

February 5, 1980

SORE Newsletter No. 12
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Dear Members and Friends,

On January 30th, the I. C. C. handed down its decision in the case arising from the Trustee's petition to abandon all lines west of Miles City, Montana. Many of you participated in the extensive field hearings in September and October of last year at points in Washington, Idaho and Montana.

As should be apparent from the Trustee's unusual silence, SORE and New Milwaukee Lines have achieved a major triumph. The Commission has recommended to Judge McMillen that he withhold authorization for abandonment of service west of Miles City until after a decision has been reached on a proper plan of reorganization. The Commission indicates such a plan may well include the lines west of Miles City.

The decision is ninety-nine pages in length with 150 pages of attachments. It covers weeks of testimony and contains extensive Commission findings, making it difficult to summarize. The following is my own analysis of what the Commission has done.

I. TRUSTEE HILLMAN HAD NO BASIS FOR INITIAL DECISION TO EXCLUDE LINES WEST

As you will recall, Trustee Hillman announced in August of 1978, that he would not include any lines west of the twin cities in his reorganization plan; that he would move quickly to abandon lines west of Butte; and would eventually abandon everything west of Minneapolis. Hillman said his decision was based on the "fact" that lines west were a terrible cash drain and the results of an internal study (subsequently identified as the Kellow study). This basis for abandonment of the transcontinental line was subsequently reiterated by the Trustee's representative, Wally Abbey, at hearings in Butte, Montana, conducted by U. S. Senator Baucus.

SORE has maintained from its inception that lines west were not a cash drain and that the Kellow Study was never intended to determine whether or not lines west could be reorganized. The Commission agrees on both points.

Summarizing 19 pages of cost evidence, the decision states at page 63, "On an avoidable cost basis, operations west of Miles City have generated a positive cash flow in the last few years." At page 57, a Commission exhibit shows lines west of Miles City contributed \$12.7 million in 1976, \$11 million in 1977 and \$2.9 million in 1978. Far from being a drain, lines west was making a positive contribution. With regard to the Kellow Study and the allegation that it showed markets in the west would not support a rehabilitated Milwaukee, the Commission, said at page 29, "A review of that report by the consultants BAH (Booze Allen and Hamilton) nonetheless states

that the study does not actually answer questions concerning the stability of the transcontinental market or the existence of growth potential on the Western lines."

These findings alone, more than vindicate all that we have worked to prove over the past 20 months. The Trustee was just not telling the truth. If he had a rational basis for abandoning transcontinental service it was not anything he was saying publicly.

II. MILWAUKEE MANAGEMENT ALLOWED THE SYSTEM TO FALL INTO SUCH DISREPAIR THAT COMPANY SERVICE, COST AND TRAFFIC DATA BEAR LITTLE RESEMBLANCE TO RESULTS THAT A REHABILITATED RAILROAD MIGHT PRODUCE.

The Commission found that service on the Milwaukee has been seriously affected by the past decisions of management and that past and present costs of operation are badly distorted, by deteriorated plant and equipment. In the words of the decision,

The record reflects that during the 1960's and 1970's annual crosstie renewal decreased dramatically, freight time doubled, locomotive maintenance declined and rental costs increased. The renewal of crossties was 800,000 in 1957, but decreased to 500,000 in 1958, 400,000 in 1960 and 300,000 through the remainder of the 1960's. Derailments increased from a highly unusual event to a normal occurrence, with the resulting expensive equipment repair and lading damage. Poor utilization of personnel and equipment required the use of one-third more locomotives in 1978 than in 1977 between the Twin Cities and the west coast for approximately the same tonnage. The lack of track and equipment rehabilitation in the 1960's and 1970's has increased the freight service time between Chicago and Seattle from 53 hours to approximately 130 hours. Such poor utilization causes lower return on the Milwaukee's own equipment and requires the company to seek equipment from the other railroads and leasing companies. The Milwaukee used to rent equipment to other carriers, but has recently been required to pay approximately \$60,000,000 annually in car and locomotive rent costs. Further, the Milwaukee apparently established a policy of parking any car with more than \$500 of damage, thereby allowing the removal of many repair employees. This drastically decreased the car fleet size and required additional equipment rental. The stored cars tied up the Milwaukee's facilities and decreased the railroad's revenue producing ability. In addition, locomotives were not maintained properly, but rather were run until major mechanical problems put the units out of service. The end result was a locomotive bad order ratio of over 50 percent when the railroad went into reorganization.

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On the traffic side, the Commission in summarizing shipper testimony said,

The statements indicate that the lines west of Miles City have a potential for more traffic than the Milwaukee currently can (or will) handle given existing operating conditions and practices.

Many shippers who appeared at the hearings expressed a strong desire to keep the Milwaukee in the Northern Tier region

CONCLUSION

Each reader will have their own views on the proper interpretation of the Commission's decision in recommending that abandonment authorization be withheld, but I personally feel gratified that what we have been saying repeatedly over the past year and one half has finally been heard and verified by a responsible agency.

The Commission anticipates reaching a decision on a reorganization plan by March 1. Until then we will have our work cut out in continuing to develop as much additional support as possible. We particularly need to do something to call attention to the continual attempts by the Federal Railroad Administration to frustrate our effort. That agency has repeatedly refused to give a fair hearing. FRA has, instead, used every instrument at its disposal to sling stones and brickbats at the New Milwaukee Lines Plan, while making absolutely no effort to provide constructive criticism. The Secretary of Transportation has been no more helpful. The only solution appears to be to bring the matter to the attention of the President. Some of you have written and wired the White House with your concerns and I urge you to continue to do so. We have had good support from other parts of the Administration, especially the departments of Agriculture and Commerce. Those departments have documented the tremendous impact that would be caused by abandonment of Milwaukee as a transcontinental carrier. It is appalling that DOT, the agency directly responsible for transportation policy is working with such fervor to destroy the single viable solution to a major transportation crisis. In this campaign year when votes are being counted, the President can ill afford such counter productive activities on a matter of vital importance to thousands of shippers, employees and communities.

The battle is not yet over, but we seem to be making progress.

Best Regards,

A handwritten signature in cursive script that reads "J. Fred Simpson". The signature is written in dark ink and is positioned above the typed name.

J. Fred Simpson