

SURFACE TRANSPORTATION BOARD

DECISION

STB Finance Docket No. 34068

TWIN CITIES & WESTERN RAILROAD COMPANY, DOUGLAS M. HEAD,
CHARLES H. CLAY, KENT P. SHOEMAKER AND WILLIAM F. DRUSCH
—CONTINUANCE IN CONTROL EXEMPTION—MINNESOTA PRAIRIE LINE, INC.

Decided: May 30, 2002

By petition filed on March 8, 2002, Twin Cities & Western Railroad Company (TCW), a Class III rail carrier, and Douglas M. Head, Charles H. Clay, Kent P. Shoemaker and William F. Drusch (the Individuals) (collectively referred to as the Petitioners) seek an exemption under 49 U.S.C. 10502 from the prior approval requirements of 49 U.S.C. 11323 *et seq.* to continue in control of Minnesota Prairie Line, Inc. (MPL), upon MPL's becoming a rail carrier.¹ We will grant the exemption.

BACKGROUND

The Minnesota Valley Regional Rail Authority (the Authority), a political subdivision of the State of Minnesota, owns the 94-mile rail line which extends from milepost 51.4, at or near Norwood (at the point of connection with TCW's main line),² to approximately milepost 145.7, at or near Hanley Falls, MN. The Authority bought the line from the Chicago and North Western Transportation Co. in the early 1980s, after the line was abandoned. In subsequent years, several railroads unsuccessfully attempted to acquire and operate the line. The Petitioners state that the most recent operator filed for

¹ MPL is a noncarrier, wholly owned subsidiary of TCW. MPL will become a carrier upon consummation of its agreement to lease and operate all or part of approximately 94 miles of track located in Minnesota and upon its obtaining Board authority for the lease and operation in a proceeding not yet filed. The Petitioners state that they have filed this petition in advance of any filing for Board approval of a lease agreement in order to avoid the need to establish a voting trust pending a decision in this proceeding.

² Because the lines connect, the Petitioners could not use the class exemption at 49 CFR 1180.2(d)(2).

bankruptcy in August 2000, and it is believed that no rail service has been provided over the line since that time. The Authority, however, is determined to preserve rail service over the line, and is currently securing funding from the State of Minnesota to perform required rehabilitation.

The Petitioners state that the Authority solicited potential operators for the line, and has selected TCW to perform the rail operations. TCW is controlled by the Individuals, who together own all of the common stock of TCW and/or hold significant positions of management at TCW or membership on TCW's board of directors. The Individuals also own and/or control two other Class III carriers, The Red River Valley & Western Railroad Company (RRVW) and Rutland Line, Inc. (RLI). Each of the carriers is operated as a separate entity.

TCW owns and operates approximately 143.87 miles of rail line from Hopkins, MN, to Appleton, MN, and approximately 1.11 miles of track (including a railroad bridge over the Minnesota River), from approximately milepost 26.00, at or near Bloomington, MN, to milepost 27.11, at or near Savage, MN. TCW also operates over trackage rights from approximately milepost 578.93, at or near Appleton, MN, to approximately milepost 612.74, at or near Milbank, SD. From Hopkins, TCW operates over trackage rights to reach various points in the Twin Cities Terminal Area, including St. Paul, Savage and Camden in North Minneapolis, MN.

RRVW owns and operates approximately 431 miles of rail line principally in North Dakota. RRVW also operates over trackage rights from approximately milepost 6.04, at or near Wahpeton Junction, ND, to approximately milepost 8.00, at or near Brushvale, MN; and from approximately milepost 27.40, at or near Lucca, ND, to approximately milepost 42.90, at or near Sheldon, ND.

RLI owns approximately 23 miles of rail line from approximately milepost 42.67, at or near Geneseo Junction, ND, to approximately milepost 65.60, at or near the North Dakota/South Dakota border. It also operates: (1) overhead trackage rights on lines of The Burlington Northern and Santa Fe Railway Company (BNSF) from approximately milepost 212.32, at or near Breckenridge, MN, to approximately milepost 195.6, at or near Aberdeen Line Junction, MN, and from approximately milepost 0.00, at or near Aberdeen Line Junction, to approximately milepost 0.60, at or near BN Junction, MN; and (2) trackage rights over a rail line jointly owned by BNSF and Soo Line Railroad Company from approximately milepost 0.60, at or near BN Junction, via Hankinson, ND, to approximately BNSF milepost 42.67, at or near Geneseo Junction.

The Petitioners state that TCW formed the subsidiary MPL to lease the line from the Authority in order to separate the risks of the transaction. MPL will enter into an agreement with TCW, whereby TCW will perform the actual rail operations as MPL's agent. MPL will seek Board authority for the acquisition and operation, either through the Board's modified certificate procedure at 49 CFR 1150, subpart C, or the Board's exemption procedures at 49 CFR 1150, subpart D. Once the lease of the

line becomes effective following receipt of necessary regulatory approval, MPL will become a Class III carrier controlled by the Petitioners.

After leasing the line, MPL will continue to be maintained and managed as a separate entity from its affiliated railroads, with its own books, records and accounts. Any business dealings between MPL and its affiliated railroads, including without limitation the operating agreement between MPL and TCW, and the provision of services by any of the affiliated railroads to MPL, will be contractual in nature and based upon fair and reasonable business dealings and the anticipated costs and expenses of providing rail service to the shippers. MPL will assume all of the direct financial risks of the lease of the line as well as other related obligations.

DISCUSSION AND CONCLUSIONS

The acquisition of control of a rail carrier by any number of rail carriers, and the acquisition of control of a carrier by a person that is not a rail carrier but that controls any number of rail carriers requires prior approval by the Board under 49 U.S.C. 11323(a)(3) and (a)(5), respectively. Under 49 U.S.C. 10502(a), however, we must exempt a transaction or service from regulation when we find that: (1) regulation is not necessary to carry out the rail transportation policy (RTP) of 49 U.S.C. 10101; and (2) either (a) the transaction or service is of limited scope, or (b) regulation is not needed to protect shippers from the abuse of market power.

Detailed scrutiny of the proposed transaction through an application for review and approval under 49 U.S.C. 11323 et seq. is not necessary to carry out the RTP. Rather, an exemption will promote that policy by minimizing the need for Federal regulatory control over the proposed transaction and reducing regulatory barriers to entry [49 U.S.C. 10101(2) and (7)]; fostering sound economic conditions in transportation [49 U.S.C. 10101(5)]; and encouraging efficient management of railroads [49 U.S.C. 10101(9)]. Other aspects of the RTP will not be adversely affected.

Regulation of the transaction is not needed to protect shippers from the abuse of market power. Petitioners have indicated that there will be no adverse impact on rail operations or a lessening of rail competition. To the contrary, petitioners state that the proposed transaction will facilitate the restoration of rail service over a line that currently has none.³ Nevertheless, to ensure that the shippers are informed of our action, we will require petitioners to serve a copy of this decision on all shippers on the line within 5 days of the service date of this decision and certify to us that they have done so.

³ Given our market power finding, we need not determine whether the proposed transaction is limited in scope.

Under 49 U.S.C. 10502(g), we may not use our exemption authority to relieve a rail carrier of its statutory obligation to protect the interests of its employees. Under 49 U.S.C. 11326(c), however, we may not impose labor protection for transactions under 49 U.S.C. 11324-25 that involve only Class III rail carriers. Because all carriers involved in this transaction are Class III rail carriers, labor protective conditions may not be imposed under the statute.

This continuance in control transaction is exempt from environmental reporting requirements under 49 CFR 1105.6(c)(2)(i) because it will not result in any significant change in carrier operations. Similarly, the transaction is exempt from the historic reporting requirements under 49 CFR 1105.8(b)(3) because it will not substantially change the level of maintenance of railroad properties.

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

It is ordered:

1. Under 49 U.S.C. 10502, we exempt from the prior approval requirements of 49 U.S.C. 11323 et seq. the Petitioners' continuance in control of MPL.
2. The Petitioners must serve a copy of this decision on all shippers on the lines within 5 days after the service date of this decision and certify to the Board that they have done so.
3. Notice will be published in the Federal Register on June 6, 2002.
4. This exemption will be effective on July 6, 2002. Petitions to stay must be filed by June 21, 2002. Petitions to reopen must be filed by July 1, 2002.

By the Board, Chairman Morgan and Vice Chairman Burkes.

Vernon A. Williams
Secretary