SURFACE TRANSPORTATION BOARD 11/06/97 FD #33388 1-28

UNITED STATES OF AMERICA

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SURFACE TRANSPORTATION BOARD

DISCOVERY CONFERENCE

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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 --TRANSFER OF RAILROAD LINE BY NORFOLK SOUTHERN RAILWAY COMPANY TO CSX TRANSPORTATION, INC.

Finance Docket No. 33388

Thursday, November 6, 1997

Washington, D.C.

The above-entitled matter came on for a oral argument in Hearing Room 4 of the Federal Energy Regulatory Commission, 888 First Street, N.E. at 9:30 a.m.

BEFORE:

THE HONORABLE JACOB LEVENTHAL Administrative Law Judge

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P-R-O-C-E-E-D-I-N-G-S

(9:30 a.m.)

JUDGE LEVENTHAL: All right, Discovery Conference will come to order. This is a Discovery Conference in Finance Docket Number 33388. We'll take appearances.

MR. HARKER: Your Honor, good morning. Drew Harker with Arnold & Porter, for CSX.

MS. BRUCE: Good morning, Your Honor. Patricia Bruce, Zuckert, Scoutt & Rasenberger, for Norfolk Southern.

MR. DRIVER: Good morning, Your Honor. Kenneth B. Driver from Jones, Day, Reavis & Pogue, here on behalf of National Lime and Stone Company.

JUDGE LEVENTHAL: Further appearances? All right. The topic of this morning's conference is the Motion of primary applicants to compel production of documents relating to evidentiary submission. I'm going to instruct the reporter to include a copy of the primary applicant's Motion into the record.

All right. Now, I received replies of Belvidere and Delaware River Railway and the Black

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River & Western Railroad; City of Indianapolis; Livonia Avon & Lakeville Railroad Corp.; and the New York State Electric & Gas Corporation. Does that dispose of the issue with regard to those four, Mr. Harker?

MR. HARKER: Your Honor, I think so, with the exception of Belvidere which we can discuss at your pleasure. But I think with respect to the others, in fact, I have disposed of a number of issues with respect to other parties as well, if you'd like me to report to you on that.

JUDGE LEVENTHAL: Yes. Why don't you tell me what's up?

MR. HARKER: If you look on page 2 of the Motion, we consider Belvidere still open; Bessemer and Lake Erie Railroad closed; City of Indianapolis still open; Illinois Central closed; Indiana & Ohio Railway closed; Indiana Southern Railroad closed; Livonia Avon & Lakeville Railroad Corporation closed; National Lime still open; New England Central Railroad closed; New York State Electric & Gas Corporation closed; Shell Oil Company and Shell Chemical Company open;

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Southeastern Pennsylvania Transportation Authority closed; and Wisconsin Central closed.

And on page 3 of our Motion we raised an additional concern with respect to the labeling. This was with respect to Orange & Rockland Utilities and the U.S. Department of Transportation, and I can report to you that those are both closed now.

JUDGE LEVENTHAL: All right.

MR. HARKER: So really there are, as far as primary applicants are concerned, there's really four issues: Belvidere & Delaware, the City of Indianapolis, National Lime & Stone, and Shell Oil Company.

JUDGE LEVENTHAL: All right. Do you wish to address it first?

MR. HARKER: I'd be glad to.

JUDGE LEVENTHAL: All right.

MR. HARKER: Your Honor, the background on this is that on October 21 -- the deadline set by the Board for filing of comments, protests, responsive applications, inconsistent applications and the like, with respect to the primary application -- we

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received, on or about that date, something like 160 filings.

And many of these were very voluminous, many of them contained evidentiary submissions, verified statements and other such things. And we have until December 15th to respond to the 160 or so filings. Coming over here this morning I looked at my calendar and I did some quick math, and we had basically 55 days to respond from the 21st to the 15th -- that is, calendar days -- and 39 business days.

November 7th, tomorrow -- which is the date we argued in our Motion to Compel, we requested relief for in a Motion to Compel -- would give us 26 business days from the 15th of December, or 38 calendar days. Meaning that a third of the period by which we have to respond to these 165 filings has already passed.

I should mention as well that, given our "production schedule" for putting together our rebuttal filing on the 15th, we've been informed by our printer -- who is going to take everything together and bind it together -- that they need

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something on the order of about five business days at the tail end of the schedule to get everything for purposes of printing and binding.

So you can take five business days off of those days I just gave you to give you a sense of the limited amount of time that we have to put together our rebuttal filings.

In our paper we quoted from Decision No. 6 which is the basis for our Motion. This was issued by the Board at the end of May, so everybody has been well aware of the requirement, and I will just read it for the record. It's on page 20 of my copy of the Order.

And it says -- it's immediately after the procedural schedule and it says: "Immediately upon each evidentiary filing, the filing party will place all documents relevant to the filing (other than documents that are privileged or otherwise protected from discovery) in a depository open to all parties, and will make its witnesses available for discovery depositions."

Now, that language is essentially repeated

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in the discovery guidelines that you issued in Decision No. 10 and in addition, the discovery guidelines also require, in paragraph 8, that all depositories shall be maintained in the Washington, D.C. area unless a party requests and receives written permission from the ALJ after notice to all other parties and for good cause shown, to maintain its depository outside of the Washington, D.C. area.

Because of the problem that we were confronted with in terms of dealing with 160 filings and potentially 160 depositories, on October 17th I sent a memorandum to all parties of record in the case asking for copies of the documents that they would put in their depository.

That way, we could essentially have one central location -- at least CSX and the primary applicants could have one, central location where the other parties' workpapers would be stored and you weren't running around town, spending a lot of time on the road reviewing and gathering workpapers.

And we did receive a number of workpapers from a number of parties, on or about the 21st of

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October; however, we've done a review of the filings that were made on October 21 and realized that other parties probably had workpapers as well; parties who had not contacted us.

So I've been in the process over the course of the last week or ten days, of contacting a list of about 40 or 50 parties that made filings for which we had a keen interest in getting the work papers.

And as of Monday when we filed our Motion, we were essentially -- had not been able to resolve the issues with the companies and the entities that are identified on page 2 of our Motion. Since then, as I said, we've essentially been able to resolve the issues with respect to all but four.

And based on the fact that we were unable to resolve the issues with respect to these four, we request that you grant the Motion to Compel which would essentially require production of these documents by tomorrow. Which again, would give us about two-thirds of the time we originally had to put together our rebuttal submission.

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The workpapers -- we put together a depository -- the primary applicants have to establish a depository. And we indicated right at the outset of the case -- in fact, I think it's in the discovery guidelines -- that the applicant's depository would be maintained at Arnold & Porter.

And that turned out to -- having a depository where workpapers are maintained are a critical element to being able to put together some kind of filing in response to a primary application which was what we filed in our case, or a responsive application of comments.

Because what these documents are, they really are the underlying workpapers for the testimony of the experts and the consultants and others who have provided testimony to the Board, and it gives us an opportunity to see what their underlying work was and allows us to put together our discovery.

And we have already begun that process.

Indeed, we started getting our discovery last week and
we have started putting together discovery this week,
but we are prejudiced because without seeing the

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underlying workpapers we don't know what experts or other witnesses relied on and it's a little bit like a shell game. Since we don't know what they relied on it's hard to ask discovery about it.

We were entitled to this information on or about October 21. Today is November 6th, and I submit to you that it's late, the stuff is overdue, and we should have already had it and we shouldn't be getting it any later than tomorrow.

Which brings me to the next point which is that with respect to Belvidere & Delaware, I know counsel's letter to you indicated that they would be prepared to give us documents by Tuesday. We were frankly, Your Honor, not in a position to agree to that. You know, that's four more days than we had requested -- four more calendar days. For us they're really working days as well.

But you know, given the delay already -given the delay already -- we are just not in a position to find Tuesday acceptable, particularly when the excuse for failure to comply, frankly, is so weak. I'm sorry Mr. Green isn't here, but you know, with all

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due respect, Mr. Green's letter suggests that it was my fault that they didn't establish a depository or that we don't have the records, because somehow he didn't get my October 17th memorandum.

But my October 17th memorandum didn't set the requirement. My October 17th memorandum wasn't a discovery request. All it was asking for were copies of what was going to be in the depository four days hence, on October 21. And so his letter essentially, concedes that they are not in compliance as of today, with the depository requirement.

And as I said, that is prejudicial to us. He has a consultant that did some work and we're entitled to his workpapers. And so I would submit to you that Tuesday is just not acceptable to us.

With respect to the City of Indianapolis we received a letter from counsel for the City, last night, which indicated that -- they did forward I think, one or two documents which were workpapers and indicated that the other material was in the mayor's office and that the mayor was a busy fellow and that he was traveling.

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And I don't doubt that he is very busy with very many, important civic responsibilities and the like, but they did indicate that we would have their workpapers by tomorrow. And I think we can't ask for anything more than that.

And I would ask you, though, to enter a Motion from -- or, I'm sorry -- enter an Order to Compel Production by the City, tomorrow, which apparently they're agreeable to. So there shouldn't be a problem there. The importance though, of having your Order is that it gives the issue some teeth.

That is to say, if there was a failure for some reason, to produce the documents on Friday, despite counsel's good faith assurance that we'll get the documents, at least then the primary applicants do have your Order should we decide to take some other action next week.

That bring me to National Lime and Stone, and I think I'll let Mr. Driver address that issue. But just let me conclude and then I'll get on to Shell Oil Company.

I've tried to contact Shell. I've called

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Mr. Felker a number of times; I've left him voicemails. He and I, in fact, have traded voicemails. I obviously -- I made a special point of faxing him the Motion to Compel.

I made a special point of sending to him - along with Mr. Driver and a few others who are not
on our restricted service list and who get these
things by normal course -- I sent them a copy of Ms.
Bruce's memo, scheduling this Discovery Conference
today. But I have not received anything from them,
and I gather you haven't either based on your opening
comments.

So I don't have anything to report with respect to Shell Oil, except that they too, filed a verified statement, they've been in the case since May, and they have asked for some relief from the Board and that's based on a verified statement by an outside consultant who must have workpapers, and we're entitled to those workpapers.

And again, I would ask that, with respect to all of these parties, that you grant our request for relief, meaning an Order to produce workpapers by

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no later than tomorrow. Thank you. I'll respond to any questions if you have anything.

JUDGE LEVENTHAL: I do, but we'll hear from Mr. Driver first.

MR. DRIVER: Your Honor, Ken Driver on behalf of National Lime and Stone Company. On October 31st, this past Friday, we got a call from Mr. Harker who alerted us to his request for access to the information in our depository. I spent that afternoon reviewing the orders and determining that in fact -- and in reviewing Decision No. 6 -- and identifying the fact that in fact, we needed to establish that depository.

Outside counsel in this matter were brought in relatively late in the game. The evidentiary submission was on October 21st and we were still in the process of reviewing everything and getting ourselves prepared to go forward.

Upon notification that we had not fully complied with the depository requirement I put a call back into Mr. Harker, offered to verify what, if any, workpapers existed and to provide them on a good

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faith, best efforts basis, and asked if he could identify any specific pieces of information that were particularly crucial to the applicant and that we would try to get those pieces of information to him first.

Mr. Ronald Krewse, the sponsor of the verified statement, was out of the office on Monday and Tuesday, but we had been communicated with people who work for him and I communicated with Mr. Krewse yesterday. We verified that workpapers do exist. They weren't place aside and prepared in anticipation of placing them in the depository, but that is taking place yesterday and today. We should be getting a Federal Express and Overnight into Washington tomorrow.

I believe we still need to review that material and verify that that is all the material. We also need to review that material for any confidentiality concerns. We believe that we can fully comply by Tuesday. I think we need to verify whether this package that we receive tomorrow in Washington is the full amount of material.

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So what I propose to Mr. Harker morning, having had these conversations late yesterday evening with the client, would be full compliance by Tuesday. I don't believe that complying with his request on Tuesday would prejudice the applicants.

I acknowledge that with 165 parties the sheer bulk of this proceeding makes their job very difficult in terms of responding and responding. However, Mr. Krewse's verified statement with nine pages, raises discrete issues which are important to National Lime and Stone Company but don't appear to raise the volumes of information that other aspects of this proceeding raise.

So I believe that full compliance by Tuesday should be able to avoid any prejudice to the applicant. And so that is the position of National Lime and Stone. Thank you.

JUDGE LEVENTHAL: Mr. Harker, I take it that compliance by Tuesday doesn't satisfy you?

MR. HARKER: It creates a problem for us, Your Honor. I think I've already laid that out for you. The requirement has been in place since the end

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of May in this particular proceeding. But indeed, this is not a new requirement in these merger cases.

Indeed, when we were putting together our depository for the primary applicants, you know, we looked at prior merger cases to see what UP/SP -- what was done in UP/SP, BN/SF. It's all the same requirement.

You know, this is very standard stuff. This was no surprise. And these commentors and responsive applicants and the like, made very substantial claims for relief -- all of which we think are unjustified, of course. But nevertheless, they made very substantial claims for relief. And I think that, you know, they should be held to the rules.

And I appreciate Mr. Driver's concession that on Friday for the first time, he learned of the requirement. But that's not my fault; that's not NS' fault; that's not CSX's fault. I mean, you know, we weren't under a duty to notify all of the commentors that they had an obligation to put together a depository. Although I suppose I did in a way on October 17th when I sent my memo to everyone, and Mr.

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Driver hasn't denied that they got a copy of that memo. MR. DRIVER: On that matter, Your Honor -pardon me for interrupting -- but I did not receive that October 17th memo and this was in fact, the first time I have learned of that memo. The only person that was listed on the official service list was someone in-house at National Lime and Stone Company. And so I can't represent that no one received it at this point, but this morning is the first time that I was made aware of that. So from my understanding, the prejudice to applicants began on October 31st because that's the date they requested access to --JUDGE LEVENTHAL: Leaving that aside, if you get this package of material tomorrow, why can't you deliver it tomorrow to the depository? MR. DRIVER: We can --JUDGE LEVENTHAL: If you're concerned about the confidentiality, can't you mark it all "Confidential" and that disposes of that problem? MR. DRIVER: That's a fine suggestion,

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Your Honor. We would be glad to provide everything that we can tomorrow, that we receive tomorrow. And we can -- whatever materials we receive tomorrow we won't slow the delivery of those materials down for review of the confidentiality of those materials. We will --

JUDGE LEVENTHAL: All right. So then you're willing to file by tomorrow, November 7th, all the material you have?

MR. DRIVER: That is sent from the client to us in Washington. And I guess I need to -- we're in the process of identifying that material, and I wasn't able to confirm yesterday evening with the client, that they could in fact, get us everything to Washington by tomorrow. But we believe that we can get it all here by Tuesday, or perhaps by Monday. So we'll get them whatever we do receive and can be obtained.

JUDGE LEVENTHAL: Well, suppose he gives you everything he has by tomorrow, Mr. Harker? And supplements it if there is additional material, by no later than Tuesday.

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MR. HARKER: Well, Your Honor, let me see if this would work. If we were to get the material that he receives tomorrow, tomorrow, and then any additional material that is sent tomorrow be sent for Saturday delivery and then sent to us over the weekend, that would be -- I think that would be something that would be -- that we can talk to our client about, at least. You know, unfortunately --

JUDGE LEVENTHAL: He's concerned if he doesn't receive it say, until Monday.

MR. HARKER: Well, Your Honor, I think that there could be a serious case made for a Motion to Strike the evidentiary submission, quite honestly. We've not made that and I'm not making that here, but that certainly, you know, is something that we have.

I mean, I guess I'm -- I don't think you've been shown good cause as to why we're here today -- other than the fact that National Lime apparently wasn't aware of this requirement that's been around since at least May, in this proceeding.

And I'm looking for -- I guess I was hoping to hear good cause shown other than geez, we're

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sorry, and you know, we'll do better. Because we in fact, Your Honor, we have been prejudiced and every day that goes by we're prejudiced.

JUDGE LEVENTHAL: You make a strong argument, Mr. Harker, but if he gives you what he has by the 7th, doesn't that reduce whatever prejudice you're suffering, and then we're talking about an allowance of an extra day or two for additional material?

MR. HARKER: May I ask a question?

JUDGE LEVENTHAL: Sure.

MR. HARKER: Do you have a sense of the volume at this point, of the material?

MR. DRIVER: I don't believe it's going to be a significant volume of materials. In fact, you know. I think there are some existing reports that we'll be able to provide in a couple of areas -- some schedules to explain some of the numbers that are contained in Mr. Krewse's verified statement.

MR. HARKER: May I have a minute?
(Pause.)

MR. HARKER: Your Honor, I think that what

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would be acceptable to us is that if we get a package tomorrow from Mr. Driver of the material that he receives tomorrow, with a good faith effort to continue the search tomorrow for a Saturday delivery -- should they find anything -- and hopefully that will be the great bulk of the material, and you know, if a few others dribble in I think that that would be okay -- depending on their significance.

I mean, that's obviously without waiver of our right to come in next week and say, you know, we've just gotten a very substantial document from National Lime which sort of changes the whole story, and we can indicate, we can show that denial of that to us on a more timely basis was prejudicial. I would ask that we would still have the right at that point to file some Motion, perhaps to Strike or something else.

But I think setting that aside, the plan to get us some material tomorrow with further material on Saturday and then anything else at the beginning of next week, would be acceptable.

JUDGE LEVENTHAL: All right. Mr. Driver?

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MR. DRIVER: That's fine, Your Honor.

JUDGE LEVENTHAL: All right. So ordered.

Now, with respect to Belvidere -- let's go off the record.

(Whereupon, the foregoing matter went off the record at 9:58 a.m. and went back on the record at 10:01 a.m.)

JUDGE LEVENTHAL: In our off the record discussion I attempted to see if I could have the parties reach an amicable resolution of the problem with respect to Belvidere. Evidently we can't.

I agree with Mr. Harker's argument, the provision that the workpapers be placed in the depository have been longstanding and in view of the abbreviated schedule for the filing of testimony and for the decision of the Board in this matter, I'll grant the Motion.

So ordered with respect to Belvidere.

With respect to the City of Indianapolis, they've indicated in their letter to me dated November 5th, which I received via facsimile, that they will have the workpapers in the depository by November 7th,

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so I am so ordering them to produce by that date.

With respect to Shell Oil Company, Shell Oil has not appeared nor responded in any manner to the Motion. the Motion with respect to Shell Oil is likewise, granted.

Now, off the record.

(Whereupon, the foregoing matter went off the record at 10:03 a.m. and went back on the record at 10:05 a.m.)

JUDGE LEVENTHAL: In our off the record discussion we discussed how the parties who aren't present today will be made aware of my rulings. I am ordering the primary applicants to advise the parties who are not present today of my ruling.

According to the rules that we have been following in these Discovery Conferences, my rulings are made on the record and parties are bound by my rulings on the record.

All right, so then the primary applicant's Motion is granted fully with the exception of the provisions we made for National Lime.

All right. That disposes of the Motion.

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And now we have another problem that's coming up which I have advised you previously of and that is, that I'm not going to be available the week of the 24th -- that's Thanksgiving week. We wouldn't have a session on the 27th anyway because that's Thanksgiving Day.

Now, as you know, I'm going to be on vacation in Los Angeles, California. I am willing, on an emergency basis, to hold a telephone conference from my son's home in Los Angeles and what I propose is that we follow the usual procedure. You advise my law clerk on Monday, the 24th, whether or not you need a conference.

I believe that the parties should meet in conference here, at the Commission, on Wednesday. We have to allow for the difference in time so that I would suggest that the conference start say, at one o'clock, one p.m. That would be 10 o'clock in California time.

I would then also suggest that you fax to me, whatever the issue is. The fax number -- the telephone conference on my part would take place at 5247 West 139th Street, Hawthorne, California 90230.

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The telephone number there is (310) 643-8038. I don't imagine you'll have to call me. The fax number is (310) 643-0260. For the record, the address and telephone number and fax number I gave you is the residence of my son, Robert C. Leventhal, who is an attorney in Los Angeles, California. MR. HARKER: Your Honor, one question? You gave us the fax number. Does that mean that you would like us to fax directly to you rather than to your chambers, for --JUDGE LEVENTHAL: Yes. I think it will be faster. MR. HARKER: Okay. Very good.

JUDGE LEVENTHAL: Right. So whatever the issue is -- and of course, if you fax it to me on Monday I'll know that we have the session. Otherwise, you'll speak to my law clerk and she'll advise me that we're going to have this session on Wednesday, November 26th. All right?

MR. HARKER: Right.

JUDGE LEVENTHAL: I'm not encouraging you to have it.

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MR. HARKER: We understand, Your Honor.

1 Wednesday afternoon before Thanksgiving, we are all 2 looking forward to that. 3 JUDGE LEVENTHAL: I don't see any other 4 way to dispose of it. 5 MR. HARKER: I agree. 6 JUDGE LEVENTHAL: I think it's an 7 emergency situation --8 MR. HARKER: We appreciate your 9 accommodation, Your Honor. 10 JUDGE LEVENTHAL: I have a duty to preside 11 over your conferences, but we've been going on for 12 months, and I don't get much of a chance to see my son 13 and I trust we indulge each other. 14 MR. HARKER: Absolutely. 15 JUDGE LEVENTHAL: All right then, is there 16 anything else that we have before us this morning? 17 All right. Conference is adjourned. 18 (Whereupon, the Discovery Conference was 19 adjourned at 10:10 a.m.) 20 21

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