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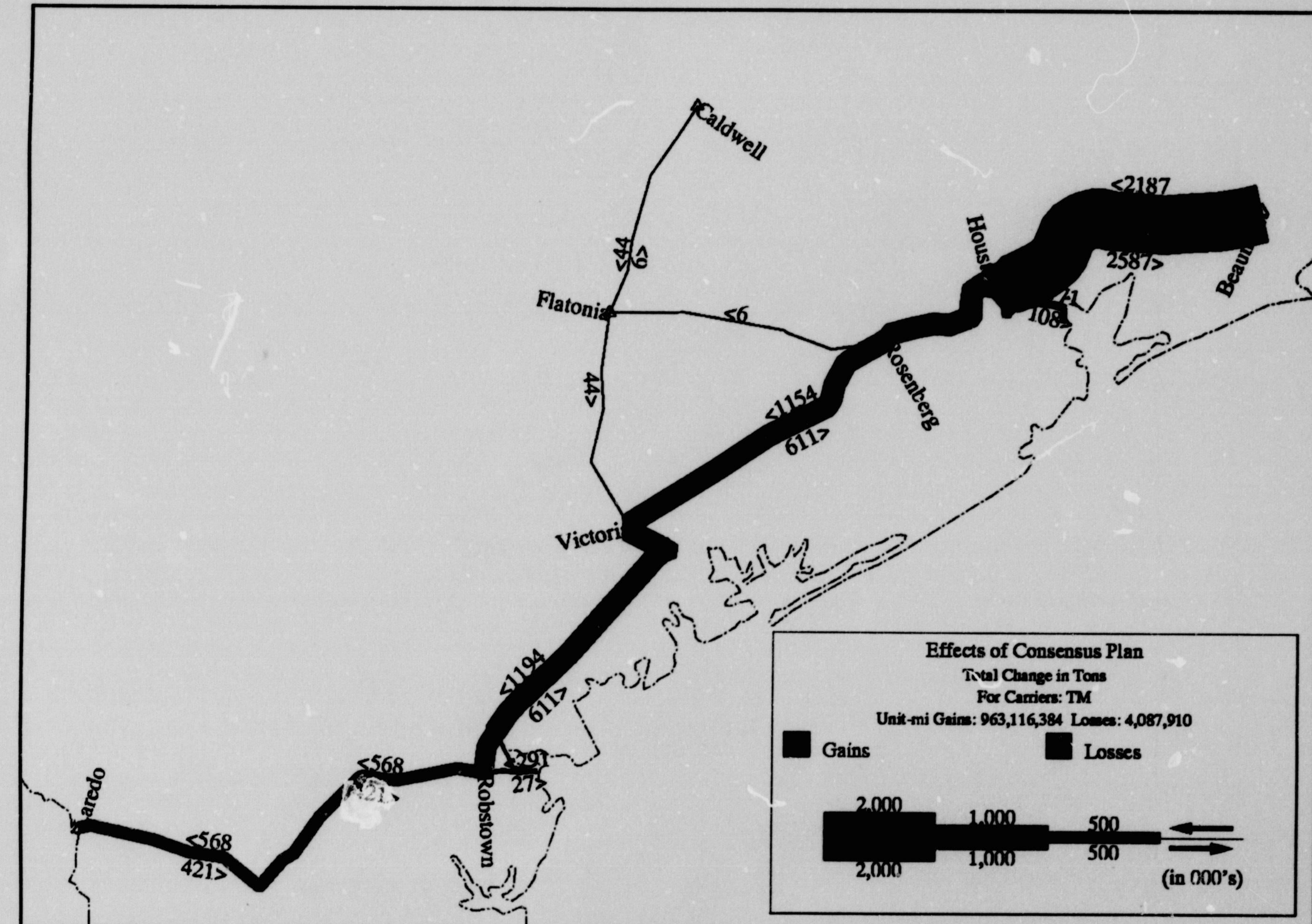
Exhibit 2

1996 Summary of Consensus Plan Proposal
Includes KCSR Alliance with CN/IC Transaction
Change in Revenue from Base Study in Millions of USD

	Service Type				
RR	General Merchandise	Intermodal	Coal/Bulk	Auto Rack	Total Change
TexMex	$29.6	$6.8	$1.9	$17.0	$55.3
KCS	$42.6	$9.5	$2.1	$10.6	$64.8
BN	$26.9	($5.1)	$0.4	($1.8)	$20.4
UPSP	($98.5)	($17.8)	($4.7)	($33.9)	($154.9)

* Includes NS-Hagerstown, MD and CSX-Park Junction, PA adjustments.

Exhibit 3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Effects of Consensus Plan
Total Change in Tons
For Carriers: TM
Unit-mi Gains: 963,116,384 Losses: 4,087,910
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Losses
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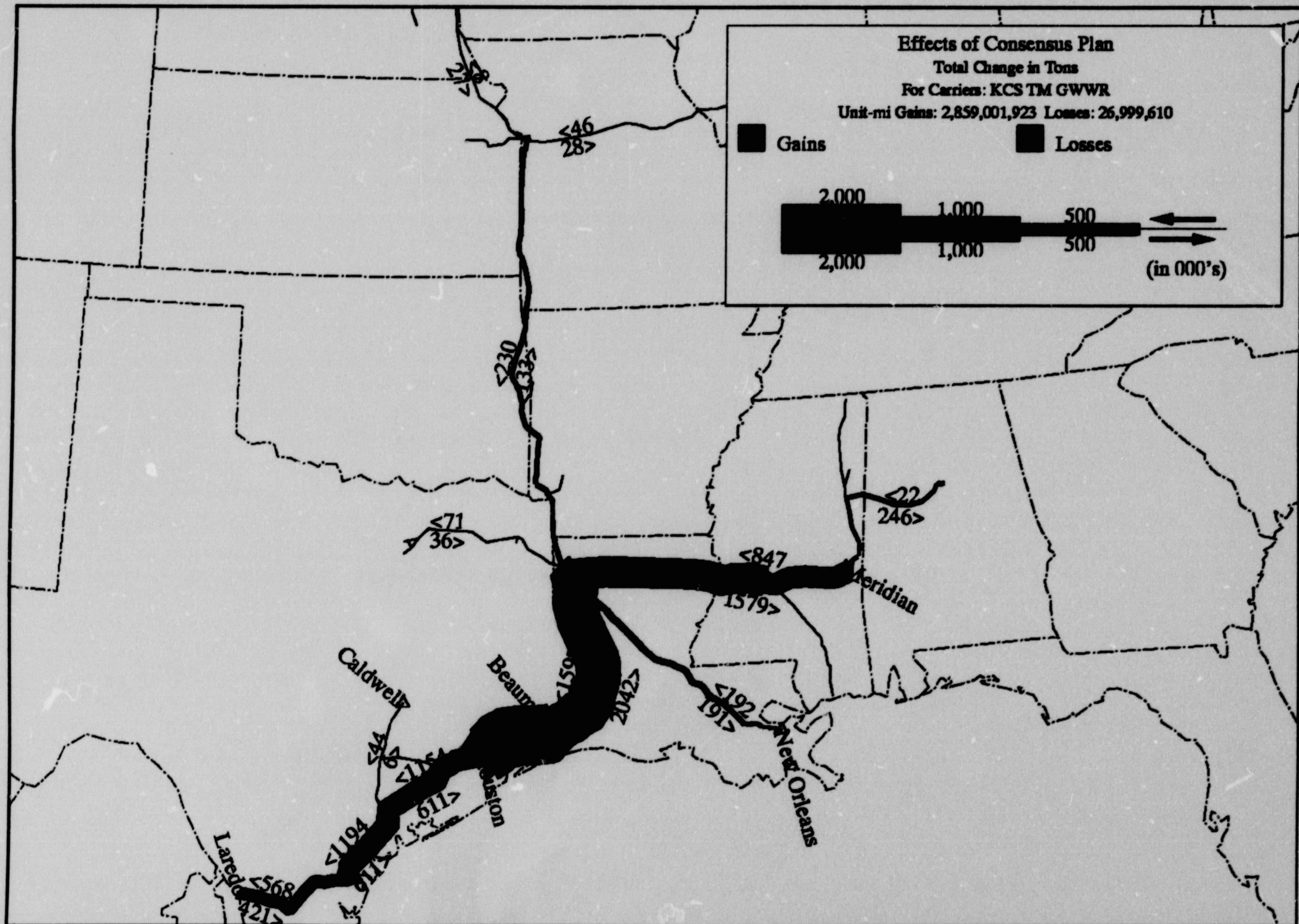
1,000
500
500
1,000
2,000
(in 000's)

Exhibit 4



Effects of Consensus Plan
Total Change in Tons
For Carriers: KCS TM GWWR
Unit-mi Gains: 2,859,001,923 Losses: 26,999,610
Gains
Losses
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1,000
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(in 000's)
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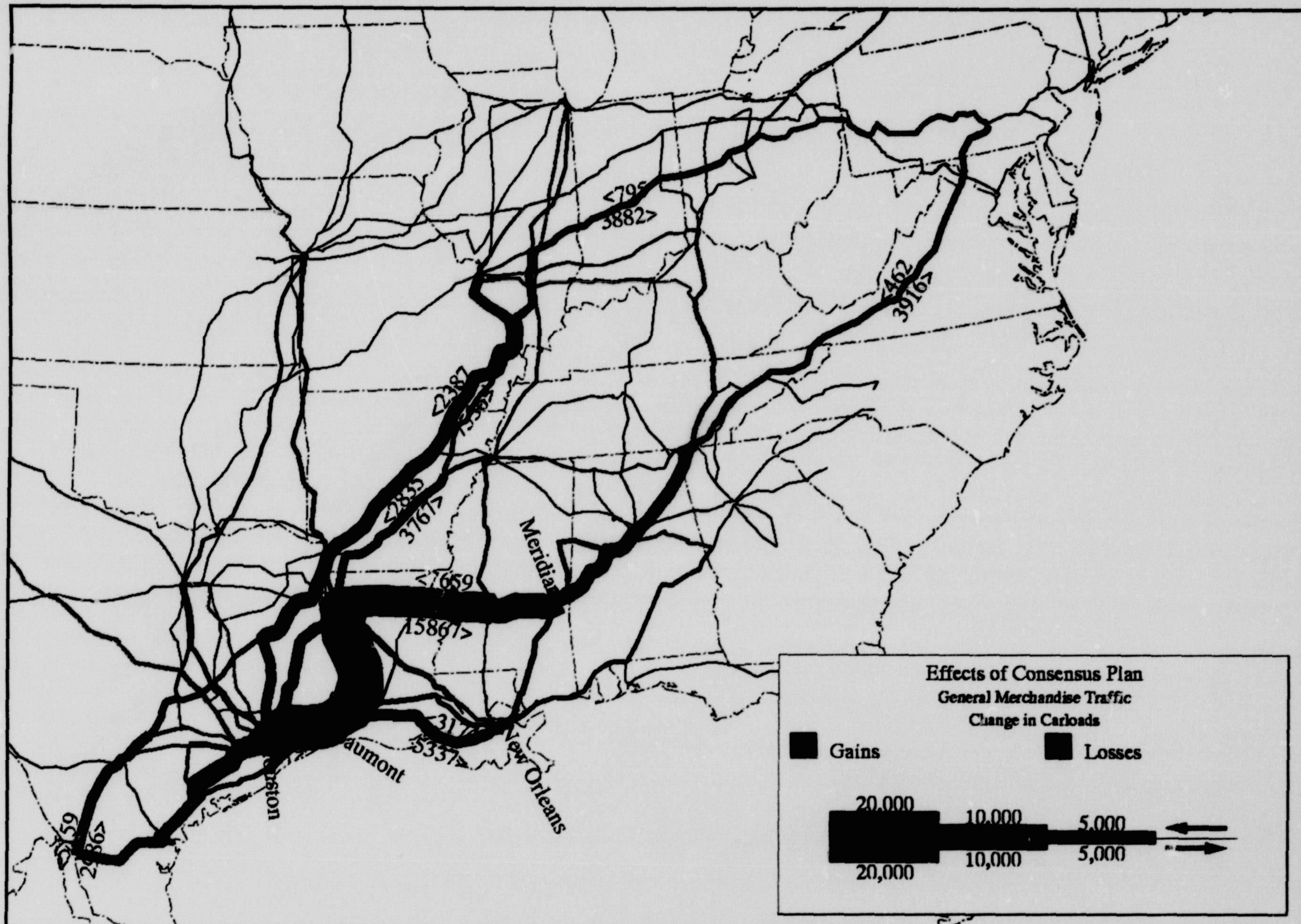
Exhibit 5



Effects of Consensus Plan
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Change in Carloads
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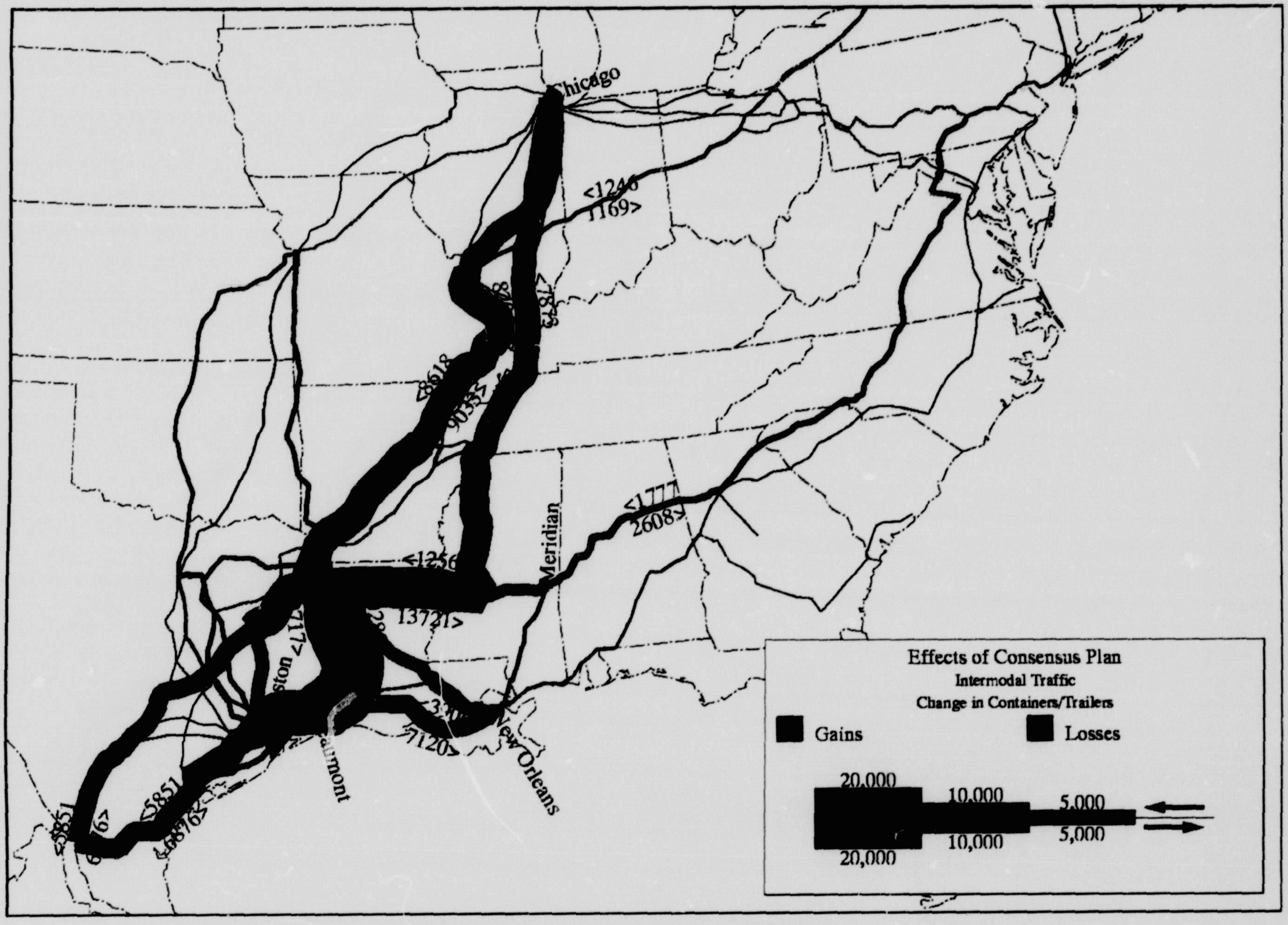
Houston

Exhibit 6



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Effects of Consensus Plan
Intermodal Traffic
Change in Containers/Trailers
Gains
Losses
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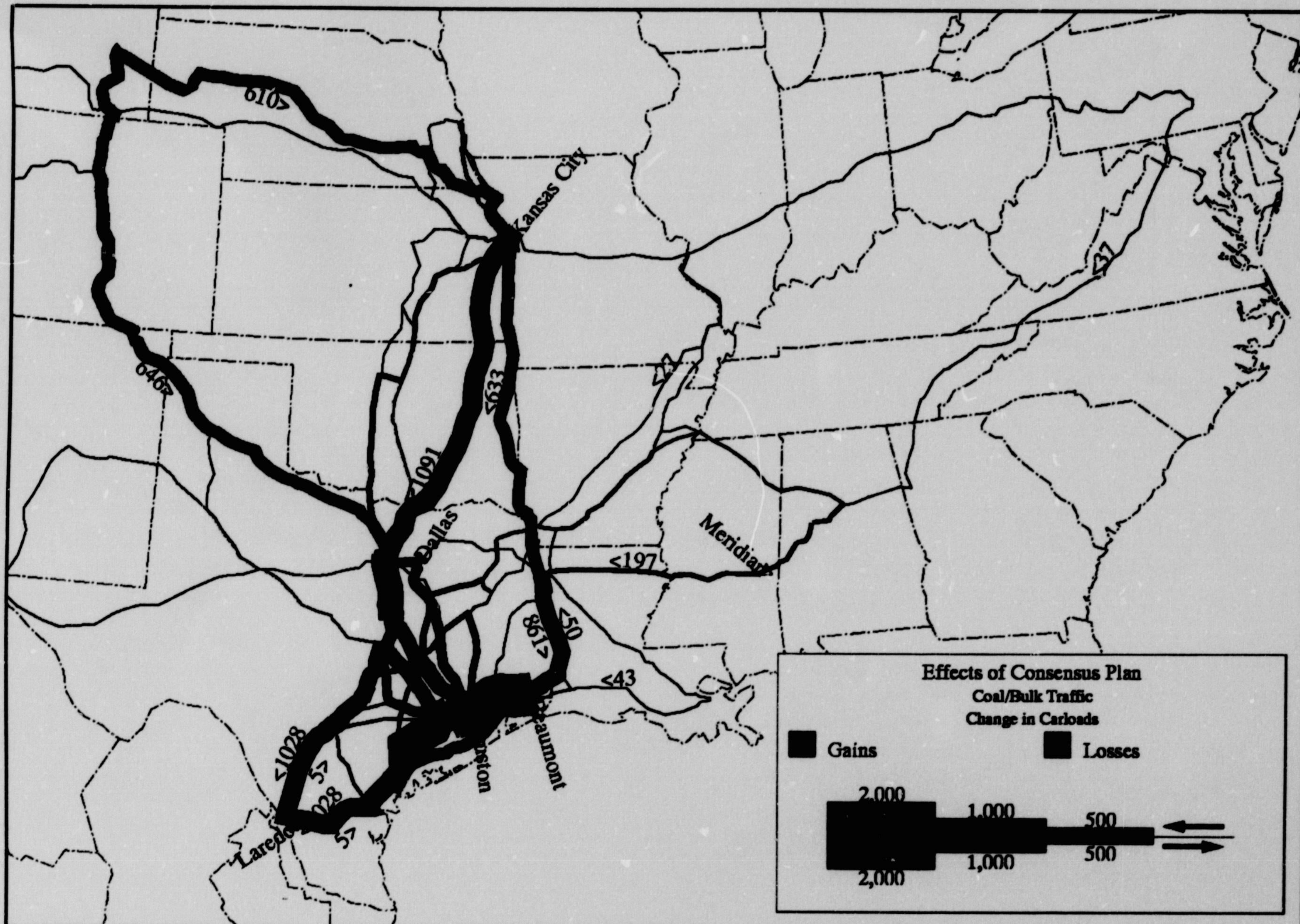
20,000

Exhibit 7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Laredo
Effects of Consensus Plan
Coal/Bulk Traffic
Change in Carloads
Gains
Losses
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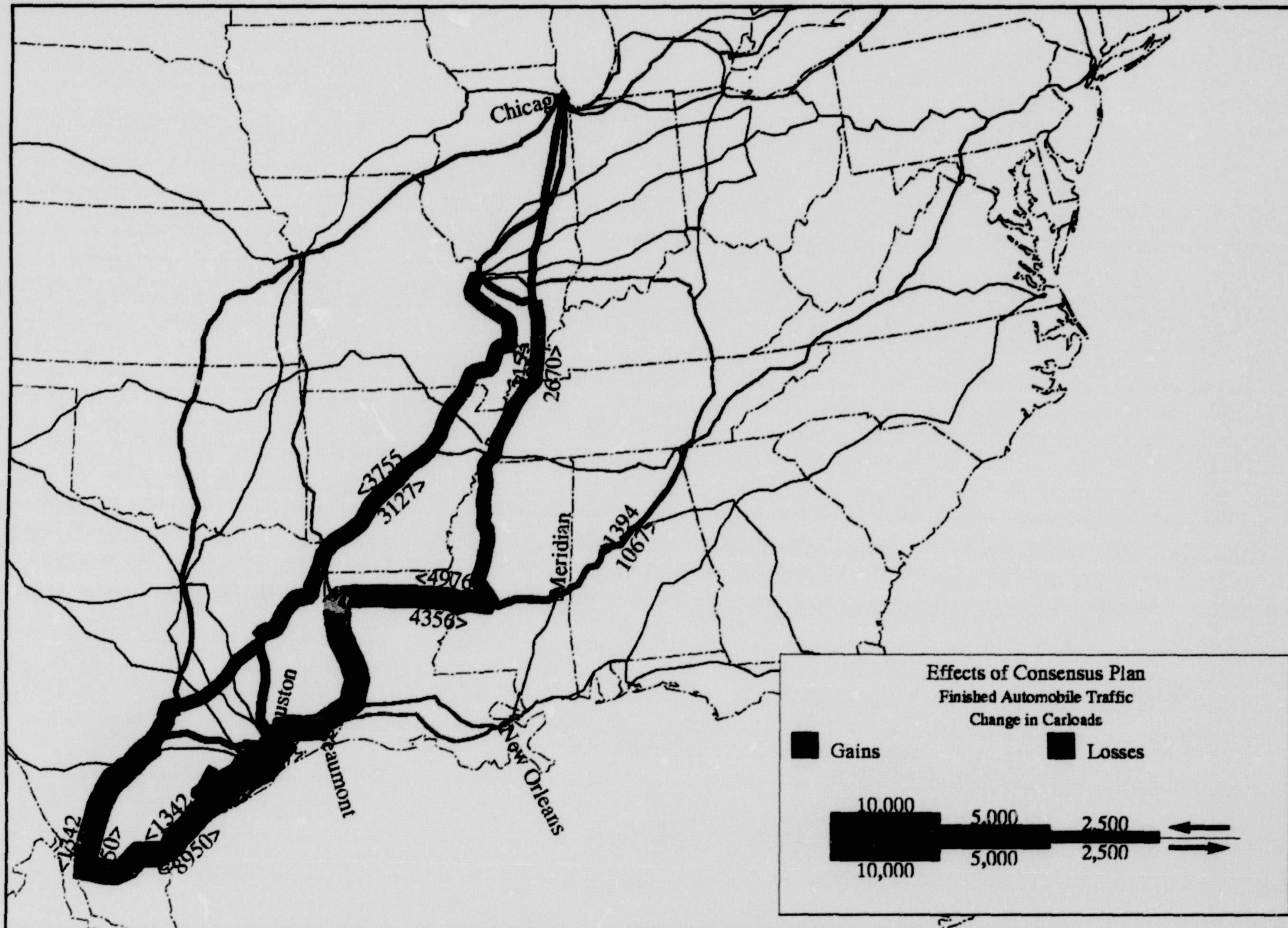
1,000
2,000

Exhibit 8



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eaumont
New Orleans
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Effects of Consensus Plan
Finished Automobile Traffic
Change in Carloads
Gains
Losses
10,000
5,000
2,500
5,000
2,500
10,000

VERIFICATION

STATE OF NEW JERSEY)
) ss.
COUNTY OF MERCER)

I, Michael H. Rogers, being first duly sworn, upon my oath state that I have read the foregoing statements and the contents thereof are true and correct as stated.

Michael H Rogers

Michael H. Rogers

Subscribed and sworn to before me this 2nd day of July, 1998.

Mary B. Kelly

Notary Public

MARY B. KELLY
NOTARY PUBLIC OF NEW JERSEY

My Commission Expires: MY COMMISSION EXPIRES DEC. 2, 1998

0011278.DOC

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

JOSEPH J. PLAISTOW

VERIFIED STATEMENT

OF

JOSEPH J. PLAISTOW

My name is Joseph J. Plaistow, Vice President and principal of Snavely King Majoros O'Connor & Lee, Inc. (hereinafter, "SK") with offices at 1220 L Street, NW, Suite 410, Washington, DC 20005. Throughout my 26-year career in transportation, I have studied the economics of providing transportation services by private and public transportation companies. For much of that time, I also studied how railroads can meet shippers' needs in a cost and operationally efficient manner.

Many of my cost and economic analyses were prepared as testimony before the Surface Transportation Board ("STB") or its predecessor the Interstate Commerce Commission. In 1976, I was admitted to practice before the Interstate Commerce Commission as a non-attorney practitioner. I have submitted several verified statements in this proceeding and related matters on behalf of the Kansas City Southern Railway Company ("KCS").

In Finance Docket No. 33388, the joint control of Conrail by Norfolk Southern and CSX, I was responsible for the development of the estimated benefits Norfolk Southern will realize as a result of the acquisition.

Exhibit No. JJP-1, attached, is a more detailed statement of my background and qualifications.

1. INTRODUCTION

In this, the STB's special Houston/Gulf Coast Oversight proceeding of the UP/SP merger (Finance Docket No. 32760 (Sub No. 26)), the Consensus Parties have asked me to describe the financial and economic impact of implementing the operations resulting from the grant of the Consensus Plan's additional remedial conditions designed to provide a permanent solution to the rail service crisis and competitive problems in the Houston/Gulf Coast area. On March 30, 1998, I filed a verified statement describing an earlier plan filed with the TM/KCS Joint Petition, TM-7/KCS-7.

This verified statement describes the financial results of implementing the Consensus Plan. The Consensus Plan:

- Permanently removes The Tex Mex Routing Restriction Condition imposed by the STB which provides that all freight handled by Tex Mex pursuant to such trackage rights must have a prior or subsequent movement on Tex Mex's Laredo-Robstown-Corpus Christi line;[1]
- Makes permanent the trackage rights granted to Tex Mex over the Union Pacific's Brownsville Subdivision between Placedo and Algoa, TX and over The Burlington Northern and Santa Fe Railway Co. ("BNSF") between Algoa and TN&O Jct.;
- Implements neutral switching by the Port Terminal Railroad Association ("PTRA") encompassing all the industries and trackage served by the PTRA, that formerly served by the Houston Belt and Terminal Railway Co. ("HBT"), and on the Clinton Branch, and including PTRA trackage rights over the former HBT and the Clinton Branch and the use of appropriate yards;
- Includes neutral switching for all customers located on the former SP Galveston Subdivision between Harrisburg Junction and Galveston including the Bayport Loop, and PTRA trackage rights and customer access over both the former SP and UP routes between Houston and Galveston;
- Includes neutral dispatching across the PTRA neutral switching area ("the Greater Houston Terminal Area") and all the trackage rights necessary to enable the neutral dispatcher to route trains over the most efficient routes;

[1] *See* UP/SP Decision No. 44, served Aug. 12, 1996, slip op. at 30-33 and 147-51.

- Requires the sale of UP's rights to SP's former line between Rosenberg, TX and Victoria, TX;
- Permits Tex Mex to rehabilitate the Rosenberg to Victoria line, calls for granting trackage rights to UP and BNSF over that line to facilitate UP's directional running, and calls for UP to grant to Tex Mex trackage rights over the two miles between Milepost 87.8 and the point of connection to UP's Port LaVaca branch at Victoria;
- Requires Tex Mex to give up its trackage rights on UP's Glidden Subdivision between Rosenberg and Flatonia when Tex Mex commences operations on the Rosenberg to Victoria line;
- Requires UP to sell or lease an existing Houston yard (such as Booth Yard) to Tex Mex at a reasonable rate and for Tex Mex to reconstruct the south end of Booth Yard (if that is the yard to be leased or sold to Tex Mex by UP);
- Requires Tex Mex to lease temporarily to UP storage capacity for a maximum of 300 cars at the Houston yard which Tex Mex will acquire by lease or purchase from UP and then, when the Rosenberg-Victoria line and a storage yard between Rosenberg and El Campo are completed, to lease UP space at that yard on the Victoria to Rosenberg line segment,
- Requires UP to allow Tex Mex/KCS to construct a new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, TX (that is, Houston to Beaumont);
- Requires Tex Mex to retain trackage rights to, but to deed ownership of the newly constructed line to, UP in exchange for the deed to UP's Beaumont Subdivision between Settegast Junction and Langham Road, Beaumont, TX; and
- Requires Tex Mex to dispatch this line (the old UP Beaumont Subdivision) from Houston and to grant BNSF and UP trackage rights over that line.

The purpose of this Verified Statement is to explain the preparation of the Statement of Benefits and of the pro forma financial statements (balance sheets and income accounts) which describe the Consensus Plan's financial effects.

Michael H. Rogers, Vice President, ALK Associates, Inc., has provided me with traffic level projections expected to result from implementation of the Consensus Plan. Traffic diversions and the resulting carload volume and revenue levels provided by Witness Rogers are reflected in the Statement of Benefits. Pat Watts, Tex Mex Vice President-Transportation, developed the operating plan for the projected traffic levels and the method of operations consistent with the Consensus Plan. Harlan Ritter, Kansas City Southern Vice President and Executive Representative and Paul Broussard of Paul L. Broussard and Associates have provided operating and expenditure information for the Houston area including the capital expenditures required to integrate Booth Yard into the operations of Tex Mex. David Brookings, KCS Vice President and Executive Representative provided the acquisition cost and capital expenditure estimates required to construct the new line Houston to Beaumont, to restore the Victoria to Rosenberg line segment, and to build a new storage yard on the Victoria to Rosenberg line segment. Witness David M. Lewis gave me the right of way acquisition costs associated with the Victoria to Rosenberg line. Larry Fields, Tex Mex President and Chief Executive Officer, provided capital expenditure estimates for the new yard at Laredo, the siding at Muil, the siding at Realitos, the siding at Killam, the bridge near Killam, mainline ties, upgrading portions of Booth Yard, the Robstown siding and the Robstown connection. Economies inherent to Witness Watts' operating plan have been incorporated into my Statement of Benefits.

I report the financial information that would be required by Section 1180.9 of 49 CFR. This includes pro forma balance sheets, income accounts and sources and applications of funds for the number of years following consummation of the transaction necessary to effect the operating plan. I report the earnings available for fixed charges, net earnings, effect on total fixed charges, operating ratios and a number of other financial ratios.

The financial statements are created in the following steps:

- Select the financial statements representing the most recent 12-month period prior to implementation of the Consensus Plan. In this case, I selected Tex Mex financial statements for the calendar year 1996.
- Modify the 1996 financial statements to reflect known changes between the close of 1996 and the initiation of implementation of the Consensus Plan. (For purposes of this analysis, I assume that these known changes did not begin until after 1996.[2])
- Calculate the Statement of Benefits reflecting the financial effect of implementing the Consensus Plan.
- Develop the Tex Mex pro formas post-Consensus Plan by adjusting the financial statements to reflect the financial effects summarized in the Statement of Benefits.

My Statement of Benefits reflects the implementation of the Consensus Plan, that is, the change between the Consensus Plan and the Base Case:

- The **Base Case** is the state from which the Consensus Plan is implemented. The Base Case includes known operational changes post-1996, most significant of which is the construction of the new yard at Laredo, described in the verified statement of Larry Fields included in TM-7/KCS-7, which will permit Tex Mex to handle two new traffic categories, intermodal and automotive. The Base Case reflects Tex Mex operations following full implementation of the trackage rights Tex Mex received as a

[2] Since "[c]ommon control [of SP by UP] was consummated on September 11, 1996" (UP/SP Merger Decision No. 62, served Nov. 27, 1996, at 2) and UP's implementation of its merger plans in Texas did not occur until well into 1997, the UP/SP merger had little, if any, effect on Tex Mex in 1996.

result of the Union Pacific/Southern Pacific merger and full implementation of the Union Pacific agreement with BNSF to share ownership of the Houston to New Orleans line segment. The trackage rights granted Tex Mex include the following:

1) Trackage rights over the lines shown in the map in Section 1180.6(a)(6) (Corpus Christi to Placedo to Flatonia to Rosenberg to Houston to Beaumont).
2) The alternate route through Houston "(a) to allow Tex Mex effective connections to HB&T, to PTRA, and to various yards; and (b) to provide an alternative route through Houston in the event of congestion. Tex Mex has the right to insist that any realignment of its Houston routes provide both effective connections [to the HBT, the PTRA and various yards] and an alternative route" for use in the event of congestion.[3]
3) The STB granted "Tex Mex all of the trackage rights it had sought, including access to 2-to-1 shippers."[4] The STB "granted Tex Mex its trackage rights both to preserve a competitive routing at Laredo and to preserve the essential services now provided by Tex Mex."[5]
4) The Tex Mex Routing Restriction Condition.

Although at the time the analysis was made, the emergency service order ("ESO") conditions were in effect, they have not been taken into account in the Base Case.

- The **Consensus Plan** is the eight point plan as described throughout this filing.

As a matter of organization, first, I draw conclusions from the completed analyses, then, I explain the development of the Statement of Benefits and the post-Consensus Plan pro forma financial statements.

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[3] UP/SP Merger, Decision No. 47, decided September 9, 1997, at 12.

[4] UP/SP Merger, Decision No. 47 at 15.

[5] UP/SP Merger, Decision No. 47 at 16.

2. CONCLUSIONS

I conclude the following from the completed financials:

a) In spite of UP's discrimination and service meltdown and the severe damage they do to Tex Mex's ability to compete effectively, Tex Mex has been able to 1) continue providing essential services to its on-line shippers; 2) provide an alternative to the UP at Laredo, and 3) serve as primary operator of Laredo's International Bridge.

b) If the Board grants the relief requested in the Consensus Plan, the planned infrastructure and capacity-enhancement projects and capital improvements will be economically justified. Those capacity increasing investments will provide relief to Houston's congestion and additional competitive relief to Houston's shippers. The Victoria to Rosenberg line segment is an investment that even Union Pacific recognizes as having "considerable merit" and "would help address the capacity shortfall described by the STB in [its February 26, 1998] decision."[6] Double-tracking Houston to Beaumont provides capacity relief that should help all traffic and carriers operating out of Houston. Building a new storage yard facility on the Victoria to Rosenberg line should contribute toward relieving congestion in the region.

a) Tex Mex has been able to 1) continue providing essential services to its on-line shippers; 2) provide an alternative to the UP at Laredo, and 3) serve as primary operator of Laredo's International Bridge in spite of UP's service meltdown and its devastating effect on Tex Mex profitability and ability to compete effectively.

Even though Tex Mex lost $994,000 in 1995, had net operating income of only $972,000 in 1996, and lost $1,193,000 in 1997, the rights granted to Tex Mex as STB-imposed UP/SP merger conditions have made possible Tex Mex's uninterrupted provision of essential services and continuation as primary operator of Laredo's International Bridge. The rights granted also provided the foundation for Tex Mex's $9.5 million investment in the new Laredo yard and in

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[6] February 27, 1998 letter from Dick Davidson, Union Pacific Chairman, to Tex Mex's President & CEO, Larry Fields and Michael Haverty, President & CEO, KCS.

the future of this international traffic. The new Laredo yard enables Tex Mex to handle intermodal and automotive traffic for the first time, breaking Union Pacific's Laredo monopoly over these commodities.

In 1996, Tex Mex handled 36,660 carloads, operated 5,333,272 car-miles, moved 400,738,197 ton-miles, incurred expenses of $18.8 million, and produced revenues of $19.8 million and net operating income of $972,000. The highlighted portion of the following table summarizes the *incremental* change from 1996 to the Base Case. The Base Case reflects the implementation of the conditions the STB imposed on its approval of the UP/SP merger and the other known changes since the close of 1996 absent the ESO conditions.

Table 1

Incremental Results of Traffic Analyses: **Base Case**

Traffic Category	Carloads	Car Miles (000's)	Ton Miles (000's)	Expenses (000's)	Revenues (000's)	Net Oper. Inc. (000's)
1996 to Base Case	***8,474***	***1,701***	***57,148***	***$4,389***	***$8,773***	***$4,384***
Base Case to Consensus Plan	99,154	23,718	960,533	39,551	55,343	15,793

Full implementation of the known changes since the end of 1996 produces a net gain of 8,474 carloads. The net gain resulted primarily from a 1,511 carload increase in Tex Mex originated traffic, a 8,242 carload loss from former Southern Pacific traffic being diverted to Union Pacific, its merger partner, and a 14,397 carload gain from BNSF. Changes in the pattern of interchange among Tex Mex and the other railroads in the region from ALK Witness Rogers' traffic flow analyses are shown in Table 2 below.

Table 2

Summary of Changes in Tex Mex Interchanges: **1996 to Base Case**

Tex Mex I/C Partner	**Carloads I/C: 1996**	**Carloads I/C: Base Case**	**Carloads I/C: Net Change**
UP/MP	1,782	850	(932)
SP	16,158	7,916	(8,242)
BNSF	3,990	18,387	14,397
TFM	31,907	39,391	7,484

Tex Mex incremental revenue from the additional intermodal traffic, automotive traffic, BNSF interchange traffic and extended hauls more than offsets the revenue reduction from lost carloads of SP interchanged traffic resulting from SP's merger with the UP.

The net economic effect of these changes is to increase net operating income from \$972,000 in 1996 to \$4.4 million in the Base Case year. However, that level of profitability assumes cost levels similar to those experienced in 1996. 1997 was very different from 1996 because the UP service meltdown in Houston raised the operating ratios of all Texas carriers. Tex Mex's operating ratio ballooned to over 113% in the 3rd quarter of 1997 and an operating loss of \$1,193,000 resulted for the full year.

Tex Mex's financial results in 1997 were not good, but they would surely have been intolerable without the STB imposed conditions to the UP/SP merger granting Tex Mex its requested trackage rights. Without those rights, Tex Mex losses would have been substantially larger and Tex Mex may not have been able to 1) continue providing essential services to its on-line customers; 2) provide an alternative to the UP at Laredo; nor 3) serve as the primary operator of the International Bridge at Laredo.[7]

In subsection b), below, I describe the estimated level of operating profits realized if the Consensus Plan is implemented.

b) If the Board grants relief requested in the Consensus Plan, the planned infrastructure and capacity improvement projects and capital improvements will be economically justified.

The highlighted portion of Table 3 below summarizes the *incremental* results of implementing the Consensus Plan.

Table 3

Incremental Results of Traffic Analyses: **Consensus Plan**

Traffic Category	**Carloads**	**Car Miles (000's)**	**Ton Miles (000's)**	**Expenses (000's)**	**Revenues (000's)**	**Net Oper. Inc. (000's)**
1996 to Base Case	8,474	1,701	57,148	$4,389	$8,773	$4,384
Base Case to Consensus Plan	***99,154***	***23,718***	***960,533***	***39,551***	***55,343***	***15,793***

Full implementation of the Consensus Plan produces a net gain of 99,154 carloads. This includes an increase of 32,860 carloads in Tex Mex originated traffic, a 32,733 carload increase in traffic to and from Mexico and a 8,880 carload shift from BNSF. A substantial portion of the gain is intermodal and automotive traffic.

Table 4 below summarizes the impact of changes in interchange traffic resulting from implementing the Consensus Plan.

[7] Cars crossing Laredo's International Bridge for the account of Tex Mex totaled 82,844 in 1997, up from 50,373 in 1996. Bridge crossings for the account of Union Pacific totaled 247,502 in 1997, approximately the same level UP experienced in 1996.

Table 4

Summary of Changes in Tex Mex Interchanges: **Base Case to Consensus Plan**

Tex Mex I/C Partner	Carloads I/C: Base Case	Carloads I/C: Consensus Plan	Carloads I/C: Net Change
UP/MP	850	2,284	1,434
SP	7,916	5,782	(2,134)
BNSF	18,387	27,267	8,880
TFM	39,391	72,124	32,733

The net economic effect of all these changes is to increase net operating income by $15.8 million. This predicted level of profitability assumes that congestion has been relieved in the region and that cost levels have improved to those experienced in 1996. This level of net operating income will support the $65.5 million capital investment in the Victoria to Rosenberg line, the $57.6 million capital investment in double-tracking the Houston to Beaumont line, the $3.1 million storage yard, and the other investments of lesser magnitudes.

These capital investments will make a significant contribution to relieving the congestion being experienced in the Houston area. Even UP recognizes that investment has "considerable merit" and "would help address the capacity shortfall described by the STB....". *See* Footnote 6, *supra.*

3. STATEMENT OF BENEFITS

This section, (1) describes the incorporation of the financial effects of implementing the Consensus Plan into my economic analysis and (2) estimates the change in costs associated with the Tex Mex traffic diversions described in ALK Witness Michael Rogers' verified statement.

These results were incorporated into the Tex Mex pro forma financial statements as described in Section 4 of this verified statement.

Development of the Statement of Benefits can be divided into three parts as follows:

a) Selection of the appropriate Uniform Rail Costing System ("URCS") application for the transaction;
b) Compilation of the effect on operating expenses of implementing the Consensus Plan; and
c) Compilation of the costs and revenues associated with the traffic changes described in Witness Rogers' verified statement.

a) Selection of the appropriate Uniform Rail Costing System ("URCS") application

While the STB has developed approved URCS applications for each of the Class I railroads in the United States, it has not developed applications for smaller railroads. As a general practice, regional URCS applications are used in proceedings involving non-Class I railroads.[8] My cost calculations employ the STB's development of Region VII (that is, the Western Region) unit costs. I applied these costs to the traffic changes described above to estimate the costs associated with those changes in traffic volumes.

If Tex Mex unit costs were available, and they are not, I still would have used Region VII unit costs since historic Tex Mex unit costs would not have properly represented the cost characteristics of the post-Consensus Plan Tex Mex. The Tex Mex of 1996 is much smaller than the post-Consensus Plan Tex Mex will be. Unit costs also will be very different. The post-Consensus Plan Tex Mex includes the trackage rights awarded in the UP/SP merger, the Laredo Intermodal Yard, the Houston-Beaumont line segment, and the Victoria to Rosenberg line segment including the new storage yard. The post-Consensus Plan Tex Mex has freight revenues equal to 456% and net properties equal to 597% of historic 1996 Tex Mex. In terms of carloads handled, the post-Consensus Plan Tex Mex is expected to be 394% of historic 1996 Tex Mex.

[8] See, for example, Rate Guidelines - Non-Coal Proceedings, STB Ex Parte No. 347 (Sub-No. 2), Decision served May 1, 1997 at 1.

b) Compilation of the effect on operating expenses of implementing the Consensus Plan, and compilation of the costs and revenues associated with the traffic changes described in ALK Witness Rogers' verified statement

i. Incorporating the Consensus Plan's Operating Plan

I coordinated with Tex Mex Witness Patrick L. Watts, the sponsor of Tex Mex's operating plan,[9] to insure that my economic analyses corresponded with the operations described. The traffic characteristics developed by ALK Witness Rogers were used to develop the operating plan described by Witness Watts. The transportation services required to transport that traffic were accumulated by service unit.

ii. Operating Expenses of the Consensus Plan's Operating Plan and the Incremental Traffic

Costs associated with the Base Case and the Consensus Plan were calculated by multiplying *incremental* service units by the correct cost per service unit as determined from the STB's Region VII URCS analysis.

The service units accumulated by ALK Witness Rogers were as follows:

- Total and incremental carloads by car type, ownership and commodity group;
- Total and incremental net tons;
- Total and incremental loaded car-miles by car type, ownership and commodity group;
- Total and incremental net ton-miles by commodity group;
- Cars handled in terminals; and
- Total and incremental revenue.

The service units for which I determined specific Tex Mex factors were as follows:

- Total and incremental gross tons using Tex Mex ratio of gross to net;
- Train miles using Tex Mex cars per train; and

[9] See the Joint Verified Statement of William J. Slinkard and Patrick L. Watts.

- Locomotive unit-miles using the number of Tex Mex locomotives per train.

The Region VII URCS application was used to develop most of the unit costs (that is, the cost per service unit) and the following parameters:

- Empty return ratios;
- Car days (utilizing the ALK determined car miles and the Region VII URCS car days per car mile); and
- Switch engine minutes (utilizing the ALK determined number of cars handled in terminals and the Region VII URCS switch engine minutes per switch event).

Required labor costs were estimated directly. Witness Watts determined the number of additional employees, by category, that Tex Mex would need to handle the traffic volumes associated with each scenario. I used the Tex Mex cost per employee to determine their annual economic impact. Labor cost data were compiled with Tex Mex assistance. These data developed an average annual 1996 wage associated with personnel in each craft (including overtime and constructive allowances, if appropriate) and associated fringe benefits. The required number of incremental employees by category was multiplied by the annual wages and fringes for each employee category to calculate the change in annual labor costs.

iii. <u>Additional Equipment Requirements</u>

Traffic volume increases require Tex Mex to provide additional equipment. I calculated the associated capital and operating costs. Witness Watts states that Tex Mex, to implement the Consensus Plan, will lease an additional 40 locomotives over and above those required to handle Base Case traffic levels. Tex Mex's existing locomotive fleet (including 6 of the additional locomotives leased this year) is adequate to handle the Base Case.

Most Tex Mex traffic is bridge traffic. I assume that Tex Mex will not have to buy more freight cars. The traffic is already handled in freight cars of various ownerships. Most of the traffic gained by Tex Mex will involve private cars or the shifting of existing freight cars from the routes of competing carriers to the Tex Mex routes. I account for the ownership and operating costs associated with these freight cars on a car hire basis.

Automotive traffic requires special consideration because (a) it is new to Tex Mex, (b) it has unique car characteristics, and (c) railroads are unable to participate in the traffic unless they provide the appropriate equipment. Tex Mex is providing this equipment through their affiliation with Transportacion Ferroviaria Mexicana ("TFM").

Costs associated with the additional locomotive and freight car equipment requirements were included in my economic analysis using the capital cost portion of the appropriate URCS unit costs.

iv. **Additional Fixed Plant Investment Capital Requirements**

The capital and operating costs associated with the incremental investment in fixed property (primarily consisting of the investment in the Victoria to Rosenberg line segment and the double-tracking of the Houston to Beaumont line segment) were calculated based on the capital expenditure estimates provided to me by Witnesses Brookings, Lewis, Broussard, and Fields.

v. **Adjustments to the Base Case**

Traffic volumes and the associated revenue and expense levels reflect several major adjustments to those reported for the year 1996. These adjustments flow from the following Tex Mex fixed plant changes and operational changes affecting Tex Mex's ability to handle certain traffic categories:

1) Trackage rights Tex Mex gained as a result of conditions granted in the UP/SP merger proceeding.

2) Construction of the Laredo Intermodal Yard including the changes which allow Tex Mex to handle automotive and intermodal traffic in the Base Case.

vi. **Inclusion of Cost and Economic Results in the Pro Forma Financial Statements**

My cost and economic results, discussed above, were incorporated into the Tex Mex pro forma financial statements. Exhibit No. JJP-2 presents the Statement of Benefits for implementing the Consensus Plan.

4. PRO FORMAS FOR THE BASE CASE AND CONSENSUS PLAN

In this section, I discuss the creation of the pro forma financial statements[10] for Tex Mex following implementation of the Consensus Plan.

I created the pro forma financials in the following four stages:

- Select the financial statements representing the starting point. In this case, I selected Tex Mex financial statements for the calendar year 1996.
- Modify the 1996 financial statements to reflect known changes between the close of the year and the period immediately preceding the implementation of the Consensus Plan. Financial statements resulting from these adjustments represent the pre-Consensus Plan or Base Case financials.
- Calculate the Statement of Benefits associated with implementing the Consensus Plan.
- Modify the Base Case pro forma financial statements to reflect the financial effects summarized in the Consensus Plan Statement of Benefits.

The financial consideration and arrangements involved in the proposed transaction were provided by other Tex Mex and KCS witnesses. I also computed financial ratios typically used

[10] These financial statements conform to the requirements of Section 1180.9 of 49 CFR.

in assessing the financial soundness of the entity resulting from implementing the Consensus Plan.

a) Pro Formas for Each Case

Base Case and Consensus Plan financial statements include the following:

- A pro forma Balance Sheet for the Base Case, each of the three following years required to implement the operating plan, and for the normal post- Consensus Plan year. These Balance Sheets are included as Exhibit No. JJP-6.
- A pro forma Income Statement for the Base Case, each of the three following years required to implement the operating plan, and for the normal post-Consensus Plan year. These Income Statements are included as Exhibit No. JJP-7.
- A pro forma Sources and Applications of Funds for the Base Case, each of the three following years required to implement the operating plan, and for the normal post-Consensus Plan year. These Sources and Applications of Funds statements are included as Exhibit No. JJP-8.

b) Pro Formas for the Base Case

Calendar year 1996 results are used as the starting point for the projections. Creating the pro formas for the Base Case required several adjustments to historical Tex Mex data. Extraordinary charges and other significant non-recurring items were eliminated. Adjustments were also made to reflect known operational changes post-1996 and their financial effects. These operational changes include the following:

- Full implementation of the Tex Mex trackage rights granted as a condition of approving the UP/SP merger;
- Full implementation of the Union Pacific/BNSF joint ownership agreement involving the Houston to New Orleans line segment;

- Construction of the new Laredo yard;
- The newly installed capability to handle intermodal and automotive traffic;
- The hiring of 30 employees; and
- The leasing of 6 locomotives.

Tex Mex historical 1996 and adjustments to construct the pro forma Base Case are presented in Exhibit No. JJP-3 (Balance Sheet), Exhibit No. JJP-4 (Income Statement), and Exhibit No. JJP-5 (Sources and Applications of Funds).

c) Projection Years Pro Formas

The financial statements for years 1, 2, 3 and the normal year are derived from the Base Case financials modified by the changes identified in the Statement of Benefits. The Statement of Benefits corresponding to the Consensus Plan is Exhibit No. JJP-2. We project that three years will be required to fully implement Witness Watts' operating plan and realize the revenues therefrom. Other Tex Mex/KCS witnesses discuss the timing of the capital expenditures. We project that revenue and expense will be realized 15% in year 1, 75% in year 2, and the remaining 10% in year 3. Consequently, this schedule for realizing revenues and expenses is reflected in the Statements of Benefits and the pro forma financials appearing as Exhibit Nos. JJP-6 through JJP-8.

The next sub-section d) discusses the financial arrangements to fully implement the Consensus Plan. Each of the previously mentioned pro forma financial statements are modified to reflect the cash flows associated with the financial arrangements discussed.

d) Financial Arrangements

Tex Mex and KCS have advised me that the Victoria to Rosenberg line segment investment will be $65.5 million; double-tracking the Houston to Beaumont line segment will cost $57.6 million; constructing the new storage yard on the Victoria to Rosenberg line segment will cost $3.1 million; and other capital investments will total $3.7 million. They have further advised me that this amount of money will be loaned to Tex Mex by KCS under a mortgage financing arrangement with annual interest at the rate of 8%. I modified the pro forma financial statements to reflect the effect of this arrangement on the Tex Mex Balance Sheets, Income Statements, and Sources and Applications of Funds. Exhibit No. JJP-9 reflects the interest payments and principal repayments on the KCS mortgage loan to Tex Mex.

e) Financial Ratios to Evaluate the Financial Strength of Tex Mex Following Implementation of the Consensus Plan

In this section, I report the financial information (described in Section 1180.9 of 49 CFR) permitting the STB to evaluate the financial strength of the corporation resulting from consummation of the Consensus Plan. Earnings Available for Fixed Charges and financial ratios bearing on the security of the financial structure are most important in this regard.

The financial information and ratios I report are as follows:

- Earnings Available for Fixed Charges
- Fixed Charge Coverage Ratio
- Operating Ratio
- Return on Equity
- Debt to Equity Ratio

I report this information in Exhibit No. JJP-10 for the Consensus Plan. I computed this information for the Base Case and for each of the pro forma years. The year-to-year trend in the reported information suggests that financials improve significantly when the Consensus Plan is implemented.

Exhibit No. JJP-10, which reports this information for the Consensus Plan, depicts a financially strong Tex Mex with improving financial ratios over the operating plan's implementation. With this financial picture, Tex Mex will continue to 1) provide essential services to its on-line shippers; 2) provide a competitive alternative to the UP at Laredo, and 3) serve as primary operator of Laredo's International Bridge, as well as contributing to relieving congestion in the Houston region and providing competitive relief to Houston's shippers. Shippers need a service outlet when competing railroads experience problems such as the Union Pacific service meltdown.

Exhibit No. JJP-1

STATEMENT OF QUALIFICATIONS

OF

JOSEPH J. PLAISTOW

My name is Joseph J. Plaistow, Vice President and principal of Snavely King Majoros O'Connor & Lee, Inc. with offices at 1220 L Street, NW, Washington, DC 20005. I graduated in 1967 from Michigan Technological University with a Bachelor of Science Degree in Metallurgical Engineering. In 1972 I graduated from the University of Minnesota with a Masters Degree in Business Administration. I was employed by Burlington Northern Railroad for 15 years from 1972 to 1987 as Director of Costs and Economic Analyses in the Finance Department, as Director of Equipment and Service, and Director of Planning and Equipment in the Food and Manufactured Products Business Unit of the Marketing Department. In 1987 and 1988, I was employed by Fleet Management Inc. as a Vice President managing the efficient operation of refrigerated boxcars. In 1988, I joined Snavely King & Associates (now known as Snavely King Majoros O'Connor & Lee, Inc.).

As Director of Costs and Economic Analyses for Burlington Northern, I was responsible for all corporate cost analyses. During that period, I designed and coordinated the implementation of a totally reconstructed costing system. I testified many times on the cost of moving coal unit trains to electric utility power plants. I also testified and spoke on the cost of capital, rate of return regulation, and corporate investment policies.

Acquisitions, divestitures and investment analyses were a primary focus during several stages of my career. I have established sales prices and negotiated the sale of shortline railroads. I worked with investment bankers in advising Burlington Northern regarding the potential purchase of several railroads. I was responsible for the development of the estimated benefits Norfolk Southern will realize as a result of their joint acquisition with CSX of Conrail.

As Director, Planning and Equipment, I developed the revenue, contribution, and equipment requirement projections. I was also responsible for customer service functions. This included identifying customers' needs and coordinating with Operations to insure that those needs were met. This included the provision of an adequate car supply and the assurance that the freight car fleet serving customers was adequately maintained. Databases were developed to support analyses of required maintenance, car acquisition and utilization improvements.

As Vice President of Fleet Management Incorporated, I was responsible for managing the optimal distribution of most of the country's insulated boxcars. Responsibilities included marketing, railroad relations, and daily management.

At Snavely King, I provide expert testimony on transportation economics, rate structures and rate reasonableness for private and public corporations. In addition to providing expert testimony regarding the economics of coal movements in the United States and Canada, I also provide testimony in the areas of economics and competitive analysis in the major railroad mergers. I have conducted dozens of merger studies.

Other assignments have included re-engineering the freight car management function for a major railroad as part of their corporate-wide re-engineering effort. I have also provided expert testimony in the branch line abandonment/feeder line area. For several major United States corporations, I was responsible for optimizing the rail portion of their distribution network. I have conducted rail contract and rate negotiations on behalf of major corporations.

I have also studied the economics of the provision of passenger service by rail. For Amtrak, I recommended the route structure designed to optimize their financial viability in the year 2000. I have also worked with the Government Accounting Office on a follow-up to the original Amtrak Review. For a major Northeast commuter agency, I evaluated the relative economics of passenger service provision in adjoining states.

I am a Past President of the Washington Chapter of the Transportation Research Forum and a member of the Association for Transportation Law, Logistics and Policy. I am also the national Secretary of the Cost Analysis Chapter of the Transportation Research Forum.

In 1976 I was admitted to practice before the Interstate Commerce Commission and its Surface Transportation Board successor, as a non-attorney practitioner. I am familiar with practice before the Commission, and I have testified before the Board and the Interstate Commerce Commission dozens of times on cost and economic issues.

Professional Organizations

Transportation Research Board and Forum; Past President, Washington Chapter

Association for Transportation Law, Logistics and Policy; Registered Practitioner

American Society of Transportation and Logistics

Consensus Plan
Statement of Benefits[1]

Exhibit No. JJP-2
July 8, 1998

The Texas Mexican Railway Company

Description	Year 1 (000s)	Year 2 (000s)	Year 3 (000s)	Normal Year (000s)
	(a)	(b)	(c)	(d)
Incremental Revenue [2]				
1 Freight	$ 8,302	$ 49,809	$ 55,343	$ 55,343
Incremental Operating:				
Non - Labor				
2 Way and Structures	$ 384	$ 529	$ 529	$ 529
3 Equipment	931	5,585	6,205	6,205
4 Transportation	881	5,284	5,871	5,871
5 URCS related	2,043	12,259	13,621	13,621
Labor				
6 Train & Engine	2,166	13,357	14,801	11,726
7 General & Administrative	129	939	1,068	1,068
8 Yard & Maintenance	184	530	530	530
9 Total Operating Costs	$ 6,719	$ 38,483	$ 42,626	$ 39,551
10 Total Benefits	$ 1,583	$ 11,326	$ 12,718	$ 15,793

[1] See text for capital investment.

[2] Other incremental revenues (switching, demurrage and incidental revenues) were $0.8 million, $4.7 million and $5.2 million in years 1, 2 and 3 respectively. Including other revenue increases Total Benefits to $2.365 million, $16.021 million and $17.934 million in years 1, 2 and 3 respectively.

Base Case
Balance Sheet

Exhibit No. JJP-3
July 8, 1998

The Texas Mexican Railway Company

	Description	December 31, 1996 Audited (000s)	Adjustment Amount (000s)	Adjusted Base Period Amount (000s)
		(a)	(b)	(c)
	Assets			
	Current Assets:			
1	Cash and cash equivalents	$ 392	$ 2,110	$ 2,502
2	Investments	572		572
3	Net Accounts and Notes Receivable	6,663	168	6,831
4	Inventory	1,562		1,562
5	Due from Parent and Other related parties	912		912
6	Current deferred income taxes	984		984
7	Other	590		590
8	Total Current Assets	$ 11,675	$ 2,278	$ 13,953
	Properties:			
9	Equipment	23,481		23,481
10	Land, Buildings & improvements	18,931	13,643	32,574
11	Less accumulated depreciation	(17,870)	(222)	(18,092)
12	Net Properties	$ 24,542	$ 13,421	$ 37,963
	Other Assets:			
13	Investments in other partnership	3,889		3,889
14	Net other assets	1,099		1,099
15	Total Other Assets	$ 4,988	$ -	$ 4,988
16	Total Assets	$ 41,205	$ 15,699	$ 56,904
	Liabilities & Equities			
17	Accounts Payable	$ 1,912	$ 444	$ 2,356
18	Due to Parent and other related parties	410		410
19	Other accrued liabilities	4,344	1,195	5,539
20	Total current liabilities	$ 6,666	$ 1,639	$ 8,305
21	Long Term Debt	3,800	11,524	15,324
22	Deferred Income Taxes	5,203		5,203
23	Total liabilities	$ 15,669	$ 13,163	$ 28,832
	Stockholder's equity:			
24	Common Stock	2,500		2,500
25	Additional paid in capital	981		981
26	Retained earnings	22,055	2,535	24,590
27	Total Stockholder's equity	$ 25,536	$ 2,535	$ 28,071
28	Total Liabilities & Equity	$ 41,205	$ 15,699	$ 56,904

Snavely King Majoros O'Connor & Lee, Inc.

Base Case
Income Statement

Exhibit No. JJP-4
July 8, 1998

The Texas Mexican Railway Company

Description	December 31, 1996 Audited (000s)	Adjustment Amount (000s)	Adjusted Base Period Amount (000s)
	(c)	(d)	(e)
Operating Revenues:			
1 Freight	$ 18,107	9,032	$ 27,139
2 Switching	554	276	830
3 Demurrage	550	274	824
4 Incidental	603	301	904
5 Uncollectible Accounts	(480)	(239)	(719)
6 Total Operating Revenues	19,334	9,644	28,978
Operating Expenses:			
7 Maintenance of Way & Structures	2,294	-	2,294
8 Maintenance of Equipment	1,720	931	2,651
9 Transportation	9,403	3,520	12,923
10 General & Administrative	3,343	388	3,731
11 Depreciation Expense	1,577	222	1,799
12 Loss (Gain) On Sale of Fixed Assets	25	(25)	-
13 Total Operating Expenses	$ 18,362	$ 5,036	$ 23,398
14 Income (Loss) From Operations	$ 972	$ 4,609	$ 5,580
15 Other Income & Expense Net	636	(878)	$ (242)
16 Income (Loss) before Income Taxes	1,608	3,730	5,338
17 Income Tax Rate			34%
18 Income Taxes	620	1,195	1,815
19 Net Income (Loss)	$ 988	$ 2,535	$ 3,523

Snavely King Majoros O'Connor & Lee, Inc.

Base Case
Sources and Applications of Funds

The Texas Mexican Railway Company

Description		December 31, 1996 Audited (000s)	Adjustment Amount (000s)		Base Period Adjusted (000s)
		(a)	(b)		(c)
From Operating Activities:					
1 Net Income (Loss)	$	988	2,535		3,523
2 Depreciation		1,577	222		1,799
3 Deferred Income Taxes		620	-		620
4 Equity Earnings - Partnership Investment		(477)			(477)
5 Dividend Distribution - Partnership Investment		556			556
6 Change in current assets - (Increase) or Decrease		(899)	(168)		(1,067)
7 Change in current liabilities - Increase or (Decrease)		(988)	1,639		651
8 Change in amounts due to/from parent and other related parties -Increase or (Decrease)		498			498
9 Net Cash Provided by Operating Activities		1,875	4,228	$	6,103
From Investing Activities:					
10 Purchases of Equipment & Improvements, net of gain or loss on disposition of fixed assets		(2,011)	(13,643)	$	(15,654)
11 Proceeds from sale of investments		1,224			1,224
12 Investment in Long Term Assets		(1,099)			(1,099)
13 Net Cash Used by Investing Activities	$	(1,886)	$ (13,643)	$	(15,529)
From Financing Activities:					
14 Long Term Debt Borrowings		-	11,524		11,524
15 Net Cash Provided by Financing Activities		-	$ 11,524	$	11,524
16 Increase (Decrease) in Cash & Cash	$	(11)	$ 2,110	$	2,099
17 Cash & Cash Equivalents at Beginning of Year		403			403
18 Cash & Cash Equivalents at End of Year	$	392	$ 2,110	$	2,502

Consensus Plan
Balance Sheet

Exhibit No. JJP-6
July 8, 1998

The Texas Mexican Railway Company

	Description	Adjusted Base Period Amount (000s)	Adjustment Amount (000s)	Year 1 After Change in Operations (000s)	Adjustment Amount (000s)	Year 2 After Change in Operations (000s)	Adjustment Amount (000s)	Year 3 After Change in Operations (000s)	Adjustment Amount (000s)	Normal Year After Change in Operations (000s)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Assets									
	Current Assets:									
1	Cash and cash equivalents	$ 2,502	$ (1,469)	$ 1,032	$ 14,402	$ 15,434	$ 10,762	$ 26,197	$ 12,753	$ 38,950
2	Investments	572		572		572		572		572
3	Net Accounts and Notes Receivable	6,831	155	6,986	775	7,761	103	7,864	-	7,864
4	Inventory	1,562		1,562		1,562		1,562		1,562
5	Due from Parent and Other related parties	912		912		912		912		912
6	Current deferred income taxes	984		984		984		984		984
7	Other	590		590		590		590		590
8	Total Current Assets	$ 13,953	$ (1,315)	$ 12,638	$ 15,177	$ 27,815	$ 10,866	$ 38,681	$ 12,753	$ 51,434
	Properties:									
9	Equipment	23,481		23,481		23,481		23,481		23,481
10	Land, Buildings & improvements	32,574	129,462	162,036	-	162,036	-	162,036	-	162,036
11	Less accumulated depreciation	(18,092)	(3,772)	(21,863)	(5,744)	(27,608)	(5,744)	(33,352)	(5,744)	(39,096)
12	Net Properties	$ 37,963	$ 125,691	$ 163,653	$ (5,744)	$ 157,909	$ (5,744)	$ 152,165	$ (5,744)	$ 146,421
	Other Assets:									
13	Investments in other partnership	3,889		3,889		3,889		3,889		3,889
14	Net other assets	1,099		1,099		1,099		1,099		1,099
15	Total Other Assets	$ 4,988	$ -	$ 4,988	$ -	$ 4,988	$ -	$ 4,988	$ -	$ 4,988
16	Total Assets	$ 56,904	$ 124,376	$ 181,280	$ 9,433	$ 190,713	$ 5,121	$ 195,834	$ 7,009	$ 202,843
	Liabilities & Equities									
17	Accounts Payable	$ 2,356	$ 616	$ 2,972	$ 2,914	$ 5,886	$ 380	$ 6,266	$ (282)	$ 5,984
18	Due to Parent and other related parties	410	1,000	1,410		1,410		1,410		1,410
19	Other accrued liabilities	5,539	(3,395)	2,144	3,715	5,860	696	6,555	1,112	7,667
20	Total current liabilities	$ 8,305	$ (1,778)	$ 6,526	$ 6,629	$ 13,155	$ 1,076	$ 14,231	$ 830	$ 15,061
21	Long Term Debt	15,324	128,221	143,546	(1,342)	142,204	(1,450)	140,753	(1,475)	139,278
22	Deferred Income Taxes	5,203		5,203		5,203		5,203		5,203
23	Total liabilities	$ 28,832	$ 126,443	$ 155,275	$ 5,287	$ 160,562	$ (375)	$ 160,188	$ (646)	$ 159,542
	Stockholder's equity:									
24	Common Stock	2,500		2,500		2,500		2,500		2,500
25	Additional paid in capital	981		981		981		981		981
26	Retained earnings	24,590	(3,067)	21,524	4,146	25,669	5,496	31,165	7,654	38,820
27	Total Stockholder's equity	$ 28,071	$ (3,067)	$ 25,005	$ 4,146	$ 29,150	$ 5,496	$ 34,646	$ 7,654	$ 42,301
28	Total Liabilities & Equity	$ 56,904	$ 123,376	$ 180,280	$ 9,433	$ 189,713	$ 5,121	$ 194,834	$ 7,009	$ 201,843

Consensus Plan
Income Statement

Exhibit No. JJP-7
July 8, 1998

The Texas Mexican Railway Company

	Description	Adjusted Base Period Amount (000s)	Adjustment Amount (000s)	Year 1 After Change in Operations (000s)	Adjustment Amount (000s)	Year 2 After Change in Operations (000s)	Adjustment Amount (000s)	Year 3 After Change in Operations (000s)	Adjustment Amount (000s)	Normal Year After Change in Operations (000s)
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	Operating Revenues:									
1	Freight	$ 27,139	$ 8,302	$ 35,441	$ 41,508	$ 76,948	$ 5,534	$ 82,483	$ -	$ 82,483
2	Switching	830	254	1,084	1,270	2,354	169	2,524	-	2,524
3	Demurrage	824	252	1,077	1,261	2,337	168	2,505	-	2,505
4	Incidental	904	276	1,180	1,382	2,563	184	2,747	-	2,747
5	Uncollectible Accounts	(719)	(201)	(921)	(1,006)	(1,926)	(134)	(2,060)	-	(2,060)
6	Total Operating Revenues	28,978	8,883	37,861	44,415	82,277	5,922	88,199	-	88,199
	Operating Expenses:									
7	Maintenance of Way & Structures	2,294	384	2,678	491	3,169	-	3,169	-	3,169
8	Maintenance of Equipment	2,651	931	3,581	4,654	8,235	621	8,856	-	8,856
9	Transportation	12,923	5,274	18,197	25,810	44,008	3,393	47,401	(3,075)	44,326
10	General & Administrative	3,731	129	3,861	809	4,670	129	4,799	-	4,799
11	Depreciation Expense	1,799	1,973	3,772	1,973	5,744	-	5,744	-	5,744
12	Loss (Gain) On Sale of Fixed Assets	-	-	-	-	-	-	-	-	-
13	Total Operating Expenses	$ 23,398	$ 8,691	$ 32,089	$ 33,737	$ 65,826	$ 4,143	$ 69,969	$ (3,075)	$ 66,894
14	Income (Loss) From Operations	$ 5,580	$ 192	$ 5,772	$ 10,678	$ 16,451	$ 1,779	$ 18,230	$ 3,075	$ 21,305
15	Other Income & Expense Net	$ (242)	$ (10,176)	$ (10,419)	$ 249	$ (10,170)	$ 267	$ (9,902)	$ 195	$ (9,707)
16	Income (Loss) before Income Taxes	5,338	(9,984)	(4,646)	10,927	6,281	2,046	8,327	3,270	11,597
17	Income Tax Rate	34%		34%		34%		34%		34%
18	Income Taxes	1,815	(3,395)	(1,580)	3,715	2,136	696	2,831	1,112	3,943
19	Net Income (Loss)	$ 3,523	$ (6,590)	$ (3,067)	$ 7,212	$ 4,146	$ 1,351	$ 5,496	$ 2,158	$ 7,654

Exhibit No. JJP-8
July 8, 1998

Consensus Plan
Sources and Applications of Funds

The Texas Mexican Railway Company

Description	Base Period Adjusted (000s)	Year 1 After Change in Operations (000s)	Year 2 After Change in Operations (000s)	Year 3 After Change in Operations (000s)	Normal Year After Change in Operations (000s)
	(a)	(b)	(c)	(d)	(e)
From Operating Activities:					
1 Net Income (Loss)	3,523	(3,067)	4,146	5,496	7,654
2 Depreciation	1,799	3,772	5,744	5,744	5,744
3 Deferred Income Taxes	620	-	-	-	-
4 Equity Earnings - Partnership Investment	(477)	-	-	-	-
5 Dividend Distribution - Partnership Investment	556	-	-	-	-
6 Change in current assets - (Increase) or Decrease	(1,067)	(155)	(775)	(103)	-
7 Change in current liabilities - Increase or (Decrease)	651	(1,778)	6,629	1,076	830
8 Change in amounts due to/from parent and other related parties -Increase or (Decrease)	498	1,000	-	-	-
9 Net Cash Provided by Operating Activities	$ 6,103	$ (228)	$ 15,744	$ 12,213	$ 14,228
From Investing Activities:					
10 Purchases of Equipment & Improvements, net of gain or loss on disposition of fixed assets	$ (15,654)	$ (129,462)	$ -	$ -	$ -
11 Proceeds from sale of investments	1,224	-	-	-	-
12 Investment in Long Term Assets	(1,099)	-	-	-	-
13 Net Cash Used by Investing Activities	$ (15,529)	$ (129,462)	$ -	$ -	$ -
From Financing Activities:					
14 Long Term Debt Borrowings	11,524	128,221	(1,342)	(1,450)	(1,475)
15 Net Cash Provided by Financing Activities	$ 11,524	$ 128,221	$ (1,342)	$ (1,450)	$ (1,475)
16 Increase (Decrease) in Cash & Cash	$ 2,099	$ (1,469)	$ 14,402	$ 10,762	$ 12,753
17 Cash & Cash Equivalents at Beginning of Year	403	2,502	1,033	15,435	26,197
18 Cash & Cash Equivalents at End of Year	$ 2,502	$ 1,033	$ 15,435	$ 26,197	$ 38,950

Consensus Plan
Loan Amortization

Exhibit No. JJP-9
July 8, 1998

The Texas Mexican Railway Company

Estimated Construction Cost			$ 121,387,365
Estimated Land Cost			8,075,000
	Annual	Quarterly	
Loan Period in Years	30	120	
Interest Rate	8.00%	2.00%	$ 129,462,365

Year		Payment Amount	Interest	Principal	Balance
1st Quarter	1999	(2,854,399)	2,589,247	(265,151)	129,197,214
2nd Quarter	1999	($2,854,399)	2,583,944	(270,454)	128,926,759
3rd Quarter	1999	($2,854,399)	2,578,535	(275,864)	128,650,895
4th Quarter	1999	($2,854,399)	2,573,018	(281,381)	128,369,515
1st Quarter	2000	($2,854,399)	2,567,390	(287,008)	128,082,506
2nd Quarter	2000	($2,854,399)	2,561,650	(292,749)	127,789,757
3rd Quarter	2000	($2,854,399)	2,555,795	(298,604)	127,491,154
4th Quarter	2000	($2,854,399)	2,549,823	(304,576)	127,186,578
1st Quarter	2001	($2,854,399)	2,543,732	(310,667)	126,875,911
2nd Quarter	2001	($2,854,399)	2,537,518	(316,881)	126,559,030
3rd Quarter	2001	($2,854,399)	2,531,181	(323,218)	126,235,812
4th Quarter	2001	($2,854,399)	2,524,716	(329,683)	125,906,130
1st Quarter	2002	($2,854,399)	2,518,123	(336,276)	125,569,854
2nd Quarter	2002	($2,854,399)	2,511,397	(343,002)	125,226,852
3rd Quarter	2002	($2,854,399)	2,504,537	(349,862)	124,876,990
4th Quarter	2002	($2,854,399)	2,497,540	(356,859)	124,520,131
1st Quarter	2003	($2,854,399)	2,490,403	(363,996)	124,156,135
2nd Quarter	2003	($2,854,399)	2,483,123	(371,276)	123,784,859
3rd Quarter	2003	($2,854,399)	2,475,697	(378,702)	123,406,157
4th Quarter	2003	($2,854,399)	2,468,123	(386,276)	123,019,882
1st Quarter	2004	($2,854,399)	2,460,398	(394,001)	122,625,881
2nd Quarter	2004	($2,854,399)	2,452,518	(401,881)	122,223,999
3rd Quarter	2004	($2,854,399)	2,444,480	(409,919)	121,814,081
4th Quarter	2004	($2,854,399)	2,436,282	(418,117)	121,395,964
1st Quarter	2005	($2,854,399)	2,427,919	(426,479)	120,969,484
2nd Quarter	2005	($2,854,399)	2,419,390	(435,009)	120,534,475
3rd Quarter	2005	($2,854,399)	2,410,689	(443,709)	120,090,766
4th Quarter	2005	($2,854,399)	2,401,815	(452,583)	119,638,182
1st Quarter	2006	($2,854,399)	2,392,764	(461,635)	119,176,547
2nd Quarter	2006	($2,854,399)	2,383,531	(470,868)	118,705,679
3rd Quarter	2006	($2,854,399)	2,374,114	(480,285)	118,225,394
4th Quarter	2006	($2,854,399)	2,364,508	(489,891)	117,735,503
1st Quarter	2007	($2,854,399)	2,354,710	(499,689)	117,235,815
2nd Quarter	2007	($2,854,399)	2,344,716	(509,682)	116,726,132
3rd Quarter	2007	($2,854,399)	2,334,523	(519,876)	116,206,256
4th Quarter	2007	($2,854,399)	2,324,125	(530,274)	115,675,982

Consensus Plan
Loan Amortization

Exhibit No. JJP-9
July 8, 1998

The Texas Mexican Railway Company

Estimated Construction Cost			$	121,387,365
Estimated Land Cost				8,075,000
	Annual	Quarterly		
Loan Period in Years	30	120		
Interest Rate	8.00%	2.00%	$	129,462,365

Year		Payment Amount	Interest	Principal	Balance
1st Quarter	2008	($2,854,399)	2,313,520	(540,879)	115,135,103
2nd Quarter	2008	($2,854,399)	2,302,702	(551,697)	114,583,406
3rd Quarter	2008	($2,854,399)	2,291,668	(562,731)	114,020,676
4th Quarter	2008	($2,854,399)	2,280,414	(573,985)	113,446,691
1st Quarter	2009	($2,854,399)	2,268,934	(585,465)	112,861,226
2nd Quarter	2009	($2,854,399)	2,257,225	(597,174)	112,264,051
3rd Quarter	2009	($2,854,399)	2,245,281	(609,118)	111,654,934
4th Quarter	2009	($2,854,399)	2,233,099	(621,300)	111,033,634
1st Quarter	2010	($2,854,399)	2,220,673	(633,726)	110,399,907
2nd Quarter	2010	($2,854,399)	2,207,998	(646,401)	109,753,507
3rd Quarter	2010	($2,854,399)	2,195,070	(659,329)	109,094,178
4th Quarter	2010	($2,854,399)	2,181,884	(672,515)	108,421,663
1st Quarter	2011	($2,854,399)	2,168,433	(685,966)	107,735,697
2nd Quarter	2011	($2,854,399)	2,154,714	(699,685)	107,036,013
3rd Quarter	2011	($2,854,399)	2,140,720	(713,679)	106,322,334
4th Quarter	2011	($2,854,399)	2,126,447	(727,952)	105,594,382
1st Quarter	2012	($2,854,399)	2,111,888	(742,511)	104,851,871
2nd Quarter	2012	($2,854,399)	2,097,037	(757,361)	104,094,510
3rd Quarter	2012	($2,854,399)	2,081,890	(772,509)	103,322,001
4th Quarter	2012	($2,854,399)	2,066,440	(787,959)	102,534,042
1st Quarter	2013	($2,854,399)	2,050,681	(803,718)	101,730,324
2nd Quarter	2013	($2,854,399)	2,034,606	(819,792)	100,910,532
3rd Quarter	2013	($2,854,399)	2,018,211	(836,188)	100,074,344
4th Quarter	2013	($2,854,399)	2,001,487	(852,912)	99,221,432
1st Quarter	2014	($2,854,399)	1,984,429	(869,970)	98,351,462
2nd Quarter	2014	($2,854,399)	1,967,029	(887,370)	97,464,092
3rd Quarter	2014	($2,854,399)	1,949,282	(905,117)	96,558,975
4th Quarter	2014	($2,854,399)	1,931,180	(923,219)	95,635,756
1st Quarter	2015	($2,854,399)	1,912,715	(941,684)	94,694,073
2nd Quarter	2015	($2,854,399)	1,893,881	(960,517)	93,733,555
3rd Quarter	2015	($2,854,399)	1,874,671	(979,728)	92,753,828
4th Quarter	2015	($2,854,399)	1,855,077	(999,322)	91,754,505
1st Quarter	2016	($2,854,399)	1,835,090	(1,019,309)	90,735,197
2nd Quarter	2016	($2,854,399)	1,814,704	(1,039,695)	89,695,502
3rd Quarter	2016	($2,854,399)	1,793,910	(1,060,489)	88,635,013
4th Quarter	2016	($2,854,399)	1,772,700	(1,081,699)	87,553,315

				Exhibit No. JJP-9
				July 8, 1998

Consensus Plan
Loan Amortization

The Texas Mexican Railway Company

	Annual	Quarterly		
Estimated Construction Cost			$	121,387,365
Estimated Land Cost				8,075,000
Loan Period in Years	30	120		
Interest Rate	8.00%	2.00%	$	129,462,365

Year		Payment Amount	Interest	Principal	Balance
1st Quarter	2017	($2,854,399)	1,751,066	(1,103,332)	86,449,982
2nd Quarter	2017	($2,854,399)	1,729,000	(1,125,399)	85,324,583
3rd Quarter	2017	($2,854,399)	1,706,492	(1,147,907)	84,176,676
4th Quarter	2017	($2,854,399)	1,683,534	(1,170,865)	83,005,811
1st Quarter	2018	($2,854,399)	1,660,116	(1,194,283)	81,811,528
2nd Quarter	2018	($2,854,399)	1,636,231	(1,218,168)	80,593,360
3rd Quarter	2018	($2,854,399)	1,611,867	(1,242,532)	79,350,828
4th Quarter	2018	($2,854,399)	1,587,017	(1,267,382)	78,083,446
1st Quarter	2019	($2,854,399)	1,561,669	(1,292,730)	76,790,716
2nd Quarter	2019	($2,854,399)	1,535,814	(1,318,584)	75,472,132
3rd Quarter	2019	($2,854,399)	1,509,443	(1,344,956)	74,127,176
4th Quarter	2019	($2,854,399)	1,482,544	(1,371,855)	72,755,321
1st Quarter	2020	($2,854,399)	1,455,106	(1,399,292)	71,356,028
2nd Quarter	2020	($2,854,399)	1,427,121	(1,427,278)	69,928,750
3rd Quarter	2020	($2,854,399)	1,398,575	(1,455,824)	68,472,926
4th Quarter	2020	($2,854,399)	1,369,459	(1,484,940)	66,987,986
1st Quarter	2021	($2,854,399)	1,339,760	(1,514,639)	65,473,347
2nd Quarter	2021	($2,854,399)	1,309,467	(1,544,932)	63,928,415
3rd Quarter	2021	($2,854,399)	1,278,568	(1,575,830)	62,352,585
4th Quarter	2021	($2,854,399)	1,247,052	(1,607,347)	60,745,238
1st Quarter	2022	($2,854,399)	1,214,905	(1,639,494)	59,105,744
2nd Quarter	2022	($2,854,399)	1,182,115	(1,672,284)	57,433,460
3rd Quarter	2022	($2,854,399)	1,148,669	(1,705,730)	55,727,730
4th Quarter	2022	($2,854,399)	1,114,555	(1,739,844)	53,987,886
1st Quarter	2023	($2,854,399)	1,079,758	(1,774,641)	52,213,245
2nd Quarter	2023	($2,854,399)	1,044,265	(1,810,134)	50,403,111
3rd Quarter	2023	($2,854,399)	1,008,062	(1,846,337)	48,556,774
4th Quarter	2023	($2,854,399)	971,135	(1,883,263)	46,673,511
1st Quarter	2024	($2,854,399)	933,470	(1,920,929)	44,752,583
2nd Quarter	2024	($2,854,399)	895,052	(1,959,347)	42,793,236
3rd Quarter	2024	($2,854,399)	855,865	(1,998,534)	40,794,701
4th Quarter	2024	($2,854,399)	815,894	(2,038,505)	38,756,197
1st Quarter	2025	($2,854,399)	775,124	(2,079,275)	36,676,922
2nd Quarter	2025	($2,854,399)	733,538	(2,120,860)	34,556,062
3rd Quarter	2025	($2,854,399)	691,121	(2,163,278)	32,392,784
4th Quarter	2025	($2,854,399)	647,856	(2,206,543)	30,186,241

Exhibit No. JJP-9
July 8, 1998

Consensus Plan
Loan Amortization

The Texas Mexican Railway Company

Estimated Construction Cost			$ 121,387,365
Estimated Land Cost			8,075,000
	Annual	Quarterly	
Loan Period in Years	30	120	
Interest Rate	8.00%	2.00%	$ 129,462,365

Year		Payment Amount	Interest	Principal	Balance
1st Quarter	2026	($2,854,399)	603,725	(2,250,674)	27,935,567
2nd Quarter	2026	($2,854,399)	558,711	(2,295,687)	25,639,880
3rd Quarter	2026	($2,854,399)	512,798	(2,341,601)	23,298,278
4th Quarter	2026	($2,854,399)	465,966	(2,388,433)	20,909,845
1st Quarter	2027	($2,854,399)	418,197	(2,436,202)	18,473,643
2nd Quarter	2027	($2,854,399)	369,473	(2,484,926)	15,988,717
3rd Quarter	2027	($2,854,399)	319,774	(2,534,624)	13,454,093
4th Quarter	2027	($2,854,399)	269,082	(2,585,317)	10,868,776
1st Quarter	2028	($2,854,399)	217,376	(2,637,023)	8,231,753
2nd Quarter	2028	($2,854,399)	164,635	(2,689,764)	5,541,989
3rd Quarter	2028	($2,854,399)	110,840	(2,743,559)	2,798,430
4th Quarter	2028	($2,854,399)	55,969	(2,798,430)	(0)
		($342,527,852)	$213,065,487	($129,462,365)	
Total					
Year	1	($11,417,595)	$10,324,745	($1,092,850)	128,369,515
Year	2	($11,417,595)	$10,234,659	($1,182,936)	127,186,578
Year	3	($11,417,595)	$10,137,147	($1,280,448)	125,906,130
Normal Year	4	($11,417,595)	$10,031,597	($1,385,999)	124,520,131
Adjustments					
Year	1		$ 10,324,745	$ (1,092,850)	
Year	2		(90,086)	$ (1,182,936)	
Year	3		(97,512)	$ (1,280,448)	
Normal Year	4		(105,550)	$ (1,385,999)	

Consensus Plan
Selected Financial Ratios

Exhibit No. JJP-10
July 8, 1998

The Texas Mexican Railway Company

Description	December 31, 1996 Audited (000s)	Base Period Adjusted (000s)	Year 1 After Change in Operations (000s)	Year 2 After Change in Operations (000s)	Year 3 After Change in Operations (000s)	Normal Year After Change in Operations (000s)
	(a)	(b)	(c)	(d)	(e)	(f)
Selected Items from Pro forma Statements						
1 Net Income	$ 988	$ 3,523	$ (3,067)	$ 4,146	$ 5,496	$ 7,654
2 Interest Expense	409	1,287	11,464	11,215	10,947	10,752
3 Operating Revenues	19,334	28,978	37,861	82,277	88,199	88,199
4 Operating Expenses	18,362	23,398	32,089	65,826	69,969	66,894
5 Long Term Debt	3,800	15,324	143,546	142,204	140,753	139,278
6 Stockholder's Equity	25,536	28,071	25,005	29,150	34,646	42,301
7 Earnings Available for Fixed Charges	$ 1,875	$ 6,103	$ (228)	$ 15,744	$ 12,213	$ 14,228
8 Fixed Charge Coverage Ratio	4.58	4.74	-0.02	1.40	1.12	1.32
9 Operating Ratio	94.97%	80.74%	84.75%	80.01%	79.33%	75.84%
10 Return on Equity	3.87%	12.55%	-12.26%	14.22%	15.86%	18.09%
11 Debt to Equity Ratio	12.95%	35.31%	85.16%	82.99%	80.25%	76.70%

Snavely King Majoros O'Connor & Lee, Inc.

VERIFICATION

DISTRICT)
OF) ss.
COLUMBIA)

I, Joseph J. Plaistow, being first duly sworn, upon my oath state that I have read the foregoing statements and the contents thereof are true and correct as stated.

Joseph J. Plaistow

Joseph J. Plaistow

Subscribed and sworn to before me this 7th day of July, 1998.

Sarah P. Londree

Notary Public

My Commission Expires: 3/31/03

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN
IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS
IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

HARLAN RITTER

VERIFIED STATEMENT

OF

HARLAN RITTER

1. INTRODUCTION AND EXECUTIVE SUMMARY

1.1 Introduction

My name is Harlan Ritter. I am Vice President of the Kansas City Southern Railway Company. The purpose of this statement is to describe the benefits for all Houston shippers and railroads that would result from the Consensus Plan proposal for reinstatement of neutral switching in Houston.

I have been engaged in the business of transportation for almost thirty-five years. My professional career began in 1964 with the Missouri Pacific Railroad Company ("MP"). Subsequently, I have held increasingly responsible management positions with the Texas City Terminal Railway, The Port of Texas City, the Houston Belt & Terminal Railway ("HBT") and the Kansas City Southern Railway ("KCS"). I served as President of the Texas City Terminal Railway, President of the Port of Texas City and, for fourteen years, as President of the HBT. I have rail terminal operations management experience in the Houston, Chicago and St. Louis terminal areas. A statement of my qualifications appears in Appendix A. I have previously provided testimony on transportation operations and economics.

Significant deterioration in UP service and performance levels has occurred during the past year. While most severe at Houston, this deterioration has appeared persistently throughout the UP system, indicating systemic managerial problems, not just isolated occurrences resulting from factors beyond UP's control. Because the collapse of UP's service has had particularly adverse effects in the Houston area, we now face an urgent need for remedial conditions to restore service and to resolve this disastrous episode in railroad history. The Consensus Plan is such a proposal.

1.2 Executive Summary

My experience in Houston, and in other cities such as St. Louis, tells me that neutral switching has worked in Houston and elsewhere, will work in Houston again if implemented, and needs to be implemented in order to restore effective operations of the Houston terminal area. Ignoring benefits of neutral switching, UP administered a crippling shock to the Houston system by dissolving the HBT, leaving the PTRA as the only neutral switching carrier, serving only those Houston customers lucky enough to be located directly on the PTRA. Many shippers have publicly reported prolonged experience with poor service from UP. Some have even adopted the practice of going to UP yards themselves to locate cars and then informing the UP of a car's location so it can be delivered. This is clear evidence of the collapse of the UP service.

Neutral switching is a very effective operating method which can be summed up in one statement: The customer comes first. The Consensus Plan's proposal to allow the Port Terminal Railroad Association ("PTRA") to function as the neutral switching carrier in Houston will provide all carriers serving Houston neutral access, thereby multiplying service options and terminal operating efficiency. The Consensus Plan will undo the damage done by dissolution of HBT and will restore proven neutral switching. PTRA's outstanding safety record as a switching carrier is far preferable, particularly in handling the chemical-intensive Houston traffic mix, to UP's post-merger safety record, which the Federal Railroad Administration ("FRA") and the National Transportation Safety Board ("NTSB") have concluded shows systemic safety management problems. The solutions offered in the Consensus Plan are critical to restoring and maintaining the long term ability of the Houston terminal area to function smoothly.

2. RESTORING NEUTRAL SWITCHING WILL BENEFIT ALL CARRIERS AND RAIL SHIPPERS IN THE HOUSTON TERMINAL.

Neutral switching will benefit all carriers serving Houston by eliminating the potential for discrimination that exists when linehaul carriers also perform switching,[1] and by allowing the terminal to be operated more efficiently by an entity managed with its sole focus on handling Houston traffic effectively. Truly neutral switching as proposed by the Consensus Plan is needed to assure that all carriers operating through the Houston terminal are treated impartially. Neutral switching will not interfere with UP's operations.

2.1 The Purpose Of A Switching Carrier

The purpose of a switching carrier is to move rail shipments between shippers in a terminal area and linehaul carriers transporting shipments between that terminal area and other

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[1] The fact that discrimination occurs in similar situations was recognized and discussed in the 1912 U.S. Supreme Court case *United States v. Terminal Railroad Association.* The case was described in a March 10, 1997 speech by Federal Trade Commission Chairman Robert Pitofsky as follows:

> A group of 14 railroads owned the Terminal Railroad Association of St. Louis. The association controlled, through acquisitions, the two bridges and one ferry service that could be used to transport railcars across the Mississippi River at St. Louis. The river ran between St. Louis and East St. Louis, so railroads had to use bridges or ferries to get across the river, and terminal facilities were needed to connect individual railroads to the bridges and ferry facilities. One peculiarity of the situation was that none of the 24 railroads that served St. Louis had a line that passed all the way through. All of them had a terminus on one side of the river or the other, so interconnection facilities were essential to serve both St. Louis and East St. Louis, and points beyond. Thus, none of the railroads could transport railcars across the river without using the association's facilities. By charging exorbitant prices to non-member railroads who wished to use the association's transportation facilities, the members of the association sought to use their monopoly power over terminal facilities to increase their market share in the related railroad freight business. Because the terminal facilities were essential for railroads seeking to ship products between points east of the Mississippi and points west, non-member railroads were put at a severe competitive disadvantage.

places. In order to do this, the switching carrier must operate yard facilities to gather and sort cars received from different shippers and linehaul carriers. These facilities are used to deliver the cars as efficiently as possible to their next destination, whether that be a manufacturing plant or the yard of a linehaul railroad. The switching carrier's goal is to move all of the cars between the linehaul carriers and the shippers using as few train movements as possible, because each train movement is an expense in terms of crews, fuel, equipment maintenance and the like. In other words, the switching carrier's primary goal is moving the necessary railcars as efficiently as possible.

The switching carrier's primary goal of efficient terminal operations is different from the primary goal of a linehaul carrier that also performs switching. Efficiency in moving cars is a goal of a linehaul carrier performing switching, but that goal takes second place to the linehaul carrier's primary goal of getting its own freight to destination. One significant reason for that difference is the reporting hierarchy of the switching carrier versus that of the linehaul carrier. With a switching carrier, particularly a neutral switching carrier, the highest operating officer of the company is responsible for fulfilling the switching carrier's primary responsibility - efficient operation of the terminal. By contrast, the linehaul carrier may have a local person responsible for management of the local switching operation, but that person ultimately has supervisors whose responsibility is to move the linehaul carrier's own freight, without regard to competing linehaul carriers' freight.

2.2 A Neutral Switching Carrier Is Preferable

The officers of a neutral switching carrier are ultimately responsible to a group comprised of representatives of the owning railroads, and the day-to-day decisionmaking is in the hands of the person whose responsibility it is to make the entire system work as effectively as possible. Any attempts by the owning carriers to obtain preferred treatment at the hands of the switching carrier are subject to check by the other owning carriers through a governing board or similar control mechanism. For example, PTRA's current charter requires neutrality of decisionmaking by PTRA's officials:

> All rules, regulations and orders issued by the Association shall be reasonable, just and fair to all railroads, parties hereto; and the management and conduct of the operation shall be at all times without discrimination or preference, and the Board of Control shall, at the written request of any of the parties hereto, remove from its service any officer or employee who is shown to have failed or refused to observe this requirement . . ."

Port Terminal Railroad Association Agreement, Section IV(b).

Having a linehaul carrier switch a competing linehaul carrier's cars can often result in dilatory switching by the linehaul/switching carrier. This effect is illustrated by an example given by Patrick L. Watts in a verified statement filed in the Tex Mex/KCS petition to revoke the notices of exemption granted UP, SP and BNSF which led to the abolition of the HBT. Mr. Watts' statement said:

> UP has claimed that for operational reasons Tex Mex is no longer permitted to operate over the East Belt. Instead, UP directs the Tex Mex over the West Belt Line and requires Tex Mex to set out the PTRA cars it is moving at Congress Yard rather than setting them out at Basin Yard, on the East Belt, where Tex Mex is supposed to interchange them to PTRA. **All** of the cars which UP has forced the Tex Mex to set out at Congress Yard instead of at Basin Yard **are still sitting in Congress Yard** and **have not been moved by the UP** to Basin Yard as originally intended.

It is my understanding from Mr. Watts that the cars he referred to remained in Congress Yard for approximately 6 days.[2] From my experience as the President of the HBT for 14 years, I cannot recall any instance in which HBT would have allowed cars tendered to it for delivery to sit in a yard for that length of time. I also am reasonably confident that a 6 day wait in a yard was not

[2] This is a much longer time then it should take for these cars to be switched. For example, a 1982 memorandum to R.K. Davidson of Missouri Pacific that I rediscovered recently stated that while car volume in Houston had increased 6 percent during the previous year, detention time fell from approximately 30 hours to just above 14 hours.

representative of the time that it took UP to deliver its cars that it moved to or from Houston, or even to and from Congress Yard, during the period in question. The incident Mr. Watts describes is indicative of the type of second class status that the cars of one linehaul carrier often get if they need to be switched by a competing linehaul carrier.

In addition, other problems have occurred in Houston such as:

- Lost and misrouted cars;
- Cars which are mysteriously never delivered to the shipper after interchange to UP but are routed back to their origin fully loaded;
- A linehaul switching carrier's tendency to exacerbate inefficient car usage, such as by being unwilling to find competing lines' cars in the terminal area and to switch them to a customer, forcing the competing line to locate a car from outside the terminal area and to interchange it to the switching carrier for delivery to the competing line's shipper; and
- Empty cars tendered for delivery upon a Tex Mex shipper's request that instead make their way into the hands of a UP shipper and are loaded and routed UP rather than being tendered to and loaded by the Tex Mex customer to whom Tex Mex intended the cars to be delivered.

As an example of the last point, Commercial Metals, a Tex Mex shipper, requested Tex Mex to provide it with empty gondola cars for loading and shipment to Laredo. Tex Mex tendered the cars to UP and directed that they be delivered to Commercial Metals. However, the cars were tendered by UP to a UP customer for loading, leaving Tex Mex's customer unable to ship Tex Mex.

To combat the preferential treatment that UP's dispatcher and switch crews give UP in terms of access to Houston trackage, Tex Mex was forced to run a separate Beaumont-Houston-Beaumont train, rather than handling Houston traffic on Tex Mex's through trains running between Beaumont and Robstown. Putting on this separate train was essential to help assure consistency and reliability in Tex Mex's handling of Houston traffic. Although this additional train has been costly to Tex Mex, it often has been the only means available to reduce the effect on Tex Mex trains of the severe discrimination that Tex Mex suffers in Houston.

That these types of problems result from having a Tex Mex competitor handling Tex Mex's traffic is proven by the fact that Burlington Northern and Santa Fe Railway Co. ("BNSF") has suffered these same types of discrimination in other locations at UP's hands. In its July 1, 1998 quarterly progress report to the Board about implementation of the UP/SP merger conditions ("BNSF Report") BNSF reported the following:

> Baytown Branch shipments moving via haulage on the UP have often been delayed because UP gives preference to its trains over BNSF trains, otherwise fails to switch BNSF trains in a timely manner, or does not deliver outbound cars to BNSF at the Dayton, TX interchange.
>
> ....
>
> Loaded cars destined for Jayhawk [Nev.] have been returned to [Kennecott Utah Copper at] Magna without ever being unloaded. During the first three weeks of April, 1998, 22 acid cars returned to Kennecott loaded instead of empty. As a result, customers expecting delivery are faced with product shortages, and the shipments have had to be shipped by truck to protect deliveries to Nevada customers.
>
> ....
>
> BNSF has encountered significant problems with haulage service for another Nevada customer, Anshutz Marketing ("Anshutz") at Carlin. Anshutz has attempted four times to use BNSF service. Each time, cars were either not delivered by UP for up to 7 days after they arrived in Elko, or empties were not pulled from the Anshutz facility for a similar period of time.

BNSF Report at 10, 26 and 27. As BNSF summed up:

> BNSF has found that in most cases where UP is performing either haulage or reciprocal switch service for BNSF, BNSF has been unable to provide timely, reliable and competitive service. On some occasions, UP has given its own trains preference over BNSF trains, thereby causing BNSF trains to experience considerable delays. On other occasions, BNSF trains experienced delays because UP inefficiently coordinated operations.

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BNSF Report at 29. BNSF's Report confirms that the types of problems described by Mr. Watts are not isolated accidents but are part of a pattern of UP activity that appears intended to frustrate attempts by BNSF and Tex Mex to provide the efficient, competitive service that the Board apparently intended when it imposed conditions on the UP/SP merger. Neutral switching in the Houston area is needed to put a stop to this pattern of activity. BNSF itself has asked for neutral switching of the Baytown and Clinton Branches in Houston. BNSF Report at 18-19.

2.3 The Neutral Switching Carrier Improves Terminal Efficiency and Minimizes Operational Problems

A neutral switching carrier improves terminal operations by eliminating the possibility of the linehaul carrier performing switching service to treat its traffic preferentially over that of competing linehaul carriers, whether such preference is intentional or attributable to different upper management priorities. Presently, UP acts as the switching carrier for over 80 percent of the tracks of the former HBT. BNSF acts as the switching carrier for the remaining small, southern portion of the HBT belt lines. This switching arrangement arose in November, 1997, when UP and BNSF, as the owners of the HBT, decided to carve up the HBT's assets. As described elsewhere in Tex Mex/KCS filings and in the BNSF Report, UP's switching of cars in the Houston terminal area has resulted in a clear pattern of discrimination against Tex Mex and BNSF trains by UP personnel dispatching and switching trains that are attempting to pick up or set out cars in, or even merely to transit, Houston. A neutral switcher would not have an incentive or ability to discriminate and would, therefore, operate the overall terminal as efficiently as possible.

2.4 Neutral Switching Improves Operational Efficiency By Providing Alternatives

Neutral switching carriers also promote efficient operations by providing shippers with alternatives. A function of a neutral switching carrier is to provide shippers it serves with impartial access to all of the linehaul carriers that it serves. As stated in the Belt Railway Company of Chicago's listing in the November/December 1996 edition of the *Official Railway Guide*, "A location on the BRC is equivalent to having a location on each Chicago road." Thus, shippers switched by a neutral switching carrier have alternatives for routing their traffic. By contrast, shippers served by other types of switching by linehaul carriers, such as reciprocal switching, may be limited in their choices. For example, I understand that UP recently amended its reciprocal switching tariff governing service to DuPont's facility near Strang Yard to eliminate Tex Mex as an alternative service available to DuPont.

Neutral switching improves service and efficiency by providing options. No longer would UP be able to cut off service options that DuPont had decided that it needed. Instead, UP would have to compete on a price and service basis to earn the traffic of shippers. Therefore, operating efficiency would improve because each carrier would strive to optimize its service to cause shippers to choose to use it.

Moreover, by providing alternatives, a neutral switching carrier provides a safety valve against the type of traffic buildup that led to UP's year-long and continuing problems throughout the West. Shippers in the Houston area served by UP alone had no choice, as UP's service began to deteriorate, but to continue shipping via UP. Because of UP's domination of the market and control of the HBT, shippers had no choice. If there had been a truly neutral switching carrier serving the greater Houston area, as the Consensus Plan proposes, many UP-captive shippers could have diverted traffic to BNSF and, after institution of the Emergency Service Order, to Tex Mex to help alleviate the pressure on UP. Because there was no neutral switcher serving the majority of the Houston area and because UP did away with the HBT during the service crisis, there was no safety valve.

2.5 Neutral Switching is A Common and Effective Solution For Terminal Operations

The neutral switching carrier concept is a common concept for terminal operations, and one which I believe that the STB must view as beneficial to terminal operations based upon the number of currently existing terminal railroads. Furthermore, a neutral switching carrier of the scope proposed here is not a unique entity. Prior to my long tenure in Houston terminal operations, I was involved with terminal operations in St. Louis and Chicago. In each of these cities, a neutral switching carrier concept was implemented so that linehaul carriers would not be performing switching in the crowded terminal area.

The Belt Railway Company ("BRC") and the Terminal Railroad Association of St. Louis ("TRRA") are the neutral switching carriers that operate in Chicago and St. Louis, respectively. The BRC was formed in 1882, and operates over 27 miles of main line track, and many more miles of yard track, with 916 employees.[3] The TRRA has been in operation since 1889.[4] The TRRA's operations span 253 miles of main line and yard track combined, and utilize 650 employees. In 1995, BRC switched a total of 735,943 cars[5] and generated total revenues of $59,716,000, while TRRA switched 288,517 cars[6] and brought in $37,411,000 in revenues.[7] Both the BRC and the TRRA are operated by independent management that provide fair and impartial service to the railroads operating in their terminals. The fact that these neutral switching carriers

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[3] Source: AAR Profiles of 475 Local and Regional Railroads, June 1986.

[4] Source: AAR Profiles of 475 Local and Regional Railroads, June 1986.

[5] Source: BRC's Annual Report To The Surface Transportation Board, filed April 29, 1996.

[6] Source: TRRA's Annual Report To The Surface Transportation Board, filed April 11, 1996.

[7] In 1995, by contrast, HBT switched only about 30,000 cars and generated about $3.3 million in revenue. Historically, however, HBT's operations were much larger than they were in 1995, with HBT being at times during my tenure there the second or third largest terminal railroad in the country, operating major facilities such as Settegast Yard, and handling all movements between the PTRA and linehaul carriers. These facts demonstrate the feasibility of a large-scale switching operation in the Houston area such as that proposed in the Consensus Plan.

have operated successfully in the busy Chicago and St. Louis terminals is a strong endorsement for implementing a similar neutral switching carrier to increase efficiency in the congested Houston terminal area.

Chicago and St. Louis are not the only terminals that have recognized the efficiency of using a neutral switching carrier. At the present time, one of my responsibilities for KCS is to advise our partially owned affiliate in Mexico, Transportacion Ferroviaria Mexicana ("TFM"), on terminal matters. The government of Mexico has just completed auctioning off the third and final piece of the Mexican rail system. In the future, what was a single government-owned railroad will be three separately-run private railroad companies, which each will enter Mexico City from a different direction. The Mexican government is therefore forming a neutral terminal railroad company to serve Mexico City. Each of the three privately-run railroads will have an ownership interest in the Valley of Mexico terminal railroad company, which will perform the same types of services that HBT, BRC and TRRA have performed in Houston, Chicago and St. Louis, ensuring efficient and fair service for each of the railroads serving the world's largest city.

Likewise, a similar concept has been proposed by CSX and Norfolk Southern as part of their plan to acquire Conrail. CSX and NS have proposed "shared assets areas," where a single Conrail entity would remain to provide neutral service within crowded terminal areas in New Jersey and Detroit. Within the shared assets area, each shipper has the right to select its line haul railroad. It is my belief that the shared asset concept is based, in part, on the fact that duplicate infrastructure would not be economical or feasible. Since the economics did not support overlapping operations by competing linehaul carriers throughout those metropolitan areas, CSX and NS have agreed to allow a single entity to operate in that area. This seems to be an adaptation to the neutral terminal carrier concept which used to exist in Houston and still exists elsewhere.

2.6 HBT Proved That A Neutral Switching Carrier System Works in Houston

The ultimate proof that neutral switching will work in Houston is that HBT functioned successfully and safely in that capacity for nearly 90 years, until it was recently dissolved by UP and BNSF, and that PTRA operates that way now. At the time it was dissolved, the HBT had served Houston well as the neutral switching carrier for nearly a century, winning many safety awards. As a neutral switching carrier, HBT operated the two principal "belt" routes through the City of Houston, along with the many yards adjacent to those belt lines. On the west side of town, HBT operated the West Belt, from Double Track Junction on the south to Belt Junction on the north. Located along this line segment are Old South Yard, Congress Yard, the Milby Street Roundhouse, Quitman Yard and Collingworth Yard. HBT also switched shippers north of Belt Junction to approximately Milepost 227, and south of Double Track Junction to T&NO Junction. This latter area included New South Yard, which also was operated by HBT.

HBT also performed switching for shippers using the yards and tracks of the East Belt. Those yards included East Belt Yard, Dallerup Yard, Basin Yard, Glass Track and Pierce Yard. Booth Yard also was operated by HBT as a switching facility. At one time, HBT also operated Settegast Yard, which was taken over from HBT by UP in the early 1990's. HBT switched as many as 200 shippers along the Belt.

HBT began operations in 1905 in Houston. During its long history, it conducted efficient, impartial switching operations in the Houston terminal, coordinating its service with as many as seven or eight carriers that connected with and were served by its switching functions. Most of those carriers have since been merged into the present UP, leading to UP's ownership of virtually all of the main rail lines in and out of Houston, as well as UP's ownership of the half of

HBT's stock not held by BNSF. The Consensus Parties propose that PTRA would re-create a neutral switching carrier in Houston.

2.7 The Idea Of A Neutral Switching Carrier For The Greater Houston Area Was First Introduced In 1981

The idea of a neutral switching carrier serving the entire greater Houston area, similar to the Consensus Plan proposal, is not new. In 1981, I assumed the position of President of HBT after having served as Assistant General Manager and General Manager since January 1, 1978. From the time I joined HBT until I left, it was one of the largest switching terminals in America in terms of revenues generated and miles of track operated. During this period the HBT was owned 12.5% by Fort Worth & Denver Railroad ("FWD"), 12.5% by the Chicago, Rock Island and Pacific Railroad ("RI"), 25% by Atchison, Topeka and Santa Fe ("ATSF"), and 50% by Missouri Pacific Railroad ("MP"). BN was later acquired the interests in HBT held by FWD, RI and ATSF, which gave the combined BNSF a 50% interest in HBT. Prior to the BN-ATSF merger, UP acquired MP's 50% interest in the HBT when MP and Western Pacific ("WP") merged into UP.

Besides the HBT, at the time of the UP-MP-WP merger, the Houston region was served by the Southern Pacific Railroad ("SP"), which had the most extensive rail facilities in Houston. The Missouri, Kansas & Texas Railroad ("MKT"), and the Galveston, Houston & Henderson Railroad ("GH&H"), which was owned equally by MP and MKT, were the other railroads serving Houston at that time. Later the MKT was merged into MP, and subsequently UP. During this same period SP, MP-MKT (through the GH&H), and ATSF all had service via their own lines to Texas City, on the mainland, and Galveston Island via a common causeway bridge over the intercoastal waterway onto Galveston Island. In addition, FWD and RI had trackage rights over the ATSF making it possible for all railroads serving Houston to serve Galveston

Island and Texas City just before reaching the causeway bridge onto the island. To create equality and eliminate preferential treatment at Texas City, the owners of the Texas City Terminal Railway ("TCT"), which served the Port of Texas, entered into an agreement called the "Bay Lines Agreement." Pursuant to the Bay Lines Agreement, the owners of TCT (ATSF, MP and MKT) agreed to switch cars for the non-owner lines, SP, RI and FWD, on a non-preferential, neutral basis.

Because I had worked for MP as Assistant General Manager of the Southern District, with operating responsibility for rail operations in Texas, Oklahoma and Louisiana, I was familiar with the Houston, Texas City and Galveston operating conditions. With this operating background, I joined the HBT on January 1, 1978. By the time I became President of the HBT in August of 1981, I was convinced that the switching terminal of the greater Houston area should be combined into one neutral terminal. Therefore, sometime shortly after becoming President, I proposed to Downing B. Jenks, President of MP, and 50% owner of HBT, that the HBT, PTRA, TCT, GH&H and Galveston Wharves all be combined into one switching terminal company. The combined company could switch cars to and from industries, interchange cars between carriers, make up outbound trains, and break up in-bound trains for delivery in the terminal as well as coordinate all train, switch engine, and transfer movement in or through the terminal. These combined operations, coupled with a direct connection to the local police, fire and emergency authorities, would allow the greatest degree of coordination and efficiency for marshalling resources and coordinating interconnected activities among all the railroads involved, to the benefit of local Houston rail customers, as well as local authorities.

The proposal would help modernize a number of obsolete facilities which could be combined into more efficient, and better located, state-of-the-art facilities.[8] The proposal included new locomotive and car repair facilities, an expanded rail traffic control system ("RTC"), new rail connections to interconnect switching terminals as a whole, combined train and switch-engine supervision and facilities, and combined management and operating personnel and territories. Cars moving into and out of the greater Houston switching complex, with its high concentration of chemical companies and grain elevators along the Houston ship channel, could be coordinated and controlled by a single entity whose sole purpose would be to make those movements as efficiently and as fairly as possible to each of the railroads and their customers.

Downing Jenks liked the proposal and told me to pursue it with the other owners of the HBT and the other railroads in Houston. The HBT Board of Directors approved the proposal and gave it their full support. However, because SP was not an owner of HBT, and because SP had its own rail facilities which were larger than any other railroad in Houston, SP did not feel the savings the proposal would generate to it would offset the advantage it enjoyed at the time. SP felt that since it was the only railroad in Houston with rail facilities along the south side of the Houston ship channel, where the preponderance of the heavy chemical industry was located, and since it could actually switch industries located there in competition with the PTRA, it had a distinct advantage over the other railroads serving Houston. In fact, the less efficient the PTRA, the greater was SP's advantage. Therefore, SP would not support the proposal. Because the

[8] Another efficiency of a neutral switching carrier is cost-sharing. Costs of terminal operations are apportioned among carriers based on use. Therefore, for example, no one carrier is saddled with the economic burden of making improvements in infrastructure that benefit all carriers. Economies of scale inherent in this form of cost sharing will actually encourage infrastructure investment.

PTRA charter required a unanimous vote on all issues of a major nature, SP successfully blocked the proposal. It was speculated that SP also used the unanimity rule to block capital improvement projects on the PTRA to further improve SP's advantage.

The proposal was finally abandoned due to SP's resistance, and it laid dormant for a number of years. Then, sometime in the early 1990's, the proposal was resurrected in a modified form. The Houston Port Authority got involved in the ongoing negotiations and reviewed a proposal for the PTRA to lease the facilities of HBT and create a single expanded neutral switching and dispatching terminal in Houston. From 1981 to 1992-1993, various attempts to establish one switching terminal were made by creating joint officers on the HBT and PTRA. The Vice President of Finance, Treasurer, Claim Investigator, Safety, Security and Engineering officers were all made joint officers on HBT and PTRA with responsibilities to each entity. From the outset of this proposed combined and neutral switching terminal, until I left HBT on December 1, 1994, MP, and later UP, supported combining the terminals into a single switching terminal company. It was not until after I left HBT, and after UP and SP merged enabling UP to gain virtually all of the Houston area rail infrastructure, that I learned that UP no longer supported the proposal for a single switching terminal.

2.8 Safety Will Be Enhanced With PTRA As The Neutral Switcher

An added advantage of having PTRA as the neutral switching carrier is that Houston switching operations would be placed in the hands of one of the safest operators in the rail industry. PTRA is experienced in Houston switching operations due to its current operations in part of Houston. PTRA also has an outstanding safety record, with an industry-leading accident ratio of 0.93.[9] PTRA also has substantial experience handling the sometimes high risk chemicals manufactured and shipped in Houston.

2.8.1 AAR Accident Records, FRA Records And NTSB Findings All Indicate That UP Safety Performance Is Weak

The Consensus Plan proposes that the PTRA become the neutral dispatcher and neutral switcher for the Greater Houston Terminal Area, including all lines currently served by PTRA, and those lines in Houston which were served by the HBT before it was dismantled by UP and BNSF on November 1, 1997. That proposal is a direct response to increased safety dangers in Houston.

2.8.2 UP Has Systemic Safety Problems

Safety and service go hand in hand. The widespread complaints lodged against UP service are mirrored in an equally dismal UP safety record. Tragically, the UP sustained 11 fatalities in 1997, almost three times the fatalities of any other Class I railroad. Overall, UP had the highest frequency rate of casualties (fatalities, injuries and illnesses) among the major railroads.

The Federal Railroad Administration (FRA) conducted an exhaustive review of UP management policies and practices.[10] The FRA review was expanded twice because of the seriousness of the initial and intermediate findings. The report cites numerous flawed UP operating policies and practices. This systemic pattern of flawed management decisions and practices creates the current dangerous situation in Houston.

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[9] This is computed as reportable accidents and injuries per 200,000 man-hours.

[10] U.S. Department of Transportation; Federal Railroad Administration Summary of Union Pacific Railroad Safety Assurance Assessment, Feb. 25, 1998.

Seven major accidents have occurred on UP within the past year according to the Safety Report released February 25, 1998. The UP accidents cited by FRA include:

- Two UP trains collided head-on, killing 4 and injuring 2 on June 22, 1997, in Devine, TX.
- A UP train failed to stop at a siding and struck a passing UP intermodal train in Kenefick, KS, on July 2, 1997. The Engineer was killed.
- An unattended UP consist traveling 60 mph collided head-on with UP train on August 20, 1997 in Forth Worth, TX, killing 2 train operators.
- A UP unit coal train struck the rear of a standing BNSF train, and derailed equipment struck a passing UP train. The UP conductor and engineer were injured in this incident which occurred on August 23 at Shawnee Junction, WY.
- Two UP freight trains collided head-on. Five of six locomotives caught fire and were destroyed on October 21, 1997 in Houston, TX.
- A UP train struck the rear of a standing UP train on October 29, 1997, in Navasota, TX.

The National Transportation Safety Board (NTSB) also has conducted investigations of many serious accidents on UP. In addition to the accidents noted above, the NTSB has investigated the following significant UP accidents since the merger:

- A UP train derailed 27 cars near Marshall, MO while traveling at a speed of 48 mph May 27, 1997. The accident was caused by a defective length of rail.
- A UP train derailed 18 cars while traveling 40 mph near Kinter, AZ on March 16, 1997. Inspection of truck vans on flat car revealed that large rolls of paper had not been properly braced and had shifted to one side, probably causing the car to derail.
- A UP train struck the rear of other UP train near Odem, TX on February 21, 1997. The crew of the standing train mistakenly thought that the train was carrying 64 cars and that their train did not exceed the Odem yard limits, when in fact their train carried 136 cars and exceeded the yard limits by 2,100 feet.
- A UP train derailed near Wellington, KS on February 13, 1997. The use of the track was improper because of maintenance activities at the time.
- A UP train derailed 14 cars in Gurnee, IL on February 7, 1997.
- An Amtrak train derailed on UP track near Granite, WY on January 13, 1997. Derailment occurred at a length of broken track.
- A UP train derailed January 12, 1997 near Kelso, CA. Engineer mistakenly shut down locomotive diesel engines and therefore disabled dynamic braking. Hurtling out of control as it descended a hill, the train derailed after reaching 75 mph in a zone with a 20 mph limit.
- A runaway cut of cars with unmanned locomotive struck UP train on October 11, 1996. Train on adjacent track struck cars which had derailed as a result of the collision and in turn derailed. Handbrakes had not been set.

As noted above, like the FRA, the NTSB has also recently found a number of potential safety issues in its investigation of UP. In Exhibits 3-A through 3-N of NTSB Docket No. ATL-98-SR001, safety issues identified included:

- Management oversight;
- Crew fatigue;
- UP management safety oversight of the mechanical department;
- Effectiveness of UP locomotive engineer certification program;
- Effectiveness of the UP fatigue education program;
- Inadequacy of defect detection equipment to discover pending rail failures;
- UP management oversight of operating crews;
- Effectiveness of the UP efficiency testing program; and
- Effectiveness of the UP engineer training program.

The issues identified by the FRA and NTSB are very disturbing, and underline the importance of allowing PTRA to act as neutral switching and neutral dispatching entity for the Houston Neutral Operations Area.

The need for a safe switching carrier is further emphasized by the significant share of rail traffic in Houston that involves the chemical industry. The chemical industry is a major part of the Houston economy. Chemical shipments account for a significant share of rail volume in the Houston area. Accordingly, safety is a paramount consideration. The catalogue of omissions, errors and gaps found by FRA and NTSB are a cause of serious concern. UP's dismal safety record is one of the principal reasons for recommending an enhanced role for PTRA, which is one of the safest carriers in the U.S., according to FRA reportable accidents and injuries. [11]

2.8.3 PTRA's Safety is Excellent

In recommending neutral switching by PTRA, the Consensus Plan recommends increasing the operating scope of PTRA, which has a superior and improving safety record. The Houston region would thereby rely less on UP, which has a deteriorating safety record. Safety

[11] Source: AAR Summary of Monthly Accident Frequency reports.

and service go hand in hand and Houston has suffered from a loss of both. Allowing PTRA to operate as the neutral switcher of the proposed Greater Houston Terminal Area would restore both safety and service to the Houston region.

UP's safety record is weaker than that of most major line haul carriers, while PTRA's safety record is significantly better than those same linehaul carriers, and vastly superior to other switching and terminal carriers. PTRA has had an excellent safety record over the years and has had a steadily declining accident frequency rate since 1991. As of 1997, the PTRA accident frequency rate was 0.93. [12] By contrast, the average for major terminal railroads was 4.56; the average for line haul railroads[13] was 2.17, and UP's was 2.27. PTRA has earned 13 Harriman awards since 1983 at the bronze, silver and gold levels, including the last 2 gold medals for switching and terminal railroad class. This performance is in stark contrast to UP, which had 11 fatalities in 1997, and had the highest number of casualties (fatalities, injuries and illnesses) among the major railroads.

Although terminal railroads sometimes have higher accident frequencies than line haul railroads, PTRA has had an excellent safety record over the years and has had a steadily declining accident frequency rate since 1991. In addition to receiving the Harriman gold medal for the second year in a row at the 1997 Harriman awards ceremony, PTRA also received a special certificate of commendation for continuous improvement in safety performance. Thus, in recommending that PTRA replace terminal switching services of UP, the Consensus Parties are recommending a proven switching carrier with a superior and improving safety record to replace a below-average linehaul carrier with a deteriorating safety record. In addition, UP has been the

[12] Computed by dividing total casualties by 200,000 man-hours.

[13] Linehaul railroads with 15 million or more man-hours annually (i.e., NS, BNSF, CSX, UP/SP, Conrail and Amtrak).

subject of two FRA safety inspection blitzes and an extended NTSB hearing on its operating practices. The FRA investigations have concluded that mismanagement has been a major contributor in many of the incidents occurring on UP, as opposed to simple accidents. Unquestionably, PTRA is the safer operator as compared to UP. Therefore, placing Houston terminal switching operations in PTRA's hands would increase safety for all concerned.

2.9 Neutral Switching Will Serve UP's and BNSF's Objectives as Well

The reinstatement of an impartial and neutral operation of the Houston terminal will fulfill UP's and BNSF's goal of coordinating all train operations. As demonstrated by HBT's successful operation of the Houston terminal for almost 90 years, a neutral operator will improve the overall efficiency of the Houston terminal operations and facilities by:

- improving coordination of all train operations;
- improving the communication among railroads serving the Houston area;
- improving the efficiency of the yards serving the area; and
- expediting the Gulf Coast train operations.

3. CONCLUSION

Houston needs a truly neutral switching entity. For the reasons stated herein, the PTRA should be expanded to become that neutral entity.

HARLAN W. RITTER

SENIOR MANAGEMENT EXECUTIVE

Since March 17, 1997, I have held the position of Vice President/Executive Representative for the Kansas City Southern Railway as part of their strategic plan to capitalize on the winning of the Mexico franchise on the Northeast Railway between Laredo and Mexico City.

For the past 30 years, I have exercised broad-based senior management responsibility demonstrated in my current work in international rail management and in my previous positions as President and Executive Director of Texas City Terminal Railway/Port of Texas City and as President of Houston Belt & Terminal Railway. I have developed a broad range of rail and transportation industry expertise, spanning all areas of corporate leadership: marketing, corporate identity, strategic and master planning, asset evaluation and management, safety, union interface and negotiations, financial planning and all aspects of operations.

EXPERIENCE SUMMARY

Vice President/Executive Representative/Kansas City Southern Railway

My work with the Kansas City Southern Railway in Mexico has been directed toward the successful transformation of the federally owned, Mexican rail connection between Mexico City and Laredo to a smoothly functioning, privately-run rail enterprise, Transportacion Ferroviaria Mexicana. As part of the ongoing effort, I have performed contract negotiations on trackage rights, evaluated terminal operations and utilized my extensive rail experience as Executive Representative for Mike Haverty, President and Chief Executive Officer of Kansas City Southern Railway. Diplomacy and a keen awareness of the political aspects of rail management have been key factors in the success of this ongoing effort at international rail cooperation.

President and Executive Director, Texas City Terminal Railway Company and the Port of Texas City

In 1995, I assumed the position of President and Executive Director, Texas City Terminal Railway Company and the Port of Texas City. The Port of Texas City is the eighth largest port in the United States, third largest in Texas, and a worldwide leader in petrochemicals, handling over $21 million in annual revenues. The Port has 43 berths, a 40' draft harbor with authorization to 50', and excellent land links by both rail and interstate freeway. Switching is provided by the Texas City Terminal Railway to Union Pacific and Burlington Northern Santa Fe lines, joint owners of both the Port and the terminal company.

As President and Executive Director, I initiated a comprehensive reevaluation of the company's status, developing and implementing strategies in identity, marketing, communications, operating efficiencies and asset evaluation and reallocation. Major accomplishments include:

Strategic Planning
Upon assuming my duties with the port and terminal company, I initiated marketing and feasibility studies that culminated in the development of the Strategic and Master Plans, formulated in 1995. These contained a wide range of initiatives spanning the next ten to twenty years and included marketing, corporate identity, facilities and land use improvement, the development of an industrial park, and funding for these activities. Phase One included corporate identity creation and increased visibility and culminated with the relocation of Port headquarters in 1996 to SH 146 North. Following Phase One, I embarked on Phase Two of the plan, appointing a director of trade development. Future recommendations contained in the Strategic and Master Plans outline opportunities for expansion and growth, evaluating all the resources at hand with an eye toward developing them for the highest and best use.

Corporate Identity and Marketing
Within the first six months at the Port, I completed a comprehensive effort to create a new corporate identity for the Port, which had formerly been identified as the Texas City Terminal Railway. Repositioning the company's name to focus on the harbor operation was high priority of the re-identification and an essential element in efforts to pursue increased market share worldwide. Elements completed included renaming, the development of a logo, site signage, direct mail, relocation and corporate brochures, highway signage and billboard. Efforts to raise awareness and visibility included a consistent program of press release and advertising, and the relocation of corporate headquarters.

Operations
During the past two years, I completed the evaluation and modification of all phases of operations, reducing crew sizes to foreman-only, and eliminating yardmasters and carmen with union approval. These moves reduced employees, eliminated crafts and increased efficiency and revenues.

Financial
Within the period, I reevaluated all assets. Non-performing assets were sold or priced closer to market value. In addition, I reevaluated and adjusted the rate structure. These measures increased revenues by over $5 million over the two-year period.

President, Houston Belt & Terminal Railway
In 1981, I assumed the position of President of the Houston Belt & Terminal Railway after serving as Assistant General Manager and General Manager from 1978. HBT was, at the time of my departure, the third largest terminal company in the United States, with 480 employees handling over $400 million in annual revenues. During the period, it was owned by Union Pacific, Santa Fe Railway and Burlington Northern Railroad. With total P&L responsibility, I reshaped and revitalized the company. Major accomplishments included:

Corporate Philosophy and Marketing

As President of HBT, I pursued a consistent philosophy of terminal companies as low-cost service centers - shared facilities with equal treatment for owner lines. Within this concept, I maintained a goal of generating revenues to offset as far as possible the cost of operations to the owners.

Moving HBT to a higher level of productivity and performance, I spearheaded the reassessment of company image, customer service and marketing strategies, leading to the creation of a redesigned, more meaningful company logo, a revised corporate vision, corporate mission, customer creed and corporate values. All were engineered to form a strong foundation for fundamental changes in attitudes toward customers, job performance, growth and profitability. With increased customer-orientation as a focus, I led the company to develop the following:

- Effective Personal Leadership Classes which include strong quality process and customer service elements;
- Customer surveys, customer appreciation days and customer profiles on computer;
- Training in telephone answering techniques and customer service through Strawberry Communications;
- Training in problem resolution on behalf of customers;
- Increasing awareness of customers among employees and the Houston business community through profiles in the company magazine; and
- Trade show participation and the development of Transportation Service Representatives (TSR's).

Operations:

From 1978 to 1981, I managed the consolidation of yard offices, communications and signal systems and installation of a state-of-the-art video system. During this period, I managed plant improvements totaling $46 million, $19 million of which covered improvements in Settegast Yard alone. All improvements were planned and carried out to reinforce a safe, efficient work environment. Physical plant and operational improvements included the addition of electronic switching, motorized train inspections and increased in-train mechanical repair capabilities. Managed major plant improvements including:

- U.S. Highway 59 Project: HBT began construction of the Phase One relocation of approximately 1.6 miles of its main track, construction of Buffalo Bayou Bridge and interstate Highway 10 Bridge adjacent to its East Main. The $14.8 million work order provided for the construction of 1.2 miles of track north along the Southern Pacific main line from Tower 26 to Collingsworth. This alignment retired Quitman and Collingsworth Streets rail crossings, benefiting both HBT and Southern Pacific. Phase Two design, plans and specifications were begun.

- Supervised an $11 million project to relay the main line from MP 0.00 at Belt Junction to the north end of Market Street at MP 6.00. Tracks were constructed of 115# to 133# continuous welded rail. All turnouts were standardized to control inventory and reduce expenditures.

- Innovative utilization of Trackmaster/Dowty Retarders in a large portion of the classification yard, the first time in the industry retarders were used to prevent rollout as well as to control switching speeds. The improvement raised switching speeds while preventing damage to material in cars thereby reducing potential claims.

- Installation of state-of-the-art Automatic Equipment Identification (AEI) system to replace video camera system.

- Developed and implemented successful safety policies and programs such as the Safety Hot Line, Save-A-Back, Pro-Back and other ergonomic health and safety programs. All were under continuous scrutiny to promote greater employee health knowledge and create involvement in a safe work place through swift reporting of conditions needing prompt attention. As a result of these efforts, during a 17-year period from 1978 to 1995, the HBT won 11 Harrimans and experienced only one fatality.

- Improved operating standards over a five-year period. For example, hourly production increased 21% while detention time was reduced 39%, an all time low.

- Initiated total computerized hardware augmentation and software development for both professional and support staffs - including the establishment of an electronic mail system.

- **Financial**

    - While President, I reduced payroll from 1,270 people to 480.
    - Analyzed HBT's tax structure and corrected tax problems, reducing tax liability by 25%.
    - Lowered property tax evaluation from $3.3 million to $1.6 million, significantly enhancing profit contribution.
    - Updated lease agreements, while initiating a systematic contract monitoring procedure leading to approximately $600,000 in incremental new business.
    - Successfully located 30 new customers along HBT's tracks while retaining and increasing existing business.

Personnel

- Led the effort to change crew allocations from five-man crews to foreman-only crew size, increasing operational efficiency and contributing to the growth and profitability of shareholders. Established 18 foreman-only jobs.
- Administered and personally implemented a goal-oriented management system.
- Implemented use of software that generated an increase in capabilities of 15% and overtime decrease of 32%, reducing labor costs by almost $200,000.

INDUSTRY EXPERIENCE

Throughout my career, I have consistently demonstrated bottom-line orientation by implementing cost reductions and improving company performance. A turnaround specialist, during my 14 years with Houston Belt & Terminal Railway, I established precedent-setting records in quality, customer service and cooperation among railroads to further the industry's seamless transportation system. I planned and executed a five-year improvement plan leading to increase capacity, new business development, improved scheduling and significantly reduced operating expenses. With company goals a priority, I exhibited excellent communications skills while overseeing all personnel functions, including union negotiations to implement foreman-only train crews.

HBT originally recruited me in 1978 for the position of Assistant General Manager. While being groomed for the presidency, I was responsible for turning around the safety program and consolidating existing operations. In this capacity, I strengthened HBT's safety record to such a degree that the company received the industry's highest safety award for ten consecutive years. Prior to this, HBT's experience was one of the worst in the industry with claims payouts in the millions. I also managed personnel consolidation, utilizing closed circuit television and computer software developed in house. This $800,000 project paid for itself in 14 months.

In 1964, I joined Missouri Pacific Railroad, prior to its merger with Union Pacific, one of the top five companies in the industry in miles operated and revenues. Initially a management trainee, I progressed through the ranks in increasingly responsible positions. Before joining HBT, I was Assistant to the Vice President of Operations at corporate headquarters.

EDUCATION/PERSONAL

In addition to my B.S. degree, which I received in 1964 from Fort Hayes State College, I pursued post graduate studies at the Harvard Business School and Northwestern University. Through the years, I have maintained state-of-the-art competency through workshops and seminars.

INDUSTRY MEMBERSHIP ACTIVITIES

Taxpayers Research Council
Texas City Chamber of Commerce
Texas Port Association
Gulf Port Association
Association of American Port Authorities
The Transportation Club of Houston

Council of Logistics Management
Texas Transportation Institute
Southwest Shippers Advisory Board
Houston Chamber of Commerce
Central Houston, Inc.
Downtown Houston Association

HONORARY POSITIONS, AWARD AND RELATED INTERESTS

Board of Directors, Merchants Bank
Board of Directors, Texas City Chamber of Commerce
Member, Board of Directors, Transportation Club of Houston, Present
President, Transportation Club of Houston, 1993-1994
First Vice President, Transportation Club of Houston, 1992-1993
Second Vice President, Transportation Club of Houston, 1991-1992
Person of the Year, Transportation Club International, 1993
Member, Board of Directors, Buffalo Bayou Partnership, Present
Author of articles in Industrial Engineering News and HBT's in-house journal, *The Belt*.

VERIFICATION

DISTRICT)
OF) ss.
COLUMBIA)

I, Harlan Ritter, being first duly sworn, upon my oath state that I have read the foregoing statements and the contents thereof are true and correct as stated.

Harlan Ritter

Harlan Ritter

Subscribed and sworn to before me this 30 day of July, 1998.

Georgia M. Dickens

Notary Public

NOTARY PUBLIC GEORGIA M. DICKENS DISTRICT OF COLUMBIA

My Commission Expires: Georgia M. Dickens Notary Public, District of Columbia My Commission March 14, 2002

0011225.01

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub-No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN
IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS
IN THE HOUSTON/GULF COAST AREA

JOINT VERIFIED STATEMENT
OF
WILLIAM J. SLINKARD
AND
PATRICK L. WATTS

JOINT VERIFIED STATEMENT
OF
WILLIAM J. SLINKARD
AND
PATRICK L. WATTS

Our names are William J. Slinkard and Patrick L. Watts. We are, respectively, Superintendent for The Kansas City Southern Railway Company ("KCS") Gulf Region and Vice President - Transportation for the Texas Mexican Railway Company ("Tex Mex"). We have jointly developed the operating plan for the Port Terminal Railroad Association ("PTRA") following the imposition of the additional remedial conditions set forth in the Consensus Plan. That PTRA Operating Plan appears as Attachment A to this Joint Verified Statement. Watts has separately developed the operating plan for Tex Mex, a plan which necessarily reflects the impact of the additional remedial conditions and the projected operations of the PTRA. That Tex Mex Operating Plan appears as Attachment B to this Joint Verified Statement. Although we present both plans, any separate statements by one or the other of us is so identified.

By Mr. Slinkard:

My name is William J. Slinkard and I am Superintendent for the KCS Gulf Region headquartered in Shreveport, LA. I have been employed by the KCS since September 1, 1997. Immediately prior to my employment by KCS, I was employed since 1963 at Union Pacific Railroad and Southern Pacific Transportation Co. At Union Pacific Railroad, I was the Director of Quality Transportation headquartered in Kansas City, Missouri. Prior to the Union Pacific and Southern Pacific merger, I held the following positions with Southern Pacific:

- Division Superintendent, El Paso Division, headquartered in Tucson, AZ.
- Acting Superintendent, Houston Division, headquartered in Houston, TX.
- Assistant Division Superintendent, Houston Division, headquartered in Houston, TX.
- Division Superintendent, St. Louis Division, headquartered in East St. Louis, IL.
- Terminal Superintendent, Sacramento Division, headquartered in Roseville, CA.
- Terminal Superintendent, Los Angeles Division, headquartered in West Colton, CA.
- Assistant Terminal Superintendent, Pine Bluff Division, headquartered in Pine Bluff, AR.

During my 34-year career with the Southern Pacific, I was headquartered in the Houston area 4 times for a total of 11 years. I am very familiar with the operations at Strang, Galveston, PTRA, and Englewood Yard as well as the whole Houston rail complex.

By Mr. Watts:

My name is Patrick L. Watts and I am Vice President-Transportation of the Tex Mex, headquartered at 501 Crawford Street, Room 317, Houston, Texas. I have been in my current position at Tex Mex for about 2 years. Prior to coming to Tex Mex, I worked for Southern Pacific for 5 ½ years in various management positions in both the Sales and Marketing Department and the Operating Department. Before coming to the Southern Pacific, I had 14 years total experience as a train dispatcher with UP, Illinois Central Gulf Railroad, and the Chicago, Rock Island and Pacific Railroad. I have previously submitted verified statements in several proceedings before the Surface Transportation Board ("STB" or "Board").

By Messrs. Slinkard and Watts:

A. Scope of the PTRA Neutral Switching and Dispatching under the Consensus Plan

In this Joint Verified Statement, we will discuss the operating plan for the PTRA, which will provide neutral switching and neutral dispatching in the Greater Houston Terminal Area ("GHTA") following the imposition of the Consensus Plan. Under the Consensus Plan, PTRA will provide neutral switching and neutral dispatching over the following facilities that will constitute the Greater Houston Terminal Area:

- Former Houston Belt & Terminal Railway Company[1] ("HBT") West Belt Subdivision between Belt Junction, Control Point ("CP") 101 and T&NO Junction, CP 184;
- Former HBT East Belt Subdivision between Belt Junction, CP 101, and Double Track Junction, CP 169;
- Former HBT Booth Yard Lead between East Belt Subdivision milepost ("mp") 12.1 and Booth Yard;
- Union Pacific Railroad Company's ("UP's") Houston Subdivision between N. GH&H Jct., mp 184.8, and Galveston, mp 233.2;
- UP's Houston Terminal Subdivision between Bell Yard Wye located at the west end of Englewood's Intermodal Ramp (about mp 359.0-Passenger Line), along the Bell Yard main connecting with the Galveston Line at Bear Yard Wye (about mp 3.1) through Tower 86 and Galveston, mp 55.6 (Houston Terminal Subdivision, Galveston Line), including Barbours Cut, the Bayport Loop, Navigation Lead and Bridge 5-A;
- PTRA's Northshore Subdivision between mp 0.0 and End PTRA, mp 13.2;
- PTRA's Southshore Subdivision between Galena Jct., mp 1.4 and Deer Park Jct., mp 11.7;
- UP's (SP) Houston Terminals Subdivision, Harrisburg Line between Tower 81, mp 4.6 and Harrisburg Jct., mp 1.3 including the Katy Neck;
- UP's Beaumont Subdivision between Gulf Coast Jct., mp 378.0 and Settegast Jct., mp 381.6; and
- Clinton Drive Industrial Lead ("Clinton Branch") between Galena Jct. and end of line, plus all existing PTRA yards and those UP and HBT yards specified in Attachment A hereto.

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[1] The true status of the property of the former HBT is somewhat unclear. Although public statements made by the Union Pacific Railroad Company ("UP") and the Burlington Northern and Santa Fe Railway Company ("BNSF") indicate that the HBT's property has been divided between the HBT's owners, apparently no filing has been made with the Surface Transportation Board ("STB") requesting the transfer of rail assets from HBT to UP and BNSF. For the purpose of this joint statement, we assume that the ownership rights to the property of the former HBT remain with the HBT.

Under the Consensus Plan, all rail carriers serving Houston, including the PTRA, will each be granted terminal trackage rights by the owning carrier(s) over all trackage described in the aforementioned GHTA limits.[2] UP has already agreed that "significant commercial concessions may be warranted by the overriding need to coordinate and improve BNSF and UP operations in the Houston area. . . ."[3] The Consensus Plan ensures that the overriding need for efficient and effective Houston area operations that UP identified is extended to all the carriers serving Houston.[4]

B. HISTORY OF NEUTRAL SWITCHING IN HOUSTON

Until recently, the Houston terminal area has been operated as an independent and neutral terminal area in which the HBT and the PTRA provided neutral switching and dispatching for all carriers that reached their respective lines. That enabled the limited Houston terminal resources to respond to the fluctuating service demands, and to keep the Houston area, in general, fluid. In fact, UP and BNSF and their predecessors, except SP, wanted to merge the HBT and PTRA in order to gain the benefits of a single neutral switching carrier. See V.S. Ritter at 15-16.

At one time, five mainline carriers reached the HBT and the PTRA. Through time, these carriers have merged with each other until the UP/SP consolidation, unconditioned, would have whittled this number down to two – the UP and the BNSF. Rather than merge the operations of

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[2] The exact terms and conditions of these terminal trackage rights and other rights to be granted under the consensus plan should be, in the first instance, the subject of negotiation among the affected parties. If the parties are unable to come to final agreement on all terms, remaining disputed can be brought to the Board.

[3] Letter of Arvid E. Roach II, dated February 18, 1998, to Secretary Williams, referencing Service Order No. 1518, at page 2.

[4] As is further detailed in the separate verified statement of Mr. Watts, submitted herewith, there exists a substantive difference between UP's so-called "Joint Dispatch" and other joint operations of UP in coordination with BNSF, with Tex Mex observing those operations and the neutral dispatching as proposed in the Consensus Plan. The former seeks to further UP's interests at the expense of Tex Mex and the Houston area shippers, and the latter ensures optimally efficient operations of the Houston Neutral Operations Area to the benefit of all.

HBT and the PTRA, though, UP and BNSF instead chose in November of 1997 to dismantle the HBT and to allocate its lines and yards between them. This has resulted in what UP admits is a complex switching environment,[5] and the benefits of neutral switching over HBT were lost as a result.

At this time, UP owns 9 of the 11 rail lines entering Houston. BNSF owns the other two, but there is no BNSF-owned connection between them. UP provides switching service for approximately 70% (by volume) of all of the Greater Houston Terminal Area rail-served industries. The Consensus Plan offers an alternative to UP domination of the Houston terminal area.[6]

We note, further, that the parties to the Consensus Plan are not the only ones to recognize the benefits of reinstituting the neutral switching operations under the PTRA, which is a joint facility with the institutional knowledge of the area, trackage, facilities, and customers. Even BNSF has recognized that UP switching operations protect UP's interests and not the goal of efficient neutral switching operations in Houston, and that a neutral PTRA could be an effective neutral operator in the Gulf Coast area that could reintroduce effective neutral switching operations in Houston and reduce congestion there. BNSF, in its Gulf Coast Service Initiative Proposal, dated October 3, 1997, at page 4, stated:

> BNSF views the area south of the Houston Ship Channel between Sinco, Strang and the Bayport Loop, with operations intertwined at many locations between the UP's former SP trackage and the PTRA, to be a source of major congestion. It is also an opportunity to effect steady reduction in standing car inventory throughout the Houston terminal by combining available resources now used independently to provide optimum efficiency under the neutral management of the PTRA.

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[5] Letter of Arvid E. Roach II, dated February 18, 1998, to Secretary Williams, referencing Service Order No. 1518, at page 2.

[6] In his statement, Harlan Ritter discusses the importance of a neutral switching carrier in Houston and why the PTRA is an excellent candidate to fulfill that necessarily independent role. While we will not repeat those arguments here, we do endorse them.

BNSF continues in the same document, at page 4:

> Currently, traffic accessible to BNSF in the Strang area moves by UP through the Englewood Yard, contributing to the congestion at that point and slowing customer shipments by five to six days, whether destined for BNSF or UP beyond. Dispatch of trains on the PTRA is controlled by the UP from Omaha. UP is now tying up trains on the HBT, impacting operations on the PTRA and on the BNSF. . . . Current operations in the Strang area protect UP's interests, not the interests of rail shippers impacted by UP congestion. Further, customers in the former SP Bayport Loop which are closed to reciprocal switch have no options to route around UP's congestion.

The benefits of a neutral PTRA as a switch carrier are not theoretical and indeed, were only recently borne out when UP, in response to BNSF's concerns, allowed PTRA to switch some BNSF interchange. Sometime after Emergency Service Order No. 1518 was first issued on October 31, 1997, UP agreed to interchange some traffic originating at Strang and Sinco, TX to BNSF through PTRA at Pasadena Yard, an operation that would normally, following HBT's dissolution, be done by UP. UP agreed to drop off Houston shippers' traffic destined to BNSF in the Pasadena Runaround Track that instead would have been handled through Englewood or Settegast. PTRA would then pick up this traffic and interchange it with BNSF as PTRA would any PTRA-originated traffic. We understand that having the PTRA perform switching services, together with relaxed UP control over PTRA operations, improved service to these shippers and that when UP wanted to cancel this PTRA neutral switch service, shippers protested loudly.

The bottom line is that UP-controlled switching may work at times for UP, but it does not work for Tex Mex and BNSF, and the shippers suffer. For example, because of the Houston gridlock, DuPont approached Tex Mex and KCS and requested that we participate in movements of their business between their facility in La Porte, TX (served by the former SP - Strang but open to a reciprocal switch) and northern Kentucky and northern New York. Because UP controlled the switching for the DuPont plant, Tex Mex and KCS had no choice but to ask the UP – from which the business was being taken – to perform the switching service.

UP agreed to switch DuPont's cars to the Tex Mex at Basin Yard and originally gave DuPont a transit commitment of 72 hours from time of billing to interchange time at Basin Yard. Because of the terms of the then-existing tariff and other arrangements, including the ESO, UP was not in a position to refuse to provide the switch or to promise only to provide that service in a manner so as to make it useless to DuPont. However, as is evident in Attachment C (Graph and Table of UP's transit time on individual DuPont shipments between DuPont's plant and Basin Yard), UP has rarely met its commitment.[6] Moreover, UP recently amended the reciprocal switching tariff to prevent it from applying to Tex Mex, effectively cutting DuPont off from Tex Mex, both for northbound movements and also southbound movements afford to Tex Mex by the Board's Decisions Nos. 44 and 47. Under the Consensus Plan, DuPont will be open to PTRA's neutral switching. The delays suffered due to UP's switching performance would not be likely replicated for DuPont if the Houston area were neutrally switched by the PTRA, which is managed locally and accountable to its Board of Directors appointed by the UP, BNSF and Tex Mex. Nor will DuPont be arbitrarily cut off from access to Tex Mex.

C. PTRA AS THE NEUTRAL SWITCH CARRIER

1. History of Efficiency and Neutrality

Following submission of the March 30, 1998, Tex Mex/KCS joint petition for additional remedial conditions, which proposed PTRA neutral switching, UP began to blame its Gulf Coast

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[6] It is also interesting to note that the UP switching service has gotten much worse lately for Tex Mex – in May and the first few days on June – despite claims by UP that Houston is fluid for its traffic. Moreover, it is obvious that the same was true for BNSF, and nothing has changed: "*Currently, traffic accessible to BNSF in the Strang area moves by UP through the Englewood Yard, contributing to the congestion at that point and slowing customer shipments by five to six*

congestion in part on the PTRA's alleged inability to "take" cars.[7] The PTRA, however, has a long-established process and procedure to insure it does not accept cars from a carrier unless that carrier is able to take cars away from the PTRA terminal area. This established "flow control" mechanism, which has been in place for years during UP's tenure on the PTRA Board of Directors, meters traffic onto the PTRA to ensure that the PTRA does not get gridlocked. UP's operating problems in the Houston area have at times caused UP and other carriers to be unable to remove traffic from PTRA's yards prior to delivering cars. Thus, if UP and others are unable to remove cars, the PTRA will not accept cars from those carriers. Far from showing that the PTRA is unable to handle the neutral switching service contemplated in the Consensus Plan, the PTRA's flow control mechanism, and its willingness to enforce that mechanism neutrally, even against a member of its Board of Directors, demonstrates why the PTRA, and not the UP, must switch the Greater Houston Terminal Area.

2. History of Safety

This attention to effective operations directly impacts safety, and a safe neutral switching carrier is an absolute necessity in the proposed Greater Houston Terminal Area, which handles an enormous amount of chemical traffic each year. In this regard, the Harriman Awards received by the PTRA speak for themselves:

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days, whether destined for BNSF or UP beyond." Burlington Northern Santa Fe Railway in their Gulf Coast Service Initiative Proposal, dated October 3, 1997 at 3.

[7] The development of its record to discredit the PTRA's ability to handle rail operations has been relentless following the Tex Mex/KCS submission. In its twenty-fifth weekly report under Ex Parte No. 573, filed on April 6, 1998, UP claimed that it was holding cars for PTRA. In its twenty-sixth weekly report, filed April 13, 1998, UP claimed that "the only train UP is holding for the Houston area within 500 miles of Houston is a train PTRA is unable to accept." UP, which had not mentioned the PTRA in any weekly report until Tex Mex/KCS proposed that PTRA be installed as the neutral switching carrier in Houston, has criticized the PTRA in several subsequent reports. As noted, however, PTRA was unable to accept these trains because UP was not meeting its commitment to take cars out of the PTRA.

Year	Award	Year	Award
1982	**Silver**	**1989**	**Gold**
1983	**Gold**	**1990**	**Gold**
1984	**Silver**	**1994**	**Bronze**
1985	**Silver**	**1995**	**Bronze**
1986	**Gold**	**1996**	**Gold**
1987	**Bronze**	**1997**	**Gold**
1988	**Gold**		

The Norfolk Southern Railway is the only other railroad in this nation that comes close to the PTRA in terms of a safety record![8]

3. Effective Management

L. J. (Jack) Jenkins, Jr., is the General Manager of the PTRA. Mr. Jenkins has spent most of his 25 plus year career on both the PTRA and the Southern Pacific in the Houston area. Jack is an expert on the operations of the PTRA. In terms of operations in the Strang/Bayport Loop/Pasadena/Sinco, Clinton Industrial Lead, and Galveston, Mr. Jenkins has no equal.

The PTRA has effectively performed neutral switching under the terms of its organizational documents for many years. There is no reason to believe that the PTRA could not continue to perform neutral switching under those same terms and conditions over a broader area.

D. PTRA OPERATING PLAN

1. Basis of the Plan

The PTRA Operating Plan is set forth in Attachment A to this Joint Verified Statement. It is built upon the premise, enunciated by BNSF, that Houston is best operated as a unified whole with yard specialization – that is, certain yards for inbound traffic, certain yards for outbound traffic, and certain yards for Houston intra-terminal area operations.

[8] PTRA's safety performance is particularly impressive because switching railroads generally have a higher average accident rate than linehaul carriers.

PTRA's switching and dispatching will be conducted in a neutral manner according to protocols agreed to in advance by UP, BNSF and Tex Mex. We present draft protocols as Attachment D to this Joint Verified Statement. The overriding principle governing PTRA dispatching in the Greater Houston Terminal Area will be to ensure effective and efficient dispatching in Houston.

2. Inbound Houston Traffic

UP, BNSF and Tex Mex will deliver to PTRA's Pasadena Yard all inbound traffic destined for customers located south of the Houston Ship Channel, excluding Galveston. PTRA's Manchester Yard could be used as additional inbound receiving tracks. All inbound cars from UP, BNSF and Tex Mex destined to former HBT customers, and other customers located north of the Houston Ship Channel and customers on the Clinton Branch, will be delivered to PTRA's North Yard. PTRA will make this traffic available to customers via neutral switching within 24 hours of arrival. This is a significant reduction in UP's 41 hour dwell time.

Based on the traffic analysis performed by ALK, we believe that UP will operate three manifest trains per day (6 days/week), one intermodal train per day (5 days/week) and two aggregate trains per week into Pasadena or Manchester Yards. BNSF will operate two manifest trains per day (6 days/week) and one intermodal train per day (5 days/week) inbound into Pasadena or Manchester Yard. Tex Mex will operate one manifest train per day (6 days/week) and three intermodal trains per week from Laredo into Pasadena or Manchester Yards.

3. Outbound Houston Traffic

PTRA will stage all outbound shipments with an origin south of the Houston Ship Channel, whether originating on PTRA or former SP, at Strang Yard, for humping and classification into outbound trains. PTRA will then switch cars for UP, BNSF, and Tex Mex customers at Sinco, Strang, and the Bayport Loop.

Based on the traffic analysis performed by ALK, we believe that UP will operate three manifest trains per day (6 days/week), one intermodal train per day (5 days/week) and two aggregate trains per week. The Operating Plan assumes that the manifest trains and the aggregate trains will be staged out of Strang and the intermodal trains out of Barbours Cut.

BNSF will handle its outbound traffic in two manifest trains per day (6 days/week) and one intermodal train per day (5 days/week). The manifest trains will be staged out of Strang; the intermodal trains will be staged out of Barbours Cut.

Tex Mex will operate one manifest train per day (6 days/week) to Beaumont and three intermodal trains per week to Laredo. The manifest trains will be staged out of Strang and the intermodal trains will be staged out of Barbours Cut.

UP currently has two rail yards, one former SP and one former UP, in Galveston while BNSF has one. PTRA will lease from UP the former SP rail yard in Galveston and the two former SP storage tracks near Texas City Junction identified in Attachment A hereto. BNSF will continue to use its existing yard and UP will continue to use its Galvez Yard.

4. The Former HBT

Under the Consensus Plan, HBT, which apparently still exists as a corporate shell that retains ownership over its properties, will lease to the PTRA its Basin Yard, Congress Yard, Dallerup Yard, and the Glass Track and Lead to support satellite yard operations to neutrally serve former HBT customers. HBT also will grant local trackage rights to PTRA to allow PTRA to serve those customers. BNSF will continue to use the former HBT New South Yard, Old South Yard, and East Belt Yard. UP will continue to use Pierce Yard. Whatever arrangements

UP and BNSF have for leasing these properties from HBT would continue except as modified by the Consensus Plan.

When UP and BNSF decided to dissolve the HBT, Houston lost one of its two neutral switching and dispatching entities. As we discuss above, for many years prior to the UP and SP merger, UP had wanted to merge HBT with PTRA to create one neutral switching company to serve much of Houston. SP, not being an equity owner in the HBT, prevented this from happening. However, with the quiet dissolution of the HBT as a neutral carrier subsequent to the UP/SP merger, these actions have helped to create an additional anti-competitive environment in Houston. The Consensus Plan re-institutes the neutral switching and dispatching to the HBT properties through PTRA.

5. Clinton Branch

Under the Consensus Plan, the former SP Clinton Branch will be neutrally switched and operated by PTRA. The transfer from UP to PTRA of operation of the Clinton Branch will result in better coordination and improved operation by removing conflicting UP and PTRA movements on or near this line.

6. Galveston Area Operations

Galveston area operations must be closely coordinated with the PTRA neutral switching and dispatching operations in part to ensure that the Galveston area operations do not impede, and instead work in a coordinated fashion, with Greater Houston Terminal Area operations. The Operating Plan is based on the operating plan used by the former Southern Pacific in serving the Galveston and Texas City areas.

The Operating Plan provides that PTRA will perform one yard job per day (6 days per week) and one road switcher job per day (6 days per week) in Galveston to provide neutral switching to those industries not currently served by the Galveston Wharf Railroad. This will facilitate interchange between PTRA, UP, and BNSF. The road switcher will serve International Specialty Products' ("ISP's") plant, which is located on SP's Galveston line. The switcher also will interchange with the Texas City Terminal Railway in Texas City and handle inbound and outbound cars between Galveston and the former SP's Texas City Storage Yard located near mp 46.85 (Texas City Junction).

On a daily basis, PTRA will originate a train at Basin Yard or North Yard. This train will operate southbound to Tower 85 (South GH&H Jct.) and then southbound over UP's Houston Subdivision from Tower 85 to Texas City Junction. This PTRA train will also provide local service to the few industries along that line between Tower 30 and Texas City Junction. The train will set out its Galveston and Texas City Terminal traffic at Texas City Junction before returning to Basin Yard with traffic originating in Galveston or Texas City and assembled by the Galveston road switcher.

7. Personnel

In developing the operating plan for PTRA, we estimate that the implementation of the Consensus Plan will result in the creation of approximately 129 new PTRA employee positions, consisting of 70 foremen and helpers, 40 engineers, 6 managers (Trainmasters and Assistant Trainmasters), 9 dispatchers and 4 corridor managers. The cost of the new hires will be approximately $4.97 million per year. The new positions will be located in Houston.

8. Yard Activity

We do not expect that the Houston yards will experience an increase in activity greater than 20 percent as a result of the proposed PTRA Operating Plan.

By Mr. Watts:

E. Tex Mex Operating Plan

Tex Mex currently operates over its historic route between Laredo and Corpus Christi, with a connection to the UP at Robstown, Texas. It also operates between Robstown and Houston, and between Houston and Beaumont, over trackage rights it received as a result of the Board's decision to condition its approval of the UP/SP consolidation. Tex Mex now suffers from discriminatory treatment on its trackage rights and in the Houston terminal area. Its operations continue to be obstructed by the UP service melt-down congestion that triggered the Board's imposition of Emergency Service Order No. 1518 ("ESO").

The Consensus Plan calls for the imposition of certain other conditions which would permanently resolve the inefficiencies and discriminatory practices in the proposed Greater Houston Terminal Area, enabling all carriers reaching Greater Houston to compete and effectively serve that area, eliminate congestion, and enable Tex Mex to continue to be a viable competitor in the NAFTA Corridor.

Under the ESO conditions, Tex Mex operates two scheduled trains per day between Laredo and Beaumont and two scheduled trains per day between Houston and Beaumont. The two Houston - Beaumont trains will be halted if the ESO expires because Tex Mex will no longer have access to northbound traffic originating in Houston.

Present Tex Mex operations are inefficient for several reasons: UP discriminatory switching and dispatching, Greater Houston area congestion, trackage rights restrictions, and lack of Tex Mex Houston yard space. For example, Tex Mex has no yard facility in Houston in which to store and make up southbound and northbound blocks of cars. Its Houston trackage rights also are severely restricted. Even though PTRA blocks traffic for it, Tex Mex often is forced to first take to Beaumont cars destined southbound from Houston.

Imposition of the Consensus Plan permits the development of an Operating Plan that eliminates the causes of these inefficiencies. For example, the inefficiencies resulting from the limits on Tex Mex's rights within Houston, which prevent Tex Mex from moving southbound PTRA blocked traffic on Tex Mex trains originating in Houston, are resolved by granting Tex Mex yard space in Houston and granting terminal trackage rights to Tex Mex. PTRA neutral switching and dispatching will end UP discriminatory practices and the Greater Houston area congestion caused in part by those practices.

Under the Operating Plan, Tex Mex will continue to operate a directional flow as has been requested by the UP – westbound between Houston and Beaumont along the newly double tracked Lafayette Subdivision and eastbound along what now is UP's Beaumont Subdivision. Booth Yard will be Tex Mex's primary interchange and classification yard. Tex Mex will also receive outbound Houston traffic from Strang Yard and deliver inbound Houston traffic to Pasadena, Manchester and North Yard.

Booth Yard is critical to Tex Mex for purposes of interchanging traffic with UP, BNSF, and, in part, PTRA. Tex Mex also will operate a daily GHTA switcher that will interchange cars with BNSF at New South Yard, with UP at Pierce Yard or at some other mutually agreed upon location, and with PTRA at North Yard. Tex Mex's trains operating between Beaumont and Laredo will pickup and set out only at Booth Yard, thus eliminating multiple Houston work events.

Under the Consensus Plan, Tex Mex will retain its trackage rights between Placedo and Flatonia for purposes of preserving its right to interchange BNSF traffic at Flatonia.

The implementation of the Consensus Plan will result in 190 additional Tex Mex positions, consisting of 82 engineers, 82 conductors, 7 maintenance of way and MOW supervisors, 3 yard crew employees, 7 clerical employees, and 9 officers.

Attachment A

PTRA OPERATING PLAN

1. Introduction And Summary

This Operating Plan has been prepared to depict the manner in which the PTRA would operate its train service in the proposed Greater Houston Terminal Area if the Board imposed upon the additional remedial conditions requested in the Consensus Plan. This Operating Plan will first describe the scope of the Greater Houston Terminal Area over which PTRA will provide neutral switching and dispatching services. The Operating Plan then describes how inbound and outbound Houston and Galveston traffic will be handled. Finally, the Operating Plan details the additional resources and employees needed to perform the neutral switching and dispatching services contemplated by the Consensus Plan.

2. Development Of The Operating Plan

This Operating Plan was developed using a traffic analysis performed by ALK Associates, more fully described elsewhere in the Consensus Plan Petition. That traffic analysis was used to project the change in traffic service patterns and line densities for each of UP, BNSF and Tex Mex resulting from implementation of this Operating Plan and the Tex Mex Operating Plan. This implementation includes Tex Mex line acquisitions, Tex Mex yard acquisition or long-term lease, terminal trackage rights grants to each of the carriers, neutral switching and dispatching, and each of the other Consensus Plan conditions. The results of the traffic analysis are reflected in Traffic Density Maps prepared by ALK Associates and attached to the Verified Statement of Michael H. Rogers of ALK Associates.

3. SCOPE OF THE GREATER HOUSTON TERMINAL AREA

This Operating Plan is premised upon PTRA neutrally switching and dispatching the areas set forth on Map 1, entitled "Houston Terminal Consensus Plan," and covering the following lines and yards:

- Former Houston Belt & Terminal Railway Company[9] ("HBT") West Belt Subdivision between Belt Junction, Control Point ("CP") 101 and T&NO Junction, CP 184;
- Former HBT East Belt Subdivision between Belt Junction, CP 101, and Double Track Junction, CP 169;
- Former HBT Booth Yard Lead between East Belt Subdivision milepost ("mp") 12.1 and Booth Yard;
- Union Pacific Railroad Company's ("UP's") Houston Subdivision between N. GH&H Jct., mp 184.8, and Galveston, mp 233.2;
- UP's Houston Terminal Subdivision between Bell Yard Wye located at the west end of Englewood's Intermodal Ramp (about mp 359.0-Passenger Line), along the Bell Yard main connecting with the Galveston Line at Bear Yard Wye (about mp 3.1) through Tower 86 and Galveston, mp 55.6 (Houston Terminal Subdivision, Galveston Line), including Barbours Cut, the Bayport Loop, Navigational Lead and Bridge 5-A;
- PTRA's Northshore Subdivision between mp 0.0 and End PTRA, mp 13.2;
- PTRA's Southshore Subdivision between Galena Jct., mp 1.4 and Deer Park Jct., mp 11.7;
- UP's (SP) Houston Terminals Subdivision, Harrisburg Line between Tower 81, mp 4.6 and Harrisburg Jct., mp 1.3 including the Katy Neck;
- UP's Beaumont Subdivision between Gulf Coast Jct., mp 378.0 and Settegast Jct., mp 381.6; and
- Clinton Drive Industrial Lead ("Clinton Branch") between Galena Jct. and end of line, plus all existing PTRA yards and those UP and HBT yards specified in this Attachment.

This Operating Plan additionally is premised upon the grant of terminal trackage rights for UP, BNSF, PTRA and Tex Mex over all the above-referenced lines. PTRA will also lease from UP the following yards and terminal facilities:

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[9] It is unclear what the true status is of the property of the former HBT. Although public statements made by the Union Pacific Railroad Company and the Burlington Northern and Santa Fe Railway Company indicate that the HBT's property has been divided between the HBT's owners, apparently no filing has been made with the Surface Transportation Board requesting the transfer of rail assets from HBT to UP and BNSF. For the purpose of this joint statement, we assume that the ownership rights to the property of the former HBT remain with the HBT.

- Strang;
- Sinco Industrial Lead Track and Siding (located near Manchester Yard);
- Pasadena Runaround Siding (located near Pasadena Yard);
- Bayport Loop;
- the former SP yard in Galveston;
- the former SP storage tracks at Texas City Junction (Spin tracks 9850 and 9855); and
- the Clinton Drive Industrial Lead.

PTRA will lease from HBT the following yards and terminal facilities:

- Basin Yard;
- Congress Yard;
- Dallerup Yard; and
- the Glass Track and Lead.

4. INBOUND AND OUTBOUND HOUSTON TRAFFIC HANDLING

4.1 Inbound Houston Traffic

The major carriers serving the proposed Greater Houston Terminal Area (UP, BNSF and Tex Mex) will deliver inbound Houston traffic to one of the following yards: Pasadena Yard, Manchester Yard, or North Yard. PTRA will make this traffic available to customers via neutral switching within 24 hours of arrival at one of these yards.

Pasadena Yard will be the primary yard for receipt of inbound traffic destined for customers located south of the Houston Ship Channel, excluding Galveston. Manchester Yard will be used as additional inbound receiving tracks. North Yard will be the primary yard for receipt of inbound traffic destined for former HBT customers and other Houston customers located north of the Houston Ship Channel and customers on the Clinton Branch.

4.2 Outbound Houston Traffic

PTRA will stage all outbound shipments, whether originating on PTRA or former SP originating south of the Houston Ship Channel, at Strang Yard for humping and classification into outbound trains. PTRA will then switch cars for UP, BNSF, and Tex Mex customers at Sinco, Strang, and the Bayport Loop.

UP will operate three manifest trains per day (6 days/week) out of Strang; one intermodal train per day (5 days/week) out of Barbours Cut; and approximately two rock trains per week out of Strang. BNSF will operate two manifest trains per day (6 days/week) out of Strang; one intermodal train per day (5 days/week) out of Barbours Cut. Tex Mex will operate one manifest train per day (6 days/week) to Beaumont out of Strang and three intermodal trains per week from Barbours Cut to Laredo.

5. GALVESTON

UP currently has two rail yards, one former SP and former UP, in Galveston, while BNSF has one. PTRA will lease from UP the former SP rail yard in Galveston and the two former SP storage tracks near Texas City Junction identified in Section 3. BNSF will continue to use its existing yard and UP will continue to use its Galvez Yard.

PTRA will perform one yard job per day (6 days per week) and one road switcher job per day (6 days per week) in Galveston to provide neutral switching to those industries not currently served by the Galveston Wharf Railroad, to facilitate interchange between the PTRA, the UP, and the BNSF. The road switcher would serve ISP's plant, located on the former SP's Galveston line, facilitate interchange with the Texas City Terminal Railway in Texas City, and handle inbound and outbound cars between Galveston and the former SP's Texas City Storage Yard located near mp 46.85 (Texas City Junction).

On a daily basis, PTRA will originate a train at Basin Yard or North Yard that will operate southbound to Tower 85 (South GH&H Jct.) and then southbound over the UP's Houston Subdivision from Tower 85 to Texas City Junction. This PTRA train will also provide local service to the few industries along that line between Tower 30 and Texas City Junction. Upon arrival at Texas City Junction, this train will set out its Galveston and Texas City Terminal traffic at the aforementioned storage tracks. This train will then return northbound to Basin Yard with traffic originating in Galveston or Texas City and assembled by the Galveston road switcher. This is basically the same operating plan that was used by the former SP in serving the Galveston and Texas City areas.

6. FORMER HBT

HBT will lease Basin Yard, Congress Yard, Dallerup Yard, and the Glass Track and Lead to the PTRA to support satellite yard operations required for the PTRA to neutrally serve former HBT customers. HBT also will grant local and overhead trackage rights to the PTRA to allow the PTRA to serve those customers. BNSF will continue to use the former HBT New South Yard, Old South Yard, and East Belt Yard. UP will continue to use Pierce Yard.

7. CLINTON BRANCH

Under the Consensus Plan, PTRA will switch and operate the former SP Clinton Branch. This line extends from Galena Junction and travels east approximately seven miles to a dead end spur. It is sandwiched between the PTRA's Northshore Industrial Lead and the Houston Ship Channel. PTRA will lease from UP two small rail yards, one near Port of Houston's Gate 8 and another one near Galena Park, to support local operations.

8. LOCOMOTIVES

PTRA will need to increase its current locomotive fleet size to handle the increased neutral switching area in the Sinco, Pasadena, Strang, and Bayport Loop Area by an additional twenty-two locomotives. It will have to add seven more locomotives to cover operations over the former HBT, and four more locomotives to cover operations over the Clinton Branch. The Galveston yard, road switcher, and Houston to Galveston train would require four locomotives.

The total additional locomotives needed by the PTRA would be thirty-seven to supplement their existing fleet of twenty-four locomotives.

The PTRA currently leases completely rebuilt, Caterpillar-powered, SW-15s (1500 horsepower) locomotives under a 20 year lease produced by Motive Power Industries ("MPI"). These new locomotives, which are ideal for switching operations, have reduced PTRA's maintenance and fuel expenses by over $1 million in 1997. MPI can produce two new SW-15s per month. Until such time that MPI will be able to furnish all the needed locomotives, the PTRA's member railroads will be responsible for providing locomotives to the PTRA based upon a car usage formula. This is the same practice that was done by the member roads prior to late 1996.

Additional Locomotive Lease Expense:

	Unit/Day	Number of Units	Annual Cost
Lease	$233.40	37	$ 3,152,067.00
Maintenance	$198.00	37	$ 2,673,990.00
Total Cost	$431.40	37	**$ 5,826,057.00**

9. PERSONNEL

Implementation of the Consensus Plan will require the creation of 70 foreman and helper positions, 40 engineer positions, 6 management positions (Trainmasters and Assistant Trainmasters), 9 dispatcher positions, and 4 corridor manager positions on the PTRA. An implementing agreement would have to be negotiated with the labor unions (UTU and the BLE). Since the PTRA and UTU have already reached an agreement that provided for some PTRA employees to be placed on the Union Pacific's (IGN Houston Hub) Seniority Roster pursuant to Article X of Award of Arbitration Board No. 559, some fundamental groundwork for an implementing agreement has already been established. The additional employees would cost the PTRA approximately $4,970,000 in annual salaries.

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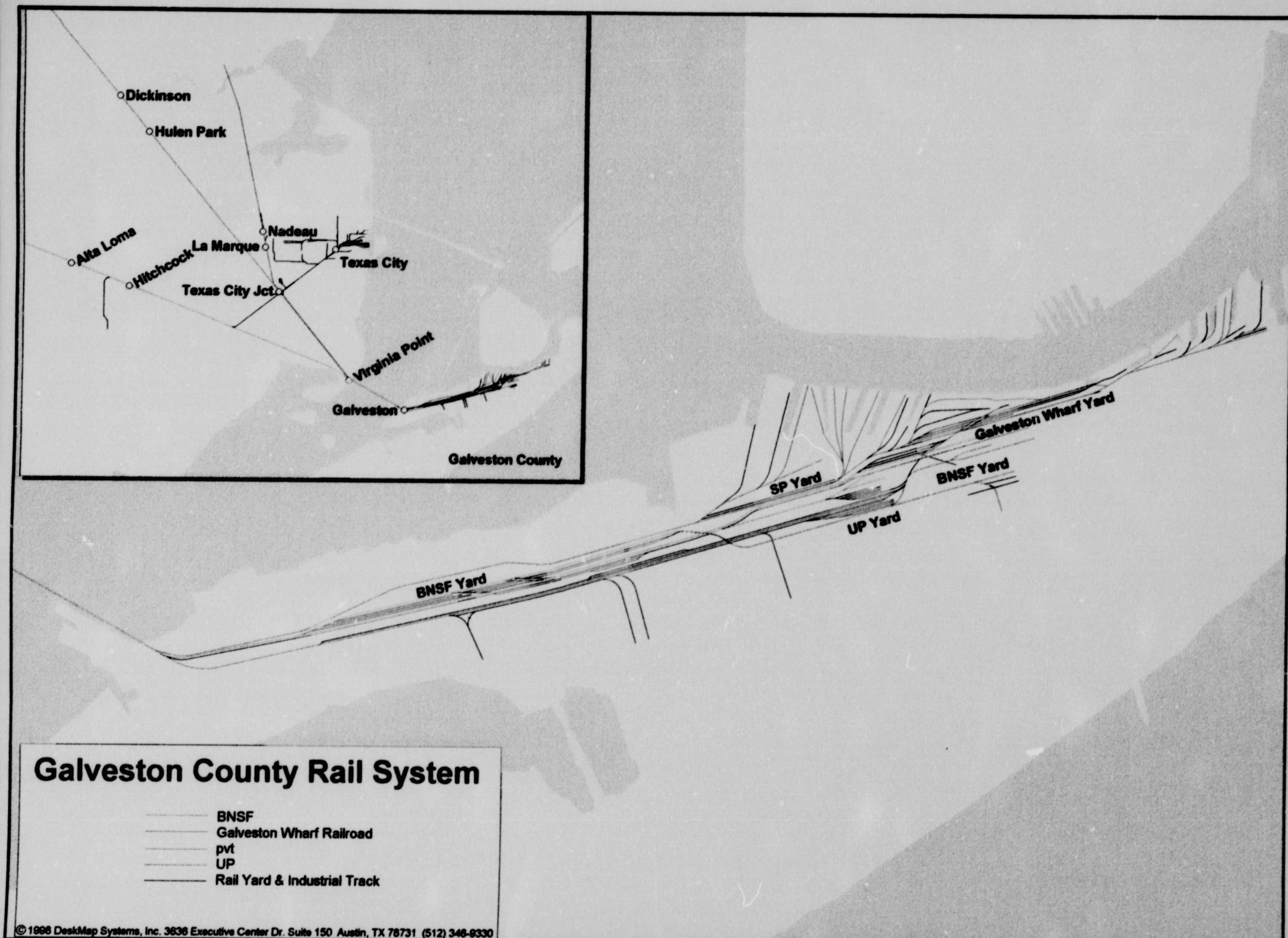
Dickinson
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La Marque
Alta Loma
Hitchcock
Texas City
Texas City Jct
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Galveston County
Galveston Wharf Yard
SP Yard
BNSF Yard
UP Yard
BNSF Yard
Galveston County Rail System
BNSF
Galveston Wharf Railroad
pvt
UP
Rail Yard & Industrial Track
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Attachment B

TEX MEX OPERATING PLAN

1. Introduction and Summary

This Operating Plan has been prepared to depict the manner in which Tex Mex would operate its train service between Laredo, Texas, and Beaumont, Texas, if the Board imposed upon the UP/SP consolidation the additional remedial conditions requested in the Consensus Plan. This Operating Plan will first describe the Tex Mex patterns of service and operation both currently -- under the terms of Emergency Service Order ("ESO") No. 1518 -- and as projected after expiration of ESO No. 1518.

2. Development of the Operating Plan

The Operating Plan was developed using a traffic analysis performed by ALK Associates, more fully described elsewhere in the Consensus Plan Petition. That traffic analysis was used to project the change in traffic service patterns and line densities resulting from implementation of the Consensus Plan. This implementation includes line acquisitions, yard acquisition or long-term lease, neutral switching and dispatching, and each of the other Consensus Plan conditions. The results of the traffic analysis are reflected in Traffic Density Maps prepared by ALK Associates and attached to the Statement of Michael H. Rogers. These Traffic Density Maps show changes in tonnage which will flow annually through Tex Mex's and KCS' major terminals.

3. Current Patterns of Service and Operations

3.1 Patterns of Service and Operations During ESO No. 1518

Currently, Tex Mex operates over the route it has historically operated between Laredo, Texas and Corpus Christi, Texas, with a connection with the Brownsville Subdivision of the

Union Pacific Railway Company ("UP") at Robstown, Texas. It operates between Robstown and Houston, Texas, and between Houston and Beaumont, Texas over several hundred miles of UP's rail lines pursuant to trackage rights granted as a condition in the UP/SP control proceeding. Tex Mex's trackage rights between Robstown and Houston are over a route through Placedo, Victoria, and Flatonia, Texas. Tex Mex operates over both UP lines between Houston and Beaumont in accordance with the UP's directional flow over those lines.[10] Tex Mex's right to serve shippers located in Houston is restricted to traffic having a prior or subsequent move across Tex Mex's line between Corpus Christi and Laredo, Texas (referred to herein as the "Northbound Traffic Restriction"). Tex Mex has no yard facilities available to it in Houston.

The Board subsequently issued ESO No. 1518 in response to the rail service emergency impacting the Western region of the United States and, particularly, the Houston area. In ESO No. 1518, Tex Mex received several additional rights to help address that rail emergency, including: (a) the lifting of the Northbound Traffic Restriction; (b) the right to serve shippers at certain points on UP's Algoa branch south of Houston; and (c) the right to service shippers in Houston who were contractually obliged to ship via UP because of volume requirements in their transportation contracts. These expanded rights will expire with the expiration of ESO No. 1518 on August 2, 1998, unless they are renewed or made permanent as requested in the Consensus Plan. Tex Mex has temporary trackage rights over the UP Algoa route between Placedo and Algoa, Texas, and over the BNSF route between Algoa and Houston's T&NO junction (collectively, the "Algoa Route Trackage Rights"). Tex Mex's use of the Algoa Route Trackage Rights depends upon Tex Mex trackage rights over the described short section of BNSF track.

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[10] To accommodate its own directional operations between Houston and New Orleans, UP granted Tex Mex trackage rights on the Lafayette Subdivision between Houston and Beaumont. Although reportedly UP and the BNSF subsequently have agreed to share certain ownership

Although UP has offered to make these rights permanent if Tex Mex agrees to participate in directional operations of trains south of Houston, BNSF has not.

Tex Mex operates two scheduled trains per day between Laredo and Beaumont and two scheduled trains per day between Houston and Beaumont. Tex Mex also assembles trains, either in Basin or Dallerup Yards, which operate between Houston and Laredo.

The Laredo-Beaumont trains set out and pick up Houston traffic en route in Houston. However, because Tex Mex has no yard facility at Houston in which to store and make up southbound and northbound blocks of cars, it often is forced to take cars destined to Beaumont and beyond in its southbound trains to Corpus Christi where it has sufficient yard facilities to marshal cars.[11] These Beaumont cars must then be placed in a northbound train at Corpus Christi and moved back through Houston to Beaumont. The same sort of double reverse handling occurs when a northbound train must pick up a cut of cars destined for Laredo. The PTRA now blocks northbound and southbound traffic for Tex Mex, but the limits on Tex Mex's rights within Houston prevent Tex Mex from moving southbound PTRA blocked traffic on Tex Mex trains originating in Houston. Instead, Tex Mex must take the southbound PTRA blocked traffic north to Beaumont and then backhaul that same traffic back through Houston to Laredo.

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interests in this line, apparently no request has been made of the Surface Transportation Board for authorization to consummate that agreement.

[11] At this time, Tex Mex uses the following yards to pick up and deliver Houston traffic: Pasadena, Manchester, North Yard, Dallerup, New South, and Basin.

TABLE I

CURRENT TEX MEX TRAIN SCHEDULES[12]
LAREDO-BEAUMONT

Northbound
Train ID - MMXSH1

Days of Operation	Origin	Destination
SMTWTFS	Laredo	Beaumont

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
International Bridge	TX		1000	0	7200	0
Laredo	TX	1100	0200	1	7200	9
Robstown	TX	0800	0830	1	7200	146
Placedo	TX	1200	1215	1	7200	229
Algoa	TX	1630	1630	1	7200	348
TN&O Jct.	TX	1800	1800	1	7200	370
Houston	TX	1830	2000	1	7200	372
Settegast Jct.	TX	2100	2100	1	7200	377
Beaumont	TX	2359		1	7200	455

Southbound
Train ID - MSHMXI

Days of Operation	Origin	Destination
SMTWTFS	Beaumont	Laredo

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
Beaumont	TX		1600	0	7200	0
Dawes	TX	1900	1900	0	7200	75
Houston	TX	2000	2130	0	7200	81
West Junction	TX	2330	2330	0	7200	91
Flatonia	TX	0330	0400	1	7200	199
Victoria	TX	0800	0830	1	7200	274
Placedo	TX	0930	0930	1	7200	287
Robstown	TX	1345	1415	1	7200	370
Laredo	TX	2015	2230	1	7200	507

[12] Table I assumes normal, non-congested operations.

TABLE II[13]

CURRENT TEX MEX TRAIN SCHEDULES
HOUSTON-BEAUMONT

Northbound
Train ID - MHOSH1

Days of Operation	Origin	Destination
SMTWTFS	Houston	Beaumont

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
Houston	TX		2000	0	7200	0
Settegast Jct.	TX	2100	2100	0	7200	5
Beaumont	TX	2359		0	7200	78

Southbound
Train ID - MSHHO1

Days of Operation	Origin	Destination
SMTWTFS	Beaumont	Houston

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
Beaumont	TX		2000	0	7200	0
Dawes	TX	2300	2300	0	7200	75
Houston	TX	2359		0	7200	81

The Laredo-Beaumont trains also set out and pick up traffic at Corpus Christi. In addition to the Laredo-Beaumont trains and the Houston-Beaumont trains, Tex Mex also operates seven scheduled trains per day between Laredo and Corpus Christi.

3.2 Patterns of Service and Operations After ESO No. 1518

Unless otherwise extended or renewed, ESO No. 1518 will expire on August 2, 1998. For Tex Mex, the immediate result will be the reimposition of the Northbound Traffic Restriction

[13] Table II assumes normal, non-congested operations.

and the loss of the right to serve certain shippers contractually required to ship via UP regardless of overall service quality. Because of the loss of northbound traffic, the two daily Houston-Beaumont Tex Mex trains will be halted and Tex Mex may not have traffic requiring the use of Manchester and Pasadena Yards. It is unclear whether UP and BNSF will voluntarily agree to the continued use of the Algoa Route Trackage Rights.

3.3 KCS

KCS is a Class 1 rail carrier, serving the states of Nebraska, Iowa, Kansas, Missouri, Oklahoma, Arkansas, Louisiana, Mississippi, Tennessee, Alabama, and Texas. KCS' northern terminus is Kansas City Missouri/Kansas, although it has haulage rights over UP between Kansas City and Omaha/Council Bluffs, and between Lincoln, Nebraska and Atchison and Topeka, Kansas. To the south, KCS serves Dallas, Beaumont and Port Arthur, Texas; Shreveport, Baton Rouge, New Orleans and Lake Charles, Louisiana; Vicksburg, Jackson, Gulfport and Meridian, Mississippi; and Birmingham, Alabama. KCS also has the right to exercise haulage or trackage rights over UP between Beaumont and Houston and Galveston, Texas, but only for grain and grain products. By its connection with its wholly-owned subsidiaries, Gateway Western Railway Company ("Gateway Western") at Kansas City, Missouri, and with Gateway Eastern Railway Company, KCS serves the St. Louis gateway and, for certain traffic, the Chicago gateway. KCS also has access to the Chicago gateway through a voluntary coordination agreement with I&M Rail Link. KCS interlines with UP, BNSF, I&M Rail Link, Norfolk Southern Railway Company ("NS") and Gateway Western at Kansas City: with UP, BNSF, and the South Orient at Dallas, with NS and CSX Transportation ("CSXT") at both Birmingham, Alabama and Meridian, Mississippi; with NS, CSXT, UP, BNSF and Illinois Central ("IC") at New Orleans, Louisiana; and with the IC at Jackson, Mississippi. Gateway

Western interchanges with all the Kansas City railroads at Kansas City and with NS, CSXT, Gateway Eastern and Consolidated Rail Corporation ("Conrail") at East St. Louis, Illinois.

On April 16, KCS announced a 15-year marketing alliance between KCS, Canadian National Railway Company ("CN") and IC, under which the companies will coordinate sales and marketing, operations, fleets, and information systems, but not for traffic movements where any two of them provide only direct rail service. The carriers plan to utilize two main interchanges: Jackson, Mississippi, for traffic moving between southern KCS territory or Mexico and CN or IC territory; and Springfield, Illinois for traffic moving between CN and northern IC territory, and U.S. midwest KCS territory. The carriers have also agreed to joint operation of yards, terminals, transload and intermodal facilities at Jackson, Mississippi.

4. PROPOSED PATTERNS OF SERVICE AND OPERATION

4.1 Pick-Up and Delivery of Local Houston Traffic

Under the Consensus Plan, UP will sell or lease a yard in Houston to Tex Mex. For the purposes of this Operating Plan, the Consensus Parties assume that yard will be Booth Yard, which appears to be the most logical choice with the necessary capacity. Further, the Consensus Plan contemplates that Tex Mex will sub-lease to UP a portion of the Booth Yard facility to hold a maximum of 300 empty storage cars, but that this sub-lease will be canceled upon the leasing by Tex Mex to UP of similar facilities at the new Tex Mex storage yard to be constructed between Rosenberg and El Campo. This Operating Plan assumes a normal (post-construction) status, including the completed construction of the new Tex Mex storage yard, the lease of a portion of that yard to UP, and the lease or purchase by Tex Mex of Booth Yard.

Tex Mex will install ground air[14] at the facility, rehabilitate the south end of the yard, and add track to increase its capacity. Booth Yard will be the primary interchange and classification yard for all (northbound, southbound and through) Tex Mex Houston traffic. Tex Mex also will operate a daily GHTA switcher that will interchange cars with BNSF at New South Yard, with UP at Pierce Yard or at some other mutually agreed upon location, and with PTRA at North Yard. Tex Mex's trains operating between Beaumont and Laredo will pick up and set out only at Booth Yard, thus eliminating multiple Houston work events.

Tex Mex will operate switching operations at Booth Yard for purposes of classification, blocking, and interchange. Tex Mex will also offer contract switching at Booth Yard for UP and/or BNSF if needed.

Tex Mex will deliver to PTRA's Pasadena Yard or Manchester Yard all inbound traffic destined for customers located south of the Houston Ship Channel, excluding Galveston. Tex Mex will deliver all inbound cars destined to former HBT customers and other customers located north of the Houston Ship Channel and customers on the Clinton Branch to PTRA's North Yard. PTRA will make this traffic available to customers via neutral switching within 24 hours of arrival.

Tex Mex will operate one manifest per day (6 days/week) from Beaumont to Houston and three intermodal trains per week from Laredo into Pasadena or Manchester Yards.

PTRA will stage all outbound shipments originating south of the Houston Ship Channel, whether originating on PTRA or former SP, at Strang Yard for humping and classification into outbound trains. PTRA then will switch cars for UP, BNSF, and Tex Mex customers at Sinco,

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[14] Ground air, or yard air as it is also known, is used to charge a train's air brake system before the locomotive is attached. This permits the train's air brake system to be inspected and tested in advance of the time crews are to go on duty.

Strang, and the Bayport Loop. Outbound shipments originating north of the Houston Ship Channel will be received by Tex Mex in Booth Yard or PTRA's North Yard.

The Tex Mex will operate one manifest per day (6 days/week) and three intermodal trains to Laredo. The manifest trains will be staged out of Strang and the intermodal trains will be staged out of Barbours Cut.

4.2 Train Operations between Houston and Laredo

Under the Consensus Plan, UP will sell[15] its rights to the Rosenberg to Victoria Line (Milepost 0.0 at Rosenberg to Milepost 87.8 at Victoria) to the Tex Mex for reconstruction, rehabilitation and operation.[16] The Consensus Plan further contemplates the grant of trackage rights over the UP between Milepost 87.8 and UP's Port LaVaca branch at Victoria. Tex Mex will grant UP and BNSF trackage rights over the line, which will be used by each of the carriers consistent with the directional flow operations on UP's Brownsville Subdivision. For Tex Mex, this means that traffic moving from or through Houston to Laredo or beyond will move southbound over the new Tex Mex line from Rosenberg to Victoria, over UP over new and existing trackage rights from Victoria through Placedo to Robstown or Corpus Christi, and over the existing Tex Mex line to Laredo. Except for local service to shippers on the Rosenberg to Victoria line, traffic moving to or through Houston from Laredo or beyond will move northbound over the existing Tex Mex line to Robstown or Corpus Christi, and then over existing Tex Mex

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[15] UP would retain the right to serve industries currently located on the portions of the line for which SP had not previously sought abandonment.

[16] Upon commencement of Tex Mex operations over the Rosenberg to Victoria line, Tex Mex would give up its current trackage rights on the UP Glidden Subdivision between Tower 17, Rosenberg and Flatonia.

trackage rights over UP's Algoa route to Algoa, and finally over trackage rights over BNSF into the Greater Houston Terminal Area.[17]

4.3 Train Operations Between Houston and Beaumont

The Consensus Plan contemplates the double tracking of UP's Lafayette Subdivision between Dawes and Langham Road in Beaumont. Upon completion of this project, Tex Mex/KCS will deed it to UP in exchange for deed to the UP's Beaumont Subdivision between Settegast Junction in Houston and Langham Road in Beaumont, over which Tex Mex will grant UP and BNSF trackage rights.[18] Tex Mex will retain trackage rights over the Lafayette Subdivision (both the existing and the newly constructed track).

4.4 New Operations On the Tex Mex System

Tex Mex will operate each way one new daily intermodal and one new daily mixed manifest train between Laredo and Beaumont. Tex Mex also will operate one new daily mixed manifest train from Rosenberg to Laredo. These new train operations are set forth in Table III below.

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[17] These trackage rights were granted to Tex Mex as part of ESO No. 1518. The Operating Plan assumes to which these rights have been made permanent as provided in the Consensus Plan.

[18] Under the Consensus Plan, UP and BNSF will retain access to those shippers on the Beaumont Subdivision that each presently has access. Tex Mex will dispatch this line and will have full access to shippers on the line.

TABLE III

NEW OR ALTERED TEX MEX TRAIN SCHEDULES[19]
LAREDO-BEAUMONT

Northbound
Train ID - MMXSH1 Manifest (New)

Days of Operation	Origin	Destination
SMTWTFS	Laredo	Beaumont

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
International Bridge	TX		0200	0	7200	0
Laredo	TX	0300	0315	1	7200	9
Robstown	TX	0830	0845	1	7200	146
Placedo	TX	1145	1145	1	7200	229
Algoa	TX	1600	1600	1	7200	348
TN&O Jct.	TX	1730	1730	1	7200	370
Houston	TX	1800	1930	1	7200	372
Settegast Jct.	TX	2030	2030	1	7200	377
Beaumont	TX	2330		1	7200	455

[19] Table III assumes normal, non-congested operations.

Northbound
Train ID - IMXSH2 Intermodal (New)

Days of Operation	Origin	Destination
STT	Laredo	Houstont

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
International Bridge	TX		1000	0	7200	0
Laredo	TX	1100	1515	0	7200	9
Robstown	TX	2030	2030	0	7200	146
Placedo	TX	2345	2345	0	7200	229
Algoa	TX	0400	0400	1	7200	348
TN&O Jct.	TX	0530	0530	1	7200	370
Houston	TX	0600		1	7200	372

Southbound
Train ID - MSHMX (New)

Days of Operation	Origin	Destination
SMTWTFS	Beaumont	Laredo

Station	State	Arrival Time	Departure Time	Day	Max Length	Mileage
Beaumont	TX		0400	0	7200	0
Dawes	TX	0700	0700	0	7200	75
Houston	TX	0800	0930	0	7200	81
West Junction	TX	1130	1130	0	7200	91
Rosenberg	TX	1300	1300	0	7200	115
Victoria	TX	1600	1630	0	7200	205
Placedo	TX	1730	1730	0	7200	218
Robstown	TX	2045	2115	0	7200	301
Laredo	TX	0430	0700	1	7200	438
International Bridge	TX	0800		1	7200	447

***Train ID*-ISHMX2 Intermodal (New)**

Days of Operation	Origin	Destination
S M T W T F S	Beaumont	Laredo

Station	State	Arr. Time	Dpt. Time	Day	Max Length	Mileage
Houston	TX		1845	0	7200	0
West Jct.	TX	1930	1930	0	7200	10
Rosenberg	TX	2045	2045	0	7200	24
Victoria	TX	2245	2300	0	7200	114
Placedo	TX	0001	0001	1	7200	1278
Robstown	TX	0300	0315	1	7200	2101
Laredo	TX	0830	0900	1	7200	347
International Bridge	TX	1000		1	7200	356

***Train ID*-MTELD1 (New)**

Days of Operation	Origin	Destination
S M T W T F S	Rosenberg	Laredo

Station	State	Arr. Time	Dpt. Time	Day	Max Length	Mileage
Rosenberg	TX		0700	1	7200	0
Victoria	TX	1000	1030	1	7200	90
Placedo	TX	1130	1130	1	7200	103
Robstown	TX	1445	1515	1	7200	186
Laredo	TX	2230	2300	1	7200	323
International Bridge	TX	2359		1	7200	332

NEW OR ALTERED TEX MEX TRAIN SCHEDULES

HOUSTON - BEAUMONT

***Train ID* -MHOSH1 (Altered)**

Days of Operation	Origin	Destination
M T W T F S	Houston	Beaumont

Station	St.	Arr. Time	Dpt. Time	Day	Max Length	Mileage
Houston	TX		2000	0	7200	0
Settegast Jct.	TX	2100	2100	0	7200	5
Beaumont	TX	2359		0	7200	78

SOUTH BOUND

***Train ID*-MSHHO1 (Altered)**

Days of Operation	Origin	Destination
S M T W T F	Beaumont	Houston

Station	State	Arr. Time	Dpt. Time	Day	Max Length	Mileage
Beaumont	TX		2000	0	7200	0
Dawes	TX	2300	2300	0	7200	75
Houston	TX	2359		0	7200	81

NEW OR ALTERED TEX MEX TRAIN SCHEDULES

BETWEEN ROSENBERG AND EDNA

***Train ID* -LRBRB1 (New)**

Days of Operation	Origin	Destination
M T W T F S	Rosenberg	Rosenberg

Station	St.	Arr. Time	Dpt. Time	Day	Max Length	Mileage
Rosenberg	TX		0600	0	7200	0
Edna	TX	1300	1400	0	7200	70
Rosenberg	TX	1700		0	7200	140

4.5 Blocking Practices

Blocks will be constructed in Laredo and Booth Yard as follows:

Laredo will build the following blocks for departing Northbound trains:

***Train ID* -MMXSH1**

Days of Operation	Origin	Destination
S M T W T F S	Laredo	Beaumont

BLOCKS:
Houston
Beaumont
Shreveport
Kansas City
Norfolk Southern
CSXT

***Train ID* -IMXSH2 Intermodal**

Days of Operation	Origin	Destination
S T T	Laredo	Beaumont

BLOCKS:
Houston

Booth Yard will build the following blocks:

Train ID -M HOSH1

Days of Operation	Origin	Destination
M T W T F S	Houston	Beaumont

BLOCKS:
Beaumont
Shreveport
Kansas City
Norfolk Southern
CSXT

Booth Yard will build the following blocks for southbound pickups (Houston originated business):

BLOCKS:
Corpus Christi
Laredo (Proper)
Laredo (Non-Customs cleared cars en route Mexico)
Monterrey
Mexico City
Mexico - All Other

Booth Yard will build Houston (proper) blocks:

BLOCKS:
PTRA North Yard
PTRA Pasadena Yard
UP
BNSF

4.6 Labor Impact

The implementation of the Consensus Plan will result in 190 additional positions on Tex Mex, consisting of 82 engineers, 82 conductors, 7 maintenance of way and MOW supervisors, 3 yard crew employees, 7 clerical employees, and 9 officers.

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STB FD-32760 (SUB30)7-8-98 A ID-189672 7 OF 13

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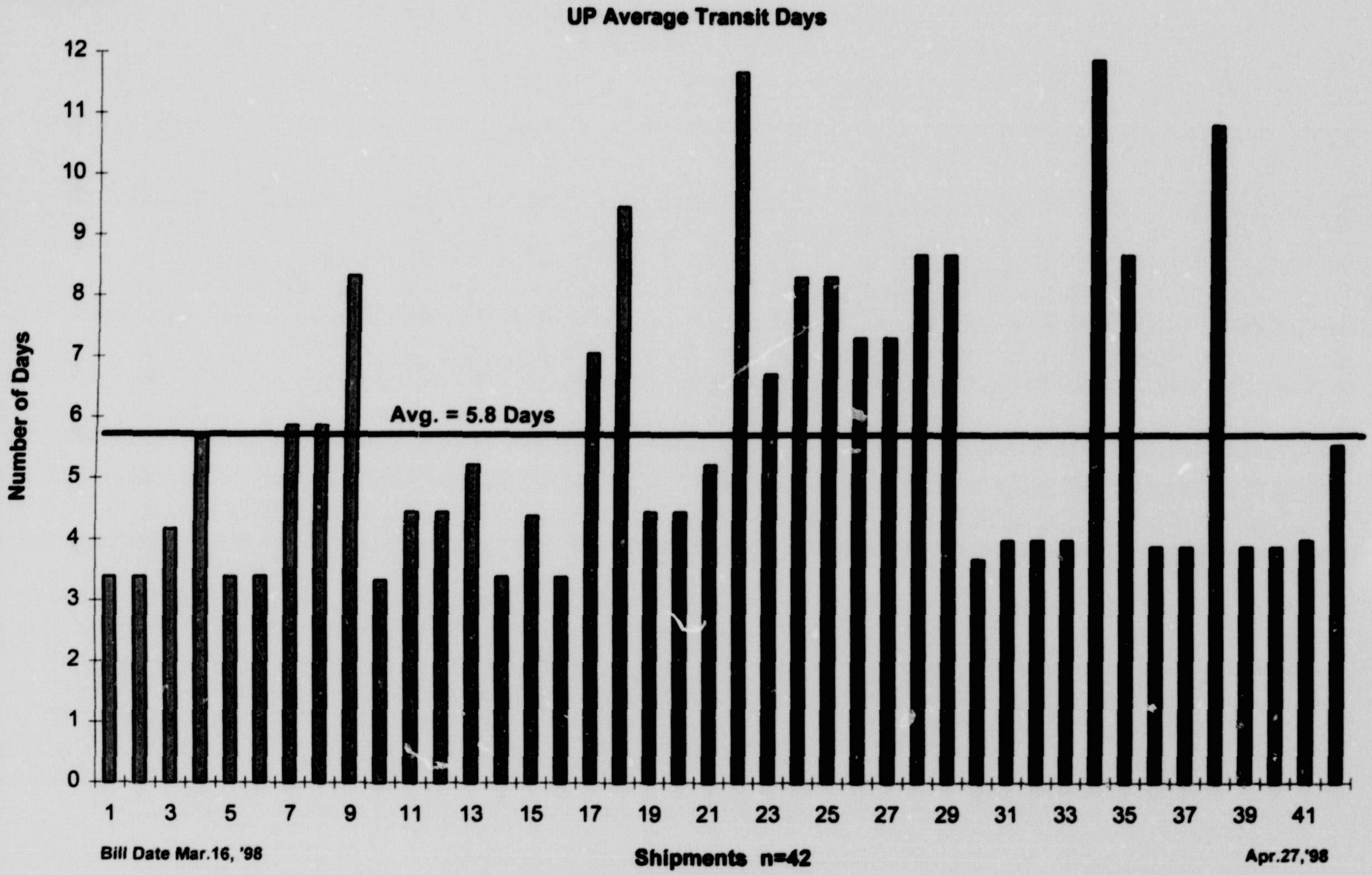
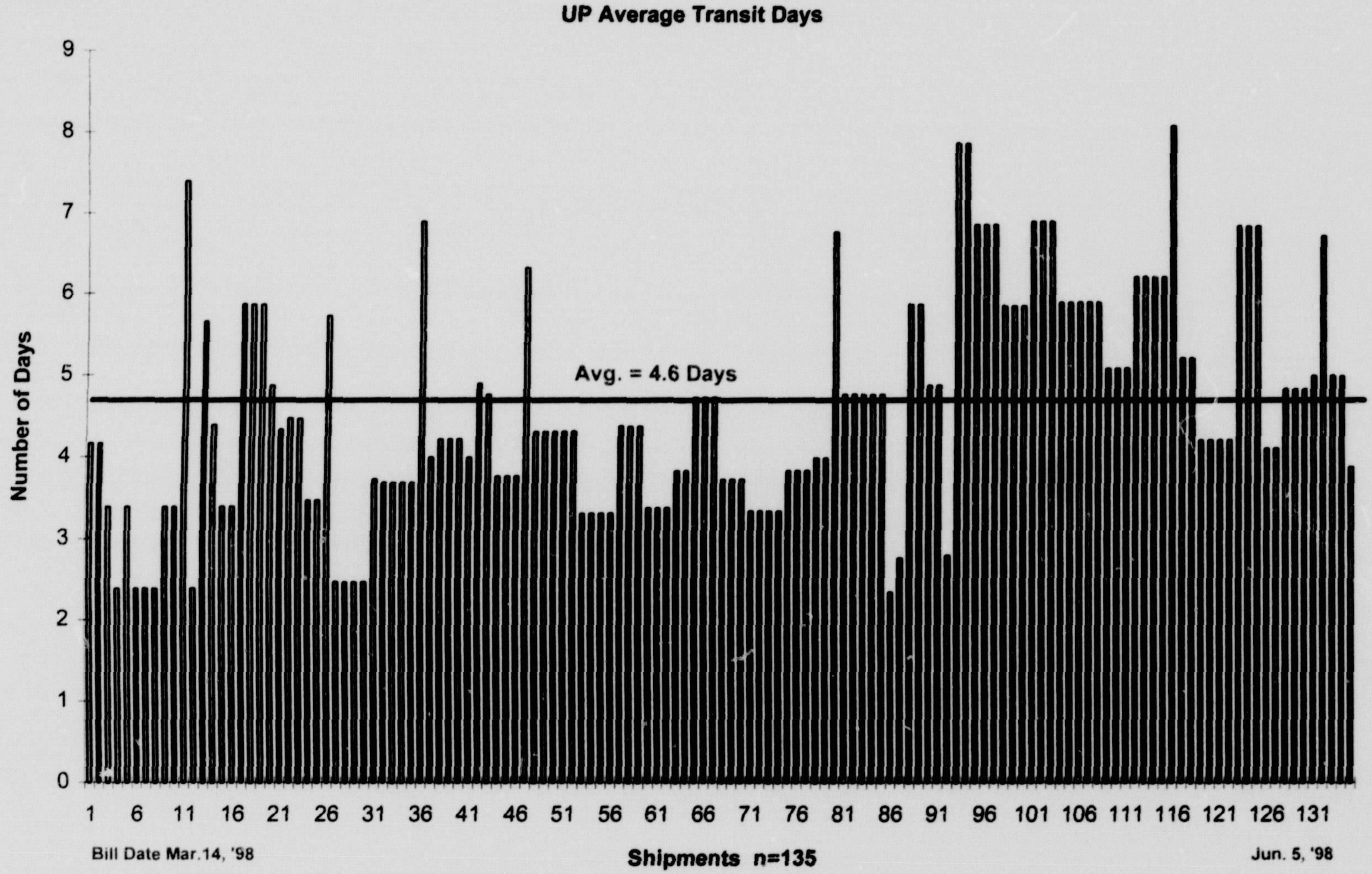
LA PORTE TO BASIN YARD I



KANSAS CITY SOUTHERN

LA PORTE TO BASIN YARD II

DU PONT



DRAFT AGREEMENT FOR NEUTRAL DISPATCHING PROTOCOLS GREATER HOUSTON TERMINAL AREA

AGREEMENT, entered into this ___ day of _____________, 1998, by and between **UNION PACIFIC RAILROAD COMPANY ("UP"), BURLINGTON NORTHERN AND SANTA FE RAILWAY COMPANY ("BNSF"), THE TEXAS MEXICAN RAILWAY COMPANY ("Tex Mex"),** and **PORT TERMINAL RAILROAD ASSOCIATION ("PTRA"),**

WITNESSETH:

WHEREAS, UP BNSF, and Tex Mex each and all are voting members lines of PTRA (hereinafter, collectively referred to as "Voting Member Lines");

WHEREAS, each and all of the said Voting Member Lines of PTRA mutually agree and desire that PTRA be appointed by them as a neutral contract dispatcher and, in that capacity, dispatch the trains of each and all said Voting Member Lines while said trains are operating over railroad lines owned or controlled by said Voting Member Lines or by PTRA and situated within the "Greater Houston Terminal Area", as hereinafter more particularly defined, in accordance with the "Neutral Dispatching Protocols" hereinafter set forth, and for the consideration and subject to the terms and conditions hereinafter set forth; and

WHEREAS, PTRA is agreeable to serve as said neutral contract dispatcher, as described above, in accordance with the "Neutral Dispatching Protocols" hereinafter set forth, and for the consideration and subject to the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of their mutual covenants herein set forth and contained, the parties agree as follows:

1. **Dispatching Functions:** Each and all of the Voting Member Lines hereby appoint PTRA as their neutral contract dispatcher for the purpose of dispatching trains of each and all said Voting Member Lines while said trains are operating over railroad lines owned or controlled by said Voting Member Lines or by PTRA and situated within the "Greater Houston Terminal Area", as hereinafter more particularly defined, in accordance with the "Neutral Dispatching Protocols" hereinafter set forth, and for the consideration and subject to the terms and conditions hereinafter set forth. Each and all of the Voting Member Lines that currently perform dispatching functions which are to be transferred to PTRA hereunder shall cooperate fully in such transfer and transition of such dispatching functions to PTRA.

2. **Greater Houston Terminal Area:** For the purposes of this Agreement, the parties agree that the "Greater Houston Terminal Area" shall be as shown on Exhibit A to this Agreement.

3. Neutral Dispatching Protocols: PTRA shall perform its dispatching functions hereunder pursuant to the following "Neutral Dispatching Protocols":

A. PTRA shall make necessary changes in its current rail operations to enable it to perform all dispatching functions; including the hiring of all necessary and appropriate personnel, the acquisition of necessary office space for a dispatch center, and the purchase of necessary and appropriate equipment. PTRA shall cooperate in the transition of current dispatching functions from Voting Member Lines to PTRA.

B. PTRA agrees to maintain a communications capability between its dispatch center and each of the Voting Member Lines sufficient to effect timely exchange of data and information between PTRA and designated operating offices of the Voting Member Lines. PTRA also shall provide a must answer, hotline telephone number to each of the Voting Member Lines that will enable immediate access to a director-level employee in PTRA's dispatching center.

C. PTRA shall dispatch trains pursuant to this Agreement in a non-discriminatory and fair manner, using its informed discretion in order to dispatch trains so as to most efficiently serve shippers, based upon both the priority of the trains being dispatched and upon the totality of the train operations in the Greater Houston Terminal Area, and shall at a minimum, maintain equity among its trains and the trains of the Voting Member Lines which it is dispatching.

D. The Voting Member Lines shall commission a study to establish bench mark performance standards for train operations which PTRA is to dispatch hereunder and, thereafter, PTRA shall exert every reasonable effort to dispatch such train operations in such a fashion as to meet such benchmark performance standards and shall furnish to each Voting Member Line a monthly report measuring actual performance of dispatched trains with the aforesaid, established benchmark performance standards.

E. The Voting Member Lines shall contract with a mutually acceptable firm capable of providing PTRA dispatching equipment, software and related signal and communications work necessary for PTRA to fully integrate its dispatching of its own lines and the lines of each of the Voting Member Lines. All costs associated with the installation and maintenance of such contract dispatching equipment shall be treated as a dispatching expense of PTRA, to be borne by the Voting Member Lines as provided in Section 5 of this Agreement. Each Voting Member Line shall have the option to purchase, at its own expense, equipment necessary to monitor real time activity of control points on the line being dispatched hereunder. PTRA shall allow replay capability to enable owner's electing to acquire such monitoring equipment to view up to seven days of historical information.

Each and all of the Voting Member Lines shall be obliged to conduct their respective business operations and cooperate with one another and with PTRA in such a manner as to promote neutral dispatching provided for in this Agreement and the aforesaid Neutral Dispatching

Protocols. Such Voting Member Lines shall not, acting individually or in concert with one another or with PTRA or any other person, use their control of their respective train operations on or their ownership or control of rail lines being dispatched by PTRA pursuant to this Agreement, to interfere with or frustrate PTRA's neutral dispatching hereunder or its ability to comply with the aforesaid Neutral Dispatching Protocols.

4. Dispatching Committee:

A. To further insure that PTRA dispatches trains within the Greater Houston Terminal Area, as herein defined, in a fair, impartial and non-discriminatory manner, a Dispatching Committee hereby is established. The Dispatching Committee will consist of a representative from each of the Voting Member Lines. Each representative shall have a single vote. There shall be a chairman of the Committee, whose position shall rotate annually among the Voting Member Lines in the following order: UP, BNSF, Tex Mex.

B. If any Voting Member Line believes that PTRA is not performing dispatching in a fair, impartial or non-discriminatory manner, that Voting Member Line can refer a complaint in writing to the Dispatching Committee, detailing the nature of its complaint. The Dispatching Committee shall conduct a meeting within fourteen days of receipt of the complaint to address its validity. If the Committee, by a simple majority vote of its members, finds that PTRA was not abiding by, or is engaging in acts contrary to its commitment to perform dispatching in a non-discriminatory manner, the Committee shall direct PTRA immediately to effect improvements in dispatching to address the complaints or to desist from such contrary acts described in the complaint within fourteen days from the meeting of the Committee. If, at the end of the fourteen day period, the member that filed the complaint has not seen the situation improve satisfactorily or PTRA has failed to desist from such contrary acts, another meeting of the Committee shall be held within seven days. At this meeting, there shall be another vote by the Dispatching Committee. If a simple majority of the voting members finds that PTRA has not adequately addressed the complaint, the Committee can elect to work with PTRA to effect the necessary improvements or eliminate the contrary acts. If PTRA cannot or will not resolve the issue, by a majority vote, the Committee shall have the ability to direct PTRA to return the control of all dispatching over the lines within the Greater Houston Terminal Area, as herein defined, to another Neutral Dispatching Agent to be selected by unanimous agreement of the Voting Member Lines.

5. Compensation: As compensation to PTRA for its dispatching services hereunder the Voting Member Lines shall reimburse PTRA for its actual costs of performing such dispatching services, including suitable additives for management and administrative expenses. Such costs shall be reimbursed to PTRA by their inclusion in PTRA's general maintenance and operating costs and monthly payment by the Voting Member Lines as part of such general maintenance and operating costs, pursuant to the terms of the Original Agreement of June 24, 1924, as amended, between the Port of Houston Authority of Harris County, Texas and the rail carriers then serving Houston.

6. Entire Agreement: This Agreement represents the entire agreement between the parties with respect to neutral dispatching in the Greater Houston Terminal Area and its terms cannot be modified other than by an amendment in writing identified to this Agreement and executed by each and all the parties to this Agreement.

7. Successors and Assigns: This agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

8. Term: This Agreement shall be effective for an initial term of ninety-nine (99) years, unless earlier terminated by unanimous consent of the parties. The initial term may be extended by mutual consent of the parties.

IN WITNESS WHEREOF, the parties have each executed this Agreement in quadruplicate originals as of the year and date first above written.

**UNION PACIFIC
RAILROAD COMPANY**

By ______________________________
Its:

**BURLINGTON NORTHERN
AND SANTA FE RAILWAY
COMPANY**

By ______________________________
Its:

**TEXAS MEXICAN RAILWAY
COMPANY**

By ______________________________
Its:

PORT TERMINAL RAILROAD ASSOCIATION

By ______________________________
Its:

EXHIBIT A

The limits of the "Greater Houston Terminal Area", to which neutral dispatching and the Neutral Dispatching Protocols provided for in the foregoing Agreement shall be:

- Former Houston Belt & Terminal Railway Company[20] ("HBT") West Belt Subdivision between Belt Junction, Control Point ("CP") 101 and T&NO Junction, CP 184;
- Former HBT East Belt Subdivision between Belt Junction, CP 101, and Double Track Junction, CP 169;
- Former HBT Booth Yard Lead between East Belt Subdivision milepost ("mp") 12.1 and Booth Yard;
- Union Pacific Railroad Company's ("UP's") Houston Subdivision between N. GH&H Jct., mp 184.8, and Galveston, mp 233.2;
- UP's Houston Terminal Subdivision between Bell Yard Wye located at the west end of Englewood's Intermodal Ramp (about mp 359.0-Passenger Line), along the Bell Yard main connecting with the Galveston Line at Bear Yard Wye (about mp 3.1) through Tower 86 and Galveston, mp 55.6 (Houston Terminal Subdivision, Galveston Line), including Barbours Cut, the Bayport Loop, Navigational Lead and Bridge 5-A;
- PTRA's Northshore Subdivision between mp 0.0 and End PTRA, mp 13.2;
- PTRA's Southshore Subdivision between Galena Jct., mp 1.4 and Deer Park Jct., mp 11.7;
- UP's (SP) Houston Terminals Subdivision, Harrisburg Line between Tower 81, mp 4.6 and Harrisburg Jct., mp 1.3 including the Katy Neck;
- UP's Beaumont Subdivision between Gulf Coast Jct., mp 378.0 and Settegast Jct., mp 381.6; and
- Clinton Drive Industrial Lead ("Clinton Branch") between Galena Jct. and end of line,

plus all existing PTRA yards and those UP and HBT yards specified in Attachment A to the July 1998 Joint Verified Statement of William J. Slinkard and Patrick L. Watts submitted in STB Finance Docket No. 32760 (Sub-No. 26).

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[20] It is unclear what the true status is of the property of the former HBT. Although public statements made by the Union Pacific Railroad Company and the Burlington Northern and Santa Fe Railway Company indicate that the HBT's property has been divided between the HBT's owners, apparently no filing has been made with the Surface Transportation Board requesting the transfer of rail assets from HBT to UP and BNSF. For the purpose of this joint statement, we assume that the ownership rights to the property of the former HBT remain with the HBT.

VERIFICATION

DISTRICT)
OF) ss.
COLUMBIA)

I, Patrick L. Watts, being first duly sworn, upon my oath state that I have read the foregoing statements and the contents thereof are true and correct as stated.

Patrick L. Watts

Patrick L. Watts

Subscribed and sworn to before me this 2nd day of July, 1998.

Georgia M. Dickens

Notary Public

My Commission Expires: March 14, 2002

Georgia M. Dickens
Notary Public, District of Columbia
My Commission March 14, 2002

0011228.01

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF JEFFERSON)

I, William Slinkard, 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 Slinkard

William Slinkard

Subscribed and sworn to before me this 1st day of July, 1998.

Kathryn Erickson

Notary Public

My Commission Expires: 2/28/2001

NOTARY PUBLIC STATE OF TEXAS
KATHRYN ERICKSON
NOTARY PUBLIC
STATE OF TEXAS
My Comm. Exp. 02-28-01

0011219.01

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

RONNEY O. NICHOLS

VERIFIED STATEMENT

OF

RONNEY O. NICHOLS

My name is Ronney O. Nichols. I am the neutral observer of the Texas Mexican Railway Company ("Tex Mex"). My business address and telephone number are 501 Crawford Street, Room 317, Houston, TX 77002; (713) 546-3221. I am submitting this verified statement in support of the factual allegations made in the Request for Adoption of a Consensus Plan regarding my role as a neutral observer in the Consolidated Dispatching Center in Spring, Texas.

1. My Qualifications

I began my railroad career in 1979 with the Atchison, Topeka, Santa Fe Railway Company (ATSF) where I worked as a clerk and train dispatcher. In 1983, I was hired by Southern Pacific Transportation Company (SP) where I was promoted to the position of train dispatcher 5 months later. I worked as a dispatcher in San Antonio and Houston until I was promoted to assistant trainmaster in Lufkin in 1986.

In 1987, I was promoted to the position of trainmaster in Tyler and in 1992, I was transferred to Houston as a trainmaster overseeing Strang and Englewood Yards. In 1996, I was promoted to the position of Terminal Superintendent of the Houston terminal. When Union Pacific Railroad Company (UP) took over SP in September 1996, I was appointed to the position of Manager of Yard Operations. Four months later, I was promoted to Manager of Terminal Operations and three months later I was promoted to Senior Manager of Terminal Operations. I worked in UP's Spring dispatching center in this capacity until I resigned on February 3, 1998.

On March 16, 1998, I was hired as a consultant to Tex Mex in the Spring center (which is now referred to as the Consolidated Dispatching Center (CDC)) and worked in that capacity as Tex Mex's neutral observer. On June 16, 1998, I was hired by Tex Mex as Tex Mex's Houston Terminal Superintendent. However, I still function as Tex Mex's neutral observer.

2. **My Duties in the CDC**

My duties in the CDC that are pertinent to this verified statement are (i) to monitor Tex Mex operations and ensure proper handling of Tex Mex trains across lines belonging to UP or the Burlington Northern and Santa Fe Railway Company (BNSF) (these lines are also referred to as joint trackage), (ii) to document any mishandling or discrimination against Tex Mex trains and advise the Joint Corridor and Joint Director of any such incidents, and (iii) to keep UP/BNSF joint dispatchers, Corridor Managers, Managers of Terminal Operations, UP's Basin trainmaster and PTRA's yardmaster informed well in advance of any pick-ups or set-outs that Tex Mex trains have to perform in Houston.

3. **Obstacles to my effectiveness in the CDC**

There are a number of obstacles which limit my effectiveness in the CDC:

First, I do not have access to my own Digicon System terminal. This requires me to circulate through the CDC trying to locate a joint dispatcher or supervisor who will let me use his Digicon terminal so that I can check the location of Tex Mex trains. The joint dispatchers and supervisors are extremely busy and often do not have time to assist me. In addition, due to safety concerns, UP management is understandably reluctant to allow me to walk into dispatcher cubicles which distracts the dispatchers from their duties. The result is that I cannot always check the location of Tex Mex trains when I need to. In April 1998, I requested a Digicon terminal and have made numerous requests since then. To date, Tex Mex still does not have its own Digicon terminal.

Second, I am not allowed to advise the joint dispatchers of any more efficient ways to help reduce congestion. As a former ATSF and SP dispatcher and also former SP Houston terminal superintendent, I have a vast knowledge of the operations and capabilities of the Houston terminal. I have also dispatched all former ATSF and SP territories which are now dispatched from the CDC. Often I have had suggestions and advice to offer the joint dispatchers that could have prevented congestion not only for Tex Mex trains but for all trains running on tracks administered by the CDC (including the Houston terminal area). However, I have been ignored because I am a Tex Mex employee.

Third, when I do observe discrimination or unfair treatment against Tex Mex trains, I cannot take any active steps to prevent such discrimination from continuing. I can only report the incident to the joint corridor manager or joint director and leave it in their hands to take disciplinary action against the offending joint dispatcher. However, by that stage, it is too late because the incident is already over. Even in cases where joint corridor managers have assured me that they would monitor the situation and prevent the incidents from recurring, the incidents often continue to recur.

Fourth, UP and BNSF do not solicit my input on ways to improve operations in the CDC. For example, on June 18, 1998 UP and BNSF held a "joint" staff meeting without Tex Mex to discuss the progress made by the CDC and what could be done to improve communications between railroads, reduce congestion and improve working relationships. I was not invited to attend even though these issues affect Tex Mex as much as UP and BNSF.

4. **Discrimination Against Tex Mex Trains Continues In Spite of My Presence**

As Tex Mex's neutral observer, I have witnessed many acts of discrimination within the Houston terminal area, including former HBT lines. The former HBT lines fall within a dispatching territory currently referred to as ST0-2. ST0-2 dispatchers, who were former HBT employees, are now UP employees. In my short tenure as Tex Mex's neutral observer I have already witnessed different types of discrimination against Tex Mex trains. The following examples are representative of the various types of discrimination that I have witnessed:

- On June 3, 1998, a Tex Mex train (1MHOSH-03) was delayed at T&NO Junction from 6:05 a.m. to 7:00 a.m. because the STO-2 dispatcher would not answer his radio or phone to allow the Tex Mex train to make the required runaround move. During this time (6:05 a.m. to 7:00 a.m.) the STO-2 dispatcher answered the radio calls of other trains but not the call of Tex Mex. The Tex Mex train was held from 7:55 a.m. to 8:30 a.m. at Dallerup Yard waiting for a route to Basin Yard while the STO-2 dispatcher ran several trains and light engines around it. When I asked the STO-2 dispatcher whether it would be possible for the Tex Mex train to make its pick-up at Basin Yard, the ST0-2 dispatcher replied that he had not had time to call Basin Yard. I decided to call Basin Yard and was told by the trainmaster that he had already told the ST0-2 dispatcher that there were two clear tracks to run the Tex Mex train through the yard. When the Tex Mex train reached Basin Yard, it was held up needlessly for 45 minutes trying to reach the STO-2 dispatcher for permission to run to Settegast Yard. While the Tex Mex train was waiting to reach the ST0-2 dispatcher, he allowed a UP train which was on the East Main line at Basin to go ahead of the Tex Mex train into Settegast Yard. The UP train was then yarded at Settegast in the only clear track. If the STO-2 dispatcher had answered the radio calls of the Tex Mex train, then the Tex Mex train which had only 15 cars, could have left Basin Yard ahead of the UP train and run right through Settegast Yard. As a result of being caught behind the UP train, the Tex Mex train was delayed needlessly by 1 hour and 45 minutes.

- On June 5, 1998, a westbound Tex Mex train (1MSHHOJ-04) was inexplicably delayed for 2 hours and 30 minutes while a UP dispatcher allowed 3 westbound UP trains of equal class to overtake and run around the Tex Mex's train at Fauna.
- On June 7, 1998, a Tex Mex train (1MHOSHJ-07) was delayed needlessly for 3 hours and 5 minutes at Manchester Yard while the ST0-2 dispatcher gave 3 consecutive UP trains priority to move on the main line in preference to the Tex Mex train. The Tex Mex train was held again needlessly for 55 minutes at T&NO Junction while it waited for a UP coal train (CHPJR).
- On June 22, 1998, a Tex Mex train (1MHOSHJ-21) en route to Beaumont arrived at the North end of Settegast Yard at 4:55 a.m. and was held. Twenty minutes later, a UP train (MWCHO) rounded the wye at Settegast Junction en route to Settegast Yard. Because there were no clear tracks in Settegast Yard, the yardmaster held UP's MWCHO at the north end of the yard until the crew's hours of service had expired. The Tex Mex train was prevented from leaving until 7:55 a.m. as a result of this UP train. The Tex Mex train could easily have been moved past Settegast Junction and to the east within the twenty minutes that it was forced to await the arrival of the MWCHO from the west and would not have been subjected to an outrageous three hour delay.

5. Conclusion

These and many other examples would not have occurred under neutral dispatching because the dispatchers would not have been under UP or BNSF influence. Instead, every train would be treated equally without regard to whom it belongs. I am therefore very much in favor of neutral dispatching.

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

I, Ronney O. Nichols, 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.

Ronney O. Nichols

Ronney O. Nichols

Subscribed and sworn to before me this 7th day of July, 1998.

Sam E. Meade

Notary Public

SAM E. MEADE
MY COMMISSION EXPIRES
MARCH 18, 2002

My Commission Expires: March 18, 2002

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

I, Ronney O. Nichols, 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.

Ronney O. Nichols
Ronney O. Nichols

Subscribed and sworn to before me this 7th day of July, 1998.

Sam E. Meade
Notary Public

SAM E. MEADE
MY COMMISSION EXPIRES
MARCH 18, 2002

My Commission Expires: March 18, 2002

0011242.01

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN
IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS
IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

PATRICK. L. WATTS

VERIFIED STATEMENT

OF

PATRICK L. WATTS

My name is Patrick L. Watts and I am Vice President – Transportation for the Texas Mexican Railway Company. I am located at Tex Mex's offices at 501 Crawford Street, Room 317, Houston Texas. In my current position, I am responsible for directing all of Tex Mex's train operations across its line between Laredo and Beaumont, Texas including the Greater Houston Terminal Area. Simultaneous with this verified statement, I have filed a joint verified statement with William Slinkard. I am submitting this verified statement in support of the factual allegations made in this Request for Adoption of a Consensus Plan regarding joint and neutral dispatching.

1. **Discriminatory Dispatching Started with Dissolution of HBT**

In Decisions No. 44 and 47 of the UP/SP merger, the Board granted trackage rights to Tex Mex over various Houston Belt and Terminal Railroad (HBT) lines, including (i) the HBT line from the Quitman Street connection (with SP) to the Gulf Coast Junction connection (with UP), and (ii) the HBT line from T&NO Junction (Tower 81) (connection with SP) to Settegast Junction (connection with UP). Tex Mex was also granted the right to interchange with HBT at HBT's New South Yard. Tex Mex's experience using these rights, and the further rights granted to it under Emergency Service Order No. 1518, have been one of discriminatory dispatch ever since UP and BNSF dissolved the HBT.

Prior to the HBT's dissolution, discriminatory dispatch was not historically prevalent on HBT tracks. The HBT was first formed in 1905 and as a terminal railroad company, its role in Houston was (i) to switch local industries and dispatch trains through the Houston terminal on a neutral basis, and (ii) to provide shippers with equal access to the multiple rail carriers that throughout its 90 year history served Houston.

In line with its history of neutral switching and dispatching, when Tex Mex began serving Houston in 1996, HBT did whatever it could to allow Tex Mex to effectively exercise its trackage rights over the HBT lines. For example, if there were problems with customer access or the way that Tex Mex trains were dispatched while operating on HBT trackage, Tex Mex officials could always approach the HBT board of directors in order to resolve these problems despite the fact that the board of directors was comprised of two representatives each from UP and BNSF. I can only believe that the board of directors would have acted in their fiduciary roles as directors for the HBT rather in their separate role as employees of UP and BNSF.

On November 1, 1997, UP and BNSF dismantled the HBT, with UP taking control over approximately 70% of the rail operations (including dispatching of the HBT) while BNSF took control over the remainder. On November 17, 1997, UP relocated the dispatching responsibilities for the HBT lines to UP's Spring dispatching center. Since the transfer of HBT dispatching to Spring, Tex Mex has suffered greatly in the form of increased congestion and delays in attempting to conduct its trackage rights operations over former HBT lines. As I predicted on October 31, 1997, the benefits that UP claimed would occur as a result of its takeover of HBT have failed to occur and to this day, HBT tracks are the most congested and least well monitored tracks in the Greater Houston terminal area.

UP control over the dispatch of the HBT lines has changed the focus of that dispatch. HBT dispatching was always focused on providing the most efficient dispatching for all carriers operating over those lines. Since HBT was dismantled, UP now gives preference to its own trains when they run along HBT lines. I have already described in some detail (in a verified statement filed on March 30, 1998, with the Board) various incidents of discrimination that took place against Tex Mex trains as a result of its dismantling of HBT dispatching functions. As I will describe below, discriminatory treatment against Tex Mex continues.

2. **The Joint Consolidated Dispatching Center is not Neutral**

On December 4, 1997, the Board gave Tex Mex the right to put a neutral observer in UP's Spring dispatching center. But it was not until February 5, 1998, that UP invited Tex Mex to participate in what was to become the so-called Consolidated Dispatching Center ("CDC"). When I examined the organization chart of proposed operations for the CDC in the Spring center, filed by UP with the Board on February 18, 1998 (attached hereto as Exhibit A), it was immediately apparent to me that Tex Mex had no substantive role to play in the proposed CDC - Tex Mex was being relegated to a peripheral observer role under the supervision of UP's director.

When I examined a more detailed version of the CDC's organization chart (attached hereto as Exhibit B), furnished to me by UP in March 1998, I noted further that all joint dispatching personnel in the Spring center would be either employed (or have their salaries paid) by UP or BNSF or UP and BNSF jointly. No joint dispatching personnel would be employed by Tex Mex despite UP's invitation for "Tex Mex participation." Obviously, these dispatchers would be accountable to UP and/or BNSF and would safeguard the interests of UP and/or BNSF over the interests of any other carrier including Tex Mex. I communicated my doubts about the neutrality of the CDC to my superior. These doubts were then communicated by Tex Mex, together with KCS, to UP on February 20, 1998 (in a letter from Larry Fields and Michael Haverty to Dick Davidson attached hereto as Exhibit C). UP assured Tex Mex and KCS (in a letter from Dick Davidson to Larry Fields and Michael Haverty dated February 27, 1998 attached hereto as Exhibit D) that all dispatching in the CDC would be neutral and that this neutrality would be ensured by all carriers supervising the CDC. Although this was the official UP policy, my doubts continued based on my past experience with UP in its day to day application of that policy over former HBT tracks.

UP and BNSF started joint dispatching operations on March 15, 1998, and the Spring center officially became known as the Consolidated Dispatching Center. Tex Mex placed a neutral observer in the CDC on March 16, 1998. The experiences of Tex Mex's neutral observer, Ronney Nichols, in the CDC have served to confirm my original doubts that the CDC would not be neutral. Mr. Nichols has prepared a detailed verified statement in which he describes his duties and the limitations on his effectiveness in ensuring neutral treatment of Tex Mex trains. Mr. Nichols explains how his duties make it essential that he have full access to a Digicon terminal (discussed in more detail below) and that, until very recently, his requests for a Digicon terminal fell on deaf ears. In fact, it was only the first week of June 1998 that a UP representative called me to say that UP had agreed to let Tex Mex install its own Digicon terminal. Tex Mex has now ordered a Digicon terminal and is awaiting shipment by the manufacturer.

3. UP's Mere Invitation to Participate Does Not Guarantee Neutrality

As I mentioned above, UP has invited Tex Mex to move its dispatchers to the CDC. However, a mere invitation without an attempt by UP to address the concerns of KCS/Tex Mex is not sufficient. The simple act of moving Tex Mex dispatchers into the same building as UP dispatchers will not ensure neutral dispatching unless Tex Mex has an equal say in the way that dispatching operations are structured and carried out. The best way to ensure this is by the installation of a dispatching entity in which all carriers (not only UP and BNSF) are equally represented.

BNSF expressed the very same concerns to UP prior to reaching a joint dispatching arrangement with UP on February 13, 1998. After noting continuing violations of the UP/BNSF dispatching protocols and preferential treatment by UP towards its own trains in its quarterly reports, BNSF concluded (in a well publicized letter from Robert Krebs to Richard Davidson on February 6, 1998) that it had to have an equal say in the way that dispatching operations were structured and carried out. When Tex Mex requested the same rights as BNSF, UP suggested that Tex Mex exercise its rights under the dispatching protocols. However, as will be seen below, the dispatching protocols are ineffective in protecting either Tex Mex or BNSF. If they were effective, BNSF would have used them and would not have needed to enter into an arrangement to share control of dispatching in the Greater Houston Terminal Area.

4. **The Tex Mex/UP Dispatching Protocols are Ineffective**

As a response to Tex Mex's concerns about discriminatory treatment, UP insists that Tex Mex should avail itself of the protections under the UP/Tex Mex dispatching protocols. However, when one views the Tex Mex/UP dispatching protocols in comparison to the neutral dispatching protocols attached to the Slinkard/Watts verified statement (Tex Mex/UP dispatching protocols and comparison are attached hereto as Exhibit E and Exhibit F respectively), it is immediately obvious that these protocols only serve to entrench the inequalities that currently exist in the dispatching process for the following reasons:

- Management and control of dispatching functions remain with UP/BNSF dispatchers who are answerable first and foremost to their employers and not Tex Mex – Tex Mex therefore has no influence over the UP/BNSF dispatchers.

- The dispatching protocols provide Tex Mex with access to the joint dispatching facilities and personnel responsible for dispatching the Houston terminal area. However, the Board had to order UP to grant access to Tex Mex's neutral observer at the Spring dispatching center in December 1997 before it became possible. Even once Tex Mex has obtained access, this access is meaningless if Tex Mex is unable to use it in a constructive manner. This is evident from the experiences of Tex Mex's neutral observer whose suggestions about effective ways to circumvent congestion are often ignored because he has no authority over the joint dispatchers and his presence at "joint" meetings not requested. (see V.S. Nichols for a full description of this problem).
- The dispatching protocols provide that the parties must communicate daily on any conflicts concerning Tex Mex's entry to lines over which it has trackage rights. However, communication before a problem arises is very different to communication after a problem arises. At the moment, Tex Mex's neutral observer is limited to observing and raising complaints of discrimination to the joint corridor manager or joint director after the fact when it is already too late. Tex Mex then has to rely on vague and futile undertakings by UP management to prevent the same incident from happening again (see V.S. Nichols for a full description of this problem).
- The dispatching protocols provide that disagreements, concerns or disputes about compliance with the protocols must be raised with the Joint Service Committee (JSC), which is a joint UP/BNSF/Tex Mex committee. The problem again is that the JSC only hears about disputes after the fact and when it is already too late. The JSC is also not empowered to take action to prevent future discriminatory treatment, and even if it could take such preventive action, such action would be limited or negligible: I was present at the last meeting of the JSC in

November 1997 when a number of complaints were raised. Afterwards, UP allegedly investigated these complaints and unsurprisingly found that the complaints had no merit. (This was confirmed by UP's counsel in a letter to Tex Mex's counsel dated June 19, 1998.) However, the JSC did nothing to prevent the discrimination from recurring because the offenders are policing themselves with no neutral body to ensure that the investigation process is fair and impartial.

- The dispatching protocols provide that if the JSC cannot achieve a satisfactory resolution of the dispute, the matter will be submitted to binding summary arbitration within 14 days. The parties are supposed to agree beforehand what sanctions are available to the arbitrator to address failures to comply with the protocols. However, the idea that Tex Mex could reach agreement with UP on sanctions to be imposed is unthinkable outside a formal STB process. This is illustrated clearly by UP's refusal to turn over documents requested as part of discovery until it was ordered to do so by an Administrative Law Judge. Finally, even if Tex Mex could reach an agreement over sanctions, which would be only the first step in the prescribed arbitration process, it is hard to imagine what suitable sanction could be imposed other than an order by the arbitrator that a neutral body be established to oversee the dispatching process. This is the subject of this petition to the Board.
- UP's corporate culture causes it to view parties with trackage rights over its tracks as a form of competition. Whereas, BNSF and the former SP viewed other railroads' trains as customers who paid for their trackage rights and had a right to run over the tracks in question, UP continually favors its trains over other carriers, especially in situations where the continuing congestion and service problems on UP's line preclude normal operations. This weakens the cooperative spirit of the dispatching protocols.

5. Discrimination Continues Despite the CDC and the Dispatching Protocols

In spite of the CDC, UP's assurances of fair treatment and the dispatching protocols, discrimination against Tex Mex trains continues. The incidents of discrimination against Tex Mex trains, which I will now describe, and other incidents of discrimination which Mr. Nichols describes in his verified statement are proof of this fact.

In May and June 1998, KCS/Tex Mex requested discovery of various documents from UP to prove to the Board that Tex Mex was experiencing discrimination in the use of its trackage rights through Houston. In particular, KCS/Tex Mex requested the right to review Digicon tapes that provide an accurate replay of train movements through a given area on a given date. UP consistently refused to let Tex Mex/KCS review the tapes until it was ordered to do so by ALJ Grossman on June 1, 1998.

As mentioned above, I spent 4 days from June 15-19, 1998, reviewing 11 days of the Digicon tapes at UP's Harriman Dispatching Center in Omaha, Nebraska. I uncovered various examples of dispatching discrimination which are represented by the following incidents:

- On May 1, 1998, a Tex Mex train (1MMXSHJ-30) bound for Beaumont was held inexplicably at CP254 (Houston's East Belt line) for 50 minutes to allow an equal class (same direction) UP train (1MASRAS-01) to overtake and run around the Tex Mex train.
- On May 12, 1998, a Tex Mex train (1MHOSH-11) was needlessly delayed at T&NO Junction for an hour and twenty minutes because the UP dispatcher allowed a UP local (1LXD37-08) to depart to Stella ahead of the Tex Mex train. The UP's 1LXD37-08, after already spending over 48 hours at Stella, was delayed at T&NO Junction because another UP local (1LHB89-11) was tying up on the hours of service on the route that 1LXD37-08 was to

use. If the Tex Mex train, not a local and therefore of a higher priority, had been allowed to leave Stella first, it would not have been held up on the Harrisburg line by the two UP locals.

- On May 28, 1998, the UP decided to route two UP westbound trains over the UP's Beaumont Subdivision and against the directional flow due to a maintenance window on the UP's Lafayette Subdivision. Although the Tex Mex and BNSF were not allowed to operate their westbound trains during the maintenance window, the UP chose to allow its trains to operate during this window. During this time, the UP had six clear sidings between Echo and Dayton, TX and could have easily conformed its westbound train operations to the same constraints that it placed on Tex Mex and BNSF. Because of UP's discriminatory action, an eastbound Tex Mex train was needlessly delayed in Houston for two hours.

Tex Mex trains are regularly subjected to needless discrimination by the UP/BNSF joint dispatchers because the joint dispatchers are not neutral. I have stated before in my verified statement of March 30, 1998 that these problems would not occur if the CDC were supervised, headquartered, payrolled and administered by a neutral party such as the PTRA. Even though the PTRA has no dispatchers at this time, a simple transfer of some joint dispatchers from UP and BNSF's payrolls to the PTRA's payroll to operate over the same territory that they are currently dispatching is entirely feasible. This would remove the possibility of any dispatcher being controlled by UP, BNSF or Tex Mex and would enable all dispatchers to make the most impartial and efficient decisions without fear of retaliation by their employers.

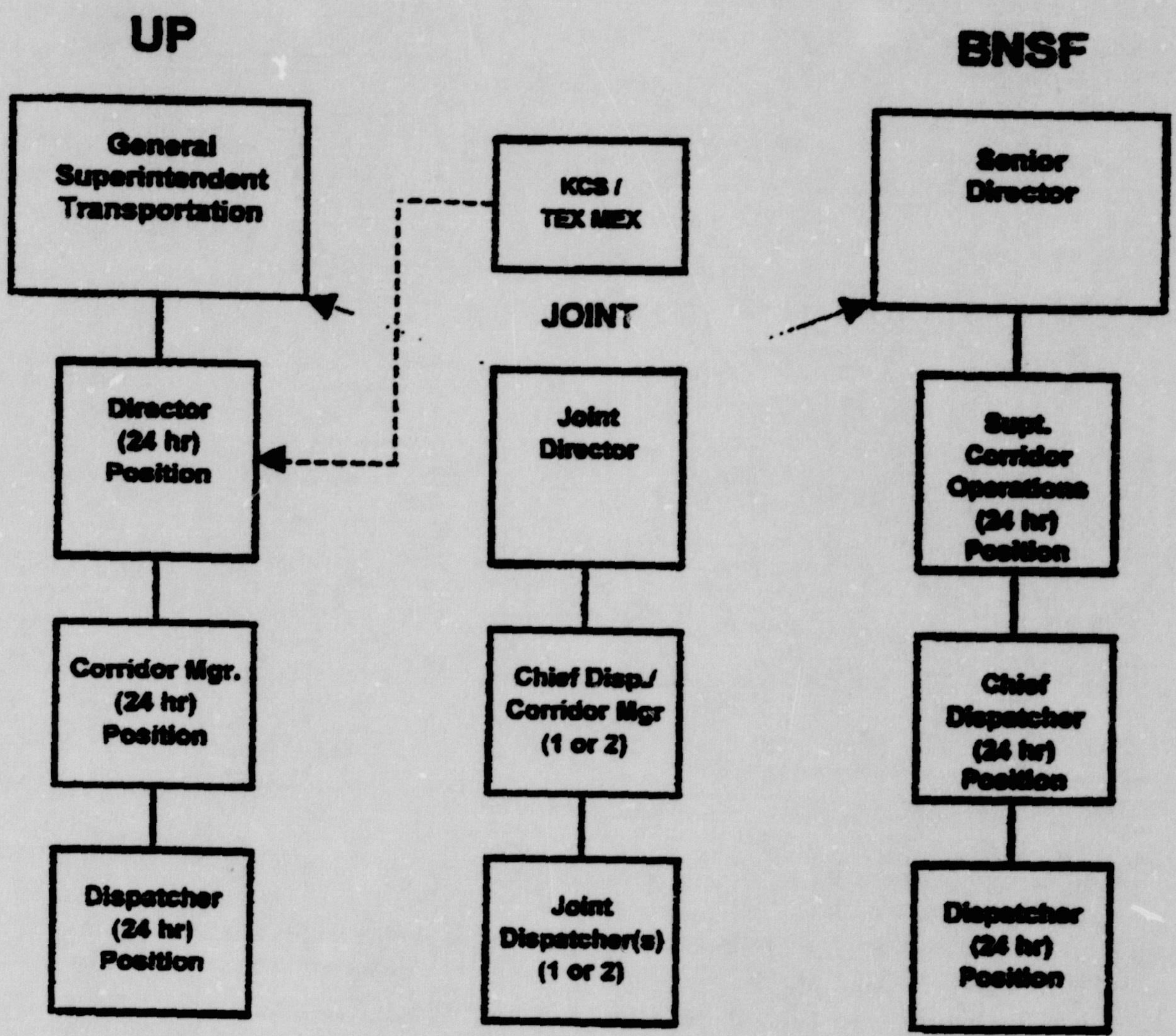
6. Structure of the Neutral Dispatching Region

I understand that the Consensus Parties are in favor of my proposal to subdivide a dispatching territory in the Houston terminal (referred to as "STO-2") for the purposes of neutral dispatching (see the map of current dispatching operations (by territories) attached hereto). Prior to the implementation of the CDC, the STO-2 region consisted only of HBT lines. When UP dismantled HBT, it added to the STO-2 dispatch region two additional lines, namely, (i) the former SP line from Galena Junction to the Strang Yard periphery and (ii) the Harrisburg line from the T&NO Junction to Harrisburg Junction. These additional lines caused the STO-2 dispatcher to become overloaded and, as a result, inefficient.

If my proposal is accepted by the Board, then the PTRA neutral dispatching area would be broken into two regions which would both be subject to neutral dispatching (see diagram entitled "Neutral Dispatching Center" attached hereto as Exhibit G). ST0-2 would encompass only the lines that were handled by the former HBT while the new STO-3 territory would dispatch the Bell Yard main line to the periphery of Strang Yard and the Harrisburg line between and T&NO Junction and the Galveston line (see the map of proposed dispatching operations (by territories) attached hereto) . From an operational perspective, this subdivision would be preferable because the East Belt and West Belt lines, which are two interlocking routes through Houston, would have to be dispatched by the same dispatcher to ensure the utmost synergistic use of these lines. Similarly, STO-3 lines to Galveston and Strang Yard need to be coordinated together to properly move trains efficiently and safely over highly trafficked lines such as the Booth Yard route. Working together, the STO-2 and STO-3 dispatchers could dispatch the Greater Houston terminal area as a unified whole.

Exhibit A

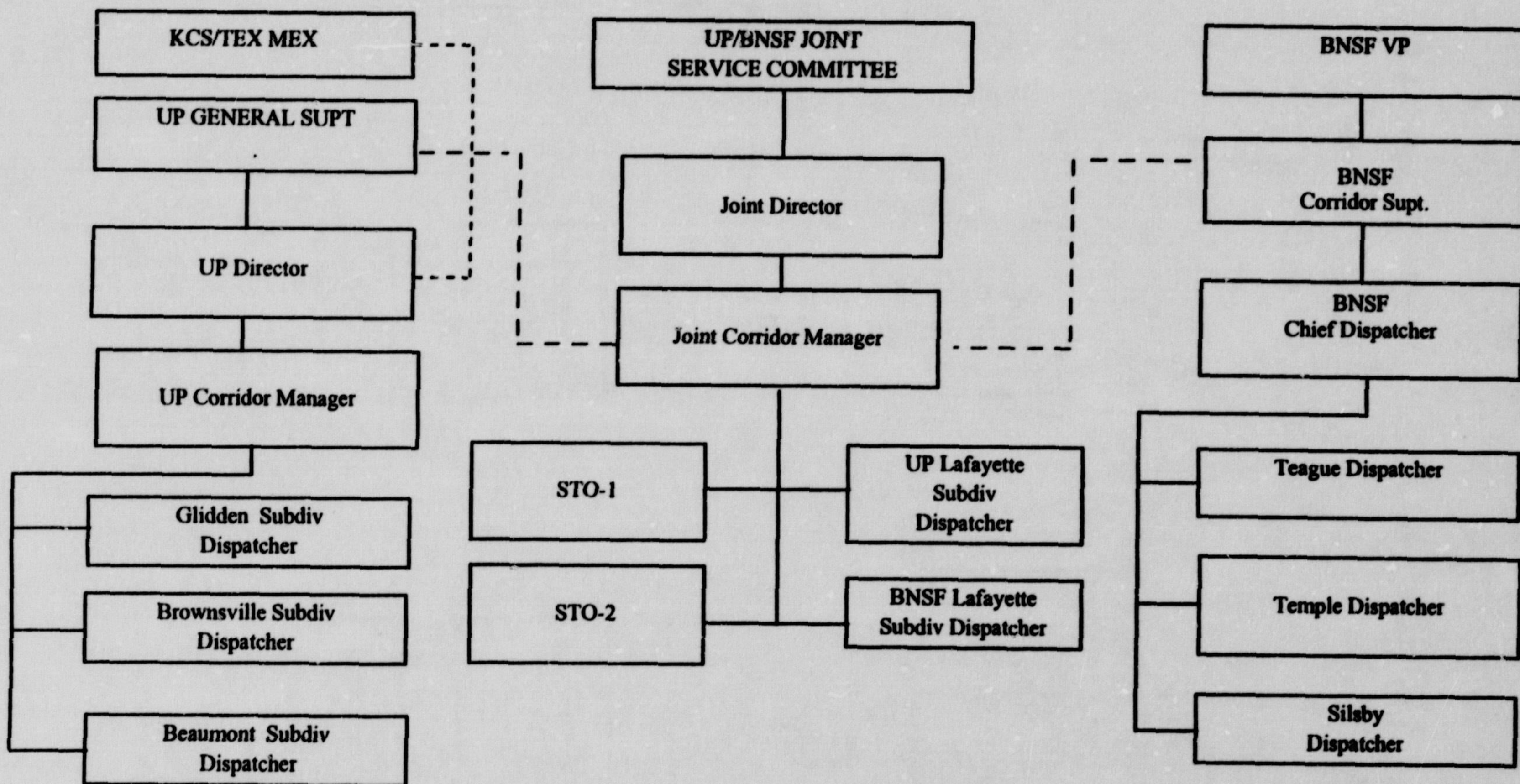
CONSOLIDATED DISPATCHING CENTER
HOUSTON, Texas
Organization Chart



February 12, 1998

Exhibit B

CONSOLIDATED DISPATCHING CENTER
SPRING, TX*



*This structure was proposed by UP in its Organization Chart and supplied to Tex Mex.

Exhibit C

THE KANSAS CITY SOUTHERN RAILWAY COMPANY

114 WEST ELEVENTH STREET
KANSAS CITY, MISSOURI 64105-1804

February 20, 1998

VIA FAX 214-743-5656 and 402-271-4048

Mr. Richard K. Davidson, Chairman
Union Pacific Corporation
1717 Main Street, Suite 5900
Dallas, TX 75201-4605

Dear Dick:

This letter is in response to the joint Union Pacific and Burlington Northern Santa Fe press release of February 13 about the proposed deal you and Rob made between Houston and New Orleans. While the press release contained the first invitation that Tex Mex and KCS received to participate, please understand that Tex-Mex and Kansas City Southern want to be included in any plans that improves operations around, in and through Houston for two critical reasons:

1. Tex-Mex cannot compete as intended by the Surface Transportation Board's grant of trackage rights between Beaumont and Corpus Christi/Robstown, Texas in the UP/SP merger case under present conditions. Tex-Mex is not competitive from a cost or service standpoint and cannot effectively operate the vital link between Kansas City Southern and Transportación Ferroviaria Mexicana (TFM), a network that handles NAFTA rail traffic in competition with UP and BNSF. It gives us great concern to find out that UP and BNSF struck a deal that would allow UP and BNSF to jointly control Tex-Mex operations in the Houston area when top officials of both companies stated in public forums in Houston last week that Houston only needed two railroads. UP and BNSF, and Tex-Mex was not needed as a competitor. BNSF continues to seek elimination of Tex Mex's trackage rights in its appeal of the STB decision in the UP/SP Merger case. We do not believe these positions coincide with the direction taken by of the Surface Transportation Board in establishing Tex-Mex, linked with KCS, as a competitor, or with the wishes of the customers in Houston, or with the position of the Port of Houston.

2. Tex-Mex and Kansas City Southern have a critical interest in dispatching and operations in the Houston area. Nonetheless. Tex Mex and KCS were not included in any planning or development of dispatching and operations criteria underlying the UP/BNSF deal. On February 4, at a meeting in Houston convened by the Railroad Commission of Texas to address operating problems and solutions in the Houston area and only nine days before UP and BNSF announced their deal, Mr. Jeff Moreland, Chief of Staff and General Counsel for BNSF, unveiled some concepts of a joint dispatching arrangement, apparently developed through months of meetings between UP and BNSF. When Ab Rees, Sr. Vice President - Operations, KCSR, asked Moreland why Tex-Mex and Kansas City Southern were not included in any planning meetings, Moreland aggressively responded in the presence of the entire group that Union Pacific would never have agreed to meet had Tex-Mex and KCS been included. The next day, February 5, Mike Haverty advised STB Vice-Chairman Gus Owen,

following the National Grain Car Council meeting in Chicago, that UP and BNSF had excluded Tex-Mex and KCSR from operations planning and dispatching protocol in the Houston area, even though Vice Chariman Owen had urged the railroads in the December 3 Emergency Service Order review hearing in Washington, D.C., to work together to solve problems. Both of us are on record in that meeting supporting that view, which view was also expressed by STB Chairman Linda Morgan, who requested that Tex Mex and KCS be a part of any dispatching solutions.

With the above background, we will address the UP/BNSF deal. We do not have a problem with UP and BNSF exchanging pieces of the former Southern Pacific main line between Houston and New Orleans to provide for joint ownership and expanded access by BNSF to customers formerly served by only Union Pacific. As Rob said in his quote, "The key here is greater coordination between railroads along the Gulf Coast to improve operations and reduce congestion. This will improve service options into and out of the Houston area, and increase competitive alternatives for rail customers . . ." We support these concepts and that is what our plan to the STB is all about. Given the significant damage suffered by shippers and the railroads as a result of "the worst rail crisis in the Twentieth Century", I believe that we have a serious, mutual obligation to address this crisis, remedy the harms, and provide efficient, competitive rail service to the shippers in the Gulf Coast region.

We would like to recap our plan and our reasoning but let you know that we are willing to discuss alternatives if they accomplish the same objective:

- **Greater Houston Switching Entity** -- This is not an "open access" plan as some in your organization have tried to characterize it. We are not asking for access to new customers on the Bayport Loop, in Baytown, or in Galveston. We are only asking that customers already served by HB&T and PTRA, which are covered by the STB order granting Tex-Mex access to Houston, be served by a neutral switching carrier. As you know, this is not a new idea. When you were at Missouri Pacific, and later at Union Pacific and on the boards of HB&T and PTRA, for years you personally were the driving force pushing for a merger of HB&T and PTRA. SP always moved to block the consolidation because it was not part of the HBT. Once UP and SP merged, however, and Tex-Mex was granted access to Houston as part of the merger, you were no longer interested in the consolidation of HB&T and PTRA, UP and BNSF agreed to dismantle HB&T and split it up between your two companies. We think a single switching carrier serving Houston, managed under the direction of the interested parties (UP, BNSF, Tex-Mex and the Port of Houston) would improve operations, reduce congestion, improve service options and increase competitive alternatives, all stated objectives of the deal UP and BNSF agreed to, consolidating the line between Houston and New Orleans.

- **Greater Houston Dispatching Center** -- For years Houston had a dispatching center under the direction of the HB&T that covered the greater Houston area including PTRA trackage; that is, until, right in the middle of the rail crisis and right after the STB issued its Emergency Order 1518 on October 31, 1997, (which gave Tex-Mex expanded competitive rights in

Houston) UP and BNSF agreed to dismantle the HB&T's RTC center and move it to UP"s office at Spring, Texas. This action exacerbated the chaos and confusion that already existed in Houston. Tex Mex and KCS are asking that the neutral dispatching function be moved back to a neutral point, PTRA offices, performed by a neutral operator, PTRA employees, which would report to all the operating railroads in Houston. This is really a re-establishment of what had previously existed and is intended to accomplish some of the same objectives as the neutral switching entity; improved operations, improved service options and increased competition. The funding of both the neutral switching and neutral dispatching functions can be provided for on a user basis as is done with most other similar arrangements throughout the country in major metropolitan areas. The transfer of the dispatching function to PTRA comes at an optimal time, as PTRA is moving to new, expanded facilities and its preparations for assuming the dispatching of the terminal can be done in concert with its setting up of its new office facility.

- <u>Houston Switching Yard</u> -- Tex-Mex cannot effectively compete with UP and BNSF in Houston without its own switching facility. Tex Mex must backhaul many cars which increases costs, adversely effects service, and puts additional train movements across an already congested rail network in Houston. Both UP and BNSF have been reluctant to grant Tex-Mex yard facilities in Houston. Thus, we have sought to buy or lease your Booth Yard from you. UP removed part of the yard so it is obviously not essential to UP for its operations but it gives Tex-Mex an essential facility for it to be competitive.

- <u>Rosenberg to Victoria Line</u> -- Southern Pacific has abandoned most of this line. Since Union Pacific continually alludes to the congestion on its Sunset route between Houston and El Paso, Tex Mex's and KCS's acquisition, rehabilitation, and renewal of operations of the Victoria/Rosenberg line affords a great opportunity to reduce Tex-Mex train operations on the Sunset route. Rebuilding this line not only benefits the public but it also adds back capacity which Southern Pacific's abandonment eliminated and alleviates congestion for UP, BNSF and Tex-Mex. We would be willing to buy or lease the right-of-way and trackage at each end of abandoned right-of-way. We would dispatch the line with a Tex-Mex dispatcher located at the neutral PTRA dispatching center. In fact, all Tex-Mex dispatching would be relocated to this neutral Houston site.

- <u>Beaumont to Houston line</u> -- Again, rather than seeking required divestiture of this line, we would be willing to purchase or lease it. We would grant trackage rights back to UP and BNSF on this line. A Tex-Mex dispatcher located at the PTRA neutral site would dispatch the line. Therefore, UP and BNSF could operate and dispatch their own joint line between Houston and New Orleans. serving customers on that line, and have rights on the old Missouri Pacific line which we would own or lease. Proceeds from a sale of the line to Tex Mex and KCS could be used by UP to increase the capacity of your joint line with BNSF or other lines you may want to upgrade.

The Tex Mex/KCS proposal would require some adjustment to your concept of directional running. However, any conflict would be minimal and, further, we believe that the directional running concept is ill conceived. We believe you may have let your lawyers or strategic planners, who are so opposed to divestiture that they must try and show how essential both lines are, overrule common sense operating practices. We all have been around long enough to know that railroads install centralized traffic control (CTC) to improve utilization and capacity on a single track main line by allowing trains to move expeditiously in both directions. Illinois Central ripped up one of its double-tracked main lines, installed CTC on the other and handled as much or more than both main lines combined. You have CTC on both of the main lines between Beaumont and Houston. By not running on each line in both directions, you are actually giving up capacity and not fully utilizing these lines. You argue that capacity is at a premium in Houston so here is an opportunity to improve capacity.

Speaking of capacity, we do not understand the arguments that Houston is out of capacity. Two and one-half years ago four railroads operated in and out of Houston better than three do today. Shippers are now trucking products. Grain movements into Houston elevators are not as prevalent as they have been in the recent past. We simply do not see the traffic numbers that support the your capacity constraint argument. At any rate, our plan and improved operating practices will relieve congestion and create capacity at Houston.

Incidentally, we are pleased that UP and BNSF recently recognized Tex-Mex's right to a voting seat on both the PTRA board and operating committee. As you know we have been arguing that PTRA by-laws gave Tex Mex this right and we are glad to see that the two of you are no longer attempting to block Tex-Mex's participation. We are also pleased that the Port of Houston is being granted a voting seat on and made a voting member of the board.

In conclusion, we must continue all possible efforts to allow Tex-Mex to compete effectively, as intended by the STB in its award of trackage rights to Tex Mex in the UP/SP merger case. We will be glad to meet with you independently, or you and Rob jointly, or with your designated representatives, to discuss our plan or alternatives. It is essential, however, that whatever we arrive at must address what we have outlined in order to improve service, reduce congestion and provide rail shippers competitive alternatives. Please let us know promptly when you would like to meet.

Sincerely,

Mike Haverty

Michael R. Haverty
President & CEO
Kansas City Southern Railway

Sincerely,

Larry D. Fields

Larry D. Fields
President & CEO
Texas-Mexican Railway Company

cc: Rob Krebs (817-352-7100)

Exhibit D

UNION PACIFIC CORPORATION

DICK DAVIDSON
CHAIRMAN

February 27, 1998

Mr. Michael R. Haverty
President & CEO
Kansas City Southern Railway
114 West Eleventh Street
Kansas City, MO 64105-1804

Mr. Larry D. Fields
President & CEO
Texas-Mexican Railway Company
P.O. Box 419
Laredo, TX 78042-0419

Dear Mike and Larry:

I am writing to address the concerns you expressed in your letter of February 20, 1998, and to give you our reactions to your proposals. I wholeheartedly agree that we have a "mutual obligation" to address the crisis in the Gulf Coast region, and I cannot overemphasize how seriously we view that commitment. I write in that spirit.

Competition

Your statements that KCS and Tex Mex are unable to compete due to Houston congestion is unsupported by the facts. KCS/Tex Mex business continues to grow. Tex Mex recently announced the construction of a new $7.5 million freight yard in Laredo to deal with the increase in traffic. News reports suggest that Tex Mex traffic may triple due to a potential agreement with BNSF. We agree that congestion in the Houston area has adversely affected Tex Mex's service quality and costs, just as it has affected all the railroads that compete with Tex Mex, notably Union Pacific. But the service crisis has not put Tex Mex at a competitive disadvantage.

Joint Dispatching

We never had any intention of excluding Tex Mex and KCS from our joint dispatching center with BNSF. We welcome you and encourage you to participate. We have even set aside physical space for your dispatchers at our Spring, Texas, dispatching center.

Your recollection that "the press release contained the first invitation that Tex Mex and KCS received to participate" is in error. We did, in fact, contact you immediately after our third meeting with BNSF, as soon as it appeared to us that our

1717 MAIN STREET, SUITE 5900, DALLAS, TX 75201-4605 • 214 743-5600

preliminary discussions might actually turn into something concrete. On February 4th and 5th, 1998, Steve Barkley spoke to both Ab Rees and Pat Watts directly to invite KCS/Tex Mex participation. Even though Union Pacific was excluded from the February 4, 1998 meeting in Houston to which your letter refers and which you helped sponsor, we had no intention of excluding KCS/Tex Mex from joint dispatching. We initially met alone with BNSF because BNSF offered us trackage rights and promising ideas for improving Houston-New Orleans operations. Your participation in those bilateral negotiations would not have been appropriate, just as our participation in your discussions with BNSF would not be appropriate now, but we welcome your participation in joint dispatching.

Of course, I cannot agree with your rhetoric about the new Spring dispatching center causing "chaos and confusion." I invite both of you to come to Spring and watch it in action. We created the center in Spring to facilitate communication between the HB&T dispatcher and the Southern Pacific's Tower 68 operator who controls operations on SP trackage in Houston, and to give them the ability to "see" lines outside of Houston. Because these dispatchers control intersecting territories, they have always needed to communicate regularly. Before moving to Spring, they were at distant locations, one at the HB&T facility in downtown Houston, and the other at the tower at Englewood Yard. They now sit an arm's length apart. These dispatchers engage in constant face-to-face communication, allowing them to usher trains through their territories as smoothly as possible.

The joint dispatching center with BNSF (and with your railroads, if you will join) will extend this successful integration. Locating employees of all of the railroads who own lines in the Gulf Coast region side-by-side at the same facility will allow for a degree of coordination that has never been attainable. Easing communication and eliminating handoffs between distant dispatchers will minimize delay and misunderstandings, while allowing dispatchers to solve problems cooperatively as they arise. This will reduce congestion and bring more consistent service to all Gulf Coast shippers.

Joint dispatching is scheduled to begin on March 15, 1998 on the HB&T lines and the joint BNSF-UP line between Houston and New Orleans. We will phase in the rest of the dispatching territories as we complete remodeling, signaling changes and installing communications systems. We expect to be operational across 100% of the affected lines no later than May 11, 1998.

Your proposal for a "Greater Houston Dispatching Center" is far more limited, would be much less effective and would take much longer to implement. Your proposed dispatching center would cover only the immediate Houston terminal area. From our center at Spring, Texas, however, joint dispatching will control operations not only for all of the greater Houston area, but for the entire former Southern Pacific from

Houston to New Orleans, the UP and BNSF lines linking Houston and Brownsville, BNSF lines to Teague and Temple, and the Union Pacific lines linking Houston with Flatonia and Victoria. Your participation would bring the KCS line from Beaumont to DeQuincy and the Tex Mex line from Corpus Christi to Laredo into the joint facility, establishing full coordination among all area railroads.

Your proposal for a Houston dispatching center, by contrast, could not be implemented for months and would not be truly effective for years. The PTRA may, as you say, be moving to a new office, but it does not perform any train dispatching today nor does it operate any computerized dispatching systems. It has no relevant experience. Even after hiring and installing the necessary systems, the PTRA center would struggle. In our experience, it takes approximately two years for a dispatcher to reach full efficiency. That would be two years of "chaos and confusion."

You say you want "neutral" dispatching, but all dispatching in our joint dispatching center is required by contract among the railroads to be "neutral." In addition, all of the carriers would supervise the center to ensure neutrality. Our proposal, therefore, secures the objective your proposal seeks, while also retaining highly trained expert dispatchers. The joint regional dispatching center will be a more effective operation than the PTRA far sooner, and with equal if not greater assurance of "neutrality." It would be foolhardy to forgo the advantages of this arrangement in favor of delays and confusion in the hands of a third party with no experience.

Neutral Switching

You suggest appointing a "neutral switch carrier" to serve customers on the HB&T lines in Houston. I have never understood why you want this change. No one claims that there is anything wrong with the switching service currently provided on HBT lines in Houston, other than the general congestion that will affect any switching operation, and there is no reason to believe that switching service would change under PTRA control. UP, BNSF and Tex Mex are all entitled to, and are all getting, "neutral" switching service on HBT lines today under existing agreements.

Booth Yard

You say that Booth Yard is "obviously not essential" to Union Pacific, but you know better. Union Pacific has 10,000 more private rail cars on its lines today than a year ago, consuming 100 extra miles of track, many of them in the Houston region. As you know, we are using every available track in the Houston area. Booth Yard provides us with badly-needed SIT and overflow capacity. At one time, Englewood Yard stored cars for customers in the Sinclair Oil Company ("Sinco") area, such as Texas Petrochemical, Bayer, Goodyear and Mobil. Texas Petrochemical alone regularly stored up to 100 cars at any given time. When these cars began to impede operations at Englewood, we unsuccessfully attempted to store them at Strang Yard. Today, Booth Yard handles those cars. We currently run a train of between 75 and

100 Sinco cars from Englewood to Booth Yard every day. Without Booth Yard we would be desperate for storage space, and I do not know where we would turn.

In addition, your plan to use Booth Yard as a switching facility in Houston would be disruptive. The busy mainline from Englewood to Strang passes by Booth Yard, with only one siding along that stretch. Any extensive yard switching at Booth Yard, whether conducted by Union Pacific, Tex Mex or any other railroad, would add interference to an already congested area.

Rosenberg-to-Victoria Line

We see considerable merit to your proposal to add new capacity by rehabilitating the former SP line south of Houston. This would help address the capacity shortfall described by the STB in yesterday's decision. We are willing to negotiate with you concerning your acquisition of the Rosenberg-to-Victoria line. I suggest you contact Steve Barkley to discuss the matter.

Houston-to-Beaumont Line

Your request to buy our Houston-to-Beaumont line is not new, and we remain firmly opposed to it. We instituted directional running between Houston and New Orleans, using the Houston-to-Beaumont line as the eastbound leg of a circuit completed by operating westbound over the parallel SP line. On February 17, 1998, the STB issued a decision rejecting the Railroad Commission of Texas' request that we be ordered to transfer control of the Houston-to-Beaumont line to you. I cannot improve upon the STB's discussion:

> The directional running program is one of UP/SP's more important planned improvements for the merged system, and one that the carrier is using to improve the flow of traffic to and from Houston. Handing one of the lines over to Tex Mex would defeat directional running, and would reduce operational flexibility, adversely affecting the operation of the remaining line and the movement of BNSF, UP/SP, and even Amtrak trains.

It would be counterproductive to transfer this critical line to you, destroying directional running without gaining any operational benefits. In addition, the need to obtain Tex Mex approval for every move at the north end of Settegast Yard would cripple our yard.

It seems clear from Texas Railroad Commission statements to the STB that the main purpose of this proposal is to give priority to Tex Mex trains over UP trains, harming all the Texas shippers whose shipments are on our trains. Bringing the Beaumont-DeQuincy KCS line into the joint dispatching center will generate benefits for all shippers, so we urge you to pursue that course instead.

Directional Running

Our commitment to directional running remains steadfast. Your speculation that anyone but operating personnel conceived of this program is insulting and wrong. This plan was developed solely by the 200 operating personnel who developed the merger operating plan. The SP line is essential, not because of legal considerations, but for operating capacity.

We have listened to you criticize directional running since you described it as "lunacy" during the merger proceedings. You are as mistaken now as you were then. We do not base our confidence in directional running on faith. Directional running is functioning beautifully on the three other UP corridors where it has been used for years: Weso to Alazon, Nevada; Paola, Kansas to Wagoner, Oklahoma; and Kansas City to Jefferson City, Missouri.

Your letter reflects your continued misunderstanding of directional running. You claim that we are acting hypocritically by not running bi-directionally on CTC-equipped lines, while we complain about the lack of line capacity. You are overlooking the value and time savings of eliminating hundreds of train meets every day, which frees capacity and reduces delay. In addition, the key value of directional running is improved use of terminals. By specializing terminals to handle single-direction traffic, directional running will reduce congestion in major yards and allow them to build more blocks and reduce downstream switching.

You already enjoy the benefits of directional running on the lines south of Houston. Directional running had an immediate positive impact in clearing congestion and improving operations on that corridor. While the Brownsville Subdivision was once in worse shape than any other on the railroad, directional running has cured it of these problems. The fact that the Brownsville Subdivision continues to operate smoothly while the lines around it struggle confirms that directional running works.

Sincerely,

Dick

Exhibit E

TEX MEX - MP/SP DISPATCHING PROTOCOLS

1. Scope: These protocols apply on all segments of the Joint Trackage.

2. Purpose: To ensure that Tex Mex and MP/SP trains operating on Joint Trackage are given equal dispatch without any discrimination in promptness, quality of service or efficiently and that the competitiveness of Tex Mex operations on the Joint Trackage is not adversely affected by the fact that MP/SP owns the track.

3. General Instructions: MP/SP will issue written instructions to all personnel (including supervisors) responsible for train dispatching on the Joint Trackage that Tex Mex trains are to be dispatched exactly as if they were trains of the same class of MP/SP and given equal treatment with trains of MP/SP. These instructions will be issued at agreed intervals or at the request of Tex Mex.

4. Monitoring Systems: MP/SP will provide Tex Mex with timely and accurate information about the status of Tex Mex trains operating over the Joint Trackage.

5. Train Information: Tex Mex will provide the MP/SP, and regularly update, information about its expected train operations and schedules (including priorities, time commitments, horsepower per trailing ton, etc.) over the Joint Trackage, preferably using electronic data interchange. Tex Mex and MP/SP will establish run time standards by train category based on expected train volumes for Tex Mex. If train volumes are different than expected then adjustments to run time standards will be made by mutual agreement. Tex Mex will provide reliable and current information about trains approaching the Joint Trackage, including train arrival time and train characteristics, preferably by providing at its expense computer terminals, facilities or capabilities showing trains approaching the Joint Trackage, sufficiently in advance to allow dispatchers to plan for them. MP/SP will provide to Tex Mex advance notice of planned maintenance-of-way projects, line closures and train or equipment restrictions. Tex Mex and MP/SP will consult in advance about maintenance-of-way windows resulting from planned maintenance projects so as to minimize disruptions to the operations of both carriers.

6. Specific Instructions: MP/SP will permit Tex Mex to transmit instructions regarding the requirements of specific trains and shipments to designated dispatching center employees responsible for handling those trains.

7. Train Priorities/Run Time Standards: MP/SP will provide to Tex Mex current procedures for assigning dispatching priorities or rankings to trains and information sufficient to show how those procedures are applied to their own trains. Tex Mex will assign priorities or rankings to its trains operating on the Joint Trackage using MP/SP's procedures, and MP/SP will dispatch Tex Mex trains in accordance with those priorities or rankings. It is understood that

technological advances in computer aided dispatching might result in changes to priority assignment methodologies. The parties agree to discuss technological changes which might affect priority assignment methodologies prior to implementation. The Joint Service Committee will be responsible for reviewing these assignments to ensure that they are applied equitably by both railroads.

8. Entry to Joint Trackage: At points where Tex Mex trains enter the Joint Trackage, entry will be provided by MP/SP on a first-come first-served basis, taking into consideration the relative priorities of affected trains and the specific needs and operating characteristics of individual trains of both railroads. If operating circumstances make strict application of this principle difficult or uncertain. Tex Mex and MP/SP may jointly establish standards for determining sequence of entry to Joint Trackage. The parties will communicate daily on any conflicts concerning entry to the Joint Trackage to gain resolution.

9. Communication: MP/SP will provide to Tex Mex, and keep current, lists of dispatching personnel responsible for dispatching the Joint Trackage and contact numbers. Tex Mex and MP/SP will designate more supervisory employees to serve as the day-to-day contacts for communications about operating changes, service requests and concerns. Where feasible and economical, dedicated phone lines or computer links will be established for these communications.

10. Access to Dispatching Center: Appropriate officials of Tex Mex will be admitted at any time to dispatching facilities and personnel responsible for dispatching the Joint Trackage to review the handling of trains on the Joint Trackage (although both railroads will take reasonable steps to prevent disclosure of proprietary information not relevant to the review). It is understood that management and supervision of dispatching operations is the responsibility of MP/SP.

11. Performance Measurement: Tex Mex and MP/SP will cooperate to develop train performance evaluation methods under which train performance of Tex Mex trains on the Joint Trackage can be compared to train performance of MP/SP's trains on the Joint Trackage for the same train category and priority.

12. Personnel Incentives and Evaluation: In evaluating the performance of employees and supervisors responsible for dispatching the Joint Trackage, MP/SP will consider train performance of Tex Mex trains and effectiveness in cooperating with Tex Mex personnel and meeting Tex Mex service requirements in the same manner as such factors are considered with respect to MP/SP's trains, personnel and requirements. If bonuses, raises or salaries of those persons are affected by performance of MP/SP's trains, performance of Tex Mex's trains shall be considered on the same basis to the extent feasible.

13. Disagreements: The designated contact supervisors are expected to raise questions, disagreements, concerns or disputes about compliance with these protocols promptly as and when any such matters arise and to use their best efforts to resolve them. If a matter is not resolved to the satisfaction of both parties, it will be presented to the Joint Service Committee. If a satisfactory resolution cannot be achieved by the Joint Service Committee the matter will be submitted to binding summary arbitration before a neutral experienced railroad operating official within fourteen days. The parties will agree in advance on the sanctions available to the arbitrator to address failures to comply with these protocols.

14. Modifications: As the ultimate objective of these protocols is the equal, flexible and efficient handling of all trains of Tex Mex and MP/SP on the Joint Trackage, these protocols may be modified at any time by mutual agreement, consistent with that objective.

Exhibit F

COMPARISON BETWEEN NEUTRAL DISPATCHING PROTOCOLS AND MP/SP/TEX MEX JOINT DISPATCHING PROTOCOLS

Neutral Dispatching Protocols	MP/SP/Tex Mex Joint Dispatching Protocols
Method of Operation	***Method of Operation***
PTRA shall dispatch trains in a non-discriminatory and fair manner, using its informed discretion in order to dispatch trains so as to most efficiently serve shippers, based upon both the priority of the trains being dispatched and upon the totality of the train operations in the Greater Houston Terminal Area, and shall, at a minimum, maintain equity among its trains and the trains of the Voting Member Lines which it is dispatching. (Section 3.C.)	MP/SP will issue written instructions to all personnel (including supervisors) responsible for train dispatching on the Joint Trackage that Tex Mex trains are to be dispatched exactly as if they were trains of the same class of MP/SP and given equal treatment with trains of MP/SP. (Section 3.)
Cooperation	***Cooperation***
PTRA is the neutral contract dispatcher who will dispatch trains of the Voting Member Lines (UP, BNSF and Tex Mex) over lines owned or controlled by each Voting Member Lines within the Greater Houston Terminal Area, in accordance with the "Neutral Dispatching Protocols." Each and all of the Voting Member Lines that currently perform dispatching functions which are to be transferred to PTRA hereunder shall cooperate fully in such transfer and transition of such dispatching functions to PTRA. (Section 1.)	At points where Tex Mex trains enter the Joint Trackage, entry will be provided by MP/SP on a first-come, first-served basis, taking into consideration the relative priorities of affected trains and the specific needs and operating characteristics of individual trains of both railroads. (Section 8.)
Communications	***Communications***
PTRA agrees to maintain a communications capability between its dispatch center and each VML sufficient to effect timely exchange of data and information between PTRA and designated operating offices of the Voting Member Lines. (Section 3.B.)	Tex Mex will provide the MP/SP, and regularly update, information about its expected train operations and schedules (including priorities, time commitments, horsepower per trailing ton, etc.) over the Joint Trackage, preferably using electronic data interchange. (Section 5.)

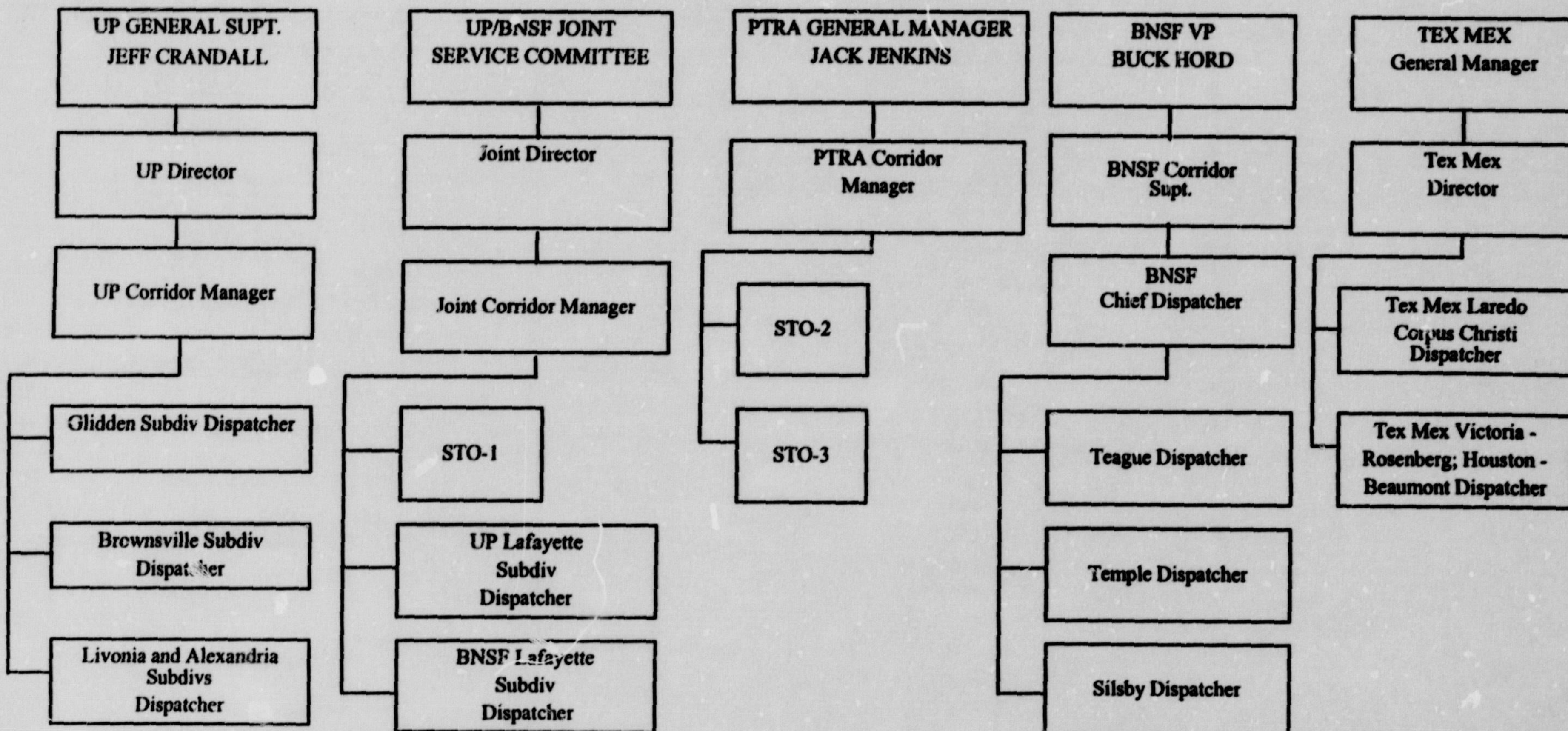
PTRA . . . shall provide a must answer, hotline telephone number to each of the Voting Member Lines that will enable immediate access to a director-level employee at PTRA's dispatching center. (Section 3.B.)	MP/SP will provide to Tex Mex, and keep current, lists of dispatching personnel responsible for dispatching the Joint Trackage and contact numbers. Tex Mex and MP/SP will designate more supervisory employees to serve as the day-to-day contacts for communications about operating changes, service requests and concerns. Where feasible and economical, dedicated phone lines or computer links will be established for these communications. (Section 9.)
Management	***Management***
The management and administration of dispatching operations is the responsibility of PTRA. (Section 5.)	It is understood that management and supervision of dispatching operations is the responsibility of MP/SP. (Section 10.)
Representation	***Representation***
The Dispatching Committee is established to insure that PTRA dispatches trains within the Greater Houston Terminal Areas in a fair, impartial and non-discriminatory manner. The Dispatching Committee will consist of a representative from each of the Voting Member Lines. Each representative will have a single vote. (Section 4.A.)	Appropriate officials of Tex Mex will be admitted at any time to dispatching facilities and personnel responsible for dispatching the Joint Trackage to review the handling of trains on the Joint Trackage (although both railroads will take reasonable steps to prevent disclosure of proprietary information not relevant to that review.) (Section 10.)
Dispute Resolution	***Dispute Resolution***
If any Voting Member Line believes that PTRA is not performing dispatching in a fair, impartial or non-discriminatory manner, that Voting Member Line can refer a complaint in writing to the Dispatching Committee, detailing the nature of its complaint. The Dispatching Committee shall conduct a meeting within fourteen days of receipt of the complaint to address its validity. If the Committee, by a simple majority vote of its members, find that PTRA was not abiding by or engaging in acts contrary to its commitment to perform dispatching in a non-discriminatory	The designated contact supervisors are expected to raise questions, disagreements, concerns or disputes about compliance with these protocols promptly as and when any such matters arise and to use their best efforts to resolve them. If a matter is not resolved to the satisfaction of both parties, it will be presented to the Joint Service Committee. If a satisfactory resolution cannot be achieved by the Joint Service Committee, the matter will be submitted to binding summary arbitration before a neutral experienced railroad operating official within fourteen days. The parties will

manner, the Committee shall direct PTRA immediately to effect improvements in dispatching to address the complaints or to desist from such contrary acts described in the complaint within fourteen days from the meeting of the Committee. If, at the end of the fourteen day period, the member that filed the complaint has not seen the situation improve satisfactorily or PTRA has failed to desist from such contrary acts, another meeting of the Commission shall be held within seven days. At this meeting, there shall be another vote by the Dispatching Committee. If a simple majority of the voting members finds that PTRA has not adequately addressed the complaint, the Committee can elect to work with PTRA to effect the necessary improvements or eliminate the contrary acts. If PTRA cannot or will not resolve the issue, by a majority vote, the Committee shall have the ability to direct PTRA to return the control of all dispatching over the lines within the Greater Houston Terminal Area, as herein defined, to another Neutral Dispatching Agent to be selected by unanimous agreement of the Voting Member Lines. (Section 4.B.)	agree in advance on the sanctions available to the arbitrator to address failures to comply with these protocols. (Section 13.)
Compensation	***Compensation***
As compensation to PTRA for its dispatching services hereunder the Voting Member Lines shall reimburse PTRA for its actual costs of performing such dispatching services, including suitable additives for management and administrative expenses. (Section 5.)	No compensation provision.

Length of Agreement	*Length of Agreement*
The Agreement shall be effective for an initial term of ninety-nine (99) years, unless earlier terminated by unanimous consent of the parties. The initial term may be extended by mutual consent of the parties. (Section 8.)	The Agreement is effective indefinitely. As the ultimate objective of these protocols is the equal, flexible and efficient handling of all trains of Tex Mex and MP/SP on the Joint Trackage, these protocols may be modified at any time by mutual agreement, consistent with that objective. (Section 14.)

Exhibit G

NEUTRAL DISPATCHING CENTER



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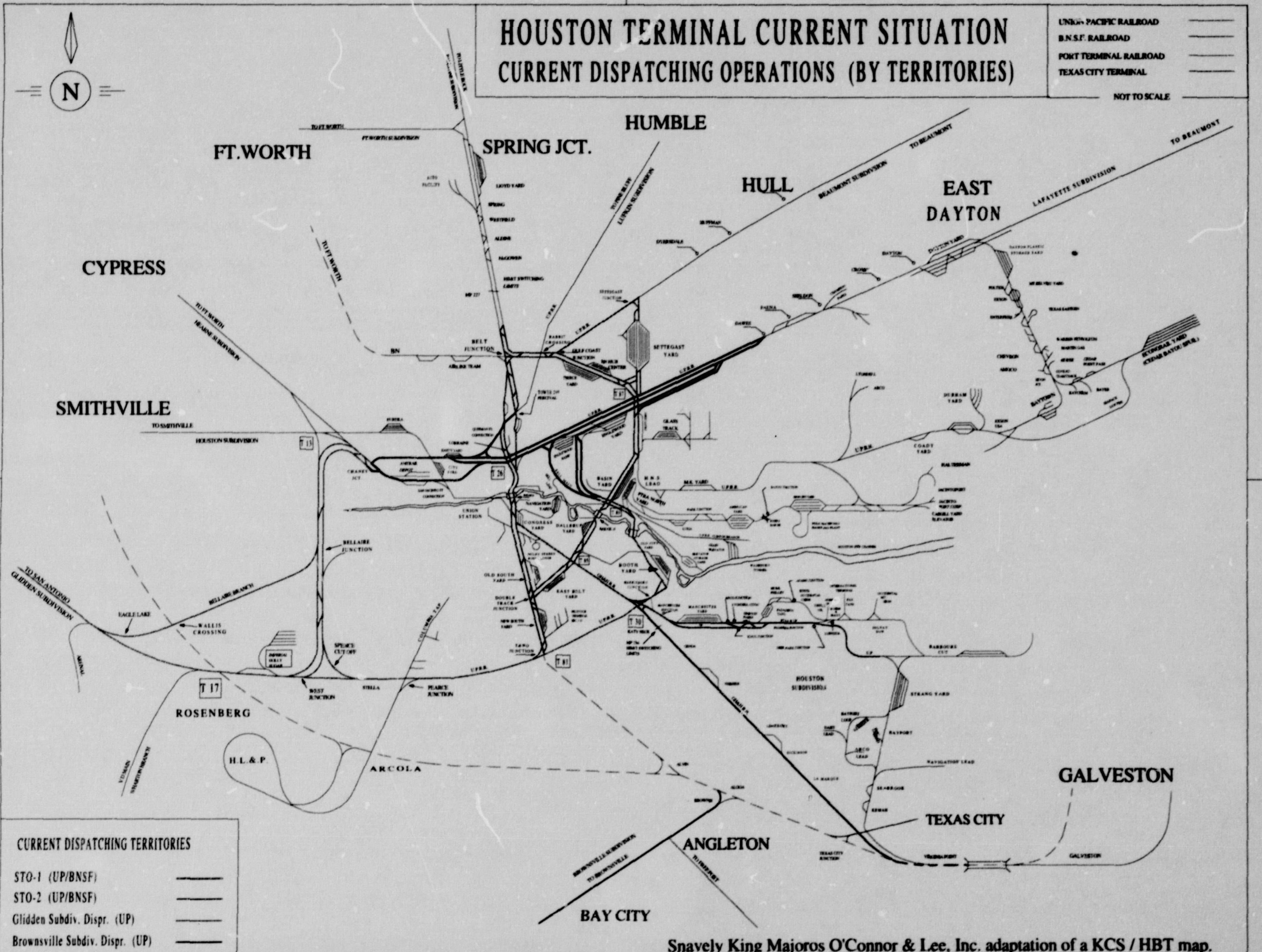
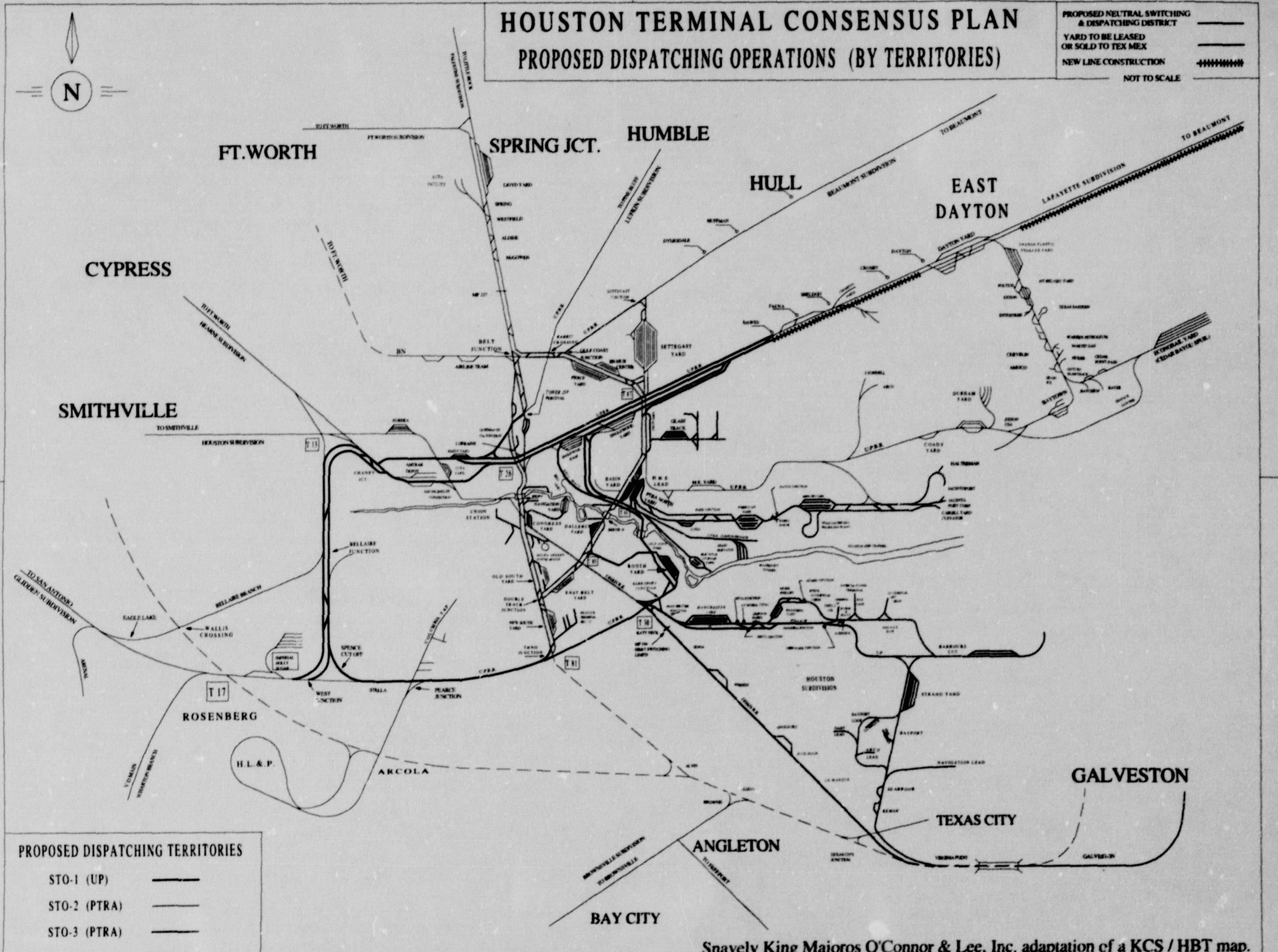


Snavely King Majoros O'Connor & Lee, Inc. adaptation of a KCS / HBT map.



Snavely King Majoros O'Connor & Lee, Inc. adaptation of a KCS / HBT map.

VERIFICATION

DISTRICT)
OF) ss.
COLUMBIA)

I, Patrick L. Watts, being first duly sworn, upon my oath state that I have read the foregoing statements and the contents thereof are true and correct as stated.

Patrick L. Watts

Subscribed and sworn to before me this 2nd day of July, 1998.

Notary Public

My Commission Expires: March 14, 2002

Georgia M. Dickens
Notary Public, District of Columbia
My Commission March 14, 2002

0011228.01

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760 (Sub No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

PAUL L. BROUSSARD

VERIFIED STATEMENT

OF

PAUL L. BROUSSARD

I. SUMMARY OF STATEMENT AND BACKGROUND

My name is Paul L. Broussard. I am the founder of Paul L. Broussard & Associates, Inc. ("PLB"), a transportation and logistics consulting firm with offices in Houston and Dallas, TX. I personally have over 27 years' involvement with rail operations in the Houston terminal area, first as a railroad operations officer with Missouri Pacific Railroad Co. ("MP") and Houston Belt & Terminal Railway Co. ("HBT"), and later as a consultant to shippers and carriers using and operating those facilities.

A. Summary Of Statement

This statement addresses Item 7 of the Consensus Plan, which says:

> "The STB should require the UP to sell or lease an existing yard in Houston to the Tex Mex at a reasonable rate. Booth Yard appears to be the most logical choice with the necessary capacity that Tex Mex needs to compete. If the parties cannot agree, the STB will arbitrate the terms and location of the yard. Tex Mex will sub-lease to UP a portion of Booth Yard to hold a maximum of 300 empty storage cars until such time that Tex Mex can complete construction of the line between Rosenberg and Victoria and such time when Tex Mex can build a storage yard between Rosenberg and El Campo. Upon completion of a storage yard, Tex Mex will lease to UP track space at the new storage yard to hold a maximum of 300 empty storage cars. Upon execution of such lease, Tex Mex will cancel its sub-lease to the UP of yard space at Booth Yard. Tex Mex will upgrade Booth Yard by reconstructing the south end of the yard."

Houston Terminal operations will benefit substantially if, when granting the Consensus Plan, the Surface Transportation Board ("STB" or "Board") authorizes the Texas Mexican Railway Co. ("Tex Mex") to acquire use of Union Pacific Railroad Company's ("UP's") Booth Yard and to have trackage rights over connecting terminal tracks. Those benefits include:

- moving Tex Mex's interchange point off the crowded East Belt of the former HBT, facilitating interchange and freeing up mainline trackage for movement of trains;

- creating an alternative means for Tex Mex to interchange with the Port Terminal Railroad Association ("PTRA") while reducing use of the East Belt;

- optimizing use of Booth Yard by allowing Tex Mex to make capacity improvements that will enable the yard to be used efficiently for switching and makeup of trains, rather than merely for storage of cars;

- connecting Tex Mex's route through Houston more directly to the line to be constructed from Rosenberg to Victoria;

- allowing blocking of cars, which improves transit time by reducing re-switching at other yards; and

- facilitating more efficient crew management by Tex Mex in Houston.

Alternatives to Booth Yard suggested by other parties would not serve these objectives or the overall operational efficiency of the Houston terminal as effectively as would Tex Mex's having use of Booth Yard.

B. Qualifications, Background And Experience Of Witness

I have in-depth knowledge of Houston rail terminal operations from over 27 years' of personal experience in railroad operations and transportation consulting.

I began my railroad career in 1966 with MP, a UP predecessor. At MP, I worked as a rail terminal operations officer in St. Louis, Little Rock and Memphis, before coming to Houston in 1970. In 1972, I left MP to work for the HBT. I worked for HBT for approximately six years, during which time I progressed from Manager - Terminal Planning to Assistant to the Vice President of Operations, and finally serving for three years as Assistant to the President and General Manager of HBT. I left HBT in 1978 to start PLB.

My first major project as an independent businessman was representing all rail carriers serving Houston[1] as their primary interface, or contact person, with local government. In that role, I acted as liaison between the Houston railroads and municipal authorities on innumerable issues from grade crossing problems to track construction. From this, I learned many of the details of rail operations in Houston. My consulting activities since that time have kept me abreast of changes in those rail operations to the present time. Today, in addition to consulting with rail carriers on operating issues, my company serves many shippers, including shippers in the Houston area, on matters ranging from freight bill auditing to logistics planning. Through these activities, I am particularly familiar with the rail shipping needs of Houston-area shippers and with the hardships imposed upon them by UP's mismanagement of its rail assets in the Houston area.

I hold a Bachelor of Business Administration degree in Transportation from the University of Houston, and I have been a registered Interstate Commerce Commission (now, Surface Transportation Board) practitioner since 1976. I am a certified member of the American Society of Transportation and Logistics; Regional Director for the National Association of Freight Transportation Consultants; and a former two-term Director of the Transportation Club of Houston. Additionally, I currently serve as a member of the advisory board to the University of Houston's Industrial Distribution Program in the College of Technology. My company is also a member of the National Industrial Transportation League, Inc., the Transportation Consumer Protection Council, the Energy Traffic Association and the Southwest Association of Rail Shippers.

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[1] Namely, Missouri Pacific Railroad Co.; Port Terminal Railway Association; Santa Fe Railway Co., and Southern Pacific Railroad Co.; Chicago Rock Island & Pacific Railroad; Fort Worth & Denver Railway Co.; Galveston Houston & Henderson Railway Co.; Houston Belt & Terminal Railway Co.; and Missouri-Kansas-Texas Railroad Co.

Throughout the last 27 years of my professional career, beginning with service to MP, then with HBT, and now with PLB, I have been involved continually with rail operations issues in the Houston area. From that work, I am very familiar with railroad operations in the Houston terminal area. Both from a professional point of view, and as a resident of Houston, I have kept up with the travails of UP's Houston area service beginning last summer.

II. WHY IT IS IMPORTANT FOR TEX MEX TO HAVE A YARD IN HOUSTON

Rail yards are essential to the movement of most rail freight. Although some freight movements, such as unit train coal shipments, proceed directly from origin to destination with little or no intermediate handling, most freight must be switched, classified, and blocked in a yard to be handled efficiently by the railroads. Yard facilities are needed to perform this essential function. No yard facilities are presently available to Tex Mex anywhere in the more than 300-mile stretch between Corpus Christi and Beaumont, TX. The lack of such facilities impairs Tex Mex's operating efficiency, makes Tex Mex a less effective competitor with the merged UP, and leads to additional congestion on the rail lines in Houston.

All rail carriers serving Houston, except Tex Mex, have yard space. The following is a list of the yards (shown on the map following the next page) that UP, The Burlington Northern and Santa Fe Railway Company ("BNSF") and the PTRA operate in the Houston area:

UP	PTRA	BNSF	Tex Mex
Settegast	PTRA North	Old South	NONE
Englewood	Passenger Deport Yard	New South	
Dallerup	American	East Belt	
Basin	Penn City	Hub Center	
Booth	Manchester		
Strang	Pasadena		
Eureka	Elevator Storage		
Hardy	Old City Yard		
City			
M.K.			
Mt. Belvieu			
Dayton Plastic Storage			
Coady			
Pierce			
Congress			
Glass Track			
Dayton			
Navigation			
Lloyd			
Durham			
Baytown			

As the foregoing list and map on the next page show, there are many rail yards in the Houston terminal area.[2] Three of the four railroads serving Houston each have several of those yards. The fourth railroad serving Houston - Tex Mex - has none.

Lack of access to yard space in Houston impairs Tex Mex's efficiency and competitiveness. Rail yards have two or three principal uses, but the most important one is switching, classification and blocking of cars. In simple terms, switching, classification and

2 In addition, BNSF operates a yard called Mykawa which is on BNSF's line between T&NO Junction and Algoa. There are additional yards at Texas City, on the Beaumont Subdivision and elsewhere in the Houston area.

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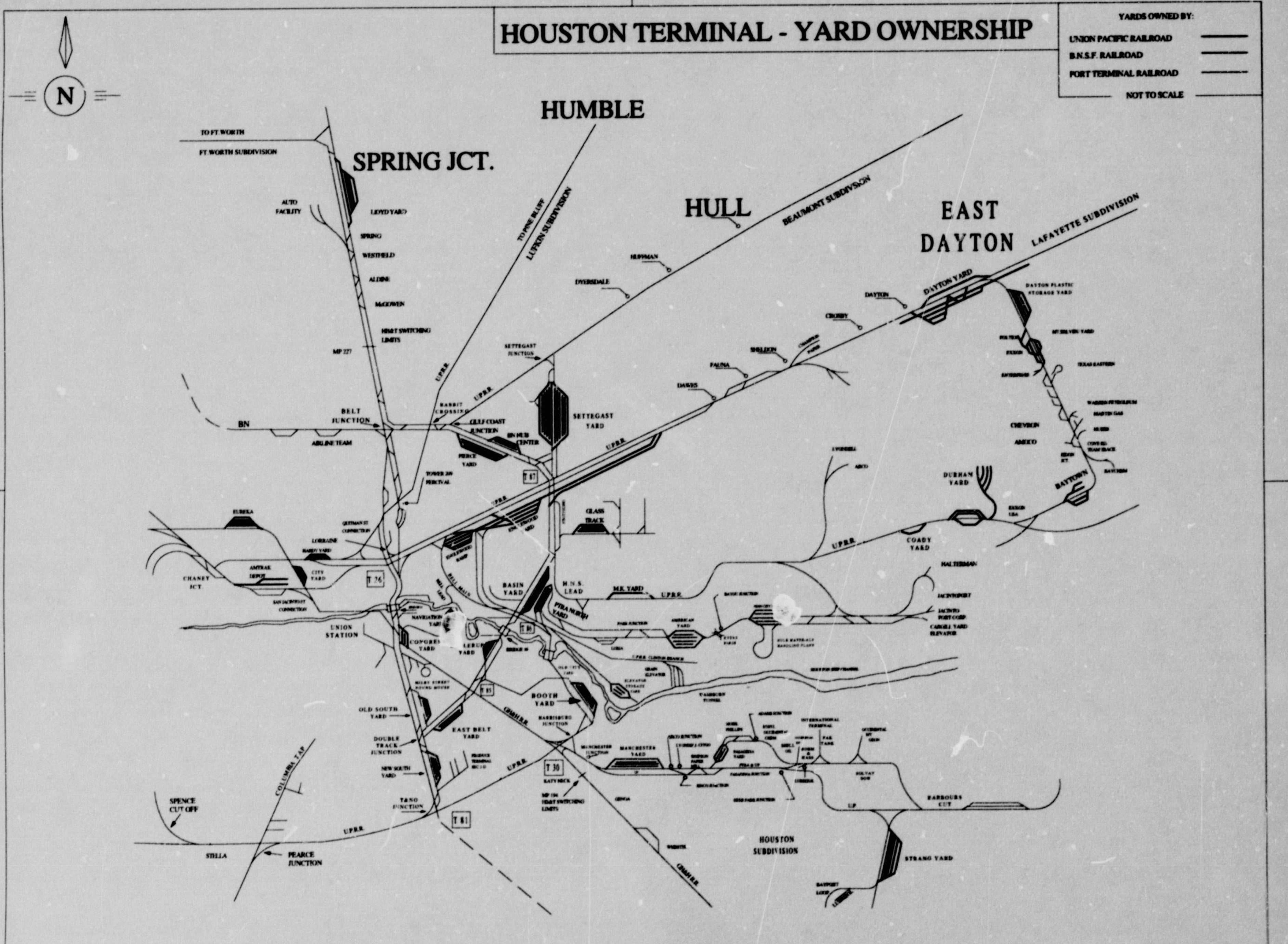

Snavely King Majoros O'Connor & Lee, Inc. adaptation of a KCS / HBT map.

blocking of cars means gathering cars into groups based on where they are destined and by what route they will be delivered to that destination.

Being able to switch, classify and block cars is important to a railroad's competitiveness. Classification and blocking of cars increases railroad efficiency and cuts operating costs. By allowing cars to be handled in groups rather than car-by-car at each terminal, classification and blocking reduce the amount of time that the railroad needs to move cars into the appropriate connecting train. That translates into faster transit times for shippers' goods and lower handling costs which enable the railroad to hold down its rates. Because switching, classification and blocking of cars reduces transit time and handling costs, it is essential to a railroad's ability to compete for traffic. Yard space is needed in order to perform these functions.

Yards also normally serve as the point of interchange between railroads. At present, Tex Mex sets out and picks up cars destined to or originated by Houston shippers at UP's Basin and Dallerup Yards, on the East Belt line of the former HBT, PTRA's North and Pasadena Yards, and BNSF's New South Yard. There have been times previously when Tex Mex trains that needed to set out or pick up cars in Houston have been denied access to the East Belt by UP's dispatchers who control that track, preventing Tex Mex from interchanging with other carriers and from effectively serving Houston area shippers. In order to avoid delays to its southbound through trains caused by interchanging on the East Belt, Tex Mex operates special trains running from Beaumont to Houston and back in order to serve Tex Mex's customers more reliably and efficiently, albeit at increased cost to Tex Mex. This would be entirely unnecessary if Tex Mex had Booth Yard for pickups, set outs and holding cars to add to trains bound in the appropriate direction.

Both Tex Mex and the other carriers serving the Houston Terminal are forced to operate less efficiently because Tex Mex cannot classify and block shipments received in Houston. Because Tex Mex does not have a yard in Houston and cannot use other carriers' yards to classify and block the cars, Tex Mex has to haul virtually all cars received in interchange at Houston about 80 miles to the closest yard facility available to it - Beaumont - for classification and blocking. Although after the Tex Mex/KCS March 30 filing in this matter UP directed PTRA to separate northbound cars being interchanged to Tex Mex from southbound cars, limits on Tex Mex's trackage rights in Houston, congestion on the East Belt, and the lack of a physical connection between the south end of PTRA's North Yard and the East Belt continue to prevent Tex Mex from being able to pick up the southbound blocks with southbound through trains. Quite simply, stopping a southbound through freight on the East Belt to set out or pull cars from North Yard would impede rail traffic and block too many road crossings to be permitted. Instead, Tex Mex is forced to pick up southbound loads with northbound trains and move then to Beaumont for assembly into southbound trains, then move them back in the opposite direction, through Houston and to destinations beyond. For example, Houston-originated cars bound for Mexico via Tex Mex have to be moved to Beaumont, classified, and then moved back through Houston toward Corpus Christi and beyond.

The inefficiencies caused by such operations are obvious. First and foremost, such operations result in unnecessary car movements over heavily congested lines as cars go back and forth through Houston. Second, the wasted movement increases transit time for these cars, resulting in cars being on UP lines longer than necessary in many instances. Third, such operations impose unnecessary time and mileage-based-car hire charges and duplicative trackage rights fees on Tex Mex for moving the cars unnecessarily on UP lines, and force Tex Mex to pay

KCS a switching fee for switching cars to southbound trains at Beaumont. Fourth, it results in wasted fuel for hauling cars unnecessarily. All told, Tex Mex's lack of a classification yard under its control in Houston causes Tex Mex, its customers and other users of south Texas rail lines substantial lost productivity.

III. BENEFITS OF TEX MEX OWNING BOOTH YARD[3]

If Tex Mex is ever to be able to compete efficiently with UP in south Texas, Tex Mex must control yard space in Houston. For a number of reasons, Booth Yard is the best yard available for this purpose.

A. Locational Advantages of Tex Mex Using Booth Yard

Booth Yard is currently UP-owned and is operated largely for railcar storage. The yard is located on what would generally be described as the southeast side of Houston. The location of Booth Yard is especially important to Tex Mex/KCS for three reasons - it is not on the East Belt; it provides efficient access to PTRA's North, Manchester and Pasadena Yards; and it connects directly with the Rosenberg-Victoria line.

First, Booth Yard is **not** located on the East Belt. The East Belt is generally the most congested section of the Houston terminal area. Indeed, the East Belt is so congested that UP's Houston dispatchers have previously denied Tex Mex trains authority to get on the East Belt, even when the trains needed to pick up or set out cars at Basin, Dallerup or PTRA North Yards. Unlike Basin and Dallerup Yards, where Tex Mex now picks up and sets out traffic, Booth Yard is located off the East Belt. After the Rosenberg - Victoria line construction is completed, Booth

[3] The Consensus Plan calls for Tex Mex to purchase or lease Booth Yard from UP, and to lease a portion of it back to UP temporarily. I continue to believe that allowing Tex Mex to purchase the yard would better encourage Tex Mex to invest in upgrading the yard on a continuing basis. Therefore, while this statement often uses terms such as "acquire" or "utilize," I believe it would be more productive for Tex Mex to be allowed buy Booth Yard. At a minimum, any lease should be for not less than 30 years.

Yard can be accessed from the south without traveling the East Belt. This would allow Tex Mex, if it operated Booth Yard, to avoid the southern junction of the East and West Belts at Double Track Junction, which is widely thought to be the most congested point in Houston. Also, accessing Booth Yard from the north trackage rights over the line running between the East Belt north of Tower 85 and Booth Yard would take a Tex Mex train over a portion of the East Belt, but would allow the train to exit the East Belt sooner, again allowing Tex Mex to avoid Double Track Junction. (The north trackage access to Booth Yard also would be necessary in the interim, until the Rosenberg-Victoria line was completed. However, Tex Mex has been advised that UP intends to remove that line in the near future. Removing that crucial connection would serve no purpose that I can see other than preventing Booth Yard from being as useful and flexible as Tex Mex would need it to be.) Thus, being able to use Booth Yard would reduce Tex Mex's travel on the East Belt, freeing some capacity on that line for other train movements.[4]

In addition, because Booth Yard is not on the East Belt, Tex Mex's being able to base its interchange with other Houston carriers at Booth Yard would reduce or eliminate delays to East Belt traffic that now result from Tex Mex having no alternative but to interchange at Dallerup, Basin and North Yards. Setting out cars at Dallerup, Basin and North Yards usually requires Tex Mex trains to block a main line of the East Belt during the interchange process. That blockage, of course, impedes other traffic. With the neutral switching proposed in the Consensus Plan, the ease of access between Booth Yard and PTRA's North, Manchester and Pasadena Yards would, as explained in the next paragraph, greatly facilitate interchange between PTRA and Tex Mex.

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[4] Making capacity available on the East Belt is of concern for all railroads serving Houston. For example, UP's May 1, 1998 infrastructure report to the Board in Ex Parte No. 573, states UP's desire to divert more traffic away from the East Belt to free up capacity for switching and for BNSF and Tex Mex through trains. Union Pacific's Report on Houston and Gulf Coast Infrastructure, Ex Parte No. 573/Service Order No. 1518 (May 1, 1998) ("UP infrastructure report") at 15.

Also, being able to use Booth Yard as a point of interchange with BNSF and UP or as a basing point for a switching operation that would handle blocks of cars between Tex Mex and its connections in Houston would make interchange more efficient and reduce blockage of the East Belt due to interchange. Thus, using Booth Yard would both reduce Tex Mex's travel on the East Belt and would create alternative means of interchange so Tex Mex is not forced to obstruct East Belt traffic with through trains while setting out or picking up cars for interchange at Basin, Dallerup and North Yards.

A second locational advantage of utilizing Booth Yard is the creation of new flexibility in interchanging with PTRA. Booth Yard is located adjacent to a yard facility of PTRA known as Old City Yard. That yard connects, via Bridge 5A across a bayou, to PTRA's North Yard, where Tex Mex and PTRA now interchange. If Tex Mex operated Booth Yard, it could connect directly to Old City Yard and from there to PTRA North Yard without traversing the East Belt to do so. Similarly, connections exist from Booth Yard to PTRA's Manchester and Pasadena Yards, where Tex Mex has the right to interchange and which the proposed operating plans designate as the principal outbound and inbound yards, respectively, for switching operations south of the Houston ship channel. Thus, not only would using Booth Yard remove Tex Mex's interchange point from the East Belt, it also would provide Tex Mex with convenient access to interchange with PTRA at points both north and south of the Houston ship channel. Again, anything that reduces usage of the East Belt will help alleviate traffic congestion in Houston. It also would facilitate Tex Mex interchange with PTRA at Manchester and Pasadena yards, saving approximately 48 hours off the current interchange time through the PTRA's North Yard.

The third important feature of Booth Yard's location is its accessibility to the rehabilitated Rosenberg-Victoria line. The south end of Booth Yard connects to UP's Glidden

Subdivision line that runs through Rosenberg to Flatonia and San Antonio. The Board granted Tex Mex trackage rights on the Houston-Rosenberg-Flatonia portion of that route in the UP/SP merger proceeding. Using those trackage rights and others, Tex Mex could, as indicated on the preceding map, avoid the East Belt altogether in entering or exiting Booth Yard from or to the Rosenberg-Victoria line, which Tex Mex/KCS seeks permission in this proceeding to acquire and reactivate.

B. Why Not Another Yard?

Attempts by UP and BNSF to propose alternatives to Tex Mex using Booth Yard have yielded no suggestion which would be remotely as effective as Tex Mex utilizing Booth Yard. In its May 1 infrastructure report, at page 19, UP suggested that Tex Mex should construct a set out and pick up track at Basin Yard, on the East Belt. The principal problem with this suggestion is the location – on the East Belt. As stated previously, if Tex Mex has to set out or pick up cars at Basin Yard, that activity often blocks traffic on the East Belt. Even UP's infrastructure report recognizes the need to remove some traffic from the East Belt. Forcing Tex Mex to continue interchanging at Basin Yard would sacrifice the locational benefits previously described of moving Tex Mex trains off the East Belt, particularly trains moving to and from Rosenberg, as well as the additional access to interchanging with the PTRA without occupying the East Belt that Booth Yard would afford. Finally, if the neutral switching portion of the Consensus Plan is adopted, the use of Basin Yard may change so that it would not be a suitable interchange point.

BNSF responded to Tex Mex's requests to use Booth Yard by agreeing that Tex Mex needs yard space in Houston and suggesting that Booth Yard is a workable facility from BNSF's point of view. However, recognizing UP's objections to Tex Mex's acquiring Booth Yard, BNSF suggested that perhaps Tex Mex should build a new yard south of Houston on BNSF's line between T&NO Junction and Algoa. There are a couple of problems with this suggestion. First, even if directional flow is maintained over the Algoa route as is presently the case under the Emergency Service Order, southbound Tex Mex trains would have to operate against the flow on that route to reach a Mykawa yard. This would contradict UP's and BNSF's general predisposition toward directional running. Access between such a yard and the Rosenberg-Victoria line also would be more circuitous than access between Rosenberg and Booth Yard. Also, because a Mykawa location would be somewhat removed from the hub of rail traffic in Houston, moving cars to and from a Mykawa yard thus would result in longer switching movements, more congestion on already crowded lines and more unnecessary miles. A Mykawa yard also would be outside the proposed neutral switching area, and thus would not allow effective interface with the neutral switching carrier. In short, neither a Basin Yard interchange nor building a yard at Mykawa would offer the efficiency available from Tex Mex utilizing Booth Yard.

IV. THE CONSENSUS PLAN PROPOSES IMPROVED UTILIZATION OF BOOTH YARD

Booth Yard today is underutilized and poorly configured. Tex Mex would remedy that underutilization and poor configuration, enabling Booth Yard to contribute more substantially to the smooth operation of the Houston terminal. By restoring connections of many Booth Yard tracks to the south yard lead track, Tex Mex would restore flexibility to the yard's operation. By using the yard for switching, classification and blocking of cars, Tex Mex would make the yard more useful to overall Houston Terminal area operations.

Until late last year, Booth Yard was leased to PTRA by HBT. Today the yard is operated by UP. UP took over Booth Yard last November as part of its publicly proclaimed disbanding of the HBT. It then canceled PTRA's lease of the yard. Knowledgeable sources have confirmed to me that PTRA paid $32,000 per month to lease Booth Yard (which included maintenance performed by HBT) from the HBT prior to the termination of that lease late last year.

The next page contains a drawing of Booth Yard taken from an August 1997 PTRA booklet. As can be seen from that drawing, Booth Yard has 17 tracks. Although all of the tracks connect to the North Booth Yard Lead track,[5] only four of the tracks connect to lead track on the south end of the yard.[6] That the remaining 13 tracks are stub-ended limits the usefulness of the tracks and of the yard as a whole because cars cannot be moved between most of the tracks from the south end, and because a train cannot be assembled for movement on most of the tracks to be pulled from the south end. It is my understanding that many of the current stub-ended tracks in Booth Yard previously connected at both ends, but those connections were removed within the past few years. The removal of those connections significantly limits the number of options that a carrier would have in using Booth Yard. Tex Mex is committed, if it is allowed to acquire Booth Yard from UP, to upgrading the capacity of the yard by reconnecting most of the presently stub-ended tracks at the south end to the Booth Yard south lead track.[7] That would increase the capacity of the yard by allowing the yard to be worked from either the north or the south, and

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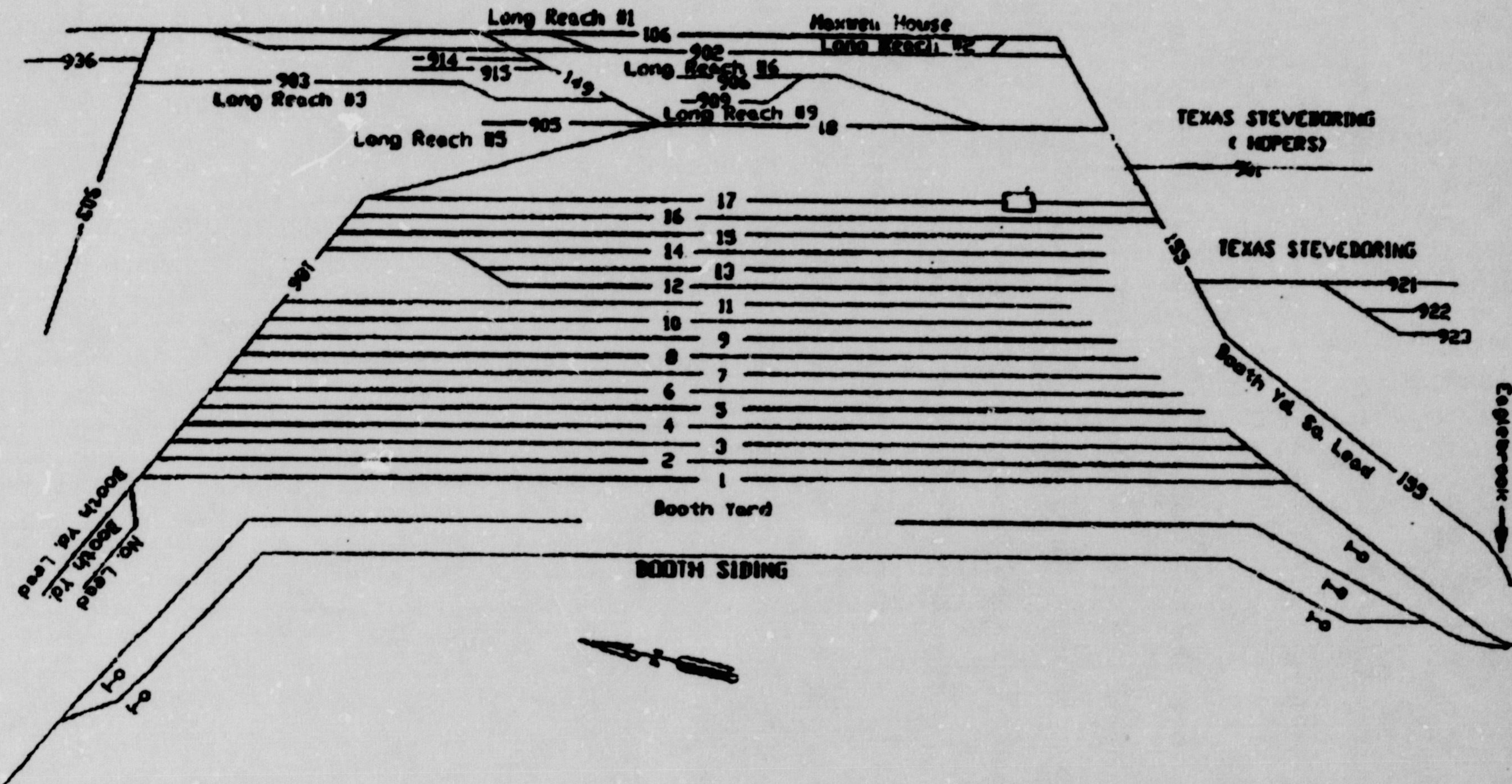
[5] My own March 20, 1998, inspection of the yard, however, showed that the tracks numbered 12 and 13 on the drawing connect directly to the track numbered 186, the north Booth Yard lead track.

[6] The drawing on the next page inaccurately reflects the Booth Yard South lead. The South lead currently only connects to tracks 1-4.

[7] Following the lead set in the Tex Mex/KCS March 30, 1998 filing in this matter, UP's infrastructure report also suggests restoring the track connections in the south end of Booth Yard.

PORT TERMINAL RAILROAD
SOUTH SHORE SUBDIVISION REV. AUG 1997
ZONE 21 PAGE 05



allowing blocks to be assembled on more tracks to be pulled south out of the yard. These planned improvements would significantly increase the utility of Booth Yard as an operating rail yard.

Booth Yard is underutilized today not only because of its configuration but also because it is used largely for car storage. Booth Yard is only a very small part of overall Houston yard space, and is not essential to UP for car storage. Attached to this statement as Exhibit 1 are copies of several pages taken from a November 1996 HBT handbook about HBT's Houston yards. The first page shows that the 17 tracks in Booth Yard together have the capacity to hold 456 sixty-five-foot railcars. The same page shows nearby Basin Yard with a capacity of 595 sixty-five-foot railcars. Other pages show Congress Yard with a capacity of 199 sixty-five-foot cars and Dallerup Yard with capacity of 81 sixty-five foot cars. Moreover, UP's weekly reports to the STB on the western rail service crisis list Englewood Yard as having a capacity to hold 8,535 sixty-foot cars, and list Settegast Yard as having a capacity of 3,675 sixty-foot cars. Booth Yard's 456 car capacity is a mere 3.3% of the capacity of just these 7 UP yards. UP has an additional 15 yards available to it in Houston. Clearly, Booth Yard is only a small fraction of the yard capacity available in the Houston area.

On February 27, 1998, UP's CEO Dick Davidson responded to a Tex Mex/KCS proposal for acquiring Booth Yard through purchase or lease. The UP response was as follows:

> **"Booth Yard**
> As you know, we are using every available track in the Houston area. Booth Yard provides us with badly-needed SIT and overflow capacity... In addition, your plan to use Booth Yard as a switching facility in Houston would be disruptive."

In its March 30 filing in this matter, Tex Mex criticized UP's use of Booth Yard for car storage as an inefficient use of crucial yard space in Houston. UP changed its story in the UP infrastructure report, asserting that it has based two industry switch jobs at Booth Yard, as well as using the yard to hold cars.[8] Even if UP now has begun to use Booth Yard more effectively, the principal use of the yard remains car storage.[9]

While storage of cars is an acceptable use of a rail yard in some circumstances, it is a terrible waste in a terminal like Houston that still is straining to move cars. On March 13, I attended a meeting of the Chemical Manufacturers Association, the Society of the Plastics Industry and the National Industrial Transportation League held in Arlington, VA. The purpose of the meeting was to explore options available for unlocking the rail congestion on UP's lines. There was general agreement among the participants at the meeting, including UP personnel, that options should be explored to remove stored cars from the immediate Houston environs to free up essential capacity for the movement of cars. The general agreement expressed at that meeting evidences the fact that storage of cars is a low priority use in a congested terminal like Houston. UP's use of Booth Yard for storage is, simply, a misuse of that space.

Booth Yard's capacity is also underutilized in terms of the number of cars for which the yard is used. Tex Mex personnel counted the cars present in Booth Yard each weekday from February 16 to March 10. On average, there were only 190 cars present in the yard each day during that period. Never did the number of cars exceed 266, which is only about half of the standing car capacity of the yard for sixty-five-foot cars. Two-thirds of the time there were less than 200 cars in the yard with a capacity of approximately 450 to 600 cars. Thus, Booth Yard is underutilized in the extent to which it is used. These facts show mismanagement of assets by UP

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[8] Nevertheless, UP's infrastructure report designates Booth Yard to receive the smallest expenditure of any UP yard listed, indicating that Booth Yard remains at the bottom of UP's priority scale.

[9] The Consensus Parties' proposal for neutral switching would effectively substitute for any local switching activity UP performs out of Booth Yard, and Tex Mex would station its own switching jobs at Booth Yard to handle switching at the yard.

which is hard to fathom considering the crisis into which UP has allowed the entire Houston area to slide.

C. Other Benefits

Purchasing Booth Yard from UP would enhance Tex Mex's operational efficiency in terms of crew usage. Due to congestion on UP's lines serving Houston, it is often the case that Tex Mex crews run out of their Federal Railroad Administration ("FRA") allotted 12 hours of on-duty time while waiting for clearance to proceed through Houston. If Tex Mex operated Booth Yard, it would have yard crews on duty there. Should a Tex Mex train "die" (the railroad slang for having a crew's FRA hours of service expire before a train reaches its intended destination or crew change point) in the Houston area, the switch crew could be available on short notice to move the train into Booth Yard, without the interruption that might occur due to normal procedures for calling road crews. Also, by enabling Tex Mex to operate a part of its route through Houston via Booth Yard, rather than through Double Track Junction, the potential for delay of Tex Mex trains, and the amount of costly yet unproductive crew time that Tex Mex would suffer, should be significantly reduced.

D. The Consensus Plan Solution

The Consensus Plan would remedy UP's misuse of Booth Yard by allowing Tex Mex to use part of the yard at first, and eventually the entire yard, for switching, classification and, if necessary, for interchange. This would eliminate the inefficiencies previously described that are caused to Tex Mex and to overall Houston operations by reducing Tex Mex's use of, and removing Tex Mex's interchange from, the East Belt. At the same time, it would accommodate UP's perceived desire for storage space by allowing UP to continue to use a major part of the yard for car storage until Tex Mex constructs an alternative facility at a suitable location between

Rosenberg and El Campo. When UP's car storage is moved to that location, which certainly is at least as usable a location as UP's yard at Spring, TX, where cars for shippers south of Houston on the Brownsville subdivision are now stored by UP, then Tex Mex will be able to use the remainder of Booth Yard also to further facilitate interchange and classification operations.

V. CONCLUSION

When the STB conditionally approved the UP/SP merger in the summer of 1996, it established a 5-year oversight condition to review the merger's effects on competition and to remedy competitive harms by, among other methods, ordering divestiture of portions of the merged properties. If Tex Mex is to become competitive with UP in south Texas as the Board envisioned when it issued the UP/SP merger decision, Tex Mex needs yard space in Houston. Booth Yard is the best choice of yard space available because it is presently underutilized and because its location is optimal for Tex Mex's needs. Its current configuration limits its usefulness and it is being used at significantly less than its capacity principally for storage rather than for switching, classification and blocking of cars. Booth Yard also is advantageous because of its direct connection to the proposed Tex Mex Rosenberg-Victoria line and because its location would allow Tex Mex to avoid some of the most heavily congested portions of the East Belt. Accordingly, Booth Yard is the best yard for Tex Mex to acquire and rehabilitate to optimize its potential.

EXHIBIT 1

EAST YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
1	3,919	70	60
2	3,900	70	60
3	4,130	82	63
4	4,020	80	62
5	3,980	70	60
6	3,700	74	56
7	3,630	72	56
8	3,340	66	51
9	2,370	47	36
10	2,180	43	33
11	2,050	40	30
12	[illegible]	44	32
Total	39,090	770	586

NORTH YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
660	2,940	59	45
661	2,760	55	42
662	2,605	52	40
663	2,425	48	37
664	2,088	41	32
665	1,975	38	30
666	1,735	34	26
667	1,630	32	25
668	1,530	30	23
669	1,200	23	18
670	1,089	21	16
671	1,260	25	19
672	1,168	23	17
673	1,500	30	23
674	1,365	27	21
675	1,060	37	20
676	928	18	14
Total	30,090	593 cars	456 cars

NEW SOUTH YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
1	4,250	65	65
2	4,150	63	63
3	3,990	79	61
4	3,830	76	58
5	3,635	73	56
6	3,475	69	53
7	3,300	66	50
8	3,110	62	47
9	2,949	58	45
10	3,375	67	51
11	2,350	47	36
12	1,970	39	30
13	3,545	70	54
14	3,400	68	52
15	3,250	65	50
16	3,175	63	48
17	2,960	59	45
18	2,810	56	43
19	2,660	53	40
20	2,590	51	39
21	2,365	47	36
22	2,225	44	34
23	2,080	41	32
24	1,930	38	29
25	1,780	35	27
26	1,640	32	25
27	1,490	29	22
28	1,420	28	21
29	1,110	22	17
Total	80,818	1,605 cars	1,229 cars

CONGRESS YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
7	1,985	39	30
8	2,403	30	31
9	1,367	27	21
13	2,700	36	36
14	2,050	37	28
15	1,630	32	25
16	1,490	29	22
17	1,690	33	26
18 M/W	1,690		
TOTAL	13,125	259	199

DALLER-UP TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
601	1,395	27	21
602	1,220	24	18
603	1,040	20	16
604	860	17	13
605	860	17	13
Total	5,365	105	81

CLASS YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
601	1,060	21	16
602	1,563	30	23
603	1,460	29	22
604	1,260	25	19
605	1,070	21	16
606	980	19	14
607	1,230	24	18
608	1,220	24	18
Total	9,793	193	146

PIERCE YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTH	50' CAR CAPACITY	65' CAR CAPACITY
611	5,877	117	90
612	5,608	113	87
613	5,465	109	84
614	5,390	103	79
615	4,920	98	75
616	4,686	93	72
617	4,482	89	68
618	4,166	83	64
619	3,811	77	59
Total	44,311	882 cars	678 cars

OLD SOUTH YARD TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
41	3,120	62	48
42	2,930	58	46
43	2,810	56	43
44	2,650	53	40
45	2,810	56	43
46	2,700	55	42
47	2,575	51	39
48	2,365	47	36
49	2,250	43	33
50	2,165	43	33
51	2,100	42	32
52	2,090	41	32
Total	30,335	607	465

EAST BELT TRACK LENGTHS AND CAR CAPACITY

TRACK NO.	CLEAR TRACK LENGTHS	50' CAR CAPACITY	65' CAR CAPACITY
601	2,880	57	44
602	2,740	54	42
603	2,700	54	41
Total	8,320	165	127

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF HARRIS)

I, Paul L. Broussard, 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.

Paul L. Broussard

Paul L. Broussard

Subscribed and sworn to before me this 6th day of July, 1998.

TAMELA S. KUBICEK
Notary Public, State of Texas
My Commission Expires 01-17-99
NOTARY PUBLIC STATE OF TEXAS

Tamela S. Kubicek

Notary Public

My Commission Expires: 1-17-99

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 32760 (Sub-No. 26)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS IN THE HOUSTON/GULF COAST AREA

VERIFIED STATEMENT

OF

DAVID W. BROOKINGS

VERIFIED STATEMENT

OF

DAVID W. BROOKINGS

My name is David W. Brookings and I am Vice President and Executive Representative of Kansas City Southern Lines, Inc., the immediate parent company of The Kansas City Southern Railway Company ("KCS"). My business address is 114 West 11th Street, Kansas City, Missouri 64105. In my capacity, I provide expert engineering consultation to the railroad subsidiaries of Kansas City Southern Lines, Inc. I have held my current position since September, 1996. Prior to being appointed to my current position, I served as KCS' Vice President and Chief Engineer. In all, I have been employed by KCS, and now its parent, in railroad engineering jobs for more than twenty-five years, starting as a Bridge Engineer in September, 1972, an Engineer of Track between 1985 and 1986, Chief Engineer from 1986 to 1992, and Vice President and Chief Engineer between 1992 and 1996. In these capacities, I have had significant experience with the design, layout, and construction of railroad lines and the rebuilding and rehabilitation of lines.

When KCS acquired the MidSouth railroads in 1993, I was responsible for the planning and implementation of a significant upgrading of MidSouth's line between Shreveport, Louisiana and Meridian, Mississippi to create a competitive rail link for traffic to and from the Southeastern United States. I also was involved in due diligence leading to the purchase by KCS's indirect parent, Kansas City Southern Industries, Inc. ("KCSI"), and its partner, Transportacion Maritima Mexicana ("TFM"), of the privatized Northeast Rail Line in Mexico. Since the acquisition of TFM's line, I have provided professional consultation with respect to rehabilitation and maintenance of way on its lines. All of this work has required my development of projected costs of construction and rehabilitation of rail lines, for both budgetary and financing purposes.

I graduated in 1972 from Louisiana Tech University with a Bachelor of Science Degree in Civil Engineering. I am registered as a Professional Engineer in the states of Missouri and Louisiana. My professional affiliations include the American Society of Civil Engineers and the American Railway Engineering and Maintenance-of-Way Association. I have submitted previous testimony, through verified statements, to the Interstate Commerce Commission in Finance Docket No. 32000, *Rio Grande Industries, Inc., et al. – Control – Southern Pacific Transportation Company* and Finance Docket No. 32167, *Kansas City Southern Industries, Inc., et al. – Control – MidSouth Corporation, et al.*, and to the Surface Transportation Board in Finance Docket No. 32760 (Sub-No. 21), *Union Pacific Corporation — Control and Merger — Southern Pacific Rail Corporation*.

This Verified Statement is offered in support of the "Request for Adoption of a Consensus Plan In Order to Resolve Service and Competitive Problems in the Houston/Gulf Coast Area" (CMA-2, SPI-2, RCT-2, TCC-2, TM-2, KCS-2, filed July 8, 1998, in Finance Docket No. 32760 (Sub-No. 26), hereafter referred to as the "Consensus Plan"). I understand that the Consensus Plan requests that the STB require UP to allow Tex Mex and KCS to construct a new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, Texas. Upon completion of this new rail line, Tex Mex and KCS will deed it to UP in exchange for a deed to the UP's Beaumont Subdivision between Settegast JCT, Houston and Langham Road, Beaumont.

Tex Mex will dispatch this line from Houston, and will grant BNSF and UP trackage rights over this line. Tex Mex will further retain trackage rights over the Lafayette Subdivision between Houston and Beaumont. In addition, it is my understanding that, as part of the Consensus Plan, Tex Mex would build a storage yard on the Rosenberg to Victoria line, somewhere between Rosenberg and El Campo.

My purpose in this Verified Statement is to set forth my expert estimate of (1) the cost of constructing a new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, Texas; (2) the depreciated value of UP's Beaumont Subdivision between Settegast JCT, Houston, and Langham Road, Beaumont; and (3) the cost of constructing a 300 car storage yard between Rosenberg and El Campo, Texas. I was asked to develop these estimates as evidence supporting the Consensus Plan.

(1) Preliminary estimate of the costs of constructing a new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, Texas.

The construction of the new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, Texas would be performed by railroad track contractor(s). The double-track will be constructed approximately 10 feet from the existing line. I anticipated that this rail line will be constructed to FRA Class 4 track standards to allow for 60 MPH freight train speeds. The track structure will consist of 63 miles of continuous welded rail on timber ties and crushed stone ballast. Approximately 600,000 tons of ballast will be required. The rail will be new 136-pound rail, welded with electric flash butt welds into quarter-mile strings and field welded together. The approximately 200,000 timber ties will be 7" x 9" x 9'-0" creosoted oak or hardwood ties spaced on 19-1/2" centers and the stone ballast will be graded between 1¾ " and ¾". Material for the subballast will be screened for particle sizes of ½" and under. Finally, I have included in my estimate the costs of grading, crossings and appropriate signage and/or grade crossing warning protection, and installing CTC signalization on the line.

The total estimated cost of construction of the new rail line on UP's right-of-way adjacent to UP's Lafayette Subdivision between Dawes and Langham Road, Beaumont, Texas is $57,590,000.00. Total construction time will be 15 months, depending on weather conditions. The line is estimated to be in service approximately a year and a half after construction begins. Once the track is in service, the maintenance and operation of the double-track will be more efficient and the annual operating expenses will be less for the two lines approximately 10 feet apart with crossover switches rather than two lines 10 miles apart, which is approximately the distance between the Beaumont and Lafayette Subdivisions.

(2) Estimate of the depreciated value of UP's Beaumont Subdivision between Settegast JCT, Houston , and Langham Road, Beaumont.

As preparation for my cost estimate, I physically inspected the line in question. In my inspection, I looked at the state of repair of the line including the road bed. I also looked at grade crossings to determine their likely need for replacement or repair. The weight of the rail currently in place ranges from 115 to 133 pounds. Slightly more than a third of the current line was laid in the early 1960's, while the rest of the line was laid in the mid-1980's.

The estimated depreciated value of UP's Beaumont Subdivision between Settegast JCT, Houston , and Langham Road, Beaumont is $61,070,000. This value takes into account the estimated fair market value of the existing grading, ties, rail, ballast, signals, bridges & culverts, switches and real estate. The replacement cost for only the land underlying the Beaumont Subdivision is $4,980,000. It is my understanding that the Consensus Plan intends that UP should retain their underlying interest in the real estate, comprising the right-of-way for the Beaumont Subdivision, including subsurface rights. Therefore, the estimated depreciated value of UP's Beaumont Subdivision, excluding land, between Settegast JCT, and Langham Road is $56,090,000.

3) Preliminary estimate of the costs of constructing a 300 car storage yard between Rosenberg and El Campo, Texas.

The construction of the 300 car storage yard between Rosenberg and El Campo, Texas would be performed by railroad track contractor(s). The proposed storage yard would be capable of holding 300 cars. My estimate assumes an average car length of sixty (60) feet, which translates into the construction of approximately five (5) tracks with clear lengths varying from 4200 feet to 3000 feet. In addition, my estimate includes the acquisition of approximately 15 acres of land needed within which to build the storage yard, as well as all clearing, grubbing, grading and trackwork costs. My estimate also includes the cost of panelized switches and lighting.

The total estimated cost of construction of the proposed storage yard between Rosenberg and El Campo, Texas is $3,100,000. Total construction time, depending on weather conditions, is 9 months and the storage yard would be in service within one year after construction begins.

VERIFICATION

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

I, David W. Brookings, 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.

David W. Brookings

David W. Brookings

Subscribed and sworn to before me this 3rd day of July, 1998.

Patricia A. Sexson

Notary Public

PATRICIA A SEXSON
NOTARY PUBLIC STATE OF MISSOURI
JACKSON COUNTY
MY COMMISSION EXP. OCT. 22,1998

My Commission Expires:

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB FINANCE DOCKET NO. 32760 (SUB-NO. 26)
UNION PACIFIC CORPORATION, *et. al.*
-- CONTROL AND MERGER --
SOUTHERN PACIFIC RAIL CORPORATION, *et. al.*

HOUSTON/GULF COAST OVERSIGHT

VERIFIED STATEMENT OF
H. THOMAS KORNEGAY
EXECUTIVE DIRECTOR
PORT OF HOUSTON AUTHORITY

My name is H. Thomas Kornegay. I am Executive Director of the Port of Houston Authority. My business address is P.O. Box 2752, Houston, Texas 77252.

The purpose of my statement is express the Port of Houston Authority's support for certain of the requests for additional conditions to UP/SP Merger requested jointly by Chemical Manufacturers Association, the Society of the Plastics Industry, the Texas Chemical Council, the Railroad Commission of Texas, the Kansas City Southern Railway Company, and the Texas Mexican Railway Company (Requesting Parties).

Summary

The Port Authority supports the Requesting Parties' requests for the following conditions, and presents its statements for support for each in the following sections of this statement:

- That the Board should make permanent the provisions of Emergency Service Order No. 1518 that: (a) temporarily suspended the restriction the Tex Mex's trackage rights could be used only for shipments having a prior or subsequent movement on Tex Mex; and (b) temporarily granted Tex Mex trackage rights over UP's "Algoa route" between Placedo, TX and Algoa, TX and over BNSF from Algoa to Alvin, TX and to T&NO Junction, TX. The Port Authority has no objection to the Board requiring Tex Mex to submit service performance reports on its operations under the Emergency Service Order, as requested by the Requesting Parties.

- That the Port Terminal Railroad Association (PTRA), or its successor organization if PTRA is dissolved, should provide neutral switching over the trackage formerly operated by the Houston Belt & Terminal Railroad (HB&T).
- That the neutral switching area in and around Houston be expanded to include shippers located on UP's line between the junction with PTRA immediately north of Bridge 5A to Morgan's Point on the south side of the Houston Ship Channel, including Harrisburg, Manchester, Sinco, Pasadena, Deer Park, Strang, La Porte, and Morgan's Point, with PTRA, or its successor, designated as the neutral switching operator. The Port Authority specifically does not support or endorse any change to the rail service provided to shippers located on the Bayport Loop or on UP's line at or south of Strang Yard.
- That neutral dispatching be performed by PTRA, or its successor, on the trackage formerly operated by HB&T and on the UP line between Bridge 5A and Morgan's Point described above in addition to the lines currently operated by PTRA.
- That Tex Mex be acknowledged as a full voting member of PTRA and that the Port Authority's voting status on the PTRA Board be restored.
- That a yard adequate to satisfy Tex Mex's switching needs in Houston be made available to Tex Mex at a reasonable price or lease rate.
- That the KCS proposal to construct an additional track between Houston and Beaumont, increasing rail capacity in that corridor and adding an additional carrier to the Houston market, be authorized by the Board.
- That the UP's Clinton Branch be controlled and operated by the PTRA, or its successor.

The Port of Houston Authority

The Port of Houston Authority is an autonomous governmental entity which owns the public facilities along the 50-mile Houston Ship Channel and is the Channel's official sponsor. The Port of Houston Authority owns 43 general cargo wharves, owns and operates the Barbours Cut Container Terminal, the Container Terminal at Galveston, and Houston Public Grain Elevator No. 2, which are available for public use. It also owns a bulk materials handling plant, a bagging and loading facility, a refrigerated facility, two liquid cargo wharves, and other facilities which are leased to private operators. The Port of Houston complex also includes numerous privately-owned terminals. The Port Authority also operates the Malcolm Baldridge Foreign Trade Zone.

The Port Authority's facilities handle approximately 15 percent of the approximately 150 million tons of cargo moving through the Port of Houston. The Port of Houston ranks first in the United States in total foreign water-borne commerce handled and second in total tonnage. It is the seventh busiest port in the world. Last year, the Port of Houston handled over 5,400 ships, 50,000 barges and 935,000 TEU's (twenty-foot equivalent units). The top export cargoes include petroleum and petroleum products, organic chemicals, cereals and cereal preparation, plastics in primary forms, and animal oils and fats.

The Port of Houston is home to a $15 billion petrochemical complex, the largest in the nation. The Port generates approximately 196,000 jobs and $5.5 billion in economic activity annually.

Emergency Service Order Provisions

Emergency Service Order No. 1518 temporarily suspended the restriction that the Tex Mex's trackage rights to Houston and Beaumont could be used only for shipments having a prior or subsequent movement on Tex Mex.

Suspending that restriction has provided an additional competitive choice to shippers located on the trackage operated by PTRA and on the trackage formerly operated by HB&T. In addition to UP and BNSF, shippers have been able to choose Tex Mex as their line-haul carrier for shipments to Beaumont and beyond. This has increased Houston-area shippers' routing choices and has made additional capacity available in the form of Kansas City Southern's lines for movements beyond Beaumont.

If the restriction on Tex Mex's trackage rights is reinstated, the additional capacity provided by KCS beyond Beaumont will not be available to shippers because neither UP nor BNSF will short-haul themselves by handing over traffic to KCS at Beaumont. Thus, both the competitive choices available to Houston-area shippers and the rail infrastructure available to handle Houston-area shipments will be reduced if the restriction on Tex Mex's trackage rights is reinstated.

The Port authority supports making the temporary suspension of Tex Mex's trackage rights restriction permanent.

Emergency Service Order No. 1518 also granted Tex Mex temporary trackage rights over UP's "Algoa route" and over BNSF from Algoa into Houston. These rights have facilitated directional running by UP, BNSF, and Tex Mex between Houston and Placedo, TX, improving the flow of trains into and out of the Houston terminal and contributing to the reduction in rail congestion in Houston. Operating northbound on the Algoa route and southbound on the Flatonia, TX to Placedo route has benefited shippers in Houston. The Port Authority supports making these overhead trackage rights permanent.

Neutral Switching on HB&T by PTRA

For at least 20 years, plans were developed to combine the operations of HB&T and PTRA. Both railroads performed a similar "belt railroad/neutral switching function" in geographic areas directly adjacent to one another.

For many recent years, Southern Pacific's objections kept the combination from being implemented. Southern Pacific was a member of PTRA, but was not an owner of HB&T. With the consummation of the UP/SP Merger, SP's concerns were no longer an issue because UP was both a member of PTRA and an owner of HB&T.

However, instead of finally seeing the combination become a reality, HB&T was dissolved by UP and BNSF, its owners. Today, UP and BNSF each switch a portion of the former HB&T

on a reciprocal switching basis and must exchange cars routed over the other railroad. Cars must also be switched by each railroad to Tex Mex on those shipments routed over Tex Mex. This is precisely the function PTRA performs for UP, BNSF, and Tex Mex. Having UP and BNSF make interchange runs between their respective yards just a few miles from PTRA's North Yard, where PTRA assembles cuts of cars destined for each railroad seems to make little sense.

PTRA could perform the same function with no duplication in interchange deliveries to the railroads. It appears that this change alone would reduce the number of interchange movements competing to use the congested trackage along the East Belt and the West Belt lines.

The Port Authority supports PTRA, or its successor organization should PTRA ever be dissolved, providing neutral switching services on the trackage formerly operated by HB&T.

Expansion of Neutral Switching Area

The Requesting Parties have called for an expansion of the neutral switching provided by PTRA over various lines in the Houston/Gulf Coast area. The Port Authority supports the expansion of PTRA's neutral switching over some, but not all of the lines recommended by the Requesting Parties.

In particular, the Port Authority supports expansion of area in which PTRA, or its successor if PTRA is ever dissolved, would provide neutral switching to include: (1) shippers located on UP's line between the junction with PTRA immediately north of Bridge 5A to Morgan's Point on the south side of the Houston Ship Channel, including Harrisburg, Manchester, Sinco, Pasadena, Deer Park, Strang, La Porte, and Morgan's Point, and (2) UP's Clinton Branch. This expanded area of neutral switching is in addition to the trackage currently operated by PTRA and the trackage formerly operated by HB&T.

In November 1995, the Port Authority and UP and SP entered into an agreement in which the Port Authority agreed to support the then-proposed UP/SP Merger and UP and SP agreed, among other provisions, to permit the Port Authority to build its own track on SP rights-of-way between Deer Park Junction and Barbours Cut and between Strang and the Port Authority's planned terminal at Bayport. Regarding the latter line, the Port Authority agreed:

that any attempt by PHA [Port Authority] to establish rail service to others springing from New Track 2 [Strang to Bayport] shall void all other rights granted herein including the right to operate over the right-of-way of Primary Applicants [UP and SP] and any operating rights which may be granted to PTRA or PHA by subsequent agreements whose purpose is to implement this letter agreement.

As a result, the Port Authority does not support or endorse any change to the rail service provided to shippers located on the Bayport Loop or on UP's line at or south of Strang Yard.

The following paragraphs discuss expansion of PTRA neutral switching operations on the line from Bridge 5A to Morgan's Point; the Clinton Branch is discussed in a separate section below.

The industrial complex located along the Houston Ship Channel is one of the primary economic engines for the Houston region. The Port of Houston and the economic activity associated with the Port generate over $5.5 billion of economic activity annually and generate over 196,000 jobs.

Assuring that this economic engine runs as efficiently as possible is important to the Houston economy. The operational delays inherent in having two railroads operate over the same trackage can be reduced by having one of those railroads perform the work in the area. Reducing the delays in operations along the south side of the Houston Ship Channel will translate into better service for the area's rail shippers, making them more competitive in their marketplaces and preserving or expanding the level of economic activity in the Houston area. Neutral switching will also offer competitive transportation choices to those shippers which do not have a choice of line-haul carrier today.

Neutral Dispatching Performed by PTRA

The Port Authority supports neutral dispatching of the trackage recommended for neutral switching.

Neutral dispatching is so important to the efficient operation of the Houston terminal area that the Port Authority supports neutral dispatching on this trackage whether or not neutral switching is implemented as recommended above.

In addition, the Port Authority strongly believes that the neutral dispatching function for this territory should be performed by PTRA, not by a joint operation of the line-haul railroads.

In the Houston terminal area, there is extensive joint trackage over which both UP and PTRA operate. All of this jointly-operated trackage is dispatched by the joint dispatching center in Spring, regardless of track ownership; the non-signalled segments (HL&P Lead to Barbours Cut and the HL&P Lead itself) are under the control of the UP yardmaster at Strang.

Although UP and BNSF are both members of PTRA, the dispatching that is performed by the joint dispatcher often delays PTRA movements. It was reported to the Port Authority that a PTRA train was delayed for 16 hours in a move from Manchester to North Yard, a distance of about 5 miles, while other trains in the area were given dispatching preference; this route is over Port Authority-owned tracks except for a short segment at Bridge 5A.

The Port Authority believes that joint dispatching of the Houston terminal by PTRA is the best way to assure non-preferential dispatching of trains. Despite the fact that PTRA handled 247,000 loaded cars between the plants along the Ship Channel and the line-haul railroads in 1997, PTRA is not a participant in the joint dispatching center at Spring, TX, and does not even have an observer at the joint dispatching center.

By its charter, PTRA is a neutral entity; employees of PTRA are more likely to make non-preferential dispatching decisions than are employees of one of the line haul carriers, even if the line-haul employee is supervised by a joint employee of the line-haul railroads. Having the dispatcher report to a joint employee reasonably assures that the dispatcher will not give preference to one line-haul carrier over the other, but it does not assure that the switching carrier's movements will be dispatched without disadvantage relative to the line-haul railroads' trains.

The Port Authority believes that only by having the dispatching performed by PTRA, or its successor organization in the event PTRA is ever dissolved, will dispatching in the Houston area be performed on a non-preferential basis. It is not necessary for the joint dispatching center at Spring to be controlled by PTRA, but only the dispatching territory known as STO-2, which controls the area in which PTRA operates.

Tex Mex Membership in PTRA; Port Authority Voting Status Restored

PTRA is an unincorporated association formed by a 1924 agreement between the Port Authority and the railroads operating in Houston. In that agreement, the Port Authority made its railroad property available and the railroads agreed to operate that property in a neutral, non-preferential manner to serve industries located along the Houston Ship Channel. For the first 50 years of the agreement, the Port Commissioners, who are unpaid appointees, also served as PTRA Board members. During this period, the Port Authority made all capital improvements and the Port Authority had the same number of votes as there were railroad members of PTRA, assuring a balance between the public and private interests served by PTRA.

In 1974, the Board was split into a Board of Investment and a Board of Operation, with the Port Authority maintaining a role in the Board of Investment, but not being involved in the day-to-day railroad operating decisions of the PTRA.

In 1984, the parties reached an agreement under which the railroads would make future capital improvements on PTRA and the basis of the railroads' payment for use of the Port Authority's property was changed from an interest rental basis to a flat monthly fee; the Board of Investment was abolished and the Port Authority was made a non-voting member of the surviving Board of Operation.

Because of its non-voting status, the Port Authority has not been able to provide the needed balance between the public and private interests served by its railroad assets. Restoring the Port Authority's vote on the PTRA Board would assure that the public interests would also be effectively served by the operations conducted on the publicly-owned rail infrastructure adjacent to the Houston Ship Channel.

The 1924 PTRA agreement also clearly states that all railroads entering the City of Houston are members of PTRA. Tex Mex gained access to Houston under the terms of Decision No. 44 in this proceeding; Tex Mex should be a member of PTRA.

Tex Mex Yard in Houston

In Decision No. 44 in this proceeding, the Board granted the rights requested by Tex Mex in the Sub-No.14 Terminal Trackage Rights filing by Tex Mex. In the Sub-No. 14 application, Tex Mex had requested access to HB&T's New South Yard. With the dissolution of HB&T, it is no longer operationally feasible for Tex Mex to have access to New South Yard, as BNSF utilizes that yard to support its switching operations in Houston related to the trackage rights lines granted to it in Decision No. 44.

The Port Authority supports Tex Mex's request that a yard be made available to it in Houston, at a reasonable price or lease rate, to facilitate its operations in Houston and on its trackage rights to Beaumont and to Robstown, TX.

Additional Track between Houston and Beaumont

The Port Authority supports the KCS proposal to construct an additional track between Houston and Beaumont, thereby increasing rail capacity in that corridor and adding an additional competitive railroad to the Houston market. The congestion which Houston has suffered in the last year has demonstrated that additional rail capacity in the Houston area would be beneficial to those industries which depend on the railroads to handle their outbound products and their inbound production materials.

In addition, the Port Authority continues to support greater competition in the Houston rail market. The industries which comprise the economic strength of Houston depend in large measure on the railroads to move their products to market. With greater competition in rail transportation, these industries are less likely to be at a competitive disadvantage in their more distant markets. The Port Authority believes that additional rail competition is beneficial to the Houston industrial community and to the economy of the Houston area.

For these reasons, the Port Authority supports the proposed increase in rail infrastructure and the addition of another line-haul railroad to the Houston market.

PTRA Operation of the Clinton Branch

The Port Authority has two facilities located on the Clinton Branch and served by UP. The first is Houston Public Grain Elevator No. 2 (Elevator). The Elevator, which is owned and operated by the Port Authority, has a capacity of 6 million bushels and its throughput is expected to exceed 40 million bushels in 1998. The second facility is Woodhouse Terminal (Woodhouse). Located adjacent to the Elevator, Woodhouse is owned by the Port Authority and is leased to a firm which operates the terminal, handling cargoes through the Woodhouse warehouses and loading and unloading ships.

Together, the Elevator and Woodhouse occupy 91 acres on the north side of the Houston Ship Channel. The complex has 1,200 feet of wharf on the Ship Channel and a 1,200-foot x 250-foot boat slip equipped to handle roll-on/roll-off cargoes in addition to break bulk cargoes. The combined facility also has 14 tracks for receiving railroad cars, each approximately 2,600 feet long.

The Port Authority supports Requesting Parties' recommendation that the Clinton Branch be controlled by PTRA or its successor organization if PTRA is dissolved. The Port Authority believes that PTRA operation would be beneficial because it would resolve operating deficiencies that the Port Authority has experienced on the Clinton Branch and would do so without changing the railroads' access to shippers on the branch because the shippers' locations are open to reciprocal switching today.

No Change in Competitive Access

Changing the operating responsibility for the Clinton Branch to PTRA will not change the current competitive access to shippers on the branch. The shippers located along the Clinton Branch, with the exception of UP's own automobile unloading facility, already are open to reciprocal switch, and thus have access to railroads other than UP. Tariff ICC SP 9500-D, issued by Southern Pacific Transportation Company on September 11, 1996 lists in Item 5090 the industries on the Clinton Branch (listed under station name Galena Park - 35070) which are open to reciprocal switch. These include American Plant Food Company, Arrow Terminal Company, Delta Steel Incorporated, Exxon Energy Chemical, GATX Terminal, Holnam Incorporated, City of Houston, Houston Public Grain Elevator No. 2, Stevedoring Service of America (at that time the lessee and operator of Woodhouse Terminal), Texaco Lubricants Company, and United States Gypsum Company.

Service to the Elevator

PTRA provides rail service to most of the industries located along the Houston Ship Channel. The exceptions are those industries located on the Clinton Branch, Exxon in Baytown, and three industries located on the HL&P Lead in La Porte.

PTRA provides effective, non-preferential service switching service to shippers along both sides of the Ship Channel, all of whom have access to BNSF, UP, or The Texas Mexican Railway for line-haul service, by virtue of PTRA's neutral switching status.

PTRA makes its operating decisions for the benefit of the Houston terminal area overall, and does not base its decisions on the operating preferences of any one line-haul railroad. This is precisely the type of service which is needed at the Elevator, but has not been provided in the past. An example occurred during UP's recent congestion problems, when UP stored cars for other customers on the Port Authority's tracks at the Elevator, which prevented the Elevator from receiving grain shipments consigned to it, despite the Port Authority's requests that UP remove the cars from its tracks.

Service to Woodhouse Terminal

Shipments destined to the Clinton Branch are handled in UP's Englewood Yard. In January 1997, the Port Authority was made aware of extensive delays in shipments destined to Woodhouse reaching Woodhouse once they had arrived in Houston on BNSF. Reviewing car movement records confirmed that cars were taking between 4 and 8 days to be moved from BNSF's Pearland Yard (near Houston's Hobby Airport) to Woodhouse, a distance of approximately 13 miles.

To resolve these delays, the Port Authority developed with the railroads an informal routing in which the cars for Woodhouse were delivered to PTRA, which switched them and placed them at a crossover switch connecting with the Clinton Branch. The UP switch crew then pulled the cars from the PTRA and delivered them to Woodhouse. In effect, this route substituted PTRA switching and transfer to the Clinton Branch for UP switching at Englewood and UP transfer to the Clinton Branch. The results were effective, with cars placed at the crossover the day after arrival in Houston and being delivered by UP either later that day or on the next day.

This example demonstrates the efficiency of using PTRA's North Yard, which is adjacent to the Clinton Branch, to handle traffic for the Clinton Branch rather than using UP's Englewood Yard, which is more distant.

The Port of Houston Authority supports the Requesting Parties recommendation that operation of the Clinton Branch be performed by PTRA. As described above, PTRA operation of the Clinton Branch could improve service to shippers located on the branch without changing the existing competitive access for shippers located on the branch.

VERIFICATION

My name is H. Thomas Kornegay. I am Executive Director of the Port of Houston Authority. I hereby declare under penalty of perjury that the facts in the foregoing statement are true and correct. I also certify that I am qualified and authorized to verify the facts set forth in this statement.

Executed on July 7th, 1998

H. Thomas Kornegay

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For Immediate Release Friday, June 12

THERE'S WORK TO DO ON THE RAILROAD

PARTNERSHIP BOARD PASSES FREIGHT RAIL RESOLUTION

HOUSTON, in response to the current rail service crisis experienced since the merger of Union Pacific and Southern Pacific railroads, the Greater Houston Partnership is calling for new initiatives to increase rail competition and improve service to the Port of Houston and Houston industry.

The resolution specifies six recommendations:

- investigate the effect of emergency trackage rights on performance improvement and competitiveness on the freight rail system in the Houston-Gulf Coast area and make permanent as appropriate;
- full voting membership on the Port Terminal Railroad Association Board for the Port of Houston and all long haul railroads serving Houston;
- a mechanism for all railroads serving Houston to buy trackage rights and access rights at an equitable price to provide greater competition for Houston area shippers;
- operation of a neutral dispatching, switching and car movement system undertaken by a single third party, most likely the PTRA;

-- more --

- encouragement of the Union Pacific to reach an agreement with long haul carriers to arrange the sale or lease of abandoned trackage and underutilized rights of way and switching yards to allow increased rail system competitiveness and capacity;
- a regional master plan of added facilities and operations needed to provide system capacity in excess of demand for the foreseeable future, as generated by the PTRA.

The freight rail service issues that continue to affect the local economy, Houston area commercial interests, and the Port of Houston are of great concern to the Partnership. This crisis has exposed a weakness in the manner in which the federal government addresses rail service and may lead to a restructuring of rail service statutes and regulations. Until those changes can be adequately addressed, Houston must seek incremental changes in rail service to help maintain a competitive Port and industrial sector.

While the Surface Transportation Board (STB) has issued several new proceedings under their merger oversight responsibility, the STB has taken no action beyond the extension of an emergency service order granting Texas Mexican Railroad temporary trackage rights. Several attempts have been made by the Union Pacific and shipper groups to identify appropriate actions to ease the immediate crisis. These measures have had limited success. Additionally, Union Pacific by order of the STB, has released a plan for infrastructure improvements in the Houston-Gulf Coast area.

-- more --

Due to concern over the level of rail service needed for a competitive Gulf Coast economy, and the degree of rail industry competition needed to achieve that goal, the Partnership is calling for federal action to assure a competitive cost advantage.

This proposal will be submitted to the Surface Transportation Board for their consideration during the upcoming proceeding related to Houston rail service resulting from the Union Pacific and Southern Pacific merger of 1996.

Editor's Note: A copy of the signed resolution is available on request.

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The Greater Houston Partnership, with its Chamber of Commerce, Economic Development and World Trade divisions, is the primary advocate of Houston's business community and is dedicated to building economic prosperity throughout the region.

Greater Houston Partnership **June 2, 1998**

Resolution of the Board of Directors
Competition in Houston Freight Rail Service

Statement of Position

The freight rail service issues affecting the local economy, Houston area commercial interests and the Port of Houston continue to be of great concern to the Greater Houston Partnership. This crisis has exposed a weakness in the manner with which the United States addresses rail service and may lead to a fundamental restructuring of rail service statutes and regulations. Until those changes can be adequately addressed, Houston must seek incremental changes in rail service to help secure a competitive Port and industrial sector.

Principles

The recommendations which follow are predicated on the following principles:

1. Houston's rail system performance must be "in the top tier of United States cities." To be in the top tier of cities, service and rates must also be truly competitive in order for the Port and local industry to compete domestically and internationally, and

2. It is preferable that the private sector rectify noncompetitive situations through equitable compensation, but we realize that federal statutes and regulations constitute a fundamental roadblock in some cases and should be modified.

Recommendations

1. The Surface Transportation Board (STB) should immediately investigate the effect of the emergency service trackage rights on improving the performance and competitiveness of the freight rail system in the Houston-Gulf Coast. If the data indicate that long term improvements in service have been achieved or can reasonably be expected to be achieved with the removal of remaining obstacles to the effective use of such trackage rights, the STB should provide a mechanism for the railroad(s) having temporary rights to buy permanent rights at an equitable price from the owning railroad.

2. The Port of Houston, owner of the Port Terminal Railroad Association (PTRA), and all long haul railroads serving Houston should be full and equal voting members of the PTRA Board.

3. The Surface Transportation Board should provide a mechanism for all railroads serving Houston to buy trackage rights and access rights at an equitable price to the following areas to provide greater competition for Houston area shippers:

   a) The trackage currently owned by the Port of Houston and operated by the PTRA;
   b) The trackage historically owned by the Houston Belt and Terminal prior to its dissolution; and
   c) Additional trackage as determined by the governing body of the neutral switch and shippers as allowed by financial considerations.

4. Operation of a neutral dispatching, switching, and car movement system should be undertaken by a single third party. The operator should be the reconstituted PTRA as previously described serving as the governing authority over the trackage accumulated as recommended in item 3.

5. The Union Pacific should be encouraged to reach an agreement with other long haul carriers to arrange the sale or lease of abandoned trackage and underutilized rights of way and switching yards which might allow shippers and the Port of Houston additional rail system competitiveness, capacity, flexibility and geographic access. The STB should mediate the negotiations of the parties involved.

6. The STB should order the reconstituted PTRA to develop a regional master plan of added facilities and operations needed to provide system capacity in excess of demand for the foreseeable future.

Background

Since the Partnership Board's March resolution on freight rail service, evidence has been mixed as to whether or not freight rail service has measurably improved. Data show key indicators of rail service are improving but remain well outside accepted standards.[i] Disturbingly, we note the unacceptable delays in rail shipment of aggregate which are causing severe hardships for a major portion of the region's economy. Beyond the immediate Houston area, the Union Pacific system still operates beyond its own "benchmarks" for service for trains held for power, crews and congestion and blocked sidings[ii].

These issues confirm the Partnership's March statement that "service disruptions may not be satisfactorily resolved among the participants in the best long term interests of the Houston area unless the Surface Transportation Board (STB) indicates an interest in acting swiftly and forcefully." Despite issuing several new proceedings under their merger oversight responsibility, the STB has not taken any actions beyond the extension of an emergency service order granting Texas Mexican Railroad temporary trackage rights. Without much success, several attempts have been made by the Union Pacific and shipper groups to jointly identify appropriate actions each could take to ease the immediate crisis.

Additionally, Union Pacific by order of the STB, has released a plan for infrastructure improvements in the Houston-Gulf Coast.

Many Houston shippers are now expressing a concern which seems related to the current service difficulties of the merged Union Pacific and Southern Pacific and the growing difficulty of shippers to obtain competitive service and rates. That concern is for the level of rail service needed for a competitive Gulf Coast economy and the degree of rail industry competition needed to achieve that goal. Railroad consolidation in Houston follows a national trend encouraged with antitrust immunity granted by the Staggers Act. The consolidation in Houston from six to two Class 1 railroads over the last several years has resulted in an 80 percent market dominance by one railroad. Additionally, deregulation and consolidation have left too many shippers captive to a single railroad. This combination of factors does not bode well for the competitiveness of individual shippers, the Port of Houston and the economy as a whole.

The movements of rail cars and trains in Houston from numerous railroads were facilitated at one time by a neutral dispatching and switching system. One system, the Houston Belt and Terminal, was dissolved in November, 1997. The other, the Port Terminal Railroad Association, with its routes and track owned by the Port of Houston, continues serving the Port and industries north and south of the Ship Channel.

We believe these issues are adversely affecting local shippers and the Houston economy. Unless some corrective action is taken at the federal level, in the long term, the cost of operating in a large portion of the Houston area may well become competitively disadvantageous.

/original signed/
Ansel L. Condray, Chairman

/original signed/
Jim C. Kollaer, President & CEO

/original signed/
Ned S. Holmes, Secretary

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[i] Union Pacific "Weekly Service Recovery Reports" and Accompanying Letters to the STB
[ii] ibid.

CMA-2 SPI-2
RCT-2 TCC-2
TM-2 KCS-2

BEFORE THE

SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 32760 (Sub-No. ~~26~~ 30)

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

HOUSTON/GULF COAST OVERSIGHT PROCEEDING

REQUEST FOR ADOPTION OF A CONSENSUS PLAN
IN ORDER TO RESOLVE SERVICE AND COMPETITIVE PROBLEMS
IN THE HOUSTON/GULF COAST AREA

VOLUME 2

EVIDENTIARY SUPPLEMENT OF CITED DOCUMENTS,
PLEADINGS, AND STUDIES

THE CHEMICAL MANUFACTURERS ASSOCIATION

THE SOCIETY OF THE PLASTICS INDUSTRY, INC.

THE RAILROAD COMMISSION OF TEXAS

THE TEXAS CHEMICAL COUNCIL

THE TEXAS MEXICAN RAILWAY COMPANY

THE KANSAS CITY SOUTHERN RAILWAY COMPANY

July 8, 1998

EVIDENTIARY SUPPLEMENT
OF CITED DOCUMENTS, PLEADINGS AND STUDIES

May 5 1982 Memo to R.K. Davidson from Wade W. Clutton Re: Houston Management

June, 1986 Profiles of 475 Local and Regional Railroads

April 1994 Wharton Area Branch Lines Valuation Prepared by Southern Pacific's Plant Rationalization

April 1, 1996 Terminal Railroad Association of St. Louis Annual Report to the STB

April 29, 1996 The Belt Railway Company of Chicago Annual Report to the STB

October 1, 1996 Finance Docket No. 32760 *Burlington Northern Railroad Company and the Atchison, Topeka and Santa Fe Railway Company's Progress Report and Operating Plan*

March 10, 1997 Glasser LegalWorks Seminar on Competition Policy in Communications Industries: New Antitrust Approaches

August 20, 1997 Finance Docket No. 32760 (Sub-No. 21) *Reply of the Burlington Northern and Santa Fe Railway Company to August 1 Comments*

October 1, 1997 Finance Docket No. 32760, *The Burlington Northern and Santa Fe Railway Company's Quarterly Progress Report,* BNSF-PR-5

October 3, 1997 *Gulf Coast Service Initiative Proposal*: Presented to Texas Railroad Commission, Hearing on Houston Rail Traffic

October 3, 1997 Surface Transportation Board Ex Parte No. 573 *Rail Service in the Western United States*, Testimony of Matthew K. Rose

October 20, 1997, *Joint Petition for Emergency Service Order: The Society of the Plastics Industry, Inc., The National Industrial Transportation League, The Chemical Manufacturers Association*

Verified Support Statement of Inland Paperboard and Packaging, Inc.
Letter from James Hall of Condea Vista Company to Chairwoman Linda Morgan of the Surface Transportation Board
Letter to Vernon A. Williams, from Jones-Hamilton Co.
Verified Statement of John G. Breslin of Witco Corporation
Verified Statement of Harry J. Ignatowski on Behalf of The Dow Chemical Company
Verified Statement of Charles N. Beinkampen of Global Logistics
Verified Statement of H. Edward Palmer of Eastman Chemical Company

Verified Statement of Russell L. Gottwald, Jr. of Ethyl Corporation
Verified Statement of Michael E. Petruccelli of PPG Industries, Inc.
Verified Statement of Michael Scherm of Solvay Polymers, Inc.
Letter to Vernon A. Williams from David Parkin of Huntsman Corporation
Verified Statement of Robert J. Theurer of Amoco Chemical Company
Verified Statement of Garret G. Smith of Mobil Oil Corporation
Verified Statement of John Laciak of Akzo Nobel Chemicals Inc.
Letter to Vernon A. Williams from Fred E. Watson of Phillips Petroleum Company
Verified Statement of Richard C. Walters of Air Products and Chemicals, Inc.
Verified Statement of Eric W. Tibbetts of Rail Center for Chevron Chemical Company
Verified Statement of John A. Noll of BASF Corporation
Letter to Vernon A. Williams from Carol Sitz of Ashland Chemical Company
Letter to Vernon A. Williams from Ronda A. Bynum of Allied Colloids Americas

October 24, 1997 *The Burlington Northern and Santa Fe Railway Company to Intervene in Support of the Joint Petition for Emergency Service Order*

October 27, 1997 STB Ex Parte 573 Hearing Transcript Before the Surface Transportation Board

October 30, 1997 Finance Docket 33407 *Petition for Emergency Cease and Desist Order and Complaint*

October 30, 1997 Finance Docket 33407 Verified Statement of Patrick L. Watts, *Petition for Emergency Cease and Desist Order and Complaint*

December 1, 1997 STB Ex Parte 573/Service Order 1518, *Supplemental Petition of the Railroad Commission of Texas*

December 1, 1997 *Summary of the Railroad Commission's Proposal for Alleviating the Union Pacific Service Crisis*

January 19, 1998 Article, "Clogged Tracks: Plan Offers Promise for Clearing Texas' Railway Backup" the Houston Chronicle

February 3, 1998 Verified Statement of Patrick L. Watts, Finance Docket No. 33461, 33462, 33463

February 4, 1998 *Proposal For Gulf Coast Service Improvement,* The Burlington Northern Santa Fe Railway Company

February 6, 1998 Letter to Richard K. Davidson (UP), from Robert D. Krebs (BNSF) Re: BNSF's Inability to Compete for Traffic in the Gulf Area

February 18, 1998 Letter to Vernon A. Williams from Arvid E. Roach Re: Establishment of the Joint Dispatching Center

March 3, 1998 Greater Houston Partnership Resolution of the Board of Directors to Resolve Houston's Current and Future Freight Rail Service Issues

March 13, 1998 Press Release: "Union Pacific, Burlington Northern Santa Fe Open Joint Dispatching Center"

March 16, 1998 Letter to Vernon A. Williams from J. Michael Hemmer and Arvid E. Roach II, Re: Twenty-Second Weekly Report of Service Recovery Efforts

May 1, 1998 Service Order No. 1518 *Joint Petition for Service Order: Union Pacific's Report on Houston and Gulf Coast Infrastructure*

May 14, 1998 Union Pacific SEC Form 10-Q

May 14, 1998 *UP's Responses and Objections to Kansas City Southern/ Tex Mex's Second Set of Discovery*, UP/SP-340

May 20, 1998 Letter to Patrick L. Small from John Atkisson Freedom of Information Services, in response to FOIA request.

May 29, 1998 Letter to Larry Fields, (Texas Mexican Railway Company) from Steve Barkeley (UP) Re: UP's Offer to Tex-Mex to Participate in Coordinated Dispatching
June 2, 1998 Greater Houston Partnership Resolution of the Board of Directors - Competition in Houston Freight Rail Service

June 10, 1998 Letter to William Mullins and Richard Allen from Arvid E. Roach Re: Dispatching Discrimination Against The Texas Mexican Railway Company

June 15, 1998 Ex Parte 628, *Comments of Chemical Lime Company: Expedited Relief For Service Inadequacies*

June 15, 1998 Ex Parte 628, *Comments of Cemex USA Management, Inc.*

June 15, 1998, Ex Parte 628, *Comments of the Western Coal Traffic League*

June 17, 1998 Letter to Arvid E. Roach from Richard Allen and William Mullins Re: Tex Mex's Role in the Joint Dispatching Center

June 17, 1998 Letter to Randy Speight (Chemical Manufacturers Association), from Peter J. Rickershauser (BNSF) Re: BNSF's Positions on Various Components of Coalition's Proposals for the July 8 Filing.

June 19, 1998 Letter to Richard Allen from Arvid E. Roach Re: Dispatching Discrimination Issue

July 1, 1998 *Union Pacific-Southern Pacific Second Annual Report of Merger and Condition Implementation*, UP/SP-344

July 1, 1998, Finance Docket No. 32760, *The Burlington Northern and Santa Fe Railway Company's Quarterly Progress Report*, BNSF-PR-8

MR R K DAVIDSON

YESTERDAY BOB KILGORE AND I WERE IN A MEETING IN HOUSTON CALLED BY BOB BARLEY REGARDING A COMPUTER EXPANSION PROPOSAL TO BE PRESENTED TO THE HBT BOARD AT THE MAY 12 MEETING.

THE PROPOSAL IS A THREE PHASE PROJECT TO BRING THE HBT - MOPAC COMPUTER INTERFACE UP TO THE STANDARDS THAT EXIST FOR THE BALANCE OF MOPAC POINTS.

SPECIFICALLY, PHASE ONE WILL UPGRADE THE REPORTINGS SO AS TO BE MORE INCLUSIVE AND TIMELY. THIS WILL BENEFIT THE INTERFACE BETWEEN THE ST LOUIS GENERAL OFFICE, CUSTOMERS, ETC. AND THE HBT OPERATION.

I THINK CAR CONTROL WILL BENEFIT CONSIDERABLY FROM BEING ABLE TO "SEE" CARS MORE CLEARLY ON HBT AND PTRA AND NO DOUBT WILL BE ABLE TO PLAN THEIR OPERATIONS MORE INTELLIGENTLY TO MINIMIZE SWITCHING, AND PER DIEM EXPENSES.

IN TERMS OF OPERATIONS CONTROL, THEY TOO WILL BE ABLE TO SEE EMPTY GRAIN TRAINS ON THE PTRA FASTER AND BETTER.

OF COURSE, ALL CONCERNED IN THE AREAS OF CAR TRACING WILL GREATLY BENEFIT. PRESENTLY CAR TRACING IN HOUSTON (BECAUSE OF THE COMPUTER INTERFACES) IS DIFFICULT AND USUALLY PRODUCES CONSIDERABLE MANUAL INTERVENTION. WITH THE CULMINATION OF PHASE 3 THIS WILL BE A THING OF THE PAST ON ROUTINE TRACING.

BETTER CAR LOCATION INFORMATION IN OUR SYSTEM WILL PERMIT BETTER CLM REPORTINGS - THE SP MAY BE ABLE TO DO A BETTER JOB ON HOUSTON CARS THAN MOPAC AT THE MOMENT. WHETHER THE SP IS EXPLOITING THIS OR NOT IS NOT KNOWN, BUT I HATE TO GIVE THEM ANY CHANCE TO GET A LEG UP ON THE MOPAC.

PHASE 2 WILL PROVIDE A CARDLESS INTERFACE WITH THE OWNING ROADS - ANOTHER WORDS THE HBT COMPUTER WILL AUTOMATICALLY COMMUNICATE WITH THE MOPAC COMPUTER.

THE INTERFACE TODAY IS TO HAVE ONE COMPUTER PUNCH CARDS TO BE READ INTO THE OTHER. THE ACTIVITY REQUIRES PEOPLE AND EQUIPMENT. THE CARDLESS INTERFACE MAY NOT RESULT IN A DIRECT FORCE REDUCTION, BUT ANY WORK REDUCTIONS ULTIMATELY TRANSLATE TO FEWER WARM BODIES. ADDITIONALLY IT WILL POSSIBLE TO ELIMINATE THE HIGH MAINTAINENCE CARD EQUIPMENT.

PHASE 3 WILL PERMIT THE MOPAC TO MAKE INQUIRIES DIRECTLY INTO THE HBT T. I. E. S. COMPUTER FOR SPECIFIC CAR AND TRACK INFORMATION. THIS IS THE SAME CAPABILITY THAT WE HAVE PRESENTLY WITH ALL THE Y. A. T. S. AND S. W. I. T. C. H. LOCATIONS.

THE PRESENT HBT-PTRA COMPUTER SYSTEM NEEDS HELP AND THAT TRANSLATES TO MORE COMPUTER CAPACITY. COMPUTER SYSTEM IMPROVEMENTS AND EXPLOITATION NEED MORE PROGRAMMERS AND ANALYSTS. AS FAR AS I AM CONCERNED THERE IS SIMPLY NO REALISTIC ALTERNATIVE BUT TO VOTE YES ON THE PROPOSAL.

FIRST, HOUSTON IS ONE LOCATION THAT IS STILL GROWING AND WE NEED TO DO ALL POSSIBLE TO TAKE ADVANTAGE OF THAT.

SECOND, IT IS PROBABLY THE ONE CITY ON OUR RAILROAD THAT IS TRULY A COMPETITIVE POINT AND TO THAT EXTENT WE NEED TO DO ALL POSSIBLE TO BUILD AND EXPLOIT OUR STRENGTHS THERE.

IT SEEMS TO ME THAT YOU HAVE CAREFULLY BUILT AN EXCELLENT MANAGEMENT TEAM ON THE HBT-PTRA AND HAVE DONE AND ARE DOING THE THINGS NECESSARY TO GIVE THE TEAM A FIRST CLASS PHYSICAL PLANT.

THE PERSONALITY OF THE HOUSTON MANAGEMENT TEAM WILL EXPLOIT THE COMPUTER TO REDUCE CAR DELAY, ENGINE ASSIGNMENTS, CLERICAL REQUIREMENTS AND TO FURTHER ESTABLISH A FIRST CLASS OPERATION.

AS INFORMATION, YOU WILL BE GLAD TO KNOW THAT DURING APRIL 1982 THE CAR VOLUME IN HOUSTON INCREASED 6% FROM A YEAR EARLIER, DETENTION DECREASED 48% DOWN TO 14.22 HOURS FROM 27 HOURS LAST YEAR AND 30 HOURS 2 ' AGO. I WOULD HAVE NEVER GUESSED SUCH A LOW DETENTION TO BE POSSIBLE AND DURING CONSTRUCTION IS EVEN MORE IMPRESSIVE.

WE NEED TO GIVE THE TEAM THE ADDITIONAL HELP TO KEEP UP THE IMPROVEMENT MOMENTUM AND THEREFORE I WOULD RECOMMEND A YES VOTE . ON THE COMPUTER EXPANSION PROPOSAL.

WADE W CLUTTON 2689
EOM

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$10

PROFILES OF 475 LOCAL and REGIONAL RAILROADS

Economics and Finance Department

Association of American Railroads

June 1986

BELT RAILWAY COMPANY OF CHICAGO
South Central Avenue
Chicago, IL 60638
(312) 496-4019

Year Started:	1882
Miles Of Road:	27
Employees:	916
Owner:	Class I RR

BELTON RAILROAD
P.O. Box 235
Belton, TX 76513
(817) 939-5011

Year Started:	1961
Miles Of Road:	6
Employees:	3
Owner:	Private

BERLIN MILLS RAILWAY
650 Main Street
Berlin, NH 03570
(603) 752-5570

Year Started:	1935
Miles Of Road:	13
Employees:	22
Owner:	Other Industry

BESSEMER & LAKE ERIE RAILROAD
P.O. Box 68
Monroeville, PA 15146
(412) 829-6782

Year Started:	1900
Miles Of Road:	429
Employees:	631
Owner:	Other Industry

BIRMINGHAM SOUTHERN RAILROAD
P.O. Box 68
Monroeville, PA 15146
(412) 829-6782

Year Started:	1899
Miles Of Road:	82
Employees:	242
Owner:	Other Industry

BLACK HILL CENTRAL RAILROAD

Hill City, SD 57745
(605) 574-2222

Year Started:	1957
Miles Of Road:	11
Employees:	28
Owner:	Private

BLACK RIVER & WESTERN RAILROAD
Box 200
Ringoes, NJ 08551
(201) 782-9600

Year Started:	1970
Miles Of Road:	20
Employees:	12
Owner:	Private

BLOOMER LINE, THE
P.O. Box 455
Chatsworth, IL 60921
(815) 635-3012

Year Started:	1985
Miles Of Road:	36
Employees:	4
Owner:	Other Industry

BLUE MOUNTAIN & READING RAILROAD
P.O. Box 307
Shoemakersville, PA 19555
(215) 562-5556

Year Started:	1983
Miles Of Road:	13
Employees:	2
Owner:	Private

BORDER PACIFIC RAILROAD
P.O. Drawer 156
Rio Grande City, TX 78582
(512) 487-5606

Year Started:	1984
Miles Of Road:	32
Employees:	5
Owner:	Private

STOCKTON TERMINAL & EASTERN RAILROAD
1330 N. Broadway Avenue
Stockton, CA 95205
(209) 466-7001

Year Started:	1959
Miles Of Road:	14
Employees:	23
Owner:	Private

STRASBURG RAILROAD
P.O. Box 96
Strasburg, PA 17579
(717) 687-7522

Year Started:	1832
Miles Of Road:	5
Employees:	12
Owner:	Private

STROUDS CREEK & MUDDLETY RAILROAD
100 East Main Street
Grafton, WV 26354
(304) 265-0334

Year Started:	1904
Miles Of Road:	21
Employees:	-
Owner:	Other Industry

SUNSET RAILWAY
P.O. Box 7931
114 Sansome St., Suite 1407
San Francisco, CA 94014
(415) 362-6687

Year Started:	1912
Miles Of Road:	37
Employees:	-
Owner:	Class I RR

TACOMA MUNICIPAL BELT LINE RAILROAD
P.O. Box 11007
Tacoma, WA 98411
(206) 922-6631

Year Started:	1914
Miles Of Road:	24
Employees:	40
Owner:	State/Local Govt

TENNESSEE RAILWAY
One Commercial Place
Third Floor
Norfolk, VA 23510
(804) 629-2810

Year Started:	1973
Miles Of Road:	45
Employees:	23
Owner:	Class I RR

TENNESSEE, ALABAMA & GEORGIA RAILWAY
P.O. Box 3609
Norfolk, VA 23514
(804) 629-2770

Year Started:	1937
Miles Of Road:	44
Employees:	4
Owner:	Class I RR

TENNKEN RAILROAD
1200 East Cherry St.
Dyersburg, TN 38024
(901) 286-2530

Year Started:	1983
Miles Of Road:	52
Employees:	11
Owner:	Private

TERMINAL RAILROAD ASSOCIATION OF ST. LOUIS
2016 Madison Ave.
Granite City, IL 62040
(618) 451-8300

Year Started:	1889
Miles Of Road:	253
Employees:	650
Owner:	Class I RR

TERMINAL RAILWAY ALABAMA STATE DOCKS
P.O. Box 1588
Mobile, AL 36633
(205) 690-6020

Year Started:	1928
Miles Of Road:	75
Employees:	160
Owner:	State/Local Govt

WHARTON AREA BRANCH LINES

Profile:

Stations:	Wharton El Campo	Wharton Victoria	Rosenberg El Campo	Rosenberg Victoria (Note 1)
Mileposts:	24.1 to 39.8	24.1 to 87.8	2.5 to 39.8	2.5 to 87.8
Distance:	14.7 Miles	63.7 Miles	37.3 Miles	98.8 Miles
Connection:	ATSF Wharton	ATSF Wharton SP Victoria	SP Rosenberg	SP Rosenberg ATSF Wharton ATSF New Gulf

Location: Northeastern Texas

Carloads: See Attached Traffic History Summery

Current Surcharge: $1,000/Car Between Wharton and Victoria

Rail: (Note 2)
113# Rosenberg to Wharton
90# Wharton to Victoria
132# Wharton Jct. to New Gulf

Track Value:	$ 246,000	$2,260,000	$1,335,600	$4,663,200
Property Value:	$1,400,000	$2,857,300	$2,137,000	$3,015,800
Acres Total:	182.6 Acres	773.3 Acres	476.0 Acres	1,191.3 Acres
Fee: (Clear Title)	159.9 Acres	213.2 Acres	210.1 Acres	352.2 Acres
Present Value:	$1,141,900	$5,117,300	$3,472,600	$9,679,000

Note 1 Includes: Wharton Branch-Rosenberg to Wharton, Wharton to El Campo, El Campo to Victoria for 85.3 Miles; and Placios Branch-Wharton Jct. to New Gulf for 13.5 Miles. Total 98.8 Miles.

Note 2 Some rail and ties recently removed between Wharton to Victioria.

Southern Pacific Lines
Plant Rationalization, Room 605

File: LBRIEF\Wharton\RSP.427

It is estimated that an average of 4 burden hours per responses are required to complete this collection of information. This estimate includes time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Comments concerning the accuracy of this burden estimate or suggestions for reducing this burden should be directed to both the Surface Transportation Board, Board Service Section, ATTN: FORMS - Room 2203, Washington, DC 20423-0001, and to the Office of Management and Budget, Office of Information and Regulatory Affairs. (OMB No. 3120-0111), Washington, DC 20503.

SURFACE TRANSPORTATION BOARD
OFFICE OF ECONOMIC AND ENVIRONMENTAL ANALYSIS
WASHINGTON DC

Approved by OMB
OMB-3120-0111
Expires 3/31/96

ANNUAL SURVEY FORM
FOR SWITCHING AND TERMINAL COMPANIES

DUE DATE: March 31, 1996

800015

ANNUAL REPORT TO THE SURFACE TRANSPORTATION BOARD

Attach address label here:	Carrier Name and Address (if different than shown on lable):
TERMINAL RR ASSN OF ST. LOUIS 700 NO SECOND ST ST. LOUIS, MO 63102	

Certification

I hereby certify that this report was prepared by me or under my supervision, that I have examined it, and that the items herein reported on the basis of my knowledge and belief are correctly shown.

R.W. PHELPS, DIR. ACCTG. & ASST. TREASURER
Name and Title

700 NO SECOND ST.
Street Address

ST. LOUIS, MO 63102
City, State, Zip

Telphone Number (314) 539-4744
(Area Code) (Telephone Number)

RW Phelps
Signature

3/27/96
Date

INTERSTATE COMMERCE COMMISSION
APR 1 11 14 AM '96
OFFICE OF ECONOMICS DIRECTOR'S OFFICE

ACAA-20 (revised 2/26/96)

14

Selected balance sheet items

Line No.	Item (a)	Respondent only: Balance at close of year (b)	Respondent only: Balance at beginning of year (c)
1.	Cash	$ 486	$ 551
2.	Temporary cash investment	9,230	5044
3.	Accounts receivable	3955	4475
4.	Materials and supplies	326	509
5.	Accounts payable	3787	5,148
6.	Taxes accrued	1,449	1,210

Selected results of operations

Line No.	Item (a)	Amount for current year (b)
7.	Total railway operating revenues	$ 31,411
	Joint facility revenues: 37323	
8.	Way and structures (credit)	5,196
9.	Equipment (credit)	716
10.	Total railway operating expenses 1	34,992
11.	Total way and structure operating expenses 2	6,016
12.	State income tax	325
13.	Other income tax	1,891
14.	Total depreciation expense	702
	Depreciation expenses:	
15.	Way and structures—total 3	533
16.	Equipment—total 4	169

Selected road and equipment property

Line No.	Item (a)	Credits for property retired during year (b)	Balance at close of year (c)	Accrued depreciation at at close of year (d)
17.	Engineering	XXXXXX	$ 5 835	$ 12 525
18.	Total expenditures—road	XXXXXX	6 55,580	13 18,108
19.	Total expenditures-equipment	XXXXXX	7 5,604	14 4,736
20.	Interest during construction	XXXXXX	8 2,142	XXXXXX
21.	Other expenditures-general	XXXXXX	9 332	XXXXXX
22.	Other elements of investment	XXXXXX	10 4,910	XXXXXX
23.	Construction work in progress	55	11	23,369
24.	Grand total	$	XXXXXX	

Operating statistics

Line No.	Item	
25.	Number of locomotive - unit miles in yard switching service freight 15	505,555

Line No.	Item	Number of car switched
26.	Number of cars switched by our company on our account	5,837
27.	Number of cars switched for each Class I line haul railroad. served	

Name of Railroad

130500	BN	81,357
155300	CNW/UP	6,317
113300	CR	46,741
125600	CSX	30,311
	GWW	5920
124100	IC	14,900
116000	NS	31,359
139800	SSW	30,594
134300	MP	35,778
		283,277
		-237
		283,517

ACAA-20

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SURFACE TRANSPORTATION BOARD
OFFICE OF ECONOMIC AND ENVIRONMENTAL ANALYSIS
WASHINGTON DC

Approved by OMB
OMB-3120-0111
Expires 3/31/96

ANNUAL SURVEY FORM
FOR SWITCHING AND TERMINAL COMPANIES

DUE DATE: March 31, 1996

RECEIVED
OFFICE OF ECONOMICS
DIRECTOR'S OFFICE
APR 29 10 35 AM '96
SURFACE TRANSPORTATION BOARD

ANNUAL REPORT TO THE SURFACE TRANSPORTATION BOARD

Attach address label here:	Carrier Name and Address (if different than shown on label):
The Belt Railway Company of Chicago 6900 South Central Avenue Bedford Park, IL 60638	

80002

Certification

I hereby certify that this report was prepared by me or under my supervision, that I have examined it, and that the items herein reported on the basis of my knowledge and belief are correctly shown.

Patrick J. O'Brien, Controller - The Belt Railway Company of Chicago

Name and Title

6900 South Central Avenue

Street Address

Bedford Park, Illinois 60638

City, State, Zip

Telphone Number (708) 496-4020

(Area Code) (Telephone Number)

[signature]

Signature

April 24, 1996

Date

ACAA-20 (revised 2/26/96)

Selected balance sheet items

Line No.	Item (a)	Respondent only: Balance at close of year (b)	Respondent only: Balance at beginning of year (c)
1	Cash	$ 10,303	$ 5,702
2	Temporary cash investment	14,412	9,322
3	Accounts receivable	1,914	1,647
4	Materials and supplies	6,251	4,297
5	Accounts payable	1,590	1,450
6	Taxes accrued		

Selected results of operations

Line No.	Item (a)	Amount for current year (b)
7	Total railway operating revenues	$ 59,716
	Joint facility revenues:	
8	Way and structures (credit)	44,325
9	Equipment (credit)	1 10,108
10	Total railway operating expenses	2 1,103
11	Total way and structure operating expenses	4,892
12	State income tax (Federal & Deferred)	2,757
13	Other income tax	
14	Total depreciation expense	Includes Leased 3 2,477
	Depreciation expenses:	
15	Way and structures—total	Includes Leased 4 280
16	Equipment—total	

Selected road and equipment property

Line No.	Item (a)	Credits for property retired during year (b)	Balance at close of year (c)	Accrued depreciation at close of year (d)
17	Engineering	XXXXXX	$ 5 588	$ 12 588
18	Total expenditures—road Includes Leased	XXXXXX	6 83,916	13 43,297
19	Total expenditures—equipment Includes Leased	XXXXXX	7 7,728	14 6,393
20	Interest during construction	XXXXXX	8	XXXXXX
21	Other expenditures—general	XXXXXX	9	XXXXXX
22	Other elements of investment	XXXXXX	10	XXXXXX
23	Construction work in progress		11	
24	Grand total	$	XXXXXX	

Operating statistics

Line No.	Item		
25.	Number of locomotive - unit miles in yard switching service (freight)	15 RATIO OF 1993	1,071,005

Line No.	Item		Number of cars switched
			76,408
26.	Number of cars switched by our company on our account		
27.	Number of cars switched for each Class I line haul railroad served		

Name of Railroad

Name of Railroad			Number of cars switched
BNSF	✓	130500	77,265
CPRS	✓		115,102
CR	✓	133500	109,383
CSXT	✓	125600	114,229
GTW/CN	✓	114700	106,262
UP	✓	139300	86,078
NS	✓	117000	51,212
			659533
			7[illegible]

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 32760

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

BURLINGTON NORTHERN RAILROAD COMPANY AND THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY'S PROGRESS REPORT AND OPERATING PLAN

Jeffrey R. Moreland
Richard E. Weicher
Janice G. Barber
Michael E. Roper
Sidney L. Strickland, Jr.

Burlington Northern
Railroad Company
3800 Continental Plaza
777 Main Street
Ft. Worth, Texas 76102-5384
(817) 333-7954

and

The Atchison, Topeka and Santa Fe
Railway Company
1700 East Golf Road
Schaumburg, Illinois 60173
(847) 995-6887

Erika Z. Jones
Adrian L. Steel, Jr.
Roy T. Englert, Jr.
Kathryn A. Kusske

Mayer, Brown & Platt
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 463-2000

Attorneys for Burlington Northern Railroad Company
and The Atchison, Topeka and Santa Fe Railway Company

October 1, 1996