

INTERSTATE COMMERCE COMMISSION

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FINANCE DOCKET NO. 22688, ET AL.

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CHICAGO & NORTH WESTERN RAILWAY COMPANY—CONTROL—
CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY



REPORT AND ORDER RECOMMENDED BY

NATHAN KLITENIC, HEARING EXAMINER

VOLUME I

CHICAGO & NORTH WESTERN RAILWAY COMPANY--CONTROL--
CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

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INTERSTATE COMMERCE COMMISSION

Served (Volume I)

NOTICE TO THE PARTIES

Exceptions, if any, must be filed with the Secretary, INTERSTATE COMMERCE COMMISSION, Washington, D.C., and served on all parties in interest within 30 days from the date of service shown on the final volume hereto, or within such further period as may be authorized for the filing of such exceptions. At the expiration of said period for the filing of exceptions, the recommended order will become the order of the Commission and will become effective unless exceptions have been seasonably filed or the order has been stayed or postponed by the Commission. If exceptions are filed, replies to exceptions may be filed within 20 days after the final date for filing of exceptions. It should not be assumed that the recommended order has become effective as the order of the Commission until a notice or order to that effect, has been served.

Finance Docket No. 22688¹

CHICAGO & NORTH WESTERN RAILWAY COMPANY--CONTROL--
CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

Decided

1. In Finance Dockets Nos. 22688 and 22689:

Applications of the Chicago and North Western Railway Company for authority (1) to acquire direct control of the Chicago, Rock Island and Pacific Railroad Company through acquisition

¹This report embraces Finance Docket No. 22689, Chicago & North Western Railway Company--Issuance of Securities; Finance Docket No. 23285, Union Pacific Railroad Company--Control--Chicago, Rock Island and Pacific Railroad Company; Finance Docket No. 23286, Union Pacific Railroad Company and Chicago, Rock Island and Pacific Railroad Company, Merger; Finance Docket No. 23287, Union Pacific Railroad Company--Issuance of Securities; Finance Docket No. 23595, Southern Pacific Company--Purchase (Portion)--Chicago, Rock Island and Pacific Railroad Company; Finance Docket No. 23596, Southern Pacific Company--Assumption of Obligations; Finance Docket No. 23919, Atchison, Topeka and Santa Fe Railway Company--Purchase, Etc.--Chicago, Rock Island and Pacific Railroad Company (Portion); Finance Docket No. 23920, Atchison, Topeka and Santa Fe Railway Company--Assumption of Obligation; No. MC-F-9222, Southern Pacific Transport Co.--Purchase (Portion)--Rock Island Motor Transit Co.; Finance Docket No. 24128, Union Pacific Railroad Co. Construction; Finance Docket No. 24129, Union Pacific Railroad Co. and Chicago, Rock Island & Pacific Railroad Co. Abandonment; Finance Docket No. 24154, AT&SF--Common Use of Terminal Facilities--SL-SF; and MC-F-9668, The Santa Fe Trail Transportation Company--Purchase (Portion)--Rock Island Motor Transit Company.

of capital stock, and through such stock ownership of indirect control, solely or jointly, of the affiliated and subsidiary companies of the Chicago, Rock Island and Pacific Railroad Company, and in turn, through such transaction for Northwest Industries, Inc., of control of the controlled companies and (2) for Chicago and North Western Railway Company to issue certain of its securities to effectuate the control, denied.

2. In Finance Dockets Nos. 23919 and 23920 and in No. MC-F-9668, (and in connection with the control application described under (1) above), applications of the Atchison, Topeka and Santa Fe Railway Company (Delaware corporation) for authority to purchase a portion of the franchises and properties of the Chicago, Rock Island and Pacific Railroad Company and in connection with such transaction for authority to assume obligation and liability for certain securities of the Chicago, Rock Island and Pacific Railroad Company; for the Santa Fe Trail Transportation Company to purchase a portion of the motor carrier operating rights of the Rock Island Motor Transit Company; and of Santa Fe Industries, Inc., to acquire control of the rail franchises and property and motor carrier rights, through the purchases, denied.

Petition of the Southern Pacific Company for substitution as applicant in Finance Docket No. 23919, in lieu of the Atchison, Topeka and Santa Fe Railway Company (a Delaware corporation), dismissed.

3. In Finance Dockets No. 23285 and the directly related portion of the application in Finance Docket No. 23287: Applications of the Union Pacific Railroad Company for authority to acquire direct control of the Chicago, Rock Island and Pacific Railroad Company through acquisition of common capital stock and, through the acquisition of indirect sole or joint control of the latter's subsidiary and affiliated companies; and for authority to issue certain of its securities to effectuate the control, dismissed.

4. In Finance Docket Nos. 23286 and 23595 and MC-F-9222:

- (a) Merger of the franchises and properties of the Chicago, Rock Island and Pacific Railway Company into the Union Pacific Railroad Company for ownership, management, and operation, and acquisition by the Union Pacific Corporation of control of said franchises and properties through the merger, (1) acquisition by the Union Pacific Railroad Company and, in turn, Union Pacific Corporation of sole or joint control of companies subsidiary to and affiliated with, the merged carrier and (2) acquisition by the Union Pacific Railroad Company of the

leasehold interests in, and trackage rights over, or joint ownership in or use of the railroad lines of other carriers held by the merged carrier and acquisition by Union Pacific Corporation of control of said interests in, rights over, or ownership or use of lines of carriers approved and authorized, subject to conditions; and,

- (b) coincidentally with the above-described merger, purchases by the Southern Pacific Transportation Company and its motor carrier affiliate, Southern Pacific Transport Company, of portions of the rail franchises and properties and a portion of the motor carrier operating rights embraced in the above-described merger; and acquisition of control by the Southern Pacific Company of control of the franchises and property and motor carrier rights through the purchases, approved and authorized, subject to conditions.

Jurisdiction retained (in Finance Dockets Nos. 23286 and 23595 and in No. MC-F-9222) to enter such further order or orders as may be necessary or appropriate.

Petition of the Atchison, Topeka and Santa Fe Railway Company (Delaware) for substitution as applicant in Finance Docket No. 23595, in lieu of Southern Pacific Company, denied.

5. In Finance Dockets Nos. 23287 and 23596:

- (a) to accomplish the merger above-described, authority granted for the Union Pacific Railroad Company (1) to issue not exceeding 2,991,411 shares of its \$1.80 convertible preferred stock, without par value, (2) to issue not exceeding \$93,881,110 in total aggregate amount of 30-year, 4-3/4 percent debentures and indenture thereto, (3) to issue not exceeding 2,542,699 shares of common capital stock, par value \$10 per share, (4) to assume obligation and liability in respect of First Mortgage Bonds; 40-year 4½ percent Income Debentures; and equipment trust obligations; of \$110,171,000; and in connection with the above-described First Mortgage Bonds and 40-year 4½ percent Income Debentures to issue supplemental indentures, (5) to assume obligation and liability in respect of various guaranties and suretyships in the total principal amount of \$5,843,244, subject to conditions. Application for authority under section 20(a) to assume obligation and liability of conditional sales contracts, dismissed,
- (b) also with respect to the merger herein authorized and in connection with the issuance of securities authorized immediately above, authority granted the Union Pacific Corporation to issue not exceeding 2,991,411 shares of its \$1.80 convertible preferred stock, subject to conditions.

- (c) to accomplish the purchase herein authorized, authority granted for the Southern Pacific Transportation Company to assume obligation and liability in respect of contingent obligations of bonds of certain railroad bridge and terminal companies in total principal amount of \$3,068,473.

6. In Finance Dockets Nos. 24128 and 24129 and subject to consummation of the transaction approved in Finance Docket No. 23286:

- (a) certificate issued authorizing construction by the Union Pacific Railroad Company of certain connecting tracks in Adams County and the City and County of Denver, Colo., Thomas County, Kans., and Jefferson, Lancaster, Sarpy, and Gage Counties, Nebr.

Conditions prescribed.

- (b) certificate issued permitting abandonment by the Union Pacific Railroad Company of certain lines of railroad in Adams County, Colo., Thomas County, Kans., Jefferson, Douglas, Sarpy, and Gage Counties, Nebr.

Conditions prescribed.

7. In Finance Docket No. 24154, subject to consummation of the transactions authorized in Finance Dockets Nos. 23286 and 23595, use by the Atchison, Topeka And Santa Fe Railway Company (Delaware corporation) of certain tracks and facilities of the St. Louis-San Francisco Railway Company at Kansas City, Mo., for not exceeding a three-year period found to be reasonably required in the public interest, practicable, and without substantial impairment to the ability of the St. Louis-San Francisco Railway Company to handle its own business.

Conditions prescribed.

8. In connection with all or certain of the above-described acquisitions proposed, requests for inclusion filed by the Denver & Rio Grande Western Railroad Company, Kansas City Southern Railway Company, Louisiana & Arkansas Railway Company, Soo Line Railroad Company, Missouri-Kansas-Texas Railroad Company, Northern Pacific Railway Company, Fort Worth and Denver Railway Company, Great Northern Railway Company, Western Pacific Railroad Company, and Chicago, Milwaukee, St. Paul and Pacific Railroad Company; granted in Finance Docket No. 23595 as to the Missouri-Kansas-Texas Railroad Company, subject to conditions, deferred as to the Chicago, Milwaukee, St. Paul and Pacific Railroad Company, and denied or dismissed as to all other parties and applications.

9. Order of the Commission entered in Finance Docket No. 24182² and Finance Docket No. 22688, on December 14, 1967 with respect to a study bearing upon the acquisition by a unified Chicago & North Western Railway Company-Chicago, Great Western Railway Company-Chicago, Milwaukee, St. Paul & Pacific Railroad Company of control of the Chicago, Rock Island & Pacific Railroad Company through acquisition of capital stock, rendered moot by order of the Commission on March 31, 1970 in Finance Docket No. 24182, denying the proposed transaction.

APPEARANCES

William J. McGovern, James R. McAlee, Gerald M. Stern, Richard S. Ewing, David S. Nobel, Richard M. Freeman, John C. Danielson, Stuart Ball, Howard Neitzert, Arthur R. Seder, Jr., Tully Friedman, Neil Komesar, Lee McTurnan, Francis J. Melia, Harry Lustgarten, Theodore E. Desch, Eaton Adams, A. Leslie Hodson, E. Houston Harsha, Karl F. Nygren, Richard Rogers, William C. Shannon, Timothy C. Klenk, J. C. Gibson, S. R. Brittingham, Jr., Milton E. Nelson, Jr., James K. Brooker, Harry De Lung, Jr., Harvey Huston, Richard K. Knowlton, Ronald C. Smith, Francis J. Steinbrecher, Alan C. Furth, Charles W. Burkett, Thormund A. Miller, W. Harney Wilson, Thomas H. Gonser, George L. Buland, J. C. Waterman, Armistead W. Gilliam, Edward K. Wheeler, William J. McDonald, Jr., and Timothy C. Quinn, Jr., for applicants.

Ernest Porter, Dennis McCarthy, H. T. Benson, L. R. Gardiner, Roger H. Thompson, L. E. Torinus, Anthony Kane, J. R. Walker, R. Paul Tjossem, E. L. Van Dellen, E. Barrett Prettyman, Jr., William A. Thie, Monroe E. Clinton, F. W. Crouch, C. Harold Peterson, Charles H. Clay, T. L. Farmer, Thomas A. Loose, Frank Farrell, Reginald Ames, Barry McGrath, Gordon C. Busdicker, William E. Davis, R. W. Spachman, Kenneth R. Lemke, Ernest D. Grinnell, Jr., John E. McCullough, Mark M. Hennelly, Gilbert P. Strelinger, Richard Emrich,

² Chicago, Milwaukee and North Western Transportation Company--Consolidation--Chicago & North Western Railway Company and Chicago, Milwaukee, St. Paul and Pacific Railroad Company.

William R. McDowell, John Guandola, Leon Leighton, Richard H. Champlin, Edwin O. Schiewe, Raymond K. Merrill, Robert F. Munsell, Warren H. Ploeger, Thomas G. Corcoran, Edward H. Foley, James Meers, R. T. Cabbage, Richard M. Gleason, Ralph L. MacAfee, Harry Voigt, Reagan Sayers, Hugh T. Mathews, G. M. Rebman, Harry G. Silleck and Philip S. Brown for rail carrier and motor carrier interveners.

Michael K. Wilson, E. T. Williams, Jr., Vincent V. MacKenzie, Robert Lee Kessler, Rodney J. Bardwell, Jr., David O. Benson, Walter R. McDonald, Larry D. Ripley, Thomas N. Bolton, Leo J. Steffen, Jr., Edward Johnson, Ray R. McKinley, William L. Mitchell, David Van Vote, Richard Musenbrock, Errol D. Taylor, Wayne W. Waldo, C. M. Steelsmith, H. C. Larson, Thomas Higashi, Herman L. Bode, W. E. Fincher, John Avery, James R. Cunningham, Richard V. Maves, Harry Slater and Alex J. Eliopoulos for State and regulatory agencies.

Gerald T. Boyle, Howard D. Hicks, Max P. Zall, Harold C. Warnock, Samuel R. Freeman, C. C. Kennett, Walter J. Matejka, Carl S. Parker, Jr., Morris G. Watson, and Kendall Laughlin for counties, municipalities, chambers of commerce, associations and individuals.

Andrew J. Connick, Robert B. Fiske, Jr., Thomas C. Meehan, and T. C. Lewis for brokerage houses and banks.

Richard H. Kraushaar, Elmer R. Joss, William J. Hickey and William G. Mahoney for railway labor organizations.

William J. Holloran, Joseph Saunders and Joseph Gallagher for United States Department of Justice.

Bernard A. Gould and Ellis V. Gregory for Interstate Commerce Commission, Bureau of Enforcement.

REPORT AND ORDER RECOMMENDED BY
NATHAN KLITENIC, HEARING EXAMINER

PART A THE PROCEEDINGS

In Finance Docket No. 22688, by application filed July 5, 1963, as amended and supplemented, the Chicago and North Western Railway Company, hereafter called the North Western or C&NW,³ seeks authority under section 5(2) of the Interstate Commerce Act to acquire control of the Chicago, Rock Island and Pacific Railroad Company, (Rock Island or RI) through ownership of its capital stock, both common carriers by railroad subject to the provision of part 1 of the Interstate Commerce Act, and through such transaction to acquire indirect control of the Rock Island's subsidiary companies. In turn, by a supplemental

³ The rail carrier parties will be referred to by the distinctive names in their corporate titles, or by the initial designation shown.

application filed June 25, 1968 under section 5(2), Northwest Industries, Inc., of Chicago, Ill., (Northwest Industries) a non-carrier holding company in control of North Western through stock ownership, seeks concurrent authority under section 5 to acquire control of the Rock Island and its common carrier subsidiaries through the acquisition by North Western.

In Finance Docket No. 22689, by another application also filed on July 5, 1963, North Western seeks authority under section 20a of the act, to issue such securities, later fully described, necessary to effectuate the proposed acquisition of control above-discussed in F. D. No. 22688.⁴

⁴ Following the filing of a supplemental application in F. D. No. 22689 on November 22, 1963, as amended December 10, 1963, and October 7, 1965, for preliminary authority under section 20a, in Chicago & N.W. Ry. Co. Certificates of Deposit, 328 I.C.C. 126, decided March 8, 1965, and supplemental report 328 I.C.C. 140, decided December 20, 1965, North Western was authorized to issue certificates of deposit, Series A and Series B, for outstanding Union Pacific Railroad Company certificates of deposit already given to Rock Island stockholders for their shares, and also for Rock Island stock remaining in the hands of stockholders. The foregoing authority being preliminary to consideration on the merits of the pending basic applications under sections 5 and 20a in Finance Dockets Nos. 22688 and 22689 for authority to acquire control of the Rock Island and issuance of other securities necessary to accomplish the transaction. Concurrently with the issuance of the report and order on March 8, 1965 in the above-described certificates of deposit proceeding, the Commission also entered an order (as corrected) in Finance Docket No. 23288, Chicago, Rock Island & Pacific Railroad Company Certificates of Deposit and Finance Docket No. 23288 (Sub-No. 1), Union Pacific Railroad Company For Such Authority, If Any, As May Be Necessary In Connection With The Issuance Of Certificates Of Deposit By The Chicago, Rock Island & Pacific Railroad Company, in which order, among other things, the Union Pacific was authorized to issue certificates of deposit for a specified number of shares of Rock Island common stock in accordance with the exchange offer filed in Finance Docket No. 23287, later described. Similarly as with the North Western, the authority granted the Union Pacific for the issues of certificates of deposit was not to be construed as passing upon the merits of the basic applications of the Union Pacific under sections 5 and 20a for authority to acquire the franchises and property of the Rock Island and to issue certain other securities.

In Finance Docket No. 23285, by application filed September 10, 1964 the Union Pacific Railroad Company (Union Pacific or UP), a carrier by railroad subject to part I of the Interstate Commerce Act, sought authority under section 5(2), for the acquisition of control of the Rock Island through purchase of its outstanding common capital stock. No evidence was presented by applicant in support of proposed control. It states in the joint brief filed after hearing in these proceedings that the Union Pacific has waived its application for stock control. Accordingly, the order herein will provide for dismissal of the application.

In Finance Docket No. 23286, by a joint application also filed September 10, 1964, as amended, under section 5(2) Union Pacific and Rock Island seek authority for (1) the merger of properties and franchises of Rock Island into Union Pacific for ownership, management, and operation and acquisition by Union Pacific Corporation (UPC) the parent holding company of Union Pacific, as later more fully detailed, of control of the properties and franchises through the merger; and (2) the acquisition by Union Pacific and, in turn, Union Pacific Corporation, through said merger of (a) sole or joint control of companies subsidiary to or affiliated with Rock Island, and (b) of leasehold interests in, trackage rights over, or joint ownership in or use of, the railroad lines of certain other carriers held by Rock Island. In the same application approval is requested of a formula for determining available net income under various indentures of Rock Island, of which, obligation and liability would be assumed by the Union Pacific, as next discussed, in lieu of maintaining separate income accounts, and a finding that said formula will effect no material alteration in the rights of the holders of the securities issued under the indentures.

In Finance Docket No. 23287, by an application concurrently filed under section 20a, Union Pacific seeks authority (1) to issue certain securities in connection with the above-described control application to be dismissed and, accordingly, this portion of the securities application also will be dismissed, and (2) so as to effectuate, the above-described merger in Finance Docket No. 23286, (a) to issue not exceeding 2,991,411 shares of its \$1.80 Convertible Preferred stock in exchange for common stock of Rock Island, (b) to issue not exceeding 9,388,110 shares of 4 3/4 percent debenture in exchange for its existing 4 percent preferred stock, and (c) to assume obligation and liability in respect of First Mortgage Bonds in principal amount not exceeding \$47,537,000; Forty Year 4 1/2% Income Debentures in principal amount not exceeding \$50,338,000; equipment trust certificates in principal amount not exceeding \$12,296,000, and conditional sales contracts or deferred payment contracts in principal amount not exceeding \$8,840,787; and (3) to issue not

exceeding 2,542,699 shares of its common stock in connection with any exercise of conversion rights by the holders of said \$1.80 Convertible Preferred stock.

Pursuant to UPC's petition (and supplemental application) filed September 5, 1969, and order of the Commission dated November 3, 1969, UPC was joined as a party applicant in the above-described applications of Union Pacific in Finance Dockets Nos. 23285, 23286, and 23287. For the reasons already stated, the application in Finance Docket No. 23285 will be dismissed. UPC seeks authority under section 5, and through the merger transaction, to acquire direct control of the Rock Island and indirect control (sole or joint) of companies subsidiary to or affiliated with Rock Island and of leasehold interests in, trackage rights over, or joint ownership in or use of, railroad lines of certain other carriers held by Rock Island. UPC seeks authority under section 20(a) to issue its \$1.80 preferred stock, convertible into .85 share of its common stock, for each share of the \$1.80 convertible preferred stock of the Union Pacific which Rock Island stockholders would receive under the merger.

In Finance Docket No. 23595, by application, filed April 15, 1965, as amended, under section 5(2) and subject to prior approval and consummation of the previously described Union Pacific-Rock Island merger, the Southern Pacific Transportation Company (Southern Pacific or SP) a carrier by railroad subject to part I of the act, seeks authority for the purchase from the Union Pacific of a portion of the merged Rock Island franchises and properties of the Rock Island, as later detailed, the stock held by the merged Rock Island in the Arkansas & Memphis Railway Bridge and Terminal Company (A&M Terminal) Kansas City Terminal Railway Company, (KC Terminal), Houston Belt & Terminal Ry. Co. (Houston Belt), and Union Terminal Company, Dallas, Tex., (Union Terminal of Dallas) and also a portion of the operating rights of the latter's motor carrier subsidiary, the Rock Island Motor Transit Company of Des Moines, Iowa, (R.I. Transit) for a basic purchase price of \$120,000,000, subject to adjustments. Southern Pacific Company (SPC), the parent holding company of Southern Pacific, as later more fully discussed, seeks concurrent authority under section 5 to acquire control of the franchises and property through the purchase.

In Finance Docket No. 23596, by application also filed April 15, 1965, as amended, under section 20(a) and to effectuate the proposed purchase described immediately above, Southern Pacific seeks authority to assume certain contingent obligations of Rock Island in respect to bonds of the 5 terminal companies above-named. These obligations which totaled \$134,847,000 as of December 31, 1963, are listed in Schedule 110 of Rock Island's Annual Report Form A to the Commission for the year 1963.

In No. MC-F-9222, by application filed September 23, 1965, as amended, Southern Pacific Transport Company, of Dallas, Tex., (Southern Transport) a wholly owned motor carrier subsidiary of Southern Pacific, seeks authority under section 5 of the act to purchase a portion of the operating rights of R. I. Transit. SPC seeks concurrent authority under the same section to acquire control of the rights through the transaction. The motor carrier rights here involved are the same rights previously referred to in the proposed purchase by Southern Pacific in Finance Docket No. 23595. The purpose of the instant transaction is merely to substitute the motor carrier subsidiary, Southern Transport, in lieu of its parent railroad. For the rights proposed to be acquired herein, Southern Transport would pay its parent company \$35,850.59.

In Finance Docket No. 23919, by application filed December 13, 1965, as amended, The Atchison, Topeka & Santa Fe Railway Company, a Delaware corporation, (Santa Fe or AT&SF), seeks authority under section 5(2) and subject to prior approval and consummation of the North Western control application in Finance Docket No. 22688, to purchase a portion of the Rock Island's franchises and properties, stock interest held by Rock Island in 9 railroad, bridge, and terminal companies including, but not limited to, A&M Terminal, Union Terminal of Dallas, and Houston Belt, a portion of the motor carrier operating rights of R.I. Transit and such terminals and other facilities (other than highway equipment) appurtenant to such motor carrier rights for a base purchase price of \$100,000,000. Santa Fe also would acquire certain trackage rights and which will be later detailed as well as the consideration and reimbursement for such trackage rights. Santa Fe Industries, Inc., the parent holding company of the Santa Fe, seeks concurrent authority under section 5 to acquire control of the franchises, operating rights, and physical property through the purchase proposed.

In No. MC-F-9668, by application filed February 6, 1967, The Santa Fe Trail Transportation Company of Wichita, Kans., (Santa Fe Trail), a wholly owned motor carrier subsidiary of Santa Fe, seeks authority under section 5 to purchase a portion of the operating rights and certain physical property of R.I. Transit. The situation here involved is the same as previously described with respect to Southern Pacific and its affiliate motor carrier; i.e. the proposed acquisition of R.I. Transit operating rights and property by Santa Fe has been assigned by the latter to its motor carrier affiliate. Santa Fe has been unable to obtain the information necessary to a determination of the value of the rights and property to be acquired by Santa Fe Trail. The value would be determined following approval and consummation of the purchase and at which time Santa Fe Trail would pay the consideration out of its current funds.

In Finance Docket No. 23920, filed concurrently with its section 5 application, Santa Fe seeks authority under section 20a to assume contingent liability with respect to bonds of A&M Terminal, Union Terminal of Dallas, and Houston Belt, as listed in Schedule 110 of Rock Island's Annual Report, Form A, (the year not being stated).

In Finance Docket No. 24128, by application filed April 29, 1966, Union Pacific seeks authority under section 1(18)-(20) of the act and in connection with the proposed Union Pacific-Rock Island merger to construct extensions of line in Colorado, Kansas and Nebraska so as to establish a line of connection between the two railroads.

In Finance Docket No. 24129, by application also filed April 22, 1966, Union Pacific seeks authority under section 1(18) of the act to abandon portions of line in Colorado, Kansas, and Nebraska. This application is directly related to and conditioned upon the construction application in Finance Docket No. 24128.

In Finance Docket No. 24154, the Santa Fe by petition filed May 16, 1966, pursuant to section 3(5) of the act, and in connection with trackage rights being sought over lines of the Rock Island, from St. Louis, Mo., to Kansas City, Kans., by the Santa Fe under section 5, seeks the issuance of an order requiring common use of certain terminal facilities of the St. Louis-San Francisco Railway Company (Frisco) at a compensation to be decided upon by the parties or, failing that, by the Commission.

In addition to the above applications, certain of the rail carrier parties seek inclusion in one or more of the basic applications. The basic applications, of course, are the proposed North Western control in Finance Docket No. 22688; the Santa Fe purchase in Finance Docket No. 23919; and the Union Pacific merger in Finance Docket No. 23286 together with the Southern Pacific purchase in Finance Docket No. 23595. Section 5(2)(d) of the act, in summary, provides that in transactions such as here involved the Commission is authorized to require the inclusion of other railroads in approved transactions upon petition and a finding that such inclusion is consistent with the public interest. The various requests for inclusion which have been made will not be detailed at this point. As is more appropriate, those requests will be fully set forth following the discussion of certain evidence necessary to an understanding of the requests.

Finally, in Finance Docket No. 24182, Chicago, Milwaukee And North Western Transportation Company--Consolidation--Chicago & North Western Railway Company and Chicago, Milwaukee, St. Paul & Pacific Railroad Company (the Milwaukee proceeding) and in the instant proceeding in Finance Docket No. 22688 embracing the proposed North

Western control of the Rock Island, (Rock Island proceeding) the Commission by order of December 14, 1967, among other things, directed the North Western to submit in the Rock Island proceeding its unification plan with respect to a controlled Rock Island based upon, as herein pertinent, prior consummation of the Milwaukee proceeding. At that time, the Milwaukee proceeding was pending for Commission determination. Also, the Chicago, Milwaukee, St. Paul and Pacific Railroad Company's (Milwaukee or MILW) conditional support of the herein considered North Western control of the Rock Island was grounded on an approval and consummation of the Milwaukee proceeding. However, by order of March 31, 1970, the Commission denied the merger transaction proposed in the Milwaukee proceeding. Moreover, as a result of the denial, the Milwaukee has undergone substantial change in position, as later more fully discussed. In short, the Milwaukee now seeks inclusion in either the system of the Union Pacific or the Southern Pacific in the event the Union Pacific-Rock Island merger and the Southern Pacific purchase applications are approved.

With the circumstances under which the Commission issued its above-described study order having undergone such a complete change, the purposes of the study have become moot. It would contribute nothing in the public interest to now engage in a study requiring much time and a discourse of great length to the ultimate end of no practicability.

Initially the basic applications were assigned to Hearing Examiner Paul C. Albus for hearing and recommendation of an appropriate order, accompanied by reasons therefore. Subsequently, pursuant to order of the Commission, by Commissioner Brown, entered on September 26, 1966, Hearing Examiner Klitenic, as a second examiner assigned to all of the proceedings, continued the conduct of the hearings pending the recovery of Hearing Examiner Albus from injuries suffered in an accident. Thereafter, the two hearing examiners participated jointly in the conduct of the proceedings. The two hearing examiners also participated in the drafting of this report up to May 1, 1970, on which date Hearing Examiner Albus retired from service with the Commission and he no longer was available to the Commission.

All of the proceedings heretofore described were set for hearing on a consolidated record. The initial hearings opened on May 4, 1966 and closed August 22, 1968 and further limited hearings, resulting from the filing of the previously described UPC petition for joinder, were held on November 19, 1969 and April 15 and 16, 1970. The total proceedings consumed about 279 actual days of hearing, held at Washington, D. C., Chicago, Ill., Kansas City and St. Louis, Mo., Dallas, Tex., Denver, Colo., and San Francisco, Calif.

A large number of parties intervened and participated in the proceedings. The positions of the parties, especially of the rail carriers, and handling hereafter of the evidence presented can be best understood by emphasizing the obvious status of the applications; namely, that the basic Union Pacific-Rock Island merger application (including the Southern Pacific proposed purchase) on the one hand, and, on the other, the North Western proposed control of the Rock Island (with or without the Santa Fe transaction) are competitive and mutually exclusive applications. Almost every class I railroad and three class II railroads serving territory west of the Mississippi River intervened in the proceedings.⁵

⁵ Denver and Rio Grande Western Railroad Company (Rio Grande or D&RGW), Fort Worth and Denver Railway Company (FW&D), Colorado and Southern Railway Company (C&S), Great Northern Railway Company (Great Northern or GN), Western Pacific Railroad Company (Western Pacific or WP), Missouri-Kansas-Texas Railroad Company (Katy or MKT), Soo Line Railroad Company (Soo), Texas and Pacific Railway Company (T&P), Northern Pacific Railway Company (Northern Pacific or NP), Minneapolis, Northfield and Southern Railway (MN&S), Spokane, Portland and Seattle Railway Company (SP&S), Missouri Pacific Railroad Company (MoPac or MP), St. Louis-San Francisco Railway Company (Frisco or SLSF), Milwaukee, Chicago, Burlington and Quincy Railroad Company (Burlington or CB&Q), Chicago Great Western Railway Company (Great Western or CGW), Kansas City Southern Railway Company (KCS), and the following three railroads when referred to separately rather than as part of the Kansas City Southern system: Louisiana and Arkansas Railway Company (Louisiana & Arkansas or L&A); Arkansas Western Railway Company (Arkansas Western); and Ft. Smith and Van Buren Railway Company (Ft. Smith & Van Buren). All of the foregoing are carriers subject to the provisions of part I of the Act.

Note: Great Northern, Northern Pacific, Burlington, and SP&S are herein sometimes referred to collectively as Burlington Northern, or BN, as detailed in Part B.

Six motor common carriers of freight,⁶ certain State agencies,⁷ public and other special interests,⁸ labor organizations,⁹ Kendall Laughlin, who is a minority stockholder in the Union Pacific, Southern Pacific, and Rock Island, the United States Department of Justice (Justice), and Bureau of Enforcement, Interstate Commerce Commission (Bureau) comprise the remaining participating interveners.

⁶ Leeway Motor Freight, Inc., H.A. Day Truck Line, Inc., Texas-Oklahoma Express, Inc., Tri-State Motor Transit, Inc. Western Gillette, Inc., and Superior Forwarding Co.

⁷ Idaho Public Utilities Commission (Idaho), Public Utilities Commission of the State of South Dakota (South Dakota), South-eastern Association of Railroad and Utilities Commissioners (Southeastern Association), Minnesota Commissioner of Agriculture (Minnesota), Public Service Commission of Wyoming (Wyoming), Utah Industrial Promotion Commission (Utah), Public Utilities Commission of the State of Colorado (Colorado), Public Utilities Commission of the State of California (California), Oklahoma Ordinance Works Authority (Oklahoma), State Corporation Commission of New Mexico (New Mexico), Public Utility Commissioner of Oregon (Oregon), Arkansas Commerce Commission, Missouri Public Service Commission, and the State Corporate Commission of Kansas (Kansas).

⁸ City of Milwaukee and Milwaukee Board of Harbor Commissioners, Golden State Route Committee, City of Kansas City, Greater Baton Rouge Port Commission, Port of Beaumont, Texas, Houston Port Bureau, Texas Gulf Ports Association, Port of Galveston and Galveston Chamber of Commerce, Port of Lake Charles, Louisiana, Chamber of Commerce and City of Clay Center, Kansas; City Council, Chamber of Commerce and Junior Chamber of Commerce, Limon, Colorado; City and Chamber of Commerce of Manhattan, Kansas; City and Chamber of Commerce of Belleville, Kansas; City and Chamber of Commerce of Goodland, Kansas; City of Sharon Springs, Kansas, and Chamber of Commerce of Wallace County, Kansas; Cheyenne County and Cheyenne Wells, Colorado; City and Chamber of Commerce of Colorado Springs, Colorado; and Chamber of Commerce of Pueblo, Colorado, City and Chamber of Commerce of Phillipsburg, Kansas; City and Chamber of Commerce of Smith Center, Kansas; and City and Chamber of Commerce of Norton, Kansas, Lincoln County, Colorado; Town of Hugo, Colorado, Chamber of Commerce and City of Grand Junction, Colorado; and Moffat Tunnel Commission, City of Council Bluffs, Iowa, City and County of Denver, Colorado; Denver Chamber of Commerce, City and Chamber of Commerce of Rotan, Texas, City and Chamber of Commerce of Parsons, Kansas.

⁹ Railway Labor Executives' Association (RLEA) and Brotherhood of Locomotive Engineers (BLE).

As will be specifically detailed later, the rail carrier interveners, as a group, take a wide variety of positions. For example, some unqualifiedly oppose both basic applications; others oppose both basic applications but seek affirmative conditions or inclusion if either transaction is approved; some oppose one basic application and either take no position or support the other proposal; others in addition to opposing the applications also oppose the affirmative relief or request for inclusion sought by others and, of course, each applicant in the basic applications oppose the proposed transaction of the other. A similar broad scope of positions are taken by the various non-carrier parties set forth in footnotes 7 and 8. With further respect to the affirmative relief sought by the various carrier parties, some seek conditions which concern operations over Rock Island's lines while other conditions involved operations over applicants' lines. Accordingly, the various requests for affirmative relief can best be understood following a description of all carrier parties' lines of operation.

With respect to the record developed up to the close of hearings on August 22, 1968, a joint brief was filed by the five applicant carriers and all carriers named in footnote 5, except for one. The examiner notes that a statement of disclaimer at page 12, specifies sections containing material prepared by counsel for each party and which material the participating parties as a unit neither subscribe to nor agree is complete in all respects. One counsel also objects to certain material of several carriers. The examiner has given due consideration to, and carefully evaluated all material contained in the joint brief in the light of the evidence of record. Separate briefs were filed by applicants and the 16 carriers named in footnote 5, except that the Great Northern and SP&S; and the FW&D and C&S, jointly filed. Also, briefs were filed by Kendall Laughlin, the State Corporate Commission of Kansas, the Southeastern Association, Golden State Route Committee, State of California, jointly by the State of Colorado, City and County of Denver and Denver Chamber of Commerce, by each of the two labor organizations, Justice and the Bureau. Reply briefs, limited solely to the subject matter of traffic studies, were filed jointly by the Union Pacific, Southern Pacific and Rock Island, and separately by the North Western, Santa Fe, Rio Grande, T&P, MoPac, Milwaukee, Burlington, Soo, KCS, Western Pacific, Frisco, Northern Pacific, and FW&D.

The North Western, Frisco, and T&P separately filed motions to strike the brief of Justice or, in the alternative, petitions by North Western and T&P for leave to file a reply to Justice's brief. Replies to the motions and petitions were separately filed by Justice, Rock Island, Rio Grande, Union Pacific, and Southern Pacific. By order of March 25, 1969, the Commission, by Chairman Brown, denied the motions and petitions. A petition of North Western for reconsideration of the foregoing order and also a motion of MoPac for leave to file a reply to the brief of Justice

was denied by Commission order of May 23, 1969. In a separate order also dated May 23, 1969, the entire Commission denied a petition of Kansas City Southern Lines to consolidate for disposition the instant proceedings with those in Finance Docket No. 25103 et al, Illinois Central Gulf Railroad Company--Acquisition--Gulf, Mobile and Ohio Railroad Company, Illinois Central Railroad Company, et al.

The brief of the Kansas State body was received on February 18, 1969, or more than three weeks after expiration of the extended due date of January 27, 1969 for the filing of briefs. The Frisco, on February 24, 1969, filed a motion to strike the late filed brief. However, by letter dated March 3, 1969, the Commission accepted the late filed brief. As the examiner construes the acceptance, it extends basically to the State's statement of its position in these proceedings and, of course, statements in the brief which are not evidence of record will not be considered.

In connection with the limited further hearing held on November 18 and 19, 1969, a brief also was filed by the North Western. It charged the examiners with actions resulting in denial of a fair hearing. However, by order of December 15, 1969, the Commission held, among other things, that the actions of the examiners were correct and proper in all respects. The examiner hereby affirms all rulings made at the hearing and no further discussion of the matters and things discussed in this brief of North Western is required.

A brief was filed by the North Western following the limited hearing held on November 18-19, 1969 and, with respect to the limited further hearing held on April 15 and 16, 1970, briefs were filed by the North Western, Union Pacific, MoPac and the Bureau.

All of the carrier parties to the proceedings, Justice, and the Bureau, filed a written stipulation and agreement which provides that each party in its brief, exceptions, and several other specified pleadings may refer to schedules 200A, 200L, and 300 and the explanatory notes to the balance sheet and income statement contained in the Form A.-Annual Report to the Commission filed by each carrier party to the proceedings for the years 1964 through 1968, inclusive, as if such data had been offered and received in evidence at the hearing. While under rule 69, of the Commission's General Rules of Practice, the stipulation is accepted, the stipulation falls far short of being fully reflective of the actions of the parties. During the course of the hearing and in instances too numerous to mention just about all participating carrier parties cross-examined upon the form A reports and in which they covered schedules, data, and years considerably beyond the material and years mentioned in the stipulation.

In further connection with the foregoing, the Commission's Report And Order On Prehearing Conference, of March 31, 1966, pointed out that it had been stipulated by the parties that in the preparation of testimony and exhibits certain documents may be employed but without agreement as to competency, relevency, or materiality. Some 15 documents were described including the following: any report regularly made to the Interstate Commerce Commission by railroad companies pursuant to law or Commission regulations; annual reports to stockholders of any railroad; "Transport Statistics in the United States," Interstate Commerce Commission; "Schedules of Annual Indices for Carriers by Railroad," Bureau of Accounts, Interstate Commerce Commission and Moody's Transportation Manual. Again, upon cross-examination many of the foregoing documents (including Form A) were referred to notwithstanding that the witness had not employed such in his written testimony and exhibits. This practice was a standard procedure among most all of the carrier parties; no objections were made; and under the circumstances and the strong insistence of the parties the examiners agreed to the practice. Such practice has continued on brief. The participants cannot now refute their actions of incorporation which were clearly mutually agreeable and permitted.

Accordingly, in the discussion of various matters herein, facts may have been obtained from the annual reports of the carriers (a) to the Commission and (b) to their stockholders, for the years 1953 through 1969, inclusive, Transport Statistics in the United States, Interstate Commerce Commission, Moody's Transportation Manual, and Commodity Statistics reports of the carriers to the Interstate Commerce Commission for the quarters and full years. There may be a party in interest situated outside of the above-described circumstances. Any such party who challenges the facts obtained from the incorporated documents, and pursuant to section 7(d) of the Administrative Procedure Act, should upon a timely filed petition setting forth its objectives, be afforded an opportunity to show the contrary.

Preliminary Procedural Issues

The several procedural questions raised by some of the interveners require disposition prior to a consideration on the merits of the various proceedings.

There can be no disagreement with the view that the greatest portion of this record has been devoted to the single subject matter of traffic studies. The results of such evidence showing estimated losses and gains in traffic and revenues estimated to occur as a result of the proposed transaction bears heavily upon several essential issues of determination including, among other things, the consideration which the Commission under section 5(2)(c) is required to give to the effect which the proposed transaction will have upon the ability of competing carriers to continue to provide adequate transportation services to the public. On behalf of the T&P, cross-examination of William Wyer the witness offered in support of the Southern Pacific traffic study established that the witness had no personal experience and knowledge in certain areas of the traffic study. The foregoing infirmities, which are repeated in the T&P brief, were judged by the examiners as affecting the weight to be afforded the traffic study and not its admissibility. Almost one year following disposition of the above matter one E. E. Portwood appeared on behalf of the Southern Pacific to present evidence on a subject other than its traffic study. It was true, however, that, during the prior cross-examination of Wyer, Portwood had been named as one of 38 individuals who had made judgments and evaluations underlying the Wyer study of Southern Pacific traffic.

An objection made by Southern Pacific to cross-examination of Portwood on the Southern Pacific traffic study by T&P was sustained. On brief, T&P presses its objection to the action of the examiners. It asserts that Southern Pacific had the burden and duty to support its traffic study by witnesses who could withstand cross-examination, that T&P in its cross-examination had attempted to establish that persons qualified to stand cross-examination had not been furnished and, therefore the exhibit should not have been received, and that T&P should have been permitted through cross-examination of Portwood to test the statements made by Wyer to develop whether or not there were really some inconsistencies in what he said and what actually went on. T&P points to the right of cross-examination as set forth in section 7(c) of the Administrative Procedure Act (APA). It argues that it has been deprived of such fundamental right, citing Interstate Commerce Commission v. Louisville & N. Co. 227 U.S. 88 and Powhata Mining Co. v. Ickes, 118 F. 2d. 105, and that having admitted the exhibit under the broad rule that administrative agencies are not bound by the ordinary rules of evidence, the agency is required to extend to the litigant the right to test evidence thus admitted by the fullest possible cross-examination.

The principles set forth in cases cited above are not here in point. T&P does not deny that it was given full opportunity to exhaust its right of cross-examination of Wyer. Neither is the issue raised as to the weight to be afforded the traffic exhibit in the light of the result of the Wyer examination. The real question raised is when may it be found properly that cross-examination is at an end and the subject matter may finally be laid at rest. T&P's arguments that it was in a position of having to accept testimony which was not subject to cross-examination (and here it apparently refers to those questions which Wyer had no response based upon personal knowledge) and that T&P was never permitted to cross-examine anyone who initially made the traffic judgments, was in each instance actually a matter of T&P's own choice. As pointed out by the examiners if any cross-examiner was uncertain or dissatisfied with Wyer's answers they had every right to say "Mr. Examiners we want the people who actually made the judgments to appear." However, after having sat on its rights for almost one year after disposition of the matter, T&P sought to further pursue the subject. Even then counsel was constrained to agree that, "** I know that I am bound by some degree of reasonableness **".

No new or unusual circumstances or matters were involved which would warrant a reopening of the subject. The areas proposed to be probed were broad in scope¹⁰ and while Portwood most likely was competent to have responded for himself alone there is no indication that he was qualified satisfactorily to speak for the remaining 37 individuals who were also involved. The right of cross-examination is not an unqualified right. It does not forever remain open the length and breadth of the proceeding on each and every issue conferring upon any and every party the right to perfect his case or alter his line of attack as he sees fit. If such procedures were to have been permitted the orderly processes of the hearing would have been reduced to shambles. Moreover, the guidelines applicable to the conduct of cross-examination are not designed exclusively for the protection of the cross-examiner but are intended to equally shield the interests of the proponents of evidence in their right to a fair hearing. The examiner affirms the ruling.

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T&P specifies the areas as (1) The reliability of Wyer's statement that the personnel who gave the hundreds of opinions underlying the SP traffic study were acquainted with the information such as origin, destination, consignor, consignee, and full route of movement which Wyer had stated was unnecessary to disclose to them in making their judgments, because they already knew the factors in 80-90% of the movements; (2) To determine which of Wyer's instructions and his methodology of study governed the judgments of those making studies and whether or not such instructions caused them to go against their own judgment as to divertibility of the traffic; and (3) To determine what factors were relied upon by the parties making the judgments in determining divertibility of freight.

The T&P specifies three additional instances in which it claims to have been deprived of a full and fair hearing. It points to the fact that the carrier parties had agreed to limit themselves to 20 public witnesses each. In such connection, T&P mentions four witnesses proffered on behalf of either Union Pacific or Southern Pacific and which witnesses in each instance additionally presented evidence on behalf of the other carrier. T&P's motion to strike the latter evidence was denied. Similarly, over objection, Santa Fe was permitted to elicit evidence on its affirmative relief from a Union Pacific witness. The Rio Grande, in connection with its request for inclusion, was permitted to cross-examine three Rock Island witnesses and one of Union Pacific, and the Union Pacific cross-examined a Santa Fe witness concerning Union Pacific's proposed acquisition of the northern portion of the Rock Island lines. In the light of the foregoing, T&P claims that the examiners were inconsistent in sustaining objections to T&P's line of questioning of two witnesses appearing on behalf of another and in rejecting an exhibit which T&P attempted to introduce in its own behalf through one such witness.

T&P fails to recognize the sharp and distinctive features of the two situations. As indicated by the Union Pacific-Rock Island merger application and principal supporting evidence, the latter proposal together with the subsequent sale to Southern Pacific of the southern half of the Rock Island are interrelated transactions. Indeed, it is upon such premise that the Union Pacific and Southern Pacific open at the very outset of their briefs. Contrasted to that situation is the adamant insistence of the T&P that it was here being represented by its own counsel and would present its own case and interest separate and apart from that of its parent company the MoPac. Nevertheless, in two written statements of public witnesses submitted on behalf of the T&P, support is given the MoPac¹¹; in another instance counsel for T&P cross-examined on behalf of the MoPac; and while testifying on behalf of the MoPac its president also represented

¹¹See Exhibit No. 387, "It is inconceivable that joint rates and routes would not be established to permit potash to move via T&P-MoPac-East St. Louis and connections if the conditions in their petition are approved by the Commission." Also see Exhibit No. 394, "We likewise have been advised by the Texas and Pacific, the Missouri Pacific Railroad Company and Louisiana and Arkansas Railroad (KCS) of the economic effects that will befall them***." "****We are advised by the Missouri Pacific Railroad *** that the adverse economic effects may cause them to curtail service."

to the Commission that an approval of the North Western transaction was preferable to the T&P affirmative relief sought in the Union Pacific and Southern Pacific transactions (Transcript page 43192). Thus, T&P received a full measure of fair treatment.

Turning to the matters immediately at hand, in all instances where the cross-examination referred to above by T&P was allowed, the direct evidence had an immediate and real relationship to the interests of the cross-examining carrier. No such situation existed in the two cases complained of where T&P was foreclosed from its examination. Both witnesses appeared on behalf of the Rio Grande; T&P does not oppose or have any interests in the Rio Grande affirmative relief (the MoPac does); and neither witness presented evidence in opposition to the T&P case. By T&P's line of cross-examination it was attempting to determine from one witness (J.W. Hepburn) whether the latter's line of reasoning in support of the Rio Grande was also applicable to T&P's requested affirmative relief. In other words, T&P was attempting to make as its own witness one who had appeared on behalf of another carrier. Of course, the Rio Grande's objection was well taken. The T&P not only made the same attempt with the other Rio Grande witness (Alfred J. Navaroli for Bud Antle, Inc.), but it even went further and attempted to develop on this record the issues pending in another proceeding. The foregoing, and in addition the objection made that it was for the witness itself to make its own case and in the appropriate proceeding were the real basis of objections by the Union Pacific and Southern Pacific.¹²

Finally, attention of the Commission is here directed to the fact that the examiners' rejection of the document marked for identification as Exhibit TP CX1, and also to the examiners' ruling which foreclosed certain further cross-examination of the Bud Antle witness (T&P brief page 244) were previously considered upon appeal to the Commission by T&P. The actions of the examiners were sustained in the Commission order, by Vice-Chairman Brown, dated August 16, 1967.

¹²Mr. Ball: Here is a pleading in an entirely different lawsuit. Here are a lot of allegations in a pleading, and this is an attempt to try the issues in that lawsuit, by asking this witness before this Commission whether the allegations are true and correct. It is an improper interjection of an entirely different matter.

The forum to try the issues are the ones right now in the ICC. This is an entirely improper attempt to by a general answer get in a mass of evidence without the right of cross-examining the witness on it.

Mr. Wilson: Mr. Examiner, I will also object. This is precisely the reason for my asking the question I did on cross-examination. This is a matter that is now before the Interstate Commerce Commission in another proceeding, and certainly that is where these people should make their case and not here in this merger proceeding.

I will object on that ground as improper. (Transcript page 28,318)

Of two additional procedural complaints of T&P, one alleges unfair and improper curtailment of cross-examination of a Santa Fe witness. Early in the proceeding, Santa Fe presented evidence relating to its proposed acquisition of the southern half of the Rock Island lines. In such connection, Santa Fe's traffic study shows that a far smaller loss would be incurred by the T&P than disclosed by the latter's traffic study. At the stage of the proceeding complained of in the T&P brief, the Santa Fe, as a protestant, was presenting evidence in opposition to the Union Pacific and Southern Pacific applications. However, this evidence of the Santa Fe does make a reference to T&P traffic estimates and also reaches the conclusion that in the event the T&P affirmative relief requested in the Southern Pacific transaction is granted the revenue loss to the Santa Fe would be greater than the T&P gain.

Prior to beginning cross-examination of the Santa Fe witness, it was agreed by the involved counsel and the examiners that such examination may properly explore two areas. The above discussed Santa Fe opposition to the T&P requested affirmative relief being one, and the other having to do with establishing inconsistencies in diversion judgments by the witness between one of his traffic studies dealing with the Santa Fe acquisition where it was estimated no diversion would result from the T&P as contrasted to his other traffic study involving the Southern Pacific proposal and involving similar traffic movements where a diversion from the Santa Fe was anticipated, (transcript pages 42,250-42,255).

T&P's claims at page 248 of its brief that (1) "TP attempted to cross-examine Mr. Hudson to develop inconsistencies in the judgments made by Mr. Hudson in the study showing TP traffic losses upon ATSF acquisition of RI south and the ATSF traffic losses upon SP acquisition of RI south (T. 42,250-42,254)," and that (2) "TP cross-examination was severely limited by the examiner who, in essence, ruled that cross-examination of the witness by TP would be permitted only if the examiner could be assured beforehand that TP's cross-examination would be absolute proof of inconsistencies rather than being permitted reasonable latitude to develop such inconsistencies (T. 42,260-42,275)," are entirely refuted by the true facts of record.

In instance (1) cross-examination begins at transcript page 42,255 and ends at page 42,268.¹³ With respect to claim (2)

 13 The pertinent colloquy between Mr. Nelson, counsel for the Santa Fe, and Mr. Farmer, counsel for the T&P, at transcript page 42,268, is:

Mr. Nelson: Does that complete a segment, or do you have some more?

Mr. Farmer: That completes that particular car.

Mr. Nelson: I mean, is it--when is the test case over, if I might ask?

Mr. Farmer: As far as I am concerned, it's over right now.

at no point in the T&P cross-examination above-described under (1) was the T&P in any way limited. To the contrary, participation by the examiners was held not only at an absolute minimum but those few actions taken by the examiners were designed and did afford, the T&P the fullest freedom and latitude in its cross-examination.¹⁴ Following completion of the "test case" Examiner Klitenic stated (transcript page 42,269):

Exam. Klitenic: Gentlemen, the Examiners have listened very carefully to the so-called test case.

We are convinced that Mr. Farmer has failed to establish any inconsistencies in Mr. Hudson's testimony, particularly with respect to his diversion judgments.

¹⁴The total participation by the examiners during the course of the T&P cross-examination of the described "test case" was as follows:

Mr. Nelson: At this point, Mr. Examiner, I don't want to make an objection, since this is a test case.

Exam. Klitenic: We are attempting to establish the matter of inconsistency, and I think we should let Mr. Farmer take it to its conclusion before we rule whether he has made a showing of inconsistency or not. (Transcript page 42,258).

The Witness: And this was a movement of, presumably, potatoes--I am not too sure. I can't find the commodity on here now.

Exam. Klitenic: What document did you want to give Mr. Hudson, Mr. Nelson? (Transcript page 42,260).

Mr. Nelson: Now, your page reference was 19,864?

Mr. Farmer: Yes, sir.

Exam. Klitenic: Is the T&P in that routing?

Exam. Albus: Yes, New Orleans.

Mr. Farmer: Yes.

The Witness: The T&P got the car at Roscoe, Texas, from the Roscoe, Snyder & Pacific.

Mr. Nelson: Now, that car was the car in the prior study.

Exam. Klitenic: Understood.

The Witness: Yes. (Transcript page 42,261)

Q. Yes, sir. Well, would you just, while we are talking on this subject, would you turn to your current study and that is sub-sample 7 --

Exam. Klitenic: Well, now, are you leaving sub-sample 1, sheet No. 61, or is this all being tied in?

Mr. Farmer: This is all in connection with this one Hereford car movement, Mr. Examiner.

Exam. Klitenic: All right. (Transcript page 42,262)

Exam. Klitenic: Let the witness finish his answer, (Transcript page 42,268)

The additional cross-examination which T&P thereafter attempted unsuccessfully to pursue represented a substantial change in position and purpose. As previously indicated, the quoted portion of the T&P brief at page 248, which has been referred to herein as instance (1) and which is the same as the T&P representation made at page 42,253 of the transcript, had as its purpose the protection of T&P interests by showing inconsistencies in the judgments of the Santa Fe witness where he claimed no losses to the T&P in one study but in another study and under similar circumstances he claimed losses to the Santa Fe. However, the purpose of the additional cross-examination was not intended to show inconsistencies in judgments as they affected T&P traffic, but rather inconsistencies in judgments with respect to the Union Pacific and Southern Pacific applications. Even then, T&P's argument was not really charging inconsistencies in judgments, but rather what Santa Fe claims the Southern Pacific would do as a matter of policy as compared to what the Southern Pacific would be in a position to accomplish under an approval of its proposal.¹⁵ As T&P asserts in its brief, the examiners declined to permit the T&P to belabor its claimed inconsistencies in positions of the Santa Fe. A careful review of the record supports the examiners' action.

 15 Mr. Nelson: I would like to object to the question on the ground that the particular movement in question was a movement studied in relation to Santa Fe's protest against the Southern Pacific and Union Pacific, and that the Texas and Pacific has no interest in cross-examination on this particular shipment.

Mr. Farmer: Mr. Examiner, we certainly have an interest in the Tucumcari-Brinkley line in this case. I think I have a right to develop what the Santa Fe's position is in respect to it, and think I have a right to cross-examine this witness on this particular movement.

Exam Klitenic: Objection sustained.

Mr. Farmer: Mr. Examiner, may I be heard on this one a little bit more?

Exam Albus: Yes, sir.

Mr. Farmer: The Santa Fe has said in this case that the Southern Pacific should not be allowed to get the south half of the Rock Island because they don't intend to use the Tucumcari-Brinkley line, and now here is a diversion where they say that the Southern Pacific is going to handle it over that very line, and I think I have a right to show an inconsistency in those positions.

T&P's second charge in connection with the Santa Fe deals with the T&P's request for affirmative relief in the Santa Fe application in Finance Docket No. 23919. T&P argues that by reason of its request for affirmative relief (trackage rights over a portion of Santa Fe's existing lines) the right to close the case for such relief in Finance Docket No. 23919 is that of T&P against all parties including the Santa Fe. This is not a true statement of right and is not supported by the T&P reliance upon the Commission order of March 31, 1966, the Commission's notice dated March 24, 1967, and section 7(c) of the APA. Examination of the March 31, 1966 order, as here pertinent, covers in the last ordering paragraph time periods for the filing of rebuttal evidence and cross-examination thereon, and nothing further. The March 24, 1967 notice of the Commission, by the examiners sets forth an order of procedure involving carriers seeking affirmative relief and this came about, as all carrier parties are well aware, by reason of the complicated and diverse carrier interests affected by the numerous requests for affirmative relief (also inclusion).

A typical example of the problems faced by the examiners can be tersely summarized by pointing to those interveners who in the affirmative relief they seek from applicants, are in turn, themselves faced with opposition to such relief from other interveners. Under the prescribed procedures of the notice those parties seeking affirmative relief, including T&P, filed rebuttal evidence to opposing parties, and this was in accordance with section 7(c) of the APA. However, it was neither the intent and purpose nor the result of the notice that applicants be deprived of their right to close their case. See Rule 74 of the General Rules of Practice.

Contrary to the T&P interpretation of section 7(c) of the APA, in Finance Docket No. 23919 the proponent of the order sought is the applicant Santa Fe and not the T&P. In such connection, T&P was given full opportunity to present its case in opposition and in support of affirmative relief, cross-examine thereon, and in connection therewith submit rebuttal, but such matters are separate and apart from Santa Fe's right to open and close its case. In the application in Finance Docket No. 23919, should the T&P prove its case, or for that matter any other intervener in opposition or who seeks affirmative relief, the order entered will run against the applicant Santa Fe, either as a denial of its proposal or as an approval subject to conditions required by the case made out by interveners.

Procedural objections of the MoPac relate to: (1) the denial by the Commission of MoPac's and other carrier pre-trial requests for an order permitting an inspection trip by a committee of engineers of the Rock Island physical facilities and equipment (2) the Commission assignment of Examiner Klitenic as a second hearing examiner, and (3) the refusal of the examiners to require Union Pacific

and Southern Pacific to file work sheets underlying their estimates of traffic diversions. The request for the inspection trip was denied by Commission report and order on prehearing conference dated March 31, 1966 and objections thereto were overruled by order of April 20, 1966. The appointment of Examiner Klitenic as a second hearing examiner was made pursuant to order of the Commission, Commissioner Brown, dated September 26, 1966. Petitions and other requests seeking reconsideration of the latter order were denied by Commission order of September 30, 1966. As seen, each of the two foregoing issues were passed upon by the Commission in the first instance and upon appeal. No authority is vested in the hearing examiners and neither has authority been conferred upon them to reconsider and act upon such matters.

The third procedural issue raised has no merit. As early as the order of September 23, 1965, the Commission directed that applicants should furnish reasonable access to working papers underlying data supporting their respective statements and exhibits, under conditions mutually agreeable or as may be otherwise ordered. A similar provision is contained in the order dated February 16, 1966. In the previously-referred to Commission report and order after prehearing conference of March 31, 1966 it was indicated that with respect to additional information sought from applicants a satisfactory plan of exchange for a substantial portion thereof had been agreed upon. Finally after a period of hearing time had expired it became apparent to the hearing examiners and Chairman Brown, who is in administrative charge of these proceedings, that in the important area of traffic studies an enormous amount of the record was being consumed with, among other things, lengthy identification of a large number of individual shipments. On the other hand, it also became clear that certain essential information available to the parties had not been submitted as a part of the record. Accordingly, following the completion of one phase of the hearing and during a recess the order of August 25, 1967 was issued which remedied the matters described, including the elimination of unnecessary cross-examination. In addition, the order inured to the benefit of all parties, enabling the filing of more responsive and clearly defined data. Of course, the procedures set forth in the order covered subsequent traffic studies but the prior data which had been submitted would not suffer by reason of the August 25, 1967 order.

Now, MoPac citing National Labor Relations Board v. Mall Tool Co. 119 F.2d 700, complains that different standards have been adopted for similar situations and there cannot be one rule for Monday and another for Tuesday. Specifically MoPac states that "all these traffic studies have certain deficiencies" which are highlighted by the underlying abstracts and that an opportunity exists to evaluate the deficiencies where the abstracts are filed. Prior to the August 25, 1967 order, the deficiencies referred to were brought out on the record by the laborious and time consuming procedure of reading all elements of each shipment into the record. This painful

process was eliminated by the order. Clearly, the result of either method is the same and the "Monday-Tuesday rule" is not here applicable.

MoPac also points out that the Union Pacific and Southern Pacific abstracts do not show consignees, consignors and origin and destination cities. Again, the impact of the result is the same whether such matters are placed in the record by oral cross-examination alone or in conjunction with a filed abstract. However, MoPac fails to bring out the real meat of the matter and which is that where the data described were not contained in the abstract but were of importance to the cross-examiner's case, upon appeal to the examiner, he required the witness in one instance to reply and in others to produce the original documents.¹⁶

The MN&S contends that the Examiners erred in rejecting certain of its evidence pertaining to a requested condition. This condition requested by the Illinois Central Railroad Company (Illinois Central or IC) in the Milwaukee proceeding involves the Milwaukee's selling, or granting trackage rights over, certain of its lines to Illinois Central, or, in the alternative, Great Western's selling, or granting trackage rights over, certain of its lines to Illinois Central. MN&S supported this condition at the hearings in the Milwaukee proceeding. In this proceeding, MN&S requests that if the afore-mentioned condition is not granted to the Illinois Central in the Milwaukee proceeding, then it be granted herein, subject to acceptance by Illinois Central. The fact that the Milwaukee proceeding has since been denied, is beside the point.

Four exhibits, in whole or in part, offered by MN&S are the crux of this controversy. The first two Exhibits Nos. 1322 and 1323, are written statements of two MN&S witnesses, and the portions stricken refer to testimony given by Illinois Central witnesses in the Milwaukee proceeding. C&NW counsel objecting to admission of the described portions argued, as here pertinent, that the Illinois Central is not a party to this proceeding and not available for cross-examination, that the MN&S does not stand behind the testimony or had made any independent study of the testimony,¹⁷ that the condition is being tried in the Milwaukee proceeding where there is related testimony of various witnesses not here excerpted by the MN&S, including Soo Line's adamant opposition to the Illinois Central requested condition and that a "tremendous" amount of other excerpts would be required in order to put the condition in its proper perspective. For the same reasons, the described portions of Exhibit No. 1323 also were ordered stricken.

¹⁶ Transcript pages 14,897, 14,905, 15,244-15,249.

¹⁷ The MN&S witness stated "With respect to said condition, we have made no independent study as to the magnitude of diversion which might be anticipated," (the reference is to Illinois Central diversion).

Exhibits Nos. 1326 and 1327, which were rejected, consisted in the former instance of testimony given in the Milwaukee proceeding by a MN&S witness and which related to MN&S and also to Illinois Central's proposed and future services, and in the latter instance was made up entirely of testimony tendered by Illinois Central witnesses in the Milwaukee proceeding. C&NW counsel made the same objections as detailed above, and also on the additional ground that neither of the exhibits contained the complete testimony of the witness in that the cross-examination was not included.

MN&S in its brief contends that the fact that the condition has application to one not a party to this proceeding, the Illinois Central, does not destroy the relevance of the offered evidence or make it inappropriate for the Commission to consider the condition, citing Baltimore & Ohio R. Co. v. United States, 386 U.S. 372. The foregoing is true in all respects, but is entirely aside from the issue here present. The instant question deals with basic and substantial rules concerning admissibility of evidence. There also is no denial of MN&S's recitation of the principles of law under the Fifth and Fourteenth Amendments which require that a full and fair hearing be given in any quasi-judicial proceeding prior to entry of a final order based thereon and the various supporting cases, which need not be restated. However, MN&S's supporting arguments relate to those things which the rejected evidence may tend to establish rather than the admissibility of such evidence, and it is precisely the latter question which bears directly upon the objecting party's right to a full and fair hearing. MN&S was given an opportunity to speak to the issue at the time of hearing and again on brief but it failed to do so on both occasions. The examiner affirms his ruling.

The examiner has already adequately described the essential matters involved in the Commission's order of December 14, 1967, which directed a study of a unified North Western-Rock Island-Milwaukee. In the briefs of the Soo and Great Northern are raised a number of procedural objections concerning the study itself and the hearing thereon. If it were necessary to pass upon such objections, some would be rejected because they are lacking in merit and the remainder having been finally decided by the Commission properly would not be for consideration by the hearing examiner. In any event, for the reasons detailed at the outset, the study is moot and will not be developed herein. It follows that it is unnecessary to now dispose of the objections raised by the Soo and Great Northern.

In its brief, the Frisco contends that the Examiners erred in denying its motion to strike certain of Union Pacific's evidence contained in Exhibit No. 1064. This evidence was

offered during the presentation of Union Pacific's rebuttal and amounted to a small increase in the Union Pacific estimate of Frisco's diversion loss (from \$1,286,490 to \$1,291,405) if Union Pacific's application is granted.

Frisco's position is that the evidence should not have been allowed on rebuttal since it applied to Union Pacific's case in chief, which had been closed. Frisco concedes that when criticism is leveled against a witnesses' testimony in the opposition's case, the right of rebuttal exists, but points out that its direct evidence made no mention of the traffic evaluations contained in the Union Pacific study. However, during cross-examination on Union Pacific's traffic diversion study, it conceded that some modifications in some instances were justified. Conceivably, a strict and technical application of the procedural rules would have required Union Pacific to have presented its modifications in two stages; i.e., before close of its direct case as to the Frisco and those similarly situated but on rebuttal as to those who had assailed Union Pacific's case in chief. In proceedings, as here, involving the tremendous scope of evidence and numerous and complex issues, a strict application of procedural rules would have proven burdensome to the parties and of great delay in moving the hearing to a conclusion. Certainly it falls within the wide latitude of discretion allowed Examiners to make such a ruling as here involved which achieves a more accurate record and at the same time does not in any manner deprive any party of its right to a full and fair hearing.¹⁸ The Examiner affirms the ruling.

¹⁸By the way of contrast to the ruling on its motion, Frisco states "However, it is interesting to note that the Examiners granted North Western's motion to strike the revised losses shown for the North Western in UP Ex. 1064, at page 7 (T-45474)." This oblique implication of inconsistent rulings also glosses the true state of affairs. The circumstances and basis of objection surrounding the ruling in the North Western situation are substantially distinguishable from those of the Frisco, including, at the above-quoted transcript page reference, the statement by Union Pacific counsel, "Of course, I am perfectly willing to see it stricken because I can tabulate the same material on brief, because it comes directly from the record."

The above discussion deals with matters raised in the parties' briefs filed after the close of hearing on August 22, 1968. Certain procedural matters also are raised by the North Western in its two subsequent briefs, i.e.; those filed after the further limited hearings of November 19, 1970 (and pre-hearing conference on November 18, 1969) and on April 15-16, 1970. In the first of such briefs North Western renews several specific actions it unsuccessfully requested of the examiners; namely, a motion to strike, receipt of a North Western petition filed with the Commission as an "offer of proof", and the opportunity to develop the record on a "control" question. North Western claims that it was denied a fair hearing and it renews "each of its motions, objections, and exceptions to the Examiners' ruling***." No detailed discussion and rulings on reconsideration of the foregoing is required by reason of subsequent developments. Aside from the Commission's order of December 15, 1969 which upheld the conduct of the hearing by the examiners; the order of February 17, 1970, which in part was based upon North Western's allegation of newly discovered evidence, reopened the proceeding for further limited hearing, among other things.

In the North Western brief, filed after the further hearing of April 15-16, 1970, it presses for the receipt in evidence of its rejected Exhibit No. 1379, but points to no reversible error committed by the examiners. The various objections raised to the receipt in evidence of the exhibit were valid and substantial. The examiner affirms the ruling. Principally, however, North Western again claims it was deprived of a fair hearing. Such claim is based on the examiner's refusal to issue an order to take depositions and issue subpoenas for all the parties and records requested by North Western. As pointed out in the North Western brief, the Commission, in its order of April 13, 1970, upheld the actions of the examiners. The net effect of North Western's extensive review of the matters developed at the limited further hearing shows that it was unable to establish the facts which it hoped to establish. To capitulate to the sweeping demands of North Western for additional subpoenas of persons and records (even beyond those originally requested); orders to take depositions; and agreed possible further hearings ad infinitum; while the numerous and diverse scope of public interests here involved mark time awaiting the exhaustion by North Western of all possible and conceivable avenues of exploration on the issues, simply does not fall within the definition of a "fair hearing."

To the extent possible the examiner has disposed of all preliminary procedural issues. In now moving toward a disposition of the instant proceedings on the merits it is required at this point to clarify two essential areas of consideration.

The huge record made and numerous and complex issues involved demand the clearest and most easily understood discourse. It is also vital that such discussion be in a logical sequence and at the same time free of all unnecessary repetition of fact. Commensurate with the foregoing, certain data basic to the applications will be discussed in the same order which the Commission directed that applicants' witnesses be heard. More specifically, following the distribution in written form of applicants opening statements (their direct testimony) oral hearing for the purpose of cross-examination followed in the order of Union Pacific, Southern Pacific, Rock Island,¹⁹ North Western and Santa Fe. Such is the significance of the order of handling and none other. As to the discussed logical sequence and avoidance of repetition, the Rock Island is the pivotal factor in these proceedings. A full and clear understanding of the numerous and complex issues and interests of all parties require that as complete a discussion as possible of the Rock Island be first set forth. Again, applicants also are protestants to each others' applications and most interveners in one set of basic applications are similarly situated in the other basic application. Accordingly, only a single discussion is required of various primary and standard matters, such as corporate identity and ownership, scope of operations, description of plant and the like. Of course, in any area where there is a greater or different emphasis or factor present in one proceeding as compared to the other, appropriate indication will be made.

The second area deals with the relationship between the basic applications. As stated earlier, each set of the basic applications is competitive and mutually exclusive of the other. However, this does not mean that under any approval there must be a grant of an entire basic application; for example, the Union Pacific-Southern Pacific merger and purchase vis-a-vis the North Western control. Neither does it mean that either one or the other application must be approved; both may be denied if the required showing under section 5(2) has not been made. Compare: Southern Pac. Co.-Control-Western Pac. R. Co., 327 I.C.C. 387 at 397. In connection with the two above-discussed areas, the order of presentation at the hearing was so regulated that in all material respects a separability of fact and issue was maintained relative to each of the basic transactions. However, as already described a substantial portion of the evidence developed has a direct bearing upon all of the basic transactions. Under the circumstances, in the interest of expedition and efficiency a single report may be issued without affecting a determination of each transaction on its own merits.

¹⁹For the reasons next set forth in the text, a discussion of the Rock Island must precede that of all other carrier parties.

PART B: APPLICANTS AND INTERVENING
CARRIERS--CORPORATE HISTORY, SCOPE OF
OPERATIONS, PLANT & EQUIPMENT, FINANCIAL
DATA, PRELIMINARY CONCLUSIONS

THE ROCK ISLAND

Corporate History

The original Rock Island railroad was organized and chartered in Illinois in 1847. It instituted actual operations on a line between Chicago and Joliet, Ill., in 1852 and extended operations to Rock Island, Ill., in 1854. By 1866, through consolidations and new construction the system reached Council Bluffs, Iowa. From 1900 to 1915, the Rock Island through ownership and control of subsidiaries extended its service into a number of midwestern States with principal service routes similar to those operated by the Rock Island presently, as hereafter detailed.

The present Rock Island corporation, organized as a successor in reorganization to the previously bankrupt company, was incorporated in Delaware on December 16, 1947. As of December 31, 1968, its authorized capital stock consisted of 3,100,000 shares of no par common stock, of which 2,921,161 shares were actually issued and outstanding. The Rock Island has no other securities with voting rights outstanding.

Scope of Operations, Plant and Equipment

The Rock Island system covers a vast area of the United States in the 14 States of Illinois, Iowa, Minnesota, South Dakota, Nebraska, Kansas, Colorado, Missouri, Arkansas, Tennessee, Louisiana, Oklahoma, Texas, and New Mexico. Its lines of railroad are bounded on the north by Minneapolis-St. Paul, Minn. (The Twin Cities), on the east by Chicago, Ill., St. Louis, Mo., and Memphis, Tenn., on the south by Eunice, La., and Houston and Galveston, Tex., and on the west by Tucumcari-Santa Rosa, N. Mex., and Colorado Springs and Denver, Colo.

To place the Rock Island in its proper strategic and geographical perspective not only in these proceedings but also in various other pending proceedings and as well in relationship to the rail system of the Nation as a whole, it is necessary to describe the Western District route structure in at least general terms.

Throughout this record, use of the term "corridor" has prevailed with respect to east-west rail routes. We adopt this term which denotes a long, narrow geographical area in which the roughly parallel routes of two or more railroads are located. There are basically three east-west corridors in the Western District; namely, the northern, central and southern.

The northern corridor consists of the States bordering Canada from the Pacific Coast through Minnesota, Oregon, the northern half of South Dakota, Wisconsin, the eastern half of Iowa, and the northern half of Illinois. The rail carriers serving this corridor are the Burlington Northern and the Milwaukee and railroads connecting with the two named carriers at the Twin Cities and which connections extend eastward from the Twin Cities, as later detailed. In both instances, Rock Island is a connection and its lines extend from Chicago to the Twin Cities, via Cedar Rapids, Iowa.

The central corridor includes the southern portion of Oregon, the northern portions of California, Nevada and Utah, Wyoming, Colorado, Kansas, Nebraska, Iowa, Missouri, and Illinois. The principal carriers serving the corridor are: Western Pacific, Southern Pacific, Rio Grande, Union Pacific, and the several carriers including Rock Island, which on the one hand connect with the Union Pacific and the Rio Grande at the Missouri River and Colorado gateways, respectively, and on the other hand have access to the Chicago and/or St. Louis gateways. With respect to the Rock Island, its lines extend westward from Chicago through Des Moines and Omaha-Council Bluffs, Iowa, to Denver and Colorado Springs. Connecting with this route, at Belleville, Kans., is its route eastward through Topeka and Kansas City, Kans., and Mo., to St. Louis.

The southern corridor consists of Southern California and the States of Arizona, New Mexico, Texas, Oklahoma, Arkansas, and Louisiana. The Santa Fe and Southern Pacific are the largest carriers, in terms of length of lines and otherwise, operating in the southern corridor and they alone serve the territory west of Texas. As connecting links with the southern corridor carriers, the Rock Island has lines (1) from Santa Rosa and Tucumcari, extending eastward, via Herington and Topeka, Kans., into Kansas City, there connecting with the previously-described routes to St. Louis and Chicago and also to the Twin Cities, via Des Moines; and (2) from Memphis westward through Little Rock, Ark., and Oklahoma City, Okla., to Tucumcari.

In further respect of the three corridors and as later more fully described, lines of the Union Pacific pierce the northern corridor in Oregon, Washington, Idaho and Montana and the southern corridor in Southern California. Similarly, routes of the now unified system in the Northern Lines case, later detailed, run through Colorado, Nebraska, Iowa, Missouri and Illinois. Again, the Santa Fe and the Southern Pacific, the latter in conjunction with its subsidiary, reach central corridor territory in Colorado, Kansas, Missouri and Illinois. As will be more clearly demonstrated later, the Rock Island is the only rail carrier at the extremities of the three corridors which has major lines in all three. Directly related to the east-west movements through the three corridors, is the existence of the one single-line, north-south route held by the Rock Island and extending from the Twin Cities to Fort Worth, Dallas, Houston and Galveston, Tex. The major intermediate points on the line are Des Moines, St. Joseph, Mo., and Kansas City, the latter two being on alternate routes, between Coburn, Mo., and Topeka. Along the same lines, consummation of the Northern Lines case provides the unified system with a north-south line reaching from Laurel, Mont., to Houston and Galveston, via subsidiary lines later more fully described.

Trackage rights of Rock Island over foreign carrier lines and of foreign carriers over the Rock Island lines, as of January 1, 1966, were as follows (extracted from Rock Island Exhibit No. 19 -- adjusted to reflect merger of Great Western into North Western, merger of the New York Central Railroad Company and The Pennsylvania Railroad Company, now Penn Central Transportation Company, hereinafter called Penn Central or PC, and the unifications in the Northern Lines case, shown as "BN" below).

FOREIGN LINE TRACKAGE RIGHTS OVER ROCK ISLAND LINES

Name of Road	Location		Main or Branch	Miles of Main Track	
	From	To		Road Miles	Other Main
PC-N&W	LaSalle St. Sta.	Englewood(Chicago)	M		6.33
PC	At Joliet		M	.59	.74
B&O	Beverly Jct.	So. Chicago	B	6.25	6.25
C&O	Beverly Jct.	So. Chicago	B	6.25	6.25
Chgo. Sh. Line	Rock Island Jct.	Pullman Jct.	B	1.93	1.99
C.W.P.& S.	Burnside	Irondale	B	1.34	
PC	106th Street	Irondale Elev.	B	.03	
B.R. of C.	Commercial Ave.	Mill Gate	B	.75	
Chgo. Sh. Line	Muskegon Ave.	Ewing Ave.	B	.75	.39
TP&W	Iowa Jct.	Hollis	B	4.70	.49
C&NW	Iowa Jct.	Peoria	B	3.92	3.98
MILW	W. Davenport	Culver	M	26.60	26.60
MILW	Chancy	Clinton	B	1.62	
C&R. & I.C.	At Iowa City		M	.24	
BN	Burlington	Mediapolis	M	15.49	
IC	At Cedar Rapids		M	.58	
MILW	At Cedar Rapids		M	.82	
N&W	At Keokuk		B	1.59	
BN	At Keokuk		B	.02	
C&NW	Des Moines	W. Des Moines	M	3.96	
C&NW	At Estherville		B	1.47	
IC	Glenville	Albert Lea	M	5.83	
C&NW	Northwood	Albert Lea	M	15.46	
MILW	Hollandale	Maple Island	B	2.42	
C&NW	Eddyville	Givin	B	3.49	
C&NW	At Des Moines		M	3.91	2.75
MILW	Polo	Birmingham	M	36.45	
N&W	Birmingham	K.C.S.-Jct.	M	4.46	3.56
AT&SF	St. Joseph	Winthrop	B	19.51	
MP	Donovan	Winthrop	B	16.68	
N&W	At Council Bluffs		M	.04	.17
MILW	At Council Bluffs		M	.06	.17
BN	At Council Bluffs		M	.47	
BN	Almena	Oronoque	M	17.24	
SL-SF	At Sheffield		M	.17	
UP	At Topeka		M	.50	
SP	Tucumcari	Santa Rosa	M	60.41	
AT&SF	At Salina		B	.26	
AT&SF	Dodge City	So. Dodge City	B	.78	
UP	Hunt Spur	Troy	B	6.47	
AT&SF	Rock Island Jct.	Etter Jct.	B	30.29	
SL-SF	At Clinton		M	.13	
SL-SF	No. Fort Worth	Dallas	M	36.61	2.50
FW&D	Ft. Worth	Dallas	M	34.06	1.49
SP	No. Fort Worth	Fort Worth	M	4.53	2.50
U.T. Co.	At Dallas		M	1.08	
SL-SF	At Fort Sill		B	.02	
SL-SF	Irving	Carrollton	B	11.30	
SLSW	Briark	Brinkley	M	64.26	
MP	Briark	Wimef	M	3.92	
A. & L.M.	At Crossett		B	1.65	
MP	(Haskell)	Hot Springs)	B	31.87	
	(Malvern)	Hot Springs)			
MKT	At Waxahachie		M	.21	
Trackage Operated by Foreign Lines			M	338.08	46.81
" " " " "			B	155.36	19.35
TOTAL TRACKAGE RIGHTS				493.44	66.16

ROCK ISLAND TRACKAGE RIGHTS OVER FOREIGN LINES

Name of Road	Location		Main or Branch	Miles of Road	2ND Main	Other Main
	From	To				
PC	Chicago	Englewood	M			6.11
BN	Orion	Colona	B	9.65		
UP	Council Bluffs	Albright	M	7.19	7.06	
MILW	At Council Bluffs		M	.05	.10	
C&NW	Manly	Northwood	M	11.45		
C&NW	Des Moines	W. Des Moines	M	.02	3.99	
C&NW	Water	Rigg	M	11.66		
C&NW	Clear Lake Jct.	Manly	M	10.72		
BN	At Burlington		M	.60		
KUD	At Keokuk		B	.09		
C&NW	W. Des Moines	Gowrie	B	62.59		
MILW	At Davenport		B	1.44	.53	
DRI&NW	Davenport	Chancy	B	33.89	1.10	
BN	At Ottumwa		B	.37		
C&NW	Givin	Beacon	B	3.13		
MILW	Comus	Rosemount	M	26.99		
BN	At St. Paul		M	6.22	6.16	
BN	St. Paul	Minneapolis	M	8.78	8.76	
MILW	Newport	St. Paul	M	.10	7.57	5.14
BN	Newport	St. Paul	M	7.52		
St. PUD	At St. Paul		M	.69	.67	
MILW	At St. Paul	(U.D. Connection)	M	.08	.10	
MILW-C.&N.W.	At St. Paul		M	.56	.56	
MILW	Chestnut St.	Minneapolis	M	10.13	10.13	
UP	Limon	Denver	M	89.42	1.83	
D&RGW	At Colorado Springs		M	.43	.41	
DU Term.	At Denver		M	.37	.37	
UP	At Sandown		M			.24
D&RGW	Belt Jct.	North Yard	M			2.71
TRRA	Carrie Ave.	Rock Island Jct.	M	7.65	4.42	
SL-SF	Leeds Jct.	Sheffield	M	2.52		
KCT	At Sheffield		M	.04		
MILW	Polo	Birmingham	M		37.63	
KCS	Airline Jct.	K.C.S. Jct	M	.55	.16	
KCT	K.C.S. Jct.	Term. Jct.	M	8.45	8.48	11.97
KCS	West "Y"	Troost Ave (K.C.)	M			4.07
KCS-MILW	West "Y"	Troost Ave (K.C.)	M			4.01
MP	Troost Ave.	Liberty St (K.C.)	M			6.00
UP	S. Fe St. (K.C.)	Armourdale Jct.	M			2.83
KCT	Mo-Ks State Line	Kansas Ave (K.C.)	M			1.52
UP	C.R.I.&P. Jct. (K.C.)	No. Topeka	M	64.96	64.90	.08
WUD	At Wichita		M	1.54	1.56	
SL-SF	At Wichita		M	.07		
UP	St. Joseph	Hunt Spur	B	7.10		
AT&SF	At Winthrop		B	.02		
Atch Br. Co.	Winthrop	Atchison	B	.30		
AUD Co.	At Atchison		B	.12		
AT&SF	At Atchison		B	1.38		
St. J. Term.	At St. Joseph		B	.09		
AT&SF	At Abilene		B	.45		
UP	Abilene	Salina	B	20.08		
SL-SF	Enid	Augusta	B	38.89		
AT&SF	At Enid	(Warren Br.)	B	2.68		
SL-SF	At Clinton		B	1.27		2.60
SP	At Fort Worth	(Depot Line)	M	.33		
AT&SF	At Fort Worth	(" ")	M	.24		
Un. Term.	Dallas (Walnut St.)	Jct. of MKT	M	2.09	2.09	2.10
MKT	Dallas	Waxahachie	M	28.67	.41	
HB&T	At Houston		M	20.86	4.71	
AT&SF	Houston	Galveston	M	47.22		
IC	At Memphis		M	.47	.22	
L&N	At Memphis		M	.16		1.82
A.&M.R.B.& T.	Memphis	Briark	M	2.91	2.73	
SLSW	Kent	Camden	B	2.24		
L&A (KCS)	At Alexandria		B	.82		
MP	At Alexandria		B	.29		
L&A(KCS)	Winnfield	Alexandria	M	46.75		
SP	At Eunice		B	2.12		
T&P	Alexandria	Willow Glen	B	3.06	.99	
Total Operated Under Trackage Rights			M	429.73	175.02	52.20
" " " " " "			B	190.80	2.62	-
TOTAL TRACKAGE RIGHTS				620.53	177.64	52.20

In addition to the above described operations of Rock Island it also controls, either solely or jointly with others, a number of corporations as described immediately below. Almost all of the corporations are transportation oriented and to the extent significant herein their operations will be described later. The Rock Island ownership and book value of investment shown are as of December 31, 1968.

<u>Investments In Affiliated Companies</u>	<u>Nature Of Business</u>	<u>Stock Owner- ship % Control</u>	<u>Total Book Value</u>
Arkansas and Memphis Rail- way Bridge and Terminal Company (Preferred)	Terminal	33.33	\$550,000
Arkansas and Memphis Rail- way Bridge and Terminal Company (Common)	Terminal	33.33	200
Arkansas and Memphis Rail- way Bridge and Terminal Company (Common)	Terminal	33.33	289,800
Atchison Union Depot and Railroad Company	Terminal	12.50	9,000
Belt Ry. of Chgo., The	Switching	8.33	240,000
Calumet Western Ry. Co.	Switching	25.00	108,000
Denver Market and Produce Term., Inc.	Terminal	20.00	50,000
Denver Union Term. Ry. Co.	Switching & Terminal	16.67	5,000
Galveston Terminal Ry. Co.	Lessor	50.00	1
Great Southwest R.R., Inc.	Switching & Terminal	45.00	412,016
Houston Belt & Term. Ry. Co.	Switching & Terminal	12.50	1
Illinois Terminal R.R. Co.	Line Haul	9.09	1,818
Iowa Transfer Ry. Co.	Switching	20.00	16,100
Joliet Union Depot Co.	Terminal	33.33	10,000
Keokuk Union Depot Co.	Terminal	20.00	3,000

Kansas City Term. Ry. Co.	Terminal & Switching	8.33	500
Leavenworth Depot & R.R. Co.	Terminal	33.33	28,897
Minnesota Trans. Ry. Co., The	Switching & Terminal	11.11	91,300
Oklahoma City Jct. Ry. Co.	Lessor	50.00	125,000
Packers Car Line Co.	Private Car Line	8.97	2,870
Peoria & Bureau Valley R.R. Co.	Lessor	96.47	2,208,589
Peoria Terminal	Switching	100.00	529,571
Pullman Co. The	Private Car Co.	2.21	452,508
Pullman R. R. Co., The (Inactive)	Lessor	100.00	1,180,814
Rock Island Imprv. Co.	Holding Co.	100.00	1
Rock Island Motor Transit Co.	Motor Carrier	100.00	100,000
St. Paul Union Depot Co.	Switching & Terminal	12.50	130,475
Terminal R. R. Assn. of St. Louis	Switching & Terminal	6.25	1
Trailer Train Company	Private Car Line	2.44	430,305
Union Terminal Company, Dallas Texas, The	Terminal	12.50	0
Warren and Ouachita Valley R. R. Co.	Line Haul	100.00	43,188
Wichita Union Term. Ry. Co.	Switching & Terminal	33.33	0

At the close of 1968, Rock Island operated 7,390 miles of road including owned, leased, under trackage rights,

and under joint operating agreements.* Total road mileage in each of the 14 States served were Iowa-2,002, Kansas-1,082, Oklahoma-1,055, Texas-769,* Arkansas-598, Missouri-510, Illinois-300, Minnesota-276, Colorado-258, Nebraska-189, Louisiana-188, New Mexico-153, South Dakota-10, and Tennessee-1. Actual mileage of track, of all types, totaled 10,972* of which 9,617 miles were owned by Rock Island, 92 were leased, 1,123 were operated under trackage rights, and 140 were jointly owned and operated under a joint operating agreement.*

Major yards of the Rock Island are located in Chicago, Des Moines, Fort Worth, Kansas City, and Silvis, Ill. Other important yards are located in Cedar Rapids, Council Bluffs, and Joliet and Peoria, Ill., St. Louis and Trenton, Mo., Inver Grove, Minn., Herington, Kans., El Reno, Okla., Dallas, Denver, Little Rock, Memphis, and Tucumcari. The heavy and general repair of freight cars is presently concentrated at Kansas City and El Reno, and passenger cars are repaired only at Chicago. The following table shows the composition and size of the Rock Island freight car fleet for the years 1963-1968:

*

Included in the 7,390 miles of road operated and also in the 769 miles shown for Texas are 113 miles of road owned jointly with the Fort Worth and Denver Railway Company and operated under a joint operating agreement. The road mileage involved consists of 106 miles between Waxahachie and Houston, Tex., and 7 miles between Teague and Mexia, Tex., and track mileage between and at these points totaled 140 miles.

Table 1
 ROCK ISLAND FREIGHT CAR FLEET
 CARS OWNED AND LEASED
 1963-1968

Year	Type of Car						Total Cars
	Box	Flat and Rack	Gondola	Open Hopper	Covered Hopper	Other	
1963	15,073	2,669	4,665	1,702	1,962	1,297	27,368
1964	14,597	2,795	4,276	1,487	2,148	1,393	26,696
1965	14,987	3,001	3,964	1,609	2,971	1,585	28,117
1966	14,172	3,127	3,696	2,165	3,147	1,480	27,787
1967	13,795	3,264	3,613	2,122	4,393	1,655	28,842
1968	14,449	3,284	3,341	2,085	4,863	410	28,432

Freight Traffic: Volume and Service Output

The various tables and discussions which follow will deal with the significant factors and indicators bearing upon Rock Island freight traffic.

Table 2

ROCK ISLAND
ORIGINATIONS AND TERMINATIONS, YEAR 1965,
10,000 CARS AND OVER, BY TERMINAL

Originations		Terminations	
Chicago	34,727	Chicago	38,974
Lafayette, Ill.	18,554	Des Moines and W. Des Moines, Iowa	34,837
Cedar Rapids	14,613	Kansas City	20,283
Des Moines	15,013	Houston	16,742
Kansas City	14,512	Denver	15,301
Muscatine, Iowa	14,460	Dallas	14,306
Davenport, Iowa	12,552	Davenport	13,760
Enid, Okla.	12,361	Enid	13,319
Joliet, Ill.	11,119	Oklahoma City	11,523
Duban, Colo.	10,571	Fort Worth	10,208
Ottawa, Ill.	10,430		

Table 3

ROCK ISLAND REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES, AND FREIGHT REVENUE

Year	Carloads					Total Revenue Tons*	Revenue Ton-Miles (millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead	Total Carloads			
1960	344,687	269,367	211,933	238,462	1,064,449	40,603,226	13,675	\$174,079
1961	327,675	260,212	199,311	226,348	1,013,546	38,978,229	13,204	165,625
1962	320,081	263,799	205,163	227,029	1,016,072	39,524,662	13,155	163,081
1963	315,796	260,900	206,247	223,265	1,006,208	39,978,255	13,552	166,265
1964	303,862	271,638	204,499	227,510	1,007,509	40,655,212	14,281	171,512
1965	286,618	277,354	212,406	239,083	1,015,461	41,878,941	15,624	179,866
1966	299,819	307,935	202,698	258,141	1,068,593	45,304,409	18,292	200,561
1967	264,372	283,217	220,472	251,106	1,019,167	42,968,128	17,283	197,783
1968	282,408	291,700	225,852	267,771	1,067,731	47,230,138	18,629	221,795

* Includes L.C.L. Freight.

Table 2 needs little discussion. The data is arranged in descending order of volume and shows, for example, that Chicago ranks first in both originations and terminations.

Table 3 shows that for the year 1961 over 1960 decreases occurred in each of the categories shown, reflecting adverse business conditions during 1961. In terms of revenue ton-miles and total freight revenue, the decrease continued through 1962. From 1962 through 1965, revenue tons carried, revenue ton-miles and freight revenue all increased gradually exceeding the 1960 totals for the first time in 1964. From 1965 to 1966, all items in the table except interline terminated carloads showed substantial increases reflecting the improved traffic situation for railroads in 1966, when ton-miles generated set a new industry record. From 1966 to 1967, all items in the table except interline terminated carloads decreased, followed by an across-the-board increase in 1968.

Rock Island's Evidence and Discovery Exhibit shows freight volume (total revenue tons) and service output (revenue ton-miles) over the period 1955 through 1965. Over such 10-year period and as compared to 1965 (41.9 million tons), the lowest year was 1961 with 38.9 million tons or 6.9 percent below 1965 and the highest year was 1959 with 42.6 million tons, or 1.8 percent above 1965.

The record shows that revenue ton-miles in 1955 totaled 12.5 billion. The 1964 total was 14.3 billion. In the eight intervening years, the ton-mile totals ranged within somewhat narrow limits from 13.2 billion to 13.9 billion for possible year-to-year variance of a maximum 5 percent which occurred only once, from 1958 to 1959. Table 3 shows that from 1962, however, ton-miles increased in every year through 1966, with the greatest increase occurring from 1965 (15.6 billion) to 1966 (18.3 billion). The 1967 total was approximately one billion below the 1966 figure, but in 1968, ton-miles exceeded the 1966 total by 337 million. Comparison of the 1962 total with the total for each of the most recent years of 1965, 1966, 1967 and 1968, show increased percentages of 19, 39, 31, and 42, respectively.

In terms of carloads (see Table 3), it should be noted that local traffic accounted for about 32 percent of Rock Island's total carloads in 1960, and that this proportion decreased in each succeeding year to the 1967 figure of 26 percent which held steady in 1968. Overhead traffic constituted about 22 percent of total carload traffic from 1960 through 1963, then increased in each year to 25 percent in 1968. Interline originated traffic ranged from 25 to 26 percent of the total from 1960 through 1963, then increased to 29 percent by 1966, and dropped to about 27 percent in 1968.

Total carloads fluctuated from 1960 through 1965, with the 1960 total of 1,064,449 being the highest for the period. In 1966, however, the number of carloads exceeded the 1960 figure by 4,144 cars. In 1967, the total dropped sharply to 1,019,167, but in 1968, the total was only 862 below the 1966 high. Despite the fluctuations in carloads, the Rock Island's average revenue tonnage per revenue carload increased steadily from 38.0 tons in 1960 to 42.4 tons in 1966. A slight decrease occurred in 1967, but a sharp increase brought the figure to 44.2 tons in 1968 (revenue carload tonnage not shown in table). Heavier loads per car, of course, reflect in part the recognized trend toward larger capacity cars.

Freight Traffic: Commodity Consist

Tables 4 through 7, which follow, illustrate the Rock Island's commodity consist in terms of tonnage and revenue per commodity group. Tables 4 and 5 are based on the commodity code and reporting requirements in use prior to 1964, while Tables 6 and 7 are based on the current code and reporting requirements in use since the beginning of 1964. Therefore, although the data are not wholly comparable, general conclusions can be drawn from consideration of the four tables.

First, the data reflect the Rock Island's dependence on agricultural commodities. In the years 1959, 1961, and 1963 (Tables 4 and 5), "Products of Agriculture" accounted for 26 to 31 percent of Rock Island's total tonnage and a nearly equivalent 27 to 32 percent total freight revenue. From 1964 through 1968, "Farm Products," the new commodity group most comparable to "Products of Agriculture," represented from 19 to 25 percent of the tonnage and 19 to 24 percent of the freight revenue (Tables 6 and 7).

Table 4

ROCK ISLAND COMMODITY STATISTICS, 1959, 1961 AND 1963

COMMODITY GROUP TONNAGE AND GROUP TONNAGE
AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group	1959		1961		1963	
	Tons (000)	%	Tons (000)	%	Tons (000)	%
Products of Agriculture	11,290	26.4	12,092	31.0	10,464	26.2
Animals & Products	796	1.9	792	2.0	809	2.0
Products of Mines	14,358	33.6	11,510	29.5	12,611	31.5
Products of Forests	2,494	5.8	2,323	6.0	2,428	6.1
Manufacturers & Misc.	13,584	31.8	12,082	31.0	13,509	33.8
Total*	42,746	100.0	38,978	100.0	39,978	100.0

Table 5

COMMODITY GROUP REVENUE AND GROUP REVENUE
AS PERCENTAGE OF TOTAL REVENUE

Commodity Group	1959		1961		1963	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Products of Agriculture	\$ 59,176	30.5	\$ 55,737	31.8	\$ 47,879	27.3
Animals & Products	8,620	4.4	8,191	4.7	7,365	4.2
Products of Mines	21,921	11.3	17,665	10.1	19,826	11.3
Products of Forests	9,770	5.0	8,909	5.1	9,458	5.4
Manufacturers & Misc.	89,096	46.0	80,522	46.0	87,758	50.0
Total*	193,788	100.0	175,028	100.0	175,669	100.0

* Includes Freight Forwarder Traffic and L.C.L. Freight. The revenue totals are unadjusted figures and may not agree with Freight Operating Revenue totals reported in the Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 6

ROCK ISLAND COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	8,979	22.1	9,582	22.9	11,238	24.8	8,536	19.9	9,088	19.2
Metallic Ores	1,076	2.6	1,077	2.6	1,035	2.3	1,008	2.3	1,242	2.6
Coal	2,883	7.1	2,219	5.3	1,979	4.4	1,971	4.6	2,571	5.4
Non-Metal Minerals	6,210	15.3	4,573	10.9	3,892	8.6	4,101	9.5	5,533	11.7
Food & Products	5,611	13.8	5,673	13.5	6,096	13.5	6,617	15.4	7,529	15.9
Lumber Products	2,620	6.4	2,768	6.6	2,897	6.4	2,922	6.8	3,272	6.9
Pulp Paper Products	1,135	2.8	1,141	2.7	1,218	2.7	1,396	3.2	1,554	3.3
Chemicals, etc.	2,746	6.8	3,086	7.4	3,589	7.9	3,856	9.0	4,484	9.5
Petroleum & Coal Products	1,536	3.8	1,590	3.8	1,643	3.6	1,667	3.9	1,616	3.4
Stone, Clay & Glass Products	2,378	5.8	3,857	9.2	4,295	9.5	3,701	8.6	2,726	5.8
Primary Metal Products	2,068	5.1	2,326	5.6	2,879	6.4	2,611	6.1	2,828	6.0
All Other Groups	3,413	8.4	3,987	9.5	4,543	10.0	4,582	10.7	4,787	10.1
Total	40,655	100.0	41,879	100.0	45,304	100.0	42,968	100.0	47,230	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

The commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown.

Table 7

ROCK ISLAND COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 43,459	24.0	\$ 43,187	22.5	\$ 50,096	23.7	\$ 41,262	19.7	\$ 45,585	19.4
Metallic Ores	3,306	1.8	3,402	1.8	3,614	1.7	3,549	1.7	3,694	1.6
Coal	3,329	1.8	3,253	1.7	2,700	1.3	2,697	1.3	3,263	1.4
Non-Metal Minerals	8,852	4.9	7,668	4.0	6,778	3.2	6,487	3.1	8,311	3.5
Food & Products	26,414	14.6	26,463	13.8	27,998	13.2	32,142	15.3	36,313	15.5
Lumber Products	9,857	5.4	10,645	5.6	11,274	5.3	11,613	5.5	13,283	5.7
Pulp Paper Products	5,787	3.2	5,993	3.1	6,596	3.1	7,987	3.8	8,977	3.8
Chemicals, etc.	15,208	8.4	16,238	8.5	18,111	8.6	19,680	9.4	22,761	9.7
Petroleum & Coal Products	6,220	3.4	6,745	3.5	7,548	3.6	7,418	3.5	7,413	3.2
Stone, Clay & Glass Products	6,832	3.8	8,661	4.5	9,364	4.4	8,990	4.3	8,617	3.7
Primary Metal Products	11,535	6.4	12,662	6.6	15,238	7.2	14,481	6.9	15,744	6.7
All Other Groups	40,105	22.3	46,823	24.4	52,326	24.7	53,450	25.5	60,709	25.9
Total	181,204	100.0	191,740	100.0	211,643	100.0	209,756	100.0	234,670	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

The commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown.

* The annual revenue totals are unadjusted figures and may not agree with Freight Operating Revenue totals reported in the Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 7

ROCK ISLAND COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 43,459	24.0	\$ 43,187	22.5	\$ 50,096	23.7	\$ 41,262	19.7	\$ 45,585	19.4
Metallic Ores	3,306	1.8	3,402	1.8	3,614	1.7	3,549	1.7	3,694	1.6
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Food & Products	26,414	14.6	26,463	13.8	27,998	13.2	32,142	15.3	36,313	15.5
Lumber Products	9,857	5.4	10,645	5.6	11,274	5.3	11,613	5.5	13,283	5.7
Pulp Paper Products	5,787	3.2	5,993	3.1	6,596	3.1	7,987	3.8	8,977	3.8
Chemicals, etc.	15,208	8.1	16,238	8.5	18,111	8.6	19,680	9.4	22,761	9.7
Petroleum & Coal Products	6,220	3.4	6,745	3.5	7,548	3.6	7,418	3.5	7,413	3.2
Stone, Clay & Glass Products	6,832	3.8	8,661	4.5	9,364	4.4	8,990	4.3	8,617	3.7
Primary Metal Products	11,535	6.4	12,662	6.6	15,238	7.2	14,481	6.9	15,744	6.7
All Other Groups	40,105	22.3	46,823	24.4	52,326	24.7	53,450	25.5	60,709	25.9
Total *	181,204	100.0	191,740	100.0	211,643	100.0	209,756	100.0	234,670	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

The commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown.

* The annual revenue totals are unadjusted figures and may not agree with Freight Operating Revenue totals reported in the Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Grain traffic constitutes a large portion of the total agricultural traffic handled by Rock Island. During the period 1960 through 1964, wheat traffic alone contributed from 9 to 15 percent of total freight revenue declining from a high of \$26.9 million in 1960 to \$24.1 million in 1961, \$17.4 million in 1962, and to the low for the period of \$16.0 million in 1963. In 1964, wheat revenue increased to \$19.5 million. Table 8, which follows, shows wheat tonnage and revenue for the years 1965 through 1968. Obviously, revenue from wheat traffic has declined sharply from the 1960 high. In 1967, the total (\$12.3 million) was less than half of the 1960 figure. Although 1968 showed an improvement of about 1.1 million tons and \$3.5 million over 1967 totals such cannot be construed as a trend; it is noted that from 1963 through 1968, there were alternate year increases in revenue followed by offsetting declines in intervening years. As a percentage of total commodity revenue, wheat traffic accounted for from 5.8 to 9.0 percent in the 1965-1968 period.

Table 8 also shows corn and sorghum grain traffic data. The year 1966 was the high point for sorghum grains in terms of tonnage and revenue and the proportionate shares of total tonnage and revenue, with declines in the actual figures and relative shares occurring in 1967 and 1968. Corn tonnage and revenue data indicate declines through 1967, both actual and proportionate, from 1965 levels, but 1968 shows a slight increase in both tonnage and revenue and the proportionate shares of each. The three grains together annually accounted for from 10 to 14 percent of the Rock Island's total commodity group revenue for the 1965-1968 period.

Table 8

ROCK ISLAND CORN, SORGHUM GRAINS AND WHEAT TRAFFIC
 TONS AND REVENUE, ACTUAL AND AS PERCENTAGE OF RESPECTIVE TOTALS*
1965, 1966, 1967, AND 1968

Year	Corn				Sorghum Grains				Wheat			
	Tons (000)	%	Revenue (000)	%	Tons (000)	%	Revenue (000)	%	Tons (000)	%	Revenue (000)	%
1965	1,760	4.2	\$7,251	3.8	1,074	2.6	\$2,253	1.2	3,982	9.5	\$16,030	8.4
1966	1,860	4.1	7,221	3.4	1,548	3.4	3,744	1.8	4,653	10.3	19,074	9.0
1967	1,436	3.3	5,413	2.6	1,246	2.9	3,465	1.7	2,610	6.1	12,258	5.8
1968	1,760	3.7	6,264	2.7	958	2.0	3,404	1.5	3,664	7.8	15,709	6.7

*

See Tables 6 and 7 for total tonnage and total revenue.

The second conclusion is that high-volume, low-rated commodities other than grain also account for a large volume of Rock Island's tonnage. "Products of Mines" in 1959, 1961 and 1963, accounted for 30 to 34 percent of total tonnage. The revenue contribution of this traffic, however, was only 10 to 11 percent of total freight revenue in those years. From 1964 through 1968, because of the difficulty involved in comparison with the old code, the Metallic Ores, Coal and Non-Metal Minerals groups have been chosen to show conservatively the relationship of the high-volume, low-rated commodities on the new code basis to total freight revenue for the Rock Island. These groups together represented 15 to 25 percent of total tonnage and from about 6 to 8 percent of total freight revenue for the period.

The final conclusion is that manufactured commodities by far provide the greatest revenue contribution to Rock Island. In 1959, 1961 and 1963, "Manufactures and Miscellaneous" freight comprised 31 to 34 percent of the tonnage and 46 to 50 percent of total freight revenue. Comparison of commodity consists before and after the changes in commodity codes is perhaps the most difficult with respect to products which have gone through some stage of manufacture. Tables 6 and 7 show specific commodity groups each of which accounted for the movement of one million or more tons per year for each year shown. Also shown is the category, "All Other Groups," which represents the total of all remaining groups, each of which accounted for the movement of less than one million tons during each year shown. Although the aggregated groups predominantly consist of commodities having undergone some degree of manufacture, it is noted that certain of the groups included in "All Other Groups" cannot be so construed.

As examples, containers being returned and freight forwarder and shipper association traffic are included. A strict comparison with the "Manufactures and Miscellaneous" groups used prior to 1964 therefore is not possible. Of significance, however, is the fact that the several commodity groups totaled as "All Other Groups" on Tables 6 and 7 accounted for only about 8 to 11 percent of the tonnage but contributed 22 to 26 percent of Rock Island's total freight revenue. Of further significance is the fact that many of the commodity groups representing movements of one million or more tons per year include manufactured items, e.g., "Food and Products," which represented 14 to 16 percent of total tonnage and an equivalent portion of total freight revenue in 1964 through 1968.

Freight Traffic: Operating Efficiency and Traffic Flow

The discussion which follows will deal with the more significant measures constituting a rail carrier's operating efficiency. In the Commission's consideration of proposed rail unifications, operating efficiency is a factor of great importance. At the same time, it cannot be over emphasized that operating efficiency is but one of the various essential elements of results to be considered in the balancing of all issues. In other words, all other meaningful elements of public interest may not lawfully be sacrificed or rejected simply because in one case, a strong carrier is able financially to take over a weak carrier which cannot stand alone or that in another, the latter carrier's operating efficiency will be improved as a result of the unification.

In the area of the operating efficiency of the Rock Island, freight car utilization already has been discussed, in terms of historical comparison of the average revenue tonnage per revenue carload. Indirectly, the discussion of Rock Island's traffic commodity consist dealt with operating efficiency insofar as the effect on revenue contributions from high-volume, low-rated commodities is concerned. Later, Rock Island's freight car fleet capacity, physical condition of lines and coincident effects on operations, yard capacities and the operating ratio will be discussed in detail. To be taken up at this time are the relative significance of Rock Island's interchanges in terms of volume of cars interchanged, the freight traffic density over each segment of line in both directions, line classifications and gradients, and the average length of haul.

The Rock Island's interchange data at major gateways for the year 1963 are shown on Table 9, which follows. The gateways are grouped in such a way as to reflect (1) the function of the gateways, e.g., the easternmost termini where interchanges are made with class I Eastern District line-haul carriers, and (2) the geographical scope of the Rock Island from east to west for the northern half of its system and from north to south for the southern half. Interchange figures are shown (1) specifically for carriers which took an active part in these proceedings, and (2) as totals for all other carriers, except as noted in the list. Adjustments have been made for railroads, except BN, which have unified. Full corporate names, short names or initials of railroads shown in Table 9, not heretofore identified, are as follows: Norfolk and Western Railway Company-Norfolk & Western or N&W; The Baltimore and Ohio Railroad Company-Baltimore & Ohio or B&O; The Chesapeake

and Ohio Railway Company-Chesapeake & Ohio or C&O;
 Elgin, Joliet and Eastern Railway Company-Elgin or
 EJ&E; Chicago and Eastern Illinois Railroad Company-
 Eastern Illinois or C&EI; Erie-Lackawanna Railway Company-
 Erie-Lackawanna or E-L; Chicago and Illinois Midland
 Railway Company-Illinois Midland or C&IM; Gulf, Mobile
 and Ohio Railroad Company-Gulf or GM&O; Illinois Terminal
 Railroad Company-Illinois Terminal or IT; Louisville
 and Nashville Railroad Company-Louisville & Nashville
 or L&N; Southern Railway Company-Southern or SOU; Monon
 Railroad-Monon; Toledo, Peoria and Western Railroad
 Company-Toledo or TP&W; Grand Trunk Western Railroad
 Company-Grand Trunk or GTW; and St. Louis Southwestern
 Railway Company (a wholly owned subsidiary of Southern
 Pacific)-Cotton Belt or SLSW.

Table 9

ROCK ISLAND MAJOR INTERCHANGES TERMINALS
AND CARLOADS, 1963

I. Lines North of and Including Herington, Kans.A. Gateways to Eastern District Carriers

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Chicago, Ill.	ATSF	18	70	88
	CBQ	64	62	126
	CNW	1,770	1,516	3,286
	MILW	574	910	1,484
	Soo	1,190	1,474	2,664
	Eastern Dist. Class I Line-			
	Haul*	60,451	48,455	108,906
	All Others	35,141	5,917	41,058
	Grand Total	99,208	58,404	157,612

*Includes PC, N&W, C&O-B&O, E-L, C&EI, Monon, GTW, and EJ&E.

2. Joliet, Ill.	ATSF	66	232	298
	MILW	16	2	18
	East. Dist. Class I Line-			
	Haul*	9,444	7,475	16,919
	All Others	614	513	1,127
	Grand Total	10,140	8,222	18,362

*Includes PC and EJ&E.

3. Peoria, Ill.	ATSF	-	6	6
	CBQ	117	1,446	1,563
	CNW	254	2,230	2,484
	East. Dist. Class I Line-			
	Haul*	13,594	10,012	23,606
	All Others	5,880	4,066	9,946
	Grand Total	19,845	17,760	37,605

*Includes PC, N&W, TP&W, IT, and C&IM.

4. RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
4. St. Louis, Mo.	CBQ	70	137	207
	MKT	4	2	6
	MP	128	504	632
	SLSF	302	154	456
	SLSW	74	119	193
	Class I Line- Haul*:			
	Eastern Dist.	6,313	8,172	14,485
	Southern Dist.	4,797	5,854	10,651
	Grand Total	11,688	14,942	26,630

*Eastern District includes PC, N&W, B&O, C&EI, and IT.
Southern District includes SOU, L&N, IC, and GM&O. The latter two, where appropriate, are included in "All Others" for Chicago, Joliet, Peoria, Council Bluffs and Kansas City.

Note: The above gateways, as indicated, are those where Rock Island interchanges with Eastern District carriers. Because Norfolk & Western now includes the lines of the former Wabash which serve the gateways of Council Bluffs and Des Moines, Iowa, and Kansas City, Kans., those gateways technically could be included above, but have been considered as more appropriate in the following groups of gateways. For the three named gateways, however, N&W interchanges have been shown specifically to emphasize the fact that they are interchanges with an eastern carrier.

B. Gateways in Central and Eastern Iowa and Western Illinois

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Silvis, Ill.	CBQ	1,172	912	2,084
2. Davenport, Iowa	CBQ	33	97	130
	MILW	111	119	230
	Grand Total	144	216	360
3. Des Moines, Iowa	CBQ	328	389	717
	CNW	7,956	5,903	13,859
	MILW	210	309	519
	N&W*	603	405	1,008
	Grand Total	9,097	7,006	16,103

*See note above following Section IA of this table.

4. Cedar Rapids, Iowa	CNW	699	145	844
	MILW	359	147	506
	All Others	1,242	715	1,957
	Grand Total	2,300	1,007	3,307

E. Other Kansas Gateways

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Herington, Kans.	MP	50	454	504
2. Topeka, Kans.	ATSF	243	1,505	1,748
	MP	18	391	409
	UP	681	1,480	2,161
	Grand Total	942	3,376	4,318

F. The Denver Gateway

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Denver, Colo.	ATSF	67	256	323
	CBQ	350	92	442
	C&S	528	297	825
	DRGW	14,350	17,516	31,866
	UP	2,731	960	3,691
	Grand Total	18,026	19,121	37,147

II. Lines South of HeringtonA. The Arkansas and Tennessee Gateways

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Memphis, Tenn.	MP	323	28	351
	SLSF	4,915	5,677	10,592
	SLSW	46	14	60
	Southern Dist. Class I Line- Haul*	17,181	13,762	30,943
	All Others	---	4	4
	Grand Total	22,465	19,485	41,950

*Includes IC, GM&O, L&N, and SOU.

2. Little Rock, Ark.	MP	3,946	2,100	6,046
	SLSW	19	350	369
	Grand Total	3,965	2,450	6,415
3. Fordyce, Ark.	SLSW	5,890	1,849	7,739
	All Others	6	4	10
	Grand Total	5,896	1,853	7,749

B. Louisiana Gateways

RI Station	Connecting Carrier	Rock Island Carloads		
		Delivered	Received	Total
1. Alexandria, La.	LA	1,798	1,048	2,846
	MP	2,081	140	2,221
	SP	3,805	2,842	6,647
	TP	1,028	369	1,397
	Grand Total	8,712	4,399	13,111
2. Hodge, La.	All Others	5,146	3,992	9,138

C. Oklahoma and Texas Gateways

1.	RI Station	Connecting Carrier	Rock Island Carloads		
			Delivered	Received	Total
1.	Oklahoma City, Okla.	ATSF	2,009	2,633	4,642
		MKT	28	11	39
		SLSF	613	1,269	1,882
		Grand Total	2,650	3,913	6,563
2.	Dallas, Tex.	FWD	68	8	76
		ATSF	254	92	346
		LA	5,558	642	6,200
		MKT	1,051	215	1,266
		SLSF	39	36	75
		SLSW	217	137	354
		SP	2,818	791	3,609
		TP	1,137	313	1,450
		Grand Total	11,142	2,234	13,376
3.	Fort Worth, Tex.	FWD	709	1,008	1,717
		ATSF	1,300	1,366	2,666
		MKT	857	370	1,227
		MP	2,680	1,437	4,117
		SLSF	299	182	481
		SLSW	7,075	262	7,337
		SP	4,433	3,984	8,417
		TP	4,635	5,142	9,777
		Grand Total	21,988	13,751	35,739
4.	Dalhart, Tex.	FWD	1,910	7,385	9,295
5.	Houston, Tex.	ATSF	4	18	22
		FWD	-	-	-
		MKT	-	-	-
		MP	1,233	425	1,658
		SP	1,736	259	1,995
		Grand Total	2,973	702	3,675
6.	Amarillo, Tex.	FWD	946	4,081	5,027
		ATSF	5,737	3,842	9,579
		Grand Total	6,683	7,923	14,606

D. The Tucumcari Gateway

1.	RI Station	Connecting Carrier	Rock Island Carloads		
			Delivered	Received	Total
1.	Tucumcari, N. Mex.	SP	51,090	55,042	106,132

Table 9 does not disclose the details for all of Rock Island's connections (in 1965, Rock Island maintained 395 connections with 61 different carriers). The table however, includes the principal gateways.

In terms of total carloads interchanged during 1963 by the Rock Island at its major terminals, Chicago, Kansas City and Tucumcari are by far the largest with totals of 157,612; 118,393; and 106,132, respectively. The Memphis interchange was a distant fourth in rank with 41,950 cars. Terminals with interchanges in the 30,000 to 40,000 car range include Peoria, Council Bluffs, Denver, and Fort Worth. In the range of 20,000 to 30,000 cars were St. Louis, the Twin Cities and Northfield, Minn. From 10,000 to 20,000 cars were interchanged at Joliet, Des Moines, Minnesota Transfer, Dallas and Amarillo.

The foregoing discussion has ranked specific terminals without regard to the fact that some of the terminals are in close proximity and therefore functionally serve the same purpose. For example, Northfield and Minnesota Transfer are in close proximity to the Twin Cities interchange points, and all serve as gateways for traffic moving to and from the Rock Island on the one hand and from and to routes of the Northern Lines, the Milwaukee, the North Western, and the Soo on the other hand. At Northfield, such traffic is interchanged with the Minneapolis, Northfield & Southern, which bridges the traffic between the Rock Island and the other named carriers. The total number of cars Rock Island interchanged during 1963 at the three above-mentioned gateways in the Twin Cities area was 68,332, of which 30,360 Rock Island delivered and 37,972 it received. Similarly, the Missouri River gateways, Kansas City and Council Bluffs, together accounted for 150,649 cars interchanged by Rock Island, consisting of 72,436 cars delivered and 78,213 cars received. At Kansas City, of the 60,513 cars delivered by Rock Island, 16,547 were delivered to Norfolk & Western. Of the 57,880 cars received at Kansas City, 12,761 came from the Santa Fe. At Council Bluffs, of the 32,256 cars interchanged, 15,431 were received from Union Pacific and 7,970 were delivered to Union Pacific, for a total Rock Island-Union Pacific interchange of 23,401 cars.

The four easternmost terminals north of Herington (Chicago, Joliet, Peoria and St. Louis) together accounted for a 1963 interchange of 240,209 cars, of which 130,881 were delivered by Rock Island to connections. Interchanges exclusively with the Eastern District class I line-haul railroads at the four terminals plus N&W (formerly Wabash) totals for Kansas City, Des Moines, and Council Bluffs

account for a total Rock Island-Eastern District interchange of 187,170 cars (106,982 delivered to eastern connections and 80,188 received from them). In other words, of the total interchanges at the seven gateways above named, 46 percent was involved with Eastern District carriers directly.²⁰ Additionally, it is noted that for several of the terminals, interchanges were listed in Rock Island's evidence and discovery exhibit as being between the Rock Island and one or more switching and terminal carriers. The exact amount of this Rock Island traffic interchanged between the switching carriers and the Eastern District class I line-haul railroads is not known because the prior or subsequent Eastern District line-haul carrier is not shown.

With respect to Southern District class I line-haul carriers, Rock Island interchanged a total of 41,594 cars with such carriers at St. Louis and Memphis. Adding the Rock Island-Illinois Central and/or Rock Island-Gulf, Mobile & Ohio interchanges at Chicago, Joliet, Peoria, Council Bluffs, and Kansas City, to the Southern District carrier interchanges at St. Louis and Memphis, yields a total Rock Island-Southern District interchange of 58,622 cars for the year 1963. Also here applicable with regard to switching and terminal carrier interchange is the discussion in the paragraph immediately above.

At Denver, Rock Island delivered 18,026 cars to connections and received 19,121, for a total interchange of 37,147. Of the total figure, 31,866 cars were accounted for by the Rock Island-Rio Grande interchange.

Fort Worth and Dallas interchanges in 1963 totaled 49,115 cars, of which 35,739 were interchanged at Fort Worth. Stated differently, Rock Island delivered 33,130 cars (21,988 at Fort Worth) to other carriers and received 15,985 (13,751 at Fort Worth) from those carriers at the two terminals. Of all interchange points in Arkansas, Louisiana, Oklahoma, New Mexico and Texas, only Oklahoma City, Dalhart and Amarillo, Tex., and Tucumcari, were points where the number of cars received from connections exceeded the number delivered by Rock Island.

²⁰ Of the Eastern District class I line-haul carriers, Penn Central interchanged 45,259 cars with Rock Island, Norfolk & Western and subsidiary Erie-Lackawanna interchanged 51,321, and Chesapeake & Ohio-Baltimore & Ohio interchanged 27,324. Assuming consummation of the N&W and C&O systems as recommended in an Examiner's report in F. D. No. 23832, Norfolk and Western Railway Company--Merger, Etc.--The Chesapeake and Ohio Railway Company, served March 20, 1968, the combined system and Rock Island would have interchanged 78,645 cars in 1963.

The Tucumcari interchange, as noted, was the third largest in volume for Rock Island in 1963, with a total of 106,132 cars. Rock Island, of course, has but one connection at Tucumcari, the Southern Pacific. Of the total interchange, Rock Island delivered 51,090 cars to the Southern Pacific, and received 55,042 cars from that carrier.

The major routes of the Rock Island were previously described. During 1964, the line from Chicago to Davenport, Iowa, handled a daily average of from 7,760 to 10,300 net tons (weight of contents of cars) westbound, and from 12,690 to 14,240 net tons eastbound. The low and high tonnage figures represent amounts moved over the lowest and highest density segments of the line between the named points. At Davenport, the Rock Island's route from Chicago splits. One line continues west to West Liberty, Iowa, and the density was 7,460 net tons daily westbound and 9,520 tons eastbound. The other line from Davenport goes southwest to Allerton, Iowa, where it connects with the Des Moines-Kansas City route. The Davenport-Allerton line handled a daily average of 4,180 to 4,310 net tons westbound and 4,790 to 5,350 net tons eastbound in 1964.

At West Liberty, mentioned above, the Rock Island route west from Chicago splits a second time (the first being at Davenport). From West Liberty, a main line goes to Manly, Iowa, and constitutes a portion of the Chicago-Twin Cities route. The West Liberty-Manly line in 1964 had a daily average of only 1,580 to 2,890 net tons westbound and 4,230 to 5,670 net tons eastbound. At Manly, the line joins the Kansas City-Des Moines-Twin Cities route and the traffic density between Manly and the Twin Cities averaged 3,700 net tons northbound and 4,870 net tons southbound daily. Again referring to West Liberty, the second route west from there goes through Des Moines to Omaha. Density between West Liberty and Omaha averaged from 3,520 to 3,840 net tons daily westbound, and from 4,720 to 4,790 eastbound.

From Manly, the Twin Cities-Kansas City line runs south through Des Moines to Allerton, where as previously noted, there is a connection with the line from Davenport. The Manly-Allerton segment southbound handled a daily average of 2,500 to 2,780 net tons and from 3,080 to 3,300 net tons northbound. Continuing south from Allerton, the line goes through Coburn, Mo., to Kansas City, over which moved a daily average of 7,910 net tons northbound and from 6,490 to 6,760 southbound in 1964. As described earlier, there is an alternate route from Coburn west through St. Joseph to Topeka, which bypasses Kansas City. In 1964, less than 600 tons daily were moved over this line in either direction.

The St. Louis-Kansas City line handled relatively light traffic in either direction in 1964, with 1,810 to 1,920 net tons westbound and 1,820 to 1,850 net tons eastbound being the daily average. West from Kansas City through Topeka to McFarland, Kans., the Rock Island handles traffic to and from its Texas, Tucumcari, Denver, St. Louis, Chicago, and Twin Cities routes. The daily average density between Kansas City and McFarland is from 9,130 to 10,170 net tons westbound and from 8,760 to 10,160 net tons eastbound.

From McFarland, a line goes northwest to Belleville, where it connects with a line from Omaha. The McFarland-Belleville line handled a daily average of 1,970 net tons westbound and 3,100 net tons eastbound. The Omaha-Belleville line average 2,750 net tons westbound and 2,740 eastbound. From Belleville west to Limon, Colo., the Rock Island moved from 3,480 to 4,470 net tons daily westbound and from 3,450 to 4,010 net tons eastbound. At Limon, a line goes to Denver (4,310 net tons westbound and 2,700 net tons eastbound), and another line goes to Colorado Springs, Colo. (350 net tons westbound, 660 eastbound).

Returning again to McFarland, the line from there to Herington handled an average of 8,910 net tons daily westbound and 7,600 eastbound. The Herington-Tucumcari line handled from 2,890 to 3,730 net tons westbound and from 3,000 to 4,350 eastbound. From Herington south through El Reno to Fort Worth, the southbound movement was heaviest in 1964, averaging from 6,730 to 8,780 net tons daily. Northbound, net tonnage ranged from 1,740 to 2,560 from Fort Worth to El Reno and from 4,160 to 4,290 from El Reno to Herington. From Fort Worth to Dallas, movements averaged 6,580 net tons southbound and 800 net tons northbound. Between Dallas and Houston, the southbound and northbound figures were 3,380 and 570, respectively.

Finally, the Tucumcari-El Reno-Memphis route had movements of from 550 to 2,280 net tons eastbound daily from Tucumcari to El Reno, and from 3,040 to 3,870 net tons eastbound from El Reno to Memphis. Westbound, movements were: Memphis to El Reno, 2,880 to 3,500 net tons; and El Reno to Tucumcari, 790 to 1,160 net tons.

Except for a few lines such as those between Bureau and Peoria, Ill., and between Little Rock and Alexandria, Rock Island's lines other than those described above had movements of less than 2,000 net tons of traffic daily per line. Of the 7,792 miles of road operated in 1964 by Rock Island, 32 percent were classified as branch lines. Despite abandonments and other road mileage changes, the percentage remained the same in 1968. According to Rock Island's Exhibit 23, AFH-2, ruling grades, on the lines for which traffic densities have been described herein, do not exceed 1.24 percent.

Rock Island's average length of haul for revenue traffic was 394 miles in 1968. Comparable figures for 1964 and 1960 were 351 miles and 334 miles, respectively.

Passenger Service

Since January 1, 1965, the Rock Island has curtailed its passenger operations through discontinuance of 18 intercity passenger trains. Intercity service listed in the "Official Guide of the Railways" for September 1969, shows that two trains per day, one in each direction, are operated between (1) Chicago and Peoria; (2) Chicago and Omaha via Rock Island and Des Moines; and (3) Chicago and Rock Island, for a total of six intercity trains. Commuter service is provided between Chicago and Gresham Junction (also in Chicago), on the one hand, and, Blue Island, Ill., on the other hand.

As of December 31, 1968, Rock Island's passenger car fleet totaled 370 cars of which 157 were coaches, 6 were parlor cars, 7 were dining, grill or tavern cars, 12 postal cars, and 188 were various types of non-passenger carrying cars.

As indicated by the following table, Rock Island's passenger operations yielded deficits for each year shown:

Table 10

Rock Island Deficits From Passenger Operations

<u>Year</u>	<u>Passenger Railway Operating Revenues (000)</u>	<u>Net Passenger Expenses (000)</u>	<u>Net* Passenger Railway Operating Deficit (000)</u>
1963	\$29,427	\$44,306	\$(14,879)
1964	27,258	42,261	(15,003)
1965	24,500	41,828	(17,328)
1966	22,984	37,472	(14,488)
1967	16,474	31,131	(14,657)
1968	9,442	20,467	(11,025)

*Net passenger railway operating deficit may be overstated to the extent that such items of expense that have been included in net passenger expenses as allowable expenses, would generally be disallowed by the Commission in discontinuance proceedings. (Source: Schedule 300 Form A).

Expenditures for Maintenance and Capital Improvements

Rock Island's revised estimate, submitted September 22, 1967, was that during the following 5 years an expenditure of \$119,811,000 would be required to make possible efficient operations and to enable it to provide competitive rail service. Various components of the Rock Island physical plant are outmoded and other parts require extensive maintenance expenditures. Rock Island finds that its cash situation precludes such expenditures, no matter how productive the end result might be, and thus it is necessary to forego the lower expense levels which would result from improvement and modernization of physical plant. Principal areas in which the total expenditures are needed include: maintenance of way-\$48 million, yards and terminals-\$14.8 million, line changes-\$14.8 million, siding extensions-\$9.1 million, bridge work-\$8.4 million, car cleaning and repair facilities-\$6.1 million, and communications-\$5.5 million.

Details of the estimated requirements are as follows. As of the end of January 1968, the Rock Island had slow orders on over 500 miles of track because of substandard maintenance of way. An estimated \$23.3 million is

allocated for new welded rail to be laid on the principal main lines. Ballast at an estimated \$11 million, and ties-\$12.9 million, would also be installed at the same time as the welded rail. One of the effects of the new rail program would be to reduce maintenance expense and also to increase train speeds. Rock Island's maintenance-of-way program calls for 90 miles of new track per year (from rail thus released, relay rail would become available for secondary main line, branch, yard and industry tracks), 600,000 ties per year and 600,000 yards of ballast. In no year since 1963 has it been able to meet its required annual maintenance program for new rails, ties and ballast. Expenditures for maintenance-of-way in 1966 and scheduled for 1967 amount to only \$11,328,000 or almost \$36 million short of the required amount.

Most of the branch lines, principally those north of Topeka and Kansas City, are in worse condition than the main line trackage. On most of the branch lines there is very little ballast and tie conditions are only fair. On these branches there are over 600 miles of 60-65 pound rail and, on several branch lines, train speeds are as low as 15-20 m.p.h. because of track conditions. Because maintenance has been deferred for many years Rock Island cannot risk further cutbacks.

In yards and terminals, improvements would include the restoration of grades, additional classification tracks, and installation of automatic rather than the present manual controls. Rock Island's two major gravity switching yards, the Silvis yard at Rock Island, and the Armourdale yard at Kansas City, will remain serious bottlenecks with the resultant inflation of operating costs unless improvements are made. Both yards have a very low humping capacity (500-600 cars per shift) and need to be entirely reworked. Rock Island estimates that these yards should have a capability of at least 1,200 cars per shift for the volume of business presently handled. To prevent delays and backups, the Rock Island has preblocked some of its cars at other yards. Costs are also increased by the necessity of switching cars at other places that should be switched at these yards. Additionally, improvements are needed at 14 other yards and terminals. Only \$312,000 was available for such improvements in 1966 with an additional \$274,000 contemplated for 1967. Certain line changes should be made to reduce excessive curvatures to afford a maximum 50 m.p.h. speed. The principal line change contemplated is between St. Louis and Kansas City at an estimated cost of \$6.2 million. On this line, east of Eldon, Mo., speed restrictions are as low as 35 m.p.h. Other line changes would be west of Booneville, Iowa, on the line between Des Moines and Council Bluffs and south of Allerton, on the line between Des Moines and Kansas City.

Rock Island has a pressing need for the extension of 85 sidings to 9,000 foot length so as to permit the operation of longer trains. Frequently, it has been necessary for Rock Island to reduce train lengths with the result that traffic could not move on the properly scheduled trains. Shorter train lengths in turn increased costs by making it necessary to operate more trains. Of an estimated \$9 million for siding extensions, Rock Island expended only \$893,000 in 1966 and \$314,000 in 1967.

Upgrading of bridges to remove weight restrictions, particularly on branch lines, is necessary to permit the handling of heavier equipment, specifically the 100 ton jumbo hopper cars which are used for grain. Rock Island acknowledges that \$6 million of its estimated \$8.4 million bridge expenses were on lines which had been specified for abandonment by an earlier branch line committee. However, the earlier abandonment plans, an estimated 1,600 miles of line, were considered impractical and a new branch line committee is studying the situation. In 1967, the Rock Island abandoned service on four branch lines aggregating 196.82 miles of road. The branch line committee is presently considering three other abandonments aggregating 160 miles.

Rock Island does not have a modern and adequate car repair facility, but the cost of constructing such a facility is totally prohibitive on the basis of its existing **financial** condition. A minimal program for equipment maintenance should include the construction of modern car cleaning and upgrading facilities at both Silvis and El Reno, as well as the construction of one-spot car repair facilities at Blue Island, Silvis, Des Moines, El Reno, Little Rock, Fort Worth and Council Bluffs. In addition, the general and heavy car repair shop at El Reno should be considerably expanded to enable car repair work to be performed at one centralized location. The total cost of the foregoing is an estimated \$6,089,000 of which less than \$1,000,000 was expended or programed in 1966-1967.

Some of the branch lines do not have voice circuits and are limited to Morse telegraph circuits for communications; an outmoded system. Rock Island estimates that \$5.5 million must be spent to upgrade the communications system to provide adequate facilities for voice transmission, data processing and train dispatching. In 1966 Rock Island was able to spend only \$183,000 on improving communications and had programmed only \$42,000 for 1967.

At the end of 1952 the Rock Island freight car fleet totaled 30,741 cars and bad orders were placed on 478 cars, or a bad order ratio of 1.6 percent. As seen, Table 1 shows the Rock Island car fleet for the period

1963 through 1968, inclusive. In 1964 bad orders were placed on 2,707 cars, or a bad order ratio of 10.1 percent, and as of April 1, 1965, the ratio was 9.2 percent. In 1966, the bad order ratio had declined to 2.9 percent principally due to retirement of a substantial number of cars and repairs to cars.

In the 18 week period from May 31, 1965 through October 3, 1965, the Rock Island had equipment shortages totaling 11,230 freight carloads, of which 9,445 car shortages were on-line and 1,785 car shortages were off-line. Of the total shortages, 3,886 were special equipment cars. Rock Island's failure to supply the type and quantity of equipment needed by shippers resulted in a sizable loss of freight and revenues.

In the period following World War II, the peak number of cars operated by Rock Island was reached at the close of the year 1952 at which time it had 30,741 cars. For all class I carriers in the Western District the peak for the period was at the end of 1957. At the end of 1964 all carriers in the Western District as a group experienced a decline in car fleet of 7.8 percent compared to the 1957 peak, but the Rock Island alone suffered a decline of 13.2 percent from its 1952 peak to a fleet size of 26,696 cars.

The postwar peak tonnage capacity for Rock Island was first reached at the close of 1959 (1.6 million tons). Western District class I railroads as a whole reached peak capacity at the end of 1960 (33.3 million tons). By December 31, 1964, Rock Island's car fleet capacity had declined by 7.1 percent while all Western District class I railroads had a decline of 0.9 percent. For the 1959, 1960, and 1964 periods above referred to, the capacities of leased cars are included. Rock Island's 1968 Annual Report Form A reports a total capacity of 1.7 million tons, including the capacity of 6,525 leased cars but excluding the capacity of 1,477 other leased cars.

During the end of the year 1965, Rock Island made an estimate of its equipment needs for the years 1966-1969. Of course, the estimate was subject to adjustment upward or downward dependent upon various factors such as marketing developments, productivity of new high capacity cars, and the rate of retirement of cars. However, the projection was based upon the estimate that Rock Island by 1968 would increase its share of Western District traffic from 4.7 percent to 4.9 percent. Under such projection, Rock Island would handle 18.7 billion revenue ton-miles in 1969 and require a freight car fleet of 32,900. Excluding 5,200 private cars (or cars not supplied by any railroad) but adding for a bad order car ratio of 3.5 percent or close to 1,000 cars, the servicable freight car fleet for 1969 was an estimated 28,700 cars. As of the time of the hearing on

August 22-23, 1966, the Rock Island had already increased its share of Western District traffic to 4.8 percent. Its Annual Reports to the Commission for 1967 and 1968, show car fleets of 28,842 and 28,432 and revenue ton-miles of 17.3 billion and 18.6 billion, respectively. As seen, all circumstances considered, the forecast made in 1965 as to the increased revenue ton-miles by the end of 1969 was a conservative and reasonably accurate projection.

Rock Island also has been faced with the further financial problem of building up a car fleet of the size which would enable it to compete effectively as an independent carrier and haul the volume of traffic available. Based upon the previously discussed 18.7 billion revenue-ton miles estimated for the year 1969, Rock Island projected its equipment fleet needs as follows:

<u>Equipment</u>	<u>Units</u>	<u>Estimated Cost</u>
Freight cars	7,250	\$124,007,000
Locomotives (not including salvage value)	194	37,307,000 ²¹
Passenger coaches	45	7,497,000
Cabooses	<u>190</u>	<u>3,781,000</u>
Total	7,679	\$172,592,000

The above projection takes into consideration a bad car ratio of 3.5 percent and the estimated retirement of equipment. Thus, for example, the estimated 7,250 additional freight cars is predicated upon the allowance for retirement of 6,457 units or an actual net increase to the fleet of 793 freight cars. Rock Island's depleted working capital position coupled with a 25 percent minimum cash down payment restriction in its articles of incorporation have precluded the possibility of purchasing equipment. Accordingly, Rock Island has been forced to rely almost entirely upon the leasing of equipment. The impact which the leasing of equipment has had on Rock Island's financial condition will be later discussed.

²¹

Includes cost of modification of 10 units for use in Chicago suburban passenger service.

Employees

Rock Island finds that further work force reductions are not feasible to offset rising wage and material costs. Employment on the Rock Island is at an all time low. The average number of employees on the Rock Island in 1967 was 1,549 below the average for 1964 and about 2,200 employees below the average when compared for 1968. As of December 1968, Rock Island's work force included 460 executive personnel, 2,394 professional, clerical and general personnel, 1,978 maintenance-of-way and structure personnel, 2,189 maintenance of equipment and stores personnel, 825 transportation personnel other than train, engine and yard personnel, 143 yardmasters, switch tenders and hostlers, 3,754 train and engine personnel.

In terms of dollar savings, the force reduction achieved between 1964 and 1967 have been more than offset by increased wage costs. Additionally any opportunities for further reductions are limited because of existing labor agreements.

Financial Data and Analysis

Balance sheets and income statements of the Rock Island set forth immediately below are for the purpose of showing the carrier's financial condition (1) for 1963 in connection with the filing of the North Western Control application, (2) for 1964 with respect to the date of the Union Pacific-Rock Island merger agreement, and for 1968 as the latest available data.

Current Assets

Cash	\$ 2,834,325	\$ 3,448,071	\$ 2,499,821
Temporary cash investments	16,966,993	11,923,079	3,471,431
Special deposits	1,046,371	956,491	482,504
Net balance receivable from agents and conductors	4,114,667	3,797,856	5,748,153
Miscellaneous accounts receivable	6,518,476	5,184,645	5,552,421
Interest and dividends receivable	199,064	91,476	54,428
Accrued accounts receivable	7,983,238	8,586,808	14,705,542
Working fund advances	133,321	133,159	178,931
Prepayments	250,011	217,480	1,124,516
Material and supplies	13,360,092	13,744,095	10,281,146
Other current assets	44,658	83,111	172,288
Total current assets	<u>53,451,216</u>	<u>48,166,271</u>	<u>44,271,181</u>

Special Funds

Capital and other reserve funds	132,967	550,145	1,893,568
Insurance and other funds	120,000	120,000	161,000
Total special funds	<u>252,967</u>	<u>670,145</u>	<u>2,054,568</u>

Investments

Investments in affiliated Cos.	19,286,135	19,441,295	16,727,513
Other investments	1,933,805	1,893,050	654,291
Total investments	<u>21,219,940</u>	<u>21,334,345</u>	<u>17,381,804</u>

Properties

Road and equipment property	599,661,712	615,425,643	591,583,527
Improvements on leased property	1,519,891	1,564,409	1,767,055
Total transportation property	601,181,603	616,990,052	593,350,582
Accrued depreciation-Rd. & Equip.	(182,168,480)	(189,282,304)	(193,881,706)
Amortization of defense projects Rd. & Equip.	(14,067,591)	(11,912,047)	(6,673,150)
Recorded Depreciation & Amortization	(196,236,071)	(201,194,351)	(200,554,856)
Total transportation property less depr. & amort.	<u>404,945,532</u>	<u>415,795,701</u>	<u>392,795,726</u>
Miscellaneous physical property	8,576,216	8,550,709	6,582,966
Accrued depreciation-miscellaneous physical property	(1,606,299)	(1,667,736)	(1,325,246)
Miscellaneous physical prop. less depreciation	<u>6,969,917</u>	<u>6,882,973</u>	<u>5,257,720</u>
Total properties less depr. & amort.	<u>411,915,449</u>	<u>422,678,674</u>	<u>398,053,446</u>

Other Assets and Deferred Charges

Other assets	480,727	707,736	2,146,248
Unamortized discount on long-term debt	1,601,926	1,508,963	1,132,332
Other deferred charges	2,229,392	2,153,894	1,684,980
Total other assets & deferred charges	<u>4,312,045</u>	<u>4,370,593</u>	<u>4,963,560</u>
Total Assets	<u>\$491,151,617</u>	<u>\$497,220,028</u>	<u>\$466,724,559</u>

Table 12

ROCK ISLAND BALANCE SHEETS AS OF

December 31, 1963 December 31, 1964 December 31, 1965

Current Liabilities

Traffic & car-service bal. cr.	\$ 712,030	\$ 258,424	\$ 763,428
Audited accounts & wages payable	5,511,656	5,608,571	4,300,404
Miscellaneous accounts payable	2,079,258	3,645,889	2,360,470
Interest matured unpaid	597,572	553,628	474,034
Dividends matured unpaid	12,390	12,370	11,089
Unmatured interest accrued	1,470,874	1,534,515	670,962
Accrued accounts payable	17,237,854	18,722,905	26,693,874
Federal income taxes accrued	1,666,507	391,154	--
Other taxes accrued	6,767,621	5,485,793	5,554,333
Other current liabilities	2,618,398	2,800,821	3,791,439
Total current liabilities (exclusive of long-term debt due in 1 year)	<u>38,674,160</u>	<u>39,014,090</u>	<u>44,620,033</u>

Long-Term Debt Due Within 1 Year

Equipment obligations & other debt	<u>6,285,740</u>	<u>6,686,940</u>	<u>5,081,977</u>
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Long-Term Debt Due After 1 Year

Funded debt unmatured	107,752,000	104,329,000	97,875,000
Equipment obligations	33,173,462	39,842,663	26,038,944
Amounts payable to affiliated Cos.	607,151	616,605	820,536
Total long-term debt due after 1 year	<u>141,532,613</u>	<u>144,788,268</u>	<u>124,734,480</u>

Reserves

Insurance reserves	7,135	--	--
Casualty & other reserves	3,087,179	2,699,982	5,379,749
Total reserves	<u>3,094,314</u>	<u>2,699,982</u>	<u>5,379,749</u>

Other Liabilities & Deferred Cr.

Other liabilities	1,002,935	887,494	3,565,617
Other deferred credits	310,746	1,155,307	2,826,406
Accrued depreciation-leased prop.	318,592	341,016	421,135
Total other liabilities & deferred credits	<u>1,632,273</u>	<u>2,383,817</u>	<u>6,813,158</u>

Shareholders' Equity

Capital stock-common-total	<u>145,835,550</u>	<u>145,845,550</u>	<u>146,058,050</u>
Retained income-unappropriated	<u>154,096,967</u>	<u>155,801,381</u>	<u>134,037,112</u>
Shareholders' equity-total	<u>299,932,517</u>	<u>301,646,931</u>	<u>280,095,162</u>

Total liabilities &
Shareholders' Equity

\$191,151,617	\$197,220,028	\$166,724,559
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	1963	1964	1968
<u>Total Operating Revenues</u>	<u>\$201,407,391</u>	<u>\$204,641,965</u>	<u>\$239,346,230</u>
<u>Operating Expenses</u>			
<u>Maintenance of way & structures:</u>			
Exclusive of depreciation	23,528,690	23,408,117	31,700,300
Depreciation	3,115,222	3,105,513	3,065,481
<u>Maintenance of equipment:</u>			
Exclusive of depreciation	26,899,418	27,178,348	31,356,910
Depreciation	8,224,850	8,718,669	8,331,864
Traffic	6,128,707	6,251,534	6,414,214
Transportation	84,673,516	85,637,123	102,760,400
Miscellaneous & general	11,110,518	12,742,845	12,983,948
<u>Total operating expenses</u>	<u>163,710,921</u>	<u>167,045,179</u>	<u>196,613,117</u>
<u>Net revenue from railway operations</u>	<u>37,696,470</u>	<u>37,596,786</u>	<u>42,733,113</u>
<u>Railway tax accruals</u>	<u>13,843,348</u>	<u>15,097,359</u>	<u>17,410,341</u>
<u>Railway operating income</u>	<u>23,853,122</u>	<u>22,499,427</u>	<u>25,322,772</u>
Rent income - cr.	2,297,102	2,202,287	1,339,651
Rents payable - dr.	17,542,725	17,322,878	33,180,194
Net rents - dr.	(15,245,623)	(15,120,591)	(31,840,543)
<u>Net railway operating income</u>	<u>8,607,499</u>	<u>7,378,836</u>	<u>(6,517,771)</u>
<u>Total other income</u>	<u>3,056,701</u>	<u>3,322,653</u>	<u>3,655,652</u>
<u>Total income</u>	<u>11,664,200</u>	<u>10,701,489</u>	<u>(2,862,119)</u>
<u>Total miscellaneous deductions</u>	<u>531,681</u>	<u>572,349</u>	<u>700,336</u>
<u>Income available for fixed charges</u>	<u>11,132,519</u>	<u>10,129,140</u>	<u>(3,562,455)</u>
Fixed charges	3,711,622	3,878,134	3,488,406
Contingent interest (other deductions)	2,435,424	2,406,221	2,265,210
Total fixed charges & contingent interest	6,147,046	6,284,355	5,753,616
<u>Ordinary income</u>	<u>4,985,473</u>	<u>3,844,785</u>	<u>(9,316,071)</u>
Total extraordinary items (Net)	-	-	4,510,908
<u>Net income after fixed charges and other deductions</u>	<u>\$ 4,985,473</u>	<u>\$ 3,844,785</u>	<u>\$ (4,805,163)</u>

The additional financial items selected for analysis herein, taken from exhibits and data included in the hearings, are items generally accepted by the Commission and the financial community as criteria in determining the financial posture of a transportation entity.

The following table shows Rock Island's trend in earning history since 1953.

Table 14

ROCK ISLAND NET INCOME 1953-1967

<u>Year</u>	<u>Total Railway Operating Revenues</u> (000)	<u>Total Railway Operating Expenses</u> (000)	<u>Net Railway Operating Income</u> (000)	<u>Income Available For Fixed Charges</u> (000)	<u>Net Income After Fixed Charges And Other Deductions</u> (000)
1953	\$207,955	\$147,337	\$ 28,259	\$ 29,217	\$ 25,912
1954*	187,063	141,605	17,742	18,802	15,657
1955	189,382	143,207	20,980	21,894	16,988
1956	200,020	153,408	20,381	21,499	15,722
1957	209,591	164,245	14,323	15,411	9,704
1958	207,884	162,197	13,189	14,560	8,201
1959	219,454	172,774	11,844	14,697	8,290
1960	211,776	169,785	8,341	12,560	6,015
1961	203,332	160,514	10,191	13,068	6,516
1962	200,927	163,719	9,911	12,895	6,578
1963	201,407	163,711	8,607	11,133	4,985
1964	204,642	167,045	7,379	10,129	3,845
1965	210,790	174,822	2,479	5,157	(1,451)
1966	230,365	190,090	1,228	2,643	(3,639)
1967	221,885	190,756	(14,049)	(11,811)	(16,677)
1968	239,346	196,613	(6,518)	(3,562)	(4,805)

*Includes \$3,012,000 additional Federal income tax accrued.

Net Income

As Table 14 discloses, net railway operating income dropped from a high of \$28.259 million during the Korean War in 1953 to a deficit in excess of \$14.049 million in 1967. Its net income after fixed charges and other deductions declined from almost \$30 million in 1953 to a deficit of almost \$16.677 million in 1967. However, for 1968, net income, after similar deductions, was a deficit of \$4.8 million.

For each of the three 5-year periods 1953-57, 1958-62 and 1963-67, gross revenues from railway operations averaged approximately \$198,802,000, \$208,674,000, and \$215,017,000, respectively, and gross railway operating expenses averaged approximately \$149,816,000, \$165,798,000 and \$177,303,000, respectively. The ratio of gross railway operating expenses as compared to gross railway operating revenues increased from an average of 75 percent for the period 1953-57 to an average of about 82 percent for the last five years 1963-67. This is indicative of its increased cost of operations.

A comparison of the Rock Island's operating ratio with the Western District as a whole discloses that the Rock Island in recent years has lost the position as the carrier with the lower operating expense position it had previously enjoyed. From 1948 through 1956 the Rock Island had lower total railroad expenses proportionately than did the Western District as a whole. Since that time the Rock Island's operating expenses have been relatively higher than the Western District railroads, in any year. The favorable position of operating efficiency enjoyed by the Rock Island for a number of years prior to 1955 has deteriorated to the extent that in 1964 the Rock Island had an operating ratio of 81.63 percent compared to the Western District's 78.32 percent. During 1967, Rock Island's operating ratio rose to a new high of 85.97 percent, however, some improvement was enjoyed in 1968 which resulted in an operating ratio of 82.0 percent.

Working Capital

As seen from Table 15, for the period 1953-60 Rock Island showed an average monthly working capital requirement of some \$12.4 million. For such period, average current assets exceeded average current liabilities by about \$16.5 million and resulted in an average working capital ratio of 1.3. On this basis, Rock Island's working capital for that period of time appeared sufficient to conduct orderly operations.

For the five year period 1953-57, working capital declined from \$18.3 million in 1953 to a low of \$8.9 million in 1957. In order to replenish this loss in working capital, \$16 million was raised in 1958 by the issuance of First Mortgage Series "C" 5½ percent bonds, and through this borrowing increased working capital to \$23.9 million. Since 1958, the Rock Island has suffered a decline in working capital in each of the succeeding years with the only exception being 1962, with the result that at the end of 1964 its working capital was slightly more than one-third of its working capital at the end of 1958. Although Rock Island borrowed \$16 million for working capital in 1958, working capital had declined to \$9.2 million in 1964.

From 1964 to 1966 its working capital continued to decline. For that period Rock Island only had an average of \$6.3 million working capital available to meet an increased average monthly working capital requirement of \$13.6 million. In 1967, despite a \$3 million loan, Rock Island's financial statements reflected a deficit working capital position of \$5.7 million. Little relief was realized for 1968 which reflects a deficit working capital of \$348,000.

Declining revenues and net income has had a very adverse effect on Rock Island's working capital position. Its efforts at long-term borrowing in order to bolster its working capital funds offered only temporary relief. The amount borrowed did not provide sufficient funds to obtain more modern equipment, revitalize its system or generate additional revenues.

The only solution to Rock Island's working capital problem as well as its other financial problems, is improved earnings. The life line of any business enterprise depends upon the revenues it earns. Rock Island's railway operating expenses have been mounting while its revenues have remained relatively static.

A contributory factor to increased expense of Rock Island especially in recent years, is the rising employment costs. In 1964 labor increases alone were \$5 million more than the levels which prevailed during 1963, and in 1965 further employment cost increases of another \$5 million were imposed upon the company. The record indicates that although the average number of employees on the Rock Island in 1967 was 1,549 below the average number in 1964, in terms of dollar savings these reductions in force were more than offset by increased wage costs.

In order to provide adequate service to its shippers and to try and recapture lost revenues it was necessary for the Rock Island to secure additional equipment. It could not generate sufficient capital to purchase this equipment and the only alternative it had was to resort to leasing equipment. The arrangement was almost entirely accomplished through Investment Credit Leasing. As a result of expanded leasing of equipment, Rock Island's equipment rental expenses were greatly increased. Equipment rentals were over \$5,000,000 higher in 1967 than in 1966. Even though railway operating revenues in 1967 were nearly \$8.5 million below those of 1966 it can be concluded that without this leased equipment Rock Island's freight revenue would have been even lower. Equipment rental expense in 1968 was increased by more than \$4 million over 1967 as a result of adding equipment through equipment credit leasing.

Considering the increase in equipment rentals in conjunction with the increased railway operating expenses and insufficient revenues, it is obvious that the result must be a decline in net railway operating income and consequently its net income after fixed charges and other deductions would reflect the same conditions.

Table 15

ROCK ISLAND WORKING CAPITAL 1953-1967

<u>Year</u>	<u>Total Current Assets</u> (000)	<u>Total Current Liabilities</u> (000)	<u>Working Capital</u> (000)	<u>Total Operating Expenses Less Depreciation</u> (000)	<u>Monthly Average Working Capital Requirement</u> (000)	<u>Working Capital Ratio</u>
1953	\$65,512	\$47,192	\$ 18,320	\$137,820	\$11,485	1.4
1954	58,136	39,495	18,641	131,944	10,995	1.5
1955	65,024	45,439	19,585	133,546	11,129	1.4
1956	60,890	45,436	15,454	153,504	12,796	1.3
1957	48,770	39,891	8,879	154,097	12,841	1.2
1958	63,913	40,022	23,891	151,730	12,644	1.5
1959	57,697	38,099	19,598	162,142	13,511	1.5
1960	52,111	37,784	14,327	159,067	13,256	1.4
1961	53,593	40,871	12,722	149,372	12,448	1.3
1962	54,612	38,492	16,120	152,508	12,709	1.4
1963	53,451	38,674	14,777	152,341	12,695	1.4
1964	48,166	39,014	9,152	155,221	12,934	1.2
1965	46,780	39,794	6,986	162,503	13,291	1.2
1966	46,408	43,549	2,859	177,761	14,813	1.1
1967	41,302	46,979	(5,677)	178,535	14,877	-
1968	44,271	44,620	(348)	185,216	15,435	-

Rate of Return

The rate of return on investment is one of the significant criteria used by financial institutions in evaluating the health and stability of any enterprise.

Rock Island's declining revenues and net income have had an adverse effect on its rate of return on investment. To measure the degree to which these two factors have adversely affected its rate of return, calculations have been made showing the ratio of net railway operating income to investment in road and equipment, less accrued depreciation and amortization plus cash and material and supplies. This method is generally employed by the Commission and the railroads to measure rate of return on transportation property in the industry. It is deemed most satisfactory because it reflects the adequacy of earnings as it relates to the transportation operation alone in determining the rate of return.

Although Rock Island increased its investment in plant and equipment by more than \$165 million over a period of 17 years, its rate of return on investment has steadily declined from a high of 6.64 percent in 1953 to no return at all, or, as a matter of fact to deficit rates of return of 3.36 and 1.60 percent in 1967 and 1968, respectively.

Table 16 shows that since 1957, Rock Island's return on net investment in transportation property has been lower than that of the Western District as a group:

Table 16

ROCK ISLAND RATE OF RETURN ON NET INVESTMENT IN TRANSPORTATION PROPERTY

<u>Year</u>	<u>Investment In Property, Cash & M&S (000)</u>	<u>Depreciation & Amortization (000)</u>	<u>Net Investment (000)</u>	<u>Net Ry. Opr. Income (000)</u>	<u>Percent Rock Island</u>	<u>Percent Western District</u>
1953	\$561,279	\$135,601	\$425,669	\$ 28,259	6.64	4.25
1954	566,769	144,216	422,553	17,742	4.20	3.52
1955	578,362	149,146	429,216	20,980	4.89	4.13
1956	585,850	155,646	430,204	20,381	4.74	3.79
1957	590,645	162,990	427,655	14,323	3.35	3.42
1958	595,133	166,765	428,368	13,189	3.08	3.47
1959	603,335	172,120	431,215	11,844	2.75	3.08
1960	617,223	179,165	438,058	8,341	1.90	2.59
1961	620,916	186,026	434,890	10,191	2.34	2.77
1962	619,174	192,835	426,339	9,911	2.32	3.27
1963	625,883	197,189	428,694	8,607	2.01	3.60
1964	642,967	202,199	440,768	7,379	1.67	3.43
1965	634,594	199,899	434,695	2,479	.57	3.85*
1966	633,115	199,332	433,783	1,228	.28	3.93*
1967	621,514	203,215	418,299	(14,049)	(3.36)	2.73*
1968	608,271	201,071	407,200	(6,518)	(1.60)	NA

*Transport Statistics in US-ICC.

NA: Not available.

Long-Term Debt

With the decline in net income Rock Island had less funds available for capital expenditures because retirement of its long-term debt absorbed an increasing proportion of its net income. As further reflected in Table 10, for the years 1953-1958 funds generated by net income alone averaged \$15.4 million annually. This amount was sufficient to apply towards the retirement of Rock Island's long-term debt which averaged \$7.4 million for the same period. However, for the years 1959-1964 (1964 was the last year it had net income) Rock Island found that funds generated by net income alone averaged \$6 million annually and was insufficient to retire long-term debt averaging \$9.2 million annually for that period of time. Therefore, in order to meet the long-term debt requirements, it was necessary to supplement its funds from net income with funds generated by charges to depreciation. Since operations in 1965-1968 have resulted in deficit operations, it appears that the only funds available for debt retirement have been funds generated from depreciation charges. The record indicates that long-term obligations incurred in past years will continue to absorb a substantial portion of whatever net income or net income plus depreciation funds, if any, Rock Island is able to generate. Long-term debt maturities for each of the five years 1968-1972 range from \$6,877,000 in 1968 to \$6,106,000 in 1972.

Fixed Charges & Contingent Interest

As shown in Table 14, Rock Island experienced no problem in meeting its fixed charges or contingent interest payments for a period of 12 years (1953-1964). During such period its total fixed charges aggregated \$74.76 million, an average of \$6.2 million annually, and income available for these charges amounted to \$195.865 million, an annual average of \$16.3 million. The foregoing indicates that average annual income available for fixed charges was 2.6 times larger than total fixed charges. However, in 1965 and 1966, income available for fixed charges amounted to \$5.2 million and \$2.6 million and total fixed charges amounted to \$6.6 million and \$6.3 million, respectively. By 1967 and 1968, this inadequate coverage worsened and completely disappeared as the income available for fixed charges dropped to a negative \$11.8 million and \$3.6 million, respectively.

Pursuant to votes of its Board of Directors and Executive Committee, Rock Island elected to exercise certain provisions which relieved it from the obligation to pay contingent interest of \$2,265,210 for 1967 and 1968 payable in 1968 and 1969, on its Forty-year 4½ percent Income Debentures in the absence of "available

net income," as defined in the instruments. Instead, contingent interest of \$3,020,280 was accrued to December 31, 1968. Also, in the absence of "available net income," and pursuant to votes of the previously described officials, Rock Island was relieved from the terms of the First Mortgage and the Indenture underlying the making of sinking fund deposits totaling \$5,012,000 for 1968 and 1969.

As discussed above Rock Island's inability to meet its fixed charges and the difficulty it has realized in retiring its long-term obligations has greatly contributed to its deteriorated financial condition. This unfavorable financial picture is further aggravated by the fact that the rating of its outstanding securities have been downgraded by "Moody's Investment Rating." In 1965 its 2-7/8 percent and 5½ percent First Mortgage Bonds were downgraded from a rating of "Baa" to a "Ba" which represents bonds judged as having speculative elements. Also, in the same year, its 40-year 4½ percent Income Debentures were reclassified from a "B" rating to a "Caa" rating which denotes that the securities are of poor standing. With such poor ratings, Rock Island's chances of making arrangements for new bond issues as a means of raising working capital would be very slim.

Taxes

Internal Revenue Service completed an examination of Rock Island's tax returns for all years through 1958. Settlement for the period 1949 through 1955 resulted in an additional payment by Rock Island of \$12,389. For the years 1956 through 1958, Rock Island received a refund of \$1,222,000, including interest, and of \$173,113 for the year 1964. Internal Revenue Service is in the process of reviewing Rock Island's tax returns for the years 1959 and later.

Rock Island had a tax loss carryforward of approximately \$34,800,000 as of December 31, 1968, subject to the outcome of audits for the years subsequent to 1958. The tax loss carryforward will offset future income that would otherwise be taxable. It also has an accumulated unused investment tax credit of approximately \$7,000,000.

Equipment Rents

During the year 1965 it was determined that acquisition of additional equipment through cash purchase or conventional financing (equipment trusts or conditional sale agreements) was not feasible. The Rock Island's current income tax status at that time did not permit it to take advantage of the seven percent investment tax credit on purchased equipment which, under normal circumstances, would be utilized to reduce Federal income tax liability. Furthermore, the Rock Island's cash

reserves were inadequate to purchase additional equipment through either conditional sale or equipment trust financing methods because of the provision in the Certificate of Incorporation requiring a 25 percent equity investment in all equipment purchases. It was decided, therefore, to obtain additional equipment through investment credit leasing.

Under investment credit leasing Rock Island acquires equipment from an independent owner on a 15-year basis for a specified rental payable periodically throughout the term of the lease. The owner-lessor takes advantage of a quick write-off of his investment through depreciation and also the seven percent investment tax credit, which is passed on to the lessee in the form of reduced rental.

In the last four years (1965-1968), the Rock Island and one of its subsidiaries have entered into about 16 lease agreements for the use of various types of equipment. Under the terms of the leases, which range from 4 to 15 years in length, the Rock Island is required to maintain and pay property taxes on the equipment. Upon expiration of the leases, the equipment may be purchased at its then fair market value. Rental payments for equipment received through 1968 will be approximately \$14,437,000 for 1969, with lesser amounts thereafter to 1983. Charges to equipment rental in 1968 under three leases amounted to \$14,045,000.

Debt-Equity Ratio

As one yardstick for finding that a carrier has a fairly sound credit position, the Commission has found acceptable a ratio of 70 percent total debt to 30 percent equity.

As of December 31, 1968, the Rock Island showed a ratio of total debt to combined total debt and stockholders' equity of 40 percent. In computing the relationship of debt to equity based on a ratio of total long-term debt only to the combined total long-term debt and stockholders' equity it reflects a favorable 31.7 percent as of December 31, 1968.

Rock Island's debt structure has been low, almost entirely due to its acquiring additional equipment through the investment credit leasing plan. As previously made plain, under this plan Rock Island may not record any liability on its books or records for any equipment so leased. Consequently for the past 4 years (1965-1968) Rock Island's debt-equity ratio has been in the low 30 percent area. Agreed that a very favorable aspect of Rock Island's financial position is the lack of excessive

debt, such situation does not alter the fact that it is a deficit operating carrier unable to meet its fixed charges, contingent interest or sinking fund requirements.

All circumstances considered, the favorable debt-equity ratio would be of little persuasion in any future borrowing from financial institutions. And it is highly likely that future borrowing would be difficult and costly.

Motor Carrier Operations Financial Data

As earlier noted, R. I. Transit is controlled by the Rock Island through stock ownership. The latter is authorized to operate as a motor common carrier in interstate or foreign commerce, pursuant to certificates issued in No. MC-29130 and various subnumbers thereunder,²² principally of general commodities over regular routes which generally parallel the lines of its parent rail carrier. Although R. I. Transit has extensive unrestricted motor carrier operations in the Midwest, particularly in Illinois, Iowa and Kansas, much of its authority in Oklahoma, Texas and Arkansas is restricted to the performance of service auxiliary to or supplemental of the rail service of the Rock Island. R. I. Transit also has intrastate authority in Oklahoma and Arkansas, which is restricted to service supplemental to the rail service of the Rock Island. In 1967, R. I. Transit utilized about 700 employees. The company operates over 6,811 route-miles in 10 States and at the close of 1967, it owned 723 pieces of equipment consisting of 83 van trucks, 236 truck tractors, 273 van semitrailers, 128 refrigerator semitrailers and 3 open top semitrailers.

In intercity operations for 1967 all vehicles of R. I. Transit operated 6,608,086 miles in highway service and 1,949,454 miles in rail and water service. In such operations, it transported 325,372 tons of general freight and realized revenues of \$8,327,780.

Its operating taxes and licenses for the year 1967 aggregated \$661,189 of which more than one-half of these taxes were paid to the Federal government for gasoline and other fuel, vehicle licenses and registration fees and social security. Of the 10 States in which it operated, the States of Iowa and Illinois were the greatest recipients of the balance of the operating taxes and licenses paid.

²²

No. MC-29130 (Sub-Nos. 8, 33, 34, 37, 40, 44, 46, 48, 56, 57, 61, 63, 67, 71, 74, 75, 76, 82, 84, 86, 89, 90, 92, 93, 96, 98, 99 and 100).

R. I. Transit also conducted a passenger service between Owatonna and Rochester, Minn., which was discontinued during the year 1967. This operation had operating revenues of \$7,093, operating expenses of \$12,626, and net loss of \$6,115. Additionally, Rock Island Motor Transit controls through stock ownership the R. I. Transit Company, Inc., of Indiana (presently inactive).

The balance sheet of the R. I. Transit Company as of December 31, 1967, shows total assets \$4,934,419 consisting of: Current assets \$2,309,444; carrier operating properties, less reserve for depreciation, \$2,397,389; intangible property less reserve for amortization, \$128,813; investment securities and advances \$10,624; and deferred debits \$88,149. Liabilities were: Current liabilities \$1,489,767; long-term debt due within one year \$442,769; long-term debt due after one year \$2,510,052; deferred credits \$7,877; and other reserves \$102,953; capital stock \$100,000; and earned surplus-unappropriated \$281,001.

The income statements of R. I. Transit for the years 1965, 1966 and 1967, show respectively, operating revenues of \$10,010,976, \$10,357,369 and \$10,800,823; operating expenses of \$8,719,793, \$9,129,016 and \$9,320,062, and, deficits of \$135,027 and \$284,317 for 1965 and 1966, respectively, and net income after provision for income taxes of \$258,873 for 1967.

Rock Island's Position

The Rock Island, through its Chairman of the Board of Directors who also is president, asserts that its future is doubtful as an independent carrier. It finds that there are compelling reasons for the Rock Island to merge with a financially strong railroad and that as a midwestern railroad, Rock Island should be integrated into, and become part of a transcontinental system. Rock Island's support of the Union Pacific proposal is later more fully discussed.

In an analysis of its problem, Rock Island points out that, on the one hand, its operating expense level is too high and, on the other, its current revenues are grossly inadequate for a system of its size. With respect to the matter of operating expenses, management is engaged in putting into effect certain controls which will result in lower transportation and maintenance ratios in the operation of the rail plant as it is presently constituted. However, to the extent that the attainment of a lower expense level is dependent upon capital improvements and modernization there is no assurance that Rock Island as an independent carrier will be able financially to carry out the necessary programs.

The foregoing rests upon the matter of revenues and this, according to Rock Island, is where the carrier's real weakness lay. Rock Island reviews its past history of traffic and revenues, which matters have already been laid bare herein by the prior discussions and tables. Rock Island contends that, if for the future it is to be required to continue independent operations, it must at the very minimum increase and maintain revenues at the average level of the western lines. In Rock Island's judgment, its chances for such accomplishment are poor.

Rock Island points to the excessive amount of track and facilities in its territory, which is an increasingly unfavorable factor when compared to the supporting economy. Of Rock Island's 7,793 miles of road in 1963, approximately 26 percent were in Iowa, 14 percent in Kansas, 13 percent in Oklahoma and 13 percent in Texas. The remaining 10 States each contained less than 8 percent of Rock Island's total road mileage.²³ These 14 States in 1963 contained about 42 percent of the total United States rail mileage. Also in 1963, while farm marketing cash receipts in the 14 States made up about 46 percent of the national total, the same 14 States accounted for only about 22 to 28 percent of the national picture when comparing certain other economic indicators, specifically population, personal income, labor force, electric energy production, valuation of construction contracts, value added by manufacturing, sales value wholesale trade, and sales value retail trade, and this indicates an over supply of railroad route mileage in this territory.

The total rail mileage in Rock Island's four major States -- Iowa, Kansas, Oklahoma and Texas -- is approximately 17 percent of the national mileage. The four States produce 19 percent of the nation's farm marketing cash receipts but only about 6 to 9 percent of the nation's total in the other economic indicators, based on 1963 data. Cash receipts from farm marketing is not enough to indicate strength. On the contrary, Rock Island feels that such dependence on agricultural products is evidence of weakness. One reason for this conclusion is that agricultural production is highly seasonal and subject to wide fluctuations between years

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The mileages referred to were those in existence as of December 31, 1963. Rock Island's Form A Annual Report for 1968 shows changes but they are not so substantial as to significantly alter the import and weight of the evidence presented.

because of weather and other uncontrollable influences. Equipment cannot be efficiently utilized on a year round basis since car supplies that are adequate during peak production would remain idle during much of the time. Further, movements can seldom be balanced, loss and damage is high, and car loading is often light.

The second reason given for the ill effects of Rock Island's dependence upon agricultural products is the competition with exempt carriers such as trucks and barges. Because Rock Island derives a larger portion of its revenues from agricultural traffic than is general among railroads, even those in the West, the result is, for example, that Rock Island's average revenue per ton-mile in 1964 was only 1.201 cents as compared with the Western average of 1.263 cents. In this respect, if Rock Island had done as well as the Western lines in 1964, it would have had \$8 million more freight revenues.

Rock Island is of the view that the States served by it are grossly over-supplied with railroad mileage. In most instances, Rock Island's relative revenue position in such States is at, or near, the bottom. The following table demonstrates the situation served by Rock Island.

Table 17

ROCK ISLAND FREIGHT REVENUE PER MILE OF ROAD BY STATE AND
COMPARED TO ALL CLASS I RAILROADS IN STATES, YEAR 1964

<u>States</u>	<u>R.I. Mileage</u>	<u>R.I. Revenue Per Mile of Road</u>	<u>Average Revenue Per Mile of Road for all Railroads in State</u>	<u>R. I. Rank</u>
Iowa	2,051	17,483	21,355	6 out of 7
Kansas	1,119	35,421	26,642	1 out of 7
Oklahoma	1,048	18,062	22,536	5 out of 7
Texas	974	14,053	26,957	13 out of 14
Arkansas	598	17,466	40,495	4 out of 5
Missouri	509	23,944	32,756	8 out of 12
Illinois	294	78,185	47,308	3 out of 14
Minnesota	287	14,386	24,543	7 out of 9
Colorado	258	20,862	23,662	5 out of 7
Nebraska	238	13,305	32,220	3 out of 5
Louisiana	187	7,858	29,585	8 out of 8
New Mexico	153	23,181	60,996	3 out of 3
South Dakota	59	548	6,371	5 out of 6

Rock Island's freight revenues per mile in 1964 and 1965 were around \$23,000, and the carrier feels that, if this would be increased by \$5,000 to \$6,000, its entire complexion would have been changed. The abandonment of 2,000 to 3,000 miles of track would accomplish the additional revenue per mile, if freight revenues remained the same. However, without the abandoned track, the present revenues could not be maintained. A previous plan to abandon 1,651 miles of track was found to be impractical, and now abandonments are proceeding slowly and only on lines where the deficit is established.

One of the reasons for the lower traffic density is the absence of important local traffic at Rock Island stations. Rock Island has 946 stations on its line, including smaller stations within larger terminals. Fifty-nine of these, each of which generates over \$500,000 in annual revenue, produce over 77 percent of Rock Island's originated and/or terminated revenues, and, yet, other railroads serve 46 of these 59 stations and joint or reciprocal switching applies at 44 of these stations. At the 37 largest points served by Rock Island, there are an average of 5.4 other railroads serving the station.

Rock Island points out that 339 of Rock Island's stations, which each generates annual revenues of \$10,000 or less, produce only one-half of one percent of station revenues. There are 655 stations, each of which generates annual revenues of \$50,000 or less, but only produce 5 percent of Rock Island's station earnings. Further, there are 769 stations, each of which generates annual revenues of \$100,000 or less, yet produce only about 9 percent of Rock Island's station earnings. The net result of this situation is that at the stations generating large volume of revenues, Rock Island is only one of many railroads and its share is not very large; while, on the other hand, Rock Island may be the only railroad (although not always) at stations which do not generate much business, sometimes not even enough to justify an agency. Rock Island concedes that this situation may well continue under a merger with Union Pacific, but points out that the unified railroad serving these stations will be stronger and more capable of coping with the problem.

One reason for Rock Island's small share of revenues generated by the larger stations is that its routes between stations generally are longer than its rail competition. In the days of high-speed scheduled freight service and shorter routes available to competing truck lines over new interstate highways, this is a damaging problem. This problem also applies to Rock Island's participation with other western railroads in through routes for transcontinental traffic.

A second reason for Rock Island's low traffic density is the vulnerability of its interline business, which primarily centers around its western termini at Tucumcari, Denver, and Minneapolis. At Santa Rosa (Tucumcari), Rock Island's only connection on transcontinental or other business is with Southern Pacific. It must work preferentially with Southern Pacific but there is no reciprocal obligation on the part of Southern Pacific, with the exception of certain defined territories. A large volume of Southern Pacific's transcontinental business is to and from eastern and southeastern points and moves over its affiliated railroad, the Cotton Belt, through the St. Louis and Memphis gateways. At Denver, Rock Island must work with the Denver & Rio Grande or the Union Pacific. However, since the Denver gateway short-hauls Union Pacific, it is not interested in developing the route. In fact, Rock Island has very few rates through Denver with Union Pacific going to the Pacific Northwest. Accordingly, Rock Island must necessarily work preferentially with Denver & Rio Grande, but the latter has other railroads with which it interlines and is under no compulsion to deal preferentially with Rock Island. At Minneapolis, on traffic to and from the Pacific Northwest, two of the principal connections of Rock Island are the Great Northern and Northern Pacific. However, those two carriers jointly own the Burlington, which offers more direct service than Rock Island to Chicago and St. Louis and is, thus, favored. Interchange with Rock Island at Minneapolis with the Milwaukee is apt to short-haul the latter and such business is not encouraged by Milwaukee. In summary, the net result of the above-described interchange problems is that on important interline business, including overhead moving between its principal termini, Rock Island ordinarily has to work alone, since its most important connecting lines usually select other available preferred routes, whereas Rock Island has no such choice.

In the face of all the matters above discussed, Rock Island finds that it is not realistic within the foreseeable future, to expect to build its revenues up to the average level in the Western District, and, of course, not to the level of the stronger railroads in that district. Even with consistently good and reliable service, supported by an adequate car supply, the resulting improvement will be limited. Rock Island's relatively lower revenue level makes it almost wholly dependent upon an uninterrupted growth in the national economy. At the same time, even the maintenance of its relative position in that growing economy requires the sharpest possible management in the providing of good service at the lowest cost, and, a great many more "good breaks" than "bad breaks." If any of such conditions are not fulfilled, even for a relatively short period,

Rock Island may not be able to serve its territory adequately, because it has no real reserves or outside resources to fall back on.

In pressing for its merger into Union Pacific, the Rock Island sets forth three basic reasons. First, a viable Rock Island operation in future years depends upon the expenditure of a great deal of money for capital improvements, including almost \$157 million for equipment and \$87 million for road improvements. (As previously discussed in detail, the later and revised figures were \$172,592,000 for equipment and \$119,811,000 for maintenance and improvement of fixed facilities.) A merger with a financially sound railroad, with practically unlimited resources, will assure the prompt consummation of this capital improvement program; whereas, standing alone, Rock Island, with marginal operation and no real reserves, may be compelled to subject its program to compromises and slowdowns. Although Rock Island has made some headway in the program, particularly with the equipment, it needs the backing of the vast resources of the Union Pacific to complete it.

Secondly, assuming that Rock Island were to be successful in carrying out necessary capital programs, fully modernize and increase the efficiency of its daily operations, and is permitted to reduce its intercity passenger service to a level that can be supported, Rock Island would still be a marginal carrier.

The third point is the necessity for Rock Island to become a part of a transcontinental railroad system. Presently, Rock Island goes only part way and Union Pacific the rest. Merger of the two would result in one single-line transcontinental carrier. This, of course, would allow the two to keep stride with the general merger movement in the west. In a further comment along this line Rock Island's chief executive voiced the opinion that each midwestern line ought to try to become part of a transcontinental system, as this seems to be the trend in the West. He cites as examples the MoPac's attempt to control Santa Fe, Great Northern and Northern Pacific attempting to include Burlington as a transcontinental system, Southern Pacific's access to St. Louis through the Cotton Belt, and Santa Fe's already reaching Chicago.

Rock Island acknowledges that a merger between Rock Island and Union Pacific would put other midwestern railroads, such as North Western and Great Western in a binding position. On the other hand, Rock Island contends that North Western is better able to protect itself because of its merger plans with Great Western (which has since been consummated) and Milwaukee,²⁴ it has a resourceful management group; and it is part of a highly diversified system of companies. Just as North Western is trying to improve its position, Rock Island desires to do so also.

²⁴ The point, with respect to North Western's proposed unification with the Milwaukee, is now moot, as earlier detailed.

Preliminary Findings and Conclusions, Economic and Financial

The preliminary conclusions which follow are exclusively with regard to the Rock Island as it stands today; it being stressed that such conclusions have been reached without regard to the merit of any of the transactions proposed in these proceedings.

Rock Island has a substantial amount of main line mileage located in Illinois, Iowa, Missouri, Kansas and Minnesota, with branch mileage concentrated in Iowa, but extending far beyond the confines of those States are other important segments of routes. The latter routes comprise portions of one or more alternative rail routes through each of the three east-west corridors stretching from the Pacific Coast eastward to the Mississippi River. Accordingly, Rock Island participates in traffic moving transcontinentally through each of these corridors. As is the case generally with bridge carriers, the Rock Island for its share of traffic is dependent in large measure not on shippers and receivers but rather upon its west end rail connections in the corridors and on its rail connections east of the Mississippi River. This problem is further aggravated for Rock Island, as well as for other bridge carriers similarly situated, when the overriding public interests speak for unifications which have the result of piercing ancient regional barriers of carrier operations. Such is the case with the Norfolk and Western which broke out of the Eastern District and extended its line through the Mississippi and Missouri River gateways, to Kansas City and Omaha at which points there are connections with the Union Pacific and the Santa Fe (Kansas City only). See: Norfolk & W. Ry. Co. and New York, C. & St. L. R. Co. Merger, 324 I.C.C. 1, supplemental report 330 I.C.C. 780, and report on reconsideration 331 I.C.C. 22.

Only on its north-south routes from Chicago and the Twin Cities to the Gulf of Mexico does the Rock Island have the opportunity to provide a long haul freight service wholly under its own control. But the result of such operations are insufficient to support Rock Island's systemwide services.

Returning to Rock Island's dependence upon interchange traffic, since at least 1960, more than two-thirds of Rock Island's traffic has been interlined. At the Denver gateway Rock Island must work primarily with the Rio Grande and at the Tucumcari gateway the Rock Island must work exclusively with the Southern Pacific.

At the Twin Cities gateways the Rock Island must work with the former NP, the former GN, the Soo, and the Milwaukee Road for traffic moving between the Pacific Coast and the area east of the Mississippi. The Rock Island must rely on its own abilities to generate traffic through the Twin Cities gateways because it is in direct competition with the former NP and GN subsidiary Burlington, and the Milwaukee's own line through the Twin Cities to Chicago. For transcontinental traffic moving through the Omaha-Council Bluffs gateways via the Union Pacific, Rock Island, in order to participate in this traffic, must in effect short-haul itself from the Missouri River to the Colorado gateways.

At the eastern end of the system, Rock Island must rely on the systems now formed or forming in the Northeast and the Southeast, for traffic moving transcontinentally. At various points in the area bounded by Chicago, Kansas City and St. Louis, the Rock Island now maintains direct connections with Penn Central, Grand Trunk Western, Norfolk & Western and its subsidiary, Erie-Lackawanna, and the Chesapeake & Ohio-Baltimore & Ohio system. If merger of the latter two systems is approved and consummated (see the proceeding referred to in footnote 20), Rock Island obviously will have fewer individual connections on which to rely for transcontinental traffic moving to and from points in the Northeast. At present, Rock Island interchanges substantial amounts of traffic with Norfolk & Western at Kansas City, thereby negating interchange of a possibly large portion of this traffic at either Chicago or St. Louis. It is at least likely that a shift of more Norfolk & Western traffic to the Kansas City gateway would occur with merger of that road with the Chesapeake & Ohio system, thereby increasing the amount of traffic on which Rock Island would be short-hauled.

In summary, while Rock Island may participate in transcontinental traffic moving through all of the east-west corridors in the Western District, it is always subject at the eastern and western gateways of its system to the influence of larger railroads which, as will be discussed later, have vastly superior resources compared to the Rock Island.

As a "granger" road, Rock Island is highly dependent on agricultural traffic for its revenues. As noted previously, this reliance on agricultural traffic makes Rock Island's revenues highly susceptible to wide year-to-year fluctuations in agricultural production, seasonal demand for equipment, competition with exempt carriers, and relatively low average revenue per ton-mile. The competition from other modes of transportation with respect to agricultural traffic and other commodities will be discussed in greater detail later.

Related both to its reliance on connections and its reliance on agricultural traffic is the Rock Island's problem of not being able to originate significant amounts of traffic at the majority of its stations. Particularly in the northern half of the Rock Island system, its lines serve an area which historically has been over-supplied with rail facilities. With nearly one-third of its road mileage consisting of low-density branch lines and much of its major routes suffering from a paucity of heavy density traffic, the Rock Island must maintain a far-flung network at marginal profit levels as compared to other railroads in the Western District, also later detailed.

The Rock Island's basic problem has been its inability to generate sufficient revenues to cope with the rapidly escalating costs. It has resulted in diminishing net income up to 1964, and in 1965, Rock Island suffered a net loss from operations which was enormously increased in 1967. Mounting losses, a deficit working capital position and the carrier's inability to meet fixed charges or service its long-term debt are significant measures of Rock Island's deteriorated financial position.

Expenditures for maintenance and capital improvements are the most essential expenditures required to be made in a cost reduction program. Because of Rock Island's diminishing profit trend its financial resources have not been sufficient to meet these demands. Assuming that this financial deterioration can be solved by obtaining the necessary financial assistance, the fact remains that it still has to contend with an unfavorable competitive situation. The latter situation was not at all improved by increased freight revenues of 12 percent during 1968 (operating expenses increased only 3.3 percent), when Rock Island continued to show a deficit of 4.8 percent for the year's operations.

Considering all of the foregoing conclusions and in view of the fact that Rock Island is faced with ever increasing expenses and widely fluctuating revenues, the carrier appears to be caught in a vicious circle. Any serious downtrend in the nation's economy could result in bankruptcy. On the other hand, there is the more desirable and logical alternative of unification with another carrier or carriers in such a way as to make the Rock Island an integral part of a rail system well able to eliminate the myriad of Rock Island's problems and burdens and at the same time provide essential rail services responsive to the total public interest.

UNION PACIFIC SYSTEMCorporate History, Affiliations, and Stock Ownership

The Union Pacific and its several predecessor companies have been engaged in rail transportation continuously since 1869. The present Union Pacific, a Utah corporation was organized on July 1, 1897, and succeeded to the assets of its immediate predecessor, the Union Pacific Railway Company. The original Union Pacific Railroad Company was organized as a Federal corporation under the first of the Pacific Railroad Acts of July 1, 1862 for the purpose of providing a link in the first Atlantic Coast to Pacific Coast, transcontinental rail route. The original company starting from the east end at Omaha, Nebr., joined at Promontory, Utah, on May 10, 1869, with the builder from the west end at San Francisco, the Central Pacific Railroad (now the Southern Pacific Company).

Early in the history of the Union Pacific it acquired control of five rail carriers,²⁵ through ownership of their capital stock. On January 1, 1936 and continuously thereafter, pursuant to authority granted by the Commission, the properties of such carriers were unified with, and operated as a part of the Union Pacific system. See: Union Pacific R. Co. Unification, 189 I.C.C. 357, supplemental report, 207 I.C.C. 543, and Des Chutes R. Co. Abandonment, 212 I.C.C. 297. The miles of railroad of each such lessor company, which total approximately 56 percent of the mileage of road operated by Union Pacific, and their capital stock owned by the Union Pacific are as follows:

<u>Lessor Company</u>	<u>Percent of Stock Owned by Union Pacific</u>	<u>Miles of Road Operated Under Lease</u>
O. S. L.	100	2,261
Des Chutes	100*	24
O-W. R. & N	100*	1,768
L. A. & S. L.	100**	1,023
St. J. & G. I.	99.6	245

* Owned by O. S. L.

** Owned 50 percent each by O. S. L. and Union Pacific.

²⁵

Oregon Short Line Railroad (O. S. L.), Oregon-Washington Railroad & Navigation Company (O.-W. R. & N.), Los Angeles & Salt Lake Railroad (L. A. & S. L.), St. Joseph & Grand Island Railway Company (St. J. & G. I.), and Des Chutes Railroad Company (Des Chutes).

The O.-W. R. & N. and the Northern Pacific each own 50 percent of the outstanding common capital stock of the Camas Prairie Railroad Company. The latter, incorporated in Oregon on November 4, 1909, was organized for the purpose of conducting certain operations on behalf of its owner railroads. However, since January 1, 1936 all such operations (258 miles of road between Raparia, Wash., and Sites, Headquarters, and Grangeville, Idaho) have been conducted by the Union Pacific as lessee and operator of O.-W. R. & N's properties. Union Pacific also owns 99.9 percent of the capital stock of Spokane International Railroad Company, 50 percent of the Portland Traction Company (the other 50 percent owned by Southern Pacific),²⁶ and 50 percent of Pacific Fruit Express (PFE) the other 50 percent owned by Southern Pacific. PFE was created for the purpose of providing refrigerator cars and protective services for the large volume of perishable traffic moving over the parent companies' lines.

Other Union Pacific investments in carrier and non-carrier companies follow:

Carrier Companies

<u>Name of Company</u>	<u>Percentage of Stock Owned by Union Pacific</u>
Denver Union Terminal	16.67
Kansas City Terminal Ry. Co.	8.33
Leavenworth Depot & R. R. Co.	33.33
Portland Terminal R. R. Co.	40.00
Ogden Union Ry. & Depot Co.	50.00
The Pullman Co.	6.00
Railway Express Agency, Inc.	2.60
St. Joseph Terminal R. R. Co.	50.00
Trailer Train Co.	2.44
Yakima Valley Trans. Co.	100.00
Mount Hood Railway Company	100.00

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The rail carrier operations of Spokane International over some 150 miles of road in Washington and Idaho are described in Spokane International R. Co. Control, 295 I.C.C. 425, and Portland Traction operates 36 miles of track located in Oregon as more fully described in the application in F. D. No. 21564, Southern Pacific Company, et al. Control.

Of the above-named companies, The Pullman Co. provides sleeping car services, Railway Express Agency, Inc., operates railway equipment and terminal services and Trailer Train railway equipment. Yakima Valley and Mount Hood are short line railroads; the former operating 26 miles of road in the vicinity of Yakima, Wash., and the latter in the Hood River, Oreg., area. All of the remaining companies are engaged in the performance of either terminal or switching services.

Noncarrier Companies

<u>Name of Company</u>	<u>Percentage of Stock Owned by Union Pacific</u>
Kansas City Industrial Land Co.	100.00
Las Vegas Land and Water Co.	100.00
Overland Terminal Warehouse Co.	100.00
Stauffer Chemical Co. of Wyoming	49.00
Union Land Co.	100.00
Utah Parks Co.	100.00
Uinta Development Co.	52.15
Upland Industries Corp.	100.00
Union Pacific Resources Corporation	100.00
Union Pacific Petroleum Corp.	100.00
(a) Champlin Petroleum Corp.	100.00
(b) Pontiac Refining Corp.	100.00
Union Pacific Resources Limited (Canadian Corp.)	100.00

In further connection with its carrier and noncarrier activities, Union Pacific within its own organization has a Transportation Division, a Natural Resources Division, and a Land Division. The Natural Resources Division manages and operates Union Pacific's interests in oil, gas, and other mineral properties, and supervises the operations of Calnev Pipe Line Company. The latter, a 97 percent owned subsidiary of Union Pacific, engages in the transportation of petroleum products. The Land Division is chiefly concerned with attracting new industries to locations on Union Pacific lines. Also, Spokane International owned 600,750 shares of Rio Grande stock and 199,500 shares of Western Pacific stock, or 9.49 percent and 9.95 percent, respectively, of the total number outstanding as of December 31, 1968. Union Pacific owned 1,432,880 shares (22.7 percent as of December 31, 1968) of Illinois Central Industries, Inc. (IC Industries), common stock. In turn and as of the foregoing date, IC Industries owned 2,989,166 shares (93 percent) of the stock of the Illinois Central Railroad (ICRR). As will be later more fully discussed, Union Pacific has trusteeed its IC Industries stock. UPC advises that it, itself, has no plans of acquiring any interest in IC Industries. In the area of Commission

regulated motor carrier operations, the Union Pacific owns all of the stock of both the Union Pacific Motor Freight Company (UP Motor) and of Union Pacific Stage Company (UP Stage).

As of December 31, 1968, Union Pacific was authorized to issue 29,617,870 shares of \$10 par value per share common capital stock and 20,000,000 shares of \$10 par value per share preferred stock. Of the foregoing and on the same date, of the common stock, 22,429,235 shares were issued and outstanding, and of the preferred stock 9,954,310 shares were issued of which 2,454,310 shares were held in the Union Pacific treasury and 7,500,000 shares were actually outstanding. Each share of the common and preferred is entitled to one vote.

UPC, not a carrier, was organized in Utah on February 3, 1969, for the purpose of acquiring control of Union Pacific and to engage in diversified acquisitions, as later more fully discussed. UPC is authorized to issue \$75,000,000 aggregate principal amount of convertible debentures; 30,000,000 shares of common stock, par value \$10 per share; and 10,000,000 shares of preferred stock, without either par value or stated value, and "with such designations, preferences, and rights as the Board Of Directors may determine." As of the time of further hearing on November 19, 1969 and as a result of exchange of securities with Union Pacific, UPC had outstanding 21,113,413 shares of common stock (representing a per share exchange of common for common under which UPC acquired 94.13 percent of Union Pacific common) and \$68,159,730 in principal amount of convertible debentures (representing an exchange of UPC convertible debentures for 90.75 percent of Union Pacific preferred).

The only other directly held subsidiary of UPC is Rocky Mountain Energy Company, incorporated during December, 1969, and wholly owned by UPC. As of the time of hearing, on April 16, 1970, the extent of activity of Rocky Mountain Energy was limited to the filing (and pendency) of a few Federal mining leases or permits in Wyoming. In all other respects, it was not actively engaged in business and not producing any revenues.

The discussion which follows relates to Union Pacific's capital stock account as of December 31, 1967; the facts in existence at the time of hearing. On such date, it had outstanding 22,429,235 shares of common and 7,500,000 shares of preferred, owned by a total of 102,952 shareholders. Of the 30 largest stockholders shown on the Union Pacific records, two were family related individuals and the remainder various types of organizations such as banks, trust companies, brokerage houses, insurance companies, and one a State school fund; all domestic domiciled concerns but one.²⁷ The data showed

²⁷

Maatschappij Bros. & Gosman, Amsterdam, Holland, which held 146,440 shares (.0046 percent) of the total voting stock outstanding.

that among the largest holders were various "street names" holding the stock, in many instances, for undisclosed beneficial owners. A special session of the hearing, following the issuance of subpoenas, was devoted to the disclosure of the beneficial owners. The issue for development being whether any individual or group of affiliated individuals owned sufficient stock in Union Pacific, and other carrier parties,²⁸ to warrant a finding of "control" within the meaning of the principle enunciated in Refiners Transport & Term. Corp.--Purchase--Marshall, 39 M.C.C. 271, affirmed in United States v. Marshall Transport Co., 322 U.S. 31, the Refiners case.

Representatives of all the concerns subpoenaed appeared at the hearing.²⁹ All cooperated fully in presenting data requested by the examiner and several, pursuant to the examiner's request, furnished for the record additional information after the close of this phase of the hearing. On the evidence developed, members of the families of E. Roland Harriman and W. Averell Harriman, brothers, and the corporations in which the Harrimans held a substantial interest, were the only individuals or group of affiliated individuals who held a significant block of Union Pacific stock.³⁰ The total number of shares held by members of the Harriman family, as of June 1, 1968, was 474,065 shares (1.6 percent) of the total Union Pacific voting shares outstanding. All facts considered, no finding of control is warranted within the meaning of the Refiners case.

UPC's petition which contains the basic information required by the application form under section 5, as supplemented and clarified by the further limited hearing, discloses that as a result of its formation the top management team (directors and officers) of Union Pacific has been carried over substantially unchanged to UPC.

²⁸

The remaining applicant carriers and also the Rio Grande.

²⁹

Brown Brothers, Harriman and Company, Sigler and Company which is nominee of Manufactures Hanover Trust Company, Merrill Lynch, Pierce, Fenner & Smith, Cudd and Company which is nominee for the Chase Manhattan Bank, and Hold & Company which is nominee for the Riggs National Bank.

³⁰

For the purpose of the issue here involved, the term "family" embraces persons related by blood or marriage and "substantial" Harriman interests in a corporation was arbitrarily set at a family stock ownership of 40 percent or more.

In general, the stock of UPC is widely distributed among a large number of stockholders. However, it is noted that Brown Brothers Harriman and Company was the sixth largest stockholder in Union Pacific and is now the second largest in UPC. In such respect, the increased stock ownership, from 1.6 percent in Union Pacific to 2.6 percent in UPC (or slightly more than 3 percent in UPC if Brown Brothers Harriman and Company and members of the Harriman family and related companies' stock ownership is to be treated as an "affiliated" group and on such basis the largest single stockholder) when coupled with all other facts of record are still insufficient to warrant a finding of control in the context of the discussion above.

In reaching the foregoing conclusion on the issue of "control," it should be pointed out that at the time of the presentation of the Union Pacific affirmative case in chief no indepth development was made by the participating parties on the issue as it relates to control through management by an individual or group of affiliated individuals. Of course, control by the real or ultimate parties in interest is always an issue in unification proposals under section 5(2). But there was no apparent reason for the hearing examiners to take the initiative in further exploring the issue beyond the record developed by the parties. Later, when the application of UPC was filed certain interveners raised the control issue. However, the Commission by its order herein dated February 17, 1970, among other things, set the proceedings for further limited hearing and which limited hearing specifically excluded development of the issue of control as it related to the Harriman family and Brown Brothers Harriman & Co. Instead the issue was incorporated in the proceeding in Finance Docket No. 25426, Missouri Pacific Railroad Company v. Union Pacific Railroad Company, Et Al. The examiner emphasizes that on this record, no finding of control may properly be found to repose in any individual or group of affiliated individuals.

Scope of Operations

As seen, Union Pacific's lines constitute one of the major rail routes through the central corridor. Principal routes extend westward from Omaha to Ogden, Utah, through Fremont, Grand Island, Gibbon and North Platte, Nebr., Julesburg, Colo., Cheyenne, Green River and Granger, Wyo.; from Kansas City to Denver through Topeka and Salina, Kans., and Limon, Colo.; and connecting with the Omaha-Ogden line two lines, one from Menoken, Kans. (west of Topeka), northwest through Marysville, Kans., and the other north from Marysville through Lincoln, Nebr. Also, going north from Denver is a line to Cheyenne through LaSalle, Colo., and another from LaSalle eastward to Julesburg.

Piercing the northern corridor from Granger, are lines northwest to Seattle through Pocatello and Nampa, Idaho, Pendleton, Hinkle and Portland, Oreg., and Tacoma, Wash.; and northeast from Hinkle, to Spokane, Wash., and there connecting with lines of its subsidiary Spokane International, with the latter lines continuing to Eastport, Idaho, on the Canadian border. Union Pacific operates over other segments running from Pocatello, north to Butte, Mont., from Ogden, north to McCammon, Idaho, on the Granger-Portland line, and, as lessee of Camas Prairie, from Raparia, Wash., to Grangeville, Stites, and Headquarters, Idaho. Mount Hood operates about 22 miles of road from Hood River to Parkdale, Oreg., and Portland Traction primarily between East Portland and Oregon City, Oreg.

Extending into the southern corridor, the Union Pacific line runs south from Ogden to Los Angeles, Calif., through Salt Lake City and Provo, Utah (also through Warner, Utah), Lynndyl, Utah, and Las Vegas, Nev.

By reason of its above-described penetration into the northern and southern corridors, the Union Pacific is also a competitive factor therein on certain traffic moving between the areas west of the Rocky Mountains, on the one hand, and, on the other, east of the Mississippi River.

For reasons later detailed, the examiner concludes that the Illinois Central Railroad is affiliated with the Union Pacific within the meaning of section 5(5) of the Act. The lines of the IC run eastward to Chicago from Sioux Falls, S. Dak., Sioux City, Iowa, Albert Lea, Minn., and Omaha. Other major routes run

from Chicago south to New Orleans, La., through Gilman, Mattoon, Effingham, Centralia, DuQuoin, and Cairo, Ill., Fulton, Ky., Memphis, and Jackson, Miss.; and from Gilman to St. Louis through Clinton. A line from Madison, Wis., runs south through Clinton to Centralia. Other route segments connect the following points and each also joins with the Chicago-New Orleans route (1) between Peoria, Mattoon and Evansville, Ind., and Princeton and Hopkinsville, Ky., (2) between Indianapolis, Ind., and Effingham (3) between St. Louis and DuQuoin (4) between Louisville, Princeton and Fulton, Ky. (5) between Fulton and Birmingham, Ala. (6) between Shreveport, La., Vicksburg, Jackson and Meridian, Miss. and (7) between Memphis, Vicksburg, Baton Rouge, La., and New Orleans.

Plant and Equipment

The Union Pacific operated 9,483 miles of road as of December 31, 1968, of which about 48 percent is classified as branch line, and 683 miles were operated under trackage rights. Road mileages in the 13 States served were: Iowa-2; Nebraska-1,323; Wyoming-787; Idaho-1,983; Oregon-1,060; Washington-1,016; Missouri-2; Kansas-1,033; Colorado-607; Montana-143; Utah-808; Nevada-367; and California-351. Actual track mileage operated by Union Pacific at the close of 1968 totaled 15,962 miles.

As of the same date, Spokane International operated 150 miles of road (one mile under trackage rights) and a total track mileage of 187. Of the 150 miles of road, 131 are in Idaho and 17 are in Washington. Camas Prairie operated 258 miles of road, 71 in Washington and 187 in Idaho. Track mileage totaled 315 miles. Of the 258 miles of road operated, 71 are owned by Oregon-Washington Railroad & Navigation Company, the remainder by Northern Pacific. Earlier described were the operations of Mount Hood, Portland Traction, and Yakima Valley.

Illinois Central Railroad Company as of December 31, 1968, operated 6,786 miles of road of which 304 were operated under trackage rights. Actual track mileage totaled 11,212 miles. Road mileages by States in which IC operates are as follows: Illinois-2,042; Indiana-179; Wisconsin-45; Missouri-2; Iowa-685; Minnesota-37; South Dakota-15; Nebraska-10; Kentucky-657; Tennessee-412; Mississippi-1,979; Louisiana-600; and Alabama-121.

Table 18, which follows, shows the Union Pacific freight car fleet as of December 31 for each of the years 1963 through 1968. It is noted that with the exception of refrigerator, stock and tank cars, each type of car shows a net increase in 1968 over 1963. Further, although total number of cars declined from 1963 through 1965, increases occurred in each subsequent year and in terms of aggregate capacity increases are shown for all years. Union Pacific's passenger car fleet will be discussed later in the section dealing with the carrier's passenger service.

Table 18

UNION PACIFIC FREIGHT CAR FLEET-CARS OWNED AND LEASED

Year	Box	Flat*	Gondola	Open Hopper	Covered Hopper	Refrig- erator	Stock	Tank	Other	Total Cars	Aggregate Capacity (tons)
1963	27,555	3,101	6,342 ⁴	7,957	3,868	1,340	2,751	1,237	3	54,154	2,977,507
1964	24,587	3,588	6,119	8,079	3,988	1,533	2,715	1,236	3	54,073	3,017,080
1965	26,296	3,807	5,738	8,059	4,395	1,925	2,564	1,234	3	54,021	3,076,977
1966	26,660	4,313	6,265	8,745	4,937	3,021	2,469	1,228	3	57,641	3,115,292
1967	26,611	4,310	6,338	8,700	6,515	3,593	2,414	1,224	3	59,700	3,640,765
1968	29,810	4,500	6,375	8,661	6,745	-	2,459	1,219	34	59,833	3,906,394

* Includes rack cars.

⁴ Includes 84 owned jointly with Utah Railway Company and 26 MWD ballast cars.

Locomotives in service on the Union Pacific as of December 31, 1968, totaled 1,369 units, comprised of: 945 diesel freight units, 40 multiple purpose diesel units, 244 diesel switching units, 25 gas turbine-electric units, 114 diesel passenger units, and one steam locomotive. It owned an additional 71 diesel units under lease to others. Of the 1,369 units in service on the Union Pacific, 491, or about 36 percent, were purchased after December 31, 1959. Union Pacific has made continuing purchases of high-horsepower diesel-electric units of 5,000 horsepower and over. Such locomotives often are being operated in combinations of 12,000 to 15,000 horsepower over 1,500 mile distances.

Since the end of World War II, Union Pacific has improved operating efficiency through reduction of line curvatures and grades and through installation of centralized traffic control (CTC). These improvements had allowed the carrier to increase maximum freight train speeds to 60 m.p.h. as of the time of hearings in 1966.

The major equipment construction and repair shops of the Union Pacific are in Omaha. Yards and terminals will be discussed in later sections dealing with interchanges and traffic flow.

Freight Traffic: Volume and Service Output

During the ten-year period, 1959 through 1968, Union Pacific's freight traffic has shown an overall increase in tonnage handled, ton-miles generated and freight revenue. In terms of classes of traffic (local, interline originated, interline terminated, and overhead), each class has remained stable in relation to the total of all classes. The average length of haul, after declining from 591 miles in 1959 to 566 in 1960, increased in each year thereafter to 641 miles in 1968. The average revenue load per car increased in each of the 10 years from 35.4 tons in 1959 to 42.9 tons in 1968. Table 19, which follows, shows Union Pacific's freight traffic statistics for the period (carload tonnage not shown separately):

Table 19

UNION PACIFIC REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES, AND FREIGHT REVENUE

Year	Carloads				Total Revenue Tons*	Revenue Ton-Miles (millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead			
1959	461,594	355,104	317,071	431,247	1,565,016	55,597,824	\$449,037
1960	464,771	338,856	316,522	412,838	1,532,987	55,750,309	428,271
1961	442,759	336,388	316,460	410,622	1,506,229	55,998,920	432,656
1962	445,205	337,079	329,012	388,293	1,499,589	56,993,275	442,509
1963	460,669	310,880	332,537	382,763	1,516,849	59,917,378	452,408
1964	473,466	341,173	336,868	401,969	1,553,476	62,842,106	461,718
1965	459,745	338,636	345,674	407,121	1,551,179	64,819,595	482,092
1966	460,327	373,209	360,392	412,402	1,606,330	67,888,647	522,036
1967	450,111	363,942	358,140	377,385	1,549,578	66,206,604	515,751
1968	454,623	372,586	368,058	398,197	1,593,464	68,426,349	549,963

*Includes L.C.L. Freight for all years. Mail and express tonnage handled in freight trains for years 1967 and 1968 is not included.

In summary, the foregoing table shows that total revenue carloads have varied somewhat from 1959 through 1968, the low point in 1962, with 1,499,589 carloads and the high point 1966 with 1,606,330 carloads. Stated as a percentage of total carloads from the 10-year period, local traffic ranged from 28.5 to 30.5 percent; interline originated from 21.8 to 23.5 percent; interline terminated from 20.3 to 23.1 percent; and overhead from 24.4 to 27.3 percent. In short, total interline traffic accounted for from 69.5 to 71.5 percent of all of Union Pacific's traffic for the period.

Despite fluctuations in total revenue carloads, revenue tonnages show yearly increases except the one decrease in 1967 compared to 1966. The 1968 total of 68,426,349 tons is the high for the period, or about 23 percent more than the 1959 total. Revenue ton-miles, with two intervening lows in 1960 and 1967, showed an overall increase of 34 percent over the 1959 total (32.9 billion) to 44.1 billion in 1968. Freight revenue generally followed the trend reflected by tonnage data. The 1968 total of \$550 million represents an increase over the 1959 figure of approximately 22 percent.

Freight Traffic: Commodity Consist

The data underlying this discussion are shown on Tables 20, 21, 22 and 23, which follow the end of the discussion. The problems of comparability of data reported under the old and new commodity codes were set forth in the earlier discussion of Rock Island's commodity consist. Tables 20 and 21 show commodity tonnage and revenue data reported under the old code for the years 1959, 1961 and 1963. Tables 22 and 23 cover similar data reported under the new code for 1964 through 1968.

With a few exceptions, Union Pacific's commodity statistics reflect stability as to the relative portion of total tonnage and revenue accounted for by each commodity group. One of the few exceptions is agricultural traffic. In 1959 and 1961, "Products of Agriculture" represented 25 percent of Union Pacific's total tonnage. In 1963, the group increased proportionately to 27 percent. On the new code basis, "Farm Products" decreased from 25 percent in 1964 to 22 percent in 1965. In 1966, Farm Products represented about 23 percent of total tonnage, and by 1968, the proportion dropped to 19 percent. In all the years mentioned above, the revenue contribution from agricultural traffic was proportionately less than the share of total tonnage represented by such traffic. In 1959, 1961 and 1963, the revenue from "Products of Agriculture" was 21, 19 and 21 percent, of total freight revenue, respectively. For "Farm Products" in the 1964-1968 period, the revenue

ranged from a high of 19 percent in 1964 to a low of 14 percent in 1968. In short, the proportionate revenue contribution from agricultural traffic ("Products of Agriculture" and "Farm Products") ranged from 5 to 7 percentage points below the relative share of total tonnage.

The "Products of Mines" group (Tables 20 and 21) and the combined "Metallic Ores," "Coal," and "Non-Metal Minerals" groups shown individually on Tables 22 and 23, represent a substantial portion of Union Pacific's total tonnage but, as is generally the experience of most all rail carriers, a considerably lower portion of freight revenue. In 1959, 1961 and 1963, "Products of Mines" accounted for the movement of from 25 to 27 percent of total tonnage, but only from 9 to 11 percent of total freight revenue. The "Metallic Ores," "Coal" and "Non-Metal Minerals" groups together represented from 22 to 24 percent of total tonnage and from 7 to 8 percent of total freight revenue in the years 1964 through 1968.

Lumber and other forest products are also substantial commodities for Union Pacific in terms of volume and revenue. Under the old code, "Products of Forests" tonnage amounted to 12 to 14 percent of total tonnage, and revenue therefrom represented 14 to 17 percent of the total in 1959, 1961 and 1963. "Lumber Products" in 1964 through 1968 accounted for 13 to 14 percent of total tonnage and roughly 15 percent of total freight revenues.

In 1959, 1961 and 1963, "Manufactures and Miscellaneous" freight represented 31 to 32 percent of total tonnage and 44 to 48 percent of total freight revenue; see Tables Nos. 20 and 21 below. From 1964 through 1968, the commodity groups shown on Tables 22 and 23 not discussed above for the most part remained relatively stable as to their proportionate share of total tonnage and revenue. Most of the commodities comprising the groups listed in Tables 22 and 23 as "Food & Products," "Pulp, Paper Products," "Chemicals," "Stone, Clay & Glass Products," "Primary Metal Products," "Transportation Equipment," and "All Other Groups" have undergone some stage of manufacture. Despite the stability of proportionate shares of tonnage and revenue shown by most of these commodity groups, increases in some, particularly "Food & Products" and "Chemicals," resulted in a net increase during the period for the groups taken together. The share of total tonnage increased from 38 percent in 1964 to 45 percent in 1968, and the share of total freight revenue increased from 58 to 63 percent. Union Pacific's viability is not heavily dependent on any single commodity or closely related commodities, for example, grains, based upon an examination of the specific commodities embraced in each commodity group.

UNION PACIFIC COMMODITY STATISTICS, 1959, 1961, AND 1963Table 20COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS
PERCENTAGE OF TOTAL TONNAGE

Commodity Group	1959		1961		1963	
	Tons (000)	%	Tons (000)	%	Tons (000)	%
Products of Agriculture	14,133	25.4	14,056	25.1	16,151	27.0
Animals & Products	938	1.7	850	1.5	857	1.4
Products of Mines	14,951	26.9	15,839	28.3	15,235	25.4
Products of Forests	7,688	13.8	6,959	12.4	7,569	12.6
Manufactures & Misc.	17,205	30.9	17,616	31.5	19,364	32.3
Total*	55,598	100.0	55,999	100.0	59,917	100.0

Table 21COMMODITY GROUP REVENUE AND GROUP REVENUE AS
PERCENTAGE OF TOTAL REVENUE

Commodity Group	1959		1961		1963	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Products of Agriculture	\$ 96,767	20.9	\$ 84,205	19.1	\$ 93,386	19.9
Animals & Products	17,529	3.8	15,205	3.4	15,075	3.2
Products of Mines	43,419	9.4	46,729	10.6	43,662	9.3
Products of Forests	77,436	16.7	66,609	15.1	67,414	14.3
Manufactures & Misc.	203,471	43.9	204,731	46.4	225,105	47.9
Total*	\$463,609	100.0	\$441,699	100.0	\$470,225	100.0

* Includes Freight Forwarder Traffic and L.C.L. Freight. The totals of revenue are unadjusted figures and may not agree with Freight Operating Revenue totals reported in the Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 22

UNION PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	15,641	24.9	14,331	22.1	15,794	23.3	13,843	20.9	12,999	19.0
Metallic Ores	4,821	7.7	5,307	8.2	5,148	7.6	4,535	6.8	4,652	6.8
Coal	4,293	6.8	4,718	7.3	4,159	6.1	3,907	5.9	4,325	6.3
Non-Metal Minerals	5,480	8.7	5,643	8.7	5,772	8.5	6,341	9.6	6,140	9.0
Food & Products	7,033	11.2	7,168	11.1	7,542	11.1	8,361	12.6	8,849	12.9
Lumber Products	8,386	13.3	8,811	13.6	9,026	13.3	8,980	13.6	9,600	14.0
Pulp, Paper Products	1,474	2.3	1,706	2.6	1,924	2.8	1,889	2.9	1,906	2.8
Chemicals	3,618	5.8	4,086	6.3	4,681	6.9	5,211	7.9	5,739	8.4
Stone, Clay & Glass Products	3,645	5.8	3,685	5.7	3,653	5.4	3,288	5.0	3,667	5.4
Primary Metal Products	3,089	4.9	3,436	5.3	3,702	5.5	3,255	4.9	3,741	5.5
Transportation Equipment	943	1.5	1,077	1.7	1,086	1.6	993	1.5	1,106	1.6
All Other Groups	4,419	7.0	4,852	7.5	5,399	8.0	5,604	8.5	5,702	8.3
Total	62,842	100.0	61,820	100.0	67,889	100.0	66,207	100.0	68,426	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

The commodity groups specifically named, with the exception of "Transportation Equipment," each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 23

UNION PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Groups*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 89,619	18.6	\$ 80,887	16.1	\$ 92,290	17.3	\$ 83,424	15.7	\$ 79,750	14.1
Metallic Ores	14,738	3.1	16,443	3.3	16,573	3.1	14,293	2.7	15,245	2.7
Coal	12,710	2.6	14,043	2.8	12,019	2.2	10,876	2.0	11,662	2.1
Non-Metal Minerals	10,163	2.1	10,725	2.1	11,020	2.1	11,790	2.2	12,278	2.2
Food & Products	66,706	13.8	67,435	13.5	69,775	13.1	75,860	14.3	82,961	14.7
Lumber Products	73,600	15.2	77,829	15.5	79,655	14.9	80,456	15.1	87,289	15.5
Pulp, Paper Products	17,605	3.6	20,068	4.0	21,973	4.1	22,774	4.3	23,045	4.1
Chemicals	33,140	6.9	37,207	7.4	42,289	7.9	46,486	8.7	53,406	9.5
Stone, Clay & Glass Products	18,142	3.8	17,863	3.6	17,463	3.3	16,161	3.1	18,538	3.3
Primary Metal Products	30,978	6.4	34,736	6.9	38,572	7.2	32,820	6.2	38,886	6.9
Transportation Equipment	25,665	5.3	27,360	5.5	27,771	5.2	24,944	4.7	28,091	5.0
All Other Groups	89,960	18.6	96,341	19.2	105,017	19.7	111,222	20.9	113,429	20.1
Total	\$483,056	100.0	\$500,937	100.0	\$534,417	100.0	\$531,406	100.0	\$564,580	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

The commodity groups specifically named, with the exception of "Transportation Equipment," each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Freight Traffic: Interchanges and Traffic Flow

For purposes of describing the Union Pacific's traffic density, interchanges and principal origin and destination points, the system is divided into three regions. Because of the way in which pertinent evidence was presented on the record, the exact boundaries of regions vary slightly when traffic density is discussed compared to the discussion of interchanges and origination and termination points. Such variance as exists in the discussions is in no way significant with respect to the merits of the proposed transactions but rather is merely the result of conveniently arranging data to present a meaningful description of Union Pacific's traffic characteristics.

The first region is that bounded on the east by and including the Missouri River gateways, including Grand Island, for the reason later discussed, and on the west by and including Granger, Ogden, Provo, Warner and Salt Lake City. The second region consists of the lines north of Ogden and northwest of Granger, and the third region consists of all lines south of Warner and Provo.

First considered is the matter of traffic density. Throughout the discussion, the measurement of density used will be average gross tons hauled in freight trains per mile in 1964. Average gross tons includes weight of car and contents but excludes locomotives and passenger cars.

Union Pacific's main routes carry substantial amounts of traffic. Traffic densities on lines lying within the first described region are shown below:

<u>Line Segment</u>	<u>Millions of Tons</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Council Bluffs-Grand Island	15.4	11.3
Grand Island-North Platte	27.1	19.9
North Platte-Cheyenne	27.5 to 28.8	20.0 to 20.9
Cheyenne-Granger	28.9 to 30.1	21.7 to 24.5
Granger-Ogden	19.1	17.8
Ogden-Salt Lake City	12.1	13.3
Kansas City-Topeka	15.6	10.0
Topeka-Marysville	14.2	9.4
Marysville-Hastings, Nebr.	11.9	7.9
Hastings-Gibbon (on Omaha-North Platte line)	11.9	7.7
Topeka-Denver	0.5 to 2.2	0.7 to 1.5
Cheyenne-LaSalle	3.8	3.1
Julesburg-LaSalle	1.4	1.8
LaSalle-Denver	5.6	4.6

The above data, drawn from the Union Pacific's density chart and the record made in connection therewith, show that traffic between points west of Cheyenne on the west, and Omaha and Kansas City and points east thereof on the east, moves almost totally through North Platte, a major classification center. Such traffic is classified at North Platte for trains from and to the Ogden and Salt Lake City gateways, Los Angeles, and Portland and other Pacific Northwest points. North Platte therefore is the hub of the entire Union Pacific system. Service between Kansas City and Denver over the line through Salina is mainly for traffic moving to and from points on that line. Between Ogden and the Missouri River, traffic density is heaviest eastbound. Traffic between Kansas City and Omaha moves via Topeka, Marysville and Beatrice and Valley, Nebr. Between Marysville and Valley, tonnage totaled 3.4 million to 4.6 million.

Traffic densities in the second region are as follows:

<u>Line Segment</u>	<u>Millions of Tons</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Granger-McCammon	9.7 to 10.3	6.8 to 7.1
Ogden-McCammon	4.5	4.9
McCammon-Pocatello	14.8	12.1
Pocatello-Butte	1.2 to 2.0	1.4 to 2.3
Pocatello-Hinkle	7.6 to 9.8	7.4 to 8.7
Hinkle-Portland	6.0 to 6.1	7.1 to 7.3
Hinkle-Spokane	3.2	3.4
Portland-Seattle	2.8	2.4

Traffic on the Spokane International totals 2.1 million tons in both directions between Spokane and Eastport.

The third region contains the Salt Lake City-Los Angeles route over which the traffic density ranged from 4.4 to 6.3 million tons eastbound and from 7.8 to 10.6 million tons westbound. The alternate route from Salt Lake City through Provo to Lynndyl (roughly parallel to the Salt Lake City-Warner-Lynndyl route) handled 2.8 million tons eastbound and 3.1 million tons westbound.

The Los Angeles route's major portion of traffic is westbound, whereas the eastbound movements are the greater portion of movements on the Portland line. In terms of total tonnage handled (eastbound and westbound) the Portland-Granger route handles somewhat greater traffic overall, roughly 2.7 million tons, than does the Los Angeles-Salt Lake City route. This can be computed by (1) adding the sums of eastbound and westbound

average gross tonnage for each line segment (shown on density chart, Exhibit 5) between Portland and Granger and between Los Angeles and Salt Lake City; and (2) dividing the respective totals by the number of segments between the named points. The figures thus derived are 16.9 million average gross tons per segment for the Portland line, and 14.2 million for the Los Angeles line.

Admittedly, the figures so derived are distorted because they are averages of other averages. However, while it is true that a particular segment of a route may have an average gross tonnage total (i.e., eastbound plus westbound) at a relatively large variance to the average for all segments of the route combined, the derived average for the entire route is at least a rough approximation of the traffic density for the route as a whole. The method of computation described above is the best means of comparison available based on the evidence submitted.

The matters of major traffic interchange and origin and termination points will be considered next. All data are for 1963. The first region contains the gateways at which Union Pacific interchanges with its eastern connections and also the gateways at which it connects with the Southern Pacific and Western Pacific routes into northern California. With respect to the eastern gateways, the record is replete with evidence concerning the flow of traffic between Union Pacific and its eastern connections. The interchange points listed in the following table all serve the function of being the major gateways for Union Pacific traffic moving to and from points east of the Missouri River, and they are therefore shown as "Missouri River Gateways." Although some such traffic may be interchanged at other points in Nebraska and Kansas, the total number of carloads is insignificant compared to the volume at the gateways listed in the table. Connecting carriers are ranked in descending order by the total number of carloads interchanged with Union Pacific, and adjustments have been made for carriers which have unified since 1963, **except BN.**

Table 24

MAJOR UNION PACIFIC INTERCHANGES:
MISSOURI RIVER GATEWAYS

UP Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Omaha (including Council Bluffs, Fremont, Grand Island, & S. Omaha)	CNW	102,074	54,800	156,874
	CBQ	37,204	67,491	104,695
	MILW	43,998	32,146	76,144
	IC	41,481	16,552	58,033
	RI	15,819	7,782	23,601
	MP	934	2,587	3,521
	N&W	1,640	1,465	3,105
	Other	18	8	26
	Total	243,168	182,831	425,999
St. Joseph	MP	681	47	728
	CNW	574	20	594
	CBQ	90	70	160
	ATSF	88	36	124
	RI	54	44	98
	Total	1,487	217	1,704
Kansas City	N&W	52,700	37,319	90,019
	SLSF	37,382	19,343	56,725
	MP	30,244	17,835	48,079
	MKT	17,718	5,678	23,396
	ATSF	10,539	8,690	19,229
	GM&O	12,830	5,944	18,774
	KCS	9,425	4,929	14,354
	RI	4,858	2,727	7,585
	CBQ	4,956	1,643	6,599
	MILW	1,496	1,106	2,602
	CNW	1,042	632	1,674
	Total	183,190	105,846	289,036
Grand Total		427,845	288,894	716,739

The interchanges shown in Table 24 for Omaha include those for South Omaha, Council Bluffs, Fremont and Grand Island, the five points hereinafter referred to as the Omaha gateways. At Fremont and Grand Island, Union Pacific conducts through-train interchanges with North Western and Burlington, respectively. Through-train operation will be discussed in detail later in this report. At Fremont, Union Pacific delivered 14,266 cars to and received 25,893 cars from North Western. Of the cars delivered by Union Pacific, 13,691 were overhead traffic, and of the cars received from North Western, 13,612 terminated on the Union Pacific.

At Grand Island, the Union Pacific delivered 29,671 cars to, and received 57,657 cars from the Burlington, or approximately 78 percent of the total Union Pacific-Burlington interchange at the Missouri River gateways. Of the 87,328 cars interchanged at Grand Island, about 38 percent were overhead to Union Pacific. Nearly 60 percent of the 716,739 cars Union Pacific interchanged at the Missouri River gateways were interchanged at the Omaha gateways. The bulk of the remainder, as later detailed, were interchanged at Kansas City.

The Union Pacific delivered 427,845 cars and received 288,894 cars at the Missouri River gateways, reflecting the heavier eastbound traffic density between Ogden and the Missouri River mentioned earlier. At the Omaha gateways, only the Burlington among the connecting carriers delivered more cars to Union Pacific than it received from Union Pacific, primarily at Grand Island as noted above. The class I line-haul railroads which connect with the Union Pacific individually accounted for the following percentages of the total Union Pacific interchange at the Omaha gateways: North Western, 36.8 percent; Burlington, 24.6 percent; Milwaukee, 17.9; Illinois Central, 13.6; Rock Island, 5.5; MoPac, 0.8; and Norfolk & Western, 0.7.

The Kansas City gateway provides Union Pacific not only with connections to eastern points but also connections to the Southeast and the Gulf ports. The Norfolk & Western-Union Pacific interchange at Kansas City is the largest at that gateway: Union Pacific delivered 52,700 cars to and received 37,319 cars from the Norfolk & Western, for a total of 90,019. The carriers accounting for the three largest single interchanges with the Union Pacific at the Omaha gateways were the last three in rank by volume at Kansas City. The connecting carriers' respective portions of the total Union Pacific interchange at Kansas City in 1963 were: Norfolk & Western, 31.1 percent; Frisco, 19.6; MoPac, 16.6; Katy, 8.1; Santa Fe, 6.7; Gulf, 6.5; Kansas City Southern, 5.0; Rock Island, 2.6; Burlington, 2.3; Milwaukee, 0.9; and North Western, 0.6.

Excluding the interchanges at South Omaha and St. Joseph (1,856 cars), the total interchange at the gateways named in Table 24 was 714,833 cars, of which 323,599 cars, or 45.3 percent, were overhead to Union Pacific.³¹ Thus for a substantial amount of traffic

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Interchange traffic for South Omaha and St. Joseph was not broken down by class in the evidence, i.e., overhead, interline forwarded and interline terminated.

which moves over its lines through the central corridor between points west of the Rockies and points east of the Missouri River, Union Pacific provides service for the major part of the movement in the Western District, but at least two other carriers may also participate. If the traffic is moving to or from points east of the Western District, of course, one or more additional rail carriers must also participate in the haul.

It is noted that some overhead traffic may be counted twice in Table 24, where cars may come on-line and go off-line at any pair of Missouri River gateways included in the table. The amount of such traffic appears to be negligible because the Kansas City-Omaha route via Topeka, Marysville and Beatrice would have to be used, and the evidence shows this route to be rather circuitous and of light density compared to the east-west routes entering both Omaha and Kansas City.

Some of the gateways discussed above also are important as origination and termination points for Union Pacific. This is shown on Table 25, which follows. The data were derived from Union Pacific Exhibit 5, which lists the carrier's 30 most important stations (ranked by volume) for each of the four classes of traffic shown here on Table 25. While a particular station may show up on Union Pacific's list of the 30 most important points of origin for local traffic, the same station may not have had sufficient volume of local terminations to be included in the list of the 30 major stations for local terminated traffic. For example, St. Joseph was ranked 29th as a station for originated local traffic but was not in the top 30 for interline originated traffic, although some such traffic may have originated there. As a result, no carloads are shown in the latter category in Table 25.

Table 25

UNION PACIFIC CARLOADS
ORIGINATED AND TERMINATED AT
MISSOURI RIVER GATEWAYS

UP Station	Class of Traffic			
	Local Originated	Interline Originated	Local Terminated	Interline Terminated
Fremont	2,496	3,819	xx	xx
Grand Island	xx	xx	xx	2,498
Kansas City	7,963	5,534	20,058	7,384
Omaha	9,825	12,402	15,194	13,117
St. Joseph	2,394	xx	xx	xx
Total	22,678	21,755	35,252	22,999

Subject to the possible exclusions of cars where "xx" appears in the table, the evidence shows that at least 44,433 carloads originated and 58,251 carloads terminated at the Missouri River gateways, and Omaha and Kansas City accounted for the major portion of both categories. It is noted that some of the cars in the local originated total may also be included in the local terminated figures. In the interline traffic totals, there likely is an undetermined number of cars which also are included in the interchange data shown in Table 24.

Turning attention to the western end of the region under consideration, Utah gateways will be considered. Interchange data for these points are set forth in Table 26, below.

Table 26

MAJOR UNION PACIFIC INTERCHANGES:

UTAH GATEWAYS

UP Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Four Utah Points*	WP	118	15	133
	DRGW	182	33	215
	Other	1,835	394	2,229
Ogden	DRGW	1,297	192	1,489
	SP	100,508	203,365	303,873
Provo	DRGW	2,569	19,829	22,398
	Other	47	8,330	8,377
Salt Lake City	DRGW	3,685	14,392	18,077
	WP	17,939	20,195	38,134
	Other	21	6	27
Total		128,201	266,751	394,952

*Includes Garfield, Midvale, N. Salt Lake and Warner. Western Pacific and the Rio Grande are the only class I line-haul railroads with which Union Pacific interchanged at these points.

The data in Table 26 show that at the Utah gateways Union Pacific interchanged a total of 303,873 cars with Southern Pacific, 38,267 cars with Western Pacific, and 42,179 cars with Rio Grande. As percentages of the total interchange between Union Pacific and the other named carriers (384,319 cars), Southern Pacific accounted for 79.1 percent, Western Pacific for 10.0 percent and Rio Grande for 11.0 percent. While the Union Pacific-Western Pacific interchange (over 79 percent overhead to Union Pacific) was almost equally divided between eastbound and westbound traffic, the Union Pacific-Southern Pacific interchange at Ogden was 203,365 cars eastbound (188,334 overhead to Union Pacific) and 100,508

westbound (75,885 overhead to UP), a ratio of better than two to one. It is noted that the Union Pacific-Rio Grande interchange is principally traffic delivered by Rio Grande to the Union Pacific at Provo and Salt Lake City, and such traffic amounted to 34,221 cars. The Rio Grande traffic received by Union Pacific at Provo (19,829 cars) was almost exclusively overhead traffic for Union Pacific, while of the 14,392 cars received from Rio Grande at Salt Lake City, 12,067 terminated on Union Pacific.

The area in which the Utah gateways are located include several major traffic origin and destination points on the Union Pacific including some of the gateways themselves. Table 27, which follows, shows the data for these points and is subject to the same qualifications pertaining to Table 25. At least 39,092 cars originated and 74,358 terminated at the points named in the table. The largest individual amounts of traffic of a single class were the interline terminated cars at Geneva and Salt Lake City (45,016 cars total).

Table 27

UNION PACIFIC CARLOADS ORIGINATED
AND TERMINATED IN UTAH GATEWAYS AREA

UP Station	Class of Traffic			
	Local Originated	Interline Originated	Local Terminated	Interline Terminated
Clearfield	xx	3,505	xx	4,042
Garland	xx	xx	4,276	xx
Geneva	5,988	8,410	34,704	2,151
Park City	2,713	xx	xx	xx
Salt Lake City	3,801	3,516	10,312	9,215
Ogden	5,699	5,460	6,668	2,990
Total	18,201	20,891	55,960	18,398

Table 28

MAJOR UNION PACIFIC INTERCHANGES:
POINTS BETWEEN MISSOURI RIVER AND UTAH GATEWAYS

UP Station	Connecting Carriers	Carloads		
		Delivered	Received	Total
Denver	ATSF	6,185	5,156	11,341
	CBQ	1,637	2,449	4,086
	C&S	6,912	3,127	10,039
	RI	1,282	6,024	7,306
	DRGW	12,208	8,730	20,938
Total		28,224	25,486	53,710
All Other Points	ATSF	722	2,268	2,990
	CBQ	9,380	3,199	12,579
	C&S	1,716	4,672	6,388
	CNW	92	106	198
	RI	1,892	719	2,611
	MP	1,230	2,238	3,468
	SLSF	455	677	1,132
	Other	8,933	2,141	11,074
Total		24,420	16,020	40,440

Readily apparent from Table 28 is the fact that the total Denver interchange for Union Pacific is larger than the carrier's total for all other interchanges in the area between the Utah and Missouri River gateways. All class I railroads with which Union Pacific interchanged in the area in 1963 are named in the table. "All Other Points" include 43 points in the States of Colorado, Wyoming, Kansas and Nebraska. Union Pacific interchanged over 500 cars with at least one class I carrier at only seven of these points. The Denver interchange with Rio Grande was the largest (20,938 cars) interchange with a single carrier at a single point in the area. Throughout the area, Union Pacific interchanged 16,665 cars with Burlington, and adding the Colorado and Southern, the Union Pacific-Burlington system interchange amounted to 33,092 cars. Other than Denver, major interchange points between Union Pacific and the Burlington system were Northport and Sidney, Nebr., and Cheyenne, all located on various Burlington lines radiating to the south and east from Billings and Laurel, Mont.

The Union Pacific interchange with Rock Island at Denver was the fourth largest (7,306 cars) of the five interchanges shown in Table 28 for Denver. In the remainder of the area, the Rock Island and Union Pacific interchanged a total of 2,611 cars at 13 points, primarily Topeka (1,979 cars).

Denver also qualifies as the single most important traffic terminating point in the area under discussion. In 1963, terminations totaled 39,561 cars, of which 18,869 were interline received cars. Originations at Denver totaled 11,839 cars including 6,254 interline forwarded cars. At Salina, 10,784 cars were originated and 6,329 were terminated. Topeka was the origin point for 11,392 cars (8,852 were interline) and the destination point for 10,689 cars of which 7,998 were local traffic to Union Pacific. The most important traffic originating point in the area was Winton Junction, Wyo., where 13,257 cars of local traffic originated. Of twelve other points in the area, 3 points were origins for 12,754 cars of local traffic; 4 were origins for 18,267 cars of interline traffic; 3 were destinations for 15,548 cars of local traffic; and 2 were destinations for 5,264 cars of interline traffic. Undoubtedly some traffic in the region which is overhead to Union Pacific moves entirely within the area and points shown in Table 28, therefore being counted twice. The exact number of cars cannot be determined from the evidence. The same problem exists in the immediately following discussion and accompanying Table 29.

In the second region (lines north of Ogden and northwest of Granger) there are over 30 major Union Pacific interchanges with other carriers. Table 29, which follows, shows the interchange points specifically where the total interchange was 500 or more cars and as a total for 21 points where each point accounted for less than 500 cars in 1963. Despite the relatively large number of points, the number of cars interchanged is small (136,621). Stated in comparative terms, the number of cars interchanged in the entire region is only about 28 percent of the number of cars interchanged at the Utah gateways (Table 26). Nearly 40 percent of the cars (54,254 cars) interchanged in the region were interchanged at East Portland between the Union Pacific and the Southern Pacific. Of the 54,254 cars, 40,063 either originated or terminated on Union Pacific. Another nine percent was interchanged between Union Pacific and its subsidiary Spokane International at Spokane.

Table 29

MAJOR UNION PACIFIC INTERCHANGES:
LINES NORTH OF OGDEN AND NORTHWEST OF GRANGER

UP Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Chehalis, Wash.	MILW	71	4,644	4,715
	NP	4	11	15
Marengo, Wash.	MILW	1,435	5,414	6,849
Rocky Point, Wash.	Other	923	3,797	4,720
Seattle, Wash.	MILW	348	427	775
	GN	382	183	565
	NP	574	140	714
	PCRR	1,542	5	1,547
	Other	14	2,323	2,337
	MILW	29	609	638
Spokane, Wash.	GN	1,359	5,847	7,206
	NP	283	442	725
	SP&S	11	118	129
	SI	4,060	8,393	12,453
	NP	1,802	2,258	4,060
Wallula, Wash.	NP	411	227	638
Portland, Oreg.*	OE	77	158	235
	GN	97	297	394
	SP	21,634	32,671	54,305
	SP&S	618	1,368	1,986
	PT	3,116	1,503	4,619
	Other	2	1	3
	MILW	67	704	771
	SP	1,524	1,191	2,715
Wells, Nev.	WP	530	629	1,159
Butte, Mont.	MILW	467	694	1,161
	GN	3,628	2,882	6,510
	NP	937	1,538	2,475
	Other	22	14	36
Silver Bow, Mont.	MILW	1,239	1,162	2,401
	NP	1,192	717	1,909
	Other	2,260	1,599	3,859
Twenty-one Points**	MILW	181	166	347
	GN	36	115	151
	NP	546	457	1,003
	SP&S	175	7	182
	Other	341	1,963	2,304
Total		51,947	84,674	136,621

*Includes North Portland and East Portland, Oreg.

**The 21 points include 14 in Washington, 5 in Oregon, and 2 in Idaho, all of which had total interchanges of less than 500 carloads each.

In Wyoming, Union Pacific originated 2,683 cars of local traffic and 4,626 cars of interline traffic at major points northwest of Granger. In Montana, 5,136 cars originated, and 5,117 cars terminated, all local traffic. At 17 major points in Idaho, Union Pacific originated 39,571, and terminated 69,732 cars of local traffic, and interline traffic amounted to 18,911 cars originated and 19,624 terminated. Five points in Oregon accounted for origination of 7,818 cars of local traffic and 6,556 cars of interline traffic. Terminated carloads in Oregon totaled 33,105 local and 17,612 interline. Originations in Washington amounted to 6,875 cars local and 6,373 cars interline, while terminations came to 29,676 cars local and 49,610 cars interline. In summary, lines north of Ogden and northwest of Granger in 1963 showed 98,549 cars originated and 224,476 cars terminated at major points, and of the totals, local traffic accounted for 62,083 and 137,630 cars, respectively. Terminations in Idaho represented 40 percent of the total terminations in the region.

The Union Pacific system south of Warner and Provo, the third region, consists primarily of the main line to Los Angeles with very few branch lines compared to the rest of the system. In California, only two points, Los Angeles and Victorville, were among the 30 most important points of origination for local traffic for the carrier in 1963. At Los Angeles, 6,819 cars of local traffic originated, and 2,910 were originated at Victorville. For interline forwarded traffic, Los Angeles was the only California point to place in the 30 most important origins for such traffic. In 1963, there were 4,910 interline forwarded carloads originated there, which, added to local traffic originations, totals 11,729 carloads originated in Los Angeles. As a destination, Los Angeles ranked second in the entire system for local traffic with 27,362 carloads, and first in the system for interline received traffic (58,773 carloads). Only one other point in the State, Paramount, Calif., located near Los Angeles, ranked in the 30 most important points of destination for interline received traffic with 3,386 carloads.

The following table shows the major interchanges for the Union Pacific in California (1963 data adjusted to reflect unifications of carriers):

Table 30

MAJOR UNION PACIFIC INTERCHANGES:
POINTS IN CALIFORNIA

UP Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Barstow	ATSF	24,994	6,519	31,513
Colton	ATSF	185	68	253
	SP	12,699	3,450	16,149
Daggett	ATSF	--	47	47
Los Angeles*	ATSF	3,027	998	4,025
	SP	15,565	8,426	23,991
Riverside	ATSF	205	--	205
	SP	3	--	3
San Bernardino	ATSF	3,610	1,821	5,431
	SP	10	2	12
Total California Interchange		60,298	21,331	81,629

*Includes Long Beach and Los Angeles Harbor interchanges totaling 6 cars.

At the above major California interchange points, Union Pacific interchanged 41,474 cars with Santa Fe and 40,155 cars with Southern Pacific in 1963. During the year, there were 14,639 carloads originated, 89,521 terminated and 81,629 interchanged at major points for each category in California. Obviously, some of the interline cars originated or terminated by Union Pacific in California may also be included in the interchange total; some local traffic may have originated and terminated in California thereby appearing in both respective totals; and some overhead traffic may have moved on the Union Pacific wholly within California, thereby being counted twice. Of the 81,629 cars interchanged, nearly 70 percent were delivered by the Union Pacific to the Santa Fe and the Southern Pacific. The preponderance of terminations over originations and deliveries over receipts of interchanged cars support the statement made earlier that westbound movements are greater than eastbound over the line from Salt Lake City to Los Angeles.

Because the Santa Fe and the Southern Pacific are the only class I line-haul railroads with which Union Pacific interchanges in California, a closer examination of the traffic is warranted as will be seen in later discussions of the merits of the proposed transactions. At Barstow, Santa Fe is the only interchange listed in Union Pacific Exhibit 5. Of the 6,519 cars Union Pacific received from Santa Fe, 6,233 were terminated on the Union Pacific. Of the 24,994 cars Union Pacific delivered to Santa Fe, 20,609 were overhead to Union Pacific and the remaining portion originated on its lines.

At Colton, both Santa Fe and Southern Pacific are connections and Southern Pacific interchanged 16,149 of the total 16,402 cars interchanged with Union Pacific. Southern Pacific delivered 3,450 cars to Union Pacific, of which 2,504 terminated on and 946 were overhead to, the Union Pacific. Over 75 percent of the total interchange at Colton was traffic delivered by Union Pacific to Southern Pacific (12,699 cars of which 11,177 were originated by Union Pacific).

In Los Angeles (excluding Los Angeles Harbor and Long Beach interchanges), of the 28,016 cars Union Pacific interchanged, 12,539 cars originated on the Union Pacific and were delivered to Southern Pacific, while 7,565 cars were received from Southern Pacific and terminated on the Union Pacific. Traffic overhead to Union Pacific which was interchanged in Los Angeles totaled 5,055 cars, of which Union Pacific delivered 3,803. The San Bernardino interchange for Union Pacific was principally with Santa Fe (5,431 cars of which 1,648 terminated and 2,676 originated on Union Pacific).

To summarize, Union Pacific's interchange traffic at major points in California consists largely of cars originating or terminating on the Union Pacific, the major portion being interchanged with Southern Pacific. Overhead Union Pacific traffic presents a different picture: although interchange with Santa Fe is slightly larger than that with Southern Pacific (41,474 v. 40,155), about 76 percent of all Union Pacific-Santa Fe major interchanges in California took place at Barstow, and of this, 20,609 cars (or nearly half of the volume at major Union Pacific-Santa Fe interchanges in California) were overhead to the Union Pacific, and were delivered to Santa Fe.

Only seven Union Pacific stations in the area from the California-Nevada border up to, but not including Warner and Provo, were listed in Exhibit 5 in one or more of the lists of the 30 most important points for each of the following categories of traffic: local originated (3 stations, 15,774 cars); interline originated (5 stations, 23,348 cars); local terminated (1 station, 5,215 cars); and interline terminated (2 stations, 10,785 cars). The Utah and Nevada segments of the route from Los Angeles to Warner and Provo therefore originate more traffic (39,122 cars) than is terminated (16,000 cars) and have no major interchanges.

Passenger Service

Union Pacific provides rail passenger service over an extensive portion of its system. As of April 1969, passenger schedules were listed in The Official Guide of the Railways for service over the following routes:

Council Bluffs-Cheyenne-Ogden-Salt Lake City-Los Angeles; Council Bluffs-Julesburg-Denver-Cheyenne-Portland-Seattle; Kansas City-Salina-Denver; and Hinkle-Spokane. Additionally, service is provided over several branch lines, in some instances seasonally or in mixed trains. Union Pacific passenger trains are operated between Council Bluffs and Chicago by the Milwaukee Road, and between Ogden and San Francisco by the Southern Pacific.

During 1968, Union Pacific retired 278 passenger cars from service. As of December 31, 1968, the carrier's passenger car fleet was composed of the following:

<u>Car Type</u>	<u>Number of Cars</u>
Postal	180
Baggage	83
Baggage-Combination	47
Coach	155
Sleeping	130
Dining & Lunch-Cafe	48
Club Lounge	26
Auxiliary Steam Generator	2
Total	671

The record indicates that although the Union Pacific has spent more than \$100 million on passenger equipment since World War II its passenger traffic has suffered a steady decline. This decline was accelerated in 1967 and compared to 1966 the number of passengers carried (1,118,424) declined 18.2 percent and passenger revenues dropped \$4.6 million or a decrease of 19.8 percent.

The downward trend continued in 1968 and compared to 1967 the number of passengers carried (836,193) declined by 33.8 percent and passenger revenues decreased \$3.8 million or 20.7 percent.

The following table has been constructed to show Union Pacific's passenger deficit operations for the last 10 years 1959-1968.

Table 31

UNION PACIFIC DEFICITS FROM PASSENGER OPERATIONS

<u>Year</u>	<u>Passenger Railway Operating Revenues (000)</u>	<u>Net Passenger Expenses (000)</u>	<u>*Net Passenger Railway Operating Deficits (000)</u>
1959	\$56,942	\$99,721	\$(42,779)
1960	57,310	92,091	(34,781)
1961	58,042	84,675	(26,633)
1962	60,187	85,997	(25,810)
1963	57,378	84,151	(26,773)
1964	57,009	80,824	(23,815)
1965	55,644	82,803	(27,159)
1966	54,389	82,131	(27,742)
1967	42,829	79,372	(36,543)
1968	20,591	60,478	(39,887)

* Net passenger railway operating deficit may be overstated to the extent that such items of expense that have been included in net passenger expenses as allowable expense, would generally be disallowed by the Commission in discontinuance cases. (Source: Schedule 300 Form A).

Employees

The average number of employees in the Union Pacific work force declined from 40,565 in 1959 to 31,887 in 1968. As of December 31, 1968, the work force included 537 executive personnel, 7,409 professional, clerical and general personnel, 4,929 maintenance of way and structure personnel, 7,645 maintenance of equipment and stores personnel, 2,733 transportation personnel other than train engine and yard personnel, 511 yardmasters, switch tenders and hostlers, and 8,123 train and engine personnel.

Financial Analysis

Balance sheets and income statements of the Union Pacific, for the years 1964 and 1968 are furnished below. The statements for 1964 reflect the financial posture of the Union Pacific as of the date of the agreement in connection with the proposed Union Pacific-Rock Island merger. The statements for 1968 have also been furnished in order to show the Union Pacific's financial position as of the latest available date since the conclusion of the hearings on August 22, 1968.

Table 32

UNION PACIFIC (INCLUDING LEASED LINES)*
BALANCE SHEETS AS OF

	December 31, 1964	December 31, 1968
<u>Current Assets</u>		
Cash	\$ 32,228,936	\$ 18,548,392
Temporary cash investments	192,406,032	111,540,078
Special deposits	92,038	177,914
Loans and notes receivable	9,959	11,353
Traffic and car-service balances-Dr.	14,738,001	19,618,878
Net balance receivable from agents and conductors	7,877,552	12,697,760
Miscellaneous accounts receivable	9,847,767	17,255,929
Interest and dividends receivable	2,477,908	1,205,296
Accrued accounts receivable	27,124,055	35,846,835
Working fund advances	150,383	188,299
Prepayments	443,413	3,601,621
Material and supplies	20,426,162	24,844,665
Other current assets	307,287	589,811
Total current assets	<u>308,129,493</u>	<u>246,126,831</u>
<u>Special Funds</u>		
Sinking funds	4	4
Capital and other reserve funds	500,000	167,400
Insurance and other funds	215,000	337,000
Total special funds	<u>715,004</u>	<u>504,404</u>
<u>Investments</u>		
Investments in affiliated Cos.	78,020,317	98,605,186
Other investments	48,874,277	49,602,851
Reserve for adjustment of investment in securities	(19,140,514)	(18,317,584)
Total investments	<u>107,764,080</u>	<u>129,890,453</u>
<u>Properties</u>		
Road and equipment property	1,731,749,041	2,114,073,621
Total transportation property	<u>1,731,749,041</u>	<u>2,114,073,621</u>
Accrued depreciation-Rd. & Equip.	(382,435,993)	(450,165,707)
Amortization of defense projects-Rd. & Equip.	(29,774,194)	(23,668,140)
Recorded depreciation and amortization	<u>(412,210,187)</u>	<u>(473,833,847)</u>
Total transportation property less depr. & amort.	<u>1,319,538,854</u>	<u>1,640,239,777</u>
Miscellaneous physical property	50,295,094	98,969,187
Accrued depreciation-miscellaneous physical property	(28,431,334)	(32,470,372)
Miscellaneous physical property less depr.	<u>21,863,760</u>	<u>66,498,815</u>
Total properties less depr. & amort.	<u>1,341,402,614</u>	<u>1,706,738,592</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	3,496,004	6,049,879
Unamortized discount on long-term debt	-	135,105
Other deferred charges	3,973,328	2,996,822
Total other assets & deferred charges	<u>7,469,332</u>	<u>9,181,824</u>
Total Assets	<u>\$1,765,480,523</u>	<u>\$2,092,442,104</u>

*Wholly owned subsidiaries: Oregon Short Line Railroad Company; Oregon-Washington Railroad & Navigation Company; Los Angeles & Salt Lake Railroad Company; The St. Joseph & Grand Island Railway Company; and Des Chutes Railroad Company.

Table 32 - Continued

UNION PACIFIC (INCLUDING LEASED LINES)*
BALANCE SHEETS AS OF

	December 31, 1964	December 31, 1968
<u>Current Liabilities</u>		
Audited accounts and wages payable	\$ 22,193,119	\$ 25,691,007
Miscellaneous accounts payable	965,093	1,141,692
Interest matured unpaid	14,601	1,636,750
Dividends matured unpaid	10,532,102	11,760,885
Unmatured interest accrued	1,176,832	1,806,204
Accrued accounts payable	47,348,912	59,239,002
Federal income taxes accrued	15,692,926	4,393,569
Other taxes accrued	13,146,549	14,659,879
Other current liabilities	3,657,011	10,825,884
Total current liabilities	<u>114,727,145</u>	<u>131,154,872</u>
<u>Long-term Debt Due Within 1 Year</u>		
Equipment obligations and other debt	<u>3,525,299</u>	<u>24,687,543</u>
<u>Long-term Debt Due After 1 Year</u>		
Funded debt unmatured	109,683,000	100,620,000
Equipment obligations	11,103,135	118,357,455
Amounts payable to affiliated Cos.	9,500,869	3,004,304
Total long-term debt due after 1 year	<u>130,287,004</u>	<u>221,981,759</u>
<u>Reserves</u>		
Insurance reserves	30,619,323	26,471,846
Casualty and other reserves	12,032,744	7,722,856
Total reserves	<u>42,652,067</u>	<u>34,194,702</u>
<u>Other Liabilities and Deferred Credits</u>		
Other liabilities	760,810	228,797
Unamortized premium on long-term debt	1,634,429	1,057,212
Other deferred credits	3,528,210	4,678,077
Accrued depreciation-leased property	1,131	-
Total other liabilities & deferred credits	<u>5,924,580</u>	<u>5,964,086</u>
<u>Shareholders' Equity:</u>		
<u>Capital stock-issued-total</u>	<u>317,000,731</u>	<u>299,319,231</u>
<u>Capital Surplus</u>		
Premiums and assessments on capital stock	4,327,919	4,327,919
Paid-in-surplus	306,802	1,268,365
Other capital surplus	3,408,359	3,835,725
Total capital surplus	<u>8,043,080</u>	<u>9,432,009</u>
<u>Retained income-appropriated</u>	51,225,426	-
-unappropriated	1,092,095,191	1,365,707,902
Total retained income	<u>1,143,320,617</u>	<u>1,365,707,902</u>
Total shareholders' equity	<u>1,468,364,428</u>	<u>1,674,459,142</u>
Total liabilities and shareholders' equity	<u>\$1,765,480,523</u>	<u>\$2,092,442,104</u>

*Wholly owned subsidiaries: Oregon Short Line Railroad Company; Oregon-Washington Railroad & Navigation Company; Los Angeles & Salt Lake Railroad Company; The St. Joseph & Grand Island Railway Company; and Des Chutes Railroad Company.

Table 33

UNION PACIFIC INCOME STATEMENTS FOR THE YEARS

	1964	1968
<u>Total Operating Revenues</u>	<u>\$529,079,193</u>	<u>\$595,031,360</u>
<u>Operating Expenses</u>		
<u>Maintenance of way and structures:</u>		
Exclusive of depreciation	53,190,559	62,662,732
Depreciation	6,365,991	6,745,365
<u>Maintenance of equipment</u>		
Exclusive of depreciation	63,713,036	58,803,333
Depreciation	36,571,786	48,217,531
<u>Traffic</u>	14,341,599	16,179,963
<u>Transportation</u>	190,713,886	220,025,784
<u>Miscellaneous & general</u>	30,295,028	37,366,782
<u>Total operating expenses</u>	<u>395,191,885</u>	<u>450,001,490</u>
<u>Net revenue from railway operation</u>	<u>133,887,308</u>	<u>145,029,870</u>
<u>Railway tax accruals</u>	<u>63,036,341</u>	<u>61,916,573</u>
<u>Railway operating income</u>	<u>70,850,967</u>	<u>83,113,297</u>
Rent income - Cr.	6,397,236	6,287,912
Rents payable - Dr.	23,779,987	9,162,296
<u>Net rents - Dr.</u>	<u>(17,382,749)</u>	<u>(2,874,384)</u>
<u>Net railway operating income</u>	<u>53,468,218</u>	<u>80,238,913</u>
<u>Total other income</u>	<u>54,441,000</u>	<u>58,497,510</u>
<u>Total income</u>	<u>107,909,218</u>	<u>138,736,423</u>
<u>Total miscellaneous deductions</u>	<u>18,731,691</u>	<u>24,910,805</u>
<u>Income available for fixed charges</u>	<u>89,177,527</u>	<u>113,825,618</u>
<u>Fixed Charges</u>	<u>3,713,884</u>	<u>11,091,413</u>
<u>Contingent interest (other deductions)</u>	<u>--</u>	<u>--</u>
<u>Total fixed charges & contingent interest</u>	<u>3,713,884</u>	<u>11,091,413</u>
<u>Ordinary income</u>	<u>85,463,643</u>	<u>102,734,205</u>
<u>Total extraordinary items (net)</u>	<u>--</u>	<u>--</u>
<u>Net income after fixed charges and other deductions</u>	<u>\$ 85,463,643</u>	<u>\$102,734,205</u>

Gross Railway Operating Revenues & Expenses

Over the past decade the Union Pacific has expended great efforts in strengthening its competitive position by the following means: (1) selling or leasing industrial sites to traffic-producing firms; (2) expenditures for new rolling-stock and transportation property and (3) development of a market and marketing research program, with the primary objectives of providing a transportation service consistent with the economics and needs of their customers. As a result of these efforts, the benefits have been chiefly reflected in the Union Pacific's Transportation Divisions earnings.

For the 10 year period 1959-1968 Table 34, which immediately follows, shows that Union Pacific's railway operating revenues increased from \$515.8 million in 1959 to a record high of \$595 million in 1968. The year 1967 was the only year after seven consecutive years of increased earnings that showed a revenue drop of 2.6 percent over 1966. This temporary decline was attributed to the economic slowdown which reduced freight shipments, strikes in several large shipper industries, and higher labor costs. Union Pacific's 1968 net revenue increase amounted to \$21 million more than in 1967 and 5.9 million over 1966. The increase in revenues for 1968 is attributable to freight operations which have been increased by greater movements and general rate increases. Passenger and mail operations have been suffering a continual downward trend.

Railway operating expenses ranged from \$378.7 million in 1959 to \$450 million in 1968. The increase in operating expenses, in the last five years, at least, have been attributed to substantial wage increases, increased cost of materials, and maintenance of track and equipment. Its operating ratio for any year of the 10-year period 1959 to 1968 was never higher than the 75.6 percent computed for 1968. This represents a favorable margin of operating efficiency.

Net Railway Operating Income & Net Income

As a result of its favorable margin of operating efficiency Union Pacific's net railway operating income rose from \$36.9 million in 1959 to \$80.2 million in 1968. Net income after fixed charges and other deductions increased from \$66.2 million in 1959 to \$102.7 million in 1968. As further reflected in Table 34 its net income of \$102.1 million for 1967 dropped below the record high of \$109.8 million for 1966. This decline in earnings was principally due to a slackening of transportation operations (discussed above). However, in spite of this decline in earnings Union Pacific's net income for that period was the second best in its history.

In connection with Union Pacific's earnings, it historically has had a very lucrative source of income from nonrailway operations, the excess of column D over column C. Over the past decade its income statements disclose that of the total amount of income available for fixed charges, an average of approximately 40 percent was attributable to income from other than railway operations.

Table 34

UNION PACIFIC NET INCOME TREND 1959-1968

Year	Total Railway Operating Revenues (000) A	Total Railway Operating Expenses (000) B	Net Railway Operating Income (000) C	Income Available For Fixed Charges (000) D	Net Income After Fixed Charges And Other Deductions (000) E
1959	\$515,767	\$378,742	\$36,957	\$ 70,644	\$ 66,215
1960	494,184	359,741	32,835	71,723	67,658
1961	499,324	360,799	31,814	75,317	72,305
1962	512,125	370,157	46,775	85,644	82,490
1963	519,104	372,132	51,112	88,003	84,222
1964	529,079	395,192	53,468	89,178	85,464
1965	549,190	403,683	66,944	97,235	93,755
1966	589,138	425,002	86,256	115,468	109,792
1967	574,020	428,966	81,458	112,302	102,133
1968	595,031	450,001	80,239	113,826	102,734

Working Capital

Table 35, next following, discloses that for the 10 year period, 1959 through 1968, Union Pacific showed an average monthly working capital requirement of some \$29.3 million. As of December 31 for each of the above years current assets exceeded current liabilities on an average of \$136 million, or more than 4 months working capital needs. During the entire 10 year period in no year were current assets less than 1.7 times the amount of current liabilities. As seen Union Pacific's available working capital far exceeded its working capital needs for conducting orderly operations. Accordingly, excess working capital funds were available for other corporate needs and reducing the necessity for borrowing.

Table 35

UNION PACIFIC WORKING CAPITAL 1959-1968

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1959	\$180,962	\$103,521	\$ 77,441	\$345,996	\$28,833	1.7
1960	200,578	112,909	87,589	336,562	28,047	1.8
1961	216,232	111,350	104,882	322,766	26,897	1.9
1962	255,604	109,227	146,377	331,054	27,588	2.3
1963	338,495	130,932	207,563	330,704	27,539	2.6
1964	308,129	114,727	193,402	352,254	29,355	2.7
1965	254,590	110,651	143,939	357,741	29,812	2.3
1966	278,020	116,492	161,529	374,197	31,183	2.4
1967	246,006	123,431	122,575	374,393	31,200	2.0
1968	246,127	131,155	114,972	395,039	32,920	1.9

Rate of Return

As a result of Union Pacific's continuous efforts to improve and expand its rail operations, previously discussed, it has realized a steady increase in its rate of return on investment. Calculations in Table 36, next following, have been made showing the ratio of net railway operating income to investment in road and equipment, less accrued depreciation and amortization plus cash and material and supplies. The foregoing formula being the generally accepted test to determine the adequacy of railway earnings. This is especially a fair and accurate test in connection with the Union Pacific which has embraced in its corporate earnings records a substantial amount of nonrail income.

From 1959 to 1961 Union Pacific's rate of return was below the overall average rate reported for the total Western District railroads. However, from 1963 to 1968, for six consecutive years, it exceeded the average rate of return on investment shown for all of the Western District railroads. Union Pacific points out that in recent rate cases the Commission has held that a rate of return of less than 4 percent was inadequate. See Increased Freight Rates, 1967, 332 I.C.C. 280, 289 (1968). Table 36, shows that for the last four years 1965-1968, Union Pacific's rate of return on investment went above the 4 percent level cited in the above mentioned proceeding.

Table 36

UNION PACIFIC RATE OF RETURN ON NET INVESTMENT IN TRANSPORTATION PROPERTY

Year	Investment In Property, Cash & M&S (000)	Depreciation & Amortization (000)	Net Investment (000)	Net Ry. Opr. Income (000)	Percent Union Pacific	Percent Western District
1959	\$1,634,655	\$335,731	\$1,298,924	\$36,957	2.85	3.08
1960	1,675,591	354,450	1,321,141	32,835	2.49	2.59
1961	1,691,273	373,966	1,317,307	31,814	2.42	2.77
1962	1,692,006	391,002	1,301,004	46,775	3.60	3.27
1963	1,734,796	408,061	1,326,735	51,112	3.85	3.60
1964	1,783,361	412,211	1,371,150	53,468	3.90	3.43
1965	1,862,704	419,694	1,443,010	66,944	4.64	3.85
1966	2,034,997	442,345	1,592,652	86,256	5.41	3.93
1967	2,146,702	472,488	1,674,214	81,458	4.87	2.73
1968	2,156,623	473,834	1,682,789	80,239	4.77	NA

NA - Not available.

Long-Term Debt

In the last four years, 1965 to 1968, the Union Pacific incurred equipment obligations and made other financing arrangements for new equipment acquisitions and other property improvements. Such additional financing increased its long-term obligations substantially but was necessary in order to continue its equipment program and at the same time maintain an adequate working capital position. It is also noted that Union Pacific's equipment program has enabled it to maintain a high earning level and this, in turn, has contributed to the strength of the company.

Union Pacific's total long-term debt (including amounts due and payable within one year) for the 10 year period 1959 to 1968 averaged about \$173 million annually. Its long-term debt due within one year was almost \$46 million in 1959, none for 1960 and 1961, an average of \$3.4 million for 1962 through 1965 and \$17.8 million, \$21.1 million and \$24.7 million for 1966, 1967 and 1968, respectively.

Returning to Table 34, for the 10 year period under discussion, funds generated by net income alone averaged almost \$88 million annually. The conclusion is warranted that Union Pacific's net income has historically been sufficient to service its equipment obligations and other debt due within one year without resorting to the use of funds generated by charges to depreciation.

Furthermore, the excess of funds provided by net income over and above the amount required by its long-term debt due within one year is available for (1) working capital, (2) prepayment of long-term obligations and (3) additional capital improvements.

Fixed Charges and Contingent Interest

For the 10 year period 1959 to 1968 Union Pacific's fixed charges and contingent interest aggregated \$52.6 million or an average of \$5.2 million annually. Table 34 shows that historically Union Pacific has generated sufficient net income from railway operations alone to meet its fixed charges without depending on net income from other than railway operations. Even though its fixed charges have more than doubled in the 10 year period considered it has consistently had available income several times the amount of fixed charges.

Table 34 also shows that after including income from all other sources Union Pacific's income available for fixed charges would have amounted to \$919.3 million over the 10 year period or an annual average of \$91.9 million. On this basis its average annual income available for fixed charges would have been 17.5 times larger than its total fixed charges for that period.

Taxes

As a result of its profitable operation of transportation and nontransportation facilities the Union Pacific in the last 10 year period (1959-1968) has accrued large amounts of Federal income taxes. The following table has been included to show the approximate portions of Federal income taxes that were applicable to its Oil and Gas operations (as compared to its Transportation and Other Income earnings) and its contribution to Federal income as a substantial taxpayer. Any decreases in Federal income tax accruals beginning with 1962, applicable to Transportation and Other Income can be attributed principally to (a) decline in taxable income, (b) allowance of depreciation rates based on new guidelines, (c) investment tax credit and (d) reduction in the tax rate.

Table 37UNION PACIFIC FEDERAL INCOME TAXES 1959-1968

<u>Year</u>	<u>Oil & Gas</u> <u>(000)</u>	<u>Transportation &</u> <u>Other Income</u> <u>(000)</u>	<u>Total Taxes</u> <u>Accrued</u> <u>(000)</u>
1959	\$5,863	\$32,666	\$38,529
1960	6,717	36,376	43,093
1961	7,819	44,261	52,080
1962	7,090	28,511	35,600
1963	6,535	31,565	51,769*
1964	4,900	18,400	23,300
1965	3,009	21,891	25,700
1966	3,260	20,841	24,100
1967	3,141	9,959	13,100
1968	1,510	10,290	12,800

* Includes \$13.7 million charged to Retained Income in 1963 representing taxes applicable to gain on sale of property which was also included in Retained Income.

Equipment Rentals

The Union Pacific preliminary report to stockholders for the year 1967 reported large scale acquisitions of new railroad equipment totaling \$131.5 million. This program resulted in reducing its equipment rental payments and which in 1967 were 62.5 percent of 1966 rentals. Over a five year period from 1963 to 1967, net charges for equipment rental declined a total of \$16.8 million. Generally, the declines have been attributed to (a) increase in net per diem rental for exchange of freight cars with other railroads, (b) increased rentals received for equipment leased to Pacific Fruit Express Co.,

and the Rock Island railroad and (c) reduced mileage payments for refrigeration cars due to a smaller volume of perishable commodities handled by the Union Pacific. The decline in net charges for equipment continued in 1968 and the decrease amounted to \$1.7 million compared to 1967, but rental of equipment for increased piggyback operations tended to offset this decrease.

Debt-Equity Ratio

An analysis of Union Pacific's balance sheets for the last 10 years 1959 to 1968, to determine its long-term debt trend, discloses that its ratio of total long-term debt to total long-term debt and shareholders' equity never exceeded 14 percent and averaged only 9 percent over the entire period.

Furthermore, based on a computation which includes Union Pacific's total debt as of December 31, 1968, it had a ratio of total debt to combined total debt and shareholders' equity of 20 percent. This would still be most favorable, considering that the Commission's satisfactory limit ranges from 50 to 70 percent.

Motor Carrier Operations Financial Data

The Union Pacific Stage Company is a wholly-owned subsidiary of Los Angeles and Salt Lake City Railroad Company, whose capital stock is owned 50 percent by the Union Pacific and 50 percent by the Oregon Short Line Railroad Company. The capital stock of the latter company is wholly owned by the Union Pacific. The Stage Company merely acts as agent of the Union Pacific in completing transportation for it between East Los Angeles, San Pedro, Glendale and Anaheim, Calif., of rail passengers, baggage and express from or to points beyond Los Angeles. The Union Pacific furnishes all the equipment required for this service, accrues all revenues received and reimburses the Stage Company for all expenses incurred.

The Union Pacific Motor Freight Co. is controlled by the Union Pacific through stock ownership. It is authorized to operate as a motor common carrier in interstate or foreign commerce, pursuant to certificates issued in No. MC-110388 and various subnumbers thereunder,³²

³²

No. MC-110388 (Sub-Nos. 2, 4, 5, 6, 8, 9, 10, 11, 13, 14, 16, 17, 19, 20, 22, 23, 28, 29 and 30.

over regular routes which generally parallel the lines of its parent rail carrier. All such authority is restricted to service which is auxillary to or supplemental of the rail service of Union Pacific. Principal routes in the midwest are between Council Bluffs, Iowa and Denver, Colo., and between Kansas City, Mo., and Cheyenne, Wyo. At the close of the year 1968 it owned 621 units of revenue equipment consisting of 13 trucks, 204 truck-tractors, and 404 semitrailers. However, it is noted that only 184 units were used principally in intercity service. These units operated 359,532 miles in intercity highway service, carried 217,024 tons of revenue freight and realized revenues of \$315,753 from these operations. The record indicates that the Motor Freight company is predominantly a local carrier and for the year 1968 it reported freight revenues realized from local cartage service of \$2,851,159.

Its balance sheet as of December 31, 1968, shows total assets aggregating \$2,682,957, consisting of current assets \$613,272, composed of cash \$4,652, special deposits \$897, accounts receivable \$548,475, prepayments \$26,253 and material and supplies \$32,995; carrier operating property less reserve for depreciation \$2,068,265 and intangible property less reserve for amortization \$1,420. Liabilities were: Current liabilities \$358,339, composed of payables to affiliated companies \$5,646, accounts payable \$248,659, wages payable \$23,293, taxes accrued \$70,375 and other current liabilities \$10,366; long-term debt due after one year \$487,928; deferred credits \$87,253; reserves \$42,098; capital stock \$5,000 and earned surplus-unappropriated \$1,702,339.

Income statements for 1966, 1967 and 1968, show operating revenues of \$2,844,262, \$2,624,119 and \$3,168,186, net income of \$167,458, \$194,426 and \$185,967 before provision for income taxes and \$148,441, \$44,284 and \$41,513 after provision for income taxes, respectively.

Preliminary Findings and Conclusions, Economic and Financial

As stated earlier in the description of its operations, the Union Pacific system is one of the major rail routes through the central corridor; it also penetrates the northern and southern corridors; and the Union Pacific is a vigorous participant in traffic moving through all three corridors between areas west of the Rocky Mountains, on the one hand, and, on the other, east of the Mississippi River. The carrier's plant and equipment are modern and well-maintained. Continued acquisitions of freight cars and locomotives and improvements to fixed facilities together with market research programs and sale and lease of industrial sites to traffic producing firms have all substantially increased

transportation earnings. Nonrailroad income and income from investments and other sources in substantial amounts have added to the stability of the carrier's earnings.

During the past decade, Union Pacific's freight traffic has exhibited stability of consist and growth. The average length of haul and revenue load per car have increased generally as have tonnage, ton-miles and freight revenue. Interline traffic has consistently represented somewhat over two-thirds of Union Pacific's total carloads handled. Overhead traffic alone has accounted for roughly one-fourth of total carloads. In terms of commodity mix, Union Pacific is not heavily dependent on any single commodity or group of very closely related commodities (e.g., grains), to the extent that its viability would be jeopardized by severe seasonal or even cyclical downtrends in the movement of such traffic.

Union Pacific's major routes carry substantial amounts of traffic, acting as a funnel between the Missouri River and the Pacific Coast for traffic moving between points east and southeast of the Missouri River and points throughout the area west of the Rocky Mountains. The line to Los Angeles appears to be primarily a route for traffic originating or terminating in the Los Angeles area, both on Union Pacific lines and those of its only class I railroad connections, Santa Fe and Southern Pacific. A few points in the southwest corner of Utah are major traffic originating points on the Los Angeles route.

The route to Portland from Granger carries somewhat greater traffic than the Los Angeles route. Well over half of the traffic originated or terminated on Union Pacific's lines north of Ogden and northwest of Granger was local traffic for the carrier and terminations in Idaho exceeded those of any other State served by the described lines. Traffic over the Portland-Granger route is generally heavier eastbound than westbound. Nearly 40 percent of the Union Pacific interchanges in the region occurred at East Portland with the Southern Pacific and the bulk of this traffic either originated or terminated at points on Union Pacific.

Traffic moving entirely through the central corridor to and from points east and southeast of the Missouri River gateways is handled by Union Pacific between those gateways and Ogden and Salt Lake City, where it is interchanged with Southern Pacific and Western Pacific, respectively. This traffic plus the traffic to and from points on the Portland and Los Angeles routes moves almost entirely over the line from Granger through North Platte to Gibbon. The latter point is the junction

of routes from Omaha and Kansas City. Traffic density (total of both directions) between Granger and Gibbon ranges from 40.0 to 53.4 million average gross tons per mile. From Ogden through Granger to Omaha and Kansas City, traffic is predominantly eastbound.

At Ogden, Union Pacific's interchange with Southern Pacific is far and away the largest single interchange with any carrier. Southern Pacific delivered 203,365 cars to Union Pacific and received 100,508 from Union Pacific for a ratio of eastbound over westbound of better than 2 to 1. The total interchange, 303,873 cars, represents almost 29 percent of Union Pacific's total interline carloads in 1963. Considering only bridge traffic, 264,219 of the cars interchanged with Southern Pacific at Ogden were overhead to Union Pacific and represented 69 percent of all overhead carloads handled by Union Pacific. Clearly Union Pacific must and does work closely with Southern Pacific for a large portion of the traffic moving through the central corridor, and must maintain interchanges for much of the same traffic at the Missouri River gateways, which consist of Kansas City, St. Joseph and gateways grouped around Omaha.

At the Omaha gateways (including Omaha, S. Omaha, Council Bluffs, Fremont and Grand Island), Union Pacific interchanges with seven class I line-haul railroads, at St. Joseph with five, and at Kansas City with 11. Deliveries to eastern connections far exceed receipts from them (427,845 vs. 288,894 cars) at the Missouri River gateways. Nearly 60 percent of the total interchange (716,739 cars) took place at the Omaha gateways. The Fremont and Grand Island interchanges are used for pre-blocked and through-train operations with North Western and Burlington, respectively. At Grand Island, the Burlington interchange accounted for 83 percent of the total cars Union Pacific and Burlington interchanged at the Omaha gateways and was primarily westbound (57,657 cars compared to 29,671 cars eastbound). Table 24 shows the connecting carriers ranked in order of interchange volume at the Missouri River gateways.

It is readily apparent that for much but not all of Union Pacific's bridge traffic which moves through the Missouri River gateways to and from points east of the Mississippi River and Illinois gateways, a minimum of four line-haul railroads and three interchanges are required. For traffic moving the same way, but from origin points or to destination points on Union Pacific, a minimum of three line-haul carriers and two interchanges are required.

Principal exceptions to the above are provided by the Norfolk and Western interchange with Union Pacific at Omaha (to a limited extent) and Kansas City (90,019 cars in 1963) as well as Frisco and Gulf, Mobile & Ohio at the latter point, and at Omaha-Council Bluffs, the Illinois Central also provides an exception. The Illinois Central, the Frisco and the Gulf all have lines serving a limited area east of the Mississippi. The Norfolk & Western, of course, now serves much of the northeast part of the United States and traffic moving between points on that system and points on Union Pacific require but one interchange.

Summarizing the financial data reviewed previously herein, it is apparent that Union Pacific is a financially sound railroad. Historically, the carrier's earnings have been such that funds were always available to service its long-term debt due within one year, meet its fixed charges, and maintain a very favorable debt-equity ratio. Working capital has been more than adequate for conducting orderly operations.

Dividends on Union Pacific stock have been paid consistently in each year since 1900. The annual rate excluding a 20¢ extra, was increased from \$1.80 to \$2.00 a share in December 1967. The increase was the first since 1964. In 1968, dividends paid on common and preferred stock amounted to \$47,858,470.

SOUTHERN PACIFICCorporate History

Southern Pacific's corporate history and the development of its system lines of railroad are detailed in Control of Central Pacific by Southern Pacific, 76 I.C.C. 508, supplemental report 317 I.C.C. 469, and supplemental report on reconsideration, 328 I.C.C. 345 (the Central Pacific case), St. Louis S.W. Ry. Co. Control, 180 I.C.C. 175, and supplemental report, 180 I.C.C. 710, (the Cotton Belt case), and several other proceedings.³³ The first corporate antecedent of the Southern Pacific was the Central Pacific Railroad Company, incorporated in California in 1861. The latter, under the provisions of what is popularly referred to as the Pacific Railroad Acts,³⁴ participated in the construction and operation of a portion of the first trans-continental line of railroad. Such portion ran east from Sacramento, Calif., and connected at Promontory, on May 10, 1869, with the other segment built by the Union Pacific westward from Council Bluffs. Pursuant to authority granted in the initial Central Pacific case, the old Southern Pacific Company, incorporated in Kentucky in 1884, acquired control of the Central Pacific Railway Company, the latter successor-in-interest to all the franchises and properties of the old Southern Pacific Company, among other things, merged into itself the properties of the Central Pacific.

As of December 31, 1968, Southern Pacific's immediate predecessor carrier company was authorized to issue 35,667,108 shares of no par value common stock, each share entitled to one vote. On such date, it had outstanding 27,141,366 shares which were widely distributed among 84,285 shareholders with the largest shareholder, a brokerage concern, holding 3.7 percent. The previously discussed special session of the hearing held to determine identity of stockholders, and which was referred to in connection with Union Pacific stock ownership, also embraced holders of Southern Pacific stock. On the record developed, the finding may properly be made that no individual or group of affiliated individuals own sufficient stock in Southern Pacific to warrant a finding of "control" within the meaning of the principle enunciated in the Refiners case.

³³ Southern Pac. Co. Reincorporation, 267 I.C.C. 523, Southern Pacific Co. Merger, 312 I.C.C. 598, Southern Pac. Co. Merger, 327 I.C.C. 38, and Southern Pacific Transportation Co.-Merger, 334 I.C.C. 866, the last named herein called the SPT Merger proceeding.

³⁴ 12 Stat. and 13 Stat. 346, enacted in 1862 and 1864, respectively.

Subsidiaries, Affiliates and Investments

Southern Pacific owns approximately 98 percent of the stock of the St. Louis Southwestern Railway Company, which, in turn, owns all of the stock of the St. Louis Southwestern Railway Company of Texas, herein called the Cotton Belt or SSW. The Cotton Belt holds a 100 percent stock ownership in the Dallas Terminal Railway & Union Depot Company and less than a 50 percent interest in various other companies which perform bridge, terminal, or switching services.

Southern Pacific or its subsidiaries have a number of noncarrier subsidiaries, including Southern Pacific's 100 percent stock ownership in Southern Pacific Land Company. The latter owns 9.57 percent of the common capital stock of Western Pacific. As previously mentioned Southern Pacific and Union Pacific are joint owners of PFE.

Southern Pacific or its subsidiaries own 100 percent of the following motor and pipeline carriers:

Louis Heller, Inc. (intrastate motor carrier)
 Pacific Motor Transport Co.
 Pacific Motor Trucking Co.
 Southern Pacific Transport Co.
 Southwestern Transportation Co.
 Pacific Petroleum Pipe Lines, Inc.
 Southern Pacific Pipe Lines, Inc.

The pertinent operations in interstate or foreign commerce of the motor carrier subsidiaries are later described.

Southern Pacific has varying percentage stock interest in a number of rail terminal and switching companies and a 100 percent stock ownership in the following short-line railroads: Holton Inter-Urban Railway Company, Northwestern Pacific Railroad Company, Petaluma and Santa Rosa Railroad Co., San Diego & Arizona Eastern Ry. Co., Tijuana & Tecate Railway Co., and Visalia Electric Railroad Co. It also owns a 33-1/3 percent stock interest in Central California Traction Company and a 50 percent stock interest in each of the following: Oregon, California & Eastern Ry. Co., Portland Traction Co., and Sunset Railway Co. The four carriers named immediately above also are short-line railroads.

Scope of Operations, Plant, and Equipment

Southern Pacific operates 11,761 miles of road in eight States, comprised of 11,374 miles company owned, 384 miles operated under trackage rights and approximately 3 miles operated under lease. The carrier classifies 6,003 miles as main line and 5,758 miles as

branch line. Road mileage totals for each of the States served are: California, 4,174; Texas, 3,309; Oregon, 1,305; Arizona, 1,047; Nevada, 656; Louisiana, 643; New Mexico, 516; and Utah, 111. Total track mileage operated is 18,460 miles.

The Cotton Belt system operates 1,566 miles of road in six States, comprised of 1,302 miles owned by it and 264 operated under trackage rights. The carrier classifies 1,134 miles as main line and 432 miles as branch line. Mileage totals for each State are: Texas, 616; Arkansas, 570; Missouri, 219; Illinois, 122; Louisiana, 38; and Tennessee, 1. Total track mileage operated is 2,279.

Southern Pacific's lines constitute one of the two major rail routes through the southern corridor. Its Sunset Route extends from Los Angeles eastward to New Orleans, through Wellton, Sentinel (also Phoenix) and Tuscon, Ariz., Deming, N. Mex., El Paso, San Antonio, and Houston. The portion of the route from Los Angeles to El Paso together with its route from El Paso to Santa Rosa, N. Mex., comprise Southern Pacific's portion of the Golden State Route, the remainder of which is over the Rock Island's previously described Santa Rosa-Kansas City route.³⁵ From Houston the Southern Pacific has lines in Texas extending northward to Shreveport, Fort Worth, and to Denison through Corsicana and Dallas, and southward to Galveston and Brownsville, through Beeville. It also reaches Brownsville from San Antonio over a line through Beeville.

In California, Southern Pacific operates over two routes between Los Angeles and San Francisco, the Coast Line Route through Santa Barbara, Santa Margarita and San Jose, and the San Joaquin Valley Route through Mojave, Bakersfield and Fresno. From the San Francisco Bay area, its Overland Route runs eastward through Reno, Nev., to Ogden,³⁶ and its Shasta Route runs northward to Portland. On the latter route, two alternate lines run between Black Butte, Calif., and Eugene, Oreg., one through Klamath Falls, Oreg. (the Cascade Line), the other through Roseburg, Oreg. (The Siskiyou Line). At Klamath Falls, a route goes southeast to Fernley, Nev., on the Overland Route.

³⁵The segment of the Rock Island route between Santa Rosa and Tucumcari is operated and maintained by the Southern Pacific.

³⁶There will be later detailed in the discussion of Western Pacific's lines, the operations which the Southern Pacific conducts over the Western Pacific's tracks.

Operations of the Southern Pacific previously named subsidiary and affiliate short-line carriers follow: Holton Inter-Urban operates 10.5 miles of road in Imperial County, Calif.; Northwestern Pacific 328 miles of road in the northern California coastal counties between San Francisco Bay and Humboldt Bay; Petaluma and Santa Rosa 30 miles of road in Sonoma County, Calif.; San Diego & Arizona Eastern 136 miles of road in San Diego and Imperial Counties, Calif.; Tijuana & Tecate 44 miles of road in Baja, Calif., Mexico, connecting the eastern and western segments of the San Diego and Arizona Eastern; and Visalia Electric 34 miles of road in Tulare, County, Calif.

The Sunset operates 50 miles of road in Kern County, Calif.; Central California Traction 53 miles of road in Sacramento and San Joaquin Counties, Calif.; Portland Traction, 36 miles of road in the vicinity of Portland, Oreg.; and Oregon, California & Eastern 66 miles of road in southern Oregon.

Through its subsidiary, Cotton Belt, the Southern Pacific reaches the Memphis and St. Louis gateways. The Cotton Belt's main routes extend in Texas from Fort Worth and Dallas to Mount Pleasant; from Gatesville through Waco, Corsicana and Tyler (there connecting with a line from Lufkin) to Mount Pleasant and from Mount Pleasant to Lewisville, Ark., there connecting with a line from Shreveport. From Lewisville, a line extends to St. Louis northeast through Brinkley, Ark., and Thebes, Ill. Memphis is reached by a route from Brinkley, utilizing trackage rights over the Rock Island line between Brinkley and Briark, Ark. Points of connection with Southern Pacific are Corsicana, Athens, Fort Worth, Dallas, Jacksonville, and Lufkin, Tex., and Shreveport, La.

Locomotives in service on the combined Southern Pacific-Cotton Belt as of December 31, 1968, totaled 2,141 units of which 1,213 were multiple purpose diesel units, 651 were diesel switching units, 178 were diesel freight units and 99 were diesel passenger units. Of the 2,141 units in service, 926 or about 43 percent were purchased after December 31, 1959.

Table 38, which follows, shows the combined Southern Pacific and Cotton Belt freight car fleet as of December 31, for each of the years 1963 through 1968. With the exception of gondola, refrigerator and "other" cars (principally stock and tank cars), each type of car shows a net increase in 1968 over 1964. During this period the total number of cars has declined slightly (approximately 2 percent) while the aggregate capacity of the car fleet has increased slightly (approximately 5 percent).

The passenger car fleet will be discussed later in the section dealing with the carriers' passenger service.

Table 38

SOUTHERN PACIFIC - COTTON BELT FREIGHT CAR FLEET
CARS OWNED AND LEASED, 1963 THROUGH 1968

Year	Box	Flat*	Gondola	Open Hopper	Covered Hopper	Refrigerator	Other	Total Cars	Aggregate Capacity (Tons)
1963	46,314	8,639	14,066	5,021	4,275	4,764	1,884	84,963	4,847,085
1964	44,647	9,136	13,557	4,809	4,394	5,683	1,644	83,870	4,944,764
1965	41,677	9,779	14,404	4,596	4,843	6,859	1,540	83,698	5,001,625
1966	41,829	9,619	13,123	5,493	5,196	7,840	1,414	84,514	5,110,926
1967	41,929	9,834	11,848	5,369	5,570	7,337	836	82,723	5,105,768
1968	48,900	10,317	11,205	5,195	5,873	--	780	82,270	5,215,598

*

Includes rack cars.

The next two sections discuss Southern Pacific and Cotton Belt freight traffic data on an individual carrier basis. Because the two carriers form end-to-end routes and under their parent-subsidiary relationship conduct a single-system operation, the traffic statistics of both, if combined, would result in duplication and distortion of data, with particular regard to interline carloads, total revenue tons carried, and the commodity "mix" for each carrier. For example, a carload moving as bridge traffic to Cotton Belt may be interchanged with Southern Pacific and terminated on the latter's lines. The same car, if data were combined, would be counted in two classes of traffic, i.e., overhead (bridge) and interline terminated as well as in the total carloads carried. For the same reason, data shown are for the years 1962-1968 inclusive, because Southern Pacific merged with the Texas and New Orleans in 1961, the latter also a Southern Pacific subsidiary and an end-to-end connection with the parent company. Data shown for the Southern Pacific excludes that reported by other subsidiary companies, previously described, which file separate reports to the Commission.

Freight Traffic: Volume and Service Output

With the exception of 1967, Southern Pacific and Cotton Belt experienced progressive gains in tons carried, ton-miles generated and freight revenue during the 1962-1968 period (see Table 39, which follows this discussion). Throughout the period, carloads handled on the Southern Pacific have varied between 2.4 and 2.7 million. On the Cotton Belt, carloads increased in every year from 411,455 in 1962, to 465,082 in 1966, decreasing slightly in 1967, and reaching a high for the period in 1968 of 487,681. However, freight revenues for the period increased progressively from year to year including 1967 over 1966.

The average length of haul for both carriers has varied somewhat since 1962, ranging from a low of 483 miles in 1963 to a high in 1968 of 528 miles for Southern Pacific, and from 393 miles (1962) to 411 miles (1967) for Cotton Belt. The latter carrier's average haul was 406 miles in 1968. Cotton Belt's average revenue tonnage per car increased from 35.1 tons in 1962 to 40.5 tons in 1968. Comparable figures for Southern Pacific are 40.2 tons in 1962 and 46.5 tons in 1968.

Approximately one-third of Southern Pacific's carloads handled was local traffic, and about 30 percent was interline originated traffic in the 1962-1968 period. Interline terminated traffic increased slightly from about 27 percent of the total in 1962 to about 30 percent in 1967 and 29 percent in 1968. Bridge traffic over the period has represented 10 percent or less of total carloads, and in 1966, 1967 and 1968, it represented

slightly less than eight percent of the total. Of Cotton Belt's carload traffic the major portion (about 55 percent) has been bridge traffic during the same period. Local traffic declined from ten percent in 1962 to eight percent in 1968. Interline originated and interline terminated traffic varied between 17 and 19 percent and between 16 and 18 percent of the total, respectively. While Cotton Belt is primarily a bridge carrier, and over 90 percent of its total carloads are interlined, the Southern Pacific handles a substantial volume of local traffic, and its interline business is predominantly traffic originating or terminating on its own lines.

Table 39

SOUTHERN PACIFIC AND COTTON BELT REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES AND FREIGHT REVENUE
YEARS 1962 THROUGH 1968

Year	Carloads				Total Revenue Tons*	Revenue Ton-Miles (millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead			
SOUTHERN PACIFIC							
1962	818,126	733,866	664,196	239,150	2,455,338	98,896,128	\$631,057
1963	789,137	722,651	669,863	252,931	2,434,582	102,737,302	638,193
1964	836,467	763,931	676,833	239,163	2,516,394	108,697,825	664,794
1965	872,801	790,146	726,492	231,213	2,620,652	117,968,247	728,354
1966	913,391	789,188	764,233	200,406	2,667,228	121,941,843	764,168
1967	821,622	736,071	734,562	188,899	2,481,154	112,130,308	749,278
1968	894,442	787,163	754,846	199,677	2,636,128	122,406,673	817,864
COTTON BELT							
1962	42,838	68,977	71,889	227,751	411,455	14,466,015	\$ 72,048
1963	38,829	73,950	76,384	230,412	419,575	15,357,947	74,547
1964	37,207	83,062	76,885	237,332	434,486	16,762,728	78,772
1965	39,057	82,367	76,767	254,692	452,883	17,454,042	88,616
1966	38,285	82,123	76,801	267,873	465,082	18,941,900	94,090
1967	37,901	90,554	76,969	259,552	464,996	18,760,085	95,888
1968	38,510	93,998	81,536	273,637	487,681	20,176,757	106,413

*Includes L.C.L. Freight.

Freight Traffic: Commodity Consist

In the years 1962 and 1963, under the old commodity code, the Southern Pacific's tonnage consisted mainly of Products of Agriculture, 14 percent; Products of Mines, 33 percent; Products of Forests, 15 percent; and Manufactures and Miscellaneous Freight, 36 percent. About 53 percent of the total commodity group revenue was from Manufactures and Miscellaneous traffic, and Products of Agriculture and Products of Forests each contributed about 17 percent of the total revenue. Cotton Belt, in the same years, reported Manufactures and Miscellaneous tonnage representing about 53 percent of the total, with revenue from this commodity group representing about 69 percent of the total commodity revenue. Products of Agriculture constituted about 19 percent of total tonnage and 13 percent of total commodity revenue. Comparable figures for Cotton Belt's Products of Mines traffic were 16 percent for tonnage and about 6 percent for revenue.

Tables 40 and 41 show Southern Pacific commodity statistics for 1964 through 1968, and Tables 42 and 43 show similar data for Cotton Belt. The tables follow this discussion. Throughout the period shown, Southern Pacific has handled only four commodity groups (Metallic Ores, Non-Metallic Minerals, Food & Products, and Lumber & Products) which each exceeded 10 percent of total tonnage in each of the five years (Table 40). Each of the four groups varied in its proportionate share of total traffic over the period. The Metallic Ores group exhibited the greatest fluctuation by increasing from 12.8 percent of total tonnage in 1964 to 15.1 percent in 1966, decreasing to 10.4 percent in 1967 and increasing slightly to 11.8 percent in 1968. The revenue contribution (Table 41) from Metallic Ores traffic was considerably less proportionately (2.1 to 2.7 percent of total freight revenue) than the relative share of total tonnage during the period. The Food & Products and Lumber & Products groups were the two largest contributors of freight revenue, each accounting for about 14 to 17 percent of Southern Pacific's total freight revenue.

Farm Products carried by Southern Pacific showed overall declines for the 1964-1968 period in tonnage and revenue and the relative shares of total tonnage and revenue (8 percent and 11 percent, respectively, in 1968). Chemicals, on the other hand, showed both absolute and proportionate increases over the period in tonnage and revenue, accounting for approximately nine percent of the totals in each category in 1968. Primary Metal Products and Transportation Equipment each accounted for 7 to 8 percent of total freight revenue in each year in the period.

Six commodity groups were moved in quantities of one million or more tons in each of the years 1964-1968 on Cotton Belt (Table 42). Of the two remaining groups named in the table, Non-Metallic Minerals declined from about two million tons, or 10 percent of total tonnage in 1964 to less than one million tons, or 5 percent of the total, in 1968, and Stone, Clay & Glass Products traffic increased from 950,000 tons in 1964 to 1.2 million tons in 1966, declining through 1967 to 1.1 million tons in 1968. Such traffic constituted from 5.5 to 6.6 percent of total tonnage throughout the period.

Food & Products consistently represented 13 to 15 percent of total tonnage for the period. Chemicals, the largest single group in tonnage in each year after 1964, increased from 13 percent in that year to nearly 18 percent of total tonnage in 1968. Commodity groups each having annual movements of less than one million tons when combined have represented only 17 to 20 percent of total tonnage in the period, but their collective revenue contribution made up over one-third of Cotton Belt's freight revenue (Table 43). Food & Products, Chemicals, and Primary Metal Products combined accounted for 37 to 39 percent of total freight revenue in the years shown on Table 43.

To summarize, Southern Pacific handles large volumes of tonnage concentrated in the movement of Farm Products, Metallic Ores, Non-Metallic Minerals, Lumber & Products, Food & Products, and Chemicals. With the exception of Metallic Ores, the same is true of Cotton Belt, which also carries substantial amounts of Primary Metal Products traffic. The revenue contributions as between commodity groups, however, is spread over the entire range of commodities. Only three commodity groups contribute over 10 percent of total freight revenue each for each carrier: For Southern Pacific they are Farm Products, Food & Products, and Lumber & Products; and for Cotton Belt, they are Food & Products, Chemicals, and Primary Metal Products.

Table 40

SOUTHERN PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	11,680	10.7	12,030	10.2	11,656	9.6	9,824	8.8	9,904	8.1
Metallic Ores	13,866	12.8	16,726	14.2	18,420	15.1	11,618	10.4	14,482	11.8
Non-Metal Minerals	18,559	17.1	19,801	16.8	18,904	15.5	18,945	16.9	18,513	15.1
Food & Products	11,914	11.0	12,731	10.8	13,540	11.1	14,071	12.5	14,479	11.8
Lumber & Products	16,608	15.3	17,169	14.6	16,849	13.8	16,362	14.6	19,130	15.6
Pulp, Paper & Products	3,373	3.1	3,829	3.2	4,439	3.6	4,494	4.0	5,024	4.1
Chemicals	7,690	7.1	7,970	6.8	9,166	7.5	9,596	8.6	11,020	9.0
Petroleum & Coal Products	3,194	2.9	3,167	2.7	3,299	2.7	3,618	3.2	4,004	3.3
Stone, Clay & Glass Products	6,143	5.7	6,627	5.6	6,347	5.2	5,863	5.2	6,429	5.3
Primary Metal Products	6,648	6.1	7,331	6.2	7,855	6.4	6,787	6.1	7,683	6.3
Fabr. Metal Prd. (exc. Ordn., etc.)	839	.8	982	.8	1,088	.9	1,100	1.0	1,166	1.0
Transportation Equipment	1,982	1.8	2,545	2.2	2,364	1.9	2,180	1.9	2,424	2.0
Waste & Scrap	2,255	2.1	2,509	2.1	2,653	2.2	2,553	2.3	2,752	2.2
All Other Groups	3,947	3.6	4,551	3.9	5,362	4.4	5,119	4.6	5,397	4.4
Total	108,698	100.0	117,968	100.0	121,942	100.0	112,130	100.0	122,407	100.0

Note: Percentages may not add to 100.0 percent due to rounding.

* With the exception of "Fabricated Metal Products (etc.)," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 41

SOUTHERN PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 98,356	13.8	\$ 97,920	12.8	\$103,860	12.9	\$ 94,647	12.1	\$ 94,166	10.9
Metallic Ores	15,264	2.1	18,156	2.4	21,468	2.7	16,946	2.2	20,410	2.4
Non-Metal Minerals	34,611	4.9	37,087	4.8	35,685	4.4	36,900	4.7	37,146	4.3
Food & Products	99,717	14.0	106,491	13.9	110,820	13.8	115,269	14.8	122,239	14.2
Lumber & Products	24,342	17.5	123,286	16.1	117,195	14.6	113,643	14.5	135,158	15.7
Pulp, Paper & Products	33,079	4.7	37,021	4.8	43,026	5.4	42,997	5.5	49,373	5.7
Chemicals	51,856	7.3	56,296	7.3	64,793	8.1	67,981	8.7	78,843	9.1
Petroleum & Coal Products	17,850	2.5	19,365	2.5	21,225	2.6	21,673	2.8	24,331	2.8
Stone, Clay & Glass Products	28,835	4.1	29,650	3.9	28,803	3.6	27,726	3.5	31,690	3.7
Primary Metal Products	55,169	7.8	62,254	8.1	66,533	8.3	57,345	7.3	65,722	7.6
Fabr. Metal Prd. (exc. Ordn., etc.)	12,545	1.8	14,924	1.9	16,201	2.0	15,936	2.0	17,028	2.0
Transportation Equipment	49,993	7.0	61,622	8.0	57,142	7.1	53,641	6.9	60,363	7.0
Waste & Scrap	11,043	1.6	12,167	1.6	12,808	1.6	12,032	1.5	13,331	1.5
All Other Groups	78,266	11.0	91,549	11.9	104,037	12.9	104,748	13.4	113,476	13.1
Total	\$710,926	100.0	\$767,788	100.0	\$803,596	100.0	\$781,484	100.0	\$863,276	100.0

Note: Percentages may not add to 100.0 percent due to rounding.

*

With the exception of "Fabricated Metal Products (etc.)," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 42

COTTON BELT COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	1,933	11.5	1,965	11.2	1,819	9.7	2,021	10.7	1,905	9.5
Non-Metal Minerals	1,992	11.9	1,678	9.6	1,442	7.7	1,244	6.6	996	4.9
Food & Products	2,287	13.6	2,411	13.7	2,520	13.5	2,800	14.9	3,029	15.0
Lumber & Products	1,635	9.8	1,697	9.7	1,997	10.7	1,790	9.5	1,961	9.7
Pulp, Paper & Products	1,106	6.6	1,144	6.5	1,320	7.1	1,321	7.0	1,499	7.4
Chemicals	2,181	13.0	2,459	14.0	3,024	16.2	3,160	16.8	3,577	17.8
Stone, Clay & Glass Products	950	5.7	1,129	6.4	1,223	6.6	1,174	6.2	1,113	5.5
Primary Metal Products	1,864	11.1	1,919	10.9	2,069	11.1	1,769	9.4	2,040	10.1
All Other Groups	2,815	16.8	3,141	17.9	3,254	17.4	3,571	18.9	4,011	19.9
Total	16,763	100.0	17,543	100.0	18,668	100.0	18,850	100.0	20,131	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

With the exception of "Non-Metal Minerals" and "Stone, Clay & Glass Products," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 43

COTTON BELT COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 6,937	8.3	\$ 7,409	8.1	\$ 6,717	7.0	\$ 7,467	7.5	\$ 7,379	6.6
Non-Metal Minerals	2,662	3.2	2,453	2.7	2,167	2.3	2,107	2.1	1,942	1.7
Food & Products	10,205	12.3	10,701	11.8	11,273	11.7	12,229	12.3	12,839	11.5
Lumber & Products	5,242	6.3	5,820	6.4	6,370	6.6	5,894	5.9	6,439	5.8
Pulp, Paper, & Products	6,015	7.2	6,205	6.8	7,120	7.4	7,256	7.3	8,230	7.4
Chemicals	9,919	11.9	12,507	13.8	14,511	15.1	15,310	15.3	17,854	16.0
Stone, Clay, & Glass Products	3,680	4.4	4,059	4.5	4,278	4.4	4,152	4.2	4,171	3.7
Primary Metal Products	10,903	13.1	11,248	12.4	12,088	12.6	10,628	10.7	12,353	11.1
All Other Groups	27,635	33.2	30,555	33.6	31,700	32.9	34,718	34.8	40,460	36.2
Total	\$83,198	100.0	\$90,957	100.0	\$96,224	100.0	\$99,761	100.0	\$111,667	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

With the exceptions of "Non-Metal Minerals" and "Stone, Clay & Glass Products," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Freight Traffic: Interchanges and Traffic Flow

Evidence showing traffic density over lines of the Southern Pacific and Cotton Belt is based on gross tonnage hauled for the year 1963. Gross tonnage figures discussed herein therefore include the weight of passenger trains as well as the weight of freight trains and nonrevenue trains. Despite inclusion of tonnage from other operations, density discussed presents a reasonably accurate picture of freight operations over the Southern Pacific-Cotton Belt system and the level of use of the various lines relative to each other. Lines not discussed were not shown in the evidence presented and it is concluded that they consist of low-density branch lines, alternate routes not normally utilized as service routes, and routes of subsidiaries other than Cotton Belt.

The portion of the Southern Pacific system next discussed includes the Shasta Route and all other lines north of the Oakland-Sacramento-Ogden line. The main freight routes in the area are discussed by segment and gross tonnage per segment eastbound and westbound:

<u>Segment</u>	<u>Gross Tons (millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Portland-Eugene	13.0	14.1
Eugene-Crescent Lake-Klamath Falls	18.2-18.4	12.7-14.4
Klamath Falls-Black Butte	11.4	11.2
Black Butte-Tehama, Calif.	14.2-15.9	13.3-13.7
Tehama-Roseville*	12.4	12.3
Tehama-Davis,* Calif.	4.5	2.1
Klamath Falls-Flanigan, Nev.	7.1- 7.6	2.4- 2.6
Flanigan-Weso,* Nev.	.4	1.6
Flanigan-Fernley,* Nev.	Not available	

* Located on Oakland-Roseville-Ogden line.

The Overland Route shows the following traffic density:

<u>Segment</u>	<u>Gross Tons (millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Oakland-Martinez-Davis-Sacramento	15.1-16.2	13.9-16.5
Sacramento-Elvas, Calif.	18.3	19.6
Elvas-Roseville	32.1	32.2
Roseville-Fernley	16.3-16.7	16.0-16.6
Fernley-Ogden	21.3-22.3	15.9-16.6

South of the Overland Route two main routes in California, the San Joaquin Valley Line and the Coast Line, extend to Los Angeles (converging north of Los Angeles at Burbank). The two routes connect with the Overland and Shasta routes and with each other through a multiplicity of connecting lines in the San Francisco-Roseville area. Traffic density for the Coast Line and its Bay Area tributaries follow:

<u>Line Segment</u>	<u>Gross Tons (millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
San Francisco-Redwood Jct.	9.9	12.5
Oakland-Elmhurst	10.1	10.6
Elmhurst-Niles	5.3	3.9
Elmhurst-Santa Clara*	4.0	7.0
Niles-San Jose	5.7	2.4
Redwood Jct.-San Jose	8.0	9.2
San Jose-San Luis Obispo-Burbank	6.7-9.3	7.9-11.9

* Located on Redwood Jct.-San Jose line.

The Niles-San Jose line shown above, together with other tributary lines in the Bay Area ultimately converge at Fresno to continue through Bakersfield to Burbank, forming the San Joaquin Valley Route. Density for the route and its Bay Area tributaries follow:

<u>Line Segment</u>	<u>Gross Tons (millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Redwood Jct.-Niles	3.2	4.1
Niles-Tracy	3.2	4.3
Martinez-Tracy	2.5	3.3
Tracy-Lathrop	7.7	8.7
Elvas-Lathrop	18.6	15.2
Tracy-Fresno	1.7	1.8
Lathrop-Fresno	14.1	13.0
Fresno-Bakersfield-Burbank	13.2-17.3	11.6-13.0

From Burbank, where the Coast and San Joaquin Valley lines converge, to Los Angeles, traffic density in 1963 totaled 25.2 million gross tons eastbound and 22.1 million westbound. With construction and, beginning in 1967, operation of a new by-pass line around Los Angeles between Palmdale (on the San Joaquin Valley line) and Colton (on the Los Angeles-El Paso line), traffic flow over the lines in the Los Angeles area undoubtedly has changed since the subject evidence was put in the record.

Such changes as have taken place would not materially affect the purpose of this discussion, which is to describe the overall flow of traffic on the Southern Pacific system. The Colton-Palmdale route was constructed for the purpose of carrying traffic moving between the Sunset Route and points in northern California and the Pacific Northwest, via the San Joaquin Valley Route.

The Coast Line appears to be used primarily for local traffic moving between Los Angeles and San Francisco. Traffic between Portland and the San Francisco Bay Area moves over the Shasta Route via Tehama, Davis and Martinez. As noted, several connecting lines between the Overland, Coast and San Joaquin Valley routes feed traffic to and from the San Francisco and Oakland areas and between the three named routes themselves. The Roseville-Elvas segment handles the heaviest volume of traffic (64.3 million gross tons in 1963) on the entire system, resulting from its use for traffic on the Overland Route as well as for traffic moving over both the Shasta and San Joaquin Valley routes. It is clear that Southern Pacific hauls very substantial volumes of traffic over the four major service routes in its system north of Los Angeles.

The combined Sunset and Golden State routes between the Los Angeles area and El Paso generally handled about 16 to 17 million gross tons eastbound and 17 to 18 million westbound in 1963. Westbound traffic between Niland and Alhambra, Calif., totaled 22 million tons (Niland is the junction for a Southern Pacific line through the Imperial Valley which connects with subsidiary lines from San Diego). The El Paso-Tucumcari portion of the Golden State Route handled 5.3 million gross tons eastbound and 6.0 million westbound. Between Los Angeles and El Paso, westbound tonnage is greater than eastbound, but the relationship is reversed east of El Paso at San Antonio. Between El Paso and San Antonio, traffic density is about equally divided eastbound and westbound at somewhat over 10 million gross tons each, but east of San Antonio, lines diverge from the Sunset Route and connect with Cotton Belt at Corsicana, Fort Worth, Dallas, Lufkin and Shreveport. As a result, total traffic density on the Sunset Route decreases east of San Antonio to New Orleans and eastbound density (7.2 to 10.1 million gross tons) exceeds the westbound density (6.6 to 9.7 million).

Traffic density between the Sunset Route in Texas, on the one hand, and Shreveport and north Texas points on the other hand are shown below (southbound refers to traffic moving to the Sunset Route, northbound, from the Sunset Route):

<u>Line Segment</u>	<u>Gross Tons (millions)</u>	
	<u>Southbound</u>	<u>Northbound</u>
Houston-Shreveport	3.9	3.5
Houston-Hearne	3.1	5.5
Flatonia-Hearne	7.8	8.7
Hearne-Corsicana-Ennis	8.9	10.0
Ennis-Fort Worth	1.4	2.6
Ennis-Dallas-Denison	1.7	2.2

Cotton Belt's heaviest traffic flow moves between Corsicana and East St. Louis through Tyler, Mount Pleasant, Lewisville and Thebes, Ill. Tonnage totals for both directions in 1963 were: Corsicana-Tyler, 12.9 million gross tons; Tyler-Mount Pleasant, 14.6 million; Mount Pleasant-Texarkana, 18.5 million; Texarkana-Lewisville-Pine Bluff, 23.9 million; Pine Bluff-Brinkley-Jonesboro, Ark., 23.3; and Jonesboro-Illmo, Mo., 19.3 million. Traffic density for the Illmo-East St. Louis and the Brinkley-Memphis routes were not shown on the Cotton Belt density chart. Connecting with the described Corsicana-East St. Louis route are the following lines and their respective traffic densities: Lufkin-Tyler, 1.0 million gross tons; Fort Worth-Addison-Commerce, 4.6 million; Dallas-Addison, 2.5 million; Commerce-Mount Pleasant, 5.1 million; Shreveport-Lewisville, 6.8 million; and North Little Rock-Alzheimer, 1.6 million. All other Cotton Belt lines handled less than one million gross tons.

As earlier noted, traffic local to Southern Pacific has accounted for about one-third of its total carload business (Table 39). Of the 30 most important origin points for local traffic in 1965, originations at 21 points totaled from 5,000 to 10,000 cars each. The nine remaining points (Ray Jct. and Bisbee, Ariz., Ferrum, Los Angeles, Oakland, E. Pleasanton, and Logan, Calif., Houston and Portland) accounted for termination of 28 percent of the 872,801 carloads of local traffic handled in 1965. Also as a percentage of total local carloads, nearly 45 percent terminated at only 15 points. Six of the points, Hayden and Phoenix, Ariz., Houston, and Kaiser, Los Angeles and Oakland, Calif., were the destinations of 30 percent of total local traffic. Hayden, the point with the system's largest number of local terminations (about 95,000 cars) and Ray Jct., the point with the most local originations (about 89,000 cars) are both located on a branch line extending from Phoenix to Winkelman, Ariz.

Among the 30 most important points of origin in 1965 for interline forwarded traffic, 13 were in California, 8 in Oregon, 5 in Texas, 3 in Louisiana, and 1 in Arizona. Between 4,500 and 9,500 carloads were

originated at each of 23 of the 30 points. Salinas, Los Angeles, and Oakland, Calif., and Medford and Springfield, Oreg., each accounted for 10,000 to 20,000 interline originations. Houston and New Gulf, Tex., were origin points for 30,650 and 22,899 cars, respectively.

Twenty of the 30 most important points of destination for interline received traffic each accounted for between 3,700 and 9,300 cars terminated. The 10,000 to 20,000 car range included Warm Springs, Raymer, S. Gate and Mulford, Calif., Phoenix, Ariz., and San Antonio, Tex. The remaining four points were Los Angeles (56,985 cars), Houston (47,815), Oakland (36,006), and San Francisco (34,393). Of the 30 points, 17 were in California, 2 in Oregon, 5 in Texas, 2 in Arizona, and 4 in Louisiana. Most of Southern Pacific's major interline traffic origination and destination points in California are located in the San Francisco-San Jose-Sacramento area and the Los Angeles area shown below in Table 44. For Cotton Belt, no single point originated or terminated more than 9,000 cars of either local or interline traffic in 1965.

Table 44San Francisco and Los Angeles Area Origin and Destination Points for Interline Traffic, Year 1965

<u>SP Station</u>	<u>Interline Carloads</u>	
	<u>Originated</u>	<u>Terminated</u>
San Francisco Area:		
San Francisco	xx	34,393
Oakland	11,401	36,006
San Jose	6,477	4,803
Hayward	5,560	xx
Warm Springs	5,452	18,559
Richmond	5,137	5,300
Santa Clara	4,984	4,069
Mulford	xx	10,181
Pittsburg	xx	9,252
Sacramento	xx	7,308
Milpitas	xx	7,024
S. San Francisco	xx	6,166
San Leandro	xx	4,374
Newark	xx	4,165
Total	39,011	151,600
Los Angeles Area:		
Los Angeles	13,496	56,985
Raymer	xx	15,491
S. Gate	xx	11,116
Kaiser	9,068	xx
Total	22,564	83,592

Note: Where "xx" appears, traffic of the class shown (interline originated or terminated) was not sufficient to place the station in the 30 most important points for that class of traffic.

Southern Pacific submitted interchange exhibits based on traffic for two years, 1963 (E&D-4 and E&D-4a) and 1965 (E&D-8, E&D-8a, E&D-13, and E&D-13a). The 1963 data are broken down first by connecting carrier and then by station, showing cars (tonnage in Exhibit E&D-4a) delivered to and received from the connecting carrier. The 1965 data are broken down first by station, then by connecting carrier, with the carloads delivered to and received from connecting carriers further broken down to show terminations, originations and overhead movements of the carloads on Southern Pacific and Cotton Belt lines. The 1965 movements because of its greater detail will be discussed, and from time to time, supplemented by the 1963 data as indicated. Further, the discussion will be limited to

major points at which Southern Pacific interchanges with carrier parties to these proceedings, and, other than Cotton Belt, excludes interchanges between Southern Pacific and its subsidiaries.

Major Oregon interchange points are Portland, East Portland, and Chemult. The interchange with Union Pacific is conducted mainly at E. Portland, as noted earlier in the discussion of Union Pacific's interchange evidence based on 1963 data. It was noted that 40,063 cars out of the 54,254 interchanged between the two carriers at E. Portland either terminated or originated on Union Pacific lines. Southern Pacific's 1965 data shows a total of 67,486 cars interchanged with Union Pacific at the same point of which 47,078 originated or terminated on Southern Pacific lines. The difference in years is immaterial to the conclusion that the bulk of the traffic being interchanged between them at East Portland consists of that which originates on Southern Pacific and terminates on Union Pacific, or vice versa.

At Portland, the principal Southern Pacific interchanges were with Great Northern (26,259 cars) and Northern Pacific (89,385 cars) and the bulk of this traffic originated or terminated on Southern Pacific. Although not shown in the 1965 data for Portland, the SP&S also interchanges a substantial volume of traffic with Southern Pacific at Portland, based on the 1963 evidence which shows a total of 29,781 cars.

Chemult, Oreg., is a Southern Pacific-Great Northern interchange point where the two carriers interchanged 7,701 cars, of which 7,041 originated or terminated on Southern Pacific in 1965.

For the San Francisco area, only one point, Stockton, is listed by Southern Pacific as a major interchange in 1965 for class I carriers other than Southern Pacific subsidiaries. The Southern Pacific received 13,612 cars from, and delivered 28,311 cars to the Santa Fe at Stockton. Southern Pacific also received 5,813 cars from and delivered 3,246 cars to Western Pacific. The majority of cars interchanged with both Santa Fe and Western Pacific either originated or terminated on Southern Pacific. Stockton is the only point in the 1965 data where Western Pacific is listed. Referring to the 1963 data, the Southern Pacific and WP interchanged a total of 16,482 cars at 10 major points including Stockton and Oakland, which handled the largest volumes with 5,856 and 5,286 cars, respectively.

The Southern Pacific's interchange with Union Pacific at Ogden was described earlier on the basis of the latter's 1963 data. It was noted that the carloads interchanged at Ogden were about twice as great eastbound

as westbound and about 87 percent of the total interchange was traffic overhead to Union Pacific. Southern Pacific's 1963 data differs somewhat from Union Pacific's in that the carloads shown total 317,897 vs. 303,873 in Union Pacific's Exhibit 5. The difference is not of such magnitude as to change the conclusions drawn from either carrier's evidence. Southern Pacific's 1965 data show 129,272 cars received from and 203,846 cars delivered to Union Pacific at Ogden: the eastbound movements obviously dominate the interchange. Of the 129,272 westbound cars, 81 percent terminated on Southern Pacific, and of the 203,846 eastbound cars, 91 percent originated on Southern Pacific.

The Southern Pacific interchange with Rio Grande at Ogden is considerably smaller in volume, totaling 127,538 cars (51,986 eastbound, 75,552 westbound), in 1965. Here again, traffic originated or terminated on Southern Pacific dominates: 83 percent of the traffic received from Rio Grande terminates on Southern Pacific, and 91 percent of the traffic turned over to Rio Grande originates on Southern Pacific.

Major interchanges in California with Santa Fe are at Bakersfield, Colton and Los Angeles, and, at the latter two points, also with Union Pacific. At Bakersfield, in 1965, Southern Pacific received 6,379 cars from Santa Fe of which 6,020 terminated on Southern Pacific. Delivered to Santa Fe were 2,774 cars originated on Southern Pacific and 833 cars of Southern Pacific bridge traffic. At Colton, Southern Pacific received 3,663 cars from Santa Fe (3,483 terminated on Southern Pacific) and delivered 3,597 cars to Santa Fe (1,142 originated on Southern Pacific). The largest volume interchanged at Colton was with Union Pacific: Southern Pacific received 14,148 cars from Union Pacific (13,717 terminated on Southern Pacific) and delivered 2,492 cars, including 1,614 originating on Southern Pacific lines. At Los Angeles, Southern Pacific received somewhat over 9,500 cars each from Santa Fe and Union Pacific and in each case over 9,000 cars terminated on Southern Pacific. Deliveries were: to Santa Fe, 9,525 cars including 4,857 originated on Southern Pacific; and to Union Pacific, 15,121 cars, of which 5,143 originated on Southern Pacific.

At Deming, N. Mex., Southern Pacific and Santa Fe interchanged 11,508 cars, of which 9,114 originated or terminated on Southern Pacific. As previously discussed, Rock Island's evidence shows a Southern Pacific interchange at Tucumcari of 106,132 cars in 1963, about 900 cars less than that shown for the same year in Southern Pacific's evidence. The latter carrier's 1965 data show that (1) Southern Pacific delivered 56,728 cars to Rock Island, including 47,553 originated on Southern Pacific, and (2) 56,960 cars were received from Rock Island of which 46,253 terminated on Southern Pacific.

Without exception, interchanges with other carriers in Texas, as is the case of most interchanges previously discussed, primarily involved traffic originating or terminating on Southern Pacific. Santa Fe and T&P interchange with Southern Pacific at El Paso. In 1965 the total Santa Fe interchange amounted to 4,679 cars. The T&P received 19,201 cars from Southern Pacific including 16,350 originated by the latter. Westbound, T&P delivered 24,975 cars to Southern Pacific, which terminated 20,314 of the cars. At Beaumont, Southern Pacific delivered 4,491 cars to Santa Fe, 425 to MoPac and 29,855 to Kansas City Southern, receiving from them 5,740, 1,518 and 3,763 cars, respectively.

At Denison for the year 1965 the Southern Pacific interchanged about 500 cars with Frisco, and only 33 with T&P, but the Katy delivered 3,031 cars to, and received 3,663 cars from Southern Pacific. The evidence of Southern Pacific shows a total of 4,579 cars received from, and deliveries of 2,650 cars to "All Other Railroads" at Denison. Southern Pacific's 1963 evidence, in addition to the above-named carriers, shows 7,887 cars interchanged with the KO&G at Denison, and it is reasonable to assume that the 1965 "All Other Railroads" figures refer to the KO&G. Interchanges with MoPac and Katy at San Antonio totaled 8,966 and 9,434 cars, respectively. Total interchanges at Houston, by carrier, were: Santa Fe, 3,693 cars; Rock Island, 3,310; MoPac, 12,603; Fort Worth & Denver, 4,497; and Katy 10,866.

Both Southern Pacific and Cotton Belt 1965 interchange data show substantial amounts of traffic interchanged with "All Other Railroads," and while Cotton Belt shows its interchange with Southern Pacific at four points, the latter does not show the interchange with Cotton Belt at any point. However the 1963 data shows 12 points where the parent interchanges with its subsidiary, as set forth in the following table (all points except Shreveport are in Texas):

Table 45

Major Southern Pacific - Cotton Belt
Interchanges, Year 1963

<u>Station</u>	<u>Carloads</u>		<u>Total</u>
	<u>Delivered to SLSW</u>	<u>Received from SLSW</u>	
Athens	93	155	248
Commerce	134	479	613
Corsicana	63,837	82,975	146,812
Dallas	1,027	6,064	7,091
Fort Worth	381	833	1,214
Jacksonville	166	200	366
Lufkin	989	2,625	3,614
Plano	609	145	754
Rusk	1	-	1
Sherman	126	122	248
Shreveport	20,972	25,433	46,405
Waco	502	491	993
Total	88,837	119,522	208,359

Based on the above table and the traffic density evidence previously discussed, it is apparent that Corsicana and Shreveport are the main gateways for Southern Pacific-Cotton Belt traffic. The latter's 1965 data show increases in volume through the two points (compared to 1963), and most of the traffic was handled as bridge movements over Cotton Belt. The remaining major Southern Pacific and Cotton Belt interchanges in Texas, Arkansas and Louisiana, with the exception of New Orleans, not heretofore discussed separately will be covered in subsequent sections of this report dealing with the interchange data for intervening carriers (MoPac, T&P, Katy, Frisco, Fort Worth & Denver and Kansas City Southern-Louisiana & Arkansas). The earlier section on Rock Island's 1963 interchanges covers operations between that carrier and the Southern Pacific-Cotton Belt system in Arkansas, Texas and Louisiana. It is noted here, however, that in Louisiana, as in Texas, the preponderance of the traffic interchanged by Southern Pacific either originated or terminated on its lines, based on the carrier's 1965 data.

New Orleans, Memphis and E. St. Louis are the easternmost terminals of the Southern Pacific-Cotton Belt system, and the 1965 interchanges for the three points are shown in the following table:

Table 46

Southern Pacific and Cotton Belt Interchanges,
New Orleans, Memphis, and E. St. Louis

<u>Station</u>	<u>Connecting Carrier</u>	<u>Carloads</u>		<u>Total</u>
		<u>Delivered</u>	<u>Received</u>	
New Orleans (SP)	MP	94	13	107
	T&P	26	7	33
	L&A	2,167	2,737	4,904
	All Others	<u>65,937</u>	<u>38,789</u>	<u>104,726</u>
	Total	68,224	41,546	109,770
Memphis (SLSW)	MP	160	17	177
	SLSF	5,883	4,109	9,992
	All Others	<u>32,914</u>	<u>26,444</u>	<u>59,358</u>
	Total	38,957	30,570	69,527
E. St. Louis(SLSW)	CBQ	2,085	3,621	5,706
	RI	132	70	202
	CNW	4,443	6,055	10,498
	MKT	33	174	207
	MP	348	173	521
	SLSF	24	12	36
	All Others	<u>99,826</u>	<u>106,699</u>	<u>206,525</u>
	Total	106,891	116,804	223,695

Overall, deliveries of cars to connections at New Orleans and Memphis exceeded cars received in 1965, whereas the reverse situation prevailed at E. St. Louis. The data in Table 46 were drawn from Exhibits E&D-8 and E&D-8a, which with a few exceptions, did not name many of the connecting carriers at the three points shown in the table. Exhibits E&D-4 and E&D-4a show, among others, the 1963 interchanges with class I line-haul carriers in the Eastern and Southern Districts. At New Orleans, Southern Pacific received 5,820 cars from, and delivered 7,385 cars to the GM&O. Comparable data for other carriers are as follows: Illinois Central, 6,762 cars received, 11,310 delivered; Southern Railway and subsidiaries, 8,512 cars received, 20,835 cars delivered; and Louisville & Nashville, 13,344 cars received, 25,239 delivered. Eastbound traffic therefore dominates the Southern Pacific's New Orleans gateway.

As noted previously, Exhibit E&D-4a shows Cotton Belt's interchange in terms of tonnage rather than cars. At Memphis and E. St. Louis, the carrier's interchange is as follows:

Table 47

<u>Connecting Carrier</u>	<u>Tons Delivered</u> (000)	<u>Tons Received</u> (000)
<u>Memphis:</u>		
GM&O	142	29
IC	261	140
L&N	342	269
SOU	394	280
<u>E. St. Louis:</u>		
GM&O	89	99
IC	180	284
L&N	34	27
PC	1,231	916
N&W	614	422
SOU	57	43

Cotton Belt, like its parent, delivers more traffic to Southern District carriers than is received from them, and the same situation holds for traffic moving between Cotton Belt and Eastern District Carriers.

Passenger Service

Southern Pacific provides intercity service between: (1) San Francisco and Ogden; (2) San Francisco and Portland; (3) San Francisco and Los Angeles, over both the Coast Line and San Joaquin Valley routes; (4) San Francisco and Pacific Grove, Calif.; and (5) Los Angeles and New Orleans. One pair of trains is operated over each of the six routes described. Commuter service is provided between San Francisco and San Jose, Calif. The Cotton Belt provides freight service only.

As of December 31, 1968, Southern Pacific operated 536 passenger train cars, including 264 coaches, four combination cars, two parlor cars, eleven sleeping cars, 52 dining, grill and tavern cars, one postal car and 202 nonpassenger carrying cars.

Compared to 1963, Southern Pacific's passenger operations showed a marked decline in 1968. Passenger train-miles in 1963 totaled 8.7 million, and in 1968 the total was 4.1 million, a decline of 53 percent. The number of passengers carried, however, declined over the same period by only about 13 percent from 7.6 million to 6.6 million. The decline in passenger railway operating revenues during the period can be seen in the following chart, which also shows the net passenger expenses and the net deficit from railway passenger operations: ↗

<u>Year</u>	<u>Passenger Railway Operating Revenues (000)</u>	<u>Net Passenger Expenses (000)</u>	<u>*Net Passenger Railway Operating Deficits (000)</u>
1963	\$53,571	\$70,658	\$(17,087)
1964	50,181	66,144	(15,963)
1965	43,835	59,906	(16,071)
1966	41,530	57,130	(15,600)
1967	28,530	48,228	(19,698)
1968	16,782	32,591	(16,809)

*Net passenger railway operating deficit may be overstated to the extent that such items of expense that have been included in net passenger expenses as allowable expenses would generally be disallowed by the Commission in discontinuance cases. (Source: Schedule 300 Form A.)

Employees

The average number of employees in the Southern Pacific work force declined from 45,175, in 1959 to 42,734 in 1968. As of December 31, 1968, the work force included 961 executive personnel, 10,574 professional, clerical and general personnel, 6,471 maintenance of way and structure personnel, 9,546 maintenance of equipment and stores personnel, 2,309 transportation personnel other than train and yard personnel, 636 yard masters, switch tenders and hostlers, and 12,237 train and engine personnel.

The average number of employees in the Cotton Belt work force declined from 4,183 in 1959 to 3,667 in 1968. As of December 31, 1968, the work force included 95 executive personnel, 776 professional, clerical and general personnel, 524 maintenance of way and structure personnel, 665 maintenance of equipment and stores personnel, 188 transportation personnel other than train engine and yard personnel, 49 yard masters, switch tenders and hostlers, and 1,370 train and engine personnel.

Financial Analysis

The balance sheets and income statements of the Southern Pacific have been constructed on a corporate entity basis for the years 1965 and 1968. The statements for 1965 reflect the Southern Pacific's financial posture at the time it entered into an agreement with the Union Pacific to purchase certain properties of the Rock Island, assuming that the Rock Island had been merged into the Union Pacific, as proposed in the instant proceedings. The statements for 1968 have also been included to show Southern Pacific's financial position as of the latest available date.

Table 48

SOUTHERN PACIFIC BALANCE SHEETS AS OF

	<u>December 31, 1965</u>	<u>December 31, 1968</u>
<u>Current Assets</u>		
Cash	\$ 2,871,567	\$ 861,782
Temporary cash investments	140,994,923	141,735,016
Special deposits	164,493	275,298
Loans and notes receivable	266,577	241,113
Traffic and car-service balances-Dr.	6,960,088	2,582,260
Net balance receivable from agents and conductors	23,853,896	37,048,274
Miscellaneous accounts receivable	20,649,538	27,776,380
Interest and dividends receivable	1,990,175	1,997,339
Accrued accounts receivable	32,405,347	23,766,749
Working fund advances	81,160	82,168
Prepayments	188,683	550,365
Material and supplies	13,085,903	15,265,705
Other current assets	6,135,846	1,149,151
Total current assets	<u>249,648,196</u>	<u>253,331,600</u>
<u>Special Funds</u>		
Sinking funds	2,069	3,566
Capital and other reserve funds	21,209,959	15,697,099
Insurance and other funds	520,445	559,047
Total special funds	<u>21,732,473</u>	<u>16,259,712</u>
<u>Investments</u>		
Investments in affiliated Cos.	178,655,946	169,342,364
Other investments	45,881,652	44,482,022
Reserve for adjustment of investment in securities-Cr.	(55,024,502)	(52,717,103)
Total investments	<u>169,513,096</u>	<u>161,107,283</u>
<u>Properties</u>		
Road and equipment property	2,339,544,998	2,473,881,468
Improvements on leased property	3,107,149	758,334
Total transportation property	<u>2,342,652,147</u>	<u>2,474,639,802</u>
Accrued depreciation-Rd. & Equip.	(500,762,158)	(553,200,050)
Amortization of defense projects-Rd. & Equip.	(30,985,922)	(23,204,420)
Recorded depreciation and amortization	<u>(531,748,080)</u>	<u>(576,404,470)</u>
Total transportation property less depr. & amort.	<u>1,810,904,067</u>	<u>1,898,235,332</u>
Miscellaneous physical property	126,682,878	149,534,772
Accrued depreciation-miscellaneous physical property	(8,781,816)	(10,116,017)
Miscellaneous physical property less depreciation	<u>117,901,062</u>	<u>139,418,755</u>
Total properties less depr. & amort.	<u>1,928,805,129</u>	<u>2,037,654,087</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	2,028,330	2,617,215
Unamortized discount on long-term debt	3,814,278	3,526,488
Other deferred charges	6,678,197	9,713,244
Total other assets and deferred charges	<u>12,520,805</u>	<u>15,856,947</u>
Total assets	<u>\$2,382,219,699</u>	<u>\$2,484,209,629</u>

Table 48 - Continued

SOUTHERN PACIFIC BALANCE SHEETS AS OF:

	<u>December 31, 1965</u>	<u>December 31, 1968</u>
<u>Current Liabilities</u>		
Audited accounts and wages payable	\$ 29,604,634	\$ 26,847,809
Miscellaneous accounts payable	24,354,896	24,672,766
Interest matured unpaid	2,780,567	2,857,629
Dividends matured unpaid	915,082	2,412,494
Unmatured interest accrued	6,851,935	7,038,006
Accrued accounts payable	71,320,402	93,439,051
Federal income taxes accrued	16,677,549	24,088,520
Other taxes accrued	8,880,299	9,780,915
Other current liabilities	8,380,331	8,877,740
Total current liabilities (exclusive of long-term debt due within one year)	<u>169,765,695</u>	<u>200,014,930</u>
<u>Long-Term Debt Due Within 1 Year</u>	<u>39,678,044</u>	<u>70,957,164</u>
<u>Long-Term Debt Due After 1 Year</u>		
Funded debt unmatured	394,053,928	323,698,580
Equipment obligations	297,856,667	341,676,933
Amounts payable to affiliated companies	23,074,985	35,329,371
Total long-term debt due after 1 year	<u>714,985,580</u>	<u>700,704,884</u>
<u>Reserves</u>		
Casualty and other reserves	20,112,123	11,795,615
Total reserves	<u>20,112,123</u>	<u>11,795,615</u>
<u>Other Liabilities and Deferred Credits</u>		
Other liabilities	2,411,101	4,608,722
Unamortized premium on long-term debt	114,190	90,981
Other deferred credits	22,355,887	8,224,634
Accrued depreciation-leased property	2,246,853	179,803
Total other liabilities and deferred credits	<u>27,128,031</u>	<u>13,104,140</u>
<u>Shareholders' Equity</u>		
Capital stock-issued-total	<u>424,875,041</u>	<u>424,875,041</u>
<u>Retained Income-unappropriated</u>	<u>985,675,185</u>	<u>1,062,757,855</u>
Total retained income	<u>985,675,185</u>	<u>1,062,757,855</u>
Total shareholders' equity	<u>1,410,550,226</u>	<u>1,487,632,896</u>
Total liabilities and shareholders' equity	<u>\$2,382,219,699</u>	<u>\$2,484,209,629</u>

Table 49

SOUTHERN PACIFIC INCOME STATEMENTS FOR THE YEARS

	<u>1965</u>	<u>1968</u>
<u>Total Operating Revenues</u>	<u>\$786,295,827</u>	<u>\$860,168,211</u>
<u>Operating Expenses</u>		
<u>Maintenance of way and structures:</u>		
Exclusive of depreciation	87,819,383	92,011,235
Depreciation	8,440,301	10,116,104
<u>Maintenance of equipment:</u>		
Exclusive of depreciation	106,197,743	109,125,887
Depreciation	49,933,999	54,842,911
<u>Traffic</u>	<u>13,382,414</u>	<u>14,078,156</u>
<u>Transportation</u>	<u>307,775,089</u>	<u>343,082,976</u>
<u>Miscellaneous & general</u>	<u>38,161,644</u>	<u>48,750,509</u>
<u>Total operating expenses</u>	<u>611,710,573</u>	<u>672,007,778</u>
<u>Net revenue from railway operations</u>	<u>174,585,254</u>	<u>188,160,433</u>
<u>Railway tax accruals</u>	<u>73,048,406</u>	<u>75,884,269</u>
<u>Railway operating income</u>	<u>101,536,848</u>	<u>112,276,164</u>
<u>Rent income- Cr.</u>	<u>6,472,997</u>	<u>6,163,812</u>
<u>Rents payable- Dr.</u>	<u>39,362,512</u>	<u>53,279,335</u>
<u>net rents</u>	<u>(32,889,515)</u>	<u>(47,115,523)</u>
<u>Net railway operating income</u>	<u>68,647,333</u>	<u>65,160,641</u>
<u>Total other income</u>	<u>35,073,762</u>	<u>46,224,749</u>
<u>Total income</u>	<u>104,321,095</u>	<u>111,385,390</u>
<u>Total miscellaneous deductions</u>	<u>5,871,402</u>	<u>4,939,638</u>
<u>Income available for fixed charges</u>	<u>98,449,693</u>	<u>106,445,752</u>
<u>Fixed charges</u>	<u>28,772,522</u>	<u>31,585,853</u>
<u>Contingent interest (other deductions)</u>	<u>--</u>	<u>--</u>
<u>Total fixed charges & contingent interest</u>	<u>28,772,522</u>	<u>31,585,853</u>
<u>Ordinary income</u>	<u>69,677,171</u>	<u>74,859,899</u>
<u>Total extraordinary items (net)</u>	<u>--</u>	<u>--</u>
<u>Net income after fixed charges and other deductions</u>	<u>\$ 69,677,171</u>	<u>\$ 74,859,899</u>

Gross Railway Operating Revenues and Expenses

Table 50 which follows, has been constructed to show Southern Pacific's net income trend for the ten year period from 1959 to 1968. Towards the end of 1961 the Southern Pacific merged into itself its wholly owned subsidiary, the Texas & New Orleans R. R. Co. As a result of this merger, railway operating revenues of Southern Pacific increased from \$550 million for 1959 to \$701.8 million for 1962. After five years of gains in earnings, the effect of strikes in the copper and automobile industries, decreases in production and shipments in lumber and plywood and unfavorable growing conditions in the agricultural area were all contributing factors in the downward trend of Southern Pacific's earnings, which amounted to \$799.3 million in 1967 or a drop of \$23 million from the \$822.3 million realized in 1966. In 1968, due to its continued program of equipment and plant improvements, industrial development program, including land acquisition for this purpose and other new services and methods the Southern Pacific's railway operating revenues reached a high of \$860.1 million. Its passenger revenues for the 10 year period 1959-1968 reached a high of some \$29 million in 1968. However, the loss in passenger revenues over a six year period from 1963 to 1968 has averaged about \$2.8 million annually.

As also discussed in other portions of this report, wage increases and health benefits throughout the railroad industry have played a large part in the increase in railway operating expenses in the last ten years. These increases in conjunction with the rising costs of materials and supplies as well as the general inflationary factors have affected Southern Pacific's railway operating expenses. These expenses increased from \$433 million in 1959 to a high of \$672 million in 1968. However, through efficient operations and larger traffic volume it has managed to maintain a favorable margin of operating efficiency or stated differently a favorable operating ratio which has not exceeded 79.9 percent in the period 1959-1968.

Net Railway Operating Income and Net Income

Southern Pacific's net railway operating income increased from \$46.1 million in 1959 to \$65.1 million in 1968. For the same period of time an average of 28.8 percent of its total income available for fixed charges was derived from nonrailway operations and its net income after fixed charges and other deductions increased from \$50 million in 1959 to \$74.9 million in 1968, indicating that the Southern Pacific has enjoyed a decade of profitable operations.

Working Capital

The Commission has found on a rule of thumb that a carrier's working capital should be equal at least, to one month's average operating expenses less depreciation.

On this basis Table 51 has been constructed for the ten year period from 1959 to 1968, to show Southern Pacific's monthly average working capital requirement position. It discloses that 1967 was the only year in the entire ten year period that its average monthly working capital requirement was some \$9 million more than the computed working capital. However, historically, it is evident from the record that Southern Pacific has maintained an adequate working capital position sufficient for conducting orderly operations.

Rate of Returns

Table 52 following, for the period 1959-1968 shows that Southern Pacific's rate of return on net investment in transportation property for that period was never more than the 3.91 percent it realized in 1963. However, its average rate of return of 3.24 percent for the ten year period is characteristic of the railroads in the Western District, considering that the average rate of return for the whole Western District was about 3.25 for the years 1959-1967 (1968 not available).

Furthermore, the Southern Pacific in its brief indicates that its earnings on transportation property in 1967 exceeded the earnings on transportation property by the United States railroads as a whole for the same year. This comparison was based on the "Annual Statement of Bureau of Railway Economics, Assn. of Amer. Railroads." The 1969 edition of this statement discloses that the Southern Pacific's average rate of return on net investment in transportation property of 3.24 percent also exceeded the average rate of return of 2.83 percent earned by the United States railroads as a whole.

Based on the foregoing discussion Southern Pacific's average rate of return on net investment in transportation property has been as good as the average rate of return shown for the railroads in the Western District and better than the average rate of return shown for the railroads in the United States as a whole.

Long-term Debt

Southern Pacific's total long-term debt (including amounts due and payable within one year) over the past decade, 1959-1968, has averaged about \$760 million annually.

Its long-term debt due within one year for that period ranged from a low of \$24.7 million in 1959 to about \$80 million in 1968, with an average of some \$38 million annually for the ten year period.

As stated in Southern Pacific's brief, it is here agreed that compared to the other rail carriers, Southern Pacific's long-term debt is considerably higher. However, Table 50 shows that for the same ten year period funds generated by net income alone averaged \$61.5 million annually. Thus, historically, Southern Pacific has had more than sufficient funds available to service its equipment obligations and other debt due within one year without resorting to the use of funds generated by charges to depreciation.

Table 50

SOUTHERN PACIFIC NET INCOME TREND 1959-1968

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges And Other Deductions (000)</u>
1959	\$550,081	\$433,065	\$116,118	\$ 73,916	\$50,001
1960	535,774	425,643	45,307	72,489	48,277
1961	565,533	437,195	50,074	76,666	52,130
1962*	701,879	518,759	60,385	87,080	60,783
1963	704,488	553,260	71,281	93,275	67,053
1964	728,578	582,287	60,305	91,342	63,898
1965	786,296	611,710	68,647	98,450	69,677
1966	822,355	641,468	62,060	104,523	74,392
1967	799,309	626,185	52,521	86,324	54,717
1968	860,168	672,008	65,161	106,446	74,860

*

Reflects increases as a result of merger of T. & N. O. R.R. Co. into S. P. Co.

Table 51

SOUTHERN PACIFIC WORKING CAPITAL 1959-1968

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1959	\$214,938	\$114,172	\$100,766	\$397,431	\$33,110	1.9
1960	196,838	103,164	93,674	388,549	32,379	1.9
1961	236,275	160,716	75,559	398,401	33,200	1.5
1962	267,414	158,106	109,308	498,425	41,535	1.7
1963	283,274	159,359	123,915	501,478	41,790	1.8
1964	268,802	151,701	117,101	527,388	43,949	1.8
1965	249,648	169,766	79,882	553,336	46,111	1.5
1966	232,618	186,137	52,481	580,176	48,348	1.3
1967	223,520	186,038	37,482	561,994	46,833	1.2
1968	253,332	200,015	53,317	607,049	50,587	1.3

Table 52

SOUTHERN PACIFIC RATE OF RETURN ON NET INVESTMENT IN
TRANSPORTATION PROPERTY 1959-1968

<u>Year</u>	<u>Investment In Property, Cash & M&S (000)</u>	<u>Depreciation & Amortization (000)</u>	<u>Net Investment (000)</u>	<u>Net Ry. Cpr. Income (000)</u>	<u>Percent Southern Pacific</u>	<u>Percent Western District</u>
1959	\$1,915,473	\$365,732	\$1,549,741	\$16,118	2.98	3.08
1960	1,934,164	384,226	1,549,938	45,307	2.92	2.59
1961	2,292,349	455,919	1,836,430	50,074	2.73	2.77
1962	2,285,259	483,167	1,802,092	60,385	3.35	3.27
1963	2,325,299	501,303	1,823,996	71,284	3.91	3.60
1964	2,322,684	519,435	1,803,249	60,305	3.34	3.43
1965	2,359,653	533,959	1,825,694	68,647	3.76	3.85
1966	2,444,493	553,086	1,891,407	62,060	3.28	3.93
1967	2,484,562	566,453	1,918,110	52,521	2.74	2.73
1968	2,491,658	576,544	1,915,114	65,161	3.40	NA

NA: Not available.

Fixed Charges

Southern Pacific's fixed charges have increased annually from \$24 million in 1959 to \$31.5 million in 1968. For the entire ten year period 1959-1968 these fixed charges aggregated \$274 million or an average of \$27.4 million annually. In such connection, it is significant to note that for the period discussed, Southern Pacific has historically realized a sufficient amount of net income from railway operations alone to meet its fixed charges without depending on income earned from nontransportation operations. See Table 50.

As Table 50 further shows, the combined income from railway operations and income from all other nontransportation operations for the ten year period 1959-1968 aggregated some \$892.5 million. Thus, Southern Pacific had available \$89.2 million annually for fixed charges of \$27.4 million annually, or, as is quite clear, average annual income available for fixed charges was more than three times larger than the average annual fixed charges for the period considered.

Taxes

Southern Pacific's transportation and nontransportation facilities have been operated profitably for the last ten years (1959-1968). The record shows that Southern Pacific alone, on a corporate entity basis, has accrued sizable amounts of Federal income taxes which aggregated almost \$110 million in the last decade.

The following table represents a compilation of total Federal and State taxes accrued by the Southern Pacific from 1959 to 1968.

Table 53
Railway Tax Accruals

<u>Year</u>	<u>State Taxes (000)</u>	<u>Federal Income Taxes (000)</u>	<u>All Other Federal Taxes (000)</u>	<u>Total (000)</u>
1959	\$24,022	\$15,172	\$20,611	\$59,805
1960	25,070	12,523	21,215	58,808
1961	25,612	22,185	20,839	68,636
1962	30,182	13,947	26,867	70,998
1963	30,425	1,996	26,234	58,655
1964	31,000	4,675	27,871	63,546
1965	32,924	11,315	28,809	73,048
1966	34,366	14,792	32,615	81,773
1967	37,413	9,050	35,709	82,172
1968	34,656	3,889	37,339	75,884

Although the financial aspects of the Southern Pacific have been discussed on a corporate entity basis, the earnings of its railway and nonrailway subsidiaries are a very important factor in the accrual of Federal income taxes. The Annual Report to its stockholders furnish in detail the amount of Federal income taxes accrued for Southern Pacific and railway subsidiaries and the amount accrued for its nonrailway subsidiaries. The following exhibit has been compiled to show the impact that the accrual of Federal income taxes has had on the Southern Pacific computed on a consolidated basis from 1959 to 1968:

	<u>1964</u> <u>(000)</u>	<u>1965</u> <u>(000)</u>	<u>1966</u> <u>(000)</u>	<u>1967</u> <u>(000)</u>	<u>1968</u> <u>(000)</u>
Southern Pacific & railway subsidiaries	\$12,455	\$18,040	\$22,667	\$14,315	\$14,642
Nonrailway subsidiaries	<u>5,281</u>	<u>8,096</u>	<u>10,577</u>	<u>11,564</u>	<u>10,342</u>
Total	<u>\$17,736</u>	<u>\$26,136</u>	<u>\$33,244</u>	<u>\$25,879</u>	<u>\$24,984</u>

Equipment Rents

Southern Pacific in its 1968 Annual Report to stockholders has indicated that the Southern Pacific and its railway subsidiaries have expended more than \$1.4 billion in the last 10 years for new equipment and plant improvements. The report did not disclose how much of this equipment was acquired by the Southern Pacific to meet its operational needs. But, it did indicate that it was specialized equipment which was acquired to meet specific shipper needs.

Considering Southern Pacific's equipment rents account for the last five years, 1964 to 1968, it is quite evident that the substantial amount of investment for new equipment was not sufficient to meet all of its operational needs. Its Annual Report Form A to the Commission shows that its equipment rents increased from a total cost of \$21.5 million in 1964 to \$46 million in 1968 or an increase of more than 53 percent.

In any event, it appears that the substantial investment in new equipment together with the large sums expended for the additional equipment rental have been instrumental in maintaining the steady improvement and efficiency in service which has resulted in profitable operations for that period.

Debt-Equity Ratio

Southern Pacific's balance sheets from 1959 to 1968 show that its ratio of total long-term debt to total long-term debt and shareholders' equity never exceeded 54 percent and averaged about 43 percent over the 10-year period. Also, computing Southern Pacific's debt-equity ratio by using its total debt structure, from 1959 to 1968, shows that it had a ratio of total debt to combined total debt and shareholders' equity averaging about 44 percent for the same period.

Although it has been shown that Southern Pacific's long-term debt is relatively high, its financial stability is not questioned because of its satisfactory debt-equity ratio and borrowing for new equipment and plant improvements over the past decade has been no problem for the Southern Pacific.

Motor Carrier Operations

Southern Pacific Transport is controlled by the Southern Pacific through stock ownership. It is authorized to operate as a motor common carrier in interstate or foreign commerce pursuant to certificates issued in No. MC-30319 and 72 subnumbers thereunder. It operates in the States of Texas and Louisiana, principally as a general commodity carrier over regular routes which parallel the lines of its parent rail carrier and is generally restricted to the performance of service auxiliary to or supplemental of its parent. It also has general commodity authority authorized by the State regulatory commissions of Texas and Louisiana. At the close of the year 1968 it owned 957 units of revenue equipment consisting of 133 trucks, 222 truck tractors and 602 semitrailers. It is noted that 823 units or about 86 percent of its total revenue equipment owned was used principally in intercity service. All intercity units operated 7,021,882 miles in intercity highway service, carried 419,855 tons of revenue freight and realized revenues of \$8,280,185 from these operations. Although Transport is predominantly an intercity carrier, it reported freight revenues of \$4,019,386 that it realized from local cartage service.

Its balance sheet as of December 31, 1968, shows total assets aggregating \$9,933,433, consisting of current assets \$2,532,661, composed of cash \$99,653, working funds \$150, accounts receivable \$2,219,951, prepayments \$200,513 and material and supplies \$11,200; carrier operating property less reserve for depreciation \$3,085,790; intangible property less reserve for amortization \$386,498; investments and advances-affiliated companies \$3,769,950; deferred debits \$156,079 and miscellaneous debits \$2,455. Liabilities were:

Current liabilities \$1,947,476, composed of payables to affiliated companies \$182,266, accounts payable \$665,822, wages payable \$276,126, taxes accrued \$74,726 and other current liabilities \$748,536; deferred credits \$19,335; reserves \$97,836; capital stock \$2,049,725 and earned surplus-unappropriated \$5,819,061.

Income statements for 1966, 1967 and 1968 show operating revenues of \$9,974,475, \$11,191,951 and \$12,488,949, net income of \$148,760, \$773,348 and \$503,471 before provision for income taxes and \$118,010, \$608,673 and \$373,050 after provision for income taxes, respectively.

Transport is a financially sound carrier and seeks authority to acquire that portion of the operating rights of Rock Island's motor carrier subsidiary, the Rock Island Motor Transit Company, located in the geographical area served by the rail lines of Rock Island which are to be acquired by the Southern Pacific.

Financial Status of Cotton Belt

Cotton Belt's financial statements filed in its Annual Report Form A, to the Commission, is on a consolidated basis and includes its subsidiary companies (St. Louis Southwestern Railway Company of Texas and Dallas Terminal Railway and Union Depot Company). As of December 31, 1968 its balance sheet reported total assets aggregating \$287.6 million, including among others cash \$442,332 and temporary cash investments \$9.4 million; special funds \$28,158; investments \$9.8 million (principally in affiliated companies); total properties less depreciation and amortization \$254.5 million and other assets and deferred charges \$665,529. Liabilities and shareholders' equity are comprised of current liabilities \$22.2 million, including audited accounts and wages payable \$8.9 million and accrued taxes \$3 million; long term debt \$22.8 million (all of which is due after one year); reserves \$467,333 and other liabilities and deferred credits \$425,794; and shareholders' equity \$241.8 million, which consists of capital stock \$37.1 million and retained income-unappropriated \$204.7 million.

Cotton Belt's income statement for the year 1968 shows total railway operating revenues \$107.9 million, with total railway operating expenses \$71.2 million, resulting in an operating ratio of 66.02 percent. Net railway operating income \$24.3 million plus income (net) from other than railway operations aggregated \$26.9 million which was available for payment of fixed charges and other deductions amounting to \$923,142. Net income after fixed charges and other deductions amounted to

almost \$26 million. Cotton Belt's profitable operations, favorable ratio of total debt to combined total debt and shareholders' equity of 15.9 percent and its ability to meet its fixed charges, indicates a sound financial position for 1968.

Table 53-A following, represents Cotton Belt's results of operations for the five year period 1964-1968. Its efficient operations, for that period have resulted in a favorable operating ratio which averaged 64.79 percent, its earnings historically have been more than sufficient to meet its fixed charges and its ratio of total debt to combined total debt and stockholders' equity averaged only 24 percent.

Cotton Belt's dividend payments aggregated more than \$22 million over the five year period discussed and it is noted that its dividend appropriations for each year from 1964 to 1967 was \$3.6 million but increased to \$7.9 million in 1968. Based on the foregoing financial data the Cotton Belt is a financially sound carrier.

Table -- 53A

COTTON BELT INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$ 79,582	\$ 51,538	\$ 16,285	\$ 17,068	\$ 16,142	64.76
1965	89,511	57,887	21,427	22,590	21,664	64.67
1966	95,097	61,476	21,561	23,267	22,342	64.64
1967	96,835	61,867	26,678	27,282	26,356	63.89
1968	107,890	71,224	24,253	26,910	25,987	66.02

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$ 23,838	\$ 20,833	\$ 3,005	\$ 45,653	\$ 3,804	1.1
1965	16,257	15,445	812	51,181	4,265	1.1
1966	14,419	15,708	(1,289)	53,896	4,191	-
1967	27,211	17,167	10,044	53,419	4,451	1.6
1968	22,601	22,214	387	61,567	5,130	1.0

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964- (000)	%	1965- (000)	%	1966- (000)	%	1967- (000)	%	1968- (000)	%
TOTAL DEBT	\$ 46,683	22.4	\$ 179,121	50	\$ 110,049	16.6	\$ 111,148	15.5	\$ 145,864	15.9
STOCKHOLDERS' EQUITY	161,915	77.6	179,363	50	200,849	83.4	223,633	84.5	241,754	84.1
TOTAL	\$208,598	100.0	\$358,484	100	\$240,898	100.0	\$264,781	100.0	\$287,618	100.0

Financial Data of Southern Pacific Company

Southern Pacific Company's petition for leave to be joined as a party applicant in the proceedings in Finance Docket No. 23595, filed January 6, 1970 contains a pro forma balance sheet (Exhibit B) as of September 30, 1969. This is the only financial statement of record for Southern Pacific Company and it shows total assets of \$1,941,835,000 comprised of investment in Southern Pacific Transportation Company³⁷ of \$1,641,835 and organization costs of \$300,000. Liabilities and shareholders' equity are comprised of current liabilities of \$300,000 due to Southern Pacific Transportation Company and deferred federal income taxes³⁸ of \$300,142,000; shareholders' equity of \$1,641,393,000 consisting of common stock of \$424,875,000 and retained income of \$1,216,518,000

The following footnotes have been offered by Southern Pacific Company as a means of explaining the above footnoted items on its pro forma balance sheet as of September 30, 1969:

³⁷The investment in Southern Pacific Transportation Company is reported in the pro forma balance sheet on an equity basis. Under the equity method of accounting for investments, S. P. Inc. (now Southern Pacific Company) will record in the investment account the changes that take place in its ownership equity in Southern Pacific Transportation Company. The net income of Southern Pacific Transportation Company and subsidiary companies will be included in S. P. Inc.'s income and will increase the investment account balance. Dividends paid by Southern Pacific Transportation Company will not represent income to S. P. Inc., but instead will reduce the investment account balance.

³⁸S. P. Inc. (now Southern Pacific Company) expects to be included in the consolidated Federal income and California franchise tax returns filed by the former Southern Pacific Company. On this basis, no tax would accrue to S. P. Inc. It is contemplated that income taxes payable to other states, if any would be relatively immaterial. Deferred Federal Income Taxes, pertaining to income of Southern Pacific Transportation Company and those subsidiary companies which are required to conform to accounting rules of the I.C.C., will be recorded by S. P. Inc. so that its accounts will be stated in accordance with generally accepted accounting principles. Accounting rules of the I.C.C. vary from generally accepted accounting principles in that no recognition is given in the accounts to the possible effect on Federal income taxes in the future years of current reductions in income taxes resulting from deductions for amortization and depreciation of property for income tax purposes in excess of those recorded in the accounts.

Preliminary Findings and Conclusions

Southern Pacific operates over 11,700 miles of road in the vast area extending from Portland on the north to Los Angeles in the south and to Ogden and New Orleans on the east. Its subsidiary, St. Louis Southwestern, operates over 1,500 miles of road extending from connections with the parent company in Texas and Louisiana to the Memphis and St. Louis gateways. Operationally, the two carriers are one, and constitute one of the two major rail systems operating in the southern corridor.

Southern Pacific has handled from about 800,000 to 900,000 cars of local traffic annually over the 1962-1968 period, representing approximately one-third of the carrier's carload business. Southern Pacific is primarily an origin and destination carrier of long-haul interline traffic, with less than 10 percent of its total carloads moving as bridge traffic. With respect to the latter category, its significance is further diminished by the fact that some of Southern Pacific's bridge traffic originates or terminates on subsidiary lines. On the other hand, Cotton Belt is reliant upon bridge traffic.

The Southern Pacific handles a large volume of traffic the length of the Pacific Coast via the Shasta and San Joaquin routes, including transcontinental traffic moving in part over the Sunset Route. The Coast Route carries a heavy volume of traffic between the San Francisco and Los Angeles areas. Southern Pacific is also the dominant carrier in the western portion of the central corridor and acts as the origin or destination carrier for the bulk of its total traffic moving through Ogden (about 460,000 cars total in 1965).

Near the midpoint of the Sunset Route, at El Paso, Southern Pacific interchanges over 40,000 cars with the MoPac-T&P system and well over 100,000 cars with the Rock Island at Tucumcari, on the Golden State Route (based on 1963 data).

East of El Paso, most of Southern Pacific's interline traffic is with Cotton Belt, primarily at Corsicana (about 150,000 cars) and Shreveport (about 46,000 cars), and with Southern Pacific's Southern District rail connections at New Orleans (about 100,000 cars).

In virtually all instances discussed above, most of the Southern Pacific interchanged traffic originated or terminated on Southern Pacific lines. The interchanged traffic moved over Cotton Belt was primarily bridge traffic to that carrier. Both alone and in connection with Cotton Belt, Southern Pacific shows

great competitive strength by virtue of its geographic scope and concomitant status as an origin and destination carrier. Nonetheless, many of its most important foreign carrier interchanges such as occur at Ogden, Tucumcari, El Paso and Dallas-Fort Worth are at gateways deep within its own territory between the Pacific Coast and the Mississippi River. The foregoing shows that Southern Pacific is interchanging traffic which to some extent might otherwise move in longer hauls entirely over its own lines. Factors that influence such a situation will be dealt with in detail in the discussion of the merits of the proposed transactions. Even so, the average lengths of haul for Southern Pacific and Cotton Belt are among the longest for railroads in the Western District (528 miles and 406 miles, respectively, in 1968). Southern Pacific and Cotton Belt interchanges with intervening carriers take place at points in Texas, Louisiana and Arkansas and are later detailed in connection with the discussion of interveners' operations.

Freight traffic on the Southern Pacific-Cotton Belt system has exhibited a generally increasing trend since the early part of the 1960's in terms of carloads, tonnage hauled and ton-miles generated. Freight revenue is derived from the transportation of a wide variety of commodities, with only three commodity groups contributing over 10 percent of Southern Pacific's total freight revenue in 1968 (Farm Products, Food & Kindred Products and Lumber & Products). The same situation obtains for Cotton Belt: the commodity groups accounting for 10 percent or more of total freight revenue in 1968 were Chemicals, Food & Kindred Products and Primary Metal Products.

Largely as a result of its strength and increasing traffic volume, as above described, supported by continued and intensive programs of improvements to plant and equipment and establishment of new services and more efficient operating methods over the 1959-1968 period, the Southern Pacific system's railway operating revenues have increased sufficiently to keep pace with the inflation in the economy.

As seen, Southern Pacific, on a corporate entity basis, has comparatively large long-term debt and fixed charges, but it has had no difficulty in meeting these obligations. Southern Pacific has managed to maintain a favorable debt-equity ratio. Historically, it has reported profitable operations. Additionally, it has realized a substantial amount of nonrailroad income and income from investments and other sources which have been a contributing factor in establishing the Southern Pacific as a financially sound railroad.

Southern Pacific has paid dividends on its capital stock in each year from 1959 to 1968. Dividend payments to stockholders over the last decade averaged more than \$36 million annually. The record shows that it distributed dividends aggregating \$41.3 million or \$1.525 per share in 1967 and \$44.8 million or \$1.65 per share in 1968, which was the largest dividend distribution in the company's history.

NORTH WESTERNCorporate History

North Western, which has continuously maintained its principal office in Chicago, was incorporated June 7, 1859, in Wisconsin. It is the successor-in-interest of Chicago's first railroad company formed in 1836. In 1867, North Western's line reached Council Bluffs, Iowa, on the east bank of the Missouri River directly across from Omaha. In 1883, it was consolidated with Chicago, Milwaukee and Northwestern Railway Company and The Elgin and State Line Railroad Company, which added 788 miles of important lines in Illinois and Wisconsin. Mergers in 1947 and 1958, and several other acquisitions fostered North Western's growth. On July 1, 1968, the Chicago Great Western Ry. was merged into North Western pursuant to authority granted in Chicago & N. W. Ry. Co.--Merger, 330 I.C.C. 13 and, on reconsideration, 333 I.C.C. 236, the Great Western proceeding.

Affiliations and Investments

North Western's investments in carrier companies follow:

Carrier CompaniesMajority Owned:

<u>Name</u>	<u>Percentage Owned By North Western</u>
Oshkosh Transportation Company (inactive)	100
Minneapolis Industrial Railway Company	100
The Railway Transfer Company of the City of Minneapolis (Transfer- Minneapolis)	100
Chicago, St. Paul, Minneapolis and Omaha Railway Company (inactive)	99.4
Des Moines and Central Iowa Railway Company (Central Iowa)	99.6
Fort Dodge, Des Moines and Southern Railway Company (Fort Dodge)	83.1 (a)
Minneapolis Eastern Railway Company	100 (b)
Railroad Properties, Incorporated	100

- (a) The percentage shown is directly owned by Des Moines and Central Iowa.
- (b) Of the 100 percent shown, 50 percent is owned directly by Chicago, St. Paul, Minneapolis and Omaha.

Jointly Owned:

<u>Name</u>	<u>Percentage Owned By North Western</u>
Alton and Southern Railroad	50.00
Illinois Terminal Railroad Company	9.09
Iowa Transfer Railway Company	20.00
Kansas City Terminal Railway Company	8.33
The Lake Superior Terminal and Transfer Railway Company	16.67 (a)
The Minnesota Transfer Railway Company	33.33
Peoria and Pekin Union Railway Company	12.50
The St. Paul Union Depot Company	25.00

(a) Directly owned by the Chicago, St. Paul,
Minneapolis and Omaha.

North Western also owns 100 percent of the stock of North Western Leasing Company, a company principally engaged in car leasing to North Western. In two other car leasing companies, namely, Packers Car Line Company and Trailer Train Company, the interests of North Western are 18.10 percent and 4.88 percent, respectively. It holds a 3.32 percent interest in Pullman Company, operator of a sleeping car service and a 50 percent interest in Chicago, Milwaukee and North Western Corporation. Other than for the previously-described interests relating to rail transportation, North Western has no interests in subsidiaries engaged in any other form of transportation.

North Western has interests in various companies engaged in insurance, finance, real estate, and manufacturing activities, as follows:

Non-Transportation Companies

<u>Name</u>	<u>Percentage Owned By North Western</u>
The Minneapolis and St. Louis Land Company	100
Wisconsin Town Lot Company	100
Railroad Properties Incorporated	100
Iowa Townsite Company	100
Iowa Development Company	100
Omaha Grain Terminals	100
Bufmar, Inc.	100*
Car Improvement Corporation	100*
North Western Communication, Inc.	100*
Velsicol Chemical Corporation (Delaware)	100
Michigan Chemical Corporation	80.01**

*The three companies are directly owned by Des Moines and Central Iowa.

**Of the Michigan Chemical stock, 26.6 percent is directly owned by North Western and 53.4 percent by Velsicol Chemical.

As of June 30, 1968, North Western was authorized to issue 1,448,777 shares of Series A 5 percent preferred stock, par value \$100 per share, and 4,571,910 shares of no-par value common stock. The Great Western unification was consummated July 1, 1968, and as of that time, actually on July 16, 1968, North Western had issued and outstanding 1,015,259 shares of preferred stock and 2,323,575½ shares of common stock.³⁹ However, also effective on July 1, 1968, North Western effectuated an amendment to its articles of incorporation under which it was authorized to issue 1,398,777 shares of Series A 5 percent preferred stock of the par value of \$100 each share, 50,000 shares of preferred stock (of no designated series) of the par value of \$100 each, and 4,571,910 shares of common stock without par value.⁴⁰

Northwest Industries, the parent company of North Western, was incorporated in Delaware on August 3, 1967, as an inactive, wholly owned subsidiary of North Western. However, as of April 4 (or 8), 1968, through stock exchanges between them, Northwest Industries gained ownership of 96 percent (99.33 percent as of December 31, 1968) of North Western's capital stock. Of Northwest Industries' 10-man board of directors and North Western's 9-man board, the same five individuals serve as directors on each board. Among such common directors, two serve as officers of North Western; its board chairman and president. The vice-president of Northwest Industries also is vice-president (finance) of North Western.

Through the described direct control of North Western, Northwest Industries is in indirect control of the previously named transportation and nontransportation companies directly controlled by North Western. The same situation holds true with respect to a number of companies which, in turn, are controlled through stock ownership by subsidiaries of North Western.⁴¹

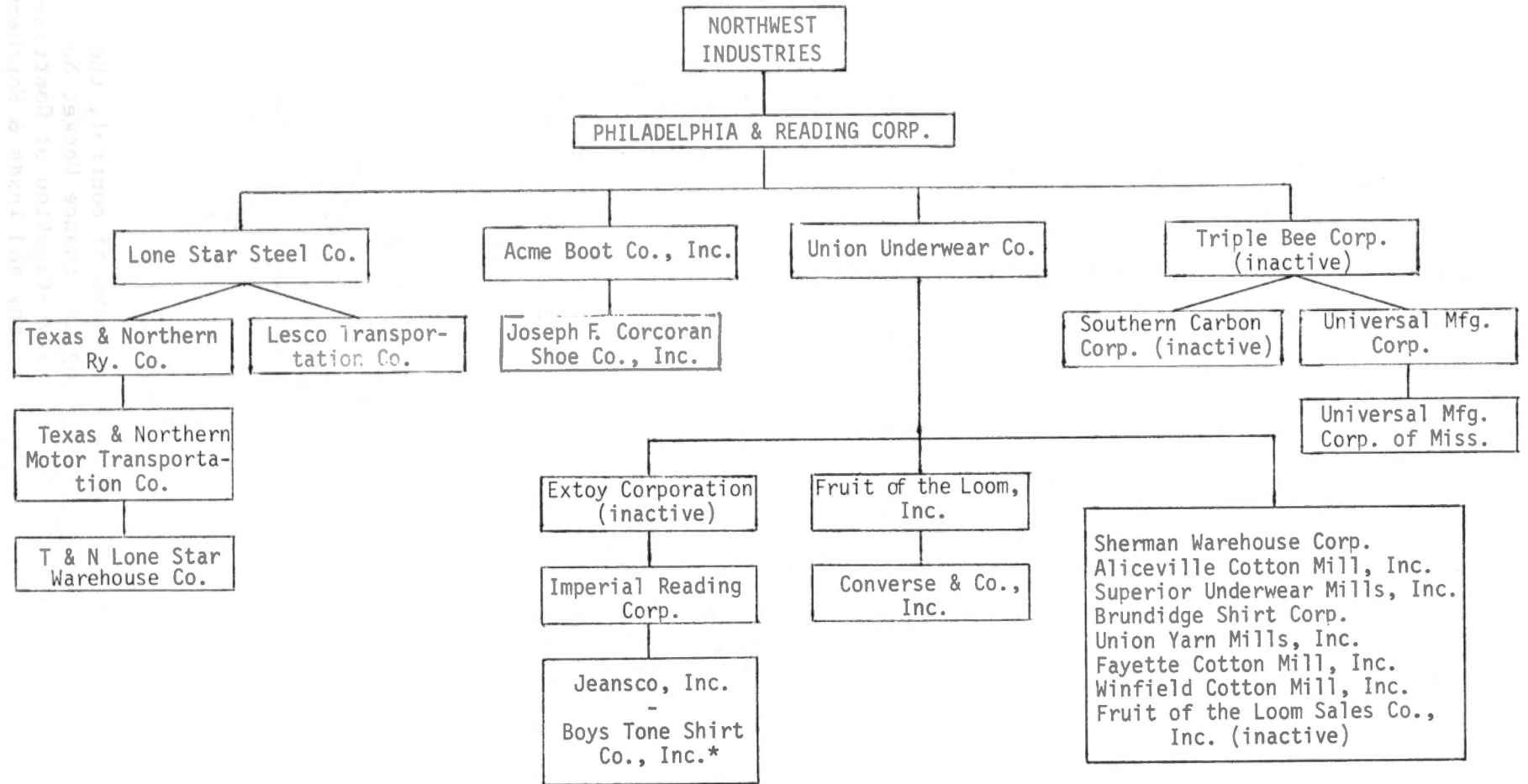
³⁹ See the report on reconsideration in the Great Western unification wherein authority was granted the stockholders of Great Western to exchange the stock of North Western to be received by them under the transaction for stock of Northwest Industries.

⁴⁰ Exhibit No. 1332 which is a copy of the proposed reorganization and merger involved in the Milwaukee proceeding shows that as of July 16, 1968, North Western had authorized capital stock consisting of 1,448,777 shares of preferred stock par value \$100 per share, and 4,571,910 shares of common stock without par value.

⁴¹ Velsicol Chemical Corporation (Delaware) controls Velsicol Chemical Corporation (Tenn.), Velsicol Inter-American Corporation, L. A. John Company, Velsicol South American Corporation, Velsicol Pacific Limited and Resources, Inc.; Northwestern Leasing Co. controls Pioneer Development Corporation; and Michigan Chemical Corporation controls Michigan Salt Company and Michigan Chemical International Corporation.

Northwest Industries also is the parent company, through 100 percent common capital stock ownership, of Philadelphia and Reading Corporation. The latter functions as a holding and management company of Lone Star Steel Company, a producer of steel pipe and other steel products, Universal Manufacturing Corporation, a producer of ballasts and wire for fluorescent lights, Union Underwear Company, Inc., a producer of mens' and boys' underwear, sweatshirts, infants wear and a line of sport and dress shirts sold under the Fruit of the Loom trademark, Imperial Reading Corporation, suppliers of apparel to major chain stores, Acme Boot Company, Inc., a producer of all kinds of boots and footwear and Fruit of the Loom, Inc., which licenses its trademark to selected manufacturers of apparel and home furnishings. It has also extended its licenses to canvas footwear and marine floatation equipment.

There are a number of other companies in the Northwest Industries family of controlled corporations as detailed in the chart set forth below. The chart should be read bearing in mind that throughout the chain, sole control is exercised through 100 percent stock ownership, except in the single case indicated by the asterisk where the sole control is under a 60 percent stock ownership.



Sources: Northwest Industries 1968 Annual Report Form A.
Texas & Northern Railway Company 1968 Annual Report Form C.

Northwest Industries' annual report shows that all of the controlled companies charted are engaged in nontransportation activities. However, Texas & Northern Railway is a class II line-haul railroad subject to the provisions of part I of the Act. Texas & Northern Motor Transportation Co. is an inactive motor carrier holding no authority from the Commission to operate in interstate or foreign commerce.

Annual reports of the Texas & Northern Railway show that all of its outstanding stock, except for directors' qualifying shares, are held by Lone Star Steel; and similar reports of Northwest Industries show that control of Texas & Northern Railway is in an "independent voting trust." It has not been established on this record whether or not the instrument creating the voting trust was at any time submitted to the Commission for determination of whether under such instrument Lone Star Steel, and, in turn, Northwest Industries, were effectively deprived of their control or ability to control Texas & Northern Railway. Nothing herein contained shall be construed as passing upon such question and the corollary issue of whether Northwest Industries lawfully acquired control of North Western.⁴²

At the time Northwest Industries filed its supplemental application on June 25, 1968, for joinder as a party applicant in the Rock Island proceeding, it was authorized to issue three classes of capital stock; namely, (a) 3,077,355 shares of \$4.20 cumulative convertible prior preferred stock without par value (prior preferred stock) 2,000,000 shares of preferred stock, par value \$100 each share of which 1,032,511 shall be designated Series A 5 percent convertible preferred and 10,000,000 shares of common stock without par value.

As of December 31, 1968, Northwest Industries had issued and outstanding 2,446,772 shares of common stock, 3,034,967 shares of prior preferred stock, and 888,951 shares of the Series A preferred.

Northwest Industries capital stock is widely distributed and no corporation, individual, or group of affiliated individuals controls or has the power to control Northwest Industries within the meaning of the Refiners case. In the Great Western unification, Northwest Industries was made subject to partial regulation under the provisions of section 5(3), specifically the periodic and special reports requirements of section 20 (1) and (2).

⁴²In connection with the referred to issue of control, the examiner notes the pending proceeding in Finance Docket No. 26345, North West Industries, Inc.--Investigation of Control--Chicago and North Western Railway Company and Texas & Northern Railway Company.

Scope of Operations, Plant and Equipment:

At the close of 1968, North Western (including the recently merged Great Western) operated 11,576 miles* of road in 11 States. Of the total miles of road operated, some 74 percent is classified by the carrier as branch line. Actual track mileage totaled 16,501 miles. By States, the respective figures for main line and branch line owned, and mileage operated under trackage rights are:

	<u>Miles of Road</u>		<u>Trackage Rights</u>
	<u>Miles Owned</u>		
	<u>Main Line</u>	<u>Branch Line</u>	
Illinois	543	493	53
Iowa	921	1,838*	62
Kansas	1	0	25
Michigan	74	351	43
Minnesota	422	1,325	52
Missouri	90	0	12
Nebraska	53	984	34
North Dakota	0	14	0**
South Dakota	0	1,400	1
Wisconsin	793	1,681	21
Wyoming	0	201	87
Total	2,897	8,287	390

*Includes 132 miles recently acquired pursuant to authority granted by the Commission in its Decision and Order of January 2, 1968 in Finance Docket No. 24471, Chicago & North Western Railway Company--Control--Des Moines and Central Iowa Railway Company and Fort Dodge, Des Moines and Southern Railway Company.

**Less than one.

The principal lines of North Western radiate from Chicago into the midwestern States: one line almost straight west through Cedar Rapids to the Missouri River gateway of Omaha-Council Bluffs; another northwest to the Twin Cities and to Duluth, Minn., and Superior, Wis., through Madison and Eau Claire, Wis.; and a third north to Ishpeming, Mich., through Milwaukee and Green Bay, Wis., and Escanaba, Mich. Other important lines run southward from Minneapolis-St. Paul to the Omaha-Council Bluffs gateway through Mankato, Minn., and Sioux City, Iowa, and from Minneapolis to Marshalltown, Iowa, on the Chicago-Omaha line, through Mason City, Iowa. The North Western

also operates lines which radiate beyond the above described points as far as Lander, Wyo., Belle Fourche, S. Dak., and Oakes, N. Dak. Also a line runs from the Chicago-Omaha main line at Nelson, Ill., south to East St. Louis, Ill., through Peoria. As a result of the Great Western unification North Western extended its service into Kansas City via the acquired Great Western line between Des Moines and Kansas City.

Texas & Northern Railway operates over 7.6 miles of road between Daingerfield and Lone Star, Tex. It connects at Daingerfield with the L&A.

Principal terminal and yard facilities of North Western are located at Chicago, Council Bluffs-Omaha, Des Moines, Duluth, Fremont, St. Louis, Sioux City and the Twin Cities as well as Kansas City and Oelwein, Iowa, added by the Great Western unification. It performs major heavy locomotive repairs at Marshalltown, Iowa, and at Chicago. Major freight car repair and car building facilities are maintained at Clinton, Iowa. Passenger car shops are at Chicago and facilities for repairs and maintenance of way equipment are at Marshalltown and Fond du Lac, Wis. The Great Western unification added facilities at Oelwein for the repair of maintenance of way equipment.

Locomotives in service on the North Western as of December 31, 1968, totaled 884 units of which 468 were multiple purpose diesel units, 282 were diesel switching units, 74 were diesel passenger units and 60 were diesel freight units. Of the 884 units in service, 732 units, or about 83 percent, were purchased prior to December 31, 1959.

Table 54, which follows, shows the combined North Western-Great Western freight car fleet as of December 31 for each of the years 1963 through 1968. The total car fleet has increased (net) approximately five percent from 1963 to 1968 and aggregate capacity during the same period showed a net increase of approximately nine percent. For 1968 compared to 1967 there was a slight decline in car fleet and aggregate capacity.

Table 51

NORTH WESTERN⁺ FREIGHT CAR FLEET-CARS OWNED AND LEASED, 1963 THROUGH 1968

Year	Box	Flat*	Gondola	Open Hopper	Covered Hopper	Refrigerator	Other**	Total Cars	Aggregate Capacity (tons)
1963	26,667	2,654	5,019	9,841	1,889	340	942	46,352	2,617,982
1964	25,831	2,538	5,007	8,634	2,172	654	856	45,692	2,572,172
1965	27,064	2,334	4,897	8,559	2,300	942	782	46,878	2,652,597
1966	28,327	2,301	4,930	8,455	3,183	938	748	48,882	2,804,647
1967	29,406	2,321	5,111	7,778	3,678	943	293	49,529	2,892,848
1968	30,596	2,202	5,329	6,608	3,977	100	145	48,957	2,863,979

†Includes Chicago Great Western

*Includes rack cars

**Includes stock cars and tank cars

Freight Traffic: Volume and Service Output

No attempt has been made here or in the subsequent section dealing with commodities to combine the separate freight traffic statistics for North Western and Great Western. Such combination would involve duplication of some interline movements interchanged between the two carriers, and, similarly, a single freight revenue figure or commodity revenue figure would result in distortion since accounting adjustments could not be made to reflect a unified operation. Rather, there will be shown the data for North Western in detail for the 1959 through 1967 period, referring in the text to comparable data for Great Western where necessary. The 1968 Annual Report of Quarterly Commodity Statistics filed by North Western reflect the operations of the North Western and Great Western for the first half of that year and the unified operation for the last half. The North Western's 1968 Railroad Annual Report Form A reflects the results of the North Western-Great Western merger on a pooling-of-interest basis which includes the combined operations of the companies. Data for 1968 shown herein have been drawn from the aforementioned reports.

From 1959 through 1967, North Western's freight revenue (Table 55, next discussed) showed a net increase of 20 percent, with some intermediate fluctuation during the period. Great Western's freight revenue showed a net decrease during the 1959-1967 period and ranged from a high in 1959 of \$31.6 million to a low of \$27.5 million in 1967, and with slight fluctuations, stood at about \$29 to \$30 million in each of the intermediate years. In 1968 freight revenue reported by the unified carrier was \$244.4 million.

During the 1959-1968 period, North Western's revenue carloads, tonnage and ton-miles exhibited net increases, as shown in Table 55. In each case, there was a decline in 1962 and 1967. Over the 1959-1967 period, Great Western had a general decline in carloads from a high of 246,623 cars in 1959 to 206,700 in 1967. Tonnage, after declining from 8.2 million tons in 1959 to a low of 7.9 million in 1961, increased steadily to a high of 9.4 million in 1966, followed by the sharpest year-to-year change with a decline to 8.5 million tons in 1967. Throughout the period, Great Western generated 2.4 to 2.8 billion ton-miles annually. In 1968, operations of the unified company reflected increases of about 100,000 carloads, 4.3 million tons, and 1.6 billion ton-miles over the comparable 1967 figures for North Western alone.

While bridge traffic for the Great Western accounted for somewhat over one-third of total carloads in the 1959-1967 period, this type of traffic accounted for only 13 to 16 percent of North Western's total in the same years. In 1968, the unified carrier's bridge traffic represented 15.6 percent of the total. Local traffic for both carriers showed net declines in the proportionate share of total traffic from 1959 through 1967: Great Western's local traffic declined proportionately from 16 percent of total carloads in 1959 to 13 percent in 1967, while North Western's declined from 31 percent to 28 percent in 1967, and then to 26 percent in 1968.

Over the same period, North Western and Great Western each experienced increases in interline originated traffic in relation to total carload traffic, from 24 to 27 percent for North Western and from 27 to 31 percent for Great Western. In 1968 North Western's interline originated traffic represented 29 percent of the total carloads handled. From 1959 through 1966, Great Western's interline terminated business constituted from about 20 to 22 percent of total carloads, increasing to 23 percent in 1967. Comparable figures for North Western varied between 29 and 31 percent throughout the 1959-1968 period.

To summarize, North Western alone handled roughly 1.5 million carloads yearly. Great Western handled from 220,000 to 250,000 cars annually from 1959 through 1966, decreasing to 206,700 in 1967. On a unified basis, total carloads for North Western in 1968 stood at 1,583,183. Of the total traffic for North Western alone, some 69 percent was interline in 1959, increasing to 72 percent in 1967, and to 75 percent on the unified basis in 1968. Most of the relative increase in interline traffic is attributable to movements originating or terminating on the North Western. Although bridge traffic has increased somewhat, it represented only about 16 percent of total carloads in 1968.

During the 1959-1967 period, Great Western's average length of haul consistently exceeded North Western's, ranging from a high of 304 miles in 1959 to a low of 289 miles in 1967. North Western's average haul ranged from a low of 231 miles in 1960 to a high of 261 miles in 1966. In 1967, length of haul declined sharply to 253 miles, but increased back to 261 miles in 1968 on the unified basis. In 1959, average revenue tons per car totaled 38 tons for North Western and 33 tons for Great Western. Comparable figures for 1967 were 44 tons and 41 tons, respectively, and the merged company average stood at 43 tons in 1968.

Table 55

NORTH WESTERN REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES, AND FREIGHT REVENUES
YEARS 1959 THROUGH 1968

Year	Carloads					Total Revenue Tons*	Revenue Ton-Miles (millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead	Total			
1959	411,445	320,096	423,902	189,537	1,344,980	50,889,305	11,873	\$176,764
1960	398,491	365,758	415,310	182,631	1,362,190	52,925,590	12,225	176,415
1961	441,404	374,175	418,971	218,666	1,453,216	56,103,579	13,264	190,982
1962	407,248	343,401	380,713	182,510	1,313,872	51,773,677	12,443	172,553
1963	411,669	388,199	422,626	200,769	1,423,263	56,307,398	14,062	191,137
1964	416,622	415,299	429,867	200,558	1,462,346	58,559,965	14,982	193,595
1965	421,311	393,232	446,088	212,609	1,473,240	59,913,162	15,516	199,793
1966	449,341	411,570	437,980	223,631	1,522,522	64,032,641	16,737	213,486
1967	412,759	400,776	436,212	213,047	1,462,794	63,800,770	16,156	212,271
1968**	404,031	462,872	469,279	247,001	1,583,183	68,132,647	17,797	244,381

*Includes L.C.L. freight.

**Includes Chicago Great Western data for first half as consolidated with North Western data in latter's Railroad Annual Report Form A and Annual Report of Quarterly Commodity Statistics.

Freight Traffic: Commodity Consist

Since the late 1950's, the reliance by both North Western and Great Western on certain commodities for their traffic and revenues has shifted, with an increasing reliance upon manufactured goods. Commodity statistics for North Western for the years 1959, 1961 and 1963 under the old commodity code appear in Tables 56 and 57, and under the new code for the years 1964 through 1968, the data appear in Tables 58 and 59, which follow this discussion. Great Western data will be discussed in the manner stated in the immediately preceding section.

"Products of Agriculture" tonnage increased both actually and proportionately comparing 1961 and 1963 to 1959. The traffic increased from 16 to 20 percent of total North Western tonnage during those years and from 18 to 20 percent of Great Western's tonnage. Under the new code, "Farm Products" for North Western varied between 14 and 16 percent of the tonnage total through 1967 and dropped to 12 percent in 1968 for the unified carrier. Great Western "Farm Products" tonnage varied relative to total tonnage between 14 and 15 percent in 1964 and 1965, reached 16 percent in 1966 and then dropped to 13 percent in 1967. The contribution of "Products of Agriculture" to total revenues ranged between 18 and 21 percent for North Western in 1959, 1961 and 1963 and between 16 and 19 percent for Great Western. From 1964 through 1967, North Western revenues from "Farm Products" fluctuated between 16 and 18 percent before dropping to 13 percent in 1968. For Great Western the percentage rose from 14 to 17 percent through 1966 before dropping to 13 percent in 1967.

"Products of Mines," although declining, comprised over one-third of North Western's tonnage in 1959, 1961 and 1963. Revenues therefrom declined from about 20 to 18 percent of the total. On the other hand, Great Western's tonnage from "Products of Mines" was just under one-fifth of its total, whereas its revenues were a little over 10 percent. The new code groupings of "Metallic Ores," "Coal" and "Non-Metallic Minerals," comprised just under one-third of North Western's total tonnage in 1964, then declined steadily to 29 percent in 1967, and 26 percent in 1968. Actual metallic ore and coal tonnage remained fairly constant through the period, but nonmetallic mineral tonnage showed a net decline over the period from 4.1 million to 2.8 million tons. Tonnage for each of the three commodity groups totaled less than one million tons annually during the period for Great Western, but combined represented 13 to 15 percent of total tonnage and 5 to 6 percent of freight revenue. North Western's revenues from this traffic ranged from a high of 15 percent to a low of 10

percent (in 1968), the decrease, both absolute and relative, is attributable mainly to nonmetallic mineral traffic.

About one-tenth of North Western's tonnage and freight revenue annually has been represented by "Products of Forests" (under the old code) and "Lumber & Products" (under the new code). In 1968, revenue from "Lumber & Products" traffic increased slightly compared to prior years to somewhat over 11 percent of the total. Great Western tonnage, under both codes, also represented about 10 percent of the carrier's total, while revenue therefrom increased from 10 percent in 1964 to 13 and 15 percent through 1967.

In 1959, 1961 and 1963, "Manufactures and Miscellaneous" made up around one-third of the tonnage carried by North Western and between 42 and 47 percent of that carried by Great Western. North Western's portion of revenue attributable to this group was 45 to 46 percent, while Great Western's was 49 to 54 percent. Among manufactured commodities grouped under the new code are "Food and Products," "Pulp, Paper and Products," "Chemicals," "Petroleum and Coal Products," "Stone, Clay and Glass Products," "Primary Metal Products," "Transportation Equipment," "Waste and Scrap," and most of the groups aggregated in "All Other Groups," as shown in Tables 58 and 59. From 1964 to 1968, inclusive, the portion of North Western's tonnage engracing these commodity groups climbed from 42 percent to over one-half, while Great Western's portion from the groups ranged from 53 percent to the 1967 high of 58 percent. North Western's revenues from these groups climbed from 58 to 66 percent in this period, whereas Great Western's portion fluctuated between 60 and 62 percent through 1967. Actual tonnage for the commodity groups specifically named above have either held steady or increased since 1964.

NORTH WESTERN COMMODITY STATISTICS, 1959, 1961 AND 1963Table 56COMMODITY GROUP TONNAGE & GROUP TONNAGE AS
PERCENTAGE OF TOTAL TONNAGE

Commodity Group	1959		1961		1963	
	Tons (000)	%	Tons (000)	%	Tons (000)	%
Products of Agriculture	8,412	16.5	10,990	19.6	11,389	20.2
Animals & Products	979	1.9	1,018	1.8	1,007	1.8
Products of Mines	19,183	37.7	20,550	36.6	19,285	34.2
Products of Forests	5,393	10.6	5,522	9.8	6,066	10.8
Manufactures & Misc.	16,814	33.0	17,945	32.0	18,528	32.9
Total*	50,889	100.0	56,104	100.0	56,307	100.0

Table 57COMMODITY GROUP REVENUE & GROUP REVENUE AS
PERCENTAGE OF TOTAL REVENUE

Commodity Group	1959		1961		1963	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Products of Agriculture	\$ 33,961	18.5	\$ 42,920	21.6	\$ 41,498	21.1
Animal & Products	9,265	5.0	9,407	4.7	8,918	4.5
Products of Mines	36,144	19.6	36,088	18.2	34,720	17.7
Products of Forests	18,633	10.1	19,433	9.8	19,488	9.9
Manufactures & Misc.	83,796	45.6	89,163	44.9	91,110	46.4
Total*	\$183,882	100.0	\$198,550	100.0	\$196,415	100.0

* Includes Freight Forwarder Traffic and L.C.L. Freight. The totals of revenue are unadjusted figures and may not agree with Freight Operating Revenue totals reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 58

NORTH WESTERN COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968 **	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	8,804	15.0	8,602	14.4	10,343	16.2	8,866	13.9	8,262	12.1
Metallic Ores	8,241	14.1	7,616	12.7	8,377	13.1	8,228	12.9	7,849	11.5
Coal	6,811	11.6	7,301	12.2	6,724	10.5	7,119	11.2	6,931	10.2
Non-Metal Minerals	4,078	7.0	4,160	6.9	3,590	5.6	3,404	5.3	2,791	4.1
Food & Products	7,402	12.6	7,260	12.1	7,568	11.8	8,341	13.1	9,815	14.4
Lumber & Products	5,985	10.2	6,428	10.7	6,781	10.6	6,790	10.6	7,843	11.5
Pulp, Paper, & Products	3,163	5.4	3,429	5.7	3,649	5.7	3,659	5.7	4,132	6.1
Chemicals	2,507	4.3	2,969	5.0	3,424	5.3	4,079	6.4	4,854	7.1
Petroleum & Coal Products	1,226	2.1	1,168	1.9	1,109	1.7	1,069	1.7	1,361	2.0
Stone, Clay & Glass Products	3,348	5.7	3,116	5.2	3,908	6.1	3,804	6.0	4,319	6.3
Primary Metal Products	2,266	3.9	2,618	4.4	2,664	4.2	2,198	3.4	3,003	4.4
Transportation Equipment	1,154	2.0	1,294	2.2	1,527	2.4	1,757	2.8	1,944	2.9
Waste & Scrap	1,374	2.3	1,503	2.5	1,754	2.7	1,692	2.7	1,733	2.5
All Other Groups	2,220	3.8	2,469	4.1	2,615	4.1	2,795	4.4	3,296	4.8
Total	58,560	100.0	59,913	100.0	64,033	100.0	63,801	100.0	68,133	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*The commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

**Includes Chicago Great Western data for first half as consolidated with North Western's data in latter's Annual Report of Quarterly Commodity Statistics.

Table 59

NORTH WESTERN COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968**	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 35,670	17.8	\$ 34,376	16.7	\$ 39,723	18.0	\$ 34,338	15.9	\$ 32,118	12.8
Metallic Ores	10,054	5.0	9,069	4.4	9,506	4.3	9,204	4.3	8,776	3.5
Coal	11,182	5.6	11,986	5.8	10,985	5.0	11,600	5.4	11,402	4.5
Non-Metal Minerals	3,055	1.5	10,203	4.9	5,393	2.4	5,294	2.4	5,069	2.0
Food & Products	34,306	17.1	33,912	16.4	35,357	16.0	37,401	17.3	46,546	18.5
Lumber & Products	19,414	9.7	20,081	9.7	20,832	9.4	20,582	9.5	26,597	10.6
Pulp, Paper & Products	14,236	7.1	15,230	7.4	16,251	7.4	16,160	7.5	19,104	7.6
Chemicals	9,559	4.8	10,834	5.3	12,559	5.7	14,158	6.5	17,364	6.9
Petroleum & Coal Products	5,211	2.6	5,061	2.5	4,790	2.2	4,461	2.1	5,495	2.2
Stone, Clay, & Glass Products	12,013	6.0	9,645	4.7	15,448	7.0	14,542	6.7	17,728	7.0
Primary Metal Products	9,477	4.7	11,047	5.4	10,920	4.9	9,160	4.2	13,363	5.3
Transportation Equipment	10,007	5.0	11,139	5.4	13,059	5.9	13,605	6.3	17,169	6.8
Waste & Scrap	4,722	2.4	5,190	2.5	5,840	2.6	5,358	2.5	5,886	2.3
All Other Groups	17,018	8.5	18,439	8.9	20,273	9.2	20,521	9.5	25,173	10.0
Total	\$200,924	100.0	\$206,212	100.0	\$220,936	100.0	\$216,384	100.0	\$251,790	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*The commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

**Includes Chicago Great Western data for first half as consolidated with North Western's data in latter's Annual Report of Quarterly Commodity Statistics.

Freight Traffic: Interchanges and Traffic Flow

North Western Exhibits 46 and 113 each contain a freight traffic density chart for the year 1964, based on gross tons (including the weight of locomotives and cabooses) hauled, by line segment. The traffic density shown therein, of course, does not reflect operations of the now-unified North Western-Great Western system. As detailed earlier, in the section dealing with North Western freight traffic volume, carloads have totaled between 1.4 and 1.5 million annually while Great Western's ranged between 200 and 250 thousand annually or roughly 15 to 20 percent of North Western's total without allowance for duplicate counts of cars handled by both carriers.

In 1964, again with no allowance for duplication, Great Western's gross ton-miles (including locomotives and cabooses) and revenue ton-miles each represented 18 percent of comparable North Western figures. Great Western revenue and nonrevenue tonnage was 16 percent of the comparable North Western tonnage. In short, Great Western's freight traffic volume by most measures was slightly less than one-fifth the size of North Western's. Inasmuch as both carriers served the same territory and major gateways with the exception of Kansas City, and in view of the relatively light traffic handled by Great Western compared to North Western, the latter's traffic density evidence will be relied upon as the best available in the record for the purpose of describing the general flow of traffic.

The density chart for 1963 included in Exhibit 46 shows that North Western operated 10,450 miles of road of which 7,752 miles of road accounted for only 20 percent of total gross ton-miles. Approximately 12 percent of the total road mileage accounted for 60 percent of total gross ton-miles. Obviously, the conclusion is warranted that North Western is faced with the problem of maintaining a railway system most of which has nearly insignificant utilization.

The discussion here will be restricted to the approximate one-fourth of the North Western system over which 80 percent of the gross ton-miles are generated, with emphasis on the routes from Chicago to (1) Omaha-Council Bluffs-Fremont, and (2) St. Louis, and (3) the Twin Cities.

From Chicago to Omaha, Council Bluffs and Fremont, westbound gross tonnage decreases by over 50 percent, comparing the density between Chicago and Nelson to that for the segment from Boone, Iowa, to Missouri Valley, Iowa (junction of lines with Fremont, Omaha and Council Bluffs). Eastbound, density increases, with the Missouri

Valley-Boone segment tonnage representing less than half of the Nelson-Chicago total. Density, by direction and line segment for the route follows:

<u>Line Segment(s)</u>	<u>Gross Tons (Millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Proviso (Chicago)-		
Nelson	19.6	14.5
Nelson-Clinton	15.4	11.7
Clinton-Belle Plaine-		
Tama-Boone	11.6-12.6	8.4-8.7
Boone-Mo. Valley	9.1	6.8
Mo. Valley-Council Bluffs	5.8	4.9
Mo. Valley-Blair, Nebr.	6.8	5.1
Blair-Fremont	4.6	3.0
Blair-Omaha	3.0	2.9

Between Nelson, on the above described line, and E. St. Louis via Peoria and South Pekin, Ill., density ranged from 5.8 to 9.3 million gross tons per segment eastbound and from 6.4 to 8.3 million westbound. Connecting Peoria with Marshalltown (on the Chicago-Council Bluffs line) is a route through Oskaloosa, Iowa, which in 1964 handled 1.2 to 1.5 million gross tons per segment westbound and 1.8 to 2.2 million eastbound.

Several North Western lines interlace the area between the Chicago and Milwaukee metropolitan areas. Some of the lines in and near Chicago are used primarily for passenger operations. Rather than discuss each line in detail, it is sufficient to note that freight traffic density between Chicago and Milwaukee totaled approximately 16.0 million gross tons eastbound and 14.3 million westbound in 1964. Between Chicago and Harvard, Ill., gross tonnage totaled somewhat over 2.0 million in each direction.

Traffic density for the Milwaukee-Twin Cities route follows (all points other than the Twin Cities are in Wisconsin):

<u>Line Segment</u>	<u>Gross Tons (Millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Milwaukee-Clyman	10.8	6.7
Clyman-Wyerville	9.5	5.4
Wyerville-Eau Claire	9.3	5.2
Eay Claire-Northline-Twin Cities	7.2	4.7

From Northline and Eau Claire, lines run north to Spooner, Wis., there joining and continuing north to Duluth. Between Eau Claire and Spooner, westbound density was about one million gross tons, and eastbound three million. From Northline to Spooner, 2.2 million gross tons were handled, and in the opposite direction, 1.6 million. From Spooner to Duluth, 2.6 million gross tons were moved compared to 4.0 million from Duluth to Spooner. From Milwaukee, two lines run north to Green Bay, one via Manitowoc and the other via Fond du Lac, Wis. A third line connects Clyman (on Milwaukee-Twin Cities route) and Fond du Lac. Over each of these lines, freight traffic density totaled (both directions) approximately 3.6 to 6.9 million gross tons in 1964.

Two major routes connect the Twin Cities with the Chicago-Omaha line. One route runs through Mankato, Minn., and Sioux City, Iowa, to California Junction, located west of Missouri Valley on the line to Blair, as previously described. Between the Twin Cities and Sioux City, gross tonnage ranged between 1.9 and 2.4 million westbound and 2.1 and 2.9 million eastbound. Slightly over three million gross tons were moved in each direction between Sioux City and Missouri Valley. The other route, from the Twin Cities through Albert Lea, Minn., and Mason City, Iowa to Marshalltown, carried 3.4 to 4.5 million gross tons eastbound (i.e., south to the Omaha-Chicago line) and 2.1 to 3.4 million westbound.

With the exception of about 90 miles of road in the Upper Peninsula of Michigan in iron ore mining territory and 34 miles of road between Ames and Des Moines, Iowa, most of the remaining North Western lines not previously described handled (in 1964) less than three million gross tons of freight per segment (total of traffic in both directions).

Exhibit 113, North Western's evidence and discovery exhibit, shows only originating points for local and interline traffic, using 1965 data therefore, of course, excluding Great Western points. Of the local traffic originations at the 30 most important points for such traffic, 25 points accounted for less than 10,000 cars each. The top five, in order, were: Chicago, 38,528 cars; Twin Cities, 32,888; Middle Grove, Ill., 21,718; Milwaukee, 16,205; and Green Bay, 10,496. For interline originations, again, 25 points originated less than 10,000 cars. The five most important points were: Bain, Wis., 25,526 cars; Milwaukee, 22,447; Green Bay, 20,780; Chicago, 12,715; and Twin Cities, 11,900. The interline origination points exclude those originating only or primarily dock ore traffic. Previous portions of this report, dealing with the Rock Island, Union Pacific and Southern Pacific-Cotton Belt, showed interchanges between those systems

and the North Western. Similarly, subsequent portions covering the remaining carriers party to these proceedings also will include data for interchanges between those carriers and North Western. In all of the described portions, data have been adjusted to reflect the North Western-Great Western merger.

North Western's own interchange evidence, prepared prior to the merger with Great Western is based on movements which took place during 1964, excluding dock ore traffic. Data in the exhibit reflect routings shown on the waybills at the time a carload originated on line or was received on line through interchange. For this reason, subsequent changes in routing, e.g., reconsignments, are not reflected in the interchange data. Unfortunately, North Western's evidence shows switching and terminal carriers and possibly line-haul carriers performing switch hauls as connections, and it is therefore impossible to determine which line-haul rail carrier, if any, performed line-haul service on a movement prior or subsequent to the North Western portion of the movement. Table 60, which follows, shows the major North Western gateways for connection with Eastern and Southern District class I line-haul railroads (the interchanges with all carriers actively participating in these proceedings and their affiliates are shown specifically). Adjustments have been made to reflect unifications (**excluding Burlington Northern**).

Table 60

MAJOR NORTH WESTERN INTERCHANGES
WITH EASTERN AND SOUTHERN DISTRICT CARRIERS

C&NW Station	Connecting Carrier	Received	Carloads Delivered	Total
Chicago, Waukegan, and W. Chicago, Ill.	AT&SF	4,758	5,551	10,309
	CB&Q	3,390	1,430	4,820
	MILW	1,204	542	1,746
	RI	2,326	1,601	3,927
	SOO	533	462	995
	C&EI	3,403	3,001	6,404
	IC	12,170	3,955	16,125
	Eastern Dist.			
	Class I Line-Haul*	121,244	135,652	256,896
	Southern Dist.			
	Class I Line-Haul**	2,633	1,037	3,670
	All Others	7,989	1,839	9,828
Grand Total	<u>159,650</u>	<u>155,070</u>	<u>314,720</u>	
Milwaukee and Manitowoc, Wis.	MILW	1,326	332	1,658
	SOO	112	26	138
	Eastern Dist.			
	Class I Line-Haul*	18,570	28,217	46,787
	Grand Total	<u>20,008</u>	<u>28,575</u>	<u>48,583</u>
Peoria and S. Pekin, Ill.	CB&Q	339	318	657
	IC	9,595	2,794	12,389
	RI	410	1,336	1,746
	Eastern Dist.			
	Class I Line-Haul*	9,386	10,034	19,420
	Southern Dist.			
	Class I Line-Haul**	1,250	1,354	2,604
	All Others	2,275	3,315	5,590
	Grand Total	<u>23,255</u>	<u>19,151</u>	<u>42,406</u>
East St. Louis	CB&Q	1,878	191	2,069
	MKT	1,190	1,748	2,938
	MP	15,728	7,440	23,168
	RI	110	214	324
	SL-SF	5,752	6,655	12,407
	SLSW	4,170	4,673	8,843
	C&EI	17	16	33
	IC	4,436	6,558	10,994
	Eastern Dist.			
	Class I Line-Haul*	1,387	1,290	2,677
	Southern Dist.			
	Class I Line-Haul**	15,972	15,945	31,917
	All Others	20	815	835
	Grand Total	<u>50,660</u>	<u>45,545</u>	<u>96,205</u>

*Includes, at Chicago, PC, N&W, E-L, GTW, Monon, DJ&E, and C&O-B&O (including Chicago, South Shore & South Bend Railroad); at W. Chicago, EJ&E and CB&Q; at Waukegan, EJ&E; at Milwaukee, PC, C&O and GTW; at Manitowoc, Ann Arbor Railroad Company and C&O; at Peoria, C&IM, PC (including Peoria & Eastern Railway Co.), IT and N&W; and at E. St. Louis, N&W, B&O, IT and PC.

**Includes GM&O at Chicago and Peoria, and at E. St. Louis, L&N, SOU, and GM&O.

Table 60 shows that of the 501,914 cars interchanged during 1964 at the eight points named therein, over 60 percent were interchanged with class I line-haul railroads and their subsidiaries in the Eastern District. At Chicago (including W. Chicago and Waukegan), over 80 percent of the cars were interchanged with the aforementioned Eastern District carriers. Comparable percentages for the other gateway groups were: Milwaukee-Manitowoc, 96 percent; Peoria-S. Pekin, 46 percent; and E. St. Louis, only 3 percent. At the latter point, interchanges with class I line-haul carriers in the Southern District and, among the parties and their affiliates, Cotton Belt, Illinois Central, MoPac and Frisco, are of more significance. Most of these carriers form end-to-end connections with North Western and have routes directly from St. Louis variously into the Southeast, the lower Mississippi River area, and Texas and Oklahoma. Among the carriers which serve Chicago and which took an active part in these proceedings, Santa Fe interchanged the largest number (10,309) of cars with North Western at that gateway. The total Chicago interchange (314,720) represented over 62 percent of the total interchanges shown in Table 60.

Interchanges at the Twin Cities, the Missouri River (except Kansas City, reached by North Western only after merger with Great Western), and other points in Wisconsin, Minnesota, Iowa and Illinois are shown in Table 61 below (Norfolk & Western is shown specifically to emphasize its presence in the area vis-a-vis its status as an Eastern District carrier). Interchanges between North Western on the one hand and Great Western, Transfer-Minneapolis, Central Iowa and Fort Dodge, on the other hand, have been excluded.

Table 61

MAJOR NORTH WESTERN INTERCHANGES
MISSOURI RIVER AND INTERMEDIATE GATEWAYS

C&NW Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
Twin Cities*	CB&Q	411	305	716
	GN	40,457	12,099	52,556
	MILW	5,796	800	6,596
	MN&S	310	210	520
	NP	35,284	12,287	47,571
	RI	358	282	640
	SOO	16,415	3,288	19,703
	All Others	1	83	84
	Grand Total	<u>99,032</u>	<u>29,354</u>	<u>128,386</u>
Duluth, Minn., Superior and Itasca, Wis.	GN	600	35	635
	MILW	13	2	15
	NP	361	40	401
	SOO	182	119	301
	All Others	<u>37,061</u>	<u>2,981</u>	<u>40,042</u>
	Grand Total	<u>38,217</u>	<u>3,177</u>	<u>41,394</u>
Green Bay, Wis.	MILW	828	280	1,108
	All Others	<u>389</u>	<u>880</u>	<u>1,269</u>
	Grand Total	<u>1,217</u>	<u>1,160</u>	<u>2,377</u>
Albert Lea, Minn.	MILW	128	577	705
	RI	197	256	453
	IC	<u>5,485</u>	<u>12,792</u>	<u>18,277</u>
	Grand Total	<u>5,810</u>	<u>13,625</u>	<u>19,435</u>
Nemo, Ill.	AT&SF	<u>3,237</u>	<u>4,247</u>	<u>7,484</u>
Des Moines	CB&Q	1,686	695	2,381
	MILW	45	92	137
	RI	3,011	3,089	6,100
	N&W	866	665	1,531
	All Others	<u>14</u>	<u>29</u>	<u>43</u>
	Grand Total	<u>5,622</u>	<u>4,570</u>	<u>10,192</u>
Albia, Iowa	N&W	<u>4,064</u>	<u>4,679</u>	<u>8,743</u>
Sioux City, Iowa	CB&Q	1,043	185	1,228
	GN	882	921	1,803
	IC	82	140	222
	MILW	4,282	435	4,717
	All Others	<u>8</u>	<u>-</u>	<u>8</u>
	Grand Total	<u>6,297</u>	<u>1,681</u>	<u>7,978</u>
Omaha-Fremont- Council Bluffs	CB&Q	11,946	6,256	18,202
	IC	269	718	987
	MILW	455	352	807
	MP	14,797	9,205	24,002
	RI	1,712	1,766	3,478
	UP	92,385	48,416	140,801
	N&W	<u>2,256</u>	<u>195</u>	<u>2,451</u>
	Grand Total	<u>123,820</u>	<u>66,908</u>	<u>190,728</u>

The volume of traffic interchanged at either the Twin Cities or Omaha gateways, shown in Table 61, far surpasses the total for all other gateways west of Chicago, E. St. Louis, and the other eastern connections shown in Table 60. At the Twin Cities, the greatest number of cars were interchanged in 1964 with Great Northern (52,556) and Northern Pacific (47,571). A total of 19,703 cars were interchanged with Soo, with an approximate ratio of five cars received from the Soo for every car delivered to it. Overall at the Twin Cities, 99,032 cars were received by North Western from connections as opposed to 29,354 cars delivered by C&NW to the connections.

At Duluth-Superior (including Itasca), of the total 41,394 cars interchanged, more than 34,000 were between North Western and the Duluth, Winnepeg & Pacific Railway Company, the latter a subsidiary of the Canadian National. Nearly 60 percent of the 10,192 cars interchanged at Des Moines were accounted for by the Rock Island interchange. Over 4,200 of the nearly 8,000 cars interchanged at Sioux City were received by North Western from the Milwaukee.

Finally, North Western in 1964 had a total interchange of 190,728 cars at Omaha, Council Bluffs and Fremont. Of the total, 140,801 were interchanged with Union Pacific, 24,002 with MoPac, and 18,202 with Burlington. The remaining connections, Rock Island, Illinois Central, Milwaukee and Norfolk & Western, each interchanged less than 5,000 cars with North Western. The Union Pacific interchange was nearly twice as great eastbound (i.e., received from UP by C&NW) than westbound, and the bulk (over 70,000 cars) of the interchange took place at Council Bluffs (not shown specifically in Table 61). The Fremont interchange between North Western and Union Pacific consisted of 53,450 cars in 1964. (The earlier discussion covering Union Pacific's Missouri River gateways shows 40,159 cars interchanged with North Western at Fremont in 1963, based on Union Pacific evidence. In both years, the Fremont interchange was predominately westbound.) The 140,801 cars interchanged in the Omaha area between Union Pacific and North Western in 1964 represented 13 percent of North Western's total interline carloads in that year.

In addition to the two previously discussed limitations on usefulness of North Western's interchange data (i.e., changes in routing are not reflected, and some interchanges list switching and terminal companies as connections), over 193,000 cars were listed as "Other Gateways or No Gateway (Delv'd only) Shown on Waybill." This is a considerable number of cars (roughly two-thirds the number interchanged with all roads at Chicago), and the significance of this block of traffic at any one gateway is indeterminable. **Conclusions here** therefore are drawn with these limitations in mind.

Passenger Service

North Western's intercity rail passenger service is primarily between Chicago and Milwaukee. Some of the Chicago-Milwaukee trains operate to and from (1) Green Bay via either Fond du Lac or Manitowoc; (2) Ashland, Wis. (summer and certain holidays only); and (3) Menominee, Mich. (Sundays only, other than certain holidays). North Western operates extensive commuter service in the Chicago area.

During 1968 North Western retired only two passenger cars from service. As of December 31, 1968, the carrier's passenger car fleet of 323 cars was composed of 299 coaches, 3 parlor cars, 15 dining, grill and tavern cars, and 6 nonpassenger carrying cars..

During the past 10 years, the number of passengers declined steadily through 1962, after which there was a consistent rise through 1968. The number of passengers carried in 1959 was 23.1 million, but decreased to 17.5 million in 1962, a net decline of 24 percent. In 1966, the number of passengers carried rose above the 1959 figure and, in 1968, reached 25.8 million, a net increase of 47 percent over 1962. Passenger-miles showed a similar pattern during the period: from a 1959 figure of 695.9 million passenger-miles, there was a steady decrease to 466 million in 1962, a decrease of 33 percent. Beginning in 1963, passenger-miles have increased with minor fluctuation, 37 percent to 612.8 million in 1968.

The following exhibit has been constructed to show North Western's passenger deficit operations for the last 10 years 1959-1968.

Year	Passenger Railway Operating Revenues (000)	Net Passenger Expenses (000)	*Net Passenger Railway Operating Deficits (000)
1959	\$28,316	\$41,792	\$(13,476)
1960	22,554	32,886	(10,332)
1961	19,307	28,077	(8,770)
1962	17,129	24,870	(7,741)
1963	20,186	24,693	(4,507)
1964	19,223	21,745	(2,522)
1965	19,316	20,933	(1,617)
1966	20,178	21,085	(907)
1967	21,090	22,629	(1,539)
1968	22,030	23,146	(1,116)

*Net passenger railway operating deficit may be overstated to the extent that such items of expense that have been included in net passenger expenses as allowable expense, would generally be disallowed by the Commission in discontinuance cases. (Source: Schedule 300 Form A).

Employees

The average number of employees in the North Western work force declined from 18,229 in 1959 to 14,760 in 1968. As of December 31, 1968, the work force included 723 executive personnel, 3,160 professional, clerical and general personnel, 2,916 maintenance of way and structure personnel, 2,656 maintenance of equipment and stores personnel, 1,318 transportation personnel other than train, engine and yard personnel, 201 yardmasters, switch tenders and hostlers, and 3,786 train and engine personnel.

Motor Carrier Authority

North Western holds certificates in No. MC-42614 and various subnumbers authorizing operation in interstate or foreign commerce as a motor common carrier of general commodities, with certain exceptions, over regular routes, between specified points in Illinois, Wisconsin, Iowa, Nebraska, Minnesota, and South Dakota. Its regular route operations extend approximately 4,400 miles over its system. All of its regular route authority is restricted to auxiliary rail service and contains the normal key point or prior and subsequent rail haul restrictions. A portion of North Western's regular route authority is limited to the handling of special classes of commodities such as meats and related products. Under the same certificates, it may operate over irregular routes providing a transportation service between rail points and construction sites such as transmission lines. It also holds authority to perform an intrastate authority issued by appropriate public bodies in Iowa, Minnesota, South Dakota, Wisconsin and Illinois.

Financial Analysis

North Western has submitted exhibits and financial data showing its financial position on a consolidated basis and also on a corporate entity basis. There would be no significant difference in the financial posture of the North Western whether a financial analysis is made with the data on a consolidated basis or on a corporate entity basis. Therefore, the financial data discussed subsequently will be based on North Western and transportation subsidiaries on a consolidated basis.

The balance sheet and income statements constructed below for the year 1963 have been used to show North Western's financial position and results of operations as at the time it filed its application for authority to acquire control of the Rock Island. Statements for the year 1968 reflecting the latest available data also have been included.

Table 62

NORTH WESTERN (INCLUDING TRANSPORTATION SUBSIDIARIES)
BALANCE SHEETS AS OF

	December 31, 1963	December 31, 1968*
<u>Current Assets</u>		
Cash	\$ 11,244,013	\$ 9,301,123
Temporary cash investments	24,496,415	50,133
Special deposits	122,840	594,782
Loans and notes receivable	--	91,774
Net balance receivable from agents and conductors	3,598,684	7,106,552
Miscellaneous accounts receivable	5,989,627	5,923,706
Interest and dividends receivable	498,197	307,281
Accrued accounts receivable	12,344,815	31,876,020
Working fund advances	155,729	165,584
Prepayments	424,895	996,669
Material and supplies	11,989,905	14,189,814
Other current assets	50,527	51,696
Total current assets	<u>70,915,647</u>	<u>70,655,134</u>
<u>Special Funds</u>		
Sinking funds	13,300	31,347
Capital and reserve funds	778,323	10,121,115
Insurance and other funds	--	241,900
Total special funds	<u>791,623</u>	<u>11,185,362</u>
<u>Investments</u>		
Investments in affiliated companies	2,383,348	47,756,330
Other investments	4,464,552	187,348
Reserve for adjustment of investment in securities-cr.	(10,000)	(10,000)
Total investments	<u>6,837,900</u>	<u>47,933,678</u>
<u>Properties</u>		
Road and equipment property	768,911,638	1,025,449,193
Improvements on leased property	239,445	1,607,739
Total transportation property	<u>769,151,083</u>	<u>1,027,056,932</u>
Accrued depreciation-rd. & equip.	(258,368,245)	(352,706,814)
Amortization of defense projects-rd. & equip.	(17,347,273)	(15,361,151)
Recorded depreciation & amortization	<u>(275,715,518)</u>	<u>(368,067,965)</u>
Total transportation property less depr. & amort.	<u>493,435,565</u>	<u>658,988,967</u>
Miscellaneous physical property	10,582,050	9,740,453
Accrued depreciation-miscellaneous physical property	(4,774,971)	(4,718,530)
Miscellaneous physical property less depr.	<u>5,807,079</u>	<u>5,021,923</u>
Total properties less depr. & amort.	<u>499,242,644</u>	<u>664,010,890</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	1,017,096	5,167,544
Unamortized discount on long-term debt	574,485	888,575
Other deferred charges	3,338,352	5,343,305
Total other assets and deferred charges	<u>4,930,433</u>	<u>11,399,424</u>
Total Assets	<u>\$582,718,247</u>	<u>\$ 805,184,488</u>

*The merger of North Western and Great Western was consummated July 1, 1968. This statement reflects the results of this merger on a pooling-of-interests basis which includes the combined financial position and related results of operations of North Western and transportation subsidiaries and Great Western.

Table 62 - Continued

NORTH WESTERN (INCLUDING TRANSPORTATION SUBSIDIARIES)
BALANCE SHEETS AS OF

	<u>December 31, 1963</u>	<u>December 31, 1968</u>
<u>Current Liabilities</u>		
Loans and notes payable	\$ --	\$ 9,000,000
Traffic and car-service balances-cr.	2,717,494	4,636,862
Audited accounts and wages payable	6,365,203	12,151,406
Miscellaneous accounts payable	2,059,611	3,015,780
Interest matured unpaid	1,125,681	1,120,937
Dividends matured unpaid	247	43,346
Unmatured interest accrued	3,821,175	3,731,945
Unmatured dividends declared	1,142,014	5,164,655
Accrued accounts payable	25,330,782	41,620,294
Federal taxes accrued	--	759,011
Other taxes accrued	6,731,813	9,331,850
Other current liabilities	1,243,193	1,209,032
Total current liabilities(exclusive of long-term debt due within 1 year)	<u>50,537,213</u>	<u>91,785,118</u>
<u>Long-Term Debt Due Within 1 Year</u>	<u>13,876,364</u>	<u>14,511,454</u>
<u>Long-Term Debt Due After 1 Year</u>		
Unmatured debt	134,052,449	89,234,784
Equipment obligations	68,070,007	134,083,255
Accounts payable to affiliated companies	989,560	6,405,881
Total long-term debt due after 1 year	<u>203,112,016</u>	<u>229,723,920</u>
<u>Reserves</u>		
Pension and welfare reserves	7,618,199	8,056,857
Casualty and other reserves	5,270,244	4,653,805
Total reserves	<u>12,888,443</u>	<u>12,710,662</u>
<u>Other Liabilities and Deferred Credits</u>		
Other liabilities	1,411,665	1,984,668
Other deferred credits	668,708	8,466,147
Accrued depreciation-leased property	50,355	858,965
Total other liabilities and deferred credits	<u>2,130,728</u>	<u>11,309,780</u>
<u>Shareholders' Equity</u>		
Capital stock issued-total	<u>172,393,100</u>	<u>302,253,100</u>
<u>Capital Surplus</u>		
Paid-in-surplus	29,649,083	25,532,315
Other capital surplus	9,954	9,954
Total capital surplus	<u>29,659,037</u>	<u>25,542,269</u>
<u>Retained income</u>		
Retained income-unappropriated-total	<u>98,121,346</u>	<u>117,348,185</u>
Total shareholders' equity	<u>300,173,483</u>	<u>445,143,554</u>
Total liabilities and shareholders' equity	<u>\$582,718,247</u>	<u>\$805,184,488</u>

Table 63

NORTH WESTERN (INCLUDING TRANSPORTATION SUBSIDIARIES)
INCOME STATEMENTS FOR THE YEARS

	<u>1963</u>	<u>1968*</u>
<u>Total Operating Revenues</u>	<u>\$218,922,579</u>	<u>\$275,771,410</u>
<u>Operating Expenses</u>		
<u>Maintenance of way and structures:</u>		
Exclusive of depreciation	29,347,391	35,463,244
Depreciation	4,796,962	5,799,667
<u>Maintenance of equipment:</u>		
Exclusive of depreciation	23,572,105	30,009,129
Depreciation	13,568,215	16,827,274
Traffic	7,348,650	9,175,518
Transportation	88,223,799	117,455,522
Miscellaneous & general	11,269,472	20,867,115
<u>Total operating expenses</u>	<u>178,126,594</u>	<u>235,597,469</u>
 <u>Net revenue from railway operations</u>	 <u>40,795,985</u>	 <u>40,173,941</u>
 <u>Railway Tax Accruals</u>	 <u>15,290,644</u>	 <u>22,986,999</u>
 <u>Railway Operating Income</u>	 <u>25,505,341</u>	 <u>17,186,942</u>
Rent income-cr.	586,815	626,628
Rents payable-dr.	14,742,218	20,126,103
<u>Net rents</u>	<u>(14,155,403)</u>	<u>(19,499,475)</u>
 <u>Net railway operating income</u>	 <u>11,349,938</u>	 <u>(2,312,533)</u>
 <u>Total other income</u>	 <u>8,053,772</u>	 <u>15,283,976</u>
 <u>Total income</u>	 <u>19,403,710</u>	 <u>12,971,443</u>
 <u>Total miscellaneous deductions</u>	 <u>997,907</u>	 <u>1,916,097</u>
 <u>Income available for fixed charges</u>	 <u>18,405,803</u>	 <u>11,055,346</u>
Fixed charges	6,552,308	11,289,264
Contingent interest (other deductions)	3,037,725	329,185
<u>Total fixed charges & contingent interest</u>	<u>9,590,033</u>	<u>11,618,449</u>
 <u>Ordinary income</u>	 <u>8,815,770</u>	 <u>(563,103)</u>
 <u>Total extraordinary items (net)</u>	 <u>--</u>	 <u>470,535</u>
 <u>Net income after fixed charges and other deductions</u>	 <u>\$ 8,815,770</u>	 <u>\$ (92,568)</u>

*The merger of North Western and Great Western was consummated July 1, 1968. This statement reflects the results of the merger on a pooling-of-interests basis which includes the combined operations of the companies.

Table 64NORTH WESTERN NET INCOME TREND 1959-1968

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges And Other Deductions (000)</u>
1959	\$213,350	\$182,887	\$ 3,124	\$ 5,562	\$(2,897)
1960	207,282	178,580	(1,263)	1,551	(7,170)
1961	218,117	176,849	10,746	13,200	3,030
1962	196,961	168,835	(291)	8,459	(1,501)
1963	218,923	178,127	11,350	18,406	8,816
1964	220,811	181,982	10,658	16,346	6,936
1965	227,589	180,182	13,534	19,607	10,253
1966	242,561	191,450	13,808	17,494	8,529
1967	242,011	211,016	(9,856)	1,436	(9,052)
1968	275,771	235,597	(2,313)	11,055	(563)

To maintain the uniformity of this report, the following financial analysis of North Western and its transportation subsidiaries is based on the financial data exactly as it has been reported to the Commission in its Annual Reports, Form A, for each year from 1959 to 1968, respectively.

Gross Railway Operating Revenues and Expenses

Table 64 discloses that North Western's railway operating revenues for the first five year period (1959-1963) reported a high of \$218 million and a low of \$197 million. However, for the second five year period it enjoyed an almost unbroken increase in railway operating revenues which went from \$220.8 million in 1964 to \$275.8 million in 1968. Its railway operating expenses for the first five year period ranged from a high of \$182.8 million to a low of \$168 million. But for the second five year period its railway operating expenses increased from \$181.9 million in 1964 to a high of \$235.5 million in 1968. In summary, for the second 5-year period it had increased operating revenues of \$55 million and increased operating expenses of \$53.6 million.

Its operating ratios (the ratio of total railway operating expenses to total railway operating revenues) for the last decade stayed in the 80's except for the years 1965 and 1966 when it reported operating ratios of 79.2 percent and 78.9 percent, respectively. For the entire 10 year period, its operating ratio averaged 83.3 percent annually which did not compare favorably with the average annual operating ratio of 77.7 percent computed for all the class I railroads in the Western District. Although North Western's railway operations have resulted in increased revenues in every year since 1963, its margin of operating efficiency has remained about the same. As the record shows this static operational position has been greatly influenced by the demands of increased labor costs together with higher costs paid for fuel and sharp increases in the cost of material and supplies.

New Railway Operating Income & Net Income

For the years 1960, 1962, 1967 and 1968, North Western was unable to generate sufficient additional railway operating revenues to cover its substantial equipment rental costs. As a result of this situation it has reported net railway operating deficits for the above stated years, of which 1967 was the worst one, showing a deficit of more than \$9 million. Even though North Western has realized substantial sums from non-railway operations, its income available for fixed charges was not supplemented sufficiently to eliminate its deficit operations.

Table 65

NORTH WESTERN WORKING CAPITAL 1959-1968

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1959	\$39,575	\$42,310	\$(2,735)	\$166,684	\$13,890	.
1960	48,538	48,429	109	161,651	13,471	1.0
1961	51,224	50,592	632	158,159	13,180	1.0
1962	55,201	48,091	7,110	150,442	12,537	1.1
1963	70,916	50,537	20,379	159,761	13,313	1.4
1964	91,467	58,523	32,944	163,760	13,647	1.6
1965	58,195	61,128	(2,933)	163,108	13,592	
1966	61,453	69,692	(8,239)	173,343	14,445	
1967	66,182	76,319	(10,137)	191,568	15,964	
1968	70,655	91,785	(21,130)	212,971	17,748	

Working Capital

With the exception of 1963 and 1964, Table 65 shows that North Western's working capital position in the last decade was inadequate for conducting orderly operations. In 1963 and 1964 it had a working capital ratio of 1.4 and 1.6, respectively. In July of 1965 and as a result of a large cash outlay for the acquisition of its two nontransportation subsidiaries, Velsicol and Michigan Chemical, its working capital position declined to a negative balance. Although these investments may have strengthened the overall financial posture of North Western, there has been no appreciable effect on its working capital position because of little or no improvement in its earnings from railroad operations. From 1965 to 1968 North Western showed working capital deficits. However, North Western has managed to transact its business on a negative or inadequate working capital basis only because of the extremely fast cash flow resulting from the required prompt payment of freight bills and because of the fact that current liabilities include many items which are not payable "immediately."

Management recognizes that this method of conducting operations is not satisfactory and it would be desirable to maintain a working capital ratio of at least 1.5.

Table 66

NORTH WESTERN RATE OF RETURN ON NET INVESTMENT IN TRANSPORTATION PROPERTY 1959-1968

<u>Year</u>	<u>Investment In Property, Cash & M&S (000)</u>	<u>Depreciation & Amortization (000)</u>	<u>Net Investment (000)</u>	<u>Net Ry. Opr. Income (000)</u>	<u>Percent North Western</u>	<u>Percent Western District</u>
1959	\$ 930,413	\$241,951	\$688,462	\$ 3,124	0.45	3.08
1960	1,020,511	263,333	757,178	(1,263)	(0.17)	2.59
1961	1,017,158	269,755	747,403	10,746	1.43	2.77
1962	802,900	274,529	528,371	(291)	(0.05)	3.27
1963	790,540	274,761	515,779	11,350	2.20	3.60
1964	1,017,158	269,755	747,403	10,658	1.43	3.43
1965	812,324	295,483	516,841	13,534	2.62	3.85
1966	857,421	305,659	551,762	13,808	2.50	3.93
1967	891,937	314,959	576,978	(9,856)	(1.71)	2.73
1968	1,051,893	369,102	682,791	(2,313)	(0.34)	NA

NA Not Available

Rate of Return

The North Western's rate of return has been calculated to show the ratio of net railway operating income to investment in road and equipment, less accrued depreciation and amortization, plus cash and material and supplies. As mentioned previously in this report, net railway operating income is used for determining the rate of return because it tests the adequacy of railway earnings. As shown in Table 66, in the last 10 years 1959-1968, North Western's best rate of return in relation to net investment in transportation property was 2.65 percent in 1965 and 2.50 in 1966. On this basis the returns were substantially lower than the 3.85 percent and 3.93 percent reported for the railroads in the Western District for the same years, respectively.

Historically, in the last decade (1959-1968), North Western's rate of return on net investment in transportation property has been nonexistent or below the standard of the railroads in the Western District. As a result of this poor showing it has been unable to attract new capital except through equipment financing. It is noted, however, that North Western has managed to generate funds necessary for capital expenditures through the sale of assets, tax refunds (paid prior to 1955) and the sale of scrap. But, management realizes that these sources are limited and unless its financial posture is improved through earnings, its prospects for borrowing will be no better in the future than it is presently.

Long-Term Debt

For the period 1959-1968, North Western's total long-term debt averaged \$220 million annually, of which \$13.9 million represented the amount due and payable within one year. Ordinarily, the funds to pay long term debt would come from earnings. But as shown in Table 64, North Western's railway operations in the past decade have either produced deficits or an insufficient amount of net income to service its debt due within one year. In this connection it is noted that supplemental funds have been generated through charges to depreciation at an average of \$18.4 million annually. Considering that this amount exceeds its debt service requirements by more than \$5 million, North Western has managed to service or supplement its debt requirements from 1959 to 1968. However, since the retirement of its long-term obligations will continue to absorb all of its net income and a major portion of the funds generated by charges to depreciation, North Western must improve its earnings position or in the foreseeable future it will have little or no funds available for capital expenditures.

Fixed Charges & Contingent Interest

Table 64 shows that North Western had some income available for fixed charges and contingent interest in each year from 1959-1968. After meeting its fixed charges and other deductions it reported deficits for 5 of the 10 years discussed. This indicates that North Western's income from railway operations together with income from other than railway operations were insufficient in the mentioned deficit 5 years to meet its fixed charges and contingent interest obligations. Yet, for the 5 years (1961, 1963-66) that North Western was able to meet its fixed charges and contingent interest obligation, it had generated sufficient earnings from railway operations to meet these charges without depending upon income earned from sources other than railway operations.

North Western's earnings from other than railway operations ranged from a low of \$2.6 million in 1959 to a high of \$15.2 million in 1968. In 1967 and 1968 it realized additional income from dividends (other income) of \$6 million and \$8 million, for the respective years. In spite of this substantial increase in earnings it reported a net income deficit after fixed charges and other deductions of \$9 million in 1967 and some \$563,000 in 1968. This situation is obviously due to the fact that it has been conducting its railway operations on a deficit producing basis. North Western states in its brief and it is agreed, that earnings from transportation operations have failed to provide a complete coverage of fixed charges.

Taxes

The North Western and its subsidiaries have not paid any Federal income taxes since 1951.

In prior years it had elected not to use the so-called "guideline depreciation lines" and accelerated depreciation methods which would increase its tax deductions for depreciation substantially. If North Western makes full use of these liberalized methods of depreciation it could maximize its future tax deductions by an estimated \$20 to \$30 million per year. However, present tax carry-forwards, even though they will expire quite rapidly, may also be helpful in generating future deductions.

As of December 31, 1967, the North Western had an operating tax loss carry-forward of \$8,408,205, expiring if unused in 1968 and 1969. It also had, as of the same date, an investment tax credit carry-forward of \$17,208,397. This expires commencing with 1969 and will be exhausted in 1974.

Considering all of the substantial additional income tax deductions available to North Western, it should not be subject to Federal income taxes in the near future.

Debt-Equity Ratio

For the period 1959 to 1968 North Western's balance sheets show that its ratio of total debt to combined total debt and stockholders' equity reached a high of 58 percent in 1960. As of December 31, 1968, this ratio was 44.7 percent and the average over the 10 year period was a favorable 49 percent.

Its debt-equity ratio computed on the basis of total long-term debt to combined total long-term debt and stockholders' equity for the period 1959-1968 reflects a high of 46.8 percent in 1960 but was only 35.4 percent as of December 31, 1968. The average for the entire 10 year period was a favorable 41 percent. It is noted that this computation is a test used by the financial community for determining a carrier's credit and it indicates that the North Western's equity in the total assets of the railroad is much greater than its current creditors' claims. Therefore, borrowing money to finance capital expenditures would normally present no problem. However, due to its historically inadequate rate of return North Western has not found it feasible to raise money in the capital markets because it could not deal equitably with prospective investors.

Preliminary Findings and Conclusions

North Western in the last 10 years has conducted its operations with little or no working capital. Its rate of return was nonexistent, or below the standard of the railroads in the Western District when it did manage to realize some net income in 5 of the 10 years covered by Table 64. It has had considerable trouble generating sufficient funds from its operations to meet its long-term debt due within one year. At the same time, it has reported a favorable debt equity ratio which normally should have made borrowing funds for capital investments quite easy. But it has not been able to borrow money on equitable terms because of its poor earnings record and inadequate rate of return.

North Western's dividends record shows that December 1964 was the first declaration of dividends on common stock since 1950. It also declared a dividend on preferred stock for that year. Dividends on both common and preferred stock were paid in 1965, 1966, 1967 and 1968.

The analytical devices utilized in the foregoing financial analysis disclose that the North Western's financial position in the last decade has not been very stable and at best the carrier has operated on a marginal basis.

There are various factors underlying North Western's marginality and other operations. As the previously discussed evidence of record shows North Western: (1) is overburdened with lightly used routes; (2) is unable financially to substantially increase its fleet of freight cars or modernize its locomotive fleet, 83 percent of which was at least 10 years old at the close of 1968; (3) is unable to participate in traffic with long hauls over its own service routes, which are short compared to those of many connecting carriers (the system average length of haul for North Western in 1968 was only 261 miles, a net increase of but 30 miles since 1960); (4) handles traffic over 80 percent of which has its origin or destination or both on North Western lines; (5) has exhibited increases in freight tonnage, ton-miles and revenues; and (6) has experienced a gradual shift in traffic consist in that agricultural and mining products, other than coal and metallic ores, have declined both absolutely and relatively in terms of both tonnage and revenue, while manufactured goods tonnage and revenue have become increasingly important overall by absolute and relative measures.

North Western interchanges in the Chicago area, Milwaukee, Manitowoc, Peoria and S. Pekin are dominated by interchanges with Eastern District class I line-haul carriers. At E. St. Louis, the major portion of North Western's interchange is with carriers having lines radiating into the Southern District, to the Gulf ports, and to inland points in Texas and Oklahoma. Without allowance for duplications, i.e., bridge traffic interchanged at any pair of the named points, the total cars interchanged thereat in 1964 represented about half of North Western's total interline carloads in that year.

Major service routes between the above-named points and between those points on the one hand and points on the northern and western extremities of the North Western system on the other hand represent only about one-fourth of the carrier's road mileage but generate some 80 percent of total ton-miles. Briefly, the service routes connect Chicago on the one hand, with, on the other hand, (1) Omaha (including Council Bluffs and Fremont), (2) the Twin Cities via Milwaukee and Eau Claire, (3) Duluth-Superior (connecting with the Twin Cities line at Eau Claire), (4) Escanaba, via Green Bay, Manitowoc (also Fond du Lac) and Milwaukee, and (5) E. St. Louis via Nelson (on Chicago-Omaha line). Two other service routes connect the Twin Cities with the Chicago-Omaha line, one through Sioux City to the Omaha-Council Bluffs area, the other through Albert Lea to Marshalltown.

A short segment of line between Ames and Des Moines and lines connecting Escanaba and Powers, Mich., with Stambaugh, Mich., also handle substantial volumes of traffic. Traffic density between Kansas City and points on the Chicago-Omaha route via Des Moines reflecting operations of the merged North Western-Great Western are not of record. In view of the importance of Kansas City as a Missouri River gateway to the West and Southwest, it can be expected that the unified North Western-Great Western system receives and routes a considerable volume of traffic through the gateway. We must rely in this report on interchange data supplied by the other carriers serving Kansas City, which show carloads interchanged with Great Western. In the respective sections covering the Kansas City interchanges of these other parties to the proceedings, the former Great Western interchange has been listed as "C&NW".

Among its western gateways, excluding Kansas City, the Omaha-Fremont-Council Bluffs gateway constitutes North Western's largest interchange (190,728 cars). Union Pacific is by far the largest single connection (140,801 cars) for interline traffic at these gateways, yet the UP-C&NW interchange represents only 13 percent of North Western's interline business. Other important (over 10,000 cars) western connections (among parties to these proceedings) and their respective interchanges with C&NW at specific points are: Twin Cities, GN (52,556 cars), NP (47,571), Soo (19,703); Albert Lea, ICRR (18,277); and Omaha-Fremont-Council Bluffs, MP (24,002) and CB&Q, (18,202) in addition to UP. The foregoing data exclude interchanges between the named carriers and the Great Western, but this additional amount of traffic is reflected in the interchange evidence discussed for each of those carriers in this report.

Subject to the limitations above discussed with regard to former interchanges with Great Western, it is clear that, throughout the portion of the North Western system which lies generally within the area bordered by routes between the Twin Cities, Omaha, St. Louis and Chicago, North Western has numerous but small (less than 10,000 cars) interchanges with both Milwaukee and Rock Island. The largest interchanges with Milwaukee are: Twin Cities (6,596 cars); and Sioux City (4,717); and with Rock Island: Des Moines (6,100); Chicago (3,927); and Omaha-Council Bluffs (3,478).

Obviously, North Western, despite its advantage as an originator or terminator of most of its interline traffic, must depend on its connections at the Missouri River, the Twin Cities and the gateways served by Eastern and Southern District carriers. In short, while North Western participates in traffic moving beyond its primary service territory that territory is geographically small and therefore precludes the carrier from realization of one of the major advantages enjoyed by many Western District railroads: Long hauls.

Financial Status of Northwest Industries

The Annual Report Form A of Northwest Industries filed with the Commission for the year 1968 is on a corporate entity basis, and in general is not filed on a uniform system of accounts basis as is required of an operating carrier. Accordingly, such financial data is insufficient to make a proper evaluation of its financial capabilities. However, the financial data contained in its Annual Report to Stockholders for the year 1968 shows operations of all the transportation and nontransportation companies in the conglomerate, on a pooling-of-interest basis. It is noted that the report states that:

The results for the periods prior to April 18, 1968 are a mathematical combination of previously reported earnings of the constituent companies adjusted for certain items necessary to conform to generally accepted accounting principles as well as certain pooling adjustments and therefore, do not reflect the results that would have occurred had these companies been together since January 1, 1967 and had consolidated tax returns for these periods been filed.

Northwest Industries consolidated balance sheet as of December 31, 1968, shows total assets of \$1,286.3 million comprised of: current assets \$336.3 million, consisting of cash and marketable securities \$108.1 million, notes and accounts receivable, less allowance for possible losses, \$108.1 million, inventories \$66.1 million, materials and supplies \$51.6 million and prepaid and other expenses \$2.4 million; property, plant and equipment less depreciation and other reserves \$843.2 million (this amount includes total transportation properties \$693.5 million or some 82.3 percent of the net total properties reported as of December 31, 1968) and other assets \$106.8 million. Its liabilities were: current liabilities \$163.6 million, consisting of accounts payable \$78.7 million, accrued payroll and vacation pay \$19.5 million, dividends payable \$13.6 million, accrued taxes \$26.9 million and long-term debt due within one year \$24.9 million; long-term debt due after one year \$402.4 million; deferred Federal income taxes \$47.5 million; reserves \$34.8 million; minority interests in subsidiaries \$31.5 million; stockholders' equity consisted of capital stock \$341.9 million; and retained earnings \$264.6 million.

Its consolidated statement of earnings shows net sales and operating revenues of \$700.9 million, with cost of goods sold and operating expenses aggregating \$639.1 million resulting in net earnings from operations of \$61.8 million. After other deductions composed of \$8.7 million, provision for income taxes \$15.2 million and earnings from extraordinary items \$14.7 million, its net income amounted to \$52.5 million for the year 1968. Inasmuch as Northwest Industries preferred stock dividends requirement amounted to \$17.4 million, its net earnings available to common stock amounted to \$35.1 million.

The financial data above, indicates that Northwest Industries' current ratio or working capital ratio of current assets of \$336.2 million to current liabilities, including the current portion of long-term debt of \$163.6 million is approximately 2.06 to 1. Its ratio of long-term debt to total long-term debt and stockholders' equity is a favorable 41 percent and its net income after payment of dividends on preferred stock was more than \$35.1 million. Although this amount includes net extraordinary income of \$14.7 million which is an unusual and nonrecurring item, it is noted that if this amount were eliminated its net income of \$20.5 million after preferred dividends would have exceeded its 1967 net earnings by almost \$6.5 million.

Northwest Industries' financial statements furnished in its Annual Report to Stockholders, reflect a sound financial position as of December 31, 1968.

Santa Fe exercises a measure of control or has an interest in the following carriers:

<u>Carrier</u>	<u>Percent of Ownership Interest</u>
Central California Traction Company	33-1/3
Joliet Union Depot Company	33-1/3
Texas City Terminal Railway Company	33-1/3
Wichita Union Terminal Railway Company	33-1/3
Atchison Union Depot & Railroad Company	25
Houston Belt & Terminal Company	25
Pueblo Union Depot & Railroad Company	25
Denver Union Terminal Railway Company	16-2/3
El Paso Union Passenger Depot Company	16-2/3
Union Terminal Company (Dallas)	12-1/2
Packers Car Line Company	11.34
Belt Railway Company of Chicago	8-1/3
Kansas City Terminal Railway Company	8-1/3
Pullman Company	5.61
The Railway Express Agency, Inc.	4.78
Trailer Train Company	2.4

One of Santa Fe's larger wholly owned, noncarrier subsidiaries is Chanslor-Western Oil and Development Company. In turn, Chanslor-Western has 100 percent ownership of ten companies and over 50 percent ownership in four others. Its revenues in 1967 were over \$48 million, of which Santa Fe's equity in the net income was over \$14.5 million.

As of December 31, 1969, the original carrier applicant was authorized to issue 13,148,600 shares of 5 percent, noncumulative, Preferred Stock, par value \$10, and 35 million shares of Common Stock, par value \$10, of which 12,417,279 shares of the preferred and 24,687,527 shares of the common stock were issued and outstanding. The authorized capitalization and shares issued and outstanding for the successor Santa Fe is not of record.

Santa Fe Industries, incorporated December 4, 1967, in Delaware, was organized to acquire the common capital stock of the original applicant carrier herein and also provide for expansion and diversification in nontransportation fields. However, the control and other interests which the original applicant carrier held in nontransportation companies remained in it, and apparently such control and other interests were transferred without change to the successor-in-interest carrier company, Santa Fe.

Scope of Operations, Plant and Equipment

As of December 31, 1968, Santa Fe operated approximately 12,862 miles of road in 12 States, of which 52.5 percent was branch line, and 318 miles were operated under trackage rights. Its mileage operated by State is: Illinois, 290; Iowa, 20; Missouri, 292; Kansas, 2820; Nebraska, 3; Oklahoma, 1,408; Texas, 3,611; Louisiana, 65; Colorado, 643; New Mexico, 1,354; Arizona, 850; and California, 1,507. Santa Fe's actual track mileage totaled 21,428 miles.

As previously indicated in connection with the discussion of the Rock Island lines, the Santa Fe is one of the two major carriers operating through the southern corridor, the other line being that of the Southern Pacific system, as already described. The territory served by the Santa Fe is bounded by Sacramento, San Francisco, Los Angeles and San Diego, on the west, and by Chicago, Joplin, Mo., Tulsa, Okla., Paris and Longview, Tex., and Oakdale, La., on the east.

Santa Fe's major routes run from San Francisco and Sacramento to Chicago through Stockton and Barstow, Calif. (also from San Diego to Barstow through Los Angeles), Cadiz, Calif., Williams Junction, Ariz. (also an alternate route between Cadiz and Williams Junction through Matthe, Ariz., which connects with a line from Phoenix to Matthe), Flagstaff, Ariz., Dalles, Belen and Clovis, N. Mex., Farwell, Canyon, and Amarillo, Tex., Kiowa, Wellington, Mulvane, Augusta, Elinor (a station on the line), Emporia, Ottawa (also Topeka), Holiday and Kansas City, Kans., Fort Madison, Iowa, Lomax and Ancona, Ill.

There follows a description of the more important line segments which connect with the above-described routes. A line runs from Belen northward to Denver, through Isleta and Albuquerque, N. Mex., and Los Animas and Pueblo, Colo., and eastward from Los Animas to Elinor through Dodge City, Hutchinson and Newton, Kans.; and other lines from Canyon and Farwell to Galveston, Beaumont and Longview, Tex., and Oakdale, La., from Canyon through Plainview (a segment extends from Plainview to Floydada, Tex.) and from Farwell through Sudan, and thence through Lubbock, San Angelo Junction, Brownwood, Temple and Somerville, Tex., dividing at Somerville with one segment reaching Galveston through Thompsons, Tex. (also Houston) and the other leg to Beaumont and, through Silsbee, Tex. to Longview and Oakdale. The routes described immediately above are joined by routes from Newton and Elinor to Temple, through Winfield Junction, Oklahoma City, and Fort Worth (also Dallas). Other major routes extend between

(1) Belen and El Paso; (2) Clovis and Carlsbad; (3) Fort Worth and Brownwood; and (4) Ottawa and Tulsa. Various other lines connect the previously described major routes in the area between Belen on the west and Kansas City on the east.

Santa Fe and its subsidiaries own extensive automated freight classification yards, piggyback and containerized freight handling facilities; signal and communication facilities, including a microwave communication system between Chicago and California; and equipment, track, signal and communications maintenance facilities, including a car construction plant, and maintains an industrial development and market research department which applies modern electronic data processing systems to all phases of Santa Fe's rail operations.

As of December 31, 1968, Santa Fe had 1,847 diesel locomotives comprised of 394 freight units, 210 passenger units, 947 multiple purpose units, and 296 switching units.

Table 67, which follows, shows the Santa Fe freight car fleet as of December 31, for each of the years 1963 through 1968. The total car fleet stood at 82,167 cars in 1963, 88,229 cars in 1967, and 83,603 cars in 1968. Aggregate capacity increased from 4,454,602 tons in 1963 to 5,334,947 tons in 1967, declining slightly to 5,108,429 tons in 1968. With respect to type of cars, net changes between the years 1963 and 1968 show declines in box cars and refrigerator cars and increases in covered hopper cars and flat cars (including rack cars).

Table 67SANTA FE FREIGHT CAR FLEET: CARS OWNED AND LEASED, 1963 THROUGH 1968

Year	Box	Flat*	Gondola	Open Hopper	Covered Hopper	Refrigerator	Other**	Total Cars	Aggregate Capacity (Tons)
1963	36,243	4,208	9,197	5,708	5,408	13,687	7,716	82,167	4,454,602
1964	35,880	4,402	9,041	5,687	7,284	13,473	7,327	83,094	4,631,667
1965	35,016	4,882	9,115	5,724	9,678	13,138	6,671	84,410	4,835,607
1966	34,554	5,593	9,473	5,722	12,781	13,446	6,574	88,143	5,282,520
1967	34,307	6,237	9,280	5,800	13,219	13,137	6,249	88,229	5,334,947
1968	34,509	6,077	9,349	5,389	13,125	9,293	5,861	83,603	5,108,429

* Includes rack cars.

** Includes stock cars, tank cars and "Other" cars.

Freight Traffic: Volume and Service Output

Table 68, which follows, embraces the data discussed in this section. By the end of the 10-year period 1959 through 1968, Santa Fe's freight revenues showed a net increase of 13.5 percent. However, freight revenues for the five years 1960-1964, were each less than 1959 and it was not until 1965 that Santa Fe began enjoying successive yearly increases except for 1967.

Revenue tonnage during this period increased a net 15.6 percent to 76.1 million tons in 1968. From 1959 to 1963, tonnage fluctuated between 65.3 and 66.3 million tons before climbing to the 1966 high for the period of 78.3 million tons. Revenue ton-miles followed a pattern similar to that for tonnage, with a net increase of 26.7 percent to 45.6 billion ton-miles in 1968. In the first four years of the period, the figure stayed between 36.0 and 36.6 billion ton-miles, before starting its climb to the 1966 high of 46.8 billion ton-miles.

Total revenue carloads in 1959 totaled 1.8 million, the period high. While carloads declined in a relatively steady manner (the last five years did fluctuate slightly) for a net decrease of 14.6 percent for 1968 compared to 1959, it should be borne in mind that average revenue load per car consistently increased each year from 36.5 tons in 1959 to 46.4 tons in 1968. Of the four categories comprising carload traffic - local, interline originated, interline terminated and overhead - the overhead category has contributed the least amount of traffic to Santa Fe, ranging between 5 and 6 percent of total carloads. Local traffic ranged between 33.5 and 37.5 percent of total carloads with a 10-year average of 35.3 percent, which was also the 1968 figure. Interline originated traffic ranged between the 1968 low of 27.1 percent and the 1959 high of 31.6 percent; interline terminated ranged between a low of 26.9 percent in 1960 and the 1967 and 1968 figures of 31.4 percent. During the 10-year period, interchange traffic has varied between 62.4 and 66.5 percent of total carload traffic: the 1968 figure of 64.7 percent is about three percentage points above the 1959 figure.

Despite some intermediate lows, the 10-year period has shown a pronounced increase in length of haul. The average length of haul ranged between the 1961 low of 545 miles and the 1967 high of 613 miles. In 1968, the length of haul was 601 miles.

Table 68

SANTA FE REVENUE FREIGHT TRAFFIC CARLOADS, TONS, TON-MILES AND FREIGHT REVENUE
YEARS 1959 THROUGH 1968

Year	Carloads					Total Revenue Tons*	Revenue Ton-Miles (millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead	Total Carloads			
1959	643,145	570,102	497,055	94,977	1,805,279	65,830,721	36,010	\$534,388
1960	645,861	549,037	473,838	90,478	1,759,214	65,319,673	36,630	514,079
1961	649,041	517,145	475,771	86,998	1,728,955	66,253,768	36,039	503,089
1962	596,168	531,166	489,657	90,043	1,707,034	65,506,544	36,106	507,347
1963	560,682	510,578	498,914	94,866	1,665,040	65,516,989	37,224	513,113
1964	588,088	491,042	511,385	94,310	1,684,825	68,818,986	39,580	533,524
1965	583,375	479,124	513,785	100,914	1,677,198	72,215,723	41,397	551,761
1966	625,908	493,981	524,640	97,683	1,742,212	78,257,043	46,795	599,288
1967	525,661	457,289	492,563	93,067	1,568,580	71,668,561	43,868	571,875
1968	579,820	445,006	515,633	100,342	1,640,801	76,064,800	45,610	606,781

*

Includes L.C.L. Freight for all years.

Freight Traffic: Commodity Consist

Tonnage and revenue data for the years 1959, 1961 and 1963 under the old commodity code are shown in Tables 69 and 70, and for the years 1964 to 1968 inclusive, data under the new code appear in Tables 71 and 72, following this discussion. The freight commodity statistics for the 1959-1968 period reflect stability in the proportion of tonnage and revenues each commodity group contributes relative to the total amount.

During 1959, 1961 and 1963, "Products of Agriculture" contributed 23 to 27 percent of the tonnage and 19 to 23 percent of the revenues. Between 1964 and 1968 the portion of tonnage attributed to "Farm Products" climbed from about 20 percent of total tonnage in 1964 to the 1966 high of 25 percent and dropped sharply to the 1968 low figure of 18 percent, reflecting, in part, a substantial decrease in wheat and sorghum grains traffic. The revenues produced by this group represented over 17 percent of total freight revenue in 1964, rose to about 20 percent in 1966 and declined to 14 percent in 1968.

"Products of Mines" comprised 23 percent of Santa Fe's tonnage in 1959, 1961 and 1963 and between 6 and 7 percent of the revenues. The new code groupings of "Metallic Ores," "Coal" and "Non-Metallic Minerals," comprised 18 percent of tonnage in 1964, 15 percent in 1966, and 17 percent in 1968. Revenues remained proportionately stable at about 5 percent.

"Products of Forests," produced about 6 percent of the tonnage and about 3.5 percent of the revenues in 1959, 1961 and 1963. "Lumber and Products" produced similar results for the years 1964 through 1968.

"Manufactures and Miscellaneous" constituted 41 to 44 percent of tonnage and 57 to 61 percent of the revenues in 1959, 1961 and 1963. For the years 1964 through 1968, the new code groups, "Food and Products," "Pulp, Paper and Products," "Chemicals," "Petroleum and Coal Products," "Stone, Clay and Glass Products," "Transportation Equipment," and "Waste and Scrap," accounted for 48 to 52 percent of Santa Fe's tonnage and 52 to 56 percent of its revenues.

During the period 1964 through 1968, "Freight Forwarder Traffic," while making up only a little over 1 percent of the tonnage, contributed between 5 and 6 percent of Santa Fe's revenues. The remaining commodities, listed on Tables 71 and 72 as "All Other Groups" represented 4 to 5 percent of the tonnage from 1964 through 1968 and 13 to 15 percent of the revenues.

In summary, Santa Fe's freight revenue from agricultural traffic has varied considerably over the 1959-1968 period, at times contributing nearly one-fourth of freight revenue, and, more recently, less than 15 percent. More than half of Santa Fe's freight revenue is derived from the transportation of commodities which have undergone some stage of manufacture, notably "Food & Kindred Products" and "Chemicals," which have accounted for about 15 and 12 percent of freight revenues, respectively, in recent years. The remainder of revenues from manufactured commodities has been spread over a wide range of commodity groups.

SANTA FE COMMODITY STATISTICS, 1959, 1961 AND 1963Table 69COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS
PERCENTAGE OF TOTAL TONNAGE

Commodity Group	1959		1961		1963	
	Tons (000)	%	Tons (000)	%	Tons (000)	%
Products of Agriculture	16,286	24.7	18,234	27.5	15,166	23.1
Animals & Products	865	1.3	747	1.1	776	1.2
Products of Mines	15,382	23.4	15,231	22.9	15,083	23.0
Products of Forests	3,885	5.9	3,809	5.7	4,258	6.5
Manufactures & Misc.	28,162	42.8	27,064	40.8	29,186	44.5
Total*	65,831	100.0	66,254	100.0	65,517	100.0

Table 70COMMODITY GROUP REVENUE AND GROUP REVENUE AS
PERCENTAGE OF TOTAL REVENUE

Commodity Group	1959		1961		1963	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Products of Agriculture	\$124,257	22.2	\$121,304	22.9	\$102,741	19.0
Animals & Products	12,403	2.2	10,897	2.1	11,212	2.1
Products of Mines	36,536	6.5	36,174	6.8	34,747	6.4
Products of Forests	20,704	3.7	17,702	3.3	19,763	3.7
Manufactures & Misc.	317,522	56.7	299,506	56.6	332,318	61.5
Total*	\$559,556	100.0	\$528,788	100.0	\$540,316	100.0

* Includes Freight Forwarder Traffic and L.C.L. Freight. The totals of revenue are unadjusted figures and may not agree with Freight Operating Revenue totals reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 71

SANTA FE COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	14,131	20.5	16,113	22.3	19,549	25.0	13,214	18.4	13,571	17.8
Metallic Ores	1,425	2.1	1,555	2.2	1,488	1.9	1,307	1.8	1,658	2.2
Coal	3,593	5.2	3,861	5.3	3,563	4.6	3,547	4.9	3,741	4.9
Non-Metal Minerals	7,728	11.2	7,296	10.1	6,949	8.9	6,930	9.7	7,517	9.9
Food & Products	7,048	10.2	7,359	10.2	7,934	10.1	8,127	11.3	8,470	11.1
Lumber & Products	4,487	6.5	4,129	5.7	4,424	5.7	4,286	6.0	4,819	6.3
Pulp, Paper, & Products	2,425	3.5	2,494	3.5	2,631	3.4	2,657	3.7	2,942	3.9
Chemicals	9,114	13.2	9,602	13.3	10,611	13.6	10,906	15.2	10,896	14.3
Petroleum & Coal Products	3,594	5.2	3,738	5.2	3,950	5.0	4,117	5.7	4,464	5.9
Stone, Clay & Glass Products	5,238	7.6	5,389	7.5	5,411	6.9	5,366	7.5	5,564	7.3
Primary Metal Products	3,720	5.4	3,772	5.2	4,141	5.3	3,826	5.3	4,403	5.8
Transp. Equipment	1,065	1.5	1,269	1.8	1,241	1.6	1,068	1.5	1,336	1.8
Waste & Scrap	1,267	1.8	1,469	2.0	1,602	2.0	1,470	2.1	1,450	1.9
Freight Forwarder Traffic	992	1.4	994	1.4	1,004	1.3	917	1.3	1,011	1.3
All Other Groups	2,992	4.3	3,176	4.4	3,759	4.8	3,931	5.5	4,223	5.6
Total	68,819	100.0	72,216	100.0	78,257	100.0	71,669	100.0	76,065	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*With the exception of "Freight Forwarder Traffic," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 72

SANTA FE COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 99,039	17.4	\$102,789	17.7	\$124,143	19.7	\$ 95,212	16.0	\$ 89,975	14.1
Metallic Ores	5,262	.9	6,470	1.1	6,573	1.0	5,852	1.0	7,275	1.1
Coal	6,938	1.2	7,112	1.2	7,137	1.1	8,638	1.5	8,551	1.3
Non-Metal Minerals	16,285	2.9	17,170	3.0	17,552	2.8	16,755	2.8	18,545	2.9
Food & Products	65,871	11.6	66,905	11.5	69,530	11.0	72,735	12.2	78,749	12.3
Lumber & Products	21,744	3.8	20,403	3.5	21,615	3.4	22,022	3.7	24,940	3.9
Pulp, Paper & Products	20,664	3.6	21,103	3.6	22,280	3.5	22,553	3.8	25,901	4.0
Chemicals	86,850	15.3	89,238	15.3	97,635	15.5	97,108	16.3	98,922	15.4
Petroleum & Coal Products	24,149	4.2	24,650	4.2	25,357	4.0	26,466	4.5	30,516	4.8
Stone, Clay & Glass Products	24,448	4.3	23,512	4.0	23,549	3.7	23,271	3.9	25,802	4.0
Primary Metal Products	34,904	6.1	36,256	6.2	36,762	5.8	35,746	6.0	40,196	6.3
Transp. Equipment	40,831	7.2	46,262	8.0	46,069	7.3	39,191	6.6	51,869	8.1
Waste & Scrap	5,932	1.0	6,907	1.2	7,654	1.2	7,332	1.2	8,043	1.3
Freight Forwarder Traffic	34,723	6.1	34,035	5.9	32,308	5.1	29,960	5.0	31,770	5.0
All Other Groups	80,768	14.2	78,580	13.5	91,570	14.5	91,857	15.4	99,311	15.5
Total	\$568,411	100.0	\$581,392	100.0	\$629,734	100.0	\$594,698	100.0	\$640,365	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*With the exception of "Freight Forwarder Traffic," the commodity groups specifically named each accounted for the movement of one million or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than one million tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Freight Traffic: Interchanges and Traffic Flow

The measurement of traffic density used in this discussion will be average gross tons hauled in freight trains per mile in 1965, excluding weight of locomotives.

Santa Fe's major freight route is between California (Los Angeles and San Francisco) and Chicago, via the "Amarillo Line." Traffic density over the route is shown below:

<u>Line Segment(s)</u>	<u>Millions of Tons</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Los Angeles-Barstow, Calif.	9.6-12.1	14.7-19.8
Richmond (San Francisco)- Barstow	6.6- 9.9	6.0- 8.3
Barstow-Belen, N. Mex.	13.2-15.5	16.8-18.4
Belen-Clovis, N. Mex.	15.5	18.3
Clovis-Farwell, Tex.	20.6	18.9
Farwell-Canyon, Tex.	15.6	14.2
Canyon-Amarillo, Tex.	17.8	17.4
Amarillo-Wellington, Kans.	16.5	13.9-14.0
Wellington-Mulvane-Augusta, Kans.	15.1-15.4	12.8-13.0
Augusta-Elinor, Kans.	19.2	18.0
Elinor-Kansas City	22.8-25.2	20.5-22.8
Kansas City-Chicago	13.3-14.9	12.4-14.3

There was far less freight traffic on the La Junta line, previously described, which diverges from the Amarillo line at Belen, N. Mex., and rejoins it at Elinor, Kans. Traffic densities for the La Junta line are shown below:

<u>Line Segment(s)</u>	<u>Millions of Tons</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Belen-Albuquerque	2.0	2.2
Albuquerque-La Junta, Colo.	1.2	1.1
La Junta-Dodge City	3.0	2.7
Dodge City-Elinor	4.4-5.0	3.0-4.4

Santa Fe's major service route for freight traffic between Chicago and the Gulf Coast (Galveston and Beaumont, Tex.), runs through Elinor south through Augusta, Kans., Fort Worth and Temple, Tex., and eastward to Somerville, Tex., with segments to Beaumont and Galveston. Between Augusta and Winfield Junction, Kans., traffic handled in 1965 amounted to 5.3 million tons southbound and 4.1 million tons northbound.

Traffic density over the line segments south of Winfield Junction to the Gulf are:

<u>Line Segment(s)</u>	<u>Millions of Tons</u>	
	<u>Northbound</u>	<u>Southbound</u>
Winfield Junction-Fort Worth-Oklahoma City-Temple	3.0-6.3	6.6-9.0
Temple-Somerville	5.3	11.0
Somerville-Galveston	2.7-3.3	6.3-7.5
Somerville-Beaumont	1.7-2.5	3.6-4.0

Santa Fe's evidence does not reveal the traffic density for the previously described Somerville-Houston line. As will be later detailed, Houston is a major traffic origin and destination point, and therefore it is concluded that much of the traffic moving between Somerville and Galveston, as shown above, actually moves between Somerville and Houston.

The route segment running between Las Animas and Lubbock through Amarillo and Canyon carries traffic between Colorado and Texas; and the route segments between Farwell and Temple, through Lubbock and Brownwood, and between Brownwood and Fort Worth carry traffic between California and Texas. Traffic densities for the routes are:

<u>Line Segment(s)</u>	<u>Millions of Tons</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Las Animas-Amarillo	1.5-1.8	0.9-1.0
Amarillo-Canyon*		
Canyon-Plainview-Lubbock	3.2-4.7	2.1-2.8
Farwell-Lubbock	5.7	4.7
Lubbock-Brownwood	8.1-8.6	4.1-8.1
Brownwood-Fort Worth	3.6	2.0
Brownwood-Temple	4.9	2.7

*Density shown in the prior discussion of Amarillo line.

The Denver-La Junta route, through Pueblo, carries traffic to and from California, Texas and Chicago. Density over the line was: Denver-Pueblo, 2.1 million gross tons southbound, 1.7 million northbound; and Pueblo-La Junta, 4.5 million southbound, and 4.0 million northbound.

Connecting with the Canyon-Lubbock segment is a line from Floydada, Tex., to Plainview over which 1.5 million gross tons moved westbound and 0.7 million eastbound. Joining the Winfield Junction-Gulf Coast route at Dalton Junction, Tex., is a line from Dallas through East Dallas which handled 0.4 million gross tons westbound and 1.0 million eastbound. Santa Fe presented no evidence showing density for the line from Dallas to Cleburne.

Other important Santa Fe routes connect with the above-discussed lines at various junctions. One such line connects San Diego with the Los Angeles-Barstow line at Atwood, Calif. In 1965, traffic density on this line ranged from 1.1 to 2.0 million tons to San Diego and from 1.2 to 1.4 million tons from San Diego. Traffic moves between Phoenix and Mattie, Ariz., with a density in 1965 of 2.3 million tons to Phoenix and 2.5 million tons moving from Phoenix. At Mattie, the line splits, connecting with the Barstow-Belen portion of the California-Chicago route at Cadiz, Calif., on the west, and Williams Junction, Ariz., on the east. Traffic density between Mattie and Cadiz totaled less than 2.0 million gross tons for both directions, while between Mattie and Williams Junction density was 1.8 million tons westbound and 1.5 million tons eastbound. A line between Belen and El Paso handled 1.5 to 2.2 million tons southbound and 1.2 to 2.0 million tons northbound in 1965. At Clovis, a line runs south to Pecos, Tex., through Carlsbad. This line carried 6.6 million tons northbound and 2.1 million tons southbound, with most of the tonnage northbound moving out of the potash mining area near Carlsbad.

Densities on various other route segments were as follows: Between Winfield Junction and Newton, Kans., through Wichita and Mulvane, 3.4 to 3.6 million gross tons from Newton to Winfield Junction and from 2.2 to 2.6 million in the opposite direction; from Kiowa, Kans., to Guthrie, Okla., 1.2 million gross tons eastbound (to Guthrie), and 0.7 million westbound; between Chanute and Winfield Junction and between Wellington and Winfield Junction, 1.7 million tons over each segment in each direction; between Chanute and Ottowa, Kans., .9 million tons southbound and 1.0 million tons northbound; and between Holiday, Kans., and Emporia, Kans., 1.3 million tons eastbound and 1.4 million tons westbound. Remaining lines of the Santa Fe, not here discussed, handled less than 1.0 million gross tons in either direction in 1965.

As seen, Santa Fe's most heavily utilized freight routes are: the California-Chicago route via the Amarillo line; the Clovis-Carlsbad line; and the routes from Farwell and Winfield Junction to the Gulf Coast. These routes connect most of Santa Fe's major traffic interchange, origin and destination points which will be next discussed.

Origin and destination points shown in Santa Fe's evidence are classified as the 30 most important points in 1965 for each of the following classes of traffic: local originations, local destinations, interline originations and interline destinations. The discussion of the interchange evidence here will be restricted to

those points at which Santa Fe interchanged 500 or more cars with any one carrier which was an active participant in these proceedings, unless otherwise noted. Adjustments have been made to reflect unifications of carriers. Active participants and their affiliates are shown specifically in the interchange tables. Eastern and Southern District class I line-haul carriers are shown aggregated for their respective districts, unless otherwise noted. Remaining carriers are grouped in totals for "all Others." In keeping with the prior descriptions of Santa Fe's routes and freight traffic density, the origin, destination and interchange points will be discussed from west to east, beginning with California, for which major interchanges are shown in the following table:

Table 73

SANTA FE MAJOR INTERCHANGES IN CALIFORNIA

AT&SF Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
<u>Los Angeles-Barstow Area:</u>				
Los Angeles*	SP	17,462	14,902	32,364
	UP	795	3,592	4,387
San Bernardino	SP	1,158	309	1,467
	UP	1,713	5,767	7,480
Barstow	UP	6,560	32,642	39,202
	Total	27,688	57,212	84,900
<u>San Francisco-Stockton Area:</u>				
San Francisco**	SP+	3,035	9,032	12,067
	WP+	1,367	746	2,113
Stockton	SP	13,198	20,927	34,125
	WP+	32,969	32,140	65,109
	All Others	1,162	3,003	4,165
	Total	51,731	65,848	117,579
<u>Other California Points:</u>				
Bakersfield	SP+	6,720	4,559	11,279
Fresno	SP	1,228	862	2,090
Mojave	SP	381	358	739
San Diego	SP	1,516	715	2,231
	Total	9,845	6,494	16,339
Grand Total		89,264	129,554	218,818

*Includes Anaheim, Colton, Long Beach, L. A. Harbor, Riverside and Santa Ana, Calif.

**Includes Oakland, Pittsburg, Port Chicago, Richmond and Tiburon, Calif.

+Includes subsidiaries.

Santa Fe's major connection for traffic interchanged in California is Southern Pacific, with which it connects at many points throughout the State, south of, and including the San Francisco Bay area. The largest amounts of traffic moving between the two carriers are interchanged at Stockton (34,125 cars); San Francisco, including the points shown in Table 73 above (12,067); Bakersfield (11,279); and Los Angeles, also including other points named in Table 73 (32,364). Most of the cars interchanged with Southern Pacific at the foregoing points originated or terminated on Santa Fe.

Barstow is the principal interchange point in California between Santa Fe and Union Pacific. This was noted earlier in the discussions of the latter's 1963 interchange data (Table 30), which showed 31,513 cars interchanged, of which 24,994 cars were delivered to the Santa Fe by Union Pacific. Nearly 21,000 of the cars delivered by Union Pacific were overhead to that carrier. Based on Santa Fe's 1965 evidence, a total of 39,202 cars were interchanged at Barstow, of which 32,642 were delivered to Santa Fe by Union Pacific including 31,368 cars terminated on Santa Fe lines. During 1965, Santa Fe received 51,334 carloads of interline terminated traffic from Union Pacific at all system gateways, and of this amount, 28,732 cars carried Products of Mines (based on the old commodity code classification).

It is apparent that the Barstow interchange accounts for approximately 60 percent of the traffic delivered by Union Pacific to and terminated on, the Santa Fe. Further, much if not most of this traffic consisted of Products of Mines and moved as bridge traffic over the Union Pacific.

Santa Fe's principal interchange with Western Pacific is at Stockton, where 65,109 cars were interchanged in 1965, with deliveries and receipts of cars nearly equal (Table 73). As described later, Stockton is Western Pacific's southern gateway for traffic moving via the Bieber, Calif., gateway in conjunction with the Great Northern on the north and the Santa Fe on the south. Of the 65,109 cars interchanged with Western Pacific, 20,656 originated and 29,898 terminated on the Santa Fe, and in each case, roughly two-thirds of the traffic consisted of "manufactures and Miscellaneous" commodities.

Several points in California are among the most important origin and destination points on the Santa Fe system. Table 74, below, shows the data for points in California. For purposes of this discussion, individual stations in the San Francisco and Los Angeles areas have been aggregated, as noted.

Table 74

MAJOR SANTA FE ORIGIN AND DESTINATION POINTS
IN CALIFORNIA

AT&SF Stations	Carloads			
	Local		Interline	
	Originations	Terminations	Originations	Terminations
San Francisco*	5,708	6,395	13,034	41,060
Los Angeles**	24,652	78,886	22,732	186,205
Cushenberry	8,134	xx	xx	xx
Boron	6,596	xx	xx	xx
Blythe	3,742	xx	xx	xx
Fresno	xx	4,140	3,542	4,542
San Diego***	xx	8,445	xx	12,221
Shafter	xx	xx	4,947	xx
Wasco	xx	xx	3,082	xx

*Includes Antioch, Oakland and Richmond.

**Includes Kaiser, Pico Rivera, Fullerton, Torrance, Long Beach and El Segundo.

***Includes National City.

"xx" indicates that traffic, if any, was insufficient to categorize the corresponding station as one of the 30 most important points for the class of traffic named in column heading.

It is apparent from Table 74 that the Los Angeles area by far is the largest source of originated traffic and the most important point of destination on the Santa Fe in California; that the San Francisco Bay area, in terms of either originations or terminations, is a distant second; and that Santa Fe's California traffic is made up mainly of that which it either originates or terminates.

In Arizona, Phoenix was the only major point of interchange for Santa Fe in 1965. At Phoenix, 2,339 cars were delivered to, and 327 cars received from Southern Pacific. Phoenix (including Glendale) is also a major traffic origin and destination point. Originations in 1965 consisted of 5,384 cars of interline traffic, and terminations totaled 20,479 cars including 10,591 local to Santa Fe.

In New Mexico only one point, Deming, is a major interchange: Santa Fe delivered 7,117 cars to Southern Pacific (including 4,654 originated on Santa Fe) and received 4,396 from Southern Pacific (including 2,613 cars overhead to Santa Fe). From a traffic standpoint, New Mexico is important to Santa Fe for originations of

traffic, primarily potash from the mining region near Carlsbad, located on the Clovis-Pecos, Tex. line. Carlsbad ranked first among Santa Fe's 30 most important origin points for interline traffic (53,796 cars) and third among the 30 largest local traffic origin points (20,657 cars). Zuni and Gallup, N. Mex. near the Arizona border, were the origin points for 4,409 cars of interline traffic and 17,808 cars of local traffic, respectively, in 1965. Koehler in northern New Mexico was the origin of 5,273 cars of local traffic. Albuquerque was the only major destination point for traffic in the State (10,417 interline and 5,339 local cars).

For the reasons apparent in the discussion which follows, Texas is divided into western and eastern sections, with the dividing line running straight south, from and including the eastern border of the Panhandle, to the Rio Grande River. Four major interchange points lie within the western section: El Paso, Amarillo, Floydada and Sweetwater. At El Paso, Santa Fe interchanged with Southern Pacific 4,236 cars and with Texas & Pacific 748 cars in 1965. Santa Fe received 6,478 cars from the Rock Island and delivered 2,989 cars to Rock Island at Amarillo, and comparable figures for Fort Worth & Denver were 4,731 cars received and 681 cars delivered. In each case, the bulk of the traffic originated or terminated on Santa Fe. Floydada is a major interchange point with the Quanah, Acme & Pacific Railway Company (Quanah or QAP), a subsidiary of Frisco. Santa Fe received 29,250 cars from Quanah, of which 26,704 terminated on line, and delivered 7,438 cars to Quanah of which 6,753 originated on Santa Fe. Santa Fe interchanged 12,842 cars with Texas & Pacific at Sweetwater (6,364 cars to T&P and 6,478 from T&P) and nearly 90 percent of this traffic originated or terminated on Santa Fe.

Interchanges in the eastern section of Texas are shown below in Table 75:

Table 75

MAJOR SANTA FE INTERCHANGES IN EASTERN TEXAS

AT&SF Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Bay City	MP	5,198	21	5,219
	SP	37	8	45
	Total	5,235	29	5,264
Beaumont	KCS	11,796	1,983	13,779
	MP	5,371	1,619	6,990
	SP	5,687	4,667	10,354
	Total	22,854	8,269	31,123
Dallas-Fort Worth	RI	968	3,154	4,122
	FW&D	1,098	683	1,781
	KCS (Dallas only)	9,978	5,933	15,911
	MKT	1,934	1,767	3,701
	MP (Ft. Worth only)	2,680	2,056	4,736
	T&P	16,384	6,830	23,214
	SLSF	1,599	2,687	4,286
	SLSW	8,030	4,279	12,309
	SP	8,277	5,172	13,449
	Total	51,885	32,767	84,652
Houston	RI	4	14	18
	FW&D	3	81	84
	MKT	652	82	734
	MP	4,634	1,012	5,646
	SP	2,691	1,193	3,884
	Total	7,984	2,382	10,366
Longview	MP	66	620	686
	T&P	1,644	2,223	3,867
	Total	1,710	2,843	4,553
Paris	SLSF	365	180	545
	SP	63	--	63
	T&P	23	138	161
	Total	451	318	769
Conroe	MP	937	206	1,143
Farmersville	KCS	2,211	424	2,635
Gainesville	MKT	837	175	1,021
McGregor	SLSW	1,361	1,514	2,875
Milano	MP	5,422	3,786	9,208
Temple	MKT	580	1,810	2,390
Five points*	SP	10,765	4,499	15,264
	Total	22,113	12,414	34,536

*Includes Caldwell, Cleveland, Eagle Lake, Rosenberg and Tenaha.

Although there are numerous Santa Fe interchange points in eastern Texas, only Beaumont, Houston, Dallas and Fort Worth had interchange totals in excess of 10,000 cars each. It is apparent generally from Table 75 that the largest individual interchanges in eastern Texas are those with carriers which form end-to-end connections with Santa Fe and which have lines extending to the Mississippi River.

At Bay City, 5,198 out of 5,219 cars interchanged with MoPac originated on Santa Fe. Traffic originated or terminated on Santa Fe clearly dominates the interchanges at Bay City, Beaumont, Dallas, Fort Worth, Houston, Milano and Tenaha, among points shown in Table 75. The remaining points shown were not included in Santa Fe's evidence covering the classes of traffic interchanged at specific points.

Throughout Texas and in terms of total volume interchanged therein at the points above discussed, the carriers interchanging the most traffic with Santa Fe were the MoPac-Texas & Pacific system, over 74,000 cars; the Southern Pacific-Cotton Belt system, over 62,000; the Frisco-Quanah system, over 42,000; and the Kansas City Southern-L&A system, over 32,000.

Table 76, which follows, shows the importance of Texas points to Santa Fe as traffic origins and destinations.

Table 76

MAJOR SANTA FE ORIGIN AND DESTINATION POINTS IN TEXAS

STATION	Carloads			
	Local		Interline	
	Originations	Terminations	Originations	Terminations
Houston	7,584	50,012	4,596	9,192
Dallas-Ft. Worth*	15,476	19,835	7,956	18,134
Marillo	6,079	7,820	3,081	4,608
Abbock	11,798	17,548	7,348	7,985
Paso	5,063	9,707	xx	4,578
Longview	4,279	4,071	xx	5,308
Line points**	10,706	47,006	19,276	xx

*Includes N. Fort Worth.

** Eagle Lake, Borger, Galveston, Beaumont, Hereford, Silsbee, Evadale, Kings Mill and Longview.

NOTE: "xx" indicates that traffic, if any, was insufficient to categorize the corresponding station or stations among the 30 most important points for the class of traffic named in column heading.

In Louisiana, only two stations, DeRidder and Oakdale (the easternmost Santa Fe point south of Kansas City), are major interchange points. At DeRidder 595 cars were interchanged in 1965 with the Kansas City Southern, and 104 cars were interchanged with Southern Pacific. MoPac interchanged 1,956 cars with Santa Fe at Oakdale. No major origin or destination points were listed for Louisiana in Santa Fe's 1965 data.

There are eight points in Oklahoma at which Santa Fe interchanged at least 500 cars with one carrier in 1965. The points and the connecting class I line-haul carriers with their respective Santa Fe interchange totals are: Avarad-Frisco, 2,186 cars; Enid-Rock Island, 540 and-Frisco, 458; Oklahoma City-Rock Island, 4,884, -Katy, 542 and-Frisco, 1,755; Perry-Frisco, 2,369; Shawnee-Rock Island, 1,098; Tupelo-MoPac, 2,296; Woodward-Katy, 1,575; and Tulsa-Katy, 209 -MoPac, 542, and -Frisco 691. Santa Fe's evidence shows that the majority of cars interchanged at Oklahoma City either originated or terminated on Santa Fe: such information is not of record for the other named points.

At Enid, local traffic originated totaled 9,840 cars; local terminated, 12,374; and interline originated 4,322. Oklahoma City was the origin for 4,157 interline cars and the destination for 11,381 interline and 11,177 local cars. Also in Oklahoma, Crusher was the origin of 5,393 cars of local traffic and Ponca City was the origin of 4,191 interline cars.

Three points in Colorado are major Santa Fe interchanges: Denver, Pueblo and Trinidad. Santa Fe's total 1965 interchanges at these points by carrier (i.e., active participants to these proceedings), were: Rio Grande-25,571 cars, Burlington-10,027, Colorado & Southern-4,298, Union Pacific-9,896, MoPac-1,579, and Rock Island-241. Of the traffic interchanged at Denver and Pueblo, traffic originated or terminated on Santa Fe exceeded the amount moving overhead on its lines. At Rocky Ford, Colo., Santa Fe terminated 4,887 cars of local traffic. Denver was the origin point for 4,003 cars of local traffic and the destination for 5,792 local and 5,422 interline carloads.

Table 77, which follows, shows major Santa Fe interchanges in Kansas, west of Kansas City and Atchison, Kans.:

Table 77

MAJOR SANTA FE INTERCHANGES IN KANSAS WEST OF
ATCHISON AND KANSAS CITY

AT&SF Station	Connecting Carrier	Carloads		Total
		Delivered	Received	
Arkansas City	MP	107	1,387	1,494
	SLSF	515	97	612
Chanute	MKT	789	1,419	2,208
Cherryvale	SLSF	4,740	1,586	6,326
Coffeyville	MKT	124	224	348
	MP	2,152	2,117	4,269
Fredonia	MP	1	--	1
	SLSF	6,024	796	6,820
Independence	MP	1,606	1,436	3,042
Pittsburg	KCS	982	723	1,705
	MP	56	2	58
	SLSF	12	255	267
Topeka	RI	527	88	615
	MP	28	23	51
	UP	1,536	286	1,822
Five points*	RI	526	498	1,024
	MP	938	492	1,430
	SLSF	833	1,556	2,389

*Burrton, Olathe, Osborne, Wellington and Wichita. At each point Santa Fe interchanged over 500, but less than 1,000 cars with at least one of the named connecting carriers.

The largest volume interchanges shown in Table 77 are at Chanute, Cherryvale, Coffeyville, Fredonia and Independence, all points in southeastern Kansas on lines radiating from, and including the route between Ottawa, Kans. (on the Chicago-California route), and Tulsa. Practically all of the cars interchanged at Cherryvale and Fredonia originated or terminated on Santa Fe. Frisco and MoPac interchange the largest volume of traffic with Santa Fe in Kansas, west of Atchison and Kansas City.

In the same geographic area, seven points are among Santa Fe's most important origin and/or destinations points. At Wichita, originations in 1965 included 10,574 local carloads and 9,190 interline carloads. Terminations included 16,807 local and 6,656 interline. Hutchinson, Kans., was origin for 18,249 carloads (9,863 local) and destination for 19,060 carloads (15,289 local). Other important local traffic points were Moline (5,200 originated) and Topeka (4,999 terminated). At Lawrence 4,994 interline cars originated and 4,065 were terminated. The remaining Kansas points, Augusta and Olathe, originated 3,638 and terminated 3,723 interline carloads, respectively.

Superior is the only major interchange in Nebraska. Santa Fe interchanged 334 cars there with Burlington, 7 with MoPac, and 768 with North Western.

The final portion of the Santa Fe's gateways and origin and destination points to be discussed are those at, and east of the Missouri River, in Kansas, Missouri and Illinois. It is in this area only that the carrier connects directly or through affiliates with carriers which have their primary service areas east of the Mississippi River. Major gateways in the Kansas City area are shown in Table 78 below:

Table 78

MAJOR SANTA FE INTERCHANGES-KANSAS CITY AREA GATEWAY

AT&SF Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Kansas City	CB&Q	20,230	20,542	40,772
	C&NW	6,416	5,735	12,151
	MILW	9,489	15,079	24,568
	RI	10,849	6,624	17,473
	KCS	2,768	4,032	6,800
	MKT	3,012	3,707	6,719
	MP	15,981	12,824	28,805
	SLSF	10,927	8,412	19,339
	UP	8,875	10,457	19,332
	N&W*	15,749	31,238	46,987
	GM&O*	7,426	6,063	13,489
	Grand Total	111,722	124,713	236,435
St. Joseph, Mo. & Atchison, Kans.	CB&Q	1,516	264	1,780
	RI	21	93	114
	MP	1,164	56	1,220
	C&NW	81	172	253
	UP	66	32	98
	Grand Total	2,848	617	3,465
Henrietta, Mo.	N&W*	77	1,138	1,215

*N&W and GM&O shown specifically to emphasize status as class I line-haul carriers in Eastern and Southern Districts, respectively.

In terms of volume, Kansas City ranks first among Santa Fe's major individual interchange points. As will be seen later, however, the carrier's gateways in Illinois together handle a substantially greater volume and function as direct gateways for traffic interchanged with Eastern District carriers. Norfolk & Western interchanges

the most traffic with Santa Fe at Kansas City, 46,987 cars in 1965, followed by Burlington, 40,772, MoPac, 28,805 and Milwaukee, 24,568. North Western, Rock Island, Frisco and Union Pacific, among the parties, interchanged from 10,000 to 20,000 cars with Santa Fe, and Katy and Kansas City Southern interchanged 6,719 and 6,800 cars, respectively. Overall, Santa Fe received 124,713 cars at Kansas City of which 101,580 terminated on its lines. Deliveries to connections totaled 111,722 cars, of which 99,347 originated on Santa Fe.

Kansas City (Missouri and Kansas) is also an important Santa Fe origin and destination point. Originations in 1965 consisted of 7,296 interline carloads and 21,044 local carloads, the second largest number for local originations on the system. Carload terminations included 8,950 interline cars and 27,572 local cars, the third largest local termination figure for the system.

Another major interchange point in Missouri is located east of the Kansas City area, namely, Bucklin, where Santa Fe received 3,820 cars from, and delivered 16 cars to, the Burlington.

The Santa Fe serves a number of gateways from Fort Madison, Iowa to Chicago. Many of these gateways are located on rail lines which bypass Chicago, including the Toledo, Peoria and Western Railroad, jointly owned by Santa Fe and Penn Central. At Fort Madison only one carrier, Burlington, connects with Santa Fe and the total interchange in 1965 consisted of 1,390 cars.

Data for Santa Fe's Illinois gateways are shown in Table 79, which follows:

Table 79

MAJOR SANTA FE INTERCHANGES-ILLINOIS GATEWAYS

AT&SF Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Chicago-McCook- Joliet	CB&Q	5,198	300	5,498
	C&EI	1,229	1,458	2,687
	C&NW	6,294	6,605	12,899
	MILW	2,504	1,168	3,672
	RI	152	97	249
	IC	3,750	764	4,514
	SOO	2,503	3,414	5,917
	Eastern Dist.*			
	Class I	98,778	74,872	173,650
	Southern Dist.**			
	Class I	225	375	600
	All Others	1	-	1
	Total	120,634	89,053	209,687
Streator	CB&Q	71	71	142
	Eastern Dist.*			
	Class I	4,590	36,786	41,376
	Southern Dist.**			
	Class I	26	4	30
	Total	4,687	36,861	41,548
Pekin-Morton- Eureka-Minonk	CB&Q	3	2	5
	C&NW	6	29	35
	RI	2	6	8
	IC	2,827	1,448	4,275
	TP&W	1,396	248	1,644
	Eastern Dist.*			
	Class I	1,947	1,305	3,252
	Southern Dist.**			
	Class I	378	302	680
	Total	6,559	3,340	9,899
Galesburg	CB&Q	440	453	893
Nemo	C&NW	3,018	4,268	7,286
Lomax	TP&W	19,558	14,149	33,707
	Grand Total	154,896	148,124	303,020

*Includes PC, N&W, C&O (including South Shore)-B&O, E-L, GTW, EJ&E, and Monon at Chicago, et al.; PC and N&W at Streator; C&IM, IT, PC and N&W at Pekin, et al.

** GM&O only.

Nearly 28 percent of Santa Fe's 1965 total interline carloads were interchanged at the gateways shown in Table 79. More than half of the cars interchanged were delivered to the named connections by Santa Fe. Over two-thirds of the 303,020 cars interchanged at the Illinois points named in the table were interchanged with class I Eastern District line-haul railroads (other than the Chicago & Eastern Illinois) and the TP&W. The latter interchanged 35,351 cars with Santa Fe, mostly at Lomax. Among the carriers actively participating in these proceedings, North Western interchanged the largest number of cars (20,220) with Santa Fe in Illinois. The Pekin, Morton, Eureka and Minonk, Ill., gateways grouped in Table 79, are all located on a line from Streator (on the Chicago-California line) to Pekin.

Of the 120,634 cars Santa Fe delivered to connections at Chicago, McCook and Joliet, 104,289 originated on Santa Fe lines. Of the 89,053 cars received at these points, 73,207 terminated on Santa Fe. Traffic originated or terminated on Santa Fe also represented the bulk of the carloads interchanged at Streator, Nemo and Lomax.

The Chicago and McCook stations together were origin points in 1965 for 58,975 carloads, including 36,998 cars of local traffic, and destination points for 37,528 carloads (31,460 local). Chillicothe, Ill., was origin point for 4,972 cars of local traffic, and Galesburg was the origin of 4,888 interline carloads.

Passenger Service

Santa Fe provides passenger service daily between Chicago and California points via both the Amarillo and La Junta lines and between Chicago and Houston via Kansas City, Wichita, Oklahoma City and Fort Worth. Connecting passenger trains between other points and points on the above routes are provided between Denver and La Junta, Los Angeles and San Diego, and Kansas City and Tulsa.

During 1968, Santa Fe retired 561 passenger cars from service. As of December 31, 1968, the carrier's passenger car fleet of 576 cars was comprised of 211 coaches, 5 combination cars, 41 parlor cars, 50 dining, grill and tavern cars, 44 postal cars and 225 nonpassenger carrying cars.

Passenger service has been on the decline for Santa Fe **since the late 1950's**. During this period, the number of passengers carried decreased almost steadily from 2.6 million to 1.5 million, a 42 percent decline. The most noticeable decline has occurred in **more recent** years, i.e., 37 percent from 1966 to 1968.

Although there was some fluctuation, passenger-miles remained around 1.7 billion from 1959 through 1966, dropping 47 percent to 990 million in 1968.

The following exhibit has been constructed to show Santa Fe's passenger deficit operations for the years 1959-1968.

Year	Passenger Railway Operating Revenues (000)	Net Passenger Expenses (000)	*Net Passenger Railway Operating Deficits (000)
1959	\$77,944	\$109,235	\$(31,291)
1960	85,544	123,189	(37,645)
1961	87,332	117,604	(30,272)
1962	89,893	116,484	(89,591)
1963	87,442	120,368	(32,926)
1964	88,350	121,534	(33,184)
1965	86,352	120,813	(34,461)
1966	90,053	122,028	(31,975)
1967	71,468	119,447	(47,979)
1968	33,489	76,608	(43,119)

*Net passenger railway operating deficit may be overstated to the extent that such items of expense that have been included in net passenger expenses would generally be disallowed by the Commission in discontinuance cases. (Source: Schedule 300 Form A).

Employees

The average number of employees in the Santa Fe work force declined from 50,422 in 1959 to 37,449 in 1968. As of December 31, 1968, the work force included 714 executive personnel, 8,886 professional, clerical and general personnel, 5,248 maintenance of way and structure personnel, 9,797 maintenance of equipment and stores personnel, 3,508 transportation personnel other than train engine and yard personnel, 457 yardmasters, switch tenders and hostlers, and 8,939 train and engine personnel.

Motor Carrier Operations

Santa Fe Trail, applicant in No. MC-F-9669, the previously indicated wholly owned subsidiary of Santa Fe, in turn, owns the capital stock of another motor carrier, Santa Fe Transportation Company of Illinois, which is inactive. Santa Fe Trail holds authority to operate in interstate or foreign commerce, as a motor common carrier of property pursuant to certificates issued in No. MC-30605 and various subnumbers thereunder. Operations are generally coordinated with, and supplemental of Santa Fe's rail services. Terminal service is

provided for Santa Fe's piggyback operations. Santa Fe Trail owns and rents trailers for this service.

As of December 31, 1968, Santa Fe Trail's operating mileage totaled 16,780 miles. Its interstate authority extends between Omaha and St. Joseph, Kansas City, and Joplin, Mo., Fort Smith, Beaumont, Port Arthur and Galveston, Tex., on the north, east, and south, and San Francisco, Los Angeles and San Diego, Calif., on the west; serving over 500 points in Kansas, over 200 points in Oklahoma, over 250 points in Texas and over 200 points in California. It also serves approximately 35 points in Colorado, including Denver, Colorado Springs and Trinidad; more than 75 points in New Mexico including Santa Fe, Albuquerque, Belen, Clovis, Fort Sumner, Gallup, Deming and Las Cruces; and more than 30 points in Arizona including Phoenix.

Santa Fe Trail's unrestricted authority is limited generally, to about 15 points in Nebraska, practically all points served in Kansas and Oklahoma, and points between Denver and El Paso on U. S. Highway 85. It operates over a few short unrestricted routes in Texas, New Mexico and California.

Its long-haul operations over the substituted service routes are precluded by numerous restrictions consisting of the following:

1. Key points exist at Wichita and Hutchinson, Kans.; Amarillo, Lubbock, Galveston-Houston, Dallas-Fort Worth, San Angelo, and El Paso, Tex.; Pueblo, Colo.; Albuquerque-Willard, N. Mex.; Winslow, Ash Fork and Aquilla, Ariz.; and Los Angeles, Calif.
2. A prior or subsequent movement by rail is required under the motor carrier certificate between San Francisco and San Diego, Calif.; La Junta and Trinidad, Colo.; and Amarillo and Longview and Houston, Tex.

At the close of the year 1968 Santa Fe Trail owned 4,263 units of revenue equipment consisting of 215 trucks, 651 truck tractors and 3,397 semitrailers. There were 3,400 units used principally in intercity service. The trucks and tractors it owned and rented and used in intercity service operated 13,956,650 miles in intercity highway service, carried 606,552 tons of revenue freight and realized \$17,744,317 from these operations. The record indicates that although Santa Fe Trail is predominantly an intercity carrier its local cartage service revenue amounted to \$6,926,416 for the year 1968.

Santa Fe Trail's balance sheet as of December 31, 1968 shows total assets aggregating \$32,621,208, consisting of current assets \$5,957,080, composed of cash \$844,332, working funds \$905, special deposits \$539, temporary cash investments \$2,172,535, accounts receivable \$2,319,192, prepayments \$313,057, material and supplies \$304,520 and other current assets \$2,000; carrier operating property less reserve for depreciation \$25,174,986; noncarrier property less reserve for depreciation \$329,428; intangible property less reserve for amortization \$1,023,830; other investments and advances \$11,163; special funds \$15,000 and other deferred debits \$109,721. Liabilities were: Current liabilities \$2,163,179; long-term debt due within one year \$3,319,656; long-term debt due after one year \$7,672,260; other deferred credits \$16,047; insurance reserves \$5,000; capital stock \$2,200,000; other capital surplus \$36,749 and earned surplus-unappropriated \$17,208,317.

Income statements for 1966, 1967 and 1968 show operating revenues of \$21,592,770, \$21,565,087 and \$24,777,931, net income before provision for income taxes of \$1,845,856, \$1,937,623 and \$3,040,685 and after such provision of \$1,754,099, \$1,800,465 and \$2,412,703, respectively.

Financial Analysis

Balance sheets and income statements of the Santa Fe for the years 1965 and 1968 are furnished below.

The statements for 1965 reflect the financial position of the Santa Fe at the time it entered into the agreement with the North Western, as later detailed, for purchase of the southern Rock Island. The statements for 1968 have been included to show Santa Fe's financial position as of the latest available date.

Table 80

SANTA FE AND AFFILIATED COMPANIES
BALANCE SHEETS AS OF

	December 31, 1965	December 31, 1968
<u>Current Assets</u>		
Cash	\$ 22,760,543	\$ 10,447,094
Temporary cash investments	83,684,355	73,655,082
Special deposits	444,545	170,529
Loans and notes receivable	27,000	3,007
Traffic and car-service balances-Dr.	5,340,120	2,933,894
Net balance receivable from agents and conductors	8,501,979	18,192,792
Miscellaneous accounts receivable	21,839,261	19,963,707
Interest and dividends receivable	1,278,910	1,015,867
Accrued accounts receivable	13,556,185	28,939,003
Working fund advances	407,358	457,772
Prepayments	656,228	842,050
Material and supplies	26,417,240	27,248,726
Other current assets	286,783	787,254
Total current assets	<u>185,200,507</u>	<u>184,656,714</u>
<u>Special Funds</u>		
Sinking funds	22,096,730	31,207,735
Capital and reserve funds	--	59,586
Insurance and other funds	255,500	330,000
Total special funds	<u>22,352,230</u>	<u>31,597,321</u>
<u>Investments</u>		
Investments in affiliated companies	43,960,036	45,639,622
Other investments	1,291,514	702,299
Total investments	<u>45,251,550</u>	<u>46,341,921</u>
<u>Properties</u>		
Road and equipment property	2,148,916,819	2,299,290,476
Improvements on leased property	1,779,898	1,649,500
Total transportation property	<u>2,150,696,717</u>	<u>2,300,939,976</u>
Accrued depreciation-rd. & equip.	(638,854,130)	(684,808,337)
Amortization of defense projects-rd. & equip.	(48,119,587)	(39,033,471)
Recorded depreciation & amortization	<u>(686,973,717)</u>	<u>(723,841,808)</u>
Total transportation property less depr. & amort.	<u>1,463,723,000</u>	<u>1,577,098,168</u>
Miscellaneous physical property less depr.	22,271,052	22,283,788
Total properties less depr. & amort.	<u>1,485,994,052</u>	<u>1,599,381,956</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	8,310,344	7,601,651
Unamortized discount on long-term debt	--	151,679
Other deferred charges	2,590,915	3,127,288
Total other assets and deferred charges	<u>10,901,259</u>	<u>10,880,618</u>
Total Assets	<u>\$1,749,699,598</u>	<u>\$1,872,858,530</u>

Table 80 - Continued

SANTA FE AND AFFILIATED COMPANIES
BALANCE SHEETS AS OF

	<u>December 31, 1965</u>	<u>December 31, 1968</u>
<u>Current Liabilities</u>		
Audited accounts and wages payable	\$ 20,678,419	\$ 21,964,382
Miscellaneous accounts payable	6,198,277	6,155,260
Interest matured unpaid	204,875	213,353
Dividends matured unpaid	444,545	170,529
Unmatured interest accrued	3,341,574	4,615,202
Unmatured dividends declared	12,947,213	12,979,331
Accrued accounts payable	40,236,795	45,973,361
Federal income taxes accrued	5,831,119	162,048
Other taxes accrued	11,147,703	12,199,543
Other current liabilities	8,400,234	17,114,925
Total current liabilities (exclusive of long-term debt due within 1 year)	<u>109,430,754</u>	<u>121,547,934</u>
 <u>Long-Term Debt Due Within 1 Year</u>	 <u>8,861,025</u>	 <u>23,205,550</u>
 <u>Long-Term Debt Due After 1 Year</u>		
Funded debt unmatured	179,017,500	176,004,500
Equipment obligations	73,884,061	116,742,353
Amounts payable to affiliated companies	126,396	148,184
Total long-term debt due after 1 year	<u>253,027,957</u>	<u>292,895,037</u>
 <u>Reserves</u>		
Casualty and other reserves	11,533,540	9,866,972
Total reserves	<u>11,533,540</u>	<u>9,866,972</u>
 <u>Other Liabilities and Deferred Credits</u>		
Other liabilities	1,864,273	3,191,377
Other deferred credits	735,176	857,825
Accrued depreciation-Leased property	376,419	432,913
Total other liabilities and deferred credits	<u>2,975,868</u>	<u>4,482,115</u>
 <u>Shareholders' Equity</u>		
<u>Capital stock-Common</u>	245,786,320	246,875,270
-Preferred	124,172,800	124,172,790
Total capital stock	<u>369,959,120</u>	<u>371,048,060</u>
 <u>Capital Surplus</u>		
Premiums and assessments on capital surplus	4,916,383	6,611,701
Paid-in-surplus	3,855	--
Total capital surplus	<u>4,920,238</u>	<u>6,611,701</u>
 <u>Retained Income</u>		
Retained income-appropriated	41,311,230	54,763,735
-unappropriated	947,679,866	988,437,426
Total retained income	<u>988,991,096</u>	<u>1,043,201,161</u>
 Total shareholders' equity	 <u>1,363,870,454</u>	 <u>1,420,860,922</u>
 Total liabilities and shareholders' equity	 <u>\$1,749,699,598</u>	 <u>\$1,872,858,530</u>

Table 81

SANTA FE AND AFFILIATED COMPANIES INCOME STATEMENTS FOR THE YEARS

	<u>1965</u>	<u>1968</u>
<u>Total Operating Revenues</u>	<u>\$654,704,152</u>	<u>\$673,374,786</u>
<u>Operating Expenses</u>		
<u>Maintenance of way and structures:</u>		
Exclusive of depreciation	83,012,453	97,938,453
Depreciation	9,214,073	9,373,579
<u>Maintenance of equipment:</u>		
Exclusive of depreciation	86,801,233	94,373,731
Depreciation	39,876,253	44,100,023
Traffic	18,603,001	19,014,827
Transportation	240,916,878	258,968,816
Miscellaneous & general	35,107,643	32,424,439
<u>Total operating expenses</u>	<u>513,531,534</u>	<u>556,193,868</u>
<u>Net revenue from railway operations</u>	<u>141,172,618</u>	<u>117,180,918</u>
<u>Railway tax accruals</u>	<u>60,056,467</u>	<u>58,253,861</u>
<u>Railway operating income</u>	<u>81,161,151</u>	<u>58,927,057</u>
Rent income-Cr.	3,460,286	3,052,496
Rent income-Dr.	11,260,837	13,882,962
<u>Net rents-Dr.</u>	<u>(7,800,551)</u>	<u>(10,830,466)</u>
<u>Net railway operating income</u>	<u>73,315,600</u>	<u>48,096,591</u>
<u>Total other income</u>	<u>19,527,427</u>	<u>18,926,033</u>
<u>Total income</u>	<u>92,843,027</u>	<u>67,022,624</u>
<u>Total miscellaneous deductions</u>	<u>1,649,666</u>	<u>1,673,885</u>
<u>Income available for fixed charges</u>	<u>91,193,361</u>	<u>65,348,739</u>
Fixed charges	8,061,930	12,367,054
Contingent interest (other deductions)	1,512,170	1,441,077
<u>Total fixed charges & contingent interest</u>	<u>9,574,100</u>	<u>13,808,131</u>
<u>Ordinary income</u>	<u>81,619,261</u>	<u>51,540,608</u>
<u>Total extraordinary items (net)</u>	<u>--</u>	<u>--</u>
<u>Net income after fixed charges and other deductions</u>	<u>\$ 81,619,261</u>	<u>\$ 51,540,608</u>

Gross Railway Operating Revenues & Expenses

As Table 82, appended to the end of this discussion shows, Santa Fe's railway operating revenues of \$633.8 million in 1959 declined to a low of \$604.5 million in 1961, increased steadily in the next five year period (1962-1966), and reached an all time high of \$704.6 million in 1966. As a result of the government's reduced grain export program, a nationwide "Railroad Shop Crafts" work stoppage, prolonged strikes in the automobile, copper and other industries and the effects of the production lag in the general economy, Santa Fe's revenues from railway operations declined more than \$41 million in 1967, and it reported total revenues of \$663.5 million for that year. However, comparing its total railway operating revenues for 1967 to the revenues it reported in previous years, it is evident that 1967 was its second best year of the nine year period 1959-1967. In 1968 it reported total railway operating revenues of \$673.4 million, an increase of some \$9.9 million over 1967, and the record indicates that such increased operating revenues resulted from improvements in service and aggressive solicitation of traffic.

Table 82 shows that Santa Fe's railway operating expenses increased from \$477.5 million in 1959 to \$556.2 million in 1968. In the five years from 1964 to 1968, the record discloses that Santa Fe's railway operating expenses were increased substantially due to industry wide wage increases and the inflationary trend in material costs.

Santa Fe's operating ratio for the five year period (1964-1968) averaged 80 percent, which is above the Western District's average of 77.8 percent for the same period. It is also noted that the operating ratio for the class I railroads in the Western District for 1968 was a favorable 78.7 percent, whereas, Santa Fe's operating ratio for 1968 was 82.6 percent, the highest it has reported in the last decade (1959-1968).

Net Railway Operating Income & Net Income

Santa Fe's railway operations for the five year period from 1959 to 1963 produced net railway operating income which began and ended the period at about the same figure, \$59.5-\$59.6 million. In between those years, net railway operating income fluctuated radically from \$43.7 million in 1960 to \$61.1 million in 1962.

For the five year period from 1964 to 1968 with the increase in business activity, net railway operating income increased to \$65.1 million in 1964 and to an all

time high of \$78.8 million in 1966. However, as a result of the adverse conditions previously discussed, 1967 net railway operating income declined 35.6 percent below the record high of 1966. Net railway operating income for 1968 declined 5.2 percent below 1967.

For the entire 10 year period (1959-1968) an average of 22.3 percent of Santa Fe's income available for fixed charges was derived from nonrailway operations (Form A Annual Reports). Also, after giving consideration to the fluctuating financial results of Santa Fe's railway operations over the last decade, it has realized profitable railway operations throughout the entire period.

Table 82

SANTA FE AND AFFILIATED COMPANIES NET INCOME TREND 1959-1968

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges And Other Deductions (000)</u>
1959	\$633,836	\$477,527	\$59,557	\$74,051	\$65,786
1960	614,017	482,070	43,744	59,614	51,597
1961	604,524	466,749	49,116	63,182	54,850
1962	612,320	484,750	61,172	79,160	70,692
1963	616,080	496,343	59,667	75,538	67,500
1964	637,772	511,978	65,179	84,159	75,780
1965	654,704	513,532	73,316	91,193	81,619
1966	704,662	542,141	78,883	96,880	84,751
1967	663,494	544,852	50,750	67,829	53,585
1968	673,375	556,194	48,097	65,349	51,541

Working Capital

Table 83, which follows, discloses that for the 10 year period 1959-1968, Santa Fe showed an average monthly working capital requirement of some \$38.4 million. Its average current assets exceeded average current liabilities for the same period by approximately \$77.6 million, and current assets were never less than 1.5 times the amount of current liabilities. Thus, the Santa Fe has enjoyed a very favorable working capital position which has historically exceeded its working capital needs.

On this basis Santa Fe has had sufficient funds available for conducting orderly operations and the excess of these funds has been available to improve its service, to continue to perform necessary maintenance and for any other corporate needs designated by management.

Table 83

SANTA FE AND AFFILIATED COMPANIES WORKING CAPITAL 1959-1968

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1959	\$224,468	\$ 97,497	\$126,971	\$440,392	\$36,699	2.3
1960	164,033	93,487	70,546	442,912	36,909	1.8
1961	175,559	106,416	69,143	425,215	35,435	1.6
1962	183,182	96,749	86,433	441,864	36,822	1.9
1963	171,739	101,519	70,220	451,930	37,661	1.7
1964	192,187	106,489	85,698	465,299	38,775	1.8
1965	185,201	109,431	75,770	464,442	38,704	1.7
1966	201,834	125,432	76,402	480,952	40,746	1.6
1967	171,716	110,130	61,586	490,257	40,855	1.6
1968	184,657	121,548	63,109	502,720	41,893	1.5

Rate of Return

Santa Fe's management has maintained a vigorous program of capital expenditures for property, equipment and service improvements. As a result of these expenditures it has managed to operate more efficiently and economically. Those factors have contributed to a rate of return on net investment in transportation property which has been above the average for the Western District railroads.

Table 84 (immediately following), has been constructed to show Santa Fe's return on net investment in transportation property, for the period 1959-1968. In 1965 and 1966 its rate of return reached a high of 4.85 percent which was higher than the 3.85 percent and 3.93 percent computed for the Western District for the respective years. In 1968 Santa Fe's rate of return was 2.98 percent, the lowest it had realized from its operations in the entire 10 year period considered. However, its average rate of return for the 10 year period (1959-1968) was 4.10 percent, which was comparatively higher than the average 3.25 percent computed for the Western District from 1959-1967 (1968 not available).

Table 84

SANTA FE AND AFFILIATED COMPANIES RATE OF RETURN ON NET INVESTMENT
IN TRANSPORTATION PROPERTY 1959-1968

<u>Year</u>	<u>Investment In Property, Cash & M&S (000)</u>	<u>Depreciation & Amortization (000)</u>	<u>Net Investment (000)</u>	<u>Net Ry. Opr. Income (000)</u>	<u>Percent Santa Fe</u>	<u>Percent Western District</u>
1959	\$1,950,902	\$574,904	\$1,375,998	\$59,557	4.33	3.08
1960	2,029,949	598,604	1,431,345	43,744	3.06	2.59
1961	2,057,679	619,374	1,438,305	49,116	3.41	2.77
1962	2,051,816	636,633	1,415,183	61,172	4.31	3.27
1963	2,094,068	653,824	1,440,244	59,667	4.14	3.60
1964	2,166,721	676,132	1,490,589	65,179	4.37	3.43
1965	2,199,100	687,244	1,511,856	73,316	4.85	3.85
1966	2,348,660	721,362	1,627,298	78,883	4.85	3.93
1967	2,377,763	756,635	1,621,120	50,750	3.13	2.73
1968	2,337,869	724,146	1,613,723	48,097	2.98	NA

NA - Not available.

Long Term Debt

Santa Fe's total long term debt (including amounts due and payable within one year) averaged \$246 million annually for the 10 year period 1959-1968. Its long-term debt due within one year ranged from a low of \$5.5 million in 1959 to a high of more than \$23 million in 1968 and the average for the entire period was \$11.8 million.

Table 82 representing Santa Fe's net income trend, discloses that its operations have historically been profitable and its average annual earnings for the 10 year period was almost \$66 million. It has had more than sufficient funds available to service its equipment obligations and other debt due within one year without resorting to the use of funds generated by charges to depreciation.

As a result of the foregoing, the excess funds have been available for other corporate needs and the record has indicated that Santa Fe has been selective in its arrangements for financing its capital expenditures program.

Fixed Charges & Contingent Interest

For the 10 year period 1959-1968, Santa Fe's fixed charges and contingent interest aggregated \$102.2 million or an average of \$10.2 million annually. Table 82 shows that it has historically realized a sufficient amount of net income from railway operations alone to meet fixed charges without depending on earnings generated from nontransportation activities. The combined incomes from railway operations and nontransportation operations total \$756.9 million for the entire 10 year period or an average of \$75.6 million annually. On this basis its total average annual income available for fixed charges was 7.5 times larger than total average annual fixed charges for the period considered.

Taxes

Santa Fe's transportation and nontransportation operations have been conducted on a profitable basis for the 10 year period 1959 to 1968. As a result of these profitable operations it has, in that period of time, accrued substantial amounts of Federal income taxes. The following Table 85 has been included to show the total amount of Federal and State taxes that the Santa Fe has accrued from 1959 to 1968.

It is noted, however, that any increases or decreases in Federal income tax accruals beginning in 1962 can be attributed principally to: (A) decline in taxable income, (B) changes in the tax rate, (C) revision of Treasury Department's depreciation guideline rules and (D) investment tax credit.

Table 85

RAILWAY TAX ACCRUALS

<u>Year</u>	<u>State Taxes</u> <u>(000)</u>	<u>Federal</u> <u>Income Taxes</u> <u>(000)</u>	<u>All Other</u> <u>Federal Taxes</u> <u>(000)</u>	<u>Total</u> <u>(000)</u>
1959	\$24,404	\$39,788	\$22,919	\$87,111
1960	24,740	28,454	24,855	78,049
1961	24,347	31,026	22,910	78,283
1962	24,603	10,721	24,205	59,529
1963	23,796	7,471	24,147	55,414
1964	23,766	5,735	24,934	54,435
1965	24,631	9,714	25,711	60,056
1966	23,827	21,997	29,050	74,874
1967	26,913	3,401	31,490	61,804
1968	26,901	(1,485)	32,837	58,253

Debt Equity

An analysis of Santa Fe's balance sheets for the 10 year period from 1959 to 1968, discloses that its ratio of total long-term debt to total long-term debt and shareholders' equity never exceeded 19.2 percent and averaged only 15.2 percent over the entire period.

Also, based on a computation which includes Santa Fe's total debt as of December 31, 1968, the carrier had a favorable ratio of total debt to combined total debt and shareholders' equity of 24.1 percent.

Preliminary Findings and Conclusions

The Santa Fe is one of the two major carriers operating through the southern corridor, the Southern Pacific being the other line. Santa Fe also serves generally the same territory served by Southern Pacific's San Joaquin Valley route in California. While the Southern Pacific's routes extend through the southern portions of Arizona and New Mexico, Santa Fe's California-Chicago line follows a more northerly route in the two States. Santa Fe lines virtually blanket Texas. Traffic moving between the western portion of the Santa Fe and

It follows that the Santa Fe routes with the heaviest freight traffic density connect the points described in the preceding paragraph. In short, the high-density routes are: San Francisco and Los Angeles to Chicago via the Amarillo line and Kansas City, the route with the heaviest density (slightly heavier eastbound east of Clovis with westbound density heavier west of Clovis); Clovis-Carlsbad (northbound); Kansas City-Oklahoma City-Fort Worth and Dallas-Houston-Galveston and Beaumont; and Farwell-Fort Worth and Houston. Traffic density toward Gulf points exceeds the density away from them on the described routes to Texas.

Santa Fe has invested substantial amounts of money in modern rolling stock and fixed facilities. There has been a net increase in the number of freight cars and their aggregate capacity over the 1959-1968 period. The record shows that for the last five years (1964-1968) expenditures for equipment alone totaled some \$474.5 million. Its return on net investment in transportation property has been above the average shown for the railroads in the Western District.

Santa Fe's operations over the 1959-1968 period have resulted in erratic decreases and increases in net income especially for the first eight years of the considered period (1959-1966) followed by a sharp downward trend in the last two years (1967 and 1968). However, regardless of these fluctuations, its earnings have historically been good. It has consistently shown a working capital position which has been more than adequate for orderly operations. Its earnings have also been more than adequate to service its long-term debt due within one year, meet its fixed charges and maintain a favorable debt-equity ratio.

Santa Fe is a financially sound carrier and it has paid dividends on its preferred and common stock in each year from 1959 to 1968, inclusive. Dividend payments to stockholders during the decade averaged more than \$43 million annually. In 1968 dividends on preferred and common stock amounted to \$45,698,400.

RIO GRANDECorporate History, Subsidiaries and Affiliates

The Rio Grande, incorporated in Delaware on November 15, 1920, maintains its principal offices in Denver. The history of the Rio Grande in its early operations as a hauler of principally local traffic and later as a significant participant in the transportation of transcontinental traffic through the central corridor is described in detail in the supplemental report in the Central Pacific case. In short, following various constructions and acquisitions of control⁴³ which resulted in substantial shortening of Rio Grande's lines, and the termination of a 12-year period of trusteeship (1935-1947) when it emerged in the best physical and financial condition in its history, the Rio Grande began deriving a substantial portion of its traffic and revenues from transcontinental traffic.

The distribution of Rio Grande capital stock is here significant only to the extent of ownership of such stock by other railroads. As of December 31, 1968, Rio Grande was authorized to issue 8,000,000 shares of common capital stock, without par value, of which 6,469,440 shares were issued and outstanding. The largest single stockholder of the outstanding shares was Spokane International Railroad (the Union Pacific subsidiary) holding 600,750 shares or 9.28 percent. Also, St. Louis & Kansas City Land Co. (a wholly owned subsidiary of the Burlington) held 223,480 shares or 3.45 percent.

Scope of Operations, Plant and Equipment

As of December 31, 1968, the Rio Grande operated 2,153 miles of road in three States as follows: 1,409 miles in Colorado, 99 miles in New Mexico and 645 miles in Utah. Of the total miles of road, 830 miles were branch line, 45 miles were operated under trackage rights, and 268 miles were narrow gauge track.

The Rio Grande's principal line runs from Denver to Ogden through East Portal, Winter Park (the Moffat Tunnel Route) and Dotsero, Colo., also through Colorado Springs, Pueblo, and Salida, Colo., to Dotsero (the Royal Gorge Route); Grande Junction, Colo., Provo and

⁴³Proposed Construction by Denver & S.L.W.R. Co., 154 I.C.C. 51, and Denver & S.L. Ry. Co. Control, 170 I.C.C. 4 (1930) and 175 I.C.C. 542 (1931).

Salt Lake City, Utah. The line also extends from Pueblo to Creede and Silverton, Colo., and Farmington, N. Mex., through Walsenburg and Alamosa, Colo., and from Walsenburg to Trinidad.

At the close of 1968, Rio Grande utilized 12,244 freight-train cars of all types, 229 diesel locomotives and 20 steam locomotives.

In addition to its railroad properties, the Rio Grande wholly owns the Rio Grande Motor Way, Inc., which, in turn, owns the Larson Transportation Company. The combined highway routes of such motor carriers parallel most of the lines of the Rio Grande and also some territory not reached by the parent railroad.

Freight Traffic: Volume, Commodity Consist and Service Output

Data discussed below are shown in Tables 86, 87 and 88, which follow the discussion and show freight statistics for the period 1964-1968.

During the five-year period, Rio Grande's freight revenues rose 21.7 percent from \$73.6 million to \$89.6 million, which represented a steady increase except for a minor decrease in 1967 (Table 86). A similar situation existed in the case of revenue ton-miles, which rose 29.5 percent from 6.1 billion to 7.9 billion with a slight decrease in 1967. Revenue tonnage increased (net) 11.4 percent from 21.1 million to 23.5 million tons; however, the 1968 tonnage was about 137,000 tons less than the 1967 figure, the only year-to-year decline for the period.

The 1968 carload figure of 463,088 represents a net 4.2 percent increase over the 1964 figure (Table 86). Carloads fluctuated over the five-year period, reaching a 1966 high of 470,635 cars. The largest single portion of Rio Grande's carload traffic is overhead traffic which ranged between 41 and 43 percent of total carloads during the period. In 1967 and 1968, however, overhead traffic decreased slightly relative to total carload traffic. Total interline traffic constituted 81 to 83 percent of all carloads during the period. Interline originated traffic has ranged between 21 percent and the 1968 high of 22 percent. Interline terminated traffic represented 17 percent of total carloads for the first four years of the period, falling to 16 percent in 1968. Local traffic accounted for 17 to 19 percent of total carloads over the period.

During the five-year period, the average length of haul increased steadily, except for 1967, from 288 miles to 335 miles, and the average revenue load per car increased steadily from 47.5 tons to 50.7 tons.

Commodity statistics are shown in Table 87 (tonnage) and Table 88 (revenue) for the 1964-1968 period. Despite the fact that about one-third of Rio Grande's tonnage consists of coal, revenue from this traffic represented 14 percent of total gross freight revenue in 1964, declining to 12 percent in 1968. "Food & Products" traffic consistently accounted for nine percent of total tonnage while revenue therefrom has represented from 14 to 15 percent of the total. Other than "Coal," only one other commodity group, "Lumber & Products," has continually constituted over 10 percent of total tonnage. "Lumber & Products" revenue ranged from 13 to 15 percent of total gross freight revenue. About 60 percent of Rio Grande's 1968 gross freight revenue was derived from hauling commodities which accounted for approximately 46 percent of total tonnage. Among these commodity groups, those which had a total movement of less than 500,000 tons represented roughly 11 percent of total tonnage and 21 percent of gross freight revenue.

Table 86

RIO GRANDE REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES, AND FREIGHT REVENUE 1964 THROUGH 1968

Year	Carloads					Total Revenue Tons*	Revenue Ton-Miles (Millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead	Total Carloads			
1964	78,316	97,345	75,773	193,198	444,632	21,126,278	6,080	\$73,592
1965	81,246	103,810	79,301	202,068	466,425	22,784,210	6,796	81,103
1966	86,029	99,546	82,133	202,927	470,635	23,121,657	7,120	85,284
1967	87,554	100,545	76,745	187,920	452,764	23,636,939	7,111	84,621
1968	87,341	104,165	73,393	198,189	463,088	23,500,083	7,862	89,574

*Includes L.C.L. Freight.

Table 87

RIO GRANDE COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Farm Products	1,409	6.7	1,125	4.9	1,097	4.7	1,024	4.5	974	4.1
Metallic Ores	1,357	6.4	1,500	6.6	1,638	7.1	1,501	6.6	1,484	6.3
Coal	7,579	35.9	8,177	35.9	8,007	34.6	7,795	34.4	7,623	32.4
Non-Metal Minerals	1,787	8.5	1,996	8.8	1,778	7.7	1,493	6.6	1,577	6.7
Food & Products	1,855	8.8	2,095	9.2	2,161	9.3	2,101	9.3	2,179	9.3
Lumber and Products	2,355	11.1	2,470	10.8	2,330	10.1	2,424	10.7	2,770	11.8
Primary Metal Products	1,511	7.2	1,724	7.6	1,803	7.8	1,568	6.9	1,716	7.3
Chemicals	438	2.1	508	2.2	679	2.9	771	3.4	956	4.1
Stone, Clay & Glass Products	746	3.5	768	3.4	816	3.5	1,089	4.8	1,189	5.1
Transportation Equip.	404	1.9	490	2.2	534	2.3	472	2.1	548	2.3
All Other Groups	1,685	8.0	1,931	8.5	2,279	9.9	2,399	10.6	2,484	10.6
Total	21,126	100.0	22,784	100.0	23,122	100.0	22,637	100.0	23,500	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

With the exception of "Transportation Equipment," the commodity groups specifically named each accounted for the movement of 500,000 or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than 500,000 tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 88

RIO GRANDE COMMODITY STATISTICS, 1964 THROUGH 1968
COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Farm Products	\$ 5,670	7.2	\$ 4,250	4.9	\$ 4,025	4.5	\$ 3,858	4.3	\$ 3,595	3.8
Metallic Ores	2,769	3.5	3,801	4.5	3,731	4.1	3,308	3.7	3,421	3.6
Coal	10,922	13.8	11,634	13.5	11,492	12.8	11,427	12.8	11,568	12.3
Non-Metal Minerals	3,600	4.6	3,991	4.6	3,600	4.0	2,722	3.0	2,995	3.2
Food & Products	11,485	14.5	12,897	15.0	13,083	14.5	12,719	14.2	12,827	13.6
Lumber and Products	11,376	14.4	11,922	13.8	11,369	12.6	11,853	13.2	13,771	14.6
Primary Metal Products	6,649	8.4	7,758	9.0	7,735	8.6	6,435	7.2	8,061	8.6
Chemicals	2,709	3.4	2,939	3.4	4,076	4.5	4,599	5.1	5,839	6.2
Stone, Clay & Glass Products	3,203	4.1	3,157	3.7	3,241	3.6	3,869	4.3	4,112	4.4
Transportation Equip.	6,081	7.7	7,151	8.3	7,864	8.7	6,914	7.7	8,288	8.8
All Other Groups	14,615	18.5	16,652	19.3	19,905	22.1	21,766	24.3	19,722	20.9
Total	\$79,079	100.0	\$86,152	100.0	\$90,121	100.0	\$89,470	100.0	\$94,199	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*

With the exception of "Transportation Equipment," the commodity groups specifically named each accounted for the movement of 500,000 or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than 500,000 tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Freight Traffic: Interchanges and Traffic Flow

Rio Grande's evidence shows freight traffic density in 1964 in terms of gross ton-miles per mile of road, based on the weight of freight train cars, their contents and cabooses. The traffic density is shown below:

<u>Line Segment</u>	<u>Gross Ton-Miles/Mile (Millions)</u>	
	<u>Eastbound</u>	<u>Westbound</u>
Ogden-Salt Lake City	6.1	4.4
Salt Lake City-Helper	9.8	11.6
Helper-Grande Jct.	9.1	8.6
Grand Jct.-Dotsero	9.2	7.6
Dotsero-Orestod	4.4	4.4
Orestod-Denver	6.0	4.9
Dotsero-Pueblo	4.8	3.3
Pueblo-Denver*	1.6	1.9

*Eastbound is actually northbound (to Denver), westbound is southbound (to Pueblo).

The above data shows that the bulk of Rio Grande's traffic moves over the entire length of its route between the Utah and Colorado gateways. Traffic to and from Denver and Pueblo moves over the same route between Ogden-Salt Lake City and Dotsero. Traffic between Dotsero and Denver on the Moffat Tunnel Route is slightly heavier overall than on the Royal Gorge Route between Dotsero and Pueblo. Eastbound traffic is generally somewhat greater than westbound. With the exception of branches between Mounds and Sunnyside, Utah, and Orestod and Craigs, Colo., freight traffic density on lines other than those described totaled less than one million gross ton-miles per mile in either direction.

As noted earlier, Rio Grande's traffic consists of over 40 percent bridge movements. In view of this and the fact that the carrier's major interchange points are at the extreme ends of the system, the interchange data for the west end gateways include many cars interchanged at the east end. Table 89, which follows, therefore shows the Utah and Colorado gateways as separate groups. Data are for 1964, and the gateways shown are those at which Rio Grande interchanged at least 500 cars with a carrier actively participating in these proceedings.

Table 89

MAJOR RIO GRANDE INTERCHANGES

D&RGW Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
<u>Utah Gateways:</u>				
Ogden	SP	51,604	71,219	122,823
	UP	271	1,450	1,721
Salt Lake City*	WP	47,728	26,321	74,049
	UP	15,446	4,091	19,537
	All Other	--	132	132
Provo	UP	22,756	3,218	25,974
	All Other	1	3,069	3,070
Utah Total		137,806	109,500	247,306
<u>Colorado Gateways:</u>				
Denver	CB&Q	29,095	36,057	65,152
	RI	17,571	16,800	34,371
	UP	8,698	13,019	21,717
	C&S	3,980	3,720	7,700
	AT&SF	1,069	2,170	3,239
Colorado Springs	RI	4,523	3,355	7,878
	AT&SF	3	179	182
	C&S	13	197	210
Pueblo	MoPac	44,852	41,990	86,842
	AT&SF	13,361	8,580	21,941
	C&S	4,021	1,543	5,564
Walsenburg	C&S	1,578	250	1,828
Colorado Total		128,764	127,860	256,624

*Includes N. Salt Lake, Midvale, and Garfield,
Jct., Utah.

Physical interchanges totaling 559,514 were involved in the movement of Rio Grande's 366,316 interline carloads in 1964. The carrier's major gateways at the western end of the system are Ogden, the Salt Lake City area, and Provo. Rio Grande's largest interchange with a single carrier is at Ogden with the Southern Pacific. Ogden is the only interchange point between the two carriers, and in 1964, the cars interchanged between them totaled 122,823, of which 71,219 cars were delivered to Rio Grande by Southern Pacific. Of the total cars interchanged, 106,672 or 87 percent, moved as bridge traffic over Rio Grande. The Southern Pacific interchange represented 34 percent of Rio Grande's interline carloads. The Union Pacific and Rio Grande interchanged only 1,721 cars at Ogden, of which 1,242 were delivered to, and terminated on Rio Grande.

At Salt Lake City (including N. Salt Lake, Midvale, and Garfield Junction) Rio Grande interchanged 74,049 cars with Western Pacific (about 80 percent overhead to Rio Grande), and 19,537 with Union Pacific. The cars interchanged with Western Pacific included 59,207 cars moving as bridge traffic over Rio Grande. The Western Pacific interchange represented 20 percent of Rio Grande's interline carloads. The 19,537 cars interchanged with Union Pacific included 12,479 cars originated and 3,447 terminated on Rio Grande. Similarly at Provo, of the 25,974 cars interchanged with Union Pacific, 22,748 originated on Rio Grande. Systemwide in 1963, Rio Grande originated 37,342 cars and delivered them to Union Pacific, and of the total, 32,398 cars carried "Products of Mines." While the interchange data for Salt Lake City and Provo are for 1964 and the system wide commodity interchange are for 1963 in the record, it is nonetheless reasonable to conclude that the bulk of the traffic that Rio Grande interchanges at its western gateways with Union Pacific is "Products of Mines" traffic originated on Rio Grande.

The major interchanges at the eastern end of the Rio Grande system are at Denver, Colorado Springs and Pueblo. At Colorado Springs, the major interchange volume moves between Rio Grande and Rock Island (7,878 cars). Another 34,371 cars were interchanged between the two carriers at Denver, for a total of 42,249 carloads, or 12 percent of Rio Grande's total interline cars: three-fourths of this traffic was overhead to Rio Grande. The principal interchange with Santa Fe is at Pueblo, although some interchanges take place at Denver and Colorado Springs; interchanges at the three points totaled 25,362 cars or 7 percent of Rio Grande's interline carloads. Nearly 60 percent of the cars Rio Grande interchanged with Santa Fe moved as bridge traffic on Rio Grande.

Approximately 46 percent of the 21,717 cars interchanged with Union Pacific at Denver were also bridge traffic for Rio Grande as opposed to primarily Rio Grande-originated traffic interchanged with Union Pacific at the Utah gateways. Also at Denver, the Rio Grande and the Burlington interchanged 65,152 cars of which 36,057 were delivered to Rio Grande by Burlington. For Rio Grande, 51,583 cars were bridge traffic. The Burlington subsidiary, Colorado & Southern interchanged 7,700 cars with Rio Grande at Denver, 210 at Colorado Springs, 5,564 at Pueblo, and 1,828 at Walsenburg. The total Rio Grande interchange with Burlington and Colorado & Southern at Denver, Colorado Springs, Pueblo, and Walsenburg, amounted to 80,454 cars, of which somewhat over 70 percent were bridge movements on Rio Grande.

At Leadville, Colo. (not shown in Table 89), interchange is made with a Colorado & Southern branch (1,353 cars in 1964) which runs to Climax, Colo., and is physically separate from the main Colorado & Southern system, later described.

The MoPac interchange with Rio Grande at Pueblo is the second largest with an individual connecting carrier on the Rio Grande system, exceeded only by the SP interchange at Ogden. Rio Grande delivered 44,852 cars to and received 41,990 cars from MoPac, for a total of 86,842. Of this traffic, 75 percent was bridge traffic for Rio Grande.

Points on Rio Grande which originated 5,000 or more cars of local traffic were: East Wellington, Utah, 16,401; Keigly, Utah, 7,843; and Denver, 5,320. Local traffic terminations of 5,000 or more cars took place at Geneva, Utah, 29,287 cars, and Denver, 13,682. Three points were origins of 5,000 or more interline cars: Sunnyside, Utah, 17,208; Geneva, 7,996; and Carbondale, Colo., 5,426. East Wellington with 16,444 cars, Denver with 14,349 cars and Salt Lake City with 9,109 cars, were the only destinations for 5,000 or more interline cars.

Financial Status of Rio Grande

Rio Grande's general balance sheet as of December 31, 1968, is based on its Annual Report Form A. Total assets of \$293.9 million are composed of current assets of \$41.3 million, including, among others, cash \$4.6 million and temporary cash investments of \$19.9 million; special funds \$588,345; investments of \$9.9 million including other investments of \$1.7 million and investments in affiliated companies of \$8.3 million; total properties less depreciation and amortization \$240.2 million; and other assets and deferred charges \$1.9 million. Liabilities and shareholders' equity are composed of current liabilities of \$22.4 million, including audited accounts and wages payable of \$2.8 million, accrued taxes of \$6.5 million; long-term debt of \$90.6 million including \$4 million due within one year; reserves \$342,863; other liabilities and deferred credits of \$8.5 million; and shareholders' equity of \$172.2 million, comprised of capital stock of \$88.6 million, capital surplus of \$19.7 million, and retained income of \$63.9 million.

Rio Grande's income statement for the year 1968 shows total railway operating revenues of \$92,662 million, with total railway operating expenses of \$63,803 million resulting in an operating ratio of 68.86 percent. Net railway operating income of \$13.9 million

plus income (net) realized from other than railway operations amounted to income of \$15.7 million which was available for payment of fixed charges of some \$4.2 million for the year 1968. Its net income after fixed charges and other deductions amounted to \$11.5 million, which is more than sufficient to service long-term debt due within one year of \$4 million. Rio Grande had a favorable ratio of total debt to combined total debt and shareholder's equity of 41 percent as of December 31, 1968. It is clear that as of December 31, 1968, Rio Grande's financial position was good.

Table 90 following, shows Rio Grande's results of operations for the five year period 1964-1968. For that period of time its operating ratio averaged about 69 percent; current assets exceeded current liabilities to the extent that its working capital position was adequate for conducting orderly operations; its total debt trend for that period, based on a ratio of total debt to combined total debt and stockholders' equity did not exceed 45 percent; funds were available to service its long-term debt due within one year from net income alone without using any funds generated by charges to depreciation and it has had no difficulty in meeting its fixed charges.

Table 90

RIO GRANDE INCOME TREND 1964-1968

<u>Year</u>	<u>Total Operating Revenues (000)</u>	<u>Total Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges And Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$79,138	\$55,318	\$12,117	\$14,184	\$10,656	69.90
1965	86,401	59,821	13,317	15,169	11,132	69.24
1966	90,365	62,067	14,940	16,653	12,895	68.69
1967	88,334	62,446	13,958	15,155	11,250	70.69
1968	92,662	63,803	13,930	15,688	11,531	68.86

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>RIO GRANDE WORKING CAPITAL</u>		<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
			<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>		
1964	\$38,121	\$18,041	\$20,080	\$49,202	\$4,100	2.1
1965	38,605	18,082	20,523	53,237	4,436	2.1
1966	37,434	19,836	17,598	55,401	4,617	1.9
1967	39,634	18,849	20,785	55,604	4,633	2.1
1968	41,304	22,380	18,924	57,046	4,754	1.8

RIO GRANDE RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$114,380	- 46	\$114,674	- 45	\$116,987	- 45	\$113,784	- 40	\$121,743	- 41
<u>STOCKHOLDERS' EQUITY</u>	134,350	- 54	139,280	- 55	144,425	- 55	168,680	- 60	172,192	- 59
<u>TOTAL</u>	<u>\$248,730</u>	<u>-100</u>	<u>\$253,954</u>	<u>-100</u>	<u>\$261,412</u>	<u>-100</u>	<u>\$282,464</u>	<u>-100</u>	<u>\$293,935</u>	<u>-100</u>

Preliminary Findings and Conclusions

Rio Grande, largely a carrier of local traffic prior to emerging from trusteeship in 1947, has become a healthy and vigorous competitor for long-haul traffic moving through the central corridor. Over 40 percent of its total carloads consists of bridge traffic, while local traffic is less than 20 percent of the total. Despite the small size of Rio Grande compared to the other carriers operating through the three east-west corridors in the Western District, the average length of haul for Rio Grande stood at 335 miles in 1968, a net increase of 47 miles over 1964.

Approximately one-third of Rio Grande's revenue tonnage is coal, which, like the "Food & Products" and "Lumber & Products" groups, contributes between 10 and 15 percent of gross freight revenue annually. The latter two groups, however, each represent only about one-tenth of the total tonnage hauled annually. The remaining portion of gross freight revenue, roughly 60 percent, is contributed by a wide variety of commodities comprising somewhat less than half of total tonnage. Except for 1967, freight revenue and revenue ton-miles have increased consistently since 1964. Actual revenue tonnage declined slightly in 1968, after a steady year-to-year increase from 21 million tons in 1964 to almost 24 million tons in 1967.

Rio Grande's principal traffic-producing points lie on branches extending from the above-described main lines into the Colorado and Utah mining regions and interchanges in these areas are chiefly with short-line carriers serving limited territories. At the Utah gateways, interchanges with Western Pacific and Southern Pacific consist mostly of traffic moving overhead to Rio Grande, while the traffic interchanged with Union Pacific is primarily Products of Mines traffic which originates on Rio Grande. At the Colorado gateways, among the carriers actively participating in these proceedings, interchanges with all but Union Pacific consisted of over 60 percent Rio Grande bridge traffic. Of the Union Pacific interchange, somewhat less than half of the cars were bridge movements over Rio Grande.

It is readily apparent that since World War II, and particularly in recent years, the Rio Grande has been a financially sound, profitable and efficiently operated segment of the central corridor, participating to a great extent in traffic having neither origin nor destination on its own lines. At the same time, interline originated and interline terminated traffic constitute an important portion (38 percent in 1968) of the Rio Grande's carload traffic. Although the carrier has emerged from its former status as a small local carrier into an active participant in interline business, such emergence has brought with it an increasing dependence on connecting carriers which extend far beyond the territory served in large part almost exclusively by Rio Grande.

WESTERN PACIFICCorporate History

Western Pacific, with its principal offices in San Francisco, was incorporated June 6, 1916, under the laws of California, as a reorganization of the Western Pacific Railway Company, which had been incorporated 13 years earlier to construct and operate a railroad between Salt Lake City and the San Francisco Bay area. The predecessor company had instituted service in 1909. Western Pacific could not support itself and, when the guarantor of Western Pacific bonds defaulted, Western Pacific was forced into receivership in March, 1915. The present company was organized to operate the properties of the foreclosed company.

In 1931, Western Pacific extended its lines northward from Keddle, Calif., to Bieber, Calif., where it connected with Great Northern, which had built southward to that point. Known as the Bieber Route, this line made Western Pacific a bridge between Great Northern and Santa Fe on traffic moving on the "Inside Corridor," between the Pacific Northwest and the Pacific Southwest.

The new company also suffered financial difficulties and, in August 1935, filed a petition for reorganization under section 77 of the Bankruptcy Act. Reorganization was consummated December 29, 1944, and all of the common and preferred stocks of the predecessor company were wiped out, with new securities distributed to the bond and note holders.

Subsidiaries and Affiliates

Western Pacific owns 100 percent of the Sacramento Northern Railway and 99.78 percent of the Tidewater Southern Railway Company. It has joint ownership of the Salt Lake City Union Depot & Railroad Company with Rio Grande, and joint ownership of the Alameda Belt Line and the Oakland Terminal Railway with Santa Fe. Western Pacific, Santa Fe and Southern Pacific each own one-third of the Central California Traction Company.

The three largest stockholders of Western Pacific are rail carriers or subsidiaries thereof. Spokane International, the Union Pacific subsidiary, owns 9.96 percent of Western Pacific; Southern Pacific Land Company, a wholly owned subsidiary of Southern Pacific, owns 9.56 percent; and Great Northern owns 9.18 percent.

As of December 31, 1968, Western Pacific was authorized to issue 2,226,464.767 shares of Non-Par Value Common Stock. Its actual stock outstanding totaled 2,002,370 shares, having a book value of \$37,820,664.

Operations, Plant and Equipment

As of December 31, 1968, Western Pacific operated 1,176 miles of track in three States; namely, California-580 miles, Nevada-451 miles, and Utah-146 miles. Actual track mileage was 1,964 miles. Western Pacific's subsidiaries, Sacramento Northern and Tidewater Southern, operate a total of 407 miles of road, of which 70 miles are trackage rights over the parent company's lines, resulting in a total system mileage of 1,513 miles.

Western Pacific's main routes are (1) between San Francisco and Salt Lake City, through Oakland, Stockton, Sacramento, and Keddle, Calif., and Winnemucca and Wells, Nev.; and (2) between Keddle and Bieber. Directly and through connections with the Sacramento Northern, the Western Pacific system lines serve the principal cities and agricultural districts of the Sacramento Valley in northern California. Through the Tidewater Southern, it reaches southerly down the San Joaquin Valley from Stockton to the cities of Manteca, Modesto and Turlock. Western Pacific's principal terminals and interchange points are located at Salt Lake City, San Francisco, Bieber, Stockton and Oakland.

Southern Pacific has trackage rights over Western Pacific's main line from Flanigan to Weso, Nev. Southern Pacific and Western Pacific have a "paired track" operation from Weso to Alazon, Nev. (near Wells). In other words, Southern Pacific and Western Pacific cooperate in the use of the same trackage over most of the latter's route mileage in Nevada. Southern Pacific has its own line from Weso through Reno to Sacramento. Its trackage rights over Western Pacific from Weso to Flanigan appear to offer Southern Pacific a short route to its Portland, Oreg., line at Flanigan.

Generally speaking, Western Pacific's San Francisco-Salt Lake City route is directly competitive to Southern Pacific's San Francisco-Ogden route. The Western Pacific line from Keddle to Bieber, Calif., is a part of the previously described Great Northern-Western Pacific-Santa Fe (Santa Fe connects with Western Pacific at Stockton) route between the Pacific Northwest and Southern California. This three-carrier route provides the principal competition for the Southern Pacific route from Portland to San Francisco and (via two routes) Los Angeles.

At the close of 1968, Western Pacific was operating 160 diesel locomotives, including 118 freight units, 13 passenger units, and 29 switching units. It had 6,101 freight cars and 15 passenger cars. Its freight fleet consisted of 3,435 boxcars, 1,141 gondolas, 468 open hopper, 323 covered hopper, 86 tank cars, 399 flat cars, and 4 others. Total capacity was 383,582 tons.

Freight Traffic: Volume and Service Output

During the five year period, 1964 through 1968, Western Pacific's freight revenues rose 29.9 percent from \$49.5 million to \$64.3 million. The rise was steady except for 1967 revenues of \$55.6 million (\$4.5 million below the 1966 figure). Similar trends existed for revenue tonnage, revenue ton-miles and carloads. Over the period, net increases were: tonnage, 12 percent from 8.3 million tons to 9.3 million tons; ton-miles, 17 percent, from 4.2 billion ton-miles to 4.9 billion ton-miles; and carloads, 5 percent from 225,332 to 236,178.

Interline traffic accounted for 90 to 92 percent of total carloads over the 1964-1968 period. Comparing individual classes of traffic, overhead traffic was the largest single class and fluctuated between 41 and 43 percent of total traffic, i.e., including local traffic. Interline originated traffic increased from 20 percent in 1964 to 21 percent for 1967 and to 23 percent for 1968. Interline terminated traffic represented 27 percent of total traffic in all years except 1966 when it increased to 28.2 percent.

All of the above-discussed data except carload tonnage are reflected on Table 91, which follows. During the same period, again with slight declines in 1967, the average length of haul increased from 503 miles to 527 miles and the average revenue load per car increased from 36.8 tons to 39.3 tons.

Table 91

WESTERN PACIFIC REVENUE FREIGHT TRAFFIC
CARLOADS, TONS, TON-MILES, AND FREIGHT REVENUE
1964 THROUGH 1968

Year	Carloads					Total Revenue Tons*	Revenue Ton-Miles (Millions)	Freight Revenue (000)
	Local	Interline Originated	Interline Terminated	Overhead	Total Carloads			
1964	23,524	44,106	60,898	96,804	225,332	8,300,216	4,176	\$49,472
1965	22,428	47,088	62,662	98,790	230,968	8,771,976	4,495	55,922
1966	23,628	48,321	66,305	97,231	235,485	8,925,411	4,647	60,042
1967	18,982	46,755	60,372	96,102	222,571	8,458,079	4,400	55,561
1968	19,248	54,781	63,993	98,156	236,178	9,283,051	4,898	64,253

*
Includes L.C.L. freight for all years.

Freight Traffic: Commodity Consist

Tables 92 and 93 show commodity tonnage and revenue statistics, respectively, for Western Pacific over the five years ending with 1968. The data show great reliance upon "Food and Products" for its traffic and revenues. During this period, one-fourth of Western Pacific's revenues have come from the transportation of this commodity group, which represented from 22 to 25 percent of total tonnage. In comparison, "Primary Metal Products" accounted for 11 to 12 percent of total tonnage, but decreased steadily as a contributor of revenue from 11 to 8 percent of total revenues. "Lumber and Products" constituted about 10 percent of Western Pacific's tonnage, but produced only 7 to 8 percent of its revenues, with a decreasing trend both absolute and proportionate from 1964 through 1967, followed by slight increases in 1968.

All other commodity groups accounted for less than ten percent of Western Pacific's tonnage and revenues. In fact, from 28 to 30 percent of its tonnage and 39 to 44 percent of its revenues was spread among commodities of which less than one-half million tons were carried in any one year.

Table 92

WESTERN PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP TONNAGE AND GROUP TONNAGE AS PERCENTAGE OF TOTAL TONNAGE

Commodity Group*	1964		1965		1966		1967		1968	
	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%	Tons (000)	%
Non-Metal Minerals	682	8.2	630	7.2	613	6.9	581	6.9	665	7.2
Food & Products	1,858	22.4	1,990	22.7	2,096	23.5	2,053	24.3	2,313	24.9
Lumber & Products	825	9.9	876	10.0	834	9.3	788	9.3	920	9.9
Pulp, Paper & Products	591	7.1	584	6.7	587	6.6	592	7.0	655	7.1
Chemicals	465	5.6	505	5.8	478	5.4	502	5.9	514	5.5
Stone, Clay & Glass Products	607	7.3	632	7.2	586	6.6	429	5.1	438	4.7
Primary Metal Products	970	11.7	1,009	11.5	1,051	11.8	978	11.6	1,121	12.1
All Other Groups	2,302	27.7	2,546	29.0	2,680	30.0	2,535	30.0	2,657	28.6
Total	8,300	100.0	8,772	100.0	8,925	100.0	8,458	100.0	9,283	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

* With the exception of "Chemicals" and "Stone, Clay & Glass Products," the commodity groups specifically named each accounted for the movement of 500,000 or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than 500,000 tons in each of the years shown. The total tonnage figures are unadjusted and may not agree with total revenue tons reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Table 93

WESTERN PACIFIC COMMODITY STATISTICS, 1964 THROUGH 1968
 COMMODITY GROUP REVENUE AND GROUP REVENUE AS PERCENTAGE OF TOTAL REVENUE

Commodity Group*	1964		1965		1966		1967		1968	
	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%	Revenue (000)	%
Non-Metal Minerals	\$ 920	1.7	\$ 899	1.6	\$ 962	1.6	\$ 873	1.5	\$ 971	1.5
Food & Products	13,732	25.6	14,414	24.9	15,193	24.9	14,806	25.1	16,514	25.1
Lumber & Products	4,503	8.4	4,729	8.2	4,449	7.3	4,164	7.1	4,830	7.3
Pulp, Paper & Products	2,810	5.2	2,832	4.9	2,883	4.7	3,046	5.2	3,369	5.1
Chemicals	2,721	5.1	3,000	5.2	2,916	4.8	3,266	5.5	3,533	5.4
Stone, Clay & Glass Products	2,465	4.6	2,463	4.3	2,109	3.5	1,930	3.3	2,017	3.1
Primary Metal Products	5,676	10.6	5,768	10.0	5,848	9.6	4,927	8.3	5,473	8.3
All Other Groups	20,773	38.8	23,759	41.1	26,730	43.8	26,028	44.1	29,066	44.2
Total	\$53,600	100.0	\$57,864	100.0	\$61,090	100.0	\$59,040	100.0	\$65,773	100.0

NOTE: Percentages may not add to 100.0 percent due to rounding.

*With the exception of "Chemicals" and "Stone, Clay & Glass Products," the commodity groups specifically named each accounted for the movement of 500,000 or more tons in each of the years shown. "All Other Groups" represents the total for the balance of the commodity groups, each of which had an annual movement of less than 500,000 tons in each of the years shown. The total revenue figures are unadjusted and may not agree with Freight Operating Revenue reported in Railroad Annual Report Form A. The totals shown here are for comparative purposes only.

Freight Traffic: Interchanges and Traffic Flow

Western Pacific's traffic density, origin and destination, and interchange evidence shows data for the year 1964, and does not include data for the carrier's operating railroad subsidiaries. As seen below, Western Pacific's operations can be divided into two distinct parts: the first is its operation as a route segment in the central corridor between the San Francisco Bay area and Salt Lake City; and the second concerns the operation of Western Pacific's Stockton-Bieber segment of the route formed by lines of the Santa Fe south of Stockton and the former Great Northern's line north of Bieber. Both of the first-described Western Pacific routes use the same trackage between Stockton and Keddie, Calif., through Sacramento.

Between Oakland and Stockton, Western Pacific handled 2.7 million gross tons eastbound and 3.7 million westbound. Between Stockton and Portola, Calif., through Keddie, eastbound gross tonnage amounted to about five million tons and westbound gross tonnage totaled approximately 6.5 million tons, both figures reflecting the addition of the Bieber gateway traffic. Between Portola and Salt Lake City, approximately four million gross tons were carried eastbound and five million westbound. From Keddie to Bieber, 2.5 million gross tons were handled, and in the opposite direction, 2.8 million.

Interchanges at Western Pacific's western gateways other than Stockton and Bieber are small in volume: less than 5,000 cars each were interchanged with Santa Fe and Southern Pacific at each gateway (San Francisco, Oakland, San Jose, and Sacramento). Data for Western Pacific's three largest gateways are shown below in Table 94.

Table 94MAJOR WESTERN PACIFIC INTERCHANGES

<u>WP Station</u>	<u>Connecting Carrier</u>	<u>Carloads</u>		
		<u>Delivered</u>	<u>Received</u>	<u>Total</u>
Stockton	AT&SF	32,939	29,044	61,983
	SP	4,700	2,578	7,278
	Total	<u>37,639</u>	<u>31,622</u>	<u>69,261</u>
Bieber	GN	<u>32,136</u>	<u>34,194</u>	<u>66,330</u>
Salt Lake City	D&RGW	26,432	47,895	74,327
	UP	19,544	19,400	38,944
	Total	<u>45,976</u>	<u>67,295</u>	<u>113,271</u>

At Stockton, 46,213 of the 61,983 carloads interchanged with Santa Fe moved as bridge traffic over Western Pacific. This represents 48 percent of all carload bridge traffic handled by Western Pacific in 1964 (Table 91). At Bieber, of the 66,330 carloads interchanged with Great Northern, 50,902 were bridge cars for Western Pacific representing 53 percent of the carrier's total bridge traffic. At Salt Lake City, 38,085 of the 74,327 carloads interchanged with Rio Grande, and 14,778 of the 38,944 cars interchanged with Union Pacific, were bridge traffic movements on Western Pacific, constituting, respectively, 39 percent and 15 percent of Western Pacific's total bridge traffic. Table 94 indicates that slightly over half of Western Pacific's 201,808 interline carloads (computed from Table 94 for the year 1964) moved through the Salt Lake City gateway.

The foregoing interchange and traffic density data show that somewhat over half of Western Pacific's bridge traffic moves through the Salt Lake City gateway with the origin or destination thereof being undisclosed. Based on the data and the underlying record herein discussed, it is impossible to determine exactly how much of such bridge traffic moving through the Salt Lake City gateway moves through either the Stockton or Bieber gateways or may either terminate or originate on the lines of Western Pacific's subsidiaries.

Of the remaining bridge traffic, apparently the principal portion moves through both the Stockton and Bieber gateways in view of (1) the fact that the Bieber gateway route constitutes Santa Fe's and Great Northern's only competitive north-south route vis-a-vis Southern Pacific along the West Coast, and (2) the fact that the Western Pacific interchanges with Santa Fe at Stockton and with Great Northern at Bieber are nearly equal with respect to bridge traffic (46,213 and 50,902 cars, respectively). Further, referring to the earlier sections covering Santa Fe and Burlington Northern, it is noted that approximately 50,000 out of some 65,000 cars interchanged in 1965 at Stockton between Santa Fe and Western Pacific either originated or terminated on Santa Fe, and that 80 percent of the Western Pacific-Great Northern 67,000 car interchange at Bieber (also in 1965) either originated or terminated on Great Northern. For this reason too it is reasonable to conclude that the Bieber route primarily handles traffic which originates on Santa Fe, moves as bridge traffic over Western Pacific from Stockton to Bieber, and terminates on lines of the former Great Northern, and also traffic which moves in the reverse manner.

Well over half of the 44,106 interline cars originated by Western Pacific in 1964 originated in the San Francisco-San Jose-Stockton-Sacramento area, and over 80 percent of the 60,898 interline cars terminated by Western Pacific had destinations in this same area. Again, Western Pacific's origin and destination evidence does not disclose the volume of traffic originated or terminated on the lines of its subsidiaries within the same described area, thereby understating the importance of the area to Western Pacific as a source of traffic and revenue.

Financial Analysis

Western Pacific's balance sheet and income statement for the year 1964, following, reflects its financial position as of the year that its traffic studies were made in connection with this proceeding. Financial statements for 1968 have also been included in order to show its financial posture as of the latest available date.

Table 95

WESTERN PACIFIC BALANCE SHEETS AS OF

	December 31, 1964	December 31, 19
<u>Current Assets</u>		
Cash	\$ 3,912,678	\$ 1,771,406
Temporary cash investments	3,149,953	2,471,927
Special deposits	2,871,390	296,872
Net balance receivable from agents and conductors	1,056,100	1,904,628
Miscellaneous accounts receivable	2,132,814	3,415,644
Interest and dividends receivable	100,404	22,806
Accrued accounts receivable	4,020,709	7,849,695
Working fund advances	5,781	18,968
Prepayments	155,184	399,327
Material and supplies	4,264,501	4,543,376
Other current assets	102,177	223,861
Total current assets	<u>21,771,691</u>	<u>21,633,510</u>
<u>Special Funds</u>		
Sinking funds	474,000	-
Capital and other reserve funds	3,843,131	403,948
Insurance and other funds	34,325	39,300
Total special funds	<u>4,351,456</u>	<u>443,248</u>
<u>Investments</u>		
Investments in affiliated Cos.	13,950,808	22,176,226
Other Investments	14,709,456	12,581,287
Total investments	<u>28,660,264</u>	<u>34,760,513</u>
<u>Properties</u>		
Road and equipment property	193,906,177	219,683,202
Improvements on leased property	1,291,606	1,610,347
Total transportation property	<u>195,197,783</u>	<u>221,293,549</u>
Accrued depreciation-Rd. & Equip.	(52,826,841)	(62,287,172)
Total transportation property less depreciation & amort.	<u>142,370,942</u>	<u>158,606,377</u>
Miscellaneous physical property	4,556,169	4,694,624
Accrued depreciation-miscellaneous physical property	(557,501)	(518,644)
Miscellaneous physical property less depreciation	<u>3,998,668</u>	<u>4,175,980</u>
Total properties less depr. & amort.	<u>146,369,610</u>	<u>162,782,357</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	2,448,170	1,667,480
Unamortized discount on long-term debt	208,601	164,737
Other deferred charges	748,564	857,794
Total other assets & deferred charges	<u>3,405,335</u>	<u>2,690,011</u>
Total Assets	<u>\$204,558,356</u>	<u>\$222,309,639</u>

Table 95 Continued

WESTERN PACIFIC BALANCE SHEET AS OF

	December 31, 1964	December 31, 1968
<u>Current Liabilities</u>		
Traffic and car-service balances-cr.	\$ 640,640	\$ 1,720,980
Audited accounts & wages payable	2,136,530	4,591,373
Miscellaneous accounts payable	634,402	909,875
Interest matured unpaid	289,961	264,072
Unmatured interest accrued	884,934	920,873
Accrued accounts payable	4,534,790	5,277,063
Federal income taxes accrued	818,246	(67,963)
Other taxes accrued	544,777	473,887
Other current liabilities	2,392,280	2,858,109
Total current liabilities (exclusive of long-term debt due in 1 year)	<u>12,876,560</u>	<u>16,948,269</u>
<u>Long Term Debt Due Within 1 Year</u>		
Equipment obligations & other debt	<u>3,589,462</u>	<u>3,993,474</u>
<u>Long Term Debt Due After 1 Year</u>		
Funded Debt unmatured	34,260,614	28,963,800
Equipment obligations	21,050,564	28,475,037
Amounts payable to affiliated cos.	-	1,987,778
Total long-term debt due after 1 year	<u>55,311,178</u>	<u>59,426,615</u>
<u>Reserves</u>		
Pension and welfare reserves	-	8,791
Casualty and other reserves	3,824,052	1,050,337
Total reserves	<u>3,824,052</u>	<u>1,059,128</u>
<u>Other Liabilities and Deferred Charges</u>		
Other liabilities	394,513	386,615
Other deferred credits	285,539	560,125
Accrued depreciation-Leased prop.	1,148,730	1,224,856
Total other liabilities & deferred cr.	<u>1,828,782</u>	<u>2,171,596</u>
<u>Shareholders' Equity</u>		
Capital stock-common-total	<u>37,791,448</u>	<u>37,820,664</u>
<u>Capital surplus</u>		
Paid-in-surplus	36,360	36,360
Total capital surplus	<u>36,360</u>	<u>36,360</u>
Retained Income-appropriated	1,022,300	1,020,000
Retained Income-unappropriated	88,278,214	99,833,533
Total retained income	<u>89,300,514</u>	<u>100,853,533</u>
Total shareholders' equity	<u>127,128,322</u>	<u>138,710,557</u>
Total liabilities & shareholders' equity	<u>\$204,558,356</u>	<u>\$222,309,639</u>

Table 96

WESTERN PACIFIC INCOME STATEMENTS FOR THE YEARS

	<u>1964</u>	<u>1968</u>
<u>Total Operating Revenues</u>	<u>\$53,159,675</u>	<u>\$67,474,801</u>
<u>Operating Expenses</u>		
<u>Maintenance of way & structures:</u>		
Exclusive of depreciation	6,475,997	7,612,904
Depreciation	988,801	1,048,632
<u>Maintenance of Equipment:</u>		
Exclusive of depreciation	5,610,060	8,077,939
Depreciation	2,894,938	3,903,003
Traffic	3,063,791	3,497,964
Transportation	20,090,970	24,938,617
Miscellaneous & general	4,409,083	5,342,385
<u>Total operating expenses</u>	<u>43,533,640</u>	<u>54,621,444</u>
<u>Net Revenue From Railway Operations</u>	<u>9,626,035</u>	<u>12,853,357</u>
<u>Railway tax accruals</u>	<u>3,422,347</u>	<u>4,661,681</u>
<u>Railway operating income</u>	<u>6,203,688</u>	<u>8,191,676</u>
Rent income-cr.	1,123,758	1,115,119
Rents payable-dr.	1,949,412	3,072,331
<u>Net rents-dr.</u>	<u>(825,654)</u>	<u>(1,957,212)</u>
<u>Net Railway Operating Income</u>	<u>5,378,034</u>	<u>6,234,464</u>
<u>Total other income</u>	<u>3,595,770</u>	<u>3,023,576</u>
<u>Total income</u>	<u>8,973,804</u>	<u>9,258,040</u>
<u>Total miscellaneous deductions</u>	<u>507,160</u>	<u>794,037</u>
<u>Income available for fixed charges</u>	<u>8,466,644</u>	<u>8,464,003</u>
Fixed charges	1,550,156	2,177,867
Contingent interest (other deductions)	823,180	635,285
<u>Total fixed charges & contingent interest</u>	<u>2,373,336</u>	<u>2,813,152</u>
<u>Ordinary income</u>	<u>6,093,308</u>	<u>5,650,851</u>
<u>Total extraordinary items (net)</u>	<u>-</u>	<u>-</u>
<u>Net income after fixed charges and other deductions</u>	<u>\$ 6,093,308</u>	<u>\$ 5,650,851</u>

Gross Railway Operating Revenues and Expenses

For the five year period 1964-1968, Table 97 shows that Western Pacific's railway operating revenues increased from \$53.2 million in 1964 to \$67.5 million in 1968. As noted previously in this report, the year 1967 was a poor one for railroads. Strikes, bad weather and poor crops, contributed greatly to the interruption in Western Pacific's revenue growth. However, railway operations in 1968 showed a marked improvement and the railway operating revenues of \$67.5 million cited above for 1968, was an all time high for Western Pacific for the five year period.

Railway operating expenses ranged from \$43.5 million in 1964 to \$54.6 million in 1968. The increase in operating expenses was related to increased transportation expenses, equipment rents and payroll taxes. Its operating ratio for the five year period 1964-1968 which averaged about 80 percent, does not represent an unfavorable margin of operating efficiency, although in excess of the average computed for railroads in the Western District.

Net Railway Operating Income and Net income

For the 5-year period shown on Table 97,, Western Pacific's net railway operating income increased from \$5.4 million in 1964 to a peak of \$8.3 million in 1966, with an intermediate decline to \$4 million in 1967. However, its net railway operating income for 1968 amounted to \$6.2 million or an increase of some \$2.2 million over the amount realized from the year 1967. For the 5-year period, an average of some 30 percent of its income available for fixed charges was derived from nonrailway operations. Although Western Pacific's net income after fixed charges and other deductions has varied considerably from year to year, for the 5-year period it has enjoyed profitable operations.

Working Capital

Table 98 discloses that for the five year period 1964 through 1968, Western Pacific showed an average monthly working capital requirement of about \$3.7 million. Its average current assets exceeded its average current liabilities by approximately \$7.3 million. Historically, for the five year period, Western Pacific's working capital position has been adequate for conducting orderly operations.

Table 91WESTERN PACIFIC NET INCOME TREND 1964-1968

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>
1964	\$53,160 ✓	\$43,534	\$5,378	\$ 8,467	\$6,093
1965	59,666	45,127	7,857	11,097	8,367
1966	63,951 ✓	48,299	8,344	11,426	8,637
1967	59,051	51,163	3,999	6,237	3,381
1968	67,475	54,621	6,234	8,464 ✓	5,651

Table 98WESTERN PACIFIC WORKING CAPITAL 1964-1968

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$21,772	\$12,877	\$8,895	\$39,650	\$3,304	1.6
1965	23,199	14,035	9,164	41,249	3,437	1.5
1966	23,413	15,663	7,750	43,789	3,649	1.5
1967	21,093	15,086	6,007	46,283	3,857	1.5
1968	21,634	16,948	4,686	49,670	4,139	1.2

Table 99

WESTERN PACIFIC RATE OF RETURN ON NET INVESTMENT IN
TRANSPORTATION PROPERTY 1964-1968

<u>Year</u>	<u>Investment In Property, Cash & M&S (000)</u>	<u>Depreciation & Amortization (000)</u>	<u>Net Investment (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Percent Western Pacific</u>	<u>Percent Western District</u>
1964	\$203,418	\$53,976	\$149,442	\$5,378	3.60	3.43
1965	213,034	55,597	157,437	7,857	5.00	3.85
1966	219,044	58,428	160,616	8,344	5.19	3.93
1967	222,914	60,358	160,556	3,999	2.50	2.73
1968	226,298	63,912	162,386	6,234	3.84	NA

NA - Not available

Rate of Return

Table 99 above shows Western Pacific's return on net investment in transportation property for the period 1964-1968. In 1966 it reached a high of 5.19 percent which was substantially higher than the 3.93 percent recorded for the railroads in the Western District, but dropped to 2.50 percent in 1967, which was somewhat lower than the 2.73 percent shown for the Western District. However, its average rate of return was about 4.00 percent for the five year period (1964-1968), which was comparatively higher than the average 3.48 percent computed for the Western District, from 1964-1967 (1968 not available).

Long-Term Debt

Western Pacific's total long-term debt (including amounts due and payable within one year) for the five year period, 1964-1968, has averaged about \$63.7 million, annually. Its long-term debt due within one year for that period averaged about \$4 million annually.

Table 97 shows that for the five year period considered, funds generated by net income alone averaged \$6.4 million annually. On this basis, it is evident that Western Pacific's net income has historically been sufficient to service its equipment obligations and other debt due within one year without resorting to the use of funds generated by charges to depreciation.

Fixed Charges and Contingent Interest

For the five year period 1964-1968, Western Pacific's fixed charges and contingent interest aggregated \$13.7 million or an average of \$2.7 million annually. Its income available for these charges amounted to \$45.7 million or an annual average of \$9.1 million. On this basis its average annual income available for fixed charges was almost 3.5 times larger than its total fixed charges for that period.

Table 97 shows that historically, Western Pacific has generated sufficient net income from railway operations alone, to meet its fixed charges without depending on income realized from other than railway operations.

Debt-Equity Ratio

Western Pacific's balance sheets for the five year period 1964 to 1968, disclose that its ratio of total long-term debt to total long-term debt and stockholders' equity never exceeded 33 percent over the entire period.

Furthermore, based on a computation which includes Western Pacific's total debt as of December 31, 1968, it had a very favorable ratio of total debt to combined total debt and shareholders' equity of only 37.6 percent.

Considering the financial data for the five year period 1964-1968, Western Pacific's working capital position has been adequate for conducting orderly operations, its earnings have been sufficient to meet fixed charges and service its long-term debt, and it has maintained a very favorable debt-equity ratio.

Further, Western Pacific has paid dividends on its capital stock in each year from 1964-1968. Dividend payments to its stockholders for that period averaged more than \$4 million annually and as of December 31, 1968, dividend payments amounted to \$4.4 million or about \$2.20 per share.

Western Pacific is a financially sound carrier.

Preliminary Findings and Conclusions

Western Pacific operates as segments of both the central corridor and the Bieber Route, or "Inside Corridor." Only nominally a local traffic carrier, Western Pacific's strategic position stems from its ability to participate in (1) transcontinental traffic through the central corridor via its Salt Lake City gateway and (2) traffic moving between the Pacific Northwest and the Pacific Southwest via its Bieber and Stockton gateways. On the basis of the evidence discussed in this section, it is impossible accurately to determine the amount of traffic moving through the central corridor on Western Pacific with a prior or subsequent haul from or to (1) the Pacific Northwest via Bieber, or (2) the Pacific Southwest via Stockton. Most of the traffic originated or terminated by Western Pacific has its origin or destination in the area roughly bounded by and including San Francisco, San Jose, Stockton, and Sacramento.

Over half of Western Pacific's interline carloads move through the Salt Lake City gateway. This volume however, is only about one-fourth as large as parallel Southern Pacific's total interchange at Ogden. Western Pacific interchanged 113,271 cars in 1964 with Union Pacific and Rio Grande at Salt Lake City, and this amount in fact, was less than Southern Pacific's interchange in both 1963 and 1965 with Rio Grande only at Ogden, disregarding the much larger SP-UP interchange (over 300,000 cars) at Ogden.

Despite its small size in terms of both physical plant and traffic volume, Western Pacific is an efficient, modern, profitable and financially sound railroad.*

*Western Pacific's Annual Reports for 1969 and 1970 show that for the two years Western Pacific suffered a substantially deteriorated financial condition.

In Western Pacific R. Co. Notes, 338 ICC 313 the carrier was authorized to issue short term notes in total amount of \$6,000,000, the proceeds to be used for working capital.

**NORTHERN PACIFIC, GREAT NORTHERN, SP&S,
BURLINGTON, FW&D AND C&S**

Each of the captioned carriers intervened in these proceedings as a separate entity and in its own right. During the pendency of the proceedings, in Great Northern Pac. & B.L.--Merger--Great Northern R. Co., 328 I.C.C. 460, the Northern Lines case, authority was withheld for the proposed unification of the captioned interveners and, among others, also the Pacific Coast Railroad Company (Pacific Coast). However, upon reconsideration and further hearing, 331 I.C.C. 228 (November 30, 1967), authority was granted for the proposed unified system, through merger of the Great Northern, Northern Pacific, Pacific Coast and Burlington into the Great Northern Pacific & Burlington Lines, Inc. (Burlington Northern). Sole or joint control of subsidiaries and affiliates of those merger partners was to be acquired by the new company, as well as lease of the lines of railroad and other properties of the SP&S, and through such lease, sole or joint control over SP&S subsidiaries and affiliates.

The Commission's approval was sustained in United States v. United States and Interstate Commerce Commission, 296 F. Supp. 853, and on February 2, 1970, by the Supreme Court in Northern Lines Merger Cases, 396 US 491, decided February 2, 1970. Consummation of the unification took place March 2, 1970.

Corporate History

The corporate histories of the individual carriers which now comprise the Burlington Northern system will be discussed first, followed by a description of the major subsidiaries and affiliates.

Northern Pacific, which had its main office in St. Paul, was incorporated under Wisconsin laws on March 15, 1870, and is successor to Northern Pacific Railroad Company, a corporation chartered by special Act of Congress on July 2, 1864, to construct and operate a railroad from a point on Lake Superior to a point on Puget Sound.

Great Northern, which also maintained its principal offices in St. Paul, Minn., was originally incorporated under the territorial laws of Minnesota on March 1, 1856, as the Minneapolis and St. Cloud Railroad Company, and on September 18, 1889, the name was changed to the Great Northern. Previously, operations, dating back to 1862, were conducted by predecessors under different names.

Spokane, Portland & Seattle was incorporated in Washington in 1905, with its main offices in Portland. Great Northern and Northern Pacific each owned 50 percent of its capital stock and also 50 percent each of the capital stock of Midland Railway Company of Manitoba, a Canadian carrier not subject to the Commission's jurisdiction. The SP&S, in turn is the sole owner of the Oregon Electric Railway Company (Oregon Electric) and Oregon Trunk Railway (Oregon Trunk). Recently, in Spokane, P.&S. Ry. Co. and Union Pacific R.R. Co.--Control, 334 I.C.C. 419 (June 6, 1969), the SP&S acquired joint control of the Peninsula Terminal Company.

The Burlington, with its main offices in Chicago, was incorporated June 24, 1864 in Illinois, and was the successor, through consolidation, of the Aurora Branch Railroad, which had been formed in 1849. Although the company had originally been formed to provide transportation for an area in Illinois west and southwest of Chicago, the lines were later extended to reach the Mississippi River at Burlington, Iowa and Quincy, Ill.

The Fort Worth & Denver was originally planned together with the Colorado & Southern to provide a route between Denver, Colo., and the principal Texas cities of Dallas and Fort Worth, and thence to Houston and the Gulf. The FW&D was incorporated in 1873 under the laws of the State of Texas. The Texas law then required railroads in Texas to be built by Texas corporations, otherwise the C&S and FW&D probably would have been one corporation. They were built as two segments of one railroad between Denver and Fort Worth and substantially all (99.9 percent) of the stock of FW&D has been owned by C&S since it was formed. The C&S, in turn, was controlled through stock ownership, 75 percent, by the Burlington, this ownership now residing with the parent corporation of the unified Northern Lines system, as earlier described.

FW&D has a $12\frac{1}{2}$ percent interest in the Houston Belt and Terminal Railway Company and the Union Terminal Company. C&S has a $16\frac{2}{3}$ percent interest in the Denver Union Terminal Railway, a 25 percent interest in the Pueblo Union Depot and Railroad, and a 50 percent interest in the Galveston Terminal Railway. All of the above perform terminal or switching services. C&S also owns 20 percent of the Denver Market and Produce Terminal, Inc., a noncarrier.

Pacific Coast was organized in Washington in 1932, and was solely owned by Great Northern. Pacific Coast served Seattle and King County, Wash., with 32 miles of road.

Subsidiaries and Affiliates

The major carrier subsidiaries and affiliates of the merging partners other than those previously described and as are herein relevant, are shown below. As earlier noted, sole or joint control of subsidiaries and affiliates of the merger partners was acquired by the unified company, but such control is shown below as held prior to unification.

<u>Carrier</u>	<u>Stock Ownership % Control</u>
<u>Northern Pacific:</u>	
Midland Continental Railroad Company	50
Camas Prairie Railroad	50
The Duluth Union Depot & Transfer Company	100
Walla Walla Valley Railroad Company	100
Northern Pacific Transport Company	100
<u>Great Northern:</u>	
Superior Transfer Company	100
Pacific Coast Railroad Company	100
Western Fruit Express	100
<u>Burlington:</u>	
Winona Bridge Railway Company	66.67
Davenport, Rock Island & North Western Railway Company	50
Keokuk Union Depot Company	40
Atchison Union Depot & Railroad Company	37.50
Paducah & Illinois Railroad Company	33.33
Chicago Union Station Company	25
Iowa Transfer Railway Company	20
Burlington Truck Lines, Inc.	100

Scope of Operations, Plant and Equipment

The Burlington Northern system encompasses an area beginning at Lake Michigan and Lake Superior extending westward along the United States-Canadian border to the Pacific Northwest including the area south to the line from Denver to St. Louis through Kansas City and also south to the Gulf Coast from Denver. More specifically, the major routes of the unified system extend from

Chicago (also Duluth-Superior) to Seattle, Tacoma, and Portland through the Twin Cities, Fargo, N. Dak., Havre, Mont. (also Bismarck, N. Dak. and Billings, Mont.), Spokane and Everett, Wash. (also Yakima, Wash. and also over the SP&S to Wishram, Wash.), and connecting with the above-described routes at Billings, the former Burlington routes extended from Chicago, St. Louis and Kansas City through Omaha or Lincoln and Alliance, Nebr. Other former Burlington routes ran from Chicago to St. Louis, Kansas City and St. Joseph in addition to Omaha. At the latter two points, routes extend westward converging at Oxford, Nebr., and continuing to Denver. From Billings, a route extends southward through Laurel, Mont., to Wendover, Wyo., there connecting with the Colorado & Southern line, which runs southward through Cheyenne, Denver and Pueblo to Sixela, N. Mex., connecting with the Fort Worth and Denver main line which continues the route to Houston and Galveston through Fort Worth and Dallas, including the Joint Texas Division, jointly operated with Rock Island, as described in the earlier section on Rock Island's scope of operations. Other important routes extend from Portland to Eugene; from Wishram to Bieber, through Chemult and Klamath Falls; and from the Twin Cities (also Duluth-Superior) to Omaha, through Sioux City.

Road mileages as next discussed are subject to duplication resulting from trackage rights and other contractual agreements with respect to lines over which any two or more of the separate Northern Lines carriers operated. As of December 31, 1968, the Great Northern (including Pacific Coast), Northern Pacific, Burlington, Spokane, Portland & Seattle (including Oregon Electric and Oregon Trunk), Colorado & Southern, and Fort Worth & Denver operated a total of 26,528 miles of road (including 1,980 under trackage rights) in 19 States and 2 Canadian Provinces as follows: Illinois-1,620; Kentucky-12; Iowa-1,077; Missouri-1,283; Minnesota-3,271; Wisconsin-352; North Dakota-3,473; South Dakota-546; Nebraska-2,644; Kansas-218; Montana-3,581; Wyoming-864; Colorado-902; Idaho-480; Washington-3,738; Oregon-721; California-100; New Mexico-83; Texas-1,280; British Columbia-134; and Manitoba-149. Subject to the same types of duplications of mileage, actual track mileage at the close of 1968 for the above-named carriers totaled nearly 39,600 miles.

The above-named carriers in 1968 operated a total of 2,082 diesel locomotives, including 537 freight units, 208 passenger units, 921 multiple purpose units, and 416 switching units. The combined car fleet of 125,925 cars included 67,404 box cars, 10,181 gondolas, 18,129 open hoppers, 10,728 covered hoppers, 227 tank cars, 2,650 refrigerator cars, 3,995 stock cars, 24 autoracks, 12,518 flat cars and 169 others. Total carrying capacity amounted to 7,566,677 tons.

Freight Traffic: Northern Pacific, Great Northern,
Burlington and SP&S

NOTE: In the earlier sections of this report dealing with North Western-Great Western and Southern Pacific-Cotton Belt freight traffic, it was explained why certain traffic statistics for two or more carriers cannot be combined with reasonable validity. This problem would be present here too in the case of the above-captioned carriers in any attempt to combine their respective traffic statistics to show a pro forma approximation of Burlington Northern's freight traffic volume by commodities, tonnage, class of movement, etc. Such statistics therefore are analyzed separately for each carrier in the following discussion. Because Northern Pacific, Great Northern and Burlington were merger partners and because the properties of SP&S are now leased by the merged carriers, the four railroads are grouped here followed by separate discussions of Colorado & Southern and Fort Worth & Denver, which remain separate operating subsidiaries of Burlington Northern.

In terms of tonnage and over the five-year period 1964-1968, Northern Pacific, Great Northern, Burlington and SP&S all reached peaks in 1966. Only Great Northern experienced a net decline in annual tonnage hauled over the entire period from 47.0 million revenue tons in 1964 to 44.8 million in 1968. For each of the carriers, freight revenue showed a net increase for the period with a peak, except for Burlington, in 1966. The 1968 revenue tonnage and freight revenue for each carrier were: Northern Pacific, 31.5 million revenue tons and \$195.9 million; Great Northern, 44.8 million and \$241.0 million; Burlington, 59.4 million and \$247.3 million (record high); and SP&S, 11.0 million and \$36.5 million.

The following table shows the 1968 total carloads and proportionate share of total carloads represented by each class of traffic for each of the four subject carriers.

Table 100

CARLOAD TRAFFIC, GN, NP, CB&Q, AND SP&S
CARLOADS AND PROPORTIONATE SHARE BY CLASS

Carrier	Local	Percent of Total Carloads			Total Carloads (100%)
		Interline Orig.	Interline Term.	Overhead	
NP	34	27	26	13	700,335
GN	22	44	19	15	862,794
CB&Q	29	28	19	24	1,324,970
SP&S	7	26	22	45	267,217

It is apparent from the above table that Northern Pacific and Great Northern carried relatively little bridge traffic. Northern Pacific had a substantial amount of local traffic, and over half its carloads were interline and either originated or terminated on line. Great Northern was predominantly an originator of interline traffic (44 percent of its total carloads) with the second largest volume of traffic being local. Burlington's traffic was quite evenly divided among the four classes of traffic. SP&S, however, clearly was a carrier dependent on interline movements, primarily overhead (bridge) traffic. Local traffic diminished somewhat in relative importance over the 1964-1968 period for each of the carriers shown in Table 100.

It is unnecessary to detail the evidence showing the commodity consists of freight traffic handled over the years by these carriers. In 1964, Burlington received approximately 44 percent of gross freight revenue from "Manufactures and Miscellaneous" traffic, principally interline, while "Products of Agriculture" contributed 22 percent and "Products of Mine," 15 percent.

For 1965, Great Northern's gross freight revenue was derived from a wide variety of commodities with only two groups contributing over 10 percent of the total, namely, "Wheat" (14 percent) and "Lumber, shingles & lath" (12 percent). SP&S, in the same year, had gross freight revenues from only two groups which exceeded 10 percent of the total: "Lumber and Wood Products" contributed 44 percent, and "Farm Products" contributed 14 percent. Obviously, SP&S is heavily dependent on lumber industry traffic. Northern Pacific did not include in its evidence commodity data of the nature here discussed, despite the fact such data were requested in these proceedings (Commission's Report and Order on Pre-hearing Conference dated March 31, 1966, item D, 1 [a] [6]) from carriers seeking affirmative relief, of which Northern Pacific is one.

With merger of two largely parallel lines (NP and GN) and a third line (CB&Q) which forms an end-to-end connection to both parallel lines, together with the lease of the lines of SP&S by the merged company, it is obvious that freight service routes will change in order to make optimum use of the many routes now available for single-line service. Of the aforementioned carriers, only Great Northern and Northern Pacific submitted traffic density evidence. Briefly, and as here pertinent, it is noted that the former parent companies' traffic was primarily eastbound. Great Northern's transcontinental route beginning at Everett, Wash., north of Seattle, eastward to Spokane, handled 4.7 million gross tons per mile eastbound vs. 5.6 million westbound and from Spokane (principal interchange with SP&S) to the Twin Cities,

eastbound density generally ranged from about 8 to 10 million gross tons per mile vs. about 6 to 9 million westbound, with slightly heavier density over a few short, intermediate segments of line. Great Northern's route from Bend, Oreg., to Bieber handles slightly over 2 million gross tons per mile in either direction.

Northern Pacific, from Auburn, Wash., south of Seattle, to Spokane, handled approximately 5.0 to 5.6 million gross tons eastbound per segment (segments are of varying length and the NP evidence does not average gross tons by mileage) and slightly less than 5 million gross tons westbound. Between Spokane and the Twin Cities, traffic moving eastbound ranged from 7.8 to 10.6 million gross tons, increasing toward the Twin Cities, and westbound, density ranged between 5.3 and 7.6 million gross tons. Stated as a systemwide density, loaded car-miles eastbound for Northern Pacific represented 61.7 percent of total loaded car-miles. (GN data for 1965, NP data for 1964).

With respect to major interchanges, this analysis is first directed to interchanges as they existed between Northern Pacific, Great Northern, Burlington and SP&S, after which are discussed the interchanges between the named carriers, on the one hand, and, on the other hand, the carriers actively participating in these proceedings. The interchanges with subsidiaries Colorado & Southern and FW&D are later discussed in the separate sections dealing with those carriers.

SP&S did not submit interchange evidence and the instant discussion relies on such evidence submitted by GN, NP, and by other carriers who interchanged substantial quantities of traffic with SP&S. Great Northern's interchange data are for 1965, while Northern Pacific submitted 1964 data. Great Northern's interchange data covering carloads and commodities and also its origin and destination point data covering carloads originated and terminated, are limited in usefulness by Great Northern's refusal on the record to include certain data which it contends would violate the disclosure provisions of section 15(11) of the Act. The data excluded are (1) carloads and commodities interchanged with shipper owned or controlled connections and (2) carloads originated or terminated at certain stations, neither the number of cars nor the stations being separately shown but rather as aggregates. Burlington's interchange data are for 1965.

In 1965, Great Northern and SP&S interchanged 59,596 cars, of which 37,114 constituted bridge movements over Great Northern. The bulk of the traffic (49,385 cars) was interchanged at Spokane. In 1964, Northern Pacific and SP&S (including subsidiaries) interchanged

37,706 cars at Pasco, Wash.; 24,877 at Spokane; and 3,200 at Portland. Of the foregoing 65,803 cars interchanged, 42,068 cars moved overhead to Northern Pacific. The 1965 SP&S interchange with Great Northern represented about eight percent of the latter's interline carloads, while the 1964 interchanges at Pasco, Spokane and Portland with Northern Pacific constituted 15 percent of Northern Pacific interline cars.

Great Northern's and Northern Pacific's major interchanges with Burlington were at Laurel, Mont., on the west, and the Twin Cities on the east. In 1965, Burlington interchanged 83,766 cars at Laurel with Great Northern and Northern Pacific, its only connections at that station. Great Northern and the Burlington interchanged 67,045 cars in the Twin Cities area and 28,133 cars at Sioux City in 1965, comprised principally of traffic originating or terminating on Great Northern. In 1964, Northern Pacific and Burlington interchanged 55,352 cars in the Twin Cities area, of which 39,804 cars originated or terminated on Northern Pacific.

Based on Great Northern's evidence, the Great Northern and Northern Pacific interchanged a total of 34,782 cars with each other, and only the Duluth-Superior (including Allouez, Wis.) interchange exceeded 5,000 cars, amounting to 7,436 cars in 1965.

Next for consideration are the interchanges between Great Northern, Northern Pacific, Burlington and SP&S on the one hand, and, on the other hand, the carriers actively participating in these proceedings. As stated before SP&S submitted no interchange evidence, and the examiner must rely on the evidence filed by the carrier parties which interchange with SP&S and which data are shown in respective sections covering those carriers' interchanges; specifically, the earlier sections for Southern Pacific and Union Pacific and in a later section for Milwaukee.

At Portland, both Great Northern and Northern Pacific interchange substantial numbers of cars with Southern Pacific: In 1965, Great Northern and Southern Pacific interchanged 26,233 cars, and in 1964, Northern Pacific and Southern Pacific interchanged 78,393 cars. In each case, the traffic primarily was that which originated or terminated on either GN or NP. With respect to Northern Pacific, the Southern Pacific interchange involved 17 percent of Northern Pacific's interline carloads. Great Northern's evidence shows that much of the Southern Pacific interchange traffic is wood, pulp and paper products, and food and kindred products. The earlier section covering Southern Pacific's

interchange data indicates that most of the GN and NP traffic had its origin or destination on Southern Pacific. It is clear that most of the traffic interchanged at Portland includes that which (1) if originated on Southern Pacific terminates on Great Northern or Northern Pacific and (2) if originated on Great Northern or Northern Pacific terminates on the Southern Pacific. On the Bieber Route at Chemult, Great Northern and Southern Pacific interchanged 7,831 cars.

Great Northern and Northern Pacific interchanges with Union Pacific were each approximately 1,000 cars or less at both Portland and Seattle. At Spokane, Great Northern interchanged 9,154 cars with Union Pacific, of which 7,082 were originated on Great Northern lines. Similarly, of the 3,906 cars interchanged with Spokane International at Spokane, 1,990 originated on the Great Northern. Northern Pacific interchanged 1,340 cars with Union Pacific and 2,561 cars with Spokane International at Spokane and here again, all but 501 cars interchanged with Union Pacific and its subsidiary either originated or terminated on Northern Pacific. All of the interchanges between either Great Northern or Northern Pacific, on the one hand, and, Milwaukee on the other hand, amounted to less than 900 cars each at Seattle, Spokane and Butte. The Bieber gateway accounted for an interchange between Great Northern and Western Pacific of 67,084 cars of which nearly 80 percent either originated or terminated on Great Northern.

Burlington's 1965 interchange data were limited to gateways at which a total of 5,000 or more cars were interchanged at major gateways at which the carrier interchanged with Union Pacific, Rock Island, Rio Grande, North Western, Santa Fe and Colorado & Southern. Interchanges were shown as totals for each named carrier at each gateway. More complete information concerning these interchanges are shown in the preceding sections covering the named carriers other than C&S, which is discussed later (not all, however, utilize 1965 data). The following list shows interchanges of more than 10,000 cars with the above-named carriers, by gateways, and the percentage of Burlington's total interline carloads (1965) represented by the interchange.

<u>Gateway</u>	<u>Connecting Carrier</u>	<u>Carloads</u>	<u>% of total CB&Q interline cars</u>
Kansas City	RI	16,884	1.8
	AT&SF	38,751	4.1
Denver	D&RGW	73,714	7.8
Grand Island	UP	98,197	10.4
Omaha-Council Bluffs-Fremont	UP	11,975	1.3
	C&NW	21,570	2.3

Interchanges between all connecting carriers and the Burlington totaled 324,037 cars at Chicago (including Eola and Congress Park, Ill.), 154,266 at Omaha-Council Bluffs-Fremont-Grand Island, 113,355 at Denver, 115,324 at St. Louis-E. St. Louis, 125,644 at the Twin Cities, 29,558 at Peoria, and 157,911 at Kansas City. The Grand Island interchange with UP is heavier westbound and much of it is freightforwarder traffic. Other gateways at which more than 5,000 cars were interchanged were (1) primarily interchanges with Northern Lines carriers as earlier detailed, or (2) gateways at which a total of from 5,000 to about 11,000 cars were interchanged.

The Burlington interchanges at the Twin Cities with Rock Island and North Western amounted to only 24 cars and 926 cars, respectively, out of the total interchange of 125,644 cars. As noted earlier, Burlington interchanged 67,045 cars in 1965 with Great Northern and 55,352 cars in 1964 with Northern Pacific at the Twin Cities. Despite the different years for which the data were shown, it is clear that the Twin Cities interchanges for Burlington overwhelmingly consisted of traffic moving to and from its parent carriers' lines. The Twin Cities interchanges for Great Northern and Northern Pacific, however, show that the two carriers interchanged a considerable volume of traffic with other railroads in addition to Burlington, as shown below (total volume interchanged ranked in descending order, by connecting carrier):

Table 101

GREAT NORTHERN AND NORTHERN PACIFIC INTERCHANGES
AT TWIN CITIES*

Northern Line Carrier	Connecting Carrier	Carloads		
		Delivered	Received	Total
Great Northern (1965 data)	C&NW	45,837	17,888	63,725
	Soo	14,348	6,368	20,716
	MILW	13,211	7,137	20,348
	MN&S	12,797	7,177	19,974
	RI	10,995	8,061	19,056
	Total	<u>97,188</u>	<u>46,631</u>	<u>143,819</u>
Northern Pacific (1964 data)	C&NW	43,004	19,518	62,522
	MILW	15,073	6,686	21,759
	MN&S	14,772	5,540	20,312
	Soo	11,864	4,684	16,548
	RI	6,852	5,031	11,883
	Total	<u>91,565</u>	<u>41,459</u>	<u>133,024</u>

*Excludes interchanges between, variously, Great Northern, Northern Pacific and Burlington.

Bearing out the earlier discussion of the predominantly eastbound traffic handled by Great Northern and Northern Pacific over their main routes, Table 101, above, shows that interchanges between those carriers and their connections at the Twin Cities consist of more than twice as many cars delivered to, than are received from the connections named in the table. Among the connecting carriers shown, North Western by far interchanged the most traffic with Great Northern and Northern Pacific, and, in fact, the North Western interchange with Northern Pacific exceeded that between the latter carrier and the Burlington (62,522 cars vs. 55,352). Most of the traffic interchanged by Great Northern and Northern Pacific at the Twin Cities either originated or terminated on their own lines.

At Duluth-Superior, Great Northern and Northern Pacific interchanged primarily with carriers other than those participating in these proceedings and between themselves. Soo interchanged 1,898 cars with Northern Pacific and 3,741 with Great Northern. Remaining gateways not heretofore discussed were of considerably less importance with regard to traffic volume, the largest single interchange being 4,007 cars moving between Great Northern and Illinois Central at Sioux City.

Most of the Great Northern and Northern Pacific major origin and destination stations for both local and interline traffic are located in Washington, Montana, and Minnesota. Burlington and SP&S evidence did not include origin and destination data in comparable form.

A financial analysis for the years 1964-1968, for each of the aforementioned carriers is furnished below, based on each carrier's Annual Report Form A, filed with the Commission for the respective years.

Financial Status of Northern Pacific

Northern Pacific's general balance sheet as of December 31, 1968, shows total assets of \$1,090.9 million, comprised of current assets \$87.7 million, including, among others, cash \$1.2 million and temporary cash investments \$31.1 million; special funds \$4.2 million; investments \$178.9 million including other investments \$4.9 million and investments in affiliated companies \$173.9 million; total properties less depreciation and amortization \$812.3 million; and other assets and deferred charges \$7.8 million. Liabilities and shareholders' equity are comprised of current liabilities \$47.6 million, including audited accounts and wages payable \$7.1 million and accrued taxes \$12.8 million; long-term debt \$303.8 million including \$15.1 million due within one year; reserves \$5.5 million; other liabilities and deferred credits \$2 million; and shareholders' equity \$732 million, which consists of capital stock \$29.9 million, capital surplus \$261.3 million and retained income \$440.8 million.

Northern Pacific's income statement for the year 1968 shows total railway operating revenues \$210.0 million with total railway operating expenses \$177.5 million, resulting in an operating ratio of 84.50 percent. Net railway operating income of \$14.5 million plus income (net) realized from other than railway operations amounted to \$41.4 million which was available for the year 1968. Its net income after fixed charges and other deductions amounted to \$25.2 million, which is more than sufficient to service long-term debt due within one year of \$15.1 million. Northern Pacific's ratio of total debt to combined total debt and shareholders' equity was a very favorable 32.9 percent as of December 31, 1968. The foregoing financial discussion discloses that the Northern Pacific's financial position as of December 31, 1968, was sound.

Table 102 following, shows Northern Pacific's results of operations for the five year period 1964-1968. For that period of time its operating ratio averaged about 84 percent which was above the Western District's average of 77.8 percent for the same period. The record discloses (Annual Report Form A) that the net income it derived from nontransportation property amounted to an average of some 58 percent of its income available for fixed charges over the five year period (1964-1968), which contributed greatly to its financial stability. Its current assets exceeded its current liabilities to the extent that its working capital position was adequate for conducting orderly operations. Total debt trend for that period, based on a ratio of total debt to combined total debt and stockholders' equity did not exceed 33.4 percent. Funds were available to service its long-term debt due within one year from net income alone without using any funds generated by charges to depreciation and it has had no difficulty in meeting its fixed charges for the five year period 1964-1968.

The Northern Pacific has maintained a relatively healthy position for the five year period from 1964 to 1968.

Table 102

NORTHERN PACIFIC INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$184,301	\$157,242	\$12,879	\$34,570	\$23,501	85.32
1965	197,913	163,703	18,153	39,144	28,033	82.71
1966	210,190	168,698	21,041	42,363	39,674	80.26
1967	197,215	171,402	13,326	35,794	23,456	86.91
1968	210,001	177,449	14,491	38,255	25,185	84.50

NORTHERN PACIFIC WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$120,841	\$46,929	\$73,911	\$142,512	\$28,502	2.8
1965	117,259	42,175	75,084	148,314	29,662	2.8
1966	127,647	45,898	81,749	153,724	30,744	2.8
1967	101,689	42,997	58,692	155,472	31,094	2.4
1968	87,654	47,611	40,043	160,841	32,168	1.8

NORTHERN PACIFIC RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
<u>TOTAL DEBT</u>	\$ 343,612	33.4	\$ 341,358	32.7	\$ 356,165	33.2	\$ 360,868	33.3	\$ 358,605	32.9
<u>STOCKHOLDERS' EQUITY</u>	685,071	66.6	702,273	67.3	717,391	66.8	723,195	66.7	732,029	67.1
<u>TOTAL</u>	<u>\$ 1,028,683</u>	<u>100.0</u>	<u>\$ 1,043,631</u>	<u>100.0</u>	<u>\$ 1,073,556</u>	<u>100.0</u>	<u>\$ 1,084,063</u>	<u>100.0</u>	<u>\$ 1,090,634</u>	<u>100.0</u>

Financial Status of Great Northern

Great Northern's general balance sheet as of December 31, 1968, shows total assets of \$1,053.4 million, comprised of current assets \$105.9 million, including among others cash \$592,627 and temporary cash investments \$61.8 million; special funds \$5.9 million; investments \$175.1 million including other investments \$7.9 million and investments in affiliated companies \$167.3 million; total properties less depreciation and amortization \$755.9 million and other assets and deferred charges \$10.6 million. Liabilities and shareholders' equity are comprised of current liabilities \$59.2 million, including audited accounts and wages payable \$6.7 million and accrued taxes \$16.1 million; long-term debt \$266.1 million which includes \$9.6 million debt due within one year; reserves \$13.7 million; other liabilities and deferred credits \$3.4 million; and shareholders' equity \$711 million, which consists of capital stock \$271.8 million; capital surplus \$1 million and retained income \$438.2 million.

Great Northern's income statement for the year 1968, shows total railway operating revenues \$266.3 million, with total railway operating expenses \$217.3 million. Net railway operating income of \$20.6 million plus income (net) realized from other than railway operations amounted to \$31.6 million which was available for payment of fixed charges of \$9.8 million for the year 1968. Its net income after fixed charges and other deductions amounted to \$21.8 million, which is sufficient to service long-term debt due within one year of \$9.6 million. Great Northern's ratio of total debt to combined total debt and shareholders' equity was a very favorable 32.5 percent as of December 31, 1968. Based on the above financial data, Great Northern's financial posture as of December 31, 1968, was favorable.

Table 103 following, shows the results of Great Northern's operations for the five year period 1964-1968. For the five year period its operating ratio averaged about 78 percent; its current assets exceeded its current liabilities to the extent that its working capital position was more than adequate for conducting orderly operations; its ratio of total debt to combined total debt and stockholders' equity did not exceed an average of 32 percent for that period; net income alone was sufficient to service its long-term debt due within one year and it has historically had no difficulty in meeting its fixed charges.

Great Northern's financial data discussed above indicate that it has enjoyed profitable operations from 1964 to 1968 and it has maintained a favorable financial position.

Table 103

GREAT NORTHERN INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$250,388	\$194,956	\$25,467	\$37,008	\$28,866	77.86
1965	265,630	200,682	33,040	45,372	36,910	75.55
1966	281,857	207,857	32,288	45,428	36,547	73.77
1967	260,243	212,853	15,592	28,492	19,323	81.79
1968	266,305	217,280	37,820	31,619	21,800	81.59

GREAT NORTHERN WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$112,255	\$51,431	\$60,824	\$178,947	\$14,896	2.2
1965	130,243	54,301	75,942	183,714	15,310	2.4
1966	122,442	57,663	64,779	190,994	15,916	2.1
1967	103,824	57,304	46,520	194,831	16,236	1.8
1968	105,871	59,166	46,705	198,464	16,539	1.8

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
<u>TOTAL DEBT</u>	\$313,298	- 32	\$ 329,928	- 32.1	\$ 330,597	- 31.9	\$ 337,061	- 32.3	\$ 342,381	- 32.5
<u>STOCKHOLDERS' EQUITY</u>	664,911	- 68	686,029	- 67.9	705,662	- 68.1	707,508	- 67.7	711,042	- 67.5
<u>TOTAL</u>	\$978,209	-100	\$1,010,957	-100.0	\$1,036,259	-100.0	\$1,044,569	-100.0	\$1,053,423	-100.0

Financial Status of Burlington

Burlington's general balance sheet as of December 31, 1968, shows total assets of \$937.9 million, comprised of current assets \$69.5 million, including among others cash \$3.8 million and temporary cash investments \$15.2 million; special funds \$3.5 million; investments \$56.4 million including other investments \$278,794, and investments in affiliated companies \$56.1 million; total properties less depreciation and amortization \$799.1 million and other assets and deferred charges \$9.4 million. Liabilities and shareholders' equity are comprised of current liabilities \$48.9 million, including audited accounts and wages payable \$7.9 million and accrued taxes \$9.8 million; long-term debt \$267.1 million including \$17.9 million due within one year; reserves \$5.6 million; other liabilities and deferred credits \$4.5 million; and shareholders' equity \$611.8 million, which consists of capital stock \$170.8 million and retained income \$441 million.

Burlington's income statement for the year 1968 shows total railway operating revenues \$284.8 million, with total railway operating expenses \$227.9 million. Net railway operating income of \$21.7 million plus income (net) from other than railway operations amounted to \$27.1 million which was available for payment of fixed charges of \$11.8 million for the year. Its net income after fixed charges and other deductions amounted to \$15.3 million, which is more than sufficient to service long-term debt due within one year of \$17.9 million. Burlington's ratio of total debt to combined total debt and shareholders' equity was a very favorable 34.8 percent as of December 31, 1968. Burlington's financial condition as of December 31, 1968, was a healthy one.

Table 104 following, shows Burlington's results of operations for the five year period 1964-1968. For that period of time its operating ratio averaged 80 percent which is somewhat higher than the average 77.8 percent computed for the railroads in the Western District. Although its operating efficiency appears to be less favorable than the average railroad in the Western District, on the other hand, its current assets exceeded its current liabilities to the extent that its working capital position was adequate for conducting orderly operations; its total debt trend for that period, based on a ratio of total debt to combined total debt and stockholders' equity did not exceed 34.8 percent; funds from net income alone have been available to service its long-term debt due within one year and it has realized no difficulty in meeting its fixed charges for the period from 1964 to 1968 inclusive.

Historically, for the five year period discussed, Burlington's financial condition has been a comparatively healthy one.

Table 104

BURLINGTON INCOME TREND 1964-1968

<u>Year</u>	<u>Total Operating Revenues (000)</u>	<u>Total Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$267,380	\$217,259	\$24,000	\$28,234	\$20,355	81.25
1965	270,453	221,833	20,424	24,922	16,693	82.02
1966	289,622	227,623	28,706	33,367	23,811	78.59
1967	277,084	225,552	18,757	24,926	14,251	81.40
1968	284,752	227,962	21,668	27,107	15,300	80.06

BURLINGTON WORKING CAPITAL

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$102,581	\$51,839	\$50,742	\$196,574	\$16,381	2.0
1965	91,447	46,371	45,076	200,061	16,672	2.0
1966	80,474	57,894	22,580	205,992	17,166	1.4
1967	75,320	48,716	26,604	203,445	16,954	1.5
1968	69,534	48,963	11,571	205,262	17,105	1.4

BURLINGTON RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$286,047	- 32.8	\$294,426	- 33.3	\$323,129	- 34.7	\$325,855	- 34.8	\$326,069	- 34.8
<u>STOCKHOLDERS' EQUITY</u>	587,339	- 67.2	589,949	- 66.7	607,917	- 65.3	609,354	- 65.2	611,842	- 65.2
<u>TOTAL</u>	\$873,386	-100.0	\$884,375	-100.0	\$931,046	-100.0	\$935,209	-100.0	\$937,911	-100.0

Financial Status of Spokane, Portland & Seattle and Affiliates

SP&S's balance sheet as of December 31, 1968, shows total assets aggregating \$145.9 million comprised of current assets \$18.3 million, including among others cash \$3.5 million and temporary cash investments \$2.4 million; special funds \$143,136; investments \$2.4 million including other investments \$1.3 million and investments in affiliated companies \$1.1 million; total properties less depreciation and amortization \$123.9 million. Liabilities and shareholders' equity are comprised of current liabilities \$12.2 million, including audited accounts and wages payable \$1.7 million and accrued taxes \$1.4 million; long-term debt \$47.8 million including \$1.4 million due within one year; reserves \$223,276; and liabilities and deferred credits \$1.1 million; and shareholders' equity \$84.7 million, which consists of capital stock \$40 million, capital surplus \$9.3 million and retained income \$35.4 million.

SP&S's income statement for the year 1968, shows total railway operating revenues \$39.7 million; with total railway operating expenses \$31.4 million, resulting in an operating ratio of 79.14 percent. Net railway operating income of \$2.1 million plus income (net) from other than railway operations aggregated \$2.8 million which was available for payment of fixed charges of \$1.9 million for 1968. Net income after fixed charges and other deductions amounted to \$1.2 million. For the year 1968 sufficient funds were generated (net income and charges to depreciation) to service its debt due within one year and its ratio of total debt to combined total debt and shareholders' equity was a favorable 42 percent. As of December 31, 1968, the financial posture of SP&S was good.

Table 105 following, discloses SP&S's results of operations for the five year period from 1964 to 1968. Its operating efficiency for the entire period was good, considering that its operating ratio averaged about 76 percent. For that period, its current assets exceeded its current liabilities to the extent that its working capital position, with the exception of 1964, was more than adequate for conducting orderly operations. Its total debt trend for the five year period mentioned, based on a ratio of total debt to combined total debt and shareholders' equity did not exceed 46 percent. Generally, funds to service its long-term debt due within one year have been generated from net income alone and it has experienced no difficulty in meeting its fixed charges from 1964 to 1968.

SP&S has conducted profitable operations and maintained a sound financial position, historically.

Table 105

SP&S AND AFFILIATED COMPANIES INCOME TREND 1964-1968

<u>Year</u>	<u>Total Operating Revenues (000)</u>	<u>Total Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$34,499	\$26,561	\$3,401	\$4,128	\$1,948	76.99
1965	38,702	28,385	4,009	4,695	2,601	73.34
1966	40,492	29,078	4,724	5,700	3,672	71.81
1967	39,720	29,707	2,397	3,014	1,119	74.79
1968	39,679	31,402	2,142	2,826	1,176	79.14

WORKING CAPITAL

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$12,174	\$11,318	\$ 856	\$24,311	\$2,026	1.1
1965	13,681	10,066	3,516	26,054	2,171	1.4
1966	16,460	12,407	4,053	26,660	2,222	1.3
1967	17,624	12,660	4,964	27,345	2,279	1.3
1968	18,291	12,158	6,133	29,130	2,428	1.5

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$ 63,035	- 46	\$ 60,855	- 43.5	\$ 59,736	- 42	\$ 59,804	- 41.7	\$ 61,284	- 42
<u>STOCKHOLDERS' EQUITY</u>	74,074	- 54	78,930	- 56.5	82,399	- 58	83,518	- 58.3	84,694	- 58
<u>TOTAL</u>	<u>\$137,109</u>	<u>-100</u>	<u>\$139,785</u>	<u>-100.0</u>	<u>\$142,135</u>	<u>-100</u>	<u>\$143,322</u>	<u>-100.0</u>	<u>\$145,978</u>	<u>-100</u>

Freight Traffic: Colorado and Southern

During the past five years, Colorado and Southern freight traffic has increased in revenue tonnage from 5,582,000 in 1964 to 6,116,956 in 1968 and in freight revenue from \$14,188,292 in 1964 to \$15,821,217 in 1968.

For the five-year period, interline originated and bridge traffic remained comparatively stable in relation to total carloads standing at about 22 and 49 percent, respectively, while local traffic showed a net decline to an insignificant volume (8 percent down to 2 percent of total carloads), and interline terminated traffic increased substantially from 20 to 27 percent (net). Carloads totaled 116,246 in 1968.

Table 106 below, lists the major interchange points (1,000 or more cars interchanged) with applicants and interveners and the volume of traffic interchanged for the year 1965.

Table 106COLORADO AND SOUTHERN INTERCHANGES: 1965

<u>C&S Station</u>	<u>Interchange Carrier</u>	<u>Total Carloads Interchanged</u>
Cheyenne	UP	8,026
Denver	UP	13,150
	D&RGW	11,529
	AT&SF	6,417
	RI	704
Pueblo	MP	4,266
	D&RGW	4,230
	AT&SF	3,685
Trinidad	AT&SF	2,555

In the year 1965, Colorado and Southern handled 109,910 interline cars over its own lines. The largest interchange point was at Minnequa, Colo. (not shown in Table 106), where 39,416 carloads were interchanged with the Colorado and Wyoming Railway. The next largest interchanges were at the northern and southern termini where Colorado and Southern interchanges, respectively, with its parent, the Burlington (24,509 cars interchanged at Wendover and Guernsey, Wyo.) and with its subsidiary, the FW&D (32,271 cars interchanged at Sixela, N. Mex.).

With respect to traffic density in 1965, Colorado and Southern generated approximately 2 billion gross ton-miles (reflecting the weight of freight train cars, contents and cabooses but excluding locomotives and passenger cars) over 709 miles of freight road operated for a system average traffic density of 2.8 million gross ton-miles per mile of road. Evidence was not submitted with respect to traffic densities over principal segments of line.

It is unnecessary to detail the commodity consist of freight hauled by Colorado and Southern over the years. In 1964 "Manufactures and Miscellaneous" accounted for 47 percent of gross freight revenue (including L.C.L. traffic); "Products of Mines," 31 percent; and "Products of Agriculture," 11 percent.

Financial Status of Colorado & Southern

The Colorado and Southern's balance sheet as of December 31, 1968, shows total assets aggregating \$91.8 million, comprised of current assets \$7.5 million, including among others cash \$769,777 and temporary cash investments \$1.7 million; special funds \$17,459; investments \$4.3 million (principally in affiliated companies); total properties less depreciation and amortization \$76.9 million; and other assets and deferred charges \$3.1 million. Liabilities and shareholders' equity are comprised of current liabilities \$4.4 million, including audited accounts and wages payable \$1.4 million and accrued taxes \$872,682; long-term debt \$26.9 million including \$1.5 million due within one year; reserves \$42,400; and liabilities and deferred credits \$355,439; and shareholders' equity \$60.1 million, which consists of capital stock \$48 million and retained income \$12.1 million.

The Colorado and Southern's income statement for the year 1968, shows total railway operating revenues \$16.1 million with total railway operating expenses \$11.2 million, resulting in an operating ratio of 69.30 percent. Net railway operating income of \$2.9 million plus income (net) from other than railway operations aggregated \$3.1 million which was available for payment of fixed charges of \$679,520 for 1968. Net income after fixed charges and other deductions amounted to \$2.5 million. For the year 1968 sufficient funds were generated from net income alone to service its long-term debt due within one year and its ratio of total debt to combined total debt and shareholders' equity was a favorable 43 percent. The Colorado and Southern's financial position as of December 31, 1968 was good.

Table 107 following, shows the Colorado and Southern's results of operations for the five year period from 1964 to 1968. Its operating ratio went from a high of 84.89 percent in 1965 to a low of 69.30 percent in 1968, indicating a tremendous improvement in its operating efficiency. Its working capital position (excess of current assets over current liabilities) has been adequate for conducting orderly operations and its ratio of total debt to combined total debt and shareholders' equity for the five year period, never exceeded 43 percent. The Colorado and Southern has generated sufficient funds to service its long-term debt due within one year and has experienced no difficulties in meeting its fixed charges.

Based on the foregoing financial discussion, historically the Colorado and Southern has conducted profitable operations and it has maintained a reasonably sound financial posture.

Table 107

COLORADO & SOUTHERN INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$16,778	\$13,371	\$ 986	\$1,501	\$1,184	79.70
1965	15,968	13,555	985	1,356	831	84.89
1966	16,412	13,553	1,371	1,754	1,315	82.58
1967	15,169	12,301	1,454	1,668	1,210	81.09
1968	16,175	11,209	2,874	3,138	2,459	69.30

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$9,254	\$6,742	\$2,512	\$12,138	\$1,012	1.4
1965	7,647	6,659	988	12,231	1,019	1.1
1966	6,458	5,092	1,366	12,128	1,011	1.3
1967	6,792	4,987	1,805	10,942	912	1.4
1968	7,468	4,378	3,090	10,817	901	1.7

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
TOTAL DEBT	\$33,031	- 35.5	\$31,429	- 34.4	\$28,109	- 31.9	\$30,206	- 33.5	\$ 45,323	- 43
STOCKHOLDERS' EQUITY	60,037	- 64.5	59,840	- 65.6	59,955	- 68.1	60,043	- 66.5	60,074	- 57
TOTAL	\$93,068	-100.0	\$91,269	-100.0	\$88,064	-100.0	\$90,249	-100.0	\$105,397	-100

Freight Traffic: Fort Worth and Denver

From 1964 through 1968, Fort Worth and Denver (FW&D) freight traffic decreased in revenue tonnage from 5,152,028 in 1964 to 4,685,436 in 1968 and in freight revenue from \$17,637,616 in 1964 to \$17,604,918 in 1968. Both 1968 figures represent a decrease from highs in 1966 of 5,990,016 revenue tons and \$20,465,181 in freight revenue.

During the five year period, the various classes of carload traffic fluctuated in relation to total carloads. As a percentage of total carloads over the period, local traffic increased from 23 percent in 1964 to 28 percent in 1965, declining to 17 percent in 1968. Interline originated traffic increased from 21 percent in 1964 to 26 percent in 1966, declining to 18 percent while interline terminated traffic declined from 31 to 28 percent in 1966, and increased to 34 percent in 1968. Bridge traffic, 24 percent of total carloads in 1964, fell to 20 percent in 1965, then sharply increased to 31 percent in 1968. Carloads totaled 95,728 in 1968.

Table 108 below, lists the major interchange points with applicants and interveners and the volume of traffic interchanged for the year 1965:

Table 108FORT WORTH & DENVER INTERCHANGES: 1965

<u>FW&D Station</u>	<u>Interchange Carrier</u>	<u>Carloads</u>		
		<u>Received</u>	<u>Delivered</u>	<u>Total</u>
Dalhart	RI	<u>2,217</u>	<u>6,113</u>	<u>8,330</u>
Amarillo	AT&SF	720	4,561	5,281
	RI	490	2,638	3,128
	Total	<u>1,210</u>	<u>7,199</u>	<u>8,409</u>
Quanah	QA&P	<u>2,989</u>	<u>1,713</u>	<u>4,702</u>
Fort Worth-Irving-Dallas	T&P	6,493	3,536	10,029
	MP	943	1,233	2,176
	SP	2,432	3,973	6,405
	SLSW	2,540	1,477	4,017
	MKT	2,167	1,442	3,609
	AT&SF	1,032	608	1,640
	SLSF	10,009	1,876	11,585
	L&A	2,046	1,322	3,368
	RI	595	569	1,164
	Total	<u>28,257</u>	<u>16,036</u>	<u>44,293</u>
Houston	SP	454	4,153	4,607
	MP	394	3,255	3,649
	MKT	54	112	166
	AT&SF	5	106	111
	Total	<u>907</u>	<u>7,626</u>	<u>8,533</u>

The interchanges at Fort Worth, Irving and Dallas involved nearly half of Fort Worth & Denver's 1965 interline carloads, with Texas & Pacific accounting for nearly one-fourth of the total at the named points. It is noted that approximately 59 percent of the gross ton-miles generated by Fort Worth & Denver in 1964 were produced on the line from the C&S connection at Sixela, N. Mex.-Texline, Tex. to Fort Worth, through Dalhart, Amarillo and Quanah, and the traffic over the line was predominantly southbound to Fort Worth. The gross ton-miles over the route averaged 4.1 million per mile of road. Comparable figures for the Fort Worth-Dallas and the Dallas-Galveston segments of line were 2.9 and 2.5 million gross ton-miles per mile of road, respectively. Fort Worth & Denver's 1964 traffic consisted mainly of Manufactures and Miscellaneous, 43 percent of gross freight revenue; Products of Agriculture, 41 percent; and Products of Mines, 10 percent. No point on Fort Worth & Denver was origin of 5,000 or more cars of either local or interline traffic. Houston and Galveston were destinations for 9,020 and 8,300 cars of local traffic, respectively, and Houston also was destination of 11,499 interline cars. Lubbock was destination for 5,788 interline cars. Local and interline terminations were less than 5,000 cars each at all other points.

Financial Status of Fort Worth and Denver

Fort Worth & Denver's balance sheet as of December 31, 1968, shows total assets aggregating \$63.9 million, comprised of current assets \$3.9 million including among others cash \$208,810, miscellaneous accounts receivable \$878,970 and accrued accounts receivable \$1.5 million; special funds \$36,458; investments \$8.8 million (principally in affiliated companies); total properties less depreciation and amortization \$50.6 million and other assets and deferred charges \$601,160. Liabilities and shareholders' equity are comprised of current liabilities \$6.2 million, including traffic and car-service balances-credit \$1.1 million, audited accounts and wages payable \$2.7 million and accrued accounts payable \$1.3 million; long-term debt \$16.4 million including \$377,675 due within one year; reserves \$138,265 and other liabilities and deferred credits \$459,744; and shareholders' equity \$40.8 million; which consists of capital stock \$9.2 million and retained income \$31.5 million.

Fort Worth & Denver's income statement for the year 1968 shows total railway operating revenues \$18.3 million, with total railway operating expenses \$14.9 million, resulting in an operating ratio of 81.51 percent.

Its operations have resulted in a net railway operating deficit of \$138,137. However, after reflecting income (net) from other than railway operations, some \$223 was available for payment of fixed charges which amounted to \$658,476 for the year 1968.

Considering Fort Worth & Denver's deficit operations, lack of working capital (excess of current liabilities over current assets of more than \$2 million) and its inability to service its long-term debt due within one year or its fixed charges, it is quite evident that its current financial position is very poor.

Table 109 following, shows Fort Worth & Denver's results of operations for the five year period from 1964 to 1968. It is noted that the same inadequacies described above for the year 1968, have historically plagued the Fort Worth & Denver.

Table 109

FORT WORTH & DENVER INCOME TREND 1964-1968

<u>Year</u>	<u>Total Operating Revenues (000)</u>	<u>Total Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$21,555	\$18,294	\$ (606)	\$ (409)	\$(1,186)	84.87
1965	22,945	17,729	696	910	290	77.27
1966	23,788	18,136	1,456	1,713	1,080	76.24
1967	18,831	15,882	(216)	167	(496)	84.34
1968	18,285	14,904	(138)	--	(1,413)	81.51

WORKING CAPITAL

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$7,177	\$9,465	\$(2,288)	\$17,397	\$1,450	
1965	7,378	8,767	(1,389)	16,899	1,408	
1966	5,458	6,229	(771)	17,208	1,434	
1967	4,390	6,748	(2,358)	14,932	1,244	
1968	3,870	6,182	(2,312)	14,035	1,170	

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$23,866	- 36.6	\$25,412	- 37.9	\$23,126	- 35.1	\$24,146	- 36.4	\$23,163	- 36.2
<u>STOCKHOLDERS' EQUITY</u>	41,343	- 63.4	41,619	- 62.1	42,696	- 64.9	42,179	- 63.6	40,759	- 63.8
<u>TOTAL</u>	\$65,209	-100.0	\$67,031	-100.0	\$65,812	-100.0	\$66,325	-100.0	\$63,922	-100.0

Preliminary Findings and Conclusions

Burlington Northern and its principal rail carrier subsidiaries, Colorado & Southern and Fort Worth & Denver, operate over 26,000 miles of road through 19 States and 2 Canadian Provinces as earlier described. The system provides single-line service through the area from the Chicago and St. Louis gateways west through the central corridor to Denver and through the northern corridor through all the States bordering Canada to all major ports in Oregon and Washington. At its western extremity, Burlington Northern also participates in traffic moving north and south along the Pacific Coast via the Bieber gateway and, east of the Rocky Mountains, the merged carrier and its subsidiaries provide what amounts to single-line service between the Pacific Northwest and the Gulf Coast through Denver, Dallas-Fort Worth, and Houston.

Burlington Northern and the subsidiaries named above operate a combined freight car fleet of approximately 126,000 cars with an aggregate capacity of well over seven million tons, and a combined locomotive fleet totaling over 2,000 units. Freight traffic handled by Northern Pacific, Burlington, and SP&S has exhibited a net increase in tonnage, while Great Northern's tonnage declined somewhat over the 1964-1968 period. Freight revenue showed a net increase in the period for all four named carriers. Traffic through the northern corridor on Burlington Northern is predominantly eastbound. Much of the northern corridor traffic consists of lumber and related products traffic and to a lesser extent, agricultural products, whereas in the central corridor, the former Burlington derived most of its gross freight revenue from hauling manufactured goods, agricultural products and products of mines. Each of the major carriers handled traffic consisting of at least 45 percent interline originated or interline terminated carloads.

Financial data indicate a generally favorable condition for each of the principal carriers comprising Burlington Northern. Each of the individual carriers has conducted profitable operations historically, and it is anticipated that the new company's earnings will be increased by effecting economies and efficiencies through utilization of shorter and more efficient routes, reduction of duplicate facilities and improved single-line service extending over the system's vast geographic area. The merged carrier is potentially much stronger than were any of the carriers of which it is comprised, as it has been found in the Northern Lines case approving the transaction.

Colorado and Southern and Fort Worth & Denver remain as operating carrier subsidiaries of Burlington Northern. Built as a single route and connecting with the former parent, Burlington, in Wyoming, the two carriers provide an important north-south route to the Gulf Coast and major Texas cities. Both Colorado and Southern and Fort Worth & Denver handle from about 90,000 to 120,000 carloads annually, resulting in rather light traffic density compared to many of the routes possessed by Burlington Northern. With institution of single-line service by the merged company, there is at least the possibility that traffic over Colorado and Southern and Fort Worth & Denver will increase. Colorado and Southern's carload traffic is almost all interline, primarily overhead, while Fort Worth & Denver as late as 1968 handled traffic of which 17 percent was local to its lines. The bulk of its traffic consisted of interline originated or interline terminated movements. Although Colorado and Southern has been a profitable, financially sound carrier historically, the Fort Worth & Denver has experienced a very poor earnings record resulting in a weak financial position, i.e. a lack of working capital, inability to service long-term debt when due and failure to meet fixed charges. The examiner nonetheless, views both Colorado and Southern and Fort Worth & Denver in the light of their close corporate and operational relationship to the financially strong and far-ranging Burlington Northern, as heretofore described.

MILWAUKEECorporate History and Organization

The Milwaukee's corporate antecedents go back to the year 1847. The present Milwaukee was organized under the laws of Wisconsin in 1927 and in the following year acquired the properties of the former Chicago, Milwaukee and St. Paul Railway Company as the result of a foreclosure sale in 1926. Chicago, Milwaukee & St. Paul Reorganization, 131, I.C.C. 673, 138 I.C.C. 291, 154, I.C.C. 586. In 1935 the present company applied for reorganization from which it emerged in 1945 as the reorganized company pursuant to a plan of reorganization approved in Chicago, M., St. P.&P. R. Co. Reorganization, 212 I.C.C. 150, 239 I.C.C. 484, 254 I.C.C. 707, and 257 I.C.C. 223.

Subsidiaries and Affiliates

Milwaukee has 3 wholly-owned subsidiaries. The Bremerton Freight Car Ferry, Inc., operates car ferries in the State of Washington. The Milwaukee Motor Transportation Company, pursuant to certificates in No. MC-19778 and numerous sub-numbers, may operate as a motor common carrier, in interstate and foreign commerce over highways generally paralleling the lines of the parent railroad and restricted to a service auxiliary to and supplemental of the rail service of its parent. The Milwaukee Land Company is a forestry and industrial development firm. It in turn, owns 100 percent of the Washington, Idaho and Montana Railway Company (WI&M), a short line railroad operating 49 miles of main line between Palouse, Wash., and Purdue, Idaho.

Milwaukee also has a 50 percent interest in the Davenport, Rock Island and North Western Railway Company (DRI&NW) which operates 83 miles of main line between East Moline, Ill., and Clinton, Iowa; and interests in various companies which perform terminal and switching services.

As of December 31, 1968, Milwaukee was authorized to issue 2,637,450 shares of common stock, no par value, of which 2,179,842 had been issued and 1,150,000 shares of Series A, 5 percent, preferred stock, par value \$100 per share, of which 518,652 shares were issued and outstanding.

Scope of Operations, Plant and Equipment

At the close of 1968, Milwaukee operated 10,509 miles of road comprised of 9,710 miles owned by it and 802 miles operated under trackage rights. Of the mileage owned, 2,944 miles were classified by the carrier as main line and 6,267 as branch line. Mileage totals for the 14 States served are: Iowa, 1,763; South Dakota, 1,728; Wisconsin, 1,591; Minnesota, 1,328; Montana, 1,242; Washington, 1,068; Illinois, 683; North Dakota, 367;

Idaho, 233; Michigan, 184; Missouri, 157; Indiana, 156; Kansas, 7; and Nebraska, 6. The foregoing mileages exclude road mileage acquired as a result of the grant of Milwaukee's proposed conditions in the Northern Lines case.

Principal lines of the Milwaukee extend from Chicago: (1) northwest to Seattle, Tacoma and Portland, through Milwaukee and LaCrosse, Wis., the Twin Cities, Aberdeen, S. Dak., Miles City and Butte, Mont., and Spokane, with branch lines extending to Fargo and Linton, N. Dak., and Great Falls, Mont., (2) west to Council Bluffs, through Elgin and Savanna, Ill., Sabula, Marion and Perry, Iowa, with lines extending to Dubuque, Cedar Rapids and Des Moines, Iowa, and (3) southwest to Kansas City through Savanna, Sabula, Rock Island and Moline, Ill., and Davenport, and Ottumwa, Iowa. It also has a line along the west bank of the Mississippi River between Sabula and La Crescent, Minn., connecting its main line to the Twin Cities and west with its Council Bluffs and Kansas City main lines. It has a line extending from Chicago to Seymour, Ind., through Terre Haute, and numerous branch and feeder lines in Illinois, Wisconsin, Iowa, Minnesota, and South Dakota.

The Milwaukee provides intercity passenger service concentrated on its lines between Chicago-Madison, Chicago-Milwaukee-Twin Cities, and Chicago-Omaha (in conjunction with Union Pacific for operation of the "City Trains" to Los Angeles, San Francisco and Portland). The Milwaukee also conducts substantial modern commuter operations serving Chicago and Chicago suburbs along its main lines to the west and north of Chicago.

Milwaukee's main freight yards are at Bensenville in Chicago, Milwaukee, St. Paul, Council Bluffs, Kansas City, Seattle and Tacoma, including modern electronically controlled hump yards at Bensenville, Milwaukee and St. Paul.

Milwaukee's freight car fleet at the close of 1968 totalled 36,004 units comprised of 19,529 boxcars, 4,701 gondola cars, 3,812 open top hopper cars, 2,571 covered hopper cars, 3,516 flat cars (including rack cars), 1,586 stock cars, 287 refrigerator cars and 2 tank cars. The locomotive fleet totalled 760 diesel units. Milwaukee's passenger car fleet totalled 411 units comprised of 162 coaches (including 2 combined cars), 180 baggage, express and other non-passenger cars, 24 postal cars, 19 dining cars, 15 sleeping cars and 11 parlor cars.

Freight Traffic: Volume and Commodity Characteristics

During the 1964-1968 period, freight traffic on the Milwaukee increased from 40,765,392 revenue tons in 1964 to 44,671,548 revenue tons in 1968 and in freight revenue from \$189,837,458 in 1964 to \$236,708,355 in 1968. Although the tonnage hauled in 1968 was a decline from a high of 46,049,835 revenue tons in 1966, the freight revenue in 1968 was the highest during the period.

For the five year period, each class of carload traffic remained comparatively stable in relation to the total of all classes. Stated as a percentage of total carloads in 1964 and in 1968, local traffic remained at approximately 31 percent and interline terminated traffic at 29 percent. Interline originated traffic increased from 30 to 31 percent, and bridge traffic decreased from 10 to 9 percent. In 1966, Milwaukee originated 63 percent of its carload traffic which accounted for 66 percent of its gross freight revenues (half of the originated traffic also terminated on Milwaukee), and was a bridge carrier on less than 10 percent of its business which accounted for 12.6 percent of gross freight revenue. Interline terminated traffic constituted about 28 percent of all carloads handled, producing 24.9 percent of gross freight revenues.

Milwaukee's evidence shows commodity data for the years 1955 through 1966, on the basis of the old commodity code. It is unnecessary to describe the commodity consist in detail here. Rather, the discussion will be directed to the last five years shown in the evidence, i.e., 1962 through 1966, and in particular, the net changes occurring between 1962 and 1966 with respect to the portion of total gross freight revenue represented by each commodity group. "Manufactures and Miscellaneous" traffic increased from 47.0 to 51.5 percent; "Products of Agriculture" increased slightly from 19.8 to 20.7 percent; "Products of Mines" decreased from 10.0 to 7.4 percent; "Animals & Products" decreased from 5.6 to 4.7 percent; and "Products of Forests" remained at slightly over 14 percent. "Forwarder Traffic" and "All L.C.L. Freight" constituted less than two percent each.

Freight Traffic: Interchanges and Traffic Flow

Very few of Milwaukee's branch lines handle as much as one million gross tons (including weight of locomotives and cabooses) per mile of road in each direction. The discussion here is limited to the main freight service routes (based on 1964 density), beginning with the main line from Seattle and Tacoma to Chicago. From Seattle eastward to the Twin Cities, traffic density gradually increases from 2.7 million gross tons per mile of road to 5.4 million. From the Twin Cities to Seattle, density decreases overall from 3.2 million to 2.4 million gross tons. Between the Twin Cities and Milwaukee, eastbound tonnage ranges from 7.6 to 10.0 million, and westbound from 6.1 to 7.6 million. Between Milwaukee and Bensenville (Chicago), the tonnage range is 11.5 to 14.0 million gross tons eastbound, and 10.6 to 13.3 million westbound.

The Council Bluffs - Chicago line handles traffic eastbound which increases from 4.9 million gross tons at Council Bluffs to nearly eight million near Chicago, and westbound traffic which decreases from nearly seven million gross tons near Chicago to somewhat over four million near Council Bluffs. Accounting in part for the heavier density at the

eastern end of the route are two lines which converge with it at Green Island, Iowa (from La Crescent, Minn., on the Chicago-Twin Cities route), and at Sabula, Iowa (from Kansas City). The La Crescent-Green Island route handles 2.8 to 4.9 million gross tons southbound and 2.1 to 4.0 million northbound. The Kansas City-Sabula route handles roughly four to five million gross tons in each direction.

Two lines, one from Kittredge, Ill., on the Chicago-Council Bluffs line, to Sturtevant, Wis., on the Chicago-Milwaukee line, and the other from Chicago to Terre Haute, carry between approximately two and three million gross tons in each direction. A few routes, such as those between (1) the Twin Cities and Duluth-Superior; (2) New Lisbon and Wausau, Wis., and (3) Milwaukee and Green Bay, handle between one and two million gross tons in each direction. The above-described lines together with six branch line segments (less than 50 miles long in each case) comprise about 3,900 miles of road, or 37 percent of total 1964 road mileage. These lines produced over 86 percent of the total gross ton-miles generated by the Milwaukee in 1964.

Most of the traffic gathered along Milwaukee's lines west of Mobridge, S. Dak., consists of forestry products, grain and other agricultural products. Grain produced in the area west of Great Falls, Mont., generally moves to Pacific Coast terminals. Milwaukee handles little traffic inbound for termination at Montana points.

Milwaukee's thirty most important origin points and the thirty most important destination points for carload traffic in 1965 without regard to the class of traffic, i.e., local or interline. Origins of 10,000 or more cars were: Milwaukee, 67,717 cars; Chicago, 57,534, Minneapolis and St. Paul, 31,960; Latta, Ind., 27,821; Green Bay, 11,316; Janesville, Wis., 10,803; and Cedar Rapids, Iowa, 10,275. Destinations of more than 10,000 cars were: Milwaukee, 81,574 cars; Chicago, 69,361; Minneapolis, St. Paul, Chaska, Minnesota Transfer, Fordson, and Hopkins, Minn. (Twin Cities area), 65,234; Tacoma, 18,051; Fayette, Ind., 17,806; and Kansas City, Janesville, and Madison, Wis., and Seattle and Bellingham, Wash., from 10,000 to 16,000 cars each. Among the thirty most important origin stations, only one is located in each of the States of Indiana, Missouri, South Dakota, and Idaho, and none of the three last named reached 10,000 cars. The remainder are in Illinois, Wisconsin, Minnesota, Iowa and Washington, as are all of the 30 most important destination stations except Fayette, Ind., and Kansas City. No stations in either category (origin or destination) are located in Montana, Nebraska or North Dakota.

Milwaukee's interchange evidence also covers movements for the year 1965. Data are shown only for cars received and cars delivered from or to named connections at each point without detail as to the class of traffic (overhead, interline originated or interline terminated) interchanged. The data exclude "Switch to Switch Cars", but do show switching and terminal carriers as connections. The tables which follow this discussion show the interchange data. Switching and terminal carriers are included, where appropriate, in the category "All Others" in the column headed "Connecting Carrier." Adjustments have been made to reflect unifications, other than Burlington Northern, and only interchanges with railroads are shown. Points at which Milwaukee interchanges exclusively with a railroad not participating in these proceedings have been excluded.

The Milwaukee has no major gateways in Montana, North Dakota and South Dakota; bearing in mind that the new gateways in those States resulting from the conditions granted in the Northern Lines case are not susceptible to analysis for the reasons already stated. The interchange points in Washington, shown in Table 110, are relatively small in volume, compared to Milwaukee's gateways at the eastern end of its system, totalling 62,832 carloads, or only 8.3 percent of the 754,360 interline carloads hauled by Milwaukee in 1965. Interchanges with Union Pacific and its subsidiary, Spokane International, accounted for 26,734 of the 62,832 car total, and the balance was interchanged with carriers now unified in Burlington Northern.

At Duluth, the principal interchange, 11,098 cars, is with the Duluth, Winnipeg & Pacific, a subsidiary of Canadian National, while interchanges with Soo, Northern Pacific and the North Western were each less than 1,200 cars. Interchanges with North Western at Winona, Minn., Green Bay, Menosha, and Wausau, Wis., totalled 17,361 cars. Burlington and the Milwaukee interchanged only 255 cars at Winona. Menosha also was the point of interchange for 3,313 cars between Milwaukee and Soo Line.

Interchanges at the Twin Cities, Milwaukee, Chicago, and points on the line between Chicago and Seymour, Ind., are shown in Table 111. The 139,748 cars interchanged in the Twin Cities area represented 18.5 percent of Milwaukee's total interline carloads. Well over half, 76,827 cars, or 10.2 percent of interline carloads, of the Twin Cities interchange involved cars moving between the Milwaukee and carriers now part of Burlington Northern. The Milwaukee's interchange with North Western was slightly less than half that with the Burlington Northern carriers, while interchanges with Soo were about one-fourth as large as the Burlington Northern figure. The interchanges at Milwaukee are preponderantly with Chesapeake & Ohio and the Grand Trunk Western, although those with North Western are substantial, 17,773 cars over half of which were delivered to North Western.

Chicago is by far the largest volume gateway for the Milwaukee, accounting for 407,132 cars, or 54 percent of the carrier's interline carloads. Approximately 73 percent of the 407,132 cars were interchanged with Eastern District carriers (including C&EI). The IC interchange represented 2.6 percent of Milwaukee's interline carloads, while those with North Western, Burlington, Santa Fe, Rock Island, and Soo each involved less than 1.5 percent. Cars interlined at points on the Chicago-Seymour, Ind., line were interchanged with Eastern District carriers and the TP&W.

Table 112 shows the Omaha-Council Bluffs and Kansas City gateways and other gateways in Iowa and the area in Illinois west of Chicago. The volume of cars interchanged at Omaha-Council Bluffs is nearly equal to the volume at Kansas City, representing 14.8 percent, and 15.3 percent of Milwaukee's total interline carloads, respectively. The interchange with Union Pacific at Omaha-Council Bluffs, 12.0 percent of total interline carloads, is the largest individual interchange between Milwaukee and any of its connections west of Chicago. Over half, 57 percent, of this traffic is comprised of cars received from the Union Pacific. The next largest interchange at Omaha-Council Bluffs was that with Burlington totalling 11,677 cars, far smaller than the total for Union Pacific.

At Kansas City, the five largest interchanges were with MoPac, Santa Fe, Kansas City Southern, Frisco and Rock Island, all of which have lines radiating to Gulf ports, the southwestern and/or southeastern States. At the remaining gateways shown in Table 112, the most significant individual interchanges in terms of volume were with North Western at Cedar Rapids, Burlington at East Moline-Davenport, and IC at Mendota, each amounting to 10,000 to 12,000 cars in volume. Taken together, however, the points shown in the table, other than Kansas City and Omaha-Council Bluffs, account for over 120,000 cars interchanged without allowance for possible duplication of count for bridge cars interchanged at any pair of points shown in the table.

TABLE 110

MAJOR MILWAUKEE INTERCHANGES (1965): WASHINGTON

MILW Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
Seattle	UP	4,707	2,517	7,224
	GN	2,402	3,409	5,811
	NP	3,182	1,838	5,020
	Total	<u>10,291</u>	<u>7,764</u>	<u>18,055</u>
Everett	GN	3,168	4,440	7,608
	NP	472	4,068	4,540
	Total	<u>3,640</u>	<u>8,508</u>	<u>12,148</u>
Tacoma	GN	1,574	1,235	2,809
	NP	1,416	945	2,361
	UP	321	1,128	1,449
	Total	<u>3,311</u>	<u>3,308</u>	<u>6,619</u>
Chehalis	UP	78	3,888	3,966
	NP	152	859	1,011
	GN	176	792	968
	Total	<u>406</u>	<u>5,539</u>	<u>5,945</u>
Warenego	UP	<u>1,935</u>	<u>8,258</u>	<u>10,193</u>
Spokane	NP	1,377	1,758	3,135
	GN	1,255	876	2,131
	UP	1,138	980	2,118
	SI	1,418	366	1,784
	SP&S	634	70	704
	Total	<u>5,822</u>	<u>4,050</u>	<u>9,872</u>

TABLE 111

MAJOR MILWAUKEE INTERCHANGES (1965)

TWIN CITIES, MILWAUKEE, CHICAGO, AND POINTS ON SEYMOUR, IND. LINE

MILW Station(s)	Connecting Carrier	Carloads		
		Received	Delivered	Total
Twin Cities area*	GN	27,403	13,043	40,446
	C&NW	14,971	22,553	37,524
	NP	19,486	11,650	31,136
	SOO	10,491	7,539	18,030
	CB&Q	2,326	2,919	5,245
	RI	1,862	2,648	4,510
	MN&S	771	2,030	2,801
	All other	56	C	56
	Total	77,366	62,382	139,748
Milwaukee	C&NW	7,315	10,458	17,773
	SOO	66	12	78
	Eastern Dist.			
	Class I Line-Haul**	13,786	26,505	40,291
	Total	21,167	36,975	58,142
Chicago, Chicago Heights, Rondout & Spaulding, Ill.	IC	12,719	6,979	19,698
	C&EI	9,032	5,526	14,558
	C&NW	3,268	6,258	9,526
	CB&Q	4,762	2,912	7,674
	AT&SF	4,866	2,001	6,867
	RI	2,215	4,242	6,457
	SOO	759	1,053	1,812
	Eastern Dist.			
	Class I Line-Haul**	135,255	146,971	282,226
	Southern Dist.			
	Class I Line-Haul***	4,484	3,963	8,447
	All others	21,135	28,732	49,867
	Total	198,495	208,637	407,132
6 points in Illinois and Indiana+	C&EI	3,465	1,320	4,785
	Eastern Dist.			
	Class I Line-Haul**	19,301	26,937	46,238
	All other	2,599	5,100	7,699
	Total	25,365	33,357	58,722

*Includes Minneapolis, St. Paul, Minnesota Transfer, and Chaska, Minn.

**Eastern District Class I Line-Haul carriers include (1) C&O and GTW at Milwaukee; (2) C&O-B&O (including South Shore), EJ&E, E-L, GTW, Monon, N&W and PC at Chicago; and (3) Monon, N&W and PC at the 6 Illinois and Indiana points.

***GN&O only.

+ Includes Cheneyville, Delmar and Webster, Ill., and Bedford, Humrick and Terre Haute, Ind., all located on Chicago-Seymour, Ind. line.

TABLE 112

MAJOR MILWAUKEE INTERCHANGES (1965)

MISSOURI RIVER, IOWA AND ILLINOIS (WEST OF CHICAGO) GATEWAYS

MILW Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
Council Bluffs- Omaha	UP	52,014	38,498	90,512
	CB&Q	6,285	5,392	11,677
	RI	1,272	1,253	2,525
	C&NW	1,498	1,026	2,524
	N&W	1,274	141	1,415
	MP	661	446	1,107
	IC	456	482	938
	All other	881	163	1,044
	Total	<u>64,341</u>	<u>47,401</u>	<u>111,742</u>
Kansas City	MP	11,980	13,983	25,963
	AT&SF	9,429	16,081	25,510
	KCS	6,422	11,761	18,183
	SL-SF	4,508	7,377	11,885
	RI	5,339	6,285	11,624
	MKT	2,642	4,815	7,457
	UP	3,216	3,532	6,748
	CB&Q	2,276	1,286	3,562
	GM&O	149	549	698
	N&W	289	299	588
	C&NW	257	58	315
	All other	170	2,695	2,865
	Total	<u>46,677</u>	<u>68,721</u>	<u>115,398</u>
Cedar Rapids, Iowa	C&NW	6,091	5,478	11,569
	RI	5,022	4,338	9,360
	IC	567	312	879
	All other	5,936	2,422	8,358
	Total	<u>17,616</u>	<u>12,550</u>	<u>30,166</u>
Sioux City, Iowa	C&NW	1,285	5,395	6,680
	GN	2,080	2,963	5,043
	CB&Q	2,609	1,761	4,370
	IC	951	2,265	3,216
	All other	2,197	637	2,834
	Total	<u>9,122</u>	<u>13,021</u>	<u>22,143</u>
Mason City, Iowa	C&NW	5,468	2,109	7,577
	RI	1,021	278	1,299
	All other	1,075	739	1,814
	Total	<u>7,564</u>	<u>3,126</u>	<u>10,690</u>
Des Moines, Dubuque, and Ottumwa, Iowa*	IC	1,455	2,200	3,655
	RI	1,797	2,185	3,982
	CB&Q	1,154	1,545	2,699
	C&NW	2,560	2,916	5,476
	N&W	2,816	2,904	5,720
	All other	2,753	4,523	7,276
	Total	<u>12,535</u>	<u>16,273</u>	<u>28,808</u>

TABLE 112 (CONT)MAJOR MILWAUKEE INTERCHANGES (1965)MISSOURI RIVER, IOWA AND ILLINOIS (WEST OF CHICAGO) GATEWAYS

<u>MILW Station</u>	<u>Connecting Carrier</u>	<u>Carloads</u>		
		<u>Received</u>	<u>Delivered</u>	<u>Total</u>
East Moline, Ill., and Davenport, Iowa	CB&Q	3,695	6,501	10,196
	RI	<u>1,873</u>	<u>3,445</u>	<u>5,318</u>
	Total	<u>5,568</u>	<u>9,946</u>	<u>15,514</u>
Mendota, Ill.	IC	10,592	503	11,095
	CB&Q	<u>1,168</u>	<u>742</u>	<u>1,910</u>
	Total	<u>11,760</u>	<u>1,245</u>	<u>13,005</u>

* Interchanges with connecting carriers shown by name totalled less than 4,500 cars each at each station.

Financial Status of Milwaukee

Milwaukee's balance sheet, as of December 31, 1968, is shown in its Annual Report Form A, to the Commission. Total assets of \$717.7 million are comprised of current assets \$71.6 million, including among others, cash \$3.6 million and temporary cash investments \$14.6 million; special funds \$2.2 million; investments \$25 million including principally investments in affiliated companies of \$24.5 million; total properties less depreciation and amortization \$614.5 million and other assets and deferred charges \$4.3 million. Liabilities and shareholders equity are comprised of current liabilities \$55.4 million, including audited accounts and wages payable \$6.8 million and accrued taxes \$19.5 million; long-term debt \$282.5 million including \$16 million due within one year; reserves \$1.7 million; other liabilities and deferred credits \$4 million; and shareholders' equity \$374.1 million, including capital stock \$269.8 million and retained income appropriated \$44.2 million and unappropriated \$60 million.

Milwaukee's income statement for the year 1968 shows total railway operating revenues of \$268.7 million; total railway operating expenses of \$219.5 million; and operating ratio of 81.71 percent. Net railway operating income of \$7.2 million plus net income realized from other than railway operations amounted to income of \$16.6 million which was available for payment of fixed charges of some \$8.4 million for the year 1968. Net income after fixed charges and other deductions amounted to \$2.6 million.

Table 113 following, shows Milwaukee's results of operations for the five year period 1964-1968. For that period of time its operating ratio averaged about 80 percent; current assets exceeded current liabilities to the extent that its working capital position was generally adequate to meet its monthly average working capital requirement and its earnings were sufficient to meet its fixed charges and contingent interest obligations. Milwaukee's net income, supplemented by funds generated by charges to depreciation have been available to service its long-term debt due within one year.

Table 113 also shows that Milwaukee's ratio of total debt to combined total debt and stockholders' equity was a favorable 48 percent, which was maintained over the five year period 1964-1968. Furthermore, a computation of Milwaukee's long-term debt trend for the same period discloses that its ratio of total long-term debt to the total of such debt and stockholders' equity did not exceed 45 percent. Milwaukee's debt-equity ratios discussed herein are very favorable.

Table 113

MILWAUKEE INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$ 228,239	\$ 184,768	\$ 13,106	\$ 17,385	\$ 5,315	80.95
1965	241,361	191,677	15,289	19,509	7,263	79.42
1966	259,217	205,886	16,344	20,449	8,130	79.43
1967	256,387	204,185	11,439	17,178	2,734	79.64
1968	268,675	219,545	7,247	16,602	2,612	81.71

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$ 59,342	\$ 47,403	\$11,939	\$ 168,257	\$ 14,021	1.3
1965	62,620	47,915	14,705	175,073	14,589	1.3
1966	69,814	54,513	15,301	188,963	15,747	1.3
1967	76,187	54,060	22,127	185,774	15,481	1.4
1968	71,623	55,371	16,252	200,942	16,745	1.3

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
TOTAL DEBT	\$323,849	- 48	\$326,009	- 47	\$347,058	- 49	\$359,901	- 49	\$342,587	- 48
STOCKHOLDER'S EQUITY	357,809	- 52	360,909	- 53	365,599	- 51	373,808	- 51	374,115	- 52
TOTAL	\$681,658	-100	\$686,918	-100	\$712,657	-100	\$733,709	-100	\$716,702	-100

The record shows that Milwaukee has paid dividends on its preferred and common stock aggregating \$12,969,300 and \$8,632,083, respectively, over the five year period 1964-1968 (no dividends were paid on its common stock for the year 1968).

With respect to Milwaukee's financial position, the foregoing financial discussion discloses that, although its operations have been profitable and it has managed to satisfy its creditors and stockholders, it has not been able to generate additional funds for capital improvements and other corporate needs. As a result of these static operations Milwaukee has been a marginal railroad.

Preliminary Findings and Conclusions

Although the Milwaukee experienced a nearly 10 percent net increase in revenue freight tonnage and a net increase of nearly 25 percent in freight revenue over the 1964-1968 period, wage increases and various improved employee benefits more than offset the increased earnings. Despite its ability to meet current obligations, Milwaukee does not generate sufficient funds for new equipment and other capital expenditures.

The carrier's weakness lies in part in the facts that over half its road mileage is branch line, and that only 37 percent of the road mileage produces 86 percent of total gross ton-miles. The bulk of the 86 percent is generated on the main lines from Chicago to (1) Seattle-Tacoma through Milwaukee and the Twin Cities, (2) Omaha-Council Bluffs, (3) Kansas City, and (4) Terre Haute, and (5) on major lines connecting the Chicago-Omaha and the Chicago-Twin Cities lines.

The portion of the Chicago-Seattle-Tacoma line west of the Twin Cities, despite a contribution of about one-third of total ton-miles, is, however, itself a rather light density line: The ton-mile figure is large because the distance (mileage) factor is large (the line represents about 17 percent of total road mileage), and the tonnage factor is small. Only 5.1 to 8.6 million actual gross tons were handled (total for both directions) in 1964, compared to 22 to 27 million gross tons between Chicago and Milwaukee and 14 to 18 million between Milwaukee and the Twin Cities. The Twin Cities-Milwaukee-Chicago route and the routes described immediately above in (2), (3), (4) and (5) represent about 20 percent of the Milwaukee's road mileage and produced 54 percent of total gross ton-miles. Only one scheduled freight train is operated daily each way between Chicago and Seattle.

West of Mobridge, S. Dak., the principal commodities originated consist mainly of forestry and agricultural products. Little traffic is terminated in the area by the Milwaukee. The carrier's evidence shows no major origin or destination stations in Montana and North Dakota, and only one origin station, near Sioux Falls, in South Dakota.

Approximately one-tenth of Milwaukee's carload traffic is bridge traffic, and somewhat less than one-third is local traffic. Interline originated traffic nearly equals local traffic. Over half (54 percent) of total interline carload traffic moves through the Chicago gateway to and from Eastern District class I line-haul railroads. The Twin Cities, Kansas City and Omaha-Council Bluffs are the next largest Milwaukee gateways, accounting for the interchange of about 15 to 20 percent of total interline carloads each. Approximately 10 percent of Milwaukee's interline carloads are interchanged at the Twin Cities with the carriers now comprising the Burlington Northern; 12 percent are interchanged with Union Pacific at Omaha-Council Bluffs; and, at the Kansas City gateway, interchanges are less concentrated, with no connection delivering and receiving more than 3.4 percent of Milwaukee's interline carloads. A considerable volume of cars are interchanged at smaller gateways in Iowa, Illinois, Wisconsin and Minnesota. Interchanges in Washington are quite small at each point: The total of interchanges in the entire State represented about eight percent of Milwaukee's interline carloads.

Although the Chicago-Seattle line is over 2,100 miles long, Milwaukee's 1968 system average length of haul was only 384 miles, an increase of only 23 miles since 1964. The record clearly indicates that Milwaukee's operations, major traffic volume, and major origins and destinations are concentrated on its lines between Chicago, Milwaukee and the Twin Cities; between Chicago and Omaha; and between Chicago and Kansas City. Further, the carrier historically has been able to participate to only a limited extent in transcontinental traffic between the Chicago gateway and the Pacific Northwest. At the same time, it is not typically a bridge carrier, such traffic constitutes only about 10 percent of revenue carloads and 13 percent of gross freight revenue. It is apparent, therefore, that the carrier while attempting to maintain a large physical plant covering a vast area through the Midwest and the northern corridor, is deriving most of its revenue traffic from a few of the many lines in the area, bounded generally by the Twin Cities, Milwaukee, Chicago, Kansas City and Omaha.

It is obvious that the Milwaukee, confined to the limited geographical area it principally serves, had had no opportunity to improve its earning power and at the same time, its entire system is subject to the same escalating operating costs experienced by the railroad industry. Milwaukee's opportunity to improve its marginal income status is limited.

In the Northern Lines case, Milwaukee estimated that the grant of its proposed conditions would result in a net increase of \$3 million in earnings and such estimate was accepted in support of the conditions imposed. It is noted that the Milwaukee's estimate was based on studies made in 1960. With the passage of a decade changes have occurred in revenue divisions between carriers, including Milwaukee; general rate increases have been granted; and as noted, rapidly increasing costs largely have offset revenue gains. However, no evidence was presented in these proceedings updating the results of the estimate. Rather, Milwaukee relied on the \$3 million net earnings increase, noting that this represents only a modest increase over a twelve-year average annual net income of \$6 million. Despite the fact that the increase would improve Milwaukee's earnings, and although the Northern Lines conditions will undoubtedly improve the carrier's competitive ability, it would be conjecture as to whether or not this improvement in net earnings will have such a favorable effect as to remove the profit marginality of Milwaukee.

SOO LINE RAILROAD COMPANYCorporate History

Soo Line has its principal offices in Minneapolis, Minn. It is the surviving corporation of the merger, effective December 30, 1960, of the Minneapolis, St. Paul & Sault Ste. Marie Railroad and Wisconsin Central Railroad Company into the Duluth, South Shore and Atlantic Railroad Company. See: Duluth, S.S. & A. R. Co. Merger, 312 I.C.C. 341. The corporate histories and properties, including lines of railroad of the three merged companies are described in detail in Duluth, S.S. & A. R. Co. Reorganization, 267 I.C.C. 553, Wisconsin Central Reorganization, 267 I.C.C. 423 and 282 I.C.C. 393, and Minneapolis, St. P. & S.S.M. Ry. Co. Reorganization, 252 I.C.C. 525 and 257 I.C.C. 441 and 709.

Subsidiaries and Affiliates

Soo Line's holdings in other transportation companies are small. Principally, it has 50 percent in the Sault Ste. Marie Bridge Company and a 33-1/3 percent interest in the Mackinac Transportation Company.

As of December 31, 1968, Soo Line had outstanding, 1,264,554 shares of common capital stock of which the Canadian Pacific Railway Company owned 56.37 percent.

Scope of Operations, Plant and Equipment

Soo Line operated, at the end of 1968, 4,694 miles of road in seven States. Of this mileage over 57 percent was classified by the carrier as branch line, and 294 miles were operated under trackage rights. Total mileage by State amounted to 656 in Michigan, 1,432 in Wisconsin, 1,041 in Minnesota, 1,311 in North Dakota, 108 in South Dakota, 57 in Montana, and 89 in Illinois. Actual track mileage was 6,166.

Soo Line's operations extend from Sault Ste. Marie, Mich., Manitowoc, Wis., and Chicago, on the east, through the Twin Cities and Duluth-Superior, to Noyes, Minn., and Portal, N. Dak., on the west, with a branch line extending from Portal to Whitetail, Mont. Although it reaches Chicago, Soo is located somewhat apart from the industrial center. Soo Line operates over only 49 miles of its own track in Illinois from the State line to its principal yard at Schiller Park, a western suburb of Chicago. It has operating rights, however, over several switching and terminal lines and extensive arrangements for the direct delivery and receipt of cars with a large number of railroads serving Chicago and is able to provide service for through traffic moving

beyond this important interchange point. Soo does not directly serve many industries in the Chicago area.

As of December 31, 1968, Soo Line had 205 diesel units in operation. Its car fleet as of that date totaled 14,562, which included 7,554 boxcars, 1,607 gondolas, 2,868 open hoppers, 1,655 covered hoppers, 12 tank cars, 35 refrigerator cars, 115 stock cars, 712 flat cars and 4 others. Total capacity was 872,912 tons.

Freight Traffic: Volume, Consist and Traffic Flow

During the 1964-1968 period, freight traffic on the Soo Line showed a net increase from 18,978,399 revenue tons in 1964 to 21,521,673 revenue tons in 1968 and in freight revenue from \$78,053,434 in 1964 to \$91,921,064 in 1968. Although the tonnage hauled in 1968 was a slight decline from a high of 22,183,384 tons in 1966, the freight revenue in 1968 was the highest during the period.

For the five-year period, local traffic and interline originated traffic decreased while bridge traffic and interline terminated traffic increased. Stated as a percentage of total carloads in 1964 and in 1968 and expressed in rounded figures, local traffic decreased from 23 to 19 percent and interline originated traffic decreased from 22 to 20 percent, while interline terminated traffic increased from 22 to 24 percent, and bridge traffic increased from 32 to 36 percent. Thus, interline traffic accounted for about 77 to 81 percent of all of Soo Line's traffic for the period.

It is unnecessary to detail the commodity consist of freight hauled by Soo Line over the years. In 1966, the following commodities accounted for 55 percent of gross freight revenue (including L.C.L. traffic).

<u>Commodity</u>	<u>Percent of Gross Freight Revenue</u>
Wheat	13.2
Lumber	10.7
Sodium-Potassium Chemicals	5.6
Barley & Rye	5.3
Primary Forest Products	4.9
Pulp	4.2
Refined Petroleum Products	3.4
Primary Iron & Steel Products	3.3
Newsprint	2.9
Misc-Non-Metallic Metals	1.8

Geographically, the Soo's lines of railroad can be divided into two areas. The first area is the western region comprising all of the mileage west of the Twin Cities and the Twin Ports of Duluth and Superior. Traffic density in this area, based on 1964 data, is predominantly eastbound. West of the Twin Cities, eastbound movement is six to ten times as heavy as westbound. The principal routes in this area extend from Portal to Twin Cities via Glenwood, Minn., and from Noyes to Twin Cities via Glenwood. Density over these segments ranges from 60,000 to 100,000 loaded cars eastbound as contrasted to less than 25,000 loaded cars per segment westbound. Lesser density routes extend from Plummer and Broton, Minn., to Superior. These latter routes are used principally for the movement of grain gathered from the producing areas of the west to terminal elevators at Duluth-Superior. Movement of traffic is almost totally eastbound with traffic density ranging between 15,000-25,000 loaded cars per segment.

In this region, the principal commodities handled by the Portal line consist of grain, agricultural implements, lignite, manufactured products, fertilizer, lumber, wood pulp, lead and zinc, sulphur, potash and other mineral products, while the Noyes line handles the same products plus potatoes and newsprint. The remaining North Dakota lines are primarily feeder or branch lines carrying grains and lignite coal. The other western Minnesota lines carry grains and iron ore.

The second area is the eastern region comprising all of the mileage between the Twin Cities and the Twin Ports and all trackage east of the terminals, principally the main lines from the Twin Cities to Chicago and to the upper peninsula of Michigan and its lines in the industrial areas of Wisconsin. In this region are Soo Line's main routes to its eastern gateways at Sault Ste. Marie, Mackinaw City, Manistique, Manitowoc, Milwaukee and Chicago.

Soo Line's heaviest density route extends between the Twin Cities and Chicago, with the traffic volume greater in both directions as the line approaches Chicago. Density on segments of the line eastbound averages slightly over 100,000 loaded cars as contrasted to slightly over 50,000 loaded cars per segment westbound. Of lesser density (no segment of route in either direction exceeding 30,000 loaded cars per segment) are those routes extending from Sault Ste. Marie to the Twin Cities via Rhinelander and Weyerhaeuser, Wis., and from Sault Ste. Marie to Duluth-Superior. Traffic on these lines is predominantly westbound.

Operations in this eastern area are concentrated on the movement of minerals such as copper and iron, and commodities used by paper mills. The gateway at Sault Ste. Marie serves as an outlet for manufactured goods and raw materials moving in export trade between the United States and Canada. Gateways at St. Ignace, Mackinaw City and Manistique, Mich., and at Milwaukee and Manitowoc, primarily are interchange points between Soo Line and Eastern District railroads, the latter three points involving car ferry operations across Lake Michigan.

Table 114 below, lists the major interchange points with applicants and interveners and the volume of traffic interchanged for the year 1965. Adjustments have been made to reflect the unification of carriers.

Table 114

MAJOR SOO LINE INTERCHANGES (1965)+

Soo Line Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Chicago (including Leithton)	IC	6,831	5,810	12,641
	C&EI	7,168	3,781	10,949
	AT&SF	3,063	2,265	5,328
	CB&Q	1,736	1,450	3,186
	C&NW	1,577	1,371	2,948
	RI	1,469	1,182	2,651
	MILW	465	466	931
	Eastern Dist.			
	Class I Line-Haul*	55,020	24,832	79,852
	Southern Dist.			
	Class I Line-Haul**	3,038	2,074	5,112
	All Others	6,382	2,621	9,003
	Total	<u>86,749</u>	<u>45,852</u>	<u>132,601</u>
Twin Cities	C&NW	22,252	6,078	28,330
	GN	6,320	14,123	20,443
	NP	5,577	13,532	19,109
	MN&S	8,064	2,425	10,489
	MILW	5,122	3,897	9,019
	CB&Q	5,092	1,850	6,942
	RI	4,118	2,538	6,656
	All Others	41	192	233
	Total	<u>56,586</u>	<u>44,635</u>	<u>101,221</u>
Noyes, Minn.	CP	6,336	29,550	35,886
	CN	519	1,883	2,402
Portal, N. Dak.	CP	5,748	43,146	48,894
Duluth-Superior (including W. Duluth)	DWP(CN)	739	17,625	18,364
	GN	567	1,668	2,235
	NP	550	1,090	1,640
	C&NW	196	66	262
	MILW	28	195	223
	Other	3,996	149	4,145
Sault Ste. Marie, Mich.	CP	4,919	13,911	18,830
	Other	269	1,807	2,076

+Includes gateways at which 5,000 or more cars were interchanged with applicants or interveners and the northern interchanges with Canadian Pacific and DW&P (subsidiary of Canadian National).

*Eastern District class I line-haul carriers include C&O-B&O (including South Shore), EJ&E, E-L, PC, Monon, N&W and GTW. C&EI is shown separately.

**GM&O only.

In 1965, Soo Line revenue carloads totaled 490,076 of which 383,111 cars constituted interline traffic. As Table 114 indicates, the two largest volume interchange points were Chicago and the Twin Cities. Slightly more than 68 percent of the cars interchanged at Chicago were interchanged with Eastern District carriers (including C&EI, shown separately in Table 114). Interchanges with Santa Fe at Chicago totaled 5,328 carloads (approximately 4 percent of the total carloads interchanged at Chicago). Interchanges with the North Western, Rock Island and Milwaukee were each less than three percent of the Chicago total. Interchanges at the Twin Cities with North Western were slightly over 28 percent of the total Twin Cities interchange, while almost half of the interchange was with Great Northern, Northern Pacific, and Burlington.

Financial Status of Soo Line

Soo Line's Annual Report Form A, filed with this Commission for the year 1968, shows in its balance sheet as of December 31, 1968, total assets aggregating \$245.2 million, comprised of current assets \$35.9 million, including among others, cash \$395,865, and temporary cash investments \$17.6 million; special funds \$1.4 million; investments \$4 million (principally in affiliated companies); total properties less depreciation and amortization \$201 million and other assets and deferred charges \$2.9 million. Liabilities and shareholders' equity are comprised of current liabilities \$17.9 million, including audited accounts and wages payable \$1.5 million and accrued taxes \$2.6 million; long-term debt \$84.6 million including \$4 million due within one year; reserves \$195,140 and other liabilities and deferred credits \$680,596; and shareholders' equity \$141.8 million, which consists of capital stock \$90.8 million, capital surplus \$2.3 million and retained income \$48.7 million.

Soo Line's income statement for the year 1968 shows total railway operating revenues \$94.1 million, with total railway operating expenses \$70.9 million, resulting in an operating ratio of 75.38 percent. Net railway operating income of \$8.8 million plus income (net) from other than railway operations aggregated \$10.3 million which was available for payment of fixed charges of \$8.1 million for 1968. Net income after fixed charges and other deductions amounted to \$6.4 million. For the year 1968, sufficient funds were generated from net income alone to service its long-term debt due within one year and its ratio of total debt to combined total debt and shareholders' equity was a favorable 42.2 percent. As of December 31, 1968 Soo Line's financial position was good.

Table 115, following, shows the Soo Line's results of operations for the five year period from 1964 to 1968. For such period, its operating ratio average about 76.57 percent which is a more favorable operating efficiency than the average 77.8 percent reported for the carriers in the Western District. Its working capital position (current assets over current liabilities) has been adequate for conducting orderly operations and its ratio of total debt to combined total debt and stockholder's equity never exceeded 42.2 percent. The Soo Line has generated sufficient funds in each year of the five year period to service its long-term debt due within one year and it has experienced no difficulties in meeting its fixed charges.

Furthermore, Soo Line has paid dividends to the Canadian Pacific, the controlling carrier, of \$2.3 million in 1964, \$2.1 million in 1965, \$2.4 million in 1966, \$1.1 million in 1967 and \$2.7 million in 1968. The record discloses that in their operations the two carriers work together to the extent that their mutual financial interests are served.

Based on the financial data discussed above, it can be concluded that Soo Line's railway operations have been profitable and it has maintained a sound financial position.

Table 115

SOU LINE INCOME TREND 1964-1968

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$81,894	\$63,916	\$6,856	\$ 7,706	\$4,355	78.05
1965	85,902	65,044	8,388	9,040	5,554	75.72
1966	92,849	68,202	9,102	10,111	6,532	73.45
1967	85,777	68,845	4,616	5,918	2,203	80.26
1968	94,075	70,915	8,836	10,319	6,375	75.38

WORKING CAPITAL

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$31,180	\$13,763	\$17,417	\$59,359	\$4,947	2.3
1965	31,317	13,482	17,835	60,451	5,038	2.3
1966	34,212	14,368	19,844	63,492	5,291	2.4
1967	32,244	14,937	17,307	64,084	5,340	2.2
1968	35,873	17,970	17,903	66,040	5,503	2.0

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$ 93,606	- 41	\$ 94,831	- 41	\$102,157	- 42.3	\$ 98,606	- 41.3	\$103,407	- 42.2
<u>STOCKHOLDERS' EQUITY</u>	134,347	- 59	136,556	- 59	139,100	- 57.7	139,898	- 58.7	141,843	- 57.8
<u>TOTAL</u>	\$227,953	-100	\$231,387	-100	\$241,257	-100	\$238,504	-100	\$245,250	-100

Preliminary Findings and Conclusions

Soo Line's profitability and sound financial position, as above discussed, is the result of generally increasing traffic volume and revenues and the ability to hold operating expense increases to approximately the same rate as that for revenue. With about four-fifths of its carloads moving in interline service, Soo Line is clearly dependent on the cooperation of connecting carriers for the success of its own operations. In connection with the foregoing it is noted that roughly one out of every four of Soo's interline cars is interchanged with Canadian Pacific; the bulk of it interline received cars. Canadian Pacific, by virtue of ownership of stock control of Soo Line and as the holder of a substantial amount of Soo's long-term obligations, is unquestionably interested in Soo Line's profitability.

Both carriers work together closely insofar as their mutual interests are served, through for example, maintenance of a preferential traffic agreement. Indeed, the previously discussed evidence makes it abundantly clear that the bulk of Soo Line's traffic moves eastward from the Noyes and Portal interchanges with Canadian Pacific through the Twin Cities to the Chicago gateway. Another substantial amount of traffic is received from Canadian Pacific at Sault Ste. Marie and moves westward and toward Chicago on Soo Line. As a result of this cooperation, Canadian Pacific has realized the substantial annual dividends, discussed above, and enabled prompt payments on Soo Line's outstanding debt.

Soo Line derives most of its revenue from agricultural and forest products traffic together with commodities used in support of those industries, and products of mines.

Soo Line's largest interchanges with individual carriers were with its parent, the Canadian Pacific, with whom it interchanged 103,610 carloads (or 27 percent of the 1965 total interline carloads) at Portal, Noyes, and Sault Ste. Marie, and of which 86,607 or 84 percent were received from Canadian Pacific. Soo Line also interchanged 25,767 carloads (without allowance for duplications for bridge movements) with Canadian National and its subsidiaries, the Duluth, Winnepeg and Pacific and the Grand Trunk Western (not shown separately in Table 114). Of this amount, 18,364 carloads were interchanged at West Duluth with DW&P.

With respect to interline originated traffic totaling 105,619 carloads, only two points originated in excess of 10,000 cars: Twin Cities (10,632) and Tracy Mine, Mich. (10,533). With respect to interline terminated traffic of 110,420 carloads, Twin Cities was the only point of destination for 10,000 or more cars with 21,034 carloads terminated. Twin Cities, Chicago and Superior were the principal points for both origination and termination of local traffic, accounting for originations of 29,503 carloads (or 28 percent of the total local traffic) and termination of 44,678 carloads (or 42 percent of the total local traffic).

Soo Line's largest interchanges other than those with Canadian Pacific are with the lines now part of Burlington Northern, the North Western, the Canadian National subsidiary, Duluth, Winnipeg and Pacific and the Eastern District class I line-haul carriers, as earlier detailed.

Soo Line is a healthy and important carrier in its service territory, which is rich in natural resources and agriculture and related industrial development. This is reflected in the fact that Soo Line's carload traffic in 1968 consisted of 19 percent local, 20 percent interline originated and 36 percent interline terminated traffic.

MN&SCorporate History

MN&S, incorporated in South Dakota on June 18, 1918, has its principal offices in Minneapolis. It acquired most of its present railroad properties through foreclosure sale in August 1918. MN&S has no subsidiaries or affiliated companies. It is owned by Pence Automobile Company through 99.62 percent stock ownership.

Scope of Operations, Plant and Equipment

MN&S operates approximately 80 miles of main track and branch lines all located in Minnesota, of which 61 miles are owned and 16 miles operated under trackage rights. The principal line of MN&S extends from Minneapolis to Northfield, and through trackage rights granted by the former Great Western, from Northfield to Randolph. MN&S operates 15 diesel locomotives, and has a car fleet of 329 cars, primarily boxcars.

Freight Traffic: Characteristics and Volume

MN&S is primarily an overhead carrier with more than 91 percent of its traffic falling into that category. Since its tracks circumvent the highly developed industrial center of the Twin Cities, it is useful as an alternate route around that area.

Of the MN&S overhead traffic, the preponderance is through interchange with the Rock Island and Great Western (now part of the North Western). In 1966, of the total MN&S interchange, over 45 percent (32,832 cars) were interchanged with Rock Island at Northfield, both northbound and southbound; and 49.5 percent (36,142 cars) were interchanged with Great Western at Randolph, both northbound and southbound.

Financial Status of Minneapolis, Northfield and Southern

Annual Report Form C, filed by MN&S for the year 1968, includes a balance sheet as of December 31, 1968. It shows total assets of \$10.9 million, comprised of current assets \$3 million, including among others cash \$775,597 and temporary cash investments \$1.5 million; special funds \$1,900; investments \$19,167; total properties, less depreciation and amortization \$7.8 million and other assets and deferred charges \$89,536. Liabilities and shareholders' equity are comprised of current liabilities \$818,405, including audited accounts and wages payable \$98,931 and accrued taxes \$262,421;

long-term debt due after one year \$16,250; reserves \$76,137 and other liabilities and deferred credits \$47,064; and shareholders' equity \$9.10 million, which consists of capital stock \$2.3 million and retained income \$7.7 million.

MN&S's income statement for the year 1968 shows total railway operating revenues \$4.4 million, with total railway operating expenses \$3.2 million, resulting in a very favorable operating ratio of 72.72 percent. Net railway operating income of \$397,918 plus income from other than railway operations amounted to \$485,562 which was available for payment of fixed charges of only \$27,376 for the year 1968. Its net income after fixed charges and other deductions amounted to \$458,186.

Based on the financial data discussed above, it is evident that as of December 31, 1968, MN&S had an insignificant amount of long-term debt; its operating ratio was above average; it had an excellent working capital ratio of 3.7 and its earnings for the year 1968 greatly exceeded its fixed charges.

As of December 31, 1968, MN&S was a financially sound carrier.

KCS AND L&ACorporate History

As indicated in its brief, the Kansas City Southern system includes the lines of the Louisiana & Arkansas, Arkansas Western, and Fort Smith & Van Buren. All of the outstanding capital stock of each of the three carriers last named is owned by the Kansas City Southern. Wholly owned carrier subsidiaries of the Kansas City Southern and Louisiana and Arkansas include several motor common carriers and various companies which perform rail terminal and switching services. Approximately 96 percent of the outstanding common capital stock of the Kansas City Southern and about 77 percent of its preferred is held by Kansas City Southern Industries, Inc. The latter was organized so as to function as the noncarrier corporate parent of the Kansas City Southern and its carrier subsidiaries. See: Kansas City Southern Industries, Inc., Control, 317 I.C.C. 1.

Scope of Operations, Plant and Equipment

The Kansas City Southern operates over about 895 miles of road in six States as follows: Missouri-202 miles, Kansas-36 miles, Arkansas-162 miles, Oklahoma-149 miles, Louisiana-245 miles, and Texas-99 miles. The L&A operates over 746 miles of main line road as follows: Louisiana-504 miles, Texas-195 miles and Arkansas-47 miles. The lines of the Fort Smith and Van Buren and the Arkansas Western, both operated by the Kansas City Southern, are between Coal Creek and McCurtain, Okla. (21 miles) and between Heavener, Okla., and Waldron, Ark. (35 miles).

The principal line of the Kansas City Southern runs directly from Kansas City, Mo.-Kans., to Port Arthur and Lake Charles, through Pittsburg, Kans., Coal Creek, Poteau, and Heavener, Okla., Texarkana, Shreveport, and Beaumont. From Poteau to Fort Smith (about 29 miles) the KCS operates under trackage rights over a line of the Frisco.

The L&A operates over principal lines radiating from Shreveport (1) southeast to New Orleans through Alexandria and Baton Rouge and (2) west to Greenville, Tex., over its own lines, and to Dallas, under trackage rights over the Santa Fe lines. L&A also operates over lines from Shreveport to Minden, La., and from Hope, Ark., to Alexandria, through Minden.

The KCS major freight yards and terminals are at Kansas City, Pittsburg, Heavener, DeQueen, Ark., Texarkana, Shreveport, Beaumont and Port Arthur. The L&A major yards and terminals are at Alexandria, Baton Rouge and New Orleans. It utilizes the Katy's yard at Greenville and the Santa Fe's yard at Dallas.

The combined KCS-L&A freight car fleet totals about 10,087 units, including 5,044 boxcars, and the locomotive fleet totals 190 diesel units.

Freight Traffic: Volume, Commodities and Traffic Flow

Tables No. 116 and 117 set forth below show for the KCS and L&A, over the five year period indicated, the revenue carload tons of traffic hauled by each in various movements. It is evident that about two-thirds of the KCS total revenue tonnage is interline originated and interline terminated traffic while approximately half of L&A's traffic fell in this category. For the latter carrier, bridge traffic tonnage exceeds that for any other class of traffic. The two carriers are clearly dependent on connections for the bulk of their traffic.

Table 116.

KCS REVENUE TONS, CARLOAD TRAFFIC

<u>Year</u>	<u>Originated</u>		<u>Received From Connections</u>		<u>Total Revenue Tonnage</u>
	<u>Terminated on KCS</u>	<u>Delivered To Connecting Carriers</u>	<u>Terminated on KCS</u>	<u>Delivered To Connecting Carriers</u>	
1962	1,669,730	3,385,311	5,441,427	2,762,642	13,259,110
1963	1,768,160	3,459,394	4,924,353	2,835,821	12,987,728
1964	1,915,411	3,595,229	6,574,536	2,849,460	14,934,636
1965	1,680,203	3,768,627	6,621,679	2,681,950	14,752,459
1966	1,963,621	4,319,829	6,580,449	2,819,184	15,683,083

Table 102

L&A REVENUE TONS, CARLOAD TRAFFIC

<u>Year</u>	<u>Originated</u>		<u>Received From Connections</u>		<u>Total</u>	
	<u>Terminated on L&A</u>	<u>Delivered To Connecting Carriers</u>	<u>Terminated on L&A</u>	<u>Delivered To Connecting Carriers</u>	<u>Revenue</u>	<u>Tonnage</u>
1962	2,105,540	2,420,237	3,321,183	2,980,610	10,827,570	
1963	2,122,208	2,597,725	3,303,650	3,365,727	11,389,310	
1964	2,011,561	2,840,447	3,376,062	4,355,489	12,583,559	
1965	1,884,602	2,885,469	3,189,443	5,099,755	13,059,269	
1966	1,987,262	3,032,310	3,305,414	4,678,188	13,003,174	

It is unnecessary to detail the commodity consist of freight hauled by the KCS and L&A over the years. In 1966 their revenue tonnages were divided into commodity groups in the following proportions:

Table 118

KCS AND L&A COMMODITY REVENUE TONNAGE

<u>Commodity Group</u>	<u>KCS Percentage</u>	<u>L&A Percentage</u>
Products of Agriculture	23.29	11.43
Animals and Products	.45	.95
Products of Mines	28.35	28.10
Products of Forests	9.78	16.46
Manufactures and Miscellaneous	38.13	43.06

During the year 1966, the KCS and the L&A handled a total of 313,905 cars and 248,105 cars, respectively. Of such totals, local cars hauled were 40,774 for the KCS and 32,136 for the L&A. The remainder of the cars were involved in interchange operations and of which 64,920 cars were bridge movements over the KCS lines, and in similar service the L&A hauled 83,821 cars.

The KCS and L&A interchange evidence does not disclose the extent to which the two carriers participated between themselves in bridge movements via Shreveport, their only point in common. For this reason, bridge traffic as set forth in the evidence for each carrier is overstated for each to the extent that an indeterminate number of cars moved as bridge traffic over one of the two carriers and either originated or terminated on the lines of the other carrier. Similarly, the evidence understates the volume of local traffic for the KCS-L&A system to the extent that an indeterminate number of cars originated on one of the two carriers and terminated on the other's lines. In view of the above discussed evidentiary deficiencies, KCS and L&A have understated their combined strength as a local and as an origin and destination carrier system.

The above deficiencies arise in part from a failure to show cars interchanged between KCS and L&A at Shreveport. The evidence for Shreveport shows only the cars interchanged by KCS and L&A together, on the one hand, and the following carriers on the other hand: ICRR, 17,869 cars; Cotton Belt, 7,454; Southern Pacific, 16,063; and Texas & Pacific, 7,428.

Tables 119 and 120 below, show 1966 interchange data for KCS and L&A, respectively, with adjustments having been made to reflect unifications, except BN:

Table 119

KANSAS CITY SOUTHERN MAJOR INTERCHANGES*

KCS Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
Kansas City	AT&SF	2,245	4,434	6,679
	CB&Q	13,496	6,943	20,439
	MILW	8,065	4,538	12,603
	C&NW	7,855	6,129	13,984
	RI	2,398	5,096	7,494
	MKT	868	201	1,069
	MP	4,056	3,812	7,868
	SLSF	276	318	594
	UP	10,421	5,440	15,861
	All Others	4,863	11,257	16,120
	Total	54,543	48,168	102,711
Eve, Mo.	MKT	4,385	4,709	9,094
Panama, Okla.	T&P	4,233	1,305	5,538
Texarkana	MP	2,620	3,572	6,192
	T&P	1,078	5,707	6,785
	SLSW	4,534	5,104	9,638
	Total	8,232	14,383	22,615
Beaumont	AT&SF	17,304	1,659	18,963
	MP	12,848	6,575	19,423
	SP	25,536	6,018	31,554
	Total	55,688	14,252	69,940
Lake Charles, La.	MP	563	1,993	2,556
	SP	425	2,915	3,340
	Total	988	4,908	5,896

*Excludes Shreveport. Major interchanges are those with 5,000 or more cars total interchange.

Table 120

LOUISIANA & ARKANSAS MAJOR INTERCHANGES*

L&A Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
Baton Rouge	IC	5,448	2,252	7,700
	MP	1,587	--	1,587
	Total	<u>7,035</u>	<u>2,252</u>	<u>9,287</u>
New Orleans	IC	1,507	1,133	2,640
	SP	2,502	1,972	4,474
	All Others	14,555	28,269	42,824
	Total	<u>18,564</u>	<u>31,374</u>	<u>49,938</u>
Hope	MP	8,109	2,472	10,581
	SLSF	4,386	1,112	5,498
	Total	<u>12,495</u>	<u>3,584</u>	<u>16,079</u>
Stamps, Ark.	SLSF	<u>1,929</u>	<u>4,925</u>	<u>6,854</u>
Packton, La.	IC	<u>4,435</u>	<u>10,377</u>	<u>14,812</u>
Alexandria	RI	1,771	1,269	3,040
	MP	2,053	1,928	3,981
	T&P	449	--	449
	SP	1,612	2,607	4,219
	Total	<u>5,885</u>	<u>5,804</u>	<u>11,689</u>
Greenville	MKT	6,338	3,652	9,990
	SLSW	3,972	254	4,226
	Total	<u>10,310</u>	<u>3,906</u>	<u>14,216</u>
Dallas	AT&SF	9,936	5,715	15,651
	RI	7,894	860	8,754
	MKT	266	212	478
	SLSW	61	58	119
	SP	1,896	1,594	3,490
	T&P	356	1,192	1,548
	SLSF	4,136	693	4,829
	All Others	1,205	1,865	3,070
	Total	<u>25,750</u>	<u>12,189</u>	<u>37,939</u>

*Excludes Shreveport. Major interchanges are those with 5,000 or more cars total interchanged.

Of the interchange points shown in Tables 119 and 120, the Kansas City interchange for KCS is by far the largest in volume for the entire KCS-L&A system. Interchanges at Kansas City involved cars representing 38 percent of KCS' 1966 interline carloads. The total Kansas City interchange (102,711 cars) for KCS is comparable in size to the Burlington-Union Pacific interchange at Grand Island in 1965, as discussed in the earlier section covering Burlington Northern. After Kansas City and ranked in descending order, the largest volume interchanges for KCS-L&A were at Beaumont, 69,940 cars; New Orleans, 49,938; Dallas, 37,939; and Texarkana, 22,615.

The following list ranks carriers actively participating in these proceedings by the number of cars each interchanged with KCS-L&A at the points shown in Tables 119 and 120 and at Shreveport:

<u>Carrier</u>	<u>Carloads</u>
1. Southern Pacific-Cotton Belt	84,577
2. MoPac-T&P	73,936
3. Santa Fe	41,293
4. Katy	20,631
5. Burlington	20,439
6. Rock Island	19,288
7. Frisco	17,775
8. Union Pacific	15,861
9. North Western	13,984
10. Milwaukee	12,603

Of the carriers listed above, Burlington, Union Pacific, North Western and Milwaukee connect with KCS at Kansas City only. The largest interchanges with individual carriers at points south of Kansas City are: (1) with Southern Pacific at Beaumont and Shreveport; (2) with MoPac at Beaumont; and (3) with Santa Fe at Dallas and Beaumont.

Based on 1965 estimates, no point on the KCS-L&A system was origin for 10,000 or more cars of local traffic. With respect to interline originations, five points originated from about 10,000 to 20,000 cars (based on estimates for 1965) namely, North Baton Rouge, Port Arthur, Springhill, La., Port Neches, Tex., and Kansas City (Mo.). Springhill was the only destination with more than 10,000 cars of local traffic (Springhill also was destination of 9,971 interline cars). Six points were destination for more than 10,000 interline cars: Spindletop, Tex., 97,495 cars; Port Arthur, 31,556; New Orleans, 22,037; Baton Rouge, 18,257;

Kansas City (Mo.), 12,359; and Shreveport, 10,881. Here again with respect to interline originations and interline terminations, the evidence does not disclose the number of cars originated on KCS and terminated on L&A and vice versa; and which movements would actually constitute local traffic to the combined system.

As seen, KCS has a minimum of branch lines and essentially it conducts a main line operation. In such operations for the year 1963, its freight traffic density by major line segments between Kansas City and Shreveport ranged from a low of 5.6 million to a high of 7.2 million gross tons southbound, and from a low of 4.0 million to a high of 5.4 million gross tons northbound, and for the remainder of the line (Shreveport-Leesville-Port Arthur) density ranged from 3.9 million to 4.2 million gross tons southbound and 3.8 million to 3.9 million gross tons northbound.

The L&A's principal traffic density is in its Dallas-New Orleans operations. Between Dallas and Shreveport, density in 1963 was 2.7 million gross tons southbound and 1.7 million northbound. Between Shreveport and New Orleans, southbound density ranged from 2.6 to 4.1 million gross tons, while northbound, the density ranged from 3.0 to 3.4 million gross tons. All other KCS and L&A lines handled less than two million gross tons per segment in either direction.

Financial Status of KCS

The balance sheet of KCS and controlled companies filed in the Annual Report Form A to the Commission, as of December 31, 1968 shows total assets of \$175.0 million comprised of: Current assets \$10.9 million including, among others, cash \$524,418 and temporary cash investments \$500,000; special funds \$1.7 million; investments \$20.6 million including investments in affiliated companies \$17 million and other investments \$3.6 million; total properties, less depreciation and amortization, \$140.8 million; and other assets and deferred charges \$1 million. Liabilities and shareholders' equity are comprised of current liabilities \$9.9 million including audited accounts and wages payable \$2.1 million, miscellaneous and accrued accounts payable \$3.6 million and accrued taxes \$707,914; long-term debt \$89.9 million, including \$5.7 million due within one year; reserves \$721,712; other liabilities and deferred credits \$757,517; and shareholders' equity \$73.7 million, made up of capital stock \$56.9 million, and retained income \$16.7 million, including \$600,000 retained income - appropriated.

KCS's income statement for the year 1968 shows total railway operating revenues of \$48.135 million and total railway operating expenses of \$33.952 million with an operating ratio of 70.53 percent. Net railway operating income of \$6.2 million when added to the net income realized from other than railway operations amounted to net income of \$10.5 million which was the amount available for payment of fixed charges totaling \$3.8 million for the year 1968. Net income after fixed charges and other deductions (includes adjustments for extraordinary and prior period items) amounted to \$5.6 million. This amount together with funds generated by charges to depreciation, which totaled \$3.8 million, were more than sufficient to service its long-term debt due within one year. KCS' ratio of total debt to combined total debt and shareholders' equity of 57.9 percent as of December 31, 1968 is well within the Commission's satisfactory limit which ranges from 50 to 70 percent. The financial posture of the KCS for the year 1968 is good.

Table 121, which follows, has been constructed to show the results of operations of the KCS for the five year period 1962-1966. For that period of time, operating ratio averaged 60.5 percent; current assets exceeded current liabilities to the extent that the working capital position was adequate for conducting orderly operations; total debt trend based on a ratio of total debt to combined total debt and stockholders' equity did not exceed 45 percent; funds were available to service long-term debt due within one year from net income alone without resorting to the use of funds generated by charges to depreciation; and at no time did KCS realize any difficulty in generating sufficient income to meet fixed charges.

KCS has historically enjoyed a profitable operation and has continued to operate profitably in 1968. It is a financially sound carrier.

Table 121

KCS NET INCOME TREND 1962-1966

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1962	\$44,002	\$25,688	\$8,183	\$8,885	\$6,748	58.38
1963	45,071	27,311	8,769	9,388	7,069	60.60
1964	48,767	29,664	8,758	9,335	6,903	60.83
1965	47,125	29,435	8,012	8,445	6,095	62.46
1966	50,373	31,391	8,180	8,795	6,346	62.32

KCS WORKING CAPITAL
(000)

1962	\$7,169
1963	5,263
1964	2,676
1965	2,440
1966	3,227

KCS RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1962 (000)</u>	<u>- %</u>	<u>1963 (000)</u>	<u>- %</u>	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$ 77,892	- 39	\$ 80,909	- 40	\$ 78,875	- 42	\$ 78,710	- 42	\$ 89,032	- 45
<u>STOCKHOLDERS' EQUITY</u>	121,659	- 61	123,572	- 60	108,857	- 58	108,246	- 58	108,751	- 55
<u>TOTAL</u>	<u>\$199,551</u>	<u>-100</u>	<u>\$204,481</u>	<u>-100</u>	<u>\$187,732</u>	<u>-100</u>	<u>\$186,956</u>	<u>-100</u>	<u>\$197,783</u>	<u>-100</u>

Financial Status of L&A

The balance sheet of L&A filed in the Annual Report Form A to the Commission, as of December 31, 1968 shows total assets of \$95.2 and is comprised of current assets \$17.3 million including, among others, cash \$3.7 million and temporary cash investments \$8.8 million; special funds \$50,376; investments in affiliated companies \$12.3 million; total properties, less depreciation and amortization, \$65.1 million; and other assets and deferred charges \$493,919. Liabilities and shareholders' equity are comprised of current liabilities \$5.9 million, including audited accounts and wages payable of \$289,340, miscellaneous and accrued accounts payable \$1.8 million and accrued taxes \$2 million; long-term debt \$9.5 million, including \$2 million due within one year; reserves \$523,736; other liabilities and deferred credits \$341,087; and shareholders' equity \$79 million, made up of capital stock \$9 million, capital surplus \$267,211 and retained income-unappropriated \$69.8 million.

L&A's income statement for the year 1968 shows railway operating revenues of \$30.487 million and total railway operating expenses of \$20.567 million with an operating ratio of 67.46 percent. Net railway operating income of \$3.2 million when added to the net income realized from other than railway operations amounted to net income of \$3.8 million which was the amount available for payment of fixed charges of only \$475,481 for the year 1968. Net income after fixed charges and other deductions (includes adjustments for extraordinary and prior period items) amounted to \$3.1 million. This amount was sufficient in itself to service L&A's long-term debt due within one year without relying on any funds generated by charges to depreciation. Its ratio of total debt to combined total debt and stockholders' equity was a very favorable 17 percent as of December 31, 1968. The foregoing financial data show that the L&A's financial position as of December 31, 1968 was excellent.

Table 122, following, has been constructed to show the results of operations of the L&A for the five year period 1962-1966. For that period of time, its operating ratio averaged 65.2 percent; current assets exceeded current liabilities to the extent that the working capital position was more than adequate for conducting orderly operations; total debt trend for that period based on a ratio of total debt to combined total debt and stockholders' equity did not exceed 18 percent;

funds were available to service long-term debt due within one year from net income alone in each year of the five year period discussed without resorting to the use of funds generated by charges to depreciation; and it has always generated sufficient income to service its fixed charges.

L&A has historically conducted profitable operations and it is a financially sound carrier.

Table 122

L&A NET INCOME TREND 1962-1966

<u>Year</u>	<u>Total Railway Operating Revenues (000)</u>	<u>Total Railway Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1962	\$24,286	\$15,028	\$3,158	\$3,981	\$3,756	61.88
1963	24,815	16,154	3,231	4,181	3,924	65.10
1964	26,382	17,483	4,103	5,048	4,376	66.27
1965	28,100	17,977	5,064	5,862	5,192	64.00
1966	28,447	19,680	4,359	5,197	4,447	69.18
<u>L&A WORKING CAPITAL (000)</u>						
<u>L&A RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY</u>						
			1962 - % (000)	1963 - % (000)	1964 - % (000)	1965 - % (000)
1962	\$18,810	<u>TOTAL DEBT</u>	\$12,606- 14.14	\$15,560- 16.28	\$ 20,406- 19.76	\$ 25,303- 22.27
1963	20,312					\$ 20,693- 18.21
1964	20,286	<u>STOCKHOLDERS' EQUITY</u>	76,515- 85.86	80,006- 83.72	83,260- 80.24	88,304- 77.73
1965	19,722					92,916- 81.79
1966	18,641	<u>TOTAL</u>	\$89,121-100	\$95,556-100	\$103,766-100	\$113,607-100
						\$113,609-100

Preliminary Findings and Conclusions

The historical financial strength of the KCS system and profitability of its operations may properly be related in a large measure to the economic factors previously detailed.

In summary, neither the KCS nor the L&A, as a part of the KCS system, are hampered by uneconomical branch line operations. Efficient and profitable operations over the KCS system lines results in part from the relatively good balance of its flows of traffic. Based on individual carrier's freight traffic density for the year 1963, northbound operations as a percentage of total traffic hauled was 44 percent for the KCS and 46 percent for the L&A. By major segments for both carriers, the percentages were equally as balanced and in certain instances even more favorable.

The bulk of both KCS and L&A traffic consists of interline originated and interline terminated traffic. Bridge traffic has historically exceeded local traffic and for L&A, bridge traffic is the largest single class of traffic moved. In short, interline business is by far the mainstay for both carriers, but when viewed in terms of the volume originated, and the volume terminated on line, together with the local traffic, it is clear that KCS and L&A can be characterized as originating and terminating carriers as opposed to being bridge carriers. Further, the two carriers presented their traffic evidence in such a way that the volume of bridge traffic is overstated while the volume of local traffic is understated with respect to an indeterminate amount of traffic interchanged between themselves at Shreveport as discussed in the preceding section covering KCS and L&A freight traffic composition and interchanges. Most of the largest volume origin and destination points on KCS-L&A are in the Port Arthur-Beaumont-Lake Charles, New Orleans-Baton Rouge and Shreveport-Springhill areas, and Kansas City.

The Kansas City Southern and the Louisiana & Arkansas comprise a small but efficient and stable railroad system, well balanced in terms of operations, traffic composition and volume, and competitive strength as it relates to the traffic in which the two carriers participate.

KATY**Corporate History**

The Katy, with its principal offices in Dallas, was incorporated July 1, 1960, under the laws of Delaware. Pursuant to authority granted in Missouri-K.-T. R. Co. Consolidation, 312 I.C.C. 12 (1960), Katy acquired all of the properties of the Missouri-Kansas-Texas Railroad Company, a Missouri company and of the Missouri-Kansas-Texas Railroad Company of Texas, a Texas corporation. It also acquired trackage rights of these carriers as well as stock control of their subsidiary companies, including Beaver, Meade and Englewood Railroad Company (BM&E), in which they acquired all of the stock; The Wichita Falls Railway Company, the Wichita Falls and North Western Railway Company of Texas, the San Antonio Belt & Terminal Railway Company, in which they acquired all the stock except directors' qualifying shares; and Coordinated Transportation Company, a motor carrier, operating between points in Texas and performing pickup and delivery service at various points, in which they acquired all the stock except directors' qualifying shares. In 1967, Katy disposed of its stock in the Texas Central Railroad Company, but its rail system currently includes the other four railroads.

Subsidiaries and Affiliates

In addition to the holdings in the above-mentioned rail and motor carriers, Katy owns 100 percent of Missouri Kansas & Texas Transportation Company; 50 percent of the Galveston, Houston & Henderson Railroad Company (GH&H); 33.33 percent of the Joplin Union Depot Company and the Texas City Terminal Railway Company; 12.5 percent of the Union Terminal Company of Dallas; 8.33 percent of the Kansas City Terminal Railway Company; 6.25 percent of the Terminal Railroad Association of St. Louis; 2.44 percent of Trailer Train Company; 1.2 percent of the Railway Express Agency, Inc.; 1.0417 percent of the Pullman Company; and 100 percent of Donland Development Company, a non-carrier, which owns lands at various points on the railroad for industrial development.

Missouri Kansas & Texas Transportation Company is Katy's motor carrier subsidiary which operates the company's piggyback and affiliated truck service, as well as leasing tractor and trailer equipment used in piggyback service. M-K-T Transportation is the sole owner of Southwestern States Management Company, which owns properties and mineral rights in the States in which Katy operates. Southwestern States owns M-K-T

Industries, Inc., which, in turn, owns W. J. Smith Wood Preserving Company, which treats ties, poles and other forest products for railroad and commercial use.

Katy is controlled by Katy Industries, Inc., through ownership of its common capital stock. Katy Industries, a holding company, was organized in 1967 in Delaware, for the purpose of engaging in large scale diversification. The acquisition of control of the Katy was not a transaction subject to the Commission's jurisdiction. See: Katy Industries, Inc.-Control-Missouri-K.-T. R. Co., 331 I.C.C. 405 (1967).

As of December 31, 1968, Katy was authorized to issue 2,000,000 shares of its \$5 par value common stock, of which 1,951,974.285 shares were outstanding and principally held (1,907,903 shares) by Katy Industries.

Scope of Operations, Plant and Equipment

As of December 31, 1968, Katy operated approximately 2,789 miles of road in four States, of which 40 percent was branch line, and 367 miles were operated under trackage rights. It operated 391 miles of road in Missouri, 330 miles in Kansas, 875 miles in Oklahoma, including 105 miles operated by BM&E, and 1,193 miles in Texas. Katy's actual track mileage at the end of 1968 was 3,960 miles. There is no passenger service on the lines of the Katy and the BM&E.

The main line routes of the Katy are from St. Louis and Kansas City through Parsons, Kans.; from St. Louis and Kansas City to Oklahoma City, also through Parsons; from St. Louis and Kansas City to San Antonio and Galveston through Parsons, McAlester, Okla., Denison, Whitesboro, Fort Worth (also Dallas), Waco, and Austin, Tex., to San Antonio, and through West Point, Tex., and Houston to Galveston. The Katy-BM&E combination also operate over a line from Denison to Keyes, Okla., through Wichita Falls. The main line trackage rights operations of the Katy are: St. Louis to Machens, Mo., over the Burlington-17 miles; Paola, Kans., to Kansas City over the Frisco-41.20 miles; Dewey to Bartlesville, Okla., over the Santa Fe-3.69 miles; Whitesboro to Fort Worth over the T&P, 71.19 miles; Wichita Falls to Stamford, Tex., over the FW&D-112.89 miles; Taylor to San Marcos, Tex., over MoPac-64.79 miles; and Houston to Galveston over GH&H-49.21 miles.

The Examiner notes that road mileage shown above for Missouri, Texas and Oklahoma, including the trackage rights mileages shown for the line between Wichita Falls and Stamford, are subject to changes occurring since the data were placed in the record, in part because of the abandonment applications set forth below (mileages rounded):

<u>Docket</u>	<u>Line to be Abandoned</u>	<u>Status</u>
F. D. 25613	Altus to Forgan, Okla., 225 miles	Pending
F. D. 25614	Beaver-Forgan-Keyes, Okla., 105 miles (BM&E)	Pending
F. D. 25694	Whitesboro to Henrietta, Tex. 87 miles Henrietta to Wichita Falls, Tex. 13 miles*	Consummated
F. D. 25737	Walker to El Dorado Springs, Mo. 14 miles	Consummated
F. D. 25884	Witchita Falls to Stamford, Tex. 113 miles** Stamford to Rotan, Tex. 44 miles	Pending

* Involves trackage rights over the Wichita Falls Railway Company.

** Involves trackage rights over FW&D.

Katy operates over some of the most direct routes. The exhibit below shows mileages between the more important points:

<u>From</u>	<u>To St. Louis:</u>	<u>To Kansas City:</u>
Kansas City	509	xx
Parsons	376	132
Oklahoma City	582	338
Dallas	758	514
Fort Worth	747	503
Waco	831	587
Houston	1,072	828
Galveston	1,121	877
Austin	941	697
San Antonio	1,025	781

Katy maintains freight yards and terminals in Texas at Dallas, Denison, Fort Worth, Galveston, Houston, San Antonio, Stamford, Waco, and Wichita Falls; in Oklahoma at Forgan, Muskogee and Oklahoma City; at Parson, Kans., St. Louis, Mo., and Kansas City, Kans.-Mo. In Texas, it has freight yards at Garland, Greenville, Sherman, and Texas City; in Oklahoma, at Altus, Cushing, McAlester, Tulsa, and Welon; and at Coffeyville, Kans.

It offers six plans of piggyback service along most of its major line, with operating ramps at twenty-one points, including St. Louis, Kansas City, Fort Worth, Houston, Galveston and San Antonio.

At the close of 1968, Katy operated 179 diesel locomotives, including 32 freight units, 107 multiple purpose units, and 40 switching units. Car fleet in operation totaled 12,752, and included 6,703 boxcars, 1,801 gondolas, 2,224 open hoppers, 1,557 covered hoppers, 22 tank cars, 50 refrigerated cars, 385 flat cars, and 10 others. Total capacity was 898,835 tons.

Coordinated Transportation, one of Katy's motor carrier subsidiaries, has intrastate authority to operate between certain specified routes in Texas, and also authority granted by this Commission to operate in interstate or foreign commerce as a motor common carrier over specified routes in Missouri, Kansas and Oklahoma. Coordinated Transportation owns 6 trucks, 12 tractors and 21 trailers and leases 16 tractors.

Its balance sheet as of December 31, 1968, shows total assets aggregating \$190,365, consisting of current assets \$137,435, composed of cash and working funds \$4,294, special deposits \$675, accounts receivable

\$121,680, prepayments \$9,753, and material and supplies \$1,033; carrier operating property less reserve for depreciation and amortization \$46,877; intangible property \$100 and deferred and miscellaneous debits \$5,953. Liabilities were: Current liabilities \$57,544, composed of accounts payable \$30,225, salaries and wages payable \$16,074, taxes accrued \$1,952 and other current and accrued liabilities \$9,293; long-term debt due within one year \$3,039 and due after one year \$31,431; capital stock \$10,000 and earned surplus-unappropriated \$88,351.

Income statements for 1966, 1967 and 1968, show operating revenues of \$335,491, \$401,675 and \$458,855, total operating expenses \$348,045, \$414,107 and \$469,393 and deficits of \$(12,335), \$(12,432), and \$(10,712), respectively.

Katy's other motor carrier subsidiary, M-K-T Transportation holds no operating authority from this Commission. It performs pickup and delivery service for Katy and loading and unloading services for Katy and Coordinated Transportation. M-K-T Transportation also holds Illinois intrastate authority to operate within the St. Louis-East St. Louis commercial zone, and Texas intrastate authority to operate within the Houston commercial zone. It utilizes company owned equipment consisting of 4 trucks and 13 tractor-trailer units and leased equipment comprised of 8 tractors and 155 trailers.

Freight Traffic: Volume and Commodity Characteristics

Katy's freight traffic volume started a decline from the 1955 and 1956 level of over 15 million revenue tons to a low of slightly over 13 million in 1958. From 1958 through 1965, annual tonnage varied little, ranging only from about 13 to 14 million tons. In 1966, 1967, and 1968, the situation improved. The 1968 figure of 15.3 million revenue tons was of a magnitude comparable to the carrier's volume over a decade earlier. Revenue ton-miles generated followed a similar pattern; 4.5 billion in 1955, 4.7 billion in 1956, followed by a decline to 3.8 billion in 1958, and a period of little change until 1966, and 1967, when revenue ton-miles stood at 4.5 billion. In 1968 the high for the entire period was reached at 5.0 billion.

Freight revenue showed an almost uninterrupted decline from \$64.9 million in 1956 to \$46.5 million in 1964. Improvements then followed yearly to \$62.4 million in 1968.

The record discloses that grain traffic, principally wheat, consistently has been the largest contributor to Katy's gross freight revenue over the years, despite rather wide year-to-year fluctuations in actual amounts of revenue. Katy's 1968 commodity statistics show that wheat traffic contributed over 8 percent of total gross freight revenue. The following commodity groups were the principal sources of the \$66.2 million in gross freight revenue received in 1968: "Farm Products" (including wheat), 14 percent; "Food & Kindred Products," 13 percent; "Chemicals & Products," 10 percent; and "Stone, Clay & Glass Products," "Primary Metal Products," "Lumber & Products," "Ordnance and Accessories," "Pulp, Paper & Products," and "Transportation Equipment," from 5 to 8 percent each. In short, the foregoing commodity groups together accounted for about 75 percent of Katy's gross freight revenue.

Freight Traffic: Interchanges and Traffic Flow

Katy's traffic density evidence shows data for 1965 in terms of (1) net ton-miles and gross ton-miles per mile of road; and (2) net and gross ton-miles per segment of line (varying in length). The traffic density evidence presented by most of the carriers previously analyzed herein was shown in terms of gross tonnage or gross ton-miles. The gross tonnage figures will be discussed here to maintain as much comparability as possible with the traffic density data discussed for the other carrier parties.

The bulk of Katy's freight traffic moves over the routes from Kansas City and St. Louis to Parson, and from Parsons to Houston via Fort Worth, as shown below (directions are here defined as southbound for traffic moving toward Houston and northbound for that which moves toward Kansas City or St. Louis):

<u>Line Segment (s)</u>	<u>Gross Ton-Miles per Mile (Millions)</u>	
	<u>Northbound</u>	<u>Southbound</u>
St. Louis-Parsons	1.8	2.8
Kansas City-Parsons	2.9	4.6
Parsons-Denison	2.9	4.8
Denison-Fort Worth-Waco	2.1	2.5
Waco-Houston	2.1	2.6

Only two other Katy routes exceeded one million gross ton-miles per mile in at least one direction, namely, an alternate route between Denison and Waco through Dallas (0.9 million northbound, 1.2 million southbound), and a route between San Antonio and Taylor, Tex., the latter point located on the Waco-Houston line. Density over the San Antonio line slightly exceeded one million gross ton-miles per mile in each direction.

Katy's traffic is heaviest southbound from Kansas City and St. Louis, and the heaviest density on the entire system is the result of the movement of traffic in both directions between those points, on the one hand, and, Dallas-Fort Worth, San Antonio and Houston, on the other hand. The record shows that the balance of the system handles extremely little traffic.

The interchange data next discussed embraces the year 1965, during which time the Katy hauled a total of 308,918 carloads of freight, of which 81,302 carloads moved entirely in local service. In other words, 77 percent of the Katy cars hauled involved interchange with other carriers. The Katy interlined cars at 77 points on its lines, with the volume ranging from as little as 2 cars at a point to as high as 75,982 cars. At 38 points, not one such point involved more than a total interchange of 500 cars: the grand total of cars interchanged at the 38 points was 4,039, without allowance for possible duplication of count resulting from bridge movements between any pair of the 38 points.

At each of 29 of the remaining 39 points, more than 500 cars but less than 5,000 cars were interchanged for a grand total of 52,420 cars (again with no adjustment for bridge movements), divided among the connecting carriers as follows: MoPac-11,555 cars, Frisco system-10,392 cars, Santa Fe-8,247 cars, Rock Island-6,789 cars, Southern Pacific-Cotton Belt-3,812 cars, T&P system-3,028 cars, FW&D-1,067 cars, KCS-554 cars, BM&E, the Katy subsidiary, 1,394 cars, and three roads not parties to the proceedings, a total of about 2,600 cars. Details of the interchanges at 9 of the remaining 10 points are set forth below in Tables 123 and 124 (adjustments have been made to reflect unifications, except BN; switching and terminal carriers are excluded). The tenth point involves an interchange between Katy and a short line carrier not party to these proceedings.

Table 123

MAJOR KATY INTERCHANGES
MISSOURI POINTS

<u>M-K-T</u> <u>Station</u>	<u>Connecting</u> <u>Carrier</u>	<u>Carloads</u>		
		<u>Delivered</u>	<u>Received</u>	<u>Total</u>
Kansas City	AT&SF	3,640	3,002	6,642
	CB&Q	5,359	11,829	17,188
	C&NW	3,444	4,251	7,695
	MILW	2,527	4,400	6,927
	RI	3,237	3,442	6,679
	KCS	193	83	276
	MP	1,429	1,994	3,423
	SL-SF	81	33	114
	UP	4,541	14,612	19,153
	GM&O*	381	772	1,153
	N&W*	942	5,790	6,732
	Total	<u>25,774</u>	<u>50,208</u>	<u>75,982</u>
St. Louis	C&EI	1,025	1,965	2,990
	C&NW	1,049	2,154	3,203
	CB&Q	307	782	1,089
	RI	21	12	33
	IC	1,425	2,512	3,937
	MP	96	91	187
	SL-SF	213	237	450
	SLSW	174	35	209
	Eastern Dist.			
	Class I**	15,518	18,405	33,923
	Southern Dist.			
	Class I***	4,536	5,451	9,987
	Total	<u>24,364</u>	<u>31,644</u>	<u>56,008</u>
Eve	KCS	<u>5,370</u>	<u>4,710</u>	<u>10,080</u>

*

GM&O and N&W shown separately to emphasize status as Southern and Eastern District carriers, respectively.

**Includes B&O, IT, PC, and N& W.

***Includes L&N, Southern and GM&O.

Table 124

MAJOR KATY INTERCHANGES - TEXAS POINTS

M-K-T Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Dallas-Fort Worth*	AT&SF	1,767	1,933	3,700
	RI	409	1,975	2,384
	FW&D	2,202	1,565	3,767
	L&A(Dallas only)	142	228	370
	MP	1,065	940	2,005
	SL-SF	428	1,907	2,335
	SLSW	1,153	1,317	2,470
	SP	1,732	1,348	3,080
	T&P	6,865	5,596	12,461
	Total	<u>15,763</u>	<u>16,809</u>	<u>32,572</u>
Houston	AT&SF	83	649	732
	RI	178	12	190
	FW&D	78	3	81
	MP	3,576	1,087	4,663
	SP	5,201	5,820	11,021
	Total	<u>9,116</u>	<u>7,571</u>	<u>16,687</u>
Denison	SL-SF	451	1,410	1,861
	SP	3,076	3,626	6,702
	T&P	186	249	435
	Total	<u>3,713</u>	<u>5,285</u>	<u>8,998</u>
Greenville	L&A	6,535	4,028	10,563
	SLSW	1,283	2,391	3,674
	Total	<u>7,818</u>	<u>6,419</u>	<u>14,237</u>
San Antonio	MP	1,905	339	2,244
	SP	4,334	5,108	9,442
	Total	<u>6,239</u>	<u>5,447</u>	<u>11,686</u>

*Dallas is located on a line alternate to the roughly parallel line serving Fort Worth. There is no Katy line connecting the two cities directly (see text below).

Table 123 shows that Katy interchanged 75,982 cars at Kansas City, and 56,008 at St. Louis in 1965. These totals represent 32 percent and 24 percent, respectively, of Katy's total interline carloads handled in that year. Interchanges with Burlington and Union Pacific represented nearly half of Katy's Kansas City interchange, while Eastern District carriers (including C&EI) accounted for almost two-thirds of Katy's St. Louis interchange. At Kansas City, two-thirds of the cars interchanged either originated or terminated on Katy,

but at St. Louis the comparable proportion was about 55 percent, the balance, of course, being bridge traffic for Katy. Almost 80 percent of the cars interchanged with Kansas City Southern at Eve were bridge cars for Katy.

The interchanges in Texas, shown on Table 124, are of considerably less volume than Kansas City and St. Louis. The Dallas and Fort Worth interchanges are shown in the table combined. The Dallas interchange amounted to 15,457 cars vs. 17,115 for Fort Worth. The two gateways lie on alternate routes extending between Denison and Hillsboro, Tex., with no direct route between them. For purposes of this discussion, as in earlier analyses of other carriers' Dallas and Fort Worth interchanges, the two gateways are treated as one. The same railroads connect with Katy at both points, with the exception of Louisiana & Arkansas, which serves Dallas only.

Most of the individual interchanges between Katy and its connections involved less than 5,000 cars each at the points shown in Table 124. The largest single interchanges were with T&P at Dallas and Fort Worth, 12,461 cars; Southern Pacific at Houston, 11,021; and Louisiana & Arkansas (KCS) at Greenville, 10,563. Traffic originated or terminated by Katy comprises the largest portion of the cars interchanged in Texas.

Of the 64,459 interline cars originated at the 30 most important points for such traffic, 25,884 cars (40 percent) originated in Texas. Similarly, of the 93,225 interline cars terminated at the 30 most important points of destination for interline traffic, 73,212 cars (79 percent) terminated at Texas points. All of the major local traffic origin stations were origins of less than 8,000 cars each. For local terminations, Houston was the largest in volume with 14,674 cars, followed by Galveston with 8,068. All other stations were destinations of less than 6,500 cars each (origin and destination data are for the year 1965).

Financial Analysis

Katy's diversion study in this proceeding was based on the latest available data in the year 1964. Its balance sheet and income statement for that period have been furnished below to show its financial position as at the time of the study. Financial statements for the year 1968 have also been furnished, in order to show Katy's financial position as of the latest available date. It is noted that all of the financial statements and exhibits included in the following analysis include "Katy & Controlled Companies" on the same basis that it reports to the Commission in its Annual Report Form A.

Table 125

KATY BALANCE SHEETS AS OF

	<u>December 31, 1964</u>	<u>December 31, 1968</u>
<u>Current Assets</u>		
Cash	\$ 961,585	\$ 1,898,330
Temporary cash investments	1,000,000	---
Special deposits	492,096	471,697
Loans and notes receivable	--	152,200
Net balance receivable from agents and conductors	1,299,701	2,054,587
Miscellaneous accounts receivable	703,832	1,580,192
Interest and dividends receivable	90,346	21,775
Accrued accounts receivable	942,900	1,569,433
Working fund advances	35,437	47,428
Prepayments	248,460	340,866
Material and supplies	4,125,280	3,309,750
Other current assets	48,913	36,556
Total current assets	<u>9,948,554</u>	<u>11,482,814</u>
<u>Special Funds</u>		
Sinking funds	220,000	220,000
Capital and other reserve funds	4,791,978	125,414
Insurance and other funds	43,800	80,293
Total special funds	<u>5,055,778</u>	<u>425,707</u>
<u>Investments</u>		
Investments in affiliated cos.	15,524,440	5,987,034
Other investments	22,305	431,148
Total investments	<u>15,546,745</u>	<u>6,418,182</u>
<u>Properties</u>		
Road and equipment property	277,244,020	236,420,458
Improvements on leased property	---	---
Total transportation property	<u>277,244,020</u>	<u>236,420,458</u>
Accrued depreciation-Rd. & Equip.	(44,331,450)	(33,763,696)
Amortization of defense projects-Rd. & Equip.	(258,610)	(502,970)
Recorded depreciation and amortization	(44,590,060)	(33,857,545)
Total transportation property less depr. and amort.	<u>232,653,960</u>	<u>202,562,913</u>
Miscellaneous physical property	2,069,099	2,328,126
Accrued depreciation-miscellaneous physical property	(701,344)	(502,970)
Miscellaneous physical property less depr.	<u>1,367,755</u>	<u>1,825,156</u>
Total properties less depr. & amort.	<u>234,021,715</u>	<u>204,388,069</u>
<u>Other Assets and Deferred Charges</u>		
Other assets	186,268	995,343
Unamortized discount on long-term debt	352,418	162,806
Other deferred charges	665,219	421,948
Total other assets and deferred charges	<u>1,203,905</u>	<u>1,580,097</u>
Total Assets	<u>\$265,776,697</u>	<u>\$224,294,869</u>

Table 125 - Continued

KATY BALANCE SHEETS AS OF

	<u>December 31, 1964</u>	<u>December 31, 1968</u>
<u>Current Liabilities</u>		
Loans and notes payable	\$ --	\$ 7,432,000
Traffic and car-service balance-cr.	1,561,528	1,295,855
Audited accounts and wages payable	4,619,293	6,284,403
Miscellaneous accounts payable	471,060	688,349
Interest matured unpaid	451,971	400,585
Dividends matured unpaid	5,871	4,836
Unmatured interest accrued	478,292	432,378
Accrued accounts payable	3,128,493	3,872,433
Other taxes accrued	901,239	1,230,926
Other current liabilities	636,903	909,340
Total current liabilities (exclusive of long-term debt due within 1 year)	<u>12,254,650</u>	<u>22,551,105</u>
<u>Long-Term Debt Due Within 1 Year</u>		
Equipment obligations and other debt	<u>3,699,000</u>	<u>1,332,497</u>
<u>Long-Term Debt Due After 1 Year</u>		
Funded debt unmatured	120,268,865	106,953,500
Equipment obligations	7,798,241	1,483,451
Amounts payable to affiliated companies	--	1,265,780
Total long-term debt due after 1 year	<u>128,067,106</u>	<u>109,702,731</u>
<u>Reserves</u>		
Casualty and other reserves	601,213	655,593
Total reserves	<u>601,213</u>	<u>655,593</u>
<u>Other Liabilities and Deferred Credits</u>		
Other liabilities	82,601,696	82,626,926
Other deferred credits	60,650	836,513
Total other liabilities and deferred credits	<u>82,662,346</u>	<u>83,463,439</u>
<u>Shareholders' Equity</u>		
Capital stock-total	7,379,571	9,759,871
Stock liability for conversion	302	302
Total capital stock	<u>7,379,873</u>	<u>9,760,173</u>
<u>Capital Surplus</u>		
Premiums and assessments on capital stock	--	1,827,496
Paid-in-surplus	26,293	26,293
Total capital surplus	<u>26,293</u>	<u>1,853,789</u>
<u>Retained Income</u>		
Retained income-unappropriated	31,086,216	(5,024,458)
Total retained income	<u>31,086,216</u>	<u>(5,024,458)</u>
Total shareholders' equity	<u>38,492,382</u>	<u>6,589,504</u>
 Total liabilities and shareholders' equity	 <u>\$265,776,697</u>	 <u>\$224,294,869</u>

Table 126

KATY INCOME STATEMENTS FOR THE YEARS

	1964	1968
<u>Total Operating Revenues</u>	<u>\$50,735,642</u>	<u>\$64,592,822</u>
<u>Operating Expenses</u>		
Maintenance of way & structures:		
Exclusive of depreciation	8,826,938	8,559,016
Depreciation	1,047,949	955,846
Maintenance of Equipment:		
Exclusive of depreciation	7,740,566	5,989,096
Depreciation	3,005,505	1,996,540
Traffic	2,101,463	3,251,693
Transportation	21,206,021	24,613,121
Miscellaneous & general	2,620,085	3,073,313
<u>Total operating expenses</u>	<u>46,549,127</u>	<u>48,438,625</u>
<u>Net revenue from railway operations</u>	<u>4,186,515</u>	<u>16,154,197</u>
<u>Railway tax accruals</u>	<u>4,019,992</u>	<u>4,873,597</u>
<u>Railway operating income</u>	<u>166,523</u>	<u>11,280,600</u>
Rent income-cr.	197,219	236,570
Rents payable-dr.	6,974,096	12,285,715
Net rents-dr.	<u>(6,776,877)</u>	<u>(12,049,145)</u>
<u>Net railway operating income</u>	<u>6,610,354</u>	<u>(768,545)</u>
<u>Total other income</u>	<u>1,190,534</u>	<u>1,074,886</u>
<u>Total income</u>	<u>(5,419,820)</u>	<u>306,341</u>
<u>Total miscellaneous deductions</u>	<u>120,260</u>	<u>24,600</u>
<u>Income available for fixed charges</u>	<u>(5,540,080)</u>	<u>281,741</u>
Fixed charges	3,027,237	3,253,631
Contingent interest (other deductions)	207,043	--
<u>Total fixed charges & contingent interest</u>	<u>3,234,280</u>	<u>3,253,631</u>
<u>Ordinary income</u>	<u>(8,774,360)</u>	<u>(2,971,890)</u>
<u>Total extraordinary items (net)</u>	<u>--</u>	<u>--</u>
<u>Net income after fixed charges and other deductions</u>	<u>\$(8,774,360)</u>	<u>\$(2,971,890)</u>

Gross Railway Operating Revenues & Expenses

Through an improvement program started in the early part of 1965, the Katy has been upgrading its tracks and replacing its operating equipment. As a result of these efforts there has been an improvement in service and operating efficiency. Table 127 following, shows that its railway operating revenues have increased from \$50.7 million in 1964 to \$64.6 million in 1968.

Railway operating expenses went from \$46.5 million in 1964 to \$48.4 million in 1968, indicating that its margin of operating efficiency improved substantially from an operating ratio of 91.7 percent in 1964 to a very favorable 75 percent in 1968.

Net Railway Operating Income and Net Income

Table 127 shows that Katy has had a deficit in net income every year since 1964. However, there has been a significant improvement in its earnings position since that year, considering that it has reduced its deficit operations from \$8.8 million in 1964 to approximately \$3 million in 1968.

Working Capital

Table 127 also discloses that for the five year period 1964 to 1968, Katy's average monthly working capital requirement was about \$3.7 million. For the same period of time, its working capital deficit of \$2.3 million in 1964 worsened progressively and in 1968 it amounted to \$11 million.

While Katy's improved operations have resulted in greater gross revenues, its earnings have not improved to the extent that its working capital position has been increased sufficiently to meet its average monthly working capital requirements.

Equipment Rents

Katy attributed a great deal of its losses in earning power to its inability to maintain a sufficient number of cars available to accommodate the needs of shippers. In 1965, because of its financial inability to purchase equipment, it adopted a program of acquiring equipment under long-term leases. The rentals for this equipment appear in the equipment rent accounts. No interest charges or depreciation are accrued on these rental units. The Katy has been a per diem debtor road for many years, however, the car acquisition and betterment program has reversed its net per diem debit balance of \$1.9 million in 1964 to a credit balance of \$2 million in 1968. To this extent its per diem credit represents a partial offset to rentals paid under long-term leases.

Although Katy's improvement program successfully built up its equipment status, its improvement program for roadway and track facilities have lagged behind. This has restricted substantially Katy's ability to increase its earning power.

Total Debt

For the five year period 1964-1968, Katy has increased its operating efficiency. This is attributed to the acquisition of new and additional equipment, some capital improvements and rate increases authorized by the Commission. While the Katy regained a substantial amount of lost traffic and revenues, its increased operations have not been sufficient to convert its deficit operations into one producing net income.

Table 127 also shows that for the five year period 1964-1968, the ratio of total debt to combined total debt and stockholders' equity has risen from 86 percent in 1964 to a high of 97 percent in 1968. The record also shows that the ratio of long-term debt to the total of such debt and stockholders' equity increased substantially from 77 percent in 1964 to 91 percent in 1968. Thus, Katy's creditors' equity in the entity is more than 90 percent compared to stockholders' equity.

For the five year period, Katy has been unable to meet its fixed charges and contingent interest which has averaged more than \$3 million annually. It sees little chance of obtaining any additional financial assistance from lending institutions.

Katy's deficit operations and unfavorable credit situation reflects the image of a financially weak carrier.

Table 127

KATY'S INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expense (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges And Other Deductions (000)	Operating Ratio
1964	\$50,736	\$46,549	\$(6,610)	\$(5,540)	\$(8,774)	91.7
1965	49,600	44,347	(5,379)	(4,525)	(7,715)	89.4
1966	54,819	48,713	(5,335)	(4,644)	(7,835)	88.9
1967	56,858	47,839	(5,151)	(4,440)	(7,792)	84.1
1968	64,593	48,439	(769)	282	(2,972)	75.0

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$ 9,949	\$12,255	\$(2,306)	\$42,496	\$3,541	--
1965	9,118	13,841	(4,723)	40,673	3,389	--
1966	12,662	20,556	(7,894)	45,331	3,778	--
1967	11,167	22,625	(11,458)	44,679	3,723	--
1968	11,483	22,511	(11,028)	45,486	3,791	--

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
TOTAL DEBT	\$227,284	- 86	\$225,583	- 88	\$232,980	- 93	\$217,938	- 95	\$217,705	- 97
STOCKHOLDERS' EQUITY	38,492	- 14	29,481	- 12	18,397	- 7	10,971	- 5	6,589	- 3
<u>TOTAL</u>	<u>\$265,776</u>	<u>-100</u>	<u>\$255,064</u>	<u>-100</u>	<u>\$251,377</u>	<u>-100</u>	<u>\$228,909</u>	<u>-100</u>	<u>\$224,294</u>	<u>-100</u>

Preliminary Findings and Conclusions

The deterioration of the Katy which began in the mid-1950's in traffic volume and freight revenue, from the revenue freight standpoint, reached the lowest point in 1964. During such period, revenue tonnage remained at about 13 to 14 million tons annually, however, freight revenue dropped from a 1956 high of \$64.9 million to \$46.5 million in 1964, and Katy's plant and equipment deteriorated badly. All of the foregoing factors taken together adversely affected Katy's ability to meet its fixed charges, caused a steady decrease in its rate of return, and resulted in a deficit working capital position in 1964. No party to these proceedings contests the above-described deterioration of the Katy.

Since 1964, Katy has been able to make some substantial improvements in certain aspects of its physical plant, competitive ability, and financial position. Nonetheless, serious problems remain with the carrier as a carryover from the period above-described, and necessary attempts to alleviate these problems in turn have aggravated an already adverse debt position.

With respect to the improvements, Katy has almost completely rehabilitated and modernized its equipment as funds have become available. The more limited funds available for fixed facilities primarily have been invested in Katy's main routes in Kansas, Oklahoma, and Texas for the purposes of rehabilitating and upgrading the trackage.

The rehabilitation and modernization program has in large part contributed to the increase in freight revenue from the \$46.5 million received in 1964 to \$62.4 million in 1968. Revenue tonnage hauled in 1968 did not reach that hauled over the highest year in the preceding decade, however, revenue ton-miles generated in 1968 did exceed the largest generated in any year of the preceding decade.

Katy derives most of its gross freight revenues from agricultural traffic, principally wheat, food and food products, and commodities used for agricultural production. As a result, Katy, like Rock Island, handles a large amount of traffic subject to the seasonal and otherwise variable production volume associated with agriculture, particularly grain production.

As seen, Katy's traffic density is extremely light on branch lines, a number of which are now the subject of several abandonment applications. Only the

main lines between Kansas City and St. Louis on the north, and Texas points on the south handle fairly heavy traffic (approximately 5 to 8 million gross ton-miles per mile of road). While about one-third of the carrier's carloads constitute local traffic, the remaining two-thirds consists largely of interline terminated traffic. About one-third of Katy's interline carloads are interchanged with connections at Kansas City, and nearly one-fourth are interchanged at St. Louis. Of the remaining 75 interchange points, most of the major ones are in Texas, and account for considerably less volume than either Kansas City or St. Louis. Katy's stations in Texas accounted for the bulk of interline cars originated or terminated at its largest volume origin and destination stations for such traffic.

Katy's principal advantage lies in its possession of some of the shortest rail routes that connect Kansas City and St. Louis with the major cities in Texas. Although the carrier has improved its revenue and competitive position since 1964, it still suffers from a lack of funds adequate to meet the requirements of its deferred maintenance in track. However, Katy's financial position is such that it has no funds on hand nor does it have an available line of credit. On this basis, it is apparent that if Katy cannot obtain additional funds through substantially increased revenues or obtain some other financial support, its unfavorable financial position will suffer further deterioration.

MOPAC AND T&PCorporate History

MoPac's original antecedent, the Pacific Railroad, was chartered in Missouri in 1849 to build a line of railroad from St. Louis to a point on the western border of the State. The line reached Kansas City in 1865, being the first railroad to serve that city, and following the Civil War, service was extended to Atchison, through Leavenworth, Kans. During the period 1850 through the 1870's, various companies, later consolidated under MoPac ownership in 1881, built extensive lines of road in Missouri, Arkansas, Louisiana, and Texas.

Subsidiaries and Affiliates

As of December 20, 1968, Mississippi River Corporation owned 60.8 percent of the 1,861,077 shares of Class A stock of MoPac; and The Franklin National Bank of New York, as Trustee for Alleghany Corporation, owned 52.23 percent of the 39,731 shares of Class B stock of MoPac.

The MoPac has a number of solely owned and jointly controlled carrier and noncarrier subsidiary companies. Included in the solely owned companies are protestant T&P, controlled by MoPac through 95.5 percent stock ownership, and the Chicago & Eastern Illinois Railroad Company.⁴⁴ Also, the MoPac jointly controls the Alton and Southern Railroad, through 50 percent stock ownership, pursuant to authority granted in St. Louis SW Ry. Co.--Purchase--Alton & S.R., 331 I.C.C. 515 (1968). The T&P, chartered by Act of Congress in 1871, also is the parent of various carrier companies as detailed in Texas & Pac. Ry. Co.--Control--Kansas, O.G. Ry. Co., 324 I.C.C. 309 (1964). Both the MoPac and T&P have subsidiary interstate motor common carriers of freight: Missouri Pacific Truck Lines and T&P Motor Transport Co.

As seen, T&P has intervened separately and apart from its parent company, and also T&P has presented evidence relating to its own operations. At the same time, as the record made so clearly shows, the interest of the T&P is inextricably tied to the interest of the

⁴⁴ Authority for control of the Chicago & Eastern Illinois was granted in Missouri Pac. R. Co.--Control--Chicago & E.I.R. Co., 327 I.C.C. 279 (1965) the C&EI case. As of December 31, 1969, the MoPac owned 52.8 percent of the Chicago & Eastern Illinois outstanding common capital stock.

interest of the MoPac system of carriers. And when the MoPac speaks, it speaks for the entire system not for itself alone. Also, as so aptly put by various participating carriers, in the interest of fair play the MoPac should not be permitted two bites at the apple. Accordingly, the total scope of evidence presented by T&P and MoPac will be viewed in the light of the impact and effect upon the interest of the combined MoPac system.

Scope of Operations, Plant and Equipment

As of the close of 1968 the miles of road operated by the MoPac totaled 8,979, of which the following mileages were operated in each State served:

Arkansas	1,626
Colorado	155
Illinois	278
Kansas	1,935
Louisiana	1,018
Mississippi	3
Missouri	1,360
Nebraska	324
Oklahoma	162
Tennessee	14
Texas	2,103

For purposes of the considered proceedings, the lines of service of the MoPac system are adequately described in the C&EI case as follows: MoPac serves a broad territory south and west of St. Louis. Its lines radiate from St. Louis, across Missouri to Kansas City and St. Joseph, and on to Omaha; across Kansas to Pueblo; across Arkansas, Oklahoma, and Texas, serving such major commercial centers as Little Rock, Pine Bluff, and Fort Smith, Ark., Dallas, Fort Worth, El Paso and San Antonio, Tex.; across Louisiana through Shreveport, Alexandria, and Baton Rouge; along the Gulf of Mexico from Brownsville, Tex., to New Orleans, La., serving numerous ports including, among others, Corpus Christi, Galveston, Houston, Tex., and Lake Charles, La.; and serving a number of river ports including Natchez, Miss., Memphis, and Cairo.

The T&P operates 1,967 miles of road in the following five States: Texas-1,178 miles, Louisiana-569 miles, Arkansas-.42 mile, Kansas-40 miles, and Oklahoma-180 miles. Its main line stretches from New Orleans, La., on the east to El Paso, Tex., on the west via Alexandria and Shreveport, La., Texarkana, Marshall, Longview, Dallas, Fort Worth, Abilene, Sweetwater, Big Spring, Midland, Odessa, Pecos and Sierra Blanca, Tex.

A second line parallels the main line about 75 miles to the north, from Texarkana via Paris to Sherman joining the main line again at Fort Worth. There is also a main line connection of 67 miles from Texarkana to Marshall, just west of Shreveport, Texarkana being the connection of the T&P with the MoPac operating from Memphis, and St. Louis to the Southwest. At Longview and Fort Worth the T&P has connections with the Missouri Pacific operating from those junctions into south Texas. At El Paso the T&P connects with the Southern Pacific.

MoPac has a fleet of 994 locomotives and 44,710 freight cars, and it owns a 70 percent interest in American Refrigerator Transit Co., which owns 8,258 freight cars. T&P utilizes 224 locomotives and 9,937 freight cars.

Freight Traffic: Volume, Consist and Traffic Flow

During the 1964-1968 period, MoPac freight traffic showed a net increase in revenue tonnage handled from 69,606,079 in 1964 to 72,391,854 in 1968 and in freight revenue from \$270,935,059 in 1964 to \$307,673,553 in 1968. Although the tonnage handled in 1968 was a decrease from a high of 75,849,427 revenue tons in 1966, the freight revenue in 1968 was the highest during the period.

For the five-year period, interline originated and interline terminated traffic remained stable in relation to the total of all classes of traffic while local traffic decreased slightly and bridge traffic increased slightly. Stated as a percentage of total carload traffic, interline originated traffic ranged from 28 to 29 percent and interline terminated traffic from 23 to 24 percent. Local traffic decreased from 27 percent to 24 percent while overhead traffic increased from 22 to 23 percent, comparing 1964 to 1968. In short, interline traffic accounted for approximately 75 percent of all of MoPac's traffic over the period.

During the same period, T&P freight traffic showed a net increase in revenue tonnage handled from 20,181,203 in 1964 to 23,416,756 in 1968 (approximately 16 percent) and in freight revenue from \$61,162,139 in 1964 to \$73,046,779 in 1968 (approximately 18 percent). Stated as a percentage of total carloads for the five-year period, local traffic ranged from 8 to 10 percent, interline originated traffic from 19 to 23 percent, interline terminated traffic from 26 to 28 percent and overhead traffic from 41 to 44 percent. Thus, interline traffic accounted for slightly over 90 percent of T&P's traffic for the period.

It is unnecessary to detail the commodity consist of freight hauled by the MoPac system (MP, T&P, KO&G, excluding C&EI) over the years. In 1965 the following ten commodity groups produced slightly in excess of 83 percent of the gross freight revenue of the system.

<u>Commodity Group</u>	<u>Percent of Gross Freight Revenue*</u>
Chemicals & Products	16.7
Farm Products	12.0
Food & Kindred Products	10.7
Primary Metal Products	7.7
Transportation Equipment	7.6
Non-Metallic Minerals	6.9
Lumber Products	6.5
Stone, Clay and Glass Products	6.2
Petroleum and Coal Products	5.1
Pulp, Paper & Products	3.9
Total	83.3

*Includes L.C.L. traffic

The MoPac system's heaviest density route (based on 1966 data) extends from Dupo (E. St. Louis) southward to Fort Worth and Dallas. Density over the line ranges from 4 to 9 million net tons per mile of road in either direction. Heavy density routes extend from the St. Louis-Fort Worth line in the Little Rock area (1) to Memphis (over 4 million net tons per mile eastbound, over 2 million westbound); (2) to New Orleans (approximately 4 million tons eastbound, 1 to 4 million westbound); and (3) to Okay, Okla. (less than 2 million net tons per mile westbound, i.e., from Little Rock, nearly 3 million eastbound). The route from Kansas City to Fort Worth through Okay (the junction with the Little Rock line), handles 4 to 5 million tons southbound to Okay, and 2.5 million south from Okay to Fort Worth. Northbound traffic is relatively light: Fort Worth to Okay amounts to about 1 million net tons, while from Okay to Kansas City, the line handles 2 to 5 million tons. Heaviest traffic on the Kansas City-Fort Worth line is on the segment between Kansas City and Osawatomie, Kans., junction point for the Kansas City-Pueblo line. The Pueblo line handles somewhat less than 2 million net tons per mile of road westbound and over 2 million eastbound. Between Kansas City and St. Louis, Mo., traffic moves via two routes for part of the distance. Overall, eastbound net tonnage averages 3 to 4 million per mile, and westbound, the density is approximately 3 million tons. The Omaha-Kansas City route handles 1 to 3 million net tons southbound and less than 2 million northbound.

The T&P route from El Paso to Fort Worth carries relatively light traffic over the western portion of the line: between El Paso and Big Spring, Tex., eastbound net tonnage ranges from less than one million to 1.5 million per mile eastbound and from 1.3 million to 1.6 million westbound; and between Big Spring and Fort Worth, eastbound tonnage increases, reaching 3 million per mile near Fort Worth, while in the opposite direction, traffic going from Fort Worth to Big Spring decreases from 2.3 to 2.1 million net tons per mile.

MoPac lines radiating from Houston to Corpus Christi, San Antonio, Fort Worth and Longview, Tex., and to Alexandria and New Orleans, handle generally from 1 to 3 million net tons per mile of road in either direction.

As seen, the MoPac-T&P system blankets the area it serves with a complex route system containing many heavy density routes. Traffic is for the most part balanced in terms of net tons handled in each direction. Basically, the system has extremely heavy traffic between St. Louis and Kansas City on the north, and Texas points and New Orleans on the south. East-west routes extending to Pueblo and El Paso on the west and to Memphis on the east are of somewhat lighter traffic density. However, because of the interwoven route structure of the MoPac system, most of the major routes carry both north-south and east-west traffic over a portion of each route's length.

In number of cars, MoPac's largest interchange points are: the St. Louis area, 406,965 (or about one-third of the total MoPac interline carloads in 1966); Kansas City, 179,440; Memphis, 125,914; Pueblo, 93,281; Omaha, 43,648; and Houston, New Orleans, Beaumont, and Fort Worth, 20,000 to 30,000 cars each. Table 128, below, shows the interchanges by carrier for St. Louis and Kansas City. Adjustments have been made to reflect unifications, **except BN.** MoPac interchanges here discussed are for the year 1966.

Table 128

MAJOR MOPAC INTERCHANGES (1966) ST. LOUIS AREA
AND KANSAS CITY

MoPac Station	Connecting Carrier	Carloads		
		Received	Delivered	Total
St. Louis, Dupo, & E. St. Louis	C&EI	16,337	12,952	29,289
	C&NW	9,192	15,373	24,565
	CB&Q	5,761	6,680	12,441
	RI	103	392	495
	IC	24,843	15,199	40,042
	MKT	71	155	226
	SLSF	557	464	1,021
	SLSW	581	190	771
	Eastern Dist.			
	Class I*	117,550	142,257	259,807
	Southern Dist.			
	Class I*	15,551	22,757	38,308
	Total	<u>190,546</u>	<u>216,419</u>	<u>406,965</u>
Kansas City	AT&SF	17,050	12,754	29,804
	CB&Q	14,486	8,069	22,555
	C&NW	5,631	5,526	11,157
	MILW	9,822	8,146	17,968
	RI	5,764	6,993	12,757
	KCS	4,890	4,188	9,078
	MKT	2,358	2,222	4,580
	SLSF	4,031	4,915	8,946
	UP	31,642	20,096	51,738
	N&W*	5,493	2,512	8,005
	GM&O*	1,341	1,511	2,852
	Total	<u>102,508</u>	<u>76,932</u>	<u>179,440</u>

*At St. Louis, Dupo and E. St. Louis, Eastern District carriers shown as an aggregate include PC, B&O, N&W, and IT. Similarly, Southern District carriers include GM&O, L&N and Southern. N&W and GM&O are shown specifically for Kansas City.

Table 128 indicates that the bulk of the MoPac cars interchanged in the St. Louis area move to and from carriers principally serving the Eastern and Southern Districts. Its subsidiary, C&EI, and the North Western and the Illinois Central, each has lines to Chicago from St. Louis. At Kansas City, MoPac's largest interchange is with Union Pacific, Santa Fe and Burlington are the second and third largest volume connections. Traffic received at Kansas City exceeds that delivered by MoPac, while the situation is the reverse at St. Louis.

At Omaha (not shown in Table 128), nearly 30,000 of the 43,648 cars interchanged were interchanged with North Western. All remaining connections at Omaha (Burlington, Milwaukee, Rock Island, Illinois Central, Union Pacific and Norfolk & Western) interchanged less than 5,000 cars each with MoPac.

The Pueblo interchange is almost entirely with Rio Grande: of the 93,281 cars interchanged there, 87,872 were with Rio Grande, 3,861 with Colorado & Southern, and 1,548 with Santa Fe. The number of cars delivered to Rio Grande nearly equalled those received from that carrier. Santa Fe and MoPac interchanged 5,972 cars, and the Katy and MoPac interchanged 624 at Coffeyville, Kans. All other MoPac interchange points in Illinois, Missouri, Kansas and Colorado and all interchange points in Oklahoma accounted for less than 5,000 cars each. The bulk of the cars interchanged at the Kansas City and Pueblo gateways is bridge traffic for MoPac, while the Omaha and St. Louis gateways traffic consists mostly of interline originated and interline terminated traffic.

Turning to gateways in the States served by southern MoPac lines, i.e., Tennessee, Arkansas, Louisiana and Texas, the Memphis gateway is by far the largest in interchange volume. Of the 125,914 cars interchanged by MoPac at Memphis, 107,246 moved to and from the Illinois Central, Louisville & Nashville, Southern and GM&O. Of the remaining 18,668 cars interchanged, 18,371 were with Frisco, and the balance with Rock Island and Cotton Belt. Much the same situation prevails at New Orleans: of the 30,428 cars MoPac interchanged, all but 145 cars were interchanged with the Southern District connections named above for Memphis.

At Baton Rouge, Monroe, and Vidalia, La., MoPac and Illinois Central interchanged from 5,000 to 10,000 cars at each point. MoPac interchanges with other carriers at these points totaled less than 3,500 cars. Interchanges at Alexandria with Rock Island, Louisiana & Arkansas, and Southern Pacific amounted to 1,479 cars, 4,710 cars, and 6,254 cars, respectively. MoPac interchanged 13,813 cars with Southern Pacific and 1,447 with Kansas City Southern at Lake Charles, consisting primarily of cars delivered to the latter two carriers.

In Arkansas only the interchanges at Hope, N. Little Rock, and Texarkana exceeded 5,000 cars each: MoPac interchanged 10,967 cars with Louisiana & Arkansas and 4,249 with Frisco at Hope; 5,742 cars with Rock Island and 2,336 with Cotton Belt at N. Little Rock; and 6,744 with KCS and 1,601 with Cotton Belt at Texarkana.

Only four points in Texas had interchanges in excess of 5,000 cars for MoPac. Bay City, the smallest, was the point of interchange for 9,515 cars between MoPac and Santa Fe and only 20 cars between MoPac and Southern Pacific. The remaining three Texas points are shown in detail in Table 129, below:

Table 129

MAJOR MoPAC INTERCHANGES
FORT WORTH, HOUSTON AND BEAUMONT

<u>MoPac Station</u>	<u>Connecting Carrier</u>	<u>Carloads</u>		
		<u>Received</u>	<u>Delivered</u>	<u>Total</u>
Fort Worth	AT&SF	2,427	2,196	4,623
	RI	3,752	1,028	4,780
	FW&D	1,319	1,262	2,581
	MKT	748	867	1,615
	SLSF	4,378	2,163	6,541
	SLSW	87	191	278
	SP	69	79	148
	Total	<u>12,780</u>	<u>7,786</u>	<u>20,566</u>
Houston	AT&SF	4,365	1,365	5,730
	RI	2,470	76	2,546
	FW&D	5,759	176	5,935
	MKT	3,716	1,134	4,850
	SP	7,840	3,866	11,706
	Total	<u>24,150</u>	<u>6,617</u>	<u>30,767</u>
Beaumont	AT&SF	6,119	2,814	8,933
	KCS	6,248	9,571	15,819
	SP	526	1,444	1,970
	Total	<u>12,893</u>	<u>13,829</u>	<u>26,722</u>

Most of the traffic interchanged at the points named in Table 129 either originated or terminated on MoPac lines. MoPac's interchange evidence does not disclose the number of cars interchanged with its subsidiary, Texas & Pacific, but the latter carrier's evidence does show this information. Evidence submitted by T&P, however, is based on movements taking place during 1965 (as opposed to 1966 for MoPac). Principal points of interchange between MoPac and T&P are listed in Table 130 below together with the volume at each point:

Table 130MAJOR INTERCHANGES BETWEEN MoPAC AND T&P

<u>MoPac-T&P Station</u>	<u>Carloads</u>	<u>% of T&P Total 1965 Interline Cars</u>
1. Alexandria	16,446	3.4
2. Denison*	53,716	11.0
3. Fort Worth	58,564	12.0
4. Livonia, La.	10,483	2.2
5. Longview	107,490	22.1
6. Mineola, Tex.	3,668	.8
7. Texarkana	214,694	44.2

*Denison is a KO&G-T&P interchange. KO&G and MoPac connect at Okay, Okla. (data for the Okay interchange are not of record).

The above points are the only ones at which MoPac and T&P interchanged 500 or more cars between themselves in 1965. The bulk of the traffic interchanged between the two carriers at Fort Worth, Longview, and Texarkana, and between Texas & Pacific and its subsidiary, KO&G, at Denison, consisted of cars moving as bridge traffic over T&P. Most of the cars interchanged at Alexandria and Livonia either originated or terminated on T&P. Comparable information for the Mineola interchange is not of record. It is impossible to determine from the data of record the number of cars, if any, that were received by T&P from MoPac at one point and delivered to MoPac at another point as a coordinated service between the parent and its subsidiary: the percentages shown in the above table show that at a minimum, T&P and MoPac have a close operating relationship, and that most of T&P's interline traffic has a prior or subsequent haul by MoPac.

T&P interchanges with applicants, their affiliates, and with other carriers actively participating herein, are shown below in Table 131. Interchanges with MoPac have been deleted, and only those points are shown at which at least 5,000 cars were interchanged with at least one of the above-described carriers.

Table 131

MAJOR T&P INTERCHANGES, 1965
(EXCLUDING THOSE WITH MoPAC)

<u>T&P Station</u>	<u>Connecting Carrier</u>	<u>Carloads</u>		
		<u>Received</u>	<u>Delivered</u>	<u>Total</u>
Texarkana	KCS	7,650	1,328	8,978
	SLSW	344	1,675	2,019
Big Sandy, Tex.	SLSW	2,659	1,807	4,466
Dallas-Fort Worth	AT&SF	16,414	6,848	23,262
	RI	6,896	4,075	10,971
	FW&D	3,755	6,509	10,264
	L&A (Dallas only)	1,052	589	1,641
	MKT	6,989	5,639	12,628
	SLSF	5,032	4,755	9,787
	SP	2,478	6,502	8,980
	SLSW	340	832	1,172
El Paso	AT&SF	486	701	1,187
	SP	17,543	24,696	42,239
Jefferson, Tex.	L&A	385	1,353	1,738
Longview	AT&SF	1,542	2,747	4,289
Sweetwater	AT&SF	6,376	6,602	12,978
New Orleans	IC	1,489	3,566	5,055
	L&A	24	136	160
	SP	19	--	19
	Southern Dist. Class I*	7,388	19,305	26,693
Shreveport	IC	9,931	8,650	18,581
	KCS	1,919	2,597	4,516
	L&A	1,135	1,821	2,956
	SP	691	670	1,361
	SLSW	485	301	786
Alexandria	RI	919	298	1,217
	L&A	112	470	582
	SP	2,281	351	2,632

*Includes L&N, GM&O and Southern.

With respect to interchanges with carriers other than MoPac and KO&G, the T&P's largest individual interchanges are: at El Paso, with Southern Pacific, 42,239 cars; at Dallas-Fort Worth with Santa Fe, 23,262, with Katy, 12,628, and with FW&D, Rock Island, Frisco and Southern Pacific, from 8,900 to 11,000 cars each; at Sweetwater, with Santa Fe, 12,978; and at Shreveport, with ICRR, 18,581. Interchanges at New Orleans are made principally with Louisville & Nashville, GM&O, and the Southern Railway System.

Origin and destination volume data, by station, are shown in MoPac's evidence in terms of carloads, while those for T&P are shown in terms of revenue. For MoPac in 1966, local traffic originations totaled 26,267 cars at Kansas City; 15,883 at St. Louis (Mo.); 15,774 at Houston; 13,224 at Little Rock-N. Little Rock; 10,540 at Prairie Du Rocher, Ill.; and 10,381 at the Pyatt Fidelity Mine, Ill. Local terminations amounted to 35,210 cars at Houston; 26,816 at Kansas City; 23,323 at St. Louis; 19,079 at Pine Bluff; 14,806 at New Orleans; and from 10,000 to 12,000 cars each at Baton Rouge-N. Baton Rouge, Ford, Ill., Bastrop, La., Memphis, Omaha-S. Omaha, and Dupon-E. St. Louis. MoPac interline originations totaled from 20,000 to 30,000 cars each at Kansas City, St. Louis (Mo.), Pea Ridge, Mo., and Houston; 17,604 at Freeport, Tex.; and 11,783 at Little Rock-N. Little Rock. Interline terminations amounted to somewhat over 41,000 cars each at Kansas City and Houston; 21,886 at Corpus Christi, Tex., and from 10,000 to 16,000 cars each at Laredo, Tex., St. Louis (Mo.), Little Rock-N. Little Rock, Memphis and New Orleans. All other stations were origin or destination for less than 10,000 cars for each class of traffic.

For T&P in 1965, New Orleans generated \$1.0 million in revenue for local traffic. Interline originated revenue accruing to T&P amounted to \$2.5 million and \$2.0 million at Odessa and Big Spring, Tex., respectively. Interline cars terminated represented \$4.5 million in revenue at Dallas, \$3.1 million at Arlington, Tex., \$2.7 million at Odessa, and from \$1.0 to \$2.0 million at El Paso, Fort Worth and New Orleans. All other points accounted for less than \$1.0 million for each class of traffic.

Financial Status of MoPac

The following discussion of MoPac's financial data is based on its Annual Report Form A, filed with the Commission. MoPac's balance sheet as of December 31, 1968, shows total assets aggregating \$1,001.5 million, comprised

of current assets \$75 million, including among others, cash \$13.6 million and temporary cash investments \$1 million; special funds \$6.8 million; investments \$108.9 million including \$83.9 million investments in affiliated companies and other investments \$25 million; total properties, less depreciation and amortization \$807.1 million and other assets and deferred charges \$3.7 million. Liabilities and shareholders' equity are comprised of current liabilities \$67.1 million including audited accounts and wages payable \$4.8 million and accrued taxes \$8.4 million; long-term debt \$552 million including \$11.8 million due within one year; reserves \$7.5 million and other liabilities and deferred credits \$5.6 million; and shareholders' equity \$369.3 million, which consists of capital stock \$190.1 million, capital surplus \$2 million and retained income \$177.1 million.

MoPac's income statement for the year 1968, shows total railway operating revenues \$231.5 million, with total railway operating expenses \$249.9 million, resulting in an operating ratio of 75.37 percent. Net railway operating income of \$25.6 million plus income (net) from other than railway operations aggregated \$39.6 million which was available for fixed charges of \$14.7 million for 1968. Net income after fixed charges and other deductions amounted to \$14.7 million. For the year 1968, MoPac's operating efficiency was very good considering that its operating ratio was 75.37 percent; funds available from net income alone were sufficient to service long-term debt due within one year; and although its ratio of total debt to combined total debt and shareholders' equity was a somewhat high 63 percent, it was within the 70 percent limit generally recognized by the Commission as an acceptable debt ratio limit. Based on the financial data discussed herein, MoPac's financial position as of December 31, 1968 was relatively sound.

Table **132** following, shows the MoPac's results of operations for the five year period from 1964 to 1968. For that period its operating ratio averaged a favorable 73.73 percent, which is above the average realized by the Western railroads. As a result of its efficient operations MoPac's net income has been sufficient to service its long-term debt due within one year, and it has had no difficulty in meeting its fixed charges for that period.

The record discloses that MoPac has made and pursues a policy of making substantial expenditures for capital improvements and new operating equipment. Although these additions and betterments have undoubtedly

helped MoPac maintain its financial stability, it has also added to what it refers to as the tremendous debt it inherited at the time of its reorganization. For the five year period 1964-1968, its ratio of total debt to combined total debt and stockholders' equity averaged 65 percent and its ratio of long-term debt to the total of such debt and stockholders' equity averaged 62 percent. This situation could possibly represent a serious threat to the financial well being of the MoPac, considering that the record discloses that for the period 1964-1968 an average of 57 percent of its earnings were used to meet its fixed charges and other deductions (contingent interest). Accordingly, if the MoPac is to continue to maintain its comparatively sound financial position, it cannot afford to relax its efforts towards increasing or at least maintaining the amount of revenues it earns.

Table 132

MoPAC INCOME TREND 1964-1968

<u>Year</u>	<u>Total Operating Revenues (000)</u>	<u>Total Operating Expenses (000)</u>	<u>Net Railway Operating Income (000)</u>	<u>Income Available For Fixed Charges (000)</u>	<u>Net Income After Fixed Charges and Other Deductions (000)</u>	<u>Operating Ratio</u>
1964	\$306,999	\$228,604	\$37,460	\$45,148	\$19,463	74.46
1965	313,732	230,291	38,928	45,445	19,635	73.40
1966	324,696	236,127	36,118	44,278	18,706	72.72
1967	318,329	231,744	33,649	48,523	23,273	72.80
1968	331,531	249,870	25,568	39,559	14,657	75.37

Working Capital

<u>Year</u>	<u>Total Current Assets (000)</u>	<u>Total Current Liabilities (000)</u>	<u>Working Capital (000)</u>	<u>Total Operating Expenses Less Depreciation (000)</u>	<u>Monthly Average Working Capital Requirement (000)</u>	<u>Working Capital Ratio</u>
1964	\$84,492	\$60,650	\$23,842	\$209,925	\$17,493	1.4
1965	83,522	60,325	23,197	211,235	17,603	1.4
1966	70,363	69,456	907	216,923	18,077	1.0
1967	83,677	68,124	15,553	212,939	17,745	1.2
1968	74,900	67,052	7,848	231,086	19,257	1.1

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	<u>1964 (000)</u>	<u>- %</u>	<u>1965 (000)</u>	<u>- %</u>	<u>1966 (000)</u>	<u>- %</u>	<u>1967 (000)</u>	<u>- %</u>	<u>1968 (000)</u>	<u>- %</u>
<u>TOTAL DEBT</u>	\$642,021	- 67	\$643,912	- 66.4	\$645,528	- 65.7	\$638,017	- 64	\$ 632,173	- 63
<u>STOCKHOLDERS' EQUITY</u>	316,147	- 33	325,731	- 33.6	336,749	- 34.3	360,047	- 36	369,291	- 37
<u>TOTAL</u>	\$958,168	-100	\$969,643	-100	\$982,377	-100	\$998,064	-100	\$1,001,464	- 100

Financial Status of T&P

T&P's financial statements filed in its Annual Report Form A to the Commission, is based on a corporate entity basis. As of December 31, 1968, its balance sheet reported total assets aggregating \$244.7 million, comprised of current assets \$19.4 million; including among others cash \$4.9 million and temporary cash investments \$2 million; investments \$15.5 million (principally in affiliated companies); total properties less depreciation and amortization \$206.8 million and other assets and deferred charges \$2.9 million. Liabilities and shareholders' equity are comprised of current liabilities \$21 million; including audited accounts and wages payable \$3.2 million and accrued taxes \$1.8 million; long-term debt \$97.1 million including \$4.8 million due within one year; reserves \$475,310 and other liabilities and deferred credits \$4.4 million; and shareholders' equity \$121.7 million, which consists of capital stock \$48.9 million; capital surplus \$21,425 and retained income \$72.8 million.

T&P's income statement for the year 1968 shows total railway operating revenues \$79.9 million with total railway operating expenses \$63.5 million, resulting in an operating ratio of 79.53 percent. Net railway operating income \$6.5 million plus income (net) from other than railway operations aggregated \$10.7 million which was available for payment of fixed charges of \$4.9 million for 1968. Net income after fixed charges and other deductions amounted to \$5.8 million. For the year 1968, T&P generated sufficient funds from net income alone to service its long-term debt due within one year, and its ratio of total debt to combined total debt and shareholders' equity of 50.2 percent was good. As of December 31, 1968, its financial position was sound.

Table 133 following, represents T&P's results of operations for the five year period 1964-1968. Texas & Pacific's efficient operations, for that period, have resulted in a favorable operating ratio which averaged 78.71 percent. Historically for the five year period, its earnings have been sufficient to meet its fixed charges and service its long-term debt due within one year, and its ratio of total debt to combined total debt and stockholders' equity averaged 45.5 percent which is good.

Additionally, the record discloses that T&P's dividend payments aggregated more than \$10 million over the five year period discussed. Based on the aforementioned financial data the T&P is a financially sound carrier.

Table 133

T&P INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$70,919	\$54,343	\$6,035	\$ 8,359	\$5,694	76.63
1965	71,802	57,286	5,731	6,911	4,071	79.78
1966	74,602	58,917	5,004	6,493	3,465	78.98
1967	74,030	58,236	5,296	8,894	4,982	78.67
1968	79,870	63,519	6,534	10,729	5,825	79.53

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirements (000)	Working Capital Ratio
1964	\$12,353	\$13,529	\$ (176)	\$49,735	\$4,145	--
1965	15,112	12,870	2,242	52,373	4,364	1.2
1966	19,587	15,972	3,615	53,751	4,479	1.2
1967	18,763	17,911	852	52,814	4,401	1.0
1968	19,395	20,969	(1,574)	57,370	4,781	--

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
<u>TOTAL DEBT</u>	\$ 76,203	- 41.4	\$ 81,002	- 42	\$ 92,451	- 44.5	\$115,423	- 49.6	\$122,950	- 50.2
<u>STOCKHOLDERS' EQUITY</u>	107,953	- 58.6	111,998	- 58	115,322	- 55.5	117,140	- 50.4	121,748	- 49.8
<u>TOTAL</u>	\$184,156	-100	\$193,000	-100	\$207,773	-100	\$232,563	-100	\$244,698	-100

Preliminary Findings and Conclusions

The record establishes beyond doubt that the MoPac and T&P operate as one. In addition, with control of Chicago & Eastern Illinois, MoPac has gained access to the Chicago gateway through connections with the newly acquired carrier in the St. Louis area and in southern Illinois. As a result, the MoPac and its affiliates now have the capability of offering single-system service from Chicago (1) west through the central corridor to Pueblo; (2) southwest through the southern corridor to El Paso; and (3) south to New Orleans and Gulf ports west thereof and Mexico. The system also has routes lying wholly within the southern corridor from Memphis and New Orleans west to El Paso through Houston, Dallas and Fort Worth. Finally, the system provides service from the Missouri River gateways and Denver southeast to Memphis and New Orleans.

It is evident that the system operates a complex of interwoven routes, many of which handle heavy density freight traffic, particularly into and out of St. Louis. MoPac's interchanges in the St. Louis area total over 400,000 cars (based on 1966 data), thus ranking this gateway for MoPac in the same volume category as Union Pacific's total interchanges in the Omaha area (see Table 24). There are, in fact, very few other gateways in the Western District including Chicago, at which any one of the carriers actively participating in these proceedings interchanged anywhere near the MoPac's interchange volume in the St. Louis area.

The MoPac system, exclusive of T&P, in operations over such system lines principally hauls traffic (1) between Kansas City and St. Louis, on the one hand, and Texas and Louisiana points on the other hand; and (2) between Pueblo and Kansas City (and points east and south thereof). In conjunction with Texas and Pacific, the MoPac is an important participant in traffic moving between El Paso and other points in Texas, on the one hand, and, on the other hand, the New Orleans, Memphis and St. Louis gateways. Carloads interchanged by MoPac at the Pueblo gateway with Rio Grande are roughly two times the number interchanged by Texas & Pacific with Southern Pacific at El Paso. The major share of traffic interchanged at St. Louis, Memphis and New Orleans consists of cars moving to or from Eastern and/or Southern District carriers.

MoPac originates and terminates substantial amounts of local traffic at Kansas City, St. Louis, Little Rock, Houston, Baton Rouge, New Orleans, and points in southern Illinois. Interline traffic originations and terminations

are heavily concentrated at Kansas City, St. Louis, Pea Ridge, Mo., New Orleans, Little Rock, Memphis, and at several points, mainly Houston, in Texas. Texas & Pacific, with over forty percent of its traffic comprised of bridge movements, originates or terminates most of its remaining traffic at New Orleans and points in Texas.

Again with reference to MoPac alone, about 75 percent of the traffic handled by the carrier consists of interline movements, the bulk of which originates or terminates on the MoPac. Also considering MoPac's local traffic, it is apparent that the carrier can be described as an originating and terminating carrier, particularly with respect to traffic moving generally between northern and southern points on the MoPac-T&P system. For transcontinental traffic, however, the system is in much the same position as Rock Island, North Western and Rio Grande, among others, since participation in such traffic is limited to serving as a bridge carrier. At the same time, the MoPac, T&P, C&EI and other affiliated carriers viewed as a single system have an extremely advantageous situation in that all major Eastern and Southern District gateways from Chicago to New Orleans, inclusive, are served by one or more of the carriers comprising the system.

Although both MoPac and T&P have enjoyed profitable operations, have been efficiently operated, and have invested in substantial amounts of new equipment and modern facilities, MoPac, the parent carrier company, must operate with a long-term debt burden which absorbs over half of its earnings in fixed charges and contingent interest. Obviously, any prolonged decrease in earnings below the level necessary to meet these recurring charges would seriously jeopardize MoPac's financial wellbeing and the ability of the carrier and its affiliates, as presently organized and operated, both corporately and geographically, to continue to provide their collective present level of service to the public.

FRISCOCorporate History and Organization

The Frisco was incorporated in Missouri on August 24, 1916, succeeding as of November 1, 1916, to the properties of the St. Louis and San Francisco Railroad Company which had been sold at foreclosure pursuant to a plan of reorganization. A historical discussion of the various carriers making up the Frisco lines is detailed in St. Louis and San Francisco Railroad Investigation, 29 I.C.C. 139 and Acquisition By St.L.-S.F. Ry., 145 I.C.C. 110.

Subsidiaries and Affiliates

Frisco owns all of the capital stock of the Alabama, Tennessee and Northern Railroad Company (AT&N) and the Quanah, Acme and Pacific Railway Company (QA&P), short line railroads operating in Alabama and Texas, respectively. Other wholly-owned carrier subsidiaries are the Frisco Transportation Company, a motor carrier which operates a service auxiliary to the rail service of its parent, and the Birmingham Belt Railway Company and the Tulsa Union Depot Company, which perform terminal and switching services. Frisco owns fractional interests not exceeding 33.3 percent in a number of terminal and switching companies.

As of December 31, 1968, the Frisco had outstanding 2,595,549 shares of common capital stock, of which Illinois Central Industries held 147,000 shares (5.7 percent).

Scope of Operations, Plant and Equipment

Frisco and its subsidiaries operated 4,911 miles of road at the close of 1968, comprised of 4,825 miles owned by it, 66 miles operated under trackage rights and 20 miles operated under lease or contract. Of the mileage owned, 3,570 miles are classified as main line and 1,255 as branch line. Mileage totals for the nine States served are: Oklahoma-1,404; Missouri-1,379; Kansas-599; Alabama-560 (including 214 miles operated by AT&N); Arkansas-460; Texas-263 (including 120 miles operated by the QA&P); Mississippi-180; Florida-48 and Tennessee-18.

Frisco's principal lines radiate from Kansas City and St. Louis (1) to Birmingham, Mobile (via AT&N line between Aliceville and Mobile, Ala.), and Pensacola, Fla. (a) from Kansas City through Fort Scott and Gold, Mo. (also Osceola, Mo.), and Springfield, Mo., and Memphis, and (b) from St. Louis through Cape Girardeau, Mo., and Memphis; (2) to Fort Worth-Dallas (a) from

Kansas City through Fort Scott, and Tulsa, and (b) from St. Louis through Springfield, and Monett, Mo., and Tulsa; and (3) to Floydada from Tulsa through Oklahoma City (includes QA&P line from Quanah to Floydada). It also operates over route segments from Ellsworth, Kans., to Paris, Tex., through Monett; from Avard, Okla., to Tulsa, through Enid, Okla.; from Beaumont, Kans., to Davidson, Tex., through Enid and Snyder, Tex. (the latter a point on the Floydada route); and from Ardmore, Tex., to Hope, Ark.

As of December 31, 1968, Frisco and its subsidiaries operated a total of 17,442 freight cars and 412 diesel locomotive units.

Freight Traffic: Volume and Commodity Characteristics

Frisco's freight traffic showed consistent improvement over the 1964-1968 period. Revenue tonnage increased from 29.8 million to 34.6 million tons, and freight revenue increased from \$122.1 million to \$154.4 million, comparing 1964 to 1968. The number of carloads handled during the period ranged between the low of 767,542 in 1965 and the high of 812,437 in 1968. Local traffic declined relative to total carloads from 21 to 16 percent, while interline originated cars increased proportionately from 26 to 29 percent. Interline terminated traffic represented 25 to 26 percent and bridge traffic from 28 to 29 percent of the total over the entire period.

It is unnecessary to detail the commodity consist of freight hauled by Frisco over the years. In 1966 the following eight commodities accounted for slightly over 72 percent of gross freight revenue (including l.c.l. traffic):

<u>Commodity</u>	<u>Percent of Gross Freight Revenue</u>
Farm Products	13.4
Food & Kindred Products	11.1
Pulp, Paper & Products	9.5
Stone, Clay & Glass Products	9.4
Primary Metal Products	8.6
Lumber & Products	7.1
Transportation Equipment	6.7
Chemicals	6.3

Freight Traffic: Interchanges and Traffic Flow

The traffic density over Frisco's main lines is shown below in terms of gross ton-miles per mile of road for the year 1966:

<u>Route Segment(s)</u>	<u>Eastbound</u>	<u>Westbound</u>
Kansas City-Fort Scott	9.2	7.3
Fort Scott-Springfield	6.4	4.7
St. Louis-Springfield	4.5	5.3
Springfield-Memphis	7.6-7.8	6.9-7.0
Memphis-Amory-Birmingham	9.1-9.5	7.3-8.9
Amory-Mobile	1.7-1.9	2.2-2.8
Springfield-Monett-Afton-Tulsa	6.5-8.8	8.0-9.6
Fort Scott-Afton	2.7	3.3
Tulsa-Sherman	3.3-4.4	5.5-5.9
Sherman-Fort Worth	1.5	2.8
Tulsa-Oklahoma City	2.3	3.3
Oklahoma City-Quanah	1.3	2.0
Quanah-Floydada	.9	1.6

The above data and underlying record indicate that most of Frisco's traffic moves between Kansas City and Birmingham and between St. Louis and Tulsa, and to a lesser extent, between Kansas City and Tulsa; St. Louis and Memphis; Tulsa and Sherman, Tex. (approximately 100 miles north of Fort Worth); and Amory and Mobile. The QA&P route from Quanah to Floydada (density shown above) and the routes between (1) Monett and Wichita, (2) Monett and Fort Smith, (3) Ardmore and Hope, (4) Tulsa and Enid, and (5) Kansas City and Springfield via Osceola, and at least a portion of the line into Pensacola, each had densities of 1.6 to 3.5 million gross ton-miles per mile of road (total of both directions). The remaining lines not discussed each had total densities of less than .5 million gross ton-miles. Overall, traffic moving between Kansas City and Birmingham is heavier eastbound, while traffic between St. Louis and the cities of Tulsa, Floydada and Fort Worth is heavier westbound. The St. Louis-Memphis route handles almost evenly balanced traffic.

Frisco's interchange evidence is restricted to major interchanges with Union Pacific, Southern Pacific-Cotton Belt, North Western (including Great Western), Rock Island, Milwaukee, and Santa Fe, based on movements for the year 1966. The evidence is summarized in the table below (Great Western shown as North Western at Kansas City):

Table 134

FRISCO INTERCHANGES (1966) WITH UP, RI, SP, SLSW,
C&NW, AT&SF AND MILW

Frisco Station	Connecting Carrier	Carloads		
		Delivered	Received	Total
Kansas City	UP	27,870	47,513	75,383
	RI	8,363	9,261	17,624
	AT&SF	10,365	14,061	24,426
	C&NW	5,213	5,138	10,351
	MILW	5,001	7,905	12,907
St. Louis	C&NW	4,800	6,384	11,184
Fredonia & Cherryvale, Kans.	AT&SF	3,940	12,716	16,656
Avard, Okla.	AT&SF	1,625	347	1,972
Floydada	AT&SF	29,606	7,177	36,783
Sherman, Denison, & Paris, Tex.	SP	14,372	9,390	23,762
	SLSW	2,976	1,616	4,592
Dallas-Fort Worth	SP	3,246	1,504	4,750
Jonesboro, Ark.	SLSW	1,519	1,723	3,242
Memphis	RI	9,631	8,352	17,983
	SLSW	5,995	6,873	12,868

Frisco interchanges traffic with Union Pacific at Kansas City and at Ellsworth, Kans. The evidence shows only the interchange at Kansas City, which is the Frisco's largest with an individual carrier. In 1966, the Frisco and Union Pacific interchanged 75,383 cars at Kansas City, or 11.7 percent of Frisco's total inter-line carloads handled during the year (643,001 cars). Of the 47,513 cars Frisco received from the Union Pacific, 17,058 were bridge movements turned over to connections at Birmingham, 4,940 were bridge movements to connections at Memphis, and 1,333 were bridged to other carriers at St. Louis. In the reverse direction, of the 27,870 cars Frisco delivered to Union Pacific at Kansas City, 6,130 were received by Frisco at Birmingham, 5,069 at Memphis, and 1,380 at St. Louis. In short, about 48 percent of the cars interchanged with Union Pacific at Kansas City were bridge movements over Frisco, mostly to and from connections and points in the Southeast.

The Frisco and Santa Fe interchange at Kansas City is slightly less than one-third as great in volume as that between Frisco and Union Pacific. Of the 14,061 cars Frisco received from Santa Fe, Frisco delivered 3,811 to its connections at Birmingham, 1,483 at Memphis, and 509 at St. Louis. Of the 10,365 cars delivered to Santa Fe at Kansas City, the Frisco had hauled 2,751 from Birmingham, 2,329 from Memphis, and 626 from St. Louis as bridge movements between the latter three points and Kansas City. Of the 55,411 cars interchanged with Santa Fe at Fredonia, Cherryvale, Avard, and Floydada (shown separately in Table 134), 10,312 cars were bridged by Frisco to and from connections at Birmingham, and in similar movements, 14,387 at Memphis, and 4,626 at St. Louis. With reference to the Floydada interchange alone, 24,191 of the 36,783 cars interchanged between Frisco and Santa Fe at that point were bridged by the Frisco to and from Birmingham, Memphis and St. Louis. The total of the carloads interchanged with Santa Fe at the six points shown in Table 134 represented somewhat over 12 percent of Frisco's total interline carloads for 1966.

The Frisco interchanges shown in the table with North Western at Kansas City (actually the former Great Western in 1966) and at St. Louis represented 1.6 and 1.7 percent of Frisco's interline carloads, and the interchange with Milwaukee at Kansas City amounted to 2.0 percent.

Frisco and Rock Island interchange a substantial number of cars at Kansas City (17,624) and at Memphis (17,983), representing 2.7 and 2.8 percent of Frisco's interline carloads, respectively. The evidence does not disclose the proportion of the Frisco-Rock Island cars which moved as bridge traffic over Frisco.

The largest interchange with Southern Pacific is at Sherman, where 23,196 cars or 3.7 percent of Frisco's interline carloads were interchanged. Of this number, 4,622 were bridge cars interchanged between Frisco and its connections at Kansas City. Kansas City was the origin of 202 and the destination of 326 of the cars interchanged with Southern Pacific at Sherman. (Sherman is shown in Table 134 grouped with Denison and Paris). Of the 28,512 cars interchanged with Southern Pacific at the five Texas points shown in the table, including Sherman, 5,937 cars were originated or terminated or interchanged in Kansas City.

The largest number of cars Frisco interchanged with Cotton Belt were interchanged at Memphis (12,868 cars). Principally, this traffic moves over Frisco lines east of Memphis, although the exact amount is not of record.

Table 134 indicates that at Kansas City the Frisco receives far more traffic from Union Pacific than it delivers to Union Pacific. The second largest interchange, with Santa Fe at Floydada, involves deliveries to Santa Fe more than four times as large as receipts. Most of the other interchanges are more closely balanced. This analysis and the underlying evidence have been limited to the largest Frisco interchanges with the applicants and the Milwaukee. Frisco and these carriers have many other points of interchange, e.g., with Santa Fe, there are over 30 points in addition to those discussed here.

Financial Status of Frisco

Frisco's general balance sheet reported in its Annual Report Form A, to the Commission as of December 31, 1968, shows total assets aggregating \$443.3 million, comprised of current assets \$41.4 million, including, among others, cash \$1.3 million and temporary cash investments \$14.5 million; special funds \$1.4 million; investments \$15.1 million including investments in affiliated companies \$14.5 million and other investments \$625,771; total properties less depreciation and amortization \$381.7 million and other assets and deferred charges \$3.6 million. Liabilities and shareholders' equity are comprised of current liabilities \$30.4 million, including audited accounts and wages payable \$3.7 million and accrued taxes \$4.7 million; long-term debt \$193.6 million including \$8.8 million due within one year; reserves \$690,381 and liabilities and deferred credits \$1.9 million; and shareholders' equity \$216.6 million, which consists of capital stock \$113.6 million, capital surplus \$17.1 million and retained income \$85.9 million.

Frisco's income statement for the year 1968 shows total railway operating revenues \$161 million, with total railway operating expenses \$117.6 million, resulting in an operating ratio of 73 percent. Net railway operating income \$18.6 million plus income (net) from other than railway operations aggregated \$21.9 million which was available for payment of fixed charges of \$7.9 million for 1968. Net income after fixed charges and other deductions amounted to \$12.5 million, which is more than sufficient to service its long-term debt due within one year of \$8.8 million. Frisco's favorable operating efficiency is reflected in its operating ratio of 73 percent for the year 1968; its ratio of total debt to combined total debt and shareholders' equity of 51 percent was good. As of December 31, 1968, Frisco's financial posture was good.

Table 135 following, shows Frisco's results of operations for the five year period 1964-1968. For that period of time its operating ratio averaged about 75 percent; current assets exceeded current liabilities to the extent that its working capital was sufficient for conducting orderly operations and Frisco's total debt trend for that period, based on a ratio of total debt to combined total debt and stockholders' equity did not exceed an average of 51 percent. Funds were available to service its long-term debt due within one year from net income alone without using any funds generated by charges to depreciation, and it has had no difficulty in meeting its fixed charges. Furthermore, the Frisco has paid its stockholders more than \$25 million in dividends for the five year period discussed.

The foregoing financial data reflect the position of a financially sound carrier.

Table 135

FRISCO INCOME TREND 1964-1968

Year	Total Operating Revenues (000)	Total Operating Expenses (000)	Net Railway Operating Income (000)	Income Available For Fixed Charges (000)	Net Income After Fixed Charges and Other Deductions (000)	Operating Ratio
1964	\$132,740	\$103,825	\$12,178	\$14,460	\$ 6,093	78.22
1965	140,635	105,296	16,325	23,501	15,660	74.87
1966	143,610	104,835	17,529	19,652	11,713	73.00
1967	147,029	108,734	16,922	19,902	11,551	73.95
1968	161,040	117,558	18,650	21,940	12,528	73.00

WORKING CAPITAL

Year	Total Current Assets (000)	Total Current Liabilities (000)	Working Capital (000)	Total Operating Expenses Less Depreciation (000)	Monthly Average Working Capital Requirement (000)	Working Capital Ratio
1964	\$44,844	\$30,550	\$14,294	\$ 94,406	\$7,867	1.5
1965	35,641	25,545	10,096	95,087	7,924	1.4
1966	36,846	27,339	9,507	94,129	7,844	1.3
1967	37,235	26,323	10,912	98,678	8,223	1.3
1968	41,441	30,397	11,044	107,051	8,921	1.4

RATIO OF TOTAL DEBT TO TOTAL DEBT & STOCKHOLDERS' EQUITY

	1964 (000)	- %	1965 (000)	- %	1966 (000)	- %	1967 (000)	- %	1968 (000)	- %
TOTAL DEBT	\$221,301	- 55	\$193,058	- 49	\$206,057	- 50	\$212,949	- 50	\$226,668	- 51
STOCKHOLDERS' EQUITY	178,975	- 45	202,878	- 51	203,171	- 50	211,168	- 50	216,593	- 49
TOTAL	\$400,276	-100	\$395,936	-100	\$409,228	-100	\$424,117	-100	\$443,261	-100

Preliminary Findings and Conclusions

The Frisco has enjoyed increasing freight traffic (the carrier provides no passenger service) in terms of tonnage and revenue. Almost one-fourth of its gross freight revenue is derived from the movement of agricultural traffic and food and food products. Almost 50 percent is derived from the transportation of six other commodity groups most of which are manufactured products.

Frisco is primarily an interline carrier: in 1968 only 16 percent of its carload traffic was local, while bridge and interline originated traffic represented 29 percent each, and interline cars terminated made up the remaining 26 percent. The carrier's competitive strength with respect to interline business is the result of the strategic location of its lines. Its major eastern terminals, Birmingham, Mobile, and Pensacola, lie deep in the Southern District; its major western terminals lie deep in the Western District (Floydada, Dallas-Fort Worth, Oklahoma City, and Tulsa); and its major intermediate terminals, Kansas City, Memphis, and St. Louis, are major gateways for traffic moving, variously, between the Western District and both the Eastern and Southern Districts. The Frisco handles a considerable volume of traffic over most of the length of its system, from Texas points to and from Birmingham. It handles a substantial amount of traffic moving between the extreme ends of its system and the Kansas City, Memphis, and St. Louis gateways.

Frisco's financial stability can be attributed (1) to efficient management (which has resulted in its ability to satisfy its creditors and stockholders), and (2) its strategically located routes which permit participation in substantial amounts of traffic moving within and between the Western and Southern Districts and to and from the St. Louis gateway to the Eastern District.

PART C: POSITION OF THE PARTIES

The discussion of the various preliminary matters will now afford a comprehensive understanding of the positions of the parties, and in particular the carrier parties. Further clarity will be achieved by first discussing intervening and opposing carriers to the several applications followed by applicants' positions.

It is noted that the conditions or affirmative relief requested in some of the carriers' briefs differs from that requested at the hearing. The changes have caused some carriers to complain. However, it is both the privilege and right of a carrier to modify or even seek new and different conditions or affirmative relief in its brief after it has had the opportunity to review the complete record. In the final analysis, the conditions imposed or affirmative relief granted, whether they be as first requested or later modified or even entirely different as reasoned by the Commission, will be grounded upon the record made and will support the conclusion that only by such imposition may the transaction properly be found consistent with the public interest.

Further, as detailed at pages 11 and 12, the matter of the four-way study is no longer a live issue and unnecessary for disposition herein. It follows that the positions of the parties with respect to the study need not be set forth.

A. Carriers

1. Rio Grande

The Rio Grande opposes both the Union Pacific-Rock Island proposed merger and the application of North Western to acquire control of the Rock Island. Sale of the so-called southern half of the Rock Island lines to either Southern Pacific or Santa Fe would have no effect upon Rio Grande's opposition to the applications of the Union Pacific and North Western. However, in the event either the merger or control application is granted Rio Grande seeks the imposition of various conditions.

Rio Grande requests imposition of conditions which would require the successful applicant to sell (in the case of North Western to cause Rock Island to sell) to the Rio Grande all rights of Rock Island for the use of trackage and other facilities and equipment, and property owned by the Rock Island so that the Rio Grande would have a continuous line between Denver and Colorado Springs, on the one hand, and, on the other, Council Bluffs and Kansas City, including branch lines between Topeka and Atchison, through St. Joseph, between Beatrice and Ruskin, Kans., 3.69 miles of line between Rock Island's

Council Bluffs yard and Rigg Junction,⁴⁵ use of the Rock Island Armourdale Yard at Kansas City, access through the Kansas City Terminal Railway Company to make direct connections with other railroads, and the Rock Island yards at Council Bluffs. Also the sale to Rio Grande of all motor carrier rights of R. I. Motor Transit west of Council Bluffs, St. Joseph, and Kansas City, but excluding rights south of Topeka and Salina.

The conditions set forth immediately above are opposed by the MoPac, Burlington, North Western and to the extent later detailed by the Milwaukee.

The following additional conditions are requested in the event Union Pacific is the successful applicant:

(a) that Union Pacific be required to establish with Rio Grande and maintain through routes and joint rates with Rio Grande and its connections via Ogden and Salt Lake City, Utah, on all traffic⁴⁶ moving via Rio Grande through its Colorado and Utah terminals to

⁴⁵ Rio Grande would acquire a total of 1,127.78 miles of line of which Rock Island owns 924.13 miles and has trackage rights or joint tenancy over 203.65 miles.

⁴⁶ For the purpose of all conditions requested against all applicants, "Rio Grande" shall mean the Rio Grande as presently constituted, its subsidiaries, any and all additional properties that it acquires and all successors in interest. "Union Pacific," "Rock Island," "Southern Pacific," "Chicago and North Western," and "Santa Fe" shall mean each of these companies as presently constituted, their respective subsidiaries and affiliated companies, all additional properties that each may wholly or partly acquire and all successors in interest. The term "all traffic" shall include:

- (1) Freight car traffic, including that moving in specialized equipment, TOFC and container traffic, including so-called "Plan I" and "Plan V" TOFC traffic, unit trains and multiple car shipments, and other transportation services provided now or in the future;
- (2) So-called "Section 22" traffic moving under rates or charges quoted under Section 22 of the I.C.C. Act;

(Footnote 46 cont'd on next page)

and from points on or via the Union Pacific and its connections in the State of Utah north of Ogden, the States of Idaho, Montana, Oregon, Washington, the Province of British Columbia, on the one hand, and Utah common points, Colorado common points or points east thereof, on the other hand. These routes shall include, but not be limited to the route of Union Pacific north of Ogden or Salt Lake City, thence Butte or Silverbow, Mont., and thence the Milwaukee or any successor and its connections beyond Butte -- the reverse route to apply in the opposite direction;

Footnote 46 cont'd from page 425

- (3) So-called "exempt" traffic (traffic on which filing of rates and/or routing and/or publishing of rates or charges and/or routing may not be required now or in the future);
- (4) Traffic moving under new or amended rates or charges (traffic for which or upon which new rates or charges or new service or upon which rates or charges which wholly or partly replace, supersede or alternate with any rate or change class, commodity, or combination which may be established in the future);
- (5) Traffic requiring transit, terminal or similar privilege as it relates to or is included in general or specific tariff routes;
- (6) Traffic originated or terminated at stations, trackage or industrial spurs not now in existence, or moving via trackage or junctions not now in existence;
- (7) Land Bridge traffic, United States Postal Service and Railway Express Agency traffic; and
- (8) All traffic moving under rates or charges applicable as of the date any one or more of the applications involved is approved.

(b) that Union Pacific be required to maintain and join in through routes and joint rates via the Rio Grande and its connections on all traffic to and from points on the Union Pacific and/or Rock Island and their connections or via the Union Pacific, and/or Rock Island and their connections, on a basis equal to the rates applicable via other routes in which Union Pacific and/or Rock Island participates, so that Rio Grande can participate between Utah junctions and points east thereof via Rio Grande and its connections and via routes between any other interchange points on Rio Grande or between any other interchange points and points on Rio Grande between which Union Pacific and/or Rock Island and their connections participate via routes competitive with Rio Grande; and

(c) that Union Pacific be required to conduct operations without discrimination or limitation, including the furnishing of specialized equipment, switching services and maintenance of train installations and schedules; said service to be equal or superior to that presently provided by Union Pacific via other routes in which it participates.

With the sale of the southern Rock Island lines to Southern Pacific, Rio Grande requests that the authority granted be conditioned as follows:

(a) Southern Pacific, as to all traffic moving via Rio Grande and its connections to the geographic extent of routes currently published via Ogden in connection with the Southern Pacific in Transcontinental Freight Bureau Tariff 5-B, I.C.C. 1674 (1962) (but not limited to traffic subject to this tariff), on a basis no less favorable than via other routes participated in by Southern Pacific, shall:

- (1) Maintain and keep open all routes and channels of trade;
- (2) Join in any rates and routes in which Southern Pacific participates competitive with Rio Grande, to the extent other carriers required to make up the joint rate and through route are willing to or required to join now or in the future;

- (3) Join in any new rates and routes which may be established in the future;
- (4) Continue to publish or concur in publications of rates and charges on traffic described above;
- (5) Join in new rates and routes which may be established in the future via Portland and/or other Northwest interchange points with the Chicago, Milwaukee, St. Paul and Pacific, Great Northern, Northern Pacific (and their successors), to the extent that the Milwaukee, Great Northern or Northern Pacific (and their successors), or any one of them concur in or are required by the Commission to join in such routes;

Southern Pacific shall not be responsible for providing concurrences of other carriers required to make up the joint rate and through route but shall use its best efforts to obtain such concurrences.

(b) On all traffic Southern Pacific shall provide no less favorable treatment and service for Rio Grande and its connections than treatment and services provided for the Union Pacific and/or other carriers competitive to Rio Grande. The term "treatment and service" as used herein shall mean all activity including but not limited to:

- (1) Promptness and frequency of service, including switching and terminal service;
- (2) Routing, traffic solicitation and movement of traffic;
- (3) Arrangement and maintenance of schedules and service;
- (4) Furnishing equipment including specialized equipment;
- (5) Maintenance of train installations;
- (6) Establishment and maintenance of rates and routing;

- (7) Establishment of service and interchange arrangements including schedules, without discrimination against Rio Grande and on a basis no less favorable than those provided for Rio Grande's competitors.
- (8) Routing and rates as follows:
 - (a) Maintain and keep open all routes and channels of trade;
 - (b) Join in any routes and rates in which Southern Pacific participates with Rio Grande's competitors, to the extent other carriers required to make up the through route and joint rate will be or are required to join now or in the future;
 - (c) Join in any new routes and rates which may be established in the future and concur in publications of rates and charges on traffic described above.

Additional conditions in the event of a North Western control are:

(a) that the applicant be required to establish and maintain through routes and joint rates via Rio Grande and its connections on all traffic to and from points on the North Western and/or Rock Island and their connections or via North Western and/or Rock Island and their connections on a basis equal to the rates applicable via other routes in which North Western and/or Rock Island participate;

(b) (This section contains provisions similar to those set forth above for the Union Pacific under section (c).)

(c) on all traffic applicant shall provide no less favorable treatment and service for Rio Grande and its connections than treatment and service provided for carriers competitive to Rio Grande. ("Treatment and service" is as defined for the Southern Pacific under (b)(1), (2), (3), (4), (5), and (6).)

In the event of an approval of the Santa Fe application or request for inclusion, the Rio Grande seeks the imposition of conditions which provide that Santa Fe, as to all traffic moving via Rio Grande and its connections on a basis no less favorable than via other routes participated in by Santa Fe, shall comply with such conditions as were set forth for the Southern Pacific under (a)(1), (2), (3) and (4) above, and similar conditions as were set forth for the Southern Pacific under (b)(1), (2), (3), (4), (5) and (6) above.

As stated previously, Union Pacific and Southern Pacific each own a 50 percent interest in PFE. In its brief, Rio Grande contends that the Union Pacific influences the long-haul over its own lines of movements in PFE refrigerator equipment and which equipment is partly owned and loaded by Southern Pacific. It is not clear whether Southern Pacific is being accused of being a party to such action. However, the evidence relating to the question will be detailed later. For purposes of the discussion of the matter here at hand, Rio Grande as another of its conditions requests that either the joint venture (joint ownership in PFE) and intermingling of interests should be terminated to end Union Pacific influence over Southern Pacific equipment or Union Pacific, Southern Pacific, and PFE should be required to observe strict neutrality in the solicitation and routing of PFE equipment.

In the event of approval of any of the proposed transactions, Rio Grande requests imposition of two conditions covering Commission reservation of jurisdiction as detailed below:

1. Any party or any person having an interest in the subject matter may at any future time make application for such modification of the conditions prescribed herein or any of them, as may be required in the public interest and jurisdiction is retained to reopen the proceeding for such purpose. Jurisdiction is also reserved for the Commission to reopen the proceeding for such purpose on its own motion.

2. The Commission shall retain jurisdiction over these proceedings following consummation of the transactions herein authorized for the purpose, among others, of considering petitions under Section 5(2)(d) of the Act by any railroad in the territory involved, requesting inclusion in the merger so authorized. The Commission shall also retain jurisdiction over these proceedings following consummation of the transactions herein authorized to impose such

just and reasonable conditions including but not limited to the granting of trackage and/or trackage rights by the merged company to another railroad or railroads in the territory involved, to alleviate any competitive impact, upon the petition by any party in interest, or on its own motion, after hearing, as may be necessitated by any cumulative or cross-over problem stemming from approval of this merger and/or any other transaction authorized under Section 5 with respect to the territory involved. Consummation of the transactions herein authorized shall constitute irrevocable assent by the applicant(s) to the power of this Commission to impose, after hearing, such just and reasonable conditions as may be necessary or appropriate.

2. Great Northern and SP&S
3. Northern Pacific
4. Burlington
5. FW&D and C&S

Each of the six carriers named above opposes both the Union Pacific-Rock Island merger and the North Western control transactions. In the event of Commission approval of any of the applications the relief sought by the various opposing carriers is set forth below. For the four carriers first named immediately above, all of the following requested conditions relate solely to the proposed Union Pacific-Rock Island merger, except where specific reference is made to also include the North Western control application.

(1) Both the Great Northern (its condition No. 1) and the Northern Pacific (its condition No. 4) request that the Union Pacific be required to grant each of them full joint and equal use of Union Pacific's line south of Seattle between Black River Junction and the north city limits of Auburn, Wash., known as South 288th Street, a distance of about 10.3 miles, with unlimited access to industries located on

the Union Pacific trackage in the described area, upon reasonable agreed terms or as prescribed by the Commission. In the event the Union Pacific may not grant such use because of limitations on its ownership, Great Northern and Northern Pacific request that Union Pacific be required to publish reasonable switching rates to all industries in the described area.

(2) The SP&S as part of the relief sought by its parent lines, the Great Northern (its condition No. 2) and Northern Pacific (its condition No. 6), requests that Union Pacific be required to admit the requesting lines to the full, equal, and joint use of all track facilities necessary to serve all industries in that part of the Portland terminal known as the St. John's district lying westerly of the SP&S main line, north of the Willamette River and south of the Columbia River Slough. To effectuate the foregoing condition, Union Pacific would be required to amend a trackage right agreement dated October 6, 1921 so that the present agreement which is limited to certain specified traffic of the requesting lines would be extended to embrace all of their traffic moving to or from the St. John's district.

(3) Great Northern requests (its condition No. 3) that Union Pacific, through its wholly owned subsidiary Spokane International, be required to grant Great Northern trackage rights for the service of industries located on Spokane International lines east of Spokane at Irvin, Trentwood, and Velox, Wash.⁴⁷

Construction of certain connections, later detailed, would be necessary to fully effectuate condition (3) above. Also, the Northern Pacific opposes condition (3). Great Northern agrees that the need for condition (3) would be eliminated by the consummation of the authority granted in the Northern Lines case, subsequently effected as detailed in Part B.

⁴⁷ Irvin is situated about 6½ miles east of Spokane and the Trentwood-Velox area about 2 miles farther east. Irvin, Trentwood and Velox are also served by the Northern Pacific.

(4) Great Northern (its condition No. 4) and Northern Pacific (its condition No. 5), request that Union Pacific be required to include within the switching limits of Portland the stations of Fir Station, Rockwood, and Troutdale, Oreg.

(5) Great Northern (its condition No. 5) as to the Union Pacific only, and Northern Pacific (its condition No. 1) as to both the Union Pacific and North Western, should be required to include in its switching tariff at St. Paul all industries on the acquired Rock Island lines from St. Paul to the southern limits of Inver Grove, including Inver Grove, and St. Paul Park (Northern Pacific also would include the Northwestern Refining Company, an industry located on the east bank of the Mississippi River at St. Paul Park). The acquiring line would be required to publish and maintain reasonable charges for the switching of such industries, subject to absorption by the Northern Pacific and Great Northern in accordance with usual St. Paul switching practices.

(6) Great Northern (its condition No. 6) and Northern Pacific (its condition No. 7) request that in the event of an approval of any of the transactions the so-called Standard Traffic Conditions (imposed in the DT&I case) be clarified.

The Great Northern and Northern Pacific presented oral and documentary evidence (including Exhibits Nos. 305, 306, 310, and 311) bearing upon the requested changes in traffic conditions and the reasons therefor. However, a number of other carrier parties have presented evidence bearing upon their proposed modification of the standard traffic conditions, there being differences in various respects among the proposals. Later, all parties' proposals will be discussed and traffic conditions will be set forth by the examiner which are appropriate to the authority recommended.

(7) Northern Pacific (its conditions Nos. 2 and 3) requests that the Union Pacific be required to grant to its joint facility rights to operate with its own power and crews (a) between Wallace and Silver King, Idaho, a distance of $14\frac{1}{2}$ miles, and (b) over the lines of Spokane International, from a track connection at Sandpoint, Idaho to the interchange point between Spokane International and Canadian Pacific at Eastport, Idaho, a distance of 66 miles; serving all industries, including under (a) those located at Kellogg and Bradley, Idaho.

As stated at the outset, the Burlington opposes both of the basic proposals. Its opposition is unqualified; i.e., it is of the view that no conditions are feasible or might be proposed which would protect the Burlington from the impact of either the merger or control transactions.

While the FW&D and C&S oppose both the merger and control applications, their joint request for conditions apply to sales of certain of the so-called southern portion of the Rock Island.

(A) In the event the Rock Island properties in Texas are acquired by Southern Pacific, the latter should be required to:

(1) Convey to FW&D all of the other one-half ownership of Rock Island in the former Burlington-Rock Island Railroad properties (extending between Waxahachie and Houston, Tex., including the branch line from Teague to Mexia)⁴⁸ for a price equal to the investment in said properties shown on the books of the Rock Island. Such conveyance should also include an assignment of the rights and obligations under related joint facility or trackage agreements.⁴⁹

⁴⁸See: Fort Worth & D. Ry. and C., R.I.&P.R. Joint Ownership, 324 I.C.C. 561.

⁴⁹Lease of properties of the former Burlington-Rock Island Railroad Company to FW&D and Rock Island, dated January 1, 1951; operating agreement between FW&D and Rock Island, dated June 20, 1951 and effective June 1, 1950; contract between Rock Island and the other proprietary companies and HB&T dated November 15, 1948; contract between Rock Island and Galveston Terminal dated March 1, 1938; and joint facility agreement between FW&D and Rock Island, on the one hand, and Katy on the other, dated December 30, 1930.

(2) Transfer the stock of Houston Belt and Terminal now owned by Rock Island to Fort Worth and Denver for an amount equal to the investment in said stock shown on the books of Rock Island; and

(3) Grant to the FW&D continuous trackage rights over the Rock Island tracks between Fort Worth and Dallas, which are now being used by FW&D, for a charge of \$1.75 per train mile, subject to adjustment as costs change, such trackage agreement to provide:

- a. FW&D shall have an unobstructed track for operation through the present Rock Island Peach Street Yard in Fort Worth;
- b. FW&D shall continue to have the unrestricted right to interchange with the Frisco at Irving (near Dallas); to pick up and set out cars at the Cadiz Street Yard of Rock Island (at Dallas); and Cotton Belt shall continue to perform switching for FW&D at Dallas on the present basis;
- c. FW&D shall have the right to serve industries on the Rock Island line between Fort Worth and Dallas now used by FW&D, and to interchange traffic with other railroads now interchanging with the Rock Island in that territory.

(B) In the event the Rock Island properties in Texas are acquired by the Santa Fe, the conditions imposed should require that:

(1) All expenses of operations over the former Burlington-Rock Island properties, now divided on a use basis, shall be borne not less than 50 percent by Santa Fe, and

(2) the same conditions outlined in paragraphs (2) and (3) immediately set forth above, except of course, that portion of 3(b) which refers to the Cotton Belt would not apply to the Santa Fe.

The T&P opposes the affirmative relief requested by the FW&D to the extent the latter would be permitted to serve new areas in the Dallas-Fort Worth center including Great Southwest Industrial District.

6. MN&S

The MN&S supports the proposed Union Pacific-Rock Island merger and opposes the North Western application for control of the Rock Island. In the event of an approval of the North Western control, MN&S seeks the imposition of a number of conditions. Its condition No. 1 which the examiners rejected and the reasons for the rejection were previously discussed in complete detail under the heading of "Preliminary Procedural Issues." Other conditions (in accordance with MN&S' numbering system) follow:

(2a) MN&S should be allowed to route south-bound traffic over either the former Great Western line, via Randolph, or the Rock Island or Milwaukee lines, via Northfield, so as to obtain for its traffic the same speed, frequency and dependability made available by North Western for its own traffic. The North Western traffic diverted to Rock Island at a level consistent with schedules set up for traffic via Rock Island.

(2b) North Western should be required to continue all freight train operations in connection with MN&S without discrimination or limitation, including the maintenance of train via Northfield and/or Randolph, Minn., equal or superior to service previously provided MN&S by Rock Island and former Great Western via these points and to service afforded by North Western for its own traffic. Additionally,

(a) All train service to and from the Twin Cities over the lines of the **former** Great Western and Rock Island should be required to provide service at Northfield and Randolph for the purpose of interchanging cars with MN&S;

(b) North Western shall not delay northbound MN&S traffic to be interchanged at Northfield or Randolph by routing such traffic over circuitous or otherwise unsatisfactory routings, by carrying such traffic past Northfield or Randolph or setting such traffic out short of these points, whether because scheduled trains operate late or have an excess of cars or for other reasons, or by interchange with MN&S either directly or through an intermediate carrier unless pursuant to specific shipper designation;

(c) All northbound traffic as to which MN&S is in the routing shall be interchanged at Northfield or Randolph without a back-haul from the Twin Cities to accomplish such interchange.

(3) North Western should be required to provide MN&S with advance information on all loaded cars which include MN&S in their routing as such cars enter the North Western system yards or interchange points. Such advance information should include initial, number, route, final destination, time, date, and location received by North Western and should show the train numbers on which the car will move and the expected arrival time at Northfield or Randolph.

(4) North Western should be required to make available interchange tracks in the Twin Cities to provide direct interchange between MN&S and North Western for switch cars and to provide efficient and reliable service seven days per week, with a minimum of two pickups and/or deliveries per day.

(5) North Western should be required to provide, without cost to MN&S, improved crossing procedure of the present Milwaukee main line at Northfield.

(6) North Western should be required to maintain, without charge to MN&S, track between Northfield and Randolph at standards for forty miles per hour (40 m.p.h.) operation or at a minimum of the standards presently in force.

(7) MN&S should be permitted to use in common with North Western, the connection between MN&S and Great Northern Railway east of Glenwood Junction without charge to MN&S.

(8) North Western should be required to assume MN&S employee protection expenses for all MN&S employees furloughed due to loss of rail traffic as a result of North Western's acquisition of Rock Island.

7. KCS System (see footnote 5)

The KCS opposes all transactions herein proposed unless all of the affirmative conditions it requests are granted:

(A) In the event of an approval of either the Union Pacific-Rock Island merger or North Western control of Rock Island, the successful applicant shall cause to be granted KCS:

(1) Trackage rights over the lines of the Rock Island between Kansas City and Chicago, through Trenton, Mo., Allerton, Fairfield, and Davenport, Iowa, and Joliet, Ill., and between Bureau and Pekin, Ill., with service provided only at Chicago, Peoria, and Pekin; and

(2) Trackage rights over the Rock Island lines, including yards, between Dallas and Fort Worth serving shippers and receivers at Dallas, Fort Worth and those served by the Great Southwest R. R. Inc., with all reciprocities and to interchange traffic with other carriers at Dallas and Fort Worth and with Great Southwest at Great Southwest, Tex., and at such other points where traffic may be interchanged between Rock Island and Great Southwest.

(3) The successful applicant should cause to be sold to KCS all the Rock Island interest in Great Southwest.

(4) The successful applicant shall cause to be conveyed or assigned to KCS the right of the Rock Island to use, in whole or in part, various properties, rights of way, trackage, appurtenances and facilities pursuant to trackage agreements, leases and joint facility and other operating arrangements with other railroads where the same may be convenient or necessary in order to enable Kansas City Southern lines to provide railroad operations and service between and at Kansas City, Mo.-Kans., on the one hand, and Chicago and Peoria-Pekin, Ill., on the other hand, between Peoria-Pekin and Chicago, Ill., and between and at Dallas and Fort Worth, Tex.;

(5) That the Union Pacific or North Western and Rock Island (as may be applicable in the case of the successful applicant) be required to establish and maintain through routes and joint rates and divisions thereof via the Kansas City Southern lines and its connections on all traffic⁵⁰ to and from points on the Union

⁵⁰For the purpose of all KCS conditions requested, KCS means as presently constituted, its subsidiaries and any and all properties it acquires and all successors in interest. Union Pacific, Southern Pacific, Santa Fe and North Western take the meanings as previously set forth in footnote 46.

(Footnote 50 cont'd next page)

Pacific-Rock Island or the North Western and/or Rock Island and their connections or via the Union Pacific-Rock Island or North Western and/or Rock Island and their connections, on a basis equal to the rates and divisions thereof applicable via other routes in which the Union Pacific or the North Western and/or Rock Island participate;

(6) The same as with (5) immediately above with respect to the successful applicant: On all traffic Union Pacific or North Western and/or Rock Island shall provide no less favorable treatment and service for Kansas City Southern Lines and its connections than treatment and service provided for other carriers. The term "treatment and service" as used herein is as previously set forth in Rio Grande's defining of the terms in the conditions requested of the Southern Pacific under items (1), (2), (3), (4), (5) and (7), at pages 428 and 429.

(7) Any party or any person having an interest in the subject matter may at any future time make application for such modification of the conditions prescribed herein or any of them, as may be required in the public interest and jurisdiction is retained to reopen the proceeding for such purpose. Jurisdiction is also reserved for the Commission to reopen the proceeding for such purpose on its own motion.

(8) The Commission shall retain jurisdiction over these proceedings following consummation of the transactions herein authorized for the purpose among others of considering petitions under section 5(2)(d) of the Act by any railroad in the territory involved requesting inclusion in the merger so authorized. The Commission shall also retain jurisdiction over these proceedings following consummation of the transactions herein authorized to impose such just and reasonable conditions including but not limited to the granting of trackage and/or trackage rights by the merged company to another railroad or railroads in the territory

(Footnote 50 cont'd from page 438)

The term "all traffic" similarly is as defined in footnote 46, (1) through (8), inclusive.

involved, to alleviate any competitive impact, upon the petition by any party in interest, or on its own motion, after hearing, as may be necessitated by any cumulative or cross-over problems stemming from approval of this merger and/or any other transaction authorized under section 5 with respect to the territory involved. Consummation of the transactions herein authorized shall constitute irrevocable assent by the applicants to the power of this Commission to impose, after hearing, such just and reasonable conditions as may be necessary or appropriate.

(B) Under an approval of sale of the southern half of the Rock Island to Southern Pacific:

(1) Southern Pacific shall be required to sell to KCS the Southern Pacific line of road, and all appurtenant properties and facilities, between Shreveport and Houston, subject to trackage rights to Southern Pacific; and

(2) Sell to KCS the Rock Island line of road and all appurtenant properties necessary to provide full service, between Dallas and Fort Worth.

(3) Southern Pacific shall assign or convey to KCS all rights under trackage or other agreements so that KCS will be enabled to provide service between Dallas and Fort Worth and Shreveport and Houston.

(4) Also applicable to Southern Pacific would be the same conditions as previously set forth under (A)(5), (6), (7) and (8), immediately above.

(C) Under an approval of sale of the southern half of the Rock Island to Santa Fe, the Santa Fe would be required to sell to KCS:

(1) Santa Fe lines of road, and all appurtenant properties and facilities, from a point of connection at or near Dobbin, Tex., eastward to De Ridder and Oakdale, La., between Silsbee and High Island, Tex., and between Kirbyville and Longview, Tex.;

(2) All of Rock Island's ownership in the line of railroad between Dobbin and Houston, subject to trackage rights to Santa Fe;

(3) The Santa Fe line of road, and appurtenant properties and facilities, between Paris and Dallas, Tex., subject to trackage rights to Santa Fe between Zacba Junction and connection with the tracks of the Union Terminal Co., Dallas;

(4) The Rock Island lines of road, and all appurtenant properties and facilities necessary to conduct the service between Dallas and Fort Worth, subject to through trackage rights to Santa Fe; and

(5) All of Rock Island's ownership and rights over the trackage of Houston Belt & Terminal, Great Southwest, and Union Terminal Co., Dallas.

(6) Santa Fe would be required to convey or assign to KCS the right of Rock Island under trackage rights or other agreements to enable KCS to provide service between Oakdale, Longview, High Island, on the one hand, and, on the other, Houston; between Dallas and Fort Worth; and between Dallas and Paris.

(7) applicable to Santa Fe the same conditions as set forth in (A)(5), (6), (7) and (8) above.

(D) Approvals of any of the proposed transactions should be subjected to the traffic conditions imposed in the DT&I case.

The T&P opposes the affirmative relief requested by the KCS to the extent the latter would be permitted to serve new areas in the Dallas-Fort Worth area, including the Great Southwest Industrial District and the MoPac opposes all of the affirmative relief requested by KCS.

8. Soo

The Soo takes no position with respect to the proposed Union Pacific-Rock Island merger. However, Soo opposes the proposed North Western control of the Rock Island, no matter whether or not the southern half of the Rock Island is acquired by either Santa Fe or Southern Pacific. Early in these proceedings, Soo requested the imposition of seven specific conditions should the North Western control application be approved. However, since then some of the conditions have been effected by conditions for the benefit of the Soo imposed in the merger approved in the report on reconsideration in the Great Western proceeding.

(1) In the Great Western proceeding (condition 1 therein) Soo and North Western agreed to establish a direct interchange at the Minneapolis yards of Railway Transfer Company of Minneapolis and Soo here seeks a like condition so to enable it to conduct a similar interchange with the Rock Island.

(2) North Western would be required to retain the mutual, direct interchange between it and Soo with respect to St. Paul cars at the present "Buckley" interchange located immediately south of Soo's Jessamine Street yard.

The direct Soo-Rock Island interchange at Inver Grove, established under condition 2 in the Great Western proceeding, would be maintained.

(3) Also under condition 2 imposed in the Great Western proceeding, Soo obtained certain trackage rights between a defined point in St. Paul and Roseport, Minn., serving all industries on or along the trackage. In the instant proceeding, Soo seeks rent free trackage between the point of connection (to be constructed) of the North Western and Rock Island trackage at the latter's Inver Grove yard and the end of Rock Island's track at its freight house in St. Paul, and over all connecting industry trackage so as to permit Soo to serve jointly with Rock Island all industries located on such trackage.

(4) Soo requests that the direct interchange between it and North Western at the latter's Wood Street yard, as required in the Great Western proceeding (condition 3 therein) should be extended to include similar interchange between Soo and Rock Island.

(5) This condition dealing with rates to the outer zone of the Chicago switching district was rendered moot by condition 1 in the Great Western proceeding.

(6) In Appendix VI to the initial report in the Great Western proceeding there were imposed certain traffic and operating conditions for the protection of carriers generally. Soo requests imposition of the same conditions should the North Western control application be approved.

(7) Any approval of control of Rock Island by North Western shall be on condition that North Western shall, prior to effectuating control, negotiate in good faith with Soo and grant such operating rights, physical access to industry, coordination or similar rights as may be necessary to neutralize any revenue loss resulting from traffic diversions or increased expenses caused by control of Rock Island by North Western.

To the extent that Soo will not be fully compensated by other conditions imposed on behalf of Soo, the Commission shall make further appropriate provisions requiring North Western to fully indemnify the Soo against any and all damage through traffic diversions or increased expenses attributable to said control.

The Commission shall also retain jurisdiction to receive evidence in the future of any additional damage to Soo attributable to said control and to make appropriate provisions for indemnity.

- 9. T&P
- 10. MoPac

T&P

The T&P opposes both the Union Pacific-Rock Island merger and the North Western control of the Rock Island accompanied in each instance by a sale of the southern Rock Island to either the Southern Pacific or Santa Fe. As indicated at the outset, the proposed Union Pacific merger transaction and purchase of the southern Rock Island by the Southern Pacific are interrelated basic transactions. The supporting details will be later discussed at length in a preliminary statement to the description of the agreements and other documents bearing upon the merger and purchase applications. However, North Western's control application stands alone and apart from the proposed purchase by the Santa Fe of the southern Rock Island. Also, as later detailed, control of the entire Rock Island is the first choice of the North Western, but as to such proposal the T&P takes no position. Presumably, T&P adopts the position of its parent MoPac, i.e., in support of full control, as more fully discussed after the requested conditions of T&P are detailed.

(A) In the event the Southern Pacific is granted authority to acquire the southern half of the Rock Island the T&P requests imposition of the "standard" protective traffic conditions and, in addition, the following:

- (1) T&P be granted trackage rights over all the lines used or controlled by the Southern Pacific and its subsidiaries in New Mexico, Arizona and California including the right to serve on an equal basis all industries on such lines and to use all terminal facilities as are needed by the T&P to perform service and to switch to such industries and other railroads.

The Southern Pacific would be required to agree to such terms and conditions embracing an initial operation by T&P, substantially as proposed by it, to the Los Angeles area (from El Paso), and the methods and terms for expansion of T&P's services to other areas covered by the condition within six months of the effective date of Commission certificate or order "in this matter."

(2) Southern Pacific indemnify the T&P against its portion, percentagewise, of trans-continental freight moving over the El Paso gateway **when** dropping below T&P's historic percentage of such traffic, based upon a base period of the five years 1957-1961.

(3) With respect to the Rock Island lines to be acquired by Southern Pacific, a condition reiterating the effectiveness of the condition imposed in Southern Pacific Co. Merger, 312 I.C.C. 598. The condition referred to, embraced in a stipulation of June 1, 1961 between the T&P and Southern Pacific and supported by a contract between them of the same date, provides that:

(1) On all traffic originating or terminating at a point or station on SP, or its connections, lying westerly of the city of El Paso, Texas, (b) routed by the shipper so SP and T&P are directly connecting carriers on the movement, but (c) with no junction or interchange point of SP and T&P specified by the shipper on the bill of lading, the interchange between SP and T&P shall be made or effectuated at El Paso, Tex., unless tariffs lawfully on file with the I.C.C. make a lower rate applicable via some other point of interchange between the carriers.

(B) In the event Santa Fe is granted authority to acquire the southern half of the Rock Island, the T&P requests imposition of the "standard" protective traffic conditions and, in addition, the following:

(1) T&P be granted trackage rights over the Santa Fe line between Pecos, Tex., and Carlsbad, N. Mex., serving on an equal basis all industries on the line and along connecting **lead** or branch lines and to use such facilities as are required by T&P to perform service.

MoPac

MoPac supports the North Western proposed control of the entire Rock Island provided an approval is made subject to a condition requiring merger of the two carriers within a reasonable time. MoPac opposes the Union Pacific-Rock Island merger application. Also, MoPac opposes any acquisition of the southern part of the Rock Island by either Southern Pacific or Santa Fe even if coupled with an imposition of conditions requested by T&P for trackage rights over the Southern Pacific lines between El Paso and Los Angeles or trackage rights over lines of the Santa Fe between Pecos and Carlsbad.

Opposition of the MoPac and T&P to the conditions or affirmative relief requested by certain intervening railroads has been previously detailed.

11. Western Pacific

Western Pacific opposes the Union Pacific proposed merger and Southern Pacific application for purchase of the southern half of the Rock Island unless its requested conditions, as detailed below, are imposed and in which event it supports the transactions. Similarly, if the Western Pacific conditions are imposed in any approval of the North Western control proposal and purchase by the Santa Fe of the southern half of the Rock Island, the Western Pacific would withdraw its opposition to those applications.

(A) Requested conditions under the Union Pacific merger and Southern Pacific purchase applications:

(1) Union Pacific at all times shall remain neutral as between Southern Pacific and Western Pacific in its solicitation and in its routing of freight traffic, including unrouted traffic, moving between points in northern California north of Caliente and Santa Margarita, and in Oregon south of Portland, on the one hand, and points on the Union Pacific, including the merged Rock Island's lines, and the connections thereof, on the other hand.

(2) Union Pacific at all times at the request of Western Pacific shall join with Western Pacific in the establishment and maintenance of through rates and routes on freight traffic moving from, to or via points in northern California as above defined on bases no less favorable than those which Union Pacific contemporaneously joins with Southern Pacific in publishing and maintaining between the same, or related, points.

(3) Southern Pacific at all times at the request of Western Pacific shall join with Western Pacific in the establishment and maintenance of through freight rates, and routes, via California interchange points, between all points on the lines of Southern Pacific, its subsidiary lines and its short-line connections, on the one hand, and points on the lines of Western Pacific, its subsidiary lines and its connecting lines, on the **other hand**, no less favorable than apply at the same time between the same, or related, points via any of the Southern Pacific lines.

(4) Union Pacific shall join with Western Pacific in maintaining via the lines of said companies between all points on the Union Pacific including the merged Rock Island lines, east of Ogden, Utah, on the one hand, and points on the lines of Western Pacific in California through freight train schedules and service via Salt Lake City at least equal in all respects to the freight train schedules and service contemporaneously maintained by Union Pacific in connection with Southern Pacific between such points via Ogden, Utah. In the event that, in the judgment of Western Pacific, Union Pacific shall fail, after reasonable notice, to provide such equality of schedules and service, Union Pacific at the request of Western Pacific shall grant to Western Pacific trackage rights over the Union Pacific line between Salt Lake City and Ogden, Utah, and shall provide facilities at Ogden, Utah for the prompt and efficient interchange of freight trains and cars between Union Pacific and Western Pacific at such points. Upon institution of operations pursuant to such rights Union Pacific shall join with Western Pacific in maintaining the foregoing equality of schedules and service via such Ogden interchange.

(5) For a period of five years following the date of consummation of any or all of the transactions approved in these proceedings the Interstate Commerce Commission shall retain jurisdiction to permit the filing by Western Pacific of a petition for inclusion in the Union Pacific system.

(B) With respect to the North Western proposed control of the Rock Island, the condition requested by Western Pacific bears upon the acquisition by North Western, or any successor, of Rock Island's line between Kansas City and Santa Rosa. The condition provides that:

(1) With respect to freight traffic moving from, to or via any point located on the lines of the North Western or which in the future may be located on its lines or the lines of its successor as a result of merger, or consolidation, or trackage rights, or lease, or an extension of line, in Illinois, Missouri, Iowa, Wisconsin, Michigan and Kansas, on the one hand, and, on the other, points in California north of and including Caliente and Santa Margarita, North Western or its successor:

(a) shall, to the extent it has control, join with its connections in maintaining via the various central transcontinental routes freight train schedules and service at least equal to such schedules and service as are maintained today and comparable to the freight train schedules and service contemporaneously maintained by the North Western and its connections between such territories via any of the southern transcontinental routes; and

(b) shall, to the extent it has control, join with its connections in maintaining via the various central transcontinental routes joint through rates on bases no less favorable than those which the North Western shall maintain via any of the southern transcontinental routes; and

(c) shall be neutral in its solicitation of traffic as between the southern and the central transcontinental routes.

The above condition shall be construed as only requiring North Western to adjust its schedules, service or rates on a proportional basis as related to its length of haul or divisions and in the event its connections refuse to enter into or provide for such joint rates, schedules or service, nothing contained in this condition shall prevent North Western from adjusting its rates, schedules or service via its southern transcontinental routes. This condition shall not be construed as requiring North Western to maintain the same number of trains via the central transcontinental route as via the southern transcontinental route.

(C) Approval of the purchase by Santa Fe of any portion of the Rock Island shall be subject to a request for inclusion of the Western Pacific in the Santa Fe under similar terms as set forth under (A)(5) above.

12. Katy

The Katy requests that whichever applicant (Union Pacific, Southern Pacific, North Western, or Santa Fe) is authorized to acquire lines of the Rock Island located in the territory of the Katy, such applicant shall be required to include the Katy in its system. The condition should further provide that within one year from the date of consummation of the successful applicant's acquisition a plan for inclusion should be filed with the Commission or that in the absence of an agreement between the parties, the Katy should file a petition requesting the Commission to fix terms for the inclusion, and that appropriate jurisdiction should be retained by the Commission.

13. Milwaukee

The previously referred to denial in the Milwaukee proceeding has caused important changes in the position of the Milwaukee. Following such denial the Milwaukee filed a petition, on April 6, 1970, seeking inclusion in either the Union Pacific system or the Southern Pacific system, as a condition to approval of the Union Pacific-Rock Island merger and Southern Pacific purchase application.⁵¹ The Commission, in its order of May 15, 1970, among other things, reopened these proceedings for

⁵¹ Up to the time of the filing of its petition for inclusion, the Milwaukee's position was as follows:

The Milwaukee conditionally supports the North Western's application for control of the entire Rock Island, such condition being that the Milwaukee proceeding also be approved, and the Milwaukee takes no position with respect to the acquisition proposed by the Santa Fe. The Milwaukee opposes the Union Pacific-Rock Island merger (Footnote 51 cont'd on page 449).

further hearing, limited to the inclusion issue, and with such further hearing to be held at a time and place to be set following service of this recommended report on the present record. Accordingly, the requested inclusion is not here a matter for consideration. Required herein for discussion and determination, however, is the matter of the Milwaukee evidence in opposition to the proposed Union Pacific-Rock Island merger and Southern Pacific purchase transactions.

14. Frisco

The Frisco opposes each and all of the various acquisitions proposed. It also, opposes in the event any application is approved, the inclusion sought by Katy, the acquisitions requested by the KCS, T&P, and FW&D. Although recognizing that a denial of the Santa Fe purchase would moot the trackage rights proceeding in F. D. No. 24154, the Frisco specifically opposes the latter proceeding on jurisdictional grounds.

(Footnote 51 cont'd from page 448)

proposal and without qualification, including with or without imposition of the so-called Milwaukee conditions imposed in the Northern Lines case. It takes no position with respect to the Southern Pacific companion purchase application to the Union Pacific merger proposal; and, although not entirely clear, it appears that the Milwaukee is similarly situated with respect to Southern Pacific's petition for substitution in lieu of the Santa Fe proposed purchase in the event of an approval of the North Western control.

In further connection with the Union Pacific-Rock Island merger proposal, the Milwaukee (1) takes no position with respect to the Rio Grande's proposed condition for its purchase of Rock Island lines, as previously detailed, but such condition does not alter Milwaukee's opposition to the merger transaction; (2) opposes the proposed conditions of KCS for extension of the latter's operations from Kansas City to Chicago and related junctions and gateways in Illinois; and (3) opposes any condition proposed by the Great Northern and Northern Pacific which would have the effect of broadening their traffic base in the Pacific Northwest vis-a-vis the Milwaukee and in particular those proposed conditions which would require Union Pacific to open jointly served Union Pacific-Milwaukee exclusive industry and industrial districts in the Seattle Area to Great Northern and Northern Pacific without at the same time requiring them to open their exclusive industries and industrial districts in the same area which are now closed to the Milwaukee, on a reciprocal basis satisfactory to the Milwaukee.
(Footnote 51 cont'd on page 450).

15. Union Pacific

The Union Pacific opposes the North Western control of the entire Rock Island and also such control together with the purchase by either Santa Fe or Southern Pacific of the southern portion of the Rock Island lines. Such lines for the purposes of the instant discussion lie roughly south of Kansas City and will be described in complete detail later. In addition, Union Pacific opposes, as a condition to the approval of North Western control of Rock Island, the imposition of conditions for sale to the Rio Grande of Rock Island properties and use of trackage between the Colorado points and Missouri River as detailed before.

(Following half of page purposely left blank)

(Footnote 51 cont'd from page 449)

Also, in connection with the North Western control application, the Milwaukee (1) opposes all conditions proposed by the Rio Grande; and (2) opposes the proposed conditions of the KCS for extension of the latter's operations from Kansas City to Chicago and related gateways or junctions in Illinois.

While the Union Pacific urges approval of its merger with the Rock Island, at the same time and in connection with such merger, the Union Pacific also supports the Southern Pacific's application for purchase of the southern Rock Island lines. The merger and purchase applications are herein viewed as interrelated transactions for the reasons later detailed. Along such lines, the Union Pacific and Southern Pacific have entered into an agreement and stipulation with the Kansas-Missouri River Mills under which, in the event of an approval of the Union Pacific and Southern Pacific applications, certain routing and transit privileges currently enjoyed by Kansas grain shippers over the Rock Island lines will be continued in effect. Details of the agreement are next set forth in connection with the recitation of Southern Pacific's position.

Exhibit No. 1375, received in evidence in these proceedings, embraces a stipulation between Union Pacific and RLEA, and several agreements between Union Pacific and various labor organizations of nonoperating and operating employees⁵² containing provisions for the protection of employees of Union Pacific and Rock Island in the event the merger is approved in whole or in part. The stipulation provides that the agreements have been entered into in accordance with the last sentence contained in section 5(2)(f) of the Act,⁵³ that if notwithstanding RLEA's opposition to the merger the Commission approves the transaction, RLEA, as representative of the labor organizations to the agreements, believes that the adverse effect upon employees will be mitigated and the interests of employees better served if such merger

⁵² Nonoperating labor organizations are: Transportation-Communication Employees Union, Brotherhood of Maintenance of Way Employees, Brotherhood of Sleeping Car Porters, Hotel & Restaurant Employees & Bartenders' International Union, Brotherhood of Railway Carmen of America, International Association of Machinists & Aerospace Workers, International Brotherhood of Boilermakers and Blacksmiths, International Brotherhood of Electrical Workers, International Brotherhood of Firemen & Oilers and Sheet Metal Workers' International Association, and the operating labor organization is the Brotherhood of Locomotive Firemen and Enginemen.

⁵³ "Notwithstanding any other provisions of this Act, an agreement pertaining to the interests of said employees may hereafter be entered into by any carrier or carriers by railroad and the duly authorized representative or representatives of its or their employees."

were of the end-to-end type as proposed in Finance Docket No. 23286, and that the agreements constitute fair and equitable arrangements for the protection of employees' interests within the meaning and purpose of section 5(2)(f). In its brief, Union Pacific asserts that the above discussed agreements cover about one-half of the labor organizations representing employees of Union Pacific and Rock Island and that Union Pacific is willing to make similar agreements with other organizations so that no protected employee will suffer loss of employment or be adversely affected with respect to his compensation or other benefits as a result of the merger. Further, that in the event any labor organization has not entered into similar agreements at the time of final Commission order, such employees should be granted the same protections set forth in New Orleans Union Passenger Terminal Case, 282 I.C.C. 271, the New Orleans conditions, as modified by the substitution of the new arbitration provision set forth in the Great Western proceeding, Chicago & N.W. Ry. Co.--Merger, 330 I.C.C. 13.

Under an approval of the proposed merger, in whole or in part, Union Pacific suggests imposition of certain traffic conditions. It states that such conditions are as a consequence of the various requests by intervening carriers for modification of the so-called standard conditions set forth in the DT&I case, and that its conditions are more liberal and will adequately protect intervening railroads. The traffic conditions proposed by Union Pacific are:

1. Upon consummation of the transaction in whole or in part, the merged Union Pacific-Rock Island shall maintain and keep open all routes and channels of trade via existing junctions and gateways, unless and until otherwise mutually agreed upon by the carriers affected or otherwise authorized by the Commission; and specifically, but without limitation, the merged Union Pacific-Rock Island
 - (a) Shall offer compete participation via existing junctions and gateways in any rates which wholly or partly replace, supersede, or alternate with any rate, class, commodity, or combination, applicable via junctions and gateways existing at the time of consummation of the merger, and
 - (b) Shall not, where rates at the time of consummation of the merger are equalized via two or more gateways, change or join in a change or establish new rates via one such gateway without offering to join in the same rate in

connection with carrier parties to the rates applying via such other gateway or gateways.

2. The present neutrality of handling traffic inbound and outbound and in overhead service by the Union Pacific Railroad and Chicago, Rock Island & Pacific Railroad shall be continued by the merged Union Pacific-Rock Island so as to permit equal opportunity for service to, from, and via all lines reaching the rails of the merged Union Pacific-Rock Island without discriminating as to routing or movement of traffic and without discrimination in the arrangement of schedules or otherwise.
3. Existing traffic and operating relationships between the Union Pacific Railroad and Chicago, Rock Island & Pacific Railroad, on the one hand, and all lines connecting with their tracks, on the other, shall be continued insofar as such matters are within the control of merged Union Pacific-Rock Island, and all contracts now in effect between Union Pacific Railroad and Chicago, Rock Island & Pacific Railroad, on the one hand, and all other railroads, on the other, shall be continued in full force and effect, subject to modification, cancellation or termination only in accordance with the specific terms and conditions of each contract.
4. The merged Union Pacific-Rock Island should accept, handle and deliver all cars inbound and outbound and in overhead or switching service, loaded and empty, without discrimination and promptness or frequency of service and irrespective of origin or destination or route of movement.
5. The merged Union Pacific-Rock Island shall do nothing to restrain or curtail the right of industries served by the Union Pacific and Chicago, Rock Island & Pacific Railroad, or the merged Union Pacific-Rock Island to route traffic over any or all available routes and gateways.

6. Any party or any person having an interest in the subject matter may at any future time make application for such modification in the above conditions, or any of them, as may be required in the public interest, and jurisdiction will be retained to reopen the proceedings on the motion of the Commission for the same purpose.

Union Pacific also proposes certain other conditions designed to protect intervening rail carriers against adverse impact as a result of the Union Pacific-Rock Island merger. Such conditions will be described at this point only in the most general terms.

Union Pacific has advanced a "traffic guarantee" under which the merged Union Pacific-Rock Island would indemnify, in cash, the North Western group (North Western-Great Western-Milwaukee) against loss of traffic.

Should the Commission find that the public interest required the extension of Rio Grande's lines to the Missouri River, Union Pacific would accept such condition. However, in discussions held between Union Pacific and Rio Grande they have been unable to agree upon the Rock Island properties (rail and motor) to be conveyed and the prices to be paid therefor. Such elements, the Union Pacific urges be determined in a separate hearing following approval of the merger.

The Union Pacific opposes all other requests for affirmative relief or imposition of conditions requested by interveners. It states that certain of those requests have been met either by certain past actions of the Commission and parties or by the traffic conditions Union Pacific recommends be imposed. The remainder of its agreements will be discussed in full at a subsequent time.

16. Southern Pacific

Southern Pacific opposes the North Western application for control of the Rock Island. In connection with the foregoing control transaction, the application of the Santa Fe to purchase the southern Rock Island lines is opposed by Southern Pacific and the latter, under its request for inclusion, seeks the imposition of a condition requiring the sale to it of the southern Rock Island lines. Southern Pacific opposes Santa Fe's request for inclusion in the proposed Union Pacific-Rock Island merger and sale to Santa Fe of the southern Rock Island lines.

The Southern Pacific supports the Union Pacific-Rock Island transaction subject upon condition that upon consummation of the merger it acquire the southern Rock Island lines. With respect to the merger and purchase transactions, the previously-referred to agreement and stipulation entered into by the Union Pacific and Southern Pacific with the Kansas-Missouri River Mills proposes to the Commission the imposition of a condition to an approval of the transaction providing that:

UP and SP shall not alter in any manner, by reason of the consummation of the merger and sale authorized herein, the transit or routing privileges on grain and grain products offered by and in effect on the present lines of RI described in Chicago, Rock Island and Pacific Railroad Company Tariff 34562-G, ICC C-13697, Items 2260-C, 2170, 2180, 2190, 2200, 2210, 2220, 2230, 2240, 2250, 2260-C, 3470, 3480, 3485, 3490, 3500, 3510, 3520, 3530, 3550, 3560, 3570, 3580, 3675-A, 3810, 3820, 3830-A, 3840, 4140, 4150, 4160, 4170, 4650, 4660, 4670, 4680, 4690, 4700, 4710, 4715, 4720, 4730, 4740, 4745-B, 5120, 5130, 5140, 5146-B, 5150-B, 5160, 5170-A, 5180, 5190, 5200-A, 5210-A, 5220, 5230, 5240-A, 5245, 5250, and 5390-A.

In further connection with the matter of conditions embracing routing and transit privileges on grain and grain products under a North Western control and sale of the southern Rock Island to Southern Pacific, the latter would be agreeable to enter into the same type of stipulation with North Western as entered into between North Western and Santa Fe. The conditions referred to, are embraced in Exhibit No. 157, and will be discussed further in connection with the position of the Santa Fe.

Under any approval of Southern Pacific's proposed acquisition of southern Rock Island lines, Southern Pacific suggests that for the protection of employees of Southern Pacific and Rock Island the imposition of the New Orleans conditions with the modified arbitration clause set out in the Great Western proceeding, 330 I.C.C. 13. It further suggests imposition of the following traffic conditions:

a. Southern Pacific shall maintain and keep open all routes and channels of trade via existing junctions and gateways to and from the purchased lines of Rock Island, unless and until otherwise authorized by the Interstate Commerce Commission.

b. The present neutrality of handling traffic inbound and outbound to and from the purchased lines of Rock Island shall be continued by Southern Pacific so as to permit equal opportunity for service to and from all lines reaching the purchased lines of Rock Island without discrimination in the arrangement of schedules or otherwise.

c. The present traffic and operating relationships existing between the purchased lines of Rock Island, on the one hand, and all lines connecting therewith, on the other, shall be continued by Southern Pacific insofar as such matters shall be within its control.

d. Southern Pacific shall accept, handle, and deliver all cars inbound and outbound, loaded and empty, to and from the purchased lines of Rock Island without discrimination in promptness or frequency of service as between cars destined to or received from competing carriers, and irrespective of destination or route of movement.

e. Southern Pacific shall not do anything to restrain or curtail the right of industries now located on the purchased lines of Rock Island to route traffic over any or all existing routes and gateways.

f. Any party or any person having an interest in the subject matter may, at any future time, make application for such modification of the above conditions or any of them, as may be required in the public interest, and jurisdiction will be retained by this Commission to reopen the proceeding on its own motion for the same purpose.

In any authorized purchase of southern Rock Island lines, the Southern Pacific opposes inclusion of the Katy, and it opposes the affirmative relief requested by the T&P, FW&D, KCS, and WP, on the grounds later detailed.

17. North Western

North Western would accept as a condition to control, a requirement that within a reasonable period thereafter it file an application for merger. It would further find acceptable as conditions the following:

(1) Standard DT&I conditions for the benefit of all railroads,

(2) Certain modifications in the standard conditions for the benefit of the Great Northern and Northern Pacific,

(3) Specific conditions for the benefit of the Western Pacific, Rio Grande, Soo and MN&S, or

(4) alternatively, inclusion of the Soo and MN&S,

(5) Purchase of the net assets of the Katy, and

(6) Conditions for the protection of labor as prescribed in Chesapeake & O. Ry. Co.--Control--Baltimore & O. R. Co., 317 I.C.C. 261.

As with certain other carrier parties, details of the above-enumerated conditions will be later set out.

In further connection with its proposed control, North Western opposes the requests of the Rio Grande, KCS, and Southern Pacific for trackage rights or for purchase of the Rock Island lines and properties previously described. While North Western seeks to acquire and retain control of the entire Rock Island system, in the event the Commission finds that a physical partition of the Rock Island is desirable, the North Western supports the proposed purchase of the Santa Fe.

The North Western opposes the Union Pacific-Rock Island merger and Southern Pacific purchase proposals, and in connection therewith the affirmative relief requested by the KCS embracing trackage rights to Chicago.

18. Santa Fe

Santa Fe, as its first preference, supports the North Western proposed control of the Rock Island and Santa Fe's application to acquire the southern Rock Island lines. Should the Santa Fe application be denied, it supports, as its second preference, the North Western application for control of the entire Rock Island. As seen, the North Western's first preference is for control of the entire Rock Island and this proposal is not opposed by the Santa Fe.

Under an approval of its application, the Santa Fe is agreeable to the imposition of various conditions:

(a) for the maintenance of routes, gateways, and channels of trade, the conditions as set forth in the DT&I case,

(b) for the protection of labor:

(1) employees in the nonoperating crafts (except shop craft employees) the benefits of the Mediation Agreement of February 7, 1965 (National Mediation Board Case No. A-7128),
 (2) shop craft employees the benefits of the Mediation Agreement of September 25, 1964 (National Mediation Board Case No. A-7030) and
 (3) all other employees adversely affected the provision set forth in New Orleans Union Passenger Terminal Case, 282 I.C.C. 271 in the form restated in Southern Railway Co.--Control--Central of Georgia Railway Co., 317 I.C.C. 557, as supplemented and clarified in 317 I.C.C. 729, 320 I.C.C. 377 and 331 I.C.C. 151, including Sections 4, 5, 9 (but not the provisions thereof for arbitration of disputes) of the so-called Washington Agreement of May 21, 1936, and

(c) the imposition of a condition giving effect to the agreement between Santa Fe and North Western under which transit and routing privileges of Kansas grain shippers will be continued in effect after acquisition by Santa Fe of the southern Rock Island lines on the same basis were the Rock Island under single ownership. The proposed continuing in effect of transit and routing privileges are under the same Rock Island tariff number as previously enumerated under the similar Union-Pacific-Southern Pacific agreement covering the same subject matter and, in addition, Transcontinental Freight Bureau Tariff 45-L.

The Santa Fe also is not opposed to conditions under which the Commission would retain jurisdiction for a period of five years following consummation to permit Western Pacific to seek inclusion in the Santa Fe system; and conditions granting FW&D's requests for an unobstructed open main line through the Rock Island Peach Street Yard (Fort Worth), provided it does not mean the maintenance of an open line for the exclusive use of FW&D, FW&D's unrestricted right to interchange with the Frisco at Irving, Tex., and FW&D's right to pick up and set out cars at Rock Island's Cadiz Street Station (Dallas).

Santa Fe opposes all the remaining requests of the FW&D; the requested inclusion of Southern Pacific; Rio Grande's requested acquisition of Rock Island lines between Denver and Omaha and Kansas City; KCS' request for acquisition of the previously-described lines of railroad and properties of the Santa Fe and Rock Island; T&P's request for trackage rights over the Santa Fe; and Katy's request for inclusion in the Santa Fe system.

With respect to the proposed Union Pacific-Rock Island merger and Southern Pacific purchase of the southern Rock Island lines, such applications are opposed by the Santa Fe and all requests for affirmative relief or conditions requested by other carriers, except, of course, Santa Fe's petition for inclusion whereby it seeks acquisition of the southern Rock Island lines.

19. Rock Island

The Rock Island supports the Union Pacific merger and Southern Pacific purchase transactions. In the event of an approval of the merger, the Rock Island adopts the position of the Union Pacific with respect to the affirmative relief requested by the Rio Grande, KCS, Santa Fe, Katy, Great Northern, Northern Pacific, Soo, and Western Pacific.

In the event of a denial of the proposed merger or an approval subject to the imposition of conditions unacceptable to Union Pacific, the Rock Island would accept control by North Western as an intermediate step to a merger. In connection with control, the Rock Island reserves the right to petition the Commission for the imposition of a condition requiring Northwest Industries to make a substitute exchange offer to Rock Island stockholders on terms not less favorable than the terms of the North Western Exchange offer. Under an approval of the North Western control, the Rock Island opposes the application of the Santa Fe and petition for inclusion of the Southern Pacific whereby each seeks to purchase

the southern Rock Island and Rock Island opposes the affirmative relief requested by the Rio Grande and KCS. It further opposes Northern Pacific's condition No. 1; the condition requested by MN&S pertaining to a proposed direct interchange between the Illinois Central and MN&S (the latter's condition No. 1); and Soo's conditions Nos. 3 and 4.

B. Federal Agencies

1. Bureau of Enforcement-ICC

The Bureau does not oppose either the North Western control of the Rock Island or the Union Pacific-Rock Island merger, but requests that certain conditions be imposed in the event either proposal is approved.

In the North Western proposal, the Bureau urges that approval of indirect control by Northwest Industries be conditioned to require that (1) Northwest Industries continue to be considered a carrier under the provisions of section 5(3) of the Act for the purpose of filing such annual and special reports pursuant to section 20(1) and (2) of the Act as may be required by the Commission; (2) Northwest Industries be subjected to the provisions of section 20(5) of the Act, and that all its accounts, books, records, memoranda, correspondence and other documents be held to be relevant to its relation to its subsidiaries; (3) Northwest Industries be required, upon its acquiring 80 percent of the capital stock of Rock Island, to file with the Commission reports containing information relating to any agreements entered into with Rock Island respecting the utilization of tax benefits which Industries may apply to itself in a consolidated tax return to be filed by Industries; and that (4) Northwest Industries be required to file with the Commission an additional special and comprehensive report, containing a section relating to financial data and a section reflecting Performance and Status relative to operations of the rail subsidiaries, as more specifically detailed in the Bureau's brief. The report would be filed in each of the five years ending December 31 following Commission authorization.

The Bureau believes that Industries should not be subjected to the provisions of section 20a of the Act.

The Bureau urges that approval of the Union Pacific-Rock Island merger be conditioned to require Union Pacific (1) to divest itself of its stock holdings in IC Industries, such stock to be sold and transferred only to persons not affiliated directly or indirectly with Union Pacific or any of its subsidiaries; and (2) to keep in effect until the date when such divestiture must be completed, its three voting trusts which presently hold the stock which Union Pacific owns in IC Industries.

It is noted that in connection with the application of UPC for leave to be joined as a party applicant, the Bureau urged that UPC should be considered a carrier under the provisions of section 5(3) of the Act and be subjected to the provisions of sections 20(1), (2) and (5) of the Act, and also be required to file the comprehensive annual financial reports suggested in the Bureau's brief, which would embrace all of the subsidiaries, nontransportation as well as the transportation. At the limited further hearing on November 19, 1969, UPC through its Chief Executive Officer, agreed to accept the above-mentioned conditions.

The Bureau further urges that should any of the applicants enter upon plans of diversification similar to those of Northwest Industries-North Western or come under the control of a noncarrier holding company, then such noncarrier holding company should be required to become an applicant and be made subject to the above-described reporting requirements which the Bureau recommends be imposed upon Northwest Industries.

2. U.S. Department of Justice

Justice is of the view that the Union Pacific-Rock Island merger would be consistent with the public interest provided the transaction is conditioned upon (1) sale to Rio Grande of Rock Island properties necessary to give Rio Grande continuous lines of railroad (a) between Denver and Colorado Springs, Colo., and Council Bluffs, Iowa and Kansas City, Mo., and (b) between Topeka, Kans., and St. Joseph, Mo., with connections to all other railroads at such cities, and with all rights to serve industries at Kansas City, St. Joseph, Council Bluffs, and west thereof; (2) sale to Santa Fe of the Rock Island line from Amarillo to Memphis, and of Rock Island properties in Memphis, and a half interest in or full trackage rights over the Rock Island line between St. Louis and Kansas City (including the use of all industrial, spur, and side tracks, and the use of appropriate terminal facilities in St. Louis); (3) sale to Southern Pacific of the Rock Island properties for which Southern Pacific has applied, with the exception of the Amarillo-Memphis line and related properties; and (4) divestiture by Union Pacific of its stock interest in Illinois Central Industries, Inc.

As a less desirable alternative to (2) and (3) above, Justice supports sale to Santa Fe of the properties for which it has applied (including trackage rights or ownership rights giving it access to St. Louis) and sale to Southern Pacific of the Santa Rosa-Kansas City line (including trackage rights over Union Pacific lines between Topeka, Kans., and Kansas City, Kans., and the properties of Rock Island in Kansas City, Kans., and Kansas City, Mo.).

The Department strongly recommends that if North Western is authorized to merge with the Milwaukee, that North Western not be authorized to acquire control of Rock Island, either with or without sale of any or all of the southern half of Rock Island to either Southern Pacific or Santa Fe.

C. State Agencies

The Public Utilities Commission of South Dakota and the Commissioner of Agriculture of Minnesota support the North Western control transaction. The former also opposes the Union Pacific-Rock Island merger. The Corporation Commission of New Mexico supports the North Western control transaction subject to subsequent sale of the southern portion of the Rock Island lines to Santa Fe. It opposes the Union Pacific-Rock Island merger of the northern Rock Island and Southern Pacific purchase of the southern Rock Island. The Southeastern Association of Railroad and Utilities Commissioners represents the State Commission of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. It supports the Santa Fe purchase proposal but the Association's real emphasis is upon the Santa Fe's acquisition of the Memphis-Tucumcari line.

The Public Utilities Commission of Idaho and the Public Service Commission of Wyoming support the Union Pacific-Rock Island merger. The Utah Industrial Promotion Commission supports the Union Pacific-Rock Island merger provided the western portion of the Rock Island lines between the Missouri River and Denver and Colorado Springs are sold to Rio Grande. The Public Utilities Commission of Oregon supports the Union Pacific-Rock Island merger and Southern Pacific purchase proposals provided protective conditions are approved for the benefit of carriers providing rail service to Oregon, notably Western Pacific, Great Northern, Northern Pacific, and the Spokane, Portland & Seattle.

The "Colorado Parties" ⁵⁴ oppose the Union Pacific-Rock Island merger. If the merger is approved the Colorado parties request that such approval be conditioned upon sale of the Rock Island lines between Denver-Colorado Springs and Kansas City-Council Bluffs to Rio Grande.

⁵⁴ The Colorado parties representing identical interests are comprised of the Colorado Public Utilities Commission, City and County of Denver, and Denver Chamber of Commerce.

The Oklahoma Ordinance Works Authority supports the petition of Missouri-Kansas-Texas for inclusion in any transaction authorized by the Commission. The Arkansas Commerce Commission, The Missouri Public Service Commission, the Public Utilities Commission of California and the California Department of Agriculture oppose all of the applications. If, however, either of the basic applications is granted the foregoing California bodies request imposition of such conditions as will insure the continued maintenance of Western Pacific and Rio Grande as an effective competing route.

The State Corporate Commission of Kansas, although opposed to both the basic control and merger applications, would not object to the Union Pacific-Rock Island merger if the transaction is conditioned upon:

- (1) Sale to the Rio Grande of the Rock Island properties needed to provide a continuous line of railroad between Denver and Colorado Springs, and Council Bluffs and Kansas City; and Topeka and St. Joseph, with connections to all other railroads at the named cities,
- (2) Sale to the Santa Fe of the Rock Island lines from Amarillo to Memphis and the Rock Island properties in Memphis, and full trackage rights over the Rock Island line between St. Louis and Kansas City together with the use of all industrial spurs, side tracks and appropriate terminal facilities at St. Louis,
- (3) Assuming a merger of the Great Western /obviously an error, apparently intended to be North Western/ with the Milwaukee, sale to Southern Pacific of the Rock Island lines south of Kansas City, except the Amarillo-Memphis line related properties and
- (4) The imposition by the Commission of "some specific arrangements to protect the Missouri Pacific and other smaller carriers to the end that they will remain healthy and competitive."

D. State Subdivisions

The City of Milwaukee, the Milwaukee Board of Harbor Commissioners and the Houston Port Bureau support the North Western control transaction and oppose the Union Pacific-Rock Island merger.

The Golden State Route Committee representing numerous cities, town, boards of supervisors and chambers of commerce in Arizona, New Mexico and Texas supports the Union Pacific-Rock Island merger and Southern Pacific purchase proposals and, alternatively, the petition of Southern Pacific for inclusion in the North Western transaction. The City of Council Bluffs supports the Union Pacific-Rock Island merger provided the conditions sought by Rio Grande are granted. Lincoln County, the Town of Hugo, the Chamber of Commerce and City of Grand Junction, and the Moffat Tunnel Commission, all in Colorado, oppose the Union Pacific-Rock Island merger unless the conditions requested by Rio Grande are granted.

The Port of Beaumont opposes the Union Pacific-Rock Island merger but does not oppose the North Western control transaction. The Chambers of Commerce and/or Cities of Belleville, Clay Center, Goodland, Manhattan, Sharon Springs and Wallace County, Kans.; and Cheyenne Wells, Colorado Springs, Limon and Pueblo, Colo., oppose the Union Pacific-Rock Island merger. If, however, the merger is found to be in the public interest, then they support Rio Grande's request for sale of the western portion of the Rock Island lines, as detailed before.

The Greater Baton Rouge Port Commission and the Texas Gulf Ports Association oppose any division of the Rock Island as involved under the Santa Fe and Southern Pacific purchase proposals. Similarly, the Port of Galveston, the Galveston Chamber of Commerce and the Port of Lake Charles oppose any division of the Rock Island between two or more carriers. Additionally, the Port of Lake Charles opposes any acquisition of the Rock Island which could adversely affect the financial ability of the Missouri Pacific and/or Kansas City Southern to continue to provide service to the Port.

The Chambers of Commerce and Cities of Phillisburg, Norton, and Smith Center, Kans., support Rio Grande's request for sale of the western portion of the Rock Island lines, as detailed before. The City and Chamber of Commerce of Parsons, Kans., and Rotan, Tex., support the petition of the Missouri-Kansas-Texas for inclusion in any transaction authorized by the Commission. The City of Kansas City opposes any merger (including control) of the Rock Island at this time.

E. Labor Interests

In these proceedings the RLEA continues its policy of opposing all unifications as contrary to the interests of employees. However, RLEA believes that the proposed Union Pacific-Rock Island merger may properly be reviewed as an end-to-end unification and a type which inherently reduces the necessity for widespread disruption in the working conditions of the employees involved. For the latter reason, RLEA supports the merger transaction over the proposed North Western control.

In connection with such support, RLEA refers to the stipulation embracing agreements for the protection of the interests of carrier employees entered into between Union Pacific and RLEA, as representative of the labor organizations signatory to the agreements (Exhibit No. 1375). These protective agreements, executed by the parties thereto in accordance with the last sentence of section 5(2)(f) of the Act, provides protection for all employees of Rock Island and Union Pacific represented by the RLEA signatory organizations in the event of full or partial merger of the two carriers.

In the event the Commission determines it will be consistent with the public interest for any portion of the Rock Island to be acquired by any one or more of the other carriers involved, RLEA requests that the provisions of the above-mentioned agreements be extended to all of the employees involved.

BLE, the representative for purposes of the Railway Labor Act of employees employed in the craft of locomotive engineers on the applicant and protestant railroads, opposes all of the applications except to the extent described in an agreement dated December 13, 1968 between the Chicago and North Western (including its subsidiary, the Fort Dodge, Des Moines and Southern Railroad Company) and the Brotherhood of Locomotive Engineers (Exhibit No. 1376).

By reason of the foregoing agreement, which contains protective conditions for employees, BLE withdraws its opposition to the control of the Rock Island by North Western.

In the event the Commission grants the authority requested by Union Pacific, Southern Pacific or Santa Fe either in combination or individually, BLE requests the imposition of protective conditions, similar to those contained in the above-mentioned agreement with North Western.

F. Intervening Stockholder-Mr. Kendall Laughlin

Mr. Laughlin is a stockholder of the Rock Island, Union Pacific and Southern Pacific. He is opposed to the North Western control application. He requests dismissal of the Union Pacific control application (which will be done) and a partial dismissal of Union Pacific's security application in Finance Docket No. 23287. For the reasons previously detailed, consideration of the Union Pacific-Rock Island merger proposal will be limited to only the northern Rock Island, a matter also urged by Mr. Laughlin and it is unnecessary to state his reasons which differ from those of the examiner. Mr. Laughlin takes no position with respect to the matters of the Union Pacific merger with the northern portion of the Rock Island; the proposed acquisition of a portion of such lines by the Rio Grande; and the competing proposals of the Southern Pacific and Santa Fe to acquire the southern portion of the Rock Island. Rather, Mr. Laughlin's requested findings deal with the consideration payable in the event of an approval of such transactions. The requested findings are appropriate for discussion and consideration at a later time when the proposed transactions are considered on their merits.

Preliminary to a further detailing of the pertinent record made in each of the application proceedings, some discussion is required concerning the scope of the shipper and public witness evidence introduced.

The order of the Commission dated November 21, 1966, among other things, set forth requirements for the filing by the various carrier parties to the proceedings of written verified statements of the carrier's supporting shippers and public witnesses. In response, a large number of statements were filed. Subsequently, but prior to cross-examination on the statements, for the purpose of expediting all carrier parties (applicants and intervenors, except one) stipulated and agreed that no one of them would offer the testimony of more than 20 shippers and public witnesses including a combined total of 20 for Union Pacific and Rock Island, under the merger application, and that the remainder of the verified statements would be withdrawn from the files of the Commission. While MoPac did not join in the entire stipulation, it agreed to not submit more than 20 written verified statements of shippers and public witnesses. Accordingly, the Examiners ruled that all other of the statements filed by the carrier parties were stricken and would not become part of the evidence of record. The foregoing, of course, does not extend to include the public bodies and other special interests, as set forth in footnote 8, who intervened in their own right and presented evidence in support of various of the involved carrier interests.

PART DFINANCE DOCKETS NOS. 22688 and 22689THE NORTH WESTERN CONTROL TRANSACTION AND
RELATED SECURITIES APPLICATIONS

Pursuant to a resolution of North Western's Board of Directors adopted June 24, 1963, as amended, and for the purpose of acquiring control of Rock Island, an Exchange Offer was approved. The Exchange Offer, dated September 23, 1963 as amended October 7th and November 4th, 1965, as herein pertinent, provides that for each share of Rock Island stock (whether such share is represented by a Certificate of Deposit issued by Union Pacific under its exchange offer of September 1, 1964, as amended, or by a Rock Island stock certificate) North Western would issue, deliver and pay in exchange (1) 0.2778 of a share of North Western common stock, (2) one 6 percent Collateral Trust Income Bond of North Western in the principal amount of \$30 maturing 50 years from the year of issuance and (3) \$5 in cash.

Various methods and time limits are prescribed for acceptance of the exchange proposed. On May 28, 1965, North Western amended its applications to provide that the Exchange Offer would terminate on June 30, 1966, unless extended by its Board of Directors. As of June 27, 1966, North Western had obtained acceptances, evidenced by North Western Certificates of Deposit, with respect to 54.3 percent of Rock Island's outstanding common stock and thereupon closed its offer.

The Exchange Offer provides that each holder of a North Western Certificate of Deposit retains all his beneficial rights as a holder of a Union Pacific Certificate of Deposit and/or as a stockholder of Rock Island, including the right to receive any Rock Island dividends and the right to vote and that the Exchange Offer is binding upon any successor corporation of North Western, through consolidation or merger, and also upon persons accepting the Exchange Offer, in accordance with its terms, in the event any such merger or consolidation of North Western with any other company.

Consummation of the Exchange Offer is subject to the following conditions:

(1) Prior to or upon expiration of the time for acceptance of the Exchange Offer, at least 51 percent of the shares of common stock of Rock Island then issued and outstanding shall have accepted the offer. (2) The Commission shall have (a) authorized the Exchange Offer of North Western without any conditions except such as are acceptable to North Western and (b) shall have declined to authorize consummation of the Exchange Offer of Union Pacific dated September 1, 1964, as amended,

or a merger of Union Pacific and Rock Island, by a final order from which no judicial review has been taken within 90 days from the effective date of such order or orders or, in the event of such judicial review, upon final disposition of the proceeding. And (3) during the period from October 7, 1965 to the date of consummation of the Exchange Offer, Rock Island shall not (a) have issued or agreed to issue, or have granted options or other rights of any kind with respect to, any additional shares of stock having voting rights of any kind or any securities which are convertible into shares of stock having such voting rights, except pursuant to rights existing on the date first above specified, (b) have made or agreed to make any distribution of shares of its common stock except cash dividends and (c) or any of its subsidiaries shall not, other than in the usual course of its business, have entered into any agreement or consummated any transaction that would increase its interest, rentals, or other charges or its debt, or the encumbrances on its property or have engaged in any transaction otherwise than in the usual course of its business, provided that North Western in its discretion may waive any or all of the above requirements of paragraph (3).

On and after the date of consummation and upon surrender of North Western Certificates of Deposit, the North Western common stock and Collateral Trust Income Bonds would be issued and delivered and any cash to which such holder is entitled would be paid to such holder. The Exchange Offer would terminate in the event consummation is not had within 1 year from the Commission's final approval, with such approval date being not later than November 15, 1973.

Under North Western's securities application and for the purpose of consummating the above-described acquisition of Rock Island stock, the former seeks authority to issue not exceeding (1) 849,154 shares of its no-par value common capital stock and (2) \$91,701,330 in principal amount of its 6 percent Collateral Trust Income Bonds.

The per share exchange of stock was arrived at by dividing the 810,320 outstanding shares of North Western stock by the 2,916,711 outstanding shares of Rock Island stock. The authority sought herein for the total number of North Western shares was calculated on the basis of an exchange of a total 3,056,711 shares of Rock Island stock comprised of the referred to 2,916,711 shares outstanding, 87,050 shares for which options had been granted at the close of the calendar year 1962, and 52,950 shares available for future options. Similarly, the proposed issuance by North Western of Collateral Trust Income Bonds was calculated on the same total number of Rock Island shares.

As seen, the proposed issuance of securities by North Western is predicated on the basis of a 100 percent exchange of Rock Island common stock. As already stated, as of the time North Western closed the exchange offer on June 27, 1966 it had secured acceptances of 54.3 percent of Rock Island's outstanding common stock. On the basis of the foregoing, and calculated from the latest available information and on solely the Rock Island shares outstanding, North Western's required authority, under section 20a, to consummate the control transaction would consist of the issuance of 440,655 shares of its common stock and \$47,586,930 in principal amount of 6 percent Collateral Trust Income Bonds. However, in its brief, filed January 1969, North Western requests that it be granted authority to issue the full amount of securities requested in its application (representing an exchange of 100 percent of Rock Island stock) so as to afford it flexibility in determining whether it should reopen its present exchange offer prior to merger (of Rock Island into North Western).

The shares of North Western common stock to be issued under the Exchange Offer are among the number of common shares presently authorized and unissued under North Western's amended Articles of Incorporation and will be identical with North Western's common stock presently issued and outstanding. In general, these shares are without par value, have a stated value of \$100 per share, are eligible for the payment of dividends and for participation in the distribution of assets on liquidation, subject to the usual priorities applicable to common stock. Each share is entitled to one vote with the right to accumulate votes for directors.

The Indenture to the 6 percent Collateral Trust Income Bonds provides for the form in which the bonds shall be issued and the various terms of the agreement between the North Western and the Trustee (unnamed) to the Indenture.

As herein directly pertinent, the bonds shall provide that interest shall be payable at the rate of 6 percent per annum on April 1 of each year following the calendar year of accrual. Such interest shall become due and payable only to the extent of income for the preceding calendar year from the securities pledged with the Trustee, as defined in the Indenture, or, if such income shall be insufficient, then to the extent that Available Net Income, as defined in the Indenture, for the preceding calendar year shall be applicable for the payment of such interest. Any deficiencies in the payment of interest in respect of any calendar year shall accumulate and accrue up to but not exceeding 12 percent

of the principal amount of bonds issued and outstanding, but when and so long as interest shall be accumulated to such maximum, interest shall accrue on the principal amount for any calendar year only at the rate of 6 percent per annum or to the extent of income from the pledged shares and of available net income for such calendar year, whichever is lesser.

Such accumulated interest shall become due and payable to the extent that as of April 1 of any year Available Net Income for the preceding calendar year shall have been determined and the aggregate of the income from the pledged securities for the preceding calendar year and the Available Net Income for the preceding calendar year which may be applied to the payment of interest of the bonds shall exceed the interest accrued at the rate of 6 percent per annum for such preceding calendar year on the bonds. Any such accumulated interest, when the principal amount becomes due and payable, shall also then become due and payable. Accumulations of interest shall not bear interest.

The bonds are issuable only as registered bonds without coupons in denominations of \$10 and/or any multiple thereof. If an event of default as defined in the Indenture shall occur, the principal of all bonds may be declared due and payable upon the conditions and in the manner and with the effect as provided in the Indenture.

The bonds are entitled to the benefit of a sinking fund as provided in the Indenture and are subject to redemption for the sinking fund on May 20 of any year upon notice given as provided in the Indenture and upon payment of the principal amount thereof plus an amount equal to interest which would have accrued thereon at the rate of 6 percent per annum to such May 20, but only (a) if, after the payment or provision for the payment of interest on the bonds at the rate of 6 percent per annum for the preceding calendar year and the payment or provision for payment of all interest, if any, accumulated on the bonds, there is Available Net Income which may be applied for the purpose, and (b) to the extent in any year of not more than one half of 1 percent of the total aggregate principal amount of the bonds theretofore authenticated and delivered, exclusive of bonds authenticated or delivered in replacement of theretofore outstanding bonds.

The bonds are also subject to redemption as a whole or in part, at any time or times, at the option of the Company, on not less than 30 nor more than 60

days' prior notice given as provided in the Indenture upon payment of the principal amount thereof plus a sum equal to the aggregate of (i) an amount equal to interest, if any, unpaid for the preceding calendar year on the bonds to be redeemed, calculated at the rate of 6 percent per annum if Available Net Income for such preceding calendar year shall not have been determined at the time the notice of redemption is given, (ii) an amount equal to interest, if any, which has accumulated or will have accumulated on the bonds to be redeemed, within the limitation on such accumulation, after payment of the amount specified in clause (i), and (iii) an amount equal to interest at the rate of 6 percent per annum on the bonds to be redeemed, from the end of the preceding calendar year to the redemption date.

As herein directly pertinent, the Indenture defines Available Net Income for any year as the income available for the fixed charges of North Western or its successors arising during such year less the fixed charges accruing during such year after deducting certain existing charges of North Western with respect to its First and Second Mortgage bonds, as more specifically defined in the Indenture. In effect, the charges for the sinking fund and any annual interest accrual will follow in priority existing charges against North Western's Available Net Income with respect to the bonds issued under its First and Second Mortgages.

The Indenture provides that the bonds will be entitled to an annual sinking fund, to the extent of Available Net Income remaining after the prior payment of all accumulated interest on the bonds, but not in excess of (a) $\frac{1}{2}$ of 1 percent of the total aggregate principal amount of bonds theretofore authenticated and delivered (exclusive of bonds authenticated or delivered in replacement of theretofore outstanding bonds) plus (b) an amount equal to the interest which would accrue at the rate of 6 percent per annum on such principal amount of bonds to May 20 of such year.

The bonds shall be secured both as to principal and interest by the deposit, in pledge with the Trustee, of shares of common stock without par value of the Rock Island of not less than one thirtieth of the aggregate principal amount of the bonds initially authenticated. So long as no event of default shall have occurred and be continuing, cash dividends or interest paid on the above-mentioned pledged securities out of earnings or retained income shall (a) if there is an accumulation of income for past periods on the bonds, be reserved by the Trustee for payment to the holders of the bonds on the next succeeding interest payment date, to the extent of an amount which, together with any amounts theretofore received and then reserved, will be sufficient

to make the next annual interest payment on the bonds at the rate of 6 percent per annum. Any balance shall, on receipt by the Trustee of a request by North Western or its successors (also referred to as the Company) be turned over to or upon the order of the Company; (b) if there is, at the time, an accumulation of interest for past periods on the bonds, be reserved by the Trustee for payment to the holders of the bonds, on the next succeeding interest payment date to the extent of an amount which, together with any amounts theretofore received and then reserved, will be sufficient to make the next annual interest payment on the bonds at the rate of 6 percent per annum and to make payment of such accumulated interest. Any balance then remaining shall, on receipt by the Trustee of a request by North Western or its successors be turned over to or upon the order of the Company.

Unless an event of default shall have occurred and be continuing, the Company shall have the right, except as hereinafter limited, to exercise all voting rights of the pledged securities, as if the securities were not so pledged. However, the Company shall not exercise or permit to be exercised on its behalf any voting rights of the pledged securities inconsistent with the provisions or intent of the Indenture.

The Indenture sets forth certain covenants by North Western, chiefly to pay the principal and interest on the bonds when due, to maintain its properties in good repair and to maintain proper insurance thereon, to perform and discharge its other lawful obligations as required, and to pay any other indebtedness whenever incurred when the same shall become due.

Subject to usual provisions with respect to selection of the bonds for redemption and notice to registered owners of such bonds, North Western may at any time redeem all or any part of the bonds, upon payment of the principal amount plus accumulated and unpaid interest, as previously detailed.

Remedies, including acceleration of the maturity date of the bonds and institution of court proceedings are provided the Trustee and the Bondholders upon the occurrence of an event of default, as defined in the Indenture.

The Indenture additionally provides that if North Western is consolidated with or merged into (or if all or substantially all its properties are acquired by) any other corporation, the successor corporation shall succeed to and be substituted for North Western under the Indenture and shall execute a supplemental Indenture assuming payment of the bonds and all covenants and conditions of the Indenture.

The Indenture has been entered into in contemplation of a combination (whether by consolidation, merger or otherwise) between North Western and Rock Island. In the event of such combination, North Western covenants that (1) if any of the pledged shares of Rock Island's stock are canceled, the payment of the bonds shall be secured by a direct lien on the Rock Island properties, of the character then subject to existing Rock Island mortgage liens. This direct lien will be prior to all other liens, except then existing liens and any liens required by the terms of Rock Island's then outstanding indebtedness to be created as a condition to the creating of such lien for the benefit of the bonds, (2) if the bonds are converted into or made exchangeable for securities of the combined company, such securities shall have a claim against the assets and income of the combined company ranking after the $4\frac{1}{2}$ percent Income Debentures due March 1, 1995, of the Rock Island (or any securities into which such debentures are to be converted or for which they are to be exchanged), (3) while separate income accounts need not be maintained as to the former properties of the two companies, an equitable apportionment of the revenues and expenses of the combined company between such properties may be made to establish a basis for the determination of Available Net Income or for any other purpose of the Indenture, provided that any such provision shall be approved by the Interstate Commerce Commission or other federal government authority having jurisdiction of the combination. Unless the Commission or other authority shall find that no material alteration of the rights of the bondholders is thereby affected, such provision shall be consented to by the holders of a majority in principal amount of the bonds outstanding, (4) The above-mentioned apportionment of income shall be upon such terms as will accord to the bonds (or any securities into which they may be converted or for which they may be exchanged) a participation in the income apportioned to the properties of Rock Island after the above-mentioned $4\frac{1}{2}$ percent Income Debentures of Rock Island.

Upon any combination of North Western (whether by consolidation, merger, or otherwise) with a corporation other than Rock Island, the above-mentioned provisions with respect to the maintenance of separate income accounts and the apportionment of revenues and expenses would be applicable.

Provisions are also made for the execution of supplemental indentures and for the satisfaction and discharge of the Indenture. The terms and provisions of the Indenture and the bonds are to be construed in accordance with the laws of the State of Illinois.

PART EFINANCE DOCKETS NOS. 23919, 23920, AND 24154ANDNO. MC-F-9668SANTA FE RAIL PURCHASE TRANSACTION AND RELATED
SECURITIES, COMMON USE OF TERMINAL FACILITIES,
AND ACQUISITION OF MOTOR CARRIER RIGHTS PROPOSALS

The proposed rail purchase is embraced in an agreement dated October 26, 1965, between Santa Fe and North Western. The agreement recites, among other things, that Santa Fe is of the view that in the event of an approval of the proposed control by North Western of the Rock Island, the sale of a portion of the latter's properties to the Santa Fe and its acquisition of trackage rights, as described in the agreement, would be more fully consistent with the public interest; that an approval of North Western's control application without the described sale and trackage rights also would be consistent with the public interest; that North Western is of the view that its control of the entire Rock Island without a division of the Rock Island properties with any other carrier would be more fully consistent with the public interest, at the same time, that the described acquisitions by Santa Fe also would be consistent with the public interest; and that in the event the Commission should approve North Western's control application and in connection therewith further approve the Santa Fe's purchase of a portion of the Rock Island properties and acquisition of trackage rights, the North Western and Santa Fe agree as follows:

North Western would cause Rock Island to sell or, in the event of merger of the two carriers⁵⁵ would, itself, sell to Santa Fe all Rock Island lines south of Salina and Herington, Kans., excluding the lines from Herington to Santa Rosa, N. Mex., and from Bucklin to Dodge City, Kans., but including the lines from Salina to Herington; with such part of the equipment owned by Rock Island or its subsidiaries, or North Western or its subsidiaries, on the closing date, as may be properly

⁵⁵ As seen, no application under section 5 seeking approval of a North Western-Rock Island merger is presently before the Commission. Nothing herein contained shall be construed as passing upon any provision of the Santa Fe-North Western agreement which involves a North Western-Rock Island merger.

apportioned to Santa Fe, based on an allocation to Santa Fe of equipment having a value equal to 31 percent of the total depreciated value of equipment (including roadway machines and highway equipment) owned by Rock Island as of the closing date. The allocation of equipment by specific units, however, shall be based upon the actual assignments or relative use made of such equipment on the Rock Island part and the Santa Fe part in the calendar year prior to the final approvals of this Commission. If Santa Fe should acquire specific equipment having value of more or less than 31 percent of the total depreciated value of Rock Island equipment at the closing date, the basic purchase price shall be adjusted by an amount equal to this difference.

In addition, Santa Fe would receive materials and supplies held for use on those lines on the closing date, including a proper proportion of general stores; industrial properties and interests in railroad, bridge and terminal companies appurtenant to these lines; all franchises, privileges, rights-of-way, easements, licenses and permits owned, acquired, appropriated or used for any purpose connected with the operation, use and enjoyment of said lines and all fixtures and appurtenances used in the operation thereof; all contracts to which Rock Island, or North Western, will be a party on the closing date and which are appurtenant to the lines being purchased (it being understood that Santa Fe agrees as of that date to make all payments and to perform all obligations which Rock Island, or North Western has agreed to make and perform with respect to such agreements and related instruments); and that portion of the operating rights of RI Transit over routes appurtenant to the geographical area served by the lines to be purchased, as well as appurtenant terminals and other facilities.

Also, Santa Fe would receive full trackage rights in perpetuity, or until terminated by mutual agreement, over Rock Island's line between Kansas City and St. Louis, Mo., including the right to handle local traffic on the lines and to use any branch, spur and industrial trackage appurtenant thereto as well as the use of the Rock Island yard at St. Louis. Such trackage rights shall be incorporated in a joint-facility agreement in which Santa Fe will pay one-half of the annual ownership costs of the line and appurtenant facilities between Kansas City and St. Louis, including Rock Island's St. Louis yard, which shall be deemed to be taxes and 6 percent of the original cost. Santa Fe shall also pay an equitable proportion of maintenance and other operating expenses (other than owner's train operation expenses borne exclusively by the owner) based upon the relative use made of the said line and appurtenant facilities by the parties.

The joint-facility agreement shall provide that the owner, either Rock Island or North Western, shall exercise operation control on a fair and equitable basis, and said agreement shall contain appropriate and customary terms and provisions governing the relations of owners and tenants under similar joint-facility agreements with respect to the time for rental and other payments, arbitration and indemnification and liability, as well as other appropriate terms and provisions.

If it should be necessary to upgrade, rehabilitate or adapt the line to accommodate Santa Fe's operations under the joint-facility agreement, Santa Fe will reimburse the owner for such expenditures to the extent of Santa Fe's normal relative use of the joint facility, which normal relative use will be determined with reference to a reasonable period of time, mutually agreed upon, or to the extent of 50 percent of the expenditures, whichever amount is greater. The amount of such expenditures shall not, thereafter, be included as a part of the original cost upon which the annual ownership costs are determined.

Any property to be acquired by Santa Fe may, at its election, be acquired by a company or companies in which it owns substantially all of the capital stock.

The basic purchase price to be paid by Santa Fe in consideration for the acquisitions will be \$100,000,000, subject to any adjustment for the allocation of specific equipment, discussed above, and subject, also, to an adjustment of 31 percent of any change in Rock Island's total indebtedness between December 31, 1964 and the closing date. Any such addition, however, shall not exceed the gross capital expenditures for Road and Equipment property and miscellaneous physical properties, less depreciation on such properties and less proceeds from sale of any such properties, on the southern lines made after December 31, 1964, and prior to the closing date.

The agreement provides that the transaction will be effectuated if this Commission grants satisfactory approvals for the acquisition of control of Rock Island by North Western, or for the merger of the two carriers, and for the acquisition by Santa Fe from Rock Island, or North Western, of both the properties of Rock Island and the trackage rights. Such approval shall not be deemed to be satisfactory if conditions imposed by this Commission on the transactions are found by either party to be substantially burdensome to it. The following conditions, however, shall not render an approval unsatisfactory: Conditions for the protection of employees

not substantially more burdensome to the employer than those generally prevailing at the time of the Commission's approval; customary conditions or requirements concerning reporting information and filing documents with the Commission and prohibitions against sale, pledge, repledge, or disposition of securities to be issued pursuant to Commission authority without further authorization; or customary traffic conditions.

Following satisfactory approvals from this Commission, North Western shall notify Santa Fe in writing of the closing date for the transfer of properties and conveyance of trackage rights. Unless otherwise agreed upon, this closing date shall not be more than two years after Commission approval. Upon the closing, North Western shall cause Rock Island to, or shall itself, convey, to Santa Fe, free and clear of encumbrances, all Rock Island properties and trackage rights covered by the agreement. Further, there shall not be any lien to secure funded debt or other indebtedness thereon (other than tax and assessment liens not yet payable and charges incident to construction) created by Rock Island or North Western, except that which Santa Fe may voluntarily assume. If Santa Fe assumes to pay any such lien, the consideration to be paid shall be reduced by the principal amount of the indebtedness secured by such lien and any interest accrued thereon at the closing date. Each of the parties will pay one-half of any excise taxes imposed upon the conveyance of real property interests.

After the closing date, pension benefits payable under the Rock Island pension plan shall be paid by Rock Island, or North Western, as the case may be, and Santa Fe will pay monthly, to that party 36 percent of the total amount paid. Both Santa Fe and Rock Island, or North Western, shall be severally responsible for the payment of any protection benefits imposed by the Commission pursuant to section 5(2)(f) of the Act which benefits are required to be paid to former Rock Island employees whose work is directly assignable to the Santa Fe part or the Rock Island part, respectively. As to those Rock Island employees whose work is not so directly assignable, Santa Fe shall pay 36 percent of the cost of furnishing the required employees-protection benefits, and Rock Island, or North Western, shall pay the balance.

In the event Rock Island is a party to any agreement or other arrangement including, without limitation, leasing arrangements for traffic and ticket offices entered into for the purpose of rendering services at points not on railroad lines of the Rock Island and for the purpose of rendering services which are not directly assignable to the Santa Fe part or the Rock Island part and which shall continue in effect after the closing date, all rentals, salaries and wage costs and other

expenses of any kind incurred in rendering such services shall be paid by Rock Island, or North Western, and Santa Fe shall pay to Rock Island, or North Western, as the case may be, 36 percent of the amount paid. Santa Fe shall share in proper proportion in any benefits arising from such agreements and arrangements.

If, due to irreconcilable differences, either party wishes to submit the matter to arbitration, that party may select an arbitrator and in writing, so notify the other party, which will then within thirty days, select an arbitrator and notify, in writing, the first party of the selection. The two arbitrators will then choose a third arbitrator. In the event that any arbitrator or arbitrators cannot be selected, the parties will then have the matter submitted to the District Court of the United States for the Northern District of Illinois in the manner provided by the Federal Arbitration Act (Title 9 U.S.C. Section 5) for the purpose of the appointment and designation of an arbitrator or arbitrators. Each party shall pay the compensation and expenses of the arbitrator selected by it or appointed by the court in its behalf. The compensation and expenses of the third arbitrator shall be borne equally by the parties.

The agreement shall be binding upon and inure to the benefit of the parties hereto their successors and assigns, but is not intended to be for, and shall not inure to, the benefit of any other parties, except as herein provided, to Rock Island and its successors and assigns.

The Securities Application

In the section 20a application, Santa Fe requests authority to assume liability and payment for the contingent obligations of Rock Island with respect to bonds of the companies named immediately below, and which bonds are included within the properties proposed to be purchased. As of December 31, 1967, the obligations to be assumed were, as follows:

A&M Terminal First Mortgage Bonds, 2-3/4% due serially September 1, 1967 through 1975; guaranteed by endorsement jointly and severally as to principal and interest by the Rock Island and two other railroads. The principal amount outstanding was \$775,000.

Texas National Bank of Commerce, $5\frac{1}{2}\%$ Note due June 30, 1972, guaranteed as to principal and interest and sinking fund by Rock Island, Santa Fe, Missouri Pacific and Missouri-Kansas-Texas. The principal amount outstanding was \$2,195,000.*

Union Terminal of Dallas, first mortgage bonds, 3% due June 1, 1978, guaranteed through an operating agreement which provides for payment by Rock Island of $1/8$ the amounts due in respect of interest and principal. The principal amount outstanding was \$4,330,000.

*The Texas National Bank of Commerce note replaced the Houston Belt First Mortgage Bonds, as **more fully** discussed in
Part F.

Proposed Common Use of Terminal Facilities

Santa Fe seeks joint use of certain Frisco terminal facilities in Kansas City, consisting of approximately two and one-half miles of Frisco trackage and passing tracks, together with crossover and appurtenant track facilities. Pursuant to an agreement of March 9, 1961, renewing a former agreement, with Frisco, Rock Island now uses the line to bridge a gap between its own St. Louis line and the Kansas City Terminal Ry. trackage over which its St. Louis line is connected with the remainder of the system as well as other Kansas City railroads. The monthly rental on this segment of line is one-twelfth of $2\frac{1}{2}$ percent of the value of the trackage as of March 24, 1954, amounting to \$301,956.34, plus $2\frac{1}{2}$ percent of the cost of additions or betterments to the trackage made from March 24, 1954, until the agreement is terminated. Also, Rock Island pays 50 percent of the taxes levied on the facilities and a proportion of the cost and expense of maintaining and operating the facilities.

Santa Fe intends to use these terminal facilities to connect the Kansas City-St. Louis line with the remainder of the Rock Island system to be acquired.

Motor Carrier Proposed Purchase

Santa Fe Trail seeks to purchase from RI Transit, the operating rights, terminals, and other facilities (other than highway equipment) appurtenant to RI Transit's routes between Wichita, Kans., and Fort Worth-Dallas, Tex.; between El Reno, Okla., and Memphis, Tenn.; and between Little Rock, Ark., and Winnfield, La. Santa Fe, which controls Santa Fe Trail through ownership of all the capital stock, will control those same rights and properties. These operating rights appear in RI Transit's certificate No. MC-29130 and in sub-numbers 40, 46, 56, 57, 71, 76 and 82, thereunder. They are restricted to the performance of service which is auxiliary to or supplemental of rail service on those lines of Rock Island to be purchased by Santa Fe. The routes between Wichita, Kans., and Fort Worth, Tex., and between Little Rock, Ark., and Winnfield, La., are limited to transportation of express traffic only.

PART FTHE UNION PACIFIC AND SOUTHERN PACIFIC TRANSACTIONS

A. Preliminary Discussion

B. Division of Rock Island Property Between Union Pacific and Southern Pacific - The Coverdale & Colpitts Allocation

C. Union Pacific

- (1) F.D. No. 23286. The merger transaction
- (2) F.D. No. 23287. The securities application
- (3) F.D. No. 24128. The construction application
- (4) F.D. No. 24129. Proposed abandonment

D. Southern Pacific

- (1) F.D. No. 23595. The rail purchase transaction
- (2) F.D. No. 23596. The securities application
- (3) No. MC-F-9222. The motor carrier purchase transaction

Preliminary Discussion

Consideration of the last six transactions listed above are all dependent upon a prior determination of the merger proposal first shown. However, the nature and scope of the Union Pacific-Rock Island merger proposal can be understood only if there can first be made a terse recitation of the Union Pacific-Southern Pacific arrangement and agreements concerning the Rock Island. In June 1962 the Union Pacific was advised by the Southern Pacific that the latter was considering merger with the Rock Island and had commenced studies of Rock Island properties. Union Pacific, thereupon, advised Southern Pacific that it too was considering merger with Rock Island and had completed unilateral studies of Rock Island properties. Conferees of the Union Pacific and Southern Pacific met on various occasions to accomplish an accommodation of the two carriers' interests. As set forth in an agreement of February 28, 1963, it was agreed that the Union Pacific would seek to acquire the Rock Island by merger and thereafter sell the southern portion of the Rock Island lines to Southern Pacific. A formula was established providing for the manner by which the price to be paid would be determined. The agreement also contemplated that the Southern Pacific would participate in the merger negotiations with the Rock Island and the terms of any merger would be subject to Southern Pacific approval. On June 27, 1963, a formal merger agreement was entered into between the Union Pacific and Rock Island Boards of Directors, subject to stockholders approvals. By reason of various intervening factors, it was agreed by the Union Pacific, Southern Pacific

and Rock Island that there was no possibility of obtaining the requisite two-thirds approval by Rock Island shareholders of the June 27, 1963 merger agreement.

New agreements (an Exchange Offer and a Plan and Agreement of Merger), as next described, were drafted, and without the agreement or acquiescence of Southern Pacific. However, Union Pacific had concurrently advised Southern Pacific of the former's intention under an approval and consummation of the merger to sell to the latter that portion of Rock Island lines which were the subject of the February 28, 1963 agreement and on terms in accordance with the spirit of the agreement. Accordingly, Union Pacific and Southern Pacific entered into an agreement dated March 17, 1965, which is later spelled out in detail in connection with the authority sought in Finance Docket No. 23595, and as now directly pertinent provides for the sale of the southern portion of the Rock Island lines simultaneously with the closing of the Union Pacific-Rock Island merger transaction.⁵⁶

As seen, the Union Pacific-Rock Island merger and Southern Pacific purchase are interdependent transactions. As the Union Pacific and Southern Pacific agree, were it not for the parties' proposed concurrent acquisition by the Southern Pacific of described Rock Island lines, Southern Pacific would oppose the proposed merger application if such had been presented as a transaction standing alone. Under existing circumstances, Southern Pacific presented no evidence in opposition and, as a matter of fact, supports the proposed merger the same as the Union Pacific supports Southern Pacific's proposed purchase. To now consider the proposed merger as a transaction entirely distinct and separate from the Southern Pacific proposed purchase would be directly contrary to the declared intent of the parties and effectively foreclose the presentation of evidence in opposition by Southern Pacific.

At the outset of its brief, Union Pacific points out that the reason for stressing the merger reflects necessarily the fact that the merger must take place before the sale can be consummated. The foregoing has been reflected in the presentation of evidence by the Union Pacific. Thus, but a limited portion of the record made bears upon merger of the entire Rock Island. The bulk and principal thrust of the Union Pacific

⁵⁶ Southern Pacific asserts, on brief, that execution of the March 17, 1965 agreement finalizes various matters left unsettled by the February 28, 1963 agreement.

evidence deals with the real aspect of the merger and which is the portion of the operations, lines, and properties of the Rock Island remaining with the Union Pacific following the simultaneous proposed purchase by Southern Pacific.

In addition to the above-discussed factors, a most careful and thorough review of the entire record shows that the findings and conclusions properly made on the basis of the evidence in support of the merger following the proposed purchase by Southern Pacific would not in any material way be altered or rendered more favorable by a determination based upon the evidence presented in support of a merger of the entire Rock Island into Union Pacific. For all the reasons above detailed, determination of the Union Pacific-Rock Island proposed merger will be on the basis of the proposed simultaneous purchase by Southern Pacific. Where necessary, the two transactions will be separately discussed to avoid what otherwise would result in substantial complexities of position of the parties, their evidence bearing on the various transactions, and the like.

Coverdale & Colpitts

By a joint letter of instructions dated September 24, 1962, Union Pacific and Southern Pacific arranged for Coverdale & Colpitts, a consulting engineering firm, to make a study with respect to the proposed acquisition and division of properties of the Rock Island. The assignment was as follows:

1. To establish, with adequate particularity, the properties to be acquired by each of the parties based upon the facts existing at the time of the study. This apportionment includes motive power and rolling stock as related to the operating needs of the two sections of the Rock Island. Materials and supplies held in general stores are to be allocated similarly.
2. To ascertain the estimated original cost of the Rock Island properties (except land rights), as that term is used by the Commission, before and after depreciation, and other elements of value recognized by the Commission for the respective sections of the Rock Island lines being acquired by the Union Pacific and the Southern Pacific.
3. To estimate revenues, expenses and net earnings before income taxes and fixed charges of the respective portions of the Rock Island properties using, where necessary such methods of allocation as is deemed appropriate.

Coverdale & Colpitts submitted a draft of this report on May 9, 1963, and it was signed on January 24, 1966, with modifications.

The geographic areas of the property to be acquired by Southern Pacific, for the purposes of this report, are, Rock Island properties in Kansas City (Missouri and Kansas) and all lines and branches south of Kansas City, except the Topeka-Coburn line via St. Joseph and McFarland-Belleville line. The Kansas City-St. Louis line would be retained by the Union Pacific as would all lines north of but not including Kansas City and Southern Pacific would grant Union Pacific trackage rights between Topeka and McFarland.

The report defines the properties to be retained by Union Pacific and properties to be acquired by Southern Pacific and estimates, as of December 31, 1961, the original cost of Rock Island's railroad and other properties, before and after depreciation, in the respective Union Pacific and Southern Pacific sections. The report also estimates revenues, expenses and net earnings before income taxes and fixed charges of the two sections for 1961.

In considering the value of the lines, no weight was given to strategic value of the lines, business originated thereon and future utilization and other factors (none of which have been specified), although the consultants feel that some of these have a substantial bearing in the determination of the relative value of the two segments.

The following chart summarizes the percentage distribution between the Union Pacific and Southern Pacific of the valuation elements and the net earnings before income taxes and fixed charges:

	<u>Union Pacific</u>	<u>Southern Pacific</u>
	<u>Percent</u>	
Valuation elements as of		
December 31, 1961		
Original Cost	61.30	38.70
Original cost less		
depreciation	61.14	38.86
Net income before income		
taxes and fixed charges		
Estimated 1961	33.67	66.33
Estimated 1961 normalized	27.71	72.29

Schedule 1 of the report summarizes the valuation elements and shows that the estimated original cost of the assets of Rock Island which will be acquired by Southern Pacific was \$305,128,912 and \$483,406,132 for the Union Pacific as of December 31, 1961, and the estimated original costs less depreciation as of the same date for the respective carriers were \$204,888,074 and \$323,179,950. The calculation of earnings made by Coverdale & Colpitts are shown in Schedule 13 of the report. These calculations allocate \$9,022,340 or 66.33 percent of income available for fixed charges before federal income tax to the Southern Pacific segment and \$4,580,844 or 33.67 percent to the Union Pacific.

The record shows that the report was accepted by all participating parties without cross examination. Only Mr. Kendall Laughlin requested some clarification of the report with respect to the "Basis of Division of Rates." The Examiner finds the report to be a fair and reasonable presentation of the division of the Rock Island properties and income.

UNION PACIFIC

(1) The Merger Transaction and (2) Related Security Application

The merger transaction is embraced in three interdependent documents: a Plan and Agreement of Merger dated June 1, 1964, which fixes the mutual obligations of the carrier parties; an Exchange Offer of September 1, 1964, as amended October 1, 1964, pursuant to which Union Pacific would acquire Rock Island stock from its shareholders; and Revised Articles of Incorporation of the Union Pacific. Moreover, the supplemental application of UPC would result in certain changes in the consideration payable the selling Rock Island stockholders and in the issuance of securities by applicants. The foregoing will be detailed following the discussions immediately below of the transaction and issuance of securities as initially presented.

The Exchange Offer, as herein pertinent, provides that as consideration for each share of Rock Island stock, Union Pacific would (1) issue one share of a new \$1.80 Convertible Preferred stock, upon which would be payable cumulative dividends of \$1.80 per annum, payable quarterly when and as declared, and convertible prior to redemption into 0.85 of a share of Union Pacific common stock, subject to adjustments ⁵⁷

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Appropriate adjustments would be made in the event prior to consummation of the exchange offer there shall be any change in number or par value of Rock Island stock as a result of certain specified circumstances.

and (2) make a cash payment equal to the amount by which a sum computed at the rate of 45¢ per quarter for the total number of full calendar quarters from July 1, 1964 to June 30, 1967, exceeds the aggregate \$.75 dividend paid during such period on each share of Rock Island common stock (computed at \$4.65 for each Rock Island share). Rock Island stockholders who have not seasonably complied with the Exchange Offer would not be entitled to the cash payment.

Various methods and time limits are prescribed for acceptance under the Exchange Offer. Following several extensions of time, the latest period of acceptance terminated on October 1, 1965. As of December 31, 1965, 2,704,605 shares of Rock Island stock (92.7 percent) had been tendered and for which Union Pacific certificates of deposits were issued.

Consummation of the Exchange Offer is subject to prior approval of the Merger Agreement by the stockholders of Union Pacific and Rock Island and also approvals by the appropriate regulatory bodies. Consummation of the exchange offer would be concurrently with consummation of the merger upon effective date set forth in the Merger Agreement and at which time all right, titles and interest in the assented shares and certificates representing such shares shall be transferred to Union Pacific. The Exchange Offer would terminate in the event consummation (as above-defined) is not had within one year from Commission's final approval, with such final approval date being not later than August 31, 1973.✓

Under the Merger Agreement, executed by Union Pacific, Rock Island, and a majority of their directors, it is recited that the Union Pacific proposes to make an offer to the stockholder of Rock Island to exchange their stock for new convertible preferred stock of Union Pacific (the Exchange Offer) and that such offer will be consummated by the merger of the Rock Island into the Union Pacific.⁵⁸ The Merger Agreement provides that the merger shall take effect on the "effective" date, later defined and under the terms and conditions set forth in the agreement.

Among the warranties of Rock Island are that it is a corporation in good standing under the laws of Delaware; that its authorized capital stock consists of 3,100,000 shares of common stock of which as of June 1, 1964, there are 2,916,711

⁵⁸ As previously noted in footnote 4, Union Pacific received authority to issue its certificates of deposit for the Rock Island stock tendered.

shares issued and outstanding, fully paid and nonassessable, as of June 1, 1964, and 140,000 shares are reserved for issuance under Rock Island's stock option plan (74,700 shares for employees); that Rock Island's balance sheet as of December 31, 1963 presents fairly its financial condition, and its income statement for the year 1963 presents fairly the results of operations; and that Rock Island has no undisclosed liabilities or obligations, liens, and encumbrances of any nature or type, except as reflected in the balance sheet.

Rock Island further represents that since December 31, 1963, there has been (a) no material change in Rock Island's financial condition, assets, liabilities, properties or business, except those in the ordinary course of business, (b) no change in Rock Island's authorized capital stock or stock options, (c) no incurrence by Rock Island of indebtedness maturing more than one year from the date the indebtedness was incurred, except for obligations assumed in connection with the acquisition of equipment, (d) no bonus, profit sharing, stock option, or retirement plan instituted by Rock Island, and no change in its pension system. Rock Island agrees that, unless it has Union Pacific's written consent, it will refrain from effecting any such changes. Further, that Rock Island is not knowingly in default in the performance of any obligation contained in any of its securities.

Union Pacific warrants and represents, among other things, that it is in good standing as a Utah corporation; that its authorized capital stock consists of 20,000,000 shares of preferred, par value \$10 per share (its 4 percent preferred) and 29,617,870 shares of common, par value \$10 per share, of which are issued and outstanding 9,557,310 and 22,429,235 shares, respectively; that since December 31, 1963 there have been no material changes in Union Pacific's financial condition as shown by its balance sheet of that date, other than certain described changes which have been disclosed; and that the Union Pacific convertible preferred stock to be issued to Rock Island stockholders (later described) and the shares of Union Pacific common stock issued upon conversion of the convertible preferred will have been duly authorized, be validly issued and outstanding and fully paid and nonassessable; and the common stock will be reserved for such issuance.

There are certain covenants by Rock Island applying until the effective date. In brief, without Union Pacific's written consent, Rock Island agrees to refrain from transactions other than in the ordinary course of business, not to change its certificate of incorporation, to issue stock only pursuant to outstanding options and not to change them or grant others, not to purchase or redeem any of its stock, not to pay dividends except that in any year ending after December 31, 1963 dividends are permitted up to an aggregate amount not in excess of the

amount by which net income after fixed charges and other deductions for such year exceeds provisions for mandatory sinking funds and other reserve funds required to be made out of such net income, not to incur or assume indebtedness having a maturity of more than a year (except to acquire equipment) if the sum thereof and of the amount as of the date such incurrence or assumption of its then existing similar indebtedness maturing more than one year from said date will exceed \$111,000,000 and not to mortgage, pledge or encumber any of its assets except to the extent required to comply with its existing indentures or to acquire equipment, and not to institute any new employee benefit plan or change its present pension system.

Consummation of the merger is subject to various conditions precedent. As here pertinent, Union Pacific and Rock Island each will continue, up to the effective date, the accuracy and performance of their above-described representations and warranties; the stockholders of each shall approve the merger in accordance with the applicable state law; all the authority necessary to carry out the merger shall be granted by the Commission and other appropriate regulatory authorities, subject to certain specified conditions or other conditions satisfactory to Union Pacific; and in connection with the merger, the obtaining of required consents under various instruments of indebtedness (of Rock Island), including Commission approval of provisions relating to Rock Island's first mortgage, dated January 1, 1950 to the First National Bank of Chicago and Joseph C. Williams, trustee, and Rock Island's indenture, dated March 1, 1955, to Continental Illinois National Bank and Trust Company of Chicago.⁵⁹

As soon as practicable following stockholder approval, approval by the Commission and all other conditions precedent to the obligations of both parties to merge have been fulfilled, Articles of Merger shall be executed between Union Pacific and Rock Island and tendered to the Secretary of the State of Utah and concurrently the Merger Agreement shall be tendered for filing in the office of the Secretary of the State of Delaware and for recording in the Office of the Recorder of Deeds for the County of New Castle, Delaware. The merger shall become effective, the "Effective Date", upon issuance by the State of Utah of a Certificate of Merger and upon the recording of the Merger Agreement with the Office of the Recorder of Deeds in

⁵⁹The provisions, which deal with the apportionment of revenues and expenses of the surviving company to establish a basis for the determination and application of "available net income", will be detailed later in the application under section 20a in Finance Docket No. 23287.

New Castle County. On the effective date of the merger, the Articles of Association of Union Pacific will be amended and revised as Revised Articles of Incorporation.

On the effective date of the merger the Union Pacific and Rock Island capital stock shall be converted into capital stock or other securities of Union Pacific as follows:

(1) Union Pacific Common Stock

Since the common stock, including treasury stock, outstanding at the time of the effective date of the merger will thereafter continue unchanged no surrender or exchange will be required.

(2) Union Pacific 4 percent Preferred Stock

On the effective date and without any action on the part of the holder, each of Union Pacific's outstanding shares of 4 percent preferred stock, par value \$10, except for shares, if any, owned by Rock Island and excluding treasury shares, if any, will be converted into Union Pacific 4 3/4 percent Debentures, due 30 years after the effective date of merger, on the basis of \$10 principal amount of debenture for each share of \$10 par value preferred.

Fully registered debentures will be issued only in denominations of \$100, \$500, and \$1,000, or any multiple of \$100 approved by Union Pacific, and coupon debentures, registrable as to principal, will be issued only in the denomination of \$1,000. Arrangements will be made to assist holders of the 4 percent preferred stock for ninety days after the effective date to purchase such additional fractional interest in a \$100 debenture which, when added to the fractional interest to which he is entitled, will equal \$100 principal amount, or to sell any fractional interest in a \$100 debenture to which he is entitled. Thereafter debentures equivalent in principal amount to the aggregate fractional share interests indicated by the then outstanding certificates theretofore representing 4 percent preferred stock will be sold and the proceeds will be paid pro rata to the holders upon surrender of their certificates.

The debentures will be redeemable at the option of Union Pacific at redemption prices ranging from 107.5 during the first 12 month period (plus accrued interest to the date fixed for redemption) to 100.2 during the thirtieth 12 month period, plus accrued interest to the date fixed for redemption. A sinking fund will provide for the retirement of \$2,000,000 principal amount of the debentures annually commencing with the sixth year after issuance.

The debentures will be issued under an indenture to a trustee to be selected by applicant creating such debentures and authorizing the same to be authenticated and delivered upon surrender of 4 percent preferred stock in equal par amount. The indenture will be described in connection with the related application under section 20a.

(3) Rock Island Common

After the effective date and upon surrender, each of Rock Island's outstanding shares of common stock, except for shares, if any, owned by Union Pacific and excluding treasury shares, if any, will be converted into one share of Union Pacific no par value \$1.80 convertible preferred stock. Details of the convertible preferred stock are later described in connection with the summary of the proposed revised articles of incorporation.

On the effective date all shares of Union Pacific 4 percent preferred stock and Rock Island common stock held in their respective treasuries and all shares of such preferred and common stock which each owns of the other shall be retired and cancelled. No convertible preferred stock or debentures of Union Pacific shall be issued for the cancelled Rock Island stock.

Other provisions of significance provide that Rock Island may name two directors to the Union Pacific board of directors, and, if necessary, the latter will take action to increase the total number of its directors; that upon the effective date Union Pacific will acquire all assets and assume all liabilities of Rock Island; that the merger may be abandoned under certain specified circumstances; and that Union Pacific will take steps to preserve the pension system of Rock Island employees who remain in active service after the effective date.

It also should be mentioned that one of the conditions precedent to consummation in the event of Commission approval deals with the matter of imposition of conditions for the protection of employees and which would be acceptable to Union Pacific.⁶⁰ However, following the close of hearing,

⁶⁰ Conditions similar to those heretofore imposed in Oklahoma Ry. Co. Trustees Abandonment, 257 I.C.C. 177, New Orleans Union Passenger Terminal, 282 I.C.C. 271, and Detroit T&I R. Co. Control, 275 I.C.C. 455, the proceeding last named herein called the DT&I case.

Union Pacific and RLEA filed agreements (received as Exhibit No. 1375) covering about one-half of the labor organizations representing employees of Union Pacific and Rock Island. Union Pacific is willing to make similar agreements with other organizations so that no protected employee will suffer loss of employment or be adversely affected with respect to his compensation or other benefits as a result of the merger. Now, on brief, Union Pacific proposes as to those employees who have not entered into the agreements embraced in Exhibit No. 1375 the imposition of conditions specified in New Orleans Union Passenger Terminal, supra as modified by the new arbitration provisions specified in the Commission order of September 27, 1967 in Chicago & N.W. Ry. Co.-Merger, 330 I.C.C. 13 and on reconsideration, 333 I.C.C. 236.

The Revised Articles of Incorporation contain broad corporate purposes authorizing Union Pacific to engage in all types of activities to the extent not prohibited by applicable law, including activities involving transportation by any means of conveyance, activities concerned with the development, production and marketing of natural resources and any and all real estate activities.

The stock which Union Pacific shall have authority to issue is divided into two classes: 3,500,000 shares of \$1.80 convertible preferred without par value and 29,617,870 shares of common stock of \$10 par value per share.

Among other things, the \$1.80 convertible preferred will be entitled to receive dividends not exceeding \$1.80 per annum, it will be preferred as to both earnings and assets, and each share will be entitled to one vote. The stock will be noncallable for five years from the date of the first day of the quarterly dividend period in which the stock is initially issued and thereafter will be callable at \$45 per share for one year and at \$1.00 per share less during each succeeding year down to \$40 per share after the tenth year. The right of conversion of the preferred into common stock shall terminate on the date fixed for redemption. In the event of liquidation each share would be entitled to receive \$40 together with accrued and unpaid dividends thereon before any distribution of assets shall be made to the holders of common stock. To protect against dilution principally, in the event additional securities, rights or options are issued, the conversion rate will be subject to adjustment in accordance with a formula which assumes a value for the present common stock at the time of issuance of \$47 per share.

Following boards of directors approvals, at a May 11, 1965 meeting of Union Pacific stockholders, 82.7 percent of the outstanding shares of common stock and 79.3 percent of the outstanding preferred stock voted in favor of the merger and revised articles of incorporation. A vote of at least a majority of the outstanding shares voting as a class is required under Utah law for approval of the merger. At a meeting on January 7, 1965 of the Rock Island stockholders, 78.2 percent of the outstanding stock voted in favor of the merger. A vote exceeding 66 2/3 percent is required under Delaware law.

As indicated previously, of the Union Pacific and Rock Island minority groups of stockholders, only Kendall Laughlin appeared as an intervenor in the proceedings.

To consummate the merger Union Pacific seeks authority under section 20a to issue (a) not exceeding 2,991,411 shares of its \$1.80 convertible preferred stock, without par value, proposed to be issued under its revised articles of incorporation, (b) not exceeding \$93,881,100 in total aggregate amount of 30-year, 4 3/4 percent debenture and indenture, and (c) not exceeding 2,542,699 shares of common stock, par value \$10 per share, also to be issued under the revised articles of incorporation. It further seeks authority to assume obligation and liability in respect of the First Mortgage Bonds, Forty Year 4 1/2 percent Income Debentures and other securities of Rock Island to the extent the same are issued or nominally issued and not cancelled on the effective date of the merger, including as of April 30, 1964:

(1) First Mortgage 2 7/8% Bonds, Series A, due January 1, 1980, of which \$38,142,000 are outstanding and \$437,000 are held in Rock Island's treasury;

(2) First Mortgage 5 1/2% Bonds, Series C, due February 1, 1983, of which \$15,360,000 are outstanding;

(3) First Mortgage 5% Bonds, Series D, due July 1, 1983, in principal amount of \$7,000,000, all of which are nominally issued and held in Rock Island's treasury;

(4) First Mortgage 5% Bonds, Series E, due July 1, 1987, in principal amount of \$4,000,000, all of which are nominally issued and held in Rock Island's treasury;

(5) Forty Year 4 1/2% Income Debentures, due March 1, 1995, of which \$53,894,000 principal amount are outstanding and \$491,000 are held in Rock Island's treasury;

(6) Equipment trust certificates, Series G and J to Y, inclusive, 17 in number, of which \$4,669,000 principal amount were due within one year and \$24,442,000 principal amount were due after one year; and

(7) Various conditional sale agreements or deferred payment contracts made in connection with the acquisition of equipment of which \$1,525,060 principal amount were due within one year and \$6,896,294 principal amount were due after one year.

As of December 31, 1969, the First Mortgage Bonds in (1) above had decreased to \$32,739,000 outstanding. The First Mortgage Bonds in (2) above had decreased to \$14,798,000 outstanding. First Mortgage Bonds in (3) cancelled and (4) cancelled. The Forty Year Income Debentures in (5) above had decreased to \$50,338,000 principal amount outstanding. Equipment trust certificates Series R to Y inclusive and similar certificates "1964-1" outstanding consisted of \$2,457,000 in principal amount due within one year and \$12,296,000 principal amount due after one year. Conditional sale agreements and deferred payment contracts made in connection with the acquisition of equipment \$2,345,977 principal amount due within one year and \$8,840,787 principal amount due after one year.

In connection with the foregoing items of conditional sales agreements and deferred payment contracts, which also are detailed in (7) above, the record shows that no other evidence of indebtedness has been issued in connection with such agreements and contracts. Conditional sales agreements and the similar in nature deferred payment contracts are not securities within the meaning of section 20a; see Louisville & N.R. Co. Merger, 295 I.C.C. 457 at 472. Accordingly, Union Pacific's application under section 20a will be dismissed with respect to the discussed conditional sales agreements and deferred payment contracts. Nothing herein contained shall be construed as authorizing Union Pacific to assume obligation and payment of such agreements and contracts in the event they are evidenced by securities within the meaning of 20a.

Included in the Rock Island properties proposed to be acquired by Union Pacific, are the interests now held by Rock Island in the following companies: The Belt Railway Company of Chicago-7 9/13 percent; Illinois Terminal Railroad Company-9.09 percent; Packers Car Line Company-8.97 percent; Saint Paul Union Depot Company-12½ percent; Terminal Railroad Association of St. Louis-6.25 percent and Trailer Train Company-2.44 percent.

Authority is also sought to assume obligation and liability in respect of Rock Island's Guaranties and Suretyships in effect on the effective date of the merger, including to the extent they are so in effect, the Guaranties and Suretyships listed in Schedule 110 of Rock Island's Annual Report, Form A, to the Commission for the year ended December 31, 1963.

As of December 31, 1969, the joint contingent obligations of Rock Island proposed to be assumed by Union Pacific are specifically described as follows:

(1) The Belt Railway Company of Chicago First Mortgage Bonds, outstanding principal amount \$32,035,000, 4 5/8 percent, due August 15, 1987, and guaranteed as to sinking fund, principal and interest by Rock Island and eleven other railroads. See: Finance Docket No. 22140, Belt Ry. Co. of Chicago Securities, (not printed) decided August 9, 1962.

(2) Illinois Terminal Railroad Company First Mortgage Bonds, outstanding principal amount \$7,525,000, 4 5/8 percent, due December 1, 1987, and guaranteed as to sinking fund, principal and interest by Rock Island and nine other railroads. See: Finance Docket No. 22292, Illinois Terminal R. Co. Bonds, 317 I.C.C. 595.

(3) Packers Car Line Company, conditional sale agreement, outstanding principal amount \$551,883, 4.45 percent, due annually from June 1, 1958 to June 1, 1972, inclusive and guaranteed as to principal and interest by Rock Island and eight other railroads.

(4) Saint Paul Union Depot Company, First & Refunding Gold Bonds, outstanding principal amount \$8,573,000, 3 1/8 percent, due October 1, 1971, and guaranteed as to principal and interest by Rock Island and six other railroads. See: Finance Docket No. 13437, St. Paul Union Depot Co. Securities, 249 I.C.C. 259.

(5) Terminal Railroad Association of St. Louis, Refunding and Improvement Mortgage Bonds, Series C, outstanding principal amount \$7,787,075, 4 percent, due July 1, 2019, and guaranteed as to interest and sinking fund installments by Rock Island and thirteen other railroads. See: Finance Docket No. 14554, Terminal Assn. of St. Louis, 257 I.C.C. 813.

(6) Terminal Railroad Association of St. Louis, Refunding and Improvement Mortgage Bonds, Series D, outstanding principal amount \$29,771,000, 2 7/8 percent, due October 1, 1985, and guaranteed as to sinking fund, principal and interest payments by Rock Island and thirteen other railroads. See: Finance Docket No. 15070, Terminal R. Assn. of St. Louis, 261 I.C.C. 841.

(7) Trailer Train Company, various equipment obligations, outstanding principal amount \$56,191,123, guaranteed as to principal and interest by "Principal Proprietary Companies" subject to change.

The assumption by Union Pacific of Rock Island's obligations under the Series A First Mortgage Bonds and the Forty Year 4 1/2 percent Income Debentures requires the execution by Union Pacific of an indenture supplemental to the Indenture of Mortgage under which the First Mortgage Bonds were issued and an indenture supplemental to the Indenture under which the Income Debentures were issued.

The Indentures under which these securities were issued provide for a contingent sinking fund which requires annual payments out of available net income. Additionally, the Income Debentures bear contingent interest which is payable out of such available net income. The Indentures additionally provide that if Rock Island is merged into another corporation, the successor corporation is not required to maintain separate income accounts with respect to operation of its properties but in lieu thereof provisions may be made with respect to the apportionment of revenues and expenses of the successor corporation in order to establish a basis for the determination of available net income. It is required, however, that such provisions be approved by the Commission and, unless the Commission finds that no material alteration of the rights of the bondholders or debenture holders is thereby affected, the provisions must also be approved by the holders of 2/3 of the outstanding bonds or debentures as the case may be.

The forms of the two proposed supplemental indentures⁶¹ are substantially similar. Both contain similar provisions for apportionment by the merged Union Pacific-Rock Island of revenues and expenses in order to establish a basis for determining available net income. Two divisions are designated, a Rock Island division and a Union Pacific division, each corresponding to the present properties of the two carriers. The provisions of the indentures apportion to each division specific items of revenues and expenses relating thereto and apportion the remaining revenues and expenses (after deducting the requirements of Union Pacific's two sinking funds) on a percentage basis as follows: 82.5% to the Union Pacific Division and 17.5% to the Rock Island Division.

The sinking fund for the Rock Island First Mortgage Bonds and the interest on and sinking fund for its Debentures will be payable out of the available net income of the Rock Island division. In any year if the available net income assignable to the Rock Island division is not sufficient to cover the Rock Island contingent interest and sinking funds, available net income of the Union Pacific division shall be used for such purposes to the extent necessary.

⁶¹ Supplemental Indenture of Union Pacific to the First National Bank of Chicago and Joseph C. Williams, Trustees (supplementing the indenture dated January 1, 1950 under which the Rock Island First Mortgage Bonds were issued) and Supplemental Indenture of Union Pacific to the Continental Illinois National Bank and Trust Company of Chicago, Trustee (supplementing the indenture dated March 1, 1955, under which Rock Island's Income Debentures were issued).

The annual contingent sinking fund on the Rock Island 2 7/8% First Mortgage Bonds is \$1,000,000, and \$160,000 on the 5 1/2% First Mortgage Bonds. The sinking fund on the 4 1/2% Income Debentures is \$1,057,000 for 1965, \$1,346,000 per year from 1966-1970, \$1,634,000 per year from 1971-1975, \$1,922,000 per year from 1976-1994 and \$1,910,000 in 1995. Additionally, the Income Debentures bear contingent interest. Based on the principal amount of Debentures outstanding on September 30, 1965 such annual contingent interest was \$2,323,530.

As previously noted, the debentures will be issued under an indenture to a trustee to be selected by Union Pacific creating such debentures and authorizing the same to be authenticated and delivered upon surrender of the 4% preferred stock in equal par amount. The proposed indenture between Union Pacific and the Morgan Guaranty Trust Company of New York, as trustee, contains the proposed form of the debentures (with and without coupons) and describes the terms and provisions thereof, the provisions for redemption and the sinking fund to provide the funds for such redemption or retirement (as has previously been described herein).

The indenture sets forth covenants by Union Pacific, chiefly to pay the principal and interest on the debentures when due and to perform and pay or discharge all other lawful obligations as required. Provisions are made for enforcement by the trustee and debenture holders of said covenants. Provisions are also made for the execution of supplemental indentures, for the calling of a debenture holder's meeting in specified situations, and for the satisfaction and discharge of the indenture.

Under UPC's proposal it seeks authority to issue its \$1.80 preferred stock, convertible into .85 shares of its common stock, for each share of the \$1.80 convertible preferred stock of Union Pacific which the sellers of the Rock Island stock would receive in consummating the merger. In the prior discussion of Union Pacific's Revised Articles of Incorporation its proposed newly issued preferred was fully described as to designations, rights and preferences including but not limited to dividend rate, redemption rights and prices

if redeemed, the amount payable per share upon dissolution, and provision for the protection against dilution in the event additional securities, rights, or options are issued. Contrasted to the foregoing, UPC's Revised Articles of Incorporation do not contain similar provisions for its preferred stock, particularly the specific provision above set forth for Union Pacific. Neither may it properly be assumed that UPC proposes to so condition the issuance of its preferred. At the same time, at the further hearing on November 19, 1969, UPC in explaining the UPC preferred stock to be issued stated that such security would be the "exact security" as proposed to be issued by Union Pacific.⁶² Under the circumstances, adequate protection of the situation requires that in the event of an approval and consummation of these transactions, UPC be required to submit a revision to its articles of incorporation reflecting the necessary designations, rights and preferences of the proposed issued securities.

⁶² Mr. McDonald: I simply wanted to say, Mr. Examiner, that our objective in moving in this direction is to give the Rock Island stockholder, who but for this holding company formation would have received the railroad \$1.80 convertible preferred stock, an option which will be subject to individual shareholder election. There will be no compulsory elements attendant to this exchange offer. The same ability to come in as a part of the family of holding company stockholders as that stockholder would have received had the Rock Island merger been consummated on the date the holding company exchange offer was made. We are offering the exact security, and, therefore, the Rock Island holder who is now looking under the terms of the Union Pacific-Rock Island merger agreement to a \$1.80 convertible preferred stock of the Railroad Company, convertible into .85 of railroad common, will, on consummation of this merger, receive the option to take the same security and thereby be treated on equal footing with the railroad stockholders except it will be a holding company security.

Exam. Klitenic: All right. Thank you sir.

Mr. Ball: Now, may I suggest that Mr. Barnett say that he agrees with what counsel have stated, so it becomes a --

Exam. Klitenic: Do you accept the statements of counsel?

The Witness: I accept the statement of counsel as my own.

Turning to another factor, it is noted that 90 percent (6,750,000 shares) of Union Pacific's 4 percent preferred holds UPC debentures convertible into UPC common stock.⁶³ UPC through its Chairman of the Board who also is the Chief Executive Officer, agreed at the further limited hearing that the sellers of the Rock Island stock would suffer a dilution in their ownership of UPC common following a conversion of debentures to common stock. However, UPC defends the "value" of the common stock to be issued the sellers on the basis of the security's "strength" and this is the basic value relied upon by UPC. Considering the equity accounting methods followed by UPC, as later discussed, the value of UPC stock presently rests upon its more than 90 percent ownership of Union Pacific stock, and the value of UPC stock standing alone is not supported.

Under the revised transaction, the selling Rock Island stockholder may elect to follow one of two paths with respect to the convertibility of his Union Pacific preferred stock: (1) take common stock of Union Pacific or (2) take common stock of UPC, by first exchanging his Union Pacific convertible preferred for UPC convertible preferred. There are no provisions under which the common stock of one may be exchanged (or converted) into the common stock of the other. In addition, should the selling Rock Island stockholders elect in the end to take UPC common stock, it will still be Union Pacific who will assume liability and obligation for the securities of Rock Island to be assumed in the merger. UPC does not intend acquiring all or such number of Union Pacific stock as would preclude the listing of such stock on the New York Stock Exchange. The purpose is to protect minority holders of Union Pacific stock by maintaining a market in the security.

At the further hearing it was disclosed that UPC had in mind to issue its \$1.80 convertible preferred directly in exchange for the Rock Island stock of the sellers and "not go through the mechanics of first issuing one kind of preferred and then turning around and exchanging it for another." However, the Hearing Examiner raised the question as to whether such direct exchange would be a substantially different proposal than the one presented to the Commission in UPC's petition (and supplemental application). However, in the event of an approval, Union Pacific and UPC are agreeable to following whichever procedure is directed by the Commission. As detailed immediately above, the selling Rock Island stockholder may elect one of two courses of action. Where he decides that he will ultimately take stock of UPC (preferred or common), the question is one of form and not at all of substance. Under such a circumstance, to force the parties to follow a two-step procedure rather than the direct exchange would only result in unnecessary work and considerable expense. On the other hand, where the selling Rock Island stockholder elects to receive and retain stock of

⁶³UPC explained the issuance of securities as follows:

A UPC \$100 principal amount 4 3/4 percent convertible debenture is convertible into 1.75 shares of UPC common stock at any time until maturity. The debentures mature on April 1, 1999 but may be redeemed by UPC on or after April 1, 1974, at various specified redemption prices.

Union Pacific, he could well be foreclosed from such choice if only a direct exchange were to be authorized. In connection with the latter matter, it will be recalled that the Union Pacific has 29 million shares of authorized common capital stock of which 7 million shares are unissued and are sufficient for 100 percent conversion of the 3 million shares of Union Pacific convertible preferred issuable to the selling Rock Island stockholders. To satisfy completely all sides of the question, any approval should authorize issuance of both stock of Union Pacific and of UPC subject to the condition that, following appropriate written inquiry by both Union Pacific and UPC with respect to the election, the selling Rock Island stockholder shall be issued the stock which he elects to receive and retain, and no other.

One other factor should be pointed out with respect to the exchanges of stock. No different issues are presented as effects the end result of the applications whether the Rock Island stock exchange is with Union Pacific or UPC since such authority may not be consummated without consummation of the ultimate Union Pacific-Rock Island merger and within the time provided by any order approving the transactions.

Concurrently with the Union Pacific-Rock Island merger, UPC seeks authority under section 20a to issue its \$1.80 convertible preferred in exchange for the Union Pacific \$1.80 convertible preferred received by the selling Rock Island stockholders. Presumably, the maximum number of preferred shares to be issued by UPC will not exceed 2,991,411 shares; the same number as sought under the Union Pacific 20a application. Also, as already stated, the full scope of the designation, rights, and preferences of the UPC stock has not been disclosed. For the reason already stated, there is no need to discuss the impact which a direct exchange of UPC preferred stock for Rock Island would have upon the securities application of the Union Pacific.

As seen, UPC, a non-carrier, controls Union Pacific and through the considered merger transaction would acquire control of another carrier, Rock Island. Under the circumstances described, the Commission pursuant to section 5(3) of the act may order that UPC shall be considered a carrier subject to various specified provisions of the act, including under 20a, provisions for the issuance of securities and assumption of obligations.

Remaining unchanged is the proposal of Union Pacific to issue its debentures in exchange for its 4 percent preferred stock (of which UPC holds 90.75 percent), i.e.: concurrently with consummation of the proposed merger, Union Pacific would issue its debentures in exchange for its preferred stock, and thereupon all the preferred stock would be cancelled.

Financial Status of Union Pacific Corporation

UPC's balance sheet as of June 30, 1969, the effective date it acquired control of the UP railroad shows total assets of \$1,410,312,876, consisting of: Current assets comprised entirely of cash \$69,060; investment in Union Pacific and consolidated subsidiaries at equity in underlying net assets \$1,409,873,361; and organization expenses \$370,455. Liabilities and shareholders' equity are composed of: Current liabilities represented by interest unpaid \$814,891; long-term debt represented by 4 3/4 percent convertible debentures due 1999, \$68,059,730; amounts payable to Union Pacific-net \$15,824; and shareholders' equity of \$1,341,422,431, comprised of common capital stock \$211,134,130, capital surplus \$9,743,167 and retained income \$1,120,545,134.

UPC's income statement for the period ended June 30, 1969 shows no income. It had total expenses of \$828,814 principally interest on funded debt of \$814,891; federal income taxes (\$437,614); and a net deficit of \$391,200.

UPC's latest available balance sheet as of September 30, 1969 shows total assets of \$1,431,954,286 consisting of: Current assets \$11,944,005, composed of cash \$7,824, working fund advances \$25,000, interest and dividends receivable \$11,911,181; investment in Union Pacific and consolidated subsidiaries at equity in underlying net assets \$1,418,955,298; and organization expenses \$1,054,983. Liabilities and shareholders' equity are composed of: Current liabilities \$12,398,506 composed of accounts payable \$232,198, interest unpaid \$1,615,805 and unmatured dividends declared \$10,550,503; long-term debt represented by 4 3/4 percent convertible debentures due 1999 \$68,059,730; amounts payable to Union Pacific-net \$34,575; and shareholders' equity of \$1,351,461,475, comprised of common capital stock \$211,134,130, capital surplus \$9,743,167 and retained income \$1,130,584,178.

UPC's income statement for the period July 1, 1969 through September 30, 1969 shows equity in net income of Union Pacific and consolidated subsidiaries \$20,993,118; total expenses \$1,658,537; federal income taxes (\$863,766) and net income of \$20,198,347. The income tax credit shown above and the similar credit of \$437,614 shown on the UPC June 30, 1969 income statement represent federal income tax credits resulting from payment of interest on debentures. On the subject of taxes, the record indicates that UPC's Board of Directors approved a tax allocation agreement between UPC, Union Pacific and subsidiaries and which would apply in the filing of a consolidated income tax return. UPC tersely explained that under such agreement final tax liability would be allocated to each company based on its net taxable income.

UPC explained that the above-discussed financial statements are based on the equity method of accounting principles. Under this method of accounting (not recognized by the Commission for the transportation industry) UPC reflects in its financial statements its equity interest (94.13 present common stock ownership) in Union Pacific. More specifically, UPC's investment account shown on its June 30, 1969 balance sheet, above described, is made up of the total of the par value of the common and preferred shares of Union Pacific stock owned by UPC or \$279,193,860, UPC's 94.13 percent interest in the retained income of Union Pacific and subsidiaries or \$1,120,936,334, and a similar interest of UPC in the capital surplus account of Union Pacific and subsidiaries or \$9,743,167. The foregoing accounting in UPC's asset accounts are offset by the following accounting in its liability and stockholders' equity accounts: Convertible debentures of \$68,059,730 plus common stock of \$211,134,130 which equals the UPC stock investment in Union Pacific; \$9,743,167 in capital surplus corresponds to the same asset account and amount; and the retained income of \$1,120,545,134 is the offset to the investment amount of \$1,120,936,334 representing UPC's described equity interest. In connection with the two accounts last mentioned, reference to UPC's income statement as of June 30, 1969, shows that the \$391,200 difference is equal to the net deficit for the period.

Turning to UPC's above-detailed balance sheet as of September 30, 1969, the equity accounting continues as described. Thus for example, its retained income of \$1,130,584,178 is an increase of \$9,647,844 over the period ended June 30, 1969. Such increase is comprised of UPC's \$20,993,118 equity in the net income of Union Pacific and subsidiaries for July 1, 1969 through September 30, 1969, less the amounts of UPC's expenses for such period and a \$10,550,503 dividend declared on its common stock. Of course, an offsetting entry is recorded in UPC's investment account. However, in comparing the two accounts there is a difference in amounts recorded of \$957,107 and which difference was not explained and is not susceptible to reconciliation on the evidence presented. The foregoing is noted since at the further hearing, UPC stated that in future periods, (following the entries recorded in the June 30, 1969 balance sheet of UPC) its equity in the earnings of Union Pacific and subsidiaries would be recorded in like amounts in the investment and retained income accounts of UPC.

The "pooling of interests" aspect of this transaction has been described as that part of the computation which is represented by the UPC's percentage of UPC's ownership, including its equity interest in the retained income of Union Pacific and consolidated subsidiaries in a pooling of interests. UPC agrees that as between itself and Union Pacific there is no physical merger.

(3) The Construction Application (F.D. No. 24128)

The portions of line in Colorado, Kansas, and Nebraska, which Union Pacific seeks authority to construct in Finance Docket No. 24128 are: (1) a line approximately 0.25 miles between Mile Post 3.40 on the Rock Island's Denver Freight Line, in Adams County, Colo., and Mile Post 3.86 on Union Pacific's Denver-Cheyenne Main Line, in the City and County of Denver, Colo. (This will be needed as a connection between Rock Island's Sandown line and Union Pacific's Cheyenne line to permit trains between Denver and Limon, Colo., to operate over it if Rock Island is unified with Union Pacific); (2)(a) a line about 3.15 miles between Mile Post 386.96 on the Rock Island Main Line, and Mile Post 205.62 on Union Pacific's Plainville Branch, all in Thomas County, Kans., and (b) a line of about 0.28 miles between Mile Post 201.79 on Union Pacific's Plainville Branch, and a point of connection with the above-described connecting track, all in Thomas County, Kans. (These extensions are required as a new main line connection and as a connection between Union Pacific's Plainville branch and the new main line at Colby); (3)(a) a line about 200 feet between Mile Post 152.99 on Union Pacific's Main Line, and Mile Post 156.25 on Rock Island's Ruskin Branch, all in Jefferson County, Nebr., and (b) a line about 200 feet between Mile Post 154.25 on Union Pacific's Main Line, and Mile Post 157.50 on Rock Island's Ruskin Branch (as hereafter shown, authority is sought for the abandonment of 1.25 miles of Rock Island's present Ruskin branch which parallels a portion of Union Pacific's main line; the extensions here are to provide connections at each end of the line proposed to be abandoned); (4) a line approximately 0.96 miles between Mile Post 61.95 on Union Pacific's Beatrice Branch, and Mile Post 566.50 on Rock Island's Main Line, all in Lancaster County, Nebr., (this is to provide a connection at Lincoln between a line of Rock Island and a line of Union Pacific so that the Rock Island line can be used as part of Union Pacific's freight route between Omaha and Kansas City); (5) a line approximately 0.5 miles between Mile Post 14.65 on Union Pacific's Old Main Line and Mile Post 513.38 on Rock Island's Main Line, all in Sarpy County, Nebr., (this is to provide a connection between the two carriers' main lines after the anticipated abandonment of 5.87 miles of Rock Island's main line paralleling Union Pacific's main line); (6)(a) a line approximately 200 feet between Mile Post 125.27 on Rock Island's Horton Branch, and Mile Post 101.19 on Union Pacific's Manhattan Branch, all in Gage County, Nebr., and (b) a line approximately 200 feet between Mile Post 128.90 on Rock Island's Horton Branch, and Mile Post 97.64 on Union Pacific's Manhattan Branch, all in Gage County, Nebr., (these extensions will provide connections at each end of a Rock Island portion of line 3.63 miles long which parallels Union Pacific's main line south of Beatrice and which is proposed to be abandoned). Union Pacific believes that all the proposed extensions are

necessary for the unified operation of the properties of the two railroads to be conducted economically and efficiently. Union Pacific's general plan for financing the proposed construction is to pay the cost thereof out of cash in Union Pacific's treasury.

(4) Proposed Abandonment (F.D. No. 24129)

The portions of line in Colorado, Kansas, and Nebraska, which Union Pacific seeks authority to abandon in Finance Docket No. 24129 are: (1) a portion of Rock Island's Denver Freight Lines, of about 0.59 miles, in Adams County, Colo., between Rock Island Mile Posts 3.40 and 3.99 (this portion will be needed no longer if authority for the construction of the line in (1) in Finance Docket No. 24128 is granted); (2) a segment about 2.12 miles of that portion of Union Pacific's Plainville Branch in Thomas County, Kans., between Union Pacific's Mile Posts 203.50 and 205.62 (this will no longer be needed if the extensions in paragraph (2) in the application aforementioned are granted); (3) approximately 1.25 miles of that portion of Rock Island's Ruskin Branch in Jefferson County, Nebr., between Rock Island Mile Posts 156.25 and 157.50 (this line will not be needed if construction of the extension sought in (3) above is found required); (4) approximately 5.87 miles of that portion of Rock Island's Main Line in Douglas and Sarpy Counties, Nebr., between Rock Island Mile Posts 507.51 and 513.38 (this will no longer be needed if the authority sought for the construction delineated in (5) in the construction application is granted); (5) approximately 3.63 miles of that portion of Rock Island's Horton Branch in Gage County, Nebr., between Rock Island Mile Posts 125.27 and 128.90 (this line will not be needed if the authority sought in (6) in the construction application is granted).

Each of the abandonments involves track at a point now common to the lines of Rock Island and Union Pacific, and there is not involved any abandonment or reduction of service to any station or territory except at Rumsey, Nebr. Since 1960 that station has received a total of 14 cars with total revenues of \$2,000 and has received no cars since 1962. The abandonments will be necessary in order for the combined operations of the properties of the two railroads to be conducted economically and efficiently.

SOUTHERN PACIFIC(1) Rail Purchase Transaction (F.D. No. 23595)

In the previously referred to agreement of March 17, 1965, between Southern Pacific and Union Pacific, it is recited that both parties have jointly conducted studies, with the aid of the firm of Coverdale & Colpitts, of the Rock Island properties for the purpose of determining valuations and other relevant information including a practical geographical severance in the interest of more efficient transportation service.

The agreement provides that Southern Pacific would purchase the lines of Rock Island extending from Santa Rosa to Kansas City, including trackage rights over Union Pacific Lines between Topeka, Kans., and Kansas City, Kans., and the properties of Rock Island in Kansas City, Kans., and Kansas City, Mo., and all other lines south of Kansas City, including the line from Herington, Kans., to Salina, Kans., but excluding the line from McFarland, Kans., to Belleville, Kans., and excluding also the line from Kansas City to St. Louis; and such portion of the equipment owned by Rock Island on the date of transfer of the above-mentioned lines or closing date (later defined) may be properly apportioned to Southern Pacific in accord with the principles of allocation set forth in Schedules 6 and 7 of the Coverdale and Colpitts report and a division of equipment allocating 38.8 percent of the depreciated value shall be made to Southern Pacific.

Additionally, Southern Pacific would purchase on the transfer date (1) materials and supplies held for use on said lines (including a proper proportion of general stores) (2) industrial properties (held primarily for sale or lease) and all of Rock Island's interest in railroad, bridge and terminal companies as owned by Rock Island immediately prior to the date of its merger with Union Pacific which properties are within the general geographical area of the acquired lines, (3) all franchises, privileges, rights of way, easements, licenses, and permits owned or used by Rock Island in connection with the operation of the above-mentioned lines (including all fixtures and appurtenances used in the operation thereof) (4) all contracts to which Rock Island is a party on said merger date and in effect in the general geographical area of the acquired lines (it being understood that Southern Pacific would make and perform all the obligations which Rock Island has agreed to make and perform with respect to such agreements), and (5) that portion of the motor carrier operating rights of RI Transit as are located in the geographical area served by the lines to be acquired by Southern Pacific. Any property to be acquired by Southern Pacific or Union Pacific may be acquired at the election of either by a company or companies in which it owns substantially all of the capital stock.⁶⁴

⁶⁴ As seen, in Docket No. MC-F-9222, SP Transport, the wholly owned motor carrier subsidiary of Southern Pacific, seeks authority to acquire the above-described operating rights of RI Transit.

As consideration for the above-described properties to be purchased, Southern Pacific would pay Union Pacific \$120,000,000 in cash subject to adjustment upward or downward of 38.8 percent of any net increase or net decreases, as the case may be, in the total indebtedness of Rock Island between December 31, 1964 and the closing date, provided any such addition shall not exceed the gross capital expenditures for Road and Equipment property and Miscellaneous physical property, less depreciation on such properties and less proceeds from sale of any such properties, made after December 31, 1964 and prior to the closing date.

Among other things, the agreement provides that the transactions will be effected if this Commission grants satisfactory final approval for the merger of Rock Island into Union Pacific and acquisition by Southern Pacific of the southern portion of the Rock Island properties. Approval shall not be deemed satisfactory if subject to conditions which are found by either Southern Pacific or Union Pacific, to be substantially burdensome to it. However, the following conditions shall not render approval unsatisfactory: employee protective conditions which are not substantially more burdensome to the employer than those generally prevailing at the time of Commission approval; customary conditions concerning reporting information and filing documents with the Commission, and prohibitions against the sale, pledge, repledge, or other disposition of securities pursuant to Commission authority without further authorization.

Following approvals, Union Pacific shall notify Southern Pacific of the date and place for the contemporaneous closing of the two transactions which date shall not be less than 3 months and no more than 6 months after such notification. In the event the closing date has not occurred within 7 years after the date of the agreement, the agreement shall terminate. Upon the closing, Union Pacific would convey to Southern Pacific all right, title and interest in the southern portion of Rock Island upon merger of Rock Island into it without Union Pacific having in any way encumbered the portion nor will there be any lien debt imposed thereon to secure funded debt, except that which Southern Pacific may voluntarily agree to assume. If Southern Pacific assumes any lien the consideration payable under the agreement will be reduced by the principal amount of indebtedness assumed and any interest accrued thereon at the time of closing.

After the closing date, pension benefits payable under the Rock Island pension plan shall be paid by Union Pacific and Southern Pacific will pay to Union Pacific monthly 45 percent of the total amount paid. Both parties will be severally responsible for the payment of any protection benefits imposed by the Commission pursuant to section 5(2)(f) of the Act which benefits are required to be paid to former Rock Island employees whose work is directly assignable to the Southern part or the Union Pacific part, respectively. As to Rock Island employees whose work is not

so directly assignable Southern Pacific shall pay 45 percent of the cost of furnishing the required employee protection benefits and Union Pacific the balance.

If Rock Island is a party to any agreement or arrangement for rendering services at points not on the lines of the Rock Island which services are not directly assignable to the Union Pacific or the southern part and which agreement continues in effect after the closing date, all rentals, salary, wage cost and other expenses incurred in rendering such service shall be paid by Union Pacific and Southern Pacific shall pay to Union Pacific 45 percent of the amount paid. Southern Pacific will also share in like proportion in any benefits arising therefrom.

The parties agree to conduct negotiations looking towards unification and joint operation of the present freight yards of Rock Island and Union Pacific at Kansas City or joint SP-UP usage of Rock Island yards. Failure to reach an understanding in these respects, however, shall not affect the validity of the agreement.

In case any disagreement arises between the parties as to the meaning or performance of any provision of the agreement or as to any other matter arising under the agreement such disagreement shall be submitted to arbitration pursuant to the New York Civil Practice Act. Nothing in the agreement shall be construed as imposing any obligation on Union Pacific inconsistent with its contractual duties under the Merger Agreement of June 1, 1964 between Union Pacific and Rock Island or under the Union Pacific Exchange Offer of September 1, 1964, as amended October 1, 1964.

Included within the previously described properties proposed to be purchased by Southern Pacific (also embraced within its application to acquire control through ownership of stock or proprietary interest) are the interests now held by Rock Island in the following companies: the Arkansas & Memphis Railway Bridge and Terminal Company - 33 1/3 percent, the Burlington-Rock Island Railroad Company - 50 percent, ⁶⁵the Galveston Terminal Railway Company - 50 percent, the Great Southwest Railroad, Inc., - 45 percent, the Houston Belt and Terminal Railway Company - 12 1/2 percent, the Kansas City Terminal Railway Company - 8 1/3 percent, the Oklahoma City Junction Railway Company - 50 percent, the Union Terminal Company of Dallas - 12 1/2 percent, the Warren and Ouachita

⁶⁵ Pursuant to authority granted in Fort Worth & D.Ry. And C., R. I. & P. R. - Joint Ownership, 324 I.C.C. 561, (decided September 10, 1965) the properties formerly owned by the Burlington-Rock Island Railroad Company were acquired by the Rock Island and the Fort Worth & Denver; each carrier acquiring an undivided one-half interest. The Burlington-Rock Island was dissolved in April, 1965.

Valley Railway Company - 100 percent and the Wichita Union Terminal Railway Company - 33 1/3 percent. Southern Pacific would assume certain contingent obligations of Rock Island in regards to bonds of certain of the foregoing companies, as next discussed in the related application under section 20a.

Similarly included in the proposed purchase and authority sought are the following trackage rights of Rock Island: (1) use of Burlington-Rock Island Railroad Company trackage between Waxahachie and Houston, Tex., and between Teague and Mexia, Tex., (a total of approximately 225 miles), (2) use of Gulf, Colorado and Santa Fe Railway Company trackage between Houston and Galveston, Tex., (approximately 47 miles), under trackage rights of Burlington-Rock Island Railroad Company, (3) use of Louisiana & Arkansas trackage between Winnfield and Alexandria, La., (approximately 47 miles), (4) use of Katy trackage between Dallas and Waxahachie, Tex., (approximately 29 miles), (5) use of Frisco trackage between Enid and Carmen, Okla., (approximately 39 miles), (6) use of Frisco trackage between Leeds Junction and Sheffield, Mo., (approximately 3 miles), (7) use of Union Pacific trackage between Abilene and Salina, Kans., (approximately 20 miles), and (8) use of Union Pacific trackage between Kansas City and Topeka, Kans., (approximately 67 miles). Authority is also requested for use of various trackage and facilities pursuant to local trackage agreements and joint facility and other operating arrangements with other carriers by railroad.

(2) Security Application (F. D. No. 23596)

By related application under section 20a of the Act, Southern Pacific requests authority to assume obligation and liability for the contingent obligations of Rock Island in regard to the bonds of the terminal companies which bonds are included within the properties purchased; namely, the A&M Terminal, KC Terminal, Houston Belt, and Union Terminal of Dallas. Southern Pacific would assume the contingent obligations of Rock Island in respect of the bonds of said companies as listed in Schedule 110 of Rock Island's Annual Report Form A to the Commission. Except for the above, no guarantee or assumption of payment of dividends or fixed charges is contemplated in the transaction.

As of December 31, 1969 the contingent obligations of Rock Island proposed to be assumed by Southern Pacific are more specifically described as set forth below:

(1) A&M Terminal First Mortgage Bonds, outstanding principal amount \$585,000, 2 3/4 percent, due serially September 1, 1975; and guaranteed by endorsement jointly and severally by Rock Island and two other railroads. See: Finance Docket No. 14918, Arkansas & Memphis Railway Bridge & Terminal Company Bonds, 261 I.C.C. 833 (not printed in full) decided July 30, 1945.

(2) Houston Belt promissory note to the Texas National Bank of Commerce of Houston principal amount \$2,195,000, 5½ percent, due June 30, 1972, and guaranteed as to sinking fund, principal and interest by Rock Island and three other carriers. See: Order of the Commission entered June 23, 1967, in Finance Docket No. 24629, Houston Belt & Terminal Railway Company Note.⁶⁶ The foregoing authority was granted following the finding made in Finance Docket No. 24614, Houston Belt & Terminal Railway Company Competitive Bidding Exemption, (not printed) decided June 8, 1967.

(3) KC Terminal First Mortgage Serial Bonds, outstanding principal amount \$31,204,000 3 percent through 1970, 2½ percent October 1, 1971, 1 7/8 percent October 1, 1972 and 1973, and 2 3/4 percent October 1, 1974. Guaranteed through an operating agreement which provides unconditionally for payment of 1/12 of interest, principal and premium (if any) by each of R.I. and 11 other railroads. In the event of default by one of the twelve railroads, the defaulted amounts are to be prorated among the others. See: Finance Docket No. 14637, Kansas City Terminal Company Bonds, 257 I.C.C. 820 (not printed in full) decided September 12, 1944, and 261 I.C.C. 827 (not printed in full) decided January 7, 1946.

⁶⁶The proposed assumed obligation under (2) above requires some clarification. As seen, under the Union Pacific-Southern Pacific purchase agreement, the latter would acquire Rock Island's interests in certain Terminal companies, including Houston Belt & Terminal, and, in such connection, assume all Rock Island obligations. At the time of the filing of the Southern Pacific application under 20a, the Houston Belt and Terminal obligation was represented by First Mortgage Bonds, 3½ percent, due July 1, 1967. See: Houston Belt & Term. Ry. Co. Bonds, 221 I.C.C. 481. Later, to pay off and redeem the balance due on the outstanding bonds, Houston Belt & Terminal sought and was granted authority to issue the note described under (2) above and pursuant to the described order in Finance Docket No. 24629. In the meantime, it had been relieved from the competitive bidding requirements in the sale of the note, pursuant to the above-referred to report in Finance Docket No. 24614. Inadvertently, Southern Pacific at page 146 of its brief fails to indicate the full chronological changes in the obligations to be assumed and the Rock Island in its 1968 Annual Report Form A, schedule 110, fails to show the order entered authorizing the actual issuance of the note.

(4) Union Terminal of Dallas First Mortgage Bonds outstanding principal amount \$4,265,000, 3 percent, due June 1, 1978. Guaranteed through an operating agreement which provides for payment by Rock Island of 1/8 the amounts due in respect of principal and interest. See: Finance Docket No. 16083, Union Terminal Company Bonds, 271 I.C.C. 823 (not printed in full) decided June 3, 1948.

(3) Motor Carrier Purchase Transaction (MC-F-9222)

In accordance with the provisions of the previously-described agreement of March 17, 1965 between Union Pacific and Southern Pacific, the latter elected to have its subsidiary, Southern Pacific Transport, acquire the portion of the RI Transit motor carrier rights described in the agreement.⁶⁷ As indicated, the purchase price set forth in the agreement includes the consideration payable to Union Pacific for the motor carrier rights to be acquired by Southern Pacific Transport. However, Southern Pacific Transport would pay its parent \$35,851. No increase in fixed charges of Southern Pacific Transport would result from the purchase and no guaranty or assumption of payment of dividend or fixed charges is involved.

All of the Southern Pacific's carriers discussed below are authorized to operate in interstate or foreign commerce as motor common carriers principally of general commodities, except where otherwise specifically noted.

Southern Pacific Transport holds certificates issued in No. MC-30319 and 72 sub-numbers thereto. It presently operates 8,578 miles of regular routes in the States of Texas and Louisiana which parallel the lines of its parent rail carrier and is generally restricted to the performance of service auxiliary to or supplemental of its parent rail carrier. In addition, Southern Pacific Transport has general commodity authority over approximately 7,817 miles of intrastate routes authorized by each of the state regulatory commissions of Texas and Louisiana.

Pacific Motor Trucking Company is authorized to operate pursuant to certificates issued in No. MC-78786 and 21 sub-numbers thereto. It presently operates 13,079 miles of regular routes in the States of Arizona, California, Nevada, New Mexico, Oregon, Utah, Washington, and Texas, which parallel the lines of its parent rail carrier, and is generally restricted to the performance of service auxiliary to or supplemental of the rail service of

⁶⁷ The rights to be acquired are embraced in the following certificates: MC-29130 (Route Nos. 6, 7, 8, 9, 10, 29, 30, 31, 47, 49, 54, 55, 57, 58, 59, 60, and 61) and MC-29130 (Sub-Nos. 40, 44, 46, 56, 57, 67, 71, 76 and 82) and a portion of MC-29130 (Route No. 56).

Southern Pacific. It also is authorized to operate in interstate or foreign commerce as a motor contract carrier pursuant to permits issued in No. MC-78787 (Sub-Nos. 27, 30, 44, 47, 48, and 49), principally transporting new automobiles, new trucks and new buses in a truckaway and driveaway service in California and Nevada. The holding of such certificate and permit having been found consistent with the public interest and national transportation policy set forth in the act and the facts of the instant transaction warrant the same conclusion. Pacific Motor Trucking Company holds 100 percent stock ownership of Louis Heller, Inc., a Nevada intrastate motor carrier of general commodities. Pacific Motor Trucking Company holds a certificate issued in No. MC-54696 (Sub-No. 4) which authorizes the interstate transportation of passengers and baggage between two points in Nevada. No operations were conducted in 1968.

Southwestern Transportation Company (Southwestern) may operate, pursuant to certificates issued in Nos. MC-59488 and MC-59488 (Sub-No. 4), over 2,931 miles of regular routes in Arkansas, Louisiana, Missouri, Tennessee, and Texas; and which routes generally parallel the lines of its parent Cotton Belt. Its operations are not restricted to service auxiliary to or supplemental of that of the Cotton Belt, but there is no interchange of interstate traffic between Southwestern and Southern Pacific Transport because the latter's operations are restricted at interchange points between the carriers to such auxiliary service. Although Southern Pacific Transport and Pacific Motor Trucking have a common point of service at El Paso, there is no interchange between them because the Southern Pacific Transport certificate is restricted at such points.

The motor carrier operating rights of R.I. Transit have been previously described. The principal routes to be acquired by Southern Pacific Transport are, over regular routes: (1) between Kansas City and Dalhart, Tex., via Hutchinson, Wichita and Liberal, Kans., (2) between Wichita and Dallas, via El Reno, and Ft. Worth, (3) between El Reno and Memphis, Tenn., via McAlester, Okla., and Little Rock, Ark., and (4) between Little Rock and Winnfield, La., serving most intermediate points.

Some of the rights authorize the transportation of general commodities; others are limited to the transportation of specific commodities. Some of the rights are restricted to service auxiliary to or supplemental of the rail service of the parent rail carrier; other rights are unrestricted. Except for the route between Kansas City and Topeka which contains the rail service restriction, the above-mentioned route between Kansas City and Dalhart is a general commodity route without restriction as to service. The route between Wichita and Ft. Worth is limited to the transportation of baggage and express and is restricted to service auxiliary to or supplemental of the rail service of the Rock Island. The route between Ft. Worth and Dallas authorizes

the transportation of general commodities with usual exceptions and contains the rail service restriction. The portion of the El Reno to Memphis route between El Reno and Booneville, Ark., authorizes the transportation of general commodities and contains the rail service restriction; that portion between Booneville, and Memphis also authorizes the transportation of general commodities but is unrestricted. The route between Little Rock and Winnfield authorizes the transportation of express matter, newspapers, milk and cream and returned empty containers and is restricted to service auxiliary to or supplemental of the rail service of the Rock Island.

Major terminals of Southern Pacific Transport are located at New Orleans, Lafayette and Lake Charles, La., and at Houston, San Antonio and Dallas, Tex. Main repair shops are at New Orleans, Houston and San Antonio with auxiliary repair shops at Lafayette and Beaumont, Tex. In 1969 Southern Pacific Transport employed an average of 851 employees per month. At the close of 1968, it owned 995 units of revenue equipment consisting of 138 trucks, 242 truck tractors and 615 semi trailers. For the year 1969, Southern Pacific Transport realized revenues from intercity service of \$9,005,122 and revenues from local service of \$4,588,753.

Its balance sheet as of December 31, 1969, shows total assets aggregating \$10,545,773, comprised of current assets \$2,507,041, including among others cash \$107,356 and accounts receivable \$2,098,464; carrier operating property less reserve for depreciation \$3,513,762; intangible property less reserve for amortization \$387,576 and other deferred debits \$424,939. Liabilities are comprised of current liabilities \$2,104,718 including payables to affiliated companies \$277,433, accounts payable \$575,664, wages payable \$324,343, taxes accrued \$172,911 and other current liabilities \$754,367; deferred credits \$19,111; reserves \$128,559; capital stock \$2,049,725 and earned surplus unappropriated \$6,243,660.

Its income statement for the year 1969, shows total operating revenues \$14,519,729 with total operating expenses \$13,761,778 and net income before and after provision for income taxes of \$757,821 and \$424,599, respectively.

The financial position, work force, equipment fleet and other pertinent data with respect to R.I. Transit have been previously described in connection with the preliminary discussion of the Rock Island system.

Southern Pacific Transport is acquiring only operating rights from R.I. Transit and it will be necessary that additional equipment be acquired to perform service under the rights acquired. Southern Pacific Transport estimates that the additional equipment will require an investment of \$476,700 plus annual operation and maintenance costs of \$42,800 for a total cost of \$519,500.

Southern Pacific Transport asserts that the duplications of rights to be acquired by it and those held by Southwestern (principally between Memphis and Little Rock, between Hazen and Stuttgart, Ark., and between Ft. Worth and Dallas) and the duplicative rights Southern Pacific Transport and R.I. Transit hold between Ft. Worth and Dallas are minor and not inconsistent with the public interest. Such a finding may properly be made.

Southern Pacific Transport proposes to offer the same type of service contemplated by the rights proposed to be purchased. This would include regular schedules, year-round service, pick-ups and deliveries, maintenance of adequate station facilities and use of experienced personnel. It expects to retain essential employees of R.I. Transit to assist in operating the routes covered by the operating rights proposed to be acquired and no employee's interests should be adversely affected.

The giving effect income statement of Southern Pacific Transport shows that in its operations under the purchased rights over a period of 12 months it would realize additional revenues of \$546,184 with a deficit of \$10,498. The supporting witness explained at the hearing that subsequent additional information secured from R.I. Transit would result in the production of a slight net income. No clarifying or supporting details of the unspecified amount of net income were furnished.

PART GTHE ECONOMIC AND COMPETITIVE
RELATIONSHIPS OF THE RAIL CARRIER PARTIESIntroduction

Part B of the report dealt with the rail carrier parties on an individual basis. However, each rail carrier, regardless of size, is but one integral segment of the closely coordinated, standardized railroad system in the United States. Despite the interdependence resulting from such coordination and standardization, one railroad may find that it is in its own interests to cooperate with another railroad to favor a particular joint-line route, and at the same time compete with the other railroad for traffic moving via a different route. Finally, all railroads must compete with carriers of other modes for certain kinds of traffic.

In order to fully assess certain impacts of the railroad unifications herein proposed, it is first necessary to examine the economic and competitive climate in which the existing carriers operate, first with respect to the competitive and operating relationships among the railroads themselves, and secondly with respect to competition between the railroads and carriers by other modes. The discussion which follows takes into consideration the total scope of the record made by all participating parties.

Intramodal Competition and the Operating Interrelationship
of the Rail Carrier Parties

As a first step, various statistics of the participating carriers will be compared, using data for the year 1968. The data, taken from the same sources used in Part B, indicate the relative physical size, efficiency, and traffic volume, of the carrier parties. The data are shown in Table 136, which follows:

TABLE 135

CARRIER PARTIES (CLASS I LINE-HAUL)
COMPARATIVE REVENUE FREIGHT TRAFFIC STATISTICS (1968)

Carrier	Avg. Miles of Road in Freight Service	Revenue Ton-Miles (Road Service) (billions)	Avg. Traffic Density*	Total Revenue Tons (millions)	Avg. Length of Haul (miles)	Carloads as % of	
						Western Dist. Total Originated Terminated	
RI	7,266	18.6	2.6	47.2	394	5.5	5.3
UP	9,488	44.1	4.7	68.4**	641	7.9	8.5
SP	11,675	64.7	5.5	122.4	528	16.0	17.1
SLSW	1,565	8.2	5.2	20.2	406	1.3	1.2
SP-SLSW	13,240+	72.9	5.5	XX	XX	17.3	18.3
C&NW	11,520	17.8	1.5	68.1	261	8.3	9.0
AT&SF	12,872	45.6	3.5	76.1	601	9.8	11.3
D&RGW	2,153	7.9	3.7	23.5	335	1.8	1.7
GN	8,265	18.0	2.2	44.8	403	5.4	3.7
NP	6,478	14.5	2.2	31.5	461	4.1	4.3
CB&Q	8,509	21.7	2.5	59.4	365	7.2	6.6
SP&S	921	2.8	3.1	11.0	257	0.8	0.8
C&S	708	1.2	1.7	6.1	196	0.3	0.3
FW&D	1,280	1.4	1.1	4.7	309	0.3	0.5
BN System	26,161+	59.7	2.3	XX	XX	18.1	16.2
WP	1,176	4.9	4.2	9.3	527	0.7	0.9
MKT	2,789	5.0	1.8	15.3	330	1.4	2.0
SOU	4,679	7.5	1.6	21.5	348	1.8	2.1
MP	9,014	25.4	2.8	72.4	350	7.4	7.4
T&P	2,004	5.1	2.6	23.4	219	1.6	2.1
MP-T&P	11,018+	30.5	2.8	XX	XX	9.0	9.5
KCS	889	3.8	4.3	14.4	266	1.2	1.4
L&A	746	2.2	2.9	12.9	168	0.9	1.1
KCS-L&A	1,635+	6.0	3.7	XX	XX	2.2	2.5
MILW	10,504	17.2	1.6	44.7	384	6.4	6.8
SL-SF	4,536	12.3	2.7	34.6	356	3.5	3.6

Note: System aggregates and system percentages may not agree due to rounding.

* Millions of revenue ton-miles per mile of road in freight service.

** Excludes mail and express handled in freight trains.

+ May include duplication of mileage resulting (1) from use of joint facilities and trackage rights between parent and subsidiary, and (2) in the case of Burlington Northern, from total BN mileage being based on mileage of individual carriers prior to merger (see analysis of BN in Part B of this report).

XX Figure excluded to avoid duplication of tonnage handled by both parent and subsidiary or by one or more of the carriers now comprising BN.

In terms of volume of service produced and as measured in revenue ton-miles, Table 136 shows that, in the following order, Southern Pacific-Cotton Belt, Burlington Northern and subsidiaries, Santa Fe, Union Pacific, and the MoPac-T&P system dominate the Western District. This service output, however, in part reflects the great distances covered by these carriers, which have some of the longest average hauls in the District. The significance of the foregoing is that a long average length of haul and an apparently substantial production of revenue ton-miles taken together do not adequately represent indicators by which to measure the amount of revenue traffic hauled by a railroad in relation to the actual capacity of the physical plant possessed by the carrier. Table 136 provides several illustrations of this, one of which is next discussed.

Western Pacific, at the close of 1968, operated 1,176 miles of road in freight service, generated 4.9 billion revenue ton-miles, and had an average length of haul of 527 miles. Milwaukee, operating 10,504 miles, produced 17.2 billion revenue ton-miles with an average haul of only 384 miles. Obviously, an adequate comparison of the performance of the various carriers in the Western District must also include other factors, among which are actual traffic volume (tonnage and carloads) and traffic density, as also shown in Table 136.

In descending order, the five individual railroads handling the greatest amount of revenue tonnage are: (1) Southern Pacific, 122.4 million tons; (2) Santa Fe, 76.1 million; (3) MoPac, 72.4 million; (4) Union Pacific, 68.4 million; and (5) North Western, 68.1 million. It is noted that the three principal carriers now comprising Burlington Northern, namely Northern Pacific, Great Northern, and Burlington, carried 31.5 million, 44.8 million, and 59.4 million tons, respectively: A simple addition of the three carriers' tonnage would yield a distorted total inasmuch as Burlington handled a considerable volume of traffic which had a prior or subsequent haul by either Northern Pacific or Great Northern, thereby duplicating the tonnage count. It is reasonable to conclude, however, that the former carriers now comprising the Burlington Northern system handle total tonnage within the range shown for the carriers named in (1) through (5) above. Tonnage hauled by Cotton Belt, Texas & Pacific, C&EI (not shown in table) and other subsidiaries of the five first-named railroads were not included with their parent carriers' tonnage to avoid similar duplication. All remaining carriers shown each hauled less than 50 million revenue tons in 1968, and at the lowest extreme, Western Pacific, Rio Grande, Katy, Soo Line, Kansas City Southern, and Louisiana & Arkansas each hauled less than 25 million tons.

Another measure of the volume of traffic handled by the various carriers is shown in the last two columns of Table 136, namely, the number of carloads originated and terminated by the class I line-haul carrier parties relative to total originations

and terminations by all class I line-haul railroads in the Western District. Southern Pacific-Cotton Belt leads the group, with 17.3 percent originated and 18.3 percent terminated. The carriers now comprising the Burlington Northern system originated 18.1 percent and terminated 16.2 percent. As noted in the section covering Southern Pacific-Cotton Belt in Part B, originations and terminations for that system were understated to the extent that data for Southern Pacific's numerous other rail carrier subsidiaries were not of record. To a lesser extent, Western Pacific's originating and terminating abilities are similarly understated.

No other carrier shown in Table 136 has as much as 10 percent of the originations, and only one, Santa Fe, terminated more than 10 percent. Rock Island, Union Pacific, North Western, MoPac-T&P, and Milwaukee, each originated 5 to 10 percent and terminated 5 to 10 percent. Collectively, the carriers shown in the table accounted for about 94 percent of the originations and 98 percent of the terminations for all class I line-haul carriers in the Western District.

It is clear that Southern Pacific-Cotton Belt, Santa Fe, MoPac, Union Pacific, and the carriers now comprising Burlington Northern and subsidiaries dominate the Western District in terms of the traffic volume hauled and revenue ton-miles produced. The strongest systems in terms of ability to originate and terminate traffic on their own lines are Southern Pacific-Cotton Belt and Burlington Northern, the result not only of serving points of high-volume originations and terminations, but also because of the extremely large geographic scope of their systems as hereinbefore described. The MoPac-T&P system, while having a smaller share of originations and terminations, handles a heavy traffic volume in a relatively confined geographic area and is an important bridge route as earlier described.

As later detailed, Union Pacific handles the principal flow of traffic through the central corridor, much of it bridge traffic to and from the Utah gateways together with the substantial traffic having prior or subsequent hauls over its lines serving Southern California at the western end of the southern corridor and the Pacific Northwest at the western end of the northern corridor. Santa Fe originates and terminates more traffic than does Union Pacific, and as is the case with Southern Pacific, about one-third of Santa Fe's carload traffic is local to its own lines. Santa Fe handles less traffic over its system than does Southern Pacific, but nonetheless, Santa Fe's tonnage is the second highest in the Western District with the possible exception of the now-merged Burlington Northern.

In order to place each carrier in its proper competitive perspective, it is necessary at this point to discuss them in terms of the three east-west corridors as earlier defined, and in terms of the principal traffic flows through these corridors, with emphasis on the traffic densities for each of the carriers relative to each other. As a general background, average freight traffic densities for the carrier parties are first discussed.

The system average freight traffic densities shown in Table 136 for each carrier and each parent-subsidiary system are shown solely for the purpose of relating each carrier's total route mileage to the total revenue traffic handled over the routes. In such general terms, it is apparent that Union Pacific, Southern Pacific-Cotton Belt, Santa Fe, Rio Grande, Western Pacific and KCS-L&A handle the most traffic relative to the overall size of their respective systems among the carriers shown in the table. A system average traffic density standing alone is not a good indicator of a carrier's viability: For example, Katy, in 1968, had a higher density than did Soo, and as shown in the earlier analyses of the individual carriers, Soo historically has been a profitable operation whereas Katy has been the opposite. A more in-depth examination of traffic flows and densities is a necessary factor to determine first the market shares enjoyed by the various carriers, and then the effects on each carrier's viability as a result of the size of the market share they hold relative to their systems. It is here, then, that the traffic volume, service output, average lengths of haul, originating and terminating abilities, and all other economic factors previously discussed must be drawn together so as to properly view viability and competitive strengths of the various carrier parties.

Although the traffic density evidence submitted by the various carrier parties are in some instances for differing years and stated in differing terms of statistical measurement, general comparisons and computations can be made as to the relative volumes of traffic handled by two or more carriers serving the same corridor. No attempt will be made to devise a detailed composite traffic density chart based on the diverse density statistics of record by restating the data to a common basis. Instead, the interrelationship of the carriers with respect to traffic flow is shown on Map #A, appended hereto. The map shows the major freight service routes for each of the class I line-haul carrier parties and their affiliates, based on the traffic density charts in evidence, and, for those carrier parties which did not submit such evidence, and for carrier affiliates not parties to the proceedings (Illinois Central and C&EI), the lines shown are principal routes as earlier described.

Much of the traffic handled through the three major corridors (northern, central and southern) by the carriers operating through such corridors, as set forth in Part B and immediately next discussed, is handled by connecting bridge carriers at the eastern portion of each corridor. The bridge carriers will be treated as a group subsequent to the discussion of the three corridors, with emphasis on their functional relationship to the major carriers operating through all three corridors. As described in Part B, there is a functional overlap where the bridge carrier's routes extend deep into, but not through the three corridors; likewise, Milwaukee, Burlington Northern, Santa Fe and Southern Pacific-Cotton Belt extend through the traditionally bridge carrier territory to reach gateways to Eastern and Southern District carriers.

The Northern Corridor

The northern corridor is served throughout its length by the Burlington Northern and the Milwaukee, and is served in the Pacific Northwest (Washington, Oregon, Idaho, and Montana) by the Union Pacific. The Southern Pacific serves Oregon.

As seen in Part B, the Milwaukee's traffic volume (1964) over its line between the Twin Cities and Seattle-Tacoma amounted to 5 to 9 million gross tons (total for both directions). SP&S traffic density between Portland and Spokane is not of record; Northern Pacific's 1964 density and Great Northern's 1965 density for their routes between Seattle and the Twin Cities taken together indicate a very rough approximation of a combined density totalling 30 million gross tons hauled over the route for both directions, or a density three to six times as heavy as Milwaukee's between the same points.

The SP&S, which served Washington and Oregon, originated 75,709 and terminated 60,050 interline cars in 1965. Local traffic amounted to 21,217 cars. In the same year, subject to the limitations on the data set forth in the analysis of the carrier in Part B, Great Northern originated 32,438 cars of local traffic and terminated 55,335 local cars at major stations in Washington, Oregon, Idaho, and Montana. Interline originations in the same States totalled 48,999 cars, and interline terminations amounted to 63,213 cars, both figures excluding an indeterminate number of cars not shown by point of origin or destination in the carrier's evidence. The Milwaukee has one major origin station and no major destination stations in Idaho; no major origin or destination stations in Montana; and, since the data under discussion are for 1965, no station for either

category in Oregon (access to Portland was granted to Milwaukee as a condition to the Northern Lines case). At major stations in Washington, the Milwaukee originated 43,054 cars and terminated 51,306 (the amount of local cars vs. interline is not of record).

As shown earlier in Table 110, and the discussion thereof, Milwaukee had no major gateways in the States of Montana, North Dakota, and South Dakota: In Washington, major interchanges accounted for only about eight percent of the carrier's interline carloads. Nearly 27,000 cars were interchanged with Union Pacific and its subsidiary Spokane International (an increase over the 1963 total discussed below), and the balance, approximately 36,000 cars, with carriers now comprising Burlington Northern. As previously noted, the conditions in the Northern Lines case opened specific gateways to the Milwaukee in the territory under discussion, and therefore, as found in the Northern Lines case, the carrier has the potential of developing substantial interchange where none have heretofore existed. While the Milwaukee has no major origin or destination stations in North Dakota and only one major origin in South Dakota, the former Great Northern had several such points in North Dakota and one major destination point in South Dakota. The former Northern Pacific, which did not serve South Dakota, had a number of major origin and destination stations in North Dakota.

Turning to Union Pacific's operations in its above-described portion of the Northern Corridor, as previously detailed, Union Pacific between Granger and Portland handled roughly 13 to 17 million gross tons of freight in 1964. Between Portland and Seattle, somewhat over 6 million gross tons were handled, while the line from Hinkle (on the Granger-Portland line) to Spokane handled over 5 million. On the Granger-Portland line in Oregon, density amounted to 13 to 15 million gross tons. In Idaho, the range was about 16 to 18 million, reflecting heavy origination and termination of traffic in the State, most of it local to Union Pacific lines.

Most, if not all of the traffic originated and terminated in Montana by Union Pacific was local. As a total for three States, Washington, Oregon, and Idaho, there were 54,264 local and 31,840 interline cars originated, and 132,513 local and 86,846 interline cars terminated (the bulk of the local originations and terminations were in Idaho).

Nearly 40 percent of the cars interchanged by Union Pacific in the area west of Granger and north of Ogden, i.e., on lines in Idaho, Montana, Oregon, and Washington, were interchanged with Southern Pacific in the Portland area. Throughout the four States, Union Pacific interchanged approximately 18,000 cars with Milwaukee and 30,000 with Burlington Northern carriers.

The Southern Pacific's route south from Portland through Klamath Falls handled approximately 30 million gross tons between Portland and Klamath Falls of which tonnage about two-thirds moved to and from the San Francisco-Sacramento area and the balance via the Overland Route in Nevada. Southern Pacific's interchanges with Union Pacific and the Burlington Northern carriers at Oregon points, principally in the Portland area, were described in detail in Part B. It is sufficient to note here that the bulk of the traffic interchanged (1) originated on Southern Pacific and terminated on Union Pacific or Burlington Northern, and (2) originated on Union Pacific or Burlington Northern and terminated on Southern Pacific.

Southern Pacific originated 26,682 and terminated 56,764 local cars at major points in Oregon in 1965. In the same year, Southern Pacific originated 65,864 cars of interline traffic at eight major stations, all but one (Eugene) served exclusively by the carrier, and terminated 12,581 interline cars at two points, Eugene and Portland.

Before proceeding to a discussion of the central corridor, the two north-south routes along the Pacific Coast will be compared, for the reason that the northern extremities of the routes lie in Oregon and Washington. As detailed earlier (Part B), Southern Pacific's traffic between the Pacific Northwest and California points moves primarily over the Shasta and San Joaquin Valley Routes, which have traffic densities in the 25 to 30 million gross tons range.

The other north-south route is maintained through the cooperation of the former Great Northern, Western Pacific and Santa Fe. Details of the operation of the route have been set forth in the earlier analyses of the three named carriers. It is sufficient here to note that the Western Pacific and the former Great Northern handled about 5 to 6 million gross tons over their portions of the route (based on 1964 data for Western Pacific, and 1965 for Great Northern), comprised in part of the bulk of the approximately 50,000 carloads of bridge traffic interchanged by Western Pacific at Stockton with Santa Fe and at Bieber with Great Northern. Based on gross tonnage density, it is reasonable to conclude that the Bieber route handles roughly one-fifth the amount of traffic that is moved over the Shasta and San Joaquin Valley Routes by Southern Pacific.

The Central Corridor

The central corridor is served between the San Francisco area and the Utah gateways of Ogden and Salt Lake City by Southern Pacific and Western Pacific, respectively. From the two Utah Gateways, Union Pacific extends eastward to the Missouri River gateways and Rio Grande extends eastward to the Colorado

gateways, Denver, Colorado Springs, and Pueblo. As noted earlier, Union Pacific's line from Denver to Kansas City through Salina is not used as the major freight service route between the two points. Rather, the service route is the line from Denver to Julesburg, the portion of the Ogden-Omaha line from Julesburg eastward to Gibbon, Nebr., through North Platte, and the line from Gibbon to Kansas City through Marysville and Topeka (see Map #A, appended). Denver traffic moving via the Omaha area gateways is handled over the line between Gibbon and Omaha and the described route through Julesburg and North Platte to Gibbon. In other words, Union Pacific does not utilize the Denver gateway to any appreciable extent for "transcontinental" traffic(as later defined).

In the earlier discussions of traffic density and interchanges for Union Pacific, Southern Pacific, Western Pacific, and Rio Grande, the volume of traffic interchanged at the Utah gateways were shown in Tables 26, 89, and 94,, and discussed in the respective sections for each of the four carriers. As seen, Union Pacific and Southern Pacific interchange over 300,000 cars at Ogden annually, while at the same point, Rio Grande and Southern Pacific interchange approximately 120,000 cars annually. At Salt Lake City, Union Pacific and Western Pacific interchange nearly 40,000 cars, while the Rio Grande-Western Pacific interchange totals almost 75,000. The Rio Grande interchange with Union Pacific at Provo involves mainly "Products of Mines" traffic originated on Rio Grande. The Provo gateway therefore does not have major significance as a central corridor gateway for transcontinental traffic.

The data under discussion (1963 for Southern Pacific and Union Pacific, and 1964 for Western Pacific and Rio Grande), and the individual analyses of the four named railroads in Part B show that the Southern Pacific line from Ogden to the San Francisco-Sacramento area handles approximately four times the volume of traffic that Western Pacific moves between Salt Lake City and the same California area. Of the cars interchanged by Rio Grande with Western Pacific and Southern Pacific at Salt Lake City and Ogden, respectively, nearly 166,000 cars were bridge movements over Rio Grande's lines. Of the total cars interchanged by Union Pacific with Western Pacific and SP at the same points, almost 295,000 were overhead to Union Pacific. Rio Grande's bridge traffic interchanged at Salt Lake City and Ogden in 1964 is equivalent to over half the amount of bridge traffic interchanged by Union Pacific.

Rio Grande's development into a transcontinental traffic carrier following World War II is outlined in the analysis of the carrier in Part B. In order to measure its participation in

transcontinental traffic moving through the central corridor, Rio Grande made a special study using the Commission's One Percent Waybill Data for 1963; its own company traffic records; and Union Pacific's evidence. The special study defined transcontinental traffic as that which moves between the States west of New Mexico, Colorado, Wyoming and certain counties in the eastern portion of Montana, on the one hand, and on the other, States east thereof. In effect then, New Mexico, Colorado, Wyoming, and Eastern Montana were considered as a "buffer zone," through which traffic had to pass to be considered as transcontinental. The study resulted in Rio Grande's estimate that it handles about 25 percent and Union Pacific handles the remaining 75 percent of "transcontinental" traffic moving through the central corridor between the above-described areas.

A major factor in Rio Grande's study lies in the above-described definition of "transcontinental traffic." Based on this definition, a car originating or terminating on Rio Grande in Utah with a movement through the buffer zone would be a transcontinental movement, as would certain movements hauled as local traffic on Union Pacific (T. 29542). Other carrier parties used "transcontinental" traffic to describe traffic moving between still other described areas. It is not necessary to detail each and every differing definition here. Each of the various carrier parties applied the term in a manner to describe a particular type of traffic movement viewed in the context of their own respective operations.

For the purposes of the entire scope of the transportation services here involved and which encompass rail movements on a nationwide basis, a more responsive definition, uniform in its application, must be utilized in order to lend perspective to the interrelationships of all the carrier parties among themselves and in relation to the entire railroad system in continental United States. "Transcontinental" traffic therefore shall be treated herein as comprising traffic moving between points in Arizona, California, Oregon, Washington, Nevada, Utah, Idaho, and the area of Montana west of a line drawn along the western border of Wyoming straight north to the Canadian border, on the one hand, and on the other hand, all States east of Illinois and the Mississippi River south of Illinois, excluding the Upper Peninsula of Michigan. The defining of "transcontinental" traffic is for the purpose of defining movements only and has no bearing upon estimated gains or losses of traffic as a result of the transactions proposed. With the foregoing in mind and in all discussions herein of transcontinental traffic, there will be eliminated from consideration all "transcontinental traffic" movements of the carrier parties which do not fall within the term as above defined.

Union Pacific has its own lines to Los Angeles and Portland and Western Pacific directly serves the San Francisco area and, further, Union Pacific connects at Ogden with Southern Pacific and at Salt Lake City with Western Pacific. Accordingly, Union Pacific participates in the hauling of traffic between the entire West Coast and its Missouri River gateways, already described. Rio Grande, by comparison, must strive to compete as a small link in the central corridor between its Utah and Colorado gateways, and is dependent on its connections at each of those end points of its system.

Union Pacific's operations and traffic density in the area between Colorado and the Missouri River gateways have already been described in detail. The Denver interchange with Rio Grande accounts for nearly 40 percent (20,938 cars) of all Union Pacific interchanges at Denver. Another 40 percent is interchanged with Santa Fe and Colorado & Southern. The Union Pacific-Rio Grande interchanges at Denver, as well as at the Utah gateways, mainly involve traffic originating or terminating on Rio Grande. Also, Rio Grande serves as a bridge between Union Pacific at Denver and other carriers which connect with Rio Grande at the other Colorado gateways and in which Rio Grande secured only a short bridge haul on 7,900 cars in 1964. From all of the foregoing it is clear that Union Pacific does not handle a significant amount of transcontinental traffic through Denver on its own lines and that the Rio Grande in its interchange at Denver with Union Pacific also is not involved in the hauling of a substantial volume of transcontinental traffic.

Lines of the former Burlington, the MoPac-C&EI, Rock Island, and Santa Fe, extend from the Colorado gateways eastward through the Missouri River gateways to the Illinois gateways and St. Louis (the latter not served by Santa Fe, as shown on Map #A). Santa Fe's interchanges at the Colorado gateways are described in the text immediately preceding Table 77. As seen, Rio Grande, Burlington and Union Pacific interchange the largest amounts of traffic with Santa Fe in Colorado, while MoPac, Rock Island, and Colorado & Southern each interchanged less than 5,000 cars with Santa Fe, based on 1965 data. Santa Fe's interchanges at Denver and Pueblo with its connecting carriers involved nearly 26,000 cars originating or terminating on Santa Fe lines and less than half that amount moving as bridge traffic over Santa Fe. The evidence detailed in the individual analysis of Santa Fe's traffic and operations and as later discussed, shows that the Santa Fe is an active competitor through the southern corridor and handles comparatively little traffic via its Chicago-Denver route via LaJunta.

There may be eliminated as important transcontinental traffic factors, the Union Pacific and Santa Fe routes through Denver and the other Colorado gateways. Attention may now be focused on the traffic interchanged by Rio Grande with MoPac, Rock Island and

the former Burlington (see Table 89). Of the 194,243 cars interchanged in 1964 by Rio Grande and the three named carriers at Denver, Colorado Springs and Pueblo, slightly over 45,000 cars were originated or terminated on Rio Grande lines. The remaining 149,000-odd cars moved as bridge traffic over Rio Grande, including cars handled by the carrier only between its Colorado gateways, although the record does not disclose the total number of such Colorado movements.

Although not ascertainable in specific number from the evidence presented, it is reasonably certain that transcontinental traffic as defined by the Examiner, is interchanged by the Rio Grande with MoPac, Rock Island, and Burlington, and moves as bridge traffic over the lines of the three connecting carriers. Additionally, the transcontinental traffic handled by Rio Grande and the three named connections would amount to less than 150,000 cars annually, based on Rio Grande's 1964 data, and the three connections handle the bulk of Rio Grande's share of transcontinental traffic east of the Colorado gateways with a much smaller amount handled by Santa Fe and Union Pacific.

Union Pacific prepared a study designed to show the relative shares of "transcontinental", as defined by Union Pacific, which it and the Rock Island hold. Aside from the matter of definition of transcontinental traffic, the study contains a number of elements affecting the reliability of the study's conclusions. The study was based on this Commission's One Percent Waybill Study for 1961 and traffic records maintained by Union Pacific and Rock Island for 1963. Union Pacific agrees that its study would have been more accurate if the basic data utilized were for the same year. Further, the Commission's one percent waybill studies exclude certain movements where such movements between pairs of States are so limited as to reveal the shippers, the commodities, and the volume shipped; but similar types of movements are included in the traffic records of Union Pacific and Rock Island. In combining such differences in the basic data to arrive at the conclusion of the Union Pacific study there is an obvious distortion of conclusion. The limits and usefulness of Union Pacific's study is also affected by the fact that the study reveals only the approximate amount of participation in the traffic studied, but does not reveal in any way the degree of participation; e.g., long hauls vs. short hauls or the class of traffic as it moved over Union Pacific, e.g., bridge movements vs. interline originated. Even if transcontinental traffic as here defined had been used in the study, the results of Union Pacific's market share would have had to have been considered as only a very rough estimate of its relative participation in the traffic studied.

The basic data utilized for the study are on a State-to-State basis; id est, movements between States without regard as to specific points, and it is possible to restate them in a manner reflecting the Examiner's definition of transcontinental traffic. Of course, the above-discussed impediments to a more reliable study are inherent in the restated table set forth below.

Table 137, which follows, summarizes the relative amounts of traffic in which Union Pacific participates between the States shown in the table. Arizona and Montana are not shown in the table because of the highly insignificant volume of Union Pacific transcontinental traffic. Traffic to and from the Upper Peninsula of Michigan could not be separated from the total for that State.

TABLE 137

APPROXIMATE UNION PACIFIC PERCENTAGE PARTICIPATION IN
TOTAL TRANSCONTINENTAL TRAFFIC BETWEEN NAMED WESTERN
STATES AND EASTERN AND SOUTHERN STATES*

	<u>Eastbound</u>	<u>Westbound</u>
California	39	32
Idaho	77	71
Nevada	44	70
Oregon	57	48
Utah	41	54
Washington	16	34
Total	44	36

*Comprises Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, Pennsylvania, New Jersey, District of Columbia, Ohio, Michigan, Indiana, Delaware, Maryland, Virginia, West Virginia, Kentucky, North Carolina, South Carolina, Tennessee, Georgia, Alabama, Mississippi, and Florida.

In summary, Union Pacific in transcontinental traffic from and to States in the far west handles roughly half of the traffic originating or terminating in Oregon, and Utah, one-third in California, three-fourths in Idaho, and one-fifth in Washington. In Nevada, terminating (westbound) traffic is dominated by Union Pacific, about 70% of the total, while it participates in somewhat less than half of the transcontinental traffic moved eastbound.

In terms of actual tonnage handled in 1963, Union Pacific participated in the movement of about 6.0 million tons eastbound from, and 2.5 million tons westbound to the western States named

in Table 137. In relative terms, this represented Union Pacific participation in approximately two-fifths of the eastbound, and one-third of the westbound transcontinental traffic to and from these States. As earlier noted, Union Pacific's share of Montana and Arizona transcontinental traffic is minimal.

Of the six western States shown in the table, California accounted for nearly four million tons of Union Pacific's transcontinental traffic; Oregon 2.3 million; Idaho, 1.1 million; Washington, .7 million; and Nevada and Utah, less than .5 million each. Again, it is emphasized that the above-discussed comparisons were made in a manner similar to that used in the Union Pacific study: The carrier's 1963 data were compared to the data from the Commission's 1961 One Percent Waybill Study, and the results are therefore construed as being only general estimates of the Union Pacific's share.

The Southern Corridor

As with the discussion of the two prior corridors, the following discussion of the southern corridor also deals with a functional overlap of the carriers serving the three corridors. As seen, Southern Pacific serves Oregon, a State in the northern corridor, and Southern Pacific also serves Oregon in its operations through the southern corridor. Union Pacific lines extend from Ogden to Los Angeles. In short, the three corridors are to an extent competitive with each other for certain types of traffic.

The southern corridor is served by the Santa Fe and Southern Pacific-Cotton Belt, as previously discussed in Part B.

In the Part B analysis of Union Pacific, it was shown that Union Pacific in 1963, originated approximately 10,000 and terminated about 27,000 cars of local traffic in Southern California, primarily in the Los Angeles area. Interline originations amounted to slightly over 4,900 carloads and interline terminations stood at about 62,000, all in the Los Angeles area. Over 60,000 of the nearly 82,000 cars Union Pacific interchanged with Santa Fe and Southern Pacific, its only line-haul connections in California, were cars delivered to those connections.

As earlier noted, the preponderance of Union Pacific's California interchanges involved traffic originated on its own lines, and terminated on Southern Pacific or Santa Fe and vice versa. This situation also holds true for cars interchanged between Santa Fe and Southern Pacific in the Los Angeles area, i.e., cars originated on one terminated on the other.

Tables 44 and 74, detail the originations and terminations of traffic by Southern Pacific and Santa Fe, respectively, in the Los Angeles area. Table 44 shows data for Southern Pacific interline traffic only (22,564 cars originated and 83,592 cars terminated). The Los Angeles area additionally accounted for the origination of 47,562 and the termination of 74,671 carloads of local traffic by Southern Pacific. Santa Fe originated 22,732 interline, and 24,652 local cars in the area, and terminated 186,205 interline, and 78,886 local cars.

As seen from the foregoing discussion, considerably more traffic is terminated than is originated in the Los Angeles area. Further, in terms of local traffic originated, Southern Pacific leads Santa Fe and Union Pacific, the latter carrier originating less than one-fourth as much as Southern Pacific. For local traffic terminated, Santa Fe and Southern Pacific are nearly even with 75 to 80 thousand cars, distantly followed by Union Pacific's 25 to 30 thousand-car range. Interline traffic presents a slightly different picture: For originations, Union Pacific's share is minor, whereas Santa Fe and Southern Pacific are about even at the 20 to 25 thousand-car level. Interline terminations show Santa Fe clearly in the lead followed by Southern Pacific. Union Pacific's largest class of originated or terminated traffic in the Los Angeles area is interline terminated, and the carrier is nowhere as strong as Southern Pacific in this respect.

It is also noted that the Union Pacific traffic interchanged with Santa Fe at Barstow is in the 30 to 40 thousand-car range; is mostly overhead to Union Pacific and terminates on Santa Fe; and consists primarily of Products of Mines. Further, in Part B, the discussions of the Union Pacific and the Rio Grande showed that the Provo interchange between the two carriers involved Products of Mines traffic originated on Rio Grande and moved overhead on Union Pacific. Finally, in their 1968 annual reports to stockholders, Union Pacific and Rio Grande each mentioned institution in that year of unit coal train operations between Sunnyside, Utah, and a steel producer's plant at Fontana, Calif. Rio Grande's report states that the trains are operated in conjunction with Union Pacific and Santa Fe.

On the basis of the foregoing, it is reasonable to conclude that Union Pacific's interchange with Santa Fe at Barstow involves largely non-competitive traffic which has developed into a coordinated three-carrier operation in recent years. Most of the other interchanges which take place between Union Pacific, Santa Fe, and Southern Pacific in the Los Angeles area involve for the most part traffic originated by any one of the three carriers and terminated on either one of the other two.

Thus far, discussion has focused on the Los Angeles area. However, both Santa Fe and Southern Pacific handle traffic through the southern corridor to and from points north of Los Angeles, as noted earlier; and in this area Southern Pacific is bound by the Central Pacific conditions as recently modified by the Commission. See: the Central Pacific case, on reconsideration, affirmed in 277 F. Supp. 671 (1967), and 390 U.S. 744 (1968). As is here pertinent, Southern Pacific is currently restricted in its routing practices by the modified condition "e", as follows:

"That the Southern Pacific Company shall continue to secure by active solicitation the routing of the maximum of freight traffic through the Missouri River and Ogden, Utah, between all points in California and Oregon, north of and including Caliente and Santa Margarita, Calif., and south of and including the Klamath Falls branch and Kirk, Oreg., on the one hand, and points north and west of a line along the northern boundaries of Oklahoma and Arkansas, to the Mississippi River, thence along the Mississippi and Ohio Rivers (but not including intermediate cities on the Ohio River) to Wheeling, W. Va., and thence on a line drawn just east of Pittsburgh, Pa., and Buffalo, N. Y., to Niagara Falls, N. Y.;"

Santa Fe, although it serves part of the described territory in California, is under no such restriction. At the time the Southern Pacific acquired control of the Cotton Belt, the Commission found it unnecessary to impose the condition upon the lines of the Cotton Belt. See: the Cotton Belt case, 180 I.C.C. 175 at 184-185. Accordingly, the Cotton Belt can and does actively solicit traffic from and to the described territory for movement over its lines with a prior or subsequent haul over Southern Pacific's routes between the territory and its connections with Cotton Belt. In effect then, Southern Pacific through its subsidiary is able to obtain the long haul via the southern corridor negating the necessity of taking a relatively short haul to and from Ogden that otherwise would have resulted through its own solicitation efforts subject to the Central Pacific conditions. However, the record fails to disclose the volume of traffic so involved.

Southern Pacific, through a study similar to the one prepared by Union Pacific, estimated its share of "transcontinental" traffic. Again, as in other instances, Southern Pacific's view of "transcontinental" traffic differs from that of other parties including the Union Pacific. The studies for

both Union Pacific and Southern Pacific were prepared by the same witness using identical methodology for both studies; and limitations of the study for Southern Pacific are identical to those detailed earlier with respect to the Union Pacific study. Data in the Southern Pacific are restated below in Table 138 in the same manner as for preceding Table 137.

TABLE 138

APPROXIMATE SOUTHERN PACIFIC PERCENTAGE
OF TOTAL TRANSCONTINENTAL TRAFFIC BETWEEN
NAMED WESTERN STATES AND EASTERN AND
SOUTHERN STATES*

	<u>Eastbound</u>	<u>Westbound</u>
Arizona	69	45
California	67	68
Nevada	60	36
Oregon	74	57
Washington	1	25
Total	57	60

* See footnote to Table 137.

The States of Idaho, Montana, and Utah are not shown in Table 138, since Southern Pacific's share of transcontinental traffic to and from these States is minimal in terms of both actual tonnage and percentage of total tonnage. Overall, Southern Pacific participates in the movement of nearly three-fifths of the total transcontinental tonnage to and from the States shown in Table 138. In terms of actual tonnage, the carrier's share amounted to a total of 11.3 million tons to and from the States as follows: California, 7.3 million; Oregon, 2.9 million; Arizona, .6 million; and Washington and Nevada, less than .3 million each.

Santa Fe prepared a study of movements over its lines, based on a one percent sample of its own movements to and from the States studied by Southern Pacific. The Santa Fe sample covered movements during the period April 1962 through March 1963. Santa Fe used the results of its study for a comparison of its own traffic share in relation to the shares held by Rock Island and Southern Pacific, based on the latter's study.

Santa Fe and Southern Pacific discuss each other's studies on brief. With respect to the Santa Fe study, Southern Pacific comments on the basic weakness of the methodology used to determine the size of the market shares held by the carriers:

"Moreover, the degree of confidence to be attached to the comparisons is radically decreased by the fact that results for fragments of one 1 percent waybill study are being compared with fragments of another 1 percent waybill study. Such comparisons can produce spurious results."

There is merit to Southern Pacific's criticism. It also is noted that the degree of confidence is affected by diverse source data; Santa Fe having utilized three different time periods of basic data, and Southern Pacific two such different time periods. Moreover, as with Union Pacific, both the Santa Fe and Southern Pacific show participation in the traffic without regard to the length of haul, the routes utilized, or the class of hauls involved (bridge, local, etc.). The circumstances are such that no precise evaluation can be made of the degree of confidence assignable to each carrier's study. The more serious factors affecting the degree of confidence, and in the final analysis, the reliability of the study, have all been carefully noted.

TABLE 139

APPROXIMATE RELATIVE PARTICIPATION BY
SOUTHERN PACIFIC AND SANTA FE IN TRANSCONTINENTAL
TRAFFIC BETWEEN NAMED WESTERN STATES AND
NORTHEASTERN STATES*

	<u>Eastbound</u>		<u>Westbound</u>	
	<u>SP</u>	<u>AT&SF</u>	<u>SP</u>	<u>AT&SF</u>
Arizona	58	23	56	34
California	63	29	56	37
Oregon	97	2	88	9
Washington	77	16	88	9

*Includes Connecticut, Delaware, District of Columbia, Indiana, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and West Virginia.

TABLE 140

APPROXIMATE RELATIVE PARTICIPATION BY
SOUTHERN PACIFIC AND SANTA FE IN TRANSCONTINENTAL
TRAFFIC BETWEEN NAMED WESTERN STATES AND
SOUTHEASTERN STATES*

	<u>Eastbound</u>		<u>Westbound</u>	
	<u>SP</u>	<u>AT&SF</u>	<u>SP</u>	<u>AT&SF</u>
Arizona	44	47	47	49
California	70	25	55	41
Oregon	93	2	90	8
Washington	36	-	65	11

*Includes Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

Tables 139 and 140 indicate that Southern Pacific participates generally in more of the transcontinental traffic between the States shown than does Santa Fe. The tables do not indicate that Southern Pacific dominates the southern corridor because the degree of participation is not revealed by the data in the tables. As stated in Southern Pacific's brief and as detailed in Part B, Southern Pacific and Santa Fe participate jointly on large volumes of traffic interchanged in California and Texas, some of which may indeed be transcontinental traffic. As has been discussed, Southern Pacific obtains a short-haul on traffic moving via the Ogden gateway which might have moved via its long-haul route through the southern corridor absent the Central Pacific conditions. Further, the Southern Pacific interchanges with Rock Island at Tucumcari and with Texas & Pacific at El Paso also involve transcontinental traffic which potentially could move over Southern Pacific's system to and from the Mississippi River gateways of St. Louis, Memphis, and New Orleans.

A more realistic comparison of Southern Pacific's and Santa Fe's traffic involves freight traffic density over their respective lines from California to their easternmost gateways. The analyses of the two carriers in Part B discussed their freight densities in detail. It is sufficient to compare them briefly for purposes of this discussion. Southern Pacific's Coast line handles approximately 15 million gross tons annually between the Los Angeles and San Francisco Bay areas, and the San Joaquin Valley line handles about 25 to 30 million gross tons annually between the same areas. The Coast route primarily carries traffic between the two areas but the San Joaquin Valley line handles traffic moving north and south through California. Santa Fe's route from San Francisco south to the Los Angeles area is utilized for through traffic to and from its Los Angeles-Chicago line, Bieber gateway traffic, and traffic moving between

Northern and Southern California. Density over the Santa Fe line ranges from approximately 13 to 18 million gross tons per mile annually.

With respect to Southern Pacific and Santa Fe traffic flows to and from California, the central corridor must be considered together with the southern corridor. As discussed earlier, Southern Pacific moves a very substantial volume of traffic, 30 to 40 million gross tons, over its San Francisco-Ogden line. This traffic involves in large part the northern California traffic subject to the Central Pacific conditions. Northern California traffic of the Santa Fe moves through its routes via the southern corridor.

Santa Fe's-Los Angeles-Chicago route via Amarillo and Kansas City handles a minimum of about 25 million gross tons per mile throughout its length. Connecting with this line at Farwell, Tex., is a route to Ft. Worth, Houston, Galveston, and Beaumont, which handles east-west traffic to and from the Texas points totalling 10 to 13 million gross tons per mile over the segment between Farwell, and Brownwood. Santa Fe's north-south route from the Los Angeles-Chicago line at junctions in Kansas to the above-named cities in Texas handles approximately 11 to 14 million gross tons per mile.

Between Los Angeles and El Paso, Southern Pacific handles roughly 30 to 35 million gross tons. The Tucumcari line from El Paso carries about 11 million. East of El Paso, traffic density decreases from 20 million gross tons at that point to 15 million at New Orleans. As described in Part B, the heavy density traffic west of El Paso is comprised of traffic moving over the Tucumcari-El Paso line; traffic interchanged with the Texas & Pacific at El Paso; traffic moving to and from Ft. Worth-Dallas; traffic moving in connection with Cotton Belt via Corsicana and Shreveport; and traffic moving directly to and from New Orleans by Southern Pacific alone. Cotton Belt handles 19 to 24 million gross tons between Illinois and its various lines in Texas and Louisiana. In addition to its interchanges with Cotton Belt, Southern Pacific interchanges substantial volumes of traffic with other carrier parties and their affiliates in Texas and Louisiana, as shown in the detailed analyses of the carriers in Part B.

Santa Fe also interchanges large volumes of traffic in Texas with Frisco, Katy, MoPac-T&P, KCS-L&A, Rock Island and Southern Pacific-Cotton Belt, also shown in Part B. Texas cities also constitute important traffic originating and terminating points for Santa Fe (Table 76), primarily local traffic. As is the case with Southern Pacific, Santa Fe's interchanges in

Texas involve mostly traffic originating or terminating on its own lines. Although Santa Fe extends eastward into Louisiana, the carrier interchanges, originates, and terminates comparatively little traffic in that State.

Thus far, attention has been devoted to the Milwaukee, Burlington Northern, Union Pacific, Western Pacific, Rio Grande, Santa Fe, and Southern Pacific-Cotton Belt, and the relationships of these carriers among themselves and, in a broader sense, their relationships in the context of the three east-west corridors. As earlier noted, the several carriers located at the eastern end of the corridors must be considered separately. They have one characteristic in common, namely, they function at least in part as bridge routes between one or more of the corridors on the one hand, and on the other hand, the major railroads of the Eastern and Southern Districts.

The Central States Carriers

The Central States carriers,⁶⁸ as discussed here, include Katy, Kansas City Southern-L&A, MoPac-T&P-C&EI, Frisco, the lines of the former Burlington, the North Western, Soo, and the lines of the Milwaukee lying south and east of the Twin Cities. The analyses of the individual carriers in Part B detailed interchanges at various points with Norfolk & Western, Illinois Central and Gulf, Mobile & Ohio (Gulf). Norfolk & Western has routes extending west to Omaha and Kansas City; Illinois Central has routes from Chicago to Albert Lea, Sioux City, Sioux Falls, and Omaha; and Gulf has a route from St. Louis to Kansas City. Illinois Central's and Gulf's routes extend westward from those carriers' principally north-south routes. Norfolk & Western's lines, as above described, are continuations of that carrier's major east-west routes in the Eastern District. Because these three carriers (Illinois Central, Gulf and Norfolk & Western) did not actively participate in these proceedings, the record largely is silent as to their operations. The record is abundantly clear, however, that Norfolk & Western plays an extremely important role as a connection at Kansas City for the carriers entering that gateway from the west and south, all of which are parties to these proceedings.

Map A, appended, shows the major freight service routes of all the above-named carriers except Gulf and Norfolk & Western. The map graphically portrays some of the basic problems of the Central States carriers as detailed in Part B: namely, (1) relatively short routes between major points and

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 For the purposes of this report the Central States are: Minnesota, Wisconsin, Iowa, Illinois, Missouri, Nebraska, Kansas, Oklahoma, Eastern Texas, Arkansas, and Louisiana.

gateways; (2) routes useful primarily as bridge routes between the major service routes in the three corridors at one end, and the Southern and Eastern District carriers at the other end; (3) the multiplicity of routes between common points; and (4) a large number of low density branch lines. It is again emphasized that Map A shows only major freight service routes of the carriers: Many light-density branch lines in the Central States are excluded.

The following list shows existing single-line and single-system routes between pairs of major gateways and terminals located generally north of, and including St. Louis and Kansas City, and including routes to the Colorado gateways of Denver, Colorado Springs, and Pueblo. Some of the routes are considerably more circuitous than others, and several routes have been excluded because they involve joint-line service.

<u>City Pairs</u>	<u>Carriers</u>
Chicago-Omaha	BN, C&NW, IC, RI, MILW, N&W, MP-C&EI (circuitously via St. Louis and Kansas City)
Chicago-Colorado Gateways	BN, AT&SF, RI, MP-C&EI
Chicago-Kansas City	BN, C&NW, MILW, RI, N&W, AT&SF, MP-C&EI, GM&O
Chicago-Twin Cities	BN, C&NW, MILW, RI, SOO
Chicago-Milwaukee	C&NW, MILW, SOO
St. Louis-Kansas City	BN, MP, RI, MKT, SL-SF, N&W, GM&O
Twin Cities-Kansas City	BN, C&NW, MILW, RI
Twin Cities-Duluth-Superior	BN, C&NW, MILW, SOO
Omaha-Colorado Gateways	BN, UP, RI, MP (circuitously via Kansas City)
Kansas City-Colorado Gateways	BN, UP, RI, AT&SF, MP

In the area generally south of Kansas City and St. Louis, the following pairs of major gateways and terminals are served by two or more single-line and single-system routes as shown:

<u>City Pairs</u>	<u>Carriers</u>
Kansas City-Ft. Worth and/or Dallas	AT&SF, RI, MP-T&P, SL-SF, MKT, KCS-L&A
Kansas City-Houston	AT&SF, RI, MP-T&P, MKT
Ft. Worth & Dallas-Houston & Galveston	FW&D, AT&SF, SP, RI, MKT, MP
Ft. Worth and/or Dallas-St. Louis	SP-SLSW, MP-T&P, RI, SL-SF, MKT
Ft. Worth and/or Dallas- Memphis	SP-SLSW, MP-T&P, RI, SL-SF (the latter two circuitously)
Ft. Worth and/or Dallas- New Orleans	L&A (KCS), MP-T&P, SP
Houston-St. Louis	SP-SLSW, MP-T&P, RI, MKT
Houston-New Orleans	SP, MP-T&P
Houston-Memphis	SP-SLSW, MP-T&P, RI (circuitously via El Reno)
Kansas City-Memphis	MP, SL-SF, GM&O
Kansas City-New Orleans	MP, KCS-L&A, GM&O
St. Louis-New Orleans	MP, SP-SLSW, IC, GM&O (also L&N via Nashville, Tenn., & Birmingham)

The Rock Island is the only carrier offering single-line or single-system service between the Twin Cities and the Gulf. There are several carriers with routes from Chicago to points in Louisiana and along the Texas Gulf Coast, as shown below:

<u>City Pairs</u>	<u>Carriers</u>
Chicago-Houston & Galveston	RI, AT&SF, MP-T&P-C&EI
Chicago-New Orleans	MP-C&EI, IC, GM&O, L&N

The foregoing lists are not intended to be exhaustive of all possible single-line or single-system routes available between the named pairs of points. Rather, they are presented here to sufficiently illustrate the multiplicity and duplication of routes in the Central States. There is an overlapping of routes as between some of the major carriers serving the three

east-west corridors and the bridge carriers. Santa Fe extends through the Central States to Chicago and other Illinois gateways; Burlington Northern extends from the Pacific Northwest eastward to Chicago, St. Louis, and Paducah, Ky., and south-eastward to Houston and Galveston via the Colorado & Southern and Ft. Worth & Denver; and Southern Pacific extends eastward to New Orleans, and with Cotton Belt, to Memphis and St. Louis.

Among the Central States carriers, those having lines extending into the three corridors are: Rock Island, to Denver and Tucumcari; MoPac-T&P-C&EI, to Pueblo and El Paso; Frisco, to Floydada; former Burlington routes to Denver from the east through the central corridor; and the Milwaukee, over its route to the Pacific Northwest, which, as detailed earlier, handles only a small fraction of the traffic volume in the northern corridor. It is apparent from the foregoing, that among the carriers serving points on the West Coast, Western Pacific and Union Pacific are the only ones not extending to at least one of the Illinois or Mississippi River gateways.

Obviously, there is a myriad of points common to two or more carriers in the Central States. It is unnecessary to detail them here. Many of the major common points and the carriers serving them are shown in the three preceding lists of city pairs and connecting routes. The operations, traffic volumes, commodity consists, and major interchanges of the Central States carriers were set forth in detail in Part B.

Intermodal Competition

Competition between the railroads and the other modes of transportation must be viewed in the context of the overall demand for transportation services. Table 14¹, which follows, shows the total revenue ton-miles generated in the United States by mode for selected years since World War II. Apparent from the table is the fact that the railroads share of total revenue ton-miles has declined only slightly since 1960, compared to the rate of decline from 1946 to 1959, inclusive. Also since 1960, the motor trucks' share has stabilized at approximately one-fifth of the total after a four-year level of about 23 percent during 1961-1964 (not shown in the table), and that oil pipelines have enjoyed a continuous growth over the entire period. The railroads' share has held at about 41 percent for the three-year period, 1966, 1967, and 1968 (only the latter year shown in the table).

TABLE 141

RELATIVE PERCENTAGES OF TOTAL REVENUE TON-MILES
HELD BY VARIOUS MODES, SELECTED YEARS

<u>Year</u>	<u>Railroads^a</u>	<u>Motor Trucks^b</u>	<u>Inland Waterways^c</u>	<u>Pipelines</u>	<u>Airways^d</u>
1946	66.6	9.1	13.7	10.6	*
1950	56.2	16.3	15.4	12.2	*
1955	49.5	17.5	17.0	15.9	*
1960	44.1	21.7	16.8	17.4	0.1
1965	43.3	21.9	16.0	18.7	0.1
1968	41.2	21.6	15.9	21.3	0.2

* Less than 0.1 percent.

a Includes electric railways, express and mail.

b Includes regulated and unregulated.

c Includes Great Lakes, but excludes coastal and intercoastal.

d Domestic revenue service including express, mail and excess baggage.

In 1966, Class I railroads in the United States produced over 738 billion revenue ton-miles, the industry's record high up to that time. After a decline to 719 billion in 1967, total revenue ton-miles reached a new high of 744 billion in 1968, and this figure was exceeded in 1969, when the total was 768 billion. In short, the service output of the railroads has grown in absolute terms, and this industry's relative share of total revenue ton-miles has declined very slowly in the past decade.

Needless to say, the relative growth of the motor, water, air and pipeline transportation output to a great extent has been at the expense of the railroads' share of the available traffic. The foregoing holds true, notwithstanding that the motor carrier industry has developed traffic comprising "new" commodities, not formerly hauled by railroads, and which commodities require the type of transportation services provided by motor carriage. The development of the various modes other than rail has been promoted by improved technology, private initiative to make use of that technology, and governmental encouragement and assistance. Without regard here to the justifications underlying the latter factor, it is noted that through 1964, public expenditures beneficial directly to the rail-competitive modes totaled over \$226 billion, of which \$202 billion was for highways. Nothing in the foregoing statement is to be construed as implying that governmental assistance to other modes was solely for the purpose of building up competition to the railroad. To the contrary, there were many

reasons for government assistance. For example, the highway building program had as its purpose private use, national defense and the like.

However, what is here being pointed out is that the road-building program has greatly contributed to the competitive posture of motor carrier competition. Motor carriers are now permanent and comprise formidable competition to the railroads. The entire railroad industry must modernize and improve its plants from all standpoints if it is to be able to adequately compete and secure that share of the available traffic which the railroad should be able to obtain by providing the most efficient, adequate, and economical transportation service.

Soo points out on brief that the railroads produced 18 percent of the total ton-miles for petroleum traffic in 1943. By 1965, the rail percentage of such traffic had fallen to 2 percent. Soo's view is that the loss of the remaining petroleum traffic would not "seriously damage the overall position of the railroad industry." The record clearly shows that the building of pipelines results in a permanent diversion of such traffic as a rail movement with little, if any, practical hope of recapture. Nonetheless, the record also discloses that some rail carriers, for example, Union Pacific, Southern Pacific, and Santa Fe, among the largest, are themselves owners and operators of oil pipelines, often using their rail right-of-way for the construction. Thus, indirectly, the railroads have recaptured traffic, the exact amount not here ascertainable.

While air freight still accounts for less than one percent of total revenue ton-miles, its rapid growth can not be overlooked. Thus far air freight has consisted primarily of high priority, high value commodities. The "jumbo" jet is now a reality. It is still a matter of conjecture as to what the competitive impact of large-capacity aircraft will be on other modes.

The Federal, State, and local governments expended almost \$5 billion for the establishment of airports between 1947 and 1965, inclusive. This amount does not include local government expenditures for operation and maintenance of airports. It is also noted that in the same period, public funds totaling approximately \$4.9 billion were spent on airway navigation facilities and services, and another \$.8 billion was spent on Federal cash subsidies. Further, commercial airlines have greatly benefited from military aircraft research and development and personnel training, indirect but nevertheless real benefits which flow to the private sector.

With respect to water transportation, Federal appropriations in the 1950-1964 period alone amounted to nearly \$2 billion for navigation facilities; over \$3 billion for multiple purpose (navigation and flood control) projects; and over \$2 billion for operation

and maintenance of waterways. The latter figure applies to appropriations for all types of waterways, and a breakdown as to the exact purpose for the funds, i.e. navigation vs. flood control, is not of record. Actual expenditures for navigation amounted to over \$7 billion over the 1950-1964 period. Water carrier competition pertinent to these proceedings is that which exists in the Western District primarily on the Mississippi River in conjunction with its commercially navigable tributaries, and it is to this area that attention later herein will be directed.

Union Pacific's evidence includes a voluminous amount of material relating to the number of motor carriers and their scope of operating authority in Union Pacific territory and beyond; in summary as follows: For the period 1945 through 1965, the number of motor carriers offering single-line service increased (1) from 10 to 15 between Denver and Chicago; (2) from 5 to 12 between Denver and St. Louis; (3) from 2 to 12 between Chicago and Los Angeles; (4) from 1 to 8 between Chicago and San Francisco; and (5) from 1 to 5 between Chicago and Portland. Where no single-line coast-to-coast service between Los Angeles and New York existed in 1945, by 1965 four motor carriers were offering such service and one service between San Francisco and New York. The above-discussed carriers are all general commodity, regular route motor common carriers. There is further noted the operation of trailer-ships and containerships between the Atlantic and Pacific Coasts, which combined the long-haul water carriage with motor carrier movements at each end of the movement by water.

The mere existence of authorized carriers by rail-competitive modes does not indicate the magnitude of intermodal competition. However, unifications of motor carriers have created the coast-to-coast route structures; these carriers actively solicit and transport coast-to-coast traffic. In addition to the above factors, the existence of carriers not subject to regulation constitutes a distinct competitive factor. It is evident that the volume of actual traffic handled by the various modes must be compared specifically with that handled by the rail carrier parties in order to determine the level of intermodal competition pertinent herein.

Each rail applicant and several protestants submitted evidence comparing the volume of traffic handled by all modes in specific areas of the Western District. It is an established fact that factors too numerous to detail result in the comparisons at their best being nothing more than broad estimates and of limited reliability. The various carriers agree that intermodal competition exists in virtually all areas of the Western District, but they disagree as to the extent of the volume and the type of traffic which is intermodally competitive.

The disagreements are not of such significance as to be basically irreconcilable. They result mainly from attempts to equate the severity of intermodal competition with the number of carriers of other modes and the relative shares of ton-miles held by each mode, on the one hand, and, on the other hand, to define the level of competition in terms of specific types of movements handled by each mode, with emphasis on the length of haul and the commodities carried. Both approaches to analysis of intermodal competition have merit when used together. The relative shares of revenue ton-miles held by each mode and the investment in, and existence of carriers of other modes have already been discussed to the extent necessary and pertinent. The following discussion is directed to the significant results of the studies of record as they relate to the particular types of traffic which is intermodally competitive between the railroads, motor trucks, and water carriers.

Rio Grande estimates that for shipments moving 400 or more miles the railroads handle approximately 64 percent of the total tonnage and motor carriers handle about 28 percent. Tonnage hauled 800 or more miles is handled 70 percent by rail and 18 percent by motor carrier, and for hauls of 1,200 or more miles the split is 77 percent rail and 14 percent motor carrier. For traffic moving between Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon and California, on the one hand, and on the other hand, all States east thereof, railroads accounted for approximately 79 percent and motor carriers about 9 percent of eastbound traffic. The remaining eastbound traffic was largely waterborne, including a substantial portion representing petroleum traffic between California ports and Middle and South Atlantic refineries, bulk terminals, and chemical "complexes", and which traffic can not be construed as competitive vis-a-vis railroads. Westbound, waterborne traffic is insignificant. Motor trucks handle 26 percent of total westbound tonnage and railroads handle 70 percent.

Santa Fe concurs in Rio Grande's findings. However, the Santa Fe's own studies were directed to a determination of the level of intermodal competition for traffic moving between Washington, Oregon, California, Arizona, and New Mexico (the western region), on the one hand, and on the other hand, Kentucky, Tennessee, Mississippi, Alabama, Georgia, North Carolina, South Carolina, Florida, Virginia, West Virginia, Maryland and Delaware, (the southeastern region). It was found that of the total tonnage moved by rail and truck between the named Western and Southeastern States over 90 percent was moved by rail. Further, a study of rail and truck traffic between the above-named Southeastern States on the one hand, and on the other hand, Kansas, Missouri, Oklahoma, Arkansas, Louisiana, and Texas, showed that the rail share was somewhat smaller, roughly 80 percent.

The 1961 revenue from the rail traffic moving from the western to the southeastern regions defined above amounted to over \$141 million, 90 percent of which was accounted for by commodities falling within seven industry groups: Lumber and Wood Products; Chemicals and Allied Products; Food and Kindred Products; Field Crop Farms; Vegetable Farms; Paper and Allied Products; and Fruit Farms. Westbound from the southeastern States to the western States, rail revenue amounted to over \$96 million, of which 40 percent was accounted for by commodities of six industry groups: Fabricated Metal Products; Food and Kindred Products; Chemicals and Allied Products; Metallic Ore; Pulp, Paper, and Allied Products; and Tobacco Products.

In terms of "value added", each of the above-named groups of industries (the seven in the western States and six in the southeastern States), showed very high rates of growth over the 1954-1963 period. Rail transportation dominates the movement of the commodities for the industries detailed above, with certain exceptions: Truck transportation apparently is able to attract substantial amounts of traffic between the two regions with respect to fresh vegetables and fruit; certain food products (not identified, other than that they include both frozen and unfrozen products); and certain unspecified manufactured commodities. In each instance, however, rail transportation handled vastly more traffic than was moved by trucks. Intercoastal vessels handle a substantial volume of chemical products broadly classified as Industrial Chemicals, Chemical Specialties, and Coal Tar Products, NEC.

Southern Pacific's evidence indicates that truck transportation has indeed made strong gains in the handling of fruit and vegetable traffic and that rails are suffering a declining participation in grain traffic (wheat and feed corn) moving as domestic and export traffic generally within the area defined earlier as the Central States. Truck and barge movements have increased for export wheat traffic to Gulf ports to the point where the rail share, dominant in the mid-1950's, had shrunk to less than half of such traffic received at Houston and New Orleans in the early 1960's. Southern Pacific's evidence beyond this confirms generally that motor carriers are least effective competitors for transcontinental traffic as defined by the Examiner, and most effective for traffic moving wholly within a more limited region such as the Central States. The major exceptions, as found also by Santa Fe, are truck movements of fresh fruits and vegetables.

North Western, situated as it is almost wholly within the Central States (except for South Dakota and Wyoming), presented evidence concerning intermodal competition as it exists within the northernmost of those States (Illinois, Iowa, Minnesota, Missouri, Nebraska, and Wisconsin), and also South Dakota and Wyoming, roughly comprising the carrier's service territory.

About 50 percent of North Western's total freight volume moves within the territory covered by its intermodal competition evidence. The area is also served by Milwaukee, Soo, the former Burlington, Rock Island, the bridge routes of Illinois Central and the Gulf, and the northernmost lines of MoPac-C&EI, Katy, Frisco, Kansas City Southern, Santa Fe, the westernmost lines of Norfolk & Western, the Nebraska and Kansas lines of Union Pacific and the Missouri lines of Cotton Belt (see Map A).

North Western's study also documents a declining rail participation in grain traffic, with a corresponding increase in truck and barge movements of grain. Rail rate adjustments on grain and coal shipments failed to arrest the decline in overall terms. Coal is barged on the inland waterways including the Great Lakes to points of consumption on North Western lines. In several such instances, the railroad handled none of the traffic to these points. Trucks largely have taken over movement of coal from Great Lakes ports to inland customers. Rail unit trains, moving at reduced rates, have recaptured some coal traffic between a few of the points served in common with waterway carriers.

As is the case generally, pipelines where they exist for the movement of liquified petroleum gas, have diverted from rail carriage just about all movements of such commodity. Pipelines now supply natural gas to many former North Western receivers of coal and fuel oil. Also, there is a virtual disappearance of the once extremely heavy movement by rail of livestock traffic. Of considerably more importance from a revenue standpoint, manufactured goods transported within the region are now hauled primarily by truck (64% of the total rail and truck tonnage). One area, of course, where railroads have been able to recapture business from highway carriers is with respect to automobile shipments. North Western's revenue from this traffic, for example, tripled from 1957 to 1963.

The MoPac-T&P-C&EI system lies principally in the southern portion of the Central States. MoPac presented evidence covering intermodal competition in this territory. The area is also served by all or a large part of the lines of Kansas City Southern-L&A, Katy, Frisco, and Rock Island, among the Central States carriers; the eastern lines of Southern Pacific-Cotton Belt, Santa Fe, and Ft. Worth & Denver; and the southern lines of Gulf and the Illinois Central (see Map A). In this territory are the lower portions of the Mississippi, Illinois, and Missouri River waterways; the Red, Ouachita, and Arkansas River waterways; and navigable extensions from the named waterways, collectively referred to here as the Mississippi River System. The Gulf Intracoastal Canal also is located in the territory.

From 1955 through 1964, Mississippi River System tonnage in domestic barge traffic increased 38 percent to 226.5 million tons, and ton-miles increased 69 percent to 80.1 billion. Over the same period, domestic barge traffic on the Gulf Intracoastal Canal between New Orleans and the border between Texas and Mexico increased 75 percent to 92.7 million tons. In 1964, over 27 million tons of domestic barge traffic moved locally within the general area served by MoPac. After eliminating crude petroleum and petroleum products traffic from the above-described inland and coastal waterways traffic, MoPac estimated that approximately 61 million tons moved by water in the area were potential rail traffic. However, as MoPac also notes, rail rate reductions are the principal means of attracting or retaining traffic susceptible to movement by waterway carriers. Obviously, in view of the results of the several studies described above, such rate reductions have had some success in specific instances, but inland waterway transportation has held its relative share of traffic since 1950 (see Table 141). MoPac's evidence shows that in 1964, nearly nine-tenths of domestic barge and coastal ton-miles were generated on traffic not subject to regulation by the Commission. With respect to motor transportation in the area, MoPac's evidence shows much the same trends as were detailed earlier for other areas.

Findings and Conclusions

The subordinate findings of fact heretofore set forth support the following findings and conclusions:

Intermodal Competition

1. Public investment in highway, waterway, and air transport facilities has provided the opportunity for the establishment and growth of rail-competitive transportation systems throughout the Western District for air and highway transportation and in the vast area of the District served by the Mississippi River waterway system and the Gulf Intracoastal Canal.
2. Highway and water transportation not subject to regulation has become a significant substitute for, and has captured from the railroads much of the relatively long-haul regional grain traffic.
3. Highway transportation handles traffic consisting of commodities never moved by rail, and which have been developed as a result of the rapid evolution of technology, e.g., electronic equipment.

4. Highway transportation actually has become a highly effective substitute for rail transportation, with one or two notable exceptions, for small shipments.
5. Highway transportation is least effective for movements of over 1,000 miles; the effectiveness on a wide variety of commodities increases substantially as distance decreases.
6. Rail-highway competition is most intense for Western District railroads in the Central States area as defined herein.
7. Highway transportation of transcontinental traffic, as defined by the Examiner, is limited mainly to movements of fresh produce and food products and a nearly insignificant amount of manufactured goods, in total comprising less than 10 percent of total rail and truck tonnage, the exact amount being indeterminate on the basis of the data of record.
8. Corollary to finding 2, above. The rapidly developing, modern highway system, together with the continuing technological progress in highway transportation and more liberal limits on size and weight of motor vehicles, the trucking industry, both for-hire and private, has not yet realized its full potential.
9. Pipeline operations have diverted from rail transportation almost 100 percent of the former rail movements of petroleum, petroleum products, and liquefied petroleum gas. However, rail capacity has remained at the same level, and in this area, another significant factor in rail over-capacity is clearly evident.
10. Air freight traffic, as yet only a very minor portion of total freight traffic, is growing. With the advent of high-capacity aircraft at hand, air transportation will increase in importance as a truly competitive mode particularly with respect to commodities of lower value than heretofore handled.

11. At the time of hearing, intercoastal shipping between Pacific Coast ports and ports on the Atlantic and Gulf Coasts consisted primarily of commodities which are ill-suited to rail transportation. However, judicial notice is taken of the tremendous growth of water carrier containership operations in the described intercoastal area.
12. Inland domestic waterway transportation is most effective in relation to Western District railroads in the Central States area, specifically for movements of grain, petroleum products, coal, sand and gravel, and other bulk commodities on the Mississippi River System and, that System in conjunction with the Gulf Intracoastal Canal.
13. Railroads, through rate reductions and establishment of unit trains, have achieved some partial success in attracting some coal and grain traffic formerly moving via the Great Lakes and inland waterways.
14. Other traffic, such as automobiles, has also been attracted back to the rails.
15. Public investment in highway, waterway, and air transport facilities has provided the opportunity for the establishment and growth of rail-competitive transportation systems throughout the Western District for air and highway transportation and in the vast area of the District served by the Mississippi River waterway system and the Gulf Intracoastal Canal.

Economic and Intramodal Competitive Interrelationships
Among the Rail Carrier Parties

1. By almost any economic measure, such as physical size of plant, financial resources, traffic volume, and traffic density, the Santa Fe, Burlington Northern, Southern Pacific, and Union Pacific dominate the Western District railroads.
2. Competition between the northern corridor railroads in transcontinental operations is most intense in the States of Washington and Oregon, primarily at points served in

common by Union Pacific and Burlington Northern. And, Milwaukee and the Soo (the latter in conjunction with parent Canadian Pacific) to and from Washington and Oregon historically have handled minor shares of traffic moving transcontinentally compared to the Union Pacific and Burlington Northern.

3. North Dakota, South Dakota, and Eastern Montana are not among the larger traffic producing or receiving areas in the Western District, and the importance of the traffic which is originated or terminated in the three States is mostly in the area of agricultural products. In the Dakotas, Burlington Northern and the Milwaukee serve diverse areas and competition between the two carriers is virtually non-existent. Union Pacific is practically non-competitive in Montana, and in Southern Idaho traffic is non-competitive, with the area being exclusively served by Union Pacific.
4. In the Portland area, traffic interchanged between Southern Pacific and either Union Pacific or Burlington Northern is largely non-competitive and comprises mainly north-south traffic moved cooperatively to and from points served exclusively by each of the three carriers. Southern Pacific's interline traffic originated or terminated in Oregon generally south of Eugene is largely non-competitive at points served exclusively by Southern Pacific.
5. Competition between the Burlington Northern-Western Pacific-Santa Fe route via Bieber and the Southern Pacific's single-line route along the Pacific Coast is limited in intensity and further limited to traffic moving to and from points served in common by Southern Pacific, on the one hand, and Santa Fe or Western Pacific on the other hand in the area south of, and including the San Francisco Bay-Sacramento area.
6. Competition for transcontinental traffic by northern corridor carriers vs. central corridor carriers is limited to traffic originating or terminating in Washington and Oregon, and, for Oregon traffic, there is a limited amount of competition between Southern Pacific's southern corridor route and the routes lying in both the central and northern corridors.

7. Prior to modification of Condition 'e' in the Central Pacific case, Union Pacific and Southern Pacific worked as one to implement the terms of that condition. Since modification of Condition 'e', it is now incumbent on Union Pacific, Southern Pacific, Western Pacific, and Rio Grande, to utilize the Utah gateways for the maximum amount of traffic moving between the territories described in the condition, and without discrimination as among themselves.
8. The Cotton Belt in its operation is free of the provisions of Condition 'e'. Accordingly, Southern Pacific through solicitation by the Cotton Belt, handles traffic between the described territories embraced in the condition over the Southern Pacific-Cotton Belt route through the southern corridor. Further, there is nothing to preclude shippers and receivers in the territories from routing their shipments via the southern corridor route.
9. Western Pacific, with a highly limited service territory in California, must depend on Santa Fe for traffic from the remainder of the area. Such dependency, at its best is a poor one, since the Santa Fe is not subject to the provisions of Condition 'e' and has its own transcontinental routes from the territory. The Western Pacific has no real strength as a competitor on transcontinental traffic through the central corridor.
10. Since World War II (about 1945), the Rio Grande has become an effective competitor for less than 150,000 cars of transcontinental traffic annually. For the movement of such traffic west of the Utah gateways, the Rio Grande is dependent upon the Western Pacific and Southern Pacific, and is dependent on MoPac, the former Burlington, and the Rock Island for movement of such traffic east of the Colorado gateways.

11. Rio Grande's weakness as a competitor on transcontinental traffic vis-a-vis the Union Pacific is as a result of various factors; namely, that the Rio Grande possesses a small service territory, that, in such transcontinental movements, it is entirely a bridge carrier dependent upon connections at both ends of its routes, that at the west end its largest connecting lines, the Union Pacific and Southern Pacific, in their own transcontinental operations have interests contrary to that of the Rio Grande, that the two named connecting lines for obvious reasons too numerous to mention find it to their own best advantage to work together contrary to the interest of the Rio Grande, and the foregoing holds true with or without regard to modified Condition 'E', and that the one carrier, Western Pacific, whose interests are most closely tied to those of the Rio Grande, is itself a weak transcontinental participant of little competitive significance.
12. The comparatively favorable financial posture and level of profitability of Western Pacific and Rio Grande are the results largely of the absence of low density branch lines, long hauls for the bulk of the traffic handled in transcontinental service, and, for Rio Grande where short hauls are involved, they consist of heavy volumes of local traffic and traffic originated on line, primarily products of mines involving a minimum of terminal switching.
13. Union Pacific possesses a major advantage in being able to funnel substantial volumes of traffic to and from virtually the entire Pacific Coast onto its lines between Granger, Wyo., and the Kansas City and Omaha area gateways with attendant high traffic density and operating efficiency.
14. Although Union Pacific directly serves the Pacific Northwest and Southern California, it is wholly dependent on its connections at the Utah gateways for Northern California traffic.

15. Union Pacific is wholly dependent on its eastern connections for movement of trans-continental traffic and for traffic originating or terminating in the Central States, with the exception of the areas in Nebraska and Kansas, directly served by Union Pacific.
16. Transcontinental traffic handled by Union Pacific is fragmented east of the Missouri River among the many carriers with bridge routes serving the Illinois and the Mississippi River gateways at which connection is made with Eastern and Southern District carriers, the major exception being the Union Pacific connection with Norfolk & Western at Kansas City.
17. Santa Fe and Southern Pacific vigorously compete against each other for traffic originating or terminating in California in the area generally from and including the San Francisco Bay area southward through the San Joaquin Valley to and including the Los Angeles area. From the latter area eastward through New Mexico, the two carriers serve, with the exception of Phoenix, territories mutually exclusive to each other, and traffic to and from points in this area is largely non-competitive as between the two carriers.
18. In the Los Angeles area, competition offered by Union Pacific is strong with respect to its interline traffic terminated. In other respects, Union Pacific traffic to and from the Los Angeles-Barstow area involves mainly traffic local to its lines, traffic originated elsewhere by Union Pacific and interchanged with either Santa Fe or Southern Pacific for termination at points on their lines in the area, and traffic originated by the latter two carriers in the area and terminated elsewhere on Union Pacific lines.
19. Southern Pacific's transcontinental traffic consists primarily of shipments originated or terminated on its own lines.
20. Southern Pacific dominates the flow of trans-continental traffic through the southern corridor in the area west of El Paso in terms of tonnage handled.

21. East of El Paso, some of Southern Pacific's transcontinental traffic is fragmented between other carriers. However, the largest portion of such traffic is retained on its own lines and lines of its subsidiary, Cotton Belt.
22. Rock Island transcontinental traffic interchanged with Southern Pacific at Tucumcari eastbound consists principally of large volumes of perishables originated by Southern Pacific.
23. Comparing Southern Pacific and the Santa Fe with its connections at the Mississippi River gateways, Santa Fe handles a minor portion of transcontinental traffic moving through the southern corridor to and from, the Southern District, all of which Santa Fe traffic must be moved and in cooperation with connecting carriers.
24. Santa Fe, while operating through the southern corridor (from Texas points westward to California), is primarily a mover of transcontinental traffic via Kansas City and Illinois gateways. In a practical sense, Santa Fe must be regarded as most competitive to central corridor carriers for traffic originating or terminating in the area of California from San Francisco southward to Los Angeles.
25. Santa Fe participates in a large volume of traffic moving through the St. Louis gateways, but only to or from its Kansas City gateway connections with carriers also serving St. Louis, and in this respect Santa Fe and Union Pacific are geographically competitively equal.
26. Of the four major transcontinental carriers (Santa Fe, Burlington Northern, Southern Pacific and Union Pacific) operating through the three corridors, Union Pacific is the only railroad serving West Coast points which does not serve one or more Illinois or Mississippi River gateways, and therefore viewed solely from an operating standpoint is at a disadvantage in terms of being able to offer uninterrupted, single-responsibility, expedited, and efficient service for its total volume of transcontinental traffic between the named points.

27. The Milwaukee, North Western, Rock Island, MoPac, Illinois Central, Gulf, and Burlington Northern each have bridge routes which connect with Union Pacific at the Missouri River gateways and with Eastern and/or Southern District carriers at the Illinois and/or Mississippi River gateways. Over such routes, the named carriers are highly dependent on Union Pacific and eastern connections for whatever volume of bridge traffic moves over their respective routes to and from Union Pacific. In turn, the above-named bridge carriers have no significant influence over the routing of the bridge traffic described, compared to Union Pacific and their eastern connections. To the extent the bridge carriers can influence the traffic through solicitation efforts, the practical result is to bring to their own lines a thin slice of the Union Pacific traffic volume.
 28. The record is abundantly detailed and without dispute of any substance that the Central States are grossly oversupplied with railroad lines even in the late 1800's and early 1900's, when the region was almost entirely agrarian. Such oversupply existed despite the near monopoly of transportation held at that time by the rail mode.
- Despite a considerable amount of railroad abandonments in the area over the past 50 years, excess rail plant still exists.

Present-day excess capacity, which has carried over from the original overbuilding of rail lines in the Central States, is aggravated and continually increased by (1) new technology, particularly with respect to improved motive power, electronics for signaling and communication, and roadbeds, and (2) the diversion from rail lines of high-rated commodities by trucks and high-volume movements of bulk commodities by other modes and (3) consolidation of lines on the East, which have had the results of eliminating Central State carriers as bridge carriers. See, for example, Norfolk & W. Ry. Co. And New York, C.& St. L.R. Co. Merger, 324 I.C.C. 1. Collectively, these

factors have resulted in excess capacity for each of the rail carriers when, in fact, a decrease in overall capacity is needed in order to make the railroad industry viable.

29. The discussed factors of excess capacity have adversely affected the Rock Island, North Western, the Milwaukee, and the Katy, and each plagued with an abundance of low density branch lines is in a very precarious position.
30. Among the relatively more successful Central States carriers: MoPac-T&P-C&EI, Frisco, and Kansas City Southern-L&A, have relatively fewer low-density branch lines, particularly the latter system; the MoPac and Frisco systems possess route structures which consist of bridge routes between several important gateways as opposed to being dependent on only one or two such routes for revenue; Frisco has the added advantage of serving not only the lower Central States, but also territory deep in the Southeast; Soo, while a bridge carrier, has the advantage of being an arm of parent Canadian Pacific; Illinois Central, Norfolk & Western, and Gulf all have routes between the Missouri River and Mississippi River gateways but most of their operations are on lines extending outside the Western District; and additionally Illinois Central has the advantage of affiliation with Union Pacific, and the former Burlington, in conjunction with its parents and now as part of Burlington Northern, historically has been an integral part of the northern corridor routes. While Burlington standing alone was characteristically a bridge carrier, its affiliation with Great Northern and Northern Pacific set it apart from the others. Now, with unification with its former parents, the lines of the former Burlington must be considered as but one segment of a single carrier comparable in all respects to Union Pacific, Santa Fe, and Southern Pacific.
31. The MoPac-T&P-C&EI, the Frisco, and the KCS-L&A, despite the advantages found immediately above, are nonetheless in a potentially precarious operating position should there be any future substantial changes

in the present competitive environment. They are largely dependent on the corridor carriers for interline traffic, their principal source of operating revenue, and they must endeavor to retain a share of this traffic as do all the carriers and lines of carriers herein collectively called Central States carriers.

32. Faced with rising costs, short hauls, fluctuating levels of agricultural traffic, overcapacity, increasing demands for expedited service, little ability to influence routing of bridge traffic and even a large portion of originating or terminating interline traffic, inability to attract capital, inability to effectively compete with other modes in the region, and with little technological rationale available to justify intermediate switching of any kind attendant to bridge operations, the Central States carriers as bridge carriers are as obsolete to the needs of the railroad industry as the wood-burning steam locomotive.

General Findings

Overall, the Western District has experienced rapid economic growth in recent years. Table 14.2, which follows, shows some of the basic economic growth indicators to compare the growth of States in the Western District served by applicants relative to overall growth in the contiguous United States. Such information has been expressed in terms of percentage change over various time periods, varying because of data available at the time the evidence was prepared.

Table 142 reveals generally across-the-board growth, well above the national rate, for the States of Arizona, California, Colorado, except cash receipts from farm marketing of crops, New Mexico, except for cash receipts from farm marketings of livestock and livestock products, Oregon with the same exception as New Mexico, and Texas. In terms of value added by manufactures, the rates of growth for all but five of the States shown exceeded the national rate. A similar situation obtains with respect to value of mineral production excluding crude petroleum, natural gas, and gas products. All of the States except Idaho, Montana, Nevada, and South Dakota had rates higher than the national rate. It is emphasized that Table 142 shows only relative rates of growth as opposed to absolute population, employment, or production totals, and solely for the purpose of showing that the Western District States are generally growing at a rate faster than the United States as a whole.

TABLE 142

RELATIVE GROWTH OF STATES SERVED BY
APPLICANTS IN WESTERN DISTRICT
COMPARED TO CONTIGUOUS UNITED STATES
EXPRESSED AS PERCENTAGE CHANGE

State	1965/1940 Population	1960/1940 Employment	1965/1940 Cash Receipts Farm Marketings-Crops	1965/1940 Cash Receipts Farm Marketings Livestock & Prod. by	1963/1939 Value Added Manufactures	1963/1940 Value of Mineral Production*
Arizona	222.3	197.5	988.5	712.7	1,883.1	463.9
Arkansas	0.5	1.8d	472.7	793.4	1,346.2	537.2
California	169.4	140.0	439.9	523.5	1,428.9	328.8
Colorado	75.3	87.2	319.0	545.7	1,221.6	206.2
Idaho	31.8	49.5	670.8	333.5	1,130.1	102.9
Illinois	34.8	37.1	475.8	263.0	569.3	191.4
Iowa	8.7	18.3	328.9	358.6	839.6	275.6
Kansas	24.0	40.0	454.5	361.1	1,144.0	169.7
Louisiana	49.5	33.2	358.1	590.2	864.9	737.8
Minnesota	27.3	32.9	354.3	309.8	814.5	252.8
Missouri	18.8	23.8	572.3	289.9	638.4	216.8
Montana	26.2	28.0	301.8	361.9	508.4	59.4
Nebraska	12.2	24.5	651.5	460.8	995.7	632.0
Nevada	299.1	189.3	473.8	239.2	824.7	100.8
New Mexico	93.5	120.9	505.2	288.6	1,632.0	534.4
Oklahoma	6.3	24.2	240.0	341.6	861.6	100.9
Oregon	74.4	65.3	423.9	234.7	905.0	458.3
South Dak.	9.3	19.0	304.6	579.3	613.8	128.2
Texas	64.5	62.8	414.0	354.6	1,479.9	500.3
Utah	79.9	105.2	198.5	280.0	1,539.6	171.5
Washington	72.2	73.5	394.2	271.6	1,031.3	154.6
Wisconsin	32.1	38.9	426.7	291.7	686.4	393.1
Wyoming	35.6	42.5	192.6	252.4	432.6	524.5
U.S.	46.5	46.2	402.7	348.4	684.5	138.4

d. Decrease

* Excludes petroleum (crude) and natural gas and gas products.

On the record made, it is evident that the area served by the rail carrier parties is one characterized by a growing diversity of manufactured goods from both production and consumption standpoints, substantial increases in, and concentration of population along the Pacific Coast and in Texas, and increasing wealth derived from natural resources. In the Central States, while population has increased more slowly, agricultural production has increased in terms of both value received and volume shipped. While vast areas of the Western District remain low in population compared to Illinois or California, as examples, the production of forestry products, agricultural products and products of mines from these areas have become increasingly valuable to the entire Nation. While the national economy may have slowdowns or even reversals, the constantly expanding population in the United States insures an increasing demand for goods and services including transportation as reflected in the earlier discussion underlying Table 141.

The foregoing discussion in this section of the report involves a very necessary and highly detailed analysis of the competitive postures of all the railroads in the Western District, both individually and as parts of a vast, inter-related transportation complex. Clearly the unifications here proposed go far beyond effectuating merely basic changes in the physical operations and corporate structures of applicants alone but rather reach far beyond and include as one of the most important elements of public interest the individual interests of that large group of carriers serving approximately two-thirds of the area of the 48 contiguous States. Ultimately, the practical overview effects reach the entire 48 States. Not since some 50 years ago, see Consolidation of Railroads, 63 I.C.C. 455 (1921), has the Commission had before it rail unifications so broad in scope and effect. In its consideration and determination of the numerous and often conflicting proposals here involved, the Commission, in the exercise of its authority under the act, must function as the guiding architect under such proposals. It is in the context of the foregoing that the proposed transactions will next be considered.

Perhaps most important in a transportation sense, the States on the West Coast, and the States of Arizona, Colorado, Nevada, New Mexico, Utah, and Texas, have all shown continuous high rates of growth compared to the national rate. On the other hand, the Central States, except for Texas and Louisiana, have shown population growth rates well below the national rate. At the same time, the Central States over the 1940-1965 period have consistently accounted for approximately one-third of the annual national total of cash receipts from farm marketings of crops. Value added by manufactures in the Central States increased slightly from 20.5 percent of the national total in 1939, to 22.2 percent in 1963, primarily because of increases in Texas, which accounted for 1.8 percent in 1939, and 3.7 percent in 1963. California leads all other States shown in the table in terms of actual 1965 population, 1960 employment, 1963 value added by manufactures, 1963 value of mineral production, and 1965 cash receipts from farm marketing of crops. Only Iowa received greater cash receipts for farm marketing of livestock and livestock products in 1965.

PART H: DISCUSSION & CONCLUSIONS - MERITS OF
NORTH WESTERN CONTROL APPLICATION AND RELATED
APPLICATIONS; DISPOSITION OF SANTA FE PURCHASE
APPLICATION AND RELATED APPLICATIONS; SP PETITION
FOR INCLUSION

Previously herein there has been discussed in complete detail all the relevant factors bearing upon the applicant and intervener rail carriers' plants and operations. As directly pertinent to the Rock Island, the discussion includes the full scope of economic and financial matters and the preliminary conclusions thereon which pertain to the carrier without regard to the merits of the considered applications. (See Part B). Such matters and things will hereafter be restated or summarized only where necessary to afford a better understanding and continuity of discussion in a consideration on the merits of the various transactions.

North Western, in support of its proposed acquisition of control, presented a vast volume of evidence bearing upon the numerous issues involved. Its two-volume brief consists of 470 pages. Volume I deals with a control of the Rock Island by a merged North Western-Milwaukee (CM&NW) and also North Western's opposition to the Union Pacific and Southern Pacific merger and purchase applications. Volume II contains various appendices: Appendix D deals with the considered application filed under section 5 for the acquisition of control of the Rock Island by the North Western alone (rather than by a merged North Western-Milwaukee); Appendices A, B, C, E, F, and G, embrace, for North Western and CM&NW, such matters as financial data and analysis, operating economies, revenue losses estimated as a result of the Union Pacific transaction, the alleged impact upon other carriers as a result of the control proceeding, and proposed service improvements under the control; Appendix H-protective labor conditions; Appendix I-the North Western-Santa Fe agreement; Appendix J-an issue of pooling arising under certain operations which would be instituted following the proposed control; and Appendix K-requested finding.

For the reasons already detailed, the matter of the study of a unified North Western-Milwaukee acquiring control of the Rock Island is no longer a live issue and unnecessary for disposition herein. It similarly follows that all matters set forth in the brief, and in particular, requested findings, which deal with a CM&NW control of the Rock Island have been eliminated as relevant and necessary elements for determination.

In connection with the matter of requested findings, there are a number of such sought by North Western which deal with various financial and directly related aspects of the proposed control. The following are restated solely for the purpose of eliminating reference to the no longer involved CM&NW:

7. During the interim period of control, the North Western is committed to furnishing the Rock Island with whatever financial assistance may be necessary to complete the Rock Island's capital spending program and to restore the Rock Island to financial health. Considering the nontransportation sources of funds available to the North Western directly and through Northwest Industries, the North Western possesses the requisite financial resources to render all needed financial assistance to the Rock Island. The resources of Northwest Industries are available for the task of rehabilitating the Rock Island, and indirect control of the Rock Island by Northwest Industries thus makes an affirmative contribution to the development of a more efficient and more modern rail system in the Western District.

14. The North Western's exchange offer to the Rock Island stockholders has been accepted, subject to Commission approval, by holders of some 54.3% of the Rock Island's common stock. The exchange of North Western securities and cash for common stock of the Rock Island is fair and equitable.

15. The management of North Western has evidenced a genuine concern for the rights of minority stockholders. During the interim period of control, the management of North Western intends to take all necessary steps fully to protect the interests of minority stockholders in the Rock Island, to preserve the viability of the Rock Island as an independent railroad, and to improve and upgrade its facilities and services.

16. The issuance of capital stock and 6% Collateral Trust Income Bonds by the North Western to consummate the proposed transaction (a) is for a lawful object within the corporate purposes of the North Western and is compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the North Western of service to the public as a common carrier, and which will not impair the ability of the North Western to perform that service and (b) is reasonably necessary and appropriate for such purpose.

17. The acquisition of control of the Rock Island by the North Western will not give rise to any increase in fixed charges contrary to the public interest.

23. Considering the willingness and ability of the North Western to provide funds for the rehabilitation of the Rock Island's properties, a unification of the Rock Island with the Union Pacific with or without a sale of certain properties to the Southern Pacific is unnecessary to the preservation and improvement of the Rock Island's services; and

27. The following conclusion is warranted by the record:

- (b) The acquisition of indirect control of Rock Island by Northwest Industries is also consistent with the public interest.

The requested findings detailed above fall within several of the critical issues of "public interest" for determination by the Commission in passing upon transactions proposed under section 5(2)(a). Section 5(2)(c) specifically sets out four standards for consideration⁶⁹ and other standards are spelled out under section 5(2)(e).⁷⁰ Similarly, the terms and conditions under which selling stockholders would dispose of their interests must be found to be just and reasonable. See: Schwabacher v. United States, 334 U.S. 182, the Schwabacher case. With respect to the financial ability of the acquiring carrier as stated by the Commission in Pennsylvania R. Co.-Merger-New York Central R. Co., 327 I.C.C. 475 at 493 and 494:

Our concern with the financial condition of carriers is primarily in connection with the administration of the law in accordance with the objectives of the national transportation policy, viz "developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense." Without financial well being, a national transportation system cannot long exist as a group of privately owned enterprises.

⁶⁹(c) In passing upon any proposed transaction under the provisions of this paragraph (2), the Commission shall give weight to the following considerations, among others: (1) The effect of the proposed transaction upon adequate transportation service to the public; (2) the effect upon the public interest of the inclusion, or failure to include, other railroads in the territory involved in the proposed transaction; (3) the total fixed charges resulting from the proposed transaction; and (4) the interest of the carrier employees affected.

⁷⁰(e) No transaction which contemplates a guaranty or assumption of payment of dividends or of fixed charges, shall be approved by the Commission under this paragraph (2) except upon a specific finding by the Commission that such guaranty or assumption is not inconsistent with the public interest. No transaction shall be approved under this paragraph (2) which will result in an increase of total fixed charges, except upon a specific finding by the Commission that such increase would not be contrary to public interest.

In the event an affirmative finding in the public interest on the several above-described essential issues may not properly be made, it would serve no real purpose to discuss other areas in which applicant may or may not have met its burden of proof. See, for example, the order entered March 30, 1970, in the Milwaukee proceeding denying the transaction on the ground that the Commission could not find the terms of the proposed stock exchange just and reasonable.

Reasonableness of Stock Exchange Ratio

The stock exchange ratio which North Western offers the Rock Island stockholders is based on a plan which was developed over a period of time beginning early in 1962 in connection with merger negotiations with the Rock Island. North Western's offer to Rock Island stockholders reflects the consideration it gave to the fact that the competing Union Pacific offer was an offer of securities in a large, diversified enterprise, whereas the North Western was offering an interest in a still struggling railroad. North Western in its determination of the fairness of the exchange ratio did not compare earnings per share of the companies involved. Instead, it determined the fairness of its offer by measuring its market value as of the latest practical date and comparing that value with the value as of the same date of the securities to be surrendered. Furthermore, at the time that the final plan was being developed Rock Island stock was a dividend paying security, whereas, North Westerns' preferred and common stocks were not. Thus, the offer was designed to afford the accepting Rock Island stockholders:

- (a) North Western common stock, on the basis that, with a 100% exchange, Rock Island stockholders would have an approximately equal participation with its own stockholders in the equity of the North Western.
- (b) Collateral Trust Income Bonds to insure Rock Island stockholders a call on income of the North Western prior to any claims of North Western preferred and common stockholders, to the extent of \$1.80 per share of Rock Island stock (6 percent rate on the \$30 Bond = \$1.80),
- (c) And \$5 in cash, to provide for any necessary Federal income tax payments that may result from the transaction.

When the offer was formulated in 1963, Rock Island had 2,916,711 shares of common stock outstanding. The North Western had 810,320 shares of common stock outstanding and, on the basis of the 0.2778 exchange ratio, it was offering the selling Rock Island shareholder an almost 50 percent ownership of stock in the

North Western. On the assumption that 100 percent of the Rock Island stockholders would accept the offer and had the transaction been consummated in 1963, each group of equity holders would actually have owned 50% of the North Western.

However, as of March 31, 1966, the number of North Western common shares had a better than a 50 percent increase or 482,349½ shares, to a total of 1,292,669½, because of the conversion of the Company's Second Mortgage 4½ Convertible Income Bonds, Convertible Preferred Stock and the exercise of Stock Options. In turn, on the same date, the number of Rock Island shares had slightly increased by only 3,100 shares to 2,919,811. Accordingly, as of March 31, 1966, had 100 percent of the Rock Island stockholders accepted North Western's offer, they would have acquired a common stock equity ownership in the North Western of 38.6 percent. A further decrease in their equity ownership was accomplished after giving effect to the merger of the Great Western into the North Western. As of March 31, 1968, on the basis of 100 percent acceptance of North Western's offer Rock Island stockholders would hold approximately a 26 percent interest in the unified company. Such a block of stock would be of significance if the remaining shares were widely distributed; but, as later detailed, such would not be true. In connection with the securities that were to be included in its exchange offer, North Western obtained the services of a highly qualified analyst of railroad securities who had appeared before the Commission as an expert witness in a number of railroad proceedings. He was called upon to estimate the market value of the North Western's offer.

In order to determine the value of the common stock portion of North Western's package, the analyst used the closing price of North Western's common stock on May 20, 1966, which was the latest available data. As of that date the stock closed at \$114 3/4; and by multiplying this amount by 0.2778, the resulting value for the common stock portion was \$31.88.

Computing the market value of the 6 percent Collateral Trust Income Bonds presented a problem because it had not yet been issued and no actual market quotation could be obtained. The analyst concluded that it could best be estimated by comparison with existing bonds of comparable quality. The following five issues, all rated B or Caa by Moody's and which paid interest for two or more years, were considered reasonably comparable to the proposed "Collateral Trust 6s" in quality; and, further, in the analyst's judgment the proposed issue would sell on a similar basis:

<u>Moody Rating</u>	<u>Issue</u>	<u>Closing Price May 20, 1966(a)</u>	<u>Current Yield</u>
Caa	Chicago & Eastern Illinois Income Debenture 5s 2054	68	7.38%
Caa	Chicago, Milwaukee, St. Paul, and Pacific Income Debenture 5s 2055	72	7.02%
B	Missouri Pacific Income Debenture 50s 2045	71 5/8	7.05%
B	St. Louis-San Francisco Income Debenture 5s 2006	81 3/4	6.3%
B	Wisconsin Central General Mortgage Income 4 1/25 Series A, 2029	65	6.95%
Average			<u>6.88%</u>

 (a) If bond did not trade, 11 A.M. offering price is used.
 Yields of bonds dealt flat are adjusted for interest
 included in price.

NOTE: Current yield equals price less interest included in
 price of bonds dealt flat.

As shown above, the financial analyst concluded that the Collateral Trust Income Bonds would sell on at least the 6.88 percent basis which represents the average yield of the five selected issues. Thus the price of the \$30 principal amount Collateral Trust Income Bond, at a factor of $87\frac{1}{4}$, would have a current market value (as of May 20, 1966) of \$26.18. The analyst estimated the value of the entire North Western package by adding together the bond, the value of the fractional share of North Western common stock and the cash component, as follows:

1. 0.2778 Shares of North Western Common Stock at \$114 $\frac{3}{4}$ per share (May 20, 1966)	\$31.88
2. Cash	5.00
3. North Western Collateral Trust Income Bond	<u>26.18</u>
Estimated Value of Package	<u>\$63.06</u>

The price of a share of Rock Island stock on May 20, 1966 was \$32 $\frac{1}{4}$.

The financial analyst was requested to update his computations of the package deal. He estimated the market value of North Western's offer as of May 20, 1968. It is noted that in the interim period and since Northwest Industries acquired control of the North Western, North Western's common stock is no longer listed on the New York Stock Exchange. Inasmuch as it is sold over-the-counter, the analyst, in computing the value of the fractional share offered the Rock Island stockholders, took the mean between the bid and ask price for North Western common stock on May 20, 1968, which was \$120 and multiplied it by 0.2778. The resulting value for the fractional share was \$33.34.

In order to up-date the value of the bond component of North Western's offer, the data shown above for the Collateral Trust Income Bond was revised to reflect current price, rating and yield data. In the revision which follows, the analyst substituted two different issues in order to maintain comparability; one issue having been eliminated because of an increase in rating and the other issue because of a default in interest payments:

<u>Moody Rating</u>	<u>Issue</u>	<u>Closing Price May 20, 1968(a)</u>	<u>Current Yield</u>
B	Chicago Great Western General Income 4 1/25 2038	56	8.13%
B	Central of Georgia General Income 4 1/25, Series B, 2020	50	9.05%
Caa	Chicago, Milwaukee, St. Paul And Pacific Income Debenture 5s 2055	57 7/8	8.77%
B	Missouri Pacific Income Debenture 5s, 2045	59 3/4	8.47%
B	Wisconsin Central General Income 4 1/2s, Series A 2029	55	<u>8.22%</u>
		Average	<u>8.53%</u>

(a) Closing price or 11 A.M. bid quotation.

Using the above up-dated computation, the analyst concluded that as a minimum expectation, the Collateral Trust Income Bonds would sell on about an 8.53% current yield basis. To provide such a yield they would have to sell at 70 3/8. Using this valuation figure the \$30 principal amount of Collateral Trust Income Bonds would have a current market value of \$21.11.

The up-dated estimated value of the entire North Western package would be as follows:

(1) 0.2778 Shares of North Western Common Stock	\$33.34
(2) Cash	5.00
(3) \$30 North Western Collateral Trust Income Bond	<u>21.11</u>
Estimated Value of Package	<u>\$59.45</u>

The analyst concluded that current market value of the Rock Island's stock or any price recorded over the five years, could not be justified. At the same time he adopted no formula for evaluation of the Rock Island stock.⁷¹ But net effect of the analyst's conclusions was predicated on market values of the securities. He estimated the value of the North Westerns' offer, as set forth immediately above and as of May 20, 1968, to be much in excess of the then current market price for the Rock Island stock of \$21.75 per share. Even disregarding the recognized criteria utilized in the exchange of railroad securities in cases such as here presented, See: the Schwabacher case, Louisville & N.R. Co. Merger, 295 I.C.C. 457 at pages 493-500, and Erie R. Co. Merger, 312 I.C.C. 185, the latter affirmed in Albert Fried vs. US and ICC 212 Fed Supp 886, Seaboard Coast Line R. Co.-Merger-Piedmont, 334 I.C.C. 378, there is no sound basis for concurring in the analyst's view that the North Western exchange offer is fair and equitable and extremely generous when viewed in the light of the real determinative market and other factors discussed below.

As seen, the North Western's offer has been altered substantially as to the relative participation in the management of North Western, and there exists a number of serious considerations which would adversely affect the marketability of North Western's

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Without setting forth the details, the analyst concluded that the Rock Island stock would have a fair potential earnings of \$4.38 per share. He further referred to price-earning ratio of four railroads which ranged from 9.5 to 12.4 or on such a basis giving a fair price range for the Rock Island stock according to the analyst's own figures of from \$56.91 to \$61.86 per share.

common stock, the estimated market value of North Western's 6 percent Collateral Trust Income Bonds, and North Western's ability, as a result of the proposed control, to produce income for holders of the interest bearing Collateral Trust Income Bond.

The significance of equal ownership in the North Western was a very attractive element in North Western's exchange offer to Rock Island stockholders. However, over a period of time, as a result of security conversions, North Western's subsequent merger with Great Western, and the subsequent conversion of North Western into a wholly owned subsidiary of Northwest Industries, a diversified, nontransportation conglomerate, Rock Island stockholders, even with 100 percent acceptance of North Western's offer, would receive only about 26 percent interest in North Western. The Rock Island stockholders would have little voice and certainly no strong voice in the management of North Western whose remaining 74 percent stock is concentrated in the hands of Northwest Industries.

Moreover, with Northwest Industries standing as the parent company, the inducement made to the Rock Island stockholders that they would become stockholders in a diversified North Western is no longer true. Further, as indicated by the previously referred to order entered in the Milwaukee case on March 31, 1970, there is little likelihood, if any at all, that the exchanging Rock Island stockholders would ultimately become stockholders of Northwest Industries, as occurred in the Great Western case, or even that the railroad in which they held stock would continue for long as the subsidiary of Northwest Industries.

No criticism is being made of the fact that currently the North Western common stock is not a listed security and is not being actively traded. At the same time the single over-the-counter offering price of \$35 as of March 31, 1970, is a most unreliable yardstick to arrive at a fair market value. Use of the earnings factor, in a price times earnings ratio, is certainly warranted under the circumstances. Such criteria and the above-discussed developments concerning Northwest Industries' present activities in seeking to dispose of North Western's transportation assets demands that the carrier's transportation and nontransportation earnings be viewed separately.

With respect to the foregoing, the analyst set forth in his evidence (Exhibit No. 1189) a table showing average earnings

for North Western over the 3-year period 1965-1967.⁷² As regards the transportation and nontransportation earnings of North Western, the analyst makes the following critical statement:

"The table points up the lamentable fact that North Western's railroad operations alone are producing only a nominal profit for the common stockholders; the dividends on the common are supported primarily by North Western's chemical operations."

The table of the analyst for his averaged 3-year period shows that after elimination of the income derived from nontransportation operations, North Western's net transportation income would not be sufficient to cover its preferred stock requirements. It follows without saying that no net income would be available for any payment of dividends on the common.

Under the circumstances, any calculation of the value of the North Western stock on the basis of earnings must of necessity take into consideration the taking out of the railroad of the described highly profitable nontransportation assets. For the two basic reasons stated, assigning a value to the North Western common stock equal to the above-referred to offering price as of March 31, 1970, would be misleading and deliberately overstating the fair market value of the North Western common stock which the Rock Island stockholders would receive in the exchange.

⁷²The analyst stated the reasons for the use of the 3-year period as follows:

A Well, Mr. Ball, in the street we always take averages rather than a specific year. If we took the best year, '66, and used that, you would have the same argument against using that year as we would have against you for using '67. But we used the three years here because this was the first of the series of years where you could combine Velsicol's earnings with those of the railway.

Q Yes.

In other words, what you took there was an average of that period of time where you could more or less stabilize the contributions of the various statements to value?

A I would rather state it that we use the three years because we had the Velsicol experience for those three years and no others. Had it been five years of earnings of Velsicol we probably would have used the five-year average because that is more customary to use in the street than three.

Q Now, is it not the case that the conversion of other securities into North Western common stock has been brought about in a very substantial measure by the contributions of the earning of Velsicol and Michigan Chemical?

A The conversion of the bonds, yes. The conversion of the preferred, no. That was caused primarily by arbitraging.

With respect to the value of North Western's stock, it is noted that when the various Rock Island stockholders had accepted the exchange offer it was actively traded on the New York Stock Exchange. Since acquisition of North Western stock by Northwest Industries, the stock has been traded over-the-counter. North Western's financial witness agreed that it was difficult to find the listing and the brokerage houses identified by the witness no longer trade the stock. It is, however, traded by "Kaufman Alsberg & Co.", and it was offered at \$35 per share on March 31, 1970. This is about one third of its selling price of \$120 per share on May 20, 1968. Such decline is unquestionably attributable to a number of factors, some of which lack development in this record, and, hence, would fall in the realm of conjecture. However, it is clear that there are three important factors of cause which are fully supported and which further are essential elements bearing upon the value of the North Western stock. The three factors are the effects of the Milwaukee proceedings, the future possibilities concerning dividends derived from North Western's ownership of the two chemical companies (Michigan and Velsicol), and the influence of Northwest Industries. The evidence of record relating to the three factors is embraced in the direct evidence (Exhibit No. 1189) of the North Western analyst and cross-examination of the witness at pages 46,403 through 46,444, inclusive of the transcript of testimony.

In view of the denial of the Milwaukee proceeding, it is needless to discuss the analyst's valuation of the stock of a unified North Western-Milwaukee. Further, the order entered in such proceedings discloses that Northwest Industries would divorce itself from North Western and in such divestiture would sell transportation assets (underscoring supplied). It is most reasonable to conclude that any such sale of North Western assets would not include its two profitable subsidiary chemical companies. North Western agreed that the market has to appraise the North Western securities in the light of its transportation and non-transportation earnings (transcript page 46,414). It further agrees that the stock of North Western would find the same level as its parent holding company, Northwest Industries, so long as North Western stock is convertible into Northwest Industries stock.⁷³

73Q The present market level that you have mentioned for North Western stock as of today is how much?

A That is the same as Industries. Last night's close, Industries was 157 and the Railway stock was 146-157.

Q Well, I am saying that particular price is a reflection of the effect on the North Western stock of the ability to convert into Industries?

A That is absolutely correct, Mr. Ball.

Q And if the offer to convert into Industries stock expires at any time, that you could expect to have an adverse effect upon the market value of the North Western stock?

A Conceivably it might react down to where it was selling on May 20.

Q Or it could even go below it, could it not?

A It could.

As seen, since the latest updating of the North Western package a number of major altering events have occurred. Accordingly, an effort must be made to evaluate the North Western package as of the most recent date of available data.

Using approximately the same method and the same securities that North Western's financial witness used in his computation, the following is designed to show the estimated market value of the 6 percent Collateral Trust Income Bond and of common stock had they been issued on the date shown:

<u>Moody's Rating</u>	<u>Issue</u>	<u>Price Mar 31, 1970(a)</u>	<u>Yield(b)</u>
B	Chicago & Great Western General Income 4½s, 2038	40 5/8	11.08%
B	Central of Georgia General Income 4½s, Series B, 2020	51 1/8	8.80%
Caa	Chicago, Milwaukee, St. Paul and Pacific Income Debenture 5s, 2055	29	17.24%
B	Missouri Pacific Income Debenture 5s, 2045	51 1/8	9.78%
B	Wisconsin Central General Income 4½s, Series A, 2029	47	<u>9.57%</u>
		Average	<u>11.29%</u>

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- (a) Bank & Quotation Record - April 1970
 (b) Yields are based on the "flat" price of each issue

Based on the above, the Collateral Trust Income Bond would have to sell at a price to produce about an 11.29 percent yield, and which would be at 53.14 percent of the issued face amount, specifically at a price of only \$15.94. Thus, the estimated value of the entire North Western package would be as follows:

(1) 0.2778 Shares of North Western Common Stock at \$35 per share (March 31, 1970)	\$9.72
(2) Cash	5.00
(3) \$30 North Western Collateral Trust Income Bond	<u>15.94</u>
Estimated Value of Package	<u>\$30.66</u>

The price of a share of Rock Island stock on March 31, 1970 was about \$21.37.

Even when utilizing applicant's basis of valuation, the value of North Western's package decreased from an estimated total of some \$63 on May 20, 1966 to a little more than \$30 on March 31, 1970. This represents a decrease in the value of North Western's offer of almost 50 percent and even this final figure is overstated, for the reasons discussed below.

A significant part of North Western's exchange offer to Rock Island stockholders is the 6 percent Collateral Trust Income Bonds and which would pay interest for a period of 50 years. As a greater incentive and an assurance to Rock Island stockholders that this security meant additional income, each \$30 principal amount of Bonds is secured by a deposit, in pledge with the Trustee under the indenture, of the shares of Rock Island's stock delivered in exchange for the Collateral Trust Income Bonds. Thus, it was provided that dividends paid on the stock by the Rock Island will be paid directly to the bondholders and in the event that such dividend was insufficient to satisfy the terms of the security, the North Western would furnish the difference from its "Available Net Income" (defined previously).

Rock Island in its brief points out that it has paid no dividends (the initial source of bond earnings) since the first quarter of 1965 and considering its deficit operations, none can be expected. Similarly, North Western agrees that following assumption of control, the Rock Island will be in no position to pay dividends until its rehabilitation program is completed. Further, North Western notes that insofar as it is concerned, there will be no payment of dividends for the five years following acquisition of control. Recognition must also be given to the fact that there is a very slim chance of North Western's operations producing an adequate amount of "Available Net Income." Its financial position has been discussed previously with respect

to its poor earnings position. North Western is a marginal carrier and in its brief has pointed out that it has not paid dividends on its common stock from 1951 thru 1964 and none on its preferred stock from 1955 to 1963.

It is quite evident that there will be no interest payments on the 6 percent Collateral Trust Income Bonds for a period of at least 5 years. In this connection the analyst's estimated market value of the 6 percent Collateral Trust Income Bonds is grossly overstated. He used securities which had a history of paying interest for two years and longer as a basis for comparison to the proposed issued securities which North Western itself concedes have no likelihood of paying interest for at least 5 years. Such an approach cannot be approved in the face of the analyst himself, in his latest revised evaluation, having eliminated from consideration a prior comparable security because such security had defaulted in the payment of interest.

All circumstances considered, North Western has failed to establish that the consideration payable for the Rock Island stock is fair and reasonable. The exchange offer may not properly be approved in the public interest.

Financial Ability

As previously set forth in Table 64 and the detailed discussion which followed, over the period 1959-1968, the North Western has been unable to generate adequate funds from income, depreciation, and retirements for modernization of its properties, mandatory debt reductions and other corporate needs. The North Western has been forced to improvise in raising capital funds and improvements and debt reductions were achieved by using the cash flow from sales of assets, particularly real estate, refunds of taxes paid prior to 1955 and other sources such as the sale of scrap. Any improvement in its working capital position has been due to the funds that it obtained thru these sources and not from its railroad operations. In the period 1957-1966, the North Western's total funds provided amounted to \$695.6 million. Of this amount the sale of real estate and other property generated \$137.9 million and an additional **\$1.3 million on refunds of property taxes**. More than 20 percent of North Western's total funds were received from these non-recurring sources. In any event, North Western itself emphasizes that the liquidation of assets as a source of capital funds cannot continue indefinitely. It states "In short, we are now in a position where the railroad can no longer depend for sustenance upon wringing savings from its operations or from selling its assets."

The great bulk of North Western's capital investment in the 10 years since 1956, totaling \$298.8 million has been in rolling stock. Now, in order to retain the business it presently has and if it is to obtain full benefit from the equipment it has

acquired, North Western finds that it must start modernizing its fixed plant. In such connection, new, larger and more specialized equipment, such as bigger and heavier freight cars and increases in motive power resulting in longer trains, have rendered the plant of North Western, to a "greater or lesser degree", obsolete. Thus for example, there is an urgent and compelling need for North Western to lengthen sidings, lay heavier rail on road and yard tracks, improve conditions of ties and ballast, and reinforce or replace bridges. North Western also detailed the needs for certain dock and terminal modernization. Those and other projects require the availability of a "massive" amount of capital funds. North Western does not have such funds.

To finance the projects out of railroad operations, North Western estimates it would need a net income level equal at least to that which it obtained in 1965 or 1966, and, in fact the levels should be much higher. The examiner notes that on a consolidated basis the contribution to North Western's net operating income by nontransportation chemical subsidiaries was \$5,104,493 for 1965 and \$14,815,884 for 1966. Actually, North Western's Annual Report Form A for these two years show total dividends of \$204,438. However, North Western's inadequate total earnings for both prior and subsequent years have limited its ability to negotiate new security issues to finance its capital funds requirements. In addition, many of its capital needs, particularly with respect to improvements in road property, are not available for financing since the property already is covered by existing mortgages. Aside from certain special projects or unusual circumstances, (which North Western itself has not defined or otherwise clarified) the only financing which North Western finds available to it is through conditional sales agreements, equipment trust certificates or other similar methods for financing equipment purchases. In other words, by its own admission North Western has no outside sources available for the financing of necessary improvements or additions to its plant.

Of course, earnings from its wholly owned nontransportation sources have helped strengthen North Western's financial position, but such earnings have not met to any significant degree the huge capital expenditures required. In this connection, while North Western has not estimated the specific amount of its modernization costs, it has concluded that its needs are comparable to those of the Rock Island's. The current estimate as of 1967, of funds required by Rock Island for such needs, amounted to \$119.8 million. Under these circumstances it is reasonable to believe that North Western is saying that its needs dollar-wise will be at least the amount required by the Rock Island.

Besides the need for capital expenditures to improve the Rock Island's plant and its own plant, North Western's exchange offer includes an amount of cash which it is required to pay the accepting Rock Island stockholders. In the event of 100 percent

acceptance by Rock Island, the North Western would be required to expend some \$14 million in cash. The record shows that although North Western could employ its existing \$20,000,000 line of credit with The First National Bank of Chicago, to meet this payment, 100 percent acceptance by Rock Island stockholders would deplete the line of credit by a substantial amount.⁷⁴

North Western has indicated that it is prepared to utilize funds from its wholly owned nontransportation sources to assist in the task of rehabilitating the Rock Island. However, while such source has been providing substantial funds the amounts were not of such magnitude as to begin to approach the needs of the North Western alone not to mention the requirements of the Rock Island. Moreover, if Northwest Industries is successful in selling or by any other means, disposing of the North Western transportation properties apart from the nontransportation assets, the carrier will no longer have the financial support of the nontransportation earnings. The active efforts to accomplish such separation of transportation and nontransportation properties and the financial impacts upon the transportation facility flowing therefrom are factors which should not be ignored or lightly dismissed.

Furthermore, if Northwest Industries is successful in divesting itself of the North Western, the strong representations of the parent's expected financial aid to the carrier will have disappeared. And if and when such divestiture occurs and in a manner by which the large operating tax loss carry forward accrued by North Western will remain in Northwest Industries, North Western will have suffered a serious loss of potential benefit while at its expense the conglomerate nontransportation family of companies will have harvested a great prize. Even looking to the situation as it presently exists, there is no unqualified assurance that financial assistance or improvements will be brought to the

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No other sources of financing appears available. North Western has exhausted the authority granted by the Commission for issuance of \$20,000,000 in principal amount of secured collateral notes, in Finance Docket No. 24854 pursuant to order of May 24, 1967, as supplemented August 8, 1967. And, in Finance Docket No. 24592, Chicago & North Western Railway Company Competitive Bidding Exemption, decided June 2, 1967 (not printed), subject to authority granted by the Commission in a subsequent proceeding for the issuance by the North Western of \$20,000,000 of its first mortgage bonds, series D, it was found that the sale by North Western of such bond at competitive bidding should not be required. However, up to this time, in no subsequent proceeding has North Western sought and received authority for the issuance of the foregoing bonds.

Rock Island. To the contrary, there seems to be grave reluctance on the part of Northwest Industries to advance funds to a financially weak and deficit road such as the Rock Island, and in which connection it was stated:

"The advantages implicit in creation of Northwest Industries must not be permitted, however, to detract from the urgent need to create a viable, self-sustaining regional railroad in the Middle West. I believe that Northwest Industries can play a role in helping to meet capital spending needs for the regional carrier and helping to develop a new, streamlined rail system for the Middle West. Nevertheless, Northwest Industries must employ its funds to obtain a fair return for its stockholders. It will advance funds for the growth and improvement of a healthy, viable regional system, but it cannot employ its resources to subsidize a failing rail enterprise. The operations of the independent carriers in the Middle West must be reconstituted so that they generate sufficient profits not only to maintain operations but also to advance their capabilities and improve their services. Unless the railroads can thus exist as self-supporting operations, they will rapidly cease to exist altogether."

North Western anticipates that additional funds would be generated through the substantial savings which would be accomplished as a result of the control transaction. Giving full credit to North Western's expectations, it estimates annual savings aggregating \$16,960,585 consisting of operating savings of \$8,753,371, overhead savings of \$5,845,881 and net traffic benefits of \$2,361,333. Of the total benefits of \$16,960,585, there would accrue to the Rock Island \$9,555,626 and \$7,404,959 to the North Western. Net savings with regard to the traffic benefits would accrue on approximately an equal basis to the Rock Island and the North Western.

According to North Western's calculations by the third year following control, the cumulative savings would aggregate \$34,448,648 of which Rock Island would have realized \$19,643,821. For the entire five year period the cumulative benefits would have been \$68,369,818, comprised of \$38,755,077 accruing to the Rock Island and \$29,614,741 to the North Western. North Western expects that the savings would be tax-free to both carriers and would be available to both for their modernization program. At the same time, North Western points out that the entire amount of the expected control savings will not be available to finance capital expenditures since the savings will be eroded by rising costs.

Nevertheless the loss, giving full weight to the estimated savings, and ignoring the erosion in savings by reason of rising costs, the record made is not convincing that investment of the savings in capital improvements would necessarily result in substantially increased revenues. North Western's own past experience provides impressive evidence that capital expenditures, far larger than any proposed under Rock Island control, have not resulted in greatly improved revenues. Expenditures of \$336,417,000 were made on North Western's properties from 1956 through 1966, plus an additional \$4,000,000 in expenditures for accounting modernization, data processing and other computer projects. North Western furnished the information that any financial improvement shown by it in the ten year period 1956-1966 was not due to any increase in its level of freight revenue but rather to such factors as drastic cost cutting and saving accomplished in modernization. Further, North Western's chief executive officer has stated that it is unrealistic to assume that a static level of cost, for example, wage and fringe benefit costs, and reductions in cost resulting from the control, will not translate themselves into permanent increments to earnings. His conclusions are sound that, if revenues remain fixed, but wage costs continue to rise, the day will come when the savings realized as the result of the control transaction would have been eliminated entirely, and that at that point, the unified roads under the control would be no better off financially than the separate roads have been in the past.

The witness in his testimony tendered a supporting schedule of various increased costs; including wage cost without fringe benefits, for the period 1947-1964, and expressed as an index based on the three-year annual average for the years 1947-1949 being equal to 100 percent. (See: schedule BWH2 to Exhibit 46). Utilizing a similar source as the witness (Yearbook of Railroad Facts, 1970 Edition, Association of American Railroads) to update his information, this confirms fully the steep climb in wage expense for the years following the above-referred to schedule, namely 1965 through 1969 inclusive, and utilizing the average for 1957-1959 as a 100 percent base. Average annual earnings for 1969 over 1968 rose by 7.2 percent, not including wage supplements averaging more than \$1,300 per employee, and despite a 2.1 percent drop in employment.

Turning to the proposed controlled Rock Island, the evidence is that as a result of the transaction it would have no increased revenues other than by traffic diversion. In such respect, Rock Island and North Western would realize an increase in aggregate gross traffic revenues of \$3,542,000. These benefits after applying a 33 1/3 percent maximum incremental cost of handling to this traffic, will yield net traffic benefits of \$2,361,333 annually, of which \$2,256,000 will accrue to the Rock Island and \$105,333 to the North Western.

In summary, the economies and other financial benefits realizable under control will significantly improve the financial position of the Rock Island, but it will not eliminate its deficit operations. Direct financial assistance from other sources will be necessary to rehabilitate the earning power of the Rock Island. North Western itself is in no financial position to furnish this financial assistance. It has been established that over the past decade its own financial position has been unstable and its operations marginal. As a "marginal carrier" it has a low rate of return, inadequate reserves, erratic financial history and it is unable to withstand adversity.

The fullest possible weight has been afforded the evidence presented by the North Western. However, such evidence falls far short of establishing that the North Western would be able financially to bring the desperately required financial aid and stability to the Rock Island. Standing alone, the North Western faces a veritable impossible task; and Northwest Industries clearly is unwilling to risk the huge investment necessary to rescue the deficit-ridden Rock Island, not to mention its own marginal North Western. Properly in the public interest, a unification of transportation facilities such as here proposed should be able to satisfactorily establish a creation of economic strength wholly, or at least predominantly, from carrier operations in the performance of transportation services. One would not condemn some financial contribution furnished by a nontransportation subsidiary of a carrier and which aid has as its purpose to flatten out the cyclical nature of the carrier's revenues. However, such a situation is vastly different from the highly undesirable circumstance where a carrier for its economic survival, and, of course, operations, must depend upon the financial support furnished by nontransportation subsidiaries. Conditions reach a far more aggravated state, where as here a marginal carrier and deficit-ridden carrier as part of a large family of nontransportation companies would have to compete for their critically needed funds.

There is no need to conjecture on the fate of the involved railroads; Northwest Industries has made no definite pledge of financial assistance. To the contrary, as clearly indicated from the evidence quoted previously, Northwest Industries' policy is to employ its funds to obtain a fair return for its investors and it is unwilling to subsidize deficit or marginal railroads. For the years 1967, 1968, and 1969, North Western had dividends (apparently from the subsidiary chemical companies) of \$6,121,480, \$8,067,253, \$6,175,951, with deficits in ordinary income of \$9,052,491, \$563,103, and \$22,637,442, respectively. Without even looking to the great financial needs of the Rock Island, the North Western itself is in poor financial condition, yet Northwest Industries seeks to separate North Western's carrier plant from its noncarrier properties. True, the Rock Island is in serious financial condition and it may not be able to stand alone much longer. However, the alternative here proposed promises a far

greater crippling destruction of a vitally important transportation facility. It would be establishing a policy and precedent directly hostile to the public interest to approve the proposed control in the face of the clearly established results of the transaction. Applicants requested findings Nos. 7, 14, 16, 17, 23, and 27, above set forth are rejected.

The authority sought in Finance Docket No. 22689 for the issuance of securities to consummate the proposed control, of course, is dependent upon an approval of such control application. In view of the denial of the control transaction proposed the securities application also will be denied.

As seen the proposed Santa Fe application in Finance Docket No. 23919 and the related applications in Finance Docket No. 23920 and No. MC-F-9668 are all dependent upon a prior approval of the control transaction proposed in Finance Docket No. 22688. It follows that in view of the denial of the control application, the three foregoing mentioned applications of the Santa Fe also should be denied. Similarly, nothing remains for consideration with respect to the Southern Pacific petition for inclusion in Finance Docket No. 23919, and the petition will be dismissed.

PART I - EVIDENCE IN SUPPORT OF UNION
PACIFIC-ROCK ISLAND MERGER ASSUMING SALE OF
SOUTHERN ROCK ISLAND LINES TO SOUTHERN PACIFIC

(1) In General

Since 1956, Union Pacific had been reviewing the impact of other modes of transportation on railroad traffic and the shifts in trade and traffic patterns between major gateways. In Union Pacific's view, it was not keeping pace either with the economic growth of the areas in which most of its traffic originates and terminates or with the growth of its intramodal and intermodal competitors. It also was concerned with the fact that the actions taken and proposed to be taken in various segments of the transportation system resulted in, and would continue to result in, changed economic and competitive situations. To meet such results through improved speed, quality, and versatility of service, Union Pacific concluded that it must extend its lines east of the Missouri River to reach the Chicago and St. Louis gateways, where it would be able to interchange traffic directly with the large rail systems formed and forming in the east and southeast; and also to provide a single-line service to such major industrial areas as the Twin Cities, Quad Cities, and Des Moines.

With respect to intramodal competition, Union Pacific is of the view that it operates under a competitive handicap because it and the Western Pacific are the only major railroads directly serving the Pacific Coast which do not reach any of the western gateways to Official and Southern Freight Association territories over their own lines or lines which they control. Major competitors of Union Pacific for traffic to and from Mountain Pacific Territories such as Santa Fe and Southern Pacific-Cotton Belt have such routes. The then pending Northern Lines merger would also have such routes.

Union Pacific asserts that it operates under a further competitive handicap because it is the only railroad serving the area between the Missouri River and the eastern Mountain Pacific territory gateways which does not reach directly one or more of the western gateways to Official and Southern Freight Association territories in the Chicago and St. Louis areas. Union Pacific points out that four of its competitors, the Burlington, the MoPac, the Rock Island and the Santa Fe have such routes.

The proposed merger herein is especially desirable to Union Pacific in view of the recent trend among railroads towards unification. Union Pacific discusses seventeen mergers or acquisitions which had been proposed or were being studied in

the late 1960's, some of which have been effected, others of which are still the subject of proceedings before the Commission or the courts, and still others of which appear to have been given up by the carriers involved. It argues that inherent in each of these was the alteration of existing and creation of new traffic patterns and the possibility that they might cause freight traffic to be routed away from Union Pacific, thus weakening its position.

Union Pacific points out that in the east the trend toward unification among trunk lines operating between the eastern seaboard and the midwest is reducing the number of such lines; and that in the west, most of the railroads which are competitors of the Union Pacific are contemplating moves which, if effectuated, would leave Union Pacific without effective connections between Council Bluffs and Chicago and between Kansas City and St. Louis. In order for Union Pacific to presently connect with the large Eastern District carriers such as the Penn Central, the Seaboard Coast Line and the Southern System, Union Pacific must rely on intermediate carriers, some of which are its competitors.

A study by Union Pacific of its traffic interchanged with eastern connections for the year 1960 indicated that the main stream of its traffic was to and from points east of its Missouri River gateways. As to a large part of such traffic, Union Pacific is forced to rely on its immediate eastern connections, primarily as intermediate carriers, for service to and from the railroads serving the consignees and shippers of such traffic.

Additionally, three events have transpired since 1960 which according to Union Pacific threaten its revenues and ability to continue as an important and successful railroad: (1) the Transcontinental Division Case, (Akron, C&Y. Co. v. Santa Fe, 332 I.C.C. 491, 1963; 387 U.S. 326, 1967); (2) Commission's supplemental order of January 6, 1966, in the Central Pacific case, and (3) the Per Diem Rates Case, (Chicago, B&Q R. Co. v. New York, S. & Western R. Co., 332 I.C.C. 176, 1968).

Union Pacific estimates the total loss as a result of the Transcontinental Division Case, at \$7,603,400 annually. It has already paid \$8,217,225, as partial resettlement to eight carriers pending completion of a traffic sample. If the Commission's decision of January 17, 1968 in the Per Diem Case is upheld, Union Pacific estimates annual losses of at least \$3 million. Applying the Commission's formula for the year 1967 would have resulted in a \$3,137,868 reduction in earnings.

In accord with the Commission's Supplemental Order, in the Central Pacific Case, the preferential solicitation agreements between Union Pacific and Southern Pacific were cancelled (July 7, 1968). Although there is no way to determine the ultimate effect of the termination of the solicitation agreements, Union Pacific estimates an annual gross loss of several million dollars. From this amount it would be necessary to deduct the cost of handling such lost traffic to arrive at the net loss.

Union Pacific, having determined the necessity of extending its terminii eastward from the Missouri River gateways, then found it necessary to decide upon a merger partner which would enable Union Pacific to achieve its discussed goals. In early 1960, Union Pacific concluded that the Rock Island provided the best opportunity to protect and enhance its competitive position. Rock Island is the only available railroad which provides routes from Council Bluffs to Chicago, Joliet, and Peoria, from Kansas City to the same Illinois gateways, and also from Kansas City to St. Louis. At these eastern points, the Union Pacific would then be able to connect directly with the large eastern and southern systems.

Additionally, Union Pacific is confident that the merger will result in an improved rail service to the shipping public which will obtain the benefits of single-line service, instead of the present two line service between the entire area from Southern California and the Pacific Northwest to the Illinois gateways in the Chicago and St. Louis area (including the points served by the Rock Island between such gateways and the Missouri River). There will also be single-line service between Union Pacific's junction with the Southern Pacific and Western Pacific in Utah and these Illinois gateways (including the points served by the Rock Island between such gateways and the Missouri River). Shippers to and from Northern California and parts of Oregon will obtain the benefits of two line service, instead of the present three line service to these Illinois gateways (including points served by the Rock Island between such gateways and the Missouri River).

The above service improvements should also enable the merged company to compete more effectively with the ever-growing competition of motor carriers. Union Pacific is hopeful that even in Western Trunk Line territory, where there is pervasive motor carrier competition because the hauls are relatively short, the merged company will be able because of the benefits of new single-line service to stem, and perhaps even reverse, the inroads in rail traffic which motor carriers have been making. Even if Union Pacific cannot regain all the traffic taken by the

motor vehicles, it hopes to gain a more equitable share of the intercity traffic passing through these junctions. In all rail service where there will be fewer interchanges, Union Pacific should be able to compete more effectively with motor vehicles, especially for traffic moving over the longer distances.

Union Pacific is confident that the merger will also result in an improved service to the shipping public as a result of the substantial improvements Union Pacific expects to make to Rock Island lines from Council Bluffs to Chicago, and Kansas City to St. Louis which will permit the handling of heavier trains at higher speeds than today. After merger, Union Pacific pledges that all of its resources will be available to modernize Rock Island's facilities to provide the most modern and efficient railroad service possible. Additionally, Union Pacific's equipment improvement program will be extended to the Rock Island lines with consequent improvement in service to shippers. Union Pacific has pledged itself to provide whatever funds are necessary for purchases of new equipment and repairs to existing Rock Island equipment.

Service will also be improved by the merger as a result of anticipated economies in the operations of the combined company. Facilities at points served by both lines (such as Council Bluffs, Omaha, Kansas City and Denver) will be consolidated. Other duplicate facilities can be coordinated and administrative savings can be realized.

Finally, Union Pacific asserts that the improved service should enable the merged company to meet more effectively the increased competition for traffic which may be expected in the future from the larger railroad systems existing and under consideration and from motor carriers, water carriers, pipe lines and air lines; that improvement in service should make it possible for shippers using the merged company to compete more effectively in their present markets and in markets beyond the present limits of their sales territory, not only on the American continent but overseas as well; and that the shippers and consignees of freight relying upon the Union Pacific and the Rock Island, the communities in which they reside and do business, and the Nation's economy and its defense will all be benefited and protected by the merger of these roads. The foregoing factors of operations, services, and economies will be later discussed in detail.

As stated several times before, the proposal is viewed on the basis of the Union Pacific merger with the northern half of the Rock Island and Union Pacific supports the application of Southern Pacific. All discussions herein bearing upon the Union

Pacific-Rock Island merger deals with the Rock Island-Northern, except where otherwise indicated.

In support of the Southern Pacific proposed purchase, Union Pacific states that the lines of Rock Island from Santa Rosa to Kansas City and from Santa Rosa to Memphis are natural extensions of the lines of the Southern Pacific. Their acquisition by Southern Pacific would follow the natural flow of traffic. Additionally, the Southern Pacific line north from Galveston and Houston terminates at Fort Worth and Denison, Tex. Except for some duplication in the area between Galveston, Dallas and Fort Worth, the Rock Island line to Wichita and Herington, Kans., is a natural extension of that line, and would provide Southern Pacific with a direct single-line route from the Gulf of Mexico to the Kansas City gateway.

Although acquisition of the southern portion of the Rock Island lines would terminate the north-south single-line service through Kansas City over the Rock Island road, it would result in a new single-line service between Kansas City, Topeka, Wichita and Oklahoma City, on the one hand, and, on the other hand, New Orleans, San Antonio, El Paso and the entire Pacific Coast area served directly by Southern Pacific. The Southern Pacific transaction will be fully discussed following the discussion of the evidence in the Union Pacific-Rock Island merger.

(2) The Merger Transaction: Operational and Service Improvements - Other Benefits

The freight schedules operated by a railroad are one of the more important standards of service upon which shippers and receivers rely in order to efficiently and profitably operate their businesses. Since 1946, transit times on traffic moving between West Coast points, on the one hand, and the Chicago and St. Louis gateways, on the other, have been reduced from 8th morning to 4th morning deliveries, and the Union Pacific has participated in effectuating the reductions. To keep pace with the reduced schedules and to improve operating efficiency Union Pacific has carried on a continuing program of improvements to property and equipment, as later detailed. Presently, in movements where Union Pacific functions as the bridge carrier (between West Coast points and the Missouri River gateways and Kansas City), it is not free, as is a single-line carrier, to adjust schedules to improve service, but it is wholly dependent upon the cooperation of connecting carriers at both ends in meeting schedules and providing reliable service. Interchange delays and unsatisfactory performance of connecting lines, in particular at the Missouri River gateways, have caused problems in meeting transcontinental schedules. A study conducted by the Union Pacific, covering the year 1964 and first nine months of

1965, showed that connections were late during 1964 on 71 percent of their deliveries to Union Pacific, averaging 2 hours and 13 minutes, and for the 1965 period were late on 66 percent of their deliveries, averaging 3 hours and 2 minutes. Such delays, resulted in further delays at Salt Lake City when Union Pacific's connections had departed.

At Kansas City, Union Pacific has a connection with but a single carrier, the Norfolk & Western, which operates to any appreciable extent in the East. With respect to those eastern carriers, which are the roads handling the traffic producing about 90 percent of the revenues derived by all eastern carriers on Eastern-Mountain Pacific traffic, Union Pacific must rely on intermediate carriers for service. With such limited connection, Union Pacific doubts that it will be able to keep pace with the rail industry. It points out that many of its competitors are able to provide single-line services at principal points; namely, at Chicago by the Santa Fe to and from San Francisco and Los Angeles; and by the Milwaukee and Burlington Northern to and from the Pacific Northwest; and at St. Louis, Memphis, and New Orleans by the Southern Pacific system to and from important Pacific Coast points.

At the Council Bluffs-Omaha gateway the Union Pacific must rely upon the Burlington Northern, the North Western (including the merged Great Western), the Milwaukee, Rock Island and Illinois Central as bridge carriers for the hauling of transcontinental traffic through the Chicago gateway. At the Kansas City gateway, Union Pacific's available connections for the hauling of traffic through the Chicago and St. Louis gateways are the Santa Fe, Burlington Northern, North Western, Milwaukee, Rock Island, Frisco, GM&O, MoPac, and the Norfolk & Western; all, except as previously noted with respect to the Norfolk & Western, act as bridge carriers. Union Pacific described in specific details the inefficiencies and inadequacies of the interchanges.

As a general proposition on eastbound perishable traffic, Union Pacific has a number of experiences of reaching Kansas City on time or up to 20 minutes late and finding that connecting carriers have let their trains depart leaving Union Pacific traffic behind. The result is that delivery of Union Pacific traffic at Chicago and St. Louis is delayed 12 to 24 hours behind schedule. On late deliveries in the reverse direction (westbound), as an alternative to departing without waiting for late arrivals, Union Pacific elects to delay departure of its trains and attempts to make up for lost time. Such procedure forces Union Pacific to add horsepower to its trains and which is a costly expedient. In addition to the

through operations above-discussed, there are important midwestern areas, such as the Twin Cities, Quad Cities, and Des Moines which, are not directly served by the Union Pacific and it must rely on connecting carriers to remain competitive.

In summary, while railroads do cooperate with each other, generally their first concern is their own operations. Union Pacific finds that interchanges at Missouri River gateways are costly, time-consuming and inefficient. Also, the interchanges result in less control over shipments from origin to destination; Union Pacific has no way of either compelling its direct connections to provide satisfactory service or assuming primary responsibility for delivery of freight to eastern and southern carriers.

To best understand the specific nature of the various types of interchanges there is first required a concise definitive discussion of Union Pacific's "normal", "preblocked cut" and "through train", interchanges. "Normal" interchanges at the Council Bluffs-Omaha-Kansas City gateways with almost all connecting carriers require the accumulation at a railroad's junction terminal of a variable amount of loaded and empty cars, received from various sources, at random times and in random mix, with respect to types of traffic, destinations, loads and empties. The accumulated trackful of such traffic is hauled by a switch engine to the connecting carrier's yard, generally without listing or advance waybill information. The delay in accumulating such interchange traffic runs from 4 to 12 hours. Further delay is incurred when the cars are delivered to the receiving railroad and the cars must be listed, waybills checked for destinations, and the list marked for switching and reswitching actually performed, before the cars can be advanced from the receiving railroad's yard.

"Preblocked" interchanges occur where blocks of cars (any number from 2 cars to a full train movement) are classified or arranged according to destinations and junctions, and also according to perishable versus nonperishable traffic. Waybill information and listing precede the preblocked cars. Preblocking affords important advantages over traditional interchange, such as affording the receiving road opportunity to make decisions based on the advanced information; in the reduction of terminal detentions; and in reductions in one or more switching operations and in switching damage.

"Through train" movements involve train operations embracing the preblocking and interchange of an entire train. The term in its strictest sense includes the pooling of power and caboose. However, the "through train" designation is also used to describe interchanges where power and caboose are changed.

Efforts to overcome the cost and service deficiencies inherent with interchanges at the Missouri River gateways have been made by Union Pacific and its eastern connections over the years, beginning on a permanent basis in 1960. In that year, Union Pacific and North Western inaugurated one train each way between North Platte and Chicago through Fremont. The entire trains were preblocked at origin and interchanged intact at Fremont, with only the locomotives being changed. The service was increased in 1965, when two more trains were added, one an eastbound perishable commodity train, the other a westbound train of empty cars. Though not a "through train" in the technical sense because locomotives are not pooled (caboosees are, however), the service obviously eliminates time-consuming and expensive conventional interchange.

Also in 1960, Union Pacific and Burlington began a through-train operation with two sets of trains daily in each direction. The first set involved a locomotive pool between Chicago and Green River, Wyo., with cabooses pooled between Chicago and North Platte. This operation is a true "through-train" operation: Locomotives, freight cars, and cabooses are interchanged intact at Grand Island. In 1967, the first set of trains were extended operationally when locomotives, but not cabooses, of the former Pennsylvania Railroad were put into the pooled trains, and the trains were operated intact between Conway, Pa., and Green River.

Similar arrangements were made in 1966, (1) with Norfolk & Western between Decatur, Ill., and North Platte and between Decatur and/or St. Louis and North Platte and/or Cheyenne, with cars added at Kansas City westbound, and (2) with Frisco between Memphis and Cheyenne via Kansas City. The Frisco-Union Pacific operation involves preblocking of eastbound traffic at North Platte for Memphis and points beyond for delivery as a through train to Frisco at Kansas City. Westbound, although locomotives and cabooses are pooled, some switching and classification was required, as of 1967, at Kansas City, and involved delivery of preblocked "cuts" of cars to Union Pacific, as opposed to complete trains.

Preblocking of traffic is done by Union Pacific for delivery to Milwaukee and Rock Island at Omaha-Council Bluffs, and vice-versa. Such operation with Milwaukee was begun in 1961. The Rock Island operation was started in 1966, and usually involves an amount of traffic so limited as to require the combination of the Rock Island traffic with that of Milwaukee for westbound movement over Union Pacific. At times, the amount of preblocked traffic received from both Rock Island and Milwaukee is insufficient to make up an entire train, and cars must be added from other eastern connections.

In 1964 of the total interchange between UP and C&NW, 27.73 percent was handled in through trains at Fremont, and of the total interchange between UP and Burlington, 50.37 percent was interchanged in through trains at Grand Island. When compared to Union Pacific's total 1964 interchange with all of its eastern connections, the C&NW-UP and the CB&Q-UP through train operations accounted for only 13.24 percent.

By 1967, the special interchanges outlined above amounted to 35.58 percent of Union Pacific's total carload interchange at Omaha, Council Bluffs, Fremont, Grand Island and Kansas City. The remaining (nearly 65 percent) traffic was handled in traditional interchange arrangements.

Even with the vast superiority and efficiency of special interchanges (preblocking and through trains) vis-a-vis normal interchanges, there are a number of factors in the movement of transcontinental traffic which prevent Union Pacific from taking full advantage of special interchange. Since such arrangements are practicable only when there is a sufficient volume of traffic to interchange, the previously discussed large number of carriers between the Missouri River and Chicago gateways, and between the Kansas City and St. Louis gateways cause a fragmentation of interchange traffic. Agreements and trial operations to improve and upgrade interchange have not worked effectively. Thus, for example, Union Pacific made several unsuccessful efforts to engage in through train operations with the Norfolk & Western. While the Union Pacific and the Frisco engage in some preblocking of trains, the operations involving pickup and set outs of cars does not lend itself to a substantial through train interchange.

However, Union Pacific points out that the special interchange arrangements have as their purpose to approximate insofar as possible the benefits of single-line service and that the relative success obtained from special interchange arrangements is merely confirmation of the operational value of single-line service which it seeks to obtain through the proposed merger. The matter of interchange is but one of the major problems faced by the Union Pacific. It is the backbone carrier in the central corridor. With strong competition from the northern and southern corridor carriers, Union Pacific is fearful that central corridor traffic is "drying up" and will so continue unless it is able to strengthen its operations. In Union Pacific's view, its proposed single-line services resulting from the merger will enable it to become a more vigorous and successful competitor.

As next specifically detailed, it is Union Pacific's considered opinion that the above-described disadvantages would be substantially remedied if it were enabled to provide its own

single-line service to Chicago and St. Louis to connect directly with the Eastern rail lines and that thereby it would be in a significantly enhanced position to provide the type of service demanded of the railroad industry and to meet future demands for improved service.

During 1967, and excluding "special interchanges", Union Pacific delivered and received from connecting lines at the Missouri River gateways (Grand Island, Fremont, Council Bluffs-Omaha and Kansas City) a total of 933,201 loaded cars.

Following the unification, Union Pacific proposes to haul in single-line operations at least a minimum of about 211,000 loaded cars annually, comprised of the 118,527 cars (year-1967) interchanged between it and the Rock Island at the Omaha and Kansas City gateways, plus the 92,952 cars (year-1963) estimated to be rerouted over the merged lines. It is here appropriate to emphasize that Union Pacific's foregoing estimate of rerouted cars (or cars likely to be diverted from other lines) is based upon its own methodology for estimation of diversion. The affected carriers have submitted their own estimates of diversions as a result of the proposed merger. The foregoing question of diversions will be discussed in detail later. Also, although not susceptible to precise calculation, Union Pacific asserts that these cars should be considered together with the additional traffic which it hopes to attract from intermodal competitors and increased traffic generated by growth of the economy.

In hauling the above-described substantial volume of traffic over the single-line operations of the merged lines, the Union Pacific would make direct interchanges at Chicago and St. Louis with Eastern and Southern lines, including, among others, Penn Central, C&O-B&O system, Norfolk & Western, Grand Trunk Western, L&N and Southern. Union Pacific would then have direct responsibility for dependable service with connecting lines. To expedite and improve such connecting services, Union Pacific would modify the Rock Island's Burr Oak Yard at Chicago. Most of the eastbound trains arriving at Chicago would be preblocked for quick deliveries to both connecting lines and industries in the Chicago area served by the merged lines. Such preblocking would be accomplished by combining the capabilities of Union Pacific's modern yard at North Platte, its recently improved yard facilities at Kansas City, and the Rock Island yard at Silvis, Ill.

In addition to single-line service into Chicago and St. Louis for the first time, there also will be single-line service between Los Angeles and the Twin Cities for the first time. Further, improved service will be offered between

St. Louis and Los Angeles, although the St. Louis-Los Angeles schedule will be some 8 hours longer than the present schedule offered over the Southern Pacific-Cotton Belt. Union Pacific believes that the offering of fast, convenient freight schedules between the Eastern and Midwestern gateways and Denver may result in Denver's becoming an even more important gateway for the interchange of through traffic.

At the present time, in interchange with Eastern and Southeastern rail carriers, whose yards are located on the east bank of the Mississippi River (in East St. Louis), the Rock Island operates out of its Carrie Ave. yard at St. Louis and over the tracks of the Terminal R.R. Association of St. Louis to the East St. Louis yards. Following the merger, Union Pacific will temporarily continue interchange in the foregoing described manner until the construction of its planned new terminal facilities in East St. Louis. With completion of its East St. Louis facility, the Union Pacific will conduct a direct and greatly simplified interchange (over the tracks of the Terminal R.R. Assoc., and of the Alton and Southern), connecting with such carriers, among others, as the Penn. Central, B&O-C&O system, L&N, and Southern. Interchange with the carriers on the west side of the Mississippi River at St. Louis would remain unchanged. Union Pacific anticipates that its direct interchange at East St. Louis will result in a more efficient and expedited movement of traffic. Also substantial savings would be realized as a result of the direct interchange; first, by avoiding the damage to equipment and loading caused by switching and yard movements, and, secondly, by eliminating switching cost per car interchanged, of an average \$12.42 per car.

It is expected that freight received at Chicago, Peoria, Twin Cities, St. Louis or Kansas City, as well as that originating at intermediate points, would be handled through the modern automatic switching and retarder yard at North Platte for westward distribution, although it is now primarily an eastbound classification yard. Large cuts of traffic preblocked at Chicago would not be again preblocked at North Platte and such cuts not large enough would be combined with other westbound traffic and preblocked at North Platte.

Union Pacific proposes to effectuate a number of improved schedules over the unified lines and which would be made possible by various consequences of the merger. The principal contributing factor to the improved schedules would come from the elimination of time consumed in interchanges. Other elements would be the upgrading of the acquired roadway so as to enable increases in maximum speeds; provisions for adequate power over the system; and use of shorter routes, ranging from 7 miles to 50 miles in various specified instances. Details of

the utilization or more economical joint routes are later discussed in connection with the economies to be accomplished under the merger. In connection with the foregoing, there would be increased to a maximum of 60 miles per hour operations between Kansas City and Eldon (presently a maximum of 50 miles per hour) and between St. Louis and Eldon (presently a maximum of 40 miles per hour). As a result of the present lack of sufficient power, Rock Island has loaded freight cars being delayed in yards, at junctions, and intermediate terminal points awaiting road power. Such handling does not meet with Union Pacific service standards. Consistent with its policy, Union Pacific would make available sufficient motive power wherever required to move traffic promptly after being received.

It is only necessary to point out the time savings of the more significant improved time schedules proposed. Union Pacific's proposed Peoria to Denver schedule is 4 hours and 25 minutes shorter than the present Rock Island schedule. The proposed schedule from St. Louis to Denver is 11 hours and 30 minutes faster than the present Rock Island schedule and 8 hours faster than the present Norfolk & Western-Union Pacific schedule. The proposed schedules between St. Louis and Seattle are considerably faster than the present Rock Island-Union Pacific schedules, by 11 hours and 30 minutes westbound and 8 hours eastbound. Similarly, between St. Louis and Los Angeles, the Union Pacific proposed schedules are faster by 15 hours and 30 minutes westbound and 8 hours eastbound than the present Rock Island-Union Pacific schedules. The savings in time of the proposed schedules over present Rock Island schedules from Minneapolis, on the one hand, to Denver, Kansas City, and St. Louis, on the other, are as much as 14 hours and 15 minutes, 3 hours and 15 minutes, and 17 hours and 15 minutes, respectively; and in the reverse direction time savings as much as 10 hours and 15 minutes, 7 hours, and 11 hours and 35 minutes, respectively.

The Union Pacific is confident that as a result of the upgrading of the Rock Island line and the utilization of extra power when necessary, it will be able to meet on a consistent and dependable basis the present rapid schedule time of 10 hours and 30 minutes from Chicago to Council Bluffs, including stops at Silvis (to pickup cars from Peoria) and at Des Moines (to pickup cars from the Twin Cities).

In its operations of the merged lines under the proposed improved schedules, Union Pacific is confident that shippers will receive a substantially improved service in that they will be afforded later departures and earlier arrivals and more dependable deliveries at industry sites and to connecting lines. Union Pacific feels that it would be enabled to more effectively cope with competitive conditions.

(3) Plant and Equipment

The Union Pacific is one of the best maintained railroads in the United States and is continually improving its facilities to provide more efficient service. In 1949 it built a tunnel in Wyoming at a cost of \$8 million to complete double tracking of its main line between Council Bluffs and Ogden, thus removing a most serious bottleneck in its handling of transcontinental traffic. In 1952 it constructed 53 miles of additional track along that line at a cost of over \$16 million. This construction in Wyoming added a third and fourth main track and reduced the grade along that line, eliminating the need for helper service and reducing the congestion along that line. In 1954 it spent \$2 million to change 16 miles of track, eliminating curves and reducing grades. During this same period of time there have been line changes necessitated by multi-purpose dams, replacement of 720 wooden trestle bridges with steel bridges, steel pipe, or embankment in order to reduce the fire hazard. These changes have cost over \$13 million.

In addition to roadway improvements, Union Pacific has improved its plant facilities. Facilities to handle trailer-freight and autos transported in multi-deck cars were constructed at a cost of \$2.8 million, construction of office buildings in four locations cost \$4.9 million. Between 1955 and 1964 over \$12.4 million was invested in shops and engine houses, fuel and water points including the construction of several new industrial waste water separation plants, and diesel servicing facilities.

The Union Pacific presented evidence in great detail concerning maintenance of its roadway, structures, and operating facilities. It carries on an intensive program for the laying of new, heavy rail and tie installation. During the period between 1955 and 1964, it relaid over 13 percent of its main line. A greater productivity in road maintenance has been accomplished through substantial investments in roadway machines. Indicative of Union Pacific's ability to accommodate passing trains and handle traffic with a minimum of delay are the relationships to main line road mileage of the 30.6 percent of double track, the 30.9 percent of passing tracks, cross-overs, and turnouts, and the 31.4 percent of yard switching tracks.

Union Pacific has modern signal systems over substantial portions of its main lines (as of December 31, 1964) such as centralized traffic control (CTC), on 38.4 percent of its main line, and automatic color light block signals, on 90.6 percent of main line. At that time, also in operation was fourth aspect signaling on 42.8 percent of line, and automatic cab signals, over 23.2 percent of line. The former system is the

addition of a flashing yellow light preceding the constant yellow light and is a safety factor which permits more braking time; the latter system provides continuous indications in the cab of the locomotive of wayside signal aspects and is not affected by visibility factors. As of December 31, 1964, Union Pacific had 348 locomotives equipped with automatic cab signals.

CTC installations are an important part of modern signal systems in the control of movements of every train by operating switches and wayside signal indications from a central console. It is generally agreed in the industry that CTC use on main line single track will permit the handling of up to 85 percent of the volume of traffic which can be handled on double track. Generally, CTC eliminates the need for double track constructions. Further, CTC saves a considerable number of train hours, avoids tieups, and increases the efficient use of engine power by enabling the advance of heavier trains over severe grades while rerouting or holding lighter trains.

Union Pacific's extensive mechanical interlocking system is another important part of its signal system. Its hot box detector installations also contributes materially to safe and efficient operations. As of December 31, 1964, Union Pacific had an average of one hot box detector per 211 miles of main line main track and upon completion of its installations program for the year end of 1965, it would have one such detector per 83 average miles of main line main track.

Modern communication systems play a vital role in the operations of the Union Pacific. Its microwave system, installed at a cost of about \$5 million, is in operation between Omaha and Los Angeles, Salt Lake City and Pocatello, and Hinkle and Seattle, a total of 2,348 road miles. Scheduled for completion in 1966 were an additional 1,080 miles; namely, between Pocatello and Hinkle, Omaha-Kansas City-Salina, and Cheyenne and Denver. Microwave transmits by radio waves rather than by poles and wires. Upon full completion of Union Pacific's microwave system the need for physical wire line will be greatly reduced. As of December 31, 1964, Union Pacific had direct distance telephone dialing service between stations, offices and the like on 87 percent of its system and which was in the process of being extended to embrace a total of 97 percent of the system by the end of 1966. Union Pacific's company owned teleprinter service connects 77 of its offices and leased facilities connect 33 "off line" agencies. It has in operation radio service for dispatchers' emergency use, yard operations, and other miscellaneous uses. It also has mobile telephone radio service on practically all main lines where microwave facilities are installed.

Microwave facilities will become increasingly important in providing the additional voice channels and broad-band channels for the vast expansion of "real time" data operations being contemplated by the use of new computers scheduled to be put in operation on the Union Pacific during 1966 and 1967 for handling material inventories, car availability, and way-bill data. With further respect to computer operations, the various described communication facilities are used to transmit payroll, station accounting, and car accounting information to the Union Pacific data processing center at Omaha from 21 locations.

Union Pacific has an active industrial relations department engaged in assisting industries which use rail service in solving their problems of plant location and expansion and their needs for adequate industry trackage. As of January 1, 1966, Union Pacific had 31 employees in the field of industrial development with headquarters at Omaha, Kansas City, Denver, Salt Lake City, Los Angeles, Portland and Seattle. During 1955 through 1964, some 2,044 industries located their plants adjacent to Union Pacific trackage. As of December 31, 1964, Union Pacific held about 2,015 acres of land available for industrial use, and it had purchased or authorized for purchase, during 1965, an additional 3,270 acres, for a total investment of approximately \$28,000,000.

After merger, Union Pacific's industrial development policies and programs will be extended to the Rock Island lines. This will bring to such Rock Island territory the resources of the Union Pacific available for industrial development together with a positive program to attract industries to communities served by the Rock Island lines. The problem of an adequate car supply is of concern to the entire railroad industry. In the discussion preceding Table 18, some description is set forth of Union Pacific's equipment.

During the period 1955-1964, it made expenditures for new equipment and for improving existing equipment totaling \$509.5 million, of which \$34.9 million was spent for new equipment leased to PFE. In the same period, PFE itself spent \$93.5 million for new equipment; and Union Pacific an additional \$658.5 million, excluding depreciation, for maintenance of existing equipment. Union Pacific finds the large expenditures for new equipment are required because shippers are increasingly demanding specialized cars and which cost substantially more than a typical boxcar and, secondly because rapid improvements in power equipment require the replacement of outmoded units for reasons of economy and efficiency.

In connection with the power equipment, Union Pacific purchases the latest types of freight locomotives, including 5,000 and 5,500 HP diesel electric units. Locomotive sets consisting of as much as 12,000 to 15,000 horsepower operate in through assignments for distances up to 1,500 miles which minimizes terminal delays and permits freight trains to operate at maximum permissible speeds. In connection with the foregoing, the previously discussed expanded use of radio and other improved communication facilities in daily operations and of data processing equipment in the preparation of train consist information has also greatly contributed to reducing train delays. Through the described improvements, Union Pacific increased its average freight train speed to over 29 MPH in 1964, which was an increase of 14 percent over the speed ten years previous. The average gross ton-miles per freight train hour handled in 1964 was more than 104,000, or an increase of 34 percent over that same ten-year period.

As of December 31, 1964, Union Pacific owned 56,240 freight train cars. Such fleet represented a 3.6 percent increase over the prior 5 years and included 9,655 cars acquired since January 1960. In general the new cars are of greater carrying capacity than the retired cars so that during the 5-year period, Union Pacific's over-all carrying capacity increased by 6.1 percent. At the time the foregoing evidence was presented in early 1966, Union Pacific planned to add for the year an additional 7,000 new freight cars. To meet the particular transportation needs of shippers, Union Pacific, during the five years following January 1, 1960, expanded its covered hopper car fleet (which type of car is in great demand for hauling bulk grain and other commodities in bulk), from 2,605 cars to 3,988 cars; adding another 450 covered hopper cars in 1965; and commitments were made for 1966 for an additional 550 covered hoppers.

Under the unification proposed, Union Pacific sees three factors which will contribute materially to improved car supply and utilization, i.e.: (1) Union Pacific will utilize its resources to acquire additional equipment to alleviate the severe shortage of freight cars existing on the Rock Island system, (2) single supervision of the consolidated freight car fleets, and (3) the elimination of junctions between the separate (Union Pacific-Rock Island) systems making all cars in the combined fleets "home" cars. Union Pacific presented an extensive elaboration of the three factors. Cross-examination of the supporting witness discloses that such benefits may or may not be possible dependent upon a number of specific circumstances and also that there must be some allowance made for the fact that the benefits are predicated upon a merger of the

entire Rock Island rather than of the northern Rock Island with a purchase by the Southern Pacific of the southern Rock Island. However, it is unnecessary to discuss and determine the large number of examples falling within each side of the issue. There is no dispute that under certain given circumstances substantial improvements can be accomplished. The significant result of the evidence is that under existing circumstances Union Pacific and Rock Island are not now able to take advantage of the clearly established improvements which would be available to them as a result of the merger. The total scope of the record made is convincing that through the merger, Union Pacific would be enabled to substantially improve and make more efficient use of empty cars in shipper and receiver interests; and that considerable expenditures would be necessary to rehabilitate and modernize the Rock Island facilities and equipment.

An independent transportation consulting firm (Wyer, Dick & Co.) was employed to make a study of the total scope of effects resulting from the Union Pacific merger with the northern-Rock Island and from the Southern Pacific purchase of the southern Rock Island.⁷⁵ Representatives of the consultant together with personnel of Union Pacific and Rock Island, among other things, made a thorough physical inspection of the Rock Island plant, from late 1962 through early 1963, including roadway properties and equipment.

During that time 3,700 miles were covered by Hy-rail car. It is unnecessary to detail all the numerous procedures followed in the inspection. It suffices to mention that the inspection team was well qualified and that they made frequent stops to inspect the condition of equipment, tracks, bridges, buildings and other facilities. Subsequently, additional inspections were made and some segments were reinspected. The inspection indicated deferred maintenance in many areas, particularly heavy on branch lines, but it was not known to what extent Rock Island would rehabilitate its properties with its own resources. The Rock Island lines were severely under-maintained in comparison with the Union Pacific lines. Earlier

⁷⁵For the reasons already detailed, a Union Pacific merger with the entire Rock Island is properly not an issue of consideration and, accordingly, the Wyer, Dick study of such result is not applicable.

herein in the discussion of the Rock Island (under the heading "Expenditures for Maintenance and Capital Improvements)," there is set forth in specific detail the Rock Island evidence bearing upon the deteriorated condition of its railroad plant.

Following the described inspection of the Rock Island by Wyer, Dick, and personnel of Union Pacific and Rock Island, the parties were in accord as to the physical condition of the various properties and as to the needs for improvements by the way of rehabilitation, repairs, replacements and the like. The consultant estimated, with which applicants agreed, that based upon consummation of the merger in 1964-1965 and over the following four years a cash outlay of \$28,400,000 would be required for roadway improvements⁷⁶ and \$107,771,600 for equipment improvements. The foregoing amount, would be in addition to the substantial sum required to upgrade the previously-discussed deferred maintenance on Rock Island properties.

In the earlier discussion of the Rock Island there was set forth the problems concerning its equipment fleet. Following the reorganization in 1947 of the Rock Island, its systemwide freight car fleet (exclusive of cabooses) was built up from a low of 26,206 cars at the close of 1948 to a high of 30,741 cars at the end of 1952. In terms of serviceable cars, the fleet numbered 25,666 at the end of 1948 and 30,263 at the end of 1952. By the end of 1964 the fleet dropped to 26,696, or almost back to the 1948 level. Due to such decline, as Rock Island entered 1965 its freight sales personnel reported losses of traffic amounting to thousands of cars. At that time in 1965, Rock Island calculated its increased car requirements necessary to handle all types of traffic, i.e.: existing business, recovery of lost traffic, and available new traffic.

The transportation consultant in order to demonstrate the decline in Rock Island freight revenue resulting from the carrier's shortage of equipment, set forth a comparison of the total revenue ton-miles for the period 1954 to 1963 of Rock Island with competing railroads operating in generally Western District territory, the latter roads comprising the carrier parties to these proceedings, with a few exceptions. The comparison showed that the Rock Island in 1954 handled 8.16 percent of the revenue ton-miles of all railroads in its competitive territory but only 7.25 percent in 1963. If the

⁷⁶Between Council Bluffs-Davenport for line changes, signals and sidings; between Kansas City-St. Louis for line changes and signals; and system communications, principally a microwave system between Omaha and Chicago.

Rock Island had handled for 1963 the same percent as for 1957, also 8.16 percent, it would have enjoyed 1,700,000 more net ton-miles and, based on average revenue per ton-mile for 1963, it would have had increased operating revenues of \$21 million and net income, before federal income taxes, of \$14 million.

As set forth before, for the four-year period 1966-1969, Rock Island estimated (apart from the merger) that systemwide it would need 7,250 new freight cars, 190 cabooses, 250 highway trailers and 105 locomotives at a total estimated cost of \$172,592,000.

It is noted that subsequently and during the course of the hearing, Rock Island had received certain units of new equipment. At the same time, experience since the estimates were prepared proved that certain requirements should have been revised upward. However, it would be without purpose and highly impractical to attempt to maintain a "last minute" estimate of Rock Island needs. The factor of real significance is that Rock Island's financial condition has remained in a serious state throughout these proceedings as shown by its 1970 quarterly financial reports to the Commission. And it is in no financial condition to effectively carry out to any significant degree the vitally necessary rehabilitation programs discussed. With respect to the matter of power, Rock Island's experience showed that with the changes occurring over the years in operating patterns and characteristics and increased train speeds, there is a continuing requirement for replacement of locomotives to assure a level of serviceability in the equipment fleet in order to assure dependable performance and minimize maintenance costs. Also, new power is required to keep pace with traffic growth and technological improvements. A later Rock Island estimate for costs of its systemwide fleet improvement program was \$156,515,000, and very close to the estimate made by the transportation consultant of \$153,844,100.⁷⁷

As of December 31, 1964, a comparison of the locomotive and freight car fleets of the Rock Island and Union Pacific from the standpoints of size, type, age, condition, and maintenance program, shows that Union Pacific's fleet is substantially superior to that of the Rock Island.

⁷⁷ Illustrative of the above-discussed fluid condition of equipment needs is the fact that at the time of hearing on August 22-23, 1966, changes in various circumstances since February of the year resulted in a revision of locomotive estimates of 89 additional units with an increased cost of about \$18 million.

Union Pacific's maintenance policy is to maintain its rolling stock equipment in the best condition within its knowledge so as to meet traffic requirements and to avoid minor, improper, and makeshift repairs. With particular respect to its locomotives, Union Pacific makes all maintenance necessary for the unit to go through another term of service, i.e., from 350,000 miles to 800,000 miles depending on class and type of unit and service assignment. On the other hand, Rock Island's maintenance program has been limited and impeded by a serious lack of funds and it has been unable to carry on a regular, progressive maintenance program. For example, from an inspection of some 280 Rock Island diesel units it was disclosed that 50 of the locomotives would not run unless one to three of the pistons and rings were immediately changed and that by the following week the remaining pistons and rings, twelve or more, would require changing. Under those circumstances only the number absolutely necessary to make the locomotive operate were installed with work on the remainder deferred. Similarly, Rock Island was experiencing an increasing ratio of bad order freight cars and it had a large percentage of cars 30 years and older. Recently, the Rock Island has been upgrading its locomotives and car fleet. In view of the previously-discussed financial condition of the Rock Island there is little likelihood that the accomplishments will go beyond an extremely limited degree of meeting the necessary requirements. Under the merger, Union Pacific will lend its resources, financial and otherwise, to carrying out the program in full and without delay.

It is estimated that dislocation of existing forces as a result of the merger will be minimal, since there are so few common points on the Union Pacific and Rock Island lines. With respect to maintenance and repair of equipment, the merger will permit more efficient use of existing facilities, the elimination of duplicate shops, and the consolidation of repair facilities thus effecting economies and efficiencies which could not be achieved on a separate company basis. Major overhaul of diesel locomotives would be done at Union Pacific's two shops at Omaha and Salt Lake City, thus permitting the elimination of the Rock Island shop at Silvis. Running repairs of locomotives would continue to be made at all of Union Pacific's present locations which include Council Bluffs, Kansas City, North Platte, Denver and Ogden, permitting the retirement of Rock Island's locomotive repair facilities at Council Bluffs and Kansas City. About 75 percent of the running repairs done by Rock Island at Silvis would be transferred to a new diesel servicing facility at Blue Island. Major freight car repairs, including the construction and modification of cars, would be performed at Union Pacific's facility at Omaha. The carrier would continue its other repair and construction facilities at Denver, Portland, Los Angeles, Spokane, and Pocatello.

Additionally, merger would permit the coordination and expansion of important research and testing activities, and the accomplishment of more efficient planning and standardization. Union Pacific anticipates that the coordinated efforts of the two staffs should permit the standardization of car parts throughout the merged system, reducing inventories, increasing savings through quantity purchases, and increasing the availability of cars by reducing and simplifying repairs. Also since the Union Pacific and Rock Island share many technological and engineering problems and since both roads now maintain extensive research and testing organizations, duplicate activities could be eliminated.

Due to the passage of time, Wyer, Dick was requested to update its original improvement program. As of January 1, 1968, giving consideration to certain major changes which took place, as specifically detailed by the consultant, and based upon then existing wage and material levels, the roadway improvement program previously described in footnote 76 was estimated at \$30,001,700. The updated equipment program showed cost of \$81,270,100. The principal reason for the difference between the costs of the original estimate and updated estimated is that Union Pacific leased to Rock Island a substantial volume of equipment, including 2,626 freight cars, 100 cabooses, and 65 diesel locomotives. The aggregate cost new of the described equipment was about \$56,000,000. The examiner notes from the Union Pacific 1967 preliminary report to stockholders, that of the total amount spent by Union Pacific during that year \$33.1 million was for new equipment leased to the Rock Island. Aside from the receipt of lease rentals, Union Pacific, following the merger, would have had already made a substantial investment in the required equipment improvement program. The updated equipment program includes the acquisition of 5,085 new freight cars, 86 new high horsepower diesels, and 35 air-conditioned, double deck commuter cars.

Union Pacific points out that during the course of these proceedings changes in technology and in makeup and flow of traffic would require some alteration in the estimated types and amounts of equipment required. Rock Island too had detailed a number of similar economic and operational factors which could cause its previously discussed estimate to be subject to adjustment upward or downward. Further, Union Pacific mentioned the obvious factors that over the passage of time to final conclusion of these proceedings, increased needs and higher costs could well require a greater investment than originally estimated. It points out the great difficulty faced in attempting to set a precise dollar figure on the expenditures which would be required upon consummation of the merger at some indefinite future time. Nevertheless, Union Pacific stands fully committed to use all its resources, financial and otherwise, toward carrying out the tenor of the rehabilitation programs specified.

With further respect to the cost of the improvement programs, Union Pacific is confident that the program would practically carry itself giving effect to (1) increased charges to depreciation on the new equipment, (2) lower maintenance cost on the new equipment, (3) higher per diem rates on the new cars, (4) the reduced fixed charges through financing equipment acquisitions by conventional equipment trusts at 5 percent interest on a 20 percent down payment with 4.625 percent interest on the declining balance, and (5) cancellation of bases.

The Union Pacific-Rock Island merger is essentially an end-to-end unification. The proposed merged lines of the Rock Island have 14 common points of service with the Union Pacific, as detailed below:

<u>City & State</u>	<u>Population (1965)</u>
<u>Colorado</u>	
Denver (includes Pullman)*	520,000
Limon	1,811
<u>Iowa</u>	
Council Bluffs*	58,500
<u>Kansas</u>	
Blair	100
Colby	4,210
Elwood	1,296
Manhattan	26,000
Sabetha	2,318
Troy	1,149
Wathena	1,027
<u>Missouri</u>	
St. Joseph*	77,000
<u>Nebraska</u>	
Beatrice*	12,400
Fairbury	5,572
Lincoln*	149,000
Omaha (includes South Omaha)*	340,000

Of the above-named points, those designated by an asterisk will continue to have service by at least two or more rail carriers. In other words, only nine points will have service solely by the Union Pacific. For further clarity of the matter, it should be pointed out that under the proposed purchase of the southern portion of the Rock Island, Kansas City, Mo.-Kans.,

and Abilene, McPherson, Salina, Sand Spring(s), and Topeka, Kans., will be served by the Southern Pacific. The anticipated loss of jobs resulting from the merger is estimated at about one-tenth of one percent, and this factor is discussed in further detail later.

It is intended to continue operation of the two truck subsidiaries, Union Pacific Motor Freight and Rock Island Motor Transit, as separate entities and without any change in their present functions. Union Pacific Motor Freight operations are primarily limited to highway transportation of freight moving on rail rates and billing, which usually involves a prior or subsequent rail haul, and, in addition, it performs pickup and delivery service for trailer-on-flat-car movements at a number of stations on the Union Pacific and on L-C-L traffic at Los Angeles and Las Vegas, Nev. On the other hand, the R. I. Transit is primarily a conventional motor common carrier performing a regular motor carrier operation at motor carrier rates. These two operations are not susceptible to easy consolidation, but if, in the future, such consolidation seems advantageous, approval will be sought from the Commission.

(4) Economies Through Consolidation

Wyer, Dick made a determination of the probable economic results from the full merger of Union Pacific with the Rock Island, which for reasons already stated will not be considered, and also with consideration given to the subsequent sale of the southern segment of the Rock Island to the Southern Pacific. The original eleven separate studies in various areas reflected the period between August 1, 1964, and February 1, 1966 and were subsequently updated to January 1, 1968, to reflect changes in conditions and increases in wages and materials.

Under merger of Rock Island and after sale of the southern segment of the Rock Island to Southern Pacific (the pertinent portion of the study to be considered) the consolidation of forces, facilities and operations of the unified Union Pacific and the northern segment of the Rock Island will produce an ultimate annual improvement in net income before Federal income taxes at January 1, 1968 levels of \$16,450,000 and will require a non-recurring net cash outlay of \$5,055,000. All of the net cash outlay will be required during the first five years following consummation of the transaction. Union Pacific anticipates that almost all of the improvement in net income will be realized by the end of the fifth year. The items covered in the eleven studies and the savings estimated for each, based on the updated figures to January 1, 1968 are as follows:

Study No. 1 Consolidation of Stations and Terminals

This study reviewed the operations at all points common to both lines and estimated the potential savings from merger as a result of serving each point with one unified operating organization.

Consolidation of yard, station, mechanical, and other forces and facilities would take place at eight points, namely - Denver, Colby, Fairbury, Lincoln, Council Bluffs-Omaha, Beatrice, St. Joseph, and Manhattan, and result in increased annual net income of \$1,199,000. The principal consolidations would occur at Denver and Council Bluffs-Omaha, where existing Union Pacific facilities would be utilized and those presently in use by Rock Island would be abandoned.

The proposed coordinations at Denver, Colby and Lincoln will require a total non-recurring net cash expenditure of \$1,712,000, after allowance for cash recovery from salvage and non-recurring income tax benefits from property retired or sold. The net cash required would be used for construction of a new connection and rearrangement of Union Pacific trackage in the vicinity of its Denver Pullman Yard, and for construction at Colby and Lincoln for new connections so as to provide shorter routes between Denver-Kansas City and Omaha-Kansas City, as well as to permit related line abandonments. In addition, at Council Bluffs-Omaha a new connection would be constructed (no net cash would be required) so as to permit abandonment of a six-mile segment of Rock Island line west of Omaha.

Study No. 2 - Elimination of Duplicate Lines

In a few localities, the lines of the Union Pacific and Rock Island are parallel or, while close together serve the same area or the same points. This study determined whether after merger any such lines could ultimately be abandoned and still permit the maintenance of good service at all important shipping and receiving points to the benefit of the net income of the merged company.

The original study contemplated abandonment of four Rock Island lines of various lengths totalling 157.6 miles and two Union Pacific lines totalling 104.7 miles. The Rock Island line from Virginia, Nebraska, to Sabetha, Kans., (48.8 miles) has been abandoned and the line from Elmont to Troy, Kans., (68.4 miles) has been abandoned. Abandonment of the four remaining lines totalling 145.1 miles will improve annual net income before Federal income taxes by \$1,175,000 and will generate \$3.5 million in net cash.

Study No. 3 - Effect of Merger on Lines Retained

This study estimated the effect of merger on expenses and net cash required at locations on the remaining lines of the merged company after abandonment of duplicate lines, estimated charges in volume of traffic, the rerouting of through freight and passenger trains and the sale of the southern segment of the Rock Island to the Southern Pacific. After the sale there will be changes in the volume of traffic handled on certain lines and at terminals which are not common points. It is expected that the volume on the present Rock Island Kansas City-St. Louis line will be increased by over 60 percent. In addition to an improvement program for this line, a new yard will be built in East St. Louis connecting with the terminal railroads (TRRA and A&S), the three Eastern systems (Penn-Central, N&W and C&O-B&O) as well as the Southern and L&N. The location of the new yard will permit expedited service to certain interchange traffic which presently incurs delays of 24 hours or more.

Major improvements at Chicago include new, modern repair facilities, and a new track for expedited interchange to the IHB, B&OCT and Grand Trunk Western.

Under the terms of the contract between Union Pacific and Southern Pacific, the existing Kansas City terminal properties of Rock Island would be acquired by Southern Pacific. As outlined in Section 1(e) of the contract, it is recognized that sale of the southern segment of the Rock Island would result in an increased volume of traffic handled in the existing Union Pacific yard facility and it may require some use of the present Rock Island yard.

Kansas City terminal was the subject of a special study and it was proposed that Union Pacific retain seven Rock Island yard tracks parallel and adjacent to its main line as well as two entry tracks. The plan provides for expedited interchange between the two roads including the interchange of solid trains with pooled locomotives and cabooses for through operation. Construction of six additional tracks in UP's Eighteenth Street Yard would also be used to provide a more efficient interchange.

The result of this study is reflected in an annual net income loss of \$41,000 and a net cash requirement of \$5,224,000.

Study No. 4 - Utilization of Shorter or More Economical
Joint Routes

This study established the through routes which would be used by the merged company and the effect upon expenses of rerouting freight trains over such routes.

An analysis was made of all available alternate routes taking into consideration mileage, number of tracks, track structure, signalling, ruling grades, speed restriction, clearances, maintenance problems and abandonments.

Both Union Pacific and Rock Island have routes between Omaha and Denver, Kansas City and Denver and Omaha and Kansas City, but in each case the route of one company is superior to the other or a combination of the two lines available to the merged company offers a route superior to either of the two individual routes. Between Omaha and Denver the superior Union Pacific line will be used not only because it is 21 miles shorter than the Rock Island route, but because it has double track for 362 of the 650 miles, heavier rail, superior signaling and track structure as well as more favorable grades in both directions.

Between Kansas City and Denver, the major freight route will be comprised of the best portions of the lines of the two companies via Oakly and Colby which is 43 miles shorter than the present Union Pacific service route via North Platte. Use of the Union Pacific line between Manhattan and Colby as proposed would eliminate the expense of upgrading a net of 64 miles and in addition result in lower maintenance costs on the Oakley-Cheyenne Wells segment. Selection of this route will permit abandonment of 86 miles of Union Pacific between Limon and Cheyenne Wells as well as 21 miles of Rock Island between Manhattan and McFarland and will also provide improved service for cities along the line such as Abilene and Salina.

Between Omaha and Kansas City the major freight route would consist of the Rock Island segment between Omaha and Lincoln and Union Pacific segment between Lincoln and Kansas City. Such route will be 23 miles shorter than the present Rock Island and 50 miles shorter than the present Union Pacific. Use of the unified route described will permit abandonment of 20 miles of Union Pacific line between Lincoln and Velparaiso.

The improved annual net income from this study of \$140,000 only includes savings in train operation between Omaha and Kansas City, reduced mileage car rental payments resulting from use of the preferred routes, and the effect of the 7 mile shorter route between Denver and Kansas City for two passenger trains.

Study No. 5 - Duplicate Passenger Train Service

This study established the through routes which would be used by the merged company and the effect upon expenses of rerouting trains over such routes.

However, the operational changes and economies derived therefrom no longer appear to be an item of consideration due to the passage of PL 91-518, "Rail Passenger Service Act of 1970," enacted October 30, 1970. Further, inasmuch as the amount of saving is of such small significance no weight was given to this item in Table 143, following.

Study No. 6 - Consolidation of General Offices,
Departments and Divisions

This study analyzed the existing forces and functions of the various departments of the two roads; determined a proposed organization which would be able to handle these functions after merger; and estimated the savings resulting from consolidation of work load and elimination of duplicate functions.

Under separate operation, system headquarters are maintained by the Union Pacific at Omaha, Nebr., and by the Rock Island at Chicago, Ill. After merger Union Pacific's organizational arrangement would prevail and the functions of nineteen separate departmental executive and supervisory organizations of each company would be unified at Omaha, Nebr., but Chicago, Ill., would continue to have adequate system representation headed by a vice-president and staff.

In most instances the work performed by Rock Island general office forces is of a system nature although in some cases, certain employees perform work which can be exclusively assigned to either the southern segment or the northern segment. It was, therefore, necessary to allocate the expense of the existing organization as between the two segments and the system (joint). The related wages were then assigned to the two segments and wages of the joint employees were allocated on a percentage basis. The additional forces, which it was estimated would be required by Union Pacific to handle the functions for the merged company after sale, were then determined and the savings were computed by deducting the estimated wages and other expenses of the additional employees required from the allocated expenses.

Based on Union Pacific study levels, it would require 928 additional positions to handle the system and divisional functions of the merged company after sale. The estimated annual savings which is represented by salaries and wages, lower costs for fringe benefits, payroll taxes and incidental items aggregated \$3,447,000 on January 1, 1968.

Study No. 7 - Duplicate Freight Train Service

This study reviewed all duplicate through freight train service to determine what changes would probably be made as a result of merger.

Union Pacific and Rock Island each operate through freight train service between Omaha and Denver and between Kansas City and Denver on fixed schedules whether or not full tonnage is available. Combining the present scheduled freight trains between these termini would permit operation of fewer regular trains each with heavier loads utilizing the most advantageous portions of the applicants' existing lines to attain the lowest practicable out-of-pocket costs and would result in improved annual income of \$554,000. In addition the improved service detailed in the proposed schedules of Union Pacific (UP12-C) are in part made possible by operation of combined through freight trains over the most advantageous portions.

Study No. 8 - Traffic

The change in gross revenues and the corresponding increases of expenses as they pertain to traffic studies do not come within the scope of economies as discussed herein.

Traffic studies of the carrier parties including Union Pacific as they pertain to the transaction proposed herein will be discussed separately and will not be computed as an item of savings.

Study No. 9 - Consolidation of Heavy Repair Facilities

This study determined the locations which Union Pacific would use for heavy repairs to diesel locomotives, freight cars and passenger cars and estimated the savings resulting from consolidation of forces and facilities.

Major overhaul of diesel locomotives assigned to Rock Island's northern segment now performed by Rock Island at Silvis, Ill., would be coordinated into the Union Pacific shops at Omaha, Nebr., but the running repair facilities at

Silvis would be modified for increased efficiency and would be housed in a new building which would permit retirement of the present shop having about 291,000 square feet of floor area formerly used for steam locomotives.

The Union Pacific shop at Omaha would be the main shop for all through line passenger equipment of the merged company and the present Rock Island shop at Chicago, Ill., would be retained for cycle repairs for commuter equipment consisting of 65 air-conditioned double deck cars and 20 other modern cars.

The Union Pacific major freight car shop at Omaha would continue to handle the assembly of new cars, major modification of existing cars, and repairs to heavily damaged cars. The Rock Island does not have a similar system shop and its only program repair point on its northern segment is located at Chicago, Ill. The merged company would establish a program repair point at Silvis and would also have program repair facilities at six other locations.

Consolidation of heavy repair functions and facilities for diesel locomotives, freight cars and passenger cars as proposed results in improved annual net income of \$60,000 and required a net non-recurring cash expenditure of \$97,000.

Study No. 10 - Cost of Labor Protection

This study estimated the cost of labor protection under conditions for the benefit of employees that might be prescribed by the Commission in an order approving the proposed merger between the Union Pacific and Rock Island. For the purpose of this study, it was assumed that the Commission would prescribe the conditions in Southern Railway Co.-Control-Central of Georgia Railway Co., 317 ICC 557, 588 (1962), as clarified in 317 ICC 729 (1963) and as further clarified in 320 ICC 377 (1964) and 331 ICC 151 (1967) would provide appropriate, fair and equitable protection for any and all employees who might be affected adversely as a direct result of merger.

The estimated cost of labor protection assumes that the above conditions would be applicable. Also, taken into account are the provisions of the Washington Agreement and the February, 1965, Mediation Agreement where these agreements would provide greater benefits to employees. The Railway Labor Executive Association and the Brotherhood of Locomotive Engineers are the only interveners representing the employees and they did not take any exceptions to the studies nor did they file any evidence or exhibits contesting the results of the studies.

The total cost of employee protection includes the estimated cost of Union Pacific of protecting employees assigned solely to the northern half of Rock Island (merged company) and the estimated initial cost to Union Pacific of protecting so-called "joint" employees. Under the Agreement between Union Pacific and Southern Pacific dated March 17, 1965, Southern Pacific has a contractual obligation to pay 45% of the cost of labor protection borne by Union Pacific in respect of Rock Island employees whose work is not directly assignable to either segment. The updated nonrecurring cash requirement for Union Pacific after income taxes is \$1,526,000 and five percent interest on this amount of \$76,000 is included as a continuing deduction in annual net income.

Components of the total costs and net cash requirements include the expected costs to the unified company to provide displacement allowances for persons placed in a worse position, dismissal allowances for persons placed in a worse position, dismissal allowances for persons deprived of employment, separation allowances payable in lump sum settlements, moving allowances payable to affected employees who accept employment at other locations, and allowances for losses incurred by employees obliged to sell their homes and move to other locations.

Subsequent to the close of the record, in these proceedings, the Union Pacific and the Railway Labor Executives Association entered into employee protection agreements (Exhibit 1375) in accordance with Section 5(2)(f) for the protection of the interests of employees who may be adversely affected in connection with the proposed merger of Rock Island in Union Pacific. It is clear that such agreements will have some effect on the above-discussed estimated costs of labor protection, but the changes were not presented in evidence and no findings may properly be made with respect to the cost of labor protection.

Study No. 11 - Insurance

This study reviewed the practices of the two roads with respect to insurance of all kinds and determined whether merger would make possible a reduction in the cost of insurance.

It is estimated that by combining the coverage of the two companies under the Union Pacific policy the total annual savings would be \$80,000.

TABLE 143

SUMMARY OF ESTIMATED IMPROVEMENT IN NET INCOME AND
NET CASH REQUIREMENTS ADJUSTED TO JANUARY 1, 1968 LEVELS

<u>Study No.</u>	<u>Final Savings</u>	<u>Final Net Cash</u>
1. Consolidation of stations and terminals	\$1,199,000	\$1,712,000-L
2. Elimination of duplicate lines	1,176,000	3,504,000-G
3. Effect of merger on lines retained	(41,000)	5,224,000-L
4. Utilization of shorter or more economical joint routes	140,000	-
6. Consolidation of general offices, districts and divisions	3,477,000	-
7. Duplicate freight train service	554,000	-
8. Traffic studies*	-	-
9. Consolidation of heavy repair facilities	60,000	97,000-L
10. Cost of labor protection**	(76,000)	1,526,000-L
11. Insurance	80,000	-
Total	<u>\$6,569,000</u>	<u>\$5,005,000-L</u>

G-Realized L-Required () - Loss

* See discussion in Study No. 8, in the foregoing portion of this section.

** See discussion in Study No. 10.

In summary, it is quite clear from the table above, except for item 10, that in consummating the end-to-end merger here proposed the net savings to be realized over the five year period would almost be negligible (\$1,564,000). Such savings, however, assume significant importance when viewed together with the permanent improvements in earnings which would result from increased traffic and revenues in the unified operations. This feature of increased traffic and revenues will be more fully discussed in another section of this report.

5) Supporting Evidence of Shippers and Public Witnesses

As previously discussed, each carrier party to the proceedings has limited its shipper and public witnesses to 20 in number. In general, those supporting the Union Pacific-Rock Island merger find that the Rock Island services and car supply are inadequate for their transportation needs. They support the extension of Union Pacific's service east of the Missouri River gateways to Chicago and St. Louis. The principal benefit anticipated from such Union Pacific single-line service is the elimination of interchange delays, particularly at the Council Bluffs-Omaha gateway. The shippers and receivers to remain competitive and many of them because of the perishability of their product or carrying of limited inventories, require a fast, dependable transportation service.

Other anticipated benefits of the Union Pacific single-line service are a lessened chance of damage to shipments, more efficient claims settlement, improved tracing of cars and less difficulty in negotiating rate adjustments. Also, an improved car supply is expected because empty cars would be returned faster and a portion of Rock Island's fleet would be combined with that of Union Pacific. To the extent their data were made of record, the shippers discussed below accounted for a total of over 90,000 cars annually.

The witnesses are aware of the financial strength of Union Pacific and the carrier's pledge to expend substantial sums to the improvement of the Rock Island portion of the merged system. Various witnesses further stated their reasons for preferring the Union Pacific merger over the North Western control. However, such reasons will not be discussed in view of the discussion and findings herein that the North Western control should be denied on other grounds.

The individual evidence of the witnesses follows.

A meat processor at Greeley, Colo., served by the Union Pacific, had sales for 1965 of \$84.5 million and total freight costs of \$4.3 million. Such freight costs were 80 percent rail. Also in 1965, the processor shipped 4,635 rail cars of principally fresh meat (80 to 85 percent of the cars) and frozen meats, hides, tallow, and meat meal. At least 80 percent of the total number of cars moved to the East Coast, predominantly by rail. In general, rail movements to the northeast, 70 percent of its traffic, is routed via the Council Bluffs gateway, and to the southeast via the Kansas City and St. Louis gateways. The shipper requires a fast and reliable service due to the perishable nature of its products and also such service to enable it to compete in the eastern markets. It normally operates on a 4 to 5-day schedule to the East Coast, competing with packers in Nebraska, Iowa, Missouri and Minnesota who receive a 3-day service. The shipper has experienced a number of delays primarily at interchange points and especially at the Council Bluffs gateway where it allocates traffic between the North Western, Burlington, Illinois Central, Rock Island and Milwaukee. On numerous occasions late arrivals have been rejected by customers with resultant losses of considerable amount to the shipper. Based on its experience with single-line rail service on westbound movements,

shipper believes that the eastbound single-line service resulting from the Union Pacific-Rock Island merger would improve the speed and reliability of the rail service it receives to the Chicago gateway. Following the merger, the shipper would, as in the past, continue its present practice of allocating traffic among the various lines, providing they continue to furnish good service.

A related company to the above-shipper, engages in the feed supply business with grain elevators at Goodland, Kans., capacity: 1,100,000 bushels and Cozad, Nebr., capacity: 700,000 bushels. The grain is transported to the shipper's feed lots at Greeley, Colo. The Goodland elevator is located on the Rock Island and shipments require a double line movement to reach the feed lots at Greeley. The shipper has not been able to negotiate adequate rates with the Rock Island and, accordingly, it has had to use trucks to transport the grain at an increased cost. The shipper believes rate negotiations could be achieved more readily with a single-line carrier, such as would result from the merger, and if accomplished, it anticipates turning over to the unified system additional annual shipments of 1,500 rail cars of grain.

A large producer and distributor of diversified forest products operates 12 sawmills, producing in excess of 645 million board feet of lumber annually, 5 plywood plants, 8 plants making factory built homes, 7 pulp paper mills, 5 envelope plants, 15 corrugated container manufacturing plants, and numerous building material outlet stores and distribution centers. The shipper utilizes private, contract and common motor carriers, and rail carriers; and had a total transportation cost for 1965 of \$40 million.

Of the 12 sawmills, 8 are located on the Union Pacific at Emmett and McCall, Idaho, Le Grande, Elgin and Joseph, Oreg., and Yakima, Wash.; 1 mill is located on the Northern Pacific at Spokane, which point is open to the Union Pacific, Milwaukee, and Great Northern, with the latter performing reciprocal switching; 2 mills are located at points (unnamed) on the Southern Pacific; and 1 mill at a shipper owned short-line railroad in Oregon which connects with the Southern Pacific. Of the plywood plants, 2 are located on the Union Pacific at Eldon, Oreg. (Elgin, Oreg.?) and Washoe, Idaho; 1 on the Northern Pacific at Yakima, open to reciprocal switching; 2 on the Southern Pacific, one each at Independence and Medford, Oreg.; 1 on the previously-referred to shipper owned short-line railroad which connects with the Southern Pacific; and 1 about to begin production at Kettle Falls, Wash., on the Great Northern.

The envelope plants are located, one each at Addison, Ill., on the Illinois Central; Dallas on the Katy; Allentown and Pittsburgh, Pa., and Cleveland, Ohio. The corrugated container plants are located, one each at Wallula, served jointly by the Union Pacific and Northern Pacific; Burley, Idaho, served by the Union Pacific; Salem, Oreg., on the Southern Pacific and Oregon Electric; Sunnyvale, Calif., on the Southern Pacific; Torrance, Calif., on the Santa Fe; Golden, Colo., on the Colorado & Southern;

West Memphis on the Frisco, Newton, N. C., on the Southern; Stratford, Conn., on the New Haven; and La Port, Ind., on the Penn Central. A plant at West Jordan, Utah, on the Rio Grande, manufactures cut-to-order component parts of homes; and another plant at Bend, Oreg., produces particle board.

Most of the plants and mills from which shipments are made to eastern markets are either located on the Union Pacific or ship in part via the Union Pacific. Thousands of carloads of lumber products move by rail each year with 90 percent destined east of the Mississippi River, of which 60 percent is transported by the Union Pacific as the originating carrier. In 1965, the shipper tendered to rail carriers 247,876 tons of paper and paper products, of which tonnage approximately 45 percent was destined east of the Missouri River. It is the shipper's policy to divide its business proportionately among the carriers that do a good transportation job, both from a cost and service standpoint, and to the best of the shipper's ability it favors the origin carrier with the maximum haul.

To the shipper, major factors in transportation services are transit time, adequate supply of cars, and damage to lading. In the shipper's large volume of business, it finds that the faster shipments are delivered the quicker payments are received and empty cars are returned; both of such results to the ultimate end of enabling the shipper to increase its business. In further connection with the service factor, the shipper is also a receiver of a substantial and wide variety of raw materials and supplies. It is forced to tie up large amounts of working capital because existing rail transit schedules are not reliable. A fast and dependable rail service; one that would afford even so much as a day or two reduction in transit time per car, would enable the shipper to free a great dollar amount presently invested in inventories. The shipper also finds that multiple handling of cars results in greater damage to lading.

At the time of hearing, on February 20, 1967 when the Northern Lines case was still pending, the shipper expressed the view that following the foregoing transaction, the unified carrier could eliminate switching at the Twin Cities (by Minnesota Transfer Railroad) and instead provide a single-line service from points in the Pacific Northwest, specifically naming Wallula, Vancouver, Yakima, and Salem to Chicago. Thus, the unified carrier would be in a position to provide an improved and faster service. By reason of the foregoing, the shipper expresses the opinion that the Union Pacific would be at a competitive disadvantage, unless the Union Pacific could provide a single-line service to Chicago. It is the shipper's further view that the proposed single-line operations of Union Pacific, which would eliminate intermediate interchanges at Fremont and Council Bluffs, would result in faster deliveries to the midwest gateway of Chicago. Based on its experience of the Union Pacific being "a very good line" and with no complaints on Union Pacific service where plants are local to such carrier's lines, the shipper assumes that, following elimination of interchange under the merger, the Union Pacific would

improve service if at all possible. The shipper anticipates that the expected improvement in transit time by Union Pacific would result in improved car utilization; i.e., faster delivery; faster return, and that the merger of the two carriers would bring about a greater pool of available equipment.

In general, the shipper is of the opinion that improvements in rail services would come about if there were three or four Coast-to-Coast single-line rail carriers and if numerous smaller railroads were to be eliminated, through mergers or other unifications.

An independent freight traffic consultant, who is also an attorney-at-law, has had 20 years experience in freight traffic and transportation. He appeared on behalf of "dozens and dozens" of shippers on the West Coast who use the Rock Island in connection with shipments to and from the West Coast, and various named manufacturer traffic and shipper associations. The shippers and associations support the Union Pacific-Rock Island merger application because they find that the Rock Island is not presently a satisfactory railroad and must, in their opinion, be merged with stronger railroads which can better serve the West. More specifically since the post-war years, the consultant has not been able to recommend to his clients a single plant location on the Rock Island because the carrier does not provide a satisfactory service responsive to the needs of shippers in the West who use the Rock Island as part of their movement within Western Trunk Line and Southwestern Territory.

Rock Island's service has been especially unsatisfactory for the potato and onion shippers, principally because the Rock Island does not fully participate on a through or diversion rate basis in transcontinental traffic between the Minneapolis area and Kansas City even though Rock Island is the short line and most desired carrier to connect with the Northern Pacific, Great Northern and other routes via Minneapolis. Rock Island has cited its high costs of operation as the reason for its non-participation. Additionally, Rock Island has refused to join in rates on corn to the Pacific Northwest, although it does participate in rates to California, Utah and Arizona over the Tucumcari gateway or over Colorado junctions. In 1966 one of the most serious problems affecting the Northwest was the availability of Midwest corn.

On transcontinental schedules such as Chicago to Seattle or Chicago to Oakland, the shippers and associations do not use the Rock Island because the carrier's service is generally one day longer than service by the Union Pacific-North Western, Union Pacific-Milwaukee or Union Pacific-Burlington (Grand Island). They have no complaints as to the service rendered by the other carriers, but point out that the Rock Island loses a share of their business as a result of this service deficiency. A Union Pacific-Rock Island merger resulting in an all Union Pacific route as opposed to the present Union Pacific-Rock Island route would, they believe, save 24 hours on the present transcontinental schedule thus making it comparable to that of the other carriers.

The shippers and associations believe the Union Pacific is best qualified to revitalize the northern part of the Rock Island because it has the financial ability, the men, and the know-how which are necessary. Proof of this is evidenced in the Union Pacific operations today and the vigor of their effort to take on this additional area of operation.

Although approval of the merger, (as herein considered of the northern portion of the Rock Island) would break up single-line service from Twin Cities, Chicago and intermediate points to Texas and Oklahoma, the shippers and associations believe service would not be impaired because Union Pacific and Southern Pacific have worked together on through transcontinental schedules over Ogden and would integrate a through schedule on their north-south traffic that would be as good as their Ogden interchange.

With respect to rates, they believe the merger will reduce the high costs of operation of the Rock Island and, thus, enable the carrier to fully participate in rates on the Minneapolis-Kansas City route. Additionally, if the Rock Island is integrated into a transcontinental system with Union Pacific serving the Rock Island corn belt area, they believe such corn would get to the Pacific Coast.

The shippers and associations further believe that the merger and sale would assist in improving rail service, particularly resulting in faster transit times, and in reducing costs. In turn, the Union Pacific would be better able to meet the increased competition from motor carriers, exempt truck hauling, intercoastal steamships, foreign imports from the West Coast and reduced air freight rates.

A nationwide shipper of fresh potatoes has its packing plants at Rigby and Ucon, Idaho, at which points the only rail service is provided by the Union Pacific. About 90 percent of the shipper's traffic is transported by rail carrier with such movement aggregating 32,000 rail carloads in 1965. Also, 90 percent of the shipper's traffic moves to territory east of the Missouri River with an extremely heavy volume of rail shipments to the southeast, via the Kansas City gateway. Not more than 20 percent of its eastbound shipments moves through the Chicago gateway.

Competitive conditions demand that the shipper be afforded, and it expects to receive from the Union Pacific as a result of the merger, a dependable on-schedule movement of loaded cars and a fast return of empties. It anticipates that the proposed single-line services of Union Pacific to St. Louis and Chicago would eliminate the present one-day and two-day delays in deliveries and which the shipper attributes to interchanges. In the shipper's past experience, had it not been for the prompt handling of empty cars by the Union Pacific there would have been many occasions when the shipper would have had a severe shortage of empties.

Initially, the shipper would divert about 10 percent of its interchanged traffic to the Union Pacific single-line services. It would not continue any interchanged movements, which as to a substantial portion of such traffic, were inferior to the single-line operations.

A manufacturer and fabricator of crop and storage conditioning equipment, precision hydraulic equipment and metal buildings has a manufacturing plant at Behlen, Nebr., served by the Union Pacific. The manufacturer's inbound traffic consists of about 30,000 tons per year of galvanized iron and steel in coils and sheets and iron and steel of all descriptions. The major source of steel supply is from the Chicago area. About 50 percent of this inbound transportation is by rail, and which was 325 carloads for 1956, about 10 percent by motor common carrier and about 35 percent by the manufacturer's own trucks.

The manufacturer has experienced numerous delays in securing an adequate number of cars at eastern and midwestern origins, as well as delays up to as much as 48-hours at the Chicago terminal and at the Council Bluffs interchange. Reliable transit service is necessary as production schedules depend upon a flow of raw materials. Union Pacific, under the merger, would provide a direct, single-line service from the supply sources in Chicago to the plant site, eliminating the necessity of an interchange at Council Bluffs with the Rock Island. Further, the manufacturer anticipates that the single-line service would result in a more rapid turn around, so that rail cars would be available for reloading sooner.

The manufacturer has considered setting up a facility near La Salle, Ill., to handle the receipt and the return of its trucks by rail piggyback. From the facility, the manufacturer's products would be distributed by truck throughout its sales area in nearby States. It estimates this rail movement would amount to 30 trailers per week (which are presently moving over the highway). To be successful, the plan requires a high degree of control as well as rapid turn around so that equipment is not unnecessarily tied up. The manufacturer is unwilling to institute such arrangements under multiple-line rail movements but it would give serious consideration to put the plan in operation if it has available the single-line service which would result from the merger of the Union Pacific and Rock Island.

A California non-profit marketing association, with over 60 members (a typical member was a packing association in a specific growing area which, itself, might have over 100 individual growers as members), among other things, makes transportation arrangements for the members. In 1965, the Association shipped approximately 78,420 tons of perishable fruits from California and Arizona to the southwest, midwest, and eastern states. The 1965 traffic included 2,393 rail carloads, which accounted for well over half of the total tonnage shipped, the great majority of which moved to areas east of the Rocky Mountains. Although the exchanges are

spread over the entire state of California, the heaviest shipping points are in the San Joaquin Valley; Southern California is one of the smallest originating areas. The predominant portion of the shippers' long haul traffic is shipped over the central route via Southern Pacific-Union Pacific, about 8 percent is shipped over the Southern Pacific-Tucumcari route, and about 30 percent via the Santa Fe.

The principal benefit which the Association expects to receive as a result of the resulting Union Pacific single-line services to Chicago and St. Louis, is a more dependable and reliable on-schedule service by reason of the elimination of interchange delays. Expeditious movement of perishable commodities is an absolute necessity; any reduction in transit time would increase the amount of acceptable quality fruit at destination.

Although the Union Pacific-Southern Pacific interchange at Ogden would remain, the Association considers such interchange similar to a single-line operation, principally due to the cooperative attitude between the above two carriers. If Southern Pacific obtains the southern lines of the Rock Island, the exchange anticipates improved rail service on its Southern California to Chicago traffic which presently moves via the Southern Pacific-Rock Island. Instead of Tucumcari, the interchange would be at Kansas City and between Southern Pacific and Union Pacific. The association believes the two carriers would affect a similar efficient interchange at Kansas City as they have done at Ogden.

Another factor of considerable importance is an adequate supply of equipment. All of the shipments move in refrigerated equipment. The produce moves eastward from the Pacific Coast and empty refrigerated cars are returned back to the West Coast for loading. At present there is often a delay in several days in turn around time at the destination points after the produce has been unloaded, and before the empty car is routed back. The association believes that the expansion of the Union Pacific area of service through merger with the Rock Island would result in a considerable reduction of this turn around time.

A grower and processor of fruits has plants for storage and processing of fresh fruits and brine cherries at Yakima, Zillah, and Grandview, Wash., served by both Union Pacific and Northern Pacific; Oroville, Wash., served by the Great Northern; Milton-Freewater, Oreg., served by Northern Pacific; and Hood River and The Dallas, Oreg., and Payette, Idaho, served by the Union Pacific. All inbound movement is by farm trucks, with an occasional shipment between plants by either regulated or exempt motor carriage. Outbound shipments are equivalent to about 2,500 carloads annually of which 60 percent is by rail and 40 percent by regulated and exempt motor carriage. Approximately 80 percent of the rail shipments are destined for points in Eastern United States of which about 80 percent moves through the Chicago gateway.

Dependable fast rail service is extremely important not only because of the perishable nature of the shipments but also because it is necessary to reach the market at specific times to take advantage of specific price quotations. Delays of as much as 24 hours have been extremely costly. Shipper has found that failure to keep schedules can be traced to interchanges with intermediate lines not being handled promptly, once shipper's cars have been turned over by Union Pacific. Shipper believes the single-line service to Chicago and St. Louis resulting from the proposed Union Pacific-Rock Island merger will be superior as to speed and reliability than the existing arrangement with the interchange through the Omaha gateway.

Diversion privileges are also very important to shipper because many of the products are sold in transit. Once the cars have left the Union Pacific, it is much more difficult to trace them through intermediate and terminating railroads so that a diversion order may be placed.

A shipper of grain has two grain elevators. One in Colby, Kans., has a capacity of 2,750,000 bushels, ships an annual average of 289 rail cars, and is served by the Rock Island. The other elevator in Hoxie, Kans., has a capacity of 1,125,000 bushels, ships an average annual shipment of 189 cars, and is served by the Union Pacific. All of the wheat from both elevator facilities is handled by rail. About 90 percent of shipper's wheat is shipped to Kansas City grain terminals. In the past, shipper has experienced substantial difficulty in securing an adequate supply of rail cars. At times, during the harvest season, the wheat was piled on the ground without protection because shipper was unable to secure sufficient cars.

Shipper believes that the proposed Union Pacific-Rock Island merger with the resulting elimination of interchanges and expansion of single-line service from both of shipper's facilities would avoid many of the delays encountered in securing cars. Union Pacific has a larger supply of equipment than Rock Island and is in a better financial position than Rock Island to purchase new cars; additionally, shipper would be dealing with one railroad instead of two. The single-line service would also provide shipper with additional terminal markets, thus broadening its market and opportunities to expand.

A manufacturer of beet sugar and sugar by-products such as molasses and beet pulp, has plants at Lewiston, Utah; Rupert (Myers), Idaho; Twin Falls (McMillan), Idaho; Nampa (Fischer), Idaho; and Nyssa, Oreg. The rail designations are shown in parenthesis. Bulk and liquid sugar distribution warehouses are at Portland, Seattle, and Ogden. Bag-sugar storage and distribution points are at Clearfield, Logan, and Ogden, Utah, and Preston and Burley, Idaho. Major liquid distribution points are at Kansas City, Mo., Grimes, Iowa and McKees Spur, Minn. All of the foregoing shipping points are served by the Union Pacific except the Kansas City facility, which is located on the Kansas

City Southern. Also, Grimes and McKees Spur are located on the Milwaukee.

Shipper manufactures 725 million pounds of sugar annually, of which 55 percent is shipped as bulk and 45 percent is shipped in bag. Approximately 87 percent of the traffic tonnage (sugar beets, sugar, and the like) is moved by rail with the balance, mainly in local distribution, transported by motor carrier. The rail volume totals about 69,000 cars annually and \$10 million in freight charges.

Sugar is shipped nationwide directly to the purchaser. Bulk dry sugar is shipped to the previously named liquid distribution stations, converted to liquid sugar, and distributed locally by motor carrier. As to movements to Grimes and McKees Spur no merger benefits are involved. About 300 thousand tons of beet pulp is shipped annually from factories to points in California, Oregon, Washington, Utah, Idaho and Oregon.

Shipper is in a highly competitive industry and requires an adequate car supply, reasonably rapid transit time, rapid car tracing service, prompt claims settlement procedure, and an adequate rate structure.

It has been shipper's experience that transit time, car tracing service, and other elements of rail service are superior when performed by a single-line to destination than when more than one railroad is involved. As a matter of company policy originating and delivering carriers are given the longest possible haul over the carrier's lines and the shipper would continue such policy following the proposed merger. However, most of shipper's competitors, including those in California, Washington, and Colorado, have single-line service to the principle sugar marketing areas of the Midwest, such as Chicago and St. Louis. Shipper supports the Union Pacific-Rock Island merger because it would provide such single-line service to above-mentioned principle sugar marketing areas of the midwest.

A shipper and receiver of grain and fertilizer located in Superior, Iowa is served only by the Rock Island. Inbound shipments of grain are by truck from the farms and of fertilizer entirely by rail. Presently inbound shipments of fertilizer average 70-100 rail cars. Annual outbound shipments of grain average about 700 carloads and a volume by truck equivalent to about 350 carloads.

Most of the corn shipments are destined to river markets to the north, such as St. Paul, Savage and Duluth, Minn., and substantial shipments also move to Des Moines and Muscatine. Where processing is involved, there is an inbound movement of soybeans and a transit outbound on, normally, the Rock Island, which provides a single-line service to Des Moines and Muscatine.

The Rock Island also provides the shipper a two-line service to Duluth and a superior single-line to Chicago.

The shipper requires an adequate car supply and frequent service in order to be competitive. Except for peak movements, its car supply has been adequate. The shipper is here concerned about the preservation and upgrading of the Rock Island, and fears that if the North Western acquired control of the Rock Island, service and car supply would deteriorate. Shipper has been getting a lot of business from a competing grain elevator located nearby on North Western lines because this competitor is not able to get adequate cars and service from the North Western. Shipper believes the Union Pacific acquisition of the Rock Island will mean a better car supply and preservation of the Rock Island service.

An Iowa-Illinois non-profit corporation formed to promote the industrial development of ten contiguous municipalities in the Quad Cities area (Davenport, Bettendorf, Riverdale, Rock Island, East Moline, Milan, Carbon Cliff, Colona and Silvis) is in an area devoted largely to heavy industry dependent substantially upon the rail transportation services. The area is the largest manufacturer of farm implements in the United States, if not in the world, and is dynamically growing. Industrial construction companies have been averaging \$30 million a year every year since 1960. From a transportation point of view, the area is well served by rail, water and motor carriers.

The organization is of the view that the Union Pacific-Rock Island merger would insure preservation of the Rock Island as a main line, especially with respect to the route from Omaha to Chicago which, in turn, would place the Quad Cities area on a single-line transcontinental railroad with an eastern terminus at Chicago. Union Pacific has considerable financial resources and thus, the capability of improving the Rock Island plant additionally, Union Pacific has a strong policy of industrial development, all of which would benefit the Quad Cities area.

On the other hand, the organization fears that the North Western proposal might result in the Quad Cities area being downgraded because the present rail lines in the area might become secondary main lines of lesser importance in the North Western-Great Western-Milwaukee-Rock Island system.

A publishing and printing company located in Des Moines is served by the NorthWestern (including the former Great Western) and the Rock Island. Shipper has inbound shipments of raw paper, about 90-95 percent by rail, from origins in Minnesota and Wisconsin, moving principally through the Chicago and Twin Cities gateways; and outbound shipments of publications, about 60 percent by rail. The market which shipper is primarily interested in and in which shipper is particularly competitive is the continental United States. Its competitors are at Chicago,

St. Louis, Kansas City, and Dayton, Ohio, Louisville, Ky., and Philadelphia, Pa. In 1965, shipper had approximately 632 cars of paper inbound via the Rock Island and 610 rail cars outbound.

Magazines are a very perishable product from the standpoint that they are a dated item, and the shipper requires prompt service and distribution of its magazines in order to meet deadlines and to remain competitive, especially on West Coast deliveries. Every time shipments must be interchanged, there is an opportunity for delay. Shipper has had normal problems on interchange shipments at the Council Bluffs gateway with both Rock Island and North Western. In particular, with respect to the Rock Island from service failures of the Rock Island trains which miss connections with the Union Pacific train. On one traffic movement, shipper had so much trouble it had to eliminate the Rock Island and use other rail carriers. Although Des Moines is several hundred miles closer to the West Coast than Chicago and St. Louis, the Des Moines shipper finds that his competitors at St. Louis and Chicago are receiving much faster scheduled deliveries to the West Coast, as much as by a full day. The shipper supports the Union Pacific-Rock Island proposal, a basically **end-to-end merger to which would provide a single-line service** to the West Coast thus eliminating interchange problems.

Additionally, a substantial portion of the outbound shipments are in refrigerator cars (owned by PFE) which have previously been used to transport vegetables. The shipper's products require a high grade, clean car, but it has frequently received cars from the Rock Island that have not been adequately cleaned or not cleaned at all, all of which has caused delays. Shipper believes that the Union Pacific acquisition of the Rock Island with the former's greater financial resources would mean a greater car supply, a generally improved plant (including adequate manpower to properly supervise inspection and cleaning of cars) and faster and more reliable service.

Shipper desires to preserve competition and the competitive service presently available. It is shipper's policy to allocate traffic among available carriers and shipper would continue this policy assuming service standards are met.

A traffic consultant provides management and consultant service for a number of clients. At the hearing, the consultant represented his own views, those of three shippers; one a soybean cooperative association at Dawson, Minn., another a potato processor at Minneapolis, and the third a shipper headquartered in New York City who annually ships about 600 rail cars of powdered milk from a plant in Sibley, Iowa which is served by both the Rock Island and the North Western. Although the sales territory for the milk is quite widely dispersed, a great deal comes east through the Chicago gateway. The potato processor receives several hundred cars annually. Preservation of the Rock Island is important to the consultant and to the clients whom he serves.

Because of the financial problems of the Rock Island, clients of the consultant have not always had either the quantity or quality of cars needed. In the opinion of the consultant, the Union Pacific-Rock Island merger is necessary to keep Rock Island service in operation in his territory. The Union Pacific with its greater financial resources would not only maintain but also upgrade the Rock Island.

In November 1965, the Idaho Public Utility Commission sent a letter to 300 individuals, firms and businesses throughout Idaho, who are the larger shippers in the State and would be affected by a change in transportation, advising them of the Union Pacific-Rock Island merger proposal and inviting their views and comments on the proposal in that the Commission might correctly represent and reflect the majority of interest in the State of Idaho. The letter did not advise the people that there was another alternative proposal pending, namely for the North Western to acquire control of the Rock Island. Thirty people answered who supported the proposed merger and another 10 or 12 answered taking no position on the matter. With respect to the approximately 240 who failed to reply, representatives of the Iowa Commission also conferred with the larger shippers (in the lumber, potato, and agricultural industries) in Southern Idaho, soliciting their judgments.

At the hearing, the Idaho Commission noted that Union Pacific is the only railroad operating in the southern portion of Idaho which portion comprised about two-thirds of the population of the State. The railroad operates nearly 2,000 miles of track in Idaho serving a population of almost 500,000. An annual average of better than 150,000 carloads of agricultural products, forest products, merchandise and manufactured items move to and from points east of the Missouri River. The State of Idaho is substantially dependent upon the Union Pacific for rail service.

In the opinion of the Idaho Commission the proposed Union Pacific-Rock Island merger would tend to provide and strengthen transportation facilities serving the State of Idaho. Specifically, the Commission believes the merger and resulting single-line service would provide the following benefits; (1) a faster carload service between Idaho and gateway points east of the Missouri River (such as Chicago, Peoria, and St. Louis), (2) improved transcontinental trailer on flat car service, (3) a better control and distribution of cars plus faster return of empties from the east, (4) rate proposals and the handling thereof would be expedited, and (5) improved claim handling, diversion privileges, and tracing service.

The Omaha Chamber of Commerce passed a resolution supporting the Union Pacific-Rock Island proposal because it would give Union Pacific access to the major gateways of Minneapolis-St. Paul, Chicago, and St. Louis establishing an additional single-line service between those points and the West Coast. Omaha presently has single-line service to and from Chicago via several railroads

and single-line service to and from the West Coast via the Union Pacific. The Chamber of Commerce is also of the opinion that the merger would provide greater flexibility in marketing, more reliable and frequent service, an improved car supply and other inherent advantages of a single system.

In passing the above resolution, the Board of Directors of the Omaha Chamber of Commerce acted pursuant to a recommendation from the Chamber's Shipper-Carrier Committee which devoted several meetings in 1965 to a comprehensive study of the merger. Each of the railroads serving Omaha was afforded an opportunity to present its views during the meetings. Evidence introduced by the Rock Island at the above meetings indicated its preservation as an entity and its ability to render service as a common carrier was impaired by lack of financial resources. This condition has an adverse effect on Omaha and every community served by the Rock Island. The Chamber of Commerce believes that the situation can be rectified if the Rock Island is permitted to merge with another carrier such as Union Pacific, which is financially capable of restoring the services over Rock Island lines, commensurate with the needs of the public.

The Board of Directors of the Des Moines Chamber of Commerce (Iowa) unanimously support the Union Pacific-Rock Island merger proposal. The Chamber of Commerce attributes Iowa's economic growth to having been helped a great deal by being served by a fully developed rail network. Des Moines is presently served by the Rock Island, the North Western (including the Great Western), the Milwaukee, the Norfolk & Western, the Burlington and two short-line railroads (the Des Moines and Central Iowa and the Fort Dodge, Des Moines and Southern). However, only the Rock Island and the lines of the Chicago Great Western serve Des Moines as part of their main trunk line operations.

The Chamber of Commerce is particularly concerned about what happens to the Rock Island because two of that carrier's main lines go directly through Des Moines (the line between Twin Cities and Kansas City and the line between Omaha and Chicago). If Des Moines is to be competitive and if its markets are to be developed, it needs the railroads.

The Union Pacific has publicly stated it will spend substantial sums upgrading the Rock Island. Also, the Chamber of Commerce believes that the Union Pacific "end-to-end" merger would improve its economic picture by extending through Iowa a transcontinental single-line railroad from Chicago to the West Coast; that Des Moines would have three strong transcontinental systems between Chicago and the West Coast; that the Rock Island would be preserved and improved; and that the Union Pacific would retain and operate the Rock Island as its only line between Omaha and Chicago.

A manufacturer of heavy equipment has its main plant in St. Paul, Minn., and others throughout the country.

The St. Paul plant, which is served by the Rock Island and former Great Western, produces large industrial hoist, cranes and derricks, which move primarily by rail, and various other products. In 1966, the shipper had 1,000 rail cars inbound of steel and scrap and 1,200 rail cars outbound of finished machinery. The inbound shipments were from the Gary, Ind., area and were routed IHB and either Rock Island or North Western. Of the outbound movements, about 5 to 10 percent moved to the West Coast and large portions to Chicago and beyond and to Houston and the Southwest.

Shipper must use rail service for its heavy equipment. The market for heavy equipment is very competitive. Additionally, the cranes and hoists are tailored for individual orders. After the machine has been designed, the customer is already waiting for his machine; and often customers have job deadlines to meet. Thus an adequate car supply in the best possible service is necessary.

The shipper is familiar with Union Pacific and the type of service they give and is certain that substitution of Union Pacific with its greater financial resources and car fleet would mean improved service. The Union Pacific proposal would also mean single-line service to the West Coast. With shipper's national distribution, this would be most helpful. Single-line service would mean reductions in various areas such as switching, delays, and damage, and less difficulty on clearance, and in the tracing of shipments in transit.

The shipper acknowledges that if Union Pacific acquires the Rock Island and sells the southern portion to Southern Pacific, the only plant of shipper's that would have single-line service would be the St. Paul plant, between St. Paul and Los Angeles. At the same time, shipper would no longer have single-line service from the St. Paul plant to Houston. It does not believe that service would be destroyed. In the past, the shipper has received very good service on two-line hauls versus single-line hauls. In shipper's opinion, the Union Pacific and Southern Pacific are two good lines. Overall, the shipper believes that it would be gaining much more than it would be losing.

A fabricator of sheet steel in Kansas City, Mo., is served directly by the Rock Island, and by other rail lines through reciprocal switching. Most shipments inbound and outbound are over the Rock Island. Inbound shipments are mostly by rail; outbound shipments are by both rail and truck. Shipper has an annual inbound shipment of about 500 rail cars of flat steel, principally from the Chicago area and from Granite City, Ill., via the St. Louis gateway, and an outbound shipment of about 300 rail cars of fabricated steel products. The shipper's trade territory covers the entire United States and a good deal of export from the Gulf Coast via Houston, and through California.

The shipper has two rail shipping problems; car supply and service. There are times when shipper has been unable to get cars from the Rock Island. On at least a dozen occasions over the past few years, the president of the company has had to call the Rock Island requesting cars. The shipper suffers a loss in business when it is unable to secure cars and also when a competitor has better transportation service.

On inbound shipments from St. Louis (Granite City) and the Chicago gateway where shipper uses the Rock Island, the shipper believes there would be better service and more cars with the Union Pacific in place of the Rock Island. As a fabricator the shipper uses transit privileges and often times under a two-line haul it has difficulty getting transit. It anticipates improved transit under the Union Pacific single-line operation.

A manufacturer of laundry washing machines and dryers in Newton, Iowa is served at its plant only by the Rock Island. However, the shipper has a policy of allocating its traffic among the western railroads. About 64 percent of the shipper's tonnage, inbound and outbound, is by rail. Annual shipments inbound of steel, motors, castings and purchased parts average 1,500 cars and outbound shipments average 4,500 cars. Most of the inbound cars come from the Chicago steel area and are routed over the Rock Island. Approximately 30 percent of the outbound shipments go to the West Coast, 20 percent to the southwest and the remaining 50 percent to the east and southeast. Most of the shipments to the West Coast are by rail. It is shipper's policy to allocate its traffic among available routes.

Shipper requires a fast and reliable service and an adequate car supply. Present day merchandising is built on quick turnover and small inventory. Delays in transit are costly to shipper's customers in lost sales and when he has money tied up in shipments paid for, but not delivered. It has been shipper's experience that wherever there is an interchange between rail lines, there is an excellent chance for delay and damage. With respect to car supply, shipper has an assigned fleet of 260 DF cars of which the Rock Island assigns 86, the Union Pacific 30, and the remainder, as here pertinent, by the Santa Fe, Southern Pacific, Frisco, Great Northern, and Northern Pacific. It favors those furnishing DF cars and could use at least 50 and perhaps 100 more. Shipper has unsuccessfully requested additional DF cars from many railroads including the Union Pacific and the Rock Island.

Shipper supports acquisition of the northern portion by Union Pacific, principally because this would provide single-line service between the plant site to the West Coast and would also provide, the shipper believes, a better car supply.

A gas and electric public utility in Davenport, Iowa provides both electricity and gas for Scott County, Iowa, and Rock Island County, Ill., (known collectively as the Quad Cities) and Fort Dodge and Iowa City, Iowa. The principal operating areas where the utility provides gas only are Cedar Rapids and Ottumwa, Iowa.

Shipper is served by the Rock Island and has annual inbound shipments of 8,000 rail cars of coal from Atkinson, Ill. The shipments are routed over the Rock Island from Atkinson. Service has been "extremely bad", particularly as to lack of cars and shipments not arriving on schedule. The railroad attributes the trouble to the coal company and the coal company blames the railroad. In turn, the public utility finds itself in "real trouble", being forced to use storage gas to generate electricity because of delayed coal deliveries. It characterizes the present service additionally as an "inferior main line rail service."

Of the shipper's service areas, the Quad Cities, which is composed of some 11 contiguous municipalities along the Mississippi River and which has a population approaching 350,000, is the largest. About 73 percent of shipper's customers who contribute approximately 75 percent of its revenues are within the Quad Cities and Iowa City service territories. Thus, the shipper is also concerned with the economic growth and development of the Quad Cities area. As business and industry expand and population increases, requirements for shipper's product increase. In the shipper's view a main line railroad from Chicago to the West Coast going through the Quad Cities area, as would result from the Union Pacific-Rock Island merger, would help immeasurably in the development of industry in the area.

Considering the above advantage and also assurances from the Union Pacific that substantial sums of money would be committed to improvement of the Rock Island portion of the merged system, the shipper believes that the Union Pacific-Rock Island proposal would be more advantageous to the Quad Cities area and to his company than the merger of the Rock Island with any other railroad.

The Public Service Commission of Wyoming states that Union Pacific is the largest railroad in the State and the only one traversing the State from east to west. That carrier presently serves counties in the State which contain approximately 45 percent of the population. Union Pacific has assisted in the growth of Wyoming's industrial economy. The Commission feels that, in order to continue its reliable service, Union Pacific must keep pace with the existing intense competition provided by all types of transportation media. An end-to-end merger of Union Pacific and Rock Island would, in the Commission's

opinion, allow Union Pacific to continue to provide the most reliable, expeditious railway transportation at the lowest feasible cost. The economies from such a merger will greatly enhance the agricultural and industrial progress and potential in Wyoming.

The Public Utility Commission of Oregon states that it feels that, properly conditioned, the Union Pacific and Southern Pacific applications will strengthen rather than weaken intramodal rail competition on traffic moving through the Utah gateways. The State is particularly interested in maintaining the Bieber route of Western Pacific and Burlington Northern (formerly Great Northern) as a competitive route to SP between Oregon and California. WP's ability to maintain this competitive route and exist as an independent railroad depends on its over-all financial condition, and the State supports strong conditions to protect WP's share of transcontinental traffic through the Utah gateway.

The Commission also supports certain of the conditions proposed by the Burlington Northern as proposed by its former component railroads.

(6) Stock Exchange Considerations

Union Pacific retained as financial advisers in connection with the merger, The First Boston Corporation, Merrill Lynch, Pierce, Fenner & Smith, Incorporated and Kuhn Loeb & Co. They were directed to develop a fair basis for exchange of securities of the two companies and to furnish their views on the conversion of Union Pacific 4 percent preferred stock into new 4-3/4 percent debentures. Statements were submitted into evidence by each adviser in connection with their respective assignments.

With respect to the exchange of carrier companies' securities, The First Boston Corporation's initial efforts were directed toward the development of statistical and financial material on a comparable basis designed to show the relative contributions to the earning power and financial position of the proposed merged company. The studies were based on 10-year averages covering operations and earnings for the period 1953-1962. For the purpose of discerning trends based upon shorter periods, computations were made covering averages from 5 years (1958-1962) and 3 years (1960-1962) each ending with and including the entire year 1962.

First Boston was of the view that a determination of the fairness of the proposed exchange ratio was a matter of judgment, giving relative weight to all the factors considered relevant including mileage owned and operated; operating revenues and expenses; earnings; transportation efficiency; trends in traffic and earning power; assets; dividends; financial position; working capital; cash flow; maturity schedules; consideration of size and physical factors; natural resources and market prices of the respective stocks.

Only modest weight was given to book value, physical plant, investment in railroad property and gross revenues. Primary importance was placed on earnings which were adjusted to afford a fair basis for comparable valuation. Accordingly, the reported earnings were restated to reflect refunding of the Rock Island preferred stock with income debentures in 1955 and restated in the case of Union Pacific to reflect full dieselization (including turbine locomotives) since 1953, net credits to retained income reclassified as income effective January 1, 1958, and the increase in insurance reserve representing excess of accruals over losses and premiums.

The Rock Island earnings showed a definite deterioration and the resulting decline in its relative contribution to earnings in relation to the Union Pacific has been reflected in the financial advisers' computations which show net income available for common stock, before Federal income taxes, on a restated earnings basis, "translated" into a common share ratio, of Rock Island to Union Pacific, as follows: for the 10-year average 1953-1962 - .95 to 1; 5-years 1958-1962 - .54 to 1; 3-years 1960-1962 - .36 to 1 and 1962 - .20 to 1. The net income available for common stock, after income taxes are accrued, both on a restated and reported basis indicated an exchange ratio for the 10-years of 1.23 - 1.27 to 1; 5-years .78 - .81 to 1; 3-years .70 - .72 to 1 and 1962 - .64 to 1. The ratio in the market for the two stocks exhibited a similar trend. On the average of the high and low prices the market ratio of Rock Island common to Union Pacific common was 1.58 to 1 in 1953; 1.32 to 1 in 1955; 1.02 to 1 in 1957; .96 to 1 in 1959; .73 to 1 in 1961; fluctuated from .77 to .68 to 1 in the first 6 months of 1962 and decreased drastically after the Rock Island reduced its 40 cent quarterly dividend to 25 cents in August 1962 and dropped as low as .48 to 1 in early November, 1962. The market ratio subsequently improved and was around .50 to 1.

In May of 1963 Union Pacific and Rock Island managements agreed to a basis of exchange of common stock whereby each share of Rock Island common would receive .718 of a share of Union Pacific common stock in the merger. The following month, the North Western announced an offer to the Rock Island common stockholders involving cash and securities. For this reason and because of delay due to certain litigation and changed conditions, Union Pacific requested First Boston to reexamine and reappraise its original recommendation. The reappraisal was based principally upon figures for the 10 years-1954-1963 inclusive, first quarter 1964 earnings and up-to-date market prices of the common stocks. After reconsidering all relevant factors, discussed above, First Boston reached the conclusion that notwithstanding the relative improvement in Rock Island earnings, the market ratio of the stock (about .78 to 1) and the North Western's offer, the fundamental relationships as between the Rock Island common and the Union Pacific common had only changed sufficiently to warrant a modest increase in the equity ownership by the Rock Island common stockholders in the merged entity. It was recommended that the eventual ownership of the Rock Island equity in the merged entity should not exceed the amount which Rock Island common stockholders could eventually obtain by exchanging a share of Rock Island common stock for .85 of a share of Union Pacific common. It was also recommended, that in view of the competitive nature of the North Western offer, Union Pacific's new "Exchange Offer" should include a cash payment to assenting Rock Island common stockholders under the terms and conditions previously discussed.

Stockholders' Views

In discussing the fairness of Union Pacific's exchange offer to the stockholders of Rock Island, Rock Island, in its brief, cites the criteria set down by the Commission in Seaboard Air Line R. R.--Merger--Atlantic Coast Line R.R., 320 I.C.C. 122 (1963), contending that the Union Pacific offer meets the criteria of that case in that it was approved by a large majority of the stockholders of both carriers; that it was arrived at only after extensive arms length bargaining by representatives of both carriers; and, that it was found to be fair by several independent financial institutions which carefully evaluated the economic, financial and operating conditions of each of the applicants and their respective contribution to the potential earnings of the merged company. Rock Island further points out that acceptance of Union Pacific's offer by 93 percent of its

stockholders is more impressive, considering that the stockholders were confronted with a strongly backed competitive offer from North Western.

Mr. Kendall Laughlin is the only intervening minority stockholder in these proceedings, and his ownership of common stock is 150 shares in Union Pacific, 474 shares in Southern Pacific stock, and 100 shares in Rock Island. He is opposed to the "Exchange Offer" made by the Union Pacific and has proposed a Plan of Financing which he contends would accomplish two basic principles: (1) avoidance of issuance of Union Pacific stock that will become diluted after the sale of the southern segment of the Rock Island and (2) a fair return to the Rock Island stockholders.

It is unnecessary to set out the details of Mr. Laughlin's plan of financing and which is substantially different from the Union Pacific-merger and Southern Pacific-purchase transactions herein proposed. Careful consideration has been given his plan, as placed in evidence and argued on brief, but it is not supported by any probative evidence of record. For example; he would have the Commission require a share-for-share exchange of Rock Island common for Union Pacific preferred, but how the evaluations are arrived at are not supported. He further complains of some type of dilution in the Union Pacific stock as a result of the sale of the Rock Island southern to Southern Pacific. However, as a selling Rock Island shareholder he would receive a stock interest in one of the country's largest and strongest carriers, financially and otherwise, with a long history of dividend payments, while at the same time, disposing of stock in a considerably smaller railroad, and which is literally on the verge of bankruptcy and has not paid dividends since the first quarter of 1965. Under such circumstances, no dilution would occur even if after the merger the Rock Island were to be scrapped with little or no return to Union Pacific. Actually, the Union Pacific, in which Mr. Laughlin would hold stock, would, as an enlarged road, continue operation over the northern segment of the Rock Island, and receive \$120 million from the sale of the southern segment to Southern Pacific. Further consideration of his opposition is unnecessary, except that if Mr. Laughlin desires cash in an appropriate equivalent to the value of the exchanged Union Pacific Stock, he should be afforded such upon appropriate petition to this Commission.

Giving Effect Financial Data - Union Pacific

Union Pacific's late filed pro forma balance sheet as of December 31, 1967 gives effect to the Union Pacific - Rock Island merger and concurrent sale of the southern segment of the Rock Island to Southern Pacific. The following Table 144 contains the pro forma balance sheet statement.

Assuming consummation of the transaction on December 31, 1967, and on the basis of the accounting detailed above, Union Pacific would have total assets (in millions) of \$2,482.2, consisting of current assets \$399.1, special funds \$3.9, investments \$140.5, properties less recorded depreciation and amortization \$1,924.7, and other assets and deferred charges \$14.0. Liabilities would amount to \$701.2, consisting of current liabilities \$168.5, long-term debt due within one year \$26.3, long-term debt due after one year \$451.7, reserves \$41.1, and other liabilities and deferred credits \$13.6. Union Pacific's shareholders' equity would have been \$1,781.0 consisting of capital stock \$249.2, capital surplus \$130.6 and retained income \$1,401.2. Stated somewhat differently, Union Pacific, following the merger and sale of the southern portion of the Rock Island, would have acquired net assets of \$427,944,467.

As seen, a number of conclusions and findings have been made based upon the accounting of record giving effect to the proposed transaction. However, nothing herein contained shall be construed as approving the final accounting utilized to record the transaction. As set forth in the appended order, jurisdiction shall be retained for consideration and approval by the Hearing Examiner, or Commission if it so decides, of the expenditures and accounting entries proposed to record the transaction, including, by separate order, approval of any of the proposed accounting which may, or will, have the effect of modifying any of the findings and conclusion herein made.

Union Pacific has made several efforts to project the rate of return as a result of the proposed unification. Such rate of return was an estimated 3.69 based on 1964 figures and 4.37 based on 1967 figures. For the same two years and standing alone, Union Pacific had a rate of return of 3.62 and 5.18, respectively.

Reasonableness of The Consideration

As a result of the stock exchange, the Rock Island stockholders would receive Union Pacific no par value \$1.80 convertible preferred stock entitled to preferred, cumulative, annual dividend of \$1.80 per share, and in the event of liquidation of Union Pacific, to payment at the rate of \$40 per share, together with accrued and unpaid dividends. The stock will be noncallable for five years from date of consummation of the exchange offer and will be callable at \$45 a share the sixth year and at \$1 a share less during each succeeding year down to \$40 a share following the 10th year. The stock may be converted at any time, at the option of the holders, into 0.85 of a share of Union Pacific common stock. To protect against dilution, in the event additional securities, rights or options are issued, the conversion ratio will be adjusted by a formula which assumes a value for the Union Pacific common stock at the time of issuance of \$47 a share.

For comparison purposes the following data have been compiled from monthly publications of "Bank & Quotation Record" to reflect the range of common stock prices on the New York Stock Exchange for the common stock of Rock Island and Union Pacific.

RANGE OF COMMON STOCK PRICES
ON NEW YORK STOCK EXCHANGE

<u>1970*</u>	<u>Rock Island</u>		<u>Union Pacific</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
January	19	20-3/4	37	41
February	19-3/8	21 1/2	36 1/2	40 1/2
March	20 1/2	22	36-3/4	40 1/2
April	17 1/2	21-3/4	34-5/8	38-7/8
June	12 1/2	15 1/2	28	34-3/4
July	11 1/2	16	25 1/2	34
August	12 1/2	13 1/2	29-3/8	35
September	13-1/8	16	32 1/2	39-
October	14 1/2	18	35-5/8	39-3/4
November	15 1/2	17	35-7/8	39-3/4

* May and December prices not available.

Market prices on a short term basis do not always provide an accurate means of determining true value, however, they constitute a realistic factor of value which must be given weight. In this connection, it is noted that the conversion privileges together with the fact that the \$1.80 convertible preferred stock will not be callable for redemption before the 5th anniversary of the date of consummation of the exchange offer will give the Rock Island stockholders a greater opportunity to share in the benefits of the merger with the Union Pacific and, in the meantime, in effect to be guaranteed a dividend of \$1.80 a share per year.

Additionally, as a further indication of the reasonableness of the offer, the provision for the contingent cash payment to Rock Island stockholders assenting to the exchange offer, assured any such stockholder that upon consummation of the exchange offer he would be assured of receiving at least dividends of \$.45 per quarter for the total number of calendar quarters from July 1, 1964 to June 30, 1967. All factors considered, the exchange may properly be approved as just and reasonable to all party interests.

Union Pacific's financial advisors agreed that the conversion of Union Pacific 4 percent preferred stock into 4-3/4 percent new debentures, as a result of the merger, would be beneficial to both Union Pacific and the preferred stockholders.

From the standpoint of the merged company the proposed substitution of securities will result in substantial annual savings. Interest on the new debentures will be deductible in computing taxable income for Federal income tax purposes as contrasted to dividends on the preferred stock which is not deductible. Thus, even though the interest rate on the new debentures will be 3/4 of 1% higher than the dividend rate on the preferred stock, the substitution of debentures will effect an appreciable cash saving over the preferred stock dividend, assuming a corporate Federal income tax-rate of 48 percent. Additional savings will be realized considering that a sinking fund will provide for the retirement of \$2 million principal amount of debentures annually commencing with the sixth year after issuance thus effecting a progressive reduction in the amount of debenture interest payable.

Furthermore, the elimination of noncallable securities from Union Pacific's capital structure will permit it a greater degree of financial flexibility.

From the standpoint of the preferred stockholders, they will be required to surrender a security which has no maturity date and is not redeemable in exchange from a redeemable security with a 30 year maturity. Also the preferred stock has one vote per share whereas the new debentures will not have voting rights. However, under the exchange, the preferred stockholders will receive interest on the new debentures which will be $3/4$ of 1% higher than the dividend rate on the preferred stock and it was the opinion of Union Pacific's financial advisors that the new debenture will, dependent on market conditions, trade at a higher market price.

In summary, the foregoing indicates that substitution of debentures for preferred stock will be beneficial to the Union Pacific and all of its security holders, including those security holders of Rock Island who upon consummation of the merger will become security holders of Union Pacific. All factors considered, it appears that Union Pacific and the 4 percent preferred stockholders will be adequately benefited and the exchange is fair and reasonable.

There remains for consideration the issue of whether the consideration payable by the Union Pacific is just and reasonable. The foregoing is of particular significance since, as already detailed, the consideration is predicated upon so as to speak a matter of competitive bidding (with North Western) rather than having been arrived at through arms-length negotiations.

The MoPac, in its brief, argues that Union Pacific investment of \$138 million, in addition to the assumption of \$150 million in mortgage debt is not justified when limited to the estimated first year's improvement in net income, exclusive of traffic gains, of \$6.6 million. However, the MoPac fails to take into consideration the fact that the \$150 million assumption in mortgage debt is represented by a net increase in assets (exclusive of the \$120 million from sale of the southern Rock Island) of \$307.9 million.

The MoPac in its various arguments relies upon the various "pro forma" income statements submitted by the Union Pacific. However, such statements do not reflect accurately or in proper form and full content all the results of the proposed unified operations. Thus for example, the pro forma income statements show an annual increase in net income of \$6 million resulting from investment of the \$120 million realized from sale of the southern Rock Island, at 5 percent per annum. Such may well be a reasonable estimation, but does not come about as a result of the unified operations and is not an item contemplated by the application form, which requires the submission of a constructed profit and loss statement giving effect to the adjustment and eliminations which would have resulted from the unified operations. Also, while the pro forma income statement purportedly gives effect to the merger based upon a given years earnings, at the same time the savings estimated to be effectuated, the merger reflects an amount estimated to be accomplished at the sixth year following consummation. No other changes over such period, such as in revenues or expenses, are similarly reflected. Without detailing all other objectionable features, the pro forma income statements, in short, are unrealistic and unreliable. The record as a whole contains an abundance of evidence relating to the beneficial financial results of the unified operations but at no one point has such evidence been gathered together and set down in its entirety.

The evidence is that following the merger Union Pacific can be expected to retain 55.2 percent of the Rock Island railway operating revenues, or \$127,161,813 for 1966 and \$122,480,744 for 1967. The entire purpose of the substantial evidence of record, previously discussed, relating to Union Pacific's proposed upgrading of the Rock Island carrier operating plant and facilities was to bring the acquired segment up to Union Pacific's high operating standards and efficiencies. In other words as the examiner understands the results to be accomplished under such efforts would be to achieve in operations over the acquired lines the same operating ratio as is in existence in Union Pacific's present operations. On such a basis, which takes into consideration the total scope of resulting economies and efficiencies, had the transaction been consummated during 1966 or 1967, Union Pacific would have realized in such year or at least when all improvements had been finally accomplished, at least net income, before provision for taxes, of \$32,172,070 and \$34,135,384, respectively. The foregoing is without regard to other essential elements in support of the consideration.

The amount of traffic and revenues which it can reasonably be expected Union Pacific would divert as a result of the unified operations are later discussed in complete detail. While for the purposes of the issue at hand, it may be recognized that as a general proposition acquiring carriers understate diversions, and opposing carriers overstate diversions, it may not properly be found on this record that Union Pacific relies for the profitability of operations over the acquired rights in the unified operations solely or even principally on the basis of the possible divertability of traffic from existing rail services. The foregoing is particularly true viewed in the light of the affirmative relief or conditions which Union Pacific is willing to accept with respect to interveners, such as the Rio Grande and North Western. Of course, whatever additional revenue accrue as a result of diverted traffic would lend additional support to the reasonableness of the consideration.

Secondly, some 50 years ago Union Pacific for the purpose of reaching Chicago in its own right acquired a stock interest in Illinois Central. See: Consolidation of Railroads, 63 I.C.C. 455 at 573.⁷⁸ Union Pacific was unable to accomplish such purpose, no matter what the reasons may have been. Presently under the instant transaction it now has the opportunity not only of finally reaching Chicago, but also the Twin Cities and the intermediate areas to the Missouri River gateways. The value of such operations cannot be calculated to any precise dollar figure, but it is significant and substantial to the future success and growth of the Union Pacific's carrier operations. Properly, the extension of lines is an element of consideration together with all others discussed above.

All circumstances considered, the consideration payable by Union Pacific, including incidental costs, to consummate the merger may be found fully supported and just and reasonable. For the same reasons, as a result of the transaction, the increase in Union Pacific's fixed charges would be consistent with the public interest and its guaranty and assumption of payment of dividends and of fixed charges would not be inconsistent with the public interest.

As already discussed in substantial detail (under Part F) the selling Rock Island stockholder may elect to take common stock of either Union Pacific or UPC. Also detailed, in the same Part F, is the financial data, balance sheet and income statements, later discussed for UPC. In discussing the

⁷⁸The Union Pacific Railroad is unique among transcontinental lines, in having thus far refrained from entrance into Chicago over its own rails. Most of the other competitors north and south have found it advantageous to operate their own trains from Lake Michigan to the Pacific coast. The control of the Illinois Central was originally acquired by the Union Pacific in 1906, directly and through the so-called Railroad Securities Company, in order to provide its own independent entrance to Chicago. But the complications with eastern connections which threatened, compelled subsequent treatment of the Illinois Central western lines on an equal footing with all competitors. The Union Pacific business at Council Bluffs is at present widely distributed.

evidence bearing upon such financial data, it was indicated, among other things, that UPC's financial worth is grounded entirely upon its equity interest in Union Pacific and that similarly based are UPC's earnings. Otherwise, the value of UPC stock standing alone is unsupported. In the supplemental application of UPC, by which it became an applicant in these proceedings, no pro forma financial data giving effect to the proposal was filed. However, under the circumstances above recited surrounding Union Pacific and which it is emphasized is on the basis of the record as presently constituted, it may properly be found that the stock exchange between UPC and the Rock Island stockholders is fair and equitable to both classes of shareholders and that the consideration payable by UPC is just and reasonable.

Again, in an abundance of caution, it is pointed out that the so-called "pooling of interest" between UPC and Union Pacific has not resulted in a merger of the two companies. The public interest, particularly the stockholder interests in the Rock Island, Union Pacific and UPC, and the duty and obligations of the Commission under the act, demand that up to the time of consummation of the authority herein granted, any changes in the corporate structure, financial and otherwise, and in the business activities, acquisitions or otherwise, of UPC be reported to the Commission in complete detail so that it can evaluate and determine the effects of such upon the immediately above made findings.

With respect to the securities application under section 20(a) Union Pacific's pro forma balance sheet gives effect to the issuance of securities necessary to consummate the merger transaction and without regard to the previously discussed alternative plan of UPC. On such a basis and predicted on the pro forma balance sheet, Union Pacific would have a total capitalization of \$852.7 million consisting of long-term debt of \$478 million, capital stock \$249.2 million and premiums and assessments \$125.5 million. Capitalizable assets would aggregate \$2,109.2 million and would include a reasonable amount of working capital \$186.8 million comprised of cash \$149.9 million, material and supplies \$35.2 million and prepayments \$1.7 million. For the purpose of capitalization, the amount allocated to working capital would not exceed the excess of current assets over current liabilities. Transportation property (net) would amount to \$1,922.4 million. Accordingly, capitalizable assets exceeded capitalization by \$1,256.5 million.

Contingent upon approval of Union Pacific's sections 5 and 20(a) applications is UPC's "Petition" (supplemental application) with respect to the securities it seeks to issue in connection with the previously described Union Pacific-Rock Island merger. The latest available balance sheet statement of record for UPC is as of September 30, 1969, and its only capitalizable asset of that date is represented by its investment in Union Pacific Railroad. As emphasized several times before, UPC's capital stock without regard to its investment in Union Pacific, has no value. As clearly indicated, UPC at the time of its incorporation had a capitalization of \$1,000 (100 shares of \$10 par value capital stock) exchanged for \$1,000 in cash. Incorporated for the purpose of establishing a holding company over Union Pacific, it was not until the two companies engaged in their exchange of capital stock that UPC's capital stock took on a color of value predicated upon the capitalizable assets of the Union Pacific. Again, and on the evidence here presented, UPC's investments are in railroad property, including property owned by the latter, and UPC's income is derived exclusively from railroad operations. All circumstances considered, it is the examiner's view that there should be taken into consideration for the purpose of UPC capitalization only such capitalizable assets of Union Pacific not necessary to support the carrier's own issued and outstanding securities, or, in other words, the excess of Union Pacific's capitalizable assets. At the same time a substantial surplus of Union Pacific should remain uncanceled as a support for its carrier credit and other purposes. See Securities Louisville & Nashville RR, 76 I.C.C. 718, 720.

On the above basis, following the merger transaction, UPC as of September 30, 1969, would have a capitalization of \$279.2 million consisting of total long-term debt \$68.1 million and capital stock \$211.1 million supported by aggregate capitalizable assets of \$1,256.5 million. Capitalizable assets would have exceeded capitalization by \$977.3 million.

Although the net result would have been the same following the merger transaction on the basis of giving effect to 100 percent exchange of Rock Island stock for UPC stock, UPC's capitalization would have been increased by \$146 million.

Table 144

UNION PACIFIC RAILROAD COMPANY (INCLUDING LEASED LINES)
 PRO FORMA CONDENSED BALANCE SHEET AS OF DECEMBER 31, 1967

Assets	Union Pacific	Rock Island	Adjustments and Eliminations Resulting From Merger Of Union Pacific & Rock Island	Pro Forma After Merger	Adjustments Resulting from Sale of Southern Segment of Rock Island	Pro Forma After Sale
Current Assets	\$ 246,005,982	\$ 41,301,582	\$(1) (809,972) (1) (15) (1) (760,564) (1) (370,331)	\$ 285,366,682	\$(4) 120,000,000 (4) (5,796,486) (5) (474,760)	\$ 399,095,436
Special Funds	2,189,202	1,704,349	--	3,893,551	--	3,893,551
Investments	126,355,645	20,608,382	(2) (29,275)	146,934,752	(4) (6,484,616)	140,450,136
Properties (Net)	1,671,571,393	408,856,812	--	2,080,428,205	(4) (155,700,381)	1,934,727,824
Other Assets and Deferred Charges	8,101,723	5,899,868	(1) (126)	14,001,465	--	14,001,465
TOTAL ASSETS	\$2,054,223,945	\$478,370,993	\$ (1,970,283)	\$2,530,624,655	\$ (48,456,243)	\$2,482,168,412
Liabilities and Shareholders' Equity						
Current Liabilities	\$ 123,430,626	\$ 46,978,452	\$(1) (809,972) (1) (7,278) (1) (72,876) (1) (1,050,756)	\$ 168,468,196	\$ --	\$ 168,468,196
Long-Term Debt Due Within One Year	21,089,815	5,201,977	--	26,291,792	--	26,291,792
Long-Term Debt Due After One Year	244,150,496	132,556,440	(2) 75,000,000	451,706,936	(4) 47,537,000 (47,537,000)	451,706,936
Reserves	35,936,200	5,160,593	--	41,096,793	--	41,096,793
Other Liabilities and Deferred Credits	10,011,005	3,573,206	(1) (126)	13,584,085	--	13,584,085
Capital Stock	299,340,831	146,058,050	(2) 24,817,969 (2) (146,058,050) (2) (75,000,000) (3) 121,210,806	249,158,800	--	249,158,800
Capital Surplus	9,432,009	--	--	130,642,815	--	130,642,815
Retained Income	1,310,832,963	138,842,275	--	1,449,675,238	(4) (47,981,483) (5) (474,760)	1,401,218,995
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,054,223,945	\$478,370,993	\$ (1,970,283)	\$2,530,624,655	\$ (48,456,243)	\$2,482,168,412

EXPLANATION OF ADJUSTMENTS:

- (1) To reflect intercompany adjustments and eliminations.
- (2) To eliminate intercompany investments, Union Pacific's investment in Rock Island stock - \$29,275; issuance of new Debentures \$75,000,000 and cancellation of 4 percent preferred stock; and to reflect the changes in the capital stock account as result of issuance of 2,919,761 shares of \$1.80 convertible preferred, assigned value \$8.50 per share - \$24,817,969 and elimination of Rock Island common capital stock, \$50 per share stated value, \$146,058,050.
- (3) To record the increase in capital surplus (paid-in surplus) as a result of the merger - \$121,210,806, or the difference between the stocks issued and cancelled and difference between cost and value of 1,400 shares of Rock Island stock now held by Union Pacific and cancelled after merger.
- (4)&(5) To reflect adjustments resulting from the sale of the southern segment of the Rock Island to Southern Pacific, i.e.: \$120,000,000 cash from sale, \$5,796,486 material and supplies under portion sold to Southern Pacific, and \$474,760 premium, less tax on retirement on long-term debt.

(7) The Construction & Abandonment Applications

In the foregoing discussion of the proposed merger transaction there was detailed the merits of the construction and abandonment applications. Such applications are unopposed and no State has made any representations in connection therewith. Should the predominant merger application be approved, it properly may be found that the construction and abandonment have been shown to be required by the present and future public convenience and necessity.

PART J - EVIDENCE IN SUPPORT OF SOUTHERN
PACIFIC PURCHASE OF SOUTHERN LINES OF
ROCK ISLAND

(1) In General

All of the pertinent facts surrounding Southern Pacific's proposed purchase of the Rock Island southern lines have been set forth at the "Preliminary Discussion" in Part F.

Southern Pacific emphasizes the railroads' present problem of intermodal competition, discussed in Part G, and the railroads' need for large capital improvements. As to Southern Pacific itself, since 1946, it has spent over \$2 billion for capital improvements, of which over \$736 million went exclusively for freight cars. Another large expenditure was for computer operations and improved communication facilities. Similar expenditures will continue and, perhaps, increase. Southern Pacific's considered view is that one method of dealing effectively with the situation is by the consolidation of railroads, which will result in more efficient operations, better service to the public and accompanying savings and economies.

Southern Pacific and Rock Island have been natural working partners for many years, as demonstrated by the two carriers' preferential solicitation agreement which applies to the Golden State route as well as portions of the Tucumcari-Memphis route and portions of the north-south route. Southern Pacific has had run-through power arrangements with Rock Island at Tucumcari since 1967, and some reciprocal arrangements for blocking traffic. In 1963, Southern Pacific and its subsidiary Cotton Belt interchanged 145,854 cars with Rock Island; whereas Santa Fe and its subsidiaries only interchanged 43,714 cars with Rock Island. Tucumcari is the largest interchange point between Southern Pacific and Rock Island (see pages 57 and 165) and is Rock Island's largest individual interchange along its Tucumcari-Kansas City or Tucumcari-Memphis lines. Since Rock Island's lines south of Kansas City form parts of important routes made up in part by Southern Pacific's existing operations, Southern Pacific asserts that it has the strongest incentive to work towards the preservation and improvement of Rock Island. Southern Pacific's reliance on Rock Island routes continued even during the period when Rock Island's marginal financial condition had worsened to the point of financial crisis and impaired its ability to keep its railroad plant in good condition.

Southern Pacific takes the stand that its dependence upon Rock Island's routes makes it imperative that it be given an opportunity to bring the Rock Island plant and equipment up to Southern Pacific standards. Southern Pacific's incentive to improve those routes will lead to providing the needed power, making available the number and type of freight cars needed by shippers, establishment of reliable schedules, providing modern communications and extending of Southern Pacific's Total Operations Processing System to the newly acquired lines.

The Rock Island southern lines sought by Southern Pacific basically relate to four principal segments: the line running southwesterly from Kansas City, through Herington, Kans., Tucumcari, N. Mex., to Santa Rosa, N. Mex., where it physically connects with Southern Pacific; second, the line running southerly from Herington, through El Reno, Okla., to Fort Worth, Dallas, Houston and Galveston connecting at various points between Ft. Worth-Dallas and Houston, inclusive with the Southern Pacific; third, the line running easterly from Tucumcari through El Reno and Little Rock, to Memphis connecting at Brinkley with the Cotton Belt; and fourth, the line running from Little Rock through Alexandria, La., to Eunice, La., where it physically connects with Southern Pacific. All connecting branch lines are shown on map B.

Currently, there are 19 Rock Island points which are served by Southern Pacific or Cotton Belt or both. They are as follows:

City and State

Arkansas

Brinkley*²
Camden²
Fordyce*²
Little Rock²
North Little Rock²
Shumaker*²
Stuttgart²

Louisiana

Alexandria¹
Eunice¹

Tennessee

Memphis²

Texas

Corsicana^{1,2}
Dallas^{1,2}
Ft. Worth^{1,2}
Galveston¹
Houston¹
Mexia*¹
Texas City¹
Waxahachie¹

New Mexico

Tucumcari*¹

* Population under 10,000
1 Served by Southern Pacific
2 Served by Cotton Belt

After Southern Pacific's acquisition of the southern portion of Rock Island, Brinkley, Fordyce, Shumaker and Stuttgart, Ark., and Tucumcari, N. Mex., will be served by only one rail system, while the remaining points will have service from one or more other carriers.

(2) Benefits To Be Derived: Plant, Equipment, Operations and Service

There are approximately 463 miles of single main track between Tucumcari and Herington, and approximately 82 miles of double-track railroad between Herington and St. Joseph Junction near Topeka, Kans. Rock Island operates over Union Pacific's double track between St. Joseph Junction and Kansas City, Kans., a distance of approximately 67 miles, and thence 2.5 miles over the Kansas City Terminal Railway to Kansas City, Mo.

The right of way in this territory is generally 100 feet wide and there are long stretches of tangent track and light curvature varying from $\frac{1}{2}$ degree to $1\frac{1}{2}$ degrees. With some exceptions, the grade is relatively light, varying from level to 0.8 percent except for short stretches of 1 percent grade near the Texas-New Mexico border.

The rail section in this territory includes 112-pound, 115-pound and 119-pound rail, most of which is conventional 39-foot rail joined with angle bars and four bolts. There are five stretches of 119-pound continuous welded rail totaling 80.19 miles. The entire line is fully tie plated and anchored with conventional rail anchors. The 8-foot 6-inch cross ties installed in this territory are oak, gum and pine, treated with wood preservative. The track is laid with approximately 22 cross ties per 39-foot rail. The ballast used is chatt. The bridges, trestles and culverts on this line, insofar as their ability to carry railroad traffic is concerned, are maintained for a Coopers "E" rating of E-60 or more which is adequate for present-day tonnages, speed and equipment. The entire line from Tucumcari to Kansas City has an automatic block signal system and is operated by train orders. Siding capacities generally are from 80 to 120 cars and are spaced four to eight miles apart.

Rock Island has a telephone communications system between Tucumcari and Kansas City as well as telegraphic and teletype service using carrier circuits.

There are flat switching yards located at Dalhart, Tex., and at Liberal, Pratt, Hutchinson, Herington and Topeka, Kans. The car capacity of these yards varies from 404 cars at Topeka to 1,780 cars at Pratt. At Kansas City, Kans., there is a retarder type classification yard which has 38 bowl tracks (classification tracks) and a capacity of 1,607 cars. In addition to the classification yard at Kansas City, there are supporting yard tracks including receiving and departure tracks.

In addition to the main line described above, there are certain branch lines on this segment proposed to be acquired by Southern Pacific. All the branch-line mileage is non-signal. Rail is second-hand relay ranging in weight from 65-pounds to a small amount of 100-pounds. Ballast sections are usually sand and dirt with some chatt, gravel and stone. Communications where provided are generally by telegraph.

There are four branch lines off of the Tucumcari-Kansas City main line. The Herington-Salina, Kans., branch line is 50-miles long and is laid with 85-pound rail on a cinder ballast. The permissible speed is 25 m.p.h. Rock Island also uses approximately 20 miles of Union Pacific trackage between Salina and Abilene, Kans.

The 27-mile long Bucklin to Dodge City, Kans., line has 80-pound rail laid on gravel, cinders and dirt ballast. It diverges from the main line at Bucklin.

The line between Liberal, Kans., and Amarillo, Tex., is 154-miles long. The rail is 85-pound and 89-pound (100-pound rerolled) on gravel ballast. There are long stretches of tangent track except in the vicinity of the Canadian River where the alignment is largely curves up to 10 degrees. The ruling grades are 3 percent westward and 2.25 percent eastward, and the permissible speed is 35 m.p.h.

The 47-mile long Morse Junction to Wilco, Tex., branch diverges from the Liberal-Amarillo line at Morse Junction. The rail is 80-pound, laid on caliche and gravel ballast, and the line has a permissible speed of 30 m.p.h. There is a telephone communications system from Morse Junction to Etter, Tex.

The Southern Pacific-Rock Island Golden State Route, with interchange at Tucumcari, is one of the three direct routes between Southern California and Kansas City. The Golden State Route is single track almost the entire distance,

while the Union Pacific and Santa Fe single-line routes are double track for the greater portion of the distance, and these three routes compete strenuously for traffic. The ability of the Golden State Route to remain competitive is dependent upon the ability of Southern Pacific and Rock Island to maintain that route for speeds required of competitive service. This points out the importance to Southern Pacific of a financially healthy Rock Island, standing alone, or controlled by a friendly carrier. More important to Southern Pacific, over the present two-line service with interchange at Tucumcari, are the benefits which will flow from Southern Pacific's single-line service if it acquires the Tucumcari-Kansas City line.

Southern Pacific asserts that, upon its acquisition of the Tucumcari-Kansas City line, traffic would move physically over that line as before. It would, however, move in single-line service, which will have supervision of train operations from the departure point to termination. The single-line carrier would be in a more favorable position to assure a desired schedule than if it has to continue to rely on the cooperation of a connecting carrier, which is under no obligation to make up lost time on traffic received from its connection. Southern Pacific's ability to "run off time" over the entire single-line route would allow it to make schedules more reliable and dependable for the shipper.

Southern Pacific anticipates that its single-line service will allow better pre-blocking arrangements. Presently, pre-blocking by Southern Pacific and Rock Island is only a recent innovation along the Golden State route and is still rather limited. Southern Pacific blocks for the Tucumcari-Memphis line; the Kansas points of Dalhart, Liberal and Herington; Kansas City; Silvis, Ill., and beyond; and the Burlington interchange at Kansas City on "MSE connection only". The Rock Island blocks are for El Paso; Tucson; "Block 3-Indio, including Northern California"; the Shop Yard; the City of Industry; and the Los Angeles Bull Ring. Acquisition of the Tucumcari-Kansas City line will allow Southern Pacific to expand its pre-blocking operation to insure more efficient service. Southern Pacific says that principal eastbound schedules would contain only Kansas City traffic blocked for major interchanges at that point. In all probability, Southern Pacific would also perform certain reciprocal blocking of traffic delivered at these connections such as blocking for points on a connecting line beyond Kansas City. On westbound traffic there would be blocking for setouts between terminals such as El Paso to Tucson and Tucson to Yuma, which Rock Island does not now do.

Another benefit to the shipping public anticipated by Southern Pacific is what the carrier calls "single-line responsibility" and encompasses car tracing, diversion of freight shipments and loss or damage claims. In recent years, shippers' traffic managers have become more conscious of inventory control, as well as warehousing costs and all other costs associated with marketing and distribution. Customers' traffic managers feel that it is absolutely necessary for a railroad to be able to trace the location of any car at any particular time. Southern Pacific's Total Operations Processing System, which was scheduled for completion in 1970, will make available at all times information on the current location of every freight car and locomotive on the railroad.

As was mentioned previously, Southern Pacific and Rock Island have successfully instituted a run-through operation of power; however, even with the close cooperation of the carriers, the agreement required a number of years of study by joint committees before mutually satisfactory and equitable terms could be reached. There were differences in the characteristics of power operated by the railroads and differences in the rules of operating power, which had previously precluded the arrangement. With both railroads operating separately as they are presently, Southern Pacific does not feel that the maximum benefits of this run-through have been realized. Rock Island is able to utilize Southern Pacific's power units over any segment of its lines, and, although the run-through is at Tucumcari, the units may be returned at any junction of the two carriers. Southern Pacific states that such an operation does utilize the maximum efficiency of the power run-through. Because of the type of power units Rock Island uses in the run-through operation and the type of power Southern Pacific requires west of El Paso, the Rock Island units can be used by Southern Pacific only as far as El Paso and then are returned to Tucumcari. If Southern Pacific is able to acquire Rock Island south, it will be able to run its units over the entire system and will be able to control these units, unlike the present operation where it has no control over them while they are on Rock Island tracks.

Southern Pacific states that lack of adequate power is a chronic problem with Rock Island. In several instances Rock Island did not have sufficient power to move empty refrigerator cars from Kansas City to Tucumcari, so they could, in turn, be moved west to the perishables loading area. On occasion, it was necessary for Southern Pacific to send power to Liberal, Kans., to move empty refrigerator cars west to the perishables loading areas. If Southern Pacific acquires the Rock Island's southern lines, it will

be able to make better utilization of diesel power, which will have a beneficial effect upon the performance of reliable and dependable schedules and result in improved car supply and top performance without economic waste.

One major problem confronting the entire rail industry is a shortage of cars. In the instant situation, it is not limited to the Tucumcari line but to the entire southern portion of Rock Island as well as present Southern Pacific lines. Improvement in car supply comes about not only from constantly expanding the car fleet of a particular railroad but also in the use of that fleet. Southern Pacific, if it were to acquire the southern portion of Rock Island, would have increased opportunities for two-way hauls and improved control of empty car movements so that empties might be more readily available for service when actually needed. For example, one situation which occurs is when both Southern Pacific and Rock Island have empty cars in an area available to pick up a particular load. This, obviously, does not allow full utilization of the effective car fleet of both carriers. One area where the effective utilization of car supply will be an improvement is in the previously-mentioned problem of refrigerated cars needed at the loading areas for perishables. Southern Pacific points out that the interest of Rock Island in using critically needed power to move empties west from Kansas City is not identical to that of Southern Pacific, which is directly faced with the problem of providing empty refrigerator equipment to the loading areas. If Southern Pacific reaches Kansas City with its own lines, the conflict will no longer exist.

Southern Pacific also mentions the "bad order ratio", ie; the portion of the car fleet unavailable due to mechanical defects compared to the total car fleet. Southern Pacific's bad order ratio is one of the lowest in the country, running under 2 percent in 1968. If Southern Pacific acquires the southern portion of Rock Island, it would reduce the Rock Island ratio.

Referring to the previously-mentioned capital expenditures of \$736 million since 1946, Southern Pacific points out that while its car fleet has increased only 28 percent, the carrying capacity has increased by 56 percent. In addition to this car fleet, Southern Pacific owns a one-half interest in Pacific Fruit Express, which furnishes refrigerators to Southern Pacific, Union Pacific, and certain other railroads. As of December 31, 1964, PFE operated 20,839 refrigerator cars, 1,009 mechanically refrigerated highway trailers and containers and 437 fleetcars for handling

perishable traffic. Upon Southern Pacific's acquisition of Rock Island's southern lines, this large car fleet will be available to shippers on these newly acquired lines on a single-line service basis. Also, through information provided by Southern Pacific's TOPS, utilization of this freight car fleet will be materially improved.

An important benefit Southern Pacific will receive from extension of its line to Kansas City is the increase of interchange carriers that it will have available. Presently, Southern Pacific has only one connection for traffic moving to points east of Kansas City; however, if it extends its line to Kansas City, it will be able to interchange traffic with Norfolk & Western, Santa Fe, Burlington, North Western, Gulf, Milwaukee and MoPac. Not only will Southern Pacific benefit from the new arrangement, but many of the Kansas City connections will also benefit.

Following the purchase, the Rock Island communication facilities would be integrated into those of Southern Pacific. The latter utilizes a microwave system of communication over a portion of its system. Between 1962 and the hearings, the carrier had spent over \$5 million on the microwave system and planned expenditures of \$2 million more.

The microwave system has several qualities which makes its use important to the carrier. It is almost 100 percent reliable as compared to reliability of ordinary carrier equipment of around 92 percent; the use of the microwave system leaves room for expansion of the communications system, and also allows an integration of various types of communications into one system rather than a multitude of systems. For example, the microwave is capable of handling CTC circuits, telephone communications, and various forms of data transmission, including data necessary for complex operation of the TOPS program. A third benefit of the microwave system is that as it is installed throughout the system, carrier equipment is released for use on other parts of the system not yet covered by microwave, and, thus, the entire communication system can be expanded even though microwave does not reach the entire system. Southern Pacific points out that no other railroad in these proceedings has offered evidence that it has such a communications advancement. When the Southern Pacific microwave system is extended to the newly-acquired lines, it will offer an improvement in day-to-day operations as well as long-range planning.

Following the elimination of interchange over the Tucumcari line, Southern Pacific would extend its interchange to the Rock Island's Armourdale Yard at Kansas City.

Southern Pacific would purchase the yard and sell to Union Pacific seven of the tracks adjoining the Union Pacific main tracks. Union Pacific would also require two tracks from the east end of this seven-track yard to its present connection with Rock Island near Second Street.

Plans for the use of the Armourdale yard would have Southern Pacific trains arriving from and departing to the west, with all other traffic, except Union Pacific interchange traffic, arriving from and departing to the east. The present arrival tracks and ice dock would be used and the trackage south of the Union Pacific new yard would be used as a departure yard. Under present operation and trackage arrangement, it is not possible to trim from the classification tracks directly to the departure yard, and it is proposed to rearrange the trimmer leads to eliminate the present inefficient and uneconomical operation.

The present interchange between Union Pacific and Rock Island is through the existing connection at the extreme east end of the yards and, in order to provide a more efficient interchange, it is proposed to receive traffic from Union Pacific on the most northerly Rock Island track adjacent to the main line just east of Kaw Junction. Southern Pacific would deliver Union Pacific interchange to 18th Street yard via Kaw Junction. If sufficient traffic moving through Kansas City is available, Southern Pacific and Union Pacific would interchange solid blocks of cars or entire trains on the main tracks, in effect, moving the present Tucumcari interchange to Kansas City and eliminating conventional interchange at Kansas City. It would also be possible to pool locomotives and cabooses for through operation at Kansas City.

At present the Armourdale yard is very congested, and Rock Island's interchange is rather slow. Under Southern Pacific's proposed use of the yard, the volume of traffic would be decreased, since the yard would only continue to receive eastbound trains from Topeka and interchange from connections. The balance of the Rock Island traffic presently received from the Trenton and St. Louis lines would arrive in the Union Pacific yard. Southern Pacific hopes that this revised use of the yard will allow more speed through the yard and more efficient use of the facilities there. In addition to these innovations at Kansas City, Southern Pacific will also install its Terminal Management Information System at the Armourdale yard. This measures terminal performance from the customer's point of view by time and from the railroads point of view by cost.

There are approximately 228 miles of single main track owned by Rock Island between Biddle (Little Rock), Ark., and Winnfield, La. Between Winnfield and Alexandria, Rock Island operates over Louisiana & Arkansas (KCS) trackage, a distance of approximately 47 miles. The right of way in this territory is generally 100 feet wide with long stretches of light to heavy curvature varying from 1 degree to 3 degrees. The grade is relatively light, varying from level to 0.8 percent except for two short stretches of 1 percent grade in Northern Louisiana.

The rail section in this territory includes 85-pound and 90-pound rail, most of which is conventional 39-foot rail joined with angle bars and four bolts. The entire line is fully tie plated and anchored with conventional rail anchors. The 8-foot 6-inch cross ties installed in this territory are oak, gum and pine, treated with wood preservative. The track is laid with approximately 22 cross ties per 30-foot rail. The ballast used is generally Butterfield stone and ore screenings. The bridges, trestles and culverts on this line are maintained for a Coopers "E" rating of E-50. The entire line is non-signal. Siding capacities generally are from 40 to 120 cars and are spaced five to ten miles apart. Rock Island has a telegraph communications system between Haskell, Ark., and Alexandria, and telegraph and telephone between Little Rock and Haskell.

There are flat switching yards located at Haskell, Fordyce, Tinsman and El Dorado, Ark., and Ruston, Hodge, Winnfield and Alexandria, La. The car capacity of these yards varies from 46 cars at Fordyce to 640 cars at El Dorado.

In addition to the main line described immediately above, there are branch lines diverging from this segment. As previously described, all branch-line mileage is non-signal and rail is second-hand relay ranging in weight from 65-pounds to a small amount of 100-pounds. Communications, where provided, are generally by telegraph. Ballast is usually sand and dirt with some chatt, gravel and stone.

There is a branch line of 44-miles from Tinsman to Crossett, Ark., diverging at Tinsman. The rail is 80-pound on gravel, Butterfield stone and screenings ballast. The permissible speed is 30 m.p.h.

The 27-mile long branch from Haskell to Hot Springs, Ark., has 85-pound and 90-pound rail, generally laid on Butterfield stone. There is heavy curve territory into Hot Springs, varying from 10-degree to 12 degree curves.

A branch from Butterfield to Camden, Ark., is 64 miles long. There are approximately 31 miles of 65-pound rail and approximately 29-miles of 85-pound rail. Rock Island operates 2.7 miles into Camden from Kent, Ark., over a Cotton Belt main line.

The Eunice to Alexandria branch is 57 miles long. Rock Island operates one mile over Southern Pacific trackage in reaching Eunice and uses 2.7 miles of Texas and Pacific trackage at Alexandria. The rail is 90-pound and rerolled 100-pound, mostly on gravel ballast.

Southern Pacific plans to use Rock Island's segment of line between Fordyce, Ark., and Alexandria for traffic moving between St. Louis and Memphis, on the one hand, and, points in Louisiana, on the other. Presently this traffic is interchanged at Alexandria between Southern Pacific and Rock Island and at Fordyce between Southern Pacific's subsidiary, Cotton Belt, and Rock Island. Traffic moving over this route would stop at Pine Bluff, Ark., where the modern, gravity-type switching yard would enable quick and efficient blocking of cars.

Under present Rock Island schedules, 14 hours are required to move the 196 miles between Fordyce and Alexandria. During a 10-day period in 1967, Southern Pacific, Rock Island and Cotton Belt operated through trains between Pine Bluff and Alexandria. That operation was not identical to the one proposed now by Southern Pacific and was more time-consuming, since trains were actually interchanged at Fordyce and Alexandria rather than run-through and the new connecting track proposed by Southern Pacific at Fordyce was not in service. Based on that operation, Southern Pacific proposes a 7-hour schedule for traffic moving over this segment of track.

Presently, Southern Pacific's route between Louisiana and Memphis or St. Louis is 310 miles longer than it would be using Rock Island's Fordyce-Alexandria segment. An example of the anticipated savings in Southern Pacific's transit time, if it utilizes the Alexandria-Fordyce line, is shown by an examination of traffic moving between St. Louis and New Orleans. Southbound traffic presently moves on a schedule of 53 hours and 31 minutes. Under Southern Pacific's proposed schedule, the transit time would be 29 hours and 31 minutes, which is a savings in transit time of 24 hours. Northbound traffic moves on a schedule of 49 hours and 45 minutes, compared to a proposed schedule of 33 hours and 15 minutes, for a savings in transit time of 16 hours and 30 minutes.

Southern Pacific's evidence indicates that around 40 cars per day of its traffic moving between Louisiana points and points north of Shreveport now moves via the circuitous Houston-Shreveport route, and, under Southern Pacific's proposal, these cars would move over the shorter Alexandria-Fordyce segment. This amounts to approximately 14,600 cars per year. Further, in 1967, 8,534 carloads were interchanged between Southern Pacific and Rock Island at Alexandria, and Southern Pacific proposes that a portion of this traffic would also move in this new single-line service.

Southern Pacific anticipates that the single-line service available over the Alexandria-Fordyce line generally will result in similar benefits as expected over the Tucumcari-Kansas City line, such as improved blocking, tracing of cars, utilization of power, utilization of empty cars, and more importantly, the complete elimination of the interchange at Alexandria. With respect to the utilization of power, elimination of the Alexandria interchange will eliminate the necessity for any layover of power and consequent loss of utilization. Also, the transfer of traffic from the circuitous Houston-Shreveport route to the Alexandria-Fordyce route will release space on the Houston trains for other tonnage, resulting in better utilization of diesel power.

Presently, there are five railroads with single-line or single-system service between Kansas City and the Houston-Galveston area - Rock Island, Santa Fe, MoPac, Katy and Burlington. Of these, of course, Burlington's route is very circuitous (see map A attached). Southern Pacific's participation in such north-south traffic ends north of the Dallas-Ft. Worth area, at Denison, Tex., except for traffic moving to St. Louis. If Southern Pacific acquires the southern portion of Rock Island, this will not increase the number of single-line systems but only substitute Southern Pacific for Rock Island.

Rock Island's schedule between Houston and Kansas City is the second fastest of the five carriers. Its southbound time of 26 hours and northbound time of 27 hours and 15 minutes is second only to Santa Fe's times of 22 hours southbound and 26 hours northbound. If Southern Pacific acquires this line, it expects to maintain or improve the schedules. The elimination of the interchange between Rock Island and Southern Pacific on traffic moving over the foregoing route is particularly important because of the substantial amount of time which will be saved. A large amount

of traffic is interchanged between the carriers at points between Ft. Worth and Galveston. In 1967, this amounted to 17,840 carloads. This traffic originates generally over the entire Southern Pacific system and is handled from the main-line terminal at Ennis, Tex., over the branch line between Ennis and Ft. Worth. After acquisition of the southern portion of Rock Island, all through traffic of the two carriers on this north-south route will be handled in through trains between Ft. Worth and Dallas, making direct main-line connections to various parts of the SP system.

There is presently a 10-hour delay from the time a car arrive in Ft. Worth for interchange from Rock Island to Southern Pacific until it reaches the Southern Pacific main line at Ennis, and, in the reverse direction, there is a 10-hour delay from the time a car for interchange to Rock Island at Ft. Worth departs from Ennis until it departs Ft. Worth on a Rock Island train. The operation of the through train between Ft. Worth and Dallas is expected to eliminate a major portion of this delay, thus enabling Southern Pacific to better compete with Santa Fe, which has the fastest service between Houston and Kansas City. The Ft. Worth branch would be used for solid trains of grain moving to Gulf ports and for the return of empty cars. Single-line service on this route, with the Armourdale yard at one end and the gravity-type switching yard at Houston on the other end, will allow system-wide blocking of trains. Also, as in the case of the other segments of line, single-line service will allow more efficient tracing of cars. Further, use by Rock Island of the lines of other carriers may become unnecessary.

There are approximately 473 miles of single main track between Herington, Kans., and Dallas, Tex., and 4 miles of double-track railroad which extends 1.8 miles east and 2.2 miles west of Ft. Worth, Tex. The right of way in this territory is generally 100 feet wide and there are long stretches of tangent track and light curvature varying from $\frac{1}{2}$ degree to 3 degrees. The grade is relatively light, varying from level to short stretches of 1 percent near Newark, Bridgeport and Ft. Worth, Tex.

The rail section in the above territory includes 112 pound, 115 pound and 119 pound rail, most of which is conventional 39-foot rail joined with angle bars and four bolts. There is one stretch of 119 pound continuous welded rail extending from south of El Reno to Rush Springs, Okla., totaling approximately 54 miles. The entire line is fully

tie plated and anchored with conventional rail anchors. The 8-foot, 6-inch cross ties installed in this territory are oak, gum and pine, treated with wood preservative. The track is laid with approximately 22 cross ties per 39-foot rail. The ballast used is principally chatt. The bridges, trestles and culverts on this line are maintained for a Coopers "E" rating of E-60 or more. There is CTC signaling between El Reno and Herington (except through Wichita, Kans.), and between Ft. Worth and Dallas. Between Ft. Worth and El Reno is automatic block signal territory. Siding capacities generally are from 80 to 150 cars and are spaced four to ten miles apart.

Rock Island has a telephone communication system between Herington and Dallas as well as telegraphic and teletype service using carrier circuits.

There are flat switching yards located at Enid, El Reno, Chickasha and Waurika, Okla., and Bridgeport, Ft. Worth and Dallas, Tex. The car capacity of these yards varies from 84 cars at Bridgeport to 2,328 cars at El Reno.

As detailed in Part B, Rock Island and Ft. Worth & Denver each has a one-half interest in railroad facilities (except for certain industry turnouts) between Waxahachie and Houston and each owns one half of terminal facilities at Galveston.

There are approximately 214 miles of single main track, Rock Island owned or jointly owned, between Dallas, Tex., and Galveston, Tex. Rock Island operates over the Katy between Waxahachie and Dallas, a distance of about 28 miles, over the Santa Fe between Houston and Galveston, a distance of approximately 51 miles, and over Houston Belt & Terminal trackage at Houston, a distance of about 12 miles.

The right of way in this territory is generally 100 feet wide and there are long stretches of tangent track with light curvature and grades, and the roadbed is similar in most other respects to the Herington-Dallas line described above. The entire Houston-Waxahachie line has an automatic block system and is operated by train orders. Sidings, four to ten miles apart, hold 60 to 125 cars.

Rock Island has a telephone communication system between Houston and Teague as well as telegraphic and teletype service using carrier circuits.

There is a flat switching yard located at Teague having a car capacity of 609 cars. At Houston all terminal services are performed by the Houston Belt & Terminal Railway Company, owned 12½ percent by Rock Island. At Galveston, Rock Island owns jointly with the FW&D a flat yard having a 560-car capacity. Terminal switching services at Galveston are now performed by Galveston Wharves Company for account of Rock Island.

The branch line from Teague to Mexia, Tex., is 14 miles long, with 75-pound rail laid on Scorie and ore tailings. The branch extends from the Waxahachie-Houston main line at Teague and crosses and connects with Southern Pacific at Mexia. This branch comprises a portion of the rail properties owned jointly with FW&D.

The Breckenridge to Bridgeport line is 92 miles long. The rail is 65 to 85 pounds on tailings and dirt ballast and is operated at speeds of 15 to 25 m.p.h.

The branch between Chickasha and Mangum, Okla., is 97 miles long. The rail is mostly 60-pound with some 80 to 100-pound rail laid mostly on rock screenings.

On the 24-mile long branch between Enid and Warren, Okla., Rock Island operates 3 miles out of Enid on Frisco trackage and Rock Island trackage beyond. The rail is 60-pound and 90-pound, laid on dirt ballast.

A 72-mile branch extends from Enid to Alva, Okla. Rock Island operates for 40 miles between Enid and Augusta over Frisco trackage. The Rock Island trackage is laid with 65-pound rail on dirt ballast.

The 55-mile branch between Enid and Ponca City, Okla., is laid with 80-pound rail on rock and screenings ballast and has a permissible speed of 35 m.p.h.

The 78-mile branch from Anadarko to Waurika, Okla., is laid generally with 80 and 85-pound rail, with some 89 and 100-pound rail. The rail is laid on rock screenings ballast, with a permissible speed of 30 m.p.h.

The Herington-Galveston line will be a very useful part in the more efficient utilization of power resulting from Southern Pacific's acquisition of the southern portion of Rock Island. From Kansas City, locomotives can be turned south to Houston via Ft. Worth and, at Houston, the power

could be operated out of the pool either east to New Orleans, west back to Los Angeles, south to Brownsville, or north to St. Louis or beyond on run-through trains operating through St. Louis.

In addition to the above-discussed improvement of car supply resulting from Southern Pacific's acquisition of the southern portion of Rock Island, there are two other factors peculiar to this particular situation. First, Santa Fe and Rock Island are both large haulers of grain from Kansas, Oklahoma and the Texas Panhandle to the Gulf ports, whereas Southern Pacific is not as large a participant in such traffic. Southern Pacific feels that its acquisition of the southern portion of Rock Island would, therefore, result in a more improved overall car supply available to the grain shippers than would Santa Fe's acquisition of that portion of Rock Island. Secondly, since the Herington-Galveston line bisects the Tucumcari-Memphis line, Southern Pacific will have the ability to divert empties, at El Reno, from the north-south route to the east-west route to anticipate loadings on that route.

There are approximately 867 miles of single main track between Tucumcari, N. Mex., and Memphis, Tenn., and approximately 7 miles of double-track railroad, 2.3 miles of which is between Little Rock and Biddle, and 4.4 miles through Oklahoma City, Okla.

The right of way in this territory is generally 100 feet wide. There are long stretches of tangent track with curvature varying from light to heavy along the Canadian River between Amarillo, Tex., and Sayre, Okla., and west of Little Rock. Curvature varies from 1 degree to 3 degrees. The grade is relatively light, varying from level to 1 percent.

The rail section in this territory includes 90-pound, 100-pound, 110-pound and 112-pound rail, most of which is conventional 39-foot rail joined with angle bars and four bolts. The entire line is fully tie plated and anchored with conventional rail anchors. Eight foot, six inch oak, gum and pine treated ties are laid 22 per 39-foot rail. The ballast used is principally stone between Memphis and El Reno, Okla., and chatt, cinder and gravel between El Reno and Tucumcari. The bridges, trestles and culverts on this line are adequate for present tonnages, speed and equipment. The entire line from Tucumcari to Memphis is non-signal between El Reno and Oklahoma City and between Perry, Ark., and Memphis, which is automatic block. Sidings, 8 - 15 miles apart, hold 50 to 120 cars.

Rock Island has a telephone communication system between Memphis and Amarillo, a teletype service between Tucumcari and Memphis and telegraph between Amarillo and Tucumcari, all of which utilize carrier circuits.

There are flat switching yards located at Amarillo, Tex.; Sayre, Clinton, Geary, Oklahoma City, Shawnee, Holdenville, Haywood, McAlester, Okla.; Booneville, Little Rock, Mesa, Brinkley and West Memphis, Ark.; and Memphis, Tenn. The car capacity of these yards varies from 21 cars at Clinton to 1,046 cars at Little Rock.

The 43-mile branch line from Geary to Homestead, Okla., is laid with 60, 65, and 90-pound rail.

The 21-mile branch line from Stuttgart to Mesa, Ark., diverges from the Little Rock-Memphis line at Mesa. It is generally laid with 90 and 100-pound rail on stone and screenings ballast and has a permissible speed of 30 m.p.h.

The 14-mile branch line from Mesa to Des Arc, Ark., diverges northward from the Little Rock-Memphis line at Mesa and is laid predominantly with 70-pound rail.

The Tucumcari-Memphis route is 168 miles shorter than the present Southern Pacific-Cotton Belt from St. Louis and Memphis to West Coast points: Southern Pacific, however, intends to use its present route (Cotton Belt to Corsicana, Tex., Southern Pacific via Hearne, Flatonia and San Antonio, Tex. - see map A, appended). The Rock Island segment would provide an alternative route between Brinkley, Ark., and El Paso, Tex., via El Reno, Okla. Generally, this route is satisfactory for the speeds and tonnage being carried; however, there are several locations of poor ballast and tie conditions. Southern Pacific feels that approximately 150 to 200 miles of the line need attention in terms of speed and tonnage carried at the time of the proceedings. Further, Southern Pacific states that, as long as this route is non-signal territory, the maximum allowable speed is 49 m.p.h. The Southern Pacific-Cotton Belt route is a high-speed, mainline railroad, much of which has centralized traffic control. It is estimated that it would cost over \$30 million to bring the Tucumcari-Memphis segment up to Southern Pacific's standards, and the carrier's president stated that such expenditures could not be justified in the foreseeable future. Under present conditions, Southern Pacific would be better off spending its money on the existing route.

The Tucumcari-Memphis route will, however, continue to carry traffic. Presently, Southern Pacific and Rock Island interchange around 15,000 carloads per year at Tucumcari for or from this segment of line. About 83 percent of this traffic originates or terminates at points west of Little Rock and will not be subject to diversion to the present main Southern Pacific route.

Southern Pacific feels the Tucumcari-Memphis line is an important segment of the southern portion of Rock Island. The line connects with Southern Pacific at Tucumcari, intersects the above-discussed Herington-Galveston line at El Reno, connects with Rock Island's north-south line between Louisiana and Arkansas and connects with Cotton Belt at Brinkley. Southern Pacific holds that the line is an important connecting link in its efficient utilization of the southern portion of Rock Island since it broadens the benefits of single-line service which Southern Pacific will extend to the newly acquired lines.

To emphasize the benefits to present Rock Island shippers of Southern Pacific's ownership of the southern Rock Island lines, Southern Pacific points out Rock Island's route from Dallas to Memphis is 759 miles while Southern Pacific's existing route is 483 miles, a savings to the shippers of 276 miles. Similarly, Rock Island's Dallas to St. Louis route is 922 miles, while Southern Pacific's is 737 miles, a savings of 185 miles.

Also, Southern Pacific feels a great responsibility to its West Coast shippers who are dependent on it. A large portion of the carrier's revenue comes from the long-distance movement of agricultural products and lumber from the West Coast to midwest and eastern markets. These shippers often must compete with other shippers who are located in closer proximity to the market, and they need transportation at the lowest possible cost. To assist them in this respect, Southern Pacific has cooperated in establishing and maintaining suitable rates. Further, these shippers are located in a widely scattered area along the Pacific Coast, and Southern Pacific must furnish equipment and other services to these vast areas. To continue to do this and allow these shippers to meet their competition and, also, to allow Southern Pacific to meet the ever-increasing motor carrier competition, as well as the competition from other railroads in the general area, it must have the advantage of all possible economies and efficiencies, such as those which will result from the consummation of the proposed transaction.

(3) Economies Through Consolidation

Southern Pacific also engaged Wyer, Dick & Co., to determine the probable improvement in net income of Southern Pacific which would result from acquisition of the southern segment of the Rock Island. The total improvement in net income would consist of earnings allocated to the southern segment plus the economies that would be achieved from more efficient use of the combined properties.

The economies were the subject of nine separate studies which were originally based on data for various dates or periods in the year 1964. Expenses were adjusted in the original report to reflect as nearly as possible, unit costs as of January 1, 1966 and subsequently updated to January 1, 1968 to reflect changes in conditions and increases in wages and materials. The improvement in Southern Pacific's net income (related to economies) before Federal income taxes at January 1, 1968 levels was estimated to be \$7,625,000.

The items covered in the nine studies and the savings estimated for each, based on the updated figures to January 1, 1968 are as follows:

Study 1 - Consolidation of Stations and Terminals

This study reviewed the operations at all points common to the involved lines (SP, SLSW and RI) and estimated the potential savings from acquisition as a result of serving each point with one unified operating organization.

Statements were prepared by Southern Pacific, Cotton Belt and Rock Island showing operating data at 15 points which upon acquisition would result in substantial savings. At Eunice, La., the operations are coordinated to the extent possible under separate operations. However, there were still a total of 15 common points which upon acquisition would result in substantial savings, namely, Memphis, Brinkley, Stuttgart, Little Rock, Fordyce, Camden, Alexandria, Dallas, Fort Worth, Waxahachie, Corsicana, Mexia, Houston, Galveston and Tucumcari. It is noted that Tucumcari was eliminated from the study because Rock Island and Southern Pacific have changed their operations since the original study was made and estimated savings have been realized.

Operating data furnished for each of the 15 points for the months of April and August, 1964, showed switching

operations by yard engines and road trains, and also covered passenger stations, freight stations, enginehouses, car repair tracks, car repair and miscellaneous operations. A complete statement of forces employed under existing operations and existing rates of pay was included and additional information such as time of arrival and departure of trains, cars handled and the work load at freight stations, enginehouses, repair tracks, etc., was provided.

Field parties equipped with the data inspected the operations and facilities at each common point. In all cases the field parties consisted of representatives of Wyer, Dick & Co. and local officers of the railroads serving each point. A field report was provided to the engineering departments who prepared estimates of salvage value, estimated cost of new construction, cost of relocating property and normalized maintenance of facilities proposed to be abandoned or constructed.

The total savings in expenses without considering the amount of capital required at the 15 common points are estimated at \$1,703,000 and the net cash cost of making the recommended property changes is estimated at \$834,000.

Study 2 - Elimination of Duplicate Lines or Routes

Certain Rock Island lines operated solely or jointly and routes operated under trackage rights would be parallel to existing Southern Pacific and Cotton Belt lines or would serve the same area or the same points as Southern Pacific and Cotton Belt. This study determined whether after acquisition any such lines could be abandoned, trackage rights over foreign lines eliminated, or joint operations discontinued and still permit the maintenance of good service at all important shipping and receiving points.

After acquisition, Southern Pacific proposes to abandon operations between Melvern-Kent, Haskell-Fordyce, Messa-Stuttgart and Lamourie-Easton (151.6 miles). Trackage rights would not be required between Houston-Galveston and Dallas-Houston (88.3 miles) and joint operations would be discontinued between Alexandria Jct.-Lamourie (66.6 miles). As a result of these abandonments and eliminations it was estimated that final savings would amount to \$1,580,000 and the total net cash realized from these abandonments and eliminations would be \$1,893,000.

Study 3 - Effect of Acquisition on Lines Retained

This study estimated the effect of acquisition on expenses and net cash required at locations on the remaining lines after abandonment of duplicate lines or routes set forth above in study 2, and estimated changes in volume of traffic and changes not included in other studies, specifically covering the following items:

(1) The Effect on Operating Costs at Terminals and Intermediate Points - Kansas City

Kansas City, now a terminal en route for Rock Island lines entering from Topeka, St. Louis and Trenton, would become, after acquisition of the southern segment, an eastern terminus for Southern Pacific. The volume of traffic handled in the Southern Pacific yard would be decreased and would continue to receive only eastbound trains from Topeka and interchange from connections. The balance of the Rock Island cars now received from the Trenton and St. Louis lines would arrive in the Union Pacific yard. Cars which presently move in through movement as between the two segments would require interchange; and in order to provide expedited service, new interchange arrangements would be necessary.

Under the terms of the contract between Southern Pacific and Union Pacific as outlined in section 1(e) it is recognized that Union Pacific may require some use of the present Rock Island yard. The proposed operation contemplates the sale of seven present Rock Island yard tracks adjoining the Union Pacific main tracks to Union Pacific, and two Rock Island tracks from the east end of the seven track yard to its present connection with Rock Island near 2nd Street. Southern Pacific road trains would arrive from and depart to the west. All other traffic except interchange to and from Union Pacific would arrive from and depart to the east. The present arrival tracks and ice dock would be used and the trackage south of the Union Pacific's new yard would be used as a departure yard. Under present operation and trackage arrangement, it is not possible to trim from the classification tracks directly to the departure yard and it is proposed to rearrange the trackage leads to eliminate the present inefficient and uneconomical operation.

The present interchange between Union Pacific and Rock Island is via the existing connection at the extreme east end of the two yards and in order to provide a more efficient interchange, it is proposed to receive traffic from Union Pacific on the most northerly Rock Island track adjacent to

the main line just east of Kaw Junction. Southern Pacific would deliver Union Pacific interchange to 18th Street yard via Kaw Junction. If sufficient traffic is available, Southern Pacific and Union Pacific would interchange straight trains on the main tracks similar to the arrangement Union Pacific has with North Western at Fremont, with the Burlington at Grand Island and with the Milwaukee Road at Council Bluffs. It would also be possible to pool diesel locomotives and cabooses for through operation at Kansas City.

(2) The Houston Tie Plant

The southern segment of Rock Island includes a tie and timber treating plant at North Little Rock which supplies material for both Rock Island and Missouri Pacific. Southern Pacific has a modern tie and timber treating plant at Houston, and after acquisition would discontinue use of the plant at North Little Rock. It is expected that the volume at the Houston plant would be increased by about 30 percent and would require additional equipment. However, the Southern Pacific would retain only 7 out of the 15 employees working at Rock Island's tie treatment plant and as a result of such reduction in personnel would realize substantial annual savings.

(3) Joint Facilities

The Rock Island has several large joint facility arrangements in the southern segment. All of the important changes were considered in studies 1 and 2 above, except for trackage rights over the L&A between Winfield and Alexandria and slight additional costs would be incurred by an increase in joint facility payments.

(4) Roadway Maintenance

Abandonment of the Rock Island line between Haskell and Fordyce would result in changes in maintenance costs on other lines in the Fordyce-Brinkley-Little Rock territory and would result in increased annual expenses.

(5) Diesels Released

Consideration was given to savings which would be realized on four diesel units to be released at Tucumcari. However, this savings was eliminated from the study when it was updated as of January 1, 1968.

The result of this study is reflected in annual savings of \$38,000 and a net cash requirement of \$156,000.

Study 4 - Utilization of Shorter or More Economical Routes

This study shows the through routes that Southern Pacific would use after acquisition of the southern segment of the Rock Island and the effect upon expenses of rerouting freight trains over such routes. An analysis was made of all available alternate routes taking into consideration mileage, number of tracks, track structure, signalling, ruling grades, speed restrictions, clearances, maintenance problems and abandonments proposed in study 2.

Acquisition of the southern segment of Rock Island would not affect any through freight routes west of El Paso. However, as already fully discussed in Section (2) immediately above as a result of the transaction, Southern Pacific would have available duplicate routes between (1) Brinkley and El Paso, (2) Fort Worth and Galveston and (3) Lafayette and Fordyce.

No estimated changes in expenses are shown in this study because savings generated from the duplicate routes between Brinkley and El Paso and Fort Worth and Galveston are included in Study 2 and estimated savings are shown in Study 7 for the Lafayette and Fordyce route.

Study 5 - Consolidation of General Offices, Departments and Divisions

This study analyzes the existing forces and functions of the various departments of Southern Pacific; determines a proposed organization which would be able to handle the additional work load resulting from acquisition of the southern segment of the Rock Island; and estimates the savings resulting from consolidation of work load and elimination of duplicate functions.

The work performed by Rock Island general office forces is of a system nature although in some cases certain employees perform work which can be exclusively assigned to either the northern or southern segments of the Rock Island. Therefore, it was necessary to allocate the expenses of the existing organization as between the northern segment, southern segment, and system (joint). Each department was analyzed on that basis and employees were classified as either exclusive north, exclusive south or joint. The related wages were then assigned

to either the north or the south segment and wages of joint employees were allocated on the basis of the percentage used in the Coverdale & Colpitts' report. The savings were estimated by determining the number of additional employees Southern Pacific would require and deducting the estimated wages of the additional employees from the allocated expenses.

Southern Pacific system headquarters would assumedly remain in San Francisco. However, a new divisional arrangement for operating the Southern Pacific after acquisition of the southern segment of the Rock Island would be required. The forces which Southern Pacific would require after acquisition was discussed and determined with the respective department head.

The estimated annual savings which is represented by salaries and wages, lower costs for fringe benefits, payroll taxes and expenses other than salaries and wages, updated to January 1, 1968, aggregated \$3,659,000.

Study 6 - Traffic

The change in gross revenues and the corresponding increases of expenses as they pertain to traffic studies do not come within the scope of economies as discussed herein.

Traffic studies of the carrier parties including Southern Pacific as they relate to the transaction proposed herein will be discussed separately and will not be computed as an item of savings.

Study 7 - Consolidation of Heavy Repair Facilities

The Southern Pacific purchase would include a portion of the existing Rock Island equipment. The allocation of equipment as between the two segments based upon the ownership as of October 1, 1964, was made in accordance with principles used by Coverdale & Colpitts.

The purpose of this study was to determine the locations which Southern Pacific would use for heavy repairs to diesel locomotives, freight cars and passenger cars and to estimate that savings resulting from consolidation of forces and facilities.

Southern Pacific has general shops at Sacramento, California; Houston, Texas; and Pine Bluff, Arkansas; and major diesel maintenance shops at Roseville and Los Angeles, California; San Antonio, Texas; and Pine Bluff, Arkansas.

The Rock Island diesel maintenance shops on the southern segment are located at Kansas City, Kansas; El Reno, Oklahoma and Little Rock, Arkansas. A small diesel maintenance shop is located at Fort Worth, Texas.

Rock Island general repairs now performed on the northern segment on units assigned to the southern segment would be transferred to Houston and Pine Bluff. Major maintenance for passenger units acquired would be performed at Los Angeles and for other units at San Antonio, Houston, Pine Bluff, Kansas City and El Reno. Little Rock and Fort Worth would be retained as smaller maintenance points.

Southern Pacific heavy freight car repair facilities are located at Sacramento, Los Angeles, Houston and Pine Bluff. Modern, one-spot car repair facilities are located at Eugene, Roseville, Los Angeles, San Antonio, Houston, Avondale, La., and Pine Bluff.

The largest Rock Island freight car repair shop is located at El Reno, and other program repair facilities are located at Kansas City and Little Rock. The system wheel and air brake shops are located at Kansas City.

After the acquisition, Southern Pacific would transfer program and heavy repairs now performed at existing Rock Island shops to Pine Bluff and Houston. Little Rock and El Reno would continue to have conventional repair tracks and the one-spot car repair facility at Kansas City would be retained. The wheel and air brake work now performed at Kansas City would be transferred to Houston.

With respect to passenger cars, the Southern Pacific general shop is located at Sacramento and running maintenance is performed at West Oakland and Los Angeles, California.

All Rock Island passenger car facilities are located on the northern segment.

The Southern Pacific would transfer all general repairs on the southern segment equipment to Sacramento and all running maintenance to Los Angeles.

Consolidation of heavy repair functions and facilities for diesel locomotives, freight cars and passenger cars as proposed would result in estimated annual savings, adjusted to January 1, 1968, of \$323,000.

Study No. 8 - Cost of Labor Protection

The purpose of this study was to estimate the cost of labor protection under conditions for the benefit of employees that might be described by the Commission in an order approving the proposed acquisition of the southern segment of the Rock Island by the Southern Pacific. For the purpose of this study it was assumed that the Commission would prescribe the conditions as set forth in Southern Railway Co.--Control--Central of Georgia Railway Co., 317 I.C.C. 557, 558 (1962) as clarified, on reconsideration, in 317 I.C.C. 729 (1963) and further clarified in a supplemental report and order in 320 I.C.C. 377 (1964) and report on remand in 331 I.C.C. 151 (1967) would provide the necessary protection for the employees who might be adversely affected as a result of the transaction.

The estimated cost of labor protection assumes that the above conditions would be applicable. Also, taken into account are provisions of the Washington Agreement and the February 1965 Mediation Agreement where these agreements would provide greater benefits to employees.

The components of these conditions include: displacement allowances for persons placed in a worse position; dismissal allowances for persons placed in a worse position; dismissal allowances for persons deprived of employment; separation allowances payable in lump sum settlements; money allowances payable to affected employees who accept employment at other locations; and allowances for losses incurred by employees obliged to sell their homes and move to other locations.

In addition to its liability under the conditions described above, Southern Pacific under the agreement it has with the Union Pacific dated March 17, 1965, has a contractual obligation to pay 45 percent of the cost of labor protection borne by the merged company in respect of joint employees whose work is not directly assignable to either segment. The updated total cost to Southern Pacific is estimated at \$1,329,000 and 5 percent interest on this amount or \$66,000 is included as a continuing deduction in net income. At the same time and as previously noted in connection with the late filed agreement entered into between Union Pacific and various labor organizations, the costs of such labor protection is not of record. Of course, it follows that the described share to be borne by Southern Pacific is not determinable and its final estimate is not fully reliable.

Study No. 9 - Insurance

Coverdale & Colpitts allocated the cost of insurance as between the two segments and based upon that allocation, 42 percent of the premiums were assigned to the southern segment. It is estimated that by combining the coverage allocated to the southern segment under the Southern Pacific policy, the total annual savings would be \$58,292.

The following is a summary of estimated improvement in net income and net cash requirements:

TABLE 145

SUMMARY OF ESTIMATED IMPROVEMENT IN NET INCOME AND
NET CASH REQUIREMENTS ADJUSTED TO JANUARY 1, 1968 LEVELS

<u>Study No.</u>	<u>Final Savings</u>	<u>Final Net Cash</u>
1. Consolidation of stations and terminals	\$1,703,000	\$ 834,000-L
2. Elimination of duplicate lines	1,580,000	1,893,000-G
3. Effect of merger on lines retained	38,000	165,000-L
4. Utilization of shorter or more economical joint routes	-	-
5. Consolidation of general offices, districts and divisions	3,659,000	-
6. Traffic studies*	-	-
7. Consolidation of heavy repair facilities	323,000	-
8. Cost of labor protection	(66,000)	1,329,000-L
9. Insurance	58,000	-
Total	<u>\$7,625,000</u>	<u>\$ 435,000-L</u>

G - Realized L - Required () - Loss

*See discussion in Study No. 6, in the foregoing portion of this section.

Southern Pacific has noted in its brief that common to studies 1, 2, 3 and 7 is the fact that estimated annual savings and estimated net cash required or realized to carry out these savings will not be realized in the first year after acquisition of the southern segment of the Rock Island. It is expected that almost all of the estimated improvements in net income would be realized by the end of the fifth year and would continue thereafter.

(4) Reasonableness of the Proposed Transaction

The terms and conditions of the purchase agreement between Southern Pacific and Union Pacific for acquisition of the southern segment of the Rock Island, dated March 17, 1965, has been described in detail in Part F of this report.

The Coverdale & Colpitts report previously detailed shows that the estimated original cost of the assets of Rock Island which will be acquired by Southern Pacific was \$305,128,712 at December 31, 1961, or 38.70 percent of the total, and that the estimated original cost less depreciation was \$204,888,074, or 38.80 percent of the total. The price which Southern Pacific agreed to pay for such assets is approximately 59 percent of the estimated original cost less depreciation.

As of September 30, 1965, Rock Island had \$29,335,913 of current assets other than material and supplies, all of which would be retained by Union Pacific. After deducting these assets, the aggregate cost of the Rock Island properties in which Southern Pacific will share is \$291,616,233. Using the percentages developed by Coverdale & Colpitts, upon the basis of original cost less depreciation of the Rock Island properties, the proportion of the aggregate consideration attributable to the Southern Pacific part is \$113 million. However, the foregoing calculation does not take into consideration the calculation of earnings which was made by Coverdale & Colpitts. These calculations attribute 66.33 percent of income available for fixed charges before Federal income taxes to the Southern Pacific part. With respect to this situation, it is noted that the earnings calculation attributes more value to the southern part of the Rock Island, than do the estimates of original cost ratios. Under these circumstances the examiner finds that a \$7 million higher price than the \$113 million cited above for the properties of the southern segment of the Rock Island would be justified.

The record shows that the Southern Pacific expects to realize a total improvement in net income before Federal

income taxes of \$14,517,000, at January 1, 1968 levels. This consists of earnings allocated to the southern segment of \$6,892,000 plus the above anticipated attainable economies of \$7,625,000.

Further, the purchase price has been shown to be consistent with the guidelines furnished by Coverdale & Colpitts and accepted by all party applicants and was agreed upon after extensive arm's-length negotiations. All factors considered, it may properly be found that the purchase price is fair and reasonable and Southern Pacific should recoup its investment within a reasonable period of time.

As seen, the purchase price is to be paid in cash. Southern Pacific had on hand as of November 30, 1965, cash and temporary cash investments (including United States Government obligations carried as investments) amounting to \$195,400,000, or \$75,400,000 in excess of the proposed purchase price. It also has authenticated and nominally issued approximately \$240,000,000, principal amount, of mortgage bonds which have been created from time to time pursuant to the terms of its several indentures. Subject to authority of the Commission, these bonds may be issued and sold to the public and could provide the means of reimbursing itself in whole or in part for its expenditure for the Rock Island property.⁷⁹

There will be no increase in total fixed charges resulting from the transaction. The guarantee or assumption of payment of dividends or fixed charges contemplated in the transaction is limited to the already described assumption of guarantees of certain terminal company bonds guaranteed by Rock Island, which assumption the examiner finds will be consistent with the public interest.

(5) Financial Data

Table 146 following, represents the pro forma balance sheet statement in columnar form giving effect to the purchase of the southern segment of the Rock Island by the Southern Pacific as of December 31, 1967. It shows that had the

⁷⁹ The securities are described in detail in Southern Pacific Annual Report Form A for the year 1970 at pages 234 and 235, and embraces certain authority granted by the Commission in Finance Dockets Nos. 15029, 15271, 18613, 18693, 19150, 19460, 20349, 20782, 22237 and 23299.

transaction been consummated as of December 31, 1967, current liabilities would have exceeded current assets, resulting in a working capital deficit of some \$76.7 million. However, Southern Pacific points out that this will be a temporary condition, considering that to reimburse its treasury it has more than \$40 million in short term government securities included in its "other investments" account and it intends to realize from the sale of the above discussed nominally issued bonds held in its treasury, some \$90 million.

All factors considered, it does not appear that Southern Pacific's historically sound financial posture will be jeopardized in consummating the purchase transaction. However, nothing herein contained shall be construed as authorizing the issuance of securities by Southern Pacific which require the prior approval of the Commission pursuant to an application filed under section 20a of the act.

TABLE 1b6

SOUTHERN PACIFIC

PRO FORMA GENERAL BALANCE SHEET STATEMENT AS OF DECEMBER 31, 1967
 GIVING EFFECT TO PURCHASE OF SOUTHERN SEGMENT OF THE PROPERTIES OF ROCK ISLAND

ASSETS	Southern Pacific Company	Adjustments	Total
Current Assets			
Cash.....	\$ 366,762		\$ 366,762
Temporary cash investments.....	122,394,173	\$ (120,000,000)(1)	2,394,173
Special deposits.....	118,493		118,493
Loans and notes receivable.....	204,404		204,404
Traffic and car-service balances—Dr.	1,943,508		1,943,508
Net balance receivable from agents and conductors.....	28,039,999		28,039,999
Miscellaneous accounts receivable.....	26,813,173		26,813,173
Interest and dividends receivable.....	2,012,197		2,012,197
Accrued accounts receivable.....	25,020,931		25,020,931
Working fund advances.....	81,384		81,384
Prepayments.....	507,576		507,576
Material and supplies.....	15,027,315	5,796,486(2)	20,823,801
Other current assets.....	960,040		960,040
Total current assets.....	<u>223,519,955</u>	<u>(114,203,514)</u>	<u>109,316,441</u>
Special Funds			
Sinking funds.....	3,124		3,124
Capital and other reserve funds.....	939,673		939,673
Insurance and other funds.....	547,547		547,547
Total special funds.....	<u>1,490,344</u>		<u>1,490,344</u>
Investments			
Investments in affiliated companies.....	189,547,429	6,484,614(2)	196,032,043
Other investments.....	45,393,050		45,393,050
Reserve for adjustment of investment in securities—Cr.	(52,717,103)		(52,717,103)
Total investments.....	<u>182,223,376</u>	<u>6,484,614</u>	<u>188,707,990</u>
Properties			
Road and equipment property.....	2,467,519,938	103,706,376(2)	2,571,226,314
Improvements on leased property.....	758,334		758,334
Accrued depreciation—Road and equipment.....	(541,063,968)		(541,063,968)
Amortization of defense projects—Road and equipment.....	(25,257,974)		(25,257,974)
Miscellaneous physical property.....	136,716,323	3,976,673(2)	140,692,996
Accrued depreciation—Miscellaneous physical property.....	(9,806,218)		(9,806,218)
Total properties less recorded depreciation and amortization.....	<u>2,028,866,435</u>	<u>107,683,049</u>	<u>2,136,549,484</u>
Other Assets and Deferred Charges			
Other assets.....	2,219,868		2,219,868
Unamortized discount on long term debt.....	3,677,518		3,677,518
Other deferred charges.....	7,443,835		7,443,835
Total other assets and deferred charges.....	<u>13,341,221</u>		<u>13,341,221</u>
TOTAL ASSETS.....	<u>\$2,449,441,331</u>	<u>\$ (35,851)</u>	<u>\$2,449,405,480</u>

EXPLANATION OF ADJUSTMENTS

- (1) To record payment of purchase price.
 (2) To record estimated book value of material and supplies included in the purchase.
 (2) to record estimated book value of Rock Island's interest in railroad, bridge and terminal companies.
 (2) to record amounts allocated to property accounts.

TABLE 146 - Continued

SOUTHERN PACIFIC
PRO FORMA GENERAL BALANCE SHEET STATEMENT AS OF DECEMBER 31, 1967
GIVING EFFECT TO PURCHASE OF SOUTHERN SEGMENT OF THE PROPERTIES OF ROCK ISLAND

LIABILITIES AND SHAREHOLDERS' EQUITY	Southern Pacific Company	Adjustments	Total
Current Liabilities			
Audited accounts and wages payable.....	\$ 19,433,168		\$ 19,433,168
Miscellaneous accounts payable.....	39,096,842		39,096,842
Interest matured unpaid.....	2,814,908		2,814,908
Dividends matured unpaid.....	805,350		805,350
Unmatured interest accrued.....	7,121,190		7,121,190
Accrued accounts payable.....	77,756,272		77,756,272
Federal income taxes accrued.....	20,965,391		20,965,391
Other taxes accrued.....	10,261,873		10,261,873
Other current liabilities.....	7,783,493		7,783,493
Total current liabilities.....	<u>186,038,487</u>		<u>186,038,487</u>
Long-Term Debt Due Within One Year			
Equipment obligations and other debt due within one year....	<u>45,704,211</u>		<u>45,704,211</u>
Long-Term Debt			
Funded debt unmatured.....	368,426,830		368,426,830
Equipment obligations.....	333,879,711		333,879,711
Amounts payable to affiliated companies—			
(c) Open Accounts.....	28,272,594	\$ (35,851) ⁽³⁾	28,236,743
Total long-term debt.....	<u>730,579,135</u>	<u>(35,851)</u>	<u>730,543,284</u>
Reserves			
Casualty and other reserves.....	10,234,715		10,234,715
Total reserves.....	<u>10,234,715</u>		<u>10,234,715</u>
Other Liabilities and Deferred Credits			
Other liabilities.....	9,639,144		9,639,144
Unamortized premium on long-term debt.....	98,483		98,483
Other deferred credits.....	9,421,662		9,421,662
Accrued depreciation—Leased property.....	169,243		169,243
Total other liabilities and deferred credits....	<u>19,328,532</u>		<u>19,328,532</u>
Shareholders' Equity			
Capital stock issued.....	424,875,041		424,875,041
Discount on capital stock.....	-		-
Paid in surplus.....	-		-
Other capital surplus.....	-		-
Retained income—Unappropriated.....	1,032,681,210		1,032,681,210
Total shareholders' equity.....	<u>1,457,556,251</u>		<u>1,457,556,251</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	<u>\$2,449,441,331</u>	<u>\$ (35,851)</u>	<u>\$2,449,405,480</u>

(3) Represents cost of Rock Island Motor Transit Company's operating rights charged to the account of Southern Pacific's affiliated motor carrier company, The Southern Pacific Transport Company.

(6) Supporting Evidence of Shippers and Public Witnesses

Some 17 shipper and public witnesses presented evidence in support of Southern Pacific's proposed purchase of the southern portion of Rock Island. Broadly summarized, the supporting witnesses find Southern Pacific's service superior to that of Rock Island in all respects. More specifically, groups of shippers who deal in perishable commodities, or who must maintain low inventories, or have customers that do so, are confident that the elimination of present SP-Rock Island interchanges, principally at Tucumcari, will result in a speedier and more dependable service, which is a necessary factor for them to remain competitive. The elimination of interchanges will also reduce damage connected with the interchange of traffic.

Car supply is a very critical problem with the shippers and Southern Pacific has been better able to fulfill the shippers' needs than has Rock Island. The shippers believe that the Southern Pacific purchase would improve the situation since Southern Pacific will gain a portion of Rock Island's fleet and will have more control of empties on its extended lines. The witnesses are also aware of Southern Pacific's financial resources and its history of purchasing necessary new equipment and feel that these resources will be used to upgrade Rock Island's present plant and equipment.

The witnesses find that Southern Pacific's car tracing service is superior to that of Rock Island and this is an important benefit to them which will flow from the proposed acquisition. Other service benefits anticipated are easier claims settlement and less difficulty in rate negotiation with one carrier eliminated from the routing; it is expected that with an extended line, Southern Pacific will be better able to make up lost time over the former Rock Island line than Rock Island is able to do; and several witnesses also favored the new competition of a strong, single-line carrier in the grain growing area of Western Texas, Oklahoma and Kansas.

The individual evidence of the witnesses follows.

A manufacturer of fertilizer and of animal and poultry feed has its plant in Nacogdoches, Tex., local to the Southern Pacific. It has approximately 6,500 cars moving inbound or outbound annually from its plant, of which about 2,000 cars originate or are interchanged at Kansas City. The shipper supports the Southern Pacific single-line services which would result under the proposed purchase from Kansas City and points in the Texas Panhandle and in Oklahoma. It anticipates a number of necessary improvements as a result of such single-line, Southern Pacific services. For example, it has not been

able to work out milling-in-transit arrangements with the Rock Island from and to Rock Island destinations with milling at Nacogdoches. However, based on past experience with the Southern Pacific, the shipper is confident that following the proposed acquisition such arrangements can be worked out. The shipper presently finds it is very often difficult to secure concurrences between multiple line carriers in matters of rates and routing because each carrier is attempting to protect its own interest, particularly in securing the long haul. As Southern Pacific does not reach the midwest, it must depend upon the cooperation of other carriers. It would be of distinct advantage to the shipper to have a single-line, Southern Pacific operation to and from such important points as Amarillo, Oklahoma City, and Kansas City.

Speed and reliability of service is very important to the shipper and its customers in the area of inventory control. A reliable service permits the shipper to maintain an inventory to assure continuous operations, without having to tie up capital in excess inventory and customer satisfaction is assured. Speed in service permits the shipper to maintain unusually low inventories when it anticipates price improvements or when customers have a need for immediate deliveries. Under the present multiple line movements from Kansas City to Nacogdoches via the combination of MoPac, KO&G, Texas & Pacific system with interchanges at Fort Worth or Dallas, delays in interchange run from one to five days and similar delays occur via Kansas City Southern through the Shreveport gateway. The shipper is confident that Southern Pacific will provide a reliable and speedy service under the unified rights and in particular should be well able to eliminate the various delays which presently are incident to interchange operations.

On certain traffic moving from Kansas City to Nacogdoches the shipper uses both Katy and Frisco. Following the proposed transaction, it is not the intention of the shipper on such movements to utilize Southern Pacific alone and cut the Frisco and Katy out of its routings.

A sugar refiner at Supreme, La., is served exclusively by Southern Pacific. The shipper is herein primarily interested in that portion of its traffic, some 15 percent or just about 300 cars annually, which is shipped through the St. Louis gateway to destinations in Illinois, Michigan, Indiana, and Ohio. Its present rail services place it at a competitive disadvantage with respect to two groups of competing sugar refineries, the first group being in the same general vicinity as the shipper.

The shipper, located on the Southern Pacific line, must depend on that carrier and its connecting lines for shipment to St. Louis. Present routings are either by the circuitous Southern Pacific-Cotton Belt combination through Houston and Shreveport, or Southern Pacific-Rock Island and connecting carrier route. The latter, a three line service, has accompanying delays and increased risk of damage from an additional interchange. Under the Southern Pacific purchase, it would control the entire route from the refinery, the only interchange being with Cotton Belt, and Southern Pacific, under its proposed schedules, would reduce delivery time by 16 hours. Southern Pacific's unified operations would also create the opportunity for service improvement in the area of consistent schedule performance.

The second group of competitors, located east of the Mississippi River, by using Illinois Central single-line service to St. Louis and points in a large portion of the midwest are receiving considerably faster service than is available on the west side. The shipper is confident that following the proposed unification, it will receive from the Southern Pacific an improved single-line service competitive with that rendered on the east side of the river. The shipper can ship SP-IC via New Orleans to St. Louis. However, its special equipment requirements are met by the Southern Pacific and consistent with the customary practice, the Southern Pacific, as the carrier making the investment in, and furnishing of the special equipment, is afforded its longest haul.

A producer of potash and related products at Trona, Calif., moves its traffic from the plant over a private line to connection with the Southern Pacific. A substantial portion of its traffic moves transcontinentally, with "more than a nominal amount" traveling across that portion of the Rock Island sought to be acquired by Southern Pacific. In 1965, approximately 1,000 carloads were shipped over Rock Island lines, most of which moved over the Tucumcari-Kansas City line in conjunction with Southern Pacific. Of the total number of such cars, around 100 were terminated at Kansas City with remainder to destinations beyond. The shipper allocates traffic on a monthly carload basis, favoring the origin carrier for the longest possible haul.

Some of the products shipped have a low cost in relation to their volume and weight, so that a sale over a substantial distance results in the transportation cost exceeding the cost at the point of manufacture. Also, about 90 percent of the shipments are in bulk, requiring specialized equipment in the form of hopper cars. The shipper presently leases more than 400 hopper cars at all times to be able to satisfy its shipping

requirements. These leased hoppers take care of about 75 percent of the shipper's need, and Southern Pacific furnishes hoppers for the remaining traffic. Southern Pacific also furnishes the shipper with DF and DFB cars.

A very critical factor to the shipper's success of operations is that it obtain efficient service and dependable schedules so that it may minimize its inventory. In such connection, due to the nature of its business and the long distance from eastern consumers, the shipper is required to lease tracks close to eastern consumer points for storage of loaded cars, and, thus, it can offer competitively fast delivery. At the same time, it would be more economical to the shipper if it were able to ship directly to the eastern buyers' market and eliminate the use of storage tracks. Under such circumstances the shipper would be able to save track leasing costs and stop-in-transit charges, and increase leased car utilization.

The shipper has had extensive experience with the operations of Southern Pacific. Presently the shipper utilizes Southern Pacific's single-line service to New Orleans and Southern Pacific-Cotton Belt to Memphis and St. Louis and finds both satisfactory. It feels that if Southern Pacific were allowed to extend its line from Tucumcari to Kansas City, a more consistent and dependable schedule would be provided since the Tucumcari interchange would be eliminated and Southern Pacific would have more flexibility in meeting its schedule requirements to Kansas City thus enabling the shipper to pinpoint delivery dates.

A car-lot distributor of produce, with operations in Detroit, receives between 300 and 400 carloads per year in which SP participates. Generally, these shipments originate in Southern California, Arizona and Mexico. The distributor is served by the N&W subsidiary, Union Belt of Detroit, which delivers cars after either a routing of SP-Rock Island-N&W, via Kansas City or SP-Cotton Belt-N&W via St. Louis. The distributor avoids a Chicago routing because, 90 percent of the time, a day is lost. Although perishables move on a guaranteed schedule, wherein the railroad makes up the difference in market price on late deliveries, this is not an adequate substitute for timely delivery. In such a situation, customers will go elsewhere, the distributor cannot efficiently use its storage facilities and the arriving produce has less shelf life than anticipated.

The distributor's suppliers obtain PFE equipment from SP, as well as UP; however, the primary reason for routing

SP is not the furnishing of special equipment, but the fact that the tracing service is reliable.

The distributor in the past had preferred the Kansas City routing over that through St. Louis because the service had been better. It then began to experience delays on cars arriving at Kansas City, which, it discovered, using the PFE tracing reports, occurred on the Rock Island segment of the route. Since that time, almost all of the shipments have been routed SP-Cotton Belt-N&W via St. Louis.

The distributor would prefer seeing the Rock Island portion of the Kansas City routing eliminated, feeling that the service would be more reliable without that intermediate carrier. Elimination of the interchange and SP's capacity to make up lost time over a longer haul should appreciably improve service.

A manufacturer of newsprint with offices located at Lufkin, Tex., and a plant at Hertz, Tex., ships between 500 and 600 cars per month. A new plant, scheduled to open in 1967 at Sheldon, Tex., also on an SP line, would provide between 700 and 800 cars per month.

The shipper requires special, damage-free equipment and maintains an equipment pool of about 140 cars. SP provides 65 of these, Cotton Belt has 45, and Santa Fe has 25, with the others provided by Burlington and KCS. Most of the other southwestern railroads have shown no interest in the shipper's equipment needs.

Almost all of its shipments are bound for newspapers in the Southwestern States and as far north as Liberal, Kans., on the Tucumcari line of Rock Island. Although most of its rail shipments are to points in Texas, the shipper has some rail traffic moving to points in Oklahoma mostly via Rock Island and Santa Fe and to the Texas Panhandle via FW&D, all in conjunction with SP. The shipper allocates its traffic among carriers depending upon its equipment needs and customer location. It intends to continue that practice as much as possible.

Recently, the shipper has had to use more motor carrier transportation into the Texas Panhandle, Oklahoma and Arkansas, where it cannot establish a TOFC rate. Thus far, only SP has established such rates. If SP acquires Rock Island south, the shipper hopes that TOFC rates will similarly be established to Rock Island points, and it will be able to increase its rail traffic.

Many of the small newspapers served have limited storage and thus need regular and timely deliveries. The shipper also mentions a desire to keep its own inventories at a minimum level. Therefore, it is in favor of the single-line service that would be available if SP acquired Rock Island, and services such as rate negotiations, car tracing and extra service requests, would be improved.

A manager of two grain elevators -- one served by Rock Island at Stratford, Tex., and the other served by Santa Fe at Lautz, Tex., -- also represented nine other grain elevators located in Texas and Oklahoma. One of the nine other elevators is also located at Stratford and is served by Santa Fe. Five elevators are served by Rock Island and, along with the witness' are on the Tucumcari line. The remaining three elevators are served primarily by Katy and also by the Rock Island's Tucumcari line. SP does not serve any of the elevators, although Rock Island does interchange with SP for California destinations. The elevators ordinarily rely on the railroad serving them for the car supply; however, the witness states that Rock Island is not always able to furnish necessary cars.

The total capacity of these elevators is 7 million bushels, with 4 million bushels attributable to the six elevators served by Rock Island. Inbound traffic is trucked in, but 95 percent of the outbound traffic moves via rail, since a larger volume can be more easily handled and also because transit can be obtained by rail and not by motor carrier. Over 2,500 boxcars a year are routed to California and the Texas Gulf ports, of which 800 to 900 move to the latter points. None of the grain moves toward Kansas City.

The shipper believes that SP's acquisition of Rock Island south could bring SP's strong financial capacity to the job of improving equipment supply and upgrading Rock Island facilities. SP's single-line service would offer the benefits of dealing with one carrier in rate negotiation and damage claims, although the witness acknowledges that there is presently no problem in dealing with SP and Rock Island on damage claims.

The buyers of the grain route the traffic and are primarily interested in fast delivery. If a buyer desiring single-line service cannot get it through one elevator, it will turn to an elevator served by a single-line carrier to its destination. When buyers require single-line service, the shipper must ship via Santa Fe, which offers such service.

Another benefit foreseen in SP's proposed single-line service is stronger competition between Santa Fe and SP, because, for example, the competition now existing between Santa Fe and Rock Island at Stratford is beneficial to the elevators there in the supplying of equipment, which is of great importance to grain elevators. Although Santa Fe presently provides excellent service, the presence of strong competition from SP in the Texas Panhandle would make Santa Fe try harder and ultimately benefit the grain elevators.

A feed manufacturer and dealer, with one of its two facilities located in Mesa, Ariz., testified as to its own operations in Mesa and was authorized to speak for a grain and feed association, comprised of 160 associate members. The traffic with which the shippers are concerned consists of inbound bulk shipments, mostly milo grain, 80 percent of which moved via rail carrier and the remainder by motor carrier. Over 60 percent of this milo is received from Texas, with a large portion originating in the Texas Panhandle area around Amarillo. The remainder comes from Oklahoma, Kansas and New Mexico. In 1965, there were approximately 600 carloads received, and, in 1966, there was a one-third increase in shipments received.

Grain manufacturers prefer rail over motor carrier transportation of the bulk grain since larger quantities can be moved, and, where hopper cars are available, mechanical unloading can be achieved with a minimum labor cost. There is also more flexibility in rail movements, since the cars received are not generally destined for immediate use at the next scheduled location and short delays in unloading are permissible. This is contrasted to motor carriers, which seek immediate unloading and movement of the truck elsewhere.

Motor carriers are used for two reasons. One reason is that certain origin points for the grain are off-rail points, and, if that shipper trucks to a rail carrier for shipment to Arizona, the combined costs are too expensive. This motor carrier trade will not be effected by SP's acquisition of Rock Island south. The second reason for using motor carrier transportation is the speed with which deliveries are made -- usually overnight -- as compared to a minimum of three days and usually five to eight days by railroad. The majority of origins are on-rail points, and, if rail service can be improved, some of this truck transportation can be shifted to rail service which the shippers prefer.

The primary need for speedy deliveries is a result of the lack of storage facilities by most grain dealers. Thus, maintenance of a low inventory is an operational necessity and requires fast dependable service. There must be a steady flow of the required carloads each day. Secondly, customers often demand the immediate delivery of a large quantity of grain. Presently, these dealers must resort to motor carriers for the required speed.

Most of the important inbound shipments involve a Santa Fe or a Rock Island-SP routing from the Texas Panhandle and points east thereof. The Santa Fe line runs across the northern part of New Mexico and Arizona and is switched at Williams Junction, Ariz., for movement to Phoenix in Santa Fe's daily train. If that daily train is missed, then the shipment encounters a delay. At Phoenix, the shipment must be switched again, since SP is the only carrier serving Mesa, which is 16 miles east of Phoenix. The two-line service by SP and Rock Island is no better, and often there are delays of several days at the Rock Island-SP interchange at Tucumcari. This, according to the witness, is the reason for the longer delivery time by rail.

Although the shippers attempt to set the routing of inbound shipments, giving the destination carrier its longest possible haul, sometimes the origin point is unknown and there is then no control over the routing. While this seems to limit somewhat the benefits of SP's acquisition of Rock Island south to the shippers, it does not alter the fact that such single-line service will offer some improved rail service over that now available.

In addition to the faster service, easier tracing of cars is expected. Also, the proposed single-line service will offer benefits of improved car service. Although Southern Pacific furnishes a sufficient supply of hopper cars, they cannot be requested for shipments originating east of Amarillo when not on an SP line. While the witness is able to get hopper cars from Rock Island, it is usually accomplished with great difficulty. He feels that a centralized control of empty car movement will allow a more consistent and reliable supply of necessary equipment.

An association of vegetable distributors, located in Nogales, Ariz., consists of 43 members, most of which are located in the United States with the remainder in the Mexican States of Sonora and Sinaloa, arranges the transportation, marketing and related services for Mexican vegetable growers. Each member-distributor handles its own routing and

makes the necessary arrangements for sale, reconsignment, etc. Approximately 4,700 carloads are distributed from Nogales each year, of which 1,600 are loaded with tomatoes, 2,000 with melons and the remainder with miscellaneous vegetables.

In prior years, there were many more carloads shipped; however, motor carrier transportation has cut deeply into the rail business. One reason is that some growers are located at off-rail points and the time and cost of transferring truckload to rail cars is prohibitive. Another reason is the improvement in the highway system. A more important reason seems to be the change in shipping procedures, for instance, with tomatoes, which are now shipped in a more advanced stage of ripeness, thus requiring speedier delivery. The advent of piggy-back service and refrigerated cars, however, has somewhat slowed the decline of rail transportation. Also, with more than 100 truckloads crossing the border into this country each day and the necessary use of independent truckers, the availability of motor carrier transportation is not always dependable.

The major market for Mexican tomatoes used to be the eastern part of this country; however, the increased Florida production and the geographical difference in distance has proved such a competitive advantage to the Florida tomato growers that the association's market there is now almost entirely limited to peas and cantaloupes. The association's primary market now is the States west of Chicago, with about 25 percent going into Canada.

Since the price of produce and melons varies substantially in a short period of time, the eastern receiver desires the faster and more dependable deliveries from the Florida growers, since his profits depend on buying and selling at times which are most profitable as measured by the prevailing market price. If rail service to the association were improved, the eastern receiver would not be taking such a "risk" of loss in dealing with association members. Thus, the association members would be more able to compete with the eastern growers for that market.

Southern Pacific is the only railroad serving the association and has done so for more than forty years and, in that time, has attempted to improve its service. During this period, the carrier has kept the members satisfactorily supplied with cars and equipment, and its service to the association has been excellent. Since the products shipped are perishables, the need for refrigerated cars is evident, and PFE has satisfactorily fulfilled the needs of the association members.

There is, however, strong criticism in the association about the service to Kansas City. Since 75 percent of the rail traffic of the association members moves to Kansas City for diversion elsewhere, this is an important matter. The complaints of the association members center around Rock Island's portion of the haul -- Tucumcari to Kansas City.

One area where Rock Island has been deficient is the tracing of cars. There is often a delay of several hours in locating the car. Many times a carload moves unsold, and, when a customer is found, the car must be reconsigned to a new destination immediately. Also, a change in weather conditions in an area through which a car is passing often necessitates the opening or closing of vents on the car. Finally, in either of the above situations, the car may require re-icing or de-icing. All of these situations are handled by the members filing a diversion report with PFE, who takes care of the required change. Ordinarily, PFE issues regular "passing reports," locating the car from information furnished by the railroad. While the car is on SP lines, there is little problem; however, after Rock Island takes over the car, the delay in location of the car becomes a problem.

The association feels that SP's single-line service from Nogales to Kansas City would produce several benefits. Time would be reduced through elimination of the Tucumcari interchange, and SP would have the entire line in which to make up delays occurring prior to Tucumcari, whereas Rock Island is presently under no obligation to do so. Secondly, the all-important car tracing problem would be relieved by SP's having control over the car all the way to Kansas City. Finally, with one carrier exercising control over the empties, better utilization of equipment would provide a more adequate supply of cars.

A grain elevator operator in Gruver, Tex., served exclusively by Rock Island on the Liberal-Amarillo line has elevators with a 1,767,740 bushel capacity. Santa Fe's lines pass within 13 miles of the elevators on one side and 16 miles on the other.

The elevators purchase milo and wheat from local growers and resell it. Almost all of the milo is shipped to California, and rail service is used exclusively to that State. A large portion of the wheat moves to Enid, Okla., for reshipment, much of it to the Texas ports. The California-bound milo moves from the elevators to Amarillo, where it is usually inspected, then to California via SP.

Presently, SP serves most of the elevators' principal points of destination, and approval of the SP application would result in single-line service between the elevators and these destination points. This will reduce interchange delays, improve car utilization and make car tracing easier. Car supply has been a persistent problem to the elevators, which generally require giant hoppers. The witness is aware that SP has purchased cars in large quantities in recent years and has the financial capacity to purchase the kinds of cars needed by shippers. A final benefit expected by the elevators is increased competition between two strong carriers in the Panhandle area.

A manufacturer of fiber, steel and plastic has two of its three plants located in California on SP lines. The Burbank, Calif., plant, which began operations in the middle of 1966, was located on the SP line partly because the company was so satisfied with previous SP service received at its Alta Loma, Calif., plant.

The company has solicitation in all major U. S. cities and warehouse operations at 35 cities. It ships over 4,500 carloads a year, with 20 to 25 percent to or from the two California plants. The California plants ship products as far east as Kansas City and points in Oklahoma and Arkansas, while the eastern part of the country is covered by its third plant, located in Illinois. There are plans for a plant in central Texas that will ship to the Gulf ports.

The company favors SP's acquisition of Rock Island, since it would give the company the benefit of single-line service between its California plants and Kansas City and between the California plants and the destinations in Oklahoma and Arkansas, where service is presently not the best.

The company has been able to ascertain that on westbound shipments interchanged at Tucumcari, there are delays ranging from six to 36 hours. It has been unable to arrive at a delay figure eastbound. The single-line service, eliminating this interchange, should be faster. The company, anticipating SP's acquisition of a substantial portion of Rock Island's car fleet, believes that it will receive better service with respect to its car needs, and that SP will, as in the past, provide good service with modern equipment.

A traffic consultant, representing a wide variety of concerns, testified that his clients shipped approximately 2,000 rail cars annually, of which around 40 percent are related to SP's application. The consultant's service to his clients includes counseling them with respect to their rates, routes, warehousing and distribution transportation problems.

The witness desires single-line service between California points and Kansas City, and points out that traffic moving south of Kansas City via Dallas would have single-line service under the SP proposal. Presently, traffic is divided evenly between single-line and multiple-line service, but the witness always attempts to find single-line routings for his clients. When multiple lines are used, the longest possible haul is given the origin carrier.

Some clients have experienced delays of as much as two days on traffic moving through Tucumcari, which Rock Island reported were due to the interchange. This would be eliminated under the SP proposal, and the extended haul of SP should enable it to gain time or make up lost time.

With respect to traffic between California points on SP and Chicago, even though there would merely be a change in interchange points from Tucumcari to Kansas City, he believes the Kansas City switching would not result in as much damage as at Tucumcari.

The witness anticipates that due to SP's greater financial resources it will be in a better financial position than the Rock Island to provide the necessary new equipment and line rehabilitation. Car supply and utilization will be improved since a portion of the Rock Island's car fleet will be unified with SP's present fleet.

A merchandiser of grain, particularly of milo, controls routings on about 1,600 carloads a year. Most of the milo is grown in the Panhandle area of Texas, West Texas, Oklahoma and parts of Kansas. About 65 to 70 percent of the grain is destined for points located on SP lines. Of this, 30 to 40 percent originated on Rock Island points and the remainder on Santa Fe points. The SP-Rock Island interchange is at Tucumcari, while SP-Santa Fe traffic is switched at Deming, N. Mex.

Presently, at the Tucumcari interchange, the shipment loses a day and can lose as much as two or three days. The witness anticipates elimination of this interchange delay by SP's acquisition of Rock Island's southern lines. The grain shipments are made in covered hopper cars, the supply of which is a problem. Although Santa Fe has provided many of these cars and is purchasing more, it is not able to do it all alone.

Car tracing on joint-line service is a major problem encountered with Rock Island service. It is necessary for cars to arrive at a particular point at a particular time and often cars are reconsigned en route. In both cases, knowledge of the cars' location is essential. When

Southern Pacific has not received a particular car in question, it must request the location of that car from Rock Island, which, sometimes takes 2 or 3 hours. This can be an extremely bad situation where speedy location is necessary.

The witness feels that acquisition of Rock Island's line by SP should enable that carrier to better utilize its own car fleet over the extended lines. Southern Pacific's financial resources and opportunity for increased revenues over its extended lines should give incentive to purchase additional equipment, especially the giant hopper cars, which are most desirable. Finally, the witness feels that the mere existence of two strong carriers--SP and Santa Fe--competing in the same area should cause each to seek improvement in its service and car supply.

A shipper of crushed marble has plants at Demarco and Llano, Tex., served solely by SP, with around 600 carloads per year outbound. The company has experienced very satisfactory service with Southern Pacific and, except where a customer directs otherwise, always routes traffic so that SP will receive its long haul.

The company receives its marble and limestone from local quarries. The company crushes and bags the commodities for distribution throughout the United States. The crushed marble and limestone chips are used in building for decorative effect and strengthening quality, and expeditious and dependable service is necessary, since often an architect or builder may make a last-minute change in the kind and color of the material. Builders schedule their craftsmen for specific times and need the entire delivery at one time rather than a partial delivery and the remainder later. Since customers often need immediate delivery of an order, the company ties up a great deal of capital in a large inventory. The company's efforts to provide fast delivery may be frustrated by poor rail service. The company's experience has shown that multiple-line service has resulted in delays, frustration in car tracing, and difficulty in meeting delivery promises. Thus, it wishes to see SP extend its long-haul throughout the Southwest and Midwest. Such a move would reduce its delivery time considerably to points such as Oklahoma City, Amarillo and Kansas City. Further, on shipments north of Kansas City, it would eliminate one carrier and interchange from the routing.

Tracing of cars is important to this shipper, also, since it can advise the customer of the arrival time of the shipment. Thus, the customer can make arrangements to meet the shipment when it arrives and have it unloaded and ready for use sooner. It has been the shipper's

experience that tracing a car is easier while SP is still in control of it; however, when it passes through several hands, tracing becomes much more difficult.

A distributor of building materials, located in Lafayette, La., has primarily inbound rail traffic. Its main concern is rail service on shipments from the West Coast and from Wisconsin. Approximately one-half of the distributor's lumber originates on SP lines, thus making single-line service available to its plant. Frequently, however, shipments are routed through Ogden via SP-UP-Rock Island-SP. On UP points, the routing is generally UP-Rock Island-SP. Approval of SP's application will eliminate one carrier and one time-consuming interchange on those routings. On shipments from Wisconsin, the St. Louis gateway is utilized, with the routing via Cotton Belt-Rock Island-SP where speed is necessary and the more circuitous Cotton Belt-SP route through Houston, where speed is not necessary. If SP acquires Rock Island south, the faster Cotton Belt-SP routing through Fordyce, La., to Lafayette would be available without the interchange with Rock Island.

The elimination of one carrier from any of these routings would result in speedier, more dependable delivery, factors especially necessary to this distributor, since many customers, as well as the distributor itself, maintain low inventories. Consequently, customers often make last-minute purchases, and the distributor must be able to deliver immediately.

In the area of car tracing, SP is of great assistance to the shipper, since one SP agent is in close contact with the witness, whereas other carriers merely send postcards advising of car location. In addition to SP's outstanding service in this area, the mere elimination of one carrier will make car tracing an easier job, and, if SP gets the lines of the eliminated carrier, these benefits to the distributor are even greater. The distributor also foresees easier rate negotiation and improved ability to fix damage responsibility if one carrier is eliminated.

A tobacco company, with manufacturing facilities in Winston-Salem, N.C., produces 5,000 carloads per year. It ships to 72 public warehouses and attempts to allocate traffic among the carriers, with consideration given to service and car supply offered. Where possible, the company gives the longest haul to the carrier furnishing necessary special equipment.

Its primary interest in SP's proposed acquisition of Rock Island south is Rock Island's Memphis-Amarillo line. In particular, it is interested in the improved service it expects on its cigarette and tobacco traffic, moving to public warehouses in Little Rock and Oklahoma City. It foresees no other change in routings due to the transaction. The Little Rock warehouse is served by Rock Island and received 109 carloads and 10 truckloads in 1964. The warehouse in Oklahoma City is served by Santa Fe and received 102 carloads and 3 truckloads that year.

Rock Island participation in the company's traffic as terminating or intermediate carrier declined rapidly from 335 carloads in 1962 to 82 carloads in 1965, although it did handle 136 carloads in 1966. One of the reasons for this decline is that Rock Island has not offered to furnish the company with the necessary special equipment--50-foot, compartmentalized, Hydra-Cushion cars, which allow more flexibility by permitting the mixing of products in the same car and the utilization of stop-over shipments. These special cars are ordered through the offices of the eastern carriers serving the plants and are obtained from western carriers in this manner when they are "made empty" at the plant.

Another reason for the decline in the use of Rock Island was a deterioration in service available. Reliable schedules are essential due to the maintenance of "tight inventories" at the public warehouses. There are weekly shipments to the warehouses, and, generally, only a supply of one carload is maintained there. The elimination of one carrier should eliminate present interchange delays. The company's experience with other consolidated rail carriers is improved expedited service and better tracing service and establishment of better rates.

The company particularly desires SP on the Memphis-Amarillo line, because it is interested in complete rail-truck transportation which SP has provided in connection with its motor carrier subsidiaries.

The Corporation Commission of the State of Oklahoma favors SP's proposed acquisition of the southern portion of Rock Island. This decision was reached after a study was made of the impact of the transaction on the public as a whole rather than on the revenues of the carriers presently serving the State. Even though the Commission recognized that certain Oklahoma shippers would lose Rock Island's single-line service to northern points, it feels that the new competition SP will provide the present carriers--Santa Fe, Frisco and Katy--coupled with the new source of equipment available to Oklahoma shippers, will benefit the State.

The Oklahoma Senate and its House of Representatives each unanimously passed resolutions against the SP proposal. The Commission's Chairman, testifying in the proceedings, and having previously served as Speaker of the House of Representatives, feels that the legislative bodies were motivated by a concern for their constituents in the individual precincts; whereas the Commission, also an elected body, has a responsibility to the State as a whole.

The Golden State Route Committee, representing numerous public bodies and civic organizations within the area served by the Golden State Route in southern portions of Arizona and New Mexico appeared, through its chairman and also through U. S. Congressman Morris K. Udall. The Committee, formed in early 1966, supports Southern Pacific's proposed acquisition of Rock Island's southern lines, principally between Tucumcari and Kansas City.

In Southern Arizona and New Mexico, the route is the only main line railroad serving the population of almost 1 million in an area of almost 70,000 square miles and is vital to the industries located therein.

Congressman Udall has had many complaints from shippers and receivers located in Southern Arizona with respect to problems of tracing shipments and of damaged shipments. His reports from major shippers are to the effect that the Southern Pacific-Rock Island interchange results in delays and inefficiencies. He is confident that the proposed single-line service of Southern Pacific would eliminate such shipper complaints. Congressman Udall is further of the view that it is very clear that the best interests of the Southern Arizona users of rail service require the Southern Pacific acquisition of the Tucumcari-Kansas City route and that such segment of the public, located on the sole major rail line providing service to the east, will be afforded the best, fastest, most convenient and reliable service.

The committee is also of the view that Southern Pacific would make available its great financial resources for plant and car supply improvement; such financial resources are not possessed by the Rock Island.

PART K: EVIDENCE IN SUPPORT OF SANTA FE'S
PETITION FOR INCLUSION

(1) In General

As seen, as a result of the denial of the basic application of North Western for control of Rock Island, the dependent Santa Fe purchase application also has been denied. There remains for consideration the Santa Fe petition for inclusion, in lieu of Southern Pacific, in the Union Pacific merger transaction. The lines sought by Santa Fe do not include the so-called Tucumcari route between Kansas City and Santa Rosa, N. Mex., and the carrier's principal purpose in its acquisition of the southern portion of Rock Island is to obtain access to the St. Louis and Memphis gateways. Of secondary importance is the coordination of Santa Fe and Rock Island routes between Kansas City and the Gulf of Mexico.

Santa Fe has been trying to establish permanent access to the St. Louis gateway since 1887. It first attempted to purchase the line of the St. Louis, Kansas City and Colorado Railroad which it improved and extended westward from St. Louis, but which it never completed. Such line of road, following a reorganization in 1895, ended up as a part of the Rock Island, and is now a part of the line over which Santa Fe seeks to operate. At the same time Santa Fe had stock control of the St. Louis-San Francisco Railway Company and served St. Louis by this means. This line was also lost in the bankruptcy of 1895. Santa Fe tried again to re-enter St. Louis in 1903 and again in 1907, but these plans were also abandoned. In 1912, another plan was developed which included the Wabash and the Burlington and was designed to improve the lines of all three. This plan was abandoned at the onset of the First World War.

No other action was taken to enter St. Louis until after the Second World War when Santa Fe filed a joint application with Burlington proposing joint acquisition of the capital stock of the Kansas City, St. Louis & Chicago Railroad Company and of various trackage rights over other Missouri lines. This application was denied by the Commission in 1948. Santa Fe has considered merging with Missouri Pacific and with Frisco. Both of these companies would permit Santa Fe to enter St. Louis. Because of litigation over the stock of Missouri Pacific by stockholders, these discussions have been suspended. Mutually satisfactory terms were not achieved in discussions with the Frisco and these discussions are presently suspended.

In August and September, 1965, Santa Fe entered into discussions with the Chicago & North Western, Union Pacific and the Southern Pacific. The result of these discussions is the

present agreement with North Western to purchase from it a portion of the already described Rock Island.

There is no need to discuss in complete detail the evidence submitted by the Santa Fe in support of its purchase application simply because such proposal is entirely dependent upon the denied Chicago & North Western control application. With respect to the Santa Fe's request for inclusion, it further requests that the entire scope of evidence adduced in support of its purchase application also be considered as the evidence in support of its petition for inclusion. However, it is clearly apparent on its face and without any necessity for detailed reasoning that the results and issues and, of course, the supporting evidence in many areas will differ substantially between a Santa Fe purchase following a Chicago & North Western control as contrasted to a Santa Fe acquisition following a Union Pacific merger. Moreover, the distinction in the latter instance is further accentuated by the presence of the Southern Pacific purchase proposal in which Santa Fe seeks substitution. Certain evidence of the Santa Fe has already been discussed under Parts B and G, but otherwise, under the circumstances, it is not the duty of the examiner to seek out evidence presented in one proceeding which may be the evidence appropriately applicable to another proceeding. Nonetheless, the examiner has carefully sifted the Santa Fe evidence and will set forth in this section all such which is substantial and relevant to the essential elements of the inclusion appropriate, if any, in the considered proceedings. United States v. Pan-American Petroleum Corp., 304 U.S. 156, 158, United States v. Pierce Auto Freight Lines, Inc., 327 U.S. 515, and Alabama G.S. R. Co. v. United States, 340 U.S. 216.

In Santa Fe's view, there are two major factors which make it desirable for it to reach St. Louis and Memphis. One is the recent large economic growth in the southeastern section of the United States, creating a larger volume of traffic moving between that area and the west and southwest. Secondly, there have been, and probably will continue to be, major realignments of the rail systems east of the Mississippi. Such realignments, it reasons, result in fewer, but more powerful and influential carriers, each with larger volumes of traffic. Since these Eastern carriers do and will receive a larger share of the revenues if traffic moves through St. Louis rather than Chicago, Santa Fe foresees a shift of traffic volume from Chicago to St. Louis. Memphis, on the other hand, is a natural gateway between the Southeast and the West and Southwest, and, with increased traffic volume to and from the Southeast, that gateway will become more important.

Santa Fe maintains that its need to gain entry to these gateways is emphasized by the fact that Southern Pacific, the only other railroad operating over the southern trans-continental route and through the Southwest, already has direct or single-system service to St. Louis, Memphis and New Orleans. In fact, Santa Fe is the only major railroad operating in the Southwest which does not serve one of these gateways, and it feels that it must reach St. Louis and Memphis to effectively compete with Southern Pacific for increased transcontinental traffic. In addition to this increased traffic, Santa Fe hopes that its new single-line service to these important gateways will encourage new shippers to locate facilities on its lines.

Santa Fe's principal junctions or gateways on traffic to and from the Southeast are Kansas City, Oklahoma City, Ft. Worth, Dallas, Houston and Beaumont, with some of the more important gateways being as far west as Floydada, Sweetwater and Snyder, Tex. This situation limits Santa Fe's long-haul movement, even on traffic originating on its own lines, such as its large volume of potash. Similarly, Santa Fe shippers, later discussed, find that they are somewhat disadvantaged by the carrier's inability to protect them by taking independent action on rate adjustments. Extension of its lines to the Mississippi River gateways is expected to alleviate these disadvantages.

Santa Fe anticipates that its entry into St. Louis and Memphis will also improve the car supply problem through the more efficient utilization of empty cars. One problem facing Santa Fe at present is that the bridge carriers from St. Louis and Memphis, receiving empties for movement to Santa Fe, even a Santa Fe empty, will nevertheless load the cars if required by its own traffic demands, and most of such empties never reach Santa Fe. If Santa Fe reached those gateways, empties would be directly delivered to it, and there would not be the present loss of use. Of course, the elimination of present interchanges would be a major time-saving benefit, as well as reducing damage and losses.

Santa Fe in asserting its competitive disadvantage with respect to traffic to and from St. Louis makes a comparison of Southern Pacific's schedules to and from St. Louis with those of Santa Fe. Eastbound from Southern California to St. Louis, Southern Pacific's best schedule is 56 hours and 30 minutes, which is over 14 hours shorter than that of any other route, departing Los Angeles at 7:00 A.M., and arriving in East St. Louis at 3:30 P.M. on the third day. Santa Fe's

best schedules are in conjunction with Norfolk and Western and Frisco, but while departure times are comparable to Southern Pacific's schedule, these trains arrive at St. Louis, west of the Mississippi River, on the fourth morning. Santa Fe finds that its two-line eastbound service cannot compete with the single-system service of Southern Pacific.

Westbound from St. Louis, the fastest schedules are Southern Pacific's single-system route, which takes 50 hours and 30 minutes, and the MoPac route, which is handled by Southern Pacific west of El Paso and takes 52 hours. Southern Pacific and MoPac originate their traffic at East St. Louis and have a direct interchange with the eastern carriers. Carriers such as Frisco and Norfolk and Western, which originate their traffic at St. Louis, on the west side of the Mississippi River, do not have the direct interchange but must undergo a time-consuming intermediate interchange via terminal railroads. For such reason, these carriers, Santa Fe contends, are not in a position to have competitive schedules, and this affects Santa Fe's westbound schedules, since its best routes are with Frisco and Norfolk and Western. Even though the transit times on these routes are only a few hours longer than those of Southern Pacific, Santa Fe's experience is that it is at a substantial competitive disadvantage by reason of the delay caused by the intermediate interchange at St. Louis. Consequently, as in the case of eastbound traffic, Santa Fe's westbound schedules are not competitive with those of Southern Pacific.

Santa Fe faces similar competitive disparity on its routes between Memphis and the West Coast. Memphis is served by Southern Pacific (Cotton Belt), Rock Island, MoPac, and Frisco. Frisco is the only carrier which is not heavily dependent upon Southern Pacific for the interchange of traffic via Memphis, and Santa Fe works closely with Frisco on Memphis traffic. Although the Southern Pacific westbound departure time is six hours later than that of Frisco, the Southern Pacific arrival time at Los Angeles is almost an hour and a half earlier than Santa Fe. In other words, Southern Pacific's transit time is almost seven and a half hours faster than that of Santa Fe.

Santa Fe points out that it is less able, in conjunction with the Frisco, to meet the Southern Pacific schedule on eastbound traffic. Frisco operates only one eastbound train daily from Floydada, the interchange point with Santa Fe. This train must handle traffic for practically all destinations and junctions on Frisco's line, and the cars received from Santa Fe destined to or via Memphis are consolidated by Frisco

at Tulsa with other Memphis traffic from such points as Ft. Worth, Dallas, Enid and Oklahoma City. This results in a substantially slower eastbound schedule than it has westbound.

Floydada also is not a convenient junction for the interchange of traffic between Santa Fe and Frisco. It is located at the end of a branch line and must be reached via a circuitous route from Clovis, N. Mex., through Lubbock and Plainview, Tex. Because of the small volume of eastbound traffic to Memphis, Santa Fe operates only one daily train from Clovis to Floydada, on which is put all traffic arriving at Clovis from western points. Although the train from Clovis is coordinated with trains handling traffic originating in Southern California, the unsatisfactory location of Floydada and absence of a fast through schedule from Floydada to Memphis combine to place the Santa Fe-Frisco route at a serious competitive disadvantage to that of Southern Pacific.

Santa Fe in an effort to improve its schedules to St. Louis and Memphis, has attempted to establish schedules with MoPac at Kansas City and Sweetwater, Tex. It has also sought to improve the Kansas City interchange with Norfolk and Western. More recently, Santa Fe and Rock Island attempted to establish a competitive joint-line service to and from Memphis, with a connection at Amarillo. All of these attempts have proved unsuccessful.

The Santa Fe concedes that some of the delay to both St. Louis and to Memphis occurs on its own line, but it cannot improve the matter since the schedules of its receiving eastern carriers are such that there is no benefit in Santa Fe arriving earlier than it now does. The situation would be rectified under Santa Fe's proposed control of the entire movement to St. Louis and Memphis.

(2) Service Improvements and Other Benefits of Proposed Transaction

Santa Fe proposes certain improvements in its schedules between Southern California, on the one hand, and St. Louis and Memphis, on the other. These schedules are based upon existing Santa Fe transcontinental service compared to the expedited service which would be available between Kansas City and St. Louis and between Amarillo and Memphis.

Its fastest eastbound schedule between Los Angeles and St. Louis contemplates a train leaving at 7:00 a.m. PST, and arriving in St. Louis at 5:00 p.m. CST, on the third day.

This transit time of 56 hours is competitive with Southern Pacific's time of 56 hours and 30 minutes. For its fastest westbound schedule, Santa Fe proposes a departure at 9:00 p.m. and arrival at Los Angeles at 11:00 p.m. on the third day which, considering the time zone adjustments, is a 52 hour schedule and is competitive with Southern Pacific's schedule of 50 hours and 30 minutes.

Between Memphis and Los Angeles, Santa Fe proposes an eastbound transit time of 51 hours and 20 minutes and a westbound schedule of just under 49 hours. It expects that both of these will be competitive with Southern Pacific schedules.

The proposed schedule improvements by Santa Fe are based upon the carrier being able to upgrade the Rock Island lines between Kansas City and St. Louis and between Amarillo and Memphis to bring them up to Santa Fe operating standards. In such connection, the agreement between North Western and Santa Fe contains a provision for an upgrading of the Kansas City-St. Louis line under a cost-sharing arrangement. Although the agreement is now inapplicable by reason of the denial of the North Western control application, it is apparent, as discussed in Part I, that Union Pacific has an interest similar to Santa Fe's in the upgrading of this segment of line. Thus, Santa Fe would in all probability be able to implement its proposed schedule improvements between Kansas City and St. Louis with trackage rights over the merged Union Pacific-Rock Island.

Santa Fe estimates the cost of upgrading the Kansas City-St. Louis segment to Santa Fe standards would be a little over \$12.9 million. Half of this was to be borne by North Western under the agreement between the two carriers, and, if Union Pacific agrees to the same conditions, the cost to Santa Fe will be just over \$6.6 million. Specifically, to upgrade the line between Kansas City and St. Louis, Santa Fe proposes 35 miles of line change, installation of 278 miles of modified TCS, extension of sidings, installation of a modern communications system, and improvements to RI's St. Louis yard.

With regard to the Memphis-Amarillo line, Santa Fe proposes 17.3 miles of line change, 5 curve reductions, installation of 268 miles of automatic block signals, numerous siding extensions, modern communications, enlargement of Rock Island's West Memphis yard, and improvements to Amarillo terminal, the improvements to be accomplished at a cost of approximately \$6.6 million. Santa Fe points out that it is the only applicant in these proceedings that

proposes to fully upgrade and utilize the Rock Island's Memphis line, one of the shortest routes between that city and the West.

Santa Fe's lines parallel the southern lines of Rock Island principally between Kansas City and Houston (as indicated on Map A, appended). Santa Fe proposes to consolidate through traffic on its existing line between Kansas City and Fort Worth and on Rock Island's line between Fort Worth and Houston, which would produce an annual savings of some 340,000 train-miles and 163,000 locomotive unit-miles. Traffic is principally southbound for both carriers, and it is anticipated that the savings in locomotive unit-miles could be gained through the more efficient return of power northward by the consolidated operation as compared to the existing situation faced by both Santa Fe and Rock Island.

Santa Fe has a signaled main line extending between Brownwood, Tex., through Cresson, Tex., to Fort Worth. There is a branch line extending between Cresson and Cleburne, Tex., and one between Cleburne and Dallas, Tex. Dallas traffic to and from Brownwood and lines west of Brownwood is handled in common with Fort Worth traffic in trains between Brownwood and Cresson and in separate trains between Cresson-Cleburne-Dallas. With the use of Rock Island's line between Dallas and Fort Worth, Santa Fe's Dallas and Fort Worth cars moving to and from Brownwood and the West would move in consolidated trains between Brownwood and Fort Worth. Scheduled train service would be eliminated between Cresson and Cleburne and reduced between Cleburne and Dallas, producing substantial train-mile savings.

Operating economies and efficiencies can also be achieved by coordinating train service on other lines which operate in conjunction with the main north-south Santa Fe and Rock Island routes between Kansas City and Houston. For example, Santa Fe has a line of railroad extending between Kiowa, Kans., and Guthrie, Okla., which crosses Rock Island and Enid, Okla. Santa Fe trains operated over this line segment originate and terminate at Purcell, Okla. The principal business on the line is traffic to and from the major grain terminal area of Enid and overhead traffic moving between Amarillo and points west thereof on the one hand and the Oklahoma City area on the other. With acquisition of Rock Island's southern lines, overhead traffic on the Kiowa-Guthrie line would largely disappear since it would then move via the Rock Island line between Amarillo and Oklahoma City. The Enid outbound grain traffic would flow south to the

Gulf ports over Rock Island's line through El Reno. As a result, local train service would be reduced on the Kiowa-Guthrie-Purcell line producing annual savings of approximately 77,000 train-miles without reducing adequate service to the local stations along the line.

Rock Island's branch line extending between North Enid and Ponca City, Okla., connects with Santa Fe at Tonkawa, Okla. Enid and Ponca City are served by both Santa Fe and Rock Island. Under Santa Fe's proposal, changes in the movement of traffic would eliminate the need to route traffic between Enid and Ponca City over the Rock Island branch line. Ponca City traffic would move in and out over the Santa Fe's main line to the north and south, or over its line between Ponca City and Blackwell, Okla. This would permit abandonment of 10 miles of Rock Island branch line between Ponca City and Tonkawa and result in an annual reduction of over 11,000 local freight train-miles.

Rock Island provides local freight train service between Herington and Salina, Kans., and Santa Fe provides local service between Emporia and Salina, Kans. Coordinated local service would be provided by operating Santa Fe local trains over Santa Fe's line between Emporia and Lost Springs, Kans., thence over Rock Island through Herington to Abilene and Salina, and permit abandonment of approximately 32 miles of Santa Fe branch line between Lost Springs and Abilene, Kans., and a reduction of nearly 30,000 freight train-miles annually.

Rock Island has lines between Liberal, Kans., and Amarillo, Tex., and between Morse and Wilco, Tex. The latter segment crosses Santa Fe at Etter, Tex. Santa Fe has trackage rights over Rock Island between Morse and Etter. Santa Fe has a line extending from Las Animas, Colo., through Boise City, Okla., and Etter, Tex., to Amarillo and which crosses the Rock Island Golden State Route at Stratford, Tex. Santa Fe also has a line extending between Shattuck, Okla., and Morse, Tex. Santa Fe and Rock Island freight train service would be coordinated in this territory and produce annual savings of over 100,000 train-miles.

In total, annual economies are estimated at about \$1,000,000 as a result of these duplicate line coordinations.

Among the principal common points involved in the acquisition of Rock Island's lines between Herington and Houston are Wichita, Oklahoma City, Fort Worth, Dallas, Amarillo and Enid.

Station activities at Wichita would be consolidated in existing Santa Fe facilities. Santa Fe's North Wichita yard would be used as the principal train yard, while Rock Island's Cline yard will be a support and storage yard. One through freight train would be operated daily in each direction between Kansas City and Texas via the Rock Island south of Peabody, Kans., setting out and picking up at Cline yard. Consolidation of station activities would result in annual savings of \$59,600.

At Oklahoma City, Santa Fe's Nowers Yard is 3.5 miles north and 1 mile west of Rock Island's Harter Yard. Both yards are primarily industry yards. Santa Fe and Rock Island jointly own the Oklahoma City Junction Railway, a belt line serving local stock yards and other industry. Under Santa Fe's proposed operation, Santa Fe's Nowers yard will serve as the primary yard due to rerouting of north and south traffic to and from Oklahoma City over the Santa Fe. Harter yard will handle east and west traffic including the traffic to and from the West that now moves over Santa Fe via Kiowa and Guthrie, which would move over the Rock Island direct from Amarillo after consolidation. The offices and freight house would be combined in Santa Fe facilities and TOFC would be handled at Nowers yard. This consolidation will result in annual savings of \$38,600.

Santa Fe's 17th Street Yard and Rock Island's Peach Street Yard are the principal yards of the two companies at Fort Worth. They are about one mile apart and are connected by a Rock Island track. About 6 miles north, at Saginaw, Santa Fe has another yard which is primarily a grain yard. All three yards are about the same size. In addition, each company has a small industry yard. After acquisition, the principal freight route to Houston would be via the Rock Island line south of Fort Worth. Peach Street yard would become the principal yard with Saginaw yard serving as a grain yard and, when necessary, as an auxiliary train yard. 17th Street yard would be used as a storage and TOFC yard. New connections are planned at Saginaw and major improvements at Peach Street. Annual savings of \$140,000 will result from a reduction of switch engine assignments and also from a reduction in station and yard forces.

Santa Fe's principal yard at Dallas is in East Dallas where Frisco and L&A trains are also handled. Rock Island has two small yards, one on the west side of Dallas and the other near the Santa Fe East Dallas Yard. The basic functions of the three Dallas yards would remain the same. All freight

house activities would be handled in the Santa Fe's downtown freight house, and annual savings of \$53,300 would result from a reduction in required positions.

At Amarillo, traffic presently moving over Rock Island's lines between Amarillo and Liberal and between Amarillo and Sayre would be handled in Santa Fe's Amarillo yard. Consolidation of freight train handling would permit the elimination of one yard engine assignment per day. In addition, Rock Island's passenger depot could be closed and freight station activities consolidated all of which would result in \$119,600 in annual savings (Rock Island passenger service, of course, is no longer provided over this line thereby reducing the amount of savings potential).

Santa Fe and Rock Island have separate yard facilities at Enid. Santa Fe proposes to consolidate the yard forces in Rock Island's North Enid yard. Enid, however, is a major grain terminal, and during the wheat harvest season the yards of both roads are used to maximum capacity. Consequently, it would be necessary to retain both yards. Santa Fe's acquisition would result in some reduction of switching at Enid by eliminating the necessity of interchanging cars between the two roads. This, along with the coordination of the yards of both companies, would allow a reduction of one yard engine assignment per day. Consolidation of station forces in the Santa Fe depot and yard forces in Rock Island's North Enid yard would permit the elimination of a number of positions. The total savings at Enid would be \$86,800 annually.

Savings from terminal coordinations are also expected at a number of other common points including Salina and Wellington, Kans., and Ponca City, Okla. Total savings from terminal coordinations -- all of which are related to Santa Fe's acquisition of Rock Island's lines between Herington and Houston -- amount to almost \$1,000,000 annually.

In order to achieve the operating economies and efficiencies and also to improve service in the territory served by Rock Island's lines between Kansas City and the Gulf, Santa Fe proposes to make a substantial investment in improving and constructing physical properties. The total cost related to the north-south lines is estimated at \$1,925,000 of which \$1,719,000 represents capital investment.

Santa Fe acquisition of Rock Island's lines between Kansas and the Gulf would produce service improvements for traffic moving to, from and within the Southwest. For example, the

best available Santa Fe freight schedule from Chicago to Dallas at the time of hearings was 29 hours. A schedule of 24 hours would be possible under Santa Fe's proposals. From Chicago to Houston, a one-hour improvement over present schedules is proposed. From Chicago to Beaumont, Tex., a four-hour improvement will be possible. Savings of four hours are also projected from Kansas City to Dallas and Beaumont and one hour from Kansas City to Houston. The existing Santa Fe schedules were those in effect at the time of hearings. Improvements in those schedules were then contemplated, and the same reductions in transit time possible under Santa Fe's proposals for use of Rock Island's southern lines would be put into effect regardless of the contemplated improvements in Santa Fe's own schedules.

Substantial improvements in existing schedules between these points are also projected for northbound traffic. From Beaumont to Kansas City, a saving of 15 hours and 30 minutes would be possible. From Beaumont to Chicago, there would be a saving of one full day. From Houston to Kansas City, the best available schedule would be reduced by 10 hours and from Houston to Chicago by 10 hours and 30 minutes. From Dallas to Kansas City, Santa Fe acquisition would produce a savings of 5 hours and 45 minutes and from Dallas to Chicago a savings of 14 hours and 45 minutes. From Fort Worth to Kansas City, a reduction of 6 hours and 10 minutes over the best available schedule would result under Santa Fe's proposals, and to Chicago there would be a reduction of 6 hours and 40 minutes.

The savings figures stated above for each specific route were included in order to facilitate a breakdown of the various lines to be acquired by Santa Fe under its proposal.

With respect to freight car supply and utilization, Santa Fe notes that in terms of tonnage, grain traffic is the most important commodity handled by both Rock Island and Santa Fe. Santa Fe has maintained and expanded its fleet of cars suitable for carrying grain: as of April, 1966, for example, the aggregate capacity of such cars owned or on order totaled nearly 1.5 million tons. At the end of 1966, Santa Fe's covered hopper car fleet totaled over 12,800 cars, the largest fleet of such cars in service for class I railroads in the United States. Santa Fe acquisition of the southern lines of Rock Island would make Santa Fe's grain car fleet available to grain shippers and receivers on Rock Island lines in the grain territory served by Rock Island with better utilization of the equipment through reduced interchanges and reduction of empty car mileage and time as a result.

(3) Supporting Shipper Witnesses

The shipper and public witnesses who presented evidence on behalf of the Santa Fe for all practical purposes support the carrier's proposed east-west operations to and from the Memphis and St. Louis gateways. The shippers, discussed individually below, are each substantial users of rail transportation. The commodities involved are agricultural products, potash, fertilizers, metal ores, metal products, fabrics, newsprint, furniture, lumber and products, lighting fixtures, bicycles, pipe, ship joiner work and fittings, stone, and household goods and are shipped between points from coast to coast.

Extension of Santa Fe's lines to Memphis is of great interest to most of the shippers, some of which expressed dissatisfaction with existing service via that gateway in terms of delays incident to interchanges west of Memphis. Others have been unable to obtain an adequate supply of cars where they must depend on multiple line routes. Purchase by Santa Fe of Rock Island lines would give several of these shippers a needed flexibility of routing, particularly in the Southwest, where the shippers have plants located at points on the Santa Fe and at other points served by Rock Island.

Almost half of the shippers support Santa Fe's entry into St. Louis. With respect to either or both Memphis and St. Louis, the shippers have concluded that their own operations would benefit greatly from the new single-line service which would be made available because of the resulting faster and more reliable service which would be available from one carrier over a greater length of haul. Several witnesses are vitally interested in the maintenance and improvement of the Memphis line as a main transcontinental route, as assured by Santa Fe, and as opposed to Southern Pacific's proposed operation of the line as a secondary route. Finally, many of the shippers have expressed confidence that extension of the Santa Fe system would place the carrier in a more competitive position vis-a-vis Southern Pacific.

A producer of potash has its potash producing facility at Carlsbad, N. Mex., and it is served exclusively by Santa Fe. In 1965, it shipped over 16,000 rail carloads of potash, 70 percent of which moved to the South, Southeast and Ohio River Valley. For all practical purposes, the shipper is dependent upon rail transportation. The need for potash is seasonal with the need for fertilizers, and the heavy loading season produces an occasional short supply of hopper cars. Therefore, the shipper maintains its own fleet of leased cars. It is essential that the shipper has available carrier services which provide

prompt and orderly turn-arounds of cars so that the inbound supply of empties meshes with production schedules, especially since the producer's storage facilities may not always be adequate. The company is confident that the proposed single-line services of the Santa Fe will meet the shipper's need for improved time in transit and also car tracing to enable the company to be constantly aware of the location of its equipment.

Present joint-line service to the Memphis and St. Louis gateways is not adequate for the shipper's needs and demands of its customers for prompt, reliable rail transit time. The single-line service will eliminate delivery delays which disrupt customers' production schedules during seasonal peaks, and also eliminate the bunching of cars at destination which results in an overtaxing of storage facilities. The faster service will also help in meeting the emergency requirements of the customers and eliminate the necessity of sending cars out to diversion points near market areas in order to meet these extraordinary situations.

A grain storage, milling and merchandising company engages principally in storing and loading grain for export through Gulf and West Coast ports. It has nine storage facilities in Texas; the principal ones at Tulia, with a capacity of over 16 million bushels, and served by Santa Fe, and at Holden, with a capacity of over 18 million bushels, and served by Rock Island and FW&D. Its headquarters, at Plainview, is served by Santa Fe and FW&D. Santa Fe also serves facilities at Kress and Kings Mill, while FW&D serves Electra and Childress. Up to 1966, 90 percent of its shipments moved through Gulf ports; however, since then there has been a "tremendous" movement to the Pacific Coast ports.

The storage elevators are located at concentration points for grain in order for the shipper to gather, store and move grain into the ports for export, utilizing rail transit privileges and preserving a single-line export rate from origin point to the port whenever possible. Santa Fe is the shipper's principal gathering rail carrier, with FW&D second and Rock Island a distant third. Since Santa Fe does not serve the Holden facility, the shipper is restricted in its use of the carrier as a gathering line. Santa Fe grain stored at Holden and eventually exported is subject to the domestic rate which is at least 4½ cents per hundredweight higher than the export rate. Acquisition by Santa Fe of Rock Island's Fort Worth-Houston line, on which Holden is located would be of dual benefit to the company. It would enable the company

to utilize Santa Fe's large gathering service in conjunction with the Holden facility and would also open the large Tulia facility to Rock Island's gathering lines for eventual export through the Gulf ports. The consolidation of trackage of Santa Fe and Rock Island would give the company increased flexibility from the concentration of gathering lines within the service of a single carrier serving both of its principal storage facilities.

A Missouri farmers' association, headquartered at Columbia, Mo., principally supports the Santa Fe's proposed acquisition of trackage rights over that portion of the Rock Island line between Kansas City and St. Louis. The association, representing 152,000 members, is here concerned with its manufacture and distribution of fertilizer products, the transportation of which is dependent upon rail service. The association has located on the considered Rock Island line, a major fertilizer plant at Maryland Heights, Mo., and smaller blending plants at Cole Camp, Eldon, Freeburg, Owensville, and Windsor, Mo. All such facilities receive substantial quantities of potash from Carlsbad, N. Mex., and shipments of ammonium nitrate from Lawrence, Kans. Anhydrous ammonia shipments and various liquid fertilizer solutions in tank cars move from Lawrence to Maryland Heights and also seasonal movements of anhydrous ammonia to Freeburg, Owensville and Windsor. Movements of the foregoing commodities and those originated by the Santa Fe constitute a majority of the association's traffic in the Missouri area which exceeds 1,600 carloads per year.

The association's manufacture and distribution of fertilizer is extremely sensitive to seasonal planting periods and the marketing of fertilizer is highly competitive. A farmer who needs his soil nutrients at a definite time will go elsewhere for his needs, including association members, if the association cannot meet the necessary delivery date. Accordingly, it is necessary that the association anticipates as closely as possible the demands of its customers and that it supply the fertilizers, packaged or in bulk, precisely timed to meet planting schedules. In turn, the success of the association's operations is dependent upon a consistent, reliable, and orderly transportation of component materials to its blending and manufacturing plants. In such respect, the association further points out that it has limited storage facilities and a commodity such as potash moves in great quantities into and out of its facilities in a short span of time.

The total scope of transportation services being provided by the Rock Island in its local Missouri operations as well as its participation in the joint-line movement of potash which

originates at Carlsbad for delivery at Maryland Heights, are so unresponsive to the association's needs as to be costly to its production and marketing proceedings. Primarily the association finds that the too few schedules operated by the Rock Island produces an uncertainty in local service, delays in deliveries, and an overloading of trains, the latter, in turn, bunches cars at destination and adversely affects the association's operations. From its own experience, the association has learned that service to its facilities located on the Rock Island line between Kansas City and St. Louis normally takes one to two days longer to effectuate delivery than the service it receives to its Missouri plants located on other rail lines.

Presently, the Santa Fe originates the association's potash traffic from Carlsbad and the ammonium nitrate movements from Lawrence. Following the proposed unification, the association is confident that it will receive a faster and more reliable service, saving on movements from Carlsbad at least one to two days over present deliveries. It also anticipates that the Santa Fe single-line operations will afford a closer relationship with the Santa Fe so as to make readily available a tracing of the progress of inbound shipments from origin to destination. With respect to its previously described local movements from and to Missouri points, the association expects to receive a greatly improved service from the strong and reliable Santa Fe.

A plywood company headquartered in Vancouver, Wash., the third largest plywood sheathing producer in the country, has a pre-finishing plant for hardwood plywood at Vancouver, principal plants at Albany and Grants Pass, Oreg., a jointly owned mill in Missoula, Mont., and mills in Oakdale and Florien, La. The Grants Pass facility is served by Southern Pacific, and the Albany plant is served jointly by Southern Pacific and, through reciprocal switching, the Oregon Electric Railway. The Vancouver plant is served by the lines of SP&S, and the Missoula mill is served by the former Northern Pacific and the Milwaukee. The Oakdale mill is served by Santa Fe and MoPac, and the Florien mill by Kansas City Southern.

The company is highly dependent on rail transportation, using motor carriage and water transportation to a very limited extent. In 1965, rail shipments totaled approximately 9,000 carloads. The company has experienced a steady growth and foresees no change in its use of rail transportation.

Products of its western mills and nearly all the products of its southern mills are shipped into the southeastern and south-central regions of the United States. The shipper's most vital concern lies with the supply of rail cars in the Northwest and the South. Although Southern Pacific has endeavored to furnish an adequate supply, the shipper has found it necessary to solicit additional cars from railroads not serving northwest origins. Santa Fe, for example, has assisted the shipper in many instances. The shipper anticipates that Santa Fe's acquisition of Rock Island's Memphis line will place Santa Fe in a better position to help the shipper meet his equipment needs. Further, the acquisition of Rock Island lines in Arkansas, Louisiana and Texas would concentrate the gathering area for empty cars among fewer carriers in this region and improve rail service to southeastern and Ohio Valley markets through both the St. Louis and Memphis gateways.

The shipper utilizes all three east-west corridors and allocates traffic among the various corridor carriers, a policy which would continue after Santa Fe's acquisition. Santa Fe presently participates in about 10 percent of the company's traffic. The shipper has few complaints about existing service other than car supply, and beyond this, supports Santa Fe's proposed acquisition on the grounds that elimination of the carrier's eastern interchanges would improve its service and make available a more competitive service through the southern corridor.

A statewide farmers cooperative, located in LaVergne, Tenn., maintains stores and warehouses throughout the State and supplies Tennessee farmers with all commodities used in agriculture. The major item marketed by the cooperative is fertilizer, produced at plants at LaVergne, Halls and Tenco, Tenn., and Sheffield, Ala. A major commodity used in producing fertilizer is potash, nearly all received from the Carlsbad, N. Mex., area. Although the potash is ordered through a Chicago buying organization, the cooperative controls the routings. Delivery schedules are highly sensitive to customer demands. The inbound supply moves exclusively by rail and exceeded 800 carloads in 1965.

Fertilizer production by the shipper is at its peak in the spring when 75 percent of the annual production occurs, and at such time the inbound rail shipments of potash have resulted in rail car bunching because storage facilities are inadequate to handle the volume. However, production problems have also been encountered during peak seasons delays in rail deliveries. It is necessary therefore to have an

efficient and orderly flow of rail deliveries. The shipper supports Santa Fe's acquisition of Rock Island's Memphis line expecting that the carrier would provide a reliable, expeditious single-line service from Carlsbad through the elimination of intermediate interchange and through improved car tracing and turnaround of specialized potash equipment. Any downgrading of Rock Island's Amarillo-Memphis line would be of considerable concern to the shipper as it presently constitutes one of its service routes for potash.

A company which manufactures lighting fixtures and is located in Conyers, Ga., on the Georgia Railroad, ships about 3,500 carloads a year throughout the United States. Its interest in Santa Fe's acquisition of the southern portion of Rock Island concerns its traffic moving to western trunkline and transcontinental destinations via Memphis. The company generally routes California-bound traffic over Southern Railway to Memphis and the Cotton Belt and Southern Pacific or via Seaboard (now SCL) to Birmingham and then Frisco, QA&P to Floydada, Tex., and Santa Fe to the west coast. Traffic from Memphis also moves via the MoPac system to El Paso, thence Southern Pacific. Rock Island is not used from Memphis or St. Louis. Most California and Colorado shipments terminate on Santa Fe.

The company's shipments move directly to customers or public warehouses, with routing controlled by the company. Time in transit is important to customers, and, on shipments to the West, the company often uses its own trucks for faster service. If Santa Fe acquires Rock Island's southern lines, the company will use the single-line service available to the west coast, via both Memphis and St. Louis (the latter point if service to Kansas City is equal in quality to the best now available), as well as using the line from Memphis to Rock Island points in Oklahoma and Colorado.

The company feels that present interchanges can cause a delay averaging one day and also is the main cause of car shortages. Additionally, the company favors the new single-line competition that Santa Fe would offer Southern Pacific from Memphis. It points out, however, that existing service is satisfactory, and, as long as it continues to be so, the company will continue to use those routes.

A manufacturing company, with main offices at Lawrenceburg, Tenn., is the largest manufacturer of bicycles in the western hemisphere and a substantial manufacturer of other types of children's wheel toys. Its annual sales are in excess of \$50 million and it has a production capacity for bicycles alone of 6,000 per day. Its traffic volume to points throughout the United States is 2,600 carloads per year.

While motor carriers are utilized for short hauls of inbound steel shipments from the Birmingham area, the company uses rail service almost entirely for its outbound shipments, since its product is bulky and motor carriers are not capable of carrying it as feasibly or economically as are rail carriers. An exception occurs during the pre-Christmas period when customers seek faster delivery and are willing to pay the higher truck rates, generally 20 percent above the minimum rail rate.

Generally, the company uses the southern route on traffic moving from Tennessee to Central California. Sixty percent of its westbound traffic moves via the St. Louis gateway, 30 to 35 percent moves via Memphis and the remainder moves via New Orleans. The destination generally governs the routing. For instance, traffic destined for Southern Pacific points generally moves through New Orleans. A substantial portion of traffic destined for ultimate line-haul on Santa Fe moves via St. Louis. Consignees govern about one-half of the routings. Some larger accounts prefer the St. Louis gateway. On the other hand, at the Christmas rush season, the shorter Memphis route is utilized. Two major factors governing its large use of the St. Louis gateway are the desire of its local carrier, Louisville and Nashville, to secure the longer haul through St. Louis and the availability of the transloading station near Kansas City. This latter factor is important, since half of its shipments are transloaded. Subject to the above service and destination considerations, where the company routes the traffic, it follows an allocation policy based on a rough yearly average for the carriers it utilizes.

The company is aware of the progressive influence of competition and supports unifications that would strengthen the rail industry and competition among rail carriers. Although the company has few complaints on existing service, it supports the Santa Fe proposal to acquire the southern portion of Rock Island and trackage rights from Kansas City to St. Louis because it would result in a second single-line service between the West Coast and the three Mississippi River gateways. The company would route as much traffic as possible via Santa Fe's new single-line routes, and is vitally interested in the continued maintenance of Rock Island's Amarillo-Memphis line as a service route.

A manufacturer and processor of paper products, with plants located at Calhoun, Tenn., and Catawba, S. C., principally supports Santa Fe's proposed operations over the

Amarillo-Memphis line. One of the shipper's major commodities is newsprint, for which its second most important market is the Southwestern Territory and the area extending beyond into the States of Colorado, New Mexico and Arizona. In 1965, Santa Fe participated in 350 carloads of these shipments.

Newsprint is shipped directly to the customer, and therefore the company has hundreds of destinations in the described areas. Because of intense market competition, transportation ranks second only to quality control of the product for the shipper. Most of this traffic moves by rail because of the favorable rate structure from the company's plants to these areas. Further, the railroads have provided quality shock-control equipment minimizing damage on high-volume newsprint shipments, and the development of piggyback service has enabled the company to efficiently ship low-volume shipments without the risk of damage during reloading en route. The railroads have also afforded reliable service to meet customer needs and expedited service to meet emergency requirements. The company states that all of the western carriers have cooperated with respect to these needs.

The shipper supports Santa Fe because the carrier assured the shipper that the Rock Island's Memphis line would be modernized and upgraded, and, in the shipper's own view, because the acquisition of the line by Santa Fe would provide the shipper with another direct transcontinental line, competition would increase for the Southern Pacific principally and also for the other carriers serving the area west of Memphis, resulting in improved service and rate considerations for the shipper. Although the company will continue to use all railroads in its market areas, it anticipates an increase in the traffic over Santa Fe via the (former) Rock Island Memphis line.

A manufacturer of apparel and consumer and industrial fabrics, with general offices located at West Point, Ga., is the fourth largest cotton textile manufacturer in the country, has 21 plants and sales in excess of \$350 million (as of the fiscal year ending August 27, 1966). The shipments that relate to its appearance in this proceeding are those bound for the West Coast after consolidation at Fairfax, Ala., from plants located at five Alabama points and one each in South Carolina and Georgia. The Alabama plants are all on the Chattahoochee Valley Railway, a 28-mile long road owned by the company and running between West Point and Bleeker, Ala. Although rail transportation is utilized for only 30 percent of total shipments to all points in the United States, rail movements predominate on shipments to the West Coast.

The shipper controls the routing on the cars containing shipments consolidated as above described. Shipments to the West Coast are routed via southern corridor carriers. Many cars require transloading. Because the shipper must make deliveries directly to customers or to their distribution warehouses, in either case with inventories under strict control, the shipper's products are not frequently stored for any appreciable length of time at destination. Railroads furnish the most desirable service for these shipments to the West Coast from the standpoint of rates, customer needs, traffic volume, and meeting foreign competition in textiles on the West Coast. Volume rates and the use of westbound (i.e., returning) refrigerator cars make the service attractive. In 1965, nearly 300 actual carloads were shipped to Los Angeles and other western destinations in this manner.

The most important West Coast distribution point for the shipper's products is a warehouse situated on the Santa Fe at Los Angeles. The shipper's needs for expedited and reliable service are being met by the Santa Fe. The switching delays incurred on other carriers' operations would be of substantial detriment to the customer. Santa Fe entry into Memphis would be of considerable assistance to the shipper in improving upon the already reliable and expeditious overall movement to the West Coast through elimination of Santa Fe's present interchanges with carriers west of Memphis.

A company engaged in the manufacture and marketing of cast iron pipe and welded steel pipe operates its plant in Birmingham, Ala., and is served by the Southern Railway, the Louisville & Nashville and the Birmingham Belt Railway. Approximately 25 percent of its production is of the welded steel pipe, which is used by oil and gas transmission lines in the Southeast and Southwest.

In the production of the steel pipe, the company often uses skelp, which is a coil plate or sheet. Much of the skelp is obtained from mills in Ohio and Pennsylvania and fabricated into the pipe at Birmingham under transit privileges, which are offered by carriers serving the transit point. This transit privilege is essential to the company's ability to compete with other pipe fabricators, particularly in the southwestern part of the country.

Although many welded steel pipe shipments are destined for Santa Fe points, the Santa Fe is not utilized because it does not participate in routing tariffs which provide for transit on shipments moving through the Memphis gateway.

The shipper has been assured by Santa Fe that open routes via Memphis would be maintained, including those presently available to Rock Island points on the Memphis line and south thereof; routes would be opened to Santa Fe points in the same area; and the carrier would use its efforts to make transit privileges available to the shipper for shipments moving over these routes. Thus, the shipper would be enabled to compete more effectively with other producers of welded steel pipe sold in the southwestern market.

A wholesaler of house furnishings has offices located at Burlingame, Calif., and 29 warehouses in 14 of the States west of the Mississippi River. It relies primarily on rail transportation because of the physical nature of its products. It receives approximately 3,800 rail carloads annually and incurs an annual freight bill of about \$3 million, 95 percent of which is for rail transportation. It receives a substantial portion of its shipments from points east of the Mississippi, moving in carload lots to the warehouses.

Single-line service is important to the company in eliminating delays en route. The delays are directly proportionate to the number of railroad interchanges involved and are further increased by switching and terminal carriers. An important example cited by the company is its Wichita warehouse, which is located on the Rock Island line to Houston. Traffic moving by Santa Fe line haul through Wichita encounters a delay when it is switched to and/or from Rock Island for movement to the warehouse. Since the company receives a stopover privilege from Santa Fe, it continues to utilize Santa Fe through the area but would benefit greatly in time saved if Santa Fe were to acquire the southern portion of Rock Island.

Due to the wide area from which it receives goods, the company would generally prefer that those carriers serving its warehouses reach as many gateways as possible. The company attempts to give the delivering carrier the largest possible haul. Santa Fe participates in approximately one-third of the company's shipments, the majority of which reach Santa Fe at Kansas City. The company feels that it would benefit greatly from Santa Fe's reaching the St. Louis and Memphis gateways, thus eliminating the intermediate carriers presently utilized, and extending the carrier's influence on rate and service matters over a longer route.

A cotton merchandiser, with general offices in Hallettsville, Tex., ships cotton from points in California

and Arizona to several mills in the southeastern States. A substantial number of the origin points are located on Santa Fe lines. The shipper's main interest in supporting Santa Fe's application is the extension of its line to the Memphis gateway. In 1966, the company shipped approximately 800 carloads through that gateway.

Rail transportation is the only feasible mode of transporting the shipper's cotton because of volume, distance and rates. Its business operations depend upon its ability to supply the mills' requirements at a satisfactory cost, eliminating the need for the mills to do their own purchasing, storage and transporting of the commodity. To meet these requirements, the shipper must furnish the cotton on an orderly basis within a designated two-week delivery period. Inconsistency in rail transit time has already resulted in the mills' establishing consolidated warehouses to allow storage when inbound rail cars are bunched. The shipper anticipates that the creation of the Santa Fe single-line service to the Memphis gateway will alleviate this problem.

In its past dealings with Santa Fe, the company has received excellent cooperation in rate matters. It feels that the presence of Santa Fe at Memphis will have a beneficial influence on such matters both on rates west of Memphis and on rates to the Southeast. Further, the company expects the additional competition at Memphis by a carrier equal in strength to Southern Pacific will result in quicker and more reliable service on cotton shipments to the Southeast.

A miller and distributor of alfalfa meal and meal pellets has its mill at Big Bend, Colo., on the Santa Fe. It recently opened a pet food plant in St. Louis. Its major markets for alfalfa products are Florida, Mississippi, Louisiana, and Texas, and its support for Santa Fe's application relates to markets throughout the Southeast, especially the Florida market to which it ships approximately 7,000 tons of alfalfa meal annually.

It generally routes its Florida-bound traffic from its plant to Kansas City via Santa Fe, then to Birmingham via Frisco and then to the Florida destinations, usually by Seaboard Coast Line. The shipper anticipates that an extension of Santa Fe operations to Memphis will afford a consistent, reliable, expedited transit time as required by its customers and that a stronger Santa Fe influence in the area of rate negotiations will enable it to meet Michigan and Ohio competition which trucks the products into Florida.

Santa Fe's extension to Memphis will benefit the shipper on its shipments to Mississippi and Louisiana by eliminating interchanges and their related delays from the routing, resulting in speedier and more reliable transit time.

The St. Louis pet food plant is small, with limited storage facilities. Since 90 percent of its raw materials come from the Colorado mill, the company needs fast, reliable service. If Santa Fe acquires trackage rights from Kansas City to St. Louis, the delays of interchanges with intermediate carriers would be eliminated to the benefit of the company.

A transportation consultant, retained as traffic manager or director of transportation by shippers with plant sites in Virginia, Georgia and North Carolina, finds that his clients receive satisfactory service from Santa Fe and they wish to see its lines extended to the Memphis and St. Louis gateways. These clients make substantial numbers of shipments by rail from the Southeast to points west of the Mississippi River. The expected benefits from the extended-single-line service would be the elimination of interchange delays, more dependable service and improved car supply.

One such shipper manufactures dining room and bedroom furniture at Roanoke, Va., served locally by Norfolk & Western. A large number of shipments are routed via Norfolk & Western to Chicago or, via Decatur, Ill., to Kansas City; however, the carrier's service east of Decatur is unsatisfactory. Approval of Santa Fe's application for purchase of Rock Island south and acquisition of trackage rights between Kansas City and St. Louis would allow the shipper to interchange with Santa Fe at St. Louis rather than Kansas City and would provide single-line service from St. Louis, through Kansas City, to Rock Island and Santa Fe points in the southwestern area. Also the company would receive the same excellent Santa Fe service from St. Louis as it now receives from Kansas City and Chicago. In addition, Santa Fe has a large number of load divider cars moving east with canned goods, and the company would like to utilize some of the equipment on the return movement through St. Louis, with Santa Fe receiving its long haul in return for furnishing the equipment.

The consultant also represents two plants manufacturing ship joiner work and fittings, including staterooms, kitchens, etc. These manufacturers, divisions of a New York-based concern, have plants in Waynesboro, Va., and Royston, Ga., and ship to various shipyards, including San Diego, which Santa Fe serves. The Waynesboro plant is served by Chesapeake & Ohio and Norfolk & Western. As many as 200 carloads have

moved from this plant in one year, with a large portion terminating at San Diego. These shipments require reliable rail service and must arrive prior to the time the materials are scheduled to be fitted into the vessels. The San Diego shipments are delivered by Santa Fe, after being switched at Kansas City from N&W or at Chicago from C&O. If Santa Fe extends its service to St. Louis, the Santa Fe portion of the haul will be extended from Kansas City to St. Louis, thereby affording the company a choice of dependable two-line Santa Fe service via C&O to Chicago or via N&W to St. Louis. The Waynesboro plant is especially interested in Santa Fe since that carrier assigns equipment to the plant and has been receptive to rate requests where other western carriers have not.

The Royston plant, which began shipping in 1966, is located on a Southern Railway line. To meet the increased demands of the San Diego shipyard, it would be highly desirable to have a dependable two-line service provided by Southern to Memphis and Santa Fe from Memphis to San Diego, as opposed to existing multiple-line service.

A third concern represented by the traffic consultant produces crushed granite, billed as crushed stone, for use in exposed aggregate, which is mixed into concrete for surfacing of buildings. This company has plants at Staley, N.C., served by Southern, and at Blue Ridge, Ga., served by Louisville & Nashville. The use for this product is growing rapidly, and the company would benefit greatly from the two-line service to southwestern and transcontinental points that will be created by Santa Fe's extension of its line to Memphis, the gateway presently utilized by the shippers.

A cotton marketing cooperative, with headquarters in Lubbock, Tex., has a membership including 239 cooperative gin associations and some 25,000 cotton producers. It is engaged in the compressing and marketing of cotton grown in Texas and Oklahoma for sale to mills located in the Southeast as well as to export markets. Shipments to mills are exclusively rail hauls. For the year ending July 31, 1966, the association shipped approximately 360,000 bales or approximately 3,000 rail carloads, two-thirds of this moving to Galveston, Tex., for export, and the remainder moving to the Southeast, except a small portion destined for Canada.

The cotton is gathered at concentration points, from which shipments of cotton in lots assembled by grade or

type can be made and from which reasonably good rail service is available. There are concentration points located at Lubbock, Plainview, Sweetwater and Corpus Christi, Tex., and Altus, Okla., all served by Santa Fe except Corpus Christi. Also, T&P serves Sweetwater; Frisco and Katy serve Altus; and FW&D serves Lubbock and Plainview. The Corpus Christi facility is served by SP, MoPac and The Texas Mexican Railway Company. The only single-line service to the Southeast is provided by Frisco between Altus and Alabama points, and this is much superior to the circuitous Santa Fe-Rock Island service between those points via either Sweetwater or Oklahoma City and Memphis. Santa Fe presently provides excellent single-line service to Galveston, as does FW&D, and the association desires similar service via Memphis and thus supports Santa Fe's application.

In the domestic shipment of cotton, consistency of service is a more important consideration than speed. When a quantity of cotton is selected for shipment against a particular contract, it is scheduled for shipment and delivery to that destination at a particular time according to the terms of the sale. The association has computerized its shipping procedures, and it is necessary that the data processing machines receive precise information as to routes and rail transit time so that scheduling may be done on an orderly basis, hence the need for reliable and consistent service. The association's experience with respect to southeastern markets has shown this to be accomplished most readily by using routes involving fewer interchanges.

This association does its own routing on lines west of the Mississippi River, although it does honor customer-requested routings on routes east of the Mississippi. The association has an allocation policy, and, although it may shift certain traffic to Santa Fe's extended line to Memphis, it intends to shift other traffic to carriers who will suffer the diversion.

The association supports Santa Fe's application rather than Southern Pacific's because the latter system already serves two Mississippi River gateways, one of which is Memphis. There is little incentive for Southern Pacific to upgrade and improve the Rock Island line to Memphis; whereas Santa Fe has expressed an intention to do so. Since Santa Fe serves four of the association's concentration points, it will be beneficial to the association to have that line improved and maintained for good service.

A company which consolidates household goods shipments moving to and from foreign points is located in Richmond, Calif.

Most of its operations are in connection with government employees and their families. The company uses containerization for the shipments, and in 1965, moved over 1,000 rail carloads of these containers to and from points in 42 States and the District of Columbia. Practically all of the container shipments are consolidated into carloads and routed by the company so as to take advantage of stopoff and transloading privileges in order to accommodate the multitude of origins and destinations involved.

While the use of containers has almost eliminated the damage factor, it does require specialized rail services and facilities at the major import location, Richmond. Further, it requires an adequate availability of 50-foot wide-door box cars. Also, it requires reliable service, particularly with respect to stopoffs and transloading facilities, since the families served need delivery on schedule. Santa Fe has met all of these requirements.

It is vital to the company to have the longest portion of the haul performed by a carrier that is responsive to its needs. A substantial portion of its traffic moves through the St. Louis and Memphis gateways. Extension of Santa Fe's service to these gateways would give the company greater reliability of service between Richmond and the gateways and a closer relation to the performing carrier. The company has been provided "excellent" service by Santa Fe. The inclusion of Rock Island points in the Santa Fe system would enhance the company's ability to maneuver its carloads to the various origins and destinations involved with a minimum of interchanges and tariff restrictions.

A Stuttgart, Ark., traffic manager for two Arkansas cooperative associations presented evidence on their behalf. One, a rice cooperative with a membership of over 5,000 farmers, operates three rice mills at Stuttgart, each served by Cotton Belt and Rock Island. Another mill, at Jonesboro, is served by Cotton Belt and Frisco. This cooperative processes and distributes milled rice and rice products throughout the United States and foreign markets. It has direct competition from mills in Louisiana, Texas, Tennessee and California. The rice cooperative is possibly the world's largest producer of processed rice, with a total production approximating 60 percent of the Arkansas rough rice crop.

The other association, a grain cooperative, operates two soybean processing plants, one at Stuttgart, served by Cotton Belt and Rock Island, and the other at Helena, served jointly

by MoPac and Illinois Central. The cooperative processes and distributes soybean meal and oil in much the way as does the rice cooperative.

The annual rail volume is about the same for the two cooperatives and totals over 17,000 carloads a year, with a freight bill of over \$3 million. Additionally, motor carrier shipments total slightly under 5,000 truckloads, much of it consisting of deliveries of soybean oil to Helena for movement beyond to Gulf ports by barge.

Because of the volume of business, the cooperatives are heavily dependent upon rail transportation. Most of the local elevators are located on rail lines, and 95 percent of the rail traffic is transited through Stuttgart for processing and ultimate movement to market areas. Rice products are shipped packaged and in bulk, and soybean products move in liquid as well as dry bulk. The cooperatives require a substantial number of covered hoppers, damage-free cars, tank cars and box cars. The continuing success of operations depends upon the willingness of the carriers serving the plants to provide adequate car supply as well as switching and line-haul service, all at reasonable rates. The company is of the opinion therefore, that two strong, capable carriers should be available to furnish these requirements.

Further, it would be a great benefit to have, at the plant, rail carriers that not only serve large portions of the gathering areas, but which, after transit, also furnish reliable single-line long-haul service to the destinations. The present Cotton Belt service is inadequate for the needs of the cooperatives since only one train per day is furnished. The Rock Island's service there is inadequate with respect to car supply and because of the infrequency of expedited service. The above deficiencies affect the shippers' ability to compete in the Southeast and the Ohio Valley.

Santa Fe now participates in less than 5 percent of the traffic, as compared to 60 percent for the Southern Pacific system. If Santa Fe acquires the southern portion of Rock Island, thus obtaining a single-line route from Stuttgart to Memphis, the effect of the two strong competing carriers at Stuttgart will be to improve the car supply and the available expedited service. Also, it should strengthen the cooperatives' ability to receive rate consideration in areas where intermodal competition exists or threatens.

With respect to westbound shipments from Stuttgart, the elimination of the interchange between Santa Fe and Rock Island will increase the speed of delivery. The company expects that this will result in an increase in westbound traffic which will come from present motor carrier traffic rather than other rail carriers.

A company engaged in the processing and merchandizing of zinc ore, metal and byproducts has one of its major processing plants at Machovec, Tex., served by Santa Fe. The plant receives substantial quantities of zinc concentrates from mines located in the vicinity of New Market and Mascot, Tenn., and shipped in heavy duty gondolas supplied by Southern Railway. Its primary outbound commodity is zinc slab, an easily damaged commodity, which moves under company routings by rail to the Great Lakes, the Ohio Valley and southeastern areas, as well as California.

The present routings to and from the Texas plant via the Memphis gateway require intermediate switching between connecting carriers and Santa Fe in order to get to and from the plant. Santa Fe does not presently participate with Rock Island on the shipper's traffic via Memphis. The company requires consistent transit time to coordinate these inbound shipments with its production process, and needs a single-line service from Memphis to eliminate the interchange delays. A similar situation holds true for outbound shipments to customers and their production schedules. If Santa Fe acquires the Rock Island line to Memphis, the traffic volume of other carriers probably would not be affected, since two-thirds of the traffic now moves in 100-ton cars, supplied by Southern, over Rock Island's Memphis-Amarillo route, with expedited service. The traffic other carriers receive is that over and above this particular type of movement. As long as Southern's supply of the 100-ton cars remained the same, the amount of traffic available to other carriers would remain the same also. The cars are in assigned service to the shipper and reliable and expedited transit time is required to achieve maximum utilization of the equipment.

Another reason for the company's support of Santa Fe's application is that the carrier has stated that it would upgrade and maintain the Memphis-Amarillo line, whereas Southern Pacific has stated that this line would be a secondary line under Southern Pacific ownership. Such status for a line, in the shipper's opinion, usually means eventual deterioration of the line. If the line deteriorates and cannot handle the shipper's heavily loaded cars, the company states that "It will be fatal to us. . ."

Service to customers is also important to the company. Extension of Santa Fe's lines to Memphis, as well as the acquisition of trackage rights between Kansas City and St. Louis would result in outbound single-line service and reliable transit time.

A lumber shipper headquartered in Phoenix, Ariz., supported Santa Fe's application, through its traffic manager, who also represented an association of lumber producers from that area.

The lumber company is a major shipper to all the national markets. It has a sawmill at Flagstaff, Ariz., local to Santa Fe, and one at McNary, Ariz., served by the company-owned Apache Railway, which connects with Santa Fe at Holbrook, Ariz. These mills shipped the majority of their total tonnage by rail, which in 1965 totaled approximately 3,000 rail carloads of lumber products, destined around 20 percent to the Southeast, 25 percent to the Southwest, 30 percent to the Great Lakes area, and 25 percent to the Ohio Valley area.

The association represents all of the lumber production in Arizona and New Mexico and a small portion of the Colorado production, with two members in that State.

Ordinarily, the lumber is used in the construction industry and, in many instances, delivery dates are guaranteed to meet construction timetables. Normally, destinations are such as to preclude storage, and reliable transit time is of great importance. Also, the company is paid upon receipt of the timber, so prompt delivery is desired.

Many of the producers' competitors are located in closer proximity to the market areas, and to meet such competition, the producers must overcome transportation difficulties involving service and rates. In the past, Santa Fe has been of great assistance to these lumber producers not only with respect to service and equipment, but also in the area of rate negotiations. On occasion, Santa Fe has even taken independent action with respect to rate adjustments and has assisted at other times. Therefore, based on this experience, these lumber producers favor the extension of Santa Fe's service to St. Louis and Memphis. The single-line service then available will substantially improve the speed and reliability of service.

The Southeastern Association of Railroad and Utilities Commissioners testified in support of Santa Fe's application to acquire the southern portion of Rock Island and in specific opposition to Southern Pacific's similar application. The organization is a voluntary, nonprofit association of the regulatory commissions in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Virginia; however, the Louisiana members did not participate since the State is directly involved in the proceedings. Each of the 60 member commissioners was notified for an opinion and then a meeting was held to arrive at a final position.

The association supports the Santa Fe acquisition because it would result in creation of another direct, single-line southern route from Memphis to the West Coast to compete with Southern Pacific. Southern Pacific already reaches New Orleans on its own lines and reaches Memphis and St. Louis in conjunction with its subsidiary, Cotton Belt. Another Southern Pacific line to Memphis would be of no benefit to the southeastern States. Further, Southern Pacific has indicated that it will not seek to improve or rebuild the Amarillo to Memphis line, whereas Santa Fe has indicated that it plans to spend over \$5 million in upgrading the line.

Although there is satisfactory multiple-line service west of Memphis, the association expects that the competitive influence on rates and schedules brought by another direct transcontinental line to Memphis will benefit southeastern shippers through better service. Extension of Santa Fe to Memphis will place its large car fleet closer to these shippers and should somewhat alleviate their car supply problem. The importance of such benefits is increasing with the growing industrialization of the South with its corresponding increases in the need for transportation of raw materials and finished products between the South and the West.

(4) Trackage Rights Over Frisco at Kansas City

For purposes of the requested inclusion, it is appropriate at this point to set out the essential elements of the Santa Fe trackage rights application in Finance Docket No. 24154.

The terminal facilities of Frisco for which Santa Fe seeks common use in Finance Docket No. 24154 consist of a main line of railroad track extending from Sheffield Junction, I.C.C. chaining station 22274 plus 54 to Leeds Junction, I.C.C. chaining station 22141 plus 76, in Jackson County, Mo., a distance of approximately 13,282 feet; a passing track approximately 3,863 feet in length; a passing track approximately

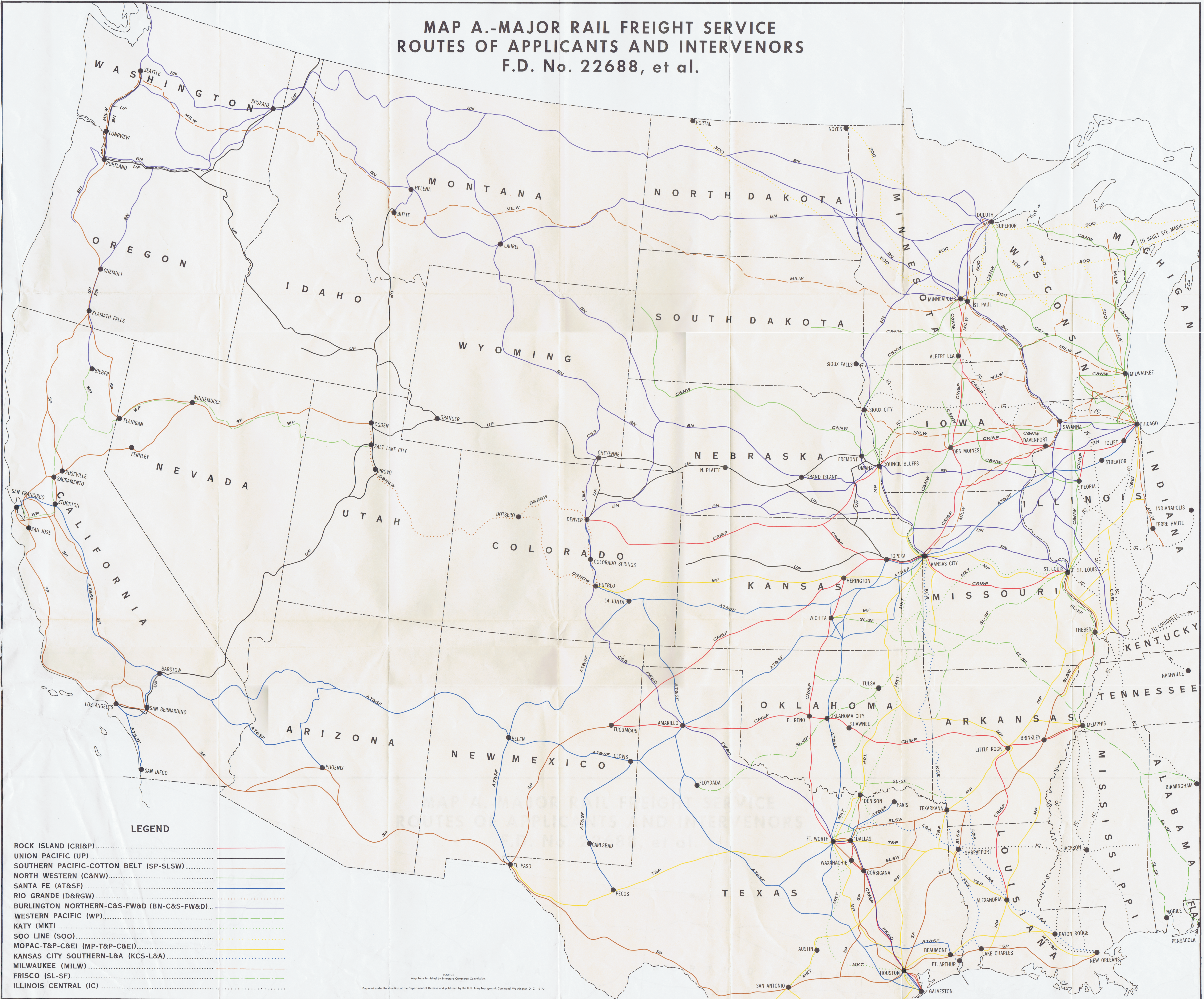
1,883 feet in length; together with crossover and appurtenant track facilities and right-of-way. This request is contingent upon the Commission's approval of Santa Fe's acquisition of the trackage rights between St. Louis and Kansas City.

Rock Island has maintained its entry into Kansas City from St. Louis by operating agreements with the Frisco which have been continued in effect by various renewals since 1904. Rock Island operates trains over the Frisco facilities at a monthly rental of a sum equal to 1/12th of 2½ percent of the value of the trackage as of March 24, 1954, understood to be \$301,956.34 plus 2½ percent of the cost of additions or betterments to the trackage made from March 24, 1954, until the agreement is terminated. Rock Island also pays one-half of the taxes levied on the facilities and a proportion of the cost and expense of maintaining and operating the facilities. Santa Fe contends that its use of the facilities would not impair the enjoyment of the facilities by any other common carrier but would benefit the public interest by thus permitting Santa Fe to serve St. Louis.

Errata to Volume I

<u>Page</u>	<u>Change</u>
367	"Table 102" to "Table 117"
460	"B. <u>Federal Agencies</u> " to "20. <u>Federal Agencies</u> "
460	"1. Bureau of Enforcement-ICC" to "(a) Bureau of Enforcement-ICC"
461	"2. <u>U.S. Department of Justice</u> " to "(b) <u>U.S. Department of Justice</u> "
462	"C. <u>State Agencies</u> " to "21. <u>State Agencies</u> "
463	"D. <u>State Subdivisions</u> " to "(a) <u>State Subdivisions</u> "
465	"E. <u>Labor Interests</u> " to "22. <u>Labor Interests</u> "
466	"F. <u>Intervening Stockholder-Kendall Laughlin</u> " to "23. <u>Intervening Stockholder-Kendall Laughlin</u> "
579	In the 3rd full paragraph, "Division" to "Divisions"

MAP A.-MAJOR RAIL FREIGHT SERVICE
ROUTES OF APPLICANTS AND INTERVENORS
F.D. No. 22688, et al.



LEGEND

- ROCK ISLAND (CRI&P)
- UNION PACIFIC (UP)
- SOUTHERN PACIFIC-COTTON BELT (SP-SLSW)
- NORTH WESTERN (C&NW)
- SANTA FE (AT&SF)
- RIO GRANDE (D&RGW)
- BURLINGTON NORTHERN-C&S-FW&D (BN-C&S-FW&D)
- WESTERN PACIFIC (WP)
- KATY (MKT)
- SOO LINE (SOO)
- MOPAC-T&P-C&E (MP-T&P-C&E)
- KANSAS CITY SOUTHERN-L&A (KCS-L&A)
- MILWAUKEE (MILW)
- FRISCO (SL-SF)
- ILLINOIS CENTRAL (IC)