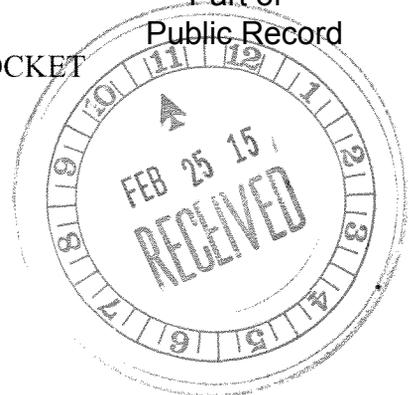


237803

BEFORE THE
SURFACE TRANSPORTATION BOARD

ENTERED
Office of Proceedings
February 25, 2015
Part of
Public Record

LONE STAR RAILROAD, INC. AND)
SOUTHERN SWITCHING COMPANY --) FINANCE DOCKET
TRACK CONSTRUCTION AND) NO. 35874
OPERATION EXEMPTION -- IN)
HOWARD COUNTY, TX)



PETITION FOR EXEMPTION

LONE STAR RAILROAD, INC.
SOUTHERN SWITCHING COMPANY
102 Willow Drive, P.O. Box 99
O'Fallon, IL 62269

Petitioners

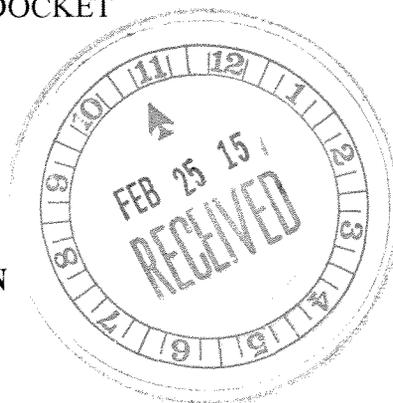
THOMAS F. McFARLAND
THOMAS F. McFARLAND, P.C.
208 South LaSalle Street, Suite 1890
Chicago, IL 60604-1112
(312) 236-0204
(312) 201-9695 (fax)
mcfarland@aol.com

Attorney for Petitioners

Date Filed: February 24, 2015

BEFORE THE
SURFACE TRANSPORTATION BOARD

LONE STAR RAILROAD, INC. AND)
SOUTHERN SWITCHING COMPANY --) FINANCE DOCKET
TRACK CONSTRUCTION AND) NO. 35874
OPERATION EXEMPTION -- IN)
HOWARD COUNTY, TX)



PETITION FOR EXEMPTION

EXEMPTIONS SOUGHT

Pursuant to 49 U.S.C. § 10502 (a) and 49 C.F.R. § 1121.1 *et seq.*, LONE STAR RAILROAD, INC. (LSR) hereby petitions for an exemption from 49 U.S.C. § 10901 (a)(2) for its construction of a railroad line identified below, and SOUTHERN SWITCHING COMPANY (SSC) hereby petitions for an exemption from 49 U.S.C. § 10902 (a) for its operation over that line as a rail common carrier. LSR and SSC are affiliated Class III rail carriers.^{1/}

Action on the proposed exemptions is subject to completion of the environmental and historic review process currently being conducted by the Board's Section of Environmental Analysis (SEA).

The proposed exemptions are supported by a Verified Statement of Ironhorse Executive Vice President, Matthew Cundiff (Appendix 1). Supporting statements of the Mayor of Big

^{1/} LSR is a wholly-owned subsidiary of CGX, Inc. (CGX). SSC is a wholly-owned subsidiary of Ironhorse Resources, Inc. Ironhorse is a wholly-owned subsidiary of CGX. Ironhorse and CGX are holding companies.

Spring, TX, the Chairman of Big Springs' Economic Development Corporation, and the General Manager of Logistics of Alon, USA are attached as Appendices 2, 3, and 4.

THE RAIL LINE TO BE CONSTRUCTED AND OPERATED

Attached to this Petition as Appendix 5 is a railroad map of West Texas. Attention is directed to the rail line of Union Pacific Railroad Company (UP) between Sweetwater and El Paso, TX shown on that map in red coloring, and, in particular, to Big Spring, TX located 40 rail miles northeast of Midland, TX.

LSR has acquired more than 600 acres of land a short distance east of Big Spring, TX, which it proposes to develop into a rail-served Industrial Park. LSR believes that Big Spring is an ideal location for an Industrial Park at which rail shipments of frac sand and other supplies can be transloaded into trucks to be staged for efficient delivery to crude oil wellheads in the Permian Basin area near Midland and Odessa, TX. In addition, other non-shale commodities are likely to be originated, terminated, or transloaded at the Industrial Park.

A print showing the track proposed to be constructed and operated is attached as Appendix MC-1 to the Verified Statement of Mr. Cundiff (Appendix 1). The construction would involve a total of about 3.18 miles of new track if all tracks shown on that print were to be constructed (i.e., Tracks A, B, A-1, and B-1). It is virtually certain that Tracks A and B, totaling about 2.14 miles, will be constructed. Construction of Tracks A-1 and B-1, totaling about 1.04 miles, is dependent on various land acquisition and operational factors. All of the proposed trackage would connect to a new sidetrack that UP proposes to construct parallel to its main track. The main line track to be constructed will likely be composed of rail ranging between 110 and 119 pounds per cubic foot and will have a superior subgrade, enabling handling of 286,000-

pound carloads on the trackage. There will be sufficient track space to enable receipt or shipment of trainloads of 100 cars or more.

THE PETITIONERS

LSR is a non-operating Class III rail carrier subsidiary of CGX, Inc. SSC is an operating Class III rail carrier subsidiary of Ironhorse, which is a holding company subsidiary of CGX. LSR will construct the proposed trackage. SSC will operate over that trackage to provide rail service to shippers in the Industrial Park. LSR would have a residual common carrier obligation to operate the newly-constructed trackage, or obtain a replacement rail operator, if SSC were to discontinue its rail service over the trackage.

SSC operates over approximately 8 miles of rail line at Abilene, TX that LSR acquired from a predecessor of BNSF Railway Company. *See* Finance Docket No. 32500, decision served May 27, 1994, 59 F.R. 13046 (5-27-94). SSC also operates over tracks at Abilene that are leased from UP.

LSR and SSC are affiliated with another Ironhorse subsidiary, Gardendale Railroad, Inc., which provides extensive transportation of commodities related to shale oil production in the Eagle Ford crude oil development area near Gardendale in South Central Texas.

PUBLIC NEED

The extensive production of crude oil in the Permian Basin area of West Texas in recent months is well known. The Permian Basin is now the largest crude oil producing region in the United States. *See* "Today in Energy," U.S. Energy Information Administration, July 9, 2014, copy attached as Appendix 6. Of the three major basins in the Permian Basin, the Midland Basin, centered around Midland and Odessa, TX, is the largest.

Production of crude oil requires large quantities of frac sand and lesser quantities of other commodities such as several kinds of pipe. Frac sand of the quality needed for crude oil production is mined primarily in Wisconsin and eastern Minnesota. Economics dictate that frac sand be transported by rail for the long distance from Wisconsin to West Texas. However, it is more efficient to deliver frac sand to crude oil wellheads by truck. Trainload quantities of frac sand to be transferred to trucks at or near the wellheads would result in undue congestion.

The solution devised by LSR and SSC is to transload trainloads of frac sand to trucks at an uncongested location somewhat removed from the site of the wellheads for orderly staging of truck deliveries to the wellheads. The Industrial Park is ideally located to satisfy that need. As established in the Verified Statement of Mr. Cundiff, the track in the Industrial Park will be scalable to accommodate rail trainload shipments of 100 cars of frac sand or more (Appendix 1 at 2). In addition, the Industrial Park is located a short distance from Interstate Highway I-20, which will permit efficient truck transportation of frac sand and other commodities following transloading from railcars.

THE PRESUMPTION IN FAVOR OF TRACK CONSTRUCTION

Generally, construction of new common carrier railroad lines requires Board approval under 49 U.S.C. § 10901 (a)(1), (2). Under 49 U.S.C. § 10901 (c), the Board is directed to authorize a rail line construction project “unless the Board finds that such activities are inconsistent with the public convenience and necessity.” As stated by the Board in *Midwest Generation -- Exemption -- Construction Will County, IL*, 6 STB 218 (2002) at 225:

. . . This permissive licensing policy, introduced in the ICC Termination Act of 1995 (ICCTA) (footnote omitted), establishes a clear presumption in favor of rail construction proposals (footnote omitted), and conforms to the broader

Congressional policies to promote ‘effective competition among rail carriers and to reduce barriers to entry into...the industry’ 49 U.S.C. § 10101 (4), (7)

STANDARDS FOR EXEMPTION

Pursuant to 49 U.S.C. § 10502 (a), the Board must exempt a proposed track construction from the detailed application process of 49 U.S.C. § 10901 when the Board finds (1) that process is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either (a) the proposal is of limited scope, or (b) the application process is not necessary to protect shippers from abuse of market power.

The Board is to apply the exemption provisions broadly in pursuing exemptions for transportation or service that comply with the standards of the exemption statute. *See, e.g., American Trucking Ass’ns v. ICC*, 656 F. 2d 1115, 1119 (5th Cir, 1981).

THE PROPOSED EXEMPTIONS SATISFY THE STATUTORY STANDARDS

1. The Section 10901 Application Process Is Not Necessary To Carry Out The Rail Transportation Policy

Detailed scrutiny of this proposed track construction and operation under 49 U.S.C. § 10901 is not necessary to carry out the rail transportation policy, and, therefore, the proposal is appropriate for handling under the exemption process. *See Midwest Generation -- Exemption -- Construction Will County, IL, supra*, 6 STB at 226. As in that proceeding, the LSR-SSC proposal need not be subjected to the application process because such is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101 (4) in favor of effective competition among rail carriers, nor the policy of 49 U.S.C. § 10101 (7) in favor of reducing barriers to entry into the rail industry, because the proposal conforms to those policies. *Id* at 225.

In addition, the LSR-SSC proposal would promote the rail transportation policies of 49 U.S.C. § 10101 (1) in favor of allowing competition and demand for services to establish reasonable rail rates; 49 U.S.C. § 10101 (2) in favor of reducing the need for Federal regulatory control over the rail transportation system; 49 U.S.C. § 10101 (4) in favor of an adequate national rail system; and 49 U.S.C. § 10101 (7) in favor of eased entry into the rail industry.

In summary, relieving Petitioners from the obligation of filing formal applications for authority to construct track at Big Spring, TX and operate over it is consistent with all applicable national rail policies.

2. The Track Construction And Operation Are Of Limited Scope; The Section 10901 Application Process Is Not Needed To Protect Shippers From Abuse Of Market Power

The second test for exemption is stated in the alternative -- either that the transaction must be of limited scope, or that the application process is not needed to protect shippers from abuse of market power. Although required to satisfy only one of those standards, the proposed track construction and operation satisfy both.

The proposed construction and operation are clearly of limited scope. No more than 3.18 miles of track will be constructed and operated, and possibly only 2.14 miles will be involved (*see* Appendix 1). The rail activity will take place in a rather remote area in west Texas. The connecting rail carrier, UP, supports the proposal. Petitioners are not aware of any opposition.

The proposed track construction and operation are designed to enhance rail service to shippers. Thus, the formal application process is not needed to protect shippers from abuse of market power. Indeed, the proposal will result in efficient transloading of high-volume rail traffic into trucks for final delivery to wellheads in the Permian Basin.

In summary, the limited scope of the proposal is evident, and there is no chance for abuse of rail market power.

SIMILAR TRACK CONSTRUCTION PROJECTS EXEMPTED

The Board has exempted numerous track construction projects that were similar to the track construction proposal now before the Board, i.e.:

- (1) *Itasca County RRA - Petition for Exemption - Construction of a Rail Line in Itasca County, MN*, Docket No. FD 34992 (Sept. 8, 2008);
- (2) *Southwest Gulf R.R. Co. - Constr. & Oper. Exempt. - Medina County, TX*, Docket No. FD 34284 (May 19, 2003);
- (3) *The Burlington Northern & SF Ry. Co. - Constr. & Oper. Exempt. - Seadrift and Kamey, TX*, Docket No. FD 34003 (June 19, 2001);
- (4) *Entergy Ark, et al. - Constr. & Oper. Exempt. - White Bluff to Pine Bluff, AR*, Docket No. FD 33782 (May 4, 2000);
- (5) *Missouri Pacific R. Co. - Constr. & Oper. Exempt. - Harris and Chambers Counties, TX*, Docket No. FD 32571 (June 30, 1995);
- (6) *Gateway Western Ry. Co. - Constr. Exempt. - St. Clair County, IL*, Docket No. FD 32158 (May 11, 1993).

CONCLUSION AND REQUESTED RELIEF

WHEREFORE, for the reasons stated, the Board should grant exemptions from 49 U.S.C. § 10901(a)(2) for LSR's construction of a 3.18-mile rail line near Big Spring in Howard County, TX, and from 49 U.S.C. § 10902(a) for SSC's operation of that rail line.

Respectfully submitted,

LONE STAR RAILROAD, INC.
SOUTHERN SWITCHING COMPANY
102 Willow Drive, P.O. Box 99
O'Fallon, IL 62269

Petitioners

Thomas F. McFarland

THOMAS F. McFARLAND
THOMAS F. McFARLAND, P.C.
208 South LaSalle Street, Suite 1890
Chicago, IL 60604-1112
(312) 236-0204
(312) 201-9695 (fax)
mcfarland@aol.com

Attorney for Petitioners

Date Filed: February 24, 2015

VERIFIED STATEMENT OF MATTHEW CUNDIFF

My name is Matthew Cundiff. I am Executive Vice President of Ironhorse Resources, Inc. (Ironhorse), a wholly owned subsidiary of CGX, Inc. (CGX). . My business address is 102 Willow Road, P.O. Box 99, O'Fallon, IL 62269. I have been employed by Ironhorse since 2004 in positions of increasing responsibility. Currently, I am responsible for the operational aspects of a 627-acre Industrial Park a short distance east of Big Spring, TX that CGX subsidiary, Lone Star Railroad, Inc. (Lone Star), proposes to develop.

Ironhorse is a railroad holding company that was established in 1990. As here pertinent, CGX subsidiary, Lone Star, proposes to construct railroad track into that Industrial Park. It is proposed that an Ironhorse subsidiary, Southern Switching Company (Southern), will operate over the newly-constructed track in order to provide rail service to shippers and receivers who will locate in the Industrial Park.

Attached to my Statement as Appendix MC-1 is a print headed "Southern Switching Company, Big Spring, TX, Main Line Design with Conceptual Customer Tracks." That print shows the proposed track construction in the Industrial Park. At the foot of the print, the main line of Union Pacific Railroad Company (UP) is shown in solid red. That main line extends in a general east-west direction between Dallas, TX and El Paso, TX via Big Spring. The Permian Basin crude oil production area is located both west and south of the Industrial Park. Also shown near the foot of the print is a siding that UP proposes to construct parallel to its main line.

Main Line track proposed to be constructed by Lone Star is shown in solid green on Appendix MC-1. The Lone Star track is proposed to connect to the UP siding by means of a wye

track. The east leg of the wye is marked as Track A on the print. The west leg of the wye is marked as Track B. Track A is proposed to extend north from its connection to UP for a distance of approximately 10,000 feet (about 1.89 miles). Track B would be approximately 1,300 feet in length. Thus, Tracks A and B would total 11,300 feet, or about 2.14 miles. Tracks A and B would be constructed with rail ranging in weight between 110 and 119 pounds per cubic yard. A potential Southern support yard for the main line track is shown in dashed blue lines on Appendix MC-1. Also shown on that print in dashed purple lines is potential customer trackage.

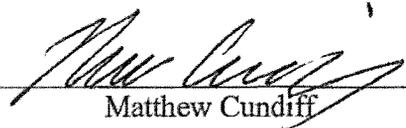
Depending on various land acquisition and operational factors, Lone Star may construct additional main line track shown in dashed green lines on Appendix MC-1. That additional track would consist of Track A-1 that would extend between point of connection to the UP siding and Lone Star Track A, and Track B-1 that would connect to the UP siding approximately 5,500 feet (about 1.04 miles) to the west of Track A. Those tracks would also be constructed with rail ranging in weight between 110 and 119 pounds per cubic yard.

Thus, if only Tracks A and B were to be constructed, the track to be constructed would total about 11,300 feet or 2.14 miles. If Tracks A, B, A-1, and B-1 were to be constructed, the track to be constructed would total about 16,800 feet, or 3.18 miles. The constructed track will support railcar loads that weigh up to 286,000 pounds and will be scalable to accommodate trainload shipments of 100 cars or more.

The primary marketing factor that is driving development of the rail-served Industrial Park near Big Spring is the extensive Permian Basin shale oil activity in West Texas located both west and south of Big Spring. The Industrial Park would be an ideal staging area for frac sand

received by rail from origins in Wisconsin and Minnesota, to be transloaded into trucks at the Industrial Park for efficient delivery to Permian Basin wellheads. Other target commodities to support shale oil drilling activities are line pipe, drill pipe, casing pipe, aggregate, natural gas liquids, drilling muds (barite), and hydrochloric acid. Additionally, Southern will target any regional non-shale commodities for developing potential rail solutions, including potential regional railcar storage. While it is difficult to predict likely traffic volume resulting from the volatile crude oil market, Southern is hopeful of targeting business that could grow into an average of five trains per week.

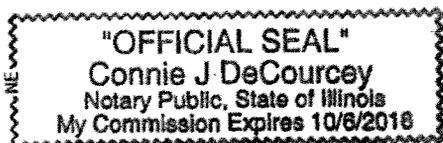
Lone Star and Southern will benefit from the experience of another Ironhorse subsidiary and affiliate, Gardendale Railroad, Inc., which is providing extensive rail transportation of commodities related to shale oil production in the Eagle Ford crude oil development area in South Central Texas.


Matthew Cundiff

SUBSCRIBED and SWORN to
before me on this 12th day
of February 2015.


Notary Public

My Commission expires: 10-6-2016

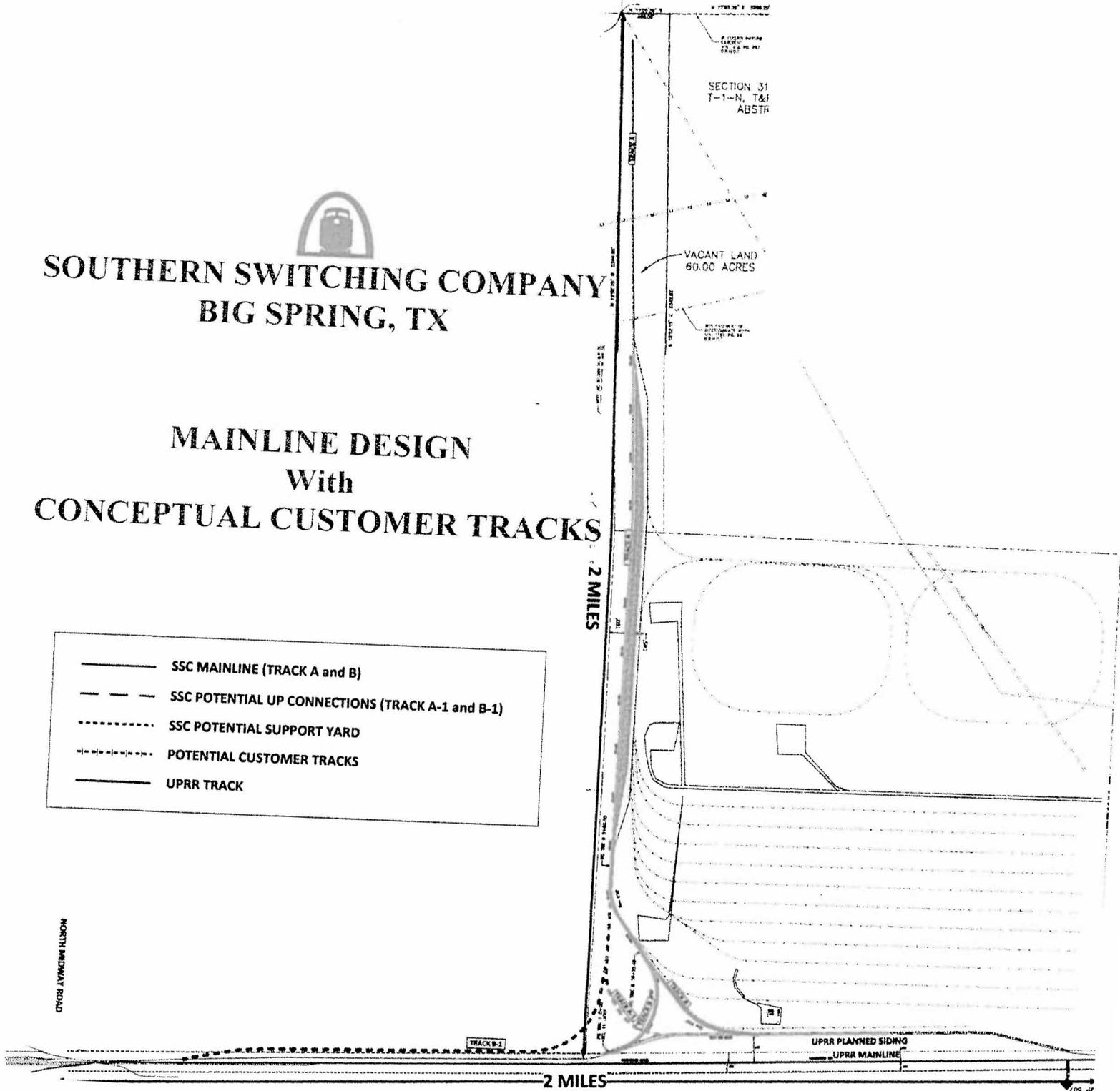




SOUTHERN SWITCHING COMPANY BIG SPRING, TX

MAINLINE DESIGN With CONCEPTUAL CUSTOMER TRACKS

- SSC MAINLINE (TRACK A and B)
- - - SSC POTENTIAL UP CONNECTIONS (TRACK A-1 and B-1)
- · · · · SSC POTENTIAL SUPPORT YARD
- · - · - · · POTENTIAL CUSTOMER TRACKS
- UPRR TRACK



SUPPORT STATEMENT – MAYOR OF BIG SPRING

My name is Larry G. McLellan. I am Mayor of the City of Big Spring, Texas. Big Spring is the County Seat of Howard County, Texas. It is located in west Texas at the intersection of Interstate Highway 20 and U.S. Highway 87. A major main line of Union Pacific Railroad Company (UP) goes through Big Spring.

Unlike many Texas communities of similar size, Big Spring's economy is not reliant on one or two industries. Even though oil-related industry and agriculture played an important role in Big Spring's economy in the past, today the City's economy is more diverse, consisting of varied industry and commercial types.

I am familiar with an Industrial Park proposed by Lone Star Railroad, Inc. (LSR) on 626 acres of land a short distance east of Big Spring and close to I-20. I understand that LSR requires authority from the Surface Transportation Board (STB) in order to construct railroad track from a connection with UP track into the Industrial Park.

As Mayor of The City of Big Spring, I hereby express my support for LSR's proposed track construction. That construction would enable successful development of the Industrial Park. The proposed Industrial Park would add to the diversity of industry in the Big Spring area. I understand that frac sand from Wisconsin and Minnesota would be transported by rail to the Industrial Park where it would be transloaded onto trucks for delivery to Permian Basin crude oil wellheads within a 60-mile radius of the Industrial Park. There would also be an opportunity for rail transportation of various other commodities to or from the Industrial Park, such as asphalt, aggregates, grain, and pipe.

That kind of increased industrial diversity provides stability for the economy of Big Spring, as well as increased employment opportunities for its residents.



Mayor of Big Spring



November 24, 2014

STB Finance Docket No. _____

To whom it may concern,

My name is Terry Wegman, I am the Executive Director for the Big Spring Economic Development Corporation (EDC). Big Spring is a city in West Texas near Midland, Texas. Big Spring EDC is charged with encouraging industrial and commercial corporations to locate in Big Spring and Howard County, thereby bettering the region's economy and providing increased employment opportunities for Big Spring's residents.

I am familiar with an Industrial Park proposed by Lone Star Railroad, Inc. (LSR) on more than 600 acres a short distance east of Big Spring and a short distance north of Interstate Highway I-20. Big Spring EDC has been informed that LSR requires approval by the Surface Transportation Board (STB) in order to construct track from a point of connection to a main east-west line of Union Pacific Railroad Company (UP) into the Industrial Park.

Big Spring EDC enthusiastically supports that track construction. If it is rail-served, the Industrial Park will be well-positioned to receive high volume shipments of frac sand by rail from mines in Wisconsin and Minnesota. The mine sites are too far removed from Big Spring for the frac sand to be transported to the Industrial Park by truck. After arrival at the Industrial Park by rail, that frac sand can be transloaded onto trucks for delivery to Permian Basin crude oil well sites within a 60-mile radius around the Industrial Park.

It is the experience of Big Spring EDC that the availability of rail transportation is a very important positive factor in the decision of an industry regarding where to locate. Accordingly, LSR's proposed rail track construction is likely to attract diverse industrial development, such as asphalt, grain, pipe, and aggregates, all of which are well-suited to rail transportation. The EDC recognizes the extensive and diverse industrial development would be very beneficial for the economy of the Big Spring area.

A handwritten signature in cursive script, appearing to read 'Terry Wegman', is written over a horizontal line.

Terry Wegman
Executive Director, Big Spring
Economic Development Corporation

VERIFIED STATEMENT OF RANDY HILLMAN

My name is Randy Hillman. I am employed by Alon USA (Alon) as General Manager of Logistics. Alon refines crude oil into petroleum products, including gasoline, diesel fuel, jet fuel, petrochemicals, and asphalt. Alon's headquarters are located at 12700 Park Central Drive, Suite 1600 Dallas, TX.

Alon owns a petroleum refinery located at 200 Refinery Rd., Big Spring, TX 79720 having a throughput capacity of approximately 73,000 barrels per day. Alon's Big Spring refinery currently processes 100-percent Permian Basin crude oil.

Alon is generally familiar with a proposal by Lone Star Railroad, Inc. (LSR) to develop an Industrial Park a short distance east of Big Spring, TX. LSR has stated that it will construct railroad track into that Industrial Park from connections that it will make to a main line of Union Pacific Railroad Company (UP) that extends through Big Spring west through the Permian Basin. Alon understands that LSR requires approval of the Surface Transportation Board (STB) for the proposed track construction.

Alon supports LSR's proposed track construction. Alon may well take advantage of services provided by the Industrial Park and may additionally take advantage of railcar storage and staging solutions if LSR's proposed track construction were to be approved by the STB.

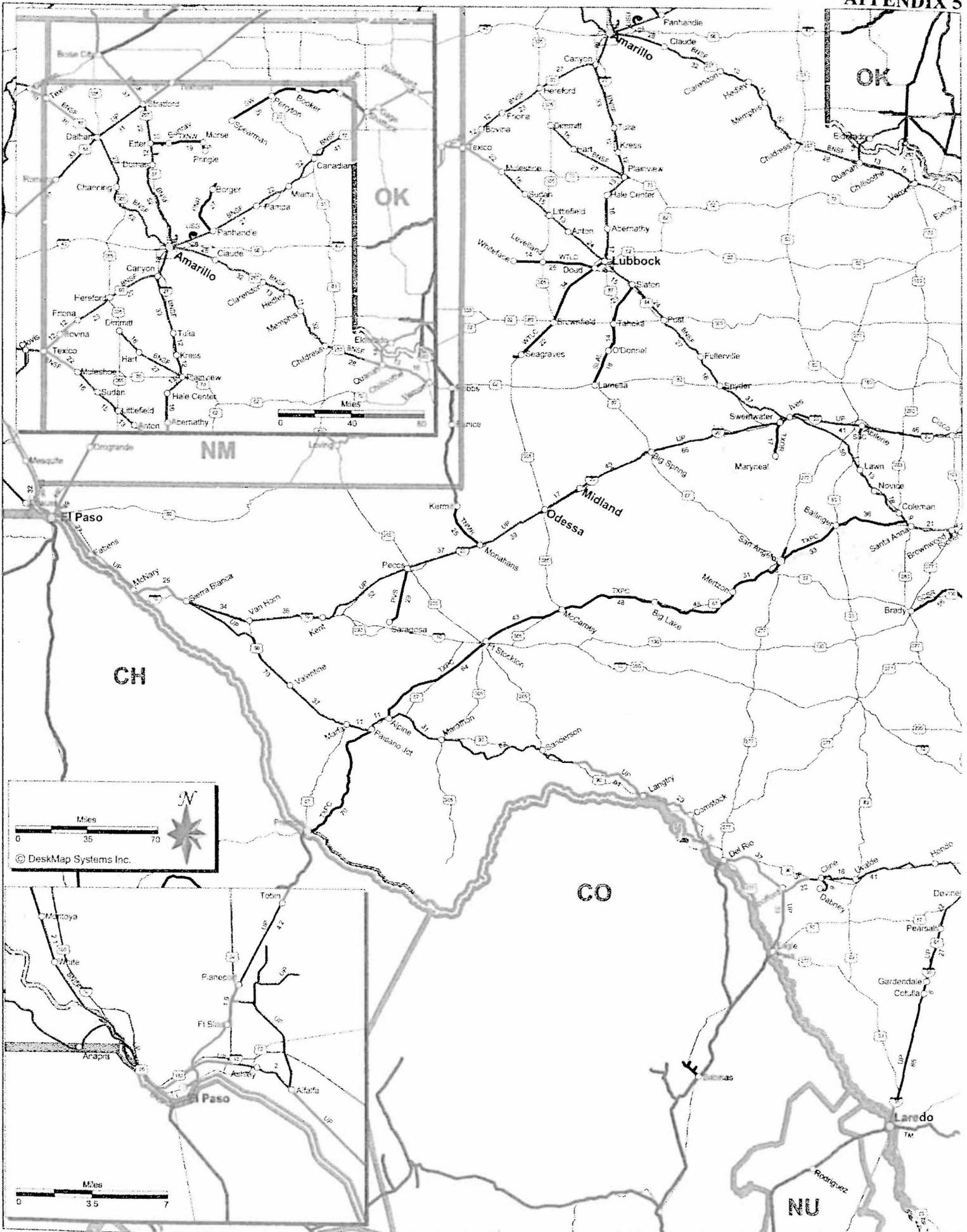
Randy Hillman
Alon Representative

SUBSCRIBED and SWORN to
before me on this 20th day
of February, 2015.

Jessica Rivera
Notary Public



My Commission expires: 07-27-2015





U.S. Energy Information
Administration

STB Finance Docket No. 35874

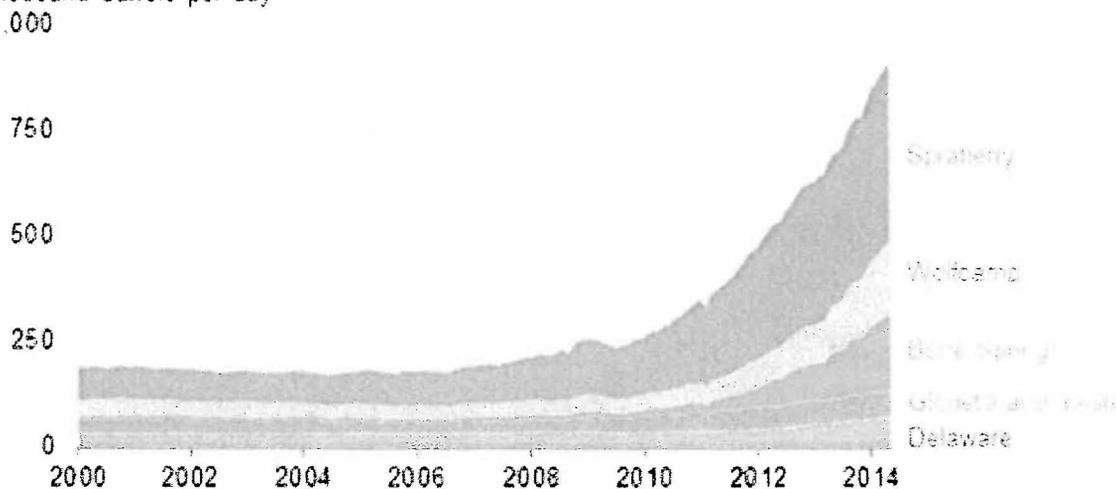
APPENDIX C

Today in Energy

July 9, 2014

Six formations are responsible for surge in Permian Basin crude oil production

Permian Basin oil production from six selected formations (January 2000-May 2014) 
thousand barrels per day



Source: U.S. Energy Information Administration calculations, based on data from DrillingInfo

Note: Production through December 2013 is reported. Production from January 2014 through May 2014 is estimated. Glorieta and Yeso are separate formations combined for this article. Additional amounts of Permian production come from other formations not included in this graph.

The Permian Basin in Texas and New Mexico is the nation's most prolific oil producing area. Six formations within the basin have provided the bulk of Permian's 60% increase in oil output since 2007. Crude oil production in the Permian Basin has increased from a low point of 850,000 barrels per day (bbl/d) in 2007 to 1,350,000 bbl/d in 2013.

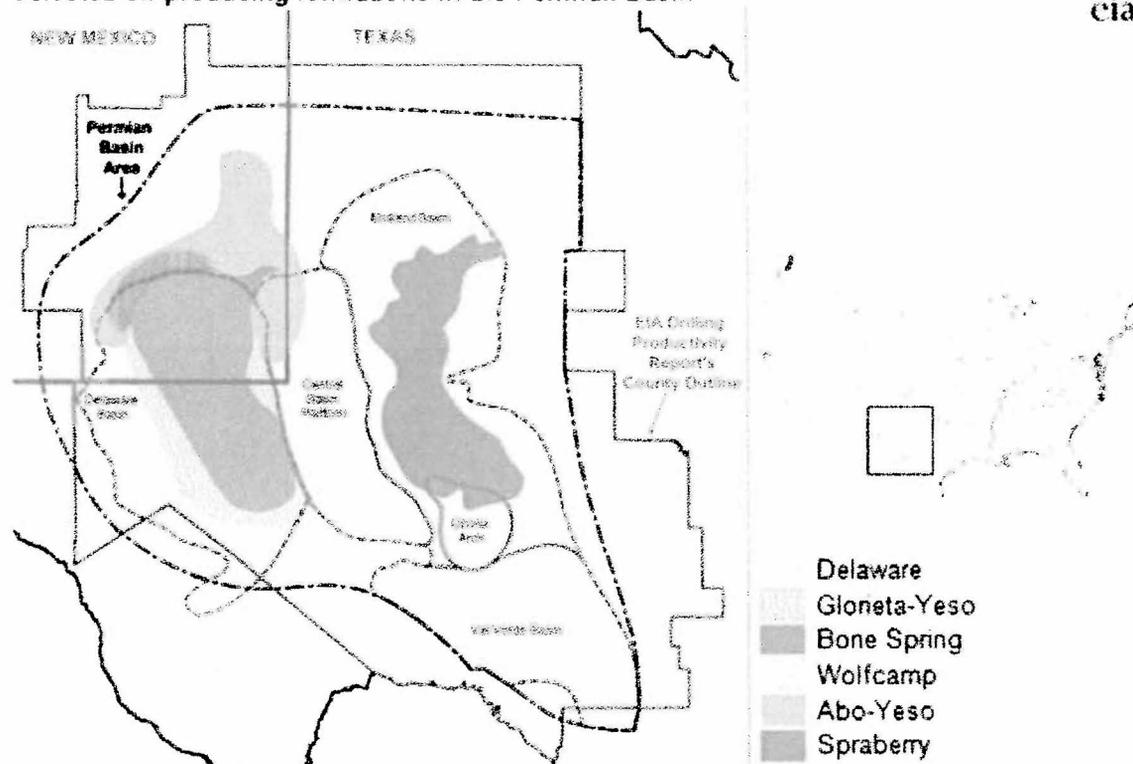
Largely as a result of this growth, crude oil production from Permian Basin counties has exceeded production from the federal offshore Gulf of Mexico region since March 2013, making the Permian the largest crude oil producing region in the United States. In 2013, the Permian Basin accounted for 18% of total U.S. crude oil production. The recent increase in Permian crude oil production is largely concentrated in six low-permeability formations that include the Spraberry, Wolfcamp, Bone Spring, Glorieta, Yeso, and Delaware formations. Production from these formations has helped drive the increase in Permian oil production—particularly since 2009—despite declining production from legacy wells.

Almost three-quarters of the increase in Permian crude oil production came from the Spraberry, Wolfcamp, and Bone Spring formations. Counties in these three formations have driven the increase in the Permian Basin's horizontal oil-directed rig activity in recent months. Production from these three formations collectively increased from about 140,000 bbl/d in 2007 to an estimated 600,000 bbl/d in 2013, increasing their share of total Permian oil production from 16% to 44%. Three other formations—the Delaware formation and the adjacent Glorieta and Yeso formations—also increased production from 2007 to 2013, but to a lesser extent. Production from these three formations rose from 61,000 bbl/d in 2007 to an estimated 112,000 bbl/d in 2013.

The Permian Basin region encompasses an area approximately 250 miles wide and 300 miles long, and it contains many potentially productive low-permeability oil formations. Although oil production has previously come from the more permeable

portions of the Permian formations, the application of horizontal drilling and hydraulic fracturing has opened up large and less-permeable portions of these formations to commercial production. This is especially true for the Spraberry, Wolfcamp, and Bone Spring formations, which have initial well production rates comparable to those found in the Bakken and Eagle Ford shale formations.

Selected oil-producing formations in the Permian Basin



Source: U.S. Energy Information Administration, U.S. Geological Survey, University of Texas Bureau of Economic Geology, and Drillinginfo

Note: Wolfcamp is found throughout the entire Permian Basin area.

Note: Click to enlarge.

Principal contributors: Philip Budzik, Jack Perrin