HAND DELIVERY

The Honorable Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

RE: STB Finance Docket No. 33388, CSX CORPORATION AND CSX TRANSPORTATION INC. NORFOLK SOUTHERN CORPORATION AND NORFOLK SOUTHERN RAILWAY COMPANY--CONTROL AND OPERATING LEASES/AGREEMENTS--CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

Dear Secretary Williams:

Enclosed for filing please find the original and 25 copies of the Rebuttal of Ann Arbor Acquisition Corporation d/b/a Ann Arbor Railroad. Also enclosed is a 3.5 inch diskette containing the filing in WordPerfect 5.2.

Please time and date stamp the extra copy of the filing and return it with our messenger.

If you have any questions, please contact me.

Respectfully,

Karl Morell
Attorney for:
ANN ARBOR ACQUISITION CORPORATION
d/b/a ANN ARBOR RAILROAD

Enclosures
BEFORE THE
SURFACE TRANSPORTATION BOARD

STB FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--CONTROL AND OPERATING LEASES/AGREEMENTS--
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

STB FINANCE DOCKET NO. 33388 (SUB-NO. 78)

ANN ARBOR ACQUISITION CORPORATION D/B/A ANN ARBOR RAILROAD
--TRACKAGE RIGHTS--
NORFOLK SOUTHERN RAILWAY COMPANY

REBUTTAL OF
ANN ARBOR ACQUISITION CORPORATION D/B/A ANN ARBOR RAILROAD

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ANN ARBOR ACQUISITION CORPORATION D/B/A ANN ARBOR RAILROAD

Dated: January 14, 1998
Ann Arbor Acquisition Corporation, d/b/a Ann Arbor Railroad ("AA"), pursuant to Decision No. 12 in this proceeding and the Surface Transportation Board’s ("STB" or "Board") Railroad Consolidation Procedures at 49 C.F.R. Part 1180, hereby submits its rebuttal in support of AA’s Responsive Application.

INTRODUCTION

On June 23, 1997, CSX Corporation ("CSXC"), CSX Transportation, Inc. ("CSXT"), Norfolk Southern Corporation ("NSC"), Norfolk Southern Railway Company ("NSR"), Conrail
Inc. ("CRR"), and Consolidated Rail Corporation ("CRC")\(^1\) (collectively referred to as the
"Primary Applicants") filed their Railroad Control Application ("Control Application").\(^2\) On
October 31, 1997,\(^3\) AA filed its Responsive Application seeking trackage rights between Toledo,
Ohio and Chicago, Illinois over the rail line currently owned by CRC and to be acquired either
by CSXT.\(^4\)

On December 15, 1997, the Ohio Attorney General, the Ohio Rail Development
Commission, and the Public Utilities Commission of Ohio filed comments in support of AA's
Responsive Application.

**TRACKAGE RIGHTS REQUESTED BY AA**

In its Responsive Application, AA requested the Board to condition the approval of
Primary Transaction by granting AA trackage rights between Toledo and Chicago as follows:
Limited trackage rights between Toledo, Ohio and Chicago, Illinois via Elkhart, Indiana
over the CRC rail line to be acquired by NSR.

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\(^1\) CSXC and CSXT are referred to collectively as CSX. NSC and NSR are referred to collectively as NS. CRR and CRC are referred to collectively as Conrail.

\(^2\) In the Control Application, Primary Applicants seek Board approval for: (1) the acquisition by CSX and NS of control of Conrail; and (2) the division of the assets of Conrail by and between CSX and NS (hereinafter referred to as the "Primary Transaction").

\(^3\) AA's deadline for filing its Responsive Application was extended by the Board to October 31st in Decision No. 50.

\(^4\) AA's Responsive Application was accepted for consideration by the STB in Decision No. 54, served November 20, 1997.
AA also requested that the Board condition approval of the Primary Transaction by imposing a condition permitting AA to interchange traffic with CP Rail System ("CP") at Ann Arbor, Michigan.

**SUMMARY OF REBUTTAL EVIDENCE**

Mr. Erickson addresses Primary Applicants' seemingly inconsistent testimony concerning AA's projected revenue losses. With one exception, Mr. Erickson refutes Messrs. Meador's and Williams' criticism of AA's revenue losses and diversion analysis. In its Responsive Application, AA projected annual revenue losses of $3,350,000 as a result of the Primary Transaction. The projected revenue losses are comprised of two elements: (1) trackage rights fees of approximately $1.1 million paid annually to AA by NSR ($800,000) and Canadian National Railway Company ("CN") ($300,000) for operations over AA rail lines; and (2) annual revenue losses of $2,250,000 from traffic currently handled by AA that will be diverted to NSR and CSXT as a direct result of the Primary Transaction.

As explained by Mr. Erickson, Primary Applicants concede that AA will lose virtually all of the $800,000 fee paid by NSR for its current use of AA's rail line between Milan and Toledo, Ohio. While Mr. Meador claims that NSR will not terminate the agreement, he acknowledges that NSR will use those rights only for certain "niche traffic". Although he has no personal knowledge of the matter, Mr. Erickson does not dispute Primary Applicants contention that their settlement with CN will not permit CN to increase its use of the CRC line between Detroit and Toledo. If Primary Applicants are correct, AA will not lose the $300,000 trackage rights fee
from CN as a result of the Primary Transaction. Mr. Erickson, however, disputes Primary Applicants’ contention that the $412,000 investment made by AA to upgrade the Diann to Milan segment of its line is not attributable to NSR’s use of the line. Mr. Erickson explains that the trackage rights agreement requires AA to maintain that segment at FRA Class 2 Track conditions. Since AA has limited traffic moving over that segment, AA could meet its own needs at the lower Class 1 standard and, therefore, would not have made this substantial investment other than to meet its requirements under the trackage rights agreement. The $412,000 upgrade project -- which was not included in the overall $3,350,000 estimate because it is not an annual but a one time loss -- is directly attributable to NSR’s use of the AA line and constitutes an investment that AA will not be able to recoup.

Mr. Erickson dismisses Mr. Williams’ arguments that the Yuma sand traffic -- constituting approximately $500,000 in annual revenues to AA -- will not be diverted as a result of the Primary Transaction. Mr. Erickson explains that CSXT’s new joint-line route, although marginally more circuitous, would eliminate an interchange from the current three-line move in which AA participates. He points out that CSXT will also have a single-line move that is of comparable distance to AA’s current three-line haul. Consequently, Mr. Erickson concludes that the sand traffic will be diverted to CSXT as a direct result of the Primary Transaction.

Mr. Erickson disputes Primary Applicants’ contentions that AA’s loss of the automotive traffic from Milan -- which Messrs. Meador and Williams essentially do not contest -- is not attributable to the Primary Transaction. Mr. Erickson explains that NSR is gaining shorter and more competitive routings in the Detroit and Toledo area which will render AA’s current more
direct route noncompetitive. NSR originates all of the automotive traffic at Milan and with its more direct routes will no longer need AA’s services post-Transaction. Since NSR controls the origin and will gain significantly more direct routes, the alternative AA-CSXT or AA-CN joint-line routes are hardly going to be competitive with NSR’s less circuitous single-line routes.

Mr. Erickson explains that AA was recently successful in negotiating a multi-year agreement with Chrysler Corporation to perform switching services at Chrysler’s new facility in Toledo. Mr. Erickson notes that AA was successful in reaching this agreement because AA sold land to the City of Toledo which is providing that land to Chrysler and because AA was able to demonstrate to Chrysler that AA is currently competitive in Toledo. The recent agreement, however, does not diminish AA’s concerns over the Primary Transaction and adverse effect it will have on AA. AA’s recent agreement may simply have delayed some of the adverse effects, it did not, however, eliminate them. Once the agreement expires, NSR and CSXT, with their significantly increased market power in the Toledo area, can easily divert this traffic from AA.

Mr. Erickson also refutes the contention by Mr. Williams that AA has a competitive advantage in Toledo because its yard is located near one of the Chrysler plants. Mr. Erickson explains that all cars in Toledo are currently drayed and that the drayage costs to AA, CRC and CSXT yards are comparable.

Finally, Mr. Erickson demonstrates that the AA-CN and AA-CSXT routings from Toledo to Chicago are not competitive with the new direct route NSR will acquire. The CN route is about 225 miles longer and traverses high density areas. The CSXT route involves significant additional transit times and would not be acceptable for time-sensitive automotive traffic.
Respectfully submitted,

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Attorney for:
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D/B/A ANN ARBOR RAILROAD

Date: January 14, 1998
My name is Evert O. Erickson. I am President of Ann Arbor Railroad (AA). I previously submitted a verified statement, dated October 29, 1997, in support of AA’s Responsive Application in this proceeding. My qualifications are set forth in that statement. I am submitting this rebuttal verified statement in response to the verified statements of Frank B. Meador, III, and John H. Williams.

In my initial statement, I explained that AA’s financial survival is dependent on providing efficient and economical switching services for other carriers because all of AA’s traffic base consists of overhead or interline movements. At the time my initial statement was prepared, AA estimated that it would lose annual revenues of $3,350,000 as a result of the acquisition of Consolidated Rail Corporation (CRC) by CSX Transportation, Inc. (CSXT) and
Norfolk Southern Railway Company (NSR). AA derives approximately $1.1 million of these revenues from trackage rights fees paid to the AA by NSR and Canadian National Railway Company (CN). With the acquisition of CRC’s direct route between Detroit, Michigan and Toledo, Ohio, NSR will no longer need the AA route.

I demonstrated that AA will lose additional annual revenues of $2,250,000 from traffic that will be diverted by NSR and CSX. CSX will gain direct access to a receiver of sand traffic in Cleveland, Ohio and will be able to divert that traffic from the current three-carrier haul in which AA participates. I also pointed out that once NSR acquires CRC’s Toledo Automotive Terminal (Airline Yard) it will have no further need for AA’s switching services for NSR line-haul movements and will also be able to divert traffic AA currently switches to CRC. In addition, with the acquisition of CRC’s lines in the Detroit and Toledo area, NSR will no longer have any need to switch cars to AA at Milan for movement to Toledo.

The revenue losses demonstrated in my prior statement constitute approximately 47 percent of AA’s revenues. As I explained, the magnitude of these losses would have a devastating effect on AA and the customers it serves.

It is unclear from Applicants’ Rebuttal filing the extent to which they agree with AA’s diversion analysis. At one point they maintain that AA “will experience but a fraction of the diversions and revenue losses” estimated by AA. CSX/NS-176 at 338. Mr. Williams, however, claims that “none of the traffic will be diverted away from (AA)”. Williams RVS at 69. Mr. Meador, on the other hand, addresses AA’s diversion analysis but apparently reaches no definitive conclusion as to whether the traffic is subject to diversion by NSR or CSXT. Instead,
Mr. Meador maintains that some of AA’s claimed revenue losses “are actually public benefits of the Transaction...” Meador RVS at 1.

Mr. Williams’ contention that AA will suffer no revenue losses is based on his observation that AA “has established its commercial position in the marketplace due to several factors...” Williams RVS at 69. While I agree with Mr. Williams’ assessment of AA’s current position in the marketplace, he ignores the significantly enhanced market power NSR and CSXT will gain from their acquisition of CRC in the Detroit-Toledo area. They will acquire new facilities and shorter routings and gain direct and more efficient access to shippers in the area. NSR’s and CSXT’s enhanced market power will competitively disadvantage AA for certain traffic AA currently handles. While Mr. Meador may consider AA’s revenue losses as public benefits, AA considers them as harmful to AA’s financial viability and detrimental to the remaining shippers on the AA rail system that depend on our service.

Messrs. Meador and Williams do not dispute my prior assessment that AA will lose all, or virtually all, of the $800,000 annual trackage rights fee from NSR’s current use of AA’s rail line between Milan and Toledo. Mr. Meador acknowledges that NSR will acquire a CRC route that is shorter than NSR’s current trackage rights route over the AA. He contends that NSR does not intend to eliminate the trackage rights since the AA route provides NSR “potential opportunities...for some niche traffic...” Meador RVS at 6.

Applicants argue that the entire $412,000 investment made by AA to upgrade the Milan to Toledo line cannot be attributed to the NSR trackage rights because AA also operates over that line. CSX/NS-176 at 340. The AA trackage rights agreement with NSR requires AA to maintain the Diann to Milan segment (where the upgrades were made) at FRA Class 2 Track
conditions. AA made the upgrades to maintain the line at the Class 2 level solely for the benefit of NSR and pursuant to the requirements of the trackage rights agreement. Without the trackage rights agreement, AA would not have made the upgrades and instead would have allowed the line segment to degrade to a Class 1 standard. AA has limited operations over that segment, and its transit times would only be 20 minutes longer at the lower standard. Consequently, the $412,000 upgrade project is directly attributable to the NSR trackage rights agreement, and the expenditure was made solely for the benefit of NSR.

Mr. Meador states that Applicants have not entered into any settlement arrangement with CN that would permit CN to increase its use of the CRC line between Detroit and Toledo. Id. at 3. I have no personal knowledge of Applicants’ settlement agreement with CN other than what has been reported in the press. The Surface Transportation Board can easily confirm Mr. Meador’s representation. If Mr. Meador is correct -- and I have no reason to doubt his veracity -- then CN will most likely continue to use the trackage rights over the AA, and AA will not lose the $300,000 annual fee I previously estimated.

The AA currently participates in a three-carrier move of sand from Yuma, Michigan to Cleveland, Ohio. The traffic is originated by the Tuscola & Saginaw Bay Railway Company Inc. (TSBY), interchanged with AA at Ann Arbor, moved by AA to Toledo for interchange with CRC and delivered by CRC in Cleveland. In my prior statement, I explained that, since CSXT was gaining direct access to the shipper in Cleveland, this traffic would likely be diverted to a two-line TSBY-CSXT move. Mr. Williams states that he did not consider this traffic divertible to the NSR in his Diversion Study. He also claims that the diversion of this traffic cannot be attributed to Applicants’ transaction because NSR will merely step into CRC’s shoes. Williams
RVS at 70. Mr. Williams completely misses the point. AA is not claiming that the traffic will be diverted to NSR, and the fact that NSR is stepping into CRC’s shoes is irrelevant to AA’s diversion analysis. The traffic is divertible to a joint-line CSXT move because CSXT is gaining direct access to the receiver of the traffic in Cleveland and post-Transaction will be able to eliminate an interchange on the routing.

Mr. Williams erroneously contends that CSXT will not be successful in attracting this traffic because the joint TSBY-CSXT move would short-haul the TSBY. *Id.* at 70-71. TSBY’s route to CSXT is only about 28 miles shorter than to the AA connection. Therefore, there is no reason for the TSBY not to continue enjoying its current division with the routing over CSXT. Mr. Williams points out that the TSBY-CSXT route is 53 miles longer than the TSBY-AA-CRC route and, therefore, claims that the CSXT route would be disadvantaged. *Id.* at 71. He conveniently ignores, however, the extra interchange involved in the TSBY-AA-CRC route. Throughout their Control Application, Applicants extol the virtues and substantial benefits they expect to achieve by eliminating interchanges. Since AA’s Responsive Application was filed, I have learned that CSXT directly serves shippers of sand in western Michigan that can compete with the sand traffic originating at Yuma. The distance of CSXT’s route from western Michigan to Cleveland is comparable to the current three-line haul from Yuma. Surely, Applicants are not going to suggest that a three-carrier haul via the AA will be competitive with CSXT’s single-line haul over the same distance.

Mr. Williams claims that my prior statement and the documents we provided Applicants fail to establish the amount of revenues associated with my projected traffic losses at Milan. Williams RVS at 72. In response to Applicants’ discovery request, we provided complete data
for all AA traffic moving from Milan in 1995 and 1996, including the number of carloads handled and the revenues earned. See AA-HC-000880-883. Moreover, NSR originates all of this traffic and has full knowledge of the volume of traffic AA handles from Milan. Mr. Williams points out that the automotive facility at Milan is served directly by NSR and, therefore, concludes that any traffic diversions from AA are not related to Applicants’ transaction because NSR has no need for AA’s services at this time. Williams RVS at 796. With the acquisition of CRC, however, NSR will gain more direct routes and will no longer need the AA route.

Mr. Meador correctly states that AA has access to the Ford Motor Company facility at Milan via an NSR switch. Meador RVS at 7. In order to divert AA’s Milan traffic post-Transaction, NSR can unilaterally increase the switch charge to AA and render AA’s participation in this traffic uneconomical or otherwise operationally impede AA’s continued participation. Recognizing that NSR will no longer need AA’s services post-Transaction, Mr. Williams contends that AA can elect to jointly bid for the Milan traffic moving to Chicago with CSXT or CN. The routing over either of these carriers, however, is substantially more circuitous than over the direct CRC routes NSR will acquire. For example, the CN route is well over 200 miles longer than NSR’s post-Transaction direct single-line route. In any event, a three-carrier NSR-AA-CN or CSXT routing is hardly going to be competitive with NSR’s less circuitous single-line route.

Messrs. Williams and Meador essentially concede that AA will lose the automotive traffic moving from Milan to Louisville but contend that the loss is not related to Applicants’ acquisition of CRC. Williams RVS at 73; Meador RVS at 7. They fail to acknowledge,
however, NSR’s improved competitive routings in the Detroit and Toledo area and NSR’s increased incentive as a result of the Transaction not to be short-hauled.

In summary, AA will lose all of the traffic moving from Milan, a fact Applicants hardly contest. Contrary to Applicants’ assertions, the loss of this traffic is directly attributable to the CRC acquisition.

Messrs. Meador and Williams also discount AA’s projected diversions for automotive traffic originated in Toledo by AA and currently switches to CRC for linehauls to Chicago or NSR for linehauls to Winston Salem, North Carolina and Atlanta, Georgia. Messrs. Meador and Williams essentially contend that any diversion of this traffic would not be merger related. Meador RVS at 7-8; Williams RVS at 73-75.

Since my prior statement was prepared and shortly before Applicants filed their Rebuttal, AA was successful in negotiating a multi-year agreement with Chrysler Corporation to perform switching services at their new facility in Toledo. AA was successful in reaching this agreement for two major reasons. First, AA sold land adjacent to its yard to the City of Toledo which is providing that land to Chrysler as an enticement to keep Chrysler in Toledo. Second, we were able to demonstrate to Chrysler that AA is currently competitive with the other carriers in Toledo.

AA’s recent agreement with Chrysler does not diminish our concern over the acquisition of CRC by Applicants or the potential loss of Toledo traffic to NSR and CSXT. AA’s agreement with Chrysler may simply have delayed some of the adverse effects, it did not eliminate them. Once AA’s agreement expires, Chrysler’s Toledo traffic could easily be diverted to NSR or
CSXT given the significantly increased market power these carriers will enjoy in the Toledo area and their extensive single-line reach from this area.

The vast majority of this traffic will be switched by AA to either NSR or CSXT post-Transaction. Chrysler and AA will no longer have the luxury of utilizing CRC as a competitive constraint.

Mr. Williams incorrectly describes the handling of the Toledo automotive traffic by claiming that the use of AA’s switching service avoids draying costs. Williams RVS at 74. Currently all Chrysler automotive traffic is drayed to nearby rail yards. Mr. Williams ignores the fact that there are two Chrysler plants in Toledo and only one is adjacent to AA’s Ottawa Yard. The distance of draying cars from Chrysler’s nearby plant is about two miles to AA’s Ottawa Yard, the most direct drayage route to CRC’s Airline Yard is about three and one-half to four miles, and the drayage distance to CSXT’s Walbridge Yard is about 13 miles. Because of the short distances involved, the drayage costs to all three of these yards is comparable, and AA enjoys no competitive advantage from being located closer to one of Chrysler’s plants as Mr. Williams suggests. Mr. Williams also suggests that even though NSR will acquire the nearby CRC Airline Yard, AA could continue to compete with NSR single-line service by joining with CSXT. Id. at 75. Again, Mr. Williams loses sight of the competitive advantages of single-line service and Applicants’ extensive testimony on the benefits of such service.

I take strong exception to Mr. Meador’s contention that AA did not perform any traffic studies. Meador RVS at 7. AA did not hire a high-priced consultant to analyze its traffic base because it had no need to do so. Under my direction, employees of AA spent considerable time reviewing all traffic handled by the AA and analyzing the routings changes that will result from
the acquisition of CRC. After this was accomplished, we collectively reviewed movement by movement all of the traffic handled by the AA and made an assessment as to the divertibility of that traffic. In my prior statement, I set forth the results of our extensive analysis. AA has a limited traffic base and has a relatively short rail system. Our employees are intimately familiar with our traffic base and, in my view, are better able to assess the divertibility of AA’s traffic than a consultant that simply applies mechanical formulae to nationwide traffic patterns.

Mr. Meador contends that the routing choices between Toledo and Chicago will not be affected by Applicants’ transaction. Meador RVS at 2. While he acknowledges that NSR will acquire the CRC routes between Toledo and Chicago and between Ann Arbor and Chicago, he claims that AA will still have the ability to connect with CSXT and CN at Toledo. *Id.* While the CSXT and CN routings would still be available, neither is economically competitive with the routes NSR is acquiring. The CN route from Toledo to Chicago is about 225 miles longer than the CRC route between those two cities. Such a circuitous route through high density areas would not be competitive with the CRC routes NSR is acquiring. Interestingly, Mr. Meador considers the TSBY-CSXT route for sand to be highly circuitous, even though it is only 53 miles longer, but considers the CN route which is about 225 miles longer to be an acceptable alternative for AA.

Mr. Meador claims that the CSXT route from Toledo to Chicago is only about fifteen miles longer than the CRC route NSR is acquiring. *Id.* As pointed out in AA’s Responsive Application, CSXT would need to route AA traffic from Toledo south to Deschler, Galatea, or Fostoria, 37, 35 and 35 miles from Toledo, respectively, and then route it over CSXT’s main line to Chicago. The particular routing will most likely depend on the commodities involved. For
time-sensitive automotive traffic, the CSXT routings are at a distinct competitive disadvantage. AA’s Ottawa Yard in Toledo is one mile from Alexis Tower (to be acquired by NSR) and Alexis Tower is five miles from Airline Yard, which is on the CRC main line to Chicago (to be acquired by NSR). The transit time from AA’s Ottawa Yard to the CRC main line is about 30 minutes. On the other hand, AA’s Ottawa Yard is about 10 miles from CSXT’s Walbridge Yard. From the Walbridge Yard, CSXT would need to haul the traffic to Willard, Ohio, which will be CSXT’s new auto hub for east-west traffic, and from Willard on to Chicago. The rail line between AA’s Ottawa Yard and CSXT’s Walbridge Yard is highly congested and crosses the CRC main line at Vickers and NSR main line at Ironville. The transit times from Ottawa Yard to Walbridge Yard average from two to four hours. The transit times from Walbridge Yard to Willard will take an additional several hours. These additional transit times via the CSXT routing would not be acceptable for time-sensitive automotive traffic.

In conclusion, I would like to briefly address Mr. Meador’s description of our settlement negotiations with NSR. Meador RVS at 8-9. I have had a number of very cordial settlement discussions with NSR. As Mr. Meador suggests, we have discussed several marketing opportunities which would be mutually beneficial to AA and NSR. AA has not rejected NSR’s proposals, NSR has failed to make the proposals binding. NSR’s proposals essentially consist of offers to discuss certain specified matters after the CRC transaction is approved. AA has received no assurances that NSR will agree to any of these matters at a later date. I am hopeful that we can continue our negotiations and come to concrete and binding terms that will benefit both of our companies.
VERIFICATION

I, E.O. Erickson, verify under penalty of perjury that the foregoing Rebuttal Verified Statement is true and correct to the best of my knowledge and belief.

Executed on January 12, 1998
CERTIFICATE OF SERVICE

I hereby certify that on this 14th day of January, 1997, I caused a copy of the Rebuttal of Ann Arbor Acquisition Corporation d/b/a Ann Arbor Railroad (AA-7), to be served on counsel for Primary Applicants by Hand Delivery and on Administrative Law Judge Jacob Leventhal and all other Parties of Record by first class mail, postage prepaid.

Karl Morell
BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC., NORFOLK SOUTHERN CORPORATION AND NORFOLK SOUTHERN RAILWAY COMPANY -- CONTROL AND OPERATING LEASES/AGREEMENTS -- CONRAIL, INC. AND CONSOLIDATED RAIL CORPORATION

R. J. CORMAN RAILROAD COMPANY/WESTERN OHIO LINE -- FINANCE DOCKET NO. 33388 (SUB-NO. 63); -184832

INDIANA & OHIO RAILWAY COMPANY
FINANCE DOCKET NO. 33388 (SUB-NO. 77); -184833

ANN ARBOR ACQUISITION CORPORATION, D/B/A ANN ARBOR RAILROAD
FINANCE DOCKET NO. 33388 (SUB-NO. 78); -184836

WHEELING & LAKE ERIE RAILWAY COMPANY
FINANCE DOCKET NO. 33388 (SUB-NO. 80); -184837

OAG-8

COMMENTS OF THE OHIO ATTORNEY GENERAL, OHIO RAIL DEVELOPMENT COMMISSION AND PUBLIC UTILITIES COMMISSION OF OHIO TO THE RESPONDENT'S APPLICATIONS

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DATED: DECEMBER 15, 1997
BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY --
CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL, INC. AND CONSOLIDATED RAIL CORPORATION

R. J. CORMAN RAILROAD COMPANY/WESTERN OHIO LINE--
FINANCE DOCKET NO. 33388 (SUB-NO. 63);

INDIANA & OHIO RAILWAY COMPANY
FINANCE DOCKET NO. 33388 (SUB-NO. 77);

ANN ARBOR ACQUISITION CORPORATION, D/B/A
ANN ARBOR RAILROAD
FINANCE DOCKET NO. 33388 (SUB-NO. 78);

WHEELING & LAKE ERIE RAILWAY COMPANY
FINANCE DOCKET NO. 33388 (SUB-NO. 80)

OAG-8

COMMENTS OF THE OHIO ATTORNEY GENERAL,
OHIO RAIL DEVELOPMENT COMMISSION AND
PUBLIC UTILITIES COMMISSION OF OHIO
TO THE RESPONSIVE APPLICATIONS

In Decision No. 54 served November 20, 1997, the
Surface Transportation Board (Board) accepted for consideration
and consolidated for disposition with the primary application in
STB Docket No. 33388 (and embraced proceedings), responsive
applications filed by several parties including R.J. Corman
Railroad Company/Western Ohio Line (RJC) in STB Finance Docket
No. 33388 (Sub-No. 63); by Indiana & Ohio Railway Company (I&O) in STB Finance Docket No. 33388 (Sub-No. 77); Ann Arbor Acquisition Corporation d/b/a Ann Arbor Railroad (Ann Arbor) in STB Finance Docket No. 33388 (Sub-No. 78); and by Wheeling & Lake Erie Railway Company (W&LE) in STB Docket No. 33388 (Sub-No. 80).

The Board's November 20 decision provides that interested persons may participate by submitting written comments regarding any or all of the responsive filings accepted for consideration. The decision further provides that such comments must be submitted to the Board by December 15, 1997. In keeping with the Board's procedural schedule, the Ohio Attorney General (OAG), Ohio Rail Development Commission (ORDC) and the Public Utilities Commission of Ohio (PUCO) hereby submit these comments (responses) specifically regarding the responsive applications filed by RJC, I&O, Ann Arbor and W&LE.

INTERESTS OF THE OHIO AGENCY PARTIES

As previously stated, the Ohio Attorney General is charged with the duty of enforcing state and federal antitrust laws and through active participation in these proceedings, seeks to maintain and foster rail competition in Ohio and to preserve rail access for shippers and customers utilizing Ohio's rail transportation system. ORDC is participating by reason of its public interest responsibilities in the area of economic

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1 OAG, ORDC and PUCO previously entered an appearance and jointly filed opposition comments and request for protective conditions in response to the Primary Applicants' proposed Transaction. For convenience, the state agencies will hereafter be referred to as Ohio or State of Ohio.
development; branch line preservation; highway/rail safety and engineering projects; and, passenger and commuter rail line planning and development. PUCO is directly concerned because of its responsibility for ensuring that citizens of Ohio have access to safe and adequate rail service. Each of these agencies has responsibility to protect and foster the public interests of Ohio.

Through OAG, ORDC and PUCO, Ohio has previously stated its opposition to the proposed operation and control of Conrail (CR) lines by the Primary Applicants (CSX and NS) unless the Board adopts protective conditions and other measures to avoid results which would otherwise adversely impact upon Ohio shippers, its rail carriers and on its communities. Ohio now focuses its attention on responsive applications that have been filed by Ohio rail carriers.

STATEMENT

In a proceeding involving a proposed consolidation, merger or acquisition of control of two or more Class I railroads, the Board has broad authority to impose conditions governing the transaction including requiring the granting of trackage rights and access to other facilities. 49 U.S.C. § 11324(a) and 49 C.F.R. § 1180.1(c). Such conditions may be proposed to protect the interests of a competing carrier from the impacts of a transaction or to protect the public from anti-

2 Opposition Comments and Request for Protective Conditions, OAG-4 and 5 filed October 21, 1997.
competitive consequences. In both instances the key concern is
whether the transaction will result in a lessening of the
adequacy of transportation to the public. *CSX Corp.--Control--Chessie and Seaboard CII, 303 I.C.C. 521, 577 (1980).* Ohio
remains convinced that the transaction proposed by the Primary
Applicants will have anti-competitive ramifications and will
result in serious disruption in the adequacy of transportation
within the State of Ohio unless adequate remedial measures,
including appropriate grants of responsive applications, are
included in any grant of authority sought by the Primary
Applicants.

Based on its evaluation of the ramifications of the
primary application and information available at the time of its
October 21 filing, Ohio stated that it will support the Wheeling
& Lake Erie Company fully to the extent that the relief it
requests is designed to ensure an independent and viable W&LE
after consummation of the primary transaction. In regard to
short line railroads serving Ohio shippers, Ohio stated that it
supports appropriate remedial measures to cushion the Indiana &
Ohio Railroad from diversion of traffic which would otherwise
adversely impact upon its viability and its continued ability to
provide responsive rail service to Ohio shippers. Ohio also
declared its support for appropriate remedial measures to assure
that R.J. Corman Railroad will continue to have competitive
connections with Class I railroads. With acceptance of the
responsive application by the Board on November 20, Ohio is now
in a position to reaffirm and refine its previously stated support for W&LE, I&O and RJC. In addition, following review of the responsive application filed by Ann Arbor, Ohio now supports its request for remedial relief.

BACKGROUND

Acting on behalf of all of its constituents, Ohio has endeavored to evaluate the full range of ramifications of the transaction proposed by the Primary Applicants, both positive and negative. In so doing, Ohio has found that it faces numerous serious regional problems that will adversely affect essential transportation services in every corner of the state as demonstrated in the Responsive Applications filed by W&LE, I&O, RJC and Ann Arbor. Thus, Ohio must maintain its opposition to the transaction proposed by the Primary Applicants as previously stated in the October 21 filings (OAG-4 and 5).

OHIO'S INTEREST

For the years 1994-1996 Ohio has led the nation in the number of business expansions and new business locations State. Those accomplishments have been achieved on the basis of Ohio's existing transportation system. Thus, Ohio is very much concerned with any change that could adversely effect the fabric of that transportation system and its ability to competitively respond to the needs of Ohio's economy.

Conrail operates about 1,700 of Ohio's 5,800 rail route miles and is Ohio's largest railroad. CSX operates about 1,460

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rail miles in Ohio and NS operates about 960 rail miles in Ohio. Based upon Ohio's economic performance over the most recent 3 year period, it is clear that the State is doing well with the existing rail system.

However, the Responsive Applications supported here by the State of Ohio show that the proposed Primary Transaction would have serious adverse effects on Ohio's economy. W&LE, with 450 route miles in Ohio, faces bankruptcy. Should that occur, major Ohio rail users including steel, stone, plastic and coal companies would be confronted with disruptive uncertainties while their rail service languishes in the bankruptcy courts.

The I&O faces serious repercussions from the proposed Primary Transaction on its newly acquired Diann (Detroit) to Cincinnati rail lines, about 210 miles of which is in Ohio. The result of an I&O failure on this line could well mean that Ohio would be faced with over 120 miles of abandonments as well as diminished rail competition in the Detroit-Cincinnati corridor. In addition, a 30 mile long RJC branch line and the Ohio customers it serves face serious ramifications from the proposed Primary Transaction and possible future abandonment due to prospective loss of its existing access to competing Class I railroads.

As outlined in the responsive applications supported herein, the proposed Transaction threatens about 700 route miles or about 12 percent of Ohio's rail system with the prospect of

* OAG-4, V.S. George Stern at 17.
bankruptcy, loss of rail service or abandonments. Ohio is not seeking to harm CSX or NS by taking lucrative rail traffic away from them or by unfairly favoring the responsive applicants. Rather, Ohio views these responsive applicants as essential facilities which are necessary to maintain a network of competitive, efficient and integrated rail carriers throughout Ohio.

In order to remain a viable regional rail carrier, W&LE seeks access into Chicago so that it can effectively serve customers at its state-o-the-art Neomodal intermodal facility located at Navarre, Ohio. Since CSX and NS appear to not be interested in utilizing this Neomodal facility, we do not propose taking containers or trailers off of CSX or NS ramps in Cleveland or Columbus. Instead, an increase in traffic through this Neomodal facility could be accomplished by taking trucks off of the already congested Ohio highways and then shipping the freight to destinations, such as Chicago, who desire to obtain this rail freight. Further, access to Chicago that is access to the Wisconsin Central, Illinois Central, BNSF, and UPSP, is more likely to help W&LE develop new business not now being handled by rail rather than eliminate any significant bridge traffic which CSX or NS is now handling. Only about 10 to 15 percent of W&LE's current traffic base now originates or terminates on railroads other than Conrail, NS, or CSX.¹

¹ OAG-4; Voinovich letter, Ex. 4.
² OAG-4; V.S. George Stern, pp. 5, 16.
Similarly, granting I&O access to Washington Court House is a means to allow I&O to preserve traffic it now carries by providing it a route less impacted by delays and congestion caused by Class I carriers, especially in the Cincinnati area. As a final example, the RJC line from Lima to Glenmore is a struggling, stub end branchline which can generate only about 1,200 to 1,500 carloads of grain and fertilizer a year. Depriving this line of the existing access it has to NS will certainly provide no appreciable gain for CSX; but it could make a marginal line an abandonment candidate.

The responsive applications filed by Ohio regional and shortline rail carriers highlight the competitive problems created by the proposed Primary Transaction and underscore the importance of granting of trackage rights to remedy the detrimental impacts on essential transportation services and consequently to Ohio’s economy that will otherwise result. The continued economic viability of these carriers, not unlike that of southeastern Ohio coal regions, is of vital importance to maintaining the relative competitive position of Ohio business, including Centerior Energy, one of Ohio’s largest electric utilities serving nearly one million customers in northern Ohio. The grant of trackage rights relief to these regional and short line railroads should ensure continued competitive rail access at reasonable rates for Ohio shippers and customers. So too will the Board’s grant of responsive application trackage rights.

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7 OAG-4, p. 33.
maintain the current competitive situation for Centerior Energy and Ohio coals in the marketplace. Just as the Primary Applicants should not be permitted to choke off the essential service and competitive alternatives presently provided, so too should the Board refuse to allow CSX and NS to essentially eliminate Ohio Class II and Class III railroads' and Centerior's access to its historical coal suppliers for its Cleveland, Ohio, area plants in favor of longer haul, higher revenue generating coal supplies from CSX-only served mines.\(^6\)

The continued availability of W&LE, RJC, I&O and Ann Arbor as viable regional and short line rail carriers maintains essential, competitive alternative service to Ohio bulk commodity shippers and receivers. To the extent delineated herein, and, as previously discussed in its earlier-filed comments, Ohio supports the Board's grant of trackage rights to ameliorate the adverse impact this Primary Transaction will otherwise have on a substantial number of Ohio shippers, customers and communities.

**Ohio Support for W&LE**

Ohio encourages the Board to mandate that NS and CSX provide concessions to the W&LE sufficient to keep the W&LE a viable operation. The W&LE Responsive Application demonstrates that NS and CSX have not fully comprehended or calculated the damage the proposed transaction will do to the W&LE. Similarly, the STB must recognize that the damage a W&LE bankruptcy would do to the economy of Ohio is real and significant.

\(^6\) OAG-4, p. 25.
Should W&LE enter bankruptcy, it is possible that another regional railroad might acquire the entire operation. However, Ohio believes that the particular circumstances and economics of the W&LE operation make it much more likely that the W&LE would be divided up in a piecemeal fashion. In that regard, it is plausible that various Class II and III rail carriers would pay a premium to serve large W&LE rail users in the Canton/Massillon area such as Timken, Republic Engineered Steel, and Ashland Petroleum but would not be at all interested in serving the W&LE's aggregate or agricultural shippers in western Ohio, or in preserving the W&LE line in Pennsylvania. A prudent bankruptcy trustee would certainly have good reason to seriously consider the piecemeal option.

A piecemeal breakup of the W&LE would mean the loss of the rail synergies which W&LE now provides. About 70 percent of the 9 million tons of materials W&LE now handles both originate and terminate on the W&LE. See, OAG-4 (Verified Statement of George L. Stern, at 5). Take the eastern part of the W&LE (i.e., the Pittsburgh & West Virginia (P&WV)) away either through a separate sale, or more likely through an abandonment and scrapping, and much of the agricultural and aggregate traffic W&LE now handles will either disappear or be handled by trucks or less cost-effective rail. Take away the Huron Docks, or any line connecting the Docks with the W&LE Ohio River lines, and Wheeling-Pittsburgh Steel loses its alternative service for iron ore. Take away the W&LE line into Cleveland through a separate
sale or through the abandonment and track salvage and Reserve
Iron looses its preferred option for recyclable scrap and LTV
Steel losses a competitive option for receiving coke.

The Board's decisions concerning the W&LE Responsive
Application will have a tremendous impact on Ohio. Ohio urges
the Board to mandate the actions needed to keep W&LE viable.

**OHIO SUPPORT FOR THE INDIANA & OHIO**

Ohio continues to support I&O efforts to effectively
compete with both NS and CSX to retain traffic I&O currently
carries, especially auto related traffic between Flat Rock,
Michigan and Cincinnati.

In its responsive application, the I&O makes compelling
arguments as to the adverse impacts it will experience in the
Springfield to Cincinnati Corridor if the proposed acquisition of
Conrail is approved. I&O currently uses trackage rights over
Conrail to get from Springfield to Cincinnati. Conrail has never
been a strong competitor for north-south traffic such as the Flat
Rock to Cincinnati move represents. Further, the I&O trackage
rights payments for the use of Conrail's Springfield to
Cincinnati line for six trains per day arguably helps Conrail pay
for the fixed costs of operating a mainline which Conrail itself
only uses for 12 trains per day. See, I&O Resp. App. at 5.
Thus, a reasonably "friendly" relationship now exists for I&O's
movement over the Conrail line.

If NS takes control over the Conrail Springfield to
Cincinnati line as proposed, the situation will change. NS is a
strong north-south railroad. Further, NS plans to improve clearances on the line for the movement of double-stack containers. Given recent history in double-stack growth, NS estimates to increase its usage of the Springfield to Cincinnati line from 4 trains per day to 11 trains per day may well be very conservative. (NS operates 4 trains per day on the line because it now has overhead trackage rights on the line for intermodal movements, another example that Conrail views other carriers' use of the line in a positive light.) Thus, for the approximately 70 mile Springfield to Cincinnati move, the I&O could be forced to rely upon a line a competitor will likely be using much more heavily in the future, possibly to an extent that strains capacity.

Given the proposed increase in traffic between Springfield and Cincinnati, the I&O's request to have an alternative route, i.e., Washington Court House to Cincinnati via CSX, is very reasonable and fair. It in no way negatively impacts the NS route; in fact, it would relieve congestion on it.

Neither will the I&O request to use the CSX Cincinnati to Washington Court House line adversely impact CSX. CSX will only run about 3 trains per day on the Washington Court House line. (CSX/NS - 20 at 435). Thus, there is ample room on the line for the additional I&O trains.

Further, the trains which the I&O would transfer to the Washington Court House line currently traverse a congested CSX line, the Mill Creek line in Cincinnati. The Conrail Springfield
to Cincinnati line over which the I&O has trackage rights terminates at a junction with the CSX Mil Creek line in Cincinnati. From this point, both Conrail and I&O trains must run over the CSX Mill Creek line to reach interchange points in the CSX Queensgate and NS Guest Street Yards. Thus, the I&O usage of the Washington Court House line frees up capacity on the congested Mill Creek line. See, I&O Resp. Appl. V.S. Michael Burkart at 6.

The I&O also makes compelling arguments for obtaining trackage rights between Monroe and Middletown. Any additional delay in getting rail traffic to and from the I&O Railway’s Mason to Monroe line could mean the ultimate abandonment of that marginal branchline. Ohio has spent over one-half million dollars on various improvement projects throughout the last decade on the Mason to Monroe line.

Ohio also supports the I&O trackage rights request between Sidney and Quincy. In regard to the other I&O trackage rights requests, Ohio supports them as they relate to assuring adequate competition and responsive rail service in Ohio.

OHIO SUPPORT FOR R. J. CORMAN RAILROAD

Ohio continues to support RJC’s efforts to obtain trackage rights over, or to acquire, the 2.3 miles of track in Lima which will be needed for the RJC Lima to Glenmore operation to connect to NS as well as CSX if the CSX/NS split up of Conrail is approved. Conrail currently owns this track but CSX is slated to acquire it. RJC currently has three viable Class I carrier
connections in Lima for the Glenmore line. RJC connects directly with Conrail and indirectly with both CSX and NS through a very inexpensive haulage agreement. Through arrangement with Conrail, RJC itself currently shuttles Glenmore line traffic to either NS or CSX for only $60 per car fee to cross the Conrail track.9

If CSX takes over the 2.3 miles of track in question as proposed, it would be in its own self interest to do whatever it could to keep NS from getting any of the Glenmore line traffic. Certainly the switching charges would be much higher than $60 per car. (Conrail lacks a significant economic interest in the Glenmore traffic as the traffic is primarily fertilizer moving in from the south or grain moving to the southeast, areas that are outside the Conrail service area. See, Id.) Thus, in effect, the Glenmore line would not have the same connectivity after the proposed split up as it has today. As a practical matter, it would go from good connection with three Class Is to a single connection (a 3 to 1 situation).

Based on the current low haulage charge, and Conrail’s verbal commitment to sell to RJC the 2.3 miles of Conrail track which RJC needs to connect directly with both NS and CSX, the State of Ohio and RJC recently agreed to embark on a $1.5 million rehabilitation project for the Glenmore line based on its access to 3 Class I railroads. See, OAG-4, at 33. State assistance is needed for this 30 mile long, publicly owned line because it is only marginally viable, generating less than 1,500 carloads a

9 RJC Resp. App. V.S. of M.W. Grubb, Jr., p. 3.
year. Preserving the status quo (i.e., multiple access to Class I railroads) is critical to the long term survival of the Glenmore line.

OHIO SUPPORT FOR THE ANN ARBOR RAILROAD

In our October 21, 1997, filing, Ohio did not address the Ann Arbor situation because we had understood that it would be resolved without STB intervention. Now that Ann Arbor has reluctantly filed a responsive application, the State of Ohio offers its support for Ann Arbor’s requests for trackage rights to Chicago to connect with various railroads and for Ann Arbor to connect with the Canadian Pacific at Ann Arbor, MI.

Ohio finds Ann Arbor’s description of its projected losses both reasonable and compelling. It is hard to imagine that no mention of Ann Arbor’s potential revenue loss of over $3 million annually was included in the NS or CSX filings.

Although Ann Arbor has only a handful of miles of track in Ohio, it is a very important Ohio railroad and it is vital that it be kept economically viable. Ohio and the City of Toledo recently committed to invest many millions of dollars in various infrastructure improvements to convince Jeep to build its new plant in Toledo right next to its current plant. Ann Arbor is a vital part of the entire incentives package to keep Jeep in Toledo. If it is still a viable rail operation after the split

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10 Gov. Voinovich Release dated July 28, 1997 (attached as Ex. 1).
up of Conrail, Ann Arbor is slated to play a major role in providing switching services to the new plant.

Ohio urges the STB to mandate Ann Arbor’s requested trackage rights. As with other Ohio railroads, all Ann Arbor seeks is a chance to compete with NS and CSX so that Ann Arbor can remain viable.

CONCLUSION

Ohio recognizes there are potential benefits for many Ohio rail users which may result from the proposed division of Conrail. However, absent appropriate protective conditions, those benefits would come at a very high cost to Ohio shippers and communities that are depending upon continued accessibility to service currently provided by the regional and short line responsive applicants.

The continued viability of the four responding railroads is essential for the preservation of service and healthy competition in Ohio’s rail transportation system. As noted in our Comments filed on October 21, Ohio’s largest railroad is being acquired by its second and third largest railroads. The proposed purchase threatens the very existence of the W&LE, Ohio’s fourth largest railroad. If the proposed transaction is approved, Ohio’s shippers will be faced with a significant decrease in their transportation options due to the loss of Conrail. Additionally, if any of Ohio’s regional or short line railroads are forced to cease or to curtail their
operations as a result of this acquisition, Ohio’s shippers would be severely harmed. Ohio therefore strongly urges the Board to preserve essential rail service and competition in Ohio by granting the conditions requested in the responsive applications as supported herein. These conditions are reasonable and will enable the four responding railroads to continue providing responsive service to Ohio shippers and communities and to compete effectively with the remaining Class I railroads.

Respectfully submitted,

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DATED: DECEMBER 15, 1997
CERTIFICATE OF SERVICE

I hereby certify that I have this 15th day of December 1997, served the foregoing document upon all parties of record in this proceeding by mailing a copy thereof first class mail, properly addressed with postage prepaid.

[Signature]
Keith G. O'Brien
OFFICE OF THE GOVERNOR
GEORGE V. VOINOVICh
COMMUNICATIONS OFFICE

FOR IMMEDIATE RELEASE
July 28, 1997

CHRYSLER TO BUILD NEW $1.2 BILLION ASSEMBLY PLANT IN TOLEDO

COLUMBUS — Governor George V. Voinovich today expressed his extreme gratitude for Chrysler Corporation’s decision to locate its new Jeep assembly plant in Toledo. The $1.2 billion project is expected to retain 4,900 jobs at the company’s current manufacturing facility in Toledo.

“Today’s announcement not only signifies Chrysler’s intent to renew its commitment to Ohio, it also validates the company’s faith in Ohio’s business leadership and the highly skilled workforce at its Toledo facility,” Governor Voinovich said. “Chrysler’s decision to build this facility in Toledo is a direct result of state and local officials rallying their efforts to maintain Chrysler’s presence in Ohio, and more importantly, the city of Toledo. I want to commend Mayor Finkbeiner and Don Jakeway, Ohio Director of Development, for pulling their teams together to develop a comprehensive assistance package that met Chrysler’s needs to move this project forward in Ohio.”

This announcement came as a result of Chrysler’s decision to replace its current antiquated facilities in Toledo which began operations at the turn of the century. Chrysler will build its new Jeep manufacturing facility at the Stickney Avenue site in the city of Toledo and will retain its 4,900 employees at both of its facilities once the new plant is completed. The company had considered several other states, including Michigan for this project.

The State of Ohio has offered Chrysler $6 million over a three year period from the Ohio Industrial Training Program, an Investment Tax Credit valued at $96.6 million based on Chrysler’s projected investment in machinery and equipment and a Brownfield Site Clean-up Tax Credit valued at $1.5 million. The state has also offered the City of Toledo the following to assist with this project: a $10 million low-interest loan at an interest rate of 4% for 20 years to offset the cost of eligible infrastructure; a $4.5 million grant from the Road Work Development Account to assist with eligible public road improvements; a $4.5 million grant from the Business Development Account to assist with eligible on or off-site infrastructure costs associated with the project; and a $1 million grant from the Urban and Rural Initiative Program to assist with acquiring, preparing and clean-up of the site for economic development.

In addition, the Ohio Department of Transportation will provide $2 million and the Ohio Rail Development Commission will provide $750,000 for the project.

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For more information, contact Kathie Fleck at (614) 644-0957 or Gail Crawley at (614) 466-2609.