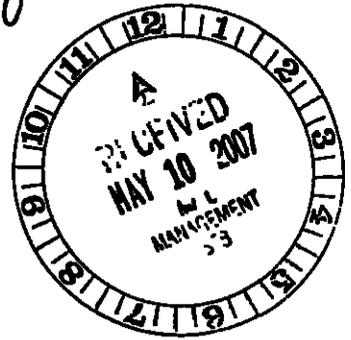


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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 35024



WASHINGTON STATE DEPARTMENT OF TRANSPORTATION
--ACQUISITION EXEMPTION--
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.

VERIFIED NOTICE OF EXEMPTION
Pursuant to 49 C.F.R. § 1150.31, *et seq*



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MAY 21 2007
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Office of Proceedings
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Public Record

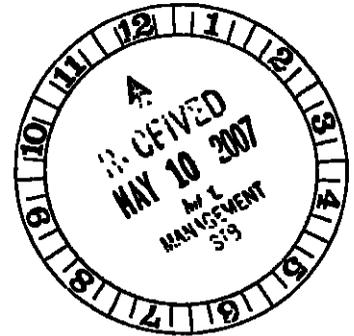
MARK S. LYON
Assistant Attorney General
Office of the Attorney General
7141 Cleanwater Drive SW
Tumwater, WA 98501-6503
(360) 586-0641

Attorney for: WASHINGTON STATE
DEPARTMENT OF TRANSPORTATION

Dated: May 8, 2007

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 35024



WASHINGTON STATE DEPARTMENT OF TRANSPORTATION
--ACQUISITION EXEMPTION--
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.

VERIFIED NOTICE OF EXEMPTION
Pursuant to 49 C.F.R. § 1150.31, *et seq.*

The Washington State Department of Transportation (“WSDOT”), an agency of the state of Washington, a non-carrier, files this Notice of Exemption pursuant to 49 C.F.R. Part 1150, Subpart D--Exempt Transactions, to acquire certain physical assets and operating rights of eight (8) rail lines and the underlying rights-of-way from the Palouse River and Coulee City Railroad, Inc. (“PCC”). PCC is owned by WATCO, a short-line railroad holding company based in Pittsburg, Kansas.¹

WSDOT will acquire PCC’s right, title, and interest in certain tracks, track materials, the underlying rights-of-way and the operating rights of eight rail lines located in the state of Washington, generally sub-divided into three branches: The CW branch, the P&L branch, and the PV-Hooper branch. The total distance of these branch lines is approximately 296 miles. PCC will retain an existing exclusive rail freight easement under and through an existing lease from WSDOT to provide service on the PV-Hooper branch. Beginning no sooner than June 1, 2007, WSDOT will lease operating rights on the P&L

¹ Watco Companies, Inc. (WATCO), a non-carrier, controls through stock ownership and management at least ten Class III rail carriers, including PCC. *Watco Companies, Inc – Continuance in Control Exemption – Mission Mountain Railroad, Inc.*, (not published), served January 19, 2005; *See Watco Companies, Inc – Continuance in Control Exemption – Great Northwest Railroad, Inc.*, 69 FR 13121 (March 19, 2004).

and CW branches to third party operators under contract awarded by public bid. WSDOT will retain a residual common carrier obligation.

In support of this Notice of Exemption, the WSDOT submits the following information as required by 49 C.F.R. § 1150.33:

(a) Full name and address of applicant:

Washington State Department of Transportation
PO Box 47300
Olympia, WA 98504-7300

(b) Applicant's Representative:

Mark S. Lyon
Assistant Attorney General
Office of the Attorney General
7141 Cleanwater Drive SW
Tumwater, WA 98501-6503
(360) 586-0641

(c) Statement of Agreement: WSDOT and PCC are in the process of formalizing a Purchase and Sale Agreement, pursuant to which PCC will, subject to Board approval: (1) convey to the WSDOT certain track and track structures on, and the rights-of-way underlying, the eight rail lines; (2) continue to operate the CW and P&L branch lines through May 31, 2007, and (3) continue to operate the PV-Hooper branch under its existing 15-year lease with WSDOT. WSDOT will purchase rights to the freight rail easements on the P&L and PV-Hooper branch lines.

(d) The operator of the property: PCC will retain the exclusive easement by lease from the State of Washington to provide rail freight service over the PV-Hooper branch line. Beginning after June 1, 2007, freight rail operations on the CW branch and the P&L branch will be transferred by WSDOT under lease to other operators to be selected by public bid. The State of Washington will not operate the rail lines but will

retain the residual common carrier obligation should the contract operators prove unable to perform. PCC and other operator(s) will be granted the exclusive right to provide freight rail services on their respective branch rail line(s). The initial term of agreement for the new operator(s) will be five (5) years.

A request for proposal seeking interested operators for the P&L and CW branch lines was issued by WSDOT on March 5, 2007. From among seven (7) responders WSDOT has identified the following two proposed operators as most responsive, but has not yet entered into any contract for operations:

CW Branch

U.S. Rail Partners, Ltd.
548 Anita Street
Des Plaines, IL 60016
John Howell is the president

P&L Branch

Washington and Idaho Railway, Inc. (EIN 20-5561245)²
329 Mill Road
Lewiston, ID 83501
Stan Patterson is the president

(c) Summary of proposed transaction: Under the terms of the Purchase and Sale Agreement, WSDOT will acquire PCC's interest in the real property and track structures on the 8 rail lines. WSDOT intends to contract with operators to provide common carrier service on each of the three major branch lines. WSDOT will retain the residual common carrier obligation. Pursuant to the Purchase and Sale Agreement, on or after June 1, 2007, freight rail operations on the CW branch and P&L branch will be transferred, subject to Board approval, to operators selected by WSDOT through a public

² The Washington and Idaho Railway currently operates freight rail service on the P&L branch as a subcontractor of the PCC. WIR will be filing for an operation exemption in a related proceeding under Finance Docket No. 35028.

request for proposal (public bidding) process. PCC, the existing carrier on the rail lines, will continue operations on the PV-Hooper branch under its current lease with WSDOT. Upon the termination of that lease, the freight rail easement previously retained by PCC will revert to WSDOT. WSDOT is acquiring the rail lines in order to preserve freight rail service for the public in Eastern Washington.

In a previous transaction in 2004, WSDOT acquired most of the rail property and right-of-way on the seven rail lines constituting the PV-Hooper and P&L branch lines, excluding a permanent, exclusive freight rail operating easement, certain rail property under lease by PCC to third parties and certain other identified property.³ In the current transaction the State of Washington is acquiring the previously reserved freight rail easements and other station ground on the P&L and PV-Hooper and the complete right-of-way and operating rights for the CW branch.

(1) The name and address of the railroad transferring the subject property is:

Palouse River and Coulee City Railroad, Inc.
315 West 3rd Street
Pittsburg, KS 66762

(2) The proposed transaction between WSDOT and PCC is expected to be executed on or before May 11, 2007. Transition to new operators on the CW and P&L Branch lines will commence as soon as possible after June 1, 2007. All transfer of deeds and ownership rights is to be complete by September 30, 2007.

³ This original transaction was the subject of a notice of exemption under 49 C.F.R. § 1150.31 filed on October 29, 2004. The STB subsequently dismissed the notice of exemption for lack of jurisdiction because the PCC was not transferring common carrier rights or obligations and WSDOT would not hold itself out as a common carrier performing rail freight service. *State of Washington, Department of Transportation – Acquisition Exemption – Palouse River and Coulee City Railroad, Inc.*, STB Finance Docket No. 34609 (STB Service, May 3, 2005)

(3) WSDOT proposes to acquire the physical assets and underlying real estate of the following 8 rail lines located in the state of Washington:

PV-HOOPER BRANCH

(i) The Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona;

(ii) The Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton;

(iii) The Winona-Endicott line located between Milepost 52.3, at Winona, and Milepost 57.9, at Endicott;

(iv) The Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax;

(v) Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman, and Milepost 84.05, at the Washington-Idaho state line;

P&L BRANCH

(vi) The WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho state line; and

(vii) The P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman.

CW BRANCH

(viii) The CW subdivision located between Milepost 1.0, at Cheney, and Milepost 108.81, at Coulee City.

(4) The length of the 8 rail lines is approximately 296 miles.

(f) **Map:** A map of the 8 rail lines is attached as Exhibit A.

(g) **Certificate of anticipated revenue:** WSDOT hereby certifies that projected revenues for WSDOT from the rail lines involved in this transaction do not exceed those that would qualify the WSDOT as a Class III rail carrier. WSDOT further certifies that its annual rail freight revenue as a result of this transaction will not exceed \$5 million. Accordingly, the requirements of 49 C.F.R. § 1150.32(e) do not apply to this transaction.

A caption summary, as required by 49 C.F.R. § 1150.34, is attached.

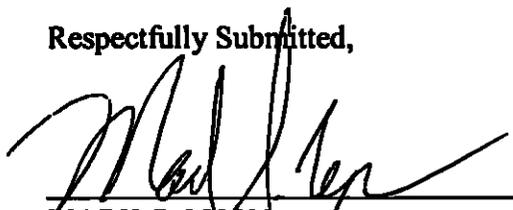
ENVIRONMENTAL AND HISTORIC IMP ACTS

The WSDOT is acquiring the physical assets and underlying real estate of the 8 rail lines from PCC and PCC will continue to provide rail operations over the 8 lines at least through May 31, 2007. Thereafter, operations on some of the lines will be transferred to other operators under contract awarded by public bid by WSDOT. Further, STB approval is required for PCC to discontinue or abandon any service, and there are no plans to dispose of or alter properties subject to STB jurisdiction that are 50 years old or older. Hence, this Notice of Exemption does not require an historic report under 49 C.F.R. § 1105.8(b)(1).

WSDOT's acquisition of the track structures and real estate will not result in significant changes in carrier operations. There will not be a diversion of: (1) more than 1,000 rail carloads a year to motor carriage; or (2) an average of 50 carloads per mile per year for any part of this line to motor carriage. This transaction will not result in: (1) an increase in rail traffic of at least 100 percent or an increase of at least eight trains a day on any segment of the line; (2) an increase of rail yard activity of at least 100 percent; or (3) an average increase in truck traffic of more than 10 percent of the average daily traffic or 50 vehicles a day. Also, the thresholds of 49 C.F.R. § 1105.7(e)(5)(ii) will not be exceeded as a result of the WSDOT's acquisition. Finally, the transportation of ozone depleting materials is not contemplated. Therefore, no environmental documentation is required under 49 C.F.R. § 1105.6(c)(2).

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

Respectfully Submitted,



MARK S. LYON
Assistant Attorney General

**Office of the Attorney General
7141 Cleanwater Drive SW
Tumwater, WA 98501-6503
(360) 586-0641**

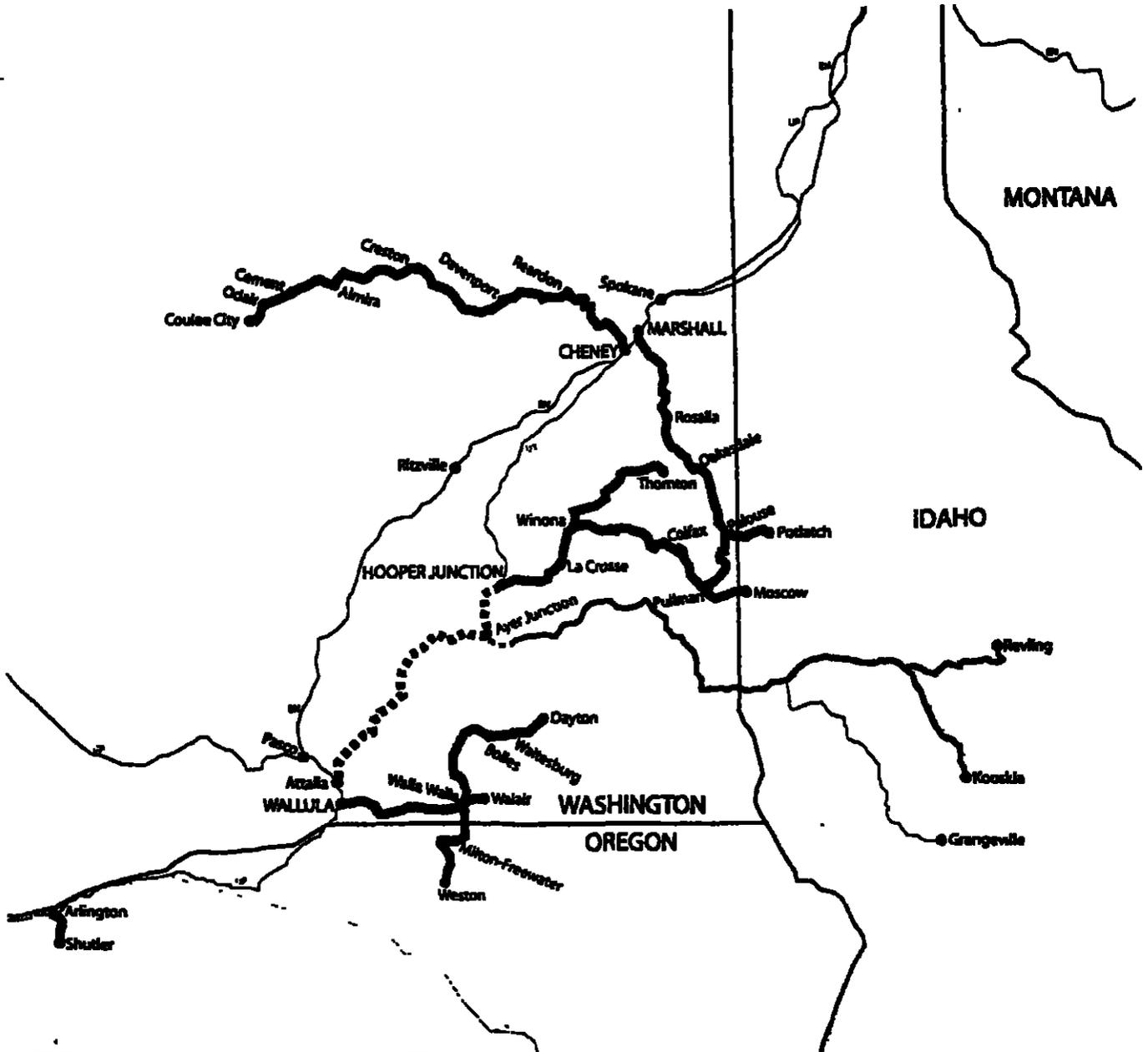
**Attorney for: WASHINGTON STATE
DEPARTMENT OF TRANSPORTATION**

Dated: May 8, 2007

EXHIBIT A

MAP

EXHIBIT A



LEGEND:	
Palouse River & Coulee City RR (P&CC)	
Palouse River & Coulee City Trackage Rights	
Great Northwest RR (GN&W)	
Great Northwest Trackage Rights	
BG & CM Railroad	
Interchanges	
UP - Hooper Junction, Wallula	
BNSF - Cheney, Marshall	

SURFACE TRANSPORTATION BOARD

NOTICE OF EXEMPTION

FINANCE DOCKET NO. 35024

**WASHINGTON STATE DEPARTMENT OF TRANSPORTATION
--ACQUISITION EXEMPTION--
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.**

The Washington State Department of Transportation (“WSDOT”), an agency of the state of Washington, a non-carrier, has filed a Verified Notice of Exemption under 49 C.F.R. § 1150.31 to acquire the physical assets and operating rights of eight (8) rail lines and the underlying rights-of-way from the Palouse River and Coulee City Railroad, Inc. (PCC). The rail lines are located in the state of Washington as follows: (1) the Hooper Jct.-Winona line located between Milepost 26.6, at Hooper Junction, and Milepost 52.3, at Winona; (2) the Thornton-Winona line located between Milepost 0.0, at Winona, and Milepost 31.7, at Thornton; (3) the Winona-Endicott line located between Milepost 52.3, at Winona, and Milepost 57.9, at Endicott; (4) the Endicott-Colfax line located between Milepost 57.9, at Endicott, and Milepost 77.7, at Colfax; (5) the Colfax-Moscow line located (a) between Milepost 0.0, at Colfax, and Milepost 18.7, at Pullman, and (b) between Milepost 75.9, at Pullman and Milepost 84.05, at the Washington-Idaho state line; (6) the WIM line located between Milepost 0.0, at Palouse, and Milepost 3.85, at the Washington-Idaho state line; (7) the P&L line located between Milepost 1.0, at Marshall, and Milepost 75.9, at Pullman; and (8) the CW subdivision located between Milepost 1.0, at Cheney, and Milepost 108.81 at Coulee City.

WSDOT will acquire PCC's right, title, and interest in certain tracks, track materials, the underlying rights-of-way and operating rights of 8 rail lines located in the state of Washington, generally sub-divided into three branches: The CW branch, the P&L branch, and the PV-Hooper branch. The total distance of these branch lines is approximately 296 miles. PCC will retain the exclusive rail freight easement to provide service on the PV-Hooper branch under an existing 15-year lease from WSDOT. Beginning no sooner than June 1, 2007, the P&L and CW branches will each be operated by a third party under contract awarded by public bid. WSDOT will retain a residual common carrier obligation.

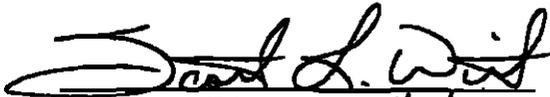
Comments must be filed with the Board and served on Mark S. Lyon, Assistant Attorney General, Office of the Attorney General, 7141 Cleanwater Drive SW, Tumwater WA 98501-6503, (360) 586-0641.

This notice is filed under 49 C.F.R. § 1150.31. If the notice contains false or misleading information, the exemption is void *ab initio*. The filing of a petition to revoke will not automatically stay the transaction.

VERIFICATION

I, Scott L. Witt, Rail and Marine Director for the Washington State Department of Transportation, hereby verify under penalty of perjury that the foregoing Notice of Exemption is true and correct as stated to the best of my knowledge, information, and belief. Further, I certify that I am qualified and authorized to file this Verification on behalf of the Washington State Department of Transportation.

Executed this 9th day of May, 2007.


SCOTT L. WITT 5/9/07



**BEFORE THE
SURFACE TRANSPORTATION BOARD**

FINANCE DOCKET NO. 35024

**STATE OF WASHINGTON, DEPARTMENT OF TRANSPORTATION
– ACQUISITION EXEMPTION –
PALOUSE RIVER AND COULEE CITY RAILROAD, INC.**

DECLARATION OF MAILING

I, JENNIFER D. WILLIAMS, hereby certify that on the 9th day of May, 2007 I caused to be placed with Federal Express, postage prepaid, the original and ten copies of the Department of Transportation's Verified Notice of Exemption, with copies of all accompanying documents, as well as the original of the transmittal letter and this Declaration of Mailing to the Surface Transportation Board, as follows:

**The Honorable Vernon A. Williams, Secretary
Surface Transportation Board
395 E Street
Washington DC 20423-0001**

and,

On the 9th day of May, 2007 I caused to be placed in the United State mail, postage prepaid, a copy of the Department of Transportation's Verified Notice of Exemption, as well as a copy of the transmittal letter to the Surface Transportation Board, to:

Scott L. Witt
Washington State Department of Transportation
WSDOT Rail and Marine Director
PO Box 47387
Olympia, WA 98504-7387

Craig Richey
General Counsel
Watco Companies, Inc.
315 W 3rd Street
Pittsburg KS 66762

I declare under the penalty of perjury under the laws of the State of Washington,
that the above is true and correct.


Jennifer D. Williams, Legal Assistant