

1st MONDAY 3rd MONDAY

Prepared for employees by the
Milwaukee Road's Corporate Communications Department
516 West Jackson Boulevard Chicago, Illinois 60606
Telephone 312 648-3324

December 3, 1979

Managers and Supervisors:

You'll recall that we had agreed to honor claims of employees for 1978 vacation time as yet untaken in 1979 for those persons who were furloughed during the partial embargo and who wished to apply some of that time to the days they lost. It shall also be our policy that employees who leave our service between now and the end of the year, through retirement, resignation, etc., will receive compensation for whatever earned but untaken vacation time they have coming.

New Milwaukee Lines filed its employee-shipper ownership plan last Saturday in Washington. We have not yet had the opportunity to study it in detail. It's unlikely that we shall have anything to say about it officially until we make our formal comment to the ICC around December 14.

The reorganization court upheld the right of this group, or of any properly constituted group, to file such a plan, without ruling on the feasibility of the plan itself. First, the ICC must consider the plan and put it to several tests which were outlined in my FM/TM of November 5. This the Commission must do within 30 days. If the Commission finds the plan feasible and approves it, the reorganization court then has 10 days in which to determine whether the plan is fair and equitable to the estate of the Milwaukee Road. If the court rules in the affirmative, the Restructuring Act provides that the plan must be implemented by April 1.

Without commenting on New Milwaukee Lines' ESOP plan, I would like to share with you a portion of the statement of policy regarding New Milwaukee Lines itself which the Trustee and his officers are, when asked, using to answer questions about that organization and our position on its objectives.

We have few facts about the membership and financial support of New Milwaukee Lines, actually. The organization claims a membership of what would appear to be about 5% of the Milwaukee's total employment, with most of its members working in Montana, Idaho and Washington. New Milwaukee Lines has elicited financial and political support almost entirely from these three western states. To the degree that rail shippers have actually contributed funds to New Milwaukee Lines, we understand that these contributions have come principally from two or three organizations located in Montana.

We take the view that the effort of New Milwaukee Lines to continue the operation of the entire Pacific Coast Extension is founded far more on emotional grounds than it is on economic realities. We therefore are opposed to this portion of the New Milwaukee Lines effort. In our view, the cost to continue the operation of the line west of Miles City during the forthcoming lengthy reorganization process, and to rehabilitate the line, will run to as much as \$750 million. We see no other source for these funds than the federal treasury. We fear that this largely unnecessary railroad would become a permanent burden on the taxpayers.

We are also of course opposed to New Milwaukee Lines' latest concept of an employee-owned railroad which would extend from the Pacific Coast to Louisville. We much prefer, and we believe the transportation world and the taxpayers would much prefer, our own concept of reorganizing the Milwaukee Road as a midwest railroad serving those markets to which it has or can reasonably obtain competitive access with considerably less government financial assistance and considerably greater possibility that the government will get its money back.

Moreover, we have seen no evidence that New Milwaukee Lines has the capability to manage a railroad organization of the size it desires to acquire. Indeed, from what we have seen of its interpretations of facts and statistics and its analyses of the studies of others, we question seriously the ability of this group to be realistic in such matters as economic analysis, operational planning and labor negotiations. We have no information that would indicate that New Milwaukee Lines is being supported by the national rail labor organizations.

You'll recall that one of the major hurdles over which Trustee Ogilvie must lead the Milwaukee Road in seeking its ultimate financial organization is satisfying not only the railroad's existing obligations but those which he will incur during the reorganization process itself. As of last June 30, deferred claims totaled some \$321 million, not including \$125 million in nondeferred current liabilities and \$123 million in nondeferred long-term liabilities. We estimate now that because of additional ERSA borrowings, increasing state and local tax claims, increasing amounts owed to holders of the railroad's mortgages and to the federal government under the 4R Act, by the time New Milwaukee Lines' proposal would be implemented next April, if it were affirmed, deferred claims would total some \$445 million.

Our operations in the 4,800 miles which were embargoed for a week early in November are back to normal, but we seem to have difficulty convincing the Montana Citizens Freight Rate Association of this. Twice the MCFRA has written letters of complaint to Judge McMillen; last week it asked for a formal hearing in which to prove its assertions that the Trustee wasn't observing the intent of Congress. Today, as he had before, Judge McMillen indicated that the association should confer with the Trustee and his officers. Judge McMillen has indicated that he has been satisfied with the manner in which Trustee Ogilvie has been operating under the order of the court which suspended the partial embargo.

Attorneys for the Trustee have responded to the allegations of the MCFRA in five particular areas:

The Association had contended that certain files were destroyed at Great Falls. All that were destroyed were copies of documents which remain on file at other locations on the railroad. The balance of the records were either stored at Great Falls or transferred to Seattle.

The MCFRA asserted that we had diverted business from our route through an ICC order which permitted us to reroute loads. We rerouted 1,106 cars during the embargo when we couldn't handle them ourselves, and 195 cars between the time the embargo was lifted and November 14, when the ICC canceled the reroute order. Since we hadn't yet returned to normal levels of locomotives and cars in those first days after the embargo, the reroute order permitted us to divert loaded cars to other railroads and use our own limited capabilities to move empty cars to shippers who needed them.

There was the complaint that we didn't immediately bring our rosters of engines and cars back up to the October 15 level once the embargo was lifted. The court's order gave Trustee Ogilvie complete discretion to reposition equipment after the embargo and specifically indicated that he shouldn't operate unnecessary trains with frequency and schedules identical to those which may have existed as of October 15. Moreover, much of the equipment normally used west of Miles City became scattered across other railroads during the embargo. We couldn't apply normal car-service rules to this equipment; if we had, the cars would have come back to us empty at junctions which were under embargo and we couldn't have accepted them. Empty cars are moving into Montana more normally now. Tonnage on the main line is increasing. As to locomotives, there are actually more units working west of Miles City now than were out there prior to the embargo. Except for two units undergoing repair, they're the same locomotives.

The MCFRA objected to our new "crossover" routes with the Union Pacific -- a method of providing alternative routings similar to those which have been available over Burlington Northern and Southern Pacific for many years. The UP routes became effective November 22 -- not immediately after the embargo -- in order that shippers might have all available alternatives should they find our transcontinental service inadequate or should we run into winter problems. We haven't canceled any of our own long-haul routes or rates. I've instructed our field sales and marketing people not to solicit for the alternative routes but for our own long haul. Under the terms of these "crossover" routes, it's the shipper who specifies the route, not us.

Lastly, the MCFRA and others have been concerned about the imposition of some 450 additional miles of 10-mile-an-hour slow orders between Miles City and Maple Valley. In mid-November, at the request of New Milwaukee Lines, the track between these points was inspected jointly by a representative of that group and our engineering officers. The inspection team was looking only at crosstie conditions. The team made spot checks of ties, relative to FRA track standards, about every five miles. The conditions which its inspection revealed required our engineering and operating officers to impose the additional slow orders. We then began an immediate reinspection of all ties designed to develop what work would be necessary to lift the slow orders. We've relocated some track-maintenance personnel, and reinstated some, to do what work will be possible considering the time of year. Meantime, our engineering officers are studying the record produced by the FRA's track geometry car on its recent trip over the line.

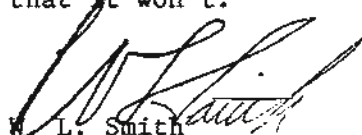
One cannot help but observe that while from Montana we get much resistance and complaint, from virtually every state in the "Milwaukee II" core we get real financial assistance. For example, we have just concluded another season of track rehabilitation in several states with the help of states and shippers in the "Milwaukee II" area, and we continue to upgrade and return to service cars through our shipper-assistance program.

Since 1977, we've been rehabilitating our main line between Milwaukee and St. Paul with the help of the 4R Act. When this year's work was finished on November 23, all told we'd placed 866,000 ties, 456 track-miles of ballast, and 34 track-miles of continuous welded rail. We soon should hear from the court whether we'll be authorized to continue the 4R work, with the scene shifting to the line between Milwaukee and Chicago and between New Lisbon and Wausau -- where we'll begin delivering unit trains of coal to a new power plant in 1981.

One example of the effectiveness of this work on the main line: For the first time in recent memory, all Amtrak trains yesterday were on time!

With all this activity, it seems clear that we intend to stay in the railroad business in our "Milwaukee II" area. Yet on November 26 the court took action which, superficially, looked like a move to abandon the entire railroad. Here's what's going on: In a move which was similar in purpose to the step of last summer in which we filed an all-red Title VIII map with the ICC, we asked the court to set in motion the machinery which would bring officially into the court record the ICC's activities regarding pending and future line abandonments. The Restructuring Act shifts to the court, from the Commission, authority over abandonments once the ESOP plan timetable has run its course. The order of the court followed a question from the ICC itself as to how the court wished the Commission to proceed under the changed circumstances, in fact.

Two personnel notes: I'd like to acknowledge the appointment by South Dakota Governor Janklow of George Nikolas of Aberdeen to the Governor's Railroad Advisory Committee. And I'd like to allay any fears that Trustee Ogilvie's appointment as special counsel to the Chicago Board of Education will change his role as Trustee of the Milwaukee. He's assured both Judge McMillen and me that it won't.



W. L. Smith
President

First Monday / Third Monday
516 W. Jackson Blvd.
Room 824
Chicago, IL 60606

306 001080
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