

1st MONDAY
3rd MONDAY

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SUPVR. CAR UTILIZATION
THE MILWAUKEE ROAD
MILWAUKEE

August 20, 1979

Managers and Supervisors:

The Trustee's plan of reorganization is now before the court. Within a few weeks the court will transmit the plan, along with any alternate reorganization plans which may be developed by parties involved in the bankruptcy proceeding, to the ICC. As the first of several steps leading to the plan's approval, the Commission will then schedule public hearings. Ultimately, the plan will be voted upon by the various classes of creditors and claimants. Meantime, we shall proceed as we can with reorganization activities.

The court hearing on the embargo request will begin August 27. Special Master Milton Gray will conduct the hearing. Judge McMillen has asked that the master's recommendation be ready by September 14. The Trustee has requested that the embargo go into effect at 11:59 p.m. September 17, or as soon thereafter as the court may direct.

The embargo has the full support of the Carter Administration. In an August 15 letter to Judge McMillen, Acting Secretary of Transportation Graham Claytor said the Administration endorsed "the need for a smaller system for the Milwaukee and the use of an embargo to move toward it." Accompanying the letter was the affidavit of Robert E. Gallamore, Deputy Administrator of the FRA, in support of the embargo. Gallamore said in his statement to the court:

"DOT strongly supports a partial embargo as a solution to the Milwaukee's immediate financial problems and in order to permit the restructuring of the Milwaukee into a self-sustaining system. The Department, after examination of the present Milwaukee system, is persuaded that the entire railroad cannot be kept in service by the railroad through winter, that the entire system cannot become self-sustaining, and ERSA funds cannot again be made available for the entire system. For these reasons, court action is necessary to embargo non-core lines so that the railroad's cashlessness does not compel a cessation of service this fall with resulting dire consequences to the national transportation system."

The ICC soon is expected to announce the final schedule for the proceedings on our application to abandon lines west of Miles City. We filed our application August 8. Earlier the Commission had proposed and offered for public comment an expedited schedule which called for an administratively final decision by January 10, 1980. There has been strong support for, and opposition to, the proposed schedule. Should the Commission uphold the expedited timing, hearings on the abandonment could begin by September 10.

Last week Governor Thomas Judge of Montana met with us to discuss ways to retain Milwaukee Road service west of Miles City. We told Governor Judge that operations could continue only if substantial assistance were provided the Milwaukee. We also said that we would not delay either the embargo or abandonment proceedings. We have agreed to meet with Governor Judge next month in Montana.

On August 13, the Trustee asked the court for authority to begin the process of obtaining between \$175 million and \$225 million of the approximately \$250 million in Federal assistance that will be needed to support the start-up and

the operation of the 3,400-mile "Milwaukee II" core. Judge McMillen has scheduled hearings on the request to begin on September 24. He has authorized the Trustee to publish the required public notices of the proposed borrowing and to file initial financing applications with the FRA. The funds being requested will be used to finance operating losses, track and equipment rehabilitation, and the labor protection program outlined in the preliminary plan of reorganization. The Trustee proposes to obtain the funds under the terms of the 4R and ERSA legislation.

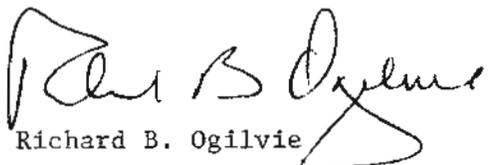
The decision to consolidate the Montana and Washington divisions on September 1 is solely the result of the fact that we have been losing supervisors and rank-and-file employees to other railroads and other industries. The consolidation is necessary to enable us to manage operations with fewer people. Headquarters for the new division will be at Tacoma. There will also be a major office in Deer Lodge. Jack Stuckey will be division manager.

On August 16 we dedicated the new \$2.1 million waste water treatment facility at Milwaukee Shops. The project is part of our ongoing 4R-funded rehabilitation program. The waste water facility will soon be fully operational. It is designed to pretreat industrial waste water at the shops in compliance with applicable federal, state and municipal environmental regulations.

Work is presently under way on four state- and shipper-assisted track rehabilitation projects. Areas of maintenance activity include portions of the following lines: Big Stone City, S. Dak., to Gascoyne, N. Dak.; Alden to Jackson, Minn.; Channing to Ontonagon, Mich.; the northern Iowa "Mason City" line. Work, of course, continues full swing on the 4R upgrading the Milwaukee-St. Paul main line.

The ICC has now confirmed my appointment as Trustee, succeeding Stanley Hillman. As I indicated at the time of my appointment by Judge McMillen, I intend to continue the policies established by Mr. Hillman. With your help, I'm confident that we can reorganize the Milwaukee as a strong smaller railroad. Thank you.

Worth Smith is on vacation this week.


Richard B. Ogilvie

First Monday / Third Monday
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