REORGANIZATION OF THE MILWAUKEE RAILROAD

HEARING

BEFORE THE

SUBCOMMITTEE ON
TRANSPORTATION AND COMMERCE

OF THE

COMMITTEE ON
INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

H.J. Res. 318 and H.J. Res. 341

JOINT RESOLUTIONS TO REQUIRE CONTINUATION OF EXISTING LEVELS OF RAIL SERVICE BY THE CHICAGO, MILWAUKEE, SAINT PAUL AND PACIFIC RAILROAD COMPANY FOR A PERIOD OF NINETY DAYS

MAY 9, 1979

Serial No. 96–53

Printed for the use of the
Committee on Interstate and Foreign Commerce

U.S. GOVERNMENT PRINTING OFFICE
52-593 O WASHINGTON : 1979

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

HARLEY O. STAGGERS, West Virginia, *Chairman*

JOHN D. DINGELL, Michigan
LIONEL VAN DEERLIN, California
JOHN M. MURPHY, New York
DAVID E. SATTERFIELD III, Virginia
BOB ECKHARDT, Texas
RICHARDSON PREYER, North Carolina
JAMES H. SCHEUER, New York
RICHARD L. OTTINGER, New York
HENRY A. WAXMAN, California
TIMOTHY E. WIRTH, Colorado
PHILIP R. SHARP, Indiana
JAMES J. FLORIO, New Jersey
ANTHONY TOBY MOFFETT, Connecticut
JIM SANTINI, Nevada
ANDREW MAGUIRE, New Jersey
MARTY RUSSO, Illinois
EDWARD J. MARKEY, Massachusetts
THOMAS A. LUKEN, Ohio
DOUG WALGREN, Pennsylvania
ALBERT GORE, Jr., Tennessee
BARBARA A. MIKULSKI, Maryland
RONALD M. MOTTL, Ohio
PHIL GRAMM, Texas
AL SWIFT, Washington
MICKEY LELAND, Texas
RICHARD C. SHELBY, Alabama

SAMUEL L. DEVINE, Ohio
JAMES T. BROYHILL, North Carolina
TIM LEE CARTER, Kentucky
CLARENCE J. BROWN, Ohio
JAMES M. COLLINS, Texas
NORMAN F. LENT, New York
EDWARD R. MADIGAN, Illinois
CARLOS J. MOORHEAD, California
MATTHEW J. RINALDO, New Jersey
DAVE STOCKMAN, Michigan
MARC L. MARKS, Pennsylvania
TOM CORCORAN, Illinois
GARY A. LEE, New York
TOM LOEFFLER, Texas
WILLIAM E. DANNEMEYER, California

W. E. WILLIAMSON, *Chief Clerk and Staff Director*
KENNETH J. PAINTER, *First Assistant Clerk*
THOMAS M. RYAN, *Professional Staff*
J. PAUL MOLLOY, *Minority Professional Staff*

SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE

JAMES J. FLORIO, New Jersey, *Chairman*

JIM SANTINI, Nevada
BARBARA A. MIKULSKI, Maryland
JOHN M. MURPHY, New York
MARTY RUSSO, Illinois
HARLEY O. STAGGERS, West Virginia (Ex Officio)

EDWARD R. MADIGAN, Illinois
GARY A. LEE, New York
SAMUEL L. DEVINE, Ohio (Ex Officio)

CLIFFORD ELKINS, *Staff Director*

CONTENTS

REORGANIZATION OF THE MILWAUKEE RAILROAD

MAY 9, 1979

U.S. House of Representatives,
Committee on Interstate and Foreign Commerce,
Subcommittee on Transportation and Commerce,
Washington, D.C.

The subcommittee met at 9 a.m., pursuant to notice, in room 2322, Rayburn House Office Building, Hon. James J. Florio (chairman) presiding.

Mr. Florio. The subcommittee will come to order. As I am sure you all know, today's hearing on the bankruptcy and current reorganization of the Milwaukee Railroad is not only of significant importance to the region, but also to the entire United States. As a result of the railroad's present financial position, we are faced with the unprecedented possibility of directed service for, or the liquidation of, the Nation's seventh largest railroad. Upon my acceptance of this chairmanship, I realized that one of the committee's major responsibilities must be the redirection of our national rail—both passenger and freight—system. The future of the Milwaukee Railroad is part of that responsibility.

The Milwaukee Railroad's pending demise as a carrier is of particular importance as we review our national railroad network with an eye toward railroad deregulation.

Deregulation, as I have said before, is necessary to insure that the railroads remain viable private entities, yet the effects of any such deregulation must be carefully weighed as to their impact on the public as well as on the railroads.

While many may view the pending difficulties of the Milwaukee Railroad as a regional problem and I have indicated this is not the case, the Milwaukee Railroad's possible reduction in service is the largest since the Penn Central and other Northeastern railroads collapsed and ConRail was created. Congress response to the fate of the Milwaukee Railroad will be to play a decisive role in the future of the entire rail industry.

For this reason, my subcommittee and I have undertaken a twofold approach to the Milwaukee's plight. The first step has been to critically analyze the alternatives available to the railroad, its employees, its shippers, and its creditors. The second step will be to carefully select and practically implement the fairest solution to these diversified needs.

Today's hearing will serve to bring us both closer to this objective and to the overall goal of a more effective national transportation system.

Unless we respond to, and learn from, the Milwaukee Railroad crisis, we could face a railroad failure in the Midwest paralleling that of the Northeast. This, of course, is something none of us wants to see happen.

Without objection the text of H.J. Res. 318 and H.J. Res 341 will be printed at this point in the record.

[The text of the resolutions referred to follow:]

96TH CONGRESS
1ST SESSION

H. J. RES. 318

To require continuation of existing levels of rail service by the Chicago, Milwaukee, Saint Paul and Pacific Railroad Company for a period of ninety days.

IN THE HOUSE OF REPRESENTATIVES

MAY 1, 1979

Mr. STAGGERS (for himself, Mr. FLORIO, Mr. MARLENEE, Mr. FOLEY, Mr. ABDNOR, Mr. DASCHLE, Mr. WILLIAMS of Montana, Mr. ANDREWS of North Dakota, Mr. VENTO, Mr. TAUKE, Mr. RAHALL, Mr. MURPHY of Illinois, Mr. LEACH of Iowa, and Mr. HARKIN) introduced the following joint resolution; which was referred to the Committee on Interstate and Foreign Commerce

---

JOINT RESOLUTION

To require continuation of existing levels of rail service by the Chicago, Milwaukee, Saint Paul and Pacific Railroad Company for a period of ninety days.

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 That Congress hereby finds that—
4 (1) the proposed embargo of all of the freight op-
5 erations of the Chicago, Milwaukee, Saint Paul and
6 Pacific Railroad Company in the States of Idaho, Mon-

1 tana, North Dakota, South Dakota, and Washington
2 and of part of the freight operations of the railroad in
3 the States of Illinois, Indiana, Iowa, Kentucky, Michi-
4 gan, Minnesota, Missouri, and Wisconsin, which the
5 trustee of the railroad has asked the Bankruptcy Court
6 to authorize and to direct, would have crippling reper-
7 cussions on the economies of these States;
8 (2) the threatened embargo of freight service ex-
9 tends over 7,000 miles of the track, or approximately
10 75 per centum of the Milwaukee's rail system;
11 (3) the proposed embargo would result in the loss
12 of many thousands of jobs of railroad workers and
13 other workers whose employment is dependent upon
14 uninterrupted rail service;
15 (4) coal shipments from the great coal deposits
16 underlying Montana, North Dakota, South Dakota, and
17 Wyoming are totally dependent upon continuing rail
18 service;
19 (5) the agricultural producing and marketing ac-
20 tivities in this tier of States is equally dependent upon
21 continued service; and
22 (6) continued operation of the Milwaukee railroad
23 is essential to the present and future energy needs of
24 the region and to the development of energy resources
25 on which the Nation depends.

1 Upon this basis the Congress declares that emergency meas-
2 ures must be taken to avoid the substantial damage to the
3 economy of the region and of the Nation which the proposed
4 embargo would otherwise cause.

5 SEC. 2. For a period of ninety days following the effec-
6 tive date of this joint resolution, the Chicago, Milwaukee,
7 Saint Paul and Pacific Railroad Company shall maintain and
8 continue its existing level of service throughout its entire rail-
9 road system and shall not take any action to abandon or dis-
10 continue service over any part thereof unless (1) it is author-
11 ized to do so by the Interstate Commerce Commission, and
12 (2) no affected State (or local or regional or transportation
13 authority) opposes such action by the Commission.

14 SEC. 3. The Secretary of Transportation shall provide
15 such financial assistance as may be required to maintain and
16 to continue the existing level of service by the railroad in
17 accordance with section 2 of this Act. In providing such as-
18 sistance, the Secretary may draw upon available funding
19 sources established for the purpose of responding to railroad
20 emergencies, including the Emergency Rail Service Act of
21 1970 Trust Fund. Such financial assistance as the Secretary
22 may supply to the railroad shall constitute an expense of
23 administration.

24 SEC. 4. The actions prescribed by this joint resolution
25 shall be taken notwithstanding any provision of any other

1 Federal law, the constitution or law of any State, or the deci-
2 sion or order of, or pendency of any proceeding before, any
3 Federal or State court, agency, or other authority.

96TH CONGRESS
1ST SESSION

H. J. RES. 341

To require continuation of rail service by the Chicago, Milwaukee, Saint Paul, and Pacific Railroad for a period of forty-five days.

IN THE HOUSE OF REPRESENTATIVES

MAY 23, 1979

Mr. STAGGERS (for himself, Mr. FLORIO, Mr. ABDNOR, Mr. FOLEY, Mr. MARLENEE, and Mr. WILLIAMS of Montana) introduced the following joint resolution; which was referred to the Committee on Interstate and Foreign Commerce

---

JOINT RESOLUTION

To require continuation of rail service by the Chicago, Milwaukee, Saint Paul, and Pacific Railroad for a period of forty-five days.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) Congress hereby finds that—

(1) the proposed embargo of the freight operations of the Chicago, Milwaukee, Saint Paul, and Pacific Railroad Company (hereinafter the "Milwaukee Railroad") in the States of Washington, Montana, Idaho,

North Dakota, South Dakota, Illinois, Iowa, Missouri, Michigan, and Indiana, which the trustee of the railroad has asked the bankruptcy court to authorize and to direct, would have crippling repercussions on the economies of these States;

(2) the threatened embargo of freight service extends over seven thousand miles of the track, or approximately 75 per centum of the Milwaukee Railroad's rail system;

(3) the proposed embargo would result in the loss of many thousands of jobs of railroad workers and other workers whose employment is dependent upon uninterrupted rail service;

(4) coal shipments from the great coal deposits underlying Montana, Wyoming, North Dakota, and South Dakota are totally dependent upon continuing rail service;

(5) the agricultural producing and marketing activities in this tier of States is equally dependent upon continued service;

(6) cessation of essential transportation services by the Milwaukee Railroad would endanger the public welfare;

(7) cessation of such services is imminent; and

1 (8) there is no other practicable means of obtain-
2 ing funds to meet payroll and other expenses necessary
3 to provide such services.
4 (b) Upon the basis set forth in subsection (a), the Con-
5 gress declares that emergency measures must be taken to
6 avoid the substantial damage to the economy of the region
7 and of the Nation which the proposed embargo would other-
8 wise cause.
9 SEC. 2. For a period of forty-five days following the
10 date of enactment of this joint resolution, the Milwaukee
11 Railroad (1) shall maintain its entire railroad system, as it
12 existed on May 1, 1979; (2) shall continue no less than the
13 level of service provided by it as of that date and (3) shall not
14 take any action to abandon or discontinue service over any
15 part thereof unless it is authorized to do so by the Interstate
16 Commerce Commission, and no affected State (or local or
17 regional transportation authority) opposes such action by the
18 Commission.
19 SEC. 3. (a) The Secretary of Transportation, under the
20 authority of the Emergency Rail Services Act of 1970, shall
21 immediately guarantee trustee certificates issued by the Mil-
22 waukee Railroad. Such guarantee shall be made without
23 regard to the findings and conditions set forth in subsections
24 (a) and (b) of section 3 of such Act, and the certificates guar-
25 anteed under this joint resolution shall not have the status

1 and priority set forth in subsection (c) of section 3 of such
2 Act.
3 (b) Certificates guaranteed under this joint resolution
4 shall not have priority in bankruptcy over the claim of any
5 creditor of the Milwaukee Railroad as of the date of enact-
6 ment of this joint resolution.
7 SEC. 4. The Secretary of Transportation shall guaran-
8 tee trustee certificates of the Milwaukee Railroad pursuant to
9 this joint resolution in an amount equal to the difference be-
10 tween (1) the total expenses incurred by such railroad in or
11 attributable to the maintenance and continuation of service as
12 required by section 2 of this joint resolution, and (2) the
13 direct revenues from the handling, routing, and moving of
14 traffic in connection with such service, together with any
15 other source of operating revenues available to such railroad.

Mr. FLORIO. We are pleased to have a list of very distinguished witnesses today from whom the subcommittee will benefit in preparing its deliberations. There is no more distinguished Member of the Congress than our first witness, someone who we are very proud to have come before us, the Honorable Henry Reuss, chairman of the Banking Committee.

Congressman Reuss?

STATEMENT OF HON. HENRY S. REUSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. REUSS. Thank you very much, Chairman Florio.

I want to express my gratitude to you and your subcommittee for the admirable dispatch with which you are bringing before the Congress the latest developments in our bankrupt Milwaukee Road. I do not need to tell you that we in Milwaukee and Wiscon-

sin, depending on the Milwaukee Road to haul the beer and carry the machinery and the farm products and all the things we need and we make, have been very nervous observers of the Milwaukee Road's trials.

Just 2 weeks ago, Milwaukee Road trustee Stanley Hillman, a very experienced railroad man who was brought in 15 months ago to see what he could do with the railroad by concentrating its scarce resources on high density mainline routes, went before the court in Chicago with his proposal.

This hearing is extremely timely.

If the Federal agencies had been as zealous as this subcommittee in their oversight of the Milwaukee Road, we would not be facing the drastic steps the trustee now has recommended to keep the dead-broke Milwaukee Road alive.

Unhappily the performance, or lack of it, by the Interstate Commerce Commission and the Federal Railroad Administration has fallen far short of what was needed, and far short of what the Milwaukee Road's users and workers have a right to expect.

Take the Interstate Commerce Commission. Immediately upon being confirmed as the Road's trustee in February 1978, Mr. Hillman petitioned the Interstate Commerce Commission for permission to abandon many light-density, money-losing lines which were draining the Milwaukee of the cash needed to maintain its profitable routes.

The severe 1977–78 winter hit the Milwaukee Road hard. Shortage of funds forced it to operate so close to the margin that up to half of its locomotives were sidelined. Milwaukee employers did not know on a Friday whether they would have the materials needed to begin work on Monday. The breweries, just to mention one of our industries, were within days of huge layoffs. One brewery, Miller, which had planned a $80 million expansion in Milwaukee, had to shelve its plans until it could discover whether it was going to have vitally needed rail transportation or not.

It was apparent to everyone that the Milwaukee Road was bleeding to death. But back at the Interstate Commerce Commission, it was business as usual. Abandonment requests on which hung the survival of the railroad and the health of the region were processed at the leisurely pace typical of the Commission.

Mr. Chairman, perhaps you can understand what I am talking about better if I talk about a specific case, although it is merely typical.

The first Milwaukee Road line built in 1836 goes west of Waukesha, which in turn is about 50 miles west of Milwaukee and ambles toward a place called Whitewater, 41 miles. On March 30, 1978, that is 13 months ago, the Milwaukee Road again petitioned the Interstate Commerce Commission to remove this millstone from its back and let it abandon the Waukesha-Whitewater segment.

Just the year before, the Commission had denied the road permission to do that, following a year of heavy investigation and deliberation, including several days of hearings in which everyone was abundantly heard.

By March 1978, the Milwaukee Road was bankrupt, and to rehabilitate that short section of track so that it did not derail as it repeatedly does, it would cost $9 million, whi[illegible]s $9 million more

than the railroad or anybody else has. The annual operating deficit alone, derails aside, was more than $30,000.

Part of the line, from Whitewater to Milton Junction, had not been used since 1976. An inspection train the other day could not use those tracks because the weeds repelled it.

Traffic on the line averages 7.4 cars per mile which is about one-fifth of what you need to break even.

Despite having just been over this ground, ad infinitum, ad nauseam, 1 year before, the Interstate Commerce Commission in March 1978, began another leisurely investigation. Seven months elapsed before the Interstate Commerce Commission could even decide whether to hold a hearing. Finally last October, the case was set for processing under the so-called modified procedure, written submissions only. The evidentiary phase of the procedure ended February 8, 1979.

The Commission is supposed to move immediately toward a decision and in fact the statute compels them to move within 120 days. Thirty days went by. Sixty days went by. Ninety days has gone by. They still have not decided it, despite years of taking evidence and despite the desperate straits of the Milwaukee Road. The Interstate Commerce Commission cannot decide whether this particular line should be abandoned.

About this time one would ask, is this a heavily used industrial or agricultural line with lots of business riding on its continuation?

The Milwaukee Journal through its enterprising reporter, Ken Kinney, had a series of articles within the last 2 weeks on what this twice-a-week freight train, when it does not derail, actually carries. What it carries is a few cars, three to five, to service along the line, the 42 miles, a feed mill, a small chemical plant, and a lumber yard. All of those users have long since gone principally to trucks because they are right off good road transportation.

Nonstop, the speed limit never gets over 25 miles per hour because it derails sometimes at much less than that. Since the article appeared in the Milwaukee Journal 2 weeks ago, another train has been derailed.

The point I would want to make is of course the shippers, the grain mill, the small chemical plant, and the lumber yard should not be made the victims of the Milwaukee Road's troubles. Let's not in providing for them repeat the old mistakes, the things we did wrong in the past.

The Interstate Commerce Commission is now said to be contemplating directed service on all of these embargoed lines for agonizing months on months, up to 8 months, at the public expense and some of the localities have already begun to discuss subsidized rail service along the embargoed lines, and this include Whitewater, the community with the mill in it which I mentioned. The city of Whitewater passed a resolution the other day urging the State of Wisconsin to pick up the line and said the city would pay 20 percent of the cost of the rail and the right-of-way. The rails and the right-of-way are the least. That comes to something like $5,000 or $6,000 a mile. They are talking about a total of $100,000 in which t[illegible] would put in $20,000.

Nothing is said about who will pay the $9 million so the line is operable or who pays the thousands of dollars of annual operating deficit.

I just do not think it is likely that any other management will find profitable what the Milwaukee Road has found disastrously unprofitable. Is another rail operator likely to cough up the $9 million to get the line in condition so it can carry a freight train?

If subsidies are to be paid, and I have no objection to paying them, why not pay them to provide truck service to the affected industries? You could buy some of these industries a gold-plated Cadillac truck for less than it would cost to have some other carrier, or the State, or the Interstate Commerce Commission resume the disastrous rail service which for so many years has been a loser.

The nonperformance of the Federal Railroad Administration in the Milwaukee Road fiasco ranks second only to that of the Interstate Commerce Commission. The Federal Assistance branch of the FRA has been forthcoming, it is true, with loans to the Road in the last year, but only after months of costly delay, and the Federal Railroad Administration's authority under section 401 of the 4R Act to negotiate inter-railroad reorganization, has produced no fruit that I can see in over a year of sporadic efforts.

Our other road in Wisconsin, the Chicago & North Western, is having its problems. I certainly hope thrashing about at the last moment is not going to cause us to come up with a solution that will bankrupt the C. & N.W. as we have already bankrupted the Milwaukee Road.

I want to give my wholehearted endorsement to the plan of Trustee Hillman as the last best hope for saving the Milwaukee Road. He has asked for an embargo on the most flagrantly unprofitable lines, meanwhile concentrating his energies on keeping those lines which are essential in its operation.

At the margin, one can say he should keep this line and drop that line. I will not comment on that. The idea that he can run that railroad as it is, when he has nothing but a few cigar coupons left in the till, is ludicrous.

In the coming months, trustee Hillman will need all his considerable skill and experience and every penny of cash he can lay his hands on to guarantee the survival of the Milwaukee Road and to make its mainline service dependable again.

Already today they are selling the yards in Tacoma. They are selling the few trees they have in their portfolio. I think they are evidencing a sincere desire to make a go of it.

I talked to trustee Hillman yesterday. He told me that he cannot go on as he has, and with his plan, if the court will allow him to embark upon it, the chances are good that in 6 to 8 months, the new slimmed-down railroad will be viable and can continue. If we burden its last few days on Earth with unnecessary expenditures or waste the taxpayers' money in unprofitable activities, we will never get anywhere.

I conclude, Mr. Chairman, by thanking you once again and by urging that the survival of the Milwaukee Road [illegible]es in giving trustee Hillman the latitude he needs to concentr[illegible]e on the Milwaukee Road's profitable lines and in avoiding the placing of any additional obstacles in his path.

Mr. FLORIO. We thank you very much for your comments. Your case study certainly highlights the need for the consideration of some of the administration's rail deregulation proposal provisions which would certainly provide for expeditious proceedings in many of the different areas you have indicated.

Chairman O'Neal will be coming before the committee this afternoon. We understand that he will at that time, spell out the provisions of his directed service proposal in detail. We are hopeful that the proposal will be cost-efficient. We are also hopeful that some of the railroads can be induced to provide voluntary service as well as directed service to minimize, to the fullest degree possible, the burden on the taxpayer.

Your statement is very helpful, and we will certainly keep you informed as to what happens this afternoon.

Mr. REUSS. I thank you. I think your scheduling this hearing, Mr. Chairman, has had a very desirable effect. I am delighted the Interstate Commerce Commission will now be doing what in all frankness it should have done many months ago and I thank you.

Mr. FLORIO. Thank you very much.

Our next witness is the Honorable James Abdnor, a Member of Congress. Congressman, we welcome you to the committee.

STATEMENT OF HON. JAMES ABDNOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. ABDNOR. Thank you, Mr. Chairman. Thank you for providing me the opportunity to testify before your subcommittee today on the subject of the Milwaukee Railroad.

I want to begin by saying the subcommittee has been most cooperative in addressing the problems associated with rail abandonment. Last year I testified before this subcommittee recommending section 8 of the branch line assistance program of the Railroad Revitalization and Regulatory Reform Act be amended in order that its provisions be made more flexible.

As a result of the subcommittee's actions, the Local Rail Service Assistance Act of 1978 passed the House and was signed into law.

Since that time, much has developed on the abandonment scene. The Milwaukee Railroad has filed for bankruptcy, which I need not tell you, recently declaring that most of its line including all lines in South Dakota, would have to be abandoned in order to sustain operations on the portion of the line representing its core system as determined by the Milwaukee trustee, Mr. Hillman.

I just want you to know this represents two-thirds of the total track in my State.

If these developments are allowed to occur, then South Dakota and the rest of the Nation face serious economic and energy problems. I am not here just to plead the case against this widespread abandonment on behalf of my constituency. The full consequences of such an action cannot be regionalized in that respect. My purpose is to try to relay to you the importance of maintaining viable rail service r[illegible] only in South Dakota but throughout the Western States.

The importance of maintaining the Milwaukee can be stated best by considering the scenario of its abandonment. First of all, the price of products shipped by this line would in many cases skyrocket because alternative services would be unavailable. Not nearly enough trucks exist to haul these products. In several instances, they would be unable to haul certain products.

In those instances where trucks would be operating, highways would deteriorate at a much faster rate requiring massive amounts of funds to rebuild and rehabilitate the roads.

The University of South Dakota Business Research Bureau study estimated that if all railroads in South Dakota were abandoned, it would cost over $500 million to initially upgrade the highways to handle the load and at current prices over a 40-year period, it is estimated that it would cost nearly $1 billion more for maintenance.

It is interesting to note that railroad transportation is 4.2 times as effective fuelwise compared to trucks and 5.4 times as effective dollarwise. That is according to the National Science Foundation.

Farmers would receive lower prices for their grain due to higher shipping rates. Estimated additional annual costs if total abandonment would occur include the loss of income to farmers of between $23 and $30 million, extra cost of fertilizer for farmers would be over $1 million, and so forth.

The last figure brings me to the subject of energy. The Milwaukee Road hauls approximately and in my written statement I have 2.2 and it should be 2.8 million tons of coal each year from southwestern North Dakota to the eastern edge of South Dakota where the Big Stone Powerplant is located. Any long-term disruption of rail deliveries to this plant would force it to shut down. Energy prices would increase significantly and the energy crunch would be increased.

Mr. Gary Enright who represents Northwestern Public Service Co. is here today and is going to testify in detail about this operation.

This brings me to the question, what can be done in Congress to resolve the present dilemma?

The most immediate response is passage of a House Joint Resolution 318, sponsored by you, Mr. Chairman, and Mr. Staggers, which I have cosponsored, that would require the Milwaukee to continue its operation over all its lines for 90 days while drawing on available funds from the Emergency Rail Service Act trust fund. This resolution is only a short-term measure designed to buy time during which the Federal, State, and local governments can better prepare themselves to deal with this loss of service and to reach some solution regarding which lines should be maintained through operating and rehabilitation funds.

Many programs currently are being conducted to determine this system which will not be furnished until later this year.

The South Dakota Department of Transportation in conjunction with the Federal Railroad Administration is conducting a freight transportation needs study to determine the optimal patterns of highway and rail operations. The projected completion date is December 31, 1979, but with a 90-day extension perhaps this time frame can be reduced.

The director of the division of railroads in South Dakota, Mr. James Meyers, will be present today and will present further details of this program.

I am today introducing legislation extending for an additional year the title V preference share program of the 4R Act of 1976 and providing that such financial assistance may be available for rail transportation of coal to regions or States which can use coal in greater quantities to meet resource needs of powerplants and other industrial fuel users.

The purpose now behind this legislation is to enact section 803 of the Powerplant and Industrial Fuels Use Act of 1978 which authorizes appropriations of over $100 million for such purposes stated above. Subsequently, I intend to introduce legislation requesting appropriations for these funds.

This legislation is timely because the other body, the Senate, just included the 1-year extension of the title V preference share program as part of its Amtrak legislation considered yesterday.

At this time I would like to request the text of this bill be included in the record, Mr. Chairman.

Mr. FLORIO. Without objection, it will be inserted into the record (see p. 19).

Mr. ABDNOR. The immediate effect of pursuing funding for this program is to provide assistance to the Milwaukee Railroad on the portion of its main line running from Milbank, S. Dak., near the site of Big Stone Powerplant to the Knife River coalfields in North Dakota.

Besides providing funds for the main line through northern South Dakota, funds should be made available for other portions of the State. The enactment of the Local Rail Service Assistance Act provides one source of funds. I hope an appropriate amount exists for the eligible States to use.

Mr. Chairman, I think I speak for a number of the Members present today when I say the Milwaukee should not be turned into another ConRail which has cost the taxpayers over $4 billion.

I realize that many branch lines have to be abandoned in order to rid the system of its economic ailments. I want to assure farmers, shippers, businesses, and the general public that programs are available by the Federal Government where we utilize a mixture of local, regional, State, and Federal aid in maintaining and rehabilitating essential lines.

At the same time, Congress should involve itself in assuring an adequate rail system which provides essential services both to farmers and shippers in the form of food and fiber and to receivers in the form of energy and power.

Mr. Chairman, I thank you. I would like to ask that my entire written statement be included in the record.

Mr. FLORIO. Without objection, your entire statement will be inserted into the record.

[Mr. Abdnor's prepared statement and H.R. 4026 follow:]

STATEMENT OF HON. JAMES ABDNOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, thank you for providing me the opportunity to testify before your Subcommittee today on the subject of the Milwaukee Road. Let me begin by saying the Subcommittee has been most cooperative in addressing the problems associated

with railroad abandonments. Last year I testified before this Subcommittee recommending that the Section 8 Branch Line Assistance Program of the Railroad Revitalization and Regulatory Reform Act be amended in order that its provisions be made more flexible. For example, lines classified as potentially subject to abandonment would become eligible for federal financial assistance. As a result of the Subcommittee's actions, the Local Rail Service Assistance Act of 1978 passed the House and was signed into law.

Since that time, much has developed on the abandonment scene. The Milwaukee Road has filed for bankruptcy, recently declaring that most of its line, including all lines in South Dakota, would have to be abandoned in order to sustain operations on the portion of the line representing its core system as determined by the Milwaukee's Trustee, Mr. Hillman. Faced with this situation, the Transportation and Commerce Subcommittee once again is called upon to hear and consider the suggestions forthcoming from the witnesses appearing today and hopefully to promote measures which would lessen the impact that this major abandonment would have on all affected farmers, shippers, businessmen, and the general public.

As I mentioned previously, my home state of South Dakota faces the prospect of losing all of its Milwaukee line. This represents nearly two-thirds of the total track in the state. Moreover, the Chicago and North Western has indicated its intention to reduce a significant number of its lines by 1981. This reduction most likely will occur along the major portion of its east-west line through South Dakota, further reducing the total amount of track in the state.

Mr. Chairman, if these development are allowed to occur, then South Dakota and the rest of the nation face serious economic and energy problems. I'm not here just to plead the case against this widespread abandonment on behalf of my constituency. The full consequences of such an action cannot be regionalized in that respect. My purpose is to try to relay to you the importance of maintaining viable rail service not only in South Dakota but throughout the western states.

In determining this importance, many activities have been undertaken by numerous federal, state, and local agencies relative to the Milwaukee Road. The Federal Railroad Administration is conducting a study to determine whether parts of the Milwaukee Road are profitable enough to provide adequate security for federal rehabilitation loans; a consortium of 12 midwestern states is exploring the roles states have played in past railroad restructurings and roles they could play in the future; the states of Washington, Idaho, Minnesota, North and South Dakota have conducted either branch line analyses and/or shipper survey's; Senators McGovern, Melcher, and Baucus have conducted field hearings to gather input from the public and private sectors. These represent a few examples, and I shall refer to several others later in my testimony.

The importance of maintaining the Milwaukee can be stated best by considering the scenario of its abandonment. First of all, the price of products shipped by this line would, in many cases, skyrocket because alternative service would be unavailable. Not nearly enough trucks exist to haul these products, and in several instances they would be unable to haul certain products. In those instances where trucks would be operating, highways would deteriorate at a much faster rate, requiring massive amounts of funds to rebuild and rehabilitate roads. The University of South Dakota Business Research Bureau study estimated that if all railroads in South Dakota were abandoned, it would cost over $500 million to initially upgrade the highways to handle the load; and at current prices over a 40-year period, it would cost nearly a billion dollars more for maintenance. It is interesting to note that rail transportation is 4.2 times as effective fuel-wise compared to trucks, and 5.4 times as effective dollar-wise, according to the National Science Foundation.

Farmers wuld receive lower prices for their grain due to higher shipping rates. Estimated additional annual costs if total abandonment would occur include the loss of income to farmers of between $23 and $30 million, extra cost of fertilizer for farmers of over $1 million, additional cost of farm machinery of over $500,000, and extra costs of other miscellaneous commodities such as cement, coal, and feed totaling over $45 million.

This last figure brings me to the subject of energy. The Milwaukee Road hauls approximately 2.2 million tons of coal each year from southwestern North Dakota to the eastern edge of South Dakota where the Big Stone Power Plant is located. Any long-term disruption of rail deliveries to this plant would force it to shut down. Energy prices would increase significantly, and the current energy crunch would be exacerbated. Mr. Gary Enright, representing Northwestern Public Service Company, is here today to testify in detail about this operation. In addition, severe labor layoffs will result with little alternative employment availab

This brings me to the question of what can be done in Congress to resolve the present dilemma.

The most immediate response needed is passage of House Joint Resolution 318 sponsored by Chairman Staggers and Chairman Florio, which I have co-sponsored, requiring the Milwaukee to continue its operations over all of its lines for 90 days while drawing on available funds from the Emergency Rail Service Act trust fund. This resolution is only a short-term measure designed to buy time during which the federal, state, and local governments can better prepare themselves to deal with this loss of service and to reach some solutions regarding which lines should be maintained through operating and rehabilitation funds.

Many programs currently are being conducted to determine this system which will not be finished until later this year. For instance, South Dakota is sponsoring a series of studies addressing the rail service problems of particular regions in the state and investigating the desirability of branch line rehabilitation, such as the Iowa Plan, or regional grain terminal alternatives. State, shipper and carrier actions resulting from these studies may have a major impact on the economic viability of some Milwaukee branch lines. The study is not scheduled to be completed until August, 1979, and this 90-day extension allows the state enough time to determine these needs. Additionally, the South Dakota Department of Transportation, in conjunction with the Federal Railroad Administration, is conducting a freight transportation needs study to determine the optimal patterns of highway and rail operations. The projected completion date is December 31, 1979, but with a 90-day extension, perhaps this time frame can be reduced.

The Director of the Division of Railroads in South Dakota, Mr. James Meyers, will be present this afternoon to provide further detail of these programs.

Another program similarly affected is the Advisory Task Force headed by the Secretaries of Agriculture and Transportation. The purpose of the Task Force is to conduct a study of the rural transportation system in the United States and to publish an initial report which includes recommendations for a railroad transportation system adequate to meet the essential needs of the nation's agricultural industry. Also, the Task Force must hold public hearings after the report is issued. At my insistence, the Task Force will hold hearings in South Dakota in July. Therefore, it is essential that Milwaukee continue its operations or, at worst, that the ICC establish a directed service order including all lines presently in operation today, especially the Mitchell to Rapid City segment up for abandonment. Any lines not included in a directed service order are as good as being abandoned.

In the meantime, this 90-day extension provides time for Congress to enact legislation providing financial assistance to states and railroads.

Along this line, I am today introducing legislation extending for an additional year the Title V preference share program of the 4-R Act of 1976, and providing that such financial assistance may be available for rail transportation of coal to regions or states which can use coal in greater quantities to meet resource needs of power plants and other industrial fuel users. The purpose behind this legislation is to enact Section 803 of the Powerplant and Industrial Fuels Use Act of 1978 which authorizes appropriations of $100 million for such purposes stated above. Subsequently, I intend to introduce legislation requesting appropriations of these funds.

This legislation is timely because the other body included the one-year extension of the Title V preference share program as part of its Amtrak legislation considered yesterday. Since I understand the full House Committee tentatively plans to consider the Amtrak bill later this week, my legislation could be included in the form of an amendment to that bill.

At this time, I request the text of this bill be included in the record.

The immediate effect of pursuing funding for this program is to provide assistance to the Milwaukee Road on the portion of its main line running from Milbank, South Dakota, near the site of the Big Stone Power Plant, to the Knife River coal fields in North Dakota. However, as this nation coverts from the use of oil and natural gas fired power plants, perhaps even nuclear, to the use of coal, many more areas will need a good rail line to haul this product. In fact, relating back to the activities of the federal government mentioned previously in my testimony, three studies currently are being conducted to forecast future coal movements and to determine whether the present capacity of rail transportation is adequate to handle future demand. The dates for completion of these studies fall within the 1979 calendar year. Thus, sufficient funds should be available to start rehabilitating track and equipment to begin this conversion.

Besides providing funds for the main line through northern South Dakota, funds should be made available for other portions of the state. The enactment of the Local Rail Service A ance Act provides one source of funds. I hope an appropriate amount exists the eligible states to use. This might require appropriations

funding for the $100 million available as opposed to the $67 million received last year.

Mr. Chairman, I think I speak for the entire panel present today when I say that the Milwaukee should not be turned into another Conrail which has cost the taxpayers over $4 billion. I realize that many branch lines may have to be abandoned in order to rid the system of its economic ailments. However, I want to assure farmers, shippers, businesses, and the general public that programs are available by the Federal Government utilizing a mixture of local, regional, State and Federal aid in maintaining and rehabilitating essential lines. At the same time, Congress should involve itself in assuring an adequate rail system which provides essential services both to farmers and shippers in the form of food and fiber, and to receivers in the form of energy and power.

Thank you.

96TH CONGRESS
1ST SESSION

H. R. 4026

To extend for an additional year the program of Federal financial assistance under title V of the Railroad Revitalization and Regulatory Reform Act of 1976, and to provide that such financial assistance may be available for rail transportation of coal to regions or States which can use coal in greater quantities to meet the resource needs of powerplants and other industrial fuel users.

IN THE HOUSE OF REPRESENTATIVES

MAY 9, 1979

Mr. ABDNOR introduced the following bill; which was referred to the Committee on Interstate and Foreign Commerce

---

A BILL

To extend for an additional year the program of Federal financial assistance under title V of the Railroad Revitalization and Regulatory Reform Act of 1976, and to provide that such financial assistance may be available for rail transportation of coal to regions or States which can use coal in greater quantities to meet the resource needs of powerplants and other industrial fuel users.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That sections 505(e), 507(a), 507(d), and 509 of the Railroad

2

1 Revitalization and Regulatory Reform Act of 1976 (45
2 U.S.C. 825(e), 827(a), 827(d), and 829) are amended by
3 striking out "September 30, 1979" each place it appears and
4 inserting in lieu thereof "September 30, 1980".
5 SEC. 2. (a) Section 502(b) of the Railroad Revitalization
6 and Regulatory Reform Act of 1976 (45 U.S.C. 822(b)) is
7 amended by inserting immediately before the period at the
8 end thereof the following: "or to meet the coal resource
9 needs of powerplants or other industrial fuel users".
10 (b) Section 803(a) of the Powerplant and Industrial Fuel
11 Use Act of 1978 (Public Law 95-620; 92 Stat. 3347) is
12 amended by inserting immediately before the period at the
13 end thereof the following: "or to meet the coal resource
14 needs of powerplants or other industrial fuel users".

Mr. FLORIO. We certainly do appreciate your contribution to the committee, and would like to identify very closely with your feeling that we should not be creating ConRail West. There is no desire on the part of anyone to provide total Federal subsidization of an entire system that very well may need some degree of pruning down. Other devices and tools can be made available to provide assistance with the help of the States and the shippers.

We are hopeful that a rational analization will take place.

It is my understanding that the trustee has not modified the original plan which did not appear to provide for service to the Big Stone plant since it was initially published.

Mr. ABDNOR. Thank you, Mr. Chairman. Everything you say is very true. While we are very interested in the Big Stone for the energy it provides not only for South Dakota but many other States and it is going to become more important with the other problems we are running into with energy but this is true of the whole State of South Dakota and the other western states around us.

I have always said while it is good for South Dakota, the Nation has to have some kind of a railroad system running across our country. I noticed today in the newspaper that the administration said in their rationing plan that they now realize they have to make the hard choice between gas or diesel fuel and having a reserve for heating purposes and that is what this is all about. The food and the grain we raise out in those countries has to be distributed, not only around the United States but around the world. It is a very important factor in our balance of trade and everything else we do.

It is important to the entire Nation. I have also made the statement a number of times, Mr. Chairman, that while I do not think the Federal Government ought to be jumping into everything and trying to run people's businesses and lives, there are certain areas sometimes where they have to. I think about what REA has done for the Nation out in the rural areas where they would never have had electricity or the mail. The telephone system is different because if you had to pay accordingly in the rural areas, they would pay 10 times more than they probably would in New York.

That kind of falls in line with transportation. That is something that everyone has to have and the Nation has to have.

Thank you very much.

Mr. FLORIO. Thank you.

The Honorable Pat Williams will be our next witness. We welcome you to the committee.

STATEMENT OF HON. PAT WILLIAMS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. WILLIAMS. Thank you very much, Mr. Chairman.

I appreciate the opportunity to testify before you and the committee today.

Many years ago, the American writer, Henry David Thoreau said "We do not ride on the railroad, it rides upon us."

For months, people in Montana and other States, as well as some folks here in the Capitol, have been wrangling with the financial problems of the Milwaukee Railroad. It is time, in my view, that we shed our rider and rid ourselves of the Milwaukee burden by devising a final comprehensive solution to the railroad's troubles.

The Milwaukee, though the statements and actions of its trustee, Stanley Hillman, has shown that it does not want to run its Pacific Coast Extension, a vital part of the shortest, most direct transcontinental railroad in the United States. Hillman has proposed that transcontinental service be embargoed and that the Milwaukee only run as far as Miles City, Mont., just inside our State's border. Hillman's proposed de facto abandonment would come at the height of cries that Montana and the country desperately need railroad service.

Montanans want a very strong railroad to provide extensive competition with the already overburdened and monopolistic Burlington Northern Railroad. Montanans want safe tracks and roadbeds along with enough cars and locomotives to transport our State's produ[illegible] Montanans want a railroad that can transport coal mined fr[illegible] the rich Montana beds that hold one-half of the

Nation's strippable coal. Montanans want a railroad that retains its employees.

The Milwaukee's history is one of layoffs such that the Montana crew dwindled from 854 in 1977 to 579 in February of this year. Most of those remaining have their layoff notices in hand.

Montanans want and need a railroad for many reasons, but for two in particular: grain and coal.

Montana is the Nation's second largest barley producer and third largest wheat producer, but this year our farmers have not even been able to get a large part of their crops to market. An estimated 100 million bushels of wheat are sitting in grain bins this minute waiting for hopper cars to arrive. Malting barley growers in the Fairfield Bench area of Montana, where some of the region's highest quality barley is produced, cannot get their precious product to brewers by rail and some brewers will not accept shipments by truck because of the bruising that occurs.

We all recognize this Nation is converting much of its energy consumption to coal in light of dwindling high priced petroleum supplies and as yet unproven nuclear plants. Coal accounts for more than 70 percent of the Nation's known recoverable fossil fuels. Even with our current high energy demands, nearly 4 million tons of Montana coal mined in 1978 sits undelivered for lack of rail cars. Montana needs improved, not diminished rail service.

The employee group called Save Our Railroad Employment, or SORE, has proposed to assume the Milwaukee's western lines to maintain operations along the Pacific Coast extension. That takeover, which is to be accomplished in part by an employee stock option plan, is commendable. While it may be far too costly for the well-intentioned group to handle, I support their effort and urge all concerned—including the bankruptcy court—to give it serious consideration. SORE is the only group that has come to me and said, "We want to run the railroad." I think we should give them a chance.

What this railroad needs is a comprehensive plan designed first to recapitalize, second to rehabilitate, and third to revitalize management.

Under the heading of capital, the railroad on Friday received permission for a $15 million loan from its subsidiary land company, and was notified earlier in the week that $20 million in ERSA funds would be available. Those badly needed funds are a beginning.

Additional steps are being taken by this Congress in the form of H.J.R. 2766, the Rail Assistance Act of 1979, and H.R. 3771, which would provide assistance to railroads determined to be essential to the Nation's coal hauling. I appreciate the support of the Chairman, Mr. Florio, for H.J.R. 2766. The chairman's bill would provide badly needed funds and would encourage such cooperative efforts as the SORE group practices.

Under the heading of rehabilitation, the Federal Railway Administration is studying whether the Milwaukee's western lines are eligible for aid under the 4R Act. The FRA needs time to complete this study, which is scheduled for publication possibly in June, and we need time to analyze and act on its fin gs. We would demonstrate the ultimate in foolishness and Government waste if we allowed any abandonment before the FRA study is completed.

If the FRA deems the Milwaukee's western lines eligible for 4R funds, we need time to inject that money into the Milwaukee's tired veins. If the 4R Act cannot provide further funds beyond the many millions it gave to the railroad's eastern lines last year, we need time to amend that act.

In that light, I support H.J.R. 318, which also carries the chairman's name and which would require a 90-day delay before any abandonment could occur without ICC approval. I would like the opportunity later to discuss extending that 90 days to whenever the ICC assumes its proper jurisdiction over the proceedings.

Yesterday I introduced legislation which directs the Secretary of Energy to provide Congress with an assessment of America's coal hauling needs as they are affected by the Milwaukee embargo. An identical measure has already passed the Senate, unanimously I might add, and I hope it will be given speedy consideration by your committee and this House.

These steps, however, are useless without the third and final measure. Even if all of the legislation seeking to remedy the Milwaukee situation is passed, it would probably be to little avail. Like giving aspirin to a dying patient, those efforts will merely ease the patient's last suffering. That is why I am proposing that during the time the current legislation gives us, we should move to purchase the Milwaukee's roadbed and tracks.

If the Milwaukee abandons its lines, it has every right to pick up the track, cut down the roadbed and disappear into the east. Montana and the country can little afford to let that happen. If Milwaukee is bent on disposing of its western rail properties, the public has the right if not the responsibility to acquire that track and roadbed to maintain that transcontinental line.

I foresee that the public would own and maintain the railbed and track, leasing it back for actual operations to a group like SORE or any number of several users who may want to run a profitable railroad.

For those who cry foul when the Government takes up the slack that private enterprise neglects, I suggest a close examination of the airports of this country and the Interstate Highway System, both largely public ventures. Railroads and other transportation lines currently are operated as quasi-public utilities, working under the guidance of regulatory agencies designed to insure that the public interest is met.

We simply propose that the roadbed and track become public rather than quasi-public and that the Government take a direct rather than indirect hand in meeting the public interest.

I fall back on the words of the former U.S. Senator from my State of Montana, Senator Burton K. Wheeler. Senator Wheeler was once the chairman of the Senate Commerce Committee.

He said:

> The peculiarly public function of our arteries of commerce makes it essential that there be enough government interference to not only protect the public against any mishandling but to insure to the public the best possible system of transportation.* * * The duty of the government is clear: to see either that the railroads are well managed o supply new and more responsible management.

We propose to supply new management, such as the SORE group, and to retain ownership of the roadbed and tracks so that when management becomes weak the entire railroad is not jeopardized.

SORE or another group could feasibly purchase and operate the necessary rolling stock and supplies to operate profitably on a rail line leased from the Government. In fact, we believe several smaller companies could operate profitably making use of centralized control facilities.

Total railroad employment would return to and likely exceed 1977 levels while shipping would increase beyond today's levels. The multiplier effect of the increased dollar activity to State and local economies would be massive.

My proposal is yet incomplete but it is an alternative and I think it will work. Again, time is needed to properly research and develop the plans and possibilities because it is currently unclear how a Federal agency would buy the railbed. Congress can and should grant that time.

Since I started with a quote from Mr. Thoreau, let me end with another although lesser known passage from a 1936 book by Philip Guedalla entitled "The Hundred Years."

> The true history of the United States is the history of transportation * * * in which the names of railroad presidents are more significant than those of the Presidents of the United States.

Mr. Chairman, let us not base our future history on the demise of our transportation systems, but on their rehabilitation and their continued public utility.

Mr. Chairman, thank you very much.

Mr. FLORIO. We thank you very much. It is very rare that this committee gets an opportunity to hear quotations from Thoreau this early in the morning. We do appreciate your contribution.

There have been discussions from time to time about the assumption by the public of the railbed responsibility, but are you aware of any interest on the part of the State of Montana to take part in the purchase of railbeds?

Mr. WILLIAMS. Mr. Chairman, the State of Montana is vitally interested in the continuation of the railroad. I feel confident that if they had an opportunity to participate in a purchase, they would be very willing to consider that option.

Mr. FLORIO. We thank you very much for your comments this morning.

Our next witness is Hon. Thomas Daschle. We welcome you to the committee.

STATEMENT OF HON. THOMAS A. DASCHLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. DASCHLE. Thank you, Mr. Chairman.

I have just heard Mr. Williams' statement. I want to second the interest that I think exists in the rural areas for a public ownership of the national rights-of-way.

I wanted to address a couple of other issues regarding the situation as it exists today. I wholeheartedly support House Joint Resolution 318 and hope that Congress by a cooperative effort of its Members and the various parties affected can use the 90 days this

resolution would provide to find an alternative to directive service. I will support directive service if this action becomes necessary but it is so fraught with problems and expense that it should be used only as a last resort. I am hopeful that the bill soon to be introduced by Senator George McGovern of my State will provide a partial solution to this dilemma. This bill is a substitute to the Marginal Mainline Assistance Act and would provide main and branch line rehabilitation assistance plus require that efforts be made to both generate new traffic and bring back lost traffic.

I am very concerned about the labor ramifications of directive service. The ramifications and unanswered questions are mind boggling. While the ICC is making a gargantuan effort in drawing up a directive service plan and will include some kind of employee guidelines in it, they are dealing with a new area and there is no way they can anticipate every situation or iron out all specific problems.

It is estimated that about 2,800 Milwaukee employees will lose their jobs under directive service. That does not give a total picture of the number of people who will have their lives severely disrupted. There are real questions regarding who decides which Milwaukee employees will be used in directive service and exactly which types of employees have job protection, questions of transfers and the questions go on and on.

On top of all this, Mr. Chairman, the Milwaukee has indicated that they will not be able to honor their severence contracts.

My office has, as I am sure have other congressional offices, been told by the Milwaukee employees of numerous instances indicating that the Milwaukee management has given the road very poor direction at best, and at worse has deliberately let the tracks and cars fall into disrepair and has mismanaged their financial resources in order to put the Milwaukee in a better position for abandonment of most of its lines. These allegations should be looked into. If they do show mismanagement, deliberate or otherwise, it would be ridiculous for the Government to pay huge sums of money to the Milwaukee for directive service or other types of emergency aid and then have the road saddled with the same managers or management philosophy.

Time is obviously of the essence. I am not suggesting we hold up emergency aid while a study be conducted nor am I making any accusations. But there seems to be enough complaints to warrant an inquiry.

Finally I would like to comment on a possible source of money which has not been tapped regarding the Milwaukee situation. It is not money that goes directly to Milwaukee but rather it is Farmers Home Administration loan money which could be given to cooperatives or community groups to purchase or lease rail cars. Programs within the Farmers Home Administration where money might be available for these purposes include the community facility loans, business and industry loans and planning money for section 111 of the Rural Development Act.

As everyone in this room knows, the railcar shortage is worse than ever this year. While repair of the Milwaukee tracks would certainly increase the efficiency with which railcars are used, it would not address the problem of a desperate shortage of rolling

stock. It is also a possibility that groups could use loan money in the areas of car repair and track maintenance.

The first step in obtaining these loans is for a State government to submit to USDA a request for funds for a feasibility study of how to implement this program. A check yesterday with USDA showed that no States have yet seriously explored this avenue of assistance.

I will work with South Dakota State officials on this and would hope that other delegations in the area served by the Milwaukee would do the same.

Mr. Chairman, I want to thank you again for allowing me to comment on this situation. I am very hopeful that these hearings will yield some real solutions to our problems.

[Mr. Daschle's prepared statement follows:]

STATEMENT OF THOMAS A. DASCHLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, thank you for this opportunity to testify at these extremely important hearings. I'll keep my remarks brief as I realize the large number of witnesses scheduled to speak.

I wholeheartedly support House Joint Resolution 318 and hope that hope that Congress, by a cooperative effort of its members and the various parties affected can use the 90 days this Resolution would provide to find an alternative to directive service. I will support directive service if this action becomes necessary, but it is so fraught with problems and expense it should be used only as a last resort. I am hopeful that the bill soon to be introduced by Senator McGovern will provide a partial solution to this dilemma. This bill, a substitute to the Marginal Mainline Assistance Act, would provide main and branch line rehabilitation assistance plus require that efforts be made to both generate new traffic and bring back lost traffic.

The Milwaukee Road crisis should be of concern to every member of Congress, not just those whose States have Milwaukee lines or those who are on Committees with jurisdiction in the transportation area. Other railroads also have deteriorating road beds, unprofitable branch lines and lack of rolling stock and locomotives. On top of this, the President's rail deregulation plan would mean virtual abandonment on request for many branch lines, thus posing many of the same problems facing those of us dealing with the Milwaukee situation. In South Dakota, by the way, 75 percent of the rail lines are scheduled for abandonment; we have, in addition, only one main rail line in the State. I just can't believe that we won't some day, probably in the very near future, regret the abandonment of many of our rail lines and just as importantly, the loss of rail rights of way. It will be virtually impossible to get back those rights of way, thus limiting any national commitment we might make to an efficient and extensive rail system.

We don't know, of course, how Judge McMillan will rule on Trustee Hillman's embargo request or on the Department of Transportation's offer of $20 million in ERSA funds, so we have possibly only 22 days to come up with an alternative to directive service.

I am very concerned about the labor ramifications of directive service. These ramifications and unanswered questions are mind boggling. And while the Interstate Commerce Commission is making a gargantuan effort in drawing up a directive service plan and will include some kind of employee guidelines in an effort to make directive service workable, they are dealing in a new area and there is no way they can anticipate every situation or iron out all specific problems. The last estimate we had is that about 2,800 Milwaukee employees would lose their jobs under directive service—and that does not give a total picture of the number of people who will have their lives severely disrupted. There are real questions regarding who decides which Milwaukee employees will be used in directive service, exactly which types of employees have job protection, which directed carrier will pick up which employees, how far people will be expected to move in order to keep a job, whether employees can cross seniority districts, the cost of transferring employees, what to do with those employees who work on lines with trackage shared by the Milwaukee and a directed carrier, how employee benefits will be handled, and the questions go on and on. On top of all this, the Mil· ·ıkee has indicated that they will not be able to honor their severence contracts.

In addition, directive service offers no assurance that these lines will be viable after the period of service is over. For the Government to pay a private carrier expenses plus 6 percent profit to run another private carrier and then possibly have that directed railroad then purchase the line seems very foolish.

My office has, as I am sure have other Congressional offices, been told by Milwaukee employees of numerous incidents indicating that the Milwaukee management has given the Road very poor direction at best—and at worst has deliberately let the tracks and cars fall into disrepair and has mismanaged financial resources in order to put the Milwaukee in a better position for abandonment of most of its lines. These allegations should be looked into because if they do show mismanagement, deliberate or otherwise, it would be ridiculous for the Government to pay huge sums of money to the Milwaukee for directive service or other types of emergency aid, and still have the Road saddled with the same managers or management philosophy. Time is obviously of the essence here and I am not suggesting we hold up emergency aid while a study is conducted. Nor am I making any accusations, but there seems to be enough complaints to warrant some type of an inquiry.

Finally, I would like to comment on a possible source of money which has not yet been tapped regarding the Milwaukee. It's not money which would go directly to the Milwaukee but rather is Farmers Home Administration loans which could be given to cooperatives or community groups to purchase or lease railcars. Programs within the FmHA which might have money available for these purposes are Community Facility Loans, Business and Industry Loans and planning money for Section 111 of the Rural Development Act. As everyone in this room knows, the railcar shortage is worse than ever this year and while repair of the Milwaukee tracks would certainly increase the efficiency with which railcars are used, it still would not address the problem of a desperate shortage of rolling stock. It is also possible that groups could use loan money in the areas of car repair and track maintenance. The first step in obtaining these loans is for a State government to submit to USDA a request for funds for a feasibility study of how to implement this program. A check yesterday with USDA showed that no State has yet seriously explored this avenue of assistance. I will work with South Dakota State officials on this and would hope that other delegations in the area served by the Milwaukee would do the same.

Again, Mr. Chairman, thank you for allowing me to comment on the Milwaukee Road situation. I'm very hopeful these hearings will yield some real solutions to our problems.

Mr. FLORIO. Thank you very much. We are particularly thankful for your highlighting everyone's concern about the impact of this action on the workforce. You can rest assured that this committee will be investigating the nature of that impact, and also attempting to cushion it to the fullest extent possible.

I am not sure if you were here when we earlier announced that the Chairman of the ICC will be here this afternoon. It is our understanding he is going to spell out, with great specificity, the terms of the directed service plan. We are all hopeful that the terms will be cost efficient enough to minimize the impact of cost upon the taxpayer.

I recognize your appreciation of the importance of directed service to be applied in a cost-efficient way.

We thank you very much for your help.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. FLORIO. We would like to recognize one of our former colleagues who is now a Member of the Senate. I understand you would like to make a brief statement, Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator MELCHER. Thank you very much, Mr. Chairman, for your courtesy of hearing me. I had looked at earlier notices of the subcommitt· ·neeting and thought it was in the afternoon.

The few hours we spend here in Congress showing concern and action in connection with the Milwaukee bankruptcy is absolutely vital.

The trustee, Stanley Hillman, about 2 weeks ago, shocked all of us in Montana and I suspect most of the Northwest when he made public his request to the bankruptcy court that an embargo be placed on 7,200 miles of Milwaukee lines effective May 8.

The hearing by Judge McMillen in Chicago on that request was set for May 4, last Friday. I and my colleague from the Senate, Senator Max Baucus and our attorney general from Montana, Mike Greeley, all appeared in Judge McMillen's court on May 4 to stress the absolute disaster such an embargo would pose for Montana and the other Northwestern States.

Beyond that, it has been a grave concern of my own and many of us in Montana and I suspect not only throughout the Northwest but throughout the Nation, to those who share an equal concern with the loss of the Milwaukee's coal hauling capabilities. It would be impossible for this country to ever develop an energy policy in the next few years utilizing western coal to meet increasing load demands.

The Milwaukee in 1978 hauled 10 million tons of coal. That is not a great amount. However, when we consider the fact in the Fort Union coal deposit, the largest coal deposit in the world lies in the States of Montana, Wyoming, and North Dakota, and the fact that there was a shortfall of transportation facilities for the coal that was mined and contracted in 1978 of about 10 million tons, it demonstrates that without the Milwaukee, the coal capabilities from the Fort Union coal deposit are seriously jeopardized.

The Department of Energy estimates that by 1985 the need for coal throughout the United States will mean the production from the Fort Union coal deposit in those three States of Montana, Wyoming, and North Dakota will have to triple.

The production in 1978 was about 90 million tons. The only facilities for transporting that coal to the Midwest and to the East and Southern markets is by rail.

The Burlington Northern is a major carrier in the area and transports the bulk of the coal that is hauled plus the bulk of the rest of the commodities such as grain and lumber which is hauled out of the area.

The question evolves that if the embargo should be granted and the discontinuance of the Milwaukee should be allowed by the bankruptcy court, what kind of a position does that place this country in in terms of its transportation facilities?

I think in all honesty and in all candor, a term such as "a transportation disaster" is appropriate.

In appearing before Judge McMillen on Friday, I related to the judge the fact that the Senate had approved a bill I had introduced along with other cosponsors such as Senator Baucus and Senator Magnuson, with an amendment that was cosponsored by Senator McGovern and myself which was passed unanimously by the Senate last Thursday. The bill is S. 968.

I am hopful that your committee, Mr. Chairman, will consider that bill either as a Senate bill or as a House bill. A companion bill

has been recently introduced by my colleagues here in the House from Montana, Congressman Williams and Congressman Marlenee.

I asked Judge McMillen in court Friday to take note of the fact that the Senate Energy Committee and the Senate itself by unanimous approval of the bill, was demonstrating its concern about the Milwaukee's continuation as a carrier.

We cannot stress how important the Milwaukee is to us and all the commodities and needs we have in Montana and the Northwest. But beyond that, I do not believe the country could possibly afford to lose the services of a carrier in this coal region.

I asked along with Senator Baucus and our attorney general and others testifying before the court that more time be given before any precipitous action be taken by the judge in allowing the embargo. As a result of that hearing, the judge deferred any action. The trustee, Mr. Hillman, modified his request to the court not to discontinue service west of Montevideo, Minn., but to extend it as far as Miles City, Mont., taking care of some of our needs but not all, taking care of some of South Dakota's needs but not all and lopping off the Chicago, Ill., to Kansas City, Mo., line of the Milwaukee.

As a result, he is now requesting an embargo to be effective on May 30 which would embargo about 7,000 miles of the Milwaukee line. Even that request, while it meets some of the needs of South Dakota and Montana, should be rejected. I would hope it would be rejected by the court.

As to the position of the Interstate Commerce Commission, they testified in court that day that they felt an embargo of such a sweeping magnitude was a precedent that should not be set by a court and, in their judgment, it should be denied. They also dwelled on the timeliness of their capability to order directed service in the area.

I feel, Mr. Chairman, that directed service is not in the public interest in this case and does not meet the needs of the area in any respect. I would hope that before the judge would allow any percipitous step even to the point of considering directed service, that a full fledged public hearing be held by the Interstate Commerce Commission where shippers could appear and describe their needs.

That is not envisioned at all in the trustee's request to the court and while I recognize the dire need of the Milwaukee for cash to keep their operation going, I think it is apparent that cash is available from Federal funds under the 4R Act and under the Emergency Rail Services Act.

Not to use that money and not to allow Congress the opportunity during the next few weeks and few months to act would be contrary, I believe, to the public interest of our entire country.

I think in order to impress on the court that Congress indeed is serious about this, we cannot lose track of the fact that we have to show action. For that reason, while the bill we passed in the Senate is a mild bill and refers principally to coal hauling potential of the Milwaukee, it is still a step in the right direction.

I would hope this subcommittee having jurisdiction over the Williams and Marlenee bill which is the counterpart or companion bill to the one we passed in the Senate will be able to take it up and pass it out quickly.

It will not be the final answer. It is only one small step. If we take some steps now and we demonstrate to the court our sincerity and our determination to act, I think it will give us the time for further action, later on in the coming months, that are more meaningful in terms of bailing out the Milwaukee.

I use that term deliberately, Mr. Chairman. We did bail out the Penn Central in the early 1970's and the very funds that are now available in the emergency rail services fund is $50 million which the Penn Central paid back on its earlier loans that were made from that fund by acts of Congress in the early 1970's.

Mr. Chairman, that is all I have. I think your hearing today is most timely and it is most necessary.

Mr. FLORIO. Senator, we thank you very much. We appreciate your help this morning. I am not sure how productive it is to make reference to the analogy between the bailout of Penn Central and what we hope to do here.

We are cognizant of the importance and the potential adverse impact upon your portion of the country as a result of the proposed embargo.

I was pleased to see that the judge did provide for more time. I am hopeful that the directed service, which will be undertaken by the ICC will give us that much more time.

Of my own knowledge, I know some railroads have already made offers to purchase portions of the Milwaukee line. I am aware of the fact that some railroads have expressed an interest in voluntary service. Perhaps with the combination of these different programs, and the combination of other approaches toward the service, the totality of what will be left will be able to service the needs of the people in your part of the country.

We do appreciate your coming and your contribution to the committee. We are hopeful that the emerging result will be something you perceive as serving the public interest.

Thank you very much.

Senator MELCHER. Thank you, Mr. Chairman.

Mr. FLORIO. Without objection, the Chair wishes to place in the record, as though read, the statements of Congressmen Mark Andrews, of North Dakota and Charles E. Grassley, of Iowa.

[Statements of Congressmen Mark Andrews and Charles E. Grassley follow:]

STATEMENT OF HON. MARK ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. ANDREWS. Mr. Chairman, your recognition of the critical social and economic implications of the potential withdrawal by the Milwaukee Railroad is to be commended. I appreciate the opportunity to offer testimony on behalf of legislation I am privileged to cosponsor House Joint Resolution 318, and to address the serious implications of an embargo or possible abandonment relating to the Milwaukee's Pacific coast extension and its branch lines.

As you know, House Joint Resolution 318 would require continuation of existing rail service by the Milwaukee for a period of 90 days. I believe it is essential that adequate time is allowed to give all affected parties the opportunity to reach a viable and economically feasible solution to the problems facing the Milwaukee.

The announcement last August that the Milwaukee could no longer afford to operate as a transcontinental carrier has undoubtedly caused a great deal of concern to shippers, railway employees, and other affected parties. Since that time a number of studies relating to service on lines west of Minneapolis have been initiated. Ongoing studies in search of ways to maintain the Milwaukee as a viable carrier include those being conducted by the Federal Railroad Administration, the ICC, Old West Regional Commission, the Department of Agriculture, and a host of others.

The point I'm trying to make is that this is no time to be throwing in the towel. My State of North Dakota, the upper Midwest, in fact the entire Nation, has too much at stake. The economic potential of agricultural States and those with untapped energy sources would be severely limited without continued service by the Milwaukee.

Our farmer-owned businesses require rail service just as other businesses do. A viable transportation system is essential to move the wheat to a terminal market. Stored wheat has no value if it cannot be moved to market.

Besides providing essential service for the movement of sizable quantities of grain to the west coast for export, much of the Milwaukee mainline between Minneapolis and the west coast of gulf ports provides for the transportation of coal. In addition, the 455-megawatt coal-fired powerplant on the mainline at Big Stone, S. Dak., is wholly dependent on this line for 2.2 million tons of coal annually from mines located on the same line in North Dakota. The shutdown of this powerplant would translate into higher electric rates for consumers.

I realize we cannot ignore the need for consolidation and restructuring of our Nation's railroads in order to achieve some degree of revitalization. At the same time, the dilemma presented by the Milwaukee's plans to withdraw from service west of Minneapolis is critical to the economic future of this region.

Again, I am very glad to see this subcommittee holding hearings to consider the problems I have addressed. I further urge you to look at all possible alternatives to insure continued service by the Milwaukee Railroad.

STATEMENT OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. GRASSLEY. Mr. Chairman, I would like to thank you and the other members of the subcommittee for holding these hearings on the Chicago, Milwaukee, St. Paul & Pacific Railroad Co.'s proposal to embargo a large portion of their operating rail system. I appreciate your interest and concern not only for the regional problems involved but also the national implications of the situation and the suggested solutions. I share your view that the massive reorganization of the Milwaukee Railroad would have serious and far-reaching consequences for my State of Iowa and much of the Nation.

My main objective is to insure the continuation of essential rail service in Iowa and to avoid the potentially disastrous effects the Milwaukee shutdown could bring. When I refer to potentially disastrous effects, I am talking about my concern for the economy of northern Iowa cities and towns served by the Milwaukee's "North

Line." In that heavily agricultural area, farm cooperatives and grain elevators depend on the railroads to keep the grain moving. An end to the rail service in that region, and the subsequential move to truck transporting, could mean significantly higher grain prices. Some of the folks in that area tell me that the shutdown could mean a 10-cent-per-bushel difference between truck and rail transport prices.

As you well know, Mr. Chairman, this same situation exists throughout the Midwest. Grain marketers in Missouri, Minnesota, and the Dakotas are also hard hit by the possible shutdown. However, there are a couple factors which lead me to believe that Iowa shippers are the hardest hit throughout the region.

First, the original intentions stated by the Milwaukee indicated that no lines in the State of Iowa would be enbargoed. Now, all of the service in north Iowa would be ended as the Milwaukee's main east-west line—the main grain shipping line—is abandoned. Several other lines are also scheduled for complete or partial abandonment.

Second, many Iowa shippers have west coast grain contracts. These shippers are now caught in the middle of a bad situation. They cannot get enough cars to move their grain; they must pay interest on their investment; they must hold good grain in their elevators; they are now being penalized for late delivery to the coast.

Finally, Mr. Chairman, I would like to submit for the record a copy of the Iowa Department of Transportation Commission resolution concerning the proposed embargo of most of the Milwaukee Railroad system. In doing so, I would just like to emphasize a couple of the points made in the resolution.

First, I feel it is vital that the Milwaukee not remove its equipment or materials from that part of its system which is proposed for embargo. If directed service is necessary, the new carriers must be able to get the locomotives, hoppers, boxcars, rails, ties, and other equipment necessary to provide adequate service. If the Milwaukee is allowed to concentrate its equipment and materials on the remaining corps system, other carriers cannot possibly pick up their old service. It takes up to a year to receive new rails or ties, 18 months for cars, and up to 2 years for a new locomotive. In this regard, the Milwaukee must not be allowed to take all of its new equipment to the core system and leave the other carriers with wornout and old materials.

Second, I want to emphasize the amount of investment put into branch line assistance projects along the Milwaukee system by private shippers and the State of Iowa. The total amount put into the Milwaukee system in Iowa. The total amount put into the Milwaukee system in Iowa is $4.2 million; $2.7 million of this was paid by the State, $1.5 million by shippers. The State and the shippers also have over $6.5 million in outstanding contracts with the Milwaukee, as the State continues to upgrade the system to class II standards.

Once again, Mr. Chairman, many Iowans appreciate your efforts, and we look forward to working with you and the subcommittee to find a viable and economically feasible solution to this situation. A

copy of the Iowa Department of Transportation Commission resolution follows.

Thank you.

[The material referred to follows:]

IOWA DEPARTMENT OF TRANSPORTATION COMMISSION RESOLUTION CONCERNING CHICAGO, MILWAUKEE, ST. PAUL & PACIFIC RAILROAD CO. TRUSTEE'S PROPOSAL TO EMBARGO A PORTION OF THE OPERATING RAIL SYSTEM

Whereas, it is the responsibilities of the Iowa Department of Transportation (Department) to encourage and assist in developing and maintaining a viable railroad system which is responsive to the needs of Iowa and the entire nation, and

Whereas, Mr. Stanley E. G. Hillman, Trustee of the property of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company (the Milwaukee), has filed a petition for a proposed embargo of that system effective May 8, 1979, and

Whereas, we feel such an embargo would be catastrophic to the State of Iowa and the entire nation, we direct our staff to act immediately considering the following:

1. The proposed embargo should be declared patently illegal and denied.
2. The Milwaukee must be directed to continue to serve its entire present system, including contracted services, for at least 90 more days.
3. The Milwaukee must not remove its equipment and rolling stock from service on the system proposed to be embargoed.
4. The Court should direct the Trustee to file a reorganization or liquidation plan by July 1, 1979.
5. Such reorganization plan should provide that the Milwaukee be liquidated as a corporate entity. If the Milwaukee is allowed to keep any part of its system in operation, it would not be in the best interests of the State of Iowa to allow them to continue to operate their proposed line through Iowa connecting the Twin Cities and Kansas City.
6. Having other carriers serve the Milwaukee system in Iowa for 8 months is not a realistic alternative short-term solution.
7. The Trustee and the Court should be fully apprised of the Iowa plan for branch line rehabilitation. It has been successful. It should be the basis for a national railroad plan. The Trustee and the Court should be made aware of the tremendous investment Iowans have made in their rail system—much of it on the lines proposed to be embargoed. The success of the Iowa plan is reflected in recent congressional legislation on railroads.
8. Legal preparations should immediately be made to appeal any adverse decisions by the Court.
9. In this time of a critical energy shortage, it is ludicrous to force shippers to use a mode of transportation which will not be energy efficient. There just are not enough trucks available to handle the shipments.
10. We feel it is our responsibility to alert not only Governor Robert Ray and our own Congressional delegation, but also the President of the United States, other governors and congressmen, to the gravity of this case for it has critical international consequences, not the least of which is the fight against inflation in our nation and throughout the world.

By Commission Action in Regular Public Session: Adopted May 1, 1979.

I, Raymond L. Kassel, do hereby certify this to be an accurate and true copy of the Resolution adopted by the Iowa Department of Transportation Commission at its regular meeting on May 1, 1979.

RAYMOND L. KASSEL,
Director, Iowa Department of Transportation.

Mr. FLORIO. Our next witness is Mr. Jim Snyder, the national legislative representative of United Transportation Union.

As a point of information, this committee is meeting this morning with the expressed permission of the chairman of the full committee, Mr. Staggers. The full committee anticipates going into session at approximately 10:30 a.m., which is our reason for terminating at 10:30 a.m. We will resume our hearings at 2 p.m. this afternoon.

Mr. Snyder, we certainly welcome you as we always do, and look forward to your contribution.

STATEMENT OF JAMES R. SNYDER, CHAIRMAN, RAILWAY LABOR EXECUTIVES' ASSOCIATION AND NATIONAL LEGISLATIVE DIRECTOR, UNITED TRANSPORTATION UNION, ACCOMPANIED BY JOSEPH BRAND, LEGISLATIVE DIRECTOR, STATE OF MONTANA, EDWARD FRIEDMAN, COUNSEL, RLEA, CHARLES HOUGH, LEGISLATIVE DIRECTOR, STATE OF WASHINGTON, AND WILLIAM G. MAHONEY, COUNSEL, RLEA

Mr. SNYDER. Thank you, Mr. Chairman. Good morning to you and your staff.

It is indeed a pleasure to be here this morning. I am appearing this morning on behalf of all the railroad employees, the Brotherhoods of Railroad Employees through the affiliation of the Railway Labor Executives' Association as chairman of the legislative committee as well as national legislative director for United Transportation Union.

On my right, I have Mr. Joe Brand who is the speaker pro tempore of the Montana State Legislature as well as the UTU legislative director for the State of Montana. Also on my right is Mr. Ed Friedman, counsel for the RLEA, and on my left is Mr. Charley Hough, State legislative director for the UTU for the State of Washington. Also on my left is Mr. W. G. Mahoney, counsel for RLEA.

I have submitted 50 copies of a prepared statement to the subcommittee which, with the permission of the chairman, I would like to have printed in the record and I will limit myself to a summary of the prepared statement.

Mr. FLORIO. Without objection, the entire statement will be inserted into the record. We appreciate your summarization.

Mr. SNYDER. A number of Milwaukee Road bills including Chairman Staggers' and Chairman Florio's joint resolution, are now pending before each of the Houses of Congress.

On Monday of this week, Senator Baucus of Montana introduced the bill, S. 1083, which is very much like the Staggers-Florio bill, H.R. 2766.

In addition, there is Senator McGovern's bill, S. 637, providing loans and loan guarantees for marginal main lines for a period of years and Senator Melcher's bill, S. 967 which would direct the Secretary of Energy to make grants and loans to support the purchases of coal hauling equipment by the Milwaukee Road.

There are other bills which deal with the Milwaukee problem in other ways. The theme which is common to all of these bills and H.J. Res. 318 is that the Milwaukee Road is fast becoming a crisis problem for the Northern Tier States and the national economy.

There is wide agreement with the point stated in H.J. Res. 318 that Mr. Hillman's proposed embargo of all of the freight operations of the Milwaukee Road in the States of Washington, Montana, Idaho, North Dakota, and South Dakota and part of the freight operations of the Milwaukee Road in Illinois, Iowa, Missouri, Wisconsin, Kentucky, Minnesota, Michigan, and Indiana would have severe and perhaps crippling impact on the economies of these States.

At the heart of the problem is the simple fact that we are not dealing with prudent management on the Milwaukee Road. To the best of our knowledge, the fact is that the downgrading of Milwaukee lines west began long ago and perhaps in the first few months of the trusteeship. When Mr. Hillman decided that he would not include this section of track in his reorganization plan, he has been drying up the business of the railroad in that part of the system ever since.

The fact is that what we have seen taking place during this period is a deliberate destruction of lines west. These bills, particularly H.R. 2766, will put a stop to this "let the public be damned" attitude.

The fact is that the creditors of the bankrupt estate are doing all in their power to prevent the use of Federal funding because they want to sell off the assets of the Milwaukee Road.

Yet we are told that the Milwaukee Road is an asset rich railroad. The scrap value of its properties is about $800 million or twice the amount of the secured debt.

In our prepared statement, we describe the actions taken by Mr. Hillman during the past 2 weeks which if anything made matters worse. These are last minute moves with very short notice to set the stage for an embargo of all freight on about 80 percent of the Milwaukee Railroad System. As we point out in our statement, only a very small subcore of about 2,400 miles of track would remain.

In a period of a little more than 1 week, he shifted his position three times on the shape of the subcore, finally choosing Miles City, Mont., as his western terminal point rather than Kansas City.

The timing of these actions and the switches from one plan to another suggest political juggling which we do not think appropriate for a crisis of the kind which is facing the 13 States whose economic well being is at stake.

All of these actions have only served to confuse an already bad situation. They tend to drive shippers to other modes wherever available and simply further weaken an already weakened railroad structure.

These tactics do not reduce the crisis in any way. The need for swift and decisive action by the Congress on H.J. Res. 318 and H.R. 2766 remains unchanged.

All of this action has taken place despite the fact the full Booz-Allen report upon which Mr. Hillman depends on has not yet been made public.

The record establishes that Mr. Hillman is mainly concerned about the interests of the creditors. In this connection, we note that Mr. Hillman is not concerned about the employees as creditors. To the contrary, in his March 12 report, Mr. Hillman states, "Continued operation of the railroad over lines west would clearly serve 'the interest of the estate and its creditors' because 'cessation of operations would result in claims against the assets of the Milwaukee Road by employees'."

Mr. Hillman apparently has taken his latest actions in the hope that an embargo would eliminate employee claims which would otherwise result from an abandonment. The plain fact that Mr. Hillman's proposed embargo covers up what is actually a proposed abandonment.

An embargo is available only on a short-term basis because of temporary ditions preventing full operation. This is not the case

here. Mr. Hillman has stated time and again that he will not include these lines west in his reorganization plan. He has no intention of relaxing his embargo once he produces a sufficient cash flow. He has no plan and indeed has made no effort to obtain the funds necessary for resumption of service on these embargoed liens. The creditors will not let him do this.

That Mr. Hillman has followed a course of cutting down service on lines west is clear from the record.

The facts are that service on this segment of line was reduced by 70 percent as of the summer of 1978 with less than one train operating daily in this part of the region. Despite a heavy demand for a large number of grain hopper cars, producing a return of about $1,000 per car, Mr. Hillman has made no attempt to supply rail service to grain elevators.

This past winter, there was a huge demand for grain movement to west coast ports. Mr. Hillman had an opportunity to take advantge of this since there was not much snow in the area served by lines west. Mr. Hillman was presented with an opportunity to move grain in record volume and yet he did not do so. Grain traffic on lines west has dropped 37 percent in the past 12 years.

These are only samples of revenue opportunities which we and others feel were and are available but which Mr. Hillman chose to ignore.

Mr. Hillman complains that he does not have enough locomotives and cars to meet customer demands. Yet we have reports that Milwaukee Road locomotives have been pulling cars on Burlington Northern track. There are other reports that hundreds of Milwaukee cars are sitting on sidings warehousing their cargo.

Added to this picture are Mr. Hillman's heavy layoffs of personnel on lines west which began after his August statement that lines west would not be included in his reorganization plan.

Mr. Hillman complains that he lacks funds to maintain track. He complains that he lacks funds to maintain his power and his rolling stock. He states that he lacks funds to support seasonal maintenance and rehabilitation of track which should take place this summer.

He admits that his maintenance-of-way work force is too small but complains that he lacks funds to increase its size. He complains that he has experienced greatly increased costs and significant revenue shortfalls by reason of the severe winters and loss of customer confidence which contributes to a diversion of business to other carriers.

We have a report from one of our members that the Milwaukee train crews have worked 33 winters in subzero weather with severe snow conditions in the lines west region. The railroad has never before failed to operate trains despite the weather.

The railroad has been further undercut by Mr. Hillman's actions and plans to dismember lines west by his meat ax approach to branch lines.

If we were to dam up the tributaries to a river, the river like the lines west, would soon begin to dry up.

These conditions of which Mr. Hillman cor `ains have been self-induced. Mr. Hillman has in fact encouraged ..ippers to seek other

alternative modes in the northern tier of States. He has overlooked opportunities to concentrate on high revenue freight.

He has failed to make application to the Federal Government for loans under the various loan programs which are available.

Speedy passage of House Joint Resolution 318 and H.R. 2766 would provide time to review all of our options. It would provide the basis for supplying the cash needed to operate and to maintain the railroad. It would give the States, the shippers, and all of the interested parties an opportunity to take steps to overcome deficiencies and to restore adequate service to this part of the Nation without interference from the creditors.

Most important, it would avoid what otherwise will certainly be a destructive blow to the economy of the States served by this railroad.

House Joint Resolution 318 is the only response available to the crisis conditions created by Mr. Hillman's unprecedented actions of the past few weeks. Unless Congress acts to insure continuation of service as directed by House Joint Resolution 318, service on the bulk of the Milwaukee Line will cease.

Because of these twists and turns in the actions taken by the trustee and by the administration and because the situation is so critical, I suggest that oversight action by the Subcommittee on Oversight and Investigations would be very instructive and helpful. The committee should have before it the exchange of correspondence, minutes of meetings, memorandums, reports, studies, and all other material in the Department of Transportation and the Interstate Commerce Commission bearing on this subject.

Beyond this, we recommend a long overdue complete shakeup of Milwaukee Road personnel, including the trustee and top officials.

In closing, I should like to say again that House Joint Resolution 318 and its companion H.R. 2766 are desperately needed measures to maintain essential service on the Milwaukee Road.

We join with the States of Washington, Montana, Idaho, North Dakota, South Dakota, Illinois, Iowa, Missouri, Wisconsin, Kentucky, Minnesota, Michigan, and Indiana and with all those citizens who depend on continued Milwaukee Railroad service to ask the committee to take immediate action on these bills to avoid what otherwise will be a major economic disaster.

We thank the committee for providing us the privilege and opportunity to present these views.

[Mr. Snyder's prepared statement follows:]

STATEMENT OF JAMES R. SNYDER, CHAIRMAN, RAILWAY LABOR EXECUTIVES' ASSOCIATION, NATIONAL LEGISLATIVE DIRECTOR, UNITED TRANSPORTATION UNION

Mr. Chairman and members of the Committee, My name is J.R. Snyder. I am the National Legislative Representative of the United Transportation Union. I am appearing here today as the Chairman of the Legislative Committee of the Railway Labor Executives' Association acting on behalf of all Railway Labor organizations, to urge this Subcommittee to take immediate favorable action on: (1) the proposed H.J. Res. 318 offered by Chairman Staggers on behalf of himself and on behalf of Mr. Florio, the Chairman of this Subcommittee, and (2) H.R. 2766 sponsored by the same two gentlemen. Joe Brand, House Speaker Pro Tem of the Montana State Legislature and UTU State Legislative Director for Montana, Edward D. Friedman and William G. Mahoney, attorneys for RLEA, are with me today to assist in the presentation of our views.

The RLEA is an association of twenty standard and international labor organizations, representing virtually all of the organized work force employed by Class 1 railroads in thi ntry. The RLEA's primary function is to promote the common

interest and welfare of the hundreds of thousands of railroad workers and their families and it is with this purpose that we appear here today. I have listed the names of these twenty associated railway labor organizations in the Appendix attached to this statement, as required by the rules of the House.

A number of bills, including the proposed joint resolution offered by Congressmen Staggers and Florio, addressing the problem of the Milwaukee Railroad, are now pending before each of the Houses of Congress. On Monday of this week, Senator Baucus of Montana introduced a bill which is substantially similar to H.R. 2766, with somewhat broader scope and with some modifications. Beyond this there is the McGovern bill providing loans and loan guarantees for marginal lines throughout a period of time, and the Melcher bill which would authorize the Secretary of Energy to make grants and loans to support the purchases of coal-hauling rail equipment by the Milwaukee Road. There are other bills which reach or touch upon the Milwaukee problem in other ways.

The theme which is common to all of these bills and resolutions is that the condition of the Milwaukee Road presents what in fact is becoming a crisis problem for the Northern tier of states and for the national economy.

There appears to be wide agreement with the point stated in the proposed joint resolution that the embargo of all of the freight operations of the Milwaukee Road sought by the Trustee in Reorganization, Mr. Stanley Hillman, in the states of Washington, Montana, Idaho, North Dakota and South Dakota and part of the freight operations of the Milwaukee Road in Illinois, Iowa, Missouri, Wisconsin, Kentucky, Minnesota, Michigan and Indiana would have severe, perhaps crippling, repercussions on the economies of these states.

At the heart of the problem appears to be a simple straight-forward fact that we are not dealing with prudent management on the Milwaukee Road. Congressman Marlenee of Montana, in his comments on the first anniversary of Mr. Hillman's appointment as trustee of the Milwaukee Road, pointed up this concern when he expressed surprise on the floor of the House that,

"The same management is intact today that was there when the bankruptcy was caused.

"That there are funds available through the Emergency Rail Service Act to keep the transcontinental railroad going sitting at the Federal Railroad Administration, but the management won't apply for them.

"That a railroad that needs money would not seek out new sources of revenue, do no advertising, actually turn down business."

To the best of our knowledge and belief, the fact is that imprudent management began long ago, perhaps in the first few months of the trusteeship, when Mr. Hillman decided that he would not include the lines west of Minneapolis in his reorganization plan. He has been disengaging from the business of the railroad in that part of the system over since.

The fact is that what we have seen taking place during this period is a methodical destruction of Lines West and that these bills, particularily H.R. 2766, will put a stop to this "let the public be damned attitude" of these imprudent managers.

The fact is that the creditors of the bankrupt estate are and have been doing all in their power to prevent access to Federal sources for desperately needed financing because they want to liquidate the assets of the Milwaukee Road.

Yet we are told that the Milwaukee Road is an asset-rich railroad. The scrap value of its properties is about 800 million dollars or twice the amount of the secured debt held by these creditors and is indeed ample to pay off debts.

The urgency requiring immediate consideration of the joint resolution and of these bills was heightened during the past few weeks by the unprecedented action taken by Mr. Hillman in proceeding on such short notice with his program to embargo all freight on seventy-four hundred miles of this track. It was in fact a kind of blitzkreig, unexpected and radical in thrust.

Mr. Hillman advised us a few weeks ago that he had commissioned Booz, Allen and Hamilton in early 1978 to analyze the operations of the Milwaukee Road to provide a viability study, indicating lines which might become self-supporting. On the night of April 19 of this year, we were told that the Booz-Allen report was ready and the views of this company would be unveiled at a meeting at the O'Hare Hilton Hotel in Chicago to be attended by the Milwaukee Road's general staff, various creditors, stockholders, and representatives of the Interstate Commerce Commission, the Federal Railroad Administration and the Department of Justice. We were invited to attend this meeting as representatives of labor. It was impossible at that late date and on such short notice to obtain reservations to get to Chicago. As a consequence, we were compelled to arrange with Chicago counsel to represent us at the meeting.

Seven configurations or segments of a rail system were explained by Booz-Allen, ranging from segment 1 with 1,700 miles of line to segment 7 with 8,000 miles of line. Mr. Hillman added a segment 8, 2,400 miles in length representing a modification of the minimal segment 1 line.

On the following Monday, April 23, Mr. Hillman in what appears to be a pincers move, if we may again borrow from military language, filed his petition to "embargo" all freight on the Milwaukee except for his minimal segment 8, as of May 8. He filed with his petition a statement in support of his request.

As you know, the Court at that time set an April 30 date for an additional statement, perhaps less hurried, and for responses from interested parties, a May 4 date for the hearing and a May 8 target date for the embargo.

During the course of the May 4 hearing, Hillman admitted that he had decided months earlier to try the "embargo" approach on Lines West which he had earlier decided would not be included in his reorganization plan.

At the hearing he again surprised the interested parties by extending his proposed embargo from May 8 to May 31 and by modifying his minimal sub-core to include Miles City, Montana, and to exclude an equivalent number of route lines to Kansas City. In reality, he switched from his segment 8 plan to the Booz-Allen segment 2 plan, 2,500 miles in length, substituting the Miles City line for the Kansas City line.

Thus, in a period of 12 days, Hillman presented three different configurations, adding further confusion to the chaotic condition of the proceedings.

These tactics, particularly the timing and the selection of the modified minimal sub-core, appear to be political manipulations, hardly suitable for a crisis situation of this magnitude.

Pressure has, of course, been applied to the Interstate Commerce Commission to prescribe directed service by May 15 with cost estimates at less than one-quarter of what it would take to operate the entire 7,400 mile system which is subject to the proposed embargo.

Of course, a carrier can legally refuse to respond to a directed service order if response would interfere with the carrier's regular service.

All of this has only served to compound and confuse an already deteriorating condition. It tends to drive shippers to other modes wherever available and simply further weakens an already weakened structure. These tactical shifts do not reduce the crisis in any sense. The urgent need for swift and decisive action by the Congress on these bills remains unchanged.

All of this action has taken place despite the fact the full Booz-Allen report has not yet been made public.

Analysis of the record establishes Mr. Hillman's over-riding concern for the interest of creditors, reminiscent of the bankruptcy of Penn-Central which was dominated by the New York banks and mortgage houses. It is interested to note that, Mr. Hillman does not regard the employees as creditors. To the contrary, in his March 12th report, Mr. Hillman states that "continued operation" of the carrier over the Lines West would clearly serve "the interest of the estate and its creditors" because "cessation of operations would result in claims against the assets of the Milwaukee Road by employees."

He apparently proceeded on his latest tack in the hope that an embargo would eliminate the prospect of employee claims which would otherwise result from an abandonment. But here again, the plain fact is that Mr. Hillman's proposed embargo cloaks what is actually a proposed abandonment. An embargo is available only as a short term expedient because of temporary conditions preventing full operation. There are not such factors here. Mr. Hillman has continuously stated that he cannot provide for the operation these Lines West in his reorganization plan. He has no intention of relaxing the embargo once he produces a sufficient cash flow. He has no expectation—indeed has made no effort—to obtain the funds necessary for restoration of service of these "embargoed" lines.

The creditors will not let him do this.

That Mr. Hillman has followed a course of disengaging from service on Lines West is clear from the record.

The facts are that service on this segment of line was reduced by 70 percent as of the summer of 1978, with less than one train operating daily in this part of the region. Mr. Hillman has made no attempt to supply rail service to grain elevators in South Dakota. There appears to be a heavy demand for a large number of grain hopper cars, producing a revenue of about one thousand dollars per car. This past winter, there was an enormous demand for grain movement to west coast ports Mr. Hillman had an opportunity to take advantage of this since there was only mild snow accumulation in the area served by Lines West. The bankrupt railroad was

thus presented with an opportunity to move grain in record volume and yet Hillman did not elect to do so.

Hillman complains about lack of revenue to maintain track. He complains that he had to constrain severely the railroad's ability to keep in service its locomotive and car fleets which he admits are already too small to meet customer demands. He states that he has virtually eliminated the possibility that normally internally funded seasonal maintenance and rehabilitation of track will take place this summer. He admits that the maintenance of way work force is inadequate but complains that he lacks the funds to increase it size to perform necessary maintenance work. He complains that he has experienced greatly increased costs and significant revenue shortfalls by reason of an extraordinarily severe winter and because his administration of the bankrupt railroad has weakened customer confidence in the railroad and has resulted in the diversion of the business to other carriers.

These conditions of which Hillman complains have been self-induced. Hillman has in fact encouraged shippers to seek other alternative modes in the Northern tier of states. He has overlooked opportunities to concentrate on high revenue freight. He has filed to make application to the Federal government for loans under the various loan programs which are available to him.

Indeed, we have a report from one of our members that the Milwaukee train crews have worked 33 winters in sub-zero weather with severe snow conditions in the Lines West region and that the railroad has never before failed to operate trains in any kind of weather. The length of the train is adjusted to the conditions.

Speedy enactment of the proposed joint resolution and of H.R. 2766 would provide sufficient time to review all of the options which are open for the maintenance of service in this part of the United States. It would provide the basis for supplying the desperately needed cash to operate and to rehabilitate the railroad. It would give the states, the shippers, and all of the interested parties an opportunity, without interference from the creditors, to take steps to overcome deficiencies and to restore adequate service to this part of the nation.

Most important, it would prevent what would otherwise certainly be a devastating blow to the economies of the states served by this railroad.

H.J. Res. 318 is the only response available at this juncture to the crisis conditions created by Mr. Hillman's unprecedented actions of the past few weeks. It appears to us that, unless Congress acts to insure continuation of service as directed by the resolution, service on substantial segments of the Milwaukee line will cease. The Court has ordered the I.C.C. to submit to it a directed service plan no later than May 15.

How much, if any, service will be maintained through this directed service device is questionable at this point.

All costs of directed service are chargeable to the Federal government.

The cost estimates indicate that Mr. Hillman contemplates that only a portion of the line will be maintained for the time period specified. The impact of this drastic action on shippers, farmers, producers, and employees will be drastic and the action, once taken, will likely be irreversible.

Finally the imposition of costs on the United States will not be chargeable to the estate. The entire plan will serve to enrich creditors and stockholders at the expense of the Federal government and of the employees and to the detriment of the entire economy of the states deprived of rail service.

Enactment of H.J. Res. 318 will avoid this.

The proposed resolution, if enacted, would direct a 90-day continuation of existing levels of service throughout the Milwaukee Road system unless discontinuance is authorized by the I.C.C. without objection from affected states.

The Secretary of Transportation would be directed to supply funds to overcome the cash flow difficulties confronting Mr. Hillman. These funds are already appropriated for emergency use in various programs and are available here. No budget problems are presented. The provisions of these emergency programs which might otherwise impede application of Federal funds to the needs of the Milwaukee Road would be suspended by operation of Section 4 of the resolution. The funds would be absolutely forthcoming notwithstanding any provision of Federal law or of any order of any Federal or State court or agency.

The creditors will not be in a postition to block this program because of its commanding sweep.

Finally, unlike directed service financing, assistance pursuant to the resolution would constitute an expense of administration of the bankrupt estate.

H.R. 2766 is a long term proposal and would amend Section 5 of the Department of Transportation Act to include the Milwaukee Road. It proposes a new subsection

to provide for full Federal-State funding to maintain service, free from the restraints and conditions in Subsections (h), (i), (j) and (k) of Section 5. Financial assistance would be made to the states or to the Milwaukee Road in the form of loan or loan guarantees drawn from the Rail Fund established by title V of the 4R Act which has been established for rehabilitation of railroads. Under this bill these sources of financing would be available to cover the cost of rail service continutation payments or to cover the cost of rehabilitating and improving rail properties on the Milwaukee Road to the extent necessary to permit adequate and efficient rail service.

Under the plan of the bill the Secretary of Transportation would work with the affected states to determine the shape and form of the financial assistance program and to establish the basis upon which the states would share in the cost of the program.

A bill introduced a few days ago by Senator Baucus is substantially similar to H.R. 2766 with some modifications which we recommend to the Subcommittee, for its consideration in marking up the Staggers-Florio bill.

The Baucus bill would broaden Section 2 of H.R. 2766 to include all railroad operations on the Milwaukee Road rather than main line operations to which H.R. 2766 is limited.

It also would authorize the Secretary to defer or to waive the obligation of any state to contribute its share, pending action by the State legislature. This provision would be of great importance to the participation of states like Montana where there may be a time lag between the initiation of this program and the convening of the state legislature, providing needed flexibility to financing.

The bill, since it would amend the rail continuation bill, would contemplate Federal-State sharing in the same proportions as provided by Section 5 of the DOT Act.

Section 3 of the bill would provide for continuation of rail service pending the availability of financial assistance. This section would supersede any State or Federal law in conflict with it and would simply direct the Milwaukee Road to continue to maintain its existing level of service unless authorized to discontinue service by the Interstate Commerce Commission without objection from an affected state.

The bill also provides for an experimental corrective action program which has been successful in other contexts and which might be of particular significance on this railroad. Under its terms the Secretary of Transportation would be directed to establish a Task Force whose purpose would be to develop and stimulate programs to encourage cooperative self-help efforts by a combination of states, counties and municipalities, by the railroad, by shippers, suppliers, labor organizations and other interested groups. The Task Force to be named would consist of seven members drawn from all of the components of the railroad community. It would limit the number of programs to four in the coming year with an additional four for the following year. These programs are one year in duration but may be extended for an additional year.

Recent legislation on the subject of Federal funding of branch line continuation programs has postponed the consideration of the subject of labor standards. These programs were initially experimental and of limited duration in consequence of the collapse of the Penn-Central merger.

Application of the established Congressional policy of insuring adequate rail labor standards was deferred pending further development of these programs.

It has become increasingly apparent that labor standards must be established as part of this continuing effort. These branch lines are taken over by designated operators upon the basis of summary actions by the Interstate Commerce Commission. The current procedures provide virtual instant authority to Mom and Pop applicants to operate the Federally subsidized short line segments as designated operators. By and large, labor conditions have been established on these operations well below the standards prevailing on railroads generally.

We feel that the application of reasonable labor standards to these subsidized carriers is long overdue and we urge the Committee to give favorable consideration to the provisions in H.R. 2766 which will do this.

H.J. Res. 318 and its companion H.R. 2766 are desperately needed measures to maintain essential service on the Milwaukee Road. We join with the States of Washington, Montana, Idaho, North Dakota, South Dakota, Illinois, Iowa, Missouri, Wisconsin, Kentucky, Minnesota, Michigan and Indiana and with all of those whose livelihoods depend on continued service to ask the Committee to take immediate action on these bills to avoid what otherwise will be a major economic disaster.

We thank the Committee for providing to us the privilege and opportunity to present these views.

Membership list:
(1) American Railway Supervisors Association.
(2) American Train Dispatchers Association.
(3) Brotherhood of Locomotive Engineers.
(4) Brotherhood of Maintenance of Way Employes.
(5) Brotherhood of Railroad Signalmen.
(6) Brotherhood Railway Carmen of the United States and Canada.
(7) Brotherhood Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employes.
(8) Hotel & Restaurant Employes & Bartenders International Union.
(9) International Association of Machinists and Aerospace Workers.
(10) International Brotherhood of Boilermakers and Blacksmiths.
(11) International Brotherhood of Electrical Workers.
(12) International Brotherhood of Firemen & Oilers.
(13) International Longshoremen's Association.
(14) International Organization of Masters, Mates & Pilots of America.
(15) National Marine Engineers' Beneficial Association.
(16) Railroad Yardmasters of America.
(17) Sheet Metal Workers' International Association.
(18) Seafarers International Union of North America.
(19) Transport Workers Union of America.
(20) United Transportation Union.

Mr. SNYDER. Mr. Chairman, with your permission, I would like to call on Mr. Mahoney for some brief remarks. He would like to direct a statement as to the direct service which has been brought up before the committee, as to his experience and our interpretation of that.

Mr. FLORIO. Certainly. I would like to address a question to Mr. Mahoney and perhaps he could respond to it in this same vein.

One of the previous witnesses who talked about directed service and expressed some apprehension, implied that directed service would have an adverse effect on the Milwaukee's employees.

However it is my understanding that directed service does have specific provisions which state that the carrier providing the service is required to utilize the Milwaukee employees as opposed to voluntary service which has no such requirement.

Could you clarify that point?

Mr. MAHONEY. Yes, Mr. Chairman.

I think it may be important at the outset to say that no one and I cannot emphasize this too strongly, no one should be lured into any sort of a sense of semisecurity by this directed service concept.

Section 11125 of the Interstate Commerce Act does require that when the Commission directs service by one carrier over the lines of another, the directed carrier utilize the employees engaged in that transportation service, the employees of the other carrier and in this case it would be the Milwaukee.

That service is for 240 days at the outside. At the end of that 240 days, what is going to happen? There is no requirement or guarantee or anything else that those employees will be continued longer.

The lines will continue longer. Those railroads may say the heck with it, we do not want to operate these lines any more and the entire thing will shut down and nobody can do anything about that unless Congress amends the law. That is the first problem.

The second problem is that when the service is directed, it will be directed only over certain lines by certain carriers. It will be paid for by the Federal Government.

Under a plan submitted to the court the other day and I was representing the Railway Labor Executives' Association, the trustee stated that it would cost about $10 milli n Federal money to

operate this directed service. One of his witnesses admitted that this was an extremely lean suggestion and recommendation, this directed service.

Mr. FLORIO. Is that $10 million to direct service for the preservation of the entire system as it is now?

Mr. MAHONEY. No. It was the trustee's version of the directed service which he said would take care of all but 1.5 percent of the shipments of the Milwaukee. We did not get into the cross examination of that the other day. That is scheduled for the 15th. I have not had an opportunity to get into that with him.

In any event, the Interstate Commerce Commission, whose Assistant General Counsel I was speaking to out there and who questioned somewhat on this subject, was of the opinion I believe that it would cost somewhere between $35 and $45 million of Federal money to operate that service if they were going to use an adequate number of Milwaukee employees to operate the service.

The problem with the use of employees is they will decide what employees will be used and what employees will not be used. I doubt if there will be any clerical employees utilized, the so-called overhead employees, or any maintenance of equipment employees, so-called overhead employees or any other types of overhead employees, dispatchers or supervisors. They will have to use some train crews but they will make the decision on how many trains will be operated and how many crews will be utilized. The same is true with all other personnel involved in the operation of the trains.

Mr. FLORIO. When you say "they," are you talking about the carrier or the ICC?

Mr. MAHONEY. I am talking about the ICC. The carrier may object. The carrier may take the position that if we utilize these employees, if we perform this service, this will adversely affect our ability to serve our own patrons and under the law, they do not have to serve them. We can get into long arguments about that as to whether or not this will happen or not.

I think most important, the employees who will not be used will receive no protection and they will not receive anything temporarily at least. Hopefully the trustee will be required by the court to do what the law requires and that is to seek abandonment authority for these lines. He will never go back to them again.

At the end of 240 days, they may be totally abandoned.

The thing I want to stress is that if directed service goes into effect, the Congress will then be faced with a fait accompli. That will be the form that the Milwaukee will take from now on and there is nothing this Congress or anybody else can do about it.

As of May 31, if the court is lulled into thinking that this will be sufficient and they can reform the railroad later and permits the so-called embargo to take effect with this directed service operations plan of the ICC, that will be the form that the Milwaukee will take from now on, unless it is reorganized into an even smaller railroad.

The lines that are being served by those carriers may stop being served by those carriers at the end of 240 days if those carriers just do not want to serve them anymore.

I cannot stress too strongly that if a real plan which will protect the public, the shippers, the States and the employees in that area, is to be put into effect ever, time is needed to do it.

I do not know whether the SORE plan which was mentioned by the Congressman earlier is the right plan. Nobody knows which plan might be the right plan at this stage. We are not going to know between now and May 31 when this so-called embargo is supposed to take effect.

It seems to me that it is essential that Congress delay any action being taken by the railroad at all until such time as we can determine or the Congress can determine and the courts can determine precisely the form that the Milwaukee should take and the type of service these people in the Western States should have. Directed service will not do it. It will hurt and not help.

Mr. FLORIO. Yes, Mr. Snyder?

Mr. SNYDER. With your permission, I have Mr. Joe Brand who is a member of the Montana Legislature here and he would like to give you a few incidents that have taken place. He has come a long way.

Mr. FLORIO. Mr. Brand, we welcome you to Washington and we would be happy to hear from you.

Mr. BRAND. Thank you, Mr. Chairman. This is my first experience down here and I appreciate being here.

I do not like the circumstances with the problem of the Milwaukee Railroad. I also want to say that I am also an employee of the Milwaukee Railroad. I am a train conductor and have been employed for 36 years in the State of Montana by that railroad.

I do think I know some of their problems, at least the service they have given to the customers or have not given to the customers.

Before I left home last week to come out here, there were some Milwaukee engines on Burlington Northern freight trains, on their mainline, not pulling coal but pulling through freight. They were at Missoula on May 1 of this year pulling on their freight trains. The engine numbers of the Milwaukee engines were 185 and 173. They were going westbound that day out of Missoula.

After I had heard that news, I called up my legislative man in Whitefish, Mont., and I asked him if there were any Milwaukee engines pulling Burlington Northern trains up there and he said, yes, it has been going on for 2 weeks. I said, hereafter, will you send me the engine numbers and the trains they are on and the dates? He said he would.

All we are running now on the Milwaukee luckily is one train a day. It has been told to us that one of the reasons there are no trains running over the track is because there are no engines. We find out these engines are running on other railroads.

Mr. FLORIO. One of our afternoon witnesses is the president of the Milwaukee Railroad. You can rest assured that we will inquire into this matter.

Mr. BRAND. When I was working this last winter on the trains, we were diverting traffic on the Milwaukee traffic freight trains at Silver Bowl, Mont., to the Union Pacific Railroad Co. going east. I would leave Deer Lodge with that train and three quarters of that train, they would have me set it out at Silver Bowl via the Union

Pacific Railroad to the east, going to Omaha and Chicago, which when it is diverted, it is going south at least 150 miles, at least to Pocatello, and then back going east, which took a lot longer to get that traffic moving to the Chicago area.

I would like to say that for the number of years I worked on the railroad, the first time I saw the deterioration of the Milwaukee Railroad was when they got rid of the less-than-carlot shipments of freight. These are what we used to call peddlers. Eventually they gave that to the truck lines. There would be less than a carload and you would take a little bit out here and there as you went along the line.

The next thing the railroad did was do away completely with their passenger business saying if we did away with the passenger business, we could run a first-class freight line and have these freight trains not take the sidings for the passenger trains. They did away with that.

The cattlemen in Montana used to have a shipment of cattle going to the east. They would call it a 36-hour one-stop service. They would stop and feed and water them at Aberdeen, S. Dak. The railroad cut that service out. The facilities for the stockmen in Montana where they loaded the cattle were deteriorated. The cattle cars that the cattle were supposed to be shipped in were deteriorated to a condition that some of the cattle toward the late days of shipping were going through the floors and cutting their feet off with those wheels under them.

The cattlemen went to another form of transportation.

It finally came to the grain. Our farmers could not get the cars. I was told that many of the grain cars were up on the Canadian lines because during winter months, the Canadian National Railroad gave the Milwaukee some diesel engines to use and I was told that they had to reciprocate and give them some of the grain cars.

The grain right today is sitting in their elevators.

Another case in point, in the winter time, when they really were in the freight business many years ago and wanted to get the trains across, they used to reduce the size of that train because if you understand railroading, you have to have an air test and you have to have a sufficient amount of air on that caboose before you leave a terminal.

The existence now is we have to run the same length of train in the winter time that we do in the summer time and in many cases, you never could get an air test and crews would be right at the terminal, you could never get out of town because you could not get a proper air test.

I want to say I worked on the passenger train and then I was put on a freight train. The first days I was put on freight trains when they were expediting services, between Three Forks, Mont., and Deer Lodge, Mont., those freight trains used to go over the road in 2½ and 3 hours. That same territory today, it takes us 6 and 7 hours to get over that road. If we take the siding or meet another train, it is a little more lengthy than that.

I think the reason for many of these years that the railroad tried to have a good image, they wanted to keep their cash flow up to merge with other railroads. They took down their copper line in Montana. We used to have electric railroad out there and they took

that down and sold the copper and tried to make the image look good.

There is only one other point I would like to make. A State representative friend of mine whose name is Howard Porter of Billings, Mont., is in a company that has holdings in the Roundup area that wanted to cut down the trees and ship lumber out of Roundup. He told me the Milwaukee refused to give him service at Roundup.

With that I will close but I would like to leave this statement I made before the Governor of Montana and Mr. Hillman regarding the impact that the Milwaukee would leave within the State of Montana and other areas.

Mr. FLORIO. We would be pleased to accept your statement.

[The following statement was received for the record:]

STATEMENT OF JOE BRAND, STATE DIRECTOR, MONTANA STATE LEGISLATIVE BOARD, UNITED TRANSPORTATION UNION, BEFORE THOMAS L. JUDGE, GOVERNOR OF MONTANA, STANLEY E. G. HILLMAN, AND OTHERS

Governor Judge, Mr. Hillman, and Mr. Chairman, I am Joe Brand, State Director of the Montana State Legislative Board, United Transportation Union. Also with me and present here is the Vice-President of the United Transportation Union, Mr. Francis Tupley; General Chairman, Mr. Lloyd Hanson from Milwaukee; also state directors; of Minnesota, Mr. Elmer Berglund; Mr. Alton Schute of North Dakota; Mr. Lambert Burkholder from Iowa; Mr. Howard McMurray from Idaho; Mr. Bill Price from Oregon and Mr. Charlie Hayn from Washington. I am speaking on behalf of the Milwaukee employees who are concerned regarding the proposed abandonment of the Milwaukee from Minnesota to Tacoma.

The abandonment would affect over 5,000 employees whose incomes exceed 96 million dollars a year. This loss to the communities along with the loss of public transportation would spell disaster to many communities. For example, the Chairman of the County Commissioners of Mineral County in Montana said that if the Milwaukee were abandoned, the county would cease to exist. There are communities that depend solely upon the railroad for their future expansion and at present are at a standstill in their development, awaiting the outcome of whether the Milwaukee will exist.

The schools, local government, and the community need this tax base. Now, I have a chart here that will give you an idea what this will cost if there's a loss of 100 railroad jobs and what it will mean to a community. Income taxes, both Federal, State and Local, it means $293,054; Food and Beverages at Home, $231,999; Food and Beverages in Restaurants, $65,252; Appartment and Housing Rentals, $57,974; Homeownership (mortgage principal and interest, and property taxes), $209,213; Home Heating Fuels and Utilities, $68,051; Home Furnishings and Household Operations, $94,678; Women's and Girl's Clothing, $42,467; Family Footwear, $17,387; Cleaning and Shoe Repair, $24,703; Transportation (public transportation, automobile purchases, Gas, and Oil) $170,473; Medical Services and Drugs, $84,645; Personal Care Items (haircuts, hairdresses, etc.), $32,096; Recreation Goods and Services (TV sets, movie tickets, etc.), $64,656; Other Services such as life insurance policies, funeral services, etc., $57,597. So you can see what affect it will have on the businesses in the community.

In our sample survey we find that the Milwaukee is not soliciting business from potential customers, therefore we feel that Mr. Hillman has been ill-advised by his staff on the future development of western freight business. The coal fields in eastern Montana, North Dakota and South Dakota, which are located on that segment of track proposed for abandonment are all undeveloped and offer a tremendous freight revenue in the future. According to Mr. Hillman's report, we figure that 50% of the Milwaukee revenue originates in the West, which leaves only 41 percent for east of Minnesota where the competition is keen. If the abandonment is allowed as proposed it will only be a short period of time before the Milwaukee will be a thing of the past. The employees, stockholders, shippers and the communities it serves will all be the losers.

A few months ago I was invited to a meeting attended by the Governor of Montana, President Smith, several of the Governor's Aides, etc., and during the conversation I asked President Smith if he would try and rehabilitate the track from Minneapolis to the West Coast, and he said yes and it took that kind of money. So, I went to Washington and asked and tried to get som that money and there

is a bill there now. And we are wondering if the rumors we hear are true, that the Milwaukee will not ask for this money.

We would like Mr. Hillman to give us a more positive answer on how we employees are going to be protected in case the proposed abandonment goes through; and not the out-dated outmoded agreement that exists presently. In closing I would like to take up the subject that all of the employees take exception to, and that is: During the 1960's, at the time the Milwaukee inaugurated its XL Special, the only business they wanted was the long haul to the coast, and in doing so, they have left the local shippers high and dry. Now they say that because there is very little business through here, they want it to be abandoned. Thank you.

Mr. SNYDER. Thank you, Mr. Chairman. We would be glad to answer any questions.

Mr. FLORIO. As usual, we appreciate your contribution, and we are going to be looking and listening very closely to the testimony of the witnesses we have scheduled for this afternoon. I know you will likewise be listening. We would appreciate your responses to what is conveyed to the committee this afternoon.

We thank you very much.

The committee stands adjourned until 2 p.m. this afternoon.

[Whereupon, at 10:25 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTER RECESS

[The subcommittee convened at 2 p.m., Hon. James J. Florio, chairman, presiding.]

Mr. FLORIO. The subcommittee will come to order. This is a continuation of this morning's hearing on the Milwaukee Railroad.

We are pleased to welcome the Honorable Ron Marlenee who is a Representative from Montana and has a particular interest in this matter. We welcome you to the committee. Your statement, if you have one, will be entered into the record in its entirety, and we would ask you proceed in a summary fashion.

STATEMENT OF HON. RON MARLENEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. MARLENEE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I would like to commend you for holding this hearing on the Milwaukee Railroad situation today. The importance of this transcontinental rail line needs to be recognized and emphasized. Once it is realized how vital this 10,000 mile line is to the present and future transport of agricultural and fuel commodities, we must then proceed to implement measures to insure its continuation.

As we know, trustee Hillman has made an initial determination that the Milwaukee Railroad will not be able to emerge from reorganization as a profitable carrier without withdrawing service from the vast majority of lines west of Minneapolis. In his April 23 statement, he stated that he felt a smaller railroad may become economically viable. He did admit that the Booz-Allen report commissioned by him to study the economic viability of the entire system does indicate "that at some point in the future * * * even the entire Milwaukee road system might produce net railway operating income."

The basi roblem if the Milwaukee is allowed to abandon its Pacific coas. extension is that rail users located on the line will

lose rail service. It is true that there are provisions if the railroad does cease operating and that the Interstate Commerce Commission can preserve services on all or part of the line by directing another railroad to provide service at Government expense for a period of up to 8 months.

However, this time gap measure is just not enough. Grain farmers will no longer be competitive without the Milwaukee as they depend on the Milwaukee to get their product to market. There is no other method to ship agricultural goods cheaply enough to be competitive with other producers.

In Montana, we are plagued with a boxcar shortage to haul grain. As the Milwaukee handles between 20 to 30 million bushels of grain annually, the abandonment of the line in Montana will cause a severe shipping problem to our farmers. The Burlington Northern which is the other major railroad in the State, apparently does not have the equipment or will not use it to provide for handling of further shipments of wheat and barley.

Discontinuing the service also means trucking grain in excess of 100 miles for many farms. The resulting drain on our fuel supplies is in the hundreds of thousands of gallons. This alone should give the Congress cause for great concern.

In early March, I held a public hearing in Great Falls, Mont., on the boxcar shortage. It was clearly pointed out by the farmers testifying that if the Milwaukee is not available they will have to hold their grain. Wheat and barley will be piled on the open prairie and farmers will incur losses from waste and penalty payments for late deliveries on sales contracts. With the reduction of hauling capability and disruption of orderly marketing patterns prices will lose stability.

Another major concern if the Milwaukee is allowed to abandon its Pacific coast extension is the movement of coal. The Milwaukee and the Burlington Northern serve the Fort Union coal deposit which underlies Montana, Wyoming, North Dakota and South Dakota. There are well founded fears that the Burlington Northern if left the sole system, will not have the capacity to handle the region's future coal production. Coal shipments out of the Fort Union deposit are directly dependent on rail transportation.

With the new national emphasis on coal, we must turn to this abundant natural resource as an alternative to oil. Under the provisions of the Powerplant and Industrial Fuels Use Act, powerplants are mandated to convert from oil to coal. The coal is there adjacent to the Milwaukee right-of-way and it is the same coal that is going to be needed so desperately in the future for this Nation.

There is legislation that has passed the Senate which directs the Secretary of Energy to conduct an immediate assessment of the present and potential coal hauling along the Milwaukee line. I feel this is a critical study.

How can we abandon a transportation link if it proves to be of major importance in moving the commodity that we may need in the national interest?

The proposed embargo that has been requested of the court by trustee Hillman is a frightening concept to shippers along the line. It is true there are not as many shippers still using the Milwaukee as there have been in prior years because quite simply the service

has been very poor. Because of the poorly maintained tracks there are slow orders over much of the mainline delaying trains considerably.

The service is unreliable due to poor equipment. These factors have forced shippers that do have alternative forms of transportation to turn to them. For many shippers in Montana and elsewhere there are simply no alternative forms of transportation to which to turn.

It is my firm belief that the entire Milwaukee mainline must be preserved for the needs of today and tomorrow. Earlier this spring, to provide additional assistance to the bankrupt Milwaukee, I introduced the marginal mainline bill which was a measure designed to amend the Railroad Revitalization and Regulatory Reform Act of 1976. In light of the trustee's April 23 statement, I believe this bill is no longer the mechanism that can be employed to insure continued service on the entire mainline. However I do feel that the preservation of the line is the goal that should be firmly established no matter which vehicle we use.

As a cosponsor of Chairman Florio's House Joint Resolution 318 which calls for a continuation of existing levels of rail service for 90 days, I urge the subcommittee to immediately work toward its enactment. Granted, the 3 months will not by itself solve the problem entirely but it will provide for the time we need for the results of the various studies to be presented. Once the results of the study commissioned by the Federal Railroad Administration under the provisions of an amendment to the Local Rail Services Act is completed and a critical analysis of the Booz-Allen-Hamilton study is finished and also the Department of Energy has conducted an assessment of the present and potential coal hauling in the area served by the Milwaukee Railroad, we will be better armed to determine what can be done to best aid the ailing railroad.

On Friday, May 4, the trustee amended his original embargo request adding 800 miles between Renville, Minn., and Miles City, Mont., and subtracting the 700 miles between La Cross, Wis., and Kansas City.

This major reassessment of the original embargo request does show that the trustee recognized the importance of providing service to the coal-fired powerplant on the mainline at Big Stone, S. Dak. which is wholly and totally dependent on the Milwaukee for 2.2 million tons of coal annually from the mines located in North Dakota.

This action of extension does not account for what will happen to commodities terminating in Miles City. The Burlington Northern theoretically would be available to then pick up the goods and proceed to haul to the west coast. As I have stated, the Burlington Northern is already overextended and not able to haul the goods they are presently designated to carry. I do not think the extension to Miles City alone is the solution but appreciate the trustee recognizing the most immediate need. I continue to be of the opinion that the entire transcontinental line needs to be perpetuated. We are not just talking about a branch line or a segment of railroad but a transcontinental transportation system.

One of the most major problems of the railroad as we know is the deplorable state of the tracks. To save money, management has

for some years insidiously employed the concept of deferred maintenance which has caused deterioration of the line to the point where there are frequent derailments and the line is to the point where significant expenditures will be needed if the railroad is going to handle the coal transport.

We need to take a hard and close look at the rail lines. The provisions of the Powerplant and the Industrial Fuels Use Act of 1978 provide funds for rehabilitation to railroads that haul coal. Obviously we need to assess whether the Milwaukee is eligible for assistance under these provisions. I understand that those efforts are underway and that work has been initiated to have that section of the Fuels Use Act funded. It is clear that if the Milwaukee is to continue, major financial contributions and expenditures will be necessary to upgrade the lines. If because of the inadequate track and outmoded equipment the producers are unable to get their coal to powerplants, the coal conversion mandated under Public Law 95-60 cannot be accomplished.

This afternoon, Mr. Chairman and members of the committee, you will hear from representatives of the group of Milwaukee Railroad employees who are seeking to continue the transcontinental line, the "Save Our Railroad Employment." They believe based on the results of a detailed viability study that the Milwaukee's western lines can be operated profitably. Their proposal addresses itself to the process by which a new company would be formed to acquire the Milwaukee line and associated operations west of St. Paul, Minn. I feel we need to closely examine the method of acquisition they have proposed, the structure of ownership, the financial evaluation and Federal participation as they have proposed.

Mr. Chairman, I want to emphasize that the possible loss of the Milwaukee is not a parochial problem affecting just Montana. The commodities that are carried on the Milwaukee are sold on the international market. Grains alone coming from the Northern Tier States are significant in this country's trading with foreign nations and make up a major portion of our position in the world's marketplace.

The domestic economic impact of the goods carried by the railroad is also important. True, the Milwaukee's 10,000-mile line is not as large as the former Penn Central system of the Northeast but its value to the economic viability of the Northwest region and to this country should not be understated or underestimated.

I am not suggesting that we need a ConRail of the west but I am saying that we need to preserve the entire system in some form because once it is lost it will be gone forever and that day may be very soon.

Even the trustee has suggested in the commissioned Booz-Allen report there will be sufficient market opportunities for the line to make a profit in the future. If we do not act soon the die will be cast irretrievably because it would be impossible to buy back the right-of-way, to buy back the equipment and the fixtures once they are liquidated.

Mr. Chairman and members of the committee, we need time as allowed in House Joint Resolution 318 to assess the impact and act to save the line in order that future generations will not look back when they desperately need the fuel, fiber, and food along the

Northern Tier and puzzle over how we could let such a valuable transportation line wither away and die.

Thank you, Mr. Chairman.

Mr. FLORIO. Thank you very much. We certainly appreciate both your testimony and your continued interest in this matter.

I think it is appropriate to note that you appreciate the fact that there will probably be a need to resort to a number of programs to deal with this problem, as well as an attempt to have a multifaceted approach to insure that vital rail service is provided and continued.

We are looking forward to a number of witnesses today. Among them is Chairman O'Neal who will provide us with some information about one of the vital links in the effort to continue service for the next short-term period in the hopes of over the longer time period putting together a system that will serve your constituents.

We thank you very much.

Mr. Madigan, do you have any questions?

Mr. MADIGAN. No, Mr. Chairman.

Mr. MARLENEE. Mr. Chairman, I would like to commend you and the members of this subcommittee for taking an in-depth look at the situation. I think you have done a good job.

Mr. FLORIO. I note that there is a recorded vote. We will take a brief recess to vote and we will return.

I understand Senator McGovern is on his way over. At that point, we will be pleased to hear from the Senators if that is satisfactory to them.

The Senators have just explained to me that they have a vote coming up at 2:30 p.m. and somehow they are going to confine their remarks to 2 minutes. I will recognize Senator Baucus first.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

Let me make a few quick points here. I am not going to go into the tremendous importance of the need to keep the Milwaukee Railroad running. I think that background has and the need have been established.

I urge you to act quickly and favorably upon the bills which are before your subcommittee. The 90-day resolution to tell the trustee of the railroad to keep operating for 90 days is vitally important. The bill introduced which will provide loans for main line rehabilitation and other provisions that bill is essential too, and I have introduced the same bill in the Senate. I think the bill with respect to the Department of Energy, which passed the Senate a few days ago, is before your subcommittee and is also very important.

It is important mostly because when I appeared along with Senator Melcher in Chicago before the judge in the reorganization proceedings, I stressed that the Congress is now beginning to act.

I cannot speak for the judge but he was favorably disposed toward that point of view; that is, he was impressed that Congress is beginning to act to find a solution.

Nobody wants a Federal "bail out." We do not want another "ConRail" solution. My firm belief is if we need a little more time—time for employee stock ownership programs; time for

States to get portions of the line repaired; time for State's to get their State rail plans enacted—in other words, time for all of us to get our acts together.

I respectively hope you and others are not pushing for a directed service order. In my judgment to ask for a directed service order is to assume the Milwaukee Railroad is Humpty-Dumpty. And, remember Humpty-Dumpty will fall under a directed service order, and I do not think you can put Humpty-Dumpty back together again.

My point is this: Milwaukee is not Humpty-Dumpty. It has had some historical financial problems, and I think they can be turned around. With short-term financial help under a cheaper program other than directed service, the long-term interests of the railroad will be best served.

Directed service also does not protect employees. Employees now on the main line of the Milwaukee are not going to be protected. My point is this: let's find a solution before we go to directed service.

In my judgment, Mr. Chairman, the Booz-Allen report flatly states that all options are profitable, even the Pacific coast extension, so long as significant funds are available for rehabilitation.

In summary, I ask for expeditious action. I think the judge will be impressed with that, and I also think that 10 years from now, when we look back upon the actions today, we will be proud that we foresaw the need to continue a rail transportation.

Thank you, Mr. Chairman.

[Senator Baucus' prepared statement follows:]

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Mr. Chairman, I'd like to commend you for calling these timely hearings and for giving me an opportunity to present my views.

The potential loss of Milwaukee Road service is a matter of great concern in Montana, and recent events make it imperative that Congress act quickly to resolve the serious problems arising from the Railroad's bankruptcy.

IMPORTANCE OF MILWAUKEE SERVICE

Montanans depend on the Milwaukee to transport the State's major commodities—grains, timber, ore, and coal. All of these are bulk commodities that move long distances. In our part of the country, there are simply no alternatives to rail service.

The Milwaukee is also an important employer in the State. With 750 employees and an annual payroll of $15 million, the Milwaukee is a cornerstone in the economies of many Montana communities—especially Miles City, Harlowton, Three Forks, Deer Lodge, and Alberton. The 25 counties the Milwaukee passes through in Montana lost $780,000 in property tax revenues in the last half of 1977 because of the bankruptcy proceedings.

Loss of Milwaukee service will reduce Montana's ability to transport the bulk commodities that are so important for our economy. Agriculture is the State's largest industry, contributing 37 percent of the State's income. Lumbering accounts for 8 percent, and mining for 14 percent of Montana's revenue. All of these industries would be severely and adversely impacted by loss of Milwaukee service.

Milwaukee service cannot be satisfactorily replaced by other railroads. The Burlington Northern, the only other freight railroad serving Montana, has suffered from persistent equipment shortages and is unable to haul the grain and coal on its own lines. It is certainly in no position to replace Milwaukee service.

In addition, if railroad deregulation is implemented, intramodal competition will be crucially important to Montana's shippers. Competition between railroads offers the only hope for reasonable transportation service and charges if economic regulation is abandoned.

THE FUTURE OF THE MILWAUKEE AND AMERICA'S RAIL SYSTEM

In an April 23 statement, the Secretary of Transportation said that "The Milwaukee Road announcement is the inevitable result of a railroad industry left with too much track and too little traffic."

Coming from the head of an agency that has not independently analyzed the viability of the Milwaukee system, that statement was at best premature. At worst, it reflects a terribly short-sighted attitude toward the nation's transportation needs.

The Milwaukee Road is not a "basket-case." It is an important part of our national transportation system now, and will be even more important in the future.

The Milwaukee carried 849,770 carloads of freight in 1977. It could carry more.

For example, the tonnage of farm products shipped by the Milwaukee dropped 37 percent from 8.1 million tons in 1966 to 5.9 million tons in 1976. This happened in spite of a growing U.S. grain production which increasingly moves into export markets.

These trends in grain production will continue, especially as relations are normalized with the People's Republic of China. Railroads will be more and more important for transporting grain to the West Coast for export.

Also, loss of the Milwaukee Railroad would leave only one railroad—the Burlington Northern—to serve the rich Fort Union coal deposits in Montana, Wyoming, and North and South Dakota. These coal deposits will be increasingly important for meeting this nation's energy needs, and again railroads are the only practical means of transport.

The Booz-Allen consulting firm commissioned by the Trustee studied eight potential configurations for reorganizing the Milwaukee.

Their studies indicate that if necessary rehabilitation funds were available and if management aggressively pursued new traffic, any of the configurations studied could produce net operating income.

The Save Our Railroad Employment organization has independently analyzed the Pacific Coast Extension and is convinced that this part of the system could be independently profitable.

The Milwaukee's financial problems cannot be blamed on a lack of traffic. The fact is, a long history of poor management and deferred maintenance has put the railroad in the precarious financial position in which it now finds itself.

SOLUTIONS TO THE MILWAUKEE'S PROBLEMS

Mr. Chairman, in my comments I have tried to stress two points: first, that the transportation services provided by the Milwaukee Road are essential to this nation; and second, that the Railroad is not a "basket-case"—in fact, it can be profitable.

The question this Committee, and the Congress, must consider is "How do we get from where we are to where we should be."

I suggest a two-step process. The first step is passage of a resolution to block the Trustee's proposed abandonment of service. Passage of such a resolution will give Congress time for the second step: development of a comprehensive, long-term legislative solution.

A RESOLUTION TO BLOCK THE TRUSTEE'S PROPOSED EMBARGO

As you know, the Milwaukee Bankruptcy Trustee has proposed abandonment of some 75 percent of the Milwaukee system. Milwaukee officials are attempting to disguise the fact that this abandonment is illegal by calling it an "embargo."

Moreover, the agencies charged with protecting the public interest in this case—the Interstate Commerce Commission and the Federal Railway Administration—appear to support this illegal abandonment. Internal FRA documents suggest that the embargo is essential if the Milwaukee is to be successfully reorganized. The Interstate Commerce Commission has refused to forcefully argue the point that only the Commission can authorize railroad abandonments.

Federal Railway Administration documents also show a consistent policy of discouraging federal assistance for the Pacific Coast Extension of the Milwaukee—running from Minneapolis to the West Coast even though such assistance could be provided under provisions of the Railroad Revitalization and Rehabilitation Act and even though there has been no FRA analysis of the Extension's viability.

In the May 4 court hearing, the Trustee asked to delay the embargo date until May 31. The Bankruptcy Court hearing on the embargo proposal will continue May 15.

Along with Senator McGovern, I have introduced Senate Joint Resolution 69 to require the Milwaukee to maintain and continue its existing level of service for 90 days. Congressm Florio and Staggers have sponsored an identical House Resolution.

The Trustee's action is unprecedented and would constitute the largest abandonment of rail service in United States history. Service on some 7,000 miles of track and 5,000 jobs would be lost.

The economic impacts of this action would be irreversible. Many shippers would be forced to find alternative transportation service. Not only is this a hardship for the affected shippers, but much of the traffic lost could never be regained, greatly reducing chances of successfully reorganizing the Railroad.

The 5,000 employees would lose not only their jobs under the Trustee's proposal, but also the severance pay they are entitled to. These employees would be forced to look for other employment, and would be hard to replace under a reorganization plan.

As you know, the Interstate Commerce Commission has a mandate to direct other carriers to provide essential rail services for a period not to exceed eight months in case of a Milwaukee abandonment.

The cost of this Directed Service must be borne by the federal government, and it is extremely expensive—estimates of the cost of directing service on the full Milwaukee system for eight months exceed $75 million.

It would be more responsible—and less expensive—for the federal government to require the Milwaukee to abide by its common carrier obligation. The federal goverment could provide necessary funds—possibly under the Emergency Rail Services Act—to prevent any unconsitutional erosion of the creditors' financial position.

It is essential that we prevent the Trustee's proposed abandonment of service through passage of these resolutions.

LONG-TERM SOLUTIONS

Mr. Chairman, on Monday I introduced a bill, S. 1083, which I believe can be the basis of a long-term solution to the Milwaukee's problems.

My bill is based on, and very similar to, H.R. 2766 introduced by Congressmen Florio and Staggers.

The bill would have four main impacts.

First, the bill would prevent any abandonment of Milwaukee service before federal assistance programs developed under the Act where is place.

Second, the bill would expand the Local Rail Services Assistance Act so that its programs could be used for any part of the Milwaukee system. As you know, these are cost sharing programs whereby the federal government currently pays part of the cost of state plans to maintain essential services on light-density branch lines.

Third, the bill would make the entite Milwaukee system eligible for rehabilitation funds under Title V of the Railroad Revitalization and Rehabilitation Act. The Milwaukee has already used this program to upgrade some trackage in the Midwest, but Federal Railway Administraton policy has prevented the program from being used on other parts of the system, including the Pacific Coast Extension.

The Booz-Allen consulting report clearly indicates that the major problem for the Milwaukee is obtaining funds to rehabilitate track. Thus, this expansion of the Title V program must be a conerstone of any legislation to deal with Milwaukee problems.

Finally, the bill would establish a Task Force to develop Corrective Action Programs to help railroads improve service, promote new markets, reduce costs, and identify techniques for increasing productivity. These productivity increasing techniques would include employee stock ownership plans and employee bonus plans.

Federal assistance should be available, not only to the current Milwaukee management, but also to other parties that may be interested in taking over some parts of the Milwaukee system.

The Trustee has clearly indicated his reluctance to provide service, for instance, on the Pacific Coast Extension. Under the legislation I have proposed, affected states along the PCE could develop alternative plans to continue service.

Conceivably, the states themselves could purchase and operate the railroad. Alternatively, an organization like SORE could purchase and operate the railroad with financial assistance from the states. Or, the current Milwaukee management, again with financial assistance from the states, could continue to serve the region.

In any case, assistance would be available under this Act. The funds could be used to purchase railroad properties, rehabilitate track and equipment, or subsidize essential rail services.

States would be required to pay part of the costs of these programs. However, my bill provides that the Secretary could waive or postpone state payments to give State Legislatures time to enact necessary legislation. This is necessary because many states have not enacted legislation to authorize su' participation, and because State Legislatures meet infrequently. For example, Montana Legislature

recently adjourned and will not reconvene until January of 1981. And, currently, the Governor does not have authority to participate in cost-sharing programs.

Mr. Chairman, I believe that H.R. 2766 and S. 1083 provide an adequate framework for dealing with the Milwaukee's problems. Based on the outcome of this and other hearings, the Committeed may, of course, want to refine parts of the legislation.

In any case, I would urge this Committee and the entire Congress to act quickly to prevent loss of Milwaukee service that is a critical part of our Nation's transportation system.

Mr. FLORIO. Thank you. Senator Pressler?

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Mr. Chairman, I know you must go immediately. I would like to put my statement in the record.

Mr. FLORIO. Without objection, Senator Baucus' and Senator Pressler's statement will be inserted into the record in their entirety.

Senator PRESSLER. I join in the remarks of my colleagues. South Dakota has an enormous interest in this. It has been my feeling this hauling can be profitable and should be profitable as to the movement of grain and the movement of coal.

As my colleagues pointed out, the Booz-Allen report says it is profitable. Common carriers do have a responsibility to lesser populated areas and I have gone into these points in my remarks.

Thank you, Mr. Chairman.

[Senator Pressler's prepared statement follows:]

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to come before you today to express my deep concern over the future of the Chicago, Milwaukee, St. Paul, and Pacific Railroad which operates a network of almost 10,000 miles in several midwestern and western states. In light of the impending decision to be taken by the Bankruptcy Court regarding embargoed service along the Milwaukee Road system in these states, it is essential that we take steps to ensure continued transportation services in the region.

Under the Railroad trustee's proposal to halt all Milwaukee rail services west of Minnesota, my State of South Dakota stands to suffer the heaviest losses in economic and social stability. Not only will agricultural activity be enormously impaired, opportunity will be lost for industrial growth and new investment in the state.

In the short term, continuity of service must be assured to protect agricultural shippers dependent on the Railroad as the harvest and peak shipping season approaches and to avert disruption of the fuel supply to the Big Stone City Power Plant. In the long run, dependable rail service is vital to the planning and development which will feed the state's economy.

Agriculture is South Dakota's major industry and provides the livelihood for the greater portion of the state's citizens. Farm investment and planning for expanded grain loading and marketing facilities cannot go forward without assurance of an established, reliable rail system to support these activities.

The agricultural producer in our nation already suffers from increased costs of production and inflation. As we continue to leave the burden of the costs of inadequate transportation systems on the farmer, the industry will be stifled and the small farmer forced out of existence.

Most importantly, to take advantage of the promise of expanding export markets for our nation's grain, it is essential that arteries to the west coast and the Gulf continue to serve our grain producing states.

Future energy development in South Dakota is dependent on continued service along Milwaukee main lines and we are especially pleased to see that the Milwaukee Trustee has included in his proposed core system the line through northern South Dakota to Miles City, Montana.

In addition to the present demand generated by the Big Stone City Power Plant located near Milbank, South Dakota, plans are underway for expansion of coal

conversion facilities that will substantially increase transportation needs in the state. There is the capacity at the site of the Big Stone Plant to accommodate a second unit and perhaps more and expansion at the plant is under consideration. Other sites are also being considered by various electric interests. Electric cooperatives have considered the possibility of building facilities at Mobridge, South Dakota, for example, and some discussion of generating plant facilities at Chamberlain.

There is also great interest in construction of alcohol fuels and wheat processing facilities in the state, a venture which holds great benefits for the economy.

While many of these considerations represent only early stages of plant expansion and planning, they indicate the strong need for transportation services to continue in order to encourage important progress and entice new industrial investment. Without a positive future for dependable transportation systems, we will not be able to attract the investment in our state that will feed its economic needs. The disruption that will result from abrupt termination of rail services will be disastrous to these interests.

The severe problem of the Milwaukee Road provides us a striking illustration of the difficulties of the deterioration rail industry as a whole. While acknowledging the needs of the industry, we cannot ignore our responsibility to the producers and shippers who are affected.

In addressing the Milwaukee situation, I urge that an embargo be delayed to allow sufficient time for further negotiations with carriers interested in purchasing some lines, to allow the ICC to complete a satisfactory contingency plan for directed service, and to allow shippers to make adequate arrangements to avoid disruption in their daily business.

I also believe that the Congress must consider the need to provide emergency assistance to preserve service on the Milwaukee Road. Assistance for rehabilitation of the severely deteriorated lines is vital to allow continued operations and to encourage other carriers to purchase these lines. There is wide agreement that transportation needs will be best served by leaving the industry in the hands of the private sector. However, it will be necessary for us to provide some assistance to encourage the Milwaukee and other carriers to undertake the enormous task of rehabilitating the lines so that operations will be profitable.

The need demands immediate action on our part.

I thank the Subcommittee for its attention to this serious matter and I urge that it consider necessary measures to assist the continued operation along the Milwaukee Road.

Thank you.

Mr. FLORIO. We thank you very much. The committee stands in recess for approximately 10 minutes. When we return we will be hearing from Mr. Worthington Smith, the president of the Milwaukee Railroad.

[Brief recess.]

Mr. FLORIO. Our next witness is Mr. Worthington Smith, the president of the Chicago, Milwaukee, St. Paul & Pacific Coast Railroad.

Mr. Smith, we welcome you to the committee. We would ask that you introduce your colleagues for the record. Any statement you may have will be entered into the record in its entirety, and we ask you to proceed in a summary fashion.

STATEMENT OF WORTHINGTON L. SMITH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MILWAUKEE RAILROAD, ACCOMPANIED BY THOMAS F. POWERS, JR., ASSISTANT TO TRUSTEE STANLEY E. G. HILLMAN

Mr. SMITH. Thank you, Mr. Chairman.

I will have a correction to make to two figures on the way through. I am not sure what the normal procedure is but I will state the figures as they should be and then I will draw attention to that correction if that would be satisfactory.

Mr. FLORIO. That will be fine.

Mr. SMITH. Mr. Chairman, my name is Worthington L. Smith. I am president and chief executive officer of the Milwaukee Road. I am responsible to trustee Stanley E. G. Hillman for the day-to-day operation of the railroad. I would like to thank the chairman and the subcommittee for this opportunity to discuss the problems of the Milwaukee and also to outline where we are in seeking solutions to the problems.

With me today is Thomas F. Power, Jr., assistant to the trustee. Mr. Power's responsibility is to help trustee Hillman develop a plan of financial reorganization for the Milwaukee. He has also served for the past year as the trustee's liaison with Booz, Allen & Hamilton, independent management consultants. It is the Booz-Allen study, the printed copies of which should be available by Monday, which is providing much direction to the trustee in his search for an economically self-supporting railroad.

I have filed written copies of my testimony with the subcommittee's staff. In addition, pursuant to a request jointly from the subcommittee chairman and the Chairman of the full committee, I have provided the staff with a copy of a draft of the Booz-Allen report. This represents the information we presently have available. The draft is both incomplete and preliminary. As quickly as final and complete copies of the report are available, I shall see that both the subcommittee and the full committee receive them.

Necessarily, my testimony today must leave many questions unanswered. The future of the Milwaukee, whether it shall survive as an operating railroad and if so, in what physical configuration, is being shaped in the Federal court in Chicago. There was a very important hearing last Friday. There will be equally important hearings on May 15 and again on May 29. Events are unfolding very rapidly.

Perhaps I can best serve the subcommittee's needs by attempting to place the current flow of events in the proper context and perspective.

The Milwaukee Road is a large common carrier. It extends from Louisville through Chicago and throughout northern Illinois, Iowa, Wisconsin, Minnesota, and South Dakota. It reaches Kansas City from points on the Mississippi River, Lake Superior by traversing Upper Michigan, Pacific North coast points across a long slender extension through the northern tier of States westward from the Twin Cities. The Milwaukee is a contractor to Amtrak between Chicago, Milwaukee, and Minneapolis and to Chicago's Regional Transportation Authority for the daily movement of 30,000 commuters. Presently the Milwaukee operates approximately 9,800 miles of route. It has some 10,000 employees.

It is a fact of our economic life that many of the Milwaukee's services are neither unique, irreplaceable nor even essential but rather duplicate other transportation alternatives. Much of the territory which the Milwaukee serves is also served by several other railroads and by several other modes of transportation. As the result, even by railroad industry standards, the Milwaukee's average traffic density is quite low. In 1977, the Milwaukee ranked 7th among the Nation's 51 Class 1 railroads in mileage operated but only 15th in total operating revenues. In that year, the latest for which statistics are available, the Milwaukee constituted rough-

ly 5 percent of U.S. railroading measured in mileage but just over 2 percent measured in revenues.

Having attempted down through history to support too many miles of railroad in relation to what it could earn by operating all those miles, the Milwaukee not surprisingly has long been financially marginal. It has not been able to accumulate sufficient financial strength with which it could compete effectively in the overall against other railroads and other modes of transportation. Years of increasing costs, burgeoning competition, and regulatory constraints upon the ability to adjust to changing times have, in a manner of speaking, brought us together here today.

The Milwaukee Road is in bankruptcy and is unable to pay its bills for the third time in history. It is at this moment in the process of exhausting the last of its internal cash resources. The prospect of a complete shutdown of the Milwaukee, those of its services which are essential as well as those which are not, remains very real.

An effort to reorganize the Milwaukee under chapter 8, section 77, of the Federal Bankruptcy Act is underway. For many reasons not the least of which is the orderly continuance of essential rail services and the preservation of a maximum number of jobs, reorganizing at least part of the property as an operating railroad is preferable to a liquidation.

The ability of trustee Hillman and his staff to retain Milwaukee Road service is limited by available cash and by the obligation of the trustee and the court to safeguard the constitutional rights of the railroad's creditors.

There are several reasons why these factors have become limitations. On top of the losses in the 3 years leading up to the bankruptcy totaling $100 million and losses of $82 million in 1978, the Milwaukee faces the prospect of losing more than $150 million in the year 1979 alone if the entire railroad must remain in operation.

To operate the entire 9,800 mile Milwaukee Road for the next 8 months would require $80 to $90 million more in cash than the railroad can itself generate. Most of these funds would have to come from the Federal Government.

Sufficient funds do not exist to rehabilitate the Milwaukee so that it can adequately increase its earning power and become self-supporting at least as a 9,800-mile railroad. We see few if any realistic signs that sufficient funds for such rehabilitation could be made available soon enough to prevent the collapse of the entire railroad. We state frankly that we do not believe that either the public interest or the interest of the railroad's creditors require that the entire railroad be rehabilitated.

In my opinion, the results of the Booz-Allen analysis and the extent of the Milwaukee's losses show that simply pumping operating funds into the Milwaukee Road as it exists today without making concurrent structural changes solves nothing. Indeed, loaning money to the Milwaukee and doing that alone merely postpones solving a fundamental problem and reduces the opportunity which we may have to reorganize the railroad and make it self-sufficient.

The trustee has put $100 million into the Milwaukee Road in the past 15 months, all the outside cash he could get and all the postponement of obligations which he could arrange. Yet the Milwaukee's overextended, undermaintained physical plant continues to deteriorate. Overall the Railroad's service continues to become less responsive to customer need. We have arrived at the point at which the Railroad's secured creditors regard continued operation as an unconstitutional taking of their property. They are demanding that the Milwaukee Road service stop and that the property be liquidated.

Milwaukee Road operations cannot continue as they exist today. Yet the essential services must. I sense it is the desire of this subcommittee that they do. We believe they can.

If the Milwaukee can concentrate its resources on a smaller segment of its present operations, on that key segment on which it can perform best and on which the cost of rehabilitation can be minimized, there is a reasonable possibility that a reorganization of the Milwaukee as an operating railroad can be achieved. The result would be the preservation of many jobs, the continuation of much existing service, and quite possibly a substantial saving to this Nation's taxpayers. That a successful railroad might emerge is by no means guaranteed. Trustee Hillman believes that the possibility warrants the try.

Of great importance is the question of time. If there is to be any hope at all for the future of the Milwaukee, Trustee Hillman must immediately stop the drain which attempting to operate the entire railroad is causing on the assets of the estate.

The winter of 1978-79 had an adverse impact on the Milwaukee's cash of more than $50 million. The railroad has been going through cash at the rate of approximately $10 million per month more than it can generate.

The last of the railroad's internal cash sources, the Milwaukee Land Co. and the proceeds of sales of nonessential railroad property, are being used. Further borrowing must come from outside sources, probably the Federal Government.

We must promptly show evidence of the possibility of future viability or we quite likely will not be able to prevent an irreversible move through the court toward a complete shutdown and liquidation.

I would like to impress upon you how vital to the future size and shape of the Milwaukee is the necessary investment in physical rehabilitation of the railroad's property and equipment. We have seen from Booz-Allen theorectical configurations, extracted from the railroad's existing route structure, for which the rehabilitation cost would be in excess of $1 billion. Plainly, obtaining and investing funds of that magnitude is neither possible nor prudent. Only on a small segment of the present Milwaukee can the investment risk be reasonably equated with potential return.

It was with these conditions squarely before him that on April 23 Trustee Hillman asked the reorganization court to direct him to embargo all but some 2,400 miles of the Milwaukee's routes; to reduce employment essentially to what would be required to operate that smaller railroad; and to indicate to the Interstate Commerce Comm ion the possible need for directed service over the

embargoed lines by other railroads under section 11125 of the Interstate Commerce Act.

The issue of the partial embargo of the Milwaukee, an embargo unprecedented in scope but in our view the sole available answer to the Milwaukee's problem under existing law, came before the court last Friday. It will be more thoroughly explored by the court on May 15. There were modifications to the trustee's initial embargo proposal which I would like to describe.

As the trustee's request for court direction now stands, the Milwaukee Road would operate the 2,500 miles of route which connect Louisville, Chicago, Milwaukee, Minneapolis, St. Paul, and Duluth; Chicago, Rockford, Ill., Madison, Wis., to Portage, Wis.; Milwaukee, Green Bay, and Menominee, Mich.; the main line with points in the upper Wisconsin Valley and the Twin Cities with Miles City, Mont. This area includes the segment of the existing railroad which may produce the most attractive potential for net railway operating income relative to the necessary commitment to an investment in plant and equipment rehabilitation. We have included the line to Miles City for the short term because assistance from the State of South Dakota has made it possible to do so. We are hopeful that additional actions will make possible the permanent inclusion of this line in the system.

The balance of the Milwaukee's system, some 7,300 miles, would be embargoed. We would expect the Commission to formulate a plan of directed service for the essential portions of this remaining mileage. Indeed, Judge McMillen has specified that the Commission should bring its plan to court on May 15.

To assist the Commission, the trustee's officers have suggested a method by which directed service over selected mileages, some 2,500 in total, would continue rail service to handle approximately 98.1 percent of the Milwaukee's shipments. That is the point where the correction in the figures occurs. Those of you who have prepared testimony will find 3,900 and that should read 2,500. You will have 98.5 percent and it should read 98.1 percent.

That service would be provided at an estimated cost to the taxpayers of approximately $10 million for the 8-months directed service period. To operate the entire Milwaukee Road for what is essentially the same period, it would require someone to pick up a cash shortfall of $80 to $90 million.

Were the Commission to adopt our suggestion for directed service, which was devised to minimize the cost to Government while maximizing the service to shippers, the only lines of the Milwaukee which would not receive service would in essence be those branch lines which are already candidates for abandonment and portions of mainlines presently handling through or "overhead" shipments which would be rerouted under the embargo.

There have been press reports that our embargo would cover 75 to 80 percent of our railroad. This is true enough based on our presently operated mileage. But since last September at least we have been advising the Commission and all others concerned that some 7,400 miles of the Milwaukee's route structure were quite possibly subject to abandonment proceedings at some time in the future. We have nearly 1,900 miles of branch and light density line actually before the Commission today. We have discontinued 785

miles since our mileage reduction program began. Taking these facts into consideration, the proposed embargo merely accelerates necessary action without precluding ultimate Commission review. Our cash position and plant condition compel the immediate action.

Measured against the possibility that 10,000 jobs, the entire existing work force of the Milwaukee, would be in jeopardy were there to be a complete shutdown of the railroad, a maximum number of jobs would be preserved under a combination of embargo and directed service.

We would require approximately 5,000 of our existing employees to operate the segment of the railroad which we refer to as the "viable core." Our estimate is that some 2,000 or more of our present employees would be required by the directed carriers to continue operations on the essential segments of the embargoed lines. We would need perhaps another 200 for the protection of properties not being operated, to assist the directed carriers, and to proceed with the work on the ultimate plan of reorganization for the Milwaukee. Thus, we visualize the total impact on our labor force to be some 2,800 positions.

One might ask whether a complete embargo and fully directed service would not preserve more jobs. Perhaps in the short range, for 8 months or so, this would be the case, at a cost to the Government of at least $80 million to be sure. But at the end of the directed service period the entire 10,000 job problem would return and I fear there would be no Milwaukee Road to pick up any of the pieces. Having been deprived of all of our operating revenues for 8 months and having, in effect, been compelled to see our railroad operated by our competitors for that period, we would have little around which to rebuild a productive, job-providing railroad and, in my opinion, no chance at all for a financial reorganization.

Importantly, the embargo in combination with directed service would provide time, an 8-month period which cannot be provided in any other way. During this time we on the Milwaukee, you and others in Government, other railroads, our shippers and the unions which represent our employees, can plan for the long-term solution. Together we can, with considerable reason, approach the problem of what should happen when the statutory period of directed service must end. We can develop such a plan. We know of no other way to buy such important time at so low a cost.

It is important to remember why we seek this unprecedented embargo with its admitted broad consequences. We need it to relieve a pressing critical financial problem. In the absence of external financing which is not presently in sight, financing which must be carefully devised if it is to protect the constitutional rights of the railroad's creditors as well as provide for the continuation of essential services, our only alternative is to begin to close up shop.

The embargo we seek, the short-term relief we seek through the embargo, should not be equated to an abandonment. We expect to submit to the court a request for permission to file abandonment petitions with the Commission. The possibility also exists that the trustee can lift the embargo on portions of the Milwaukee if economic conditions permit.

Indeed, he has already done so even before the embargo has been approved. We now plan to continue service to Miles City, Mont., because the State of South Dakota recognized the essentiality of the Miles City line to its interest and has pledged $2.3 million in immediate rehabilitation grants. The State has committed itself to help obtain long-term rehabilitation funds and has taken a first option to buy the Miles City line should the trustee have to sell it.

Mr. Chairman, we have in South Dakota's action an example of a positive, mutual solution to the problem of the Milwaukee Road as it affects one State and indirectly a vast geographical region. I would like to suggest to the subcommittee some other issues to consider which seem appropriate in the circumstances.

I would ask the subcommittee and indeed the entire Federal Government not to confuse cause and effect. There is little to be gained now, save for unacceptable delay, in reviewing a history of the Milwaukee Road which might have been different but which was not, or in restudying facts which are and long have been in plain view.

I would urge the subcommittee to keep in mind the position of the U.S. Department of Transportation that not only is there too much railroad mileage in much of the Milwaukee's service territory but that the ability of the railroad industry as a whole to finance its future, based on its present physical structure, is nonexistent.

I urge the subcommittee to recognize that however vital some of the Milwaukee's services may be, any measures which seek to maintain these services without also providing the funds to do so may well destroy the entire railroad, thousands of jobs, and a vital link in interstate commerce.

Finally I recommend to the subcommittee that it view the problem which faces us together for what it really is, not fundamentally a service problem, not a commercial problem, but a labor displacement problem. As we on the Milwaukee do not wish to diminish job opportunities but in the circumstances must, Government does not wish to see individual railroad workers adversely affected.

The Milwaukee Road must change dramatically. It will change dramatically. The only question is how. Inevitably, job opportunities will be affected and employment will be reduced. My strongest recommendation to the subcommittee would be that it consider initiating legislation which, while permitting the Milwaukee to pursue its private sector solution to the problem of preserving the self-supportable portion of the railroad, would, for a reasonable period, provide Federal assistance to employees who must inevitably be removed from the payroll.

In my view, Mr. Chairman, legislation of that nature would be the best way in which the Congress could resolve the one problem among the many which face all of us for which we on the Milwaukee may not have a solution.

Mr. Chairman, with your permission I would like to provide for the record a complete set of the testimony filed by trustee Hillman and his officers for the court hearing on May 4. I would ask the subcommittee to keep in mind that there have been changes and corrections and some additions to this testimony, particularly to that of Mr. Peter C. White.

Thank you.

Mr. FLORIO. Thank you very much, Mr. Smith. We would be pleased to receive from you any supplemental statements for the record.

I want to ask one question to try to clarify for myself Milwaukee's perception of its responsibilities to those employees who will be terminated as a result of the embargo.

It is my understanding that because this is an embargo rather than an abandonment, those employees adversely affected will not be entitled to labor protection under the labor protection provisions.

Is that your understanding as well?

Mr. SMITH. I am not sure just what the provisions are. I think there is a lot of indecision on this, and I frankly do not know the answer to that.

We would presume that what steps we would take would in effect furlough the people not in the core. Two things will happen. The directed carrier, assuming a directed service is suggested and implemented by the Interstate Commerce Commission, the directed carriers would presumably employ we believe in the neighborhood of some 2,000 Milwaukee people.

Mr. FLORIO. My recollection is that your figures showed 2,800 people leftover. I suppose the thrust of my comments is directed toward the fate of those 2,800 people.

Mr. SMITH. We recognize that the issue of labor protection or separation is there. What is not clear and this is a matter of a great deal of discussion and I am sure it will be a continuing discussion between the parties to the case, what is the form and what is the amount of that protection.

The reason for making the suggestion that I did about urging the subcommittee to look into this would be it is the solution to that problem that is the real issue before us as I see it.

Mr. FLORIO. As you may know, there are those who say that the embargo procedure is questionable, and that what is being done is a de facto abandonment. If, in fact, this were an abandonment, then there would not be any question that those employees would be entitled to labor protection inasmuch as the Milwaukee has seen fit to label it appropriately or inappropriately an "embargo."

It appears that those 2,800 individuals you are talking about are not entitled to labor protection and that the 2,000 who are going to be protected, if they are by directed service, will be protected only during the period of the directed service. At the end of that period, unless something else is done, we could conceivably be talking about 4,800 employees.

I suppose we are going to have to get some clarification. Perhaps the Chairman of the ICC would be in a position to clarify what the actual impact will be upon those 2,800 and perhaps 4,800 employees as a result of what the Milwaukee decides to do.

Mr. SMITH. One final comment on that point, Mr. Chairman. Last Friday, at the court discussion, that point was raised and the railroad was asked to go to the ICC to make abandonment applications, which we have agreed to do, I think leading to the point you are raising, the "how to" and the form is a matter of some discussion now between the Interstate Commerce Commission and our-

selves. We will and expect to do that. That should trigger whatever is the appropriate process.

Mr. FLORIO. Thank you. Mr. Madigan?

Mr. MADIGAN. I have no questions.

Mr. FLORIO. There was one other point. Looking at the proposal that the organization SORE has presented, their conclusions that the transcontinental main line can be a viable economic line within a short period of time is substantially at variance from the report you are relying upon.

Could you perhaps very briefly point out what the major differences are in the assumptions that are used between these two reports?

Mr. SMITH. I do not know that I can talk about their assumptions because I do not know that they have been presented. There is a difference in view about the economic viability of that line. I guess we are inclined to think that the exhaustive study that has been undertaken by Booz-Allen and the rigorous review that we have been able to engage in on their assumptions as well as the assessment of probabilities of market opportunities, the investment cost associated with that, we would be inclined to think we have a reasonably good view of the viability of that line.

I assume that in any process there can be differing views. I should assume in comparing the two studies, the difference of views and the validity of the difference will be forthcoming.

I have not seen their study and I am not able to comment in detail on it.

Mr. FLORIO. Mr. Smith, we thank you very much for your contribution.

Mr. SMITH. Thank you, sir. I appreciate it.

Mr. FLORIO. We understand Senator McGovern is here and that he has a number of votes pending. So once again, if Chairman O'Neal is willing to permit Senator McGovern to come forward, we are pleased to welcome the Senator to the committee. We know of his extreme interest in this particular question.

We would be pleased to receive any statement the Senator has for insertion into the record in its entirety, and would invite the Senator to proceed in a manner any way he sees fit.

STATEMENT OF HON. GEORGE McGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator MCGOVERN. Thank you very much, Mr. Chairman. You are quite right. The Senate is engaged in a series of rollcalls this afternoon. With your permission, I will submit my statement for the record and just note a few pertinent paragraphs.

Mr. FLORIO. Your statement will be inserted into the record in its entirety.

Senator MCGOVERN. I want to thank you, Mr. Chairman, and the members of your subcommittee for demonstrating your interest in the Milwaukee Railroad crisis.

Despite the fact that this matter does concern a limited region and one rail carrier, both the House and Senate committees have clearly recognized the regional and national impacts of the Milwaukee's proposed reorganization.

As I understand it, the original purpose of this hearing was the examination of legislation designed to provide assistance to the ailing railroad including Marginal Railroad Mainline Service Assurance Act that I introduced in the Senate several weeks ago. My distinguished colleague in the House, Congressman Ron Marlenee, introduced the companion bill to be considered today.

I believe Congressman Marlenee and I are in agreement that due to the action taken by the Milwaukee trustee on April 23, the problems presented by loss of service have become so great that this legislation will only address a small portion of the problem.

As the members of the committee know, it was on April 23 that the trustee proposed to the court that the railroad be allowed to embargo over 7,000 miles of track and that it be allowed to operate what they believed to be a viable core consisting of approximately 2,500 miles.

The judge has yet to rule on this motion. Many observers believe that some form of embargo is inevitable.

Prior to the trustee's proposal, we were faced with the prospect of loss of service over 1,500 miles of track between the Midwest and the west coast. The legislation that I introduced in response to this problem of course is inadequate for the situation that faces us today.

I have already begun drafting a substitute to my original bill in order to provide the necessary assistance to all of the affected States. I hope the committee will be responsive to this effort and I urge input from all members whose districts are seriously impacted.

Mr. Chairman, because of the special importance of the Milwaukee line in South Dakota, I think it is fair to say that no other State will feel the impact of the loss of this service more than South Dakota and perhaps not as much.

I conducted a series of hearings in our State under the Joint Economic Committee and those hearings left no doubt that the loss of Milwaukee service in South Dakota would be an economic catastrophe. In addition to the movement of our grain for export, our only west coast mainline connection, the largest coal-fired powerplant in the region, is wholly dependent on the Milwaukee for coal shipments.

As a result of literally 11th-hour negotiations among Milwaukee officials, the Department of Transportation, the Governor, State officials, and myself, we have managed to alleviate some of these problems through the inclusion of the Milwaukee mainline between Miles City, Mont., and Minneapolis and to get that included in the Milwaukee viable core system.

The Milwaukee officials contend that the line cannot be permanently maintained without substantial assistance for rehabilitation. Originally we were talking in legislation about a subsidy on operating expenses. It is now clear that legislation to assist in the rehabilitation of that core system between the Twin Cities and Miles City, Mont., is essential.

Let me say in conclusion, Mr. Chairman and members of the committee, ny of my colleagues and I are well aware of the need to restructu.. the Midwestern railroads into self-sustaining sys-

tems. We realize that such restructuring will result in the elimination of some plant and facilities.

We cannot support the rationalization of the Midwest rail network through liquidation of almost an entire rail system. If we allow this to happen we will be setting a dangerous precedent for the elimination of rail service throughout the entire Nation.

Mr. Chairman, I am very hopeful that this committee will continue its sense of urgency about this problem and we can find a way of working together with the railroad to make possible the maintenance and indeed the improvement of whatever service remains in our part of the country.

I thank you, Mr. Chairman, for the opportunity to speak here out of order today.

[Senator McGovern's prepared statement follows:]

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Mr. Chairman, Members of the Subcommittee, I appreciate this opportunity to testify on the matter of the Chicago, Milwaukee, St. Paul and Pacific Railroad and legislation regarding this railroad pending before the Committee.

First, I would like to thank the Committee for the attention it has given to this critical dilemma. Despite the fact that this matter concerns a limited region and one rail carrier, both House and Senate Committees have clearly recognized the regional and national impacts of the Milwaukee's proposed reorganization. The original purpose of this hearing was the examination of legislative proposals designed to provide assistance to the ailing railroad, including the Marginal Railroad Mainline Service Assurance Act that I introduced in the Senate several weeks ago. My distinguished colleague in the House, Congressman Ron Marlenee, introduced the companion bill to be considered today.

I believe that both Congressman Marlenee and I are in agreement that due to the action taken by the Milwaukee Trustee on April 23rd, the problems presented by loss of service has become so great, that this legislation will only address a small portion of the problem.

On April 23, the Trustee proposed to the court that the railroad be allowed to embargo over 7,000 miles of track, and that it be allowed to operate what they believe to be the "viable core", consisting of some 2,500 miles. The Judge has yet to rule on this motion, however many observers believe that some form of embargo will be inevitable. Prior to the Trustee's proposal we were faced with the prospect of loss of service over 1,500 miles of track between the midwest and the west coast. My legislation was drafted in response to this problem. Today, we are faced with an entirely new situation. Rail service in a dozen states could be seriously impacted.

Therefore, Mr. Chairman, I have already begun drafting a substitute to my original bill in order to provide the necessary assistance to all of the affected states. I hope the Committee will be responsive to this effort and I urge input from all Members whose Districts are seriously impacted.

Mr. Chairman, the Milwaukee filed a chapter eight bankruptcy in December, 1977. Last August, when the trustee was in the early stages of drafting a reorganization plan, he announced that it would be impossible to reorganize the carrier as a transcontinental railroad. At that time, he initiated negotiations with the Union Pacific Railroad for the sale of Milwaukee properties west of Butte, Montana. Subsequently, he announced that the fate of all Milwaukee lines between Butte and Minneapolis were in jeopardy as well.

Because the state of South Dakota relies heavily on the Milwaukee for the transportation of agricultural commodities and coal, I held a series of three hearings under the auspices of the Joint Economic Committee to examine the economic impacts due to the proposed loss of service and to determine ways to preserve essential rail services. The hearing record clearly establishes the fact that South Dakota would be hardest hit by the elimination of Milwaukee service. In particular the Milwaukee main line through our state is our only access for the movement of grain for export. In addition, the largest coal fired power plant in the region is wholly dependent on the Milwaukee for coal shipments.

As a result of eleventh hour negotiations among Milwaukee officials, the Department of Transportation, state officials and myself, we h managed to alleviate some of these problems through the inclusion of the Mil kee mainline between

Miles City, Montana and Minneapolis in the Milwaukee viable core system. Milwaukee officials contend, however, that the line cannot be permanently maintained without substantial assistance for rehabilitation. Meetings are already scheduled at the Federal Railroad Administration in an attempt to locate funds for rehabilitation from existing public and private sources.

Given the Milwaukee's intent to abandon over 7,000 miles of trackage, however, the small portion of mainline that we have now added to the core will not resolve the potential economic damage faced by the entire region. Hopefully, many of the affected lines will be purchased by other carriers and service will be preserved. Unfortunately, after preliminary discussion with other railroads, it has become obvious that a significant difference exists between the amount of service that needs to be preserved. We cannot count on a total private sector solution to this matter and we cannot allow the demise of essential railservices.

In sum, Mr. Chairman, I recommend that my bill be revised to protect such service. In particular, I believe it will be necessary to authorize additional branchline assistance to the affected states. Presently the Federal Railroad Administration's branchline assistance program is funded at a level of $67 million annually although the original authorizing legislation called for $100 million. Many of the affected states have obligated current branchline assistance funds to existing essential projects. The program was never designed to provide states the necessary assistance to handle such a crisis.

Secondly, the core configuration studies conducted by Booz, Allen and Hamilton for the Milwaukee Road indicate the potential viability of certain Milwaukee mainlines if rehabilitation assistance were made available. In areas, where no reasonable rail alternative exists, I firmly believe such funds should be made available.

In addition, I urge the Committee to examine the Emergency Rail Service Assistance Act. The inability of bankrupt carriers to obtain emergency assistance in a timely fashion from this account indicates to me that the act should be amended and that the Department of Transportaton's administration of the Act should be investigated and perhaps streamlined.

Regardless of the outcome of the Milwaukee reorganization, it has become evident that railemployment on the Milwaukee will be dealt a serious blow. The Trustee has recommended that half of the Milwaukee's present labor force be furloughed. It is not known at this time whether many of these employees could be employed by other carriers in the region. In order to prevent serious employment impacts and displacement I would urge the Committee to consider separate legislation to provide additional labor protection to disadvantaged Milwaukee employees and to perhaps investigate the potential of programs to retain such employees.

Many of my colleagues and I are well aware of the need to restructure the midwestern railroads into lean and self sustaining systems. We are in agreement with the Department of Transportation that such restructuring will result in the elimination of some plant and facilities. However, we cannot support the rationalization of the midwest rail network through liquidation of almost an entire rail system. If we allow this to happen, we will be setting a dangerous precedent for the elimination of rail service throughout the entire nation.

Mr. FLORIO. Thank you very much, Senator McGovern.

Mr. Madigan?

Mr. MADIGAN. I have no questions.

Mr. FLORIO. Senator, we thank you very much.

At this point, in deference to the schedules of Congressmen Swift and Harkin I ask if they would come forward. We understand that they want to make brief statements.

STATEMENT OF HON. ALLEN SWIFT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. SWIFT. I will be brief, Mr. Chairman. I wanted to simply bring to the committee's attention the observation that very often in dealing with legislation here in the Congress, we quite naturally think in terms of large cities, large urban areas, and the effect on them. This is quite a natural thing considering the percentage of our population that lives in large urban areas.

In my district, I would like to cite a specific example of how the disappearance of the Milwaukee Railroad would have a very serious effect to people in smaller rural areas. Lynden, Wash., is a very small town in the heart of an agricultural area but it has three processing plants. They work largely with peas and with strawberries. Those are both crops which have to get to the processor within a matter of hours and sometimes it is better if it can be a matter of minutes from the time they are harvested.

If there is no longer any rail service to Lynden, the processors will not be able to move their product from the area. They will have to move. If they have to move then the agriculture in that area to continue will have to change very markedly so that the effect will be not simply on one small portion of a small town, it is going to virtually affect the economy of the entire county of Whatcom.

That is the kind of implication this situation has for countless communities across the Nation. I wanted to bring to the committee's attention that one small example that when multiplied across the country I think it gives considerable information as to the implications of this action.

I thank the committee very much.

Mr. FLORIO. Thank you very much. Mr. Harkin?

STATEMENT OF HON. THOMAS HARKIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. HARKIN. Thank you, Mr. Chairman, for taking us out of order. I appreciate it because of the time element.

Again, like Congressman Swift, I just wanted to talk about the impact in a rural area. I represent a very rural area, one of the most rural in the United States.

Milwaukee Railroad has played a very important part in the economy of rural Iowa. For example, just on the Milwaukee track alone in Iowa there are over 100 grain elevators located there that will be sitting there without any means of getting that grain out except by truck if this embargo procedure goes ahead.

For example, in all of Iowa for last year, the Milwaukee Railroad carried 19.2 percent of all agricultural products carried in the State of Iowa on rail. The Rock Island is also in bankruptcy and they carry about another 25 percent. You can see the kind of economic impact it is having in the rural areas.

Even beyond that and beyond the immediate effect it is going to have on farmers by increasing their costs of shipping anywhere from 5 to 10 cents a bushel and I need not tell you what impact that will have on their profit margins this year. Beyond that, I think it is important to see the ripple effect this is going to have.

In Iowa, for the last several years, we have had a very successful program of bringing in small industry and locating them in our smaller towns and communities around Iowa to give us more of an industrial agricultural mix in the State of Iowa.

What is going to happen if the Milwaukee is able to go ahead with this procedure is it is going to have a very severe chilling effect upon any industry that it may even consider locating along any main railroad route running through the State of Iowa and I would submit probably any other State.

If a manufacturing firm says, I know I can get rail service to St. Louis or to Milwaukee or Chicago, why should I want to put a plant in Iowa, the rail may be there, I can put up a little spur to come into my plant, but who knows, maybe like the Milwaukee in a couple of years they will up and abandon it.

I think the chilling effect it is going to have for attracting industry to Iowa is going to be very severe.

Mr. FLORIO. Since I have been on this committee I have always heard everyone raving about the Iowa plan for maintaining railroads which were marked for abandonment. Is there not, within the confines of that plan the ability to pick up some of the important provisions, or important lines, that are being contemplated to be abandoned or embargoed here?

Mr. HARKIN. Yes, there is. I do not think there is any way Iowa can pick up all of this line.

Mr. FLORIO. My understanding is that shippers, as well as the State government, played a role.

Mr. HARKIN. That is very true. In fact I think the Milwaukee is really not living up to its end of the bargain. Shippers in Iowa have put money into the Milwaukee Railroad for upgrading the lines and so has the State of Iowa. They have invested a lot of money. I cannot give you the dollar figure but I can get it for you. They have invested millions of dollars into track repair, right-of-way, sidings, and that kind of thing to keep that line in use.

The Iowa plan, I think, has been one of the most successful in the country. I think the Milwaukee certainly has not lived up to its end of the agreement with the State and with the shippers in the State of Iowa.

Mr. FLORIO. Gentlemen, we thank you for your comments and we appreciate your taking the time to come before the committee.

Chairman O'NEAL.

STATEMENT OF HON. A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION, ACCOMPANIED BY JAMES B. THOMAS, JR., DIRECTOR, BUREAU OF ACCOUNTS; HENRI F. RUSH, ASSOCIATE GENERAL COUNSEL; AND RICHARD J. SCHIEFELBEIN, ACTING DIRECTOR, RAIL SERVICES PLANNING OFFICE

Mr. O'NEAL. Mr. Chairman, thank you.

With me today on my far right is Jim Thomas who is the Director of our Bureau of Accounts. On my immediate right is Henri Rush from our General Counsel's Office who has represented the Commission before the court on this matter. On my left is Dick Schiefelbein from the Rail Services Planning Office who has headed up the Commission's staff effort to develop options for using directed service in the event that is necessary in this case.

We do have a long statement which I would like to submit for the record.

Mr. FLORIO. Without objection the statement will be entered into the record in its entirety.

Mr. O'NEAL. I will summarize our position and give you our comments.

Let me just say something first about where we were and what our position was in the court on May 4 during the hearing on the Milwaukee trustee's petition.

At this hearing, the Commission argued that under established principles of law, the court lacked authority to grant the embargo unless it found first that the trustee had in fact run out of cash to continue operation of the railroad and second, that no cash is available to the trustee which would prevent an unconstitutional erosion of the assets of the bankrupt carrier through continued operations.

Unless the court was prepared to make both of these findings, we argued it would be necessary for the court to authorize the trustee to file application for abandonment of lines with the Commission and successfully prosecute such abandonment before service could be terminated.

We also requested the court, should it authorize the embargo despite our arguments, to require the Milwaukee to file an appropriate application for authorization to discontinue and/or abandon service within the embargoed area.

At the hearing the court authorized issuance of additional trustee certificates. It did not rule on the request for cessation of services but rather scheduled a hearing for May 15 to resolve that issue. The Commission was asked to provide at the May 15 hearing a plan for directing service by other carriers in the areas in which the trustee desires to discontinue service, and that matter is in the process of being considered by the Commission now.

Mr. FLORIO. Mr. O'Neal, just to get clarification, is it my understanding that there was some suggestion that $15 million should be made available to the railroad for operations out of Milwaukee Land Co. and the expectation is if that money was available, that would carry the line through to May 31?

Mr. O'NEAL. That is correct, and that money was authorized. This is money that has come internally, that is from money that was available. I think it was $10.7 million that was in an escrow fund and some additional funds will flow if a sale of land that is pending comes about.

Mr. FLORIO. The estimate is there will be sufficient moneys available until the 31st of May which will preclude an embargo under the findings?

Mr. O'NEAL. Yes, sufficient funds to preclude an embargo before the 31st of May. There may be some doubt about this because there is a pending motion by the creditors for liquidation of the carrier.

The judge has not made a final decision on that point. At this stage that decision is up to the judge.

If the court determines that the trustee must file abandonment applications with the Commission, all of our applicable rules for abandonment would apply. In most instances this would probably result in hearings before the Commission and would take several months before a decision was reached.

On the other hand if the court orders the trustee to embargo much of the system the Commission will have to consider issuing directed service orders.

I should mention that the Commission al' ugh prepared to use directed service, approaches this as a last esort because of the

expense it represents to the Federal Government and because it is only a short-term solution. The other financial programs which are available to provide funds to railroads are loan programs which are eventually repaid to the Government or at least there is a chance they will be repaid.

Under directed service, the directed carriers will be compensated by Federal grants for any losses incurred and will be paid a 6-percent profit based on the revenues which they receive from the traffic.

It is the most expensive option for the Federal Government.

Mr. FLORIO. It is my understanding that the loan programs which may be available are not acceptable to the trustee.

Mr. O'NEAL. I think part of that is true. The ERSA program, the Emergency Rail Services Act program, places the Federal Government in a higher priority than all of the other creditors. They are pushed down the list and there is a possibility they would not be compensated as much in the event of liquidation as they would be otherwise. There is a concern on their part. They have resisted the $5 million that has already been applied for by the railroad. I am talking about the creditors.

I mentioned the cost to the Federal Government of directed service and that it is the most expensive option. We would prefer to see other options used including ERSA but again that depends on a lot of other factors. We would note the ERSA program does have a limited amount of funds available and cannot be used until the carrier makes application for them.

We have believed for some time that it is essential to plan for directed service because the necessity for it could arise.

Shortly after the Milwaukee filed for reorganization the Commission's staff began contingency planning. We realized then there was no time to lose since the timespan between any announced decision to curtail service and the actual curtailment could be insufficient to compile the data necessary to develop a service order.

During this planning process our Bureau of Accounts has constantly monitored the cash and financial situation of the Milwaukee in order to keep us informed of the possibility and timing of an emergency situation.

As a result of this contingency planning, our staff has presented us with four general options which are presently being considered. The first option of course is not to order directed service. The second option is to direct service over the entire railroad including the so-called core which the trustee is hopeful of being able to reorganize. After reviewing this option, our staff recommended against it because it would be the most expensive for the Federal Government and, to the extent there is a viable core, this option would give the railroads who are competitive with the core Milwaukee access to the core traffic. That could cause an erosion of revenues and traffic of such magnitude that a Milwaukee core system could never become successful.

The staff estimates that the cost to the Federal Government of implementing this option with the core system as originally proposed woul e about $75 or perhaps $80 million for 8 months.

The third option would be to direct a single carrier to run all of the Milwaukee's lines outside the core. Under this option transcontinental through train service would continue to be operated. There are disadvantages, however.

For example, the track condition on many sections of the transcontinental lines is deteriorating rapidly and could require Federal grants under directed service to be rehabilitated although the lines may not be operated by anyone over the long run.

In addition, we are concerned about the availability of locomotive power on the Milwaukee. There may not be sufficient numbers of operable locomotives on the Milwaukee to run both the core and the transcontinental system.

In spite of these disadvantages this option does have the advantage of preserving an alternative carrier for transcontinental service across the northern tier. Our best estimates at this time indicate that implementation of this option would cost approximately $40 to $45 million. That number does not include the possible cost of rehabilitation, which using the numbers SORE has advanced would be about $12 million more.

The fourth and final option would be to direct several different carriers to serve shippers outside the core system, and we think this cost would be somewhere around $25 to $30 million. This would involve a fairly complicated service order and much of our staff's time has been spent refining this option.

In this regard the staff has met individually with each of the potential directed carriers and has outlined to those carriers the areas which from its review of traffic data and other information the staff believes should be operated. In those meetings which were held immediately after the trustee filed his recent petition with the court, technical problems concerning each of the potential directed operators were raised. To address them the Commission scheduled 2 days of concurrent technical workshops with representatives from the railroads.

The staff is continuing to work on this and to refine our approach should the Commission decide to go in this direction.

The staff estimates that its option 4 would handle over 95 percent of Milwaukee's current traffic and perhaps closer to 99 percent. The goal of this approach would be to provide a transitional period for those who could lose rail service to make other arrangements to the extent possible.

This brings me to another point. Even if the immediate cessation of operations can be avoided it is quite possible that there will be numerous abandonments in the area served by the Milwaukee. While the Milwaukee would have to follow our abandonment procedures the impact of a large number of abandonments could still be very serious.

In appropriate cases, Federal assistance may be available by ways of funds provided under the Local Rail Service Assistance Act. However, Federal assistance for this program is limited to 3 years, and thus provides only a short-term solution although longer term perhaps than directed service.

In attempting to deal with the situation confronted by those areas of country served by the Milwaukee, it is essential that serious planning take place and, of course, the planning if it has

not started already should start very soon. While some limited Federal assistance is available, it is limited and that makes it very important for priorities to be established and coordination to take place.

It appears inevitable that unless some assistance or turn of events not now apparent occurs, major adjustments must be made by those people served by the Milwaukee and the planning for those adjustments must take place now.

The Commission can at best provide only a short breather before some real problems have to be faced.

I want to emphasize that the Commission is ready to cooperate with all the affected parties and to assist them in any way we are able. I think we have been in touch with most of those who are affected by this carrier thus far.

At this point, I would be happy to try to answer any questions which you might have.

[Mr. O'Neal's prepared statement follows:]

STATEMENT OF HON. A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to be here today to discuss the Milwaukee Road System. I will first briefly describe how the Milwaukee got into its present financial condition, and I will then generally explain the reorganization process, and the current status of the Milwaukee's reorganization effort. I will then discuss the Milwaukee's recent petition embargoing traffic on a large portion of its lines, and the actions the Commission has taken in this regard. Finally, I will mention what options we believe are available for the future. I hope my comments will be useful to you in assessing the situation.

The Milwaukee Road has been unable to generate sufficient cash flow from its operations to support its physical plant. Faced with ever-increasing costs, declining traffic volume, strong competition, severe weather, and other difficulties, this railroad has been in a state of decline for a number of years. Back in December 1974, the Early Warning Branch of the Commission's Bureau of Accounts reported that the Milwaukee was in a marginal condition, and that a continued decline in the Nation's economy would cause the carrier's performance to drop to poor. A series of later reports essentially confirmed that analysis.

In a report issued in November of 1977 by the Bureau of Accounts, it was once again concluded that the Milwaukee Road could not generate sufficient cash flow from its operations to support its plant, and that without greater financial aid or a major system rationalization through coordination of track with other competing roads, the Milwaukee could soon be forced into reorganization. Unfortunately, that is exactly what came to pass in December 1977.

We have continued to monitor the financial situation of the Milwaukee. For example, last October our Bureau of Accounts forecast a cash loss of $3 million in the fourth quarter of 1979 for the Milwaukee. In fact, a cash loss of $2.3 million was experienced. For the first quarter of 1979, a cash loss of $10.2 million was forecast followed by a cash loss forecast of $6.9 million in the 2nd quarter. With cash in excess of $20 million in mid-October of 1978, we felt a cash crisis could occur at the beginning of the third quarter. Instead of a cash loss of $10.2 million in the first quarter, however, a cash loss of $29.1 million occurred with a further operating cash loss of $4.1 million in April alone. This large increase in the cash loss was caused by an extremely servere winter which saw carloadings in the first quarter decline much farther than we had foreseen, from 183,000 carloads in the first quarter of 1978 (down almost 17 percent from 1977) to 162,000 carloads in the first quarter of 1979 (down a further 12 percent).

I believe it would be helpful at this point to explain in general terms how a railroad reorganization works.[1]

[1] This discussion is based on section 77 of the Bankruptcy Act which formerly governed the reorganization of railroads. Recently, the Congress passed legislation to revise the entire Act, including the provisions on railroad reorganizations. However, in the case of existing reorganizations like that of the Milwaukee Road, the reorganization will take place for the most part, as if this legislation had never been passed. In other words, they will be governed by section 77.

Let me emphasize that the reorganization of a bankrupt railroad is different from your "garden variety" bankruptcy. A bankruptcy for most businesses means that the estate of the bankrupt is administered for, and ultimately divided among, its creditors. Thus, the purpose of this type of bankruptcy is liquidation.

A railroad reorganization, like a liquidation type bankruptcy, relates to the adjustment of a failing debtor's obligations. However, the purpose of reorganization is to rehabilitate the debtor railroad. This, rail service is intended to continue until the railroad is permitted to alter or discontinue operations.

The first step in a reorganization is for a railroad to file with the appropriate court a petition stating that it is insolvent and desires to effect a plan of reorganization. Upon approval of this petition by the court, the railroad has six months, which can be extended, and normally is, to file its plan of reorganization. This plan must be filed concurrently with the court and the Commission. Unless the Commission finds the plan obviously impractical, it gives appropriate notice and then holds hearings on the plan. Any interested party is given the opportunity to be heard in these proceedings and, of course, the Commission carefully considers the views of all parties.

After these hearings, the Commission may approve the plan, approve a modified plan, or refuse to approve the plan. In this regard, I should note that the law permits, with the consent of the Commission, the filing of a reorganization plan by any party in interest, not just the trustee or creditors. To be approved by the Commission, a plan must meet the requirements set forth in the Bankruptcy Act. Among other things, these requirements specify that the plan must be compatible with the public interest, be fair and equitable, and provide adequate means for its execution including the possible sale of parts of the debtor railroad to other corporations.

Once the Commission has approved a plan, it must certify the plan to the reorganization court. If objections are raised to the plan, the court must then hold hearings at which all parties in interest who support or oppose the Commission-approved plan are given an opportunity to be heard. If the judge, following such hearings, approves the plan, then the Commission must submit the plan to the creditors and stockholders for their acceptance or rejection. The results of this submission are to be certified to the court by the Commission. If the judge is satisfied that the plan has been accepted by the required number of creditors and stockholders, he confirms the plan. Thereafter, the plan is to be put into effect and carried out.

I would now like to discuss where the Milwaukee is in regard to the reorganization process. As mentioned, the Milwaukee filed a petition for reorganization in December of 1977. The trustee, while in the process of developing a reorganization plan, commissioned the consulting firm of Booz, Allen & Hamilton to make an overall system study which was recently completed, but has not yet been made available to the Commission. The Commission originally anticipated that a plan of reorganization would be filed by the summer of 1979. We are now advised that it will be filed in September.

I would now like to turn to the petition recently filed by the trustee. In this petition, the trustee, based in part on the Booz, Allen & Hamilton studies and on his own assessment of the Milwaukee's cash situation, petitioned the reorganization court on April 23, 1979, for an order requiring him to:

"Embargo on May 8 all freight services over most of the Milwaukee's lines not included in the 2,400 route-miles which stand some chance of becoming a self-supporting system;

"Furlough beginning May 8 all employes not required to operate the 2,400 route-miles or to continue the other necessary activities leading up to a reorganization plan;

"Notify the Interstate Commerce Commission of the possible need to direct service by other railroads over the essential portions of the embargoed lines."

The trustee also requested authority to issue an additional $15 million worth of trustee's certificates to enable the railroad to continue operations.

Subsequently, the trustee modified his petition so as to postpone the embargo date from May 8 to May 31, 1979. In addition, he proposed the retention of a core which would include the line to Miles City, Montana, while dropping the line from La-Crosse, Wisconsin, to Kansas City.

The reorganization court held a hearing on this petition on May 4, 1979. At this hearing, the Commission argued that, under established principles of law, the court lacked authority to grant the embargo unless it found: (1) that the trustee had in fact run out of cash to continue operations of the railroad, and (2) that no cash is available to the trustee which would prevent an unconstitutional erosion of the assets of the bankrupt through continued operations. Unless the court was prepared

to make both of these findings, we argued, it would be necessary for the court to authorize the trustee to file applications for abandonments of lines with the Commission and successfully prosecute such abandonments before service could be terminated. We also requested, should the court authorize the embargo, that it also require the trustee to file an appropriate application to discontinue and/or abandon service within the embargoed territory.

At the hearing, the court authorized issuance of the additional certificates. It did not rule on the request for cessation of service, but rather scheduled a hearing for May 15, 1979, to resolve that issue. At that time, the Commission was requested to provide a plan for directing service by other carriers in the areas in which the trustee desires to discontinue service.

Since I brought up the subject of abandonments, this might be a convenient place to explain briefly the abandonment process. Under 49 U.S.C. sec. 10903, a railroad must make application and receive the Commission's approval before it is allowed to discontinue all operations on a line or to abandon a line. The decision to grant a certificate of abandonment is made after a proceeding in which all interested parties have been notified and have had an opportunity to participate. As a part of our regulations, each rail carrier is required to prepare a system diagram map indicating those lines which it anticipates will be subject of an abandonment proceeding within the next three years (Category I), and those lines which are under study for a possible future abandonment application (Category II). A line must be included in Category I for at least four months prior to the filing of an abandonment application, unless no opposition is anticipated. After this four-month period, application may be made to the Commission for a certificate of abandonment which would allow the railroad to terminate service and dispose of the line. Full notice is given and a hearing is normally held before an administrative law judge. Testimony from interested parties, including shippers and state and local governments, is welcomed at this stage of the proceeding. The administrative law judge will then make a decision which may be appealed to a Division of the Commission.

In the case of line abandonments by the Milwaukee, it is likely that there would be opposition, so a line would have to be included in Category I for four months before an abandonment application could be filed. Overall, the Milwaukee has listed 1,193 miles (27 lines) on its map in Category I, and over 2,000 in Category II (35 lines.)[2] Since the Milwaukee filed for reorganization in late 1977, it has filed 45 abandonment applications. Nineteen of these applications, involving 660 miles, have been granted, while twenty-five of them, involving some 1,700 miles, are still pending (one application was withdrawn).

So far I have discussed in general terms the reorganization process, where the Milwaukee is in this process, the abandonment process, and how the Milwaukee has designated some of its lines. I would now like to outline briefly the Federal financial assistance currently available to the Milwaukee.

First, assistance is available under the Emergency Rail Services Act of 1970 (ERSA) (49 U.S.C. 661 *et seq.*). This Act provides the Secretary of Transportation with authority to guarantee trustee certificates upon application by railroad undergoing reorganization. These trustee certificates are a type of security or bond issued by the trustee in bankruptcy to the DOT, and have the highest priority of all claims for repayment. The Milwaukee has made application under this program and a $5.1 million loan has been approved and drawn down by the carrier.[3] At the present time, there is a total of $50 million in the ERSA fund which is potentially available to the Milwaukee or other bankrupt carriers. However, to the best of our knowledge the Milwaukee has not requested additional funding under ERSA. It is important to note that there is a limit to ERSA funds, and the carriers must make a request for the assistance.

Second, under Title V of the 4R Act, financial assistance is available for specific capital expenditures. Specifically, section 505 of the 4R Act provides that the Secretary of Transportation may directly purchase trustee certificates. Further, under section 511, the Secretary may guarantee loans to the railroad. In both instances these funds are to be used to rehabilitate and improve facilities or equipment. On July 31, 1978, the Federal Railroad Administration and the Milwaukee signed a contract through which the Milwaukee will receive $24.5 million which will be used for upgrading the main line between Milwaukee and the Twin Cities. About $16.9 million had been drawn down as of March 31, 1979. Under the contract the railroad

[2] Our staff has been informally advised that the Milwaukee will file a supplemental system diagram map at the end of the month which wil list all embargoed lines in Category I.

[3] We should note that the Milwaukee's creditors attempted to block the carrier's receipt of these funds. The court ruled against these creditors, but the proceeding is presently under appeal. The creditors oppose this type of financing because the Federal government obtains a preferred lien a[illegible]t the railroads assets.

will also receive $21.4 million in loan guarantees for the repair of 111 locomotives and 950 freight cars. As of March 31, 1979, $15.9 million of these funds had been drawn down.

In addition to these Federal sources of funds, we have been informed by the Milwaukee that their cash balance at the start of business on May 4, 1979, was $300,000, and there were $4 to $5 million worth of withheld vouchers.[4] These figures are consistent with our own analysis of the Milwaukee's current financial situation.

According to our latest information from the carrier, the Milwaukee Land Company had $2 million in cash on April 27, from which $500,000 was drawn down by the Milwaukee on May 1. The carrier would have to make application to the court in order to draw down the remaining $1.5 million.

In addition, the carrier itself has about $10.4 million in escrow for the benefit of creditors, arising from property sales and the accrued interest on the resulting funds. An additional $4.7 million is expected to be received from a property sale in Tacoma, with the closing on this sale expected in mid-May. As mentioned, the reorganization court last Friday authorized the trustee to issue certificates in the amount of $15 million.

In spite of these funds, the Milwaukee remains in a very precarious financial position. In light of the trustee's petition to the court requesting an extensive embargo, we must face the possibility that the Milwaukee may not continue much of its day-to-day operations. Should this occur, the Commission has the authority under 49 U.S.C. sec. 11125 (formerly Section 1(16)(b) of the Interstate Commerce Act) to direct another carrier to operate the Milwaukee's lines for a limited period of time and compensate such a railroad for doing so.

I should mention that the Commission, although prepared to use directed service, approaches this as a last resort because of the expense it represents to the Federal government, and because it is only a short-term solution. The other financial programs which are available to provide funds to railroads are loan programs which are eventually repaid to the government. Under directed service however, the directed carriers will be compensated by Federal grants for any losses incurred, and will be paid a 6 percent profit based on the revenues which they receive for this traffic. Because this is grant money rather than loan money and includes full reimbursement of losses plus a profit, it is the most expensive option for the Federal government to pursue. We believe it is preferable to develop other solutions, such as ERSA funds to avoid a cessation of operations.

Shortly after the Milwaukee filed for reorganization, the commission staff began contingency planning to enable us to respond quickly if a directed service order became necessary. It was essential that we begin this planning at an early date because we realized that the time span between any announced decision to curtail service and the actual curtailment would be insufficient to compile the data necessary to develop our service order. During this planning process our Bureau of Accounts constantly monitored the cash and financial situation of the Milwaukee in order to keep us informed of the possibility and timing of an emergency situation. This planning process has continued up to the present time.

As a result of this contingency planning, our staff has presented us with four general options, which are presently being considered. The first option is obviously not to order any directed service. As I mentioned, the statutory authority is permissive—we are not required to direct service.

The second option is to direct service over the entire railroad, including the core which the trustee is hopeful of being able to reorganize. After reviewing this option, the staff recommended against it being adopted because it would be the most expensive option for the Federal government. And, to the extent there is a viable core this option would give the railroads who are competitive with the "core Milwaukee" access to the core traffic. That could cause an erosion of revenues and traffic of such magnitude that the core system could never become successful. Our staff estimates that the cost to the Federal government of implementing this option for the core system as originally proposed would be from $75 million to $80 million.

The third option available to the Commission would be to direct a single carrier to run all of the Milwaukee's lines outside of the core. Under this option, transcontinental through train service would continue to be operated. There are disadvantages, however. For example, the track condition on many sections of the transcontinental lines is deteriorating rapidly and would require Federal grants under directed service to be rehabilitated, although the lines may not be operated by anyone over the long run. In addition, we are concerned about the availability of locomotive

[4] On February 22, 1979, the Milwaukee began withholding the payment of vouchers in order to conserve cash. The reorganization court has insisted that this practice be discontinued as soon as possible.

power on the Milwaukee. It is possible that there are not sufficient numbers of operable locomotives on the Milwaukee to run both the core and the transcontinental lines. In spite of these disadvantages, this approach has the advantage of essentially preserving an alternative carrier for transcontinental service across the Northern Tier. Implementation of this option would cost approximately $40 to $45 million.

The fourth and final option is to direct several different carriers to serve shippers outside the core system.

This approach is the least expensive directed service—it would cost approximately $25 to $30 million. This would involve a fairly complicated service order, and much of our staff's time has been spent refining this option. In this regard, the staff has met individually with each of the potential directed carriers and has outlined to those carriers the areas which, from its review of traffic data and other information, the staff believes should be operated. In those meetings, which were held immediately after the trustee filed his recent petition with the Court, technical problems concerning each of the potential directed operators were raised. Those problems, which are of substantial importance in making sure that any directed service actually is feasible, require swift resolution. To address them, the Commission scheduled two days of concurrent technical workshops with representatives from the railroads in an attempt to resolve them as far as possible. Those meetings were held at the Commission on May 3 and 4 and, in keeping with the Commission's attempt to keep this as open and public a process as possible, the meetings were announced (although on short notice) and the public was invited to observe.

In trying to determine where service should be directed under a multiple carrier approach, the Commission's staff focused on points where traffic originates and terminates. First, it became obvious that most of the trackage at the western extremity of the Milwaukee railroad was joint trackage with other railroads and that each of the railroads had full access to all of the shippers. Thus, it would not be necessary in such situations to direct anyone to continue service, since the other carriers already had rights to provide the service. If the Commission were to adopt this option, it appears likely that we would issue permissive service orders to allow the other carriers to stop and pick up the traffic of shippers located along these lines.

Directed service would have to be utilized on those lines which are proprietary Milwaukee lines having shippers that are exclusive to the Milwaukee road. The process of identifying the areas to be served under directed service on the Milwaukee's transcontinental line is not extremely complex. On the transcontinental line, the nature of the Milwaukee's traffic is that it is clustered into small pockets of traffic with virtually no traffic between the pockets. The Commission's staff would have to determine where these pockets are, and which carriers have the best access to them.

In contrast, in the Midwestern area and particularly in Iowa, the decision would be much more difficult to reach. In that area there are no distinct breaks between the level of traffic at one station and the next station. Thus, it is somewhat difficult to determine where to direct service. One factor which would be quite influential in shaping a service order in this area is the condition of the track.

That is because we cannot, by law, direct service over track that is less than the Federal minimum safety standard. Thus, there is trackage over which the staff may not believe the Commission should direct service, due to its condition, as well as the length of time and Federal cost required to rehabilitate it at a minimum level required for directed service.

The staff estimates that, in spite of this and other problems, option four would handle over 95 percent of the current Milwaukee traffic. The goal of that approach is to provide a transitional period of time for those who will lose rail service to make other arrangements, if possible.

This brings me to another point—that even if the immediate cessation of operations can be avoided, it is quite possible that there will be numerous abandonments in the area served by the Milwaukee. While the Milwaukee would have to follow the abandonment procedures set forth above which would take a number of months and allow for contingency planning, the impact of a large number of abandonments could still be very serious. Of course, in appropriate cases Federal assistance may be available by way of funds provided under the Local Rail Service Assistance Act. Pursuant to this Act, each state is allocated limited Federal funds to be used in maintaining service over lines which would otherwise be abandoned. Also, funds can be used by the state for rehabilitation of certain lines prior to abandonment. Federal assistance for this program is limited to three years, and thus only provides a temporary solu

In attempting to deal with the situation confronted by those areas of the country served by the Milwaukee, it is essential that serious planning take place. The states and all involved shippers, in coordination with the FRA, must be active in the effort to develop a more viable system of transportation. While some Federal assistance is available, it is limited, which makes it important that priorities be established and that coordination take place. Imagination and foresight must be used in formulating solutions to the problems which must be confronted.

In addition to other planning, state action could conceivably include encouraging shipper efforts to increase rail traffic, assisting shippers in efforts to form groups which could actually take over rail operations, encouraging other carriers to acquire lines within the state, consolidating grain elevators on certain lines, and examining the possibilities of having exempt motor carriers take over agricultural traffic.

I must emphasize that state and local action is necessary. The short-term solutions which I have outlined above are only that—short term. It appears inevitable that, unless some assistance or turn of events not now apparent occurs, major adjustments must be made by those people served by the Milwaukee, and the planning for these adjustments must take place now. The Commission can only provide a brief "breather" before the real problems are confronted. The planners in Washington can be of assistance, but only the people within the affected area can be aware of the full range of possible solutions.

Let me assure you of the full cooperation of the Interstate Commerce Commission in the difficult task of bringing order to the transportation system in the affected areas. We will process all applications for acquisitions, mergers, or abandonments as quickly as possible, while giving due consideration to all affected parties.

This concludes my prepared remarks. I will be glad to respond to any questions you may have.

Mr. FLORIO. As you can note, we have a vote on the floor. Let me ask a few questions and then we will recess for a couple of minutes. I will return and continue with the balance of the questions.

You are required to go before the court on May 15 with a specific plan. Is that correct?

Mr. O'NEAL. We have been asked by the court to come forward with a plan. It is our intention to have a plan agreed upon by the Commission by that time. We do not necessarily feel compelled to do this but it is our desire to try to meet that deadline, not only because of the court's concern but also because of our concern that we have a plan agreed upon and we have a fair amount of time to work out any remaining details before it might have to be implemented.

Mr. FLORIO. It is my understanding you have been working on a plan over the last number of months.

Mr. O'NEAL. Yes, several months.

Mr. FLORIO. The last option you made reference to in parceling out directed service to a number of carriers and throwing out the figure of $25 to $30 million, does that entail total coverage of the embargoed area?

Mr. O'NEAL. No. It entails coverage of somewhere between 95 and 99 percent of the traffic. It involves perhaps 75 percent of the track. It does not involve the maintenance of the transcontinental line and that is a big issue insofar as the SORE group is concerned because they feel the loss of the transcontinental line would mean any chance of bringing about a Milwaukee West would be lost.

Mr. FLORIO. The committee will stand in recess and reconvene in about 10 minutes.

[Brief recess.]

Mr. FLORIO. Mr. O'Neal, thank you very much for your testimony. I have a couple of questions.

There have been references made to the appropriateness of some of the trustee's actions with some feeling [illegible] t the actions were

calculated to induce the result that has actually come to past and, in fact, there has been purposeful deferred maintenance or purposeful maintenance that has been eliminated for the purposes of getting us to the position we are now in.

My understanding is that the Commission has conducted a study into some of these allegations, and I wonder if you could briefly give us the benefit of your thoughts.

Mr. O'NEAL. We have been concerned about those reports. Over a period of several months we have periodically checked out those allegations. We concluded there has not been a purposeful effort to downgrade the railroad given the resources available to the carrier.

Mr. FLORIO. In the same vein, there has been some suggestions made in the last few days that materials and equipment are being shifted out of the western portion of the system into the core system. I assume the implication here is that the core system will have all of the equipment, leaving the balance of the system without any. So therefore, even if you do get around to directing service, the directed service will not be very easily implemented.

Mr. O'NEAL. We have heard those reports. The trustee has advised us and has agreed that there will be sufficient equipment and resources in the noncore area.

Mr. FLORIO. In the event directed service is implemented and there is insufficient equipment on the Milwaukee, does the directed carrier have the authority to utilize its own equipment and then be reimbursed for those costs?

Mr. O'NEAL. Yes. The directed carrier could use its own equipment. I do not want to leave the impression that is necessarily an answer. We do not feel that there is an abundance of equipment in the West right now.

Mr. FLORIO. Is it conceivable that you could have a situation where if there was insufficient Milwaukee equipment, and you directed a carrier which already has a shortage of equipment or requires its equipment be allocated to other parts of its system to provide service, notwithstanding the direction to direct service, that the service may not be available or provided?

Mr. O'NEAL. That is a possibility. We think outside of the equipment shortage problems which could arise in any case that it will not happen. I would not rule it out as a possibility.

I want to read something here that we have requested of the court just to put it on the record because I think it is very responsive to the question you have raised.

One of the conditions that we have asked the court to impose is the following: "that the Trustee be required to make available sufficient locomotives, cars, cabooses, work trains and wrecker trains to directed carriers to permit them to perform directed service without unduly hampering their ability to serve their own shippers."

We are trying to reach that point.

Mr. FLORIO. For the Milwaukee to serve their shippers in the core system?

Mr. O'NEAL. No, so it would not impair the ability of the directed carriers to serve their shippers.

Mr. FLORIO. I think the difficulty is going to be that we can all do that and [illegible] ide the conditional clauses at the end but if we

acknowledge the fact that there may very well just be a shortage of equipment, we are still going to be left with the situation where the service will not be provided even though you have directed it be provided.

Mr. O'NEAL. That could happen, yes, sir.

I think it is important to keep in mind the Commission has used the directed service technique only once and that was for a very small railroad, the Lehigh and New England up in the Northeast. This technique has never been used for a railroad this large.

While we think our planning process has taken care of the contingencies, there is a possibility that we may have overlooked something.

Mr. FLORIO. Is that not something that should be included as part of your planning process? It seems silly to direct service over a line if there is not going to be equipment. I would think probably your evaluation should work the other way around, ascertaining what equipment is available, ascertaining what service is needed and then prioritizing the need for the service in accordance with the availability of equipment and then direct service to those areas that are high priority in light of what equipment is available.

Mr. O'NEAL. I think it is a balancing thing. I think the goal of directed service is to provide service to shippers, to maintain the service somehow. We have to look at what the resources are, what is available for providing that service.

If we were to make a decision on directed service, let's say we decided maybe 50 percent of the lines can be served rather than 75 percent based on equipment availability as of the date of the decision. That picture could change very drastically over a period of time.

I think what we need to do is try to set up a plan that covers as many shippers as possible given what our general understanding is of how many resources are in existence. I think that is what we tried to do here.

Mr. FLORIO. It appears that we have another vote. If you do not mind waiting, I will try to get back as soon as I can. Thank you.

[Brief recess.]

Mr. FLORIO. The subcommittee will come to order.

Mr. O'NEAL. I would like to say one thing following up on your last question. We were concerned specifically about the availability of locomotives to provide service and that is one reason which caused the staff to focus very directly on the segmented noncore approach because it seemed to result in, as I said before, between 95 and 99 percent coverage with fewer locomotives, and locomotives are a scarce commodity on both the Milwaukee and the other railroads in the area.

It was one of the factors that has been considered.

Mr. FLORIO. I appreciate your waiting. I just have one other line of questioning which is very important, and that is in regard to the impact of directed service on the employees of the line.

You may have heard one of the previous speakers talk about directed service, and I assume he had no way of knowing what you contemplated in terms of the degree of directed service, indicating that directed service would perhaps leave 2,800 employees without jobs.

I thought the directed service would provide for the picking up of 2,000 employees, if I recall.

Have you costed out, in terms of employees, the impact of your various options? How many employees will be picked up under your different options for directed service?

Mr. O'NEAL. If the Commission directs one carrier over all of the noncore part of the Milwaukee, then nearly all of the employees would be picked up for this 8-month period of time.

Mr. FLORIO. My understanding of your response when I asked you if any of the options entailed directed service over the totality of the system outside the core was that no, it did not.

Mr. O'NEAL. I am sorry. I did not understand the question just that way. One of the options that we are looking at, option 3 in the statement, would be to have one carrier operate as a result of the directed service order all of the noncore of the Milwaukee.

Mr. FLORIO. The entire system that is to be embargoed?

Mr. O'NEAL. Yes, everything outside the core.

Mr. FLORIO. I can understand the way you would be carrying most of the employees.

Mr. O'NEAL. That would pick up almost all of the employees.

Mr. FLORIO. The fourth option?

Mr. O'NEAL. The fourth option, the one that is the cheapest to the Federal Government, and the one that does consider more fully the availability of the equipment and has some other factors in it, would result, we think, in picking up about 2,000 employees leaving 2,800, approximately, that would be unemployed.

Mr. FLORIO. Did your planning entail going beyond directed service? We know there is a limitation of 8 months on directed service at which time those 2,000 employees would be out of work unless someone else comes in to pick them up, either on a voluntary basis or through purchase parts of that land. Do you become involved in the rationalization of this system beyond the directed service, or is that primarily the responsibility of the Department of Transportation?

Mr. O'NEAL. Normally we would not be involved in the rationalization unless there is a line abandonment process and that is a form of rationalization. If there are purchases or acquisitions by other carriers which is one of the possibilities here we would be involved in that process.

The Commission has no statutory responsibility as far as planning for the future. That is a responsibility that has been placed with the Federal Railroad Administration. It is primarily the responsibility of that agency.

Mr. FLORIO. One last point regarding employees, if you do not mind. There was some question as to the impact of the embargo being regarding as an embargo rather an abandonment.

My understanding is that if it is an abandonment either determined by the court to be an abandonment or through expedited procedures that an abandonment is granted, the employees of the Milwaukee who are adversely affected then become entitled to labor protection. If the embargo is upheld, then those 2,800 employees are left without any labor protection.

Is that your understanding?

Mr. O'NEAL. I am not sure we would be able to answer that question unequivocally. There are cases which indicate if a railroad winds down and just stops operating because it does not have funds, there is no formal abandonment and the Commission takes no action and is never involved in the process, then there may well be no labor protection in that process.

We have as one of the conditions we have sought from the judge, the following: "let the trustee be required to file an appropriate application for authorization to discontinue and/or abandon service within the embargoed territory and until such application is acted upon, the trustee be prohibited from in any manner altering its track and facilities within the embargoed territory without prior approval of the Commission."

We are saying there that the judge should require the carrier to proceed with the regular line abandonment process in the embargoed area.

Mr. FLORIO. What happens if you are in the situation where there is no money available? That is to say, you are suggesting that rather than the court ordering the embargo, the Milwaukee be directed to go forward with abandonment procedures. As I understand it there is some feeling that they are going to run out of money on May 31 and between then and when the abandonment would be granted, assuming it would be granted, you are asking there be no permission granted to terminate activities on those tracks.

How economically will that work?

Mr. O'NEAL. I want to make sure I understand what you are saying.

Mr. FLORIO. I understood your request to the court to be a request to disallow the right of the trustee to stop operations on a line until abandonment procedures are agreed upon.

Mr. O'NEAL. Our first position is that unless the court can find there is insufficient cash to run this railroad, there has to be a line abandonment process followed. If the court takes a different position and does not see adequate cash, we are saying nevertheless, the carrier should file for line abandonment and go through the line abandonment process.

If there is insufficient cash, you would have an embargo that might stop without directed service or it might stop the operation of a part of the system.

If there is a line abandonment and there are costs from that line abandonment to the carrier, and maybe employee protection might be one of those costs, then those costs would come in line and be one of the costs that the judge would have to consider paying out of the estate of the bankrupt carrier. The question then would be what priority do those costs take?

If it is a cost accrued for employee work, those costs would have very high priority. There may be a question as to what priority the costs of labor protection might have. It may not have the same priority.

Mr. FLORIO. Mr. O'Neal, we certainly appreciate your willingness to come before the committee.

Mr. RUSH. I would like to add one point if I may which was clear at the beginning of the Chairman's statement and that is not only

must they be shown to be out of cash but it must be shown in our view that there are no sources of cash available to them which would not result in an unconstitutional erosion of the estate.

We believe that if ERSA money is available, it would be appropriate for the court and we have so asked the judge to require the railroad to continue running while the appropriate Federal agencies seek a public interest solution to the problem.

[The following information was received for the record:]

Interstate Commerce Commission
Washington, D.C. 20423

OFFICE OF THE CHAIRMAN

MAY 15 1979

Honorable James J. Florio
Chairman
Subcommittee on Transportation
and Commerce
Committee on Interstate and
Foreign Commerce
U. S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I would like to thank you again for the opportunity to appear before the Subcommittee on Transportation and Commerce on May 9 to discuss the Milwaukee Road.

Enclosed with this letter are three charts prepared by our Bureau of Accounts which I believe will be helpful to the Subcommittee in its assessment of the Milwaukee's situation. The first chart shows salable assets of the Milwaukee, the second shows Milwaukee's real estate properties, and the third indicates the railroad's cash flow since January 1978. I request that you place these items in the hearing record, following my full prepared statement.

If I can be of further assistance in this matter, please contact me.

Sincerely yours,

A. Daniel O'Neal
Chairman

Enclosures

SALABLE ASSETS

Milwaukee Land Co.

Owns 151,000 acres of timberlands
93,000 in Idaho
56,000 in Washington
2,000 in Montana

Estimated market value of all timberlands owned as of December 31, 1977.

$73.2 million

Some acreage under cutting contracts.

Estimated realization from some contracts subsequent to June 30, 1978.

One contract, expiring in 1980 - $ 2.8 million.
Two contracts expiring in 1982 & 1983 - $13.4 million.
Other longer term contracts. $ 1.3 million.

A land sale is to be made during 1979 to National Park Service. Value unknown.

Owns 3,500 acres of industrial land
Has receivables approximating $2.0 million on land sales payable serially to 1986.
These lands were appraised at $22 million on December 31, 1977, with sales, value has been reduced to about $16 million. Valued as of December 31, 1977.

Negotiations had been started with UP for land sale approximating $3.0 million (This has been delayed since bankruptcy and other developments including possible sale of portion of RR to UP).

Option granted for two years expiring March 7, 1980 for sale of land for hanging developments in Reuton, Washington, for $1.5 million.

Railroad Properties

Milwaukee Motor Transport Co. - assets valued at $1.3 million. As of December 31, 1977.
Operating rights at $165,000.
No plans for liquidation at present.

Real Estate Values as of December 31, 1977, - $228.5 million. By far the largest portion of this value represents land dedicated to the operation of the railroad in Rights of Way, Terminal, yards, etc.

Appears to be some equity in the Equipment Obligations. Originally issued at $57.7 million. There is only $7.6 million remaining due of which $3.9 million is due within a year. Some of the equipment is 14 years old so I can make no estimate of its value.

MILWAUKEE REAL ESTATE PROPERTIES
(Dollar amounts in 000's)

Salable Properties	$ 44,290
(parcels of land available for sale, not critical to Transportation Operations, i.e. abandoned rights of way, stations).	
Stand alone Parcels	66,365
(Unique parcels of extremely valuable land presently committed to Transportation. These include Milwaukee shops and Classification Yards in Chicago. Transportation operations could be relocated but at great expense and period of time).	
For present practical situation:	
TOTAL PROPERTIES	228,458
LESS SALABLE PROPERTIES	44,290
VALUE OF PROPERTIES REQUIRED FOR TRANSPORTATION	$184,168

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
CASH FLOW INTO (FROM) OPERATIONS
(DOLLAR AMOUNTS IN MILLIONS)

MONTH	BEGINNING CASH	RECEIPTS *	DISBURSEMENTS	ENDING CASH	EXCESS (DEFICIENCY) RECEIPTS OVER DISBURSEMENTS	NON-OPERATING CASH: MILWAUKEE LAND COMPANY DIVIDEND	NON-OPERATING CASH: MILWAUKEE LAND COMPANY LOAN	3R ACT ERSA FUNDS	MORTGAGE TRUSTEE LOAN	INCREASE (DECREASE) WITHHELD VOUCHERS **	CASH FLOW INTO (FROM) OPERATIONS
1978											
JANUARY	$ 8.2	$ 45.4	$ 43.6	$ 10.0	$ 1.8						$ 1.8
FEBRUARY	10.0	47.1	38.5	18.6	8.6	$ 5.8					2.8
MARCH	18.6	48.7	56.4	10.9	(7.7)						(7.7)
APRIL	10.9	52.2	46.2	16.9	6.0						6.0
MAY	16.9	55.4	58.6	13.7	(3.2)						(3.2)
JUNE	13.7	52.2	50.5	15.4	1.7						1.7
JULY	15.4	49.0	55.8	8.6	(6.8)						(6.8)
AUGUST	8.6	60.4	52.9	16.1	7.5						7.5
SEPTEMBER	16.1	54.4	52.4	18.1	2.0						2.0
OCTOBER	18.1	61.9	60.0	20.0	1.9						1.9
NOVEMBER	20.0	58.0	58.2	19.8	(0.2)						(0.2)
DECEMBER	19.8	55.7	61.3	14.2	(5.6)						(5.6)
1979											
JANUARY	14.2	56.3	64.9	5.6	(8.6)						(8.6)
FEBRUARY	5.6	49.2	50.7	4.1	(1.5)						(10.4)
MARCH	4.1	61.3	60.9	4.5	.4		$ 10.0	$ 5.1		$ 3.8	(10.1)
APRIL	4.5	67.0	64.5	7.0	2.5		5.5		$ 4.0	.5 (.3)	(6.7) ***
FIRST FOUR MONTHS 1978	8.2	193.4	184.7	16.9	8.7	5.8					2.9
FIRST FOUR MONTHS 1979	14.2	233.8	241.0	7.0	(7.2)		15.5	5.1	4.0	4.0	(35.8)

* INCLUDES NON-OPERATING CASH
** AS OF LAST DAY OF MONTH
*** INCLUDES DISBURSEMENT OF $2.6 MILLION NON-OPERATING CASH REPRESENTING LAND SALES PAID INTO ESCROW ACCOUNT

Mr. FLORIO. Thank you very much. The committee will stand in recess for approximately 10 minutes.

[Brief recess.]

Mr. FLORIO. The subcommittee will reconvene.

Our next witness is Mr. Robert E. Gallamore, Deputy Administrator of the Federal Railroad Administration. I will ask Mr. Gallamore to come forward.

Inasmuch as we have a substantial number of witnesses and many of whom have traveled for great distances to get here, I would ask that all the witnesses submit their statements for the record in their entirety and we would appreciate their willingness to summarize to the fullest extent possible so that we can accommodate all of the witnesses we have today.

Mr. Gallamore, we appreciate your coming today, and would ask that you introduce your colleague for the record.

STATEMENT OF ROBERT E. GALLAMORE, DEPUTY ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY RAYMOND K. JAMES, CHIEF COUNSEL

Mr. GALLAMORE. Mr. Chairman, I am accompanied today by Mr. Raymond K. James who is Chief Counsel of the Federal Railroad Administration. I am prepared to proceed in summary fashion and ask my statement be inserted into the record.

Mr. FLORIO. Without objection, your entire statement will be inserted into the record in its entirety.

Mr. GALLAMORE. The Milwaukee situation we are faced with today is, we believe, the inevitable result of too much track and too little traffic in the region.

Like the collapse of Northeastern railroads, we are witnessing part of the wreckage of the American railroad system, and I do not believe we have yet reached the turning point; this is visible evidence of the failure of our past policies.

We must avoid the extremes of massive subsidy or shrugging our shoulders. As was testified to earlier today, plant rehabilitation costs together with the equipment costs for rehabilitation and acquisition could amount to some $1 billion, and it would take other millions of dollars, hundreds of millions of dollars in operating losses, or the funds to cover operating losses, to get us to a rehabilitated plant.

The trustee says the Milwaukee could lose perhaps a quarter of a billion dollars in its first 2 years of bankruptcy if change is not permitted. On the other hand there are some 10,000 employees, 16 States, and thousands of shippers whose interests are affected.

We believe the cash crisis is real. The cash balance at the end of April was some $2 million. The Milwaukee has drawn down some of the $15 million already that was approved by the judge recently. We are not sure what the cash situation will be in early June. Creditors are moving for total liquidation, and the trustee's plan, in our opinion, is now our best hope to avoid that.

I have said publicly on many occasions that if there is a self-sustaining core railroad we should try to reach it. The establishment of a core makes restructuring and sales to other carriers vastly more orderly. Labor protection is best provided by offering

jobs. We have urged the judge to ask for filing of abandonments of noncore lines with the ICC to provide a forum for consideration of the public interest and labor protection issues. That is the matter you just pursued with the Chairman of the ICC and we have taken a similar position.

The timetable is not best but it is forced by the cash crisis. We can respond. We can perform the necessary reviews. We can provide ERSA assistance for a transition to a self-sustaining railroad.

The ICC is now doing its planning, and we believe will be ready. We do not know what this service would include but to give an indication of the possibilities, the trustee has suggested all but perhaps 1½ to 2 percent of the Milwaukee traffic could be covered either with directed service orders or a core railroad and I have just heard Chairman O'Neal testify that perhaps 95 to 99 percent could be covered in this manner.

At the May 1 meeting that Secretary Adams held with other carriers operating in the region, those railroads indicated to the Secretary good faith efforts to negotiate transfers under section 401 and a willingness and even a desire to get on with this without delay.

There was a published report that they had not done so, but I am here to testify that in fact such good faith efforts were promised.

The trustee has been candid about his situation and his plans. He has traveled widely to meet with affected parties. He has indicated very early in the reorganization process that there was a problem with the lines west—that is, those lines west of the Twin Cities, even though doing this may have cost him in traffic losses.

The Department has also done much to inform the general citizenry and to encourage alternative solutions. We gave you a statement April 24 which is in the record, the day after the trustee's announcement of the possible need to embargo traffic.

The Department has provided over $9 million in unsecured and $51 million in secured assistance to the Milwaukee in the last year or two.

The trustee is following a restructuring approach. Our policy is restructuring because railroads must trim their costs and that means they must trim their excess plant. They need the pricing freedom that we have recommended in our proposed Railroad Deregulation Act of 1977 to enable marketing initiatives and operational changes, but they also need streamlining or else the cost-push inflation of the rate base will continue.

Regulation itself has little or no power to hold down costs and without cost control, regulation can do little to control the rate levels other than to squeeze profits. The result of that policy is not very satisfying as we see today. The chickens have come home to roost.

The next steps which are outlined in my full statement are for the Department and others to review the Booz, Allen & Hamilton report. We have a court hearing scheduled for May 15. We will be working with the ICC on directed service orders and the implications of that for the rest of this issue.

We will consider ERSA funding for the transition to a self-sustaining railroad, as I mentioned earlier. We will engage in a hard effort to hammer out 401 transfer agreements with the other

carriers. We will review the local rail service assistance program options with the States. We will undertake specific efforts with the State of South Dakota and others, and there is a meeting tomorrow on this, with respect to rehabilitation of the coal line necessary for continued service to the Big Stone City power station.

We also encourage congressional passage of rail restructuring assistance legislation. We have budgeted an amount of $1.475 billion for that. Our proposed legislation, which is part of our deregulation proposal, is being delivered to the Congress today.

Mr. Chairman, this situation is more inevitable than ideal and our response is more pragmatic than pleasing. We believe we have set ourselves upon the right course and with the full cooperation of all parties and with some good luck, we think we can come up with an acceptable solution.

[Testimony resumes on p. 99.]

[Mr. Gallamore's prepared statement and attachments follow:]

STATEMENT OF ROBERT E. GALLAMORE, DEPUTY ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Committee, I appreciate your asking me to be here today to discuss the unfortunate situation facing us in the Midwest because of the proposed embargo of a large part of the Milwaukee Road.

The Milwaukee's problems and the proposed embargo have an impact on a large and important region of the United States. How we respond to the problem will have long-term implications for the national transportation system, especially the freight rail system. Clearly, the Department of Transportation has the responsibility to take a leading role in determining the appropriate Federal policy and then to carry out that policy.

We could panic. We could react to the immediate threat of loss of rail service and loss of rail jobs by infusing massive amounts of Federal dollars and ignoring our coordinated, efficient national transportation system which consists of many alternative elements—other railroads, trucks and barges—and shipper alternatives in production locations and markets.

Or we could simply walk away from the problem, saying that the Milwaukee has, by the test of the marketplace and a third bankruptcy in sixty years, finally proven itself not worth having around. That, of course, would ignore at least in the short run the many people who are dependent on the railroad for their economic livelihood—shippers, employees and consignees.

Neither extreme is desirable national transportation policy, and the Department of Transportation will follow neither path. What the Department will do is use the tools at our disposal—both public and private—to retain essential and economic services within the context of a self-sustaining national transportation. These tools are, as described below, sufficient for this purpose, and no further Congressional action is needed at this time.

BACKGROUND

The Milwaukee Road was founded in 1850 and was originally chartered as a local railroad between Milwaukee and Elm Grove, Wisconsin. During the latter portion of the 19th Century and the early portion of the 20th Century the Milwaukee gradually extended and expanded its network of lines as the Midwest was settled.

The Milwaukee participated in the last great expansion of the U.S. rail system by building its Pacific Coast extension in 1909. Many analysts feel that the Milwaukee's extension to the Pacific Northwest was never a viable operation and should not have been built. In fact, an independent analysis determined that in calendar 1977, the Pacific Coast extension contributed an excessively disproportionate share of the railroad's total loss.

The Milwaukee's performance over the past several years has been steadily downward. I have attached to my testimony copies of tables that show carloadings by major commodity groups for the Milwaukee, the Burlington Northern, and the Chicago and North Western. From 1973 through 1978, total Milwaukee Road car loadings were down almost 21 percent while the North Western's were down 12.5 percent and the Burlington Northern's only 5.8 percent. Like other commodities, grain loadings decreased precipitously—by a third from 1972 through 1978. All of this was prior to the Milwaukee's December 19, 1977 filing for bankruptcy.

Because of declining traffic levels and reduced market shares, in recent years the Milwaukee has not been able to properly maintain its fleet of locomotives and cars, to acquire sufficient additional equipment to handle potential new sources of traffic or to maintain its right of way on a regular maintenance basis. The problem of insufficient earnings to support even minimal equipment repair and track maintenance has accelerated during 1979 and will probably continue to do so.

WHAT WE HAVE BEEN DOING

Recognizing that the Milwaukee would not be able to turn itself around without capital to improve deteriorated track and equipment, the Department has, to date, provided the railroad with a total of $55.2 million in financial assistance under Title V of the 4R Act; $9.3 million of this amount was in preference shares prior to the railroad's petition for reorganization and $45.9 million in trustee's certificates after the bankruptcy. Of the total, $33.8 million has been made available under section 505 to finance a track rehabilitation project between Milwaukee and the Twin Cities, which is within the Trustee's core system, and $21.4 million under section 511 obligation guarantee financing for the repair of freight cars and locomotives and the installation of environmental control facilities at the railroad's shops in Milwaukee. Actual expenditures under the agreements amount to $41.9 million to date. No applications by the Trustee for further Title V assistance are pending.

The Title V assistance provides financing for particular projects and does not contribute directly to working capital.

Working capital assistance is available under the Emergency Rail Services Act of 1979. To date, we have provided the Trustee with $5.1 million under the ERSA. On May 4, 1979 we advised the Milwaukee's Reorganization Court that the Department of Transportation is prepared to meet its responsibilities under ERSA through additional funding to ensure the continuation of essential transportation services on the Milwaukee's system and to permit necessary restructuring.

Two major causes of the deteriorating condition of the Milwaukee, and of other granger roads, is their failure to abandon excess trackage and to maintain compensatory rate structures. With today's system of hard surface farm to market roads and modern trucks, the current rail system, particularly in the granger areas of the Midwest, is far more extensive than it needs to be in order to service the available traffic. As presently constituted, the Midwest rail system has lost much of its economic reason for being, and too often acts only as a cash drain on healthier parts of the national rail system.

For fifteen months DOT has been conducting an intensive campaign with railroad, shipper and state transportation officials to encourage them to use the tools of section 401 of the 4R Act to develop a healthier rail system through planned reductions in excess plant. Among the types of section 401 unification and coordination projects discussed to date have been coordinated abandonments. Coordinations of mainlines through joint use agreements, and the acquisition and sale of assets.

While much of FRA's effort in section 401 restructuring during the past year has been of the missionary type, it is beginning to show some benefits. One package, consisting of three coordinated abandonments and a trackage rights agreement between the Chicago and North Western and the Milwaukee Road, has been announced, and we are well along on restructuring projects involving several rail lines in several states. Passage of the Administration's proposed Railroad Deregulation Act of 1979 will greatly assist this process.

WHAT DOT HAS DONE SINCE THE TRUSTEE ANNOUNCED HE WOULD SEEK AN EMBARGO

Since the Milwaukee first declared bankruptcy, FRA has monitored the Trustee's cash position closely. This past winter when it became clear that the situation was very serious, we contacted the Trustee and encouraged him to consider additional ERSA assistance.

On April 23, the Trustee announced that he would seek to embargo about 75 percent of the Milwaukee system with service continuing on a small core in the upper Midwest. The Trustee also stated that this action was based on a lack of cash and the report of his consultants, Booz, Allen, & Hamilton, that the Milwaukee could be reorganized into a profitable transportation company, but only if substantially reduced to a core system.

Upon learning of the Trustee's intention to discontinue service over a substantial portion of his system, DOT immediately took several actions.

Although the ICC has the primary responsibility to approve permissive service orders or direct other carriers to operate over the Milwaukee's lines, we have offered to work with the ICC to plan for the continuation of essential services. In this regard, on May 1, the Secretary held a meeting wit' the Trustee and his key

officers, Chairman O'Neal of the ICC, and the railroads being considered by the ICC for directed rail transportation on the embargoed lines. The Secretary made a strong case for a private sector solution to the Milwaukee problem through permissive service orders and expeditious acquisitions of Milwaukee lines. At the May 1 meeting, the Secretary discussed with the Trustee the Trustee's goal to shrink the Milwaukee's existing uneconomic system into a core railroad with the potential to be self-sustaining.

On May 3, the Secretary met with representatives of railroad labor organizations who, among other things, expressed their desire to insure that the Trustee's embargo not become a substitute for the normal abandonment process in which the public interest and employees' rights would be protected. We have recommended that the Reorganization Court order the Trustee to file abandonment applications for all lines proposed to be embargoed.

In order to enable DOT and the public to study the consultant's report, which was not yet available, I asked the Justice Department to appear at the May 4 Reorganization Court hearing and recommend a postponement of the embargo decision until we could make a further filing based on an analysis of the report. At that hearing, the Trustee postponed his proposed embargo date until June 1, and the judge scheduled another hearing on the embargo issue for May 15.

Recognizing that the Court would have no choice but to order the embargo unless the Trustee secured additional operating cash, DOT has supported the Trustee's petition before the Court for permission to borrow $15 million from escrow accounts and the railroad's land company subsidiary. Although these loans would reduce our security on the $55 million in financial assistance which DOT has recently provided to the Milwaukee under Title V of the 4R Act, our analysis of the Milwaukee's assests and liabilities convinces us that the United States still would be adequately protected should the Milwaukee be liquidated. We have also offered to provide $20 million in loan guarantees under ERSA to the Trustee to aid a transition to a self-sustaining core. Of course, making the guarantees requires an application by the Trustee and our ability to make the statutorily required findings.

NEXT STEPS

During the coming months, FRA intends to use the powers granted to the Secretary under section 401 to assist in the orderly transfer of essential Milwaukee service to carriers that are better able to provide adequate transportation. To a large degree, this activity will expand the efforts the Milwaukee Trustee has begun in attempting to negotiate sales to some carriers of portions of the Milwaukee. While our primary role under section 401 is largely that of a catalyst, we are, in some cases, in a position to advise interested parties on an objective and quantitative basis which railroad would be the best candidate to acquire portions of the Milwaukee.

Given the possibility that lines that provide essential service but are uneconomic in the hands of the Milwaukee may come under directed rail transportation at considerable taxpayer expense, it is in the public interest to encourage interested parties to reach agreement through a prompt exchange of information and continuous discussion. In order to encourage this activity we intend to use all the tools available, including Title V of the 4R Act, the Emergency Rail Service Act of 1970, and local rail service assistance.

The Administration is proposing a revision to Title V that will provide $1.475 billion of assistance to the railroad industry to provide an additional incentive for restructuring. This restructuring would involve consolidation and reduction of duplicate tracks and facilities, discontinuance of uneconomic service, rationalization of routes and terminal facilities, and improvement in operating efficiencies. The elimination of excess capacity would enable railroads to reduce their maintenance and property tax expenditures and increase their liquidity by the sale of nonproductive property and facilities. By discontinuing uneconomic service and rationalizing routes and terminal facilities, railroads would improve cash flow.

The current financial assistance programs under Title V of the 4R Act have produced projects which involved substantial rehabilitation of facilities but only isolated restructuring. The bill we are proposing will alter that situation.

Under section 5 of the DOT Act, the local rail service assistance program, States may receive Federal grant funds for a wide variety of rail assistance projects on light density freight lines. In response to the situation created by the Milwaukee crisis, States may apply for Federal funds to rehabilitate a light density line which an acquiring railroad agrees to continue in service.

Alternatively, a State or a local transportation district could purchase a line with or without Feder[illegible]id and could subsequently seek Federal rehabilitation assistance if the line c[illegible]ed under 3 million gross ton miles of freight per mile. It will

also be possible for a State to seek Federal funds for rehabilitation of a line that Milwaukee petitioned to abandon if the Milwaukee agreed to withdraw the abandonment application and maintain the light density line at the level to which it was rehabilitated.

Federal funds are also available to States to subsidize the avoidable cost of providing service on a line for up to 3 years. Still another possibility is for a State to undertake a substitute service project, again using Federal assistance, to replace the service provided by the rail line being lost. Substitute service could include improvements to alternative highway facilities, construction of intermodal terminals or new rail connections to remaining rail lines which would then handle the traffic formerly handled by the replaced line.

The financial resources available to the States in fiscal year 1979 total approximately $87 million of which $67 million was appropriated for fiscal year 1979 and $20 million carried over from 1978. With respect to those States affected directly by the Milwaukee crisis individual amounts in State entitlements for fiscal year 1979 are in the range from about $700,000 to $5 million. I have attached summaries of the entitlement figures.

We must recognize that the existing tools at our disposal—Trustee cash and other assets, ERSA, section 401, directed and permissive rail transportation, the Bankruptcy Act, and the cooperation of labor and industry—are sufficient to resolve the immediate problems created by the Trustee's cash crisis. No further action by Congress is necessary at this time.

With respect to continuing analytical efforts, DOT's approach is to determine exactly what the immediate and long-term impacts of the Milwaukee's problems are on those directly affected and on the transportation system as a whole. Thus, for example, we are continuing to explore how shippers and consignees currently served by the Milwaukee might be served through other means; how much of the Milwaukee's traffic must move by rail and must move, at least part way, via the Milwaukee's lines; what effects the proposed embargo would have on the railroad's employees.

Also, of course, we will, within the limited time available, analyze the Booz, Allen & Hamilton report to determine whether a smaller Milwaukee system can be financially self-sustaining, and whether that core system is the one recommended in the report. The impact determinations we are presently making will play an important part in this second type of analysis. For example, if a Milwaukee line is essential to the supply of coal for an important utility, we will be working especially hard to fugure out how that service can become sufficiently profitable to be continued, either as part of the Milwaukee or as part of another railroad.

CONCLUSION

I want to emphasize that, unless we are to start the Midwest down the path of nationalization, the financial viability of the lines which are continued either as part of a Milwaukee core system or are transferred to other railroads, is essential. As Secretary Adams emphasized in his statement of April 24, the opportunities for self-sufficiency will be enhanced by, if not be dependent on, some Federal assistance to rehabilitate potentially profitable lines, and a freer and more equitable regulatory climate. Shippers are going to have to assist in the fight to keep essential service. They and the railroad must be able to come together to agree on the type of service needed and a fully compensatory price. The agreements must be enforceable on both sides, and the price must be one that allows the railroad to stay in business in the long run—a price that includes money to fix up track and equipment and keep it in shape. Freedom to negotiate such arrangements will be facilitated by swift passage of the Administration's proposed Railroad Deregulation Act of 1979. Passage of the deregulation bill will be important to the future of both a Milwaukee core and the remaining railroads that continue to serve the Midwest.

We will have to give much more thought to what should happen to the remainder of the Milwaukee system: how much of it is unlikely ever again to pay its way because traffic has already moved off it to other, more efficient, modes; how much of it will pay its way, but only after substantial rehabilitation of the lines and with better marketing of a better service; what the rehabilitation cost will be; from where will it be funded; how much of the system has the potential to be useful in the hands of other railroads.

And, we must reassure ourselves that the role we have outlined for the Federal Government is the proper one. The philosophy that propels us toward the marketplace and away from a nationalized system says that our roles should be two: to bring all parties together, especially other railroads in the region and labor, to work with them to develop programs that we and they can agree have the best chance of

providing an efficient competitive transportation system in the long run, and to provide seed money to help make those programs work.

These actions will take time, but we believe that careful attention to the problem, cooperation of all parties, and increased flexibility in our ability to provide assistance and in the regulatory climate will enable us all to achieve this goal.

5/4/79

STATE	MILES	SHARE	ADJ SHARE	$ DISTRIBUTION	ABANDONED* FUNDING MILEAGE	ICC CAT 1	ICC CAT. 2
ALABAMA	0.0	0.124	1.000	$ 670000.00	141.41	60.00	29.00
ALASKA	0.0	0.0	1.000	$ 670000.00	0.0	0.0	0.0
ARIZONA	0.0	0.069	1.000	$ 670000.00	14.64	0.0	64.00
ARKANSAS	0.0	0.069	1.000	$ 670000.00	104.64	76.00	23.00
CALIFORNIA	0.0	1.636	1.384	$ 927888.36	359.44	255.00	18.00
COLORADO	0.0	0.379	1.000	$ 670000.00	65.52	0.0	67.00
CONNECTICUT	0.0	0.387	1.000	$ 670000.00	86.00	3.00	55.00
DELAWARE	0.0	0.219	1.000	$ 670000.00	56.30	1.00	32.00
DISTRICT OF COLUMBIA	0.0	0.069	1.000	$ 670000.00	0.0	0.0	12.00
FLORIDA	0.0	1.224	1.384	$ 921427.03	276.15	258.00	38.00
GEORGIA	0.0	0.524	1.000	$ 670000.00	110.34	22.00	66.00
IDAHO	0.0	1.549	1.319	$ 876706.06	260.02	162.00	115.00
ILLINOIS	0.0	4.579	4.229	$2827221.97	1571.35	370.00	317.00
INDIANA	0.0	4.804	4.088	$2735022.11	1144.44	391.00	385.00
IOWA	0.0	9.379	7.966	$5334660.19	2646.26	1037.00	402.00
KANSAS	0.0	0.483	1.000	$ 670000.00	176.59	149.00	28.00
KENTUCKY	0.0	0.639	1.000	$ 670000.00	143.45	67.00	37.00
LOUISIANA	0.0	1.354	1.144	$ 765937.05	311.21	93.00	128.00
MAINE	0.0	0.469	1.000	$ 670000.00	99.91	64.00	56.00
MARYLAND	0.0	0.439	1.000	$ 670000.00	355.55	40.00	71.00
MASSACHUSETTS	0.0	1.544	1.318	$ 875378.46	127.81	91.00	231.00
MICHIGAN	0.0	5.558	4.719	$3158100.87	1465.09	384.00	415.00
MINNESOTA	0.0	6.498	5.963	$3978064.66	1737.15	873.00	238.00
MISSISSIPPI	0.0	1.748	1.484	$ 994646.81	423.36	279.00	0.0
MISSOURI	0.0	3.869	3.264	$2187276.47	511.60	746.00	0.0
MONTANA	0.0	3.064	2.584	$1730273.69	1366.87	243.00	54.00
NEBRASKA	0.0	1.289	1.098	$ 728494.52	313.73	154.00	51.00
NEVADA	0.0	0.119	1.000	$ 670000.00	74.03	80.00	40.00
NEW HAMPSHIRE	0.0	1.119	1.000	$ 670000.00	144.83	154.00	63.00
NEW JERSEY	0.0	1.549	1.544	$1047799.32	190.68	0.0	374.00
NEW MEXICO	0.0	0.029	1.000	$ 670000.00	14.47	0.0	0.0
NEW YORK	0.0	4.529	4.189	$2800352.87	1653.15	3.00	648.00
NORTH CAROLINA	0.0	1.089	1.000	$ 670000.00	123.31	105.00	111.00
NORTH DAKOTA	0.0	1.089	1.000	$1080027.16	360.35	154.00	177.00
OHIO	0.0	4.184	3.554	$2381246.28	1194.32	141.00	477.00
OKLAHOMA	0.0	1.629	1.544	$1033607.07	308.88	250.00	82.00
OREGON	0.0	0.519	1.000	$ 670000.00	122.40	38.00	45.00
PENNSYLVANIA	0.0	3.479	3.374	$2257924.52	1401.54	43.00	461.00
RHODE ISLAND	0.0	0.169	1.000	$ 670000.00	20.90	0.0	31.00
SOUTH CAROLINA	0.0	0.769	1.000	$ 670000.00	51.42	100.00	62.00
SOUTH DAKOTA	0.0	8.684	7.209	$4824675.98	2026.27	511.00	861.00
TENNESSEE	0.0	0.519	1.000	$ 670000.00	265.84	123.00	15.00
TEXAS	0.0	2.059	1.749	$1167042.33	588.19	184.00	118.00
UTAH	0.0	0.069	1.000	$ 670000.00	11.59	3.00	2.00
VERMONT	0.0	0.419	1.000	$ 670000.00	303.60	3.00	0.0
VIRGINIA	0.0	0.569	1.000	$ 670000.00	249.19	11.00	39.00
WASHINGTON	0.0	3.019	3.248	$2170536.42	1086.33	330.00	234.00
WEST VIRGINIA	0.0	0.569	1.000	$ 670000.00	241.00	1.00	56.00
WISCONSIN	0.0	4.609	4.184	$2789363.13	1264.09	464.00	301.00
WYOMING	0.0	0.019	1.000	$ 670000.00	0.11	0.0	0.0
	25474.38	100.009	100.000	$67000000.00	25,679.38		
					1/3	2/3	

*Includes mileage eligible under current law as of 10/1/78, plus approximate mileage filed by Milwaukee Road for abandonment, plus pending mileage (approx. 4433 mi) of other railroads filed for abandonment as of 2/0/79.

94

5/4/79

STATE	MILES	SHARE	ADJ SHARE	$ DISTRIBUTION	Abandoned* Mileage	ICC CAT 1	ICC CAT. 2
ALABAMA	0.0	0.549	1.000	$ 670000.00	110.41	60.00	29.00
ALASKA	0.0	0.0	1.000	$ 670000.00	0.0	0.0	0.0
ARIZONA	0.0	0.309	1.000	$ 670000.00	14.64	0.0	64.00
ARKANSAS	0.0	0.509	1.000	$ 670000.00	104.64	76.00	23.00
CALIFORNIA	0.0	1.569	1.323	$ 881061.23	244.58	255.00	18.00
COLORADO	0.0	0.309	1.000	$ 670000.00	65.52	0.0	67.00
CONNECTICUT	0.0	0.389	1.000	$ 670000.00	86.00	3.00	55.00
DELAWARE	0.0	0.239	1.000	$ 670000.00	56.30	1.00	32.00
DISTRICT OF COLUMBIA	0.0	0.069	1.000	$ 670000.00	0.0	0.0	12.00
FLORIDA	0.0	1.519	1.283	$ 859155.62	157.61	258.00	38.00
GEORGIA	0.0	0.539	1.000	$ 670000.00	97.34	22.00	66.00
IDAHO	0.0	1.579	1.331	$ 892142.19	246.14	162.00	115.00
ILLINOIS	0.0	4.659	4.123	$2760004.50	1223.81	370.00	317.00
INDIANA	0.0	4.698	4.154	$2782364.98	1010.73	391.00	385.00
IOWA	0.0	9.408	7.991	$5356721.03	2085.68	1037.00	402.00
KANSAS	0.0	0.966	1.000	$ 670000.00	134.34	149.00	28.00
KENTUCKY	0.0	0.519	1.000	$ 670000.00	45.29	67.00	37.00
LOUISIANA	0.0	1.329	1.123	$ 751476.05	240.78	93.00	128.00
MAINE	0.0	0.679	1.000	$ 670000.00	99.91	64.00	56.00
MARYLAND	0.0	1.029	1.000	$ 670000.00	349.70	40.00	71.00
MASSACHUSETTS	0.0	1.579	1.333	$ 893197.96	125.10	91.00	231.00
MICHIGAN	0.0	5.709	4.823	$3187608.76	1514.92	384.00	415.00
MINNESOTA	0.0	6.488	5.683	$3807507.54	1243.70	873.00	238.00
MISSISSIPPI	0.0	1.428	1.219	$ 808142.83	156.69	279.00	0.0
MISSOURI	0.0	3.579	3.024	$2033089.65	249.18	746.00	0.0
MONTANA	0.0	3.119	2.634	$1770452.96	1174.65	243.00	54.00
NEBRASKA	0.0	1.319	1.113	$ 744623.10	276.56	154.00	51.00
NEVADA	0.0	0.139	1.000	$ 670000.00	74.03	80.00	40.00
NEW HAMPSHIRE	0.0	1.159	1.000	$ 670000.00	144.83	154.00	63.00
NEW JERSEY	0.0	1.899	1.603	$1077913.48	190.68	0.0	374.00
NEW MEXICO	0.0	0.029	1.000	$ 670000.00	14.47	0.0	0.0
NEW YORK	0.0	5.379	4.543	$3056100.56	1652.01	3.00	648.00
NORTH CAROLINA	0.0	1.039	1.000	$ 670000.00	67.80	105.00	111.00
NORTH DAKOTA	0.0	1.645	1.583	$1057869.38	286.93	154.00	177.00
OHIO	0.0	4.519	3.813	$2567207.43	1194.32	141.00	477.00
OKLAHOMA	0.0	1.779	1.511	$1008679.29	227.17	250.00	82.00
OREGON	0.0	0.529	1.000	$ 670000.00	108.92	38.00	45.00
PENNSYLVANIA	0.0	4.349	3.672	$2473576.24	1399.34	43.00	461.00
RHODE ISLAND	0.0	0.169	1.000	$ 670000.00	20.90	0.0	31.00
SOUTH CAROLINA	0.0	0.769	1.000	$ 670000.00	43.42	100.00	62.00
SOUTH DAKOTA	0.0	8.679	7.163	$4796077.22	1641.17	511.00	861.00
TENNESSEE	0.0	0.789	1.000	$ 670000.00	123.34	123.00	15.00
TEXAS	0.0	1.749	1.443	$1000273.46	299.23	184.00	118.00
UTAH	0.0	0.069	1.000	$ 670000.00	11.59	3.00	2.00
VERMONT	0.0	0.479	1.000	$ 670000.00	289.60	3.00	0.0
VIRGINIA	0.0	0.569	1.000	$ 670000.00	228.49	11.00	39.00
WASHINGTON	0.0	3.909	3.323	$2223522.75	956.93	330.00	234.00
WEST VIRGINIA	0.0	0.629	1.006	$ 670000.00	241.00	1.00	56.00
WISCONSIN	0.0	4.709	4.000	$2677500.61	918.78	464.00	301.00
WYOMING	0.0	0.019	1.000	$ 670000.00	0.11	0.0	0.0
	21244.98	100.009	100.000	$67000000.00	21244.98		
					1/3	2/3	

* Includes mileage eligible under current law as of 10/1/78 plus approximate mileage filed by Milwaukee Road for abandonment. Does not include mileage of other railroads (approx. 4,000 miles) filed for abandonment as of 1/1/79.

95

CHICAGO AND NORTHWESTERN RAILROAD CARLOADINGS BY COMMODITY

Commodity	1973	% Change '73-'74	1974	% Change '74-'75	1975	% Change '75-'76	1976	% Change '76-'77	1977	% Change '77-'78	1978	% Change 1973-1978
Grain	183522	-16.8	152772	-31.8	104240	- 6.5	97400	-14.0	83707	+22.5	102654	-44.1
Farm Products, Exc. Grain	5458	+21.5	6633	-43.4	3756	-14.2	3223	-15.8	2725	-13.0	2370	-56.6
Metallic Ores	81147	- 0.9	80431	+21.5	97740	- 2.1	95647	-11.3	84802	+35.7	115071	+41.8
Coal	42276	-17.3	34970	+10.2	38528	-10.7	34413	-15.1	29225	- 9.4	26485	-37.4
Crushed Stone, Gravel, Sand	24361	- 1.0	24118	- 2.8	23448	- 7.4	21707	+ 5.4	22890	- 6.7	21356	-12.3
Nonmetallic Minerals	2672	+ 1.6	2715	- 9.1	2469	- 1.1	2442	+19.6	2920	-34.3	1919	-28.2
Grain Mill Products	77962	- 2.3	76190	- 9.8	68710	+ 1.8	69975	- 5.2	66346	+ 2.1	67755	-13.1
Food & Kindred Products	75421	- 4.5	72027	-13.0	62651	- 3.8	60256	+ 2.0	61436	- 1.8	60352	-20.0
Primary Forest Products	23969	+16.1	27817	-29.9	19509	+ 0.2	19543	-10.0	17587	- 4.5	16797	-29.9
Lumber, Wood Prod, Exc. Furn.	9202	- 6.4	8616	-24.5	6507	+18.7	7723	- 4.1	7400	- 4.5	7078	-23.1
Pulp Paper & Allied Prod.	63708	+ 5.7	67320	-22.2	52357	+ 6.4	55685	+ 3.8	57613	- 2.3	56301	-11.6
Chemicals & Allied Prod.	19852	-18.0	16275	+ 2.3	16647	+14.3	19035	+ 0.8	19178	- 1.8	18841	- 5.1
Petroleum Products	5357	-34.7	3499	-19.5	2815	+ 7.5	3025	-23.2	2324	- 1.5	2290	-57.3
Stone, Clay, Glass Prod.	39345	- 3.3	38033	- 8.3	34868	+ 8.4	37795	- 1.6	37199	+ 6.0	39428	+ 0.2
Coke	2805	-30.0	1740	-44.8	961	+149.7	2400	-11.5	2125	+77.9	3781	+34.8
Metals & Products Exc. Coke	32963	+ 2.2	33699	-35.8	21624	- 9.9	19476	- 9.3	17673	+27.1	22461	-31.9
Motor Vehicles & Equipment	35474	- 0.2	35393	-10.5	31691	+ 2.7	32548	-20.5	25875	+18.0	30529	-13.9
Waste & Scrap Materials	31070	+17.2	36427	-19.4	29360	+ 1.6	29833	+ 2.1	30469	+ 6.5	32457	+ 4.4
Forwarder & Shipper Assoc. Traffic	599	+157.8	1544	+ 4.0	1606	+400.4	8036	+208.4	24783	+35.1	33485	+5490.7
All Other Carloads	112666	+ 0.3	121980	-17.4	100763	+ 4.4	105176	- 4.4	100506	+ 0.8	101379	-10.0
LCL Traffic (cars)	2030	-69.5	620	-72.9	168	+21.4	204	+44.1	294	-88.8	33	-98.4
Total Cars Loaded	871867	- 3.3	842819	-14.6	720148	+ 0.8	725622	- 3.9	697677	+ 9.3	762822	-12.5
Total Cars Received from Connections	695942	+ 4.3	725849	-11.9	639313	+ 6.7	682231	- 0.7	677649	+ 7.1	725834	+ 4.3
TOFC Loadings Included in above	63631	- 2.5	62072	-11.8	54719	+18.7	64973	- 8.1	59716			- 6.2*

* 1973-1977

MILWAUKEE RAILROAD CARLOADINGS BY COMMODITY

Commodity	1973	% Change '73-'74	1974	% Change '74-'75	1975	% Change '75-'76	1976	% Change '76-'77	1977	% Change '77-'78	1978	% Change 1973-1978
Grain	95430	-14.1%	81948	-25.4%	61125	- 0.4%	60454	-10.4%	52396	+21.6%	63714	-33.2%
Farm Products, Exc. Grain	7569	-33.9	5001	-14.7	4264	- 7.0	3964	-24.1	3008	-66.2	1017	-86.6
Metallic Ores	3908	+95.9	7656	-84.8	1166	+683.2	9132	-92.9	649	-86.6	87	-97.8
Coal	43393	- 8.4	39755	+39.6	55483	+ 1.4	56274	+ 3.1	58048	- 0.3	57842	+33.3
Crushed Stone, Gravel, Sand	36127	-44.6	20028	+ 6.5	21324	+22.4	26090	-14.4	22332	- 7.8	20597	-43.0
Nonmetallic Minerals	30205	-26.0	22351	-73.5	5932	- 9.8	5350	-20.5	4251	-14.0	3655	-87.9
Grain Mill Products	61868	-22.6	47883	- 7.0	44509	+ 1.7	45254	-10.0	40741	-15.5	34442	-44.3
Food & Kindred Products	26562	+109.4	55616	+ 3.6	57591	+10.2	53482	- 9.5	48417	-20.3	38569	+45.2
Primary Forest Products	46045	-17.9	37805	- 7.7	34905	+80.1	62878	- 2.1	61565	- 3.3	59516	+29.3
Lumber, Wood Prod, Exc. Furn.	35935	-20.2	28662	-13.3	24852	+10.9	27549	-13.9	23710	- 7.5	21923	-39.0
Pulp, Paper & Allied Prod.	55107	- 4.0	52902	-14.3	45347	+ 1.0	45805	- 3.8	44055	-12.4	38608	-29.9
Chemicals & Allied Prod.	13275	- 5.3	12569	-21.2	9905	+ 2.4	10141	- 7.7	9357	-11.7	8263	-37.8
Petroleum Products	7328	- 5.8	6900	-72.8	1876	-20.8	1336	- 8.4	1224	- 8.5	1120	-84.7
Stone, Clay, Glass Prod.	16101	- 5.4	15231	-27.0	11121	+ 4.9	11669	- 7.4	10809	-21.7	8466	-47.4
Coke	1251	+150.1	3229	- 1.9	3167	- 3.7	3051	-13.7	2633	-40.6	1565	+25.1
Metals & Products Exc. Coke	23846	-32.7	16050	- 6.4	15028	- 1.0	14879	- 5.6	14051	+12.2	15760	-33.9
Motor Vehicles & Equipment	23406	-14.4	20024	+ 0.8	20186	+16.4	23504	+ 9.8	25813	-16.6	21531	- 8.0
Waste & Scrap Materials	25761	+17.9	30373	-24.2	23012	- 3.5	22210	- 8.5	20314	- 5.2	19249	-25.3
Forwarder & Shipper Assoc. Traffic	22071	+62.8	35942	+10.6	39763	+41.8	56367	- 1.9	55324	+11.2	61504	+178.7
All Other Carloads	67034	-28.8	51098	-14.6	43629	- 9.6	39420	+ 1.8	40144	-23.7	30634	-54.3
LCL Traffic (cars)	230	+100.4	461	-15.0	311	+15.1	358	+24.3	445	- 3.4	430	+87.0
Total Cars Loaded	642452	- 7.9	591484	-11.3	524496	+10.0	577167	- 6.9	537278	- 5.4	508492	-20.9
Total Cars Received from Connections	348691	+ 3.1	359363	-10.7	321019	+ 2.0	327461	- 2.6	319062	-10.6	285173	-18.2
TOFC Loadings Included in above	56691	+ 3.6	58712	-19.6	47178	+11.4	52573	+ 6.7	56094			- 1.1*

* 1973-1977

Source: CS-54, ARR, Washington, D.C.

BURLINGTON NORTHERN RAILROAD
CARLOADINGS BY COMMODITY

Commodity	1973	% Change '73-'74	1974	% Change '74-'75	1975	% Change '75-'76	1976	% Change '76-'77	1977	% Change '77-'78	1978	% Change 1973-1978
Grain	344047	- 7.8	318009	+14.0	362652	+ 0.7	364509	-12.0	320760	+ 5.3	345000	+7.0
Farm Products, Exc. Grain	71507	+ 2.3	81432	-21.0	63716	+ 2.8	65517	-20.0	46644	-15.2	39560	-50.3
Metallic Ores	196527	-35.5	126816	+ 2.2	129599	- 1.7	127417	+ 9.0	138874	+45.9	203077	+ 3.8
Coal	263933	+ 7.2	280395	+23.3	355458	-07.6	441118	+26.6	558517	+17.2	654402	+148.3
Crushed Stone, Gravel, Sand	69710	+48.4	90113	+ 6.5	95958	-38.1	59372	- 9.1	53984	+ 2.7	55460	- 8.6
Nonmetallic Minerals	31524	-52.7	14912	-17.2	12350	+ 1.1	12485	+12.6	14061	+ 1.4	14255	-54.8
Grain Mill Products	107127	+ 3.9	111261	- 8.8	101450	- 1.1	100383	- 4.1	96307	+ 7.8	103857	- 3.1
Food & Kindred Products	113505	+ 4.2	115135	-12.4	100872	- 1.7	99110	+ 1.1	100173	- 1.2	98922	-10.5
Primary Forest Products	113208	- 3.7	109061	- 7.6	100747	+ 5.6	106428	- 0.6	105812	-14.4	90573	-20.0
Lumber, Wood Prod, Exc. Furn.	170916	-20.8	135440	- 6.5	126646	+ 2.1	129318	- 0.1	129159	+ 0.5	129744	-24.1
Pulp, Paper & Allied Prod.	67205	+ 9.0	73281	-13.9	63076	+11.6	70415	- 2.3	68790	- 4.1	66003	- 1.8
Chemicals & Allied Prod.	53638	- 0.9	48806	- 7.6	45182	+ 7.4	48544	- 4.5	46317	+ 6.3	49312	- 8.1
Petroleum Products	36113	-17.7	29722	-10.0	26748	-23.3	20527	- 6.8	19137	- 6.0	17996	-50.2
Stone, Clay, Glass Prod.	56506	+10.1	62211	-11.3	55194	+ 0.9	55675	+ 2.3	56929	+ 9.9	62437	+10.7
Coke	7699	+12.1	8632	- 6.4	8077	+ 2.0	8242	+ 8.9	8975	+ 7.7	9665	125.5
Metals & Products Exc. Coke	51106	+ 0.1	51168	-20.4	40714	-15.4	34458	- 0.8	34174	-61.6	13176	-74.7
Motor Vehicles & Equipment	10700	+ 5.0	11234	-16.6	9367	+25.6	11765	+10.2	12966	+23.1	15958	149.1
Waste & Scrap Materials	30047	+ 6.9	32124	-29.2	22746	- 5.2	21569	- 9.3	19569	+11.1	21747	-27.6
Forwarder & Shipper Assoc. Traffic	87254	- 7.1	81036	-20.1	50244	+70.8	70373	+30.6	91804	+ 5.5	96903	111.7
All Other Carloads	366314	-50.6	180969	-13.1	157288	-18.5	128115	- 1.7	125889	- 8.6	115013	-68.6
LCL Traffic (cars)	8075	+ 8.2	8737	-49.2	4437	-42.3	2562	-45.8	1388	-37.5	867	-89.3
Total Cars Loaded	2958741	-12.4	1910574	- 7.0	1840521	+ 2.0	1877902	+ 4.6	963375	+ 8.4	2120858	- 5.8
Total Cars Received from Connections	658772	- 2.4	635153	-15.9	534030	+ 0.6	537444	- 1.8	527675	+ 8.4	527037	-12.1
TOFC Loadings Included In Above	104742	+2.3	107147	-30.8	74180	+ 0.1	80171	+24.5	99797			- 4.7*

* 1973-1977

Source: Rates, ARR, Washington, D.C.

Mr. FLORIO. Thank you very much.

I am interested in what DOT is doing after the period of directed service. I was a bit surprised when you implied that you were pleased that directed service would provide coverage for 95 percent of the trackage of the Milwaukee between the core and the directed service, and that you started your comments with the fact that half the problem is there is too much plant to sustain the railroad.

I am convinced that we are going to get into directed, however, the degree of which is yet to be determined.

Beyond the 8-month period, it seems that the noncore area has to have some form of service. Hopefully, this service will be a rational system which provides for other carriers to become involved.

I am just wondering if the DOT and FRA are doing any planning to determine what options there would be at the end of that 8-month period?

Mr. GALLAMORE. The way you described it is our policy and our hope, Mr. Chairman. We do believe that the major share of the traffic now carried by the Milwaukee can in the long run be covered by other carriers through either competitive service which is now available or through the purchase of Milwaukee facilities necessary to tap that traffic and continue it on their lines.

The value of directed service is that it provides the time necessary for those arrangements to be agreed upon. There has been a lot of bargaining already. The acquiring carriers do not want to get anything except the fairest price they can negotiate and the same is true of the trustee. There is as I understand it, some disagreement in this negotiating process over the price for the purchase of certain properties. I am sure there are labor protection issues or labor transfer issues that would have to be worked out.

That is the value of the directed service period. It is only 8 months but we are hopeful that it is enough time to do this. In fact I would be hopeful, and I guess I am the last optimist in the world, that some of this can be accomplished well before the end of that 8-month period.

Mr. FLORIO. Are you saying that in fact notwithstanding the fact that all of us knew the problem existed that there is no restructuring proposal that DOT or FRA has readily available?

Mr. GALLAMORE. We do not have a restructuring plan in our hip pocket. We have followed these events very closely. I have been out on the road talking with shippers and carriers and others over these many months since the Milwaukee's bankruptcy. We do not have a conclusion to that process yet. Part of it is dependent upon the actions that only recently come forward, and that is, which lines will be included in any effort to set up a core versus which lines will be excluded.

Mr. FLORIO. Are you privy to what the ICC is doing? Are you aware of their options and plans?

Mr. GALLAMORE. Yes; we have been through those options with them on several occasions.

Mr. FLORIO. Have you made recommendations?

Mr. GALLAMORE. We had earlier been troubled by the idea of continuing the entire operation in directed service for 240 days. We thought that was a very expensive option for the Government to follow.

I guess I would say we are pleased that the ICC itself recognizes some of the problems involved in attempting to have one carrier, for example, direct the entire operation. The chairman's testimony to that effect today was something that we concur in.

Mr. FLORIO. Mr. Gallamore, we thank you very much.

Our next witness is Mr. Fred Simpson, president of Save Our Railroad Employment, from Bainbridge Island, Wash.

Mr. Simpson, we welcome you to the committee. We understand you have a prepared statement. Your statement will be entered in to the record in its entirety. We would ask you introduce your colleagues for the record.

STATEMENT OF FRED J. SIMPSON, PRESIDENT, ASSOCIATION TO SAVE OUR RAILROAD EMPLOYMENT, ACCOMPANIED BY JAMES WICKWIRE, COUNSEL, AND WILLIAM BRODSKY, COUNSEL

Mr. SIMPSON. Thank you. With me today on my right is James Wickwire, an attorney from Seattle, Wash. who is representing SORE and on my left is Bill Brodsky, a former officer of the Milwaukee Railroad who is an associate of mine in the SORE organization and is responsible for much of the proposal SORE has developed.

In the interest of time I have prepared some notes and I hope to be very brief. I have submitted a detailed statement which reiterates my understanding through my 10 years of experience with the Milwaukee as to how it came to be in its present condition, why the circumstances which exist today make what happened in the past irrelevant and how it can be reorganized.

With that I would like to touch on four items. One is the distinction between the midwestern and the western portions of the Milwaukee; the second item is the revenue base that is available to support lines west of the Milwaukee; third, the directed service matter and fourth, to just briefly touch on the SORE alternative.

With regard to the distinction between the western portions of the Milwaukee and the midwestern portion, by the western portion I mean the lines west of the Twin Cities which is referred to as the transcontinental railroad. Unfortunately the Federal Railroad Administration people seem to lump together the Milwaukee as one entity. It is not true. It is really in fact two separate railroads.

The transportation characteristics and the economics are entirely different. In the West, you have long-haul traffic. It has to move from places like Montana, 1,000 miles in any direction to reach the consuming public.

There are bulky commodities. It is coal, grain, lumber, and import traffic that cannot move by truck or any other mode of transportation. It has to move by rail.

Consequently the railroads in the West essentially have a transportation monopoly in the transcontinental market as contrasted with the Midwest where trucks provide a very effective service. The average length of haul in the Midwest is maybe 150 to 300 miles. Trucks are extremely effective at that rate. They had to depress the rate structure to the point that there is very little contribution.

In the Midwest as was acknowledged by Mr. Hillman, the trustee, in the hearing Friday, there are no strong Midwestern rail carriers. They are all either in bankruptcy or marginal at best. Whereas in the West, all of the transcontinental carriers with the exception of the Milwaukee are extremely prosperous and growing stronger every day.

The reason for that is because the rates have not been depressed by overcompetition and by the competition of other modes.

Consequently what SORE is proposing is that the viable portion of the Milwaukee be rehabilitated. We believe that is consistent with the economics of railroading and the experience of all of us.

In the West, there are six transcontinental carriers, Southern Pacific, the Santa Fe, the D. &. R.G.W., the Union Pacific, the Burlington Northern, which are five of the biggest and most powerful corporations in the United States today and it is because you make money in the railroad business in the West.

By contrast, the other side of the coin is shippers in the West who are dependent upon railroads must have rail capacity and they must have rail competition. Rail capacity up until very recently was always an excess item in the West. The problem was after the transcontinental lines were built, the Panama Canal opened. The lumber from west coast ports moved down the west coast through the canal up into the gulf to the east coast.

That is not true any more. Today the Port of Seattle is one of the most important ports on the west coast and probably the fastest growing and its grain moving out and its import traffic from the Pacific nations that used to move through the canal is moving in. Lumber no longer goes through the canal but it moves east over the railroads.

The shippers, therefore, are faced with a situation where they have to use the rail and there is more and more traffic demanding service.

There was testimony at Senator Baucus' hearing in Montana in February that 1 million tons of coal mined by the Western Energy Co. in Montana could not be transported last year because the railroads did not have capacity. There was also testimony that the grain shippers are in a situation where they cannot sell their product because the elevators cannot move it to the ports.

Milwaukee now has orders received last fall for grain cars that still have not been filled.

By the same token competition becomes important between railroads. Competition between railroads is not important in the Midwest nor in the East because trucks provide the competition. In the West where the railroads have a captive market, competition becomes much more meaningful.

In the case of the Burlington Northern merger which resulted in the Burlington Northern Railroad being formed from the Great Northern and the Northern Pacific and the Burlington, the Interstate Commerce Commission and the U.S. Supreme Court specifically required the importance of competition between the Milwaukee and the new Burlington Northern. It made a finding to that effect.

It become[illegible]en more important today in our era of deregulation. It would see[illegible] particularly unusual to propose to create a monopoly

in the northern tier States with the Burlington Northern and then in the next breath, to propose deregulation.

With regard to the revenue base, I urge the committee to take great care when looking at revenue numbers available to support a reorganized Milwaukee Railroad, to look at present-day markets. You cannot look at what happened in 1925 or 1935. The trustee likes to assert the Milwaukee has been bankrupt twice before and the ICC did a study after the first bankruptcy in 1925 which indicated the Milwaukee never should have been built west.

That is completely irrelevant. In fact the traffic available to the transcontinental railroads until 1960 was indeed inadequate. After 1960, the Panama Canal began to grow obsolete. The charges went up at the canal. The delays went up. Modern ships could not afford that delay. The Port of Seattle began to grow by leaps and bounds at the same time. Grain marketing patterns shifted. Western grain moved west rather than east for a longer haul for the western carriers.

The Clean Air Act and our energy crisis came upon us and western coal started to move in unprecedented volumes. All of those things began to happen in the 1960's.

The Milwaukee's figures for traffic after 1960 are indicative of the pattern. Traffic on lines west increased by 100 percent between 1961 and 1973. During the same period of time, traffic on the total Milwaukee system increased by only 42 percent. The growth is clearly in the West.

By the same token, the trustee's officers have presented figures indicating that 1978 was not a good year in the West for the Milwaukee. It certainly was not a good year but that was due to the shambles that the reorganization has left the property and has nothing to do with the amount of traffic that was available if the railroad had set out to carry it.

In fact the trustee reduced service on the transcontinental line by 70 percent between August 1978 and the winter, that in the face of unprecedented demand.

I think it is also illustrative as when coming out on the airplane, I noticed in the April 30 issue of Business Week magazine an advertisement from the Burlington Northern indicating they are spending $933 million this year alone on improving their plant and equipment and they are making an additional investment of $388 million in new equipment. That is in excess of $1 billion being spent by one western transcontinental railroad. They are certainly not spending that money if there is no traffic to support them.

I guess the greatest disagreement between the SORE organization and the trustee is whether or not revenue is available in the West to support a new railroad. We believe the evidence is conclusive that revenue is there. I find the Booz-Allen study to the extent it has been released to be very strange indeed. Their analysis is that probably there is not much growth potential for the Milwaukee in the Pacific Northwest.

With regard to directed service, that is not the answer and it will in fact probably render reorganization of lines west impossible. In the first place it appears to me that it is a transparent step to avoid the lawful obligation of the trustee to apply to the Interstate Commerce Commission for an abandonment ord[illegible] hereby protecting the shippers who will be entitled to present their needs and protecting the employees who will be entitled to severance pay.

The idea of an 8-month embargo so that severence pay does not have to be paid, I think it is a travesty on the law and on the contracts.

As I understood the testimony of Mr. Smith today and of Commission Chairman O'Neal, in agreement that if competitors were ordered to come in and piecemeal provide service on lines west of the Milwaukee as on any part of the Milwaukee, there would be nothing left to reorganize at the end of the 8-month period. I am in agreement with that.

I do not feel that directed service is required at this time. As the last speaker for the Commission pointed out, the railroad must be determined to be without funds to continue its operations before an embargo can be ordered. In the case at hand, I wish your committee to realize the Milwaukee has assets which have been appraised by the trustee's appointed people to equal $832 million. The total debt of the Milwaukee is approximately $450 million. That leaves an equity of between $300 and $400 million that is available to run the railroad with during a period of reorganization or to be borrowed against without unconstitutionally eroding the rights of the creditors.

We would ask this committee urge the trustee to avail himself of the $50 million in ERSA funds that are not available to him to continue the operation during a reasonable period while abandonment petition could be filed and while SORE can further develop and implement its proposal.

With regard to the SORE proposal, we feel it is a realistic alternative but it is only one alternative. The trustee's precipitous announcement of 2 weeks ago left us with the requirement to present something concrete in as short a period as possible. We would have liked to have spent more time refining it.

We feel it is a proposal that is complete. It is cohesive and it does the job. The numbers used would be applicable to other alternatives which might be available.

It basically shows that a requirement is present for $170 million of loaned funds, not subsidies and not grants but loaned funds, with which to rehabilitate the company, carry it through the first 3 years of deficit operations and at the end of that time you have a class 4, 60-mile-an-hour railroad from the Twin Cities to the Pacific coast, Puget Sound. It is owned by the employees. It would be earning a profit for the employees in the neighborhood of $18 million in the 5th year and I believe $42 million at the end of the 10th year.

I think it is important that those numbers which were used in constructing the study essentially come from the railroad. Mr. Brodsky and I were both employed by the railroad. I was employed for 10 years and Mr. Brodsky was employed for 8 years. We worked in the planning department of the railroad hoping to provide a plan of reorganization to the trustee which he did not find time to apparently review.

[Mr. Simpson's prepared statement follows:]

STATEMENT OF J. FRED SIMPSON, PRESIDENT, ASSOCIATION TO SAVE OUR RAILROAD EMPLOYMENT

Mr. Chairman, distinguished members of the Subcommittee on Transportation and Commerce, my name is Fred Simpson. Bill Brodsky, James Wickwire of the Seattle law firm of Wickwire, Lewis, Goldmark & Schorr, and I are appearing today on behalf of Save Our Railroad Employment ("SORE"), an organization of present and former employees of the now bankrupt Milwaukee Railroad. Both Bill and I are former executives of the Milwaukee. Additional information concerning our background and experience appears in two affidavits filed by me in the Milwaukee Reorganization Proceedings in Federal District Court in Chiacgo, copies of which accompany this testimony. The Wickwire, Lewis law firm also represents the State of Montana in the reorganization proceedings although Mr. Wickwire is not today appearing on the State's behalf. Gentlemen, we are grateful for this opportunity to participate in your oversight hearings concerning the bankruptcy of the Milwaukee.

Mr. Chairman, you are to be congratulated for recognizing the critical importance to the nation and the western northern tier states in particular of the Milwaukee Road, the sixth largest rail system in the country. Although the recent proposal of the Milwaukee's Trustee in Bankruptcy to "embargo" or terminate service on approximately 80 percent of that system, including all of the lines west of St. Paul, Minnesota, has focused considerable public attention on the problem, your earlier and thorough interest in the bankrupt Milwaukee is greatly appreciated by the 600 members of SORE, the other 2,200 Milwaukee employees, thousands of shippers in western cities and towns and at least the states of Washington, Idaho, Montana, and North and South Dakota, to whom continued operation of the Milwaukee is so desperately important. Although we long have been certain and recent events have demonstrated that the Milwaukee's bankruptcy Trustee has been determined for virtually his entire 16-month tenture to abandon the lines west, we will not take the Subcommittee's valuable time today in decrying the biased, destructive, and callous attitude of the Trustee. The recent federal district court hearing on the Trustee's de facto abandonment recommendation, the record of which we will provide the Subcommittee once it becomes available, afforded ample opportunity for the affected states, their Congressional representatives and us to air our feelings about his closed-minded and harmful stewardship of this extremely valuable natural resource. Rather, our purpose here today is to reiterate for you the importance of retaining the Milwaukee as a functioning transcontinental rail system and to present at least one viable alternative to abandonment which clearly demonstrates that the Milwaukee's western lines can be reorganized into a competitive and ultimately profitable railroad.

In discussing the significance of the Milwaukee, it is important to bear foremost in mind that it provides the only rail service available or possible in substantial portions of the affected states. Furthermore, its abandonment would leave the Burlington Northern, its principal competitor, in a virtually monopoly position in the northern tier. The importance of competition in transportation has become abundantly clear in this era of deregulation. And, in any event, it is obvious that monopoly rail service would not be advantageous. In fact, the existence of a strong and competitive Milwaukee was the premise for government and ultimately Supreme Court approval of the merger which created the Burlington Northern. Had the Milwaukee then been in the precarious straights it is today, it seems unlikely that the Burlington Northern merger would have been approved by the Interstate Commerce Commission and withstood Supreme Court review.

The western extension of the Milwaukee constitutes a great and possibly irreplaceable national asset which would cost on the order of $4 billion dollars to rebuild once dismantled but which could be rehabilitated for less than $200 million dollars to provide the best line of railroad serving the northern tier and connecting the rapidly expanding north Pacific Coast and Columbia River ports with heartland population centers. The Milwaukee, completed in 1908, was the last railroad built west, and as a consequence previously unavailable surveys were used for selecting a superior route through the mountain ranges in Montana, Idaho and Washington. The line constructed provided the shortest continental mileage, the least grade and the best curvature of the northern railroads. In addition, the Milwaukee was then a wealthy and profitable company and therefore built to high standards. The present condition of the Milwaukee track in the western states is deteriorated, due to two decades of perfunctory and half-hearted maintenance, but salvageable for a mere fraction of replacement cost. Generally, the rail is of heavy weight and in good condition, as are bridges and tunnels. The majority of rehabilitation work is limited to tie and ballast work, a relatively inexpensive undertaking.

Despite the existence of this resource, however tarnished and unrecognized, at no time has the Trustee, prior Milwaukee management or any other group conducted a

detailed traffic study to determine whether or not sufficient traffic is available to lines west to support a viable railroad. In fact, what piecemeal work that has been done has tended to indicate that there would be additional traffic were adequate equipment available and service reliable. Even this limited work, which has relied on historical records reflecting the deteriorated condition of the railroad, demonstrates that actual demand for service far exceeded the Milwaukee's ability to provide it, whether through inadequate freight car supply, poor scheduling and marketing or unwillingness on the part of shippers to gamble on the Milwaukee's reliability. It is important to note, moreover, that of the six transcontinental lines, only the Milwaukee is in financial difficulty; the others are considered prosperous and successful railroads. SORE's view that the Milwaukee's lines west can be effectively reorganized is based on 1977 company traffic records and is therefore conservative given the abysmal quality of service then provided.

SORE's conservative conclusion that reorganization is possible merely acknowledges but prudently does not rely upon reasonable expectations of new traffic. The Milwaukee's transcontinental line traverses nearly one-third of the nation's low-sulfur coal deposits, which are only now beginning to be tapped commercially. The national interest in exploiting this resource is clear given the darkening energy crisis and the dictates of the Clean Air Act. Larger quantities of Montana coal will be in demand if transportation is available. The Milwaukee also serves exclusively a large portion of the grain producing regions of the northern tier, increased production from which can be expected for domestic and foreign consumption alike. And the Milwaukee provides critical service to the booming north Pacific Coast and Columbia River ports which, lying a full day closer to the Orient than California ports and already exploiting just-normalized relations with the Peoples Republic of China, are concerned about their future growth because transcontinental rail capacity must be inadequate even if the Milwaukee survives. Many individual shippers have indicated a willingness to enter into long-term rail transportation contracts if the Milwaukee transcontinental lines are rehabilitated. Additionally, relinquishment of U.S. control of the increasingly obsolete Panama Canal will tend to make transcontinental service transportation more attractive.

In fact, as we understand the Trustee's position before the Reorganization Court in Chicago, he acknowledges that even with existing traffic the western lines could probably be successfully reorganized on a profitable basis if sufficient capital is committed to rebuild the deteriorated track and equipment. The Trustee is simply not willing to undertake the risks associated with such a large capital program without the approval of the Milwaukee's creditors and shareholders. Because of the extremely conservative basis of the Trustee's traffic projections (i.e., 1977 data without any projection for future growth), we think this position and the underlying studies should properly be construed as support for our belief that the western lines can be reorganizaed as an independent and profitable railroad company.

The reason reorganization of the transcontinental line has not been considered by the management or the Trustee is fairly clear. As an article in the January 19, 1979, Wall Street Journal pointed out, Milwaukee shareholders would apparently realize a return of their investment in the range of 1600 percent if the entire railroad were liquidated. Holders of Milwaukee bonds similarly would be anxious for liquidation since interest rates on their rather long-term investments generally are below 5 percent. Recent speculative trading in Milwaukee stock indicates that new investors are banking on liquidation, a concept the Trustee has hardly discouraged.

Based on the results of a detailed viability study conducted during the last six months, a copy of which accompanies this testimony, SORE is confident that reorganization represents a financially viable alternative to abandonment of transcontinental service. Simplly stated, the Milwaukee's western lines can be operated profitably by a properly-managed private company. A detailed presentation of the SORE plan has been submitted as an exhibit, but a summary discussion is warranted this afternoon.

A new company will be organized to acquire the assets of the Milwaukee west of St. Paul, including necessary cars, locomotives and supplies. The routes are shown on the system map and are listed at Appendix A, Page 1. The new company would also acquire the Milwaukee Land Company, a wholly-owned subsidiary of the railroad with extensive timber and approximately 150,000 acres of land in Washington, Idaho and Montana.

A. Acquisition of assets

The assets will be acquired in exchange for the agreement of the new company to assume a pro rata share of the Milwaukee's existing debt. This is essentially the same process as followed in the case of the Chicago & Northwestern Railroad, which was acq d by its employees in 1971.

The new company would immediately resume payment of interest and principal on the bond and debenture debt assumed from the Milwaukee. Payments would continue in accordance with the terms of the various classes of bonds and debentures until maturity or earlier redemption. A non-cumulative 6 percent preferred stock would be issued to the balance of the unsecured creditors whose debt is assumed by the new company. Conservative projections show that dividends on that stock would be available as early as the fourth or fifth year of operation.

B. Funds for rehabilitation and working capital

In addition to the physical properties, the new company will require cash. Cash requirements include a loan of $118 million to correct the effects of past deferred maintenance on the main line trackage, a loan of $20.2 million to cover operating losses for the first two years, and equity capital of $32.1 million to cover start-up costs and provide a fund of working capital.

This proposal limits its consideration to federal government loans and loan guarantees coupled with an Employee Stock Ownership Plan. The proposal is cohesive and complete. There appears to be the possibility, as an alternative, of obtaining at least part of the necessary funding in the private sector. This could be done either through direct shipper investment in the debt or equity of the new company, or through loans based on long-term shipping contracts. Private participation would obviously reduce the requirements for federal loan guarantees or provide increased financial strength for the new company. SORE would endorse participation by the private sector but has not had an opportunity to develop such an alternative. On the other hand, whether or not such private investment is forthcoming, this proposal is a comprehensive and realistic alternative to the Trustee's plans to liquidate lines west that can and should receive immediate consideration.

Present federal programs under the Rail Revitalization and Regulatory Reform Act of 1976 (the "4-R Act") and the Emergency Rail Services Act ("ERSA") are intended to provide sources of funding for rehabilitation and operating loss loans, of the type required. The necessary funds have already been appropriated and, based on information presently available are available. There is some possibility that the regulations under which the programs are administered may need to be amended in order to make some of these funds available to the Milwaukee. This question is presently under review.

The 4-R Act rehabilitation loan repayment would be deferred, pursuant to the terms of the statute, until the eleventh year of operations and would then continue through the thirtieth year. The ERSA loan is scheduled in the plan for payment of interest only in years two and three and then for payment of principal and interest in the fourth through seventh years.

The $32.1 million for working capital and start-up costs would come from the sale of the new company's stock to the employees through an Employee Stock Ownership Plan (or "ESOP").

C. Employee stock ownership plan

An ESOP is a program providing a means for employees to acquire an ownership interest in their company through the earnings of the company. Typically a loan is made to an ESOP Trust which uses the loan money to buy stock in the particular company. The company immediately receives the funds from the stock sale, and agrees to make regular payments to the trust sufficient to allow the trust to pay off the original loan. As the loan is paid off, the stock in the trust is assigned to the individual employees of the company, based on their period of service and rate of pay.

There have been notable successes with ESOP programs in situations involving financially distressed businesses as well as successful ones. The best known case of a financially distressed company purchased and revitalized by employees using an ESOP involved South Bend Lathe, Inc. An article from the August 16, 1976, Wall Street Journal describing how ESOP was applied in the South Bend situation is reprinted as Appendix B.

Under the SORE proposal, the federal government through the Economic Development Administration, or a similar agency, would guarantee a loan of $32 million to an ESOP Trust which would, in turn, use the money to purchase all of the common stock of the new company. The new company would make annual tax deductible payments to the trust with which the trust would repay the loan. As the loan is repaid, the shares of stock would be credited to the accounts of individual employees. The ESOP loan would be repaid by company contributions over 15 years. If individual employees elected to purchase shares in addition to those purchased for them by the new company's annual payments, the loan would be paid at an earlier date.

A more detailed discussion of the SORE plan is attached.

The Milwaukee western lines are of singular importance to the economic well-being of the states they serve as well as the nation generally. In just Washington, Idaho, Montana, North and South Dakota, the Milwaukee had in excess of 2,600 employees and a payroll of $48.9 million in 1977. In addition to direct payroll, there are obviously many secondary jobs dependent upon Milwaukee employment. Hundreds of small communities are totally dependent upon exclusive Milwaukee service. In Montana alone, there are 31 public warehouse and grain dealer facilities with a storage capacity of more than 4.3 million bushels which would be without rail service if the Milwaukee's lines are abandoned. In the west, where distances are vast and the commodities produced, such as grain, forest products, and coal, heavy and bulky, railroads are the only economically practical means of shipment. In contrast, rail hauls tend to be relatively short in the mid-west and east, where river and highway systems are highly developed and many commodities can move as economically and more expeditiously by truck or barge. The short-haul, congested and relatively high cost of eastern and mid-western railroads is easily and often supplanted by other modes. However, intermodal competition hardly figures out west either as a viable alternative to rail service or as a rate limiting factor.

In addition to meeting a national responsibility to an entire region, rehabilitation of the Milwaukee serves notable national objectives as well. With the worsening energy crisis, it seems foolish at best to throw away a potentially viable rail system which consumes one-third the fuel which would be required by trucks. The movement of nationally significant quantities of forest products, wheat and other agricultural commodities would be imperiled. The development of vast reserves of extremely desirable low-sulfur coal would be retarded, if not precluded. And increasing valuable trade with the Pacific Rim may well be limited, negatively impacting our already bleak balance of trade. Furthermore, any action which results in reduced competition in a major transportation sector in any large region deserves very critical scrutiny.

Mr. Chairman, SORE believes that the interest you and your colleagues on this Subcommittee have shown in the Milwaukee has done much to focus public attention on the implications of abandonment of the transcontinental lines. Of course, we are grateful to you and other members of Congress who have recognized the importance of the bankruptcy proceedings. As you are aware, Montana's Senator Melcher has successfully sheparded through the Senate legislation which calls for the Secretary of Energy to conduct a rapid study of the coal producing potential of the area served by the Milwaukee with an eye toward demonstrating to the nation that it simply cannot afford to allow the Milwaukee to vanish as a functioning, independent transcontinental railroad. We also are encouraged and hope for the passage of House Joint Resolution 318 calling for continued operation of the Milwaukee system for at least the next ninety days and federal support therefor in order to give Congress and the Trustee, assuming he would be disposed, an opportunity to review rehabilitation alternatives such as the plan we presented to you today.

We ardently believe, Mr. Chairman, and we hope we have persuaded you that viable alternatives to abandonment exist. We remain extremely grateful to the Subcommittee for this opportunity to explain our proposal, about which we are increasingly enthusiastic. Given the opportunity, we are confident the Milwaukee not only can survive but can again become a successful transcontinental line. We intend to persist in presenting our proposal to the bankruptcy court, the Interstate Commerce Commission, appropriate federal administrative agencies and here in the Congress.

We are hopeful that the Milwaukee can be reorganized without additional federal legislation. However, should we find that during the next several weeks, that assistance necessary under either the Rail Revitalization and Regulatory Reform Act or the Emergency Rail Services Act may not be forthcoming, we would turn to you and our other friends in the Congress for help in clarifying what we feel was the legislative intent that these Acts reach situations like the bankruptcy of the Milwaukee. We ask only that you maintain your interest in the problem because we are confident that we can successfully appeal to you upon the merits of saving this great national transportation resource and clearly demonstrate that there is at least one viable plan for reconstituting the Milwaukee Road.

Again, thank you for your courtesy, Mr. Chairman.

Mr. FLORIO. Mr. Simpson, may I ask if your plan contemplates the preservation of the entire noncore system, or does it attempt to rationalize or trim down the noncore railroad system?

Mr. SIMPSON. Mr. Chairman, I guess my response would be I see the core of the Milwaukee entirely different than the trustee. What

we have proposed is the line from Twin Cities to Seattle and there is a map on our proposal in the prepared materials, with branch lines that spring from that mainline.

At the time we began working on our proposal, the trustee had announced that was what he intended to rid himself of. He has now shifted his position three times in the last 2 weeks and we have not had an opportunity to review the other parts of the railroad.

We feel it would be much more difficult to reorganize the Midwestern part of the railroad because of the fact that in most of the Midwestern territory, there are four or five other railroads plus you have all the trucks. You have tremendous overcapacity in the Midwest as opposed to the West where we feel the economics are much more favorable.

Mr. FLORIO. Have you had an opportunity or do you intend to review the noncore portion of the system as currently defined by the trustee? Do you have any expectations of your being able to use the same basic principles you have talked about to make something viable by way of a rail system out of the noncore system which the trustee is talking about?

Mr. SIMPSON. We have taken a very preliminary look at lines in Iowa which would tie into our proposed system at Sioux City, Iowa. We feel those important grain lines might well fit into our system. Beyond that we have not looked and we probably would not.

Mr. FLORIO. It is my understanding that you made public comment that there is a Japanese interest in supporting your endeavors. Is this true?

Mr. SIMPSON. Yes, sir. That comment was made by myself. I guess I am the source of the rumor, if you will. It was made early in the proceeding when I had two conversations with two individuals independently who work in the Japanese investment community. I did not speak with any particular Japanese concern. Those individuals advised that for a number of reasons they felt the Japanese investment community would be interested and those reasons were the obsolescence of the Panama Canal and the Panama Canal Treaty which apparently is of great concern to the Japanese who depend on exporting their commodities and they are fearful among other things not only of rate increases and delays but the possibility of political instability closing the canal.

They are making arrangements to divert the bulk of their traffic through the west coast ports. It is specifically the North Pacific coast ports.

They are in a situation where the balance of trade problem is causing them embarrassment. They are under pressure to send money rather than television sets. This would have some goodwill measure if they were to finance it.

Third, they have energy demands which there is a good possibility will be met with coal from Montana and Wyoming among other places. The volumes of coal that are anticipated are in the neighborhood of 20 million tons a year which equates to eight unit trains a day and, therefore, they would need capacity which is not available without the Milwaukee.

Mr. FLORIO. Mr. Simpson, we thank you very much for your comments today. There is great interest in the pr sal. I suspect

that after the 15th, when we find out what takes place at the hearing, the committee will be back in touch with you to offer their assistance in seeing that the proposal is feasible. We thank you very much for your appearance today.

Our last group is a panel comprised of Mr. R. O. M. Grutle, the consultant to the president of Otter Tail Power Co.; Mr. Allan Burke of the National Farmers Union; Mr. Bruce Hagan, Public Service Commission in Bismarck, N. Dak., and Mr. James Meyers, director of the division of railroads, Transportation Building in South Dakota.

I would ask the gentlemen to please take their places at the table. All of the statements will be inserted into the record in their entirety. We welcome all of you, and ask that you identify yourselves in turn and proceed in whatever order you desire.

Perhaps it would be appropriate to ask Mr. Grutle to go first since he is listed so on the witness list.

STATEMENT OF R. O. M. GRUTLE, ON BEHALF OF BIG STONE POWER PLANT (SOUTH DAKOTA), OTTER TAIL POWER CO., NORTHWESTERN PUBLIC SERVICE CO., MONTANA-DAKOTA UTILITIES CO., AND KNIFE RIVER COAL MINING CO.

Mr. GRUTLE. I am R. O. M. Grutle. I am very happy to be here. I am happy we have this opportunity to present this testimony. I will give you a summary.

The Big Stone powerplant is the subject to which I will address my remarks. It is a plant of 437 megawatts of capacity and it went into operation in 1975. Its annual output is about 2.8 billion kilowatt-hours. It is owned by three companies, Otter Tail Power Co., 47½ percent; 20 percent by Montana-Dakota Utilities, and 32½ percent by Northwestern Public Service.

The combined companies have an electric service as shown in our exhibit No. 1. The only point I want to make in referring to that is in the lower left-hand corner we have a map of the United States with our service area sketched on so people in this part of the United States can see that our service area has an awful lot of square miles.

It would encompass everything from here to Canada.

The effort in building this plant was to build one large enough so as to take advantage of the economies of scale through large mining operations, through unit train shipments and, of course, the economy in the operation of a larger powerplant. It was the largest lignite-fired powerplant in that area at the time it was built. It is located near Milbank, S. Dak., for reasons of normal plant siting; namely, available fuel, water, and proximity to the load needed to be served by this plant.

We spent many years developing the tariff that applied to this plant. It started in the late 1960's and continued until the plant went on line in 1975. These discussions were with the various officers of the Milwaukee Railroad as well as our consultant, the Bechtel Corp., and the owners.

We had all of these meetings for the purpose of making sure we all understood what was required in this service. We think we accomplished that. Our discussions were always amiable. We also included in the discussions the fact that the service life of the plant

is probably on the order of 35 years and that a second unit would very likely be built in the late 1980's or the early 1990's.

The plant requires 2.8 million tons of coal per year or about 60,000 tons per week and the design is based on 3 million tons. It is supplied by Knife River Coal Mining Co. from their Gascoyne mine in southwestern North Dakota. Knife River has a commitment to supply 55 million tons of coal during the first 20 years of the plant life. Last year they shipped 2,863,000 tons and the Milwaukee Railroad collected $7,616,000 for that in freight revenues.

Knife River in its mining area has approximately 400 million tons of lignite available. The only form of transportation to move that coal out is the Milwaukee Railroad.

In our case it is moved on two unit trains consisting of six deliveries a week at 10,000 tons each. The 232 cars that make up the unit trains are owned by the powerplant and are designed specifically for this movement.

For these reasons, the Big Stone partners and Knife River are vitally concerned with the possible discontinuance of the Milwaukee Railroad's service west of Minneapolis or more specifically between the South Dakota-Minnesota border and the Montana-North Dakota border.

The direct impact of such a development would be the shutting off of fuel supply to the Big Stone plant which means generation would terminate.

The powerplant has 62 full-time employees with varying part-time ones particularly during the overhaul period. It is staffed by members of the International Brotherhood of Electrical Workers. The 1979 payroll was $1,600,000 and in addition the plant paid $2,100,000 in taxes to the various taxing entities in South Dakota plus $2,100,000 in severance taxes on the fuel to the State of North Dakota.

The coal mine employs 85 people with an annual payroll in excess of $1,500,000. In the event of a shutdown, these jobs and tax revenues would be lost.

The total investment in the plant is $169 million, the largest single private investment in South Dakota. Normally we would amortize this investment over a period of 30 years that varied slightly between the three owners. At any rate, as of December 31, 1978, there were still $150 million worth of unamortized funds in the plant.

If the owners were to recover this investment over the next 8 years which is about the time it would take to build a replacement instead of during the normal life of the plant, the extra cost to our 266,000 customers would be $15,250,000 in the first year.

In addition the utilities involved must still provide energy to their customers in spite of the loss of Big Stone. If this could be done and there is serious question if it can, the cost of purchased power during the first year would probably be on the order of $32,700,000 more than it would have cost if it had been generated at Big Stone.

The sum of these two would result in electric rate increases on the average of 35 percent for all our customers.

There has been talk of alternate means of delivering fuel such as by truck. The South Dakota Department of Transportation has

addressed this and we have an exhibit attached which is their report on the impact of such a movement. It would require 358 loaded trucks each day and 358 empties returning. In this part of the country this does not amount to much but out there where we have two-lane highways and not designed for that kind of loading, it would be a disaster for the South Dakota Highway Department.

That does not say anything about the use of oil for the fuel for these trucks. We think that something on the order of 22 million gallons of fuel oil would be used annually by these trucks and 90 percent of that could be saved if we used it on a railroad.

Another is slurry pipeline and there are some technical problems associated with that not the least being the availability of water. The technical problem is there is some question about the lignite going into colloidal suspension in the water and you would be unable to remove the coal from the water and therefore you would lose a little coal but much worse than that is that the water would be essentially of no further use.

One could look at the transportation of coal by other railroads such as the Burlington Northern but their nearest branch line to the mine could not haul anything bigger than a 60-ton car without completely rebuilding the line from the western end back to Mandan, N. Dak. You cannot reach the plant by any other railroad except the Milwaukee.

It has been suggested that the partners in the plant buy this section of the Milwaukee Railroad. It has also been suggested that maybe it could be purchased for $65 million. These partners are already financially stretched to meet their projected construction programs and in the next 5 years, they will have to double their capitalization. It is very doubtful that we could attract another $65 million.

The original investment in the mine is $14.5 million and this would also be lost. The real loss here is the 400 million tons of reserves that would have to be abandoned.

All of this leads us to one conclusion; the service of the mainline of the Milwaukee Railroad is absolutely necessary to continue the operation of the Big Stone plant and the movement of the Nation's lignite coal. Continued operation of the Big Stone plant is essential to the economic well-being of a large number of citizens in the State of South Dakota, North Dakota, parts of Montana and Minnesota which is the service territory of the three electric utilities.

I thank you.

[Testimony resumes on p. 163.]

[Mr. Grutle's prepared statement and attachments follow:]

STATEMENT OF R. O. M. GRUTLE, ON BEHALF OF BIG STONE POWER PLANT (SOUTH DAKOTA), OTTER TAIL POWER CO., NORTHWESTERN PUBLIC SERVICE CO., MONTANA-DAKOTA UTILITIES CO., AND KNIFE RIVER COAL MINING CO.

Summary

The Big Stone Power Plant has a capacity of 437 MW and went into commercial operation in 1975. Its annual output approaches 2.8 billion kilowatt-hours per year. It is jointly owned, 47-1/2% by Otter Tail Power Company with headquarters in Fergus Falls, Minnesota; 20% by Montana-Dakota Utilities Co. headquartered in Bismarck, North Dakoka; and 32-1/2% by Northwestern Public Service Co. headquartered in Huron, South Dakota. The combined companies provide electrical service in the area shown by Exhibit I. Otter Tail Power Company acted as agent for the owners during construction and now acts as the operating agent. The concept of the Big Stone Plant--size, etc.--evolved in the late 60's and early 70's. A joint effort was developed to allow the owners to build a station large enough to take advantage of the economies of scale, the economies that go with mining large quantities of coal and the economies associated with the use of unit trains for the movement of that coal to the power station. It was larger than any other North Dakota lignite-fired unit at that time.

The location, near Milbank, South Dakota, was the most advantageous to the needs of the three companies from the point of available fuel, water, and proximity to the load needed to be served by this plant. Tariff developments with the Milwaukee Railroad (the development of the rate)--the full requirements for this service, and all of the matters relating to it, which went into an ICC-approved tariff, were developed over a period of years, starting in late 1960's and continuing right through to the initial coal movement in early 1975. Those discussions, held with various officers of the Milwaukee Railroad, our consultant in these matters (Bechtel Power Corporation of San Francisco), and the owners, were always on the most amiable basis.

Many meetings were held so that each of us would fully understand the requirements that must be met in order for this to be a successful tariff, from the point of view of the shipper, the receiver, and the railroad. We all felt that these things were accomplished. All matters were discussed that had any relationship to the tariff, and at no time were there any doubts created in our minds by anything presented to us by representatives of the railroad as to their ability to provide this service. The years of economic life that were to be expected from such a power plant were freely discussed, as was the strong possibility of the development of a second unit in the late 80's or early 90's. Our relationships and discussions were completely open.

The plant requires 2.7 million tons per year, or about 60,000 tons per week of lignite. It is supplied by Knife River Coal Mining Company from their Gascoyne Mine in southwestern North Dakota. Knife River has committed to supply the Big Stone partners with 55,000,000 tons of coal during the first 20 years of plant life. Last year the mine shipped 2,862,893 tons to Big Stone on which freight in the amount of $7,615,287 was paid. Reserves of Knife River in the mine area are approximately 400,000,000 tons and the only means of transportation for this vast coal reserve is the Milwaukee Railroad. It is moved to the power plant through the use of two unit trains, resulting in six deliveries per week of 10,000 tons each. The 232 cars that make up the unit trains are owned by the power plant and were designed especially for this movement.

For this reason, the Big Stone partners and Knife River are vitally con-concerned with the possible discontinuance of Milwaukee Railroad service west of Minneapolis, or more specifically, between the South Dakota-Minnesota border and the North Dakota-Montana border. (See Exhibit II)

The Burlington Northern indicates that cars of even 60-ton to 70-ton capacity could not be moved over that line without complete rebuilding from the western end back toward Mandan. We still could not deliver to the plant without going over other branch lines that are in equally deplorable condition. Further, the highways between Gascoyne and Mott, North Dakota, are certainly not of the type that could handle heavy coal-hauling traffic.

The only other fuel possibility is oil, and that is contrary to national policy and probably not available.

It has been suggested that the partners purchase the Milwaukee Railroad. Cost estimates for the purchase of the trackage between Big Stone and Gascoyne, upgrading it, and necessary locomotives is $65,000,000. The partners would be hard pressed to finance this acquisition as each is already projecting that they must nearly double their capitalization during the next five years. Attracting this amount of capital will be difficult enough without trying to acquire the additional capital needed to purchase a railroad.

The original investment in the mine was $14,500,000. This would be lost to Knife River if transportation is no longer available for coal. But the real loss is the loss of the lignite coal to the nation. The abandonment of the Milwaukee will leave an area containing large reserves of lignite coal without rail service.

All this leads us to but one conclusion--the services of the mainline of the Milwaukee Railroad are absolutely necessary to the continued operation of the Big Stone Plant and the movement of the nation's lignite coal. Continued operation of the Big Stone Plant is essential to the economic well-being of the area it serves, and transportation of the coal is essential if it is to help meet the energy crisis.

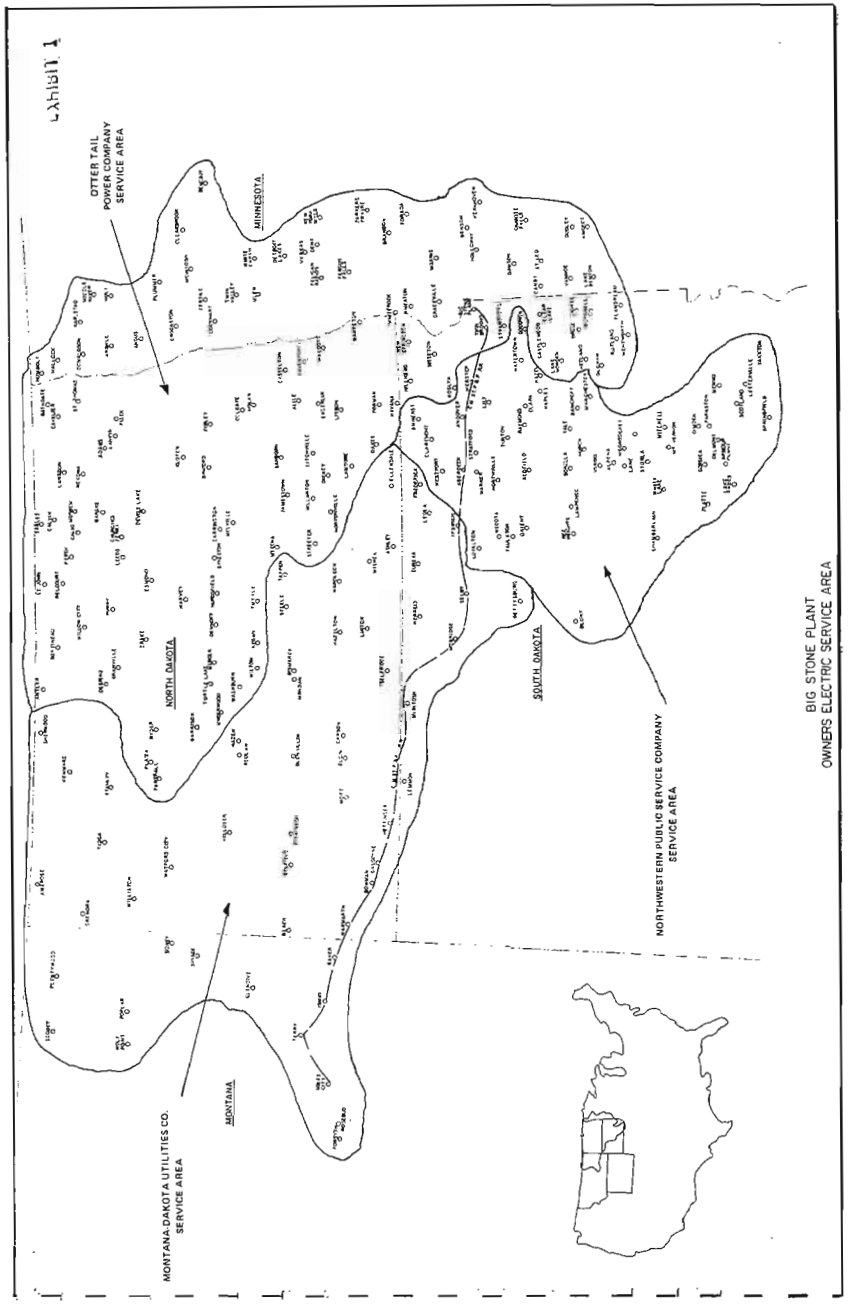


Exhibit II

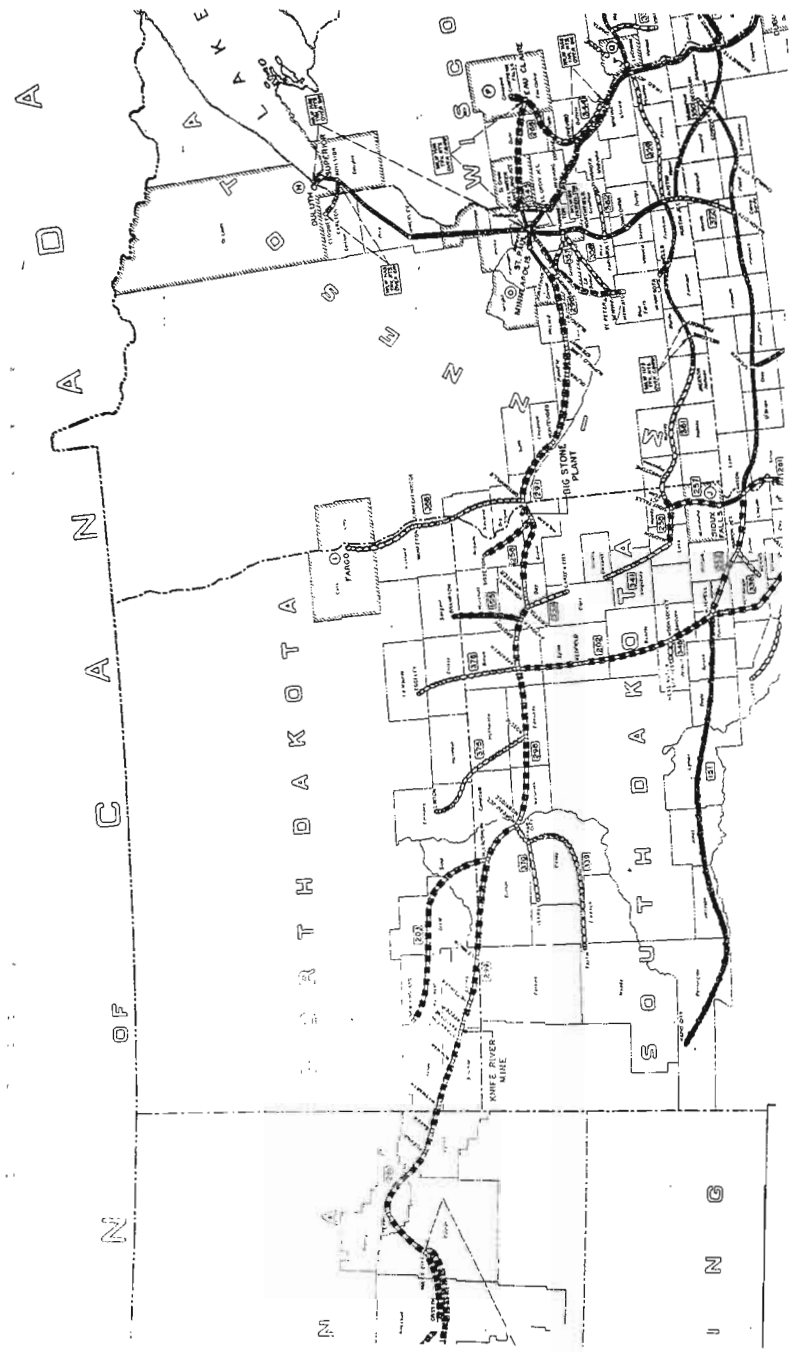


Exhibit III

AN ANALYSIS OF THE ADDED COST OF MAINTENANCE AND CONSTRUCTION IF THE COAL TO SUPPLY THE BIG STONE POWER PLANT WERE HAULED FROM GASCOYNE, NORTH DAKOTA OVER U.S. 12

Prepared By The

South Dakota Department of Transportation
Division of Policy Development and Evaluation
Office of Transportation Planning

INTRODUCTION

This is an analysis of the added costs of maintenance and construction that would be made necessary to allow U.S. 12 to continue to serve if the coal to supply the Big Stone Power Plant were hauled from Gascoyne, North Dakota to the plant over U.S. 12. The cost of added maintenance and construction for the first five years of operation under coal traffic is discussed in the text of this analysis. In addition, the estimated cost of the year 2000 is shown in the appendicies.

U.S. 12 is a principal arterial highway, primarily two-lane, that extends 316.5 miles through the northern tiers of counties. This highway follows in close proximity to the Milwaukee Railroad for its entire length through South Dakota from west of Lemmon to the Minnesota state line at Big Stone City. In serving this corridor, U.S. 12 is routed through the commercial districts of several cities. In the two larger cities, including the third largest city in South Dakota, there are signalized intersections which effects traffic flow and capacity.

ANALYSIS

The status of needed improvements and required maintenance along U.S. 12 is similar to those for other federal-aid primary highways. With all highways competing for highway revenues that are continually diminishing in purchasing power, a large portion of the needs will not be addressed in a timely fashion. The present backlog needs on South Dakota's primary system is $76,000,000 and the backlog on U.S. 12 is $3,400,000. There will be approximately $28,000,000 available to improve the primary system in Fiscal Year 1980. U.S. 12 is 316.5 miles in length or 4.83% of that system so it might reasonably be expected to receive $1,350,000 per year to correct deficiencies.

If the Milwaukee Railroad discontinues service on the line adjacent to U.S. 12, it is reasonable to believe that the cargo hauled by rail will shift to the most direct highway facility. This would include the 3,000,000 tons of coal that is transported annually from the coal mines in North Dakota to the power plant at Big Stone City.

It requires 6 unit trains of 100 rail cars hauling 100 tons each to supply the Big Stone Power Plant for one week. This is equivalent to 125,000 truck loads each year or 358 loaded trucks and 358 empty trucks each day, assuming each loaded truck carries 48,000 pounds.

In South Dakota U.S. 12 passes through the communities of Lemmon, Morristown, Watauga, McIntosh, McLaughlin, Mobridge, Glenham, Selby, Bowdle, Roscoe, Ipswich, Aberdeen, Groton, Andover, Bristol, Webster, Waubay, Ortley, Summit, Milbank, and Big Stone City. This cost analysis provides for construction of a bypass around Aberdeen but does not address the impact on the other communities.

If coal were to be hauled by truck to Big Stone to supply the power plant it will take the equivalent of 1 loaded truck and 1 empty truck passing every point on U.S. 12 every 4 minutes. This assumes the hauling would be spread over 50 weeks of the year hauling 24 hours every day, 7 days of the week. If the trucking were not spread evenly, the frequency of trucks would increase during those hours of concentrated hauling.

Adding truck traffic of this frequency can be expected to have an impact on the parks, schools, churchs and homes along the route. There will also be economic impacts on the communities. Motorists will be deterred from travel on U.S. 12 if they are aware of the frequency of the large trucks that would be on the route. No attempt has been made in this analysis to measure these social, environmental or economic impacts.

Safety could also be impacted by this frequency of heavy trucks. Even after making the first five years of improvements indicated in the analysis as necessary to accommodate the coal traffic, 58 miles would have a shoulder of 3 foot or less. Another 58 miles would have a shoulder of 6 foot or less. Thirty-seven percent of the route would have a shoulder of 6 foot or less. It takes a 10-foot shoulder to provide a relatively safe place to park a heavy truck. The shoulders along much of this route would be inadequate for a distressed motorist to use for parking. Whenever a vehicle was forced to park on the narrow shoulders a hazard would be created. The frequency alone of this truck traffic would be hazardous. No attempt has been made in this analysis to assess the impact on safety.

It would be extremely difficult to construct the improvements indicated in this report as needed during the first 5 years of coal hauling while carrying the traffic. No attempt has been made in this analysis to determine how to accomplish the improvements while carrying traffic nor to assess the added costs this might create over the cost of making the improvements under normal traffic.

If the coal traffic is diverted to U.S. 12, it will be carrying more truck traffic than Interstate 90 presently carries between Rapid City and Mitchell. The 1976 average daily truck traffic between Rapid City and Mitchell ranged from 355 south of Quinn to 735 just east of Rapid City. The average daily coal truck traffic would be 716. There is an existing truck traffic on U.S. 12 from 100 to 410. The impact of the increased loading on U.S. 12 would be similar but greater than the impact on S.D. 73 and U.S. 14 when I-90 traffic was diverted to these routes during 1973 and 1974. The resulting damage to the highway surfaces and the increased maintenance costs are documented in a report entitled "Evaluation of Structural Design of Existing Pavements Under Accelerated Heavy Loads." A copy of charts 17 and 18 of the report are attached as Appendix "A".

Charts 17 and 18 of the S.D. 73-U.S. 14 analysis report indicate the maintenance cost on the 29.293 miles of U.S. 14 rose from $1,200 per mile per year to $2,100 per mile per year under interstate traffic. The 14.775 miles of S.D. 73 rose from $800 per mile per year to $4,700 per mile per year of $1,906 while under Interstate 90 traffic.

The maintenance costs, as shown, in the report "Evaluation of Structural Design of Existing Pavements Under Accelerated Heavy Loads" appear to have been calculated without considering inflation. The highway construction cost index for 1956 to 1972 averaged 88.34, for 1963 to 1972 averaged 97.09, for 1973 and 1974 averaged 149.70, and for 1978 averaged 223.2. Using these indexes to adjust for inflation, the added maintenance cost for U.S. 14 in 1973-74 dollars is $250 and for S.D. 73 in 1974-74 dollars in $3,345. The weighted average indicates an increased cost of $1,288 per mile per year. In 1978 dollars, these figures become $373, $4,987, and $1,920, respectively.

Some sections of U.S. 12 are currently in weaker condition than either U.S. 14 and S.D. 73 were in 1973 when the interstate traffic was diverted to them. For example, the stretches of U.S. 12 from Lemmon to Thunderhawk and from Watauga to McIntosh are much weaker. On the other hand, U.S. 12 west of Webster is now under contract for new surfacing and should be at or near a strength of 4.0. While the range of conditions on U.S. 12 are broader than those encountered on U.S. 14-S.D. 73, we feel the increased maintenance costs experienced on U.S. 14-S.D. 73 would be indicative of what might be expected on U.S. 12 under the coal traffic loading. Based on this assumption, added maintenance costs have been calculated and are contained in Appendix "A".

In addition to the increased cost of maintenance, the surface of the road was in much poorer condition after the I-90 traffic than it had been before. Before I-90 traffic diversion, it was serving the light traffic loads at relatively low maintenance costs and showed little cracking or distress. The report states that after the traffic returned to I-90, "The surfacing over the entire 44 miles of detour is now showing weakness in the form of rutting and incipient alligatoring.(1) It will require a minimum of 1/2 inch laid seal in the town of Philip and up to 3-1/2 inches of overlay mat in other areas to carry the anticipated traffic." The impact of the I-90 traffic on S.D. 73 and U.S. 14 was to increase the maintenance cost and to greatly shorten the life of the surfacing so that overlays were needed much sooner than would normally have been needed. For the purpose of this analysis, we are assuming that the remaining life of the surfaces on U.S. 12 will be shortened by 1/3. The experience on U.S. 14 and S.D. 73 when I-90 traffic was diverted to it would indicate this is very conservative.

(1) Cracks in the asphalt surface forming a pattern similar to alligator ski

A detailed study of U.S. 12 has been made and is contained herein as Appendix "B". This report indicates the needs on U.S. 12 under current traffic. By shortening the remaining pavement lives shown in this report by 1/3, the anticipated date of need for an overlay or for reconstruction has been determined.

The depth of surfacing to be placed was based on that depth necessary to bring the average strength up to 4.0. Current design standards to meet todays truck loading creates a strength equivalent to 4.0. The average of tests on I-29 for the six projects north of mile post 158 test an average strength of 4.0. Several of the more recent projects on the primary system also test at or near 4.0. Some of these are the highway U.S. 18 bypass of Hot Springs, S.D. 44 west of Parker, U.S. 83 south of Mission, U.S. 212 west of Belle Fourche, and U.S. 212 from the Minnesota line west, (average 3.99).

To determine the depth of overlay material needed to increase the strength to 4.0, a curve developed by the physical research program was used. A copy of this curve is shown in Appendix "C".

Where the needed depth of surfacing could be placed and a 24-foot roadway retained, the resurfacing costs were used. Where it would be necessary to narrow the surface to less than 24-foot to place sufficient surfacing, the cost of reconstruction was used. This again is very conservative since a 24-foot highway surface with no shoulders is a very minimal design for this traffic load.

Based on the detailed analysis of U.S. 12 contained in appendix "B" and the accelerated need for resurfacing or rebuilding caused by the added loading of coal traffic, and added construction cost have been calculated and are contained in Appendix "C". This calculation in Appendix "C" ignores the bridge problem.

52-593 O - 79 - 3

The deterioration of bridges which is already a serious problem will be accelerated under coal traffic. The Bridge Program of the South Dakota Department of Transportation has estimated this added cost. Their estimate is contained in Appendix "D".

The cost of replacement of structures over the Milwaukee railroad was not part of the Bridge Program's estimate since the replacement of these structures if no railroads exist would not be logical. Instead, we have estimated the cost of removal of the structure and regrading and resurfacing the road. The cost of these replacements is based on the cost of a similar replacement of U.S. 77 at Altamont, South Dakota in 1966. Appendix "D" also contains this calculation.

The City of Aberdeen presents a serious problem if we are to attempt to add 716 trucks per day to the present traffic. There are currently 12 traffic lights on U.S. 12 in Aberdeen. The proposed developments in the airport area indicate the necessity of more traffic light installations in the near future. Current traffic counts range up to an average ADT of 26,164. It, therefore, seems probable the addition of this amount of added truck traffic in addition to the anticipated increases from developments already proposed would necessitate a bypass around the southern edge of Aberdeen. The cost of that bypass is estimated in Appendix "E".

CONCLUSION

The added costs of keeping U.S. 12 in service under coal traffic for the first 5 years in millions of dollars would be as follows:

Added Maintenance Costs -	3.749
Added Resurfacing and Rebuilding Costs -	37.578
Added Bridge Maintenance and Replacement Costs -	24.658
Cost of Removal of Bridges Over Railroad -	2.490
Cost of Aberdeen Bypass -	11,487
Total Added Costs in Millions of Dollars	79.962

Normal traffic for roadway and bridge maintenance indicates a need for 20.209 million dollars and we can expect a need for an added 79.962 million dollars of work if the coal traffic is added for a total of 100.171 million dollars. U.S. 12 can be expected to receive 1.350 x 5 = 6.75 million dollars under present financing if available funds were allocated to the entire primary system on a per mile distribution formula.

It, therefore, seems obvious that unless accompanied by a massive infusion of funds toward reconstruction and maintenance of U.S. 12, the diversion of the coal traffic to U.S. 12 would result in a total deterioration of portions of that route. Even with a massive infusion of funds, serious problems would remain. Construction of improvements under traffic would be difficult to accomplish. There would be serious social, economic, and environmental impacts on the communities along the route. The safety of motorists using the route would be negatively impacted.

Before any serious consideration is given towards the diversion of the freight traffic from the Milwaukee Railroad to U.S. 12, more study and commitment of resources are necessary. Unless there is detailed planning and the commitment of substantial resources to the mitigation of the problems, this diversion of traffic would create a calamitous situation.

TESTIMONY

Submitted by

John MacFarlane
Vice President, Planning & Control
Otter Tail Power Company

Otter Tail Power Company is an investor-owned electric utility serving 115,000 customers in northeastern South Dakota, middle and eastern North Dakota and western Minnesota (refer to Attached Map). The company's total generating capacity in 1979 will be 489 MW. All 376 MW of base load capacity--Big Stone, 208 MW, Hoot Lake, 148 MW, and Ortonville, 21 MW--are fueled with North Dakota lignite. The remaining 113 MW of generation are used for peaking and include various diesels, three combustion turbines, and four MW of hydro.

Base load generating facilities provide the lowest cost energy, and are used the maximum time for providing the system's energy requirements. According to the 1979 forecast of Otter Tail's energy requirements, the Big Stone unit will provide 56 percent of the system's energy. This unit is the largest, most efficient, and produces the lowest cost energy on the Otter Tail System. The Big Stone unit is also the most recent addition--it went into commercial service in 1975. The last prior base load addition was the Hoot Lake #3 Unit, which went into commercial service in 1964.

The Ortonville unit, which provides 21 MW of base load capacity to the Otter Tail System, was placed in service in 1950. In 1975, equipment was added so the unit met all new environmental regulations. The use of coal supplied by unit train to Big Stone, lowered operating costs to the point that it was economically justified to increase the life of the Ortonville unit. The Milwaukee Railroad presently hauls lignite from the Knife River Mine near Gascoyne, North Dakota to Big Stone. Fuel for the

Ortonville Plant is trucked three miles from Big Stone to Ortonville. The proposed abandonment by the Milwaukee Railroad of lines in South Dakota would result in loss of fuel to these two units. This would cause a reduction in Otter Tail's base load generating capacity of 60 percent. There is no other way to transport coal to Big Stone other than the Milwaukee Railroad.

Otter Tail's system peak demand has historically occurred in the winter months and has grown at an annual rate of 7.9 percent for the years 1963 through 1977. Current forecasts of annual peak demand for the period 1980-1987 indicate growth at a rate of 5.2 percent annually. This reduction in growth results from the company's estimates of the effectiveness of its load management programs and conservation. Although load management is proposed to reduce the system peak demand growth rate, it will result in an improved system load factor which will increase the need for dependable base load generating facilities.

Presently, Otter Tail is involved in construction of the Coyote Generating Station near Beulah, North Dakota. Coyote is essentially a duplicate of Big Stone. Otter Tail will own 35 percent or 144 MW of the facility scheduled for 1981 operation. This will only cover deficits in base load capacity until 1982 and could not cover capacity lost if Big Stone and Ortonville are forced out of service. Beyond 1981 studies indicate a need for 150 MW of base load capacity by 1986-87. Initially, there appeared to be opportunities for Otter Tail to share in joint facilities in Minnesota to provide the 150 MW. In the last year these alternatives have been delayed or canceled by the constructing utility because of new load forecasts, site

Provided replacement capacity and energy can be purchased and transmission is available, loss of the Big Stone and Ortonville facilities would still result in greatly increased rates for OTP's customers. Those increased rates, in addition to causing hardship for the direct customers of OTP, would have a negative impact on the economy of the entire service area of OTP.

The greatest increase in cost, and thus rates would be caused by the need to purchase capacity and energy to replace OTP's output from the Big Stone and Ortonville facilities. The net cost for this replacement power would be in excess of $15 million in the first year alone. This would be an additional burden of $125/customer and would increase the average residential customer's bill approximately 30-40 percent. Assuming replacement power will be available until a replacement facility can be placed in service in 1986-87, which is not at all certain, and cost escalated at no more than 6 percent/year, the total cost of replacement power until 1987 is $148 million or approxiately $1,350/customer.

Another economic burden would result from the need to recover the approximately $70 million of undepreciated investment OTP has in these facilities in a time frame considerably less than their normal remaining life. Assuming a net salvage value of zero (cost of removal equals salvageable value) the entire $70 million must be recovered in extra depreciation charges. If the shortened time period is 8 years, the approximate time necessary to construct a replacement unit, the net additional cost to our customers in the first year alone would be approximately $6.5 million or $55/customer. Assuming a net salvage value greater than

zero would reduce the impact. However, because of the specialized equipment involved and the percentage of labor and overhead costs associated with a power plant, maximum net slavage values would be in the range of 20 percent.

The third item adding to the increase in costs is the high cost of constructing a replacement facility. At the present time, the estimated cost to build a facility of equivalent size to Big Stone coming on line in 1987 is $500 million. The added cost burden of this replacement facility, in addition to the facilities already planned for this period, will place a severe strain on OTP and its efforts to obtain financing. This would, in all likelihood, increase the cost of financing, if financing can be obtained. These increased costs would result in higher rates for our customers during the construction period and for many years to come. The exact impact or amount of this increased cost is not known at this time, but could very well amount to several million dollars per year.

These items indicate that increased costs in the range of $200 to $250/customer/year could result if these facilities must be abandoned. This represents an increase of 50 percent to 60 percent on the average residential customer's bill.

As previously indicated, these two generating units provide 46 percent of the total generating capability and 60 percent of Otter Tail's energy requirements. It's been pointed out that surpluses do exist in the immediate future that could be purchased to replace their outputs. However, there are uncertainties in transmission capability and in replacement

capacity beyond 1983. Thus, there are indications that our service area would be energy deficient at times of peak load. Voluntary curtailment of use of electric service would be required. If voluntary reduction of use was not satisfactory to maintain system integrity, non-voluntary load reduction would be required. An era of electrical rationing could arise should replacement sources and transmission not be successfully established.

The increased rates for electric service would most probably cause a reduction of electric use. Yet, electric service is essential to the user. There is a component of electrical need by the customer which has no price elasticity. Growth in industrial, commercial, and residential usage is certainly not encouraged by increased costs for electrical service. With these uncertainties, curtailment of new customers would be required which would further reduce the economic growth of the area.

The electric utility industry has established itself as a provider of dependable energy at relatively low costs particularly for lighting, rotating equipment and innumberable domestic and industrial uses. So dependent have people become on electricity that most do not have a backup energy source. In fact, there isn't a good example to point to and say, "This is what will happen if Big Stone is shut down," because there have simply not been similar experiences in the United States. Perhaps, short-term outage conditions would be similar to those which result from severe weather when people, at best, are inconvenienced and, at worst, suffer economic loss.

During the 1977-78 winter a coal strike caused considerable economic

hardship in Ohio, Indiana, and surrounding states. Even though the affected utilities maintained at least a 30-day coal supply and there were few mandatory cutbacks (conservation took care of most of the problem) there were still layoffs, a slowdown in essential services, and schools and universities had to cut hours. The additional fuel and purchased power costs, in the case of Public Service of Indiana, increased customers billing 30 percent per month for the three months designated to recover these costs incurred during the two months of the strike. But again this was a short-term situation.

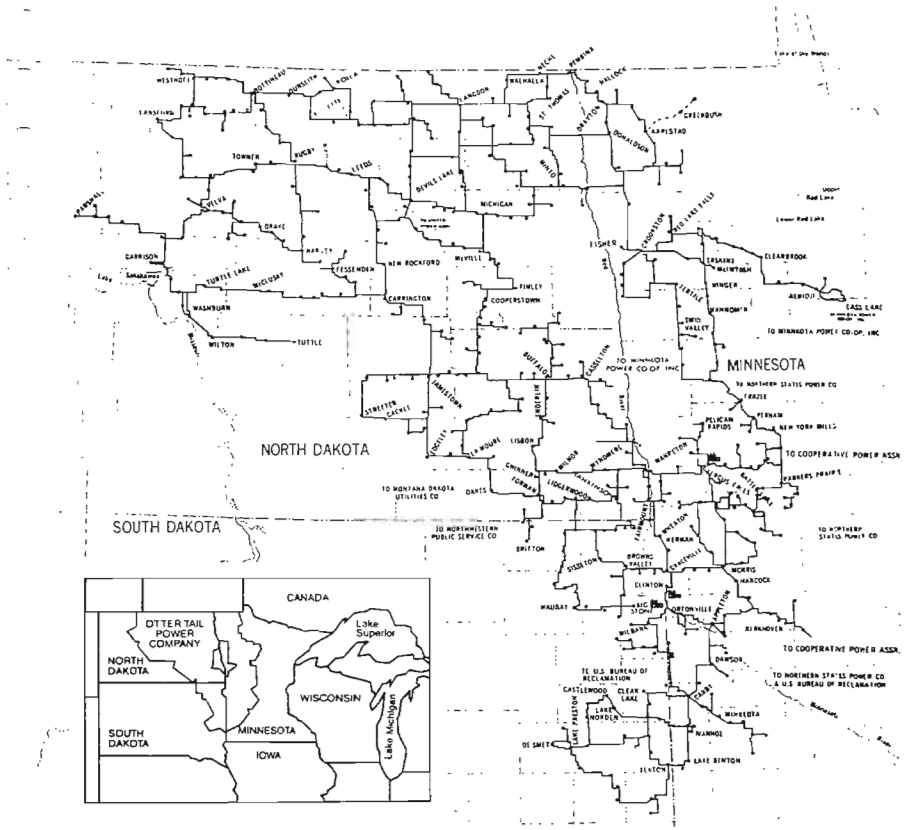
We can only imagine what would happen to the area if there was a severe shortage or if energy was available only at a much higher price for a long period of time. This coupled with the loss of direct and secondary jobs associated with the power plants with the loss of tax revenues, and with the loss in other economic sectors would cause severe problems. There would be economic stagnation, unemployment, deterioration of supporting facilities, such as retail outlets and services, and every individual would suffer their own particular economic hardship since a larger portion of their income must be dedicated to pay for electric service. Property values would perhaps decrease, tax-supported institutions would find it harder to operate, and more people would find their way to various types of welfare--it would be an unhealthy situation for the area. The inconvenience and downright suffering of many individuals even for the short-term is far too great to be borne when there is an opportunity to avert it.

Certainly, as in any other crisis it would be the people least equipped to suffer wh[illegible] suffer the most. They are the real losers in a situation

like this. Those with means will be able to afford the additional costs or relocate. The utilities involved will probably be able to secure energy to provide the needs and may, themselves, be able to survive, but the people who are already suffering will suffer even more.

It is certainly our concern that our customers, our employees, and our stockholders receive every consideration in this matter, and Otter Tail Power Company pledges it will do those things that it can to help avert this crisis. With that we appeal to you, the Governors of the affected states, to lend the strength of your offices to the end that Railroad Service will continue to meet the needs of the citizens of the area.

Otter Tail Power Company Service Area



Otter Tail Power Company serves 115,000 customers located in 465 communities. The service area covers a 50,000-square mile area in northeastern South Dakota, western Minnesota, and middle and eastern North Dakota.

230,000 VOLT LINES
115,000 VOLT LINES
69,000 VOLT LINES
41,600 VOLT LINES
• SYSTEMS SERVED BY OTTER TAIL POWER CO
STEAM PLANT

TESTIMONY

Submitted by

G. J. Enright
Manager, Public Affairs
Northwestern Public Service Company

Northwestern Public Service Company ("Northwestern" or "Company") is an electric and gas utility engaged in generating, transmitting, distributing and selling electric energy in the east central portion of South Dakota. Northwestern furnishes electric service to more than 51,000 customers in 108 communities and adjacent rural areas. Northwestern's general service territory is a part of a 15,000 square miles area as shown on the attached Exhibit 1. The area is agriculture oriented and consequently encompasses very few large industrial loads. Approximately 43,000 of the 51,000 customers are residential and farm customers. These customers have an average annual family income which is 20-25 percent less than the national average family income. The remaining 8,000 customers are commercial and industrial customers, with all of these except approximately 300 being classified as small businesses and public agencies.

Northwestern also purchases, distributes and sells natural gas to more than 57,000 customers in twenty-four communities in east central South Dakota and in three communities in Nebraska.

Northwestern, Otter Tail Power Company and Montana-Dakota Utilities Co. jointly own and operate the Big Stone Power Plant, a lignite fueled electric generating plant with a capacity of 437,000 kilowatts ("KW"). Big Stone is located in the vicinity of Big Stone Lake in northeastern South Dakota. Northwestern owns 32.5 percent of Big Stone and is entitled to 142,000 KW of its generating capacity. Northwestern's undepreciated

investment in the Big Stone Plant is $52,000,000. In addition to its interest in the Big Stone Plant, the Company owns one steam generating plant, ten diesel plants, two combustion turbine plants, and a mobile unit. The aggregate nameplate capacity of all Company owned generating capacity is 224,516 KW. Northwestern relies on the Big Stone for base-load capacity, with the other generating stations serving as emergency, standby or peaking units.

The tremendous importance of the continued operation of the Milwaukee Railroad to the customers of Northwestern is apparent when considering the fuel supply of our Company. Fuels utilized in the generation of electric energy by Northwestern are lignite coal 94 percent, other coal 4 percent and oil 2 percent. Virtually all of our fuel supply is presently shipped over the Milwaukee Railroad.

Northwestern's electrical operations are centralized in seven divisions in South Dakota. Each division office is responsible for the operational and administrative aspects of providing electric service within the division. The main line of the Milwaukee Railroad runs directly through the Aberdeen and Webster divisions, where more than 30 percent of Northwestern's 51,000 electric customers are located.

Our Company's most significant utilization of the Milwaukee Railroad is for the delivery of coal to the Big Stone Generating Plant. The Big Stone Plant is fueled by lignite coal, a natural resource in abundant supply in western North Dakota. Our Company and the other Big Stone Plant owners through the purchase of a $9 million unit train and through tariff negotiations with the Milwaukee Railroad have contracted for the delivery of

North Dakota coal to the Big Stone Plant to be delivered over the Milwaukee Railroad line from Gascoyne, North Dakota, to the Big Stone Plant.

Northwestern further utilizes the Milwaukee Railroad for delivery of utility poles, substation transformers, miscellaneous supplies, and items of an extraordinary length or weight, such as the recent delivery of our Aberdeen combustion turbine. Many of these types of items cannot be shipped other than by rail due to load limit restrictions on our highways and restrictions on the overall length of transporting vehicles. In addition, we have used the Milwaukee Railroad for delivery of propane, fuel oil and coal supplies for our gas system peak shaving plant and our electric steam generating plant in Aberdeen.

Northwestern's future use of the Milwaukee Railroad consists of shipping potential in three different areas. The first and most obvious area is the continued shipment of North Dakota lignite coal to the Big Stone Plant. The plant owners have contracted for 50,000,000 tons of lignite coal for the Big Stone Plant. More than 2 million tons of lignite coal for the Big Stone Plant are shipped each year over the Milwaukee Railroad. Under negotiated tariffs with the Milwaukee Railroad, freight on these shipments in 1978 amounted to $7,615,287. Delivery of this coal represents a large fixed shipping potential and substantial revenues on the Milwaukee rail line during the next 30-35 years.

The second area of shipping potential involves supplying the future power needs of our customers. If the economy of the communities we serve is to continue to grow, these communities must have a growing supply of

energy. Fundamental to supplying electrical energy are four items, a demand, a fuel source, a water supply and a fuel conversion facility, which ideally should be located between the demand and the fuel source. North Dakota has an abundant supply of lignite coal. The communities we serve have demonstrated an increasing demand for electrical energy. Adequate water supplies are available near the Missouri River and at the present Big Stone Plant site.

Any energy conversion facility using coal as a fuel and located at the North Dakota source of coal must utilize transmission lines from the generating plant to the area of consumption.

Although these transmission lines do meet this need, recent transmission line siting problems experienced by utilities in our neighboring state of Minnesota have shown that the location and construction of a new major transmission line is costly and may be unacceptable to landowners whose property the lines must cross.

The message of such conflicts is loud and clear: "Use existing delivery facilities where possible rather than building facilities at a new location."

Utilizing the Milwaukee Railroad line for delivery of the coal to the generating plant is far more desirable. The railroad line is already in existence. Rights-of-way have already been obtained and inconvenience of their existence has long since disappeared.

The logical conclusion is that a high potential for future use of the Milwaukee Railroad exists in meeting the future energy needs of the communities in our service area.

Thirdly, Northwestern will continue to use the Milwaukee Railroad for delivery of large items (poles, substation transformers, etc.) into our Aberdeen and Webster service areas as well as for the delivery of propane fuels used in our Company's gas operations.

Should the Milwaukee Railrad abandon rail service on its main line, our Company would be forced to shut down the Big Stone Plant and seek replacement power for our customers. In the long term, we would be required to build a new power plant which under current estimates would cost from at least 3 times what it cost to build the Big Stone Plant. In addition, the delay from the planning stages to final construction of a new coal fueled power plant is a minimum of eight years. During the construction period, the added cost of the replacement facility in addition to the cost of facilities already planned for this period would place a severe strain on the Company's ability to finance its construction program and would likely increase the cost of the financing which could be obtained. These increased costs would result in dramatically higher rates for our customers during the construction period and for many years to come. The exact amount of this increased cost can only be estimated, but would be at least several million dollars a year.

Pending the planning and construction of any new power plant, Northwestern would be forced to buy short-term replacement power from members of the Midcontinent Area Power Pool (MAPP). The other owners of the Big Stone Plant would be in a situation similar to that facing Northwestern. Although the members of MAPP indicate a composite surplus of capacity sufficient to replace the loss of a unit the size of the Big Stone Plant

through the winter season of 1983, most of this surplus would be from each member company's older, least efficient and most expensive generating units. After 1983 the Mapp Pool is deficient even if all units presently committed for construction would be completed on schedule, which at best, is a most unlikely assumption.

Perhaps a more helpful overview of power supply availability is provided by the National Electric Reliability Council's August, 1978 8th Annual Review which states:

> "The outlook for reliability and adequacy of bulk electric power supply for the near term has improved over that projected in the 1977 assessment by ... (NERC). However, the status of future power supply in the longer term -- starting in the early 1980's has grown nationally worse.
>
> "Based on the delays experienced with the licensing and construction of present nuclear and coal fired generating plants coupled with an assessment of future conditions it is expected that some of the generating units planned for service during the next decade will be delayed several years. This will result in deficiencies of generating capacity beginning in the early 1980's.
>
> "In the face of the grim prospect that these endeavors are not successful, this nation will face shortages of electric power supply which initially will cause short-term curtailments of electric power and, ultimately, lead to some form of rationing of electricity, with serious economic consequences."

It is obvious that the loss of the Big Stone Plant would cripple the power supply to customers in this region. Any alternative power supply, if available, would be extremely expensive and would place an undesirable additional financial burden upon our customers.

Substantial increases in electric rates brought on by inflation

together with other increases in the cost of living over the recent years have resulted in a serious problem in basic economics for many of our electric customers, just as they have for electric users throughout the United States. Utility companies, regulatory agencies, government officials...all...have been working hard and long to minimize increases in the cost of electricity by promoting conservation, careful planning, and in many other ways. Attempts to minimize increases in electric rates would be severely impeded almost immediately, should the Milwaukee Road be abandoned and should we, as a result, be forced to find power sources alternative to our Big Stone Plant.

Our studies indicate that in the first year of the abandonment our 51,000 electric customers would have to pay an additional $11-1/2 million for electricity as a result of our necessity to purchase power from other sources (if such power would be available) and of generating electricity in our smaller, less efficient plants which use the more scarce and much more expensive oil as fuel for generation. This would be an additional $225 per customer and would increase our average electric customer's bill by more than 30 percent. But that's not all! Our customers would also experience an additional increase in the cost of electricity of more than $6 million just in that year and additional costs for years to come, to recover the undepreciated investment Northwestern has in the Big Stone facilities. This translates into yet an additional burden of $117 per customer and would increase our average customer's bill by 17 percent. These two factors result in a 47 percent increase in the cost of electricity to our customers in the first year of shutdown. Such increases in customer rates would not only be disastrous to all of our customers, they would be disastrous to many.

In addition, should such a situation become a fact, the ability to serve our customers with the electricity they need, when they need it, would certainly become a matter of concern. The need for a continuous availability of substantial amounts of power could produce a rather helpless situation should other power suppliers have difficulties with breakdowns, peak periods, and other situations that would make it impossible to deliver power to us. The probable result: rationing... brownouts and blackouts...perhaps even curtailment of service in the most serious circumstances.

Beyond the disastrous effects the abandonment of the Milwaukee Railroad would have on our Company and our customers, are the serious problems it would create for the state of South Dakota. Transporation is critical to every area, to every economy. Transporation of South Dakota's agricultural products and manufactured products is absolutely essential, and the Milwaukee Railroad is a very necessary part of the transportation system in our state. The railroad delivers agriculture products from our state to many out-of-state markets, and in turn delivers farm machinery and other finished products to us. And it delivers electricity to our customers, in a sense, by providing the means of hauling lignite coal to our Big Stone Plant...the only feasible method of delivering that lignite, which is the lifeblood of the plant.

Loss of the Milwaukee Railroad would be a major step backward in the economic growth and stability of South Dakota agriculture and business.

While much of the land surface yields substantial agricultural produce, the inner depths are sources of extensive quantities of energy.

Huge lignite deposits are located in western North Dakota and eastern Montana and even larger deposits of subbituminous coal are found in other sections of Montana and Wyoming. Oil and natural gas have been produced in all three states for many years.

Some of this energy is consumed within the area either by homes, industry or conversion plants. But, much moves out of the region in its unaltered form to waiting markets to the east or south.

Coal is moved by unit train for direct industrial use or to be used as boiler fuel in the power plants of utilities. Oil and natural gas flows through underground pipelines to refineries or ultimate consumers.

The harvest of these vital natural resources whether through farming methods or mineral extraction provides a major employment for the area's citizens as does the refining, energy conversion, agri-business, processing and transportation.

All of these industries are largely dependent on power availability and reliability and would be seriously affected by deficient or abnormally high priced electricity.

MDU Power Supply

With the exception of those properties in the state of Wyoming, all communities served with MDU electricity are located on a network or inter-

connected transmission facility. The interconnected system is dependent upon power production from all generating stations owned fully or in part by the company.

The company's 20 percent interest in the Big Stone Plant is one of the integral components of MDU's electric generating and transmission system and as such represents 28 percent of the company's generating capacity. It is one of nine electric generating stations from which MDU supplies the power to satisfy the demands of its customers.

Active Generating Station

Big Stone Plant--(MDU's 20 percent)		Big Stone City, SD	87.4 Mw
Heskett Station--No.'s 1 and 2		Mandan, ND	101.0 Mw
Lewis & Clark Station		Sidney, MT	50.9 Mw
Beulah Station		Beulah, ND	14.9 Mw
Williston Turbine	(peaking)	Williston, ND	12.4 Mw
Glendive	(peaking)		7.3 Mw
Ellendale	(peaking)		2.8 Mw
Mobridge	(peaking)		2.6 Mw
Miles City Turbine	(peaking)		29.4 Mw
			308.7 Mw

Total Base Load	254.2 Mw
Total Peaking	54.5 Mw
Total Capacity	308.7 Mw

The principal generating stations, Big Stone, Heskett, Lewis & Clark and Beulah, use lignite as a primary fuel while the peaking units utilize principally fuel oil.

52-593 0 -

The company will have sufficient capacity to meet peak load obligations through 1979 with its own generation and with purchased power from other Mid-Continent Area Power Pool (MAPP) members. An additional 30 megawatt peaking combustion turbine will begin operation in 1979.

To meet the capacity requirements of the near future, Coyote I, a 410-megawatt lignite-fired generating station, is under construction near Beulah, N. D., to be jointly owned by Otter Tail Power Co., Northwestern Public Service Co., Minnkota Power Cooperative, Inc., Minnesota Power & Light Co. and Montana-Dakota Utilities Co. The MDU share of ownership and capacity will be 20 percent.

Loss of Big Stone . . . Impact on MDU

A number of assumptions must be made in assessing the impact on MDU and its customers faced with a loss of a major power source. Absent absolute cost data and the uncertainty of replacement power availability, generalities will have to be employed rather than specifics.

The critical nature of this situation indicates that it would be most difficult to overstate the negative impact which will be felt by all concerned. In fact, more than likely the reverse will be true.

Even if replacement power at comparable prices were available for the short-term, the eventual replacement of the Big Stone capacity would add to the investment capital burden the company presently faces.

The company is presently involved in the most massive program of capital formation in its 54-year history which is necessary to keep pace with the growing customer requirements for electric power and natural gas.

In the next six years, including 1979, the capital requirements will be about $392 million. This will substantially tax the company's borrowing power just to finance the projects that have begun or are planned for the near future and to retire maturing debt.

The company's investment in utility plant accumulated over half a century is almost $400 million. In just six years the company must add almost this amount to keep pace with customer demands.

MDU's share of the 410-megawatt electric generating station previously mentioned will require more than $90 million by completion. And, the 30-megawatt combustion turbine scheduled for completion in 1979 will require $5 million, just to name two critically important projects.

Financing a replacement plant equal to the 87 megawatts, which is the company's share of Big Stone, within a similar time frame at prices at least three times the original cost of that plant would present serious problems.

Big Stone Closing . . . Impact on Consumers

If the Milwaukee Railroad were abandoned, this would force Big Stone to shut down. It should be noted, too, that the impact will be as great

on customers 400 miles away from the Milwaukee Road as to those next door to the station. The additional cost to our customers in the next year to purchase power from the Mid-Continent Area Power Pool, if the power is available, would be approximately $6.2 million. This would increase each customer's bill by approximately 12 percent.

There would also be additional costs to our customers to recover approximately $30 million of investment that has not been depreciated. We would plan to recover this over an 8-year period. The net cost to our customers during this period would be approximately $22 million, less salvage value, if any. The extra cost in the next year would be approximately $2.75 million. This would be an additional increase of approximately five percent.

While the impact on customer monthly bills would not in itself price electricity beyond the reach of most consumers, it must be recognized that during the same period other new plants will be added to MDU's investment. In 1979 a peaking plant will be added and in 1981 a large base load unit, Coyote I, will be on line. Most customers will probably survive those increases, too, though not without some problem. While financing a replacement plant for Big Stone would be impossible in the near term, it can be assumed that at some point a duplicate unit would be provided. However, the final blow would arrive within a short time when a replacement unit is constructed. Now instead of $360 per kilowatt, the cost of construction would be approximately three times this amount.

By the time Big Stone would be replaced, our customers will be paying up to 50 percent more for their electric energy, taking into account that

Coyote I and a new peaking plant would be in the rate base. With the Big Stone replacement added, our customers could be paying as much as twice the present rate.

The impact directly resulting from discontinuation of a vital transportation link between the energy conversion facility and its fuel supply would be devastating.

The bottom line is:

1. Business will be placed in a noncompetitive position creating a negative growth atmosphere.
2. Some will fall victim to bankruptcy.
3. Employment levels decline.
4. Economic stagnation of the area will be the final result.
5. An even higher number of residential customers will have serious problems paying their electric bills.

There is a very real possibility that replacement capacity may not be available from other members of the power pool.

Since the Big Stone Plant provides MDU with slightly over 28 percent of its energy capacity, it is reasonable to assume that without it the company would not be capable of meeting the demands of customers, especially during the peaks.

Reliable electric service to consumers, be they residential, commercial, municipal or industrial, is essential. MDU customers depend on this sort of energy for warmth, convenience and to power the wheels of progress. The constant growth pattern of business has in the past been

geared to the stability of electric power and the increasing supply available to meet the requirements of that growth.

A number of small manufacturing plants and processing facilities have been developed in recent years across the MDU service territory which have improved employment, increased the tax base and provide revenue for the large number of communities in which the company operates.

Electric home heating has increased substantially in areas where natural gas is not available, and electricity in ample supply has allowed consumers in the more rural areas to enjoy the same standard of living commonplace to their urban neighbors.

Curtailment of power caused by the reduction of generating capabilities of the company could result in a giant step backward.

It is not at all beyond the realm of possibility that rationing of electricity would occur, which would drastically reduce current life style and cause considerable hardship for most people.

Industry would periodically or perhaps regularly grind to a halt and be forced to cut back employment and output.

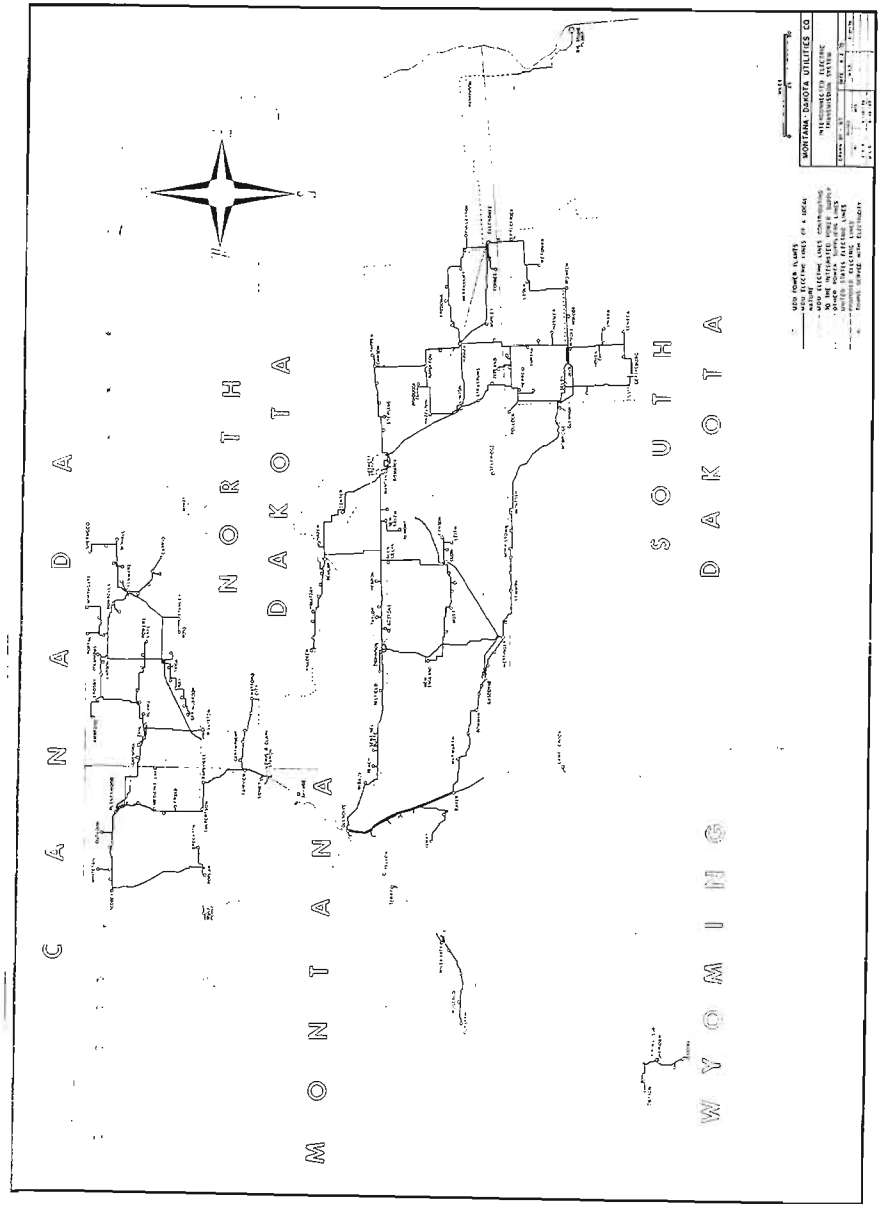
Agriculture with its harvest measured in millions of tons depends heavily on elevators, refineries and processors for marketing assistance. A constant supply of electric energy is vital. The farm economy may hang in the balance.

Oil which is pumped through pipelines 24 hours a day to distant refineries depend on a constant supply of power. What would be the effect of shutting down these vital operations?

Hospital and medical centers are year-round operations that must have dependable electricity, too. How would blackouts or curtailments affect them?

There is no equitable way to prioritize customers and no logical method to ration power, consequently, no way to accurately quantify economic deterioration. But, surely business and industrial regression and growth stagnation would be the eventual harvest.

If the power drought were of short duration, perhaps the fragile economy of this area could weather the storm, but generating capacity isn't built overnight. It takes eight to ten years from planning to on line capability these days and most customers couldn't survive that long. Property values would drop, schools, hospitals, community services and other vital institutions would wither for lack of commerce, revenue or normal funding. Every business, every service, every home would be touched by the scope of such a disaster. It must not be allowed to happen.



TESTIMONY

Submitted By

A. J. Wittmaier

Vice President
Knife River Coal Mining Company

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

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

Gascoyne, North Dakota, is located in the southwest corner of North Dakota between Bowman, North Dakota, and Lemmon, South Dakota. The mine was put into operation in 1950 by the Knife River Coal Mining Company, primarily to supply coal to utility plants at Mobridge, South Dakota, and Ortonville, Minnesota.

On January 1, 1972, the Knife River Coal Mining Company entered into an agreement to supply coal to the Big Stone Power Plant, located at Big Stone, South Dakota, owned by Otter Tail Power Company, Montana-Dakota Utilities Co., and Northwestern Public Service Company. The contract became effective January 1, 1975, at which time Knife River started furnishing coal to this power station. Under the agreement Knife River is committed to supply 55,000,000 tons of coal to this power plant during the first twenty years of the contract, and under certain conditions could be obligated to supply an additional 20,000,000 tons of coal for a total commitment of 75,000,000 tons of lignite. The contract is based on an average annual output at the Gascoyne Mine of 2,400,000 tons, and during the early years of the power plant's life it is expected that the tonnage produced at the mine will average 2,700,000 tons a year. In the past twelve months the output of the mine at Gascoyne was approximately 3,000,000 tons of lignite, practically all of which was moved by rail.

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

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

The primary consumer of lignite from Knife River's Gascoyne Mine is the Big Stone Plant, Big Stone, South Dakota. The coal movement is accomplished by unit trains with two trains in operation at all times, one taking coal to the plant and the other bringing empty railroad cars back to the mine for loading. Each train consists of one hundred 100-ton capacity cars, and six or seven loaded trains per week are shipped from the mine to the Big Stone Plant. This movement will, undoubtedly, continue through the

life of the Big Stone Plant, which is estimated to be a minimum of 35 to 40 years.

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

Abandonment of the Milwaukee main line west through South Dakota would leave a large area which contains large coal reserves unserved by any railroad. This area is roughly bounded by (designated by railroad stations) Mott, North Dakota, to Pollock, South Dakota, to Leola, South Dakota, to Redfield, South Dakota, to Gettysburg, South Dakota, to Pierre, South Dakota, to the Black Hills in South Dakota to New Castle, Wyoming, to Huntley, Montana, to Glendive, Montana, to Beach, North Dakota, to Mott, North Dakota, the starting point. This area contains approximately 51,100 square miles and contains the bulk of the lignite reserves in the United States, besides covering a large area underlain by subbituminous coal. (See Exhibit 1 from Environmental Impact Statement, Proposed Federal Coal Leasing Program, Volume 1.)

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

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

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

There has been constant and continuous publicity of the need for western coal to ease the crisis this nation faces in energy, and most studies agree that the volume of coal moving from the West to the East will involve massive movements by rail. There is contention in the press and in Congress that the railroads serving the western coal areas will be unable to meet the demands imposed on them by this movement of western coal; and, as such, slurry pipelines have been suggested as an alternate means of transportation. The slurry pipelines would relieve to a considerable extent the very heavy and constant unit train movements through the cities and villages in the Upper Midwest where objections have been voiced to the constant movement of unit trains of coal through the cities and villages. In fact, the objection is such that the federal government has authorized a study to determine the impact and possible remedies of the continually increasing movement of the unit trains through the cities and villages in the Upper Midwest.

Instead of attempting to abandon the main line of the Milwaukee Road west of Minneapolis, a far better use would be to utilize this main line for the movement of western coal. Utilization of this line for the movement of unit trains from the West, which will constantly increase, would help to dissipate the heavy magnitude of coal traffic which will continue to increase in the future. One of the larger producing areas of western coal is the Colstrip area in Montana, and the main line of the Milwaukee Road is ideally suited for the movement of coal from these mines to the East and would relieve the increasing traffic which is now occurring on the other rail lines.

It is unconscionable that the same government, which is literally spending hundreds of millions of dollars on coal development, and by-products from coal, so that the nation can eventually obtain some degree of independence from imported oil, would allow abandonment of a main line railroad which literally cuts through what is considered the largest coal reserve area in the United States, and it is inconceivable that this same government, which is formulating the energy policy based on coal, would allow abandonment of a rialroad which would cause a company, such as Knife River, to literally lose an entire investment while at the same time the government, through regulatory authorities, is ordering existing plants and those being constructed to utilize coal.

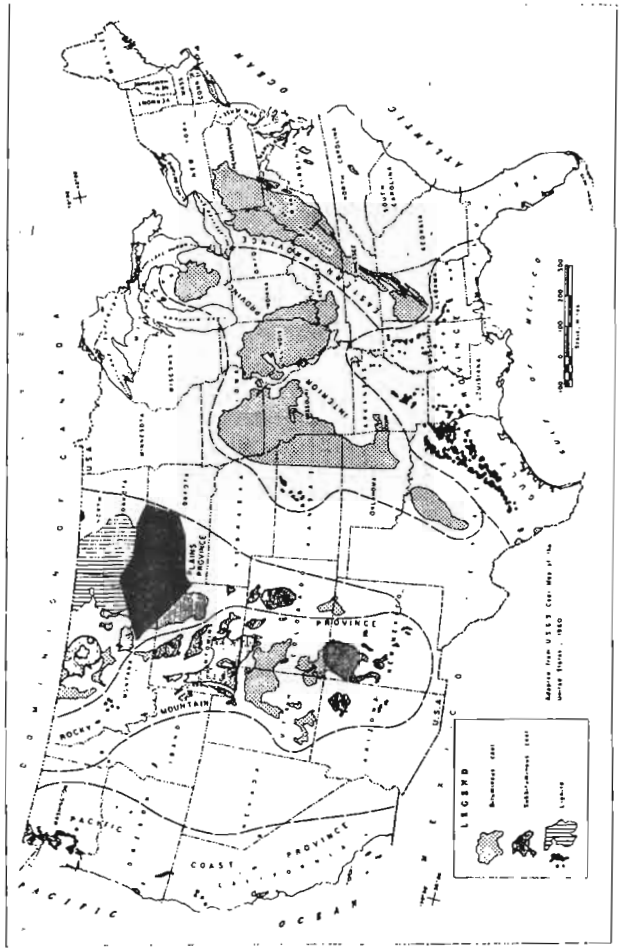


Exhibit 1.

Page I-47, United States Department of the Interior, DES 74-53, Draft, Environmental Impact Statement, Proposed Federal Coal Leasing Program Volume 1.

Coal Area, the interior of which would not have any rail service upon abandonment of the Milwaukee Road Main Line.

Mr. FLORIO. Thank you very much. Mr. Burke?

STATEMENT OF ALLAN BURKE, COMMUNICATIONS COORDINATOR, NATIONAL FARMERS UNION

Mr. BURKE. Mr. Chairman, my name is Allan Burke. I am the communications coordinator for the National Farmers Union. Our national headquarters is in Denver and we have a legislative office headed by Reuben Johnson here in Washington, D.C.

Our organization is made up of about 300,000 farm families from throughout the Nation. One of my responsibilities is to coordinate the Farmers Union's efforts in the transportation area and, of course, we are especially concerned about the future of the Milwaukee Railroad.

I can speak with personal conviction on this issue since my father was a section foreman with the Chicago & Northwestern Railroad for 30 years in South Dakota. The impact of the decline of American railroads was a daily concern in my family because we did not know when we would have to move again because of a branch line abandonment. In the course of my childhood, my family had to move six times so my father could keep his job. Even with 25 years seniority, my father had no real job security and could not avoid being bumped by a more senior employee.

My heart is with the employees of the Milwaukee who may well lose their jobs and certainly their places of residence if that railroad is allowed to go bankrupt or to embargo over 7,000 miles of service. I know those families are in a very difficult situation right now since they do not know what will happen to the Milwaukee. For those employees with many years invested in railroading, it will be extremely difficult for them to be retrained or to find another job and to maintain their standard of living.

The plight of these railroad families alone is justification for passage of House Joint Resolution 318 to keep the Milwaukee in business for another 90 days.

Farm families, too, are very concerned about the future of American railroads and about the crisis facing the Milwaukee line. The loss of rail service means a cut in farm income. It means an increase in energy consumption. It means an increase in the costs of maintaining highways. It means loss of jobs. It means the loss of economic opportunity in hundreds of smaller communities and it means a step backward for a Nation that would like to increase its grain exports.

In the middle part of the 19th century, American railroads engaged in a great race to build a transcontinental railway system that cost taxpayers millions of dollars and that saw unscrupulous corporate executives line their own pockets. In spite of these financial shenanigans, the Nation did see a transcontinental line constructed and it was accomplished 7 years ahead of schedule.

Now there is a new great race; only this time it is to rip up railroad tracks. Unfortunately this race is also way ahead of schedule.

Our research indicates that at least 2 million extra gallons of diesel fuel would be consumed if the Milwaukee Railroad goes bankrupt and its freight is transferred to trucks. It is almost unbelievable that the same time we see the farmers having difficulty

getting diesel fuel to plant their crops, and at the same time lines are growing at gas stations in California and other States, we are seeing a major railroad approach extinction. Branch line abandonments, in addition to the Milwaukee problem, mean the consumption of more fuel to move America's heavy goods.

Railroads are the best way to move America's grain. Trains use less fuel than trucks and they do not tear up the highways. Farmers literally lose money on every bushel of their grain that must be moved by truck.

Those people in the gas station lines in California ought to be told the truth, and that is every time we lose another piece of rail service, more precious fuel must be burned by trucks.

Those officials and creditors who want to shut down the Milwaukee should tell us where we will get the fuel to run the trucks to move the grain and other goods now being handled by that railroad. Those who say we cannot afford to subsidize the railroads to keep them in business should explain how we can afford to rebuild the highways that will be destroyed when the heavy goods now moving on iron rails will be shifted to asphalt and concrete roads.

Mr. Chairman, the National Farmers Union strongly supports House Joint Resolution 318. We commend you for holding this hearing and for cosponsoring this important legislation. We hope you will continue to provide leadership so that a comprehensive long-range solution can be found not only to save the Milwaukee Road, but to improve the rail system through rural America.

Thank you very much for this opportunity to testify today.

Mr. FLORIO. Thank you very much. Mr. Hagen?

STATEMENT OF BRUCE HAGEN, COMMISSIONER, NORTH DAKOTA PUBLIC SERVICE COMMISSION, ACCOMPANIED BY FRANK WILNER, TRAFFIC DIRECTOR

Mr. HAGAN. Thank you, Mr. Chairman.

My name is Bruce Hagen and I am a North Dakota Public Service Commissioner. I appear here today for the entire commission. North Dakota Governor Link also supports all viable efforts to continue the Milwaukee Railroad and I am sure our congessional delegation will support any viable efforts to keep the Milwuakee running.

The North Dakota Public Service Commission is the State agency designated to represent the State in most surface transportation matters before all Federal agencies.

I want to thank you for holding this hearing and thank you for the opportunity to appear.

I have Frank Wilner the traffic director of the North Dakota Public Service Commission here with me also.

If you believe in the Easter bunny and Santa Claus, you can believe the Milwaukee Railroad will go on unchanged. Even after having dreamed those youthful dreams with the passing years, I still have enough faith to believe we can sensibly work out the Milwaukee dilemma. It may take a few minor miracles, human made, but we can create them.

In North Dakota, we have drawn a State rail plan which has been submitted to the Federal Railroad Administration for approval and we are presently drawing a long range S intermodal

transportation plan which should be done in the fall of 1980 which would help to solve some of these railroad problems before us today.

This hearing involves the Milwaukee Road. The Milwaukee operates 366 miles of track in North Dakota with slightly more than 100 miles being mainline track. The mainline serves the Knife River Coal Mine at Gascoyne, N. Dak., which 6 days a week ships 10,000 tons of lignite coal 356 miles one way in 100-car unit trains to their 437-megawatt generating plant at Big Stone, S. Dak.

Mr. Grutle has covered this very well. I can tell you that we view that plant as being extremely important to the citizens of North Dakota and the power grid in the upper Midwest and as one of the three commissioners which would have to consider rate increases if the plant shuts down, I can tell you we are extremely concerned about what happens to that plant.

Our commission has been most active in Federal bankruptcy court proceedings involving the Milwaukee since the beginning and just last week we had Mr. Wilner before the court in support of the plan of the trustee to obtain a $15 million loan and embargo all operations west of Miles City, Mont.

As a commission, we favor a permanent private sector solution to the Milwaukee's problem. This is not to exclude other temporary assistance from Government sources which could help bridge the gap to a healthy railroad. We further realize that the Milwaukee's problems are endemic to the Midwest and in the long term these problems must be addressed and solved if we are to guarantee rail service for future generations.

Essential to correction of Midwestern rail problems is a more even handed treatment of the railroads vis-a-vis competing modes. Motor carriers and domestic water carriers must pay their fair share for publicly provided and maintained rights of way and facilities.

Rail management and labor must work together to modernize and become more efficient in every respect. The simple fact is our rail carriers must become more competitive with the competing modes. Further, the railroads must have greater flexibility to reorganize their systems.

The rail deregulation bills are important. I do not know that I agree in total with what is proposed but certainly they should be considered by Congress.

The railroads' rate of return is insufficient to attract and retain capital. Captive commodities, our grain farmers and shippers, now often subsidize noncompensatory movements. Our rural rail systems are needed from an energy standpoint alone and extreme caution and sensible planning is required for a long term rail system.

Farmers, shippers and our States must work together with the railroads and the Federal Government to accomplish this end. When the system is put back together, all rates must be fair and sufficiently compensatory to insure future successful operations.

Our farmers in our State and other States have paid excessive freight rates for over 100 years. Those rates should have brought an A-No.-1 rail system. Instead the Milwaukee Railroad is bankrupt.

52-593 O - 79 - 11

The Interstate Commerce Commission should revise the grain structure. We have had problems with that for years. That is one of the reasons you have a problem today.

A railroad should on all movements recover the fully allocated costs; instead, captive commodities, grain farmers and shippers specifically, pay the bill for other shippers. One-third of the commodities moving pay the bill for the other two-thirds and on top of that the railroads serving North Dakota and the upper Midwest have not provided adequate service for 22 straight months.

I get calls almost every day from the 596 grain elevators in the State of North Dakota complaining about shortages of cars. Millions of dollars have been lost to our farmers and shippers and millions of dollars have been lost to the railroads because they do not have cars. It is a Catch 22. If they do not have the cars, they cannot make any money; because they cannot make any money, the Milwaukee is in trouble. That is not the only reason but it is a Catch 22.

We support directed service if necessary. During that period, Congress, State and local governments, affected shippers and even solvent railroads can seek long-term solutions. These include permanent subsidies, purchase agreements, trackage rights and even abandonment and better pricing for all freight rate movements.

The important point is under directed service there will be more time to seek an equitable solution and the reorganization of the Milwaukee will not be hindered.

North Dakota considers operation of the mainline segment between Gascoyne and Milbank, 356 miles, to be essential service. The Big Stone plant has no other available rail service except the Milwaukee. Mr. Grutle covered this but I would just reemphasize that plant serves 200,000 customers or about 600,000 people. The plant was built for about $169 million and to replace that plant would cost in excess of $500 million today.

About 50 percent of both Otter Tail's customers and MDU's customers are in North Dakota. If it takes $2.3 million to maintain it temporarily, I hope it comes. We understand the Governor of South Dakota has committed the $2.3 million and we further understand that he intends to apply to the FRA for section 511 funds to meet that commitment.

We do not know if North Dakota can or will contribute any State funds to this project. I can tell you that our legislature does not meet again until 1981. Our general fund does not have such dollars available now and it will be in deficit by the end of this biannual.

North Dakota's entitlement under the 4R Act for rehabilitation funds is less than about $500,000 for this year. Most of that is already committed to other projects.

But I can assure you we will do our best with whatever resources we can round up.

For this reason we initially supported embargo of lines west of Renville, Minn., with support for directed operations between Renville and Miles City, Mont. When the South Dakota Governor committed $2.3 million and the trustee sought to include the Renville to Miles City segment in the new core system, we supported that move even though it was doubtful the Milwaukee could look to North Dakota for any immediate financing.

We did caution the bankruptcy judge that there should be the provision for an immediate embargo with requested directed operations at any time the trustee would find South Dakota funding insufficient to continue operations at a reasonable service level.

Any directed operations must include the movement of grain and other products needed for agriculture and nor should other shippers be ignored. Whichever railroad brings service should try to provide all essential services.

The New England branch line is potentially one of the great branch lines or shipping lines in the United States.

Perhaps more important is a meeting we have tomorrow which has been referred to already. It is between several Midwest States, various shippers including grain shippers, the three utilities who serve the Big Stone plant, the FRA and the Federal Home Mortgage Administration regarding the loan to the utilities. We have heard it is about a $24 million loan, for the major rehabilitation of the Big Stone Gascoyne segment.

I do not know the mechanics and I do not know the proposed terms of that loan and I do not even know if that is what the figure should be or if that is exactly what it is.

I do know the power companies, as Mr. Grutle mentioned, are fully mortgaged already as to assets. They happen to be very efficient and very good companies. I think Otter Tail, MDU, and Northwestern would compare to any of the utilities in the United States. I think their information is accurate and sincere to you.

After more information becomes available on any loan that may be available, as well as all other pertinent information, our commission will be able to comment more fully and we will try to do that.

I hope that meeting tomorrow will explore other means to help the Milwaukee Railroad.

I believe the long-term solution to this mainline segment may involve purchase by other railroads, the BN, the Soo, or others or in combination. The BN's traffic between the Montana subbituminous mines and Eastern consuming centers is already straining the capacity of its mainline track which runs through the southern part of North Dakota and the addition of the Milwaukee mainline could be necessary to insure smooth flows of commerce in future years.

Even with rehabilitation the Milwaukee may not be able to generate sufficient additional tonnages to keep the line maintained in those years. While it is apparent that the Milwaukee has not provided sufficient cars to grain elevators on that line and its branches in recent years, the additional number of loadings available is not known.

I think that with good service it would be substantial.

It is also true that other possibilities of coal mine and powerplant development may exist along the mainline which would help make this segment of track viable.

There are sufficient lignite reserves as has been referred to, to build more generating units at Big Stone and other energy plants could be built in South Dakota if the Milwaukee is in operation.

In North Dakota, our commission cites energy plants. There are constraints on the amount of air available. There are other con-

straints such as water. It is essential to have a railroad like the Milwaukee Railroad available so that powerplants can be built and dispersed across the region. I think that is a major consideration.

In addition, if the new building of nuclear plants in the United States is shut down because of Three Mile Island and perhaps not allowed when there is a shortage of oil, we import half of it, and there is little natural gas, where do you go? One of the obvious or maybe the only obvious place is to coal. You are going to have to build some coal plants and without a railroad, how are you going to move the coal or where are you going to build the plants?

If the country needs some energy, they are going to have to go where it is and the Milwaukee Railroad becomes tremendously important.

Several bills are currently pending in committees within Congress relative to railroad problems. Many address specific Milwaukee Road problems. I hope those bills will not be handled in a vacuum but be considered together with a single bill eventually coming out which includes the salient points of each of the currently pending bills.

I think some congressional help is certainly necessary in the short run but any assistance should be with the intent of creating an eventual long-term, private-sector solution.

We have some good railroads. I think if we do a lot of things that need to be done we can return them to a viable healthy financial position.

Thank you, Mr. Chairman.

[Mr. Hagen's prepared statment follows:]

STATEMENT OF BRUCE HAGEN, COMMISSIONER, NORTH DAKOTA PUBLIC SERVICE COMMISSION

My name is Bruce Hagen, and I am a Public Service Commissioner from the State of North Dakota. I appear here today for the entire Commission.

The North Dakota Public Service Commission is the state agency designated to represent the state in surface transportation matters before all federal agencies.

In addition, we regulate the rates and service of intrastate surface carriers within North Dakota, site new coal mines, energy conversion facilities, electric transmission lines and piplines, regulate reclamation of lands on which coal extraction takes place, and regulate rates and services of private, investor-owned utilities providing electricity and gas to North Dakota consumers, regulate grain elevators, auctioneering, and weights and measures, and regulate all telephone companies. We appear before federal agencies and Congress regarding these areas of regulation.

I am also chairman of a special planning team, organized by the Governor of North Dakota, to develop a long-range intermodal transportation plan for North Dakota, which includes all planning under the Railroad Revitalization and Regulatory Reform Act of 1976. We have already drawn a State Rail Plan which has been submitted to the Federal Railroad Administration for approval.

The hearing today specifically involves the Milwaukee Road. The Milwaukee operates 366 miles of track in North Dakota, with slightly more than 100 miles being mainline track. This mainline serves the Knife River Coal Mine at Gascoyne, North Dakota, which, six days per week, ships 10,000 tons of lignite coal 360 miles one way in 100-car unit trains to a 440-megawatt generating plant at Milbank, South Dakota, called the Big Stone Plant.

The lignite is shipped in some 230 specially constructed, covered hoppers cars, which were built for, and are owned by, the three electric utilities who own the Big Stone Plant. These include Otter Tail Power Company, Montana-Dakota Utilities, and Northwestern Public Service. The Milwaukee provides the track, motive power, and crews.

Our commission has been most active in the federal bankruptcy court proceedings involving the Milwaukee since it sought the protection of the courts on December 19, 1977. Just last week, the commission's Director of Traffic testified before the

court in support of the plan of the trustee to obtain a $15 million loan, and embargo all operations west of Miles City, Montana.

As a commission, we favor a permanent, private-sector solution to the Milwaukee's problems. This is not to exclude other temporary assistance from government sources which could help bridge the gap to a healthy railroad. We further realize that the Milwaukee's problems are endemic to the Midwest, and, in the long term, these problems must be addressed and solved if we are to guarantee rail service for future generations. Essential to correction of Midwestern rail problems is more even-handed treatment of the railroads vis-a-vis competing modes. Motor carries and domestic water carrier must pay their fair share for publicly-provided and maintained rights-of-way and facilities. Rail management and labor must work together to modernize and become more efficient in every respect. The simple fact is, our rail carriers must become more competitive with the competing modes. Further, the railroads must have greater flexibility to reorganize their systems. The railroads's rate of return is insufficient to attract or retain capital. Captive commodities often now subsidize non-compensatory movements. However, our rural rail systems are needed from an energy standpoint alone, and extreme caution and sensible planning is required for a long-term rail system. Farmers, shippers and out states must work together with the railroads and the federal government to accomplish this end. When the system is put back together, all rates must be fair and sufficiently compensatory to insure future successful operations.

Our concern today, however, is with a short-term solution to the Milwaukee's problems. It is in search of the short-run solution that we support the plan of the Milwaukee's trustee to embargo all operations west of Miles City, Montana.

For better or worse, the Milwaukee has not properly maintained its rail plant since the mid 1940's, and the accumulated deferred maintenance today exceed $1 billion. It is most unlikely that the Milwaukee will ever find such capital, in the short run, to bring its 9,800 mile plant to a normalized maintenance level so as to make it competitive with the Union Pacific and Burlington Northern. Absent such an investment, traffic volumes and revenues will continue to deteriorate and the $500,000 per day revenue shortfall will increase until the Milwaukee completely consumes itself. Such a scenario is hardly consistent with the public convenience and necessity.

The trustee seeks to reduce the Milwaukee to a 2,500 mile core system with an industrial base. Such a reduced core will require $125 million in "up-front" investment to bring it to a normalized maintenance level, and thus make the reduced core system competitive. The probability of obtaining the $125 million is far greater than obtaining $1 billion needed to rebuild the entire system, and the probability of a positive return, according to a detailed consultant's study, is also far greater. What is more, a reduced core system, with a probability of future success, should be attractive to other solvent railroads which might well decide to seek control and merge the Milwaukee into their own systems.

Meanwhile, the embargoes lines—at least those lines essential to specific industries or the economies of any state—can be operated under provisions of 49 United States Code 11125, the so-called Directed Service Provision of the Interstate Commerce Act. The Interstate Commerce Commission is empowered to order one or more other railroads to operate such embargoed lines, using federal dollars to reimburse the designated operator. This directed service can take place for up to 240 days. During that period, Congress, state and local governments, affected shippers, and even solvent railroads can seek long-term solutions. These include permanent subsidies, purchase agreements, trackage rights, and even abandonment. The important point is that under directed service there will be more sufficient time to seek an equitable solution, and the reorganization of the Milwaukee will not be hindered.

North Dakota considers operation of the mainline segment between Gascoyne and Milbank, 360 miles, to be essential service. The Big Stone Plant has no other available rail service except the Milwaukee. The plant, as mentioned, is a 440-megawatt power plant which serves 200,000 customers, or about 600,000 persons. The plant was built at a cost of $167 million, to replace the plant would cost in excess of $500 million today.

Otter Tail Power, which owns 47.5 per cent of the plant, and Montana-Dakota Utilities, which owns 20 per cent of the plant, are major providers of electricity in North Dakota. Fifty per cent of all of Otter Tail's customers are in North Dakota, and 70 per cent of Montana-Dakota Utilities' Customers are in North Dakota.

Milwaukee management advised that $2.3 million is needed almost immediately to insure the continued operation of unit coal trains over the line. Further, at least $24 million must be spent on the line over the next three years to bring it up to a normalized maintenance level

We understand that the Governor of South Dakota has committed $2.3 million for the immediate rehabilitation. We further understand that he intends to apply to the Federal Railroad Administration for Section 511 funds to meet that commitment. We do not know if North Dakota can or will contribute any state funds for this project. Our legislature does not meet again until 1981, our general fund does not have such dollars available now, and North Dakota's entitlement under the 4-R Act, for rehabilitation funds, is less than $500,000 for this year, and most of that is already committed to other projects.

For this reason, we initially supported embargo of lines west of Renville, Minnesota, with support for directed operations between Renville and Miles City, Montana. However, when the South Dakota Governor committed the $2.3 million, and the trustee sought to include the Renville to Miles City segment in the new core system, we supported the move, even though it was doubtful the Milwaukee could look to North Dakota for any financing. We did caution the bankruptcy judge that there should be the provision for an immediate embargo, with requested directed operations, at any time the trustee found the South Dakota funding insufficient to continue operations at a reasonable service level. Directed operations must include the movement of grain and other products needed for agriculture. Our agricultural shippers and farmers have had poor service and no service for almost two years. Nor should other shippers be ignored. Whichever railroad brings service should try to provide all essential services.

Perhaps more important is a meeting we have tomorrow between several midwest states, various shippers, including grain shippers, the three owning utilities of the Big Stone Plant, the Federal Railroad Administration, and the Federal Home Mortgage Administration, regarding a $24 million loan to the utilities for the major rehabilitation of the Gascoyne-Big Stone segment. I do not now know the mechanics or proposed terms of the loan. I do understand, however, that the power companies are now fully-mortgaged as to assets.

After information becomes available on any loan that may be available, the position of the power companies, as well as all other pertinent information, our Commission will be able to comment more fully.

I believed that the long-term solution on this mainline segment may involve purchase by other railroads, the Burlington Northern, Soo or others. The BN's traffic between the Montana sub-bituminous mines and eastern consuming centers is already straining the capacity of its mainline track which runs through southern-central North Dakota, and the addition of the Milwaukee mainline could be necessary to insure smooth flows of commerce in future years. Even with rehabilitation, the Milwaukee may not be able to generate sufficient additional tonnages to keep the line maintained in future years. While it is apparent the Milwaukee has not provided sufficient cars to grain elevators on that line and its branches in recent years, the additional number of loadings available is not specifically known.

It is also true that other possibilities of coal mine and power plant development may exist along the mainline, which would help make this segment of track viable.

Several bills are currently pending in committee within Congress relative to railroad problems. Many address specific Milwaukee Road problems. I would hope that those bills will not be handled in a vacuum, but be considered together, with a single bill eventually coming out of committee which includes the salient points of each of the currently pending bills. Some congressional help is certainly necessary in the short run, but any assistance should be with the intent of creating an eventual long-term, private-sector solution. We must return our midwestern railroads to financial health.

Mr. FLORIO. Thank you very much. Mr. Myers?

STATEMENT OF JAMES R. MYERS, DIRECTOR, SOUTH DAKOTA DIVISION OF RAILROADS

Mr. MYERS. Mr. Chairman, my name is James Myers. I am director of the Division of Railroads for South Dakota. I will attempt to make my brief statement even briefer.

As you have heard many times today, the Governor of South Dakota did indeed pledge $2.3 million for near term rehabilitation of a portion of the Milwaukee mainline extending west toward Miles City.

Governor Janklow further pledged his efforts to secure Federal funding of an additional $22.7 million required for t' 'ong-term

rehabilitation needs of this same line and that is the primary reason I appear before this committee today.

Based on the Governor's assurances, the Milwaukee did advise the court that the trustee was amending his request for an embargo by excluding that portion for which the Governor made the pledge. It is obvious that this line is of great importance to South Dakota or the pledges would not have been made. I think of greater importance is the fact that by the Railroad's own studies and the studies of Booz, Allen & Hamilton, the consultants to the trustee, that this line shows a potential to be profitable within a reorganized railroad.

Even more important, the profit potential of this segment exceeds the potential of the trustee's 1,700-mile subcore system of which this segment is an extension.

Until the Governor's pledges, the Miles City extension was not part of the trustee's proposed plan for the simple reason that projected near-term losses and the current costs of money precluded any possibility that this unique extension could be included in his proposal.

Mr. Chairman, I have emphasized the word "unique" because not all of the Milwaukee's system is unique. In fact much of the Milwaukee's 9,800 miles is redundant and in our opinion unnecessary. It is a reflection of the Nation's rail system that was built in a time when highways were virtually nonexistent and on which today some two-thirds of our rail freight moves on less that one-fifth of our rail system.

The problem with the Milwaukee and generally with our Nation's rail system is we have for far too many years attempted to operate a vastly overbuilt system in an environment that justifies and can support only a portion of that mileage. In doing so, I submit to you that we the citizens of this Nation have caused the deferred maintenance, the disinvestment and many of the other sins that we so often contribute wholly to the management of the railroad companies.

We seem to forget that railroad companies like others have boards of directors comprised of people like you and I, Mr. Chairman, making decisions that you and I might make under similar circumstances.

The net effect of the problems that we have caused this important industry is that we have effected an extraction of a significant portion of the capital investment from the essential parts of the industry. This capital was removed over a long period of years when the cost of money was 1 percent, when the cost of money was 2 percent , 3 percent and so on. Today we seem to expect that this industry should replace this capital at the current cost of money. It simply will not and cannot happen.

We are the ones who must now replace the capital that has been removed from the viable portions or the potentially viable portions of the Nation's rail system. This will require grants for critical situations such as the $2.3 million for mainline extension repairs addressed by Governor Janklow last week and it will require substantial long-term low rate of interest loans to address the rehabilitation needs such as the $22.7 million that this same line still requires.

I might add $22.7 million that might facilitate a long-term existence of this line given normal maintenance.

In balance, however, we must also recognize economic realities from transportation and energy points of view that dictate the need for an optimum combination of short-haul trucking, keeping in mind trucks are much more energy efficient than railroads in short-haul and long-haul railroading where the railroads are much more energy efficient and optimally used would further the life of our Nation's highway system.

We must also recognize the necessity that local branch lines are economic entities unto themselves and must be dealt with in terms of local economic tradeoffs and local solutions with Federal Government involvement limited to technical grant aid and loan programs such as now available through Farmers Home Administration.

Mr. Chairman, I would ask three things of this committee and of the Congress.

First, that Congress gives its maximum attention to a program of grants and long-term low-interest loans to satisfy railroad capital requirements relating to rail lines of regional and national importance especially those having profit potential.

Second, that Congress avoid funding programs that would tend to perpetuate parts of the national rail system that are redundant, unnecessary and do not offer profit potential.

Third, that Congress continue its support of existing branch line assistance programs through the Federal Railroad Administration through the Department of Transportation in a manner that catalyzes local solutions to local branch line problems.

Thank you.

Mr. FLORIO. Thank you very much, gentlemen.

Mr. Myers, I might add that your first suggestion with regard to the program of grants and low interest loans lies, in a sense, in the face of what the administration is talking about under the deregulation proposal. In fact, the decision by the administration is, at least, not the way to generate the investment that is needed to provide the capital to deal with our railroads' problems. In fact, there seems to be more than just, in my opinion, an inclination in the Congress, as well as in the administration, to start letting the private sector contribute.

The tradeoff, of course, is that a higher degree of deregulation will free the industry from what they recall as the shackles that have inhibited their ability to compete and grab more of the market.

I am just not totally confident that your request for a higher amount of Federal funding by way of grants and low interest loans is going to fall on very receptive ears around here.

I wonder if there is any concern or any interest on the part of the powerplant and its users to contribute to the maintenance of this line which you have indicated is so important.

We have heard some public officials from one of the States express some interest in making contributions to the upgrading of the line. We have had reference by an earlier speaker to a plan which exists in Iowa whereby the shippers and some local governmental officials, feeling that the line in that area is of sufficient

importance and should be maintained. Those were branch lines and we are talking about something more than branch lines here.

I wonder if the utility has given any serious consideration to contributing to the preservation of this service?

Mr. GRUTLE. Very definitely. The problem is these utilities are in the same position that most electric utilities are. There is no cash laying around. The only way we raise money is through mortgagable property. There is nothing here that is mortgagable.

Mr. FLORIO. I understood you to say that you were concerned about this line not being able to provide you with sufficient coal so there was a chance this facility would go out of operation; the net result being your consumers would have higher rates.

What I am suggesting is, if that sequence of events results in higher rates, an alternative may very well be the need to contribute a higher percentage for transportation costs which would come from contributions to maintaining these lines which, of course, would be filtered through the consumers as well but when the two alternatives of no service versus service that would be a little bit more expensive because of a contribution to the transportation rates, it seems to me the latter option is preferable.

Mr. GRUTLE. These are very definite possibilities. We have four regulatory commissions that would have to be satisfied and that is going to take a long time.

Mr. FLORIO. I understand. Gentlemen, I thank you very much for your cooperation.

The subcommittee stands adjourned.

[The following statement was received for the record:]

STATEMENT OF W. P. SCHMECHEL
PRESIDENT, MONTANA POWER COMPANY
PRESIDENT AND CHIEF OPERATING OFFICER,
WESTERN ENERGY COMPANY

THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE
U. S. HOUSE OF REPRESENTATIVES
HEARING ON THE MILWAUKEE RAILROAD COMPANY
WASHINGTON, D.C.

May 9, 1979

MR. CHAIRMAN:

MY NAME IS W. P. SCHMECHEL. I AM PRESIDENT OF THE MONTANA POWER COMPANY WHICH IS AN INVESTOR-OWNED GAS AND ELECTRIC UTILITY PROVIDING SERVICE WITHIN THE STATE OF MONTANA. I ALSO SERVE AS THE PRESIDENT AND CHIEF OPERATING OFFICER OF WESTERN ENERGY COMPANY, A WHOLLY-OWNED SUBSIDIARY OF THE MONTANA POWER COMPANY. WESTERN ENERGY COMPANY IS ENGAGED IN THE DEVELOPMENT AND MINING OF COAL IN MONTANA, WYOMING AND TEXAS. WESTERN'S MAJOR PRODUCING PROPERTY IS ITS SURFACE MINE AT COLSTRIP, MONTANA, WHICH PRODUCES COAL FOR SALE TO MONTANA POWER, PUGET SOUND POWER AND LIGHT COMPANY, AND MIDWEST UTILITIES AS FUEL FOR ELECTRIC GENERATING PLANTS AND ALSO TO MIDWEST INDUSTRIAL PLANTS.

I VERY MUCH APPRECIATE THE OPPORTUNITY TO VISIT WITH YOU ABOUT A SITUATION OF CRITICAL IMPORTANCE TO THE STATE OF MONTANA AND THE NORTHWEST. ALTHOUGH THE ABANDONMENT OF THE MILWAUKEE ROAD'S OPERATIONS WEST OF MINNEAPOLIS, MINNESOTA WILL HAVE A VERY PROFOUND ADVERSE EFFECT ON THE ECONOMY OF THE NORTHERN TIER STATES, I WILL LIMIT MY REMARKS TO ITS IMPACT ON THE PRODUCTION AND SHIPMENT OF COAL.

INCREASED DEVELOPMENT AND USE OF COAL HAS BEEN THE STATED POLICY OF THE LAST THREE ADMINISTRATIONS. THIS POLICY HAS ALSO BEEN ARTICULATED BY THE CONGRESS, MOST RECENTLY BY THE POWER PLANT AND INDUSTRIAL FUELS USE ACT OF 1978. THE ACT CONTAINS PROHIBITIONS AGAINST THE USE OF OIL OR GAS AS FUEL IN EXISTING INDUSTRIAL AND UTILITY FACILITIES WITH COAL BURNING CAPABILITY AND IN NEW BASE LOAD GENERATING

MINE AT COLSTRIP, IN SOUTHEASTERN MONTANA, TO A POWER PLANT IN WISCONSIN. THIS TONNAGE IS SCHEDULED TO GROW IN THE NEAR TERM TO MORE THAN DOUBLE THAT AMOUNT. ADDITIONALLY, WESTERN ENERGY COMPANY SUPPORTED MILWAUKEE'S CONDITION NO. 6 APPLICATION FOR TRACKAGE RIGHTS OVER THE BN TO THREE MONTANA COAL MINES. ALTHOUGH THEIR APPLICATION WAS DENIED BY THE I.C.C., IT WAS ESTIMATED THAT HAD THE APPLICATION BEEN GRANTED, ALLOWING THE MILWAUKEE TO INITIATE MOVEMENTS FROM THOSE MINES TO POINTS ON MILWAUKEE'S SERVICE SYSTEM, COAL REVENUES WOULD HAVE INCREASED BY $12.7 MILLION[3]. SIGNIFICANT REVENUE OPPORTUNITIES EXIST FOR THE MILWAUKEE FROM PRESENT COAL TRAFFIC VOLUMES, ESPECIALLY IF THE I.C.C. WILL ADOPT RULES WHICH WOULD STIMULATE COMPETITION IN THE COAL TRAFFIC MARKET.

MOREOVER, THE MILWAUKEE ROAD TRAVERSES BILLIONS OF TONS OF UNDEVELOPED COAL AND LIGNITE IN OTHER AREAS OF CENTRAL AND SOUTHEASTERN MONTANA. THE MONTANA BUREAU OF MINES AND GEOLOGY HAS IDENTIFIED TO DATE 23.35 BILLION TONS OF STRIPPABLE SUB-BITUMINOUS AND LIGNITE COAL IN EASTERN MONTANA CONTAINED IN 51 DEPOSITS. MILWAUKEE WOULD BE THE LOGICAL CARRIER OF CHOICE FOR APPROXIMATELY 20% OF THAT TONNAGE AND COULD, UNDER APPROPRIATE RULE-MAKING FLEXIBILITY, HAVE ACCESS TO A VAST MAJORITY OF ALL COAL THAT WILL BE PRODUCED AND TRANSPORTED BY RAIL. WITH THE PROJECTED GROWTH IN MONTANA COAL PRODUCTION AND THE CONSEQUENT NEW DEMANDS WHICH WILL BE PLACED ON RAIL CARRIERS, WE SUBMIT THAT THE CONGRESS SHOULD ADDRESS ITSELF TO PRESERVING EXISTING RAIL CAPACITY.

MONTANA'S OTHER MAJOR COAL-CARRYING RAILROAD, THE BURLINGTON NORTHERN, IS INTRODUCING MONTANA COAL PRODUCERS TO THE PROBLEM OF COAL CAR SHORTAGES. WE ARE ONLY REMOTELY FAMILIAR WITH ITS LONG-TERM IMPLICATIONS WHICH ALREADY ARE CLEAR TO EASTERN COAL SHIPPERS. TO BE SPECIFIC, WESTERN ENERGY'S COAL SUPPLY AGREEMENTS CALLED FOR DELIVERY OF 11.5 MILLION TONS OF COAL IN 1978. OF THAT TOAL, MORE THAN

---

[3] Gene B. Beckman, Milwaukee Assistant Vice President - Marketing Development and Pricing in testimony on Condition No. 6 (Finance Docket #28583)

FACILITIES. IT IS CLEAR THAT COAL MUST BEAR A LARGER PART OF THE NATIONS'S ENERGY LOAD. IT IS CLEAR ALSO THAT MUCH OF THE INCREASED COAL TONNAGE WILL BE MOVED BY AMERICA'S RAILROADS. THE COAL INDUSTRY IS PREPARED TO MEET THE TASK AND IN FACT IS OVERPREPARED. STATISTICS COMPILED BY THE NATIONAL COAL ASSOCIATION AND OTHERS INDICATE THAT WESTERN COAL SUPPLY CAPACITY EXCEEDED DEMAND IN 1977 BY APPROXIMATELY 15 MILLION TONS. THE EXCESS IS EXPECTED TO INCREASE TO 77 MILLION TONS IN 1980 AND 95 MILLION TONS IN 1985.[1] WHETHER THE RAILROAD INDUSTRY CAN MEASURE UP TO THE TASK IS ANOTHER MATTER. IN MONTANA WE ARE VITALLY CONCERNED ABOUT ADEQUATE RAIL SERVICE. WE DEPEND PRINCIPALLY ON TWO RAILROADS TO MOVE THE COAL PRODUCED IN OUR STATE: THE MILWAUKEE ROAD AND THE BURLINGTON NORTHERN. IN 1977, COAL PRODUCTION IN MONTANA TOTALED 27.3 MILLION TONS. PRODUCTION IS EXPECTED TO GROW TO APPROXIMATELY 60 MILLION TONS IN 1985 AND TO 75-90 MILLION TONS IN THE YEAR 2000.[2]

THE ABANDONMENT OF THE WESTERN OPERATION OF THE MILWAUKEE ROAD WILL SERIOUSLY IMPAIR THE FULFILLMENT OF THE NATIONAL GOAL OF INCREASED UTILIZATION OF COAL. THE BANKRUPTCY TRUSTEE FOR THE MILWAUKEE, STANLEY E. G. HILLMAN, IS PRESENTLY ATTEMPTING TO OBTAIN THE SANCTION OF A FEDERAL COURT TO ABANDON ALL OF MILWAUKEE'S OPERATIONS WEST OF MINNEAPOLIS. IF SUCCESSFUL, MILWAUKEE WILL BE ALLOWED TO CEASE OPERATIONS ON OVER 7,000 MILES OF TRACK AND WILL CEASE, FOR ALL PRACTICAL INTENT AND PURPOSES, TO BE A FACTOR IN THE MOVEMENT OF COAL TRAFFIC. THE MILWAUKEE PRESENTLY CARRIES 1,900,000 TONS OF COAL ANNUALLY FROM WESTERN ENERGY COMPANY'S

---

[1] Source: The Coal Observe, September, 1978, Dean Witter Reynolds, Inc.

[2] Source: Montana's Economy: Past, Present, and Future, October, 1978, by Paul E. Polzin, Economist, Bureau of Business and Economic Research, University of Montana

8 MILLION TONS WAS TO BE MOVED BY RAIL INTO THE UPPER MIDWEST. LAST AUGUST WE WERE NOTIFIED THAT BURLINGTON WOULD BE UNABLE TO HAUL APPROXIMATELY 730,000 TONS BECAUSE COAL CARS WERE NOT AVAILABLE. THE ACTUAL SHORTFALL WAS ALMOST 1,100,000 TONS WHICH REPRESENTED ALMOST 15% OF THE TOTAL DELIVERIES SCHEDULED FROM OUR MINE FOR THE YEAR. IN JANURARY AND FEBRUARY 1979, COAL SHIPMENTS WERE OFF BY A SIMILAR PERCENTAGE. OTHER MONTANA PRODUCERS HAVE EXPERIENCED AND ARE EXPERIENCING SIMILAR CURTAILMENTS.

IN THE PROCEEDINGS FRIDAY, MAY 4, 1979, BEFORE THE FEDERAL COURT, THE MILWAUKEE BANKRUPTCY TRUSTEE ARGUED THAT THE INTERSTATE COMMERCE COMMISSION CAN DIRECT SERVICE ON THE ABANDONED MILWAUKEE LINES BY OTHER CARRIERS. FOR MONTANA COAL, THAT WOULD MEAN THAT THE BURLINGTON NORTHERN WOULD BE DIRECTED TO ASSUME RESPONSIBILITY SINCE THE BURLINGTON NOTHERN CANNOT FULFILL ITS OWN COAL-HAULING-OBLIGATIONS. THE ABANDONMENT OF THE MILWAUKEE'S WESTERN OPERATIONS WITH THE CONCOMITANT WITHDRAWL OF COAL CARS AND LOCOMOTIVES CAN ONLY ADVERSELY AFFECT THE PRESENT COAL TRANSPORT PROBLEM BEING EXPERIENCED IN THE WEST.

THE MILWAUKEE IS OF CRITICAL IMPORTANCE TO THE WESTERN COAL INDUSTRY AND TO THE ECONOMIC WELL BEING OF MONTANA AND OTHER NORTHERN TIER STATES. I RESPECTFULLY URGE THE CONGRESS TO EXERT EVERY EFFORT TO PREVENT THE ABANDONMENT OF THE MILWAUKEE'S WEST COAST EXTENSION UNTIL SUCH TIME AS A VIABLE PLAN EXISTS FOR AN ADEQUATE SUBSTITUTION FOR THE SERVICE IT NOW PROVIDES.

[Whereupon, at 5:30 p.m., the subcommittee adjourned.]

○