER. EAST OF THIS LINE RAIL MOVEMENT OF GRAIN IS ALMOST NONEXISTANT, EXCEPT WHERE RAILROADS HAVE TAILORED THEIR SERVICE TO REPLACE THE TRUCKS IN HAULING GRAIN TO THE RIVER. THE MILWAUKEE HAS DONE THIS BETWEEN MASON CITY AND MARQUETTE/MCGREGOR.

EXAMPLES OF RATES WERE 78.5 \$/cwt. ON A C+NW UNIT TRAIN DES MOINES - HUSTON IN THE FALL OF 1979. THIS IS 22% LESS THAN SINGLE CAR SHIPMENTS. THIS EQUATES TO \$1570 VS. \$2013 RESPECTIVELY. ON THE RI A 75 CAR UNIT TRAIN FROM WEST BEND TO THE GULF IN THE FALL OF 1978 GENERATED SOMETHING OVER \$1350 A CAR. IN THAT SECTION OF NORTH WEST IOWA RI GENERATES 30,000 CARLOADS A YEAR OF MOSTLY GRAIN.

— SUCH A SYSTEM NOT ONLY WOULD PUT THE SOO INTO NEW MARKETS FOR THE COMMODITIES IT PRESENTLY KNOWS HOW TO HANDLE (GRAIN, AND POTASH), BUT WOULD PUT THE SOO INTO A WHOLE NEW MARKET THAT IS, LIKE GRAIN, NOT DEPEDENT ON CANADIAN TRAFFIC; CHICAGO-OMAHA. HERE THE TRAFFIC STILL TENDS TO BE EAST WARD BUT IS MUCH MORE BALANCED BETWEEN EAST AND WEST THAN THE SOO IS PRESENTLY. IT IS IN THIS MARKET AND A CONNECTION WITH THE UP AT FREMONT, NEBRASKA THAT THE C+NW HAS GAMBLLED MOST OF ITS CHIPS, WHY? THIS CORRIDOR HAS ALWAYS KEPT THE REST OF THE C+NW AFLOAT AND A CLOSE COLABORATION WITH THE UP HAS CAUSED MOST UP TRAFFIC TO FLOW ONTO THE C+NW FORCING THE BANKRUPTCY OF ITS COMPETITORS IN THIS CORRIDOR: MILW, + RI.

THE TRAFFIC ON THIS CORRIDOR APPEARS TO COVER A BROAD BASE OF MANUFACTURED GOODS AS WELL AS SODA ASH, TOFC/COFC, AND FUTURE COAL MOVEMENTS. THE CORRIDOR LINKS CHICAGO WITH THE MAJOR WEST COAST TRAFFIC CENTERS IN THE PACIFIC NORTHWEST AND CALIFORNIA (LOS ANGELES, AND SAN FRANCISCO). THIS MARKET SHOULD EXPERIENCE SIGNIFICANT GROWTH IN TRAFFIC. UP HAS ESTIMATED THAT IT WILL SEE A 100% GROWTH IN TRAFFIC TO AND FROM THE PACIFIC NORTHWEST BY 1990.

OBVIOUSLY, WITH THE C&NW SO CLOSELY AFFILIATED WITH THE UP, THE SOO COULD NOT EXPECT TO GET SUBSTANTIAL AMOUNTS OF TRAFFIC FROM THE UP. HOWEVER, THE SOO COULD STILL PARTICIPATE IN THIS MARKET AND ITS FUTURE GROWTH BY CONNECTING ANOTHER RAILROAD TO CHICAGO.

THE RIO GRANDE WHICH OPERATES BETWEEN OGDEN AND DENVER IS SEEKING TO PURCHASE THE RI LINE FROM DENVER TO OMAHA/KANSAS CITY. ALTHOUGH THEY HAVE SERIOUSLY DISCUSSED BUYING THE RI ALL THE WAY TO CHICAGO THEY RECENTLY SEEM TO BE CONTENT WITH STOPPING AT OMAHA. THIS COULD BE THE CASE FOR A NUMBER OF REASONS:

- TOO MUCH NEW RAILROAD TO TAKE ON ALL AT ONCE.
- LIMITATIONS ON FUNDS (ALTHOUGH DOUBTFUL).
- RI REFUSAL TO SELL ALL THE WAY TO CHICAGO. (LIKELY)
- OR PLANS TO DIVERT MOST TRAFFIC TO KANSAS CITY. (THIS WOULD HAVE TO BE CHECKED INTO.)

WITH THE C&NW-UP RELATIONSHIP AND THE BN OWNING ITS OWN ROUTE FROM CHICAGO TO DENVER THE ONLY FRIENDLY CONNECTION THE RIO GRANDE WOULD HAVE AT OMAHA WOULD BE THE ICG OR THE SOO. SINCE THE CHANCES OF THE ICG SURVIVING THE NEXT 5 YEARS APPEAR DOUBTFUL THAT WOULD LEAVE JUST THE SOO.

THE TRAFFIC GROWTH WOULD COME FROM THE RIO GRANDE'S COAL AND THE SP, WHOM WITH THE UP-UP ALLIANCE WILL PROBABLY START ROUTING MORE TRAFFIC TO THE RIO GRANDE AT OGDEN. SP HAS SIGNIFICANT GATHERING POWER FOR TRAFFIC IN CALIFORNIA AND IN THE PACIFIC NORTH WEST.

- ANOTHER FACTOR WHICH WILL SERVE TO INCREASE TRAFFIC IS THAT THE MILW. WILL NO LONGER BE COMPETING IN THESE MARKETS. IF THE SOO WERE TO GET ALL OF THIS BUSINESS IT WOULD DOUBLE THE MGTM DENSITIES OF BOTH THE TWIN CITIES - KANSAS CITY AND CHICAGO - OMAHA RI ROUTES. THIS WOULD MAKE THEM COMPARABLE TO OUR TWIN CITIES - CHICAGO ROUTE. THESE DENSITIES WOULD BE APPROACHING 20 MGTM.
- THIS BRANCHLINE SYSTEM, UNLIKE THE MAZE THE C+NW HAS TO WORK WITH, WOULD BE FAIRLY SIMPLE TO OPERATE. ALL ROUTES FLOW DIRECTLY ONTO THE MINNEAPOLIS - KANSAS CITY SPINE.
- THE STATE OF IOWA DURING THE 1970'S HAS DEVELOPED A VERY REALISTIC AND PROGRESSIVE POLICY TOWARDS RAILROADS. IT IS VERY SELECTIVE IN THE RAILROAD ABANDONMENTS THAT IT OPPOSES, IN RECOGNITION OF THE SUBSTANTIAL EXCESS RAIL CAPACITY IN THE STATE. IOWA IS NOW VERY EAGER TO HAVE A WELL RUN PROFITABLE RAILROAD COME INTO THE STATE AND OPERATE THE ROCK ISLAND LINES. IOWA DOES NOT WANT A LARGE SYSTEM SUCH AS THE BN BECAUSE THEY DO NOT FEEL SUCH A SYSTEM WOULD BE DEPENDENT ENOUGH ON IOWA TO CATER TO IOWA'S NEEDS. THIS IS WHY THEY HAVE BEEN SO SUPPORTIVE OF KCS'S PROPOSAL TO BUY THE ROCK ISLAND EAST OF OMAHA AND NORTH OF KANSAS CITY. THIS PROPOSAL HAS BEEN DISCUSSED IN DES MOINES SINCE SEPTEMBER.

KCS ORIGINALLY WAS JUST INTERESTED IN REACHING CHICAGO FROM KANSAS CITY. THIS WOULD MAKE THEM COMPETITIVE WITH THE MO-PAC AND ICG WHICH CONNECT TEXAS AND NEW ORLEANS. NOW KCS IS INTERESTED IN SECURING FOR ITSELF MORE OF THE IOWA GRAIN THAT IT ALREADY HANDLES FROM KANSAS CITY TO THE GULF PORTS OF BEAUMONT, TEXAS AND NEW ORLEANS. PRESENTLY KCS PROBABLY HANDLES THE SMALLEST AMOUNT OF K.C. - GULF GRAIN. C+NW GRAIN FLOWS PRIMARILY ONTO THE MO-PAC AND SANTA FE SYSTEMS AT K.C. WITH A SMALLER AMOUNT GOING TO THE KCS. RI HAS ITS OWN ROUTE TO DALLAS-HUSTON-AND GALVESTON, A ROUTE WHICH NOW MAY BE CONSIDERED EXCESS AND BECOME A BRANCH LINE OF THE SANTA FE OR MO-PAC SYSTEMS. THE KATY (M-K-T) ALSO HANDLES A SMALL AMOUNT. WITH THE BN-FRISCO MERGER PROTECTED TO DIVERT 15-20% OF KATYS BREAK-EVEN POINT REVENUES, IT IS UNLIKELY THAT THE KATY WILL SURVIVE THE CURRENT SHAKEUP. IT MIGHT BE TO THE KCS'S ADVANTAGE TO GAIN A GREATER FOOTHOLD IN TEXAS AND ENTRY TO ST. LOUIS VIA THE KATY.

THE KCS MANAGEMENT TEAM SEEMS TO BE INTENT ON REBUILDING AND EXPANDING THE RAILROAD, AND REMAINING AS AN INDEPENDENT IN THE CURRENT INDUSTRY SHAKEUP. IF THE SOO WERE TO WORK WITH THE KCS BY ALLOWING IT TO ACQUIRE THE RI KC-CHICAGO MAINLINE AND DESIGNATING IT TO BE THE SOO'S MAJOR CONNECTION FOR GRAIN TO THE GULF, KCS COULD CONCENTRATE ITS EFFORTS

ON STRENGTHENING ITS ACCESS TO THE TEXAS GULF PORTS, TO THE SOO'S LONG TERM ADVANTAGE. WITH THE C&NW - MO PAC AFFILIATION THE SANTA FE WOULD BE SOO'S ^{ONLY} OTHER INDEPENDENT CONNECTION TO THE GULF PORTS.

WITH THIS KIND OF STRATEGY THE SOO MIGHT BE ABLE TO CONVINCE THE KCS AND IOWA THAT THE SOO SHOULD OWN THE RI LINES IN THE STATE.

- ANOTHER ADVANTAGE TO IOWA IS THAT NOT ONLY DOES THE STATE VERBALLY SUPPORT RAILROADS, BUT IT PUTS ITS MONEY WHERE ITS MOUTH IS. THE STATE LOANS MONEY TO HELP RAILROADS REBUILD BRANCHLINES. THE MONEY COMES IN EQUAL AMOUNTS FROM STATE, SHIPPERS, AND RAILROADS. WITH THIS SYSTEM, SHIPPERS HAVE A FINANCIAL STAKE IN MAKING SURE THAT THEIR BRANCHLINE SUCCEEDS. MANY OF THE RI + MILW ^{BRANCH-} LINES PROPOSED TO BE INCLUDED IN THIS SOO SYSTEM HAVE ALREADY BEEN REBUILT IN THIS WAY DURING THE LAST 5 YEARS.
- THE ICG ROUTE ACROSS THE STATE APPEARS TO BE IN EXCELLENT CONDITION AND TO HAVE A REASONABLE AMOUNT OF SIOUX CITY AND LOCALLY GENERATED TRAFFIC. IF THE ICG COLLAPSES IN THE NEXT 5 YEARS THIS LINE MAY BECOME AVAILABLE. IT WOULD JUST ADD MORE TRAFFIC FOR THE TWIN CITIES - K C SPINE.

PROBLEMS & DISADVANTAGES

- DOUBLING SOO'S REVENUES AND INCREASING ITS SIZE 50% OVER NIGHT:

THIS CERTAINLY IS A MAJOR PROBLEM. GOOD PLANNING AND FINANCIAL ANALYSIS WILL BE AN ABSOLUTE NECESSITY, AND THE SOO WILL HAVE A VERY LATE START ON OTHER CONTENDERS. BUT THE SOO DOES HAVE A VERY GOOD REPUTATION AND GOOD FINANCIAL STATEMENTS COMPARED TO THE OTHERS.

THE PRACTICAL PROBLEMS OF WELDING TOGETHER LINES THAT WERE NOT FORMERLY CONNECTED, FINDING EQUIPMENT, AND PERSONNEL TO RUN SUCH A SYSTEM IN ONLY A FEW MONTHS MAY BE INSURMOUNTABLE. FUNDING FOR DIRECTED SERVICE ON THE RI RUNS OUT ON EITHER APRIL OR JUNE 1.

MILW LINES WILL HAVE TO BE LINKED TO THE RI AT ALBERT LEA, MASON CITY, & DES MOINES. LINKS ALREADY EXIST AT DAVENPORT, SPENCER, AND WEBB.

EQUIPMENT & PERSONNEL WOULD HAVE TO COME LARGELY FROM THE ROCK ISLAND. RI HAS A SUBSTANTIAL FLEET OF COVERED HOPPERS (7500) 1000 OF WHICH WERE LEASED IN 1978. 1000 NEW BOX CARS, 300 OPEN TOP HOPPERS, 200 GONS, 229 AUTO RACKS ARE SOME OF THE NEW CARS LEASED

(9)

IN THE LAST 3 YEARS.

SINCE 1976 ROCK ISLAND HAS PURCHASED ABOUT 80 GP-38'S AND HAS REBUILT 132 UNITS (MOSTLY GP-9'S). IN MID-1979 ROCK HAD ON ORDER 39 GP-38'S, 15 SD40-2'S, AND 25 MP15AC SWITCH ENGINES FOR MID-1980 DELIVERY FROM EMD. THESE ORDERS MAY STILL BE ON THE BOOKS AT EMD. ALTHOUGH THE RI HAS NOT BEEN KNOWN FOR SPECTACULAR LOCO MAINTENANCE, THESE UNITS ARE STILL QUITE NEW AND, WITHOUT DYNAMIC BRAKING, MAY BE RELATIVELY COMPATIBLE WITH SOO UNITS.

A CRITICAL YARD FOR THE NEW SYSTEM WOULD APPEAR TO BE GAINING ACCESS TO MILW'S BENSENVILLE YARD ADJACENT TO SCHILLER PARK IN CHICAGO. MILW ALSO HAS A SUBSTANTIAL GLENWOOD TYPE YARD AT SAVANNA. THE RI YARD AT DES MOINES IS A FLAT YARD WITH ABOUT 30, 50 CAR TRACKS. COUNCIL BLUFFS IS A SMALL YARD SINCE MOST TRAINS ARE RUN-THRU'S AND LITTLE SWITCHING IS PERFORMED. AT KANSAS CITY THE MILW + KCS YARDS ARE ADJACENT TO ONE ANOTHER ON THE EAST SIDE OF THE CITY ALONGSIDE THE RI MAINLINE. RI ALSO HAS THE ARMOURDALE HUMP YARD ON THE WEST SIDE OF TOWN.

- FINANCING WOULD BE ANOTHER CHALLENGE. THE SOO'S EXCELLENT RECORD WILL HELP. MOST RI EQUIPMENT IS LEASED SO THIS COULD BE AN EXPENSIVE PROBLEM.

THE RI ESTIMATES THAT ABOUT \$200 MILLION OF ITS REVENUES ARE EARNED NORTH OF K.C. IF THE KCS OWNED THE CHICAGO-KC CORRIDOR AND THE NORTHERN MILW LINES ARE INCLUDED PERHAPS THIS WOULD DROP TO \$150 MILLION. ROCK VALUES THIS PROPERTY AT ABOUT \$200 MILLION FOR 1900 MILES. TAKING OUT CHICAGO-KC THIS ALSO MIGHT DROP TO \$150 MILLION.

THIS STILL SEEMS TO BE A HIGH COST PER MILE
 CONSIDERING SP'S OFFER OF \$57 MILLION FOR
 960 MILES OF RI MAINLINE TO ST. LOUIS, OR
 ABOUT \$60,000 A ROUTE MILE.
 REHABILITATION IN THE EARLY YEARS OF THE SYSTEM
 WOULD BE NECESSARY, PRIMARILY ON THE MAIN LINES.
LONG TERM

- THE SOO THROUGHOUT ITS HISTORY IN THIS CENTURY HAS NEVER BEEN AN OVERLY PROFITABLE RAILROAD EXCEPT FOR THE LAST 10-15 YEARS. GRAIN ALWAYS WAS THE PROFITABLE BACK BONE OF THE SYSTEM. IN THE LAST TWO DECADES, SOO'S CANADIAN-US TRAFFIC HAS GROWN CONSIDERABLY, ESPECIALLY POTASH. THIS HAS PUSHED THE SOO'S TRAFFIC LEVELS PAST THE BREAK EVEN POINT. BUT CAN WE ALWAYS RELY ON CANADIAN TRAFFIC TO STAY AT THESE HIGH LEVELS?

A MOVE SUCH AS PROPOSED WOULD PUT US INTO TWO NEW MARKETS THAT ARE NOT DEPENDENT ON CANADA: IOWA-GULF GRAIN AND CHICAGO-OMAHA MERCHANDISE TRAFFIC.

ALSO WITH THE MERGERS SHAPING UP NOW MOST ROADS WEST OF THE MISSISSIPPI WILL LIKELY FALL INTO ONE OF FOUR CAMPS: UP, SP, BN, OR SANTA FE. THE ONLY SOO SIZED ROADS THAT UP UNTIL NOW SEEM TO BE DETERMINED TO AT LEAST TRY GOING IT ALONE ARE THE SOO, RIO GRANDE, AND KCS. THE ROCK ISLAND IS THE KEY THAT CAN BRING THESE INDEPENDENTS TOGETHER. IT WILL GIVE THEM THE OPPORTUNITY TO REMAIN INDEPENDENT AND STILL HAVE A WORKING RELATIONSHIP THAT WILL ALLOW EACH TO REACH AND TIE TOGETHER THE MARKETS WHICH ARE CRITICAL TO EACH'S CONTINUED SUCCESS.

IF THE BIG FOUR WESTERN SYSTEMS WERE EVER TO PROVE TO BE A SIGNIFICANT THREAT, THE WAY WOULD BE OPEN FOR THE THREE TO MERGE ON THEIR OWN AT SOME TIME IN THE DISTANT FUTURE.

THE SOO HAS LOOKED AT KANSAS CITY TWICE IN THE LAST TWO DECADES. ONCE AT THE CHICAGO GREAT WESTERN IN 1964. THE CGW HAD A BEAUTIFUL ROUTE STRUCTURE TIEING TOGETHER OMAHA, K.C., TWIN CITIES AND CHICAGO WITH A CLEAN SYSTEM OF ONLY MAIN LINES. THERE WERE ONLY A FEW PROBLEMS: THE SYSTEM WAS IN AN EXTREME STATE OF DEFERRED MAINTENANCE AND THE TRAFFIC LEVELS WAS SO SMALL AS TO BE NONEXISTANT. GIVEN THE SOO'S OWN SITUATION AT THAT TIME THE COMPANY WISELY CHOSE TO PASS UP THE CGW.

IN 1976 THE SOO, IN RESPONSE TO A POSSIBLE BN - MILW MERGER, CONSIDERED RUNNING OVER THE MILW TO KANSAS CITY. THIS WAS A POOR "AROUND THE HORN" ROUTE TWISTING DOWN THE MISSISSIPPI RIVER VALLEY THROUGH LA CROSSE AND SAVANNA ON A RICKETY, WINDING ROADBED THAT HADN'T SEEN ANY REALIGNMENT SINCE IT WAS LAID DOWN IN THE 1860'S. FORTUNATELY NOTHING CAME OF THIS EITHER.

NOW, WE MAY LOOK AGAIN. CONDITIONS HAVE CHANGED. FEWER RAILROADS WILL BE SERVING THIS MARKET. POTASH AND GRAIN TRAFFIC ARE NOW MOVING IN THIS AREA. AND NOW WE HAVE THE OPPORTUNITY TO PURCHASE A REAL RAILROAD THAT CLEANLY SERVES THE MAJOR AND GROWING MARKETS OF THE AREA. IT IS AN OPPORTUNITY THAT WILL NOT LIKELY COME AGAIN IN THIS CENTURY.

ROUTE MILES

| | <u>Miles</u> |
|--|--------------|
| <u>Main Line</u> | |
| Shoreham, MN - MN&S Jct. (SOO) | 6.4 |
| MN&S Jct. - Northfield (MNS) | 46.3 |
| Northfield - Comas (MILW) | 6.9 |
| Comas - Northwood, Iowa | 70.0 |
| Northwood - Clear Lake Jct. (Mason City) (CNW) | 21.8 |
| Clear Lake Jct. - Polo, MO | 287.4 |
| Polo - West Wye Tower (Kansas City) (RI-MILW) | <u>42.5</u> |
| Subtotal | 481.3 ✓ |
| <u>Kansas City Terminal</u> | |
| Freight Line Jct. - Air Line Jct. (RI-MILW) | 0.4 |
| KCS Jct. (RI-MILW-KCS) | <u>0.1</u> |
| Subtotal | <u>0.5</u> |
| Total | 481.8 |
| <u>Indianola Branch</u> | |
| Carlisle, Iowa - Indianola | <u>11.3</u> |
| Total | 493.1 |
| <u>Iowa Falls Gateway Branches</u> | |
| Iowa Falls - Estherville | 109.5 |
| Dows - Forest City | 44.3 |
| Estherville - Occheyedan | 39.1 |
| Estherville - Rake | <u>50.6</u> |
| Subtotal | <u>243.5</u> |
| TOTAL | 736.6 |

NOTE: Trackage rights in the Kansas City terminal beyond the joint MILW-RI track are not include in the above route miles.

YARDS AND SIDINGS

| | <u>Miles From Shoreham</u> | <u>Feet</u> |
|---|--------------------------------|-----------------|
| Kasper, MN | 70.6 | 5,988 |
| Owatonna | 81.8 | 6,210 |
| Ellendale | 97.4 | 6,155 |
| Clarks Grove | 105.2 | 7,109 |
| Albert Lea | 112.8 | Yard |
| Gordon | 124.6 | 6,076 |
| Manly, IA | 140.4 | Yard |
| Sheffield | 168.0 | 6,111 |
| Argon (Iowa Falls) | 194.3 | Yard |
| Buckeye | 205.0 | 6,171 |
| Avon (Des Moines) | 275.7 | Yard |
| Carlisle | 277.8 | 5,700 |
| Beech | 289.7 | 7,138 |
| Williamson | 312.6 | 6,339 |
| Millerton | 331.3 | 6,160 |
| Allerton | 342.9 | 15,600 |
| Mercer, MO | 361.0 | 6,069 |
| Princeton | 370.3 | 5,059 |
| Mill Grove | 376.2 | 7,031 |
| Trenton | 392.3 | Yard |
| Coburn | 403.3 | 14,617 |
| Lock Springs | 413.1 | 6,058 |
| Nettleton | 421.8 | 6,207 |
| Polo | 438.8 | 6,051 |
| Polo to Drawbridge (Kansas City) | 479.5 | Double Track |
| Drawbridge | 479.5 | Single Track |
| Drawbridge to West Wye Tower | 481.3 | Double Track |
| West Wye Tower (KCS-MILW Joint Agency) | 481.3 | Yard |
| Freight Line Jct. to Air Line Jct. | 481.4 | Double Track |

ACQUISITIONS

| | <u>Miles</u> |
|---|--------------|
| <u>Main Line</u> | |
| Comas - Northwood, Iowa | 70.0 |
| Clear Lake Jct. (Mason City) - Polo, MO | 287.4 |
| Polo - West Wye Tower (Kansas City) (RI-MILW) | <u>42.5</u> |
| Subtotal | 399.9 |
| <u>Kansas City Terminal</u> | |
| Freight Line Jct. - Air Line Jct. (RI-MILW) | 0.4 |
| KCS Jct. (RI-MILW-KCS) | <u>0.1</u> |
| Subtotal | <u>0.5</u> |
| Total | 400.4 |
| <u>Indianola Branch</u> | |
| Carlisle, IA - Indianola | <u>11.3</u> |
| Total | 411.7 |
| <u>Iowa Falls Gateway Branches</u> | |
| Iowa Falls - Estherville | 109.5 |
| Dows - Forest City | 44.3 |
| Estherville - Ocheyedon | 39.1 |
| Estherville - Rake | <u>50.6</u> |
| Subtotal | <u>243.5</u> |
| Total | 655.2 |

CNW LEASE

As of February 28, 1982, the CNW was leasing 841.9 miles of RI track and trackage rights for a monthly rental of \$480,982.

On June 1, 1982, the Iowa Railroad commenced operations on 95.4 miles of this track, and the CNW withdrew. This track included Dexter to West Des Moines (29.7 miles), East Des Moines to Newton (28.3 miles), and Altoona to Pella (35.9 miles). Presumably the CNW lease has been adjusted accordingly. The Iowa Railroad is also operating over 12.5 miles of track from West Des Moines to East Des Moines on which the CNW is still operating and on which the CNW has the right to serve industries. Except for about 0.6 miles of track required to gain access to the Iowa Transfer Railway, all this track, totaling 106.4 miles, is not currently under consideration for acquisition by the Soo.

There are seven other portions of the RI currently under this lease and being operated by the CNW that are not currently of interest to the Soo.

1. Rock Jct.-Inver Grove-Northfield, Minnesota (36.0 miles, including 19.9 miles of trackage rights on the MILW between Rosemont and Northfield)
2. Rake, Iowa to Bricelyn, Minnesota (7.1 miles)
3. Palmer to Royal, Iowa (47.1 miles)
4. Cedar Rapids to Cedar Rapids Bridge, Iowa (4.3 miles)
5. At Omaha, Nebraska (2.0 miles)
6. At Sibley, Iowa
7. At Worthington, Minnesota

The CNW is leasing one other property from the Trustee. The CNW is paying \$7,000 monthly rental for 6.5 miles of Peoria Terminal Company Track from Iowa Jct. through Hollis, Illinois to the Illinois River Bridge.

Back DISTANCES TO KANSAS CITY FROM WESTERN CANADA

| <u>From</u> | CP SOO Chicago <u>ATSF</u> | CN DWP MILW <u>Chicago</u> | CN DWP MILW <u>Direct</u> | CP SOO MPLS <u>RI</u> |
|-------------|-------------------------------------|-------------------------------------|------------------------------------|--------------------------------|
| Calgary | 2,051 | 2,299 | 2,049 | 1,632 |
| Edmonton | 2,245 | 2,229 | 1,979 | 1,826 |
| Winnipeg | 1,354 | 1,538 | 1,288 | 935 |

DISTANCES FROM SAULT STE. MARIE TO KANSAS CITY

SOO
Chicago
ATSF

1,008

SOO
MPLS
RI

988

SUMMARY OF SALES OF RI LINES

TUCUMCARI - ST. LOUIS, MISSOURI

In July 1980, the St. Louis Southwestern Railway Company (SSW), a subsidiary of Southern Pacific Transportation Company purchased the RI line from Santa Rosa (Tucumcari), New Mexico via Kansas City to St. Louis, Missouri, 965.2 miles, and a branch to Dodge City, Kansas, 26.5 for \$57 million. This averages \$57,477 per mile. The route includes trackage rights on the UP from North Topeka to Kansas City, Kansas, a portion of the Armourdale Yard in Kansas City, and the RI interest in the Kansas City Terminal Railway Company. The RI Trustee reserved a portion of the large Armourdale Yard facility for sale to other potential entrants to Kansas City via former RI lines. The ICG is also interested in moving their Kansas City terminal operations to this facility.

As far as is known, the terms between the RI Trustee and the SSW cash on closing.

The SSW has completed a major rehabilitation effort on the trackage between Tucumcari and North Topeka and in the Armourdale Yard. The SSW spent \$97 million on 545 miles upgrading to Class Five track with 60 m.p.h. throughout with 70 m.p.h. on 200 miles continuously welded rail, including 50 miles new 136 lb. rail. The project also includes 80 miles of CTC installation. Half of the funding was a low interest loan from the FRA.

OKLAHOMA-KANSAS-TEXAS (OKT)

In May 1982, the RI Trustee sold 630 miles of track from Salina, Kansas to Dallas, Texas to a consortium consisting of the Missouri-Kansas-Texas Railroad Company, the Oklahoma-Kansas-Texas Rail Users Association and the State of Oklahoma for \$55 million. This purchase averages \$87,300 per mile.

The State of Oklahoma put up \$15 million for 348 miles in Oklahoma. The OKT Rail Users Association put up \$25 million for 242 miles from Salina to the Kansas-Oklahoma border and from the Oklahoma-Texas border to Fort Worth. The MKT put up \$15 million for perpetual and exclusive local freight service operating easement over 34 miles between Fort Worth and Dallas. On this latter segment, the Trustee retained title and all rights including passenger transportation easement, overhead freight, air, mineral, and parallel and crossing easements.

The sale also included trackage rights on the UP between Salina to Abilene, Kansas, the RI interest in the Wichita Union Terminal Company and the Wichita Terminal Association, the line from El Reno to Oklahoma City, Oklahoma, including RI interest in the Oklahoma Railways and the Oklahoma City Junction Railway Company, and the line from Chickasha via Anadarko and Lawton to Waurika, Oklahoma. The sale also includes the yard at El Reno, exclusive of the major locomotive and car shop facilities. The Trustee reserved trackage rights for the purchase of the Ponco City branch to reach and serve the carbon-black plant at Kremlin, Oklahoma. Except as separately provided for the Fort Worth-Dallas segment, the Trustee, his successors and assigns, reserve the exclusive rights for a period of ten (10) years from date of closing to market and to receive all consideration and income derived from the lease or sale of mineral rights and the lease or sale of all forms and types of easements and licenses upon such lines, including conversion of existing licenses by sales or permanent easements, provided that such leases or sales do not unreasonably interfere with rail operations.

The MKT and OKT Rail User Association commitment will be met, at least in part, by FRA funding.

The Oklahoma-Kansas-Texas Railroad Company, and MKT subsidiary, will be the operator.

So far as is known, terms between the Trustee and the consortium are cash on closing, except for a provision for the assumption of an existing 3-R Act loan agreement between the Trustee and the FRA.

CHICAGO-HENRY, ILLINOIS

The Trustee has signed a 50 year lease with the Baltimore and Ohio Railroad Company for operations on 113 miles of track, which includes 24.5 miles of trackage rights from Blue Island to Joliet and an additional 88.5 miles of exclusive service from Joliet to Henry via Bureau. The BO is paying a \$154,318 monthly rental for the track exclusively served and a 15¢/car charge for the trackage rights between Blue Island and Joliet. The Regional Transportation Authority is also operating between Blue Island and Joliet.

The RTA has exercised its powers of eminent domain and brought suit to condemn the property over which it is operating and which will now be valued by the court.

The purchase option in the original lease has been eliminated and a cap has been set on future traffic based rental increase. The Trustee has reserved overhead rights, at least between Joliet and Bureau. Shearson/American Express, the Trustees contracted investment banker are of the opinion that the lease is readily marketable.

THE SUN BELT LINE

The States of Arkansas and Oklahoma were negotiating for purchase of the 760 mile line from Memphis, Tennessee to Amarillo, Texas. Overhead rights have been retained by the Trustee on a 62 mile segment between Elk City and Hydro that had previously been sold to the State of Oklahoma. The States had intended to lease the line to the ATSF, but negotiations for purchase terminated in February 1982 when the ATSF decided against proceeding with plans to operate the line.

The tentative purchases by the Little Rock Western Railroad of 44 miles between Pulaski and Perry, Arkansas, and the State of Oklahoma/OKT purchase between El Reno and Oklahoma City also appear to effect this route; but again, overhead rights may be retained.

MILWAUKEE ROAD ACQUISITIONS

It was reported in January 1982, that the MILW had agreed to purchase 64 miles of RI line from West Davenport to Washington, Iowa for \$14.5 million. It now appears that this agreement has been modified to include purchase of only the 38 miles between Calver (Muscatine) and Washington for \$4 million, with continuing operations between West Davenport and Calver under current lease or previous trackage rights. There is a coal burning power plant at Fruitland, between Calver and Washington.

CHICAGO AND NORTH WESTERN ACQUISITIONS

The CNW has not purchased any RI lines to date.

Aside from their lease of lines under study by the Soo, which also includes trackage at Worthington, Minnesota, Cedar Rapids and Sibley, Iowa, and Omaha, Nebraska, their only other interest appears to be in 6.5 miles of Peoria Terminal Company trackage from Iowa Jct. through Hollis, Illinois to the Illinois River bridge. The CNW is currently leasing this track for \$7,000 monthly rental.

The CNW is also understood to have made a competitive bid to gain access to the power plant at Fruitland, Iowa.

OFFERS FOR THE ROCK ISLAND KANSAS CITY LINE
(as described by the Iowa DOT)

The initial Kansas City Southern offer was \$15 million.

The initial counter offer by the Rock Island Trustee was \$260 million.

The best KCS offer was \$40 million.

The initial CNW offer was in the range of \$50 million.

The most recent CNW offer was \$65 million, which included \$7 million to be put up by shippers on the Des Moines area branch lines.

It is anticipated that the CNW will have or will shortly make a third offer, at least in part defensively from an awareness of Soo interest. This offer may be for only the Iowa Falls Gateway branches and the main line between Iowa Falls and Des Moines.

All other previous offers outlined above are believed to have been essentially the same trackage as is currently being operated by the CNW. This would include the main line from St. Paul to Kansas City, the Iowa Falls Gateway branch lines, including Rake, Iowa to Bricelyn, Minnesota, and the isolated Palmer to Royal segment, and the lines from Des Moines to Newton, Pella, Dexter and Indianola.

The Iowa DOT has sought out other investors. Currently they appear to have expressions of interest from a major cooperative, a construction contractor involved in rehabilitation projects and a car builder/lessor with private covered hopper cars currently or potentially assigned in the area. The Iowa DOT stated none of these interests have expressed a desire to retain ownership in railroad property on a long term basis.

FRA STUDY

A report entitled, "Analysis of a Coordinated Rail Transportation System for Grain between St. Paul and Kansas City," was prepared for the U.S. DOT in April 1981, by Booz-Allen & Hamilton, Inc. and Thomas K. Dyer, Inc.

This study considered the possibility of coordinating the flow of traffic of the CNW, MILW, and RI on a single line between the Twin Cities and Kansas City.

The RI route was selected in part because of its geographic location, passing through the heart of the grain producing area in southern Minnesota and northern Iowa. The RI route is also the shortest, has the most favorable gradients for southward movement (the direction in which most loaded cars move), more favorable total rise and fall and curvature, reasonably good rail, and less rehabilitation cost.

One significant reason for the lower estimate of rehabilitation cost of the RI route over those of the CNW and MILW is the lack of signaling over most of the latter routes.

Rehabilitation costs were estimated at \$53.6 million (1980 dollars). The rehabilitation estimates were based on Class Three track for 40 m.p.h. operations and included renewing one-third (1/3) of the cross ties, 20 percent of the rail, and resurfacing 80 percent of the track miles. Replacement of the remaining ties would be over 20 years, and rail over 18 years. Welded 136 lb. rail was specified for track carrying 20 million gross ton miles per year. The initial rehabilitation estimate included 59.4 miles of 136 lb. rail.

The summary of conditions on the RI line listed steel and concrete bridges as good, subgrade stable, rail and signaling fair, ties fair to poor, and timber trestles, buildings, rail anchoring, and brush control as poor.

The estimates of gross tons handled over the line in the coordinated study were three times the density anticipated in our study north of Albert Lea, four times the density between Mason City and Iowa Falls, twice the density between Iowa Falls and Des Moines, and 3.5 times the density south of Des Moines. With a new major classification yard at Nevada, Iowa where the RI line crosses the CNW Chicago-Omaha main line, densities between Iowa Falls and Des Moines would exceed three times our anticipated density.

A similar study by W. G. Richmond & Company for the Minnesota DOT, while limited to the Twin Cities-Mason City segment, also selected the RI line as preferable for many of the same reasons.

SUMMARY OF IMPROVEMENTS TO FEEDER LINES

The entire Iowa Falls Gateway trackage has received some degree of rehabilitation under the State of Iowa Branch Line Assistance Program. This includes the isolated 47.1 mile Palmer to Royal line as well as the 243.5 miles of branch line trackage currently being considered for acquisition. A project was conducted on these lines in each of the four years 1976 through 1979. Costs were shared between shippers, principally the Iowa Falls Gateway Shippers Association, the State of Iowa, and the Rock Island. Shipper and state funds are in the form of no interest loans repaid by the carrier on the basis of carloads shipped or received. Over the four years, shippers contributed \$5,218,000, the State contributed \$4,620,000, and the Rock Island contributed \$681,000, for a total of \$10,519,000. All shippers' contributions have been repaid. No projects were conducted in 1980 or 1981 as the Rock Island Trustee had been ordered to liquidate the estate and could not incur any further debt, and the CNW (which currently operates the property) has shown no interest in this program while the property is leased from the Trustee.

In 1980, it was estimated an additional \$19,436,000 expenditure for rehabilitation remained. In 1981, a \$7,000,000 project was proposed for 1982, with a further potential project of \$10,400,000.

In 1975, a \$600,000 project was conducted on the 11.2 mile Indianola branch near Des Moines. Shippers contributed \$400,000 and the State, \$200,000. This line is not currently listed as a project candidate.

CONTRIBUTIONS FROM THE IOWA DOT

The State of Iowa has enacted legislation creating the Iowa Rail Finance Authority with bonding authority of \$200 million backed by a rail diesel fuel oil tax. This funding could be used for either rail acquisition or rehabilitation. The fuel tax has been contested in suit by all of the Class I carriers operating in Iowa (ATSF, BM, CNW, ICG, MILW, NW, UP). It is anticipated that regardless of the outcome of the suit it will be appealed at least to the State Supreme Court and possibly to the Federal Supreme Court. Short run, funding from this source will not be available.

The State of Iowa Branch Line Assistance Program funding cannot be used for rail acquisition. Up to 20 percent of the funding could be used for rehabilitation of main lines. The RI north-south main line may be categorized as a branch line.

FRA FUNDS

In his comments at the Oklahoma City Conference on March 4, 1982, the Trustee stated that he had been informed by the FRA only \$38 million was available for acquisition of Rock Island lines.

It is understood from a third party that \$15 million in FRA funds had been earmarked for rehabilitation of the Rock Island lines currently leased by the CNW should they purchase these lines. Presumably, this funding would also be available for rehabilitation should Soo acquire that track, but the third party is of the opinion that these funds are not available for acquisition. The FRA has not been contacted directly to date.

The State of Iowa allocation of fiscal year 1982 FRA funding was \$3.085 million. The allocation for fiscal year 1983 is anticipated to be between \$3 - 3.5 million. These funds are available for acquisition or rehabilitation.