

FD-30400

4

waybills showed that from the total population of waybills, 21,960 had been generated by southbound traffic, 3,340 by northbound traffic and 1,647 by local traffic. The sampling procedure was designed to yield an estimate of diverted traffic revenues with a sampling precision of approximately 10 percent relative error with a 95 percent confidence level. TM determined that 444 was the appropriate total sample size needed to achieve this degree of precision. To maintain constant the probability of drawing each waybill, the sampling designed called for independent random samples of sizes 364 for waybills originated in the southbound traffic, 53 waybills for the northbound traffic, and 27 waybills of the local traffic. The appropriate sample size for each traffic classification was determined by the relative weight of every traffic classification within the total population of waybills.

The Traffic Manager for TM was the sole evaluator. He established four basic rules to evaluate the traffic movement indicated on the waybills. Rule 1 specified that all CONASUPO^{1/} traffic could be subject to 50 percent diversion. This rule was justified on the grounds that the CONASUPO traffic is based on the destination and point of entry specified on the bids on which CONASUPO bases its purchases of grain. TM believes that this traffic will become very vulnerable to diversion because both UP/MP and the proposed SPSP can serve other Texas border ports at lower rates. Rule 2 indicated that local traffic could be subject to 5 percent diversion. This rule was based on the assumption the SPSP may induce a diversion of the local traffic via Brownsville or Eagle Pass. Rule 3 called for no diversion of traffic which moves under a 1947 SPT-TM agreement. Rule 4 concerned all other traffic which would be subject to 100 percent diversion.

After the evaluation, four steps were undertaken to estimate the revenue losses. The first step was to determine the proportion of the southbound, northbound and local waybills subject to traffic diversion according to each of the evaluation rules. The second step was the determination of TM's anticipated loss on every waybill assuming that the UP/MP and the SPSP mergers had taken place the year before. The third step was the determination of the mean dollar losses for each type of traffic. The fourth step, was the estimation of the expected total losses arising from the UP/MP and the SPSP mergers. The results of the study indicate a potential loss in revenue of \$8.9 million for TM arising from the proposed SPSP merger and a revenue loss of \$2.9 million for TM from the UP/MP merger.

Applicants argue that TM's projected losses are grossly overstated and unreasonable, particularly because TM presented no evidence supporting its assumption that shippers would suddenly desert TM's rail service as a result of the merger. SPSP claims that TM's internal assessment of the merger was that it would benefit TM by placing it in a stronger competitive position against UP/MP, the dominant rail carrier competing via the Laredo Gateway. Accordingly, applicants ask that TM's traffic study be given no weight.

We have reviewed the evidence pertaining to TM's traffic diversion study and conclude that the results of the study are questionable. The study was based upon the assumption that the merged company with lower rates, would reroute Mexican traffic

^{1/} The Mexican Government's grain purchasing company.

from the Laredo gateway to other border crossings which are served directly by the applicants. The record indicates that SPSP would have direct service to four Mexican gateways (El Paso, Presidio, Eagle Pass and Brownsville). However, on cross-examination the Chief Executive Officer of TM testified that he regards Eagle Pass and Brownsville as Laredo's principal competing gateways.

The record shows that Laredo historically has been the foremost international rail gateway to Mexico. In 1984, CONASUPO reported that about 68 percent of the international rail grain tonnage that was transported to Central and Eastern Mexico moved through Laredo. One of the primary reasons for this is the fact that the rail lines from Laredo to major interior consumption areas in Central and Eastern Mexico are substantially more direct than Mexican National Railway (N de M) lines from other gateways. The shorter distances result in better service and lower freight rates. Other contributing factors as to why Laredo is the major rail gateway to Mexico are: (1) a large number of experienced U.S. customs brokers and forwarding agents are located there; and (2) Laredo has more warehouse space than any other location on the border.

Over 88 percent of the \$8.9 million revenue loss which TM's traffic study projected is accounted for by SP southbound traffic. TM estimated that 227 southbound sample movements would be diverted to other SPSP international rail gateways. The merger of the applicants would provide SPT with one additional Mexican rail gateway at Presidio. However, in our opinion, this additional gateway would have no effect upon SPT traffic moving via Laredo. The evidence shows that rail freight rates from Presidio to major consumption areas in Central and Eastern Mexico are substantially higher than those from Laredo. For example, the rail freight rate for a shipment of soybeans (98,000 lbs. min. wt.) from Presidio to Mexico City is 39 cents higher than the rate from Laredo. Hence, there would be no incentive for shippers to route traffic via Presidio instead of Laredo. As for SPT shifting its southbound traffic from TM and Laredo to Eagle Pass or Brownsville, we do not believe that this would occur as a consequence of this consolidation. SPT can presently handle southbound traffic directly to Eagle Pass or Brownsville without ATSP. However, shippers apparently prefer to route their traffic via SPT-TM to Laredo in order to take advantage of the more direct routes, better service and lower freight rates to interior Mexican stations. The Chief Executive Officer of TM admitted on cross-examination that he did not believe that after merger, SPSP would be able to route CONASUPO grain through Eagle Pass instead of over Laredo. In his opinion, SPSP could never institute rates to Eagle Pass that would be low enough to offset the rate difference in Mexico to many destinations.

Based upon our analysis of the evidence, we find that TM's traffic diversion study can be given little weight. Alternatively, we conclude that applicants' projected diversion of \$32,000 from TM, even though understated, is a more realistic estimate of the revenue losses that TM could experience.

Union Pacific and Missouri Pacific

UP's traffic study consisted of a limited restatement of applicants' diversion study. UP utilized applicants' DNS diversion model with certain modifications. Because its analysis focused on the extent to which UP/MF would be affected by applicants' merger and for reasons of data processing efficiency, UP instructed DNS at the outset to segregate from applicants' adjusted base case records all traffic in which UP/MF

participated. Subsequent to this traffic segregation, UP instructed DNS to make several technical corrections to the model. These corrections fell into three categories. First, in identifying exceptions to Reason Code 107, applicants' computer programming had omitted numerous junctions, including those that would be affected by the merger and through which UP/MP traffic currently moves. Second, the model apparently was intended to allow diversion of certain TOFC/COFC traffic moving between selected point pairs, as programmed. However, the model allowed diversion only when such traffic originated or terminated, but not interchanged, at those points. Finally, UP determined that some of applicants' exceptions to Reason Code 107 had been intended to apply to Reason Code 108 as well, although applicants' computer instructions did not accomplish that result. These technical corrections produced an additional revenue loss to UP/MP of approximately \$6.5 million.

After making the technical corrections, UP decided what adjustments to applicants' model were necessary to reflect more accurately the anticipated traffic diversions from UP/MP. The adjustments implemented were not the only modifications UP believed were called for. Rather, they reflected its judgment of those that (1) would have substantial revenue impact and (2) could be implemented without complicated, unduly time-consuming changes to the model.

UP's modifications were limited. The adjustments generally took one of two forms: (1) changes to or additions of "reason codes" in order to allow the model to consider movements for diversion when applicants had instructed the model to preclude diversion; and (2) the addition of new reason codes that allowed diversion at a rate higher than the limited diversion rate specified in applicants' "diversion matrix."

The first modification involved TOFC/COFC traffic in the St. Louis-California corridors (including traffic moving through the St. Louis gateway) in which SPT did not participate in the "adjusted base case." UP modified the model to add St. Louis/California point pairs as exceptions to Reason Code 107. This adjustment had the effect of allowing diversion of the affected traffic at the rate prescribed in applicants' diversion matrix. The second modification involved SPT-Ogden-UP/MP traffic moving either to points served by SPT or through gateways served by SPT, such as St. Louis or Memphis. Applicants had designed the model to preclude diversion of such traffic. UP modified the DNS model to allow diversion on this traffic at the rate prescribed in the model's diversion matrix.

The third modification involved bridge traffic. UP believed that the diversion percentages in applicants' model had attributed to UP/MP undue influence over the routing of such traffic. To project more accurately the realities of a post-merger transportation market, UP adjusted the model to allow diversion at a rate of not less than 90 percent when UP/MP was the bridge carrier between two Class I railroads and the originating or terminating carrier was SPT or ATSF or their captive short lines. UP allowed this diversion only when the long-haul SFSP route would not be unduly circuitous under the standards used by applicants in their study.

The fourth adjustment was the elimination of applicants' "Oregon Rule." This rule applied to UP/MP traffic moving over the Ogden gateway to and from Oregon. The "Oregon Rule" reduced by 90 percent for expedited traffic and by 70 percent for all other traffic the diversion percentage otherwise prescribed by the applicants' model. UP claims that the applicants arbitrarily limited the diversion on this traffic with the justification that this traffic was uniquely wedded to the SPT-Ogden-UP/MP route.

The last modification addressed the role UP/MP now plays, and would play if the proposed SFSP merger were approved without conditions, in the Los Angeles-Memphis TOFC/COFC market. UP disagrees with applicants' claim that after the merger UP/MP would have a significantly greater share of this market than it has today. Therefore, UP instructed DNS to modify the model to ensure that UP/MP's TOFC/COFC market share in this corridor would approximate today's level of about 6 percent.

The result of the aforementioned modifications and technical corrections to the model indicated that UP/MP would endure an additional \$75.8 million in traffic diversion beyond the \$89.8 million in diversions previously identified by applicants. Thus, UP estimates that it would have annual gross revenue losses of no less than \$165.6 million if the proposed merger were consummated without conditions.

Applicants presented no evidence challenging the assumptions, procedures or results of UP/MP's traffic diversion study. Consequently, we conclude that UP/MP could suffer annual gross revenue losses of \$165.6 million if the proposed merger were approved without conditions.

Trackage Rights Traffic Analysis

Union Pacific/Missouri Pacific

UP/MP conducted a traffic study to estimate the changes in traffic volume and revenue in the affected corridors where it is seeking trackage rights. The study was based on 1983 traffic data of UP/MP, ATSF and SPT. For purposes of the study, 1983 traffic was defined as traffic that moved under waybills issued from December 16, 1982 through December 15, 1983. It was determined that a two percent sample of relevant 1983 traffic would be sufficient for the study. The first step in selecting that sample was the identification of the relevant traffic. The primary applicants provided UP/MP with a file of their 1983 traffic that originated or terminated in New Mexico, Arizona, and California, except traffic originating or terminating (a) on ATSF's north-south lines in New Mexico; (b) at the SPT stations of Miami, Globe, Hayden, Douglas, Nogales and Clifton, AZ; (c) on ATSF's line between Santa Ana and San Diego, CA; (d) on SPT's Coast Line south of Watsonville and north of Oxnard, CA; (e) on SPT's Alturas line; and (f) on SPT's lines beyond the first standard point location codes north of Sacramento and Roseville, CA. The universe of relevant traffic from UP/MP's data base included all 1983 UP/MP traffic originating or terminating in California, Arizona, and New Mexico, as well as all 1983 traffic that originated or terminated west of Fort Worth, TX, on points served by MP. In order to eliminate duplication in the UP/MP, ATSF and SPT traffic data, the inconsistent applicant did not sample (1) traffic in the ATSF data base in which SPT participated and (2) traffic in UP/MP's data base in which either SPT or ATSF participated. A replicated sample design, with ten independent replicated subsamples, was used for the traffic study. The design called for implicit stratification to be achieved by sorting the sampling frame by commodity prior to sample selection. Of the 1,910,449 movements contained in the sample frame, 38,213 were selected for study.

A number of basic assumptions were used in the traffic study to reflect the realities of the transportation marketplace. A few of the more important assumptions included: (1) the environment of the railroad industry will continue to be highly competitive with the full range of Staggers Rail Act freedoms; (2) the UP/MP consolidation is fully implemented; (3) neither UP/MP nor SPSF would cancel joint rates or close routes available

today; (4) a carrier would not be able to divert TOFC/COFC traffic to a new route if the new route has greater than 18 percent circuitry compared to the route the traffic would otherwise move; (5) a carrier would not be able to divert carload traffic to a new route if that new route has greater than 50 percent circuitry compared to the route the traffic would otherwise move; (6) traffic would not divert to routes which would result in higher rates to a customer; and (7) TOFC/COFC traffic would not divert to a route for which the transit time is in excess of one business day longer.

The General Sales Manager for UP/MP served as the traffic evaluator and had the sole responsibility for making traffic diversion judgments. To conduct the study, UP used computer printouts containing all the shipments included in the sample. These printouts provided for each movement, information on origin, destination, consignor, consignee, commodity, routing and revenue. Movements with the same characteristics (other than date of movement) were grouped together. Of the 38,213 movements contained in the sample, UP identified 6,397 movements to be divertible.

After the divertible movements had been identified the division officers calculated for each movement diverted to the trackage rights the revenue that would accrue to participating carriers over two routes: (1) the route over which the traffic would move after the SPSF merger without trackage rights conditions; and (2) the route over which the traffic would move if the merger were conditioned on the grant of trackage rights to UP/MP. The cumulative differences in revenues reflected the impact of the trackage rights on each participating carrier. The division officers' calculations yielded numbers expressed in 1983 dollars. In order to adjust these 1983 dollars to reflect 1982 levels, UP/MP indexed its study results by using the percentage increase in revenues for Western District Railroads between 1982 and 1983. The results of the traffic study showed an increase in gross revenues for UP/MP of approximately \$97 million.

The table below shows the gross revenue changes for Western rail carriers if the UP/MP trackage rights were granted.

Revenue Change of UP/MP
 Trackage Rights on
 Western Rail Carriers
 (Thousands of dollars)

Railroad	1982 Gross Revenue Change	1983 Gross Revenue Change
BN	\$(946.2)	\$(1,101.4)
CNW	1,206.9	1,333.0
DRGW	(332.7)	(340.1)
ICG	(25.7)	(26.0)
KCS	(216.6)	(245.8)
SPSF	(96,667.9)	(104,737.5)
UP/MP	96,853.9	104,996.1

Note: Carriers impacted by less than \$20,000 in 1983 revenues are not listed.

KCS submitted evidence challenging the results of UP/MP's traffic study. The opponent contends that UP/MP's trackage rights would divert from SFSP traffic having gross revenues (in 1983 dollars) of \$207 million -- rather than the \$105 million projected by UP/MP's traffic study.

KCS did a re-evaluation of a portion of the TOFC traffic included in UP/MP's traffic study. This re-evaluation consisted of three basic steps: (1) development of origin-destination pair (O/D pairs) traffic flows which KCS considered relevant to UP/MP's sought trackage rights; (2) development of the historic (1983) market shares of SPT, ATSF and UP/MP respectively, within each of these O/D pairs; and (3) development of diversion percentages for TOFC traffic flowing within each O/D pair. In reviewing UP/MP's traffic diversion study, KCS could not identify the specific corridors UP/MP utilized. Therefore, from the data contained in UP/MP's traffic tapes, KCS developed traffic flows which it believed realistically depict traffic relevant to UP/MP's sought trackage rights. For its re-evaluation, KCS studied TOFC traffic flowing within 35 O/D pairs. For each O/D pair, KCS developed the historic (1983) market share of SPT, ATSF and UP/MP. According to KCS, these market shares demonstrated the tendency of shippers to split their traffic among the rail carriers serving their place of business. KCS also contends that UP/MP acknowledged this tendency because the applicants applied diversion percentages ranging from 8 percent to 50 percent.

To determine what percentage of the traffic flowing within each O/D pair and its attributable revenue would be diverted by UP/MP from SPSF, KCS developed a diversion percentage based upon the lesser of the ATSF and SPT market shares. So constructed, KCS claims that these diversion percentages account for shippers' tendency to split their traffic and represents a conservative estimate of UP/MP's achievable market share if granted the trackage rights which it requested. For a given O/D pair, KCS applied a diversion percentage to the carloads and revenue represented by each and every movement. For certain O/D pairs the study movements included existing UP/MP traffic. In such cases, KCS confined its diversion estimates to the combined ATSF and SPT traffic. In the course of its re-evaluation, KCS discovered numerous instances in which the ATSF records contained obviously wrong revenue information. According to KCS, UP/MP's evaluation substantially understated its revenue diversion because it relied upon these erroneous revenue figures. To determine the approximate extent of this understatement, KCS went through several calculations to arrive at what it believes to be a reasonable measure of the extent to which ATSF's faulty revenue data caused a misrepresentation of UP/MP's diversion estimate for each O/D pair.

Based upon its re-evaluation of the TOFC traffic flowing in the 35 O/D pairs, KCS concluded that UP/MP underestimated its diversion from SPSF in these corridors by 43,054 carloads and by \$102.0 million in gross revenues. KCS notes that it only re-evaluated that portion of the TOFC traffic included in UP/MP's traffic study which equaled \$45.7 million in UP/MP gained revenue. KCS did not re-evaluate either the remainder of TOFC traffic or the General Merchandise traffic studied by UP/MP, which equals \$59.0 million in revenues. For that portion of the TOFC traffic which was re-evaluated, KCS estimated revenue diversions of \$102.5 million based upon the "record revenues" and an additional \$45.2 million in "bad record shortfall/revenues" for a total estimated revenue diversion of \$147.7 million. If the diverted revenues which were not re-evaluated were accepted

at face value, KCS maintains that the total revenues of which SPSF would be deprived through UP/MP diversions would be \$207 million. In addition, KCS alleges that UP/MP's diversion analysis concluded that, in addition to the revenues it would gain through its trackage rights, UP/MP would recoup the approximately \$97 million of traffic which SFSP estimated it would divert from UP/MP.

In response to KCS's opposition evidence, UP/MP argues that KCS's re-evaluation analysis is unreliable, its recalculation of ATSF's revenue was unnecessary and the inference that UP/MP's trackage rights would allow it to recapture the traffic losses that SFSP projects as a result of the primary transaction was incorrect.

We agree with UP/MP that its traffic study is more reliable than KCS's re-evaluation. UP/MP's study was based on its knowledge of the marketplace and customer needs and on a careful study of the circuitry, freight rate levels, transit time, single system service and backhaul opportunities in each corridor where UP/MP would compete through trackage rights with SPSF. In addition UP/MP's study considered its actual experience in competing today with ATSF and SPT. KCS did not examine the specific factors that affect the traffic patterns in each corridor. Instead, KCS assumed that UP/MP would attract the lesser of the TOFC/COFC revenue shares which SPT or ATSF have in today's market. The evidence shows that TOFC/COFC shippers do not provide a guaranteed market share to any railroad or maintain a rigid allocation of traffic among rail carriers. TOFC/COFC shippers are concerned principally with rates and service. KCS's re-evaluation did not consider these important aspects and thus we conclude that its re-evaluation is unreliable and can be given no weight. Furthermore, KCS's recalculation of ATSF's revenues was flawed. In order to compare the revenue gains developed by the SFSP traffic study for the primary application and those projected by the UP/MP traffic study, the same ATSF data must be utilized. Finally, KCS's allegation that UP/MP would recapture its lost revenue is in error. If traffic projected to be diverted from UP/MP as a result of the proposed SFSP merger would have been recaptured by UP/MP's trackage rights request, that retained traffic would be reflected in their traffic study as a revenue gain. Further, the evidence indicates that most of the traffic that would be diverted from UP/MP to SPSF now moves in the Central Corridor to and from Northern California and Oregon. UP/MP trackage rights principally affect traffic in the Southern Corridor.

Based upon the evidence, we find UP/MP's revenue projection of \$97 million in 1982 dollars (\$105 million in 1983 dollars) to be a reasonable estimate of the amount of gross revenues it would gain from a grant of its requested trackage rights.

APPENDIX F

DESCRIPTION OF VARIOUS PROPOSED CONDITIONS

The Denver and Rio Grande Western Railroad Company

The DRGW seeks authority to acquire fee ownership of certain SPT lines and full service trackage rights (or an alternative means of providing service) over certain other lines of the SPT. DRGW's request for authority to purchase and for trackage rights is based on the potential impact of the SPT/ATSF merger on DRGW's ability to continue as a competitor in the Central Corridor. With the consummation of the merger, DRGW would lose its last friendly, independent connection to and from the west and effectively would be blocked from further participation in the traffic it now moves, much of which is transcontinental.

A. Description of Lines to be Acquired

DRGW seeks authority to acquire fee ownership of the following SPT lines:^{1/}

<u>Between Station</u>	<u>and Station</u>	<u>Approximate Mileage</u>
Ogden, UT	Weso, NV	360.26
Weco, NV	Roseville, CA	314.28
Hazen, NV	Fallon, NV	15.89
Hazen, NV	Mina, NV	128.90
Flanigan, NV	Klamath Falls, OR	217.04
Wendel, CA	Susanville, CA	23.27
Alturas, CA	Lakeview, OR	55.50

The acquisition totals approximately 1115.85 miles. In addition, trackage rights over a 149-mile UP line between Weso and Flanigan, NV are needed to connect the Flanigan/Klamath Falls segment with the Ogden main line. DRGW seeks assignment of trackage rights over this UP line.

DRGW seeks unrestricted, full-service trackage rights (except for gathering and distribution areas where an alternative means of providing service is proposed) over the following lines:

<u>Between Station</u>	<u>Milepost</u>	<u>and Station</u>	<u>Milepost</u>
Klamath Falls, OR	427.00	Eugene, OR	647.30
Eugene, OR	647.30	Portland, OR	770.97
Willsburg Jct., OR	740.72	Beaverton, OR	757.00
Albany, OR	689.90	Griggs, OR	695.00
Albany, OR	691.35	Corvallis, Jct., OR	703.29
Corvallis, Jct., OR	602.61	Gerlinger, OR	714.30
Gerlinger, OR	729.00	Dallas, OR	733.80
Eugene, OR	648.73	Coquille, OR	785.80
Springfield Jct., OR	644.61	Belleview, OR	426.20
Tolo, OR	450.50	White City, OR	456.37
Mohawk Jct., OR	646.59	Hendricks, OR	650.00
Roseville, CA	106.60	Oakland, CA	4.90
Davis, CA	75.30	Woodland, CA	84.90
Suisun-Fairfield, CA	48.93	Schellville, CA	72.60
Napa Jct., CA	61.42	Vallejo, CA	68.87
Main Line Switch	---	Benecia, CA	24.20

^{1/} In the alternative, DRGW seeks trackage rights over these lines. DRGW understands that certain SPT lines referenced are lines which SPT obtained through its acquisition of and subsequent merger with the Central Pacific Railway Company and are subject to a paired-track agreement between SPT and UP. To the extent that such agreement may interfere with the award of the condition sought by DRGW, DRGW requests the Commission to set the agreement aside pursuant to 49 U.S.C. 11351 and 49 C.F.R. 1080.1(g).

<u>Between Station</u>	<u>Milepost</u>	<u>and Station</u>	<u>Milepost</u>
Martinez, CA	34.70	Pittsburg, CA	48.90
Avon, CA	38.10	End of Branch	42.60
Oakland, CA	4.90	Mulford, CA	15.50
Elmhurst, CA	13.40	San Jose, CA	47.39
San Jose, CA	46.90	Lick, CA	51.81
San Jose, CA	46.90	San Francisco, CA	0.00
Santa Clara, CA	44.59	Agnew, CA	41.70
Elvas, CA	136.38	Eakersfield, CA	312.90
Stockton, CA	90.96	Oakdale, CA	124.40
Lathrop, CA	81.50	Tracy, CA	71.50

The trackage rights sought by DRGW are in excess of 1220 miles of rail line.

In the development of its Operating Plan, DRGW relied on its Traffic Study and its own existing operations to determine the potential traffic volume DRGW would expect to handle over the extensions of its lines sought in the application.

DRGW Operations as a SPSF Tenant

DRGW has determined that the use of the following six SPT major switching and classification yards is essential to its proposed extended operations:

Roseville, CA	Klamath Falls, OR
Oakland, CA	Eugene, OR
Fresno, CA	Portland, OR

SPT services required by DRGW at these facilities are car classification and blocking sufficient for DRGW to move its trains according to the necessary service requirements. Each of the named terminals has a TOFC/COFC facility, the use of which will be required by DRGW. DRGW would enter into the necessary agreements with SPSF to provide for the use of the TOFC/COFC facilities. Each of the yards in this category will be originating or terminating points for DRGW through trains and will require the usual mechanical services, including car inspection and repair, locomotive inspection, servicing and light running repairs.

Clerical services would be limited to the compilation of movement documents containing the minimum amount of information necessary to move the traffic through the yards and over the trackage rights portions of DRGW's extended operation. DRGW forces would be employed to compile bills-of-lading, waybills and other accounting related documents, and would furnish SPSF yard forces with the information necessary to compile the movement documents discussed above.

DRGW has designated the following locations as Gathering/Distribution Points where DRGW traffic would be set-off or picked-up for movement to and from local industry by SPSF trains and crews:

San Jose	Modesto
Richmond	Albany
Martinez/Ozol	Salem
Suisun-Fairfield	Cottage Grove
Sacramento	Roseburg
Stockton	Grants Pass
Lodi	Ashland

Service required at these points would be provided for by separate agreements. Inbound cars would be set out of DRGW through trains or from SPSF locals, and would be handed to the industry by established SPSF locals or switch engine assignments. Outbound cars would be switched from the industry and lined up for pick-up by DRGW through trains. The only

blocking required for the cars to be picked-up would be for cars that would be set-out of the DRGW train at a point short of its terminating point. Limited car and airbrake inspections would be required where inspection and repair forces are employed; if no such forces are employed at a point, DRGW train crews would perform the required inspections and tests. DRGW station forces would be employed to compile bills-of-lading, waybills and other related accounting documents. DRGW would furnish SPSF with necessary movement information to ensure proper handling of the traffic.

A key element of DRGW's operation over the lines of SPSF is the proposal for SPSF local/switcher assignments handling traffic to and from industries in the areas to be jointly served by DRGW and SPSF. Duplication of such local services by both carriers would create additional expense and delay to the carriers, plus disruptions of the operations of the shippers by stopping their loading or unloading of cars for switching purposes. DRGW proposes to enter into contracts with SPSF for local switching services to and from the Gathering/Distribution Points and shippers' facilities. DRGW would reimburse SPSF for these services on a unit of service performed standard mutually acceptable to both parties. As the nature of service provided for DRGW would be analogous to that performed in a Joint Facility, the basis for SPSF's charges would be established as are the charges in a typical Joint Facility Agreement.

Through Freight Train Operations

DRGW proposes to operate two through trains in each direction daily between Ogden and Oakland. One train would be expedited, handling high priority traffic between the Bay Area and the Kansas City and Chicago gateways with connections to eastern points. One train would provide daily service for other traffic originating or terminating in the Bay Area with pick-up and set-off service at points between Oakland and Winnemucca.

Two through trains in each direction will be operated daily between Ogden and Roseville. One train would provide service to customers in the Roseville/Sacramento area with connections to Fresno and Bakersfield. This train would provide pick-up and set-off service for expedited traffic at Sparks/Reno. The other train would handle traffic originating or terminating at Roseville/Sacramento with set-off or pick-up service between Ogden and Roseville.

One through train in each direction daily will be operated between Ogden and Eugene providing set-off and pick-up service at Klamath Falls, Alturas, Wendel and Winnemucca. One train in each direction daily would be operated between Roseville and Bakersfield, providing pick-up and set-off service at five Gathering/Distribution Points: Lodi, Stockton, Modesto, Fresno, and Goshen Junction. One train in each direction daily would be operated between Eugene and Portland, providing pick-up and set-off service at Albany and Salem.

One train daily in each direction would be operated between Eugene and Roseburg, providing pick-up and set-off service at Cottage Grove. These trains would connect with daily trains operating between Ashland and Roseburg which provide pick-up and set-off service at Grants Pass and Medford.

The applicants have raised several issues concerning DRGW's Operating Plan. The issues are as follows:

- A. DRGW crew districts are too large.
- B. DRGW train classification requirements are not adequately described.

C. DRGW train schedules conflict with SPSF operations.

In rebuttal, DRGW responds that their Operating Plan uses the same crew districts that are currently being used by SPT, and DRGW states that its modified Operating Plan fully describes the required train classifications. This modified Operating Plan was prepared to address the questions raised by SPT. With respect to schedule conflicts, DRGW states that it specifically took SPSF schedules into account in establishing DRGW proposed schedules.

In addition, SPT questioned DRGW's plan in regard to equipment utilization, such as, whose equipment would be provided to the shippers, whose responsibility would it be to supply equipment, what priorities would govern car distribution during periods of equipment shortages where empty equipment would be held for prospective loading, whose facilities would be used to store equipment, whose obligation it is to construct and pay for additional facilities, what are the plans and safeguards to prevent SPSF from handling empties on an uncompensated basis, and how will home road cars and other empties be interchanged between DRGW and other railroads. DRGW responded directly to each of SPT's questions, with answers taken directly from the Operating Plan, supporting statements and the proposed Trackage Rights Agreement.

A matter involving the possibility of significant capital investment, amounting to \$7 million, is the need for a second main track between Lathrop and Calla, CA, a distance of approximately 5 1/2 miles. SFSP contends, because the volume of trains operated daily between these points is projected to increase from 17 to as many as 25 trains (including four Amtrak trains) that this segment requires an additional main track. DRGW, in rebuttal, notes that in this segment there is a siding in excess of 5,000 feet at Manteca, parallel to the main track, and that it connects directly into the north end of the 8,270 foot Calla siding. The combined use of the two sidings reduces the single track distance to approximately 3.2 miles. The record indicates that DRGW has addressed the concerns of SFSP in regard to the DRGW Operating Plan.

Union Pacific Railroad Company/Missouri Pacific Railroad Company

UP/MP has petitioned for trackage rights and ancillary rights in the Southern Corridor and in California, in areas where SPT and ATSF provide the only rail competition. UP/MP seeks only to serve directly any points that now are served jointly by SPT and ATSF (either directly or by reciprocal switching or other arrangements); to compete for future shipper locations on trackage rights lines; and to operate competitive intermodal facilities on those lines. In seeking these trackage rights, UP/MP are asking to provide service over only one of two parallel lines of SPT and ATSF (with two limited exceptions where bridge rights, without ancillary rights, are being sought for operating flexibility).

A. Description of Lines Involved

UP/MP seek trackage rights and associated terminal rights over the following lines of SPT and ATSF immediately upon the merger of SPT and ATSF.

1. The SPT line between El Paso, TX (SPT Milepost 1297.6), and Colton, California (SPT Mile Post 538.7), and from Picacho, AZ (SPT Mile Post 979.7), to and including a point about 12 miles west of Phoenix, AZ (SPT Mile Post 894.2), a distance of approximately 847.4 miles;

2. The ATSF line between Barstow, CA (ATSF Milepost 746.4), and Mojave, CA (ATSF Mile Post 814.7), a distance of approximately 68.5 miles;
3. The SPT line between Mojave, CA (SPT Milepost 381.3), and Bakersfield, CA (SPT Milepost 312.8), a distance of approximately 68.4 miles;
4. The SPT line between Colton, CA (SPT milepost 538.7), and Mojave, CA (SPT Milepost 381.3) via Hiland and Palmdale, CA, a distance of approximately 115.9 miles;
5. The ATSF line between Kern Junction, CA (ATSF Milepost 885.2), and Oil Junction, CA (ATSF Milepost 110.7), via Landco, CA, a distance of approximately 8 miles;
6. The SPT line between Bakersfield, CA (SPT Milepost 312.9), and the SPT-WP crossing near Lathrop, CA (SPT Milepost 93.7), via Oil Junction, Fresno, and Modesto, CA, a distance of approximately 219.2 miles;
7. The ATSF/SPT line between Oil Junction, CA (ATSF Milepost 308.6), and Maltha, CA (ATSF Milepost 311.6), a distance of approximately three miles;
8. The ATSF line between Escalon, CA (ATSF Milepost 1101.8), and Riverbank, CA (ATSF Milepost 1095.6), and the Oakdale Spur, a distance of approximately 13 miles;
- I. The SPT line between Sacramento (Haggin), CA (SPT Milepost 90.4), and Oakland, CA (SPT Milepost 8.0 on the Oakland-Santa Clara line), via Martinez and Richmond, CA, a distance of approximately 89 miles; and
9. The SPT and ATSF lines between Martinez, CA (SPT Milepost 34.7 and ATSF Milepost 1166.9), and Antioch, CA (SPT Milepost 53.5 and ATSF Milepost 1152.1), a total distance of 33.6 miles.

UP/MP's request for trackage rights consists of approximately 1358.7 miles of SPT lines and 107.3 miles on ATSF lines for a total of 1466 miles.

UP/MP requests, in connection with all of the above-described trackage rights except those described at paragraphs D. and E. above, the rights to:

1. Serve points or segments of the lines that, as of October 4, 1983, were common to or operated by both ATSF and SPT, including without limitation, reciprocal switching zones;
2. Construct, own, and operate intermodal facilities, including but not limited to auto ramps, team tracks, TOFC/COFC ramps and facilities, and bulk transfer facilities.
3. Site and/or serve new facilities and industries on the lines or connecting to the lines by means of spur or industrial lead tracks;
4. Interchange traffic and equipment with railroads and other carriers at all existing or new physical connections and facilities located anywhere on the lines; and
5. Participate, at UP/MP's option, in joint facility, reciprocal switching and similar arrangements for joint service within the switching districts or municipalities served by means of the lines, to which both ATSF and SPT were parties as of October 4, 1983, on fair and equitable terms and conditions.

B. Patterns of Service

The trackage rights requested by UP/MP comprise three major routes:

1. El Paso, TX to Colton, CA;
2. Colton/Barstow, CA to Lathrop, CA;
3. Sacramento, CA to Oakland, CA.

The El Paso to Colton line connects existing MP operations at El Paso with the UP operations at Colton. In addition, UP/MP request 84 miles of trackage rights from Picacho, AZ to a point approximately 12 miles west of Phoenix, AZ, which would provide competitive rail service to the Phoenix area.

The second route connects UP operations at Colton/Barstow, CA with its operations in the Bay Area. This segment includes the San Joaquin Valley and the major terminal areas of Fresno and Bakersfield, CA.

The third segment is comprised of 87 miles of the SPT main line between Sacramento and Oakland, CA. Major locations on this line include Richmond and Martinez and 32 miles of SPT and ATSF trackage covered by a ATSF/SPT joint switching agreement in the Martinez/Antioch area.

Certain UP/MP traffic could be handled more efficiently over the trackage rights lines. The traffic consists of UP/MP cars currently moving between the Memphis gateway and Southern California, which could be handled expeditiously via the shorter route over the El Paso/Colton trackage rights. The other efficiency benefits result from rerouting existing traffic from the UP Sacramento/Oakland line to the trackage rights line of SPT between the same points. The rerouting of this UP traffic would result in annual savings of approximately \$3.8 million. In addition, the trackage rights would result in improved equipment utilization by providing shorter, more efficient routes for repositioning empty cars for prospective loading, resulting in annual savings of approximately \$974,000.

C. Train Service

The UP/MP Operating Plan to implement the trackage rights provides additions to and changes in their through train and local train service, and affects its current traffic densities and that of the trackage rights segments. To evaluate change in blocking requirements, the results of the Traffic Study were reviewed. Diverted traffic was routed over the rail lines of the present UP/MP system and the proposed trackage rights lines. Present UP/MP traffic was reviewed to identify the traffic which would be handled more efficiently over trackage rights lines. Diverted, internally rerouted and the repositioned empty equipment traffic flows were combined. The resulting traffic patterns were used to plan new and/or modify train service and develop blocking plans.

Sixteen new train schedules were developed that would provide service twice daily in each direction between El Paso and Colton, and daily service in each direction through the San Joaquin Valley. Connections would be made at Colton with Southern Corridor trains and existing UP schedules, and at Stockton with UP schedules to and from the Central Corridor via Salt Lake City and the Pacific Northwest via the Bieber-BN gateway.

The schedules of 13 existing UP/MP trains would be modified as a result of the trackage rights. The changes would provide

better connections and improved service at numerous locations on the UP/MP system. The schedules of two trains on the MP line between Fort Worth and El Paso would be discontinued, with existing traffic being combined into new trains.

The implementation of trackage rights operations would require the establishment of the following new UP crew districts:

<u>Through Crew Operation Between</u>	<u>Home Terminal</u>	<u>Approximate Miles</u>
Oroville and Oakland	Oroville	150
Stockton and Bakersfield	Stockton	228
Bakersfield and Yermo	Bakersfield	151
Bakersfield and Colton	Bakersfield	185
Los Angeles and Yuma	Los Angeles	254
Yuma and Tucson	Tucson	253
Tucson and Lordsburg	Tucson	159
Lordsburg and El Paso	El Paso	151
Phoenix to Picacho and Return	Phoenix	143

D. Changes in Yards and Terminals

The implementation of the trackage rights would result in change in the manner of handling cars at various terminals both on and off the trackage rights lines. UP/MP anticipates having SPSF conduct certain terminal functions at several locations on a fully-compensated basis, with no adverse impact on SPSF operations as UP/MP traffic would replace existing SPSF traffic. Oroville, Oakland and Los Angeles are projected to have an increase greater than 20 percent in cars handled. An additional switch engine assignment has been added at each of these terminals to handle the increased traffic. The additional traffic would not require expansion of terminal facilities at these locations. Colton would have an increase greater than 20 percent in car handlings. Additional trackage would be leased in the SPT Colton Yard to provide adequate trackage for car handling.

E. Other Services

In some instances, UP/MP do not believe it would make good operational sense to operate their own local service. Even if traffic volumes in certain areas were to develop to a level where operations of a UP local would be economical, it may still be sound operational policy of UP and SPSF to cooperate in the handling of local business. Such cooperative switching is carried out between SPT and ATSF at a number of locations under reciprocal switching and other agreements in which UP would have the right, under their proposed Trackage Rights Agreement, to participate on reasonable terms.

Although UP assumes that it would handle most routine running maintenance, it is expected that SPSF would perform certain limited services on a fully-compensated basis. These services would include (1) running maintenance on equipment when needed at locations on trackage rights lines not readily accessible to existing UP/MP facilities, (2) emergency repair services, (3) mutual aid and cooperation in transporting deadhead crews, and (4) fueling and servicing. Based on experience as a trackage rights landlord, UP/MP anticipates that SPSF's provision of these contract services would have little or no adverse effect on SPSF operations.

In addition and for the reason of efficiency, the Operating Plan of UP assumes limited use by UP/MP of SPSF terminal facilities and personnel on a fully-compensated basis at several locations on the trackage rights lines including Fresno, Bakersfield, and Phoenix. However, UP would lease or purchase

and operate its own intermodal facility at Fresno, consisting of the present SPT facility which SPSF does not plan to use following merger.

F. Description of New Construction and Rehabilitation

UP proposes to make several minor physical changes to facilities to permit the necessary integrated rail operations relating to the trackage rights being sought. New connections would be constructed at Lathrop, Escalon, and Modesto, CA between SPT/ATSF and UP lines. At Oakland, an existing connection would be improved, and at Picacho, AZ new set-off/pick-up tracks would be constructed. Upgrading of three existing yard tracks, leased from SPT at Colton to provide an improved route through SPT's yard for UP trains, plus trackage for use in classifying, setting out or picking up cars was planned. To provide adequate siding capacity on MP's Fort Worth to El Paso line, sidings would be extended at Pecos, Levinson, Van Horn and Arispe, TX. UP/MP estimates the total cost for the construction and rehabilitation to be \$6,920,000.

G. New Equipment Requirements

UP/MP would need 51 locomotives, 12 cabooses and 225 additional freight cars to handle the increased traffic resulting from the proposed trackage rights. However, no acquisitions would be necessary as UP has such equipment in storage.

H. Equipment Utilization

The proposed trackage rights would permit improved equipment utilization by reducing empty car miles in the repositioning of equipment for prospective loading. The repositioning of cars made empty in Southern California locations to the Bay Area via the trackage rights direct route through the San Joaquin Valley saves over 1,000 empty car miles per movement. The total estimated savings from reduced empty car miles are \$974,000. The estimated savings in UP empty car days translates into the equivalent of 110 cars with a value of \$7.7 million.

I. Effects of Trackage Rights on Passenger Service

Amtrak presently operates passenger service on portions of the lines over which UP seeks trackage rights. The trackage rights should have no adverse effects on the passenger service.

Certain Central Pacific Conditions

As discussed in our section on competition, the relevant CP conditions state:

(a) That the Southern Pacific Company shall join with the Union Pacific Railroad Company in maintaining via the lines of said companies between Omaha, NE., and San Francisco Bay points, as parts of one connected continuous line, through passenger, mail, express, and freight-train service between San Francisco or Oakland, CA, and Chicago, IL, at least equal in every respect to that afforded by either with its connections between Los Angeles, CA, or Portland, OR, and Chicago, IL;

(b) That the Southern Pacific Company shall join with the Union Pacific Railroad Company in maintaining via the lines of said companies between Roseville, CA, and Omaha, NE, as parts of one connected continuous line, perishable freight-train service from Roseville, CA, to Chicago, IL, at least equal in point of time to that afforded by either with its connections from San Bernardino, or Colton, CA, to Chicago, IL;

(c) That the Southern Pacific Company shall cooperate with the Union Pacific Railroad Company in the maintenance of train schedules under which neither shall discriminate as to time or service against the other in favor of any connection through Ogden or Salt Lake City, UT; - 8 -

(d) That the Southern Pacific Company shall at the request of the Union Pacific Railroad Company provide for the publication and maintenance of rates via the Central Pacific Railway through Ogden, UT, between all points on the lines of the Southern Pacific Company and Central Pacific Railway Company in California, west of Banning, and in Oregon on the one hand and Colorado common points and points east thereof on the other, no higher than apply concurrently between the same points via any other route in which it participates;

(e) That the Southern Pacific Company shall continue to secure by active solicitation the routing of the maximum of freight traffic through the Missouri River and Ogden, Utah, between all points in California and Oregon, north of and including Caliente and Santa Margarita, CA, and south of and including the Klamath Falls branch and Kirk, OR, on the one hand, and points north and west of a line along the northern boundaries of Oklahoma and Arkansas, to the Mississippi River, thence along the Mississippi and Ohio Rivers (but not including intermediate cities on the Ohio River) to Wheeling, WV, and thence on a line drawn just east of Pittsburgh, PA, and Buffalo, NY, to Niagara Falls, NY.

Kansas City Southern Railway Company -- Independent Ratemaking Authority

KCS seeks independent ratemaking authority (IRMA) over the existing ATSF and SPT routes between the San Francisco/Oakland, CA, area and the Los Angeles/Long Beach, CA area, via Fresno and Bakersfield, and over the existing SPT route between Los Angeles/Long Beach and Houston/Galveston, TX. This authority would apply only to those points now commonly served by ATSF and SPT located on those routes, and to connections with short line railroads at points, other than those common points, where the short-line has competitive connections with ATSF and SPT. KCS would have access, either directly or through reciprocal switching, to all SPSF-served shippers at any of the common points. SPSF would act as KCS' agent for the purpose of handling, for KCS' account, rail traffic shipped pursuant to rates made by KCS under the IRMA. The authority would include the ability to quote, make, and publish, for KCS' account, rates for rail transportation services and to enter into rail transportation contracts with shippers. KCS also seeks certain trackage rights related to the IRMA. In essence, the authority would enable KCS to quote rates and serve shippers at all ATSF-SPT common points along the Southern Corridor from the San Francisco Bay area to the Houston area, with service east beyond Houston through a combination of KCS' existing authority and trackage rights sought in this proceeding.

KCS now participates in Southern Corridor traffic movements by interchanging with ATSF at Dallas, and this arrangement competes with SPT single-line Southern Corridor movements. Although its present participation in the traffic is through connection with ATSF's lines, KCS requests that the IRMA apply over the existing SPT Southern Corridor route between Houston and Los Angeles. The reason for this is that IRMA operation contemplates using SPSF trains to move traffic handled for KCS' account. The primary applicants' operating plan anticipates moving traffic between the West Coast and New Orleans over the SPT route through Houston rather than over Dallas, so the IRMA has been fashioned to conform to that management decision. Moreover, because the greater portion of traffic moving in this market is time-sensitive, and because KCS would have to rely on SPSF agency, KCS regards it as incumbent that the IRMA apply to the SPSF routes designated as proposed service-sensitive routes. However, KCS has stated that it would modify the IRMA request to cover the ATSF Southern Corridor route to the extent applicants intend to move northern California traffic over that route. As

to the Los Angeles-Bay area segment, the IRMA is designed to apply to both ATSF and SPT routes because the primary applicants intend to move trains over both.

KCS requests trackage rights between Avondale and West Lake, LA, and between Beaumont and Houston, TX, that, in connection with a segment of existing KCS trackage and the IRMA, would enable KCS to provide single-line service between the west coast and the New Orleans gateway. Houston-Galveston trackage rights, and purchase of a partial interest in the Houston Belt and Terminal Railway (HB&T) are sought to connect Galveston with service over the IRMA and other trackage rights.

With the possible exception of traffic originating or terminating north of Los Angeles, IRMA traffic is expected to move in the same trains and over the same routes proposed in the primary applicants' operating plan, with SPSF performing an agency line-haul service. Ordinarily, it would be sufficient for SPSF to move the IRMA traffic in its next scheduled through train, providing the same handling for that traffic as if it were SPSF's own. However, KCS would have the right to specify the train in which certain time-sensitive IRMA traffic would be moved to insure its equitable handling. KCS expects to exercise this right rarely, and only to ensure that IRMA traffic will not be relegated to local trains while SPSF traffic of the same type is carried on through trains. KCS anticipates that any problems concerning competition between IRMA and SPSF traffic for space on SPSF trains could be resolved based on reasonable operating practices. For example, priority would be given to perishables and other service-sensitive traffic, to loads as opposed to empties, or to emergency shipments, regardless of whether they were IRMA or SPSF traffic. KCS does not anticipate interfering in SPSF's scheduling of its trains. For example, if lack of business required train consolidation, KCS would not attempt to prevent this based on its own schedule commitments, because KCS, as a contributor to the costs of the SPSF train operations, would have no incentive to require train schedules that would increase those costs. Similarly, KCS would not expect SPSF trains to be delayed to receive IRMA traffic from other trains, local services or connections.

SPSF would also perform terminal handling services at all common points identified in KCS's Operating Plan. These services would include switching of loaded and empty cars between industries and trains, movement of cars to and from SPSF's ramp facilities, ramping and deramping of trailers and containers, and car delivery to and receipt from switch carriers and interline connections. At Houston, SPSF's terminal handling service would include interchanging traffic with HB&T. SPSF would be allowed to block IRMA traffic to the same extent, and in the same manner, as if it were traffic in SPSF's account. Therefore, IRMA operations should not result in any additional blocking, and SPSF would have the flexibility to make up KCS blocks or to include KCS traffic in other blocks in such a way as to ensure SPSF's most efficient operations.

KCS foresees no problem of the IRMA traffic stretching the capabilities of SPSF's lines and terminals to handle it. Because this is traffic that would have moved in SPSF trains even in the absence of the IRMA, the IRMA would not expand the universe of available traffic but would merely permit it to move under KCS rather than SPSF waybills. Moreover, KCS does not propose to operate within any of the 15 major locations where the SPSF Operating Plan projects the full consolidation of ATSF and SP yard functions, so there would be no issue of congestion there.

To compensate SPSF for the use of its equipment and facilities and for the performance of these agency duties on

Finance Docket No. 30400, et al.
Appendix F cont'd

KCS's behalf, KCS proposes to pay SPSF a car per mile fee that would reimburse it for its variable costs of providing service for KCS's traffic under the IRMA, plus a reasonable allowance for a return on SPSF's capital investment in the lines of railroad equipment and other facilities directly used in the routing.

KCS anticipates obtaining equipment for IRMA loadings from various sources and not simply relying on SPSF at its expense to supply equipment for KCS's benefit. KCS would pay for any additional staffing that the IRMA would require of SPSF. However, KCS does not appear to anticipate that this would occur to any great degree. It expects that SPSF would have relatively little difficulty modifying SPSF's computer programs to enable SPSF's computer system to distinguish between cars in the KCS IRMA account and cars in SPSF's account.

APPENDIX G

FINANCIAL CONDITION OF THE APPLICANTS

Southern Pacific Transportation Company

The SFSP has made the financial condition of SPT one of the central issues in this case. We conclude that, although SPT is a marginal railroad when compared to other railroads, it is still a financially viable company. The factors we considered in reaching that conclusion are set forth below.

SFSP's Standards for Evaluation

In an attempt to be fair in our analysis of SPT's financial condition, we reviewed the standards used by the applicants themselves to evaluate the company. In December 1983, the applicants found that SPT was then, and would continue to be, a financially viable business and a vigorous competitor. The factors they considered in reaching that conclusion were listed in an affidavit by SPT's Vice President and Treasurer as follows:

- (a) Asset base in excess of \$4.45 billion;
- (b) Stockholder's equity of \$1.85 billion;
- (c) Current cash and temporary cash investments in excess of \$150 million;
- (d) Improved financial liquidity;
- (e) Sufficient bank lines of credit;
- (f) Adequate bond credit ratings;
- (g) Access to capital markets to obtain additional financing;
- (h) Capital expenditure programs which ensure high quality service to shippers; and
- (i) Significant cash flow potential.

See Affidavit of David A. Smith at 3-4.

By December 1985, when SFSP filed its final briefs in this case, the applicants had changed their position, arguing that SPT is a failing company. However, a comparison of the factors cited by the applicants two years earlier does not support the proposition that SPT's condition had deteriorated. While current cash and temporary cash investments declined from \$162 million at the end of 1983 to \$127 million by the end of 1985, all of the other factors remained the same or even improved. For example, while the company's bond ratings remained unchanged,^{1/} its asset base rose to nearly \$4.8 billion and stockholder's equity increased to \$2 billion.^{2/}

Additional Financial Indicators

Our evaluation of SPT's financial condition did not stop with the standards used by the applicants. In previous mergers we have reviewed several financial ratios that have traditionally

^{1/} SPT's equipment trust certificates and mortgage bonds are rated Aa3 and A3, respectively, by Moody's, and BBB by Standard & Poor's. SSW, the principal rail subsidiary of SPT, has an Aaa and Aa3 rating from Moody's on its equipment trust certificates and first mortgage bonds, and AAA and AA from Standard & Poor's.

^{2/} It should be noted that Mr. Smith's evaluation of SPT's financial condition was based on the company's consolidated balance sheet, including subsidiaries. Our analysis is on the same basis.

been used as criteria in determining the financial posture of a transportation entity. These include the operating ratio, working capital ratio, long-term debt to total capital ratio, fixed charge coverage ratio, the rate of return on average stockholders' equity, the rate of return on net investment in rail property as defined in Ex Parte No. 416, and the dividend pay-out ratio. These ratios indicate a carrier's earnings and operating performance, its capacity and ability to meet short-term and long-term liabilities, and its total operating viability.

The balance sheets, income statements, and financial ratios are displayed in detail in the accompanying exhibits. However, a few general observations can be made. A review of SPT's consolidated income statements for the years ending December 31, 1983, 1984, and 1985, shows profitable operations in each year. If SSW, SPT's largest and most profitable rail subsidiary is not considered, SPT still enjoyed positive Net Railway Operating Income ("NROI") in each of those three years. In fact, the company's NROI for 1985 was \$16 million greater than that of 1983, when the applicants characterized the railroad as "healthy." Finally, the railroad realized an improvement in five of the six financial indicators we evaluated. Particularly noteworthy is that its ability to cover fixed charges more than doubled from 1983 to 1985, and its return on equity more than tripled. While the company's operating ratio saw a modest improvement, the fact that SPT's operating ratio is among the weakest of the Class I railroads underscores the fact that the SPT is, overall, a marginal carrier when compared to the rest of the industry.

Atchison, Topeka & Santa Fe Railway Company

By the end of 1985, the applicants were characterizing ATSF as a "weak company" with a "bleak" future. SFSP Opening Brief at 112. However, analysis of the relevant financial results for ATSF shows that it is in fact a profitable carrier. The factors we considered in reaching that conclusion are set forth below.

SFSP's Standards For Evaluation

We have evaluated ATSF's financial condition using the same standards the applicants used to evaluate SPT. A comparison of our standard financial indicators shows that ATSF was significantly stronger than SPT in 1983 in every category of financial measurement. Thus we can reasonably conclude that in 1983 the applicants considered ATSF, like SPT, to be a financially viable and vigorous competitor. Moreover, also like SPT, ATSF improved over the 1983 to 1985 period. While current cash and temporary cash investments declined, the company's bond ratings remained unchanged,^{3/} its asset base rose 9 percent to nearly \$4.2 billion, and its stockholders' equity increased 9.25 percent to \$2.2 billion.

Additional Financial Indicators

As in the case of SPT, we also employed our traditional financial ratios to evaluate ATSF's financial condition. The relevant balance sheets, income statements, and financial ratios are displayed in detail in the accompanying exhibits.

In summary, a review of ATSF's income statements for the years ending December 31, 1983, 1984, and 1985, shows profitable operations in each year. ATSF also enjoyed positive Net Railway

^{3/} ATSF's equipment trust certificates and first mortgage bonds were rated Aaa and Aa3, respectively, by Moody's, and AAA and AA by Standard & Poor's.

Finance Docket No. 30400, et al.
Appendix G cont'd

Operating Income ("NROI") in each of those years, although the company's NROI for 1985 was modestly lower (less than one percent) than in 1983. Finally, the railroad realized an improvement in two of the six financial indicators we evaluated (not including the dividend payout ratio), while remaining substantially unchanged in the remaining categories. ATSF was significantly stronger than SPT in nearly all categories from 1983 to 1985. Although the railroad is not an industry leader, it clearly is not a weak and failing company.

Finance Docket No. 30400, et al.
Appendix G cont'd

SOUTHERN PACIFIC TRANSPORTATION COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	December 31		
	1985	1984	1983
	(in thousands)		
ASSETS			
Current Assets			
Cash and temporary cash investments..	\$ 126,824	\$ 100,736	\$ 162,165
Receivables.....	359,381	321,203	320,117
Material and supplies - at cost.....	85,556	107,172	102,686
Other current assets.....	40,047	34,359	30,529
Total current assets.....	<u>611,808</u>	<u>563,470</u>	<u>615,497</u>
Investments			
Affiliated companies.....	17,072	18,401	19,527
Other investments - at cost.....	76,182	77,709	18,196
Total investments.....	<u>93,254</u>	<u>96,110</u>	<u>37,723</u>
Property - at cost			
Roadway and structures.....	3,921,333	3,750,904	3,507,603
Railroad equipment.....	2,180,334	2,325,675	2,475,307
Other property.....	181,188	174,609	210,966
Total property.....	<u>6,282,855</u>	<u>6,251,188</u>	<u>6,193,876</u>
Less accumulated depreciation.....	<u>2,224,386</u>	<u>2,262,749</u>	<u>2,313,038</u>
Property - net.....	<u>4,058,469</u>	<u>3,988,439</u>	<u>3,880,838</u>
Other assets and deferred charges.....	28,887	30,459	36,324
Total	<u>\$4,792,418</u>	<u>\$4,678,478</u>	<u>\$4,570,382</u>
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities			
Accounts and wages payable.....	\$ 119,833	\$ 128,182	\$ 183,838
Accrued payables:			
Taxes.....	59,261	55,843	62,325
Interest.....	20,649	21,661	21,187
Vacation pay.....	71,607	73,068	68,449
Other.....	198,467	173,787	150,728
Current portion of long-term debt.....	104,681	81,544	88,766
Other current liabilities.....	143,445	119,409	113,923
Total current liabilities.....	<u>717,943</u>	<u>653,494</u>	<u>689,216</u>
Long-term debt.....	<u>777,119</u>	<u>841,107</u>	<u>827,724</u>
Deferred income taxes.....	<u>717,701</u>	<u>715,832</u>	<u>732,821</u>
Long-term lease obligations.....	<u>19,305</u>	<u>19,555</u>	<u>23,971</u>
Other liabilities.....	<u>245,430</u>	<u>251,759</u>	<u>243,088</u>
Redeemable preference shares of a subsidiary.....	<u>52,650</u>	<u>52,560</u>	<u>50,810</u>
Stockholder's equity			
Common stock, without par value: authorized and outstanding, 27,141,366 shares.....	424,875	424,875	424,875
Additional paid-in capital.....	150,000	150,000	150,000
Retained income.....	<u>1,687,395</u>	<u>1,569,296</u>	<u>1,427,877</u>
Total stockholder's equity.....	<u>2,262,270</u>	<u>2,144,171</u>	<u>2,002,752</u>
Commitments and contingent liabilities.....	----	----	----
Total	<u>\$4,792,418</u>	<u>\$4,678,478</u>	<u>\$4,570,382</u>

Finance Docket No. 30400, et al.
Appendix G cont'd

SOUTHERN PACIFIC TRANSPORTATION COMPANY
AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME AND RETAINED INCOME

	Year Ended December 31		
	1985	1984	1983
	(in thousands)		
Operating revenues			
Railroad.....	\$2,464,493	\$2,649,060	\$2,363,796
Trucking.....	81,309	64,497	66,548
Total.....	<u>2,545,802</u>	<u>2,713,557</u>	<u>2,430,344</u>
Operating expenses			
Railroad			
Transportation.....	1,176,809	1,293,747	1,162,559
Maintenance and depreciation of equipment.....	675,209	746,559	652,070
Maintenance and depreciation of roadway and structures.....	332,527	301,179	309,550
Other.....	265,376	256,349	235,004
Total railroad	<u>2,449,921</u>	<u>2,597,834</u>	<u>2,359,183</u>
Trucking.....	79,662	60,189	73,051
Total.....	<u>2,529,583</u>	<u>2,658,023</u>	<u>2,432,234</u>
Operating income (loss).....	16,219	55,534	(1,890)
Equity in earnings of affiliated companies.....	786	2,587	2,535
Other income			
Miscellaneous rentals.....	46,527	34,953	34,983
Gains from sales of property.....	94,123	99,128	69,144
Interest.....	11,843	14,591	6,927
Other non-operating income - net.....	9,040	(1,396)	(3,791)
Total.....	<u>161,533</u>	<u>147,276</u>	<u>107,263</u>
Interest expense.....	74,355	81,526	81,375
Income before income taxes and extraordinary item.....	104,183	123,871	26,533
Income taxes			
Current.....	(10,210)	2,846	27,443
Deferred.....	(3,706)	(20,394)	(33,221)
Tax effect of operating loss carryforward.....	----	21,084	11,819
Total.....	<u>(13,916)</u>	<u>3,536</u>	<u>6,041</u>
Income before extraordinary item.....	118,099	120,335	20,492
Extraordinary item - tax benefit from utilization of loss carryforward.....	----	21,084	11,819
Net income.....	<u>\$ 118,099</u>	<u>\$ 141,419</u>	<u>\$ 32,311</u>
Retained income			
Balance at beginning of the year....	\$1,569,296	\$1,427,877	\$1,395,150
Net income.....	118,099	141,419	32,311
	<u>1,687,395</u>	<u>1,569,296</u>	<u>1,427,461</u>
Adjustment of a prior year's dividend.....	----	----	416
Balance at end of the year.....	<u>\$1,687,395</u>	<u>\$1,569,296</u>	<u>\$1,427,877</u>

Finance Docket No. 30400, et al.
Appendix G cont'd

SOUTHERN PACIFIC
(EXCLUDING RAIL AND TRUCKING SUBSIDIARIES)

Selected Financial Data
(Dollars in Thousands)

	1985	1984	1983
<u>REVENUE, EXPENSE AND INCOME ITEMS:</u>			
Total Railway Operating Revenues	\$2,053,880	\$2,188,563	\$1,963,789
Total Railway Operating Expenses	2,064,407	2,172,973	1,991,915
Net Revenue from Railway Operations	(10,527)	15,590	(28,126)
Income Available for Fixed Charges	159,162	160,256	71,549
Fixed Charges	69,616	74,164	72,447
Income Taxes	(12,776)	(17,808)	(14,325)
Provision For Deferred Income Taxes	(14,654)	(33,300)	(15,997)
Net Income	116,976	137,200	29,424
Cash Dividends Paid	-	-	-
Net Railway Operating Income	18,344	66,698	2,196

CONDENSED FINANCIAL POSITION:

Cash and Temporary Cash Investments	\$ 42,522	\$ 52,463	\$ 103,841
Materials and Supplies	73,425	90,116	88,251
Total Current Assets	444,589	428,661	480,158
Transportation Property-Net	3,120,087	3,044,068	2,903,130
Total Assets	4,263,048	4,181,279	4,044,994
Total Current Liabilities	613,246	608,147	607,781
Long-Term Debt Due After One Year	717,882	749,870	763,778
Total Shareholders Equity	2,268,094	2,150,299	1,923,180
Total Liabilities and Shareholders Equity	4,263,048	4,181,279	4,044,994

SELECTED FINANCIAL RATIOS:

Operating Ratio <u>a/</u>	100.51 %	99.29 %	101.43 %
Working Capital Ratio <u>b/</u>	0.72 X	0.70 X	0.79 X
Debt to Total Capital <u>c/</u>	24.04 %	25.86 %	28.43 %
Fixed Charge Coverage <u>d/</u>	2.29 X	2.16 X	0.99 X
Dividend Payout Ratio <u>e/</u>	-	-	-
Return on Equity <u>f/</u>	5.16 %	6.38 %	1.53 %
Return on Investment <u>g/</u>	0.57 %	2.16 %	0.07 %

- a/ Railway Operating Expenses divided by Railway Operating Revenues.
b/ Current Assets divided by Current Liabilities.
c/ Long-term Debt divided by Long-term Debt and Shareholders equity.
d/ Income Available for Fixed Charges divided by Fixed and Contingent Charges.
e/ Cash Dividends Paid divided by Net Income.
f/ Net Income divided by Shareholders Equity.
g/ Net Railway Operating Income divided by Net Investment in Rail Property as Defined in Ex Parte No. 416.

Finance Docket No. 30400, et al.
Appendix G cont'd

ST. LOUIS SOUTHWESTERN

Selected Financial Data
(Dollars in Thousands)

	1985	1984	1983
<u>REVENUE, EXPENSE AND INCOME ITEMS:</u>			
Total Railway Operating Revenues	\$ 390,088	\$ 436,211	\$ 367,762
Total Railway Operating Expenses	362,228	394,047	335,970
Net Revenue from Railway Operations	27,860	42,164	31,792
Income Available for Fixed Charges	41,372	72,233	59,380
Fixed Charges	9,482	10,799	12,022
Income Taxes	(569)	4,423	19,460
Provision For Deferred Income Taxes	11,153	12,426	1,339
Net Income	21,229	44,585	26,559
Cash Dividends Paid	18,173	18,174	18,174
Net Railway Operating Income	17,276	25,315	10,993

CONDENSED FINANCIAL POSITION:

Cash and Temporary Cash Investments	\$ 89,494	\$ 52,551	\$ 58,436
Materials and Supplies	9,803	12,373	9,303
Total Current Assets	174,741	191,903	168,883
Transportation Property-Net	743,453	749,477	737,293
Total Assets	988,559	1,007,468	969,159
Total Current Liabilities	114,582	128,371	119,347
Long-Term Debt Due After One Year	102,417	116,247	135,616
Total Shareholders Equity	501,140	498,084	466,418
Total Liabilities and Shareholders Equity	988,559	1,007,468	969,159

SELECTED FINANCIAL RATIOS:

Operating Ratio <u>a/</u>	92.85 %	90.33 %	91.36 %
Working Capital Ratio <u>b/</u>	1.53 X	1.49 X	1.42 X
Debt to Total Capital <u>c/</u>	16.97 %	18.92 %	22.53 %
Fixed Charge Coverage <u>d/</u>	4.36 X	6.69 X	4.94 X
Dividend Payout Ratio <u>e/</u>	85.60 %	40.76 %	68.43 %
Return on Equity <u>f/</u>	4.24 %	9.21 %	5.69 %
Return on Investment <u>g/</u>	2.22 %	3.30 %	1.45 %

- a/ Railway Operating Expenses divided by Railway Operating Revenues.
b/ Current Assets divided by Current Liabilities.
c/ Long-term Debt divided by Long-term Debt and Shareholders equity.
d/ Income Available for Fixed Charges divided by Fixed and Contingent Charges.
e/ Cash Dividends Paid divided by Net Income.
f/ Net Income divided by Shareholders Equity.
g/ Net Railway Operating Income divided by Net Investment in Rail Property as Defined in Ex Parte No. 416.

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY
AND SUBSIDIARY COMPANIES

BALANCE SHEET

ASSETS

	December 31		
	1985	1984	1983
	(In Millions)		
Current Assets			
Cash and temporary investments, at cost	\$ 27.9	\$ 110.4	\$ 98.5
Accounts receivable, less allowances	295.1	316.9	302.0
Federal income tax refundable	1.3	---	4.4
Materials and supplies	112.5	107.5	93.0
Other	2.8	4.2	3.7
Total current assets	<u>419.6</u>	<u>539.0</u>	<u>501.6</u>
Other Assets			
Voluntary Bond Retirement Fund	49.8	44.9	40.5
Investments in affiliated companies	20.1	19.0	21.1
Funds segregated for capital expenditures	33.1	14.4	2.0
Other	78.8	63.0	62.2
Total other assets	<u>181.8</u>	<u>141.3</u>	<u>125.8</u>
Properties	5,103.8	4,870.0	4,715.5
Less-accumulated depreciation and amortization	(1,542.5)	(1,547.1)	(1,584.6)
Net properties	<u>3,561.3</u>	<u>3,322.9</u>	<u>3,130.9</u>
Leased Properties Under Capital Leases		20.8	25.1
TOTAL	<u>\$4,182.7</u>	<u>\$4,024.0</u>	<u>\$3,783.4</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31		
	1985	1984	1983
	(In Millions)		
Current liabilities			
Drafts payable	\$ 28.0	\$ 30.4	\$ 38.9
Accounts and wages payable	91.1	98.7	95.7
Accrued liabilities	239.2	236.5	240.3
Long term debt due within one year	82.7	52.5	47.2
Total current liabilities	<u>441.0</u>	<u>418.1</u>	<u>422.1</u>
Long Term Debt Due After One Year	<u>661.6</u>	<u>609.6</u>	<u>537.0</u>
Obligations Under Capital Leases	---	24.4	28.0
Other Liabilities	<u>72.5</u>	<u>89.8</u>	<u>73.4</u>
Deferred Federal and State Income Taxes	<u>804.4</u>	<u>767.8</u>	<u>683.3</u>
Stockholder's Equity			
Common stock - \$10 par value (100 shares authorized and outstanding) and paid-in capital	393.2	393.2	393.2
Retained income	1,810.0	1,721.1	1,646.4
Total stockholder's equity	<u>2,203.2</u>	<u>2,114.3</u>	<u>2,039.6</u>
TOTAL	<u>\$4,182.7</u>	<u>\$4,024.0</u>	<u>\$3,783.4</u>

Finance Docket No. 30400, et al.
Appendix G cont'd

ATCHISON, TOPEKA AND SANTA FE

Selected Financial Data
(Dollars in Thousands)

	1985	1984	1983
<u>REVENUE, EXPENSE AND INCOME ITEMS:</u>			
Total Railway Operating Revenues	\$2,144,360	\$2,305,444	\$2,091,143
Total Railway Operating Expenses	1,989,150	2,083,277	1,908,444
Net Revenue from Railway Operations	155,210	222,167	182,699
Income Available for Fixed Charges	226,159	268,122	231,544
Fixed Charges	63,950	58,786	59,111
Income Taxes	(1,136)	811	(4,385)
Provision For Deferred Income Taxes	36,616	72,514	66,431
Net Income	125,792	135,29	110,387
Cash Dividends Paid	36,900	60,500	26,004
Net Railway Operating Income	119,699	148,823	120,598

CONDENSED FINANCIAL POSITION:

Cash and Temporary Cash Investments	\$ 27,941	\$ 110,385	\$ 98,358
Materials and Supplies	112,525	107,594	92,962
Total Current Assets	467,831	574,340	533,552
Transportation Property-Net	3,553,731	3,316,412	3,145,945
Total Assets	4,206,811	4,055,179	3,811,350
Total Current Liabilities	498,986	466,995	449,554
Long-Term Debt Due After One Year	626,969	615,998	597,116
Total Shareholders Equity	2,205,347	2,116,456	2,000,131
Total Liabilities and Shareholders Equity	4,206,811	4,055,179	3,811,350

SELECTED FINANCIAL RATIOS:

Operating Ratio <u>a/</u>	92.76 %	90.36 %	91.26 %
Working Capital Ratio <u>b/</u>	0.94 X	1.23 X	1.19 X
Debt to Total Capital <u>c/</u>	22.14 %	22.54 %	22.99 %
Fixed Charge Coverage <u>d/</u>	3.54 X	4.56 X	3.92 X
Dividend Payout Ratio <u>e/</u>	29.33 %	44.81 %	23.56 %
Return on Equity <u>f/</u>	5.70 %	6.38 %	5.52 %
Return on Investment <u>g/</u>	3.35 %	4.38 %	3.70 %

- a/ Railway Operating Expenses divided by Railway Operating Revenues.
b/ Current Assets divided by Current Liabilities.
c/ Long-term Debt divided by Long-term Debt and Shareholders equity.
d/ Income Available for Fixed Charges divided by Fixed and Contingent Charges.
e/ Cash Dividends Paid divided by Net Income.
f/ Net Income divided by Shareholders Equity.
g/ Net Railway Operating Income divided by Net Investment in Rail Property as Defined in Ex Parte No. 416.