

VERIFIED STATEMENT OF PAUL F. CRUIKSHANK, JR.

My name is Paul F. Cruikshank, Jr. and I am the Trustee's Vice President - Operations. I reside in Winnetka, Illinois. I joined the Milwaukee Road as Vice President of Operations and Maintenance of Way in May of 1976. As Vice President - Operations, my duties require familiarity with the operations of the Milwaukee Road's trains, the condition of its track and equipment, and its major sources of business.

I began my railroad career in 1952 as a Brakeman on the Great Northern Railway, served with the United States Navy during the Korean conflict and returned to the Great Northern in 1956. Between 1956 and 1967, I served as Assistant Trainmaster, Terminal Trainmaster and Division Superintendent at various locations on the Great Northern. In 1967, I was appointed Assistant Vice President - Marketing Planning for the Great Northern and continued in that position for the Burlington Northern after the 1970 merger of the Great Northern into the Burlington Northern. In 1971, I was appointed President of the Fort Worth & Denver Railway, which is a subsidiary of the Burlington Northern. Between 1974 and 1976, I was Vice President for Strategic Planning of the United States Railway Association.

Section II. A. of the Reorganization Plan, pp. 4-8, was prepared under my supervision and direction. This is the section dealing with the present state of the Milwaukee's rail lines and equipment. My department also prepared Exhibit 4 of the Plan, which shows trackage embargoed or restricted, Exhibit 5 of the Plan, which shows the miles of main trunk lines under slow orders, and Appendix H to the Application, which describes train operations on the various subdivisions. These are true and correct to the best of my knowledge and belief except that I would like to correct the headings to the last three columns in Exhibit 5 to the Plan. They should read "45 MPH", "50 MPH and Above" and "Total Miles" respectively.

As I testified before the Reorganization Court last May, we fully expected that the plant would continue to deteriorate in 1979. We also expected that our ability to provide service into 1980 would be very much in question on several key line segments, including the main line west of Miles City. This has been confirmed by our experience in the intervening months. In mid April of 1979, for example, we had 162 miles of 10 MPH track between Chicago and Tacoma; by the end of June, the amount of 10 MPH track had grown to 234.9 miles (see Exhibit 5 to the Reorganization Plan). Similarly, the amount of 10 MPH track between Savanna and Kansas City has grown from 131 miles to 178.1 miles, and between Chicago and Louisville from 71 miles to 73.7 miles.

With the burden of keeping our entire system in operation, substantial portions of it have deteriorated to the point that they do not meet minimum FRA track safety standards. These standards prescribe minimum requirements for the quality of roadbed and of track structure and geometry, and are set forth at 49 C.F.R. §213. Trackage meeting only the minimum requirements is restricted to an operating speed of 10

MPH for freight trains. The Trustee and his officers are continually analyzing the entire system, to identify those lines not in compliance with minimum FRA standards.

Our substandard trackage requires costly rehabilitation just to meet the minimum standards. As we noted in our Petition to the Reorganization Court dated August 14, 1979, approximately \$1.3 million would be needed to immediately upgrade such segments on the mainline west of Miles City, and an additional \$400,000 would be needed to upgrade the mainline north of Harlowton, Montana. On or about August 15, 1979, the Trustee filed a petition with the FRA for waiver of minimum track safety standards for 20 branch lines, all of which are the subjects of pending abandonment applications before the Interstate Commerce Commission and none of which are included in Milwaukee II. We estimate that the amount required to bring these lines in compliance with minimum track safety standards is approximately \$3,650,000. Other lines outside of Milwaukee II that do not meet minimum safety standards include lines between St. Maries and Bovill, Idaho; Tacoma and Chehalis, Washington; Steward Jct. and Ladd, Illinois; and Faithorn, Illinois and Fayette, Indiana. The total amount required to upgrade all substandard non-Milwaukee II lines to meet minimum track safety standards is at least \$8 million. Mr. Williamson, Former Chief Engineer for Southern Pacific, will testify that at least \$19 million is needed for Branch lines west of Miles City, excluding the mainline and Northern Montana lines.

We have also identified line segments within Milwaukee II that have deteriorated below minimum track safety standards. These include lines between Rockford and Rockton, Illinois; East Moline and Ebner,

Illinois; and Rockton, Illinois and Racine, Wisconsin. Our estimate of the expenditure required to upgrade these lines to minimum standards is just over \$1 million. Our forces are engaged in this work at the present time.

I wish to emphasize that even if the railroad were to perform all the rehabilitation I have just described, the maximum operating speed permitted under FRA regulations would be 10 MPH. In my opinion, there is no way that the Milwaukee Road, or any railroad for that matter, can provide a viable and competitive service if substantial portions of its trackage are restricted to 10 MPH. As the Commission is aware, the Milwaukee's share of transcontinental traffic has always been unfortunately low. We have lost much of our ability to compete already because of a deteriorating plant, a continual shortage of maintenance funds and an inadequate equipment fleet. Were our non-core properties kept in operation, this deterioration would continue and, in turn, encourage continued diversion of our traffic to our competitors.

Nor would Class 1 rehabilitation enhance, to any significant extent, the salvage value of these lines. Rehabilitation to attain Class 1 involves mostly labor, ties and ballast. The only recoverable resource would be the ties, which cost more than \$30 to install yet would bring only four dollars upon salvage (see Ford, Bacon and Davis Report).

Class 1 being an unrealistic standard for the mainline and secondary mainline trackage involved in this preceeding, we asked Mr. Williamson to key his rehabilitation estimates to higher, but still conservative, standards. We chose Class 3 (40 MPH) for the mainline; this is far below current timetable speeds for the UP mainline (60-70

the Milwaukee Main Area. (See Controller, P.M. for timetable speeds of 25-49 MPH in the same two territories.)

As shown on our 1978 R-1 to the I.C.C. and 10K to the S.E.C., deferred maintenance for the entire railroad was \$578,431,000 as of December 31, 1978. With the limited amount of track maintenance that has been carried out since the submission of the above information, the level of deferred maintenance on the railroad's facilities has increased and is continuing to increase.

Our level of expenditures on locomotives and cars is far below what it should be. Our locomotive bad order ratio is about 21% for road engines and 13% for yard engines and the car bad order ratio is about 12%.

As of August 20, 1979, the Milwaukee had 538 operational locomotive units out of a fleet of 665. While some of this fleet is of recent vintage or has been given major overhaul attention, much of the fleet is quite old and difficult to keep in service. For example, the Milwaukee still operates 45 F7 units which are more than 25 years old and has 54 GE units of all varieties, which have proven to be extremely difficult to maintain, particularly during winters in the midwest and northern states. At the present time, 57% of the GE units are bad order, and 27% of the F7 units are unavailable for service. In order to meet all of the service requirements of the railroad's shippers, we need 450 operating road units.

At present, several programs relating to engine maintenance are in effect to assist us in the effort to keep sufficient units in operation. One hundred sixteen units have been rehabilitated under the 4R Act locomotive program and we plan to do four more. Three units are being rehabilitated with shipper assistance. Also, every effort has been made over the past few years to lease units from other organizations. The number of units available for leasing has dropped substantially over the past year due to the limited supply of locomotives available for short-term leases from other railroads and the continued heavy demand for rail transportation throughout the industry.

On July 31, 1979, we had a car bad-order ratio of 11.71%. Five hundred new boxcars have been acquired to augment our existing fleet. Recently, we have been running into serious car shortages in all categories of cars, particularly box, hoppers, gondolas, etc. Our major car shop in Milwaukee has rehabilitated 907 cars in a 4R Act freight car repair program, with 68 more to go. In addition, approximately 224 cars have been rehabilitated under shipper-financed programs. It has been estimated by Booz, Allen & Hamilton that we now need approximately 5,800 more cars in order to service traffic across the entire railroad less light density lines.

With the railroad reduced in size the Milwaukee Road will be able to more effectively utilize the locomotives and rolling stock of the company. In this day of high costs for locomotives and equipment, it is imperative that a railroad utilize these assets in the most effective and economical way. Our present freight train schedule from St. Paul, Minnesota, to Tacoma, Washington provides a scheduled running time of 87

hours - 45 minutes. This equates to 20.35 miles per hour. Present transit time is actually 137 hours, which means an average speed of 12.98 miles per hour. This same freight train schedule from Chicago to St. Paul is 12 hours and 15 minutes to cover 404 miles at an average speed of 33.25 miles per hour. All times include time for changing crews and servicing engines enroute. We presently do have TOFC schedules operating between Chicago and St. Paul four times per day on a ten-hour schedule or 40.4 miles per hour average. This shows that our operation in the midwest between Chicago and St. Paul is almost three times as efficient as the operation between St. Paul and Tacoma, Washington. This is in large part due to the availability of 4R Act funds between Chicago and St. Paul and the unavailability of 4R Act funds, on account of low traffic density, for the lines west of the Twin Cities.

Considering that a new boxcar presently costs in the area of \$40,000, it is vitally important that a railroad get the best utilization possible. A new foreign line boxcar on the Milwaukee Road costs the Milwaukee 76¢ per hour, plus 5.67¢ for each mile it is moved. For the Milwaukee to move a carload of business between St. Paul and Tacoma, car hire expense is \$11.56 for every hundred miles. Whereas, in the corridor between St. Paul and Chicago, this costs drops to \$7.95 for every hundred miles. This is a decrease in costs for car hire alone of 31.2%.

Based on 1977 utilization figures for a system 50 foot boxcar, it was determined that a 50 foot car used in general service on the Milwaukee Road in its present configuration will generate 10.12 loads per car per year. At this rate, in order for the Milwaukee to generate 1,000 carloads, a fleet of 98.8 cars is required. Based on the more efficient Milwaukee II, it is expected that the same 50 foot boxcar will

generate approximately 16.4 loads per year. Therefore, 1,000 carloads would require only 60.97 cars.

A fleet of 2,000 50 foot boxcars operated on the present 9,800 mile railroad using 1977 utilization figures will provide equipment for our customers to load 20,240 cars, while the same cars concentrated in Milwaukee II would provide for the loading of 32,800 carloads. This is a 62% increase in the availability of equipment to the customers in the smaller system.

At this same time, equipment used in transcontinental movements by the remaining roads will be more efficiently utilized due to their faster transit times. According to the Official Guide for March and April, 1979, the Burlington Northern schedules Train No. 97 from Minneapolis-St. Paul to Seattle in 48 hours 40 minutes. This compares to our transit time of 137 hours. Using the comparison between the Milwaukee transit time and the Burlington Northern schedule time, it is plain to see that customers using Milwaukee equipment on the west end of the railroad and routing via our competitor's track will benefit. Transit time could be improved by 88 hours and 20 minutes in each direction for a total of 176 hours and 40 minutes for a round trip. A thousand cars cycling back and forth between Minneapolis-St. Paul and Tacoma-Seattle would theoretically be available to load in the Seattle-Tacoma territory 90,003 times if running on the Burlington Northern. These same cars moving on the Milwaukee Road would theoretically be available to load only 31,970 times. In effect, if the cars presently moving on the Milwaukee were moving on the Burlington Northern schedule, the cars supplied to the shippers would almost be three times as great just due to the faster transit time.

In addition, the car hire cost to the Burlington Northern would be substantially lower than that incurred by the Milwaukee handling the same car. For instance, the Milwaukee round trip of 274 hours at 76¢ per hour cost for a foreign car amounts to \$208.24. Whereas, this same car on the Burlington Northern would only require 97 hours and 20 minutes, costing \$73.94. The lower cost to the Burlington Northern and the higher percentage of cars available to the customers in the Pacific Northwest will be a distinct advantage to the public.

As a general rule we are short about 50 high class 50 foot boxcars per day for paper loading in the midwest. Due to this shortage we are unable to meet the demand and cannot increase our market share. We are continually short of both large and small capacity covered hoppers as well as insulated cars for canned goods loading and extremely short of gondolas.

We estimate that abandonment of the Pacific Coast Extension will release 117 locomotives of which 110 are serviceable. Abandonment also will release nearly 6000 cars, as shown in the following table:

| <u>General Service</u> | <u>Total Ownership</u> | <u>Number Released By Abandonment</u> |
|-------------------------|----------------------------|---|
| 40' ND Box | 2800 | 300 |
| 40' WD Box | 1564 | 800 |
| 50' Box | 5233 | 2100 |
| 60' Box | 318 | 280 |
| 50' Flat | 733 | 600 |
| 60' Flat | 155 | 100 |
| <u>Special Equipped</u> | | |
| Covered Hoppers | 3929 | 425 |
| Wood Chip Cars | 213 | 139 |
| Gondolas | 500 | 26 |
| Bulklevel Flat Cars | 500 | 462 |
| "A" Frame Flats | 99 | 91 |
| Other Flats | - | 48 |
| 40' Special Box | 251 | 63 |
| 50' Special Box | 992 | 227 |
| All Door Box | 40 | 40 |
| Mechanical Refrigerator | 322 | 194 |

VERIFICATION

STATE OF ILLINOIS)
)SS
COUNTY OF C O O K)

PAUL F. CRUIKSHANK being duly sworn deposes and says that the foregoing statement is true and correct to the best of my knowledge and belief.

Paul F. Cruikshank, I
(Signature)

Subscribed and sworn to before me a notary public in and for the State and County above named, this 30th day of August, 1979.

Jan M. Hasecki
Notary Public

My commission expires: June 24, 1980.