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226507

February 24, 2010

VIA FEDERAL EXPRESS

Cynthia T. Brown
Chief of the Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

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Office of Proceedings

FEB 25 2010

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Public Record



Re: STB Docket No. AB 1043 (Sub-No. 1)
Montréal, Maine & Atlantic Railway, Ltd.--Discontinuance of Service
and Abandonment--In Aroostook and Penobscot Counties, Maine

Dear Ms. Brown:

I represent Montréal, Maine & Atlantic Railway, Ltd. ("MMA"). Enclosed for filing on behalf of MMA in the above-captioned matter are the following:

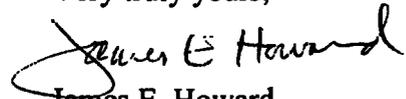
1. The original and 10 copies of a confidential version of the "Application of Montréal, Maine & Atlantic Railway, Ltd. for Authority to Discontinue Rail Service and Abandon Rail Lines" (the "Application");
2. The original and 10 copies of a public version of the Application;
3. Two CDs of each version of the Application;
4. The original and 10 copies of a "Motion for Protective Order", for which we are requesting expedited consideration; and
5. The original and 10 copies of an "Affidavit of Compliance with Notice Requirements of 49 CFR 1152.20".

The confidential versions of the Application, including the confidential CDs, are in a separate package marked "confidential materials subject to a request for a protective order". Also enclosed is a check in the amount of \$22,600 representing the filing fee for the Application.

In accordance with 49 CFR 1152.24(c), I am serving a copy of the public version of the Application by first class mail on the Governor of Maine, the Maine Public Utilities Commission and the Maine Department of Transportation. In addition, copies of the public version of the Application will be made available for public inspection at various offices of MMA. I will be filing a certificate of service promptly with the details.

Please contact me if you have any questions or need additional information. Thank you very much for your attention to this request.

Very truly yours,



James E. Howard

Enclosures

BEFORE THE
SURFACE TRANSPORTATION BOARD

Docket No. AB 1043 (Sub-No. 1)

MONTREAL, MAINE & ATLANTIC RAILWAY, LTD.--
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE

APPLICATION OF MONTREAL, MAINE & ATLANTIC
RAILWAY, LTD. FOR AUTHORITY TO DISCONTINUE RAIL
SERVICE AND ABANDON RAIL LINES

Application and Exhibits
Volume 1 of 1

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Dated: February 24, 2010

Public Version

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Vol 1 of 1

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**BEFORE THE
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Docket No AB 1043 (Sub-No 1)

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DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

**APPLICATION OF MONTREAL, MAINE & ATLANTIC
RAILWAY, LTD. FOR AUTHORITY TO DISCONTINUE RAIL
SERVICE AND ABANDON RAIL LINES**

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Attorney for Montreal, Maine
& Atlantic Railway, Ltd

Dated February 24, 2010

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

**APPLICATION OF MONTREAL, MAINE & ATLANTIC
RAILWAY, LTD. FOR AUTHORITY TO DISCONTINUE
RAIL SERVICE AND ABANDON RAIL LINES**

INTRODUCTION

Montreal, Maine & Atlantic Railway, Ltd ("MMA") respectfully submits this Application pursuant to 49 CFR Part 1152 seeking authority pursuant to 49 U S C 10903 for the discontinuance of service on and the abandonment of certain lines of railroad located in Penobscot and Aroostook Counties, Maine. Specifically, the lines to be abandoned are as follows

(1) the Madawaska Subdivision, consisting of approximately 151 miles of line between milepost 109 near Millinocket and milepost 260 near Madawaska in Penobscot and Aroostook Counties,

(2) the Presque Isle Subdivision, consisting of approximately 25.3 miles of line between milepost 0 0 near Squa Pan and milepost 25 3 near Presque Isle in Aroostook County;

(3) the Fort Fairfield Subdivision, consisting of approximately 10 miles of line between milepost 0 0 near Presque Isle and milepost 10 0 near Easton in Aroostook County,

(4) the Limestone Subdivision, consisting of approximately 29 85 miles of line between milepost 0.0 near Presque Isle and milepost 29.85 near Limestone in Aroostook County, and

(5) the Houlton Subdivision, consisting of approximately 16 9 miles of line between milepost 0.0 near Oakfield and milepost 16 9 near Houlton in Aroostook County

These 5 subdivisions will be collectively referred to as the "Abandonment Lines"

Legal Standard and Summary of Argument

The statutory standard governing applications for abandonment or discontinuance of service has been consistently stated by the Board and its predecessor, the Interstate Commerce Commission, to be whether the present or future public convenience and necessity permit the proposed action 49 U S C 10903(d) The Board must balance the potential harm from the loss of rail service to affected shippers and communities against the present and future burden that continued operations might impose on the rail carrier applicant and on interstate commerce. Colorado v. United States, 271 U S 153 (1926)

In order to perform the balancing analysis, the Board must look at a number of factors. including the traffic and revenue generated by the line to be abandoned, the avoidable cost incurred by the rail carrier, necessary costs to rehabilitate the line, opportunity costs, alternative transportation available to rail customers and the interests of shippers and the community In determining whether shippers will be harmed if rail

service is discontinued, "the fact that shippers are likely to incur some harm and added expense is not sufficient in and of itself to defeat an application for abandonment"
Union Pacific Railroad Co.--Abandonment-- In Rusk County, TX, STB Docket No. AB-33 (Sub-No 275), decision served September 11, 2009, citing Union Pacific Railroad Co --Abandonment--In New Madrid, Scott and Stoddard Counties, MO, STB Docket No AB-33 (Sub-No 261), decision served June 17, 2009 In order to block an abandonment, shippers and community interests must show that the harm that they will incur outweighs the harm to the rail carrier and interstate commerce resulting from continued operation

As demonstrated below, weighing the factors mentioned above mandates a decision permitting the abandonment of the Abandonment Lines Traffic levels and revenue on the Abandonment Lines have been declining steadily and are not likely to increase. As a consequence, MMA incurred losses from operation of the Abandonment Lines in the Base Year (October 1, 2008 through September 30, 2009) of approximately \$[] million and will continue to incur avoidable losses of increasing magnitude if service must be continued In addition to such avoidable losses, MMA faces a huge capital expenditure--approximately \$[] million--with insufficient revenues or profits to support such expenditures, in order to overcome deferred maintenance on the Abandonment Lines When taken into account with opportunity costs in the range of \$[] million, continued operations would impose a substantial burden on MMA and interstate commerce. Indeed, operation of the Abandonment Lines has already had a substantial negative impact on MMA as a whole and its ability to continue to operate not only the Abandonment Lines but the rest of its system as well

Relevant Factors

This Application for authority to discontinue operations on and to abandon the Abandonment Lines can be properly understood only in the context of the history of MMA. MMA began operating in January, 2003 after purchasing substantially all of the rail assets of Bangor & Aroostook Railroad, which at that time was in bankruptcy proceedings. Verified Statement of Robert C. Grindrod ("Grindrod VS") at p. 2. On the same day as the closing on the MMA-Bangor & Aroostook transaction, Great Northern Paper, the largest customer of Bangor & Aroostook, filed a petition for reorganization under Chapter 11 of the bankruptcy code and shut down its operations. The assets of Great Northern were eventually purchased out of bankruptcy and operations were resumed, at scaled back levels compared to prior to the bankruptcy, but the episode has proven to have been an ominous foreshadowing of the history of MMA--expectations for traffic and revenue that have never been met due to circumstances beyond MMA's control. Grindrod VS at pp. 2-3.

As described in Grindrod VS and the Verified Statement of Joseph R. McGonigle ("McGonigle VS") and below, the forest products industry, upon which MMA has been predominantly reliant, has suffered in recent years. MMA's carloads and revenues have declined from 2005 to 2009 by approximately [] percent. Grindrod VS at p. 3. More significantly, carloads originating or terminating on the Abandonment Lines in the 3 principal traffic groups--finished lumber, oriented strand board/oriented strand lumber and logs/chips--declined by []%, []% and []%, respectively, between 2003 and 2009. Grindrod VS at p. 3. Even though MMA has reduced its costs dramatically, operations

have produced losses every year from 2007 through 2009. Grindrod VS at p 4 At this point in time, MMA foresees no reasonable likelihood that revenues will increase sufficiently or that costs can be cut any further to enable operations on the Abandonment Lines, as currently structured, to generate earnings In these circumstances, MMA has determined that the only way to continue any rail operations is to proceed with the abandonment of the portion of the system--the Abandonment Lines--that are producing the greatest losses

MMA has taken this step as a last resort Its shareholders have sacrificed by contributing approximately \$[] million in new equity capital, and certain shareholders who also held mezzanine debt converted approximately \$[] million of that debt into equity Grindrod VS at p 5 MMA has refinanced its original debt and made essential capital improvements by means of a loan pursuant to the Railroad Rehabilitation and Infrastructure Act These measures taken together have enabled MMA to continue to operate, but such operations continue to produce losses MMA is at the point at which it simply cannot, and should not be forced to, continue such loss producing operations

A. Traffic and Revenue

The vast majority--approximately []%--of the rail traffic handled by MMA on the Abandonment Lines relates to the forest products industry, which includes paper, logs, wood chips, dimension lumber, OSB products and pulp McGonigle VS at p 2 In addition, much of the inbound traffic consists of clay and chemicals used in the paper business McGonigle VS at 2 Carloads originated or terminated on the Abandonment Lines have decreased dramatically from [] carloads in 2005 to [] carloads in 2009, or a []% decline Similarly, gross revenues have declined from approximately \$[]

million to approximately \$[] million, or a decrease of []% over the same period

McGonigle VS at p. 3

There are a variety of reasons for this downward trend. The financial condition of the paper industry in general has declined, which has led to paper mill closings and bankruptcies. With the increase in digital communications there has been a corresponding decrease in printed communication, and the paper producers' markets have shrunk. In some cases, the paper producers have shifted to specialty types of paper, which tend to be produced in smaller shipment sizes that are more conducive to transportation by truck. McGonigle VS at p. 3

In mid-2009, Fraser Papers, MMA's largest single customer and a generator of overhead traffic on the Abandonment Lines, and its affiliate, Fraser Timbers a customer with facilities on the Abandonment Lines, went into bankruptcy proceedings in Canada. McGonigle VS at p. 4. Fraser has announced that it intends to continue to operate its paper mill at Madawaska, Maine, which is on a line of MMA that is not part of the Abandonment Lines, but, at this time, the future of the Fraser paper mill at Madawaska and rail business generated by that mill is uncertain.

Fraser has presented a clearer, but gloomier, picture for the two Fraser Timbers sawmills located on the Abandonment Lines at Ashland and Masardis, Maine. Fraser plans to sell these mills, and the Ashland mill has already been taken out of service. This action by Fraser is not surprising, considering that the rail traffic handled by MMA for Fraser at Ashland and Masardis had decreased by approximately []% between 2005 and 2009. McGonigle VS at p. 14.

Relentless and continuing competition from motor carriers has also contributed to MMA's decline in carloads and revenues on the Abandonment Lines. This competition, of course, is not news to the Board. On the basis of a finding that there was "vigorous and pervasive intermodal competition" from motor carriers for lumber and forest products, these commodities were exempted from regulation. Rail General Exemption Authority--Lumber or Wood Products, Ex Parte No. 346 (Sub-No 325), 7 ICC 2d 673, 676 (1991). As described in the McGonigle VS, each of the customers located on the Abandonment Lines already uses motor carrier transportation, in some cases exclusively either for inbound or outbound transportation. In the current economy, many shippers on the Abandonment Lines, especially those producing lumber and building products, have found that their order sizes are smaller than in the past and that their customers are not resupplying inventories at the same rate. Smaller order sizes for commodities such as lumber and more time sensitivity favor truck as compared to rail. At the present time, MMA's rail market share is less than 10% compared to trucks in the area served by the Abandonment Lines. McGonigle VS at p 5.

There are 14 customers located on the Abandonment Lines that generated 50 or more carloads of rail traffic in the Base Year (October 1, 2008 through September 30, 2009). With limited exceptions, as discussed in detail in the McGonigle VS, the rail business handled by MMA for these customers declined from 2005 to 2009. McGonigle VS at pp 7-14.

A review of the data concerning the 3 largest forest products customers on the Abandonment Lines--Fraser Timbers, J.D. Irving Woodlands Division and Portage Wood Products--illustrates the trend. The J.D. Irving business declined from [] carloads in

2005 to [] carloads in 2009, or a decrease of []% Portage Wood Products produced [] carloads for MMA in 2005, but only [] carloads in 2009 This is a []% decrease Fraser Timbers, discussed above, reduced its rail business from [] carloads in 2005 to only [] carloads in 2009, representing an []% drop. Overall, the carloads generated by these 3 customers experienced a []% decrease between 2005 and 2009. McGonigle VS at pp 7-14

Smaller forest products customers on the Abandonment Lines demonstrated the same decline in rail business For example, Louisiana Pacific, which produces oriented laminated board products at its facility in New Limerick, Maine, reduced its rail shipments by []% from 2005 to 2009 Huber Engineered Woods, an oriented strand board producer in Easton, Maine, used rail []% less in 2009 compared to 2005. McGonigle VS at 10-11

Furthermore, with one exception, it is anticipated that rail business for these customers in the Forecast Year will be lower than in the Base Year The one exception is a local, low revenue rail move of approximately 125 miles of wood chips from Portage, Maine to South LaGrange, Maine where the chips are transloaded into trucks and moved a short distance to their destination in Old Town, Maine This rail/transload movement began in 2009 as a result of a decision by the receiver of the wood chips in Old Town This rail business could revert back to trucks at any time McGonigle VS at p 12 An ironic footnote to this lone projected increase in forest products rail traffic on the Abandonment Lines is that the facility in Old Town is directly served by rail by another railroad

None of the other customers located on the Abandonment Lines has indicated any realistic or objective prospect of increasing its use of rail in the future, either near-term or long-term. Furthermore, there is no known prospect of new customers locating on the Abandonment Lines. McGonigle VS at p 18. The end of the recession may lead to additional rail traffic compared to current levels, but it is unlikely that MMA's business will return to 2005 levels or, for that matter, any level that would produce sufficient profits to sustain the operation of and warrant capital investment in the Abandonment Lines. Furthermore, certain of the customers on the Abandonment Lines have shifted their production to specialized products that tend to be shipped in smaller order sizes that are more conducive to motor carrier transportation, and it is anticipated that this "just-in-time delivery/lean inventory" trend will continue. McGonigle VS at pp 7-14.

B. Avoidable Costs, Opportunity Costs and Other Economic Factors

MMA engaged Robert C. Finley to do the analysis of revenues and costs attributable to the Abandonment Lines in accordance with the Board's regulations. As described in detail in the Verified Statement of Robert C. Finley ("Finley VS"), and the exhibits and workpapers attached to the Finley VS, Mr. Finley worked with data and information provided by MMA in order to produce Exhibit 1, as required by the regulations.

Starting with carload traffic data showing a total of [] cars originating, terminating or moving overhead on the Abandonment Lines in the Base Year, Mr. Finley calculated the revenue attributable to those cars while they were on the Abandonment Lines. Finley VS at p 3. As shown in Exhibit 1, the total revenue of MMA attributable to the Abandonment Lines in the Base Year was \$[].

Mr. Finley meticulously analyzed expense and cost data relating to operations on the Abandonment Lines in order to determine the avoidable costs. Finley VS at pp 4-9 The total avoidable costs for the Base Year, as set forth in line 7 of Exhibit 1, were \$[] Therefore, the avoidable loss incurred by MMA from operations of the Abandonment Lines in the Base Year was \$[]

For purposes of determining revenues and avoidable costs for the Forecast Year (February 1, 2010 through January 31, 2011), Mr. Finley relied on information from MMA management concerning anticipated revenue or cost changes during the Forecast Year As described in the Finley VS, there were relatively few changes anticipated Finley VS at pp 10-11 Revenue for the Forecast Year was \$[], with the increase over the Base Year being attributable primarily to an anticipated increase in wood chip business between Portage, Maine and LaGrange, Maine, as described in the McGonigle VS. The projected avoidable costs for the Forecast Year were \$[] Thus, the avoidable loss from operations of the Abandonment Lines during the Forecast Year is \$[]

This magnitude of avoidable loss has created a devastating impact on MMA's financial condition As shown in Exhibit 5 attached to the Finley VS, MMA as a whole incurred a loss of \$[] in the Base Year If MMA had not operated the Abandonment Lines in the Base Year, the company-wide result would have been a net operating profit of \$[]. Clearly, the Abandonment Lines have been a proverbial financial anchor around MMA's neck

Opportunity cost is yet another measure of the adverse impact of operating the Abandonment Lines Exhibit 4 of the Finley VS illustrates the calculation of the return

on value that MMA could realize if it could deploy the assets comprising the Abandonment Lines for other, nonrail operating purposes. As described in more detail below, Mr. Finley used the net liquidation value of track, ties and other track material as calculated and described in the Verified Statement of Melody A. Sheahan ("Sheahan VS") and the net liquidation value of the real estate in the right-of-way of the Abandonment Lines, as outlined in the Verified Statement of Lowell T. Sherwood, Jr. ("Sherwood VS").

The starting point for the determination of the net liquidation value of the rail, ties and other track material was the creation of an inventory of all such material for the 233 route miles of the Abandonment Lines and 52 additional track miles attributable to yards and sidings. Sheahan VS at p. 2. For each type of material, a market value was calculated. In addition, the cost of removing, transporting and selling the materials was also estimated. The end result of this analysis was that the gross salvage value of the rail, ties and other track material was estimated to be \$[] as of November, 2009, and the removal costs were estimated to be \$[]. Consequently, the net liquidation value of the track materials is \$[]. Sheahan VS at pp. 2-4 and Exhibits A through D. Because removal and sale of the materials will require an effort over a 2-3 year period, the net liquidation value was discounted to present value, using a discount rate of []%, which produces a discounted present value of the net liquidation value of \$[]. Sheahan VS at p. 4.

MMA retained Lowell T. Sherwood, Jr. to appraise the real estate in the Abandonment Lines. As described in the Verified Statement of Lowell T. Sherwood, Jr. ("Sherwood VS"), he performed an appraisal using the traditional across the fence

methodology. In addition, however, he also appraised the real estate, for the reasons outlined below, on the basis of a corridor methodology

The across the fence appraisal was done in accordance with standard practice before the Board. Mr. Sherwood reviewed MMA valuation plans and created aerial maps of the entire 233 miles of the Abandonment Lines. He collected and reviewed data from a variety of sources concerning the value of real estate adjoining or in the same vicinity as the Abandonment Lines and broke the lines into 10 separate segments based upon geography, zoning and uses of the real estate adjoining the Abandonment Lines. Sherwood VS at pp. 2-3. In addition, based upon information set forth in the Verified Statement of Thomas N. Tardif ("Tardif VS") concerning MMA's title to the real estate, Mr. Sherwood excluded from his across the fence appraisal any value for approximately [] miles of the Abandonment Lines where MMA did not have fee simple marketable title. Consequently, Mr. Sherwood's across the fence appraisal included approximately [] miles of right-of-way consisting of [] acres. Sherwood VS at p. 3.

Mr. Sherwood reviewed the physical characteristics of the property within each of the 10 segments and considered the differences between the market data and the property in the Abandonment Lines based on factors such as excess, shape, size and topography. Sherwood VS at page 3. He adjusted downward, where appropriate, the per acre value for the property in the Abandonment Lines in order to determine an estimated gross market value, which was \$[]. This approach resulted in a decrease in unit value per acre of approximately 26% compared to the across the fence value based solely upon comparable sales data.

Mr. Sherwood recognized that there would be various expenses associated with the sale of the real estate, such as holding costs, real estate taxes, realtors' fees, engineering costs and legal expenses. He deducted 10% of the gross market value for sales expenses and 10% for legal expenses. He also anticipated that it would require 5 years to sell all of the property and that it would not be possible to sell 8% of the property. Using a discount rate of []%, the present value of the net proceeds that would be recovered by MMA for sales of the real estate would be \$[], or approximately 42% less than the gross liquidation value. Sherwood VS at p. 4 and Exhibits 1 and 2 (the across the fence appraisal) attached to the Sherwood VS.

Based in part on his own experience and, in addition, primarily on information provided in the Verified Statement of Richard M. Gottlieb ("Gottlieb VS"), Mr. Sherwood also appraised the real estate in the Abandonment Lines using a corridor methodology. There have been numerous transactions in recent years in which abandoned railroad rights-of-way in Aroostook County and other parts of Maine have been purchased as intact corridors. In particular, the Department of Conservation of the State of Maine has purchased approximately 45 miles of abandoned right-of-way in Aroostook County in order to preserve them for snowmobile and other recreational uses. Gottlieb VS at pp. 2-3. Mr. Gottlieb's extensive experience in the marketing and sale of railroad rights-of-way lead him to conclude that there is a market for the acquisition of the Abandonment Lines as intact corridors for nonrail uses. His opinion of the value of these rights-of-way as corridors is in the range of \$[] per mile. Gottlieb VS at pp. 2-5. Based on this information and his own judgment, Mr. Sherwood has estimated the gross value for the 233.8 miles of corridor on the basis of \$[] per mile, or a total of \$[]

]

As noted above, and as the Board is well aware, in most instances the highest and best use of real property in abandoned rights-of-way is for sale to adjoining landowners. Hence, the across the fence methodology is used in most cases.

The Board has recognized, however, that it is appropriate to use a corridor methodology if there is a documented specific interest in purchasing assembled corridors. Boston and Maine Corp --Abandonment--In Hartford and New Haven Counties, CT, STB Docket No AB-32 (Sub-No. 83), decision served July 1, 1998, Railroad Ventures, Inc -- Abandonment Exemption--Between Youngstown, OH, and Darlington, PA, in Mahoning and Columbiana Counties, OH, and Beaver County, PA, STB Docket No AB-556 (Sub-No 2X), decision served January 7, 2000. This is a situation in which use of the corridor methodology would be appropriate to determine the net liquidation value of the real estate in the Abandonment Lines. There is a developed market for acquisitions of abandoned rail corridors at a price of approximately \$[] per mile. Gottlieb VS at pp 2-5. In addition, there is a pending transaction between MMA and the Department of Conservation to sell 9 miles of abandoned right-of-way in Aroostook County at a price of \$[] per mile. Gottlieb VS at p 3.

The possibility of conveying utility easements along the Abandonment Lines is an additional factor supporting the use of the corridor methodology in this case. As described by Mr. Gottlieb, there is a growing demand for the acquisition of rights to construct electric transmission lines in order to bring relatively inexpensive hydroelectric power and other environmentally friendly sources of electricity, such as the windfarms that are being developed in Aroostook County, to the consuming markets in New

England and the New York area. Gottlieb VS at pp 7-8 MMA has begun conversations with producers of electricity about the possibility of using rights-of-way of MMA, including primarily the main line corridor of the Abandonment Lines (the Madawaska Subdivision), for transmission purposes It is difficult to quantify the value of these rights at this time, but clearly the possibility of such uses enhances the value and supports the use of the corridor methodology

After determining a value of \$[] per mile on a corridor basis, Mr Sherwood's approach to determining net liquidation value was similar to the approach used with the across the fence methodology. Specifically, he deducted real estate taxes, sales expenses and other expenses from the gross net liquidation value, and then he applied a discounted cash flow analysis over a disposition period of 3 years and arrived at a NLV of \$[]. Sherwood VS at Exhibits 3 and 4 (the corridor appraisal)

In order to determine opportunity costs, Mr Finley took into account the net liquidation value of the rail, ties and other track material and the real estate, alternatively on the across the fence and corridor methodologies, and added to these NLV values the income tax consequences and the working capital requirements The calculation of the working capital is set forth in Exhibit 1 attached to the Finley VS, and the determination of the income tax consequences is shown on Exhibit 4 of the Finley VS The opportunity cost using the across the fence appraisal for real estate is \$[], and the opportunity cost on the basis of the corridor valuation of the real estate is \$[] Ironically, the amount which MMA has "lost" by not being able to redeploy these assets is roughly equivalent to the annual avoidable loss incurred by operating the Abandonment Lines

While the opportunity cost is a substantial amount, it is dwarfed by the projected subsidy that would be required if an interested party comes forward with an offer of financial assistance to maintain rail operations on the Abandonment Lines for the Forecast Year. As described by Mr. Finley and as shown on his Exhibit 1, the Abandonment Lines will require an expenditure of approximately \$[] million in order to perform necessary capital and rehabilitation work. Sheahan VS at pp. 5-6 and Exhibits F through K. The estimated subsidy is the result of adding the avoidable loss from operations (line 17), the total return on value, as shown in line 16 of Exhibit 1, and the total subsidization costs, which is in line 11 of Exhibit 1 and which includes the \$[] million of rehabilitation expenses. The total estimated subsidy is, therefore, \$[] million. While it might be argued that only rehabilitation costs that could actually be spent during the Subsidy Year should be included, the Board has determined that 100% of the necessary costs are includable in the subsidy year. CSX Transportation, Inc.-- Discontinuance at Memphis, in Shelby IN, Docket No. AB-55 (Sub-No. 618), decision served October 28, 2002.

As demonstrated by the foregoing discussion, operation of the Abandonment Lines is producing an enormous adverse economic impact on MMA. Avoidable operating losses are in excess of \$[] million annually, the opportunity costs are in the range of \$[] million and the estimated subsidy is approximately \$[] million. In the balancing analysis that the Board undertakes when evaluating an abandonment application, the economic harm to MMA, and the attendant burden on interstate commerce, are clear. As demonstrated below, such economic harm overshadows and readily outweighs any potential harm to shipper or community interests.

C Rehabilitation Expense

The low level of revenues generated by operations on the Abandonment Lines has made it impossible for MMA to maintain the lines at a level necessary to avoid deferred maintenance. At the present time, the Madawaska Subdivision is, for the most part, in FRA class 2 condition with maximum speeds of 25 mph. Three of the subdivisions--Houlton, Presque Isle and Fort Fairfield--are in FRA class 1 condition, and the maximum speed on these branch lines is 10 mph. The Limestone Subdivision is, for the most part, FRA excepted track, which means that the maximum speed is 10 mph and hazardous material movements are limited. Approximately 113 miles of the total of 233 miles are subject to slow orders. Sheahan VS at Exhibit J.

An investment of \$[] million will be necessary in order to overcome such deferred maintenance and to restore the Abandonment Lines to a state of good repair, which means that the rehabilitated condition could be maintained in subsequent years by means of normalized maintenance and capital expenditures each year. Sheahan VS at p 5. The capital work that is necessary for the 4 subdivisions other than the Limestone Subdivision has a total cost of approximately \$[] million. The work consists of installing 120,000 feet of continuous welded rail, installing approximately 100,000 ties, surfacing all of the track, stabilizing embankments at several locations and certain bridge and culvert work. Sheahan VS at Exhibit G. Of this total expenditure, approximately \$[] million should be spent in the Forecast Year in order to avoid further deterioration and begin the rehabilitation effort. Sheahan VS at Exhibit E.

The cost to bring the Limestone Subdivision up to FRA class 1 is estimated to be \$[] million. The work includes the installation of ties, surfacing, repair of a washout and vegetation removal. Sheahan VS at Exhibit H

In their current condition, the Abandonment Lines have relatively high operating costs. Due to slow track speeds, crews outlaw more frequently, resulting in higher crew costs. There are steep grades at various locations and a general ascending grade from south to north on the Madawaska Subdivision. Higher operating speeds, and correspondingly greater assistance of momentum from the train, would lower fuel costs. The goal of the capital expenditures would be to put the Madawaska Subdivision in class 3 condition and the branch lines (other than the Limestone Subdivision) in class 2 condition, thereby increasing maximum speeds to 40 mph and 25 mph, respectively, and lowering operating expenses, including fuel costs and wages for additional crews, on the Abandonment Lines. Approximately \$[] could be saved annually through a combination of crew reductions and using less fuel. Sheahan VS at Exhibit J. Not incidentally, the rehabilitation would enable MMA to provide faster service for its customers. Sheahan VS at pp 6-7

The flip side of the benefits of undertaking the rehabilitation work is the additional problems that will be created by failure to do the work. A continuation of the status quo will mean even higher operating costs, more slow orders and an increased risk of derailments. Continued operation of the Abandonment Lines without the required capital expenditures will mean that the FRA class and speeds will be lowered even further than they have been up to the present time. The eventual result will be embargoes

and the suspension of service notwithstanding the best of intentions of MMA. Sheahan VS at p 7

D. Alternative Transportation

As noted above, the customers served by the Abandonment Line already use motor carrier transportation to a great degree. In the absence of rail service, these customers will have the ability to continue to ship and receive by truck. The area served by the Abandonment Lines has a system of highways and motor vehicle capacity that are more than adequate to handle the increased volume of truck traffic that will be diverted as a result of the abandonment. McGonigle VS at pp. 4-5 and McGonigle Exhibit 2. In addition, a number of MMA's forest products industry customers, most notably J D Irving, Ltd., currently uses and will presumably continue to use an extensive network of unregulated, private roads that accommodate motor vehicles with much higher payload capacities than are permitted on public highways. McGonigle VS at pp 5, 7

Many of MMA's customers also currently use truck/rail transloading transportation services. There are a number of transloading sites, both on MMA lines and on the lines of other rail carriers, in the area of the Abandonment Lines. MMA's affiliate, Logistics Management Systems ("LMS"), operates a warehouse and transloading facility in the Bangor, Maine area on an MMA line that will continue to be operated after the abandonment. The LMS facility is 77 highway miles south of the southern end of the Abandonment Lines. LMS offers a warehouse with approximately 130,000 square feet of space under one roof, track capacity for 19 railcars and experience in transloading and handling lumber, paper, pulp, chemicals, starch, steel and a variety of other products. McGonigle VS at p 17. MMA is also considering the establishment post-abandonment

of a new transloading facility at Millinocket, Maine, which is at the southern end of the Abandonment Lines. Other rail carriers in the immediate area of the Abandonment Lines also have established transload facilities. McGonigle VS at p. 14. All of these transload facilities could increase the business that they currently do with MMA customers located on the Abandonment Lines or provide new options after the abandonment.

Although it is difficult to predict or quantify, many of the customers located on the Abandonment Lines would have the option, after the abandonment, of using different geographic origination sources for inbound commodities. For example, McCain Foods in Easton, Maine, which uses truck exclusively for outbound products, could presumably receive inbound cooking oil from a transload facility located on Canadian National in Moncton, New Brunswick, rather than by rail from MMA. Similarly, fuel oil and propane shipped by rail to Dead River's facilities are highly dependent on Dead River's sourcing decisions. If those decisions changed, fuel oil and propane could come in by truck. McGonigle VS at pp. 7-9.

MMA retained Robert E. Holland to analyze the transportation costs that customers would incur after rail operations cease on the Abandonment Lines. As described in the Verified Statement of Robert E. Holland ("Holland VS"), the analysis started with a review of MMA's traffic files for the Base Year. Mr. Holland, with the input of MMA's sales and marketing personnel, reviewed the alternative transportation options for significant users of the Abandonment Lines. Mr. Holland's assumptions and methodology are set forth in detail in the Holland VS and the exhibits attached to the Holland VS. For the originating or terminating traffic, it was assumed that current rail movements of 300 miles or less would most likely be diverted exclusively to truck and

that current rail movements in excess of 300 miles would more likely use either a through truck or a rail/truck transload option. The transportation costs for the alternative transportation, including trucks, transloading and rail, were calculated and compared to the existing transportation costs for movements by rail. Holland VS at pp 3-5

For traffic that is moving overhead on the Abandonment Lines, it was determined that only approximately []% of the carloads would be diverted to truck or to truck/rail transload. The remainder of the cars, approximately []%, would continue to move by rail. Holland VS at p 6. The largest block of traffic that would remain an all rail move involves the traffic that moves to or from the Fraser Papers facility in Madawaska, Maine, which is located on a line between Madawaska and Van Buren that MMA will retain. MMA and Canadian National have a haulage agreement which provides for MMA to haul traffic for the account of Canadian National between Fraser Papers in Madawaska and the interchange between MMA and Canadian National at Van Buren-St Leonard, New Brunswick. McGonigle VS at pp 15-16

As depicted in the Holland VS and Exhibits A through D attached to the Holland VS, it is anticipated that there would be an average increase of approximately []% over the Base Year transportation costs for originating or terminating traffic and an increase of approximately []% for overhead traffic. In the Forecast Year, it is estimated that the increases would be []% and []%, respectively. Exhibits A through D show the anticipated change for each customer.

As described above, the rail customers located on or served by the Abandonment Lines have adequate alternative transportation options. To be sure, in certain cases the alternative transportation may be more expensive than the current rail transportation, but

the Board has determined that increased transportation costs for shippers is not a reason to compel a railroad to continue service that can only be provided at a loss Grand Trunk Western Railroad, Inc --Abandonment--In Macomb and Oakland Counties, MI, STB Docket No AB-31 (Sub-No 33), decision served December 23, 1998 ("some inconvenience and added expense" to shippers will not be sufficient to outweigh continued loss producing operations), Union Pacific Railroad Co --Abandonment--In Carver and Scott Counties, MN, STB Docket No AB-33 (Sub-No 255), decision served April 1, 2008 (increased transportation expense as a result of an abandonment is insufficient reason to compel a railroad to continue service that cannot be provided except at a substantial loss)

E Community and Shipper Interests

As noted above, this Application has been filed as a last resort MMA has been working diligently with the Department of Transportation of Maine ("Maine DOT") and the Governor's office since mid-2009 to explore whether there is some way to preserve rail service on the Abandonment Lines Discussions between MMA and Maine DOT have included the possibility that the Abandonment Lines or parts of them might be sold to the state under an arrangement pursuant to which the state, as the new owner, would be responsible for capital expenditures to restore the Abandonment Lines to a state of good repair and MMA would continue to operate Maine DOT requested grant funds from the federal government pursuant to the so-called "TIGER" program for purposes of such a transaction, but, based upon decisions announced by the United States Department of Transportation on February 17, 2010, the Maine application was not approved The state legislature is currently considering a bill that would provide for a bond issue to fund an

acquisition of the Abandonment Lines, but it is impossible to predict at this time whether any such bill will be enacted. MMA has also cooperated with the consultant retained by Maine DOT to assist in attempting to develop solutions to the problem, and it is anticipated that discussions with Maine DOT will continue.

MMA has also maintained an open attitude toward conversations with the customers in the event that one or more of them may want to purchase or subsidize operations on the Abandonment Lines. As of this time, no customer has made any offer to purchase or subsidize, but Maine DOT or its consultant may yet come forward with ideas that could be explored.

Shippers or community interests may contend that additional rail traffic will materialize and benefit MMA, but, in order to be given any weight, any such contention must be supported by hard evidence of a commitment or affirmative acts by shippers to increase existing rail business or generate new rail business. As the Board has stated, "potential traffic that is too speculative to be given weight" will not overcome a showing of operating losses by the rail carrier. Arizona & California Railroad Co.--Abandonment Exemption--In San Bernardino and Riverside Counties, CA, STB Docket No. AB-1022 (Sub-No. 1X), decision served June 30, 2009, Union Pac. Railroad Co.--Discontinuance--In Utah County, UT, STB Docket No. AB-33 (Sub-No. 209), decision served January 2, 2008.

It is readily apparent that MMA can no longer afford to continue to operate the Abandonment Lines. Such loss producing operations are severely straining MMA's resources and its ability to continue to provide service on the rest of its system. Furthermore, the enormity of the necessary capital expenditure that must be made if the

Abandonment Lines are to continue in operation cannot be financed by MMA
Consequently, if operations continue, the condition of the Abandonment Lines would
continue to deteriorate and service would suffer as well. Given these facts and
circumstances, the balance weighs heavily in favor of permitting the abandonment

INFORMATION REQUIRED BY 49 CFR 1152.22

A. 1152.22(a): General Information

1. 1152.22(a)(1): Exact name of Applicant

The exact name of the Applicant is Montreal, Maine & Atlantic Railway, Ltd.

2. 1152.22(a)(2): Whether Applicant is a common carrier by railroad

MMA is a common carrier by railroad subject to 49 U S C Subtitle IV, chapter
105

3. 1152.22(a)(3): Relief sought

MMA seeks authority to abandon the lines described above and to discontinue rail
service over such lines.

4. 1152.22(a)(4): Detailed map of the lines to be abandoned

A map showing the exact location of the lines to be abandoned and over which
service is to be discontinued and their relation to other rail lines in the area, highways,
water routes and population centers is attached hereto as Exhibit 1

5. 1152.22(a)(5): Reference to system diagram map

The lines to be abandoned were listed in category 1 on the MMA system diagram
map that was filed with the Board on August 28, 2009 A copy of the system diagram

map and line descriptions which accompanied the system diagram map are attached hereto as Exhibit 2

6. 1152.22(a)(6): Detailed statement of reasons for filing Application

As set forth in detail at pages 3 through 23 above, there are several reasons for filing the application, all of which are among the factors that the Board has determined in prior decisions to justify abandonment. MMA has been incurring avoidable losses in excess of \$[] million annually as a result of operating the Abandonment Lines. Continued operation of the Abandonment Lines would require the expenditure of approximately \$[] million for rehabilitation and essential capital expenditures. MMA's opportunity costs related to the Abandonment Lines is approximately \$[] million. In addition, the overall drain on MMA's financial condition and resources as the result of continued operation of the Abandonment Lines threatens MMA's ability to continue to provide service on the remaining lines in its system.

7. 1152.22(a)(7): Representative of Applicant

The representative of MMA to whom correspondence concerning this Application should be sent is James E. Howard, 1 Thompson Square, Suite 201, Charlestown, MA 02129, telephone (617) 886-9322, facsimile (617) 886-9324, e-mail jim@jehowardlaw.com.

8. 1152.22(a)(8): US Postal Service ZIP Codes

The lines to be abandoned traverse the following United States Postal Service ZIP Codes: Madawaska Subdivision--04462, 04460, 04777, 04776, 04747, 04763, 04780, 04759, 04732, 04775, 04768, 04739, 04781, 04743, 04745 and 04756; Presque Isle Subdivision--04732, 04757 and 04769; Fort Fairfield Subdivision--04769 and 04740;

Limestone Subdivision--04769, 04736 and 04750; Houlton Subdivision--04763, 04761 and 04730.

B. 1152.22(b): Condition of properties

The current physical condition of the Abandonment Lines is described in detail above at pages 16 through 18 and in the Sheahan VS Capital expenditure is in the range of \$[] million will be required to correct deferred maintenance and to put the Abandonment Lines in a state of good repair. Approximately \$[] million would have to be spent on the Limestone Subdivision to bring it from FRA excepted status to FRA class 1 condition.

C. 1152.22(c): Service provided

1. 1152.22(c)(1): Number of trains operated and frequency

During the Base Year October 1, 2008 through September 30, 2009, MMA operated 12 or 13 trains per week on the lines to be abandoned. Between October 1, 2008 and January 17, 2009, MMA operated 13 trains per week as follows: 3 trains per week northbound between Millinocket and Madawaska; 3 trains per week southbound between Madawaska and Millinocket, 2 trains per week from Squa Pan to Portage and back to Squa Pan; 3 trains per week from Squa Pan to Presque Isle, Easton and Caribou and back to Squa Pan; and one train per week from Oakfield to Houlton and back to Oakfield. Between January 18, 2009 and May 16, 2009, MMA operated 12 trains per week as follows: 3 trains per week northbound between Millinocket and Madawaska, 3 trains per week southbound between Madawaska and Millinocket, 2 trains per week from Squa Pan to Portage and back to Squa Pan, 3 trains per week from Squa Pan to Presque Isle, Easton and Caribou and back to Squa Pan, and one train per week from Oakfield to

Houlton and back to Oakfield. From May 17, 2009 to September 30, 2009, MMA operated 3 trains per week northbound from Millinocket to Madawaska, 3 trains per week southbound from Madawaska to Millinocket, 3 trains per week from Squa Pan to Portage and back to Squa Pan, 2 trains per week from Squa Pan to Presque Isle, Easton and Caribou and back to Squa Pan, and one train per week from Oakfield to Houlton and back to Oakfield.

2. 1152.22(c)(2): Miles of track operated

MMA operates on 266.1 miles of track within the termini of the 233 miles of main line (the Madawaska Subdivision) and branch lines that constitute the Abandonment Lines. In addition to the 233 miles of main and branch lines, MMA also operates on 14 miles of sidings owned by MMA.

3. 1152.22(c)(3): Average number of locomotives

From October 1, 2008 through January 17, 2009, MMA operated on average 2.71 locomotive units per day on the Abandonment Lines. From January 18, 2009 through September 30, 2009, MMA operated an average of 2.57 locomotive units per day on such lines.

4. 1152.22(c)(4): Total tonnage and carloads by commodity group

The total tonnage and carloads by commodity group on the Abandonment Lines during the Base Year are shown in Exhibit 3.

5. 1152.22(c)(5): Overhead traffic by commodity group that will not be retained

Overhead traffic that will not be retained after the abandonment is shown for the Base Year by carload commodity group in Exhibit 4.

6. 1152.22(c)(6): Average crew size

From October 1, 2008 through January 17, 2009, the average crew size on trains operating on the lines to be abandoned was 1.68 employees. From January 18, 2009 through September 30, 2009, the average crew size was 1.66 employees.

7. 1152.22(c)(7): Level of maintenance

The level of maintenance of the Abandonment Lines is described at pages 16 through 18 above and in the Sheahan VS.

8. 1152.22(c)(8): Important changes in train service

In the 2 calendar years prior to the filing of this Application, MMA made a number of important changes in train service on the Abandonment Lines. In general terms, the changes were made to reflect decreases (or in a few cases, increases) in traffic levels and to achieve savings in operating costs. Specifically, the important changes were as follows:

--In May, 2008, service between Oakfield and Houlton was reduced from 5 days a week to 2 days per week.

--In May, 2008, northbound service between Millinocket and Madawaska was increased from 5 days a week to 6 days a week.

--In June, 2008, 6 day a week service between Madawaska and Millinocket was abolished, and triweekly round trips between Millinocket and Madawaska (northbound on Saturday, Tuesday and Thursday and southbound on Monday, Wednesday and Friday) was instituted.

--In July, 2008, 6 day a week service in each direction was reinstated between Madawaska and Millinocket.

--In August, 2008, 6 day a week service in each direction between Millinocket and Madawaska was abolished and replaced with triweekly round trips similar to the service instituted in June, 2008.

--In August, 2008, service on the Presque Isle, Fort Fairfield, and Limestone Subdivisions was reduced from 5 days a week to 3 days a week. In addition, service between Squa Pan and Portage was resumed on a 4 day per week basis.

--In January, 2009, service between Oakfield and Houlton was reduced to one day per week.

--Between March, 2009 and May, 2009, service between Millinocket and Madawaska was reduced from 3 round trips to 2 round trips per week and subsequently increased back to 3 roundtrips on several occasions, depending upon traffic volumes. As of September 30, 2009, MMA was providing 3 roundtrips per week between Millinocket and Madawaska.

9. 1152.22(c)(9): Reasons for decline in traffic

The reasons for the decline in traffic on the Abandonment Lines are described in the Grindrod VS and the McGonigle VS and at pages 4 through 9 above. In summary, rail traffic has declined as a result of a number of factors, including decreased production and financial problems in the paper and forest products industries, which comprise the majority of the business on the Abandonment Lines, diversion of traffic from rail to truck and the current crises in the home building and credit markets.

D. 1152.22(d): Revenue and cost data

1. 1152.22(d)(1): Revenues and avoidable costs in Base Year

The Finley VS and Exhibit 1 attached to the Finley VS provide a detailed description of the computation of the revenues and avoidable costs attributable to operations on the Abandonment Lines in the Base Year. As shown there, MMA suffered an avoidable loss from operations of approximately \$[] million.

2. 1152.22(d)(2): Estimate of revenues and costs in Forecast Year

As shown in the Finley VS and Exhibit 1 attached to the Finley VS, estimated future revenues and avoidable costs attributable to the Abandonment Lines in the Forecast Year indicate that MMA would incur an avoidable operating loss of approximately \$[] million. Exhibit 4 attached to the Finley VS shows the calculation of MMA's opportunity costs, which are in the range of approximately \$[] million.

3. 1152.22(d)(3): Estimated subsidy payment

Exhibit 1 attached to the Finley VS shows the estimated subsidy payment is approximately \$[] million. This calculation takes into account the capital expenditure of approximately \$[] million required to address maintenance issues on the Abandonment Lines.

E. 1152.22(e): Rural and community impact

1. 1152.22(e)(1): Communities in which a station is located

The name and population of each community in which a station on the lines to be abandoned is located are shown in Exhibit 5 attached hereto. The population information

is based upon the 2000 census Weeksboro, Howe Brook and St Croix are unincorporated areas for which no population information was available

2. 1152.22(e)(2): Significant users

Exhibit 6 attached hereto identifies significant users of the Abandonment Lines by name, address, principal commodity, tonnage and carloads for 2008, 2009 and the Base Year In addition, Exhibit 6 shows the total tonnage and carloads for each commodity group originating or terminating on the Abandonment Lines for those same periods

3. 1152.22(e)(3): Alternative sources of transportation service

As described in the McGonigle VS and the map attached as Exhibit 2 to the McGonigle VS, the region in which the Abandonment Lines are located is served by a well developed system of public highways The line between Millinocket and Madawaska is paralleled by Maine Route 11, and Caribou, Presque Isle and Houlton are served by US Route 1 Route 11 and Route 1 connect with US Interstate 95 at Houlton and Sherman Mills, respectively, providing access to the national interstate highway system At the north end of the territory, Route 11 and Route 1 connect in Fort Kent, which is a port of entry to Canada In addition, US Route 1 provides access to Canada at Van Buren and Madawaska.

East-West arteries include Maine Route 161, Maine Route 163 and Maine Route 227, which connect Route 11 and Route 1 and which provide access to Caribou, Fort Fairfield and Presque Isle. In addition to these public highways, an extensive private road network within the region provides unregulated, unrestricted truck transportation for the logging and forest products industry

Trucking is today and will continue to be the predominant mode of transportation to and from the territory served by the Abandonment Lines. The public highway system permits trucks with gross vehicle weights up to 100,000 pounds. After the abandonment is consummated, trucking will continue to be the preferred mode of transportation in this area.

The region in which the lines are located is also served by air. Airports are located at Presque Isle, Caribou, Frenchville and Houlton.

As an alternative to the direct rail service provided on the Abandonment Lines by MMA, MMA and other rail carriers will have the ability to provide service to customers located on such lines by means of transloading between rail and truck. For example, as described above at pages 18-19 above, MMA can provide rail/truck transloading service at the LMS facility near Bangor, Maine. In addition, the lines of Canadian National reach Edmunston, New Brunswick, which is across the international border from Madawaska, Pan Am Railway provides service as far north as Mattawamkaeg, Maine, the St. Lawrence and Adirondack Railroad serves Auburn, Maine and Eastern Maine Railroad/New Brunswick Southern Railroad operate an east-west line between Mattawamkaeg and St. John, New Brunswick. Each of these 4 rail carriers could provide service to customers located on the Abandonment Lines by means of transloading.

4. 1152.22(e)(4): Use for other public purposes

The Abandonment Lines are appropriate for use for a variety of other public purposes. The rights-of-way could be used for public roads or highways. Furthermore, lumber operations in Aroostook County already make use of a substantial network of private roads, and the rights-of-way in question could be converted to such uses. The

rights-of-way are also conducive for use as power and communications corridors for electricity, pipelines, telephone and fiber optics. In addition, the rights-of-way are ideal for purposes of recreational uses, such as snowmobiling, all-terrain vehicle operations, hiking and bicycling. The State of Maine and, in particular, the Maine Department of Conservation, have been active purchasers of many miles of abandoned rights-of-way, which are now part of a state owned recreational corridor network.

The Abandonment Lines were acquired by predecessors of MMA in the late 1800s or early 1900s. MMA has reviewed the deeds pursuant to which the lines were acquired, and the review indicates that, while MMA has good, marketable title to approximately [] miles of the Abandonment Lines, certain portions of the lines, totaling approximately [] miles, as described in the Tardif VS, are not owned in fee.

F. 1152.22(f): Environmental impact

The Board's Section of Environmental Analysis ("SEA") has waived the requirement of the submission of environmental and historic reports pursuant to 49 CFR 1105.7 and 1105.8. In addition, SEA approved the request of MMA to retain HNTB as a third-party consultant, pursuant to 49 CFR 1105(10)(d). In accordance with the understanding between MMA and SEA, HNTB prepared a preliminary draft environmental assessment and submitted it to SEA for review in December, 2009. HNTB revised the preliminary draft environmental assessment on the basis of comments by SEA, and the revised preliminary draft environmental assessment was served on February 4, 2010. SEA will review any comments by interested parties on the preliminary draft environmental assessment, make such changes as it deems necessary.

and issue an environmental assessment that will be available to the public for review and comment in accordance with the Board's regulations

G. 1152.22(g): Passenger service

There is no passenger service provided on any of the Abandonment Lines

H. 1152.22(g): Additional information

Additional information in support of the Application is set forth above and in the accompanying Verified Statements, including the exhibits to such Verified Statements

I. 1152.22(i): Draft Federal Register notice

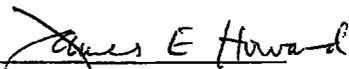
A draft Federal register notice is attached hereto as Exhibit 7

CONCLUSION

For the reasons set forth above, the Board should grant the Application. MMA has demonstrated that it is incurring enormous avoidable losses from operation of the Abandonment Lines and is facing necessary capital expenditures that it has no ability to fund. MMA cannot be forced to continue to incur such losses. When balanced against any alleged detriment to shipper or community interests as a result of an abandonment, the harm to MMA and the burden on interstate commerce tip the balance in favor of an order permitting abandonment.

Respectfully submitted,

MONTREAL, MAINE &
ATLANTIC RAILWAY, LTD.


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Atlantic Railway, Ltd.

Dated: February 24, 2010

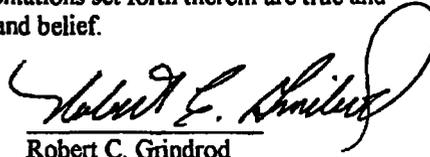
VERIFICATION

State of Maine

ss.

County of Penobscot

Robert C. Grindrod, makes oath and says that he is the President and Chief Executive Officer of Montreal, Maine & Atlantic Railway, Ltd., the Applicant herein; that he has been authorized by the Applicant to verify and file with the Surface Transportation Board the foregoing Application in STB AB-1043 (Sub-No. 1); that he has carefully examined all of the statements in the Application as well as the exhibits attached thereto and made a part thereof; that he has knowledge of the facts and matters relied upon in the Application; and that all representations set forth therein are true and correct to the best of his knowledge, information and belief.



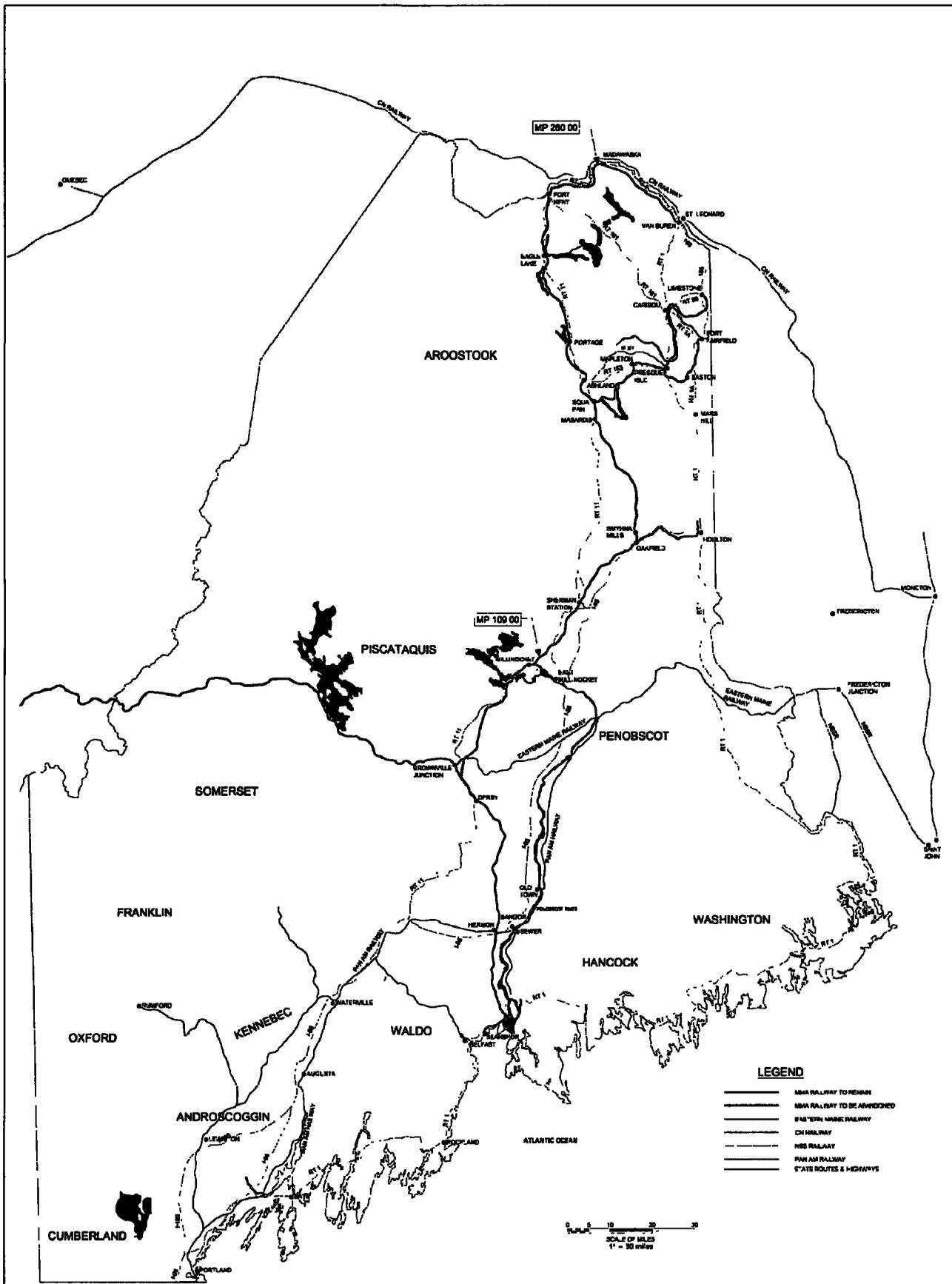
Robert C. Grindrod

Subscribed and sworn to
before me this 14 day of
February, 2010



Notary Public

My Commission Expires: 4-23-15



Montreal, Maine & Atlantic Railway AB#1043 System Diagram Map

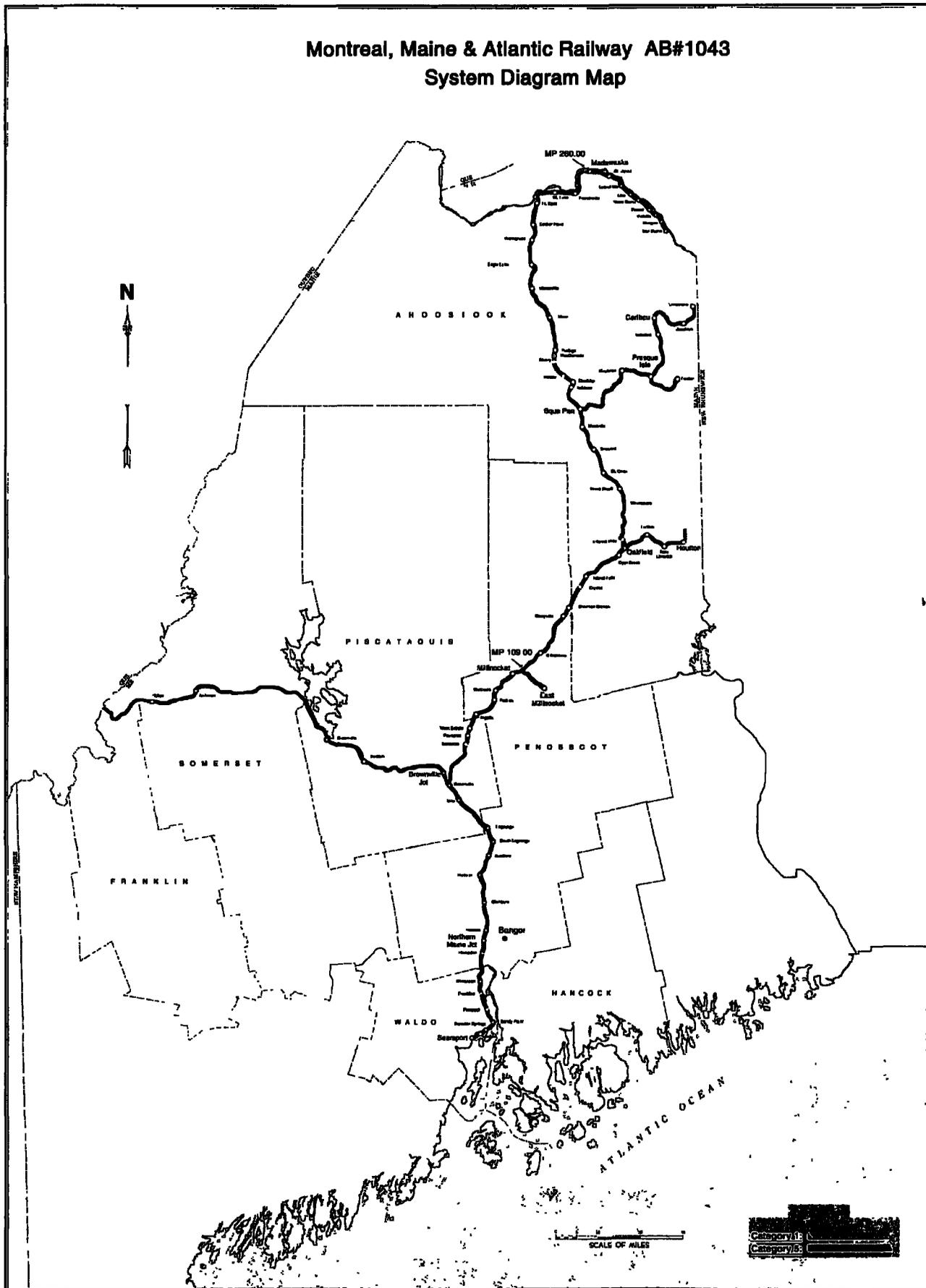


Exhibit _

Traffic Date	10/1/2008 - 9/30/2009	Number of Cars	Net Tons
AGGREGATES Total	192	19,130	
CHEMICALS Total	90	7,998	
CLAY Total	402	38,722	
FEEDS Total	90	7,440	
FERTILIZER Total	87	8,529	
FINISHED WOOD PRODUCTS Total	818	69,551	
GRAIN Total	117	9,042	
MISC Total	82	9,182	
PAPER Total	1450	104,429	
PETROLEUM FUELS Total	509	39,703	
RAW WOOD PRODUCTS Total	5029	268,708	
STARCH Total	9	830	
VEGETABLE OILS Total	148	13,629	
WOODPULP Total	145	12,764	
Total	9168	609,658	

Exhibit __

Overhead Traffic by Carload Commodity Group NOT to be Retained

<u>Product Group</u>	<u>Year of Waybill Date</u>	<u>Sum of Number of Cars</u>	<u>Sum of Tonnage</u>
Chemicals	10/1/2008 - 9/30/2009	34	3,044
Clay	10/1/2008 - 9/30/2009	402	38,722
Finished Wood Products	10/1/2008 - 9/30/2009	299	24,906
Grains	10/1/2008 - 9/30/2009	27	2,119
Paper	10/1/2008 - 9/30/2009	1,450	104,429
Petroleum Fuels	10/1/2008 - 9/30/2009	16	1,463
Raw Wood Products	10/1/2008 - 9/30/2009	608	35,988
Woodpulp	10/1/2008 - 9/30/2009	<u>145</u>	<u>12,764</u>
Total		2,981	223,435

Exhibit _

Madawaska Subdivision:

Mile Post	Station Name	Town Name	County	Population
113.7	Grindstone	Grindstone	Penobscot	N/A
124.8	Stacyville	Stacyville	Penobscot	405
128.8	Sherman	Sherman	Aroostook	937
134	Crystal	Crystal	Aroostook	285
138.3	Belvedere	Island Falls	Aroostook	793
139.8	Island Falls	Island Falls	Aroostook	793
146.6	Dyer Brook	Dyer Brook	Aroostook	199
149.13	Oakfield	Oakfield	Aroostook	732
151.1	Smyrna Mills	Smyrna Mills	Aroostook	415
160.8	Weeksboro	Weeksboro	Aroostook	N/A
164.5	Howe Brook	Howe Brook	Aroostook	N/A
168.1	St. Croix	St. Croix	Aroostook	N/A
181.4	Masardis	Masardis	Aroostook	255
183.7	Levesque	Masardis	Aroostook	255
185.87	Squa Pan	Masardis	Aroostook	255
191.9	Ashland	Ashland	Aroostook	1474
193.4	Sheridan	Ashland	Aroostook	1474
193.6	Wrightville	Ashland	Aroostook	1474
194.5	Moody	Ashland	Aroostook	1474
198.4	Skerry	Ashland	Aroostook	1474
203.9	Portage	Portage	Aroostook	390
212.4	Nixon	Nashville Plantation	Aroostook	55
220.3	Winterville	Winterville	Aroostook	196
226.7	Eagle Lake	Eagle Lake	Aroostook	815
231.5	Wallagrass	Wallagrass	Aroostook	561
235.5	Soldier Pond	Wallagrass	Aroostook	561
244.04	Fort Kent	Fort Kent	Aroostook	4233
255.56	Frenchville	Frenchville	Aroostook	1225
256.6	Cleveland	Frenchville	Aroostook	1225

Presque Isle Subdivision:

Mile Post	Station Name	Town Name	County	Population
0	Squa Pan	Masardis	Aroostook	255
15.3	Chapman	Chapman	Aroostook	465
17.81	Mapleton	Mapleton	Aroostook	1889
24.1	Skyway Jct.	Presque Isle	Aroostook	9511
25.3	Presque Isle	Presque Isle	Aroostook	9511

Fort Fairfield Subdivision:

Mile Post	Station Name	Town Name	County	Population
0.0	Presque Isle	Presque Isle	Aroostook	9511
5.4	Phair	Presque Isle	Aroostook	9511
10.0	Easton	Easton	Aroostook	1249

Limestone Subdivision:

Mile Post	Station Name	Town Name	County	Population
0.00	Presque Isle	Presque Isle	Aroostook	9511
5.96	Industrial	Presque Isle	Aroostook	9511
14.73	Caribou	Caribou	Aroostook	8312
17.70	Macneil	Caribou	Aroostook	8312
24.54	Goodrich	Fort Fairfield	Aroostook	3579
29.85	Limestone	Limestone	Aroostook	2361

Houlton Subdivision:

Mile Post	Station Name	Town Name	County	Population
0	Oakfield	Oakfield	Aroostook	732
6.43	Ludlow	Ludlow	Aroostook	402
10.55	New Limerick	New Limerick	Aroostook	523
16.9	Houlton	Houlton	Aroostook	6476

REDACTED

Exhibit 7

Draft Federal Register Notice

STB No. AB 1043 (Sub-No. 1)

Notice of Application to Discontinue Service and Abandon

On February __, 2010, Montréal, Maine & Atlantic Railway, Ltd. ("MMA") filed with the Surface Transportation Bd., Washington, DC 20423, an application for permission for the abandonment and discontinuance of service on the following lines of railroad:

(1) the Madawaska Subdivision, consisting of approximately 151 miles of line between milepost 109 near Millinocket and milepost 260 near Madawaska in Penobscot and Aroostook Counties, which traverses United States Postal Service ZIP Codes 04460, 04430, 04777, 04776, 04747, 04763, 04780, 04759, 04732, 04775, 04768, 04739, 04781, 04743 and 04745;

(2) the Presque Isle Subdivision, consisting of approximately 25.3 miles of line between milepost 0.0 near Squa Pan and milepost 25.3 near Presque Isle in Aroostook County, which traverses United States Postal Service ZIP Codes 04732, 04757 and 04769;

(3) the Fort Fairfield Subdivision, consisting of approximately 10 miles of line between milepost 0.0 near Presque Isle and milepost 10.0 near Easton in Aroostook County, which traverses United States Postal Service ZIP Codes 04769 and 04740;

(4) the Limestone Subdivision, consisting of approximately 29.85 miles of line between milepost 0.0 near Presque Isle and milepost 29.85 near Limestone in Aroostook County, which traverses United States Postal Service ZIP Codes 04769, 04736, 04742 and 04750; and

(5) the Houlton Subdivision, consisting of approximately 16.9 miles of line between milepost 0.0 near Oakfield and milepost 16.9 near Houlton in Aroostook County, which traverses United States Postal Service ZIP Codes 04763, 04761 and 04730.

The lines do not have located on them any stations, agency stations or terminals or any agency station through which business for the lines is received or forwarded. MMA has offices or facilities located on the lines at milepost 149.13 in Oakfield on the Madawaska Subdivision (Oakfield Station, 103 School Street, Oakfield, ME 04763), at milepost 16.9 in Houlton on the Houlton Subdivision (Roadway Equipment Shop, 60 Florence Avenue, Houlton, ME 04730), at milepost 185.87 in Squa Pan on the Madawaska Subdivision (Squa Pan Station, 988 Masardis Road, Ashland, ME 04732), at milepost 25.25 on the Presque Isle Subdivision (Presque Isle Section House, 21 Roberts Avenue, Presque Isle, ME 04769) and at milepost 244.04 on the Madawaska Subdivision (Fort Kent Station, 5 Dube Street, Fort Kent, ME 04743). In addition, MMA has offices

or facilities that are not on the lines to be abandoned but that either facilitate the receipt or forwarding of business on the lines or serve as a reporting point for employees who may work on the lines, as follows: MMA Headquarters, 15 Iron Road, Hermon, ME 04401; Hermon Station, 64 Iron Road, Hermon, ME 04401; Derby Shop, 18 B&A Avenue, Derby, ME 04463; Brownville Junction Station, Main Street, Brownville Junction, ME 04415; Millinocket Car House, Iron Bridge Road, Millinocket, ME 04462; Millinocket Station, 1 Station Road, Millinocket, ME 04462; Madawaska Station, 65 Bridge Street, Madawaska, ME 04756.

The lines do not contain federally granted rights-of-way. Any documentation in the railroad's possession will be made available promptly to those requesting it. The applicant's entire case for abandonment and discontinuance (case in chief) was filed with the application.

These lines of railroad have appeared on the applicant's system diagram map since August 28, 2009.

The interest of railroad employees will be protected as required by 49 U.S.C. 10903(b)(2) and Oregon Short Line Co.--Abandonment--Goshen, 360 ICC 91 (1979).

Any interested person may file with the Surface Transportation Board written comments concerning the proposed abandonment and discontinuance or protests (including the protestant's entire opposition case), within 45 days after the application is filed. All interested persons should be aware that following any abandonment of rail service and salvage of the lines, the lines may be suitable for other public use, including interim trail use. Any request for a public use condition under 49 U.S.C. 10905 (§1152.28 of the Board's rules) and any request for a trail use condition under 16 U.S.C. 1247(d) (§1152.29 of the Board's rules) must be filed within 45 days after the application is filed. Persons who may oppose the abandonment and discontinuance but who do not wish to participate fully in the process by appearing at any oral hearings or by submitting verified statements of witnesses, containing detailed evidence, should file comments. Persons interested only in seeking public use or trail use conditions should also file comments. Persons opposing the proposed abandonment or discontinuance that do wish to participate actively and fully in the process should file a protest.

In addition, a commenting party or protestant may provide:

- (i) An offer of financial assistance, pursuant to 49 U.S.C. 10904 (due 120 days after the application is filed or 10 days after the application is granted by the Board, whichever occurs sooner);
- (ii) Recommended provisions for protection of the interests of employees;
- (iii) A request for a public use condition under 49 U.S.C. 10905; and
- (iv) A statement pertaining to prospective use of the right-of-way for interim trail use and rail banking under 16 U.S.C. 1247(d) and §1152.29.

Parties seeking information concerning the filing of protests should refer to §1152.25.

Written comments and protests, including all requests for public use and trail use conditions, must indicate the proceeding designation STB No. AB 1043 (Sub-No. 1) and should be filed with the Chief, Section of Administration, Office of Proceedings,, Surface Transportation Board, Washington, DC 20423-0001, no later than April 10, 2010. Interested persons may file a written comment or protests with the Board to become a party to this abandonment and discontinuance proceeding. A copy of each written comment or protest shall be served upon the representative of the applicant, James E. Howard, One Thompson Square, Suite 201, Charlestown, MA 02129, telephone 617-886-9322. The original and 10 copies of all comments or protests shall be filed with the Board with a certificate of service. Except as otherwise set forth in part 1152, every document filed with the Board must be served on all parties to the abandonment proceeding. 49 CFR 1104.12(a).

The lines sought to be abandoned will be available for subsidy or sale for continued rail use, if the Board decides to permit the abandonment, in accordance with applicable laws and regulations (49 U.S.C. 10904 and 49 CFR 1152.27). No subsidy arrangement approved under 49 U.S.C. 10904 shall remain in effect for more than one year unless otherwise mutually agreed by the parties (49 U.S.C. 10904(f)(4)(B)). Applicant will promptly provide upon request to each interested party an estimate of the subsidy and minimum purchase price required to keep the lines in operation. The carrier's representative to whom inquiries may be made concerning sale or subsidy terms is James E. Howard, One Thompson Square, Suite 201, Charlestown, MA 02129.

Persons seeking further information concerning abandonment procedures may contact the Surface Transportation Board or refer to the full abandonment regulations at 49 CFR part 1152. Questions concerning environmental issues may be directed to the Board's Section of Environmental Analysis.

An environmental assessment (EA) (or an environmental impact statement (EIS), if necessary) prepared by the Section of Environmental Analysis will be served upon all parties of record and upon any agencies or other persons who commented during its preparation. Any other persons who would like to obtain a copy of the EA (or EIS) may contact the Section of Environmental Analysis. EAs in these abandonment proceedings normally will be made available within 33 days of the filing of the application. The deadline for submission of comments on the EA will generally be within 30 days of its service. The comments received will be addressed in the Board's decision. A supplemental EA or EIS may be issued where appropriate.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No. AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF ROBERT C GRINDROD

My name is Robert C Grindrod, and I am the President and Chief Executive Officer of Montréal, Maine & Atlantic Railway, Ltd ("MMA") I have overall responsibility for and am familiar with the operations and properties of MMA MMA currently owns and operates approximately 750 miles of line in Maine, Vermont and Québec

I have worked in the rail transportation industry for approximately 40 years I have been employed by the Erie Lackawanna, Baltimore & Ohio, Chicago & North Western, Wisconsin Central and Canadian National Railways in various operating positions. I assumed my responsibilities with MMA in 2003, shortly after MMA commenced its operations in January, 2003

The purpose of this Verified Statement is to describe the background and events that have led to the filing of an abandonment application with respect to approximately 233 miles of lines in Penobscot and Aroostook Counties in the State of Maine (the "Abandonment Lines") As described below and in the other verified statements being submitted with the application, MMA has suffered a severe loss of revenues on the Abandonment Lines, and the prospects for increasing business and revenues from the

current depressed levels are not bright. Even though we have reduced expenses dramatically, the railway operations of the MMA as a whole have produced net income losses ranging from \$[] million to \$[] over the last 3 years and, as described in the Verified Statement of Robert C. Finley, avoidable losses from operations of the Abandonment Lines of approximately \$[] million in the Base Year (October 1, 2008 through September 30, 2009). As a result of these losses, we have been unable to fund necessary maintenance and capital expenditures on the Abandonment Lines, leading to deferred maintenance that will require an expenditure of approximately \$[] million to rectify. Given this level of losses, the unlikelihood that revenues will increase and the enormity of the required maintenance expenditures, the only reasonable alternative, absent a transaction with the State of Maine, as described below, is to proceed with the application for abandonment.

MMA began its operations in January, 2003, having purchased substantially all of the rail assets of the Bangor & Aroostook Railroad, which was in a Chapter 11 reorganization proceeding. Based upon the estimates and pro forma financial statements prepared by MMA, we anticipated that our operations would be profitable from the start and that business levels and profits would increase as we proceeded. Not only have these expectations not been met, MMA from the beginning and continuing to the present time has encountered a variety of unforeseen obstacles to profitability.

On the same day that MMA began its operations, Great Northern Paper, at that time the largest customer on the MMA lines, filed a bankruptcy petition. Great Northern discontinued its operations completely for many months, causing MMA to institute across the board salary reductions and other severe cost-cutting measures simply in order

to survive. Great Northern eventually resumed partial operations under a new owner, but the level of rail traffic produced at the former Great Northern facilities has never reached or even come close to the pre-bankruptcy levels

Furthermore, the other rail traffic anticipated by MMA was primarily related to the paper and forest products industries, both of which have encountered difficult financial environments. In fact, some of the plants served by MMA have contracted or discontinued operations since 2003. As described in the Verified Statement of Joseph R McGonigle, rail traffic handled by MMA generally, and on the Abandonment Lines in particular, has followed a downward trend. Indeed, MMA carloads and revenues have decreased by approximately []% percent and []% percent, respectively, since our peak year in 2005.

The declines in traffic volumes have not been uniform across all commodity groups. Volumes in fuels and agricultural commodities have either remained steady, or have shown year to year variations based on other economic factors, but these product groups represent a relatively small portion--an average of []% over the period 2003 – 2009--of the total traffic on the Abandonment Lines.

The three major traffic groups originating or terminating on the Abandonment Lines show quite a different picture as is illustrated in the following table:

COMMODITY	2003 C/L	2005 C/L	2008 C/L	2009 C/L	Decline
Finished Lumber	[]	[]	[]	[]	[]%
OSB/OSL¹	[]	[]	[]	[]	[]%
Logs/Chips	[]	[]	[]	[]	[]%

¹ Oriented strand board and oriented strand lumber

As can be seen from the table, in two of the three commodity groups traffic increased in the 2003 – 2005 period, reaching its peak level in 2005. Thereafter, volumes (and attendant revenues) fell reflecting the overall declines in the forest products segment of the United States economy generally and the Maine market in particular, which was impacted earlier and more severely than was the case in other parts of the country. Declines in traffic volume were also reflected in both the revenues and net operating profit of MMA as a whole during the period as follows:

YEAR	REVENUE	CARLOADS	NET INCOME
2005	\$[]	[]	\$[]
2006	\$[]	[]	\$[]
2007	\$[]	[]	(\$[])
2008	\$[]	[]	(\$[])
2009 (Est)	\$[]	[]	(\$[]) (Est)

As the result of falling traffic volumes and steadily rising losses taking place as they were during a period of rapidly rising fuel and material prices, it was necessary to take measures to offset the accumulating deficits. Costs were reduced wherever possible without affecting service, but it eventually became necessary to reduce the frequency of service offered to customers in order to attempt to decrease expenses in line with decreasing revenues. Although, as can be seen from the table above, there was a substantial drop in traffic during 2007, no reductions in service to customers were begun until 2008 when it was clear that no alternatives existed.

MMA has made herculean efforts in its attempt to generate new business, and we met with some success in the early years, as can be seen from the tables above. Despite those efforts, business levels, as described above, have declined in more recent years. Furthermore, there is no reasonable prospect that business will increase in the near term, given current and anticipated economic conditions generally and the economic environment in which our major customers operate. Ultimately, MMA's traffic is dependent on the operations and level of economic activity of its customers, and it is not likely that such operations or activity will revive soon to levels that we sought in 2003-2005. Even if the current recession ends, and business activities pick up generally, it is difficult to predict or quantify any positive impact on MMA's revenues.

MMA has also gone to extreme lengths to reduce costs. Employment levels have been reduced to all time lows, and are approximately 35% below the number of employees in 2008. Effective March 1, 2009 MMA instituted an across the board pay cut of 15%, with senior officers taking a 20% reduction in their compensation. Other expenses have also been reduced to the point where further reductions are not feasible.

The shareholders of MMA, which is privately held, have shared in the pain. In recent years, approximately \$ [] million of new equity capital has been contributed to MMA by its owners. In addition, shareholders who also held mezzanine debt have converted approximately \$ [] million of such debt into equity. These measures have helped MMA to survive and to continue to provide service, but they have not solved the problem.

Even with these efforts to increase business and reduce costs, MMA has been unprofitable as a whole for the last 3 years, as shown in the table above. As described in the Verified Statement of Robert C. Finley, operation of the Abandonment Lines is generating avoidable losses in excess of \$[] million annually. Performance at these levels has prevented MMA from generating the revenue needed to continue to maintain the Abandonment Lines at appropriate levels. The Verified Statement of Melody A. Sheahan explains the current condition of the lines and demonstrates the need for expenditures in the amount of approximately \$[] million in order to overcome deferred maintenance. If MMA cannot generate funds to provide for normal maintenance costs and capital replacement of the Abandonment Lines, the lines will incur increasing slow orders (to maintain safe operations) until they become commercially unusable. Additionally, this drain on MMA's cash results in risks to other portions of MMA's system, which have been determined to be viable, as it has become very difficult if not impossible to fund normal maintenance and capital requirements anywhere.

MMA reached its decision to file the abandonment application only after careful analysis and deliberation. Prior to the decision, we entered into discussions with the Maine Department of Transportation and the Maine Governor's office concerning the possibility that the State would purchase the lines to be abandoned and fund the required capital expenditures and certain ongoing maintenance. The State applied for a so-called "TIGER" grant, a federal stimulus program providing funding for transportation projects of this type, but the grant recipients recently selected by the United States Department of Transportation do not include Maine for this project. The state has indicated that if it does not obtain TIGER funds, the only other potential source of state funding for an

acquisition would be a bond issue. The state Legislature has before it a bill that would provide funding for the acquisition of the Abandonment Lines, but the fate of the bill is uncertain.

MMA believes that its only alternative at this time is to pursue the abandonment application in order to stop the avoidable losses resulting from operating the Abandonment Lines, which in turn threatens the financial viability and operational capability of its entire system. Operation of the Abandonment Lines has already caused and will continue to cause material damage to the financial health of MMA and to its ability to continue to operate not only the Abandonment Lines but the rest of its system as well. We must also take action to eliminate the need to spend \$[] million, which MMA does not have, to repair the Abandonment Lines. As described in the Verified Statement of Robert E. Holland, we believe that rail customers served by the Abandonment Lines have alternative transportation, in the form of trucks and transloading opportunities, which will adequately replace MMA's rail service. We have continued and will continue to maintain a dialogue with Maine DOT and State officials concerning a purchase and sale transaction if the State obtains funding. Obviously, we will also entertain proposals for acquisition of the lines for continued rail operations as part of the Board's procedures governing abandonments.

We believe that the weighing process that the Board uses to evaluate abandonment applications requires granting the application. Given the magnitude of the avoidable losses and the opportunity costs and the enormous maintenance expenditures faced by MMA in order to keep these lines in operation, approval of the application is fully warranted. Compelling MMA to continue to operate the Abandonment Lines would

constitute an unwarranted burden on interstate commerce and threaten its ability to provide service over the balance of its railway system

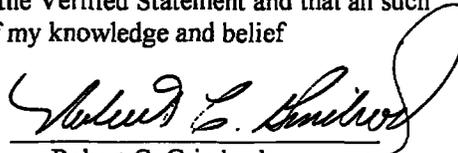
VERIFICATION

State of Maine

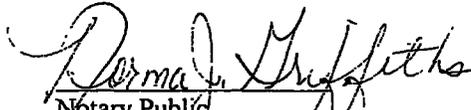
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County of Penobscot

I, Robert C. Grindrod, being duly sworn, depose and state that I am President and Chief Executive Officer of Montréal, Maine & Atlantic Railway, Ltd ("MMA"), that I am authorized to sign the foregoing Verified Statement on behalf of MMA, that I have examined all of the statements contained in the Verified Statement and that all such statements are true and correct to the best of my knowledge and belief


Robert C. Grindrod

Subscribed and sworn to
before me this 16th day of
February, 2010


Notary Public
My Commission Expires. 4-23-15

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF JOSEPH R MCGONIGLE

My name is Joseph R. McGonigle, and I am Vice President-Sales & Marketing of Montréal, Maine & Atlantic Railway, Ltd ("MMA") I am familiar with the operations and customers of MMA. In particular, I am familiar with the equipment, service, commodities and rates associated with rail service to MMA's customers. I am also familiar with the lines that MMA proposes to abandon, as described in the abandonment application (the "Abandonment Lines"), and with the alternative transportation services available to and used by MMA's customers located on or served by the Abandonment Lines.

I have been employed in positions involving rail transportation and sales and marketing of rail services continuously since 1973. Immediately prior to my employment by MMA in 2008, I was the Director of Logistics Development/Rail for Stora Enso North America, a global paper producer, and prior to that I was the Vice President-Sales and Marketing of Nexus Distribution Corp., a logistics and warehousing business. From 1987 until 1997, I was Director-Marketing of Wisconsin Central Ltd, concentrating on marketing and business development for all commodities related to the paper industry.

Prior to my relationship with Wisconsin Central, I was employed by Soo Line Railroad and The Milwaukee Road in sales and marketing positions.

The majority of the rail traffic handled by MMA relates to the paper and forest products industries. Forest products handled by MMA include logs, wood chips, dimensional lumber, oriented strand board (OSB), fiberboard, along with woodpulp, paper products and associated raw materials. Paper and forest products originate in Maine and are shipped both locally and to destinations throughout North America. MMA also handles inbound rail traffic related to the paper and forest products industry, such as clays, brighteners, adhesions and other chemicals, as well as oil used for energy. Paper and forest products represent 24 percent of MMA's rail carload business in general and 81 percent of the business on the Abandonment Lines.

As shown in the map attached as Exhibit 1, the lines of the MMA system extend in a north-south direction between Searsport, Maine and Van Buren, Maine, passing through Bangor, Millinocket and Madawaska. The major east-west line extends between Brownville Junction, Maine and Montréal. MMA has interchanges with Canadian National at Van Buren-St. Leonard, New Brunswick and near Montréal. There is an interchange with Canadian Pacific near Montréal, and an interchange with the Pan Am system at Bangor. By means of these major interchanges, rail traffic moves between MMA and points served by the rest of the United States and Canadian rail systems.

Since 2005, MMA has experienced a steady and dramatic decline in its business. In 2005, MMA handled [] carloads producing freight revenue of approximately \$[] million, but by 2009 the carloads had dropped to [] and the freight revenue was reduced to \$[] million. This overall decline was mirrored on the Abandonment Lines.

where originated or terminated carloads and revenue fell from [] and \$[] million in 2005 to [] carloads and \$[] million in revenue in 2009. As explained below, there are a variety of reasons for the downward trend

A significant portion of the loss of business experienced by MMA relates to a decline in production and other changes in the forest products and the publication paper industries. Publication paper producers have suffered as a result of the increase in digital communications and the corresponding decrease in printed communication. This decrease in printed communication has lead paper producers to shift from production of strictly publication paper products to a movement toward producing specialty grades of papers for niche markets in print, packaging, labels, converting and publishing, which tend to be transported in reduced shipment sizes and to result in the diversion of significant tonnage from rail to truck. The total closure of a paper mill at Millinocket in 2008, and decisions by other paper manufacturers to shut down or curtail production from individual paper machines, each contributed to a declining production base and fewer rail shipping opportunities. Forest products producers, and in particular lumber mills, OSB (oriented strand board) producers and other mills producing composite lumber products, have seen their market eroded by the current housing and credit crises, and as a result the demand for rail services has plummeted.

The financial health of the paper industry in the United States and in Maine in particular has been tenuous. Competition from foreign paper producers has been aggressive, causing many paper mills to close permanently or to shut down periodically. The paper companies have also seen their share of bankruptcies. In fact, on the very day that MMA began operations in January, 2003, Great Northern Paper, the largest customer

at that time, filed a petition for reorganization under Chapter 11 of the bankruptcy code and, at the same time, discontinued its operations. These operations were eventually restarted under new ownership, curtailed again from time to time and never reached the same levels of shipping activity as prior to the bankruptcy. More recently, in July, 2009, Fraser Papers, MMA's largest customer in recent years, entered bankruptcy proceedings in Canada, which has disrupted and reduced the volume of rail business handled by MMA for Fraser. It is highly unlikely that there will be future investments in either plant or machinery to expand production of paper in the state of Maine. While demand still exists globally for publication papers, the North American market demand will continue to contract, and it is not anticipated, for the reasons described above, that specialty paper shipments will grow to the extent necessary to replace the prior volumes of publication paper handled by rail.

Competition from motor carriers has been another long-term reason for MMA's loss of business. The STB has exempted paper and forest products from regulation, finding that truck competition is so pervasive that regulation of rail rates for paper and forest products is unnecessary in order to protect customers. All of the customers on the Abandonment Lines currently use motor carriers to a great extent, and some customers use trucks predominately.

The region is bounded by major highways US1 and ME11 feeding into the US Interstate 95 system at Houlton and Sherman Mills, ME respectively to the south. US1 north connects to ME11 at Ft. Kent, ME (Port of Entry), with additional Ports of Entry located along US1 at the Canadian border at Van Buren, ME and Madawaska, ME. East-west arteries ME161, ME163 and ME227 traverse the region and connect the major

highways. Maine currently allows 100,000 lbs. gross weight trucks on Interstate 95 and most state roads

Based upon information gathered by the Maine Department of Transportation, the current volumes of traffic on these roads are at levels that could accommodate additional truck traffic that might be generated if the Abandonment Lines are no longer in operation. The highway system and its relationship to the MMA lines is depicted in the map in Exhibit 2 attached. Furthermore, there appears to be sufficient trucking capacity in the region to handle the business that would be diverted from rail if rail operations cease on the Abandonment Lines. As a general proposition, there is excess trucking capacity in the market, both nationally and in northern Maine, at this time. Maine is served by many of the national trucking companies, but it also has an extensive network of smaller, private truckers who are ready, willing and able to handle any business that is offered to them.

Additionally, an extensive private road network within the region provides hundreds of miles of unregulated, unrestricted truck transportation for the logging and forest products industry. These unregulated highways allow the logging industry to move 11 axle trucks, often carrying 100-125 tons of loadings, from the timber harvest directly into the conversion facility.

Overall, the percentage of transportation needs for these customers that has been met by rail has decreased and the percentage by truck has increased steadily since 2003. I estimate that MMA's rail market share compared to trucks in the area served by the Abandonment Lines amounts to less than 10% of overall shipping activity.

Not surprisingly, the current recession has been a factor that has contributed to the decline in MMA's business. As previously indicated the slump in home building has led directly to decreased shipments of lumber and oriented strand board from Maine producers. In addition, many receivers of products shipped from Maine have, during the recession and credit crisis, adopted a "just in time" inventory philosophy, resulting in very low inventory levels. To the extent that inventories are resupplied, it has been primarily through smaller and more time sensitive shipments by truck. Some portion of the business lost due to the recession will likely return as the economy strengthens, but it seems unlikely that all of the traffic will return to rail as overall manufacturing levels in the region continue to decline, and the continuation of lean inventory management practices will be prevalent.

There are a number of customers of MMA, discussed below, that have facilities located on the Abandonment Lines and that shipped and/or received more than 50 carloads in recent years, with 4 customers (Fraser Timber, J. D. Irving Woodlands Division, Portage Wood Products and Dead River) totaling over []% of the total carload volume in the base year. As discussed below, the customers in the forest products and paper industries have contributed the greatest to the decline in MMA's overall business over the last 5 years. While the business handled by MMA for certain customers that are not in the forest products industry has remained relatively stable, it is unlikely that any forest products or paper industry customer will reverse the trend and begin shipping additional carloads by rail, or that any non-forest products industry customer will increase its shipments, in sufficient volumes to sustain the overall operations on the

Abandonment Lines Detailed information concerning customers and the rail business handled by MMA is set forth in the application in response to 49 CFR 1152.22 (e) (2).

J.D. Irving, Ltd.--Woodlands Division Irving formerly operated a saw mill complex at Ashland, Maine, but the saw mill was shut down in 2008 and disassembled in 2009. We have been advised by Irving that lumber production will not resume. At the present time, the facility is used as a log concentration and distribution yard and includes a wood chipping operation. There is currently no inbound rail business at Ashland, as the logs are gathered locally and received by truck over both private roads (owned and maintained by Irving) and public roads. Irving continues to move some outbound shipments of wood chips and logs by rail and truck to a variety of destinations. In 2005, MMA handled [] carloads into and out of the Ashland facility, generating revenue of approximately \$[] million, while in 2009 the volume had declined to [] carloads and approximately \$[] in revenue. As noted above, the use of private roads in the region is predominant. J.D. Irving's own unregulated private road network allows them access from their timber harvest in Maine all the way to the Maine-Canadian border at Van Buren, where the unregulated truckloads are transferred in smaller quantities to regulated truck quantities that are legal on public roads for furtherance to their sawmill on the Canadian National line at St. Leonard, NB.

McCain Foods McCain has a potato processing facility, at which it produces frozen potato products, located in Easton, Maine. McCain receives cooking oil by rail from western Canada, Ontario and Iowa origins via MMA connections near Montréal. Potatoes are shipped to the facility only by truck from local growers. All of the outbound frozen potato products, which are delivered primarily to destinations in the northeastern

part of the United States, are handled by McCain with either its own private trucking fleet or motor common carriers. Inbound rail business, the cooking oils, totaled only [] carloads in 2005 and [] carloads and \$[] in revenue in 2009. We are aware of cooking oils destined to another McCain's facility moving via a rail to truck transfer on the Canadian National at Moncton, NB. Presumably, the facility at Easton could receive cooking oils by truck as well.

Tatermeal, a division of McCain Foods Tatermeal operates a plant at Presque Isle, Maine where it produces a dried potato product from McCain's refuse, which is used as an additive in pet foods. The inbound commodities consist exclusively of potato refuse, all of which is received by truck from the McCain facility in Easton. Approximately []% of the outbound product is moved by rail to destinations in Ohio, Kansas, South Carolina and California. Tatermeal leases the building that it uses in Presque Isle and has made only a minimal investment in its facilities, indicating that the facility is portable and it would be relatively easy to relocate. Rail business at Tatermeal has increased from [] carloads in 2005 with \$[] of revenue to [] carloads and \$[] of revenue in 2009.

Dead River Dead River is a distributor of fuel oil and propane, and it has facilities in Presque Isle, Caribou, Fort Kent and Houlton, Maine along the Abandonment Lines. Dead River currently receives approximately []% of its inbound shipments of fuel oil and propane to these sites by rail from origins in Québec, Nova Scotia and the Port of Searsport, Maine (via a New Brunswick refinery origin). Rail participation is highly dependent on Dead River's contracted source, and, therefore, the origin of fuel and propane shipments can change annually under competitive contractual arrangements.

With Dead River's present sourcing, MMA rail service is available both direct from Searsport and via MMA connections. Truck service, both with Dead River's private fleet and motor common carriers, is also available from these origins and all other potential sources. All of the outbound shipments consist of local distribution movements by truck. In 2005, rail traffic at this facility amounted to [] carloads and approximately \$[] in revenue, which compares to [] carloads and approximately \$[] in revenue in 2009.

Tate and Lyle Tate and Lyle produces specialty and food grade additives at a facility located in Houlton, Maine. Inbound products shipped by rail to Tate and Lyle include starch from origins in Indiana and Illinois and propylene oxide originating in Port Nechos, Texas. These products are also shipped to the facility in Houlton by rail/truck transload. Tate and Lyle also receives tapioca from offshore sources, shipped from the port of entry exclusively by truck, and ships all outbound products exclusively by truck. Rail volume and revenue for this customer were [] carloads and \$[] in 2005 but were down to [] carloads and \$[] in 2009.

Cavendish Agriculture—Div. of J. D. Irving Cavendish distributes fertilizers from a facility located in Caribou, Maine. The fertilizers originate in Virginia, Florida and North Carolina, and transportation expenses are prepaid by the suppliers, not by Cavendish. The suppliers determine the mode of transportation, and they have utilized truck, barge to truck from Canadian ports, and Canadian National rail-to-truck transload operations in New Brunswick to service this facility in the past. All of the outbound transportation is locally distributed by truck. MMA's rail business for Cavendish amounted to [] carloads and \$[] in revenue in 2005, and [] carloads and \$[] of revenue in 2009.

Louisiana Pacific Louisiana-Pacific produces laminated strand lumber and laminated veneer lumber at a plant located in New Limerick, Maine. It formerly produced OSB, but converted to its current products in 2008. Louisiana-Pacific currently uses local truck transportation for inbound logs and rail transportation for inbound propane from various origins and resin, which originate in Louisiana. Outbound shipments of finished products currently move approximately []% by rail and []% by truck, with the mode determined by the order size, product dimensions and distance to the destination. In general, the relatively smaller orders and relatively shorter distances are handled by truck. The Louisiana-Pacific facility is currently operating only one production shift, producing less than []% of available mill capacity. In 2005, rail traffic at this facility consisted of [] carloads and \$[] million of revenue for MMA, but the volume and revenue is down in 2009 to [] carloads and \$[] of revenue.

Huber Engineered Woods Huber has a plant located in Easton, Maine at which it produces OSB. MMA currently handles inbound rail shipments of resins from Texas and Louisiana and wax from Ontario, but both of these products are also shipped in by truck or rail/truck transload. The outbound OSB also moves both by truck and rail, with the order size, the order delivery window and distance to market determining the mode of transport. Currently, approximately []% of the production is shipped by rail. The facility in Easton is in source competition with another Huber plant located in Crystal Hill, Virginia. Rail traffic handled for Huber has decreased from [] carloads and \$[] of revenue in 2005 to [] carloads and \$[] of revenue in 2009.

Columbia Forest Products Columbia produces veneer sheets at its facility located in Presque Isle, Maine. Columbia receives birch and maple logs from local

sources by truck and other log species by both truck and rail. Outbound shipments of veneer are both by truck and rail, with the order size, delivery window and distance dictating the mode of transportation. Columbia is heavily dependent on truck, with rail moving only approximately []% of the outbound volume. In 2005, MMA handled [] carloads and generated \$[] of revenue from rail business with Columbia at Presque Isle, but the corresponding amounts were down to [] carloads and \$[] of revenue in 2009.

Maine Potato Growers Maine Potato Growers (MPG) operates a farmers co-op facility in Presque Isle, Maine. They receive fertilizers by both truck and rail, sulfuric acid originating in Ontario by rail and oil by truck from Searsport, Maine. The oil from Searsport does have a MMA rail option, but MPG does not want to purchase oil in rail tank car volumes, preferring instead to use truck in order to maintain a lean inventory in a volatile market. MPG seasonally ships barley and oats by both rail and truck to destinations in the northeastern part of the United States and Québec. Volumes are heavily dependent on both quantity and quality of the crops. Options exist to use a Canadian National transload site at Grand Falls, NB to forward shipments via rail. MMA's business for Maine Potato Growers has decreased from [] carloads and \$[] in revenue in 2005 to [] carloads and \$[] in revenue in 2009.

Lane Construction Lane Construction is a construction contractor operating from Presque Isle, Maine. Lane receives some sand by rail from Stockton Springs, Maine, but all other inbound shipments, including some sand, cement and other construction raw materials, are received by truck. Except for aggregates, which moved by rail from Presque Isle to Hermon, Maine, all of the outbound shipments by Lane

Construction are by truck to the job site using a fleet of private trucks. The business that MMA does on behalf of Lane Constructions is heavily dependent on state road contracts and varies annually depending upon such road contracts. MMA handled [] carloads for \$[] in revenue in 2005 and [] carloads and \$[] in revenue in 2009.

Portage Wood Products Portage Wood Products converts logs into chips at its facility in Portage, Maine. All of the logs required by Portage are transported to the facility by truck, for the most part on private roads. MMA handles wood chips from Portage to South Lagrange, Maine, a distance of approximately 126 highway miles, for transloading to truck and eventual delivery to Old Town, Maine. This rail movement of woodchips began in 2009 as a result of successful negotiations with the receiver, Old Town Fuel and Fiber, which pays the transportation costs. It is anticipated that the rail movement will continue in 2010, but could revert to truck at any time without penalty. All other outbound shipments of woodchips are by truck, which constitutes approximately []% of the production. In 2005, when both the Portage Wood Products operation and Old Town Fuel and Fiber were under Georgia Pacific ownership, MMA handled [] carloads for \$[] million in revenue but in 2009 the corresponding numbers were only [] carloads and \$[] in revenue.

Chandler Lake Inc Chandler Lake operates a log storage and distribution facility on land it leases from Huber at Ashland, Maine. Chandler Lake utilizes a public siding owned by MMA adjacent to their property for loading. The facility serves primarily as a concentration and handling yard for other wood procurers or sellers. As such, the business is sporadic and reliant on individual project scopes of the wood procurers or sellers. Transportation costs are paid by the owners of the wood, as

Chandler Lake operates similar to a warehouseman. All of the inbound wood fiber arrives by truck, primarily using private roads. Approximately [] of the outbound fiber is handled by rail, and the balance is moved by truck. Chandler Lake started loading via rail in 2008, loading [] carloads for \$[] in revenue, and in 2009 they loaded [] carloads for \$[] in revenue. The entire operation could be easily relocated.

Fraser Timber Fraser Timber has sawmills at 2 locations on MMA, Ashland and Masardis. Only Masardis is currently operating, and it is operating at reduced production levels. Fraser Timber, an affiliate of Fraser Papers, is in bankruptcy proceedings in Canada, and they have notified the bankruptcy court that these two facilities are no longer part of their plans. Consequently, the facilities at Ashland and Masardis will be put up for sale. Fraser also indicated that two other sawmills located in New Brunswick, Canada would continue to be operated by Fraser. Neither of the facilities in Canada is directly rail served, indicating that rail service is not vital to their operating plans. The Masardis facility receives local truck shipments of logs for processing into lumber for the construction industry. Residuals from production include wood chips (trucked locally to Fraser's pulp mill at Edmundston, NB), sawdust (trucked to local particleboard or pellet facilities) and bark (trucked to local biomass energy facilities). Fraser Timber currently ships the majority of its lumber production by truck to the Northeast market, and also utilizes a rail to truck transload operation in Bangor, Maine as an option. As described above, rail shipments of lumber direct to market have severely declined due to the current recession and housing and credit crises. Lumber, when selling, is now purchased in smaller lots favoring delivery by truck. MMA's

business for Fraser Timber has decreased from [] carloads and \$[] million in revenue in 2005 to [] carloads and \$[] in revenue in 2009

In addition to customers physically located on the Abandonment Lines, rail shipments also traverse the Abandonment Lines between Millinocket and Madawaska as overhead transit. Rail options, via other rail carriers or via other rail routes, exist for this traffic, i.e. a change of gateway to Canadian National at St. Leonard, NB from current MMA interchanges with Canadian National and Canadian Pacific near Montreal, PQ. The largest such user, Fraser Papers' paper mill at Madawaska, Maine, is currently routing a portion of its rail origins and destinations over the MMA line between Millinocket and Madawaska, and then via MMA to and from the Montréal gateway or via MMA connections in Vermont. Fraser has, and utilizes substantially, an alternative rail route via Canadian National, which has a haulage arrangement with MMA over the MMA line between Madawaska and MMA's St. Leonard, New Brunswick interchange with the Canadian National system. Pursuant to its haulage agreement with MMA, Canadian National has the ability to establish transportation rates directly with Fraser at Madawaska.

Fraser originally produced primarily publication and printing paper at its facility in Madawaska. Recently, however, Fraser has shifted to the production of specialty papers, which is much more conducive to deliveries by truckload volumes than by rail. Order sizes for specialty papers are generally smaller than for publication papers, are of higher value, and require a much quicker cycle time from order receipt until order delivery, which has led Fraser to revert to regional distribution facilities throughout North America to service its customers. Fraser historically shipped as much as [] percent

of its outbound publication and printing paper traffic by rail, but currently the rail share of the outbound specialty paper is less than [] % on declining production volumes. Recently, lack of orders and other machine production problems caused machines to be taken out of service and other production issues lead Fraser to shift even more of its business to trucks in order to meet the demands of customers at times when production was limited or behind schedule.

For inbound raw materials used to make paper, Fraser is more likely to use rail. At the present time, clay from Georgia, titanium dioxide from Delaware, silica from Maryland, starch from Iowa and talc from Montana are received primarily by rail. Woodpulp and alum are shipped into Madawaska by both rail and truck. Much of the inbound rail tonnage currently utilizes a routing via the Canadian National via the St. Leonard, NB gateway, and all of the inbound rail tonnage could move via that route in the future.

The history of MMA's business with Fraser Papers is no different than the rail business for other customers--there has been a decline in carloads and revenues. In 2005, MMA handled [] carloads and generated \$[] million of revenue for business on the Abandonment Lines on behalf of Fraser to and from the Madawaska mill, but in 2009 MMA handled only [] carloads and earned \$[] million of revenue.

As indicated above, Fraser entered bankruptcy proceedings in Canada in July 2009. Their reorganization plan contemplates that the mill at Madawaska will remain in operation. MMA will continue to serve the mill directly on the MMA line between Madawaska and Van Buren-St. Leonard. If the abandonment is approved and Fraser traffic can no longer be handled by MMA between Madawaska and MMA connections to

the south, Canadian National will continue to be available to provide rail service to and from Madawaska by means of the haulage agreement with MMA, referred to above, via the St. Leonard route. Canadian National brings size, market scope and synergies to Fraser not currently available on MMA. They provide formidable competition to MMA and the truckers, which will continue to provide Fraser with the competitive options they seek in the marketplace.

MMA also provides service to the J.D. Irving LTD. lumber mill which is located on the Canadian National at St. Leonard, NB. Irving and Canadian National have an agreement to allow MMA access to service the mill for fiber traffic only, which includes shipments and receipts of sawdust, woodchips, logs, and other raw materials and residuals from or to MMA service territory. All the fiber traffic currently shipped via MMA to and from the St. Leonard mill traverses the Abandonment Lines, however, once the lines are abandoned, that traffic would revert to trucks, the Canadian National or other sourcing alternatives. The majority of shipments to the mill from the MMA service area are heavily transported on trucks travelling on Irving's private road network into Van Buren, ME, where the trucks are reduced for forwarding over the International Bridge to St. Leonard, NB. In 2005, MMA handled [] carloads and \$[] revenue to and from this facility, while in 2009 the carloads were [] for \$[] revenue.

Logistics Management Services ("LMS"), an affiliate of MMA, operates a truck-to-rail lumber transload facility at Van Buren, Maine. The facility was situated to provide rail access to lumber mills within a 150 mile radius of its location for movement over the Abandonment Lines to destinations on MMA or MMA connections to the south and west. Current loadings have been severely impacted by the decline in lumber

shipments as a result of the current U S housing market slump Once the lines are abandoned LMS intends to close the facility and lumber shipments that would have been transloaded at Van Buren will most likely be handled by rail on Canadian National, truck or truck-to-rail transload sites in other locations In 2005 the reload generated [] carloads for \$[] in revenue, but by 2009 the volume had dropped to [] carloads for \$[] in revenue

In addition to transload facilities operated by other rail carriers, as discussed below, customers located on or currently served by the Abandonment Lines will have another transload option provided by an affiliate of MMA Specifically, Logistics Management Systems (LMS) operates a warehouse and transloading business in Hermon, Maine. The facility, which is approximately 77 highway miles south of the southern end of the Abandonment Lines, is rail served by MMA LMS has approximately 130,000 square feet of warehouse space under one roof, and has track capacity at the warehouse facility for 19 railcars. Additionally, LMS has access to extensive MMA trackage and property outside its facility for handling lumber, chemicals, starch, steel machinery and a variety of other products through a transload operation

LMS provides storage and warehouse service currently for Fraser Papers and other customers, and the services could be expanded to meet the needs of customers that would lose direct rail service as a result of the abandonment In addition, MMA has contemplated the possibility of creating a new transload facility at Millinocket, which is located at the southern terminus of the Abandonment Lines MMA has a yard and sufficient space at Millinocket to provide transload services Other sites exist today for rail transload services, including various warehouses and sites located on Pan Am

Railway in Bangor and Mattawamkeag, ME, along with transloads on the Canadian National at Plaster Rock, Moncton and Grand Falls, NB.

The Abandonment Lines have produced substantial operating losses over the past several years. The traffic declines that began in 2005 have accelerated during the current recession. There is no foreseeable prospect that originating or terminating traffic on the Abandonment Lines will increase to a level of sustainability or that sufficient overhead traffic can be secured to support profitable operations. We know of no current customers plans for expansion, nor of any new industry with plans to build a rail served production facility within the region. These pessimistic conclusions are based upon knowledge of the customer base and day-to-day efforts to solicit new or additional business for MMA. MMA's sales and marketing team has, over the last several years, explored every potential piece of new or increased business, and they have had success in bringing additional carloads onto the Abandonment Lines. Unfortunately, the team has not been successful replacing the total volumes lost due to a continuously declining production base. As described above, the losses have more than offset the new business that has been generated. We have also imposed rate increases to the extent feasible, but the increases have not resulted in profitable operations on the Abandonment Lines. Furthermore, additional rate increases would only result in losing more business to trucks or other transportation alternatives.

VERIFICATION

State of Maine

ss:

County of Penobscot

I, Joseph R. McGonigle, being duly sworn, depose and state that I am Vice President-Sales & Marketing of Montréal, Maine & Atlantic Railway, Ltd. ("MMA"), that I am authorized to sign the foregoing Verified Statement on behalf of MMA, that I have examined all of the statements contained in the Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Joseph R. McGonigle

Subscribed and sworn to
before me this 16 day of
February, 2010


Notary Public

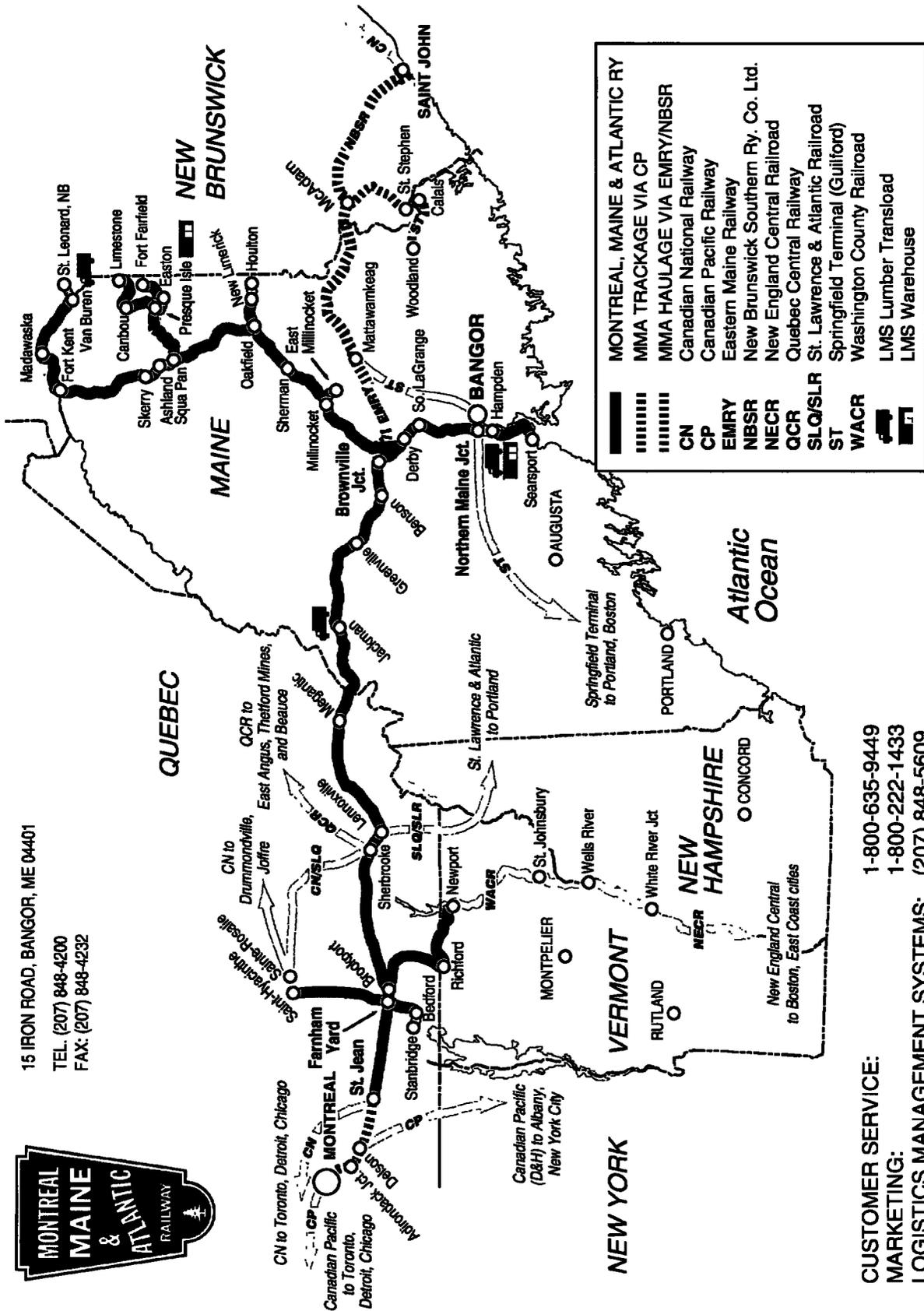
TAMMY EWING
Notary Public • State of Maine
My Commission Expires May 31 2014

MONTREAL, MAINE & ATLANTIC RAILWAY LTD.

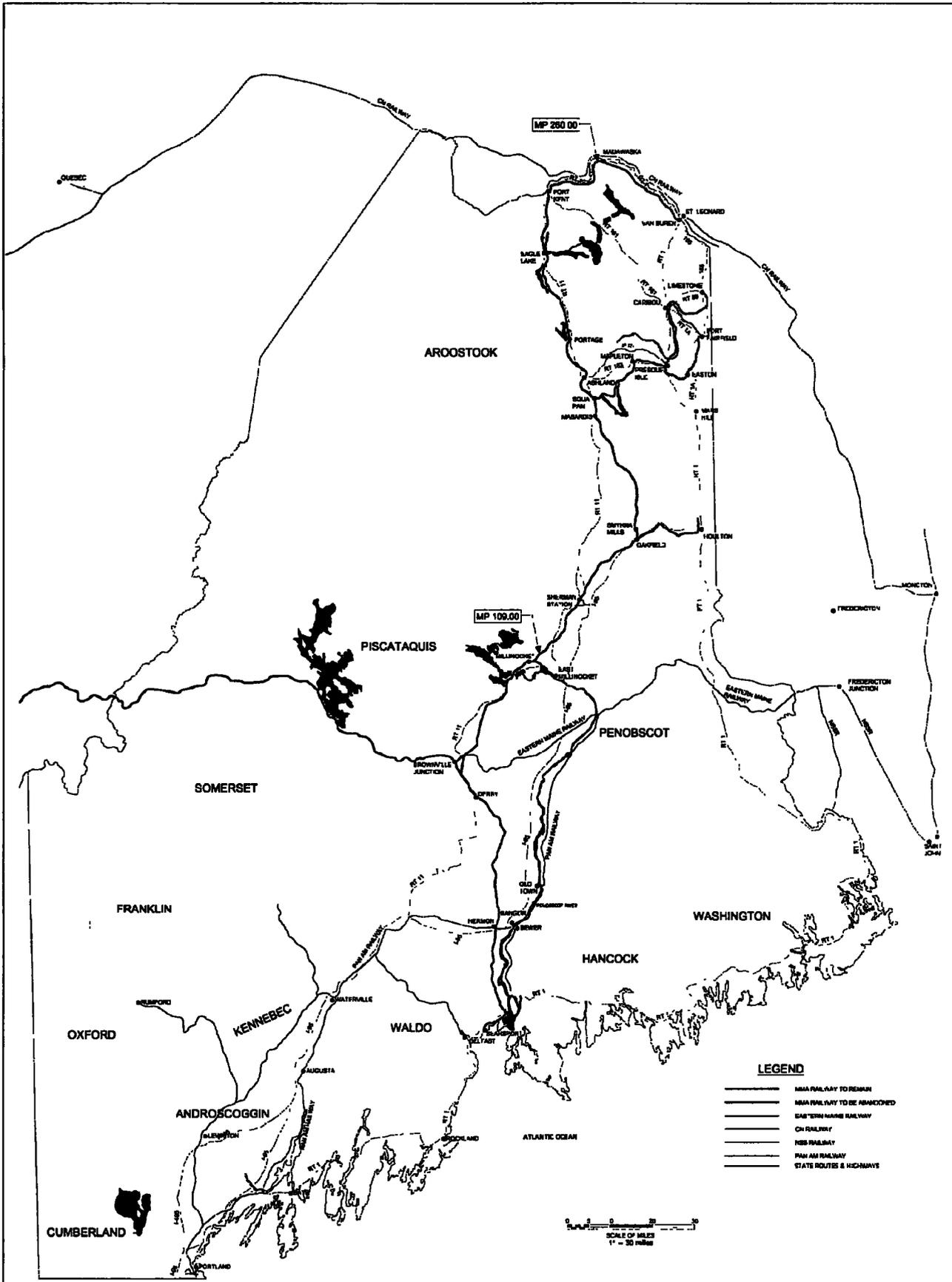


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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF ROBERT C FINLEY

My name is Robert C Finley, and my business address is 2 Olde Barn Way, Acton, MA 01720. I have been retained by Montréal, Maine & Atlantic Ry , Ltd. ("MMA") to analyze the avoidable costs and revenues attributable to certain lines of MMA that are proposed for abandonment in the Application that is being filed in these proceedings

I have approximately 35 years experience in the railroad industry, primarily in the area of finance. My railroad career began in 1974 with the Southern Railway System, where I was a management trainee and assistant economist. I took a position with the United States Railway Association, where my duties included management of a portion of the litigation regarding the value of the Penn Central assets and oversight of the marketing and sales activities of Conrail. In 1982, I joined the Southern Pacific Transportation Co. At Southern Pacific, my duties included line sales and abandonments, including the filing of applications and submission of verified statements to the Interstate Commerce Commission, tariff route restructuring and merger related traffic analyses.

Following my tenure at Southern Pacific, I worked for the Chicago West Pullman Transportation Co , a short line holding company, where my duties included line acquisitions and sales efforts and where I undertook a number of analyses of the cost of operations of rail lines. In 1991, I became Chief Financial Officer at the Iowa Interstate Railroad. My responsibilities there included all of administrative aspects of the railroad's operations, in addition to financial and budgeting oversight. At Iowa Interstate, I focused carefully on operating costs and developed models for specific carload costing that were used by the marketing department in order to set prices. The budgeting process at Iowa Interstate placed considerable emphasis on the cost of each segment of rail operations.

Following my employment at Iowa Interstate, I worked as a transportation consultant at PHB Hagler Bailly, an international economic and management consulting firm. My assignments there included assistance to Wheeling & Lake Erie Railway concerning the impact of the breakup of Conrail and advice to the State of Victoria, Australia, concerning the value of the state owned railroad in a privatized market.

Currently, I am the Vice President of Finance for Housatonic Railroad, a short line operating in Connecticut and Massachusetts. In addition, since January 1, 2000 I have been acting as an independent consultant providing services to the short line freight railroad and passenger rail transit industries. In this capacity, I was retained by Camas Prairie Railnet in 2000 to do the avoidable loss and related economic analyses for their abandonment application (AB-564) and also by San Pedro Rail Operating Company in 2005 in connection with the abandonment of their line known as the Douglas Branch in a proceeding before the Board (AB-1081X). A copy of my curriculum vitae is attached.

The purpose of this Verified Statement is to present and explain Exhibit 1 to the Application filed by MMA for the abandonment of its line between Millinocket and Madawaska, Maine and the branch lines off of the Millinocket-Madawaska line (the "Abandonment Lines"), as more fully described in the Application. I have relied upon information provided by MMA, as described below, in order to calculate the avoidable costs of providing service on, and the revenues attributable to, the Abandonment Lines in accordance with the Board's regulations at 49 CFR 1152.31 through 1152.34.

For purposes of the analysis, the Base Year is October 1, 2008 through September 30, 2009, and the Forecast Year is February 1, 2010 through January 31, 2011. The results are depicted in Exhibit 1 attached hereto.

Base Year

MMA provided me with freight revenue information for the Base Year in the form of computer files showing freight traffic by commodity, car type, car ownership, origin/destination pair, tonnage and revenue. The information identified freight traffic that originated or terminated on the Abandonment Lines, including traffic not handled by another carrier and traffic that was handled by another carrier. The information also included similar data for traffic that for the most part originated or terminated on MMA but was a bridge or overhead movement on the Abandonment Lines.

For the Base Year, there were [] carloads that originated or terminated and [] carloads that moved overhead on the Abandonment Lines, for a total of [] carloads. The freight revenue attributable to these carloads, determined in accordance with the Board's regulations, was \$[] for the originating or terminating traffic and \$[] for the bridge traffic, for a total of \$[].

According to the records of MMA, lease and easement income generated by the Abandonment Lines in the Base Year was \$[]

The total revenue for the Base Year, in line 4 of Exhibit 1, is \$[]

For developing on-branch avoidable cost most of my data was developed using the MMA accounting records. The MMA accounting system assigns many expenses to specific locations. For expense data developed for Exhibit 1, I asked MMA management to review location data and to modify such data as necessary in order to enable me to do the avoidable cost analysis

The MMA accounting system assigns maintenance of way costs to the location at which each cost is incurred. In addition to location specific expenses, MMA plans on a two person management reduction in the maintenance of way department as a result of the abandonment. For the Base Year, the maintenance of way expenses incurred on the Abandonment Lines, including labor, material and other charges, totaled \$[]. Of this amount \$[] is for management reductions (including fringe) and the balance are location specific costs

Maintenance of way costs must be reduced as a result of a transaction involving section 45G tax credits. Section 45G of the Internal Revenue Code permitted rail carriers such as MMA to earn federal tax credits by performing maintenance on its rail properties. Alternatively, railroads may transfer tax credits to others, as permitted by section 45G. MMA transferred its tax credits. As a result of the transfer, MMA was required to offset maintenance of way expenditures in an amount equal to the tax credits that were transferred.

Section 45G allows a maximum tax credit of \$3,500 per track mile. The Abandonment Lines track miles are 284.7, allowing a maximum total credit of \$996,450. During the Base Year MMA did not perform enough track maintenance to earn the maximum amount of tax credits. There was a []% shortfall. Therefore, for the Base Year I adjusted that amount of tax credits by the shortfall for a total of \$[] The tax credits were subtracted from the maintenance of way expenses. As a result, the net maintenance of way expenditure for purposes of line 5a of Exhibit 1 is \$[] for the Base Year.¹

For purposes of maintenance of equipment costs, the MMA accounting system does not distinguish between equipment maintenance performed on equipment used on the Abandonment Lines versus the balance of the system. In addition, regular repair work is comingled with contract repair work done for others. As a result, I developed an allocation methodology, as described below, in order to determine the avoidable costs for maintenance of equipment.

MMA has a locomotive fleet of 35 units, 12 of which will be eliminated as a result of the abandonment. This is equivalent to a 34.3% reduction in locomotives. In the Base Year, MMA handled [] carloads of freight systemwide, so the [] carloads on the Abandonment Lines constituted []% of the total. As a result of the abandonment, MMA estimated that it would eliminate one manager and 11 mechanics from the maintenance of equipment department. Based on discussions with MMA personnel, it was estimated that 50% of the cost of the manager and 50% of the maintenance of equipment administrative expenses, such as heat, telephones, computers, etc., would be attributable to locomotive maintenance and 50% to freight car

¹ See Exhibit 2 page 3 for detail.

maintenance. We also assumed that 6 of the mechanics who would be surplus worked on locomotives, and 5 mechanics worked on freight cars. Based on these assumptions, the total avoidable locomotive maintenance expense for the Base Year was \$[], and the total avoidable freight car maintenance expense was \$[]

The total for locomotive maintenance and freight car repairs in line 5b for the Base Year is, therefore, \$[]²

The MMA accounting system identifies transportation expenses by "crew start." A "crew start" refers to a train crew that goes on duty for service on the Abandonment Lines and measures wage and benefit expenses for the members of the crew and miscellaneous costs for each crew start. In the Base Year, MMA incurred \$[] in crew start labor expenses and \$[] in crew start fringe on the Abandonment Lines. Following the abandonment, MMA would no longer need one manager and one customer service representative for the Abandonment Lines, representing an avoidable expense of \$[] in the Base Year.

MMA's accounting records include information concerning the fuel consumption for each model of locomotive, the cost per gallon of fuel in each month, and the number of hours that each locomotive was used. Using this information, the fuel cost attributable to operations on the Abandonment Lines in the Base Year was \$[]

Additional transportation expenses incurred on the Abandonment Lines in the Base Year included sand, which was allocated in the same manner as the locomotive maintenance expenses, described above, and certain miscellaneous expenses, totaling \$[]

² See Exhibit 2 pages 4 and 5 for detail

] in the Base Year. The total avoidable transportation expenses for purposes of line 5c for the Base Year were, therefore, \$[]³

MMA and its insurance broker estimated that MMA could save \$[] after abandonment by reducing liability insurance premiums attributable to the Abandonment Lines. Other general or administrative expenses, such as electricity and sewer, could be reduced as well. MMA management provided me with detail that totaled \$[]. The total avoidable general and administrative costs for line 5d for the Base Year were \$[]⁴

The avoidable expenses for line 5e are recorded by MMA in connection with crew starts, as described above. In the Base Year, the total of these costs, including meals, mileage, hotels and taxis, was \$[]⁵

As defined in 49 CFR 1152.32, there were no on-branch avoidable costs for overhead movements. To the extent there is overhead cost, it is included in the off-branch costs, which are discussed below.

MMA estimated that as a result of the abandonment it would reduce its freight car fleet by a total of 760 cars. All of these cars are leased. Specifically, surplus cars used on the Abandonment Lines consist of 193 center beam cars, 25 grain hoppers, 225 double door boxcars, 217 single door boxcars, 81 wood chip gondolas and 19 tank cars. The total avoidable cost, based upon the amount of rent payable pursuant to the respective leases, attributable to these cars in the Base Year is \$[]

Car hire payable and receivable data are maintained for MMA by RMI of Atlanta, Georgia. RMI was able to produce a report for the Base Year of car hire payable

³ See Exhibit 2 page 6 for detail.

⁴ See Exhibit 2 page 7 for detail.

⁵ See Exhibit 2 page 7 for detail.

and receivable for cars that originated, terminated or moved overhead on the Abandonment Lines. Total car hire payable was \$[] and receivable was \$[] The RMI report was unable to differentiate time and mileage incurred on the Abandonment Lines versus the balance of the MMA system. According to management, the typical carload involving the Abandonment Lines takes three days to move over the MMA – one day on the Abandonment Lines and two days on the balance of the system I used 33% of the payable amount for the on-branch car hire expense or \$[] I also included 100% of the car hire receivable

Total freight car costs, as shown in line 5g of Exhibit 1, are the sum of leases and car hire payable less car hire receivable or \$[]⁶

As noted above, MMA will no longer need 12 locomotives after the abandonment Ten of these locomotives are GE B39-8s with an original book value of \$[] per unit, \$[] accumulated depreciation per unit and a net book value of \$[] per unit. The other 2 locomotives are GE C30-7s, which had an original book value of \$[] per unit, accumulated depreciation of \$[] per unit and a net book value of \$[] per unit As explained in Exhibit 3, I calculated the holding gain to be []%, using the cost of capital information set forth in Ex Parte No. 558 (Sub-No. 12), and multiplied the holding gain by the net book value of the locomotives In the Base Year, the total return on the value for locomotives, as shown in line 5h, was \$[]⁷

As mentioned above, all of the freight cars used on the Abandonment Lines are leased by MMA, none is owned Consequently, the return on value for freight cars in line 5i is zero

⁶ See Exhibit 2 pages 8 and 9 for detail

⁷ See Exhibit 2 page 10 for detail

MMA pays a railroad tax to the State of Maine. The tax is a function of miles in Maine versus system miles and gross transportation receipts. MMA management calculated the revenue tax in the Base Year for the current MMA and for the railroad after abandonment. The difference is \$[] and is shown on Line 5j. According to MMA management, property taxes in the amount of \$[] are attributable to real estate that is part of the Abandonment Lines. The property taxes are shown in line 5k.

The total of the on branch avoidable costs to be included in line 5 and discussed above for the Base Year was \$[].

In order to determine off branch costs for purposes of line 6a, I analyzed traffic that was originating or terminating on the Abandonment Lines and overhead traffic that was a bridge move on the Abandonment Lines. I used the Eastern region information from the most recent version of the Uniform Railroad Costing System ("URCS"), which is based upon 2007 costs for Class I railroads. The traffic data provided by MMA included all of the information needed for the URCS analysis of each of the approximately 200 origin-destination pairs. In all my URCS model runs I used shipment type of OD (originate deliver) or RT (receive terminate). For the Base Year, the avoidable off branch costs for the Abandonment Lines was \$[]. Because MMA owns none of the freight cars used on the Abandonment Lines, there was no off branch freight car return on investment cost for purposes of line 6b. The total off branch costs, for purposes of line 6 were, therefore, \$[] for the Base Year.

The total avoidable costs for the Base Year were \$[] as shown on Line 7.

Forecast Year

With a few exceptions described below, the avoidable costs for the Forecast Year were determined using the same sources of data, assumptions and methodologies used for the Base Year. In March, 2009, MMA instituted a pay reduction of 15% for all employees, and this reduction remains in effect at this time. It has been assumed that the reduced pay levels will apply for the duration of the Forecast Year. The pay reduction is reflected in various lines of Exhibit 1 in the Forecast Year.

There was one significant change in the freight revenue in the Forecast Year compared to the Base Year. In May, 2009, MMA began handling a significant level of new business in the form of woodchips between Portage, Maine and South LaGrange, Maine, and it was assumed that this business will continue at essentially the same level during the Forecast Year. Other projected changes in revenue were relatively minor and based upon the annual budgeting exercise by the MMA sales and marketing team.

Overall, freight revenue for the Forecast Year is projected to be \$[], or approximately \$[] greater than the Base Year. The new Portage woodchip business is a \$[] increase in business. The fact that the overall increase is \$[] reflects management's expectation that the balance of traffic will continue to decline.

Lease and easement income included in other revenue and income in line 3 is anticipated to be the same in the Forecast Year as in the Base Year.

Overall, the total revenue in line 4 for the Forecast Year is \$[].

The various categories of on branch and off branch avoidable costs for the Forecast Year were generally in line with the costs in the Base Year. To the extent that the costs varied, it was driven in large part by the labor wage reduction referred to above.

A few other costs varied from the Base Year. The Section 45G maintenance credit law has expired. Thus, the Forecast Year has no reduction of maintenance of way expenses for sold tax credits in line 5a. In transportation, line 5c, fuel consumption was approximately the same as in the Base Year, but the cost per gallon used the 2010 MMA budget assumption of \$[] per gallon versus \$[] average in the Base Year. The difference is approximately \$[] Line 5d increased by about \$[] due to an increase in the cost of the liability insurance policy now in place compared to the Base Year

The car hire expense and revenue included in Line 5g reflects a different car count than the Base Year. I eliminated private marked and non-interchange cars from the traffic data, because such cars would not incur car hire. In the Base Year, car hire was generated from [] railroad marked freight cars that were interchanged. The Forecast Year interchanged cars with railroad marks dropped to []. The average car hire payable per car and receivable per car from the Base Year were multiplied by the number of cars for the Forecast Year--[]--yielding \$[] of payables and \$[] of receivables. The difference is a decrease of approximately \$[] in payables and approximately \$[] in receivables.⁸

Off-branch costs varied based on the changed traffic mix for the Forecast Year, primarily resulting from the new woodchip move mentioned above. Off-branch costs are \$[] in the Forecast Year, or about a \$[] decrease compared to the Base Year.

In total, the avoidable costs in line 7 are \$[] for the Forecast Year, or an increase of approximately \$[] compared to the Base Year.

⁸ See Exhibit 2 page 8 for detail

Return on Value

Return on value of road properties reflects the economic loss experienced by MMA from not being able to use assets more profitably. The following describes the lines of Exhibit 1 for the Forecast Year.

Working capital for purposes of line 12a was calculated in accordance with the regulations, starting with on branch avoidable costs and deducting locomotive depreciation, return on value for locomotives (line 5h) and return on value for freight cars (line 5i), which was zero. Multiplying the result by 15/365, in order to determine the working cash needed for 15 days of operations, produces a working cash requirement of \$[] This calculation is described in detail on page 2 of Exhibit 1.

Income tax consequences (line 12b) represents the income taxes that would be paid or avoided as a result of the liquidation of MMA's assets in the Abandonment Lines. The calculation of the tax consequences begins with (1) the net liquidation value of the track, ties and other track material that would be sold upon abandonment, as set forth in the Verified Statement of Melody A. Sheahan ("Sheahan VS") less the net book value of those assets, plus (2) the net liquidation value of real estate, as developed in the Verified Statement of Lowell T. Sherwood, Jr. ("Sherwood VS"), minus the book value of such real property.

As described in the Sherwood VS, the net liquidation value of the real estate included in the Abandonment Lines was estimated on 2 different bases. First, he used a traditional across the fence methodology in order to derive a net liquidation value of \$[]. Alternatively, he used a corridor methodology, for the reasons outlined in the Sherwood VS, which produced a net liquidation value of \$[]. The book value of the

real estate was calculated by taking the ratio of the route miles of track in the Abandonment Lines of 233.1 to the total route mileage, 513.4 miles, of MMA's lines in the United States. The Abandonment Lines constituted 45.4 percent of the total mileage, and the book value of all of the real property within the United States was \$[] Multiplying these two numbers yields a book value of land for the Abandonment Lines of \$[]⁹

To develop the net book value of track, ties and other track material on the Abandonment Lines, I used the same ratio of Abandonment Lines route mileage to total MMA United States route mileage of 45.4 percent. Net book value of the rail, ties and other track material in the Abandonment Lines is \$[].¹⁰ As shown on page 2 of Exhibit 1, net book value of track exceeds the net liquidation value for the Forecast Year, yielding a net loss in excess of \$[] million.

Net book value of land exceeds across the fence land value by \$[]. The net liquidation value of track, ties and other track material is approximately \$[] million less than the net book value. Summing these numbers yields a loss on sale of the line of \$[]. It was assumed that the total effective income tax rate, including both federal and state income taxes, on the sale of this property would be 38%. The income tax consequences, therefore, as shown in line 12b, would be a positive \$[] in the form of net operating loss carryforwards.

The net liquidation value of the properties for purposes of line 12c in the Forecast Year is the total of the net liquidation value of the track material and real estate. As described above, the net liquidation value in the Forecast Year of the track material is \$[]

⁹ See Exhibit 2 page 10 for details.

¹⁰ See Exhibit 2 page 11 for details.

], as calculated in the Sheahan VS, and the net liquidation value of the real estate using the across the fence valuation is \$[], summing to \$[]

For purposes of line 12d in the Forecast Year, the total of working capital (line 12a), less income tax consequences (line 12b) and plus the net liquidation using the across the fence value (line 12c), is \$[]

Nominal Return on Value

The nominal return on value for the Forecast Year is determined by multiplying the nominal rate of return (line 13) by the value of the road properties (line 12d). The calculation of the nominal rate of return is shown in Exhibit 3. The nominal return on value is \$[], using the across the fence real estate valuation.

Holding Gain

The purpose of calculating the holding gain is to adjust the value of the assets in the Abandonment Lines to take account of inflation. The value of the assets is multiplied by the holding gain deflator. The calculation of the holding gain deflator is set forth in Exhibit 3. Multiplying the holding gain deflator by the road properties value results in a holding gain of \$[]

Total Return on Value

The total return on value for the Forecast Year is determined by subtracting the nominal return on value by the holding gain, resulting in a total return on value of \$[]

Avoidable Income (Loss) from Operations

The estimated avoidable income or loss is the difference between total revenues (line 4) and total avoidable costs (line 7), resulting in a \$[] avoidable loss in the Base Year and a \$[] loss in the Forecast Year

Estimated Forecast Year Avoidable Income (Loss)

Line 18 takes into account the loss on value of material that could be liquidated. The avoidable loss of \$[] is combined with the total return on value (line 16) yielding a \$[] Forecast Year negative impact on MMA

Estimated Subsidy

For purposes of calculation of the estimated subsidy for the Subsidy Year, I started by using the same revenue and on-branch and off-branch costs as in the Forecast Year. Two key items vary from the Forecast Year--subsidization costs are included and track net liquidation value differs from the Forecast Year, for the reasons described below

As described in the Sheahan VS, the Abandonment Lines require rehabilitation work in the form of rail, ties, surfacing and bridge work with an estimated total cost of \$[]. Of this total, \$[] million is required in order to bring the Limestone branch from FRA excepted condition to Class 1 condition. Although required by the regulations to show the entire rehabilitation expense in Line 8, in reality this work will take 3 or 4 years to complete. Rehabilitation work with a total cost of approximately \$[] million, as described in the Sheahan VS, could be accomplished in the first construction season, which is assumed to be during the projected Subsidy Year

The administrative costs for purposes of line 8 is one percent of the total revenues attributable to the Abandonment Lines, or \$[] The casualty reserve account (line 10) has been calculated on the basis of the assumption that any subsidizer would be required to hold MMA harmless with respect to any property damage or death or personal injury resulting from the operation of the Abandonment Lines and would be required to obtain insurance in an amount equal to MMA's self-insured retention

The total subsidization costs, therefore, representing the total of lines 8 through 10, are \$[]

For the Subsidy Year any assets with a negative liquidation value are valued at zero in accordance with the regulations. As explained in the Sheahan VS, scrap ties were valued in the Forecast Year at less than zero, because removal costs are in excess of the value of the scrap ties. but are excluded (no value or removal costs are included) from the track NLV in the Subsidy Year. On page 2 of Exhibit 1, therefore, the Subsidy Year track NLV is about \$[] greater than the Forecast Year or \$[] For the Subsidy Year, the working capital on Line 12a is the same as the Forecast Year The higher net liquidation value of track changes the Subsidy Year income tax consequences of line 12b to \$[] (see page 2 of Exhibit1) The higher NLV of track also changes the Subsidy Year line 12c to \$[] The Subsidy Year return on value increases to \$[]

The estimated subsidy is determined by subtracting total avoidable costs (line 7), total subsidization costs (line 11) and total return on value (line 16) from the total revenue (line 4). The estimated subsidy for MMA is \$[].

Alternative Return on Value

As described in the Sherwood VS, there is an alternative real estate value based on a corridor valuation methodology. Using the higher corridor value changes many of the line values from 12b to the end of Exhibit 1 for the Forecast Year and Subsidy Year. Exhibit 1A is the same as Exhibit 1, except that Exhibit 1A utilizes the corridor real estate value. Line 12c increases to \$[] in the Forecast Year and \$[] in the Subsidy Year. Income tax consequence in the Forecast Year is a positive \$[]. Because the total NLV exceeds book value, Line 12b, income tax consequences, turns to negative \$[] in the Subsidy Year. Line 12d, the sum of lines 12a through 12c increases to \$[] in the Forecast Year and \$[] in the Subsidy Year. The nominal return on value, line 14 increases to \$[] in the Forecast Year and \$[] in the Subsidy Year. The increased NLV also means the holding gain (line 15) is higher at \$[] in the Forecast Year and \$[] in the Subsidy Year. Total return on value, line 16 increases slightly to \$[] for the Forecast Year and \$[] in the Subsidy Year. Because of increased return on value, the estimated Forecast Year avoidable loss is \$[] (line 18). Finally the estimated subsidy (line 19) changes to \$[] |

Opportunity Cost

I prepared Exhibit 4, Opportunity Cost of the Abandonment Lines, to highlight the return on value of the broad property assets if they could be deployed or used for purposes other than rail operations. As shown in Exhibit 4, the calculation of opportunity costs was similar to the calculation of return on value, except that there was no deduction for any holding gain (line 15). I used the Forecast Year net liquidation value of track.

The opportunity cost of the abandonment is \$[] based on across the fence real estate value. Based on corridor real estate values, the opportunity cost to MMA is \$[].

Effect on Net Railway Operating Income

Exhibit 5 was prepared to show the impact of the operation of the Abandonment Lines on MMA's overall financial condition for the Base Year. The avoidable loss from operations in the Base Year for the Abandonment Lines was \$[]. MMA's systemwide net loss during the Base Year was \$[]. If the Abandonment Lines had not been operated as part of the system, MMA's loss for the Base Year would have been a profit of \$[]. Assuming an income tax rate of 38%, the loss in the Base Year for MMA systemwide becomes net income of \$[].

VERIFICATION

State of Connecticut

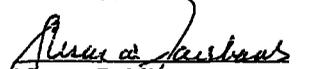
ss: *Old Lyme*

County of New London

I, Robert C. Finley, being duly sworn, depose and state that I have been retained by Montréal, Maine & Atlantic Railway, Ltd. to analyze the avoidable costs and revenues attributable to certain lines of railroad, that I have examined all of the statements contained in the foregoing Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Robert C. Finley

Subscribed and sworn to
before me this 16th day of
February, 2010


Notary Public
My Comm Exp 7/31/11

ROBERT C. FINLEY—Principal

M.B.A. Finance, Wharton School of the University of Pennsylvania
B.A. Economics and Accounting, Muskingum College

Robert Finley has over three decades of executive experience in the transportation industry, specifically in the areas of finance, marketing, workouts, acquisitions, and leasing. He has successfully reduced costs and increased productivity for a number of companies, while carefully balancing performance and market demand. In addition to establishing aggressive line sales, he spearheaded a small company's growth from \$5 million to \$30 million; he restructured a failing company, for which he attained equity infusion and restored profitability; and he implemented a new form of tax advantage financing for regional railroads. Mr. Finley is recognized for his innovative marketing and finance techniques.

Mr. Finley advised the Transport Reform Unit of the Victoria, Australia, government about the financial strategies for privatization of their freight and passenger railroad operations. Initial studies for the state indicated the freight operations could be sold for \$20 to \$40 million but would require financial assistance and subsidies. Based on Mr. Finley's suggested alterations to the financial plan and offering memorandum, the freight operations were sold for \$167 million with no requirements for state assistance.

He has acted as the independent financial analyst for the Federal Railroad Administration determining the viability of regional and shortline railroads applying for government loans under the Railroad Rehabilitation and Improvement Financing Program (RRIF). These assignments are particularly challenging as the analysis has to determine that the applicant could not obtain conventional financing but will be able to repay the Federal government over a more extended period of time.

Mr. Finley assisted the Camas Prairie RailNet in one of the few heavily contested abandonment applications since the formation of the Surface Transportation Board. His responsibilities included preparation of carload costing projections using the Uniform Rail Costing System (URCS) and financial statements based on those projections.

Mr. Finley advised the trustee of the bankrupt Bangor & Aroostook Railroad about the financial viability of certain segments of the property. In this capacity he had to develop forecasts of income and estimates of expenses with a minimum of historical information due to the reorganization of the property. He then created the exhibits necessary to file for abandonment.

He has assisted the British Columbia government while it was selling its BC Rail operation. In the assignment Mr. Finley assembled financial impact statements assuring the government that it was receiving fair value in the sale.

ROBERT C. FINLEY—Page 2

He has advised the Montreal, Maine & Atlantic Railroad concerning its budgeting and weekly forecast process. During three separate assignments, he stepped in on an emergency basis as the corporate controller. He is now retained on a quarterly basis to assist in preparation of financial documents for the board of directors

Mr. Finley assisted the San Pedro Southwestern Railroad with a detailed abandonment application when the Surface Transportation Board determined that an exemption petition was insufficient. He assembled all the economic and financial information needed and presented the analysis to the STB using their prescribed format.

Recently Mr. Finley has established the going concern value of two shortline railroads, one currently operating in Louisiana and the other a possibly start up on Long Island, NY.

Currently Mr. Finley assists the Housatonic Railroad, a shortline railroad located in western Massachusetts and Connecticut serving as their Vice President of Finance. He oversees the finance and many administrative functions of the property.

MAJOR ACCOMPLISHMENTS

As executive vice president of Iowa Interstate Railroad Limited, a \$30 million regional railroad operating from Chicago to Omaha, he directed finance and human resources. He directly affected all corporate functions, organizing the company from near bankruptcy and coordinated debt restructuring and equity infusion. Among numerous successful accomplishments at Iowa Interstate, Mr. Finley:

- Helped merge Iowa Interstate, at the time an almost bankrupt railroad, with Heartland Rail Corporation. He negotiated with creditors, found new sources of secured debt, gained approval from government lenders, issued stock, centralized corporate offices and stabilized the financial structure and profitability of the line—all within a single year.
- Reorganized the corporate accounting department, solving an outside auditor's premerger "material weakness qualification."
- Managed a 1993 flood crisis, not only saving the company but also turning a modest profit.
- Identified a willing investor whose major cash injection stabilized the company's financial position.
- Negotiated debt restructuring through a tax-advantaged sale/leaseback of in-use mainline rail, generating \$11.8 million in the process, and he utilized NOLs, lowering cash needs by \$1.1 million.
- Acquired rail lines in the Des Moines area, thus boosting Iowa Interstate's customer base.

ROBERT C. FINLEY—Page 3

- Lowered liability and property insurance expenses by 50 percent.
- Convinced Iowa Interstate's largest customer to stay in Iowa by building a new rail yard, intermodal transfer facility and engine repair facility, using grants and forgivable loans from the state and county.
- Thwarted another company's unacceptable attempt to purchase Iowa Interstate.
- Developed a cost accounting system and model that enabled Iowa Interstate to set prices that fully reflected allocated costs, thus ensuring that all traffic moved at a profit.

As vice president of Chicago West Pullman Transportation Corporation, a growth and acquisition-oriented company, Mr. Finley managed all aspects of new property purchases while assisting in selected marketing efforts. Specifically, he:

- Grew the company from four to seven operating properties, increasing revenues by \$25 million.
- Developed an acquisition strategy, identified purchase candidates, assembled proposals, managed bidding, coordinated purchases and assisted in the start-up of the acquisitions.
- Implemented a new business plan that turned around a stagnant property and grew the business 25 percent.
- Coordinated financing with a holding company and directed customer service and sales for selected properties.

As assistant vice president of marketing services at the Southern Pacific Transportation Company, a \$3 billion railroad, Mr. Finley directed a staff of 40, including market research, intermodal development, labor negotiations, telemarketing, advertising, freight equipment planning, information systems and branch line development and abandonment. In this position, he:

- Set the company's commercial direction to help it become an aggressive user of the newly deregulated environment.
- Eliminated circuitous routing (in transit storage), resulting in a savings of \$50 million and causing minimal disruption to customers and competing railroads.
- Liquidated \$10 million of losing operations and sold \$50 million of unprofitable operations for \$75 million.
- Negotiated union contract rule changes that enabled the company to capture \$25 million in new revenues. The company subsequently received the Golden Freight Car, which recognizes the most innovative marketing program.

ROBERT C. FINLEY—Page 4

He has been responsible for the finance and administrative functions of two start-up corporations. One, a publicly financed venture, was an attempt to privatize the railroad equipment maintenance for the Massachusetts Bay Transportation Authority. Mr. Finley was coordinating the hiring of more than 500 people in less than six weeks when the effort was thwarted by legal and political issues outside of the venture's control. A second venture, privately funded, reintroduced the use of railroad boxcars for fast delivery of small volume shipments.

Mr. Finley has also held positions with the United States Railway Association and the Southern Railway System.

REDACTED

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REDACTED

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No. AB 1043 (Sub-No 1)

**MONTREAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF MELODY A SHEAHAN

My name is Melody A Sheahan I am Vice President Engineering of Montreal, Maine & Atlantic Railway, Ltd ("MMA"). My business address is 15 Iron Road, Hermon, Maine I am responsible for and supervise the engineering and maintenance activities for MMA, including analysis of maintenance and capital requirements and development of operating and capital budgets for purposes of maintaining the track and other fixed assets of the MMA system I am familiar with the entire MMA system and, in particular, the lines that MMA seeks to abandon in these proceedings (the "Abandonment Lines")

I have an A S degree in mechanical engineering technology from the University of Cincinnati, a B A in business administration from Marshall University and an MBA from Temple University My entire professional career has involved engineering work in the rail industry Between 1979 and 1997, I held various positions in the engineering Department of CSX Transportation, and from 1997 through 2001 I was employed by Amtrak, working on capital and infrastructure issues relating primarily to the Northeast Corridor Prior to my employment with MMA beginning in January, 2005, I worked as

an independent consultant providing infrastructure and maintenance advice to clients in the rail industry

The purpose of this Verified Statement is to (1) present MMA's estimate of the net liquidation value of the rail, ties and other track material in the Abandonment Lines and (2) to discuss the current condition of the Abandonment Lines and the capital expenditures required to address deferred maintenance

Net Liquidation Value

The net liquidation value (“NLV”) of the Abandonment Lines was calculated under my supervision and direction. The first step in the analysis was the development of an inventory of the track materials in the Abandonment Lines. By reviewing track and rail charts, we determined the weight of the rail at each location along the lines. The total area covered by the NLV includes 233 route miles of main and branch lines as well as all yards and sidings on the Abandonment Lines for a total of 285 track miles. A field inspection of the Abandonment Lines was completed to determine the number, size and condition of turnouts. We calculated the number of ties based on the total mileage of the track and estimated that there are approximately 3,300 ties per track mile. The net tons of rail, other track material and turnouts per mile varies depending on the size of the rail, as shown in Exhibit A.

Using records from recent inspection trips, we determined which rail would be reusable as relay rail (rail which can be reused on a lighter density line, in a siding, spur track or yard), what we believed to be suitable for reroll (rail which is not immediately fit for reuse but not in scrap condition and with some reprocessing at the mill can be reused, recognizing that rerolling results in a loss in the weight of the rail) and which rail would

be sold as scrap. We also reviewed the condition of the ties and categorized them as either #1 relay (usable in the main line), #2 relay (usable in yards and sidings), landscape or scrap. Exhibit B shows the inventory of track materials broken down by subdivision and then further delineated as rail, ties, other track material and turnouts.

In order to estimate the value of the rail, other track material and turnouts, we provided the inventory to Unitrac Railroad Materials, Inc ("Unitrac"). Unitrac is a well-established player in the salvage of rail lines throughout the United States with over 80 years in the business. They routinely provide estimates of the value of track materials and the cost to remove and sell track materials. Unitrac has direct knowledge of scrap prices based on their actual purchases and sales. They sell approximately 5,000GT of rail and other track material a month into the market and rely on the current bids from steel brokers when developing their estimates. Unitrac is familiar with MMA, the terrain and track conditions, having completed two rail and scrap removal projects associated with our rail laying programs in 2006 and 2007.

Unitrac reviewed prices as of November, 2009 for the various types of metal, i.e. relay, re-rolled and scrap rail, other track material and turnouts. The values per ton for each type of metal are shown in Exhibit C. Unitrac was also able to assist us by providing an estimated value for the relay and landscaping ties, using the same market-based methodology that Unitrac uses to value rail and other track material. Scrap ties were determined to have a negative value of \$2 each due to the expense for their removal and final disposal. By multiplying the quantities times the market values, we determined that the gross salvage value of the track materials, before taking into account removal costs, would be \$[] as of November, 2009. Unitrac has advised me that they have seen

approximately a 15% increase in the price of scrap since November, 2009. They anticipate prices holding steady through the first quarter of 2010 and a decline in the second quarter, but they do not see prices falling below the November, 2009 levels.

Relying upon unit costs developed through prior experience, Unitrac also provided us an estimate of the costs to pick up and dispose of the rail, ties, other track material and turnouts. As shown in Exhibit D, pages 2 through 6, we have used Unitrac's unit prices for the cost of dismantling track, removing ties, and transporting rail, other track material and ties to market for sale. These costs on average are in the range of \$[] per mile. We assumed that we would not attempt to salvage or remove any bridges or culverts, but rather we would leave them in place. It was also assumed that all proceeds from the sale of the signal cases and cabling would be approximately equal to the cost of the restoration of the road crossings, therefore neither the value of the signal cases nor the cost of restoration of the road crossings was included in the NLV calculation. Based upon these assumptions, the cost to remove materials in the Abandonment Lines was estimated to be \$[], and the NLV of the track materials is \$[], as shown in Exhibit D.

In order to salvage, transport and sell 233 route miles of track material, we estimated that it would require 2-3 years. If the track material could be sold at a uniform pace over such 2-3 year period, the discounted present value of the NLV would be \$[] using a discount rate of [] percent. Calculations are based on an estimate of four months of available work time in the first year and seven months of available work time in years 2 and 3, as shown in Exhibit E attached.

Condition of the Lines and Required Capital Expenditures

As a result of the loss producing operations on the Abandonment Lines, it has been impossible for MMA to justify sufficient capital expenditures or generate sufficient revenues to fund such expenditures in order to avoid deferred maintenance. In the Base Year, MMA spent \$[] on the Abandonment Lines for maintenance including ties, surfacing, grade crossing work, signals and snow removal. This expenditure was approximately [] percent of the revenues generated by the lines.

At the present time, the Madawaska Subdivision is in FRA Class 2 condition, with a maximum speed of 25 mph. Three of the branch line subdivisions--Houlton, Presque Isle and Fort Fairfield--are in FRA Class 1 condition, with a maximum speed of 10 mph. The Limestone Subdivision is mostly excepted track, with a maximum speed of 10 mph and limited hazardous material movements. Exhibit F attached shows by milepost numbers the maximum allowable speed for each subdivision or portion of subdivision as of February 12, 2010.

Based on an extensive analysis, we have determined that it would cost approximately \$[] million to rectify the deferred capital situation which has accumulated through 2009 and place all of the Abandonment Lines, except the Limestone Subdivision, which is discussed separately below, in a "state of good repair", i.e. a condition that could be maintained going forward by means of normalized maintenance and capital expenditures each year. As depicted in Exhibit G, capital expenditures are necessary for rail, ties, surfacing, embankment stabilization, culverts and bridges (details of locations and quantities can be found in workpapers). Completion of such work would

mean the Madawaska Subdivision would be returned to FRA Class 3, with a maximum speed of 40 mph, and three of the four branch line subdivisions would be returned to FRA class 2, with a maximum speed of 25 mph.

The Limestone Subdivision would cost an additional \$[] million over and above the \$[] million described above, in order to accomplish the additional work outlined in Exhibit H. Such work would be sufficient to restore the entire 29.85 miles to FRA Class 1, permitting a maximum speed of 10 mph and the movement of hazardous materials without restrictions.

Due to the grade of the Abandonment Lines and the terrain in the area, operation of trains across the Madawaska Subdivision at speeds less than FRA Class 3 and the branch lines at speeds less than FRA Class 2 is inefficient and costly to the overall operation. The grade generally ascends continuously from the south to the north, as shown in Exhibit I. This continuous grade makes the higher operating speeds crucial to the operation. Beginning the ascent of the grade at a higher speed allows the momentum of the train's weight to assist the locomotive in the ascent. The higher the speed the greater the assist provided by the momentum. Even if it is necessary to place the locomotive in higher throttle positions, it will remain in those positions less time, therefore requiring less fuel.

By allowing the track to remain in its current condition we are increasing not only fuel costs but crew costs as well, as shown in Exhibit J. We are also adding to the wear and tear on the locomotives and increasing the dock to dock time for the customers by at least one day. For example, the running time from Millinocket MP 109 00 to Madawaska MP 260 00, 151 route miles, without work events, such as yard switching or serving

customer industry tracks, at an average of 30 mph would be 5.03 hours, but at 10 mph running time would be 15.1 hours, requiring a second crew in order to comply with federal hours of service law

Failure to undertake these capital expenditures promptly will mean that operations on the Abandonment Lines will continue to be expensive and inefficient and that maintenance expenses will be higher than normal and higher than MMA can afford. Furthermore, the capital work is essential in order to ensure the continued safe operation of these lines Exhibit K shows the normalized annual capital expenditures (work which is required to be performed on an annual basis to keep the railroad in a state of good repair) for the Abandonment Lines Continued deferral of this work will mean increases in slow orders and a higher risk of derailments, thereby increasing operating costs It will be necessary to continue to lower the class of the track, which will lower even further the allowable speeds on the Abandonment Lines Eventually it will be necessary to place additional locations in excepted track status and finally to impose embargoes and suspend service Simply stated, continued operation of these lines without the massive capital expenditures described above is untenable. Without such investments, operations on the Abandonment Lines will literally grind to a halt

VERIFICATION

State of Maine

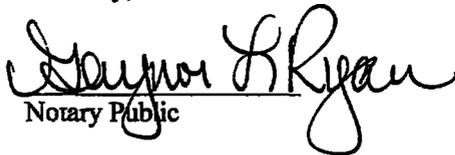
ss:

County of Penobscot

I, Melody A. Sheahan, being duly sworn, depose and state that I am Vice President Engineering of Montréal, Maine & Atlantic Railway, Ltd. ("MMA"), that I am authorized to sign the foregoing Verified Statement on behalf of MMA, that I have examined all of the statements contained in the Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Melody A. Sheahan

Subscribed and sworn to
before me this 17 day of
February, 2010


Notary Public

GAYNOR L. RYAN
Notary Public, Maine
My Commission Expires May 4, 2015

AB 1043 (Sub-No. 1)
 Exhibit A
 Material Net Tons per Mile

Rail			
Weight	Jointed/CWR	Class	Net Tons/Mile
80 lb	Jnt	Scrap	129.54
85 lb	Jnt	Scrap	137.63
100 lb	Jnt	Scrap	161.92
100 lb	Jnt	Reroll	167.20
100 lb	Jnt	Relay	167.20
112 lb	Jnt	Scrap	181.35
112 lb	Jnt	Reroll	187.26
112 lb	Jnt	Relay	187.26
115 lb	Jnt	Scrap	186.21
115 lb	Jnt	Reroll	192.28
115 lb	Jnt	Relay	192.28
115 lb	CWR	Relay	192.28

OTM		
Weight	Jointed/CWR	Net Tons/Mile
80 lb	Jnt	42.0
85 lb	Jnt	42.2
100 lb	Jnt	55.3
112 lb	Jnt	84.0
115 lb	Jnt	84.2
115 lb	CWR	74.8

Turnouts		
Weight	Size	Net Tons/Turnout
70 lb	#6	1.40
70 lb	#8 - 9	1.40
70 lb	#10 -11	1.40
80 lb	#8 -9	1.83
80 lb	#10 -11	1.93
85 lb	#8 - 9	1.83
100 lb	#6	2.80
100 lb	#8 - 9	3.70
100 lb	#10 -11	4.45
112 lb	#8 - 9	3.80
112 lb	#10 - 11	4.52
112 lb	#12	5.00
115 lb	#8 -9	3.80
115 lb	#10 - 11	4.52

*Note: Net Tons per Mile for rail are based on the weight of the rail and the class. Scrap rail has more wear therefore has less net tons per mile.

AB 1043 (Sub-No. 1)
Exhibit B
Inventory of Track Materials

Madawaska Subdivision - MP 109.00 to MP 260.00

Rail						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
100lb	Jnt	13.27	161.92	2148.68	1918.46	Scrap
100lb	Jnt	54.21	167.20	9063.91	8092.78	Reroll
100lb	Jnt	3.94	167.20	658.77	588.19	Relay
112lb	Jnt	12.28	187.26	2299.60	2053.22	Reroll
112lb	Jnt	29.8	187.26	5580.47	4982.56	Relay
115lb	Jnt	5.21	192.28	1001.78	894.45	Reroll
115lb	Jnt	30.78	192.28	5918.38	5284.27	Relay
115lb	CWR	1.51	192.28	290.34	259.23	Relay
100lb	Jnt	16.28	161.92	2636.06	2353.62	Scrap
100lb	Jnt	16.29	167.20	2723.69	2431.86	Relay
Totals		183.57		32321.67	28858.64	

OTM						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
100lb	Jnt	100.05	55.3	5532.77	4939.97	Scrap
100lb	Jnt	3.94	55.3	217.88	194.54	Relay
112lb	Jnt	42.08	84.0	3534.72	3156.00	Relay
115lb	Jnt	35.99	84.2	3030.36	2705.68	Relay
115lb	CWR	1.51	74.8	112.95	100.85	Relay
Totals		183.57		12428.67	11097.03	

Ties				
Class	%	Miles	Total Ties	
#1 Relay	5%	183.6	30,289	
#2 Relay	35%	183.6	212,023	
Landscape	30%	183.6	181,734	
Scrap	30%	183.6	181,734	
Total			605,780	

Turnouts						
Weight	Size	Qty.	Net Tons/TO	Total Net Tons	Total Gross Tons	Class
70lb	#8-9	8	1.40	11.20	10.00	Scrap
80lb	#8-9	2	1.83	3.66	3.27	Scrap
80lb	#10-11	1	1.93	1.93	1.72	Scrap
100lb	#8-9	13	3.70	48.10	42.95	Scrap
100lb	#8-9	15	3.70	55.50	49.55	Relay
100lb	#10-11	4	4.45	17.80	15.89	Scrap
100lb	#10-11	8	4.45	35.60	31.79	Relay
112lb	#8-9	9	3.80	34.20	30.54	Scrap
112lb	#8-9	12	3.80	45.60	40.71	Relay
112lb	#10-11	16	4.52	72.32	64.57	Scrap
112lb	#10-11	10	4.52	45.20	40.36	Relay
112lb	#12	1	5.00	5.00	4.46	Relay
115lb	#8-9	5	3.80	19.00	16.96	Relay
115lb	#10-11	1	4.52	4.52	4.04	Scrap
115lb	#10-11	8	4.52	36.16	32.29	Relay
Totals		113		435.79	389.10	

Signal Appliances		
Type	Quantity	
Lights	35	
Gates		
Total	35	

NOTE: Totals include yards and sidings within the subdivision

AB 1043 (Sub-No. 1)
Exhibit B
Inventory of Track Materials

Houlton Subdivision - MP 0.00 to MP 16.90

Rail						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
100lb	Jnt	7.76	161.92	1256.50	1121.87	Scrap
100lb	Jnt	7.76	167.20	1297.47	1158.46	Relay
115lb	Jnt	0.69	186.21	128.48	114.72	Scrap
115lb	Jnt	0.69	192.28	132.67	118.46	Relay
85lb	Jnt	2.94	137.63	404.64	361.28	Scrap
100lb	Jnt	4.59	161.92	743.21	663.58	Scrap
Totals		24.43		3962.98	3538.37	

OTM						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
85lb	Jnt	2.94	42.4	124.66	111.30	Scrap
100lb	Jnt	20.11	55.3	1112.08	992.93	Scrap
115lb	Jnt	1.38	84.2	116.20	103.75	Relay
Totals		24.43		1352.94	1207.98	

Ties				
Class	%	Miles	Total Ties	
#1 Relay		24.4		
#2 Relay	40%	24.4	32,248	
Landscape	30%	24.4	24,186	
Scrap	30%	24.4	24,186	
Total			80,620	

Turnouts						
Weight	Size	Qty.	Net Tons/TO	Total Net Tons	Total Gross Tons	Class
70lb	#6	6	1.40	8.40	7.50	Scrap
70lb	#8-9	4	1.40	5.60	5.00	Scrap
70lb	#10-11	1	1.40	1.40	1.25	Scrap
80lb	#8-9	2	1.83	3.66	3.27	Scrap
85lb	#8-9	3	1.83	5.49	4.90	Scrap
100lb	#8-9	7	3.70	25.90	23.13	Scrap
100lb	#8-9	9	3.70	33.30	29.73	Relay
100lb	#10-11	2	4.45	8.90	7.95	Scrap
100lb	#10-11	1	4.45	4.45	3.97	Relay
112lb	#8-9	2	3.80	7.60	6.79	Scrap
112lb	#10-11	2	4.52	9.04	8.07	Relay
115lb	#8-9	1	3.80	3.80	3.39	Relay
115lb	#10-11	1	4.52	4.52	4.04	Relay
Totals		41		122.06	108.98	

Signal Appliances		
Type	Quantity	
Lights	5	
Gates		
Total	5	

NOTE: Totals include yards and sidings within the subdivision

AB 1043 (Sub-No. 1)
 Exhibit B
 Inventory of Track Materials

Fort Fairfield Subdivision - MP 0.0 to MP 10.0

Rail						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
80lb	Jnt	4.4	129.54	569.96	508.89	Scrap
100lb	Jnt	2.54	167.20	424.69	379.19	Relay
100lb	Jnt	2.54	161.92	411.28	367.21	Scrap
112lb	Jnt	0.26	181.35	47.15	42.10	Scrap
112lb	Jnt	0.26	187.26	48.69	43.47	Reroll
80lb	Jnt	2.3	129.54	297.93	266.01	Scrap
Totals		12.3		1799.70	1606.87	

OTM						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
80lb	Jnt	6.7	42.0	281.40	251.25	Scrap
100lb	Jnt	5.08	57.0	289.56	258.54	Scrap
112lb	Jnt	0.52	84.0	43.68	39.00	Relay
Totals		12.3		614.64	548.79	

Ties				
Class	%	Miles		Total Ties
#1 Relay		12.3		
#2 Relay	10%	12.3		4,059
Landscape	45%	12.3		18,266
Scrap	45%	12.3		18,266
Total				40,591

Turnouts						
Weight	Size	Qty.	Net Tons/TO	Total Net Tons	Total Gross Tons	Class
80lb	#8-9	3	1.83	5.49	4.90	Scrap
100lb	#6	1	2.80	2.80	2.50	Scrap
100lb	#10-11	10	4.45	44.50	39.73	Scrap
Totals		14		52.79	47.13	

Signal Appliances		
Type	Quantity	
Lights	4	
Gates		
Total	4	

NOTE: Totals include yards and sidings within the subdivision

AB 1043 (Sub-No. 1)
Exhibit B
Inventory of Track Materials

Presque Isle Subdivision - MP 0.0 to MP 25.30

Rail						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
100lb	Jnt	7.61	167.20	1272.39	1136.06	Relay
100lb	Jnt	4.81	161.92	778.84	695.39	Scrap
112lb	Jnt	5.14	187.26	962.54	859.41	Relay
112lb	Jnt	5.14	181.35	932.14	832.27	Scrap
115lb	Jnt	1.3	192.28	249.96	223.18	Relay
115lb	Jnt	1.3	186.21	242.07	216.13	Scrap
100lb	Jnt	2.44	161.92	395.08	352.75	Scrap
80lb	Jnt	0.19	129.54	24.61	21.97	Scrap
85lb	Jnt	1.21	137.63	166.53	148.69	Scrap
Totals		29.14		5024.17	4485.87	

OTM						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
80lb	Jnt	0.19	42.0	7.98	7.13	Scrap
85lb	Jnt	1.21	42.2	51.06	45.59	Scrap
100lb	Jnt	14.86	55.3	821.76	733.71	Scrap
112lb	Jnt	10.28	84.0	863.52	771.00	Relay
115lb	Jnt	2.6	84.2	218.92	195.46	Relay
Totals		29.14		1963.24	1752.89	

Ties				
Class	%	Miles		Total Ties
#1 Relay		29.1		
#2 Relay	10%	29.1		9,616
Landscape	45%	29.1		43,273
Scrap	45%	29.1		43,273
Total				96,162

Turnouts						
Weight	Size	Qty.	Net Tons/TO	Total Net Tons	Total Gross Tons	Class
70lb	#8-9	2	1.83	3.66	3.27	Scrap
100lb	#8-9	4	3.70	14.80	13.21	Scrap
100lb	#10-11	3	4.45	13.35	11.92	Scrap
100lb	#8-9	9	3.80	34.20	30.54	Relay
100lb	#10-11	1	4.52	4.52	4.04	Relay
115lb	#8-9	2	3.80	7.60	6.79	Relay
115lb	#10-11	2	4.52	9.04	8.07	Relay
Totals		23		87.17	77.83	

Signal Appliances		
Type	Quantity	
Lights	4	
Gates		
Total	4	

NOTE: Totals include yards and sidings within the subdivision

AB 1043 (Sub-No. 1)
 Exhibit B
 Inventory of Track Materials

Limestone Subdivision - MP 0.0 to MP 29.85

Rail						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
80lb	Jnt	12.58	129.54	1629.56	1454.97	Scrap
100lb	Jnt	7.78	161.92	1259.74	1124.77	Scrap
100lb	Jnt	7.78	167.20	1300.82	1161.44	Reroll
112lb	Jnt	0.57	181.35	103.37	92.29	Scrap
112lb	Jnt	1.14	187.26	213.48	190.61	Relay
80lb	Jnt	3.62	129.54	468.92	418.68	Scrap
85lb	Jnt	1.79	137.63	246.36	219.97	Scrap
Totals		35.26		5222.25	4662.72	

OTM						
Weight	Jointed/CWR	Miles	Net Tons/Mile	Total Net Tons	Total Gross Tons	Class
80lb	Jnt	16.2	42.0	680.40	607.50	Scrap
85lb	Jnt	1.79	42.2	75.54	67.44	Scrap
100lb	Jnt	15.56	55.3	860.47	768.28	Scrap
112lb	Jnt	1.71	84.0	143.64	128.25	Relay
Totals		35.26		1760.05	1571.47	

Ties				
Class	%	Miles		Total Ties
#1 Relay		35.3		
#2 Relay	10%	35.3		11,636
Landscape	45%	35.3		52,361
Scrap	45%	35.3		52,361
Total				116,358

Turnouts						
Weight	Size	Qty.	Net Tons/TO	Total Net Tons	Total Gross Tons	Class
100lb	#8-9	7	3.70	25.90	23.13	Scrap
100lb	#8-9	5	3.70	18.50	16.52	Relay
100lb	#10-11	1	4.45	4.45	3.97	Relay
Totals		13		48.85	43.62	

Signal Appliances			
Type	Quantity		
Lights	10		
Gates	3		
Total		13	

NOTE: Totals include yards and sidings with the subdivision

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Sub: All

At / Between	And	Speed	Information	Item
ALL		NA	Railroad Security Alert Level is currently 2...KIS...8-2-05	9413
ALL		NA	Unless equipped with an operational Hot Start system, leave locomotives running system wide. JWS 09/25/09	13641
ALL		NA	Operating Bulletin No. 2-181 has been posted per KIS 12/29/09.	13762

Sub: Fort Fairfield

At / Between	And	Speed	Information	Item
4.0	6.0	10	Surface conditions. No signals displayed...GJN . 3-19-09. .Edit GJN. 3-26-09.. Edit.. GJN.. 4-2-09...Edit. . GJN. .5-14-09 .Edit...GJN...7-23-09...Edit...GJN...1-14-10	13040
5.3	5.6	10	Track conditions. Green signals displayed...DLM. .2-19-04 . Edit. .GJN .7-27-06 Edit GJN 08/06/06...Edit...GJN. .12-11-08	7666
7.54 crossing		10	Over crossing. Surface conditions. Green signals displayed GJN. .5-28-09	13246
7.99crossing		10	Over crossing Surface conditions. No signals displayed...GJN.. 7-23-09	13436
9.0	10.0	10	Track conditions. No signals displayed.. WCL...12-29-06	10917

Easton		NA	C-spur closed account defective rail. Switch spiked and private lock applied...GJN...6-26-09	13370
9.11 crossing		NA	Special instruction 07-1 on page 32 of Timetable No.2 is changed in its entirety to read: 07-1 Easton: Movements must not occupy the crossing at Mile 9.11 until the crossing protection has been seen to be operating continuously for at least 20 seconds. This special instruction applies both on Main Track and Spur B....KIS...06/01/09	13285
12.09		NA	Automatic warning devices at Mile 12.09 out of service further notice. Protect crossing in accordance with Rule 103g RR. 4-2-09	13070
14.61		NA	Automatic warning devices at Mile 14.61 out of service further notice. Protect crossing in accordance with Rule 103g RR. 4-2-09	13071

Sub: Houlton

At / Between	And	Speed	Information	Item
8.62	8.82	10	Account track condition. Green signals displayed GJN 01/18/10	13780
Houlton		05	Do Not Exceed 05 MPH on A-spur (grain track)...BDC ..5-6-08	12321
Ludlow		NA	Siding closed from North switch to RED signal. App: 800 feet North switch is spiked and tagged...GJN.. 10-19-09	13695
Houlton		NA	AA-track is closed on South-end. RED signal is displayed...GJN.. 4-15-09	13126

Sub: Limestone

At / Between	And	Speed	Information	Item
0.41		NA	Automatic warning devices at Mile 0.41 out of service further notice. Protect crossing in accordance with Rule 103g . JTB...10-16-09	13692

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0.48		NA	Automatic warning devices at Mile 0.48 out of service further notice Protect crossing in accordance with Rule 103g...JTB ..10-16-09	13693
Saunders		NA	Track is closed for winter. WCL .1-3-07	10922
Industrial		NA	Tracks # 2 and A are closed for winter...DMC...12-16-09	13755
6 00	15.25	NA	Mile 6 to Mile 15.25 is now designated as FRA "Excepted Track" Employees must apply the requirements of GSI 43 when operating on this track...KIS...6-19-09	13333
Caribou		NA	B Spur in Caribou is closed ...MPO...11/01/09	13713

Sub: Madawaska

At / Between	And	Speed	Information	Item
107.50	183.50	30	Maximum speed on main track between north cautionary limit sign Millinocket and south cautionary limit sign Squa Pan not to exceed 30 MPH	3672
112.0	113.0	25	Account surface condition No signals displayed BMR 05/27/09	13225
113.0	120.0	25	Track conditions. No signals displayed...BMR...2-11-09	12955
121.87	123.0	25	Track conditions. Green signals displayed...BMR...10-21-08...Edit. BMR .3-5-09	12796
126.0	127.0	25	Surface conditions. No signals displayed...BMR.. 12-29-08	12888

127.0	136.0	25	Track conditions. No signals displayed...GJN...9-8-09...Edit...GJN...11-13-09	13573
138.0	143.0	25	Account Rail Temp No signals displayed per GJN 08/22/08 . Edit...GJN...8-25-08	12685
139.86switch		25	Over North # 1 switch Island Falls. Rail conditions. No signals displayed...DDB...9-25-09...Edit...BDC ..9-29-09	13638
144.0	145.0	25	Account tie condition. No signals displayed. GJN 08/10/09	13474
146.0	147.0	25	Tie conditions. No signals displayed . GJN.. 7-27-09	13440
151.0	167.0	25	Track conditions. No signals displayed...GJN...9-15-09	13602
167.0	167.5	10	167.5=Crossing Account surface condition. No signals displayed.BDC 10/21/09	13700
178.0	180.0	25	Track conditions. No signals displayed...MPO . 7-9-08 Edit MPO 02/10/09...Edit.. GJN...8-4-09 ..Edit...GJN .10-20-09	12516
182.0	183.0	25	Surface conditions. No signals displayed GJN...2-24-09	12980
182.0	183.0	10	Sperry rail. No signals displayed...GJN...9-22-09	13624
183.0	185.0	25	Account track condition. No signals displayed. GJN 10/06/09	13667
183.0	184.0	10	Track conditions. No signals displayed. .GJN...1-12-10	13772

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Squa Pan	Madawaska	30	Account track conditions no signals displayed.	3686
185.0	186 13crossing	10	Track conditions. No signals displayed. GJN. .4-30-09 Edit .GJN ..05/27/09 ..Edit MPO 07/09/09.	13175
186 10	186.13	10	Between N Wye Switch and Route 11 Crossing Mile 186.13 when entering Madawaska Sub Main Track from North Wye (head end only) This is a Permanent Speed Restriction per KIS 09/30/09.	13657
190.0	198.0	25	Account track condition No signals displayed. KLI 06/09/08	12425
191.0	192.0	25	Account tie condition. No signals displayed MPO 09/07/09	13571
193 5		10	Over Bridge when a 6 axle is used in the consist MAS 08/04/08	12632
195.0	197.0	10	Account Sperry Rails. No signals displayed MPO 09/23/09	13631
198.21		10	Permanent speed restriction in Timetable No. 2 over highway crossing at Mile 198.21 apply to head end only per KIS.	11198
198.77switch		10	Over North # 7 switch Skerry. Track conditions. No signals displayed.. MPO...12-1-09	13744
198.78		20	Permanent speed restriction in Timetable No 2 over highway crossing at Mile 198 78 apply to head end only per KIS.	11691
203 0	207.0	25	Account track conditions No signals displayed KLI 06/19/08. Edit MPO 11/03/09.	12458

210.0	211.0	25	Tie conditions. No signals displayed ..MPO...8-26-09	13521
211.0	217.62crossing	10	Account Track Conditions & Sperry Rails. No signals displayed per MPO 10/08/09	13679
212.0	218.0	25	Account Rail Temp. ..Edit .25 MPH per MPO 08/27/08	11710
212.0	213.0	25	Account tie condition No signals displayed. MPO 08/17/09...Edit...MPO...9-7-09	13496
218.0	221.0	25	Tie conditions. No signals displayed.. MPO...9-7-09	13567
224.0	224.18crossing	10	Sperry rail. No signals displayed MPO...9-28-09	13644
226.67crossing		10	Sperry rail. No signals displayed...MPO. 9-28-09	13645
228.0	228.36	10	Account Surface Conditions. No signals displayed per LDF 11/12/09. Edit. 228 36=crossing MPO 12/07/09	13723
230.0	230.75crossing	10	Sperry rail No signals displayed MPO . 9-28-09	13646
230.75crossing		10	Over crossing. Track conditions. No signals displayed...LDF...6-22-09	13343
230.90crossing		10	Over crossing. High planks. No signals displayed ..DMC...1-4-10	13767
231.0	232.0	25	Tie conditions. No signals displayed .MPO. 9-7-09	13565

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234.29		25	Tie conditions. Green signals displayed...MPO...8-31-09	13528
234.46	236.44	10	Track conditions and Sperry rail Edit Green signal displayed 234 46.. 236.44=Bridge MPO 12/07/09	13598
237 0	238.0	25	Tie conditions. No signals displayed .MPO.. 8-31-09	13530
238.83	239.26	10	Account Sperry rail. Green signals only .MPO..08/24/09 . Edit .MPO 9-29-09 Edit MPO 11/16/09	13516
239.0	240.0	25	Track conditions. No signals displayed. .LDF...5-7-09	13188
242.80		10	Movements must not exceed 10 MPH from a point 300 feet from the crossing to the crossing when approaching North Perley Brook Road, Mile 242.80. This restriction applies to head end only. (Permanent Speed Restriction) per KIS 06/13/07	11440
244.0	255 0	25	Account Rail Temp...Edit 25 MPH per MPO 09/03/08	12684
244.08crossing	245.00	10	244.08 crossing to 245.00 10 MPH account track conditions. no signals displayed. .MPO .09/14/09 Edit to read 244 08 LDF 09/28/09	13599
245 0	245.25	10	Track conditions. Green signals displayed...LDF.. 4-27-07	11175
247.0		10	Sperry rail. No signals displayed.. MPO...9-29-09	13648
249.42		10	Sperry rail Green signals displayed ..MPO ..9-29-09	13649

250.22	250.44crossing	10	Sperry rail. Green signal on South-end only...MPO...9-29-09	13650
257.00	258 00	25	Account tie conditions no signals displayed...MPO.. 08/31/09	13536
258.0	259.0	10	Account Track Conditions and Sperry rails. No signals displayed per JLC 11/15/09.	13080
Summit		NA	North switch has been retired . BMR...5-8-08	12335
Sherman		NA	All tracks at Sherman are closed for the winter for car storage. GJN 12/07/09	13749
Island Falls		NA	C-spur open for use for about 800 feet to RED signal . GJN.. 12-15-09	13754
Oakfield		NA	Nappadoggin yard closed until further notice GJN 05/20/09. .Edt GJN 08/12/09	13209
Oakfield		NA	Tracks No. 6--8--34 are closed for winter...GJN. .1-11-10. .Edt PGM 01/14/10	13771
Howe Brook		NA	Siding closed for the winter. 72 Hrs notice required to reopen.GJN 12/13/07	11946
St.Croix		NA	Siding closed for winter. 72 hours notice to open GJN...1-12-10	13773
Skerry		NA	E-spur closed account rail conditions...LDF...3-2-09	12989
McDonald		NA	"D" spur is closed Switch spiked. MPO 05/20/09	13210

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McDonald	NA	Watch out for drain hole around E-track switch.. LDF . 1-28-10	13786
Winterville	NA	"A" Spur is closed further notice per MPO 07/14/09.	13414
Wallagrass	NA	Siding closed account surface conditions...LDF.. 01-13-09...Edit LDF. .6-9-09	12908
Soldier Pond	NA	Siding closed account track conditions...LDF...8-11-08	12652
Fort Kent	NA	Track #15 can be used from the North End up to derail and red flag per PJR 12/17/08. Edit 12/23/08 Back lead and Dead River Track are open and OK to use per PJR	12875
Cleveland	NA	A-spur closed account track conditions .MPO .7-13-09	13407

Sub: Presque Isle

At / Between	And	Speed	Information	Item
0.0	0.8	10	Gauge conditions. No signals displayed. .GJN...01-06-09	12898
Squa Pan	Presque Isle	25	Track conditions. No signals displayed ..GJN .5-23-07	11322
6.0	7.0	10	Account track condition. No signals displayed GJN 10/08/09...Edit...GJN...12-29-09	13677
8.0	9.0	10	Track conditions. No signals displayed...GJN...5-14-09	13199

9.25	9.4	10	Account surface condition. Green signals displayed. GJN 05/21/09	13212
10.05 bridge		10	Over bridge. Surface conditions. No signals displayed. GJN . 6-3-09	13291
10.2	10.3	10	Surface conditions. Green signals displayed. .GJN...6-26-09	13372
11.01 crossing		10	Over crossing. Surface conditions.No signals displayed...GJN...6-11-09	13310
13 35	13.55	10	Surface conditions Green signals displayed...GJN...6-19-09	13334
17.93	18.0	10	17.93=South #2 Switch Mapleton. Account Track Conditions. No signals displayed per KRR 10/24/08.	12809
20.0	21.0	10	Surface conditions. No signals displayed . GJN. 8-7-09	13472
22 0	24.0	10	Account surface condition. Green signals displayed. GJN 05/21/09...Edit...GJN...7-1-09...Edit...GJN. 12-29-09	13214
23.95 crossing		10	Over crossing. Surface conditions. No signals displayed...GJN...4-30-09	13181
Presque Isle		05	On "A" Spur- Tatermeal Track account Track Conditions per WCL 08/23/07....Edit GMW 11/06/08 . Edit GMW 11/12/09.	11670
Presque Isle		10	On the old Mainline between Bike switch and Court switch account track condition. No signals displayed. GJN 06/05/08	12412
Presque Isle		05	Between G-switch and Columbia Forest Product REK...4-10-09	13111

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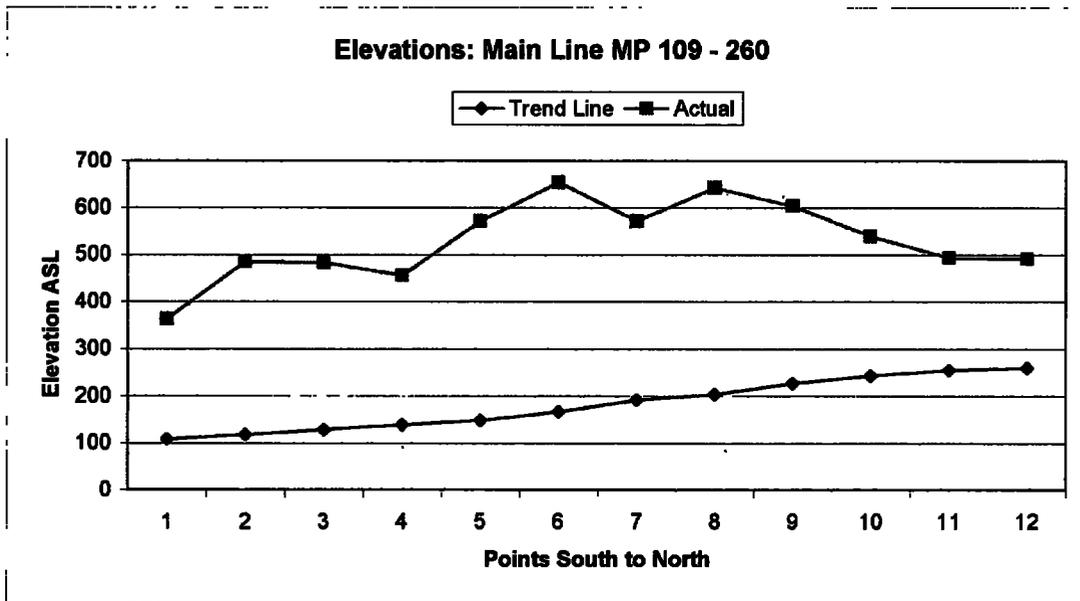
G Spur Xing	05	Over Crossing and movement must be observed by a crew member per REK 06/18/09.	13330
1.8	NA	Watch out for over-head power line crossing track .GPH. .8-14-08	12663
Presque Isle	NA	No locomotives or loaded cars over crossing on G-track(Columbia Forest) until further notice. .GJN. .11-20-09	13738

REDACTED

REDACTED

AB 1043 (Sub-No. 1)
 Exhibit I
 Elevations
 Mainline MP 109 - MP 260

<u>Milepost</u>	<u>Point Reference</u>	<u>Location</u>	<u>Feet Above Sea Level</u>	<u>Change In Elevation (ft)</u>	<u>Miles between Points</u>
109	1	MP 109	364		0
119	2	Summit	486	122	10
129	3	Sherman Station	483	3	10
140	4	Island Falls	457	26	11
149	5	Oakfield	572	115	9
168	6	St. Croix	654	82	19
192	7	Ashland	572	82	24
204	8	Portage	642	70	12
227	9	Eagle Lake	604	38	23
244	10	Ft. Kent	539	65	17
255	11	Frenchville	494	45	11
260	12	MP 260	492	2	5



REDACTED

AB 1043 (Sub-No. 1)
Exhibit K
Normal Annualized Capital Maintenance
Abandonment Lines

- **Rail – assume 50 year life**
 - **233 track miles/50 years = 4.66 track miles X \$420,000/track mile = \$1,957,200**

- **Turnout & Switch Points – assume 20 year life**
 - **204 switches/ 20 yr = 10.2 switches/yr x \$15,000 = \$ 153,000**

- **Ties – general replacement – 80/year/mile**
 - **233 track miles x 80 ties/mile/yr = 18,640 ties x \$75/ties = \$1,398,000**

- **Switch Timbers – assume 20 year life**
 - **204 switches/20 yr = 10.2 switches/yr x 60 timbers x \$120 each = \$ 73,440**

- **Surfacing – surfacing cycle 2 years**
 - **233 miles/2 = 116.5 miles x \$4,000 = \$ 466,000**

- **Signalized Crossings – assume 25 year life**
 - **58 crossings/25/yr = 2.32/ yr x \$150,000 = \$ 348,000**

- **Bridges & Culverts –**
 - **Various projects = \$ 300,000**

- **General Crossing Surface Rehab –**
 - **Various projects = \$ 200,000**

TOTAL NORMAL ANNUALIZED CAPITAL MAINTENANCE - \$4,895,600

REDACTED

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF ROBERT E HOLLAND

My name is Robert E Holland, and I have been retained by Montréal, Maine & Atlantic Ry , Ltd ("MMA") to assist it in the preparation of an application to abandon approximately 233 miles of line located in Penobscot and Aroostook Counties, Maine. Specifically, and as described more fully below, I have analyzed the transportation alternatives available to customers served by the lines to be abandoned ("Abandonment Lines") and have estimated the costs of alternative service, comparing such costs to the current rail rates

I retired from Norfolk Southern Corp as of May 31, 2009 after 37 years of employment with Norfolk Southern and one of its predecessors, Norfolk and Western Railway. At Norfolk Southern, I held various management positions in intermodal marketing, intermodal operations, and finance, dealing frequently with competitive modal options and comparative truck costs. I developed "truck cost" models for use by the marketing groups so that they could assess comparative modal economics in order to make pricing decisions. In addition, I worked closely with the legal, strategic planning, operations, and marketing departments at Norfolk Southern in order to develop advanced economic models that integrated decision data across the disciplines of these departments

for purposes of rate litigation, abandonments, pro forma network changes, infrastructure changes, multi department six-sigma projects, and short line studies

After my retirement, I formed Moose Path Consultancy, LLC, a Maine limited liability company, in order to undertake consulting assignments. I reside in Rockland, Maine

In order to analyze alternative transportation possibilities and the cost of such alternative transportation, I obtained rail traffic information from MMA. Specifically, for each customer located on or served by the Abandonment Lines, I received electronic information concerning carloads, commodities, origins and destinations and rail rates, including both the MMA proportion and the overall through rate where applicable between origin and destination for the Base Year period October 1, 2008 through September 30, 2009 and for the Forecast Year period February 1, 2010 through January 31, 2011. In the Base Year, MMA handled [] carloads of traffic that either originated or terminated on, and [] carloads that were overhead to the Abandonment Lines. MMA is projected to handle [] carloads of originating or terminating traffic, and [] carloads of bridge traffic in the Forecast Year.

For each of the customers that had 50 or more carloads per year on the Abandonment Lines, I categorized the rail traffic by the most likely type of truck that would be used to transport the various commodities, such as bulk, tank, flat and others. I also calculated the anticipated payload weight of each truckload based on my knowledge and the local experience of MMA's sales and marketing personnel.

I found that many of the commodities handled on the Abandonment Lines require special use equipment, such as tank cars, that would unlikely to be used for back hauls or

head hauls. Consequently, I assume conservatively that the empty return ratio- the number of empty trucks compared to loaded trucks – would be 1.0 on average

Another factor that appears to be somewhat unique to the Abandonment Lines is that the majority of the traffic ([]% of the originated or terminated truckload equivalents in the Base Year) consists of logs, woodchips, and wood pulp that can and do move in trucks with payloads that approximate 67,000 net pounds or 34 tons versus the typical 55 ton payload of railcars, resulting in a truck to rail load ratio of [] for this particular traffic. These higher payload truck movements are permitted in Maine, which allows trucks up to 100,000 pounds gross weight, or about 67,000 pounds net weight, on both local roads and now on the total length of I-95 within the state of Maine. As a result of the high percentage of this log, woodchip and wood pulp traffic, the overall truck equivalent to railcar ratio computed to be [] (rounded) for all cars originating or terminating on the Abandonment Lines. It is conceivable, as described in the Verified Statement of Joseph R. McGonigle, that the ratio could be even lower if we take into account the anticipated diversion of some rail traffic to the extensive unregulated private road network in Aroostook County. These private roads are currently used for the movement of logs and other wood products in trucks having materially greater net payloads than the payloads of trucks that are legal to operate on public roads. However, it is not feasible to quantify those movements with any precision.

Based upon discussions with MMA personnel and my experience with intermodal and truck issues, I reviewed the likely routes that trucks would use if the transportation were not by rail. Additionally, I drove over some of the major highways in the vicinity of Ashland, Caribou, Houlton, and Presque Isle to observe a few of the major customers'

facilities and observe traffic on the highways. Each of the customers analyzed currently uses trucks and/or a truck/rail transload operation as an alternative to all rail transportation. so there was ample data available on alternative routes This use of trucks is hardly surprising, because a substantial majority of the shipments involve forest products, all of which have been exempted from regulation by the Surface Transportation Board as a result of the existence of truck competition Additionally, MMA advises that the end market focus of the customers in the region is generally within a 700 mile truck haul from their production facility, and the order sizes and transit times necessary to complete the sale most often require use of trucking

I assumed that for rail movements of approximately 300 miles or less, it would be likely that a rail car would be diverted exclusively to truck For rail movements of approximately 300 miles or more, however, I assumed that it would be more likely that the customer would choose to use a rail/truck transload operation where feasible. In the analysis, []% of the Base Year truckload equivalents for traffic originating or terminating on the Abandonment Lines were assumed to be truck movements to a transload site For such movements, again with input from MMA marketing personnel, I reviewed the possible transload sites, which are discussed in the Verified Statement of Joseph R. McGonigle. As described by Mr McGonigle, MMA has an affiliate, Logistics Management Systems ("LMS"), that owns and operates a warehouse and transload facility in Bangor The LMS facility is located on the MMA line and is the closest MMA transload facility to the customers on the Abandonment Lines. so I assumed that LMS would be the most logical transload alternative available to customers For these customers and their shipments of 300 miles or more. I determined the trucking and

transload costs between the customers' facilities and LMS and then added the rail rates between LMS and the origins or destinations

Based on my experience and the experience of the MMA personnel, I determined that truck movements under 300 miles would be billed on an hourly basis and that truck movements over 300 miles would be billed on a mileage basis. The average truck rates were \$[] per hour on an hourly basis, covering the []% of truckload equivalents traveling under 300 miles and the []% of truckload equivalents traveling to a transload location. Truck rates averaged \$[] per mile for the remainder of the truckload moves that were assumed to travel via truck over the entire distance from origin to destination.

Finally, taking into account all of the data that had been developed, including the equipment types, empty return ratios, and rail to truck ratio, I estimated the amount that each customer would need to pay for truck service or truck/rail transload service, including the cost of the truck portion, the rail portion and the transloading (weighted average transloading costs were estimated at \$[] per rail carload) activities for transportation after termination of rail service on the Abandonment Lines. For example, existing outbound rail shipments where outbound short haul truck moves would be transloaded to outbound railcars, the \$[] includes offloading the truck, any required intermediate storage at the transload site, and reloading the lading onto the railcar. For existing inbound rail traffic, the reverse would be true.

The Base Year (October 1, 2008-September 30, 2009) car loadings for customers with over 50 carloads annually of originating or terminating traffic totaled [], which represented 98% of the total originating or terminating carloads on the Abandonment Lines. These rail carloads, based on the analysis of the commodities and payload

weights, corresponded to [] truckload equivalents. The total through rail charges for the [] carloads amounted to \$[] and the estimated truck or truck/rail transload cost for such carloads totaled \$[], resulting in an increase of transportation costs of \$[] or []%. In the Forecast Year (February 1, 2010- January 31, 2011), these same rail customers would pay \$[] for rail transportation of [] carloads and \$[] for truck or truck/rail transloading services, resulting in an increase of \$[] or []%. Exhibits A and B attached show the detail for each of these customers.

Similarly, I reviewed the traffic bridging over the Abandonment Lines to determine the impact on alternative transportation costs. MMA advised that certain of the bridge traffic would likely continue to move by rail through an alternative rail junction, such as the interchange with Canadian National at St. Leonard, New Brunswick or the interchange with Canadian Pacific or Canadian National near Montréal. Therefore, only a portion of the bridge traffic would be diverted to truck.

For the Base Year (October 1, 2008-September 30, 2009), an estimated [] of the total of [] overhead carloads would likely divert to truck, or about []% of the total overhead carloads. Most of the remainder of the carloads would likely continue to move by rail to and from the Fraser Papers mill at Madawaska via MMA's St. Leonard, NB connection with the Canadian National. This route currently handles a substantial amount of the traffic to and from Madawaska. Other overhead traffic that currently moves to or from MMA origins or destinations south of the end of the Abandonment Lines near Millinocket could continue to move by rail via MMA's connection with Canadian Pacific near Montréal. Given that rail miles are about the same via CN, CP or MMA to and from the west, it was assumed that no material change in rail cost would occur for this traffic.

For the overhead carloads that would be either handled on an alternative rail route or diverted to truck in the Base Year, customers paid \$[] in rail transportation charges and would incur \$[] for alternative transportation, for an increase of \$[] or []%. In the Forecast Year, it is estimated these same customers would pay \$[] for rail transportation. Alternative transportation cost for these overhead loads is estimated to be \$[] for an increase of \$[] or []%. Exhibits C and D attached show the detail by customer for the Base Year and the Forecast Year. The analysis does not take into account that the customer could simply refocus their sales efforts to markets closer to their production facility, assumed to be their preferred markets, which would reduce their transportation expenditures.

Current rail transportation service and the related rates often do not reflect the complete transportation service and rates between origin and destination. For example, rail service from a lumber mill on the Abandonment Lines to a retail lumber dealer in Altoona, Pennsylvania might provide only part of the transportation picture. The logs that the mill turns into finished lumber have been trucked from the harvest site in the forest to the lumber mill. In addition, the rail delivery may have been to a distribution center in New Jersey, with further trucking from the distribution center to the retailer in Altoona. These additional distribution channel costs, which are necessary in order to get from origin to destination, have not been taken into account in my analysis of the current rail costs incurred by customers. The total transportation costs in many cases would be greater than the rail transportation costs. More importantly, the total transportation costs would be the proper comparison to truck costs or truck/transload costs after the abandonment.

Exhibit E attached details the structure of the models that I created to analyze alternative transportation costs for both the Base Year and the Forecast Year. The data contained in Exhibit E and the models are available in electronic form. In general, the models consist of a main calculation tab that in turn reference other tabs that contain tables of information. Additional tabs create pivots of the calculated values that serve to summarize desired values. These models provided an efficient mechanism to handle the various complicated facets of the alternative transportation cost analyses. The Forecast Year model version contains an extra tab that contains indexes equal to Forecast Year divided by Base Year. The Base Year model is attached as Exhibit F, and the Forecast Year model is attached as Exhibit G.

VERIFICATION

State of Maine

ss:

County of Knox

I, Robert E. Holland, being duly sworn, depose and state that I have been retained by Montréal, Maine & Atlantic Railway, Ltd. to analyze alternative transportation means and rates, that I have examined all of the statements contained in the foregoing Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Robert E. Holland

Subscribed and sworn to
before me this 16 day of
February, 2010


Notary Public

CONNIE L. COCKS-SAWYER
Notary Public, Maine
My Commission Expires September 27, 2013

REDACTED

REDACTED

REDACTED

REDACTED

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REDACTED

REDACTED

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF RICHARD M GOTTLIEB

My name is Richard M Gottlieb. I am a consultant who specializes in real estate transactions and development and, in particular, in transactions involving real estate owned by railroads. The purpose of this Verified Statement is to discuss the market for acquisitions of abandoned rail corridors for nonrail uses in northern Maine.

I have a BA degree from Brooklyn College and a JD from the University of Maryland Law School. I am a member of the New York Bar. For more than 30 years, I have been involved in all types of real estate transactions, including 20 years of experience with transactions relating to railroad property. My experience includes sales of surplus and abandoned rail corridors, including abandoned rail corridor sales to private individuals and governmental entities, leases of rail property, and leases and licenses to right-of-way users such as power companies, telecommunications companies, pipelines, cable companies and other utilities. I have been retained by a number of railroads to provide these services, including Florida East Coast, Boston & Maine, Providence & Worcester, Bangor & Aroostook Railroad ("BAR"), Rail America and Montréal, Maine & Atlantic Railway, Ltd ("MMA").

I was retained by the Chapter 11 trustee of BAR in 2003 for the purpose of arranging sales of approximately 100 small parcels of real estate that remained with BAR after the sale of its rail assets to MMA and, in addition, approximately 48 miles of abandoned right-of-way. The 100 small parcels were generally less than 3 acres in size, located adjacent to or near a rail line, and irregularly shaped. They were located throughout northern Maine, and in particular in Aroostook County. The 48 miles of abandoned right-of-way, as discussed below, were located primarily in Aroostook County. As a result of my efforts to market and sell these properties, BAR realized approximately 2.5 times as much in proceeds as anticipated prior to the marketing and sales effort.

Over the course of approximately 2 years, all of the 100 small parcels were sold. Many of the parcels were sold to local, entrepreneurial private purchasers who saw the value of this real estate. For example, a number of the parcels were acquired by loggers, who recouped part of their purchase price by cutting timber located on the property, and who now are in a position to realize a profit through resale or development.

Approximately 43.2 miles of the abandoned right-of-way were located in Aroostook County between Washburn and Mapleton (6.2 miles), between Patten and Sherman (5.9 miles) and between Houlton and Phair (32.4 miles). In addition, 4.6 miles of the Kahtadin branch in Piscataquis County was sold. The State of Maine, acting by and through its Department of Conservation, Bureau of Parks and Lands ("DOC"), expressed an early interest in acquiring the abandoned rights-of-way in Aroostook County as recreation corridors to be used for snowmobiling and all-terrain vehicles. DOC has created an extensive trail system in northern Maine, and the approximately

43 miles owned by BAR were seen as a critical addition to the system. The initial negotiations with DOC did not result in an agreement, which led BAR to put the rights-of-way back on the market and to look for private purchasers. I was able to negotiate a purchase and sale agreement for all 45 miles of abandoned right-of-way with a group in the timber business who had purchased several of the small parcels. They wanted the property for logging roads. Eventually, DOC was able to resolve certain issues that had prevented the signing of a purchase and sale agreement earlier, and BAR and DOC entered into a transaction that was closed in 2005. The purchase price paid by DOC for the entire 50 miles of abandoned right-of-way was approximately \$21,000 per mile.

I have been retained by MMA to assist it in the sale of surplus, nonoperating property. Over the last several years, my efforts have resulted in the sale of several parcels, including an abandoned 3 mile corridor. In addition, MMA and DOC have recently entered into a purchase and sale agreement covering approximately 9 miles of abandoned right-of-way located in Medford and Lagrange, Maine and known as the "Medford cutoff". The purchase and sale agreement provides for an appraisal and gives MMA the right to terminate the agreement in the event that the appraisal is less than \$25,000 per mile. The appraisal has just been completed, showing the value of the corridor to be \$[] per mile, so the transaction will proceed to closing.

I am assisting MMA in connection with the abandonment application relating to 233 miles of right-of-way in Penobscot and Aroostook Counties. Specifically, I have been asked to determine whether there is a market for the acquisition of some or all of the 233 miles as abandoned corridors for nonrail purposes. As a result of the experience described above, I am very familiar with the market for Maine real estate generally, and

uniquely familiar with the market for abandoned rights-of-way in northern Maine. In fact, the 43 miles of BAR right-of-way sold to DOC are in the same area of Aroostook County as the lines that make up the 233 mile abandonment. In addition, I have been dealing with potential private purchasers of the right-of-way as well as utility companies and others that might have an interest in the 233 miles after they have been abandoned and rail operations have ceased.

I have been in discussions with a group in the timber business, including the buyer of the 3 mile corridor referred to above, concerning the possibility of a purchase and sale of approximately 80 miles of the 233 mile corridor. These discussions have the potential of resulting in a transaction. We have also received an offer from Maine Public Service to acquire land at various locations within the 233 miles relating to existing utility easements at a price of \$[] per mile.

These offers and expressions of interest have come at a time of a weak real estate market in general, including the market in northern Maine. Based upon these offers, and discussions that have not yet yielded firm offers, it is clear that there is and will be a market for acquisition of all or substantially all of the 233 miles of right-of-way for nonrail purposes. The spring/summer prime selling season is still several months away. Also, for many prospective buyers, it is simply too early to enter into any serious discussion concerning the acquisition of property that may not be available for many months. When the abandonment is approved and rail operations are discontinued, additional prospective buyers will materialize. Based upon my experience and my current efforts, I believe that there is now and will continue to be a strong market for

acquisition of the 233 miles of right-of-way and that the minimum acquisition price will be in the range of \$[] per mile

Based upon the Verified Statement of Thomas N. Tardif, I understand that there may be questions concerning MMA's title to certain portions (totaling about [] miles at [] locations) of the 233 miles. Specifically, some of the deeds contain reversionary language, others indicate they were a product of Aroostook County Commissioners condemnation awards, and for some portions MMA cannot identify a particular recorded deed granting a fee interest to MMA. Based on my experience, however, I do not think that any such title issues will adversely affect the ability to sell such portions or the purchase price. In fact, while I have observed these same title issues in virtually every rail corridor sale with which I have been involved, I have never seen them prevent a sale or affect the price. In my experience, such title problems do not deter the buyers because practical solutions exist to overcome them.

For example, a statute exists in Maine--12 M.R.S.A. § 1813--that allows the DOC to follow a simple process to extinguish potential reversionary and servient rights in rail corridors that it buys. The statute states that "all reversionary and servient rights in and any other conflicting claims to property acquired pursuant to this terminate and are extinguished forever as of the date of the acquisition by the [DOC]. Any person damaged by the extinguishing of those rights may make claim for damages in accordance with the eminent domain appeal procedures of this section within 2 years of the date of acquisition." The statute provides guidance for notifying potential holders of extinguished rights, and, significantly, the statute places upon the claimant the burden of proving the validity, compensability and value of any claim. This is the statute and

process that DOC used in connection with the acquisition of the 43 miles of right-of-way from BAR and will use in connection with the acquisition of the Medford cutoff from MMA.

If the right-of-way is acquired by private interests, it is my experience that title insurance is available at reasonable cost in order to protect against any potential title issues. Title insurance companies and sophisticated purchasers (any bona fide potential purchaser of a significant rail corridor is necessarily sophisticated) also understand the very limited nature of the risk of--a holder of a reversionary or other right discovering such a right, spending the money to assert such a right, or overcoming the significant legal burden of proving such a right. In reality, most holders of adverse rights do not know that they hold them. More important, even if they know, the obstacles they face in asserting and proving them generally are far too costly compared to the potential benefit. Railroads have often been created prior to the creation of the jurisdiction that records title. As difficult as it may be for a railroad to demonstrate fee title to certain portions of a corridor, it would be far more difficult for anyone to show a superior right. Consequently, I have never seen it attempted, much less succeed. Furthermore, even though the [] miles of right-of-way are found at [] separate locations throughout the 233 miles of line, there should be no adverse effect on or discount to the value of the corridor, for the reasons described above, simply because one or more small segment of the corridor being sold might not be held in fee.

It is for these reasons I say that title "problems" of the sort identified with [] miles of the MMA corridor are more academic than real. MMA has "marketable" title to the entirety of the 233 mile corridor.

There is another factor that enhances the value of the MMA rail lines in northern Maine, whether those lines continue to be used for rail operations or whether they are abandoned and made available for non-rail uses. Specifically, there are efforts underway in Canada to develop additional hydro electric power for distribution in United States markets. For example, I am familiar with planning by Newfoundland/Labrador Hydro to create additional generating capacity in Canada even though there are no markets for such additional power in Canada. Other parties have expressed similar interests directly to MMA, but the details cannot be provided at this time due to confidentiality restrictions. In addition, there is considerable activity in northern Maine aimed at creating electric power from wind. The intent of all of these projects is to bring such electricity into the New England/New York markets and other markets in the United States. In order to do so, however, any producer of hydroelectric power in Canada or windfarms in northern Maine will need new transmission facilities in order to interconnect with the grid in the United States and make power available to US markets.

The MMA rights-of-way are ideal for such purposes. The north-south mainline, which includes the line between Millinocket and Madawaska that is scheduled for abandonment, extends from the northernmost point of the US-Canada border in Aroostook County to Searsport, which is located on the Atlantic Ocean. Other lines in the MMA system are also well located for additional electric transmission corridors, whether or not rail operations continue in such corridors. The potential producers of electricity have indicated that the rail corridors are sufficiently wide to permit rail operations and the transmission of electricity simultaneously.

I am assisting MMA in the exploration of the market for use of the rail corridors for the transmission of electricity. As described above, I believe that there are significant opportunities. In the short term, parties desiring to produce electricity for sale in US markets will probably be looking for the ability to tie up or reserve corridors to be used for transmission capacity. In order to do so, it may be possible to sell options that would give the party the ability to acquire an easement or right-of-way when the electricity comes on line. Preliminary indications are that the value of an option for 5 years would be in the range of \$[] per mile. While it is difficult to quantify the increase in value of MMA's rail corridors as a result of such activity, it seems clear that there will be a significant demand for such corridors for electric transmission purposes.

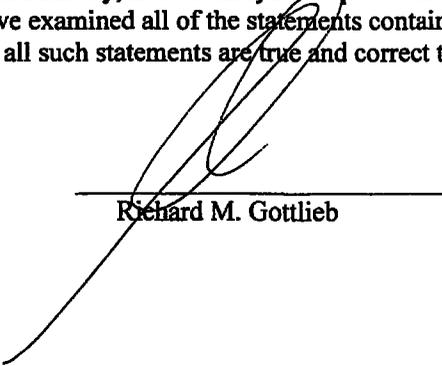
VERIFICATION

State of New Jersey

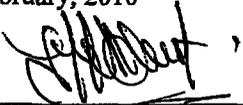
ss:

County of Bergen

I, Richard M. Gottlieb, being duly sworn, depose and state that I have been retained by Montréal, Maine & Atlantic Railway, Ltd. to analyze the potential market for the sale of certain real estate, that I have examined all of the statements contained in the foregoing Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Richard M. Gottlieb

Subscribed and sworn to
before me this 12th day of
February, 2010


Notary Public

BEFORE THE
SURFACE TRANSPORTATION BOARD

Docket No. AB 1043 (Sub-No. 1)

MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD.--
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE

VERIFIED STATEMENT OF THOMAS N. TARDIF

My name is Thomas N. Tardif, and I am the Director-Real Estate & Environmental Affairs for Montréal, Maine & Atlantic Railway, Ltd. ("MMA"). My duties and responsibilities include overseeing the administration of all MMA real estate issues, including leases, property taxes, crossings and sales. I have been employed by MMA and its predecessor, Bangor & Aroostook Railroad, for approximately 30 years. As a result of this experience, I am familiar with the MMA system generally and with the lines to be abandoned (the "Abandonment Lines") in particular.

I have reviewed the status of MMA's ownership of the Abandonment Lines. MMA acquired the Abandonment Lines and other lines and properties in the MMA system by purchase from Bangor & Aroostook Railroad in January, 2003 in accordance with an order of the Bankruptcy Court that was overseeing the Chapter 11 proceedings for Bangor & Aroostook. My review started with an analysis of valuation maps, which were received by MMA in the transaction with Bangor & Aroostook, as well as the deeds representing the initial acquisition of the railroad's operating right-of-way dating back to the late 1800s and early 1900s. For each deed, I reviewed the conveyance language for

the right-of-way in order to determine whether MMA has fee simple ownership or whether there are restrictions to the title, including any reversionary interests.

My review resulted in the confirmation of MMA's fee ownership of most of the Abandonment Lines and the discovery of several types of restrictions or reversionary interests affecting certain portions of the Abandonment Lines, as described below.

First, there were 46 deeds that were the result of County Commissioner awards. These awards permitted the railroad to obtain the necessary right-of-way and entitled the owner of the property to damages, which were assessed by the County Commissioners, for the taking of the property. These awards do not have reversionary language, but neither do they expressly refer to a fee interest. We have taken a conservative approach and have viewed these County Commissioner awards not as fee simple ownership but rather as granting a right similar to an easement for rail operations.

I discovered 11 deeds in which there were various types of reversionary language. For example, one deed stated that it was "given for railroad purposes and if the said grantee, its successors and assigns shall ever cease to operate its railroad over said land in that event the same shall revert to the said grantors, their heirs and assigns." Another deed required the railroad to maintain a farm crossing for the grantor during the time that the property was used as a railroad. All 11 deeds were considered to give the grantors reversionary rights.

There were 6 instances in which the files of MMA did not contain any deed. We have been unable to determine whether, for those portions of the right-of-way, deeds were recorded and may still be available. Therefore, we have assumed that MMA does not have fee ownership at these 6 locations.

The results of my review are summarized in the exhibit attached hereto. The exhibit shows each of the questionable areas by milepost numbers, grantor and the type of potential issue. These areas have been depicted on the aerial maps that are included with the across the fence appraisal attached to the Verified Statement of Lowell T. Sherwood, Jr. In total, there were approximately 66 miles at 56 different locations within the Abandonment Lines where we determined that MMA had less than fee simple title. By contrast, there were 169.7 miles of right away where MMA has fee simple ownership, also as shown in the aerial maps accompanying the appraisal.

VERIFICATION

State of Maine

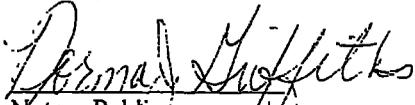
ss:

County of Penobscot

I, Thomas N. Tardif, being duly sworn, depose and state that I am Director-Real Estate & Environmental Affairs of Montréal, Maine & Atlantic Railway, Ltd. ("MMA"), that I am authorized to sign the foregoing Verified Statement on behalf of MMA, that I have examined all of the statements contained in the Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Thomas N. Tardif

Subscribed and sworn to
before me this 16th day of
February, 2010


Notary Public
My Commission Expires: 4-23-15

REDACTED

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No. AB 1043 (Sub-No 1)

**MONTRÉAL, MAINE & ATLANTIC RAILWAY, LTD --
DISCONTINUANCE OF SERVICE AND ABANDONMENT--
IN AROOSTOOK AND PENOBSCOT COUNTIES, MAINE**

VERIFIED STATEMENT OF LOWELL T SHERWOOD, JR.

My name is Lowell T Sherwood, Jr , and I am the President of The Sherwood Group, a real estate firm located at 77 Pine Street, Bangor, ME 04401 I have been actively involved in advising clients regarding real estate matters since 1966 I am a certified general appraiser in Maine and have extensive experience in the valuation of real estate generally and in particular with the appraisal of property owned by railroads in Maine My background and qualifications are set forth in detail in the appraisals that are attached hereto

I have been retained by Montréal, Maine & Atlantic Railway, Ltd. ("MMA") to appraise the real estate located in approximately 233.8 miles of right-of-way that MMA proposes to abandon I have been assisted in connection with this appraisal by Daniel J. McConville of Prentiss & Carlisle Management Co., Inc , who was also a certified general appraiser in Maine Mr McConville's background and qualifications are also set forth in detail in the appraisals.

For purposes of the appraisals, I have assumed that the abandonment would be approved by the Surface Transportation Board ("STB"), that the rail ties and other track

material would be removed and that the right-of-way would then be available for sale or use for nonrail purposes. I have been advised that the STB uses the term "net liquidation value" or "NLV" in connection with real estate in abandoned rights-of-way to mean the highest and best use of such real estate for nonrail purposes. It is my understanding that in most cases the STB will deem the "across the fence" methodology to be the most appropriate means to determine NLV. If, however, there is a market for sales of rights-of-way as intact corridors, based upon purchase and sale agreements or express statements of interest, it may be appropriate to use a corridor methodology to determine NLV.

As described in detail in the attached appraisals, we appraised the portion of the MMA right-of-way held in fee--approximately [] miles--using the across the fence methodology. In addition, I found that there is a market for intact abandoned rail corridors, and I appraised the entire 233.8 miles using the corridor methodology. The NLV based upon the across the fence methodology is \$[], and the NLV based upon the corridor methodology is \$[].

The starting point for both appraisals was a review of MMA's valuation maps for the entire 233.8 miles of line. In addition, we viewed aerial photographs along the entire 233.8 miles of right away and personally inspected the lines at 73 representative locations. Using this information, we created aerial maps of the entire 233.8 miles of right-of-way.

In accordance with the across the fence methodology, we determined that the [] miles of line should be divided into 10 separate segments based upon the geography, zoning and uses of the real estate adjoining the right-of-way. The 10 segments were as

follows. woodland, developed/mixed use, excess land, commercial/industrial, rear land at waterfront; low density residential, open fields, residential development, Presque Isle downtown, and riverfront acreage. These various segments are shown in different colors on the aerial maps.

I am advised that for purposes of determining NLV the STB does not permit a railroad to take credit for any portion of the right-of-way as to which it does not have marketable title. As stated in the Verified Statement of Thomas N. Tardif of MMA, who conducted a review of the deeds relating to the property within the rights-of-way, MMA does not have fee simple marketable title with respect to approximately [] miles of line. Consequently, I have not included in my across the fence appraisal any values for those portions of the line, although they are shown on the aerial maps. As a result of this exclusion, the right-of-way that was appraised on the across the fence methodology is [] miles in length and consists of [] acres.

I collected data from a variety of sources, including MMA records, municipal assessors, local real estate brokers and the Maine Real Estate Information System (a statewide multi-listing service), concerning recent sales and offerings of property adjoining or in the same vicinity as the rights-of-way.

I also reviewed the physical characteristics of the right-of-way in each segment and considered the differences between the market data and the subject segments for factors such as access, shape, size and topography. Based upon these differences, I adjusted, where appropriate, the per acre values for the property in the rights-of-way in order to determine an estimated gross market value before applying a discounted cash flow analysis. On average, this sales comparison approach resulted in a decrease in unit

value per acre of approximately 26 percent compared to the across the fence value based solely upon comparable sales data without adjustment for physical differences

Finally, for purposes of determining NLV based on the across the fence methodology, I did a discounted cash flow analysis, which is set forth in Exhibit 1 attached, starting with the gross liquidation value of \$[] and deducting the various costs that would be incurred in the period during which MMA would be selling the property. For example, we took into account holding costs, such as real estate taxes, as well as costs related to sales, such as realtors' fees, engineering costs and legal expenses. We estimated that the sales expenses and the legal expenses would each be 10% of the gross sales proceeds. In addition, we estimated that sale of the property would require 5 years to accomplish and that 8% of the property would not be salable at all. Finally, we calculated the present value of the net proceeds that would be received by MMA for the sales, using a discount rate of 6 percent. In total, the NLV on average was 42% less than the value based on across the fence comparables. The entire across the fence appraisal report is attached as Exhibit 2.

For purposes of determining whether use of a corridor methodology would be appropriate--that is, determining whether there was a market for purchases of intact, abandoned rail corridors--I relied upon my personal experience to some extent but primarily on information provided by Richard M. Gottlieb, a real estate expert who was retained by MMA to explore the market for sales of abandoned rail corridors and whose reasoning and conclusions are stated in the Verified Statement of Richard M. Gottlieb. My experience includes recent valuations, which are described in the corridor appraisal, of approximately 45 miles of abandoned right-of-way in Aroostook County that were

sold by the trustee of the property of Bangor & Aroostook Railroad Co. to the Department of Conservation of the State of Maine for use as recreational trails. In addition, Mr. Gottlieb, as summarized in his Verified Statement, has indicated that there are various public and private parties interested in purchasing some or all of the abandoned right-of-way. Based upon this information, I appraised the entire 233.8 miles of right of away as corridors as an alternative to the across the fence valuation.

As in the case of the across the fence methodology, I determined the gross market value on a corridor basis and then did a discounted cash flow analysis. Based upon the comparable corridor sales and information provided by Mr. Gottlieb, I determined that the gross market value per mile for 233.8 miles of corridor was \$[] This results in a total gross market value of \$[] I deducted real estate taxes, as provided by MMA, 8% of gross sales as sales expenses and 3% of gross sales as legal and surveying expenses. In addition, based upon information provided by Mr. Gottlieb, I assumed that the liquidation period would be 3 years. Based upon these deductions and a []% discount rate, the NLV on a corridor basis comes out to \$[], as shown in the discounted cash flow analysis attached as Exhibit 3. The entire corridor appraisal is attached as Exhibit 4.

In determining the NLV of the lines, either on the basis of the across the fence methodology or the corridor methodology, I was aware of the statutory right of first refusal held by the Maine Department of Transportation and that there are several mortgages or other encumbrances affecting the lines. I did not take any such rights or encumbrances into account, rather, I assumed that any such rights or encumbrances

would not affect the NLV. In addition, I did not review the property for any potential environmental issues.

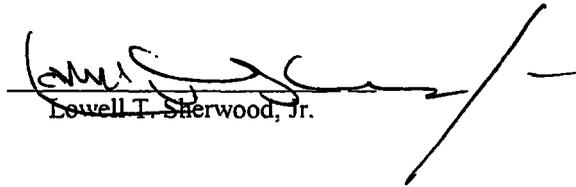
VERIFICATION

State of Maine

ss:

County of Penobscot

I, Lowell T. Sherwood, Jr., being duly sworn, depose and state that I have been retained by Montréal, Maine & Atlantic Railway, Ltd. to do an appraisal of certain real estate, that I have examined all of the statements contained in the foregoing Verified Statement and that all such statements are true and correct to the best of my knowledge and belief.


Lowell T. Sherwood, Jr.

Subscribed and sworn to
before me this 15 day of
February, 2010


Notary Public

DAVID A. CALIENDO
Notary Public, Maine
My Commission Expires July 21, 2013

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