

REPORT OF MAY 3, 1963

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY

REPORT OF COMMITTEE
ON
POSSIBLE MERGERS OF
UNION PACIFIC - ROCK ISLAND - SOUTHERN PACIFIC
RAILROADS

May 3, 1963

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INTRODUCTION

The Committee, representing various departments, has undertaken an assignment calling for an analysis of various merger possibilities involving the Union Pacific, Rock Island, and Southern Pacific railroads, in a preliminary attempt to determine the effect on the Milwaukee of the most probable form of rearrangement of the properties of these carriers. There has been indication that these merger studies and negotiations will not be made public until formal application is filed with the Interstate Commerce Commission. Such application will require prompt action by all those affected by such merger proposal. The Committee has necessarily proceeded in its analysis under the handicap of a very substantial lack of information as to the nature of the merger or mergers which may be proposed. From the best available information, the following assumption is made for the purposes of this preliminary study:

The Union Pacific will seek to acquire control of the Rock Island, and thereafter will sell to the Southern Pacific that portion of the Rock Island Lines from Tucumcari to Kansas City and the lines south thereof. The Union Pacific will simultaneously, or thereafter, seek to merge the balance of Rock Island Lines into the Union Pacific, and the above described Rock Island Lines to the south will be merged into the Southern Pacific, thereby dismembering and abolishing the

Rock Island as a railroad. Therefore, in order to enable the Milwaukee to act promptly in adopting a position to protect its interests in the event of application for one or more of such mergers, this report has been prepared. It will be divided into five sections, dealing in turn with (1) these railroads and the Milwaukee as they are today, (2) as they might be combined under the merger plan as assumed, (3) the effects of such merger on the Milwaukee, (4) possible "conditions" for the Milwaukee to seek to counteract the effects of such mergers and conclusions as to the effectiveness of such conditions, and (5) preliminary recommendation for position to be taken by the Milwaukee in such proceedings.

I.

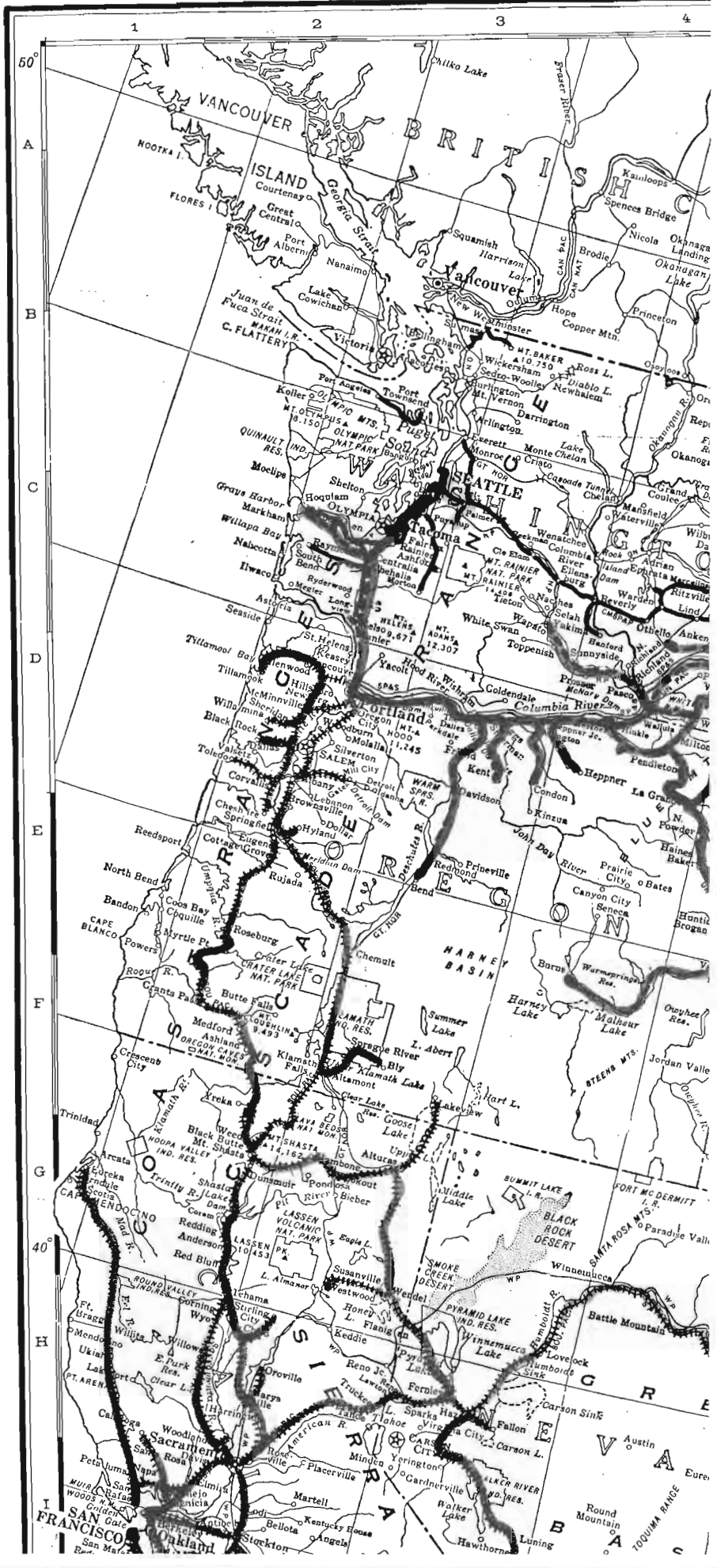
A STATISTICAL ANALYSIS AND COMPARISON
OF THE RAILROADS TODAY

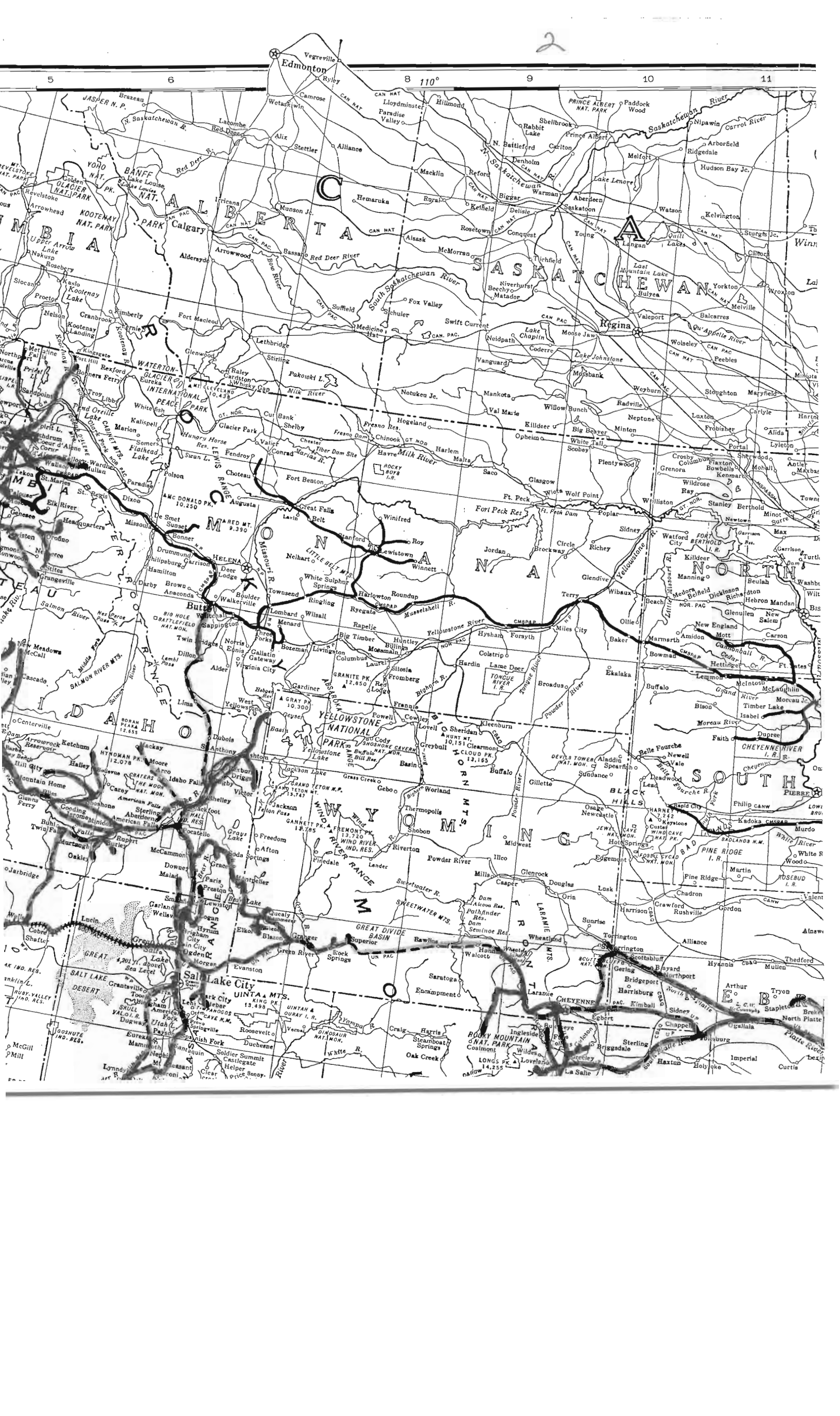
The following pages of this report are submitted to present, without extensive comment, a statistical compilation indicating the financial and physical position of the Southern Pacific, Union Pacific, Rock Island, and Milwaukee during recent years. It should be noted that statistical data for the Southern Pacific includes the Northwestern Pacific Railroad Company, Pacific Electric Railway Company, St. Louis Southwestern Railway Lines (Cottonbelt) and Texas & New Orleans Railroad Company. Union Pacific records include the Spokane International Railroad and its half of the Camas Prairie

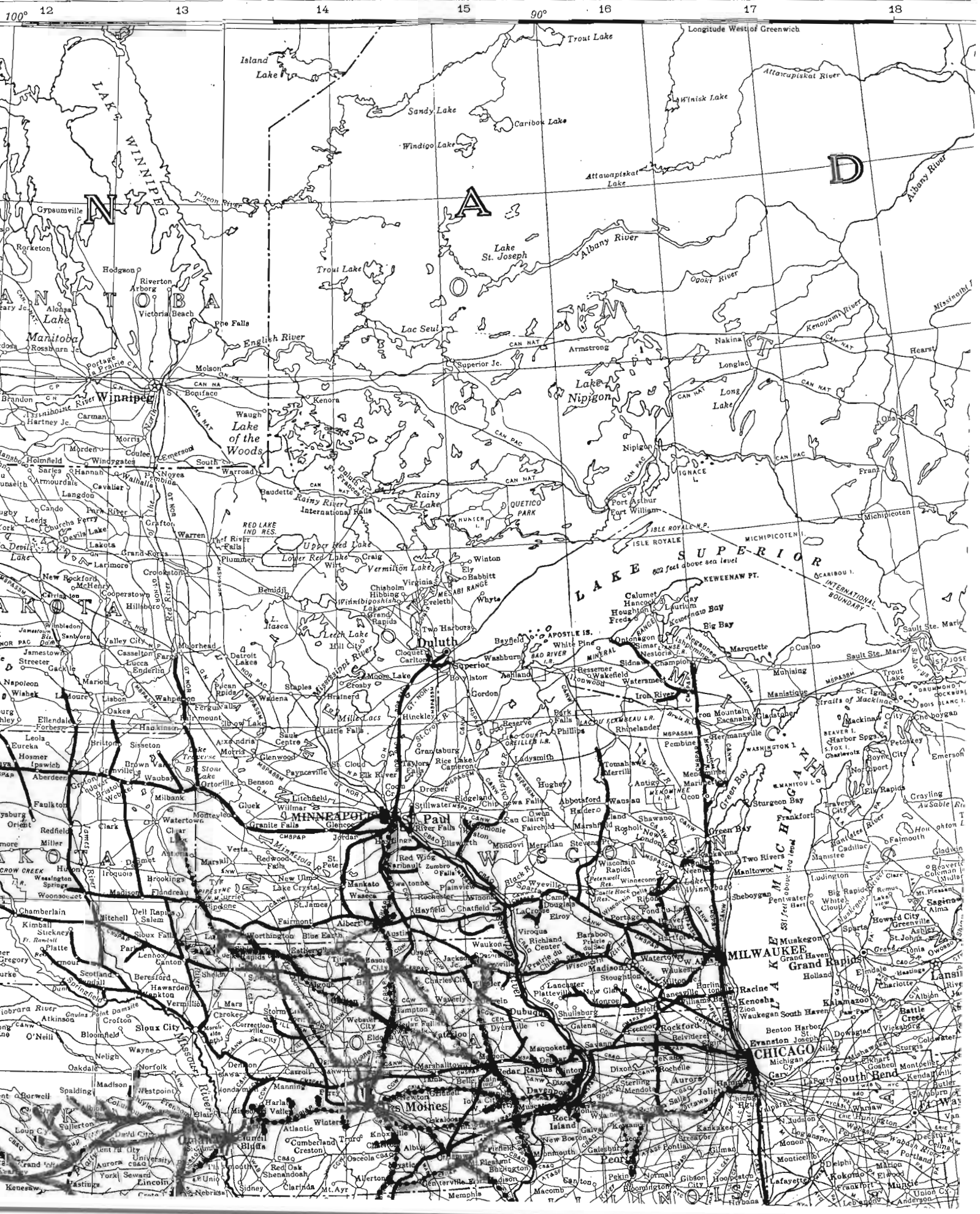
Railroad Company. Most of the significant indicia of condition are presented which, when considered along with the map showing the lines of each of these railroads, will set the stage for a consideration of the assumed mergers of the Union Pacific and Southern Pacific with parts of the Rock Island.

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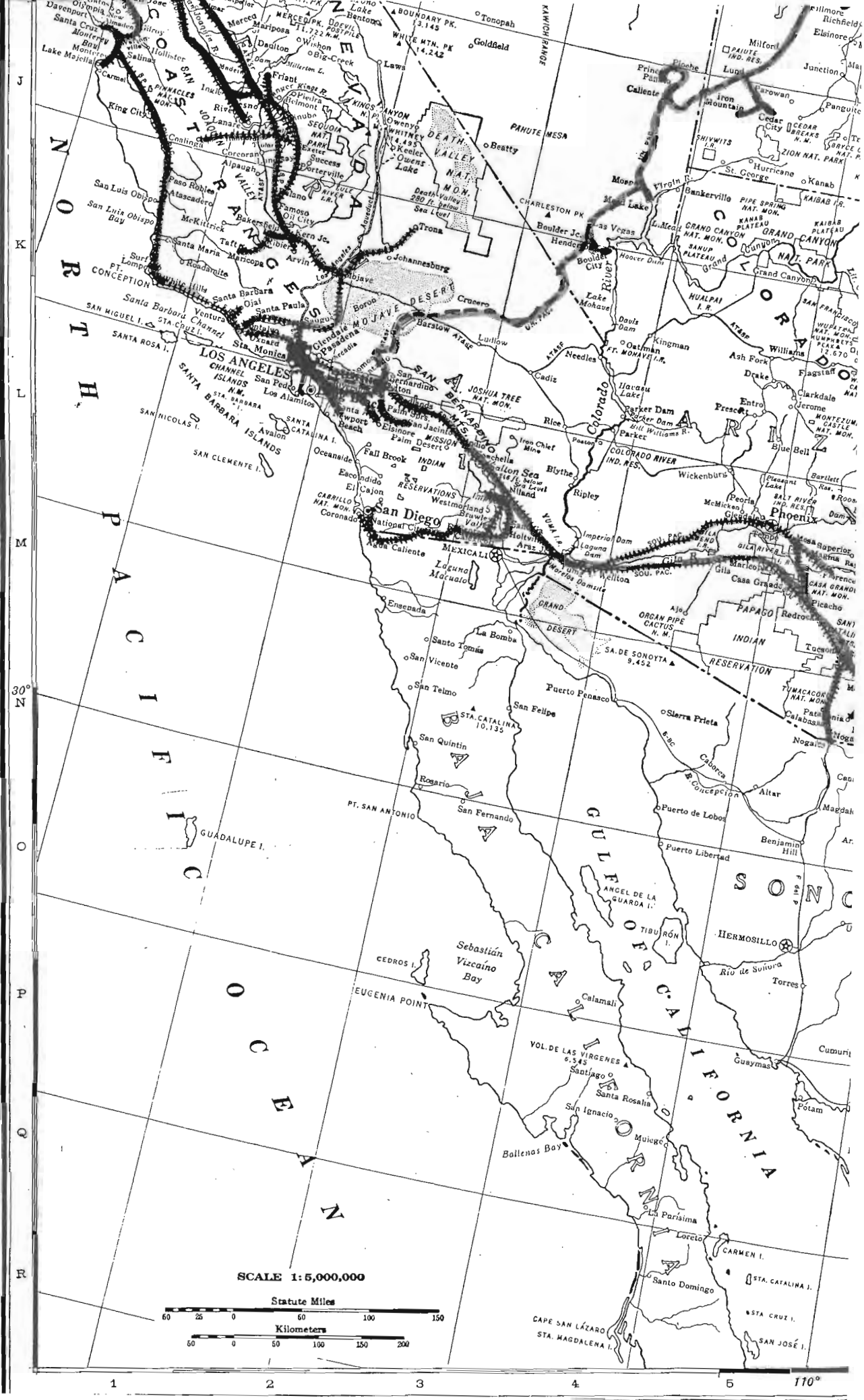
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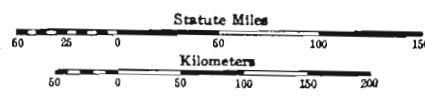
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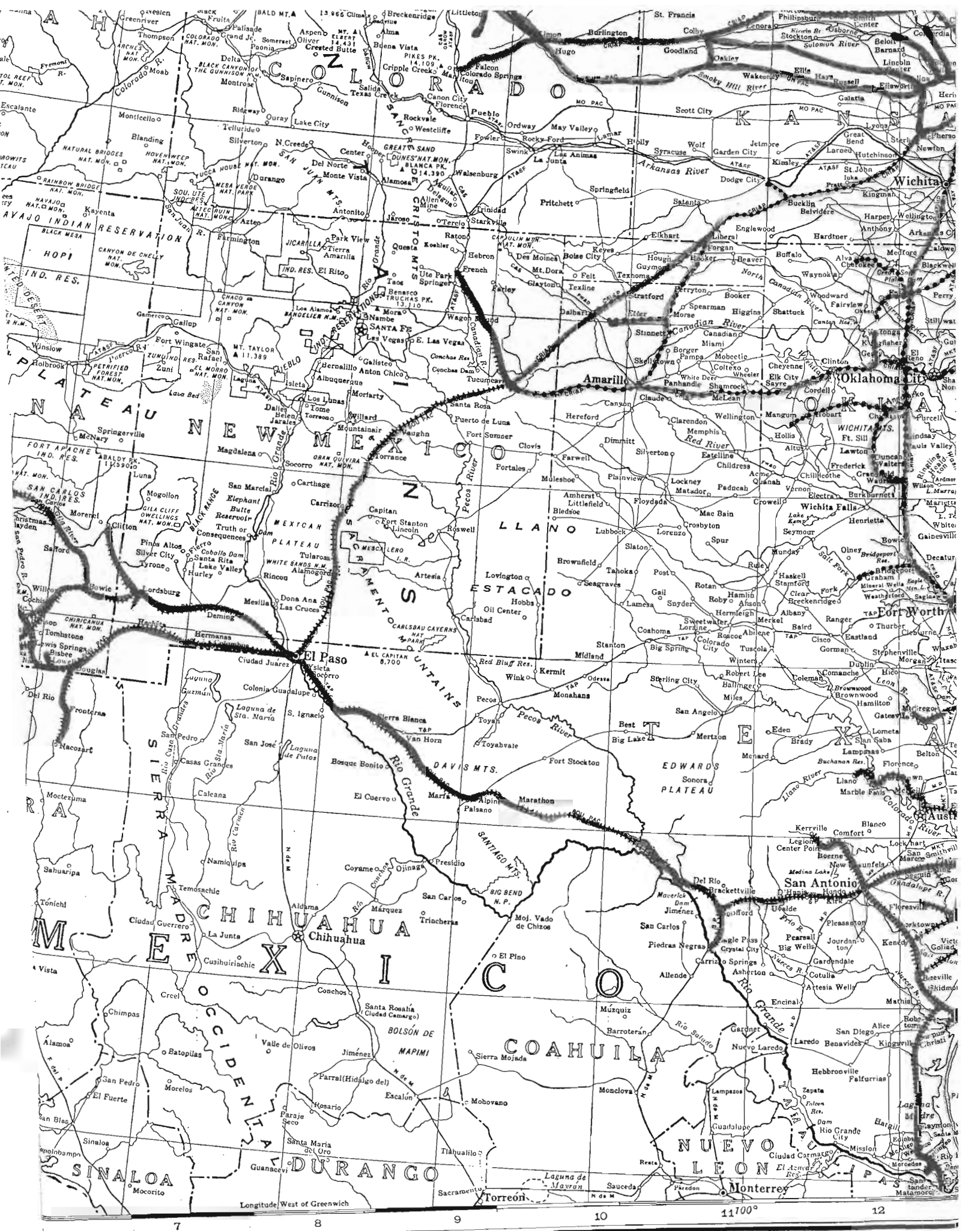
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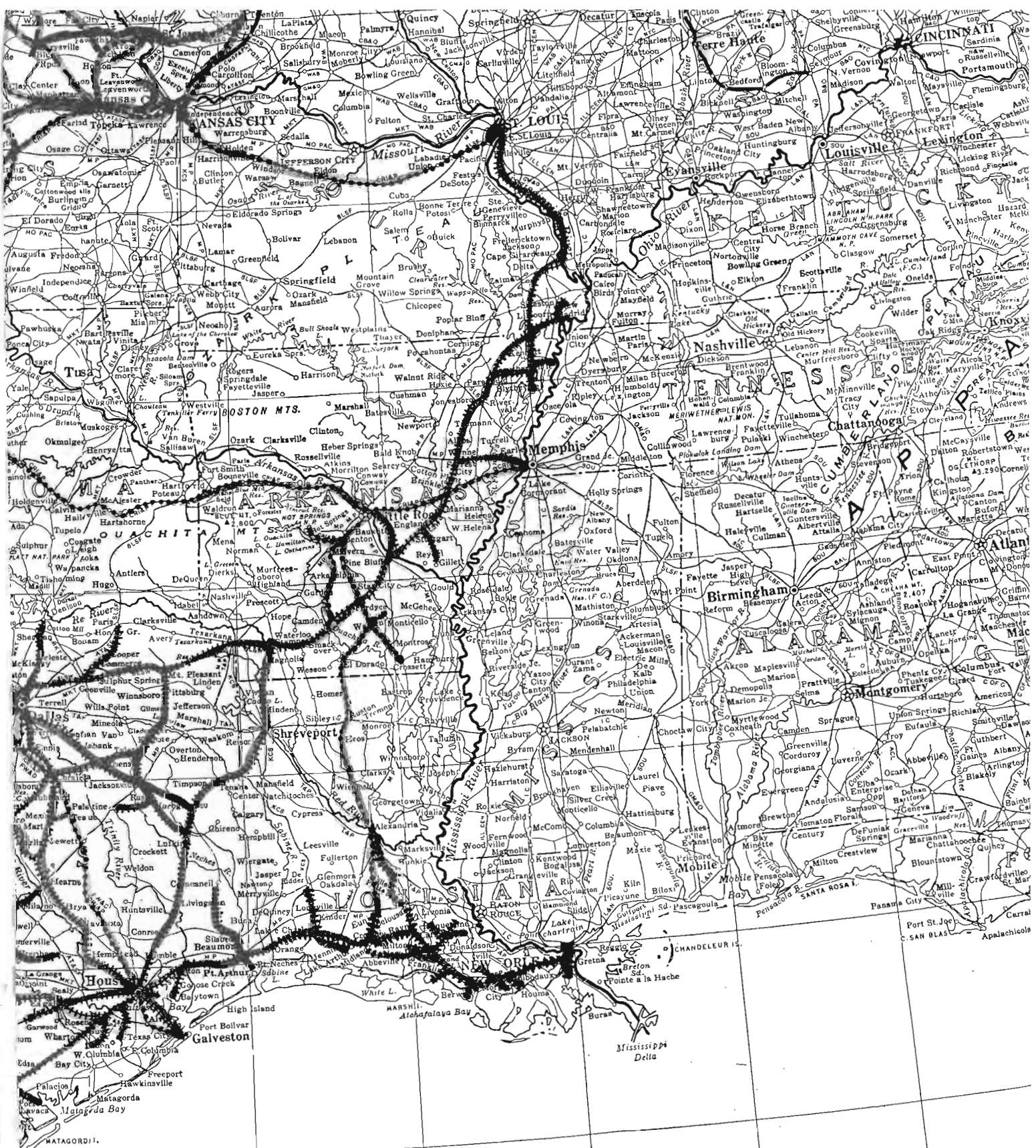
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G U L F O F M E X I C O



MAP SHOWING

-  CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC R.R.
-  CHICAGO, ROCK ISLAND & PACIFIC R.R.
-  UNION PACIFIC R. R.
(INCLUDING SPOKANE INTERNATIONAL R.R.
AND CAMAS PRAIRIE R.R.)
-  SOUTHERN PACIFIC COMPANY
(INCLUDING NORTHWESTERN PACIFIC R.R.
PACIFIC ELECTRIC R.R.
ST. LOUIS - SOUTHWESTERN RY.
SAN DIEGO & ARIZONA EASTERN RY.)

OR
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STATEMENT SHOWING TOTAL RAILWAY OPERATING REVENUES,
OTHER INCOME AND TOTAL OF BOTH FOR
S.P. CO., U.P. R.R. CO., C.R.I. & P. R.R. CO. AND C.M.ST.P. & P. R.R. CO.
FOR THE YEARS 1953 TO 1962

Year	* S.P. Co.	# U.P. R.R. Co.	C.R.I. & P. R.R. Co.	C.M.St.P. & P. R.R. Co.
TOTAL RAILWAY OPERATING REVENUES				
1953	\$805,098,783	\$533,381,379	\$207,955,342	\$259,860,191
1954	711,275,435	485,041,511	187,062,645	237,744,639
1955	763,752,753	512,948,721	189,381,739	245,498,210
1956	774,385,125	518,013,568	200,020,420	253,860,566
1957	756,211,346	520,789,819	209,590,740	254,027,186
1958	734,575,635	508,884,894	207,883,953	244,262,808
1959	783,419,844	519,268,386	219,453,607	242,041,825
1960	756,366,257	497,523,215	211,775,603	230,362,902
1961	766,745,324	502,702,671	203,332,262	221,832,116
1962	801,836,422	515,282,108	200,926,687	227,664,109
Average 10 Years	\$765,366,692	\$511,383,627	\$203,738,300	\$241,715,455
OTHER INCOME				
1953	\$ 55,608,560	\$ 64,125,794	\$ 1,080,466	\$ 3,922,162
1954	34,398,717	63,604,376	1,185,241	3,997,305
1955	28,589,998	61,508,375	1,147,363	5,405,438
1956	24,764,951	61,475,904	1,262,578	2,841,508
1957	30,108,033	61,296,141	1,237,129	3,030,728
1958	33,194,546	54,287,116	1,960,075	3,194,466
1959	35,411,775	46,475,407	3,372,948	4,394,436
1960	35,457,089	51,570,526	4,590,856	4,134,069
1961	33,144,880	57,379,226	3,354,240	3,681,226
1962	32,851,518	59,285,340	3,513,113	3,942,131
Average 10 Years	\$ 34,353,007	\$ 58,100,821	\$ 2,270,401	\$ 3,854,347
TOTAL RAILWAY OPERATING REVENUES AND OTHER INCOME				
1953	\$860,707,343	\$597,507,173	\$209,035,808	\$263,782,353
1954	745,674,152	548,645,887	188,247,886	241,741,944
1955	792,342,751	574,457,096	190,529,102	250,903,648
1956	799,150,076	579,489,472	201,282,998	256,702,074
1957	786,319,379	582,085,960	210,827,869	257,057,914
1958	767,770,181	563,172,010	209,844,028	247,457,274
1959	818,831,619	565,743,793	222,826,555	246,436,261
1960	791,823,346	549,093,741	216,366,459	234,496,971
1961	799,890,204	560,081,897	206,686,502	225,513,342
1962	834,687,940	574,567,448	204,439,800	231,606,240
Average 10 Years	\$799,719,699	\$569,484,448	\$206,008,701	\$245,569,802

Source: I.C.C. Annual Report Form A for 1962 prior years from Annual Report on Transport Statistics in the U.S., I.C.C. (Blue Book).

* Includes: S.P. Co., Northwestern Pacific R.R. Co., Pacific Electric Ry. Co., St. Louis Southwestern Ry. Lines and Texas & New Orleans R.R. Co.

Includes: U.P. R.R. Co. and Spokane International R.R.

STATEMENT SHOWING THE PERCENT OF COMBINED RAILWAY OPERATING REVENUES
AND OTHER INCOME REMAINING AS NET INCOME FOR
S.P. CO., U.P. R.R. CO., C.R.I. & P. R.R. CO. AND C.M.ST.P. & P. R.R. CO.
FOR THE YEARS 1953 TO 1962

Year	* S.P. Co.	# U.P. R.R. Co.	C.R.I. & P. R.R. Co.	C.M.St.P. & P. R.R. Co.
TOTAL RAILWAY OPERATING REVENUES AND OTHER INCOME				
1953	\$860,707,343	\$597,507,173	\$209,035,808	\$263,782,353
1954	745,674,152	548,645,887	188,247,886	241,741,944
1955	792,342,751	574,457,096	190,529,102	250,903,648
1956	799,150,076	579,489,472	201,282,998	256,702,074
1957	786,319,379	582,085,960	210,827,869	257,057,914
1958	767,770,181	563,172,010	209,844,028	247,457,274
1959	818,831,619	565,743,793	222,826,555	246,436,261
1960	791,823,346	549,093,741	216,366,459	234,496,971
1961	799,890,204	560,081,897	206,686,502	225,513,342
1962	834,687,940	574,567,448	204,439,800	231,606,240
Average 10 Years	\$799,719,699	\$569,484,448	\$206,008,701	\$245,569,802
NET INCOME				
1953	\$102,196,911	\$ 70,931,905	\$ 25,912,087	\$ 10,013,018
1954	68,602,345	70,127,996	18,669,138	9,904,459
1955	71,512,753	79,828,159	16,988,158	9,532,282
1956	60,131,264	79,080,290	15,721,819	8,485,914
1957	61,882,609	78,766,779	9,704,136	7,916,348
1958	62,923,305	78,311,359	8,201,057	8,379,057
1959	68,236,124	65,260,480	8,289,757	5,875,176
1960	62,513,362	65,806,962	6,014,617	1,323,063
1961	66,759,599	68,628,693	6,516,263	5,328,172
1962	76,202,949	83,364,228	6,578,058	2,655,443
Average 10 Years	\$ 70,096,122	\$ 74,010,685	\$ 12,259,509	\$ 6,941,293
PERCENT OF COMBINED RAILWAY OPERATING REVENUES AND OTHER INCOME REMAINING AS NET INCOME				
1953	11.87%	11.87%	12.40%	3.80%
1954	9.20	12.78	9.92	4.10
1955	9.03	13.90	8.92	3.80
1956	7.52	13.65	7.81	3.31
1957	7.87	13.53	4.60	3.08
1958	8.20	13.91	3.91	3.39
1959	8.33	11.54	3.72	2.38
1960	7.89	11.98	2.78	.56
1961	8.35	12.25	3.15	2.36
1962	9.13	14.51	3.22	1.15
Average 10 Years	8.77%	13.00%	5.95%	2.83%

Source: I.C.C. Annual Report Form A for 1962 prior years from Annual Report on Transport Statistics in the U.S., I.C.C. (Blue Book).

* Includes: S.P. Co., Northwestern Pacific R.R. Co., Pacific Electric Ry. Co., St. Louis Southwestern Ry. Lines and Texas & New Orleans R.R. Co.

Includes: U.P. R.R. Co. and Spokane International R.R.

STATEMENT SHOWING NET RAILWAY OPERATING INCOME,
AVERAGE NET INVESTMENT AND RATE OF RETURN FOR
S.P.CO., U.P.RR.CO., C.R.I. & P.RR.CO. AND C.M.ST.P. & P. RR. CO.
FOR THE YEARS 1953 TO 1962

Year	* S.P.Co.	# U.P. R.R. Co.	C.R.I. & P. R.R. Co.	C.M.St.P. & P. R.R. Co.
NET RAILWAY OPERATING INCOME				
1953	\$ 74,097,484	\$ 29,515,025	\$ 28,259,235	\$ 14,663,688
1954	57,663,341	30,221,169	20,753,674	14,568,518
1955	69,169,936	44,491,686	20,980,113	15,780,527
1956	60,503,853	42,809,924	20,381,040	17,344,934
1957	63,910,993	39,525,648	14,323,462	16,418,693
1958	60,362,949	44,133,284	13,188,857	16,870,993
1959	64,121,917	37,440,878	11,843,607	13,651,274
1960	59,319,949	33,254,568	8,341,221	9,654,308
1961	63,927,219	32,510,972	10,190,727	14,112,710
1962	73,756,254	47,323,147	9,911,292	11,440,093
Average 10 Years	64,683,390	38,122,630	15,817,323	14,450,574
AVERAGE NET INVESTMENT				
1953	\$1,863,257,891	\$1,126,055,970	\$ 540,561,036	\$ 761,884,581
1954	1,906,200,198	1,177,403,962	538,971,268	763,127,983
1955	1,940,764,599	1,221,853,044	537,763,922	765,342,624
1956	2,005,817,127	1,244,012,913	539,330,123	775,671,144
1957	2,072,829,458	1,260,216,522	540,045,914	781,398,024
1958	2,096,976,942	1,272,196,874	538,527,897	777,508,204
1959	2,105,893,948	1,290,658,560	537,829,978	784,980,813
1960	2,120,156,202	1,319,960,811	542,275,642	785,003,884
1961	2,122,601,514	1,329,559,971	543,338,254	782,972,099
1962	2,122,600,000	1,329,600,000	543,300,000	783,000,000
Average 10 Years	2,035,709,788	1,257,151,863	540,194,403	776,088,936
RATE OF RETURN ON AVERAGE NET INVESTMENT				
1953	3.98%	2.62%	5.23%	1.92%
1954	3.03	2.57	3.85	1.91
1955	3.56	3.64	3.90	2.06
1956	3.02	3.44	3.78	2.24
1957	3.08	3.14	2.65	2.10
1958	2.88	3.47	2.45	2.17
1959	3.04	2.90	2.20	1.74
1960	2.80	2.52	1.54	1.23
1961	3.01	2.45	1.88	1.80
1962	3.47	3.56	1.82	1.46
Average 10 Years	3.18	3.03	2.93	1.86

Source: Association of American RRs., Bureau of Ry. Economics, "Property Investment and Condensed Operating Income Account".

Information for 1962 not yet available (4/17/63) therefore, average Net Investment taken same as 1961.

* Includes: S.P.Co., Northwestern Pacific Electric Ry. Co., St. Louis Southwestern Ry. Lines, and Texas & New Orleans R.R.Co.

Includes: U.P. R.R. Co. and Spokane International R.R.

STATEMENT SHOWING REVENUE TON MILES (RAIL LINE) FOR
S.P. CO., U.P. R.R. CO., C.R.I. & P. R.R. CO. AND C.M.ST.P. & P. R.R. CO.
FOR THE YEARS 1948 TO 1962

Year	* S.P. Co.	# U.P. R.R. Co.	C.R.I. & P. R.R. Co.	C.M.St.P. & P. R.R. Co.
AGGREGATES IN THOUSANDS				
1948	42,221,787	29,288,685	13,464,261	16,345,256
1949	37,590,131	26,033,096	12,092,939	14,774,759
1950	42,043,323	30,372,542	12,105,232	16,258,840
1951	45,313,371	34,475,095	13,605,646	16,732,324
1952	46,466,902	33,851,282	13,452,880	16,005,309
1953	45,576,927	34,270,144	12,791,137	15,413,226
1954	43,934,986	32,211,408	11,815,676	14,178,679
1955	47,917,030	35,019,631	12,510,335	15,561,749
1956	48,297,282	35,000,505	13,348,162	15,612,345
1957	45,766,164	34,063,252	13,625,340	14,614,118
1958	44,571,315	31,823,492	13,162,051	13,884,510
1959	49,525,273	33,014,728	13,912,470	14,121,940
1960	48,826,109	31,674,195	13,674,958	13,604,642
1961	50,583,146	32,561,928	13,203,591	13,223,111
1962	54,554,832	33,332,199	13,154,937	14,139,668
INDEX 1957 - 1958 - 1959 = 100%				
1948	90.6	88.8	99.2	115.1
1949	80.6	79.0	89.1	104.0
1950	90.2	92.1	89.2	114.4
1951	97.2	104.6	100.3	117.8
1952	99.7	102.7	99.2	112.7
1953	97.8	104.0	94.3	108.5
1954	94.2	97.7	87.1	99.8
1955	102.8	106.2	92.2	109.5
1956	103.6	106.2	98.4	109.9
1957	98.2	103.3	100.4	102.9
1958	95.6	96.5	97.0	97.7
1959	106.2	100.2	102.6	99.4
1960	104.7	96.1	100.8	95.8
1961	108.5	98.8	97.3	93.1
1962	117.0	101.1	97.0	99.5

Source: 1948 to 1961 inclusive, I.C.C. Transport Statistics In U.S. (Blue Book). 1962 I.C.C. Annual Report Form A.

* Includes: Southern Pacific Co., Texas & New Orleans R.R. Co., St. Louis Southwestern Ry. Co. and Northwestern Pacific R.R. Co. effective 11/1/61, Texas & New Orleans R.R. Co. was merged into S.P. Co. Pacific Electric Ry. Co. not available.

Includes: U.P. R.R. Co. and Spokane International R.R. Co.

STATEMENT SHOWING MILES OF ROAD OPERATED, REVENUE TON MILES AND DENSITY FOR
S.P. CO., U.P. RR. CO., C.R.I. & P. RR. CO. SPLIT NORTH AND SOUTH
OF KANSAS CITY AND THE C.M.ST.P. & P. RR. CO.
FOR THE YEAR 1962

Item	* S.P. Co.	# U.P. RR. Co.	C.R.I. & P. RR. Co. ∅		C.M.St.P. & P. R.R. Co.
			Lines North of Kansas City	Lines to Kans. City St. Louis and South	
Miles of Road Operated End of Year 1962	13,983	9,854	4,280	3,562	10,540
Revenue Ton Miles in thousands Year 1962 ...	54,554,832	33,332,199	7,434,300	5,720,637	14,139,668
Revenue Ton Miles per Mile of Road operated .	3,901,511	3,382,606	1,736,986	1,606,018	1,341,524

Source: I.C.C. Annual Report Form A. Schedules 411 and 531.

	<u>Miles of Road</u>	<u>Revenue Ton Miles Thousands 1962</u>
* Includes:		
Southern Pacific Co.	11,781.82	48,220,409
Northwestern Pacific RR. Co.	328.34	648,934
Pacific Electric Ry. Co.	318.12	Not Available
St. Louis Southwestern Ry. Line	1,554.30	5,685,489
Total	<u>13,982.58</u>	<u>54,554,832</u>
# Includes:		
Union Pacific RR. Co.	9,704.81	33,187,576
Spokane International RR. Co.	149.61	144,623
Total	<u>9,854.42</u>	<u>33,332,199</u>
∅ See Table VI a, for method of allocation.		

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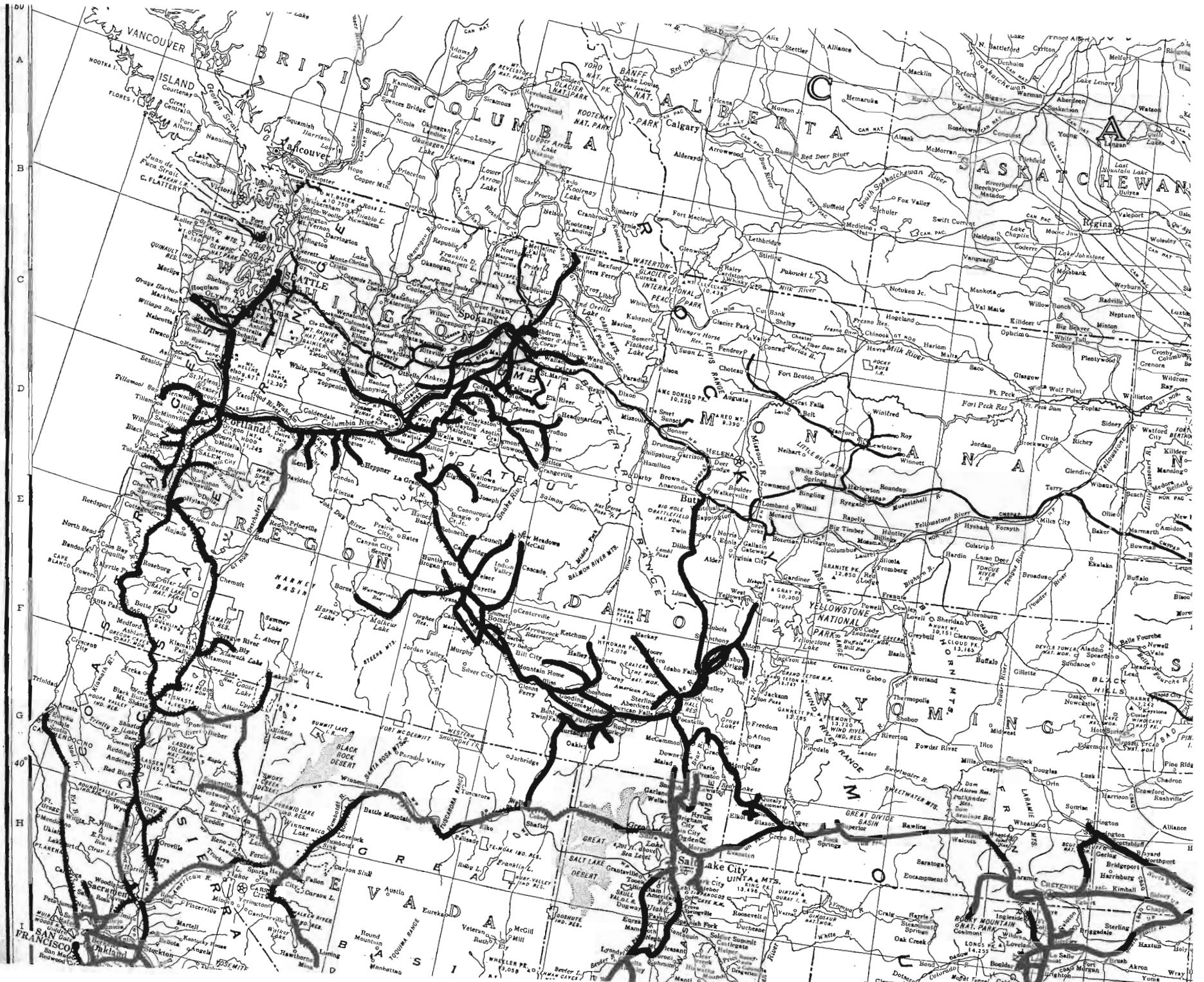
STATISTICAL PRESENTATION OF THE ASSUMED UP-CRI&P AND SP-CRI&P MERGERS AND COMPARISON TO THE MILWAUKEE

The following map and tables are based on the best available information and certain estimates for a division of the Rock Island, and the combination of each segment into the Union Pacific and Southern Pacific Systems, respectively. The map shows the new UP-CRI&P and SP-CRI&P systems in comparison with the Milwaukee.

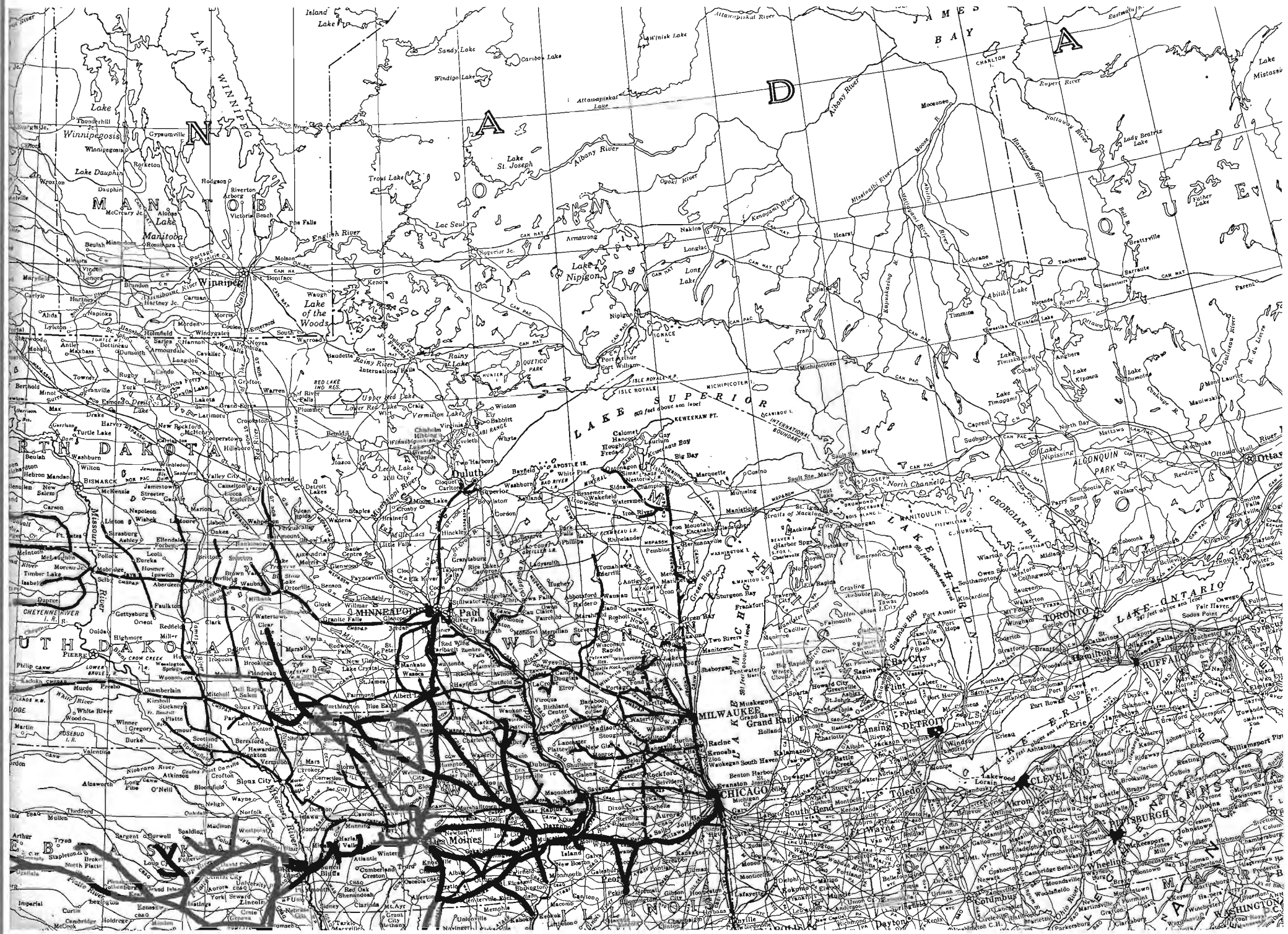
It should be particularly noted that the assumed mergers contemplate an extension of the Southern Pacific only to Kansas City, but not to Chicago, with both the Rock Island's Kansas City and Council Bluffs lines to Chicago, its Kansas City-St. Louis lines, and its lines to Minneapolis-St. Paul being acquired by the Union Pacific.

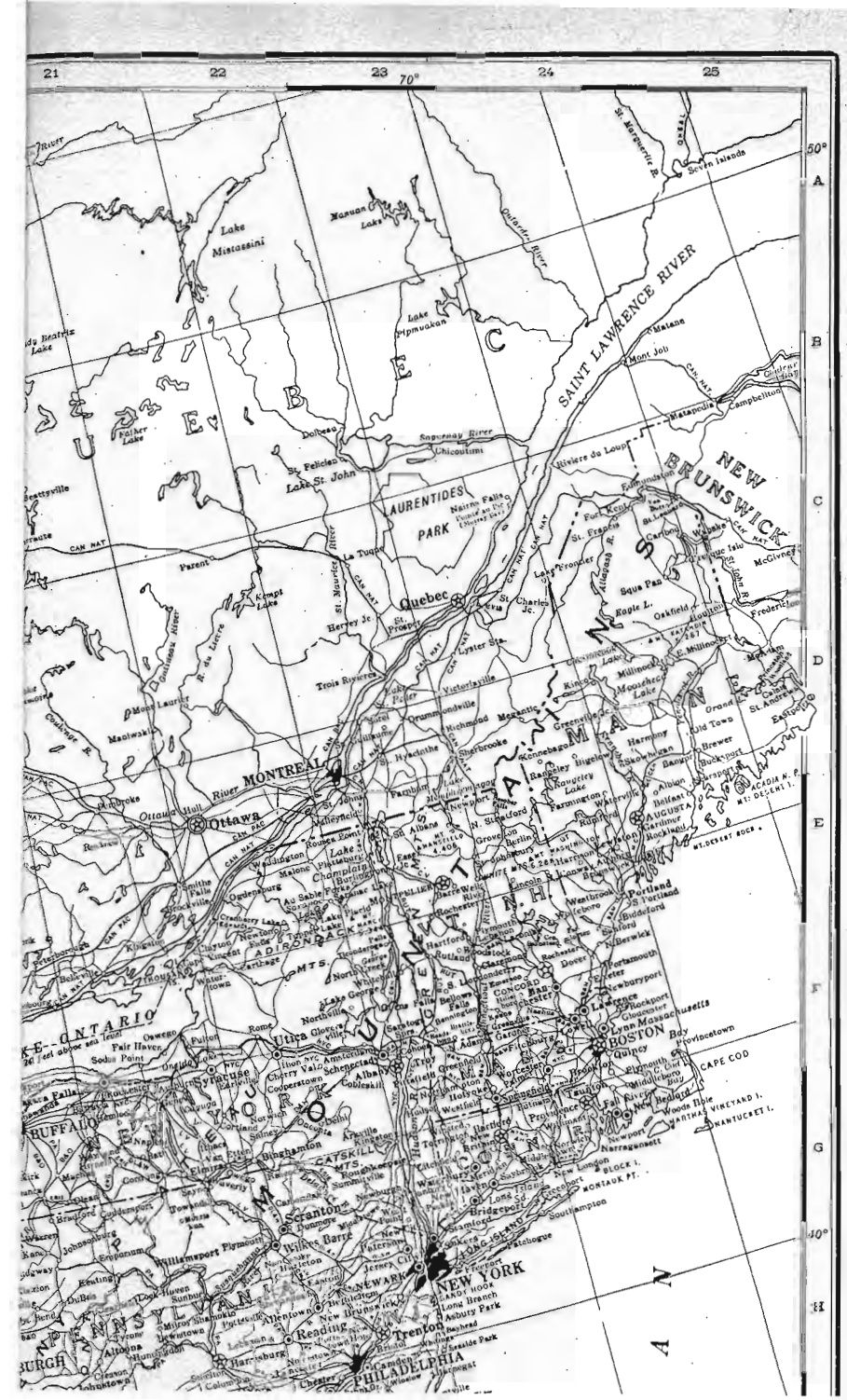
Generally, the same statistics presented in Section I are used to give an illustration of the size and financial strength of each new company, and the comparison of same with the Milwaukee.

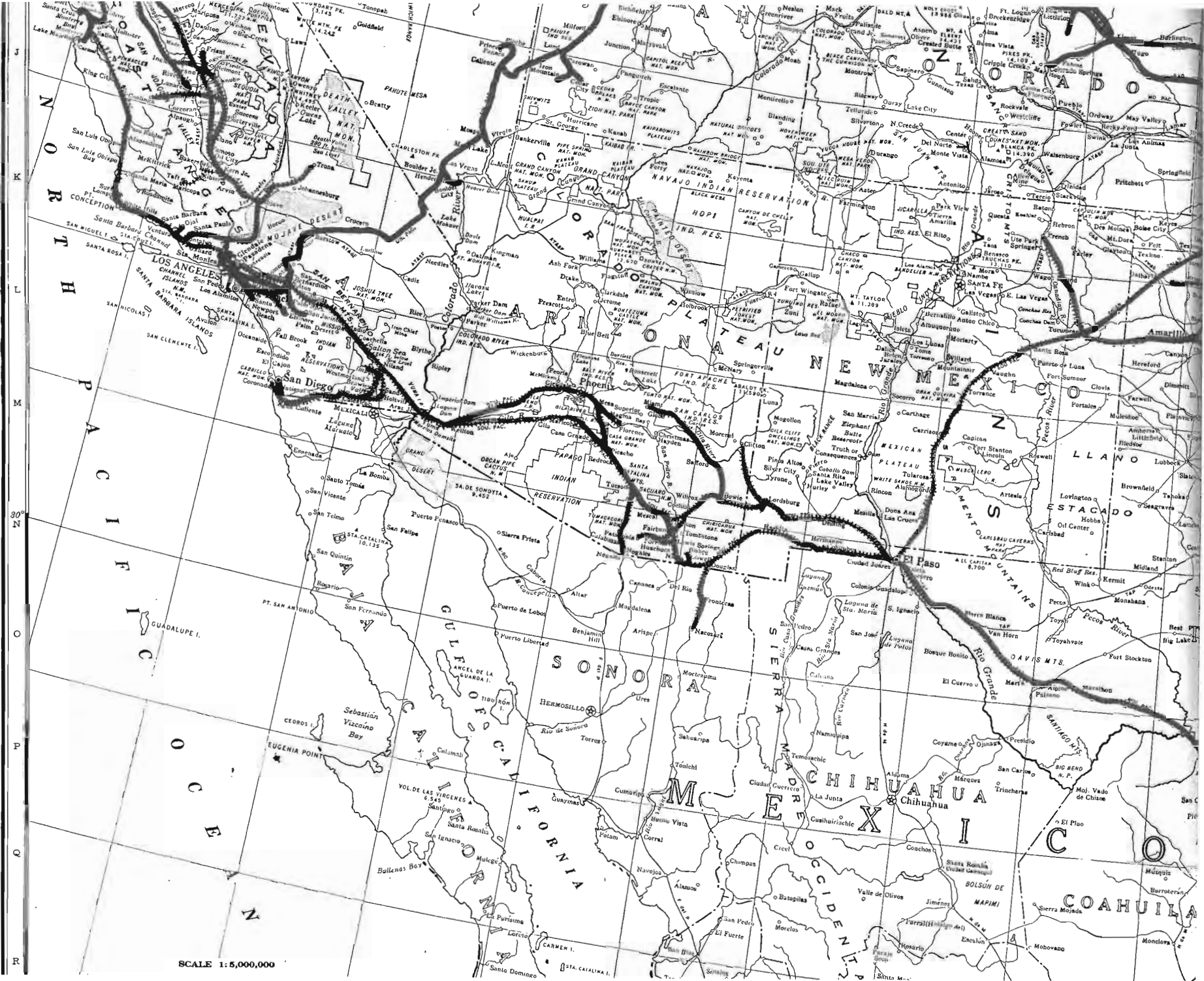
Table VI is an arithmetical allocation of Rock Island items to the Southern Pacific and Union Pacific; it does not include the substantial, annual savings inherent in such mergers.



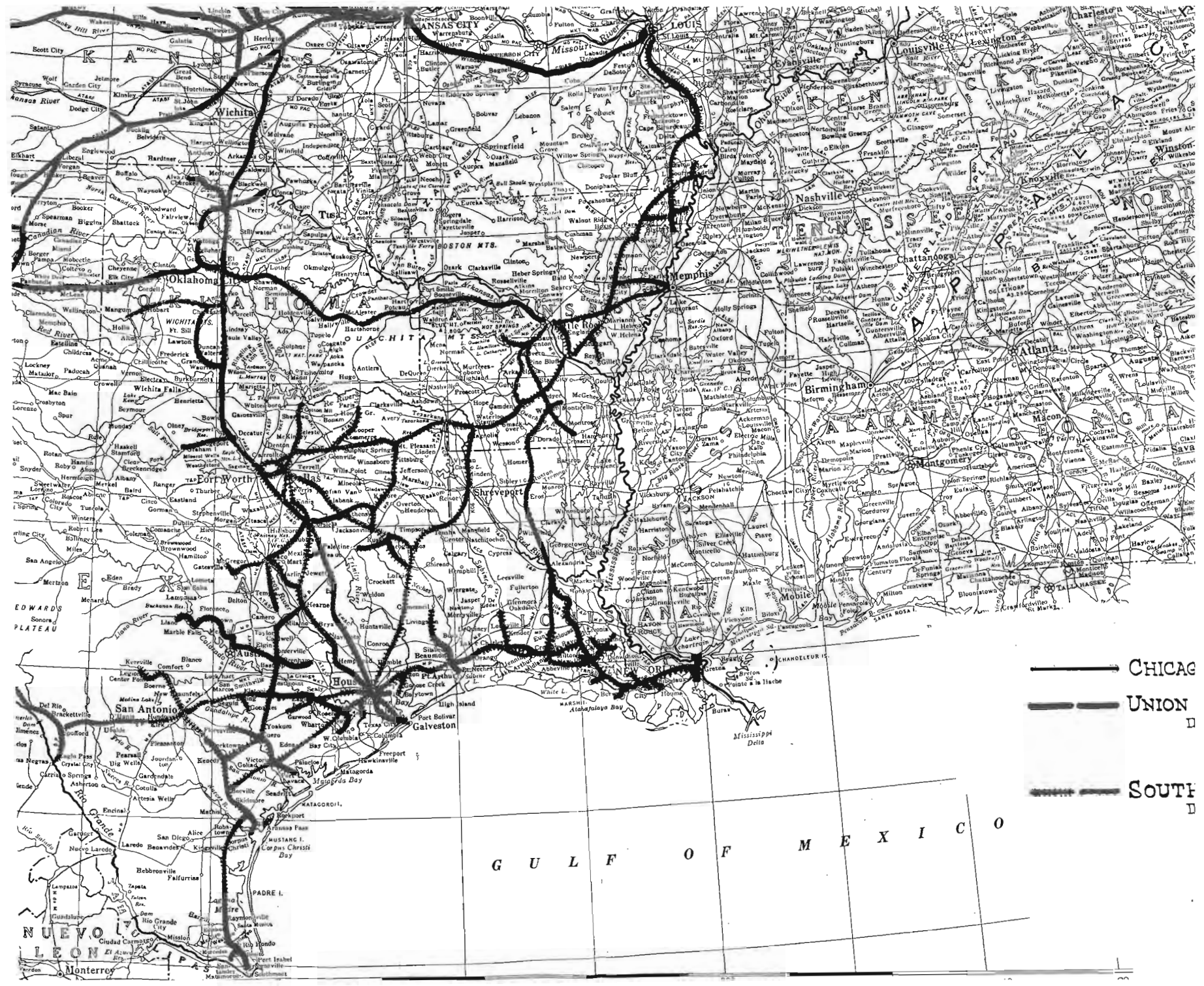
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SCALE 1:5,000,000



-  CHICAGO
-  UNION
-  SOUTH

G U L F O F M E X I C O

NUEVO LEON



MAP SHOWING

MILWAUKEE, ST. PAUL AND PACIFIC R.R.

PACIFIC R.R.

INCLUDING SPOKANE INTERNATIONAL R.R.

AND PART OF
CHICAGO, ROCK ISLAND & PACIFIC R.R.

NORTHERN PACIFIC COMPANY

INCLUDING NORTHWESTERN PACIFIC R.R.

PACIFIC ELECTRIC R.R.

ST. LOUIS - SOUTHWESTERN RY.

AND SAN DIEGO & ARIZONA EASTERN RY. AND

PART OF CHICAGO, ROCK ISLAND & PACIFIC R.R.

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TABLE VI

STATEMENT SHOWING SELECTED STATISTICS FOR THE S.P.CO. AND U.P.RR.CO., AFTER ALLOCATIONS OF THE C.R.I.&P.RR.CO. TO EACH OF THE COMPANIES HAVE BEEN MADE. C.M.ST.P. & P.RR. ALSO SHOWN. ALL FOR THE YEAR 1962.

Item	* S.P.Co. and Southern CRI&P Lines	# U.P. and Northern CRI&P Lines	C.M.St.P. & P.RR.Co.
(a) Total Railway Operating Revenues ϕ	\$879,281,094	\$638,764,123	\$227,664,109
(b) Other Income **	34,446,471	61,203,500	3,942,131
(c) Total Revenues and Other Income ...	913,727,565	699,967,623	231,606,240
(d) Net Income **	79,189,387	86,955,848	2,655,443
(e) Percent of Combined Ry. Operating Revs. and Other Income Remaining As Net Income	8.67%	12.42%	1.15%
(f) Net Ry. Operating Income **	78,255,981	52,734,712	11,440,093
(g) Average Net Investment (000) **..	2,369,258	1,626,242	783,000
(h) Rate of Return	3.30%	3.24%	1.46%
(i) Miles of Road Operated **	17,545	14,134	10,540
(j) Revenue Ton Miles (000) # #	60,275,469	40,766,499	14,139,668
(k) Revenue Ton Miles Per Mile of Road	3,435,478	2,884,286	1,341,524

* Includes S.P.Co., Northwestern Pacific RR. Co., Pacific Electric Co., and St. Louis Southwestern Ry. Lines.

Includes U.P.RR.Co. and Spokane International RR.

ϕ C.R.I.&P.RR.Co. allocation on total Ry. Oper. Revenues, Table VI a.

** C.R.I.&P.RR.Co. allocation on Miles of Road Operated, Table VI a.

C.R.I.&P.RR.Co. allocation on Rev. Ton Miles Table VI a.

STATEMENT SHOWING HOW THE C.R.I. & P. R.R. CO.
 COULD BE DIVIDED IF IT IS MERGED
 INTO THE S.P. CO. AND/OR THE U.P. R.R. CO.
 USING STATISTICS FOR THE YEAR 1962

Item	Miles of Road Operated End of Year	Revenue Ton Miles (000)	Freight Revenue	Total Railway Operating Revenue
Part that could go to the U.P. R.R. Co.				
Illinois	325.95	1,482,701	\$ 21,207,761	\$ 32,112,544
Iowa	2,074.65	2,586,777	36,337,615	44,208,017
Missouri	509.88	977,353	11,190,102	13,789,083
Minnesota	287.92	345,824	3,998,881	5,409,287
# So. Dakota	58.79	# 2,000	# 59,994	# 59,372
* Kansas	526.50	* 1,377,161	* 17,072,227	* 19,737,022
Nebraska	238.21	254,583	3,090,620	3,589,919
Colorado	257.78	407,901	3,905,047	4,576,771
Total	4,279.68	7,434,300	96,862,247	123,482,015
Percent	54.6%	56.5%	59.4%	61.5%
Part that could go to the S.P. Co.				
* Kansas	593.72	* 1,552,969	* 19,251,661	* 22,256,641
New Mexico	153.42	288,252	3,194,738	3,902,234
Oklahoma	1,053.65	1,658,938	19,106,152	22,218,342
Arkansas	597.80	802,799	9,697,129	10,859,309
Louisiana	187.56	135,698	1,374,769	1,394,197
Tennessee	1.44	3,346	34,839	54,417
Texas	974.40	1,278,635	13,559,037	16,759,532
Total	3,561.99	5,720,637	66,218,325	77,444,672
Percent	45.4%	43.5%	40.6%	38.5%
Total	7,841.67	13,154,937	163,080,572	200,926,687

Due to inconsistencies in reporting the total of the states does not equal the system figures and as So. Dakota was not reported all equalizing was done to So. Dakota.

* Kansas was allocated 47% to U.P. R.R. Co. and 53% to S.P. Co. on a Miles of Road Operated Basis.

III.

THE EFFECTS OF THE ASSUMED MERGERS ON THE MILWAUKEE

A. Freight Traffic

For the purposes of this report, an estimate of annual freight revenue losses resulting from the assumed mergers is predicated upon records of traffic movements during the months of September and December, 1958, and March and June, 1959. These months were considered reasonably representative and used in the Milwaukee - Rock Island Consolidation study of 1960. Stated in round figures, the Milwaukee Railroad in 1958 handled 39,900,000 tons of freight traffic, and in 1959, 40,000,000 tons. Since its 1962 tonnage totalled 39,400,000, it is believed that the 1958-59 statistics provide a fairly reliable basis for this preliminary analysis.

Because the statistics used in the Milwaukee - Rock Island study did not isolate commodities, it is impossible to give a detailed statement of our anticipated losses on any individual commodity. On the eastbound traffic, lumber, of course, is a very important commodity, as is canned goods, and, in volume, perishables.

Milwaukee annual freight revenues susceptible to being affected by the assumed mergers, have been broken down as to originations and terminations on the Union Pacific, and originations and terminations on the Southern Pacific on traffic of

that company which is affected by the Central Pacific Traffic Agreement and which routes through Ogden, Utah, with the Union Pacific. It also shows separately traffic interchanged with the Union Pacific at Marengo, and other not specifically mentioned above.

The most substantial losses will be incurred on Union Pacific originated traffic; the second most important losses insofar as volume is concerned will be on traffic terminating on the Union Pacific.

It was estimated that on originated traffic, the Union Pacific would be able to influence at least 60% of Milwaukee traffic competitive with the Rock Island for their extension of haul over that line and, to a lesser extent, an extension of haul over the line of the Rock Island on traffic terminating on the Milwaukee where there would be both a long haul and a short haul gateway involved. An example of this would be traffic originating in Oregon destined to Milwaukee, Wisconsin, which routed via Council Bluffs and the Milwaukee. Under the merger there would become available a long haul Union Pacific route to Chicago and thence the Milwaukee. The loss on this traffic, of course, would be a percentage of the division that would accrue from Council Bluffs to Chicago.

The same situation is true on Union Pacific terminated traffic, except that in those instances our loss is estimated to be 30% on traffic competitive with the Rock Island and a

much lesser percentage where both long and short haul gateways would become available by reason of the merger.

Milwaukee traffic from and to the Southern Pacific in the above described territory is substantial, but because of the bridge aspects of the Union Pacific on such traffic, our estimated percentage of loss is 10%, which 10% applies on both eastbound and westbound traffic.

The Milwaukee has a fair interchange with the Union Pacific at Marengo, and on that traffic where the acquisition of the Rock Island by the Union Pacific would make such route competitive with the Milwaukee, the percentage of estimated loss is on the same basis as that used in connection with traffic that moved via the Missouri River.

As a matter of comparison, during the study period there were 5,203 cars terminated on the Union Pacific that were potential for diversion and 5,463 cars that originated on the Union Pacific. On the potential incidental to Southern Pacific traffic through Ogden, there were 7,633 cars originated on the Southern Pacific and 2,308 cars which terminated on the Southern Pacific. During the same period we interchanged 1,634 cars at Marengo.

On the stated assumption that the Southern Pacific will acquire only that portion of the Rock Island to and south of Kansas City, the committee does not believe that any loss will be encountered in connection with traffic originated on the Southern Pacific now interchanged with the Milwaukee at Kansas City.

The total Milwaukee annual revenues from traffic interchanged with Union Pacific at Omaha-Council Bluffs, Kansas City and Marengo and all other points, and the estimated annual losses resulting from the assumed mergers are summarized on the following Table VII. Of a total of \$14,380,694 annual Milwaukee revenues from traffic involved in the effects of the assumed mergers, it is estimated that the Milwaukee would sustain an annual loss of \$3,565,193. (This figure takes into account adjustments incidental to claims, absorption of switching, transit, etc.)

The type (originated, terminated and bridge) of Milwaukee traffic involved is set out in Table VIII showing Cars, Annual Milwaukee Revenue, and Estimated Annual Losses on each type of traffic.

MILWAUKEE ANNUAL REVENUES* ON TRAFFIC INTERCHANGED WITH
U.P. AT OMAHA-COUNCIL BLUFFS, KANSAS CITY AND MARENGO
AND ALL OTHERS, AND ESTIMATED ANNUAL LOSSES

Item	Total Milwaukee Annual Revenue	Estimated Annual Loss
Terminated on U.P.	\$ 3,006,916	\$ 824,780
Terminated on S.P. with U.P. as bridge carrier	1,123,811	103,025
Originated on U.P.	2,802,883	1,510,821
Originated on S.P. with U.P. as bridge carrier	2,921,819	258,746
Total	9,855,429	2,697,372
Interchanged at Marengo	2,367,060	618,192
All others	2,158,205	249,629
Grand Total	\$14,380,694	\$ 3,565,193

* Based on traffic movement during months of September and December, 1958 and March and June, 1959.

ESTIMATED LOSSES IN MILWAUKEE ANNUAL REVENUE
ON TYPE OF MILWAUKEE TRAFFIC *

Item	Estimated Annual Number of Cars	Estimated Annual Milwaukee Revenue	Estimated Annual Loss in Revenue
Originated	16,773	\$ 3,197,833	\$ 581,604
Terminated	20,018	3,607,416	1,079,242
Bridge (E.B.)	27,095	3,554,339	952,227
Bridge (W.B.)	17,735	4,021,106	952,120
Total	81,621	\$14,380,694	\$ 3,565,193

* Based on traffic movement during months of September and December, 1958 and March and June, 1959.

The most sizable loss in dollars would be incurred on our terminated traffic which, to a large extent, involves Union Pacific originated traffic as previously described. Our greatest carload volume on traffic involved is that of bridge traffic which the Milwaukee Road handled between either Council Bluffs - Omaha or Kansas City and the Chicago gateway. Based on the study period, the estimated annual movement of such cars was 27,095 eastbound and 17,735 westbound.

The percentages of loss used in this study were the same as the Milwaukee used in the GN-NP-CB&Q study with certain additions and variations for different types of traffic involved in the instant study but not encountered in that study. It would be impossible at this time to make any estimate as to reductions in these losses that might be occasioned by reason of the re-adjustments incidental to the recent decision of the Interstate Commerce Commission in Docket 31503 (Transcontinental Divisions Case).

In order to produce a conservative and reasonably realistic estimate of losses from the assumed mergers, the committee believes that the \$3,565,193 annual loss figure should be reduced by an over-all 5% to make allowance for variations in tonnage handled, and the effects of rate reductions made since 1959. The application of such a reduction results in a conservative estimate of annual traffic revenue losses of approximately \$3,388,000.

This estimate is based on actual traffic movements with percentages reflecting estimates of loss resulting from extension of lines. Probable changes in traffic patterns, resulting, for example, from the presence of the Union Pacific in Minneapolis-St. Paul, will probably cause additional traffic losses to the Milwaukee, but to an undeterminable extent. Such intangibles are not included in this report, but may significantly alter the estimates.

B. Passenger Train Operation

The so-called "City" trains are presently being operated jointly with the Union Pacific and the Southern Pacific by the Milwaukee between Chicago and Omaha. These operations are covered by a contract which provides for a one-year termination notice from either party. As shown in the following Table IX, during the year 1962 the Milwaukee realized a net gain of \$1,604,086 based on out-of-pocket expenses in the operation of the City trains between Chicago and Omaha. Revenues on these trains were \$5,590,478, and out-of-pocket operating expenses were \$3,986,392. If the Union Pacific were to acquire its own line into Chicago, it is presumed that the City trains would be transferred to that line. The result would be an annual loss of \$1,604,086 to the Milwaukee based on 1962 operations.

The estimated annual loss in freight revenues of \$3,388,000 (less adjustments for savings in operating costs and rents for handling less freight traffic) may be combined with the net loss of \$1,604,086 from discontinued "City" train operations. The effect on the Milwaukee of such annual losses is projected on the following Table X, based on the year 1962. The resulting damage to the Milwaukee's financial stability, as illustrated in Table X, requires no comment.

TABLE IX

REVENUES AND EXPENSES OF TRAINS OPERATED JOINTLY WITH
THE UNION PACIFIC AND SOUTHERN PACIFIC BETWEEN CHICAGO AND OMAHA
FOR THE YEAR 1962

Items	* Consolidated City of San Fran. City of Los Angl.	Consolidated City of Portland City of Denver	Total Year 1962
	Amount	Amount	Amount
TRAIN AND CAR MILE STATISTICS:			
Train Miles	491,904	356,240	848,144
Locomotive unit-miles	1,689,594	912,560	2,602,154
Car-miles:			
Passenger coaches	3,084,114	1,480,242	4,564,356
Sleeping cars	2,781,738	1,090,680	3,872,418
Dining, club, lounge and observation cars	1,294,664	848,144	2,142,808
Mail, express and baggage cars	1,580,144	1,349,809	2,929,953
Total	8,740,660	4,768,875	13,509,535
REVENUES:			
Passenger	\$ 3,165,624	\$ 1,275,378	\$ 4,441,002
Mail	683,850	351,164	1,035,014
Express	31,401	83,061	114,462
Total	\$ 3,880,875	\$ 1,709,603	\$ 5,590,478
OPERATING EXPENSES (OUT-OF-POCKET):			
Diesel locomotive-repairs	\$ 352,956	\$ 190,634	\$ 543,590
Passenger train car-repairs	80,547	53,223	133,770
Train enginemen	236,657	168,883	405,540
Train fuel	364,487	198,862	563,349
Diesel locomotive supplies	22,978	12,411	35,389
Enginehouse expenses	38,016	20,533	58,549
Trainmen	292,562	192,457	485,019
Train supplies and expenses	327,067	187,948	515,015
Pullman operation - Net Loss	(4,367)	40,777	36,410
Dining and buffet service - Net Loss	261,353	148,652	410,005
Depreciation on equipment	138,611	59,267	197,878
Operating expenses - Omaha Union Station ..	230,357	129,858	360,215
Operating expenses - Chicago Union Station.	139,345	75,893	215,238
Car rental payable	84,828	104,019	188,847
Car rental (receivable) for cars operated in other than these trains	-	-	(162,422)
Total	\$ 2,565,397	\$ 1,583,417	\$ 3,986,392
Net Gain Based Upon Out-of-Pocket Expenses.	\$ 1,315,478	\$ 126,186	\$ 1,604,086
AVERAGES - PER TRAIN MILE:			
Locomotive units	3.43	2.56	3.07
Cars	17.77	13.39	15.93
Revenues	\$ 7.89	\$ 4.80	\$ 6.59
Expenses (Out-of-Pocket)	\$ 5.22	\$ 4.45	\$ 4.70
Net Gain	\$ 2.67	\$.35	\$ 1.89

* Operated in two sections during the Summer and Christmas season.
() Denotes contra items.

TABLE X

STATEMENT SHOWING C.M.ST.P.& P. RR. CO. NET INCOME PER BOOKS
FOR THE YEAR 1962 AND AS ESTIMATED HAD THE C.R.I.& P. RR. CO.
BEEN MERGED INTO S.P. CO. AND/OR U.P. R.R. CO.

Item	Year 1962 Per Books	Adjustments	Year 1962 Adjusted
Railway operating revenues	\$227,664,109	- \$8,979,411	\$218,684,698
Railway operating expenses	180,984,293	- 4,275,138	176,709,155
Net Rev. from Ry. operations	46,679,816	- 4,704,273	41,975,543
Railway tax accruals	19,274,000	-	19,274,000
Railway operating income	27,405,816	- 4,704,273	22,701,543
Net rents	Dr. 15,965,723	- 257,211	Dr. 15,708,512
Net Ry. operating income	11,440,093	- 4,447,062	6,993,031
Total other income	3,942,131	-	3,942,131
Total income	15,382,224	- 4,447,062	10,935,162
Total miscellaneous deductions	624,603	-	624,603
Income for fixed charges	14,757,621	- 4,447,062	10,310,559
Total fixed charges	5,986,093	-	5,986,093
Contingent interest	6,116,085	-	6,116,085
Net income or deficit ()	\$ 2,655,443	- \$4,447,062	\$ (1,791,619)

Adjustments:

Freight Revenue		\$3,388,933	
Passenger " (City Trains)		4,441,002	
Mail " (City Trains)		1,035,014	
Express " (City Trains)		<u>114,462</u>	\$ 8,979,411
Expenses Frt. \$3,388,933 @ 9.30%		315,171	
Pass. Out-of-pocket		<u>3,959,967</u>	\$ 4,275,138
Rents Frt. \$3,388,933 @ 6.81%		230,786	
Pass. (City Trains Net)		<u>26,425</u>	\$ 257,211

IV.

THE ADVISABILITY OF INTERVENTION FOR CONDITIONS

In the Great Northern Pacific and Burlington Lines merger, the Milwaukee formally took the position of "opposition unless" certain conditions to an approval of the merger are imposed by the Interstate Commerce Commission. Informally, however, it was acknowledged that the Milwaukee was not attempting to block the merger because the six conditions which the Milwaukee proposed, and received considerable public support for, were expected to offset the adverse effects of such merger upon the Milwaukee, and possibly improve the Milwaukee's competitive position and financial strength.

Thus, the question which merits first consideration in this study is: Are there conditions to an I.C.C. approval of these assumed UP-CRI&P and SP-CRI&P mergers which the Milwaukee can reasonably seek, support and obtain to counterbalance the estimated annual losses in net income exceeding \$4 million?

Within the scope of information available to the Committee, it has given consideration to the following conditions which have been suggested:

- a) Acquisition of Trackage Rights over the Rock Island lines between Council Bluffs and Kansas City, and Denver;
- b) Revision of certain Joint Facility Contracts with the Union Pacific such as obligations for rental

payments for the Seattle Depot, payments for unused rights over UP trackage from Spokane to Marengo, and contracts for 999-year terms;

- c) Revision of contracts with the Rock Island providing unreasonably low charges for switching and other services at Minneapolis, and a disadvantageous reciprocal switching arrangement at Davenport, Iowa;
- d) Acquisition of certain Union Pacific trackage in Washington, Oregon, Idaho and Montana;
- e) Switching services by the Union Pacific for the Milwaukee at Portland; trackage rights to Eugene, Oregon;
- f) Alternative plans for merger of Union Pacific and Milwaukee, Southern Pacific, and Rock Island;
- g) Development and expansion of interchange at the Marengo Gateway.

The Committee has concluded that these suggested conditions do not appear to provide a realistic or practicable approach to these assumed mergers. Within the limitations of the financial ability of the Milwaukee, acceptability by the I.C.C. or the public, and desirability as effective offsets to anticipated revenue losses to the Milwaukee, intervention to remain an independent railroad strengthened by certain conditions does not appear feasible. In the apparent absence of conditions, reasonably capable of realization, to adequately counterbalance

the adverse effects of such mergers, it appears unlikely that the Milwaukee could continue to remain physically and financially healthy unless it became a part of a beneficial rail merger.

V.

RECOMMENDATIONS

In the past, consideration has been given to the possibility of a Union Pacific - Milwaukee merger. In 1960 a formal study and report, and certain negotiations, were developed as to a proposed consolidation of the Milwaukee and the Rock Island. The Coverdale & Colpitts Report of December 9, 1960, estimated that annual recurring savings of \$25,803,000 would result from a Milwaukee - Rock Island merger. The end-to-end traffic generated by combining these two lines with the Union Pacific could be expected to produce very substantial revenue increases.

Based on past studies and the likelihood of Commission approval, the Committee is of the opinion that, in the public interest, the most desirable merger involving the Rock Island would be a Milwaukee - Rock Island merger. It would combine two relatively weak railroads (compared to Southern Pacific, Union Pacific, Santa Fe, and the possible Great Northern Pacific & Burlington), and enable the realization of large economies and improved service to the public. Whether present negotiations between Union Pacific and Rock Island are such that a renewal of Milwaukee - Rock Island negotiations is appropriate, is a policy question not within the purview of

the Committee's assignment.

However, in the proceedings as assumed for the purposes of this report, it is the Committee's conclusion that the Milwaukee has no reasonable alternative but to intervene in opposition unless it be included in a Union Pacific—Rock Island (with or without its southern lines) merger.

Such position would appear to be more effective than out and out, unconditional opposition, although it might have the same result. The possible results of the recommended position are threefold:

- (1) An order conditioning approval of the proposed mergers upon the inclusion of the Milwaukee, and acceptance by the applicants of such condition;
- (2) Refusal of the applicants to include the Milwaukee upon appropriate terms, thereby preventing the consummation of the proposed acquisition and mergers; and
- (3) Refusal of the I.C.C. to impose a condition requiring the inclusion of a railroad the size of the Milwaukee. Whether such decision would or would not then permit consolidations of the size of the proposed UP-CRI&P and SP-CRI&P systems, particularly in view of the report of the President's Interagency Committee on Transport Mergers, released March 6, 1963, may be open to question. (In the event that the assumed

mergers appear likely without inclusion of the Milwaukee, study might be directed to the possibility of a Southern Pacific with CRI&P southern lines — Milwaukee merger.)

It is therefore recommended, based on presently available information, that in the event of the filing of applications involving the Union Pacific, Rock Island, and Southern Pacific, as assumed herein, the Milwaukee can best protect its interests by intervention in opposition unless included in a Union Pacific — Rock Island merger.

J. T. HAYES
H. J. MCKENNA
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P. S. PATTERSON
S. W. RIDER JR.
L. R. SHELLNBARGER
R. T. WHITE
THE COMMITTEE

Dated May 3, 1963.