1st MONDAY
3rd MONDAY

Prepared for employees by the
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July 16, 1979

Managers and Supervisors:

Fuel remains a pressing concern. Our forecast indicates that we should have sufficient fuel to sustain our present level of operations through the end of July. However, the forecast is based on assumptions that may change, such as average daily fuel consumption. Having made modest reductions in the frequency of some operations in the Midwest, we must now look at possible service reductions on the Montana and Washington Divisions.

All of our major suppliers are allocating to us only 65 to 80 per cent of the fuel we bought from them a year ago. We are paying 65 cents for a gallon of diesel fuel on the average. Consumption is running at slightly more than 200,000 per day. Some states have provided us with fuel from their federally authorized set-aside programs. Shippers have also helped us find additional fuel. We shall continue to work closely with the states and shippers in this effort.

I have established policy guidelines for the period of reduced fuel availability. This policy is designed to make the most productive use of the fuel we can obtain and to maximize all opportunities to preserve our revenue base throughout the system. The specific elements:

. Present fuel-related service reductions will remain in effect. No service will be totally eliminated. If additional service reductions become necessary, they will be implemented as equitably as possible over the entire system. This will include reductions in industrial switching and in through and local freight service.

. To the extent possible, we shall distribute fuel throughout the system to equalize its availability at all fueling locations. Give priority to the movement of all loaded or empty fuel-carrying cars; we have very few of them and we must keep them at work.

. We must insure that we receive our full monthly allocation from all suppliers. Every effort must be made to find additional sources of fuel. Offers from customers to provide fuel for specific services will be accepted.

. We will not begin any new state track-rehabilitation programs unless the states can commit sufficient fuel to carry out the projects. We shall review those projects already under way to determine if the level of work must be reduced or the project discontinued for the lack of a fuel commitment from the state. Our people have told the states this.

. Should additional fuel become available, we shall restore service. But if allocations are reduced, we must reduce locomotive-miles accordingly.

. We shall maintain constant contact with the office of the AAR which is coordinating fuel-related matters for the nation's railroads. We shall provide this office with full information about our fuel situation.

Last week Governor Milliken of Michigan signed the appropriation bill that provides grant funding for initial rehabilitation of the Iron Mountain-Ontonagon line. We are working with the state to obtain sufficient fuel for the project. Minnesota is providing fuel for the Alden-Jackson track upgrading project.

Bruce Cederholm, assistant vice president-transportation, recently sent out a "Did You Know?" message which focuses on a very critical area of our operating costs. This message bears repeating here in light of our cash-tight and fuel-tight circumstances:

The Milwaukee presently owns and leases some 24,000 freight cars. It costs us about $16 a day to own or lease a new car and to maintain it. This cost escalates rapidly when we use a car which belongs to another railroad, especially a new car. When a foreign car is on our line we must pay the owner railroad for its use based on the age and original cost of the car. We also pay a charge for each mile we move this car. At the minimum, the cost is about $18 a day plus nearly 6 cents a mile. But depending on the type of car, the daily rental, exclusive of the mileage charge, can go as high as $30. This cost has to be subtracted from the revenue we earn by using the car. One of the best ways to keep the revenue figure as high as possible is to load foreign cars for off-line destinations and move them as quickly as possible. As Bruce noted in his message, "delayed cars are dollars wasted."

The Sprint Trains have done it again! During the week of June 24 they carried 1,662 trailers, breaking the record of 1,601 trailers achieved the previous week. Much of this new business has been generated because truckers have raised their charges to offset higher fuel prices. Shippers are finding that the Sprint Trains are a cost-competitive way to move intercity freight. Talks with Sprint Customers indicate that some who had been using the service have increased their usage and that others recently attracted to the Sprints will stay with the service.

We have finalized with the FRA the financing agreement for the $20 million in ERSA funds approved by the reorganization court.

The U. S. Court of Appeals has upheld Judge McMillen's order of April 1978 authorizing the Trustee to borrow $5.1 million in ERSA funds. The banks who represent the secured creditors had appealed the order, contending in essence that the Trustee's request did not meet all applicable standards. In affirming the decision of the reorganization court, the appeals court said that Judge McMillen had not erred.

W. L. Smith
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