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FEB 8 1979

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION
THOMAS R. McMILLEN, JUDGE
UNITED STATES DISTRICT COURT

IN THE MATTER OF) IN PROCEEDINGS FOR THE
) REORGANIZATION OF A
CHICAGO, MILWAUKEE, ST. PAUL) RAILROAD
AND PACIFIC RAILROAD COMPANY,)
)
Debtor)
) NO. 77 B 8999

- AFFIDAVIT OF J. FRED SIMPSON IN SUPPORT OF:
- (1) SORE'S MOTION FOR LEAVE TO INTERVENE; AND
 - (2) SORE'S MOTION FOR AN ORDER FOR SPECIAL NOTICE ON CERTAIN MATTERS

STATE OF WASHINGTON)
) ss:
COUNTY OF KING)

J. FRED SIMPSON, being first duly sworn, deposes and says:

1. Since September 1, 1977, I have been employed by the association to Save Our Railroad Employment ("SORE"). SORE is an association of employees of the debtor railroad ("the Milwaukee Railroad") working in the territory west of St. Paul, Minnesota.

2. I reside at Route 4, Box 4453, Bainbridge Island, Washington 98110. I graduated from Stanford University in 1963 with a B.A. degree in economics, received a L.L.B. degree from the Harvard Law School in 1966, and was admitted to the bar in the State of Washington in 1967. Prior to my employment by SORE I worked for the Milwaukee Railroad for a period of ten years.

From 1968 through the Spring of 1978 I was employed in the Milwaukee's Seattle offices, first as Assistant General Attorney and then as General Attorney, representing the company in Washington, Oregon, Idaho and Montana.

3. In the Spring of 1978 I accepted a position in the Milwaukee's Chicago offices as Assistant Vice President of Planning - Financial Assistance. In the Planning Department I worked with William H. Brodsky, Assistant Vice President of Planning - Business Planning, and Thomas Power, Assistant Vice President of Planning - Strategic Planning. The Planning Department had been reorganized after the filing of the petition beginning these proceedings in December, 1977. The Department's duties included development and review of proposals for the reorganization of the railroad and to consult extensively with shippers and government agencies in order to obtain their assistance in carrying out a reorganization. It was specifically my obligation to coordinate the solicitation of funds from government agencies and shippers to assist in the rehabilitation of the plant and equipment of the railroad. I have personal knowledge of the matters stated herein and, if sworn, could testify competently thereto.

4. Shortly after the Trustee's announcement of August 3, 1978, that he intended to abandon the lines of the Milwaukee west of the Twin Cities ("the western lines"), I resigned my position with the company.

I.

THE FORMATION OF SORE

5. After my return to the West Coast I was contacted by a railroad employee who asked about possible alternatives to abandonment of debtor's western lines. I stated that it was my opinion that the lines west of the Twin Cities could be reorganized as a profitable and independent private railroad, but that there did not appear to be any parties in the reorganization proceedings urging reorganization of the western lines at that time. Some time later I received a second telephone call from the same individual suggesting that Milwaukee employees might be willing to undertake such a reorganization and that a meeting ought to be called to discuss the matter. I stated that, although I would be happy to participate in such a meeting, I thought the magnitude of the undertaking would require the efforts of a substantial group and questioned whether or not there would be enough interest. It was suggested that the meeting be called in order to explore the extent of employee interest in such a reorganization.

6. Notices were posted in the Seattle-Tacoma area and an open meeting of interested Milwaukee employees was held at the Fife High School Auditorium. A substantial number of employees attended the meeting. Unanimous support was expressed at the Tacoma meeting for the objective of pursuing reorganization of

the western lines as an alternative to abandonment, save for three maintenance of way employees who had received their termination notices that day. Following extensive discussions, employees at the Tacoma meeting determined that similar meetings should be held at other points in the territory served by the western lines to ascertain whether the employees of the Milwaukee located in those areas had similar interest in pursuing such a reorganization. It was decided that, if substantial support existed for sponsoring the development and presentation of a plan of reorganization, an association financed by contributions from participating employees should be formed to study the feasibility of reorganization of the western lines as a separate operating entity. I agreed to attend the proposed meetings to present my views with regard to the possibility of reorganization.

7. Following the Tacoma meeting, employee meetings were held at Three Forks and Alberton in Montana, and at Spokane and Othello in Washington. The response from those meetings was again essentially unanimous. Following those meetings, the participating employees decided to form an association which was named SORE ("Save Our Railroad Employment"). SORE was charged with the responsibility of investigating the feasibility of reorganizing the western lines as an independent private company. In particular, the economic viability of such an operation was

to be studied. Every effort was to be made to cooperate with Trustee Hillman, since his goal of disposal of the Milwaukee's western lines appeared to be consistent with the employees' goal of reorganizing the western lines as a separate entity. Consideration also was to be given to identifying possible sources of financing for a reorganized company.

8. I was retained, effective September 1, 1979, to begin work on these matters, and was also instructed to contact interested shippers and government agencies that might participate with SORE in the development of such a plan and presentation of it to the Trustee, the Reorganization Court and the Interstate Commerce Commission. Representatives were elected by groups of the employees participating in SORE at various points in Washington, Idaho, Montana and South Dakota to help coordinate efforts. It was agreed that employee contributions would be made through a special account opened by the Western Milwaukee Federal Credit Union. Complete records of contributions and expenditures are maintained. Approximately four hundred and fifty employees are participating in SORE and contributing financial support to its efforts. New members are joining steadily.

9. Many employees at the initial meetings described above expressed concern that operations on the western lines were being terminated even though no petition for abandonment had been filed with the Reorganization Court or with the Interstate

Commerce Commission. I was informed, for example, that in late August, 71% of the maintenance of way, and bridge and building forces in Washington, Idaho and Montana had received notices terminating their services effective September 1, 1979. (See Exhibit 1, attached hereto.) Employees also reported that proposals were being considered within the company to divert traffic to the Union Pacific Railroad at Portland in the near future and to the Burlington Northern Railroad at Great Falls, and that upon diversion of this traffic the number of trains operated by the Milwaukee on its western lines would be severely curtailed. Without maintenance forces it appeared doubtful that the line could be operated through the approaching winter. If services were curtailed it was also clear that many employees would be without work even though no formal plan for abandonment had been presented or approved by the Court or the Interstate Commerce Commission. Once service on the line was terminated or severely curtailed, the employees were very concerned that shippers would relocate from the Milwaukee lines to the competing lines of the Burlington Northern or the Union Pacific and that the loss of traffic associated with such moves would reduce the revenue base available to the Milwaukee's western lines to such an extent as to render reorganization impossible.

10. On September 7, 1978, I spoke with Trustee Hillman in a telephone conference call, in which Mr. Worthington L. Smith

also participated, to advise Mr. Hillman of the organization of SORE, of the employees' concerns respecting the reductions in the maintenance of way force and the possible diversion of traffic and curtailments of service. I further advised Mr. Hillman and Mr. Smith of the employees' desire to develop a plan for reorganization of the western lines as an independent company and of my interest in discussing the matter further with them.

11. On Thursday, September 14, 1979, I was advised by one of Mr. Hillman's attorneys, John Rowe, that the maintenance of way forces in Washington and Montana had been, or were being, recalled and that Mr. Hillman would not allow diversion of traffic to the Union Pacific through opening of tariff gateways until after economic data to support such a decision had been developed and the ICC had had an opportunity to review the proposed routes and rates. Mr. Rowe agreed to confirm these matters in a letter, but such a letter was never received.

12. Immediate efforts were undertaken to contact as many shippers as possible and to advise them that the employees were undertaking an effort to develop a plan for reorganization of the western lines as an independent company and that shipper support was sought both on an interim and a long-term basis to provide a level of traffic which would assure the viability of the lines during reorganization and thereafter.

13. On November 1, 1978, Mr. William H. Brodsky, who was employed by the Milwaukee as Assistant Vice President - Business

Planning, resigned his position. Mr. Brodsky had held a number of positions with the railroad, beginning in 1970 as Assistant Electrical Engineer working in the territory between Tacoma, Washington, and Harlowton, Montana. Subsequently he was employed as Assistant to the General Manager at Seattle; as trainmaster at Tacoma; as Director of Operations Planning at Chicago; and, as Terminal Manager at the Bensenville Yard (the Milwaukee system's primary yard), in Chicago, prior to accepting the position as Assistant Vice President. Following his resignation from the railroad Mr. Brodsky began work on a study of the viability of Lines West as an independent railroad and was retained by SORE to carry out further studies on its behalf beginning December 1, 1978. Mr. Brodsky has a degree in Mechanical Engineering from the South Dakota School of Mines and Technology and served with the U.S. Army in Viet Nam prior to his employment with the Milwaukee.

14. The efforts of SORE to develop an alternative to abandonment and liquidation of the Milwaukee's lines west of the Twin Cities has been received in a negative manner by some of the company's officers. Their reaction has included destruction of the association's newsletters prior to distribution and statements that participation in SORE would be considered grounds for dismissal. Prior to Trustee Hillman's appearance at an open meeting with Governor Thomas Judge of Montana last October,

Circular Letter No. 465, dated October 6, 1978, was issued by Acting Division Manager, G.Y. Neu at Deer Lodge, Montana, cautioning that a company rule prohibited employees from disclosing any information regarding the affairs of the railroad except to authorized officers. This was considered by many of the employees as an indication that they should not participate publicly or privately in efforts to reorganize the western lines or even discuss publicly the deteriorating situation on those lines. Because of these, and other, negative reactions by management a number of individuals participating in SORE have requested that they not be made parties to this proceeding in their individual behalf but that instead the SORE association should seek leave to intervene to represent their interests. Accordingly, the membership subsequently determined that SORE should seek permission to intervene as a party in these proceedings.

15. A preliminary feasibility study financed by the SORE association has now been completed. Based on data assembled by the company's management and reported in the R-1 form filed with the ICC, and certain other data assembled by Mr. Brodsky, and employing extremely conservative assumptions concerning future traffic opportunities, it has been determined that the Milwaukee lines west of the Twin Cities can be reorganized as an independent and profitable private railroad.

16. There is growing evidence, however, that the level of service on the Milwaukee's western lines is deteriorating to

such an extent that shippers are being forced to find other means of transporting their products and that the revenue base necessary for reorganization is being significantly eroded.

17. The SORE association, on behalf of its individual members, therefore now petitions the Court for leave to intervene in order that the association may formally work with the Court and the Trustee toward reorganization of the Milwaukee lines west of the Twin Cities. In particular, SORE seeks to be able to take positions on the issues arising in these proceedings affecting the interests of its members and to propose a reorganization of the debtor's western lines into a separate operating company, in which those employees are prepared to consider assuming a significant ownership position. For reasons described below, SORE also seeks an Order directing the Trustee to afford SORE special notice on certain interim matters of particular concern if such a reorganization is to remain a viable option.

II.

SORE'S INTEREST, AND INTENTIONS, IN THESE PROCEEDINGS

18. The Trustee announced on August 3, 1978, that he had determined that it would not be possible to include the Milwaukee lines west of the Twin Cities in any system he might reorganize out of the present Milwaukee Railroad, and that he therefore desired to dispose of those lines in such a manner as to have the least possible impact on shippers and employees in the West.

It is the position of SORE that the Milwaukee's western lines can be reorganized into an independent privately-owned railroad that will earn a profit, and that SORE will be able to present a plan consistent with the Trustee's desire to dispose of said lines. SORE recognizes that the Milwaukee's lines and equipment, including the lines and equipment in the West, are in a deteriorated condition and that the Milwaukee system has not earned sufficient revenues to cover overhead nor produce a profit for a number of years. SORE does not agree, however, that the present deteriorated condition of the lines west of the Twin Cities is a result of any present inability of those lines to be rehabilitated and operated as a profitable railroad.

19. In brief, SORE's view as to the potential viability of the western lines is as follows:

(A) Following construction of the Milwaukee's Pacific Coast Extension in the early 1900's there probably was not sufficient traffic to sustain the four railroads competing for the traffic in the northern tier of western states. The opening of the Panama Canal in 1914 significantly reduced the amount of traffic that had been available to the northern railroads. Lumber from the Pacific Northwest began to move in ships from Puget Sound ports down through the Panama Canal. Commerce between Pacific Rim countries and Midwest or East Coast points also began to move via the Canal and East Coast or Gulf Coast

ports. Although there was a temporary buildup of traffic during World War I, the end of that war saw a precipitous decline in traffic available to all of the transcontinental railroads. The Milwaukee's receivership of 1925 was certainly related to the lack of revenue then available for the Pacific Coast Extension. Nor had the revenue available to that line adequately improved by the time of the 1935 bankruptcy, when the Great Depression forced many other carriers into reorganization proceedings as well.

(B) Since then a major change has occurred, however, in the revenue base available to the Milwaukee's western lines. A chart prepared by the Milwaukee's electrification department in January, 1977, showing the gross ton miles of freight handled over the "electrified territory," which included the segments of the Milwaukee's transcontinental line between Tacoma and Othello, Washington and between Avery, Idaho and Harlowton, Montana, shows that the tonnage handled on the transcontinental line following the Second World War was essentially constant up until 1961. At that time a significant growth began to take place which moved upward almost without interruption until 1973.

(This chart is attached hereto as Exhibit 2.) By this time the transcontinental line was handling in excess of twice the volume of business it had been handling in 1961. In 1974 and 1975 a general recession in the nation's economy caused a significant

downward movement in the traffic handled by the transcontinental line. In 1976 the volume again resumed its upward climb. It is particularly notable that during the period 1961 to 1973, when tonnage on the transcontinental line was increasing in excess of 100%, the total Milwaukee system tonnage was only increasing by 42%, indicating that the western lines were providing a substantial portion of the total system's growth.

(C) The experience of continual and substantial increases in traffic after 1961 on the Milwaukee's transcontinental line is consistent with marked shifts in national trade patterns that have occurred since that time. In 1961 foreign trade through the Puget Sound ports was just beginning to reawaken after years of relative inactivity. Studies prepared by the Port of Seattle in August 1977 and January and April of 1978 show that in the mid-1960's as much as 90% of the West Coast share of containerizable trans-Pacific trade that potentially could have been shipped via the Panama Canal may have actually been shipped through the Canal. By 1978 the percentage of traffic that was actually using the Canal had dropped to 75%. The Port of Seattle estimates that this figure could drop to a number as low as 25% to 30% by the mid-1980's. From 1967 to 1976 Seattle's trans-Pacific van cargo grew at an annual rate of 27%, while other West Coast ports were enjoying a respectable but comparatively unsensational growth rate of 10.3% a year. The Port's study anticipates that

more and more traffic will be diverted from the Panama Canal and that the container traffic moving through the Port of Seattle for movement to the Midwest and East via rail carriers will continue to grow at such a rate that one of the Port's chief concerns is whether the existing transcontinental railroad carriers will be able to haul the huge volume of van cargo that is anticipated. There are a number of reasons that have caused this shift in traffic patterns away from the Canal, including uncertainties concerning the Canal treaty, increased toll charges, and growing delays in transiting the Canal, which apparently have become less acceptable to shipping lines as the cost of modern ships escalates. (Illustrative portions of the Port of Seattle studies referred to above are attached hereto as Exhibit 3.)

(D) As traffic was beginning to shift back to the North Coast ports and away from the Panama Canal, a significant shift in national grain marketing patterns was also beginning to occur. The northern railroads increasingly began to move grain from points farther and farther east on their systems for export through the West Coast ports. This shift has reached such proportions that the Milwaukee is now moving soybeans and corn from as far away as Iowa across the transcontinental line for export through the West Coast ports. Grain is an extremely important commodity to the railroads because it provides a

relatively high contribution to overhead and is relatively immune to truck diversion for longer hauls.

(E) In 1970, in conjunction with the formation of the Burlington Northern Railroad, the ICC mandated certain conditions to benefit and strengthen the Milwaukee, and particularly its transcontinental operation. Access to Portland, Oregon and Billings, Montana, both important commercial centers, significantly expanded the revenue base available to support the Milwaukee's western lines with long haul traffic.

(F) Shortly thereafter the coincidence of the energy crisis and growing environmental clean air concerns led to a major shift from almost exclusive reliance upon oil, natural gas and high sulfur coal to a growing demand for low sulfur western coal. The Milwaukee and the Burlington Northern both traverse some of the world's largest known deposits of low sulfur coal in the Dakotas and Montana. The movement of western coal, which appears now to be only in a preliminary stage, is already providing significant revenues to all of the western railroads, and to the Milwaukee in particular. The Milwaukee now has two unit coal train operations on its western lines, one operating approximately every other day from Miles City, Montana, to Portage, Wisconsin, and the other moving daily between Gascoyne, North Dakota and Big Stone, South Dakota. The projections of the coal mine operators indicate that there will be substantial growth in

this traffic over the immediate future and that the volume will be sustained, or increased, over the foreseeable future. Indeed, in addition to the present eastward movement of western coal, a January 1979 article on "World Coal Supply and Demand" published in Scientific American, indicates that there may be a substantial future demand for export of western coal through West Coast ports to serve a world market, and particularly demand from Japanese industry.

Western Energy Company, which is wholly-owned by the Montana Power Company, operates the Coalstrip, Montana, mine. This is the third largest surface coal operation in the United States and is the mine which furnishes the coal for the movement on the Milwaukee from Miles City to Portage.

The Knife River Coal Mining Company, a wholly-owned subsidiary of the Montana-Dakota Utility Company, operates the mine at Gascoyne, North Dakota, which supplies coal for the movement on the Milwaukee to Big Stone, South Dakota. The statement of A.J. Wittmaier, Vice President of the Knife River Coal Mining Company, submitted to the Senate Subcommittee on Economic Growth and Stabilization at a hearing chaired by Senator McGovern in Aberdeen, South Dakota on October 27, 1978, is attached hereto as Exhibit 4. In SORE's view, this statement is an excellent presentation of the

crucial importance of, and the economic opportunity for the carrier created by, the service offered by the Milwaukee's western lines to the coal industry of the northern tier states. The statement also well summarizes the impact of an abandonment of those lines on national energy development objectives.

(G) Any analysis of the viability of reorganization of the Milwaukee lines west of the Twin Cities must allow for the economic opportunities created by the fact that those lines serve an important transportation function that is vital to the public interest of the states and communities served. For example, Governor Judge of Montana, in his State of the State Address to the Montana legislature on January 5, 1979, said,

Rail transportation is critically important to agriculture and the entire economy of Montana, and the proposed abandonment of the Milwaukee road from Minneapolis to the West Coast is a serious and immediate problem. The Milwaukee employs about 750 people in Montana, serves 23 counties, and is obligated for approximately \$750,000 per year in property taxes. The railroad hauls 20 to 30 million bushels of grain per year as a part of a combined system that has demonstrated an inability to provide the shipping capacity necessary to handle the Montana harvest. If the railroad is abandoned, Montana will lose jobs, vital shipping capacity, local tax revenues and the advantage of competition and I do not believe that we can accept these consequences without investigating every practical alternative to abandonment.

In a statement delivered October 12, 1978, at a meeting in the State Capital at Helena, Montana, attended by Trustee Hillman, Governor Judge stated,

If the present grain car capacity of the Milwaukee is not available, the elevators will overflow, wheat and barley will be piled up on the ground and farmers will incur losses from waste and penalty payments on late delivery for sale contracts. The reduction of shipping capacity and subsequent interruption of grain deliveries will also disturb orderly marketing patterns and price stability that producers have worked to establish.

The impacts of the abandonment of the Milwaukee will extend far beyond the agricultural sector of Montana's economy. The forest product industry ships logs, wood chips, sawdust, plywood and linerboard. The mining industry moves copper concentrates and other materials on the Milwaukee and many other Montana businesses are reliant on the railroad.

Future rail carrying capacity is particularly important to Montana's coal industry, which has multiplied the volume of its production 27 times since 1969. If adequate rail transportation is not available, Montana will be forced to export its coal by slurry pipelines or high voltage transmission lines requiring mine mouth generation. These alternatives are contrary to the expressed will of the people of the state.

The Governor also noted that competition between railroads was an important element in maintaining freight rates at a reasonable level and that the lack of competition between railroads could well result in Montana shippers paying higher freight rates.

Similarly, the growing importance of low sulfur coal to the nation's efforts to attain energy self-sufficiency will place a grave strain on the existing rail transportation capacity in the

northern tier of states. In the statement by Mr. Wittmaier of the Knife River Coal Mining Company, it is indicated that abandonment of the Milwaukee lines west through South Dakota would leave an area of approximately 51,100 square miles, containing the bulk of the lignite reserves of the United States, without rail access. (Exhibit 4, pp. 4-5.) The statement further indicates that abandonment of the Milwaukee mainline would leave his company with no choice but to cease operating its Gascoyne mine, since there is no practical alternative manner presently developed to move the volumes of coal produced by that mine.

It should also be noted that the Milwaukee employs 1,366 employees, and has a payroll of \$25,305,509 in the states of Montana, South Dakota and North Dakota alone.

(H) At the same time that the growth in import-export traffic, grain traffic and coal traffic described above has been ongoing, significant growth in the local population and industry of the Pacific Northwest has also occurred. The sustained growth of traffic handled by the Milwaukee over its transcontinental line since 1961 due to these factors, despite the persistent problems caused by the road's deteriorating physical plant and service, represents a striking indication that "times have changed" with respect to the revenue base available to the western lines since the situation that prevailed at the time of the Milwaukee's two previous reorganizations.

(I) In addition to the traffic actually handled over the Milwaukee lines west of the Twin Cities at the present time, a detailed and comprehensive study conducted by the Milwaukee's

Marketing Department in the summer of 1978 indicated that an additional \$64 million of revenue would have been available to the Milwaukee if adequate equipment had been available on the western lines to provide service for such traffic.

(J) It is the position of SORE that the revenue base available to the Milwaukee on the lines west of the Twin Cities has grown since 1970 to an extent that the western lines can be operated as a profitable railroad. Since 1970 there has been a significant growth in the traffic actually handled by the railroad on those lines and also in the traffic potentially available to those Milwaukee lines. This position has now been confirmed by the results of the specific cost and revenue viability study recently completed by SORE referred to in ¶ 15 above.

The existing revenues generated on the western lines, the additional revenues which have been identified by the Traffic Department as available if adequate equipment is made available, the revenues associated with time-sensitive traffic that has been lost by the Milwaukee due to service deterioration (see ¶ 21 below), and the revenues that will accompany identifiable future traffic growth, when taken together, provide a sufficient revenue base for the reorganization of the western lines as an independent, profitable railroad company. The members of SORE have financed the development of a preliminary traffic analysis, operating plan and

budget. SORE intends to go forward now with development of a detailed plan for presentation in these proceedings.

(K) Although SORE's members expect to investigate a variety of financing alternatives, one alternative that they are prepared to pursue is assumption by them of an ownership interest in the reorganized western operation they propose. If the Milwaukee's western lines are abandoned and the employees are terminated, their union contracts provide for various payments to them. At the present time it is conservatively estimated that those payments will total \$66 million. A reorganization of the western lines as proposed by SORE would continue to provide employment for present employees. This would avoid the obligation to incur the above severance payments and could provide the basis for a significant ownership interest by the employees in the reorganized company. The employees are also prepared to pursue possible sources of public and private funding that may be available to assist them in acquiring an ownership interest.

III.

PRESERVING REORGANIZATION OF THE WESTERN LINES AS A VIABLE OPTION UNTIL A PLAN HAS BEEN APPROVED

20. At the present time the lines west of the Twin Cities make a substantial contribution to the overhead of the total Milwaukee system. Company records indicate that revenues actually generated on the lines west of the Twin Cities in 1977 were in

excess of \$130 million. Direct expenses which could be avoided if the western lines were not operated appear to have been less than \$105 million. It is therefore SORE's position that the western lines can continue to be operated during the reorganization proceeding without causing a drain on the estate and that, in fact, abandonment of the western lines would result in a significant net negative cash flow to the estate.

21. If a reorganization of the western lines is to remain a viable option, however, the revenue base available to those lines must be preserved during the time that elapses before reorganization plans are submitted and one is approved. It is axiomatic that a viable operation requires revenues to exceed a certain minimum level if fixed costs and overhead, as well as variable costs, are to be met. If the service level on the western lines is allowed to deteriorate significantly pending reorganization it can be anticipated that shippers along the Milwaukee's line will seek alternative sources of transportation and that the revenues provided by such shippers will to some degree be permanently lost. Several serious examples of such revenue losses have already occurred. For example, in January 1979 the Great Falls Shippers' Association located at Great Falls, Montana announced that, due to the extreme deterioration of service provided by the Milwaukee, their organization was losing customers and that they were therefore required to relocate their operation to the Burlington Northern. The result was that \$600,000 per year of potential

revenue was lost from the Milwaukee's western lines. A substantial amount of the new automobile traffic from the East to Kent, Washington, has been lost, as has the time sensitive traffic of freight forwarder companies. Import traffic which has, for a number of year been a strength of Milwaukee, has begun to erode.

22. A number of proposals are under discussion by management of the Milwaukee for the abandonment or sale of the branch lines in the west. These discussions have been reported in the press and various filings before the regulatory agencies. It is the position of SORE that, while branch lines would not be built today, these lines represent a sunk investment; that the cost of continuing to operate them is less than the revenue produced by traffic originating and terminating on them; and that the branches must therefore be preserved for their contribution to the total system revenue base. At the minimum they should be preserved until a total plan of reorganization has been developed by the Interstate Commerce Commission and approved by the Court.

23. There have been indications that consideration is being given by the Trustee's officers to opening gateways with other railroads to allow those railroads to solicit traffic which now moves over the Milwaukee's transcontinental line so that traffic will move for its long haul over the lines of competing carriers. In particular, SORE is concerned about possible gateways being opened at Portland, Oregon for solicitation by the Union Pacific

and at Great Falls, Montana for solicitation by the Burlington Northern. The opening of either of these gateways would severely weaken the Milwaukee's present competitive stance and almost certainly result in a significant reduction in revenues available to support a reorganized operation of the Milwaukee's western lines.

24. A substantial majority of the traffic handled on the Milwaukee's western extension originates or terminates at the terminals at each end of the line. If the line is severed at any point the revenue base which would remain would be far below the base required to support a reorganized railroad. For this reason, sales of even small parcels of real estate on the line, or failure to repair snowslides or other maintenance problems blocking the line, could have extremely serious, and possibly irreversible, adverse consequences on the revenue base of the western lines.

25. The importance of an adequate revenue base cannot be overemphasized. If service is not preserved on the Milwaukee's lines west of the Twin Cities at a level that has utility to the majority of Milwaukee shippers, and those shippers are forced to find alternative means of transportation, then the western lines could well become unreorganizable due to the inadequacy of the revenue base. It is also critical that the Trustee and his officers pursue the opportunities to expand that revenue base in both the Burlington Northern Inclusion Case, presently scheduled for early consideration by the Interstate Commerce Commission, and the Burlington Northern/Frisco merger case, also presently pending before the Commission. Each of those cases provide the opportunity

for the Trustee to request conditions expanding the revenue base available to the Milwaukee's transcontinental lines. In particular, these proceedings offer the Milwaukee an opportunity to gain access to coal fields at Coalstrip, Montana. In addition, consideration must be given to requesting the right to serve other industries in the west at locations where the Milwaukee operates on tracks owned by the Burlington Northern but does not now have the right to serve industries located along such tracks.

26. The number of locomotives and freight cars assigned to and in service on the western lines has deteriorated seriously during the reorganization period. During the past five months service on the western lines has been reduced from an average of 2.5 trains per day in each direction to one train per day in each direction. This reduced locomotive availability in the transcontinental pool has already resulted in reroutings of large quantities of traffic to the Union Pacific that otherwise would have been carried on the Milwaukee's western lines. There have frequently not been enough employees to operate even these reduced units of rolling stock. It is critically important that enough locomotives be allocated from the total system fleet to the western lines to move the volume of traffic being tendered by shippers. The same is true with respect to freight car allocations. A reduction in car supply will force shippers to find other means of transportation or to relocate to another railroad just as surely as a failure to provide train service.

27. The number of employees operating the lines west of the Twin Cities has been continually declining. A certain force of

employees is required to provide train service, maintain tracks, cars, and locomotives and to carry out clerical functions. If the work force is allowed to decline below the level where those tasks are carried out expeditiously or to a point where trains are delayed while awaiting arrival of crews, service will further deteriorate and an adverse impact on the revenue base will follow.

28. The decisions that are made at the present time with regard to the level of train service, equipment supply, work force and track and equipment maintenance will have a determining impact on whether or not the Milwaukee west of the Twin Cities can be reorganized. If, prior to the filing of a plan of reorganization, and prior to filing the studies required to justify abandonment, and prior to obtaining the requisite approvals of such a plan or studies, the level of service on the western lines is allowed to deteriorate or remain at an inadequate level, it is a virtual certainty that the western lines' revenue base will be reduced to a level that will make subsequent reorganization impractical and perhaps impossible.

DATED: February 2, 1979.

J. FRED SIMPSON

SUBSCRIBED AND SWORN to before me this 2nd day of February, 1979.

D. Carl Lewis Jr.
NOTARY PUBLIC in and for the State

of Washington, residing at Bunkwidge Island, Wash.

BROTHERHOOD OF MAINTENANCE OF WAY EMPLOYEES
CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC SYSTEM FEDERATION
925 UPPER MIDWEST BUILDING
MINNEAPOLIS, MINNESOTA 55401
612-335-2430

August 29, 1978

Mr. Daniel O'Neal, Chairman
Interstate Commerce Commission
Room 3148, 12th & Constitution Avenue
Washington, D.C. 20590

Dear Mr. O'Neal:

I am writing to protest recent action taken by the Chicago, Milwaukee, St. Paul and Pacific Railroad which, in our opinion, requires immediate investigation and action by the Interstate Commerce Commission.

The Milwaukee Road, under the direction of Trustee E. G. Hillman, on August 3, 1978 announced that it was in negotiations with the Union Pacific Railroad to sell portions of Milwaukee Road trackage between Butte, Montana and the Pacific Coast and would abandon the remaining portions. The announcement, however, also inferred a strong indication to dispose of all track west of Minneapolis-St. Paul. This position was further indicated by Mr. Hillman's letter of August 21, 1978, which states the following, in part: "As you know, I have determined that the Milwaukee Road can no longer afford to operate as a transcontinental carrier. I have indicated that, at some point in the future, the Milwaukee must discontinue its Pacific Coast extension west of Minneapolis-St. Paul.".... "I emphasize that this invitation does not mean that we foresee an imminent shutdown of the Railroad west of Miles City. As you know, we are negotiating with the Union Pacific over the sale of portions of the lines west of Butte to that Company. That transaction won't be final until mid-1980 at the earliest. No determinations have been made as to the future of the line between the Twin Cities and Butte except for my initial decision that this is a portion of the line which cannot survive into a reorganized Milwaukee Road. The Milwaukee will continue to provide necessary services on the Railroad west of Twin Cities until it has the authority of the Interstate Commerce Commission to discontinue operations."..... "Successful negotiations with the Union Pacific will ultimately reduce the Milwaukee's transcontinental train operations and the size of the force necessary to maintain them."

On August 4, 1978 we were notified by the Labor Relations Department of the Milwaukee Road of the following force reduction in the Maintenance of Way and Signal and Communications Departments on the Washington and Montana Divisions. (Trackage involves Miles City, Montana to the Pacific Coast.)

AMOUNT OF EMPLOYEES AFFECTED:

WASHINGTON DIVISION: 1,307 miles of track - St. Maries, Idaho to Pacific Coast & branchline

Maintenance of Way Department:

| | |
|--|-----|
| Amount of men working in the track Sub-department at present | 104 |
| Amount of men remaining effective September 1, 1978 | 31 |
| Amount of men working in the B&B Department at present | 21 |
| Amount of men remaining effective September 1, 1978 | 13 |
| Total men presently in the Maintenance of Way Department | 125 |
| Total to be laid off August 31, 1978 | 81 |
| Total remaining in the Maintenance of Way Department 9-1-78 | 44 |

Signal & Communications Department:

| | |
|--|----|
| Amount of men in Signal & Communications Department at present | 31 |
| Amount of men remaining effective September 1, 1978 | 24 |

MONTANA DIVISION: 1,145 miles of track - Miles City, Mt to St. Maries, Idaho & branchlines

Maintenance of Way Department

| | |
|--|-----|
| Amount of men working in track sub-department at present | 119 |
| Amount of men remaining effective September 1, 1978 | 64 |
| Amount of men remaining effective October 1, 1978 | 21 |
| Amount of men working in the B&B sub-department at present | 11 |
| Amount of men remaining effective September 1, 1978 | 7 |
| Total men presently in Maintenance of Way Department | 130 |
| Total to be laid off August 31, 1978 & September 30, 1978 | 102 |
| Total remaining in the Maintenance of Way Department 10-1-78 | 28 |

Signal & Communications Department:

| | |
|--|----|
| Amount of men in Signal & Communications Department at present | 38 |
| Amount of men remaining effective September 1, 1978 | 31 |

A force reduction of an already skeletonized force, as stated above, (71.8%) will leave 72 employees in the Maintenance of Way Department to maintain 2452 miles of track. Bulletins to employees of the Washington Division have already been issued, advising of the abolishments and extended section limits as follows:

WASHINGTON DIVISION JOB ABOLISHMENTS & AMOUNT OF TRACK REMAINING SECTIONS WILL HAVE AFTER ABOLISHMENTS.

| | |
|---|---|
| Section 3904, Malden, Washington | Abolished |
| Division Gang 3949 | Abolished |
| Division Gang 3950 | Abolished |
| Track Patrolman at Othello, Washington | Abolished |
| Section 3906, Marengo, Washington | Miles Post 1880-1973 |
| Section 3910, Othello, Washington | 93 miles of track 123 miles of track |
| Section 3809, Fernwood, Idaho | Abolished |
| Section 3817, Metaline Falls, Washington | Abolished |
| Division Gang 3848 | Abolished |
| Division Gang 3850 | Abolished |
| Section 3805, St. Maries, Idaho | 63.8 miles of track |
| Section 3807, Plummer, Idaho | 71.8 miles of track |
| Section 2814, Spokane, Washington | 79.2 miles of track |
| Section 4108, Port Angeles, Washington | Abolished |
| Division Gang 4150 | Abolished |
| Track Patrolman, Port Angeles, Washington | Abolished |
| Section 4109, Tukeys, Washington | 50.59 miles of track |

| | |
|------------------------------------|-----------|
| Section 4006, Cle Elum, Washington | Abolished |
| Section 4008, Hyak, Washington | Abolished |
| Division Gang 4050 | Abolished |
| Division Gang 4051 | Abolished |

| | |
|---------------------------------------|---------------------|
| Section 4004, Ellensburg, Washington | 84.8 miles of track |
| Section 4010, Cedar Falls, Washington | 77.4 miles of track |

WASHINGTON DIVISION:

MONTANA DIVISION:

Total miles of track: 1,307
 Area covered: St. Maries, Idaho to the Pacific Coast & branchlines

Total miles of track: 1,145
 Area covered: Miles City, Montana to St. Maries, Idaho and branchlines.

Action of this type can only be seen as a means of abandonment because of an inability to properly maintain such a large amount of track with so few in the track force; not to mention the reduction in other departments. Railroad officials have also advised that, should the track not meet the Federal Railroad Administration Track Standards or should the winter prove to be too severe, service would have to be discontinued until repairs can be made or winter has passed.

It is our position that the Carrier has at least the following two objectives in mind:

- (1) To circumvent the Interstate Commerce Commission Act and abandon the track through force reduction, neglected maintenance, discontinuance or placing an embargo on traffic and/or diverting transcontinental traffic on other roads. The Carrier officials have already stated that transcontinental traffic can be shipped by the Union Pacific via Omaha and offer this as a reason why they should be allowed to discontinue transcontinental service on their own line.
- (2) To undermine the Federal Railroad Administration Track Safety Standards by reducing the track force to a point where minimum maintenance cannot be completed to maintain Federal Railroad Administration Standards and, therefore, resulting in the closing of the main line for non-compliance of Federal Railroad Administration Track Standards. A force reduction such as this will jeopardize the safety of many employees and residents of communities through which the Milwaukee Road passes, as well as endanger cargo being shipped, further discouraging shippers to use the Milwaukee Road.

A concern must also be waged for the hundreds of employees who will be affected by these job abolishments. It is the Carriers intention to deprive employees of protection and benefits in the Protective Agreements such as 4-R, Oregon Short Line, etc, where provisions are made for employees furloughed in anticipation of a transaction. When questioning the Carrier as to whether or not the Carrier considered the employees as being furloughed in anticipation, they replied in the negative.

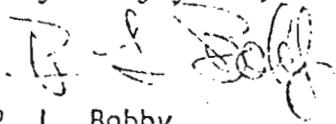
The ramifications of the force reduction and/or discontinuance of service are many: job loss, loss of service by hundreds of communities, economic affect on all fronts such as local business, local, county and state taxes, energy, etc.

August 29, 1978

In view of the situation as stated above, we are of the opinion that as a result of such a severe force reduction, eventual discontinuance of service is almost a certainty, considering that there will be 34 miles of track per employee to maintain; and, in the interest of the Nation, employees, shippers, it requires undelayed attention by the Interstate Commerce Commission.

Thanking you for your cooperation and consideration on this matter.

Very truly yours,


R. L. Bobby
Secretary-Treasurer
Asst. Gen. Chairman

RLB:bjt
opeiu#12

cc: P.H. Jacobson
H.C. Crotty
O.M. Berge
G.N. Zeh
R. W. Mobry
Executive Committee

Annual Freight Ton Miles

Net Ton Mile National Growth Rate Of 3.5% Predicted By Battelle For AAR In 1971 Report With Truck And Railroad Share Constant, 1980-Rail Ton Miles = 141% 1970 Ton-Miles.

Millions NGTM Freight

3
2
1
0

Avery- Harlowton

Tacoma- Othello

Battelle

FSPAL

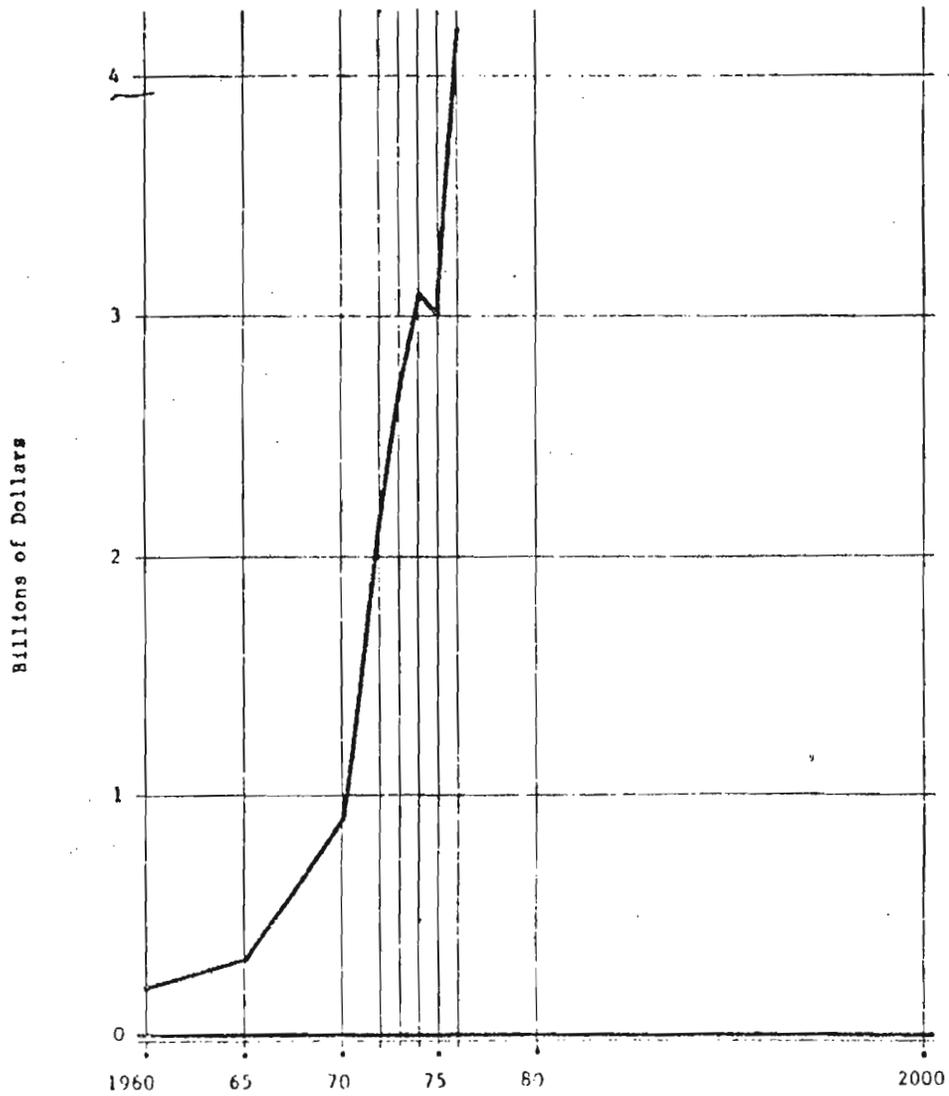
Battelle

1920 1930 1940 1950 1960 1970 1980 1990

Electrification Dept.
9-27-71 G.F.

Port of Seattle
Planning and Research Department

TOTAL FOREIGN WATERBORNE TRADE OF THE SEATTLE HARBOR
BY VALUE
(IMPORTS & EXPORTS)



August 1977

Exhibit 3

SEATTLE HARBOR CONTAINER TRAFFIC
1960-2000

| Actual | TOTAL FOREIGN Thousands of Short Tons* | | DOMESTIC Thousands of Short Tons* | | TOTAL Short Tons Per TEU** | FOREIGN Short Tons Per TEU*** | DOMESTIC Short Tons Per TEU*** |
|----------------|--|--------|-----------------------------------|--------|----------------------------|-------------------------------|--------------------------------|
| | 1960 | 0 | 140 | 140 | | | |
| 1965 | 390 | 0 | 300 | 0 | 4.81 | 0 | 4.81 |
| 1966 | 420 | 0 | 420 | 0 | 4.72 | 0 | 4.72 |
| 1967 | 530 | 50 | 480 | 50 | 5.05 | 5.00 | 5.00 |
| 1968 | 670 | 120 | 550 | 120 | 4.91 | 5.61 | 4.78 |
| 1969 | 760 | 220 | 540 | 220 | 5.28 | 6.12 | 5.00 |
| 1970 | 1,200 | 511 | 697 | 511 | 5.60 | 6.06 | 5.01 |
| 1971 | 1,176 | 582 | 594 | 582 | 5.54 | 6.09 | 5.10 |
| 1972 | 1,507 | 855 | 652 | 855 | 5.70 | 6.17 | 4.57 |
| 1973 | 2,297 | 1,333 | 964 | 1,333 | 6.09 | 6.85 | 5.29 |
| 1974 | 2,456 | 1,456 | 1,000 | 1,456 | 5.71 | 6.89 | 4.57 |
| 1975 | 2,401 | 1,199 | 1,202 | 1,199 | 4.99 | 5.90 | 4.32 |
| 1976 | 3,163 | 1,863 | 1,300 | 1,863 | 5.50 | 6.40 | 4.50 |
| 1977 | 3,505 | 2,211 | 1,294 | 2,211 | 5.77 | 6.52 | 4.52 |
| Projected 1980 | 5,050 | 3,460 | 1,590 | 3,460 | 5.94 | 6.65 | 4.60 |
| 1990 | 10,070 | 7,540 | 2,530 | 7,540 | 6.20 | 6.87 | 4.78 |
| 2000 | 16,310 | 12,640 | 3,670 | 12,640 | 6.35 | 7.02 | 4.76 |

COMPOUND ANNUAL GROWTH RATES
OF CONTAINER CARGO TONNAGES**

| Actual | Thousands of TEUs** | | Actual | Percent |
|----------------|---------------------|-------|--------|---------|
| | 1960 | 33 | | |
| 1965 | 81 | 0 | 81 | 0 |
| 1966 | 109 | 0 | 109 | 0 |
| 1967 | 105 | 9 | 96 | 96 |
| 1968 | 136 | 21 | 115 | 115 |
| 1969 | 144 | 36 | 108 | 108 |
| 1970 | 224 | 85 | 139 | 139 |
| 1971 | 212 | 98 | 116 | 116 |
| 1972 | 269 | 138 | 131 | 131 |
| 1973 | 377 | 195 | 102 | 102 |
| 1974 | 430 | 210 | 220 | 220 |
| 1975 | 481 | 203 | 275 | 275 |
| 1976 | 575 | 293 | 284 | 284 |
| 1977 | 607 | 339 | 268 | 268 |
| Projected 1980 | 850 | 520 | 330 | 330 |
| 1990 | 1,625 | 1,100 | 515 | 515 |
| 2000 | 2,570 | 1,800 | 770 | 770 |

COMPOUND ANNUAL GROWTH RATES
OF THE NUMBER OF TEUs***

| Actual | Percent | |
|---------------------|-----------|-----------|
| | 1960-1965 | 1965-1970 |
| 1965 | 19.67 | 0 |
| 1966 | 22.56 | 111.38 |
| 1967 | 15.31 | 21.85 |
| 1968 | 14.27 | 19.86 |
| 1969 | 6.69 | 7.78 |
| 1970 | 4.69 | 5.05 |
| Projected 1970-1980 | 14.27 | 19.86 |
| 1980-1990 | 6.69 | 7.78 |
| 1990-2000 | 4.69 | 5.05 |

*Comprized in overall harbor tonnages

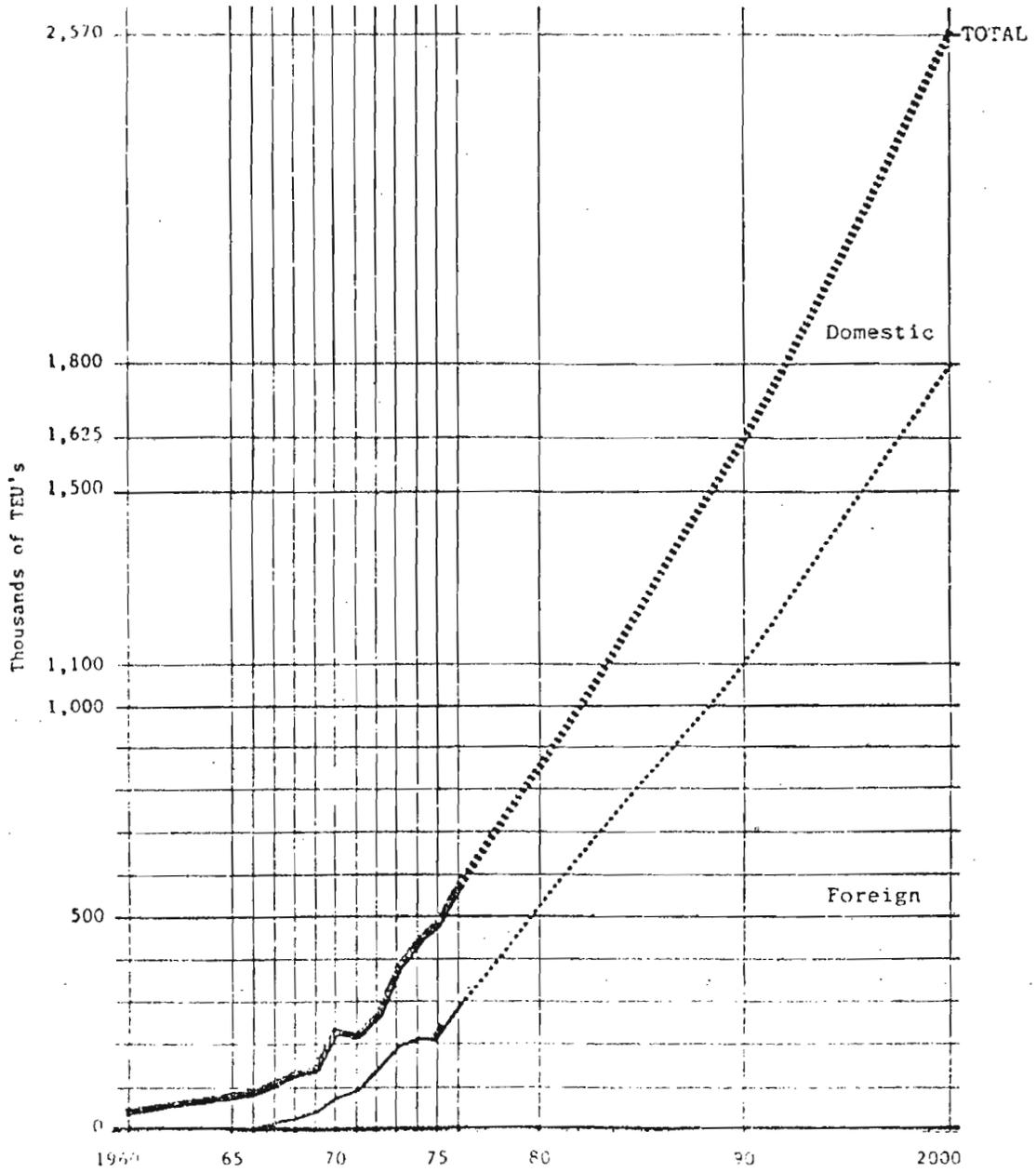
**20-foot equivalents, inbound-outbound, full and empty

***Based on unrounded figures

****Foreign based on three years only

Source: Port of Seattle Records

SEATTLE HARBOR CONTAINER TRAFFIC (EXCLUDES RO-RO)
DOMESTIC & FOREIGN, FULL & EMPTY



Five Year Summary Findings

1. Rail flatcar equipment may be an immediate congestion problem. Eastbound rail container volume already offers an opportunity for a daily 70 railcar unit train. This potential is increasing. Rail flatcars are needed for a container increase from the present 8,000 TEU's per month to 20,000 TEU's per month by 1983. A shortfall of 8,000 TEU, based upon present rail flatcar capacity, could occur if added rail flatcars are not available. This potential shortage was also brought out in a similar study effort by the Port of Los Angeles.
2. Access to/from marine terminals and the respective rail yards will become increasingly congested with container van truck traffic, though this should not be a major problem before 1983. A consolidated rail COFC facility could alleviate this potential problem.
3. Marine terminal local street access/egress should not be a problem beyond those of initial facility design.
4. Terminal 25 will experience congestion unless Johnson Line (or equivalent) is removed before 1981; even then, physical expansion may be required by 1984.
5. Terminal 5 may require a small addition of container yard (CY) space before 1983.
6. Terminal 18, with 20N and all of Terminal 19 included, should adequately accommodate all new carriers and Johnson Line, assuming that Japan Six and Matson (or equivalent) relocate. The expedient completion of Terminal 19 is necessary to meet 1983 forecasts.
7. Existing Terminal 46 carriers may require some additional CY acreage.
8. Foss Alaska may require some additional acreage at Terminal 115.
9. The rapid completion of Terminal 37/46 will be critical to 1980/83 projected container increases.
10. Conversion of Terminal 20 south to a full container may not be necessary before 1983, if carrier projections are accurate, and projects under way are completed (Terminal 19 and Terminal 37/46).
11. The period of time immediately after 1983, say by 1985, will require additional container terminal space of approximately 30 acres (16 acres of CY). Development of the remaining East Side of the East Waterway (the oil properties and Piers 28/30), if it is to be used for container traffic, will require lead times that begin well before 1983.
12. Beyond 1985, for a long-term outlook, the Seattle harbor will be capable of accommodating the year 2000 container projections of 2,570,000 TEU if containers are prioritized. This can be accomplished with minimal additional property purchases, which presumes that non-container cargo will

have a decreasing role in the outer harbor. Total container yard acreage required in the year 200 will range from 280 CY acres to 330 CY acres, depending upon throughput efficiencies. Approximately 330 CY acres are potentially available in the outer harbor, depending upon the ratio of CY acreage relative to non-CY acreage and the extent of container development of the extent of container development of existing outer harbor facilities.

13. Required major apron maintenance at Terminal 91 will necessitate eventual use and configuration questions to be answered before 1983.
14. A relatively large amount of terminal space (say, Terminal 18 or equivalent), should be available on short-term basis to insure the flexibility for accommodating new carriers. Non-leased terminal space will be at a premium on the west coast over the next five years with the possible exception of Oakland, California.
15. Maximizing active container yard uses can be made by minimizing non-container yard uses. Container yard space is increasingly becoming the major capacity constraint. An increased role of nearby, off-site services (for example empty container storage, container freight stations, warehousing, maintenance, etc.) may be required to increase CY acreage.
16. Through rail flatcar service is expanding rapidly, primarily due to diverted Panama Canal traffic. The through container movement will bring new shipping accounts which may increase warehouse demand. Conversely, the propensity of containers to move as intermodal through traffic may lessen warehouse demand. Demand for warehousing space should, therefore, be reviewed in the context of these opposing trends.

Seattle Share of U.S. Asian Trade

Gateways are not new concepts, nor are they non-existent realities. New York, for example, has been the major U.S. gateway for U.S.- European trade since the early 1800s. The West Coast has four major Transpacific gateways (five if Canada's Vancouver is included) which are built upon differing characteristics. Starting from the south, the largest gateway, the Los Angeles/Long Beach port complex, enjoys excellent, short route inland transportation to the U.S. South and East. More importantly, is the immense local market of Southern California that alone accounts for nearly 6% of the nation's population. The rapid growth of Southern California's local market is the single most important factor in the relative share loss of San Francisco Bay and Puget Sound over the past three or four decades. Though the Transpacific trading "pie" has become much larger, the LA/Long Beach "piece" became "bigger," even faster.

San Francisco Bay ports reached their share zenith of Transpacific trade in the 1950s. The Transpacific trade "lull" between Seattle's high before the 1930s depression and the LA/Long Beach complex growth during the 1960s was the Bay Regions' west coast share maximum (at least in this century). The very rapid rise of the Port of Oakland during the container era, that began in the mid-1960s, represents a "modernization shift" from San Francisco over to Oakland more than overall share growth. The Bay Area as a whole, for Transpacific trade, is still losing an increasing share of West Coast trade.

Portland (i.e., Columbia River) felt the greatest impact of recent West Coast gateway consolidation, due to containerization. Had containerization not occurred, Pacific Northwest breakbulk shipping may not have concentrated in Puget Sound since the momentum had been in the Columbia River's favor. Now, however, multiple port calls by container shipping lines find it un-economical when compared to using a container load center within a region (and Seattle has clearly become that center). Portland's rapid tonnage growth during the 1950s was partly due to Seattle's increasing obsolescence of port facilities and their emphasis on bulk cargoes in Portland. By the 1960s, however, the rapid rise of container shipping found the Columbia River increasingly unattractive as compared to Puget Sound.

Seattle has experienced rapid growth of container traffic and should continue to do so in the foreseeable future. This has been primarily due to; one, the rapid economic growth of Alaska's economy; two, obtaining an increasing share of the West Coast's diverted Transpacific trade; and three, the container load centering for local Pacific Northwest Transpacific cargoes. For general cargo Seattle should be able to maintain high percentage share of the west coast's transpacific trade, as should the Puget Sound, in general.

Vancouver, B.C. is in somewhat the same container load center position as Portland (where Seattle is more central than either for regional service). They do have, however, the International Boundary that tends to work in their favor. This political effect, however, could be more important than it has been for encouraging traffic via Vancouver instead of Seattle,

except for the reverse situation in Eastern Canada. Canada, as a nation, has more to lose than they would gain by promoting Vancouver over Seattle because of opposite conditions in Eastern Canada where diverted U.S./European trade is using Halifax. There is little, short of large public subsidies, that the provincial B.C. government can do to affect all but the most local B.C. traffic. Thus, like Portland, the Transpacific trade role of Vancouver, B.C. should continue to have an emphasis on bulk and neo-bulk (i.e., autos, steel, non-container) commodities, and a limited "spoiler" role for some local container traffic.

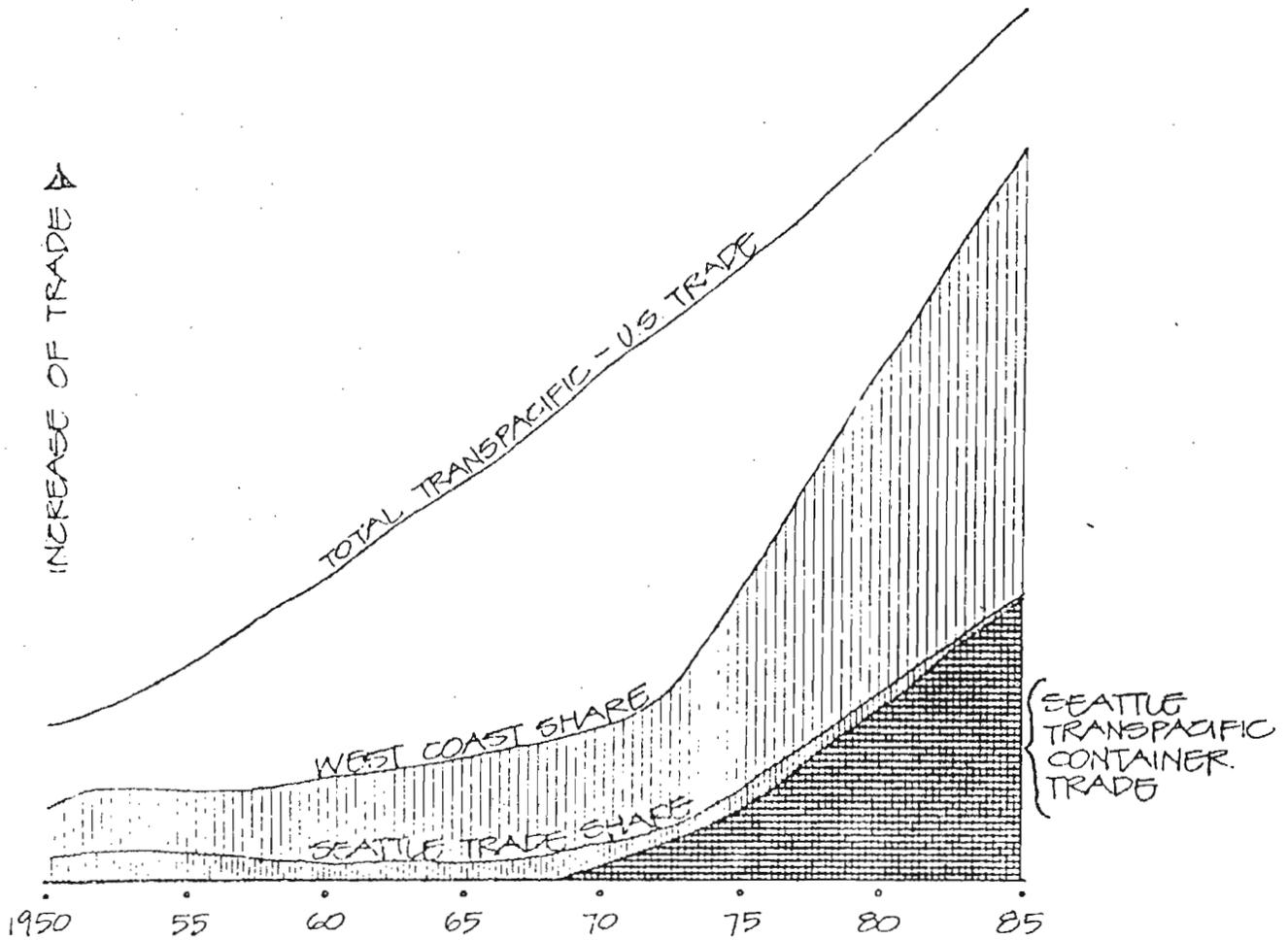
The last conceptual chart (Two C) depicts Seattle's share of the total U.S. and West Coast Transpacific trade (also somewhat exaggerated). Like the first two conceptual charts (A and B) relative "rates of growth" are depicted not necessarily absolutes. Chart Two C has two features for comment. The first comment concerns the lessening of Seattle's share of Transpacific trade after World War II. This was due to the rapid growth of California and Columbia River ports, along with a generally lackluster performance by Seattle. If the time sequence were moved backwards to include post World War I and the 1920's, Seattle would be shown at a high of nearly 40% of Transpacific trade. For value of cargo (especially if oil imports are removed), Chart Two C shows a similar (optimistic) 33% to 40% West Coast share in the 1980's. The second feature for comment is the role of containerization. Placing Seattle's rapid rate of container growth in the context of this chart (as well as the previous two charts) demonstrate how abnormally high and exceedingly long-term rates of growth have been possible. More importantly it shows how it is possible to continue into the future. Merely viewing Seattle container traffic from, say, 1967 to 1976, might give an unbelievable picture, especially for projecting continued high growth rates. However, in the context of total U.S. Transpacific trade potential (with the likelihood of increased diversion from the Panama Canal and a continued concentration at a small number of west coast container ports). Two C does suggest why Seattle can expect a ten-fold increase potential in Transpacific container traffic for the year 2000.

Alaska Trade

Alaska's trade with the "lower 48" states has two primary variables that most directly affect the volume of cargo for any particular year. These variables are: (1) the state's population and (2) the phase of any large scale project that periodically occur. Though not as complex as Transpacific trade, Alaska trade with Seattle warrants closer analysis if for no other reason than its extreme importance to the Seattle harbor. The apparent simplicity of Alaska's trade, however, is somewhat deceiving. The following reviews the background of Alaskan trade prospects for the next five years.

The population base of Alaska is the most reliable, single variable for this trade route's analysis. Alaska's geographic isolation from the remainder of the nation seems, for the most part, to make relatively little difference on either their economy or life style. They desire the same basic goods and services that any other state requires and the Puget Sound is the primary gateway for Alaska's trade. The cargo requirements for their everyday goods and services is the "backbone" of Puget Sound/Alaska

TRANSPACIFIC - U.S. TRADE (CONCEPTUALIZED)
I.E. SEATTLE SHARE



Summary of Trade Projections

There is a careful differentiation between Long and Short-term forecasts in this summary of future trade expected in the Seattle Harbor. First is a detailed five year forecast that is used for space-demand analysis; secondly, a longer term perspective.

a. Five-Year Forecast

The five-year forecast for container trade is taken from March 10, 1978 and January 20, 1978 memos from Vac Breindl, Senior Economic Advisor, on the subject Forecast of Container Traffic to be Handled by Port of Seattle-owned Van Terminals Between 1978 and 1983. These projections are readily achievable, assuming recent trends continue to hold true, and assuming the harbor has the required terminal capacity.

The container forecast for Port of Seattle terminals in 1983 (in/outbound, domestic/foreign, loaded/empty) is 1,009,000 TEUs. The breakdown by trade route is as follows:

| | <u>1976</u> | <u>1980</u> | <u>1983</u> |
|-------------------|---|-------------|--------------|
| | Thousands of Inbound/Outbound, Loaded/Empty TEUs | | |
| Transpacific | 275 | 493 | 656 |
| Europe | <u>16</u> | <u>28</u> | <u>36</u> |
| Subtotal Foreign | <u>291</u> | <u>521</u> | <u>692</u> |
| Alaska | 226 | 227 | 270 |
| Hawaii | <u>26</u> | <u>37</u> | <u>47</u> |
| Subtotal Domestic | <u>252</u> | <u>264</u> | <u>317</u> |
| TOTAL | <u>543</u> | <u>785</u> | <u>1,009</u> |

Four tables* break the forecast down to the four basic trade routes and, in most instances, project the trade by individual carriers. These tables are: 1) Transpacific carriers; 2) European; 3) Alaskan; and 4) Hawaiian.

Transpacific Traffic. Until 1971, APL, Sea-Land, and Japan Six Lines enjoyed virtual monopoly. By 1975 their collective share dropped to 77 percent, but the strong performance of APL and the abolishment of the K-Line's PACFE service pushed the share back up to 85 percent last year. The forecast assumes that the Big Three will hold 66 percent in 1980 and 64 percent by 1983. Sea-Land's share among the Big Three would keep declining.

*These four tables, because of the proprietary information they contain, are presented in a confidential Appendix format and are not included within this report.

7. The remaining shipping lines could be accommodated on the T-20N/19/18 complex (i.e., T-18). This would include Johnson Line, CSC, Evergreen, Hoegh, Maresk, OOCL, Unique, and Euro-Pacific, as well as any non-accounted for others (States, for example, remains at T-20S, Crowley at 195 and 2). If Matson were not relocated, other carriers would be required to move to T-37/-6. The Matson/other carrier combinations, therefore, offer the major "alternative carrier location option."

In aggregate, projections can be met. A carrier with a low annual throughput (such as the new carriers), or low volume trade routes, however, still requires a minimum facility. Thus, the greater the acreage of low productivity carriers, the less likely the 1983 projections can be met.

B. Terminal Access/Egress

Access into/out of individual container terminals is part of the terminal's layout and design process. Turn lanes and truck stacking provisions influence a terminal's capacity. Road and street access outside of the immediate terminal, however, is part of a greater, city wide traffic problem. The choices of truck routing are too numerous for all local streets to become overcongested for long periods of off-commuter peak times. The projection of 1,009,000 TEU, for example, would add to the City's surrounding streets approximately 7,000 trucks each work day to the entire harbor area ($1,009,000 \times .58$ vans per TEU $\times 3$ inbound/outbound with half returning empty, divided by 260 working days). Daily traffic counts for harbor area arterials, by comparison, are 65,000 on South Spokane Street, 42,000 on Alaskan Way, 10,000 on East Marginal Way, 48,000 on the First Avenue South Bridge, 12,900 on First Avenue, and 15,800 on Fourth Avenue South. Thus, the Port's traffic would add significantly amounts of truck activity if all were routed on one arterial, but will not, by itself, overwhelm the surrounding street system. This magnitude of truck traffic does suggest, however, that a time period slightly beyond 1983 will require additional analysis of potential problem locations.

Street access into/out of rail yards may require additional analysis somewhat before 1983. The growing volume of rail COFC/TOFC, in fact, suggest that the railroads could become a greater congestion factor than the container terminals or the City's streets. This problem could be accentuated by potential rail flatcar shortages that may occur as soon as 1979.

C. Access to Land Transport

Current Container Handling Capability of Railroads Serving Seattle. The three railroads serving Seattle (Union Pacific, Milwaukee Road, and Burlington Northern) are presently handling approximately 8,000 import TMs a month from Seattle to midwest and east coast destinations. This figure takes into account those consolidated through the Port of Seattle system, the various local customhouse brokers and freight forwarders, and the mini-landbridge operations of various steamship companies.

When contacted regarding their total outbound container handling ability, the Milwaukee Road estimated that they could handle approximately 3,000 TEUs a month, the UP 4,000 TEUs, and Burlington Northern 5,000 TEUs a month, for a total of 12,000 TEUs a month. It would appear, therefore, that there is an additional capacity of only 4,000 TEUs a month in increased container handling capability with the three railroads. The Interstate Commerce Commission is notified, on a daily basis, of the total number of containers on dock, the total number destined for rail movement, and the total number due in our harbor during the next 48 hours. This has been in effect because it would appear that maximum container handling capacity is being approached. Trailer Train is also being advised as to POS needs for their future flatcar purchases.

Our own analysis also shows that the railroads are now receiving approximately 8,000 to 9,000 TEUs per month. This methodology is as follows (it will be used for calculating 1983 traffic). Transpacific trade was 322,000 TEUs in 1977. Inbound traffic was 54% of the total (173,880 TEUs) with 30,000 for Canada. Subtracting local traffic (28,000 TEUs) and truck traffic (12,000 TEUs) leaves 103,880 TEUs or 8,657 TEUs per month. Projected Transpacific traffic for 1983 is 656,000 TEUs, with 51% inbound, 40,000 TEUs Canadian, 30,000 local, and 26,500 truck, leaving 238,060 TEUs, or 19,838 TEUs per month, that is railbound. Thus, while the Transpacific trade doubles, railbound traffic should increase by at least 2.3 times. The important point, however, is that the expected 20,000 TEUs per month, an increase of nearly 12,000 TEUs from 1977, is well over the existing 12,000 capacity the railroads now claim. In fact, there appears to be a potential shortfall of nearly 8,000 TEUs.

The Port of Los Angeles study, using optimistic Panama Canal diversion forecasts, as well as optimistic landbridge (Asia/Europe) forecasts, anticipate the equivalent of eight 75-car unit trains per day, or 876,000 TEUs per year, 73,000 per month (compared to 20,000 per month in 1983 for POS). They do not state what year they anticipate this cargo movement, though the implication is within a five-year period. West coast Transpacific through traffic projected by the Port of Los Angeles, however, is similar to Seattle's existing share (actually LA is somewhat less). This would indicate POS calculations are much less optimistic or the expected traffic of Los Angeles is extremely optimistic. The point Los Angeles is making, however, is that the diverted cargoes they are anticipating through west coast ports will generate for the railroads in equivalent revenue equal to 5% of the entire U.S. railroading industry. Further, that there will only be three container load centers: Los Angeles/Long Beach, Seattle, and Oakland (in that order). Our figures indicate more than double the through rail traffic by 1983. The Port of Los Angeles suggests a much greater amount. Either way the railroads which meet rolling stock requirements will obtain more cargo at the expense of those which cannot meet anticipated demand. Thus, the Port of Seattle will need to make a major effort to ensure the northern railroads can accommodate anticipated cargoes, or expect share losses to the California southland.

Truck Capacity. Road access is not a critical potential problem into/out of the Seattle area. The completion of the interstate freeway system throughout the west has greatly enhanced truck carrying capacity.

The major trucklines serving Seattle have no real upper limit as to the amount of freight they can handle. They have their own drivers and equipment under contract and when extra capacity is required, they simply contract out with "gypsy" truckers for whatever additional equipment is necessary. Consequently, the trucklines should be able to handle whatever growth develops in POS consolidations or LTL freight over the next five years.

The overall subject of land routing access, therefore, suggests one real major area of concern before 1983, rail flatcar availability. Beyond 1983, attention to additional access problems will be required, mainly street road access beyond the immediate terminals, especially to/from the rail yards. A potential obviously exists for an overall, comprehensive rail study plan for beyond 1983.

Seattle Harbor Container Unit Train Potential

The volume of Seattle's Transpacific container activity has reached a level where the Port of Seattle may need to take an increased role in container unit train traffic. The fully loaded, non-local, inbound container traffic leaving Seattle harbor container terminals now exceeds the equivalent number of TEUs required for a daily, seventy-car unit train out of Seattle. The large potential growth within the next five years (doubling to 163 rail cars per day) of rail container-on-flatcar (COFC) traffic, furthermore suggests that it is time to define the Port's role for insuring that there will be adequate future rail capacity.

For an economic movement, a container unit train is estimated to require from a minimum of 40 flatcars to a maximum of 100 flatcars. Each flatcar can hold two 40' containers or 4 TEU, thus requiring 160 TEU minimum (or a maximum of 400 TEU) for an economic container unit train. For the purposes of this report, a container unit train is defined as "a dedicated set of rail equipment captive to a shuttle operation between origin and destination, bypassing classification yards, following a rigid predetermined time schedule, and carrying a minimum number of containers (at least 160 TEU) on flatcars." A minimum, 40-car container unit train, each day of the year, equates to some 58,400 TEU per year.

In 1977, Seattle's Transpacific loaded inbound traffic is estimated to have been 174,000 TEU for the entire year. Approximately 60% of Seattle's 1977 Transpacific loaded inbound containers were through traffic, the remaining 40% is local (including Canada) or truck-oriented, leaving 104,000 TEU as through traffic eligible for movement as TOFC/COFC. This is nearly twice the minimum volume of TEU required for a daily container unit train. In 1983, this traffic is projected to be 238,000 TEU (with rail traffic increasing from 60% to 70%) or four minimum unit trains per day.

KNIFE RIVER COAL MINING COMPANY
BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION
ABERDEEN, SOUTH DAKOTA

Statement of
A. J. Wittmaier
of
Knife River Coal Mining Company
October 1978

STATEMENT OF A. J. WITTMAYER
KNIFE RIVER COAL MINING COMPANY
BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION
ABERDEEN, SOUTH DAKOTA

OCTOBER 27, 1978

1 My name is A. J. Wittmaier. I am vice president of the
2 Knife River Coal Mining Company, whose address is 1915
3 North Kavaney Drive, Bismarck, North Dakota 58501. Knife
4 River Coal Mining Company has been mining lignite since
5 1922, and during that period has served the states of
6 Montana, North Dakota, South Dakota, and Minnesota.

7

8 The Knife River Coal Mining Company operates lignite mines
9 at Beulah and Gascoyne, North Dakota, and at Savage, Montana.
10 The total production of these mines is approximately
11 5,000,000 tons a year, and all of the production of the
12 Knife River Coal Mining Company is shipped by rail to the
13 user, which consists, primarily, of electric utility power
14 plants, which supply electrical energy to the Upper Midwest.

15

16 The mines at Beulah, North Dakota, and Savage, Montana, are
17 served by the Burlington Northern, Inc., and so our concern
18 rests with Knife River's mine at Gascoyne, North Dakota,
19 which is served by the Milwaukee Road.

20

21 Gascoyne, North Dakota, is located in the southwest corner

1 of North Dakota between Bowman, North Dakota, and Lemmon,
2 South Dakota. The mine was put into operation in 1950 by
3 the Knife River Coal Mining Company, primarily to supply
4 coal to utility plants at Mobridge, South Dakota, and
5 Ortonville, Minnesota.

6
7 On January 1, 1972, the Knife River Coal Mining Company
8 entered into an agreement to supply coal to the Big Stone
9 Power Plant, located at Big Stone, South Dakota, as owned
10 by Otter Tail Power Company, Montana-Dakota Utilities Co.,
11 and Northwestern Public Service Company. The contract
12 became effective January 1, 1975, at which time Knife River
13 started furnishing coal to this power station. Under the
14 agreement Knife River is committed to supply 55,000,000
15 tons of coal to this power plant during the first twenty
16 years of the contract, and under certain conditions could
17 be obligated to supply an additional 20,000,000 tons of
18 coal for a total commitment of 75,000,000 tons of lignite.
19 The contract is based on an average annual output at the
20 Gascoyne Mine of 2,400,000 tons, and during the early years
21 of the power plant's life it is expected that the tonnage
22 produced at the mine will approach as much as 2,700,000 tons
23 a year. In the past twelve months the output of the mine at
24 Gascoyne was approximately 2,700,000 tons of lignite,
25 practically all of which was moved by rail.

26
27 The Knife River Coal Mining Company has reserves of

1 approximately 400,000,000 tons of lignite in the mine area,
2 and in a recent hearing before the Public Service Commission
3 in the State of Montana, Paul Weir and Company, Consulting
4 Mining Engineers, Chicago, Illinois, estimated that lignite
5 reserves owned by the Knife River Coal Mining Company have a
6 present value of sixteen cents a ton in the ground. The
7 Knife River reserve is part of the Harmon Bed, as described
8 in Geological Survey Bulletin 1015E, titled Strippable Lignite
9 Deposits, Slope and Bowman Counties, North Dakota. This
10 survey bulletin lists the reserves of 1.4 billion tons in
11 the Harmon Lignite Bed as located in Bowman and Slope Counties,
12 North Dakota. The Harmon Bed is only part of a large lignite
13 reserve that extends from the northwestern corner of South
14 Dakota to as far north as the Canada border and into eastern
15 Montana.

16
17 The Knife River Coal Mining Company's operation at Gascoyne,
18 North Dakota, employs on the average 85 people and has a
19 present annual payroll of \$1,509,000. It is the one source
20 of permanent, high paying employment in an area bounded by
21 Bismarck, North Dakota, to the Black Hills of South Dakota,
22 west to Gillette, Wyoming, and Decker, Montana. The
23 employment at Knife River's mine at Gascoyne, North Dakota,
24 has a great impact on the towns of Hettinger, Reeder,
25 Scranton, and Bowman, North Dakota, and the large payroll of
26 this mine helps to lessen the vagaries of Main Street,
27 caused by the fluctuating small grain prices and yields.

1 The primary consumer of lignite from Knife River's Gascoyne
2 Mine is the Big Stone Plant, Big Stone, South Dakota.

3 The coal movement is accomplished by unit trains with two
4 trains in operation at all times, one taking coal to the
5 plant and the other bringing empty railroad cars back to
6 the mine for loading. Each train consists of one hundred
7 100-ton capacity cars, and six or seven loaded trains per
8 week are shipped from the mine to the Big Stone Plant.

9 This movement will, undoubtedly, continue through the life
10 of the Big Stone Plant, which is estimated to be a minimum
11 of 35 to 40 years.

12

13 The Knife River Coal Mining Company has made an original
14 investment of approximately \$14,500,000. The Big Stone
15 Plant site is laid out for a second unit, which will be
16 similar in size to the first unit, and Knife River is
17 prepared to meet the coal requirements of the second unit
18 at the time it is built, and is willing to make the
19 additional investment in order to do so.

20

21 Abandonment of the Milwaukee main line west through South
22 Dakota would leave a large area which contains large coal
23 reserves unserved by any railroad. This area is roughly
24 bounded by (designated by railroad stations) Mott, North
25 Dakota, to Pollock, South Dakota, to Leola, South Dakota,
26 to Redfield, South Dakota, to Gettysburg, South Dakota, to
27 Pierre, South Dakota, to the Black Hills in South Dakota

1 to New Castle, Wyoming, to Huntley, Montana, to Glendive,
2 Montana, to Beach, North Dakota, to Mott, North Dakota, the
3 starting point. This area contains approximately 51,100
4 square miles and contains the bulk of the lignite reserves
5 in the United States, besides covering a large area underlain
6 by subbituminous coal. (See Exhibit 1 from Environmental
7 Impact Statement, Proposed Federal Coal Leasing Program,
8 Volume 1.)

9
10 It is inconceivable that our nation can willingly forfeit
11 access to these large, essential, known coal reserves by
12 allowing the abandonment of the Milwaukee Road, which in
13 effect cuts through the very heart of the area described.
14 Abandonment of the Milwaukee Road would be particularly hard
15 on the northwest quarter of South Dakota, as well as the
16 southwest quarter of North Dakota, as well as southeastern
17 Montana, and would in all probability prohibit further
18 development of the large coal reserves in those areas,
19 besides causing forfeiture of investments made in the small
20 towns and industry, such as that investment made by Knife
21 River.

22
23 Upon abandonment of the Milwaukee main line, Knife River
24 would have no choice but to cease operating its Gascoyne
25 Mine, as there is no practical manner presently developed
26 to move 60,000 tons of coal each week a distance of 350
27 miles each way other than by this railroad.

1 Tariffs paid by the shippers on the Milwaukee are set by
2 the Interstate Commerce Commission and the various state
3 commissions and are only set after rather lengthy and
4 detailed hearings in which the railroad sets forth the
5 need for additional revenue. The need, as determined by
6 the various regulatory authorities, is then embodied in
7 published tariffs which are paid by the shipper. Thus, in
8 fact, the public has paid what has been determined the proper
9 tariff on all materials shipped on the Milwaukee Road,
10 including shipments of lignite from Knife River's Gascoyne
11 Mine.

12
13 There has been constant and continuous publicity of the need
14 for western coal to ease the crisis this nation faces in
15 energy, and most studies agree that the volume of coal moving
16 from the West to the East will involve massive movements by
17 rail. There is contention in the press and in Congress that
18 the railroads serving the western coal areas will be unable
19 to meet the demands imposed on them by this movement of
20 western coal; and, as such, slurry pipelines have been
21 suggested as an alternate means of transportation. The
22 slurry pipelines would relieve to a considerable extent the
23 very heavy and constant unit train movements through the
24 cities and villages in the Upper Midwest where objections
25 have been voiced to the constant movement of unit trains
26 of coal through the cities and villages. In fact, the
27 objection is such that the federal government has authorized

1 a study to determine the impact and possible remedies of
2 the continually increasing movement of the unit trains
3 through the cities and villages in the Upper Midwest.

4
5 Instead of attempting to abandon the main line of the
6 Milwaukee Road west of Aberdeen, South Dakota, a far better
7 use would be to utilize this main line for the movement of
8 western coal. Utilization of this line for the movement of
9 unit trains from the West, which will constantly increase,
10 would help to dissipate the heavy magnitude of coal traffic
11 which will continue to increase in the future. One of the
12 larger producing areas of western coal is the Colstrip
13 area in Montana, and the main line of the Milwaukee Road
14 is ideally suited for the movement of coal from these mines
15 to the East and would relieve the increasing traffic which
16 is now occurring on the other rail lines.

17
18 It is unconscionable that the same government, which is
19 literally spending hundreds of millions of dollars on coal
20 development, and by-products from coal, so that the nation
21 can eventually obtain some degree of independence from
22 imported oil, would allow abandonment of a main line
23 railroad which literally cuts through what is considered
24 the largest coal reserve area in the United States, and it
25 is inconceivable that this same government, which is
26 formulating the energy policy based on coal, would allow
27 abandonment of a railroad which would cause a company,