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GOVERNOR

STATE OF MICHIGAN  
OFFICE OF THE GOVERNOR  
LANSING

JOHN D. CHERRY, JR.  
LT. GOVERNOR

September 14, 2007

220262

Mr. Vernon A. Williams, Secretary  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

Dear Secretary Williams:

**RE: STB Finance Docket No. 35063: Michigan Central Railway LLC -  
Acquisition and Operation Exemption - Lines of Norfolk Southern  
Railway Company**

Norfolk Southern Railway Company and Watco Transportation Services, Inc. have proposed the creation of a joint venture for the purpose of ownership and operation of approximately 300 miles of Norfolk Southern's rail lines in Michigan and Indiana. The subject rail lines accommodate freight and passenger services and are of significant importance to Michigan's economy and mobility. Under the transaction, Norfolk Southern will contribute the rail lines, yards, trackage rights, and related assets to the Michigan Central Railway, LLC, which is currently wholly owned by Watco Transportation Services, Inc. In exchange for this contribution, Norfolk Southern will have a 33 percent membership interest in the Michigan Central Railway, while Watco will retain a 67 percent controlling interest.

Freight service over these lines is provided to several major Michigan cities, including Grand Rapids, Lansing, Kalamazoo, Battle Creek, Jackson, and Ann Arbor. The State of Michigan acknowledges the challenges the market has placed on these important rail lines and hopes the Michigan Central Railway, a Class II operator, can successfully provide freight services and increase the traffic on the lines.

The branch lines that currently handle only freight service have experienced deteriorating track conditions and operating speeds. Documents provided by Norfolk Southern and Watco have identified needed track improvements to the lines between Elkhart, Indiana, and Grand Rapids, and between Jackson and Lansing, which would restore operating speeds to 40 miles per hour. The State of Michigan supports and encourages these proposed infrastructure investments in order to provide better service to shippers located on those lines.

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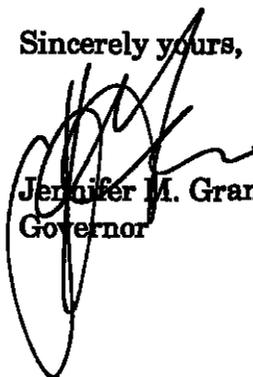
We have an equally significant concern with passenger service on the line between Kalamazoo and Ypsilanti. This line is part of the federally-designated high speed rail corridor linking Chicago and Detroit and currently accommodates six daily Amtrak passenger trains operating between those cities. Another two daily Amtrak passenger trains providing service between Chicago and Port Huron operate over a portion of the line. The State of Michigan, Amtrak, and the Federal Railroad Administration have invested significant resources in this corridor and continue to plan for upgraded speeds and frequencies over the entire corridor. Consequently, it is imperative that the line be maintained to Amtrak's standards.

It is our understanding that Norfolk Southern, Watco, and Amtrak have reached a legally-binding agreement, which addresses and resolves each of the above passenger rail concerns. I want to compliment each of these parties for their cooperation and responsiveness in dealing with complex issues and for reaching an agreement on the commitments necessary to maintain and improve passenger rail service in Michigan now and into the future.

A transaction of this magnitude will have significant impacts on many people's lives and livelihood. I ask the Surface Transportation Board to make sure that the concerns of all parties, including shippers, rail passengers, and current and future employees of the railroad, are deliberately and satisfactorily addressed before you render your final decision.

I am supportive and appreciative of the freight and passenger rail investment commitments on the part of Norfolk Southern and Watco as summarized in the opening paragraph of this letter. The State of Michigan has a long and successful history of working with the Norfolk Southern Railway Company, their customers and their employees. We are committed to continuing that legacy by making sure the best interests of Michigan businesses and workers are addressed by the new Michigan Central Railway.

Sincerely yours,



Jennifer M. Granholm  
Governor

JMG/MDOT/BTP/LK: oef

c. Karl Morell  
Ball Janik LLP  
G. Paul Moates