FINANCE DOCKET NO. 22688[1]

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

Decided October 29, 1974

1. In Finance Docket No. 23286, (1) merger of the franchises and properties of the Chicago, Rock Island and Pacific Railroad Company into the Union Pacific Railroad Company for ownership, management, and operation, and, in turn, acquisition by the Union Pacific Corporation of control of said franchises and properties through the merger; (2) acquisition by the Union Pacific Railroad Company, and, in turn, Union Pacific Corporation, of sole or joint control of companies subsidiary to and affiliated with, the merged carrier; and (3) acquisition by the Union Pacific Railroad Company of the leasehold interests in, and trackage rights over, or joint ownership in or use of, the railroad lines of other carriers held by Chicago, Rock Island and Pacific Railroad Company, and, in turn, of control by Union Pacific Corporation of said interests in, rights, over, or ownership or use of lines of said carriers, approved and authorized, subject to conditions.

[1]Embraced herein are Finance Docket No. 22689, Chicago and North Western Railway Company—Issuance of Securities; Finance Docket No. 23285, Union Pacific Railroad Company—Control—Chicago, Rock Island and Pacific Railroad Company; Finance Docket 23286, Union Pacific Railroad Company and the Chicago, Rock Island and Pacific Railroad Company, Merger; Finance Docket No. 23287, Union Pacific Railroad Company—Issuance of Securities; Finance Docket No. 23595, Southern Pacific Company—Purchase (Portion)—Chicago, Rock Island and Pacific Company; Finance Docket No. 23596, Southern Pacific Company—Assumption of Obligations; Finance Docket No. 23919, Atchison, Topeka and Santa Fe Railway Company—Purchase, et cetera—Chicago, Rock Island and Pacific Railroad Company (Portion); Finance Docket No. 23920, Atchison, Topeka and Santa Fe Railway Company—Assumption of Obligations; No. MC-F-9222, Southern Pacific Transport Co.—Purchase (Portion)—Rock Island Motor Transit Co.; Finance Docket No. 24128, Union Pacific Railroad Co., Construction; Finance Docket No. 24129, Union Pacific Railroad Co., and Chicago, Rock Island and Pacific Railroad Co., Abandonment; Finance Docket No. 24154, AT&SF—Common Use of Terminal Facilities—SL-SF; No. MC-F-9668, The Santa Fe Trail Transportation Company—Purchase (Portion)—Rock Island Motor Transit Company; Finance Docket No. 27521, The Denver and Rio Grande Western Railroad Company—Purchase (Portion)—Chicago, Rock Island and Pacific Railroad Co.; and Finance Docket No. 27522, The Denver and Rio Grande Western Railroad Company—Issuance of Securities.

2. In Finance Docket No. 23287, to accomplish the merger in Finance Docket No. 23286, authority granted for the Union Pacific Railroad Company (1) to issue (a) not exceeding 2,991,411 shares of its $1.80 convertible preferred stock, without par value; (b) to issue not exceeding $93,881,110 in total aggregate amount of 30-year 4 3/4 percent debentures and indenture thereto; and (c) to issue not exceeding 2,542,699 shares of common capital stock, par value $10 per share; (2)(a) to assume obligation and liability in respect of First Mortgage Bonds, 40-year 4 1/2 percent Income Debentures, and equipment trust obligations of $110,171,000; and in connection with the above-described First Mortgage Bonds and 40-year 4 1/2 percent Income Debentures to issue supplemental debentures; and (b) to assume obligation and liability in respect of various guaranties and suretyships in total principal amount of $5,843,244; (3) and also with respect to the merger herein authorized, and in connection with the issuance of securities authorized immediately above, authority granted the Union Pacific Corporation to issue not exceeding 2,911,411 shares of its $1.80 convertible preferred stock, subject to conditions, and, in all other respects, dismissed.
3. In Finance Docket No. 23595, coincidental with the above-described merger in Finance Docket No. 23286, purchase by the Southern Pacific Transportation Company of portions of the rail franchises and properties embraced in the above-described merger, and, in turn, acquisition of control by Southern Pacific Company of the franchises and properties, through the purchase, approved and authorized, subject to conditions.
4. In Finance Docket No. 23596, to accomplish the purchase authorized in Finance Docket No. 23595, authority granted in part for the Southern Pacific Transportation Company to assume obligation and liability in respect of contingent obligations of bonds of certain railroad bridge and terminal companies in total principal amount of $3,068,473.
5. Petition of the Atchison, Topeka and Santa Fe Railway Company (a Delaware corporation), for substitution as applicant in Finance Docket No. 23595, in lieu of the Southern Pacific Transportation Co., granted, in part; and, coincidental with the above-described merger in Finance Docket No. 23286, purchase by the Atchison, Topeka and Santa Fe Railway Company (a Delaware corporation) of portions of the rail franchises and properties embraced in the above-described merger, and, in turn, acquisition of control by Santa Fe Industries, Inc., of the franchises and properties, through the purchase, approved and authorized, subject to conditions.
6. In Finance Docket No. 23920, application by Atchison, Topeka and Santa Fe to assume obligation and liability in respect of bonds of certain railroad bridge and terminal companies, granted, in part, and in all other respects, dismissed.
7. In Finance Docket No. 27521, contingent upon consummation of the above-described merger authorized in Finance Docket No. 23286, application of the Denver and Rio Grande Western Railroad Company for authority to purchase portions of the rail franchises and properties embraced in the above-described merger, approved and authorized, in part, subject to conditions.
8. In Finance Docket No. 27522, application of the Denver and Rio Grande Western Railroad Company to issue $5 million face amount First Mortgage Bonds, Series B, to accomplish the purchase authorized in Finance Docket No. 27521, deferred pending receipt of additional information.
9. In Finance Docket No. 23285, application of the Union Pacific Railroad Company for authority to acquire direct control of the Chicago, Rock Island and Pacific

Railroad Company through acquisition of common capital stock, and through the acquisition of indirect sole or joint control of the latter's subsidiary and affiliated companies, dismissed.

10. In Finance Docket No. 22688, application of The Chicago and North Western Transportation Company, successor-in-interest to the Chicago and North Western Railway Company, for authority to acquire control of the Chicago, Rock Island and Pacific Railroad Company through acquisition of capital stock, and through such stock ownership, of indirect control, solely or jointly, of the affiliated and subsidiary companies of the Chicago, Rock Island and Pacific Railroad Company, dismissed.
11. In Finance Docket No. 22689, application to issue certain of its securities in order to effectuate acquisition of control described in Finance Docket No. 22688, dismissed.
12. In Finance Docket No. 23919, application of the Atchison, Topeka and Santa Fe Railway Company for authority to purchase a portion of the franchises and properties of the Chicago, Rock Island and Pacific Railroad Company, and of Santa Fe Industries, Inc., to acquire control of the rail franchises and properties through the purchase, dismissed.
13. Petition of the Southern Pacific Transportation Company, successor-in-interest to the Southern Pacific Company, for substitution as applicant in Finance Docket No. 23919, in lieu of the Atchison, Topeka and Santa Fe Railway Company, dismissed.
14. In Finance Docket No. 24128, application of the Union Pacific Railroad Company for authority to construct certain connecting tracks in Adams County and the city and county of Denver, Colo., Thomas County, Kans., and Jefferson, Lancaster, Sarpy, and Gage Counties, Nebr., dismissed.
15. In Finance Docket No. 24129, application of the Union Pacific Railroad Company for authority to abandon certain lines of railroads in Adams County, Colo., Thomas County, Kans., Jefferson, Douglas, Sarpy, and Gage Counties, Nebr., dismissed.
16. In Finance Docket No. 24154, application by the Atchison, Topeka and Santa Fe Railway Company (a Delaware corporation) for use of certain tracks and facilities of the St. Louis-San Francisco Railway Company found not to be required by the public interest, denied.
17. In Docket No. MC-F-9222; application by Southern Pacific Transport Company to purchase a portion of the motor carrier operating rights embraced in the above-described merger, and acquisition by the Southern Pacific Company of control of the motor carrier operating rights, through the purchase, approved and authorized, subject to conditions.
18. In Docket No. MC-F-9668, application of Santa Fe Trail Transportation Company to purchase a portion of the motor carrier operating rights of the Rock Island Motor Transit Company and of Santa Fe Industries, Inc., to acquire control of said motor carrier operating rights through the purchase, approved and authorized, subject to conditions.
19. In connection with all or certain of the above-described proposed transactions, requests for inclusion filed by the Denver & Rio Grande Western Railroad Company, Kansas City Southern Railway Company, Louisiana & Arkansas

Railway Company, Soo Line Railroad Company, Missouri-Kansas-Texas Railroad Company, Fort Worth and Denver Railway Company, Burlington Northern, Inc., Western Pacific Railroad Company, and the Chicago, Milwaukee, St. Paul and Pacific Railroad Company; granted as to the Missouri-Kansas-Texas Railroad Company and the Denver and Rio Grande Western Railroad Company; deferred as to Burlington Northern, Inc., and the Fort Worth and Denver Railway Company; and denied or dismissed as to all other parties and applicants.

Jurisdiction retained to enter such further order or orders as may be necessary and appropriate.

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

Ernest Porter, Dennis McCarthy, H. T. Benson, L. R. Gardiner, Robert K. Merrill, Roger H. Thompson, L. E. Torinus, Anthony Kane, J. R. Walker, John S. Walker, Jr., R. Paul Tjossem, E. L. Van Dellen, E. Barrett Prettyman, Jr., Samuel R. Freeman, William A. Thie, Monroe E. Clinton, F. W. Crouch, C. Harold Peterson, Robert G. Gehrz, Charles H. Clay, T. L. Farmer, Thomas A. Loose, Frank Farrell, Walter G. Reanor, Reginald Ames, Barry McGrath, Gordon C. Busdicker, William E. Davis, Peter W. Asher, R. W. Spachman, Kenneth R. Lemke, Ernest D. Grinnell, Jr., John E. McCullough, Mark M. Hennelly, Gilbert P. Strelinger, Richard Emrich, Donald E. Engle, William R. McDowell, John Guandola, Leon Leighton, Richard H. Champlin, Clayte Binion, Edwin O. Schiewe, Raymond K. Merrill, Robert F. Munsell, James S. Bowie, Warren H. Ploeger, Thomas G. Corcoran, Edward H. Foley, James Meers, R. G. Cubbage, Richard M. Gleason, Ralph L. MacAfee, Robert E. Zimmerman, Harry Voigt, Reagan Sayers, Hugh T. Matthews, G. M. Rebman, Samuel A. Denny, Harry G. Silleck, and *Philip S. Brown,* for rail carrier and motor carrier interveners.

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

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

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

Richard H. Kraushaar, Elmer R. Joss, Edward J. Hickey, Jr., William J. Hickey, James L. Highsaw, Geoffrey N. Zeh, and *William G. Mahoney* for railway labor organizations.

William J. Holloran, Joseph Saunders, Joseph Gallagher, Steven M. Charno, and *Thomas E. Kauper* for United States Department of Justice.

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

Report of the Commission

Exceptions to the Administrative Law Judge's report and recommended order, which was served on February 15, 1973, have been filed by the St. Louis-San Francisco Railway Company (Frisco or SLSF); jointly by Union Pacific Railroad Company (Union Pacific or UP) and Union Pacific Corporation (UPC); Mr. Kendall Laughlin; Western Pacific Railroad Company (Western Pacific or WP); jointly by Southern Pacific Transportation Company (Southern Pacific or SP), Southern Pacific Transport Company, and Southern Pacific Company; Chicago and North Western Transportation Company (North Western or C&NW); Soo Line Railroad Company (Soo); Burlington Northern, Inc. (BN); jointly by the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees, the Brotherhood of Maintenance of Way Employees, Hotel and Restaurant Employees and Bartenders'

International Union, and the United Transportation Union (collectively referred to as Labor Unions); the Railway Labor Executives' Association (RLEA); jointly by the Colorado & Southern Railway Company (Colorado & Southern or C&S) and Fort Worth & Denver Railway Company (Fort Worth & Denver or Fort W&D); Chicago, Rock Island & Pacific Railroad Company (Rock Island or RI); the Denver & Rio Grande Western Railroad Company (D&RGW or Rio Grande); the Atchison, Topeka and Santa Fe Railway Company (AT&SF or Santa Fe); the Department of Justice (Justice); jointly by the Houston Port Bureau, the Board of Trustees of the Galveston Wharves and the Galveston Chamber of Commerce (collectively referred to as HPB); Missouri Pacific Railroad Company (Missouri Pacific, MoPac or MP); jointly by Texas and Pacific Railway Company (Texas & Pacific or T&P), The Weatherford, Mineral Wells and Northwestern Railway Co., Abilene & Southern Railway Co., Texas-New Mexico Railway Co., and Texas & Pacific Motor Transport Co.; jointly by Lee Way Motor Freight, Inc. (Lee Way), and Texas-Oklahoma Express, Inc. (TOX); and jointly by the Kansas City Southern Railway Co. (Kansas City Southern or KCS), and the Louisiana & Arkansas Railway Company (L&A), sometimes collectively referred to as KCS-L&A. Replies have been filed by Missouri-Kansas-Texas Railroad Company (Katy); Chicago, Milwaukee, St. Paul & Pacific Railroad Company (Milwaukee); jointly by C&S and Fort W&D; WP; BN; RI; jointly by KCS-L&A; Rio Grande; UP; Santa Fe; MoPac; C&NW and St. L-SF. We have heard the parties in oral argument. Our conclusions differ in some respects from those of the Administrative Law Judge.

Nature and Scope of the Applications

Initially, this proceeding involved conflicting applications by two sets of partners, the North Western and the Santa Fe, on the one side, and the Union Pacific and the Southern Pacific, on the other; each of which sought to acquire and divide the Rock Island. All five above-named parties are common carriers by railroad subject to part I of the Interstate Commerce Act.

In Finance Docket No. 22688, by application filed July 5, 1963, as amended and supplemented, North Western seeks authority under section 5(2) of the act to acquire control of Rock Island through ownership of its capital stock, and, through the transaction, to acquire indirect control of Rock Island's subsidiary companies.[2] In Finance Docket No. 22689, by an application also filed July 5, 1963, North Western seeks authority under section 20a of the act to issue such securities as may be necessary to effectuate the acquisition of control proposed in Finance Docket No. 22688.

In Finance Docket No. 23919, by application filed December 13, 1965, as amended, Santa Fe seeks authority under section 5(2), subject to prior approval of the North Western application in Finance Docket No. 22688, to purchase a portion of Rock Island's franchises and properties including: (a) all Rock Island lines south of Salina and Herrington, Kans., excluding the lines between Herrington and Santa Rosa, N. Mex., and between Bucklin and Dodge City, Kans.; (b) Rock Island's stock interest in nine railroad, bridge and terminal companies; and (c) a portion of the motor carrier operating rights and facilities of Rock Island's motor carrier subsidiary, Rock Island Motor Transit Company (R.I. Transit), of Des Moines, Iowa, all for a basic price of $100 million, subject to adjustment. In addition, Santa Fe also seeks to acquire full trackage rights over the Rock Island line between Kansas City and St. Louis, Mo. Santa Fe Industries, Inc., which controls Santa Fe through ownership of 100 percent of its outstanding capital stock, seeks concurrent authority under section 5 to acquire control of the franchises, operating rights, and property through the proposed purchase transaction.

In directly related applications, Santa Fe seeks authority under section 20a of the act to assume contingent liability with respect to securities of three bridge or terminal companies which are now guaranteed by Rock Island. Santa Fe Trail Transportation Company (Santa Fe Trail), of Wichita, Kans., a wholly owned motor carrier subsidiary of Santa Fe, seeks authority under section 5 to purchase a portion of the motor carrier operating rights and property of R.I.

[2]The application in Finance Docket No. 22688 was originally filed by the Chicago & North Western Railway Company, and a supplemental application was filed by Northwest Industries Inc., a noncarrier holding company then in control of Chicago & North Western Company, to acquire control of Rock Island through the transaction. Subsequently, the railroad properties of Chicago & North Western Railway Company were acquired by Chicago & North Western Transportation Company, a newly formed corporation originally called North Western Employees Transportation Corporation, pursuant to authority granted in Finance Docket No. 26371, *North Western Employees Transportation Corp.—Purchase—Chicago and North Western Railway Co.* (decided March 10, 1972), 342 I.C.C. 58. By order of the Commission, entered on June 30, 1972, by Commissioner Brown, Chicago & North Western Transportation Co. was authorized to be substituted for Chicago & North Western Railway Co., on the present record, as party-in-interest herein. Where appropriate, both the applicant and its predecessor-in-interest will be referred to as North Western or C&NW.

Transit. In Finance Docket No. 24154, Santa Fe, by petition filed May 16, 1966, pursuant to section 3(5) of the act, and in connection with the trackage rights being sought over the Rock Island line between Kansas City and St. Louis, seeks the issuance of an order requiring the common use of certain terminal facilities of the Frisco Railway in Kansas City.

In Finance Docket No. 23286, by joint application filed September 10, 1964, as amended, Union Pacific and Rock Island seek authority under section 5(2) of the act for the merger of the properties and franchises of the Rock Island into Union Pacific for ownership, management, and operation, and the acquisition by Union Pacific, through the merger, of sole or joint control of companies subsidiary to or affiliated with Rock Island and of leasehold interests in, trackage rights over, or joint ownership or use, of railroad lines of other carriers held by Rock Island.[3] By the same application, Union Pacific Corporation (UPC), a noncarrier holding company in control of Union Pacific through ownership of a majority of its outstanding capital stock, seeks authority to acquire control of the properties and franchises of Rock Island through the merger transaction. In Finance Docket No. 23287, Union Pacific and UPC seek authority under section 20a to issue certain securities and assume obligation and liability in respect of securities in connection with the merger application in Finance Docket No. 23286.[4] In other related applications, UP seeks authority to construct certain extensions in Colorado, Kansas, and Nebraska so as to establish connections between Union Pacific and Rock Island lines, and to abandon other lines in the same States which would be rendered superfluous by the proposed merger.

In Finance Docket No. 23595, by application filed April 15, 1965, as amended, Southern Pacific seeks authority under section 5(2), subject to prior approval and consummation of the proposed Union Pacific-Rock Island merger, to purchase from the Union Pacific all Rock Island lines south of Kansas City, Mo., excluding the lines between McFarland and Belleville, Kans., and between Kansas City and St. Louis, Mo., and including all attendant equipment,

[3]In Finance Docket No. 23285, by application also filed September 10, 1964, Union Pacific sought authority under section 5 of the act to acquire control of Rock Island, through the purchase of the latter's capital stock. However, no evidence was presented in support of the application and Union Pacific has waived its application for stock control. Accordingly, the application in Finance Docket No. 23285 will be dismissed.

[4]In Finance Docket No. 23287, UP also sought authority to issue certain securities in connection with the control application in Finance Docket No. 23285. This portion of the application in Finance Docket No. 23287 will, accordingly, be dismissed.

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properties and franchises for a basic purchase price of $120 million, subject to adjustment. By the same application, Southern Pacific Company (SPC), the parent holding company of Southern Pacific, seeks authority to acquire control of the properties and franchises through the transaction. In other related applications, SP seeks authority to assume certain contingent liabilities with respect to the bonds of five terminal companies which are now guaranteed by Rock Island, and SP's motor carrier subsidiary, Southern Pacific Transport Company (SP Transport), seeks authority to acquire a portion of the motor carrier operating rights of RI Transit.

In Finance Docket No. 27521, by application filed November 1, 1973, the Rio Grande seeks authority under section 5(2), subject to prior approval of the Union Pacific application in Finance Docket No. 23286, to purchase all Rock Island lines generally located in the area between Denver and Colorado Springs, Colo., on the west, and Omaha, Nebr., and Kansas City, Mo., on the east, including all attendant properties and franchises. In a directly related application in Finance Docket No. 27522, Rio Grande seeks authority under section 20a of the act for authority to issue $5 million face amount mortgage bonds, in order to obtain funds to rehabilitate the Rock Island properties to be acquired.

In addition to the above applications, Southern Pacific has petitioned to be substituted in lieu of Santa Fe as applicant in Finance Docket No. 23919; Santa Fe has petitioned to be substituted for Southern Pacific as applicant in Finance Docket No. 23595, and the Katy and Milwaukee railroads have petitioned for inclusion in the proposed transactions.

The North Western application to acquire control of the Rock Island in Finance Docket No. 22688 was effectively rendered moot when the C&NW Railway Co. sold its carrier assets in 1972, to a new company, Chicago & North Western Transportation Company, which was formed by the carrier's employees. Although the C&NW Transportation Co. was authorized to be substituted as party-in-interest herein for the C&NW Railway Co., the new company has shown no interest in pursuing the old company's application and has, in essence, disavowed the control transaction, joining in a petition filed by several parties on March 8, 1973, requesting dismissal of the entire proceedings. Accordingly, we will dismiss the application in Finance Docket No. 22688 and the related application in Finance Docket No. 22689, without prejudice; and, except where pertinent to other applications in these proceedings, will

not further consider evidence on the North Western applications herein.

Similarly, as the Santa Fe application in Finance Docket No. 23919 is contingent upon prior approval of the North Western application in Finance Docket No. 22688, it will also be dismissed, as will be Southern Pacific's petition for substitution as applicant in Finance Docket No. 23919.

THE APPLICANTS

The Rock Island Railroad is a large carrier operating over 7,000 miles of rail line in 14 States. Its operating area encompasses roughly the area between Chicago and the Mississippi River on the east, the Rocky Mountains on the west, southern Minnesota on the north, and the Texas gulf coast on the south. Rock Island's main lines extend from: (1) Chicago through Des Moines, Iowa, to Omaha, Nebr.; (2) Chicago to Kansas City; (3) Kansas City and Omaha to Denver and Colorado Springs, Colo.; (4) St. Louis to Kansas City; (5) Chicago to Minneapolis and St. Paul, Minn.; (6) Chicago and Kansas City to Tucumcari and Santa Rosa, N. Mex.; (7) Memphis, Tenn., through Little Rock, Ark., Oklahoma City, Okla., and Amarillo, Tex., to Tucumcari; (8) Minneapolis-St. Paul through Des Moines, Kansas City, Fort Worth, Dallas, and Houston, to Galveston, Tex.; and (9) Little Rock to Alexandria, La. It connects with the Southern Pacific at Tucumcari to form an important link between Chicago, St. Louis, and points in Arizona and California known as the "Golden State Route." Rock Island's lines between Waxahachie, Tex., and Houston, are jointly owned and operated with the Fort Worth & Denver Railway, and are known as the "Joint Texas Division." Rock Island's motor carrier subsidiary, Rock Island Transit, holds extensive motor carrier operating authority in the Midwest. Most of its authority is unrestricted; however, its authority in Oklahoma, Texas, and Kansas is restricted to service auxiliary or supplemental to Rock Island rail service.

Unfortunately, Rock Island's financial condition can only be described as critical. Rock Island has reported a net railway operating loss in every year since 1967 and a net loss in every year since 1965. Its working capital has continually declined to a point where it had a negative working capital of $14,062,000 as of December 31, 1972, and a current ratio of .76. As a result, Rock Island has been forced to defer maintenance, has had difficulties in acquiring adequate modern equipment, and its service has accordingly deteriorated. At present, there appears to be little likelihood that, barring a merger with a stronger carrier, or some other type of outside assistance, Rock Island will be able to avoid reorganization much longer.

The Union Pacific is a large and financially sound rail carrier operating over 9,000 miles of line in 13 Western States. Long one of the most profitable companies in the railroad industry, UP is the predominant carrier in the so-called "Central Corridor"—the area generally between Chicago, St. Louis, and San Francisco. UP's main line extends from Omaha, Nebr., westward through Cheyenne, Wyo., to Ogden, Utah, to Los Angeles, and from Ogden and Granger, Wyo., to Portland, Oreg., and Seattle, Wash. Another major Central Corridor line extends from Kansas City and Topeka, Kans., to Denver and Cheyenne, and other important lines extend from Portland to Spokane, Wash.; Pocatello, Idaho, to Butte, Mont.; Topeka, Kans., to a point on the Ogden-Omaha main line at Gibbon, Nebr.; and from Julesburg, Colo., on the Omaha-Ogden line, to Denver. In addition, Union Pacific owns all of the outstanding capital stock of the Spokane International Railroad Co. (S.I.), which extends from Spokane to Eastport, Idaho, a point on the Canadian-U.S. border. Union Pacific also controls Union Pacific Motor Freight Co. (UP Motor), a wholly owned motor carrier subsidiary which is restricted to service which is auxiliary or supplemental to UP's rail services. Union Pacific, itself, is controlled by a holding company, Union Pacific Corporation.

Although Union Pacific handles the dominant share of traffic moving in the Central Corridor, to participate in transcontinental traffic moving between the Eastern or Southern United States and points in the West, it must depend on bridge carriers between Omaha and connections with major eastern carriers at Chicago and other Illinois gateways; and between Kansas City and connections with major southern carriers at St. Louis and various points in the Southeast. Similarly, for traffic moving to or from northern California and northern Nevada, Union Pacific must rely on its connections with Southern Pacific at Ogden, and Western Pacific at Salt Lake City.

Southern Pacific is a large and prosperous railroad operating over 12,000 miles of line in Arizona, California, Louisiana, Nevada, New Mexico, Oregon, Texas, and Utah. Its main line extends from New Orleans, westward across the southern tier of States; through Houston, San Antonio, and El Paso, Tex., to Los Angeles; thence northward through the San Francisco Bay area and Sacramento to Portland, Oreg. Another major line extends from Ogden, where it

connects with Union Pacific and the Rio Grande, through Sacramento to San Francisco. SP has a line from El Paso to Tucumcari, N. Mex., where it connects with the Rock Island to form the "Golden State Route," and other important branch lines between Houston and Dallas-Fort Worth; and between Houston and Shreveport, La. Southern Pacific's subsidiary St. Louis Southwestern Railway Company (SSW or Cotton Belt) operates a line between St. Louis and Dallas, with branches to Memphis and Shreveport. As a result of its control of the Cotton Belt, the SP System can provide single-system service between the important Mississippi River gateways at St. Louis and Memphis and points in New Mexico, Arizona, and California.

Although the Southern Pacific System is physically able to provide single-system service between northern California and the Mississippi River gateways, it is required by condition 'e', imposed by the Commission in the *Central Pacific* case, *Control of Central Pacific by Southern Pacific,* 71 I.C.C. 508 (1923), as modified in 328 I.C.C. 345 (1966), affirmed *sub nom. Southern Pacific* v. *United States,* 277 F. Supp. 671 (D. Neb. 1967), 360 U.S. 744 (1968), to solicit traffic moving between Oregon and northern California, on the one hand, and, points generally north of Oklahoma, Arkansas, and the Ohio River, on the other, for movement over the Central Corridor route via Ogden.

In addition to its railroad operations, Southern Pacific controls a motor carrier subsidiary, SP Transport, which is authorized to operate in Texas and Louisiana in the transportation of general commodities along regular routes, which generally parallel the lines of its parent railroad. For the most part, SP Transport's authority is restricted to operations which are auxiliary or supplemental to its parent's rail service.

Santa Fe is, with Union Pacific, Southern Pacific, and Burlington Northern, one of the big four western carriers. A financially sound company, it operates over 12,000 miles of line in 12 Midwestern and Western States. Santa Fe's main line extends from Chicago, southwestward through Kansas City, New Mexico, and Arizona to Los Angeles, San Francisco, and San Diego. It has a branch line to Denver which permits it to compete for traffic moving between Chicago and Colorado, and between Colorado points and California. Another major line extends from Kansas City through Oklahoma City, to Fort Worth, Dallas, Houston, and Galveston, Tex.; and a line connects Santa Fe's network of line in Texas with its Chicago-Los Angeles mainline at Farwell, Tex., enabling Santa Fe to provide single-line service between major Texas points and points on the west coast. Santa Fe does not have direct access to major Mississippi River gateways such as St. Louis, Memphis, and New Orleans, so that traffic moving between its operating area and points in the Southeast must be interchanged with bridge carriers such as Frisco, Missouri Pacific-Texas & Pacific, and the Kansas City Southern System. Santa Fe's wholly owned motor carrier subsidiary, Santa Fe Trail, conducts motor carrier operations which are generally coordinated with, and supplemental to, Santa Fe's rail service.

The Denver & Rio Grande Western was not one of the original applicants in this proceeding, and it is opposed to Union Pacific's application. However, it has requested that any approval of Union Pacific's application to merge with Rock Island be subject to a condition requiring sale to it of the Rock Island lines between Colorado and Omaha and Kansas City. In furtherance of its requested affirmative relief, it has filed its applications in Finance Docket Nos. 27521 and 27522.

Rio Grande is a small, but relatively prosperous railroad, operating about 1,868 miles of line in Colorado and Utah. Its main lines extend from Denver, southward to Pueblo, Colo.; and from Denver and Pueblo, westward to Salt Lake City and Ogden, Utah. Rio Grande and its principal eastern connections, Rock Island, Burlington Northern, and Missouri Pacific, compete with Union Pacific for transcontinental traffic moving between eastern points and connections with Southern Pacific and Western Pacific at the Ogden Salt Lake City gateways; and it is the only rail carrier capable of offering competition to Union Pacific for traffic moving through the Central Corridor between the Missouri River and the Utah gateways.

In addition to its requested acquisition of the western lines of the Rock Island, Rio Grande has requested that conditions be imposed, upon approval of the UP, SP or Santa Fe applications, which would basically require the successful applicants to establish and/or maintain through routes and rates with Rio Grande and its connections, without discrimination against Rio Grande. Rio Grande has also requested that Union Pacific and Southern Pacific be required to cease discriminating against it in the use of specialized equipment owned by their subsidiary, Pacific Fruit Express Company (P.F.E.).

APPLICANTS' POSITION

Union Pacific contends that if it is to continue as an effective transportation system, its needs to extend its systems to the major eastern gateways at Chicago, Peoria, and St. Louis, and it needs to be able to provide single-line service to such major industrial areas as Minneapolis-St. Paul, the "Quad Cities" (Davenport and Bettendorf, Iowa, and Moline and Rock Island, Ill.), and Des Moines, Iowa. It also contends that its merger with the Rock Island would save that carrier from bankruptcy and preserve its transportation services.

UP has opposed the North Western's application to acquire control of Rock Island and such control coupled with sale of the southern half of Rock Island to either Santa Fe or Southern Pacific. However, it supports Southern Pacific's application to purchase the southern Rock Island concurrently with its own merger with Rock Island.

Union Pacific is also agreeable to the sale of the Rock Island lines between the Missouri River and Colorado to the Rio Grande. However, UP and Rio Grande have not been able to reach an agreement as to the terms of such a sale and UP presently takes the position that consideration of Rio Grande's request should be left to a separate hearing to be held after consummation of the UP-Rock Island merger.

UP has entered into a stipulation with the Railway Labor Executives' Association and agreements with about one-half of the labor organizations representing its operating and nonoperating employees to provide protection for employees who may be affected by the proposed merger. Generally, the agreements are of the attrition type and provide that no protected employees would suffer loss of employment or be adversely affected with respect to compensation or other benefits. The protective conditions are not restricted to protection against the effects of the merger itself but extend to other causes as well, and provide that positions may be reduced only as present employees leave service as a result of natural attrition. The agreements provide, however, that UP generally has the right to transfer work and rearrange and transfer its forces. UP contends that any employees not covered by the agreements should be granted the same protection provided by the *New Orleans* conditions, set forth in *New Orleans Union Passenger Terminal Case,* 282 I.C.C. 271, modified by the arbitration provision in the *Great*

Western merger case, *Chicago & N. W. Ry. Co.—Merger,* 330 I.C.C. 13.

Southern Pacific supports the UP-Rock Island merger, subject to a condition requiring sale of the southern half of the Rock Island to SP. Southern Pacific considers the UP merger and its purchase of the southern Rock Island to be interdependent transactions, and it has stated that it would oppose a UP-Rock Island merger standing alone. SP opposed the North Western control application and it opposes Santa Fe's inclusion in the UP-Rock Island transaction.

Southern Pacific contends that its acquisition of the southern Rock Island will result in significant service improvements, will enable it to bring Rock Island plant and equipment up to SP standards, and will preserve the existing "partnership" of SP and Rock Island over the routes which they presently operate jointly, especially the Golden State Route. It believes that consummation of the purchase will increase its ability to meet motor carrier competition and, of equal importance, the economies and efficiencies resulting from the transaction will enable it to provide transcontinental service at the lowest possible rates thereby enabling western producers of agricultural and lumber products to compete in eastern markets.

In order to protect Kansas grain shippers who now utilize Rock Island's single line service, UP and SP have entered into an agreement and stipulation with Kansas-Missouri River Mills under which UP and SP, in the event of approval of their respective applications, will not alter certain transit and routing privileges on grain and grain products offered by and presently in effect on the lines of the Rock Island.

For the protection of Southern Pacific and Rock Island employees who might be affected by the transaction, SP suggests imposition of the *New Orleans* conditions modified by the arbitration provision set out in the *Great Western* case, *supra.*

Rock Island, for its part, supports the Union Pacific merger and the Southern Pacific purchase applications.

Santa Fe originally supported the North Western control application continuent upon sale to it of the southern lines of the Rock Island. Santa Fe opposes the UP-Rock Island merger and SP's proposed purchase of the southern Rock Island, and all of the requests for affirmative relief from those transactions except, of course, its own petition for inclusion whereby it would acquire the southern Rock Island.

Santa Fe contends that it is at a competitive disadvantage, when compared to Southern Pacific, in that it does not reach any of the major Mississippi River gateways at St. Louis, Memphis, and New Orleans. Its acquisition of the southern portion of Rock Island, together with trackage rights over the Rock Island line between St. Louis and Kansas City, would correct this imbalance, place it on a parity with Southern Pacific, and enable it to provide effective competition to SP's service over the southern transcontinental route. Santa Fe contends that its proposed acquisition would also permit coordination of duplicate facilities on the Santa Fe and Rock Island routes between Kansas City and the Gulf of Mexico.

Santa Fe is willing to enter into a similar agreement to that reached by UP and SP providing for the continuation of routing and transit privileges on grain and grain products. For the protection of affected employees, Santa Fe proposes that shop craft employees receive the benefits of the Mediation Agreement of September 25, 1964 (National Mediation Board Case No. A-70 30); other nonoperating employees receive the benefits of the Mediation Agreement of February 7, 1965 (National Mediation Board Case No. A-7128); and that the *New Orleans* conditions, as restated in *Southern Railway Company—Control—Central of Georgia Railway Company,* 317 I.C.C. 557, as supplemented and clarified in 317 I.C.C. 729, 320 I.C.C. 377, and 331 I.C.C. 151, be imposed for the benefit of all other affected employees.

Terms of the Proposed Transactions

A detailed discussion of the terms of the proposed transactions is set forth in appendix A hereto. However, it should be noted that the agreement between UP and Rock Island and the agreement between UP and SP for the purchase of the southern half of the Rock Island have both expired by their own terms. Moreoever, UP has indicated that, due to changed economic circumstances, it would wish to renegotiate the terms of its agreement to merge with the Rock Island.

Position of the Intervenors

A. Carriers

Chicago & North Western.—This proceeding was originally initiated by the C&NW when it filed its application in Finance Docket No. 22688 for authority to acquire control of the Rock Island. The proposal was a part of a larger North Western plan to create an amalgamation of four major midwestern railroads, North Western, Rock Island, Milwaukee, and the Chicago Great Western

(Great Western or C.G.W.). The only part of the plan ever to come to fruition was the merger of North Western and the Great Western, which was consummated in 1968, pursuant to authority granted in *Chicago & N. W. Ry. Co.—Merger—Chicago G. W. Ry. Co.*, 330 I.C.C. 13, 333 I.C.C. 236. North Western's application to merge with the Milwaukee, in Finance Docket No. 24182, was denied in 1970, basically because the proposed stock exchange ratio would be unfair to holders of the applicants' securities.[5]

North Western is a large "granger" railroad operating over 10,000 miles of line in 11 Midwestern and Western States. Its main lines extend between Chicago and Omaha; Chicago, Milwaukee, and Minneapolis-St. Paul; and between the Twin Cities and Omaha. In addition, it has an extensive network of branch lines in Illinois, Iowa, Wisconsin, Minnesota, South Dakota, and Nebraska. Its merger with the Great Western provided North Western with a second main line between Chicago and Omaha, plus branch lines from Oelwein, Iowa, to Kansas City and Minneapolis-St. Paul. North Western is heavily engaged in the transportation of bridge traffic between Chicago and its connections with Union Pacific at Omaha and Fremont, Nebr., and it traditionally interchanges a larger volume of traffic with UP at the Nebraska gateways than any other Chicago-Omaha bridge carrier.

Financially, North Western and its predecessors have long enjoyed little or no operating profits and have been hampered by a lack of adequate working capital. Although net railway operating revenues have improved in recent years, it suffered a net railway operating loss in 1967, 1968, and 1969, and its general financial condition can perhaps best be categorized as marginal.

North Western fears that it will lose large amounts of its Union Pacific bridge traffic if UP is permitted to merge with the Rock Island, and it is opposed to the UP-SP applications, as well as to the affirmative relief requested by the Kansas City Southern, discussed *infra*. It has not requested the imposition of any affirmative relief. North Western also contends that Union Pacific is under the control of the firm of Brown Brothers, Harriman & Company (Brown Brothers) and that the Commission should not approve the Union Pacific application until after Brown Brothers has joined in the application for control of the Rock Island lines through the transaction.

[5]The Commission retained jurisdiction in order to provide the applicants with an opportunity to submit a new stock exchange proposal, but they declined to do so.

Burlington Northern.—In terms of mileage operated, the BN., with over 25,000 miles of line, is by far the largest rail carrier in the United States. Burlington Northern was formed in 1970, pursuant to authority granted in the *Northern Lines* merger case, *Great Northern Pac.—Merger—Great Northern*, 331 I.C.C. 228, by the merger of the former Chicago, Burlington & Quincy; Great Northern; Northern Pacific; Spokane, Portland & Seattle; and Pacific Coast Railroads. BN's main lines extend from Chicago to Omaha and Denver, Chicago to Kansas City, St. Louis to Kansas City and Denver, and from Chicago to Minneapolis-St. Paul and across the northern tier of States to Washington and Oregon. Although BN is primarily a Northern Corridor carrier, it competes with North Western, Rock Island, and other bridge carriers for traffic moving between Chicago and the Nebraska gateways, and it handles a substantial amount of transcontinental traffic between Chicago and its connection with the Rio Grande at Denver. BN is generally a profitable and financially sound company.

Burlington Northern is opposed to the Union Pacific and Southern Pacific transactions unless its requested affirmative relief is granted. Basically, BN's requested relief, which is set out in detail, *infra*, entails requiring UP, as a condition to approval of its application, to grant BN access to certain industrial areas in Washington, Oregon, Idaho, and Minnesota, which are now served by UP, and to cause its subsidiary, Spokane International, to grant BN trackage rights over its line to Canada. BN has also requested certain modifications to the "standard" traffic conditions set forth in *Detroit, T. & I. R. Co. Control*, 275 I.C.C. 455. In addition, BN is opposed to the Rio Grande's request to acquire the Rock Island lines between Colorado and the Missouri River.

In addition to its own lines, the Burlington Northern also controls the Colorado & Southern through ownership of approximately 75 percent of the latter company's outstanding capital stock. Colorado & Southern, in turn, controls the Fort Worth & Denver through ownership of virtually all of the FW&D's stock. For all practical purposes, the C&S-FW&D form one railroad, extending from a connection with the BN at Wendover, Wyo., south through Cheyenne, Wyo., Denver, Colo., and Amarillo, Tex., to Fort Worth, Tex. Between Fort Worth and Dallas, the FW&D operates trackage rights over the Rock Island; between Dallas and Waxahachie, Tex., a point about 31 miles south of Dallas, both FW&D and Rock Island operate trackage rights over the Katy; and between Waxahachie and Houston both FW&D and Rock Island operate the jointly owned

"Joint Texas Division." Rock Island and the FW&D also share trackage rights over Santa Fe's line between Houston and Galveston.

C&S-FW&D, which have requested to be considered separately from the Burlington Northern in this proceeding, are opposed to the various proposals to acquire the southern half of the Rock Island. If, however, Southern Pacific is successful in its application to acquire the southern half of Rock Island, FW&D requests that SP be required to sell it Rock Island's interest in the Joint Texas Division and in the Houston Belt and Terminal Co., and to convey it unrestricted trackage rights over Rock Island's Fort Worth-Dallas line with the right to serve all industries and interchange points located thereon.

Milwaukee.—The Milwaukee is a large granger railroad operating about 10,000 miles of line in 15 Western and Midwestern States, with the majority of its trackage located in Illinois, Wisconsin, Minnesota, Iowa, and South Dakota. Its principal lines extend from Chicago and Milwaukee to the Upper Peninsula of Michigan, Chicago and Milwaukee to Minneapolis-St. Paul, Chicago to Omaha and Kanasas City, and from Minneapolis-St. Paul to Washington and Oregon. Although Milwaukee competes with Burlington Northern for traffic moving in the Northern Corridor, BN's predecessors had closed a number of important northwestern gateways to Milwaukee, and Milwaukee's Twin Cities-Seattle line had enjoyed only relatively light traffic. However, as a condition in the *Northern Lines* merger case, *supra,* the Commission required BN to open some 11 gateway cities in North Dakota, Montana, and Washington to Milwaukee and to grant Milwaukee trackage rights into Portland, Oreg. Milwaukee also recently gained trackage rights into Louisville, Ky., as a result of conditions imposed in the *Monon* merger case, *Louisville & N. R. Co.—Merger—Monon Railroad,* 338 I.C.C. 134 (1970), thus enabling Milwaukee to provide service between Chicago and a connection with the Southern Railway System at Louisville.

Although a relatively large railroad in terms of mileage and revenues, Milwaukee has long been rather weak, financially. It has suffered a net operating loss in 1969 through 1972 and, as of December 31, 1972, it had a working capital deficit of $6.4 million.

Milwaukee originally supported North Western's application to acquire control of Rock Island in this proceeding. However, following the denial of its application to merge with North Western, it filed a petition, on April 6, 1970, for inclusion in either the Union Pacific or Southern Pacific systems. More recently, on April 2, 1973,

it filed a petition for reopening of the *Northern Lines* merger case, *supra,* and its inclusion in the Burlington Northern system.

Western Pacific.—Western Pacific is a relatively small carrier operating 1,400 miles of line in California, Nevada, and Utah. Its main line extends from Salt Lake City, where it connects with Union Pacific and Rio Grande, to Sacramento and the San Francisco Bay area. It also has a branch line extending from its main line, at Keddie, Calif., to a connection with BN, at Bieber, Calif., forming a route from San Francisco to Washington and Oregon. Although Western Pacific suffered net railway operating losses in 1969 and 1970, its financial condition has improved in recent years, and the company has a history of generally profitable operations.

Western Pacific has opposed both the North Western and the UP-SP proposals. If Union Pacific and Southern Pacific are successful, Western Pacific has requested that Union Pacific be required to remain neutral as to connecting carriers at the Ogden and Salt Lake City gateways, that both UP and SP be required to join WP in the establishment of through routes and rates between certain specified points, and that UP be required to join Western Pacific in maintaining through freight train schedules and service between UP and Rock Island points east of Ogden and points in California, via Salt Lake City, at least equal to that maintained by UP and SP via Ogden. In addition, Western Pacific has requested that, if either UP or Santa Fe are successful, the Commission retain jurisdiction for a period of 5 years in order to permit WP to petition for inclusion in one of the successful applicants.

Kansas City Southern System.—The Kansas City Southern Railway's main line extends from Kansas City south, through Shreveport, La., to Lake Charles, La., and Beaumont and Port Arthur, Tex. Its wholly owned subsidiary, Louisiana & Arkansas, operates 756 miles of line in Texas, Arkansas, and Louisiana, with its main line extending from Dallas to Shreveport, where it connects with the KCS, thence southeastward to Baton Rouge and New Orleans. Although a relatively small railroad system, the KCS-L&A system has enjoyed a history of generally profitable operation.

The Kansas City Southern system opposes all of the proposed transactions herein unless its requested affirmative relief is granted. Generally, Kansas City Southern requests that, if the Union Pacific application is approved, UP be required to grant it trackage rights over the Rock Island lines between Kansas City and Chicago and between Bureau and Pekin, Ill., with service to be limited to Chicago, Peoria, and Pekin, Ill. If Southern Pacific acquires the southern half of Rock Island, KCS requests that SP be required to sell KCS its line between Shreveport and Houston, subject to Southern Pacific trackage rights, plus the Rock Island line between Dallas and Fort Worth; or, if the Santa Fe application is approved, the intervenor requests that approval be subject to a condition requiring sale of a combination of Santa Fe lines in Louisiana and Texas and a portion of the Joint Texas Division which would serve to give KCS access to Houston, plus Santa Fe's line between Paris, Tex., and Dallas and Rock Island's Dallas-Fort Worth line. In addition, Kansas City Southern has requested that all of the successful applicants be required to establish and maintain through routes and joint rates with Kansas City Southern and provide no less favorable treatment to the KCS system than that provided to other carriers; and that the Commission retain jurisdiction to modify any conditions prescribed herein and to permit any carrier to petition for inclusion in the approved transactions.

Missouri Pacific-Texas & Pacific.—The MoPac system has an extensive network of lines in the area between St. Louis and Omaha and the Texas and Louisiana gulf coasts. Missouri Pacific's main lines extend from St. Louis, through Kansas City, to Pueblo, where it connects with Rio Grande and Santa Fe; from Kansas City to Omaha; from St. Louis and Memphis to New Orleans, San Antonio, Houston, and a connection with the Ferrocarriles Nacionales de Mexico at Laredo, Tex.; from Kansas City to Memphis and New Orleans; and from New Orleans to Houston and Brownsville, Tex. MoPac's subsidiary, Texas & Pacific, extends from New Orleans through Dallas and Fort Worth to El Paso, where it connects with the Southern Pacific. MoPac and T&P connect at various points to form a single line between St. Louis, Memphis, Kansas City, and Fort Worth-Dallas and other important Texas points. In addition, Missouri Pacific also controls the Chicago & Eastern Illinois Railroad Co. (C&EI), through ownership of about two-thirds of the latter company's outstanding capital stock. C&EI's main line extends from Chicago to St. Louis, thus enabling the MoPac system to provide single-system service between Chicago and important Texas and Louisiana points. Although the Missouri Pacific has been somewhat hampered by a large debt structure, the MoPac system has operated profitably and is generally financially sound.

Missouri Pacific, itself, originally supported the North Western application to acquire control of the Rock Island, provided the two companies were merged, and it opposes the Union Pacific application. It opposes any application by either Santa Fe or

Southern Pacific to acquire the southern half of Rock Island, even if accompanied by the affirmative relief requested by T&P. MoPac also opposes the affirmative relief requested by Rio Grande and Kansas City Southern. The Missouri Pacific has not requested the imposition of any affirmative relief for its protection.

Although Missouri Pacific owns over 95 percent of T&P's outstanding capital stock, T&P, together with its subsidiaries, The Weatherford, Mineral Wells & Northwestern Railway Co., Abilene & Southern Railway Co., Texas-New Mexico Railway Co., and Texas & Pacific Motor Transport Co., have made their own appearances in this proceeding and have requested to be considered separately from the MoPac. T&P's position differs somewhat from that of its parent. Like its parent, Texas & Pacific opposes the Union Pacific proposal and the sale of the southern Rock Island to either Santa Fe or Southern Pacific; however, T&P has requested the imposition of extensive affirmative relief. If SP is successful in acquiring the southern Rock Island, T&P would subject approval to "standard" traffic protective conditions and, in addition, would request that Southern Pacific be required to grant T&P trackage rights over all of its lines in New Mexico, Arizona, and California, with the right to serve all industries located thereon and with service initially limited to serving the Los Angeles area from El Paso; would require Southern Pacific to indemnify T&P for any drop in the traditional amount of transcontinental traffic interchanged by the two carriers at the El Paso gateway; and would maintain certain traffic conditions previously imposed for T&P's protection in a prior proceeding, *Southern Pacific Co. Merger,* 312 I.C.C. 598 (1961). If Santa Fe acquires the southern Rock Island, Texas & Pacific would request that approval be subject to traffic protective conditions, and that Santa Fe be required to grant T&P trackage rights over its line between Peco, Tex., and Carlsbad, N. Mex. This would enable Texas & Pacific to serve the rich potash fields in the area around Carlsbad.

Katy.—The Missouri-Kansas-Texas Railroad Co., which is commonly called the "Katy," is a relatively small rail carrier extending from St. Louis and Kansas City southward to Dallas, Fort Worth, San Antonio, and Houston. Although the Katy has the most direct route between Kansas City and the Dallas-Fort Worth area, the company is burdened by a heavy debt structure and marginal profitability, and is very weak financially. Katy requests that whichever applicant is successful in acquiring the Rock Island lines in its territory be required to accept Katy's inclusion in its system.

Frisco.—The St. Louis-San Francisco Railway is a financially sound rail carrier operating approximately 5,000 miles of line in nine Southeastern and Southwestern States. Frisco's main lines extend from Kansas City, southeastward through Springfield, Mo., and Memphis to Birmingham, Ala., with branches to Mobile, Ala., and Pensacola, Fla.; from St. Louis, through Springfield, Tulsa, and Oklahoma City, to Quanah, Tex., where it connects with its subsidiary, the Quanah, Acme & Pacific Railway Co. (QA&P), which extends from Quanah to a connection with Santa Fe at Floydada, Tex.; from St. Louis to Memphis; and from Kansas City and Tulsa to Dallas-Fort Worth. Approximately 29 percent of the Frisco system's total traffic is bridge traffic and the carrier transports a large volume of bridge traffic between its connection with the Union Pacific at Kansas City and the St. Louis, Memphis, and Birmingham gateways, as well as a large volume of traffic between St. Louis, Memphis, and Birmingham and various junction points with the Santa Fe in Kansas, Oklahoma, and Texas. Frisco opposes all of the proposed transactions, as well as the inclusion of Katy in any of the other systems and the affirmative relief requested by Kansas City Southern, Texas & Pacific, and the Fort Worth & Denver. As it is of the opinion that no conceivable form of relief would be adequate to protect it, Frisco has not requested the imposition of any protective conditions.

Soo Line.—The Soo Line is a relatively prosperous rail carrier operating over 4,000 miles of line, principally in Wisconsin, Minnesota, North Dakota, and the Upper Peninsula of Michigan. Its more important lines extend from Chicago and Milwaukee to Minneapolis-St. Paul and Duluth, Minn.; Sault Sainte Marie, Mich., to Minneapolis-St. Paul; and from the Twin Cities to Bismarck and Minot, N. Dak., and Winnipeg, Manitoba, Canada. Soo takes no position with regard to the UP-Rock Island merger, but it has opposed the North Western application and it opposes inclusion of the C&NW in the UP-Rock Island transaction. Soo Line has requested the imposition of a number of protective conditions should the North Western application be granted.

Minneapolis, Northfield & Southern Ry. (MN&S).—The MN&S is a short line rail carrier operating a main line extending from Minneapolis to Randolph, Minn. MN&S is primarily a bridge carrier providing major rail carriers with a means of circumventing the Minneapolis-St. Paul area. The short line supports the Union Pacific-Rock Island merger, but, like the Soo Line, it opposes the North Western proposal and has requested the imposition of protective conditions should that application be granted.

Lee Way and Texas-Oklahoma Express.—These two firms are motor carriers and have appeared in opposition to the related motor carrier applications in Nos. MC-F-9668 and MC-F-9222. Their basic assertion is that the applicants have failed to meet their burden of showing the active use of that portion of Rock Island Motor Transit's operating authority which authorizes operations in Oklahoma, Texas, and Arkansas; that the authority must, therefore, be considered to be dormant; that no public need has been shown for reactivation of the operating authority; and that the applications by Santa Fe Trail Transportation and Southern Pacific Transport must accordingly be denied.

It should be noted that Santa Fe, North Western, KCS-L&A, MoPac, Soo Line, Rio Grande, Southern Pacific, and T&P joined in a petition for dismissal of the entire proceedings, filed on March 8, 1973. Only UP and Rock Island opposed the petition. The petition was denied by order of the Commission, served May 7, 1973.

B. Federal Agencies

Department of Justice.—The Justice Department takes no position on the basic issue of whether the Rock Island should be merged with other carriers, but it contends that any approval of the UP and SP applications to divide the Rock Island should be subject to conditions requiring sale of Rock Island's lines between Omaha, Kansas City and Colorado to the Rio Grande, and sale of the line between Memphis and Amarillo, Tex., to Santa Fe together with trackage rights for Santa Fe between Kansas City and St. Louis. Justice feels that imposition of this condition would maintain competition in areas where competition would be extinguished if the mergers were approved unconditionally. It believes that sale of the western Rock Island lines to Rio Grande would not only enable Rio Grande to continue as viable competitor for transcontinental traffic moving through the Central Corridor, but would also provide North Western, Milwaukee, and Illinois Central Gulf, a carrier which is not a party herein, with a neutral connection at the Omaha gateway.

Interstate Commerce Commission, Bureau of Enforcement.—The Bureau of Enforcement takes no position with regard to the proposed mergers but it contends that approval of the various applications should be subject to conditions subjecting the applicants' holding companies to sections 20(1), (2), and (5) as well as section 20(a) of the Interstate Commerce Act. This would permit the Commission to control the holding companies' activities regarding the assets of their rail carrier subsidiaries.

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Discussion and conclusion

Analysis of the Administrative Law Judge's Recommendations

The proposal submitted by the Administrative Law Judge, to create four strong rail systems operating from the West with direct connections to eastern carriers, conceivably could aid in providing solutions to a portion of the problems of existing midwestern railroads. If the problem was solely one of the elimination of excessive facilities or the elimination of financially poor carriers, unable to meet present and future service requirements, the proposal might be attractive. The four surviving carriers, operating competitively over parallel tiers of lines across the western portion of the country would be able, in all probability, to concentrate traffic, thereby maximizing the economies and efficiencies of mass transportation by the elimination of superfluous and wasteful facilities and of numerous interchanges, with their attendant delays and expenses.

We are unable, however, to adopt the proposal both on legal grounds as well as those relating to the public interest. The result presented to us does not arise from a request of the parties to the proceedings, nor was prior notice given that such proposal was under consideration. Consequently, though the participants were many and the record voluminous, neither these parties nor other possibly affected segments of the transportation industry, the shipping community, or the general public, were given an opportunity to present evidence relevant thereto. Unifications as proposed by the Administrative Law Judge must be initiated by the affected carriers or found to be a necessary condition by the Commission on an adequate record to a grant of a section 5 application. In most cases, neither of these criteria were satisfied in this proceeding.

In considering the Administrative Law Judge's proposal, we should give some weight to the views of the carriers involved, and it is evident that neither the applicants nor many of the intervening parties find the proposal acceptable. In fact, both Union Pacific and Southern Pacific have made it quite clear that they will elect not to consummate the proposed transactions rather than abide by the Administrative Law Judge's recommended plan. Under the Interstate Commerce Act, this Commission is charged generally with the responsibility of promoting and preserving an adequate, economic, and efficient national transportation system. Specifically,

section 5(2)(b) of the Act requires the Commission to approve those transactions that are consistent with the public interest, while allowing the imposition of such conditions as are found just and reasonable. In the instant proceeding, one of the issues confronting us is Rock Island's critical financial condition, while another is the problem of excess rail competition in the Midwest. Of major interest also was the opportunity presented by the various proposals to advance rail service through greater efficiency and improved competitive capacities of many of the involved carriers. The transactions herein proposed by applicants could be a major step toward a solution to these problems, and, thus, their implementation would be greatly beneficial to the public. For us to insist on the imposition of conditions so repugnant to the applicants as to lead them to repudiate these transactions would accomplish nothing for Rock Island or the Midwest rail problem, and would not serve the public interest. Accordingly, we think the better course of action is for us to explore other approaches which will be more in accord with the authority sought by applicants and relief requested by intervenors, yet, still be consistent with the public interest.

In considering the merits of the recommendations of the Administrative Law Judge, we reject the argument of several of the parties that the proposed restructuring, in effect, amounts to the imposition of a Commission-originated merger plan, in excess of our jurisdiction. The Commission is expressly empowered under section 5(2)(a) to condition approval of proposed transactions by the imposition of just and reasonable conditions, and section 5(2)(d) of the Act provides our authority to require inclusion of other railroads, upon their filing of appropriate petitions requesting that relief. The Administrative Law Judge's recommendations in no way have exceeded that jurisdiction.

Also rejected is the contention that the proceedings should be dismissed because the record is stale. Many of our findings are based in part on studies of traffic flow and traffic diversion for the years 1963, 1964, and 1965, and we recognize that the subsequent occurrence of several significant events has somewhat altered the western railroad situation. Among these are the acquisition by Missouri Pacific of control of Chicago & Eastern Illinois in 1967; the merger of Chicago Great Western into Northwestern in 1968; the Northern lines merger in 1970; the merger of Illinois Central and Gulf, Mobile & Ohio in 1972; the Commission's decision in the Transcontinental Division case (*Akron, C. & Y. R. Co.* v. *Atchison, T. & S. F. Ry. Co.*, 322 I.C.C. 491, 1964; 387 U.S. 326, 1967); the without the imposition of special conditions for its protection. The only specific relief granted the BN system was his recommendation that approval of the Southern Pacific application be subject to a condition requiring sale of Rock Island's interest in the Joint Texas Division to Burlington Northern's Fort Worth & Denver subsidiary. He found that such action would strengthen the Fort Worth & Denver's ability to compete with other carriers. He did, however, recommend that the proceeding be left open for 5 years in order to give BN an opportunity to evaluate any adverse effects which might result from the proposed inclusions.

For the protection of various other railroads, as well as the railroads required to be included in other carriers, the Administrative Law Judge recommended imposition of the "standard" traffic protective conditions set forth in *Detroit, T. & I.R. Co. Control,* 275 I.C.C. 455, 492. In addition, he would require that neither Union Pacific, Southern Pacific, Santa Fe, nor Burlington Northern enter into any preferential solicitation agreements without approval of the Commission. For the protection of Rock Island grain shippers who might be adversely affected by the proposed division of the Rock Island, he recommended that the carriers acquiring portions of the Rock Island be required to maintain the transit and routing privileges on grain and grain products presently in effect on Rock Island lines.

The Administrative Law Judge determined that Union Pacific Corp., Southern Pacific Co., and Santa Fe Industries, Inc., the holding companies of UP, SP, and Santa Fe, respectively, should be considered as carriers and subjected to the full scope of regulations as provided for under section 5(3) of the Act, and he also recommended that each of the holding companies be required to advise the Commission of steps taken to provide adequate safeguards against possible violations of section 1(8), the "commodities clause" of the Interstate Commerce Act.[6] In addition, he recommended that, for the protection of the carriers, several restrictions be placed on the financial relationships of UP, SP, Santa Fe, and their respective holding companies. Subject to modification or revocation of the conditions at the end of a 3-year period, each carrier, unless specifically authorized by the Commission, would be prevented

[6]As here pertinent, section 1(8) provides that "*** it shall be unlawful for any railroad company to transport *** any article or commodity *** in which it may have any interest, direct or indirect, except such articles or commodities *** intended for its use in *** its business as a common carrier."

from conveying any property or making any advance to its holding company, or any of the holding company's other subsidiaries or from encumbering any of its property in connection with any acquisition by the holding company or its subsidiaries. The amount of dividend which each carrier could distribute to its holding company would be restricted to a percentage, based on the total number of shares that the holding company had outstanding, of the carrier's net earnings from transportation during the year for which the dividend is declared. His recommendation also included a requirement that the allocation of tax credits resulting from the UP-RI merger be required to be submitted for Commission approval.

The Administrative Law Judge rejected the agreement entered into between Union Pacific and several labor unions, which provided attrition-type protection for employees who would be affected by the transactions. Instead, for the protection of all employees, he recommended imposition of the conditions prescribed in *New Orleans Union Passenger Terminal Case,* 282 I.C.C. 271, subject to the arbitration conditions set forth in *St. Louis Southwestern Ry.—Pur.—Alton & Southern R.,* 342 I.C.C. 498, at 522. A minority holder of Rock Island stock was provided with the option to receive cash payment in lieu of securities in the merged company. Finally, the Administrative Law Judge recommended that the Commission retain jurisdiction for 5 years following consummation of each of the transactions authorized, and for 5 years following each of the inclusions authorized.

EXCEPTIONS OF THE PARTIES

Almost every major carrier participating in this proceeding, including all of the applicants, filed exceptions to the report and recommended order. Most of the parties opposed the Administrative Law Judge's proposal to restructure the western railroad system, generally contending that the proposal is not supported by the reoord and that it is so broad in scope as to exceed the Commission's jurisdiction. Of the major western carriers, only Katy, Milwaukee, and Western Pacific can be considered to be in substantial accord with the Administrative Law Judge. The parties' exceptions and their replies thereto are set forth in appendix C.

Worth. This would give the Southern Pacific System direct access to the Dallas-Fort Worth area from the west.

Southern Pacific would thus be left with its present system intact, with the exceptions of the Roseville-Ogden and Flanigan-Klamath Falls lines, and with the additions of Rock Island's Tucumcari-Kansas City, Kansas City-Dallas, and Little Rock-Alexandria lines; Katy's lines from Kansas City and St. Louis to Texas points; the Kansas City Southern system's lines from Kansas City to Texas and Louisiana points; and T&P's Fort Worth-El Paso line. With the termination of condition 'e', it would also be free to solicit traffic moving from Oregon and northern California to the East for movement over its own single-line route all the way to connections with eastern carriers at St. Louis.

The Administrative Law Judge recommended formal denial of Santa Fe's application to acquire the southern half of Rock Island as it was contingent upon prior approval of North Western's application. However, he found that Santa Fe was at a competitive disadvantage in that it did not reach any of the major Mississippi River gateways, and he, accordingly, determined that it would be in the public interest if Santa Fe were allowed to gain entry into Memphis and St. Louis. He, therefore, recommended that approval of the Southern Pacific application be subject to a condition requiring sale of the Memphis-Amarillo line to Santa Fe, and that approval of the UP application be subject to a condition requiring that UP grant Santa Fe temporary trackage rights over the Rock Island line between Kansas City and St. Louis, pending inclusion of the Missouri Pacific in Santa Fe. In order to permit Santa Fe to reach Rock Island's Kansas City-St. Louis line, he recommended approval of Santa Fe's application in Finance Docket No. 24154 for use of certain terminal facilities of the Frisco in Kansas City.

He determined that inclusion of the Missouri Pacific-Texas & Pacific in Santa Fe would not only protect the MoPac system from the adverse impact of the proposed mergers, but would also be likely to result in significantly improved service for shippers now served by the MoPac system. Thus, as a condition to Santa Fe's acquisition of the Amarillo-Memphis line, he recommended that Santa Fe be required to accept the inclusion of the Missouri Pacific-Texas & Pacific system, with the exception of T&P's El Paso-Fort Worth line, which he would require be sold to Southern Pacific. This would, of course, be contingent upon the MoPac system filing an appropriate petition for inclusion in Santa Fe.

The Administrative Law Judge also found that the Rio Grande and Western Pacific were weak competitors for traffic moving in the Central Corridor and that they would also be unable to survive the impact of the proposed mergers. He, thus, recommended that Santa Fe be required to accept the inclusion of these two carriers, upon appropriate petitions. In his opinion, this would not only preserve the services of Rio Grande and WP, but would enable the Santa Fe to provide much stronger competition to UP in the Central Corridor than the two smaller carriers had been able to provide. In order to permit the enlarged Santa Fe to provide competitive service to Oregon and Washington, SP would also be required to sell Santa Fe its Klamath Falls-Flanigan line.

These transactions would result in a vastly enlarged Santa Fe system. Not only would Santa Fe be able to compete with Union Pacific for traffic in the Central Corridor, but its acquisition of the Amarillo-Memphis line and the Missouri Pacific system would give it access to the major Mississippi River gateways of St. Louis, Memphis, and New Orleans and would strengthen its ability to compete with Southern Pacific for traffic moving between the Southeast and the Southwest. Its acquisition of the Western Pacific would also enable it, in cooperation with the Burlington Northern, to provide SP with stronger competition between California and points in Washington and Oregon.

The Administrative Law Judge determined that the proposed restructuring would effectively destroy Frisco's ability to function as a viable bridge carrier, and accordingly, found that the only solution for the Frisco would be its inclusion in one of the large surviving systems. However, he did not determine which system would be appropriate for Frisco's inclusion and recommended that the Commission retain jurisdiction for a 5-year period in order to permit Frisco to petition for inclusion in the system of its choice.

Similarly, he found that the Milwaukee would suffer very serious effects as a result of Union Pacific's acquisition of the northern half of the Rock Island and of the North Western, and he determined that Milwaukee must be included in one of the surviving systems. However, he recommended that determination as to which system would be appropriate for Milwaukee's inclusion be left for consideration in a separate hearing to be held on Milwaukee's petition for inclusion.

Finally, he determined that the Burlington Northern system would be able to withstand the effects of the proposed transactions various applications and petitions herein so as to require the inclusion of virtually all of the smaller western rail lines into one of the four surviving systems.

The Administrative Law Judge recommended denial of the North Western's application to acquire control of the Rock Island essentially on the grounds that North Western lacked the financial resources needed to revive and rehabilitate the Rock Island. Instead, he recommended approval of Union Pacific's application to acquire the northern portion of the Rock Island. This recommendation was based on the importance of Union Pacific to the national transportation system, and a determination that UP operated at a competitive handicap, both inter- and intramodally, in that it was unable to provide single-line service between western points and the Chicago and St. Louis gateways. He determined that Union Pacific's acquisition of the northern half of the Rock Island would enable it to eliminate the delays and inefficiencies inherent in interchange operations and the fragmentation of its traffic among a number of connecting bridge carriers, would permit UP to provide single-line service between the West and such important points as Des Moines and Minneapolis-St. Paul, and would enable UP to remain a viable competitor for transcontinental traffic moving in the Central Corridor.

In order to permit Union Pacific to provide single-line service between Chicago, St. Louis, and northern California, the Administrative Law Judge recommended that approval of the Southern Pacific application be conditioned so as to require Southern Pacific to sell to UP its Central Pacific line between Ogden, Utah, and Roseville, Calif., together with attendant branch lines, plus a half interest in SP's line between Roseville and San Francisco. He also determined that North Western would not be able to withstand the impact of UP's acquisition of the northern Rock Island and, accordingly, recommended that approval of the UP application be subject to a condition requiring the inclusion of the North Western in Union Pacific, upon the filing of an appropriate petition by C&NW. The principal results would thus be to extend UP's present system to Chicago, St. Louis, Milwaukee, and Minneapolis-St. Paul, on the east; and to San Francisco and Sacramento, on the west.

With respect to the Southern Pacific, he recommended that the carrier be permitted to acquire most of the southern portion of the Rock Island. The major lines which SP would acquire include the routes between Tucumcari, N. Mex., and Kansas City; Tucumcari and Amarillo, Tex.; Herington, Kans., and Dallas; and between

Little Rock, Ark., and Alexandria, La. He determined that the Kansas City-Tucumcari line was of great importance to Southern Pacific; that, over the years, SP had been instrumental in developing traffic over the Golden State Route, of which the Kansas City-Tucumcari line is a part; that SP's acquisition of the line would result in improved efficiency and economy of operation, and would permit Southern Pacific to retain its main route between Chicago and southern California. Further, he found that acquisition of the Little Rock-Alexandria and Herington-Dallas lines would enable SP to provide more efficient single-line service, and, in the case of the Little Rock line, would eliminate considerable circuity on traffic moving between St. Louis and southern Louisiana; and that, on the other hand, the two lines would be of relatively little value to Santa Fe and that it would not have the inducement that Southern Pacific has to devote the funds needed for the lines' rehabilitation.

His approval of the Southern Pacific applications, however, would be subject to a condition requiring SP to sell the Memphis-Amarillo segment of the Memphis-Tucumcari line to Santa Fe, as well as Rock Island's half interest in the Joint Texas Division to the Fort Worth & Denver. The Joint Texas Division was found to be of relatively little value to SP as it already possesses a line between Fort Worth-Dallas and Houston, and, similarly, the Memphis line would serve SP only as an alternate of its existing SP-Cotton Belt route between Memphis and the Southwest. In addition to sale of its Ogden-Roseville line to Union Pacific, the Administrative Law Judge also recommended that SP be required to sell its line between Klamath Falls, Oreg., and Flanigan, Nev., to Santa Fe. Although SP would be required to sell its Ogden-Roseville line, it would also be relieved of the requirements of condition 'e', imposed in the *Central Pacific* case, *supra.* In order to protect Southern Pacific shippers in California who now ship to the East over the Ogden-Roseville line, SP and UP would be required to establish through routes and joint rates over the involved line.

The Administrative Law Judge found that the Katy and the Kansas City Southern-Louisiana & Arkansas systems would be unable to withstand the impact of the proposed mergers, and, accordingly, recommended that approval of the Southern Pacific application be subject to a condition requiring the inclusion of those two systems in the SP system, inclusion of the latter system to be upon the filing of an appropriate petition for inclusion. In addition to the Katy and KCS systems, the Southern Pacific would also receive the Texas & Pacific's line between El Paso and Fort proposed by Southern Pacific and Santa Fe. Similarly, the port of Galveston, the Galveston Chamber of Commerce and the port of Lake Charles, La., oppose any division of the Rock Island between two or more carriers. In addition, the port of Lake Charles opposes any acquisition of the Rock Island which could adversely affect the ability of the Missouri Pacific and the Kansas City Southern to continue to provide service to the port.

The Chambers of Commerce and cities of Phillipsburg, Norton, and Smith Center, Kans., support Rio Grande's request for acquisition of the western portion of the Rock Island. The cities and Chambers of Commerce of Parsons, Kans., and Rotan, Tex., support Katy's petition for inclusion in any of the transactions authorized by the Commission. The city of Kansas City opposes any merger or acquisition of control of the Rock Island at the present time.

E. Other Parties

Mr. Kendall Laughlin owns shares of Rock Island, Union Pacific, and Southern Pacific stock, and he is the only stockholder to intervene in these proceedings. Mr. Laughlin contends that the proposed sale, by UP, of the southern half of Rock Island to Southern Pacific would be an unjustified windfall for Union Pacific and unfair to Rock Island stockholders. He feels that SP and Santa Fe should be required to pay Rock Island shareholders directly, preferably by issuing debentures for the purchase price of the properties acquired.

Various railway labor organizations; the Railway Labor Executives' Association; the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees; the Brotherhood of Maintenance of Way Employees; the Hotel and Restaurant Employees and Bartenders' International Union; the Brotherhood of Locomotive Engineers; and the United Transportation Union, intervened to seek protection for any railroad employees who may be affected by the transactions proposed herein.

APPLICANTS' POSITION VIS-A-VIS INTERVENORS

The Union Pacific, in addition to sale of the Rock Island lines between Omaha and Kansas City and Denver and Colorado Springs to the Rio Grande, is agreeable to imposition of modified *DT&I* traffic conditions for the protection of other carriers. Early in the

proceedings, UP indicated that it would be willing to indemnify North Western and Milwaukee for UP's estimate of their traffic losses resulting from its merger with the Rock Island, but it has not further pursued this proposal. UP opposes all other affirmative relief and conditions requested by the intervenors.

Rock Island adopts the Union Pacific's position with regard to the affirmative relief requested by Rio Grande, Kansas City Southern-Louisiana & Arkansas, Santa Fe, Katy, Burlington Northern, Soo Line, and Western Pacific.

Southern Pacific is agreeable to modified *DT&I* traffic conditions and it is willing to enter into a traffic agreement with Katy for the protection of that company. However, it opposes the inclusion of Katy into its system, and the affirmative relief requested by T&P, Fort Worth & Denver, the Kansas City Southern system, and Western Pacific.

Santa Fe would also be agreeable to imposition of the *DT&I* conditions, and it is agreeable to the Commission retaining jurisdiction in order to permit Western Pacific to petition for inclusion in one of the approved transactions. It is amenable to Fort Worth & Denver's requests for an unobstructed track through Rock Island's Peach Street Yard in Fort Worth, right to interchange traffic with the Frisco at Irving, Tex., and the right to pick up and set off cars at Rock Island's Cadiz Street Station in Dallas. Santa Fe opposes all of the remaining relief requested by FW&D, Rio Grande's requested acquisition of the Western Rock Island lines, Kansas City Southern's requested acquisition of certain Santa Fe lines, T&P's request for trackage rights over Santa Fe, and Katy's request for inclusion in the Santa Fe System.

THE ADMINISTRATIVE LAW JUDGE'S RECOMMENDATIONS

Administrative Law Judge Nathan Klitenic determined that the concept of the bridge carrier is basically obsolete and that the western railroads can effectively compete with other modes of transportation only if they can provide efficient single-line service between western points and connections with major eastern and southern railroad systems at such principal gateways as Chicago, St. Louis, Memphis, and New Orleans. In order to create financially sound, competitive railroads, able to provide such service, he recommended that the rail system in the West be restructured so that most of the area west of the Mississippi River would be served by but four huge rail systems: Union Pacific, Santa Fe, Southern Pacific, and Burlington Northern. He proposed that this restructuring be accomplished by conditioning approval of the

C. State agencies

The Public Utilities Commission of South Dakota and the Commissioner of Agriculture of Minnesota support the North Western control transaction, and the former opposes the Union Pacific-Rock Island merger. The Corporation Commission of New Mexico supports the North Western control transaction, subject to sale of the southern portion of the Rock Island to Santa Fe. It opposes the Union Pacific-Rock Island merger and the purchase of the southern Rock Island by the Southern Pacific. The Southeastern Association of Railroad and Utilities Commissioners, which represents the State Commissions of Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia, supports the Santa Fe purchase proposal, especially Santa Fe's acquisition of the line between Memphis and Tucumcari.

The Public Utilities Commission of Idaho and the Public Service Commission of Idaho and the Public Service Commission of Wyoming support the Union Pacific-Rock Island merger. The Utah Industrial Promotion Commission supports the UP-RI merger provided that the western portion of the Rock Island, between the Missouri River and Colorado, is sold to the Rio Grande. The Public Utilities Commission of Oregon supports the UP-RI merger and the Southern Pacific purchase proposals provided that protective conditions are imposed for the benefit of carriers providing rail service to Oregon, notably Western Pacific and Burlington Northern.

The "Colorado Parties," which consist of the Colorado Public Utilities Commission, the city and county of Denver, and the Denver Chamber of Commerce, oppose the UP-Rock Island merger. If, however, the merger application is approved, the Colorado parties request that approval be conditioned to require sale of the western portion of the Rock Island to the Rio Grande.

The Oklahoma Ordinance Works Authority supports the petition of the Katy for inclusion in any of the authorized transactions. The Arkansas Commerce Commission, the Missouri Public Service Commission, the Public Utilities Commission of California, and the California Department of Agriculture oppose all of the applications. If either of the proposed transactions is authorized, the foregoing California parties request the imposition of such conditions as will insure the continued viability of Western Pacific and Rio Grande as competing carriers.

The State Corporate Commission of Kansas, although opposed to both the UP control and merger applications, would not object to

the UP-RI merger if approval of the transaction is conditioned to require sale of the Rock Island lines between Colorado and the Missouri River to Rio Grande, sale of the Memphis-Amarillo line to Santa Fe and trackage rights for Santa Fe between Kansas City and St. Louis, and imposition of arrangements for Missouri Pacific and other smaller carriers which would assure that they will remain healthy and competitive.

D. Local Groups

The city of Milwaukee, the Milwaukee Board of Harbor Commissioners and the Houston Port Bureau support the North Western control transaction and oppose the Union Pacific-Rock Island merger. In addition, the Houston Port Bureau, the Board of Trustees of the Galveston Wharves and the Galveston Chamber of Commerce point out that dividing the Rock Island between UP and SP would terminate Rock Island's single-line service between the grain producing areas in the upper Midwest and the Texas gulf coast, and they fear that, as a result, export grain traffic would be shipped through ports on the east and west coasts, to the detriment of the ports of Houston and Galveston.

The Golden State Route Committee, representing numerous cities, towns, boards of supervisors, and chambers of commerce in Arizona, New Mexico, and Texas, support the UP-RI merger and Southern Pacific purchase proposals and, alternatively, the petition of Southern Pacific for inclusion in the North Western transaction. The city of Council Bluffs, Iowa, supports the UP-RI merger provided that the conditions sought by Rio Grande are granted. Lincoln County, the town of Hugo, the Chamber of Commerce and the city of Grand Junction, and the Moffat Tunnel Commission, all in Colorado, oppose the UP-RI merger unless the conditions requested by Rio Grande are granted.

The port of Beaumont, Tex., opposes the UP-RI merger, but does not oppose the North Western control transaction. The Chambers of Commerce and/or cities of Belleville, Clay Center, Goodland, Manhattan, Sharon Springs, and Wallace County, Kans.; and Cheyenne Wells, Colorado Springs, Limmon, and Pueblo, Colo., oppose the Union Pacific-Rock Island merger. If, however, the merger is found to be in the public interest, they support Rio Grande's request for acquisition of the western portion of Rock Island's lines.

The Greater Baton Rouge, La. Port Commission and the Texas Gulf Ports Association oppose any division of the Rock Island as

Commission's supplemental order of January 6, 1966, which modified condition 'e' in the *Central Pacific* case; and, the continued economic decline of Rock Island. The impact of these events has been considered in this report, and while for a variety of reasons, the traffic flows may have changed slightly since the studies were conducted, we believe that the fundamental competitive relationships between the carriers herein have not been altered significantly, and that, therefore, the record is adequate to form the basis of a decision.

Furthermore, this proceeding is probably the largest and most complex ever considered by the Commission, involving 19 railroads, 6 motor carriers, 13 State agencies, 47 Chambers of Commerce, port authorities and similar organizations, two labor organizations, the United States Department of Justice, our own Bureau of Enforcement, and 1 shareholder; extended over 280 days of oral hearings; and amassed a record of testimony and exhibits of over 150,000 pages. The proceedings were also delayed by the requests of many of the parties for extensions of time in which to file exceptions to the Administrative Law Judge's recommended report and order and to prepare for oral argument on those exceptions. A case of this magnitude is almost always lengthy in duration, thus subjecting early received evidence to a challenge for staleness. Continual updating of the record is not a practical solution, as it may also be an extremely lengthy process. The Supreme Court has recognized, in *U.S.* v. *Pierce Auto Freight Lines*, 327 U.S. 515, 534-535 (1946), that in any agency proceeding, there must be a point where the record is closed and the evidence considered. For us to hold otherwise and dismiss this proceeding or reopen the record now would be, in essence, a precedential determination that could preclude us from ever deciding this or any other lengthy, complex case.

THE UNION PACIFIC APPLICATIONS

Approval of any of the proposed mergers must ultimately be based upon approval of the Union Pacific application in Finance Docket No. 23286. As the rival North Western application was effectively rendered moot when North Western's carrier assets were sold to the new Chicago & North Western Transportation Company, both Southern Pacific's application to acquire the southern portion of Rock Island and Santa Fe's petition for inclusion in the transactions are contingent upon prior approval of the Union Pacific application.

Consummation of the Union Pacific transaction would result in several significant public benefits. UP's acquisition of the northern portion of the Rock Island would enable it to institute a single-line service, in lieu of existing Union Pacific-Rock Island dual line service, between such important points as Chicago, St. Louis, Peoria, Des Moines, and Minneapolis-St. Paul and points in Union Pacific's extensive western territory. Elimination of the delays inherent in interchange operations, coupled with the improvements which Union Pacific's financial resources would permit it to make to existing Rock Island facilities, should result in substantial service improvements. For example, under Union Pacific's proposed schedules, freight schedules between St. Louis and Seattle would be 11 hours and 30 minutes faster, westbound, than existing Union Pacific-Rock Island schedules, and 8 hours faster eastbound; and St. Louis-Los Angeles schedules would be faster by 15 hours and 30 minutes, westbound, and 8 hours, eastbound, than present Union Pacific-Rock Island schedules.

We should note, however, that, just as the proposed transactions would create a beneficial east-west single-line service, to a certain extent there would be a disruptive effect on a similar existing north-south service. Rock Island, for example, is the only rail carrier presently able to provide such service between Minneapolis-St. Paul and a number of other points in the upper Midwest, on the one hand, and Texas Gulf ports, on the other; and this, and other similar single-line service will be lost. The overall benefits of the proposed transactions, however, would far outweigh any change in north-south operations.

Of more importance, perhaps, than the benefits of coordinated UP-Rock Island single-line service, is the fact that the proposed merger would enable Union Pacific to gain direct access to major southern and eastern carriers at Chicago and St. Louis. Union Pacific extends from Omaha and Kansas City westward. It connects directly with only two major southern rail systems, Illinois Central Gulf and Frisco, and with only one major eastern system, Norfolk & Western. It lacks direct connections with such major eastern systems as Penn Central, Erie-Lackawanna, and the Chessie System, and with such major southeastern systems as Seaboard Coast Line-Louisville & Nashville and the Southern Railway System. Thus, on most traffic moving between the East, the Southeast, and UP's western territory, Union Pacific must rely on bridge carriers between the Omaha area and Chicago and other Illinois gateways; and between Kansas City and St. Louis, Memphis, and Birmingham, Ala. Furthermore, this bridge traffic is divided among several carriers, since five bridge carriers operate between Omaha and Chicago and seven, between Kanasas City and St. Louis. This fragmentation leads to multitudinous switching and interchange operations with consequent delays in traffic. Consummation of the proposed merger would thus enable Union Pacific to bypass these bridge carriers and would permit inauguration of dual line, rather than three line, service between eastern and western points.

To a considerable extent, Union Pacific and its connecting bridge carriers have attempted to alleviate these interchange problems through the initiation of through-train service. Through-train operations involve the preblocking and interchange of an entire train, with, at most, only the exchange of motive power, caboose and crew, and eliminate most of the delays commonly associated with interchange procedures. Among other such operations, Union Pacific and North Western operate three through-trains in each direction daily between Chicago and North Platte, Nebr., and only 30 minutes are required to interchange these trains at Fremont, Nebr. Similarly, U.P., Burlington Northern and Penn Central operate through-trains between Conway, Pa., and Green River, Wyo., and Union Pacific operates through-trains with Norfolk & Western between Decatur, Ill., St. Louis and Cheyenne, Wyo., and with Frisco between Cheyenne and Memphis. Properly operated, these through-trains provide service that is the equivalent or very nearly the equivalent of single-line service. However, there are factors which somewhat limit the effectiveness of such operations. Those factors relate to coordination difficulties, companies having different management philosophies, and different operating, traffic and scheduling problems. As a result, only some 35.58 percent of UP's 1967 interchange at its major eastern connecting points was handled in through-trains, meaning that such operations have been only partially successful as a substitute for single-line service.

In addition to the benefits to be derived from inauguration of single-line service, Union Pacific's competitive position vis-a-vis its major transcontinental competitors, Burlington Northern, Santa Fe, and Southern Pacific would be somewhat enhanced. Of the big four western rail systems, Union Pacific is the only one not reaching any of the major Illinois or Mississippi River gateways; whereas Burlington Northern reaches major eastern and southern rail systems at Chicago and St. Louis; the Southern Pacific System reaches New Orleans, Memphis, and St. Louis; and Santa Fe reaches Chicago, as does Milwaukee, another transcontinental competitor.

Although, in view of its highly satisfactory history of operating profitability, Union Pacific is obviously not excessively discommoded, it does operate at something of a disadvantage when compared to competitors which are able to offer single-line or single-system service between the Mississippi River and the Pacific Coast. Its acquisition of the northern Rock Island should increase transcontinental competition to some degree.

Another advantage of the proposed merger would be the savings incurred through the elimination of duplicate facilities and operations. Union Pacific estimates that, after an initial nonrecurring cash outlay of about $5,005,000, combined UP-northern Rock Island net income would be improved by approximately $6.57 million, based on 1968 levels, as a direct result of such savings. Approximately half of these savings would result from economies realized in the area between Colorado and the Missouri River, the only area in which both Union Pacific and Rock Island operate. As we would condition our approval of the UP application to require sale of most of the Rock Island's western lines to the Rio Grande, savings from economies effected in the Colorado-Missouri River area would not be available to the merged company; however, the remaining savings expected are significant and should be considered.

An important benefit of the Union Pacific proposal is that the merger of the Rock Island with the UP would not only preserve but would upgrade and substantially improve the essential service provided by the Rock Island; service which is an important segment of the continental transportation system. By virtue of the national transportation policy contained in the Interstate Commerce Act, the Commission has the obligation of deciding whether the Rock Island service is of such public importance that it should be preserved. And if so, whether preservation should be through merger with another railroad system. It is the Commission's view that the best results in the public interest can be reached through a merger designed not only to maintain service, but also to improve service. The UP proposal can provide the mechanism for avoiding the less desirable reorganization process. Currently the financial situation of the Rock Island appears critical. Its credit is about exhausted, and it has been selling real estate and other assets in order to obtain operating funds. Merger of the Rock Island into the UP system would stem this deteriorating financial situation and halt any movement toward bankruptcy.

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In addition to saving the Rock Island from probable bankruptcy, consummation of the proposed Union Pacific transaction should also result in improved service over the Rock Island's present lines. A natural concomitant of financial deterioration is deterioration in the quality of a carrier's service. A railroad in financial difficulties is forced to defer maintenance, forego needed capital improvements, and reduce operations. Rock Island is no exception. It has lacked the funds needed for proper maintenance of its plant and equipment and has been unable to perform needed capital improvements. As a result, many miles of its lines are under slow orders. An estimated $30 million will be required to bring just the Memphis-Tucumcari, N. Mex., line up to standards. The inevitable result of deteriorated plant and equipment is slow and unreliable service. Thus, Rock Island is seriously in need of rehabilitation.

Union Pacific, as well as are Southern Pacific and Santa Fe, is a strong company with the financial resources available to rehabilitate the Rock Island. Although Union Pacific has committed itself only to rehabilitate the lines between Omaha and Chicago and between Kansas City and St. Louis, the result of a UP-northern Rock Island merger should be a substantial improvement of a major part of the northern Rock Island. Similar improvements could be anticipated on the portions of the Rock Island acquired by other financially strong carriers, which should result in significant improvements over the present service which Rock Island is able to provide.

A major improvement would be the development of new single-line service. While railroads do cooperate with each other, generally their first concern is their own operations. Interchanges are costly, time consuming and inefficient. Also, interchanging results in less control over shipments from origin to destination; a railroad has no way of either compelling its direct connections to provide satisfactory service or assuming primary responsibility for delivery of freight to other regional carriers as on movements from west to east, to eastern and southern carriers. Other pluses of single-line service are the incentive for upgrading and maintaining roadways to foster increases in maximum speed; provisions for adequate power over the single system; and use of shorter routes. Single-line service can also result in improved schedules and improved service for shippers in that they could be afforded later departures and earlier arrivals and more dependable deliveries at industry sites and to connecting lines.

While there are substantial public benefits to be derived from Union Pacific's acquisition of the northern portion of the Rock

Island, approval of the transaction undoubtedly would result in adverse effects on other railroads which could result from diversions of traffic to a more competitive railroad. Approval of the Southern Pacific and Rio Grande applications and the Santa Fe petition for inclusion would likely result in further diversionary effects to other carriers.

For example, if Union Pacific were permitted to acquire the northern Rock Island, it would undoubtedly attempt to maximize its long-haul revenues by routing as much of its traffic as possible over its newly acquired lines. The result would be a very substantial diversion of traffic away from Rock Island's competitors which now handle Union Pacific traffic between Omaha[7] and Chicago, between Kansas City and St. Louis, and between Kansas City and southeastern points such as Memphis and Birmingham. Similarly, transcontinental traffic now handled by Rock Island and interchanged with Rio Grande at Denver would be retained by Union Pacific for movement to or from the Salt Lake City or Ogden, Utah, gateways, or points further west.

Indeed, in order for Union Pacific to recoup the vast expenditures necessary to acquire and rehabilitate the northern Rock Island lines, perhaps as much as $150 million,[8] it must increase its traffic, and thus, revenues. Existing Rock Island revenues are inadequate, and the $3 or $4 million annual savings from economies as a result of the merger would hardly suffice. While some new traffic might be gained as a correlative result of the improved service which Union Pacific would provide over the rehabilitated lines, clearly the bulk of any increased revenue would have to come from traffic diverted from other carriers.

The situation is exacerbated by the fact that, historically, Rock Island has not been one of Union Pacific's more important connections. Five bridge carriers, North Western, Burlington Northern, Milwaukee, Illinois Central Gulf, and Rock Island, provide service between Chicago and connections with Union Pacific in the Omaha area; and Rock Island and six other railroads, Missouri Pacific, Norfolk & Western, Burlington Northern, Illinois Central Gulf, Katy, and Frisco, operate between St. Louis and

[7]References to Omaha, herein, include Council Bluffs, Iowa, and eastern Nebraska points such as Fremont and Grand Island, where Union Pacific conducts interchange with midwestern bridge carriers.

[8]Based on a revised 1968 estimate, UP would be required to expend $30 million for improvement of Rock Island's lines plus $81.3 million for new equipment, as a result of the merger, plus an undetermined substantial sum for maintenance deferred by Rock Island. This excludes the liabilities which UP would assume.

Kansas City. In 1963, Union Pacific interchanged a total of 426,000 cars with its connections in eastern Nebraska. Of this traffic, 156,874 cars were interchanged with North Western,[9] 104,695 with Burlington Northern,[10] 76,144 with Milwaukee, and 58,033 with Illinois Central Gulf.[11] Only 23,601 cars, or less than 6 percent of total UP interchange at Omaha, were interchanged with Rock Island. Similarly, of the 289,036 cars UP interchanged at Kansas City in that year, only 7,585 were with Rock Island. By contrast, Rock Island's Kansas City-St. Louis competitors, Norfolk & Western and Missouri Pacific, interchanged 90,000 and 48,000 cars with Union Pacific, respectively. Moreover, substantial quantities of this UP interchange traffic was bridge traffic to the connecting carriers, and thus, highly vulnerable to diversion. For example, 48 percent of Frisco's UP interchange at Kansas City in 1966 was bridge traffic to Frisco, and 52 percent of North Western's 1964 UP interchange at Omaha was bridge traffic to C&NW. Obviously, then Rock Island's competitors could conceivably lose enormous amounts of traffic as a result of a UP-RI merger.

The Administrative Law Judge found that approval of the Union Pacific-Southern Pacific proposal, without the imposition of protective conditions, would mean "the demise of North Western and Milwaukee as viable operations;" would be "a serious blow" to Western Pacific, leading to "a continued deterioration in every aspect of its transportation system;" would "leave the Rio Grande in no position to continue as a significant factor in the hauling of transcontinental traffic;" would mean the "end to Frisco as a bridge carrier and cause it to lose great blocks of interline originated and terminated traffic;" "would cause substantial traffic and revenues losses to KCS-L & A;" would result in a "lack of ability on the part of Katy to withstand the substantial diversions of traffic and revenue it most likely will suffer;" and would cause the Missouri Pacific system to lose between $5.9 and $8.2 million in revenue per year. While we disagree with some of the Administrative Law Judge's findings regarding traffic diversion, we do recognize that the unconditional approval of these transactions would result in a substantial impact on other carriers.

The Administrative Law Judge's findings are based, to a great extent, on the traffic diversion studies submitted by the parties. For the most part, the Administrative Law Judge accepted the studies by the protestants, while generally rejecting those of the applicants, to which the applicants have strenuously excepted, contending that all such studies are inherently inaccurate.

We have long been cognizant of the limitations of diversion studies. Cf. *Illinois Cent. Gulf R.—Acquisition—G. M. & O. et al.*, 338 I.C.C. 805, 829. Regardless of the methodology employed, all diversion studies ultimately involve individual, and frequently biased judgment as to whether the traffic studied would be diverted; and certain imponderables, such as the right of shippers to control the routing of their traffic and the power of competing carriers to retaliate against the overly ambitious efforts of a newly merged company, render precise measurement of probable traffic diversion impossible. As our experience has shown in previous rail merger cases, applicants are highly likely to minimize traffic diversion, while protestants are equally prone to exaggerate it; *Missouri Pac. R. Co.—Control—Chicago & E. I. R. Co.*, 327 I.C.C. 279, 294; *Chesapeake & O. Ry. Co.—Control—Baltimore & O. R. Co.*, 317 I.C.C. 261, 282. Subject to their limitations, however, diversion studies are the best available evidence and do provide useful estimates of the competitive impact likely to result from a given transaction. In considering the diversion studies submitted herein, we have carefully weighed the limitations inherent in all such studies, and our conclusions regarding the studies and the impact of the transactions on individual carriers are set forth in detail in appendix D hereto.

While it is not possible to precisely predict the extent of traffic diversion, we think it is obvious that the Union Pacific transaction, without the imposition of adequate protection, would result in substantial injury to other carriers. North Western, Milwaukee, and Burlington Northern, solely as a result of the UP acquisition of the northern Rock Island, would lose the bridge traffic which they now handle between Chicago and Omaha. Both North Western and Milwaukee are marginal companies financially, and the losses from diverted traffic would have a substantial detrimental effect. Burlington Northern, on the other hand, is relatively strong financially and it could probably sustain the traffic loss, but it would be somewhat weakened. Rio Grande would suffer traffic losses, primarily as a result of the loss of Rock Island as one of the three friendly eastern connecting carriers upon which it is dependent for transcontinental traffic. Although a relatively small company, Rio Grande is financially sound and perhaps could sustain the loss.

[9] Includes interchange with the Chicago Great Western.

[10] Interchange was actually with the Chicago, Burlington & Quincy Railroad Co., a predecessor of BN.

[11] Interchange was actually with the Illinois Central Railroad Co., predecessor of Illinois Central Gulf.

Missouri Pacific would sustain losses of its traffic between Kansas City and St. Louis and along with its subsidiaries, would suffer further significant losses as a result of the Southern Pacific and Santa Fe acquisitions; however, the MoPac system could probably sustain the losses. The Frisco would lose substantial portions of its bridge traffic between Kansas City and southeastern points, which Union Pacific would retain for delivery to southern carriers at St. Louis. Although Frisco is a prosperous company and it could probably sustain the loss to UP alone, the Union Pacific loss coupled with its loss of traffic to Santa Fe would probably be more than the carrier could withstand. The Kansas City Southern system would suffer some traffic losses, primarily to SP and to a lesser extent to UP. Katy is in such critical financial condition that even a relatively small revenue loss is likely to have a substantial adverse effect upon it. Finally, Western Pacific would suffer significant losses, primarily as a result of the transcontinental traffic lost by its principal eastern connection, Rio Grande.[12]

The Commission is, thus, faced with a dilemma. On the one hand, there is a clear public need to preserve the services of the Rock Island, which a UP-RI merger would accomplish; but, on the other hand, the transaction could jeopardize the existence of other carriers or weaken them to the extent they will not be able to provide essential and necessary services. On balance, all of the advantages likely to result from the proposed mergers, if achieved at the cost of the bankruptcy or the serious weakening of several other carriers, would result in a net impairment of the national transportation system. We conclude, then, that merger of the Union Pacific and Rock Island, primarily because it would preserve the Rock Island, would be consistent with the public interest; but, only subject to the conditions set forth hereinafter, for the protection of other carriers.

Disposition of the Southern Portion of Rock Island

Both Southern Pacific and Santa Fe seek to acquire the southern portion of Rock Island. Southern Pacific proposes to purchase from Union Pacific all Rock Island lines south of Kansas City, with the exception of the line between Kansas City and St. Louis and the line

[12] In addition, Norfolk & Western would probably lose some of its traffic between Kansas City and St. Louis, and Illinois Central Gulf, traffic between both Kansas City and St. Louis and between Chicago and Omaha. However, both of these companies are large and financially sound, and, as neither has participated in this proceeding, estimates of their losses are not of record.

between MacFarland and Belleville, Kans. If the carrier is successful, it will extend its line from Tucumcari, N. Mex., northward to Kansas City; extend its present network of lines in southeastern Texas northward to Kansas City; acquire an alternate to its present route between California and the Memphis gateway; and acquire a much shorter route between St. Louis and southern Louisiana.

Santa Fe proposes to purchase all Rock Island lines south of Salina and Herington, Kans., except the portion of the "Tucumcari line" between Herington and Santa Rosa; and it also seeks permanent trackage rights over the line between Kansas City and St. Louis. Basically, Santa Fe is seeking entrance into the important Memphis and St. Louis gateways. In addition, acquisition of the southern Rock Island lines will give Santa Fe an alternate to its present route between Kansas City, on the north, and Fort Worth, Dallas, Houston, and Galveston, Tex., on the south.

The Administrative Law Judge recommended that Southern Pacific be permitted to acquire all of the lines it seeks, except the line between Memphis and Amarillo, Tex., and Rock Island's half interest in the Joint Texas Division between Waxahachie and Houston, Tex. He also recommended that Santa Fe be permitted to acquire the Memphis-Amarillo line and that it be granted temporary trackage rights over the Kansas City-St. Louis line until such time as inclusion of Missouri Pacific into Santa Fe is consummated.

As discussed hereafter, we concur generally with these recommendations, however, a troublesome issue is raised by the proposal of Santa Fe to gain access to the important Mississippi River gateways of St. Louis and Memphis. Santa Fe is presently a very strong rail carrier, with its main line extending from Chicago to southern California, via Kansas City, and an extensive network of lines of Oklahoma and Texas, over which it provides single-line service between important Texas points and California. It is at somewhat of a competitive disadvantage, however, in that it cannot provide single-line service to or from any of the major Mississippi River gateways. St. Louis is the second most important rail gateway in the Nation, after Chicago, and fully 70 percent of all traffic moving between the official (eastern) and southwestern territories, as well as substantial portions of traffic moving between the Southeast and the Southwest, is routed through that gateway. Cf. *St. Louis S.W. Ry. Co.—Pur.—Alton & S. R.*, 331 I.C.C. 515, 518, 541 (1968). Such carriers as Frisco, Katy, the Missouri Pacific-Texas & Pacific system, the Southern Pacific-Cotton Belt system, and Rock Island are able to provide single-line or single-system service between St.

Louis and Texas points, and Southern Pacific and Cotton Belt provide single-system service between St. Louis and the Southwest and California. Santa Fe contends that it would be at a greater disadvantage if Union Pacific acquires Rock Island's Kansas City-St. Louis line and is able to provide single-line service between St. Louis and Los Angeles. While the traffic moving through Memphis and New Orleans is not as voluminous as at St. Louis, these two major southern Mississippi River gateways are conduits for a substantial amount of traffic. In order to participate in this traffic, Santa Fe must rely upon bridge carriers with which it connects at scattered points in Texas, Oklahoma, and Kansas; while Southern Pacific, its chief competitor for this traffic, has a direct route to New Orleans and reaches Memphis via its subsidiary, Cotton Belt. As a result, Southern Pacific handles the dominant share of transcontinental traffic between the Southeastern and Southwestern States.

It is obvious that allowing Santa Fe to effect single-line service to St. Louis and Memphis would enhance that carrier's competitive position and reap considerable benefits for the shipping public in faster more dependable service through the elimination of delays inherent in the interchanging of traffic with bridge carriers. However, it is also apparent that there also would be a substantial adverse effect on other carriers with the impact likely to parallel that of the Union Pacific acquisition of the Rock Island lines to Chicago and St. Louis. In particular, serious impact would be felt by the bridge carriers upon which Santa Fe relies in the movement of traffic to and from St. Louis and the Southeast. Frisco and the Missouri Pacific system would suffer serious traffic diversion, and Katy, Burlington Northern, and the Kansas City Southern-Louisiana & Arkansas system would be injured to a lesser extent.

The Kansas City Southern system would be likely to lose some of the New Orleans bridge traffic now interchanged with Santa Fe at Dallas; Katy probably would lose gross annual revenue in a range between approximately $180,000 and $650,000; and Burlington Northern would likely lose bridge traffic moving between Kansas City and St. Louis. The Missouri Pacific system and Santa Fe interchange a substantial volume of Mississippi River gateway traffic at points in Kansas and Texas, and should Santa Fe gain access to St. Louis and Memphis, that traffic of Missouri Pacific would be subject to diversion. Frisco handles large quantities of traffic between its connections at St. Louis, Memphis, and Birmingham and connections with Santa Fe at points in Kansas, Oklahoma, and

Texas and it could expect to lose very substantial quantities of this traffic as a result of Santa Fe's proposals. In fact, Frisco's losses to Santa Fe, coupled with the traffic it could anticipate losing to Union Pacific, probably would be more than the carrier could withstand.

The competitive impact of Santa Fe's entry into St. Louis would be exacerbated by the fact that it would result in the addition of another competing railroad operating between Kansas City and St. Louis. This situation differs from that of Union Pacific because that carrier merely would be substituted for Rock Island over the latter's Kansas City-St. Louis line, whereas Santa Fe, with trackage rights over that same line, actually would be the eighth rail carrier operating between Kansas City and St. Louis. One of the primary reasons for the critical financial condition of Rock Island and the chronic weakness of such carriers as North Western, Milwaukee, and Katy is the existence of an overabundance of carriers and excess capacity in the Midwest. What is needed is a reduction, not an increase, in capacity, and to permit an additional carrier to operate between these two cities, already served by seven carriers, would be inconsistent with our duty to promote a sound transportation system. In 1948, this Commission denied a similar application by Santa Fe on the grounds that there was no lack of transportation facilities or competition between Kansas City and St. Louis and that additional rail service would be wasteful and unwarranted. *Chicago, B. & Q. R. Co. Control,* 271 I.C.C. 63, 163-165 (1948). This situation obviously still exists today. We will accordingly deny Santa Fe's request for trackage rights over Rock Island's Kansas City-St. Louis line. As Santa Fe's application in Finance Docket No. 24154, for use of Frisco terminal facilities in Kansas City, was contingent upon the acquisition of the aforementioned trackage rights, it will also be denied.

While we are denying Santa Fe's requested trackage rights, we do find that entry by that carrier into St. Louis would be consistent with the public interest, provided that it does not result in an additional competitive carrier operating between Kansas City and St. Louis. We will, therefore, condition our approval of Santa Fe's acquisition of Rock Island's Amarillo-Memphis line upon the inclusion of the Katy into the Santa Fe system, subject to certain terms and conditions discussed *infra.* Such an inclusion will, we believe, have benefits not only for both railroads, but also for the general public. Santa Fe will acquire an entry into St. Louis, without increasing the number of carriers operating between Kansas City and St. Louis, and both the applicant and the shipping public will realize the benefits of single-line Santa Fe service between St. Louis and the Southwest. In addition, Santa Fe will be enabled to serve such important points as San Antonio and Austin, Tex., and it will acquire an alternate, and more direct, route between Kansas City and the Dallas-Fort Worth and Houston-Galveston areas. Katy will, for its part, be protected from the adverse impact of the transactions approved herein, and, as Santa Fe has the resources needed to rehabilitate Katy's lines, the public should benefit from improved service over the lines of the present Katy.

We are approving Santa Fe's requested acquisition of the Rock Island line between Amarillo and Memphis. This line would be a logical extension for either Santa Fe at Amarillo or Southern Pacific at Tucumcari. Southern Pacific, however, has no real need for the line and does not presently use it to any great extent for access to Memphis and the Southeast. When the traffic studies were conducted, Southern Pacific and Rock Island annually were interchanging at Tucumcari about 15,000 cars which were handled over the Tucumcari-Memphis line, but 83 percent of this traffic was originated or terminated on the Rock Island at Little Rock or points further west. Although the Southern Pacific-Rock Island route to Memphis is 183 miles shorter than the present route of Southern Pacific and Cotton Belt, Southern Pacific has indicated that it would continue to rely on its own route, utilizing the Rock Island only as an alternate. The carrier states that it cannot justify an investment of the estimated $30 million needed to upgrade the line to its own main line standards. As it would essentially result only in the acquisition of an alternate route, Southern Pacific's acquisition of the Memphis-Tucumcari line would have little adverse impact on other carriers, but, also, it would result in relatively little benefit to the public. Although Southern Pacific's ownership of the line could bring the advantages of better coordinated single-line service, plus improved car supply and similar advantages inherent in operation of a rail line by a financially sound carrier, the essential character of the line as a nonsignaled secondary line would probably remain unchanged.

We believe that, under Santa Fe's ownership, the Memphis line is more likely to produce beneficial results for the shipping public. Acquisition of the line is extremely important to that carrier as it will allow more effective competition with Southern Pacific on traffic to and from the Southeast. Thus, we believe that Santa Fe will have an inducement to rehabilitate and improve the line, with resulting improved service to the shipping public. As we have

already noted, acquisition of this line by Santa Fe is likely to result in substantial diversion of traffic from some of Santa Fe's bridge carriers on traffic to and from the Southeast. We believe, however, that the benefits from Santa Fe's ownership of this line far outweigh any benefits that might result from ownership by Southern Pacific. Further, we are of the opinion that the imposition of appropriate traffic conditions will alleviate the adverse effects on other carriers to warrant approval of the Santa Fe proposal.

Though the line in question actually extends between Memphis and Tucumcari, Santa Fe connects with it at Amarillo and would have little need for the portion between Amarillo and Tucumcari. On the other hand, Southern Pacific's acquisition of that small segment would enable it to serve a relatively important city of Amarillo with a single-line service to and from Southern Pacific's southwestern territory. Therefore, we find that acquisition by Santa Fe of the Rock Island line between Memphis and Amarillo, subject to conditions imposed for the protection of other carriers, and acquisition by Southern Pacific of the Rock Island line between Amarillo and Tucumcari are both in the public interest.

Any approval of Santa Fe's request for authority to acquire portions of Rock Island must be grounded upon approval of its petition for substitution as applicant, in lieu of Southern Pacific, in Finance Docket No. 23595, which is, in effect, a petition for inclusion in the transaction. Union Pacific opposes this, contending that the burden of proof to be met by a petitioner for inclusion in a transaction under section 5 of the Act is higher than that required of an applicant therein; that Santa Fe has failed to meet this higher standard, and that the Administrative Law Judge erred in treating Santa Fe as an applicant rather than as a petitioner. In essence, Union Pacific argues that the Commission can impose conditions such as inclusion only where they are absolutely required in order to render a proposed transaction consistent with the public interest, and only upon a showing that the transaction seriously threatens the continued existence of the petitioner, whose service is necessary in the public interest. It asserts that such a showing has not been made.

Section 5(2)(d) of the Act provides that, as a prerequisite to its approval of a transaction, the Commission may require the inclusion of another railroad into the transaction, upon an appropriately filed petition by that railroad and upon a finding that the inclusion is consistent with the public interest. Thus, contrary to the argument of Union Pacific, our jurisdiction to require inclusion of Santa Fe into the Union Pacific-Southern Pacific transaction is not premised upon a showing of imminent danger to the continued existence of Santa Fe, but rather upon the finding of consistency with the public interest. On several occasions, this Commission has required the inclusion of another carrier, not to assure its continued existence, but because inclusion would enhance competition or otherwise be consistent with the public interest. See, *e.g., Missouri Pac. R. Co.—Control—Chicago & E.I.R. Co., supra;* and *Louisville & N. R. Co.—Merger—Monon Railroad,* 338 I.C.C. 134 (1970). This basic principle is equally applicable to other conditions, discussed *infra,* which we will impose for the benefit of other carriers adversely affected by approvals herein.

Santa Fe contends that, along with the Amarillo-Memphis line, it should also be permitted to acquire Rock Island's Little Rock-Alexandria-Eunice, La., line. Though conceding that the Alexandria line would be of relatively little importance to it, the petitioner feels that the branch line should not be separated from the Memphis line. It argues that operations and traffic patterns of the Alexandria line are integral with those of the Memphis line and that ownership of the branch would permit continued single-line service between Louisiana and Arkansas points, on the one hand, and, points in Arkansas, Oklahoma, Kansas, and Texas, on the other.

While Santa Fe does not now connect with the Alexandria line and the line would be of relatively little significance to the petitioner, it is of some importance to the Southern Pacific system as a bridge line between the SP and the Cotton Belt. Traffic moving between St. Louis and points in southern Louisiana is handled by Cotton Belt between St. Louis and Fordyce, Ark., Rock Island between Fordyce and Alexandria, and Southern Pacific between Alexandria and points and SP's extensive system of lines in southern Louisiana. Although SP and Cotton Belt are able to provide single-system service between St. Louis and Louisiana points, via Houston, the all-SP system route between St. Louis and New Orleans is some 310 miles longer than the SP-RI-Cotton Belt route via Alexandria and Fordyce. As a result, substantial quantities of Southern Pacific system traffic are moved over the Alexandria line. About 50 percent of Rock Island's interchange at Alexandria is with Southern Pacific and approximately half of its interchange at the northern end of the line is with the Cotton Belt at Fordyce.

Moreover, Southern Pacific's acquisition of the Alexandria line would permit it to offer substantially improved service between St. Louis and Louisiana points. Under present Rock Island schedules,

14 hours are required to traverse the 196 miles between Alexandria and Fordyce, and traffic moving between St. Louis and New Orleans requires 53 hours and 31 minutes southbound and 49 hours and 45 minutes northbound. Experimental through trains operated by Cotton Belt, Rock Island, and SP in 1967 demonstrated that the 236 miles between Alexandria and Pine Bluff, Ark., could be covered in 7 or 8 hours, or only about half the time now required by Rock Island to cover just the segment between Alexandria and Fordyce. Through elimination of delays for interchange, faster running times, and better coordination, SP proposes to reduce transit time between St. Louis and New Orleans to 29 hours and 31 minutes, southbound, and 33 hours and 15 minutes, northbound. In addition to the savings in transit time of traffic now moved over the SP-Rock Island-Cotton Belt route, Southern Pacific estimates that about 40 cars per day are now moving over its single-system route, via Houston, which could be rerouted via Alexandria with an improvement of from 16 to 24 hours in transit time.

Although acquisition of the Little Rock-Alexandria line by Southern Pacific would be likely to result in some traffic diversion from the Missouri Pacific and Kansas City Southern systems and would eliminate some existing Rock Island single-line service, we think that the importance of the line to Southern Pacific, as opposed to its relative unimportance to Santa Fe, and the opportunity for substantially improved service between St. Louis and Louisiana points, clearly outweigh the disadvantages of SP's acquisition of the line. Accordingly, we concur with the Administrative Law Judge that the public interest would be best served by permitting Southern Pacific to acquire the Alexandria branch line.

The contention has been raised by protestant Laughlin that Santa Fe's acquisition of the line would best serve the public interest as Santa Fe would keep the line intact, whereas Southern Pacific would abandon the segment between Fordyce and Haskell, Ark., and instead, use the Cotton Belt's line between Fordyce and Little Rock. Southern Pacific, however, has not filed any abandonment application as yet, and further, any abandonment would require our approval. Although consideration of the merits of any such abandonment may be premature at this point, we will provide the Santa Fe with the right of first refusal should the Southern Pacific decide to petition for abandonment of the Fordyce and Haskell segment.

Of all of Rock Island's major southern lines, acquisition by Southern Pacific of the Tucumcari line is probably least subject to controversy. Extending from Kansas City through Topeka and

Tucumcari, to Santa Rosa, the line is the center portion of the long-established Golden State Route operated by Southern Pacific and Rock Island between Chicago and Los Angeles. A substantial volume of traffic is handled over the route,[13] with interchange effected at Tucumcari, and according to Southern Pacific, service over the line is fully competitive with Santa Fe's single-line service between Chicago and southern California. Southern Pacific and Rock Island are the only major rail carriers serving Tucumcari and Santa Rosa, and only limited alternative connections are available to either carrier for this traffic. Santa Fe, the chief competitor for this southern corridor traffic, is Rock Island's only alternate connection and is Southern Pacific's alternative connection with the most direct route to Chicago. Also available to Southern Pacific is the circuitous route via Texas & Pacific and Missouri Pacific, as well as its own even more circuitous route via the Cotton Belt. As a result, Southern Pacific and Rock Island cooperate to promote the Golden State Route, participating in preferential solicitation agreements and moving substantial portions of traffic over the route in through trains. Because of the efficiency of present operations, Southern Pacific is doubtful that it will be able to effect any significant improvement of the existing service over the Tucumcari line; however, the carrier is strong and has the incentive, as well as the financial resources, to conduct any necessary rehabilitation, and its acquisition of the line should assure continuation of good service over the Golden State Route. Further, since Southern Pacific's acquisition of the Tucumcari line will do little more than extend its portion of the Golden State Route to Kansas City, the transaction is unlikely to have any significant impact on other carriers.

Certain protestants raised a minor objection to Southern Pacific's acquisition of this line, claiming that service would deteriorate from the shifting of the interchange point from Tucumcari to the congested Kansas City area. This is largely a specious argument for two reasons. First, current Rock Island traffic moving between Chicago or St. Louis, on the one hand, and the Southwest and southern California, on the other, normally suffers a delay when moving through the congested Kansas City area. While interchanging traffic at Kansas City will add some time to the movement through that area, elimination of the Tucumcari interchange will substantially offset that additional time. Further, any resulting delay is minimal when measured in terms of the entire

[13]Southern Pacific and Rock Island interchanged a total of 106,000 cars at Tucumcari in 1963.

haul over the Golden State Route. Moreover, if sufficient traffic is available, Southern Pacific and Union Pacific plan to operate through trains via Kansas City, which will practically eliminate the interchange delay. Secondly, a portion of the Golden State Route traffic to or from the Southwest and southern California presently is interchanged by Rock Island at Kansas City. On that traffic, extension of Southern Pacific's line from Tucumcari to Kansas City actually will eliminate one of the two existing interchanges. We conclude, then, that the present operating patterns will remain largely unaltered and that little, if any, delay will result from Southern Pacific's acquisition of the Tucumcari line, and we find that the said acquisition will be consistent with the public interest.

We also believe that Southern Pacific should be permitted to acquire the Rock Island line between Kansas City and Texas. The line actually extends from a junction with the Kansas City-Tucumcari line at Herington, Kans., southward, through El Reno, Okla., where it crosses the Memphis-Tucumcari line, through Fort Worth to Dallas. Acquisition of the Herington-Texas line would be, in essence, an end-to-end extension of the Southern Pacific. SP has an extensive network of lines in central and southern Texas, extending from Denison, a point north of Dallas near the Texas-Oklahoma border, to Brownsville, on the Rio Grande River, and including lines between Dallas-Fort Worth and the Houston-Galveston area. Thus, acquisition of the Herington-Texas line would extend Southern Pacific's lines north to Kansas City and permit SP to offer single-line service between Kansas City and points in south Texas. At the present time, Southern Pacific must depend on Rock Island and other connecting carriers at north Texas points to handle through traffic between south Texas and Kansas City, thereby experiencing delays usually inherent in interchange procedures. For example, cars delivered by Rock Island to Southern Pacific at Fort Worth, where the largest volume of SP-Rock Island interchange in Texas occurs, are delayed for a 10-hour period before reaching Southern Pacific's Dallas-Houston main line at Ennis, Tex. Were Southern Pacific permitted to acquire the Herington-Texas line, it could institute through trains and coordinated schedules, eliminating such delays. In addition, as the Rock Island line would be an important extension of the Southern Pacific, SP would have an incentive to rehabilitate the line and keep it well maintained, which should result in substantially improved service between Kansas City and Texas.

Santa Fe, on the other hand, already possesses its own direct route between the Dallas-Fort Worth and Houston-Galveston areas and Kansas City and Chicago. Although the Santa Fe's route between Kansas City and Houston is 26 miles longer than the Rock Island's and 49 miles longer than the shortest single-line route between Kansas City and Houston, it provides the fastest service of any carrier operating between the two cities. Thus, Santa Fe has no real need for the Rock Island line, and, in the hands of that carrier, the line would basically serve only as an alternate to its existing Kansas City-Texas route. While Santa Fe's acquisition of the Rock Island route would enable Santa Fe to realize some savings through elimination of duplicate facilities and some service improvements could be accomplished as a result of coordination of the two lines, the service improvements would be relatively insignificant as compared to those which Southern Pacific could achieve through the inauguration of new single-line service.

As an end-to-end merger, Southern Pacific's acquisition of the Herington-Texas line would be likely to result in some diversion of traffic away from other carriers which now provide service between Kansas City and Texas points; however, traffic diversion would be minimized somewhat by the fact that traffic in the area is predominately southbound. Southbound traffic on the Herington-Texas line exceeds northbound traffic by a factor of three or four to one, and other north-south carriers in the area have somewhat similar patterns, generally two or three to one in favor of southbound traffic. This would indicate that less of the potential traffic would be likely to fall under SP's influence, and thus would be less likely to be diverted from Southern Pacific's present connections in Texas; however, as set forth, *infra,* protection will be necessary for some of the carriers with which Southern Pacific connects at Texas points. Nevertheless, on balance, we find that a properly conditioned acquisition of the Herington-Texas line by Southern Pacific would be more beneficial to the general public than Santa Fe's acquisition of the line.

We agree with the Administrative Law Judge, however, that approval of Southern Pacific's application to acquire the Herington-Texas line should be subjected to a requirement that Rock Island's half interest in the Joint Texas Division be sold to the Fort Worth & Denver. Southern Pacific already owns a direct line between Houston and Dallas, with a branch line between Ennis, Tex., and Fort Worth, and it also has a direct line between Houston and Galveston. Southern Pacific proposes to use its own line between

Dallas and Houston, discontinuing the Rock Island's trackage rights over Katy between Dallas and Waxahachie, withdrawing from joint operation of the line between Waxahachie and Teague, Tex., and confining its use of the Joint Texas Division to participation in joint operations between Mexia and Houston, for local traffic only. As a counter to Fort Worth & Denver's proposals, Southern Pacific would grant FW&D operating rights over its existing line between Dallas and Houston which, according to SP, would enable FW&D to achieve considerable operating economies through the downgrading of the Joint Texas Division line to the status of a branch line and the termination of FW&D's operating rights over Katy between Waxahachie and Dallas. We find, however, that 100 percent ownership of the Joint Texas Division by the Fort Worth & Denver would be in the public interest. Unlike Southern Pacific, FW&D would have an incentive to continue maintaining and operating the Joint Texas Division efficiently and, as a result of gaining local Joint Texas Division traffic now handled by Rock Island, Fort Worth & Denver would be adequately compensated for traffic diverted as a result of the proposed mergers. Moreover, the Burlington Northern System, of which FW&D is a part, competes with Southern Pacific for traffic moving between the Pacific Northwest and Texas and Louisiana points and, if the FW&D were permitted to acquire sole ownership of the Joint Texas Division, the BN system's reliance on its competitor would be minimized. As a corollary to our decision to require this sale, we will also require Southern Pacific to terminate Rock Island's trackage rights over Katy between Dallas and Waxahachie and over Santa Fe between Houston and Galveston.

In addition to its request to acquire Rock Island's interest in the Joint Texas Division, Fort Worth & Denver also seeks to acquire Rock Island's 12.5 percent stock interest in the Houston Belt & Terminal Ry.Co. HB&T is owned by FW&D and Rock Island, which own a 12.5 percent interest each; Santa Fe, which owns 25 percent; and Missouri Pacific, which owns 50 percent. It conducts a switching and terminal service for its parent companies in the Houston area. Southern Pacific also has an extensive network of switching lines in the Houston area and, with some exceptions, industries located on the Southern Pacific and HB&T are generally open to both carriers on a reciprocal switching basis. FW&D seeks to acquire Rock Island's interest in the HB&T on the ground that ownership of an interest in the HB&T would give Southern Pacific a dominant position in the Houston area. The Administrative Law Judge recommended against granting the request on the ground that

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it would be premature until after consummation of his proposed restructuring and a determination of the preferences of HB&T's owners.

Because our disposition of the proceeding differs from that of the Administrative Law Judge, we find it appropriate to dispose of Rock Island's interest in HB&T at this time. Moreover, we think it obvious that Rock Island's interest in the HB&T is a concomitant of its joint ownership of the Joint Texas Division and that ownership of Rock Island's HB&T stock should accompany ownership of its interest in the Joint Texas Division. Accordingly, we will condition our approval of the Southern Pacific application so as to require sale of Rock Island's HB&T stock to Fort Worth & Denver.

Fort Worth & Denver has also requested other relief. It seeks unrestricted trackage rights over the Rock Island line between Dallas and Fort Worth and an unobstructed track for operation through Rock Island's Peach Street Yard in Fort Worth. Although FW&D presently has trackage rights over Rock Island's Dallas-Fort Worth line, it now seeks the unrestricted right to serve industries on the line, primarily the Great Southwest Industrial District. The carrier contends that unrestricted trackage rights would enable it to provide a single-line service between points on the Fort Worth-Dallas line and points on the FW&D-Colorado & Southern line between Fort Worth and Denver and would compensate it for traffic lost as a result of SP's acquisition of the southern Rock Island. As to its request for an unobstructed track through Peach Street Yard, FW&D fears that the yard will become more congested as a result of the Southern Pacific acquisition, and consequently that its operations will be impeded.

We cannot find, however, that FW&D's request for unrestricted trackage rights between Fort Worth and Dallas has been shown to be consistent with the public interest. FW&D will be adequately compensated for any traffic loss by its acquisition of sole ownership of the Joint Texas Division. On the other hand, its unrestricted right to serve industries between Fort Worth and Dallas would enable it to serve the territory presently served by other carriers, including that of some carriers which will not benefit from the divisions of the Rock Island approved herein, without a showing that such an expansion is required by the public convenience and necessity. Accordingly, we will adopt the Administrative Law Judge's recommendation that FW&D's request for unrestricted operating rights between Dallas and Fort Worth be denied. We also adopt the Administrative Law Judge's finding that granting FW&D's request

for an unobstructed track through Peach Street Yard would be premature at this time, since the carrier will have an opportunity, through the Commission's reservation of jurisdiction in these proceedings, to show that such relief is warranted as a result of the operations of the unified Southern Pacific-Rock Island. Fort Worth & Denver also requests imposition of other conditions designed to insure continuance of its existing rights in its use of the Fort Worth-Dallas line; however, since such rights and privileges arise out of the existing joint-facility agreement between Rock Island and FW&D, there is no necessity for the imposition of the specific conditions requested by FW&D.

Fort Worth & Denver has requested that Rock Island's interest in the Joint Texas Division and its stock in the Houston Belt & Terminal be conveyed to FW&D for an amount equal to the investment in said properties shown on Rock Island's books. The Administrative Law Judge found that such consideration had not been shown to be just and reasonable. We agree, and, accordingly, will adopt his recommendation and require that, within 30 days following consummation of the authority herein granted Southern Pacific, Southern Pacific and Fort Worth & Denver shall arrive at a mutually agreeable consideration payable for the properties and submit their agreed consideration for our approval. Should the parties fail to reach a mutually agreeable consideration within the 30-day period, each party, within 15 days following the expiration of the said 30-day period, shall submit to the Commission, in writing under oath, its basis of calculation and supporting data, and the Commission shall thereafter arrive at a just and reasonable consideration.

We will condition our approval of the Union Pacific application, in Finance Docket No. 23286, upon sale of the southern lines of the Rock Island to Southern Pacific. As Southern Pacific participated in the joint petition of March 8, 1973, seeking dismissal of the proceeding, and as the contract between UP and SP for sale of the southern portion of Rock Island to SP has expired by its own terms, we must recognize that Southern Pacific may elect not to consummate the transaction. In the event that SP does decide to withdraw from the transaction, we will reexamine our decision herein and consider taking other action including awarding the southern portion of the Rock Island to the UP or to some other carrier, or carriers that are parties to the proceeding. Nothing contained herein shall be construed, without further order of the Commission, as authorizing the merger of the Rock Island and the Union

Pacific without the sale of the southern portion of Rock Island to Southern Pacific or some other carrier party to the proceeding.

As the parties are contractually free to renegotiate the terms of the sale of the southern Rock Island, the possibility exists that Southern Pacific will be unable to agree as to the terms of the sale. In that event, we will adopt a procedure similar to that adopted with reference to sale of Rock Island's interest in the Joint Texas Division and Houston Belt & Terminal to the Fort Worth & Denver. UP and SP will be required to submit their agreed consideration within 30 days after service of this report or, if unable to agree, each party will be required to submit for a determination by the Commission, within 30 days after service of this report, its suggested consideration together with supporting data. Failure of the parties to reach an agreement as to consideration shall not be construed as an abrogation by Southern Pacific of its right to acquire the southern portion of the Rock Island.

We will condition our approval of the Southern Pacific application, in Finance Docket No. 23595, upon sale to the Santa Fe of the Rock Island line between Amarillo, Tex., and Memphis, Tenn., together with attendant branch lines but excluding the line between Little Rock, Ark., and Eunice, La. As in other similar instances, we will require the parties to submit their agreed consideration within 30 days after consummation of the SP purchase of the southern Rock Island, or, if they are unable to agree, to submit their respective suggested considerations within 15 days following expiration of the 30-day period; and failure of the parties to reach an agreement will not be construed as a refusal by Santa Fe to acquire the properties in question. However, we will require sale of the Amarillo-Memphis line to Santa Fe only if Santa Fe is willing to acquire it, subject to the conditions imposed herein including inclusion of the Katy in the Santa Fe system. Although acquisition of the Amarillo-Memphis line by the Southern Pacific would not be as desirable, from the standpoint of the public interest, as acquisition by the Santa Fe, we find that acquisition of the line by SP has been shown to be consistent with the public interest.Accordingly, we will permit the Southern Pacific to acquire and retain the line, if Santa Fe chooses not to participate in the transaction.

In the event that UP should decide not to participate in the proposed merger, and the remaining parties desire to proceed with some or all of the transactions, we will, upon appropriate petition, consider alternate proposals for the disposition of some or all of the Rock Island.

Conditions for the Protection of Other Railroads

Of the bridge carriers operating between the Chicago and Omaha area gateways, North Western and Milwaukee are rather weak financially and conceivably will have difficulty in withstanding the impact of Union Pacific's control of the northern lines of the Rock Island. North Western has adamantly opposed the merger of the UP and the Rock Island and has not requested the imposition of any conditions for its protection, as it is of the opinion that any such conditions would be inadequate. Milwaukee, on the other hand, has filed a petition for inclusion in either Union Pacific or Southen Pacific and, on April 2, 1973, filed a petition for reopening of the *Northern Lines Merger* proceedings and its inclusion in the Burlington Northern system. Milwaukee's present position is that its petition for inclusion in UP or SP should remain pending until after a determination of its petition for inclusion in Burlington Northern.

Our approval of the Northern Lines merger was contingent upon the imposition of several conditions designed to strengthen Milwaukee's ability to compete with Burlington Northern for traffic moving in the northern tier of States between Chicago, Minneapolis-St. Paul, and Seattle and Portland. Among other conditions, we required that 11 gateway cities in North Dakota, Montana, and Washington, which had previously been closed to Milwaukee by BN's predecessors, be opened for the establishment of through routes and joint rates, and that Burlington Northern grant Milwaukee trackage rights into Portland, Oreg. Granting Milwaukee's petition for inclusion in BN would appear to be inconsistent with our expressed intention in the *Northern Lines* case in that approval would result in a near monopoly on rail transportation in much of the vast area between the Twin Cities and Seattle and Portland. Therefore, while we will not rule specifically on Milwaukee's petition for inclusion in Burlington Northern, we do believe that under these circumstances, it appears unlikely that inclusion of the Milwaukee into Burlington Northern could be found to be consistent with the public interest.

In addition, we cannot find that granting Milwaukee's petition for inclusion in Union Pacific or Southern Pacific would be consistent with the public interest. Milwaukee is already a competitor with both Burlington Northern and Union Pacific for traffic betwen Midwestern points and points in the Pacific Northwest, and its inclusion in the Union Pacific would be equally as inconsistent with our previously determined intention of strengthening Milwaukee's competitive position as would its inclusion in the Burlington Northern. As to inclusion in Southern Pacific, Milwaukee has not alleged that it would be affected by that carrier's acquisition of the southern half of the Rock Island, and, considering that the two companies operate in different geographic areas, it is unlikely that the Southern Pacific transaction would have any significant impact upon the Milwaukee. We will accordingly deny Milwaukee's petition for inclusion into either Union Pacific or Southern Pacific. However, we will retain jurisdiction to reconsider our decision upon a showing, at some future date, that such an inclusion may be necessary to preserve Milwaukee's ability to provide adequate transportation service.

It is obvious, however, that both North Western and Milwaukee will require protection from the impact of Union Pacific's acquisition of the northern Rock Island. Accordingly, we will condition our approval of the Union Pacific application in Finance Docket No. 23286 so as to require traffic maintenance conditions for the protection of both North Western and Milwaukee. For a period of 5 years from the effective date of consummation of the Union Pacific-Rock Island transaction, in Finance Docket No. 23286, Union Pacific will be required to deliver annually to North Western, at Omaha and Fremont, Nebr., and Council Bluffs, Iowa, not less than 100 percent of the average of the combined annual number of loaded[14] cars delivered by UP to North Western and the Chicago Great Western, at the above-named points, during the 5-year period ended on December 31 of the year preceding the date of consummation of the transaction authorized in Finance Docket No. 23286. For a similar 5-year period, UP will be required to deliver annually to Milwaukee, at Omaha and Council Bluffs, not less than 100 percent of the average annual number of loaded cars it delivered to the Milwaukee at Omaha and Council Bluffs during the same 5-year computation period.

We recognize that objections may be raised to conditions of this nature on the grounds that they are somewhat inflexible; that the protected carriers may feel relieved of an incentive to provide good service; and that the carrier providing the protection is deprived of some of the benefits of the transaction and possibly some of its incentive to consummate the proposed merger. These conditions are thus imposed reluctantly, and only because we find that they are absolutely essential to assure the continued ability of North Western and Milwaukee to serve the general public. Their imposition also

[14] As used herein "loaded" shall be construed as containing at least the quantity of freight required for the application of a carload rate.

nullifies, to some extent, the rights of shippers under section 15(8) of the Interstate Commerce Act, to designate the carriers and the routes by which their shipments shall be transported. These rights, however, are subject to such reasonable exceptions as we may prescribe and, here, the importance to the national transportation system of maintaining the protected carriers as viable carriers significantly outweighs the shippers' rights. Accordingly, we will hereby authorize the Union Pacific to route traffic via routes other than those designated by shippers, to the extent necessary to comply with the traffic maintenance conditions imposed herein; provided, however, that nothing contained herein shall be construed as authorizing Union Pacific to divert any traffic designated by a shipper to be handled by any carrier other than Union Pacific or another protected carrier.

In order that the protected carriers may continue to have an incentive to provide adequate service, we will retain jurisdiction to consider modification or elimination of these conditions upon petition by Union Pacific or any other interested person, including but not limited to a shipper or another carrier, upon a showing that the protected carrier has failed to provide satisfactory service. We realize that, due to various circumstances beyond its control, Union Pacific may find it difficult or impossible to comply with these requirements, and accordingly, we will permit the carriers to deliver less than the required amount of traffic without further authority from us, but only upon mutual agreement with the protected carrier. If the protected carrier should not be agreeable to a reduction, Union Pacific may petition for a reduction in the requirement upon a showing that traffic that it has available for delivery to the protected carrier or carriers has been reduced as a result of a labor dispute, adverse weather conditions, adverse economic conditions, or other good cause. We also provide that Union Pacific shall be free to determine at which of the gateways, among those designated, the protected traffic shall be delivered, so long as the total traffic delivered at all of the enumerated gateways equals the total amount required to be delivered to the protected carrier.

Burlington Northern will be likely to suffer some loss of traffic as a result of the proposed transaction, but not more than that company can reasonably be expected to sustain. BN has, however, requested the imposition of several conditions designed to partially compensate it for its anticipated traffic losses. It has requested: (1) that Union Pacific be required to grant it access to the Tukwila-Andover-Kent Industrial Area near Seattle; (2) that Union Pacific be required to grant it access to the St. John's Industrial District in Portland, Oreg.; (3) that UP be required to extend its Portland switching limits so as to include Fir Station, Rockwood, and Troutdale, Oreg., thus opening these points to switching service at tariff rates; (4) that Union Pacific be required to include the area south of St. Paul, Minn., to and including the southern corporate limits of the village of Inver Grove, Minn., within the St. Paul and South St. Paul switching districts; (5) that UP be required to grant it trackage rights between Wallace and Silver King, Idaho, a distance of 14 1/2 miles, which would give BN access to the Kellogg, Idaho, industrial area; and (6) that UP be required to grant it trackage rights over UP's subsidiary, Spokane International, between Sandpoint, Idaho, and a connection with the Canadian Pacific at Eastport, Idaho, a total distance of 66 miles. Burlington Northern estimates that imposition of all of these requested conditions would result in an increase in gross annual revenues by approximately $2,674,000, of which $525,000 would be derived from access to the Tukwila-Andover-Kent area, $140,000 from the St. John's Industrial District, $478,000 from extension of the Portland switching limits, $303,000 from access to Kellogg, and $1,228,000 from the trackage rights over Spokane International. Extension of the St. Paul switching district would essentially constitute a formalization of the *status quo* and no specific value has been estimated for that proposal.

The Milwaukee jointly serves the Tukwila-Andover-Kent area with the Union Pacific, and it opposes BN's request for access to that industrial area on the grounds that it will suffer traffic diversion. We agree with Milwaukee that further traffic diversion from it would not be consistent with the public interest, and we accordingly deny Burlington Northern's request for access into the Tukwila-Andover-Kent area. Industries located on Rock Island, in the area south of St. Paul, are already subject to reciprocal switching on an individual basis, so that granting BN's request to extend the St. Paul switching district to Inver Grove would only preserve existing privileges presently enjoyed by the Burlington Northern and would be consistent with the public interest. The other relief requested by Burlington Northern in essence involves extensions of its service into areas it does not presently serve and these are opposed only by Union Pacific. Granting this relief would give shippers the benefit of having alternate Burlington Northern service available, would partially compensate the carrier for diversion losses resulting from Union Pacific's acquisition of the Rock Island, and would be unlikely to result in injury to any carriers

other than UP and its subsidiaries. Therefore, we will condition our approval of the application in Finance Docket No. 23286 so as to require: (1) that Union Pacific grant Burlington Northern full, equal, and joint use of all track and facilities necessary to serve all industries in that part of the Portland, Oreg., terminal known as the St. John's Industrial district lying west of the Burlington Northern (formerly Spokane, Portland & Seattle) main line, north of the Willamette River and south of the Columbia River Slough; (2) that Union Pacific extend the switching limits of Portland, Oreg., to include the stations of Fir Station, Rockwood, and Troutdale, Oreg.; (3) that Union Pacific be required to include in its switching tariff at St. Paul, Minn., all industries located on the acquired Rock Island lines between St. Paul and the southern corporate limits of the Village of Inver Grove, Minn.; (4) that Union Pacific grant Burlington Northern trackage rights over its line between Wallace and Silver King, Idaho, a distance of approximately 14 1/2 miles, including the right to serve all industries thereon including those located at Kellogg and Bradley, Idaho; and (5) that Union Pacific cause Spokane International Railroad Company to grant Burlington Northern trackage rights over its line between a track connection with the BN at Sandpoint, Idaho, and a connection with the Canadian Pacific at Eastport, Idaho, a distance of 66 miles, including the right to serve all industries located thereon. The conditions imposed in (1), (4), and (5) above, will, of course, be subject to approval of appropriate applications under section 5(2) of the Interstate Commerce Act.

In addition to the conditions discussed above, Burlington Northern also has requested certain modifications to the standard DT&I traffic conditions, which will be discussed, *infra*. Conditions imposed for the protection of BN's subsidiary, Fort Worth & Denver, have been thoroughly discussed in the previous section and need not be further considered in this section.

Rio Grande has requested that approval of the instant applications be subject to imposition of a number of conditions for its protection, the most important of which is, by far, its request that Union Pacific be required to sell it the western lines of the Rock Island. Union Pacific does not oppose this proposal and has expressed a willingness to sell these lines to Rio Grande. Specifically, Rio Grande seeks to purchase the Rock Island main line between Rigg, Iowa, and Colorado Springs, Colo., together with the branch lines between Belleville and Topeka, Kans., Fairbury and Beatrice, Nebr., Topeka, Kans., and St. Joseph, Mo., and Atchison, Kans., and consummation of the UP-Rock Island merger. If they are unable to reach an agreement as to the consideration for the properties, we will require, as with similar transactions involved in this proceeding, that each carrier submit its suggested consideration, together with supporting data, within 15 days after expiration of the 30-day period for a determination by the Commission as to a fair and reasonable consideration.

We will tentatively approve the Rio Grande application in Finance Docket No. 27521, commensurate with our findings herein, subject to a showing that the terms and conditions of the proposed transaction, including provisions for the protection of employees affected thereby, are just and reasonable, and provided that Rio Grande's parent holding company, Rio Grande Industries, Inc., joins in the application. As the final price for the lines to be acquired by Rio Grande has not as yet been determined and the actual timing of the transaction is unknown, Rio Grande has not been able to provide full information regarding its section 20a application. We will, therefore, defer further consideration of the application in Finance Docket No. 27522 until such time as Rio Grande can supply the required data.

In addition, Rio Grande has requested that conditions be imposed which would require UP, SP, and Santa Fe to establish and/or maintain through routes and joint rates and Rio Grande and its connections, without discrimination against Rio Grande. Probably the most important of these requested conditions would require UP to open the Ogden and Salt Lake City gateways, which are now closed to Rio Grande, to traffic moving to and from points in the Pacific Northwest. In view of the general public benefit to be derived from the shipping public having the freedom to choose from among competing carriers, and in light of the increased competitive strength of the three large carriers which will result from consummation of the transactions approved herein, we will grant the relief sought by Rio Grande, to the extent set forth in appendix E hereto. We also reaffirm that condition "e" will remain operational and that Southern Pacific will not be relieved of its requirements. Rio Grande has also requested that UP and SP be required to cease discriminating against it in the use of specialized equipment owned by the Pacific Fruit Express Company (P.F.E.), which is jointly owned by Southern Pacific and Union Pacific and which supplies refrigerated railroad cars and truck trailers. Rio Grande alleges that P.F.E. has required that Central Corridor traffic, originated on SP and shipped in P.F.E. owned equipment be routed over Union

Pacific to the exclusion of Rio Grande. However, as Rio Grande has not contributed to the acquisition or maintenance of the P.F.E. equipment, we do not feel that this is unjust discrimination and, accordingly, the relief requested by Rio Grande will not be granted at this time.

Western Pacific has requested, in essence, that approval of the Union Pacific and Southern Pacific transactions be subject to conditions requiring (1) that Union Pacific remain neutral as between WP and SP in the solicitation and routing of traffic moving to and from northern California and Oregon, and join Western Pacific in through routes and joint rates on such traffic; (2) that Southern Pacific join WP on through routes and joint rates, no less favorable than rates on traffic moving on competing SP routes, on traffic moving between points located on SP and points located on WP and its connections; and (3) that Union Pacific join with Western Pacific in the establishment of through train schedules equal to those UP maintains with Southern Pacific. Western Pacific also requests that the Commission retain jurisdiction for a 5-year period to permit it to petition for inclusion in either Union Pacific or Santa Fe.

The Administrative Law Judge recommended that Western Pacific, along with the Rio Grande, be included in the Santa Fe system. Western Pacific's only exception to the recommendation is that it should have been left free to pursue possible inclusion in any one of the four major surviving systems rather than just Santa Fe, and that the Commission should require that the inclusion be consummated prior to or simultaneously with consummation of the basic UP and SP transactions.

Western Pacific may suffer some fairly substantial losses as a result of the proposed transactions, primarily as a result of the Union Pacific-Rock Island merger. Since UP and Western Pacific do not compete directly, most of Western Pacific's diversion would be from traffic which it now receives from Rio Grande and which would be diverted from Rio Grande to UP; however, at least some of this traffic, although diverted from Rio Grande, may still be available to WP at the Salt Lake City gateway. Moreover, WP would be likely to receive some of the additional traffic which Rio Grande would gain as a result of its acquisition of the Denver-Omaha line. These considerations, coupled with Western Pacific's history of relatively profitable operations, lead us to conclude that inclusion of Western Pacific in another system is not necessary at the present time.

Moreover, we have reservations as to whether WP's inclusion in either UP, SP, or Santa Fe would be consistent with the public interest. Its inclusion in Union Pacific, although permitting UP to provide single-line service between Chicago and St. Louis, on the east, and the San Francisco Bay area, on the west, would enable UP to bypass Southern Pacific to the obvious detriment of the latter. On the other hand, Western Pacific's inclusion in Southern Pacific would give SP a rail monopoly of traffic both between Northern California and the Utah gateways and between California points and points in Oregon. In *Southern Pac. Co.—Control—Western Pac. R. Co.*, 327 I.C.C. 387 (1965), the Commission denied applications by both Southern Pacific and Santa Fe for authority to acquire control of the Western Pacific on the grounds that either applicant would tend to favor its own long-haul southern routes in preference to Western Pacific's central corridor route, to the detriment of other carriers operating in the central corridor. These considerations would still apply today. Of the big four carriers, only Burlington Northern would appear to offer an opportunity for merger with Western Pacific without significant impact on either other carriers or the general competitive situation, but, as we have seen, no showing has been made that Western Pacific's inclusion in any carrier is necessary at this time.

While we will not require the inclusion of WP in any other carrier at this time, we will retain jurisdiction to reconsider our decision upon a showing, at some future date, that such an inclusion may be necessary to preserve continued operation of Western Pacific's service.

As to the other relief requested by Western Pacific, we will grant the requested relief requiring Union Pacific to remain neutral as between SP and WP and the requested relief requiring Southern Pacific to join with WP on through routes and rates, all as set forth in detail in appendix E. We will not, however, require Union Pacific to establish through-train operations with Western Pacific, since there may not be sufficient traffic to warrant such operations. Moreover, we note that Salt Lake City, UP's interchange point with Western Pacific, is about 30 miles further from Omaha than Ogden, UP's interchange point with Southern Pacific, placing an unfair burden on Union Pacific to require it to maintain through-train schedules with Western Pacific equal to those which it is able to maintain over the shorter route with Southern Pacific.

Missouri Pacific has opposed the proposed transactions and has not requested the imposition of any conditions for its protection.

Although MoPac will undoubtedly encounter some revenue loss as a result of traffic diverted to Union Pacific, Southern Pacific, and Santa Fe, we find that it can sustain the diversion without the imposition of special conditions. Accordingly, protection for MoPac will be limited to the general conditions for the protection of all effected carriers, set forth *infra*, and a general reservation of jurisdiction to consider further protection should it be found necessary at some future date.

While Missouri Pacific has not requested the imposition of any conditions for its protection, its subsidiary, *Texas & Pacific* has requested the imposition of very extensive protective conditions. T&P has requested that Southern Pacific be required to grant it trackage rights over all SP system lines in California, Arizona, and New Mexico, including the right to serve all industries located thereon, with service initially limited to the Los Angeles area from El Paso. In addition, T&P requests that SP be required to indemnify it for any drop in T&P's traditional percentage of transcontinental freight traffic moving through the El Paso gateway, and that the Commission reiterate a condition previously imposed in *Southern Pacific Co. Merger, supra,* which required generally that all traffic originating or terminating on SP lines west of El Paso and routed SP-T&P be interchanged at El Paso unless otherwise specified by the shipper. As to Santa Fe, T&P requests that the Commission require Santa Fe to grant it trackage rights over the line between Pecos, Tex., and Carlsbad, N. Mex., with rights to serve all industries located thereon. This would mainly serve to give T&P access to the rich potash fields in the Carlsbad area, which are now served exclusively by Santa Fe.

We will deny T&P's request for trackage rights over Southern Pacific's lines in California, Arizona, and New Mexico. T&P estimates that this affirmative relief would result in a gain of $11,144,642 in gross annual revenue and $4,744,823 in net annual revenue; however, this is far in excess of the revenue which either T&P or the MoPac system, as a whole, would be likely to lose as a result of the proposed SP transaction. Missouri Pacific has demonstrated that it would lose approximately $2 million in gross annual revenue as a result of the SP acquisition. In addition, T&P estimates that the transaction would cost it $4,244,334 in gross annual revenue to Southern Pacific, and SP estimated that T&P's diversion loss would be $67,593. The Administrative Law Judge rejected both estimates of T&P's diversion losses as unrealistic, and determined that the record afforded no means of reaching a supportable medium. Even assuming that T&P's estimate is accurate, its gains from the requested relief are entirely disproportionate to MoPac system losses to Southern Pacific. Moreover, T&P has failed to show that present Southern Pacific service is inadequate or that there is any public need for T&P service to California, New Mexico, and Arizona and, as determined by the Administrative Law Judge, T&P's proposed operations would be likely to interfere with Southern Pacific's operations in that area.

T&P's request for indemnification for any loss in traffic handled through the El Paso gateway is also without merit. While we have imposed somewhat similar conditions, herein, for the protection of other carriers, we have done so with reluctance and only where we have found it absolutely necessary in order to assure the continued ability of the protected carrier to serve the shipping public. As determined by the Administrative Law Judge, T&P's diversion losses resulting from the Southern Pacific transaction are highly unlikely to affect its continued ability to perform its transportation functions effectively. Accordingly, indemnification is not warranted and will be denied.

We will also refuse to reiterate conditions which we have previously imposed for the protection of T&P in previous proceedings, as to do so would be redundant. Nothing contained herein, however, is to be construed in any way as abrogating conditions imposed for the protection of T&P or any other carrier in *Southern Pacific Co., Merger, supra*, or in any other proceeding, unless specifically so stated.

T&P's request for trackage rights over the Santa Fe must also be denied. Imposition of the requested relief would have the advantage of providing competitive service to the Carlsbad potash fields and would compensate the Missouri Pacific system for diversion losses to Santa Fe. T&P's proposal appears to be impractical, however, since its entry into Carlsbad would interfere with Santa Fe's extensive operations in that area and would also result in diversion of potash traffic from the Frisco which that carrier now receives from Santa Fe. Moreover, the Santa Fe line between Pecos and Loving, N. Mex., is an infrequently used branch line which would require extensive rehabilitation to handle the heavy potash traffic envisioned by T&P. T&P proposes that Santa Fe bear the initial cost of rehabilitating the line, with reimbursement to be eventually derived from the user fees which T&P would pay for the trackage rights. Santa Fe contends, however, that the cost of rehabilitation, which it estimates at approximately $7.5 million, could never be

recouped, especially in view of the traffic which it would lose to T&P. T&P asserts that Santa Fe's estimate is exaggerated, and while there is some merit to T&P's contention, it is clear that the cost of rehabilitation would be considerable. To require Santa Fe to bear the burden of rehabilitating a branch line, which is not now required for heavy traffic, for the purpose of enabling a competing carrier to enter its territory would be an unjustified drain on Santa Fe's resources. We will, however, retain jurisdiction to consider granting this or other appropriate relief if later shown to be necessary in order to preserve the ability of T&P or other components of the MoPac system to provide adequate service to the public.

The *Frisco* adamantly opposes all of the proposed mergers and, as it is of the opinion that no conceivable protective conditions would be adequate for its protection, has not requested the imposition of any conditions. There is little question that Frisco is among the carriers likely to be most seriously injured by the proposed transactions, especially by the Union Pacific and Santa Fe transactions. Without protection, its survival as a carrier is doubtful. We conclude, therefore, that it is necessary to impose conditions, against both Union Pacific and Santa Fe, for Frisco's protection.

We will accordingly impose traffic maintenance conditions similar to those imposed for the protection of North Western and Milwaukee. Union Pacific will be required to deliver to Frisco at Kansas City, and Santa Fe will be required to deliver to Frisco, at Kansas City, Fredonia and Cherryvale, Kans., and Avard, Okla., and to Frisco's subsidiary, Quanah, Acme & Pacific at Floydada, Tex., not less than 100 percent of the average of the annual number of loaded cars delivered by Union Pacific and Santa Fe, respectively, to Frisco and QA & P, at the above-named points, during the 5-year period ended on December 31 of the year preceding the date of consummation of the respective UP and Santa Fe transactions. The conditions will be in effect for a period of 5 years from the date of consummation of the respective transactions, and, as with Milwaukee and North Western, we will retain jurisdiction to consider modification or elimination of the conditions upon appropriate petition. Also, as with Milwaukee and Northwestern, we shall re-examine these conditions at the end of the 5-year period. To facilitate compliance with these conditions, we will authorize Union Pacific and Santa Fe to divert traffic from the routes designated by shippers to the extent necessary to comply with the conditions imposed herein. We will also permit UP and Santa Fe to deliver less than the required amount of traffic upon agreement with Frisco, and

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Santa Fe shall be free to deliver the traffic at any of the specified gateways so long as the total traffic delivered equals the total amount required to be delivered. For instant purposes, the Quanah, Acme & Pacific shall be considered as an integral part of the Frisco and the Floydada gateway considered as one of the enumerated Santa Fe-Frisco gateways. Should the Frisco dispose of its controlling interest in the QA & P, Floydada shall no longer be considered as one of the gateways for purposes of computing the average number of cars delivered during the 5-year control period.

The Kansas City Southern system has requested the imposition of extensive conditions for its protection. It has requested that approval of the instant applications be subject to conditions requiring that it be granted trackage rights over the Rock Island between Kansas City and Chicago, with service to be limited to Chicago, Peoria, and Pekin, Ill., and that it be granted trackage rights over the Rock Island line between Dallas and Fort Worth, serving industries at Dallas and Fort Worth and those served by the Great Southwest R.R., Inc., at Great Southwest, Tex. It has also requested that the successful applicant be required to sell it Rock Island's interest in Great Southwest. If Southern Pacific is successful in acquiring the southern half of the Rock Island, K.C.S. requests that the applicant be required to sell it the SP line between Shreveport, La., and Houston, subject to SP trackage rights over the line. Should Santa Fe be successful, Kansas City Southern asks that Santa Fe be required to sell it all Santa Fe lines east of Dobbin, Tex., a point 53 miles north of Houston where Santa Fe connects with the Joint Texas Division; plus all of Rock Island's interest in the Joint Texas Division line between Dobbin and Houston, subject to Santa Fe trackage rights; and the Santa Fe's line between Paris, Tex., and Dallas. Kansas City Southern's requested conditions vis-a-vis SP and Santa Fe would mainly serve to give the K.C.S. system access to Houston.

In addition, Kansas City Southern requests that all of the successful applicants be required to establish and maintain through routes and joint rates and divisions via K.C.S. system lines to and from all points on the successful applicants' systems on a basis equal to the rates and divisions applicable to other routes in which the successful applicants participate, and that the successful applicants be required to provide no less favorable treatment and service for Kansas City Southern lines and its connections than the treatment and service provided for other carriers. K.C.S. also requests that the Commission retain jurisdiction to modify, on its own motion or that of any party or person having an interest herein, the conditions imposed in this proceeding, to consider petitions by any railroad for inclusion in any of the merged companies, and to impose any other conditions such as requiring a merged company to grant trackage rights to other carriers.

We find that granting the extensions sought by the Kansas City Southern system would not be consistent with the public interest. Some eight rail systems, MoPac-Chicago & Eastern Illinois, Santa Fe, Rock Island, Milwaukee, Burlington Northern, Illinois Central Gulf, North Western, and Norfolk & Western, already provide single-line service between Kansas City and Chicago, and six lines provide service between Kansas City and the Peoria-Pekin area.[15] Obviously, ample rail service is available between Kansas City and Chicago. Moreover, several of the carriers operating in the Chicago-Kansas City transportation market are among those which would be most seriously affected by the proposed mergers. Granting Kansas City Southern's requested extension to Chicago would exacerbate their traffic losses. In the recent Illinois Central-Gulf Mobile & Ohio merger case, *Illinois Cent. Gulf R.—Acquisition—G., M. & O., et al.*, 338 I.C.C. 805 (1971), Kansas City Southern sought imposition of a similar condition which would have given it access to Chicago. The requested relief was denied, *ibid.*, at 848-852, 876-877, on the grounds that such an extension would be an unjustified windfall for Kansas City Southern having little relationship to the injury which K.C.S. would sustain as a result of that merger, and would constitute an invasion of other carriers' territory without a showing of public need. Clearly, Kansas City Southern's proposal in the instant proceeding would equally constitute an unjustified invasion of other carriers' territory.

The same conclusion must be reached with regard to Kansas City Southern's requested trackage rights between Dallas and Fort Worth and acquisition of either Southern Pacific or Santa Fe lines to Houston. In both instances, K.C.S. would be enabled to inaugurate new service into areas which it had not previously operated, and other intervening carriers, such as Missouri Pacific, Texas & Pacific, Fort Worth & Denver, Frisco, and Katy (assuming the Katy is not included in one of the merged companies), would be likely to suffer traffic diversion as a result, without a showing either that the service

[15]Carriers operating between Kansas City and Peoria include Illinois Central Gulf, Burlington Northern, North Western, Norfolk & Western, Rock Island, and Santa Fe in concert with its partially owned subsidiary, Toledo, Peoria & Western. Of these carriers, the C&NW, N&W, and Rock Island routes are somewhat circuitous.

of existing carriers is inadequate or that there is a public need for additional service. The Kansas City-Texas transportation market, like the Kansas City-Chicago market, is one already abundantly supplied, and perhaps oversupplied, with rail service. Public need for an additional rail carrier operating between Kansas City and Fort Worth or Houston is, at best, highly doubtful.

Moreover, Kansas City Southern's estimate of gains resulting from its requested relief, which the Administrative Law Judge determined to be understated, indicates that it would gain far more from its requested relief than it is likely to lose as a result of the proposed transactions. K.C.S. estimated that it would gain approximately \$6.9 million in annual revenue from the trackage rights between Kansas City and Chicago, \$5.1 million from trackage rights over the Rock Island line between Fort Worth and Dallas, and \$5.3 million from acquisition of SP's Houston-Shreveport line, or a total of about \$17.4 million. By contrast, its estimate of diversion losses, which may be somewhat overstated, showed that it would lose about \$5.9 million in gross annual revenue as a result of the combined impact of the UP-SP division of the Rock Island or \$1.6 million if the proposed North Western-Santa Fe transaction were approved. In other words, its gains thus would be at least three times as large as its anticipated losses. Kansas City Southern has suggested that, in view of this situation, consideration be given to granting some, rather than all, of its requested relief; however, as we have seen, extension of the Kansas City Southern system into any one of the three proposed expansion areas, Chicago, Fort Worth, or Houston, would not be in the public interest.

While we must deny Kansas City Southern's request for extensions to Chicago, Fort Worth, and Houston, we realize that some protection is necessary if that system's services are to be preserved. Accordingly, we will impose traffic maintenance conditions for the benefit of Kansas City Southern and Louisiana & Arkansas. For a period of 5 years from the date of consummation of their respective transactions, UP will be required to deliver to the Kansas City Southern system at Kansas City; Santa Fe to the system at Kansas City, Beaumont, Tex., and Dallas; Southern Pacific at Alexandria, Beaumont, Dallas, and Shreveport, and Cotton Belt at Texarkana and Greenville, Tex., and Shreveport, not less than 100 percent of the average of the annual number of loaded cars delivered by UP, Santa Fe, SP, and Cotton Belt, respectively, at the above-named points, during the 5-year period preceding the date of consummation of the respective UP, SP, and Santa Fe transactions. For

purposes of these conditions, K.C.S. and L & A shall be considered as one carrier, and the conditions will be subject to the same terms as set forth, *supra,* for the conditions imposed for the protection of North Western, Milwaukee, and Frisco. Also, for purposes of compliance with these conditions, SP and Cotton Belt will be considered a single entity and shall be free to deliver the traffic required at any of the specified SP or Cotton Belt gateways so long as the total traffic delivered by the two companies equals the combined amount required to be delivered by SP and Cotton Belt. As Cotton Belt is not technically a party to this proceeding, our approval of the Santa Fe application will be further conditioned to require Southern Pacific to cause Cotton Belt to comply with these conditions. In addition, whichever carrier acquires the carrier assets of the Katy will be required to maintain delivery levels of traffic delivered by Katy to Kansas City Southern, at Eve, Mo., for a 5-year period from the date of consummation of Katy's inclusion. As with the other protected carriers, we will re-examine the need for the protection at the end of the respective 5-year periods. In view of these protective conditions imposed for the benefit of the Kansas City Southern system, other general conditions, discussed *infra,* imposed for the protection of all affected carriers, and our retention of jurisdiction herein, it will not be necessary to grant the other affirmative relief requested by the K.C.S., and its requests will accordingly be denied.

The Katy has long been one of the weakest carriers in the rail industry. It competes with Rock Island, to some extent, on traffic moving between Kansas City and Texas points and fears that it would be unable to withstand the competition from the southern Rock Island lines if they were under the control of a strong company such as Southern Pacific or Santa Fe. Katy estimates that it would suffer a total annual revenue loss of \$3.8 million as a result of the UP-SP transaction, of which \$2.9 million would be diverted to Southern Pacific and the remainder to Union Pacific. The Administrative Law Judge found Katy's diversion study to be a reasonably accurate estimate of its diversion losses. While the estimates may be somewhat exaggerated, it is clear that likely diversion losses would be substantial, and Katy's financial condition is so critical that we doubt that it would be able to sustain any significant traffic diversion.

The carrier has petitioned for inclusion in whichever applicant is successful in acquiring the Rock Island lines in its territory, and the Administrative Law Judge determined that it should be included in the Southern Pacific system and conditioned his approval of the SP application accordingly. We agree that Katy must be included in some other carrier, and, for the reasons discussed heretofore we have determined that its inclusion in the Santa Fe would be most consistent with the public interest.

However, both Southern Pacific and Santa Fe have expressed opposition to the inclusion of the Katy in their systems. The reluctance of other carriers to accept the inclusion of the Katy is somewhat understandable, for, although it possesses one of the most direct routes between Kansas City, St. Louis, and major Texas points, Katy has a long history of deficit operations, its lines have been undermaintained and need extensive rehabilitation, and it is burdened by a very large debt structure. Nevertheless, if Katy's service to the general public is to be preserved, in the face of the impact of the proposed merger transactions, it is clear that some measures must be taken for its protection.

On the other hand, it would be unfair to require Santa Fe to accept the inclusion of Katy subject to assumption of Katy's large debt structure. We, therefore, will require inclusion of Katy into Santa Fe only at a price not in excess of that based upon the reasonable earning power of Katy's properties in the hands of Santa Fe or the net salvage value of Katy's assets, whichever is larger. As it is quite possible that any fair and reasonable consideration would be inadequate to cover Katy's secured debt, we suggest that Katy consider some means, such as an alteration or modification of its debt structure under section 20b of the Interstate Commerce Act that would reduce its debt structure down to a realistic level which could be covered by the consideration paid by Santa Fe for Katy's assets or, if the parties chose to merge the companies, could reasonably be assumed by Santa Fe.

We will thus condition our approval of Santa Fe's petition for inclusion in the UP-SP transaction upon the inclusion of Katy in the Santa Fe system. Santa Fe will be required to negotiate in good faith with Katy as to the terms for the latter's inclusion in its system and to cooperate with Katy in the compilation of an adequate record to provide a basis for the required determination by the Commission as to the terms of such inclusion. Santa Fe and Katy will be required to submit, within 1 year after the date of the consummation of Santa Fe's acquisition of the Memphis-Amarillo line, an agreed plan for the inclusion of the Katy in the Santa Fe system or, if the parties are unable to reach an agreement, each party's suggestion for such a plan and data in support thereof. We will permit the Santa Fe to

proceed with its acquisition of portions of the Rock Island, prior to inclusion of the Katy in its system, but subject to the requirement that, if it does so, it must accept the inclusion of Katy, at terms no less favorable to Katy than those set forth above, upon a finding by the Commission that the terms of such an inclusion are just and reasonable. Santa Fe will, of course, be permitted to retain the Rock Island properties which it has acquired should Katy decide not to proceed with the inclusion. If Santa Fe should elect not to acquire portions of the Rock Island, we will consider other possible protection for the Katy, including requiring its inclusion in one of the other successful applicants.

Pending inclusion of the Katy in Santa Fe, it will be necessary to impose alternate conditions for that carrier's protection. We will, therefore, impose traffic maintenance conditions for Katy's protection. For a period of 5 years from the date of consummation of their respective transactions or until such time as Katy is included in another carrier, whichever comes sooner, Union Pacific will be required to deliver to Katy, at Kansas City; Southern Pacific will be required to deliver to Katy, at Dallas, Fort Worth, Houston, Denison, and San Antonio, Tex.; and Cotton Belt will be required to deliver to Katy, at Dallas, Fort Worth, and Greenville, Tex., not less than 100 percent of the average of the annual number of loaded cars delivered by UP, SP, and Cotton Belt, respectively, to Katy, at the above-named points, during the 5-year period ended on December 31 of the year preceding the date of consummation of the respective UP and SP transactions. The conditions will be subject to the same terms as set forth, *supra*, for the conditions imposed for the protection of North Western, Milwaukee, Frisco, and Kansas City Southern, and, as with the K.C.S. conditions, SP and Cotton Belt will be considered a single entity and shall be free to deliver the traffic required at any of the specified SP or Cotton Belt gateways so long as the total traffic delivered by the two companies equals the combined amount required to be delivered by SP and Cotton Belt. We also will reexamine the need for the protection at the end of the 5-year periods. As Katy traffic likely to be diverted by Santa Fe is relatively modest as compared to that likely to be diverted as a result of the UP and SP transactions, we will not impose traffic maintenance conditions against Santa Fe for the protection of Katy at this time.

Traditionally, the Commission has imposed traffic protective conditions to reduce the shock of a merger on competitors of the merged carrier. Typically, such conditions have proved to be difficult to enforce, at times requiring protracted proceedings before the I.C.C. during which period the protection sought to be afforded has ordinarily been lost. In an effort to improve the effectiveness of traffic protective conditions by making them easily enforceable while at the same time providing a greater measure of sanctioned flexibility, the Commission has employed an indemnification mechanism as a part of the conditions. Specifically, the acquiring carriers, the Union Pacific, Southern Pacific, and Santa Fe, shall, for 5 years, continue their normal traffic interchange, as required herein above, with the affected carriers. Recognizing that the protecting carriers may be unable to control the traffic flow with precision, we will impose, to a limited extent and as a last resort to fully protect the protected carriers, an indemnity to be paid to the protected carriers. In general, these conditions provide as follows:

(1) North Western shall be indemnified by UP for any decrease in the normal amount of traffic that UP has delivered to North Western at the Omaha and Fremont, Nebr., and the Council Bluffs, Iowa, gateways; (2) Milwaukee shall be indemnified by UP for decreases in UP traffic delivered to it at Omaha and Council Bluffs; (3) Frisco shall be indemnified by UP for decreases in UP traffic delivered to it at Kansas City and by Santa Fe for decreases in Santa Fe traffic delivered to it or its subsidiary, Quanah, Acme & Pacific, at Kansas City, Fredonia and Cherryvale, Kans., Avard, Okla., and Floydada, Tex.; (4) Kansas City Southern-Louisiana & Arkansas shall be indemnified for decreases in traffic delivered to it by UP at Kansas City, by Santa Fe for decreases in traffic delivered to the K.C.S. system at Kansas City, Beaumont, Tex., and Dallas; and by Southern Pacific for decreases in traffic delivered by SP at Alexandria and Shreveport, La., and Beaumont and Dallas, Tex., and by Cotton Belt at Texarkana and Greenville, Tex., and Shreveport, La.; (5) Katy shall be indemnified by UP for any decrease in traffic delivered to it by UP at Kansas City; and by SP for any decrease in traffic delivered to it by SP at Dallas, Fort Worth, Houston, Denison, and San Antonio, Tex., and by Cotton Belt at Dallas, Forth Worth and Greenville, Tex.; and (6) the carrier which acquires the Katy will be required to indemnify the Kansas City Southern for any decrease in the amount of traffic traditionally delivered by Katy to K.C.S. at Eve, Mo.

The basic question to be resolved in each case is the same as in the usual traffic protective conditions, to wit, what amount of traffic shall be protected? For each car which the indemnifying carrier fails

to deliver at the designated gateway below the amount protected, such carrier shall compensate the protected carrier in an amount equal to the average net revenue per car interchanged. This will be computed as follows: (As an example we use the UP and the Milwaukee. All statistics are fictional, used for illustration purposes only.)

1. Determine the average number of loaded cars per year (based on the average of the 5 years previous to the year in which the merger was consummated) delivered by the indemnifying carrier to the protected carrier at the designated gateways. (In this instance assume that UP had delivered an average of 40,000 loaded cars per year to the Milwaukee at the Omaha and Council Bluffs gateways.)

2. Determine the average gross revenue per car, to the protected carrier, on the traffic it received from the indemnifying railroad during the year preceeding that in which the merger was consummated.[16] (Assume that Milwaukee had an average gross revenue per car on its UP traffic of $500.)

3. Multiply the average number of cars received by the average gross revenue per car to derive the gross revenue which the protected carrier would normally derive from traffic delivered by the indemnifying carrier. (40,000 loaded cars per year x $500 gross revenue per car = $20 million, which Milwaukee would normally derive from traffic received from UP.)

4. If the number of cars delivered by the indemnifying railroad, at the designated gateways during the year for which protection is provided, falls below the average number of loaded cars determined in step 1, the indemnifying railroad shall indemnify the protected carrier for its lost net revenue on the deficiency. Payment would be determined by subtracting the protected railroad's gross revenue on traffic actually received from the indemnifying railroad at the designated gateways, from the gross revenue which the protected carrier normally would have derived from such traffic as determined in step 3; and then multiplying this figure by 100 percent minus the average operating ratio of all western district rail carriers for the 5-year period preceding the year in which the merger was consummated.[17] [If UP delivered only 30,000 cars during the year, and Milwaukee's gross revenue from such traffic was $15 million, UP would be required to indemnify Milwaukee for its net revenue

[16]Most recent year in order to reflect most recent rate levels.

[17]Operating ratio of all western district carriers, rather than that of the individual protected carrier, is utilized in order to prevent discrimination among competing protected carriers having different operating ratios.

on the $5 million diverted gross revenue ($20 million normal gross revenue minus $15 million actual revenue = $5 million gross revenue deficit). Assuming an average operation ratio of .80 for western district carriers, actual payment would be $5 million x (1.00 minus .80), or $5 million x .20 = $1 million.]

5. If the average operating ratio of western district railroads is above .90, the indemnifying carrier shall pay the protected carrier no less than 10 percent of the protected carrier's diverted gross revenue. [Thus, if, in our example, the average operating ratio were .95, UP would be required to pay Milwaukee $5 million x .10 = $500,000, *not* $5 million x (1.00 minus .95) = $250,000.]

6. The indemnity requirement shall be reduced, as indicated below, whenever the Commission determines that the reduction in interchange volume is due to crop failure, general economic recession, or other similar cause. When on the *relevant portion*[18] of an indemnifying carrier's system, the number of loaded cars handled by the indemnifying carrier, during a year for which protection is provided, falls 10 percent or more below the average number of cars handled by the indemnifying carrier on that portion of its system during the 5-year period preceding the year in which the merger was consummated, the number of loaded cars required to be delivered to the protected carrier at the related interchange point would be reduced by the same percentage. [Assume that UP had normally handled 2 million cars per year and that during the year in question it handled only 1,700,000, a 15-percent reduction. The number of cars it would be required to deliver to Milwaukee would also be reduced by 15 percent. Thus, 40,000 cars minus 15 percent equals 34,000 cars for which Milwaukee would be entitled revenue protection. Milwaukee should, thus, have a gross revenue protection of $500 x 34,000 equaling $17 million. So, if the actual gross revenue from traffic received from UP was $15 million, UP would be required to indemnify Milwaukee by $400,000, for its diverted net revenue on $2 million or ($17 million minus $15 million x .20 = $400,000.)]

The traffic maintenance and indemnification conditions will be imposed for a period of 5 years from the date of consummation of the transactions authorized herein. At the end of that period, we will re-examine the need for these conditions and will consider modifying, extending, or terminating the conditions. The conditions

[18] "*Relevant portion*" as used herein shall be defined as that portion of the protecting carrier system as it existed on the day prior to the consummation of the merger in question.

imposed for the protection of any carrier herein shall automatically terminate as to all carriers required to protect the protected carriers upon inclusion of the protected carriers into the system of any one of the protecting carriers or into some other railroad system. Nothing contained herein shall be construed as prohibiting any protecting carrier and protected carrier from modifying or terminating these conditions upon mutal agreement. If the parties are unable to agree as to the proper measure of indemnification, they shall submit to the Commission, in writing, their respective calculations as to the proper measure of indemnification with data in support thereof and do this within 60 days after the last day of the year for which indemnification is sought, for a determination by the Commission as to the proper measure of indemnification. Nothing contained herein shall be construed as limiting our continuing jurisdiction to modify these conditions upon our own motion or that of any party hereto.

We wish to emphasize that it is our intent that the protecting carriers shall, to the fullest extent possible, provide the required traffic flow at the designated interchanges with protected carriers and not rely on the indemnification as means to satisfy this requirement. Accordingly, at the end of the 5-year period, we will re-examine the matter to determine the manner in which the protecting carriers have complied with the traffic maintenance requirements and to ascertain any need for further protective conditions.

In addition to the conditions which we have imposed herein, for the protection of individual rail carriers, we will also impose the "standard" DT & I conditions as set forth in *Detroit, T. & I. R. Co. Control, supra.* Both Union Pacific and Burlington Northern have suggested certain relatively minor modifications to the standard conditions, which are designed to broaden their coverage and increase their effectiveness. Certain of these proposals have merit, and we will accordingly adopt the suggested modifications, in part, and will impose the modified conditions as set forth in appendix E.

The authority herein granted the Union Pacific, Southern Pacific, and the Rio Grande, and the affirmative relief granted the Burlington Northern, Santa Fe, and the Fort Worth & Denver under section 5 is subject to the condition that none of them may enter into preferential solicitation agreements or understandings, written or oral, with one or more of the other, without an order of approval by the Commission. If any of the transactions herein authorized are consummated, we shall retain jurisdiction for a period of 5 years following consummation of the transaction authorized and also for a period of 5 years following each of the inclusions herein authorized for the purpose, among others, of considering petitions under section 5(2)(d) of the Act by any railroad in the territory involved requesting inclusion into any of the transactions herein approved, or to consider modification of any of the conditions imposed herein or imposition of any conditions in addition to those imposed herein. Nothing contained herein shall be construed as limiting, in any way, our continuing jurisidiction under section 5(9) to issue such further orders as may be necessary and appropriate.

We have rejected the Administrative Law Judge's recommendations, in part, because, among other reasons, they are unacceptable to both the applicants and many of the intervening carriers in this proceeding. We recognize that some of the protective conditions which we have imposed hereinabove, while not as extensive as those proposed by the Administrative Law Judge, may still exceed that which would be acceptable to the applicants. However, we consider these conditions to be the minimum sufficient to protect the intervening carriers. While it would be unfortunate if the applicants were to withdraw from the proposed transactions, we are compelled to conclude that, regardless of the merits of the proposals, they would not be consistent with the public interest unless adequate conditions were imposed for the protection of other carriers in the affected area.

OTHER POSSIBLE CORPORATE REALIGNMENTS

In considering this case we have, of course, evaluated the concepts and proposals recommended by the Administrative Law Judge with respect to restructuring the Western railroads. Basically he proposed the following systems:

(a) Union Pacific, northern Rock Island, C&NW
(b) Southern Pacific, southern Rock Island, KATY, KCS, and a portion of T&P
(c) Santa Fe, Rock Island Memphis line, MoPac and the remainder of T&P, WP, and D&RGW
(d) Burlington Northern

The fate of the Frisco and Milwaukee was left to future determination.

We recognize that under the law, power to initiate further consolidation lies with the carriers themselves, but we agree with the Administrative Law Judge that additional unifications could

serve to create more competitive systems, better equipped to compete with the improved service expected of the instant transactions, and enable them to offer the public faster, more efficient, more reliable service. However, it is evident from the specific consolidations approved in this proceeding that we foresee the possibility of emerging Western systems along somewhat different lines than did the Administrative Law Judge. And we believe that what we have approved thus far is not incompatible with the concept of other major Western realignments. Once the consolidations prescribed in this proceeding have been consummated, we could, for example, foresee new systems in addition to those in existence or approved herein such as the following unifications: (a) the Northwestern and the Milwaukee; (b) the Missouri Pacific, the Rio Grande, and the Western Pacific; and, (c) the Santa Fe and the Kansas City Southern. In addition, we note that of the two major systems traversing the southern corridor, only one, Santa Fe, reaches Chicago in single-line service. Accordingly, it would appear that shippers in the southern corridor might be better served if Southern Pacific had a direct line into Chicago. This might be accomplished by Southern Pacific obtaining trackage rights or purchasing an existing line from Kansas City into Chicago. It is suggested also that it might be well for the Frisco to seek inclusion into one of the above mergers, if and when such mergers are proposed; or with some railroad east of the Mississippi, since the Frisco operates both east and west of the River.

While we cannot say, in this proceeding, what shape the Western system should take in the future, and are mindful that any suggestions herein would not be binding, either expressly or impliedly on any future Commission, we do feel that consideration might well be given *by the involved carriers* to the consolidations outlined above, or such other combinations as might result from further study by the carriers, and which would possibly better serve the public interest.

PROTECTION FOR GRAIN SHIPPERS

In order to minimize the adverse impact on grain shippers on the divisions of the Rock Island authorized herein, consummation of the authority granted Union Pacific, Southern Pacific, Santa Fe, Rio Grande, and Fort Worth and Denver for their described acquisitions of portions of the Rock Island shall be subject to the condition that, concurrently with consummation of the Union Pacific transaction, they shall jointly file a stipulation and agreement giving effect to the transit and routing privileges on grain and grain products offered by and in effect on the present lines of the Rock Island.

MOTOR CARRIER APPLICATIONS

In the two related motor carrier proceedings, Nos. MC-F-9668 and MC-F-9222, portions of the motor carrier operating rights and properties of Rock Island Motor Transit are sought to be purchased by Santa Fe Trail and Southern Pacific Transport, respectively. Although there was no opposition to the acquisition by Union Pacific of certain RI Transit operating rights, Lee Way and Texas-Oklahoma Express oppose the Santa Fe Trail and SP Transport acquisitions on the grounds that the operating rights in Texas, Oklahoma, and Arkansas are dormant. The Administrative Law Judge recommended approval of both motor carrier applications. In view of our longstanding policy in proceedings involving the purchase of motor carrier operating rights, however, our approval of these acquisitions will be limited to those rights that can be shown to be actively operated.

While the financial statements presented by Rock Island indicate that, in fact, RI Transit has conducted some operations, we are unable to ascertain from the record the full extent of such activity. Thus, it will be necessary for RI Transit to demonstrate the active utilization of all of the operating rights sought to be acquired by Santa Fe Trail and SP Transport. Consequently, as a condition to our approval of the purchase of motor carrier operating rights in these proceedings, RI Transit is required to certify within 90 days of the service of our order herein, which of its operating rights have been actively operated within the meaning of our applicable case law. This certification shall be in the form prescribed for verified statements under rule 50 of the Commission's General Rules of Practice and shall be explicit in its designation of the individual operating rights to which reference is made.

Because of the unusual complexities and problems involved in this proceeding, we feel that the special circumstances involved warrant the aforementioned certification. This is not to be construed, however, as establishing a precedent, or circumventing the established burden of proof required when questions of dormancy arise. We recognize that protestants Lee Way and Texas-Oklahoma Express may have a different opinion as to the extent of RI Transit's active operations, and, if so, we urge those parties to

reach an agreement which would be the basis of the Rock Island's certified statement. Should the parties fail, however, to reach such an agreement, and further hearing becomes necessary, we will decide this matter separately, so as not to unduly delay a decision with respect to the remaining issues in these proceedings.

CONSTRUCTION AND ABANDONMENT APPLICATIONS

The applications filed by Union Pacific in Finance Docket Nos. 24128 and 24129 involve construction of connecting tracks between UP and Rock Island lines at various points in Colorado, Kansas, and Nebraska, and abandonment of certain small segments of lines in the same States which would no longer be needed after the merger of UP and Rock Island. All of the proposed line constructions and abandonments lie in the area traversed by the western Rock Island lines, which we have required to be sold to the Rio Grande. Our decision to require sale of the western Rock Island effectively renders the construction and abandonment applications moot and, accordingly, we will dismiss the applications in Finance Docket Nos. 24128 and 24129, subject to reconsideration should the Rio Grande purchase transaction not be consummated.

FINANCIAL CONSIDERATIONS

Under the provisions of various agreements between UP and Rock Island, Union Pacific, in exchange for each share of Rock Island common stock, would (1) issue one share of its new no-par $1.80 convertible preferred stock, upon which would be paid cumulative dividends of $1.80 per annum and which would be convertible prior to redemption into 0.85 share of UP common stock, subject to adjustments, and (2) as further consideration, make a cash payment to Rock Island shareholders, who have seasonably complied with the exchange offer, equal to the amount by which a sum computed at the rate of 45 cents per quarter for the total number of full calendar quarters from July 1, 1964, to June 30, 1967, exceeds the aggregate dividend actually paid during said period on the Rock Island common stock. The UP preferred stock would be noncallable for 5 years from the first day of the quarterly dividend period in which the stock is initially issued and thereafter would be callable at $45 per share after the 10th year. To protect against dilution, principally in the event that additional securities are issued, the conversion rate will be subject to adjustment in accordance with a formula which assumes a value of $47 per share for the present UP common stock at the time of issuance.

On the effective date of the merger each share of UP's present 4 percent preferred stock of the par value of $10 per share, will be converted into UP 4 3/4 percent debentures, due 30 years after the effective date of the merger, on the basis of $10 principal amount of debentures for each share of $10 per value preferred; and Rock Island's common stock would be converted into the UP $1.80 convertible preferred. In order to accomplish the merger, UP seeks authority in Finance Docket No. 23287 to issue not exceeding 2,991,411 shares of its $1.80 convertible preferred stock, not exceeding 2,542,699 shares of its common capital stock of the par value of $10 per share, and not exceeding $93,881,110 in total aggregate amount of 30-year 4 3/4 percent debentures. In addition, Union Pacific also seeks authority to assume obligation and liability with respect to various Rock Island bonds, debentures and other securities, of which $102,628,000 principal amount were outstanding as of December 31, 1969. These securities consist of First Mortgage 2 7/8 percent Bonds, Series A, due January 1, 1980, of which $32,739,000 were outstanding; First Mortgage 5 1/2 percent Bonds, Series C, due February 1, 1983, of which $14,798,000 were outstanding; 40-year 4 1/2 percent income debentures, due March 1, 1995, of which $50,338,000 were outstanding; and various equipment trust certificates of which $14,753,000 were outstanding. UP also sought authority to assume liability with respect to various Rock Island conditional sales agreements and deferred payment contracts made in connection with the acquisition of equipment, of which $11,186,764 principal amount were outstanding as of December 31, 1969. In addition, UP seeks authority to assume contingent liability with respect to various securities of The Belt Railway Company of Chicago, Illinois Terminal Railroad Co., Packers Car Line Co., St. Paul Union Depot Co., Terminal Railroad Association of St. Louis, and the Trailer Train Co., in total principal amount of $142,434,081, as of December 31, 1969, and jointly guaranteed by the Rock Island and other major railroads.

In addition to Union Pacific's proposal, the railroad's holding company, UP Corporation, also proposes to issue its own $1.80 no-par preferred stock, convertible into 0.85 share of the corporation's common stock, which could be exchanged for each share of UP Railroad's convertible preferred which the Rock Island shareholders would receive in consummating the proposed merger. The UP Corporation preferred, for which authority is sought to issue not

exceeding 2,991,411 shares, has similar rights to that of UP Railroad's $1.80 convertible preferred. The Rock Island shareholders could thus choose ultimately to take common stock in either UP Railroad or UP Corporation by (1) converting their railroad preferred into railroad common, or (2) exchanging their railroad preferred for corporation preferred, which could then be converted into corporation common. There is no provision for directly converting railroad common into the common stock of UP Corporation.

Under the terms of an agreement between UP and SP, SP would acquire the southern portion of the Rock Island from Union Pacific for $120 million in cash, subject to adjustment upward or downward of 38.8 percent of any net change in Rock Island's total indebtedness between December 31, 1964, and the closing date. In addition to the Rock Island lines generally south of Kansas City, as previously described, Southern Pacific would acquire 38.8 percent of Rock Island's equipment, based on its depreciated value; materials and supplies held for use on the Rock Island southern lines; industrial properties and Rock Island's interest in railroad, bridge, and terminal companies located in the area served by the RI lines to be acquired by SP; all franchises, privileges, rights-of-way, easements, licenses, and permits owned or used by Rock Island in the area south of Kansas City; all contracts to which Rock Island is a party and which affect the general geographical area of the lines to be acquired by SP; and that portion of the motor carrier operating rights of Rock Island Transit located in the area served by the lines SP would acquire. In addition to the cash purchase price, Southern Pacific will pay 45 percent of the cost of providing protection to employees who are not directly assignable to either the southern or the northern segment of the Rock Island, and it will pay 45 percent of any payments required under Rock Island's existing pension plan.

In its application in Finance Docket No. 23596, SP seeks authority under section 20a to assume contingent liability with respect to various securities of the Arkansas & Memphis Railway Bridge & Terminal Co., the Houston Belt and Terminal Co., the Kansas City Terminal Railway Co., and the Union Terminal Co., of Dallas, which are now guaranteed by the Rock Island and which had a total outstanding principal amount of $38,249,000 as of December 31, 1969. Other than these contingent obligations, no guarantee or assumption of payment of dividends or fixed charges is contemplated by SP as a result of the purchase transaction.

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The agreements between UP and Rock Island have been duly approved by the two companies' shareholders. The only dissenting shareholder to intervene in this proceeding is Mr. Kendall Laughlin who owns shares of UP, SP, and Rock Island stock. Mr. Laughlin contends that the sale by UP of the southern half of the Rock Island to SP would be an unjustified windfall for the Union Pacific, and that SP and Santa Fe should pay Rock Island shareholders directly for the portions of the Rock Island which they would acquire, preferably by issuing debentures.

The Administrative Law Judge found the terms and conditions of the proposed transactions to be just and reasonable, and he recommended approval of the applications in Finance Docket Nos. 23287 and 23596. He did, however, dismiss that portion of UP's application in Finance Docket 23287 whereby UP sought authority to assume obligations with respect to certain conditional sales contracts, as such contracts are not subject to the Commission's jurisdiction. The Administrative Law Judge also recommended that any approval of the issuance of the UP and UP Corporation preferred stock should be subject to a condition that each Rock Island shareholder be issued the stock which he elects to receive and retain and no other; and for the protection of Kendall Laughlin, he provided that Mr. Laughlin, if he so desires, should be permitted to receive cash in lieu of the exchanged UP stock, upon appropriate petition to the Commission.

We concur in the Administrative Law Judge's determination that the UP-Rock Island and UP-SP transactions are just and reasonable, and we will approve the transactions as presently proposed. However, we note that both the UP-Rock Island and the UP-SP agreements have expired by their own terms. In view of the various conditions which we have imposed herein and the passage of time since the agreements were originally executed, the parties may wish to renegotiate their contracts. Accordingly, we will condition our approval of the proposed transactions so as to require the parties to submit any new agreements for our consideration. Of course, any substantial alteration of the terms of the agreements will require our approval prior to consummation of the transactions.

As under present interpretations of the Interstate Commerce Act conditional sales contracts are not considered to be securities within the meaning of the Act,we will adopt the Administrative Law Judge's recommendation and dismiss the application in Finance Docket No. 23287, to the extent that authority is sought to assume such obligations. We will also adopt the recommended condition

requiring that each Rock Island stockholder be issued the Union Pacific Railroad or Union Pacific Corporation preferred stock which he elects to receive and retain, and no other. As we feel that it would be discriminatory for one individual Rock Island shareholder to receive special consideration, we will not adopt the recommendation providing that Mr. Laughlin can receive cash rather than stock if he so desires.

As a condition to approval of Union Pacific Corporation's application to issue its $1.80 convertible preferred stock, the Administrative Law Judge required UP Corporation to submit a revision of its articles of incorporation reflecting the necessary designation, rights, and preferences of the proposed issued securities; and to fully protect the interests of the selling Rock Island shareholders, he recommended that UP and UP Corporation be required, prior to acceptance of any exchanged stock, to first advise the Rock Island stockholders of the net book values of the UP and UP Corporation stock which would be tendered in the exchange. We will impose both of these recommended conditions.

In Finance Docket No. 23920, Santa Fe seeks authority under section 20a to assume contingent liability with respect to securities of three terminal companies which are guaranteed by the Rock Island. The application is directly related to Santa Fe's section 5 application in Finance Docket No. 23919, and, in view of our decision to dismiss that application, technically, should perhaps also be dismissed. However, as we would permit Santa Fe to acquire an interest in one of the terminal companies, the Arkansas & Memphis Railway Bridge & Terminal Co., such action would be pointless. Accordingly, we will grant the application to the extent that authority is sought to guarantee the bonds of the A. & M. Bridge & Terminal Co., and dismiss it in all other respects.

Control of Union Pacific

Among the contentions raised by North Western is that Union Pacific Corporation is controlled by the Harriman family and its associated private commercial banking firm, Brown Brothers Harriman & Co., and that the Commission cannot approve the Union Pacific application until such time as Brown Brothers Harriman joins in the application for authority to acquire control of the Rock Island properties through the merger transaction. The Administrative Law Judge determined that no finding of control was warranted.

Although the evidence is somewhat ambiguous, there are certain indications that Union Pacific is controlled by the Harriman interests. Mr. E. H. Harriman acquired control of the Union Pacific Railroad around the year 1900. Continuously since that time, members of the Harriman family and their associates have held key management positions in the Union Pacific and, since its formation in 1969, in UP Corporation. At the present time, Mr. E. T. Gerry, a partner in Brown Brothers Harriman and a grandson of E. H. Harriman, is chairman of UP Corporation's executive committee, and three Brown Brothers Harriman partners, Mr. Gerry, Mr. E. R. Harriman, and Mr. Robert A. Lovett are members of both the boards of directors and the executive committees of both UP Corporation and UP Railroad.

On the other hand, Brown Brothers Harriman and the Harriman family own only slightly more than 3 percent of UP Corporation's outstanding common stock. While this may not appear to be adequate to control a corporation, UP Corporation is a widely held company with over 103,000 shareholders, and the Brown Brothers Harriman block represents by far the largest single block of UP Corporation stock. Moreover, it has long been held that control of a corporation within the meaning of section 5(2)(a) of the Interstate Commerce Act can result from ownership of less than 1 percent of the stock of a widely held company. See, *Geitz Stor. & Moving Co., Inc.—Investigation of Control,* 55 M.C.C. 649, 671 (1949), and 65 M.C.C. 257 (1955); and *Railway Exp. Agency, Inc., Securities and Control,* 150 I.C.C. 423 (1929). While no one of these factors alone may be adequate to establish that control exists, we believe that these indices, considered as a whole, mandate a finding that UP Corporation and UP Railroad are under the control of the Harriman interests. Accordingly, we will condition our approval of the application in Finance Docket No. 23286 to require that, prior to consummation of the transaction authorized therein, the firm of Brown Brothers Harriman & Co. join in the application to acquire control of the Rock Island properties through the transaction.

Regulation of Holding Companies

The Bureau of Enforcement of this Commission intervened in the proceeding to request that the holding companies which control the Union Pacific, Southern Pacific, and Santa Fe Railroads; Union Pacific Corp., Southern Pacific Co., and Santa Fe Industries; be considered carriers under section 5(3) of the Interstate Commerce

Act and subjected to the provisions of sections 20(1), (2), (5), and 20a of the Act.[19] The Administrative Law Judge recommended that the holding companies be considered as carriers and subjected to the full scope of regulation as provided for under section 5(3). In addition, he recommended the imposition of restrictions on the intercorporate relations of the carriers and their holding companies which generally would require Commission authorization for the transfer of any carrier property or funds to the holding company, or for the encumbering of any carrier property in connection with any acquisition by the holding company. He also recommended that limits be placed on the amount of dividends that the carriers could pay to their holding companies.

We feel that it is necessary to exercise control over the holding companies, at least with respect to their activities and transactions concerning their transportation subsidiaries. These three holding companies will have a wide influence upon the national transportation system, and, in the present era of conglomerates, it is clear that the Commission should exercise some measure of jurisdiction over carrier holding companies if it is to regulate effectively the national surface transportation system. We need to be kept adequately informed so that we may assess the ability of the holding companies' carrier subsidiaries to continue to meet the transportation needs of the general public, and securities regulation is needed so that we may assure that the issuance of securities or assumption of liabilities by the holding companies will be consistent with the proper performance of service to the public by each carrier under the holding companies' control and will not impair the ability of any carrier subsidiary to provide such service.

In our recent decision in the Illinois Central Gulf merger case, *Illinois Central Gulf R.—Acquisition—G.M. & O., supra,* we found that Illinois Central Industries, the holding company which would control the newly formed Illinois Central Gulf Railroad, should be considered a carrier within the meaning of section 5(3), to the extent of requiring it to file such special and periodic reports as we might require pursuant to section 20(1) and (2), and for the purpose of compliance with section 20(5). We also subjected Illinois Central Industries to Commission regulation under section 20a, to the

[19] Section 20(1) and (2) generally provide that the Commission may require the submission of various periodic or special reports, and section 20(5) provides that the Commission may prescribe accounting procedures and forms, and authorizes the Commission to inspect the carriers' records. Section 20a requires carriers to obtain Commission authorization prior to issuing securities or assuming certain obligations.

extent that any of its securities issuances or assumptions of liabilities related to the activities of any carriers under its control. Illinois Central Industries was required to file an appropriate application under section 20a prior to the issuance of any security or the assumption of any obligation, subject to the provision that any such application would be dismissed upon a finding by the Commission that the issuance or assumption was for a purpose unrelated to carrier activities and outside the jurisdiction of this agency, *ibid.*, at 857-858.

We believe that similar action is warranted in the instant proceeding. Accordingly, we will consider Union Pacific Corporation, Southern Pacific Co., and Santa Fe Industries to be carriers within the meaning of section 5(3) to the extent of filing such reports as we may require pursuant to section 20(1) and (2) and to require compliance with section 20(5), and, similar to Illinois Central Industries, we will subject the three holding companies to regulation under section 20a to the extent that any of their issuances of securities or assumptions of liabilities may be related to or affect the activities of their carrier subsidiaries. However, we have found that requiring Illinois Central Industries to file an application for all of its issuances and assumptions, subject to dismissal of applications unrelated to carrier activities, to be somewhat cumbersome. We will, therefore, require the holding companies in the instant proceeding to file applications for only those issuances or assumptions which relate to or affect their carrier subsidiaries.

In order to avoid the risk that the holding companies or their subsidiaries will violate the so-called commodities clause of section 1(8) of the Act, we will require as a condition of our approval of the proposed transactions, similar to our requirement in the *Illinois Central Gulf* case, *supra*, at 878, that prior to consummation of the transactions, UP Corporation, Southern Pacific Co., and Santa Fe Industries advise the Secretary of the Commission, in writing of methods proposed to provide adequate safeguards against violations of section 1(8).

Prior to rendering a final decision on the Rio Grande application, in Finance Docket No. 27521, we will consider taking similar action, to that imposed herein, with regard to Rio Grande's holding company, Rio Grande Industries.

Employee Protection

Under section 5(2)(c), we must give weight to, among other factors, the interest of the carrier employees affected by the proposed merger. Section 5(2)(f) provides that as a condition of our approval of any transaction under section 5(2), we "shall require a fair and equitable arrangement to protect the interests of the railroad employees affected." The last sentence of section 5(2)(f) provides that notwithstanding any other provisions of the Act, the carrier or carriers and the duly authorized representative or representatives of its or their employees may enter into agreements providing for the protection of employees.

The agreements entered into between applicant, Union Pacific, and the Railroad Labor Executives' Association[20] on December 16, 1968, providing for attrition-type protection for both operating and nonoperating employees, are the type of agreement contemplated by the last sentence of section 5(2)(f). The agreements differ slightly, with the provisions of the operating agreement providing more protection than the nonoperating employees' agreement. Both agreements seek to protect the so-called "present employees," that is employees of the railroad during the period measured from the date of the agreement until the date of consummation, by providing that he not be deprived of employment or placed in a worse position with respect to compensation. The railroad would maintain the ability to transfer work through the merged system and, through the implementing agreement, when formulated, would also have the right to determine the transfer and use of employees and allocation and rearrangement of forces through the merged system. In addition, the operating employee agreement gives the railroad, once the implementing agreement is formulated, the ability to rearrange and make changes in seniority districts, terminals, terminal points, points of automatic release, switching limits, and other impediments to an integrated system. Both agreements provide that in the case where a dispute shall arise, it shall be submitted to an arbitration board consisting of one neutral member selected by the National Mediation Board. The operating employee agreement also has provisions for transferred employees and a section for protection against loss from the sale of houses.

[20]Note that RLEA's membership has since changed. Its successors are Congress of Railway Unions and RLEA. For the purposes of this case, however, all those unions that made up RLEA at the time of the agreement are referred to as RLEA.

After analyzing these agreements, we are convinced that the interests of carrier employees covered thereby will be adequately and fairly protected by the terms of the agreements, and we find that the agreements do not render the proposed transaction inconsistent with the public interest. The case of *Norfolk & Western R. Co.* v. *Nemitz,* 404 U.S. 37 (1971), has made it clear that when this Commission adopts a labor agreement, of the type described above, we impose it as a condition to our approval of the transaction. Therefore, it must clearly be noted that our approval of the UP-RLEA agreements shall be limited to the employees of UP represented by RLEA who will be affected by the transaction. We believe that, while the parties, UP and RLEA, may agree between themselves to protect unaffected employees, we lack jurisdiction to impose as a condition to our approval of the transaction, that unaffected employees should be protected under the UP-RLEA agreements. Therefore, our approval of the UP-RLEA agreements and their imposition as a condition to our approval, extends only to the protection of affected employees, represented by RLEA, but not to the extent of protecting unaffected employees.

This Commission has in the past extended the provisions of a premerger labor protective agreement to all affected employees, see *Pennsylvania R. Co.—Merger—New York Central R. Co.,* 327 I.C.C. 475, and in the *Northern Lines* merger case, 331 I.C.C. 228. Although the labor protective agreements in the two above-mentioned cases were similar in scope to the agreement in this proceeding, we will not impose the agreement as to other affected employees, specifically those not represented by RLEA, or employees of SP, Santa Fe, and Rio Grande. The three railroads, SP, Santa Fe, and Rio Grande, were not parties to the agreement which, if extended to them also would be imposed as a condition to approval of the transactions they are authorized to undertake. We feel that this would be infringing upon the right of those railroads to enter into labor protective agreements of their own, which may differ somewhat from the UP-RLEA agreement. Therefore, as to the affected employees of those railroads and the UP employees affected by the transaction, not represented by RLEA, we shall impose as the minimum protection the same conditions as set forth in the *New Orleans Union Passenger Terminal Case,* 282 I.C.C. 271, modified by the arbitration conditions set forth in *St. Louis Southwestern Ry.—Pur.—Alton and Southern R.,* 342 I.C.C. 498. Those so-called *New Orleans* conditions we believe represent the minimum acceptable to this Commission, however, affected

employees not previously covered by a labor protective agreement, may enter into agreements with the railroads providing for protection in excess of these minimum standards.

Environmental Considerations

Our staff has conducted an environmental assessment of the proposed transactions, which is set forth in appendix F hereto. The staff assessment concluded that the transactions would be unlikely to affect significantly the quality of the human environment.

Essentially, this proceeding involves various proposals by different carriers to acquire different portions of the Rock Island Railroad. Generally, any one company's operation of a particular rail line or other facility is likely to be pretty much like that of another, and whether Rock Island, Union Pacific, Southern Pacific, or some other carrier operates a given rail facility is highly unlikely to make any difference from an environmental standpoint. Of course, the proposed transactions may result in some shifting of traffic and facilities, but considered over the entire affected region as a whole, the cumulative impact of the proposals on the environment would be negligible. We, therefore, agree with the staff assessment that this proceeding does not represent a Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act of 1969.

Statutory Findings

In Finance Docket No. 23286, we find that, subject to the terms, conditions, and modifications herein, which are found to be just and reasonable, (1) merger of the properties and franchises of Chicago, Rock Island and Pacific Railroad Company into Union Pacific Railroad Company; (2) acquisition by Union Pacific Railroad Company, through the merger, of sole or joint control of companies subsidiary to or affiliated with Chicago, Rock Island and Pacific Railroad Company and of leasehold interests in, trackage rights over, or joint ownership in or use of, the railroad lines of certain other carriers held by Chicago, Rock Island and Pacific Railroad Company; and, (3) in turn, acquisition by Union Pacific Corporation of control of the merged properties, franchises and other interests, through the merger, are transactions within the scope of section 5(2) of the Interstate Commerce Act, that they will be consistent with the public interest, and that the increase in total fixed charges resulting from the transactions will not be contrary to the public interest.

In Finance Docket No. 23287, which is directly related to the merger approved in Finance Docket No. 23286, we find that (1)(a) issuance by Union Pacific Railroad Company of not exceeding 2,991,411 shares of its $1.80 convertible preferred stock, without par value, (b) issuance by Union Pacific Railroad Company of not exceeding $93,881,110 in total aggregate amount of 30-year, 4 3/4 percent debentures and indenture thereto, (c) issuance by Union Pacific Railroad Company of not exceeding 2,542,699 shares of common capital stock of the par value of $10 per share; (2)(a) assumption by Union Pacific Railroad Company of obligation and liability in respect of First Mortgage Bonds, 40-year 4 1/2 percent income debentures, and equipment trust obligations, not exceeding $112,628,000, and in connection with the above-described First Mortgage Bonds and 40-year 4 1/2 percent income debentures, issuance of supplemental debentures, (b) assumption by Union Pacific Railroad Company of obligation and liability in respect of various guaranties and suretyships which are contingently guaranteed by Chicago, Rock Island and Pacific Railroad jointly with other guarantors, in the total principal amount not exceeding $5,843,244; and (3) issuance by Union Pacific Corporation of not exceeding 2,991,411 shares of its $1.80 convertible preferred stock are (a) for lawful objects, within the corporate purposes of Union Pacific Railroad Company and Union Pacific Corporation, respectively, and compatible with the public interest, which are necessary and appropriate for and consistent with the performance by Union Pacific Railroad Company of service to the public as a common carrier, and which will not impair its ability to perform that service, and (b) are reasonably necessary and appropriate for such purposes. Application for authority to assume obligation and liability of conditional sales contracts is not a matter within the jurisdiction of the Interstate Commerce Commission, as section 20(a) of the Interstate Commerce Act is currently interpreted, and that portion of the application in Finance Docket No. 23287 wherein such authority is sought should be dismissed.

In Finance Docket No. 23595, we find that, subject to the terms, conditions, and modifications herein, which are found to be just and reasonable, and concurrently with consummation of the authority granted in Finance Docket No. 23286, purchase by Southern Pacific Transportation Company of the previously described southern

portion of the franchises and properties of Chicago, Rock Island and Pacific Railroad Company, acquisition by Southern Pacific Transportation Company, through the purchase, of sole or joint control of certain companies subsidiary to or affiliated with Chicago, Rock Island and Pacific Railroad Company and of leasehold interests in, trackage rights over, or joint ownership in or use of, the railroad lines of certain other carriers held by Chicago, Rock Island and Pacific Railroad Company, and, in turn, acquisition by Southern Pacific Company of control of the acquired properties and franchises, through the transaction, are transactions within the scope of section 5(2) of the Interstate Commerce Act, that they will be consistent with the public interest, and that the increase in total fixed charges resulting from the transactions will not be contrary to the public interest.

In Finance Docket No. 23596, which is directly related to the purchase by Southern Pacific Transportation Company authorized in Finance Docket No. 23595, we find that, assumption by Southern Pacific Transportation Company of obligation and liability in respect of contingent obligations of bonds of certain railroad and bridge and terminal companies in total principal amount not exceeding $3,068,473 is (a) for lawful objects within the corporate purposes of Southern Pacific Transportation Company and compatible with the public interest, is necessary and appropriate for and consistent with the performance by it of service to the public as a common carrier, and will not impair its ability to perform that service; and is (b) reasonably necessary and appropriate for such purposes.

In No. MC-F-9222, to the extent that the record herein is complete and subject to the terms and conditions set forth herein which are found to be just and reasonable, we find that purchase by Southern Pacific Co. of a portion of the motor carrier operating rights and properties of Rock Island Motor Transit Co. and acquisition by Southern Pacific Transportation Co. and, in turn, Southern Pacific Co. of control of the said motor carrier operating rights and properties would constitute a transaction within the scope of section 5(2)(a) and will be consistent with the public interest; *provided, that* prior to service of a final order approving the said transaction, Southern Pacific Transport Co. and Rock Island Motor Transit Co. shall demonstrate the activity of the operating authority sought to be purchased.

Further, in Finance Docket No. 23595, we find that, subject to the conditions set forth herein, which are found to be just and reasonable, and concurrently with the consummation of the authority granted in Finance Docket No. 23286, purchase by The Atchison, Topeka and Santa Fe Railway Company of portions of the properties and franchises of Chicago, Rock Island and Pacific Railroad Company as described herein, as an applicant substituted in lieu of Southern Pacific Transportation Company, and, in turn, acquisition by Santa Fe Industries, Inc., of control of the said properties and franchises, through the purchase, are transactions within the scope of section 5(2) of the Interstate Commerce Act, that they will be consistent with the public interest, and that the increase in total fixed charges resulting from the transactions will not be contrary to the public interest.

In Finance Docket No. 23920, a matter directly related to the purchase by The Atchison, Topeka and Santa Fe Railway Company of certain properties and franchises of Chicago, Rock Island and Pacific Railroad Company, as an applicant in Finance Docket No. 23595, substituted in lieu of Southern Pacific Transportation Company, we find that assumption by The Atchison, Topeka and Santa Fe Railway Company of obligation and liability in respect of contingent obligation of bonds of Arkansas & Memphis Railway Bridge & Terminal Company in total principal amount not exceeding $585,000 is (a) for lawful objects within the corporate purposes of The Atchison, Topeka and Santa Fe Railway Company and compatible with the public interest, is necessary and appropriate for and consistent with the performance by it of service to the public as a common carrier, and will not impair its ability to perform that service, and (b) is reasonably necessary and appropriate for such purposes; and that in all other respects the application should be dismissed.

In No. MC-F-9668, to the extent the record herein is complete and subject to the conditions set forth herein which are found to be just and reasonable, we find that purchase by Santa Fe Trail Transportation Company of a portion of the motor carrier operating rights and properties of Rock Island Motor Transit Co. and acquisition by Atchison, Topeka and Santa Fe Railway Co. and, in turn, Santa Fe Industries, Inc., of control of the said motor carrier operating rights and properties would constitute a transaction within the scope of section 5(2)(a) and will be consistent with the public interest; *provided, that* prior to service of a final order approving the said transaction, Santa Fe Trail Transportation Company and Rock Island Motor Transit Co. shall demonstrate the activity of the operating authority sought to be purchased.

In Finance Docket Nos. 27521 and 27522, we find that the matters contained therein are directly related to the transaction authorized in Finance Docket No. 23286 and that the proceedings should be consolidated with the instant proceeding for consideration and disposition; and we further find, in Finance Docket No. 27521, which is contingent upon consummation of the transaction authorized in Finance Docket No. 23286, that, to the extent the record herein is complete, the purchase by Denver & Rio Grande Western Railroad Company of certain portions of the rail franchises and properties embraced in the above-described transaction, will be consistent with the public interest, provided that the terms and conditions of the proposed transaction required to be submitted for our approval, are shown to be just and reasonable.

In Finance Docket No. 27522, we find that the application of Denver & Rio Grande Western Railroad Company to issue certain securities should be deferred pending receipt of additional information.

With respect to the remaining applications and petitions related thereto, we find:

(1) In Finance Docket No. 23285 and the directly related portion of the application in Finance Docket No. 23287, pursuant to applicant's waiver of such application and want of prosecution, the applications should be dismissed.

(2) In Finance Docket No. 22688, and in the directly related application in Finance Docket No. 22689, that the applicant has failed to prosecute its applications and that the applications should be dismissed.

(3) In Finance Docket No. 23919, as an application dependent upon approval of the transaction in Finance Docket No. 22688, that the application should be dismissed, and, by reason of the foregoing dismissal, the petition of Southern Pacific Transportation Company for substitution as applicant in Finance Docket No. 23919 also should be dismissed.

(4) In Finance Docket Nos. 24128 and 24129, applications of Union Pacific Railroad Company to construct and abandon certain tracks in connection with the transaction authorized in Finance Docket No. 23286 have been rendered moot by conditions imposed herein, and should be dismissed.

(5) In Finance Docket No. 24154, use by The Atchison, Topeka and Santa Fe Railway Company of certain tracks and facilities of St. Louis-San Francisco Railway Company not shown to be required by the public interest.

We further find that the requests for inclusion in all or certain of the above-described proposed transactions by Missouri-Kansas-Texas Railroad Company, Denver and Rio Grande Western Railroad Company, Burlington Northern, Inc., and Fort Worth and Denver Railway Company, subject to the terms, conditions, and modifications hereinbefore discussed, would be consistent with the public interest, but that all other requests for inclusion by intervenors have not been shown to be consistent with the public interest and, thus, should be denied.

Finally, we find that this decision is not a major Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act of 1969.

An appropriate order will be entered.

COMMISSIONER HARDIN concurred in the result.

COMMISSIONER TUGGLE, whom COMMISSIONER DEASON joins, dissenting in part:

Subjecting the holding companies to securities regulation by the Interstate Commerce Commission is, in this instance, neither necessary nor reasonable. The evidence provides no basis for it in fact. The majority's rationale for it is fraught with serious implications, if not outright discrimination. And the terms of the condition imposing it are equivocal to the point of bewilderment.

On these grounds, therefore, I must dissent from the majority on the matter of securities jurisdiction, and will discuss briefly the reasons for my conclusions.

On the facts, it is generally recognized that Union Pacific, Southern Pacific, and Santa Fe are among the best railroads in the country—each one providing the public with good, dependable service growing through the years in quantity and quality to meet the ever evolving requirements of our economy and society; each providing itself with capital and talent to finance and operate a sound transportation system; and each providing its owners with reasonable returns in terms of profits and growth.

The plan of this decision recognizes the prospect of continued economic growth in the service territories of these three railroads and, in the interest of continued good service, seeks to maintain the vigorous competition among the three. It acknowledges the competence of their managements and their dedication to improvement in transportation. In fact, it seeks, in effect, to spread those

commendable qualities of management over the area's rail properties which have not had them.

Though UP, SP, and Santa Fe have assumed the holding-company corporate structure, there is nothing in evidence to indicate that unfair advantage has been taken of their railroad affiliates or that the holding companies have engaged in securities transactions, or any other transactions, to the disadvantage of the affiliated railroads, let alone to the impairment of their ability to serve the public. Indeed, faced with evidence specifically developed on this issue, the Administrative Law Judge found that—

> A fair and careful evaluation of all the pertinent facts of record warrants the conclusion that the transactions which have transpired between UPC and Union Pacific *have not given any reasonable cause for alarm that Union Pacific has been adversely affected thereby,* financially or otherwise, either to continue its present high level of operations and services or to extend such type of operations and services to the unification here approved. [Initial decision, sheet 1354, emphasis supplied.]

That is a true and straightforward statement. There is no basis whatever in the record for suspicious that, because of this transaction, the attitude or motives of management will change, or for suppositions that the carrier subsidiaries will be harmed.

Yet the majority is saying, in effect: "Holding companies (UP, SP, and Santa Fe), while we approve what you have done in transportation, we cannot trust you to remain consistent with the public interest in your securities transactions, and you must therefore submit them to our scrutiny." On this the majority's stand is wholly unwarranted. It is also unrealistic and at variance with the statutory plan.

Section 5 of the Act directs that the Commission *shall,* subject to just and reasonable conditions, approve a merger if found consistent with the public interest. The merger need not "promote" or "enhance" the public interest. The enhancement test was part of the Act of 1920, but Congress, for good and sufficient reason, eliminated it from the present law (Act of 1940). *Schwabacher* v. *United States,* 334 U.S. 182, 191-194 (1948). The criterion now applicable requires only that the transaction not be incompatible with or hostile to the public interest. See *Pacific Power and Light* v. *Federal Power Comm.,* 111 F. 2d 1014, 1016. The congressional purpose in adopting the present form of the law was to facilitate merger in the national interest. *County of Marin* v. *United States,* 356 U.S. 412, 416 (1957).

That congressional purpose does not mean, of course, that any and every merger is in the public interest. It does mean that where, as here, a merger transaction is consistent with the public interest, the statutory obligation to facilitate mergers and consolidations should preclude the Commission from imposing unnecessary, unacceptable conditions not proposed by the parties, which through their rejection may well defeat the entire merger. In *Chesapeake & O. Ry. Co.—Control—Baltimore & O. R. Co.,* 317 I.C.C. 261, 285, the Commission frankly acknowledged that—

as a condition of our approval we may not impose a more burdensome requirement than that imposed by the statute.

The authority to impose conditions exists only where there is a *need to modify* a proposal for the purpose of making it conform to the public interest. When the proposal as presented by the parties is not antagonistic to the public interest, the Commission has no power to alter it by imposing conditions. If, in the exercise of sound discretion based upon substantial evidence of record, it becomes necessary to modify the proposed merger terms, the conditions imposed are to be just and reasonable. And, as stated in *Erie R. Co. Merger,* 312 I.C.C. 231, "The concept of 'just and reasonable' applicable to conditions under section 5(2)(b) naturally involves the question of fairness to the merged company."

The authority to impose conditions is indeed broad, but it imposes in turn upon the Commission a grave responsibility to insure that the conditions are just and reasonable, relevant, and clearly warranted by the record. *Belt Ry. Co. of Chicago—Operation,* 324 I.C.C. 597, 611, note 14; *Atchison, T. S. F. Ry. Co. Merger,* 324 I.C.C. 254, 259.

The above cases state the basic governing law, but the majority seems to have lost sight of it in imposing the securities conditions on the parent companies, which conditions are neither reasonable nor necessary, not supported by the evidence and hardly calculated to facilitate merger. The stated reasons for those conditions appear to be that the holding companies control carriers which have a substantial influence on national transportation, and that "*** in the present era of conglomerates *** the Commission should exercise some measure of jurisdiction over [such] holding companies," out of an abundance of caution.

On that kind of fundament, the majority would arrogate to this Commission all the holding companies' securities transactions which may "relate to or affect the activities of their carrier subsidiaries." In contradistinction, section 20a of the Interstate Com-

merce Act—which governs carrier securities issuances—is primarily concerned with *impairment* of the carrier's ability to perform its carrier obligations to the public.

Thus, far afield from the statutory "carrier impairment" concept, the majority would have this Commission presume to pass upon securities transactions which may have little or no transportation orientation simply because they may affect the activities of a carrier, no matter how remotely. And in so doing, the majority would relieve the holding company of its obligations under various laws administered by the Securities and Exchange Commission—a consequence of questionable public value. The issuance of securities by the holding companies in the case at bar is already regulated by the Securities and Exchange Commission under the Securities Act of 1933.

The Commission has repeatedly held that the fact that a holding company is regulated by the S.E.C. is a reason, among others, for not subjecting such a company to section 20a. See, for example, *Louisville & N. R. Co.—Merger—Monon Railroad,* 338 I.C.C. 134; *Missouri Pac. R. Co.—Control—Chicago & E. I. R. Co.,* 327 I.C.C. 279, 316. Cf. *Seaboard Air Line Co.—Merger—Atlantic Coast Line,* 320 I.C.C. 122, 197.

The basis purpose of section 20a has no application to holding companies whose transportation subsidiaries remain within the jurisdiction of the Commission and subject to section 20a. The Commission recognized that legislative purpose in *Missouri Pac. R. Co.—Control—Chicago & E. I. R. Co., supra,* at 315-316, as follows:

*** Subjecting it [the corporate parent Mississippi River Fuel Corp.] to regulation as a common carrier under the Interstate Commerce Act would require it to duplicate its accounting and bookkeeping functions and to maintain accounts and books not required for its principal business. *** In our opinion it is neither necessary nor advisable to subject it to regulation as a common carrier, particularly in view of the fact that its common carrier subsidiaries, for the regulation of which we are primarily responsible, will remain within our jurisdiction, whatever action we take in regard to Mississippi Fuel.***

Through the years, in dealing with this problem, the Commission has given consideration to the nature and scope of the parent holding company's noncarrier activities. Directly in question are first, the competence of this Commission to pass upon transactions in nontransportation businesses about which it has little or no expertise, and second, the prudence of committing this Commission's resources to matters which have little, if any, relation to transportation.

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Most serious, however, is the fact that the proposed securities' regulation would fall unevenly upon holding companies. Those coming to the Commission with a section 5(2) transaction (which under the national transportation policy is to be facilitated), will be made subject to our securities' regulation; those which forego the section 5(2) transactions, will avoid our securities' jurisdiction. For example, UP Corp., SP Company, and SF Industries would be subject to our section 20a jurisdiction, while others would not, including the Chessie System, Mississippi River Fuel Corp., Seaboard Coastline Industries, KCS Industries, and others. That, I submit, is undue and unfair discrimination.

The majority has chosen this proceeding as a vehicle to deal with what it views as an industrywide problem, but seems to lose sight of the fact that the force and impact of its action is limited only to the three holding companies before it here. I oppose this *ad hoc*, discriminatory approach. I also question the appropriateness of using an adjudicatory proceeding to establish policy for industrywide application, where the evidence of record does not lend support to the policy. This approach is also impractical in that it produces uneven regulation and inconsistent administrative practices.

The ruling is made all the worse by the fact that yearly since 1970, this Commission has asked Congress for legislation assigning it jurisdiction to deal with the so-called conglomerate problems on an industrywide, uniform basis, and each year the jurisdiction is withheld. In my judgment, Congress is the proper forum for the Commission to seek uniform regulatory controls over transportation holding companies. But the majority, unsuccessful before Congress, now seeks to "get a handle," piecemeal, on a problem that is unrelated to the merits of the specific merger transaction now before us. It is plainly a "cram-down" tactic.

The most distressing and impractical aspect of the securities conditions is the ambiguity of the language. Our jurisdiction would be spread over the holding companies' securities which "*may be related to* or *affect the activities of their carrier* subsidiaries." While the words "may be related to" and "may affect" ostensibly are intended as limiting words, in context here they are at best nebulous to the point of placing a cloud over every securities transaction a holding company might contemplate.

What financial institution or knowledgeable securities purchaser would feel safe in purchasing a holding company security without first requiring the issuer to obtain a decision from the ICC? A carrier security issued without ICC authorization is void *ab initio*

under section 20a(11) of the Act and criminal sanctions also apply. That being so every proposal by a holding company, to be marketable at all, would probably be required by the securities market to have been passed upon by the ICC.

There are further complications. In the event of a declining market, the holder of a parent company security issued without ICC approval could seek full damages in any court of competent jurisdiction, alleging that ICC approval should have been obtained. The availability of that remedy under section 20a(11) is undoubtedly meritorious. But the consequence of bypassing the ICC in the first instance would be so onerous to the issuer that, as a practical matter, there could be no such bypassing. The very vulnerability to suit is simply too great.

Considering these various factors, I am concerned about the limitations on this Commission's resources and about our lack of expertise in nontransportation business which may be involved in the securities of a diversified holding company. The business activities of these holding companies includes the ownership and development of vast natural resources and important commercial enterprises. Regulating securities pertaining thereto involves considerations of which the Commission knows little and with which it is not competent to deal.

Rather than take on a public obligation for which this agency now lacks resources and expertise, I would prefer to leave the national policy to Congress as we have proposed in H.R. 11092 (introduced September 20, 1973). And, in the meantime, I would impose conditions that would require the Commission to specify by order the kinds of securities transactions the holding company would, *in futuro*, have to place before the ICC for approval; and that such an order would not be served until it became apparent that holding-company activities would tend to have an adverse effect upon a carrier subsidiary. The test would be the same as that in the present section 20a(2), viz, impairment of the carrier's ability to serve the public. That is the meaningful test.

Under section 2 of H.R. 11092, which proposes an amendment of section 5(3) of the Act, the Commission would have the discretion to apply section 20a to noncarriers acquiring control or found to be in control of a carrier. As proposed by the Commission, said section 2 would begin with the following language:

> To the extent, if any, and at such time as the Commission orders the application of such provisions of section 20a ***

That introductory language contemplates that the Commission could reserve the power to place under its jurisdiction at some time in the future securities transactions of the holding company. It could order the implementation of that jurisdiction, if, for example, it developed facts tending to indicate that such an order was desirable or necessary. The Commission now maintains ongoing audits of the financial relationships between holding company parents and carrier subsidiaries. If these audits were to indicate that a carrier subsidiary might be impaired by certain kinds of securities transactions undertaken by the parent holding company, the Commission could then activate its section 20a jurisdiction. This type of discretionary, standby condition, as opposed to the mandatory type provision here being imposed by the majority, would put the holding companies on notice that their conduct is under surveillance and could be placed under ICC jurisdiction in the event it took a turn inconsistent with the public's interest in the carrier subsidiaries. It would thus act as a deterrent, and would likely be as effective, though much less onerous than the regulatory scheme here envisioned by the majority.

The majority has seized the opportunity afforded by this *merger* proceeding to legislate upon a matter of broad public policy which only the Congress could mandate uniformly across the spectrum of regulatory controls. It appears unjust to take a merger proceeding whose purpose is to improve rail service over an extensive area of the Nation, involving large segments of the railroad industry, and use it as a vehicle to impose controls which the Congress has withheld from the Commission. The outreach of the majority goes beyond the purpose of regulation and can do far more harm than good.

COMMISSIONER CLAPP, dissenting in part:

My principal disagreement with the majority concerns its finding that Katy should be included in the Santa Fe system as a condition precedent to consummation by Santa Fe of authority to acquire Rock Island's line between Amarillo, Tex., and Memphis, Tenn., and the provision made by the majority for providing other protection for Katy insofar as that would embrace inclusion in one of the other successful applicants. I am of the opinion that the present record does not warrant such inclusion, and that in the present circumstances Katy can be protected *permanently* by the traffic maintenance and supplemental indemnity protection which the majority has required Union Pacific and Southern Pacific to provide *interim* to Katy's inclusion in one of the successful applicants.

The majority has quite properly observed that "Unifications as proposed by the Administrative Law Judge must be initiated by the affected carriers or found to be a necessary condition by the Commission on an adequate record to a grant of a section 5 application." This recognizes the twofold nature of our jurisdiction under section 5(2): (1) to approve inclusions of other carriers *upon petition* and equitable terms pursuant to section 5(2)(d), and (2) to approve an inclusion which *is not* the subject of a petition but which is, nevertheless, warranted by the record pursuant to its authority under section 5(2) to attach just and reasonable conditions to approval and without which the proposed transaction could not be found "consistent with the public interest." See the *Nickelplate Merger* case, 324 I.C.C. 1, at 26, and the concurring opinion of Justice Brennan in *B. & O. R. Co.* v. *United States*, 386 U.S. 372, 403-404, and note 8 at 404 which refers to certain comments in the Commission's *Nickelplate Merger* decision.

Katy, pursuant to section 5(2)(d) has petitioned for inclusion in the carrier which acquires the Rock Island lines in its territory, a request which, by its nature, would encompass inclusion in Union Pacific, as well as Southern Pacific, which the Administrative Law Judge found should acquire Katy, and in the Santa Fe which the majority finds to be "most consistent with the public interest." The statutory standard under section 5(2)(d) of "consistent with the public interest" is the same as the standard for approval of unifications under section 5(2)(b). Because of this it is not surprising that the term "inclusion" under section 5(2)(d) has been construed as embracing every conceivable type of unification contemplated by section 5(2)(b). See generally, *Missouri Pac. R. Co.—Control—Chicago & E. I. R. Co.*, 327 I.C.C. 279, at 296, where the Commission considered the Dixie Line's petition for inclusion in that unification as one involving purchase, lease, or a grant of trackage rights over a portion of the line of the carrier authorized to be controlled therein.

And the statutory standard for approval of such inclusions has prompted the Commission to evaluate an inclusion in the same manner as it would evaluate a proposed unification to which the inclusion is sought or is otherwise warranted. Justice Brennan noted in *Baltimore & Ohio* v. *United States, supra*, at 403-404:

***The ICC recognizes that it is required to consider the issue of inclusion even when no petition is filed, because if a proposed transaction "would endanger or impair the operations of other carriers contrary to the public interest," *Chicago B. & Q. R. Co.*

Control, supra, 271 I.C.C., at 157, inclusion of the affected carriers is *required* by and not merely consistent with the public interest.

Further, most recently, in its decision approving the consolidation of the Illinois Central and Gulf, Mobile & Ohio Railroads, the Commission commented that:

***The phrase "consistent with the public interest," as judicially construed, means compatible with, or not contradictory or hostile to the public interest. See *Pacific Power and Light Co.* v. *Federal Power Comm.,* 111 F. (2d) 1014, 1016. As was stated by the Supreme Court in *New York Central Securities Corp.* v. *United States,* 287 U.S. 12, 25 ***The term "public interest" *** has a direct relation to the adequacy of our transportation system, to its essential conditions of economy and efficiency and to appropriate provision and best use of transportation facilities. (331 I.C.C. at 841.)

With this as an historical backdrop one can appreciate the evaluation the Commission made, for example, of the New Haven Railroad's request for inclusion in Penn Central. The Commission there was presented with evidence of substantial public support for this inclusion and the nature of the service rendered by the New Haven which demonstrated that it performed an "essential service," of the benefits to the public inuring from preservation of that service, and evidence that such inclusion would not impair the applicants' service or the service of competing carriers, 331 I.C.C. 643, 331 I.C.C. 754, and 334 I.C.C. 25. A similar appraisal warranted approval of the inclusion of three short-line railroads in the unified carrier emerging from approval of the IC-GM&O consolidation, 338 I.C.C. 805, 852-853.

Katy's petition for inclusion and the justification it advances is, in my view, in stark contrast to the above examples. The public support for its vaguely requested inclusion in the carrier which acquires the Rock Island lines in its territory is meager. None of the States which it traverses has intervened in support of such inclusion, and only two cities and several shippers—all told not more than 23 public witnesses—support inclusion. It should be noted, too, that many of these shipper users have alternate available service. Union Pacific, Southern Pacific, and Santa Fe oppose inclusion of Katy in their systems.

Union Pacific, of course, is acquiring Rock Island's line between Kansas City and St. Louis and proposes to sell the Rock Island lines or interests therein between Kansas City and Galveston to Southern Pacific—lines which Southern Pacific and Santa Fe seek to acquire through inclusion in the Union Pacific transaction. As to Union

Pacific, therefore, service between Kansas City and the Texas Gulf is antithetical to its basic proposal to acquire the northern half of the Rock Island and sell the southern half involving service in territory served by Katy. The chief benefit of inclusion of Katy in Southern Pacific would appear to be the acquisition of a more direct route to St. Louis. Inclusion in Santa Fe would enable that carrier to gain access to St. Louis and there connect with eastern carriers. But the record is not clear with respect to the manner in which these carriers would actually effect operations over Katy's lines to and from St. Louis and the extent to which service would be effected to other points in Katy's territory.

The record is also devoid of evidence of the potential impact upon competing carriers of the inclusion of Katy in Santa Fe (as required by the majority) or one of the other successful applicants in the event that Santa Fe elects not to consummate authority to acquire Rock Island's line between Amarillo and Memphis. The effect of the inclusion upon other carriers is expressly required to be considered under section 5(2)(c) in determining whether the proposed transaction is consistent with the public interest. In the past where a petitioned inclusion appeared to be injurious to other carriers, protection has been provided to offset the resulting harm. See the *Penn Central Merger,* 327 I.C.C. at 475, relative to protection for two railroads who were affected by inclusion of New Haven in Penn Central. In the case before us, however, the vague nature of both the inclusion request and the justification does not permit an assessment of the impact of inclusion upon other carriers.

Also of importance in determining whether or not Katy's inclusion is "consistent with the public interest" is the feasibility or likelihood of accomplishing such inclusion in a reasonable period of time in view of the staggering debt-service burden which Katy bears. In this regard, the Commission was dissuaded, in part from granting the requests of certain parties to the *Nickelplate Merger, supra,* that the Erie Lackawanna be included *at that time* in that system owing to its precarious financial condition and the possible impairment of the applicants' service. See 324 I.C.C. at 20-29. In this respect, the following comments of Justice Brennan in *B. & O. R. Co.* v. *United States, supra,* at 405-406, are noteworthy:

***An inclusion may turn out to be impossible, either because of inability to work out equitable terms, a circumstance upon which inclusion orders have invariably been conditioned, or because upon full consideration the effects of the contemplated inclusion might be regarded as so detrimental that the proposed merger which made necessary the inclusion would be against the public interest.

> The Commission must decide, in the first instance, whether the risk of such ultimate resolutions is acute enough to counsel against approval of a consolidation subject to the working out of the terms of an inclusion or to the working out of both the terms and the inclusion. ***But resort to the practice of deferring the accomplishment of inclusions or other ends required by the public interest must be carefully weighed and reviewed. Where there is little or no danger that inclusion consistent with the public interest and upon equitable terms might turn out to be impossible, it is sufficiently likely, despite deferral, that the Commission will have fulfilled its basic statutory duty. *Where there is a significant possibility, however, that a deferred inclusion upon which a finding of public interest is premised will be unattainable or attainable only by setting into motion new forces which have not been weighed in evaluating the basic proposal, then the Commission's duty to consider all the relevant factors has not been properly discharged. And ICC action of this sort generally creates dangers far greater than those which normally accrue when an agency or court fails to apply the governing standard to all the relevant facts, since the decision to allow consummation is often irreversible *** or reversible only at enormous expense.* [Emphasis supplied.]

For the foregoing reasons, then—the meager public support for this vaguely stated request for inclusion, the deficiencies in the evidence regarding the nature and manner in which service provided by Katy would continue to be effected, the unknown impact of inclusion upon competing carriers, the Katy's financial picture, and the consequent inability to devise equitable terms within a reasonable period of time—it is inappropriate to find as consistent with the public interest inclusion of Katy in Santa Fe or one of the other successful applicants. The evidence of record considered in the light most favorable to Katy, in my view, warrants the denial of its petition for inclusion, without prejudice to the resubmission of a *more appropriate petition* within the minimum 5-year period of jurisdiction reserved by the majority for such relief. Pending this action, or in the event that Katy decides not to pursue inclusion herein, I would protect it by requiring *permanently* Union Pacific and Southern Pacific to provide it with the traffic maintenance and supplemental indemnity protection which the majority requires on an *interim* basis.

I also do not subscribe to the majority's views which are delineated in the section of the report entitled "Other Possible Corporate Alignments." There, new systems are suggested in addition to those in existence or approved therein although the basis for this crystal ball gazing is not related. In my opinion such speculation is gratuitous and inconsistent with the finding of the majority quoted at the outset of this expression that our jurisdiction over unifications emanates from carrier-initiated proposals or evidence in proceedings such as these warranting inclusion of carriers in the involved territory.

Carrier-initiated proposals for further unifications are to be encouraged and will be evaluated on their own merits, and given the serious consideration which they deserve. Although I do not believe it is appropriate here to set forth specific directions such realignments might take, I do believe further initiatives are desirable. They should be encouraged. I trust that our actions herein will mark the beginning of renewed efforts for further improvements in, and enhancement of rail service within and beyond the territory west of the Mississippi River encompassed by the applications.

Related to the majority's "suggestion" that Milwaukee and North Western consider some sort of unification is its denial of Milwaukee's petition for oral hearing on its request for inclusion in Union Pacific or Southern Pacific. The majority does not explain why it denies oral hearing when almost 4 years ago the Commission granted Milwaukee oral hearing on its inclusion request at a date subsequent to issuance of the decision of the Administrative Law Judge. It is to be recalled that Milwaukee sought inclusion here and requested oral hearing after this Commission denied, without prejudice, North Western's application for consolidation with Milwaukee in view of the financial inability of North Western's former parent holding company to meet the terms of the stock exchange. More recently, following oral argument last year in these proceedings, Milwaukee indicated that it no longer opposed the Union Pacific application and that it was in the process of negotiating with Burlington Northern for possible inclusion in its system. Those negotiations collapsed during the spring of 1974. Subsequently, Milwaukee informally advised us that it intended to take a "wait and see" posture regarding any authorization granted herein.

In these circumstances I would grant Milwaukee an oral hearing upon notification of its intention to pursue its request for inclusion in Union Pacific or Southern Pacific.

COMMISSIONER BROWN, dissenting:

These proceedings constitute the largest in the Commission's history, as already pointed out. I am not impressed, however, as size alone is meaningless.

In a proceeding of this magnitude, the Commission must consider carefully its statutory responsibility to promote and preserve an adequate, economical, and efficient national transportation system. This responsibility must be met in the face of the Commission's duty to approve those transactions which are consistent with the public interest, while at the same time imposing such conditions as it finds to be just and reasonable for the protection of affected carriers and the public.

I have sought to restate the generally accepted limits of our responsibility and duty in proceedings involving financial transactions of rail carriers subject to our jurisdiction. My disagreement with the majority flows basically from my view of where our statutory responsibilities and duties lead us in resolving the issues in this proceeding.

On the basis of the record made, I am convinced that these proceedings should have been used as a vehicle for achieving a vastly improved rail service through the reduction in unnecessary interchanges and redundant lines, resulting in a better flow of traffic and more economical service. They presented on opportunity for a better balance among strong competing carrier systems, which could participate more fully in the movement of all-rail and intermodal transcontinental traffic. As such, these proceedings may well be the forerunner of future transcontinental mergers. While it is necessary to preserve Rock Island's essential rail service, at the same time it is equally imperative to save the vital service of the intervening railroads. Most of the interveners are presently in serious financial difficulties, which from carrier to carrier differ only in degree from the Rock Island's difficulties.

As I see the majority decision, it has let escape the opportunity to achieve the most efficient and economical system for today's traffic patterns and for those of the future. It follows, with respect to the intervening roads, that a further deterioration of their financial condition will take place. The result of the majority decision will eliminate for Union Pacific, Southern Pacific, and the Santa Fe the utilization of bridge services between principal gateways, which in turn produce substantial revenues for these interveners. I recognize that there is an excess of competition in the Midwest, and also that the use of bridge carriers is not as practical, or even as necessary, as it once was, when they sprung up one by one. Now, the emphasis is on containerization and efficient, rapid single-line transcontinental service. This can only be achieved by consolidating and upgrading lines, facilities, and equipment—not a continuation of the *status quo* with all of its attendant inefficiencies and inadequacies, perpetuated by the majority through the imposition of traffic conditions.

It seems clear that the traffic conditions imposed are based upon the majority's recognition of the probable revenue (and traffic) losses likely to be suffered by the affected interveners as a result of the authority granted. The formula devised by the majority,

comparing the percentage which the estimated loss of gross revenues bears to the total gross revenues, is not realistic. As several of the interveners point out, at existing levels of operating costs they could haul substantially increased traffic with little increase, if any, in expense. In short, the likely loss of revenues is more directly related to the affected carriers' net income. A proper comparison would show that the marginal or deficit interveners will have little opportunity for survival.

The interveners must, at long last, face the realities of their failure to take the necessary action to update their rail services so that they can meet present and future transportation requirements with the required efficiency and economy. Permitting certain carriers to move forward, while maintaining others in their *status quo* under the "protective" traffic conditions prescribed, will prove deadly to the latter and to the services which they now provide. At the oral argument, I invited and encouraged interveners to come forward with suggestions as to possible inclusions alternative to those proposed by the Administrative Law Judge, which they rejected. During this past year, the interveners have remained silent. Now, the majority "suggests" its own realignments.

While the majority decision may save the Rock Island, it will not keep several of the other financially distressed railroads from bankruptcy. For example, the majority requires Santa Fe to accept inclusion of the Katy, the only carrier seeking inclusion from the early stages of these proceedings. However, before that inclusion takes place, Santa Fe is permitted to proceed with its acquisition of portions of the Rock Island. In the meantime, Santa Fe is required to negotiate in good faith with Katy, and both carriers are required to submit, within *1 year* after the date of Santa Fe's consummation of the acquisition of the Memphis-Amarillo line, an agreed plan for the inclusion of Katy. If the parties are unable to agree, each party's suggestions for such a plan and data in support thereof are to be submitted to the Commission, which will determine the terms of inclusion. The inadequacy of the traffic conditions to be imposed in the interim has already been discussed. The Katy will most probably be bankrupt before Santa Fe's consummation has taken place and the year's negotiating period has expired, to say nothing of the time it will take for these proceedings to become administratively final and, perhaps, for the courts to review them. Under the circumstances, it seems to me that the majority's action is entirely inadequate for the protection of the Katy and, as such, is contrary to the findings of the United States Supreme Court in *B. & O. R. Co.* v. *United States*, 386 U.S. 372 (1967).

In May 1970, the Commission granted Milwaukee's petition to reopen these proceedings for limited further hearing concerning Milwaukee's inclusion in Union Pacific or Southern Pacific. To date no hearing has been held. Nevertheless, the majority has reached its decision and has denied the requested inclusion. In my view, the Milwaukee petition should be heard.

The substantial evidence of record relating to the nature and scope of Southern Pacific operations compel a finding that Southern Pacific should be granted immediate entry into Chicago. The suggestion by the majority that Southern Pacific obtain trackage rights or purchase an existing line between Kansas City and Chicago, in my view, falls far short of the Commission's statutory duty. Chicago is the most important gateway for transcontinental traffic moving between the West and the East and South. Chicago is already served by BN and Santa Fe and, as a result of this decision, UP is also authorized to serve it. Thus, only Southern Pacific of the major western railroads will be excluded notwithstanding its substantial participation in traffic movements to and from Chicago and beyond. For these reasons, I am of the opinion that the authority granted here should have provided for the entry of Southern Pacific into Chicago.

I disagree with the handling of employee protection in these proceedings. I feel that the lessons of the Penn Central merger should be considered. Labor protection in the present-day economy is a very substantial factor in the cost of a merger and in its ultimate success. The Commission on several occasions, including the Penn Central case, approved similar "attrition-type" premerger agreements, because of the savings alleged to result from the merger, the parties' voluntary action in entering into the agreement, and the latitude given the carrier in rearranging its labor force. As later became evident, labor costs were a major factor in Penn Central's financial difficulties.

Here, the agreements are between Union Pacific and RLEA, to which Southern Pacific, Santa Fe, and Rio Grande were not parties; there is serious doubt that the agreements provide for the carrier's freedom and flexibility in rearranging its labor force and operations; and the agreements were entered after the close of the record in these proceedings, so there is no evidence of the estimated cost of employee protection based on them. I would set this issue for further hearing, and would require the parties to present evidence of the effect of estimated employee-protection costs on the acquisition and of the economies expected to result therefrom. I do not believe

that the Commission's duty is limited to "a fair and equitable arrangement to protect the interest" of employees under section 5(2)(f) of the Act. The Commission is also charged with the duty of overseeing all agreements within the purview of section 5(2) to prevent onerous conditions upon the carrier and the public.

We have a statutory obligation to look into security transactions with respect to the financial state and future of railroads. Congress has appointed the Commission as the guardian of the public interest, not the merging railroads and their parent holding companies. The Commission must decide whether a merger is consistent with the public interest subject to any terms and conditions deemed necessary. The statutory obligation to facilitate voluntary mergers and consolidations is not an overriding invitation to the Commission to cast aside a condition or conditions found to be just and reasonable and in the public interest, even though they are unacceptable to, or not proposed by, the parties and may result in their failure to consummate.

Other than a cursory mention of Southern Pacific being bound by condition "e," imposed by the Commission in the *Central Pacific* case, as later modified, the majority gives no consideration to the present and future impact of that condition upon the operations of the affected carriers. As the evidence shows, the primary benefits which have accrued from the existence of that condition have been enjoyed almost entirely by the Union Pacific, rather than the other central-corridor carriers. The Southern Pacific with its control of the Cotton Belt has been able to negate, or at the least substantially diminish the effectiveness of condition "e." And with the innovations in equipment and the resultant handling of larger quantities of freight in high-speed trains, condition "e" territory and surrounding corridor territories have greatly diminished in size. In short, the transportation systems and economic factors in existence at the time condition "e" was imposed have all undergone vast changes. The extension of Union Pacific to Chicago will cause central-corridor service to be much improved. Further, what effect that condition would have upon the Rio Grande as a result of its acquisition of the western Rock Island vis-a-vis the Union Pacific and Southern Pacific extension of lines is not discussed by the majority. Although the majority decision does not alter the requirements of condition "e," I feel that it has outlived its usefulness, and that it should now be eliminated.

My chief concern about the authority granted in these proceedings is that there are no built-in safeguards to insure that, if and when carried out, these acquisitions will be successful for the carriers and the public. Jurisdiction has been retained to reconsider certain aspects of these proceedings, such as the traffic protective conditions, but the Commission will not know for some time, if at all, the extent to which the predicted savings and improved services will be achieved. Neither will it know what the impact of the traffic conditions, or of their modification or elimination, will be on the affected carriers. I would require the successful applicants and protected carriers to report back to the Commission periodically, so that the Commission would have a clearer indication of the results obtained.

APPENDIX A

The proposed transactions

By the terms of an agreement between Union Pacific and Southern Pacific, dated March 17, 1965, which revised a prior agreement of February 28, 1963, Union Pacific would seek to acquire the Rock Island by merger and would sell the southern portion of Rock Island to the SP simultaneously with the closing of the UP-Rock Island merger transaction. The two carriers arranged for Coverdale & Colpitts, a consulting engineering firm, to make a study with respect to the proposed acquisition and division of the properties of the Rock Island and to devise a means of fairly and reasonably dividing the properties.

The Union Pacific merger transaction and the related securities application.—The UP-Rock Island merger transaction is embraced in three interdependent documents: a Plan and Agreement of Merger dated June 1, 1964, executed by Union Pacific, Rock Island, and a majority of their directors, and fixing the mutual obligations of the carrier-parties; an Exchange Offer of September 1, 1964, as amended October 1, 1964, pursuant to which, UP would acquire Rock Island stock from its shareholders; and Revised Articles of Incorporation of Union Pacific.

The Exchange Offer, as here pertinent, provides, that, in exchange for each share of Rock Island common stock, Union Pacific would (1) issue one share of its new $1.80 convertible preferred stock, and (2) make a cash payment equal to the amount by which a sum computed at the rate of 45¢ per quarter for the total number of full calendar quarters from July 1, 1964, to June 30, 1967, exceeds the aggregate $0.75 dividend paid during such period on each share of Rock Island common stock (computed at $4.65 for each Rock Island share). Rock Island shareholders who have not seasonably complied with the Exchange Offer would not be entitled to the cash payment.

The UP convertible preferred stock would be without par value, will be entitled to receive cumulative dividends not exceeding $1.80 per annum, payable quarterly when and as declared, will be preferred as to both earnings and assets, and will be entitled to one vote per share. The stock will be convertible prior to redemption into 0.85 of a share of Union Pacific common stock, subject to adjustments,[1] however, the conversion right shall terminate on the date fixed for redemption. To protect against dilution, principally in the event additional securities, rights, or options are issued, the conversion rate will be subject to adjustment in accordance with a formula which assumes a value for the present common stock at the time of issuance of $47 per share. The stock will be noncallable for 5 years from the date of the first day of the quarterly dividend period in which it is initially issued, and thereafter will be callable at $45 per share for 1 year, and at $1 less per share during each succeeding year down to $40 per share after the 10th year. In the event of liquidation, each share would be entitled to receive $40, together with accrued and unpaid dividends thereon, before any distribution of assets shall be made to holders of common stock.

Consummation of the Exchange Offer is subject to prior approval of the Merger Agreement by the stockholders of the two railroads, as well as by appropriate

[1] Appropriate adjustments would be made in the event prior to consummation of the exchange offer there shall be any change iin number or par value of Rock Island stock as a result of certain specified circumstances.

regulatory bodies, and would be concurrent with consummation of the merger upon the effective date set forth in the Merger Agreement, at which time all rights, titles, and interest in the assented shares and certificates representing such shares shall be transferred to Union Pacific. The offer would terminate in the event consummation is not effected within 1 year from the Commission's final approval, with such final approval date being not later than August 31, 1973.

The Merger Agreement provides that Union Pacific will offer to the stockholders of Rock Island, new convertible preferred stock of Union Pacific in exchange for their present Rock Island stock and that such offer will be consummated by the merger of the Rock Island into the Union Pacific.[2] Under the agreement, the merger shall take effect on the "effective date," later defined, and under the terms and conditions set forth in the agreement.

There are certain covenants by Rock Island applying until the effective date. In brief, without Union Pacific's written consent, Rock Island agrees to refrain from transactions other than in the ordinary course of business; not to change its certificate of incorporation; to issue stock only pursuant to outstanding options and not to change them or grant others; not to purchase or redeem any of its stock; not to pay dividends, except that, in any year ending after December 31, 1963, dividends are permitted up to an aggregate amount not in excess of the amount by which net income after fixed charges and other deductions for such year exceeds provision for mandatory sinking funds and other reserve funds required to be made out of such net income; not to incur or assume indebtedness having a maturity of more than a year (except to acquire equipment), if the sum thereof, and the amount, as of the date such incurrence or assumption, of its then existing similar indebtedness, maturing more than 1 year from said date, will exceed $111 million; not to mortgage, pledge, or encumber any of its assets except to the extent required to comply with its existing indentures or to acquire equipment; and not to institute any new employee benefit plan or change its present pension system.

Consummation of the merger is subject to various conditions precedent, including, as here pertinent, the continuance by both railroads, up to the effective date of the accuracy and performance of their above-described representations and warranties; approval of the merger by the stockholders of each in accordance with the applicable State law; the receipt from this Commission and other appropriate regulatory authorities of all authority necessary to carry out the merger, subject to certain specified conditions or other conditions satisfactory to Union Pacific; and, in connection with the merger, the obtaining of required consents under various instruments of indebtedness of Rock Island, including Commission approval of provisions relating to Rock Island's first mortgage, dated January 1, 1950, to the First National Bank of Chicago and Joseph C. Williams, trustee, and Rock Island's indenture, dated March 1, 1955, to Continental Illinois National Bank and Trust Company of Chicago.[3]

As soon as practicable following the satisfaction of these and all other conditions precedent to the obligations of both parties, Articles of Merger shall be executed between Union Pacific and Rock Island and tendered to the Secretary of the State of Utah, and concurrently, the Merger Agreement shall be tendered for filing in the Office of the Secretary of the State of Delaware and for recording in the Office of the

[2] The Union Pacific has received authority to issue its certificates of deposit for the Rock Island stock tendered.

[3] The provisions, which deal with the apportionment of revenues and expenses of the surviving company to establish a basis for the determination and application of "available net income," will be detailed later in the application under section 20a in Finance Docket No. 23287.

Rocorder of Deeds for the county of New Castle, Del. The merger shall become effective (effective date) upon issuance by the State of Utah of a Certificate of Merger and upon the recording of the Merger Agreement with the Office of the Recorder of Deeds in New Castle County, and, on that date, the Articles of Association of Union Pacific shall be amended and revised as Revised Articles of Incorporation.

Also, on the effective date of the merger, each share of Union Pacific's present 4 percent preferred stock, of the par value of $10, will be converted into UP 3 3/4 percent debentures due 30 years after the effective date of the merger, on the basis of $10 principal amount of debentures for each share of $10 par value preferred; and Rock Island's common stock will be converted into the UP $1.80 convertible preferred. Upon conversion of the UP 4 percent preferred (90.75 percent of which is held by Union Pacific Corporation) into the 4 3/4 percent debentures, the UP 4-percent preferred stock will be canceled.

Following approval by their respective boards of directors, UP and Rock Island shareholders voted in favor of the proposed mergers, and UP stockholders voted in favor of the revised UP Articles of Incorporation. At a May 11, 1965, meeting of Union Pacific stockholders, 82.7 percent of the outstanding shares of common stock and 79.3 percent of the outstanding preferred stock voted in favor of the merger and the Revised Articles of Incorporation, and, at a meeting held on January 7, 1965, 78.2 percent of the outstanding shares of Rock Island stock voted in favor of the merger. The votes exceeded the minimum requirement of the applicable State laws.

In order to consummate the merger, Union Pacific seeks authority under section 20a, in Finance Docket No. 23287, to issue (1) not exceeding 2,991,411 shares of its new $1.80 convertible preferred stock, pursuant to its Revised Articles of Incorporation, (b) not exceeding $93,881,110 in total aggregate amount of 30-year, 4 3/4-percent debentures, and (c) not exceeding 2,542,699 shares of common stock, par value $10 per share, also pursuant to its Revised Articles of Incorporation. In addition, Union Pacific also seeks authority to assume obligation and liability with respect to various bonds, debentures, and other securities of Rock Island, of which $112,628,000 principal amount were outstanding as of December 31, 1969. These securities consist of 2 7/8 percent, Series A, First Mortgage Bonds, due January 1, 1980, of which $32,739,000 were outstanding; 5 1/2 percent, Series C, First Mortgage Bonds, due February 1, 1983, of which $14,798,000 were outstanding; 4 1/2-percent 40-Year Income Debentures, due March 1, 1995, of which $50,338,000 were outstanding, and various equipment trust certificates, of which $14,753,000 were outstanding.

UP also seeks authority to assume liability with respect to various conditional sales agreements and deferred payment contracts, made in connection with the acquisition of equipment, of which $11,186,764 principal amount were outstanding as of December 31, 1969. In addition, UP seeks authority to assume contingent liability with respect to various securities of The Belt Railway Company of Chicago, Illinois Terminal Railroad Company, Packers Car Line Company, St. Paul Union Depot Company, Terminal Railroad Association of St. Louis, and the Trailer Train Co., in total principal amount of $142,434,081, as of December 31, 1969, and jointly guaranteed by Rock Island and other major railroad carriers.

More specifically, these obligations as of December 31, 1969, are described as follows:

(1) Belt Railway of Chicago First Mortgage Bonds, outstanding principal amount $32,035,000, 4 5/8 percent, due August 15, 1987, and guaranteed as to sinking fund, principal, and interest by Rock Island and 11 other railroads.

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(2) Illinois Terminal First Mortgage Bonds, outstanding principal amount $7,525,000, 4 5/8 percent, due December 1, 1987, and guaranteed as to sinking fund, principal and interest by Rock Island and nine other railroads.

(3) Packers Car Line, conditional sale agreement, outstanding principal amount $551,883, 4.45 percent, due annually from June 1, 1958, to June 1, 1972, inclusive, and guaranteed as to principal and interest by Rock Island and eight other railroads.

(4) St. Paul Union Depot, First & Refunding Gold Bonds, outstanding principal amount $8,573,000, 3 1/8 percent, due October 1, 1971, and guaranteed as to principal and interest by Rock Island and six other railroads.

(5) Terminal Railroad Association of St. Louis, Refunding and Improvement Mortgage Bonds, Series C, outstanding principal amount $7,787,075, 4 percent, due July 1, 2019, and guaranteed as to interest and sinking fund installments by Rock Island and 13 other railroads.

(6) Terminal Railroad Association of St. Louis, Refunding and Improvement Mortgage Bonds, Series D, outstanding principal amount $29,771,000, 2 7/8 percent, due October 1, 1985, and guaranteed as to sinking fund, principal and interest payments by Rock Island and 13 other railroads.

(7) Trailer Train Company, various equipment obligations, outstanding principal amount $56,191,123, guaranteed as to principal and interest by "Principal Proprietary Companies," subject to change.

The assumption by Union Pacific of Rock Island's obligations under the series A bonds and the income debentures requires the execution by Union Pacific of an indenture supplemental to the Indenture of Mortgage under which the bonds were issued and an indenture supplemental to the indenture under which the debentures were issued. The present indentures provide for a contingent sinking fund which requires annual payments out of available net income. Additionally, the income debentures bear contingent interest which is payable out of such available net income. These provisions, however, require Commission approval, and, unless we find that no material alteration of the rights of the bondholders or debenture holders is thereby effected, the provisions also must be approved by the holders of two-thirds of the outstanding bonds or debentures as the case may be.

The forms of the two proposed supplemental indentures[4] are substantially similar. Both contain similar provisions for apportionment by the merged Union Pacific-Rock Island of revenues and expenses in order to establish a basis for determining available net income. Two divisions are designated—a Rock Island division and a Union Pacific division—each corresponding to the present properties of the two carriers, and each receiving specific items of revenues and expenses relating thereto, with the remaining revenues and expenses (after deducting the requirements of Union Pacific's two sinking funds) apportioned on a percentage basis as follows: 82.5 percent to the Union Pacific division, and 17.5 percent to the Rock Island division.

The sinking fund for the Rock Island bonds and the interest on and sinking fund for its debentures will be payable out of the available net income of the Rock Island division, but, if in any year, the available net income assignable to the Rock Island division is not sufficient to cover the Rock Island contingent interest and sinking funds, available net income of the Union Pacific division shall be used for such

[4]Supplemental Indenture of Union Pacific to the First National Bank of Chicago and Joseph C. Williams, Trustees (supplementing the indenture dated January 1, 1950 under which the Rock Island First Mortgage Bonds were issued), and Supplemental Indenture of Union Pacific to the Continental Illinois National Bank and Trust Company of Chicago, Trustee (supplementing the indenture dated March 1, 1955, under which Rock Island's Income Debentures were issued).

purposes to the extent necessary. The annual contingent sinking fund on the Rock Island 2 7/8-percent bonds is $1 million, and is $160,000 on the 5 1/2 percent bonds. The sinking fund on the debentures is $1,057,000 for 1965, $1,346,000 per year from 1966-1970, $1,634,000 per year from 1971-1975, $1,922,000 per year from 1976-1994, and $1,910,000 in 1995. Based on the principal amount of debentures outstanding on September 30, 1965, annual contingent interest was $2,323,530.

The UP 4 3/4 percent debentures will be issued under an indenture to a trustee to be selected by Union Pacific creating such debentures and authorizing the same to be authenticated and delivered upon surrender of the 4 percent preferred stock in equal par amount. The proposed indenture between Union Pacific and the Morgan Guaranty Trust Company of New York, as trustee, contains the proposed form of the debentures (with and without coupons) and describes the terms and provisions thereof, the provisions for redemption and the sinking fund to provide the funds for such redemption or retirement. The indenture also sets forth covenants by Union Pacific, chiefly to pay the principal and interest on the debentures when due and to perform and pay or discharge all other lawful obligations as required. Provisions are made for enforcement by the trustee and debenture holders of said covenants, and also for the execution of supplemental indentures, for the calling of a debenture holders' meeting in specified situations, and for the satisfaction and discharge of the indenture.

In addition to Union Pacific's proposal, the railroad's holding company, UP Corporation, also seeks authority in Finance Docket No. 23287, to issue its own $1.80 no par preferred stock, convertible into 0.85 share of the corporation's common stock, and which could be exchanged for each share of UP Railroad's convertible preferred stock which the Rock Island stockholders would receive in return for their present Rock Island common shares. The applicant states that the UP Corporation $1.80 convertible preferred stock would be the "exact security" as the railroad's $1.80 convertible preferred. However, unlike the railroad's Revised Articles of Incorporation which contain a detailed description of the rights and preferences of the UP $1.80 preferred, UP Corporation's Revised Articles of Incorporation do not fully describe the rights of the corporation's preferred stock.

Under the UP Corporation proposal, Rock Island shareholders could choose to take common stock in either UP Railroad or UP Corporation by (1) converting their railroad preferred into railroad common, or (2) exchanging their railroad preferred for corporation preferred, which could then be converted into corporation common. There are no provisions, however, under which the common stock of one may be converted into the common stock of the other. Although the Rock Island shareholders may elect to take securities of Union Pacific Corporation, Union Pacific Railroad still will assume the obligations and liabilities of Rock Island as a result of the merger. UP Corporation does not intend to acquire all, or such a large percentage, of Union Pacific Railroad stock as would preclude the listing of the stock on the New York Stock Exchange, and thus, minority holders of UP stock would be protected by maintaining a market in the security.

At the further hearing, UP Corporation proposed issuing its own $1.80 convertible preferred stock directly in exchange for the Rock Island stock so that the applicants could avoid the mechanics of multiple issuances and exchanges. This would be a substantially different proposal than the one presented to the Commission in UP Corporation's petition for intervention, and in its supplemental application, and both UP and UP Corporation are agreeable to the following whichever procedure for the exchange of the securities that the Commission may direct.

The construction application (F.D. No. 24128).—The portions of line in Colorado, Kansas, Nebraska, which Union Pacific seeks authority to construct in Finance Docket No. 24128 are: (1) a line approximately 0.25 miles between milepost 3.40 on the Rock Island's Denver Freight Line, in Adams County, Colo., and milepost 3.86 on Union Pacific's Denver-Cheyenne main line, in the city and county of Denver, Colo. (This will be needed as a connection between Rock Island's Sandown line and Union Pacific's Cheyenne line); (2)(a) a line about 3.15 miles between milepost 386.96 on the Rock Island main line, and milepost 205.62 on Union Pacific's Plainville branch, all in Thomas County, Kans., and (b) a line of about 0.28 miles between milepost 201.79 on Union Pacific's Plainville branch, and a point of connection with the above-described connecting track, all in Thomas County, Kans. (These extensions are required as a new main-line connection and as a connection between Union Pacific's Plainville branch and the new main line at Colby); (3)(a) a line about 200 feet between milepost 152.99 on Union Pacific's main line, and milepost 156.25 on Rock Island's Ruskin branch, all in Jefferson County, Nebr., and (b) a line about 200 feet between milepost 154.25 on Union Pacific's main line, and milepost 157.50 on Rock Island's Ruskin branch (as hereafter shown, authority is sought for the abandonment of 1.25 miles of Rock Island's present Ruskin branch which parallels a portion of Union Pacific's main line: the extensions here are to provide connections at each end of the line proposed to be abandoned); (4) a line approximately 0.96 miles between milepost 61.95 on Union Pacific's Beatrice branch, and milepost 566.50 on Rock Island's main line, all in Lancaster County, Nebr. (this is to provide a connection at Lincoln between a line of Rock Island and a line of Union Pacific so that the Rock Island line can be used as part of Union Pacific's freight route between Omaha and Kansas City); (5) a line approximately 0.5 miles between milepost 14.65 on Union Pacific's old main line and milepost 513.38 on Rock Island's main line, all in Sarpy County, Nebr. (this is to provide a connection between the two carriers' main lines after the anticipated abandonment of 5.87 miles of Rock Island's main line paralleling Union Pacific's main line); (6)(a) a line approximately 200 feet between milepost 125.27 on Rock Island's Horton branch, and milepost 101.19 on Union Pacific's Manhattan branch, all in Gage County, Nebr., and (b) a line approximately 200 feet between milepost 128.90 on Rock Island's Horton branch, and milepost 97.64 on Union Pacific's Manhattan branch, all in Gage County, Nebr. (These extensions will provide connections at each end of a Rock Island portion of line 3.63 miles long while parallels Union Pacific's main line south of Beatrice and which is proposed to be abandoned.) Union Pacific believes that all the proposed extensions are necessary for the unified operation of the properties of the two railroads to be conducted economically and efficiently, and it plans to finance the proposed construction from cash in its treasury.

Proposed abandonment (F.D. No. 24129).—The portions of line in Colorado, Kansas, and Nebraska, which Union Pacific seeks authority to abandon in Finance Docket No. 24129 are: (1) a portion of Rock Island's Denver Freight Lines, of about 0.59 miles, in Adams County, Colo., between Rock Island mileposts 3.40 and 3.99 (this portion will be needed no longer if authority for the construction of the line in (1) Finance Docket No. 24128 is granted); (2) a segment about 2.12 miles of that portion of Union Pacific's Plainville branch in Thomas County, Kans., between Union Pacific's mileposts 203.50 and 205.62 (this will no longer be needed if the extensions in paragraph (2) in the application aforementioned are granted); (3) approximately 1.25 miles of that portion of Rock Island's Ruskin branch in Jefferson County, Nebr., between Rock Island mileposts 156.25 and 157.50 (this line will not be needed if construction of the extension sought in (3) above is found required); (4) approximately 5.87 miles of that portion of Rock Island's main line in Douglas and Sarpy Counties, Nebr., between Rock Island mileposts 507.51 and 513.38 (this will no longer be needed if the authority sought for the construction delineated in (5) in the construction application is granted); (5) approximately 3.63 miles of that portion of Rock Island's Horton branch in Gage County, Nebr., between Rock Island mileposts 125.27 and 128.90. (This line will not be needed if the authority sought in (6) in the construction application is granted.)

Each of the abandonments involves track at a point now common to the lines of Rock Island and Union Pacific and does not involve any abandonment or reduction of service to any station or territory except Rumsey, Nebr. Since 1960, that station has received a total of 14 cars with total revenues of $2,000, and it has received no cars since 1962. Applicants contend that the abandonments will be necessary in order for the combined operations of the properties of the two railroads to be conducted economically and efficiently.

The Southern Pacific purchase transaction.—Pursuant to the agreement between UP and SP, Southern Pacific would purchase from UP the Rock Island line extending from Santa Rosa, N. Mex., to Kansas City, including Rock Island's trackage rights over Union Pacific between Topeka, Kans., and Kansas City, Kans.; the properties of Rock Island in Kansas City, Kans., and Kansas City, Mo.; and all other Rock Island lines south of Kansas City, with the exception of the lines between McFarland and Belleville, Kans., and between Kansas City and St. Louis. In addition, Southern Pacific would acquire 38.8 percent of Rock Island equipment, based on its depreciated value.

Southern Pacific would also acquire (1) materials and supplies held for use on such lines, including a proper proportion of general stores; (2) industrial properties held primarily for sale or lease, and all of Rock Island's interest in railroad, bridge, and terminal companies, as owned by Rock Island immediately prior to the date of its merger with Union Pacific, and which are within the general geographical area of the acquired lines; (3) all franchises, privileges, rights-of-way, easements, licenses, and permits owned or used by Rock Island in connection with the operation of the above-mentioned lines, including all fixtures and appurtenances used in the operation thereof; (4) all contracts to which Rock Island is a party on the said merger date and in effect in the general geographical area of the acquired lines, it being understood that Southern Pacific would make and perform all the obligations which Rock Island has agreed to make and perform with respect to such agreements; and (5) that portion of the motor carrier operating rights of Rock Island Motor Transit Company as are located in the geographical area served by the rail lines to be acquired by Southern Pacific. Any property to be acquired by Southern Pacific or Union Pacific may be acquired at the election of either by a company or companies in which it owns substantially all of the capital stock.[3]

As consideration for the above-described properties, Southern Pacific would pay Union Pacific $120 million in cash, subject to adjustment upward or downward of 38.8 percent of any net increase or decreases, as the case may be, in the total indebtedness of Rock Island between December 31, 1963, and the closing date, provided any such addition shall not exceed the gross capital expenditures for road and equipment property and miscellaneous physical property, less depreciation on such properties and less proceeds from sale of any such properties, made after December 31, 1964, and prior to the closing date.

[3]As seen in Docket No. MC-F-9222, SP Transport, the wholly owned motor carrier subsidiary of Southern Pacific, seeks authority to acquire the above-described operating rights of RI Transit.

Among other things, the agreement provides that the transactions will be effected if this Commission grants satisfactory final approval for the merger of Rock Island into Union Pacific and acquisition by Southern Pacific of the southern portion of the Rock Island properties, but such approval shall not be deemed satisfactory if subjected to conditions which are found by either Southern Pacific or Union Pacific to be substantially burdensome to it. However, the following conditions shall not render approval unsatisfactory: employee protective conditions which are not substantially more burdensome to the employer than those generally prevailing at the time of Commission approval; customary conditions concerning reporting information and filing documents with the Commission, and prohibitions against the sale, pledge, repledge, or other disposition of securities pursuant to Commission authority without further authorization.

Following approvals, Union Pacific shall notify Southern Pacific of the date and place for the contemporaneous closing of the two transactions which date shall not be less than 3 months and not more than 6 months after such notification. In the event the closing date has not occurred within 7 years after the date of the agreement, the agreement shall terminate. Upon the closing, Union Pacific, after merger of Rock Island into it, would convey to Southern Pacific all right, title, and interest in the southern portion of Rock Island without encumberances or imposition of any lien to secure funded debt, except as agreed to by Southern Pacific. If Southern Pacific assumes any such lien, the consideration payable under the agreement will be reduced by the principal amount of indebtedness assumed and any interest accrued thereon at the time of closing.

After the closing date, pension benefits payable under the Rock Island pension plan shall be paid by Union Pacific, of which 45 percent of the total amount paid shall be reimbursed by Southern Pacific on a monthly basis. Both parties will be severally responsible for the payment of any protection benefits imposed by the Commission pursuant to section 5(2)(f) of the act, which benefits are required to be paid to former Rock Island employees whose work is directly assignable to the Southern Pacific part or the Union Pacific part, respectively. As to Rock Island employees whose work is not so directly assignable, Southern Pacific shall pay 45 percent of the cost of furnishing the required employee protection benefits and Union Pacific, the balance.

If Rock Island is a party to any agreement or arrangement for rendering services at points not on the lines of the Rock Island, which services are not directly assignable to the Union Pacific or Southern Pacific part of Rock Island and which agreement continues in effect after the closing date, all rentals, salary, wage cost, and other expenses incurred in rendering such service shall be paid by Union Pacific with the 45 percent reimbursement by Southern Pacific. Southern Pacific will also share in like proportion in any benefits arising therefrom. In addition, the parties agree to conduct negotiations for unification and joint operation of the present freight yards of Rock Island and Union Pacific at Kansas City, or joint SP-UP usage of the Rock Island yards; however, failure to reach an understanding in these respects shall not affect the validity of the agreement.

In case any disagreement arises between the parties as to the meaning or performance of any provisions of the agreement or as to any other matter arising under the agreement, such disagreement shall be submitted to arbitration pursuant to the New York Civil Practice Act. Nothing in the agreement shall be construed as imposing any obligation on Union Pacific inconsistent with its contractual duties under the Merger Agreement of June 1, 1964, between Union Pacific and Rock Island or under the Union Pacific Exchange Offer of September 1, 1964, as amended October 1, 1964.

Included within the previously described properties proposed to be purchased by Southern Pacific (also embraced within its application to acquire control through ownership of stock or proprietary interest) are the interests now held by Rock Island in the following companies: 33 1/3 percent in the Arkansas & Memphis Railway Bridge and Terminal Company; 50 percent in the Galveston Terminal Railway Company; 45 percent in the Great Southwest Railroad, Inc.; 12 1/2 percent in the Houston Belt and Terminal Railway Company; 8 1/2 percent in the Kansas City Terminal Railway Company; 50 percent in the Oklahoma City Junction Railway Company; 12 1/2 percent in the Union Terminal Company of Dallas; 33 1/3 percent in the Wichita Union Terminal Railway Company; and sole ownership of the Warren and Ouachita Valley Railway Company. Southern Pacific would assume certain contingent obligations of Rock Island in regard to bonds of certain of the foregoing companies, as discussed infra.

Similarly included in the proposed purchase and authority sought are the following trackage rights of Rock Island: (1) use of Gulf, Colorado and Santa Fe Railway Company trackage between Houston and Galveston, Tex. (approximately 47 miles); (2) use of Louisiana & Arkansas trackage between Winnfield and Alexandria, La. (approximately 47 miles); (3) use of Katy trackage between Dallas and Waxahachie, Tex. (approximately 29 miles); (4) use of Frisco trackage between Enid and Carmen, Okla. (approximately 39 miles); (5) use of Frisco trackage between Leeds Junction and Sheffield, Mo. (approximately 3 miles); (6) use of Union Pacific trackage between Abilene and Salina, Kans. (approximately 20 miles); and (7) use of Union Pacific trackage between Kansas City and Topeka, Kans. (approximately 67 miles). Authority is also requested for use of various trackage and facilities pursuant to local trackage agreements and joint facility and other operating arrangements with other carriers by railroad.

By related application under section 20a of the act, in Finance Docket No. 23596, Southern Pacific seeks authority to assume contingent liability with respect to certain securities, now guaranteed by Rock Island and certain other carriers. Specifically, these obligations, which had a total outstanding principal amount of $38,249,000 as of December 31, 1969, are as follows:

(1) Arkansas & Memphis First Mortgage Bonds, outstanding principal amount $585,000, 2 3/4 percent, due serially September 1, 1975; and guaranteed by endorsement jointly and severally by Rock Island and two other railroads.

(2) Houston Belt & Terminal promissory note to the Texas National Bank of Commerce of Houston, principal amount $2,195,000, 5 1/2 percent, due June 30, 1972, and guaranteed as to sinking fund, principal, and interest by Rock Island and three other carriers.

(3) Kansas City Terminal First Mortgage Serial Bonds, outstanding principal amount $32,204,000, 3 percent through 1970, 2 1/3 percent October 1, 1971, 1 7/8 percent October 1, 1972 and 1973, and 2 3/4 percent October 1, 1974. Guaranteed through an operating agreement which provides unconditionally for payment of 1/12 of interest, principal, and premium (if any) by each of Rock Island and 11 other railroads. In the event of default by one of the guarantors, the defaulted amounts are to be prorated among the others.

(4) Union Terminal of Dallas First Mortgage Bonds, outstanding principal amount $4,265,000, 3 percent, due June 1, 1978. Guaranteed through an operating agreement which provides for payment by Rock Island of 1/8 the amounts due in respect of principal and interest. Other than these contingent obligations, no guarantee or assumption of payment of dividends or fixed charges is contemplated by SP as a result of the purchase transaction.

The Southern Pacific motor carrier purchase transaction.—In accordance with the provisions of the purchase agreement between UP and SP, Southern Pacific elected to have its subsidiary, Southern Pacific Transport, acquire that portion of the motor carrier operating authority of Rock Island Transit covered by the purchase agreement between UP and SP. The purchase price set forth in the UP-SP agreement includes the consideration payable to Union Pacific for the motor carrier operating rights to be acquired by SP Transport; however, SP Transport would pay its parent $35,851 for the authority. No increase in the fixed charges of Southern Pacific Transport would result from the purchase, and no guaranty or assumption of payment of dividend or fixed charges is involved.

The Rock Island Transit operating rights to be acquired are those embraced in certificate No. MC-29130 (route Nos. 6, 7, 8, 9, 10, 29, 30, 31, 47, 49, 54, 55, 57, 58, 59, 60, 61, and a portion of route No. 56), and No. MC-29130 (Sub-Nos. 40, 44, 46, 56, 67, 71, 76, and 82). The principal operating rights to be acquired by SP Transport authorize transportation, over regular routes: (1) between Kansas City and Dalhart, Tex., via Hutchison, Wichita, and Liberal, Kans., (2) between Wichita and Dallas, via El Reno, Okla., and Fort Worth, (3) between El Reno and Memphis, via McAlester, Okla., and Little Rock, Ark., and (4) between Little Rock and Winnfield, La.; serving most intermediate points. Some of the RI Transit operating rights authorize the transportation of general commodities, with only the usual exceptions, while others are limited to the transportation of specific commodities, and some are restricted to service auxiliary or supplemental to the rail service of the parent rail carrier. Except for that portion of the route between Kansas City and Topeka, which contains the rail service restriction, the route between Kansas City and Dalhart is general-commodity authority, without restriction as to service. The route between Wichita and Fort Worth is limited to the transportation of baggage and express, and is restricted to service auxiliary or supplemental to the rail service provided by the Rock Island Railroad. The route between Fort Worth and Dallas authorizes the transportation of general commodities and also is subject to the rail service restriction. The portion of the El Reno-Memphis route between El Reno and Bonneville, Ark., authorizes the transportation of general commodities, subject to the rail service restriction, while that portion between Bonneville and Memphis authorizes transportation of general commodities without the rail service restriction. The route between Little Rock and Winnfield authorizes the transportation of express, newspapers, milk and cream, and returned empty containers, and is restricted to service auxiliary or supplemental to rail service.

SP Transport is acquiring only operating rights from Rock Island Transit, and it proposes to offer the same type of services contemplated by the rights proposed to be purchased. SP Transport estimates that the additional equipment to be needed will require an investment of $476,700, and that annual operation and maintenance costs of $42,800 will be incurred. It plans to retain essential employees of RI Transit, and contends that employees' interests will not be adversely affected by the transaction.

Southern Pacific Transport holds certificates issued in No. MC-30319 and some 72 subnumbered proceedings thereto. It presently operates 8,758 miles of regular routes in the States of Texas and Louisiana which generally parallel the lines of its parent rail carrier, and most of its authority is restricted to the performance of service auxiliary or supplemental to the rail service provided by its parent. In addition, Southern Pacific Transport has intrastate authority to transport general commodities over approximately 7,817 miles of routes in Texas and Louisiana.

Southern Pacific also controls several other motor carriers, including Southwestern Transportation Company (Southwestern), which is a subsidiary of the Cotton Belt Railroad. Pursuant to authority issued in Nos. MC-59488 and MC-59488 (Sub-No. 4), Southwestern operates over 2,931 miles of regular routes in Arkansas, Louisiana, Missouri, Tennessee, and Texas, which generally parallel the lines of the Cotton Belt. Southwestern's operating rights are not restricted to service auxiliary or supplemental to that of its parent railroad, and certain of these rights duplicate those of Rock Island Transit, which would be acquired by SP Transport. The most significant of these includes rights between Memphis and Little Rock, between Hazen and Stuttgart, Ark., and between Fort Worth and Dallas. Southern Pacific contends that these duplications are minor, and that operation of these duplicate rights under common control would not be inconsistent with the public interest.

The Santa Fe applications.—The terms of Santa Fe's agreement with the North Western are set forth in the Administrative Law Judge's report. As Santa Fe's section 5 application in Finance Docket No. 23919, has been rendered moot by the actions of North Western, no purpose would be served by repeating the terms of the agreement herein; however, there remain other Santa Fe applications which should be considered.

In Finance Docket No. 23920, Santa Fe seeks authority under section 20a of the act to assume contingent liability with respect to certain securities of the Arkansas & Memphis Railway Bridge and Terminal Company, the Houston Belt & Terminal Company, and the Union Terminal Company of Dallas, which are guaranteed by the Rock Island. These are among the same securities with respect to which Southern Pacific seeks authority to assume contingent liability in its application in Finance Docket No. 23596, and are fully described, *supra.*

In No. MC-F-9668, Santa Fe Trail seeks authority to purchase Rock Island Transit's operating rights, terminals, and other facilities (other than highway equipment) appurtenant to RI Transit's routes between Wichita and Fort Worth-Dallas; between El Reno and Memphis; and between Little Rock and Winnfield, La. These operating rights appear in Rock Island Transit's certificate No. MC-29130 and in subnumbers 40, 46, 56, 71, 76, and 82 thereunder, and are more fully described, *supra,* in our discussion of the motor carrier operating authority sought to be acquired by SP Transport in No. MC-F-9222.

In Finance Docket No. 24154, Santa Fe seeks, pursuant to section 3(5) of the act and contingent upon it acquiring trackage rights over Rock Island's Kansas City-St. Louis line, use of certain Frisco terminal facilities located in Kansas City, Mo. The facilities, which consist of approximately 2 1/2 miles of Frisco trackage and passing tracks, together with cross-over and appurtenant facilities, are presently used by the Rock Island to connect the Kansas City-St. Louis line with the remainder of its system, and would be used by the Santa Fe for the same purpose.

Santa Fe proposes to pay the Frisco a consideration agreeable to both parties, or, if they are unable to agree, a consideration to be determined by the Commission. Pursuant to the present agreement between Rock Island and Frisco, Rock Island pays Frisco a monthly rental of 1/12 of 2 1/2 percent of the value of the trackage, as of March 24, 1954, amounting to $301,956, plus 2 1/2 percent of the cost of any additions or betterments made to the facilities subsequent to that date. Rock Island also pays 50 percent of the taxes levied on the facilities and a proportion of the cost of their maintenance and operation.

APPENDIX "B"

Description, operations, and finances of applicants and major intervening railroads[1]

ROCK ISLAND

The present Chicago, Rock Island & Pacific Railroad Co. was incorporated in Delaware, in 1947, as successor in reorganization to the bankrupt Chicago, Rock Island & Pacific Railway Co.

Scope of operations.—The Rock Island system serves a vast area of the central United States, with lines in the States of Illinois, Iowa, South Dakota, Minnesota, Nebraska, Kansas, Colorado, Missouri, Arkansas, Tennessee, Louisiana, Oklahoma, Texas, and New Mexico. As of December 31, 1972, Rock Island operates 7,490 miles of road, including leased lines and lines operated under trackage rights and joint operating agreements, and actual mileage of track, of all types, totaled 11,036.

Rock Island's main lines extend from Chicago westward, through Davenport, Des Moines, and Council Bluffs, Iowa, and Omaha, Nebr., to Denver and Colorado Springs, Colo.; from Davenport southwestward through Kansas City and St. Joseph, Mo., and Topeka, Kans., to Tucumcari and Santa Rosa, N. Mex.; from West Liberty, Iowa, a point on the Chicago-Denver line, to Minneapolis-St. Paul, Minn.; from Minneapolis-St. Paul south, through Des Moines, to a connection with the Davenport Tucumcari line at Allerton, Iowa; from St. Louis westward, through Kansas City and Topeka, to a point of connection with the Chicago-Denver line at Belleville, Kans.; from Herington, Kans., on the Davenport-Tucumcari line, south through Wichita, Kans., El Reno, Okla., Fort Worth, Dallas, and Houston, Tex., to Galveston, Tex., from Memphis, Tenn., westward through Little Rock, Ark., Oklahoma City and El Reno, Okla., and Amarillo, Tex. to Tucumcari; and from Little Rock southward to Alexandria and Eunice, La.

Major yards of the Rock Island are located at Chicago, Des Moines, Fort Worth, Kansas City, and Silvis, Ill., and other important yards are located at Cedar Rapids and Council Bluffs, Iowa, Joliet and Peoria, Ill., St. Louis and Trenton, Mo., Inver Grove, Minn., Herington, Kans., El Reno, Okla., Dallas, Denver, Little Rock, Memphis, and Tucumcari. The heavy and general repair of freight cars is presently concentrated at Kansas City and El Reno, and passenger cars are repaired only at Chicago. As of December 31, 1972, Rock Island's freight car fleet consisted of 13,054 boxcars, 2,065 flat and rack cars, 2,857 gondolas, 2,282 open hoppers, 5,480 covered hoppers, and 80 cars of other types.

In addition to its own lines, Rock Island also controls, either solely or jointly with other carriers, a number of companies, almost all of which are engaged in transportation or some transportation related enterprise. These companies and the extent of Rock Island's interest therein is set forth in table 1, below:

[1]The data contained herein was taken for the most part, from the Administrative Law Judge's report. Additional data is available in that report. Selcted financial data has been updated by reference to the annual reports of the various carriers, filed with the Commission.

TABLE I

Rock Island interest in other companies

Company	Nature of business	Percent of R.I. interest
Arkansas and Memphis Railway Bridge and Terminal Company.	Terminal	33.33
Belt Ry. of Chgo., The	Switching	7.70
Calumet Western Ry. Co	----do	25.00
Denver Market and Produce Term., Inc	Terminal	20.00
Denver Union Term. Ry. Co	Switching & terminal	16.67
Galveston Terminal Ry. Co	Lessor	50.00
Great Southwest R. R., Inc	Switching & terminal	45.00
Houston Belt & Term. Ry. Co	----do	12.50
Illinois Terminal R. R. Co	Line haul	9.09
Iowa Transfer Ry. Co	Switching	20.00
Joliet Union Depot Co	Terminal	33.33
Keokuk Union Depot Co	----do	20.00
Kansas City Term. Ry. Co	Terminal & switching	8.33
Minnesota Trans. Ry. Co., The	Switching & terminal	11.11
Oklahoma City Jct. Ry. Co	Lessor	50.00
Peoria & Bureau Valley R. R. Co	----do	96.72
Peoria Terminal	Switching	100.00
Pullman Co., The	Private car co	2.21
Pullman R. R. Co., The (inactive)	Lessor	100.00
Rock Island Imprv. Co	Holding co	100.00
Rock Island Motor Transit Co	Motor carrier	100.00
St. Paul Union Depot Co	Switching & terminal	12.50
Terminal R. R. Assn. of St. Louis	----do	6.25
Trailer Train Company	Private car line	2.44
Union Terminal Company, Dallas, Tex	Terminal	12.50
Warren and Ouachita Valley R. R. Co	Line haul	100.00
Wichita Union Term. Ry. Co	Switching & terminal	33.33

Freight traffic.—Rock Island transported 20.6 billion revenue ton-miles in 1972, an increase from 14.3 billion in 1964 and 12.5 billion in 1955. In 1968, overhead (bridge) traffic constituted about 25 percent of Rock Island's total traffic, local traffic about 26 percent, interline originated traffic about 27 percent, and interline terminated traffic 22 percent. Farm products are the most important single commodity transported by the Rock Island, accounting for from 19-25 percent of Rock Island's tonnage and from 19-24 percent of its freight revenue doing the years, 1964 through 1958, and food and products are the second most important commodity group suppling 13-16 percent of Rock Island's tonnage and freight revenue during the same period. Grain traffic consitutes a large portion of the total agricultural traffic handled by the carrier, with wheat traffic, alone, contributing from 5.8 to 9.0 percent of Rock Island's total commodity revenue during the 1965-1968 period.

Chicago is the most important single terminal on the Rock Island system. In 1965, 34,727 cars were originated in Chicago and 38,974 terminated at that point. The second most important origination point was Lafayette, Ill., with 18,554 cars, and the only other termination points with more than 20,000 cars were Des Moines with 34,837 and Kansas City with 20,283. Other important origin points were (in descending order of importance): Des Moines, Cedar Rapids, Kansas City, Muscatine, Iowa, Davenport, Enid, Okla., Joliet, Ill., Duban, Colo., and Ottawa, Ill., with between 10,000 and 16,000 cars each. Termination points with between 10,000 and 17,00 cars were: Houston, Denver, Dallas, Davenport, Enid, Oklahoma City, and Forth Worth.

Traffic flow on the various Rock Island lines, expressed in terms of daily average net tons during the year 1964, is shown by the following table. Traffic is shown only for those lines handling over 1,000 net tons daily.

TABLE 2

Rock Island traffic flow

Line segment	Daily average net tons (000's)	
	Westbound[1]	Eastbound
Chicago-Davenport, Iowa	7.7-10.3	12.6-14.2
Davenport-West Liberty, Iowa	7.4	9.2
Davenport-Allerton, Iowa	4.1-4.3	4.7-5.3
West Liberty-Manly, Iowa	1.5-2.8	4.2-5.6
Manly-Twin Cities	3.7 (NB)	4.8(SB)
West Liberty-Omaha	3.5-3.8	4.7
Manly-Allerton	2.5-2.7(SB)	3.0-3.3(NB)
Allerton-Kansas City	6.4-6.7(SB)	7.9(NB)
St. Louis-Kansas City	1.8-1.9	1.8
Kansas City-McFarland, Kans	9.1-10.1	8.7-10.1
McFarland-Belleville, Kans	1.9	3.1
Omaha-Belleville	2.7	2.7
Belleville-Limon, Colo	3.4-4.4	3.4-4.0
Limon-Denver	4.3	2.7
McFarland-Herington, Kans	8.9	7.6
Herington-Tucumcari, N. Mex	2.8-3.7	3.0-4.3
Herington-Fort Worth	6.7-8.7(SB)	1.7-2.5(NB)
Fort Worth-Dallas	6.5(SB)	0.8(NB)
Dallas-Houston	3.3(SB)	0.5(NB)
Memphis-El Reno, Okla	2.8-3.5	3.0-3.8
El Reno-Tucumcari	0.8-1.1	0.5-2.2

[1]Where the line segment in question actually runs north-south, direction of traffic flow is indicated by (NB)—northbound and (SB)—southbound.

Rock Island's interchange with railroads likely to be effected by the proposed transactions, at major gateways for the year 1963, is shown in table 3. The figures are listed for all western carriers which will be effected by the transaction. As eastern carriers are now shown, discrepancies will appear between the listed interchange figures for individual railroad companies and the grand totals. Adjustments have been made for all carriers which have been involved in unifications.

TABLE 3

ROCK ISLAND INTERCHANGE

I. Lines north of and including Herington, Kans.

RI station	Connecting carrier	Rock Island carloads		
		Delivered	Received	Total
St. Louis, Mo	BN	70	137	207
Do	MKT	4	2	6
Do	MP	128	504	632
Do	SLSF	302	154	456
Do	SLSW	74	119	193
Do	Grand total	11,688	14,942	26,630
Gateways in central and eastern Iowa and western Illinois				
Silvis, Ill	BN	1,172	912	2,084
Davenport, Iowa	do	33	97	130
Do	MILW	111	119	230
Do	Grand total	144	216	360
Des Moines, Iowa	BN	328	389	717
Do	CNW	7,956	5,903	13,859
Do	MILW	210	309	519
Do	Grand total	9,097	7,006	16,103
Cedar Rapids, Iowa	CNW	699	145	844
Do	MILW	359	147	506
Do	All others	1,242	715	1,957
Do	Grand total	2,300	1,007	3,307
Gateways in Twin Cities area				
Twin Cities	BN	10,907	11,349	22,256
Do	CNW	494	285	779
Do	MILW	629	509	1,138
Do	MNS	59	234	293
Do	Soo	1,670	1,967	3,637
Do	All others	21	5	26
Do	Grand total	13,780	14,349	28,129
Minn. Transfer, Minn	BN	1311	5319	6630
Do	CNW	114	241	355
Do	MILW	225	621	846
Do	Soo	794	1,862	2,656
Do	Grand total	2,444	8,043	10,487
Northfield, Minn	CNW	9	1	10
Do	MILW	6	7	13
Do	MNS	14,121	15,572	29,693
Do	Grand total	14,136	15,580	29,716

I. Lines north of and including Herington, Kans.—Continued

RI station	Connecting carrier	Rock Island carloads		
		Delivered	Received	Total
	Missouri River gateways			
Council Bluffs, Iowa	BN	974	2,196	3,170
Do	CNW	1,605	1,364	2,969
Do	MILW	1,061	1,080	2,141
Do	UP	7,970	15,431	23,401
Do	All others	283	252	535
Do	Grand total	11,923	20,333	32,256
Kansas City, Kans	ATSF	8,728	12,761	21,489
Do	BN	5,914	7,490	13,404
Do	CNW	1,130	923	2,053
Do	KCS	4,069	3,930	7,999
Do	MILW	5,530	5,534	11,064
Do	MKT	2,866	2,905	5,771
Do	MP	5,267	6,460	11,727
Do	SLSF	6,320	5,788	12,108
Do	UP	2,694	4,882	7,576
Do	All others	1,448	1,648	3,096
Do	Grand total	60,513	57,880	118,393
	Other Kansas gateways			
Herington, Kan	MP	50	454	504
Topeka, Kans	ATSF	243	1,505	1,748
Do	MP	18	391	409
Do	UP	681	1,480	2,161
Do	Grand total	942	3,376	4,318
	The Denver gateway			
Denver, Colo	ATSF	67	256	323
Do	BN	350	92	442
Do	C&S	528	297	825
Do	DRGW	14,350	17,516	31,866
Do	UP	2,731	960	3,691
Do	Grand total	18,026	19,121	37,147

II. LINES SOUTH OF HERINGTON

The Arkansas and Tennessee gateways

RI station	Connecting carrier	Rock Island carloads		
		Delivered	Received	Total
Memphis, Tenn	MP	323	28	351
Do	SLSF	4,915	5,677	10,592
Do	SLSW	46	14	60
Do	All others	17,181	13,766	30,947
Do	Grand total	22,465	19,485	41,950
Little Rock, Ark	MP	3,946	2,100	6,046
Do	SLSW	19	350	369
Do	Grand total	3,965	2,450	6,415
Fordyce, Ark	SLSW	5,890	1,849	7,739
Do	All others	6	4	10
Do	Grand total	5,896	1,853	7,749
	Louisiana gateways			
Alexandria, La	LA	1,798	1,048	2,846
Do	MP	2,081	140	2,221
Do	SP	3,805	2,842	6,647
Do	TP	1,028	369	1,397
Do	Grand total	8,712	4,399	13,111
Hodge, La	All others	5,146	3,992	9,138
	Oklahoma and Texas gateways			
Oklahoma City, Okla	ATSF	2,009	2,633	4,642
Do	MKT	28	11	39
Do	SLSF	613	1,269	1,882
Do	Grand total	2,650	3,913	6,563
Dallas, Tex	FWD	68	8	76
Do	ATSF	254	92	346
Do	LA	5,558	642	6,200
Do	MKT	1,051	215	1,266
Do	SLSF	39	36	75
Do	SLSW	217	137	354
Do	SP	2,818	791	3,609
Do	TP	1,137	313	1,450
Do	Grand total	11,142	2,234	13,376
Fort Worth, Tex	FWD	709	1,008	1,717
Do	ATSF	1,300	1,366	2,666
Do	MKT	857	370	1,227
Do	MP	2,680	1,437	4,117
Do	SLSF	299	182	481

II. LINES SOUTH OF HERINGTON—Continued

Oklahoma and Texas gateways—Continued

RI station	Connecting carrier	Rock Island carloads		
		Delivered	Received	Total
Fort Worth, Tex	SLSW	7,075	262	7,337
Do	SP	4,433	3,984	8,417
Do	TP	4,635	5,142	9,777
Do	Grand total	21,988	13,751	35,739
Dalhart, Tex	FWD	1,910	7,385	9,295
Houston, Tex	ATSF	4	18	22
Do	FWD	-----	-----	-----
Do	MKT	-----	-----	-----
Do	MP	1,233	425	1,658
Do	SP	1,736	259	1,995
Do	Grand total	2,973	702	3,675
Amarillo, Tex	FWD	946	4,081	5,027
Do	ATSF	5,737	3,842	9,579
Do	Grand total	6,683	7,923	14,606
	The Tucumcari gateway			
Tucumcari, N. Mex	SP	51,090	55,052	106,132

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

The four easternmost terminals north of Herington (Chicago, Joliet, Peoria, and St. Louis) together accounted for a 1963 interchange of 240,209 cars, of which 130,881 were delivered by Rock Island to connections.

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

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

The Tucumcari interchange, as noted, was the third largest in volume for Rock Island in 1963, with a total of 106,132 cars. Rock Island, of course, has but one

connection at Tucumcari, the Southern Pacific. Of the total interchange, Rock Island delivered 51,090 cars to the Southern Pacific, and received 55,042 cars from that carrier.

Financial analysis.

Although Rock Island's total railway operating revenues have increased from $201 million in 1963 to $305 million in 1972, increases in expenses have more than offset its revenue gains and the carrier has gone into a serious financial decline. Rock Island has suffered a net loss, after fixed charges and other deductions in 1965 and every subsequent year, and a net railway operating loss in every year since 1967.

Indicative of Rock Island's financial decline is the decline in its working capital, as demonstrated by table 7. For the period, 1953-1960, Rock Island showed an average monthly working capital requirement of $12.4 million. Its average current assets exceeded its average current liabilities during that period by about $16.5 million and resulted in an average working capital ratio of 1.3, which appeared sufficient to conduct orderly operations. Since 1958, however, Rock Island has suffered a decline in working capital in each succeeding year, with the exception of 1962, until at the end of 1972 it had a working capital deficit of $14 million and a current ratio of .76.

As a result of its financial difficulties, Rock Island has had difficulty in borrowing money. In order to obtain operating funds it has been forced to sell assets and defer maintenance and needed capital improvements. At times, the carrier has been forced to defer payment of its current liabilities and, as of December 31, 1972, Rock Island was $18.7 million in arrears on sinking fund and contingent interest payments on its long-term funded debt. Because such payments have first claim on its net income, any return to a profitable position would do little to improve Rock Island's cash position, until these arrearages are satisfied.

The condition of Rock Island's roadway, resulting from deferred maintenance, is fair to poor. As of August 1973, slow order restrictions totaling about 2,340 miles were in effect on approximately 32 percent of the Rock Island system. Included were 1,800 miles of main line which were under slow orders. Rolling stock, on the other hand, is in relatively good condition, primarily because Rock Island has been retiring older equipment, in need of extensive maintenance, and replacing it with newer leased equipment. As of December 31, 1971, 21 percent of Rock Island's freight car fleet was over 20 years old, 35 percent between 11 and 20 years old, and 44 percent less than 11 years old. However, 50.2 percent of its locomotive fleet was more than 18 years old. Due to its poor cash and working capital position, Rock Island has had to depend on leasing in order to obtain new equipment.

About the only relatively bright spot in Rock Island's financial posture is its debt situation. Compared to many other railroads, Rock Island's debt structure is low, almost entirely due to its reliance on investment credit leasing to obtain equipment. As of December 31, 1971, the ratio of Rock Island's debt to its total debt and equity was 31.8 percent, which was significantly better than the 40.9 percent average of all class I railroads. Rock Island's long-term debt, as of December 31, 1972, totaled $111.3 million of which $3.3 million was due within 1 year. At present debt levels, debt due within each year will decline substantially through 1979, with debt maturing in 1974 and 1975 being $2.8 million and $1.4 million, respectively. In 1979, maturing debt will decline to only $522,000. However, a large bond issue of $32.7 million matures in 1980.

Although Rock Island's long-term debt structure is relatively favorable, it is clear that its total financial condition is critical. Unless Rock Island is soon merged with a strong carrier or receives some form of Government assistance, it is highly likely that it will be forced into reorganization in the near future.

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TABLE 4

Rock Island net income 1963-1972

Year	Total Railway operating revenues	Total railway operating expenses	Net railway operating income	Income available for fixed charges	Net income after fixed charges and other deductions
	(000 omitted)				
1963	$201,407	$163,711	$8,607	$11,133	$4,985
1964	204,642	167,045	7,379	10,129	3,845
1965	210,790	174,822	2,479	5,157	(1,451)
1966	230,365	190,090	1,228	2,643	(3,639)
1967	221,885	190,756	(14,049)	(11,811)	(16,677)
1968	239,346	196,613	(6,518)	(3,562)	(4,805)
1969	259,584	211,222	(7,877)	(6,172)	(9,831)
1970	273,464	221,903	(14,359)	(12,797)	(16,640)
1971	291,808	232,291	(4,315)	(2,205)	(6,415)
1972	305,290	246,338	(5,502)	(3,359)	(5,855)

TABLE 5

Rock Island balance sheets

	Dec. 31, 1963	Dec. 31, 1964	Dec. 31, 1972
Current assets:			
Cash	$2,834,325	$3,448,071	$503,718
Temporary cash investments	16,966,993	11,923,079	2,045,000
Special deposits	1,046,371	956,491	480,520
Net balance receivable from agents and conductors	4,114,667	3,797,856	9,602,349
Misc. accounts receivable	6,518,476	5,184,645	4,466,284
Interest and dividends receivable	119,064	91,476	36,226
Accrued accounts receivable	7,983,238	8,586,808	14,221,339
Working funds advance	133,321	133,159	202,840
Prepayments	250,011	217,480	1,845,512
Material and supplies	13,360,092	13,744,095	11,893,006
Other current assets	44,658	83,111	321,234
Total current assets	53,451,216	48,166,271	45,618,034
Special funds:			
Capital and other reserve funds	132,967	550,145	458,913
Insurance and other funds	120,000	120,000	273,560
Total special funds	252,967	670,145	732,473
Investments:			
Investments in affiliated cos.	19,286,135	19,441,295	17,986,552
Other investments	1,933,805	1,893,050	652,687
Total investments	21,219,940	21,334,345	18,639,239
Properties:			
Road and equipment property	599,661,712	615,425,643	553,071,210
Improvements on leased property	1,519,891	1,564,409	1,919,785
Total transportation property	601,181,603	616,990,052	554,990,995
Accrued depreciation—road and equipment	(182,168,480)	(189,282,304)	(190,859,047)
Amortization of defense projects road and equipment	(14,067,591)	(11,912,047)	(2,978,354)
Recorded depreciation and amortization	(196,236,071)	(201,194,351)	(193,837,401)
Total transportation property less depreciation and amortization	404,945,532	415,795,701	361,153,594
Misc. physical property	8,576,216	8,550,709	5,090,119
Accrued depreciation—miscellaneous physical property	(1,606,299)	(1,667,736)	(1,017,944)
Miscellaneous physical property less depreciation	6,969,917	6,882,973	4,072,175
Total properties less depreciation and amortization	411,915,449	422,678,674	365,225,769

Rock Island balance sheets—Continued

	Dec. 31, 1963	Dec. 31, 1964	Dec. 31, 1972
Other assets and deferred charges:			
Other assets	$480,727	$707,736	$3,755,987
Unamortized discount on long-term debt	1,601,926	1,508,963	867,200
Other deferred charges	2,229,392	2,153,894	1,220,834
Total other assets and deferred charges	4,312,045	4,370,593	5,844,021
Total assets	491,151,617	497,220,028	36,059,536
Current liabilities:			
Traffic & car service bal. cr.	712,030	258,424	645,278
Audited accounts & wages payable	5,511,656	5,608,571	10,283,558
Miscellaneous accounts payable	2,079,258	3,645,889	2,259,801
Interest matured unpaid	597,572	553,628	472,959
Dividends matured unpaid	12,390	12,370	9,501
Unmatured interest accrued	1,470,874	1,534,515	482,972
Accrued accounts payable	17,237,854	18,722,905	37,934,998
Federal income taxes accrued	1,666,507	391,154	----------
Other taxes accrued	6,767,621	5,485,793	5,348,207
Other current liabilities	2,618,398	2,800,821	2,243,224
Total current liabilities (exclusive of long-term debt due in 1 year)	38,674,160	39,014,090	59,680,498
Long-term debt due within 1 year:			
Equipment obligations & other debt	6,285,740	6,686,940	3,341,011
Long-term debt due after 1 year:			
Funded debt unmatured	107,752,000	104,329,000	97,875,000
Equipment obligations	33,173,462	39,842,663	8,942,051
Amounts payable to affiliated cos.	607,151	616,605	1,145,132
Total long-term debt due after 1 year	141,532,613	144,788,268	107,962,183
Reserves:			
Pension and welfare reserves	----------	----------	320,000
Insurance reserves	7,135	----------	----------
Casualty & other reserves	3,087,179	2,699,982	10,045,788
Total reserves	3,094,314	2,699,982	10,365,788
Other liabilities & deferred cr.:			
Other liabilities	1,002,935	887,494	10,817,811
Other deferred credits	310,746	1,155,307	2,032,171
Accrued depreciation—leased prop.	318,592	341,016	505,963
Total other liabilities & deferred credit	1,632,273	2,383,817	13,355,945
Shareholders' equity capital stock-common—total	145,835,550	145,845,550	146,058,050
Retained income—unappropriated	154,096,967	155,801,381	95,296,061
Shareholders' equity—total	299,932,517	301,646,931	241,354,111
Total liabilities & shareholders' equity	491,151,617	497,220,028	436,059,536

TABLE 6

Rock Island income statements

	1963	1964	1972
Total operating revenues:	$201,407,391	$204,641,965	$305,290,186
Operating expenses			
Maintenance of way & structures:			
Exclusive of depreciation	23,528,690	23,408,147	40,218,618
Depreciation	3,145,222	3,105,513	3,238,092
Maintenance of equipment:			
Exclusive of depreciation	26,899,418	27,178,348	47,201,054
Depreciation	8,224,850	8,718,669	6,536,992
Traffic	6,128,707	6,254,534	8,218,047
Transportation	84,673,516	85,637,123	125,356,785
Misc. & general	11,110,518	12,742,845	15,568,528
Total operating expenses	163,710,921	167,045,179	246,338,116
Net revenue from railway operations	37,696,470	37,596,786	58,952,070
Railway tax accruals	13,843,348	15,097,359	20,633,117
Railway operating income	23,853,122	22,499,427	38,318,953
Rent income—cr.	2,297,102	2,202,287	1,309,516
Rents payable—dr.	17,542,725	17,322,878	45,130,970
Net rents—dr.	(15,245,623)	(15,120,591)	(43,821,454)
Net railway operating income	8,607,499	7,378,836	(5,502,501)
Total other income	3,056,701	3,322,653	2,879,211
Total income	11,664,200	10,701,489	(2,623,290)
Total misc. deductions	531,681	572,349	735,647
Income available for fixed charges	11,132,519	10,129,140	(3,358,937)
Fixed charges	3,711,622	3,878,134	2,496,362
Contingent interest (other deductions)	2,435,424	2,406,221	----------
Total fixed charges & contingent interest	6,147,046	6,284,355	2,496,362
Ordinary income	4,985,473	3,844,785	(5,855,299)
Total extraordinary items (Net)	----------	----------	----------
Net income after fixed charges and other deductions	4,985,473	3,844,785	(5,855,299)

TABLE 7

Rock Island working capital 1963-1972
(000 omitted)

Date	Current assets	Current liabilities	Working capital	Current ratio[1]
December 31.				
1963	$53,451	$38,674	$14,777	1.4
1964	48,166	39,014	9,152	1.2
1965	46,780	39,794	6,986	1.2
1966	46,408	43,549	2,859	1.1
1967	41,302	46,979	(5,677)	0.88
1968	44,271	44,620	(348)	0.99
1969	47,065	49,078	(2,013)	0.96
1970	49,231	60,066	(10,835)	0.82
1971	48,563	59,258	(10,695)	0.82
1972	45,618	59,680	(14,062)	0.76

[1]Current ratio equals the current assets divided by the current liabilities.

Motor carrier operations.—As earlier noted, RI Transit is controlled by the Rock Island through stock ownership. RI Transit is authorized to operate as a motor common carrier in interstate or foreign commerce, pursuant to certificates issued in No. MC-29130 and various subnumbers thereunder,[2] principally of general commodities over regular routes which generally parallel the lines of its parent rail carrier. Although RI Transit has extensive unrestricted motor carrier operations in the Midwest, particularly in Illinois, Iowa, and Kansas, much of its authority in Oklahoma, Texas, and Arkansas is restricted to the performance of service auxiliary to or supplemental of the rail service of the Rock Island. RI Transit also has intrastate authority in Oklahoma and Arkansas, which is restricted to service supplemental to the rail service of the Rock Island. In 1972, RI Transit utilized about 700 employees. The company operates over 6,811 route-miles in 10 States and at the close of 1972, it owned 661 pieces of equipment consisting of 41 van trucks, 286 truck tractors, 306 van semitrailers, 17 refrigerator semitrailers, 6 open top semitrailers, and 5 rack and flat-bed semitrailers.

In intercity operations for 1967, the last year of record, all vehicles of RI Transit operated 6,608,086 miles in highway service and 1,949,454 miles in rail and water service. In 1972 operations, it transported 421,794 general freight and realized revenues of $17,845,480.

Its operating taxes and licenses for the year 1972 aggregated $1,058,262 of which more than one-half of these taxes were paid to the Federal Government for gasoline and other fuel, vehicle licenses, and registration fees, and social security. Of the 10 States in which it operated, the States of Iowa and Illinois were the greatest recipients of the balance of the operating taxes and licenses paid.

The balance sheet of the RI Transit Company as of December 31, 1972, shows total assets $6,189,513 consisting of: Current assets $2,724,403; carrier operating

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

properties, less reserve for depreciation, $3,007,954; intangible property less reserve for amortization, $129,533; investment securities and advances $8,260; and deferred debits $319,363. Liabilities were: Current liabilities $2,367,480; long-term debt due within 1 year $895,705; long-term debt due after 1 year $1,414,269; deferred credits $78,091; and other reserves $53,787; capital stock $100,000; and earned surplus-unappropriated $1,280,181.

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

UNION PACIFIC SYSTEM

The Union Pacific and its several predecessor companies have been engaged in rail transportation continuously since 1869. The present Union Pacific, a Utah corporation was organized on July 1, 1897, and succeeded to the assets of its immediate predecessor, the Union Pacific Railway Company.

Early in the history of the Union Pacific it acquired control of five rail carriers,[3] through ownership of their capital stock. On January 1, 1936, and continuously thereafter, pursuant to authority granted by the Commission, the properties of such carriers were unified with, and operated as a part of the *Union Pacific* system. See: *Union Pac. R. Co. Unification,* 189 I.C.C. 357, supplemental report, 207 I.C.C. 543, and *Des Chutes R. Co. Abandonment,* 212 I.C.C. 297. The miles of railroad of each such lessor company, which total approximately 56 percent of the mileage of road operated by Union Pacific, and their capital stock owned by the U.P. are as follows:

Lessor company	Percent of stock owned by Union Pacific	Miles of road operated under lease
O. S. L	100	2,261
Des Chutes	[1]100	24
O.-W. R. & N	[1]100	1,768
L. A. & S. L	[2]100	1,023
St. J. & G. I	99.6	245

[1]Owned by O. S. L.
[2]Owned 50 percent each by O. S. L. and Union Pacific.

Union Pacific investments in carrier and noncarrier companies are as follows:

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

TABLE 8

Carrier companies

Name of company	Percentage of stock owned by Union Pacific
Denver Union Terminal	16.67
Kansas City Terminal Ry. Co	8.33
Portland Terminal R. R. Co	40.00
Ogden Union Ry. & Depot Co	50.00
The Pullman Co	6.00
St. Joseph Terminal R. R. Co	50.00
Trailer Train Co	2.44
Yakima Valley Trans. Co	100.00
Mount Hood Railway Company	100.00
American Pacific Stage Co	100.00
Camas Prairie R. R. Co	50.00
Harbor Belt Line R. R	20.00
Long View Switching Co	100.00
Pacific Fruit Express Co	50.00
Portland Traction Co	50.00
Spokane International R. R. Co	100.00
Spokane Union Station	50.00
Union Pacific Motor Freight Co.	100.00
Union Pacific Storage Co	100.00
Noncarrier companies	
Kansas City Industrial Land Co	100.00
Las Vegas Land and Water Co	100.00
Stauffer Chemical Co. of Wyoming	49.00
Union Land Co	100.00
Utah Parks Co	100.00
Uinta Development Co	52.09
Upland Industries Corp	100.00
Union Pacific Resources Corporation	100.00
Union Pacific Resources Limited (Canadian Corp.)	100.00
Calnev Pipe Line Co	100.00
Champlin Peru, Inc	100.00
Champlin Petroleum Co	100.00
Champlin Petroleum Co., Ltd	100.00
Champlin Petroleum Co. (UK)	100.00
Harbor Service Stations, Inc	100.00
Midland Gasoline Corp	100.00
Star Oil Corp	100.00
U. P. Land Resources Corp	100.00
UPAC Construction Co	100.00
U. P. Mining Corp	100.00
Rocky Mountain Energy Co	100.00
Hanna Basin Coal Co	100.00

As of December 31, 1972, Union Pacific was authorized to issue 29,617,870 shares of $10 par value per share common capital stock and 20 million shares of $10 par value per share preferred stock. Of the foregoing and on the same date, of the common stock, 22,428,815 shares were issued and outstanding, and of the preferred stock 10,852,732 shares were issued of which 3,368,262 shares were held in the Union Pacific treasury and 7,484,40 shares were actually outstanding. Each share of the common and preferred is entitled to one vote.

Union Pacific Corporation, was organized in Utah on February 3, 1969, for the purpose of acquiring control of Union Pacific and to engage in diversified acquisitions, as later more fully discussed. UPC is authorized to issue $75 million aggregate principal amount of convertible debentures; 30 million shares of common stock, par value $10 per share; and 10 million shares of preferred stock, without a par value but with a $10 stated value, and with preferences as to assets and dividends. As of December 31, 1972, UPC had outstanding 22,555,000 shares of common stock (representing a per share exchange of common for common under which UPC acquired 94.13 percent of Union Pacific common) and $68,003,000 in principal amount of convertible debentures (representing an exchange of UPC convertible debentures for 90.75 percent of Union Pacific preferred).

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

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

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

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

Plant and equipment.—The Union Pacific operated 9,483 miles of road as of December 31, 1972, of which about 48 percent it classified as branch line, and 695 miles were operated under trackage rights. Road mileages in the 13 States served were: Iowa-2; Nebraska-1,323; Wyoming-787; Idaho-1,983; Oregon-1,060; Washington-1,022; Missouri-2; Kansas-1,033; Colorado-604; Montana-143; Utah-814; Nevada-367; and California-342. Actual track mileage operated by Union Pacific at the close of 1972 totaled 15,981 miles.

As of December 31, 1972, Union Pacific's freight car fleet consisted of a total of 61,844 leased and owned cars, having an aggregate capacity of 4,400,662 tons. By types, the fleet consisted of 29,235 boxcars, 4,503 flat and rack cars, 7,579 gondolas, 8,790 open hoppers, 9,042 covered hoppers, 1,906 stock cars, 780 tank cars, and 9 cars of other types. The size of UP's car fleet as of the end of 1972 represented a significant increase over the 54,154 cars of a total aggregate capacity of 2,977,507 tons which the carrier owned or leased as of December 31, 1963.

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

Freight traffic: volume.—During the 10-year period, 1959 through 1968, Union Pacific's freight traffic has shown an overall increase in tonnage handled, ton-miles generated and freight revenue. This trend has continued up to the present time, with 1972 showing 51,805,000 revenue ton-miles, as compared with 44,133,000 in 1968, and 32,875,000 in 1959.

Freight traffic: interchanges and traffic flow.—For purposes of describing the Union Pacific's traffic density, interchanges, and principal origin and destination points, the system is divided into three regions.

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

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

Union Pacific's main routes carry substantial amounts of traffic. Traffic densities on lines lying within the first described region are shown in table 9.

TABLE 9

Union Pacific traffic flow (eastern region)

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

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

Traffic densities in the second region are found in table 10.

TABLE 10

UP traffic flow (northwestern region)

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

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

The matters of major traffic interchange and origin and termination points will be considered next. All data are for 1963. The first region contains the gateways at which Union Pacific interchanges with its eastern connections and also the gateways at which it connects with the Southern Pacific and Western Pacific routes into northern California. With respect to the eastern gateways, the record is replete with evidence concerning the flow of traffic between Union Pacific and its eastern connections. The interchange points listed in table 11 all serve the function of being the major gateways for Union Pacific traffic moving to and from points east of the Missouri River, and they are, therefore, shown as "Missouri River Gateways." Adjustments have been made for carriers which have unified since 1963, except BN.

TABLE 11

Major Union Pacific interchanges: Missouri River gateways

UP station	Connecting carrier	Carloads		
		Delivered	Received	Total
Omaha (including Council Bluffs, Fremont, Grand Island, & S. Omaha.	CNW	102,074	54,800	156,874
	CBQ	37,204	67,491	104,695
	MILW	43,998	32,146	76,144
Do	ICG	41,481	16,552	58,033
Do	RI	15,819	7,782	23,601
Do	MP	934	2,587	3,521
Do	N&W	1,640	1,465	3,105
Do	Other	18	8	26
Do	Total	243,168	182,831	425,999
St. Joseph	MP	681	47	728
Do	CNW	574	20	594
Do	CBQ'	90	70	160
Do	ATSF	88	36	124
Do	RI	54	44	98
Do	Total	1,487	217	1,704
Kansas City	N&W	52,700	37,319	90,019
Do	SLSF	37,382	19,343	56,725
Do	MP	30,244	17,835	48,079
Do	MKT	17,718	5,678	23,396
Do	ATSF	10,539	8,690	19,229
Do	ICG	12,830	5,944	18,774
Do	KCS	9,425	4,929	14,354
Do	RI	4,858	2,727	7,585
Do	CBQ'	4,956	1,643	6,599
Do	MILW	1,496	1,106	2,602
Do	CNW	1,042	682	1,674
Do	Total	183,190	105,846	289,036
Do	Grand total	427,845	288,894	716,739

'Burlington Northern predecessor.

At Fremont and Grand Island, Union Pacific conducts through-train interchanges with North Western and Burlington, respectively. At Fremont, Union Pacific delivered 14,266 cars to and received 25,893 cars from North Western. Of the cars delivered by Union Pacific, 13,691 were overhead traffic, and of the cars received from North Western, 13,612 terminated on the Union Pacific.

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

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

The Kansas City gateway provides Union Pacific not only with connections to eastern points but also connections to the Southeast and the gulf ports. The connecting carriers' respective portions of the total Union Pacific interchange at Kansas City in 1963 were: Norfolk & Western, 31.1 percent; Frisco, 19.6; MoPac, 16.6; Katy, 8.1; Santa Fe, 6.7; I.C.G., 6.5; Kansas City Southern, 5.0; Rock Island, 2.6; Burlington, 2.3; Milwaukee, 0.9; and North Western, 0.6.

Turning attention to the western end of the region under consideration, Utah gateways will be considered.

TABLE 12

Major Union Pacific interchanges: Utah gateways

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

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

The data in table 12 shows that, at the Utah gateways, Union Pacific interchanged a total of 303,873 cars with Southern Pacific, 38,267 cars with Western Pacific, and 42,179 cars with Rio Grande. As percentages of the total interchange between Union Pacific and the other named carriers (384,319 cars), Southern Pacific accounted for 79.1 percent, Western Pacific for 10.0 percent, and Rio Grande for 11.0 percent. While the Union Pacific-Western Pacific interchange (over 79 percent overhead to Union Pacific) was almost equally divided between eastbound and westbound traffic, the Union Pacific-Southern Pacific interchange at Ogden was 203,365 cars eastbound (188,334 overhead to Union Pacific) and 100,508 westbound (75,885 overhead to UP), a ratio of better than two to one. It is noted that the Union Pacific-Rio Grande interchange is principally traffic delivered by Rio Grande to the Union Pacific at Provo and Salt Lake City, and such traffic amounted to 34,221 cars. The Rio Grande traffic received by Union Pacific at Provo (19,829 cars) was almost exclusively overhead traffic for Union Pacific, while of the 14,392 cars received from Rio Grande at Salt Lake City, 12,067 terminated on Union Pacific.

TABLE 13

Major Union Pacific interchanges: Points between Missouri River and Utah gateways

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

[1]Burlington Northern predecessor.

Readily apparent from table 13 is the fact that the total Denver interchange for Union Pacific is larger than the carrier's total for all other interchanges in the area between the Utah and Missouri River gateways. All class I railroads with which Union Pacific interchanged in the area in 1963 are named in the table. "All Other Points" include 43 points in the States of Colorado, Wyoming, Kansas, and Nebraska. Union Pacific interchanged over 500 cars with at least one class I carrier at only seven of these points. The Denver interchange with Rio Grande was the largest (20,938 cars) interchange with a single carrier at a single point in the area. Throughout the area, Union Pacific interchanged 16,665 cars with Burlington Northern, and adding the Colorado and Southern, the Union Pacific-Burlington Northern system interchange amounted to 33,092 cars. Other than Denver, major interchange points between Union Pacific and the Burlington Northern system in the area between Utah and the Missouri River were Northport and Sidney, Nebr., and Cheyenne, all located on various Burlington Northern lines radiating to the south and east from Billings and Laurel, Mont.

The Union Pacific interchange with Rock Island at Denver was the fourth largest (7,306 cars) of the five interchanges shown in table 13 for Denver. In the remainder of

the area, the Rock Island and Union Pacific interchanged a total of 2,611 cars at 13 points, primarily Topeka (1,979 cars).

Denver also qualifies as the single most important traffic terminating point in the area under discussion. In 1963, terminations totaled 39,561 cars, of which 18,869 were interline received cars. Originations at Denver totaled 11,839 cars including 6,254 interline forwarded cars.

In the second region (lines north of Ogden and northwest of Granger) there are over 30 major Union Pacific interchanges with other carriers. Table 14 shows the interchange points specifically where the total interchange was 500 or more cars and as a total for 21 points where each point accounted for less than 500 cars in 1963. Despite the relatively large number of points, the number of cars interchanged is small (136,621). Stated in comparative terms, the number of cars interchanged in the entire region is only about 28 percent of the number of cars interchanged at the Utah gateways. Nearly 40 percent of the cars (54,254 cars) interchanged in the region were interchanged at East Portland between the Union Pacific and the Southern Pacific. Of the 54,254 cars, 40,063 either originated or terminated on Union Pacific. Another 9 percent was interchanged between Union Pacific and its subsidiary, Spokane International, at Spokane.

TABLE 14

Major Union Pacific interchanges: Lines north of Ogden and northwest of Granger

UP station	Connecting carrier	Carloads		
		Delivered	Received	Total
Chehalis, Wash	MILW	71	4,644	4,715
Do	NP[1]	4	11	15
Marengo, Wash	MILW	1,435	5,414	6,849
Rocky Point, Wash	Other	923	3,797	4,720
Seattle, Wash	MILW	348	427	775
Do	GN[1]	382	183	565
Do	NP[1]	574	140	714
Do	PCRR[1]	1,542	5	1,547
Do	Other	14	2,323	2,337
Spokane, Wash	MILW	29	609	638
Do	GN[1]	1,359	5,847	7,206
Do	NP[1]	283	442	725
Do	SP&S[1]	11	118	129
Do	SI	4,060	8,393	12,453
Wallula, Wash	NP[1]	1,802	2,258	4,060
Portland, Oreg[2]	Do	411	227	638
Do	OE	77	158	235
Do	GN[1]	97	297	394
Do	SP	21,634	32,671	54,305
Do	SP&S[1]	618	1,368	1,986
Do	PT	3,116	1,503	4,619
Do	Other	2	1	3
Plummer, Idaho	MILW	67	704	771
Wells, Nev	SP	1,524	1,191	2,715
Do	WP	530	629	1,159

See footnotes at end of table.

Major Union Pacific interchanges: Lines north of Ogden and northwest of Granger—Continued

UP station	Connecting carrier	Carloads Delivered	Received	Total
Butte, Mont	MILW	467	694	1,161
Do	GN[1]	3,628	2,882	6,510
Do	NP[1]	937	1,538	2,475
Do	Other	22	14	36
Silver Bow, Mont	MILW	1,239	1,162	2,401
Do	NP[1]	1,192	717	1,909
Do	Other	2,260	1,599	3,859
Twenty-one points[3]	MILW	181	166	347
Do	GN[1]	36	115	151
Do	NP[1]	546	457	1,003
Do	SP&S[1]	175	7	182
Do	Other	341	1,963	2,304
Total		51,947	84,674	136,621

[1]Burlington Northern predecessor.
[2]Includes North Portland and East Portland, Oreg.
[3]The 21 points include 14 in Washington, 5 in Oregon, and 2 in Idaho, all of which had total interchanges of less than 500 carloads each.

Table 15 shows the major interchanges for the Union Pacific in California (1963 data adjusted to reflect unifications of carriers):

TABLE 15

Major Union Pacific interchanges: points in California

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

[1]Includes Long Beach and Los Angeles Harbor interchanges totaling 6 cars.

At the major California interchange points, Union Pacific interchanged 41,474 cars with Santa Fe and 40,155 cars with Southern Pacific in 1963. During the year, there were 14,639 carloads originated, 89,521 terminated, and 81,629 interchanged at major points for each category in California. Of the 81,629 cars interchanged, nearly 70 percent were delivered by the Union Pacific to the Santa Fe and the Southern Pacific. The preponderance of terminations over originations and deliveries over receipts of interchanged cars support the statement that westbound movements are greater than eastbound over the line from Salt Lake City to Los Angeles.

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

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

Financial analysis.—Balance sheets and income statements of the Union Pacific, for the years 1964 and 1972 are furnished in tables 16 and 17. The statements for 1964 reflect the financial posture of the Union Pacific as of the date of the agreement in connection with the proposed Union Pacific-Rock Island merger. The statements for 1972 have also been furnished in order to show the Union Pacific's financial position as of the latest available date.

TABLE 16

Union Pacific (including leased lines)[1] balance sheets

	December 31, 1964	December 31, 1972
Current assets:		
Cash	$32,228,936	$11,298,244
Temporary cash investments	192,406,032	
Special deposits	92,038	414,505
Loans and notes receivable	9,959	107,343,885
Traffic and car-service balances—dr.	14,783,001	24,907,135
Net balance receivable from agents and conductors	7,877,552	20,840,127
Miscellaneous accounts receivable	9,847,767	11,996,294
Interest and dividends receivable	2,477,908	913,403
Accrued accounts receivable	27,124,055	43,287,289
Working fund advances	150,383	371,342
Prepayments	443,413	2,024,739
Material and supplies	20,426,162	25,280,178
Other current assets	307,287	5,080,676
Total current assets	308,129,493	253,757,817

See footnote at end of table.

Union Pacific (including leased lines)' balance sheets—Continued

	December 31, 1964	December 31, 1972
Special funds:		
Sinking funds	$4	$4
Capital and other reserve funds	500,000	38,458,473
Insurance and other funds	215,000	904,000
Total special funds	715,004	29,362,482
Investments:		
Investments in affiliated companies	78,020,317	32,886,133
Other investments	48,874,277	3,839,426
Reserve for adjustment of investment in securities	(19,140,514)	(16,274,241)
Total investments	107,764,080	20,451,318
Properties:		
Road and equipment property	1,731,749,041	2,342,815,438
Total transportation property	1,731,749,041	2,342,815,438
Accrued depreciation—road and equipment	(382,435,993)	(474,939,572)
Amortization of defense projects—road and equipment	(29,774,194)	(17,191,200)
Recorded depreciation and amortization	(412,210,187)	(492,130,772)
Total transportation property less depreciation and amortization	1,319,538,854	1,850,684,666
Miscellaneous physical property	50,295,094	12,895,575
Accrued depreciation—miscellaneous physical property	(28,431,334)	(2,112,538)
Miscellaneous physical property less depreciation	21,863,760	10,773,037
Total properties less depreciation and amortization	1,341,402,614	1,861,457,703
Other assets and deferred charges:		
Other assets	3,496,004	30,073,284
Unamortized discount on long-term debt		1,390,783
Other deferred charges	3,973,328	5,498,692
Total other assets and deferred charges	7,469,332	36,962,759
Total assets	1,765,480,523	2,211,992,079

See footnote at end of table.

Union Pacific (including leased lines)' balance sheets—Continued

	December 31, 1964	December 31, 1972
Current liabilities:		
Loans and notes payable		$100,000,000
Audited accounts and wages payable	$22,193,119	16,622,118
Miscellaneous accounts payable	965,093	6,652,663
Interest matured unpaid	14,601	971,234
Dividends matured unpaid	10,532,102	11,672,680
Unmatured interest accrued	1,176,832	6,336,952
Accrued accounts payable	47,348,912	72,002,366
Federal income taxes accrued	15,692,926	564,387
Other taxes accrued	13,146,549	17,050,940
Other current liabilities	3,657,011	11,955,964
Total current liabilities	114,727,145	242,829,304
Long-term debt due within 1 year:		
Equipment obligations and other debts	3,525,299	24,567,943
Long-term debt due after 1 year:		
Funded debt unmatured	109,683,000	150,480,000
Equipment obligations	11,103,135	269,633,394
Amounts payable to affiliated companies	9,500,869	9,143,438
Total long-term debt due after 1 year	130,287,004	429,256,832
Reserves:		
Insurance reserves	30,619,323	23,053,843
Casualty and other reserves	12,032,744	55,989,024
Total reserves	42,652,067	79,042,867
Other liabilities and deferred credits:		
Other liabilities	760,810	1,499,217
Unamortized premium on long-term debt	1,634,429	942,616
Other deferred credits	3,528,210	2,280,132
Accrued depreciation—leased property	1,131	
Total other liabilities and deferred credits	5,924,580	4,721,965
Shareholders' equity:		
Capital stock—issued—total	317,000,731	299,157,031
Capital surplus:		
Premiums and assessments on capital stock	4,327,919	4,327,919
Paid-in surplus	306,802	1,158,755
Other capital surplus	3,408,359	3,835,725
Total capital surplus	8,043,080	9,322,399

See footnote at end of table.

Union Pacific (including leased lines)[1] *balance sheets*—Continued

	December 31, 1964	December 31, 1972
Retained income:		
Appropriated	$51,225,426	$8,596,369
Unappropriated	1,092,095,191	1,114,497,369
Total retained income	1,143,320,617	1,123,093,738
Total shareholders' equity	1,468,364,428	1,431,573,168
Total liabilities and shareholders' equity	1,765,480,523	2,211,992,079

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

TABLE 17

Union Pacific income statements for the years

	1964	1972
Total operating revenues	$529,079,193	$769,623,333
Operating expenses		
Maintenance of way and structures:		
Exclusive of depreciation	53,190,559	90,047,252
Depreciation	6,365,991	7,914,885
Maintenance of equipment:		
Exclusive of depreciation	63,713,036	89,162,766
Depreciation	36,571,786	55,364,516
Traffic	14,341,599	18,621,814
Transportation	190,713,886	264,467,880
Miscellaneous and general	30,295,028	41,573,814
Total operating expenses	395,191,885	567,161,927
Net revenue from railway operation	133,887,308	202,461,406
Railway tax accruals	63,036,341	71,613,808
Railway operating income	70,850,967	130,848,326
Rent income—Cr	6,397,238	5,126,862
Rents payable—Dr	23,779,987	3,890,091
Net rents—(Dr.) or Cr	(17,382,749)	1,236,771
Net railway operating income	53,468,218	132,085,097
Total other income	54,441,000	19,868,492

Union Pacific income statements for the years—Continued

	1964	1972
Total income	$107,909,218	$151,953,589
Total miscellaneous deductions	18,731,691	2,202,587
Income available for fixed charges	89,177,527	149,751,002
Fixed charges	3,713,884	26,810,145
Contingent interest (other deductions)		
Total fixed charges and contingent interest	3,713,884	26,810,145
Ordinary income	85,463,643	122,940,857
Total extraordinary items (net)		
Net income after fixed charges and other deductions	85,463,643	122,940,857

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

During the period 1959-1972, Union Pacific's railway operating revenues increased from $515.8 million in 1959 to a record high of $769 million in 1972.

Railway operating expenses ranged from $378.7 million in 1959 to $567 million in 1972. The increase in operating expenses, in the last 5 years, at least, have been attributed to substantial wage increases, increased cost of materials, and maintenance of track and equipment. Its operating ratio for 1972 was 73.7 percent. This represents a favorable margin of operating efficiency.

Net railway operating income and net income.—As a result of its favorable margin of operating efficiency Union Pacific's net railway operating income rose from $36.9 million in 1959 to $132.0 million in 1972. Net income after fixed charges and other deductions increased from $66.2 million in 1959 to $122.9 million in 1972.

Working capital.—Table 18 discloses that for the 10-year period, 1963 through 1972, Union Pacific shows an average monthly working capital requirement of some $33.3 million. As of December 31 for each of the above years current assets exceeded current liabilities on an average of $115 million, or nearly 4-months working capital needs. As seen Union Pacific's available working capital far exceeded its working capital needs for conducting orderly operations. Accordingly, excess working capital funds were available for other corporate needs and reducing the necessity for borrowing. However, since 1969, their working capital position has changed. Evidence of this is the 1972 figure of $10.9 million, which is only 25 percent of the monthly working capital requirement. This change is also evidenced by a farily constant notes payable account of approximately $100 million, which has been maintained at this level since 1969. The maintenance of this account at such a high level has resulted in much lower working capital figures.

TABLE 18

Union Pacific working capital 1963-1972

Year	Total current assets	Total current liabilities	Working capital	Total operating expenses less depreciation	Monthly average working capital requirement
			(000)		
1963	$338,495	$130,932	$207,563	$330,704	$27,539
1964	308,129	114,727	193,402	352,254	29,355
1965	254,590	110,651	143,939	357,741	29,812
1966	278,020	116,492	161,529	374,197	31,183
1967	246,006	123,431	122,575	374,393	31,200
1968	246,127	131,155	114,972	395,039	32,920
1969	327,084	244,819	82,265	421,244	35,105
1970	372,714	267,046	105,668	443,246	36,937
1971	272,579	267,799	4,780	455,310	37,943
1972	253,758	242,829	10,929	503,883	41,823

Long-term debt.—In the 4 years, 1965 to 1968, the Union Pacific incurred equipment obligations and made other financing arrangements for new equipment acquisitions and other property improvements. Such additional financing increased its long-term obligations substantially but was necessary in order to continue its equipment program and at the same time maintain an adequate working capital position. It is also noted that Union Pacific's equipment program has enabled it to maintain a high earning level and this, in turn, has contributed to the strength of the company.

On December 31, 1972, long-term debt due within 1 year was $24.5 million, with a total long-term debt of $429.2 million.

The conclusion is warranted that Union Pacific's net income has historically been sufficient to service its equipment obligations and other debt due within 1 year without resorting to the use of funds generated by charges to depreciation.

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

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

Furthermore, based on a computation which includes Union Pacific's total debt as of December 31, 1972, it had a ratio of total debt to combined total debt and shareholders' equity of approximately 30 percent. This would still be most favorable, considering that the Commission's satisfactory limit ranges from 50 to 70 percent.

Motor carrier operations financial data.—The Union Pacific Motor Freight Co. is controlled by the Union Pacific through stock ownership. It is authorized to operate as a motor common carrier in interstate or foreign commerce, pursuant to certificates issued in No. MC-110388 and various subnumbers thereunder,[4] over regular routes which generally parallel the lines of its parent rail carrier. All such authority is restricted to service which is auxiliary to or supplemental of the rail service of Union Pacific. Principal routes in the Midwest are between Council Bluffs, Iowa, and Denver, Colo., and between Kansas City, Mo., and Cheyenne, Wyo. At the close of the year 1972, it owned 1,868 units of revenue equipment consisting of 13 trucks, 202 truck tractors, and 1,653 semitrailers. However, it is noted that only 356 units were used principally in intercity service. The record indicates that the Motor Freight Company is predominately a local carrier.

Its balance sheet as of December 31, 1972, shows total assets aggregating $5,656,969, consisting of current assets $953,585, composed of cash $1,471, special deposits $200, accounts receivable $905,099, prepayments $1,669, and material and supplies $95,146; carrier operating property less reserve for depreciation $4,697,663 and intangible property less reserve for amortization $1,420. Liabilities were: current liabilities $544,988, composed of payables to affiliated companies $8,356, accounts payable $106,491, wages payable $42,319, taxes accrued $222,296, and other current liabilities $170,526; long-term debt due after 1 year $536,661; deferred credits $2,242; reserves $56,823; capital stock $5,000, and earned surplus-unappropriated $4,511,255.

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

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

SOUTHERN PACIFIC

Southern Pacific's corporate history and the development of its system lines of railroad are detailed in *Central Pac. Ry. Control*, 76 I.C.C. 508, supplemental report 317 I.C.C. 469, and supplemental report on reconsideration, 328 I.C.C. 345 (the *Central Pacific* case), *St. Louis S. W. Ry. Co. Control*, 180 I.C.C. 175, and supplemental report, 180 I.C.C. 710 (the *Cotton Belt* case), and several other proceedings.[7] The first corporate antecedent of the Southern Pacific was the Central Pacific Railroad Company, incorporated in California in 1861. The latter, under the provisions of what is popularly referred to as the Pacific Railroad Acts,[8] participated in the construction and operation of a portion of the first transcontinental railroad. Central Pacific's portion ran east from Sacramento, Calif., and connected at Promentory, Utah, on May 10, 1869, with the other segment built by the Union Pacific westward from Council Bluffs, Iowa. Pursuant to authority granted in the initial *Central Pacific* case, the old Southern Pacific Company, incorporated in Kentucky in 1884, acquired control of the Central Pacific Railway Company, the latter successor-in-interest to all of the franchises and properties of the old Southern Pacific Company, among other things, and merged the properties of the Central Pacific into itself.

Subsequent to the close of hearings in these proceedings and pursuant to authority granted in *Southern Pacific Transportation Co.—Merger*, 334 I.C.C. 866, the original applicant carrier company, Southern Pacific Company, effectuated a corporate reorganization. Under the approved plan of reorganization, which was consummated on November 26, 1969, stockholders of the original applicant carrier became stockholders of the new holding company, also named Southern Pacific Company, on the basis of a share for share exchange of common stock, and the new carrier subsidiary of the holding company, Southern Pacific Transportation Co., acquired all of the assets, privileges, powers, and franchises and assumed all of the liabilities of the liquidating carrier company. Pursuant to order of the Commission in these proceedings, dated January 30, 1970, both SP Transportation Co. and the new SP Company were joined as parties applicants.

As of December 31, 1972, SP Co. was authorized to issue 35,667,108 shares of no-par-value common stock, with each share entitled to one vote. On that date, it had 27,141,366 shares outstanding. The stock was widely distributed among approximately 84,000 shareholders, with the largest shareholder, a brokerage concern, holding 3.7 percent. On the record developed, the finding may properly be made that no individual or group of affiliated individuals own sufficient stock in SP Co. to warrant a finding of "control" within the meaning of the principal enunciated in the *Refiners* case, *Refiners Transport & Term. Corp.—Purchase—Marshall*, 39 M.C.C. 271 (1943), affirmed *sub nom., U.S.* v. *Marshall*, 322 U.S. 31 (1944).

Subsidiaries, affiliates, and investments.—Southern Pacific owns approximately 98 percent of the stock of the St. Louis Southwestern Railway Company, herein called the Cotton Belt or S.S.W., which in turn, owns all of the stock of the St. Louis Southwestern Railway Company of Texas. The Cotton Belt holds a 100-percent stock ownership in the Dallas Terminal Railway & Union Depot Company and less than a 50-percent interest in various other companies which perform bridge, terminal, or switching services. Other subsidiaries or affiliates are listed in table 19.

[7] *Southern Pac. Co. Reincorporation*, 267 I.C.C. 523, *Southern Pacific Co. Merger*, 312 I.C.C. 598, *Southern Pac. Co. Merger*, 327 I.C.C. 38, and *Southern Pacific Transportation Co.—Merger*, 334 I.C.C. 866.

[8] 12 Stat. and 13 Stat. 346, enacted in 1862 and 1864, respectively.

TABLE 19

Southern Pacific subsidiaries and affiliates

Name of company controlled by SP	*Extent of control*
	Percent
El Paso Union Passenger Depot	50
Evergreen Freight Car Corp.	100
Evergreen Leasing Corp.	100
Holton Inter-Urban Electric Ry.	100
Los Angeles Union Terminal Inc.	100
Monarch Brewing Co	100
North Western Pacific R. R.	100
Oregon, California & Eastern Ry	50
Pacific Fruit Express	50
Pacific Motor Transport Co	100
Pacific Motor Trucking Co.	100
Portland Traction Co	50
San Diego & Arizona Eastern Ry.	100
Southern Pacific Air Freight	100
Southern Pacific Equipment Co.	100
Southern Pacific Marine Transport Inc	100
Southern Pacific Transport Co. of T&L	100
Southern Pacific Warehouse Co	100
Sunset Ry. Co	50
The Ogden Union Ry. & Depot Co	50
Visolia Electric R. R.	100

Name of company indirectly controlled by SP	*Extent of control*
	Percent
Louis Heller Inc	100
Main Street Warehouse Co	100
Petaluna and Santa Rosa R. R	100
South Western Transportation Co.	100
South Western Town Lot Corp.	100
Bankers Leasing Corp.	100
Bravo Oil Co	100
Pacific Petroleum Pipe Line	100
Sou. Pac. Communications Co	100
Southern Pacific Development Co.	100
Southern Pacific Land Co	100
Sou. Pac. Pipe Lines Inc	100
Sunset Equipment Leasing Co	100
Texas Town Lot	100
Tops On-Line Services Inc	80

Scope of operations.—Southern Pacific operates 11,639 miles of road in eight States, comprised of 11,116 miles company owned, 521 miles operated under trackage rights, and approximately 2 miles operated under lease. The carrier classifies 6,151 miles as main line and 5,488 miles as branch line. Road mileage totals for each of the States served are: California, 4,122; Texas, 3,113; Oregon, 1,278; Arizona, 1,047; Nevada, 746; Louisiana, 642; New Mexico, 508; and Utah, 111. Total track mileage operated is 18,438 miles.

The Cotton Belt system operates 1,441 miles of road in six States, comprised of 1,223 miles owned by it and 218 operated under trackage rights. The carrier classifies 1,114 miles as main line and 327 miles as branch line. Mileage totals for each State are: Texas, 551; Arkansas, 535; Missouri, 195; Illinois, 122; Louisiana, 38; and Tennessee, 1. Total track mileage operated is 2,160.

Southern Pacific's lines constitute one of the two major rail routes through the southern corridor. Its Sunset Route extends from Los Angeles eastward to New Orleans, through Wellton, Sentinel (also Phoenix), and Tuscon, Ariz., Deming, N. Mex., El Paso, San Antonio, and Houston. The portion of the route from Los Angeles to El Paso together with its route from El Paso to Santa Rosa, N. Mex., comprise Southern Pacific's portion of the Golden State Route, the remainder of which is over the Rock Island's previously described Santa Rosa-Chicago line.[1] From Houston the Southern Pacific has lines in Texas extending northward to Shreveport, Fort Worth, and to Denison through Corsicana and Dallas, and southward to Galveston and Brownsville, through Beeville. It also reaches Brownsville from San Antonio over a line through Beeville.

Through its subsidiary, Cotton Belt, the Southern Pacific reaches the Memphis and St. Louis gateways.

In addition to the Sunset and Golden State Routes, other major SP lines consist of two lines between Los Angeles and Northern California, one, the "San Joaquin Valley Line," running through central California between Los Angeles and Sacramento and the other, the "Coast Line" running along the Pacific coast between Los Angeles and San Francisco; the "Overland Route," the original Central Pacific line, extending from San Francisco and Oakland eastward through Sacramento and Roseville, Calif., to Ogden, Utah; and the "Shasta Route" extending from Davis and Roseville, Calif., both points on the Overland Route near Sacramento, northward to Portland, Oreg. Another important line extends from Flanigan, Nev., to Klamath Falls, Oreg., connecting the Overland and Shasta Routes. In addition, SP has an extensive network of branch lines in California and Oregon.

Cotton Belt's main line extends from St. Louis southwestward through Texarkana, Tex., to Fort Worth and Corsicana, Tex., and Shreveport, La. It has a branch line between Altheimer and Little Rock, Ark., and trackage rights over Rock Island's line between Brinkley, Ark., and Memphis, Tenn.

The next two sections discuss Southern Pacific and and Cotton Belt freight traffic data on an individual carrier basis. Because the two carriers form end-to-end routes and under their parent-subsidiary relationship conduct a single-system operation, the traffic statistics of both, if combined, would result in duplication and distortion of data, with particular regard to interline carloads, and total revenue tons carried. Data shown for the Southern Pacific excludes that reported by other subsidiary companies, previously described, which file separate reports to the Commission.

Freight traffic.—With the exception of 1967, Southern Pacific and Cotton Belt experienced progressive gains in tons carried, ton-miles generated and freight revenue

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

during the 1962-1968 period. Throughout the period, carloads handled on the Southern Pacific have varied between 2.4 and 2.7 million. On the Cotton Belt, carloads increased in every year from 411,455 in 1962, to 465,082 in 1966, decreasing slightly in 1967, and reaching a high for the period in 1968 of 487,681. However, freight revenues for the period increased progressively from year to year including 1967 over 1966.

Approximately one-third of Southern Pacific's carloads handled was local traffic, and about 30 percent was interline originated traffic in the 1962-1968 period. Interline terminated traffic increased slightly from about 27 percent of the total in 1962 to about 30 percent in 1967 and 29 percent in 1968. Bridge traffic over the period has represented 10 percent or less of total carloads, and in 1966, 1967, and 1968, it represented slightly less than 8 percent of the total. Of Cotton Belt's carload traffic the major portion (about 55 percent) has been bridge traffic during the same period. Local traffic declined from 10 percent in 1962 to 8 percent in 1968. Interline originated and interline terminated traffic varied between 17 and 19 percent and between 16 and 18 percent of the total, respectively. While Cotton Belt is primarily a bridge carrier, and over 90 percent of its total carloads are interlined, the Southern Pacific handles a substantial volume of local traffic, and its interline business is predominantly traffic originating or terminating on its own lines.

Freight traffic: Traffic density and interchanges.—Evidence showing traffic density over lines of the Southern Pacific and Cotton Belt is based on gross tonnage hauled for the year 1963 and contained in tables 19-23 and the following discussion:

TABLE 19

SP traffic flow—Shasta route

Segment	Gross tons (millions)	
	Eastbound	Westbound
Portland-Eugene	13.0	14.1
Eugene-Crescent Lake-Klamath Falls	18.2-18.4	12.7-14.4
Klamath Falls-Black Butte	11.4	11.2
Black Butte-Tehama, Calif	14.2-15.9	13.3-13.7
Tehama-Roseville[1]	12.4	12.3
Tehama-Davis,[1] Calif	4.5	2.1
Klamath Falls-Flanigan, Nev.	7.1-76	2.4-2.6
Flanigan-Weso,[1] Nev	.4	1.6
Flanigan-Fernley,[1] Nev	Not available	----

[1] Located on Oakland-Roseville-Ogden line.

TABLE 20

SP traffic flow—Overland route

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

TABLE 21

SP traffic flow—Coast Line

Line segment	Gross tons (millions)	
	Eastbound	Westbound
San Francisco-Redwood Jct	9.9	12.5
Oakland-Elmhurst	10.1	10.6
Elmhurst-Niles	5.3	3.9
Elmhurst-Santa Clara[1]	4.0	7.0
Niles-San Jose	5.7	2.4
Redwood Jct.-San Jose	8.0	9.2
San Jose-San Luis Obispo-Burbank	6.7-9.3	7.9-11.9

[1]Located on Redwood Jct.-San Jose line.

TABLE 22

SP traffic flow—San Joaquin Valley Line

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

The combined Sunset and Golden State routes between the Los Angeles area and El Paso generally handled about 16 to 17 million gross tons eastbound and 17 to 18 million westbound in 1963. Westbound traffic between Niland and Alhambra, Calif., totaled 22 million tons (Niland is the junction for a Southern Pacific line through the Imperial Valley which connects with subsidiary lines from San Diego). The El Paso-Tucumcari portion of the Golden State Route handled 5.3 million gross tons eastbound and 6.0 million westbound. Between Los Angeles and El Paso, westbound tonnage is greater than eastbound, but the relationship is reversed east of El Paso at San Antonio. Between El Paso and San Antonio, traffic density is about equally divided eastbound and westbound at somewhat over 10 million gross tons each, but east of San Antonio, lines diverge from the Sunset Route and connect with Cotton Belt at Corsicana, Fort Worth, Dallas, Lufkin, and Shreveport. As a result, total traffic density on the Sunset Route decreases east of San Antonio to New Orleans and eastbound density (7.2 to 10.1 million gross tons) exceeds the westbound density (6.6 to 9.7 million). Traffic density on other SP lines in Texas and Louisiana is shown by table 23.

TABLE 23

SP traffic flow—Texas & Louisiana

Line segment	Gross tons (millions)	
	Southbound	Northbound
Houston-Shreveport	3.9	3.5
Houston-Hearne	3.1	5.5
Flatonia-Hearne	7.8	8.7
Hearne-Corsicana-Ennis	8.9	10.0
Ennis-Fort Worth	1.4	2.6
Ennis-Dallas-Denison	1.7	2.2

Cotton Belt's heaviest traffic flow moves between Corsicana and East St. Louis through Tyler, Mount Pleasant, Lewisville, and Thebes, Ill. Tonnage totals for both directions in 1963 were: Corsicana-Tyler, 12.9 million gross tons; Tyler-Mount Pleasant, 14.6 million; Mount Pleasant-Texarkana, 18.5 million; Texarkana-Lewisville-Pine Bluff, 23.9 million; Pine Bluff-Brinkley-Jonesboro, Ark., 23.3; and Jonesboro-Illmo, Mo., 19.3 million. Traffic density for the Illmo-East St. Louis and the Brinkley-Memphis routes were not shown on the Cotton Belt density chart. Connecting with the described Corsicana-East St. Louis route are the following lines and their respective traffic densities: Lufkin-Tyler, 1.0 million gross tons; Fort Worth-Addison-Commerce, 4.6 million; Dallas-Addison, 2.5 million; Commerce-Mount Pleasant, 5.1 million; Shreveport-Lewisville, 6.8 million; and North Little Rock-Altheimer, 1.6 million. All other Cotton Belt lines handled less than 1 million gross tons.

Southern Pacific submitted interchange exhibits based on traffic for 2 years, 1963 and 1965. The 1963 data are broken down first by connecting carrier and then by station, showing cars or tonnage delivered to and received from the connecting carrier. The 1965 data are broken down first by station, then by connecting carrier, with the carloads delivered to and received from connecting carriers further broken down to show terminations, originations, and overhead movements of the carloads on Southern Pacific and Cotton Belt lines. The 1965 movements because of its greater detail will be discussed, and from time to time, supplemented by the 1963 data as indicated. Further, the discussion will be limited to major points at which Southern Pacific interchanges with carrier parties to these proceedings, and, other than Cotton Belt, excludes interchanges between Southern Pacific and its subsidiaries.

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

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

Major interchanges in California with Santa Fe are at Bakersfield, Colton, and Los Angeles, and, at the latter two points, also with Union Pacific.

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

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

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

Both Southern Pacific and Cotton Belt 1965 interchange data show substantial amounts of traffic interchanged with "All Other Railraods," and while Cotton Belt shows its interchange with Southern Pacific at four points, the latter does not show the interchange with Cotton Belt at any points. However, the 1963 data shows 12 points where the parent interchanges with its subsidiary, as set forth in table 24 (all points except Shreveport are in Texas):

TABLE 24

Major Southern Pacific-Cotton Belt interchanges, year 1963

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

Based on table 24 and the traffic density evidence previously discussed, it is apparent that Corsicana and Shreveport are the main gateways for Southern Pacific-Cotton Belt traffic. The latter's 1965 data show increases in volume through the two points (compared to 1963), and most of the traffic was handled as bridge movements over Cotton Belt. The remaining major Southern Pacific and Cotton Belt interchanges in Texas, Arkansas, and Louisiana, with the exception of New Orleans, not heretofore discussed separately, will be covered in subsequent sections of this appendix dealing with the interchange data for intervening carriers (MoPac, T&P, Katy, Frisco, Fort Worth & Denver, and Kansas City Southern-Louisiana & Arkansas). The earlier section on Rock Island's 1963 interchanges covers operations between that carrier and the Southern Pacific-Cotton Belt system in Arkansas, Texas, and Louisiana. It is noted here, however, that in Louisiana, as in Texas, the preponderance of the traffic interchanged by Southern Pacific either originated or terminated on its lines, based on the carrier's 1965 data.

New Orleans, Memphis, and E. St. Louis are the easternmost terminals of the Southern Pacific-Cotton Belt system, and the 1965 interchanges for the three points are shown in table 25:

TABLE 25

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

Station	Connecting carrier	Carloads: Delivered	Received	Total
New Orleans (SP)	MP	94	13	107
Do	T&P	26	7	33
Do	L&A	2,167	2,737	4,904
Do	All others	65,937	38,789	104,726
Do	Total	68,224	41,546	109,770

Southern Pacific and Cotton Belt interchanges, New Orleans, Memphis, and E. St. Louis—Continued

Station	Connecting carrier	Carloads		
		Delivered	Received	Total
Memphis (SLSW)	MP	160	17	177
Do	SLSF	5,883	4,109	9,992
Do	All others	32,914	26,444	59,368
Do	Total	38,957	30,570	69,527
E. St. Louis (SLSW)	CBQ'	2,085	3,621	5,706
Do	RI	132	70	202
Do	CNW	4,443	6,055	10,498
Do	MKT	33	174	207
Do	MP	348	173	521
Do	SLSF	24	12	36
Do	All others	99,826	106,699	206,525
Do	Total	106,891	116,804	223,695

'Predecessor of Burlington Northern.

Overall, deliveries of cars to connections at New Orleans and Memphis exceeded cars received in 1965, whereas the reverse situation prevailed at E. St. Louis.

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

Financial analysis.—The balance sheets and income statements of the Southern Pacific have been constructed on a corporate entity basis for the years 1965 and 1972. The statements for 1965 reflect the Southern Pacific's financial posture at the time it entered into an agreement with the Union Pacific to purchase certain properties of the Rock Island, assuming that the Rock Island had been merged into the Union Pacific, as proposed in the instant proceedings. The statements for 1972 have also been included to show Southern Pacific's financial position as of the latest available date.

TABLE 26

Southern Pacific balance sheets

	December 31, 1965	December 31, 1972
Current assets:		
Cash	$2,871,567	$29,605
Temporary cash investments	140,994,923	109,405,173
Special deposits	164,493	2,266,279
Loans and notes receivable	266,577	1,025
Traffic and car-service balances-dr.	6,960,088	17,104,534
Net 'balance receivable from agents and conductors	23,853,896	47,804,885
Miscellaneous accounts receivable	20,649,538	25,276,094
Interest and dividends receivable	1,990,175	1,336,129

Southern Pacific balance sheets-Continued

	December 31, 1965	December 31, 1972
Current assets—Continued		
Accrued accounts receivable	$32,405,347	$39,261,634
Working fund advances	81,160	
Prepayments	188,683	
Material and supplies	13,085,903	20,787,320
Other current assets	6,135,846	4,278,269
Total current assets	249,648,196	267,550,946
Special funds:		
Sinking funds	2,069	3,639
Capital and other reserve funds	21,209,959	8,999,082
Insurance and other funds	520,445	2,570,958
Total special funds	21,732,473	11,573,679
Investments:		
Investments in affiliated cos	178,655,946	184,804,552
Other investments	45,881,652	3,546,793
Reserve for adjustment of investment in securities-cr	(55,024,502)	(52,717,103)
Total investments	169,513,096	135,634,242
Properties:		
Road and equipment property	2,339,544,998	2,678,548,375
Improvements on leased property	3,107,149	839,288
Total transportation property	2,342,652,147	2,679,358,663
Accrued depreciation-rd. & equip	(500,762,158)	(622,330,664)
Amortization of defense projects rd. & equip.	(30,985,922)	(15,152,612)
Recorded depreciation and amortization	(531,748,080)	(637,484,276)
Total transportation property less dep. & amort	1,810,904,067	2,041,874,387
Current assets:		
Miscellaneous physical property	126,682,878	176,869,881
Accrued depreciation-miscellaneous physical property	(8,781,816)	12,356,347
Miscellaneous physical property less depreciation	117,901,062	164,513,534
Total properties less depr. & amort	1,928,805,129	2,206,387,921

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Southern Pacific balance sheets-Continued

	December 31, 1965	December 31, 1972
Other assets and deferred charges:		
Other assets	$2,028,330	$16,417,961
Unamortized discount on long-term debt	3,814,278	2,959,879
Other deferred charges	6,678,197	18,025,365
Total other assets and deferred charges	12,520,805	37,403,205
Total assets	2,382,219,699	2,658,549,993
Current liabilities:		
Audited accounts and wages payable	29,604,634	37,678,840
Misc. accounts payable	24,354,896	18,087,061
Interest matured unpaid	2,780,567	3,596,699
Dividends matured unpaid	915,082	76
Unmatured interest accrued	6,851,935	10,131,581
Accrued accounts payable	71,320,402	----------
Federal income taxes accrued	16,677,549	11,037,882
Other taxes accrued	8,880,299	----------
Other current liabilities	8,380,331	144,799,046
Total current liabilities (exclusive of long-term debt due within 1 year)	169,765,695	225,331,185
Long-term debt due within 1 year	39,678,044	51,226,181
Long-term debt due after 1 year:		
Funded debt unmatured	394,053,928	298,057,816
Equipment obligations	297,856,667	447,164,200
Amount payable to affiliated cos	23,074,985	47,205,615
Total long-term debt due after 1 yr	714,985,580	792,427,631
Reserves:		
Casualty and other reserves	20,112,123	42,935,060
Total reserves	20,112,123	42,935,060
Other liabilities and deferred credits:		
Other liabilities	2,411,101	5,039,311
Unamortized premium on long-term debt	114,190	550,641
Other deferred credits	22,355,887	10,305,534
Accrued depreciation-leased property	2,246,853	231,578
Total other liabilities and deferred credits	27,128,031	16,127,064
Shareholders' equity capital stock-issued-total	424,875,041	424,875,041

Southern Pacific balance sheet—Continued

	December 31, 1965	December 31, 1972
Retained income—unappropriated	$985,675,185	$1,105,627,831
Total retained income	985,675,185	1,105,627,831
Total shareholders' equity	1,410,550,226	1,530,502,872
Total liabilities and shareholders' equity	2,382,219,699	2,658,549,993

TABLE 27

Southern Pacific income statements

	1965	1972
Total operating revenues	$786,295,827	$1,119,929,894
Operating expenses		
Maintenance of way and structures:		
Exclusive of depreciation	87,819,383	139,559,375
Depreciation	8,440,301	11,144,576
Maintenance of equipment:		
Exclusive of depreciation	106,197,743	146,709,942
Depreciation	49,933,999	61,791,714
Traffic	13,382,414	17,605,948
Transportation	307,775,089	423,465,253
Miscellaneous & general	38,161,644	61,322,965
Total operating expenses	611,710,573	866,599,773
Net revenue from railway operations	174,585,254	258,330,121
Railway tax accruals	73,048,406	96,236,495
Railway operating income	101,536,848	162,093,626
Rent income-cr	6,472,997	4,905,822
Rents payable-dr	39,362,512	73,880,678
Net rents	(32,889,515)	(68,974,856)
Net railway operating income	68,647,333	93,118,770
Total other income	35,673,762	50,316,192
Total income	104,321,095	143,434,962

TABLE 27

Southern Pacific income statements-Continued

	1965	1972
Total miscellaneous deductions	$5,871,402	$8,152,268
Income available for fixed charges	98,449,693	135,282,694
Fixed charges	28,772,522	42,203,103
Contingent interest (other deductions)		
Total fixed charges & contingent interest	28,772,522	42,203,103
Ordinary income	69,677,171	93,079,591
Total extraordinary items (net)		
Net income after fixed charges and other deductions	69,677,171	93,079,591

Net railway operating income and net income.—Southern Pacific's net railway operating income increased from $46.1 million in 1959 to $65.1 million in 1968 and $93.1 million in 1972. For the same period of time 1959-1968 an average of 28.8 percent of its total income available for fixed charges was derived from nonrailway operations and its net income after fixed charges and other deductions increased from $50 million in 1959 to $74.9 million in 1968, and to $93.0 million in 1972, indicating that the Southern Pacific has enjoyed more than a decade of profitable operations.

Working capital.—The Commission has found on a rule of thumb that a carrier's working capital should be equal at least, to 1 month's average operating expenses less depreciation.

On this basis table 28 has been constructed for the period from 1963 to 1972, to show Southern Pacific's monthly average working capital requirement position. It discloses that 1967, 1969, 1970 and 1972 were the only years in the entire period that its average monthly working capital requirement was more than the computed working capital. However, historically, it is evident from the record that Southern Pacific has maintained an adequate working capital position sufficient for conducting orderly operations.

Long-term debt.—Southern Pacific's total long-term debt (including amounts due and payable within 1 year) over the period 1959-1968, averaged about $760 million annually. Its long-term debt due within 1 year for that period ranged from a low of $24.7 million in 1959 to about $80 million in 1968, with an average of some $38 million annually for the period. In 1972, long-term debt due within 1 year was $51.2 million.

As admitted by Southern Pacific its long-term debt is considerably higher than that of most other carriers. However, for the same 10-year period 1959-1968, funds generated by net income alone averaged $61.5 million annually. Thus, historically, Southern Pacific has had more than sufficient funds available to service its equipment obligations and other debt due within 1 year without resorting to the use of funds generated by charges to depreciation.

TABLE 28

Southern Pacific working capital 1963-1972

Year	Total current assets (000)	Total current liabilities (000)	Working capital (000)	Total operating expenses less depreciation (000)	Monthly average working capital requirement (000)
1963	$283,274	$159,359	$123,915	$501,478	$41,790
1964	268,802	151,701	117,101	527,388	43,949
1965	249,648	169,766	79,882	553,336	46,111
1966	238,618	186,137	52,481	580,176	48,348
1967	223,520	186,038	37,482	561,994	46,833
1968	253,332	200,015	53,317	607,049	50,587
1969	209,051	202,276	6,775	650,765	54,230
1970	265,853	217,354	48,499	660,050	55,004
1971	289,704	221,411	68,293	722,414	60,201
1972	267,551	225,331	42,220	861,600	71,800

Debt-equity ratio.—Southern Pacific's balance sheets from 1959 to 1968 show that its ratio of total long-term debt to total long-term debt and shareholders' equity never exceeded 54 percent and averaged about 43 percent over the 10-year period. Also, computing Southern Pacific's debt-equity ratio by using its total debt structure, from 1959 to 1968, shows that it had a ratio of total debt to combined total debt and shareholders' equity averaging about 44 percent for the same period. The same relative percentages hold true in 1972, where the ratio of long-term debt to equity is approximately 50 percent.

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

Motor carrier operations.—Southern Pacific Transport is controlled by the Southern Pacific through stock ownership. It is authorized to operate as a motor common carrier in interstate or foreign commerce pursuant to certificates issued in No. MC-30319 and 72 subnumbers thereunder. It operates in the States of Texas and Louisiana, principally as a general-commodity carrier over regular routes which parallel the lines of its parent rail carrier and is generally restricted to the performance of service auxiliary to or supplemental of its parent. It also has general-commodity authority authorized by the State regulatory commission of Texas and Louisiana. At the close of the year 1972, it owned 1,030 units of revenue equipment consisting of 148 trucks, 248 truck tractors, and 634 semitrailers. It is noted that 847 units or about 88 percent of its total revenue equipment owned was used principally in intercity service. All intercity units operated 8,599,371 miles in intercity highway service, carried 348,414 tons of revenue freight and realized revenues of $10,373,869 from these operations.

Its balance sheet as of December 31, 1972, shows total assets aggregating $11,186,274, consisting of current assets $2,723,828, composed of cash $127,478, working funds $175, accounts receivable $2,285,199, prepayments $291,365, and material and supplies $16,077; carrier operating property less reserve for depreciation $2,913,326; intangible property less reserve for amortization $387,576; investments and advances-affiliated companies $4,710,000; deferred debits $449,089 and miscellaneous debits $2,455. Liabilities were: Current liabilities $2,436,077, composed of payables to affiliated companies $340,111, accounts payable $906,375, wages payable $304,810, taxes accrued $69,009 and other current liabilities $815,972; deferred credits $2,260; reserves $88,016; capital stock $2,049,725 and earned surplus-unappropriated $6,610,196.

Income statements for 1966, 1967, 1968, and 1972 show operating revenues of $9,974,475, $11,191,951, $12,488,949, and $18,025,776, net income of $148,760, $773;348, $503,471, and $519,202 before provision for income taxes and $118,010, $608,673, $373,050, and $420,846 after provision for income taxes, respectively.

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

Financial status of Cotton Belt.—Cotton Belt's financial statements filed in its Annual Report Form A, to the Commission, is on a consolidated basis and includes its subsidiary companies (St. Louis Southwestern Railway Company of Texas and Dallas Terminal Railway and Union Depot Company). As of December 31, 1972, its balance sheet reported total assets aggregating $346.9 million, including among others cash

$1,195,473 and temporary cash investments $17.3 million; special funds $155,926 investments $18.7 million (principally in affiliated companies); total properties less depreciation and amortization $284.4 million and other assets and deferred charges $5,925,963. Liabilities and shareholders' equity are comprised of current liabilities $24.9 million, including audited accounts and wages payable $6.9 million and accrued taxes $2.3 million; long-term debt $6.6 million (all of which is due after 1 year); reserves $2,230,044 and other liabilities and deferred credits $3,721,197; and shareholders' equity $309.5 million, which consists of capital stock $37.1 million and retained income-unappropriated $272.4 million.

Cotton Belt's income statement for the year 1972 shows total railway operating revenues $152.3 million, with total railway operating expenses $116.6 million, resulting in an operating ratio of 76.58 percent. Net railway operating income $30.2 million plus income (net) from other than railway operations aggregated $33.2 million which was available for payment of fixed charges and other deductions amounting to $549,641. Net income after fixed charges and other deductions amounted to almost $33 million. Cotton Belt's profitable operations, favorable ratio of total debt to combined total debt and shareholders' equity of 2 percent and its ability to meet its fixed charges, indicate a sound financial position for 1972.

SANTA FE

Santa Fe has its principal offices in Chicago. It was incorporated in Delaware on October 20, 1969, and is the successor-in-interest to the original applicant carrier and party in these proceedings, the Atchison, Topeka and Santa Fe Railway, a Kansas corporation. See: Finance Docket No. 25906, *AT&SF, Inc.—Merger—Atchison, Inc., and Atchison, Topeka and Santa Fe Railway Co.* (not printed), decided January 23, 1970. As a result of the foregoing proceeding, a matter of corporate reorganization, no changes were made which would affect the evidence or determinations in these proceedings. It is noted that Santa Fe Industries, Inc., which, in June 1968, acquired control of the original applicant carrier through ownership of 99 percent of its capital stock, now controls Santa Fe through 100 percent stock ownership. Pursuant to orders entered in these proceedings, on February 14, 1969, Santa Fe Industries, Inc., was joined as a party applicant and on May 8, 1970, the Santa Fe was substituted as applicant carrier and party to the proceedings. The original applicant carrier was incorporated in 1895 and was the successor by reorganization to the old Atchison, Topeka & Santa Fe Railroad Company, which was originally chartered in the Territory of Kansas in 1859.

The following carriers are wholly owned by Santa Fe through 100 percent stock ownership:

- Advertising Direction, Inc.
- Santa Fe Forwarding Company
- Santa Fe Trail Transportation Company (Santa Fe Trail)
- The Clinton & Oklahoma Western Railroad Company
- The Dodge City & Cimmarron Valley Railway Company
- Fresno Interurban Railway Company
- The Garden City, Gulf & Northern Railroad Company
- Gulf & Inter-State Railway Company of Texas
- The Kansas Southwestern Railway Company

- The New Mexico Central Railway Company
- Rio Grande, El Paso & Santa Fe Railroad Company
- Haystack Mountain Development Company
- Los Angeles Junction Railway Company
- Santa Fe Industrial Realty Company

Santa Fe has a 51 percent interest in Illinois Northern Railway and a 50 percent interest in each of the following:

- Alameda Belt Line, - Chicago Produce Terminal Company, - Oakland Terminal Railway, - Oklahoma City Junction Railway Company, - St. Joseph Terminal Railroad Company, - Sunset Railway Company and - Toledo, Peoria and Western Railroad (Toledo or TP&W).

Santa Fe exercises a measure of control or has an interest in the following carriers:

Carrier	*Percent of ownership interest*
- Central California Traction Company	33 1/3
- Joliet Union Depot Company	33 1/3
- Texas City Terminal Railway Company	33 1/3
- Wichita Union Terminal Railway Company	33 1/3
- Houston Belt & Terminal Company	25
- Pueblo Union Depot & Railway Company	25
- Denver Union Terminal Railway Company	16 2/3
- El Paso Union Passenger Depot Company	16 2/3
- Union Terminal Company (Dallas)	12 1/2
- Belt Railway Company of Chicago	8 1/3
- Kansas City Terminal Railway Company	8 1/3
- Pullman Company	5.61
- Trailer Train Company	2.4

The authorized capitalization and shares issued and outstanding for the successor Santa Fe is not of record.

Santa Fe Industries, incorporated December 4, 1967, in Delaware, was organized to acquire the common capital stock of the original applicant carrier herein and also provide for expansion and diversification in nontransportation fields. However, the control and other interests which the original applicant carrier held in nontransportation companies remained in it, and apparently such control and other interests were transferred without change to the successor-in-interest carrier company, Santa Fe.

Scope of operations, plant, and equipment.—As of December 31, 1972, Santa Fe operated approximately 12,569 miles of road in 12 States, of which 51 percent was branch line, and 403 miles were operated under trackage rights. Its mileage operated by State is: Illinois, 290; Iowa, 20; Missouri, 292; Kansas, 2,729; Nebraska, 3; Oklahoma, 1,324; Texas, 3,574; Louisiana, 64; Colorado, 596; New Mexico, 1,327; Arizona, 850; and California, 1,501. Santa Fe's actual track mileage totaled 20,811 miles.

The Santa Fe is one of the two major carriers operating through the southern corridor, the other being the Southern Pacific system. The territory served by the Santa Fe is bounded by Sacramento, San Francisco, Los Angeles, and San Diego, on the west, and by Chicago, Joplin, Mo., Tulsa, Okla., Paris and Longview, Tex., and Oakdale, La., on the east. Santa Fe's major routes run from San Francisco and Sacramento to Chicago.

Santa Fe and its subsidiaries own extensive automated freight classification yards, piggyback and containerized freight handling facilities; signal and communication facilities, including a microwave communication system between Chicago and California; and equipment, track, signal, and communications maintenance facilities, including a car construction plant, and maintains an industrial development and market research department which applies modern electronic data processing systems to all phases of Santa Fe's rail operations.

Freight traffic.—By the end of the 10-year period 1959 through 1968, Santa Fe's freight revenues showed a net increase of 13.5 percent. However, freight revenues for the 5 years 1960-64, were each less than 1959, and it was not until 1965, that Santa Fe began enjoying successive yearly increases except for 1967.

Revenue tonnage during this period increased to 76.1 million tons in 1968. From 1959 to 1963, tonnage fluctuated between 65.3 and 66.3 million tons before climbing to the 1966 high for the period of 78.3 million tons. Revenue ton-miles followed a pattern similar to that for tonnage, with a net increase of 26.7 percent to 45.6 billion ton-miles in 1968.

Total revenue carloads in 1959 totaled 1.8 million, the period high. While carloads declined in a relatively steady manner (the last 5 years did fluctuate slightly) for a net decrease of 14.6 percent for 1968 compared to 1959, it should be borne in mind that average revenue load per car consistently increased each year from 36.5 tons in 1959 to 46.4 tons in 1968.

The year ended December 31, 1972, showed total revenue tons of 82,800,726, revenue ton-miles (millions) 51,685, and freight revenues (thousands) $794,005. Other figures showing the development of traffic from 1959-1968 are contained in the initial report.

Freight traffic: interchanges and traffic flow.—The measurement of traffic density used in this discussion will be average gross tons hauled in freight trains per mile in 1965, excluding weight of locomotives.

Santa Fe's major freight route is between California (Los Angeles and San Francisco) and Chicago, via the "Amarillo Line." Traffic density over the route is shown below:

Line segment (s)	Millions of tons	
	Eastbound	Westbound
Los Angeles-Barstow, Calif	9.6-12.1	14.7-19.8
Richmond (San Francisco)-Barstow	6.6-9.9	6.0-8.3
Barstow-Belen, N. Mex	13.2-15.5	16.8-18.4
Belen-Clovis, N. Mex	15.5	18.3
Clovis-Farwell, Tex	20.6	18.9
Farwell-Canyon, Tex	15.6	14.2
Canyon-Amarillo, Tex	17.8	17.4
Amarillo-Wellington, Kans	16.5	13.9-14.0

Line segment (s)	Millions of tons	
	Eastbound	Westbound
Wellington-Mulvane-Augusta. Kans	15.1-15.4	12.8-13.0
Augusta-Elinor, Kans	19.2	18.0
Elinor-Kansas City	22.8-25.2	20.5-22.8
Kansas City-Chicago	13.3-14.9	12.4-14.3

There was far less freight traffic on the La Junta line, previously described, which diverges from the Amarillo line at Belen, N. Mex., and rejoins it at Elinor, Kans. Traffic densities for the La Junta line are shown below:

Line segment (s)	Millions of tons	
	Eastbound	Westbound
Bele-Albuquerque	2.0	2.2
Albuquerque-La Junta, Colo	1.2	1.1
La Junta-Dodge City	3.0	2.7
Dodge City-Elinor	4.4-5.0	3.0-4.4

Santa Fe's major service route for freight traffic between Chicago and the gulf coast (Galveston and Beaumont, Tex.), runs through Elinor south through Augusta, Kans., Fort Worth and Temple, Tex., and eastward to Somerville, Tex., with segments to Beaumont and Galveston. Between Augusta and Winfield Junction, Kans., traffic handled in 1965 amounted to 5.3 million tons southbound and 4.1 million tons northbound.

Traffic density over the line segments south of Winfield Junction to the gulf are:

Line segment (s)	Millions of tons	
	Northbound	Southbound
Winfield Junction-Fort Worth-Oklahoma City-Temple	3.0-6.3	6.6-9.0
Temple-Somerville	5.3	11.0
Somerville-Galveston	2.7-3.3	6.3-7.5
Somerville-Beaumont	1.7-2.5	3.6-4.0

Santa Fe's evidence does not reveal the traffic density for the previously described Somerville-Houston line. As will be later detailed, Houston is a major traffic origin and destination point, and, therefore, it is concluded that much of the traffic moving between Somerville and Galveston, as shown above, actually moves between Somerville and Houston.

The route segment running between Las Animas and Lubbock through Amarillo and Canyon carried traffic between Colorado and Texas; and the route segments between Farwell and Temple, through Lubbock and Brownwood, and between Brownwood and Fort Worth carry traffic between California and Texas. Traffic densities for the routes are:

Line segment (s)	Millions of tons	
	Eastbound	Westbound
Las Animas-Amarillo	1.5-1.8	0.9-1.0
Amarillo-Canyon[1]	------------	------------
Canyon-Plainview-Lubbock	3.2-4.7	2.1-2.8
Farwell-Lubbock	5.7	4.7
Lubbock-Brownwood	8.1-8.6	4.1-8.1
Brownwood-Fort Worth	3.6	2.0
Brownwood-Temple	4.9	2.7

[1]Density shown in the prior discussion of Amarillo line.

The Denver-La Junta route, through Pueblo, carries traffic to and from California, Texas, and Chicago. Density over the line was: Denver-Pueblo, 2.1 million gross tons southbound, 1.7 million northbound; and Pueblo-La Junta, 4.5 million southbound, and 4.0 million northbound.

Connecting with the Canyon-Lubbock segment is a line from Floydada, Tex., to Plainview over which 1.5 million gross tons moved westbound and 0.7 million eastbound. Joining the Winfield Junction-gulf coast route at Dalton Junction, Tex., is a line from Dallas through East Dallas which handled 0.4 million gross tons westbound and 1.0 million eastbound. Santa Fe presented no evidence showing density for the line from Dallas to Cleburne.

Other important Santa Fe routes connect with the above-discussed lines at various junctions. One such line connects San Diego with the Los Angeles-Barstow line at Atwood, Calif. In 1965, traffic density on this line ranged from 1.1 to 2.0 million tons to San Diego and from 1.2 to 1.4 million tons from San Diego. Traffic moves between Phoenix and Mattie, Ariz., with a density in 1965 of 2.3 million tons to Phoenix and 2.5 million tons moving from Phoenix. At Mattie, the line splits, connecting with the Barstow-Belen portion of the California-Chicago route at Cadiz, Calif., on the west, and Williams Junction, Ariz., on the east. Traffic density between Mattie and Cadiz totaled less than 2.0 million gross tons for both directions, while between Mattie and Williams Junction density was 1.8 million tons westbound and 1.5 million tons eastbound. A line between Belen and El Paso handled 1.5 to 2.2 million tons southbound and 1.2 to 2.0 million tons northbound in 1965. At Clovis, a line runs south to Pecos, Tex., through Carlsbad. This line carried 6.6 million tons northbound and 2.1 million tons southbound, with most of the tonnage northbound moving out of the potash mining area near Carlsbad.

As seen, Santa Fe's most heavily utilized freight routes are: the California-Chicago route via the Amarillo line; the Clovis-Carlsbad line; and the routes from Farwell and Winfield Junction to the gulf coast. These routes connect most of Santa Fe's major traffic interchange, origin, and destination points which will be next discussed.

Origin and destination points shown in Santa Fe's evidence are classified as the 30 most important points in 1965 for each of the following classes of traffic: local originations, local destinations, interline originations, and interline destinations. The discussion of the interchange evidence here will be restricted to those points at which

Santa Fe interchanged 500 or more cars with any one carrier which was an active participant in these proceedings, unless otherwise noted. Adjustments have been made to reflect unifications of carriers. Active participants and their affiliates are shown specifically in the interchange tables. Eastern and southern district class I line-haul carriers are shown aggregated for their respective districts, unless otherwise noted. Remaining carriers are grouped in totals for "All Others." In keeping with the prior descriptions of Santa Fe's routes and freight traffic density, the origin, destination, and interchange points will be discussed from west to east, beginning with California, for which major interchanges are shown in the following table:

TABLE 29

Santa Fe major interchanges in California

AT&SF station	Connecting carrier	Carloads		
		Delivered	Received	Total
Los Angeles-Barstow area				
Los Angeles[1]	SP	17,462	14,902	32,364
Do	UP	795	3,592	4,387
San Bernardino	SP	1,158	309	1,467
Do	UP	1,713	5,767	7,480
Barstow	do	6,560	32,642	39,202
	Total	27,688	57,212	84,900
San Francisco-Stockton area				
San Francisco[2]	SP[3]	3,035	9,032	12,067
Do	WP[3]	1,367	746	2,113
Stockton	SP	13,198	20,927	34,125
Do	WP[3]	32,969	32,140	65,109
Do	All others	1,162	3,003	4,165
Do	Total	51,731	65,848	117,579
Other California points				
Bakersfield	SP[3]	6,720	4,559	11,279
Fresno	SP	1,228	862	2,090
Majave	do	381	358	739
San Diego	do	1,516	715	2,231
	Total	9,845	6,494	16,339
	Grand total	89,264	129,554	218,818

[1]Includes Anaheim, Colton, Long Beach, L. A. Harbor, Riverside, and Santa Ana, Calif.
[2]Includes Oakland, Pittsburg, Port Chicago, Richmond, and Tiburon, Calif.
[3]Includes subsidiaries.

Santa Fe's major connection for traffic interchanged in California is Southern Pacific, with which it connects at many points throughout the State, south of, and including the San Francisco Bay area. The largest amounts of traffic moving between the two carriers are interchanged at Stockton (34,125 cars); San Francisco, including the points shown in table 29 above (12,067); Bakersfield (11,279); and Los Angeles, also including other points named in table 29 (32,364). Most of the cars interchanged with Southern Pacific at the foregoing points originated or terminated on Santa Fe.

Barstow is the principal interchange point in California between Santa Fe and Union Pacific. This was noted earlier in the discussions of the latter's 1963 interchange data, which showed 31,513 cars interchanged, of which 24,994 cars were delivered to the Santa Fe by Union Pacific. Nearly 21,000 of the cars delivered by Union Pacific were overhead to that carrier. Based on Santa Fe's 1965 evidence, a total of 39,202 cars were interchanged at Barstow, of which 32,642 were delivered to Santa Fe by Union Pacific including 31,368 cars terminated on Santa Fe lines. During 1965, Santa Fe received 51,334 carloads of interline terminated traffic from Union Pacific at all system gateways, and of this amount, 28,732 cars carried products of mines (based on the old commodity code classification).

It is apparent that the Barstow interchange accounts for approximately 60 percent of the traffic delivered by Union Pacific to and terminated on, the Santa Fe. Further, much if not most of this traffic consisted of products of mines and moved as bridge traffic over the Union Pacific.

Santa Fe's principal interchange with Western Pacific is at Stockton, where 65,109 cars were interchanged in 1965, with deliveries and receipts of cars nearly equal. As described later, Stockton is Western Pacific's southern gateway for traffic moving via the Bieber, Calif., gateway in conjunction with the Burlington Northern on the north and the Santa Fe on the south. Of the 65,109 cars interchanged with Western Pacific, 20,656 originated and 29,898 terminated on the Santa Fe, and in each case, roughly two-thirds of the traffic consisted of "manufactures and Miscellaneous" commodities.

Several points in California are among the most important origin and destination points on the Santa Fe system. Table 30 shows the data for points in California. For purposes of this discussion, individual stations in the San Francisco and Los Angeles areas have been aggregated, as noted.

TABLE 30

Major Santa Fe origin and destination points in California

AT&SF stations	Carloads			
	Local		Interline	
	Originations	Terminations	Originations	Terminations
San Francisco[1]	5,708	6,395	13,034	41,060
Los Angeles[2]	24,652	78,886	22,732	186,205
Cushenberry	8,134	xx	xx	xx
Boron	6,596	xx	xx	xx
Blythe	3,742	xx	xx	xx
Fresno	xx	4,140	3,542	4,542
San Diego[3]	xx	8,445	xx	12,221
Shafter	xx	xx	4,947	xx
Wasco	xx	xx	3,082	xx

[1]Includes Antioch, Oakland, and Richmond.
[2]Includes Kaiser, Pico Rivera, Fullerton, Torrance, Long Beach, and El Segundo.
[3]Includes National City.
"xx" indicates that traffic, if any, was insufficient to categorize the corresponding station as 1 of the 30 most important points for the class of traffic named in column heading.

It is apparent from table 30 that the Los Angeles area by far is the largest source of origination traffic and the most important point of destination on the Santa Fe in California; that the San Francisco Bay area, in terms of either originations or terminations, is a distant second; and that Santa Fe's California traffic is made up mainly of that which it either originates or terminates.

In Arizona, Phoenix was the only major point of interchange for Santa Fe in 1965. At Phoenix, 2,339 cars were delivered to, and 327 cars received from Southern Pacific. Phoenix (including Glendale) is also a major traffic origin and destination point. Originations in 1965 consisted of 5,384 cars of interline traffic, and terminations totaled 20,479 cars including 10,591 local to Santa Fe.

In New Mexico only one point, Deming, is a major interchange: Santa Fe delivered 7,117 cars to Southern Pacific (including 4,654 originated on Santa Fe) and received 4,396 from Southern Pacific (including 2,613 cars overhead to Santa Fe). From a traffic standpoint, New Mexico is important to Santa Fe for originations of traffic, primarily potash from the mining region near Carlsbad, located on the Clovis-Pecos, Tex., line. Carlsbad ranked first among Santa Fe's 30 most important origin points for interline traffic (53,796 cars) and third among the 30 largest local traffic origin points (20,657 cars). Zuni and Gallup, N. Mex., near the Arizona border, were the origin points for 4,409 cars of interline traffic and 17,808 cars of local traffic, respectively, in 1965. Koehler in northern New Mexico was the origin of 5,273 cars of local traffic. Albuquerque was the only major destination point for traffic in the State (10,417 interline and 5,339 local cars).

For the reasons apparent in the discussion which follows, Texas is divided into western and eastern sections, with the dividing line running straight south, from and including the eastern border of the Panhandle, to the Rio Grande River. Four major interchange points lie within the western section: El Paso, Amarillo, Floydada, and Sweetwater. At El Paso, Santa Fe interchanged with Southern Pacific 4,236 cars and with Texas & Pacific 748 cars in 1965. Santa Fe received 6,478 cars from the Rock Island and delivered 2,989 cars to Rock Island at Amarillo, and comparable figures for Fort Worth & Denver were 4,731 cars received and 681 cars delivered. In each case, the bulk of the traffic originated or terminated on Santa Fe. Floydada is a major interchange point with the Quanah, Acme & Pacific Railway Company (Quanah or QAP), a subsidiary of Frisco. Santa Fe received 29,250 cars from Quanah, of which 26,704 terminated on line, and delivered 7,438 cars to Quanah of which 6,753 originated on Santa Fe. Santa Fe interchanged 12,842 cars with Texas & Pacific at Sweetwater (6,364 cars to T&P and 6,478 from T&P) and nearly 90 percent of this traffic originated or terminated on Santa Fe.

Interchanges in the eastern section of Texas are shown in table 31.

TABLE 31

Major Santa Fe interchanges in eastern Texas

AT&SF station	Connecting carrier	Carloads		
		Delivered	Received	Total
Bay City	MP	5,198	21	5,219
Do	SP	37	8	45
Do	Total	5,235	29	5,264
Beaumont	KCS	11,796	1,983	13,779
Do	MP	5,371	1,619	6,990
Do	SP	5,687	4,667	10,354
Do	Total	22,854	8,269	31,123
Dallas-Fort Worth	RI	968	3,154	4,122
Do	FW&D	1,098	683	1,781
Do	KCS (Dallas only)	9,978	5,933	15,911
Do	MKT	1,934	1,767	3,701
Do	MP (Fort Worth only)	2,680	2,056	4,736
Do	T&P	16,384	6,830	23,214
Do	SLSF	1,599	2,687	4,286
Do	SLSW	8,030	4,279	12,309
Do	SP	8,277	5,172	13,449
Do	Total	51,885	32,767	84,652
Houston	RI	4	14	18
Do	FW&D	3	81	84
Do	MKT	652	82	734
Do	MP	4,634	1,012	5,646
Do	SP	2,691	1,193	3,884
Do	Total	7,984	2,382	10,366
Longview	MP	66	620	686
Do	T&P	1,644	2,223	3,867
Do	Total	1,710	2,843	4,553
Paris	SLSF	365	180	545
Do	SP	63	----------	63
Do	T&P	23	138	161
Do	Total	451	318	769
Canroe	MP	937	206	1,143
Farmersville	KCS	2,211	424	2,635
Gainesville	MKT	837	175	1,021
McGregor	SLSW	1,361	1,514	2,875
Milano	MP	5,422	3,786	9,208
Temple	MKT	580	1,810	2,390
Five points[1]	SP	10,765	4,499	15,264
Do	Total	22,113	12,414	34,536

[1]Includes Caldwell, Cleveland, Eagle Lake, Rosenberg, and Tenaha.

Although there are numerous Santa Fe interchange points in eastern Texas, only Beaumont, Houston, Dallas, and Fort Worth had interchange totals in excess of 10,000 cars each. It is apparent generally from table 31 that the largest individual interchanges in eastern Texas are those with carriers which form end-to-end connections with Santa Fe and which have lines extending to the Mississippi River.

At Bay City, 5,198 out of 5,219 cars interchanged with MoPac originated on Santa Fe. Traffic originated or terminated on Santa Fe clearly dominates the interchanges at Bay City, Beaumont, Dallas, Fort Worth, Houston, Milano, and Tenaha, among points shown in table 31. The remaining points shown were not included in Santa Fe's evidence covering the classes of traffic interchanged at specific points.

Throughout Texas and in terms of total volume interchanged therein at the points above-discussed, the carriers interchanging the most traffic with Santa Fe were the MoPac-Texas & Pacific system, over 74,000 cars; the Southern Pacific-Cotton Belt system, over 62,000; the Frisco-Quanah system, over 42,000; and the Kansas City Southern-L&A system, over 32,000.

Table 32, which follows, shows the importance of Texas points to Santa Fe as traffic origins and destinations.

TABLE 32

Major Santa Fe origin and destination points in Texas

AT&SF stations	Carloads: Local Originations	Local Terminations	Interline Originations	Interline Terminations
Houston	7,584	50,012	4,596	9,192
Dallas-Fort Worth[1]	15,476	19,835	7,956	18,134
Amarillo	6,079	7,820	3,081	4,608
Lubbock	11,798	17,548	7,348	7,985
El Paso	5,063	9,707	xx	4,578
Plainview	4,279	4,071	xx	5,308
Nine points[2]	10,706	47,006	19,276	xx

[1]Includes North Fort Worth.

[2]Eagle Lake, Borger, Galveston, Beaumont, Hereford, Silsbee, Evadale, Kings Mill, and Longview.

NOTE: "xx" indicates that traffic, if any, was insufficient to categorize the corresponding station or stations among the 30 most important points for the class of traffic named in column heading.

In Louisiana, only two stations, DeRidder and Oakdale (the easternmost Santa Fe point south of Kansas City), are major interchange points. At DeRidder 595 cars were interchanged in 1965 with the Kansas City Southern, and 104 cars were interchanged with Southern Pacific. MoPac interchanged 1,956 cars with Santa Fe at Oakdale. No major origin or destination points were listed for Louisiana in Santa Fe's 1965 data.

There are eight points in Oklahoma at which Santa Fe interchanged at least 500 cars with one carrier in 1965. The points and the connecting class I line-haul carriers with their respective Santa Fe interchange totals are: Avard-Frisco, 2,186 cars; Enid-Rock Island, 540; and -Frisco, 458; Oklahoma City-Rock Island, 4,884, -Katy, 542 and -Frisco, 1,755; Perry-Frisco, 2,369; Shawnee-Rock Island, 1,098; Tupelo-MoPac, 2,296; Woodward-Katy, 1,575; and Tulsa-Katy, 209 -MoPac, 542, and -Frisco 691. Santa Fe's

evidence shows that the majority of cars interchanged at Oklahoma City either originated or terminated on Santa Fe: such information is not of record for the other named points.

At Enid, local traffic originated totaled 9,840 cars; local terminated, 12,374; and interline originated 4,322. Oklahoma City was the origin for 4,157 interline cars and the destination for 11,381 interline and 11,177 local cars. Also in Oklahoma, Crusher was the origin of 5,393 cars of local traffic and Ponca City was the origin of 4,191 interline cars.

Three points in Colorado are major Santa Fe interchanges: Denver, Pueblo, and Trinidad. Santa Fe's total 1965 interchanges at these points by carrier (i.e., active participants to these proceedings), were: Rio Grande-25,571 cars, Burlington Northern-10,027, Colorado & Southern-4,298, Union Pacific-9,896, MoPac-1,579, and Rock Island-241. Of the traffic interchanged at Denver and Pueblo, traffic originated or terminated on Santa Fe exceeded the amount moving overhead on its lines. At Rocky Ford, Colo., Santa Fe terminated 4,887 cars of local traffic. Denver was the origin point for 4,003 cars of local traffic and the destination for 5,792 local and 5,422 interline carloads.

Table 33 shows major Santa Fe interchanges in Kansas, west of Kansas City and Atchison, Kans.:

TABLE 33

Major Santa Fe interchanges in Kansas west of Atchison and Kansas City

AT&SF station	Connecting carrier	Carloads: Delivered	Received	Total
Arkansas City	MP	107	1,387	1,494
Do	SLSF	515	97	612
Chanute	MKT	789	1,419	2,208
Cherryvale	SLSF	4,740	1,586	6,326
Coffeyville	MKT	124	224	348
Do	MP	2,152	2,117	4,269
Fredonia	MP	1	----------	1
Do	SLSF	6,024	796	6,820
Independence	MP	1,606	1,436	3,042
Pittsburg	KCS	982	723	1,705
Do	MP	56	2	58
Do	SLSF	12	255	267
Topeka	RI	527	88	615
Do	MP	28	23	51
Do	UP	1,536	286	1,822
Five points[1]	RI	526	498	1,024
Do	MP	938	492	1,430
Do	SLSF	833	1,556	2,389

[1]Burrton, Olathe, Osborne, Wellington, and Wichita. At each point Santa Fe interchanged over 500, but less than 1,000 cars with at least one of the named connecting carriers.

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The largest volume interchanges shown in table 33 are at Chanute, Cherryvale, Coffeyville, Fredonia, and Independence, all points in southeastern Kansas on lines radiating from, and including the route between Ottawa, Kans. (on the Chicago-California route), and Tulsa. Practically all of the cars interchanged at Cherryvale and Fredonia originated or terminated on Santa Fe. Frisco and MoPac interchange the largest volume of traffic with Santa Fe in Kansas, west of Atchison and Kansas City.

In the same geographic area, seven points are among Santa Fe's most important origin and/or destination points. At Wichita, originations in 1965 included 10,574 local carloads and 9,190 interline carloads. Terminations included 16,807 local and 6,656 interline. Hutchinson, Kans., was origin for 18,249 carloads (9,863 local) and destination for 19,060 carloads (15,289 local). Other important local traffic points were Moline (5,200 originated) and Topeka (4,999 terminated). At Lawrence 4,994 interline cars originated and 4,065 were terminated. The remaining Kansas points, Augusta and Olathe, originated 3,638 and terminated 3,723 interline carloads, respectively.

Superior is the only major interchange in Nebraska. Santa Fe interchanged 334 cars there with Burlington Northern, 7 with MoPac, and 768 with North Western.

The final portion of the Santa Fe's gateways and origin and destination points to be discussed are those at, and east of the Missouri River, in Kansas, Missouri, and Illinois. It is in this area only that the carrier connects directly or through affiliates with carriers which have their primary service areas east of the Mississippi River. Major gateways in the Kansas City area are shown in table 34.

TABLE 34

Major Santa Fe interchanges-Kansas City area gateway

AT&SF station	Connecting carrier	Carloads		
		Delivered	Received	Total
Kansas City	CB&Q (BN)	20,230	20,542	40,772
Do	C&NW	6,416	5,735	12,151
Do	MILW	9,489	15,079	24,568
Do	RI	10,849	6,624	17,473
Do	KCS	2,768	4,032	6,800
Do	MKT	3,012	3,707	6,719
Do	MP	15,981	12,824	28,805
Do	SLSF	10,927	8,412	19,339
Do	UP	8,875	10,457	19,332
Do	N&W[1]	15,749	31,238	46,987
Do	I.C.G.	7,426	6,063	13,489
	Grand total	111,722	124,713	236,435
St. Joseph, Mo	CB&Q (BN)	1,516	264	1,780
and Atchison, Kans	RI	21	93	114
Do	MP	1,164	56	1,220
Do	C&NW	81	172	253
Do	UP	66	32	98
	Grand total	2,848	617	3,465
Henrietta, Mo	N&W[1]	77	1,138	1,215

[1] N&W and I.C.G. shown specifically to emphasize status as class I line-haul carriers in eastern and southern districts, respectively.

In terms of volume, Kansas City ranks first among Santa Fe's major individual interchange points. As will be seen later, however, the carrier's gateways in Illinois together handle a substantially greater volume and function as direct gateways for traffic interchanged with eastern district carriers. Norfolk & Western interchanges the most traffic with Santa Fe at Kansas City, 46,987 cars in 1965, followed by Burlington Northern, 40,772, MoPac, 28,805, and Milwaukee, 24,568. North Western, Rock Island, Frisco, and Union Pacific, among the parties, interchanged from 10,000 to 20,000 cars with Santa Fe, and Katy and Kansas City Southern interchanged 6,719 and 6,800 cars, respectively. Overall, Santa Fe received 124,713 cars at Kansas City of which 101,580 terminated on its lines. Deliveries to connections totaled 111,722 cars, of which 99,347 originated on Santa Fe.

Kansas City (Missouri and Kansas) is also an important Santa Fe origin and destination point. Originations in 1965 consisted of 7,296 interline carloads and 21,044 local carloads, the second largest number for local originations on the system. Carload terminations included 8,950 interline cars and 27,572 local cars, the third largest local termination figure for the system.

Another major interchange point in Missouri is located east of the Kansas City area, namely, Bucklin, where Santa Fe received 3,820 cars from, and delivered 16 cars to, the Burlington Northern.

The Santa Fe serves a number of gateways from Fort Madison, Iowa, to Chicago. Many of these gateways are located on rail lines which bypass Chicago, including the Toledo, Peoria and Western Railroad, jointly owned by Santa Fe and Penn Central. At Fort Madison only one carrier, Burlington, connects with Santa Fe and the total interchange in 1965 consisted of 1,390 cars.

Data for Santa Fe's Illinois gateways are shown in table 35.

TABLE 35

Major Santa Fe interchanges—Illinois gateways

AT&SF station	Connecting carrier	Carloads		
		Delivered	Received	Total
Chicago-McCook-Joliet	CB&Q (BN)	5,198	300	5,498
Do	C&EI	1,229	1,458	2,687
Do	C&NW	6,294	6,605	12,899
Do	MILW	2,504	1,168	3,672
Do	RI	152	97	249
Do	ICG	3,750	764	4,514
Do	SOO	2,503	3,414	5,917
Do	Eastern district[1]			
Do	Class I	98,778	74,872	173,650
Do	Southern district[2]			
Do	Class I	225	375	600
Do	All others	1		1
	Total	120,634	89,053	209,687
Streator	CB&Q (BN)	71	71	142
Do	Eastern district[1]			
Do	Class I	4,590	36,786	41,376
Do	Southern district[2]			
Do	Class I	26	4	30
	Total	4,687	36,861	41,548

See footnotes at end of table.

Major Santa Fe interchanges—Illinois gateways—Continued

AT&SF station	Connecting carrier	Carloads		
		Delivered	Received	Total
Pekin-Morton-Eureka-Minonk	CB&Q (BN)	3	2	5
Do	C&NW	6	29	35
Do	RI	2	6	8
Do	IC	2,827	1,448	4,275
Do	TP&W	1,396	248	1,644
Do	Eastern district[1]	---------	---------	---------
Do	Class I	1,947	1,305	3,252
Do	Southern district[2]	---------	---------	---------
Do	Class I	378	302	680
	Total	6,559	3,340	9,899
Galesburg	CB&Q (BN)	440	453	893
Nemo	C&NW	3,018	4,268	7,286
Lomax	TP&W	19,558	14,149	33,707
	Grand total	154,896	148,124	303,020

[1]Includes PC, N&W, C&O (including South Shore)-B&O, E-L, GTW, EJ&E, and Monon at Chicago, et al.; PC and N&W at Streator; C&IM, IT, PC and N&W at Pekin, et al.
[2]I.C.G. only.

Nearly 28 percent of Santa Fe's 1965 total interline carloads were interchanged at the gateways shown in table 35. More than half of the cars interchanged were delivered to the named connections by Santa Fe. Over two-thirds of the 303,020 cars interchanged at the Illinois points named in the table were interchanged with class I eastern district line-haul railroads (other than the Chicago & Eastern Illinois) and the TP&W. The latter interchanged 35,351 cars with Santa Fe, mostly at Lomax. Among the carriers actively participating in these proceedings, North Western interchanged the largest number of cars (20,220) with Santa Fe in Illinois. The Pekin, Morton, Eureka, and Minonk, Ill., gateways grouped in table 35, are all located on a line from Streator (on the Chicago-California line) to Pekin.

Of the 120,634 cars Santa Fe delivered to connections at Chicago, McCook, and Joliet, 104,289 originated on Santa Fe lines. Of the 89,053 cars received at these points, 73,207 terminated on Santa Fe. Traffic originated or terminated on Santa Fe also represented the bulk of the carloads interchanged at Streator, Namo, and Lomax.

The Chicago and McCook stations together were origin points in 1965 for 58,975 carloads, including 36,998 cars of local traffic, and destination points for 37,528 carloads (31,460 local). Chillicothe, Ill., was origin point for 4,972 cars of local traffic, and Galesburg was the origin of 4,888 interline carloads.

MOTOR CARRIER OPERATIONS

Santa Fe Trail, applicant in No. MC-F-9669, the previously indicated wholly owned subsidiary of Santa Fe, in turn, owns the capital stock of another motor carrier, Santa Fe Transportation Company of Illinois, which is inactive. Santa Fe Trail holds authority to operate in interstate or foreign commerce, as a motor common carrier of

property pursuant to certificates issued in No. MC-30605 and various subnumbers thereunder. Operations are generally coordinated with, and supplemental of Santa Fe's rail services. Terminal service is provided for Santa Fe's piggyback operations. Santa Fe Trail owns and rents trailers for this service.

As of December 31, 1972, Santa Fe Trail's operating mileage totaled 18,370 miles. Its interstate authority extends between Omaha and St. Joseph, Kansas City, and Joplin, Mo., Fort Smith, Beaumont, Port Arthur and Galveston, Tex., on the north, east, and south, and San Francisco, Los Angeles and San Diego, Calif., on the west.

Santa Fe Trail's balance sheet as of December 31, 1972, shows total assets aggregating $38,868,308, consisting of current assets $8,299,891, composed of cash $43,159, working funds $1,410, special deposits $475, accounts receivable $7,529,939, prepayments $292,868, material and supplies $429,040, and other current assets $3,000; carrier operating property less reserve for depreciation $28,899,205; noncarrier property less reserve for depreciation $453,944; intangible property less reserve for amortization $1,123,504; other investments and advances $29,730; special funds $25,000 and other deferred debits $37,034. Liabilities were: Current liabilities $3,539,339; long-term debt due within 1 year $3,730,198; long-term debt due after 1 year $2,645,463; other deferred credits $98,630; reserves $26,000; capital stock $2,200,000; other capital surplus $36,749 and earned surplus-unappropriated $26,407,929.

Income statements for 1966, 1967, and 1968 show operating revenues of $21,592,770, $21,565,087, and $24,777,931, net income before provision for income taxes of $1,845,856, $1,937,623, and $3,040,685 and after such provision of $1,754,099, $1,800,465, and $2,412,703, respectively.

FINANCIAL ANALYSIS

Balance sheets and income statements of the Santa Fe for the years 1965 and 1972 are furnished below.

The statements for 1965 reflect the financial position of the Santa Fe at the time it entered into the agreement with the North Western for purchase of the southern Rock Island. The statements for 1972 have been included to show Santa Fe's financial position as of the latest available date.

TABLE 36

Santa Fe and affiliated companies balance sheets

	December 31, 1965	December 31, 1972
Current assets:		
Cash	$22,760,543	$2,658,252
Temporary cash investments	83,684,355	124,929,987
Special deposits	444,545	---------------
Loans and notes receivable	27,000	---------------
Traffic and car-service balances-cr	5,340,120	4,930,991
Net balance receivable from agents and conductors	8,501,979	30,653,431
Miscellaneous accounts receivable	21,839,261	18,675,386
Interest and dividends receivable	1,278,910	2,227,379
Accrued accounts receivable	13,556,185	29,952,187

Santa Fe and affiliated companies balance sheets—Continued

	December 31, 1965	December 31, 1972
Current assets—Continued		
Working fund advances	$407,358	$208,712
Prepayments	656,228	635,500
Material and supplies	26,417,240	34,621,819
Other current assets	286,783	2,872,400
Total current assets	185,200,507	252,438,044
Special funds:		
Sinking funds	22,096,730	41,512,908
Capital and reserve funds	----------	12,035,214
Insurance and other funds	255,500	500,000
Total special funds	22,352,230	54,048,122
Investments:		
Investments in affiliated companies	43,960,036	29,958,890
Other investments	1,291,514	775,433
Total investments	45,251,550	30,734,323
Properties:		
Road and equipment property	2,148,916,819	2,310,552,889
Improvements on leased property	1,779,898	2,321,753
Total transportation property	2,150,696,717	2,312,874,642
Accrued depreciation-road and equipment	(638,854,130)	(680,481,411)
Amortization of defense projects-road and equipment	(48,119,587)	(27,582,553)
Recorded depreciation and amortization	(686,973,717)	(708,063,964)
Total transportation property less depreciation and amortization	1,463,723,000	1,604,810,678
Miscellaneous physical property less depreciation	22,271,052	14,233,587
Total properties less depreciation and amortization	1,485,994,052	1,619,044,265
Other assets and deferred charges:		
Other assets	8,310,344	14,020,695
Unamortized discount on long-term debt	----------	338,314
Other deferred charges	2,590,915	4,143,513
Total other assets and deferred charges	10,901,259	18,502,522
Total assets	1,749,699,598	1,974,767,276

TABLE 36

Santa Fe and affiliated companies balance sheets

	December 31, 1965	December 31, 1972
Current liabilities:		
Audited accounts and wages payable	$20,678,419	$21,859,503
Miscellaneous accounts payable	6,198,277	7,629,376
Interest matured unpaid	204,875	231,513
Dividends matured unpaid	444,545	3,064
Unmatured interest accrued	3,341,574	6,492,708
Unmatured dividends declared	12,947,213	9,000,000
Accrued accounts payable	40,236,795	77,112,012
Federal income taxes accrued	5,831,119	1,781,567
Other taxes accrued	11,147,703	14,747,093
Other current liabilities	8,400,234	5,658,014
Total current liabilities (exclusive of long-term debt due within 1 year)	109,430,754	144,514,850
Long-term debt within 1 year	8,861,025	23,420,757
Long-term debt due after 1 year:		
Funded debt unmatured	179,017,500	162,832,500
Equipment obligations	73,884,061	172,943,600
Amounts payable to affiliated companies	126,396	252,956
Total long-term debt due after 1 year	253,027,957	336,029,056
Reserves:		
Pension and welfare reserves	------	1,853,754
Casualty and other reserves	11,533,540	18,853,371
Total reserves	11,533,540	20,707,125
Other liabilities and deferred credits:		
Other liabilities	1,864,273	5,339,783
Unamortized premium on long-term debt	----------	409,410
Other deferred credits	735,176	4,644,688
Accrued depreciation-leased property	376,419	607,159
Total other liabilities and deferred credits	2,975,868	11,001,040
Shareholders' equity:		
Capital stock—common	245,786,320	1,000
—preferred	124,172,800	---------
Total capital stock	369,959,120	1,000
Capital surplus:		
Premiums and assessments on capital surplus	4,916,383	---------
Paid-in surplus	3,855	378,920,643
Total capital surplus	4,920,238	378,920,643

Santa Fe and affiliated companies balance sheets—Continued

	December 31, 1965	December 31, 1972
Retained income:		
Retained income-appropriated	$41,311,230	$78,340,408
-unappropriated	947,679,866	981,832,397
Total retained income	988,991,096	1,060,172,805
Total shareholders' equity	1,363,870,454	1,439,094,448
Total liabilities and shareholders' equity	1,749,699,598	1,974,767,276

TABLE 37

Santa Fe and affiliated companies income statements for the years

	1965	1972
Total operating revenues	$654,704,152	$831,695,396
Operating expenses		
Maintenance of way and structures:		
Exclusive of depreciation	83,012,453	122,861,055
Depreciation	9,214,073	9,964,642
Maintenance of equipment:		
Exclusive of depreciation	86,801,233	120,585,811
Depreciation	39,876,253	43,460,128
Traffic	18,603,001	19,178,694
Transportation	240,916,878	293,411,938
Miscellaneous and general	35,107,643	37,847,917
Total operating expenses	513,531,534	647,310,185
Net revenue from railway operations	141,172,618	184,385,211
Railway tax accruals	60,056,467	78,480,901
Railway operating income	81,161,151	105,904,310
Rent income—credit	3,460,286	2,377,224
Rent income—Debit	11,260,837	21,517,580
Net rents—Debit	(7,800,551)	(19,140,356)
Net railway operating income	73,3,315,600	86,763,954
Total other income	19,527,427	16,765,271
Total income	92,843,027	103,529,225

Santa Fe and affiliated companies income statements for the years—Continued

	1965	1972
Total miscellaneous deductions	$1,649,666	$3,763,886
Income available for fixed charges	91,193,361	99,765,339
Fixed charges	8,061,930	17,528,713
Contingent interest (other deductions)	1,512,170	1,370,603
Total fixed charges and contingent interest	9,574,100	18,899,316
Ordinary income	81,619,261	80,866,023
Total extraordinary items (net)	---------	---------
Net income after fixed charges and other deductions	81,619,261	80,866,023

Working capital.—The Santa Fe has enjoyed a very favorable working capital position which has historically exceeded its working capital needs. In 1972, working capital totaled approximately $108 million.

On this basis Santa Fe has had sufficient funds available for conducting orderly operations and the excess of these funds has been available to improve its service, to continue to perform necessary maintenance and for any other corporate needs designated by management.

Long-term debt.—Santa Fe's total long-term debt (including amounts due and payable within 1 year) averaged $246 million annually for the 10-year period 1959-68. Its long-term debt due within 1 year ranged from a low of $5.5 million in 1959, to a high of more than $23 million in 1968, and the average for the entire period was $11.8 million. In 1972 long-term debt due within 1 year was $23.4 million.

It has had more than sufficient funds available to service its equipment obligations and other debt due within 1 year without resorting to the use of funds generated by charges to depreciation.

As a result of the foregoing, the excess funds have been availble for other corporate needs and the record has indicated that Santa Fe has been selective in its arrangements for financing its capital expenditures program.

Debt equity.—An analysis of Santa Fe's balance sheets for the 10-year period from 1959 to 1968, discloses that its ratio of total long-term debt to total long-term debt and shareholders' equity never exceeded 19.2 percent and averaged only 15.2 percent over the entire period.

Also, based on a computation which includes Santa Fe's total debt as of December 31, 1972, the carrier had a favorable ratio of total debt to combined total debt and shareholders' equity of approximately 20 percent.

NORTH WESTERN

The Chicago & North Western Transportation Co., originally called North Western Employees Transportation Corp., was formed by employees of the Chicago & North Western Railway Co., the original applicant herein, to acquire the carrier assets of the old company. The transaction was consummated in 1972, pursuant to authority granted in *North Western Employees Corp.—Purchase—Chicago & N. W. Ry. Co.*, 342 I.C.C. 58, and by order of the Commission, entered on June 30, 1972, by Commissioner Brown, C&NW Transportation Co. was authorized to be substituted for C&NW Railway Co., on the present record, as party-in-interest herein.

On July 1, 1968, the Chicago Great Western Ry. was merged into the C&NW Railway Co. pursuant to authority granted in Chicago & N. W. Ry. Co.—Merger, 330 I.C.C. 13 and 333 I.C.C. 236.

As of December 31, 1972, North Western was authorized to issue 300,000 shares of class A common stock, $50 par value, of which 72,825 shares were issued and outstanding. In mid-1973 a 60-for-1 split of this class of stock was authorized by the Commission. Also, North Western, as of December 31, 1972, had authorized, issued and outstanding 3 shares of class T common stock, $50 par value.

Scope of operations, plant, and equipment.—At the close of 1972, North Western (including the recently merged Great Western) operated 10,254 miles of road in 11 States. Of the total miles of road operated, some 70 percent is classified by the carrier as branch line. Actual track mileage totaled 14,864 miles. By States, the respective figures for main line and branch line owned, and mileage operated under trackage rights are: Illinois, 961; Iowa, 2,531; Wisconsin, 2,457; Michigan, 336; Nebraska, 882; Minnesota, 1,531; South Dakota 1,148 North Dakota, 14; Wyoming, 266; Missouri, 101; and Kansas, 26.

The principal lines of North Western radiate from Chicago into the Midwestern States: one line almost straight west through Cedar Rapids to the Missouri River gateway of Omaha-Council Bluffs; another northwest to the Twin Cities and to Duluth, Minn., and Superior, Wis., through Madison and Eau Claire, Wis.; and a third north to Ishpeming, Mich., through Milwaukee and Great Bay, Wis., and Escanaba, Mich. Other important lines run southward from Minneapolis-St. Paul to the Omaha-Council Bluffs gateway through Mankato, Minn., and Sioux City, Iowa, and from Minneapolis to Marshalltown, Iowa, on the Chicago-Omaha line, through Mason City, Iowa. The North Western also operates lines which radiate beyond the above-described points as far as Landar, Wyo., Belle Fourche, S. Dak., and Oakes, N. Dak. Also a line runs from the Chicago-Omaha main line at Nelson, Ill., south to East St. Louis, Ill., through Peoria. As a result of the *Great Western* unification North Western extended its service into Kansas City via the acquired Great Western line between Des Moines and Kansas City.

Freight traffic.—Operations by the new employee owned North Western, for the 7-month period ended December 31, 1972, showed total revenue tons of 43,818,634; revenue ton-miles millions of 11,850; and freight revenue (thousands) $193,422. Other figures showing the development of traffic from 1959-68 are contained in the initial report.

Freight traffic: interchanges and traffic flow.—North Western exhibits contain a freight traffic density chart for the year 1964, based on gross tons (including the weight of locomotives and cabooses) hauled, by line segment. The traffic density shown therein, of course, does not reflect operations of the now-unified North Western-Great Western system. Traffic densities on the Chicago-Omaha line are as follows:

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

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

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

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

Line segment	Gross tons (millions)	
	Eastbound	Westbound
Milwaukee-Clyman	10.8	6.7
Clyman-Wyerville	9.5	5.4
Wyerville-Eau Claire	9.3	5.2
Eau Claire-Northline-Twin Cities	7.2	4.7

From Northline and Eau Claire, lines run north to Spooner, Wis., there joining and continuing north to Duluth. Between Eau Claire and Spooner, westbound density was about 1 million gross tons, and eastbound 3 million. From Northline to Spooner, 2.2 million gross tons were handled, and in the opposite direction, 1.6 million. From Spooner to Duluth 2.6 million gross tons were moved compared to 4.0 million from Duluth to Spooner. From Milwaukee, two lines run north to Green Bay, one via Manitowoc and the other via Fond du Lac, Wis. A third line connects Clyman (on Milwaukee-Twin Cities route) and Fond du Lac. Over each of these lines, freight traffic density totaled (both directions approximately 3.6 to 6.9 million gross tons in 1964.

Two major routes connect the Twin Cities with the Chicago-Omaha line. One route runs through Mankato, Minn., and Sioux City, Iowa, to California Junction, located west of Missouri Valley on the line to Blair, as previously described. Between the Twin Cities and Sioux City, gross tonnage ranged between 1.9 and 2.4 million westbound and 2.1 and 2.9 million eastbound. Slightly over 3 million gross tons were moved in each direction between Sioux City and Missouri Valley. The other route, from the Twin Cities through Albert Lea, Minn., and Mason City, Iowa, to Marshalltown, carried 3.4 to 4.5 million gross tons eastbound (i.e., south to the Omaha-Chicago line) and 2.1 to 3.4 million westbound.

With the exception of about 90 miles of road in the Upper Peninsula of Michigan in iron ore mining territory and 34 miles of road between Ames and Des Moines, Iowa, most of the remaining North Western lines not previously described handled (in 1964) less than 3 million gross tons of freight per segment (total of traffic in both directions).

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

North Western's own interchange evidence, prepared prior to the merger with Great Western is based on movements which took place during 1964, excluding dock ore traffic. Table 38 shows the major North Western gateways for connection with eastern and southern district class I line-haul railroads (the interchanges with all carriers actively participating in these proceedings and their affiliates are shown specifically). Adjustments have been made to reflect unifications (excluding Burlington Northern).

TABLE 38

Major North Western interchanges with eastern and southern district carriers

C&NW station	Connecting carrier	Carloads Received	Delivered	Total
Chicago, Waukegan, and West Chicago, Ill.	AT&SF	4,758	5,551	10,309
	CB&Q (BN)	3,390	1,430	4,820
Do	MILW	1,204	542	1,746
Do	RI	2,326	1,601	3,927
Do	SOO	533	462	995
Do	C&EI	3,403	3,001	6,404
Do	IC	12,170	3,955	16,125

TABLE 38

Major North Western interchanges with eastern and southern district carriers—Continued

C&NW station	Connecting carrier	Carloads Received	Delivered	Total
Chicago, Waukegan, and West Chicago, Ill.	Eastern Dist. class I line haul.[1]	121,244	135,652	256,896
Do	Southern Dist. class I line haul.[2]	2,633	1,037	3,670
Do	All others	7,989	1,839	9,828
Do	Grand total	159,650	155,070	314,720
Milwaukee and Manitowoc, Wis.	MILW	1,326	332	1,658
	SOO	112	26	138
Do	Eastern Dist. Class I line haul.[1]	18,570	28,217	46,787
Do	Grand total	20,008	28,575	48,583
Peoria and South Pekin, Ill.	CB&Q (BN)	339	318	657
	ICG	9,595	2,794	12,389
Do	RI	410	1,336	1,746
Do	Eastern Dist. class I line haul.[1]	9,386	10,034	19,420
Do	Southern Dist. class I line haul.[2]	1,250	1,354	2,604
Do	All others	2,275	3,315	5,590
	Grand total	23,255	19,151	42,406
East St. Louis	CB&Q	1,878	191	2,069
Do	MKT	1,190	1,748	2,938
Do	MP	15,728	7,440	23,168
Do	RI	110	214	324
Do	SL-SF	5,752	6,655	12,407
Do	SLSW	4,170	4,673	8,843
Do	C&EI	17	16	33
Do	ICG	4,436	6,558	10,994
Do	Eastern Dist. class I line haul.[1]	1,387	1,290	2,677
Do	Southern Dist. class I line haul.[2]	15,972	15,945	31,917
Do	All others	20	815	835
Do		50,660	45,545	96,205

[1] Includes, at Chicago, PC, NWN&W, E-L, GTW, Monon, IJ&E and C&O-B&O (including Chicago, South Shore & South Bend Railroad); at W. Chicago, EJ&E and CB&Q; at Waukegan, EJ&E; at Milwaukee, PC, C&O and GTW; at Maitowoc, Ann Arbor Railroad Company and C&O; at Peoria, C&IM, PC (including Peoria and Eastern Railway Co.), IT and N&W; and at E. St. Louis, N&W, B&O, IT and PC.

[2] Includes GM&O (ICG) at Chicago and Peoria, and at East St. Louis, L&N, SOU, and GM&O (ICG).

Table 38 shows that of the 501,914 cars interchanged during 1964 at the eight points named therein, over 60 percent were interchanged with class I line-haul railroads and their subsidiaries in the eastern district. At Chicago (including West Chicago and Waukegan), over 80 percent of the cars were interchanged with the aforementioned eastern district carriers. Comparable percentages for the other gateway groups were: Milwaukee-Manitowoc, 96 percent; Peoria-South Pekin, 46 percent; and East St. Louis, only 3 percent. At the latter point, interchanges with class I line-haul carriers in the southern district and, among the parties and their affiliates, Cotton Belt, Illinois Central Gulf, MoPac and Frisco, are of more significance. Most of these carriers form end-to-end connections with North Western and have routes directly from St. Louis variously into the Southeast, the lower Mississippi River area, and Texas and Oklahoma. Among the carriers which serve Chicago and which took an active part in these proceedings, Santa Fe interchanged the largest number (10,309) of cars with North Western at that gateway. The total Chicago interchange (314,720) represented over 62 percent of the total interchanges shown in table 38.

Interchanges at the Twin Cities, the Missouri River (except Kansas City, reached by North Western only after merger with Great Western), and other points in Wisconsin, Minnesota, Iowa, and Illinois are shown in table 39 (Norfolk & Western is shown specifically to emphasize its presence in the area vis-a-vis its status as an eastern district carrier). Interchanges between North Western on the one hand, and, Great Western, Transfer-Minneapolis, Central Iowa, and Fort Dodge, on the other hand, have been excluded.

TABLE 39

Major North Western interchanges Missouri River and intermediate gateways

C&NW station	Connecting carrier	Carloads		
		Received	Delivered	Total
Twin Cities'	CB&Q (BN)	411	305	716
Do	GN (BN)	40,457	12,099	52,556
Do	MILW	5,796	800	6,596
Do	MN&S	310	210	520
Do	NP (BN)	35,284	12,287	47,571
Do	RI	358	282	640
Do	SOO	16,415	3,288	19,703
Do	All others	1	83	84
Do	Grand total	99,032	29,354	128,386
Duluth, Minn	GN (BN)	600	35	635
Superior and Itasca, Wis	MILW	13	2	15
Do	NP (BN)	361	40	401
Do	SOO	182	119	301
Do	All others	37,061	2,981	40,042
Do	Grand total	38,217	3,177	41,394
Green Bay, Wis	MILW	828	280	1,108
Do	All others	389	880	1,269
Do	Grand total	11,217	1,160	2,377

Major North Western interchanges Missouri River and intermediate gateways—Continued

C&NW station	Connecting carrier	Carloads		
		Received	Delivered	Total
Albert Lea, Minn	MILW	128	577	705
Do	RI	197	256	453
Do	ICG	5,485	12,792	18,277
Do	Grand total	5,810	13,625	19,435
Nemo, Ill	AT&SF	3,237	4,247	7,484
Des Moines	CB&Q (BN)	1,686	695	2,381
Do	MILW	45	92	137
Do	RI	3,011	3,089	6,100
Do	N&W	866	665	1,531
Do	All others	14	29	43
Do	Grand total	5,622	4,570	10,192
Albia, Iowa	N&W	4,064	4,679	8,743
Sioux City, Iowa	CB&Q (BN)	1,043	185	1,228
Do	GN (BN)	882	921	1,803
Do	ICG	82	140	222
Do	MILW	4,282	435	4,717
Do	All others	8		8
Do	Grand total	6,297	1,681	7,978
Omaha-Fremont-Council Bluffs	CB&Q (BN)	11,946	6,256	18,202
Do	ICG	269	718	987
Do	MILW	455	352	807
Do	MP	14,797	9,205	24,002
Do	RI	1,712	1,766	3,478
Do	UP	92,385	48,416	140,801
Do	N&W	2,256	195	2,451
Do	Grand total	123,820	66,908	190,728

The volume of traffic interchanged at either the Twin Cities or Omaha gateways, shown in table 39 surpasses the total for all other gateways west of Chicago, E. St. Louis, and the other eastern connections shown in table 38. At the Twin Cities, the greatest number of cars were interchanged in 1964 with Great Northern (52,556) and Northern Pacific (47,571), both predecessors of Burlington Northern. A total of 19,703 cars were interchanged with Soo, with an approximate ratio of five cars received from the Soo for every car delivered to it. Overall at the Twin Cities, 99,032 cars were received by North Western from connections as opposed to 29,354 cars delivered by C&NW to the connections.

Finally, North Western in 1964 had a total interchange of 190,728 cars at Omaha, Council Bluffs, and Fremont. Of the total, 140,801 were interchanged with Union Pacific, 24,002 with MoPac, and 18,202 with Burlington Northern. The remaining connections, Rock Island, Illinois Central, Gulf Milwaukee and Norfolk & Western, each interchanged less than 5,000 cars with North Western. The Union Pacific interchange was nearly twice as great eastbound (i.e., received from UP by C&NW) than westbound, and the bulk (over 70,000 cars) of the interchange took place at

Council Bluffs. The Fremont interchange between North Western and Union Pacific consisted of 53,450 cars in 1964. (The earlier discussion covering Union Pacific's Missouri River gateways shows 40,159 cars interchanged with North Western at Fremont in 1963, based on Union Pacific evidence. In both years, the Fremont interchange was predominately westbound.) The 140,801 cars interchanged in the Omaha area between Union Pacific and North Western in 1964 represented 13 percent of North Western's total interline carloads in that year.

In addition of the two previously discussed limitations on usefulness of North Western's interchange data (i.e., changes in routing are not reflected, and some interchanges list switching and terminal companies as connections), over 193,000 cars were listed as "Other Gateways or No Gateway (Delv'd only) Shown on Waybill." This is a considerable number of cars (roughly two-thirds the number interchanged with all roads at Chicago), and the significance of this block of traffic at any one gateway is indeterminable. Conclusions here, therefore, are drawn with these limitations in mind.

Financial analysis.—The balance sheet and income statements constructed below for the year 1963 have been used to show North Western's financial position and results of operations at the time it filed its application for authority to acquire control of the Rock Island. Statements for the year 1972 reflecting the latest available data also have been included.

TABLE 40

North Western (including transportation subsidiaries) balance sheets

	December 31, 1963	December 31, 1972
Current assets:		
Cash	$11,244,013	$6,743,800
Temporary cash investments	24,496,415	18,473,564
Special deposits	122,840	7,830,486
Loans and notes receivable		181,178
Net balance receivable from agents and conductors	3,598,684	9,464,390
Miscellaneous accounts	5,989,627	6,653,999
Interest and dividends receivable	498,197	168,521
Accrued accounts receivable	12,344,815	21,324,119
Working fund advances	155,729	160,236
Prepayments	424,895	332,935
Material and supplies	11,989,905	21,945,214
Other current assets	50,527	50,925
Total current assets	70,915,647	93,329,367
Special funds:		
Sinking funds	13,300	2,910
Capital and reserve funds	778,323	3,445,946
Insurance and other funds		488,000
Total special funds	791,623	3,936,856
Investments:		
Investments in affiliated companies	2,383,348	17,165,878
Other investments	4,464,552	232,434
Reserve for adjustment of investment in securities-cr	(10,000)	
Total investments	6,837,900	17,398,312

North Western (including transportation subsidiaries) balance sheets—Continued

	December 31, 1963	December 31, 1972
Properties:		
Total transportation property	769,151,083	270,529,104
Accrued depreciation-rd. and equipment	(258,368,245)	(9,648,574)
Amortization of defense projects-rd. and equipment	(17,347,273)	
Recorded depreciation and amortization	(275,715,518)	(9,648,374)
Total transportation property less depreciation and amortization	493,435,565	260,880,530
Miscellaneous physical property	10,582,050	1,177,673
Accrued depreciation-Miscellaneous physical property	(4,774,971)	(7,959)
Miscellaneous physical property less depreciation	5,807,079	1,169,714
Total properties less depreciation and amortization	499,242,644	262,050,244
Other assets and deferred charges:		
Other assets	$1,017,096	$5,230,083
Unamortized discount on long-term debt	574,485	
Other deferred charges	3,338,852	4,662,556
Total other assets and deferred charges	4,930,433	9,892,639
Total assets	582,718,247	386,607,418
Current liabilities:		
Loans and notes payable		
Traffic and car-service balances-cr	2,717,494	1,676,551
Audited accounts and wages payable	6,365,203	13,055,321
Miscellaneous accounts payable	2,059,611	1,879,912
Interest matured unpaid	1,125,681	18,607
Dividends matured unpaid	247	6,784
Unmatured interest accrued	3,821,175	4,822,463
Unmatured dividends declared	1,142,014	
Accrued accounts payable	25,330,782	44,062,924
Federal taxes accrued		
Other taxes accrued	6,731,813	9,004,229
Other current liabilities	1,243,193	1,152,434
Total current liabilities (exclusive of long-term debt due within 1 year)	50,537,213	75,679,225
Long-term debt due within 1 year	13,876,364	20,906,114
Long-term debt due after 1 year:		
Funded debt unmatured	134,052,449	114,374,080
Equipment obligations	68,070,007	122,852,541
Amounts payable to affiliated companies	989,560	15,280,077
Total long-term debt due after 1 year	203,112,016	252,506,698

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North Western (including transportation subsidiaries) balance sheets—Continued

	December 31, 1963	December 31, 1972
Reserves:		
Pension and welfare reserves	7,618,199	7,850,576
Casualty and other reserves	5,270,244	9,198,466
Total reserves	12,888,443	17,049,042
Other liabilities and deferred credits:		
Other liabilities	1,411,665	2,858,530
Other deferred credits	668,708	2,364,585
Accrued depreciation-leased property	50,355	823
Total other liabilities and deferred credits	2,130,728	5,223,938
Shareholders' equity:		
Capital stock issued-total	172,393,100	3,641,400
Capital surplus:		
Paid-in-surplus	29,649,083	850
Other capital surplus	9,954	
Total capital surplus	29,659,037	850
Retained income:		
Retained income-appropriated and unappropriated-total	$98,121,346	$11,600,151
Total shareholders' equity	300,173,483	15,242,401
Total liabilities and shareholders' equity	582,718,247	386,607,418

TABLE 41

North Western (including transportation subsidiaries) income statements

	1963	7 months ending December 31, 1972
Total operating revenues	$218,922,579	$216,431,979
Operating expenses		
Maintenance of way and structures:		
Exclusive of depreciation	29,347,391	28,176,130
Depreciation	4,796,962	81,125
Maintenance of equipment:		
Exclusive of depreciation	23,572,105	24,115,565
Depreciation	13,568,215	7,280,194
Traffic	7,348,650	5,327,720
Transportation	88,223,799	90,024,262
Miscellaneous and general	11,269,472	12,332,108
Total operating expenses	178,126,594	167,337,104
Net revenue from railway operations	40,795,985	49,094,875

North Western (including transportation subsidiaries) income statements—Continued

	1963	7 months ending December 31, 1972
Railway tax accruals	15,290,644	15,279,508
Railway operating income	25,505,341	33,815,367
Rent income—cr	586,815	533,437
Rents payable—dr	14,742,218	17,761,310
Net rents	(14,155,403)	(17,227,873)
Net railway operating income	11,349,938	16,587,494
Total other income	8,053,772	3,250,904
Total income	19,403,710	19,838,398
Total miscellaneous deductions	997,907	1,198,759
Income available for fixed charges	18,405,803	18,639,639
Fixed charges	$6,552,308	$9,786,831
Contingent interest (other deductions)	3,037,725	71,631
Total fixed charges and contingent interest	9,590,033	9,858,462
Ordinary income	8,815,770	8,781,877
Total extraordinary items (net)		2,818,974
Net income after fixed charges and other deductions	8,815,770	11,600,151

TABLE 42

North Western working capital 1963-1972

Year	Total current assets (000)	Total current liabilities (000)	Working capital (000)	Total operating expenses less depreciation (000)	Monthly average working capital requirement (000)
1963	$70,916	$50,537	$20,379	$159,761	$13,313
1964	91,467	58,523	32,944	163,760	13,647
1965	58,195	61,128	(2,933)	163,108	13,592
1966	61,453	69,692	(8,239)	173,343	14,445
1967	66,182	76,319	(10,137)	191,568	15,964
1968	70,655	91,785	(21,130)	212,971	17,748
1969	77,896	89,411	(11,515)	72,043	6,004
1970	86,326	88,534	(2,208)	68,612	5,718
1971	85,599	83,336	2,263	78,615	6,551
1972	93,329	75,679	17,650	167,337	23,905

Working capital.—With the exception of 1963 and 1964, and the 7-month period ended December 31, 1972, table 42 shows that North Western's working capital position in the last decade was inadequate for conducting orderly operations. From 1965 to 1970 North Western showed working capital deficits. However, North Western has managed to transact its business on a negative or inadequate working capital basis only because of the extremely fast cash flow resulting from the required prompt payment of freight bills and because of the fact that current liabilities include many items which are not payable "immediately."

Long-term debt.—For the period 1959-68, North Western's total long-term debt averaged $220 million annually, of which $13.9 million represented the amount due and payable within 1 year. Ordinarily, the funds to pay long-term debt would come from earnings. But, North Western's railway operations in the past decade have either produced deficits or an insufficient amount of net income to service its debt due within 1 year. In this connection it is noted that supplemental funds have been generated through charges to depreciation at an average of $18.4 million annually. Considering that this amount exceeds its debt service requirements by more than $5 million, North Western has managed to service or supplement its debt requirements from 1959 to 1972. However, since the retirement of its long-term obligations will continue to absorb all of its net income and a major portion of the funds generated by charges to depreciation, North Western must improve its earnings position or in the foreseeable future it will have little or no funds available for capital expenditures.

Debt-equity ratio.—For the period 1959 to 1968 North Western's balance sheets show that its ratio of total debt to combined total debt and stockholders' equity reached a high of 58 percent in 1960. As of December 31, 1968, this ratio was 44.7 percent and the average over the 10-year period was a favorable 49 percent.

Its debt-equity ratio computed on the basis of total long-term debt to combined total long-term debt and stockholders' equity for the period 1959-68 reflects a high of 46.8 percent in 1960 but was only 35.4 percent as of December 31, 1968. The average for the entire 10-year period was a favorable 41 percent. It is noted that this computation is a test used by the financial community for determining a carrier's credit and it indicates that the North Western's equity in the total assets of the railroad is much greater than its current creditors' claims. Therefore, borrowing money to finance capital expenditures would normally present no problem. However, due to its historically inadequate rate of return North Western has not found it feasible to raise money in the capital markets because it could not deal equitably with prospective investors.

The recapitalization brought about by the purchase of North Western assets by its employees has resulted in an unfavorable excess of long-term debt over equity. This, of course, has not enhanced North Western's ability to raise capital.

MILWAUKEE

The Milwaukee's corporate antecedents go back to the year 1847. The present Milwaukee was organized under the laws of Wisconsin in 1927 and in the following year acquired the properties of the former Chicago, Milwaukee and St. Paul Railway Company as the result of a foreclosure sale in 1926. *Chicago, M. & St. P. Reorganization*, 131 I.C.C. 673, 138 I.C.C. 291, and 154 I.C.C. 586. In 1935 the present company applied for reorganization from which it emerged in 1945 as the reorganized company pursuant to a plan of reorganization approved in *Chicago, M., St. P. & P. R. Co. Reorganization*, 212 I.C.C. 150, 239 I.C.C. 484, 254 I.C.C. 707, and 257 I.C.C. 223.

Milwaukee has three wholly owned subsidiaries. The Bremerton Freight Car Ferry, Inc., operates car ferries in the State of Washington. The Milwaukee Motor Transportation Company, pursuant to certificates in No. MC-19778 and numerous subnumbers, may operate as a motor common carrier, in interstate and foreign commerce over highways generally paralleling the lines of the parent railroad and restricted to a service auxillary to and supplemental of the rail service of its parent. The Milwaukee Land Company is a forestry and industrial development firm. It in turn, owns 100 percent of the Washington, Idaho, and Montana Railway Company (W&IM), a short-line railroad operating 49 miles of main line between Palouse, Wash., and Purdue, Idaho.

Milwaukee also has a 50-percent interest in the Davenport, Rock Island and North Western Railway Company (DRI&NW) which operates 83 miles of main line between East Moline, Ill., and Clinton, Iowa; and interests in various companies which perform terminal and switching services.

As of December 31, 1972, Milwaukee was authorized to issue 2,637,451 shares of common stock, no par value, of which 2,179,892 had been issued and 1,150,000 shares of Series A, 5 percent, preferred stock, par value $100 per share, of which 518,652 shares were issued and outstanding.

At the close of 1972, Milwaukee operated 10,230 miles of road comprised of 9,396 miles owned by it and 839 miles operated under trackage rights. Of the mileage owned, 2,944 miles were classified by the carrier as main line and 6,452 as branch line. Mileage totals for the 15 States served are: Iowa, 1,688; South Dakota, 1,622; Wisconsin, 1,527; Minnesota, 1,328; Montana, 1,197; Washington, 1,100; Illinois, 683; North Dakota, 367; Idaho, 233; Michigan, 152; Missouri, 157; Indiana, 156; Oregon, 10; Kansas, 7; and Nebraska, 6.

Principal lines of the Milwaukee extend from Chicago; (1) northwest to Seattle, Tacoma, and Portland, through Milwaukee and LaCrosse, Wis., the Twin Cities, Aberdeen, S. Dak., Butte, Mont., and Spokane, (2) west to Council Bluffs, through Elgin and Savanna, Ill., Sabula, Marion, and Perry, Iowa, with lines extending to Dubuque, Cedar Rapids, and Des Moines, Iowa, and (3) southwest to Kansas City through Savanna, Sabula, Rock Island, and Moline, Ill., and Davenport and Ottumwa, Iowa. It also has a line along the west bank of the Mississippi River between Sabula and La Crescent, Minn., connecting its main line to the Twin Cities and west with its Council Bluffs and Kansas City main lines.

It has a line extending from Chicago to Seymour, Ind., through Terre Haute and numerous branch and feeder lines in Illinois, Wisconsin, Iowa, Minnesota, and South Dakota. As a result of conditions imposed in the *Monon* case, *Louisville & N. R. Co.—Merger—Monon Railroad*, 338 I.C.C. 134 (1970), Milwaukee recently gained trackage rights into Louisville, Ky.

Milwaukee's main freight yards are in Bensenville in Chicago, Milwaukee, St. Paul, Council Bluffs, Kansas City, Seattle, and Tacoma, including modern electronically controlled hump yards at Bensenville, Milwaukee, and St. Paul.

Freight traffic: Volume.—During the 1964-1972 period, freight traffic on the Milwaukee increased from 40,765,392 revenue tons in 1964 to 42,545,617 revenue tons in 1972 and in freight revenue from $189,837,458 in 1964 to $305,921,367 in 1972.

Freight traffic: Interchanges and traffic flow.—The discussion here is limited to the main freight service routes (based on 1964 density), beginning with the main line from Seattle and Tacoma to Chicago. From Seattle eastward to the Twin Cities, traffic density gradually increases from 2.7 million gross tons per mile of road to 5.4 million.

From the Twin Cities to Seattle, density decreases overall from 3.2 million to 2.4 million gross tons. Between the Twin Cities and Milwaukee, eastbound tonnage ranges from 7.6 to 10.0 million, and westbound from 6.1 to 7.6 million. Between Milwaukee and Bensenville (Chicago), the tonnage range is 11.5 to 14.0 million gross tons eastbound, and 10.6 to 13.3 million westbound.

The Council Bluffs-Chicago line handles traffic eastbound which increases from 4.9 million gross tons at Council Bluffs to nearly 8 million near Chicago, and westbound traffic which decreases from nearly 7 million gross tons near Chicago to somewhat over 4 million near Council Bluffs. Accounting in part for the heavier density at eastern end of the route are two lines which converge with it at Green Island, Iowa (from La Crescent, Minn., on the Chicago-Twin Cities route), and at Sabula, Iowa (from Kansas City). The La Crescent-Green Island route handles 2.8 to 4.9 million gross tons southbound and 2.1 to 4.0 million northbound. The Kansas City-Sabula route handles roughly 4 to 5 million gross tons in each direction.

Two lines, one from Kittredge, Ill., on the Chicago-Council Bluffs line, to Sturtevant, Wis., on the Chicago-Milwaukee line, and the other from Chicago to Terre Haute, carry between approximately 2 and 3 million gross tons in each direction. A few routes, such as those between (1) the Twin Cities and Duluth-Superior; (2) New Lisbon and Wausau, Wis., and (3) Milwaukee and Green Bay, handle between 1 and 2 million gross tons in each direction. The above-described lines together with six branch line segments (less than 50 miles long in each case) comprise about 3,900 miles of road, or 37 percent of total 1964 road mileage. These lines produced over 86 percent of the total gross ton-miles generated by the Milwaukee in 1964.

Most of the traffic gathered along Milwaukee's lines west of Mobridge, S. Dak., consists of forestry products, grain, and other agricultural products. Grain produced in the area west of Great Falls, Mont., generally moves to Pacific coast terminals. Milwaukee handles little traffic inbound for termination at Montana points.

Milwaukee's 30 most important origin points and the 30 most important destination points for carload traffic in 1965 without regard to the class of traffic, i.e., local or interline. Origins of 10,000 or more cars were: Milwaukee, 67,717 cars; Chicago, 57,534, Minneapolis and St. Paul, 31,960; Latta, Ind., 27,821; Green Bay, 11,316; Janesville, Wis., 10,803; and Cedar Rapids, Iowa, 10,275. Destinations of more than 10,000 cars were: Milwaukee, 81,574 cars; Chicago, 69,361; Minneapolis, St. Paul, Chaska, Minnesota Transfer, Fordson, and Hopkins, Minn. (Twin Cities area), 65,234; Tacoma, 18,051; Fayette, Ind., 17,806; and Kansas City, Janesville, and Madison, Wis., and Seattle and Bellingham, Wash., from 10,000 to 16,000 cars each. Among the 30 most important origin stations, only 1 is located in each of the States of Indiana, Missouri, South Dakota, and Idaho, and none of the 3 last named reached 10,000 cars. The remainder are in Illinois, Wisconsin, Minnesota, Iowa, and Washington, as are all of the 30 most important destination stations except Fayette, Ind., and Kansas City. No stations in either category (origin or destination) are located in Montana, Nebraska, or North Dakota.

Milwaukee's interchange evidence also covers movements for the year 1965. Data are shown only for cars received and cars delivered from or to named connections at each point without detail as to the class of traffic (overhead, interline originated, or interline terminated) interchanged. The data exclude "Switch to Switch Cars," but do show switching and terminal carriers as connections. The tables which follow this discussion show the interchange data. Switching and terminal carriers are included, where appropriate, in the category "All Others" in the column headed "Connecting Carrier." Adjustments have been made to reflect unifications, other than Burlington

Northern, and only interchanges with railroads are shown. Points at which Milwaukee interchanges exclusively with a railroad not participating in these proceedings have been excluded.

The Milwaukee has no major gateways in Montana, North Dakota, and South Dakota; bearing in mind that the new gateways recently opened in those States resulting from the conditions imposed in the *Northern Lines* case are not susceptible to analysis. The intechange points in Washington, shown in table 43 are relatively small in volume, compared to Milwaukee's gateways at the eastern end of its system, totalling 62,832 carloads, or only 8.3 percent of the 754,360 interline carloads hauled by Milwaukee in 1965. Interchanges with Union Pacific and its subsidiary, Spokane International, accounted for 26,734 of the 62,832 car total, and the balance was interchanged with carriers now unified in Burlington Northern.

At Duluth, the principal interchange, 11,098 cars, is with the Duluth, Winnipeg & Pacific, a subsidiary of Canadian National, while interchanges with Soo, Burlington Northern, and the North Western were each less than 1,200 cars. Interchanges with North Western at Winona, Minn., Green Bay, Menosha, and Wausau, Wis., totalled 17,361 cars. BN and the Milwaukee interchanged only 255 cars at Winona. Menosha also was the point of interchange for 3,313 cars between Milwaukee and Soo Line.

Interchanges at the Twin Cities, Milwaukee, Chicago, and points on the line between Chicago and Louisville are shown in table 44. The 139,748 cars interchanged in the Twin Cities area represented 18.5 percent of Milwaukee's total interline carloads. Well over half, 76,827 cars, or 10.2 percent of interline carloads, of the Twin Cities interchange involved cars moving between the Milwaukee and carriers now part of Burlington Northern. The Milwaukee's interchange with North Western was slightly less than half that with the Burlington Northern carriers, while interchanges with Soo were about one-fourth as large as the Burlington Northern figure. The interchanges at Milwaukee are preponderantly with Chesapeake & Ohio and the Grand Trunk Western, although those with North Western are substantial, 17,773 cars over half of which were delivered to North Western.

Chicago is by far the largest volume gateway for the Milwaukee, accounting for 407,132 cars, or 54 percent of the carrier's interline carloads. Approximately 73 percent of the 407,132 cars were interchanged with eastern district carriers (including C&EI). The ICG interchange represented 2.6 percent of Milwaukee's interline carloads, while those with North Western, Burlington Northern, Santa Fe, Rock Island, and Soo each involved less than 1.5 percent. Cars interlined at points on the Chicago-Louisville line were interchanged with eastern district carriers and the TP-&W. Because of the recent acquisition of trackage rights to Louisville, interchange statistics for that city are not available.

Table 45 shows the Omaha-Council Bluffs and Kansas City gateways and other gateways in Iowa and the area in Illinois west of Chicago. The volume of cars interchanged at Omaha-Council Bluffs is nearly equal to the volume at Kansas City, representing 14.8 percent, and 15.3 percent of Milwaukee's total interline carloads, respectively. The interchange with Union Pacific at Omaha-Council Bluffs, 12.0 percent of total interline carloads, is the largest individual interchange between Milwaukee and any of its connections west of Chicago. Over half, 57 percent, of this traffic is comprised of cars received from the Union Pacific. The next largest interchange at Omaha-Council Bluffs was that with Burlington Northern totaling 11,677 cars, far smaller than the total for Union Pacific.

At Kansas City, the five largest interchanges were with MoPac, Santa Fe, Kansas City Southern, Frisco, and Rock Island, all of which have lines radiating to gulf ports, the Southwestern and/or Southeastern States. At the remaining gateways shown in

table 45, the most significant individual interchanges in terms of volume were with North Western at Cedar Rapids, Burlington Northern at East Moline-Davenport, and ICG at Mendota, each amounting to 10,000 to 12,000 cars in volume. Taken together, however, the points shown in the table, other than Kansas City and Omaha-Council Bluffs, account for over 120,000 cars interchanged without allowance for possible duplication of count for bridge cars interchanged at any pair of points shown in the table.

TABLE 43

Major Milwaukee interchanges (1965): Washington

MILW station	Connecting carrier	Carloads		
		Received	Delivered	Total
Seattle	UP	4,707	2,517	7,224
Do	GN (BN)	2,402	3,409	5,811
Do	NP (BN)	3,182	1,838	5,020
Do	Total	10,291	7,764	18,055
Everett	GN (BN)	3,168	4,440	7,608
Do	NP (BN)	472	4,068	4,540
Do	Total	3,640	8,508	12,148
Tacoma	GN (BN)	1,574	1,235	2,809
Do	NP (BN)	1,416	945	2,361
Do	UP	321	1,128	1,449
Do	Total	3,311	3,308	6,619
Chehalis	UP	78	3,888	3,966
Do	NP (BN)	152	859	1,011
Do	GN (BN)	176	792	968
Do	Total	406	5,539	5,945
Marengo	UP	1,935	8,258	10,193
Spokane	NP (BN)	1,377	1,758	3,135
Do	GN (BN)	1,255	876	2,131
Do	UP	1,138	980	2,118
Do	SI	1,418	366	1,784
Do	SP&S (BN)	634	70	704
Do	Total	5,822	4,050	9,872

TABLE 44

Major Milwaukee interchanges (1965)

Twin Cities, Milwaukee, Chicago, and points on Seymour, Ind., line

MILW station(s)	Connecting carrier	Carloads		
		Received	Delivered	Total
Twin Cities area[1]	GN (BN)	27,403	13,043	40,446
Do	C&NW	14,971	22,553	37,524
Do	NP (BN)	19,486	11,650	31,136
Do	SOO	10,491	7,539	18,030
Do	CB&Q (BN)	2,326	2,919	5,245
Do	RI	1,862	2,648	4,510
Do	MN&S	771	2,030	2,801
Do	All others	56	0	56
Do	Total	77,366	62,382	139,748
Milwaukee	C&NW	7,315	10,458	17,773
Do	SOO	66	12	78
Do	Eastern dist. class I line haul.	13,786	26,505	40,291
Do	Total	21,167	36,975	58,142
Chicago, Chicago Heights, Rondout, and Spaulding, Ill.	ICG	12,719	6,979	19,698
	C&EI	9,032	5,526	14,558
	C&NW	3,268	6,258	9,526
	CB&Q (BN)	4,762	2,912	7,674
Do	AT&SF	4,866	2,001	6,867
Do	RI	2,215	4,242	6,457
Do	SOO	759	1,053	1,812
Do	Eastern dist. class I line haul[2].	135,255	146,971	282,226
Do	Southern dist. class I line haul[3].	4,484	3,963	8,447
Do	All others	21,135	28,732	49,867
Do	Total	198,495	208,637	407,132
Six points in Illinois and Indiana[4].	C&EI	3,465	1,320	4,785
	Eastern dist. class I	19,301	26,937	46,238
Do	line haul[2].			
Do	All others	2,599	5,100	7,699
Do	Total	25,365	33,357	58,722

[1]Includes Minneapolis, St. Paul, Minnesota Transfer, and Chaska, Minn.

[2]Eastern district class I line-haul carriers include (1) C&O and GTW at Milwaukee; (2) C&O-B&O (including South Shore), EJ&E, E-L, GTW, Monon, N&W, and PC at Chicago; and (3) Monon, N&W, and PC at the six Illinois and Indiana points.

[3]GM&O (ICG) only.

[4]Includes Cheneyville, Delmar, and Webster, Ill., and Bedford, Humrick, and Terre Haute, Ind., all located on Chicago-Seymour, Ind. line.

TABLE 45

Major Milwaukee interchanges (1965) Missouri River, Iowa, and Illinois (west of Chicago) gateways

MILW station	Connecting carrier	Carloads		
		Received	Delivered	Total
Council Bluffs, Omaha	UP	52,014	38,498	90,512
Do	CB&Q(BN)	6,285	5,392	11,677
Do	RI	1,272	1,253	2,525
Do	C&NW	1,498	1,026	2,524
Do	N&W	1,274	141	1,415
Do	MP	661	446	1,107
Do	ICG	456	482	938
Do	All other	881	163	1,044
	Total	64,341	47,401	111,742
Kansas City	MP	11,980	13,983	25,963
Do	AT&SF	9,429	16,081	25,510
Do	KCS	6,422	11,761	18,183
Do	SL-SF	4,508	7,377	11,885
Do	RI	5,339	6,285	11,624
Do	MKT	2,642	4,815	7,457
Do	UP	3,216	3,532	6,748
Do	CB&Q(BN)	2,276	1,286	3,562
Do	ICG	149	549	698
Do	N&W	289	299	588
Do	C&NW	257	58	315
Do	All other	170	2,695	2,865
	Total	46,677	68,721	115,398
Cedar Rapids, Iowa	C&NW	6,091	5,478	11,569
Do	RI	5,022	4,338	9,360
Do	ICG	567	312	879
Do	All other	5,936	2,422	8,358
	Total	17,616	12,550	30,166
Sioux City, Iowa	C&NW	1,285	5,395	6,680
Do	GN(BN)	2,080	2,963	5,043
Do	CB&Q(BN)	2,609	1,761	4,370
Do	ICG	951	2,265	3,216
Do	All other	2,197	637	2,834
	Total	9,122	13,021	22,143
Mason City, Iowa	C&NW	5,468	2,109	7,577
Do	RI	1,021	278	1,299
Do	All other	1,075	739	1,814
	Total	7,564	3,126	10,690
Des Moines, Dubuque, and Ottumwa, Iowa[1]	ICG	1,455	2,200	3,655
Do	RI	1,797	2,185	3,982
Do	CB&Q(BN)	1,154	1,545	2,699
Do	C&NW	2,560	2,916	5,476
Do	N&W	2,816	2,904	5,720
Do	All other	2,753	4,523	7,276
	Total	12,535	16,273	28,808

See footnotes at end of table.

Major Milwaukee interchanges (1965) Missouri River, Iowa, and Illinois (west of Chicago) gateways—Continued

MILW station	Connecting carrier	Carloads		
		Received	Delivered	Total
East Moline, Ill., and Davenport, Iowa	CB&Q(BN)	3,695	6,501	10,196
Do	RI	1,873	3,445	5,318
	Total	5,568	9,946	15,514
Mendota, Ill	ICG	10,592	503	11,095
Do	CB&Q(BN)	1,168	742	1,910
	Total	11,760	1,245	13,005

[1] Interchanges with connecting carriers shown by name totalled less than 4,500 cars each at each station.

Financial status of Milwaukee.—Milwaukee's balance sheet, as of December 31, 1972, is shown in its Annual Report Form A, to the Commission. Total assets of $652.3 million are comprised of current assets $61.3 million, including among others, cash $6.5 million; special funds, $7.0 million; investments $27 million, including principally investments in affiliated companies of $23.9 million; total properties less depreciation and amortization $549.7 million and other assets and deferred charges $7.0 million. Liabilities and shareholders' equity are comprised of current liabilities $67.7 million, including audited accounts and wages payable $14.1 million; long-term debt $239.5 million, including $10 million due within 1 year; reserves $10.5 million; other liabilities and deferred credits $17 million; and shareholders' equity $317.3 million, including capital stock $269.8 million and retained income appropriated $42.8 million and unappropriated $4.6 million.

Milwaukee's income statement for the year 1972 shows total railway operating revenues of $312.8 million; total railway operating expenses of $265.4 million; and operating ratio of 84.84 percent. Net railway operating deficit of ($6.7) million plus net income realized from other than railway operations amounted to income of ($1.9) million which was available for payment of fixed charges of some $6.7 million for the year 1972. Net loss after fixed charges and other deductions amounted to ($8.6) million.

The following table shows Milwaukee's results of operations for the period, 1964-1972. For that period of time its operating ratio averaged about 80 percent; current assets exceeded current liabilities to the extent that its working capital position was generally adequate to meet its monthly average working capital requirement and its earnings were sufficient to meet its fixed charges and contingent interest obligations. Milwaukee's net income, supplemented by funds generated by charges to depreciation have been available to service its long-term debt due within 1 year.

Milwaukee's ratio of total debt to combined total debt and stockholders' equity in 1972 was 41 percent. This is considered to be a very favorable ratio.

TABLE 46

Milwaukee income trend 1964-1972

Year	Total operating revenues (000)	Total operating expenses (000)	Net railway operating income (000)	Income available for fixed charges (000)	Net income after fixed charges and other deductions (000)
1964	$228,239	$184,768	$13,106	$17,385	$5,315
1965	241,361	191,677	15,289	19,509	7,263
1966	259,217	205,886	16,344	20,450	8,130
1967	256,387	204,185	11,439	17,178	2,734
1968	268,675	219,545	7,247	16,602	2,612
1969	269,108	230,631	(10,182)	(943)	(11,583)
1970	277,540	237,411	(7,867)	2,010	(11,772)
1971	295,751	243,113	2,560	5,583	(22,196)
1972	312,832	265,410	(6,783)	(1,917)	(8,643)

With respect to Milwaukee's financial position, the foregoing financial discussion discloses that, although its operations have been profitable and it has managed to satisfy its creditors and stockholders, it has not been able to generate additional funds for capital improvements and other corporate needs. As a result of these static operations, Milwaukee has been a marginal railroad and is now operating in the red.

RIO GRANDE

The Rio Grande, incorporated in Delaware on November 15, 1920, maintains its principal offices in Denver. The history of the Rio Grande in its early operations as a hauler or principally local traffic and later as a significant participant in the transportation of transcontinental traffic through the central corridor is described in detail in the supplemental report in the *Central Pacific* case, *supra*. In short, following various constructions and acquisitions of control[a] which resulted in substantial shortening of Rio Grande's lines, and the termination of a 12-year period of trusteeship (1935-1947) when it emerged in the best physical and financial condition in its history, the Rio Grande began deriving a substantial portion of its traffic and revenues from transcontinental traffic.

As of December 31, 1972, Rio Grande was authorized to issue 8 million shares of common capital stock, without par value, of which 6,469,440 shares were issued and outstanding. All issued and outstanding shares were owned by Rio Grande Industries, Inc., a holding company.

Scope of operations, plant, and equipment.—As of December 31, 1972, the Rio Grande operated 1,868 miles of road in two States as follows: 1,278 miles in Colorado, and 590 miles in Utah. Of the total miles of road, 745 miles were branch line, and 45 miles were operated under trackage rights.

The Rio Grande's principal line runs from Denver to Ogden through East Portal, Winter Park (the Moffat Tunnel Route), and Dotsero, Colo., also through Colorado Springs, Pueblo, and Salida, Colo., to Dotsero (the Royal Gorge Route); Grande Junction, Colo., Provo, and Salt Lake City, Utah. Another line extends from Denver, southward through Colorado Springs, and Pueblo, to Trinidad, Colo.

In addition to its railroad properties, the Rio Grande wholly owns the Rio Grande Motor Way, Inc., which, in turn, owns the Larson Transportation Company. The combined highway routes of such motor carriers parallel most of the lines of the Rio Grande and also some territory not reached by the parent railroad.

Freight traffic.—During the period from 1964 through 1972, Rio Grande's freight revenues rose from $76.6 million to $111.6 million, which represented a steady increase except for a minor decrease in 1967. A similar situation existed in the case of revenue ton-miles, which rose from 6.1 billion to 7.6 billion. Revenue tonnage increased (net) from 21.1 million to 23.6 million tons.

Freight traffic: Interchanges and traffic flow.—Rio Grande's evidence shows freight traffic density in 1964 in terms of gross ton-miles per mile of road, based on the weight of freight train cars, their contents and cabooses. The traffic density is shown below:

Line segment	Gross ton-miles/ mile (millions)	
	Eastbound	Westbound
Ogden-Salt Lake City	6.1	4.4
Salt Lake City-Helper	9.8	11.6
Helper-Grand Jct	9.1	8.6
Grand Jct-Dotsero	9.2	7.6
Dotsero-Orestod	4.4	4.4
Orestod-Denver	6.0	4.9
Dotsero-Pueblo	4.8	3.3
Pueblo-Denver[1]	1.6	1.9

[a]*Denver & S. L. W. R. Co. Construction*, 154 I.C.C. 51, and *Denver & S. L. Ry. Co. Control*, 170 I.C.C. 4 (1930), and 175 I.C.C. 542 (1931).

[1]Eastbound is actually northbound (to Denver), westbound is southbound (to Pueblo).

The above data shows that the bulk of Rio Grande's traffic moves over the entire length of its route between the Utah and Colorado gateways. Traffic to and from Denver and Pueblo moves over the same route between Ogden-Salt Lake City and Dotsero. Traffic between Dotsero and Denver on the Moffat Tunnel Route is slightly heavier overall than on the Royal Gorge Route between Dotsero and Pueblo. Eastbound traffic is generally somewhat greater than westbound. With the exception of branches between Mounds and Sunnyside, Utah, and Orestod and Craigs, Colo., freight traffic density on lines other than those described totaled less than 1 million gross ton-miles per mile in either direction.

Rio Grande's traffic consists of over 40 percent bridge movements. In view of this and the fact that the carrier's major interchange points are at the extreme ends of the system, the interchange data for the west end gateways include many cars interchanged at the east end. Table 47, therefore, shows the Utah and Colorado gateways as separate groups. Data are for 1964, and the gateways shown are those at which Rio Grande interchanged at least 500 cars with a carrier actively participating in these proceedings.

TABLE 47

Major Rio Grande interchanges

D&RGW station	Connecting carrier	Carloads		
		Delivered	Received	Total
Utah gateways:				
Ogden	SP	51,604	71,219	122,823
Do	UP	271	1,450	1,721
Salt Lake City[1]	WP	47,728	26,321	74,049
Do	UP	15,446	4,091	19,537
Do	All other	----------	132	132
Provo	UP	22,756	3,218	25,974
Do	All other	1	3,069	3,070
Utah total		137,806	109,500	247,306
Colorado gateways:				
Denver	CB&Q(BN)	29,095	36,057	65,152
Do	RI	17,571	16,800	34,371
Do	UP	8,698	13,019	21,717
Do	C&S	3,980	3,720	7,700
Do	AT&SF	1,069	2,170	3,239

See footnotes at end of table.

Major Rio Grande interchanges—Continued

D&RGW station	Connecting carrier	Carloads		
		Delivered	Received	Total
Colorado Springs	RI	4,523	3,355	7,878
Do	AT&SF	3	179	182
Do	C&S	13	197	210
Pueblo	MoPac	44,852	41,990	86,842
Do	AT&SF	13,361	8,580	21,941
Do	C&S	4,021	1,543	5,564
Walsenburg	C&S	1,578	250	1,828
Colorado total		128,764	127,860	256,624

[1]Includes N. Salt Lake, Midvale, and Garfield Jct., Utah.

Physical interchanges totaling 559,514 were involved in the movement of Rio Grande's 366,316 interline carloads in 1964. The carrier's major gateways at the western end of the system are Ogden, the Salt Lake City area, and Provo. Rio Grande's largest interchange with a single carrier is at Ogden with the Southern Pacific. Ogden is the only interchange point between the two carriers, and in 1964, the cars interchanged between them totaled 122,823, of which 71,219 cars were delivered to Rio Grande by Southern Pacific. Of the total cars interchanged, 106,672 or 87 percent, moved as bridge traffic over Rio Grande. The Southern Pacific interchange represented 34 percent of Rio Grande's interline carloads. The Union Pacific and Rio Grande interchanged only 1,721 cars at Ogden, of which 1,242 were delivered to, and terminated on Rio Grande.

At Salt Lake City (including N. Salt Lake, Midvale, and Garfield Junction), Rio Grande interchanged 74,049 cars with Western Pacific and 19,537 with Union Pacific. The cars interchanged with Western Pacific included 59,207 cars moving as bridge traffic over Rio Grande. The Western Pacific interchange represented 20 percent of Rio Grande's interline carloads. The 19,537 cars interchanged with Union Pacific included 12,479 cars originated and 3,447 terminated on Rio Grande. Similarly at Provo, of the 25,974 cars interchanged with Union Pacific, 22,748 originated on Rio Grande. Systemwide in 1963, Rio Grande originated 37,342 cars and delivered them to Union Pacific, and of the total, 32,398 cars carried "Products of Mines." While the interchange data for Salt Lake City and Provo are for 1964 and the systemwide commodity interchange are for 1963 in the record, it is nonetheless reasonable to conclude that the bulk of the traffic that Rio Grande interchanges at its western gateways with Union Pacific is "Products of Mines" traffic originated on Rio Grande.

The major interchanges at the eastern end of the Rio Grande system are at Denver, Colorado Springs, and Pueblo. At Colorado Springs, the major interchange volume moves between Rio Grande and Rock Island (7,878 cars). Another 34,371 cars were interchanged between the two carriers at Denver, for a total of 42,249 carloads, or 12 percent of Rio Grande's total interline cars: three-fourths of this traffic was overhead to Rio Grande. The principal interchange with Santa Fe is at Pueblo, although some interchanges take place at Denver and Colorado Springs: interchanges at the three points totaled 25,362 cars or 7 percent of Rio Grande's interline carloads. Nearly 60 percent of the cars Rio Grande interchanged with Santa Fe moved as bridge traffic on Rio Grande.

Approximately 46 percent of the 21,717 cars interchanged with Union Pacific at Denver were also bridge traffic for Rio Grande as opposed to primarily Rio Grande-originated traffic interchanged with Union Pacific at the Utah gateways. Also at Denver, the Rio Grande and the Burlington Northern interchanged 65,152 cars of which 36,057 were delivered to Rio Grande by BN. For Rio Grande, 51,583 cars were bridge traffic. The BN subsidiary, Colorado & Southern interchanged 7,700 cars with Rio Grande at Denver, 210 at Colorado Springs, 5,564 at Pueblo, and 1,828 at Walsenburg. The total Rio Grande interchange with BN and Colorado & Southern at Denver, Colorado Springs, Pueblo, and Walsenburg amounted to 80,454 cars, of which somewhat over 70 percent were bridge movements on Rio Grande. At Leadville, Colo. (not shown in table 47, interchange is made with a Colorado & Southern branch (1,353 cars in 1964) which runs to Climax, Colo., and is physically separate from the main Colorado & Southern system, later described.

The MoPac interchange with Rio Grande at Pueblo is the second largest with an individual connecting carrier on the Rio Grande system, exceeded only by the SP interchange at Ogden. Rio Grande delivered 44,852 cars to and received 41,990 cars from MoPac, for a total of 86,842. Of this traffic, 75 percent was bridge traffic for Rio Grande.

Points on Rio Grande which originated 5,000 or more cars of local traffic were: East Wellington, Utah, 16,401; Keigly, Utah, 7,843; and Denver, 5,320. Local traffic terminations of 5,000 or more cars took place at Geneva, Utah, 29,287 cars, and Denver, 13,682. Three points were origins or 5,000 or more interline cars: Sunnyside, Utah, 17,208; Geneva, 7,996; and Carbondale, Colo., 5,426. East Wellington with 16,444 cars, Denver with 14,349 cars and Salt Lake City with 9,109 cars, were the only destinations for 5,000 or more interline cars.

Financial status of Rio Grande.—Rio Grande's general balance sheet as of December 31, 1972, is based on its Annual Report Form A. Total assets of $316.8 million are composed of current assets of $52.2 million, including, among others, cash $0.6 million and temporary cash, investments of $25.4 million; special funds $5.1 million investments of $8.5 million, including other investments of $2.0 million and investments in affiliated companies of $6.5 million; total properties less depreciation and amortization $250.3 million; and other assets and deferred charges $515,416. Liabilities and shareholders' equity are composed of current liabilities of $25.1 million, including audited accounts and wages payable of $3.9 million, accrued taxes of $8.8 million; long-term debt of $82.5 million including $5 million within 1 year; reserves $339,898; other liabilities and deferred credits of $9.6 million; and shareholders' equity of $199.1 million, comprised of capital stock of $88.6 million, capital surplus of $19.3 million, and retained income of $91.1 million.

Rio Grande's income statement for the year 1972 shows total railway operating revenues of $112,671 million, with total railway operating expenses of $77,572 million resulting in an operating ratio of 68.85 percent. Net railway operating income of 35.1 million plus income (net) realized from other than railway operations amounted to income of $3.6 million which was available for payment fixed charges of some $3.4 million for the year 1972. Its net income after fixed charges and other deductions amounted to $17.0 million, which is more than sufficient to service long-term debt due within 1 year of $5 million. Rio Grande had a favorable ratio of total debt to combined total debt and shareholders' equity of 30 percent as of December 31, 1972. It is clear that as of December 31, 1972 Rio Grande's financial position was good.

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WESTERN PACIFIC

Western Pacific, with its principal offices in San Francisco, was incorporated June 6, 1916, under the laws of California, as a reorganization of the Western Pacific Railway Company, which had been incorporated 13 years earlier to construct and operate a railroad between Salt Lake City and the San Francisco Bay area. The predecessor company had instituted service in 1909. Western Pacific could not support itself and, when the guarantor of Western Pacific bonds defaulted, Western Pacific was forced into receivership in March 1915. The present company was organized to operate the properties of the foreclosed company.

The new company also suffered financial difficulties and, in August 1935, filed a petition for reorganization under section 77 of the Bankruptcy Act. Reorganization was consummated December 29, 1944, and all of the common and preferred stock of the predecessor company were wiped out, with new securities distributed to the bond and note holders.

Subsidiaries and affiliates:—Western Pacific owns 100 percent of the Sacramento Northern Railway, 100 percent of the Tidewater Southern Railway Company, and 100 percent of Standard Realty and Development. It has joint ownership of the Salt Lake City Union Depot & Railroad Company with Rio Grande, and joint ownership of the Alameda Belt Line and the Oakland Terminal Railway with Santa Fe. Western Pacific, Santa Fe, and Southern Pacific each own one-third of the Central California Traction Company.

As of December 31, 1972, Western Pacific was authorized to issue 3 million shares of no-par value common stock. Its actual stock outstanding totaled 1,917,112 shares.

Operations, plant, and equipment.—As of December 31, 1972, the Western Pacific system operated 1,490 miles of track in three States; namely, California-882 miles, Nevada-451 miles, and Utah-157 miles. Actual track mileage was 2,386 miles.

Western Pacific's main routes are (1) between San Francisco and Salt Lake City, through Oakland, Stockton, Sacramento, and Keddie, Calif., and Winnemucca and Wells, Nev.; and (2) between Keddie and Bieber, Calif. Directly and through connections with the Sacramento Northern, the Western Pacific system lines serve the principal cities and agricultural districts of the Sacramento Valley in northern California. Through the Tidewater Southern, it reaches southerly down the San Joaquin Valley from Stockton to the cities of Manteca, Modesto, and Turlock. Western Pacific's principal terminals and interchange points are located at Salt Lake City, San Francisco, Bieber, Stockton, and Oakland.

Generally speaking, Western Pacific's San Francisco-Salt Lake City route is directly competitive to Southern Pacific's San Francisco-Ogden route. The Western Pacific line from Keddie to Bieber, Calif., is a part of the Burlington Northern-Western Pacific-Santa Fe (Santa Fe connects with Western Pacific at Stockton) route between the Pacific Northwest and southern California. This three-carrier route provides the principal competition for the Southern Pacific route from Portland to San Francisco and Los Angeles.

Freight traffic.—During the 5-year period, 1964 through 1972, Western Pacific's freight revenues rose from $49.5 million to $88.0 million. Similar trends existed for revenue tonnage, revenue ton-miles and carloads. Over the period, net increases were: tonnage, from 8.3 million tons to 11.2 million tons; and ton-miles, from 4.2 billion ton-miles to 5.3 billion ton-miles.

Interline traffic accounted for 90 to 92 percent of total carloads over the 1964-68 period. Comparing individual classes of traffic, overhead traffic was the largest single

class and fluctuated between 41 and 43 percent of total traffic. Interline originated traffic increased from 20 percent in 1964, to 21 percent for 1967, and to 23 percent for 1968. Interline terminated traffic represented 27 percent of total traffic in all years except 1966 when it increased to 28.2 percent.

Freight traffic: interchanges and traffic flow.—Western Pacific's traffic density, origins, and destination, and interchange evidence shows data for the year 1964, and does not include data for the carrier's operating railroad subsidiaries. As seen below, Western Pacific's operations can be divided into two distinct parts: the first is its operation as a route segment in the central corridor between the San Francisco Bay area and Salt Lake City; and the second concerns the operation of Western Pacific's Stockton-Bieber segment of the route formed by lines of the Santa Fe south of Stockton and the Burlington Northern's line north of Bieber. Both of the first-described western Pacific routes use the same trackage between Stockton and Keddie, Calif., through Sacramento.

Between Oakland and Stockton, Western Pacific handled 2.7 million gross tons eastbound and 3.7 million westbound. Between Stockton and Portola, Calif., through Keddie, eastbound gross tonnage amounted to about 5 million tons and westbound gross tonnage totaled approximately 6.5 million tons, both figures reflecting the addition of the Bieber gateway traffic. Between Portola and Salt Lake City, approximately 4 million gross tons were carried eastbound and 5 million westbound. From Keddie to Bieber, 2.5 million gross tons were handled, and in the opposite direction, 2.8 million.

Interchanges at Western Pacific's western gateways other than Stockton and Bieber are small in volume: less than 5,000 cars each were interchanged with Santa Fe and Southern Pacific at each gateway (San Francisco, Oakland, San Jose, and Sacramento). Data for Western Pacific's three largest gateways are shown below in table 48.

TABLE 48

Major Western Pacific interchanges

WP station	Connecting carrier	Carloads Delivered	Carloads Received	Carloads Total
Stockton	AT&SF	32,939	29,044	61,983
Do	SP	4,700	2,578	7,278
Do	Total	37,639	31,622	69,261
Bieber	BN	32,136	34,194	66,330
Salt Lake City	D&RGW	26,432	47,895	74,327
Do	UP	19,544	19,400	38,944
Do	Total	45,976	67,295	113,271

At Stockton, 46,213 of the 61,983 carloads interchanged with Santa Fe moved as bridge traffic over Western Pacific. This represents 48 percent of all carload bridge traffic handled by Western Pacific in 1964. At Bieber, of the 66,330 carloads interchanged with Burlington Northern, 50,902 were bridge cars for Western Pacific representing 53 percent of the carrier's total bridge traffic. At Salt Lake City, 38,085 of the 74,327 carloads interchanged with Rio Grande, and 14,778 of the 38,944 cars interchanged with Union Pacific, were bridge traffic movements on Western Pacific, constituting, respectively, 39 percent and 15 percent of Western Pacific's total bridge traffic. Table 48 indicates that slightly over half of Western Pacific's 201,808 interline carloads, for the year 1964, moved through the Salt Lake City gateway.

The foregoing interchange and traffic density data show that somewhat over half of Western Pacific's bridge traffic moves through the Salt Lake City gateway with the origin or destination thereof being undisclosed. Based on the data and the underlying record herein discussed, it is impossible to determine exactly how much of such bridge traffic moving through the Salt Lake City gateways or may either terminate or originate on the lines of Western Pacific's subsidiaries.

Of the remaining bridge traffic, apparently the principal portion moves through both the Stockton and Bieber gateways in view of (1) the fact that the Bieber gateway route constitutes Santa Fe's and Burlington Northern's only competitive north-south route vis-a-vis Southern Pacific along the west coast, and (2) the fact that the Western Pacific interchanges with Santa Fe at Stockton and with Burlington Northern at Bieber are nearly equal with respect to bridge traffic (46,213 and 50,902 cars, respectively). Further, referring to the sections covering Santa Fe and Burlington Northern, it is noted that approximately 50,000 out of some 65,000 cars interchanged in 1965 at Stockton between Santa Fe and Western Pacific either originated or terminated on Santa Fe, and that 80 percent of the Western Pacific-Burlington Northern 67,000 car interchange at Bieber (also in 1965) either originated or terminated on Burlington Northern. For this reason too it is reasonable to conclude that the Bieber route primarily handles traffic which originates on Santa Fe, moves as bridge traffic over Western Pacific from Stockton to Bieber, and terminates on lines of the Burlington Northern, and also traffic which moves in the reverse manner.

Well over half of the 44,106 interline cars originated by Western Pacific in 1964 originated in the San Francisco-San Jose-Stockton-Sacramento area and over 80 percent of the 60,898 interline cars terminated by Western Pacific had destinations in this same area. Again, Western Pacific's origin and destination evidence does not disclose the volume of traffic originated or terminated on the lines of its subsidiaries within the same described area, thereby understating the importance of the area to Western Pacific as a source of traffic and revenue.

Financial analysis.—Western Pacific's balance sheet and income statement for the year 1964, following, reflects its financial position as of the year that its traffic studies were made in connection with this proceeding. Financial statements for 1972 have also been included in order to show its financial posture as of the latest available date.

TABLE 49

Western Pacific balance sheets

	December 31, 1964	December 31, 1972
Current assets:		
Cash	$3,912,678	$(125,788)
Temporary cash investments	3,149,953	13,548,741
Special deposits	2,871,390	29,330
Net balance receivable from agents and conductors	1,056,100	3,502,334

Western Pacific balance sheets—Continued

	December 31, 1964	December 31, 1972
Miscellaneous accounts receivable	$2,132,814	$5,913,814
Interest and dividends receivable	100,404	28,736
Accrued accounts receivable	4,020,709	9,646,180
Working fund advances	5,781	8,217
Prepayments	155,184	586,149
Material and supplies	4,264,501	2,828,766
Other current assets	102,177	342,214
Total current assets	21,771,691	36,308,698
Special funds:		
Sinking funds	474,000	105
Capital and other reserve funds	3,843,131	429,227
Insurance and other funds	34,325	53,180
Total special funds	4,351,456	482,512
Investments:		
Investments in affiliated cos	13,950,808	23,678,199
Other investments	14,709,456	735,338
Total investments	28,660,264	24,413,537
Properties:		
Road and equipment property	193,906,177	218,539,787
Improvements on leased property	1,291,606	1,791,127
Total transportation property	195,197,783	220,330,914
Accrued depreciation-Road & equip	(52,826,841)	(63,543,286)
Total transportation property less depreciation and amort	142,370,942	156,787,628
Other assets and deferred charges:		
Other assets	2,448,170	3,670,195
Unamortized discount on long-term debt	208,601	113,074
Other deferred charges	748,564	869,050
Total other assets and deferred charges	3,405,335	4,652,319
Total assets	204,558,356	227,837,322
Current liabilities:		
Traffic and car-service balance-cr	640,640	5,549,562
Audited account and wages payable	2,136,530	2,729,217
Miscellaneous accounts payable	634,402	2,818,431
Dividends and interest matured unpaid	289,961	2,934
Unmatured interest accured	884,934	1,706,298

Western Pacific balance sheets—Continued

	December 31, 1964	December 31, 1972
Accrued accounts payable	$4,534,790	$10,737,253
Federal income taxes accrued	818,246	1,059,964
Other taxes accrued	544,777	768,266
Other current liabilities	2,392,280	3,737,496
Total current liabilities (exclusive of long-term debt due in 1 year)	12,876,560	29,109,421
Long-term debt due within 1 year:		
Equipment obligations and other debt	3,589,462	3,425,302
Long-term debt due after 1 year		
Funded debt unmatured	34,260,614	28,268,000
Equipment obligations	21,050,564	20,261,982
Amounts payable to affiliated cos		1,127,254
Total long-term debt due after 1 year	55,311,178	49,657,236
Reserves:		
Pension and welfare reserves		13,496
Casualty and other reserves	3,824,052	1,801,155
Total reserves	3,824,052	1,814,651
Other liabilities and deferred charges:		
Other liabilities	394,513	457,375
Other deferred credits	285,539	2,595,190
Accrued depreciation-leased prop	1,148,730	1,240,746
Total other liabilities and deferred cr	1,828,782	4,293,311
Shareholders' equity:		
Capital stock-common-total	37,791,448	44,874,284
Capital surplus:		
Premiums and assessments on capital stock		491,470
Paid-in surplus	36,360	1,660,540
Total capital surplus	36,360	2,152,010
Retained income-appropriated	1,022,300	3,020,000
Retained income-unappropriated	88,278,214	89,491,107
Total retained income	89,300,514	92,511,107
Total shareholders' equity	127,128,322	139,537,401
Total liabilities and shareholders equity	204,558,356	227,837,322

TABLE 50

Western Pacific income statements

	1964	1972
Total operating revenues	$53,159,675	$88,034,603
Operating expenses		
Maintenance of way & structures:		
Exclusive of depreciation	6,475,997	11,614,334
Depreciation	988,801	1,231,561
Maintenance of equipment:		
Exclusive of depreciation	5,610,060	11,424,774
Depreciation	2,894,938	3,561,421
Traffic	3,063,791	3,598,704
Transportation	20,090,970	34,126,265
Miscellaneous & general	4,409,083	6,819,567
Total operating expenses	43,533,640	72,376,626
Net revenue from railway operations	9,626,035	15,657,977
Railway tax accruals	3,422,347	6,353,725
Railway operating income	6,203,688	9,304,252
Rent income-cr	1,123,758	943,670
Rents payable-dr	1,949,412	4,569,703
Net rents-dr	(825,654)	(3,626,033)
Net railway operating income	5,378,034	5,678,219
Total other income	3,595,770	1,647,001
Total income	8,973,804	7,325,220
Total miscellaneous deductions	507,160	738,301
Income available for fixed charges	8,466,644	6,586,919
Fixed charges	1,550,156	2,087,754
Contingent interest (other deductions)	823,180	600,343
Total fixed charges & contingent interest	2,373,336	2,688,097
Ordinary income	6,093,308	3,898,822
Total extraordinary items (net)		
Net income after fixed charges and other deductions	6,093,308	3,898,822

Net railway operating income and net income.—For the 5-year period 1964-1972, Western Pacific's net railway operating income increased from $5.4 million in 1964 to a peak of $8.3 million in 1966, with an intermediate decline to $4 million in 1967. However, its net railway operating income for 1972 amounted to $5.7 million or an increase of some $1.7 million over the amount realized from the year 1967. For the period, an ever increasing percent of its income available for fixed charges was derived from nonrailway operations. Although Western Pacific's net income after fixed charges and other deductions has varied considerably from year to year, for the period it has enjoyed profitable operations, except for the years of 1969 and 1970.

Working capital.—For the period 1964 through 1972, Western Pacific showed an average monthly working capital requirement of about $4.5 million. Its average current assets has exceeded its average current liabilities consistently through the period. Historically, for the period, Western Pacific's working capital position has been adequate for conducting orderly operations.

Long-term debt.—Western Pacific's total long-term debt (including amounts due and payable within 1 year) for the 5-year period, 1964-1968, has averaged about $63.7 million, annually. In 1972 this figure was approximately $53.1 million. Its long-term debt due within 1 year for that period averaged about $4 million annually, and approximately $3.4 million in 1972.

For the 5-year period considered, funds generated by net income alone averaged $6.4 million annually. In 1972 this figure was $3.9 million. On this basis, it is evident that Western Pacific's net income has historically been sufficient to service its equipment obligations and other debt due within 1 year without resorting to the use of funds generated by charges to depreciation.

Debt-equity ratio.—Western Pacific's balance sheets for the period 1964-1972 disclose that its ratio of total long-term debt to total long-term debt and stockholders' equity never exceeded 33 percent over the entire period.

Furthermore, based on a computation which includes Western Pacific's total debt as of December 31, 1972, it has a very favorable ratio of total debt to combined total debt and shareholders' equity of only 38 percent.

Considering the financial data for the period 1964-1972, Western Pacific's working capital position has been adequate for conducting orderly operations, its earnings have been sufficient to meet fixed charges and service its long-term debt, and it has maintained a very favorable debt-equity ratio.

Western Pacific is a financially sound carrier.

BURLINGTON NORTHERN-C&S-FW&D

Burlington Northern's principal predecessors, Chicago, Burlington & Quincy (CB&Q or Burlington), Great Northern (GN), Northern Pacific (NP), and Spokane, Portland & Seattle (SP&S) each intervened in these proceedings on its own behalf. During the pendency of the proceedings, in *Great Northern Pac.—Merger—Great Northern*, 328 I.C.C. 460, the *Northern Lines* case, authority was withheld for the proposed unification of the above-named interveners and, among others, also the Pacific Coast Railroad Company (Pacific Coast). However, upon reconsideration and further hearing, 331 I.C.C. 228 (November 30, 1967), authority was granted for the proposed unified system, through merger of the Great Northern, Northern Pacific, Pacific Coast, and Burlington into the Great Northern Pacific & Burlington Lines, Inc. (Burlington Northern). Sole or joint control of subsidiaries and affiliates of those merger partners was to be acquired by the new company, as well as lease of the lines of railroad and other properties of the SP&S, and through such lease, sole or joint control over SP&S subsidiaries and affiliates.

The Commission's approval was sustained in *United States* v. *United States and Interstate Commerce Commission*, 296 F. Supp. 853, and on February 2, 1970, by the Supreme Court, *Northern Lines Merger Cases*, 396 U.S. 491 (1970). Consummation of the unification took place March 2, 1970.

Scope of operations.—The Burlington Northern system encompasses an area beginning at Lake Michigan and Lake Superior extending westward along the United States-Canadian border to the Pacific Northwest including the area south to the line from Denver to St. Louis through Kansas City and also south to the gulf coast from Denver. More specifically, the major routes of the unified system extend from Chicago (also Duluth-Superior) to Seattle, Tacoma, and Portland through the Twin Cities, and connecting with the above-described routes at Billings, the former Burlington routes extended from Chicago, St. Louis, and Kansas City through Omaha or Lincoln and Alliance, Nebr. Other former Burlington routes ran from Chicago to St. Louis, Kansas City, and St. Joseph in addition to Omaha. At the latter two points, routes extend westward converging at Oxford, Nebr., and continuing to Denver. From Billings, a route extends southward through Laurel, Mont., to Wendover, Wyo., there connecting with the Colorado & Southern line which runs southward through Cheyenne, Denver, and Pueblo to Sixela, N. Mex., connecting with the Fort Worth and Denver main line which continues the route to Houston and Galveston through Fort Worth and Dallas, including the joint Texas division, jointly operated with Rock Island as described in the earlier section on Rock Island's scope of operations. Other important routes extend from Portland to Eugene; from Wishram to Bieber, through Chemult and Klamath Falls; and from the Twin Cities (also Duluth-Superior) to Omaha, through Sioux City.

Road mileage as next discussed are subject to duplication resulting from trackage rights and other contractural agreements with respect to lines over which any two or more of the separate northern lines carriers operated. As of December 31, 1972, the Burlington Northern, Colorado & Southern, and Fort Worth & Denver operated a total of 25,162 miles of road (including 1,962 under trackage rights) in 19 States and 2 Canadian Provinces as follows: Illinois-1,619; Kentucky-12; Iowa-999; Missouri'1,267; Minnesota-3,093; Wisconsin-346; North Dakota-3,452; South Dakota-530; Nebraska-2,644; Kansas-218; Montana-3,492; Wyoming-826; Colorado-897; Idaho-470; Washington-3,339; Oregon-382; California-100; New Mexico-83; Texas-1,187; British Columbia-134; and Manitoba-73.

Freight traffic.—In terms of tonnage and over the period 1964-1972 Northern Pacific, Great Northern, Burlington, and SP&S all reached peaks in 1966. Only Great Northern experienced a net decline in annual tonnage hauled over the entire period from 47.0 million revenue tons in 1964 to 44.8 million in 1968. For each of the carriers, freight revenue showed a net increase for the period with a peak, except for Burlington, in 1966. The 1972 freight revenue for the system was $991.7 million.

Northern Pacific and Great Northern carried relatively little bridge traffic. Northern Pacific had a substantial amount of local traffic, and over half its carloads were interline and either originated or terminated on line. Great Northern was predominantly an originator of interline traffic (44 percent of its total carloads) with the second largest volume of traffic being local. Burlington's traffic was quite evenly divided among the four classes of traffic. SP&S, however, clearly was a carrier dependent on interline movements, primarily overhead (bridge) traffic.

Of the aforementioned carriers, only Great Northern and Northern Pacific submitted traffic density evidence. Briefly, and as here pertinent, it is noted that the former parent companies' traffic was primarily eastbound. Great Northern's transcontinental route beginning at Everett, Wash., north of Seattle, eastward to

Spokane, handled 4.7 million gross tons per mile eastbound v. 5.6 million westbound and from Spokane (principal interchange with SP&S) to the Twin Cities, eastbound density generally ranged from about 8 to 10 million gross tons per mile v. about 6 to 9 million westbound, with slightly heavier density over a few short, intermediate segments of line. Great Northern's route from Bend, Oreg., to Bieber handled slightly over 2 million gross tons per mile in either direction.

Northern Pacific, from Auburn, Wash., south of Seattle, to Spokane, handled approximately 5.0 to 5.6 million gross tons eastbound per segment (segments are of varying length and the NP evidence does not average gross tons by mileage) and slightly less than 5 million gross tons westbound. Between Spokane and the Twin Cities, traffic moving eastbound ranged from 7.8 to 10.6 million gross tons, increasing toward the Twin Cities, and westbound, density ranged between 5.0 and 7.6 million gross tons. Stated as a systemwide density, loaded car-miles eastbound for Northern Pacific represented 61.7 percent of total loaded car-miles. (GN data for 1965, NP data for 1964.)

With respect to major interchanges, this analysis is first directed to interchanges as they existed between Northern Pacific, Great Northern, Burlington, and SP&S, and, the carriers actively participating in these proceedings. The interchanges with subsidiaries Colorado & Southern and FW&D are later discussed in the separate sections dealing with those carriers.

SP&S did not submit interchange evidence and the instant discussion relies on such evidence submitted by GN, NP, and by other carriers who interchanged substantial quantities of traffic with SP&S. Great Northern's interchange data are for 1965, while Northern Pacific submitted 1964 data.

At Portland, both Great Northern and Northern Pacific interchange substantial numbers of cars with Southern Pacific: In 1965, Great Northern and Southern Pacific interchanged 26,233 cars, and in 1964, Northern Pacific and Southern Pacific interchanged 78,393 cars. In each case, the traffic primarily was that which originated or terminated on either GN or NP. With respect to Northern Pacific, the Southern Pacific interchange involved 17 percent of Northern Pacific's interline carloads. The earlier section covering Southern Pacific's interchange data indicates that most of the GN and NP traffic had its origin or destination on Southern Pacific. It is clear that most of the traffic interchanged at Portland includes that which (1) if originated on Southern Pacific terminated on Great Northern or Northern Pacific, and (2) if originated on Great Northern or Northern Pacific terminated on the Southern Pacific. On the Bieber route at Chemult, Great Northern, and Southern Pacific interchanged 7,831 cars.

Great Northern and Northern Pacific interchanges with Union Pacific were each approximately 1,000 cars or less at both Portland and Seattle. At Spokane, Great Northern interchanged 9,154 cars with Union Pacific, of which 7,082 were originated on Great Northern lines. Similarly, of the 3,906 cars interchanged with Spokane International at Spokane, 1,990 originated on the Great Northern. Northern Pacific interchanged 1,340 cars with Union Pacific and 2,561 cars with Spokane International at Spokane and here again, all but 501 cars interchanged with Union Pacific and its subsidiary either originated or terminated on Northern Pacific. All of the interchanges between either Great Northern or Northern Pacific, on the one hand, and, Milwaukee on the other hand, amounted to less than 900 cars each at Seattle, Spokane, and Butte. The Bieber gateway accounted for an interchange between Great Northern and Western Pacific of 67,084 cars of which nearly 80 percent either originated or terminated on Great Northern.

Burlington's 1965 interchange data were limited to gateways at which a total of 5,000 or more cars were interchanged at major gateways at which the carrier

interchanged with Union Pacific, Rock Island, Rio Grande, North Western, Santa Fe, and Colorado & Southern. Interchanges were shown as totals for each named carrier at each gateway. The following table shows interchanges of more than 10,000 cars with the above-named carriers, by gateways, and the percentage of Burlington's total interline carloads (1965) represented by the interchange.

Gateway	Connecting carrier	Carloads	Percent of total CB&Q interline cars
Kansas City	RI	16,884	1.8
Do	AT&SF	38,751	4.1
Denver	D&RGW	73,714	7.8
Grand Island	UP	98,197	10.4
Omaha-Council Bluffs-Fremont.	do	11,975	1.3
Do	C&NW	21,570	2.3

Interchanges between all connecting carriers and the Burlington totaled 324,037 cars at Chicago (including Eola and Congress Park, Ill.), 154,266 at Omaha-Council Bluffs-Fremont-Grand Island, 113,355 at Denver, 115,324 at St. Louis-E. St. Louis, 125,644 at the Twin Cities, 29,558 at Peoria, and 157,911 at Kansas City. The Grand Island interchange with UP is heavier westbound and much of it is freight forwarder traffic. Other gateways at which more than 5,000 cars were interchanged were (1) primarily interchanges with Northern Lines carriers as earlier detailed, or (2) gateways at which a total of from 5,000 to about 11,000 cars were interchanged.

The Burlington interchanges at the Twin Cities with Rock Island and North Western amounted to only 24 cars and 926 cars, respectively, out of the total interchange of 125,644 cars. Burlington interchanged 67,045 cars in 1965 with Great Northern and 55,352 cars in 1964 with Northern Pacific at the Twin Cities. Despite the different years for which the data were shown, it is clear that the Twin Cities interchanges for Burlington overwhelmingly consisted of traffic moving to and from its parent carriers' lines.[*] The Twin Cities interchanges for Great Northern and Northern Pacific, however, show that the two carriers interchanged a considerable volume of traffic with other railroads in addition to Burlington, as shown below (total volume interchanged ranked in descending order, by connecting carrier):

TABLE 51

Great Northern and Northern Pacific interchanges at Twin Cities[1]

Northern line carrier	Connecting carrier	Carloads		
		Delivered	Received	Total
Great Northern (1965 data)	C&NW	45,837	17,888	63,725
Do	Soo	14,348	6,368	20,716
Do	MILW	13,211	7,137	20,348
Do	MN&S	12,797	7,177	19,974
Do	RI	10,995	8,061	19,056
Do	Total	97,188	48,631	143,819

[1]Excludes interchanges between, variously, Great Northern, Northern Pacific, and Burlington.

[*]For many years prior to the *Northern Lines* merger, Burlington was jointly controlled by Great Northern and Northern Pacific.

Soo Line's operations extend from Sault Ste. Marie, Mich., Manitowoc, Wis., and Chicago, on the east, through the Twin Cities and Duluth-Superior, to Noyes, Minn., and Portal, N. Dak., on the west, with a branch line extending from Portal to Whitetail, Mont. Although it reaches Chicago, Soo is located somewhat apart from the industrial center. Soo Line operates over only 49 miles of its own track in Illinois from the State line to its principal yard at Schiller Park, a western suburb of Chicago. It has operating rights, however, over several switching and terminal lines and extensive arrangements for the direct delivery and receipt of cars with a large number of railroads serving Chicago and is able to provide service for through traffic moving beyond this important interchange point. Soo does not directly serve many industries in the Chicago area.

Freight traffic: volume and traffic flow.—During the 1964-72 period, freight traffic on the Soo Line showed a net increase from 18,978,399 revenue tons in 1964, to 23,978,700 revenue tons in 1972, and in freight revenue from $78,053,434 in 1964, to $140,651,034 in 1972.

Geographically, the Soo's lines of railroad can be divided into two areas. The first area is the western region comprising all of the mileage west of the Twin Cities and the Twin Ports of Duluth and Superior. Traffic density in this area, based on 1964 data, is predominantly eastbound. West of the Twin Cities, eastbound movement is 6 to 10 times as heavy as westbound. The principal routes in this area extend from Portal to Twin Cities via Glenwood, Minn., and from Noyes to Twin Cities via Glenwood. Density over these segments ranges from 60,000 to 100,000 loaded cars eastbound as contrasted to less than 25,000 loaded cars per segment westbound.

The second area is the eastern region comprising all of the mileage between the Twin Cities and the Twin Ports and all trackage east of the terminals, principally the main lines from the Twin Cities to Chicago and to the Upper Peninsula of Michigan and its lines in the industrial areas of Wisconsin. In this region are Soo Line's main routes to its eastern gateways at Sault Ste. Marie, Mackinaw City, Manistique, Manitowoc, Milwaukee, and Chicago.

Soo Line's heaviest density route extends between the Twin Cities and Chicago, with the traffic volume greater in both directions as the line approaches Chicago. Density on segments of the line eastbound averages slightly over 100,000 loaded cars as contrasted to slightly over 50,000 loaded cars per segment westbound. Of lesser density (no segment of route in either direction exceeding 30,000 cars per segment) are those routes extending from Sault Ste. Marie to the Twin Cities via Rhinelander and Weyerhauser, Wis., and from Sault Ste. Marie to Duluth-Superior. Traffic on these lines is predominantly westbound.

Table 54 lists the major interchange points with applicants and intervenors and the volume of traffic interchanged for the year 1965. Adjustments have been made to reflect the unification of carriers.

TABLE 54

Major Soo Line interchanges (1965)[1]

Soo Line station	Connecting carrier	Carloads		
		Delivered	Received	Total
Chicago (including Leithton)	ICG	6,831	5,810	12,641
Do	C&IE	7,168	3,781	10,949
Do	AT&SF	3,063	2,265	5,328
Do	CB&Q (BN)	1,736	1,450	3,186
Do	C&NW	1,577	1,371	2,948
Do	RI	1,469	1,182	2,651
Do	MILW	465	466	931
Do	Eastern district class I line haul.[2]	55,020	24,832	79,852
Do	Southern district class I line haul.[3]	3,038	2,074	5,112
Do	All others	6,382	2,621	9,003
Do	Total	86,749	45,852	132,601
Twin cities	C&NW	22,252	6,078	28,330
Do	GN (BN)	6,320	14,123	20,443
Do	NP (BN)	5,577	13,532	19,109
Do	MN&S	8,064	2,425	10,489
Do	MILW	5,122	3,897	9,019
Do	CB&Q (BN)	5,092	1,850	6,942
Do	RI	4,118	2,538	6,656
Do	All others	41	192	233
Do	Total	56,586	44,635	101,221
Noyes, Minn	CP	6,336	29,550	35,886
Do	CN	519	1,883	2,402
Portal, N. Dak	CP	5,748	43,146	48,894
Duluth-Superior (including W. Duluth).	DWP (CN)	739	17,625	18,364
	GN (BN)	567	1,668	2,235
Do	NP (BN)	550	1,090	1,640
Do	C&NW	196	66	262
Do	MILW	28	195	223
Do	Other	3,996	149	4,145
Sault Ste. Marie, Mich	CP	4,919	13,911	18,830
Do	Other	269	1,807	2,076

[1]Includes gateways at which 5,000 or more cars were interchanged with applicants or intervenors and the northern interchanges with Canadian Pacific and DW&P (subsidiary of Canadian National).

[2]Eastern district class I line-haul carriers include C&O-B&O (including South Shore), EJ&E, E-L, PC, Monon, N&W and GTW. C&EI is shown separately.

[3]GM&O (ICG) only.

Financial status of Soo Line.—Soo Line's Annual Report Form A, filed with this Commission for the year 1972, shows in its balance sheet as of December 31, 1972,

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total assets aggregating $281.8 million, comprised of current assets $53.7 million, including among others, cash $112,076, and temporary cash investments $26.0 million; special funds $8.0 million; investments $4.4 million (principally in affiliated companies); total properties less depreciation and amortization $213 million and other assets and deferred charges $1.9 million. Liabilities and shareholders' equity are comprised of current liabilities $28.7 million, including audited accounts and wages payable $2.1 million and accrued taxes $13.6 million; long-term debt $94.3 million including $4.5 million due within 1 year; reserves $936,495 and other liabilities and deferred credits $736,706; and shareholders' equity $157.1 million, which consists of capital stock $90.8 million, capital surplus $2.3 million and retained income $63.9 million.

Soo Line's income statement for the year 1972 shows total railway operating revenues $140.7 million, with total railway operating expenses $102.4 million, resulting in an operating ratio of 72.81 percent. Net railway operating income of $13.8 million plus income (net) from other than railway operations aggregated $15.0 million which was available for payment of fixed charges of $3.3 million for 1972. Net income after fixed charges and other deductions amounted to $10.3 million. For the year 1972, sufficient funds were generated from net income alone to service its long-term debt due within 1 year and its ratio of total debt to combined total debt and shareholders' equity was a favorable 39 percent. As of December 31, 1972, Soo Line's financial position was good.

MINNEAPOLIS, NORTHFIELD & SOUTHERN RY.
(MN&S)

Corporate history.—MN&S, incorporated in South Dakota on June 18, 1918, has its principal offices in Minneapolis. It acquired most of its present railroad properties through foreclosure sale in August 1918. MN&S has no subsidiaries or affiliated companies. It is owned by Pence Automobile Company through 99.62 percent stock ownership.

Scope of operations, plant, and equipment.—MN&S operates approximately 113 miles of main track and branch lines all located in Minnesota, of which 95 miles are owned and 18 miles operated under trackage rights. The principal line of MN&S extends from Minneapolis to Northfield, and through trackage rights granted by the former Great Western, from Northfield to Randolph.

Freight traffic: characteristics and volume.—MN&S is primarily an overhead carrier. Since its tracks circumvent the highly developed industrial center of the Twin Cities, it is useful as an alternate route around that area.

Of the MN&S overhead traffic, the preponderance is through interchange with the Rock Island and Great Western (now part of the North Western).

Financial status of Minneapolis, Northfield, and Southern.—Annual Report Form C, filed by MN&S for the year 1972, includes a balance sheet as of December 31, 1972. It shows total assets of $11.8 million, comprised of current assets $3.3 million, including among others cash $560,548, and temporary cash investments $1.7 million; special funds $3,000; investments $777,403; total properties, less depreciation and amortization $7.7 million, and other assets and deferred charges $67,325. Liabilities and shareholders' equity are comprised of current liabilities, $1.1 million, including audited accounts and wages payable $85,921, and accrued taxes $303,655, reserves $69,937, and other liabilities and deferred credits $67,740, and shareholders' equity $10.52 million, which consists of capital stock $2.3 million and retained income $8.2 million.

MN&S's income statement for the year 1972 shows total railway operating revenues $5.5 million, with total railway operating expenses $4.1 million, resulting in a very favorable operating ratio of 73.98 percent. Net railway operating income of $323,206 plus income from other than railway operations amounted to $528,218 which was available for payment of fixed charges of only $570 for the year 1972. Its net income after fixed charges and other deductions amounted to $527,648.

Based on the financial data discussed above, it is evident that as of December 31, 1972, MN&S had an insignificant amount of long-term debt; its operating ratio was above average; and its earnings for the year 1972 greatly exceeded its fixed charges. As of December 31, 1968, MN&S was a financially sound carrier.

KCS AND L&A

The Kansas City Southern system includes the lines of the Louisiana & Arkansas, Arkansas Western, and Fort Smith & Van Buren. All of the outstanding capital stock of each of the three carriers last named is owned by the Kansas City Southern. Wholly owned carrier subsidiaries of the Kansas City Southern and Louisiana & Arkansas include several motor common carriers and various companies which perform rail terminal and switching services. Approximately 94 percent of the outstanding common capital stock of the Kansas City Southern and about 77 percent of its preferred is held by Kansas City Southern Industries, Inc. The latter was organized so as to function as the noncarrier corporate parent of the Kansas City Southern and its carrier subsidiaries. See: *Kansas City Southern Industries, Inc., Control*, 317 I.C.C. 1.

Scope of operations, plant, and equipment.—The Kansas City Southern and the Louisiana & Arkansas operate over about 1,672 miles of road in six States as follows: Missouri-202 miles, Kansas-25 miles, Arkansas-234 miles, Oklahoma-180 miles, Louisiana-728 miles, and Texas-293 miles.

The principal line of the Kansas City Southern runs directly from Kansas City, Mo.-Kans., to Port Arthur and Lake Charles, through Pittsburg, Kans., Coal Creek, Poteau, and Heavener, Okla., Texarkana, Shreveport, and Beaumont. From Poteau to Fort Smith (about 29 miles) the KCS operates under trackage rights over a line of the Frisco.

The L&A operates over principal lines radiating from Shreveport (1) southeast to New Orleans through Alexandria and Baton Rouge, and (2) west to Greenville, Tex., over its own lines, and to Dallas, under trackage rights over the Santa Fe lines. L&A also operates over lines from Shreveport to Minden, La., and from Hope, Ark., to Alexandria through Minden.

The KCS major freight yards and terminals are at Kansas City, Pittsburg, Heavener, DeQueen, Ark., Texarkana, Shreveport, Beaumont, and Port Arthur. The L&A major yards and terminals are at Alexandria, Baton Rouge, and New Orleans. It utilizes the Katy's yard at Greenville and the Santa Fe's yard at Dallas.

Freight traffic: volume and traffic flow.—About two-thirds of the KCS total revenue tonnage is interline originated and interline terminated traffic while approximately half of L&A's traffic fell in this category. For the latter carrier, bridge traffic tonnage exceeds that for any other class of traffic. The two carriers are clearly dependent on connections for the bulk of their traffic.

The KCS and L&A interchange evidence does not disclose the extent to which the two carriers participated between themselves in bridge movements via Shreveport, their only point in common. For this reason, bridge traffic as set forth in the evidence for each carrier is overstated for each to the extent that an indeterminate number of cars moved as bridge traffic over one of the two carriers and either originated or terminated on the lines of the other carrier. Similarly, the evidence understates the volume of local traffic for the KCS-L&A system to the extent that an indeterminate number of cars originated on one of the two carriers and terminated on the other's lines. In view of the above discussed evidentiary deficiencies, KCS and L&A have understated their combined strength as a local and as an origin and destination carrier system.

The above deficiencies arise in part from a failure to show cars interchanged between KCS and L&A at Shreveport. The evidence for Shreveport shows only the cars interchanged by KCS and L&A together, on the one hand, and, the following carriers on the other hand: ICG, 17,869 cars; Cotton Belt, 7,454; Southern Pacific, 16,063; and Texas & Pacific, 7,428.

Tables 54 and 55, show 1966 interchange data for KCS and L&A, respectively, with adjustments having been made to reflect unifications, except BN.

TABLE 54

Kansas City Southern major interchanges[1]

KCS station	Connecting carrier	Carloads: Received	Carloads: Delivered	Carloads: Total
Kansas City	AT&SF	2,245	4,434	6,679
Do	CB&Q (BN)	13,396	6,943	20,439
Do	MILW	8,065	4,538	12,603
Do	C&NW	7,855	6,129	13,984
Do	RI	2,398	5,096	7,494
Do	MKT	868	201	1,069
Do	MP	4,056	3,812	7,868
Do	SLSF	276	318	594
Do	UP	10,421	5,440	15,861
Do	All others	4,863	11,257	16,120
Do	Total	54,543	48,168	102,711
Eve, Mo	MKT	4,385	4,709	9,094
Panama, Okla	T&P	4,233	1,305	5,538
Texarkana	MP	2,620	3,572	6,192
Do	T&P	1,078	5,707	6,785
Do	SLSW	4,534	5,104	9,638
Do	Total	8,232	14,383	22,615
Beaumont	AT&SF	17,304	1,659	18,963
Do	MP	12,848	6,575	19,423
Do	SP	25,536	6,018	31,554
Do	Total	55,688	14,252	69,940
Lake Charles, La	MP	563	1,993	2,556
Do	SP	425	2,915	3,340
Do	Total	988	4,908	5,896

[1]Excludes Shreveport. Major interchanges are those with 5,000 or more cars total interchange.

TABLE 55

Louisiana & Arkansas major interchanges[1]

L&A station	Connecting carrier	Carloads: Received	Carloads: Delivered	Carloads: Total
Baton Rouge	ICG	5,448	2,252	7,700
Do	MP	1,587	----------	1,587
Do	Total	7,035	2,252	9,287
New Orleans	ICG	1,507	1,133	2,640
Do	SP	2,502	1,972	4,474
Do	All others	14,555	28,269	42,824
Do	Total	18,564	31,374	49,938
Hope	MP	8,109	2,472	10,581
Do	SLSF	4,386	1,112	5,498
Do	Total	12,495	3,584	16,079
Stamps, Ark	SLSF	1,929	4,925	6,854
Packton, La	ICG	4,435	10,377	14,812
Alexandria	RI	1,771	1,269	3,040
Do	MP	2,053	1,928	3,981
Do	T&P	449	----------	449
Do	SP	1,612	2,607	4,219
Do	Total	5,885	5,804	11,689
Greenville	MKT	6,338	3,652	9,990
Do	SLSW	3,972	254	4,226
Do	Total	10,310	3,906	14,216
Dallas	AT&SF	9,936	5,715	15,651
Do	RI	7,894	860	8,754
Do	MKT	266	212	478
Do	SLSW	61	58	119
Do	SP	1,896	1,594	3,490
Do	T&P	356	1,192	1,548
Do	SLSF	4,136	693	4,829
Do	All others	1,205	1,865	3,070
Do	Total	25,750	12,189	37,939

[1]Excludes Shreveport. Major interchanges are those with 5,000 or more cars total interchanged.

Of the interchange points shown in Tables 54 and 55, the Kansas City interchange for KCS is by far the largest in volume for the entire KCS-L&A system. Interchanges at Kansas City involved cars representing 102,711 cars or 38 percent of KCS' 1966 interline carloads. After Kansas City and ranked in descending order, the largest volume interchanges for KCS-L&A were at Beaumont, 69,940 cars; New Orleans, 49,938; Dallas, 37,939; and Texarkana, 22,615.

The following list ranks carriers actively participating in these proceedings by the number of cars each interchanged with KCS-L&A at the points shown in Tables 54 and 55, and at Shreveport:

	Carrier	Carloads
1	Southern Pacific-Cotton Belt	84,577
2	MoPac-T&P	73,936
3	Santa Fe	41,293
4	Katy	20,631
5	Burlington Northern	20,439
6	Rock Island	19,288
7	Frisco	17,775
8	Union Pacific	15,861
9	North Western	13,984
10	Milwaukee	12,603

Of the carriers listed above, Burlington Northern, Union Pacific, North Western, and Milwaukee connect with KCS at Kansas City only. The largest interchanges with individual carriers at points south of Kansas City are: (1) with Southern Pacific at Beaumont and Shreveport; (2) with MoPac at Beaumont; and (3) with Santa Fe at Dallas and Beaumont.

Based on 1965 estimates, no point on the KCS-L&A system was origin for 10,000 or more cars at local traffic. With respect to interline originations, five points originated from about 10,000 to 20,000 cars (based on estimates for 1965) namely, North Baton Rouge, Port Arthur, Springhill, La., Port Neches, Tex., and Kansas City (Mo.). Springhill was the only destination with more than 10,000 cars of local traffic (Springhill also was destination of 9,971 interline cars). Six points were destination for more than 10,000 interline cars. Spindletop, Tex., 97,495 cars; Port Arthur, 31,556; New Orleans, 22,037; Baton Rouge, 18,257; Kansas City (Mo.), 12,359; and Shreveport, 10,881. Here again with respect to interline originations and interline terminations, the evidence does not disclose the number of cars originated on KCS and terminated on L&A and vice versa; and which movements would actually constitute local traffic to the combined system.

KCS has a minimum of branch lines and essentially it conducts a main line operation. In such operations for the year 1963, its freight traffic density by major line segments between Kansas City and Shreveport ranged from a low of 5.6 million to a high of 7.2 million gross tons southbound, and from a low of 4.0 million to a high of 5.4 million gross tons northbound, and for the remainder of the line (Shreveport-Leesville-Port Arthur) density ranged from 3.9 million to 4.2 million gross tons southbound and 3.8 million to 3.9 million gross tons northbound.

The L&A's principal traffic density is in its Dallas-New Orleans operations. Between Dallas and Shreveport, density in 1963 was 2.7 million gross tons southbound and 1.7 million northbound. Between Shreveport and New Orleans, southbound density ranged from 2.6 to 4.1 million gross tons, while northbound, the density ranged from 3.0 to 3.4 million gross tons. All other KCS and L&A lines handled less than 2 million gross tons per segment in either direction.

Financial status of KCS.—The balance sheet of KCS and controlled companies filed in the Annual Report Form A to the Commission, as of December 31, 1972, shows total assets of $256.3 million comprised of: Current assets of $33.7 million including, among others, cash $107,735 and temporary cash investments $13.1 million; special funds $454,412, investments $15.7 million including investments in affiliated companies $16 million and other investments $39,028; total properties, less depreciation and amortization, $204.2 million; and other assets and deferred charges $2.1 million. Liabilities and shareholders' equity are comprised of current liabilities

$21.9 million including audited accounts and wages payable $2.1 million, miscellaneous and accrued accounts payable $6.2 million and accrued taxes $394,149; long-term debt $87.9 million, including $6.7 million due within 1 year; reserves $2.2 million, other liabilities and deferred credits $1.3 million; and shareholders' equity $142.9 million, made up of capital stock $55.5 million, and retained income $81.8 million, including $600,000 retained income—appropriated.

KCS's income statement for the year 1972, shows total railway operating revenues of $106.4 million and total railway operating expenses of $77.8 million with an operating ratio of 73.14 percent. Net railway operating income of $10.4 million when added to the net income realized from other than railway operations amounted to net income of $13.7 million which was the amount available for payment of fixed charges totaling $4.7 million for the year 1972. Net income after fixed charges and other deductions (includes adjustments for extraordinary and prior period items) amounted to $7.7 million. This amount together with funds generated by charges to depreciation, were more than sufficient to service its long-term debt due within 1 year. KCS' ratio of total debt to combined total debt and shareholders' equity of 38 percent as of December 31, 1972, is well within the Commission's satisfactory limit. KCS has historically enjoyed a profitable operation and it continued to operate profitably in 1972.

KATY

The Katy, with its principal offices in Dallas, was incorporated July 1, 1960, under the laws of Delaware. Pursuant to authority granted in *Missouri-K.-T. R. Co. Consolidation*, 312 I.C.C. 12 (1960), Katy acquired all of the properties of the Missouri-Kansas-Texas Railroad Company, a Missouri company and of the Missouri-Kansas-Texas Railroad Company of Texas, a Texas corporation. It also acquired trackage rights of these carriers as well as stock control of their subsidiary companies, including Coordinated Transportation Company, a motor carrier, operating between points in Texas and performing pickup and delivery service at various points, in which it acquired all the stock except directors' qualifying shares.

Katy is controlled by Katy Industries, Inc., through ownership of its common capital stock. Katy Industries, a holding company, was organized in 1967 in Delaware, for the purpose of engaging in large scale diversification. The acquisition of control of the Katy was not a transaction subject to the Commission's jurisdiction. See: *Katy Industries, Inc.—Control—Missouri-K.-T.R. Co.*, 331 I.C.C. 405 (1967).

As of December 31, 1972, Katy was authorized to issue 2 million shares of its $5 par value common stock, of which 1,951,974 shares were outstanding and principally held (1,908,467 shares) by Katy Industries.

Scope of operations, plant, and equipment.—As of December 31, 1972, Katy operated approximately 2,609 miles of road in four States, of which 369 miles were operated under trackage rights. It operated 377 miles of road in Missouri, 312 miles in Kansas, 874 miles in Oklahoma, and 1,045 miles in Texas. Katy's actual track mileage at the end of 1972 was 3,707 miles.

The main line routes of the Katy are from St. Louis and Kansas City through Parsons, Kans.; from St. Louis and Kansas City to Oklahoma City, also through Parsons; from St. Louis and Kansas City to San Antonio and Galveston through Parsons, McAlester, Okla., Denison, Whitesboro, Fort Worth (also Dallas), Waco, and Austin, Tex., to San Antonio, and through West Point, Tex., and Houston to Galveston.

Freight traffic: volume.—Katy's freight traffic volume started a decline from the 1955 and 1956 level of over 15 million revenue tons to a low of slightly over 13 million in 1958. From 1958 through 1965, annual tonnage varied little, ranging only from about 13 to 14 million tons. In 1966, 1967, and 1968, the situation improved. The 1968 figure of 15.3 million revenue tons was of a magnitude comparable to the carrier's volume over a decade earlier. In 1972, revenue freight totaled 15.1 million tons. Revenue ton-miles generated followed a similar pattern; 4.5 billion in 1955, 4.7 billion in 1956, followed by a decline to 3.8 billion in 1958, and a period of little change until 1966 and 1967, when revenue ton-miles stood at 4.5 billion. In 1968, the high for the entire period was reached at 5.0 billion. A slight decline was recorded in 1972, revenue ton-miles being 4.8 billion.

Freight revenue showed an almost uninterrupted decline from $64.9 million in 1956 to $46.5 million in 1964. Improvements then followed yearly to $78.9 million in 1972.

Freight traffic: interchanges and traffic flow.—Katy's traffic density evidence shows data for 1965 in terms of (1) net ton-miles and gross ton-miles per mile of road; and (2) net and gross ton-miles per segment of line (varying in length). To maintain consistency, gross tonnage figures will be used.

The bulk of Katy's freight traffic moves over the routes from Kansas City and St. Louis to Parsons, and from Parsons to Houston via Fort Worth, as shown below (directions are here defined as southbound for traffic moving toward Houston and northbound for that which moves toward Kansas City or St. Louis):

Line segment (s)	Gross ton-miles per mile (millions)	
	Northbound	Southbound
St. Louis-Parsons	1.8	2.8
Kansas City-Parsons	2.9	4.6
Parsons-Denison	2.9	4.8
Denison-Fort Worth-Waco	2.1	2.5
Waco-Houston	2.1	2.6

Only two other Katy routes exceeded one million gross ton-miles per mile in at least one direction, namely, an alternate route between Denison and Waco through Dallas (0.9 million northbound, 1.2 million southbound), and a route between San Antonio and Taylor, Tex., the latter point located on the Waco-Houston line. Density over the San Antonio line slightly exceeded 1 million gross ton-miles per mile in each direction.

Katy's traffic is heaviest southbound from Kansas City and St. Louis, and the heaviest density on the entire system is the result of the movement of traffic in both directions between those points, on the one hand, and, Dallas-Fort Worth, San Antonio and Houston, on the other hand. The record shows that the balance of the system handles extremely little traffic.

The interchange data next discussed embraces the year 1965, during which time the Katy hauled a total of 308,918 carloads of freight, of which 81,302 carloads moved entirely in local service. In other words, 77 percent of the Katy cars hauled involved interchange with other carriers. The Katy interlined cars at 77 points on its lines, with the volume ranging from as little as 2 cars at a point to as high as 75,982 cars.

At each of 29 of the points, more than 500 cars but less than 5,000 cars were interchanged for a grand total of 52,420 cars (again with no adjustment for bridge movements), divided among the connecting carriers as follows: MoPac-11,555 cars, Frisco system—10,392 cars, Santa Fe—8,247 cars, Rock Island—6,789 cars, Southern Pacific-Cotton Belt 3,812 cars, T&P system—3,028 cars, FW&D—1,067 cars, KCS—554 cars, BM&E, a now abandoned Katy subsidiary, 1,394 cars, and three roads not parties to the proceedings, a total of about 2,600 cars. Details of the interchanges at 9 of the remaining 10 points are set forth below in tables 56 and 57. (Adjustments have been made to reflect unifications, except BN; switching and terminal carriers are excluded.) The tenth point involves an interchange between Katy and a short-line carrier not party to these proceedings.

TABLE 56

Major Katy interchanges Missouri points

M-K-T station	Connecting carrier	Carloads		
		Delivered	Received	Total
Kansas City	AT&SF	3,640	3,002	6,642
Do	CB&Q (BN)	5,359	11,829	17,188
Do	C&NW	3,444	4,251	7,695
Do	MILW	2,527	4,400	6,927
Do	RI	3,237	3,442	6,679
Do	KCS	193	83	276
Do	MP	1,429	1,994	3,423
Do	SL-SF	81	33	114
Do	UP	4,541	14,612	19,153
Do	GM&O[1] (ICG)	381	772	1,153
Do	N&W[1]	942	5,790	6,732
Do	Total	25,774	50,208	75,982
St. Louis	C&EI	1,025	1,965	2,990
Do	C&NW	1,049	2,154	3,203
Do	CB&Q (BN)	307	782	1,089
Do	RI	21	12	33
Do	ICG	1,425	2,512	3,937
Do	MP	96	91	187
Do	SL-SF	213	237	450
Do	SLSW	174	35	209
Do	Eastern dist. class I[2]	15,518	18,405	33,923
Do	Southern dist. class I[3]	4,536	5,451	9,987
Do	Total	24,364	31,644	56,008
Eve	KCS	5,370	4,710	10,080

[1]GM&O and N&W shown separately to emphasize status as Southern and Eastern district carriers, respectively.

[2]Includes B&O, IT, PC, and N&W.

[3]Includes L&N, Southern, and GM&O.

TABLE 57

Major Katy interchanges—Texas points

M-K-T station	Connecting carrier	Carloads		
		Delivered	Received	Total
Dallas-Fort Worth[1]	AT&SF	1,767	1,933	3,700
Do	RI	409	1,975	2,384
Do	FW&D	2,202	1,565	3,767
Do	L&A (Dallas only)	142	228	370
Do	MP	1,065	940	2,005
Do	SL-SF	428	1,907	2,335
Do	SL&W	1,153	1,317	2,470
Do	SP	1,732	1,348	3,080
Do	T&P	6,865	5,596	12,461
Do	Total	15,763	16,809	32,572
Houston	AT&SF	83	649	732
Do	RI	178	12	190
Do	FW&D	78	3	81
Do	MP	3,576	1,087	4,663
Do	SP	5,201	5,820	11,021
Do	Total	9,116	7,571	16,687
Denison	SL-SF	451	1,410	1,861
Do	SP	3,076	3,626	6,702
Do	T&P	186	249	435
Do	Total	3,713	5,285	8,998
Greenville	L&A	6,535	4,028	10,563
Do	SLSW	1,283	2,391	3,674
Do	Total	7,818	6,419	14,237
San Antonio	MP	1,905	339	2,244
Do	SP	4,334	5,108	9,442
Do	Total	6,239	5,447	11,686

[1]Dallas is located on a line alternate to the roughly parallel line serving Fort Worth. There is no Katy line connecting the two cities directly (see text below).

Table 56 shows that Katy interchanged 75,982 cars at Kansas City, and 56,008 at St. Louis in 1965. These totals represent 32 percent and 24 percent, respectively, of Katy's total interline carloads handled in that year. Interchanges with Burlington Northern and Union Pacific represented nearly half of Katy's Kansas City interchange, while eastern district carriers (including C&EI) accounted for almost two-thirds of Katy's St. Louis interchange. At Kansas City, two-thirds of the cars interchanged either originated or terminated on Katy, but at St. Louis the comparable proportion was about 55 percent, the balance, of course, being bridge traffic for Katy. Almost 80 percent of the cars interchanged with Kansas City Southern at Eve were bridge cars for Katy.

The interchanges in Texas, shown in Table 57 are of considerably less volume than Kansas City and St. Louis. The Dallas and Fort Worth interchanges are shown in the

appendix combined. The Dallas interchange amounted to 15,457 cars vs. 17,115 for Fort Worth. The two gateways lie on alternate routes extending between Denison and Hillsboro, Tex., with no direct route between them. For purposes of this discussion, as in analyses of other carriers' Dallas and Fort Worth interchanges, the two gateways are treated as one. The same railroads connect with Katy at both points, with the exception of Louisiana & Arkansas, which serves Dallas only.

Most of the individual interchanges between Katy and its connections involved less than 5,000 cars each at the points shown in table 57. The largest single interchanges were with T&P at Dallas and Fort Worth, 12,461 cars; Southern Pacific at Houston, 11,021; and Louisiana & Arkansas (KCS) at Greenville, 10,563. Traffic originated or terminated by Katy comprises the largest portion of the cars interchanged in Texas.

Of the 64,459 interline cars originated at the 30 most important points for such traffic, 25,884 cars (40 percent) originated in Texas. Similarly, of the 93,225 interline cars terminated at the 30 most important points of destination for interline traffic, 73,212 cars (79 percent) terminated at Texas points. All of the major local traffic origin stations were origins of less than 8,000 cars each. For local terminations, Houston was the largest in volume with 14,674 cars, followed by Galveston with 8,068. All other stations were destinations of less than 6,500 cars each (origin and destination data are for the year 1965).

Financial analysis.—Katy's diversion study in this proceeding was based on the latest available data in the year 1964. Its balance sheet and income statement for that period have been furnished below to show its financial position as at the time of the study. Financial statements for the year 1972 have also been furnished, in order to show Katy's financial position as of the latest available date. It is noted that all of the financial statements and exhibits included in the following analysis include "Katy & Controlled Companies" on the same basis that it reports to the Commission in its Annual Report Form A.

TABLE 58

Katy balance sheets

	December 31, 1964	December 31, 1972
Current assets:		
Cash	$961,585	$(602,842)
Temporary cash investments	1,000,000	
Special deposits	492,096	268,766
Loan and notes receivable		200
Net balance receivable from agents and conductors	1,299,701	3,767,104
Miscellaneous accounts receivable	703,832	1,573,762
Interest and dividends receivable	90,346	40,502
Accrued accounts receivable	942,900	2,275,728
Working fund advances	35,437	43,662
Prepayments	248,460	443,016
Material and supplies	4,125,280	3,516,020
Other current assets	48,913	74,149
Total current assets	9,948,554	11,400,066

Both the MoPac and T&P have subsidiary interstate motor common carriers of freight: Missouri Pacific Truck Lines and T&P Motor Transport Co.

As seen, T&P has intervened separately and apart from its parent company, and also T&P has presented evidence relating to its own operations. At the same time, as the record made so clearly shows, the interest of the T&P is inextricability tied to the interest of the MoPac system of carriers. And when the MoPac speaks, it speaks for the entire system not for itself alone. Accordingly, the total scope of evidence presented by T&P and MoPac will be viewed in the light of the impact and effect upon the interest of the combined MoPac system.

Scope of operations, plant, and equipment.—As of the close of 1972, the miles of road operated by the MoPac totaled 8,897, of which the following mileages were operated in each State served:

Arkansas	1,626
Colorado	154
Illinois	260
Kansas	1,928
Louisiana	1,009
Mississippi	3
Missouri	1,365
Nebraska	324
Oklahoma	157
Tennessee	14
Texas	2,059

MoPac serves a broad territory south and west of St. Louis. Its lines radiate from St. Louis, across Missouri to Kansas City and St. Joseph, and on to Omaha; across Kansas to Pueblo; across Arkansas, Oklahoma, and Texas, serving such major commercial centers as Little Rock, Pine Bluff, and Fort Smith, Ark., Dallas, Fort Worth, El Paso, and San Antonio, Tex.; across Louisiana through Shreveport, Alexandria, and Baton Rouge; along the Gulf of Mexico from Brownsville, Tex., to New Orleans, La., serving numerous ports including, among others, Corpus Christi, Galveston, Houston, Tex., and Lake Charles, La.; and serving a number of river ports including Natchez, Miss., Memphis, and Cairo.

The T&P operates 2,134 miles of road in the following four States: Texas—1,192 miles, Louisiana—568 miles, Arkansas—42 mile, and Oklahoma—373 miles. Its main line stretches from New Orleans, La., on the east, to El Paso, Tex., on the west.

There is also a main line connection of 67 miles from Texarkana to Marshall, just west of Shreveport, Texarkana being the connection of the T&P with the MoPac operating from Memphis and St. Louis to the Southwest. At Longview and Fort Worth the T&P has connections with the Missouri Pacific operating from those junctions into south Texas. At El Paso the T&P connects with the Southern Pacific.

Missouri Pacific also controls the Chicago & Eastern Illinois Railroad Co. (C&EI) through ownership of a majority of that company's outstanding capital stock. C&EI's main line extends from St. Louis to Chicago.

Freight traffic: volume and traffic flow.—During the 1964-1972 period, MoPac freight traffic showed a net increase in revenue tonnage handled from 69,606,079 in 1964 to 84,199,024 in 1972 and in freight revenue from $270,935,059 in 1964 to $434,616,502 in 1972.

During the same period, T&P freight traffic showed a net increase in revenue tonnage handled from 20,181,203 in 1964 to 28,189,456 in 1972 and in freight revenue from $61,162,139 in 1964 to $108,432,793 in 1972.

The MoPac system's heaviest density route (based on 1966 data) extends from Dupo (E. St. Louis) southwestward to Fort Worth and Dallas. Heavy density routes extend from the St. Louis-Fort Worth line in the Little Rock area (1) to Memphis; (2) to New Orleans; and (3) to Okay, Okla. Heaviest traffic on the Kansas City-Fort Worth line is on the segment between Kansas City and Osawatomie, Kans., junction point for the Kansas City-Pueblo line. Between Kansas City and St. Louis, Mo., traffic moves via two routes for part of the distance. The Omaha-Kansas City route handles 1 to 3 million net tons southbound and less than 2 million northbound.

The T&P route from El Paso to Fort Worth carriers relatively light traffic over the western portion of the line.

As seen, the MoPac-T&P system blankets the area it serves with a complex route system containing many heavy density routes. Traffic is for the most part balanced in terms of net tons handled in each direction. Basically, the system has extremely heavy traffic between St. Louis and Kansas City on the north, and Texas points and New Orleans on the south. East-west routes extending to Pueblo and El Paso on the west and to Memphis on the east are of somewhat lighter traffic density. However, because of the interwoven route structure of the MoPac system, most of the major routes carry both north-south and east-west traffic over a portion of each route's length.

In number of cars, MoPac's largest interchange points are: the St. Louis area, 406,965 (or about one-third of the total MoPac interline carloads in 1966); Kansas City, 179,440; Memphis, 125,914; Pueblo, 93,281; Omaha, 43,648; and Houston, New Orleans, Beaumont, and Fort Worth, 20,000 to 30,000 cars each. Table 60 shows the interchanges by carrier for St. Louis and Kansas City. Adjustments have been made to reflect unifications, except BN. MoPac interchanges here discussed are for the year 1966.

TABLE 60

Major MoPac interchanges (1966) St. Louis area and Kansas City

MoPac station	Connecting carrier	Carloads		
		Received	Delivered	Total
St. Louis, Dupo, and East St. Louis	C&EI	16,337	12,952	29,289
Do	C&NW	9,192	15,373	24,565
Do	CB&Q (BN)	5,761	6,680	12,441
Do	RI	103	392	495
Do	ICG	24,843	15,199	40,042
Do	MKT	71	155	226
Do	SLSF	557	464	1,021
Do	SLSW	581	190	771
Do	Eastern district class I.[1]	117,550	142,257	259,807
Do	Southern district class I.[1]	15,551	22,757	38,308
Do	Total	190,546	216,419	406,965

See footnote at end of table.

Major MoPac interchanges (1966) St. Louis area and Kansas City—Continued

MoPac station	Connecting carrier	Carloads		
		Received	Delivered	Total
Kansas City	AT&SF	17,050	12,754	29,804
Do	CB&Q (BN)	14,486	8,069	22,555
Do	C&NW	5,631	5,526	11,157
Do	MILW	9,822	8,146	17,968
Do	RI	5,764	6,993	12,757
Do	KCS	4,890	4,188	9,078
Do	MKT	2,358	2,222	4,580
Do	SLSF	4,031	4,915	8,946
Do	UP	31,642	20,096	51,738
Do	N&W[1]	5,493	2,512	8,005
Do	GM&O (ICG)	1,341	1,511	2,852
Do	Total	102,508	76,932	179,440

[1]At St. Louis, Dupo, and East St. Louis, eastern district carriers shown as an aggregate include PC, B&O, N&W, and IT. Similarly, southern district carriers include GM&O (ICG), L&N, and Southern. N&W and GM&O are shown specifically for Kansas City.

Table 60 indicates that the bulk of the MoPac cars interchanged in the St. Louis area move to and from carriers principally serving the eastern and southern districts. Its subsidiary, C&EI, and the North Western and the Illinois Central, each has lines to Chicago from St. Louis. At Kansas City, MoPac's largest interchange is with Union Pacific, Santa Fe and Burlington are the second and third largest volume connections. Traffic received at Kansas City exceeds that delivered by MoPac, while the situation is the reverse at St. Louis.

At Omaha (not shown in table 60), nearly 30,000 of the 43,648 cars interchanged were interchanged with North Western. All remaining connections at Omaha (Burlington, Northern, Milwaukee, Rock Island, Illinois Central, Gulf Union Pacific, and Norfolk & Western) interchanged less than 5,000 cars each with MoPac.

The Pueblo interchange is almost entirely with Rio Grande: of the 93,281 cars interchanged there, 87,872 were with Rio Grande, 3,861 with Colorado & Southern, and 1,548 with Santa Fe. The number of cars delivered to Rio Grande nearly equaled those received from that carrier. Santa Fe and MoPac interchanged 5,972 cars, and the Katy and MoPac interchanged 624 at Coffeyville, Kans. All other MoPac interchange points in Illinois, Missouri, Kansas, and Colorado and all interchange points in Oklahoma accounted for less than 5,000 cars each. The bulk of the cars interchanged at the Kansas City and Pueblo gateways is bridge traffic for MoPac, while the Omaha and St. Louis gateways traffic consists mostly of interline originated and interline terminated traffic.

In the States served by southern MoPac lines, i.e., Tennessee, Arkansas, Louisiana, and Texas, the Memphis gateway is by far the largest in interchange volume. Of the 125,914 cars interchanged by MoPac at Memphis, 107,246 moved to and from the Illinois Central Gulf, Louisville & Nashville, and Southern. Of the remaining 18,668 cars interchanged, 18,371 were with Frisco, and the balance with Rock Island and Cotton Belt. Much the same situation prevails at New Orleans: of the 30,428 cars

MoPac interchanged, all but 145 cars were interchanged with the southern district connections named above for Memphis.

At Baton Rouge, Monroe, and Vidalia, La., MoPac and Illinois Central interchanged from 5,000 to 10,000 cars at each point. MoPac interchanges with other carriers at these points totaled less than 3,500 cars. interchanges at Alexandria with Rock Island, Louisiana & Arkansas, and Southern Pacific amounted to 1,479 cars, 4,710 cars, and 6,254 cars, respectively. MoPac interchanged 13,813 cars with Southern Pacific and 1,447 with Kansas City Southern at Lake Charles, consisting primarily of cars delivered to the latter two carriers.

In Arkansas, only the interchanges at Hope, North Little Rock, and Texarkana exceeded 5,000 cars each: MoPac interchanged 10,967 cars with Louisiana & Arkansas and 4,249 with Frisco at Hope; 5,742 cars with Rock Island and 2,336 with Cotton Belt at North Little Rock; and 6,744 with KCS and 1,601 with Cotton Belt at Texarkana.

Only four points in Texas had interchanges in excess 5,000 cars for MoPac. Bay City, the smallest, was the point of interchange for 9,515 cars between MoPac and Santa Fe and only 20 cars between MoPac and Southern Pacific. The remaining three Texas points are shown in detail in Table 61.

TABLE 61

Major MoPac interchanges Fort Worth, Houston and Beaumont

MoPac station	Connecting carrier	Carloads		
		Received	Delivered	Total
Forth Worth	AT&SF	2,427	2,196	4,623
Do	RI	3,752	1,028	4,780
Do	FW&D	1,319	1,262	2,581
Do	MKT	748	867	1,615
Do	SLSF	4,378	2,163	6,541
Do	SLSW	87	191	278
Do	SP	69	79	148
	Total	12,780	7,786	20,566
Houston	AT&SF	4,365	1,365	5,730
Do	RI	2,470	76	2,546
Do	FW&D	5,759	176	5,935
Do	MKT	3,716	1,134	4,850
Do	SP	7,840	3,866	11,706
Do	Total	24,150	6,617	30,767
Beaumont	AT&SF	6,119	2,814	8,933
Do	KCS	6,248	9,571	15,819
Do	SP	526	1,444	1,970
Do	Total	12,893	13,829	26,722

Most of the traffic interchanged at the points named in table 61 either originated or terminated on MoPac lines. MoPac's interchange evidence does not disclose the number of cars interchanged with its subsidiary, Texas & Pacific, but the latter carrier's evidence does show this information. Evidence submitted by T&P, however, is based on movements taking place during 1965 (as opposed to 1966 for MoPac). Principal points of interchange between MoPac and T&P are listed in table 62, together with the volume at each point:

TABLE 62

Major interchanges between MoPac and T&P

MoPac-T&P station	Carloads	Percent of T&P Total 1965 interline cars
1. Alexandria	16,446	3.4
2. Denison[1]	53,716	11.0
3. Fort Worth	58,564	12.0
4. Livonia, La	10,483	2.2
5. Longview	107,490	22.1
6. Mineola, Tex	3,668	.8
7. Texarkana	214,694	44.2

[1]Denison was an interchange point between T&P and the Kansas Oklahoma & Gulf Ry. Co. (KO&G), a T&P subsidiary which was merged into T&P in 1970.

The above points are the only ones at which MoPac and T&P interchanged 500 or more cars between themselves in 1965. The bulk of the traffic interchanged between the two carriers at Fort Worth, Longview, and Texarkana, and between Texas & Pacific and its former subsidiary, KO&G, at Denison, consisted of cars moving as bridge traffic over T&P. Most of the cars interchanged at Alexandria and Livonia either originated or terminated on T&P. Comparable information for the Mineola interchange is not of record. It is impossible to determine from the data of record the number of cars, if any, that were received by T&P from MoPac at one point and delivered to MoPac at another point as a coordinated service between the parent and its subsidiary. The percentages shown in the above table show that at a minimum, T&P and MoPac have a close operating relationship, and that most of T&P's interline traffic has a prior or subsequent haul by MoPac.

T&P's interchanges with applicants, their affiliates, and with other carriers actively participating herein, are shown below in table 63. Interchanges with MoPac have been deleted, and only those points are shown at which at least 5,000 cars were interchanged with at least one of the above-described carriers.

TABLE 63

Major T&P interchanges, 1965 (excluding those with MoPac)

T&P station	Connecting carrier	Carloads		
		Received	Delivered	Total
Texarkana	KCS	7,650	1,328	8,978
Do	SLSW	344	1,675	2,019
Big Sandy, Tex	SLSW	2,659	1,807	4,466
Dallas-Fort Worth	AT&SF	16,414	6,848	23,262
Do	RI	6,896	4,075	10,971
Do	FW&D	3,755	6,509	10,264
Do	L&A (Dallas only)	1,052	589	1,641
Do	MKT	6,989	5,639	12,628
Do	SLSF	5,032	4,755	9,787
Do	SP	2,478	6,502	8,980
Do	SLSW	340	832	1,172
El Paso	AT&SF	486	701	1,187
Do	SP	17,543	24,696	42,239
Jefferson, Tex	L&A	385	1,353	1,738
Longview	AT&SF	1,542	2,747	4,289
Sweetwater	AT&SF	6,376	6,602	12,978
New Orleans	ICG	1,489	3,566	5,055
Do	L&A	24	136	160
Do	SP	19	----------	19
Do	Southern Dist. Class 1	7,388	19,305	26,693
Shreveport	ICG	9,931	8,650	18,581
Do	KCS	1,919	2,597	4,516
Do	L&A	1,135	1,821	2,956
Do	SP	691	670	1,361
Do	SLSW	485	301	786
Alexandria	RI	919	298	1,217
Do	L&A	112	470	582
Do	SP	2,281	351	2,632

[1]Includes L&N, GM&O (ICG) and Southern.

With respect to interchanges with carriers other than MoPac and KO&G, the T&P's largest individual interchanges are: at El Paso, with Southern Pacific, 42,239 cars; at Dallas-Fort Worth, with Santa Fe, 23,262, with Katy, 12,628, and with FW&D, Rock Island, Frisco, and Southern Pacific, from 8,900 to 11,000 cars each; at Sweetwater, with Santa Fe, 12,978; and at Shreveport, with ICRR, 18,581. Interchanges at New Orleans are made principally with Louisville & Nashville, Illinois Central Gulf, and the Southern Railway system.

Financial status of MoPac.—The following discussion of MoPac's financial data is based on its Annual Report Form A, filed with the Commission. MoPac's balance sheet as of December 31, 1972, show total assets aggregating $1,085.2 million, comprised of current assets $95.2 million, including among others, cash $9.6 million and temporary cash investments $18.5 million; special funds $10.1 million;

investments $101.5 million including $93.0 million investments in affiliated companies and other investments $9.2 million; total properties, less depreciation and amortization $872.7 million and other assets and deferred charges $5.7 million. Liabilities and shareholders' equity are comprised of current liabilities $97.9 million including audited accounts and wages payable $7.0 million and accrued taxes $11.3 million; long-term debt $577 million including $13.5 million due within 1 year; reserves $11.6 million and other liabilities and deferred credits $7.1 million; and shareholders' equity $391.4 million, which consists of capital stock $190.4 million, capital surplus $1.5 million, and retained income $199.4 million.

MoPac's income statement for the year 1972, shows total railway operating revenues $451.1 million, with total railway operating expenses $343.8 million, resulting in an operating ratio of 76.22 percent. Net railway operating income of $38.7 million plus income (net) from other than railway operations aggregated $45.5 million which was available for fixed charges of $18.3 million for 1972. Net income after fixed charges and other deductions amounted to $16.8 million. For the year 1972, MoPac's operating efficiency was very good considering that its operating ratio was 76.22 percent; funds available from net income alone were sufficient to service long-term debt due within 1 year; and although its ratio of total debt to combined total debt and shareholders' equity was a somewhat high 60 percent, it was within the 70 percent limit generally recognized by the Commission as an acceptable debt ratio limit. Based on the financial data discussed herein, MoPac's financial position as of December 31, 1972, was relatively sound.

Financial status of T&P.—T&P's financial statements filed in its Annual Report Form A to the Commission, is based on a corporate entity basis. As of December 31, 1972, its balance sheet reported total assets aggregating $277.3 million, comprised of current assets $18.1 million; including among others cash $4.6 million and temporary cash investments $2 million; investments $7.9 million (principally in affiliated companies); total properties less depreciation and amortization $247.4 million and other assets and deferred charges $3.3 million. Liabilities and shareholders' equity are comprised of current liabilities $22.4 million; including audited accounts and wages payable $3.7 million and accrued taxes $2.4 million; long-term debt $103.2 million including $6.9 million due within 1 year; reserves $814,419 and other liabilities and deferred credits $4.6 million; and shareholders' equity $146.2 million, which consists of capital stock $53.9 million; capital surplus $21,450 and retained income $92.3 million.

T&P's income statement for the year 1972 shows total railway operating revenues $108.4 million with total railway operating expenses $87.8 million, resulting in an operating ratio of 80.99 percent. Net railway operating income $11.9 million plus income (net) from other than railway operations aggregated $12.7 million which was available for payment of fixed charges of $5.6 million for 1972. Net income after fixed charges and other deductions amounted to $7.4 million. For the year 1972, T&P generated sufficient funds from net income alone to service its long-term debt due within 1 year, and its ratio of total debt to combined total debt and shareholders' equity of 41 percent was good. As of December 31, 1972, its financial position was sound.

FRISCO

The Frisco was incorporated in Missouri on August 24, 1916, succeeding as of November 1, 1916, to the properties of the St. Louis and San Francisco Railroad

Company which had been sold at foreclosure pursuant to a plan of reorganization. A historical discussion of the various carriers making up the Frisco lines is detailed in *St. Louis and San Francisco Railroad Investigation*, 29 I.C.C. 139, and *Acquisition By St. L.-S. F. Ry.*, 145 I.C.C. 110.

Frisco owns all of the capital stock of the Quanah, Acme and Pacific Railway Company (QA&P), a short-line railroad operating in Texas. Another wholly owned carrier subsidiary is the Frisco Transportation Company, a motor carrier which operates a service auxiliary to the rail service of its parent. Frisco owns fractional interests not exceeding 33.3 percent in a number of terminal and switching companies.

As of December 31, 1972, the Frisco had outstanding 2,595,569 shares of common capital stock.

Scope of operations.—Frisco and its subsidiaries operated 4,727 miles of road at the close of 1972, comprised of 4,608 miles owned by it, 104 miles operated under trackage rights, and 11 miles operated under lease or contract. Of the mileage owned, 3,497 miles are classified as main line and 1,115 as branch line. Mileage totals for the nine States served are: Oklahoma—1,408; Missouri—1,321; Kansas—597; Alabama—558; Arkansas—455; Texas—142; Mississippi—180; Florida—48 and Tennessee—18.

Frisco's principal lines radiate from Kansas City and St. Louis (1) to Birmingham, Mobile, Ala., and Pensacola, Fla., (a) from Kansas City through Fort Scott and Gold, Mo. (also Osceola, Mo.), and Springfield, Mo., and Memphis, and (b) from St. Louis through Cape Girardeau, Mo., and Memphis; (2) to Fort Worth-Dallas (a) from Kansas City through Fort Scott and Tulsa, and (b) from St. Louis through Springfield and Monett, Mo., and Tulsa; and (3) to Floydada from Tulsa through Oklahoma City. It also operates over route segments from Ellsworth, Kans., to Paris, Tex., through Monett; from Avard, Okla., to Tulsa through Enid, Okla.; from Beaumont, Kans., to Davidson, Tex., through Enid and Snyder, Tex. (the latter a point on the Floydada route); and from Ardmore, Tex., to Hope, Ark.

Freight traffic: volume.—Frisco's freight traffic showed consistent improvement over the 1964-1972 period. Revenue tonnage increased from 29.8 million to 38.7 million tons, and freight revenue increased from $122.1 million to $229.7 million, comparing 1964 to 1972.

Freight traffic: interchanges and traffic flow.—The traffic density over Frisco's main lines is shown below in terms of gross ton-miles per mile of road for the year 1966:

Route segment(s)	Eastbound	Westbound
Kansas City-Fort Scott	9.2	7.3
Fort Scott-Springfield	6.4	4.7
St. Louis-Springfield	4.5	5.3
Springfield-Memphis	7.6-7.8	6.9-7.0
Memphis-Armory-Birmingham	9.1-9.5	7.3-8.9
Armory-Mobile	1.7-1.9	2.2-2.8
Springfield-Monett-Afton-Tulsa	6.5-8.8	8.0-9.6
Fort Scott-Afton	2.7	3.3
Tulsa-Sherman	3.3-4.4	5.5-5.9
Sherman-Fort Worth	1.5	2.8
Tulsa-Oklahoma City	2.3	3.3
Oklahoma City-Quanah	1.3	2.0
Quanah-Floydada	.9	1.6

received from Santa Fe. Frisco delivered 3,811 to its connections at Birmingham, 1,483 at Memphis, and 509 at St. Louis. Of the 10,365 cars delivered to Santa Fe at Kansas City, the Frisco had hauled 2,751 from Birmingham, 2,329 from Memphis, and 626 from St. Louis as bridge movements between the latter three points and Kansas City. Of the 55,411 cars interchanged with Santa Fe at Fredonia, Cherryvale, Avard, and Floydada, 10,312 cars were bridged by Frisco to and from connections at Birmingham, and in similar movements, 14,387 at Memphis, and 4,626 at St. Louis. With reference to the Floydada interchange alone, 24,191 of the 36,783 cars interchanged between Frisco and Santa Fe at that point were bridged by the Frisco to and from Birmingham, Memphis, and St. Louis. The total of the carloads interchanged with Santa Fe at the six points shown in table 64 represented somewhat over 12 percent of Frisco's total interline carloads for 1966.

The Frisco interchanges shown in the table with North Western at Kansas City (actually the former Great Western in 1966) and at St. Louis represented 1.6 and 1.7 percent of Frisco's interline carloads, and the interchange with Milwaukee at Kansas City amounted to 2.0 percent.

Frisco and Rock Island interchange a substantial number of cars at Kansas City (17,624) and at Memphis (17,983), representing 2.7 and 2.8 percent of Frisco's interline carloads, respectively. The evidence does not disclose the proportion of the Frisco-Rock Island cars which moved as bridge traffic over Frisco.

The largest interchange with Southern Pacific is at Sherman, where 23,196 cars or 3.7 percent of Frisco's interline carloads were interchanged. Of this number, 4,622 were bridge cars interchanged between Frisco and its connections at Kansas City. Kansas City was the origin of 202 and the destination of 326 of the cars interchanged with Southern Pacific at Sherman. (Sherman is shown in table 64 grouped with Denison and Paris.) Of the 28,512 cars interchanged with Southern Pacific at the five Texas points shown in the table, including Sherman, 5,937 cars were originated or terminated or interchanged in Kansas City.

The largest number of cars Frisco interchanged with Cotton Belt were interchanged at Memphis (12,868 cars). Principally, this traffic moves over Frisco lines east of Memphis, although the exact amount is not of record.

Table 64 indicates that at Kansas City the Frisco receives far more traffic from Union Pacific than it delivers to Union Pacific. The second largest interchange, with Santa Fe at Floydada, involves deliveries to Santa Fe more than four times as large as receipts. Most of the other interchanges are more closely balanced. This analysis and the underlying evidence have been limited to the largest Frisco interchanges with the applicants and the Milwaukee. Frisco and these carriers have many other points of interchange, *e.g.*, with Santa Fe, there are over 30 points in addition to those discussed here.

Financial status of Frisco.—Frisco's general balance sheet reported in its Annual Report Form A, to the Commission as of December 31, 1972, shows total assets aggregating $507.4 million, comprised of current assets $51.1 million, including, among others, cash $2.8 million and temporary cash investments $14.6 million; special funds $1.9 million; investments $12.1 million including investments in affiliated companies $12.0 million and other investments $103,121; total properties less depreciation and amortization $436.6 million and other assets and deferred charges $5.6 million. Liabilities and shareholders' equity are comprised of current liabilities $39.8 million, including audited accounts and wages payable $4.8 million and accrued taxes $2.3 million; long-term debt $216.4 million including $11.2 million due within 1 year; reserves $735,000 and liabilities and deferred credits $1.3 million;

The above data and underlying record indicate that most of Frisco's traffic moves between Kansas City and Birmingham and between St. Louis and Tulsa, and to a lesser extent, between Kansas City and Tulsa; St. Louis and Memphis; Tulsa and Sherman, Tex. (approximately 100 miles north of Fort Worth); and Armory and Mobile. Overall, traffic moving between Kansas City and Birmingham is heavier eastbound, while traffic between St. Louis and the cities of Tulsa, Floydada, and Fort Worth is heavier westbound. The St. Louis-Memphis route handles almost evenly balanced traffic.

Frisco's interchange evidence is restricted to major interchanges with Union Pacific, South Pacific-Cotton Belt, North Western (including Great Western), Rock Island, Milwaukee, and Santa Fe, based on movements for the year 1966. The evidence is summarized in table 64 (Great Western shown as North Western at Kansas City):

TABLE 64

Frisco interchanges (1966) with UP, RI, SP, SLSW, C&NW, AT&SF and MILW

Frisco station	Connecting carrier	Carloads		
		Delivered	Received	Total
Kansas City	UP	27,870	47,513	75,383
Do	RI	8,363	9,261	17,624
Do	AT&SF	10,365	14,061	24,426
Do	C&NW	5,213	5,138	10,351
Do	MILW	5,001	7,905	12,907
St. Louis	C&NW	4,800	6,384	11,184
Fredonia and Cherryvale, Kans	AT&SF	3,940	12,716	16,656
Avard, Okla	AT&SF	1,625	347	1,972
Floydada	AT&SF	29,606	7,177	36,783
Sherman, Denison, and	SP	14,372	9,390	23,672
Paris, Tex.	SLSW	2,976	1,616	4,592
Dallas-Fort Worth	SP	3,246	1,504	4,750
Jonesboro, Ark	SLSW	1,519	1,723	3,242
Memphis	RI	9,631	8,352	17,983
Do	SLSW	5,995	6,873	12,868

Frisco interchanges traffic with Union Pacific at Kansas City and at Ellsworth, Kans. The evidence shows only the interchange at Kansas City, which is the Frisco's largest with an individual carrier. In 1966, the Frisco and Union Pacific interchanged 75,383 cars at Kansas City, or 11.7 percent of Frisco's total interline carloads handled during the year (643,001 cars). Of the 47,513 cars Frisco received from the Union Pacific, 17,058 were bridge movements turned over to connections at Birmingham, 4,940 were bridge movements to connections at Memphis, and 1,333 were bridged to other carriers at St. Louis. In the reverse direction, of the 27,870 cars Frisco delivered to Union Pacific at Kansas City, 6,130 were received by Frisco at Birmingham, 5,069 at Memphis, and 1,380 at St. Louis. In short, about 48 percent of the cars interchanged with Union Pacific at Kansas City were bridge movements over Frisco, mostly to and from connections and points in the Southeast.

The Frisco and Santa Fe interchange at Kansas City is slightly less than one-third as great in volume as that between Frisco and Union Pacific. Of the 14,061 cars Frisco and shareholders' equity $249.2 million, which consists of capital stock $113.6 million, capital surplus $19.0 million, and retained income $116.6 million.

Frisco's income statement for the year 1972 shows total railway operating revenues $229.6 million, with total railway operating expenses $176.2 million, resulting in an operating ratio of 76.7 percent. Net railway operating income $22.6 million plus income (net) from other than railway operations aggregated $26.4 million which was available for payment of fixed charges of $10.6 million for 1972. Net income after fixed charges and other deductions amounted to $14.3 million, which is more than sufficient to service its long-term debt due within 1 year of $11.2 million. Frisco's favorable operating efficiency is reflected in its operating ratio of 76.7 percent for the year 1972; its ratio of total debt to combined total debt and shareholders' equity of 45 percent was good. As of December 31, 1972, Frisco's financial posture was good.

APPENDIX C

Exceptions to the report and recommended order of the Administrative Law Judge

Union Pacific considers Administrative Law Judge Klitenic's plan to revamp the western railroad system utterly unworkable and unacceptable. If his recommendations are adopted, the applicant says that it would have little choice but to reject the merger.

UP takes general exceptions to the Administrative Law Judge's overall findings and recommendations. It argues that applicants have a right to approval of their applications if the proposed transactions are consistent with the public interest, and that the Commission has no power to require conditions, modifications, or inclusions other than those necessary to render the transactions so consistent. UP contends that Administrative Law Judge Klitenic's proposed conditions and inclusions were requested by neither the applicants nor the interveners, were not the subject of evidence of record, and are not needed to make the applicants' proposals consistent with the public interest. Thus, UP argues, the general restructuring plan exceeds the scope of the applications and evidence of record, and is not, therefore, legally before the Commission. Furthermore, the applicant contends, Administrative Law Judge Klitenic, in drafting his restructuring plan, ignored the affirmative relief that was requested by the various intervening carriers.

Union Pacific contends that Administrative Law Judge Klitenic's report errs in failing to consider the evidence supporting its merger with the entire Rock Island. While UP supports SP's application to acquire the southern half of the Rock Island, SP's contract to purchase the southern portion of the line has expired, and UP thus argues that to condition approval of the UP-Rock Island merger on sale of the southern portion to SP effectively gives SP the right to veto the entire merger.

UP contends that the Administrative Law Judge, in an effort to support his restructuring plan, overstated the traffic losses which intervenors would suffer as a result of consummation of the UP-SP-Rock Island transactions. It argues that the intervenors' traffic studies are frequently inaccurate, overstate traffic losses resulting from diversion, and ignore the effects of events subsequent to the date of the studies. UP contends that the Administrative Law Judge improperly placed the burden of demonstrating the inaccuracy of the intervenors' traffic studies on the applicants, whereas the burden is properly on the intervenors to demonstrate the extent of the injury which they would suffer as a result of traffic diversion, and, at the same time, failed to properly consider the applicants' traffic studies.

Union Pacific contends that Administrative Law Judge Klitenic erred in recommending that Santa Fe be given access to Memphis and St. Louis. It argues that the Administrative Law Judge found that the proposed UP-SP division of Rock Island would not significantly injure Santa Fe and that there is thus no basis for giving Santa Fe access to the two cities. It contends that Santa Fe is an intervenor, rather than an applicant, and that, as such, there must be evidence that the proposed affirmative relief would be necessary to make the UP-SP transactions consistent with the public interest.

It further states that the proposed condition that UP and Santa Fe negotiate a tripartite agreement for use of Frisco terminal facilities at Kansas City is unwarranted by the record.

UP also rejects other conditions placed on its proposed merger by the Administrative Law Judge. It feels the conditions (1) that SP must sell and UP must buy the Central Pacific line as well as connecting lines into San Francisco, and (2) that condition "e," as modified, should be cancelled, violate the Pacific Railroad Acts, are wholly unrelated to the merger application, are unwarranted by the record, and are contrary to the public interest. It also states that the condition that C&NW be included in the UP-RI system, concurrently with consummation of the merger, is beyond the authority of the Commission, is unsupported by the record and would deny, to C&NW and UP, procedural due process.

UP and its various employee unions had entered into an agreement to provide for employee protection from adverse effects of the merger. Administrative Law Judge Klitenic rejected the UP agreement, and, in lieu thereof, imposed the "New Orleans" conditions. Union Pacific takes exception to this recommendation, contending that its agreement is fair and equitable and similar to conditions previously approved by the Commission in the Penn Central and Northern lines merger cases.

As a condition to approval of the applications, Administrative Law Judge Klitenic recommends that UP's noncarrier holding company, Union Pacific Corporation, be subjected to the full force of the securities, accounting and reporting provisions of the Interstate Commerce Act. He would also impose conditions restricting dividends, property transfers, advances, and other payments which the carrier company could make to the holding company. UP contends that imposition of these conditions was error. It argues that subjecting UP Corp. to the full securities and reporting provisions of the act is an unjustified burden which would unduly interfere with the holding company's normal corporate business, and that there has been absolutely no showing that an imposition of restrictions on intercorporate dividends and transfers is necessary to make the section 5 transactions consistent with the public interest. It contends that the relationships between UP and its holding company have given no cause for alarm, and argues that these restrictions are justified, absent any evidence of abuses, only if one believes that carrier holding companies are *mala in se*.

Rock Island contends that a solid basis has been established to support either a merger of its entire system into Union Pacific or a split of its lines between UP and Southern Pacific. Rock Island fears, however, that adoption of Administrative Law Judge Klitenic's recommended restructuring plan would result in abortion of the entire proceeding. It considers many of the conditions imposed by Administrative Law Judge Klitenic to be unsubstantiated and unworkable, and it believes that Union Pacific would abandon its merger application if these conditions are adopted. Rock Island feels that a merger is essential if its vital services are to be preserved and it asserts that Union Pacific's withdrawal would virtually guarantee its demise.

Specifically, Rock Island takes exceptions to the condition requiring Union Pacific to grant temporary trackage rights to Santa Fe over the Rock Island line between Kansas City and St. Louis, the condition requiring inclusion of North Western in Union Pacific-Rock Island; the condition requiring sale of portions of the southern half of Rock Island to Santa Fe; inclusion of Western Pacific, Rio Grande, and Missouri Pacific-Texas & Pacific in Santa Fe; inclusion of the Kansas City Southern System in Southern Pacific; and the condition requiring sale of Southern Pacific's Flanigan, Nev.-Klamath Falls, Oreg., line to Santa Fe. Rock Island regards Santa Fe's inclusion in the merger as unjustified and unworkable, contending that no evidence was presented regarding a three-way UP-SP-Santa Fe split of Rock Island, and that, as determined by the Administrative Law Judge, a UP-Rock Island merger would not

materially affect Santa Fe. As Rock Island considers many of the other inclusions imposed by the Administrative Law Judge to represent an effort to ameliorate the adverse effects of Santa Fe's inclusion, it considers them to be equally unsupported by the record and unjustified. Furthermore, it feels the remaining inclusions are unjustified in light of available alternatives such as imposition of the more or less standard condition retaining jurisdiction for 5 years in order to permit other carriers to petition for inclusion, or, in some cases such as that of Rio Grande, granting the affirmative relief requested by the intervenor.

Rock Island contends that many of Administrative Law Judge Klitenic's conclusions result from his erroneous blanket acceptance of the protestants' traffic studies. Rock Island argues that the applicants' studies were based on accepted methods at the time the studies were conducted and thus are entitled to consideration. Furthermore, Rock Island contends that, in accepting the protestants' studies, the Administrative Law Judge failed to recognize the biases inherent in all such studies and selectively ignored recent events which would have an ameliorating effect on the diversion shown by the protestants' studies, while considering recent events that support his restructuring plan.

While Rock Island believes that Southern Pacific's acquisition of the southern half of its lines would be consistent with the public interest, it asserts that its merger with Union Pacific should not be contingent upon a condition requiring sale of the southern lines to SP. To do so, it contends, would give Southern Pacific an absolute veto over its essential merger with Union Pacific.

Southern Pacific excepts to Administrative Law Judge Klitenic's plan to restructure the western railroad system, as a whole. SP contends that his proposal, if adopted, would exceed the Commission's jurisdiction. Under the Transportation Act of 1940, the Commission's jurisdiction is limited to consideration of rail merger plans initiated by the carriers themselves. It has no power to compel rail mergers. SP argues that the Administrative Law Judge's proposals amount to a compulsory plan initiated by the Commission. It argues that it had no notice of issues regarding inclusion of certain other railroads and sale of portions of its lines and no opportunity to present evidence on such issues, and that adoption of the plan would thus deprive it of due process. SP argues that the plan is unworkable, would probably result in the applicants withdrawing from the proceeding, and, if not, its adoption would result in years of uncertainty and disruption in western rail operations.

In addition to its general exceptions, SP objects to a number of Administrative Law Judge Klitenic's specific findings and recommendations. It strongly opposes the conditions requiring sale of its Ogden, Utah-Roseville, Calif., line to Union Pacific and its Klamath Falls, Oreg.-Flanigan, Nev., line to Santa Fe; contending that these lines form the shortest, most efficient routes between Oregon, northern California, and eastern points, and that it needs the long-haul revenue provided by these lines to support its extensive network of short lines in the Oregon-northern California area. It argues that the Commission lacks jurisdiction to require dismemberment of an applicant's territory, and cannot impose conditions such as these, which according to SP, are not reasonably related to the application. It contends that the proposed sale conditions are not supported by substantial evidence, and thus violate fundamental principals of due process, and, most important, flatly states that it will withdraw its application rather than sell the lines.

SP takes exception to the conditions requiring that it accept inclusion of the Katy and Kansas City Southern Systems. SP feels that Katy would be of no significant value to it and states that it would withdraw its application rather than be forced to accept

Katy's inclusion. It argues that no strong railroad should be compelled to bear the burden of acquiring a weak railroad such as Katy, contending that the public interest would be better served if Katy were permitted to go into reorganization, liquidated, and its more valuable lines sold to neighboring railroads. If, however, the Commission finds that Katy should be included in a stronger railroad, SP contends that the weak railroad would better fit into the Santa Fe system, rather than SP's. SP also doubts that Katy would suffer any significant harm from the proposed mergers, but is willing to enter into a traffic agreement for Katy's protection. As to Kansas City Southern, SP contends that no record has been made to support the proposed inclusion, that KCS is a strong carrier not in need of such drastic protective measures, and that it would not fit into the SP system.

SP excepts to the Administrative Law Judge's conclusion that it has a competitive advantage over Santa Fe in the movement of traffic between the Southeast and the Southwest. It objects to the Administrative Law Judge conditioning his report to require sale to Santa Fe of the Rock Island line between Amarillo, Tex., and Memphis, Tenn., and the granting to Santa Fe of trackage rights over the line between St. Louis and Kansas City. SP argues that Santa Fe does not need the Amarillo-Memphis line to be competitive to and from Memphis, that Frisco would lose large amounts of traffic if Santa Fe got the line, and that SP could not operate the Rock Island lines south of Kansas City efficiently without the Amarillo-Memphis link. It contends that Santa Fe's entry into St. Louis would result in the creation of an additional carrier between St. Louis and Kansas City without any showing of public need for such increased service.

Southern Pacific also disputes the Administrative Law Judge's conditions requiring the inclusion of Western Pacific, Missouri Pacific, Texas & Pacific, and Rio Grande in the Santa Fe. It argues that Western Pacific's inclusion in Santa Fe would give the Santa Fe an unfair competitive advantage over SP with no commensurate public benefit, citing *Southern Pac. Co.—Control—W. Pac. R. Co.*, 327 I.C.C. 387 (1965), which denied bids by both Santa Fe and Southern Pacific to acquire control of WP. As to inclusion of MoPac-T&P and Rio Grande, SP argues that no petition was 7 filed for inclusion of any of these carriers and no record made in support of their inclusion, thus depriving interested parties of the opportunity to present evidence concerning the effect of such mergers. SP also objects to the condition leaving the proceeding open for a 5-year period to permit Frisco to petition for inclusion in a larger carrier of its choice. SP contends that such a condition leaves it in a position of not knowing the ultimate cost of the total transaction if Frisco should decide to petition for inclusion in SP at some later date, and it argues that to require a railroad to exercise permissive authority subject to unknown terms and conditions is unfair and inequitable.

Southern Pacific also challenges the condition requiring that SP sell its acquired RI one-half interest in the joint Texas division to Ft. W&D. It argues that the only reason this condition is included is that the Administrative Law Judge felt it improper for one competitor to have trackage rights over the line of another competitor. SP cites numerous instances where such trackage rights exist.

SP excepts to the Administrative Law Judge's findings and conclusions concerning the reliability and acceptability of traffic studies. It argues that he failed to measure the impact on intervenors of the proposed mergers against the actual financial results of their operations, that he relied on inflated estimates of diversion impact and ignored the cost of handling diverted traffic, and slanted his findings to support his proposal for restructuring the western rail system.

In his report, Administrative Law Judge Klitenic recommendes that SP's noncarrier holding company, Southern Pacific Company, be subjected to all of the reporting, accounting, and securities provisions of the act, and that it report on how it would comply with section 1(8), the commodities clause of the act. In addition, he would impose restrictions on the amount of dividends the carrier company would be permitted to pay the holding company and upon transfers and mortgages of property and advances which the railroad could make to The Southern Pacific Company. SP takes exceptions to these recommendations. It contends that there are no legal or logical reasons for subjecting SP Co. to the full provisions of the act. It argues that the restriction on dividends and other transfers have no relation to the authority sought, are beyond the Commission's jurisdiction and would impair the soundness of the entire corporate enterprise. As to the commodities clause conditions, SP contends that the Commission lacks jurisdiction to enforce that provision of the act and, thus has no authority to issue regulations implementing it.

Santa Fe's position on exceptions may be summarized as follows: (1) the UP-SP applications should be denied because the comparatively inconsequential transportation benefits they promise would be far out-weighed by their profoundly adverse impact on the balance of the western rail plant, and the destructive character of the UP-SP proposals could not be cured by any means available to the Commission given the evidentiary limitations of the present record and the jurisdictional limitations of section 5 of the act; (2) if those applications, nevertheless, are to be approved by the Commission, Santa Fe's petition for inclusion should be granted; but, even if the petition were granted, Santa Fe would continue to oppose the UP-SP applications; and (3) if the UP-SP applications are approved, with or without a grant of Santa Fe's petition for inclusion, the transactions should not be permitted to be consummated pending further hearings and Commission findings concerning the economic feasibility, operational soundness and competitive service capabilities of a major realignment of the western railroads which the record thus far made shows would be required to offset the disruption caused by the UP-SP proposals. Santa Fe alleges that the Administrative Law Judge erred in recommending approval of the UP-SP applications in not recommending denial of the UP-SP joint proposal on the basis of its destructive impact on the balance of the western rail plant, in failing to grant its petition for inclusion insofar as it seeks acquisition of RI's Herrington-Galveston and Little Rock-Alexandria lines, and in recommending that Santa Fe Industries be subjected to the full scope of regulation under section 5(3) and in prescribing restrictions on transactions between the carrier and the holding company. In addition, Santa Fe contends that its acquisition of Rock Island's lines between Kansas and the Gulf of Mexico would produce desirable economies and efficiencies and result in tangible service improvements without depriving shippers of competitive transportation alternatives.

Santa Fe's contention that the Administrative Law Judge erred in recommending approval of UP's application is based on allegations that the Administrative Law Judge erred in finding support for a UP-RI merger in UP's claimed competitive disabilities, in terms of UP's claimed inability to keep pace with economic growth, and in UP's claims regarding single-line service. Santa Fe contends that analysis of the record made concerning intramodal and intermodal competition refutes the notion that UP suffers any competitive disabilities or that its future as one of the Nation's most successful railroads is threatened unless it extends its lines to Chicago and St. Louis. On the contrary, Santa Fe states that the record shows that approval of UP's application would aggravate the very real competitive disabilities of almost every other railroad involved in these proceedings. Santa Fe indicates that UP's witnesses have acknowledged that UP can expect to profit from the dramatic economic growth in its territory, and that the Administrative Law Judge recognized that transportation demand will increase along with indices of economic growth. Santa Fe believes the record establishes that UP has the practical equivalent of fully competitive single-line service today by virtue of its many through-trains and other special interchange arrangements and that UP does not even expect to make any tangible improvements over those existing operations through use of RI's lines.

Santa Fe's contention that the Administrative Law Judge erred in recommending approval of SP's application is based on allegations that the Administrative Law Judge's findings as to the Golden State Route, Herrington-Galveston line, and Little Rock-Alexandria line are in error. Santa Fe submits that the record firmly establishes that (1) as presently constituted, the Golden State Route is a fully competitive, efficient joint-line route and has been well developed by RI; (2) acquisition of the Kansas City-Tucumcari line by SP would not improve service, but would impair it by shifting the large, efficient Tucumcari interchange to the complex Kansas City terminal; (3) according to SP's own testimony, acquisition of the line under the UP-SP proposals would reduce the flow of traffic over the Golden State Route; and (4) acquisition of the line by SP would destroy the competition between the Golden State Route and SP's route via St. Louis. Santa Fe states that the record shows that there is an overabundance of rail competition in the North-South corridor between Kansas City and the Gulf consisting of seven fully competitive routes—Santa Fe, RI, MKT, MP, SP-MKT, SP-Frisco, and SP-KCS; and that intermodal competition is particularly intense in this area. On this basis, Santa Fe contends that sound railroad consolidation policy militates against SP's acquisition of RI's Herrington-Galveston line, which would result, if anything, in increased competition in this overcrowded rail corridor. As to the Alexandria line, Santa Fe alleges that the expedited joint-line service proposed by SP would be available under continued RI ownership if Santa Fe acquired the Alexandria line and that the public advantages SP claims with respect to the Alexandria line are not, in fact, dependent upon the granting of SP's application.

Santa Fe's contention that the Administrative Law Judge erred in not recommending denial of the UP-SP joint proposal on the basis of its destructive impact on the balance of the western rail plant is based, in part, on allegations that the Administrative Law Judge erred in finding that Santa Fe's estimate of traffic loss to UP-SP was "overstated somewhat" and in finding that contemplated traffic diversion to UP-SP would not have a significantly adverse effect on Santa Fe. Santa Fe contends that (1) what the record establishes is that the multifaceted alternative recommendation of the Administrative Law Judge would have to be implemented in some form, otherwise, the functional structure of a major part of the western rail plant would be irreparably injured; and (2) what the record has not established is whether a fundamental realignment of the western railroads would be desirable at this time; if so, what conformation of lines would be most responsive to public needs; and, finally, of crucial significance, whether affected railroads have the financial capability and requisite inclination to implement the vast corporate restructuring that would have to take place.

Santa Fe's contention that the Administrative Law Judge erred in failing to grant its petition for inclusion insofar as it seeks acquisition of RI's Herrington-Galveston and Little Rock-Alexandria lines is based on a belief that said acquisitions would produce desirable economies and efficiencies and result in tangible service improvements without depriving shippers of competitive transportation alternatives. Santa Fe submits that economies and efficiencies would be realized by duplicate line coordinations, terminal coordinations, and a substantial improvement in freight cars

available. Santa Fe alleges that the Administrative Law Judge erred in finding that Santa Fe's traffic study understated diversion from Frisco and MoPac.

Santa Fe's contention that the Administrative Law Judge erred in recommending that Santa Fe Industries (SFI) be subjected to the full scope of regulation under section 5(3) and in prescribing restrictions on transactions between the railway, Santa Fe Industries and its affiliates is based on a belief that there is no valid basis in the record in this proceeding or in any decisions of the Commission or the courts for subjecting Santa Fe Industries to any regulations, except for such periodical or special reports as the Commission may require under section 20(1) and (2).

North Western.—Although North Western believes that its annual diversion losses would exceed the $10.7-$13.0 million revenue loss determined by Administrative Law Judge Klitenic, it feels that the Administrative Law Judge correctly found that the proposed Union Pacific-Southern Pacific split of the Rock Island would have a devastating effect on C&NW and other western railroads. It thus believes that Administrative Law Judge Klitenic had only two alternatives: either denial of the applications; or a massive restructuring plan of the type he set forth. North Western contends, however, that the value of the UP-RI combination does not warrant either the destruction of other carriers or the restructuring of the western rail system. It argues, therefore, that the applications should be denied.

North Western contends that the UP-SP proposals would not result in any net service improvements, that the mergers would produce only minimal cost savings, and, most importantly, that the Administrative Law Judge erred in determining that Union Pacific needed Rock Island in order to remain a viable competitor. C&NW points to the extensive through-train operations conducted by UP and its Missouri River connections and the brief time needed to interchange these trains (10-30 minutes, in some cases) as evidence that the proposed single-line services could not offer any significant improvement over existing joint-line services. It notes that the UP and SP acquisitions of portions of the Rock Island would be essentially end-to-end mergers offering limited opportunities for cost savings. It states that UP enjoys increasing revenues and net income, has long been one of the strongest and most profitable railroads in the West, and does not need the Rock Island to compete effectively either with other railroads or with other transportation modes.

Finally, North Western contends that Administrative Law Judge Klitenic erred in failing to find that Brown Brothers Harriman & Co. controls Union Pacific. Brown Brothers owns about 3 percent of UP's stock, three of its partners are on the carrier's executive committee, and one is the chairman of the committee. North Western argues that the Harriman family has long controlled UP, and that the Commission should not act on the UP application until Brown Brothers joins in for control through the transaction.

Burlington Northern's exceptions are based on three arguments. First, there was no basis for the Administrative Law Judge to stop short of an inquiry into and findings as to BN's probable traffic losses from the proposed UP-RI merger. Second, the seven conditions requested by the predecessors of the BN were primarily intended to provide additional service and continue existing service for the public benefit. The latter basis is supported by a collateral argument that the conditions would enable BN to increase its revenue, and thereby, offset a portion of the revenue loss to be incurred as a result of the traffic diversion it would suffer. Third, the restructuring of the western railroads proposed as conditions to the UP-RI merger by the Administrative Law Judge are beyond the scope of the Interstate Commerce Act.

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BN contends that its traffic loss claims should have been adopted by the Administrative Law Judge for two reasons. First, the report recognizes and affirms the validity of BN component lines' traffic studies which were made prior to the Northern lines merger. It analyzes the traffic study methodology and accepts the testimony of the traffic and statistical experts. Second, the Administrative Law Judge never accorded equitable treatment to the probable traffic losses. He ruled at the hearing that the Northern lines merger was not to be considered by the parties to this proceeding. In his report, he decided, in effect, that BN was barred from consideration for any relief or conditions because the presentation was made by its constituent companies separately. Thus, there was never any possibility of submitting traffic diversion studies of the UP-RI merger which would give effect to the Northern lines merger.

After adjustments of the original loss figures by eliminating any of the losses originally forecasted which would be affected by or offset in whole or in part because of the new conditions arising from the Northern lines merger, BN states that the minimum loss based on 1964 rate levels is shown by the record to be $11,466,325. If this loss was trended on the basis of average general rate increases over the period of 1964 to 1972, it would be multiplied by a factor of 1.425. Thus, under today's circumstances, BN contends it would sustain gross revenue losses substantially in excess of $16,339,513.

BN contends that the Administrative Law Judge did not consider whether the seven conditions requested would be in the public interest from the standpoint of shippers that would obtain a wider choice of routing, or whether, in view of the substantial losses to the merged BN, the public interest would be served by providing any or all of the conditions requested. BN submits that the conditions are not entirely self-serving because it has been shown that they would provide a real benefit to a large number of shippers. The conditions requested include, among others, (1) access to the Tukwila-Andover-Kent industrial area near Seattle; (2) access to the St. John's industrial district in Portland; (3) extension of Portland switching limits; (4) inclusion of Inver Grove, Minn., in switching territories on a geographic basis; and (5) access to Kellog, Idaho, industrial area, and trackage rights over the Spokane International into Canada. The conditions proposed certainly would not materially destroy many of the benefits of the unification, and, in fact, BN contends, would not limit or affect any of the merger benefits by weakening the condition and service and operating problems of many of the intervenors.

BN asserts that the far-reaching restructuring conditions proposed by the Administrative Law Judge which would drastically increase the size and operations of UP, SP, and Santa Fe, which are not voluntary or initiated by the carriers involved, and which are directed toward parties that are not applicants in these proceedings are not contemplated by the act, and are invalid. BN contends that even if the Commission concludes that it has the power affirmatively to bring about railroad alignments through the imposition of such unrequested conditions, this can only be done after hearings on such proposals have shown they are in the public interest. BN alleges that without any evidence on the various restructuring mergers, their terms, and the affect on stockholders, other railroads, and the public generally, there is no way that the required statutory findings can be made and supported by evidence.

Colorado & Southern and *Fort Worth & Denver* oppose the various proposals to acquire the Rock Island and they take exception to Administrative Law Judge Klitenic's recommended plan to restructure the western railroad systems; contending that his conclusions and findings are outside the scope of the existing record, are

premature and unwarranted, and, if adopted, would adversely affect FW&D. Their primary exceptions, however, are addressed to the Administrative Law Judge's findings with regard to conditions which C&S-FW&D requested for their protection.

FW&D requested that approval of SP acquisition of the southern half of Rock Island be conditioned to require sale of Rock Island's half interest in the joint Texas division to FW&D at Rock Island's book value. Administrative Law Judge Klitenic recommended that FW&D be permitted to acquire full ownership of the joint Texas division, but he found that the book value price proposed by FW&D was not shown to be just and reasonable. He proposed, instead, that FW&D and SP reach a mutually agreed sales price within 30 days after consummation of the SP acquisition of portions of the Rock Island, which would then be submitted for Commission approval. If they are unable to agree, the Commission would determine a just and reasonable consideration. FW&D asserts that the purchase price should be determined prior to SP's acquisition of the Rock Island lines. It contends that failure to determine a price at this time denies FW&D the assurance that a reasonable price will be paid for the property, forces it to wait and submit further evidence as to the financial burden it will have to sustain in order to maintain it existence, and gives SP an unfair advantage contrary to the public interest.

FW&D also requested that Southern Pacific be required to sell its Rock Island stock interest in the Houston Belt & Terminal. Administrative Law Judge Klitenic recommended that conditions be imposed to require maintenance of existing operating and reciprocal switching relationships in the Houston area, but he felt that modification of the ownership of HB&T would be premature at this time. FW&D takes exception to this finding, contending that it is not seeking to greatly expand its territory, but only to remain competitive in the Houston area. It contends that SP already has a dominant position in Houston and that SP ownership of an interest in HB&T would greatly strengthen its already powerful position.

Finally, C&S-FW&D take exception to Administrative Law Judge Klitenic's refusal to grant FW&D's request for authority to serve all industries and interchange connections on the Rock Island line between Fort Worth and Dallas. Although FW&D already has trackage rights over the line, the Administrative Law Judge found that there had been no showing that such service is a necessary or supported factor of affirmative relief. C&S-FW&D contend that their requested affirmative relief would permit direct service to points on their line between Fort Worth and Denver, a service which other carriers presently operating between Fort Worth and Dallas cannot provide, and, thus, that the requested relief would be consistent with the public interest. They further assert that the additional revenue would enable them to partially offset the traffic losses which they would suffer as a result of approval of the SP acquisition of portions of the Rock Island.

Rio Grande opposes both the merger of Union Pacific and Rock Island, and Administrative Law Judge Klitenic's recommended restructuring plan, asserting that his proposals are not supported by the record in the proceeding. If the UP-Rock Island merger is approved, however, Rio Grande feels that it should receive the affirmative relief it requested, which consists primarily of a request to acquire the "Rock Island Western," the Rock Island lines between Denver, Colo., Springs, Omaha, and Kansas City.

Rio Grande contends that the Administrative Law Judge erred in finding that the UP-RI merger would be consistent with the public interest. It asserts that the Administrative Law Judge found the merger to be required by the public interest basically to protect UP's competitive position and because an extension of UP to

Chicago and St. Louis would result in improved service. On the contrary, Rio Grande argues that the merger would result in serious or crippling traffic losses to a number of other western railroads, and that UP, as one of the wealthiest and most profitable railroads in the Nation, does not need to strengthen its competitive position. As to improved service, Rio Grande points to the existing through-train service provided by UP and its major eastern connections and contends that, at best, Union Pacific could improve present Chicago-California schedules by only about 10 minutes.

Rio Grande argues that the Administrative Law Judge erred in finding that it is a weak competitor for transcontinental traffic in the central corridor, between Chicago and San Francisco, and that it should be included in the Santa Fe so that Santa Fe could provide stronger competition to Union Pacific. According to Rio Grande, the record demonstrates that it participates in about 25 percent of the total volume of central corridor transcontinental traffic, or approximately 12 percent of transcontinental traffic moving through all corridors. It contends that the issue of its inclusion in Santa Fe was not before the Commission, that no evidence was presented regarding the matter, and that such an inclusion is not supported by the record. Rio Grande argues that Santa Fe, a southern corridor carrier, would naturally continue to favor that corridor, and that its inclusion in Santa Fe would diminish, rather than strengthen, competition in the central corridor.

The intervenor thus argues that Administrative Law Judge Klitenic erred in not recommending actions which it feels would insure its preservation as a strong competitor to Union Pacific. It contends that he should have required sale of the "Rock Island Western" to Rio Grande, an action which D&RGW asserts would protect it from crippling financial losses resulting from the UP-RI merger and safeguard its financial strength and competitive ability without significant impact on other railroads; and granted the other affirmative relief requested by the intervenor, primarily that UP open the Ogden, Utah, gateway and establish through-routes and rates on traffic moving over Rio Grande to and from Union Pacific points in the Pacific Northwest. It also contends that the Administrative Law Judge erred in requiring sale of Southern Pacific's Central Pacific Line between Ogden and Roseville, Calif., to Union Pacific. The Southern Pacific Line at Ogden is Rio Grande's most important western connection, and it feels that sale of the SP line to Union Pacific would abrogate previous Commission decisions which encouraged increased competition in the central corridor.

In other exceptions, Rio Grande contends that Administrative Law Judge Klitenic erred in considering Union Pacific's evidence of cost savings resulting from abandonment of lines in Kansas and Colorado when such abandonments have not been applied for, in attaching little weight to Rio Grande's evidence regarding loss of net income resulting from the merger, and in rejecting Rio Grande's evidence pertaining to traffic losses resulting from the Burlington Northern merger.

Western Pacific.—While Western Pacific generally agrees with Administrative Law Judge Klitenic that a major restructuring of the western rail system is needed, it takes exception to his determination that it may seek inclusion only in the Santa Fe system. WP maintains that the stale record in this proceeding, especially in view of the absence of any studies as to possible alternate inclusions, is inadequate to support the view that its inclusion in Santa Fe is the only way to properly serve the public interest. It thus argues that it should be permitted the flexibility to explore possible inclusion into one of the other big surviving western systems, i.e., UP, Southern Pacific, or Burlington Northern.

Western Pacific also contends that the terms of its inclusion in one of the major rail systems should be determined by definitive order prior to implementation of the basic mergers. It points to Administrative Law Judge Klitenic's determination that it would be greatly injured by the proposed restructuring and argues that the smaller western carriers may suffer the same fate as such smaller bankrupt eastern carriers as Reading, Jersey Central, and Erie-Lackawanna if they are not permitted to be included in the larger systems prior to, or simultaneously with the basic restructuring. WP contends that the relief which it seeks would not unduly delay the proceedings if the Commission would fix a deadline for completion of the inclusion studies and limit any further hearings on the issue.

Missouri Pacific has raised five basic exceptions. First, it may not be found consistent with the public interest to partition Rock Island among the most prosperous and the second and fourth most prosperous railroads in the United States, even though that be the only means of preserving Rock Island's viability, in the face of the specific findings by the Administrative Law Judge that the resultant diversion of traffic (a) would doom North Western, Milwaukee, and Katy as viable enterprises, (b) would render precarious the operating position of MoPac-T&P-C&EI, Frisco, and KCS-L&A, and (c) would leave Rio Grande and Western Pacific in no position to continue as significant transportation factors in the hauling of transcontinental traffic. Second, the calamitous injury to the eight competing railroads and the public served by them, which the Administrative Law Judge found would result from the divisions and acquisitions which he recommends, cannot be eliminated by the forced inclusion of these railroads in his three major systems. Third, the report is in error where it includes MoPac-T&P-C&EI, in the statement that the Central State carriers as bridge carriers are as obsolete to the needs of the railroad industry as the wood-burning steam locomotive. Fourth, the report concluded that Union Pacific would have realized an improvement in annual pretax net income of $32 to $34 million following acquisition of northern Rock Island, because of resulting economies and efficiencies, in the face of the testimony of Union Pacific's own expert witness that such improvement would be only $6.5 million annually. This conclusion violates a controlling principle of law, is based upon findings which are not supported by any evidence of record, and on findings directly contrary to the record, all of which, findings are obviously erroneous. Fifth, the report errs in concluding that the alleged benefits to Union Pacific, Southern Pacific, and Santa Fe, and to the public served by them, resulting from acquisition of the portions of Rock Island assigned to them, outweigh the injury which will result to the eight protestant competing railroads and to the public served by them. These exceptions proceed on the following two premises: (1) the findings of fact by the Administrative Law Judge must be accepted where they (a) are based on unchallenged documentary evidence of statistical material, or (b) depend on the determination of credibility of witnesses as shown by their demeanor or conduct at the hearing; and (2) the Administrative Law Judge's findings of fact need not be accepted where they (a) violate a controlling principle of law, or (b) do not depend on the determination of credibility of witnesses, or (c) are directly contrary to findings based on the determination of credibility or on unchallenged documentary evidence or statistical material.

MoPac contends that the solution proposed by the Administrative Law Judge is not viable for three reasons, any one of which would be sufficient to reject the recommended order. First, there is not a scintilla of evidence in the record to show that the three major systems designed by the Administrative Law Judge have direct relation to adequacy of transportation service, to its essential conditions of economy, any efficiency, and to appropriate provision and best use of transportation facilities. There is no testimony whatsoever on which to base any findings on what would be the results of the three designed systems respecting (a) consolidation of facilities, with the resulting disemployment involved and the labor protection required therefor; (b) the economics to be effected thereby; (c) lower rates; or (d) the savings in transit time accomplished. Neither is there any testimony whatsoever on which to base any findings as to the injuries which the three designed systems will inflict on competing railroads (including the other two respective systems) as the result of diversion, and whether any protection should be afforded to the affected carriers. Second, because of the failure of the technique authorized by the 1920 Act, of directing the Commission to prepare a plan for the consolidation of the railroads of the country into a limited number of systems, Congress in the 1940 law abandoned the idea of a formal national plan, and left the power to initiate mergers and consolidations in the hands of the carriers. Therefore, there is no provision in law by which the Commission or the courts may compel the railroads requiring protection to accept inclusion in the Union Pacific, Southern Pacific, or Santa Fe, as ordered by the Commission, or in any other system. Section 5(2)(d) does not make provision for compelling an unwilling railroad which is not itself a party to a merger agreement to accept inclusion under the terms the Commission prescribes. Third, even if the five carriers do file petitions of inclusion as the result of economic duress, their viability will not be effectively protected and approval of the acquisitions recommended by the Administrative Law Judge prior to assuring ironclad protection for the eight adversely affected railroads would be a failure of the Commission's statutory duty under section 5(2)(d).

MoPac states that Union Pacific's expert witness on operational savings resulting from its acquisition of the northern Rock Island estimated that the improvement in net income, adjusted to January 1, 1968, levels, would be $6,569,000. Yet, the Administrative Law Judge concluded that had the transaction been consummated during 1966 or 1967, Union Pacific would have realized in such year, net income before provision of taxes of $32,172,070 and $34,135,384, respectively. MoPac contends that the Administrative Law Judge's conclusion is subject to three fundamental errors, any one of which would be sufficient to set it aside. First, UP is bound by the estimate of savings by its own expert witnesses. Second, there is no evidence in the record to the effect that the results from UP's acquisition would be to achieve in operations over the acquired lines the same operating ratio as in existence in UP's present operations. More important, there was no testimony in this record indicating any hope or expectation that the resulting economics and efficiencies of the acquisition (excluding traffic diversion) would come anywhere near $30 million. Third, if any Union Pacific witness had attempted to use the reasoning of the Administrative Law Judge to establish that UP would have realized over $30 million in additional annual pretax net income by achieving in operation over the acquired lines the same operating ratio as is in existence in UP's present operations, he would have been demolished on cross-examination.

MoPac contends that Union Pacific's argument in support of its application is fallacious. According to MoPac, UP's argument boils down to this: Because (a) it may no longer exact divisions which the Commission found (with the approval of the Supreme Court) to be unfair to the midwestern carriers and inconsistent with the public interest. The *Transcontinental Divisions* case, *Chicago & N.W.R. Co.* v. *A.T. & S.F.R. Co.*, 387 U.S. 326 (1967); because (b) it may no longer participate in a preferential solicitation agreement with Southern Pacific which the Commission found (with the approval of the Supreme Court) to be discriminatory, stifling of competition and contrary to the public interest, the national defense, and the national transportation policy. The *Central Pacific* case, *Central Pac. Ry. Co. Control*, 328 I.C.C. 345 (1966), affirmed *sub nom. Southern Pacific Company* v. *United States*, 277 F. Supp. 671 (D. Neb. 1967), affirmed 390 U.S. 744 (1968); because (c) it will in the future be required to pay rates for car hire which the Commission found (with the approval of the Supreme Court) to be just, fair, reasonable, and nondiscriminatory (Per Diem Case - *Chicago, B. & Q. R. Co.* v. *New York, S. & W. R. Co.*, 332 I.C.C. 176, 257-259 (1968), affirmed *sub nom. Union Pacific Railroad Co.* v. *United States*, 300 F. Supp. (D. Neb. 1969), affirmed 396 U.S. 27 (1969), its ability to continue to provide its quality of service to the public is threatened. Therefore, it should be compensated for being deprived of these inequitable advantages, found to be contrary to the public interest, by being permitted to acquire Rock Island, despite the serious injury which that would inflict on its competitors. MoPac contends that UP's argument would shock a court of equity and should not receive any more hospitable reception at the hands of the Commission.

Texas & Pacific.—The T&P's exceptions may be summarized as the following: (A) the Administrative Law Judge failed to consider Union Pacific's application to merge with the Rock Island and docketed as Finance Docket No. 23286; (B) the conclusion of the Administrative Law Judge that the midwest carriers are outmoded and caused all of the transportation ills, is in error; (C) the support of the Administrative Law Judge for the proposed single-line services by the west coast carriers into the Midwest which simultaneously would destroy the single-line functions within the Midwest, is in error; (D) mistakes and exaggerations as to the benefits of single-line hauls were made by the Administrative Law Judge; (E) the allocation of the Rock Island line between Alexandria and Little Rock to the Southern Pacific to afford that carrier a shorter route between St. Louis and Memphis, on the one hand, and New Orleans, on the other, is contrary to the Administrative Law Judge's own findings and prior actions of the Commission; (F) the granting to the Southern Pacific of Rock Island's Kansas City-Fort Worth line is based upon misleading and erroneous findings and when combined with a consideration of the various other Rock Island dismemberments, assures that the Rock Island is destroyed as a grain carrier; (G) the allocation of the Amarillo-Memphis line to the Santa Fe is based upon erroneous findings; (H) the report and order falls hardest on the T&P and obscures the function and interest of T&P by refusing to analyze it apart from MoPac; (I) the report and order obscures the adverse results on T&P by failing to make findings as to the projected traffic losses it would suffer at the hands of the Southern Pacific (and to some extent, to Santa Fe); (J) the report and order erred in failing to accept the T&P sample as a judgment sample; (K) the Administrative Law Judge erred in accepting Southern Pacific's traffic study in evidence and giving it weight as a minimum divertible estimate and erred in failing to accept T&P's estimates as reasonable minimums; (L) the Administrative Law Judge erred in failing to accept T&P's study upon Santa Fe's acquisition of the Rock Island as being an acceptable estimate of T&P's future losses; (M) the Administrative Law Judge erred in failing to grant any of T&P's requested affirmative reliefs; (N) the ultimate orders and findings concerning T&P inclusion and dismemberment of T&P at Fort Worth are impractical, beyond the bounds of the notice published in this case and deprived T&P of its property without due process of law; and (O) the time schedule for the inclusion of T&P is so impractical as to sentence T&P to an interim destruction.

T&P contends that, in effect, the report and recommended order, in order to reach the ordered results, repeals the 1940 amendment to the Interstate Commerce Act that placed the initiative of effecting unification in the hands of the carrier, and reinstates a repealed portion of the act that provided for the Commission to adopt a plan for consolidations, all of which is done without congressional sanction and in the face of decisions of the United States Supreme Court to the contrary. T&P asserts that by going so far beyond the transactions that were properly brought before the Commission, the Administrative Law Judge has deprived T&P of a fair and proper notice required under the Administrative Procedure Act and has so transcended the right of fair and open hearings as to deprive the T&P of due process as guaranteed by the Fifth Amendment to the Constitution.

T&P submits that UP and SP formulated a noninvasion agreement wherein they agreed to divide the Rock Island on a geographic basis so as to preserve their separate systems and avoid creating competition between them. T&P contends that the Administrative Law Judge's justification for approval of the noninvasion agreement was that Southern Pacific has presented no evidence and that to consider the transaction would effectively foreclose the presentation of evidence in opposition by Southern Pacific; that Southern Pacific (unlike T&P facing the ordered results in this case) had notice of the proposal and had an opportunity to present evidence had it so desired; and that the Commission's concern with their unwillingness to present opposing testimony is without legal precedent.

T&P submits that what the Administrative Law Judge has done is to impute the characteristics of the evidence adduced to one split of the Rock Island as being applicable to the split actually ordered. T&P contends that the record is devoid of evidence on the following major points: (1) the purchase price for the various portions of the railroads; (2) how the diesel power will be split up and used; (3) how the freight equipment will be split up and used; (4) what savings might be made; (5) what Rock Island employees will be assigned to what portion of the new segments and who will protect that labor; and (6) whether the public witnesses brought forward would support the split of the Rock Island as ordered.

T&P contends that the Administrative Law Judge erroneously analyzed the T&P as part of the MoPac-T&P system. T&P submits that it requested findings to obtain the Commission's analysis of it as a part of the Southern Transcontinental Corridor and that those findings were refused and T&P's presence in that corridor was ignored and obscured so as to justify the finding that SP could shorten its transcontinental route.

Frisco, in its exceptions, argues that none of the applications have been shown to be consistent with the public interest, contending that the Administrative Law Judge tacitly recognized this fact by subjecting his approval of the basic UP-RI merger applications to far-reaching conditions, which exceed the Commission's jurisdiction, in an effort to render the transaction consistent with the public interest. The intervenor argues that an inadequate record was made to support a simple UP-RI merger, and that as the UP-RI merger is the basis for the entire restructuring plan, all of the applications must be denied. It also contends that the Administrative Law Judge's plan is not viable, as indicated by many of the major parties' expressed unwillingness to abide by his proposed conditions, and that it should, thus, be rejected *in toto*.

Frisco contends that the Administrative Law Judge's recommendations so exceed the scope of the applications as to constitute a failure to provide notice of the proposed action and give interested parties an opportunity to present evidence thereon, in violation of the administrative due process requirements of the Administrative Procedure Act. The intervenor also argues that the Administrative Law Judge's proposals exceed the Commission's jurisdiction. It contends that the

Administrative Law Judge's plan is so far-reaching as to amount to a Commission-initiated plan of rail realignment, thus exceeding the agency's jurisdiction, which is limited by the Transportation Act of 1940 to consideration of carrier-initiated merger plans.

In other exceptions, Frisco contends that the traffic studies of the various carriers are so lacking in uniformity as to be useless as evidence in support of the proposed mergers and inclusions. It also argues that the record in this case is so excessively stale that it cannot provide a basis for relevant findings of consistency with the public interest.

Frisco also excepts to the Administrative Law Judge's recommendations in Finance Docket No. 24154. In that docket, Santa Fe applied under section 3(5) for use of certain Frisco trackage in Kansas City, which would permit Santa Fe to gain access to the Rock Island's Kansas City-St. Louis line. Under the Administrative Law Judge's proposal, Santa Fe would receive trackage rights over the Kansas City-St. Louis line, and Santa Fe's use of the Frisco trackage would thus enable it to compete with Frisco for traffic moving to and from St. Louis. Frisco contends that its trackage sought to be used is main line, not terminal trackage, and that the Commission lacks jurisdiction to force it to permit Santa Fe to use the line. It also contends that no carrier should be compelled to permit a competitor to use its tracks to invade its territory.

Finally, Frisco contends that the conditions provided for its protection afford it no real protection. It argues that the inherent delays between consummation of the UP-RI merger and the inclusion of Frisco in another carrier would be so great as to cause irreparable damage to Frisco from the effects of the previously consummated mergers and inclusions.

Kansas City Southern basically contends that Administrative Law Judge Klitenic erred in recommending his plan to restructure the western railroad system. It argues that no evidence was presented to support many of his proposals and that his recommendations are thus not supported by substantial evidence on the record, viewed as a whole. KCS asserts that the Administrative Law Judge erred in recommending its inclusion in the Southern Pacific system. It argues that the Commission lacks jurisdiction to force inclusion on unwilling protestants and that forced inclusion is thus not a viable means of protecting carriers which would be affected by the proposed merger. Furthermore, it contends that the Administrative Law Judge failed to determine the total fixed charges resulting from his proposed inclusions and did not consider the interests of affected carrier employees, contrary to the requirements of section 5(2)(c) of the Interstate Commerce Act.

More specifically, KCS contends that the Administrative Law Judge erred in rejecting the annualization of its 6-month gain study relative to its requested trackage rights between Kansas City and Chicago. It contends that the Administrative Law Judge erred in failing to grant the intervenor's requested affirmative conditions and in failing to consider granting KCS's requested relief in part, rather than *in toto*.

Soo Line does not oppose the UP-RI merger, per se, but it does oppose Administrative Law Judge Klitenic's recommended restructuring plan, especially the condition requiring Chicago & North Western's inclusion in the Union Pacific. It contends that the restructuring plan was not contemplated by any of the parties in the proceeding, and has absolutely no support in the record. Soo Line feels that any public benefit derived from a UP-RI merger would be far outweighed by the adverse effect that the restructuring plan would have on Soo and other western railroads and that if the merger is dependent on the Administrative Law Judge's recommendations for its approval, it should be denied.

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Soo contends that the Commission lacks jurisdiction to authorize the inclusions recommended by the Administrative Law Judge as there have been no section 5(2) applications for approval of the recommended inclusions, no notice that such inclusions were under consideration, and no opportunity to present evidence regarding the inclusions. It thus, contends that the adoption of Administrative Law Judge Klitenic's inclusion plans would violate due process.

Lee Way Motor Freight, Inc. and *Texas-Oklahoma Express, Inc.*, except to that portion of the report and recommended order of the Administrative Law Judge which would recommend the transfer of Rock Island Motor Transit Company (RIM) certificates Nos. MC-29130 route No. 7 and MC-29130 (Sub-No. 71) to Southern Pacific, and certificate MC-29130 (Sub-No. 82) to Santa Fe.

Lee Way and TOX assert that the Administrative Law Judge erred (1) in finding that RIM has a highly active operation as regards MC-29130 route No. 7, Sub-No. 71 and Sub-No. 82, and the transfer of these rights would result in substantial compensatory benefits to the public, and (2) in finding that the transfer of MC-29130 route No. 7 and Sub-No. 71 to Southern Pacific and MC-29130 (Sub-No. 82) to Santa Fe will be consistent with the public interest. The basis of these exceptions is *Chemical Leaman Tank Lines, Inc.—Pur.—Ryder*, 104 M.C.C. 686 (1968). Lee Way and TOX submit that the holding therein places the burden on applicants by the introduction of evidence to prove that operations under all of the authority which they would transfer were active and continuous and that this had to be done by the showing of shipments under each segment of authority.

Lee Way and TOX state that RIM failed to submit documentary evidence showing date of shipment, origin point, destination point, commodity, and weight as required in Form BMC-44 (Revised), exhibit B-7. They contend that the Administrative Law Judge's conclusion that the record indicates that RIM is a highly active operator is erroneous and that the erroneous conclusion may have resulted from the fact that RIM does conduct extensive unrestricted all-motor carrier service in the Midwest, particularly Illinois, Iowa, and Kansas. However, the authority of RIM in Oklahoma, Texas, and Arkansas, is restricted to the performance of service auxiliary to, or supplemental of, its parent railroad. The latter portion of the authority is said to be dormant. They contend that the Administrative Law Judge erroneously accepted general evidence concerning RIM's systemwide operations as proof of actual operations over the three routes auxiliary to, or supplemental of, its parent railroad, and the subject of the instant exceptions. In addition, Lee Way and TOX contend that the Administrative Law Judge erroneously shifted the burden of proof to protestants and required them to show reasons why the applications should not be approved. They assert that the Administrative Law Judge justified his recommendation by a large part upon the fact that protestants did not submit evidence concerning the amount of traffic they would lose and to what degree their operations would be injured from approval of the applications. Lee Way and TOX contend that the burden of proof is not shifted unless and until the applicants come forward with evidence on the consistency of the proposed purchase with the public interest. Thus, Lee Way and TOX submit that where there is no reliable or probative evidence concerning vendor's operations, it must be presumed that the public need is being fulfilled and met by the operations of other carriers.

In summary, Lee Way and TOX contend that Santa Fe, Southern Pacific, and Rock Island have failed to present evidence upon which the Commission can find the proposed transaction to be consistent with the public interest, that there is no evidence that approval would result in substantial compensatory benefits to the

public, that the fact that Santa Fe and Southern Pacific have offered to supply the missing exhibit B-7 shipments at a later date is of no import here, that the Commission must consider this case upon consideration of all evidence of record, and neither exhibit B-7 nor any exhibit establishing the traffic patterns of RIM is in evidence, and that the lack of evidence precludes the entry of the required section 5 statutory findings and requires denial of the application or cancellation of the three involved routes.

The Justice Department believes that a merger of Union Pacific and Rock Island would be consistent with the public interest; provided that (1) the Rock Island lines between Colorado and the Missouri River are sold to Rio Grande, (2) Santa Fe is permitted to acquire the line between Amarillo, Tex., and Memphis, Tenn., and a half interest in the line between Kansas City and St. Louis, and (3) the remaining southern portion of Rock Island is sold to Southern Pacific. However, the Department feels that the Administrative Law Judge erred in concluding that the record supports creation of his recommended four major rail systems in the West.

Justice asserts that Administrative Law Judge Klitenic's plan is unsupported by the record, unrealistic, and unattainable. It believes that it is obvious that the Administrative Law Judge is attempting to impose his own preconceived ideas on the parties without notice or hearing on such proposals. Furthermore, the Department believes the record is too stale and that too many important events, such as the Burlington Northern, C&NW-Chicago Great Western, and Illinois Central-Gulf Mobile & Ohio mergers, have occurred since the hearings were held to reflect the facts and conclusions necessary to consideration of the vast restructuring plan proposed by the Administrative Law Judge. It argues that many of the inclusions and other conditions imposed by the Administrative Law Judge were neither requested by the parties, nor supported by evidence. It also contends that inclusions must be voluntary as to the railroads to be included and that such inclusions should be consummated prior to, or simultaneously with, the basic merger, not afterward as proposed by Administrative Law Judge Klitenic, with regard to many of the inclusions. Although Justice does not support such a merger, it feels that the Administrative Law Judge erroneously ignored the evidence relating to a merger of the entire Rock Island into Union Pacific. Perhaps most important, the Department feels that the recommended report and order does not provide a satisfactory basis for solution of Rock Island's financial problems, because it would be rejected by the railroads.

In addition to its general exceptions to the restructuring plan, the Justice Department contends that the Administrative Law Judge erred in recommending denial of the Rio Grande's petition to purchase the western portion of Rock Island and in recommending Rio Grande's inclusion in the Santa Fe system. Justice argues that the Administrative Law Judge based his denial of Rio Grande's petition on the grounds that such action would have a substantial adverse economic impact on other carriers and that Rio Grande would not be able to compete effectively for traffic in the Central Corridor. The Department contends, however, that Rio Grande would be eliminated as an effective competitor only if all other aspects of the restructuring plan were adopted. Absent adoption of Administrative Law Judge Klitenic's plan, the Department of Justice believes that Rio Grande would be able to provide strong competition to Union Pacific. It contends that extension of the Rio Grande to Omaha and Kansas City would not substantially injure other carriers, would provide a neutral connection for North Western, Milwaukee, and Illinois Central Gulf at Omaha, and would help redress the competitive imbalance that would be created by UP's acquisition of the northern half of Rock Island.

Houston Port Bureau, et al.—Exceptions have been jointly filed by the Houston Port Bureau, the Board of Trustees of the Galveston Wharves and the Galveston Chamber of Commerce. The intervenors oppose the recommended dismantling of the Rock Island system. Rock Island provides a single-line service between the grain producing areas in the upper midwest and the ports of Houston and Galveston and large quantities of grain move over Rock Island for export from these ports. The intervenors fear that Union Pacific and Southern Pacific would naturally favor an east-west, rather than a north-south, movement, influencing import and export cargo through west coast ports to the detriment of the ports of Houston and Galveston. Accordingly, the intervenors except to the recommended division of the Rock Island, with the resulting termination of single-line service to Houston and Galveston.

Kendall Laughlin, who owns shares of Rock Island, Union Pacific, and Southern Pacific stock, contends primarily that the proposed transaction is unfair to Rock Island shareholders.

Under the proposed plan, UP would exchange one share of its $1.80 no par, convertible preferred stock for each share of Rock Island common (a total of about 3 million shares). After consummation of the RI-UP merger, UP would sell the southern half of Rock Island to Southern Pacific and Santa Fe for a total of $120 million, subject to adjustment.

Mr. Laughlin notes that the annual interest that UP could earn from investing the $120 million (about $9 million) would exceed the $6 million annual dividend that it would be required to pay the RI shareholders as holders of its $1.80 preferred. He, thus, contends that UP is acquiring the northern portion of the Rock Island gratis, and is making a profit on sale of the southern portion. He also argues that sale of the southern portion would dilute the value of the preferred shares which the Rock Island shareholders would receive in return for their old stock, and he contends that RI shareholders should have been permitted to vote on the sale of the southern portion of their railroad.

The intervenor proposes that instead of paying the $120 million to UP; SP and Santa should be required to make payment directly to the RI shareholders, preferably by issuing debentures for the purchase price.

The intervenor also excepts to the condition imposed by the Administrative Law Judge which limits the dividends that UP, SP, and Santa Fe can pay their respective holding companies to that amount equaling earnings from the year for which the dividend is declared. He believes that the dividends should be permitted from earnings generally, rather than just from earnings from the particular years. Mr. Laughlin also objects to the formula devised by Administrative Law Judge Klitenic which limits the percentage of their earnings which the carrier companies may pay to their parents as dividends.

Mr. Laughlin also excepts to the Administrative Law Judge's award of Rock Island Little Rock, Ark.-Alexandria, La., line to SP. As SP has indicated that it would seek to abandon a portion of the line, he feels that it would be better if Santa Fe received the line.

Labor Unions.—Exceptions were filed by the Railway Labor Executives Association, and jointly by the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees, the Brotherhood of Maintenance of Way Employees, the Hotel and Restaurant Employees and Bartenders' International Union, and the United Transportation Union. The exceptions raised by the two labor groups are essentially the same.

The Unions' position is that the initial report errs in concluding that Commission adoption of the UP-RLEA agreement would be inconsistent with the public interest; and, that the Commission can set aside a premerger employee protection agreement, approve the merger, and impose other labor conditions. The Unions submit that the Commission may approve a merger subject to a premerger agreement or disapprove a merger because of premerger agreement, but it may not set aside that agreement and proceed to approve the merger. As a collateral position, the Unions submit that the report errs in concluding that the Commission must pass upon every *implementing* agreement executed pursuant to the provisions of the "New Orleans" conditions even though such implementing agreement does not modify, much less abrogate, any substantive protection afforded by that formula.

The basic contention of the Unions is that the Administrative Law Judge misread, misapplied, and over-extended the Supreme Courts' decision in *Norfolk & Western Ry. Co. v. Nemitz,* 404 U.S. 37 (1971). The Unions submit that the Court held in *Nemitz* that the Commission is required only to make a determination that the terms of a collective bargaining agreement negotiated pursuant to the last sentence of section 5(2)(f), and that once the Commission has concluded that such a collective bargaining agreement affords employees the minimum statutory protection to which they are entitled, the parties to said agreement cannot enter into an implementing agreement which substantially abrogates the protection afforded under the terms of the basic merger protective agreement adopted by the Commission. The Unions contend that *Nemitz* does not authorize the Commission to suspend the provisions of a premerger collective bargaining agreement unless it concludes that such an agreement either abrogates the standard of compensation provided for by agreement adopted by the Commission pursuant to section 5(2)(f) or statutory requirements of section 5(2)(f).

The Unions assert that the assumptions made by the Administrative Law Judge in support of his conclusions that imposition of the UP-RLEA and BLE agreements would be inconsistent with the public interest, are not based upon any facts of record in these proceedings or actual experiences involving previously negotigated attrition-type merger protective agreements adopted by the Commission, and appear to be founded upon nothing more than the Administrative Law Judge's predisposition against such agreements. The Unions submit that, even assuming that the agreements were found to be inconsistent with the public interest, the Commission can properly disapprove the merger, but it cannot set aside a premerger employer protection agreement and approve the merger. The Unions contend that, as a practical matter, if the Commission were permitted to reject premerger protective agreements, there would be no incentive to execute similar agreements in the future, since execution of a protective agreement generally means that opposition to the merger is withdrawn and it can be anticipated that the terms of such an agreement would be adopted by the Commission in its order. Its rejection of such agreements is allowed, no labor organization would withdraw its opposition to a merger on the basis that a protective agreement had been executed, since it would not be certain whether the agreement would be adopted by the Commission in its order. Thus, all incentive for entering into such voluntary protective agreements would be eliminated and it is probable that the execution of such agreements would come to an end. The Unions contend that the Commission can lawfully impose such attrition conditions upon SP and Santa Fe in the absence of voluntary agreements between them and their employees. The Unions base this argument on the Commission's decision in *Norfolk & W. Ry. Co. and New York, C. & St. L. R. Co. Merger,* 330 I.C.C. 780 (1967), wherein the Commission stated that it would impose "attrition" protection for the benefit of the employees of the Erie-Lackawanna, the Delaware & Hudson, and the Boston & Maine, if those railroads and the Norfolk & Western did not execute an agreement with the RLEA providing such protection.

The Bureau of Enforcement, which did not file exceptions or replies, but did participate in the oral argument before the Commission on November 27 and 28, 1973, takes no position with respect to the basic issue of the merger. The Bureau concerned itself basically with two questions: the tendency towards diversification on the part of railroad holding companies; and the application of conditions to the merger, with respect to those holding companies. It recommended that to control improper usage of railroad property by the holding companies, the holding companies should be subject to section 20(1), (2), and (5) as well as section 20(a) of the Interstate Commerce Act. This would allow the Commission to control the holding companies to the extent of their activities dealing with railroad assets.

To support its allegations, the Bureau cites the situation of Northwest Industries and the Chicago & North Western Railroad Company. It alleges that if the Commission had control over that holding company by means of sections 20(1), (2), (5) and 20(a), the North Western might not have been eliminated as a party to this proceeding.

A second example cited is the fact that Union Pacific Corporation today has control of over $500 million of railroad assets, and that the Commission has no authority to control that holding company's actions with regard to those assets. It alleges that the holding company has the ability to spin-off railroad assets without Commission approval, and that this should not be allowed to occur.

Thus, the Bureau seeks to have the Commission utilize its power to oversee the holding company's actions with regard to railroad assets by subjecting the holding companies to the various aforementioned sections of the act.

REPLIES TO EXCEPTIONS

Milwaukee, which did not file exceptions, filed a late petition for inclusion in either Union Pacific or Southern Pacific, and, more recently, a petition for inclusion in the Northern Lines merger. While deferring consideration of the petition for inclusion in UP or SP until after a final determination in the instant proceeding, Administrative Law Judge Klitenic did determine that Milwaukee would have to be included in some larger system. Milwaukee supports this determination and the proposed UP-SP division of Rock Island, subject to the following conditions: (1) that its petition for inclusion in UP or SP remain pending; (2) that neither UP nor SP oppose its petition for inclusion in Burlington Northern; and (3) that, if its proposed inclusion in BN fails to be consummated, UP and/or SP cooperate with it in preparing evidence in support of its inclusion in one of those two systems, submit any disagreement as to inclusion terms for a determination by the Commission, and that appropriate jurisdiction be retained by the Commission.

In its reply, Milwaukee takes issue with Union Pacific's exceptions to the Administrative Law Judge's findings regarding diversion studies. Milwaukee argues that the Administrative Law Judge correctly found its diversion study to be accurate, that he correctly denied the applicants' request that he postpone any findings on Milwaukee's traffic study until after hearings on its petition for inclusion, and that the Administrative Law Judge properly rejected the traffic studies of UP and RI.

Milwaukee also contends that KCS's exceptions to Administrative Law Judge Klitenic's refusal to grant its requested extension to Chicago, and BN's contention that

approval of the UP application should be subject to a condition granting BN's access to the Tukwila-Andover-Kent industrial area in Washington are without merit. It asserts that KCS's entry into Chicago would introduce an unneeded new rail carrier into an area already suffering from a surfeit of rail competition. As to BN's access to the Washington industrial areas, which are not jointly served by Milwaukee and UP, Milwaukee argues that BN's gain would be at its expense, and would deprive Milwaukee of one of the inducements for Burlington Northern to support its inclusion in the BN system.

Katy, which like Milwaukee, did not file exceptions, argues in its reply that neither UP's nor SP's exceptions, constitute a serious challenge to its estimates of substantial traffic diversion, and that it would suffer unbearable losses from either a UP-SP split of Rock Island or from UP's acquisition of the entire Rock Island. It analogizes its situation to that of the Erie-Lackawanna Railroad, which suffered large traffic losses when the New Haven, an important E-L connection, was included in the Penn Central, an Erie-Lackawanna competitor. Katy argues that it would suffer similar losses as a result of the proposed mergers. As a weak, marginal carrier, Katy feels that it could not sustain such diversion.

In reply to SP's exceptions, Katy contends that it is a classic case for inclusion, a carrier whose ability to survive is threatened by merger, but which performs vital services which should be preserved. It asserts that its inclusion in SP could produce substantial savings through coordination and elimination of duplicate facilities, and could result in attractive tax benefits for Southern Pacific. It maintains that fair and equitable inclusion terms could be negotiated between the two carriers, which would not be burdensome to SP or, if they were unable to agree, could be set by the Commission. Katy maintains that no conceivable traffic agreement with Southern Pacific would be adequate to protect it and concludes that it must be included in the successful applicant.

Union Pacific asserts in its reply, that the present record positively shows that the proposed merger is consistent with and necessary in the public interest. It considers the key issue in the proceeding to be the impending bankruptcy of the Rock Island, which a merger would avoid. UP believes that the benefits arising out of the proposed merger far outweigh any competitive injury alleged by the protestants. UP states that the traffic diversion claims by the protestants are insubstantial and far too speculative. It contends that not all traffic diversion is contrary to the public interest, but only that diversion which causes a railroad to lose its ability to maintain adequate service. UP also contends that it is improper to lump all of the diversion studies of the various carriers together, but that each should be examined individually as it pertains to the involved railroad. The applicant asserts that the protestants have failed to meet their burden of proving harmful diversion and that the protective conditions which it has proposed are adequate to deal with any diversion problem. In this regard, it reaffirms its willingness to sell Rock Island's western lines to the Rio Grande.

UP contends that the exceptions of several of the parties are useless and should be disregarded. Santa Fe's exceptions erroneously dispute conclusions in the Administrative Law Judge's report and do not aid the Commission in resolving the real issues in the proceeding. North Western's exceptions seek to unduly broaden and confuse the issues, and are, thus, not in accord with the Commission's Rules of Procedure. Mo-Pac's contention that the applications should be denied even though the proposed merger would save the Rock Island from bankruptcy, is unrealistic. BN's exceptions are an attempt to introduce new evidence. Frisco's exceptions are purely negative, WP's do not aid in clarifying the issues's and KCS's are unsupportable, and all should be disregarded.

Rock Island asserts that, while the report and recommended order was not entirely to its liking, the supporting record is sufficient to allow a decision to be made on the case, and dismissal is not required. RI feels that the merger, properly conditioned, can still be allowed on the basis of the record at hand. RI states that protestants' usage of traffic studies as a basis of denying the proceeding as being against the public interest, is unwarranted, especially since the protestants, themselves, claim such traffic studies are useless.

Southern Pacific restates that, although it rejects the "Grand Design" as set out by the Administrative Law Judge, it is amenable to some traffic conditions, labor conditions, and a traffic agreement with Katy, which would be placed upon a merger grant.

SP replies to UP's statement that it would be proper to consider the merger of all of RI into UP, if the sale of the southern portion of RI proved to be unworkable. SP states that this is not the proceeding before the Commission. That if a decision is made accepting merger, it must contain approval of sale of southern RI to SP, as a separate transaction. SP also states that the economy of southern California relies on an adequate maintenance of the Golden State Route, which it will provide upon purchase of the southern RI.

SP replies to the allegations that the record does not support their acquisition of southern RI lines (1) between Kansas City and Tucumcari, N. Mex., (2) between Little Rock and Alexandria, La., and (3) between Herington, Kans., and Galveston, Tex., by stating that it is in the public interest that they obtain these lines. SP also points out the long history of cooperation between RI and SP to support its statement that the acquisitions are in the public interest. It states that if allowed to acquire these lines, it would result in economies of operation and car usage, both to the benefit of the public.

In reply to the exceptions of T&P and Houston Port Bureau, et. al., SP states that its acquisition of southern RI would decrease the number of interchanges, and because this is desirable from an operating standpoint, effect economies of operation to the benefit of the public. Other results of the SP acquisition, it states, would be (1) more efficient interchange from UP, (2) improvement in blocking, (3) decreased traffic volume in the Kansas City Yard, (4) more dependable schedules, and (5) a more efficient Kansas City Yard operation.

SP, in reply to allegations that the merger would have adverse effects upon other railways and thus should be denied, states that while some shortrun variations in operations would occur, the long run will show that these variations are not so great as to call for denial of the applications. It also states its belief that affirmative relief, via proper conditions, can offset these traffic diversion problems.

In reply to Santa Fe's request for the trackage between Herington and Galveston, and Little Rock and Alexandria, SP states that its operation of these lines will preserve competition, while Santa Fe's operation will eliminate competition. As regards KCS's request for purchase of terminal facilities between Fort Worth and Dallas, SP states that these facilities are too important to SP's operations and cannot be given up. The same consideration applies to KCS's request to purchase SP's line between Houston and Shreveport.

SP also mentioned that Ft.W&D's request for trackage rights between Fort Worth and Dallas is not supported by any evidence. It states that any authorization or modification of ownership of the Houston Belt & Terminal would be premature at this time.

SP also replies that the C&S and FW&D request to have SP sell the joint Texas division at "book value" is absurd. Also, SP feels that T&P's request for trackage rights to the Pacific coast is unworkable and would create no benefits to the public. SP also mentions that WP's request for inclusion in the railroad of its choice is not appropriate.

In reply to Lee Way and TOX, SP states that the motor service involved is all conditioned as incidental to rail operations, and, therefore, cannot injure these carriers. Also, that the exceptions by these carriers do not cite page references to support their allegations of dormancy, and thus, these allegations should have no weight in the proceeding.

Santa Fe, in its reply to exceptions, attacks UP's contention that it is possible to approve a merger of the entire Rock Island with UP. Santa Fe points out that the entire thrust of the proceeding has been directed toward interrelated transactions whereby UP and Rock Island merge, and UP then sells the southern Rock Island to Southern Pacific. Santa Fe also challenges UP's purpose in seeking the merger; alleging that UP is not seeking so much economies in transportation, but rather, traffic which it can divert from other carriers, and that such diversion will strengthen UP while destroying many other railroads. For this reason, the UP and RI traffic studies are considered worthless; they are not based on the realities of the transactions. Santa Fe also contends that SP's traffic studies are invalid, especially with regard to diversion from Santa Fe.

As to its own proposed inclusion in the transactions, Santa Fe contends that it is necessary only as a method of protecting AT&SF from the adverse impact of the UP-SP transactions. Santa Fe contends, however, that the Memphis and St. Louis gateways are of great importance; that it will be able to provide improved service if it reaches the gateways; and that the public will be substantially benefited thereby. Santa Fe disagrees with UP that conditions should be imposed only when absolutely necessary to protect the public, and contends that the Commission has the authority in a section 5(2) transaction to impose conditions, such as its inclusion in the transactions, which will result in benefits to the public.

The main thrust of *Chicago & North Western's* reply is that due to the enormous traffic diversions which will occur as a result of the proposed merger, a finding that the transaction is within the public interest cannot be found, no matter how many conditions are imposed. North Western cities news articles in which the management of RI refutes the imminent bankruptcy of that railroad. This is followed by a listing of the evils of the transaction, one of which is the demise of the C&NW. Finally, it concludes that the Commission should dismiss the proceeding, or, in the alternative, deny the UP and SP proposals.

In support of its proposals, C&NW states that UP has attempted to distort the nature of the recommended report. C&NW sees that report as being an honest effort at making an unworkable situation workable by usage of protective conditions. It was not, as UP would have one believe, an effort to restructure the rail system by contrived and slanted findings. It further states that UP attempted to mislead the Commission by alleging a sham issue of burden of proof regarding the traffic studies problem. C&NW feels that the case revolves around the issue of traffic studies, and that there is so much information regarding traffic studies in the record that it is futile to state that the burden of proof in this area has not been met. It states that UP's preoccupation in this area stems from its own ineptness in producing worthless traffic studies, which were properly rejected.

Rio Grande reasserts its belief that the recommended report and order merger proposal is totally impractical and unworkable. Rio Grande sees no choice for the Commission but to dismiss the proceeding and begin anew. It points to the new influx of capital into RI to support its request for dismissal of the proceeding, stating that RI will surely not go into receivership. Even if the merger is allowed, Rio Grande asserts that the "National Transportation Policy," as stated by the Commission in the *Central Pacific* case, 328 I.C.C. 345, calls for Rio Grande to be preserved by imposition of proper conditions.

Rio Grande believes that silence of the other parties to Rio Grande's requested conditions indicates acquiescence to such conditions. It states that UP's disagreement with Rio Grande's traffic study is not substantial and should be disregarded. As to BN, Rio Grande states that BN did not introduce any traffic studies and, therefore, no evidence has been put forth showing how BN would be injured by the granting of Rio Grande's conditions. Therefore, BN's position is without substance and should be disregarded, and, notwithstanding UP or BN, the Rio Grande conditions should be allowed if the Commission grants merger.

Western Pacific agrees with other protestants (1) that the UP-SP proposal will have a calamitous impact upon the traffic and revenues of the other railroads involved; (2) that the record is stale; and (3) that certain specific details of Administrative Law Judge Klitenic's overall restructuring plan are inadequate. WP does agree with Administrative Law Judge Klitenic that this proceeding is a proper one for affecting a restructuring of the western railroads, if properly conditioned to protect the smaller railroads.

The manner in which the Commission can best protect WP is by allowing its petition for inclusion into the railroad of its choice. Such railroad would be selected immediately prior to the Commission's decision, and negotiations would begin, culminating in a petition filed with the Commission. After agreement has been reached for WP to be included in the railroad of its choice, then it would not be opposed to merger of the Rock Island into UP.

In reply to the exceptions of UP and SP, WP asserts that there is no basis for attack by those railroads upon the Administrative Law Judge's factual findings. WP also disagrees with the UP-SP argument that the Commission cannot include any small railroad into a larger railroad, if said small railroad has not applied for inclusions. WP states that such inclusions are well within Commission jurisdiction of imposing protective conditions. WP is not opposed to the UP-SP takeover of RI, but it disagrees that the fate of smaller railroads is properly decided after the merger is approved. WP asserts again that the approval of the merger may only be granted concurrently with the imposition of conditions to protect the public interest, i.e., inclusions of smaller railroads.

In reply to the exceptions of RI, WP states that retention of jurisdiction by the Commission to effect inclusions is inadequate and a dangerous substitute for immediate inclusion conditions requested by WP. WP reasons that the smaller railroads will be financially injured during the retention period, and this could be avoided by immediate inclusion. WP's final point is that immediate inclusion will insure that the included railroads are healthy railroads, and that if these small railroads suffer financial injury during the retention period, no one will agree to the inclusion of such a financially ailing railroad.

Burlington Northern believes that UP has misconstrued the role of the Commission in attaching conditions to approval of a transaction. It is in the discretion of the Commission to determine what conditions are needed to protect other carriers. BN re-

asserts that the conditions it requested are consistent with the purpose for which conditions may be prescribed. Therefore, BN feels the conditions granted by the Commission are proper and UP's arguments to the contrary are not sufficient to overcome their imposition.

BN believes that the Rio Grande request to expand its operations between Colorado and the Missouri River was properly rejected. BN feels that this acquisition by Rio Grande is not necessary for the protection of that carrier due to the fact that it will receive benefits from the opening of the Ogden gateway. Also, authorizing the extension to Rio Grande would be at the expense of BN and detrimental to the public in general. However, if the financial benefits of the Ogden gateway opening are not sufficient to overcome the adverse effects of the merger, the Commission can retain jurisdiction for a 5-year period and during that time, grant the extension to Rio Grande.

Finally, BN believes that the denial to KCS of extension between Kansas City and Chicago was proper. Already there are too many carriers operating in this area, and another would only have adverse effects upon all other carriers.

Colorado Southern/Fort Worth & Denver argue that SP's exception to the condition to the merger, forcing SP to sell its acquired one-half interest in the joint Texas division, is not well-founded. Ft.W&D points out that SP considers as fair consideration for the line, its book value. Also, that SP does not need the line, will not service the line fully, and that Ft.W&D does need the line and will provide adequate service. Therefore, Ft.W&D states there was no error in the recommendation to have SP sell the joint Texas division to Ft.W&D.

Two other matters covered by C&S/Ft.W&D are (1) they should properly be considered as separate and distinct entitites from BN; and (2) that denial of SP's request for trackage rights over Ft.W&D was proper. In the latter case, Ft.W&D agreed that the Commission does have the power to grant one railroad trackage rights over a competitor's line. However, the Commission cannot force acceptance of such a trackage rights agreement upon the competitor; there must first be agreement by both railroads to allow the Commission to approve such a trackage rights agreement.

Kansas City Southern replies to UP's exceptions to the Administrative Law Judge's acceptance of the KCS traffic diversion studies. Citing the *Illinois Cent. Gulf R.—Acquisition—G. M. & O., et al.*, 338 I.C.C. 805, KCS points out that the truth in diversion studies lies somewhere between applicants' figures and protestants' figures. Also that the Administrative Law Judge was in the best position to determine which studies were closer to the truth, thus, his decision should stand. KCS also points to the fallacies in UP's traffic studies. These consist of reliance on intangible factors and allocation of traffic figures. Both of these, KCS states, are not reliable bases for traffic studies due to the inability to calculate reasonably, either factor. However, KCS states that the factor of service improvement will be a major factor in diverting traffic from KCS, and, therefore, it was proper to include this into their diversion study.

Missouri Pacific states that the present financial situation, and the financial trends over the past few years, reinforces the findings of cataclysmic competitive injury found in the report. Also, MoPac states that applicants have not sustained the burden of proving that the public interest factors of their proposal outweighs the adverse impact on the affected intervenors (i.e., MoPac). Along this same line, MoPac cities cases where, even with conditions imposed, a merger was disapproved because of competitive injury to other rail carriers.

With regard to the requests for immediate action by RI and UP, MoPac says that the Commission should not be "railroaded" into approving the transaction with a careful and complete review of the entire proceeding. It does state that if this proceeding can be properly conditioned to protect other carriers, that the merger would be proper to approve. However, there is no need to rush through an approval. MoPac points to the proposed gains which UP and SP will receive from the transaction as substance for MoPac's allegation that neither UP nor SP will withdraw from the transaction.

MoPac claims that there is no basis for UP's contention that its application should be granted because the Administrative Law Judge was biased. It cites several cases for the proposition that it is not unusual for the Administrative Law Judge to announce his decision, and then, at a later time give the underlying reasons for the decision. MoPac defends the Administrative Law Judge's decision to reject applicants traffic studies, and states that the studies accepted by the Administrative Law Judge need not be disregarded merely because such studies were prepared by protestants.

MoPac reasserts its request for denial, and gives as one reason, that RI should be required to demonstrate that it cannot obtain substantial relief by an effective abandonment program.

MoPac attacks Rio Grande's request for extension to Kansas City and Omaha, stating that such acquisitions would have devastating effects on MoPac. It cites the Administrative Law Judge's three reasons for denying Rio Grande such acquisition: (1) such acquisition would do little to improve Rio Grande's relative strength; (2) extension would place Rio Grande at a competitive disadvantage with other parallel lines; and (3) there would be significant diversions from Rio Grande's major eastern connections, MoPac and Burlington.

MoPac reasserts that applicants have the burden of proving that the merger will not adversely affect the general competitive situation in the industry by seriously impairing the working capacity and financial resources of competing carriers. Also, it attacks applicants' traffic studies because they were submitted by persons who did not have first-hand knowledge of the matters contained therein.

St. Louis-San Francisco, in its reply, reiterates that the original "Grand Design" as set forth by the Administrative Law Judge is not acceptable; and that the record is stale, and not the proper basis upon which to formulate a decision.

Kendall Laughlin believes that the Commission should have complete supervision over the issuance of the securities by holding companies involved in these proceedings, notwithstanding the pleas of SP, UP, and Santa Fe. Along the same lines, he believes that the imposition of conditions to prevent holding companies from raiding the railroad properties is proper and necessary.

Mr. Laughlin believes that the Commission should deny UP's petition to control RI due to UP's reluctance to issue stock to the shareholders of RI in exchange for their stock. As an alternative to the proposed method of financing of the transaction, Mr. Laughlin has set forth his own plan. This plan, among other things, would call for payment of $120 million for the southern portion of RI in either debentures or cash.

Mr. Laughlin believes that the disposition of land-grant lands, by UP, SP, and Santa Fe should be treated no different than the disposition of any other property owned by them. He also believes that UP does not fully understand its responsibilities to the stockholders of RI regarding the sale of the southern segment of the Rock Island.

APPENDIX D

Traffic Diversion

Both applicants and the intervening carriers submitted studies of traffic diversion likely to result from the various transactions proposed herein, and, from the affirmative relief requested by the various intervenors. These studies, are discussed in detail in the Administrative Law Judge's recommended report.

The results of the parties' studies of the UP-SP transactions and the Santa Fe's petition for inclusion are set forth in the tables shown below:

TRAFFIC STUDY RESULTS.—*Revenue diversions estimated by applicants and protestants under UP's merger with Northern Rock Island*

Carrier from which diverted	Applicant's estimates		Protestants' estimates	
	Gross revenue	Net revenue	Gross revenue	Net revenue
CB&Q	$2,341,553	$1,267,133	$14,397,863	$9,512,668
C&S	499	273	30,465	24,372
FW&D	---------	---------	---------	---------
GN	122,626	65,488	3,376,814	N.E.
NP	97,777	58,870	3,856,961	N.E.
SP&S	---------	---------	327,258	N.E.
BN System	2,661,870	1,391,764	21,989,361	9,537,040
C&NW-CGW	3,477,940	1,412,708	N.B.	N.B.
MP	1,076,953	651,883	6,679,414	4,781,353
T&P	---------	---------	---------	---------
MP-T&P	1,076,993	651,883	6,914,280	4,960,013
AT&SF	552,389	310,977	5,368,200**	N.E.
D&RGW	1,672,656	1,045,299	7,847,156	N.B.
MILW	1,415,694	606,768	6,524,040	3,672,656
SL-SF	899,644	507,810	4,918,800 ≁	2,948,226≁
KCS-L&A	172,637	126,885	N.B.	N.B.
WP	---------	---------	N.B.	N.B.
MKT	183,266	116,542	938,773	723,798
Total	12,113,049	6,170,636	--------	--------

See notes at end of table.

TRAFFIC STUDY RESULTS.—*Revenue diversions estimated by applicants and protestants under SP's purchase of Southern Rock Island Lines*

Carrier from which diverted	Applicant's estimates		Protestants' estimates	
	Gross revenue	Net revenue	Gross revenue	Net revenue
CB&Q	---------	---------	$907,160	$599,361
C&S	$99,415	$54,281	218,287	174,630
FW&D	120,948	66,159	389,424	311,539
GN	--------	--------	153,906	N.E.
NP	---------	---------	---------	---------

See notes at end of table.

TRAFFIC STUDY RESULTS.—*Revenue diversions estimated by applicants and protestants under SP's purchase of Southern Rock Island Lines*—Continued

Carrier from which diverted	Applicant's estimates		Protestants' estimates	
	Gross revenue	Net revenue	Gross revenue	Net revenue
SP&S	---------	---------	---------	---------
BN System	$220,363	$120,440	$1,668,777	$1,085,530
C&NW-CGW	---------	---------	N.B.	N.B.
MP	241,517	80,425	2,512,416	1,694,636
T&P	67,593	34,253	4,244,334	2,122,167
MP-T&P	309,110	114,678	6,521,884	3,638,147
AT&SF	248,667	149,200	4,572,700**	N.E.
D&RGW	---------	---------	997,096	N.E.
MILW	---------	---------	---------	---------
SL-SF	301,975	158,537	1,584,500/	1,034,877/
KCS-L&A	337,247	165,288	N.B.	N.B.
WP	---------	---------	N.B.	N.B.
MKT	173,818	90,733	2,898,320	2,234,605
Total	1,591,180	798,876	---------	---------

See notes at end of table.

TRAFFIC STUDY.—*Cumulative revenue diversions estimated by applicants and protestants under UP's and SP's transactions*

Carrier from which diverted	Applicant's estimates		Protestants' estimates	
	Gross revenue	Net revenue	Gross revenue	Net revenue
CB&Q	$2,341,553	$1,267,133	$15,305,023	$10,112,029
C&S	99,914	54,554	248,752	199,002
FW&D	120,948	66,159	389,424	311,539
GN	122,626	65,488	3,530,720	N.E.
NP	97,777	58,870	3,856,961	N.E.
SP&S	---------	---------	327,258	N.E.
BN System	2,782,818	1,512,204	23,658,138	---------
C&NW-CGW	3,477,940	1,412,708	13,948,711	9,347,694
MP	1,318,470	812,975	9,191,830	6,475,993
T&P	67,593	34,253	4,244,334	2,122,167
MP-T&P	1,386,063	847,228	13,436,164	8,598,160
AT&SF	801,056	460,177	9,500,000**	N.E.
D&RGW	1,672,656	1,045,299	8,830,687	5,099,159***
MILW	1,415,694	606,768	6,524,040	3,672,656
SL-SF	1,201,619	666,347	6,488,000/	3,979,404/
KCS-L&A	509,884	292,173	5,910,473	3,505,335
WP	---------	---------	4,748,268/ /	2,773,308/ /
MKT	357,084	207,275	3,837,098	2,958,403
Total	13,604,814	7,050,179	97,009,571	---------

NOTE: BN system and MP-T&P totals are for component carriers as shown separately.

N.E.—No estimate.

N.B.—No breakdown made of the cumulative losses estimates for UP and SP transactions.

**—Total of separate estimates in tables for UP and SP transactions exceeds amounts shown above by $440,000 due to inclusion of amounts lost by lines other than AT&SF.

***—Represents "net income before income taxes."

/—Amount adjusted to reflect duplication of 100 cars considered divertible under either UP or SP transactions.

/ / —Estimates reflect gross revenue and cost of handling for WP exclusive of its subsidiaries. Gross revenue diversions for WP and subsidiaries were estimated to be $4,876,260.

TRAFFIC STUDY RESULTS.—*Revenue diversions estimated by Santa Fe and protestants under Santa Fe's petition for inclusion*

Carrier from which diverted	Santa Fe estimates	Protestants' estimates	
	Gross revenue only	Gross revenue	Net revenue
C&NW	---------	N.E.	N.E.
SL-SF	$4,205,900	$11,047,600[a]	$6,774,693[a]
MP	N.B.	4,515,953	2,796,321
T&P	N.B.	2,443,857	1,221,929
MP-T&P	3,464,900	6,446,182	3,705,688
SP-SLSW	796,500	N.E.	N.E.
KCS-L&A	463,300	1,601,467[c]	1,122,146[c]
WP	7,900-G	1,361,502[c,d]	924,277[c,d]
MKT	181,300	647,697[b]	498,727[b]
CB&Q	N.B.	1,263,190[b]	834,590[b]
FW&D	N.B.	277,329[b]	221,863[b]
C&S	N.E.	7,364[b]	5,891[b]
BN System	177,800	1,547,883[b]	1,062,344[b]
UP	N.E.	N.E.	N.E.
Total	9,281,800	30,646,405	12,081,214

N.E.—No estimate.

N.B.—Breakdown.

G.—Gain.

[a]Reflects 600 cars representing $109,700 in gross revenue and $58,739 in net revenue considered divertible under either UP-RI northern or AT&SF transactions.

[b]Estimate of losses to Santa Fe based on Santa Fe purchase of southern Rock Island lines from, and Kansas City-St. Louis trackage rights over, Rock Island under control of North Western—no figure available reflecting Union Pacific ownership of northern Rock Island lines.

[c]Cumulative figure for losses to both C&NW and AT&SF, assuming approval of North Western and Santa Fe transactions.

[d]Estimates reflect gross revenue and cost of handling for WP exclusive of its subsidiaries. Gross revenue diversion for WP and subsidiaries was estimated to be $1,397,045.

Union Pacific, Southern Pacific and *Rock Island* cooperated in the preparation of their studies of diversion likely to result from the UP-SP division of the Rock Island, and, as is demonstrated by the above tables, their estimates differ greatly from those of the intervening carriers. Each of the applicants studied approximately 80 percent of the traffic moving through selected gateways. Union Pacific studied its traffic interchanged at gateways in Wyoming, Colorado, Kansas, Missouri, Nebraska, and Iowa, and, in order to give effect to sale of the southern Rock Island, traffic originating or terminating at points in Oklahoma, Texas, Arkansas, Louisiana, southern Kansas, and several States in the Southeast. Rock Island studied traffic it handled in interline service as well as traffic originating or terminating on the southern portion of its system. SP confined its study to its nonperishable interline traffic moving through EL Paso or handled on SP's lines in Louisiana and Texas, and its Cotton Belt subsidiary studied all of its interline traffic, except that interchanged with SP. In conducting their studies, UP analyzed only multicar movements; Rock Island included single-car movements only where the number of multicar movements were not sufficient to reach 80 percent of the class of traffic under consideration; and SP eliminated nonrecurring movements. Following analysis, the 80 percent samples were expanded to 100 percent.

The Administrative Law Judge found that applicants' studies were of doubtful validity and reliability, due to several factors: (1) the almost total exclusion of single-car and nonrecurring movements from applicants' studies and the total exclusion by SP of all perishable traffic from its study; (2) the failure of UP to consider the effect of joint UP-SP ownership of Pacific Fruit Express' refrigerated equipment; (3) the failure of UP to consider traffic interchanged in Utah and at points in the Pacific Northwest, which resulted in understatement of diversion from Western Pacific and BN; and (4) the failure of applicant-carriers to provide their evaluators with such significant information as the ownership of the equipment in which the studied shipments were transported; the railroad upon which the shippers or receivers were located; the complete route of movement, reconsignment or diversion in transit; and the availability or use of facilities which govern stoppage in transit. Moreover, the studies were limited to traffic in which the applicants participated. While this is probably unavoidable and applicants cannot be faulted for failure to study traffic of which they have no records, it still tends to result in understated diversion. As a result, the Administrative Law Judge concluded that the applicants' estimates of diversion, at best, could only be considered a bare minimum of losses which the protestant-carriers would be likely to suffer as a result of the proposed transactions. We agree with his determination.

Santa Fe prepared two studies: one of the impact on it of the UP-SP transaction; and the other of the effect of its own proposed acquisition of the southern Rock Island on other carriers. Both studies were based on a 1-percent sample of Santa Fe's line-haul traffic during the 12-month period from October 1963 through September 1964. Santa Fe estimated that it would lose approximately $9.5 million in gross annual revenue as a result of the UP-SP transactions. Administrative Law Judge Klitenic found this to be somewhat overstated, but, even taken at face value, Santa Fe's estimate represents only about 1.49 percent of the carriers' gross annual revenue in 1964. A loss of this amount of traffic should be easily sustainable by a carrier of Santa Fe's size and financial strength.

Santa Fe's study of gains from its proposed acquisition, like the UP-SP-Rock Island studies, was confined to a study of its own traffic, and thus, inherently is somewhat understated. However, the Administrative Law Judge determined that Santa Fe's methodology was acceptable and that, for the most part, its study was acceptable and reliable. He did determine, however, that Santa Fe had understated the diversionary impact of its transaction on MoPac, T&P, and Frisco. Most of the understatement was attributed to Santa Fe's treatment of potash traffic originating at Carlsbad, N. Mex., the largest single origin point of interline traffic on the Santa Fe system. The

Administrative Law Judge found that although Santa Fe now short hauls itself in order to interchange this traffic, with MoPac-T&P and Frisco, it would be likely to retain far more of the potash traffic were it to gain access to the St. Louis and Memphis gateways. Similarly, he found that Santa Fe had underestimated the extent of its diversion of freight forwarder traffic now handled by Santa Fe and Frisco via the Floydada gateway. The Administrative Law Judge determined that due to the better service which the Santa Fe would be able to provide as a result of reaching the Mississippi River gateways, Frisco would lose virtually all of this traffic.

North Western and *Chicago Great Western* each submitted studies based on their traffic during 1964, showing their losses likely to result from the UP-SP transactions. North Western, in its study, estimated that it would lose $10,745,065 in gross annual revenues from traffic it interchanged with UP and certain other connections. Of the lost UP interchange traffic, $10,045,259 would be from traffic moved over North Western's Chicago-Omaha line, and of this traffic, $5,217,817 would be revenue lost from transporting eastbound bridge traffic and $2,057,204 from lost westbound bridge traffic revenue. In conducting its study, North Western conservatively assumed that joint UP-C&NW service would be as expeditious as UP single-line service.

Chicago Great Western, in its study, used the same methodology as North Western, and estimated that it would lose $2,731,646 in gross annual revenues. After the 1968 merger of North Western and CGW, North Western adopted the Great Western's study so that the total loss claimed by the merged North Western is $13,948,711 in gross annual revenue and $9,347,694 in net revenue. Virtually all of this loss is attributed to UP's acquisition of the northern Rock Island, and C&NW does not anticipate any significant traffic diversion as a result of the acquisition of the southern half of Rock Island by either Southern Pacific or Santa Fe.

Administrative Law Judge Klitenic determined that the methodology and sampling procedures used by CGW and C&NW were in accordance with acceptable standards for such studies and that the studies were, in fact, conservative and represented acceptable and reliable estimates of losses likely to be incurred as a result of the UP-SP transaction. However, he determined that, because of the unknown effects of the CGW-C&NW merger, it would be statistically invalid to combine the results of the two separate studies. He thus concluded that North Western's loss would be greater than the $10,745,065 estimate for the premerger C&NW alone, but less than the $13,948,711 combined estimate. This represents 4.2-5.4 percent of C&NW-CGW combined 1964 railway operating revenues of $252,131,000.

We agree with the Administrative Law Judge that North Western's estimate is a reasonable one. C&NW's interchange with Union Pacific in the Omaha area has long been its largest with any single carrier. In 1964, almost two-thirds of the premerger C&NW's interchange with UP was traffic received from UP, and some 52 percent of the total C&NW-UP interchange, worth $11.9 million in revenue to North Western, was bridge traffic to the C&NW. As compared to the originating and terminating carriers, bridge carriers normally are able to exercise the least influence over the routing of traffic. It is thus quite conceivable that North Western would suffer the loss of very substantial portions of its bridge traffic if UP acquired the northern half of the Rock Island. In view of the marginal financial condition of the North Western, we think that the Administrative Law Judge was justified in his finding that the North Western would not be able to withstand a loss of this magnitude.

For its traffic study, the *Milwaukee* analyzed its traffic during 4 representative months in 1964. The traffic studied included that interchanged with UP and Rock Island as well as traffic for which a merger UP-Rock Island would be competitive. Mil-

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waukee assumed that its services would remain as competitive after the merger as they were during the period covered by the study.

The protestant estimated that UP's acquisition of the Northern Rock Island would result in the diversion of 36,087 cars annually and $6,524,040 in gross revenue, with or without sale of the southern portion of Rock Island. Of this traffic, 26,280 carloads with Milwaukee revenue of $4,264,470 or about 10 percent of all Milwaukee traffic in the subject category, would be diverted from the protestant's interline traffic having its origin or destination in the States of Nebraska, Kansas, Colorado, Wyoming, Utah, Nevada, California, Idaho, Montana, Oregon, Washington, and the Province of British Columbia, and from traffic originated on the SP in Texas, New Mexico, and Arizona and handled by Milwaukee north of Kansas City.

Although the Administrative Law Judge did not totally approve of Milwaukee's method of grouping cars for evaluation, he found Milwaukee's estimate of losses to be a reasonable and acceptable estimate of maximum losses under the UP-Rock Island merger. Milwaukee's estimate represents about 2.84 percent of its gross railway operating revenues in 1964, and the Administrative Law Judge found that this loss would result in Milwaukee's demise as a viable operation.

We agree with the Administrative Law Judge's determination. Milwaukee's interchange with UP in the Omaha area is the protestant's largest with any carrier west of Chicago. Of the 90,512 cars Milwaukee interchanged with UP at Omaha-Council Bluffs, in 1965, 52,014 were received from UP. Much of this traffic is bridge traffic to Milwaukee, and, as such, the protestant is able to exert only limited influence on its routing. It is reasonable to assume then, that Milwaukee would lose substantial portions of bridge traffic were UP permitted to acquire the northern Rock Island. Considering this probable loss and Milwaukee's history of marginal profitability, it is quite likely, as determined by the Administrative Law Judge, that the UP-northern Rock Island merger, without adequate protection, would result in the demise of Milwaukee as a viable carrier.

Milwaukee also submitted estimates of its losses resulting from Kansas City Southern's requested acquisition of trackage rights between Kansas City and Chicago. Milwaukee estimated that some 18,774 cars with Milwaukee revenue of $3,822,630 would be susceptible to diversion. However, the traffic in the study was not analyzed on a movement-by-movement basis and the study was made hastily. The Administrative Law Judge found that, at best, Milwaukee's study of losses to Kansas City Southern represents a mere guess of no probative value.

Although they used the same basic methodology and coordinated their efforts in order to eliminate any duplications, *Burlington Northern's* predecessors, Northern Pacific, Great Northern, Chicago Burlington & Quincy, and Spokane Portland & Seattle, submitted separate diversion studies. In addition, BN's subsidiaries, Colorado & Southern and Fort Worth & Denver, submitted their own studies of diversion losses. The predecessor's studies were based on the assumption that the Northern Lines merger would not be consummated and that protestants would be at a competitive disadvantage in that they would not be able to offer single-line service between the Pacific Northwest and the Chicago and St. Louis gateways. NP, GN, CB&Q, and SP&S estimated a combined annual revenue loss of $23,019,962, of which $21,958,896 would be lost as a result of the UP transaction. C&S-FW&D estimated a gross annual revenue loss of $638,176, $607,711 of which would be lost to SP. Most of BN's loss, $15,305,023 would be attributed to traffic lost by the Chicago Burlington & Quincy, the BN constitutent company which operated in the same general area as Rock Island

and which competed with Rock Island between a number of points, including Chicago-Omaha-Denver.

The Administrative Law Judge found that CB&Q's traffic study to be overstated, and determined that, in view of the Northern Lines merger, the separate studies submitted by NP, GN, and SP&S need not be considered. He thus determined that BN's annual diversion losses, while not susceptible to exact calculation, would be well under $15 million and would not adversely affect the Burlington Northern system.

On exceptions, BN submitted a reevaluation of the CB&Q study which it contends shows that the minimum provable losses of the CB&Q component of the BN would be $11,466,325, of which $7,974,314 would be lost bridge traffic. BN was not able to reevaluate the studies of the other three component carriers and it thus contends that while it has a minimum provable loss of $11,466,325, its actual diversion losses would be substantially more. BN also contends that, as its study was based on 1964 revenues, its minimum provable loss should be increased by 42.5 percent in order to reflect recent rate increases, thus giving it a provable diversion loss of $16,339,513.

As a result of the Northern Lines merger, BN can now offer single-line service between the Chicago and St. Louis gateways and points in the Pacific Northwest. The Administrative Law Judge quite properly, then, rejected BN's predecessors' studies as irrelevant to the present competitive position of the BN. Nevertheless, it is obvious that BN would still be likely to lose substantial amounts of traffic as a result of the UP transaction. The old Chicago Burlington & Quincy's competitive position in the Central Corridor was not substantially changed by the BN merger. BN lines do not reach Utah, Nevada, or Arizona, nor any significant point in California. It enters California, over its own lines, only via a branch line to Bieber, Calif., and its single-line route between Chicago and Bieber is rather circuitous. Thus, on most Central Corridor traffic, BN must still depend on either its connection with UP at Grand Island, Nebr., or its connection with the Rio Grande at Denver. BN's interchange with UP at Omaha-Grand Island is second in volume only to that of the North Western. In 1963, UP and CB&Q interchanged 104,695 cars in the Omaha-Grand Island area, much of which was bridge traffic to the CB&Q. Although, unlike North Western's and Milwaukee's UP interchange traffic, a majority of the CB&Q traffic, 67,491 cars, was delivered to UP by the CB&Q, it is obvious that substantial portions of this traffic would be susceptible to diversion as a result of the institution of single-line Central Corridor service by UP.

We find, however, that any likely diversion losses resulting from the UP-SP transactions would not injure BN substantially. Even accepting BN's "provable" diversion loss of $11,466,325 and updating the estimate to $16,339,513, BN's provable loss would constitute only 1.63 percent of its 1972 gross operating revenues of $1 billion. Allowing additional diversion from NP, GN, and SP&S portions of BN and accepting and updating Rio Grande's estimate of $2,122,594, whch would be diverted from BN as a result of its request relief, would still result in diversion of not more than about 2.5 percent of BN's revenue.* Although BN would undoubtedly be somewhat weakened by such a loss, a carrier of its size and profitability should be able to withstand such diversion without impairment of its ability to perform its vital transportation services.

As to the studies submitted by BN's subsidiaries, the Administrative Law Judge found *Colorado & Southern's* and *Fort Worth & Denver's* studies to be somewhat

*Rio Grande's estimate of diversion was used as it was slightly higher than CB&Q's estimate of $2,062,384 in diversion resulting from Rio Grande's requested relief.

found that T&P would be unlikely to lose any significant traffic at the El Paso gateway due to the SP transaction, primarily because most traffic presently handled through that gateway is the result of T&P's own intensive solicitation efforts and also because of persuasive evidence demonstrating that the MP could, if it chose, route more traffic through El Paso, rather than via MP's connection with the Santa Fe at Pueblo, Colo. The Administrative Law Judge accordingly determined that the impact of the SP transaction on the MP system would require nothing more than the imposition of the standard "DT&I" traffic conditions for the protection of the MoPac system. However, Administrative Law Judge Klitenic found the MoPac system to be heavily dependent on the Santa Fe system for traffic and likely to lose substantial quantities of Santa Fe interline traffic if Santa Fe's inclusion in the proposed mergers were approved. He thus, determined that the impact of the Santa Fe's inclusion, coupled with that of the UP and SP transactions, would require the imposition of special conditions for the protection of the operations and services now provided by the MP system. The impact of the UP-SP-Santa Fe transactions would be further exacerbated by the substantial diversion MP would be likely to suffer if Rio Grande's requested affirmative relief were granted.

While it may not be possible to quantify the MP system's diversion losses with precision, we agree with the Administrative Law Judge that they would be substantial. MP interchanged 51,738 cars with UP at Kansas City in 1966, of which 31,642 were received from UP. Obviously, if UP were permitted to enter St. Louis a substantial portion of this traffic would be subject to diversion. The MoPac system also interchanges large quantities of traffic with SP in Texas and Louisiana and it would be likely to suffer diversion of some of this traffic if SP were permitted to acquire its own line between Texas and Kansas City and a direct line between St. Louis and southern Louisiana points. It might also expect to lose some traffic as a result of the new competitive service which SP could offer between such points as St. Louis and New Orleans. We agree with the Administrative Law Judge, however, that MoPac-T&P would be unlikely to lose any significant traffic at the El Paso gateway as a result of the SP acquisition. MoPac-T&P would also be quite likely to lose substantial traffic as a result of Santa Fe's inclusion. In 1965, the MoPac system received approximately 42,000 cars from Santa Fe at various points in eastern Texas plus an additional 19,000 cars at Kansas City and eastern Kansas points. Obviously, significant portions of this traffic would be jeopardized if Santa Fe were permitted to enter the Mississippi River gateways at St. Louis and Memphis.

We disagree, however, that special conditions are necessary for the protection of the Missouri Pacific system. Assuming that MP lost $8.2 million as a result of the UP-SP transactions, as MP estimated and which the Administrative Law Judge found to be overstated, and $3.46 million to Santa Fe, Santa Fe's somewhat understated estimate, the MoPac system's total loss would be $11.66 million or about 3.1 percent of MP-T&P's combined 1964 operating revenues of $378 million. Even including the additional $4.6 million diversion loss estimated by Rio Grande as a result of its acquisition of the western portion of the Rock Island, the MoPac systems total loss would still represent only about 4.3 percent of its total operating revenue. While a loss of this magnitude would unquestionably be injurious to the MoPac system, it is a relatively sound and prosperous carrier and would be able to sustain this diversion without impairment of its ability to provide its vital transportation services. It should also be noted that combining the losses to both SP and Santa Fe results in some overstatement. Obviously, both SP and Santa Fe cannot acquire the same portions of

the Rock Island and MoPac's traffic would be subject to diversion only to the one carrier which acquired any given portion of the southern Rock Island.

In addition to its study of losses likely to result from the various transactions proposed herein, T&P submitted gain studies of its requested affirmative relief. T&P estimated that if it were permitted to acquire trackage rights over SP's line between El Paso and California, it would gain an additional $11,144,162 in gross annual revenue, of which $9.6 million would be derived from westbound traffic and $1.5 million from eastbound traffic. Of this revenue, $5.7 million would be derived from traffic originating or terminating in the Los Angeles area. Administrative Law Judge Klitenic found T&P's methodology to be generally acceptable, but the portion of the study which considered gains from traffic not presently handled by either T&P or MP, was found to be a very rough estimate. If it received its requested trackage rights over Santa Fe's line between Pecos, Tex., and the potash fields around Carlsbad, N. Mex., T&P estimated that its gross revenues would be increased by $5,167,566 per year and its net revenue by $2,024,731. Santa Fe estimated that its gross revenue loss would be $7.1 million if T&P received this requested relief. The Administrative Law Judge found T&P's gain study of the potash traffic to be a rough estimate.

Frisco, for its study, conducted a 1 percent sampling of its traffic during the period from October 1965 through September 1966. The intervenor estimated that it would lose 29,500 cars representing $4,918,800 in gross revenue if UP acquired the northern half of the Rock Island and 8,400 cars worth $1,584,500 in revenue if SP acquired the southern portion. As it found 100 cars and $15,300 in revenue to be divertible as a result of either transaction, it estimated that its total gross revenue loss from the UP-SP transactions would be $6,488,000 on 37,000 cars. Frisco's estimate of diversion loss to Santa Fe, in the event it is permitted to acquire the southern Rock Island, is $11,047,600 in gross annual revenue, or a total of $15,856,700 if UP and Santa Fe divided the Rock Island between them.

Administrative Law Judge Klitenic found the probability methodology and sampling procedures utilized by the Frisco to be in accordance with acceptable standards of probability sampling theory and practices. However, the Administrative Law Judge rejected approximately 30 evaluations in Frisco's study of the UP-SP transactions and determined that, accordingly, Frisco's estimate of diversion losses was overstated by about $700,000 or $750,000. He also found Frisco's estimate of diversion losses to Santa Fe to be somewhat overstated, primarily in that its estimates of diversion of traffic handled east of the Memphis gateway were excessive. As he had found Santa Fe's estimates of Frisco's diversion losses to be understated, especially on potash and freight forwarder traffic, the Administrative Law Judge determined that Frisco's actual diversion loss as a result of the Santa Fe transaction would be between $7 and $8 million. The Administrative Law Judge thus determined at Frisco's total diversion losses, without considering any possible duplications between the losses atrributed to SP and Santa Fe, would be between $12,738,000 and $13,788,000 or between 8.85 and 9.6 percent of Frisco's 1966 gross railway operating revenue of $143,610,000. Based on these findings, the Administrative Law Judge concluded that Frisco, as a result of the proposed transactions, would no longer be able to sustain the greater portion of its railroad plant.

It is obvious that very substantial portions of Frisco's traffic would be jeopardized by the proposed mergers, especially by the UP transaction and Santa Fe's entry into St. Louis and Memphis. Approximately 29 percent of Frisco's 1968 traffic was bridge traffic and another 29 percent was interline traffic terminated on the Frisco. Thus, Frisco can exert only a limited influence on the routing of some 58 percent of its total traffic, and bridge traffic, of course, is especially susceptible to diversion.

Frisco's interchange with UP at Kansas City is its largest single interchange with any carrier, and about 48 percent of its UP traffic is bridge traffic destined to or from points in the Southeast. Clearly much of this bridge traffic would be susceptible to diversion if UP acquired the Rock Island line between Kansas City and St. Louis. Similarly, of the 79,837 cars that Frisco interchanged with Santa Fe at Kansas City, Fredonia, and Cherryvale, Kans., Avard, Okla., and Floydada, Tex., in 1966, 40,834 cars were bridge traffic transported between Frisco's Santa Fe connecting points and its connections with other carriers at St. Louis, Memphis, and Birmingham. Santa Fe would be likely to divert large portions of this traffic were it permitted to gain direct connections with major eastern and southern rail systems at St. Louis and Memphis. Frisco also transports a substantial amount of bridge traffic between Kansas City and connections with SP at various Texas points. Of the 28,512 cars Frisco interchanged with SP at five points in northern Texas, during 1966, about 5,000 were bridge traffic destined to or from Frisco's connections at Kansas City. This traffic would be highly susceptible to diversion were SP to acquire the Rock Island line between Texas and Kansas City. Thus, while Frisco's estimate of its diversion losses may be somewhat exaggerated, it is clear that they would be quite substantial and we agree with the Administrative Law Judge's fundamental analysis that Frisco, even though it is a relatively prosperous carrier, would be unable to withstand the traffic diversion likely to result from the proposed transactions.

For its traffic study, the *Katy* analyzed its traffic during the month of October 1964, which it considered to be representative of its traffic, operating and service conditions, and expanded the results to a full year basis. The cars which were studied included (1) all Katy movements which were either interchanged with, or terminated or originated on, any of applicants, Great Western or Milwaukee; (2) all Katy traffic which moved to, from, or through St. Louis, Kansas City, Oklahoma City, Dallas, or Fort Worth; and (3) all Katy local traffic which originated or terminated at a point served in common any one or more of the applicants, Great Western or Milwaukee.

Katy estimated that it would lose $3,837,098 in gross annual revenues and $2,958,403 in net revenue as a result of the UP-SP split of the Rock Island. Of this diversion loss, $2,898,320 in gross revenue would be lost as a result of the SP acquisition and the remaining $938,778 due to UP's acquisition of the northern portion of the Rock Island. Katy's study of the Santa Fe proposal was based on the assumption that North Western would acquire control of the northern half of Rock Island, and resulted in an estimate that Katy would lose $647,697 in gross annual revenue if Santa Fe acquired the southern Rock Island. According to the intervenor's study, Katy would thus lose approximately 7.6 percent of its 1964 gross operating revenues of $50.7 million as a result solely of the UP-SP transaction. Administrative Law Judge Klitenic found that Katy had furnished a reasonably accurate and reliable study of its estimated losses under both the UP-SP transactions and the Santa Fe's proposed acquisition, and he determined that Katy would unquestionably have to be included in one of the successful applicants.

We are in essential agreement with the Administrative Law Judge that some form of protection must be imposed for Katy's benefit. Approximately 77 percent of Katy's total traffic is interlined with other carriers and, as Katy enters both St. Louis and Kansas City via trackage rights over other railroads, it must depend on terminal companies and other carriers for most traffic originating or terminating at two of its most important terminal cities. Thus, Katy has only limited influence over the routing

of much of its traffic and substantial portions of its traffic is inordinately vulnerable to the influences of other companies. Certainly, Katy would be likely to lose a substantial portion of the traffic which it now handles between Kansas City and St. Louis. In 1965, Katy handled 10,753 cars, worth $1,352,151 in revenue, in overhead movement between the two Missouri cities, and 7,098 of these cars moved from Kansas City to St. Louis. As UP is Katy's largest single connection at Kansas City, we think it obvious that a substantial portion of Katy's Kansas City-St. Louis bridge traffic would be likely to be diverted if UP were permitted to acquire the Rock Island line to St. Louis. We accordingly believe Katy's estimate of diversion losses to UP to be reasonably accurate.

Katy's basic concern, however, is that it would not be able to successfully compete with the parallel Rock Island line between Kansas City and Texas if the line were under the control of a strong carrier such as SP. We think Katy's concern may be somewhat exaggerated. Although the Southern Pacific System accounts for over 40 percent of Katy's interchange in Texas, most of this traffic is either originated or terminated on Katy. Moreover, Katy's traffic between Kansas City and Texas points is predominately southbound and, thus, less likely to be subject to the influence of SP, and, as the SP system already has its own route between St. Louis and Texas, Katy's St. Louis-Texas traffic would be unlikely to be substantially effected by SP's acquisition of the southern Rock Island. But, even if Katy's estimate of diversion losses to SP should prove to be exaggerated, it is clear that its losses would be substantial. Katy is, itself, in such poor financial condition, that it is extremely unlikely to be able to withstand any substantial traffic diversion. Accordingly, we find that inclusion in some other system must be required for Katy's protection.

Although Katy petitioned for inclusion in one of the successful applicants, neither it nor any of the other parties submitted studies of the impact of its inclusion. The Administrative Law Judge, in recommending inclusion of the Katy in the Southern Pacific System, determined, however, that the parties had received ample notice of Katy's petition, and, thus, had no valid grounds for seeking further hearing for the purpose of establishing any additional diversion losses which might result from the inclusion. We concur in this determination.

The *Kansas City Southern-Louisiana & Arkansas system* submitted estimates of the diversionary impact of the UP-SP transaction, which was based on a study of the Kansas Cith Southern system's 1964 traffic. KCS estimated that the system would lose a total of $5,910,000 in gross annual revenue as a result of the UP-SP transaction, of which $474,000 would be lost by KCS proper, and $899,000 by the L&A. Unfortunately, KCS did not break down its study to indicate the extent of its losses to UP and SP individually, but some idea of its losses to the individual applicants may be gained from applicants' studies which indicated that the KCS system's losses to SP would be about double its diversion losses resulting from the UP transaction. The KCS system also submitted a study of the impact of the proposed North Western-Santa Fe acquisition of Rock Island which indicated that the KCS system would lose a total of $1,601,476 in gross revenue annually as a result of that transaction. In addition, KCS submitted another study showing that it would lose a total of $6,687,000 in gross annual revenue if the UP were permitted to acquire the entire Rock Island.

Administrative Law Judge Klitenic found KCS's probability sampling methodology and procedures to meet acceptable standards and he accepted the study of the UP-SP transactions as representing a reliable estimate of maximum losses. He, however, considered neither the study of UP's acquisition of the entire Rock Island, nor the study of the joint Santa Fe-North Western proposal, the latter because KCS had failed to break down its studies to the separate impacts of the Santa Fe and North Western transactions. The Administrative Law Judge determined that the UP-SP transactions, together with the inclusion of the Katy in SP and the acquisition of the Memphis-Amarillo line by Santa Fe, would present the KCS System with diversionary impact which it would be unable to withstand in the absence of protective provisions.

KCS fears that if SP acquired the Rock Island line between Kansas City and Dallas, traffic, which it now receives from UP at Kansas City, would be diverted to SP for movement to Texas points, primarily because of the friendly relations between UP and SP, and that other KCS traffic would be attracted to SP's strong new single-line service between Kansas City and Texas and Louisiana points. The intervenor also anticipates that UP, in order to maximize its long haul, would divert Louisiana traffic from Kansas City, to other carriers at St. Louis. Kansas City Southern also fears the loss of L&A bridge traffic now handled between L&A's connection with SP at Alexandria and its connection with Cotton Belt at Stamps, Ark., if SP acquired Rock Island's Little Rock-Alexandria line, and the loss of bridge traffic between Dallas and New Orleans if Santa Fe acquired the Rock Island line to Memphis.

The KCS system's estimate of its diversion losses to UP and SP amount to approximately 7.9 percent of its consolidated 1964 railway operating revenues of $75,149,000. As the KCS system is not primarily a bridge carrier its estimate of losses to UP and SP may be somewhat overstated, but the system's basic apprehensions appear justified.[7] The KCS interchanged a total of 15,861 cars with UP, in 1966, and KCS-L&A interchanged 84,577 with the SP system at various points in Texas, Louisiana, and Arkansas. While obviously much of this traffic would not be jeopardized by the UP and SP transactions, clearly substantial portions would be susceptible to diversion. Moreover, as determined by the Administrative Law Judge, the KCS system would be likely to sustain substantial additional diversionary damage as a result of the Santa Fe and Katy proposals. Louisiana & Arkansas received almost 10,000 cars from Santa Fe at Dallas, during 1964, some of which was bridge traffic destined for connections with southern carriers at New Orleans and which would be highly susceptible to diversion if Santa Fe entered Memphis. Santa Fe, itself, estimated that the KCS system would lose $463,300 in gross annual revenue if it acquired the southern half of the Rock Island. In addition, KCS interchanged 9,094 cars with Katy at Eve, Mo., a point on Katy's main line between St. Louis and Parsons, Kans. An indeterminate amount of this traffic would be susceptible to diversion if the Katy were included in the SP system. We conclude, then, that the KCS system diversionary losses would be substantial and we agree with the Administrative Law Judge that protective measures will be required for the benefit of KCS-L&A.

In addition to its studies of the adverse effects of the applicants' various proposals, KCS-L&A submitted gain studies of the effect of its requested affirmative relief. Kansas City Southern estimated that it would gain $6,905,595 in gross annual revenue if it were permitted to acquire trackage rights between Kansas City and Chicago. If its requested relief from SP's acquisition of the southern Rock Island were granted, it would gain $5,123,043 in gross revenue from purchase of the Rock Island lines at and between Fort Worth and Dallas and $5,334,475 from purchase of the SP line between Houston and Shreveport. Its total gain from purchase of SP and Rock Island lines would thus be $10,457,518 and its total gain from all of its requested relief $17,363,113. If KCS's requested relief from Santa Fe's acquisition of the southern Rock Island were granted, it estimates that it would gain $5,310,725 in gross annual revenue from purchase of Rock Island's lines at and between Fort Worth and Dallas and Santa Fe's line between Dallas and Paris, Tex., and $10,386,824 from purchase of the Santa Fe and joint Texas division lines between Beaumont and Houston, for a total gain from acquisitions in Texas and Louisiana of $15,697,549 and a total gain from all of its requested relief of $22,603,144. Administrative Law Judge Klitenic found, primarily because KCS failed to consider the impact of new single-line service between Chicago and Texas in its individual studies of gains from Chicago-Kansas City trackage rights and acquisitions of lines in Texas and Louisiana, that the studies represented only rough lower limits of the potential gains to be derived.

Of the carriers opposed to Kansas City Southern's requested relief, only Milwaukee and Missouri Pacific submitted their own studies of the impact of the proposals. These have been previously considered in our discussion of those carriers' diversion studies.

[7] In 1966, about 65,000 cars of the 314,000 handled by KCS and 84,000 of the 248,000 transported by L&A were bridge traffic to the respective companies. However, these statistics significantly overstate the amount of bridge traffic transported by the KCS System, considered as a single entity, as traffic, moved as bridge traffic over one of the two companies and originated or terminated on the other is shown as bridge traffic, herein. The amount of interchange between KCS and L&A at Shreveport, La., their only common point, is not of record.

APPENDIX E

Additional protective conditions

In addition to the conditions set forth in the report, we will impose the following conditions for the protection of carriers affected by the transactions approved herein:

1. For the benefit of the Rio Grande, we require, as a condition to our approval of the Union Pacific application in Finance Docket No. 23286, that Union Pacific establish and maintain through routes and joint rates with Rio Grande and its connection via Ogden and Salt Lake City, Utah, on all traffic moving via Rio Grande through its Colorado and Utah terminals to and from points on or via the Union Pacific and its connections in the State of Utah north of Ogden, the States of Idaho, Montana, Oregon, Washington, the Province of British Columbia, on the one hand, and, Utah common points, Colorado common points or points east thereof, on the other hand. These routes shall include, but not be limited to the route of Union Pacific north of Ogden or Salt Lake City thence Butte or Silverbow, Mont., and thence the Milwaukee or any successor and its connections beyond Butte—the reverse route to apply in the opposite direction; and that Union Pacific be required to maintain and join in the through routes and joint rates via the Rio Grande and its connections on all traffic to and from points of the Union Pacific and/or Rock Island and their connections or via the Union Pacific, and/or Rock Island and their connections, on a basis equal to the rates applicable via other routes in which Union Pacific and/or Rock Island participate, so that Rio Grande can participate between Utah junctions and points east thereof via Rio Grande and its connections and via routes between any other interchange points on Rio Grande or between any other interchange points and points on Rio Grande between which Union Pacific and/or Rock Island and their connections participate via route competitive with Rio Grande.

2. For the benefit of Western Pacific, we require, as a condition of our approval of the Union Pacific application in Finance Docket No. 23286 and the Southern Pacific application in Finance Docket No. 23595 that:

A. Union Pacific at all times shall remain neutral as between Southern Pacific and Western Pacific in the solicitation and routing of freight traffic, including unrouted traffic, moving between points in northern California north of Caliente and Santa Margarita, and in Oregon south of Portland, on the one hand, and, points on the Union Pacific, including the merged Rock Island lines, and the connections thereof, on the other hand.

B. Union Pacific at all times at the request of Western Pacific shall join with Western Pacific in the establishment and maintenance of through rates and routes on freight traffic moving from, to, or via points in northern California north of Caliente and Santa Margarita on bases no less favorable than those which Union Pacific contemporaneously joins with Southern Pacific in publishing and maintaining between the same, or related, points.

C. Southern Pacific at all times at the request of Western Pacific shall join with Western Pacific in the establishment and maintenance of through freight rates and routes, via California interchange points, between all points on the lines of Southern Pacific, its subsidiary lines, and its short-line connections, on the one hand, and, points on the lines of Western Pacific, its subsidiary lines and its connecting lines, on the other hand, no less favorable than apply at the same time between the same, or related, points via any of the Southern Pacific lines.

3. In addition to the conditions we have imposed, herein, for the protection of individual rail carriers, we will also impose the same conditions as set forth in *Detroit, T. & I. R. Co. Control*, 275 I.C.C. 455, 492, with modifications as follows:

I.

Upon consummation of the transactions in whole or in part, the merged companies[1] shall maintain and keep open all routes and channels of trade via existing junctions and gateways, unless and until otherwise mutually agreed upon by the carriers affected or otherwise authorized by the Commission.

II.

The present neutrality of handling traffic inbound and outbound and in overhead service by the merged companies and their subsidiary lines shall be continued by the merged companies so as to permit equal opportunity for service to, from and via all lines reaching the rails of the merged companies without discrimination as to routing or movement of traffic and without discrimination in the arrangement of schedules or otherwise.

III.

The present traffic and operating relationships, including contracts among the merged companies and their subsidiary lines, on the one hand, and, on the other, all lines connecting with their tracks, shall be continued insofar as such matters are within the control of the merged companies.

IV.

The merged companies shall accept, handle, and deliver all cars inbound and outbound and in overhead or switching service, loaded and empty, without discrimination in promptness and frequency of service as between cars destined to or received from competing carriers, and irrespective of origin or destination or route of movement.

V.

The merged companies shall not do anything to restrain or curtail the right of industries served by the merged companies to route traffic over any or all available routes and gateways.

VI.

Any party or person having an interest in the subject matter may at any future time petition for such modification in the above conditions as may be deemed in the public interest, and jurisdiction shall be retained to reopen the proceedings on the motion of the Commission for the same purpose.

[1]As used here "merged companies" shall include Union Pacific, Rock Island, Southern Pacific, Santa Fe, Rio Grande, and Fort Worth & Denver.

right-of-ways and certain adjacent areas would continue to be devoted to rail-oriented uses.

There may, of course, be some minor readjustments in air quality levels and energy consumptions for particular regions if a major realignment were to occur. As railroad companies shift traffic patterns there may be changes in the relative degree of circuity involved. But this is believed to be minor and it is felt that if all possible alterations are considered, the net effect would be insignificant. As an example, the C&NW line between Omaha and Chicago traverses approximately 488 miles. Conversely the Rock Island line between the same points covers approximately 493 miles.[11] Therefore, the net effect of a potential shift of line emphasis by the UP would be to increase circuity for the transferred freight by about 1.0 percent. While in this instance the circuity would increase, in others a decrease would result and in total the individual changes would likely come close to cancelling each other out.

A major rail realignment could also lead to adjustment in yard facilities in certain affected gateway cities. If the UP merged with the Rock Island, it is possible that both of the respective yards in Omaha may no longer be required. Accordingly, one or the other could be abandoned, sold to other rail companies, enlarged, or consolidated depending upon total volume increases precipitated by a merger. Regardless of their ultimate disposition, however, it is expected that the yards will continue to be used for rail-oriented purposes and, thus, a merger will not cause adverse impacts different from existing uses. Socio-economic impacts of dislocations of railway labor forces will be mitigated by the Commission's imposition of employee protective conditions whereby affected labor interests may be protected for at least a number of years.

The possibility of railroad abandonments must also be considered when analyzing the cumulative impact of a potential realignment. The very nature of the various merger combinations under consideration or reasonably foreseeable precludes the expectation that abandonment applications will be forthcoming in any meaningful number. Some mergers previously approved by the Commission have involved carriers with essentially duplicating or even parallel rail lines. If there are two lines of competing carriers in a single right-of-way serving common points and freight volumes are insufficient to be profitable for both, a merger might lead to the abandonment of certain duplicative facilities. Such is not the case here. Rather, the mergers or realignments will be predominantly "end-to-end" whereby affected railroads would extend the trackage under common control beyond the existing termination points at the gateway cities. Stated somewhat differently, the main thrust of the various proposals presently under consideration is to improve the rail facilities and service, rather than primarily to eliminate duplicative operations.

While the actual number is not expected to be great, some abandonment applications would follow a consummated merger. Precisely how many and where they will occur cannot be determined at this time. Nevertheless, it should be noted that prior approval for the abandonment of a line of railroad is required from the Commission pursuant to section 1(18) of the Interstate Commerce Act. Since the authorization of abandonments is considered to be a Federal action, the certification process must comply with the provision of the National Environmental Policy Act of 1969. In this manner, the individual and cumulative environmental impacts may be considered at a point when meaningful information is available, and when the resulting analysis can serve as meaningful input into the decisionmaking process. See *Scientists Institute for Public Information, Inc.* v. *AEC*, 5 ERC 1418 (D.C. Cir. 1973).

[11] Source: Rand McNally Handy Railroad Atlas.

While most of the above analysis has been directed to the representative impacts associated with rail movements between Chicago and Omaha, it is believed that the lack of significant environmental impacts is applicable to the range of rail mergers or adjustments which have or may yet be considered in this proceeding. Rail yards, track and support facilities will continue to be devoted to rail uses even if ownership or corporate organization is altered. There, of course, will be adverse impacts, but they will be no different from those already associated with the existing rail network. In addition, there is no indication that the cumulative impacts will substantially contribute to existing adverse conditions or uses in the areas affected by this action. Accordingly, it is believed that this proceeding does not represent a Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act of 1969 and that preparation of a detailed environmental impact statement, therefore, is not required. See *Hanley* v. *Kleindienst*, 4 ERC 1789 (2nd Cir. 1972).

APPENDIX F

Environmental assessment

This assessment represents an environmental analysis of the various proposals and alternatives now being considered by the Commission for the reorganization of the region rail system west of the Mississippi River. These proposals were precipitated in part by the proposal in Finance Docket No. 22688 for the control and acquisition of the Chicago, Rock Island and Pacific Railway Company.

To place the environmental impacts of a railroad reorganization or merger such as the proceeding presently before the Commission into their proper perspective, it is convenient to first relate the general characteristics of existing rail movements and how these movements may be altered by any consummated merger or consolidation. For ease and clarity of analysis, the rail lines between Chicago and Omaha will be used as representative of the numerous other lines which may be affected by any ultimate Commission action. To narrow the scope even further, the analysis will be limited to the North Western and the Rock Island lines between Chicago and Omaha and the Union Pacific lines between Omaha and points in the Far West.

Since none of the representative railroad companies can provide direct transcontinental service over its own lines, all must utilize certain interchange or "gateway" points. Chicago is a vital interchange for traffic originating, for example, in the Northeast States and similarly, Omaha is a highly trafficked gateway for shipments destined to the west coast. The operation works in reverse for traffic originating on the west coast and destined to points on the east coast.

The mechanics of the required interconnections typically follow one of two patterns. For the first, the C&NW or Rock Island would move trains from railyards in Chicago to yards in Omaha. There the rail cars would be directed to classification yards to be classified according to their ultimate destinations. Some would be assigned for delivery to local industries in the Omaha metropolitan area, others for further shipment on lines of the originating railroads, and finally some for shipment over lines of other railroads to points not directly served by either the C&NW or the Rock Island. Following the stated example, this would entail hauls over the UP to the Far West.

In this latter case, once these cars have been classified, they would be transferred to the UP yard in Omaha for reclassification according to their ultimate destination. Those headed for Seattle, Wash., for instance, would be grouped with cars from other lines using the Omaha gateway and then dispatched using a UP crew and power units.

The second pattern involves the use of through trains. Where the traffic volume warrants this alternative, whole trainloads are grouped or classified in Chicago for subsequent intermediate delivery to the UP in Omaha. The cars travel directly from Chicago to the UP yards in Omaha or at points further west where they are then classified according to destination points served by the UP rail network again using UP crews and power units. In this manner, the preliminary switching at the C&NW or Rock Island yards in Omaha is avoided.

As alluded to above, the actual method employed depends upon the volume of traffic to be interchanged. Where the total volume is low, there will be fewer through trains.[8] As indicated by historic rail patterns, little UP traffic interchanges with the

[8]Even if the traffic may not warrant use of through trains, the cars assigned for intermediate delivery to the UP may be preblocked in Chicago. The C&NW or Rock Island yards would still be used, but the classification process would be expedited.

Rock Island in Omaha.[9] Conversely, a substantial amount comes from the C&NW connection.[10] The net result is that more through trains are formed in Chicago by the C&NW than by the Rock Island.

Should the contemplated merger of the UP and Rock Island be authorized by the Commission and consummated by the participating railroads, the UP would obtain its own line between Omaha and Chicago. A possible effect of this transaction would be a shift of interchange emphasis from the C&NW to the UP's newly acquired lines. Future declining traffic volume over the C&NW tracks would no doubt limit the use of through trains to the UP yards in Omaha (Fremont) with a corresponding decrease in C&NW operating efficiencies. But that probably would be accompanied by a corresponding increase in through trains over the former lines of the Rock Island in a likelihood, generating certain increased operating efficiencies. The rail yards in Omaha would continue to be utilized in a manner similar to that previously described for through trains, but with a few modifications. That is, the merger could eliminate the need for separate crews and power units for the subsequent haul. Crew and power changes might nevertheless be a frequent occurrence. Omaha might prove to be a convenient place to relieve crews, and power units may be adjusted to make them more compatible with the tonnage, distance, and grade involved for the remaining haul.

Considering the above, it is believed that the potential environmental impacts associated with a railroad realignment will not be appreciably in excess of or even different from adverse environmental conditions resulting from rail operations in the existing configuration. The actual volume of freight between Omaha and Chicago, on the one hand, and, the Far West, on the other, would probably not be materially altered. Any speculative increases (other than those caused by the general growth and expansion of the Nation's economy) would most likely result from possible operating efficiency over the combined route which may lead to reduced transit times between origin and destination and a more coordinated and controlled movement of freight. To the extent that rail service may thus become more desirable to elements of the shipping public, a degree of long-haul freight may be diverted from motor carriers to railroads. This could cause a conservation of fuel resources[11] as well as a decrease in air pollutants[12] generated by the transportation industry. While the net impact would be environmentally beneficial, quantification remains highly speculative and it is believed that the cumulative impact, at least in the short term, would not be significant.

Even if the total traffic volume between Omaha and Chicago remains constant or perhaps increases marginally, a consummated merger could, as mentioned, lead to a shift in traffic from the C&NW to the former Rock Island lines. While the noise, air quality, and safety hazards would likewise shift, their cumulative regionwide impact would remain essentially the same. Any increased adverse impacts along a particular route would not differ much from the impacts already present. That is, the respective

[9]The existing Rock Island interchange volume is approximately 6 percent of the UP's total Omaha interchange traffic.

[10]While the C&NW has line and yard facilities in Omaha, most of its UP interchange freight is classified or switched in the yards in Fremont, Nebr., which is approximately 20 miles from Omaha.

[11]Source: Herst, E., *Energy Intensiveness of Passenger and Freight Transport Modes*, 1950-1970, Oak Ridge National Laboratories, April 1973.

[12]Source: *Compilation of Air Pollution Emmission Factors*, U.S. Environmental Protection Agency, 1973.

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