

Chicago - May 19, 1966.

Mr. William J. Quinn
P r e s i d e n t

Our conversation Monday, March 21, 1966, relative to the possible acquisition of the Port Townsend Railroad; the feasibility and preliminary cost of providing a barge transfer bridge at Port Angeles for the loading and unloading of rail cars; and possibility of a barge operation between Port Angeles, Port Townsend and Seattle.

Due to my heavy schedule with station closing hearings, and a rate case, I asked for representatives of the Traffic, Accounting and Engineering departments to attend a meeting held March 23d, in order to start assembling data.

Messrs. P. J. Cullen, R. N. Edman, N. E. Smith and H. C. Minter were present.

A second meeting was held April 26th, with Mr. D. M. Wiseman of the Traffic department present, replacing Mr. Cullen.

On Tuesday, May 10th, a third meeting was held in my office, and Mr. John H. Lee, President, Puget Sound Tug & Barge Company, Seattle, was present, at his own request, and presented several interesting proposals, i.e.:

Mr. Lee stated they have the following barge equipment -

- 2 - 76'x400' - 48-car barges, based on 40-ft cars (6 tracks)
- 4 - 76'x354' - 42-car barges, based on 40-ft cars (6 tracks)
- 1 - 68'x304' - 30-car barge, based on 40-ft cars (5 tracks) *
- 1 - 48'x260' - 20-car barge, based on 40-ft cars (4 tracks)

* CLAIR ENGLE

In addition to these barges, they have several tugs and are building some new barges. They are affiliated with Crowley of California. They would not need our two barges.

Mr. Lee said he was very much interested in handling our business from Seattle, Port Townsend and Port Angeles (he now handles our cars to Alaska). They would furnish at a minimum, one 1200-HP tug, with the 30-car barge (CLAIR ENGLE), and could make a round-trip Seattle to Port Angeles and return, stopping at Port Townsend in a 24-hour period. He tentatively offered to do this for \$1,400 per trip. This would include hull insurance, legal liability, etc. He mentioned he would like to have a five or ten-year contract, and would have to have some provision for increase in wages, fuel, etc. These details, as well as others, would have to be worked out later, if our management is interested.

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Mr. Lee is now building his own barge slip in Seattle, on Harbor Island, just west of the Union Pacific's barge slip. It will be a two-track slip, with a 125' apron so they will be able to load or unload at any tide. It is estimated to cost \$350,000, and will be completed in June of this year. He would, however, unload our cars at our pier, Pier 27.

He also stated he would build a barge slip at Port Angeles, participate in building one, or if we desired, we could build our own.

As a matter of information, the 1965 Foss Tug & Launch handling for our Company between Seattle and Port Townsend was:

197 Tandem tow trips (2 15-car barges - our Nos. 21 & 21) @ \$982 per tow	\$193,454
5,438 loads and 4,869 empties	
74 Single tow trips (1 15-car barge) @ \$655 per tow	<u>48,470</u>
1,065 loads and 922 empties	
Total:	\$241,924

A car barge operation must be reliable and operate on a regular schedule -- and Mr. Lee advises he has checked this out with many people, and it was his opinion that there would not be more than two or three days that weather would affect the operation in the Straits of Juan de Fuca. His company presently tows to Alaska the year-round.

Mr. Lee and I later met with Mr. Kronberg, and Mr. Wiseman in Mr. Kronberg's office, and the Traffic department has no objection to towing from Port Angeles provided they receive same service as at present.

To complete the study on the possibility of constructing a barge landing at Port Angeles, on April 21st, accompanied by Mr. P. W. Davis, Industrial Engineer from Mr. Grier's office, and Division Engineer T. M. Pajari, called on Mr. Tom Neal, Manager of the Port of Port Angeles. We had a print of the proposed site for the barge landing, and were advised by Mr. Neal that there would be no objection from the Port, and that a lease could be obtained. We also made a rail car inspection trip from Port Angeles to Port Townsend.

Mr. Davis was advised by the Seattle office of the Corps of Engineers, Department of the Army, that no permission is required from the Corps for structures located within the Federal Pierhead line. We would, therefore, be required to deal only with the Port of Port Angeles, and the State of Washington, to secure any right-of-way required. From contracts with the Washington State Department of Natural Resources, and with the Manager of the Port of Port Angeles, I anticipate no difficulty in securing such right-of-way.

There is a question as to whether or not Interstate Commerce Commission approval would be required, since the 1915 contract with the Port Townsend & Puget Sound Railway Company spelled out authorization for trackage rights for passenger trains, but none for freight trains. I have asked for an opinion from Mr. Schiewe if ICC approval was necessary, and have received the following from Mr. Joseph J. Nagle:

"Mr. Schiewe has asked me to reply to your recent letter to him, concerning a possible car ferry operation to Port Angeles, Wash.

"If our Company operated a line of railroad between Port Townsend, on the one hand, and Port Angeles, on the other hand, we could probably inaugurate a car ferry service between these points without obtaining authorization from the ICC, on the theory that we were merely providing an alternate route and were not extending our line in any manner.

"Our Company, however, apparently only operates a line of railroad between Port Angeles and Discovery Jct., because it appears to me that the operation of our equipment and our crews between Discovery Jct. and Port Townsend is an agency relationship, whereby the Milwaukee Road, acting as agent for the Port Townsend RR conducts the physical operation in the name of and for account of that carrier.

"Under the circumstances, I believe that a car ferry operation between Port Angeles and Port Townsend would be an extension of our line of railroad for the very same reasons that the construction by our Company of a new track between Port Townsend and Discovery Jct. would be considered as an extension of our line, and, accordingly, I believe that we would have to obtain ICC authorization to extend our line with the proposed car ferry operation.

"If the car ferry operation were instituted between Port Angeles and Port Townsend, any subsequent abandonment of all, or a portion of our line, between Port Angeles and Discovery Jct. would also have to be approved by the Commission if the effect of such abandonment would deprive shippers located along this route of their rail service."

The record insofar as we could ascertain, shows that barge operation was performed at Port Angeles from May 16, 1914, to November 25, 1915. At that time we had a single-track landing at Port Angeles. On November 25, 1915, a three-track landing was put in operation at Port Townsend.

We are unable to learn why the barge operation to Port Angeles was abandoned, but the conclusion we reached as to why it was discontinued to Port Angeles was due to the fact that the Railroad was completed between Port Angeles and Discovery Jct., where it made a connection with the Port Townsend Southern RR, and that it was more advantageous to the Railroad to haul the traffic by rail to Port Townsend.

The barge landing at Port Angeles was apparently only a temporary construction, to be used until the Railroad could be completed.

I do not know if this would have any bearing on our case, but the fact remains that we did have a barge landing at Port Angeles, if an application was filed with the ICC.

Our right-of-way at Port Angeles in the area being considered as a location for a new barge landing is covered by Harbor Area lease. This lease (Milw Secy's No. RE-234) is for a term of thirty years from September 2, 1957. The area covered by this lease from the vicinity of the Port Dock to Oak Street, is shown by red outline on the attached print. A copy of the lease description is also attached.

Right-of-way for our car barge landing at Port Townsend is covered by Harbor Area lease from the State of Washington also. This lease (Milw Secy's No. RE-219) is for a term of fifteen years from July 23, 1954. Copy of the lease description, and a print illustrating the lease, are also attached. The Harbor Area lease is shown by red outline, and our right-of-way by red tint.

Mr. Al Nance, Auditor, Seattle, has developed certain figures, at my request, and attached are statements as follows:

- SCHEDULE A Statement of Estimated Savings & Additional Expenses
- SCHEDULE B Statistics of Operatinn
- SCHEDULE C Total cost for Road Train Service
- SCHEDULE D Cost of Yard Service at Port Angeles

These figures have been developed for the months of January, April, July and October 1965, and averages for those four months.

Crew wages were obtained from Supt. Nentl's office; fuel cost is based on an average expense of 8.35¢ a gallon at Tacoma, plus taxes; and the estimated transportation cost to Port Angeles. Other items pertaining to train operation were obtained from responsibility statements of the Locomotive and Car departments.

Division of revenue paid Port Townsend Railroad was computed by averaging the number of cars for this four-month period and applying an average division per car. Information for this purpose was obtained from statements prepared by the office of Auditor of Freight Settlements.

Mr. Nentl is of the opinion that if a barge facility were installed at Port Angeles, with the resultant abandonment of line between Sequim and Discovery Jct., only one crew would be required to handle the switching at Port Angeles and turn-around service to Sequim as required. He estimated that the expense of this crew would run about what our present road crew is costing, and therefore, the saving involved would be a yard crew. This change in operation would be subject to negotiation with the Brotherhoods. I have been advised by Mr. Amour's office that this would not be any problem.

The additional expense, as computed, was based on a five-day operation, or 250 round trips for the year. Since we made 271 trips last year, these figures have been corrected accordingly, and a \$1,400 per trip figure was used. This additional cost would be \$136,000, and actual car loads handled were 5,158, changing the savings to \$164,383.

Attached is a print showing the proposed additional trackage and general layout of the transfer landing approach, bridges, dolphins, etc., for the transfer bridge in Port Angeles. The preliminary estimated cost of this arrangement is:

3,500' trackage	\$ 35,000
Transfer bridge & approaches	300,000
Six dolphins (treated piling)	28,000
Contingencies	<u>37,000</u>
	\$400,000

Attached is a copy of statement showing additional cost, gains and savings through proposed abandonment of that portion of the Port Angeles Line between Discovery Jct. and Sequim furnished by the Engineering department.

The principal gain to us in the Port Angeles operation would come from the abandonment of the line of our Railroad from Discovery Jct. to Sequim, and later if the Carlsborg Mill ceases operation, to Port Angeles.

The volume of traffic in our opinion, plays an important factor in the question of barge service vs. rail service. For the last ten years the gross station earnings at Port Angeles have been between four and five million dollars, and since 1941 gross station earnings have been between three million in 1941 and seven million in the years 1951, 1952 and 1953.

Attached are statements of gross revenues for stations Port Angeles to and including Port Townsend, and list of industries on our line, as well as our interchange at Port Townsend with the Port Townsend Railroad.

We have checked into the tariff rates, and the Port Townsend Railroad receives a division of rates only for loads moving from Discovery Jct. to Port Townsend. Cars moving from Port Angeles to Seattle would, no doubt, require a change in tariff, since Port Townsend Railroad now receives a division.

I will touch briefly on Port Townsend:

The Milwaukee owns a three-track barge landing and approach. There is only one industry of importance at Port Townsend, and that is the Crown Zellerbach Mill. They are served by the Port Townsend Railroad, the Black Ball Line, and have their own ship line as well. They do truck to Seattle, and load rail cars at that point.

We considered the possibility of the ICC permitting us to abandon our line between Sequim and Discovery Jct. at the present time, and reached the conclusion it was very doubtful if the ICC would give its consent to such an abandonment -- this due to the fact that it would practically destroy the earning power of the Port Townsend Railroad, and naturally the Port Townsend Railroad would strenuously object to such abandonment.

It is our conclusion that if The Milwaukee Road can acquire the Port Townsend Railroad for \$225,000, per Mr. Kratochwill's letter to Mr. Crippen of February 7, 1965, as a fair price; it would be to the advantage of the Milwaukee to acquire it, and continue to operate it until the traffic declines to a point where it would be advantageous for us to operate a barge from Port Angeles, and discontinue the line from Port Angeles to Port Townsend.

I understand Mr. Paul Pearson, Vice President of Foss Tug & Launch, Seattle, and one of the owners of the Port Townsend Railroad, is quite ill. Furthermore, since Messrs. Pearson, Lund and Magnuson are connected with Foss Tug & Launch, they may think there is a possibility that Puget Sound Tug & Barge may contract for the towing from Port Angeles, and since the Port Townsend Railroad has not been doing quite as well the last three years, I believe now would be a good time to negotiate with them.

I believe Mr. John Fox, present General Manager of the Port Townsend Railroad, and a part owner, would be the greatest

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obstacle, inasmuch as he devotes most of his time to the operation of the Port Townsend Railroad, and would be out of a job.

ORIGINAL SIGNED
R. G. SCOTT

Att.

bc - Messrs. P. J. Cullen
R. N. Edman
N. E. Smith
H. C. Minter
D. M. Wiseman