Chart #8

Tex Mex Trackage Rights
Number of Through Trains
(Estimated Service-Order-Related Traffic Excluded)
Chart #9
Tex Mex Trackage Rights
Number of Cars (Through Trains)
(Estimated Service-Order-Related Traffic Excluded)

Month/Year

Number of Cars (Loads & Empties)

 Loads
 Empties

Chart #10

Tex Mex Trackage Rights
Gross Tons (Through Trains)
(Estimated Service-Order-Related Traffic Excluded)

Month/Year

Gross Tons

0 500000 100000 150000 200000 250000 300000 350000 400000 450000 500000 550000 600000

subsequent to the implementation of the merger. The volume of traffic handled by Tex Mex to and from Laredo has more than doubled from the volume prior to the UP/SP merger. Chart #11 depicts the dramatic increase in Tex Mex's Laredo traffic. Tex Mex's southbound traffic over Laredo -- which has traditionally made up virtually all of its Laredo business -- was 51,317 carloads in the June 1997-May 15, 1998 period -- 206% of the 24,953 carloads in the same period prior to the merger (June 1995-May 1996). Tex Mex's much smaller northbound volumes have increased even more dramatically.\(^{15}\)

Tex Mex's share of total traffic moving over the Laredo gateway has also increased. In the June 1995-May 1996 period, Tex Mex's share of total Laredo crossings was 21% southbound and 0.7% northbound. In the June 1996-May 1997 period, those shares were much higher -- 34% and 4%.\(^{16}\)

\(^{15}\) Those volumes have increased from 492 carloads in the June 1995-May 1996 period to 4,115 carloads in the June 1997-May 1998 period.

\(^{16}\) This is not, we submit, the result of UP's service difficulties, which have affected both UP and Tex Mex. Tex Mex's Laredo gateway volumes and shares for the period before the service problems emerged were already well in excess of pre-merger levels, as shown below:

<table>
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<tbody>
<tr>
<td>Southbound Volume</td>
<td>18,184</td>
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<tr>
<td>Southbound Share</td>
<td>27%</td>
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<tr>
<td>Northbound Volume</td>
<td>283</td>
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<tr>
<td>Northbound Share</td>
<td>0.5%</td>
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This upward trend in Tex Mex's volumes and shares of Laredo traffic has occurred because the growth in the volume of traffic that Tex Mex interchanges with BNSF at Corpus Christi/Robstown and handles itself using its new trackage rights between Beaumont and Corpus Christi/Robstown has greatly outstripped the decline in the volume of traffic that Tex Mex interchanged with SP and UP.

This is most readily seen by focusing on the southbound volumes. As shown on Chart #12, beginning in October 1996, BNSF has handled substantial and increasing volumes of traffic -- primarily unit grain trains -- using its trackage rights between Houston (Algoa) and Corpus Christi/Robstown. BNSF's volumes grew from zero carloads in September 1996 to an average of 2,400 carloads per month during the period June 1997 to May 1998. All of this traffic is delivered to Tex Mex, which serves as BNSF's agent at Corpus Christi, and most of it is interline traffic destined for Laredo.\textsuperscript{12} This growth in BNSF volumes is all the more significant given that BNSF has repeatedly informed the Board that it has been hampered in developing interline traffic with Tex Mex as a result of "the lack of progress in the negotiations between BN/Santa Fe and Tex Mex on determining a

\textsuperscript{12} Some of BNSF's southbound traffic is destined for receivers or export at Corpus Christi.
Chart #12
BNSF Corpus Christi/Robstown Trackage Rights Traffic (Southbound)
neutral division arrangement for rates on traffic interchanged at Robstown between the two carriers.\textsuperscript{11/}

At the same time, Tex Mex's own southbound trackage rights volumes have also grown significantly. Through May 1998, Tex Mex had operated a total of 367 southbound freight trains (excluding the emergency-service-order trains terminating at Houston), including both merchandise trains and unit grain trains. As shown in Chart #13, by May 1998 Tex Mex's southbound monthly trackage rights volume had grown to 2,310 loaded cars, compared with 809 in May 1997. The vast majority of this traffic is received in interchange from KCS at Beaumont, but Tex Mex also handles a significant volume of southbound traffic originating in Houston. In September 1997, for example, it began handling a large movement of petroleum coke between Houston and Mexico that UP had previously handled.

Chart #14 overlays the ENSF and Tex Mex trackage rights volumes with SP and UP Tex Mex interchange traffic and graphically demonstrates why Tex Mex's Laredo gateway volumes have increased so significantly.

Tex Mex's competitive vigor is underscored by its investment in a new intermodal terminal in Laredo. Tex Mex

\textsuperscript{11/} BNSF-PR-3, p. 8; see also BNSF-PR-7, pp. 22-24; BNSF-PR-2, pp. 3-4; BNSF Progress Report and Operating Plan, Oct. 1, 1996, p. 22.
will also benefit from the announced marketing alliance between KCS and Canadian National/Illinois Central.

The attached verified statements confirm that Tex Mex is furnishing strong competition through its trackage rights. For example, Fibras Quimicas, which ships polyester chips via Laredo to destinations in the Eastern United States, states: "KCS and Tex Mex have competed aggressively for our Laredo-Memphis business. This has put competitive pressure on UP, to our benefit." And Koppers Industries reports "increased rail competition" for the chemicals it imports from Mexico as a result of both the Tex Mex rights and BNSF's rights.

Finally, rate data also confirm the continued intense competition for Eastern Mexico gateway traffic. Following significant declines in the year after the merger, UP's revenues per ton-mile for Eastern Mexico gateway traffic were steady to downward in the year between October 1996-March 1997 and October 1997-March 1998 period, as detailed in Confidential Appendix E.

c. Utah Railway

Utah Railway ("UTAH"), a "2-to-1" shortline, obtained the right to interchange with BNSF as a condition to the merger, thereby preserving competitive options for its on-line shippers. In addition, in consideration for settling issues regarding the use of joint UTAH-DRGW track, UTAH
Chart #13
Tex Mex Trackage Rights Traffic
(Southbound)
Chart #14
Tex Mex and BNSF Trackage Rights Traffic to Corpus Christi/Robstown and UP/SP-Tex Mex Interline Traffic (Southbound)

BNSF Trackage Rights
Tex Mex Trackage Rights
UP/SP-TM Non-Laredo
UP/SP-TM Laredo
Tex Mex Laredo Gateway Southbound Volumes

Month/Year

Loaded Cars

received access to the Savage coal transloading facility and the Willow Creek mine, and trackage rights to Grand Junction, Colorado, where it can interchange with both BNSF and UP.

UTAH has moved substantial traffic over the rights, and has interchanged significant numbers of coal trains with BNSF, both westbound and eastbound. Since commencing operations in December 1996, UTAH has handled 82 loaded and empty trains over its trackage rights. It has also interchanged with BNSF 82 loaded and empty trains for movement to and from Sierra Pacific Power's Valmy, Nevada, plant.\textsuperscript{12}

As previously reported, UTAH's use of its rights has been limited by production problems at mines to which it has access. However, as UTAH's Executive Vice President, John E. West, III, indicates in his attached verified statement, the Willow Creek mine is scheduled to commence longwall operations soon, and this could lead to further trackage rights volumes.

Mr. West indicates that "BNSF has shown itself to be an aggressive competitor for business in our corridor," and has been "vigorous in bidding for new business." He adds: "The fundamental benefit predicted for UTAH in the UP/SP merger was to allow for connections with two strong, efficient rail networks. UTAH saw this as an opportunity to build its traffic volume through interline UTAH-BNSF and UTAH-UP

\textsuperscript{12} Of these, as many as 32 may have been among the trains that UTAH moved over its trackage rights. UP does not have data which would allow it to determine the precise numbers.
service. We still believe the merger holds promise for UTAH." Indeed, UP has continued in the past year to work cooperatively with UTAH to move coal traffic, interchanging some 465 coal trains with UTAH since July 1997. Mr. West also notes that, by UP's consent pursuant to the UP-BNSF settlement agreement, UTAH acts as BNSF's agent in switching industries in the Utah Valley, and that this has provided "an important new opportunity for UTAH to expand and diversify its business."

C. "3-to-2" Traffic and Source Competition

Experience continues to confirm that the Board was correct in determining that the merger would have no adverse competitive effect on "3-to-2" traffic, or on source competition for such commodities as Utah and Colorado coal, Gulf Coast chemicals, and grain. In fact, competition has been strengthened for all these categories of traffic.

1. "3-to-2" Traffic

Rates. For the second straight year, UP rates for "3-to-2" auto traffic are down, while average UP rates for "3-to-2" intermodal and carload traffic remain flat. See Confidential Appendix E.

Autos. We explained last year that the competitive benefits of the merger and the BNSF settlement for "3-to-2" traffic had been dramatically illustrated by the results of head-to-head bidding between UP and BNSF for Western
automotive traffic, a large portion of total "3-to-2" traffic. In that bidding, each of the Big Three auto makers secured large savings, clearly demonstrating that the competition between the new UP and BNSF networks was stronger than the three-railroad competition that preceded it. Confidential Appendix K provides the current, increased estimates of those savings, and details further competition that has occurred during the past year for the major auto makers' business.

The accompanying verified statement of Chrysler Corporation explains how the merger has generated "increased competition between UP/SP and BNSF, as each strives to offer better rates and improved service in order to take the other's traffic":

"The SP did not have the resources to offer the efficiencies that either of the two big carriers provides. Now we can choose between two strong, service-oriented railroads, each with a more extensive route network and better operating efficiencies than SP could offer. In addition, UP's financial strength and its willingness to make capital improvements (such as the third track capacity expansion at North Platte) and devote equipment and facility resources to our routes are vast improvements over what we were offered by the old SP. As one example, UP invested heavily in multi-level rail cars for our traffic to and from Mexico, something which SP was not able to do."

Volkswagen of America confirms that "the principal benefit of the UP/SP merger was that it created two highly efficient, integrated rail systems that can compete for our business."

**Intermodal Traffic.** Competition has remained strong for intermodal traffic, the largest single category of "3-to-
Evidence has continued to accumulate that BNSF's new access to New Orleans has strengthened competition for east-west international doublestack container traffic to and from the West Coast ports. As noted last year, BNSF, with its new capability to provide comprehensive network services -- including in particular service in the Los Angeles-New Orleans corridor, which went from one single-line route to two as a result of the BNSF settlement -- won a $32 million contract with OOCL. This contract covers 55,000 annual container movements previously handled by SP, a third of them in the New Orleans corridor. During the past year, BNSF has gained similar contracts, totalling $28 million in value, with K Line and Maersk. See Confidential Appendix C. Intermodal shippers confirm the strong competition for their business. For example, Alternative Distribution Systems, an intermodal marketing and distribution company, reports that the merger has brought new and expanded marketing opportunities, increased sales, and "out of the box" thinking by UP to help find ways to invest in and develop the business.

**Carload Traffic.** Competition for "3-to-2" carload traffic also remains strong. For example, although the merger reduced the number of railroads able to originate lumber in the Pacific Northwest from three to two, competition for this traffic has intensified, as UP has reduced SP rates and improved SP transit times. Pope and Talbot, a large Pacific
Northwest lumber shipper, states: "The SP could not compete with the BNSF due to the SP having financial and operating problems prior to the merger. The Union Pacific is providing that competition." Hampton Lumber Sales confirms that while the number of carriers has been reduced, competition is "stronger" because the resulting railroads "are more efficient and their market reach is much greater."

Other "3-to-2" carload shippers make the same point. For example, Lubrizol, a "3-to-2" shipper that moves large volumes of chemicals from Houston to Ohio, states: "Post-merger, we have seen the number of carriers drop by one but the interests of competition has increased. BNSF and UP have been very aggressive in competing for the other's traffic over this route, and as a high-volume shipper Lubrizol has been the beneficiary." And Del Monte, a major food products shipper with several plants that went from three railroads to two as a result of the merger, reports that there has been no decline "in service or price competitiveness at our plants since the merger." Car supply, says Del Monte, "is better than it was with separate railroads and switch service has improved as well."

2. Utah and Colorado Coal

Those who speculated that the merger would disadvantage Utah and Colorado coal continue to be proven wrong. The aggressive rate structure that SP established to
promote these coals remains in place for a second straight year. See Confidential Appendix E. UP has invested in a new coal export terminal in Los Angeles, and, as reported last year, reduced rates 5% to keep Colorado and Utah export coal competitive in world markets. UP is devoting new larger cars, operating longer trains, and using its newest locomotives for this important export trade.

Further, though volumes suffered during the worst of the UP service problems, Utah and Colorado coal loadings are up this year, from 1,874 trains between January 1 and June 25, 1997 to 1,893 trains between January 1 and June 25, 1998, an increase that has been achieved despite weak Pacific Rim export markets. We have already described UP's investment in the Kansas Pacific line to improve the handling of eastbound Utah and Colorado coal movements.

The merged system continues to market Utah and Colorado coal aggressively. In their accompanying verified statements, two of the largest consumers of Utah and Colorado coal, Illinois Power and the Tennessee Valley Authority, attest to the competitive benefits the merger has brought to the transportation of these coals, and to Western coal transportation generally. As they explain, the merger has opened up additional rail-water transshipment options, has provided utilities a broader array of competitive coal sources, and has intensified the across-the-board competition
between UP and BNSF to market Western coals. TVA explains that the merger "brought new and improved single-line service, enhanced route and operating efficiencies, expanded equipment fleet, and enhanced competition between UP/SP and BN/SF." As Illinois Power puts it, "our rail options are better than they were before the merger."

3. Gulf Coast Chemicals

Competition for Gulf Coast plastics and other chemicals traffic also continues to be strong, despite the harmful impact of UP's congestion problems. UP rates for Gulf Coast plastics traffic are down for the second straight year. And after falling substantially in the first year following the merger, UP rates for other Texas/Louisiana chemicals (STCC 28) and petroleum products (STCC 29) remained steady during the past year, as did systemwide UP STCC 28 and STCC 29 rates. See Confidential Appendix E.

As shown in Confidential Appendices A through C, Gulf Coast chemical shippers have continued to benefit from new single-line service, shorter routes, and the new vigorous rate and service competition from BNSF. And, reflecting the continued intensity of source competition for these products, major chemical shippers have elected to expand plants at exclusively-served locations. For example, Amoco decided to expand its plant at Chocolate Bayou, Texas, exclusively served by UP, rather than jointly-served plants at Whiting, Indiana,
and Texas City, Texas. Other significant recent expansions by exclusively-served UP shippers include those by Formosa Plastics at Point Comfort, Texas, and Fina at Bayport, Texas.

4. Grain

Concerns of USDA and others that source competition for grain continue to prove unfounded. UP grain producers continue to benefit from access to SP markets. BNSF continues to use its trackage and haulage rights to move large volumes of grain at significantly lower rates to Mexico, Arkansas, California and Utah (Confidential Appendix B). UP has had to respond with lower grain rates of its own, in both domestic and export markets (Confidential Appendix C). And UP systemwide grain rates continue to be down since the merger. See Confidential Appendix E. As Ag Partners states in its accompanying verified statement, the merger "has resulted in cost savings for us and gives us access to a much broader and more efficient single-line route network than what we had available before the merger."

* * *

The congestion problems that have plagued UP and its customers since last summer have understandably been the focus of attention during that period. But as this report shows, UP has continued to move forward constructively to implement the merger, and to attain its benefits. And it is now doubly clear, as we near the end of the second year following the
merger, that the conditions that were imposed on the merger to preserve competition have successfully done so. Rates have fallen. The conditions have worked. BNSF and UP are closely matched competitors throughout the West, and, as the merger and its conditions have been more fully implemented, they have both continued to achieve further competitive and service benefits for shippers.

Respectfully submitted,

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Attorneys for Union Pacific Corporation, Union Pacific Railroad Company and Southern Pacific Rail Corporation

July 1, 1998
VERIFICATION

STATE OF NEBRASKA )
COUNTY OF DOUGLAS ) ss.

I, Dennis J. Duffy, Senior Vice President-Safety Assurance & Compliance Process of Union Pacific Railroad Company, state that the information in Part I of the Applicants' Report on Merger and Condition Implementation (UP/SP-344) in STB Finance Docket No. 32760 (Sub-No. 21) was compiled by me or individuals under my supervision, that I know its contents, and that to the best of my knowledge and belief those contents are true as stated.

SUBSCRIBED and sworn to before me by Dennis J. Duffy this 1st day of July 1998.

[Signature]
Notary Public

GENERAL NOTARY-State of Nebraska
BEVERLY J. SOMMER
My Comm. Exp. Nov. 9, 1999
VERIFICATION

STATE OF NEBRASKA )
 ) ss.
COUNTY OF DOUGLAS )

I, Richard B. Peterson, Senior Director-Interline Marketing of Union Pacific Railroad Company, state that the information in Part II of the Applicants' Second Annual Report on Merger and Condition Implementation (UP/SP-344) and in the Confidential Appendices to Applicants' Second Annual Report on Merger and Condition Implementation (UP/SP-345) in STB Finance Docket No. 32760 (Sub-No. 21) was compiled by me or individuals under my supervision, that I know its contents, and that to the best of my knowledge and belief those contents are true as stated.

[Signature]
RICHARD B. PETERSON

SUBSCRIBED and sworn to before me by Richard B. Peterson this 30th day of June 1998.

[Signature]
Sheryl Schendt
Notary Public
CERTIFICATE OF SERVICE

I, Michael L. Rosenthal, certify that, on this 1st day of July, 1998, I caused a copy of the foregoing document to be served by first-class mail, postage prepaid, or by a more expeditious manner of delivery on parties of record in Finance Docket No. 32760 (Sub-No. 21), and on

Director of Operations
Antitrust Division
Suite 500
Department of Justice
Washington, D.C. 20530

Premerger Notification Office
Bureau of Competition
Room 303
Federal Trade Commission
Washington, D.C. 20580

Michael L. Rosenthal
EXHIBIT A
EXHIBIT A

ENVIRONMENTAL MITIGATION CONDITIONS

The following is a report on steps taken, and plans for future steps, in regard to the environmental mitigation conditions, which are addressed in the order they are listed in Appendix G to Decision No. 44:

A. Systemwide Mitigation

1-9. These conditions have been satisfied, as previously reported.

10. Security Forces. As previously reported, UP has extended to SP territory its policy of "zero-tolerance" of vagrancy and trespassing on railroad property. UP is participating in a new nationwide initiative by Operation Lifesaver to reduce trespassing on railroad property. UP met with the Reno Police Department regarding a "zero-tolerance" program in late June of 1997; these discussions are on hold pending a City of Reno legal determination.

11-13. These conditions have been satisfied, as previously reported.

B. Corridor Mitigation

14. EPA Emissions Standards. EPA's national locomotive emissions rule was published in the Federal Register on April 16, 1998. Since no appeals were filed by the June 15, 1998 deadline, the rule is now final. UP is working with locomotive industry suppliers to develop its compliance plan.
15. **Consultations With Air Quality Officials.** Attached to this exhibit are details of discussions between UP and environmental officials in the states of Arizona, Colorado, Illinois, Nevada, Oregon, Texas, Washington and Wyoming. UP is engaged in ongoing discussions in California.

16. **Noise Impacts.** UP has implemented a noise comment hotline and has advised each affected county and requested comments. UP monitors the noise hotline and will compile and analyze data to determine if a noise abatement plan is required.

17. **Use of Two-Way End-of-Train Devices.** This condition has been satisfied, as previously reported.

C. **Rail Line Segment Mitigation**

18. **Priority List for Upgrading Grade Crossing Signals.** UP provides train density information to states on a regular basis, which they use to reprioritize their grade crossing improvements. UP provides the states of Arizona, California, Kansas, Nevada, Oregon, Texas and Colorado with train density data for approximately 500 individual crossing improvements annually.

19. **East Bay Regional Park District MOU.** The MOU is being implemented in accordance with its specifications. UP is reviewing the Crockett Trail Feasibility Study and is awaiting property descriptions from the District for all trails.
20. **Town of Truckee MOU.** The MOU is being implemented in accordance with its specifications. UP has completed construction of its portion of the bridge at the I-80 Central Truckee off ramp and is working with the city on roadway approaches. The railroad continues to work with local and federal agencies in the development of a Truckee River hazardous material spill response plan.

21. **Placer County MOU.** The MOU is being implemented in accordance with its specifications. UP continues to meet with the City of Roseville on a regular basis to discuss the yard design and operations plan. UP has installed train control mechanisms to facilitate passenger operations. UP is in the process of conveying property and drafting leases for numerous properties as specified in the MOU. Several improvement projects specified in the MOU have been deferred or canceled at the request of the county and/or city involved.

22. **City of Reno.** UP is in compliance with the limit of 14.7 through freight trains per day through Reno. Pursuant to a Reno/UP request, the Board deferred its mitigation proceeding until November.

23. **City of Wichita/Sedgwick County.** UP is in compliance with the limit of 6.4 through freight trains per day on the Rock Island line through Wichita. UP, the City of Wichita, and Sedgwick County have filed a joint petition with
the Board seeking a prescription addressing mitigation concerns.

D. Rail Yards and Intermodal Facilities

24. Noise Abatement Plans for Rail Yards. Before UP undertakes any rail yard construction at the specified locations, UP will contact appropriate state and local officials and will report to SEA on the results of those consultations. No construction is planned for these facilities at this time.

25. Intermodal Facilities. Before any changes are made at the specified intermodal facilities, UP will contact appropriate state and local air quality officials in the states of California and Illinois and will report to SEA on the results of those consultations. No construction or operating changes are planned for these facilities at this time.

E. Abandonments

26-61. As abandonments are carried out, UP will comply with all conditions. UP has developed a process to ensure that contractors and railroad personnel comply with all general conditions. Progress on specific abandonment conditions is reported below.

41. This condition has been satisfied, as previously reported.
43. This condition has been satisfied, as previously reported.
44. This condition has been satisfied, as previously reported.
47. This condition has been satisfied, as previously reported.
48. This condition has been satisfied, as previously reported.
49. This condition has been satisfied, as previously reported.
52. This condition has been satisfied, as previously reported.
55. This condition has been satisfied, as previously reported.
57. This condition has been satisfied.
58. Suman-Benchley, TX. UP has decided to retain this line. The Board vacated the abandonment exemption for the line on June 12, 1998. This condition is no longer applicable.
59. This condition has been satisfied, as previously reported.
60. This condition has been satisfied, as previously reported.
61. This condition has been satisfied, as previously reported.

F. Construction Projects

62-108. As construction projects are carried out, UP will comply with all listed conditions. UP has developed a process to ensure that contractors and railroad personnel comply with all general conditions. A number of projects have been deferred to 1999 or beyond as a result of new priorities established during the service crisis. Progress on specific construction provisions is reported below.

78. This condition has been satisfied, as previously reported.

79. This condition has been satisfied, as previously reported.

80. This condition has been satisfied, as previously reported.

81. This condition has been satisfied, as previously reported.

84. This condition has been satisfied, as previously reported.

97. This condition has been satisfied, as previously reported.

101. This condition has been satisfied, as previously reported.
Walter Bradley  
Texas Natural Resources Conservation Commission  
PO Box 13087  
Austin, TX. 78711-3087

Dear Mr. Bradley,

I am writing as a follow up to our discussion on September 29, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR "consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part".

We discussed the nature of the activities associated with UP’s presence in Texas and the potential impact our operations have on the state. You indicated that after checking with various TNRCC staff members from across the state you had no major concerns. However, there were some items that we discussed that you wanted to be sure we were aware of and are taking appropriate actions to address. Those were:

• Concern by members of the United Transportation Union regarding the presence of copper concentrate spilled in our El Paso yards was expressed. You indicated that TNRCC had investigated the concern and the material in question appeared to be non-hazardous. You also indicated that there might be other issues regarding employee health and safety. I told you we were also aware of the issue and have put actions in place to prevent spillage, keep the spilled material picked up, inform our employees of the nature of the material, and to monitor the health and safety issues. We are continuing with these efforts and believe our actions are appropriate for both protection of the environment and our employees.

• You raised the issue of community complaints regarding air emissions in Beaumont. UPRR installed a complaint line for Beaumont residents in April, 1997 for notification of any public concerns regarding idling locomotives or other issues. We believe the actions required in the order are effectively dealing with those local concerns.

• There have been some spill reporting problems in the Houston area historically. We have put in place employee awareness programs regarding spill notification and have established a notification desk to ensure appropriate state notifications regarding all
environmental incidents. The Houston staff apparently also indicated that visible emissions from locomotives had also been a historical problem but that they have seen improvement. We are implementing UP locomotive maintenance practices on all locomotive (including former SP) and we believe emissions will be minimized through these maintenance practices.

UP is currently finalizing an extensive inventory of our facilities to ensure that we identify any non compliance situations and properly address those as well as any issues that may arise as we rationalize the many facilities across our system. I do not anticipate that we will find significant issues that will require follow up with you. However, I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Texas. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch
Union Pacific Railroad

Environmental Management - TEXAS

Ken Welch, Assistant Vice President Environmental Management (402)271-4856
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318
Debra Steensen, Environmental Services Project Coordinator (402)271-5299
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<td>Southern Region</td>
<td>Steve McNaughton - Omaha, NE</td>
<td>MEFO Fannin-Zapata County - East</td>
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<td>MEFO Fannin-Zapata County - West</td>
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<td>MCM Shelby-Jeff Davis County - North</td>
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<td>Don Jenks - Spring, TX</td>
<td>MCM Shelby-Limestone-Zapata County - East</td>
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<td>MCM Jeff Davis-Limestone-Zapata County - W</td>
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<td>John Jackson - El Paso, TX</td>
<td>EE</td>
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<td></td>
<td>Jack Giacona - Houston, TX</td>
<td>EE</td>
<td>713-223-6715</td>
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<td></td>
<td>Herby Bart - Houston, TX</td>
<td>Sr Mgr CTS</td>
<td>713-223-6304</td>
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<td>Cliff Hill - Longview, TX</td>
<td>Mgr CTS</td>
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<td>Arla Roquet-Carter - Ft Worth, TX</td>
<td>Mgr CTS</td>
<td>817-878-4507</td>
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<td>Rick Eades - Omaha, NE</td>
<td>Director Site Remediation</td>
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<td>Ed Honig - Omaha, NE</td>
<td>Sr MSR</td>
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<td>Geoffrey Reeder - Spring, TX</td>
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<td>281-350-7197</td>
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<td>Norm Siler - Omaha, NE</td>
<td>Sr MSR (Real Estate)</td>
<td>402-271-4327</td>
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<td>Jim Levy - Roseville, CA</td>
<td>MSR (Real Estate)</td>
<td>916-491-3021</td>
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<td>Craig Denny - Omaha, NE</td>
<td>MSR (UST)</td>
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</table>

Manager Environmental Field Operation (MEFO)

CWA
- Waste Water Treatment
- SPCC
- OPA 90
- Spill Response
- Capital Improvement Programs
- SWPPP
- Employee Training

Manager Compliance Measurement (MCM)

RCRA
- Waste Management
- Off Site Disposal Programs
- Employee Training

CAA
- Air Permits
- Title V

OSHA
- Asbestos

Environmental Engineer (EE)

- Project Management Support
- Support for MEFO & MCM

Manager Site Remediation (MSR)

CERCLA
- Site Remediation

RCRA
- UST Pulls & Remediation

Manager Chemical Transportation Safety (CTS)

DOT
- Emergency Response
- Hazardous & Environmentally Sensitive Material
Bernie Daley  
Wyoming Department of Environmental Quality  
Air Quality Division  
122 West 25th Street  
Cheyenne, Wyoming  82002

Dear Mr. Daley,

I am writing as a follow up to our discussion on June 20, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR “consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part”.

We discussed the nature of the activities associated with UP’s presence in the State of Wyoming and the impact our operations have on the maintenance plans of the state. You indicated that we were already working with you to furnish air emissions data for modeling purposes. If your needs in that regard have not been met please contact me directly. You also indicated that you knew of no other outstanding issues that needed to be resolved. You did express concern that knowing who to communicate with at Union Pacific has been difficult at times. I am attaching a list of Union Pacific environmental managers who have responsibilities in Wyoming. I hope this will help!

I do not anticipate that there will be a need for follow up on this contact. However, I am also attaching for your information and use a copy of the Union Pacific Environmental Policy. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch
Union Pacific Railroad  
Environmental Management - WYOMING

Ken R. Welch, Assistant Vice President Environmental Management (402)271-4856  
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318  
Deb Steensen, Environmental Services Project Coordinator (402)271-5299  
Kay Houfek, Manager Procedure Compliance (402)271-3674  
Bob Zimmer, Environmental Clerk (402)271-5131

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<th>Phone</th>
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<td>WYOMING</td>
<td>Brock Nelson - Omaha, NE</td>
<td>Director E Field Oprns</td>
<td>402-271-3014</td>
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<td></td>
<td>Mark Ross - Denver, CO</td>
<td>MEFO</td>
<td>303-812-2257</td>
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<td></td>
<td>Bob Anderson - Omaha, NE</td>
<td>MCM</td>
<td>402-271-2255</td>
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<td>Kim Keeling - North Platte, NE</td>
<td>EE</td>
<td>308-535-4566</td>
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<td>Mark Reimers - Omaha, NE</td>
<td>Sr Mgr CTS</td>
<td>402-271-4896</td>
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<td>Don Low - Cheyenne, WY</td>
<td>Mgr CTS</td>
<td>307-778-3291</td>
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<td>Rick Eades - Omaha, NE</td>
<td>Director Site Remediation</td>
<td>402-271-4922</td>
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<td>Norm Siler - Omaha, NE</td>
<td>Sr MSR (Real Estate)</td>
<td>402-271-4327</td>
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<td></td>
<td>Gary Honeyman - Laramie, WY</td>
<td>MSR</td>
<td>307-745-6532</td>
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<td>Craig Denny - Omaha, NE</td>
<td>MSR (UST)</td>
<td>402-271-3248</td>
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**Manager Environmental Field Operation (MEFO)**

**CWA**
- Waste Water Treatment
- SPCC
- OPA 90
- Spill Response
- Capital Improvement Programs
- SWPPP
- Employee Training

**Manager Compliance Measurement (MCM)**

**RCRA**
- Waste Management
- Off Site Disposal Programs
- Employee Training

**CAA**
- Air Permits
- Title V

**OSHA**
- Asbestos

**Environmental Engineer (EE)**
- Project Management Support
- Support for MEFO & MCM

**Manager Site Remediation (MSR)**

**CERCLA**
- Site Remediation

**RCRA**
- UST Pulls & Remediation

**Manager Chemical Transportation Safety (CTS)**

**DOT**
- Emergency Response
- Hazardous & Environmentally Sensitive Material
Harish Desai  
Illinois Environmental Protection Agency  
Division of Air Pollution Control  
PO Box 19276  
Springfield, Illinois 62794-9726  

Dear Mr. Desai,

I am writing as a follow up to our discussion on June 10, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR “consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (1-5), Southern, Central, and Northern Corridors extend in part”.

We discussed the nature of the activities associated with UP’s presence in Illinois and the minimal impact our operations have on the state. You indicated that the mobile source issues would be regulated by the USEPA and, therefore, your only concerns would be at fixed facilities. You asked that I look into Illinois above ground tank air permitting requirements as it relates to our facilities. You also suggested I check to see if we might have emissions from boilers. I explained to you that we are currently performing an extensive inventory of our facilities to ensure that we identify any non compliance situations and properly address those as well as any issues that may arise as we rationalize the many facilities across our system. We are now completing the inventory and inspection of the Illinois facilities and have confirmed that some of our AST’s may need to be registered. We have received the required forms and will be bringing any such tanks into full compliance with registration regulations during the next two months.

I do not anticipate that we will find significant issues that will require follow up beyond that which we have noted above. However, I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Illinois. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch
Union Pacific Railroad
Environmental Management - ILLINOIS

Ken Welch, Assistant Vice President Environmental Management (402)271-4856
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318
Deb Steensg, Environmental Services Project Coordinator (402)271-5299
Kay Houfek, Manager Procedure Compliance (402)271-3674
Bob Zimmer, Environmental Clerk (402)271-5131

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<tr>
<td>ILLINOIS</td>
<td>Steve Berki - Omaha, NE</td>
<td>Director E Field Opms Peoria-Joliet-Woodland Jct - south</td>
<td>402-271-2116</td>
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<tr>
<td>Central/</td>
<td>Brock Nelson - Omaha, NE</td>
<td>Director E Field Opms Peoria-Joliet-Woodland Jct - north</td>
<td>402-271-3014</td>
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<tr>
<td>Regions</td>
<td>Mark Schafer - Omaha, NE</td>
<td>MEFO Peoria-Joliet-Woodland Jct - south</td>
<td>402-271-2453</td>
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<tr>
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<td>Tony Ivaskievicius - Omaha, NE</td>
<td>MCM Peoria-Joliet-Woodland Jct - north</td>
<td>402-271-3453</td>
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<tr>
<td></td>
<td>Ken Simpson - N Little Rock, AR</td>
<td>EE</td>
<td>501-373-2302</td>
</tr>
<tr>
<td></td>
<td>Mark Reimers - Omaha, NE</td>
<td>Sr Mgr CTS (north Illinois)</td>
<td>402-271-4896</td>
</tr>
<tr>
<td></td>
<td>Mike Seabaugh - Pine Bluff, AR</td>
<td>Sr Mgr CTS (south of Woodland Jct)</td>
<td>501-373-2301</td>
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<tr>
<td></td>
<td>Larry Wilder - Chicago, IL</td>
<td>Mgr CTS</td>
<td>708-649-5410</td>
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<td></td>
<td>Don York - Chicago, IL</td>
<td>Sr MSR</td>
<td>630-876-2795</td>
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<td></td>
<td>Jeff McDermott - Omaha, NE</td>
<td>MSR</td>
<td>402-271-3675</td>
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<td>Rick Eades - Omaha, NE</td>
<td>Director Site Remediation</td>
<td>402-271-4922</td>
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<td>Ed Honig - Omaha, NE</td>
<td>Sr MSR</td>
<td>402-271-5979</td>
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<td>Norm Siler - Omaha, NE</td>
<td>Sr MSR (Real Estate)</td>
<td>402-271-4327</td>
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<td>Craig Denny - Omaha, NE</td>
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**Manager Environmental Field Operation (MEFO)**

- CWA
  - Waste Water Treatment
  - SPCC
  - OPA 90
  - Spill Response
  - Capital Improvement Programs
  - SWPPP
  - Employee Training

**Manager Compliance Measurement (MCM)**

- RCRA
  - Waste Management
  - Off Site Disposal Programs
  - Employee Training

- CAA
  - Air Permits
  - Title V

- OSHA
  - Asbestos

**Environmental Engineer (EE)**

- Project Management Support
- Support for MEFO & MCM

**Manager Site Remediation (MSR)**

- CERCLA
  - Site Remediation

- RCRA
  - UST Pulls & Remediation

**Manager Chemical Transportation Safety (CTS)**

- DOT
  - Emergency Response
  - Hazardous & Environmentally Sensitive Material
September 22, 1997

Gregory Green  
Oregon Department of Environmental Quality  
Air Quality Division  
811 S W. 6th Avenue  
Portland, Oregon 97204

Dear Mr. Green,

I am writing as a follow up to our discussion on September 18, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR “consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part”.

We discussed the nature of the activities associated with UP’s presence in Oregon and the minimal air impact our operations have on the state. You indicated that you had reviewed the issue with your staff and could not think of any adverse impacts, and in fact you felt that there may turn out to be a small net benefit as a result of the merger. Let’s hope that turns out to be the case. We are now completing an extensive inventory of our facilities to ensure that we identify and properly address any non compliance situations as well as issues that may arise as we rationalize the many facilities across the system.

We do not anticipate that we will find significant issues that will require follow up on this contact. However, I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Oregon. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch
Jolaine Johnson
Division of Environmental Protection
Bureau of Air Quality
333 West Nye Lane
Carson City, Nevada 89710

Dear Ms. Johnson,

I am writing as a follow up to our discussion on Dec. 8, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board (STB) at the time of the merger. Specifically, they have required that UPRR “consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part”.

We discussed the nature of the activities associated with UP’s operation in Nevada and the minimal air impact our operations have on the state. You indicated that you were concerned about the air emissions through the Reno area as a result of the increased traffic that has occurred already and is forecast to occur over time. I indicated to you that I am already aware of those concerns as a result of the handling that is being given to the matter as part of the discussions between the STB, Reno, and the UP. I asked that we set aside this mobile source issue as it is being addressed by STB and that the EPA will be publishing their Locomotive Emissions Standards as required by Sec. 213 of the Clean Air Act in the very near future. The EPA Standards will impose new requirements on the railroad industry that will reduce locomotive emissions in the future. You indicated to me that you would search your files to determine if there are any concerns regarding permits or emissions from fixed sources within your jurisdiction. Please call or write to advise me of any concerns that you may have found as a result of your search.

You also advised me to contact Mr. Andy Goodrich, Washou Co. Health Dept. And Mr. Michael Naylor of the Clark Co. Health Dept. I am following up on those contacts.
I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Nevada. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch
Union Pacific Railroad
Environmental Management - NEVADA

Ken R. Welch, Assistant Vice President Environmental Management (402)271-4856
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318
Deb Steensen, Environmental Services Project Coordinator (402)271-5299
Kay Houfek, Manager Procedure Compliance (402)271-3674
Bob Zimmer, Environmental Clerk (402)271-5131

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<tr>
<td>NEVADA</td>
<td>Lanny Schmid - Omaha, NE</td>
<td>Director E Field Oprns</td>
<td>402-271-2261</td>
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<td></td>
<td>Alan Jensen - Salt Lake City, UT</td>
<td>MEFO</td>
<td>801-595-3566</td>
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<td>Deb Schafcr - Omaha, NE</td>
<td>MCM</td>
<td>402-271-2235</td>
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<td>Ed Banks - Pocatello, ID</td>
<td>EE</td>
<td>208-236-5573</td>
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<td>Dean Whiteley - Sparks, NV</td>
<td>Sr Mgr CTS</td>
<td>702-356-2657</td>
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<td>Rick Eades - Omaha, NE</td>
<td>Director Site Remediation</td>
<td>402-271-4922</td>
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<td>Joel Strafelda - Omaha, NE</td>
<td>Sr Mgr Site Remediation</td>
<td>402-271-6572</td>
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<td>Harry Patterson - Omaha, NE</td>
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<td>402-271-4078</td>
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<td>Norm Siler - Omaha, NE</td>
<td>Sr MSR (Real Estate)</td>
<td>402-271-4327</td>
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<td>Jim Levy - Roseville, CA</td>
<td>MSR (Real Estate)</td>
<td>916-491-3021</td>
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<td>Craig Denny - Omaha, NE</td>
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Manager Environmental Field Operation (MEFO)
CWA
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-SPCC
-OPA 90
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-Capital Improvement Programs
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-Employee Training

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-Support for MEFO & MCM

Manager Site Remediation (MSR)
CERCLA
-Site Remediation
RCRA
-UST Pulls & Remediation

Manager Chemical Transportation Safety (CTS)
DOT
-Emergency Response
-Hazardous & Environmentally Sensitive Material
Joseph R. Williams  
Program Manager  
Washington State Department of Ecology  
PO 47600  
Olympia, Washington 98504-7600

Dear Mr. Williams,

I am writing as a follow up to our discussion on June 6, 1997 and my later discussion with Doug Schneider on June 12, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR "consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part".

Doug and I discussed the nature of the activities associated with UP's presence in Washington State and the minimal impact our operations have on the maintenance plans of the state. Doug indicated that he knew of no outstanding air issues with SP or UP that would require immediate follow up. I explained to him that we are currently performing an extensive inventory of our facilities to ensure that we identify any non compliance situations and properly address those as well as any issues that may arise as we rationalize the many facilities across our system. If during the inventory and inspection of the Washington facilities we find any non compliance with your air regulations we will immediately implement an action plan to eliminate the non compliance situation and will advise you of the finding and the action plan.

I do not anticipate that we will find significant issues that will require follow up on this contact. However, I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Washington. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth R. Welch

cc: Doug Schneider, Sr. SIP Planner-Air Quality
## Union Pacific Railroad
### Environmental Management - WASHINGTON

Ken R. Welch, Assistant Vice President Environmental Management (402)271-4856
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318
Debra Steensen, Environmental Services Project Coordinator (402)271-5299
Kay Houfek, Manager Procedure Compliance (402)271-3674
Bob Zimmer, Environmental Clerk (402)271-5131

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<tr>
<td>WASHINGTON</td>
<td>Lanny Schmid - Omaha, NE</td>
<td>Director E Field Ops</td>
<td>402-271-2262</td>
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<tr>
<td>(Western Region)</td>
<td>Jim Diel - Roseville, CA</td>
<td>MEFO</td>
<td>916-789-5184</td>
</tr>
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<td></td>
<td>Ed Hurst - Roseville, CA</td>
<td>MCM</td>
<td>916-789-5183</td>
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<tr>
<td></td>
<td>Ed Williams - Klamath Falls, OR</td>
<td>EE</td>
<td>541-883-6518</td>
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<td></td>
<td>Dean Whiteley - Sparks, NV</td>
<td>Sr Mgr CTS</td>
<td>702-356-2657</td>
</tr>
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<td>Rick Sloane - Portland, OR</td>
<td>Mgr CTS</td>
<td>503-220-4424</td>
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<td>Rick Eades - Omaha, NE</td>
<td>Director Site Remediation</td>
<td>402-271-4922</td>
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<td></td>
<td>Joel Strafelda - Omaha, NE</td>
<td>Sr Mgr Site Remedation</td>
<td>402-271-6572</td>
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<td></td>
<td>Bob Markworth - Omaha, NE</td>
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<td>402-271-4054</td>
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<td>Norm Siler - Omaha, NE</td>
<td>Sr MSR (Real Estate)</td>
<td>402-271-4327</td>
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<td>Jim Levy - Roseville, CA</td>
<td>MSR (Real Estate)</td>
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  - SWPPP
  - Employee Training

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**Environmental Engineer (EE)**
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**Manager Site Remediation (MSR)**
- CERCLA
  - Site Remediation
- RCRA
  - UST Pulls & Remediation

**Manager Chemical Transportation Safety (CTS)**
- DOT
  - Emergency Response
  - Hazardous & Environmentally Sensitive Material
Julie Wrend
Colorado Department of Public Health and Environment
Air Pollution Control Division
4300 Cherry Creek Drive South
Denver, Colorado 80222-1530

Dear Ms. Wrend,

I am writing as a follow up to our discussion on June 12, 1997. I had called you as a result of the merger between the Southern Pacific Railroad and the Union Pacific Railroad and the merger requirements placed on us by the Surface Transportation Board at the time of the merger. Specifically, they have required that UPRR “consult with appropriate air quality officials in the states of AZ, CA, CO, IL, NV, OR, TX, WA, and WY through which the Pacific (I-5), Southern, Central, and Northern Corridors extend in part”.

We discussed the nature of the activities associated with UP’s presence in Colorado and the minimal air impact our operations have on the state. You indicated that you had run computer searches to identify any outstanding compliance concerns and were unable to find any. You suggested that we look into Colorado’s air permitting requirements for above ground storage tanks as they may relate to our facilities. I explained to you that we are currently performing an extensive inventory of our facilities to ensure that we identify any non compliance situations and properly address those as well as any issues that may arise as we rationalize the many facilities across our system. We are now completing the inventory and inspection of the Colorado facilities. After discussing the AST regulations with members of your Colorado Oil Inspection section we are of the belief that our tanks are exempt.

We do not anticipate that we will find significant issues that will require follow up on this contact. However, I am attaching for your information and use a copy of the Union Pacific Environmental Policy and a list of key environmental contacts dealing with our environmental matters in the State of Colorado. I urge you to contact us at any time you perceive there is an issue that needs to be addressed.

Sincerely,

Kenneth K. Welch
Union Pacific Railroad
Environmental Management - COLORADO

Ken Welch, Assistant Vice President Environmental Management (402)271-4856
Aletha Ellison, Environmental Services Project Coordinator (402)271-5318
Debra Steensen, Environmental Services Project Coordinator (402)271-5299
Kay Houfek, Manager Procedure Compliance (402)271-3674
Bob Zimmer, Environmental Clerk (402)271-5131

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<tr>
<td>COLORADO</td>
<td>Brock Nelson - Omaha, NE</td>
<td>Director E Field Oprns</td>
<td>402-271-3014</td>
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<td>Mark Ross - Denver, CO</td>
<td>MEFO</td>
<td>303-812-2257</td>
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<td>Bob Anderson - Omaha, NE</td>
<td>MCM</td>
<td>402-271-2255</td>
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<td>Kim Keeling - North Platte, NE</td>
<td>EE</td>
<td>308-535-4566</td>
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<td></td>
<td>Don Low - Cheyenne, WY</td>
<td>Mgr CTS</td>
<td>307-778-3291</td>
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<td>Craig Denny - Omaha, NE</td>
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**Manager Environmental Field Operation (MEFO)**

*CWA*  
-Waste Water Treatment  
-SPCC  
-OPA 90  
-Spill Response  
-Capital Improvement Programs  
-SWPPP  
-Employee Training

**Manager Compliance Measurement (MCM)**

*RCRA*  
-Waste Management  
-Off Site Disposal Programs  
-Employee Training

*CAA*  
-Air Permits  
-Title V

**OSHA**  
-Asbestos

**Environmental Engineer (EE)**

-Project Management Support  
-Support for MEFO & MCM

**Manager Site Remediation (MSR)**

*CERCLA*  
-Site Remediation  
*RCRA*  
-UST Pulls & Remediation

**Manager Chemical Transportation Safety (CTS)**

*DOT*  
-Emergency Response  
-Hazardous & Environmentally Sensitive Material
Fax To: Ken Welch 402-271-4461
From: Avery Grimes 303-299-7829
Date: June 11, 1998
Subject: Summary of Air Quality Consultation with the State of Arizona
00173-107-0108

Summary of Telephone Correspondence with Arizona Air Quality Officials.
In Reference to Air Quality Issues between Arizona Air Quality Officials and the Union Pacific Railroad.
Log is from Ken Welch, AVP Environmental Management, Union Pacific Railroad.

June 6, 1997, 12:30 pm
Telephone call to Nancy Wrona, Arizona Department of Environmental Quality, Mr Welch left phone message with Kathy Bain (secretary).

June 10, 1997, 10:10 am
Telephone call to Nancy Wrona, Arizona Department of Environmental Quality, Mr Welch left phone message.

September 22, 1997, 3:25 pm
Telephone call to Nancy Wrona, Arizona Department of Environmental Quality. Ken Welch advised to contact Mike Traubert with the Air Compliance Group at 602-207-2328.
Telephone call to Mike Traubert; Mr Traubert not in office.

September 22, 1997, 4:25 pm
Telephone call to Mike Traubert, Mr Welch left phone message.

September 22, 1997, 5:10 pm
Telephone call from Mike Traubert (602-207-2328). Mr Traubert indicated in reference to air quality issues, "no issues but you should check with other counties". Mike Traubert handles the state issues as well as Maricopa County in addition to overall duties for the state.

Maricopa County, Maricopa County Environmental Service Department
1001 N Central Ave Phoenix, AZ 85004
Attn: Al Brown, Director

Pima County, Department of Environmental Quality
200 W Congress St, Tucson, AZ 85701
Attn: Dave Espisito (520-740-3352)

Pinal County, AQCD
PO Box 987 Florence, AZ 85232
Attn: Don Gabrielson

Indian Reservations
BIA Region IV San Francisco
Office of Director Air and Radiation 415-744-1219
Planning Division 415-744-1230

September 26, 1997, 12:00 noon
Telephone call to Don Gabrielson, Pinal County Air Quality
Mr Gabrielson was not available. Mr Welch spoke with Mike Rogers, Deputy Director.
He was not aware of any air quality problems, but requested KRW speak with Don Gabrielson on Monday.
September 26, 1997, 12:05 pm
Telephone call to Al Brown, Maricopa County Air Quality
Mr. Welch left phone message.

September 26, 1997, 12:05 pm
Telephone call to David Esposito, Pima County
Mr. Welch left phone message.

September 26, 1997, 12:15 pm
Telephone call to David Howeckamp, Director Air and Radiation. Mr. Welch spoke with Doug McDaniel (415-744-1246). Mr. McDaniel indicated there were no air quality problems regarding UPRR and the Indian Reservations.

October 1, 1997
Telephone call to Don Gabrielson, Pinal County Air Quality
Mr. Welch and Mr. Gabrielson discussed air issues in the county in relation to the railroad, resolving with the conclusion that there were “no current issues.”

June 11, 1998 10:05 am
(A/G) Telephone call to Dave Esposito, Director Pima County Department of Environmental Quality
Mr. Esposito was out, left message for a return call.

June 11, 1998 10:15 am
(A/G) Telephone call to Al Brown, (602-506-6623) Maricopa County Director Environmental Services Department. Mr. Brown was out, however, his staff referred me to Bob Evans (602-506-6930), County Air Enforcement Officer. Mr. Evans and I discussed the subject of air issues between the county and the railroad. He indicated he had no knowledge of any open issues, and he checked the two applicable databases (‘Permits’ and ‘Notices of Violations’) for any references to Southern Pacific or Union Pacific. No references were identified and we concluded there were no outstanding issues.

June 11, 1998 1:30 pm
(A/G) Telephone call to Dave Esposito, Pima County. The secretary indicated Mr. Esposito was still out, but had referred the contact to Richard Grimaldi, Environmental Planning Manager, Pima County (520-740-3332) as the proper county contact on air issues.

June 12, 1998 10:30 am
(A/G) Telephone call to Dave Esposito, Pima County. Mr. Grimaldi explained to Mr. Esposito the background information surrounding the call and requested any information on outstanding issues, notices of violations, or complaints related to Union Pacific operations in Pima County. Mr. Esposito said he would check with his files, databases, and staff to review.

June 12, 1998 10:45 am
(A/G) Telephone call from Dave Esposito, Pima County. Mr. Esposito indicated there were no violations, complaints, or other outstanding issues with Union Pacific or Southern Pacific railroad.
Fax To: Ken Welch 402-271-4461  
From: Avery Grimes 303-299-7829  
Date: June 16, 1998  
Subject: Summary of Air Quality Consultation with the State of Nevada  
00173-107-0108

Summary of Telephone Correspondence with Nevada Air Quality Officials.  
In Reference to Air Quality Issues between Nevada Air Quality Officials and the Union Pacific Railroad.  
Log is from Ken Welch, AVP Environmental Management, Union Pacific Railroad.

December 13, 1997 12:10 PM CST  
Telephone call to Jolaine Johnson, Nevada Department of Environmental Quality, Mr. Welch left phone message requesting call back.

December 8, 1997 12:10 PM  
Telephone call to Jolaine Johnson, Nevada Department of Environmental Quality, Mr. Welch left phone message.

December 8, 1997 4:30 PM  
Telephone call from Jolaine Johnson. Ms. Johnson asked “have the train volumes increased through the state?” Mr. Welch replied that he would like to set that issue aside for STB and EPA rule. Then he asked if there were any fixed facility issues? Ms. Johnson indicated she was not sure but would have to check. She also indicated that Mr. Welch should contact Washoe County Health – Andy Goodrich 702-784-7200 and Clark County Health - Michael Naylor 702-383-1276 for any additional local issues. Ms. Johnson indicated there were no standing locomotive issues that she was aware of. She will check and advise of any permitting issues. She was not aware of any railroad activities of concern.

June 15, 1998 10:30 am MDT  
(AG) Telephone call to Michael Naylor, Clark County Health, regarding any outstanding air issues in Clark County. Left message with secretary. She indicated he would call back today.

June 15, 1998 10:35 am MDT  
(AG) Telephone call to Andy Goodrich, Washoe County Health, regarding any outstanding air issues in Washoe County. Left message with secretary who indicated he would be out for the day, but would return call tomorrow.

June 15, 1998 12:42 pm MDT  
Telephone message from Mike Naylor, Clark County Health, returning call made by AG this am.

June 15, 1998 3:15 pm MDT  
(AG) Telephone call to Mike Naylor, Clark County Health. Mr Naylor indicated there were no issues that he was aware of including permitting issues, NOVs, complaints, or other concerns. He did indicate that about a year ago there was one issue regarding dust control on a railroad ROW road, but that agreement on this issue had been reached with the railroad (using speed control) and this was no longer of concern.

June 16, 1998, 9:10 am MDT  
(AG) Telephone call to Andy Goodrich, Washoe County Health – Air Quality. Mr. Goodrich indicated there were no outstanding issues that he was aware of between UP/SP and the county; no notices of violations, no permit issues, and no other issues. He indicated he would double check with his staff, and if something came up he would call and advise, but he was very confident there would be nothing further.
EXHIBIT B
Via Facsimile (817) 352-2397 & UPS Overnight

Michael E. Roper, Esq.
The Burlington Northern
Santa Fe Railway Company
3800 Continental Plaza
777 Main Street
Ft. Worth, TX 76102-5384

Fe: "2-to-1" Protocol; Execution Copies

Dear Mike:

As I advised you in a phone message last Friday, I have incorporated the changes to the "2-to-1" Protocol which you suggested with your letter to me dated June 5. I have prepared the counterparts and had them both signed for Union Pacific by John Ransom. I would appreciate it if you would have the Protocol signed on behalf of BNSF and then return a fully signed copy to me.

While we have used today's date on the agreement, both of our companies have been following the procedures set out in the Protocol for some time. Please note, however, that this procedure is not applicable to transload locations which may be the subject of an inquiry from BNSF since those normally take additional time to research, particularly since we do not have a common understanding of what constitutes a "transload." As I recall, Pete Rickershauser indicated to John Ransom that he was going to provide a proposed definition of "transload" for our consideration.

Pursuant to Paragraph 8 of the Protocol, Union Pacific's designees continue to be Linda Gaeta and Robert B. Price as the persons to whom "2-to-1" requests should be directed. Also note that Irma J. Martin has replaced Susan M. Huizienga as the third person to whom "2-to-1" requests should be directed. A copy of all such communications should also go to John Ransom. Please indicate BNSF's designees when you return a signed copy.

If you have any questions, do not hesitate to call me at (402) 271-3897.

Sincerely,

[Signature]

C: Pete Rickershauser - Via Fax
John Ransom - Room 1110
2-To-1 Point identification Protocol

As a condition of the Surface Transportation Board's (STB) approval of the consolidation of Union Pacific Railroad Company (UP) and Southern Pacific Transportation Company (SP), The Burlington Northern and Santa Fe Railway Company (BNSF) was granted the right to serve all shipper facilities that as of September 25, 1995, were open to both UP and SP, and no other railroad, whether via direct service, reciprocal switching, joint facility or other arrangements. Since the consolidation was consummated, BNSF and UP have been working to identify a complete list of 2-to-1 shipper facilities to which BNSF is entitled to access. The purpose of this protocol is to establish procedures and mechanisms for further identifying 2-to-1 shipper facilities open to BNSF as a result of the conditions imposed in the UP/SP merger. Those procedures and mechanisms are as follows:

1. BNSF shall submit to UP, by written or electronic communication, the name and address of any facility to which access is sought. In addition to the name and address of the facility, BNSF shall furnish any additional information relating to the facility’s identity and location that is in BNSF’s possession when the request for access is made. BNSF shall also provide any information in its possession at such time pertaining to the rail service options that were available to the facility on or before September 25, 1995. UP will handle for BNSF any traffic en route to the facility pending UP’s determination of BNSF’s right to access the facility in question. If UP determines that BNSF is not entitled to access a particular facility, BNSF will terminate any BNSF direct routing of traffic to that facility. UP shall be compensated for any traffic en route in accordance with the method of compensation set forth in Paragraph 7, below.
2. UP shall have five (5) business days from the date of such communication to respond by written or electronic communication to any request for access, provided that, if BNSF shall request a determination on more than five shipper facilities on a single day or, if a single request pertains to more than five (5) shipper facilities, BNSF shall identify the five (5) shipper facilities that need immediate attention, and the five (5) business day requirement shall apply to those shipper facilities, with the remaining shipper facilities request or requests to be responded to within ten (10) business days after the date of the request(s).

3. If UP fails to respond to an access request by the close of business of the fifth business day or, in the case of requests for which UP has ten business days to respond, by the close of the tenth business day, BNSF shall be deemed to have access to such facility or facilities as set forth in Paragraph 4 below, and UP shall be deemed to have waived any claims that BNSF is not entitled to serve the facility or facilities.

4. If UP approves BNSF’s request for access, BNSF shall immediately be authorized to serve the facility either directly, through reciprocal switching, or, with UP’s prior approval, a third party contractor, as provided for in the UP/BNSF Settlement Agreement dated September 25, 1995, as amended. No less than five (5) business days prior to the date that BNSF proposes to begin service to a facility, BNSF shall elect the mode of service that it intends to utilize and shall notify UP in writing or electronically of its election. BNSF shall have the right, upon 180 days prior written notice to UP, to change its election; provided, however, that BNSF shall (i) not change its election more often than once every five years, and (ii) shall reimburse UP for any costs incurred by UP in connection with such changed election. UP may not reverse a prior decision approving
BNSF's request for access to a facility without either BNSF's consent or approval by the STB.

5. If UP declines to approve a BNSF request for access to any facility, and BNSF believes that UP has an insufficient or inappropriate reason to decline access, BNSF may so notify UP, either in writing or by electronic communication, of the reasons why BNSF believes it is entitled to such access, and upon such notice, may seek an order from the STB finding that BNSF was entitled to access to that facility.

6. UP shall approve all such requests where, on the basis of all available information, UP concludes that a particular facility was open to service by both UP and SP, either directly or through reciprocal switching, joint facility or other arrangements and by no other rail carrier, as of September 25, 1995. If UP declines to approve a BNSF request for access to any facility, UP shall provide as part of its notification to BNSF a statement in writing or by electronic communication of its reasons and of the specific evidence supporting its determination that BNSF should not have access to the facility. A statement that UP lacks sufficient information to make a determination as to whether a facility is a 2-to-1 facility is not an adequate reason to deny a BNSF request for access to a facility. At any time after UP's notification, BNSF may request UP to reconsider its decision declining to approve BNSF's request for access.

7. If BNSF transports traffic to or from a shipper facility pursuant to paragraph 1 above and it is later determined that BNSF is not entitled to access to that facility, BNSF shall compensate UP for the movement of such traffic as follows: If a joint through rate is available, then UP is entitled to $3 per car mile for the loaded move from the applicable junction in the price document. If multiple junctions are available, BNSF
receives its longest haul and UP receives $3 per car mile beyond that junction. If no joint through rate exists, BNSF receives its longest haul via junctions in existence between UP and BNSF, prior to the date of UP control over SP, September 11, 1996, and UP receives $3 per car mile beyond. UP must file a claim with BNSF to recover revenues under this section making reference on the claim to this section of the joint 2-to-1 Point Identification Protocol.

8. BNSF and UP shall identify an individual or individuals within their respective organizations as the person or persons to whom all communications pursuant to this protocol shall be directed.

9. The parties agree to submit any disputes under this protocol to the STB for resolution or, with the consent of both parties, to arbitration, as described in the UP/BNSF Settlement Agreement dated September 25, 1995, as amended.

AGREED TO AND ACCEPTED BY:

UNION PACIFIC RAILROAD COMPANY

[Signature]

Date: June 24, 1998

THE BURLINGTON NORTHERN AND SANTA FE RAILWAY COMPANY

[Signature]

Date: June 25, 1998
SUPPORTING
VERIFIED STATEMENTS
SHIPPERS
My name is Francis O. Marron and I am the Vice President of Grain for Ag Partners, LLC, a grain marketing, storage and crop input supply firm in northwest Iowa. We have warehouse and unit train loading facilities located on the Union Pacific Railroad at Albert City, Hartley, and Emmetsburg, Iowa.

The business of Ag Partners, LLC is substantially dependent on market conditions for grain. In years when grain supplies in other areas are tight, we move substantial volumes of grain by rail out of the state. When supplies elsewhere are plentiful most of the grain is consumed by local interstate markets.

In 1997, Ag Partners shipped almost 900 railcars of grain via UP to California and Arizona. This included about 525 cars to Estelle, CA, 230 cars to Casa Grande, CA, and 75 cars to Imperial, CA. All of these destinations are former SP points. Before the merger, therefore, these would have been interline UP-SP movements. As a result of the merger, UP was able to provide us with single-line rates for these movements from our grain warehouse to California, and we achieved substantial freight savings as a result. The merger thus has resulted in cost savings for us and gives us access to a much broader and more efficient single-line route network than what we had available before the merger.

We know that UP’s service has been a problem for many shippers over the past year. Ag Partners has experienced satisfactory service, even over the last year, and we continue to be satisfied with UP’s service and its responsiveness to our needs.

Ag Partners continues to support the UP/SP merger. By expanding UP’s single-line route network, and creating a directly competitive BNSF single-line alternative via the Central Corridor to California destinations, the merger significantly expanded the rail options for our business. Our success at selling into distant end-markets depends heavily on the efficiency of our rail service. The merger provides us with benefits that will be very important to the long-term success of our business. We oppose any proposals to weaken the efficiencies or other benefits of the merger.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 22nd, 1998.

Francis O. Marron

NAME
VERIFIED STATEMENT
OF
Howard D. McLaughlin
on behalf of
AGRIPAC, INC.

My name is Howard D. McLaughlin, Director of Logistics for Agripac, Inc.,
P.O. Box 5346, Salem, Oregon 97304.

Agripac, Inc. is a 250-member grower cooperative in Oregon. Agripac markets frozen and canned vegetables throughout the United States and the Pacific Rim. Sales exceed 150 million dollars annually. Rail transportation and service are an important part of Agripac's marketing program.

A substantial amount of Agripac's frozen vegetable shipments move from the Americold facility in Woodburn, Oregon, through the major Midwest gateways to distribution centers in the East. These shipments are very time-sensitive, and they require a dependable supply of high quality refrigerated cars. Our customers insist on having dependable delivery times for frozen vegetables.

Enhanced routes, operating efficiencies, better equipment, and more competitive rates than we obtained through the Southern Pacific Railroad are reasons why the UP/SP merger makes sense.

Whenever two like companies are merged together there are always unforeseen problems that occur. Sometimes the problems are compounded by employees that prefer the status quo rather than accept change. I feel the Union Pacific is addressing these problems as rapidly as possible and the rail system will be much stronger when the changes are completed.

The Service problems that we were experiencing in the last half of 1997 have improved. Transit times have improved in all areas. I feel the problems that are still occurring in Texas and other former SP routes will improve when the Union Pacific completes its acquisition of additional equipment.
Prior to the UP/SP merger, Agripac had to divide orders and ship like items in separate rail cars to insure that at least part of the order would arrive at a reasonable time without being damaged or destroyed. Without the UP/SP merger I feel that we would have lost most of the East Coast market because of SP's deteriorating equipment and inefficient routes.

In spite of the service problems that we have incurred, Agripac is able to meet customers' demands more effectively today then we could prior to the UP/SP merger. We do not want to see any changes to the merger approval that might interfere with existing or future benefits.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.


Howard D. McLaughlin
Director Logistics
June 23, 1998

Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Suite 760
Washington, D.C. 20423-0001

RE: Finance Docket #32760 (Oversight Proceeding)

Dear Secretary Williams:

My name is Gordon D. Gustafson. I am the Vice President - Logistics for Alternative Distribution Systems, Inc., a provider of transportation, distribution and logistics services to the metals industries through its subsidiary companies: Area Transportation Company, Roll & Hold Warehousing & Distribution Corp., and Western Intermodal Services, Ltd. Western Intermodal Services supported the proposed merger of the Union Pacific and Southern Pacific railway companies with the trackage rights conditions that were granted to the BNSF.

At this time I am writing to express our continued support of the UP post merger entity. Our support is based on numerous reasons, one of which was our feeling that the Southern Pacific Railway Company could not have survived without the merger. However, most of the reasons originate from opportunities that have come to our companies as a result of the merger that would and could not have occurred if the merger had not been approved. For example:

- New and expanding marketing opportunities. The UP marketing group has aggressively pursued business over both former SP and UP routes our companies use from our Houston and Chicago area operations, and service has been better than what could have been provided by a joint SP-UP route, if at all.

- Increased sales. Since the merger, our intermodal business has increased with the UP who provides rail service elements to stack train operators, and ultimately are competing with BNSF in this market segment. This we feel is very positive.

- Paradigm shifts thru innovative and progressive business solutions. We find the UP exhibits “out of the box” thinking as we explore our investment in facilities on their railway which will provide returns to both organizations.

These are just a few examples of the positive benefits derived as a result of the merger and we believe there are still more benefits to come as the merger is more fully implemented.

We recognize the service difficulties the UP has encountered and do not minimize the impact on some shippers. We are closely watching the STB Oversight Hearings in Ex Parte 573 and along with the STB note improvement. We continue to believe that we are best served by allowing the UP to fully implement the merger efficiencies, and thank you for this opportunity to comment and provide our support.

Sincerely,

Gordon D. Gustafson
Vice President - Logistics

Subsidiary Companies:
Area Transportation Company
Freight Connections International, Ltd.
Roll & Hold Warehousing & Distribution Corp.
Western Intermodal Services, Ltd.
Verified Statement of Wendell LePan
Canadian Enterprise Gas Products Ltd.

My name is Wendell LePan. I am Vice President for Canadian Enterprise Gas Products Ltd. My responsibilities include overseeing the transportation of our products by rail from Canada to the United States.

Canadian Enterprise markets liquified petroleum gas ("LPG") produced by various gas companies in the area around Edmonton, Alberta. Some of our end-markets in the United States are in Idaho, Nevada and California. We ship LPG by rail via Canadian Pacific from Edmonton to Eastport, Idaho. From Eastport we interchange with UP to reach some of our U.S. customers. We ship approximately 800 railcars annually into the United States.

Canadian Enterprise continues to support the merger of UP/SP because it has increased rail competition for rail movements between Western Canada and the United States. As noted, some of our traffic traditionally has moved from Edmonton into the United States over the Eastport gateway. But in connection with the merger, UP/SP and BNSF reached an I-5 proportional rate agreement, which allows UP/SP to secure a competitive proportional rate from BNSF for traffic moving between New Westminster, British Columbia, and UP/SP at Portland. The merger therefore created a new opportunity for movements into the United States via Canadian National over New Westminster, and allows CN-BNSF or CN-BNSF-UP routings from Edmonton as a competitive alternative to the CP-UP routing over Eastport. Competition between these alternative rail routes has led to intense price competition that has dropped our rates for LPG movements into the United States.

The UP/SP merger has therefore stimulated competition in an important way. It has created competitive options where none previously existed, and forced the railroads to lower their prices to retain business. We expect that, in turn, the increased flexibility and lower prices flowing from this rail competition will make us more competitive in our end-markets.
The only concern we still see is regarding service. The UP/SP appears to be making some progress in this area but the continued delays we are experiencing is still an ongoing issue and further improvements we hope will be forthcoming.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 24, 1998.

Wendell LePan
I am Kurt Zetzsche, the President of Cascade Steel Rolling Mills, Inc. Cascade operates a steel mill in McMinnville, Oregon, about 40 miles south of Portland. The mill is served by the Willamette & Pacific Railroad, which connects with the former SP line at Eugene, Oregon and also Portland, Oregon. Cascade also has storage facilities on the former SP lines at Union City and El Monte, California.

Our business is heavily dependent on rail transportation. Last year, we received about 5,500 railcars of inbound shipments of scrap steel, scrap substitutes, and coal. Our outbound shipments of steel reinforcing bar, steel wire and other products are about 3,400 railcars annually.

The UP/SP merger has had important benefits for Cascade's operations. We have seen reductions in our rail rates for outbound steel shipments, and these reductions have allowed us to remain competitive in our end-markets against other steel mills in the Western United States.

The combined UP/SP system has also been much more responsive to our car supply needs than SP was before the merger. Since the merger, UP has managed to meet our mill's demand for empty railroad cars. During a peak shipping season in 1997, Cascade was pleased with UP's success in filling shipper car orders. More recently, UP gave us help in meeting new business opportunities that required flat cars.

There have been service problems with the combined UP/SP system over the past year at our storage facilities in Union City and El Monte. UP has made strides to improve that service and we believe that the positive trend will continue. Furthermore, we are optimistic that the capital investments UP is making at the Roseville Yard and in other areas will improve our service in the coming years.

For those reasons, Cascade continues to support the UP/SP merger. We do not see any need for the Board to interfere with the merger and its implementation.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement.

Kurt C. Zetzsche, President

Date 6/29/98
My name is Joe E. Wojcik and I am the Director of Order Fulfillment for Celanese Ltd. My responsibility includes the Customer Service, Load and Ship, and Supply Chain Planning organizations as well as the procurement and management of all modes of freight including rail freight. Celanese is a member of the Hoechst Group of companies and previously operated as Hoechst Celanese Corporation. Celanese produces a broad array of commodity organic chemicals and has production facilities in the Houston, TX area at Clear Lake, Bishop, and Bay City as well as a deep-water terminal at Bayport, TX. From these production sites, we distribute our products throughout North America and the world. Our sales exceeded $4 billion in 1997.

We rely heavily on the railroads to ship products from all three of our Houston area plants. The Celanese Bishop and Clear Lake plants are local to the Union Pacific (UP) railroad. The Bay City plant is on UP’s line but is open to reciprocal switching, and is served today by both UP and Burlington Northern Santa Fe (BNSF). We ship approximately 4,000 rail cars of organic chemical products from Bay City annually and nearly 3,000 of those cars are open to competition between UP and BNSF.

The UP/SP merger was important to Celanese because it significantly increased competition for our rail traffic at Bay City. Before the merger, the Bay City plant was served by both UP and BNSF, but BNSF could not offer the route structure that effectively matched our needs. As a result, BNSF was not a significant competitor for most of the cars that originated out of Bay City.

All of that changed with the UP/SP merger. The rights that BNSF got as part of the merger approval process have greatly strengthened its ability to compete for Bay City business. BNSF gained access to SP’s Houston – New Orleans route, which was critical to our traffic flows. BNSF also secured trackage rights to move traffic from Bay City to the Memphis and St. Louis gateways, which again were critical to its ability to originate traffic from Bay City.
These structural changes in BNSF’s route system, as a result of the UP/SP merger, have made BNSF much more competitive for the Celanese business at Bay City. We recently put most of our Bay City volume out for competitive bids between the UP and the BNSF. BNSF was far more aggressive than it had ever been before in the bidding process for this business. UP ultimately retained most of the traffic, but at significantly reduced rates. This is a direct result of the enhanced competition created by the UP/SP merger.

Service has been a major problem over the past year for Celanese as well as many other shippers. But, we have seen a distinct improvement in UP’s service over the past few months, and it is our expectation that UP’s service will continue to improve.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 23, 1998.

Joe E. Wojcik
Director, Order Fulfillment
Celanese, Ltd.
VERIFIED STATEMENT
OF MARTIN A. JAVINSKY
CHEVRON PRODUCTS COMPANY

My name is Martin A. Javinsky and I am the Manager of Transportation Planning and Services for Chevron Products Company, a division of Chevron U.S.A. Inc. My responsibilities include oversight of rail freight contracting activities within the Company.

Chevron Products Company is a major U.S. petroleum refiner. Our Western operations include four refineries located at Richmond and El Segundo, California, Salt Lake City, Utah, and El Paso, Texas. Principal commodities shipped via rail to and from these facilities are lube oils, petroleum wax, asphalt, LPG, sulfur, anhydrous ammonia, crude oil and petroleum coke. Annual rail activity with the Union Pacific Railroad (UP) and The Burlington Northern and Santa Fe Railway (BNSF) is approximately 11,000 railcars.

Before the UP/SP merger, the Richmond and El Segundo facilities were served by BNSF and the SP and so continue to be served by BNSF and UP. Our Salt Lake City refinery was a 2-to-1 point in the UP/SP merger, and is now served by BNSF pursuant to trackage rights granted in the UP/SP merger process. At El Paso, the majority of our traffic currently is closed to the UP with only a small portion open to BNSF competition via a reciprocal switch. We have some questions as to whether or not our El Paso plant should also have been deemed a 2-to-1 point as it was formerly served by the SP and the Missouri Pacific (MP), now UP.

From Chevron's perspective, the principal benefit of the UP/SP merger is that it has given us more opportunities to competitively bid our rail business at some locations. At other facilities such as El Paso, alternative carrier selections are not available, and we experience substantially higher rates than those we experience in a competitive environment (thus reflecting the absence of competition). Additional details illustrating these points follow:

Pacific Northwest

For our West Coast traffic to the Pacific Northwest and Western Canada, the I-5 agreement between UP and BNSF has created two single-line options for movements of product from our Richmond refinery. Before the merger we had only multi-carrier routes. This represents a major change in our ability to obtain competitive rates for this business. Just recently, for instance, Chevron put out for bid a large movement of anhydrous ammonia from Richmond to Hedges (a/k/a Finley), Washington. Before the merger, this traffic moved via UP-Klamath Falls-BNSF, and now we were able to secure competing single-line bids from UP and BNSF. BNSF competed vigorously for the business and won it. As a result of the merger, we have a lower rate for this movement via single-line BNSF service. We have also seen benefits from the proportional rate agreement between UP/SP and BNSF, which allows UP to secure...
competitive proportional rates from BNSF for movements to BNSF-served destinations in the Pacific Northwest and Western Canada. As an example, last year the UP was able to provide Chevron with a favorable through rate for movements of petroleum wax from Richmond to a large customer in New Westminster, British Columbia. This year the BNSF won our competitive bid for this business. In addition, competition between BNSF and UP has resulted in lower rates to several of our customers in the Pacific Northwest.

**Salt Lake City Area**

The head-to-head competition between UP and BNSF for our business in the Salt Lake Area has been strong. A contract for waxy crude transportation from Salt Lake to Richmond was awarded to an aggressive BNSF in early 1997. Also in 1997, the UP retained our petroleum coke business after a spirited competitive bid process.

**El Paso, TX**

Chevron’s El Paso, Texas refinery continues to be operationally complex and lacks meaningful competitive access. All refinery rail operations take place within a few rail miles. However, they are segregated by the UP into two arbitrary stations, El Paso and Ashley with a third location, a storage yard in El Paso known as Alfalfa. Each of these locations has a different accessibility status: El Paso is open to reciprocal switching, Alfalfa is closed, and Ashley is captive to UP with a potential line haul movement from El Paso. To further confuse matters, each of these locations has a different rate structure. Thus similar railcar movements varying in length by only a few miles could differ dramatically in handling complexity and cost. For example, a car can move from the El Paso interchange tracks to the refinery’s El Paso Station (open to the BNSF) for a reciprocal switch charge of $130. From the El Paso interchange tracks to the refinery’s Ashley Station (closed to the BNSF), the same car can only move via BNSF at a Rule 11 Line Haul charge of not lower than $482/car and as high as $939/car. A car moving to the Alfalfa Storage yard cannot travel at all via the BNSF as this location is closed. The combination rates applicable for Ashley and the closed status of Alfalfa effectively exclude the BNSF from at least 70% of our business.

**CONCLUSION**

We have recognized important competitive benefits from the UP/SP merger as noted above. However, to date we have been unable to resolve the El Paso competitive issues in a satisfactory manner. It is our intention to bring this issue before the Surface Transportation Board in the near future if we are unable to reach a resolution.

With that said, Chevron would not favor efforts to impose further conditions on the merger that would compromise the pro-competitive effects that the merger has generated. We would support legislation or action of the STB that further increases competition in the rail industry.
I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 29th, 1998.

[Signature]

MARTIN A. JAVINSKY
Verified Statement
Of Stephen M. Walukas
On behalf of
Chrysler Corporation

My name is Stephen M. Walukas and I am Director of Logistics for Chrysler Corporation based in Auburn Hills, Michigan. In this capacity, I am responsible for the inbound movement of parts and materials to Chrysler plants and the outbound shipment of finished vehicle from Chrysler plants to dealers. I am responsible for designing the transportation system, purchasing transportation and executing the operations.

Chrysler Corporation assembles new cars, trucks and sport utility vehicles and manufactures many parts used in the assembly of these products. Chrysler is the third largest manufacturer of motor vehicle in North America, producing nearly 3.0 million units annually at 15 assembly plants in the United States, Canada and Mexico.

Access to low cost, reliable, high quality rail transportation is critical to Chrysler's success in the marketplace. Chrysler ships thousands of vehicles throughout the United States including the Western states served by the Union Pacific and the Burlington Northern Santa Fe.

Chrysler supported the Union Pacific/Southern Pacific merger as a method of improving rail efficiency in the West. While we have been disappointed with the slow execution of the merger and recent service problems, we still believe that the fundamental purpose is achievable. More single line service, volume efficiencies and increased competition between two strong railroads will make the rail transportation system better for all customers.

Chrysler has seen several benefits from the merger. These include better transit time for shipments moving from Mexico to California. Shipments currently move over the former SP southern corridor rather than via the UP's North Platt lines, resulting in the elimination of many circuitous miles.

Movement of vehicle and parts between the Texas area and the Midwest appears to be benefitting from the consolidation. We still need to see sustained performance over these routes, but we believe that improved service, due in large measure to consolidation of the former UP and SP lines in this area, is a very achievable goal.

Chrysler has also seen increased competition between UP/SP and BNSF, as each strives to offer better rates and improved service in order to take the other's traffic. The SP did not have the resources to offer the efficiencies that either of these two big carriers provides. Now we can choose between two strong, service-oriented railroads, each with a more extensive route network and better operating efficiencies than SP could offer. In addition, UP's financial strength and its willingness to make capital
improvements (such as the third track capacity expansion at North Platte) and devote equipment and facility resources to our routes are vast improvements over what we were offered by the old SP. As one example, UP has invested heavily in multi-level rail cars for our traffic to and from Mexico, something which SP was not able to do.

Thus far, Chrysler has seen some definite benefits from the UP/SP merger. As UP and SP operations are further integrated, we expect and will demand further improvements. Admittedly, Chrysler is frustrated by UP’s substantial service problems over the past year, but these difficulties should not obscure the broader benefits that the merger has already brought and the future improvements in competition and service that we expect as the merger is fully implemented. We see no need for the Board to revise the terms of its merger approval, and we oppose any changes that would interfere with the benefits the merger has brought.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on June 24, 1998.

Stephen M. Walukas
6/24/98
My name is Terrance L. Priest, Corporate Commerce Manager of Logistics for Coors Brewing Company, whose headquarters are located in Golden, Colorado. I have been employed by Coors Brewing Company since 1982 and I am authorized to prepare this statement for Coors Brewing Company. During my tenure at Coors Brewing Company, I have been in the transportation, physical distribution, logistics and commerce departments as part of our Operations and Technology group, and I am familiar with the transportation/distribution/logistics and total supply chain requirements and needs of Coors Brewing Company and its various divisions and subsidiary companies.

Founded in 1873, Coors Brewing Company is a brewery and we make malt beverage products. Originally we only distributed our products in the Colorado Territory and State after August 1, 1876. Gradually we became a Regional Brewery, survived State and National Prohibition by producing other products, and really did not expand Nationally or Internationally until the Motor Carrier and Staggers Rail Act of 1980. To survive and compete in the 1980s, Coors Brewing Company expanded to all 50 states and started international markets. In 1997 we continued to rank as the third largest brewer in the United States and the ninth largest in the world. In fact, we
are the largest single site brewery in the United States at Golden, Colorado (about 20 miles west of Denver, Colorado). Coors beers are distributed in all 50 states and the District of Columbia by 630, plus or minus, independent distributors and five company-owned and operated outlets. We are in 48 international markets and use 14 satellite distribution centers strategically located across the United States in our distribution process. We are in a constant and consistent controlled expansion and optimum distribution strategy process to improve customer satisfaction and improve and grow our market standing. Coors is a fully integrated company consisting of company-owned and operated container, glass and related facilities. We sold about 20 million barrels of beer in 1997 and in recent years. In 1997, we shipped about 21,500 railcar loads and received about 9,000 railcar loads; we shipped about 135,000 truckloads and 11,000 domestic intermodal container shipments; 17,500 less than truckload shipments and 7,000 international intermodal container shipments. Coors owns 52% of a brewery in Zaragoza, Spain. We employ several thousand people and Coors beers domestically are currently brewed in Golden, Colorado and Memphis, Tennessee. We package our products in cans, bottles and kegs in Golden, Colorado, Coors Crossing (Elkton), Virginia and Memphis, Tennessee.

We became a party to these proceedings early on as we sincerely believe it was/is the right thing to do as to our national rail system. We also saw positive results for our supply chain transportation requirements. On September 7, 1995 Coors Brewing Company filed our Verified Statement in this matter with the former Interstate Commerce Commission (ICC) and on March 20, 1996 we also prepared a Verified Statement for the Surface Transportation Board (STB) ensuring our support of the Union Pacific/Southern Pacific (UP/SP) Merger as conditioned by the Burlington Northern Santa Fe (BNSF) Settlement Agreement. The purpose of this Verified Statement is to restate our continued support for the UP/SP Merger. As a major user of rail transportation and a long-time customer of both the Union Pacific and the Southern Pacific, Coors Brewing Company was an eager and early supporter of the UP/SP merger. As I said in our 1995 Verified Statement, "When more than two railroads get involved in our routes, our service and rates suffer." We would rather see a pair of strong competitors than a vast and fractured rail system. Coors also backed the merger between BN and SF, and we therefore supported the consolidation of UP and SP as a strong and important countermeasure to the combined BNSF. In 1995 I expressed the hope of Coors Brewing Company that the merger with UP/SP would improve existing rail service and equipment. We also believed the merger would open up new opportunities for us. Even though UP has suffered and continues to suffer growing pains, we see, on the eve of the second anniversary of the merger, evidence of our hopes and desires. There have been and continue to be concrete benefits for the UP/SP merger.

The most important benefit for us is the improved competition. Frankly, BNSF has gained several of our points in California which used to be either UP or SP interline routes with BN, but now, BNSF serves as a direct line carrier. Most of our
inbound rice comes from the Sacramento area of California and we can use BNSF direct for this move greatly improving our service and transportation costs. There are opportunities for UP to handle a lot of our business that has always been served by rail or has been diverted to motor carriers for service issues. We still believe UP will survive and become more important to us in the future as their service issues are resolved. Without doubt UP's service problems have hurt us and we had to react by using other rail routes and modes (motor carriers and intermodal and cross-dock warehousing). We understand railroading and can appreciate the huge evolution UP has had to engage. We appreciate the STB's handling of this situation and helping UP to evolve. When UP has its service back to their standards they will solicit us for business they lost and new business they should have and we look forward to this competitive aspect in our distribution mix.

The Union Pacific/Southern Pacific Merger was the correct thing to do. We urge the Board to stay the course for the long-term benefit of rail users and America. Short term solutions must continue to be analyzed and implemented when it makes sense for all concerned. The long-term solution for rail transportation in America and especially the Western United States has already been made with the UP/SP and it is the right solution. The service problems the UP and its customers have suffered and continue to suffer are short lived. The fundamental reasons why UP/SP made sense and continues to make sense is for the long-term solution for rail transportation in America. Our national economy must have a strong rail network in the 21st century as an integral part of our national transportation infrastructure. Coors Brewing Company knows it will work best for us and believe it is best for the United States as well. We respectfully urge the Surface Transportation Board to keeps its original approval of the UP/SP merger intact.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Terrance L. Priest
Corporate Commerce Manager
Coors Brewing Company

June 24, 1998
DAL-TILE MEXICO, S. A. DE C. V.

VERIFIED STATEMENT
OF ROBERTO LOZANO ALEMAN
appearing on behalf of
DAL-TILE MEXICO, S.A. DE C.V.

My name is Roberto Lozano Aleman. For the last 16 years, I have been the responsible of international Transport and Customs for Dal-tile, a company based in Monterrey, Mexico. Dal-Tile has produced ceramic tile for more than 40 years. We ship raw materials like talc, limestone, soapstone, and clay from Texas, Arkansas, Tennessee, and Georgia to our manufacturing plant in Mexico and then send most of the finished ceramic products back by truck to the United States.

A company like Dal-Tile is very dependent on the quality of rail service. In one recent year alone, we shipped 220,000 tons of raw material at a cost of $2 million in freight charges. Now we are in the process of increasing the production capacity of the Monterrey facility. That will in turn 25% our raw material needs and our rail traffic.

Since the UP/SP merger was approved, Dal-Tile has seen major improvements in the competition for rail traffic from the U.S. to our Monterrey plant. Before the merger, UP was the only railroad that served the North Little Rock origination for the limestone that we use in our ceramics business. As a result of the merger, BNSF also serves North Little Rock under a reciprocal switching agreement. This is a huge benefit to Dal-Tile. We now have directly competing rail alternatives for these North Little Rock origins. We can ship limestone either on UP or BNSF.

BNSF has been very aggressive in attempting to get our North Little Rock traffic. Recently BNSF made a very attractive offer for the movement of that traffic. Although we decided to stay with UP, BNSF's aggressive competition forced UP to respond with its own favorable rates. The result was that Dal-Tile received much more favorable
contract terms for this North Little Rock traffic, Dal-Tile would not have realized the benefits of this head-to-head competition without the merger.

As everyone is aware, the merger has had some problems. We have not been pleased with UP's service over the past year. But even in most difficult situations, UP has tried to work with us to address our service needs. For example, when UP recently imposed an embargo on traffic to Mexico over the Laredo gateway, it made arrangements to move our traffic via El Paso and Eagle Pass and to cover the difference in the freight rates.

We are optimistic about service improvements in the near future. When UP finishes certain track projects in Texas, we will be able to move our raw materials directly to Eagle Pass or Laredo without going through Dallas-Ft. Worth. This will increase route efficiency and save on transit time. In addition, we expect UP will soon be able to provide enhanced equipment availability for our originations at North Little Rock and other points. And we expect that UP will soon provide us with better blocking arrangements at San Antonio for movements into Mexico.

In conclusion, I would like to stress that I remain confident that the UP/SP merger is a good idea that has already resulted in benefits for Dal-Tile and will bring additional benefits as the merger is further implemented. Dal-Tile is frustrated by UP's substantial service problems over the past year, but we see important future benefits for Dal-Tile as UP gets the service problems under control and as competition continues to work. We see no need for the Board to change the conditions already imposed on the merger, and we oppose any changes that would interfere with the benefits the merger has brought.

I declare under oath that the foregoing is correct and true. Moreover, I certify that I am qualified and authorized to file this verified statement. Executed on June 22, 1998.

Roberto Lozano Aleman
JUNE 30, 1998

DEACERO
UNION PACIFIC DE MEXICO S.A. DE C.V.
ZARAGOZA 1300-325
EDIFICIO KALOS
MONTERREY, N.L. 64000
ATTN: LIC. MARIO AMAYA

MY NAME IS MELECIO CAVAZOS. I'M THE TRAFFIC MANAGER FOR DEACERO, A STEEL FABRICATING COMPANY BASED IN MEXICO.

DEACERO IS A MANUFACTURER OF STEEL RODS AND ITEMS MADE OUT OF STEEL WIRE. WE IMPORT STEEL SCRAP FROM THE UNITED STATES TO OUR PLANT IN SALTILLO MEXICO AND THEN EXPORTS THE FINISHED PRODUCT BY RAIL TO MARKETS IN ARIZONA, CALIFORNIA AND NEW MEXICO. DEACERO CURRENTLY SHIPS ABOUT 250 CAR LOADS OF FINISHED GOODS FROM SALTILLO PLANT EACH YEAR, AND THESE CAR LOADS REPRESENT ABOUT 40,000 TONS OF MATERIAL. IN ADDITION WE ARE FINISHING A NEW PLANT IN CELAYA GUANAJUATO IT IS 250 KM NORTH OF MEXICO CITY THIS WILL INCREASE OUR PRODUCTION A 150%. THIS WILL INCREASE OUR INBOUND AND OUTBOUND RAIL SERVICE.

THE UP/SP MERGER HAS HAD A HUGE POSITIVE IMPACT ON DEACERO'S RAIL SERVICE. IT CREATED COMPETITION WHERE NONE PREVIOUSLY EXISTED. BEFORE UP AND SP JOINED FORCES, WE DID NOT HAVE ALTERNATIVES AVAILABLE FOR MOVEMENTS OVER EAGLE PASS. NOW WE CAN TAKE ADVANTAGE OF STRONG COMPETING SINGLE - LINE ALTERNATIVES VIA UP OR BNSF FOR MOVEMENTS FROM EAGLE PASS OR LAREDO TO CALIFORNIA. THIS HEAD TO HEAD COMPETITION PROMISES NUMEROUS BENEFITS FOR US, AS EACH RAILROADFIGHTS TO TAKE THE OTHER'S TRAFFIC AND OFFERS US FAVORABLE FREIGHT RATES. THESE COMPETITIVE BENEFITS WOULD NOT HAVE BEEN POSSIBLE WITHOUT THE MERGE.

I RECOGNIZE THAT SOME MEXICAN SHIPPERS HAVE EXPERIENCE SERVICE PROBLEMS ON UP IN THE PAST YEAR, BUT FROM OUR PERSPECTIVE THINGS ARE REALLY CLEARING UP. I KNOW THAT THE UP/SP MERGER HAS ALREADY RESULTED IN CONCRETE COMPETITIVE BENEFITS FOR DEACERO WITH THE EXPANSION OF OUR PRODUCTION FACILITIES, I FULLY EXPECT THAT WE WILL SEE BOTH INCREASE RAIL SERVICE AND INCREASE BENEFITS FROM THE MERGER. I URGEC THE BOARD NOT TO IMPOSE CONDITIONS ON THE MERGER THAT WOULD JEOPARDIZE THE COMPETITIVE BENEFITS WE HAVE ALREADY SEEN.

A DECLARE UNDER OATH THAT THE FOREGOING IS TRUE AND CORRECT, MOREOVER, I CERTIFY THAT I'M AUTHORIZED AND QUALIFIED TO FILE THIS VERIFIED STATEMENT EXECUTED ON JUNE 30, 1998.

BEST REGARDS

ING. MELECIO CAVAZOS
TRAFFIC MANAGER

LAZARO CARDENAS # 2333 Ote, SAN PEDRO GARZA GARCIA, N.L., MEX. C.P. 368-1100
VERIFIED STATEMENT
of James R. Mishork
for Del Monte Foods

My name is James R. Mishork. I am Manager of Rail and Intermodal Transportation for Del Monte Foods headquartered in San Francisco, CA.

Del Monte Foods is a producer and marketer of canned foods from sixteen plants and six distribution centers throughout the United States. With an annual freight expense in excess of $50 million, we ship approximately 9,000 boxcars and 2,000 intermodal units annually covering 90% of our long-haul tonnage. We depend heavily on the railroads to bring our goods to market in a timely and cost effective manner.

Prior to their merger, Del Monte Foods was served by both the Southern Pacific and the Union Pacific railroads either at separate facilities, or both competing at the same facility. I am pleased to find that there has been no degradation in service or price competitiveness at our plants since the merger. Car supply is better than it was with separate railroads and switch service has improved as well.

Although, like most shippers, Del Monte Foods as suffered longer and more erratic transit times as a result of congestion on the Union Pacific system, I believe that this is a temporary situation and that the railroad will correct the root causes of this problem. I feel that I can rely on the combined UP/SP to be a strong competitor to the BNSF Railroad now and in the future.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on June 26, 1998

James R. Mishork
Manager, Rail & Intermodal Transportation
I am Timothy J. Travis, the President and Chief Executive Officer of Eaton Metal Products Company. Eaton is a steel plate fabricator with manufacturing facilities in Denver, Colorado, Salt Lake City, Utah and Pocatello, Idaho. All are on the Union Pacific.

Eaton ships many railcars annually of inbound steel to its three manufacturing plants. We source our steel from U.S. Steel in Gary, Indiana and Lukens Steel in Coatesville, Pennsylvania.

After the expected confusion involved in merging two huge operations, Eaton is now seeing important benefits from the UP/SP merger. The rail transit times we are now experiencing for our inbound steel shipments are 14 days or less, and that is the best time we have ever enjoyed in our 80-year history.

Eaton expects that the benefits from the UP/SP merger will continue and, if anything, will increase as the merger is more fully implemented. Eaton opposes any conditions that would interfere with these critical merger benefits. UP and SP should be allowed to continue with the progress they are already making in achieving major improvements in Western rail service.

I declare under penalty of perjury that the foregoing is true and correct, and that I am authorized to file this verified statement.


Timothy J. Travis

Eaton Metal Products Company
My name is B. Kenneth Townsend, Jr. I am the Materials and Services Manager for Exxon Chemical Company (ECC), a division of Exxon Corporation, located at 13501 Katy Freeway, Houston, Texas 77079-1396.

Among other responsibilities, my department purchases and manages U. S. truck and rail transportation services, and U. S. and international marine transportation services for Exxon Chemical Americas (ECA), a division of ECC. Also, my department purchases and manages truck and rail transportation services, including management of the Company owned and leased fleet of rail cars, for Exxon Company, U. S. A. (EUSA), a division of Exxon Corporation. Members of my department and I interact routinely with the railroads and other suppliers who provide these services.

Prior to holding my current position, I held sales, marketing, and business management positions in several ECC business areas. I have been employed with ECC for over 31 years, having graduated from Georgia Tech with a B. S. degree in Mechanical Engineering, and from the Wharton Graduate School, University of Pennsylvania, with an MBA degree.

ECA and EUSA (referred to below as Exxon), have seven plants located in Texas, Louisiana, Wyoming and California that are served by the Union Pacific Railroad (UP). Exxon is a major rail shipper of chemical and petroleum products, with approximately 70% of our 67,000 annual railcar shipments handled by the UP.

Following extensive study and discussions with UP and other involved railroads, Exxon supported the UP merger with Southern Pacific (SP). We had concerns that the
SP lacked the financial strength to be a viable independent railroad longer term. We had experienced deteriorating SP service, and SP’s financial strength had been on the decline prior to the merger. We were concerned that the trends of declining service and financial strength would continue. We believed that without the UP/SP merger, SP assets may have been sold piecemeal, and that such piecemeal sales would result in further service declines and would not assure long term service and competition as effectively as the merger coupled with providing access to the Burlington Northern Santa Fe Railway (BNSF).

Following implementation of the UP/SP merger, we have been satisfied with the effectiveness of conditions imposed by the Surface Transportation Board (STB) to maintain competition at Exxon’s sites in the Houston area. BNSF and Exxon entered into new contractual agreements during 1997 which provide competitive rates and service, and Exxon estimates BNSF will move approximately 4000 cars per year (~20% of total business) from our Mont Belvieu Plastics Plant, our Baytown Plastics Plant, our Baytown Chemical Plant and our Baytown Refinery. Additionally, contractual arrangements have been concluded with UP which provide competitive commercial terms for Exxon’s Houston-area facilities.

We have been greatly disappointed in UP’s service problems since the merger. However, we are encouraged by the recent progress in service recovery. UP has committed substantial financial resources to address this current crisis and has made public a plan for making significant investments in infrastructure to provide further improvement. We believe, longer term, service will be better than prior to the merger.

In closing, while we supported the UP/SP merger because of the special circumstances that existed with the weak SP, and we believe the conditions imposed by the STB to maintain competition have been effective, we are concerned about the increasing complexity of railroad mergers and the disastrous service impacts that can occur if implementation is not almost flawless. Additionally, we continue to be concerned about the decreasing number of Class I railroads, believing that the marketplace is best served by head-to-head competition between viable transportation
providers. In our experience, typically rates are lower and service is better when more than one carrier effectively competes for our business. We believe that while further consolidation of Class I carriers may have some benefit, each such consolidation should be carefully and critically examined, with particular attention paid to ensuring smooth implementation and to improving competition in a manner that does not cause substantive harm to the benefits of the merger or the merger participants.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed this 29th day of June 1998.

B. Kenneth Townsend, Jr.

STATE OF TEXAS
COUNTY OF HARRIS

I, Dagmar Dautrick, a notary Public in and for said state and county, do hereby certify that B. Kenneth Townsend, Jr. personally appeared before me this day and acknowledged his due execution of the foregoing Verified Statement.

Witness my hand and official seal this 29th day of June, 1998.

Dagmar Dautrick
Notary Public

My commission expires: 12-19-99
My name is Tom Mitropoulos. I am Vice President-Transportation of Fairmount Minerals Ltd. and its operating plant, Wedron Silica Company. Fairmount Minerals is a large producer of industrial sand and minerals and has annual sales of more than $140 million. I am responsible for all of the transportation and traffic logistics for our business.

The Wedron Silica Sand plant, located at Wedron, Illinois, is served by BNSF. The Wedron Plant is also 17 miles by truck from a transload at Troy Grove, Illinois, served by UP. Each year, the Wedron plant ships a substantial volume of industrial sand by rail to California, Arizona, and Utah, as well as to Mexico.

The UP/SP merger has increased competition for our business originating at Wedron. We now have two fully competitive alternatives for our business, one a single-line BNSF routing and the other UP single-line service via the transload at Troy Grove. Before the merger, in contrast, UP-SP interline service to the West was not a significant competitive option for the Wedron plant. Competition therefore intensified after the merger. UP was able to offer a single-line rate from Troy Grove to Arizona and California, which was very competitive against BNSF’s single-line rate from Wedron. The UP single-line service via Troy Grove has also improved our ability to move our product into Mexico. This enhanced competition between UP and BNSF was a direct, important benefit of the UP/SP merger.

UP’s service has been a problem for us over the past year. But UP is making every effort to get its service back into line, and we are seeing improvement. These service problems should not be confused with the benefits of the merger itself. Competition is better for us. We have access to better, more efficient rail service than before the merger. UP combined with SP is much stronger than UP and SP separately. As service comes around, we expect to continue to see important benefits for our business as a result of the merger.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement dated June 15, 1998.

Tom Mitropoulos
My name is Curt Graham. I am the Manager of Marketing Services for Farmers' Rice Cooperative. I am directly responsible for the transportation of rice products shipped by Farmers' Rice Cooperative.

Farmers' Rice Cooperative owns and operates rice mills in West Sacramento, California. We supply rice to food processing plants on the East Coast and throughout the United States. We rely heavily on the railroads for the majority of our bulk rice shipments, and we move over 1800 railcars of rice annually. Because we confront intensive competition in our end-markets from other rice producers in other areas of the country, it is vital that we have cost-effective, reliable rail service to keep ourselves competitive. If our rail transportation is not highly competitive, our food processing customers will turn elsewhere for their supplies of rice.

Because our long-haul rates are so vitally important to our ability to compete in our end-markets, we relied for many years on the competition between the UP and the SP to keep rates down. Before the UP/SP merger, Farmers' Rice Cooperative was served by the UP and SP. Thus, we are a 2-to-1 point, and we now have rail access to UP and BNSF. We now rely on the BNSF as a competitive lever to keep UP's rates in line, and it has proven to be an effective, vigorous competitor for our business. BNSF has taken away traffic from UP moving from our West Sacramento mill to the Pacific Northwest. And we recently selected BNSF for our long-haul movements to a number of destinations in the Midwest because it provided a more competitive rate than UP.

We see this competition between BNSF and UP as an important long-term benefit of the UP/SP merger. As BNSF increases its fleet of food-grade lined covered hoppers, it should become even more aggressive in competing for our business. We fully expect that UP will respond to these competitive inroads and that we will benefit as a result.

Farmers' Rice Cooperative will also realize important long-term benefits from the expanded route network and improved route structure of the combined UP/SP system. As one example, the movement from West Sacramento to Los Angeles on the old SP line was 450 miles. UP competed hard for this business, and took it from the SP, but UP's circuitous routing via Las Vegas was 1600 miles. With the merger, UP is now able to offer us the benefits of this much shorter routing to Los Angeles, and it has passed on the savings in the form of reduced rates.

Service has been a big problem for us over the past year. UP's poor service has badly hurt our business. Yet Farmers' Rice Cooperative takes the long view on this issue. We see the service failures of the past year as a short-term problem that do not call into question the
fundamental benefits of the UP/SP merger. UP has to improve its service, and we have the confidence that it is working hard to make improvements. As the service issues are brought under control, Farmers' Rice Cooperative anticipates that it will continue to realize important benefits flowing from the merger.

I declare under the penalty of perjury that the foregoing is a true and accurate statement, and further that I am authorized to file this statement, dated this 22nd day of June 1998.

Curt Graham
VERIFIED STATEMENT
OF CARLOS URIEGAS

On behalf of

FIBRAS QUIMICAS, S.A.

My name is Carlos Uriegas de León. For the last 4 years, I have been the Logistics Manager for Fibras Quimicas a company based in Monterrey, Mexico. Fibras Químicas manufactures polyester chips, which we ship via rail to customers in the Carolinas and throughout the Eastern United States. In recent years, we have shipped about 450 railcars annually from our plant to the Eastern United States.

At present, we move polyester chips in private railcars via TFM from our plant to the U.S.-Mexico border at Laredo. There, the traffic interchanges with UP, and then moves on to Memphis for interchange with NS.

Before the merger, Fibras Químicas moved it U.S. traffic over Eagle Pass, for movement via SP to Memphis and then NS to eastern points. SP’s transit time for loaded cars was typically 7 to 8 days, and 9 to 10 days for empty returns. In contrast, now that UP has implemented directional running the transit time for our traffic is presently 5 days, for both loaded and empty cars. This is a huge improvement in transit times that we would not have achieved without the merger.

With UP’s improved transit times, we are now considering shifting at least some of our truck business to rail. UP’s ability to offer high-quality service for our operations makes rail a much more attractive alternative to truck movements of our products.
We have also seen enhanced rail competition for our traffic as a result of the merger. KCS and Tex Mex have competed aggressively for our Laredo-Memphis business. This has put competitive pressure on UP, to our benefit.

UP has had some service problems over the past year, but from our perspective things have really improved in the last few months. I know that the UP/SP merger has already resulted in several concrete benefits for Fibras Químicas, and I am confident that we will enjoy additional competitive and service benefits as the merger is further implemented. There is no need for the Board to add to the conditions already imposed on the merger.

I declare under oath that the foregoing is correct and true. Moreover, I certify that I am qualified and authorized to file this verified statement. Executed on June 19, 1998.

Carlos Uriegas de León
VERIFIED STATEMENT

OF KEITH L. HANKS

GENEVA STEEL COMPANY

My name is Keith L. Hanks. I am Director - Raw Materials and Traffic for Geneva Steel Company, an integrated steel producer located near Provo, Utah. My responsibilities include coordinating the transportation operations for our business, and negotiating with rail carriers over the terms of their service.

Geneva is the only fully integrated steel producer west of the Mississippi River. We produce approximately 2.2 million tons annually of finished steel. Our output consists primarily of hot-rolled coil and plate, but also includes welded steel pipe. Approximately 55 percent of our product is sold east of the Rocky Mountains. The balance is sold in the 11 Western states, except for about 2 percent that is exported to Canada and Mexico.

Geneva ships about 75 to 80 percent of its output by rail. As an integrated steel producer, Geneva also ships a massive volume of raw materials into its plant. Geneva consumes more than 3.6 million tons of iron ore pellets annually, all of which is delivered by rail. Geneva also takes delivery by rail of substantial volumes of coking coal, coke, limestone, dolomite and ferro-alloys. Geneva is the most rail-reliant steel producer in the country. Rail transportation costs thus have a huge impact on Geneva’s own competitive position.

Geneva is by far the largest "2-to-1" shipper impacted by the UP/SP merger. Before the merger, we benefited from aggressive, head-to-head competition between UP and SP for our business. This competition resulted in innovative, low-cost back-haul arrangements with SP, and more generally in very competitive rates for our traffic.

Geneva originally had serious concerns about the proposed UP/SP merger. We feared that our transportation costs would increase once we lost the competition between UP and SP. Our concerns were allayed to some extent when, in March 1996, UP agreed to provide BNSF with a new route on the Central Corridor and access to our facility. At that time, we entered into a long-term contract with UP, which was to take effect at the expiration of our then-existing contracts with UP and SP.
Following approval of the UP/SP merger, the Surface Transportation Board ruled that "2-to-1" customers were entitled to open up 50% of their UP contract volumes. We then solicited bids from BNSF for 50% of the volume covered by our long-term contract with UP. In response to BNSF's bid, UP offered us a new contract for all of our inbound and outbound commodities. Several rounds of bidding followed. Both UP and BNSF offered us lower rates and better commitments on service and equipment than we had obtained under the long-term contract we negotiated with UP before the merger was approved.

The competition between UP and BNSF was particularly vigorous because each can compete on an origin-destination or origin-gateway basis for many of the movements covered by the contract. Each also has advantages in terms of being able to offer origins or destinations on a single-line basis that the other competitor cannot. Both UP/SP and BNSF were able to provide Geneva with a much wider array of single-line service options than either UP and SP could offer prior to the merger.

Geneva's new contract with UP has significantly lower rates than those we had negotiated with UP before the UP/SP merger. This is a direct benefit of the head-to-head competition between UP and BNSF created by the merger.

Additionally, UP made important new commitments on equipment supply during the negotiations in competition with BNSF. UP has invested money to increase our supply of bulkhead flatcars, and it has acquired and refurbished 300 steel gondolas. These again are significant benefits that resulted directly from the competition between UP and BNSF for our business. As a result, our car supplies are as good as they have ever been.

We know that many UP shippers have suffered extensive service disruptions over the past year. For the most part, UP has been responsive to our service needs, and it has invested resources as necessary to protect our sources of raw materials. UP put major efforts into keeping our iron ore supplies flowing through bad weather and other difficult circumstances over the past year. We have also seen improvements in the quality of our local rail service in comparison to what SP offered before the merger.

At present, Geneva is shipping more steel by rail than it has ever shipped before. UP has taken steps to help Geneva penetrate into new markets in the east. And because of the enhancements in our rail service we are competitive in more long-distance eastern markets than was true before
the merger. Over time, we expect to see further benefits from shorter routes, more single-line service, and the ongoing competition between UP and BNSF.

Geneva therefore continues to support the UP/SP merger and opposes any conditions that would undermine the progress already made and the benefits that lie ahead.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 29, 1998.

Keith L. Hanks
VERIFIED STATEMENT OF

DAVID R. BENSON

Director of Transportation

Hampton Lumber Sales Co.

My name is David R. Benson, I am Director of Transportation for Hampton Lumber Sales Co., 9400 S. W. Barnes Road, Suite 400, Portland, Oregon 97225. I have been employed by Hampton Lumber Sales Co., for the past twenty-five years and have been engaged in the transportation industry since 1961. My present responsibilities include procuring the optimal means of transporting the products sold by our company.

Hampton Lumber Sales Co., is engaged in the production, buying and selling of lumber products throughout the United States and for export. As a manufacturer of lumber, we have three mills located in Oregon, one in Texas and two mills in Alabama. Hampton Lumber Sales Co., is also a wholesaler of lumber products and purchases lumber from a majority of the mills located in the Western United States and Canada, and sells this production to destinations throughout the United States. The volume of our business, both as a manufacturer and wholesaler of lumber during the fiscal year 1997, exceeded 800 million board feet of lumber, with rail shipments exceeding 7,000. Production not shipped by rail, was transported by steamship, piggyback, barge and irregular route motor carrier.
During the past few years, shippers throughout the United States, have been confronted with two major railroad mergers. The first being the Burlington Northern / Santa Fe, and most recently the Union Pacific / Southern Pacific. These mergers have contributed significantly to the enhanced competitiveness of our industry. Carriers were able to combine their route systems to improve service to customers by creating extensive new single-line service with expanded geographic coverage. At the same time, these carriers have experienced substantial cost savings by combining the staffs and facilities of their respective companies which strengthened their overall financial health and enabled these carriers to compete even more aggressively in the marketplace.

While the number of railroads have been reduced through these recent mergers, competition has remained stronger because they are more efficient and their market reach is much greater. The merging parties and the Surface Transportation Board, have been careful to preserve or enhance the competitive options available to our company. Competitive pressures have ensured that the preponderance of the benefits of the more efficient operating and management systems resulting from these mergers have been passed through to shippers in the form of lower freight rates.

With the most recent merger between the Union Pacific and Southern Pacific, we are well aware of the growing pains and problems these carriers have experienced as their two systems have been combined into one. We have, over the past nine months, experienced considerable car shortages and delayed transit times. During the past couple of months, we have seen considerable
improvement in both areas and believe the Union Pacific has demonstrated their ability to overcome these adversities. We anticipate further improvement in the near future and oppose any proposal to change conditions granted in the original approval of this merger. We strongly request the Surface Transportation Board allow the Union Pacific to continue to aggressively implement its service improvement program without intervention.

I, David R. Benson, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on June 24, 1998.

David R. Benson

HAMPTON LUMBER SALES CO.
David R. Benson
Director of Transportation
VERIFIED STATEMENT
OF RICHARD W. EIMER, JR.
on behalf of

ILLINOIS POWER COMPANY

My name is Richard W. Eimer, Jr. I am a Vice President of Illinois Power Company, and am based at the company's headquarters in Decatur, Illinois. In my capacity as Vice President, I am responsible for the fossil generating system (approximately 3500 megawatts total capacity), electric system generation dispatch, and wholesale electric power marketing.

Illinois Power Company is a combination electric and gas utility that serves approximately 550,000 customers in various parts of Illinois. Illinois Power has five principal coal-burning plants in the state, located at Baldwin, Hennepin, Havana, Danville (Vermilion), and Wood River. Baldwin is served directly by rail; Hennepin is served directly by barge; Havana and Wood River plants are served via both rail and barge; and Vermilion is served only by truck. In recent years, Illinois Power has purchased about 1.2 million tons of coal, annually, from mines in Colorado and Utah to supply the Havana and Wood River plants. In the future, it is possible that our coal-fired plants will also burn Powder River Basin coal. Securing efficient, reliable, and low-cost rail service is critical to our continued business success.

Since the UP/SP merger was approved, we have seen competition between UP and BNSF for rail service to our plants. We negotiated a master rail contract with UP in 1997, and we were able to secure favorable rail rates as a result of head-to-head competition between UP and BNSF for our business.
The UP/SP merger has also had important benefits for Illinois Power in terms of expanding our rail service. Before the merger, SP moved coal to our plants from mines in Colorado and Utah. SP only had the ability to serve the Cahokia Marine Terminal in metro-St. Louis. Following the merger, UP can now provide single-line service from Colorado and Utah to multiple river terminals. This significantly enhances our rail-to-barge alternatives for delivery of Utah and Colorado coal to Havana, Hennepin, and Wood River.

The merger has also had significant positive effects in the availability of rail equipment to support our traffic. Compared to what SP offered before the merger, UP provides us with better locomotive availability and access to more train sets.

Our master rail contract with UP also covers movements to our plants from all western coal origins -- both for Colorado/Utah coal and Powder River Basin coal. We did not have this alternative available to us before the UP/SP merger. It has important benefits to Illinois Power in terms of expanding the breadth and flexibility of our rail service from western coal mines to our plants. The competition between UP and BNSF that the merger created should be of substantial benefit to Illinois Power in the years ahead.

Overall, we believe that our rail options are better than they were before the merger. While we have seen some setbacks in UP’s service, especially during the fourth quarter of 1997, its service has improved in 1998, and is currently meeting our needs.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on June 17, 1998.

Richard W. Eimer, Jr
Vice President
VERIFIED STATEMENT

OF

THOMAS DAVIS

On behalf of

KOPPERS INDUSTRIES, INC.

My name is Thomas Davis; I am Director – Logistics for Koppers Industries, Inc., 436 Seventh Avenue, Pittsburgh, Pennsylvania 15219-1800. Koppers Industries is a leading integrated producer of carbon compounds, chemicals, and treated wood products for use in a variety of markets including the chemical, railroad, utility, aluminum and steel industries. Koppers Industries, headquartered in Pittsburgh, Pennsylvania, employs approximately 2,000 people worldwide at 35 manufacturing facilities throughout the United States, Australia and the Pacific Rim and participates in U.S. and European joint ventures. Annual sales in 1997 were approximately $590 million.

As Director - Logistics, I am responsible for all corporate aspects of Koppers Industries’ logistics, including rail transportation. I have been in my current position for two years, and have a total of 28 years of logistics experience.

Koppers Industries’ U.S. operations rely heavily on imported chemical raw materials produced in the states of Coahuila and Michoacan in Mexico. These products move by rail in approximately 150 private tank cars controlled by Koppers Industries. Effective and competitive rail gateways on the U.S./Mexican border are critical to Koppers’ ability to compete in increasingly demanding international markets.
A positive result of the Union Pacific/Southern Pacific rail merger has been the opening of the Eagle Pass and Laredo, Texas gateways to Burlington Northern Santa Fe rail system access. In addition, the granting of trackage rights to the Texas-Mexican Railway from Corpus Christi to Beaumont, Texas now permits U.S./Mexican rail routings over Laredo via the Texas-Mexican and Kansas City Southern railways.

These additional accesses and routings provide increased rail competition through alternative rail routings in and out of Mexico. Koppers Industries is successfully making use of the new Burlington Northern Santa Fe gateway accesses at both Eagle Pass and Laredo, as well as the Kansas City Southern/Texas-Mexican rail routing over Laredo. Significantly, these options, which enhance our ability to remain competitive, were not available to us prior to the Union Pacific/Southern Pacific merger.

It is my opinion that the Union Pacific/Southern Pacific rail merger has been a positive development for U.S. industry, and that – in time – the new Union Pacific will successfully work through those remaining merger implementation difficulties which have inconvenienced its customers over the past year.

I, Thomas Davis, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on June 22, 1998

Thomas Davis
Director, Logistics
VERIFIED STATEMENT
OF BILL HRNCIR

on behalf of

LAREDO MOVING & STORAGE INC. d.b.a. LMS INTERNATIONANL

My name is Bill Hrncl, and I am the President of Laredo Moving & Storage, Inc. d.b.a. LMS International, a family business that I have worked for since 1981. LMS is a public warehouse that stores a wide variety of products at six different locations around Laredo, Texas. In addition to providing storage, LMS arranges for the shipment by rail of such products as steel and aluminum coils, steel and aluminum billets, and gypsum wallboard. About 80% of our traffic consists of northbound shipments of products manufactured in Mexico, while the balance involves southbound movements. I would estimate that LMS currently sends and receives between 120-150 carloads of products a month.

As someone whose business depends heavily on quality rail services, I take a major interest in developments across the railroad industry. About five or six years ago, LMS opened a transload facility on the Tex Mex to expand our business. The intention was that shipments to or from this facility would move via the Tex Mex and then interchange with SP. However, we frequently encountered service problems with the SP. The SP seemed to me a poorly run railroad, and I felt frustrated by its broken promises, unresponsive customer service, and lack of equipment. Faced with this unreliable rail service, LMS constructed an alternate transload, only five or six miles away from the original but located on the UP line.

Therefore, when I learned of the proposed UP/SP merger, I was quite interested to see what benefits it could hold for LMS and shippers in the Laredo area. As I wrote in a 1995 Verified Statement, I hoped that through the merger LMS would see more efficient and responsive railroad service to our Tex Mex transload location, as well as a level of competition between railroads that would keep Union Pacific "on its toes."

Now, two years into the merger, I am happy to report that both railroad efficiency and competition have been strengthened in the Laredo area. I urge the Board not to make any changes that would jeopardize the progress I have already seen. For example, by using a combination of UP and former SP lines, UP/SP has provided new, more efficient opportunities for LMS rail traffic. Under SP, we had few opportunities to ship northbound and nothing heading west. Now the merged UP can offer LMS better single-line alternatives to previously served destinations and entirely new opportunities, such as the westbound movement of steel coils. UP/SP has been able to provide us with more efficient rail possibilities than we had before, and we would not have enjoyed these benefits without the merger.

LMS is also benefiting from aggressive competition between UP/SP and Tex Mex/BNSF, as each strives to take the other's traffic with offers of better rates and improved service. Although
LMS sends 100-120 cars a month to and from the UP transload and only 20-30 from the Tex Mex, this is not an indication of BNSF’s weakness as a competitor. To the contrary, BNSF has been very aggressive in trying to draw our business away from UP, and on several occasions they have talked about expanding the Tex Mex shipments. LMS may not yet have shifted the bulk of our traffic over to Tex Mex/BNSF, but I am certain that BNSF’s aggressive competitive presence has kept UP’s feet to the fire and resulted in improved service and rail rates. LMS would not have received the benefits of this strengthened competition without the merger.

The aggressive competition between UP/SP and Tex Mex/BNSF looks particularly good for LMS when compared with the competition that Tex Mex/SP provided against UP before the merger. At the time of the merger, I had hoped that SP would be replaced by a more effective competitor, and this has indeed happened. SP had such severe financial and service problems that LMS was forced to build a new transload on the UP line just so that we could have decent rail service. Now LMS can choose between two strong, service-oriented railroad options, each with a more extensive route network and better operating efficiencies than SP alone could offer. Clearly our rail alternatives have improved dramatically.

Over the past year, LMS has been adversely affected by UP’s substantial service problems, and the car supply in particular was tight for a while. However, the necessary equipment is now available, and UP’s service is meeting our needs. We anticipate expanding our UP traffic to 150-200 cars a month, and we are confident that UP will be able to meet our service needs for this large volume of business.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on June 1998.

Bill Hrncir
June 19, 1998

VERIFIED STATEMENT
OF WYN L. DAVEY

on behalf of

THE LUBRIZOL CORPORATION

My name is Wyn L. Davey. I am the Manager of Supply and Distribution for The Lubrizol Corporation, a large manufacturer of lubricants, fuel additives, and chemical preparations with about $1.5 billion in annual sales. Lubrizol produces petroleum products at plants in Deer Park and Bayport, Texas, near Houston, and Painesville, Ohio. My responsibilities include the arrangements for rail service from these plants to points throughout the United States. Our rail traffic is particularly heavy between these plants.

Lubrizol ships about 4,000 carloads of rail traffic a year. Our traffic moves primarily in Lubrizol’s private fleet of 700 railcars. Naturally, with such a heavy volume of traffic, we are very dependent on the quality of our rail service. Lubrizol has therefore watched the progression of the UP/SP merger with great interest, and we are satisfied that the UP is putting forth much effort and resources to eliminate the many problems encountered. We urge the Board not to impose any merger conditions that would interfere with the progress that has already been made.

The merger has also maintained competition for traffic moving to Painesville from Deer Park and Bayport. Before the merger, our Texas plants were served by SP, UP, and BN. Post-merger, we have seen the number of carriers drop by one but the interests of competition has increased. BNSF and UP have been very aggressive in competing for the other’s traffic over this route, and as a high-volume shipper Lubrizol has been the beneficiary.

Lubrizol has taken a hit from UP’s service problems over the past year, but we expect these disruptions to fade as UP gets its affairs back in order. Considering the route efficiencies and the strong price competition that the merger has created, I ask the Board not to interfere with the merger’s progress.

I declare under oath that the foregoing is true and correct. Moreover, I certify that I am qualified and authorized to file this verified statement. Executed on June 19, 1998.

Wyn L. Davey

WLD/drhe
#WLD0680
My name is Karen L. Anderson, I am the Transportation Manager for Pope & Talbot, Inc., Wood Products Division. My responsibilities include managing the transportation function for our five sawmills within the United States and Canada.

Pope & Talbot is a forest products company, with headquarters in Portland, Or. My company owns and operates pulp mills and sawmills in the United States and Canada. We ship approximately 5,000 carloads and 10,000 truckloads of lumber and pulp annually.

We supported the UP/SP merger and still agree that it was a positive merger, particularly for the Southern Pacific. The SP could not compete with the BNSF due to the SP having financial and operational problems prior to the merger. The Union Pacific is providing that competition.

Even though the UP had serious service issues, they have been working them out slowly. The merger has created more direct routes, which should improve the efficiencies on the UP. Some of the service issues are improving and we are hopeful that next year at this time, it will all be in the past.

We are looking forward to more benefits of the merger during the next 12 months. Increased competition between the UP and BNSF, transit times shortened and a railroad that is easy to do business with.

We are confident that the Union Pacific will be strong and healthy in the years to come.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement.

Dated June 24, 1998.

Karen L. Anderson
Transportation Manager
Verified Statement  
of Terry L. Nickens  
Riviana Foods Inc.

My name is Terry L. Nickens. I am the Distribution Manager for Riviana Foods Inc. My duties include the transportation of raw materials and finished products for Riviana's business throughout the United States.

Riviana is one of the largest manufacturers and marketers of packaged and bulk rice. Riviana has a rice mill in Abbeville, Louisiana, which is served by the LDRR. Another Riviana rice mill at Carlisle, Arkansas, is trucking distance to the UP at Brinkley, AR, the BNSF at Pine Bluff, AR, and both railroads in Little Rock, AR. The BNSF's presence in Pine Bluff and Little Rock are due to the merger agreement. We have three packaging complexes for our rice production; one in Abbeville, LA, one in Houston, Texas, on the old SP line, and the other at Memphis, Tennessee, on the IC. Riviana ships packaged rice from Abbeville, Houston, and Memphis to a variety of end-markets throughout the country. We also have it forwarded to distribution warehouses around the country.

While Riviana moves some product by truck, we also rely heavily on rail for the transportation of both bulk and packaged rice. This typically amounts to 1100 railcars or more annually.

In particular, Riviana moves a large volume of bulk rice from our mills at Abbeville and Carlisle to our processing facilities at Houston. As a result of the UP/SP merger, BNSF gained access to our Abbeville plant. Thus, due to the merger, Riviana can take advantage of alternative, head-to-head rail competition between UP and BNSF for the movement of bulk rice from our mills to our packaging and processing facilities. BNSF is also directly competitive with UP for movements of packaged rice from the Abbeville, Houston, and Memphis plants to our end-markets. We anticipate that this competition will intensify in the future as BNSF increases its fleet of equipment to handle food-grade products. This competition between UP and BNSF is an important long-term benefit of the merger for Riviana.

The merger also provides Riviana with improved access to a wider variety of markets. Prior to the merger, Abbeville's direct line routing was limited to a deteriorating Southern Pacific. Now, thanks to the merger, Abbeville can ship direct to points served by what was not long ago, four large railroads (ATSF, BN, SP and UP), and the former Southern Pacific is being upgraded. The expanded reach of the combined UP/SP and BNSF networks gives us substantial opportunities to expand our penetration into different areas of the country, and to improve the efficiency and competitiveness of our distribution system for finished products.

Riviana has suffered with UP's poor service over the past year. This has hurt our business. But we continue to support the UP/SP merger because of the longer-term benefits that Riviana will realize in terms of added competition, better rail efficiency, and expanded route networks to support our business. As UP brings its service problems under control, Riviana expects that it will continue to see important long-term benefits flowing from the merger.

I declare, under penalty of perjury, that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 25, 1998.

Terry L. Nickens  
Distribution Manager
Seneca Foods Corporation

Verified Statement
Of Gene W. Schaetten

On behalf of

Seneca Foods Corporation

My name is Gene W. Schaetten and I am Vice President of Logistics for Seneca Foods Corporation with corporate headquarters located in Pittsford, New York. I have been with Seneca Foods for 16 years and in the food business for close to 30.

Seneca Foods Corporation is a national food processing company with 26 manufacturing plants and warehouses throughout the United States and annual sales in recent years of more than $700,000,000. Seneca Foods specializes in the processing of canned and frozen vegetables (roughly 70% of our business), while frozen apple and grape concentrate and bottled, canned, and frozen fruit juice drinks make up the remainder of current production. In February 1995, we completed the acquisition of the Green Giant Plants from Pillsbury, and this purchase has more than doubled our annual sales volume. In addition to preparing goods to be sold under the Green Giant label, Seneca distributes our own brand labels such as Seneca, Libby, TreeSweet, BlueBoy, and Natures Favorite.

Seneca distributes its products via rail from plants in such places as Geneva, NY, Janesville, WI, Rochester, MN, Montgomery, MN, LeRoy, NY and Buhl, ID, to the Pillsbury network of distribution centers, and a number of company-owned and public warehouses throughout the country. We also ship directly to large grocery customers throughout the country, including Winn-Dixie, Western Family, H.E. Butt, and Grocers Supply. To meet our customer requirements, we require consistent, reliable rail service that will improve our delivery schedules and ensure that there are no stock outages. In addition, we need a consistent supply of quality boxcars to meet our shipping requirements.

Seneca’s dependence on quality rail service and our use of numerous carriers make us very interested in developments affecting the rail industry. I therefore submitted a statement in 1995 supporting the proposed merger between the UP and SP. In that letter, I expressed my hope that the merger would reduce transit times, improve the available car supply, and allow more efficient routing. Now that the merger has been in place for almost two years, I am in a position to revisit my 1995 statement. I am pleased to report that the merger has met many of our expectations, and I urge the board not to impose any conditions that would jeopardize the progress made.
Specifically, we have seen substantial improvement in the rail service from our plants in the Upper Midwest to Texas and other destinations in the Southwest. For example, traffic from our Janesville plant often require routings over three or four different railroads to reach distribution points in Houston and other major markets. The merger creates much more direct and efficient routings from our plants. We have seen reductions of several days’ transit time in movements from Janesville to Houston, as an example, and we have eliminated two or three railroads from the movement. Similarly, we now have a more direct service from the Upper Midwest to the Phoenix market, with a shorter rail route and fewer carriers. These routing efficiencies have reduced our rail costs and will make us more efficient in our end-markets. For instance, our Phoenix freight rates have been adjusted downward to reflect the efficiencies of the more direct route created by the merger. For the first time, we now enjoy equalized freight charges for movements to the entire Houston area, whereas before the merger our rates were higher for suburban destinations because of the need to involve an additional railroad in the movement. These important benefits from route consolidation and greater routing efficiencies would not have occurred without the UP/SP merger.

Of course, Seneca has had to deal with our share of UP service problems over the past year, and I am none too happy about them. During the initial consolidation, Seneca did have to move freight from the railroad to trucks due to the transit times during this period. With these lengthy transit times and a truck shortage, Seneca Foods did experience delays in getting product to our customers. I am pleased to note that the worst service problems appear behind us, and UP’s directional running in particular has improved the service to Texas. I look forward to many more benefits as the merger is further implemented, and I would not want the board to do anything now that would knock us off track.

Gene W. Schaetten
June 24, 1998

To: Whom It May Concern:

I am writing this letter in support of the UP/SP merger.

While the service disruptions of the past nine months have been expensive and troublesome, the advantages of the merger, as seen by TVA, greatly outweigh these problems. TVA’s deliveries of “western coal” have grown from 0 to 10 million tons over the past four years. This growth began with the Southern Pacific origins in Colorado and Utah providing deliveries to plants on the western edge of the TVA system. Since the merger, these coals along with PRB coals, have spread throughout the TVA Generating System.

The major aspects of the merger from which TVA has benefited are as follows:

- The primary benefits of multiple coal source options from a combined system, along with multiple single system destination points, have provided TVA with new efficiencies and options not possible before.

- The merger brought new and improved single-line service, enhanced route and operating efficiencies, expanded equipment fleet, and enhanced competition between the UP/SP and the BN/SF.

  Example: The merger provided for a more efficient route across southern Illinois, providing the opportunity to lower the rate and increase the shipments of Colorado origin coal to the Shawnee Fossil Plant in Paducah, Kentucky, and the GRT Terminal in Grand Rivers, Kentucky. This again lowered delivered fuel prices for TVA, and it caused the BN/SF to become much more aggressive in efforts to win TVA business. Because of their more aggressive attitude, they recently won the contract for delivery of western coal to the TVA Paradise Fossil Plant in Drakesboro, Kentucky.

- There have certainly been service disruptions over the past year, but TVA expects that these problems will pass. Over time, service should continue to improve as UP continues to invest capital in places like the KP line and new connector tracks in Denver.
In summary, despite TVA’s initial reservations about the merger of the SP and the UP, we are now convinced that the merger is in the best interest of the railroad industry.

Sincerely,

[Signature]

Richard P. Rea
Manager
Fuel Acquisition and Supply
VERIFIED STATEMENT
OF
PATRICK L. GONDA
on behalf of
MINNESOTA MINING AND MANUFACTURING COMPANY (3M)

My name is Patrick L. Gonda. I am the Senior Rail Specialist in Corporate Logistics for Minnesota Mining and Manufacturing Company (3M), 3M Center, St. Paul, MN 55144-1000. 3M manufactures over 50,000 various products in 34 states and in more than 60 countries. The product primarily shipped in rail covered hopper cars is colored roofing granules. 3M is the largest producer of colored roofing granules in the United States. The granules ship to our customer's rail served plants all over the country, including Texas, Kansas, California and North Carolina.

As Senior Rail Specialist, I am responsible for all aspects of rail transportation at 3M. I have been with 3M for over 18 years with increasing levels of responsibilities in Corporate Logistics.

While there have been significant service problems throughout Union Pacific Railroads' (UP) system, 3M remains very supportive of the UP-SP merger. The congestion problems seem to be easing and the directional flow of traffic between Missouri and Texas involving outbound carloads out of our Little Rock, AR granule plant was a good decision on UP's part.

The merger has established a competitive situation between UP and BNSF at our Little Rock, AR granule plant. This was not the case when SP was the competition. SP always seemed to be teetering on the edge financially and operationally. SP really needed UP's resources to rescue a very bad situation.
3M feels there is no need to impose further conditions on the UP-SP merger. We will continue to see additional benefits as the merger is more fully implemented, including improved covered hopper availability, more single-line service and a stronger customer service commitment.

I, Patrick L. Gonda, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am authorized to file this verified statement.

Executed on June 29, 1998

Patrick L. Gonda
Senior Rail Specialist
MINNESOTA MINING AND MANUFACTURING COMPANY (3M)
My name is Louis R. Mastandrea, I am Vice President/Distribution for Unimin Corporation, whose world headquarters are at 258 Elm Street, New Canaan, Connecticut 06840.

Unimin Corporation is a multi-national industrial minerals company with facilities throughout the United States, and affiliates in Canada, and Mexico as well as Europe. Unimin will ship on a world-wide basis approximately 15 million tons of product in 1998. Our transportation freight costs exceed 100 million dollars per year.

As a supplier to a number of industries such as the glass, automotive, semiconductor, foundry, and ceramic industries, rail plays a significant role in the supply chain to our customers. Unimin Corporation uses the services of the UP Railroad on both an inbound and an outbound basis at a number of our facilities.

Specifically, we will originate or receive traffic on the UP (or through short line connections with the UP) at Guion, AR., Ottawa and Kasota, MN., Belvidere, IL., Troy Grove, IL., Byron/Lathrop, CA., and Emmett, ID. Our company and its affiliates also import and export products from Canada and Mexico in which the UP participates in the routings.

The issues relating to the merger of the Union Pacific and the SP have been well documented. As one of the largest industrial mineral shippers on the Union Pacific, we have been successful in achieving our distribution and logistics objectives when UP service has been reliable. Conversely, when UP service has fallen out of standard, both our own primary shipping facilities, as well as those of our customers suffer significantly. Our observations are that there have been selected improvements in the service levels provided by the UP since their nadir periods in 1997.

We can specifically point to improvements that have been made on traffic originating from our Guion, AR. plant to markets in the southeast and the southwest. Also we have noted that service from our upper midwest facilities to the Gulf coast have also stabilized significantly.
The challenge for the Union Pacific will be to improve on transit performance, primarily on the west coast where service has not returned to pre-merger levels. While we are well aware of the various operational and technical modifications necessary to implement the merger of two large rail systems such as the UP and the SP, the current more cautious approach towards implementation of some of these plans has clearly aided the UP in its recovery. When the Union Pacific has hit a level of service consistency, then UNIMIN and UP may be able to commence on some of the strategic service initiatives and benefits which should be inherent in this merger.

In UNIMIN's opinion, the capacity for achieving this success is well within the grasp of the Union Pacific. Unimin Corporation looks forward to participating in these programs.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on June 17, 1998.

Louis R. Mastandrea
Vice President, Distribution
VERIFIED STATEMENT
OF KENNETH S. FLETCHER
VOLKSWAGEN OF AMERICA, INC.

My name is Kenneth S. Fletcher, and I am employed by Volkswagen of America. Volkswagen is a major producer of automobiles in Europe and has a retail presence in North America. In addition to imports from Europe, Volkswagen has a manufacturing plant at Puebla, Mexico, that produces finished vehicles and parts for the North American market.

We rely on rail service to move substantial volumes of traffic from our Puebla plant to Houston and onward to points throughout the United States. The automobile industry is time and service sensitive. We must have reliable and efficient rail service to support our business.

For Volkswagen, the principal benefit of the UP/SP merger was that it created two highly efficient, integrated rail systems that can compete for our business that are capable of serving destinations for our traffic throughout the country. We expect to gain the benefits of head-to-head competition between UP and BNSF for many years. Some benefits still lie ahead, as UP/SP more fully implements the merger and we have the opportunity to take advantage of competition between UP and BNSF.

BNSF has already shown that it will compete aggressively for our business. Since the merger, UP has been moving finished vehicles in single-line service from Laredo to Houston and then on to Seattle, Chicago, and other points. Within the past few months, BNSF and Tex Mex succeeded in out-bidding UP for our Laredo to San Diego traffic. The traffic is now moving via Tex Mex from Laredo then via BNSF to San Diego. This is a competitive option that we did not have available before the UP/SP merger, and it is a good sign of opportunities that lie ahead for Volkswagen as an out-take of the merger.

Volkswagen continues to support the UP/SP merger and opposes conditions that would undermine its benefits.

I declare under penalty of perjury that the foregoing is true and correct and that I am authorized to file this verified statement. Dated June 26, 1998.
PUBLIC BODIES
June 24, 1998

Mr. Vernon A. Williams, Secretary
Surface Transportation Board
Mercury Building, Suite 700
1725 K Street, N.W.
Washington, DC 20423-0001

Dear Mr. Williams:

The purpose of this letter is to provide our input concerning the merger of the Union Pacific (UP) and Southern Pacific (SP) railroads. Our overall experience has been positive for the post-merger benefits which have accrued for intercity rail passenger service in California.

The California Department of Transportation (Caltrans) provides operating assistance for three intercity passenger routes including, the Capitols, the San Diegans and the San Joaquins. A portion of all three routes utilize UP tracks. Caltrans also provides considerable capital funding for track, signal and station improvement projects. We have established a good working relationship with UP management and have found them to be very cooperative concerning the implementation of state-funded capital projects. We have found UP management to be much more responsive to Caltrans concerns than SP management before the merger.

Since the merger we have received UP assistance in expediting track and signal upgrades on the Coast Route where the San Diegan trains are operated by Amtrak. This line had experienced slower operating speeds due to years of deferred maintenance under SP. Recently, UP has completed the design work for the first phase of this $34 million project and we anticipate that construction of the track and signal work will begin shortly. This past winter, the Coast Route was hit by severe storms causing mud slides, track washouts and the loss of a bridge in two different counties. Using its own resources and by working seven days per week and overtime, UP was able to restore the San Diegan trains much sooner than expected. Recently, we have also seen an improvement in on-time performance of the passenger trains on this route.

Concerning station projects, UP has been very cooperative in facilitating completion of track work associated with two new passenger stations and a train layover facility in Santa Barbara County. We are pleased with the response UP has provided since we project that each of the new stations will generate significant revenue and ridership for the state-supported San Diegans. UP has also facilitated the start of passenger service to new rail stations in Placer County, and the extension of the Capitols from Roseville to Colfax.
Also since the merger, UP has completed the $57 million upgrade to the line served by the Capitols. The track and signal system improvements between Sacramento and Oakland have allowed the running times to be reduced by an average of 20 minutes. This will make rail passenger service more competitive with auto travel on the congested I-80 route which parallels the UP-owned tracks. Additionally, UP contributed approximately $13 million for the completion of this project.

Overall, we believe the merger has benefited passenger rail service in California, and many of the UP-Caltrans cooperative projects will result in continued public benefits such as faster trains, increased frequencies and improved schedule reliability.

Sincerely,

Original Signed by

WARREN WEBER
Rail Program Manager

bc:  DOR Files - Union Pacific
     Gil Mallery, Amtrak
     KBosanko, BT&H
     AHendrix
     Larry Smith, UPRR
     Linda L. LeCraw
     Covington & Burling
     WW Weber
     CBomar
     PMerrill
     SZimrick
     KGalt
     MPaul
     Merrill/Williams/merger(x):ja
June 24, 1998

Vernon O. Williams, Secretary
Surface Transportation Board
1925 K Street, NW
Washington, D.C. 20423-0001

Re: Finance Docket No. 32760 (Sub. No. 21)
Oversight Proceeding

Dear Secretary Williams:

This letter is written to relate the progress of a major intermodal railport project in our area by the Union Pacific Railroad Company. This venture was planned as a result of the merger with Southern Pacific Railroad.

This major state-of-the-art project in Marion, Crittenden County, Arkansas, began in the spring of 1997 and is nearing completion for initial operations. Some $65 million will have been spent and final development will reach $85 million and cover nearly 620 acres. As you might imagine, this will dramatically impact our rural area, some 15 miles west of Memphis, Tennessee. Following the merger, Union Pacific planned this rail facility to handle the anticipated business growth due to the merger and because of limited capacity in their existing terminals at Memphis.

The positive economic impact will be significant in our area and to the state of Arkansas. A fiscal analysis of this Union Pacific project indicates a benefit of $536 million over 10 years and some $33 million in taxes to various jurisdictions. This project was made possible by the cooperation of local governments and the state of Arkansas working with Union Pacific and will act as a stimulus to locate future industrial enterprises in our area and throughout Northeast Arkansas.

The railport is centrally located and will conveniently link up with major markets. Warehouse distribution, light manufacturing and freight forwarding facilities are anticipated to develop due to this project, producing more jobs, taxes and economic benefits. We are pleased that the merger has produced this vital investment in our area and that it will further strengthen our rail transportation system, as we are also served by a Burlington Northern Santa Fe line. Union Pacific’s investment in Arkansas and in this region recognize our strategic position for additional
business expansion opportunities. We look forward to future expenditures by Union Pacific as it enlarges its presence in this area and provides employment opportunities for our people.

Thank you for allowing me to comment on this very favorable development as a result of the merger of these two railroads.

Sincerely,

[Signature]
Frank A. Fogleman, Mayor

[Signature]
Frank G. Barton III, Recorder/Treasurer
June 29, 1998

City of Phoenix
OFFICE OF THE CITY MANAGER

Mr. Vernon A. Williams, Secretary
Surface Transportation Board
Mercury Building, Suite 700
1725 K Street, N.W.
Washington, D.C. 20423-0001

Re: Finance Docket No. 32760 (Sub. No. 21)

Dear Mr. Williams:

I am the Deputy City Manager of Phoenix, Arizona, and I am writing to explain how Phoenix and the surrounding area have benefitted from the UP/SP merger.

Phoenix, Tempe, Mesa, Glendale, and the Regional Public Transportation Authority (RPTA) are completing two Major Investment Studies (MIS) sponsored by the Federal Transit Administration (FTA). These studies have recommended that in the Central Phoenix/East Valley (CP/EV) area, a light rail transit (LRT) alternative be established on alignment options including the Union Pacific Railroad right-of-way. In the city of Tempe, the abandoned UP Creamery Branch is the primary LRT alignment option. This would connect downtown Tempe, Arizona State University, and Tempe residential neighborhoods. All of the aforementioned rail line was formerly owned by SP. We are thankful that this route was acquired by UP through the merger, because UP has been extremely supportive of our endeavor.

The UP has been involved in the MIS study since its inception, and UP representatives have been cooperative with all requests. Whenever we have asked, UP representatives have attended meetings and arranged tours of the UP right-of-way. UP staff has also provided invaluable special event support for events that we have sponsored through partnerships with the local business community, local cities, local chambers of commerce, and Amtrak. These events have demonstrated to the community the benefits of transit. Without the UP’s support, these events would not have been successful.

As we advance from planning to implementation, we look forward to working with UP, because UP has shown such a commitment to serving the communities in which it operates. We are grateful that the merger has enabled us to work with a railroad that is so responsive to our needs.

Sincerely,

Jack Tevlin
Deputy City Manager

c: Leslie Rogers, FTA
Mary O’Connor, City of Tempe
Timothy Hester, Covington & Burling
CITY OF PINE BLUFF, ARKANSAS
OFFICE OF THE MAYOR

JERRY TAYLOR
Mayor

June 24, 1998

Mr. Vernon O. Williams, Secretary
Surface Transportation Board
1925 K Street, N.W.
Room 700
Washington, D.C. 20423-0001

RE: Finance Docket No. 32760 (Sub. No. 21) - Oversight Proceeding

Dear Secretary Williams:

As a result of the recent merger of the Union Pacific/Southern Pacific Railroads, we have benefited from a community assistance program from Union Pacific in the form of Union Pacific Foundation grants to several non-profit organizations in Pine Bluff that make a valuable contribution to our city with their programs and services.

Due to the serious financial condition of the Southern Pacific (Cotton Belt in our area) it was unable to support any of our community organizations, despite its large size in our area. Union Pacific’s acquisition of the Cotton Belt made it possible to obtain grants from Union Pacific Foundation for the Girl Scouts Council, Pine Bluff Girls and Boys Club, Arts and Science Center, Pine Bluff Symphony, Pine Bluff/Jefferson County Historical Museum, Pine Bluff Beautification Commission and a significant contribution to the United Way.

We applaud these grants by Union Pacific and their strong sense of community involvement. The merger of these railroads has provided a vital new source of financial support for beneficial community programs in addition to strengthening the railroad presence in Pine Bluff that was in a perilous condition prior to the merger.

Pine Bluff is now a “hub” in Union Pacific’s new directional running operations that will improve efficiency of operations and has generated some new jobs recently in our city, and well in excess of 100 new employees have been hired here in 1998. With Union Pacific’s commitment, we view, with optimism, the railroad presence in our area, despite some early operational problems in the merger implementation stage. We are encouraged by Union Pacific’s new community involvement in Pine Bluff. Its economic strength bodes well for our citizens and for the long-term health of rail service in our region.

I appreciate the opportunity to express my views on the merger and the positive impact it has on our community.

Sincerely

Jerry Taylor
Mayor

200 EAST EIGHTH AVENUE / PINE BLUFF, ARKANSAS 71601 / TELEPHONE (870) 543-1855 / FAX (870) 543-5198
June 19, 1998

Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, DC 20423-0001

Re: Finance Docket 32760 (Sub. No. 21) - Oversight Proceeding

Dear Mr. Williams:

I am writing to comment on progress made in implementation of the Union Pacific/Southern Pacific merger, for the Board to take into account as it continues its Oversight role. As you may recall, Illinois supported the merger, primarily due to concerns over the future of Southern Pacific if it tried to continue on its own. That railroad was tottering on the edge of the abyss.

We are happy to report that things have gone well in Illinois with regard to merger implementation. The Union Pacific has been excellent to work with, and has provided our state with good overall rail freight service. The cooperative attitude of UP personnel and management in developing joint projects - from grade crossing improvements to greatly expanded grain siding capacity projects to Positive Train Control - has been a delight for us.

That last topic bears greater explanation. Since 1994, Illinois DOT has had funds available to develop and demonstrate a system of Positive Train Control on the Chicago to St. Louis corridor owned first by Southern Pacific, then Union Pacific. This corridor is our main rail passenger route now, and represents Illinois' intended high speed rail corridor. It was recognized as such by the US DOT through designation as a prospective high speed rail corridor under Section 1010 of the Intermodal Surface Transportation Efficiency Act. Unfortunately, we could not gain the active cooperation of Southern Pacific in the project, despite the obvious benefits to both freight and passenger transportation.
Now that Union Pacific has taken over, however, we have made excellent progress. At the suggestion of Union Pacific, the Association of American Railroads has now become a participant - pledging $20 million of member road funds - in the project, with Union Pacific allowing use of this corridor as a national testbed for this new technology to prevent train-train collisions and overspeed derailments, and to protect roadway workers on track.

Similarly, Union Pacific has been enthusiastically cooperating in our efforts to provide a series of major grain load-out facilities up this corridor (in Elkhart, Bloomington, and Pontiac to start). Each will be able to load out 75-car shuttle trains in 15 hours from receipt of the empty cars. These projects, funded by State loans and with UP technical cooperation, in-kind donations and provision of the mainline switches, will earn our farmers up to 10 cents per bushel more for their grain (more than double their profit margin) while allowing UP to better handle car supply and the flow of grain. Such cooperation was not available from the Southern Pacific.

We are well aware of the service problems Union Pacific has encountered elsewhere, and have experienced some temporary service problems of our own on occasion. In no case have we seen anything at all to compare with what we fully expected to occur had the Southern Pacific continued unmerged, however. Things could have been even worse, and at least now they are improving, and we have confidence in the willing and capable people at Union Pacific in their efforts to implement the merger and move on. Thank you for this opportunity to comment on the merger implementation.

Sincerely,

Merrill L. Travis
Chief,
Bureau of Railroads
June 23, 1998

Mr. Vernon O. Williams, Secretary
Surface Transportation Board
1925 K. Street, N.W.
Room 700
Washington, DC 20423-0001

RE: FINANCE DOCKET # 32760 (Sub.#21)
Oversight Proceeding

Dear Secretary Williams:

I am a State Senator in Louisiana representing the 21st District. I am writing this letter to express my views on a very positive impact in my area due to the Union Pacific/Southern Pacific merger previously approved by your board.

I have represented my area for over 22 years in the state legislature and this railroad in southern Louisiana (from Avondale to Lake Charles) was previously operated by the Southern Pacific. Since the merger, all kinds of improvements have been made on this line, including extensive replacement of railroad ties, new signals, new railroad crossings and right of way clearances. I discovered that additional significant improvements have been made with new switches in Avondale, new railroad sidings in the Lake Charles area and over $19 million has already been spent on this line. These investments no doubt contribute to rail efficiency and should be a positive factor in safe train operations, which has always been a concern here.

Through the merger, our area now has two major railroads serving our economy (Union Pacific and Burlington Northern Santa-Fe) instead of just a struggling Southern Pacific. This should prove to be a great competitive benefit of the merger. There have been some service-related problems since the merger, but due to the investments and improvements in the railroad these should be temporary. We remain confident that the stronger railroad will provide the long-term service benefits that the Southern Pacific was unable to do on its own.

Thanking you, in advance, for the opportunity to convey my thoughts on the benefit of the Union Pacific-Southern Pacific merger in my area.

I remain,

Sincerely,

John Siracusa
State Senator
District 21
Verified Statement of
Robert Cabral
San Joaquin Regional Rail Commission (SJRRRC)

My name is Robert Cabral. I am Chairman of the San Joaquin Regional Rail Commission.

San Joaquin is one of the three (3) California counties which the planned Altamont Commuter Express (ACE) will pass through on its route from Stockton to San Jose. This new commuter line will use Union Pacific tracks. I have been involved will every phase of the planning process for ACE, and have worked closely with Union Pacific representative. The Union Pacific/Southern Pacific merger has been of significant benefit to us in this project, and I am therefore writing to express my support for the merger of the two railroads.

The route of the Altamont Commuter Express is along lines of both the former Union Pacific and Southern Pacific systems. Before the Union Pacific/Southern Pacific merger, we worked with representatives of both railroads trying to establish the new commuter line. Southern Pacific was not supportive of the project, while Union Pacific had been in total agreement. Following the Union Pacific/Southern Pacific merger, we have been able to push this project forward in a way that would not have been possible without the merger. Union Pacific’s representatives have been far more cooperative and accommodating than Southern Pacific had been in the planning phase of this project. Thanks largely to Union Pacific service scheduled to begin this coming fall.

Union Pacific’s willingness to facilitate the development of the ACE reflects well on its commitment to service in the communities where it will be operating. Union Pacific has shown a dedication to this project making rail service work efficiently and effectively. We see Union Pacific’s merger with Southern Pacific as an important opportunity to ensure that Southern Pacific’s valuable rail franchise is put to its best possible use.

I declare under penalty of perjury that the foregoing statement is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Dated this 26th day of June 1998.

Robert Cabral
Mr. Vernon O. Williams  
Secretary, Surface Transportation Board  
1925 K Street, N.W.  
Room 700  
Washington, DC 20423-0001

Re: Finance Docket No. 32760 (Sub. No. 7); Oversight Proceeding

Dear Secretary Williams:

The purpose of this letter is to describe a very concrete way in which the UP/SP merger has benefited Texas A&M University. For many years, a Union Pacific rail line has run directly through the campus of Texas A&M University. This line, which connects Bryan and College Station, runs immediately beside the Aggie football stadium and in the vicinity of the newly opened George Bush Presidential Library and Museum. The University has sought for many years to re-route the rail line to avoid this troublesome divide in the heart of our campus.

Since the UP/SP merger, UP has expressed a willingness to undertake such a rerouting, by creating a detour route. The merger has created an opportunity to address this longstanding problem by a combination of the former UP and SP lines in the area, and UP has shown itself open to pursuing this opportunity. Of course, the opening of such a detour route will require funding and community approval, but we are optimistic because of UP's cooperative approach that these efforts will bear fruit.

Although we are aware that there have been some problems in UP's service since the merger, we are confident that the benefits of the merger will outweigh the inconvenience caused by these transitional difficulties. UP has demonstrated its commitment to resolving temporary difficulties associated with the merger, and to working with the communities that it serves through such projects as rerouting a rail line around Bryan and College Station. We believe this reflects UP's commitment to make the merger a success.

Sincerely,

Ray M. Bowen
Mr. Vernon Williams, Secretary  
Surface Transportation Board  
1925 "K" St., N.W., Room 700  
Washington, D.C. 20323-0001

RE: Finance Docket No. 32760 (Sub. No. #21)

Dear Mr. Williams:

Tri-Met, the Portland area’s Transit Agency, has built and is expanding a light rail network throughout the region.

Beginning in the early 1980’s and again in 1994, Union Pacific management was instrumental in overcoming right of way impediments by facilitating shared corridor solutions. With the Banfield line (15 miles) in operation since 1986, and the Westside extension (18 miles) scheduled to open this September, the Agency has now focused on a South/North project expected to eventually reach a length of 35 miles.

The ongoing cooperation from Union Pacific management both here and in Omaha has factored into Tri-Met’s alignment decisions that anticipate further use of shared transportation corridors. The consolidation of Union Pacific and Southern Pacific has resulted in improved responsiveness from the railroad as Tri-Met seeks to plan service extensions that benefit the citizens of the region. These improvements have been welcomed.

We have every confidence that the "partnership approach" of Union Pacific and Tri-Met to transportation solutions, will be of benefit to the railroad and transit riders.

Please advise if we can be of further assistance.

Cordially,

Tuck Wilson  
Executive Director

June 23, 1998
June 22, 1998

Mr. Vernon Williams, Secretary  
Surface Transportation Board  
1925 K Street, NW, Room 711  
Mercury Building  
Washington, DC 20323-0001

RE: Finance Docket No. 32760 (Sub. No. 21) - Oversight Proceeding

Dear Mr. Williams:

I am the Mayor of Towanda, Illinois, a small town of 600 people on a former Southern Pacific line. I am writing to comment on the progress of the Union Pacific/Southern Pacific merger.

Towanda is located on the former SP line between Chicago and St. Louis. Over the years, this line has been owned by several other railroads. All of the former railroads were unresponsive to our concerns with railroad operations and never worked with us or addressed our concerns.

This has all changed for the better. Recently, we have had two fatal crossing accidents in our town. The Union Pacific has been working with us to make our crossings safer and, hopefully, prevent other accidents.

Union Pacific representatives have come to Towanda; and working together, I believe we will make our town a safer place. The Union Pacific has been more responsive to Towanda than all of the previous railroads combined, and we are very glad the UP/SP merger was approved.

Sincerely,

John P. Jenkins  
Village President

cc: Linda Le Craw
RAILROADS
My name is David Burleson, and I am General Manager of Acadiana Railway Company, Inc. a short-line in south Louisiana. The Acadiana operates 63 miles of track and 27 miles of Joint Trackage on U.P. We handle traffic such as aggregates, edible oils, carbon black, and Union Tank Car a home shop facility. These are our primary customers. We move approximately 6,700 car loads annually.

Before the UP/SP merger, the Acadiana interchanged with the SP at Crowley, Louisiana and the UP at Eunice, Opelousas, Bunkie and Lawtell, Louisiana. Through the merger we were able to add Port Barre, Louisiana as an additional UP/SP interchange and also another carrier with the BNSF at Crowley, Louisiana.

UP/SP merger creates important opportunities for our customers to ship products to and from a significantly expanded range of points. We now connect with two (2) extensive single-line networks, with much broader reaches than either UP or SP could offer before the merger. This creates long-term opportunities for our customer base. Post-merger, UP and BNSF offer them more efficient and cheaper connections with the Acadiana. We are confident overtime that our shippers will see substantial gains from the enhanced route network created by the UP/SP merger.

Some of our customers are already realizing benefits from the more direct routings created by the merger. One example Helena Chemical Company which transport fertilizer to the Acadiana at Crowley, Louisiana.
Before the merger, Helena's routing for this traffic was delayed due to interline connections, which resulted in costly delays. The merger created a much more direct route for this traffic and we have seen an increase in volume that we transport for Helena.

We have also seen gains in efficiency and customer service due to the merger. This has given many of our customers more direct access to the Acadiana, and has therefore lowered their rates.

Service has been a problem with UP over the past year. But in those cases where service problems have arisen, UP has responded swiftly to address them. For example, following the merger, the municipality of Opelousas, Louisiana experienced an increase volume of rail traffic, which inhibited the Acadiana's ability to access UP's main-line for interchange purposes at Opelousas, Louisiana. UP responded by re-routing traffic to a yard at Port Barre, Louisiana, thereby cutting down on switching time and allowing additional tracks to hold the large volume of traffic, which allowed a more efficient service to our customers.

The Acadiana Railway Company, Inc. continues to support UP/SP merger. We feel that the merger will have a positive impact on the rail industry.

I declare under the penalty of perjury that the foregoing is true and correct, and that I am qualified and authorized to file this verified statement.

Executed on June 30, 1998

David Burleson

David Burleson
VERIFIED STATEMENT
OF DAVE DONOLEY

on behalf of

ARKANSAS-OKLAHOMA RAILROAD COMPANY

I am Dave Donoley, the President and Chief Executive Officer of the Arkansas-Oklahoma Railroad Company, based in Wilburton, Oklahoma, on what used to be the old Rock Island line. Coal shipments account for about 80% of the traffic along our track, with plastics and feed making up most of the balance. In recent times we have moved about 3,000 to 3,500 railcars a year, and since the merger we have also provided switching and storage services for another 500 or so cars owned by UP. As a short-line railroad, the A-OK is extremely dependent on the quality of rail service provided by the bigger carriers. When they are moving traffic quickly and efficiently, so are we. Every shipper benefits from a smoothly functioning rail network.

Put simply, the UP/SP merger has been great for our business. The main benefit has been that the UP rail system has much more efficient routing than the old SP network. In a situation where there used to be multiple carriers involved with one rail movement, we now have single-line UP hauls available. I can’t exaggerate the difference these new single-line routes have made. Instead of fragmented routes where every carrier demanded its own piece of the pie, a shipper now has one smooth transition from us to UP, at considerably lower freight rates. When rates drop for shippers, traffic increases. That is good news for A-Ok.

Increased traffic hasn’t been the only merger-related benefit, either. With UP’s tracing system, a capability that the old SP never had, I can track cars heading toward my short-line from points anywhere on the UP network. In the old days I was riding blind, never knowing just when an SP train would show up. UP’s tracing system allows for better planning and smoother transitions. My customers really appreciated that.
Things are good right now for A-OK, and I expect that as the merger gets further implemented, they will become even better. UP’s marketing people have really stepped up to the plate in this regard, asking me to estimate rates for rail traffic to several markets we don’t currently serve. Shipping wood to the West Coast is one example. UP has been very aggressive in trying to drum up new business for the A-OK, and as far as I am concerned, if they can get us the customers, we can handle the traffic.

I know that shippers down in the Houston area have had some service problems over the past year. But I expect that situation to improve as the merger gets further along. The bottom line is that the UP/SP merger has been great for the A-OK and the customers who depend on us. I wouldn’t want the Board to do anything that interferes with the progress we have all made.

I declare under oath that the foregoing is correct and true. Moreover, I certify that I am qualified and authorized to file this verified statement. Executed on June 23, 1998.

Dave Donoley
My name is S. Steven Smola, President of AT&L Railroad, 501 Russworm Drive, Watonga, Oklahoma, 73772. AT&L serves the grain industry in Western Oklahoma. Grain from our system goes to many export destinations at the Texas Gulf and to flour mills in the continental United States.

We feel that the added SP destination of the UP Railroad will be a great advantage to us.

We have not been pleased with the service at the Gulf export terminals but we see this service getting better each week. UP has been keeping us posted on progress and has worked with us to keep trains moving through a very busy grain season of July 1997 through May 1998.

Beginning June 1, 1998 a new harvest season has begun in Western Oklahoma with one of the biggest crops in ten years. The AT&L Railroad with the support of Union

"The Wheat Line Railroad"
(CONNECTING WITH THE UNION PACIFIC RR AT EL RENO, OK.)
SERVING: WATONGA, GREENFIELD, GEARY, CALUMET AND BRIDGEPORT, OKLAHOMA
Pacific has shipped five unit 100 car trains in the first 19 days of June. This has taken a lot of cooperation on the part of UP & AT&L.

The UP & SP merger has opened many new markets for wheat to flour mills in many additional destinations at competitive rates.

We see no need to impose further conditions on the merger of UP & SP. AT&L has seen considerable benefits from this merger.

We would oppose the imposition of new conditions that would jeopardize the UP & SP efforts to implement this merger.

I, S. Steven Smola, declare under penalty of perjury that the foregoing is true & correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed on June 19, 1998

S. Steven Smola
President
AT&L Railroad
My name is David L. Parkinson, Chairman and Chief Executive Officer of the California Northern Railroad Co. I am also Vice President and a Director of the California Short Line Railroad Association, which represents 20 California short line railroads.

I founded California Northern Railroad in 1993. It is comprised of several rail segments that were formerly part of SP’s lines in California, including the line between Lombard and Suisun/Fairfield, SP’s former Napa and Vallejo branch lines, the former West Valley line between Davis and Tehema and the West Side lines between Tracy and Los Banos.

Measured by the number of cars handled and annual revenues, California Northern is the largest California short line. In the most recent year, California Northern handled 37,000 carloads. Principal commodities that originate on our lines include tomato paste in bulk from producers such as Hunt Wesson, short grain rice from rice mills in the Sacramento Valley, beer from the Anheuser Busch brewery at Fairfield, flour from the General Mills plant in Vallejo, frozen foods, finished pipe and municipal solid waste. Inbound products include steel, lumber from the California North Coast and Pacific Northwest regions, feed grains from points in the Midwest and chlorine from the Gulf Coast and Canada.

Since the UP/SP merger, California Northern has seen some benefits for its operations flowing from the expanded route structure and single-line service capabilities of the combined UP/SP system. The merger has allowed us to access geographical areas that the SP did not previously serve, such as grain producing points in Idaho, Montana and the Midwest. For example, Idaho grain moving inbound to the General Mills flour mill at Vallejo can now be handled in a two-line UP-California Northern haul. The Anheuser Busch brewery in Fairfield has benefited with the elimination of a switch between the UP and SP at its distribution center in Portland. Napa Pipe Company has benefited from new single-line service from some of its long distance pipe moves, and local lumber customers sourced by certain Pacific Northwest mills have also been aided by new UP routes.
These benefits have been less than they could have been due to UP's extensive service problems and the fact that the TCS cutover in the Far West is still to come. But, I expect in the coming months and years that we will realize more merger-related opportunities from the combination of the former SP and UP routes.

We look forward to further efficiency and service improvements once UP/SP completes the overhaul of the Roseville yard. This will serve as a state-of-the-art classification center. It is doubtful that the SP could have afforded to rebuild this yard with their limited financial resources.

One merger-related benefit that shippers in the West have already seen is BNSF's aggressive competition for UP traffic. Particularly in the I-5 corridor, BNSF has gone after common business opportunities. The competition that BNSF has mounted against UP has helped shippers in the West where there is access to both carriers. At the same time, I would note that short lines captive to the UP have suffered lost business over the past year, due to UP's service problems, without recourse to other carriers or financial recompense.

California Northern has been frustrated by UP's service problems over the past year. However, even in the worst of times, I felt the local UP management was and is trying hard to solve problems in a difficult environment. I believe that undoing the merger now would do more harm than good and might bring chaos to the system. There are many important opportunities to be realized from the UP/SP merger. Some have already been achieved, and others lay ahead as UP resolves its service issues and more fully implements the merger in the West. California Northern therefore opposes any change to the terms of the merger.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement.

Executed this 24th day of June, 1998.

David L. Parkinson
My name is Barry S. McClure. I am the Controller for Ironhorse Resources, Inc., which acts as agents for the Rio Valley Switching Company and Southern Switching Company. My business address is P.O. Box 99, O'Fallon, IL 62269.

The Rio Valley Switching Company (RVSC) leases and operates 72 miles of track in Cameron and Hidalgo County, Texas. Our mainline runs west from Harlingen, where we interchange with the UP, to McAllen, ending in the Free Trade Zone. We handle a wide variety of commodities, with building materials, grain, frozen fruits and vegetables, and steel heading the list.

The Southern Switching Company (SSC) owns and operates 9 miles of track in Abilene, Texas, where we interchange with the UP. The primary commodities handled are asphalt, scrap, and beer.

As the Chief Financial Officer, my test for success lies in profitability, which is driven by car loadings, and UP is our only interchange partner. Consequently, we are dependent on UP, and only UP to deliver cars for our short lines. For these two companies, our car loadings are up dramatically from our 1997 volumes. While this increase is due to several factors, UP has been able to maintain the flow of cars to our line to facilitate this growth. Obviously, UP experienced operational problems in the merger. Yet, through UP's diligent effort, we have been working through the problems, and servicing our customers at record levels.
In addition, cars enroute to our lines have declined dramatically over the past two months which would further indicate that the congestion problems are easing.

Lastly, the inherent long term benefits of the UP/SP merger are still in place.

- A financially struggling SP survived
- New and improved single-line service
- Enhanced route and operating efficiencies

The statistics seem to indicate that UP's problems are on the decline, and we see no need to impose further conditions on the UP/SP merger. We look forward to continued growth of our own companies through our close working partnership with a stronger UP.

I, Barry S. McClure, declare under the penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.

Executed this 18th day June, 1998

Barry S. McClure

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-2-
My name is Jerry Montgomery. I am President of the Sabine River & Northern RR, P.O. Box 5000, Orange, Texas 77632. The SRN serves as its major customers two paper mills and a sawmill. We ship paper and lumber across the United States and into Mexico.

As President I am responsible for all phases of our operation. I have been in this position for eight years.

Our railroad is unique as a shortline in that we interchange with four Class I railroads. We have worked closely with the UP, SP, KCS and BNSF for the past twenty-five years.

As a result of the UP and SP merger, our operation has become more efficient. It has freed up the old SP interchange which was underutilized. We now use this trackage for car storage which is revenue producing for us. Additionally, the directional running of trains by the UP has resulted in much less congestion at the UP interchange.

Boxcar supply has been good. Historically, we have looked to the UP for empty cars. Other Class I railroads simply do not have enough cars to meet our demand. Since the merger UP personnel have been in contact with us almost on a daily basis. Delivery
problems have been few and certainly less than with the BN and SF merger. The UP continues to make progress and we are very optimistic about the long term results.

In our view, no further restrictions should be placed on the UP and SP merger. The UP has already demonstrated that they are capable and determined to make the merger beneficial for the shipper and the nation as a whole.

I, Jerry Montgomery, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am authorized to file this verified statement. Executed on June 18, 1998.

Jerry Montgomery
President
Sabine River & Northern RR
VERIFIED STATEMENT OF
DON HOGLE
SALT LAKE, GARFIELD & WESTERN RAILWAY CO.

My name is Don Hogle. I am President of the Salt Lake, Garfield & Western Railroad ("SLGW"), a short line railroad with 10 miles of track running between Salt Lake City and MaComb Jct., Utah. SLGW’s traffic base is principally plastics, food, forest products, furniture and general commodities. We move close to 2000 railcars annually.

Before the UP/SP merger, SLGW interchanged with both UP and SP at Salt Lake City. Now we are served by UP and by BNSF via trackage rights it obtained as part of the merger.

The UP/SP merger has already had important benefits for our railroad. BNSF is a much stronger competitor than SP. It has a much broader route structure than SP and offers our customers efficient single-line services to many more points than SP served. UP’s single-line network is also greatly expanded due to the merger, with net results that our customers have much better single-line options from two carriers than what they had before.

BNSF has already competed aggressively for new business. It has recently persuaded two customers to relocate their facilities from another short-line to SLGW, so that they can move their product via SLGW-BNSF routings. Over time, we expect that BNSF will be a much stronger competitor than SP ever was for our business, and that the competition between UP and BNSF will be a big improvement over what we had before the merger.

SP was not very cooperative with SLGW on billing systems and other administrative matters. This cut into our efficiency and hampered our service to our customers. SP also was not paying us on a prompt basis. These problems have been resolved by the merger. We now have good cooperative relationships with both UP and BNSF.

While there have been some service delays following the merger, these have now been rectified for the most part. Our traffic is generally running smoothly now. Overall, the merger has been a great benefit to SLGW. As the merger is more fully implemented, we expect additional benefits for our railroad. For these reasons, we oppose any change in the Board’s prior approval of the merger.

I declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement.
Dated this 1 day of June, 1998.

[Signature]
My name is Russell Crosby. I am the Vice President and General Manager of (TSU) Tulsa-Sapulpa Union Railway Company, L.L.C., 701 East Dewey, Sapulpa, Oklahoma 74066. The TSU is a shortline railroad that operates between Sapulpa, Oklahoma and Tulsa, Oklahoma serving rail customers between those points. The railway has an interchange connection with the Union Pacific Railroad in Tulsa.

As Vice President and General Manager I am responsible for the operations of the railway. I have been with the TSU for 24 years. The TSU is a destination rail carrier and could best be described as a local switching operation. TSU customers receive inbound raw materials from various points in the United States. The principal commodities handled by the TSU are soda ash, limestone, silica sand, polyethylene, steel and pulpboard.

In our opinion the merger of the UP and SP could only be good for the customers on our line. This merger provides for increased competition among the major rail carriers which results in stronger railroads being able to provide improved service and lower freight rates for customers.

The TSU receives polyethylene out of the Texas region which originated on the SP. There have been service problems. These appear to be working themselves out and improving since the merger of the UP-SP. Transit times have now improved. We expect to see this trend continue.

TSU supports the UP/SP merger. We hope there will be not be any new conditions imposed that would deter the success of UP and SP to implement the merger.

I, Russell Crosby, declare under penalty of perjury that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this verified statement. Executed on June 18, 1998

Tulsa-Sapulpa Union Railway Company, L.L.C.

Russell Crosby
Vice-President & General Manager
My name is John E. West, III, and I am Executive Vice President of Utah Railway Company ("UTAH"). UTAH was an active participant in the UP/SP merger proceeding. One condition imposed on the merger requires that UTAH be provided the rights granted by UP under a settlement reached during the merger proceeding. Those rights allow UTAH to interchange traffic with both UP and BNSF at Grand Junction, Colorado, and Provo, Utah. UTAH also was granted access to the Savage Coal Terminal on the CV Spur near Wellington, Utah, and exclusive access to the Willow Creek Mine near Castle Gate, Utah.

The principal source of originations in the area served by UTAH is coal from some of the mines in the region. Since the consummation of the merger, UTAH has moved three unit trains of coal eastbound to Grand Junction (which interchanged with BNSF). UTAH will continue with its attempts to develop opportunities for eastward movements of UTAH coal in interline service with BNSF or UP. The Willow Creek Mine has scheduled start-up of its longwall operations soon which may lead to some potential eastbound business.

BNSF has shown itself to be an aggressive competitor for business in our corridor. We have seen instances where BNSF has been vigorous in bidding for new business as we did have some joint westbound coal business for a period of time. Although UP was successful in regaining a piece of coal business that UTAH had moved for a few months with BNSF, from our perspective, BNSF is clearly seeking to expand its presence in this territory.

The fundamental benefit predicted for UTAH in the UP/SP merger was to allow for connections with two strong, efficient rail networks. UTAH saw this as an opportunity to build its traffic volume through interline UTAH-BNSF or UTAH-UP service. We still believe the merger holds promise for UTAH. Even though we have been deeply frustrated with UP's operating practices, the merger gives us some potential opportunities that we did not have when UP and SP were separate railroads. Over time, UTAH should be more effective than it was before the merger in competing for both westbound and eastbound movements of Utah coal.
Through provisions in the BNSF settlement agreement with UP, UTAH has been given the opportunity to provide switching services for BNSF between Provo and Ogden/Little Mountain, Utah. This is an important new opportunity for UTAH to expand and diversify its business.

We do not believe the answer to operation difficulties on the UP system lies in interfering with the basic structure of the merger. Assuming that actions are taken by UP to solve basic operational problems, the fundamental benefits associated with the merger remain sound. We recognize that specific service areas have been subject to expanded terms to preserve competition and dependable rail service. We continue to believe that the merger decision was fundamentally correct if the merged system is properly managed.

I declare under penalty of perjury that I believe the foregoing to be true and correct. I further certify that I am qualified and authorized to file this verified statement.

VERIFICATION

State of Utah )
( )
County of Carbon)

John E. West, III, being duly sworn, deposes and says that he has read the foregoing statement, and that the contents thereof are true and correct to the best of his knowledge and belief.

Signature

John E. West, III

Subscribed and sworn to before me on this the 26th day of June, 1998.

Luella H. Davis
Notary Public

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
-- CONTROL AND MERGER --
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER
AND RIO GRANDE WESTERN RAILROAD COMPANY -- OVERSIGHT

MOTION FOR LEAVE TO FILE ONE DAY LATE

Union Pacific Railroad Company ("UP") hereby seeks leave to file the
accompanying reply to the Petition of the Arkansas, Louisiana and Mississippi
Railroad Company for an Additional Remedial Condition, dated May 12, 1998, one
day after it would be due under 49 C.F.R. § 1104.13. ALM’s petition could arguably
be considered a premature filing in the annual UP/SP oversight proceeding, in which
case UP’s response would not be due until September 1. UP has endeavored,
however, to respond within the period provided by Section 1104.13, but ultimately
required one extra day to check all facts and complete the verified statements that
accompanies this reply. Granting UP’s motion for leave to file its response one day
late will not result in any prejudice to ALM.
Respectfully submitted,

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Attorneys for Union Pacific
Railroad Company

June 2, 1998
CERTIFICATE OF SERVICE

I, Michael L. Rosenthal, hereby certify that on this 2nd day of June, 1998, I caused a copy of the foregoing document to be served by first-class mail, postage prepaid, or by a more expeditious manner of delivery, on all parties of record in Finance Docket No. 32760 (Sub-No. 21).

Michael L. Rosenthal
UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
-- CONTROL AND MERGER --
SOUTHERN PACIFIC RAIL CORPORATION,
SOUTHERN PACIFIC TRANSPORTATION COMPANY,
ST. LOUIS SOUTHWESTERN RAILWAY COMPANY, SPCS1 CORP.
AND THE DENVER AND RIO GRANDE WESTERN RAILROAD COMPANY --
OVERSIGHT PROCEEDING

UNION PACIFIC'S REPLY TO ALM'S
PETITION FOR AN ADDITIONAL REMEDIAL CONDITION

Union Pacific Railroad Company ("UP") hereby responds to the "Petition of the Arkansas, Louisiana and Mississippi Railroad Company for an Additional Remedial Condition" ("Petition"), dated May 12, 1998, in which ALM asks the Board to authorize BNSF to interchange with ALM at Fordyce, Arkansas. ALM's claims of large UP rate increases and abuse of market power are fundamentally incorrect and misleading.

ALM claims that the merged UP exercised market power to impose "substantial rate increases" of almost one third on Georgia-Pacific, which owns ALM and is ALM's largest shipper, and also one of UP's largest shippers. Petition, pp. 1, 2, 5, 7, 12, 13, 14, & Ahlers V.S., passim. In so doing, ALM mischaracterizes an ongoing process of rate simplification and adjustment being negotiated between Georgia-
Pacific and UP. That process, which is expressly intended not to yield increases on an overall basis, has in fact radically reduced many SP rates to give Georgia-Pacific new marketing opportunities. Even Georgia-Pacific’s freight costs on shipments from Arkansas are declining. Similarly, ALM does not acknowledge that UP has achieved major improvements in service to ALM since the end of March, with additional improvements in place as recently as last Saturday.

I. UP HAS NOT INCREASED GEORGIA-PACIFIC’S SHIPPING COSTS AND HAS GIVEN GEORGIA-PACIFIC NEW MARKETING OPPORTUNITIES

This is a petition for open access. ALM and Georgia-Pacific want BNSF service at Fordyce at all costs. A May 20 Arkansas Democrat & Gazette article, titled "Railroad Gridlock Eases; Service Has Improved, Arkansas Customers Say" (attached as Exhibit A), quotes ALM witness Larry Ahlers as saying: "The essence of our petition is not related to service. It’s the fact that we had two major Class i railroads . . . , and UP gobbles up SP and eliminates the competition." ALM’s Petition seeks to show that this alleged loss of competition is causing severe harm.

UP does not contest ALM’s complaints about UP service problems last fall, or again in February and March when UP was implementing directional running through Arkansas. Those problems are well-known, and UP service is much better now. What is surprising and appears to be quite alarming, however, is ALM’s claims about UP’s alleged rate increases. According to Mr. Ahlers, UP increased Georgia-Pacific rates by up to and UP is engaged in an ongoing campaign to increase all of SP’s rates because they are "too low." Ahlers V.S., p. 6.
These allegations are false. Georgia-Pacific’s overall freight costs have remained flat (in real dollars, they have declined), and it has received substantial rate reductions from which it will realize savings as it gains access to new markets, thanks to UP’s rate actions.

The rate changes Mr. Ahlers describes apply to Georgia-Pacific traffic from origins on ALM at Fordyce and Crossett, Arkansas. They are among dozens of rate changes applicable throughout the West that UP and Georgia-Pacific have negotiated since the UP/SP merger in order to simplify Georgia-Pacific’s complex rate spectrum, bring rates into line with market conditions, and expand Georgia-Pacific’s marketing opportunities. McDonald V.S., pp. 1-2. UP/SP described its broad lumber rate simplification initiative in its July 1, 1997 merger oversight report, UP/SP-303, pp. 73-74.

In its negotiations with Georgia-Pacific, UP gave huge rate reductions to its customer on many routes in the West. Even if Georgia-Pacific’s traffic mix did not change, Georgia-Pacific’s rail costs would not increase. But it likely will change as the shipper takes advantage of dramatic UP reductions on lumber rates in many traffic lanes, particularly from SP origins. McDonald V.S., p. 2.

ALM’s assertion that UP embarked on a campaign to raise SP rates that are “too low” is flatly untrue. UP has no such plans. Id. at 6. Georgia-Pacific knows this is so because UP significantly reduced many SP rates -- for example, rates were significantly reduced from the Georgia-Pacific facilities in to a wide range of destinations in order to keep Georgia-Pacific’s lumber and panel
business competitive in changing markets. Id. at 2, 6-7. UP reduced the

As UP/SP explained almost a year ago, UP has dramatically reduced the overall level of SP lumber rates in the West. UP/SP-303, p. 73.

ALM and UP rates are constrained by intense competition in the lumber and panel products marketplace. Because of that competition, UP reduced its portion of rates for Georgia-Pacific in 50-foot boxcars moving from

Ironically, while UP was reducing its rates, ALM increased its portion of many of these rates by up to For internal corporate reasons, Georgia-Pacific evidently elected to offset in part the rate reductions UP provided by increasing the revenues of ALM, which it owns.

As another example of ALM's misleading presentation, ALM claims that UP increased rates to

On shipments from ALM points to California, UP has

UP kept its rate factors low in an effort to keep Georgia-Pacific competitive with Canadian producers. McDonald V.S., p. 4.
UP made some upward rate adjustments to reflect market conditions or, in one instance, to correct an obvious error, but ALM vastly inflates the importance of these increases. For example, ALM repeatedly emphasizes a rate increase to Ahlers V.S., Attachment 1. In fact, that increase applied only to movements affecting only of the cars Georgia-Pacific shipped from Fordyce and Crossett in 1997. The second-largest increase ALM cites, to correct a patent error in which UP had failed to include the charges imposed by a shortline at the end of the movement. That increase would have affected a mere cars in 1997.Plainly, UP is not imposing large increases on high-volume movements, as ALM would have the Board believe.

UP took modest increases in some markets where UP rates had not changed for years, but its rates remain below levels paid by Georgia-Pacific competitors in Arkansas, including rates from origins served by other railroads. For example, Georgia-Pacific’s rate to

Although one would never guess it from ALM’s rhetoric about recent rate changes, Georgia-Pacific’s aggregate freight charges from ALM’s Arkansas origins, Fordyce and Crossett, should be lower this year than last. Assuming historic shipping patterns, Georgia-Pacific freight charges for traffic from ALM origins would fall
annually due to rate changes by UP and ALM.

Georgia-Pacific’s savings will be even greater than that if, as is likely, it takes advantage of UP rate reductions to increase volume in lanes where rates have fallen.

II. UP FACES EFFECTIVE COMPETITION FOR ALM TRAFFIC

The pattern of rate changes and reductions described by Mr. McDonald is incompatible with ALM’s theory that UP faces no effective competition. Georgia-Pacific’s rail costs are not even keeping up with inflation. ALM’s theory is irreconcilable with the facts in another respect. UP’s rate changes, down and up, bear absolutely no relationship to whether the traffic was "3-to-2" traffic or otherwise affected by the merger. McDonald V.S., p. 4.

ALM’s theory is based on the premise that KCS does not provide effective competition. None of its specific allegations about UP’s rate behavior is supported by that theory. If KCS did not provide effective competition, one would have expected UP to raise rates in the specific markets KCS serves, to take advantage of its newly-created "market power." But ALM does not complain of any rate increases to KCS gateways such as New Orleans, Dallas, Kansas City, Shreveport, Jackson, Meridian or Beaumont (where KCS connects with BNSF and, to Mexico, with Tex Mex). On the contrary, ALM implicitly acknowledges that KCS provides effective competition to these gateways by excluding them from the service it wants BNSF to provide.
KCS is concededly effective to those gateways, and it is proving itself effective using its connections at those gateways. KCS recently signed a new 15-year marketing agreement with IC and CN, which KCS trumpets as creating effective routes to IC points and the entire CN system. In an April 16 press release, KCS emphasized its Jackson, Mississippi interchange with IC, where it plans to combine operating facilities with IC to serve traffic to "CN or IC territories." The KCS-IC route via Jackson will be fully effective to Memphis, East St. Louis, Effingham (a Conrail connection), and Chicago. That route from Monroe to Memphis is only 47 miles longer than UP’s route, and the KCS-IC route to Chicago is only 66 miles longer.

KCS’s route through Monroe to CSX and NS points via Meridian, Mississippi, and Birmingham, Alabama, is proving to be an extremely competitive one, avoiding the congestion and delays of the New Orleans gateway. KCS is upgrading capacity on that line and increasing train frequencies. Service on the same route to the Dallas/Ft.Worth area is equally competitive, offering a very effective interchange with BNSF to the entire West. Merely as an example, the KCS-BNSF routes to Denver, Colorado, and to Stockton, California, are shorter than UP routes. The KCS-BNSF route to Los Angeles is virtually identical in length to UP’s route. As Mr. McDonald notes, KCS-BNSF joint routes have been highly effective in taking business from UP. This is important because a large portion of Georgia-Pacific’s Crossett and Fordyce production moves to the Far West. Id. at 8.

Thus, contrary to ALM’s claims, the Board’s actions in the UP/SP merger with respect to Lake Charles shippers does not provide a precedent for granting ALM
access to BNSF. The Board granted Lake Charles shippers access to BNSF because it concluded that KCS lacked "a sufficient route structure to be competitive with UP/SP in many corridors on a single-line basis." Decision No. 63, p. 7. Indeed, KCS itself had conceded its routing limitations. Here, by contrast, KCS single-line and joint-line routes are highly competitive. As described above, from its interchange with ALM at Monroe, KCS has efficient direct routes to connections at key Eastern gateways, and direct joint-line routes to important Western markets that are of comparable length, or even slightly shorter, than UP routes. Moreover, as described above, these joint-line routes have been demonstrably successful at capturing the type of traffic at issue. Finally, as ALM itself points out (Petition, p. 10 n.14), KCS routings for Georgia-Pacific products involve much less circuity than KCS routings for Lake Charles shippers. ¹/ ALM’s situation is no different from that shared by the multitude of shippers at "3-to-2" points, where the Board concluded that the UP/SP merger would not diminish competition. See Decision No. 44, p. 121.

III. UP’S SERVICE TO ALM HAS GREATLY IMPROVED, AND DUPLICATE BNSF OPERATIONS WOULD UNDERMINE UP SERVICE

    To ALM’s complaints about UP service last fall, UP pleads no contest.

UP’s service to ALM also suffered during February and March, as UP implemented and adjusted to directional running on the line through Fordyce. But UP’s service to ALM

¹/ Moreover, the Board’s decision to remove geographical restrictions on BNSF rights at Lake Charles was driven by concerns for the use of SIT facilities (see Decision No. 44, p. 153), but these concerns do not exist with respect to the lumber and panel products at issue.
has improved significantly since then, and UP continues to take steps that will solidify those improvements.

UP’s Superintendent for its East Texas Service Unit, Pete Franklin, provides a brief summary of UP’s service to and interactions with ALM. As he explains, UP has not forced ALM to comply with “changing service dictates” (Petition, p. 5), but instead has attempted to suggest solutions that would alleviate the impact of UP’s service difficulties on ALM.

Before UP implemented directional running, it served ALM at Fordyce out of Pine Bluff and Camden, Arkansas. Like SP before it, UP operated a local train six days per week from Pine Bluff to Camden, carrying inbound cars, most of them empty, to ALM. Six days per week, another local train ran northbound from Camden to Pine Bluff, picking up outbound ALM interchange at Fordyce. Franklin V.S., pp. 1-2. ALM’s Mr. Ahlers admitted in writing that this arrangement had “worked fine.” Ahlers V.S., Attachment 5, p. 1.

When UP began directional operations in February, the former SSW line through Fordyce became a southbound route for both UP and BNSF trains. While UP adjusted its operations, blocking and information systems to the directional operating plan, its yards at North Little Rock and Pine Bluff became severely congested, and it suffered locomotive and crew shortages. Pine Bluff was unable to take trains as they arrived, forcing UP to hold trains on line in sidings. Railroads normally give priority to through trains over local trains, so the local from Camden regularly failed to make it to Pine Bluff, delaying ALM’s interchange traffic. Franklin, V.S., p. 2.
In order to address that situation, UP in mid-February proposed to deliver empty cars to ALM at Bastrop, Louisiana, and to receive loads at Fordyce. UP did not "dictate" that arrangement, but merely proposed it. ALM objected, so it never took effect. Id.

UP then proposed a different arrangement to improve ALM service. At a meeting with ALM three days later, UP recommended that ALM interchange all loads to UP at Monroe, Louisiana, where UP could provide more reliable service to Pine Bluff and Little Rock. Id. at 2-3. ALM accepted this arrangement, which improved service. During this period, Mr. Franklin temporarily restructured the local operation so that the local south from Pine Bluff continued to Texarkana, then ran north the next day to North Little Rock, moving in both directions with the flow of traffic. ALM acknowledges that this improved service. Attachment 2 to Mr. Ahlers' verified statement confirms this improvement, showing that UP performed 100% of the scheduled interchanges at Fordyce for the last five weeks he studied. Ahlers V.S., Attachment 2, p. 2.

Several weeks ago, after UP's directional operations stabilized, Mr. Franklin reinstated the original operating plan. He established a six-day turnaround local from Pine Bluff to Camden and back. When it turned out that the crew could not reliably get back to Pine Bluff operating northbound against the flow of traffic, Mr. Franklin deployed separate crews to operate north and south. This increased UP's costs but improved service to ALM. Franklin, V.S., p. 4.

UP has provided reliable service to ALM in recent weeks, except for late last week when the SSW line suffered a washout east of Texarkana, creating a brief
period of congestion that resulted in crew and locomotive shortages. UP was unable to obtain a crew for the local one day, and the local was unable to operate into Pine Bluff one day.

Mr. Franklin had already decided, however, to take action to address the risk of crew shortages, even though his solution would further increase UP’s costs. Two weeks ago, he advertised the Camden local as an assigned job. Crews were assigned to the local effective last Saturday, May 30. This local will no longer be dependent on the Pine Bluff crew base for a crew, but instead will have an assigned crew that operates the train on a regular basis. Id. at 4-5.

ALM accuses UP of dictating radical changes to its operations. As Mr. Franklin explains, though, UP was not "dictating" to ALM, but instead searching diligently for alternatives that would reduce delays to ALM traffic in response to ALM’s complaints. For example, as Attachment 4 to Mr. Ahler’s statement shows, UP merely proposed the Bastrop interchange arrangement, and effectively rejected it. Nor was UP responding to ALM’s STB complaints. UP service improved in November and again in April not only for ALM but also for shippers throughout the southeastern part of the UP system, as UP’s weekly reports to the Board reflect.

ALM recently asked UP to begin picking up a few loads at Fordyce, and UP is doing so successfully. ALM has not wanted to move all of its loads through Fordyce, though, because of limited track space at that location. Franklin V.S., p. 5.

Notwithstanding that concern, ALM wants to add BNSF interchange to the UP interchange at Fordyce. ALM insists that it has the crews and capacity to perform
double interchanges at Fordyce. UP questions how ALM can interchange cars with two carriers at Fordyce when ALM is unwilling to interchange more traffic there to UP due to lack of track space.

Even if we accept ALM's representation that it could do with BNSF and UP what it cannot do with UP, interchange with two carriers at Fordyce will reduce service quality for other shippers on the UP line. BNSF has not supplied an operating plan, but ALM suggests two scenarios. Under the first, BNSF would operate a duplicate local on the UP line between Pine Bluff and Fordyce. Under the second, BNSF would stop a through southbound train at Fordyce.

Any additional train traffic on this line, particularly another local train running northbound against the flow of southbound traffic as proposed in the first scenario, will cause delays to other trains. Under either scenario, an additional train will stop at Fordyce to switch the interchange. This will double the amount of time the UP mainline is blocked at Fordyce, because there is no room to get off the mainline while switching. Id. When things go wrong in an interchange, as sometimes happens, the delays will be longer. Since there is no need for this duplicate interchange, the delays it will cause other traffic are unjustified.
CONCLUSION

For the foregoing reasons, ALM's Petition should be denied.

Respectfully submitted,

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June 2, 1998
VERIFIED STATEMENT
OF
BRIAN G. MCDONALD

My name is Brian G. McDonald. I am Assistant Vice-President and Business Director-Lumber and Panel Products for Union Pacific Railroad Company ("UP"). I am responsible for the marketing and sales of lumber, panel and other wood products. I have held my present position for three years. I have been employed by UP since 1982, and in my sixteen years with the railroad I have worked in a number of other marketing areas, as well as in field sales, customer service and operating positions. I received a B.S. in Political Science from the University of Utah in 1975.

I am submitting this statement in response to allegations by the Arkansas, Louisiana & Mississippi Railroad Company ("AL&M") regarding rate increases to Georgia-Pacific Corporation ("Georgia-Pacific") and AL&M shippers, and to AL&M’s allegation that its ability to interchange with the Kansas City Southern Railway Company ("KCS") does not provide an effective competitive alternative to interchange with UP.

I. AL&M’S CLAIMS REGARDING RATE INCREASES TO GEORGIA-PACIFIC ARE INCOMPLETE AND DECEPTIVE

A. Rates to Georgia-Pacific Have Been Reduced

AL&M paints an incomplete and deceptive picture when it claims that UP has raised its rates to Georgia-Pacific. AL&M neglects to explain that the current rates for Georgia-Pacific traffic reflect a collaborative process in which UP
and Georgia-Pacific have joined together to simplify Georgia-Pacific’s overall rate structure and provide Georgia-Pacific with competitive, comprehensive market coverage. UP’s efforts with Georgia-Pacific are part of a series of similar rate simplification efforts involving other lumber and panel shippers, and an extension of the SP tariff simplification process previously reported upon in our July 1, 1997 UP/SP merger oversight report (UP/SP-303, pp. 73-74). The overall effect of this simplification process has been to reduce dramatically the rates on lumber shipments, especially from SP origins in Oregon and California, and to increase the volume of lumber that we carry. Far from engaging in a pattern of raising SP rates, as AL&M suggests, UP significantly reduced, for example, the level of SP rates from Georgia-Pacific’s facilities in to a wide range of destinations in order to promote Georgia-Pacific’s lumber and panel business.

B. Rates to Georgia-Pacific’s Facilities at Fordyce and Crossett Have Been Reduced

As well as obscuring the larger, clearly pro-competitive context, AL&M’s claims are specifically incomplete and deceptive with regard to the simplified rates for Georgia-Pacific facilities in Fordyce and Crossett, Arkansas. In fact, the overall improved rate package would reduce Georgia-Pacific’s annual freight bill by approximately those two specific Arkansas origins, even if Georgia-Pacific
maintained exactly its past mix of traffic and did not increase its shipping volumes to the destinations for which rates declined. AL&M has provided the Board with out-of-context examples of rate increases, and it has withheld the full story.

AL&M does not tell the Board, for example, that UP reduced its portion of Georgia-Pacific's rates for

At the same time, AL&M itself took increases on its portions of the rates for Georgia-Pacific traffic moving to

the impact of these AL&M increases was to reduce the overall rate reduction Georgia-Pacific received for

Nor does AL&M reveal that, in order to keep Georgia-Pacific competitive on moves in 53' boxcars to Northern California and Southern California in light of the fundamental shift in source competition and product technology that has taken place over the last three to four years with the growth

1/ AL&M's selective portrayal of Utah rates is indicative of its overall approach. AL&M's chart, which is Attachment 1 to Larry J. Ahlers' verified statement in AL&M's petition, suggests that
These actions were intended to help Georgia-Pacific plywood from Fordyce and Crossett stay competitive with Canadian oriented strand board in these markets.

C. The Few Rate Increases to Georgia-Pacific Reflect Market Conditions, Not Any Supposed Market Power Gained as a Result of the UP/SP Merger

In the few instances in which Georgia-Pacific’s rates increased as part of the new rate structure, this did not reflect any supposed increase in market power as a result of the UP/SP merger. Whether UP increased rates had no relationship to whether traffic was "3-to-2" traffic, "2-to-1" traffic, or "1-to-1" traffic. UP raised rates to Georgia-Pacific in a few instances where the existing rates had been in place for several years and were well below market rates. During UP’s negotiations with Georgia-Pacific, that company recognized that these increases were acceptable in light of market conditions.
1. Even After Increases, Many of Georgia-Pacific’s Rates Remain Below Market Levels

In fact, even after the increases, rates to Georgia-Pacific remained well below market levels for many of Georgia-Pacific’s most important traffic flows.

2. AL&M Deceptively Focuses on a Handful of Low-Volume Movements Where Rates Were Increased to Match Market Levels

AL&M’s presentation to the Board deceptively focuses on a handful of low-volume movements that have little impact on either Georgia-Pacific or AL&M. The largest percentage rate increase -- which AL&M highlights in its filing --
involved movements to which accounted for only of the cars of Fordyce and Crossett plywood business that UP handled in 1997. The second largest involved movements to which accounted for only cars. Moreover, the rate increased only because, as a result of an oversight, the previously-existing UP letter quote for movements had mistakenly failed to include the costs of the shortline railroad at the destination.

3. UP Has No Plan to Increase SP Rates that Are "Too Low"

AL&M’s Larry Ahlers states at page 6 of his verified statement that he expects UP rates to other AL&M shippers to increase because UP intends "to increase rates on the basis that rates charged by SP were 'too low.'" UP has no such plans. In fact, Georgia-Pacific has been the beneficiary of several downward rate adjustments at SP local points. For example, rates from Georgia-Pacific’s lumber mills in

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2/ Contrary to AL&M’s indication that this rate increase affected

3/ In calculating the overall rate decrease to Georgia-Pacific as described above,
The reduction in rates from these facilities should put to rest any notion that UP is engaged in a process of increasing SP rates. As we explained almost a year ago in the first oversight proceeding, UP has dramatically reduced the overall level of SP's lumber rates. See UP/SP-303, p. 73. In this context, it is interesting, but not terribly surprising, to note that AL&M's filing is not accompanied by support statements from any of the shippers it serves.

II. AL&M'S MONROE INTERCHANGE WITH KCS PROVIDES AN EFFECTIVE COMPETITIVE ALTERNATIVE FOR SHIPMENTS FROM GEORGIA-PACIFIC'S FORDYCE AND CROSSETT FACILITIES

Finally, AL&M's suggestion that its ability to interchange with the Kansas City Southern Railway Company ("KCS") at Monroe, Louisiana, does not provide an effective alternative to UP is simply not true. AL&M has implicitly acknowledged KCS' effectiveness by excluding from its request for relief traffic moving to or from points directly served by the KCS, including KCS-served points in New Orleans, Shreveport, Lake Charles and Kansas City.

KCS has efficient connections with other railroads that enable it to provide a competitive alternative to UP service. For example, KCS has an extremely efficient connection with Illinois Central Railroad Company ("IC") at Jackson, Mississippi, for traffic moving over Memphis, St. Louis, and Chicago. The KCS-IC route to Chicago is only 66 miles longer than UP's route from Monroe, for example, and the
KCS-IC route to Memphis is only 47 miles longer.\(^4\) In addition, KCS can efficiently use its line to Meridian, Mississippi, as an alternative to Memphis for traffic bound to the Mid-Atlantic states and the Southeast.

KCS has also has an efficient connection with BNSF at Alliance, Texas, that it can use for traffic moving to the West. For example, the KCS-BNSF route to Los Angeles is only 8 miles longer than UP's route from Monroe, the KCS-BNSF route to Stockton is 133 miles shorter than UP's route, and the KCS-BNSF route to Denver is 130 miles shorter than UP's route. In fact, a KCS-BNSF joint line movement has proven highly effective in capturing market share for Arkansas and Louisiana plywood and lumber that moves to Western destinations. BNSF has taken advantage of opportunities created by its eastbound wine shipments to offer low backhaul rates to Arkansas and Louisiana plywood and lumber producers, including Georgia-Pacific, and dominates this lane.

Contrary to AL&M's assertions, KCS has demonstrated that it can effectively market joint-rate structures with BNSF for moving these products from Arkansas and Louisiana origins to Western destinations, where a large portion of Georgia-Pacific’s Crossett and Fordyce production is shipped. No

\(^4\) It is worth noting that AL&M is not requesting that it be granted access to BNSF for traffic moving to New Orleans, despite its claims that KCS’ route is 40% longer than UP’s route.
additional access is required to provide AL&M or the shippers that it serves with competitive options to UP service.
AFFIRMATION

I, Brian G. McDonald, declare under penalty of perjury that I have read the foregoing statement, that I know its contents, that its contents are true as stated, and that I am authorized to make this statement. Executed on May 30, 1998.

[Signature]

Brian G. McDonald

BRIAN G. MCDONALD
My name is Mark S. Franklin. Since August, 1997, I have served as Superintendent of UP’s East Texas Service Unit, which covers UP’s lines from south of Little Rock and Pine Bluff to north of Houston and East of Dallas. My office address is 905 East Pacific Avenue, Longview, Texas 75602. This territory includes UP’s interchanges the ALM family of railroads at Fordyce, Arkansas.

I am familiar with the recent history of UP’s interchange service with ALM at Fordyce and at Bastrop and Monroe, Louisiana. I have made a number of changes to this service in recent months in an effort to provide the best service possible to ALM under changing operating conditions.

UP’s operations throughout Arkansas, Texas and Louisiana were congested last fall. The situation improved in January, but our service deteriorated again when we began directional operations in Arkansas on about February 1, 1998. For the next several weeks, UP operations suffered delays from congestion as we changed most of our train operations and the blocking responsibilities of our freight yards, including the hump yards at North Little Rock and Pine Bluff, Arkansas. We also had to revise our Transportation Control System to provide correct blocking and routing instructions for every car, a process that took several weeks.

Before we implemented directional running, UP served ALM at Fordyce in the same way that SP had served it for a number of years. Six days a week, UP ran
a local train from Camden, Arkansas, to Pine Bluff, which picked up cars from the ALM’s interchange track at Fordyce. Another local operated southbound over the same route from Pine Bluff to Camden, setting out cars for ALM on the interchange track. Most of the cars picked up by the northbound local were loads, and most of the cars set out by the southbound local were empties. UP also served ALM at Monroe and Bastrop in the same way UP had before they merged, interchanging loads and empties.

When we implemented directional running, Pine Bluff Yard became severely congested. The yard often did not have any open tracks to receive trains. When that happened, it was necessary to stop trains in sidings until the yard could take them. I noticed that the northbound locals from Camden frequently were not able to get into Pine Bluff Yard and were held in sidings short of the yard. On UP, as on other railroads, local trains often have a lower priority than through trains, so these trains were sometimes held for several days, which delayed the ALM shipments.

During this period, we took a number of steps to try to improve service for ALM and its shippers. On February 17, we proposed that UP would interchange empties to ALM at Bastrop, Louisiana, and receive loads from Fordyce. We thought this would be helpful because the majority of the loads originate at or closer to Fordyce. ALM told us, though, that it did not have adequate facilities at Bastrop to support this arrangement.

ALM asked for a meeting, so a number of UP people met with ALM in February. At that meeting, our operating people from Monroe suggested an alternative under which we would interchange empties to ALM at Fordyce and accept loads at
Monroe. This operation made sense to us because the empties could be handled efficiently from Pine Bluff in a train moving with the southbound flow of traffic. Also, UP operates a train five days per week northbound from Monroe to North Little Rock that could carry the loads. This train could set out the southbound and westbound cars at Pine Bluff and the northbound and eastbound cars at North Little Rock, connecting with the directional operations.

We did not force either arrangement on ALM. We proposed them and said that we thought we would provide better service that way. Mr. Ahlers of ALM agreed to try the Monroe arrangement, and it went into effect at the end of February. It was more successful.

We also restructured our local operations so that the local trains would run with the flow of traffic. We operated the local southbound from Pine Bluff through Fordyce to Texarkana six days per week. This local set out traffic for ALM at Fordyce. Once the local reached Texarkana, the crew went off duty and got its rest. It went back on duty the next day after its rest and took the train to North Little Rock.

ALM later asked us to begin receiving loads in interchange at Fordyce again, and we began to do so recently. However, the local operation through Texarkana was not ideal for this. ALM shipments from Fordyce to the north and east were switched at North Little Rock, which worked well. The loads for Texas and the West, however, moved in a triangle through Texarkana, Little Rock, Pine Bluff and back through Fordyce once more. This operation resulted in longer transit times for the west and southbound traffic. Still, it provided better service overall than we had been
providing before. In our conversations with ALM, they agreed that this arrangement was working better.

Earlier this month, I decided that we should reinstate the original service plan, with six-day-per-week locals in both directions between Camden and Pine Bluff. We did that, but the operation initially did not work very well because train crews did not have enough time under the Hours of Service law to operate round trip from Pine Bluff to Camden and back against the flow of southbound traffic. About two weeks ago I changed the operation again so that crews would take empty cars southbound out of Pine Bluff six days a week to Fordyce and Camden, and then return northbound the next day to Pine Bluff, picking up loads at Fordyce. This is a more expensive operation for UP, but it ensures that the crews will reach their destinations within the Hours of Service. UP service improved even more after we reinstated these Pine Bluff-Camden locals. We have been operating the local trains on a reliable basis. ALM has been telling us that we have been supplying enough empty cars to meet its shippers' needs.

We had a brief disruption last week when our mainline between Pine Bluff and Texarkana was washed out for approximately 36 hours east of Texarkana. This temporarily imbalanced our crews and locomotives and caused us to annul one round-trip and to hold another local in a siding. However, we have repaired the track, and operations are back to normal.

When we changed the operation of the local crews, I wanted to make sure that there would be a crew available for this local every day. I posted the local as an assigned job. This means that engineers and trainmen can bid on the job and then be
guaranteed that they will have that job every day as long as they have the seniority.
This too is also a more expensive operation for the railroad, but it makes the local
operation more reliable because there is less risk of crews being unavailable. On May
30th, engineer and train crew bids were open and the jobs were assigned. I expect this
operation to be extremely reliable from now on.

I did not make any of these decisions because of the ALM’s petition to the
Surface Transportation Board. I was not informed about that petition until last week,
after I had made all of the decisions I have described here.

ALM and Georgia Pacific want BNSF to perform interchange at Fordyce, Arkansas. I understand that ALM believes that it can perform interchange with two
railroads at Fordyce without difficulty. This is somewhat surprising, because Mr.
Ahlers from ALM has told us that ALM does not want to interchange all of its loaded
cars to UP at Fordyce because there is not enough track space. Interchanging with two
railroads at Fordyce also will require ALM to perform more work, because there is only
one interchange track at Fordyce. ALM will have to switch the interchange more often.

Assuming ALM can figure out a way to interchange more cars at Fordyce
even though ALM does not believe there is enough track space to handle more traffic
with UP, a second railroad switching ALM at Fordyce will cause additional congestion
and train delays on UP’s line. There is only one interchange track at Fordyce, and
switching must take place on the mainline, blocking through movements. With two
railroads interchanging with ALM through Fordyce, the interchange time will be doubled
every day BNSF operates, blocking the mainline twice as long. This will interfere with through train operations by both BNSF and UP.

I understand that, according to ALM, BNSF may operate its own local train between Pine Bluff and Little Rock. If it chooses to do that, it will be operating a duplicate of our train service, which will result in two additional trains per day between Pine Bluff and Fordyce. The northbound train will be operating against the southbound flow of traffic. This will cause additional congestion and delay for all trains operating in the corridor.
I, MARK S. FRANKLIN, verify under the penalty of perjury, that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement. Executed on this 1st day of June, 1998.

[Signature]

MARK S. FRANKLIN
EXHIBIT A
Railroad gridlock eases

Service has improved, Arkansas customers say

BY RANDY TARBY
ARKANSAS DEMOCRAT-GAZETTE

Arkansas' major rail shippers say the state's largest rail carrier — Union Pacific Railroad Co. — is recovering from months of freight traffic gridlock.

The tie-up began nearly a year ago in Texas but quickly spread elsewhere after Union Pacific's merger with Southern Pacific Transportation Corp. The $3.4 billion deal was approved in 1996 by the federal Surface Transportation Board, but the two rail systems weren't meshed until last year.

"We've seen considerable improvement in our car supply," said Union Pacific spokesman Mark Davis on Tuesday credited the railroad's untangling traffic mess, in large part, to the 3-month-old "directional running" of trains through Arkansas.

He said northbound traffic from Texas and Louisiana now moves over the mainline through Little Rock and Bald Knob into Missouri.

Southbound traffic from Missouri is routed over the former Southern Pacific/Cotton Belt mainline through Jonesboro, Brinkley, Pine Bluff and Texarkana into Louisiana and Texas.

Exceptions include local freights and Amtrak's "Texas Eagle.

Directional running on the two routes, which began Feb. 1, "continues to be very good, as far as keeping our mainlines fluid," Davis said.

"And because of directional running, operations in the southern part of our railroad including Arkansas and along the Texas Gulf Coast, continue to be significantly faster and more reliable than they have over the previous eight-month period as the rail gridlock shows signs of unraveling, another major shipper — Georgia-Pacific Corp. — specifically asks that Burlington Northern Santa Fe Corp. be allowed to pick up and deliver cars at Fordyce, a former Southern Pacific connection point now a part of Union Pacific.

"Although the BNSF runs trains through Fordyce every day, it is not permitted to stop at Fordyce to pick up loaded AL&M cars and set off empty cars," the petition said.

The petition asks that the "BNSF be permitted to stop at Fordyce and pick up and set off cars for interchange with the AL&M."

"We've had some devastating problems with Union Pacific's service, said Larry J. Ahlers, director of rail operations for Georgia-Pacific.

"But the essence of our petition is not related to service," he added.

"It's the fact that we had two major Class I railroads, Union Pacific and Southern Pacific, and UP gobbles up freight and eliminates the competition."

Allowing Burlington Northern to pick up and deliver -- "would add additional competition and we would expect to see improvements," said Ahlers, who is also president of the railroad. "And it would give us an alternative if it didn't improve service from Union Pacific."

Of the filing, Davis said: "We are working with each customer on a case-by-case basis to address their concerns and answer any questions they may be having. I think overall, our customers over the last several weeks should have seen some improvement," he said.

The Weyerhaeuser plant in Mountain Pine is served by a "short line" railroad, Arkansas Midland, which exchanges freight with Union Pacific through a connection at Malvern.

"I think the UP is committed to working with us for the mutual benefit of our customers," said Charles Laggan, general manager of Arkansas Midland, which is based in Jones Mill, near Malvern.

"We've had severe problems over the past year," Laggan said.

"We've seen some improvement although the service problem has hurt us.

Union Pacific

Continued from Page 1D

empty cars," he said. "Rail is an important transportation vehicle for us, but we use trucks a lot, too, and we used more trucks as a result of our problems last year."

Shippers say the combination of Union Pacific and Southern Pacific initially caused major traffic backlogs, as the new company struggled to mesh separate computer systems and different labor agreements. In addition, a healthy economy generated more rail traffic, complicating the gridlock.

Union Pacific spokesman Mark Davis on Tuesday credited the railroad's untangling traffic mess, in large part, to the 3-month-old "directional running" of trains through Arkansas.

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CERTIFICATE OF SERVICE

I, Michael L. Rosenthal, hereby certify that on this 2nd day of June, 1998, I caused a copy of the foregoing document to be served by first-class mail, postage prepaid, or by a more expeditious manner of delivery, on all parties of record in Finance Docket No. 32760 (Sub-No. 21).

Michael L. Rosenthal
UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY AND MISSOURI PACIFIC RAILROAD COMPANY -- CONTROL AND MERGER -- SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY COMPANY, SPCSL CORP. AND THE DENVER AND RIO GRANDE WESTERN RAILROAD COMPANY -- OVERSIGHT PROCEEDING

UNION PACIFIC'S REPLY TO ALM'S PETITION FOR AN ADDITIONAL REMEDIAL CONDITION

Union Pacific Railroad Company ("UP") hereby responds to the "Petition of the Arkansas, Louisiana and Mississippi Railroad Company for an Additional Remedial Condition" ("Petition"), dated May 12, 1998, in which ALM asks the Board to authorize BNSF to interchange with ALM at Fordyce, Arkansas. ALM's claims of large UP rate increases and abuse of market power are fundamentally incorrect and misleading.

ALM claims that the merged UP exercised market power to impose "substantial rate increases" of almost one third on Georgia-Pacific, which owns ALM and is ALM's largest shipper, and also one of UP's largest shippers. Petition, pp. 1, 2, 5, 7, 12, 13, 14, & Ahlers V.S., passim. In so doing, ALM mischaracterizes an ongoing process of rate simplification and adjustment being negotiated between Georgia-
Pacific and UP. That process, which is expressly intended not to yield increases on an overall basis, has in fact radically reduced many SP rates to give Georgia-Pacific new marketing opportunities. Even Georgia-Pacific's freight costs on shipments from Arkansas are declining. Similarly, ALM does not acknowledge that UP has achieved major improvements in service to ALM since the end of March, with additional improvements in place as recently as last Saturday.

I. UP HAS NOT INCREASED GEORGIA-PACIFIC'S SHIPPING COSTS AND HAS GIVEN GEORGIA-PACIFIC NEW MARKETING OPPORTUNITIES

This is a petition for open access. ALM and Georgia-Pacific want BNSF service at Fordyce at all costs. A May 20 Arkansas Democrat & Gazette article, titled "Railroad Gridlock Eases; Service Has Improved, Arkansas Customers Say" (attached as Exhibit A), quotes ALM witness Larry Ahlers as saying: "The essence of our petition is not related to service. It's the fact that we had two major Class 1 railroads . . . , and UP gobbles up SP and eliminates the competition." ALM's Petition seeks to show that this alleged loss of competition is causing severe harm.

UP does not contest ALM’s complaints about UP service problems last fall, or again in February and March when UP was implementing directional running through Arkansas. Those problems are well-known, and UP service is much better now. What is surprising and appears to be quite alarming, however, is ALM’s claims about UP’s alleged rate increases. According to Mr. Ahlers, UP increased Georgia-Pacific rates by up to and UP is engaged in an ongoing campaign to increase all of SP’s rates because they are "too low." Ahlers V.S., p. 6.
These allegations are false. Georgia-Pacific’s overall freight costs have remained flat (in real dollars, they have declined), and it has received substantial rate reductions from which it will realize savings as it gains access to new markets, thanks to UP’s rate actions.

The rate changes Mr. Ahlers describes apply to Georgia-Pacific traffic from origins on ALM at Fordyce and Crossett, Arkansas. They are among dozens of rate changes applicable throughout the West that UP and Georgia-Pacific have negotiated since the UP/SP merger in order to simplify Georgia-Pacific’s complex rate spectrum, bring rates into line with market conditions, and expand Georgia-Pacific’s marketing opportunities. McDonald V.S., pp. 1-2. UP/SP described its broad lumber rate simplification initiative in its July 1, 1997 merger oversight report, UP/SP-303, pp. 73-74.

In its negotiations with Georgia-Pacific, UP gave huge rate reductions to its customer on many routes in the West. Even if Georgia-Pacific’s traffic mix did not change, Georgia-Pacific’s rail costs would not increase. But it likely will change as the shipper takes advantage of dramatic UP reductions on lumber rates in many traffic lanes, particularly from SP origins. McDonald V.S., p. 2.

ALM's assertion that UP embarked on a campaign to raise SP rates that are "too low" is flatly untrue. UP has no such plans. Id. at 6. Georgia-Pacific knows this is so because UP significantly reduced many SP rates -- for example, rates were significantly reduced from the Georgia-Pacific facilities in to a wide range of destinations in order to keep Georgia-Pacific’s lumber and panel
business competitive in changing markets. Id. at 2, 6-7. UP reduced the

As UP/SP explained almost a year ago, UP has dramatically reduced the overall level of SP lumber rates in the West. UP/SP-303, p. 73.

ALM and UP rates are constrained by intense competition in the lumber and panel products marketplace. Because of that competition, UP reduced its portion of rates for Georgia-Pacific in 50-foot boxcars moving from

Ironically, while UP was reducing its rates, ALM increased its portion of many of these rates by up to For internal corporate reasons, Georgia-Pacific evidently elected to offset in part the rate reductions UP provided by increasing the revenues of ALM, which it owns.

As another example of ALM’s misleading presentation, ALM claims that UP increased rates to

On shipments from ALM points to California, UP has

UP kept its rate factors low in an effort to keep Georgia-Pacific competitive with Canadian producers. McDonald V.S., p. 4.
UP made some upward rate adjustments to reflect market conditions or, in one instance, to correct an obvious error, but ALM vastly inflates the importance of these increases. For example, ALM repeatedly emphasizes a rate increase to Ahlers V.S., Attachment 1. In fact, that increase applied only to movements to affecting only of the cars Georgia-Pacific shipped from Fordyce and Crossett in 1997. The second-largest increase ALM cites, to corrected a patent error in which UP had failed to include the charges imposed by a shortline at the end of the movement. That increase would have affected a mere cars in 1997. Plainly, UP is not imposing large increases on high-volume movements, as ALM would have the Board believe.

UP took modest increases in some markets where UP rates had not changed for years, but its rates remain below levels paid by Georgia-Pacific competitors in Arkansas, including rates from origins served by other railroads. For example, Georgia-Pacific’s rate to

Although one would never guess it from ALM’s rhetoric about recent rate changes, Georgia-Pacific’s aggregate freight charges from ALM’s Arkansas origins, Fordyce and Crossett, should be lower this year than last. Assuming historic shipping patterns, Georgia-Pacific freight charges for traffic from ALM origins would fall
annually due to rate changes by UP and ALM.

Georgia-Pacific’s savings will be even greater than that if, as is likely, it takes advantage of UP rate reductions to increase volume in lanes where rates have fallen.

II. UP FACES EFFECTIVE COMPETITION FOR ALM TRAFFIC

The pattern of rate changes and reductions described by Mr. McDonald is incompatible with ALM’s theory that UP faces no effective competition. Georgia-Pacific’s rail costs are not even keeping up with inflation. ALM’s theory is irreconcilable with the facts in another respect. UP’s rate changes, down and up, bear absolutely no relationship to whether the traffic was "3-to-2" traffic or otherwise affected by the merger. McDonald v.S., p. 4.

ALM’s theory is based on the premise that KCS does not provide effective competition. None of its specific allegations about UP’s rate behavior is supported by that theory. If KCS did not provide effective competition, one would have expected UP to raise rates in the specific markets KCS serves, to take advantage of its newly-created "market power." But ALM does not complain of any rate increases to KCS gateways such as New Orleans, Dallas, Kansas City, Shreveport, Jackson, Meridian or Beaumont (where KCS connects with BNSF and, to Mexico, with Tex Mex). On the contrary, ALM implicitly acknowledges that KCS provides effective competition to these gateways by excluding them from the service it wants BNSF to provide.
KCS is concededly effective to those gateways, and it is proving itself effective using its connections at those gateways. KCS recently signed a new 15-year marketing agreement with IC and CN, which KCS trumpets as creating effective routes to IC points and the entire CN system. In an April 16 press release, KCS emphasized its Jackson, Mississippi interchange with IC, where it plans to combine operating facilities with IC to serve traffic to "CN or IC territories." The KCS-IC route via Jackson will be fully effective to Memphis, East St. Louis, Effingham (a Conrail connection), and Chicago. That route from Monroe to Memphis is only 47 miles longer than UP's route, and the KCS-IC route to Chicago is only 66 miles longer.

KCS's route through Monroe to CSX and NS points via Meridian, Mississippi, and Birmingham, Alabama, is proving to be an extremely competitive one, avoiding the congestion and delays of the New Orleans gateway. KCS is upgrading capacity on that line and increasing train frequencies. Service on the same route to the Dallas/Ft.Worth area is equally competitive, offering a very effective interchange with BNSF to the entire West. Merely as an example, the KCS-BNSF routes to Denver, Colorado, and to Stockton, California, are shorter than UP routes. The KCS-BNSF route to Los Angeles is virtually identical in length to UP's route. As Mr. McDonald notes, KCS-BNSF joint routes have been highly effective in taking business from UP.

This is important because a large portion of Georgia-Pacific's Crossett and Fordyce production moves to the Far West. Id. at 8.

Thus, contrary to ALM's claim..., the Board's actions in the UP/SP merger with respect to Lake Charles shippers does not provide a precedent for granting ALM
access to BNSF. The Board granted Lake Charles shippers access to BNSF because it concluded that KCS lacked "a sufficient route structure to be competitive with UP/SP in many corridors on a single-line basis." Decision No. 63, p. 7. Indeed, KCS itself had conceded its routing limitations. Here, by contrast, KCS single-line and joint-line routes are highly competitive. As described above, from its interchange with ALM at Monroe, KCS has efficient direct routes to connections at key Eastern gateways, and direct joint-line routes to important Western markets that are of comparable length, or even slightly shorter, than UP routes. Moreover, as described above, these joint-line routes have been demonstrably successful at capturing the type of traffic at issue. Finally, as ALM itself points out (Petition, p. 10 n.14), KCS routings for Georgia-Pacific products involve much less circuity than KCS routings for Lake Charles shippers.\footnote{Moreover, the Board’s decision to remove geographical restrictions on BNSF rights at Lake Charles was driven by concerns for the use of SIT facilities (see Decision No. 44, p. 153), but these concerns do not exist with respect to the lumber and panel products at issue.} ALM’s situation is no different from that shared by the multitude of shippers at "3-to-2" points, where the Board concluded that the UP/SP merger would not diminish competition. See Decision No. 44, p. 121.

III. UP’S SERVICE TO ALM HAS GREATLY IMPROVED, AND DUPLICATE BNSF OPERATIONS WOULD UNDERMINE UP SERVICE

To ALM’s complaints about UP service last fall, UP pleads no contest.

UP’s service to ALM also suffered during February and March, as UP implemented and adjusted to directional running on the line through Fordyce. But UP’s service to ALM
has improved significantly since then, and UP continues to take steps that will solidify those improvements.

UP's Superintendent for its East Texas Service Unit, Pete Franklin, provides a brief summary of UP's service to and interactions with ALM. As he explains, UP has not forced ALM to comply with "changing service dictates" (Petition, p. 5), but instead has attempted to suggest solutions that would alleviate the impact of UP's service difficulties on ALM.

Before UP implemented directional running, it served ALM at Fordyce out of Pine Bluff and Camden, Arkansas. Like SP before it, UP operated a local train six days per week from Pine Bluff to Camden, carrying inbound cars, most of them empty, to ALM. Six days per week, another local train ran northbound from Camden to Pine Bluff, picking up outbound ALM interchange at Fordyce. Franklin V.S., pp. 1-2. ALM's Mr. Ahlers admitted in writing that this arrangement had "worked fine." Ahlers V.S., Attachment 5, p. 1.

When UP began directional operations in February, the former SSW line through Fordyce became a southbound route for both UP and BNSF trains. While UP adjusted its operations, blocking and information systems to the directional operating plan, its yards at North Little Rock and Pine Bluff became severely congested, and it suffered locomotive and crew shortages. Pine Bluff was unable to take trains as they arrived, forcing UP to hold trains on line in sidings. Railroads normally give priority to through trains over local trains, so the local from Camden regularly failed to make it to Pine Bluff, delaying ALM's interchange traffic. Franklin, V.S., p. 2.
In order to address that situation, UP in mid-February proposed to deliver empty cars to ALM at Bastrop, Louisiana, and to receive loads at Fordyce. UP did not "dictate" that arrangement, but merely proposed it. ALM objected, so it never took effect. Id.

UP then proposed a different arrangement to improve ALM service. At a meeting with ALM three days later, UP recommended that ALM interchange all loads to UP at Monroe, Louisiana, where UP could provide more reliable service to Pine Bluff and Little Rock. Id. at 2-3. ALM accepted this arrangement, which improved service. During this period, Mr. Franklin temporarily restructured the local operation so that the local south from Pine Bluff continued to Texarkana, then ran north the next day to North Little Rock, moving in both directions with the flow of traffic. ALM acknowledges that this improved service. Attachment 2 to Mr. Ahlers' verified statement confirms this improvement, showing that UP performed 100% of the scheduled interchanges at Fordyce for the last five weeks he studied. Ahlers V.S., Attachment 2, p. 2.

Several weeks ago, after UP's directional operations stabilized, Mr. Franklin reinstated the original operating plan. He established a six-day turnaround local from Pine Bluff to Camden and back. When it turned out that the crew could not reliably get back to Pine Bluff operating northbound against the flow of traffic, Mr. Franklin deployed separate crews to operate north and south. This increased UP's costs but improved service to ALM. Franklin, V.S., p. 4.

UP has provided reliable service to ALM in recent weeks, except for late last week when the SSW line suffered a washout east of Texarkana, creating a brief
period of congestion that resulted in crew and locomotive shortages. UP was unable to obtain a crew for the local one day, and the local was unable to operate into Pine Bluff one day.

Mr. Franklin had already decided, however, to take action to address the risk of crew shortages, even though his solution would further increase UP's costs. Two weeks ago, he advertised the Camden local as an assigned job. Crews were assigned to the local effective last Saturday, May 30. This local will no longer be dependent on the Pine Bluff crew base for a crew, but instead will have an assigned crew that operates the train on a regular basis. Id. at 4-5.

ALM accuses UP of dictating radical changes to its operations. As Mr. Franklin explains, though, UP was not "dictating" to ALM, but instead searching diligently for alternatives that would reduce delays to ALM traffic in response to ALM's complaints. For example, as Attachment 4 to Mr. Ahler's statement shows, UP merely proposed the Bastrop interchange arrangement, and effectively rejected it. Nor was UP responding to ALM's STB complaints. UP service improved in November and again in April not only for ALM but also for shippers throughout the southeastern part of the UP system, as UP's weekly reports to the Board reflect.

ALM recently asked UP to begin picking up a few loads at Fordyce, and UP is doing so successfully. ALM has not wanted to move all of its loads through Fordyce, though, because of limited track space at that location. Franklin V.S., p. 5.

Notwithstanding that concern, ALM wants to add BNSF interchange to the UP interchange at Fordyce. ALM insists that it has the crews and capacity to perform
double interchanges at Fordyce. UP questions how ALM can interchange cars with two carriers at Fordyce when ALM is unwilling to interchange more traffic there to UP due to lack of track space.

Even if we accept ALM's representation that it could do with BNSF and UP what it cannot do with UP, interchange with two carriers at Fordyce will reduce service quality for other shippers on the UP line. BNSF has not supplied an operating plan, but ALM suggests two scenarios. Under the first, BNSF would operate a duplicate local on the UP line between Pine Bluff and Fordyce. Under the second, BNSF would stop a through southbound train at Fordyce.

Any additional train traffic on this line, particularly another local train running northbound against the flow of southbound traffic as proposed in the first scenario, will cause delays to other trains. Under either scenario, an additional train will stop at Fordyce to switch the interchange. This will double the amount of time the UP mainline is blocked at Fordyce, because there is no room to get off the mainline while switching. Id. When things go wrong in an interchange, as sometimes happens, the delays will be longer. Since there is no need for this duplicate interchange, the delays it will cause other traffic are unjustified.
CONCLUSION

For the foregoing reasons, ALM’s Petition should be denied.

Respectfully submitted,

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June 2, 1998
VERIFIED STATEMENT

OF

BRIAN G. MCDONALD

My name is Brian G. McDonald. I am Assistant Vice-President and Business Director-Lumber and Panel Products for Union Pacific Railroad Company ("UP"). I am responsible for the marketing and sales of lumber, panel and other wood products. I have held my present position for three years. I have been employed by UP since 1982, and in my sixteen years with the railroad I have worked in a number of other marketing areas, as well as in field sales, customer service and operating positions. I received a B.S. in Political Science from the University of Utah in 1975.

I am submitting this statement in response to allegations by the Arkansas, Louisiana & Mississippi Railroad Company ("AL&M") regarding rate increases to Georgia-Pacific Corporation ("Georgia-Pacific") and AL&M shippers, and to AL&M’s allegation that its ability to interchange with the Kansas City Southern Railway Company ("KCS") does not provide an effective competitive alternative to interchange with UP.

I. AL&M’S CLAIMS REGARDING RATE INCREASES TO GEORGIA-PACIFIC ARE INCOMPLETE AND DECEPTIVE

A. Rates to Georgia-Pacific Have Been Reduced

AL&M paints an incomplete and deceptive picture when it claims that UP has raised its rates to Georgia-Pacific. AL&M neglects to explain that the current rates for Georgia-Pacific traffic reflect a collaborative process in which UP
and Georgia-Pacific have joined together to simplify Georgia-Pacific's overall rate structure and provide Georgia-Pacific with competitive, comprehensive market coverage. UP's efforts with Georgia-Pacific are part of a series of similar rate simplification efforts involving other lumber and panel shippers, and an extension of the SP tariff simplification process previously reported upon in our July 1, 1997 UP/SP merger oversight report (UP/SP-303, pp. 73-74). The overall effect of this simplification process has been to reduce dramatically the rates on lumber shipments, especially from SP origins in Oregon and California, and to increase the volume of lumber that we carry. Far from engaging in a pattern of raising SP rates, as AL&M suggests, UP significantly reduced, for example, the level of SP rates from Georgia-Pacific's facilities in destinations in order to promote Georgia-Pacific's lumber and panel business.

B. Rates to Georgia-Pacific's Facilities at Fordyce and Crossett Have Been Reduced

As well as obscuring the larger, clearly pro-competitive context, AL&M's claims are specifically incomplete and deceptive with regard to the simplified rates for Georgia-Pacific facilities in Fordyce and Crossett, Arkansas. In fact, the overall improved rate package would reduce Georgia-Pacific's annual freight bill by approximately from those two specific Arkansas origins, even if Georgia-Pacific
maintained exactly its past mix of traffic and did not increase its shipping volumes to the destinations for which rates declined. AL&M has provided the Board with out-of-context examples of rate increases, and it has withheld the full story.

AL&M does not tell the Board, for example, that UP reduced its portion of Georgia-Pacific's rates for

At the same time, AL&M itself took increases on its portions of the rates for Georgia-Pacific traffic moving to the impact of these AL&M increases was to reduce the overall rate reduction Georgia-Pacific received for

Nor does AL&M reveal that, in order to keep Georgia-Pacific competitive on moves in 53' boxcars to Northern California and Southern California in light of the fundamental shift in source competition and product technology that has taken place over the last three to four years with the growth

1/ AL&M's selective portrayal of Utah rates is indicative of its overall approach. AL&M's chart, which is Attachment 1 to Larry J. Ahlers' verified statement in AL&M's petition, suggests that
These actions were intended to help Georgia-Pacific plywood from Fordyce and Crossett stay competitive with Canadian oriented strand board in these markets.

C. The Few Rate Increases to Georgia-Pacific Reflect Market Conditions, Not Any Supposed Market Power Gained as a Result of the UP/SP Merger

In the few instances in which Georgia-Pacific's rates increased as part of the new rate structure, this did not reflect any supposed increase in market power as a result of the UP/SP merger. Whether UP increased rates had no relationship to whether traffic was "3-to-2" traffic, "2-to-1" traffic, or "1-to-1" traffic. UP raised rates to Georgia-Pacific in a few instances where the existing rates had been in place for several years and were well below market rates. During UP's negotiations with Georgia-Pacific, that company recognized that these increases were acceptable in light of market conditions.
1. Even After Increases, Many of Georgia-Pacific's Rates Remain Below Market Levels

In fact, even after the increases, rates to Georgia-Pacific remained well below market levels for many of Georgia-Pacific's most important traffic flows.

2. AL&M Deceptively Focuses on a Handful of Low-Volume Movements Where Rates Were Increased to Match Market Levels

AL&M's presentation to the Board deceptively focuses on a handful of low-volume movements that have little impact on either Georgia-Pacific or AL&M. The largest percentage rate increase -- which AL&M highlights in its filing --
involved movements to which accounted for only of the cars of Fordyce and Crossett plywood business that UP handled in 1997. The second largest involved movements to which accounted for only cars. Moreover, the rate increased only because, as a result of an oversight, the previously-existing UP letter quote for movements had mistakenly failed to include the costs of the shortline railroad at the destination.

3. UP Has No Plan to Increase SP Rates that Are "Too Low"

AL&M's Larry Ahlers states at page 6 of his verified statement that he expects UP rates to other AL&M shippers to increase because UP intends "to increase rates on the basis that rates charged by SP were 'too low.'" UP has no such plans. In fact, Georgia-Pacific has been the beneficiary of several downward rate adjustments at SP local points. For example, rates from Georgia-Pacific's lumber mills in

——— 2/ Contrary to AL&M's indication that this rate increase affected

——— 3/ In calculating the overall rate decrease to Georgia-Pacific as described above,
The reduction in rates from these facilities should put to rest any notion that UP is engaged in a process of increasing SP rates. As we explained almost a year ago in the first oversight proceeding, UP has dramatically reduced the overall level of SP's lumber rates. See UP/SP-303, p. 73. In this context, it is interesting, but not terribly surprising, to note that AL&M's filing is not accompanied by support statements from any of the shippers it serves.

II. AL&M'S MONROE INTERCHANGE WITH KCS PROVIDES AN EFFECTIVE COMPETITIVE ALTERNATIVE FOR SHIPMENTS FROM GEORGIA-PACIFIC'S FORDYCE AND CROSSETT FACILITIES

Finally, AL&M's suggestion that its ability to interchange with the Kansas City Southern Railway Company ("KCS") at Monroe, Louisiana, does not provide an effective alternative to UP is simply not true. AL&M has implicitly acknowledged KCS' effectiveness by excluding from its request for relief traffic moving to or from points directly served by the KCS, including KCS-served points in New Orleans, Shreveport, Lake Charles and Kansas City.

KCS has efficient connections with other railroads that enable it to provide a competitive alternative to UP service. For example, KCS has an extremely efficient connection with Illinois Central Railroad Company ("IC") at Jackson, Mississippi, for traffic moving over Memphis, St. Louis, and Chicago. The KCS-IC route to Chicago is only 66 miles longer than UP's route from Monroe, for example, and the
KCS-IC route to Memphis is only 47 miles longer. In addition, KCS can efficiently use its line to Meridian, Mississippi, as an alternative to Memphis for traffic bound to the Mid-Atlantic states and the Southeast.

KCS has also has an efficient connection with BNSF at Alliance, Texas, that it can use for traffic moving to the West. For example, the KCS-BNSF route to Los Angeles is only 8 miles longer than UP’s route from Monroe, the KCS-BNSF route to Stockton is 133 miles shorter than UP’s route, and the KCS-BNSF route to Denver is 130 miles shorter than UP’s route. In fact, a KCS-BNSF joint line movement has proven highly effective in capturing market share for Arkansas and Louisiana plywood and lumber that moves to Western destinations. BNSF has taken advantage of opportunities created by its eastbound wine shipments to offer low backhaul rates to Arkansas and Louisiana plywood and lumber producers, including Georgia-Pacific, and dominates this lane.

Contrary to AL&M’s assertions, KCS has demonstrated that it can effectively market joint-rate structures with BNSF for moving these products from Arkansas and Louisiana origins to Western destinations, where a large portion of Georgia-Pacific’s Crossett and Fordyce production is shipped. No

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1/ It is worth noting that AL&M is not requesting that it be granted access to BNSF for traffic moving to New Orleans, despite its claims that KCS’ route is 40% longer than UP’s route.
additional access is required to provide AL&M or the shippers that it serves with competitive options to UP service.
AFFIRMATION

I, Brian G. McDonald, declare under penalty of perjury that I have read the foregoing statement, that I know its contents, that its contents are true as stated, and that I am authorized to make this statement. Executed on May 30, 1998.

[Signature]

BRIAN G. MCDONALD
VERIFIED STATEMENT

OF

MARK S. (PETE) FRANKLIN

My name is Mark S. Franklin. Since August, 1997, I have served as Superintendent of UP's East Texas Service Unit, which covers UP's lines from south of Little Rock and Pine Bluff to north of Houston and East of Dallas. My office address is 905 East Pacific Avenue, Longview, Texas 75602. This territory includes UP's interchanges the ALM family of railroads at Fordyce, Arkansas.

I am familiar with the recent history of UP's interchange service with ALM at Fordyce and at Bastrop and Monroe, Louisiana. I have made a number of changes to this service in recent months in an effort to provide the best service possible to ALM under changing operating conditions.

UP's operations throughout Arkansas, Texas and Louisiana were congested last fall. The situation improved in January, but our service deteriorated again when we began directional operations in Arkansas on about February 1, 1998. For the next several weeks, UP operations suffered delays from congestion as we changed most of our train operations and the blocking responsibilities of our freight yards, including the hump yards at North Little Rock and Pine Bluff, Arkansas. We also had to revise our Transportation Control System to provide correct blocking and routing instructions for every car, a process that took several weeks.

Before we implemented directional running, UP served ALM at Fordyce in the same way that SP had served it for a number of years. Six days a week, UP ran
a local train from Camden, Arkansas, to Pine Bluff, which picked up cars from the
ALM's interchange track at Fordyce. Another local operated southbound over the same
route from Pine Bluff to Camden, setting out cars for ALM on the interchange track.
Most of the cars picked up by the northbound local were loads, and most of the cars set
out by the southbound local were empties. UP also served ALM at Monroe and Bastrop
in the same way UP had before they merged, interchanging loads and empties.

When we implemented directional running, Pine Bluff Yard became
severely congested. The yard often did not have any open tracks to receive trains.
When that happened, it was necessary to stop trains in sidings until the yard could take
them. I noticed that the northbound locals from Camden frequently were not able to get
into Pine Bluff Yard and were held in sidings short of the yard. On UP, as on other
railroads, local trains often have a lower priority than through trains, so these trains
were sometimes held for several days, which delayed the ALM shipments.

During this period, we took a number of steps to try to improve service
for ALM and its shippers. On February 17, we proposed that UP would interchange
empties to ALM at Bastrop, Louisiana, and receive loads from Fordyce. We thought
this would be helpful because the majority of the loads originate at or closer to Fordyce.
ALM told us, though, that it did not have adequate facilities at Bastrop to support this
arrangement.

ALM asked for a meeting, so a number of UP people met with ALM in
February. At that meeting, our operating people from Monroe suggested an alternative
under which we would interchange empties to ALM at Fordyce and accept loads at
Monroe. This operation made sense to us because the empties could be handled efficiently from Pine Bluff in a train moving with the southbound flow of traffic. Also, UP operates a train five days per week northbound from Monroe to North Little Rock that could carry the loads. This train could set out the southbound and westbound cars at Pine Bluff and the northbound and eastbound cars at North Little Rock, connecting with the directional operations.

We did not force either arrangement on ALM. We proposed them and said that we thought we would provide better service that way. Mr. Ahlers of ALM agreed to try the Monroe arrangement, and it went into effect at the end of February. It was more successful.

We also restructured our local operations so that the local trains would run with the flow of traffic. We operated the local southbound from Pine Bluff through Fordyce to Texarkana six days per week. This local set out traffic for ALM at Fordyce. Once the local reached Texarkana, the crew went off duty and got its rest. It went back on duty the next day after its rest and took the train to North Little Rock.

ALM later asked us to begin receiving loads in interchange at Fordyce again, and we began to do so recently. However, the local operation through Texarkana was not ideal for this. ALM shipments from Fordyce to the north and east were switched at North Little Rock, which worked well. The loads for Texas and the West, however, moved in a triangle through Texarkana, Little Rock, Pine Bluff and back through Fordyce once more. This operation resulted in longer transit times for the west and southbound traffic. Still, it provided better service overall than we had been
providing before. In our conversations with ALM, they agreed that this arrangement was working better.

Earlier this month, I decided that we should reinstate the original service plan, with six-day-per-week locals in both directions between Camden and Pine Bluff. We did that, but the operation initially did not work very well because train crews did not have enough time under the Hours of Service law to operate round trip from Pine Bluff to Camden and back against the flow of southbound traffic. About two weeks ago I changed the operation again so that crews would take empty cars southbound out of Pine Bluff six days a week to Fordyce and Camden, and then return northbound the next day to Pine Bluff, picking up loads at Fordyce. This is a more expensive operation for UP, but it ensures that the crews will reach their destinations within the Hours of Service. UP service improved even more after we reinstated these Pine Bluff-Camden locals. We have been operating the local trains on a reliable basis. ALM has been telling us that we have been supplying enough empty cars to meet its shippers’ needs.

We had a brief disruption last week when our mainline between Pine Bluff and Texarkana was washed out for approximately 36 hours east of Texarkana. This temporarily imbalanced our crews and locomotives and caused us to annul one round-trip and to hold another local in a siding. However, we have repaired the track, and operations are back to normal.

When we changed the operation of the local crews, I wanted to make sure that there would be a crew available for this local every day. I posted the local as an assigned job. This means that engineers and trainmen can bid on the job and then be
guaranteed that they will have that job every day as long as they have the seniority. This too is also a more expensive operation for the railroad, but it makes the local operation more reliable because there is less risk of crews being unavailable. On May 30th, engineer and train crew bids were open and the jobs were assigned. I expect this operation to be extremely reliable from now on.

I did not make any of these decisions because of the ALM’s petition to the Surface Transportation Board. I was not informed about that petition until last week, after I had made all of the decisions I have described here.

ALM and Georgia Pacific want BNSF to perform interchange at Fordyce, Arkansas. I understand that ALM believes that it can perform interchange with two railroads at Fordyce without difficulty. This is somewhat surprising, because Mr. Ahlers from ALM has told us that ALM does not want to interchange all of its loaded cars to UP at Fordyce because there is not enough track space. Interchanging with two railroads at Fordyce also will require ALM to perform more work, because there is only one interchange track at Fordyce. ALM will have to switch the interchange more often.

Assuming ALM can figure out a way to interchange more cars at Fordyce even though ALM does not believe there is enough track space to handle more traffic with UP, a second railroad switching ALM at Fordyce will cause additional congestion and train delays on UP’s line. There is only one interchange track at Fordyce, and switching must take place on the mainline, blocking through movements. With two railroads interchanging with ALM through Fordyce, the interchange time will be doubled.
every day BNSF operates, blocking the mainline twice as long. This will interfere with through train operations by both BNSF and UP.

I understand that, according to ALM, BNSF may operate its own local train between Pine Bluff and Little Rock. If it chooses to do that, it will be operating a duplicate of our train service, which will result in two additional trains per day between Pine Bluff and Fordyce. The northbound train will be operating against the southbound flow of traffic. This will cause additional congestion and delay for all trains operating in the corridor.
I, MARK S. FRANKLIN, verify under the penalty of perjury, that the foregoing is true and correct. Further, I certify that I am qualified and authorized to file this Verified Statement. Executed on this 1st day of June, 1998.

[Signature]
(MARK S. FRANKLIN)
Arkansas major rail shippers say the state's largest railroad carrier — Union Pacific Railroad Co. — is recovering from months of freight traffic gridlock.

The tie-up began nearly a year ago in Texas but quickly spread elsewhere after Union Pacific's merger with Southern Pacific Transportation Corp. The $3.4 billion deal was approved in 1996 by the federal Surface Transportation Board, but the two rail systems weren't meshed until last year.

"We've seen considerable improvement in our car supply," Reed said. "I think the UP is committed to working with us for the mutual benefit of our customers," said Charles Laggan, general manager of Arkansas Midland, which is based in Jones Hill, near Malvern.

"We've had severe problems over the past year," Laggan said. "However, we've seen some improvement although the service problem has hurt us."
CERTIFICATE OF SERVICE

I, Michael L. Rosenthal, hereby certify that on this 2nd day of June, 1998, I caused a copy of the foregoing document to be served by first-class mail, postage prepaid, or by a more expeditious manner of delivery, on all parties of record in Finance Docket No. 32760 (Sub-No. 21).

Michael L. Rosenthal
June 1, 1998

VIA HAND DELIVERY

Office of the Secretary
Surface Transportation Board
Case Control Unit
1925 K Street, N.W.
Washington, DC 20423-0001

Re: Finance Docket No. 32760 (Sub-No. 21)

Dear Secretary Williams:

Enclosed for filing in the above-captioned docket, please find an original plus twenty-five (25) copies of Reply of The Burlington Northern and Santa Fe Railway Company to Petition of The Arkansas, Louisiana & Mississippi Railroad Company for An Additional Remedial Condition (BNSF-6). Also enclosed is a diskette containing the text of BNSF-6.

Please date-stamp the enclosed extra copy and return it to the messenger for our files.

Sincerely,

Erika Z. Jones

Enclosures

cc: Parties of Record
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
— CONTROL AND MERGER —
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER AND
RIO GRANDE WESTERN RAILROAD COMPANY

REPLY OF THE BURLINGTON NORTHERN AND SANTA FE
RAILWAY COMPANY TO PETITION OF THE ARKANSAS, LOUISIANA &
MISSISSIPPI RAILROAD COMPANY FOR AN ADDITIONAL REMEDIAL
CONDITION

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June 1, 1998
The Burlington Northern and Santa Fe Railway Company ("BNSF") submits this reply to the Petition of The Arkansas, Louisiana & Mississippi Railroad Company ("AL&M") for an Additional Remedial Condition ("Petition") filed on May 12, 1998, in the above-referenced proceeding. In its Petition, AL&M requests the Board to add one additional remedial condition to those imposed in Decision No. 44 to permit BNSF to interchange traffic with AL&M at Fordyce, AR, where AL&M's line connects with the former SP line between Memphis and Houston over which BNSF was granted overhead trackage rights in Decision No. 44. AL&M specifically states that it "would exclude from the traffic open to BNSF all traffic which can be handled by the KCS direct to destination or from origin." Petition at 2. AL&M further states that the condition it seeks is "limited to ensuring that AL&M and its customers have access to two rail systems (UP and
BNSF) able to compete for AL&M traffic which the KCS cannot directly serve. "Id. Its Petition also provides the Board with evidence of UP rate increases to AL&M since the UP/SP merger. Id. at 5; see also V.S. Ahlers at 6-7.

As the Board has previously recognized on several occasions, shippers who, prior to the UP/SP merger, could receive rail service from more than two railroads may, nonetheless, be treated as "2-to-1" shippers because they faced the loss of efficient, competitively priced rail options as a result of the UP/SP merger. For example, the Board expanded BNSF access to Lake Charles, West Lake Charles, and Westlake, LA area shippers beyond the level contemplated in the CMA Agreement, even though those shippers could receive service from KCS, as well as UP and SP. Decision No. 44, slip op. at 152-153. In so doing, the Board recognized that those shippers were, for all practical purposes, "2-to-1" shippers, because, after the merger, all the "efficient routings" for those shippers' traffic would be "under applicants' control." Id. at 152 (emphasis added).

Similarly, in Decision No. 44, the Board imposed a condition "to maintain the availability of two independent and efficient PRB routings to [Texas Utilities Electric Company's ("TUE")] Martin Lake plant near Henderson, TX." Slip op. at 154 (emphasis added). Notwithstanding the fact that TUE had the option of BNSF single-line service for receipt of PRB coal, such relief was necessary because the BNSF single-line routing was excessively circuitous. See id. at 186 ("Without this condition, all but one of TUE's PRB routings would involve UP/SP, and the one that would not would be excessively circuitous."); see also Decision No. 72, slip op. at 2-3 (explaining TUE condition).
Accordingly, the Board has recognized that shippers can be deemed "2-to-1" shippers because route circuity or other service impediments effectively limit their commercially realistic, efficient, and competitively priced rail carrier options to one carrier (even if two carriers have nominal access to their facilities). This same principle of treating such shippers as "2-to-1" shippers is equally applicable to shortlines like AL&M which are similarly situated. Here, if AL&M is correct that KCS routings add circuity and cost which render KCS service noncompetitive, AL&M is no different than a "2-to-1" shipper.

Were the Board to grant the relief sought by AL&M, BNSF would be able to provide service to AL&M through a Fordyce interchange with minimal or no impact on UP operations. BNSF would commence serving the AL&M Fordyce interchange with its southbound daily through merchandise train between Memphis and Longview, connecting at Longview for rail destinations further south and west, as well as north. Traffic moving north toward Memphis from AL&M customers would be moved on this train to Longview, set out, and picked on the same day with BNSF's northbound daily merchandise train.

If volumes available to BNSF increased at Fordyce and/or at "2-to-1" points along the trackage rights line between Pine Bluff, AR, and Shreveport, LA, BNSF would consider operating a local "turn" operation (as UP is currently operating to service Fordyce) between Pine Bluff and Camden, AR, including the AL&M interchange at ______.

1/ In fact, UP has itself recognized that a "showing that [a] shipper lacks effective competitive options for its traffic movements" would justify relief even if the shipper had been served by a third carrier prior to a merger transaction. See UP/SP-311, at 33.
Fordyce. While the former SP route between Pine Bluff, Fordyce and Camden is the southbound leg for BNSF and UP as part of the directional operations between Memphis and Houston, BNSF believes that, with the directional operation fully functioning and operating sidings on the route clear, BNSF could operate a local turn road switcher operation based in Pine Bluff serving the AL&M Fordyce interchange without impacting through operations or requiring additional crews.

CONCLUSION

Accordingly, consistent with applicable Board precedent, the Board should grant the relief sought by AL&M that BNSF be permitted to interchange traffic with the AL&M at Fordyce, AR.
Respectfully submitted,

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Attorneys for The Burlington Northern and Santa Fe Railway Company

June 1, 1998
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply of The Burlington Northern and Santa Fe Railway Company to Petition of the Arkansas, Louisiana & Mississippi Railroad Company was served, by first-class mail, postage prepaid, or by a more expeditious manner of delivery, on this 1st day of June, 1998, on all Parties of Record in the Finance Docket No. 32760 (Sub-No. 21) proceeding.

Adrian L. Steel, Jr.
June 1, 1998

VIA HAND DELIVERY

Office of the Secretary
Surface Transportation Board
Case Control Unit
1925 K Street, N.W.
Washington, DC 20423-0001

Re: Finance Docket No. 32760 (Sub-No. 21)

Dear Secretary Williams:

Enclosed for filing in the above-captioned docket, please find an original plus twenty-five (25) copies of Reply of The Burlington Northern and Santa Fe Railway Company to Petition of The Arkansas, Louisiana & Mississippi Railroad Company for An Additional Remedial Condition (BNSF-6). Also enclosed is a diskette containing the text of BNSF-6.

Please date-stamp the enclosed extra copy and return it to the messenger for our files.

Sincerely,

Erika Z. Jones

Enclosures

cc: Parties of Record
BEFORE THE SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY AND MISSOURI PACIFIC RAILROAD COMPANY — CONTROL AND MERGER — SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY COMPANY, SPCSCL CORP. AND THE DENVER AND RIO GRANDE WESTERN RAILROAD COMPANY

REPLY OF THE BURLINGTON NORTHERN AND SANTA FE RAILWAY COMPANY TO PETITION OF THE ARKANSAS, LOUISIANA & MISSISSIPPI RAILROAD COMPANY FOR AN ADDITIONAL REMEDIAL CONDITION

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June 1, 1998
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
— CONTROL AND MERGER —
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER AND
RIO GRANDE WESTERN RAILROAD COMPANY

REPLY OF THE BURLINGTON NORTHERN AND SANTA FE
RAILWAY COMPANY TO PETITION OF THE ARKANSAS, LOUISIANA &
MISSISSIPPI RAILROAD COMPANY FOR AN ADDITIONAL REMEDIAL
CONDITION

The Burlington Northern and Santa Fe Railway Company ("BNSF") submits this reply to the Petition of The Arkansas, Louisiana & Mississippi Railroad Company ("AL&M") for an Additional Remedial Condition ("Petition") filed on May 12, 1998, in the above-referenced proceeding. In its Petition, AL&M requests the Board to add one additional remedial condition to those imposed in Decision No. 44 to permit BNSF to interchange traffic with AL&M at Fordyce, AR, where AL&M's line connects with the former SP line between Memphis and Houston over which BNSF was granted overhead trackage rights in Decision No. 44. AL&M specifically states that it "would exclude from the traffic open to BNSF all traffic which can be handled by the KCS direct to destination or from origin." Petition at 2. AL&M further states that the condition it seeks is "limited to ensuring that AL&M and its customers have access to two rail systems (UP and
BNSF) able to compete for AL&M traffic which the KCS cannot directly serve." \textit{Id.} Its Petition also provides the Board with evidence of UP rate increases to AL&M since the UP/SP merger. \textit{Id.} at 5; see also V.S. Ahlers at 6-7.

As the Board has previously recognized on several occasions, shippers who, prior to the UP/SP merger, could receive rail service from more than two railroads may, nonetheless, be treated as "2-to-1" shippers because they faced the loss of efficient, competitively priced rail options as a result of the UP/SP merger. For example, the Board expanded BNSF access to Lake Charles, West Lake Charles, and Westlake, LA area shippers beyond the level contemplated in the CMA Agreement, even though those shippers could receive service from KCS, as well as UP and SP. Decision No. 44, slip op. at 152-153. In so doing, the Board recognized that those shippers were, for all practical purposes, "2-to-1" shippers, because, after the merger, all the "\textit{efficient routings}" for those shippers' traffic would be "under applicants' control." \textit{Id.} at 152 (emphasis added).

Similarly, in Decision No. 44, the Board imposed a condition "to maintain the availability of two independent and \textit{efficient} PRB routings to [Texas Utilities Electric Company's ("TUE")] Martin Lake plant near Henderson, TX." Slip op. at 154 (emphasis added). Notwithstanding the fact that TUE had the option of BNSF single-line service for receipt of PRB coal, such relief was necessary because the BNSF single-line routing was excessively circuitous. \textit{See id.} at 186 ("Without this condition, all but one of TUE's PRB routings would involve UP/SP, and the one that would not would be excessively circuitous."); \textit{see also} Decision No. 72, slip op. at 2-3 (explaining TUE condition).
Accordingly, the Board has recognized that shippers can be deemed "2-to-1" shippers because route circuity or other service impediments effectively limit their commercially realistic, efficient, and competitively priced rail carrier options to one carrier (even if two carriers have nominal access to their facilities). This same principle of treating such shippers as "2-to-1" shippers is equally applicable to shortlines like AL&M which are similarly situated. Here, if AL&M is correct that KCS routings add circuity and cost which render KCS service noncompetitive, AL&M is no different than a "2-to-1" shipper.

Were the Board to grant the relief sought by AL&M, BNSF would be able to provide service to AL&M through a Fordyce interchange with minimal or no impact on UP operations. BNSF would commence serving the AL&M Fordyce interchange with its southbound daily through merchandise train between Memphis and Longview, connecting at Longview for rail destinations further south and west, as well as north. Traffic moving north toward Memphis from AL&M customers would be moved on this train to Longview, set out, and picked on the same day with BNSF’s northbound daily merchandise train.

If volumes available to BNSF increased at Fordyce and/or at "2-to-1" points along the trackage rights line between Pine Bluff, AR, and Shreveport, LA, BNSF would consider operating a local "turn" operation (as UP is currently operating to service Fordyce) between Pine Bluff and Camden, AR, including the AL&M interchange at

\[1\]

In fact, UP has itself recognized that a "showing that [a] shipper lacks effective competitive options for its traffic movements" would justify relief even if the shipper had been served by a third carrier prior to a merger transaction. See UP/SP-311, at 33.
Fordyce. While the former SP route between Pine Bluff, Fordyce and Camden is the southbound leg for BNSF and UP as part of the directional operations between Memphis and Houston, BNSF believes that, with the directional operation fully functioning and operating sidings on the route clear, BNSF could operate a local turn road switcher operation based in Pine Bluff serving the AL&M Fordyce interchange without impacting through operations or requiring additional crews.

**CONCLUSION**

Accordingly, consistent with applicable Board precedent, the Board should grant the relief sought by AL&M that BNSF be permitted to interchange traffic with the AL&M at Fordyce, AR.
Respectfully submitted,

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Attorneys for The Burlington Northern and Santa Fe Railway Company

June 1, 1998
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply of The Burlington Northern and Santa Fe Railway Company to Petition of the Arkansas, Louisiana & Mississippi Railroad Company was served, by first-class mail, postage prepaid, or by a more expeditious manner of delivery, on this 1st day of June, 1998, on all Parties of Record in the Finance Docket No. 32760 (Sub-No. 21) proceeding.

Adrian L. Steel, Jr.
June 1, 1998

Dear Secretary Williams:

Enclosed are an original and twenty-six copies each of a Public Version and (in a separate, appropriately marked envelope) a Highly Confidential Version of the Reply Of The Kansas City Southern Railway Company To The Petition Of The Arkansas, Louisiana And Mississippi Railroad Company For An Additional Remedial Condition, filed in the above-captioned matter. As can be seen from the certificate of service attached hereto, copies of the Public Version of the Reply (namely, the entire document except the Highly Confidential Exhibit 1 to Appendix 1) have been served on all parties of record in this matter.

Please acknowledge receipt and filing by receipt stamping the enclosed twenty-sixth copies of the Public and Highly Confidential Versions of this document and returning those copies to the person delivering the filing to the Board.

Sincerely,

William A. Mullins

Enclosures
cc: Parties of Record
BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
--CONTROL AND MERGER--
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCSL CORP. AND THE DENVER
AND RIO GRANDE WESTERN RAILROAD COMPANY

OVERSIGHT PROCEEDING

REPLY OF THE KANSAS CITY SOUTHERN RAILWAY
COMPANY TO THE PETITION OF THE ARKANSAS,
LOUISIANA AND MISSISSIPPI RAILROAD
COMPANY FOR AN ADDITIONAL
REMEDIAL CONDITION

The Kansas City Southern Railway Company (“KCS”) hereby replies to the petition of
the Arkansas, Louisiana and Mississippi Railroad Company (“AL&M”) for imposition of an
additional remedial condition (“Petition”) to the Surface Transportation Board’s 1996 approval
of the merger of Union Pacific Corp., et al., with Southern Pacific Rail Corp., et al. KCS
opposes the Petition.

Background

AL&M petitioned the Board on May 12, 1998, under the Board’s general oversight
jurisdiction in the UP/SP Merger in order to add an additional remedial condition to those
imposed in Decision No. 44¹ by permitting the Burlington Northern and Santa Fe Railway

¹ Union Pacific Corporation, Union Pacific Railroad Company And Missouri Pacific Railroad
Company-- Control And Merger -- Southern Pacific Rail Corporation, Southern Pacific
BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 32760 (Sub-No. 21)

UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
-- CONTROL AND MERGER --
SOUTHERN PACIFIC RAIL CORPORATION, SOUTHERN PACIFIC
TRANSPORTATION COMPANY, ST. LOUIS SOUTHWESTERN RAILWAY
COMPANY, SPCL CORP, AND THE DENVER
AND RIO GRANDE WESTERN RAILROAD COMPANY

OVERSIGHT PROCEEDING

REPLY OF THE KANSAS CITY SOUTHERN RAILWAY
COMPANY TO THE PETITION OF THE ARKANSAS,
LOUISIANA AND MISSISSIPPI RAILROAD
COMPANY FOR AN ADDITIONAL
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Attorneys for The Kansas City Southern
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June 1, 1998
Company ("BNSF") to interchange traffic with the AL&M at Fordyce, AR. The Petition alleges that the merger of Union Pacific Railroad Company with Southern Pacific Transportation Company reduced competition for the traffic handled by AL&M, assertedly because KCS provides an insufficient competitive restraint on UP’s service. As proof of this supposed lack of competitiveness, the Petition states that UP has raised rates for traffic interchanged to it by AL&M and has provided poor service, particularly in the January to March 1998 time frame.

ARGUMENT

Summary

The Petition does not support granting the requested relief. The Petition contains no evidence that shippers who are located on the AL&M have suffered a reduction in competition for their traffic. Indeed, the Petition fails to include any statements or evidence from shippers that they are dissatisfied with KCS as a competitor to UP. It may be that the lack of shipper support for AL&M’s request reflects that the “rate” disputes at issue are really disputes between AL&M and UP over what divisions each carrier is entitled to and thus have no effect upon the shippers’ costs. In any event, KCS handled over 8,600 cars in 1997 and over 2,600 cars during the first quarter of 1998 that were interchanged with AL&M, demonstrating that KCS is a strong competitive presence vis-à-vis UP. AL&M’s claims that KCS’ route structure is too limited and that KCS has to interline too many shipments to compete with UP fail even to name destinations to which KCS’ service allegedly is insufficient. Indeed, to the extent that any potential destinations for traffic originating on AL&M are discernible, KCS routings often are in fact a

preferable choice to many UP routings or prospective BNSF routings, which would involve movement of all freight over Longview, TX. KCS handled traffic originating on AL&M’s line to dozens, if not hundreds, of destinations from Vermont to Florida and from California to Washington during 1997.

The insufficiency of UP service complained of by AL&M is no different than that suffered by many, including KCS, as a result of UP’s ongoing service meltdown. To some extent, that effect has been exacerbated by UP’s inability to maintain manageable levels of traffic in UP’s Pine Bluff Yard. The problem with UP’s Pine Bluff Yard appears at present to have been cured and thus UP’s service levels for AL&M traffic should improve.

Finally, AL&M’s analogy to the Lake Charles situation fails because in that situation KCS routings, which were largely KCS-UP joint line routings, were competing against SP single-line routings. The Board therefore properly concluded that Lake Charles shippers would, in a post-merger environment, no longer have two independent rail routings available to them, as the merged UP/SP would be involved in all available routes. Thus, the shippers were, in effect, 2-to-1 shippers. AL&M’s shippers do not fit that profile. Furthermore, because BNSF would have to rely on using UP lines to interchange with AL&M, while KCS has its own independent lines, and because BNSF would also have to interline AL&M’s traffic, BNSF could not offer more effective competition to UP than KCS currently does.

I. The Petition Should Be Denied as an Attempt by AL&M to Resolve a Division Dispute with UP Under the Guise of Preserving Competition for Shippers

AL&M alleges that lack of sufficient competition has enabled the UP to raise rates and has allowed UP’s service to falter. Petition, p. 7. Notably, only AL&M, not the shippers named in its petition, makes this argument. The fact that KCS has handled over 11,000 carloads for
AL&M shippers from January 1997 through March 1998 shows that KCS is competitive with UP. See Verified Statement of William W. Graham, Senior Vice President - Marketing, Kansas City Southern Lines at 2, attached hereto as Appendix 1 ("V.S. Graham"). It appears that what AL&M has cast as an attempt to preserve competition for shippers may actually be AL&M’s attempt to get the Board to resolve a divisions dispute between UP and AL&M.

AL&M’s Petition is deficient and should fail because no evidence is presented by any shipper stating dissatisfaction with KCS’ competitive service. Why no shippers support AL&M’s Petition is unclear. However, the careful wording of the Petition leaves open the strong possibility that it is AL&M which has had the amount of its division lowered, which for AL&M, but not for shippers, translates into a rate increase by UP. The Petition specifically refers to “rates provided by the merged UP to AL&M,” Petition at 1, “the lack of effective competition for [AL&M’s] traffic,” id. at 2, “UP increased its revenue for its portions of the movements,” Verified Statement of Larry J. Ahlers (“V.S. Ahlers”) at 6, and “UP has also imposed ‘hidden’ rate increases by transferring operating costs from itself to the AL&M and its customers.” Id. at 7. In other words, AL&M nowhere specifically states, and no shipper states, that the rates the shippers are being asked to pay have increased. To the contrary, AL&M’s carefully worded

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2 For example, if the AL&M shipper pays a total rate of $100 per carload for a joint AL&M/UP move, that revenue must be divided between AL&M and UP. The amount each carrier receives is its division of the total rate and is based upon negotiations between the carriers. It could be, for example, that prior to the merger SP received $70 of that rate and AL&M the remaining $30, but in a post-merger environment, UP now receives $90 of that revenue and AL&M the remaining $10. While such a new arrangement may represent what could be termed a “rate increase” to AL&M, the shipper is still paying only the $100 rate and has not suffered any competitive harm. The lack of shipper support for AL&M’s position implies that this is precisely what AL&M is complaining about, but this does not represent a competitive harm for which relief under Decision No. 44 is warranted.
petition appears calculated to disguise a divisions dispute between carriers in the rubric of preserving competitive service for shippers.

The precedent and principles cited by AL&M in support of its Petition are inapplicable if AL&M’s Petition actually concerns AL&M’s divisions on joint UP-AL&M routings. The Board and its predecessor have often stated that the Board’s ability to impose conditions on mergers is directed to preserving competitive options for the shippers or essential services to such shippers. The Board has stated numerous times that it will not impose conditions merely to preserve the revenue levels of competitors. E.g., UP/SP Merger, Decision No. 44 at 101. The Lake Charles portion of the UP/SP Merger, relied upon by AL&M, was intended to protect options available to Lake Charles shippers. It clearly was not intended to protect railroads. Moreover, AL&M has failed to make any showing concerning whether its services are essential to shippers on its line or concerning the impact of UP’s demand for greater divisions upon AL&M’s ability to continue to provide service to its shippers. Because there is no factual showing by AL&M on the essential services issue, the Board cannot even consider AL&M’s Petition as a means of resolving what appears to be a divisions dispute between AL&M and UP.

II. KCS Is An Effective Competitive Restraint Upon UP’s Service

Regardless of the exact nature of AL&M’s “rate increase,” AL&M would like the Board to believe that BNSF should be allowed access to an interchange with AL&M because KCS does not provide a strong enough competitive alternative to the UP for AL&M’s shippers and that BNSF supposedly would provide this strong competitive alternative. This is simply not the case. The attached Verified Statement of Mr. Graham shows that KCS handled 8634 carloads of freight in interchange with AL&M during 1997. V.S. Graham at 2 and Exhibit 1. As would be expected given UP’s service problems, that traffic has grown, on an annualized basis, such that
KCS handled 2657 carloads in interchange with AL&M during the first three months of 1998 alone. Id. Of those, 1294 cars were outbound movements, as compared to 1382 outbound movements via UP shown on Attachment 2 to V.S. Ahlers in AL&M’s Petition. Indeed, the fact that more traffic is being interchanged with KCS clearly shows that AL&M shippers do have competitive options and have utilized those options by tendering traffic to UP’s competitor—KCS. Clearly a carrier which in 15 months can attract over 11,000 carloads of freight away from UP - the largest rail system in the country - is a vital competitor. AL&M’s complaint that KCS is non-competitive because its route structure is too limited is invalid. As can be seen from Exhibit 1 to V.S. Graham, AL&M interchanged to KCS freight destined to scores of destinations across the country in 1997 and 1998. Again, the fact that this traffic was routed via KCS shows the vitality and competitiveness of KCS’ routes to those many destinations.

AL&M’s Petition lacks a crucial evidentiary foundation because no shipper specifies any destination to which KCS’ routings are not competitive. As Exhibit 1 to V.S. Graham shows, shippers on AL&M’s line have found KCS’ routings to dozens and dozens of destinations satisfactory and have tendered traffic which KCS has moved to those destinations. AL&M, on the other hand, has not presented even one shipper saying that it has attempted unsuccessfully to route shipments to particular destinations via KCS.

As further evidence that KCS’ routes available to AL&M’s shippers are competitive, KCS requested Snavely, King, Majoros, O’Connor & Lee, Inc. (“Snavely King”), an economic consulting firm, to analyze routes available for AL&M shippers. Because AL&M’s petition did not specify points to which its shippers allegedly are suffering competitive harm, the Snavely King analysis was based on points named on the last page of the Petition that were selected by AL&M to show the deterioration of UP transit times during UP’s service crisis. Theoretical
BNSF routings were indicated as originating at Longview, TX, because the verified statement of AL&M’s president states that BNSF would route the traffic it would pick up at Fordyce over Longview if the Petition were granted. See V.S. Ahlers at 10. The routes for each carrier which appeared most competitive are shown on Exhibit 2 to V.S. Graham. That exhibit identified the route, the interchanges involved (if any) and the distance. (Routes via UP and KCS are shown from current AL&M interchange points with those two carriers. BNSF routes are shown from Longview. Applicable distances via BNSF would have to be increased by 201 miles to account for the distance from Fordyce to Longview.)

Exhibit 2 to V.S. Graham shows that KCS offers AL&M’s shippers routes competitive with and often superior to those offered by UP or those that theoretically could be offered by BNSF if the Petition was granted. Of the 20 destinations listed, the listed KCS route is shorter than the UP route for 7 destinations, and while KCS often has to interline shipments to reach those ultimate destinations, UP also has to interline to reach more than half of the destinations. Again, these facts demonstrate the competitiveness of KCS routes with UP’s routes in serving AL&M’s shippers.

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3 The assumption that BNSF would have to route traffic interchanged with AL&M at Fordyce over Longview, TX, is sensible considering that BNSF would have to use its overhead trackage rights on the directionally-run southbound former SP Memphis to Houston line in order to interchange at Fordyce, plus the fact that Longview is the closest point south of Fordyce at which that SP line intersects a BNSF line.

4 While Exhibit 2 to V.S. Graham shows 7 KCS routings as three-carrier hauls, 6 of those likely would become 2 carrier interline movements if the CSX/NS application to acquire and divide Conrail were granted. Furthermore, it should be noted that on 5 of the 20 routes shown, allowing BNSF to interchange at Fordyce would likely replace the current AL&M-KCS-BNSF route with an AL&M-BNSF routing. Yet, AL&M has not shown any evidence why the current routing structure is inefficient or insufficient to provide a competitive check to UP or to establish that AL&M shippers have suffered a loss of an independent route as a result of the UP/SP Merger.
Exhibit 2 to V.S. Graham also shows that KCS routes are superior to the theoretical BNSF routes that could become available if the Petition were granted. Including consideration of the 201-mile distance from Fordyce to Longview, TX, none of the theoretical BNSF routes are shorter than available KCS routes. Using its trackage rights over UP, BNSF would be able to deliver more AL&M traffic without the need to interline it with another carrier than can KCS, but such service would be over longer routes, and given that BNSF would have to utilize its trackage rights, such traffic would more likely to be subject to UP’s control and the persistent service problems of UP.

KCS’ service and routes, on the other hand, are largely free of UP influence and congestion. V.S. Graham at 3 and Exhibits 1 and 2. KCS’ interchange with AL&M occurs via KCS track. Only one of the KCS routes shown on Exhibit 2 to V.S. Graham involves interchange with UP. Similarly, virtually none of the outbound traffic shown in Exhibit 1 to V.S. Graham is interchanged by KCS to UP. By contrast, BNSF would be totally dependent on UP for access to interchange with AL&M at Fordyce. As BNSF has often complained to the Board in periodic reports filed in either the UP/SP Merger oversight or in the Emergency Service Order proceeding, having to operate on UP track makes BNSF subject to the same service problems as

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5 Curiously, the need to interline shipments does not seem to bother AL&M with respect to UP and BNSF, but only with respect to KCS. AL&M is petitioning for BNSF to have access (via an interchange with AL&M) to all AL&M interchanged traffic that KCS must eventually interline to another carrier in order to deliver that shipment to its ultimate destination. If KCS can deliver AL&M interchanged traffic to the ultimate destination without interlining with another carrier, AL&M argues that BNSF should not have access to this traffic. Logically, one would assume then that BNSF should not get access to traffic that it must interline to another carrier for ultimate delivery to destination. Such is not the case, however. Instead, AL&M would give BNSF access to all traffic, whether or not BNSF would have to interline that traffic for ultimate delivery. In other words, AL&M does not judge UP routings or BNSF’s potential routings non-competitive because UP or BNSF has to interline the freight, but somehow the fact that KCS has to interline the traffic is alleged to make KCS routes non-competitive.
UP. See e.g., BNSF-PR-6 (Jan. 2, 1998) filed in this proceeding, at 2 and 17-19. BNSF has also complained of discriminatory treatment by UP in handling BNSF trains operating under trackage rights on UP. See BNSF-2 (Aug. 20, 1997) at 10, and UP/SP-314 (Aug. 26, 1997), each filed in this proceeding. Thus, BNSF’s service to Fordyce would be subject to UP control much more than KCS’ service to AL&M shippers, which is provided over KCS track and under KCS operating control.

The Petition was filed by the AL&M without direct evidence from shippers that they are being harmed by the alleged non-competitiveness of KCS’ service. Nowhere in the Petition or in the accompanying attachments does AL&M establish that its shippers have suffered a diminution of competition as a result of the UP/SP Merger so as to warrant imposition of an additional remedial condition. KCS offers a viable competitive alternative to thousands of carloads of freight generated by AL&M’s shippers each year and the fact that these shippers have chosen to route more of their traffic over KCS as a result of the UP service crisis clearly shows that AL&M shippers have two fully viable and competitive routes available to them.

III. AL&M’s Complaint Merely Reflects UP’s National Service Problems

The Petition contends that the supposed lack of effective competition has removed UP’s incentive to deliver quality service, depriving AL&M’s shippers of timely service. Petition at 6. In reality, however, the service problems complained of are the local manifestations of the poor service that UP has provided throughout most of the western half of the nation during the past 12

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6 Whether allowing BNSF to provide local service to Fordyce using UP’s directionally-run route will create additional operational problems on that UP line is a subject better left to UP and/or BNSF to address.
months, and in particular, congestion of UP’s Pine Bluff Yard, congestion which was relieved in late March and which has not recurred since that time.

The Petition mistakenly contends that UP could provide better service to AL&M’s shippers if only competition by KCS were strong enough to spur UP to do so. Petition at 5-6. However, the deterioration in UP’s service upon which AL&M relies merely reflected national trends in UP’s quality of service. The most direct cause of UP’s service deterioration to AL&M during January through March was the condition of UP’s Pine Bluff Yard, not the lack of an effective competitive alternative.

UP utilizes Pine Bluff Yard in servicing AL&M shippers, see Petition, Attachment C at 2, but as shown in UP’s weekly service reports to the STB, the normal number of cars on hand daily at UP’s Pine Bluff Yard averaged 75 percent of the standing car capacity of that yard during the mid-January through late March period. See Appendix 2 hereto, analyzing data from Major Terminal Condition Reports filed by UP with the STB for weeks ending January 2 to May 22, 1998. For the weeks ending February 27 and March 6, over 80 percent of the standing car capacity of the Pine Bluff Yard was filled with cars. Id. Such congestion no doubt greatly impaired the fluid operation of the Pine Bluff Yard and surrounding lines, as UP sometimes noted in its weekly reports. E.g., letter of March 9, 1998, accompanying UP’s Weekly Service Report for the week ending March 6, 1998 (“Due to congestion at Englewood, Settegast and Pine Bluff yards, southbound trains are backed up from Missouri to Texas.”) Since the end of March, however, the figures UP has reported to the STB have shown not more than 53 percent of the standing car capacity of the Pine Bluff Yard to be occupied on average. See Appendix 2. While it is not surprising that UP’s service to AL&M may have suffered during the January through March period due to congestion at the Pine Bluff Yard, it appears that UP now has that part of its
congestion problem in hand, which should alleviate service complaints by AL&M. In short, contrary to assertions by AL&M that improvements in UP’s service were a result of AL&M’s continual threats to litigate these issues at the STB, the improvements were most likely due to the consequence of UP working off the congestion of the Pine Bluff Yard.

IV. The Lake Charles Precedent is Inapplicable Here

The AL&M mistakenly compares the facts in the present case to those present in the Lake Charles portion of the UP/SP Merger decision. Petition at 9. AL&M then concludes (incorrectly) that since the Board granted BNSF the right to serve Lake Charles in order to act as a competitive restraint on UP, even though KCS already served Lake Charles, BNSF similarly should be granted the right to interchange traffic with AL&M at Fordyce, AR, even though KCS also interchanges directly with AL&M. The truth is, of course, that KCS is already a significant competitive restraint on UP, as shown by 11,000 carloads of freight tendered to KCS by AL&M’s shippers between January 1997 and March 1998. More importantly for purposes of AL&M’s Lake Charles analogy, however, is the fact that Lake Charles shippers were in most instances truly 2-to-1 shippers, whereas AL&M’s shippers are admittedly 3-to-2 shippers as the result of the UP/SP Merger. Furthermore, the Lake Charles remedy was imposed because it was also part of a larger privately negotiated settlement agreement (the CMA Agreement) that was adopted and imposed by the Board. Accordingly, the Board’s reasoning in granting BNSF access to Lake Charles is wholly inapplicable to AL&M’s Petition.

Prior to the UP/SP merger, most of the Lake Charles area was served directly by SP and by KCS. The Board found that much of KCS’ service was provided via joint-line routings with UP. “KCS must interline with UP or SP to provide efficient routings to the New Orleans, Houston and St. Louis gateways.” Decision No. 44 at 152. Thus, the Board reasoned that, prior
to the merger, Lake Charles shippers had two independent routings available to them, an SP single-line route or a KCS-UP joint-line route. The Board determined that an unconditioned merger of the UP and SP would have given the merged carrier control of both of these independent routings, resulting in the Lake Charles shippers suffering a reduction of competition. “Thus, while these shippers now benefit from direct rail competition, an unconditioned merger would place all their efficient rail routings under applicants’ control.” Id. Therefore, the Board treated Lake Charles as a 2-to-1 point and gave BNSF access to the Lake Charles area shippers, primarily pursuant to the BNSF/CMA settlement agreement negotiated with UP, as modified by the Board.

While Lake Charles shippers were in effect 2-to-1 shippers who would have suffered a competitive harm in an unconditioned merger, AL&M’s shippers are not such 2-to-1 shippers nor have they suffered any competitive harm as a result of the UP/SP merger. While AL&M has been, both pre- and post-merger, the sole carrier with direct access to shippers on its line, it does provide joint-line routings via its direct connections with both UP and KCS. Prior to the merger, AL&M also had a direct interchange with SP at Fordyce. While the merger did eliminate the AL&M-SP routing as a competitive alternative, AL&M shippers still have the option of interlining with either KCS or UP. Accordingly, AL&M’s shippers are much more akin to 3-to-2 shippers than were Lake Charles shippers. Curiously, AL&M admits as much. “AL&M did not request the condition it is now seeking because there appeared to be no precedent for remedial access by a third carrier where a merger would reduce the available carriers from 3 to 2.” Petition at 4. While there may be instances where additional remedial conditions should be imposed in 3 to 2 situations, especially in those instances where despite the presence of two other
carriers or independent routings one carrier so dominates a market that it has a virtual monopoly, such is the not the case here.

The Board’s decision with respect to 2-to-1 Lake Charles shippers does not apply for AL&M’s 3-to-2 shippers. At Lake Charles, the Board acted to preserve two independent routings by giving BNSF direct access to these shippers, although the Board could have also chosen simply to establish a KCS-BNSF interchange to achieve the same result. With respect to AL&M, shippers on its lines already have access to two independent routings and neither of those routings were affected by the UP/SP merger. Thus, the Board’s action to preserve competition with respect to Lake Charles shippers does not call for creating additional competition in this instance where two independent service options already exist.

CONCLUSION

KCS opposes the request made by the AL&M to permit the BNSF to interchange traffic with AL&M at Fordyce, AR. It appears that AL&M’s complaint is in fact merely a divisions dispute with UP. If so, AL&M has failed to present evidence that it provides essential services and that those services will be lost if it is not protected, nor has AL&M shown that the requested condition is needed to ensure that effective competition is available for AL&M’s shippers. No AL&M shippers have come forth expressing dissatisfaction with KCS’ service. KCS already provides service competitive with UP’s, handling over 11,000 carloads for AL&M shippers between January 1997 and March 1998. KCS’ route structure provides competitive routes to the destinations to which AL&M’s shippers ship. The proposed BNSF routings would often be more circuitous than KCS’ currently available routes.
The service problems of which AL&M complains seem most closely tied to problems with UP’s Pine Bluff Yard, problems which seem, for the moment at least, to have been remedied.

AL&M’s analogy between its situation and the Lake Charles, LA principles considered in Decision No. 44 fails. The Board found that Lake Charles shippers were, as a result of the proposed UP/SP Merger, similar to 2-to-1 shippers because, post-merger, they would have only one independent route. AL&M’s shippers, by contrast, have two independent competitive routes - UP and KCS - available to them which are both providing effective competitive alternatives. Accordingly, the remedy the Board provided at Lake Charles is not needed by AL&M’s shippers, assuming it is indeed they, and not merely AL&M, whose rates are being increased. In addition, BNSF’s competitiveness with UP at Fordyce would be limited by BNSF’s reliance on its trackage rights over UP, unlike KCS’ independent competitive routes that serve AL&M’s shippers. For all of the foregoing reasons, the Board should deny the Petition.

Respectfully submitted, this 1st day of June, 1998.

Richard P. Bruening
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THE KANSAS CITY SOUTHERN RAILWAY COMPANY
114 West 11th Street
Kansas City, Missouri 64105
Tel: (816) 983-1392
Fax: (816) 983-1227

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Suite 500 East
Washington, D.C. 20005-3314
Tel: (202) 274-2950
Fax: (202) 274-2994

Attorneys for The Kansas City Southern Railway Company
VERIFIED STATEMENT OF WILLIAM W. GRAHAM

My name is William W. Graham. I am Senior Vice President-Marketing of The Kansas City Southern Railway Company ("KCS"). My business address is 114 West 11th Street, Kansas City, MO 64105.

This statement has two purposes. First, it presents in Exhibit 1 highly confidential data showing that KCS is already a vital competitor of Union Pacific Railroad Co. ("UP") for traffic originating or terminating on the rail line operated by the Arkansas, Louisiana and Mississippi Railroad Company ("AL&M"). Secondly, it presents a study by a KCS consultant showing that KCS' routes to destinations designated by AL&M are competitive with available UP routings from AL&M's line to those same destinations, and in almost all instances are shorter than the routings that would be available via the Burlington Northern and Santa Fe Railway Co. ("BNSF").
Exhibit 1 hereto is a printout of KCS records showing numbers of carloads and revenues by origin and destination of traffic interchanged between KCS and AL&M for calendar year 1997 and the first fiscal quarter of 1998. These records are essential, confidential business data maintained by KCS in the ordinary course of its operations. I review and use records such as these on a regular basis in my role with KCS. The printout shows that KCS handled 8634 carloads of freight that either originated or terminated on the AL&M during 1997. During the first quarter of 1998, KCS' volume, on an annualized basis, was even higher, totaling 2657 carloads in the January through March period. All together, KCS moved over 11,000 carloads of freight in conjunction with AL&M during these periods of time. As shown in Exhibit 1, these shipments generated substantial revenue to KCS, and moved to or from a large number of points across the country.

Exhibit 2 is a study of available rail routings prepared at KCS' request by Snavely, King, Majoros, O'Connor & Lee, Inc., a consulting firm. The study was requested to show comparisons between routes by which KCS and UP presently serve shippers on the AL&M, as well as comparing those routes with potential BNSF routings if BNSF were granted the right to interchange traffic with AL&M at Fordyce, AR, as requested in AL&M's May 12, 1998 petition in this matter. I am advised that the study results contained in Exhibit 2 are those which appear to show the most competitive current route (or, in the case of BNSF, the most competitive possible route) by which traffic originated on the AL&M could be handled.

In my view, the study shows two things. First, as between KCS and UP, each carrier has advantages on some routes in terms of circuitry. The routes to many of the destinations shown are joint-line routes for both KCS and UP. Second, as between KCS and a possible routing via BNSF, it appears that KCS' route would always be less circuitous that BNSF's theoretical route,
once the additional distance of 201 miles between Fordyce and Longview, TX is factored into the distance shown for BNSF’s route. Several of the KCS routes shown are interline routes with BNSF. It is also important that KCS routes indicated in Exhibits 1 and 2 are virtually all independent of UP, while all shipments routed via BNSF as proposed by AI&I would have to move, at the very least, 201 miles over UP track from Fordyce to Longview, TX. Therefore, the proposed BNSF routings would be more vulnerable to erratic UP service than are KCS’ routings, which are not UP-dependent.
**Comparison of Selected Routes Using KCS, UP or BNSF as Originating Railroad**

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<th>State</th>
<th>Destination City</th>
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Snavely King Majoros O'Connor & Lee, Inc.
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VERIFICATION

STATE OF MISSOURI  )
COUNTY OF JACKSON  ) ss.

I, William W. Graham, being first duly sworn, upon my oath state that I have read the foregoing statement and the contents thereof are true and correct as stated.

William W. Graham

Subscribed and sworn to before me, a Notary Public in and for the above stated State and County, this 27th day of May, 1998.

Yvonne Powers
Notary Public

YVONNE POWERS
Notary Public – Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Aug. 12, 2000
## Pine Bluff Yard Congestion (1)
### January 2 - May 22, 1998

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<th>Average Major Terminals Percentage Full</th>
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<td>5/22/98</td>
<td>1387</td>
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</tr>
</tbody>
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(1) Source: Union Pacific Railroad Company Weekly Report Nos. 12 to 32, Major Terminal Condition Reports.

(2) Based on UP's stated 60' Car Standing Capacity of 3559.
CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of June, 1998, a true copy of the Public Version of the foregoing “Reply Of The Kansas City Southern Railway Company To The Petition Of The Arkansas, Louisiana And Mississippi Railroad Company For An Additional Remedial Condition,” was served by first class mail or more expeditious service upon all parties of record to this proceeding. A copy of the Highly Confidential Version of the aforesaid filing will be provided upon request to outside counsel who have signed the Highly Confidential undertaking pursuant to Decision No. 2, served September 1, 1995, in this matter.

David C. Reeves
Attorney for Kansas City Southern Railway Company