

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Relations Department
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September 21, 1981

To All Milwaukee Road Employees:

As we move ahead with our reorganization plans, several modifications in the structure of our Operating Department will be implemented. Effective November 1, 1981, two freight divisions will be established instead of the three currently in place. Identified as the Northern and Southern divisions, one will be headquartered in Milwaukee, the other in Chicago. These reductions in overhead expense reflect the changing traffic flows on the railroad.

N. H. (Norm) McKegney will remain in Milwaukee and head the Northern Division. J. W. (Jack) Stuckey will be division manager at Galewood for the Southern Division. B. J. (Bud) McCanna, presently division manager - Minnesota-Dakota Division, will become the L-MAG management representative, reporting to Larry Harrington effective October 1.

G. A. (Gordy) Jonasson will assume the duties of Director - Operations Planning, and M. H. (Mark) Westerfield will head a new discipline as Director - Energy Conservation. Considering that we spend over \$50 million annually in fuel alone, this function will be vital to the management of our assets. W. D. (Wally) Schultz becomes Director - Operating Budget with responsibility to coordinate the operating budget, oversee the capital budget expense - the two of which comprise over 90% of total expenditures - and be responsible for tracking the Revised Reorganization Plan projections.

With a smaller rail network to operate, efficiencies can be realized by a redefinement of the division manager function and a return to a vertical - or straight line - reporting structure in the Operating department. Such an organizational structure enhances our ability to control our expenditures and reduce some overhead expense.

Division engineering staffs will report to N. E. (Nate) Smith, Chief Engineer, in Chicago and division mechanical personnel will report to C. B. (Clayton) Smith, Chief Mechanical Officer in Milwaukee.

With this modification in reporting procedures, division managers will be able to concentrate on train and yard operations and customer service.

Consistent with our program to develop and maintain the most efficient network possible, we are eliminating our Milwaukee hump operation and will utilize the Bensenville and St. Paul hump yards for most of the classification work presently being performed at Milwaukee. The Milwaukee hump yard is extremely limited with only 24 classification tracks. Bensenville, with over 70 classification tracks, has the capacity to absorb most of the Milwaukee operation and produce significant savings in terminal costs. Rehabilitation of certain tracks is currently under way in the Milwaukee yard to permit the conversion. Completion is expected by the end of the year.

In a related action, we are planning to expand our operations at Nahant and Ottumwa, Iowa, and eliminate all activities at Savanna, Illinois except for the rail welding plant. Greater utilization of the Nahant and Ottumwa facilities will improve service and enhance our marketing opportunities. Ottumwa acquires added importance in the Kansas City - St. Paul corridor as the 500-mile inspection on Twin Cities trains is performed there. Our solid run-through trains operate from Ottumwa south and swapping of a sizeable number of blocks of cars is handled at this yard.

Our ability to mesh Quad-Cities shipments with northbound and southbound trains will be enhanced by the proposed modifications in the Nahant yard at Davenport. Further, our shift in emphasis from an east-west transcontinental road to a north-south regional carrier eliminates Savanna as a focal point in the restructured system.

In a move designed to improve terminal switching and better utilize our Bensenville facility, we have integrated the switching operations formerly performed at Galewood yard into the Bensenville yard operation, and have closed the Galewood yard.

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The map of the proposed Milwaukee Road appearing in the Revised Reorganization Plan submitted by Trustee Ogilvie September 15 indicates our use of the so-called Rock Island "spine line" in southern Minnesota and northern Iowa. As was pointed out in FM/TM dated July 6, our use of that trackage is contingent upon the C&NW successfully negotiating its purchase with the Rock Island Trustee. That issue said: "Chicago & North Western expects to acquire the segment from Comus, Minnesota to Northwood, Iowa, from the Rock Island Trustee. Assuming their acquisition, we and the C&NW have reached an agreement in principal for our use of the line from Comus to Manly, Iowa. To complete the link, we are negotiating the purchase of trackage from Manly to Plymouth Jct., Iowa, with the Rock Island Trustee. From Plymouth Jct. we will use our own line to Mason City."

We continue to operate over the former Rock Island between Davenport and Iowa City, Iowa, and are proceeding to investigate the merits of possible acquisition of that segment for inclusion in the reorganized Milwaukee Road.

Since the publication of the proposed Reorganization Network map in the July 6 edition of "First Monday/Third Monday," the Milwaukee Road in cooperation with various shippers and communities has initiated a review program aimed at seeking a long-run solution to the need for rail services on Milwaukee Road light density line segments in southern Wisconsin and northern Illinois.

Presently, various alternatives are being considered including operational changes, the application of freight rate surcharges, rehabilitation assistance and/or the introduction of shortline ownership and operation.

In conjunction with the review program, we are in the process of updating the various cost analyses, rehabilitation estimates and property valuations. Such estimates and valuations will serve as the basis for all discussions and negotiations with shippers and other interested parties relative to such

alternatives as rehabilitation assistance and/or sale of the operating properties to responsible shortline operators.

The updating of such material has not been completed but we expect that all data will be available in approximately 3 - 4 weeks.

We have not filed any applications to abandon trackage in Wisconsin and will take no such action until all data has been reviewed.

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With respect to the application to abandon our main line west of Ortonville, Minnesota, and to discontinue trackage rights over the Burlington Northern between Miles City and Billings, Montana, the ICC served a September 15 report to the Reorganization Court which concluded:

"We advise the Court that it is in the public interest to permit the MILW to sell the Miles City Line to a financially responsible person who will continue to provide essential rail services. If requested by MILW or a potential purchaser, the Court should establish the fair market value of the Miles City Line by referring the matter to a Special Master. If no offer is made for the line, the Court should then permit MILW to abandon the line and dispose of the rail properties. MILW should also be permitted to discontinue trackage rights authority over BN between Miles City and Billings, Montana.

"We further advise the court that the abandonment by MILW of the Sisseton and New England lines is consistent with the public interest."

Any objections have to be filed by October 5, 1981.



W. L. Smith
President