

# NATIONAL RAILROAD POLICY: WHICH WAY IS UP?

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HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON  
ECONOMIC GROWTH AND STABILIZATION  
OF THE  
JOINT ECONOMIC COMMITTEE  
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## FOREWORD

On October 27 and November 1, 1978, I chaired three public hearings to help assess the economic impact resulting from abandonment of the Milwaukee Road system in South Dakota, North Dakota, western Minnesota, and eastern Montana. These hearings were structured to provide a forum for collection of data and discussion of alternatives leading to establishment of a viable core rail system for the region.

The hearings at Aberdeen, Mobridge, and Lemmon, all located on the Milwaukee's Pacific coast extension main line, were held under the auspices of the Joint Economic Committee's Subcommittee on Economic Growth and Stabilization, on which I serve; and were part of a series which I chaired on national railroad policies and problems.

## CONCLUSIONS

Testimony from the Milwaukee trustee, electric company of officials, coal mine operators, grain producers and shippers, merchants and manufacturers, and many other witnesses representing a wide cross section of the region's commercial and industrial activity presented convincing evidence that:

(1) Loss of the Milwaukee system west of Minneapolis would deal a devastating blow to some areas of the region. Under this scenario, it is evident that South Dakota would suffer more than other affected areas. While loss of the transcontinental line would adversely impact some areas throughout the region, Federal rail officials and the Milwaukee agree that South Dakota would be hardest hit.

Unlike the other affected States, South Dakota would lose its only main-line trackage crossing its borders. This main line forms the backbone of almost all South Dakota rail service. Loss of this trackage resulting in the abandonment of its feeder routes, could permanently cripple the economy of South Dakota.

(2) The Big Stone coal-fired powerplant which is wholly dependent on the Milwaukee for its coal supply from North Dakota, would not be able to survive a shutdown of this line. Loss of their North Dakota coal supply would either force the plant to make a difficult, if not impossible, switch to oil or gas, or rebuild elsewhere. At best, this would result in massive rate increases for its thousands of customers. The three utilities who own Big Stone, however, state that loss of this plant could force them into bankruptcy proceedings of their own.

(3) Utilities across the United States which are planning their conversion to coal, under the President's national energy plan, may find such plans threatened by the inability to exploit Montana and North Dakota coal resources due to inadequate rail shipping capacity. Other railroads which carry coal in this region are already experiencing increasing congestion due to coal traffic. The loss of the Milwaukee main line would severely limit the ability to move coal from this area to other portions of the country.

(4) Highway maintenance expenditures in South Dakota alone would increase by an estimated \$53 million between 1983 and the year 2000 if the Milwaukee main line was abandoned and trucks were used to transport coal to Big Stone, S. Dak.

(5) Grain producers and shippers, who now pay 20 cents to 40 cents more a bushel to ship by truck, would, in the absence of rail service, find themselves confronted with even higher transportation charges because of the loss of competition provided by the Milwaukee system, a situation which would force thousands of farmers out of business.

(6) Given reasonable improvement in management and service, the potential for increased rail shipments of agriculture and other commodities and products on the Milwaukee system in the region is large and growing, reflected in part by significant loss of business to the trucking industry as the quality of railroad operations deteriorated over the years.

(7) The prospect of greatly expanding export grain shipments to the Pacific Northwest and effectively competing for grain sales at other export points and domestic markets, would vanish for a large number of farmers and shippers.

(8) The ability of South Dakota communities served by the Milwaukee main line and viable branch lines to attract new industry and business, and thus expand their economic base in terms of both increased personal income and the creation of new jobs, would be greatly diminished.

In short, abandonment of the Milwaukee system would consign most of South Dakota and much of the adjoining region to the status of second-class economic citizenship. Efforts to deal with this problem must begin with the acknowledgment that there is no acceptable alternative to continued use of Milwaukee trackage on a viable core basis linked to the national rail network.

#### BACKGROUND

The Milwaukee Road, with a debt in excess of \$400 million it is unable to repay, filed for a chapter II bankruptcy in December 1977. A court-appointed trustee, Stanley Hillman, was subsequently directed to develop a reorganization plan, or failing that, to liquidate the railroad. During the ensuing months, the trustee publicly stated that he had tentatively concluded that the Milwaukee could not be reorganized if it continued to operate the so-called Pacific coast extension and tributary system of the line. This consists of the main line and branch system running west from Minneapolis through South Dakota, the southwest corner of North Dakota, and across Montana, Idaho, and Washington to Seattle-Tacoma-Portland area.

In making this announcement, the trustee said that if the Milwaukee could be reorganized, it could do so only on the basis of confining its operations to the system east of Minneapolis—mainly to the Minneapolis-St. Paul/Milwaukee-Chicago corridor. He stated that the Milwaukee had entered into negotiations with the Union Pacific Railroad for sale of sections of the Pacific coast extension east of Butte, Mont. No other railroad has made any commitment to purchase sections of the system between Minneapolis and Butte. Absent any change in this situation, it is the Milwaukee's expectation that the entire system between these two points shall be abandoned and sold for salvage.

Upon receiving this information, the State of South Dakota began revising its State rail plan to design a core system and to seek alternative methods to assure continued and adequate rail service.

It was in response to this situation that I chaired the hearings by the Subcommittee on Economic Growth and Stabilization in South Dakota.

#### SYSTEM BACKBONE

The backbone of South Dakota's rail system is and will continue to be the Pacific coast extension main line as it runs from Minneapolis, Minn., across South Dakota, the southwestern corner of North Dakota, to Miles City, Mont. It is a gateway route to the national rail network and to eastern and west coast markets and can remain so through interconnections with the Burlington Northern at Miles City and other railroads to the East.

During the hearing at Aberdeen, the trustee indicated that total revenue of \$69,000,000 would be required to make the main line profitably viable from Hopkins, Minn. (Minneapolis), to Miles City, Mont. This segment of the main line spans 696 miles. The trustee later amended his estimate of the total revenue need for this portion of the main line to a minimum of \$95,352,000, which includes a 14-percent rate of return. If immediate concern is focused on making this section of the main line self-sustaining rather than profitable, it would, according to the trustee's figures, have to generate \$82,002,720, which translates into \$117,820, per mile.

Compared to this indicated revenue need, the trustee estimated that the main line between Hopkins and Miles City is producing about \$23,000 per mile. However, information provided by the Interstate Commerce Commission based on unaudited station data compiled by the Milwaukee's manager of statistics, indicates that the trustee's average per mile estimate is 24 percent less than the actual average of \$28,503 for 1977. The Milwaukee's station data report also indicates that the per mile revenue average for the main line between Hopkins and Miles City was \$31,641 for 1976 and \$29,103 for 1975.

Whether the main line can be made viable on a self-sustaining and ultimately profitable basis will depend on the success of efforts to provide reliable, alternative rail service which can recapture the large volume of freight lost to trucks and generate new business as the region's grain- and energy-producing resources, as well as other economic activities, are further developed in the immediate years ahead.

It is my conviction, based on the information presented during the hearings, that the potential for success is there.

#### MANDATED OPERATIONS

Beyond these factors there is a compelling reason mandating the continued operation of the main line across South Dakota. The Milwaukee Road provides the only economically feasible means of transporting coal from the Knife River mine at Gascoyne, N. Dak., a distance of more than 350 miles, to the large electric powerplant at Big Stone City, S. Dak. This plant is owned by the Northwest Public Service Co. of Huron, S. Dak.; Otter Tail Power Co. of Fergus Falls, Minn.; and Montana-Dakota Utilities Co. of Bismarck, N. Dak. It supplies base power to most of South and North Dakota, and large sec-

tions of western Minnesota and eastern Montana. The plant, which went into operation in 1975, cost \$169 million and represents the largest single investment ever made in South Dakota.

Moreover, Big Stone, through expenditures for rail shipment of coal, the plant payroll, and local taxes, annually pays some \$9.7 million into South Dakota's economy. An additional \$3.6 million is paid yearly into North Dakota's economy by the Knife River Mining Co. through its payroll and severance taxes related to Big Stone coal shipments. Total annual expenditures for both operations is more than \$13 million.

Big Stone provides 90 percent of Northwestern's base power needs, 56 percent of Otter Tail's base system needs, and 28 percent of the base power load of Montana-Dakota Utilities. It is completely unrealistic even to consider shipment of coal by truck to Big Stone in the event operations on the Milwaukee main line cease.

To convey the necessary coal tonnage to Big Stone by highway would require the movement of 1,000 tractor-trailer trucks—500 running loaded to the powerplant, 500 returning to the mine empty—six days a week. If all these vehicles used the same route there would be a coal truck every three-eighths of a mile. This, of course, ignores the fact that the road system in South and North Dakota, regardless of how many different routes are used, cannot stand up under this heavy traffic. Henry Decker, former secretary of South Dakota's Department of Transportation, estimated that this additional highway traffic would increase highway maintenance expenditures by \$53 million between 1983 and the year 2000.

In point of fact, Big Stone may shut down if the Milwaukee main line goes out of service in South and North Dakota. Both Northwestern Public Service and Otter Tail representatives have testified that this would set in motion a chain of events resulting in a 50-percent increase in electric power rates for South Dakota, North Dakota, and Minnesota consumers served by these companies. This in turn would inevitably place the cost of electric energy beyond the reach of thousands of lower income families, force businesses into bankruptcy, and in general impose a crushing economic handicap on the people of the region. In addition, areas served by the three companies would face the prospect of power brownouts and blackouts.

#### KEY TO ENERGY RESEARCH DEVELOPMENT

Abandonment of the Milwaukee would leave a huge district in South Dakota, North Dakota, and Montana, comprising the largest lignite reserves in the Nation, largely unserved by any railroad. The Milwaukee main line bisects this region. Loss of the line could prevent additional exploitation of this resource at a time when the Nation faces an energy crisis and would cancel developing expenditures that have been made and will increasingly be made by companies seeking to tap this vast energy field. Whether the Milwaukee main line continues to function will, in a very real sense, determine whether South and North Dakota, as well as an adjoining section of Montana, can reap the benefits of an enormous natural resource.

Continued operation of the Milwaukee main line, then is the key to meeting the present and future electric energy needs of the four-State region and to development of the vast energy resources on which the Nation as a whole will increasingly depend in the future. But the rail transportation requirements of the region extend far beyond the abil-

ity to move large quantities of coal. Indeed, the full potential of the Milwaukee would never be approached and South Dakota as well as important sectors of North Dakota, Minnesota, and Montana, would forfeit important economic opportunities if operation of the Milwaukee main line in the immediate future was reduced to a short-line railroad confined to hauling coal from Gascoyne, N. Dak., to Big Stone City, S. Dak.

#### AGRICULTURE SHIPPING NEEDS

To focus attention only on this aspect of the Milwaukee's capacity, important as it is, completely ignores the shipping needs of agriculture, the largest single component of South Dakota's industrial base, as well as all other rail transportation needs. The Business Research Bureau of the University of South Dakota estimates that abandonment of the Milwaukee system would cost South Dakota farmers 15 to 30 cents a bushel more to ship grain by truck (others have given a higher estimate). The total cost increase would amount to \$35 million a year. This study, useful though it is, cannot be viewed as anything more than an understatement. Without a competing railroad, trucks are left to divide the market among themselves—a market they could totally command because there are not enough trucks to meet its needs. Grain shipping charges could skyrocket creating further hardships on farm economy.

#### THE COST OF POOR SERVICE

As is it, the poor service record of the Milwaukee has cost it millions of dollars in lost grain shipping revenue. Grain producers and shippers who testified at the hearings described numerous instances of having to ship by truck because of lack of adequate rail service.

For example, the Selby Equity Union Exchange cooperative stated that in the 12-month period ending October 31, 1978, a total of 237 hopper and boxcar shipments of grain were made, but that some 330 to 400 grain car shipments could have been made if the equipment had been available. It was not and the cooperative was forced to ship by truck.

The Scranton Equity Exchange reported that it "has tried to help the Milwaukee Railroad. We have invested \$65,000 of our money in their hopper car repair program in order to have 10 cars specifically assigned to us. It is extremely irritating to have these cars take a month to 5 weeks to go from Scranton to Minneapolis and return. In addition, dispatchers and agents have permitted other companies to take our hopper cars for their use.

"Ten years ago 98 percent of our grain was shipped by rail. Since then, because of poor service—or no service at all—only 40 percent of our grain is being transported by rail. Our volume is 1,500,000 bushels. This means a revenue loss of something like \$750,000 for the railroad from our station alone.

"At the present time we could use 70 to 80 hoppers to move 240,000 bushels of cash grain."

The Farmers Cooperative Association of Thunder Hawk, S. Dak., testified at Lemmon that "As of today we need 58 hopper cars or 93 boxcars to take care of our immediate needs. During 1978 we received on the average, 8.4 rail cars per month from the Milwaukee Road. At

that rate it will take us to May 31, 1979, to take care of our present needs. This does not take into consideration the grain we will be purchasing between now and then.

"We have loaded 37 truckloads of grain in 1978, and if we wait for them to haul our grain, we would need 183 semi's. At the rate we have been getting trucks it would take 61 months to get rid of cash grain we have on hand. As you can see the trucking industry is not the answer."

#### FUTURE ECONOMIC DEVELOPMENT

The ability of many communities in the region to remain economically competitive and to expand personal incomes and local job markets is directly linked to the existence of continued main line and viable branch line service on the Milwaukee system. The city of Mobridge, S. Dak., located as its name implies on the Missouri River where it is crossed by the Milwaukee main line, is a classic case in point.

At present the railroad payroll contributes over \$1.250 million to the local economy.

The city recently leased land adjacent to the railroad to a recycling company to process reclaimed aluminum. The existence of rail service and facilities is vital to the operation.

Beyond this, recent preliminary studies indicate the potential for location of a coal-fired electric generation station in the area because of the existence of a large water supply and rail service necessary for the delivery of fuel. The East River Electric Power Cooperative, which is considering construction of such a plant, estimated it would require a capital investment of \$525 million, 2,000 man-years of construction, labor costing \$60 million, \$6 million in annual payments for delivery of coal by railroad, and employment of a 140-person operating work force requiring an annual payroll of \$3.5 million.

Because of rail service facilities, Mobridge's potential as a site for cement and alcohol plants is also being explored.

#### REGIONAL PLANNING APPROACH

Whether South Dakota and adjoining areas of North Dakota, Minnesota, and Montana achieve and sustain adequate rail service depends entirely on whether the four States jointly develop a lean, efficient regional rail system based on the existing main line and viable branch lines of the Milwaukee. Without such a comprehensive and coordinated effort these States will find themselves designing alternative rail systems that do not completely relate to one another and thus cannot achieve their full potential.

In this connection, I urged the Old West Regional Commission to immediately undertake a study to examine the proposed Milwaukee reorganization and identify options that would preserve essential service. Shortly after completion of the hearings, the Commission announced it would award a \$100,000 contract for such a study. It is my hope that this project will serve as the focal point for a cohesive and successful effort by the four States to designate such a core rail system.

It must be acknowledged beforehand that designation of an alternate network to succeed the Milwaukee in South Dakota and the region as a whole will require the sacrifice of some existing branch-line service. No State can afford the luxury of unrealistically insisting that all



service be continued regardless of whether current and projected revenue from the branch can or will justify its operation. The Milwaukee and many other railroads in the Midwest and Northeast have been forced by political and regulatory pressures to operate branch lines that long ago ceased to provide enough income to even cover maintenance-of-way costs.

#### CAREFUL ANALYSIS OF NEED

What is needed is careful analysis of surface transportation needs—both rail, waterway, and highway—based on evaluation of present and future market demands and trends, production capacity, and engineering and maintenance costs, to obtain a clear picture of the most viable railroad lines which should be retained as a core system. With these values in mind, State and regional rail systems should then implement highway and rail plans which complement each other to achieve maximum transportation efficiencies. South Dakota, as the first State in the Nation to draft a State rail plan to qualify for Federal assistance under the Railroad Revitalization and Regulatory Reform Act of 1976, has made substantial progress toward achievement of this goal. Although questions have been raised regarding some aspects of the present rail plan, it is on the whole a sensible solution to the State's rail problems. I am sure that details which remain in controversy can be worked out to the satisfaction of most rail users and the general public.

#### RANGE OF OPTIONS

Two paramount questions that have yet to be answered regarding South Dakota's revised rail system is who and how shall it be operated following the expected reorganization of the Milwaukee Road and termination of its service west of Minneapolis. In this connection, State rail planners have tended to divide South Dakota's rail system into two distinct sections, viable Milwaukee branch lines stretching across the central and southern sections of the State, and the main line running across the northern third of South Dakota. The State rail planners have said they will consider all possibilities regarding the operation of the branch lines. These range from operation of segments of the system by other railroads, who would purchase and maintain service entirely at their own expense, operation of branch lines by other railroads with Federal and State subsidy assistance, operation by other railroads with financial assistance from the State and shippers as in the so-called Iowan plan, purchase and maintenance by the State which would lease lines to railroads and charge user fees to recover costs.

Efforts to assure continued operation of the main line, the planners have indicated, can be dealt with separately and on a regional basis.

It should be emphasized that all proposals for State purchase, rehabilitation, and maintenance of lines with the intention of leasing them to a rail carrier should be considered cautiously and with full knowledge of the experience of States which have followed this course. I refer specifically to the Long Island Railroad operated by the State of New York and to eight short-line railroads having a total of 900 miles of track either owned or leased by the State of Michigan. These are two of the largest State-operated rail programs in the Nation.

The performance of the Long Island Railroad has declined to the point where the level of subsidy for freight transportation on the line is \$17 million a year, only \$3 million less than revenue generated by freight movements. Louis Rossi, New York State Railroad Administrator, stated that Long Island shippers would, in all probability, enjoy much better service if the railroad was part of a class I system, rather than being a separately operated, quasi-isolated line receiving poor interconnecting service from ConRail.

Since startup in 1976, Michigan has spent a total of \$38 million to subsidize the operations of the eight short lines it has taken over and which are privately operated under contract. Beyond this, Michigan has spent \$5 million for rehabilitation and is preparing a \$15 million bond issue for the same purpose. William Baily, assistant administrator of Michigan's rail and port facility program, said that these subsidy expenditures, which are expected to increase, were generally anticipated when the program was developed. In some instances participating short lines are expected to serve social purposes and are therefore less able to achieve profitability in the long run. No estimate has been given as to when any or all of the lines will become profitable.

The point of this discussion is that heavy State subsidy costs may be entailed in taking this direction.

#### VIEWING THE SYSTEM AS A WHOLE

The operation of the main line is rightfully regarded as a regional rail issue and must be resolved by the affected States in close consultation and coordination with each other. Some State rail planners have indicated that in their view questions regarding branch-line operations can be settled before that of the main line. A word of caution seems appropriate regarding this approach. By their very nature, branch-line operations are dependent upon the main line and cannot be operated successfully as a system which is independent of the main line or of connecting branch lines in other States. In this sense, both main and branch lines are equal components of a regional rail system. It may be that resolution of main-line service will largely determine how the branch lines will be operated. Therefore, decisions regarding the operation of both may best be made concurrently.

I will conclude this foreword with a discussion of two proposals that directly stem from the testimony and statements comprising the record of hearings I have chaired on national and regional rail policies and problems.

#### MAIN-LINE ASSISTANCE

As a result of our Nation's experience with ConRail and the previously mentioned State subsidy programs, it is my hope that adequate regional main-line service will continue in the future largely if not completely in the private sector. At the same time, however, it may be unrealistic to assume that no Government assistance will be necessary immediately upon the completion of the reorganization plan.

With this in mind, I am investigating a legislative proposal that could provide a combination of State and Federal assistance over a short period of time to sustain operations on those lines whose projected earnings indicate that profitable operations can be achieved

over a 5- to 10-year period. Such assistance would be based upon the difference between actual operating revenues for that particular line and the revenues necessary to allow the line to pay its own way. Consequently, the amount of assistance would decline annually as revenues approach the break-even point.

This kind of legislation would be especially useful for the continuation of service on the Milwaukee main line. Assuming current market trends, agricultural shipments to the west coast for export should continue to rapidly increase. Perhaps more importantly, coal and other energy resource development, under the President's national energy plan, will experience considerable expansion. Present coal development in Wyoming, Montana, and North Dakota has already created congestion on other rail lines serving those coalfields.

As discussed earlier, the Milwaukee main line bisects a good portion of our Nation's western coal and other energy reserves. Based on announced plans to mine and under a 2- or 3-year minesite development timetable, the Milwaukee may be needed to provide transport for these additional resources within the next 5 years.

However, any proposal to provide declining Federal financial assistance for main-line operators must, to my way of thinking, be predicated on a regional rather than a single State design. The Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act) requires States individually to designate core rail branch-line systems which meet the approval of the Department of Transportation before limited Federal assistance can be made available to acquire those branch lines which may be abandoned.

Yet, there is nothing within this act to promote coordinated planning and design efforts among groups of States who may be adversely impacted by loss of rail service or lack of continuation of service across State borders. This is a serious deficiency in legislation intended to provide the authority and administrative tools to modernize the Nation's rail network and allow it competitive equity with other modes of transportation.

#### NEW GRAIN STORAGE AND SHIPPING PROGRAM

But even with such improvements, South Dakota and other grain-producing States will still face major rail problems in terms of their vital agriculture transportation needs. These problems center on perennial grain-car shortages and the dependence of both producers and shippers on light density, poorly maintained branch lines and small country elevators which lack adequate rail shipping facilities. All three of these elements stand in close relationship. Shipping on these branch lines is largely confined to 40-foot boxcars because the rails cannot take heavier loads. These freight cars are considered obsolete by the railroad industry as a whole and are being retired from service without replacement. Unfortunately, they are the only cars which can be loaded on the short sidings of most branch-line country elevators. As a result, the demand for 40-foot boxcars far exceeds supply during heavy grain harvesting periods. Farmers find themselves storing grain on the ground after country elevators and onfarm storage capacity has been filled. Both producers and shippers are unable to meet characteristic market demands for the movement of large amounts of grain over relatively brief periods. Under these circumstances, farmers and shippers are heavily penalized.

In my view, a successful pilot program developed by Iowa State University provides the key to open the way to achieve efficient grain storage and shipping facilities throughout the grain-producing States. The Iowa program essentially consists of designating the most efficient location for modern subterminal grain storage and rail shipping facilities. These facilities are located on rail main lines and viable branch lines, and have the capacity to load 40- to 100-unit covered hopper-car trains quickly and whenever market demands dictate. Ample elevator capacity provided in this way can be capable of meeting storage needs for the immediate surrounding area. Ability to ship by unit train reduces freight charges to a minimum, assures greatly improved car turnaround time, and gives producers and shippers a far greater command of their markets because they can deliver direct to domestic processors or to export points.

#### SUBTERMINAL STORAGE AND SHIPPING

Using the Iowa program as a pattern, I have introduced the Agricultural Subterminal Storage Facilities Act. The bill provides Federal grant money to grain-producing and other primary agriculture States upon approval of application for such funds from Governors or appropriate State agencies. These funds would be made available to conduct statewide and regional studies to determine the best possible location of subterminal or similar bulk crop storage and shipping facilities following an analysis of marketing, storage, and production trends. An analysis of the need for companion facilities to receive and store bulk fertilizer and other commodities required for agriculture production would be part of the planning effort.

The studies would provide for the continued use of both onfarm and small country elevator storage capacity in connection with subterminal operations or for continued direct shipment to domestic markets or export points. An assessment would be made of the impact of subterminal facilities on existing storage and shipping capacity.

Also required would be an evaluation of various types of subterminal ownership arrangements, with emphasis on local producer and shipper control and operation, either on a profit or nonprofit basis. In addition, an analysis of the benefits of subterminal lease or purchase of covered hopper and other types of freight cars, trucks, and transportation equipment would be made.

I am acutely aware that many elevator operators are concerned regarding the implementation of a subterminal elevator program, that their own operations would be obliterated through a takeover of the subterminal program by a large national program. However, through the provisions of this legislation this would not occur. Existing country grain elevator operators would have the first opportunity to participate in the ownership and operation of subterminals with financial assistance where necessary. In any event, they would have access to subterminal shipping facilities so they could share in the efficiencies of scale thus provided.

Since the discussion draft of this bill was introduced, further consideration of the impact of subterminal facilities on country grain elevator operators has led me to revise the legislation to defray Federal

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income-tax payments under certain conditions. A moratorium is provided to allow small country elevator operators who sell their businesses to invest the proceeds in other enterprises without having to pay a tax on capital gains.

#### CONSTRUCTION LOANS

Loans for the construction and startup operation of subterminal facilities, including rail sidings, train and truck loading facilities, and the purchase of railroad cars and trucks, would be available under the consolidated Farm and Rural Development Act. Through provisions of this legislation, both Federal direct loans and federally guaranteed loans could be made to subterminal facility owners when they are unable to obtain credit from conventional sources on reasonable terms.

Furthermore, the Agricultural Subterminal Storage Facilities Act provides both planning grants and loan funds for the establishment of regional coordinating offices. These offices would serve to facilitate the use of railcars and trucks among subterminals so that maximum benefits could be derived from the lease or purchase of rail and highway rolling stock. During off season periods, coordinating offices could assign this equipment to other freight hauling purposes in the State and region or elsewhere to assure the production of continued income in order to meet purchase or lease payments.

I am convinced that the subterminal facilities concept, with its protective provisions for country grain elevator operators, offers a logical and practical course of action to modernize our grain storage and shipping facilities and give grain producers and shippers the means to fully compete in world grain markets. Without this approach many grain producers and shippers of South Dakota and other Midwestern States will remain the captive of an antique, inefficient, and costly transportation and marketing system.

#### HARNESSING THE RAIL SYSTEM

Beyond this, the legislation furnishes a planning and investment credit system by which the rail network of the Midwestern States can be harnessed to provide maximum benefits to those engaged in agriculture, the primary industry of the region. By the same token, application of the subterminal program assures that this rail network, now being redesigned by both the States and the Department of Transportation, will not only continue to serve rural America, but serve it in a much better way than is now the case.

Much of the testimony presented at the regional rail hearings on the Milwaukee Road is reflected in the conclusions and proposals I have discussed here. I hope that all those seeking solutions to the rail problems of South Dakota and other Midwestern States will find the hearing record equally helpful.

GEORGE MCGOVERN.

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# NATIONAL RAILROAD POLICY: WHICH WAY IS UP?

FRIDAY, OCTOBER 27, 1978

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON ECONOMIC GROWTH AND  
STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:16 a.m., in the John Holiday Room, Holiday Inn, Aberdeen, S. Dak., Hon. George McGovern (member of the subcommittee) presiding.

Present: Senator McGOVERN.

Also present: Philip McMartin, professional staff member; and Robin Carpenter, Senator McGovern's staff.

Senator McGOVERN. Ladies and gentlemen, if we can ask everybody now to be seated, I'd like to thank all of you for your attendance at this hearing, and before we go any further, the mayor of Aberdeen is here—Mayor Jeff Solem, who is an old friend of mine and a friend of many of you, and I'd just like to ask the mayor to give us a word of welcome. Mayor Solem.

Mayor SOLEM. We'll try and speak without a microphone. And I wish you wouldn't use the term "an old friend." The days are coming too fast. We do have a very complex situation confronting us, as you know. It's highly complicated, and I hope today's hearing will help us focus in on a direction to go that will work beneficially for the State of South Dakota. And I know that's what the Senator has in mind.

We appreciate you coming. We all have an interest. It might be a long day. We hope you'll hang in there.

Thank you, Senator.

Senator McGOVERN. Thank you, Jeff.

Larry Rehfeld, the director of the Fourth Planning and Development Agency, is also in the room, I believe. Would you raise your hand, Larry, so we can see who you are?

Now, before we go further today, I'd like to say that Senator Anderson and Congressman Nolan of Minnesota and myself have been urging the Department of Agriculture to do a study that would assess the economic impact on agriculture due to any loss of service on the Milwaukee lines west of Minneapolis, which includes our area. The Department informed me last night that they are going to undertake such a study immediately and that they'll be issuing a preliminary report within 60 days. They have asked that all testimony from this hearing be made available to them immediately in order to produce a preliminary report as soon as possible. So we're going to hold today's hearing record open for an additional 10 days for any other agricultural interest in our region to submit statements that might be useful in

(1)



the Department's analysis. We realize that while we have what we think is a rather comprehensive witness list today, there may be a number of other people who will have things they want to say about the importance of rail transportation in our State and throughout the region. So you're invited, and anyone else is invited to submit statements for the record any time within the next 10 days and they'll be made a part of the official hearing record. At this point I will present my opening statement.

#### OPENING STATEMENT OF SENATOR MCGOVERN

We in South Dakota and in other upper Plains States face a rail transportation crisis that in some respects is worse than the situation produced by the collapse of the rail industry in the Northeast. I want to take a little time right here at the outset this morning to set the background for this morning's hearing. So if you'll bear with me, I'll try to give a summary statement before we call on our witnesses. Some of what I have to say here may be repeated in different ways by other witnesses; but I'd like everyone to know the thinking that has gone into the scheduling of this hearing; how we see the problem. Our judgments, of course, at this stage are tentative; our recommendations will have to be tentative. That, after all, is the purpose of a hearing. But this crisis is now dominated by initial proposals of the Milwaukee Road for its reorganization as a profitable carrier. I think everyone here knows that the line's now in bankruptcy. These proposals are best described by a recent system map filed by the railroad indicating that the vast majority of their lines west of Minneapolis and all of their lines in South Dakota are now potentially subject to abandonment.

While our State has already undergone the loss of almost half of our original rail trackage, our previous experience with abandonments has only involved relatively short branch lines providing minimal links with the national rail system. The dilemma which we are presently facing includes not only branch lines essential to the main line, but the main line in the entire State—the Pacific Coast Extension.

As with all potential abandonments, our first inclination has been to intervene and fight for the continuation of all existing service. However, today we're faced with a considerably more complex situation than a simple abandonment proceeding. Under the initial finding of the Milwaukee Trustee, South Dakota and the entire region could experience such a massive withdrawal of service as to spell the beginning of the end of any regional transportation network.

The circumstances presented by the Milwaukee and the marginal condition of other carriers on which the Midwest depends, I think, has to be addressed immediately and comprehensively by all sectors of the Government, by the shippers, by the financial community in our section of the country, and by other private-sector interests. Of great importance is the need to predicate that effort on a well-organized and closely coordinated regional basis, if we're to make economic sense of this transportation difficulty. I think any attempt to confine studies or plans or solutions within individual States will deprive the entire region of the opportunity to fashion and sustain a competitive rail system, and without that kind of system, South Dakota could easily find itself in a position of second-class economic citizenship, with all

that implies in terms of lost opportunities, higher production costs, and higher consumer costs in the years ahead.

Before we go further today in our effort to address the overall dilemma presented by the Milwaukee's recent proposals, I'd like to say that steps are now being taken to avert any emergency on the main line that might occur this winter. It is possible that under extreme weather conditions, similar to those we experienced last year, the mainline may again come to a standstill. So I've been actively working with the Interstate Commerce Commission and Milwaukee officials to avert that kind of crisis.

The Rail Services Planning Office of the Commission is now preparing an emergency contingency plan for the line. Under extreme circumstances, the Commission could require the Railroad to continue operations for short periods of time at Government expense during an emergency. Today, the trustee of the Milwaukee line will also describe some of their recommendations for averting a crisis.

Let me just say that one of my primary concerns in this matter is that the mainline must be able to transport crucial shipments of coal to the Big Stone Power Plant. Last winter, as I think many of you in this room know, problems with locomotive power, with blizzards, nearly caused that plant to run out of coal. It's absolutely essential that the Federal Government, in conjunction with the railroad take the responsibility to prevent a similar situation this year.

The first witness this morning, Mr. Stanley Hillman, will present a comprehensive review of the railroad's financial and operating condition; but I do want to make a brief statement regarding the developments requiring our presence today that Mr. Hillman may also refer to.

In the Milwaukee's attempt to reorganize this line as a profitable carrier, it became apparent to the trustee that substantial consolidation of the existing system would be necessary for the organization. The Pacific coast extension of that line—the Milwaukee's transcontinental main line between Minneapolis and the west coast—was identified as a major financial drain on the railway's resources. As far back as 1928—50 years ago—the Interstate Commerce Commission questioned during an investigation the possible lack of judgment exercised by the railroad in the construction of their lines west of the Missouri River; and except for brief periods, that line has never produced the revenues that were anticipated by its builders.

Based on these and other findings, the Milwaukee trustee in August of this year announced the start of negotiations with the Union Pacific for the sale of major segments of the main line between Butte, Mont., and west to the coast. In late September, the trustee filed a new rail system map indicating the Milwaukee's intent to potentially withdraw from the remainder of the Pacific coast extension as well as from almost all of their branch lines west of Minneapolis, including our State. While these announcements have created a justified public outcry, I think we have to credit the Milwaukee trustee with his willingness to provide the public with such advance notice. There's nothing requiring a railway to keep the public so informed prior to the submission of an abandonment notice or the reorganization plan. Mr. Hillman obviously has a responsibility to the creditors of his railroad; but I believe he has also shown commendable responsiveness to the public interests, and I admire him for that.

However, several new developments are clouding the future of any determinations concerning Milwaukee's service. First, a Federal Appeals Court has just ruled that the ICC must rehear the Milwaukee's petition for inclusion into the Burlington Northern Railway. Secondly, the Commission is considering another Milwaukee petition for reconsideration of the railroad's request for joint trackage rights with the Burlington between Terry, Mont., and the west coast. And, lastly, since the Milwaukee's initial findings regarding the future of the main line, several companies, particularly those with heavy investments in energy resources along the line, have requested an opportunity to present the Milwaukee trustee with their anticipated rail transport needs, which could substantially alter the railroad's revenue picture for this main line.

So, given these developments and the additional uncertainties they create, it's impossible to draw an accurate picture right now of the future of rail operations west of the Twin Cities. Consequently, we are not in a position, I think, to develop a plan that is responsive to the Milwaukee's intent. However, there are some things to be accomplished in this interim. If we are to eventually develop a comprehensive response to the problem that faces us; and I'm convinced that the key emphasis throughout these preliminary efforts and in future efforts to rationalize a viable rail network will be regional in nature and will focus in such matters as revenues, markets, railway maintenance, and operating efficiency.

Perhaps more importantly, we can't begin to establish a sound region plan until we can eliminate vital information gaps. Today's hearings will be the first in a series of attempts to deal with this issue—the lack of appropriate information. Presently, with the exception of minimal amounts of data collected by a few States in their rail planning program, we have no accurate information regarding the levels of service, revenues by line, markets, market projections, engineering analyses of roadbed and line conditions, and the acceptability and cost of alternative transportation modes to move essential commodities. Now, that's not to say that much of this information does not exist, but it does not exist in readily usable or understandable form. There's nothing to gain and everything to lose if we or any State moves ahead developing plans for adequate transportation networks without that kind of basic information and without regional consensus and cooperation. To do so could result in the continuation of nonessential service at the expense of establishing a viable rail network and achieving maximum economic benefits in all States. On the other hand, under the establishment of a closely coordinated regional effort—perhaps a regional task force representing all of the States in the affected area—all parties could draw from a joint body of expertise and information, that would result in minimal duplication of efforts; instead of each affected State holding separate conferences with railroads and various agencies, a regional task force could coordinate those efforts, saving a good deal of valuable time and money. Additionally, I've been advised that under such an effort the Rail Services Planning Office at the ICC could provide some assistance in an advisory role.

Let me just add that I'm gratified with the Commission's effort to provide such timely information and assistance to all affected States. Unfortunately, due to legislative restrictions in the Federal law, the Federal Railroad Administration has not and cannot be of equal assist-

ance. Most importantly, several Federal rail association programs have the potential of working against South Dakota and other States who depend on the Milwaukee. In particular, the FRA State regional planning program only addresses intrastate rail problems. It has very little application to our present dilemma where potential loss of service is envisioned to cross several States. The program, the way it's presently drafted, ignores regional coordination, which is crucial to providing rail-line links from one State to another, and jeopardizes South Dakota's access to important west coast markets, as well as the major domestic grain centers. Overall, this program, as well as FRA's efforts at market swaps, indicates that this department has not been able to come to grips with regional transportation problems in rural America.

While I plan to take legislative steps—and I know we'll be joined in this by other Members of the Congress—to rectify these problems next year, those initiatives may be too late to resolve the immediate dilemma we face today. So I believe all affected States must initiate a coordinated regional task force to obtain the information necessary for multistate rail planning and to achieve a workable consensus regarding the components that make up a viable competitive rail system that will maximize economic benefits of all those who depend on the Milwaukee Road.

Finally, we must keep in mind that the Milwaukee has indicated its intent to withdraw operations because they're not profitable. This railroad, as any business, is under pressure to show a profit. The fundamental question that we must effectively address is, how can these lines be operated in a profitable manner? What can we do within reason to increase line revenues, to increase traffic, to operate these lines more efficiently and improve service? Such answers are essential to a successful and lasting private-sector solution. I do not believe that the other extreme that's sometimes mentioned—a midwestern ConRail requiring the infusion of billions of taxpayers' dollars—actually poses a very practical or realistic answer.

Unfortunately, this means we've got to continue living with a degree of uncertainty regarding rail service in South Dakota. But that's not a new concern. We've been living with uncertain rail service for many years. We must also realize that the ultimate plan with regard to South Dakota is not going to satisfy everyone. We'll have to decide what we can give up and what is essential to the present and future development of our economy. And while some lines may eventually be subsidized where necessary, it will not be feasible, I think, to subsidize vast portions of the entire system. Therefore, we must all look to ways in which we can compromise our own special interests and needs. We must look to ways we can operate our lines more efficiently and better serve the shippers of this region. And this may mean changes in rail management operations, in shipper operations, and alterations in rail labor agreements. States may have to consider allocating more of their own resources to assure an acceptable solution.

While we in Congress can actively assist in providing information, in constructing legislation to ease some of the regulatory problems, or increasing Federal assistance, the basic plan of action and the accompanying difficult decisions have to be made by all of you who are affected by or depend upon the Milwaukee system.

Now, in order to conserve the time we have left and give as many witnesses as possible an opportunity to present their views, our witnesses today will be grouped in a series of panels.

We will hear first from Stanley Hillman, the trustee of the Milwaukee Railroad; Mr. Daniel O'Neal, Chairman of the U.S. Interstate Commerce Commission; James Newkirk, of the Federal Railroad Administration; and Robert Reebie of Reebie Associates, a rail management consulting firm.

Gentlemen, if you'll come to this witness table now as a panel, we'd appreciate it. And, as you know, I'm asking each of you, within reason, to limit your statements to approximately 10 minutes, with the understanding that any other pertinent supporting information that you want to file will be made a part of the printed record.

I regret that I've long since exceeded the 10-minute rule myself, but that's one of the prerogatives of being the chairman.

We'll begin with Mr. Hillman, the trustee of the Milwaukee Railroad. Mr. Hillman.

#### **STATEMENT OF STANLEY E. G. HILLMAN, TRUSTEE OF THE PROPERTIES OF THE MILWAUKEE ROAD**

Mr. HILLMAN. Senator McGovern, members of the subcommittee, good morning and thank you for inviting me to Aberdeen. I am Stanley Hillman. I am the trustee of the properties of the Milwaukee Road, appointed by the Federal court to oversee the operations of the Milwaukee and to seek for it a plan of reorganization.

In a recent letter to me, Senator McGovern indicated that this and other hearings are designed in part to explore the economic importance of the Milwaukee's Pacific coast extension from the Twin Cities to Puget Sound. He indicated a desire to help develop viable alternatives for service to shippers who use this line. He asked me to clarify certain matters with respect to maintenance and rehabilitation of the railroad that have come to his attention.

I shall deal with these specific issues in this testimony. Also, I shall place the Milwaukee and its problems in historical perspective, for the problems of the moment have their roots deep in history. But first, I would like to express my appreciation to Senator McGovern for the manner in which he is approaching the problems of the railroads in the Midwest and particularly the problems of the Milwaukee.

Speaking both as a taxpayer and as one who is charged with the responsibility of finding a solution to a very great part of the overall railroad problem in this region, I must say that I agree wholeheartedly with the Senator that the ultimate answer does not lie in simply pumping money into today's railroad structure in an attempt to keep it afloat. The railroads themselves, the shippers who rely on them, the employees who work for them, and Government at all levels must work together to find a more logical solution, and therefore one that will be less burdensome on the taxpayer over the long run.

I might also suggest that there is great logic in the regional approach to seeking a solution—and I say this without forsaking in any way the efforts which are going on in the individual States. The fact is common-carrier railroads by their nature are interstate, regional, and even national in scope as providers of public transport. My hope is that in due course the State agencies which are already seeking so-

lutions will be able to look officially across the borders of their jurisdictions. I suspect that they will find a commonality of interest, and perhaps even more productive answers to mutual problems.

The Milwaukee is a large railroad, presently operating approximately 10,000 miles of route. It operates in 16 States from Kentucky and Indiana to Washington and Oregon. Geographically, and historically as well, the Milwaukee is almost two distinct transportation systems. It operates a network of lines east of the Missouri River which interconnect Chicago, Milwaukee, Minneapolis and St. Paul, Omaha, Kansas City, and Louisville, and which serve many other points in the midwestern States. It also operates a long extension from the Missouri River across the northern tier of States to several ports on the Pacific north coast.

It is of both historical and economic significance that the Pacific coast extension was the last major transcontinental railroad construction accomplished in the United States. The Milwaukee reached the Pacific coast 10 years or more after the other railroads which are its competitors in the market for transcontinental business.

Fifty years ago, in a report on its investigation of the Milwaukee's first bankruptcy, the Interstate Commerce Commission questioned whether the Milwaukee's line west of the Missouri River should ever have been built, and whether building it hadn't seriously damaged the Milwaukee's financial strength for the future. History seems to have validated the Commission's concern; not since its early days has the Milwaukee been a consistently strong company from a financial standpoint. Its present bankruptcy is the third in 52 years. In the past 3 years, the Milwaukee has lost some \$100 million on the basis on which it reports to the Interstate Commerce Commission—about \$69 million if the earnings of profitable subsidiaries are taken into account. The Milwaukee will lose in excess of \$50 million in 1978 even after taking into account the earnings of its subsidiaries. Estimates prepared for the Federal Railroad Administration by independent consultants show that the deferred maintenance on the Milwaukee, for track alone, amounts to more than \$300 million.

The Milwaukee owes a great deal of money. Today the Milwaukee's debt is in the neighborhood of \$400 million. The railroad is not paying the interest on its mortgages. It is generally deferring payment on its State and local tax obligations. It is incurring debt by reason of Federal, State and shipper loans and financing for equipment. Its debt is growing. The Milwaukee has no credit against which it can borrow money except from the Federal Government or, in limited circumstances, from States or shippers. The Federal Government will only provide funding if it can assure itself that it will be paid back, either out of the proceeds of liquidation or from the eventual profits of a successfully reorganized company.

The Milwaukee has been starved for funds historically. There has never been a revenue base sufficient to generate enough cash to go around comfortably. I must monitor the supply of cash constantly. I must constrain tightly the funds applied to operations and maintenance if I am to meet the company's daily obligations. While every available dollar is applied to track and equipment maintenance, I am able at any given moment to fund only the most critical projects.

My officers and I are doing many things throughout the Milwaukee's system, both to keep the railroad in operation until reorganization

can take place, and to plan for the revitalization of the Milwaukee as a smaller, more efficient system. We are making the maximum feasible use of existing avenues of aid from Government. We are applying to the Milwaukee's track, locomotives, and cars every dollar that we can squeeze out of revenues or which is available to me from any outside source. We are eliminating branch lines that lose money as rapidly as the regulatory process permits. We are attempting to reduce costs even as the price of what we must buy, including the labor of our employees, continues to rise. We are tightening upon operations and on management. We are deep into some very important studies. We look critically at every operation.

The assignment which the court has given me under the bankruptcy statute is twofold: I must continue the operation of the Milwaukee in the public interest, assuring that it meets all its legal obligations to provide service, while I look for a way out of bankruptcy. And, I must determine whether there is a way that the company can someday become profitable, pay off its debts, and emerge from the reorganization process as a going concern.

I am obligated to make this determination as quickly as possible. One thing must always be in the minds of those of us who are seeking answers to the Milwaukee's very serious problems: While I must be responsive to the concerns of many upon whom the Milwaukee has an effect, I cannot operate the railroad indefinitely at the expense of its creditors. And if I should determine that the Milwaukee cannot be reorganized in a way which protects the constitutional rights of the creditors, then I must see the railroad liquidated and its properties sold to pay off its debts.

I have testified in court that the Milwaukee cannot be made profitable as it exists today. Yet it is essential to the reorganization that the Milwaukee become profitable, and that it become profitable quickly. The losses must stop as soon as possible, or the creditors will ask the court to direct a liquidation. If I am to be able to serve the greater number of shippers and provide jobs for the greater number of employees, I must terminate the Milwaukee's losing operations as quickly as possible.

I do not know yet whether the Milwaukee can be reorganized. I believe that it can be, but only if it concentrates its available assets on, and focuses its attention on, that portion of its physical plant which lies east of the Missouri River. And even that part of the railroad must be greatly rationalized and rehabilitated.

I have indicated that with its present losses the line from the Twin Cities to the Pacific coast cannot survive into a reorganized Milwaukee Road. The Milwaukee does not have, and under present conditions I cannot develop for it, sufficient funds to rehabilitate this line and operate it successfully. And even if the line were rehabilitated, it does not participate heavily enough in the markets it serves to pay its way within this company. I believe that viable alternatives to the Milwaukee's operation of this route already exist or are capable of development.

I call the committee's attention to the bar graph accompanying this testimony which shows the traffic densities of various segments of the main line and certain branch lines relative to the traffic density of the railroad's high-density "corridor" between Chicago and the Twin Cities. The significance of this comparison is that, in effect, the

present regulations of the Federal Railroad Administration for financial assistance give great emphasis to line segments with densities such as the Milwaukee has in its Chicago-Twin Cities corridor. I suspect that the viability study which I am having prepared for me will emphasize the need for segment densities in this range for a main line to be truly able to support both itself and its essential tributaries.

Let me be explicit about my determination concerning the main line west of the Twin Cities.

As to that portion of the line between Butte, Mont., and the Pacific coast, my officers are negotiating with the Union Pacific over the possible sale of segments of the line. I expect that these negotiations will be completed by the end of this year. Given the regulatory processes of the Interstate Commerce Commission and the legal processes of the reorganization court, I would think that actual conveyance of any segments to the Union Pacific could not occur before mid-1980 at the earliest.

As to that portion of the line between the Twin Cities and Butte, I have said only that I cannot reorganize the Milwaukee, under present conditions, if it is to include this line. My officers and I are just beginning to address the complicated question of how the Milwaukee can relieve itself of the burden of this line yet preserve for many shippers the rail services they require and protect the livelihood of the employees now working on the line. We must find ways to minimize the impact of this great change in the Milwaukee on employees. And we must remember that no group of industrial workers is already as well protected against job loss, by the requirements of the Interstate Commerce Commission in cases of the type which our withdrawal will entail, as are railroaders.

We well recognize that, particularly where eastern Montana, North Dakota, South Dakota, and western Minnesota are concerned, the answers as to how the Milwaukee may withdraw its operation of its rail lines will not come as easily as they appear to be coming for the lines west of Butte. Or will they come as rapidly. I have no timetable whatsoever for the removal from the Milwaukee's system of the lines east of Butte, except that they must be removed no later than that time in which a plan of reorganization would be implemented. That time is, assuredly, several years in the future.

The term "abandonment" is frequently used in connection with the Milwaukee's lines west of the Twin Cities. This does not mean that we intend that our lines west of Minneapolis-St. Paul be retired and torn out regardless of whatever good reasons might be offered for their retention. It is possible that others—or, indeed, we ourselves under some financial arrangement—might continue their operation. My position is only that the Pacific coast extension cannot in the future be operated by the Milwaukee Road at a loss if the Milwaukee is to avoid total liquidation.

My mind is entirely open to any suggestions or proposals concerning the future of these lines, so long as they do not inhibit my ability to reorganize the company. Present Federal and State laws doubtless offer the prospect of viable alternatives. My officers are in active discussions with representatives of the States in question and some shippers concerning the main line and other lines as well.



I emphasize that my need, and my desire, is to see to the financial revitalization of a company which operates throughout the Midwest, employing at present more than 11,000 persons who earn, collectively, more than \$250 million per year in wages and benefits. It is not my desire to deprive any State, or community, or market, of transportation services or of jobs which are demonstrably needed. I would much prefer to retain these services and jobs within the Milwaukee.

Let me turn now to the specific question of the size of the Milwaukee's track-maintenance force. Senator McGovern expressed specific concern over what he understood to be reductions in the size of the maintenance force in Montana and Washington.

More than anything else, the factor that controls the size of the maintenance force is the size of the maintenance budget. The budget is determined, and is frequently revised due to the availability of cash.

I testified in June that total maintenance-of-way expenditures in 1978, exclusive of amounts expended on funded programs, would be less than they were in 1977 by approximately 12 percent. By reason of higher wage rates and material prices, the available dollars will result in a total maintenance-of-way work force for 1978 which will be smaller than last year's by some 20 percent.

At the end of June, the Milwaukee's balance sheet showed book cash to be about \$8.1 million. By the end of July, book cash had fallen to \$1.8 million—less than a single day's requirement. Plainly, it was necessary for me to reduce expenditures somewhere, and the only real flexibility I had at the time was in track maintenance by reason of the need to continue locomotive maintenance programs.

Accordingly, my officers developed during August a plan for reducing the track maintenance force throughout the system beginning September 1 for the remainder of the year. The forthcoming cutbacks were announced around August 21 under the terms of the railroad's agreement with the maintenance-of-way employees' union. It is only this plan which has been brought to the Senator's attention.

However, at approximately the time the September 1 cutbacks were announced, it was becoming clear that cash flow was improving. Indeed, book cash at August 31 was \$10.2 million, not as good as I would like to have it be but good enough that I could authorize additional funds for maintenance, which I did. Shortly after Labor Day the cuts, in effect, were rescinded and in some areas even additional men were put to work on the track. Barring unforeseen financial reverses, I expect to employ in Montana and Washington during the coming winter substantially the same number of track maintenance workers who were at work last winter. The size of the work force has never been as small as has been contended. For example, we saw statements made by others that the track force in Montana had been reduced on September 1 to 21 men. In fact, the average daily force was far greater than that. The track force in Montana never fell below 69 persons.

I should point out that I anticipate that the railroad's cash position will fall from its August 31 level over the remainder of the year. Should cash erode too far, it might be necessary for me to reduce spending on track maintenance.

Senator McGovern also expressed to me some concern over our apparent decision to confine most of our future track and rolling stock rehabilitation expenditures to the line between Chicago, Milwaukee, and the Twin Cities.

With the exception of several small but highly significant and beneficial projects funded by States or individual customers, the only outside funds that as a practical matter I have been able to apply to the Milwaukee have come through title V of the Railroad Revitalization and Regulatory Reform Act of 1976, the so-called 4R Act. I have been authorized to obtain a \$5.1 million loan under the Emergency Rail Services Act of 1970, but the matter has been appealed by creditors. Objections by creditors have also restricted my use of the earnings of the railroad's subsidiary Milwaukee Land Co.

The regulations of the Federal Railroad Administration quite specifically spell out priorities for the available financial assistance. The financial agreements which the railroad and I have signed with the FRA spell out equally specifically how and where the assistance is to be applied. In general, the effect of the regulations, in combination with the level of appropriations, is that 4R Act funds may be applied only to track deemed vital, by reason of its location and traffic density, to the national rail system.

The only track which the Milwaukee has that meets the FRA funding criteria, given the available dollars, is its core main line between Chicago, Milwaukee, and the Twin Cities. Hence, it is only there that the funds may be, and are being, applied. Thus far, a total of \$33.6 million in financial assistance has been or will be applied to this line.

Approximately \$19.3 million is also being applied to the rehabilitation of locomotives and freight cars under a separate 4R Act program. This expenditure is, of course, benefiting the entire system, including the Pacific coast extension.

Since the Milwaukee's track appears to be a subject of considerable importance, I would like to give you a comparison which will, I think, express in concrete terms the magnitude of the problem I face in attempting to keep this railroad operating successfully; demonstrate that the Milwaukee has not allowed the Pacific coast extension to deteriorate relative to other lines; and perhaps suggest to you that the concern over the physical condition of the main line west of the Twin Cities is rather out of proportion to the Milwaukee's problem as a whole.

In addition to its Pacific coast extension, the Milwaukee has principal routes from Chicago to Omaha, Kansas City, and Louisville. Between Chicago and Omaha, on the average every seventh mile of the line was operable only at 10 miles an hour as of September 30—a speed far too slow for competitive, profitable service. Between the Mississippi River and Kansas City and between Chicago and Louisville, every third mile was restricted to 10 miles an hour. But between the Twin Cities and Tacoma, along the Pacific coast extension, only every 26th mile on the average was restricted to 10 miles an hour as of September 30. I might add that at the end of August the 10-mile-an-hour slow orders between the Twin Cities and Tacoma amounted to about 1 mile in every 15. There were no reductions of similar magnitude on the other routes I've mentioned during the month.

Yet it is the main lines other than the Pacific coast extension west of the Twin Cities, along with the tributary secondary lines east of the Missouri River, which generate the bulk of the railroad's revenues. It is these lines which, I expect, independent studies that are now underway will show to be the reorganizable core of the railroad. It is on these lines that I must concentrate the assets of the Milwaukee if I am to avoid a liquidation of the entire operation.

Let me now discuss the Milwaukee Road and winter. Particularly across the Plains States, the winter of 1977-78 absolutely devastated not only the Milwaukee but other railroads as well. The Milwaukee was particularly vulnerable because, financially, it had next to no flexibility. It could not satisfactorily do battle with the storms on the funds at its disposal. Consequently, the railroad suffered greatly, its customers suffered, and its employees suffered. Indeed, it was the bitterness of the winter beginning with the Thanksgiving weekend of 1977 which, in the final analysis, set the timing of the Milwaukee's petition for protection under the bankruptcy statute.

For the coming winter, conditions should be not as critical as they were last winter. The railroad's supply of operable locomotives will be somewhat better, and its locomotives will be more reliable thanks in great part to the rehabilitation program which is being funded under section 511 of the 4R Act. This program is providing for the complete rehabilitation of 111 road locomotives. The schedule calls for 19 to have been completed as of today. We hope to be able this winter to maintain a fleet of around 400 road locomotives compared with a fleet which at its lowest point last winter numbered around 250.

I have already discussed the fact that, relatively speaking, the main-line track in the Dakotas ranks rather high in quality. Barring unforeseen financial problems, we should have an adequate force of employees in the track department during the winter months.

Last winter, as locomotives began failing in a given region of the railroad because they simply could not take the beating which the weather was giving them, we continued to operate—or tried to operate—that region of the railroad by supplying additional locomotives to it. We often found that the replacement locomotives suffered the fate of the original locomotives, and soon we were simply without sufficient motive power to operate the system as a whole, even where the weather would permit normal operations.

This winter, our first objective will be, as it must be, to maintain normal operations on those segments of the system where weather permits. If this means that some segments must therefore be temporarily without an adequate fleet of operable locomotives because of the weather, then this must be the price that the winter exacts from all of us. I have the obligation to provide services throughout the Milwaukee's entire system, and I must meet that obligation to the best of the railroad's ability. I do not see that it fulfills my obligation simply to add to the number of locomotives stalled in snowdrifts.

It is possible to avoid such admittedly unsatisfactory contingency operations—or rather, it would be possible were the Milwaukee to have available to it money, or people, in greater supply to cope with the winter and to repair storm-damaged equipment more rapidly. I suggest that here is an area in which Government might logically help.

The committee will recall that last spring I sought and obtained for the Milwaukee the \$5.1 million that was then available under the Emergency Rail Services Act of 1970. However, the railroad's credi-

tors have objected to my using the money because the act requires that the debt which would result from the loan be placed ahead of the longstanding debt to the creditors.

The revolving fund of available money under ERSA now contains some \$50 million, which it did not contain earlier this year. Were the law to be amended in such a way that the security for the loan were not so burdensome, so that in effect the ERSA debt were junior rather than senior in priority to existing debt, and were the regulations of the Federal Railroad Administration simplified so that the response to an emergency could be immediate, I might have available to me the dollar resources that could get the railroad safely through a temporary crisis. I commend to the committee's attention consideration of such amendments.

Let me suggest also some ideas which, I frankly acknowledge, may or may not be workable, but which at least might start some worthwhile thinking processes.

I suggest that the committee might want to consider legislation which would empower perhaps the Secretary of Transportation, or perhaps State Governors, to declare a short-term transportation emergency during the course of which funds that the Milwaukee—or, indeed, any railroad—expends to reopen its lines and return its equipment to service would be quickly reimbursed by Government.

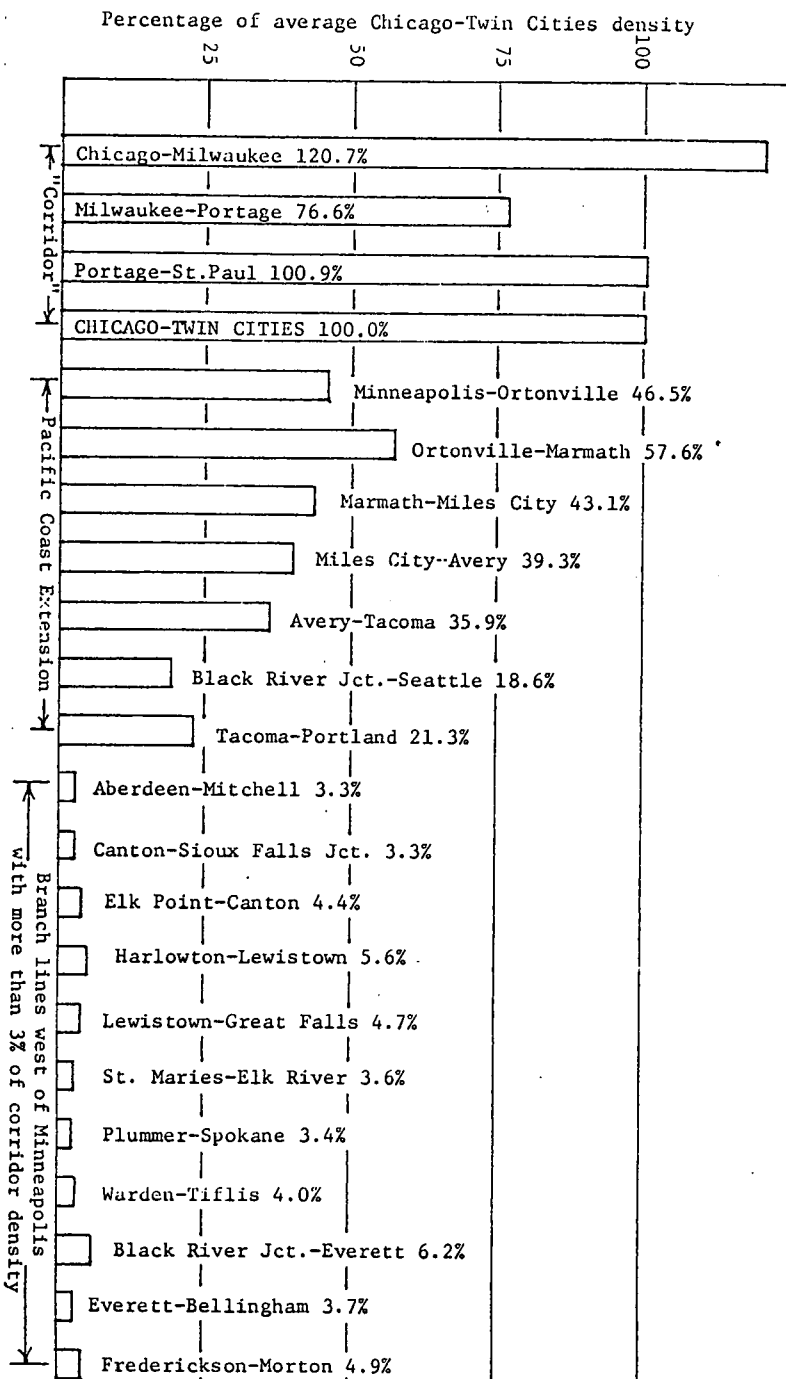
There are many ways that such a provision might be productively applied. I for one, given emergency circumstances, might move to employ temporary help to remove snow and do necessary repairs. I might seek to lease locomotives from outside sources. I could do so with the assurance that I would not be jeopardizing the cash position of the entire enterprise and thus perhaps causing its collapse.

Since locomotives were of such concern last winter and still are, let me suggest another possible avenue of assistance. What if the Federal Government were to acquire sufficient locomotives to form an emergency fleet, which would be available to needy railroads by lease under specified circumstances, and then bank those locomotives against the rainy or snowy days that are surely to come?

These, members of the committee, are thoughts for the future. I hope you will consider them for what value they might contain. But I stress again that the constraints which are on me require that I seek a solution for the financial problems of the Milwaukee as quickly as possible. The past of the Milwaukee, about which we collectively can do nothing, has in our time collided with its future, about which we must do something. But we, or more precisely I, must do it quickly. Thank you.

[The bar graph referred to follows:]

The Milwaukee Road—Average densities by line segment as a percentage of  
"Corridor" density in gross ton-miles, 1977



Senator McGOVERN. Well, thank you very much, Mr. Hillman, not only for your appearance here today, but for your cooperation with the subcommittee all along, and I think I'll defer any questions until we've heard from all the members of the panel.

So we'll go to Chairman O'Neal next of the Interstate Commerce Commission.

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

Mr. O'NEAL. Thank you.

Senator, members of the subcommittee, I appreciate the opportunity to be here today to discuss railroad problems confronting this area, especially with regard to the Milwaukee road system. I will first briefly describe how the Milwaukee got to its present financial condition, and then will generally explain the reorganization process, and the current status of the Milwaukee's reorganization effort. I will then discuss what Federal assistance is now available and what the future may hold. I hope my comments will be useful to you in assessing the situation and making plans as to the best course of action.

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

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

I believe it would be helpful at this point to explain in general terms how a railroad reorganization works.<sup>1</sup> Let me emphasize that the reorganization of a bankrupt railroad is different from your "garden variety" bankruptcy. A bankruptcy for most businesses means that the estate of the bankrupt is administered for, and ultimately divided among, its creditors. Thus, the purpose of this type of bankruptcy is liquidation.

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

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

The first step in a reorganization is for a railroad to file with the appropriate court a petition that it is insolvent and desires to effect a plan of reorganization. Upon approval of this petition by the court, the railroad has 6 months, which can be extended, and normally is, to file its plan of reorganization. This plan must be filed concurrently with the court and the Commission. Unless the Commission finds the plan obviously impractical, it gives appropriate notice and then holds hearings on the plan. Any interested party is given the opportunity to be heard at these hearings and, of course, the Commission carefully considers the views of all parties.

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

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

I would now like to discuss where the Milwaukee is in regard to the reorganization process. As you know, the Milwaukee filed a petition for reorganization in December of 1977. The trustee is currently in the process of developing a reorganization plan, and has commissioned the consulting firm of Booz, Allen & Hamilton to make an overall system study which is expected to be made available sometime next year. It is hoped that a plan of reorganization will be filed by the summer of 1979.

In response to some of the questions I have heard raised regarding the Milwaukee's obligations as a rail carrier during the reorganization process, I believe it is important to emphasize again that although the Milwaukee is in reorganization, it is nonetheless subject to the requirements of the Interstate Commerce Act (ICA).

Under the ICA, the Milwaukee cannot abandon a rail line or abandon all of its service over a line unless it has received Commission approval to do so. A complete termination of service over a line or removal of a line would be an unauthorized abandonment under the ICA, and could be enjoined by the Commission by filing a civil action in an appropriate district court. While the remedy for cessation of service short of a complete termination of operations is not as clearly outlined in the ICA, I believe that in light of a recent Commission decision we do have the authority to shape an appropriate remedy. We

would certainly try, and are currently analyzing the Milwaukee's present operations to, among other things, make certain that no Commission regulations have been violated and that it is meeting its common carrier obligations. Of course, it must be appreciated that ordering a bankrupt railroad to take certain actions is much more difficult than ordering a healthy railroad, or even a marginal one, to take the same action.

Since I brought up the subject of abandonment, this might be a convenient place to explain briefly the abandonment process. Under section 1a of the Interstate Commerce Act, a railroad must make application and receive the Commission's approval before it is allowed to abandon any of its lines. The decision to grant a certificate of abandonment is made only after a proceeding in which all interested parties have been notified and have had an opportunity to participate. As a part of our regulations, each rail carrier is required to prepare a system diagram map showing its rail lines. Besides indicating those lines pending abandonment and those operating with a State subsidy, the carrier must also designate on this map those lines which it anticipates will be the subject of an abandonment proceeding within the next 3 years (category I), and those lines which are under study for a possible future abandonment application (category II). A line must be included in category I for at least 4 months prior to the filing of an abandonment application, unless no opposition is anticipated. After this 4-month period, application may be made to the Commission for a certificate of abandonment which would allow the railroad to terminate service and dispose of the line. Full notice is given and a hearing is normally held before an administrative law judge to gather evidence and take testimony. Testimony from interested parties including shippers and State and local governments is welcomed at this stage of the proceeding. The administrative law judge will then make a decision which may be appealed to the entire Commission.

In the case of line abandonments by the Milwaukee, it is likely that there would be opposition so a line would have to be included in category I for 4 months before an abandonment application could be filed. I would note that the Milwaukee trustee, in his system diagram map, dated September 30th, has designated the east-west mainline running through Aberdeen, as well as the north-south line running from Aberdeen to Mitchell, as category II lines—lines under study for possible future abandonment.

So far I have discussed in general terms the reorganization process, where the Milwaukee is in this process, and also the abandonment process and how the Milwaukee has designated some of its lines. I would now like to outline briefly Federal financial assistance currently being provided to the Milwaukee. Our financial projections indicate that, with this assistance, the Milwaukee should avert any cash problems through the first 6 months of 1979.

First, assistance is available under the Emergency Rail Services Act of 1970 (45 U.S.C. 661 et seq.). This act provides the Secretary of Transportation with authority to guarantee trustee certificates upon application by a railroad undergoing reorganization. These trustee certificates are a type of security or bond issued by the trustee in bankruptcy to the DOT, and have the highest priority for repay-



ment. The Milwaukee has made application under this program and a \$5.1 million guarantee has been approved. However, the Department of Transportation has not yet permitted drawdown of these funds because the Milwaukee does not at this point appear to face an imminent cash crisis, which is what this aid is designed to alleviate.

Second, under title V of the 4R Act, financial assistance is available for capital expenditures. Specifically, section 505 of the 4R Act provides that the Secretary of Transportation may directly purchase trustee certificates. Further, under section 511, the Secretary may guarantee loans to the railroad. In both instances these funds are to be used to rehabilitate and improve facilities or equipment. On July 31, 1978, the FRA and the Milwaukee signed a contract through which the Milwaukee will receive \$24.5 million which will be used for upgrading the mainline between Milwaukee and the Twin Cities. Under the contract the railroad will also receive \$21.3 million in loan guarantees for the repair of 111 locomotives and 950 freight cars. These projects are scheduled for completion by the end of 1979. As I mentioned earlier, the Milwaukee's cash position, enhanced by these funds from DOT, appears to be adequate to allow operations to continue through the middle of next year.

We must, nonetheless, face the possibility that the Milwaukee's cash position might deteriorate to the point that it is unable to continue its day-to-day operations. Should this occur, the Commission has the authority to direct another carrier to operate the Milwaukee's lines for a limited period of time. The Commission's staff has done some preliminary contingency planning so that we will be able to respond quickly with a directed service order if necessary. Since this is only a short-term solution, and a very expensive one, we believe it is far preferable to develop other solutions, perhaps using Federal assistance, such as ERSA funds, to avoid a cessation of operations.

Even if the cessation of operations can be avoided, it is quite possible that there will be numerous abandonments in the Upper Plains area. While the Milwaukee would have to follow the abandonment procedures set forth above which would take a number of months and allow for contingency planning, the impact of a large number of abandonments could still be very serious. In this situation, Federal assistance is available by way of funds provided under the Local Rail Service Assistance Act. Pursuant to this act, each State is allocated limited Federal funds to be used in maintaining service over lines which would otherwise be abandoned. Federal assistance for this program is limited to 3 years, and thus only provides a temporary solution. Also, funds can be used by the State for rehabilitation of certain lines prior to abandonment.

In order to take advantage of these funds, States must develop a State rail plan and have it approved by the U.S. DOT. I understand that the State rail plan developed by the South Dakota DOT has been approved by the U.S. DOT, and thus South Dakota is eligible for this Federal assistance. This is a positive step, but it is only a beginning. South Dakota and the other Upper Plains States must be active in the effort to develop a more viable system of rail transportation. While Federal assistance is available, it is limited, which makes it important that each State identify its priorities to insure that the lines receiving Federal assistance are the lines most essential to the State.

These determinations should be made in cooperation with adjoining States to avoid working at cross purposes where a rail line may be viewed as important on one side of a State boundary and as unimportant on the other side. Such decisions are not easy, and imagination and foresight must be used in formulating solutions to the problems which each State must confront.

In addition to planning for the use of Federal assistance, State action could conceivably include encouraging shipper efforts to increase rail traffic, assisting shippers in efforts to form groups which could actually take over rail operations, encouraging other carriers to acquire lines within the State, consolidating grain elevators on certain lines, and examining the possibilities of having exempt motor carriers take over agricultural traffic.

I must emphasize that State action is necessary. The U.S. DOT under its section 401 powers is studying national rail problems as well as more localized problems such as those faced by the shippers and railroads here in the Upper Plains States. But it is the State that can best determine local priorities and needs. The planners in Washington can be of assistance, but only the people within the affected area can be aware of the full range of possible solutions. I should note that the Local Rail Services Act of 1978, which was passed about 2 weeks ago, has a provision requiring the FRA to review promptly the condition of the Milwaukee, and to consider assisting it through loans for roadbed and track improvement.

I understand that the South Dakota DOT has been actively pursuing several of the above-mentioned courses of action, including contacts with railroads in the area which may be interested in acquiring lines from the Milwaukee. In addition, let me assure you of the fullest cooperation of the Interstate Commerce Commission in this difficult task of bringing order to the rail system in the Upper Plains States.

I have earlier explained the procedure for a railroad reorganization and the current status of the Milwaukee within its own reorganization. Because this process is still in the developmental stages, it is impossible to say exactly what will happen through the process. However, the Milwaukee trustee has given some indication of the direction in which he sees the railroad heading.

First, the Milwaukee and the Union Pacific Railroad have indicated that they intend to file an application under section 5 of the IC Act for the UP to acquire portions of the westernmost 1,500 miles of the Milwaukee line from Butte, Mont., to Seattle, Wash.<sup>2</sup> Certain of these lines west of Butte will most likely be the subject of abandonment proceedings. No formal agreement between the UP and Milwaukee Road has been reached; thus, the terms of the acquisition or the lines to be abandoned are unknown. However the parties anticipate reaching an agreement by the end of this year and expect to file the appropriate applications with the Commission early next year. The Commission will process these applications as quickly as possible, while giving due consideration to all affected parties.

<sup>2</sup> I should mention that the Milwaukee's petition for inclusion in the Burlington Northern, originally denied by the Commission, has recently been remanded to the Commission by the Seventh Circuit Court of Appeals, No. 77-1453, Chicago, Milwaukee, St. Paul and Pacific Railroad Company v. United States of America and Interstate Commerce Commission, decided Oct. 4, 1978.

As concerns the Milwaukee's lines east of Butte, running across South Dakota and ending at Minneapolis, the future is also uncertain. As I mentioned earlier, these lines have been designated as under study. Thus, it would be premature for me to comment on the possibility of these lines being the subject of abandonment applications in the future. However, I can assure you that if abandonments are filed, all interested parties will be given the opportunity to be heard, and that the Commission will carefully evaluate all submissions. For your convenience, I have attached to this statement an outline setting forth the various stages in an abandonment proceeding.

This concludes my prepared remarks. I will be glad to respond to any questions you may have on this matter.

[The attachment referred to follows:]

#### BASIC STEPS IN THE ABANDONMENT PROCESS

(A) Each railroad must file with the ICC and appropriate State agencies a map of its rail system specifically designating.

- (1) All lines which the carrier will seek to abandon within three years.
- (2) All lines under study which may be subject to future abandonment attempts.
- (3) All lines for which an abandonment application is pending before the ICC.
- (4) All lines that are being operated under the rail service continuation provisions of the 3R Act.

The ICC cannot authorize the abandonment of a line where a state or political subdivision thereof or a significant user of the line opposes the abandonment unless the involved line is identified (under category 1 above) on the carrier's system map for at least four months prior to the abandonment application.

(B) In order to alert interested parties of an imminent abandonment application, carriers must file a Notice of Intent to abandon a line within 30 days prior to the actual filing of the abandonment application. The Notice of Intent must be served on the ICC, governor, public service commission, significant users, and designated state agencies.

(1) The Notice of Intent instructs interested parties of the steps to be taken in filing comments or verified petitions with the ICC seeking an investigation of the proposed abandonment. Such comments or petitions are due within 35 days of the filing of the abandonment application.

(C) The abandonment application must be filed not less than 60 days prior to the proposed effective date of such abandonment.

(1) The ICC may (own initiative), but must if a petition to investigate is received, order an investigation of the proposed abandonment within 55 days after the filing of the application. When an investigation is assigned to hearing all evidentiary proceedings must be completed within 180 days and an initial decision is required within 120 days after completion of evidentiary proceedings.

(2) If no investigation is ordered, the ICC must, within 60 days from the filing date of the application, issue a finding and a certificate that present and future public convenience and necessity permits the abandonment. The certificate will be conditioned as not final until interested persons have had an opportunity to offer financial assistance to assure continued service over the line.

(D) When a proceeding is administratively final (ICC issues a finding and a conditioned certificate of public convenience and necessity) such a finding will be published in the Federal Register as notice to persons intending to offer financial assistance to continue service over the line proposed for abandonment.

#### PROCESS OF OFFERING FINANCIAL ASSISTANCE

(1) An offer of financial assistance must be filed and served with the ICC and all parties not later than 15 days after publication of the Commission's finding (conditioned certificate of public convenience and necessity) in the Federal Register.

(a) Any financially responsible party (including individuals or shippers) can offer a rail service continuation subsidy. The offer must be made to the railroad, seeking the abandonment or discontinuance, with notice of the offer being served on the ICC and all parties. The subsidy offer must cover the difference between

the revenues which are attributable to the line and the avoidable cost of providing service on the line together with a reasonable return on the value of such line; or cover the cost of acquisition of all or any portion of the line. The railroad must upon request furnish an estimate of the subsidy payment required and/or the purchase price.

(b) A Federal matching grant program may be available to assist subsidizers in covering the cost of the necessary financial assistance (see discussion of the Federal Financial Assistance Program).

(2) If within 30 days of its publication in the Federal Register, the ICC finds that a valid offer of financial assistance has been made the ICC shall postpone issuance of a final certificate of abandonment for a period not to exceed six months to enable the carrier and offeror to negotiate an agreement. The carrier will continue to operate the line at its own expense during the negotiation period of not more than six months.

(3) If within 30 days of its publication in the Federal Register, the ICC finds that no financially responsible assistance offers have been filed, the ICC shall issue a final certificate authorizing abandonment of the line.

#### PROCEDURES FOR PROTESTING ABANDONMENTS

Interested parties may oppose proposed abandonments by filing with the ICC either (1) A Petition to Investigate or (2) Written Comments (or both). The major distinction between the two protest methods is:

(1) A petition to investigate is the more formal document in that it must be in the form of a verified (sworn) statement. The ICC must institute a formal investigation if a petition to investigate is filed. Parties filing petitions to investigate should therefore be prepared to actively participate in oral hearings and/or submit additional evidence in verified (sworn) statements.

(2) Written comments are the less formal approach in that the comments need not be in a verified (sworn) statement. However, the filing of written comments will not guarantee an ICC investigation of a proposed abandonment. The ICC will consider written comments in determining whether an investigation should or should not be instituted. Parties filing written comments are not considered to have a firm obligation to actively participate in hearings should a formal investigation be conducted but they may participate in the proceedings as their interests may appear.

(3) The filing of a petition to investigate would be appropriate for those strongly opposing an abandonment and having a direct interests in maintaining the rail service involved. The filing of comments would be appropriate for those supporting an abandonment or wishing to call attention to some particular circumstance connected with the abandonment, such as the suitability of the property involved for recreational or other public use.

The format and information which a petition to investigate or written comments should contain is described below.

#### *Filing and service requirements*

(1) An original and 2 copies of each petition to investigate and each written comment must be filed with the ICC within 35 days after the carrier files an abandonment application with the ICC. The proposed date of filing of an abandonment or discontinuance application is included in the Notice of Intent required to be circulated by the carrier.

(2). A copy of each petition to investigate and each written comment must also be served on the applicant railroad's representative whose name and address will be included in the Notice of Intent, at the time of filing with the ICC. Each petition or comment must also contain a certificate of service naming the parties served with the document.

(3) Replies to written comments and petitions to investigate may be filed. Replies to petitions for investigation shall be in the form of verified statement. Replies must be served on all commenting and petitioning parties. An original and 2 copies of such replies must be filed no later than 45 days from the date the carrier's application is filed with the ICC.

#### FORMAT

#### *Petition to Investigate*

A petition to investigate shall be in the form of a verified statement, and at minimum, contain:

- (i) Identification of petitioner including its name, address, and business;

(ii) Statement of petitioner's interest in the abandonment or discontinuance proceeding; whether petitioner uses the involved service; and if it does not, information with respect to the group or public interest it represents;

(iii) Specific reason(s) for requesting the institution of an investigation, including information with respect to petitioner's reliance on the involved service, with allegations of fact supported by an affidavit of personal knowledge of the facts;

(iv) Any rebuttal of information or material submitted by the applicant; and

(v) Request for oral hearing and reasons therefore, if desired.

*Written Comments*

Written comments shall, at a minimum, contain:

(i) Exact name and address of commenting party;

(ii) Brief statement of interest in the abandonment or discontinuance proceeding;

(iii) Recommendations to the Commission with regard to approval, disapproval, or other specified action on the abandonment or discontinuance application;

(iv) Specific statement of position and summary of evidence with regard to any or all of the following:

(A) Intent to offer financial assistance;

(B) Environmental impact;

(C) Impact on rural and community development;

(D) Suitability of the properties for other public purposes; and

(E) Recommended provisions for protection of the interests of employees.

C. *Eligibility Requirements for Rail Assistance.*—A State is eligible to receive rail service assistance if:

1. The State has established an adequate plan for rail services based on a comprehensive coordinated, and continuing planning process for all transportation services within the State. The Plan shall be developed with opportunity for public participation with procedures established for public hearings on the contents of the plan prior to final adoption by the State.

2. The State must designate an agency to administrate or coordinate the equitable distribution of resource and have authority and administrative jurisdiction to handle all transportation matters.

3. The State's Rail Plan must be submitted to the Administrator for review and approval prior to the filing of any application.

FRA's proposed rules for providing financial assistance to the States are quite complex and extensive. The above attempts to highlight the key points of the regulations.

Senator McGOVERN. Thank you very much, Mr. O'Neal.

Our next witness now is Mr. James Newkirk of the Federal Railroad Administration. Mr. Newkirk.

**STATEMENT OF JAMES L. NEWKIRK, DIRECTOR, SPECIAL PROJECTS  
STAFF, FEDERAL RAILROAD ADMINISTRATION**

Mr. NEWKIRK. Thank you very much, Senator.

It's my pleasure to appear today on behalf of the Department of Transportation to present a brief overview of the present state of the Nation's rail industry. The railroad picture nationally is not a happy one, and South Dakota is facing a potentially very difficult period. There is a substantial shortage of capital in the railroad industry; there is too much rail plant in many portions of the country, especially the Midwest; the Milwaukee Road is bankrupt, and South Dakota is heavily dependent upon the Milwaukee.

The State of South Dakota does have severe problems to cope with, but fortunately the people in the State handling the rail situation understand the problems and have begun to apply intermodal planning concepts. Thus, here, where traffic density is extremely light, the principles of aggregating tonnage into higher density corridors, together with the development of subterminal elevators to handle grain

outbound and fertilizer inbound, a base system of potentially viable rail lines to serve the State's needs can be defined. We think the revised South Dakota rail plan is very good in that it recognizes these critical issues. In essence, the revised plan recognizes what is essential to the economy of the State, and what the people want and can afford that is prudent.

The rail industry across the Nation has fallen on hard times. On October 10, Secretary Adams released a report to the Congress which concluded that for the 10 years, 1976 to 1985, the freight rail industry, excluding ConRail, faces a capital shortfall of between \$13 billion and \$16 billion. Funds from operations and outside financing fall billions of dollars short of investment requirements, even if no effort is made to overcome the cost of the large maintenance deficiencies that exist today—some \$6 billion—again exclusive of ConRail. Since it is impossible to live with a capital gap of that magnitude, adjustments must be made to that system. The report concludes that the railroad industry must change.

The industry's difficulties stem from various factors, not all of which are within its control, and which include: Too much regulation, too little freedom to act or manage innovatively due to Government interference, too much rail plant for the available or expected traffic, old railroad facilities located now in the wrong place to much of the work needed, uneven Government subsidy of the competing modes of transportation, and labor-management difficulties.

To counter these problems, or solve them, we have concluded that positive action is required in the following areas, among others: A cutback of Government regulation of the industry is needed, restructuring the rail industry and its physical plant is sorely needed, more uniform Government policies toward the different modes of transportation will be required, the railroads must improve their management of their assets, relationships between labor and management must improve, and there should be a continued program of Federal financial assistance.

That the railroad industry must make substantial changes in its economic and physical structure is vividly demonstrated by financially weak railroads, such as the Milwaukee. Our report observes that such weak railroads must analyze, in cooperation with appropriate public authorities, specific line segments to determine whether such segments are profitable or could be made profitable.

Duplicative or uneconomic lines must be abandoned and traffic consolidated onto parallel or connecting lines, so that service can be maintained, while rail costs are reduced. The trustee of the Milwaukee, Mr. Hillman, has undertaken just such studies. As a consequence of the preliminary work, the trustee has determined that the transcontinental line of the Milwaukee cannot show a profit or break even as part of a reorganized Milwaukee system. The Milwaukee forthrightly put the public on notice of their condition by amending its system diagram map on September 30 to show all of its lines west of the Twin Cities as category 1, 2, or 3 lines—those potentially subject to abandonment or study. All of the Milwaukee lines in South Dakota, as you know, are so designated.

We believe that Mr. Hillman is approaching the matter of corporate reorganization in the proper manner. He has difficult decisions

to make, scarce resources to work with, an unyielding environment, and precious little time. But he has set out on the right course. We recognize, however, that that course necessarily means problems for South Dakota and other States.

While, as trustee, Mr. Hillman is an officer of the Federal court, and as such must conserve creditors' assets, the fact—or apparent diagnosis—that Milwaukee lines west of the Twin Cities may not be viable to the Milwaukee does not necessarily mean that all of the Milwaukee tracks in South Dakota will be abandoned. The South Dakota Department of Transportation has begun discussions with the Chicago & Northwestern and the Burlington Northern concerning the disposition of some Milwaukee lines in the State of South Dakota. Furthermore, I understand that the State DOT is also examining other alternatives for continuation of rail service on essential lines of the Milwaukee Road in the State should the trustee determine that they cannot function as part of a reorganized system. The present title V Federal assistance program is not an appropriate vehicle for salvaging all of the Milwaukee's lines in South Dakota.

The existing interim program has specific requirements for project approval, including a public-interest test, establishment of the ability to repay, protection of the Government's funds in the event of liquidation, priorities for the application of appropriated funds where consolidation or joint use is involved, and aid to heavy tonnage segments of the national rail system. Funding authorizations in the existing program are far less than the level of capital requirements reported in our capital needs study. And, furthermore, no grant money is available.

The requirements of the existing program are harder for a bankrupt railroad to meet than for other carriers. Fortunately, we have been able to provide substantial funds to the Milwaukee for equipment repair and trackwork on its high-density line. We have previously said that we do not see how Mr. Hillman could responsibly discharge his duties as trustee and apply for title V assistance for the Milwaukee Road's west coast extension at this time or how we could approve such an application if one were filed. There simply is not enough money in title V to fund projects of this type—given the magnitude of financial needs throughout the rail industry.

However, the administration's recently enacted branch-line legislation can help in South Dakota. The legislation amends the local rail services assistance program established by the Federal Railroad Administration to provide States considerably more flexibility in dealing with rail service problems such as posed by the Milwaukee. Specifically, the State of South Dakota, using branch-line assistance funds, can see to the rehabilitation of lines before they are at the point of abandonment due to physical deterioration. Other options also are available, through the State, such as providing elevators for truck-to-rail loading at consolidated points to increase the tonnage density of one line in lieu of continuing rail service on several high-density lines. Funding for these types of projects may be available to the State on the basis of 80 percent Federal, 20 percent State sharing, if the State has a rail plan which has been approved by the FRA containing such provisions. South Dakota is developing such a plan and is in the process of updating it continually to address recent developments

regarding the Milwaukee. A very fundamental meeting of the minds, however, of State leaders is essential to shaping the revisions to the rail plan in order to alleviate the State's difficulties.

The Federal Railroad Administration will continue to work with South Dakota in developing reasonable alternatives for maintaining essential rail service in the State as well as viable access to the national rail system, funded either by the railroads or under State programs. We recognize the importance of proper rail service to the economy of the granger region, and we will continue to work diligently to preserve and enhance essential rail service in this and all regions of the country.

I will be happy to answer any questions you might have, Senator.

Senator MCGOVERN. Thank you, Mr. Newkirk, for your statement.

And our final witness in the first panel is Mr. Robert Reebie. Mr. Reebie.

**STATEMENT OF ROBERT S. REEBIE, CHAIRMAN, REEBIE ASSOCIATES, INC.**

Mr. REEBIE. Thank you, Senator. It is both a pleasure and a responsibility to respond to the request of this committee to testify on a railroad issue of importance to producers and consumers in this near western region. Because I have had no past personal involvement in transportation in the area of today's concerns, and because Reebie Associates has recently embarked on a basic study of this area for the Federal Government, my comments will relate to general approaches to resolution of transportation problems.

I can only trust that these concepts will be beneficial as your committee addresses the specifics of encouraging justifiable transportation services for this region. This summer I testified at some length before this committee on railroad problems/opportunities in the Nation as a whole. Without restating those comments, I wish to incorporate them as additions to my comments today.

UNDERSTANDING—THE BASIS FOR CONSTRUCTIVE ACTION PROGRAMS

Before adapting those economic points to the interests of this region, first I should like to reemphasize several points concerning the need for greater economic understanding of the issues, understanding by residents of the area, by their governmental representatives, and of course by the shippers, carrier managements, carrier workers, and their union managements. In my opinion, understanding of greater depth and breadth is vital to the development of a needed consensus.

The overwhelming finding of all my studies in the railroad industry is the lack of information about specific shipments or operating locations, information of the type that is frequently available in other industries. This finding is even more exasperating when it has been demonstrated that it can be made available to railroad managements at various levels on a routine basis.

In particular, I refer to the measurement of both cash flow and profit, the creation of which must be the objective of any private or socialized system that wishes to continue its public services by constantly replacing and upgrading its facilities.



Such information is vital to the early identification and resolution of losses, whether by management action, labor agreement, or governmental subsidy.

At this point I wish to compliment those railroad managements who are now moving in this direction. I also wish to compliment Dan O'Neal and the ICC for stressing traffic lane costing as the only realistic costing. The ICC is also to be congratulated for encouraging price adjustments for specific situations rather than its former procedures which encouraged across-the-board price adjustments.

I also wish to congratulate the FRA for its recent efforts to focus on the economics of specific situations to evaluate a wide variety of solutions to railroad problems. Certainly this is better than using simplistic car counts to evaluate restructuring solutions of the type used only a few years ago in addressing the problems of the eastern railroads. In fact, a variety of FRA studies have shown that restructuring alone does not address the major problems of railroad operating economics.

#### APPROPRIATE LIMITATIONS ON THE ROLE OF GOVERNMENT

Both of these governmental institutions will also be deserving of further commendation if they restrict their activities to the proper role of Government. First, this means the provision of information to the private sector which will then focus upon economic solutions rather than self-seeking political solutions. Second, they can offer appropriate "emergency" or "head-end" financial assistance whenever it is deemed to be in the public interest by the elected representatives of the taxpayers. However, to keep this assistance on an economic basis, except for emergency financial assistance, full user charges should be used to repay the public funds involved. Finally, Government should restrict its directive actions primarily to those of a traffic cop, namely the restriction of a transportation management or union from pursuing its own interests in ways which threaten the basic rights of others.

Indeed, I believe that the crisis status to which many of our railroad problems have come is too often the result of the inappropriate imposition of political resolutions by regulatory agencies to economic problems; problems to which more appropriate solutions could have been chosen by the taxpayer's elected representatives. This would be especially true whenever these problems involve a blending of political considerations with profit/loss economic considerations, and thus the further consideration of a subsidy. Here it should be pointed out that if a sound regulatory policy allows the railroads to charge for political social services at a profitable level, then no subsidy would be needed by the railroad. Instead it would become clear that the subsidy was to support an industry, town, or region, and the subsidy should be voted only by the appropriate taxpayer representatives at the local, county, State, or Federal level.

In this regard I should like to make a plea in Dan O'Neal's behalf. A former Chairman of the ICC told me of the dilemma in which the ICC often found itself. In Washington, he said, he received statesman-like support from Congress for sound, economic solutions to transportation problems. But, the Chairman said, when he was at hearings in

the hustings, the same Representatives and Senators subjected him to severe public abuse if he did not support plans to continue transportation services to their constituency. Such requests were expressed regardless of their negative economics, or the financial damage that such continuance might cause to other transportation services that had been profitable, to the carrier's financial strength, or to the stockholders of those carriers whose property was being confiscated without due process by the forced continuance of loss services.

Thus I should like to recommend a solution that addresses two underlying causes of this problem. First is the fact that the ICC is a creature of the Congress and thus subject to political pressure to use its powers in imposing political solutions to business problems. Since economic forces will eventually have their way, it appears desirable that they not be delayed by substituting the political views of Government for the economic views of private management. Second is the natural desire of Congressmen in our system to employ these powers of the ICC in regional political interests. As such, I recommend that the directive authority of the ICC be reduced in economic matters to that of a traffic cop. As such, Dan O'Neil and future Chairman will no longer be subjected to inappropriate pressures and the political questions of social services will be addressed where they should be, in representative legislatures.

#### CONSIDERATIONS FOR RAILROADS IN THE UPPER PLAIN STATES

Now I should like to return to the problems at hand, namely "How can we provide this region a desirable quality of rail service wherever it is more economic than service via another mode, or wherever it can be justified by taxpayer representatives on a social service rather than economic basis?"

Once again, I should like to refer to my previous testimony which endeavored to outline the basic pro and cons of railroad economics and the steps needed for this industry to realize its full potential in meeting the transportation needs of the Nation on an economic basis. Concerning this region and its sparse traffic, I should like to stress several points.

First, those revisions which might be instituted more quickly and without major investment, provided that the necessary decisions are supported by the depth and breadth of understanding which I stressed earlier. Such understanding is necessary for the proposed revisions in work patterns to be recognized and accepted as proworker and prounion, as well as proshipper and promanagement.

One. The use of drop-and-pick operations and related pricing structures, as have been instituted by some railroads for low-rated freight like pulp logs. Here, expensive cars are dropped by a crew on its way up a route, they are promptly loaded or unloaded by shippers, and they are picked up only hours later as the same crew returns, or another crew comes by.

Two. The use of train crews with a total of two men (or even one man) to operate short trains from more centralized terminals. Such operations should be performed without a caboose as has been proven to be feasible in a wide variety of operations in this country as well as abroad. While railroading represents an efficient method of transpor-

tation, its economics are highly sensitive to traffic volume. Thus the operating patterns must be adjusted to the available traffic.

Three. The preservation of railroad jobs and service by holding railroad pay levels to the national average for similar work in other industries (as was displayed in recent studies for the FRA). To do this without a sudden pay cut for existing clerks, pay scales should be tilted to permit lower rates to be paid to starting employees with raises for increased productivity and seniority.

Four. Reduce management overheads by integrating railroad jobs that are now separated by labor and organizational jurisdictions, and the focusing of attention of all levels of a railroad upon productivity and profits. While this has been the result of the small railroads formed to operate trackage abandoned by larger railroad systems, it can also be realized by the larger railroads with the information tools stressed in my previous testimony.

Five. Substitute a more economic combination of highway and railway operations where all-rail operations cannot be profitable. Such patterns would use highway for feeder operations to generate at railheads the volume wherein rail operations can compete with today's trucking economics. Perhaps Government can provide appropriate financial assistance for the development of such railhead terminals on main lines.

Six. Encourage the regulatory and labor approval of service restructuring through the buying and selling of trackage rights, routes and terminals by the private railroad carriers. This will help amalgamate the concentrations of volume needed for economic railroad operations.

Seven. Permit rates to be raised to levels at which the above efficient rail sources can be supported without dragging down other, more economic rail services.

Next, I should like to mention needed longer range programs.

One. Development of new railroad equipment which can be operated efficiently at low volumes. An example would be low-investment light-weight locomotives that still generate high traction and which can be maintained with widely available automotive parts and techniques. An example would be the new locomotive designed for the Toronto Transit Authority by Alan Cripe, one of my associates in the Bi-Modal Corp. Such locomotives might be designed with remote, belt controls as used with cranes, and used by train crew personnel from the ground. In the equipment area, such light-weight innovations as Bi-Modal's new Roadrainers promise major advances in railroad operating efficiency.

Two. Rejuvenate outworn and outmoded rail track and terminal facilities, including the construction of new connections and terminals needed for restructuring, wherever operations have been shown to be capable of profitable operations.

Three. When operations cannot be made profitable by operating improvements, marketing rationalization, or restructuring, abandonment, or subsidization remain the only answers. However, I believe that subsidization should only be accomplished by the legislative representatives of the taxpayers who would benefit, whether local, county, State, or Federal. I also believe that such subsidization should also be accomplished in accordance with the economic principles outlined

in detail in my previous testimony and in a report soon to be released by the FRA.

Four. Finally, and perhaps more controversial, is the need for Government to take a more responsible position in labor matters as detailed in the FRA studies soon to be published. The recent railroad strike points to this need. Since the Government must step into railroad strike problems to prevent severe damage to the Nation's economy, it must also address the responsibility which this intervention imposes. There is a need to foster several changes.

(a) There is a need to combine the craft unions, and seniority lists, to permit workers of one craft, whose jobs are displaced by technological advances, to find acceptable work in other crafts. Without such maneuverability, the first craft naturally protects its own, obsolete jobs at the expense of all railroad workers.

(b) For a period of time at least, Government must assume a role in removing unproductive practices, many of which were instituted over 50 years ago when the Government ran the railroads. Such programs might include financing the expense of retraining and moving younger workers, and of the early retirement of unneeded senior workers.

(c) There appears to be a need for railroad managements to learn from the smaller railroads, and other industries, of the techniques for orienting all personnel to the economic practicalities of operating a railroad as a profitmaking enterprise. Including the workers in basic decisionmaking, with profit-based bonuses, is one such technique.

(d) There also appears to be a need for more democratic elections and decisionmaking within the railroad unions so that the workers themselves can have a stronger voice in labor matters. Such a change might include direct election of national leaders by all workers, rather than the multiple tiered process that restricts change today.

Finally, I should like to focus on the need to avoid alternatives that perpetuate or obscure uneconomic operations.

First is an idea for nationalizing any part of railroad operations. Certainly we only need look to the nationalized railroads or Amtrak for examples of resolving political problems without the additional economic focus of working through profit-oriented private operators. The reasons why Government ownership of rights-of-way presents major unresolved problems have been highlighted in USRA studies, in an FRA study soon to be published, and in my previous testimony.

Second is the idea of subsidizing inefficient operations. Indeed the \$600 million taxpayer payment to Amtrak appears to be as much a payment to preserve traditional operating patterns and labor agreements as it is a payment to provide services which cannot be afforded by users, but which have been justified politically. Certainly, the taxpayers should not be called upon to subsidize freight services that are provided with obsolete patterns.

Third, the amendment of trackage by a railroad system, and then its resale as an independent railroad is a poor way for the Nation to resolve its labor problems and obtain more efficient work rules. To be sure, these small railroads have developed novel and productive operating patterns. Some use two-man crews with standard locomotives. One uses a caboose with its doors welded shut in order to comply with an obsolete law that requires a caboose. Another uses a high-

rail truck tractor to haul several cars to a shipper via rail, after which the tractor returns via highway to another assignment or to the terminal.

But such subdivisions of the railroad system require additional railroad-to-railroad interchanges and additional accounting. Further, it would appear that some of these small railroads can exist only because they receive excessive revenue, thus bleeding the primary railroads of needed revenue.

I wish to thank you, Senator, and your subcommittee for allowing me this opportunity to expand on my recent testimony.

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

Before we go on with the questioning, I believe there are two members of the South Dakota State Legislature who are here, and I'd like to ask them just to stand so we can acknowledge their presence.

Mrs. Peg Lamont, of Aberdeen. Mrs. Lamont. And Mr. Curt Jones—Representative Curt Jones—from Britton, S. Dak. And Mrs. Norma Klinkel, a South Dakota Public Service Commissioner is here. Norma Klinkel.

We have at least one candidate here—Mr. Jim Melgard, the Republican candidate for the Public Utilities Commission. Is he here?

And just to give equal time, I have a statement that I was handed by Tom Daschle, who is the Democratic candidate—not for the Utilities Commission, but for Congress—and we won't read his statement, but it will be made a part of the hearing record.<sup>1</sup> And if there are other candidates or officeholders who are here, let us know and we'll recognize you, if you want to submit statements for the record. We want to make sure everybody gets equal time.

Let me just say Mr. Newkirk's comments underscored this point: I emphasized in my opening remarks the importance of the States in the area working together, recognizing that we are part of a regional transportation system which, in turn, ties in with the Nation. But I want to commend the Governor of our State; Dr. Decker, the secretary of transportation; Mr. Enze; and others who have been working on a South Dakota rail transportation plan in which they've attempted to identify the most urgent needs of our State. I think that's a very important first step. And Mr. Newkirk made reference to the importance of States identifying their own needs, and it ought to be understood that we've made some real progress in that direction here in South Dakota. I think our Governor has used that effectively to educate the public on the need for some earnest thinking about our future rail needs in South Dakota and our transportation system as a whole. And I would only add to that I'll attempt to bring out in the questioning of these witnesses the need for other States to be doing the same thing, and the need to be working together in a cooperative effort. We know these lines don't quit when they hit the border; they've got to connect with something other than a cowpath when they get to the State line. So it is important what we're doing here in South Dakota is consistent with other States who will cooperate in a regional effort.

Mr. Hillman, in your statement—I know you were limited by time—you did not mention the Milwaukee's request for reconsideration of its petition for joint track use with the Burlington Northern

<sup>1</sup> See appendix for Mr. Daschle's statement beginning on p. 157.

lines to serve the Montana coalfields. It's my understanding that if that petition is approved, that it would mean a large new source of revenue for the Milwaukee. The ICC in an assessment of the Milwaukee situation has said that approval of the petition could mean that the Milwaukee would continue to operate its main line from Montana across South Dakota on into Minneapolis in order to move coal out of the Montana fields. I wonder if you agree with that observation—first, that it would be an important new source of revenue; and second, it might result in continuing the lines across South Dakota between Montana and Minneapolis.

Mr. HILLMAN. Senator McGovern, I should take the current program in two pieces.

Our decision to seek a quick solution for the sections of railroad west of Butte was made subsequent to our application for conditions in the BN-Frisco merger. Successful negotiations with the Union Pacific still are not assured, and the ball game may start again if we are not successful. If we are successful, then, of course, we must address the situation east of Butte through eastern Montana, North and South Dakota, and western Minnesota. We have only just begun to address that problem, and so we really—I can't say that we've evaluated it to see what part that might play in the reorganization. I would say, of course, if there is additional traffic available in the foreseeable future, and providing it doesn't inhibit my ability to reorganize, we, of course, must take it into consideration.

Senator McGOVERN. You've said on several occasions, Mr. Hillman—in fact, many times—that the Milwaukee may have to withdraw service on certain lines because they're not profitable. Do you have either in your head or at your fingertips information on how much revenue is developed on your line between Minneapolis and Miles City, Mont.?

Mr. HILLMAN. Well, we are just beginning to address this problem, as I just said. A very rough rule of thumb—and I wouldn't want to be held to this as a firm figure—is that assuming the track had been rehabilitated to a normalized condition, which is equivalent to half its life, something in the neighborhood or something in excess of \$100,000 a mile is a good measure. So if we're talking of 100 miles, you are talking of \$10 million. That gives you some rough guide.

Senator McGOVERN. Well, now is that what the line is presently generating—

Mr. HILLMAN. No—

Senator McGOVERN [continuing]. Or is that what you have to have to make it—

Mr. HILLMAN. No. That's what we would have to have. We don't generate anything like that. Less than half of that.

Senator McGOVERN. Could you, either today or some time in the near future, give us as accurate a statement as possible on what that segment is now earning and what you'd have to have to bring it up to a profitable level?

Mr. HILLMAN. We would do that to the best of our ability and have it in the mail to your staff.

Senator McGOVERN. Because I think that kind of information would be helpful to the States—

Mr. HILLMAN. Right.

Senator McGOVERN [continuing]. And to the shippers in the area to give them some idea what the shortfall is in revenues and what we

might have to generate in order to convince you that that line can be a profitmaking enterprise.

Mr. HILLMAN. We will develop it and have it mailed to your staff.

Senator MCGOVERN. Mr. Hillman, last year the Milwaukee in our area here experienced serious locomotive power problems. We had great difficulties with the severe winter. What steps is your line taking to try to avert that kind of a problem, assuming we may have another severe winter this year?

Mr. HILLMAN. Well, last year, at the peak of the crisis, the available locomotives to the system as a whole—the 10,000-mile system—was 250 locomotives, and our requirement was in the neighborhood of 400-plus. We are, we have been, since March this year, with our own resources—and, of course, that has been assisted very greatly by the recent award of section 511 funds—in the process of now improving our locomotive availability, and it is hoped by year end we will be back up to 400 locomotives available out of the 504 that we normally operate. I am talking about road locomotives, not yard locomotives. So we should be in a much better position to meet that situation.

Senator MCGOVERN. You made reference in your statement in this next question—or you noted that you had recently attempted to draw down some of the emergency rail service funds through the Federal Railroad Administration.

Mr. HILLMAN. Yes.

Senator MCGOVERN. And that you were really prevented from doing that because of the creditors' objections to the rules that require priority debt and repayment for the funds that are borrowed from the Federal Railroad Administration. I'm wondering if you think that such emergency funds ought to carry such strict conditions. Would you recommend some changes in the present guidelines so you could make greater use of those funds?

Mr. HILLMAN. I would recommend changes specifically to those emergency funds only, in limited quantities, so that railroads in similar positions to the Milwaukee can feel they at least have the funds behind them to take emergency action. But when you're very limited and have no flexibility because of your cash flow, your tendency would be naturally to support those areas that are not impacted in order to maintain the whole system. If one felt that funds available for immediate reaction could be applied—and I'm only talking about the emergency funds—

Senator MCGOVERN. Yes, I understand.

Mr. HILLMAN [continuing]. It would be of great assistance in the planning process to make the best utilization of your cash and maintain the ability of the system in the public interest.

Senator MCGOVERN. Thank you, Mr. Hillman. Mr. O'Neal, in your statement you stressed the need for a cooperative effort by all of the States in the region to develop a coordinated regional plan. In point of fact, isn't that the only way to assure that each State's rail plan, valuable thought they may be in their own right, will produce maximum results?

Mr. O'NEAL. Well, I think it would be difficult, as you mentioned, to have a plan that means anything if we were only concentrating on one State. One State can have a beautiful plan, but if it doesn't fit with the rest of the region, you've got some real problems. I suppose one

graphic example of that, although I'm sure this line would not be overlooked, is the service between Gascoyne, N. Dak. and Big Stone City, S. Dak., which transports a good deal of coal for the operation of that powerplant. There you have a rail line across the State boundaries.

Senator McGOVERN. I understand, Mr. O'Neal, that your staff, in assessing the Milwaukee situation, has concluded that granting the line's request for joint track use with the Burlington Northern to serve Montana coal mines could be expected to result in continued operation by the Milwaukee of its main line Pacific coast extension from Minneapolis to Miles City, Mont. I wonder if you could elaborate on that observation. Mr. Hillman had some points to make about it. I'd be interested in your—

Mr. O'NEAL. I think the position that the staff is taking at this stage is that there's an opportunity for substantial revenue through the granting of those trackage rights which should make some contribution to maintaining the main line between—or west of Minneapolis and into Montana. I don't think we're prepared at this stage to say that without equivocation that that is a certainty.

Senator McGOVERN. Has the Commission voted on that request?

Mr. O'NEAL. Well, the—that's a good question. I just got word that what has been determined thus far on this petition is that for some technical reasons it ought to be resubmitted, and so it's been rejected without prejudice to resubmitting the petition, and I think that that's probably about all I should say, because this will be a matter that will come before the commission, I assume, again, and the fact that it was, however, without prejudice, I think indicates something of how the Commission feels about the proposal.

Senator McGOVERN. You made reference in your prepared remarks, Chairman O'Neal, to some ICC staff work on preliminary contingency planning so that the Commission would be able to respond very quickly with a directed service order if the condition of the Milwaukee deteriorates to the point where it's unable to continue in day-to-day operations. Could you elaborate on what you were referring to there?

Mr. O'NEAL. Well, what we've done so far is look at the entire Milwaukee system, and assuming—and this is an assumption—that service was about to terminate or had terminated on the entire system, we feel at this stage we could order directed service. It would have to be operated by a railroad other than the Milwaukee, and the cost to the Federal Government would run about \$53 to \$60 million; and that cost includes, of course, a 6-percent profit to the railroad that's operating the properties.

The difficulty with that approach, of course, is the high expense to the Federal Government, and maybe even more importantly, the fact that it is very much a short-term proposition. The maximum period of time during which that provision could be effective and the railroad could be continued in operation would be 240 days. So you're talking about a lot of money for a short period of time and, as far as we're concerned, and I think as far as the Treasury Department's concerned, this is really a last-gasp effort at something we want to take all precautions to avoid, and from a Federal Treasury standpoint, it would be much better to do almost anything else.



Senator MCGOVERN. Thank you. Mr. O'Neal, I'm hurrying through these questions because we've got a lot of witnesses yet to be heard. But we may want to submit some additional questions in writing after this hearing.

Mr. Newkirk, are you aware of any joint meetings that are taking place among States in the region to work out a coordinated system; that is, the States of North and South Dakota and Montana and Minnesota and others that have a stake in this whole question we're talking about this morning?

Mr. NEWKIRK. Senator, the State of Iowa has convened a group of 14 Midwestern States to undertake a study of what the State role in rail restructuring ought to be, and South Dakota is a participant in that study. It is just into its first phase and is expected to continue for, I believe, the next 18 months. That study should come out with some concrete recommendations as to in what manner the States in general should participate in proceedings before the Commission dealing with rail system restructuring.

Additionally, I was present at a meeting yesterday. The subject under discussion was the Milwaukee line between Gascoyne and Big Stone City, at which representatives of North Dakota and South Dakota were present, and I understand that they have agreed to continue to work together in their mutual interest to identify alternative solutions to the potential problems they face with that specific line to the power-plant at Big Stone City.

Senator MCGOVERN. The Milwaukee's main line as it crosses South Dakota and then diagonals across a corner of North Dakota would appear to be the—at least to have the potential of being the backbone for any final rail plan for South Dakota, and I think that trackge ought to be so considered because it's the only mainline route crossing the State—extremely important for the future shipment of coal, lignite, and grain, both in and out of the State. But how can that line function in that capacity if North Dakota, as it does, insists that the line in that State should not have that kind of a priority status?

The reason I ask that is it seems to me that it indicates the need for coordinated planning involving the States and the region.

Mr. NEWKIRK. Senator, I agree entirely, and I believe that North and South Dakota now both realize that it's in their mutual interest to find an acceptable solution to that problem, working together. This was made very clear at the meeting I attended yesterday. North Dakota's rail plan has not yet been finished; it should be within the next 2 weeks, I'm informed, so I don't yet know what priority that line will take in their State rail plan. I am well aware, however, that the State recognizes the importance of that line in terms of the power generation at Big Stone City. Otter Tail supplies, as you know, substantial amounts of power both to North and South Dakota.

Senator MCGOVERN. Right.

Mr. NEWKIRK. And that has become one of the overriding issues that North Dakota is dealing with.

Senator MCGOVERN. We're going to get into that issue in more detail a little later on this morning.

Mr. Newkirk, you were at the hearing that I conducted in Sioux Falls last July—

Mr. NEWKIRK. Yes, sir.

Seantor MCGOVERN [continuing]. Where I outlined the possibility of subterminal grain storage and shipping facilities that would help improve our capacity to handle grain to ease these recurring boxcar shortages that we get into every harvest season. Following that hearing, I introduced legislation to provide financial and technical assistance to implement that kind of program, and it's my understanding that that will be scheduled for hearings and possible action by the Senate Agriculture Committee early next year. Numerous discussions have been held on this project with grain-producing and shipping organizations and with rail transportation experts. I've talked about it to our State officials here in South Dakota. Most of the people I've discussed it with have said that the location of these subterminals can best be done if there's some consultation and cooperation with the whole region, so that you get maximum benefit at the lowest possible cost. I'd just be interested in your own assessment of that. I know that's on the periphery of your responsibilities, but you're playing with the same boxcar shortage the same as we are, and I'm quite interested in the subterminal possibility.

The other day I was out at Winner, S. Dak., and saw an enormous pile of milo on the ground at the edge of the city, and we're seeing that elsewhere in South Dakota. It's not anything that's new to us. We run into this problem. It penalizes our farmers and they lose money on their grain every year because of inadequate storage and the boxcar situation. I wonder if you could just give us your own views on this whole question.

Mr. NEWKIRK. I'll be pleased to.

As you and I discussed in Sioux Falls, Senator, I'm a strong supporter of that concept. I think it addresses two principal problems. First, it permits grain elevators or grain shippers to aggregate larger volumes for shipment, take better advantage of the economies of density that the railroads can provide, using multiple-car shipments, et cetera.

Second, I think that is one of the appropriate means of addressing the service problems of excess light-density lines that needs essential rehabilitation which the railroad cannot provide, and therefore, a line is abandoned or cut back to a certain point. I think a subterminal operation used as a transfer vehicle—is a very important element in alleviating any pain that an abandonment causes to the shipping public. Such a facility may or may not provide large storage capability. Its most important attribute, I believe, is the ability to transport substantial volumes of grain at high speeds that may have been stored in existing outlying elevators.

I would also add, Senator—excuse me—that I think the State rail-planning process, particularly as it's being conducted in South Dakota, would provide an excellent mechanism for determining where in this specific State such facilities would be beneficial, because it's important that the siting of these plants take into consideration not just rail access, but also proper highway access.

Mr. O'NEAL. Senator—

Senator MCGOVERN. Yes; Mr. O'Neal.

Mr. O'NEAL. I would just like to comment on that briefly. This proposal approaches or addresses a dilemma that we're frequently concerned with when there's a freight car shortage. Often, the complaints

of the Interstate Commerce Commission come from a small country elevator that cannot obtain adequate car service. As you know, it unfortunately happens fairly frequently. What we're forced to do is to use our power under the Interstate Commerce Act to require that cars be sent to those country elevators. Often, that can be somewhat self-defeating because it may break up more efficient transportation—rail transportation—by breaking up unit train systems; and even though we know that it may have that effect on the efficiency of a particular railroad, we have an obligation under the act to insure that the country elevator is adequately served, and the kind of proposal you're talking about could be—it seems to me—a rational way of overcoming that dilemma.

Senator MCGOVERN. It's my own view that if we're to move ahead on the development of a subterminal system, we have to do that in close consultation and with the cooperation of the country elevators, the local communities, local commercial groups, the farmers. It would have to be a plan that's developed very carefully with local input—

Mr. O'NEAL. Absolutely.

Senator MCGOVERN [continuing]. And participation. And I think there, again, working with other States in the region would help increase the effectiveness of the program.

Well, we'll move on to you, Mr. Reebie.

You stressed the lack of information needed to make sound decisions regarding rail operations, track consolidation, mergers and abandonment, and so on. That's the very information that has to be developed and employed in seeking to identify the most viable sections of the Milwaukee system for inclusion in a restructured State rail network. Specifically, what information do you think must be developed regarding the line revenues and costs, operating procedures, before an accurate assessment of branch line and main line track segments can be made?

Mr. REEBIE. Within the constraints of time that exist, I think that perhaps the appropriate program to address this issue is being undertaken by the Federal Railroad Administration. It is that program to which Jim Newkirk referred and to which Reebie Associates is part of the team that is working with them to develop that kind of information. The longer range program is to be able to allocate the expenses that are now accumulated in systemwide accounts to the individual segments of operation and traffic of a railroad. This is not as difficult an accounting problem as some have envisioned. It can be done. It has been proven it can be done, and we think that this is the kind of program which needs support throughout the Nation.

Senator MCGOVERN. Well, thank you very much. I've got a big stack of questions here I'd like to have answered yet, but we've also got a lot of witnesses waiting to be heard. So I thank you four gentlemen and appreciate your traveling here to Aberdeen to be with us for this hearing. I'm sure we'll be discussing this matter with all of you again.

Mr. HILLMAN. Thank you.

Mr. O'NEAL. Thank you, Senator.

Mr. NEWKIRK. Thank you.

Mr. REEBIE. Thank you.

Senator MCGOVERN. Now our next panel is Mr. R. O. M. Grutle, of the Otter Tail Power Co. If you could come forward. Mr. John Stew-

art, vice president of Montana-Dakota Utilities. Mr. S. E. Sewell, senior vice president of Northwestern Public Service, and John MacFarlane, of the Otter Tail Power Co.

While these gentlemen are coming up I want to introduce another official who is in the room. Mr. Don Enze is the director of the South Dakota Division of Railroads. Don, would you stand up so everyone can see you?

Mr. ENZE. Thank you, Senator.

Senator MCGOVERN. I appreciate your being here. Mr. Enze has been working with the Governor and with other State officials in the development of a South Dakota rail plan and also has been vitally interested in the subterminal storage concept that we were talking about here a moment ago.

Mr. Grutle, I think we'll begin with you. And, again, gentlemen, I'll have to tell you we are operating under this 10-minute limitation; but your full statement will be made a part of the record and if you have additional supporting documents you want to submit either today or any time in the next 10 days, we'd be glad to make that a part of the record.

#### **STATEMENT OF R. O. M. GRUTLE, SENIOR VICE PRESIDENT, OTTER TAIL POWER CO.**

Mr. GRUTLE. Senator McGovern, ladies and gentlemen, my name is R. O. M. Grutle, senior vice president, of Otter Tail Power Co. Our general office is located at 215 South Cascade St., Fergus Falls, Minn. We are an investor-owned electric utility.

I am a senior vice president with the company and have been responsible for the production facilities, operation, construction, and maintenance of such since 1958. I have been associated with power plants since 1939.

#### **BIG STONE POWERPLANT**

I will speak to the problems that would be associated with the Big Stone Powerplant located near Milbank, S. Dak., on the mainline of the Milwaukee Railroad, should rail service on that line be terminated.

The Big Stone Plant is a jointly owned powerplant, owned by Otter Tail Power Co. with headquarters in Fergus Falls, Minn.; Montana-Dakota Utilities Co. headquartered in Bismarck, N. Dak.; and Northwestern Public Service Co. headquartered in Huron, S. Dak. The combined companies developed a service territory map which shows the areas served electrically by these companies.

Our concern here today is the question of discontinuance of Milwaukee railroad service west of Minneapolis, or more specifically, between the South Dakota-Minnesota border and the North Dakota-Montana border.

The direct impact of such a development would be the shutting off of fuel supply to the Big Stone Plant, which then simply says that generation at that point would terminate. This would result in many subsequent impacts, such as: For the utilities themselves, it is a matter of serious financial concern; it would be a matter of serious concern if we were unable to continue serving the energy requirements of our customers; all of which would add up to a serious impact

on the regional economy. These points will be addressed in greater detail by individuals speaking for their individual companies. I will confine my remarks to the general subject of the problems to be faced by the Big Stone Plant.

The Big Stone Power Station is a joint venture of three utilities owning undivided interests in the total station. The effort was to build a station large enough to take advantage of the economies of scale that are associated with size, to take advantage of the economies that go with mining large quantities of coal, and the use of unit trains for the movement of that coal to the power station. The concept for the development of Big Stone Plant—size, and so forth—was one that developed over a period of years in the late 1960's and early 1970's. It was of the size that was considered at that time to be average, but large, and definitely was larger than any other North Dakota lignite-fired unit at that time.

The plant, as built, has a capacity of 428 mw. Its annual output approaches 2.8 billion kilowatt-hours per year. The tonnage of Gascoyne, N. Dak., lignite to produce this amount of energy would be on the order of 2.7 million tons per year, or about 60,000 tons per week, during the operating period. It is recognized that there is about a 5-week outage each year for inspection and overhaul of the powerplant.

The coal is moved to the powerplant via the main line of the Milwaukee Railroad through the use of two unit trains, resulting in six deliveries per week of 10,000 tons each—or an average of 60,000 tons per week delivery. The 232 cars that make up the unit train are owned by the powerplant and were designed especially for this movement.

The powerplant employs 62 full-time employees, with varying part-time numbers, plus contractors—particularly during the overhaul period. The plant is manned by union members who belong to the International Brotherhood of Electrical Workers. Our relationships with this union and our employees are excellent.

The 1978 payroll will be about \$1,600,000, which could be used as a measure of the impact on the local economic situation if this plant would be forced to shut down. In addition, the plant produces about \$2,100,000 in taxes paid to the various taxing entities in South Dakota, plus an additional \$2,100,000 in severance taxes to the State of North Dakota in connection with the fuel supply. This will give the committee a general overview on certain phases of the impact of the shutting down of this powerplant.

The choice of the location near Milbank, S. Dak., was one of the complex matters that had to be solved with respect to the siting of any power generating station. At the time this plant was in the formative stages, that site was the most advantageous to the needs of the three companies from the point of available fuel, water, and proximity to the load needed to be served by this plant.

The current total investment in the plant is approximately \$169 million, the largest single private investment ever made in South Dakota. This includes the plant, its substation, the transmission lines, circulating water, cooling water systems, and the spare parts, et cetera. The amortization life varies among the three owners, but it is approximately on the order of 30 years. On that basis, the unamortized investment balance, as of August 31, 1978, is about \$153,500,000.

The plant is owned 20 percent by Montana-Dakota Utilities; 32½ percent by Northwestern Public Service; and 47½ percent by Otter Tail Power Co. Otter Tail Power Co. acted as agent for the owners during its construction and now acts as the operating agent for the owners. The tariff developments with the Milwaukee Railroad—in other words, the development of the rate, the full requirements for the service, and all of the matters relating to this movement, which went into an ICC-approved tariff—were developed over a period of years, starting in late 1971 and continuing right through to the initial coal movement in early 1975. Those discussions, held with various officers of the Milwaukee Railroad, our consultant in these matters (Bechtel Power Corp. of San Francisco), and the owners, were always on the most amiable basis.

The period of time used and the many meetings that were held were especially for the purpose of each of us fully understanding the requirements that must necessarily be met in order that this might be a successful movement, from the point of view of the shipper, the receiver, and the railroad. I think we all felt that these things were accomplished. Certainly, all matters were discussed that had any relationship to the tariff, and at no time were there any doubts created in our minds by anything presented to us by authoritative representatives of the railroad as to their ability to provide this service. The years of economic life that were to be expected from such a power plant were freely discussed, as was the very strong possibility of the probable development of a second unit in the late 1980's or early 1990's. Our relationships and discussions were completely open.

Our concern now, in total, is that we are facing the problem of seeing no alternate fuel or alternate method of delivery of fuel to this station. We can see only the forced shutdown and the abandonment of nearly \$154 million of undepreciated investment that would have to be replaced at the earliest date possible. However, in today's construction permit-laden atmosphere, that could not be done in less than 6 years—perhaps 8 years would be more likely.

We have already indicated that the investment in this plant represents \$169 million that could not be replaced at today's cost for less than three times that figure. I think the impact on cost of energy can be well appreciated from that statement.

I have said that I see no alternative means of delivery of fuel. One can say, "Well, what about trucking?" Ten thousand tons a day over the distance of 360 miles one way is going to require on the order of 500 trucks a day. Then, of course, the appropriate number of empty coal haulers returning to the mines each day.

I am certain that neither the highway nor the environmental impact on the communities would permit this type of activity.

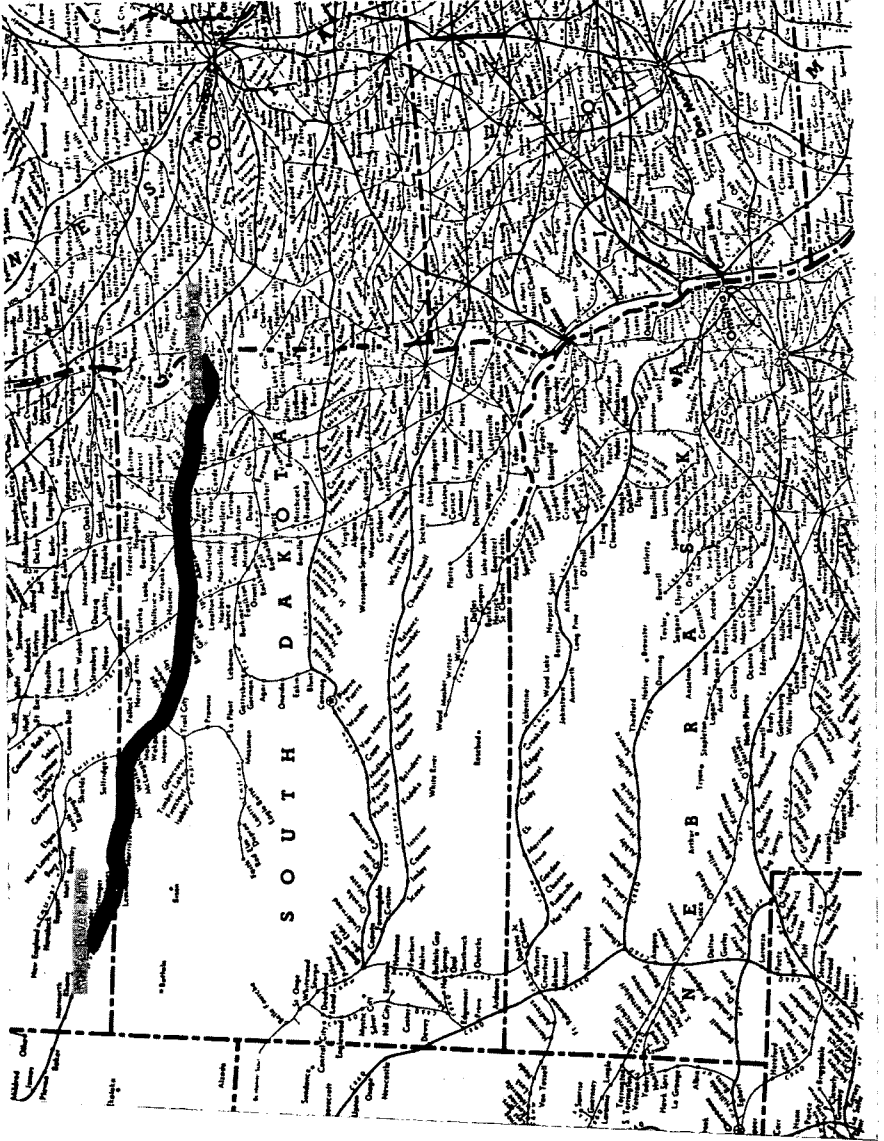
One might look at pipelining. This requires a great deal of water—water that is not available in the area of the mine. It would have to be brought in from Garrison Reservoir and the Oahe Reservoir. Then there are the technical problems associated with the pipeline hauling of lignite. There is some question about the quantity of lignite that would go into colloidal suspension in the water that would be impossible to remove from the water. Therefore, some of the fuel would be lost—but perhaps worse than that, the usefulness of the water would essentially be over.

One could look at the possibility of transporting this coal-mine output to some branch of the Burlington Northern—the nearest one being at Mott, N. Dak. We have an interest in the fuel supply in that general area, but find out from discussions with the Burlington Northern that cars of even 60- to 70-ton capacity could not be moved over that line without complete rebuilding for the western end back toward Mandan. We still could not deliver to the plant without going over other branch lines that are in equally deplorable condition and would also result in considerable truck haul. It should be mentioned that the highways between Gascoyne and Mott, N. Dak., are certainly not of the type that could handle heavy coal-hauling traffic if trucks were to be used over that reach.

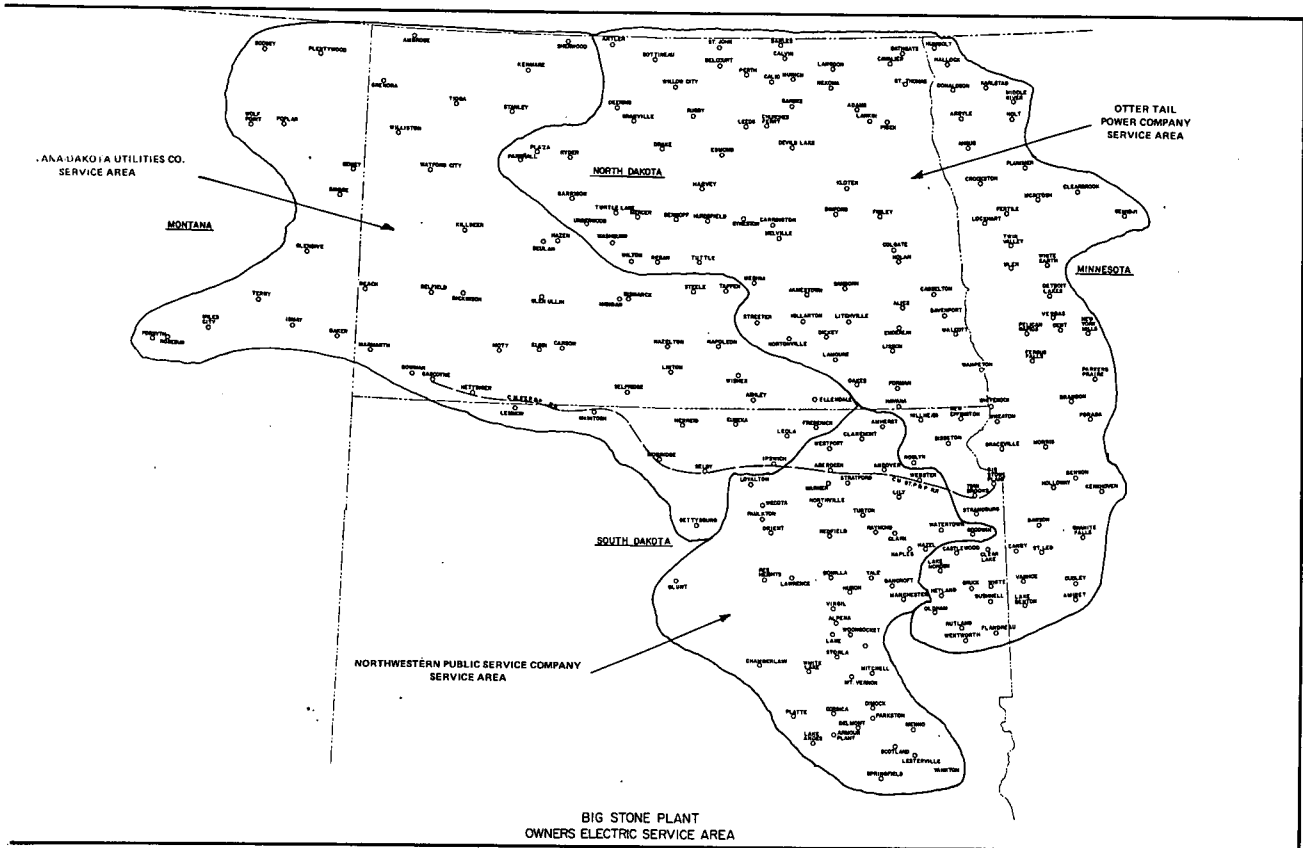
The only other fuel that can even be mentioned is oil, and that, of course, is contrary to national policy, and I question very strongly whether it is even available.

I think the summation of what I have said can lead to but one conclusion—the services of the main line of the Milwaukee Railroad are an absolute requirement of the continued operation of the Big Stone Plant.

[The maps attached to Mr. Grutle's statement follow:]







Senator McGOVERN. All right. We'll go through your colleagues here, I think, Mr. Grutle, and then we'll come back.

I might just say I think you know I'm going to visit your plant on Monday morning at 10:30. I've been there before, but I'm looking forward to going out and visiting with you and your associates on Monday. Then I think that's followed by a public luncheon at noon in Milbank, where we'll be discussing the whole Milwaukee issue.

Mr. GRUTLE. I'm sorry I won't be there. The last time I had my picture taken when I was with you there, and I was looking forward to doing that.

Senator McGOVERN. Thank you.

Mr. Stewart, vice president of the Montana-Dakota Utilities.

Mr. STEWART. Thank you, Senator. Before I start, I'd just like to point out I hope that the event of the Milwaukee map falling off the wall twice here today is not an ill omen.

Senator McGOVERN. Well, I wish we'd have had a more visible map and some tape to hold it on the wall. But if any of the people in the room want to examine this map, it is laying on the floor over there. It will give you a pretty accurate picture of what the Milwaukee proposes in the way of possible abandonment and how extensive it is.

#### **STATEMENT OF JOHN STEWART, VICE PRESIDENT OF MARKETING, MONTANA-DAKOTA UTILITIES CO.**

Mr. STEWART. Senator, as you've pointed out, my name is John Stewart. I'm vice president of marketing for Montana-Dakota Utilities Co. I reside in Bismarck, N. Dak., and that is the home of MDU.

Montana-Dakota Utilities Co. (MDU) is a multiple-energy utility serving over 150,000 gas customers and nearly 100,000 electric customers within the States of North Dakota, South Dakota, Montana, Wyoming, and Minnesota.

While a relatively small portion of the MDU service area lies immediately adjacent to the trackage of the Milwaukee Road, its demise in our region would significantly affect in either a direct or indirect manner nearly all of the 243 communities served by the company.

#### **GENERAL DESCRIPTION OF AREA'S ECONOMY**

MDU serves an area of the upper Midwest that ranges from the Red River Valley of eastern North Dakota westward to the foothills of the Rocky Mountains in Montana. Its depth extends from the Canadian border to the Black Hills of South Dakota.

This country, though not heavily populated, has considerable economic significance well beyond the confines of the area. It is primarily an agricultural environment, producing large quantities of wheat, durum, sunflowers, barley, sugar beets, and potatoes. The vast grasslands produce a sizable portion of the beef and lamb that graces the American dinner table.

While much of the land surface yields substantial agricultural produce, the inner depths are sources of extensive quantities of energy.

Huge lignite deposits are located in western North Dakota and eastern Montana and even larger deposits of sub-bituminous coal are found in other sections of Montana and Wyoming. Oil and natural gas have been produced in all three States for many years.

Some of this energy is consumed within the area either by homes, industry, or conversion plants. But, much moves out of the region in its unaltered form to waiting markets to the east or south.

Coal is moved by unit train for direct industrial use or to be used as boiler fuel in the powerplants of utilities. Oil and natural gas flow through underground pipelines to refineries or ultimate consumers.

The harvest of these vital natural resources whether through farming methods or mineral extraction provides a major employment for the area's citizens as does the refining, energy conversion, agribusiness, processing, and transportation.

All of these industries are largely dependent on power availability and reliability, and would be seriously affected by deficient or abnormally high-priced electricity.

#### MDU POWER SUPPLY

Presently, MDU has adequate capacity to serve the needs of its customers and has long-range plans to continue the quality of service upon which these customers have learned to depend.

With the exception of those properties in the State of Wyoming, all communities served with MDU electricity are located on a network of interconnected transmission and distribution facilities. The entire system is dependent upon power production from the sum of all generating stations owned fully or in part by the company.

The company's 20 percent interest in the Big Stone Plant is one of the integral components of MDU's electric generating and transmission system, and as such represents 28 percent of the company's required generating capacity. It is one of nine electric generating stations, as indicated in the attached table, from which MDU supplies the power to satisfy the demands of its customers.

[The table referred to follows:]

<i>Active generating stations</i>	<i>Megawatts</i>
Big Stone plant—(MDU's 20 percent), Big Stone City, S. Dak-----	85.6
Heskett Station—No.'s 1 and 2, Mandan, N. Dak-----	101.0
Lewis & Clark Station, Sidney, Mont-----	14.9
Beulah Station, Beulah, N. Dak-----	14.9
Williston turbine (peaking), Williston, N. Dak-----	12.4
Glendive (peaking)-----	7.3
Ellendale (peaking)-----	2.8
Mobridge (peaking)-----	2.6
Miles City turbine (peaking)-----	29.4
Total base load-----	252.4
Total peaking-----	54.5
Total capacity-----	306.9

Mr. STEWART. The principal generating stations, Big Stone, Heskett, Lewis & Clark, and Beulah, use lignite as a primary fuel while the peaking units utilize principally fuel oil.

The company has had sufficient capacity to meet peakload obligations through 1977 and along with purchased power from other Mid-Continent Area Power Pool (MAPP) members, it will have adequate supplies for 1978. An additional 30 megawatt peaking combustion turbine is planned for 1979.

To meet the capacity requirements of the near future, Coyote I, a 410-megawatt lignite-fired generating station is under construction near Beulah, N. Dak., to be jointly owned by Otter Tail Power Co.,

Northwestern Public Service Co., Minnkota Power Cooperative, Inc., Minnesota Power & Light Co. and MDU. The MDU share of ownership and capacity will be 20 percent.

MDU had a peakload obligation in 1977 of 306 megawatts. Over the next 10 years electric growth is expected to average 4.7 percent per year which will result in a demand of 493 megawatts by 1987, as is shown in the chart "Peak Load Obligation."

#### LOSS OF BIG STONE—IMPACT ON MDU

A number of assumptions must be made in assessing the impact on MDU and its customers faced with a loss of a major power source. Absent absolute cost data and the uncertainty of replacement power availability, generalities will have to be employed rather than specifics.

The critical nature of this situation indicates that it would be most difficult to overstate the negative impact which will be felt by all concerned. In fact, more than likely the reverse will be true.

Even if replacement power at comparable prices were available for the short term, the eventual replacement of the Big Stone capacity would add to the investment capital burden the company presently faces.

The company is presently involved in the most massive program of capital formation in its 54-year history which is necessary to keep pace with the growing customer requirements for electric power and natural gas.

In the next 4 years starting with 1978 the capital requirements will be in excess of \$213 million. This will substantially tax the company's borrowing power just to finance the projects that have begun or are planned for the near future and to retire maturing debt.

The company's investment in utility plant accumulated over half a century is almost \$400 million. In just 4 years the company must add over half that amount to keep pace with customer demands.

MDU's share of the 410-megawatt electric generating station previously mentioned will require more than \$90 million by completion. And, the 30-megawatt combustion turbine scheduled for installation in 1979 will require \$5 million, just to name two critically important projects.

Financing a replacement plant equal to the 86-megawatts, which is the company's share of Big Stone, within a similar time frame at prices at least three times the original cost of that plant would present serious problems.

#### BIG STONE CLOSING—IMPACT ON CONSUMERS

While financing a replacement plant for Big Stone would be impossible in the near term, it could be assumed that at some point a duplicate unit might be provided. In the meantime there are at least two possible scenarios to describe the impact on MDU customers. It must be noted that the impact will be as great on customers 400 miles away from the Milwaukee Road as to those next door to the station.

##### *Scenario No. 1*

If the assumption is made that the replacement power is available for the near term from other members of the Mid-Continent Area

Power Pool (MAPP), the cost of such capacity would be approximately \$5.7 million per year.

The company could continue to serve consumers in the normal manner and meet their energy needs. But, the customer would now be paying in his electric bill both the capital costs of the Big Stone Plant and the demand charge for capacity purchased from the pool. The energy cost would likely be higher when purchased from the pool.

While the impact on customer monthly bills would not in itself price electricity beyond the reach of most consumers, it must be recognized that during the same period other new plants will be added to MDU's investment. By 1979 a peaking plant will have been added and in 1981 a large baseload station, Coyote I, will be on line. These two additions by themselves, which are not related to the possible abandonment of the railroad, will probably raise MDU rates to consumers at least 50 percent. Purchasing replacement capacity for the loss of Big Stone could raise these rates by 10 percent.

Most customers would probably survive those increases, too, though not without some problem, but the final blow would arrive within a short time when a replacement for Big Stone would have to be constructed. Now instead of \$360 per kilowatt, the cost of construction will be somewhere in the neighborhood of \$1,200 to \$1,300 per kilowatt. Inflation has already caused the cost of Coyote I, now under construction, to reach more than \$1,000 per kilowatt.

By the time Big Stone would be replaced, taking into account that Coyote I and a new peaking plant would be in the rate base, our customers could be paying about 8 cents per kilowatt-hour. The Big Stone replacement would account for about 2 cents of that increase.

Here are a few examples of how higher prices would affect customers:

Shell Oil Co., producers of oil in eastern Montana, use MDU power for oilfield pumping. They use about 10 million kilowatt-hours per month running 24 hours a day. At their present industrial rates that customer pays about \$2 million for year. Using the estimated increased cost in this scenario, that annual bill would jump to about \$4.5 million.

An average residential heating customer in Mobridge, S. Dak., uses about 35,000 kilowatt-hours annually. At today's rate that customer would pay about \$1,230 and with the estimated increases, that bill would rise to \$2,460 annually.

Blumhardt Manufacturing Co. in Ashley, N. Dak., employing 50 people, processes liquid fertilizer and manufactures agricultural and irrigation equipment. They use on an annual basis 390,700 kilowatt-hours and have a peak demand of 283 kilowatts. Their annual power cost today would be about \$18,000, and under the scenario 1 would be about \$36,000.

Another business, the Pollock Cheese Co. of Pollock S. Dak., uses the output of a great many dairy cows in their particular area to produce a sizable quantity of cheese each year. They employ 25 people and use over half a million kilowatt hours annually. For this they are paying about \$26,000. Rates which would reflect all these factors in scenario 1 would raise their cost to \$52,000 per year.

Consider also the plight of those low-income residential customers who are already having problems meeting their energy cost obligations. How could they possibly cope with these dramatic increases?

These are but a few examples showing the effects of abnormally high electric costs resulting from the forced abandonment of the Big Stone power facility for lack of coal delivery.

They illustrate the devastating impact resulting from discontinuation of a vital transportation link between the energy conversion facility and its fuel supply.

The bottom line is :

One. Business will be placed in a noncompetitive position creating a negative growth atmosphere.

Two. Some will fall victim to bankruptcy.

Three. Employment levels will decline.

Four. Economic stagnation of the area will be the final result.

Five. An even higher number of residential customers will have serious problems paying their electric bills.

#### *Scenario No. 2*

While scenario No. 1 dealt with the impact on customers faced with the high-priced energy, this one recognizes the very real possibility that replacement capacity may not be available from other members of the power pool.

Since the Big Stone plant provides MDU with slightly over 28 percent of its energy capacity, it is reasonable to assume that without it the company would not be capable of meeting the demands of customers, especially during the peaks.

Reliable electric service to consumers, be they residential, commercial, municipal or industrial, is essential. MDU customers depend on this sort of energy for warmth, convenience, and to power the wheels of progress. The constant growth pattern of business has in the past been geared to the stability of electric power and the increasing supply available to meet the requirements of that growth.

A number of small manufacturing plants and processing facilities have been developed in recent years across the MDU service territory which have improved employment, increased the tax base and provide revenue for the large number of communities in which the company operates.

Electric home heating has increased substantially in areas where natural gas is not available, and electricity in ample supply has allowed consumers in the more rural areas to enjoy the same standard of living commonplace to their urban neighbors.

Curtailment of power caused by the reduction of generating capabilities of the company could result in a giant step backward.

It is not at all beyond the realm of possibility that rationing of electricity would occur, which would drastically reduce current lifestyle and cause considerable hardship for most people.

Industry would periodically or perhaps regularly grind to a halt and be forced to cut back employment and output.

Agriculture with its harvest measured in millions of tons depends heavily on elevators, refineries, and processors for marketing assistance. A constant supply of electric energy is vital. The farm economy may hang in the balance.

Oil which is pumped through pipelines 24 hours a day to distant refineries depend on a constant supply of power. What would be the effect of shutting down these vital operations?

Hospitals and medical centers are year-around operations that must have dependable electricity, too. How would blackouts or curtailments affect them?

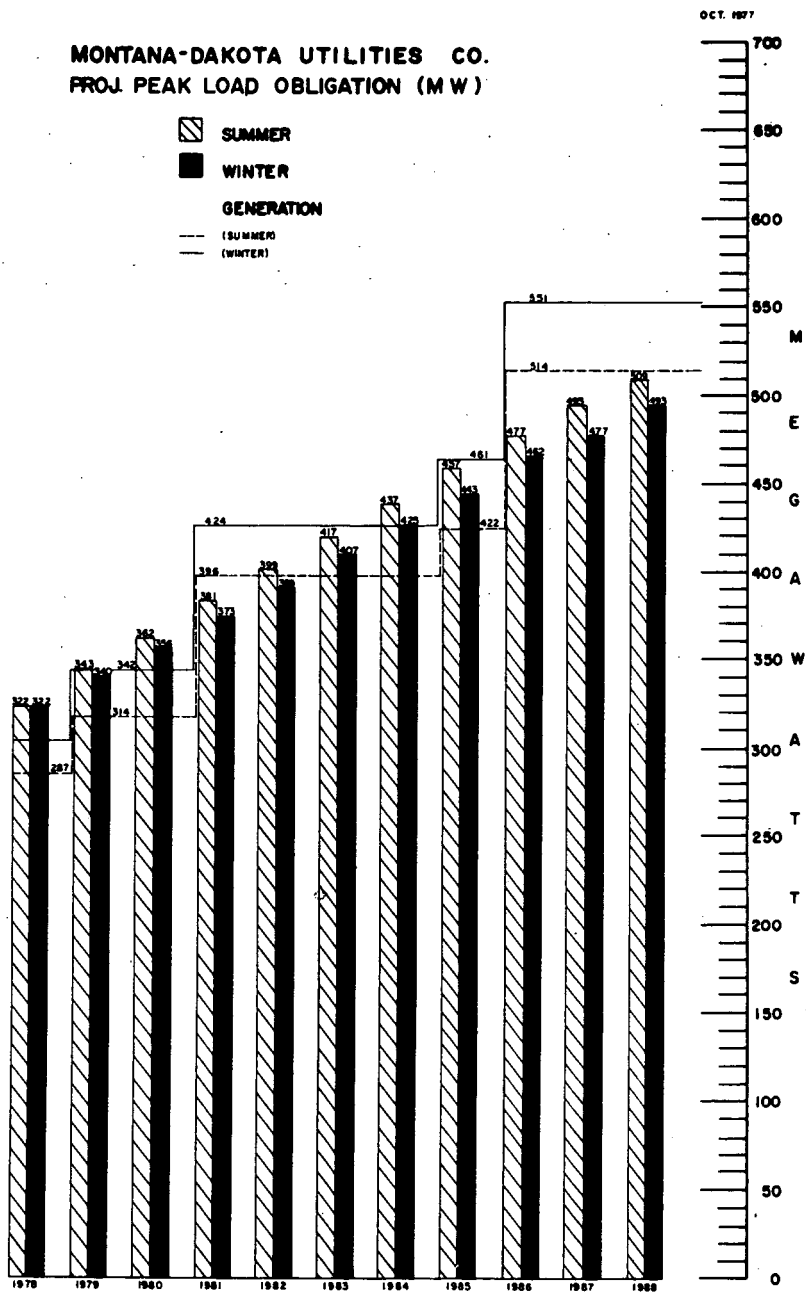
There is no equitable way to prioritize customers and no logical method to ration power; consequently, no way to accurately quantify economic deterioration. But, surely business and industrial regression and growth stagnation would be the eventual harvest.

If the power drought were of short duration, perhaps the fragile economy of this area could weather the storm, but generating capacity isn't built overnight. It takes 8 to 10 years from planning to online capability these days, and most customers couldn't survive that long. Property values would drop; schools, hospitals, community services, and other vital institutions would wither for lack of commerce, revenue, or normal funding. Every business, every service, every home would be touched by the scope of such a disaster. It must not be allowed to happen.

[The attached chart referred to follows:]

**MONTANA-DAKOTA UTILITIES CO.  
PROJ. PEAK LOAD OBLIGATION (M W)**

 **SUMMER**  
 **WINTER**  
**GENERATION**  
 --- (SUMMER)  
 --- (WINTER)



Senator McGOVERN. Thank you, Mr. Stewart.

Mr. Stewart, I think you're the only North Dakota witness we have today. It's my understanding that while we've attached a very high priority status to the operation of that main-line Milwaukee system across South Dakota, that has not yet been so designated by North



Dakota. If I'm right on that, what are the chances, in your judgment, of getting our North Dakota friends to become as convinced as we are that the continued operation of this line is essential to the economy of the area?

Perhaps that's an unfair question to ask to a private-sector representative.

Mr. STEWART. I don't think it is unfair. I'm not sure that I can answer it. I can assure you that we will make every effort to stimulate the activity and the interest and the concern of the people in North Dakota. As a matter of fact, one of the representatives from the North Dakota Commission is here today for this very purpose.

Senator MCGOVERN. Good. All right.

Mr. Sewell, who for many years has been an official of the Northwestern Public Service at Huron, and is vitally concerned with this whole matter—I'm happy to welcome you to the hearing, Mr. Sewell.

**STATEMENT OF S. E. SEWELL, SENIOR VICE PRESIDENT, NORTHWESTERN PUBLIC SERVICE CO.**

Mr. SEWELL. Thank you, Senator. Northwestern Public Service Co. ("Northwestern" or "company") is an electric and gas utility engaged in generating, transmitting, distributing, and selling electric energy in the east-central portion of South Dakota. Northwestern furnishes electric service to more than 51,000 customers in 108 communities and adjacent rural areas. Northwestern's general service territory is a part of a 15,000-square-mile area as shown on the attached map. The area is agriculture oriented and consequently encompasses very few large industrial loads. Approximately 43,000 of the 51,000 customers are residential and farm customers. These customers have an average annual family income which is 20 to 25 percent less than the national average family income. The remaining 8,000 customers are commercial and industrial customers, with all of these except approximately 300 being classified as small businesses and public agencies.

Northwestern also purchases, distributes, and sells natural gas to more than 57,000 customers in 24 communities in east-central South Dakota and in three communities in Nebraska.

Northwestern, Otter Tail Power Co., and Montana-Dakota Utilities Co. jointly own and operate the Big Stone Power Plant, a lignite-fueled electric generating plant with a capacity of 415,000 kilowatts (kW). Big Stone is located in the vicinity of Big Stone Lake in north-eastern South Dakota. Northwestern owns 32.5 percent of Big Stone and is entitled to 139,000 kW of its generating capacity. Northwestern's investment in the Big Stone plant is \$57 million. In addition to its interest in the Big Stone plant, the company owns one steam generating plant, 10 diesel plants, 2 combustion turbine plants, and a mobile unit. The aggregate nameplate capacity of all company-owned generating capacity is 224,516 kW. Northwestern relies on the Big Stone for baseload capacity, with the other generating stations serving as emergency, standby, or peaking units.

The tremendous importance of the continued operation of the Milwaukee Railroad to the customers of Northwestern is apparent when considering the fuel supply of our company. Fuels utilized in the generation of electric energy by Northwestern are lignite coal, 94 percent; other coal, 4 percent and oil, 2 percent. Virtually all of our fuel supply is presently shipped over the Milwaukee Railroad.

Northwestern's electrical operations are centralized in seven divisions in South Dakota. Each division office is responsible for the operational and administrative aspects of providing electric service within the division. The main line of the Milwaukee Railroad which is the subject of this hearing, runs directly through the Aberdeen and Webster divisions, where more than 30 percent of Northwestern's 51,000 electric customers are located.

Our company's most significant utilization of the Milwaukee Railroad is for the delivery of coal to the Big Stone generating plant. The Big Stone plant is fueled by lignite coal, a natural resource in abundant supply in western North Dakota. Our company and the other Big Stone plant owners through the purchase of a \$9 million unit train and through tariff negotiations with the Milwaukee Railroad have contracted for the delivery of North Dakota coal to the Big Stone plant to be delivered over the Milwaukee Railroad line from Gascoyne, N. Dak., to the Big Stone plant.

Northwestern further utilizes the Milwaukee Railroad for delivery of utility poles, substation transformers, miscellaneous supplies, and items of an extraordinary length or weight, such as the recent delivery of our Aberdeen combustion turbine. Many of these types of items cannot be shipped other than by rail due to load limit restrictions on our highways and restrictions on the overall length of transporting vehicles. In addition, we have used the Milwaukee Railroad for delivery of propane, fuel oil, and coal supplies for our gas system peak shaving plant and our electric steam generating plant in Aberdeen.

Northwestern's future use of the Milwaukee Railroad consists of shipping potential in three different areas. The first and most obvious area is the continued shipment of North Dakota lignite coal to the Big Stone plant. The plant owners have contracted for 50 million tons of lignite coal for the Big Stone plant. More than 2 million tons of lignite coal for the Big Stone plant are shipped each year over the Milwaukee Railroad. Under negotiated tariffs with the Milwaukee Railroad, freight on these shipments amounts to approximately \$6 million annually. Delivery of this coal represents a large fixed shipping potential and substantial revenues on the Milwaukee rail line during the next 25-30 years.

The second area of shipping potential involves supplying the future power needs of our customers. If the economy of the communities we serve is to continue to grow, those communities must have a growing supply of energy. Fundamental to supplying electrical energy are four items, a demand, a fuel source, a water supply, and a fuel conversion facility, which ideally should be located between the demand and the fuel source. North Dakota has an abundant supply of lignite coal. The communities we serve have demonstrated an increasing demand for electrical energy. Adequate water supplies are available near the Missouri River and at the present Big Stone plant site.

Any energy conversion facility using coal as a fuel and located at the North Dakota source of coal must utilize transmission lines from the generating plant to the area of consumption.

Although these transmission lines do meet this need, recent transmission line siting problems experienced by utilities in our neighboring State of Minnesota have shown that the location and construction of a new major transmission line is costly and may be unacceptable to landowners whose property the lines must cross.

The message of such conflicts is loud and clear: "Use existing delivery facilities where possible rather than building facilities at a new location."

Utilizing the Milwaukee Railroad line for delivery of the coal to the generating plant is far more desirable. The railroad line is already in existence. Rights-of-way have already been obtained and inconvenience of their existence has long since disappeared.

The logical conclusion is that a high potential for future use of the Milwaukee Railroad exists in meeting the future energy needs of the communities in our service area.

Third, Northwestern will continue to use the Milwaukee Railroad for delivery of large items—poles, substation transformers, et cetera—into our Aberdeen and Webster service areas as well as for the delivery of propane fuels used in our company's gas operations.

Should the Milwaukee Railroad abandon rail service on its main line, our company would be forced to shut down the Big Stone plant and seek replacement power for our customers. In the long term, we would be required to build a new powerplant which under current estimates would cost from at least three times what it cost to build the Big Stone plant. In addition, the delay from the planning stages to final construction of a new coal fueled powerplant is a minimum of 8 years. During the construction period, the added cost of the replacement facility in addition to the cost of facilities already planned for this period would place a severe strain on the company's ability to finance its construction program and would likely increase the cost of the financing which could be obtained. These increased costs would result in dramatically higher rates for our customers during the construction period and for many years to come. The exact amount of this increased cost can only be estimated, but would be at least several million dollars a year.

Pending the planning and construction of any new powerplant, Northwestern would be forced to buy short-term replacement power from members of the Midcontinent Area Power Pool (MAPP). The other owners of the Big Stone Plant would be in a situation similar to that facing Northwestern. Although the members of MAPP indicate a composite surplus of capacity sufficient to replace the loss of a unit the size of the Big Stone plant through the winter season of 1983, most of this surplus would be from each member company's older, least efficient, and most expensive generating units. After 1983 the MAPP pool is deficient even if all units presently committed for construction would be completed on schedule, which at best, is a most unlikely assumption.

Perhaps a more helpful overview of power supply availability is provided by the National Electric Reliability Council's August 1978 8th Annual Review which states :

The outlook for reliability and adequacy of bulk electric power supply for the near term has improved over that projected in the 1977 assessment by . . . (NERC). However, the status of future power supply in the longer term—starting in the early 1980's has grown nationally worse.

Based on the delays experienced with the licensing and construction of present nuclear and coal fired generating plants coupled with an assessment of future conditions it is expected that some of the generating units planned for service during the next decade will be delayed several years. This will result in deficiencies of generating capacity beginning in the early 1980's.

In the face of the grim prospect that these endeavors are not successful, this nation will face shortages of electrical power supply which initially will cause short-term curtailments of electric power and, ultimately, lead to some form of rationing of electricity, with serious economic consequences.

It is obvious that the loss of the Big Stone plant would cripple the power supply to customers in this region. Any alternative power supply, if available, would be extremely expensive and would place an undesirable additional financial burden upon our customers.

Substantial increases in electric rates brought on by inflation together with other increases in the cost of living over the recent years have resulted in a serious problem in basic economics for many of our electric customers, just as they have for electric users throughout the United States. Utility companies, regulatory agencies, government officials—all—have been working hard and long to minimize increases in the cost of electricity by promoting conservation, careful planning, and in many other ways. Attempts to minimize increases in electric rates would be severely impeded almost immediately, should the Milwaukee Road be abandoned and should we, as a result, be forced to find power sources alternative to our Big Stone plant.

Our studies indicate that in 1979 our 51,000 electric customers would have to pay an additional \$11½ million for electricity during the year as a result of our necessity to purchase power from other sources—if such power would be available—and of generating electricity in our smaller, less efficient plants which use the more scarce and much more expensive oil as fuel for generation. This would be an additional \$225 per customer and would increase our average electric customer's bill by more than 30 percent. But that's not all. Our customers would also experience an additional increase in the cost of electricity of more than \$7 million just in the year 1979, and additional costs for years to come, to recover the undepreciated investment Northwestern has in the Big Stone facilities. This translates into yet an additional burden of \$141 per customer and would increase our average customer's bill by 20 percent. These two factors result in a 50 percent increase in the cost of electricity to our customers in 1979. Such increases in customer rates would not only be distasteful to all of our customers, they would be disastrous to many.

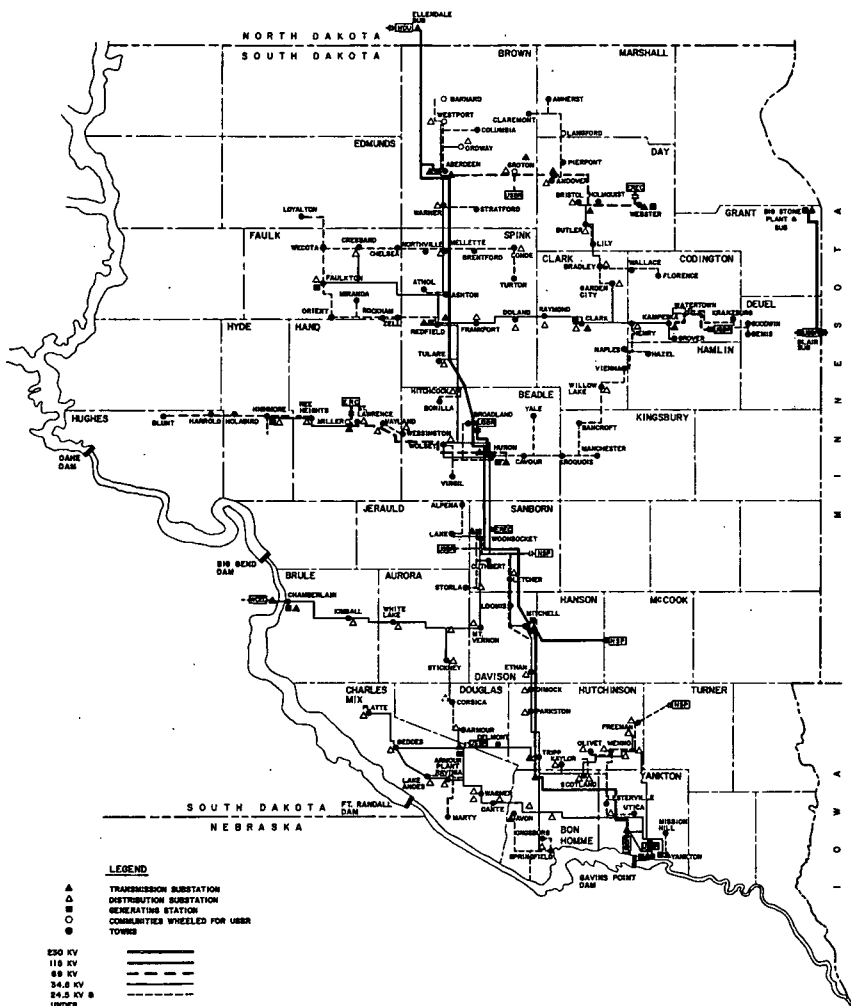
In addition, should such a situation become a fact, the ability to serve our customers with the electricity they need, when they need it, would certainly become a matter of concern. The need for a continuous availability of substantial amounts of power could produce a rather helpless situation should other power supplies have difficulties with breakdowns, peak periods, and other situations that would make it impossible to deliver power to us. The probable result: Rationing, brownouts, and blackouts—perhaps even curtailment of service in the most serious circumstances.

Beyond the disastrous effects the abandonment of the Milwaukee Railroad would have on our company and our customers are the serious problems it would create for the State of South Dakota. Transportation is critical to every area, to every economy. Transportation of South Dakota's agricultural products and manufactured products is absolutely essential, and the Milwaukee Railroad is a very necessary part of the transportation system in our State. The railroad delivers agriculture products from our State to many out-of-state markets, and in turn delivers farm machinery and other finished products to us. And

it delivers electricity to our customers, in a sense, by providing the means of hauling lignite coal to our Big Stone plant—the only feasible method of delivering that lignite, which is the lifeblood of the plant.

Loss of the Milwaukee Railroad would be a major step backward in the economic growth and stability of South Dakota agriculture and business.

[The attached map referred to follows:]



**LEGEND**  
 ▲ TRANSMISSION SUBSTATION  
 △ DISTRIBUTION SUBSTATION  
 ■ GENERATING STATION  
 ○ COMMUNITIES SERVED BY USER TOWNS  
 ● TOWNS  
 230 KV —————  
 118 KV —————  
 69 KV - - - - -  
 34.5 KV - - - - -  
 14.2 KV & UNDER - - - - -

6				<b>NORTHWESTERN PUBLIC SERVICE COMPANY</b> GENERAL OFFICE HURON, SOUTH DAKOTA <b>COMMUNITIES SERVED ELECTRICALLY BY NWPS</b> TRANSMISSION — DISTRIBUTION — GENERATION DRAWN BY: E. L. S. REVISION: 10 MILE DATE: JULY 10, 1975 APPROVED BY: S. S. S.
7				
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Senator McGovern. Thank you very much, Mr. Sewell, for your statement.

And our final witness on this panel is Mr. John MacFarlane of the Otter Tail Power Co., which is a major participant in the Big Stone complex.

**STATEMENT OF JOHN MacFARLANE, VICE PRESIDENT OF PLANNING AND CONTROL, OTTER TAIL POWER CO.**

Mr. MacFarlane. Senator McGovern, members of the Joint Economic Committee, I'm John MacFarlane, vice president of planning and control of Otter Tail Power Co.

Otter Tail Power Co. is an investor-owned electric utility serving 115,000 customers in northeastern South Dakota, middle and eastern North Dakota and western Minnesota—refer to attached map. The company's total generating capacity in 1979 will be 485 MW. All 372 MW of base load capacity—Big Stone, 204 MW, Hoot Lake, 148 MW, and Ortonville, 21 MW—are fueled with North Dakota lignite. The remaining 113 MW of generation are used for peaking and include various diesels, three combustion turbines, and four MW of hydro.

Baseload generating facilities provide the lowest cost energy, and are used the maximum time for providing the system's energy requirements. According to the 1979 forecast of Otter Tail's energy requirements, the Big Stone unit would provide 56 percent of the system's energy. This unit is the largest, most efficient, and produces the lowest cost energy on the Otter Tail System. The Big Stone unit is also the most recent addition—it went into commercial service in 1975. The last prior baseload addition was the Hoot Lake No. 3 Unit, which went into commercial service in 1964.

The Ortonville unit, which provides 21 MW of baseload capacity to the Otter Tail System, was placed in service in 1950. In 1975, equipment was added so the unit met all new environmental regulations. The use of coal supplied by unit train to Big Stone, lowered operating costs to the point that it was economically justified to increase the life of the Ortonville unit. The Milwaukee Railroad presently hauls lignite from the Knife River Mine near Gascoyne, N. Dak., to Big Stone. Fuel for the Ortonville plant is trucked 3 miles from Big Stone to Ortonville. The proposed abandonment by the Milwaukee Railroad of lines in South Dakota would result in loss of fuel to these two units. This would cause a reduction in Otter Tail's baseload generating capacity of 60 percent. There is no other way to transport coal to Big Stone other than the Milwaukee Railroad.

Otter Tail's system peak demand has historically occurred in the winter months and has grown at an annual rate of 7.9 percent for the years 1963 through 1977. Current forecasts of annual peak demand for the period 1980-87 indicate growth at a rate of 5.2 percent annually. This reduction in growth results from the company's estimates of the effectiveness of its load management programs and conservation. Although load management is proposed to reduce the system peak demand growth rate, it will result in an improved system load factor which will increase the need for dependable baseload generating facilities.

Presently, Otter Tail is involved in construction of the Coyote Generating Station near Beulah, N. Dak. Coyote is essentially a duplicate of Big Stone. Otter Tail will own 35 percent or 144 MW of the

facility scheduled for 1981 operation. This will only cover deficits in baseload capacity until 1982 and could not cover capacity lost if Big Stone and Ortonville are forced out of service. Beyond 1981 studies indicate a need for 150 MW of baseload capacity by 1986-87. Initially, there appeared to be opportunities for Otter Tail to share in joint facilities in Minnesota to provide the 150 MW. In the last year these alternatives have been delayed or canceled by the constructing utility because of new load forecasts, site application cancellation and regulatory delays. Currently, the most likely addition for 1986-87 would be by construction of a baseload facility at either the Big Stone or Coyote sites. The loss of coal supply to the Big Stone site eliminates one of the two existing sites that Otter Tail and partners could use for a future 400 MW unit. The replacement of Big Stone capacity would have to be at the Coyote site and at three times the cost of the existing unit. This would necessitate development of a new site for the planned 150 MW addition and result in even more uncertainties for supplying the future baseload generating requirements.

Replacement of the capacity and energy needed should Big Stone and Ortonville be lost would be through purchases from members of the Mid-Continent Area Power Pool (MAPP). Every effort would be made to replace the loss with baseload surpluses. This could be accommodated through MAPP, should sufficient surpluses exist. Currently, estimates of available baseload capacity surpluses for sale in the pool indicate sufficient amount to replace Otter Tail's output from the Big Stone and Ortonville units through 1982. Surpluses after 1982 available through the pool would not provide the needed replacement capacity.

Otter Tail Power has interconnections with Manitoba Hydro, who currently is indicating surpluses through 1984. [Manitoba Hydro provides electrical service to the Canadian province of Manitoba.] There are limitations to Otter Tail's use of Manitoba Hydro's surpluses, however: (1) Otter Tail does not have sufficient transmission interconnection capacity with the Manitoba Hydro system for energy interchanges equaling the Big Stone and Ortonville capacity. In order to accommodate schedules of 200 MW's, Otter Tail would have to build new transmission facilities to increase the interchange capacity with the Manitoba Hydro System. It is estimated that these facilities could be in service no sooner than 1983. (2) The major portion of Manitoba Hydro's generating capacity is made up of hydro facilities. In an offer of sale of their surpluses, Manitoba Hydro restricts use of the sale to a 50-percent capacity factor. Otter Tail makes use of the Big Stone capacity at an 80-percent capacity factor. Thus, some arrangements would have to be made to supply a significant deficit in energy or increase the capacity purchased from Manitoba Hydro in order to provide the required energy replacement.

Note must be taken that surpluses reported through the pool and by Manitoba Hydro are based on current load forecasts. Also these surpluses are dependent on new generating facilities going into service according to their proposed schedule. Probabilities of units going into service as scheduled and accuracy of forecasts of future loads raise definite uncertainties of replacing existing capacity with these proposed surpluses. Ultimate replacement of the Big Stone unit as mentioned would require new construction.

Another question we must address is continuity of service. As indicated Otter Tail would likely be able to purchase sufficient energy to

supply customer needs. However, the loss of a strategic unit like Big Stone would cause considerable reliability problems. Utility systems are designed and built to provide service in spite of the loss of a major unit or transmission line. However, the systems cannot be certain of providing service should a second contingency occur—loss of another major transmission line or generation. Despite the best efforts of Otter Tail and all MAPP members, there will be outages.

Provided replacement capacity and energy can be purchased and transmission is available, loss of the Big Stone and Ortonville facilities would still result in greatly increased rates for OTP's customers. Those increased rates, in addition to causing hardship for the direct customers of OTP, would have a negative impact on the economy of the entire service area of OTP.

The greatest increase in cost, and thus rates would be caused by the need to purchase capacity and energy to replace OTP's output from the Big Stone and Ortonville facilities. The net cost for this replacement power would be in excess of \$15 million in 1979 alone. This would be an additional burden of \$125/customer and would increase the average residential customer's bill approximately 30–40 percent. Assuming replacement power will be available until a replacement facility can be placed in service in 1986–87, which is not at all certain, and cost escalated at no more than 6 percent/year, the total cost of replacement power until 1987 is \$148 million or approximately \$1,350/customer.

Another economic burden would result from the need to recover the approximately \$70 million of undepreciated investment OTP has in these facilities in a time frame considerably less than their normal remaining life. Assuming a net salvage value of zero [cost of removal equals salvageable value] the entire \$70 million must be recovered in extra depreciation charges. If the shortened time period is 8 years, the approximate time necessary to construct a replacement unit the net additional cost to our customers over the 8 years would amount to approximately \$30 million or \$250/customer. The extra cost in 1979 would be approximately \$7.5 million or \$65/customer with decreasing costs in such succeeding year. Assuming a net salvage value greater than zero would reduce the impact. However, because of the specialized equipment involved and the percentage of labor and overhead costs associated with a powerplant, maximum net salvage would be in the range of 20 percent.

The third item adding to the increase in costs is the high cost of constructing a replacement facility. At the present time, the estimated cost to build a facility of equivalent size to Big Stone coming on line in 1987 is \$500 million. The added cost burden of this replacement facility, in addition to the facilities already planned for this period, will place a severe strain on OTP and its efforts to obtain financing. This would, in all likelihood, increase the cost of financing, if financing can be obtained. These increased costs would result in higher rates for our customers during the construction period and for many years to come. The exact impact or amount of this increased cost is not known at this time, but could very well amount to several million dollars per year.

These items indicate that increased costs in the range of \$200 to \$250/customer/year could result if these facilities must be abandoned.

This represents an increase of 50 percent to 60 percent on the average residential customer's bill.



As previously indicated, these two generating units provide 46 percent of the total generating capability and 60 percent of Otter Tail's energy requirements. It's been pointed out that surpluses do exist in the immediate future that could be purchased to replace their outputs. However, there are uncertainties in transmission capability and in replacement capacity beyond 1983. Thus, there are indications that our service area would be energy deficient at times of peak load. Voluntary curtailment of use of electric service would be required. If voluntary reduction of use was not satisfactory to maintain system integrity, nonvoluntary load reduction would be required. An era of electrical rationing could arise should replacement sources and transmission not be successfully established.

The increased rates for electric service would most probably cause a reduction of electric use. Yet, electric service is essential to the user at a point, beyond which reduction of usage would be difficult, will occur. There is a component of electrical need by the customer which has no price elasticity. Growth in industrial, commercial, and residential usage is certainly not encouraged by increased costs for electrical service. With these uncertainties, curtailment of new customers would be required which would further reduce the economic growth of the area.

The electric utility industry has established itself as a provider of dependable energy at relatively low costs particularly for lighting, rotating equipment and innumerable domestic and industrial uses. So dependent have people become on electricity that most do not have a backup energy source. In fact, there isn't a good example to point to and say, "This is what will happen if Big Stone is shut down," because there have simply not been similar experiences in the United States. We have seen short term results of blackouts in New York where there were fires, looting, riots, and a complete breakdown of the morality of a large group of individuals, but that won't occur in this area. Perhaps, short-term outage conditions would be similar to those which result from severe weather when people, at best, are inconvenienced and, at worst, suffer economic loss.

This past winter a coal strike caused considerable economic hardship in Ohio, Indiana, and surrounding States. Even though the affected utilities maintained at least a 30-day coal supply and there were few mandatory cutbacks (conservation took care of most of the problem) there were still layoffs, a slowdown in essential services, and schools and universities had to cut hours. The additional fuel and purchased power costs, in the case of Public Service of Indiana, increased customers billing 30 percent per month for the 3 months designated to recover these costs incurred during the 2 months of the strike. But again this was a short-term situation.

We can only imagine what would happen to the area if there was a severe shortage or if energy was available only at a much higher price for a long period of time. This coupled with the loss of direct and secondary jobs associated with the powerplants, with the loss of tax revenues, and with the loss in other economic sectors would cause severe problems. There would be economic stagnation, unemployment, deterioration of supporting facilities, such as retail outlets and services, and every individual would suffer their own particular economic hardship since a larger portion of their income must be dedicated to pay for electric service. Property values would, perhaps, decrease, tax

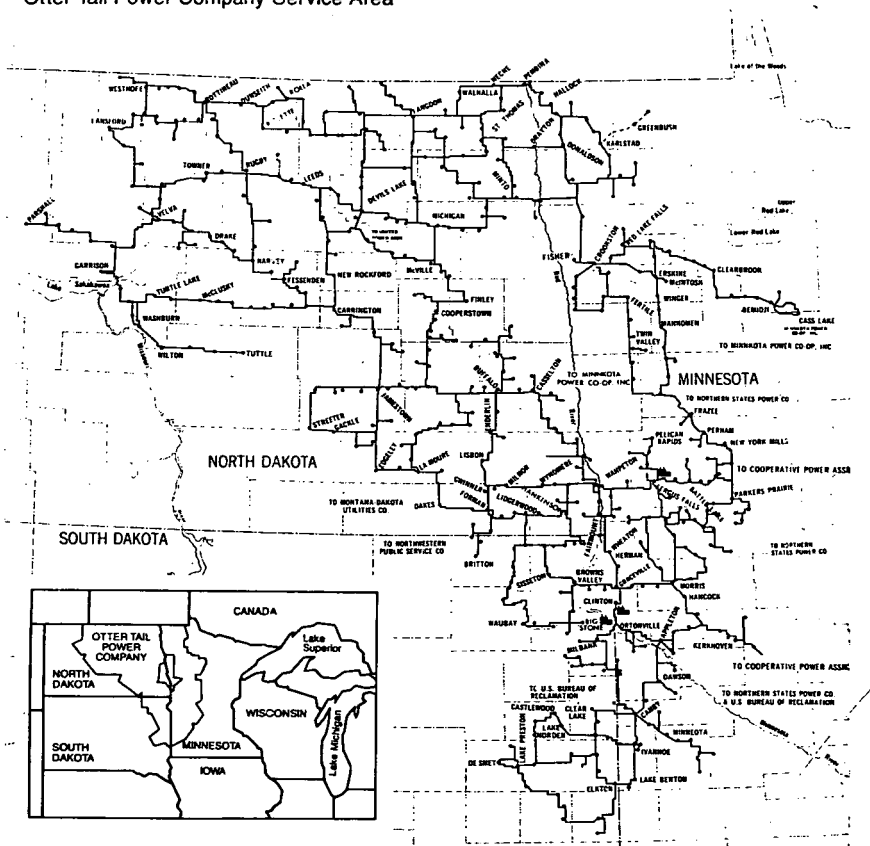
supported institutions would find it harder to operate, and more people would find their way to various types of welfare—it would be a unhealthy situation for the area. The inconvenience and downright suffering of many individuals even for the short-term is far too great to be borne when there is an opportunity to avert it.

Certainly, as in any other crisis it will be the people least equipped to suffer who will suffer the most. They are the real losers in a situation like this. Those with means will be able to afford the additional costs or relocate. The utilities involved will probably be able to secure energy to provide the needs and may, themselves, be able to survive, but the people who are already suffering will suffer even more.

It is certainly our concern that our customers, our employees, and our stockholders receive every consideration in this matter, and Otter Tail Power Co., pledges it will do those things that it can to help avert this crisis. With that we appeal to this committee to provide every assistance that they possibly can to the end that railroad service will continue to serve the needs of the citizens of this area.

[The attached map referred to follows:]

Otter Tail Power Company Service Area



Otter Tail Power Company serves 115,000 customers located in 465 communities. The service area covers a 50,000-square mile area in northeastern South Dakota, western Minnesota, and middle and eastern North Dakota.

- 230,000 VOLT LINES
- 115,000 VOLT LINES
- 69,000 VOLT LINES
- 41,800 VOLT LINES
- SYSTEMS SERVED BY OTTER TAIL POWER CO
- ⊙ STEAM PLANT

Senator MCGOVERN. Thank you very much, Mr. MacFarlane. Mr. Grutle.

Mr. GRUTLE. Just as a matter of summing it all up by saying that we hope that our statements here will help the subcommittee in its responsibilities and deliberations on what should be done in this situation. And, in conclusion, I wish to express the gratitude for the opportunity on the part of these companies to come to this congressional committee hearing and present our views. Thank you.

Senator MCGOVERN. Thank you, Mr Grutle and the other gentlemen of the panel. You've anticipated most of the questions that I had intended to ask you. There's just one I would like to raise, not as a suggestion, but really as just a question for information.

In view of the very substantial investment you have in the Big Stone Plant and the conditions you described that would occur if we lost this rail service—of course I hope we won't lose the service—but in view of that possibility, I'm wondering if you've given any thought as to whether the plant itself and related interests might consider operating the line if the Milwaukee chose to abandon it and that were authorized, or has there been any thought given to how the complex of companies might assist the Milwaukee in continuing operations, at least in that segment between your coal mines and the plant at Big Stone? As I say, that's not a suggestion; it's really a matter of inquiry.

Mr. GRUTLE. Well, these matters have been discussed. You asked first about operating the railroad. Well, I don't see how that piece of railroad could be operated except as a common carrier, and that would involve us in great difficulty. So I guess we sort of shudder at the thought of that.

Mr. STEWART. We also are concerned about any kind of a major capital investment inasmuch as all three companies are heavily in the process of investing in future powerplants, and it could tax us to the limit.

Mr. GRUTLE. Yeah. I think that's the single biggest deterrent to many of these things and, really—you know, this has fallen on our shoulders just recently.

Senator MCGOVERN. Would those same anxieties rule out the possibility of some kind of an assistance arrangement to the Milwaukee to keep them in business in that area, or is that beyond reach?

Mr. GRUTLE. I don't know, Senator. There just appears that there are so many possible angles in those areas that we've never heard of. We've got to do a lot of soul searching and looking to determine that kind of an answer.

Senator MCGOVERN. Well, gentlemen, we appreciate your participation. Yes, Mr. Stewart.

Mr. STEWART. Senator, perhaps for the record—we do have a gentleman sitting right behind us that might be able to clear up the North Dakota situation. It might give you a better insight into their—how they view this—the railroad situation, if you care to call on him. He's Frank Wilner from the Public Service Commission.

Senator MCGOVERN. Well, we could take just a moment. We are short on time, but—

Mr. STEWART. Well, it might help to clarify that situation.

Senator MCGOVERN. Sure. I realize that.

Mr. WILNER. Just very quickly, Senator, perhaps the North Dakota position has been somewhat misconstrued. That main line runs 102 miles through North Dakota, and the section east from Gascoyne is perhaps one of the most important lines we have in North Dakota. Our position is that we want to find a private-sector solution, one that will not hinder the reorganization of the Milwaukee, and one that will not saddle the Burlington Northern, for instance, with a severe revenue cash drain. And within those constraints, and also realizing that the 4R Act, title V and title VIII, does not provide proper remedies when you're dealing with a main line, and the fact that section 116(b) of the Interstate Commerce Act dealing with directed operations is not feasible at this time, we have to start looking beyond those for long-range solutions.

Senator MCGOVERN. Do you think perhaps that indicates the need for some legislative modifications and some amendments to the existing acts?

Mr. WILNER. We don't see a solution in the 4R Act as it exists right now, Senator.

Senator MCGOVERN. Right. Well, thank you very much, gentlemen. We appreciate your testimony.

All right. Our third panel includes Mr. Henry Decker, who is the secretary of the South Dakota Department of Transportation; Mr. Chuck Groth, the director of public relations of the South Dakota Farmers Union, who is appearing on behalf of President Ben Radcliffe; Mr. Bill De Lett, who is chairman of the Rail Transportation Awareness Committee, representing railway laborers' interest in this question; and Mr. Jim Gohn, president of the Aberdeen Chamber of Commerce. If you gentlemen will come forward and we'll begin with Secretary Decker. Welcome to the panel.

#### **STATEMENT OF HENRY J. DECKER, SECRETARY, SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION**

Mr. DECKER. Thank you, Senator, and thank you for the opportunity to appear here and testify. Governor Wollman had intended to appear here personally, but family illness—in fact, he's taken his father to the hospital this morning—has detained him and he couldn't be here.

I'd like to read the Governor's remarks for the record and then briefly summarize my own remarks.

Senator MCGOVERN. Sure.

Mr. DECKER. Thank you.

Senator MCGOVERN, members of the subcommittee, ladies and gentlemen; I want to commend Senator McGovern and the subcommittee on the decision to conduct this hearing at this time and place. It is most appropriate and timely in view of the transportation crisis which now faces the people of South Dakota. It seems that the elements have conspired to place all modes of our transportation system in jeopardy at the same time. Just recently I have appointed a special task force to study the impacts of airline deregulation. Our State network of highways is deteriorating at a much faster rate than we can repair and rebuild it. And we now face the loss of a threatened loss of a major segment of our railroad system. This incredible combination of circumstances is of such magnitude that I am seriously concerned over

the ability of this State to survive economically. I fear that South Dakota is in danger of returning to an island of isolation, of becoming a new middle border, as historians referred to us in the past. I cannot underestimate the seriousness of the further dismantling of our transportation system, a system which carries the lifeblood of our rural economy. The people of the State have been made aware of the full impact of recent events, particularly the bankruptcy and threatened loss of service of the Milwaukee Road. Their concern for the preservation of the transportation system was clearly expressed in a series of transportation meetings I recently held throughout the State. A number of citizens and railroad user groups have been formed, including the Mobridge Rail Task Force, the Sioux Valley Railroad Corp., and the Rail Transportation Committee of Aberdeen. The South Dakota Rail Users Association is another group which is actively working to preserve our railroad service. It is my commitment and intention to provide these groups with all the support and encouragement that my office can possibly give.

The loss of the Pacific coast extension of the Milwaukee Road will create havoc with our transportation system. This line is our main connection to the west coast with its growing grain market. The line also serves as principal mover through our State of the coal, lumber, and other bulk products from the mines and forests of North Dakota and Montana. All the coal for the Big Stone Power Plant is carried on this line. The cessation of this rail service could possibly result in the closing down of the powerplant and the loss of this vital electric power to the entire region.

As Governor of South Dakota, I am fully aware of the limitations that stand in the way of solving the railroad problems by ourselves. We cannot in this instance lift ourselves by our bootstraps, for whatever State government can do and for whatever fruits are produced by citizens working to solve the railroad problem, we realize that railroads, like highways and airline routes, extend beyond our borders to the vital domestic centers of the region and the Nation. These systems are, in turn, part of the nationwide transportation system. To this end, we cannot solve the problems of maintaining the system by our own efforts. These problems must be addressed at the regional and national levels.

The loss of service of the Milwaukee Road in South Dakota would have serious consequences to our economy. I do not believe that we have any practical alternative to the railroads for mass movement of our grain to the eastern and western markets. Even if it were possible to move grain and other farm products to market by truck, the added transportation costs would place our farmers at a real economic disadvantage. We estimate this disadvantage, which is represented by the price differential between hauling all grain by truck versus hauling by railroad, at approximately \$35 million annually. This would be money out of the farmers' pockets and thus taken from our communities, our economic development, and our small businesses. This loss is greater than we can afford.

There is another element in the sad history of railroad abandonments which disturbs me greatly. Abandonment of railroads appears to be taking place on the national level at an accelerated pace. Many of these lines are profitable or could be made profitable with proper

management. I'm sure that the Milwaukee main line in South Dakota is such an example. However, the point that I want to emphasize, apart from the question of profitability for the operators, is the matter of the public good and the Nation's welfare. It appears to me that from the standpoint of national defense, a public investment in railroads would appear to make more sense than some of the expenditures now being made for military hardware. I cannot believe that it is in the public interest to allow wholesale abandonment of railroad services.

Congress has recently adjourned from an historic session. In the closing days of that session, the Congress passed the Surface Transportation Act of 1978, the Air Transportation Regulatory Reform Act, the Local Rail Service Assistance Act and the Railroad Safety Authorization. We are aware of your special efforts in this matter, Senator, and we are grateful for them. These are evidence of recognition by Congress of Federal responsibility in the area of transportation. This is well and good. However, much more remains to be done, particularly to provide more effective transportation systems for the heartland of rural America. For States like South Dakota, we need solutions before we've lost airline and rail service perhaps forever and before our highways have deteriorated past the point of no return.

I would like to submit to the committee the following recommendations:

One. We need a reform of regulations governing interstate commerce. These rules and regulations stand as barriers to free movement of persons and goods across State lines and should be reviewed, revised or repealed in light of the present-day transportation needs.

Two. The service of the Milwaukee mainline through South Dakota must be continued on a permanent basis under the operation of the Milwaukee Road or another major railroad company.

Three. Congress should investigate the impact of railroad abandonments on the national defense strategy.

Four. The stabilization of the agricultural economy is so dependent upon a balanced transportation system that Congress should enact programs of Federal aid which would dramatically assist the Midwest.

Five. Congress should view transportation as made up of inter-related systems as opposed to the piecemeal approach by separate modes.

Six. As an optional feature of rail financing proposals which may be advanced by Congress, I recommend that the provision be made for the public ownership of right-of-way and trackage.

Once again, I want to express my appreciation for your bringing the subcommittee hearing to South Dakota and for the opportunity which has been accorded me to present my testimony on this vital transportation problem. Thank you. Respectfully, Harvey Wollman, Governor of South Dakota.

Senator MCGOVERN. I hope you'll express our gratitude to the Governor, Mr. Decker, for his statement. And I was aware of the family illness that prevented him from being here. But I want to again commend him and commend you and Mr. Don Enze and others who have been working on the transportation needs of the State.

Mr. DECKER. Senator, I have some remarks of my own which I would like to make at this time.

Senator McGOVERN. Yes.

Mr. DECKER. I'll just very briefly summarize because I know the time problem.

The Department of Transportation made some assumptions and conducted an analysis of the highway system that runs next to the Milwaukee Road across the northern part of our State. Highway 12 is 316 miles in length paralleling the Milwaukee Road across the northern tier of counties in the State. That highway right now needs \$11.5 million to improve it to satisfactory condition for present traffic—just the traffic that's on it now, not counting anything that might come from the railroad. If the railroad were abandoned and ceased to function, if the powerplant continued to operate and it needed its coal and got it by trucks, then 249 loaded coal trucks per day would travel that highway. That would increase our costs by \$5 million a year just for regular highway maintenance due to the heavy traffic. The heavy traffic would cost us approximately \$52 million in additional money that would not normally have to be spent on that highway for rehabilitation between 1983 and the year 2000.

I notice you're keeping the record open for 10 days and the Department of Transportation, if it may, will avail itself of that time to submit to you some additional cost figures on the economics of the highway system and the goods that travel by it as opposed to that railroad. There's no doubt in my own mind that we can demonstrate and show that the most cost-effective alternative to the public is to maintain that rail service there. There's just no question in my mind at all.

Further, I'd like to point out that the Old West Regional Commission, through Governor Wollman's efforts and the other Governors involved in that multi-State compact, some time ago let a \$100,000 contract to study the economic impact of the Milwaukee transcontinental line and its possible abandonment. This is a small step toward a regional effort to combat abandonment. A great deal more needs to be done. And if I might suggest, perhaps Congress could help us in that area by making it worthwhile or encouraging the States to come together in some type of commission. We've used other commissions to address certain problems and I certainly believe that this is vitally needed and would be possible in relation to rail studies analysis and seeking alternatives to abandonment.

Senator McGOVERN. In that connection, Mr. Decker, do you think to achieve that kind of a goal it might be desirable to form a rail service task force that would consist of appropriate officials, such as yourself in South Dakota, North Dakota, Montana, and Minnesota, to undertake this kind of regional investigation, the collection of data, the analysis of problems, the recommendations for possible solutions? Is a regional task force of that kind in your judgment possibly the next step?

Mr. DECKER. I think that it's not only desirable and necessary; it's imperative that we do so soon. South Dakota, probably because it's been hit hardest by abandonment actions and impacts on its rail system, has moved as rapidly as possible to formulate a rail plan, interact with the Federal Government, work with the railroads and private-user groups in order to try and emerge with a rational approach to the rail problem. It would be of immense help to us, and I'm sure of every other State, if we could come together in some type of group, whether it be a

task force or anything else, to discuss the regional and national scope of the problem.

As you said yourself, the rails don't end at the State line; they go on to someplace else. And that's true in other States. It's certainly true of the Milwaukee system. We believe that the sale of the Milwaukee line west of Butte, Mont., will have a dramatic effect on the viability of the Milwaukee line within South Dakota, and we're very interested in any action that might be taken in that regard. So it seems to me it's almost imperative that we get together in some type of a group or forum to discuss and plot a common approach to these problems on a regional basis. And I know you've advocated this for some time, Senator, and we appreciate that, and any additional help we can get, we're deeply grateful for.

Senator McGOVERN. Thank you.

Mr. DECKER. One final comment I'd like to make just in closing.

Earlier it was suggested that railroads in this country are overbuilt and undercapitalized and inefficient. I guess one can hardly argue with this. But in the case of the Milwaukee Road, and recognizing its importance to South Dakota, and the likely outcome of its reorganization, it would seem to us here in South Dakota that this is much like the doctor's answer when he was queried about an operation. "The operation was a success; the patient died though." And understandably here in South Dakota we're concerned with our own economic life which we see as seriously threatened by the abandonment and other things that are happening to our rail service.

Thank you very much for the opportunity, Senator, to testify today.

Senator McGOVERN. Thank you, Mr. Decker.

Our next witness is Mr. Chuck Groth of the South Dakota Farmers Union.

#### **STATEMENT OF CHUCK GROTH, DIRECTOR OF PUBLIC RELATIONS, SOUTH DAKOTA FARMERS UNION**

Mr. GROTH. Thank you, Senator.

My name is Chuck Groth. I live in Huron and am currently editor and director of public relations for the South Dakota Farmers Union.

I am here today to present this statement on behalf of the Farmers Union and our president, Ben Radcliffe. President Radcliffe would have liked to have presented this statement himself, but instead will be attending an important international farm meeting. As chairman of the executive board of the National Farmers Union, he is on his way to New Zealand where he will be a delegate at the meeting of the International Federation of Agricultural Producers.

We in the Farmers Union would like to take this opportunity to thank Senator McGovern for the concern that you have demonstrated in scheduling these hearings.

"Appalling" is the only word to describe the present state of South Dakota's transportation system. Four or five years ago we were lamenting the loss of about 500 miles of rail line over the previous 10 years. We were fighting proposed rail abandonments one at a time. Today we are faced with literally dozens of abandonment requests. Already more than a year ago those potential losses added up to more than half of all the rail miles in this State. Now we are looking at



the loss of an entire system—the Milwaukee—including those lines which have shown a profit for the railroad.

It is clear that a piecemeal approach to this State's rail problems is not adequate—if it ever was. Today we are face to face with the wholesale collapse of railroads in South Dakota. We have reached a juncture where action by government—both State and Federal—has become imperative. The time for action is now.

The impact of the loss of two-thirds of South Dakota's rail mileage would constitute a severe economic blow to each and every citizen of this State. But as the largest farm and ranch organization, our greatest concerns are for the welfare of farmers and other rural people.

It is a simple fact that agriculture would be one of the chief victims if we stand by and allow the Milwaukee system to be liquidated and abandoned. Five years ago a study by the South Dakota Farmers Union and the Farmers Union Grain Terminal Association (GTA) revealed that it could cost farmers an additional 40 cents per bushel to ship their grain by truck rather than by rail.

That study was conducted during the midst of soaring grain prices resulting from huge purchases by the Russians. The South Dakota Division of Railroads has recently offered a rather conservative prediction that the loss of the Milwaukee system would cost grain farmers about 20 cents per bushel in added shipping charges. In an average year that would add up to a whopping \$35 million.

Another study by Leonard Poth, assistant director of the Business Research Bureau at the University of South Dakota, suggests similar increased costs for farmers. The Poth study estimates increased cost at between 15 and 30 cents per bushel and total costs in the same range as the Division of Railroads estimate.

But we really don't know how high trucking rates could climb should the entire Milwaukee system be lost. Our previous experience has been with the loss of branch lines, not main lines.

Farmers and ranchers would also be hit by increased costs for fertilizer and other farm production input items. The Poth studies clearly demonstrate that fertilizer cost increases would also amount into millions of dollars.

The situation on the fertilizer front could be even more serious. We have been informed by regional cooperative field staff that the survival of several South Dakota fertilizer plants could be jeopardized by the loss of rail service.

Agriculture would also join other segments of our economy in paying the bill for increased shipping charges for other consumer goods.

We also come to the question of whether or not highways and trucks will be able to handle the entire volume of grain shipped from the trade areas served by the Milwaukee system.

According to the Poth study, grain shipments out of these areas average almost 73 million bushels per year. The trade areas served by the Milwaukee mainline, through Milbank, Aberdeen, Mobridge, and Lemmon alone ships about 14 million bushels annually.

Obviously, all of this grain is not now shipped by rail. A significant amount is already shipped by truck. What these statistics do indicate is the potential for rail shipment. And they do indicate the size of the problem we would face if the Milwaukee lines were to be lost.

An elevator-by-elevator study is now being conducted by South Dakota State University which should shed further light on the grain shipment patterns and prospects.

It is also important to point out that should the Oahe or some other major irrigation project be completed in the areas served by the Milwaukee, there would be a further considerable increase in production and in shipping needs.

The position of the South Dakota Farmers Union has always been clear when it comes to transportation. The Farmers Union has supported a comprehensive system—a system that balances both railroads and highways.

The magnitude of the current situation and our failure to act in the past leaves us with little choice. We probably will not be able to save all the threatened branch lines. At the same time, it is in the best future interests of South Dakota that every possible means be explored to salvage as much of our existing rail system as is possible.

The Farmers Union continues to believe that the only real answer to our rail problems may be Federal and State ownership of the main and branch lines. Under this arrangement, private carriers would continue to operate the rolling stock. It would allow railroads to receive the same assistance which we now provide for airlines and trucking interests.

At the same time, it must be recognized that the current mood of the Nation makes it unlikely that the next Congress will be willing to go that far.

There are a number of methods now under consideration which would involve local and State efforts to retain and rehabilitate major segments of the Milwaukee system. At the local level, ownership of railroads by cooperatives and the creation of transportation districts were authorized by the 1978 South Dakota Legislature.

A combination of local shippers, the State and the operating railroad would be needed to utilize the Iowa plan. This arrangement has already worked in Iowa to rehabilitate a number of branch lines.

Another possibility is outright State ownership and rehabilitation of the most crucial Milwaukee lines.

Regardless of which option or combination of options is finally adopted, a new carrier may have to be found to operate on the salvaged lines. That is, if the Milwaukee is allowed to liquidate all of its lines west of Minneapolis.

One thing is certain, we are faced with a crisis that may well determine the economic future of South Dakota. The situation demands bold action by the State government and particularly by the State legislature. It will also demand considerable financial assistance from the Federal Government.

Thank you.

Senator MCGOVERN. Thank you, Mr. Groth, for your statement.

I referred earlier here to a statement that was submitted to the subcommittee by Tom Daschle, first district congressional candidate. I'm not going to read the whole statement, but there are just three or four pertinent paragraphs that are directed to the Joint Economic Committee, and it will just take a moment to read those into the record. He says that a major challenge facing South Dakota is revitalization of our State's rail system.

We cannot afford to allow the further decline of rail lines in our State. The decline of many of our rural communities and centralization of population in the larger communities can be at least partially attributed to the loss of branch lines and general decay of our once first-rate rail network. It is imperative that we change the existing Federal legislation which requires a rail line to be slated for

abandonment before it is eligible for Federal assistance. However, this is only a short-term remedy. Streamlining Federal funding procedures should begin without further delay. We must also develop regional approaches to solving our rail systems' problems. South Dakota's rail system is inextricably linked with our neighbors, so we must work jointly with North Dakota, Minnesota, Wyoming, Nebraska, Iowa and Montana to develop a strong program to make the most out of Federal assistance. In the past we have not taken full advantage of using our highways in conjunction with our rail system. We need to develop a bimodal approach to our extensive highway system with our rail network. We cannot wait any longer. We must take action now to prevent the abandonment or degradation of our rail lines.

I will ask that Mr. Daschle's entire statement be made a part of the hearing record.<sup>1</sup>

Now, our next witness is Mr. De Lett. I believe, Mr. De Lett, you're speaking for railway labor in terms of these concerns.

#### **STATEMENT OF WILLIAM R. De LETT, CHAIRMAN, RAIL TRANSPORTATION AWARENESS COMMITTEE**

Mr. DE LETT. Yes, sir. First of all, Senator McGovern, I'd like to thank you very much, and I don't think we can express enough of our appreciation of your efforts to bring the attention of the public to this major problem.

My name is Bill De Lett and I represent a group, and we're known as the Rail Transportation Awareness Committee. For the most part, we're comprised of Milwaukee Railroad employees of the various crafts working on the property in the States of Minnesota, South Dakota, North Dakota, and Montana. Our committee was established on August 20, 1978, in Aberdeen, after having addressed our concerns to Senator McGovern on that date when a number of our group met with the Senator in Aberdeen to discuss the issue of the economic consequences of the possible discontinuance of the Milwaukee Railroad in our region. Since then, we have been conducting an interstate campaign to encourage a cumulative and concerted effort on a Federal, State, county, and community level to draw attention to the serious transportation crisis now confronting our interstate region.

From the onset of the Milwaukee Railroad filing a petition for reorganization under chapter XI of the Federal Bankruptcy Act, it has been and continues to be our position that the continuation of the Milwaukee Road main line is essential to the interstate region of Minnesota, South Dakota, North Dakota, and Montana for their individual State rail plans. It is of utmost importance to develop interregional gateways required to sustain this major artery in view of the anticipated Pacific Northwest acquisition of the Milwaukee to the Union Pacific Railroad.

We recognize that the background data that must be analyzed, and the myriad economic variables to be related to such a study, require a major time-consuming effort. Our intent here in this regard is to emphasize that due to the complexity of the railroad industry, the burden of overregulation, inequitable competitive relationships with other modes of transportation, and enormous increasing operating costs make short term or temporary solutions to this problem unacceptable. In the

<sup>1</sup> See appendix for Mr. Daschle's statement beginning on p. 157.

interim, however, we do wish to stress that the Milwaukee road as it is now operating will immediately need some front-end assistance to continue functioning in our region while a methodology is being developed to solve this dilemma. We think it should be understood that the main line has all the necessary attributes to provide the branch-line linkups of a viable rail system. It also provides additional advantages in the categories of its tonnage, speed, and delivery capacity, signaling and communications systems, plus its potential for increased density. Obviously, some deterioration of this main-line trackage is already apparent. However, in no way is this so serious as to curtail service dramatically beyond that of speed reductions in certain areas of trackage, nor does it require anything more than remedial low-cost rehabilitative action prior to any major upgrading program necessitated by projecting a long-term future utilization of this main arterial trackage.

If this main-line trackage is not continued as such, there shall result many adverse economic circumstances crippling not only South Dakota, but the entire interstate regions served by the main line, in addition to those on or near those light-density branch lines.

Lastly, we note with a great disappointment the actions taken by the Milwaukee's trustee, Mr. Hillman, in protesting the Pacific Northwest acquisition of the Milwaukee to the Union Pacific. We are cognizant of his obligations to the equityholders and creditors. Nevertheless, we have pursued an effort to preserve this interstate regional trackage. Hopefully, we are being realistic in our approach that either the main-line portion of the track between Minneapolis and Miles City or beyond can be retained through being included in the reorganization plans of the Milwaukee or through an equitable acquisition and operation by another carrier.

Briefly, I'll review our attached exhibit.

[The attached exhibit follows:]

Department/class	Average number	Location
<b>Economic impact of employee wages: <sup>1</sup></b>		
Train and switchmen.....	39	Aberdeen, S. Dak.
Enginemen.....	18	Do.
Yardmasters.....	4	Do.
Maintenance of way/B & B.....	8	Do.
Dispatchers.....	5	Do.
Roundhouse (consolidated).....	11	Do.
Carmen (consolidated).....	34	Do.
Lineman.....	1	Do.
Electronic monitor.....	1	Do.
Signal monitor.....	1	Do.
Officers (consolidated).....	15	Do.
Clerical (consolidated).....	27	Do.
Grand total.....	164	
<b>Yearly gross wage total: <sup>2</sup></b>		
\$3,034,000.....	164	Aberdeen, S. Dak.
\$7,770,000.....	420	South Dakota.

<sup>1</sup> Current average gross wages are projected at \$18,500 per year, and does not include fringe benefits to indicate, medical and dental distribution.

<sup>2</sup> Estimated yearly income from away-from-home-terminal train crews to Aberdeen, S. Dak., economy, at 9 men per day comes to approximately \$75,000 per year for lodging, food, and drink.

Mr. DE LETT. Basically we're looking at an average number of employees in Aberdeen alone with a gross wage total of somewhat over \$3 million, and in the State of South Dakota, with 420 employees, of over \$7½ million.

Senator McGovern. That's just on the Milwaukee system.

Mr. DE LETT. Just on the Milwaukee system; correct. And we haven't included any of those fringe benefits that go out into the communities. We also made a rough estimate showing turnaround crews in Aberdeen alone account for something in the neighborhood of \$75,000 a year being poured into the community. I thank you.

Senator McGovern. Thank you Mr. De Lett, for your testimony.

The final witness on this panel is Mr. Gohn of the Aberdeen Chamber of Commerce.

**STATEMENT OF JIM GOHN, PRESIDENT, CHAMBER OF COMMERCE,  
ABERDEEN, S. DAK.**

Mr. GOHN. Good morning, Senator, and thank you.

Senator McGovern and officials attending the railroad abandonment hearing, my name is Jim Gohn and I serve as president of the Aberdeen Chamber of Commerce. Our organization very much appreciates and thanks you all for conducting this hearing in Aberdeen today on a subject of great concern to all of us.

Aberdeen has long been associated with the railroad industry, dating back into the 1880's when the rails were first built in this country. Geographically, Aberdeen is situated where it is today because of the convergence of the various rail lines here. It is not by accident that Aberdeen has enjoyed the title of "Hub City of the Dakotas," due to the rail service provided in this area. No community wants to lose jobs or services, and Aberdeen is no exception. The 160 jobs made available to employees of the railroad industry in Aberdeen is an important economic factor in our community. These jobs are needed and provide a great stimulus to our area.

In addition to the jobs that are provided, the service offered by the railroad in this area is equally important. Brown County is one of the largest producers of corn, wheat, oats, and flax in South Dakota. These products must move to market. We have energy needs that must be met and are currently being met by the transmission of power from the Big Stone Plant fueled by coal hauled on the Chicago, St. Paul & Pacific Railroad Line.

We have reviewed the State rail plan and compliment the South Dakota Department of Transportation for their foresight in preparing this plan. It is interesting to note that the line currently owned by the Chicago, Milwaukee, St. Paul & Pacific is listed as a first priority in the basic system under this plan. Transcontinental rail service through Aberdeen is a must. At the same time, we can sympathize with the railroad industry, knowing that they have operated under less than favorable regulations, rules, laws, and conditions in the past, and that they will need financial assistance to operate as a viable transportation network in the future. There is no better time than now to completely review all regulations that deter this industry from operating on a sound financial basis. The need for a mainline railway system through Aberdeen is apparent. We would encourage the Congress, the South Dakota Transportation Department, railroad industry, and shippers to expend every effort to maintain mainline rail service through Aberdeen.

Thank you.

Senator MCGOVERN. Thank you very much, Mr. Gohn.

Gentlemen, we appreciate your testimony. We've got two additional witnesses to be heard from briefly, so I won't go into any further questions; but we do thank you for your participation here this morning.

Our final witnesses this morning, who will make brief statements, are Mr. Wittmaier of the Knife River Mining Co., and Mr. Archie Baumann, legislative assistant to Congressman Richard Nolan of Minnesota.

Gentlemen, if you could make your statements briefly, since we're late into the morning, and then submit any further views, we'll be glad to make them a part of the hearing record.

I might just announce that at this time, for those of you who weren't here at the beginning of the hearing this morning, that I'll be going to Big Stone—the Big Stone plant Monday morning at 10:30, and then there's a public meeting. It's not a hearing, but a public discussion in Milbank on Monday noon. On Wednesday, the Joint Economic Committee hearings will resume at 10 o'clock in the morning at Mobridge and we'll be meeting at the Moose lodge at 10 o'clock in the morning on Wednesday, November 1. Then that afternoon at 3:30, the third in this series of hearings will be held in Lemmon, S. Dak., at the American Legion Hall. That's Wednesday, November 1, 3:30 p.m. So any of you who are interested in following the progress of these hearings should keep those announcements in mind.

Mr. Wittmaier.

**STATEMENT OF A. J. WITTMAYER, VICE PRESIDENT, KNIFE RIVER COAL MINING CO.**

Mr. WITTMAYER. Thank you, Senator. My name is A. J. Wittmaier. I am vice president of the Knife River Coal Mining Co., whose address is 1915 North Kavaney Drive, Bismarck, N. Dak. 58501. Knife River Coal Mining Co. has been mining lignite since 1922, and during that period has served the States of Montana, North Dakota, South Dakota, and Minnesota.

The Knife River Coal Mining Co. operates lignite mines at Beulah and Gascoyne, N. Dak., and at Savage, Mont. The total production of these mines is approximately 5,000,000 tons a year, and all of the production of the Knife River Coal Mining Co. is shipped by rail to the user, which consists, primarily, of electric utility powerplants, which supply electrical energy to the upper Midwest.

The mines at Beulah, N. Dak., and Savage, Mont., are served by the Burlington Northern, Inc., and so our concern rests with Knife River's mine at Gascoyne, N. Dak., which is served by the Milwaukee Road.

Gascoyne, N. Dak., is located in the southwest corner of North Dakota between Bowman, N. Dak., and Lemmon, S. Dak. The mine was put into operation in 1950 by the Knife River Coal Mining Co., primarily to supply coal to utility plants at Mobridge, S. Dak., and Ortonville, Minn.

On January 1, 1972, the Knife River Coal Mining Co. entered into an agreement to supply coal to the Big Stone Power Plant, located at Big Stone, S. Dak., as owned by Otter Tail Power Co., Montana-Dakota Utilities Co., and Northwestern Public Service Co. The contract

became effective January 1, 1975, at which time Knife River started furnishing coal to this power station. Under the agreement, Knife River is committed to supply 55 million tons of coal to this powerplant during the first 20 years of the contract, and under certain conditions could be obligated to supply an additional 20 million tons of coal for a total commitment of 75 million tons of lignite. The contract is based on an average annual output at the Gascoyne mine of 2,400,000 tons, and during the early years of the powerplant's life it is expected that the tonnage produced at the mine will approach as much as 2,700,000 tons a year. In the past 12 months, the output of the mine at Gascoyne was approximately 2,700,000 tons of lignite, practically all of which was moved by rail.

The Knife River Coal Mining Co. has reserves of approximately 400 million tons of lignite in the mine area, and in a recent hearing before the Public Service Commission in the State of Montana, Paul Weir and Co., consulting mining engineers, Chicago, Ill., estimated that lignite reserves owned by the Knife River Coal Mining Company have a present value of 16 cents a ton in the ground. The Knife River reserve is part of the Harmon Bed, as described in Geological Survey Bulletin 1015E, titled "Strippable Lignite Deposits, Slope and Bowman Counties, N. Dak." This survey bulletin lists the reserves of 1.4 billion tons in the Harmon Lignite Bed as located in Bowman and Slope Counties, N. Dak. The Harmon Bed is only part of a large lignite reserve that extends from the northwestern corner of South Dakota to as far north as the Canada border and into eastern Montana.

The Knife River Coal Mining Co.'s operation at Gascoyne, N. Dak., employs, on the average, 85 people and has a present annual payroll of \$1,509,000. It is the one source of permanent, high-paying employment in an area bounded by Bismarck, N. Dak., to the Black Hills of South Dakota, west to Gillette, Wyo., and Decker, Mont. The employment at Knife River's mine at Gascoyne, N. Dak., has a great impact on the towns of Hettinger, Reeder, Scranton, and Bowman, N. Dak., and the large payroll of this mine helps to lessen the vagaries of Main Street, caused by the fluctuating small grain prices and yields.

The primary consumer of lignite from Knife River's Gascoyne Mine is the Big Stone Plant, Big Stone, S. Dak. The coal movement is accomplished by unit trains with two trains in operation at all times, one taking coal to the plant and the other bringing empty railroad cars back to the mine for loading. Each train consists of one hundred 100-ton capacity cars, and six or seven loaded trains per week are shipped from the mine to the Big Stone Plant. This movement will, undoubtedly, continue through the life of the Big Stone Plant, which is estimated to be a minimum of 35 to 40 years.

The Knife River Coal Mining Co. has made an original investment of approximately \$14,500,000. The Big Stone Plant site is laid out for a second unit, which will be similar in size to the first unit, and Knife River is prepared to meet the coal requirements of the second unit at the time it is built, and is willing to make the additional investment in order to do so.

Abandonment of the Milwaukee main line west through South Dakota would leave a large area which contains large coal reserves unserved by any railroad. This area is roughly bounded by—designated by railroad stations—Mott, N. Dak., to Pollock, S. Dak., to Leola,

S. Dak., to Redfield, S. Dak., to Gettysburg, S. Dak., to Pierre, S. Dak., to the Black Hills in South Dakota to New Castle, Wyo., to Huntley, Mont., to Glendive, Mont., to Beach, N. Dak., to Mott, N. Dak., the starting point. This area contains approximately 51,100 square miles and contains the bulk of the lignite reserves in the United States, besides covering a large area underlain by subbituminous coal. [See attached map from "Environmental Impact Statement, Proposed Federal Coal Leasing Program, vol. 1."]

It is inconceivable that our Nation can willingly forfeit access to these large, essential, known coal reserves by allowing the abandonment of the Milwaukee Road, which in effect cuts through the very heart of the area described. Abandonment of the Milwaukee Road would be particularly hard on the northwest quarter of South Dakota, as well as the southwest quarter of North Dakota, as well as southeastern Montana, and would in all probability prohibit further development of the large coal reserves in those areas, besides causing forfeiture of investments made in the small towns and industry, such as that investment made by Knife River.

Upon abandonment of the Milwaukee main line, Knife River would have no choice but to cease operating its Gascoyne Mine, as there is no practical manner presently developed to move 60,000 tons of coal each week a distance of 350 miles each way other than by this railroad.

Tariffs paid by the shippers on the Milwaukee are set by the Interstate Commerce Commission and the various State commissions and are only set after rather lengthy and detailed hearings in which the railroad sets forth the need for additional revenue. The need, as determined by the various regulatory authorities, is then embodied in published tariffs which are paid by the shipper. Thus, in fact, the public has paid what has been determined the proper tariff on all materials shipped on the Milwaukee Road, including shipments of lignite from Knife River's Gascoyne Mine.

There has been constant and continuous publicity of the need for western coal to ease the crisis this Nation faces in energy, and most studies agree that the volume of coal moving from the West to the East will involve massive movements by rail. There is contention in the press and in Congress that the railroads serving the western coal areas will be unable to meet the demands imposed on them by this movement of western coal; and, as such, slurry pipelines have been suggested as an alternate means of transportation. The slurry pipelines would relieve to a considerable extent the very heavy and constant unit train movements through the cities and villages in the upper Midwest where objections have been voiced to the constant movement of unit trains of coal through the cities and villages. In fact, the objection is such that the Federal Government has authorized a study to determine the impact and possible remedies of the continually increasing movement of the unit trains through the cities and villages in the upper Midwest.

Instead of attempting to abandon the main line of the Milwaukee Road west of Aberdeen, S. Dak., a far better use would be to utilize this main line for the movement of Western coal. Utilization of this line for the movement of unit trains from the West, which will constantly increase, would help to dissipate the heavy magnitude of coal traffic which will continue to increase in the future. One of the larger

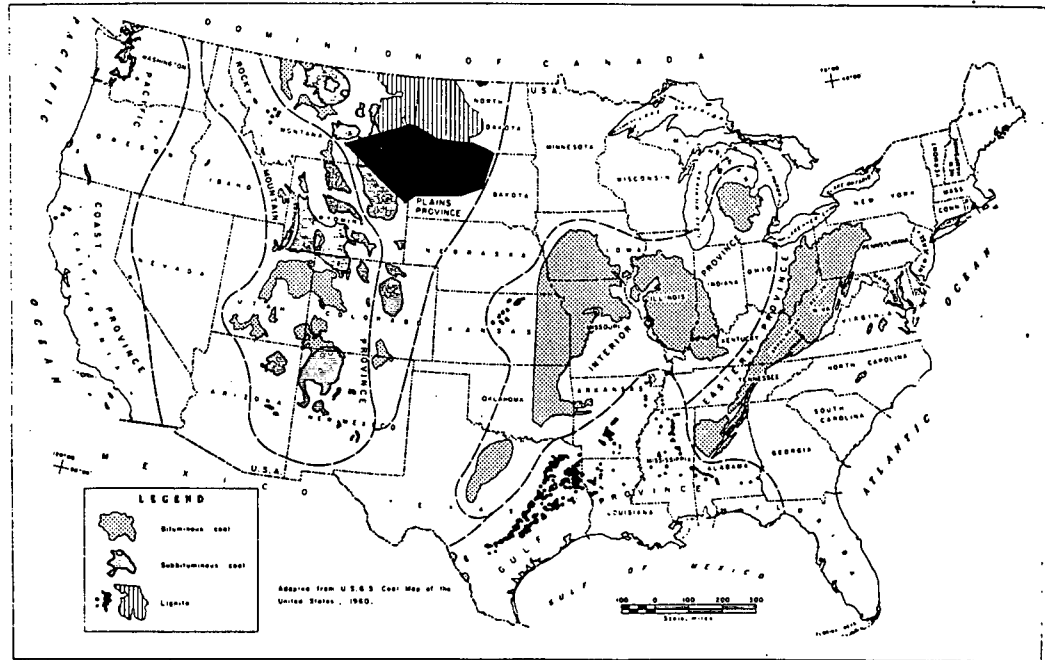


producing areas of western coal is the Colstrip area in Montana, and the main line of the Milwaukee Road is ideally suited for the movement of coal from these mines to the East and would relieve the increasing traffic which is now occurring on the other rail lines.

It is unconscionable that the same Government, which is literally spending hundreds of millions of dollars on coal development, and byproducts from coal, so that the Nation can eventually obtain some degree of independence from imported oil, would allow abandonment of a main line railroad which literally cuts through what is considered the largest coal reserve area in the United States, and it is inconceivable that this same Government, which is formulating the energy policy based on coal, would allow abandonment of a railroad which would cause a company, such as Knife River, to literally lose an entire investment while at the same time the Government, through regulatory authorities, is ordering existing plants and those being constructed to utilize coal.

[The attached map referred to follows:]

PROBABLE OCCURRENCE OF COAL



Page I-47, United States Department of the Interior, DES 74-53, Draft, Environmental Impact Statement, Proposed Federal Coal Leasing Program Volume 1.



Area, the interior of which would not have any rail service upon abandonment of the Milwaukee Road Main Line.

Senator McGOVERN. Mr. Wittmaier, you're quite right in referring to recently passed energy legislation that cleared Congress just before we adjourned a few days ago. One of the five titles of that legislation was directed specifically at what you said, which is to encourage the conversion from reliance on foreign imported oil to the utilization of domestically produced coal. That may be one of the more important parts of the energy package.

It occurred to me while you were testifying that maybe some of the people in the audience or those who will listen to these hearings or read about them may not know about this operation—just how it works—where you're moving coal by train from your mines to the Big Stone plant. Could you just describe the mechanics of that for us? I think it's a rather remarkable operation—how often it goes and how they handle the cars at the end when they get to the plant. I think that's a process we haven't gone into today, and if you could just take a minute to describe that. I'm very much impressed with it and I think other people would be.

Mr. WITTMAYER. I'll be very pleased to do so, Senator.

As I stated, there are two trains in the movement, and they're always in motion, except during the time—well, even during the time they're loaded and unloaded. We'll take train No. 1: It is at our Gascoyne mine, say at 7 o'clock in the morning. No. 2 train then is at the Big Stone plant at the same time. It's being unloaded; we load it—load the other train. When the train comes in our yard, the train just stops long enough to clear our chutes and the train is in motion. We load that train—it's either 100 to 112 cars—on an average of 3 hours. The train never stops during the loading operation.

Another thing I think should be mentioned is the cars are quite unique. They are coal cars that have covers on them. The covers were originally put there to prevent the snow from getting in the cars, because there is no way we could clean those cars in the short time allotted under the tariff. However, since then, with the big move toward ecology and the concern with environment since that time, it has certainly been a beneficial factor, because it keeps the coal from blowing out of the cars during shipment. These carlids automatically open at the mine; the cars are loaded, they automatically close. The train then leaves the mine; it then arrives at the plant the next morning at 7 o'clock. Here, again, the train only stops long enough to get spotted so the first car or the second car—I think the second car—would get put in the indexer, and these cars are rotary dumped, one car at a time, and—

Senator McGOVERN. They can just be inverted—

Mr. WITTMAYER. That's right. They are turned, I think, about 120 degrees. I think it takes the plant approximately the same time to unload the train as it takes us to load the train at the mine.

Senator McGOVERN. But the time that elapses from when you have loaded the cars at your mine—at your mine fields until it's in Big Stone and back at the mine is how much?

Mr. WITTMAYER. Forty-eight hours.

Senator McGOVERN. Forty-eight hours. But this is a daily operation. Every day there's a train being unloaded and—

Mr. WITTMAYER. Yes. That's why there's two trains. There's always one at one end of the loop.

Senator McGOVERN. I thought that would be interesting for the record.

Well, Mr. Baumann, you're our final witness. I understand you're representing Congressman Nolan of Minnesota.

**STATEMENT OF HON. RICHARD M. NOLAN, A U.S. REPRESENTATIVE  
IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF  
THE STATE OF MINNESOTA, PRESENTED BY ARCHIE W. BAU-  
MANN, STAFF ASSISTANT**

Mr. BAUMANN. Yes, sir.

Senator, in recognition of our State legislature and their cognizance of the fact that they may be involved—certainly be involved at some point in the discussion that we're having today—I would like to introduce a guest who is with us, Ellsworth Smogard, who is a very capable legislator from the district that will be affected.

Senator McGOVERN. Would you stand, Mr. Smogard?

Mr. BAUMANN. With that, I would like to quote directly from a statement from Congressman Nolan.

Senator McGovern, we thank you for giving me this opportunity to testify to you before your subcommittee. I believe that these hearings will provide the concerned farmers, shippers, and public officials throughout the upper Midwest with their first opportunity to begin to assess the tremendous consequences which will be suffered by all of us should the Milwaukee Road proceed with plans to abandon the Minneapolis to Butte, Mont., section of the transcontinental line. To be sure, the Milwaukee Road, like many other Midwest railroads, is in deep financial crisis, and I'm sure they would not consider such drastic action if more acceptable options were available. It is equally certain, however, that upper Midwest agricultural communities cannot and will not accept the abandonment of a rail line so essential to our ability to deliver agricultural commodities to transcontinental markets and international markets. The abandonment, as we know, is a subject of tightly regulated procedures. It is imperative, therefore, that the responsible public officials and members of the agricultural community take prompt action now to avert this crisis and to develop acceptable alternatives.

I compliment the Senator for his astute recognition of this situation and his prompt call to hearings and his effectiveness in involving all interested persons at this early date.

Although I have sympathy for the Milwaukee Road and its uncertain future, my concern is tempered with a good deal of resentment. We are not far removed from the time of the days of the great "robber barons" who assumed huge fortunes while settling the American West. Induced by Federal land grants, tax exemptions, subsidies, and other special privileges, the railroad secured enormous economic and political power. At that time, any rural community who could not secure rail service was in effect doomed to extinction. It is likely that the founders of this community and many others threatened by the Milwaukee abandonment were successful only because they offered the railroad the most generous arrangement. In spite of their enormous advantages, the rail industry today has failed to remain the dominant mode of transportation both for passenger and now for

long-haul freight traffic. New equipment and new technology has not kept pace with the growth of the automobile and trucking industry and the Interstate Highway Systems. We know, for instance, that European rail systems have continued to grow and modernize and improve efficiency at the very same time that the American rail system has been on the decline.

The pattern of deferred maintenance which began 20 years ago or longer now threatens thousands of miles of Midwest railroad and represents rehabilitation costs of staggering proportions.

Once again, rural communities find themselves at the mercy of the rail industry. With the decline of the family farm, the need for non-farm employment in many communities is essential if they are to maintain their existence. However, most communities know that access to efficient transportation is vital if they are to induce industry to locate far from the urban markets.

For these towns, rail abandonments eliminate this possibility altogether. It is indeed ironic to find that the railroads claim their greatest losses in recent years when the farmers export demand has been even higher and has never been greater. Instead of a financial boon for the railroads, we find that hopper car shortages, damaged boxcars, train derailments, abandonment requests, and rail labor lay-offs is at an alltime high. It is ironic that rail transportation declined in a period of national energy crisis despite the fact that railroads are 10 times more energy efficient than trucks.

Senator, it is clear that major reforms are necessary. Whether it is reorganization of the Midwest rail service, either privately or through Government action, local ownership of branch lines, public ownership of rail beds, or nationalized rail industry, some types of major reform is clearly due. As you know, the Congress has taken modest steps in this area already. The local Rail Assistance Amendment Act I have authored to the 4R Act in 1976 was the first step in providing local communities and States with the ability to save viable branch line service. It is a stopgap measure, however, and will not solve our basic problem.

In the 95th Congress, the House Agriculture Subcommittee, which I chair, was successful in passing the Rural Transportation Advisory Task Force Act. This act establishes a major Government effort to address the need for a national agricultural transportation policy and to set forth recommendations on the types of reforms needed. The task force will be chaired jointly by Secretary of Agriculture Bob Bergland, Secretary of Transportation, Brock Adams, and will include farmers, shippers, as well as Federal, State and local government officials. The task force will dissolve after completing their work in 420 days. The bill is presently awaiting the President's signature.

Your colleague in the Senate, Mr. Anderson, of Minnesota, and I have also asked Secretary Bergland to use his existing authority to determine the economic impact that would be suffered if this abandonment were to be approved. We have asked that the report be completed by January 1, 1979, and I will be happy to share a copy of this report with you as soon as it becomes available.

Senator McGOVERN. In that connection, Mr. Baumann, we were advised by Agriculture just last night that they're going to do that—that study. As you know, I joined in that request and they advised me just in time to announce at the beginning of the hearings this morning

that they're granting the request of Congressman Nolan, Senator Anderson, and I made that such a study be undertaken by USDA.

Mr. BAUMANN. I'm sure that Senator Anderson and Congressman Nolan would be very happy to hear that.

While further effort is required to solve the basic problems of Midwest railroads, I believe that they will provide us with information and an analysis necessary to determine the most effective and appropriate Government response. Again, Senator, I thank you for this opportunity and I hope to be able to continue working closely with you and your subcommittee on this issue.

Respectfully, Congressman Richard Nolan.

Senator McGOVERN. Thank you for your testimony. We appreciate you gentlemen being here this morning.

Mr. BAUMANN. Thank you.

Senator McGOVERN. I want to thank all of the witnesses who appeared today, and I want to introduce two of the attorneys who are here for the Milwaukee road—Mr. Charles Kornmann and Mr. Lloyd Richardson. If they'd just stand.

If there's any member of the audience who has a point that they think ought to be made that hasn't been made here this morning, we can take a few minutes. Yes?

Mr. JARRETT. I've got one, Senator.

Senator McGOVERN. Yes.

Mr. JARRETT. If we're going to be so completely isolated with these railroads leaving, possibly we can secede from the Union and be eligible for foreign aid.

Senator McGOVERN. I used to make the point in some of the defense debates on the floor of the Senate that, if South Dakota ever chose to secede from the Union, with all of the power we have out around Ellsworth and the Minuteman, we'd be the third-ranking nuclear power in the world. But I wouldn't suggest that we carry out that move.

Mr. Kornmann.

Mr. KORNMAN. Yes; thank you, Senator. Just one comment, if I may.

I think that the information that was contained in the statement from Congressman Nolan should be at this time clarified. The Milwaukee Railroad is not and never was a land-grant railroad. That's absolutely false; that railroad never received any Government land; they bought and paid for all of the land that they now have, and I think it's a certain degree of misinformation that has contributed to the railroad problems—that plus overtaxation in some States, if we're going to go back and start recounting all the history as to who caused what.

Thank you, sir.

Mr. BAUMANN. Senator McGOVERN.

Senator McGOVERN. Yes.

Mr. BAUMANN. Just to respond to that. I believe that Congressman Nolan's statement was made in regard to the total picture in the area of our problems with railroads, and, if our statement seems to be just a little bit caustic and bitter, it has a background of involvement with hearings or of abandonment hearings where the will and the desires and the wishes of the law and the people of those communities were totally disregarded to the extent that abandonment was almost auto-

matic, with the exception of a very few in the last few months, and I think that that should be also put on the record.

Mrs. LAMONT. Senator—

Senator McGOVERN. Yes, Mrs. Lamont.

Mrs. LAMONT. Senator McGovern, I'm State Senator Peg Lamont.

We have already submitted the testimony from the hearing held September 16 on the railroad platform from Congressman Pressler who worked with me as cochairman, and there is other testimony that's just been submitted from the elected officials of this area—county commissioners who met last week at Craven Corner, and throughout those oral testimonies it was pointed out that already those very small towns are feeling the impact. In fact, it might wipe out some of these very tiny towns which depend on an elevator and a section crew, for instance. But, even more significantly, the thing that came out of those two meetings—the first one had over 200 people—was that people united to say that from the grassroots up, from county commissioners, chamber of commerce members, legislators, we must work together in a nonpartisan effort, and we will back you up, they said.

Senator McGOVERN. Thank you very much, Mrs. Lamont. And do I understand you to say that those hearing records have been submitted?

Mrs. LAMONT. Yes; I have just checked and they have been submitted to you.

Senator McGOVERN. Fine. We're glad to have that, and I quite agree this has to be a total effort involving all levels of government, as well as the private industries and shippers and farm interests that are involved.

Anyone else? Yes.

Mr. MIKE VEHL. Senator McGovern, I represent the area served by the Milwaukee between Mitchell and Kennebec, S. Dak., and I just want to say that we're in the middle of harvest, and there probably would have been a lot more people in the agriculture and grain industry here if we weren't in the middle of a harvest. Part of the problem is we're piling grain on the ground because we can't get boxcars. I think there would have been substantially more people here if we wouldn't have been in the middle of harvest, and I know our group would want to submit some written testimony for the record.

Senator McGOVERN. All right. I appreciate your being here, and while most of the testimony has centered today on that segment of the line moves through this part of the State, I'm vitally concerned about the proposals which may affect the line in the Mitchell area, too. That happens to be my hometown. So we're not going to overlook that. Yes.

Mr. VANDERWALLE. Senator McGovern, I am Tyson Vanderwalle. I am the general manager of the Farmers Equity Elevator at Montevideo, Minn. and I represent some 1,500 farmer-owners.

Back in 1972, we spent money of the elevator and opened up the west coast to domestic grain out of our area. We do have a fleet of rail cars that we use to serve the west coast area in the domestic market for feed. We also ship an enormous amount of our grain to Portland, Tacoma and Seattle for export.

It is the concern of our farmers in the area that the Milwaukee Road is a very vital link leading out of Montevideo and, also, a vital link for Midwestern grain to move to export markets. So we would urge, on

behalf of the 1,500 patrons that I represent, that actions are taken to see that the Midwest farmers, not only in South Dakota, but also in Minnesota, are recognized for the job that they are doing and that they do not lose this vital link that supplies us to the west coast market.

Thank you.

Senator McGOVERN. Thank you for your statement. Yes.

Mr. FRED SIMPSON. Senator McGovern, my name is Fred Simpson. I represent employees in Washington and Montana—approximately 600 employees—an organization named SOR.

I'd like to reinforce the comments of the gentleman that just spoke. Our preliminary analysis indicates that the revenues which originate and terminate with the traffic going to the west coast are particularly important to the viability of the line through South Dakota, and I would hope in your committee's study you look not only at the revenues from Miles City east, but look at the total revenues, which include the revenues to and from the west coast.

Senator McGOVERN. Thank you. Anyone else?

Mr. LARSON. Mr. McGovern, I'd just like to make one statement.

I'm Bob Larson.

Mr. Hillman and the other panel members briefly mentioned the unfair Government policy of financing competitive modes of transportation. A couple recent examples of this are under title XI of the Merchant Marine Act that proposed the Tenn-Tom project where the Government will finance 80 percent of a project because it connects to an ocean waterway under the Merchant Marine Act, and Mr. Carter's recent announcement that he had signed the L-10 Lock and Dam project on the Islip River for 100 percent Government funding. Under the current Federal law, the railroads can't even depreciate their equipment and their plant assets in a fair manner which is economic, and that is primarily one of the reasons that things like boxcars and your covered hoppers aren't available. We can't expect private industry to invest in things that can't be depreciated or made profitable. It's no wonder, with so much financial assistance being given our competitors on a national scale, that the railroads can't have the cash flow and that sort of thing that is necessary to make them efficient as money-makers.

I think there are a lot of solutions, and I think we could start by giving the railroads more Federal assistance. For example, we have Government projects right now to increase our coal traffic and other energy resources. Those things should be considered by Congress and in terms of commitments to lines like the Milwaukee Road to increase our traffic density and volume of carloadings. There's a national transportation policy which is very sad. It doesn't consider the fact, as mentioned, that rails are 10 times more efficient than highways for the movement of certain commodities, such as coal and the raw materials to keep America going.

The Milwaukee Road is not a land grant railroad, and I'm glad that was really made clear. We're a private industry. We're not public. We're like Fred's on Main Street. If the customer doesn't come in and the revenue isn't there, we go broke. And that's the situation we're in right now.

I think it was Mr. Newkirk who mentioned that it might cost \$60 million to operate our system under a directed service order for a short period of time. It seems like \$60 million is a pretty good investment



in a company with 10 times that amount of assets, if you can insure that its survival will continue. You're aware of projects that the Government has spent more than \$60 million on that are not nearly as important to the survival of our Nation and its transportation system as the Milwaukee Road.

What I would like to propose is that Government—particularly the Senate and Congress—be made very aware of the fact that we have difficulty gaining access to the government moneys as compared to bargebuilders, airlines, and other federally subsidized forms of transportation. We have to guarantee our assets to the Government, whereas these individuals merely get 83 percent or some larger number—100 percent—of all their expenses paid for by the Government and just reap the profits through the fees they charge their customers. I think this is an unfair advantage and, like the example of the 511 funds it demonstrates the error in the Nation's transportation policy. I think these changes can't happen overnight, but I think that we have to start right now to make the public aware of them and the need for them so that the Milwaukee Road has a chance of survival. If they aren't taken care of right now, they may benefit the rest of the transportation network, but they will not benefit the Milwaukee Road.

Thank you.

Senator McGOVERN. I'm glad that final statement was made because it fits some of my own views.

I think we do have a tendency to look at transportation policy in a kind of a fragmented way. We deal with the bargelines in one set of hearings; we deal with the highway problem in another time and place in the Congress and in the Government. We look at airline problems sometimes without reference to what the impact of what we're doing has on other segments. We've got to begin looking at the transportation needs of the country as a whole in a more integrated fashion. It seems that that's one of the growing complexities regarding all of these problems we face today. I suppose when these lines were originally laid out, there wasn't much attention given to energy—the kind of energy problems that we're faced with today. We didn't examine environmental concerns. Those are the kinds of concerns I think we have to think about when we're asking ourselves questions about the kind of transport system this Nation is going to have in the future.

But, as you've just said, there's no question what we do in one area of transportation affects, sometimes very seriously, what's happening in another area of the transportation of the Nation. It's because of those concerns that I thought it was useful for the Joint Economic Committee to take a look at the transportation needs of the country as a whole. I don't think it's possible any more to deal with one segment or one mode of transportation without evaluating how that fits in with other modes of transportation, and perhaps the Joint Economic Committee, while it doesn't have legislative jurisdiction over transportation as, let us say, the Commerce Committee does, we do have an obligation as a committee concerned about the economy of the Nation as a whole to see where these transportation modes fit in with other concerns. So I think this is an appropriate note on which to close these hearings. And, again, I want to thank all of you in the room for participating this morning.

[Whereupon, at 12:25 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, November 1, 1978.]

# NATIONAL RAILROAD POLICY: WHICH WAY IS UP?

WEDNESDAY, NOVEMBER 1, 1978

CONGRESS OF THE UNITED STATES,  
SUBCOMMITTEE ON ECONOMIC GROWTH AND  
STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 10:15 a.m., at the Moose Lodge, Moberg, S. Dak., Hon. George McGovern (member of the subcommittee) presiding.

Present: Senator McGovern and Representative Pressler.

Also present: Philip McMartin, professional staff member; and Robin Carpenter, Senator McGovern's staff.

## OPENING STATEMENT OF SENATOR MCGOVERN

Senator MCGOVERN. If I could have your attention, ladies and gentlemen, I think we'll open this hearing which, as you know, centers on the concern that all of us share about the future of the Milwaukee Railway in our State and throughout the region. The Joint Economic Committee, of which I am a member, has been looking into this matter for some time. We had what I thought was a very successful hearing in Aberdeen on Friday of last week, and that was followed with a public discussion with more than 100 leaders of the community in Milbank on Monday noon.

This morning we're happy to be here in Moberg, which has a vital concern about the future of the Milwaukee Road, and then we'll move on this afternoon to Lemmon. So in the space of several days' time, we've actually traversed the entire segment of the Milwaukee line from Milbank all the way into Lemmon, and I'm very hopeful that as a consequence of these hearings and the public understanding and support that they generate, that we'll be in a position to maintain extended service and the coastal connection on the Milwaukee Road.

We've had the full cooperation of the Milwaukee officials, the Interstate Commerce Commission, farm and business groups, and other concerned groups and organizations, as well as a great many private citizens.

Before we begin today, I'd like to underscore that the U.S. Department of Agriculture has now undertaken a study to assess the economic impacts, especially on agriculture, stemming from the possible loss of rail service in South Dakota and Minnesota. Because we are increasingly dependent on the Milwaukee for agricultural shipments to the west coast, I urged the Department to undertake this study on the effects on our agricultural economy if we were to lose this connection with the west coast markets. They've agreed to develop a preliminary analysis before the end of this year, provided all of the proceedings of these hearings are made available to them.

So I'd like to announce that we're going to keep open the hearing record for an additional 10-day period for any of you here in this room or others in the community or across the entire region who would like to submit statements beyond those that are made here today, and they will be included in the printed record.

Second, I've been working with the ICC and with Milwaukee officials in an attempt to prevent or avert any crisis on the line similar to the one we experienced last winter. Presently, the Commission is drafting emergency plans that would allow the railroad to operate its line temporarily at Government expense during an emergency of the kind that we were faced with last winter. If cash-flow problems combine with an excessively harsh winter, it might cause the railroad to cease operations. In that event, a mechanism could be in place to provide for continued service.

Additionally, the Milwaukee line is taking steps through improved locomotive power and emergency plans on their own to insure essential service on the main line.

The bankruptcy of the Milwaukee and their recent proposals for the withdrawal of service west of Minneapolis have brought South Dakota and other upper plains States to an economic crossroads. I think what we do or fail to do in the months ahead will determine whether this region is stripped of crucial rail service or whether we respond to this challenge and design a revitalized continuing rail system.

Perhaps not in the history of our State before have we been faced with such a massive potential for loss of service. In addition to scores of affected branch lines, we now face the possible loss of the only main-line trackage in the entire State, a line that provides jobs, that provides crucial shipping facilities essential to the economy of Mobridge and communities in both North and South Dakota. In my view, this is comparable to an abandonment of Interstate 90, our only east-west interstate highway.

So today we begin to address several questions, some of them difficult questions, regarding the future of rail service in our region. Our task extends far beyond finding a mechanism to save this segment of the main line across our State. I think it's of the utmost importance that we recognize that this is a dilemma that extends beyond the borders of South Dakota. By the same token, our efforts to preserve and to improve the operation and the service on the main line for Mobridge and other communities must actively involve representatives from other States in the region. In this regard, I understand there is some discussion concerning the formation of a multistate main-line task force, and I commend these discussions and your efforts. We'll only be successful if we achieve a strong regional consensus involving our sister States in the area, especially North Dakota, Montana, and Minnesota.

If not corrected, our present lack of such a regional framework for negotiations could spell the end of South Dakota's access to vital export and domestic markets; because the State relies heavily on shipments to such domestic centers and points of export, we cannot rely solely upon a planning process that is confined to our borders, and we've got to be assured of line continuation in other States; for example, Mobridge utilizes the Milwaukee main line for sizable shipments of grain and other commodities all the way to the west coast.

Because we must be assured that the main line continues to provide access for such shipments, we must have agreements for other affected States that they will take steps to save portions of the main line within their borders. However, existing Federal legislation only encourages States to plan for rail service within their borders. It does not have the necessary regional authority that I think we need to do the kind of planning that will be necessary to save the Milwaukee line.

I think we are all aware of the futility of merely shipping to the North Dakota-South Dakota border on the main line. A train has to go somewhere, and we're all aware that State borders are very artificial when it comes to good mainline rail service. However, this could easily happen to us, as North Dakota at the present time does not consider the portions of the main line crossing their State as a vital segment. A regional effort such as the main-line task force that many of you in this room have discussed is crucial to establishing the framework for regional rail decisionmaking.

Now, in addition, it's become clear that we must use a coordinated regional approach to negotiate with other States concerning the entire Milwaukee system, not just the main line. If we can achieve such cooperation immediately, we'll be able to direct a regional effort to determine what segments of the overall system must be preserved and improved to assure an access to important markets throughout the country. To accomplish this, we must realize that some portions of the railroad in South Dakota may have to be sacrificed. However, we should be able to achieve a self-sufficient core system to meet our crucial shipping needs.

I do not believe that the alternative extreme—some kind of a mid-western ConRail sustained by taxpayer dollars—poses a realistic or lasting solution. In fact, despite the billions infused into the ConRail system, service has actually declined, which perhaps indicates that the elimination of excess track is critical to the development of a strong rail system.

The fundamental issue before us, therefore, is how we can restructure the Milwaukee to provide this essential service and give us access to other main-line rail systems. We must remember that the Milwaukee's desire to withdraw from these lines is based on the fact that they were losing money, and that problem has to be addressed. No amount of rehabilitation or Federal funds will generate the additional revenues needed to make the mainline a self-sustaining line. So we've got to look to ways in which we can increase the revenues generated. I think that's possible.

We must determine ways to better serve our shippers in order that they make a total commitment to rail in some cases where trucks now seem a more inviting alternative. What changes in shipper operations, rail operations, rail management, labor work rules will decrease the losses and improve the operating picture? Those are all questions that I think we have to look at very candidly. Presently, much of that information is not available, and I think we have to conduct these hearings today with a recognition that we need to collect more data about all these questions before we can make a final plan of action a reality. But this is exactly the kind of information that studies, such as the one by the Department of Agriculture and the recently announced study by the Old West Regional Commission, should help

provide. The Rail Services Planning Office of the ICC has offered their technical assistance in such an effort if a regional task force is formed. While it will take time to achieve that information and even more time to make the difficult decisions ahead, I believe the Milwaukee Railroad trustee has given us this time through his early announcements of the railroad's plan, and I might just say I want to express my personal appreciation as a citizen of this State and as a Senator that we have had this advance notice from the Milwaukee trustee. He's actually gone beyond what the law requires in revealing to us what they propose, and it gives us some opportunity to react to it. It's almost an invitation to the State and to other States in the region to respond with a show of interest and alternative suggestions that may keep the line operating. But we've got to take action immediately to obtain the necessary information and, as I've said earlier, to achieve a degree of regional cooperation, and the driving force behind that effort must come from the kind of people who are in this room this morning.

We in Congress can actively assist you in providing information, in providing some emergency assistance, perhaps encouraging at some point at least temporary Federal and State assistance, if that becomes necessary. We can help in easing some of the regulatory burden, and there's no question in my mind some of these ICC regulations, both on trucks and on the rails, are obsolete. We can be of help in working with you on a basic plan of action, but the accompanying difficult decisions must be made by all of you, all of us in this room, who depend on the Milwaukee Road.

Now, we have an excellent series of panels this morning that we're going to hear from, and I'm going to be calling on one of my colleagues in the Congress here very shortly, but before I do that I want to call on a local citizen who's long been interested in the Milwaukee Railroad and an old friend of mine and of many others in this room, Henry Niedringhaus, for such remarks as he would care to make.

Mr. NIEDRINGHAUS. Ladies and gentlemen, my name is Henry Niedringhaus. I am a former railroad employee and now county commissioner.

It is indeed a pleasure and honor to have Senator McGovern here with us today to take testimony for the Joint Economic Committee, of which he is a member. The Senator has long been aware and concerned about rail transportation in South Dakota, as well as on the national level. He has expressed his concern for a long time in his newsletter and in other public statements.

On behalf of the Moberge Chamber of Commerce and the Rail Task Force, I would like to express our thanks and appreciation to the Senator for being here today.

Senator MCGOVERN. Thank you very much, Henry for your remarks.

I'm going to call on Congressman Pressler now to take the stand over here. I believe he's in the room and he has a statement to make on this question and while he's coming to the microphone, I want to say that I was handed a statement earlier today by Roger McKellips, who, as you know, is a State senator and is also a candidate for Governor this year, and I'll ask that his statement be made a part of the hearing record.<sup>1</sup> I believe also State Senator Billie Sutton, who is a

<sup>1</sup> See appendix for Mr. McKellips' statement beginning on p. 157.

running mate of Mr. McKellips, is here. Is Billie in the room? Would you stand, Billie, so that they can see you. [Applause.]

If there are other public officials here, we want to recognize you before the morning is over; so, Henry, I hope you'll keep track and let me know. We're going to hear from the mayor a little bit later on as a witness, but if there are other members of the State legislature here or others who are concerned—Norma Klinkel is here. She's a public utilities commissioner. [Applause.]

I'm pleased to welcome Larry Pressler, who is the Congressman in the First Congressional District and is a candidate this year for the U.S. Senate. Larry, you can take such time as you wish.

**STATEMENT OF HON. LARRY PRESSLER, A U.S. REPRESENTATIVE  
IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF  
THE STATE OF SOUTH DAKOTA**

Representative PRESSLER. Well, I shall be very brief because I know that you primarily want to hear local input and I shall just summarize and submit my prepared statement for the record. I shall limit myself to not over 10 minutes here. I did want to commend you, Senator McGovern, for holding these important hearings.

My hometown of Humboldt is losing its railroad and, coming from a farm there, we know that we are going to have to be paid at 10 to 15 cents less a bushel for our corn and oats because of losing the railroad. I know the tragedy of the loss to Mobridge that would occur. And I have a proposal that I would like to put out for study and that is that the basic rail tracks be owned either by public ownership or by cooperatives. This may be easier said than done. But since I've been in Congress, we have been asked to subsidize the railroads. Many of those subsidies are needed and deserved, but as you have pointed out so well, we need to take a new comprehensive look at the whole railroad thing. I think this four-State study would be very good and I hope it includes the possibility of cooperative ownership of the basic railbeds. The simple economic theorem which shapes the overall transportation policy of the Railroad Revitalization and Regulatory Reform Act of 1976 holds that an efficient transportation system best serves its function if free economic competition is encouraged between various modes.

This has not been promoted in the case of competition between rail transportation and other modes. Federal subsidies causing distortions in the marketplace have actually accelerated the decline of the railroads' market share and railroad rate of return on investment. For railroads to become competitive over a broad spectrum of commodity groups and over the long run, Federal investment and regulatory policies must provide for equitable competition.

According to the Department of Transportation 902 study, "Federal Aid to Rail Transportation," the U.S. Government to date has spent \$131.3 billion in current-year dollars in direct Federal aid to transportation; \$88.8 billion of this accounted for highway construction; \$14.7 billion was spent to build and maintain waterways; and \$26 billion was devoted to the development of airport facilities. The inequity is striking when these amounts are compared to the \$1.8 billion spent for assistance to railroads, which represents the only mode taking total responsibility for construction and maintenance of rights-

of-way. It may well be that central grain terminals are needed to improve rail operations in grain producing States. But, it's also going to be necessary to make some basic changes in the whole national railroad policy.

It has been pointed out here today already that we are going to have to demand more in terms of disclosure, both from management and unions. Indeed, I understand that the Penn Central Railroad operates many other businesses, that it actually somehow benefits from a loss on some of its railroad operations. A railroad is a public trust and we in Congress must demand disclosure. We must demand that sparsely populated routes be served because they are so important. They are also important to national defense. I would suggest that this subcommittee and the public carefully examine the concept of public ownership or cooperative ownership. I wonder if municipalities could be members of such a cooperative or if counties could be members of such cooperatives or if producers and consumers could be members of such cooperatives?

Public ownership or cooperative ownership of rights-of-way would put rail transport on a more equal basis with other transportation modes as indicated by the statistics I read earlier. Rather than excessive Federal subsidies, this concept involves ownership of some portion of the rail fixed plant by a Federal, State, or local government body. Although the Government should take over financial responsibility for owning and possibly maintaining the rail line or a cooperative could do the same, private companies would control operations of the facilities and would possibly pay a type of user fees for the privilege. I have also talked about additional uses of railroad lines, such as the possibility of water pipelines or aqueducts running alongside of railroad tracks. And in discussions with railroad company owners, they feel that this would be a possible additional source of revenue to them and they do not fear a water pipeline or an aqueduct as they would a gas or oil pipeline, if such a pipeline had a shutoff valve every 2 or 3 miles in case it broke and the pressure went down. Such devices are available at a fairly low cost.

So those are some ideas I will submit to the subcommittee in the form of testimony that I took at Aberdeen earlier this year. I might also say that Congressman Nolan, of Minnesota, and I have worked hard to try to get the Midwest its fair share of railroad funds. Frequently the bills that we have in Congress, like many other things, give so much more aid to the eastern and northeastern sectors or to Amtrak. We must continue to fight in that area. But rather than just fighting for subsidies, we must come up with some new ideas and a new approach, and I commend Senator McGovern for his idea on a four-State compact. I would like the subcommittee and the four States to study the possibility of making changes in our laws to allow cooperative ownership of railroad rights-of-way, which I would prefer over government ownership. If we look at the subsidies which are being paid to competing modes of transportation for airports or for highways or for other types of public basic rights-of-way, we find that railroads in this part of the country are not being subsidized as much. So that is a suggestion that I have to this subcommittee.

Thank you very much.

[The prepared statement of Representative Pressler follows:]

## PREPARED STATEMENT OF HON. LARRY PRESSLER

Senator McGovern, members of the Congressional Joint Economic Committee, ladies and gentlemen, as Representative of the First District of South Dakota, I welcome the opportunity to explore with you the economic importance of the Milwaukee Pacific Coast Extension in the Midwest and viable alternatives for continuation of service so vital to the stability of rural communities in this region. I applaud the efforts of the Chairman and the Committee in addressing the problems of ailing rail operations in the Midwest.

The basic assumption which shapes the transportation policy of the Railroad Revitalization and Regulatory Reform Act of 1976 holds that an efficient transportation system best serves its function if free economic competition is encouraged between the various modes. This has not been promoted in the case of competition between rail transportation and other modes. The combination of Federal regulation and subsidies causing distortions in the marketplace have actually accelerated the decline of the railroad market share and railroad rate of return on investment. For the energy-efficient rail freight mode to remain competitive over a broad spectrum of commodity groups and over the long run, Federal investment and regulatory policies must provide for equitable competition.

According to the Department of Transportation 902 Study, "Federal Aid to Rail Transportation," the U.S. Government spent \$131.3 billion (current year dollars) in direct Federal aid to transportation; \$88.8 billion of this accounted for highway construction, \$14.7 billion was spent to build and maintain waterways, and \$26 billion was devoted to the development of airport facilities. The inequity is striking when these amounts are compared to \$1.8 billion spent for assistance to railroads, which represent the only mode taking total responsibility for construction and maintenance of rights-of-way.

The situation is further complicated in rural communities of South Dakota and elsewhere in the Midwest where deteriorating rail service is paralleled by a deteriorating and limited highway system. Built to accommodate tonnage far less than the trucking needs today and certainly those which would ensue should rail service be dissolved, there is no federal assistance and little funding through County sources available to rehabilitate the antiquated local roads and the State highway system is in almost the same condition.

In view of the need to continue a certain degree of rail service and the disparity which weakens the competitive edge of this transport mode, the concept of public and private/cooperative ownership of rail rights-of-way have attracted increasing attention and appear to be promising avenues in creating an integrated transportation system. I urge continued study and cooperation with the Secretary of Transportation, who has been directed by the Congress to assess the effectiveness of such an approach for an improved rail system.

Local public ownership arrangements to ensure continued service have been successful in Cincinnati Southern Railway and Vermont Railway systems as well as with profitable lines in Georgia and almost a third of Virginia's most profitable rail lines. Please allow me to direct the panel's attention to the Vermont Railway experience as outlined by the Secretary of Transportation in his Preliminary Report, "A Prospectus for Change in the Freight Railroad Industry":

The State of Vermont owns three rail lines that it leases to private operators. In 1963, Vermont acquired the first rail property from the trustees of the defunct Rutland Railroad—a 129-mile line linking communities between Bennington and Burlington. The purchase of the Rutland properties marked the beginning of Vermont's activist role in maintaining existing rail service. The rationale for the action is Vermont's expressed policy to encourage economic development "where transportation facilities already exist . . . rather than extending fixed transportation facilities to areas where none now exist." Only lines approved for abandonment are considered for purchase by the State. Since its initial purchase, Vermont has acquired an additional section of the former Rutland in 1965 and the St. Johnsbury and Lamoille County Railroad in 1973. The Vermont lines continue in operation only because they are State owned.

Vermont's public ownership of fixed facilities permits private operators to provide continued service over a usable plant, even if only at a modest profit. The State benefits from user fees, tax payments, and the retention of industrial firms that might otherwise move to other regions. Shippers benefit from lower cost freight service than that offered by other modes. This approach results in upgrading the plant for existing operators, and there is no ongoing public subsidy involved because the initial public investment is repaid.



The United States has a substantial number of short line railroads—about 300 at present—which vary greatly in profits and viability. Some are profitable, heavy traffic lines, but others are short, extremely light traffic, marginal roads similar to those in South Dakota which are now threatened with abandonment. In many cases, these were created to take over branch lines of major systems. Private ownership patterns vary, including lines held by local shippers, local individuals, large industrial firms having plants on the line, mining companies, lumber companies, and business firms that have specialized in taking over branch lines and operating them independently. Many of these alternative private and cooperative ownership arrangements would be possible to apply to the situation in the Midwest, providing the only service to communities on the line, access to a main line road, and perhaps vital bridge service to east and west markets.

Although the varied experience with short, privately owned lines is difficult to summarize, some conclusions have been drawn by Professor John F. Due, of the University of Illinois, in a report prepared for the Wisconsin Department of Transportation and the Council of State Governments. These observations hold important implications for us to consider in promoting viable alternatives to local and regional transportation systems.

Professor Due observes that such lines typically can operate more cheaply than major roads could operate under comparable conditions. Many of the lines have operated successfully over a long period of time, adjusting to great declines in traffic volume while still covering expenses. Many of these lines appear to operate with a high degree of efficiency, adapting their services to the needs of the shippers far more successfully than the major roads and holding costs down despite low-traffic volumes. Although experience has certainly not been universally successful and a number of such lines have been abandoned, many rail experts regard this short line arrangement as a model of efficiency. Some continue to operate on extremely marginal returns, adapting sufficiently to continue operations.

In seeking possible avenues toward the creation of a viable rail system serving the Midwest, I urge that we follow the lead of those states which have successfully established viable rights-of-way through public and cooperative ownership. Incorporated into a totally integrated, inter-regional rail system, this approach would supplement the viability of a core rail system and ensure continued service to those communities and shippers dependent on rail transportation for their livelihoods. I look forward to more comprehensive study of the historical experience with this approach and its possible application to our particular problems in the Midwest.

Senator McGOVERN. Thanks for your testimony, Congressman Pressler. I appreciate your presence here today.

Now, the first panel of the witnesses, if they would take these chairs over here at the table to my right, are Mr. Gene Chamberlin, the publisher of the Mobridge Tribune; Mr. LeRoy Marin, the mayor of Mobridge; Mr. Jim Rothstein, the chairman of the Mobridge Rail Task Force; Mr. Ed Vojta, president of the chamber of commerce; Mr. Frank Sonnek, the local chairman of the UTU, and Mr. Red Lewellyn of Rail Labor. I might say while these gentlemen are taking their places here that all of these procedures this morning are being carried on the air by radio station KOLY. I want first to express my appreciation to that radio station and to Mr. Q. P. Coleman, the owner of KOLY, who has built it up into one of the best radio stations in our region. I think many of you know he's very ill, but he's certainly in our thoughts this morning and I want to personally thank him for the service that his station has provided not only to this hearing but to so many other activities throughout the region.

Mr. Chamberlin, I guess we'll begin with you.

#### STATEMENT OF GENE CHAMBERLIN, MEMBER, MOBRIDGE RAIL TASK FORCE

Mr. CHAMBERLIN. I'm Gene Chamberlin, and on behalf of the Mobridge Rail Task Force, I want to join Henry Niedringhaus in

welcoming you to Mobridge, Senator McGovern, and in thanking you for holding this hearing here. Your office has regularly been our best source of information during these trying times. Our greatest encouragement has been your lead in searching for answers to the railroad crisis.

Mobridge has been a railroad town ever since it got its name and its start in 1906 with the Milwaukee decision to bridge the Missouri here on its way to the coast. Losing that transcontinental service now would be a true crisis for our area. Not only our past, but our present and our future are tied to continuing that service. I'd like to quickly list some of our concerns, which I know are also your concerns, Senator.

We're concerned about west coast and Asian markets for our farmers. Those markets will be even more important in the future as developing irrigation projects increase the need for expanded agricultural markets.

We're concerned about moving heavy goods, such as farm machinery, feed and fertilizer, into our area. Costs to consumers would jump without good rail service.

We're concerned about the industrial future of our area, much of which is tied to water and to rail transportation. Our Chamber Industrial Committee is investigating plans to locate major power plants in this area, the possibility of a cement plant, and the possibility of an alcohol plant, for instance. Most of our industrial potential would be lost if we lose rail service.

We're concerned about our highways and the effect increased truck traffic would have. Highway maintenance costs would increase beyond the State's ability to pay.

We're concerned about the ecology of our area and the effect that an endless line of trucks moving down our highways would have on our way of life.

We're concerned about the State's rail plan and with maintaining the State's only transcontinental connection. We question how viable the State's railroad system would be without that connection.

We're concerned about people, specifically the 74 railroad employees and their families, who are our friends and neighbors. In addition to the \$1.5 million payroll they bring into our community, they are homeowners and are active in much of our community life.

It's encouraging to see so many people here this morning to present further testimony and statistics to show how serious these concerns are. Their information will make it clear that Mobridge and the State of South Dakota simply can't afford to lose transcontinental rail service. We must do whatever it takes to keep that service here.

Senator McGovern. Thank you very much for your testimony, Mr. Chamberlin.

Our next witness is the mayor of Mobridge, Mr. LeRoy Marin.

#### **STATEMENT OF HON. LeROY C. MARIN, MAYOR, MOBRIDGE, S. DAK.**

Mr. MARIN. Senator McGovern, ladies, and gentlemen, I have a brief prepared statement which I will read into the proceedings of this public hearing.

My name is LeRoy Marin, mayor of the city of Mobridge. It has been my privilege and pleasure to serve as an elected official for the

past 4½ years in the capacity as major of this community. I have observed the many changes that have occurred in the transportation network over the past years.

It is indeed our pleasure to have you here in Mobridge for this subcommittee public hearing. We are very hopeful these public meetings will be beneficial to you and other members of the committee to more adequately assess the tremendous importance of railroad transportation service.

Other members of the local railroad task force will address community economic factors relating directly or indirectly to the great importance of Milwaukee main line service to this area. I will endeavor to direct my remarks and emphasize certain points that relate to the Mobridge community and to developments or possible developments of the future. Serving as a local official, one is exposed to all areas of growth, economic development, and business expansion and/or new business to the community. Therefore, I will relate the following business transactions or potential development for this immediate area and the need for railroad transportation service.

In the past few months, Bagley Elevator Co., Minneapolis, and Grain Terminal Association, Minneapolis, purchased elevator facilities adjoining the Milwaukee main line. The elevators are on leased railroad property and will be utilized for grain-buying points, with main-line railroad service definitely a factor in this investment.

The city of Mobridge recently leased a portion of land immediately adjacent to the railroad siding to Dakota Recycling, Inc. The firm is in the aluminum reclaiming business and railroad facilities are a factor for bringing material into their plant and to ship from their plant.

The Milwaukee Railroad has played a major part of the city of Mobridge for the past 68 years, serving the necessary transportation needs during this time. Over the years many changes have taken place in the transportation network, but even now the Milwaukee Railroad contributes over \$1.25 million in salaries to the economy of the area.

Very recently preliminary studies have indicated the potential location of a coal-fired electrical generating station in this immediate area. Two of the essential requirements for this development are adequate water and rail service for the delivery of necessary fuel. The ever increasing need of our agribusiness for a plentiful energy source will dictate this development in the very near future. Water and transportation service are absolutely essential elements when planning studies are considered for energy development.

Over the past few years I have answered requests for information relative to the community. Always, the availability of rail transportation is of prime importance to any request. Fortunately, the city of Mobridge has a substantial amount of property immediately adjacent to the Milwaukee Railroad for this type development.

The Milwaukee Railroad has played a tremendous part in the total development of the area. We solicit your assistance to continue this important mode of transportation for the basic agricultural economy of the State of South Dakota.

We urge your congressional Subcommittee on Economic Growth to petition the Milwaukee Railroad to develop an active market analysis, along with an aggressive traffic sales approach, to provide ade-

quate rail service with proper equipment to meet the transportation requirements of the upper Midwest.

We would encourage your subcommittee members to utilize all information secured from the public hearings to provide viable methods for all agencies and the Milwaukee Railroad to continue rail transportation to the upper Midwest, with coast-to-coast interconnecting lines.

We thank you for this opportunity to provide the testimony to this public hearing.

Senator MCGOVERN. Mayor Marin, with regard to your suggestion that there be an effort on the part of the rail line to more aggressively promote trade along the line, I've been amazed at how many people have made that suggestion to me in the last few days. I was in Britton the other night and several businessmen and farmers in that area approached me to express the view that, with a somewhat more aggressive shipping promotion effort on the part of the rail line, they thought the railroad could double the amount of traffic that's moving over that spur between Britton and the main line. It's about a 25-mile segment in there. It occurred to me that if that were possible, if you could double the amount of traffic moving with an agent out there that's a little more aggressive and a little more sensitive to the needs of shippers and uses those cars a little more efficiently. That would put that segment of the road into a profitmaking position.

We have Mr. Lloyd Richardson here, who is an attorney for the railroad, and I know he's been following these hearings very closely. I think these are worthwhile suggestions. There are doubtless things that could be done by the rail line itself that would increase their revenues, and I hope all who are following these hearings, including those who aren't formally testifying today, will give us the benefit of their suggestions on steps that might be taken to generate more traffic on the railroad.

Mr. Jim Rothstein is the chairman of the Mobridge Rail Task Force. We're happy to welcome you here, Mr. Rothstein.

#### **STATEMENT OF JIM ROTHSTEIN, CHAIRMAN, MOBRIDGE RAIL TASK FORCE**

Mr. ROTHSTEIN. Thank you. I'm Jim Rothstein, chairman of the local Mobridge task force on railroad abandonment and railroad utilization, appearing before Senator McGovern and the Subcommittee on Economic Growth and Stabilization, relative to the railroad transportation problems of the Milwaukee Railroad and the effect upon this area, and the entire area adjacent to Mobridge.

We wish to express our gratitude to you, Senator McGovern, and your staff and those engaged in the conduct of these hearings. We truly appreciate your concern and your dedication.

Mobridge over the years has had a close partnership with the Milwaukee Railroad. Since the very origin of Mobridge, there has been a compatible partnership. Mobridge has had a dependency upon the Milwaukee Railroad. Also, Mobridge has made a definite contribution to the Milwaukee.

I will mention some of our concerns and some of our intentions. Hopefully, we'll generate renewed determinations to preserve an item needed in this area—railroad service.

Immediately after the conclusion of this hearing, we will solicit and we will encourage all towns and cities from Milbank, S. Dak. to Lemmon, S. Dak. to formulate a South Dakota task force to develop a common direction in our efforts to sustain and maintain the services of the Milwaukee Railroad. Our local task force has already extended an invitation to do so and there is an indication of tremendous support. This effort ultimately, as Senator McGovern has already said, should extend beyond the boundaries of South Dakota. It will include Montana, North Dakota, South Dakota, and Minnesota.

We wish to compliment the Milwaukee Railroad for the many fine contributions to our social and economic development. We are appreciative of their contributions. We recognize that the Milwaukee Railroad's economic problems are not necessarily all of their own fault. Perhaps the Government may have contributed to the Milwaukee Railroad's misfortune. One example of this has been the fact that Government has historically urged farmers to install storage facilities on the farm. We have no quarrel with that. The intent was good. But they reimbursed the farmer for that storage at various rates of 14 cents a bushel, perhaps to 20 cents a bushel, maybe to 22 cents. Then they went a little further and made low-interest loans available to provide the storage facilities, thereby creating a problem for the railroad. The railroad hauled no produce during the delayed storage time.

There has been no shipment of livestock via railroad. There's no more LCL freight. You're all aware of that.

Further, and Senator McGovern has already mentioned it, rules and regulations and inadequate allowable freight rates have certainly caused deterioration of the railroads' economic structure. I think, if you'd analyze it, that the rate increases allowed railroads for transportation of produce are less by far than the rate of inflation. So you have to wonder how can railroads continue to exist.

This area has vast resources to be exploited—coal, oil, uranium, possibly cement, expanded agricultural productivity because of irrigation potential, power, or utility generation, all dependent upon railroad service.

The economy will be damaged severely because of increased use of truck facilities and inadequacy of our present highway system. This further compounds a critical need for an effective transportation system. Many programs, Federal and State, over the past years relate to the need to create job opportunities; relate to the need of generating growth in our economy. Our effort, as a local task force, would be to preserve job opportunities that already exist and to maintain economic growth.

We need to sustain transcontinental railroad service.

I'd like to compliment the Mobridge Task Force on one endeavor. It has probably changed the policy direction of South Dakota regarding rail transportation. We heard from the State sources—this is not said in criticism—that the concern of the State does not extend beyond the boundaries of South Dakota. The task force created a definite concern about the need to preserve all lines west of Butte, Mont., because that has to be our priority if we want to maintain transcontinental railroad service and maintain an adequate market for farm produce.

We trust, Senator McGovern, that you, Government agencies and business will look with favor upon our request, that you will have a

compassionate interest in this concern; the preservation of the Milwaukee Railroad as a viable link in an essential transportation system. We hope that you and the other committee members can and will concur in this.

Thank you very much.

Senator McGOVERN. Thank you for your testimony, Mr. Rothstein. I want to commend you and the other members of the Rail Task Force for the vision and imagination you've shown in trying to save our main line all the way to the west coast. As you know, Mr. Rothstein, the Milwaukee has proposed selling off its line from Butte all the way to the west coast, to the Union Pacific. If that sale were to be approved, recognizing the fact that it's your preference to keep the Milwaukee operating all the way to the west coast on its own, do you think the task force might look favorably on an alternative which would be the possibility of utilizing the Burlington track after you get to the Miles City area, maintaining the Milwaukee line from Minneapolis on across to Miles City and at that point linking up with the Burlington?

Mr. ROTHSTEIN. Senator McGovern, ladies and gentlemen, I think this is a very important point. This is where we think time is so important. It gives us time to create a partnership with Burlington Northern, to create an alternative or to develop one. Surely there's got to be enough genius and enough talent along the Milwaukee line, in Government offices and within the Milwaukee Railroad itself to accommodate the preservation of the railroad as a viable railroad line. Thank you.

Senator McGOVERN. Thank you very much, Mr. Rothstein. I may have a couple of questions later on here, depending on our time.

Our next witness is Mr. Vojta, who is the president of the Moberidge Chamber of Commerce. Mr. Vojta.

**STATEMENT OF EDO A. VOJTA, PRESIDENT, CHAMBER OF  
COMMERCE, MOBRIDGE, S. DAK.**

Mr. VOJTA. Thank you, Senator McGovern.

Mr. name is Edo Vojta, president of the Moberidge Chamber of Commerce.

The Moberidge Chamber of Commerce, and its 200 members, appreciate the time you are taking to hear our testimony regarding the importance of the Milwaukee Railroad to the Moberidge trade area.

Moberidge represents a trade center in the northwest quarter of the State and as such provides goods and services for a large trade area, including an area approximately 100 miles west and 50 miles north, south, and east, and includes several agricultural communities where the farm population continues to decrease because of lack of economic growth.

This trade area has an approximate population of 30,000 people, and with our medical services, our trade area, at times, exceeds those perimeters previously described. Moberidge continues to provide the necessities for much of this population which would be traveling to another more distant trade center and would be increasing the need for energy, increasing the demand for transportation funds to maintain and improve highways, and secondary roads in the State which depends so much on transportation for its very existence, and in

order to maintain and expand its economic growth and its way of life.

We believe you have an interest in keeping the State of South Dakota an economically viable State capable of expanding its economy in the future. In order for us here in Mobridge to meet the future, and be able to be competitive in the marketplace, it is essential that we in Mobridge and the State of South Dakota, maintain and in the future expand, every economically feasible means of transportation.

You will hear testimony today which is specific in its relation to the economic benefits of the railroad to the city of Mobridge and to the region which is serviced by the Milwaukee; however, the chamber would like to express our concerns with the possible abandonment of the Milwaukee Railroad.

We believe that transportation presents a barrier to economic growth of our State and the area we serve, and any reduction in our rail system would be a reduction in our overall transportation plan and would result in further deterioration of the already thinly populated State. The railroad in this State provides a means of transporting goods into and out of this area, and provide that service to some industry in the State that would not otherwise be located here. We believe that Mobridge needs to continue to be serviced by this rail line until satisfactory, economically feasible alternatives can be designed and implemented to provide this service.

The single largest industry in our State is agriculture, and you can easily see that agriculture in this part of South Dakota is certainly our most important contributor to our local economy. It seems apparent that we must maintain the rail service to these trade centers such as Mobridge in order to provide the necessary means of moving agricultural products from the farm to the most profitable markets for the farm operations.

The market that is often the most profitable is the west coast, and this main line of the Milwaukee provides the transportation to the West and to those markets which can improve the farm economy, and the results are improved markets for local farmers and improved economy for Mobridge and its trade area. This we believe is a strong case for maintaining the transcontinental concept of the Milwaukee line in order to maintain that important link to the West which has traditionally been better for agricultural products.

We have anxiously awaited the development of the Oahe Reservoir for irrigation to our land, and you can again determine that Mobridge and the surrounding areas would be in excellent position to take advantage of the Oahe water to expand and intensify our local agriculture, and improve agricultural production for the entire Nation and the world. The increased production is predicated on the fact that there will be a profitable market for those products. This also means there will be viable, reliable, and reasonable means of transportation for this increase in production. We believe that this main line of the Milwaukee provides the best possible means for transporting these products to the markets with the least energy cost, and the least cost to private and public sector. We believe that this trade center can best be served now and in the future through the mainte-

nance of this main line of the Milwaukee, and that this will assure the producers of the future that they will have the needed modes of transportation for delivery of their production.

This will be an encouraging aspect to the decisions for keeping the farm economy strong in this area and our great State and the Nation.

Our State, and in particular this trade area we serve, has had difficulty obtaining the needed industry and manufacturing for continued growth of our economy and to retain the people we educate, train, and serve. This is expensive and counterproductive to this thinly populated State and we believe that the area needs to be encouraged by its abundance of resources, and more utility of those resources in order to attract additional industry and to retain those people who are leaving our State because we can't provide the jobs and pay required. We believe that the time is critical for the State, and particularly the area we serve in Mobridge, to maintain all visible means of encouragement to business and industry, and a viable transportation system which includes the maintaining of the main line of the Milwaukee is a very visible means, and without it, we could add to the deterioration of our economic growth by discouraging business and industry to locate in our trade area.

The Milwaukee has been a part of that business and industry of this State for many years and it appears that it could continue to be more significant in the future. As a part of the business and industry of the State, the Milwaukee Railroad has provided jobs, for several individuals who have provided economic strength to the communities in which they reside. You are very aware of the difficulty we have in this State of maintaining our growth and it is even more difficult to replace those who leave the State because they may lose their employment.

We sincerely appreciate your time and would ask that you exert your influence in providing sufficient time for all concerned to evaluate the many alternatives which are presented and will be reviewed in order to arrive at reasonable and economically feasible methods of preserving this main line of the Milwaukee as a transcontinental railroad. We believe that time is of the essence and it is most needed now in order to probe all of the alternatives before the entire State is affected by the loss of, or the reduction in service of the Milwaukee Railroad.

Senator MCGOVERN. Thank you, Mr. Vojta.

This is a question that might go either to you or to Mr. Rothstein. If it became necessary to have somewhat higher shipping rates in order to improve and sustain the service on the Milwaukee line, do you think shippers in this area would be agreeable to that?

Mr. VOJTA. Senator, I believe that, as a businessman, we have inflation and we have to accept it in all modes. I am receiving higher freight rates from the trucklines. I used to ship by rail a lot, but as the service diminished, I had to change over and I have to accept these higher rates. I believe the railroad has to make money or it is not going to run. I wouldn't run my business for a loss either, so I feel that we as a community will have to be willing to accept higher freight rates to maintain a viable railroad.

Senator MCGOVERN. Thank you.

Our next witness is Mr. Frank Sonnek, who is the local chairman of the United Transportation Union. Mr. Sonnek.



**STATEMENT OF FRANK SONNEK, CHAIRMAN, UNITED TRANSPORTATION UNION, LOCAL NO. 1150**

Mr. SONNEK. My name is Frank Sonnek. I live in Mobridge. I am local chairman of the United Transportation Union Local 1150. I've been requested to speak for the members of my union local. These are the men who work on the trains: brakemen, conductors, and some engineers.

I suppose I should speak on the impact on these men, about 60 men and their families, if Milwaukee trains cease to run. Well, it's clear with no trains they will have no jobs and their paychecks will be gone from the community. I would rather speak about the feelings of these men. They have spent many years working on their jobs. Some men have 35 years' service.

What went wrong on the Milwaukee Railroad? At times it has been the most modern railroad in America, electrified over the mountains and with the fastest and best passenger trains. Why is the track so bad on the Milwaukee Road now? This is a question we wonder about. We know one answer—because no money has been spent on maintenance for over 25 years, except the bare minimum. We know it would take an enormous sum of money to put the transcontinental line from Minneapolis to Seattle in shape to run high-speed freight trains.

The Milwaukee Railroad created the Chicago Milwaukee Corp. and began to acquire other industries. The employees could not understand why the effort and resources used to acquire these other industries were not concentrated on the railroad. The railroad told us it would help rather than hurt us. These other moneymaking industries would shore up the railroad financially.

Now the parent company has dumped the railroad into bankruptcy, and the Chicago Milwaukee Corp. is still acquiring other industries with the money that could have been put into track maintenance and equipment. Within the past month they acquired Southern Boiler & Tank of Memphis for an undisclosed sum of money—that's the parent company. Where's the money that was supposed to shore up the railroad financially? When I acquire an automobile, it costs me money, yet we are told it did not cost money to acquire these other industries. Stock transfer, better accounting to the Interstate Commerce Commission, depreciation accounting, in-house tax write-offs for the parent company; I don't pretend to understand these things that we have heard of. But I guess the acquired industries didn't help. Did they want to run a railroad or become a successful conglomerate like the Northwest Industries, which was an almost identical takeoff from the Chicago Northwestern Railroad?

Did they want to run a railroad or was the railroad just used in a financial scheme? Now that the Chicago Northwestern Railroad finally got away from the financial manipulations of the parent company, they are finally in the black, but they were down so low that it's a long road up for them yet.

We do not know the answers, but some of us spending our life on the railroad have strong feelings about it. Some of us have written letters to Senator McGovern, voicing our concern.

Now, Secretary of Transportation Brock Adams says they don't need two railroads from Chicago to the Pacific Northwest. It sounds like an echo of 25 years ago. They said they didn't need two railroads

from Chicago to New York City, so they let the New York Central Railroad and the Pennsylvania Railroad merge. That failed, and now they have ConRail and it cost the taxpayers \$1.3 billion this year.

Corridors—they say these are a part of the American railroad system that are worth putting money into. These are the lines between the large cities. Mr. Hillman says that the only viable part of the Milwaukee Railroad is the corridor from Minneapolis to Chicago. If corridors will make a successful railroad, ConRail should really be successful, because they have corridors between all the large cities of the East. Now the Department of Transportation has sponsored some sprint trains in the corridor from Minneapolis to Chicago. The idea of these sprint trains is good. It handles exclusively trucks and trailers to get them off the highways; but couldn't they have found another corridor for them? It just robbed the Milwaukee Railroad system in general of engines for use elsewhere on the line. Soon they will have to discontinue some service in South Dakota because of the shortage of engines.

When we first heard Mr. Hillman was appointed trustee, we looked at his past record at reorganizing the Illinois Central Railroad. We heard he got rid of all the top management and got some fresh people in to manage the railroad with new ideas, and the Illinois Central Railroad did take a turn for the better. We hoped for the best. He kept the Illinois Central as a whole. He did not try to sell the extension to the Gulf of Mexico. We still hope he will do as well with the Milwaukee Road and we still hope that somebody, Congress, the Interstate Commerce Commission, or the courts will make the Milwaukee Road stay intact, at least until a thorough study is made. All concerned, shippers, industries that have built along the lines expecting continued service, employees, they all deserve a careful study made before any part of the Milwaukee Road is dismantled. The present solutions that Mr. Hillman and Brock Adams have don't appear to help anybody but the bondholders and competing railroads.

Thank you, Senator McGovern, for holding these hearings on something that is so vital—that will so vitally affect the membership of my union. And I hope Congress contributes something that will end in a solution that is good for all.

Senator MCGOVERN. Thank you very much, Mr. Sonnek. I think all of us appreciate the fact that those who depend directly on this rail line for their livelihood have a special concern about it, and I do appreciate the letters and correspondence, the telephone calls and now your testimony on behalf of your members. I think you do raise an interesting point and one that we frequently hear in congressional testimony on rail problems, not only here in our part of the country but all over the Nation, that there has been an investment pattern developing in the rail industry for years in which the proceeds from the operation of the rail line in too many cases have been invested in other enterprises rather than upgrading on the rail line itself. So I think this is a problem that we have to look at in the course of these hearings and consider in developing any action plan that eventually emerges. We appreciate your testimony.

There's another representative from rail labor here today, Mr. Red Lewellyn. We'd be glad to hear from you, Mr. Lewellyn.

## STATEMENT OF RED LEWELLYN, MEMBER, MOBRIDGE RAIL TASK FORCE

Mr. LEWELLYN. Thank you, Senator McGovern.

I'm Red Lewellyn. I'm a member of the Rail Task Force and a member of the Brotherhood of Locomotive Engineers, and my question is: You've touched on a small amount of it—is what we do this winter? Last winter, as an engineer on the Milwaukee, shippers couldn't get any service. I've talked to people that have said this year, if it gets as bad as last year, they'll just shut the railroad down; we'll be out of it. Under the 4R program the Milwaukee is repairing 111 engines. But they can't get them all done right away. Also, is there some plan in your ICC thing to bring some power in from someplace else so that we aren't left stranded? This is my main concern, immediately. It isn't a long-term plan, but if we're shut off right away, well, we're in trouble.

Senator MCGOVERN. Yes. Well, I think this is a good question and I alluded to it in my opening remarks earlier, but let me just repeat here for the benefit of any of you that came in late that—I have been working directly with the Milwaukee officials and also with the ICC to develop some contingency planning. The ICC is working on a plan under which it could actually on an emergency basis provide direct assistance to the rail line to deal with the kind of situation we had last winter.

I can't, of course, guarantee you that they've got a fully developed emergency plan that's absolutely foolproof, but I can tell you that we've been pressing them very hard to come up with some contingency plans.

Mr. LEWELLYN. Right. Well, this one point I wanted to get across so you could press them a little more. It's not only just money. Dollar-wise, the Burlington Northern is not in bad shape but they had as much trouble as we did. It's our power, our power that we have made today. General Motors and General Electric engines are not made for the winters we're having. I don't know what you can do about it, but it should be looked into, to get on the hearing record.

Senator MCGOVERN. I appreciate that. I think it's a question we do need to know more about. I'm frankly not able to give you an answer.

Mr. LEWELLYN. No, but I mean maybe you can look into it in time, because that is a concern because it isn't just money that's going to help. It's got to be power and without it we're lost.

Senator MCGOVERN. Yes. I appreciate that and I think that's a valuable addition to the hearing record here this morning.

Mr. LEWELLYN. Thank you, Senator McGovern.

Senator MCGOVERN. Thank you for your appearance here.

That completes our first panel. Before I call on the second panel, are there any members of the State legislature here, other than Mr. Sutton, who has already been recognized? I can see at some point down the road we may have to call on the State legislature for some help on this problem, as well as the legislatures in the surrounding States. Are there others here? Well, I'd be glad to recognize any member of the legislature that wants to make a statement. If they come in at any time during the morning, we'll recognize them.

Mr. Sutton, do you want to say anything before we turn to the next panel? I call on you in your capacity as a member of the State senate.

**STATEMENT OF HON. BILLIE SUTTON, SENATOR, SOUTH DAKOTA  
STATE LEGISLATURE**

Mr. SUTTON. Thank you very much, Senator. I would like to just make one or two remarks, I will be brief.

You know, if there's one thing that I've been privileged to do in the past 3 months, it's cover this State and cover about every road in this State and almost every community in this State. If there's a major concern I have, it's the condition of our primary and secondary road system in this State. I think we've neglected it up to this point. You know, it's not always popular to pass new taxes in the legislative halls. I'm not being critical of anyone, but I think we should have addressed this question of transportation more fully in the State legislature up to this point. I think it's vitally important that the next legislature and the administration work with these other States concerning continuation of this railroad line.

You know, as was said before this morning, South Dakota has limited resources. We have to make the best use of the resources we have. I hope that the cooperation between the States can keep this railroad running and maybe even improve railroad service down the line because agricultural products are so vitally important to this State and transportation is a big part of that.

Thank you.

Senator MCGOVERN. Thank you very much, Senator Sutton. We appreciate your statement.

Our next panel is composed of Mrs. Norma Klinkel of the South Dakota Public Utilities Commission; Mr. Bob Martin, the assistant to the general manager of the East River Electric Power Cooperative; Mr. Harvey Faulstich of the South Dakota Farmers Union, District VII; Mr. Jim Carr of the South Dakota Wheat Commission; and Mr. Milo Schanzenbach of the South Dakota Wheat Producers at Selby. If they'll take these chairs now, we'll be glad to hear from panel No. 2.

I think we'll begin with Norma Klinkel of the South Dakota Public Utilities Commission.

**STATEMENT OF NORMA KLINKEL, COMMISSIONER, SOUTH DAKOTA  
PUBLIC UTILITIES COMMISSION**

Mrs. KLINKEL. Senator McGovern, thank you for allowing the South Dakota Public Utilities Commission the opportunity to testify before your committee today.

The commission has been and continues to be gravely concerned with the possible abandonment in part or in whole of the Milwaukee Road's main line west of Minneapolis. That portion of the line in South Dakota provides crucial services to South Dakotans in shipping massive quantities of coal to the Big Stone powerplant near Milbank, S. Dak., as well as providing South Dakota grain and other shippers access to regional, national and the export markets on the west coast.

The public utilities commission is responsible under South Dakota law to represent South Dakota interests in any Interstate Commerce Commission abandonment proceedings. However, the commission feels that every effort must be made to preserve rail service on the

Milwaukee Road main line through South Dakota in order to avoid the necessity of the Milwaukee Road to commence abandonment proceedings on this line. The commission has intervened in the Milwaukee Road bankruptcy proceedings in order to protect South Dakota's interest. Further, the commission has held an initial meeting with public utilities commissioners or their representatives from other affected States in order to begin coordinating and utilizing each State's resources in an effort to preserve rail service on the Milwaukee Road main line west of Minneapolis. And I should add that we are planning a further meeting with the other States in about 2 to 3 weeks.

Additionally, our commission staff is presently compiling all of the available data and information necessary to help in establishing the most effective strategy for preserving the rail service on the Milwaukee Road in South Dakota and in the Western States.

Testimony was presented at the Joint Economic Committee's Aberdeen hearing on October 27 by Montana-Dakota Utilities Co., Northwestern Public Service Co., and Otter Tail Power Co., who together own the Big Stone powerplant. I will not duplicate the material presented by the utilities regarding the fundamental importance of preserving rail service to Big Stone plant. Suffice it to say that over 70,000 South Dakota consumers will have to pay exorbitant rates for electricity, even if South Dakota can secure electricity from other sources, if the coal shipments on the Milwaukee Road line through South Dakota to the Big Stone plant are not continued at the present level. Not only would the adverse effect on South Dakota electric consumers be staggering, but the South Dakota economy would equally suffer if rail service on the Milwaukee Road is not preserved. I would urge the Joint Economic Committee to carefully review the material submitted regarding the Big Stone generating plant in its deliberations.

Finally, the South Dakota Commission would note that it will do all in its powers to actively preserve rail service on the Milwaukee Road line through South Dakota in terms of supporting necessary State and Federal legislation, participation in Interstate Commerce Commission actions and Federal court proceedings.

The South Dakota Public Utilities Commission greatly appreciates your leadership, Senator McGovern, and the Joint Economic Committee's efforts in doing whatever can be done to preserve the Milwaukee Road line in South Dakota and the Western States. The public utilities commission looks forward to continuing to work with you and your staff, as well as coordinating and cooperating with other local, State and regional entities, in order that every conceivable measure can be taken to preserve the Milwaukee Road.

Thank you very much for your time and consideration.

Senator MCGOVERN. Well, thank you very much for your testimony, Mrs. Klinkel. You've made reference to the meetings the commission has had with other States. Could you give us just a brief comment on what kind of response you've had, what level of interest other States in the area have shown in working with us in preserving rail service?

Mrs. KLINKEL. Well, we have contacted Minnesota. They were not able to send anybody. We were up as Bismarck with the commissioner, Bruce Hagen, who heads up the Governor's Rail Advisory Plan Committee also, and he chaired the meeting that day with the companies

and the representatives of the Knife River Coal Mine. The Montana commissioners are interested, but no commissioner attended; a staff person, the transportation director, came in, and we are hoping to get together with not only Minnesota but North Dakota again—we hope we had some input into their rail plan while we were up there. We tried to get them—somebody to come down here. We thought somebody was coming from North Dakota. I don't know if there's anyone here or not.

Senator MCGOVERN. If they are, we'll be glad to hear them later on.

Mrs. KLINKEL. We'll be meeting also, hopefully, with Montana and we're going to be checking with Oregon, Washington, and Idaho.

Senator MCGOVERN. I hope that you and other officials from our State will be successful in persuading North Dakota they ought to designate their segment of the Milwaukee as a high-priority line. After all, that coal that comes out of North Dakota which is sustaining the plant at Big Stone and may be needed for other powerplants is crucial not only to us but to consumers throughout the area. So I'm hopeful that one of the consequences of these hearings will spill over the border to generate a little more concern on the North Dakota side.

Mrs. KLINKEL. We'll keep at it and I hope that we have made some progress, but I think the testimony on the economic impact of that Knife River mine and the possibility of it having to close, and so on, should impress them—the testimony that was presented at the Aberdeen hearing last Friday. I hope it will.

Senator MCGOVERN. Thank you very much for your testimony.

All right. We'll turn now to Bob Martin, who is the assistant to the general manager of the East River Electric Power Cooperative.

**STATEMENT OF ROBERT F. MARTIN, ASSISTANT TO THE GENERAL MANAGER, EAST RIVER ELECTRIC POWER COOPERATIVE, INC.**

Mr. MARTIN. Senator McGovern, ladies and gentlemen, my name is Robert F. Martin. I am a member of the staff of East River Electric Power Cooperative, Inc., headquartered in Madison, S. Dak.

I am going to speak to the necessity of the continuation of service on the main line of the Milwaukee Railroad in South Dakota.

East River Electric Power Cooperative is a wholesale power supplier to 24 member distribution systems who in turn serve at retail approximately 60,000 rural member consumers. Attached to my statement is our system map showing our transmission grid which covers most of eastern South Dakota and portions of western Minnesota.

East River Electric Power Cooperative has approximately 2,100 miles of 69,000-volt transmission line and 150 distribution substations. We also have two 115,000-volt and four 230,000-volt substations. Our current construction program includes three additional 115,000-volt and one 230,000-volt substations.

Our direct concern for the rail line in question is the shipment of poles, approximately 2,000 per year, from the Pacific Northwest for the construction of transmission line and also for the delivery of heavy substation equipment from various locations. These materials are of such size and weight that their transport by other means is very difficult and in some cases is impossible. That material that could be

hauled by other means would be considerably more expensive. These additional costs would be reflected in higher consumers' power costs.

Additionally, our concern is for the potential impact the loss of this rail service will have on future power supply for South Dakota.

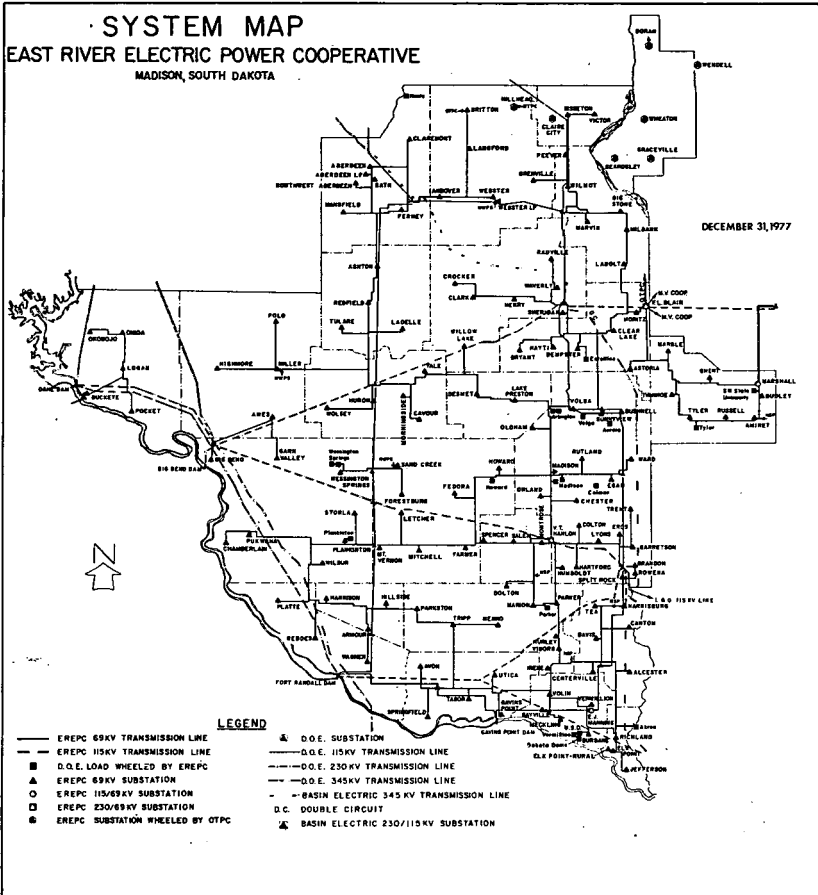
South Dakota does not have significant deposits of coal and none in proximity of sufficient quantities of water—another major resource requirement of thermal generation. It is evident that any thermal generation built in this State will require mainline rail service from North Dakota, Montana, and Wyoming. Because Mobridge is located on this rail line and has an abundant source of water—the Oahe Reservoir—it is a potential location for thermal generating facilities that will ultimately be necessary to meet the growing energy requirements of this State and region. The abandonment of this rail service would wipe out the feasibility of such plants here and seriously jeopardize this region's future electric power supply.

The economic impact on this region as the result of such action would be overwhelming. Energy shortages, the inability to move farm produce, the elimination of industrial growth, the loss of present business, industry and jobs would adversely influence every citizen in the region.

With the wholesale branch line abandonments being experienced in South Dakota, this mainline has become even more significant to the State rail plan and the needs of our State. It is our belief that this line must be maintained by whatever means. Whether it be the Milwaukee Railroad, another carrier; with or without Federal assistance, it must be maintained.

Senator, members of the subcommittee, we thank you for this opportunity to express our views on this important subject.

[The attached map referred to follows:]



Senator McGOVERN. Thank you, Mr. Martin. You referred in your statement to the possibility of Mobridge as a site for a coal-fired steam generation plant. If that were to happen, if East River Electric and other cooperatives were to move in that direction, can you give us some idea of what level of investment, number of jobs, the shipments of coal that will be necessary to sustain a plant of that kind?

Mr. MARTIN. Senator, I don't have those statistics with me and haven't worked close enough in that area recently to give you firm statistics. I believe we could come up with some examples and submit them later, if that would be all right.

Senator McGOVERN. I think it would be helpful to put into the hearing record, if you could even get us rough estimates of what we're talking about in terms of economic impact of a plant of that kind—what would probably be required in the way of coal shipments, number of employees involved, because this would have some bearing, it seems to me, on the future revenues of the rail line.

Mr. MARTIN. It certainly would.

[The following information was subsequently supplied for the record:]



EAST RIVER ELECTRIC POWER COOPERATIVE, INC.,  
*Madison, S. Dak., November 9, 1978.*

Senator GEORGE MCGOVERN,  
*Dirksen Senate Office Building,*  
*Washington, D.C.*

DEAR SENATOR MCGOVERN: As requested by you at the November 1, 1978 Joint Economic Subcommittee on Economic Growth and Stabilization hearings on the Milwaukee Railroad, in Mobridge, we have assembled for insertion into the hearing record data regarding the economic impacts of construction and operation of a 500 MW net generating station located in northern South Dakota. The result of this is as follows:

1. Based on fuel reserves located in southwestern North Dakota and eastern Montana, on the existing rail facilities of the Milwaukee (C.M.S.P.&P.) Railroad and on the water available in the Missouri River, a logical and economic location for a generating unit in northern South Dakota would be in the Mobridge area. The data obtained, where affected by site location, has been computed for the Mobridge area.

2. Construction:

A. *Capital investment*: Based on initial operation in 1985, the estimated installed capital cost of a 500 MW net generating unit would be \$525,000,000.

B. *Construction materials*: We estimate approximately 800-900 rail car loads of material would be delivered to the plant site during construction of the generating station.

C. *Construction work force*: We estimate that approximately 2,000 man-years of construction craft labor would be expended during construction of the station. The direct payroll for this labor would be approximately \$60,000,000.

3. Operation:

A. *Fuel transportation*: Based on fuel from the Bowman-Gascoyne deposits in southwestern North Dakota, approximately 30,000 carloads of lignite coal would be transported to the plant site each year. At present unit train freight rates, revenue of approximately \$6,000,000 per year would be received by the Milwaukee Railroad for that fuel movement.

B. *Operating work force*: Based on operating force size for similar units in the area, approximately 140 persons would be permanently employed. The annual payroll for this work force would be approximately \$3,500,000.

C. *Other local economic effects*: Location of the generating station near a community has other economic impacts which have not been directly evaluated. These effects, however, would include such items as large quantity fuel oil purchases, local machine shop or welding shop work, etc.

Additionally, we have obtained from our pole supplier the number of cars of poles they have shipped into South Dakota in 1978. That information is attached. We understand that some of these shipments were on the Burlington Northern line, however, they do indicate the potential.

Should you need further information, please feel free to call on us.

Thank you.

Sincerely,

ROBERT F. MARTIN,  
*Assistant to General Manager.*

Enclosure.

## OUTBOUND SHIPMENTS FROM SPOKANE, WASH., TO SOUTH DAKOTA, YEAR 1978

(FROM JAN. 1, 1978 TO OCT. 30, 1978)

Date	Car No.	Destination (South Dakota)	Weight (pounds)	Freight no deductions
Jan. 27 <sup>1</sup>	95212	Webster	62,000	\$1,461.01
Jan. 9 <sup>1</sup>	95080	Redfield	70,000	1,439.46
Feb. 8 <sup>1</sup>	650811	Yankton	122,740	2,849.75
Feb. 23 <sup>1</sup>	56037	Brucke	83,860	1,955.51
Feb. 28 <sup>2</sup>	476982	Bruce	98,520	2,244.31
Mar. 7 <sup>2</sup>	253513	do	87,500	2,242.96
Mar. 13 <sup>1</sup>	64786	Aberdeen	70,000	1,510.73
Mar. 21 <sup>2</sup>	650806	Bruce	92,940	2,129.37
Mar. 24 <sup>1</sup>	51682	Redfield	70,000	1,604.19
Mar. 28 <sup>2</sup>	95375	do	87,400	1,857.92
Mar. 30 <sup>2</sup>	610197-60075	do	89,000	2,029.23
Apr. 10 <sup>2</sup>	650814	do	100,360	2,101.56
Apr. 12 <sup>2</sup>	100226	do	104,200	2,173.76
May 3 <sup>1</sup>	612827	do	55,500	1,326.50
May 8 <sup>2</sup>	94244	Lennox	87,520	3,017.71
Do. <sup>2</sup>	95222	do	85,000	1,965.80
May 10 <sup>2</sup>	650812	do	100,220	2,423.06
May 19 <sup>1</sup>	61012	Yankton	100,000	2,417.80
May 21 <sup>2</sup>	100731	Lennox	89,700	2,063.45
June 23 <sup>2</sup>	100678	do	92,240	2,119.07
May 23 <sup>1</sup>	94232	Yankton	61,820	1,573.30
May 24 <sup>1</sup>	66242	do	54,300	1,385.30
May 21 <sup>2</sup>	66906	Redfield	116,540	1,193.74
June 21 <sup>1</sup>	100691	do	91,300	1,931.24
June 7 <sup>2</sup>	100773	Lennox	88,240	2,032.55
June 13 <sup>2</sup>	650816	do	96,240	2,197.35
June 15 <sup>2</sup>	650808	do	101,120	2,297.86
June 19 <sup>2</sup>	650806-600134	do	112,800	2,591.28
July 7 <sup>1</sup>	100696	Huron	113,820	2,354.63
July 14 <sup>1</sup>	650808	do	111,800	2,316.64
July 17 <sup>1</sup>	60218	Redfield	56,100	1,340.54
July 19 <sup>2</sup>	95192	Lennox	90,760	2,084.45
July 20 <sup>2</sup>	94247	do	79,100	1,918.29
Do. <sup>2</sup>	614806	do	94,800	2,167.68
July 21 <sup>2</sup>	100686	do	95,840	2,189.11
Aug. 1 <sup>2</sup>	100779	do	99,900	2,272.74
Aug. 2 <sup>2</sup>	61040	do	106,100	2,563.59
Aug. 3 <sup>2</sup>	658814	do	100,000	2,417.80
Aug. 4 <sup>2</sup>	650806	do	100,000	2,539.19
July 26 <sup>1</sup>	65706	Yankton	52,720	1,928.00
Sept. 14 <sup>2</sup>	100773	Onida	76,200	2,020.84
Sept. 15 <sup>2</sup>	100773	Madison	95,300	2,411.69
Sept. 18 <sup>2</sup>	100250	Onida	91,640	2,439.33
Do. <sup>2</sup>	990031	do	74,220	1,981.18
Oct. 17 <sup>3</sup>	77094	Lake Preston	58,200	1,424.60
Oct. 19 <sup>2</sup>	64039	do	66,600	1,626.20
Oct. 30 <sup>3</sup>	98179-65516	do		

<sup>1</sup> Northwestern Public Service Co.<sup>2</sup> East River Electric Power Cooperative, Inc.<sup>3</sup> Otter Tail Power Co.

Senator McGOVERN. I was impressed with the chamber representative here earlier and the publisher and the others who have testified, indicating the thinking they have in that direction; the possibility of other shipments and other industrial development here in the Moberg area that would have an impact on future revenue for the rail line.

Mr. MARTIN. That's correct.

Senator MCGOVERN. Our next witness is Mr. Harvey Faulstich of the South Dakota Farmers Union.

**STATEMENT OF HARVEY F. FAULSTICH, DIRECTOR, SOUTH DAKOTA FARMERS UNION**

Mr. FAULSTICH. Thank you, Senator McGovern.

My name is Harvey Faulstich. I operate a family farm near Orient, S. Dak., in Hand County and am a member of the board of directors of the South Dakota Farmers Union.

I am pleased to have this opportunity to testify here today and to speak out for preservation of the Milwaukee Railroad system in South Dakota.

As a member of the Farmers Union State Board, I represent the area from the Missouri River east through Brown, Spink, and Beadle Counties, an area highly dependent upon the Milwaukee Railroad.

I have lived and farmed in this area all my life and it is hard for me to think what this area would be like without the railroad.

Certainly, since World War II the Milwaukee has been declining like most other railroads in the Midwest. We have heard a lot about deferred maintenance during the past few years. For some it is just a couple of words, but I have seen the results up close. My hometown, Orient, is on the end of a Milwaukee branchline from Roscoe, S. Dak., and I watched that line deteriorate over the years.

It's kind of like the old "which came first, the chicken or the egg" debate. Only this time we know the answer. Poor service and even worse maintenance slowly discouraged the shippers down the line up to a point where the railroad could and did apply for abandonment on the grounds that they were losing money.

The Interstate Commerce Commission approved that abandonment years ago. What we are talking about now is lock, stock, and barrel liquidation of the whole Milwaukee system in South Dakota. I believe that it would be a terrible blow to the economic future of this State.

We have all heard the results of studies that show how much more it can cost farmers if they have to ship their grain by truck. The estimates are anywhere from 15 to 40 cents per bushel.

The studies, including one by Len Poth of the Business Research Bureau at the University of South Dakota, show that the loss of rail lines can take millions of dollars out of farmers' pockets for increased shipping costs on grain and nearly everything that they buy.

Those studies also seem to show that the railroad could make money if it were run properly. Almost 14 million bushels of grain are shipped each year, by truck or by rail, from trade areas along the main Milwaukee line through northern South Dakota. In the counties that make up my area of representation in Farmers Union, trade areas served by the Milwaukee ship almost 18 million bushels, on average.

If they are ever completed, the Oahe and other smaller irrigation projects could also have a very significant impact on farm production in this part of the State. And we would really be in a bind without the Milwaukee lines to move that production to market.

The point I want to make today is that the Milwaukee Railroad is a vital part of the economic picture of this part of South Dakota.

We need the service that the Milwaukee line can provide and more than that we need good rail service which we haven't been getting for some time.

It doesn't really make a difference to this area whether the Milwaukee or some other rail carrier supplies the service. The important point is that, as we move into the 1980's, we need much better rail service. We don't want our lines pulled out.

Thank you, Senator.

Senator McGOVERN. Thank you for your testimony, Mr. Faulstich.

Our next witness is Mr. Jim Carr of the South Dakota Wheat Commission.

**STATEMENT OF JAMES F. CARR, EXECUTIVE DIRECTOR, SOUTH DAKOTA WHEAT COMMISSION**

Mr. CARR. Senator McGovern, Henry, thank you for asking me to be here.

Specifically, we are addressing abandonment of a railroad track and related services it renders, but the real issue is the abandonment of people. The railroad by itself cannot seem to survive economic problems of today. I'm sure that the many related economic hardships which will come to pass if this rail is abandoned will be addressed by others here today. It certainly has. I shall not attempt to cover that same ground in any detail.

I think it's obvious to all that in the event this segment of rail system is abandoned, the entire economy of South Dakota will be affected; the Big Stone Plant, the highways, the Milwaukee Road employees, the grain industry, and other related industries in South Dakota.

The case of the South Dakota wheat producer, as it pertains to the potential loss of this line, is simple to state. This is our link with the Pacific Northwest and if we lose it, we lose a complete market. The Asian market is large and quite separate from our European, African, and Central South American markets. In many instances it is a better market for South Dakota wheat than the lakes market. Unfortunately, this rail line is the only line we have linking South Dakota with this Pacific Northwest market.

This year we have produced about 66 million bushels of wheat in South Dakota, and our average in the last 5 years is 59½ million bushels. With this production it takes a 1⅔-cent change in price to make or lose South Dakota producers \$1 million. Obviously, all the wheat grown in South Dakota is not in a position to move via this route. The important aspect of this line is not only the potential for movement of 30 million or so bushels which has access to this line, but the fact that it keeps our lakes market competitive and thus creates a better market for the other 30 million bushels of South Dakota wheat.

In the wintertime when the lakes and river traffic are closed to us, we still have this main outlet, weather permitting. Obviously, in the last year the shortage of rail cars made this route less than 100 percent useful. This last year when other spring wheat which had suffered sprout damage was in disfavor, South Dakota had all of its undamaged wheat just looking for a market. The Japanese knew we had no way to deliver if they bought our wheat and passed us by.

Each mile of the rail lost in South Dakota costs our producers and all South Dakota citizens. If the rails aren't available, then the wheat must be moved by truck. Truck rates start out at 10 to 20 cents a bushel higher, depending on the area you're from, but this starts a vicious cycle. The more truck traffic we have, the faster our highways deteriorate. This means stricter weight controls, which feed back to the farmer in higher prices for transportation and, consequently, less return.

In some instances the truck rates are the same as rail rates. This tends to happen when rail cars are available, but at that point the trucker can't make ends meet and they go broke. Then when the trucks go out of business, when we have our next rail car shortage, there is no one left to haul the grain and we are left with an unreliable marketplace. In any event it is the farmer who takes the beating.

So far I have looked at this railroad as if it went only one direction. The truth is most South Dakota grain moves toward Minnesota markets and not the west coast. Loss of this line would isolate millions of bushels of our wheat. There are only a few ways to utilize South Dakota's land resources and we are rapidly reaching the limits to do so. All of our wheat producers are in need of higher prices. The frustration they have had in the last few years would have broken the spirit of any lesser people. Imagine what will happen if the market improves and they have no way to reach any marketplace.

The last few years have seen many fights to save branchlines. Most of these attempts have met with failure. We are now addressing a different situation. We cannot afford to lose this line. Some of the branchlines did not serve a large enough group to win the fight.

No doubt, we will be forced into some things which we do not favor and we will compromise away some of the benefits we would like to retain, but in the end we have no choice but to retain this vital main line.

Thank you.

Senator McGovern. Thank you for your testimony, Mr. Carr.

The last witness on this panel is Mr. Milo Schanzenbach of the South Dakota Wheat Producers at Selby. Mr. Schanzenbach.

#### **STATEMENT OF MILO SCHANZENBACH, REPRESENTATIVE, SOUTH DAKOTA WHEAT PRODUCERS**

Mr. SCHANZENBACH. Thank you, Senator McGovern, ladies and gentlemen, I am a representative of the South Dakota Wheat Producers. I'm the immediate past president, but I'd like to address this group primarily as a farmer from this community, so that farmer input can be gotten into this hearing.

I am a farmer from the Selby area. I do not have any statistics to present at this hearing. But as a farmer, I simply wish to state my opinion as to the importance of keeping the Milwaukee main line operational in South Dakota. I'm positive that virtually all the agricultural producers share my concern that without rail service for the transportation of our products to the terminal markets the farmer is confronted with economic disaster.

We have already noted the increase in truck rates that took place this summer when grain cars were quite scarce—and I certainly don't

wish to be coming down hard on the trucking industry at all. I realize its importance. But I do think it goes without saying that without rail competition, we would see a substantial increase in truck rates.

Now, I don't have any solutions for this problem and I certainly would be the last one to suggest that we attempt to force a company to remain in business to lose money. I've been a farmer for 32 years and probably lost money on many of those years, but that has been a matter of my own choosing. It would be my hope that a cooperative effort on the part of the railroad company, the employees, the Federal Government and the shippers might bring about a workable plan whereby this main line in South Dakota will remain operational.

Thank you very much.

Senator McGovern. Thank you for your testimony, Mr. Schanzbach and other members of the panel. We appreciate your participation.

Our final panel, if it would come forward now, consists of Mr. Brian J. Ruhr of the Selby Equity; Mr. Hudd Siebrecht of the Bowdle Equity, Mr. Merlin Melcher of the Java Equity; Mr. Richard Rhiney of the Farmers Cooperative at McLaughlin, Mr. Ervin Dupper of the Glenham Equity, Mr. Carl Smith of Century Services at Pierre, and Mr. Larry Larrington of Selby Equity Exchange.

I think all of the witnesses have kept their statements reasonably brief today and we appreciate that, because we do have a very crowded schedule and we're approaching the noon hour. Many of you can summarize your prepared statements even more and submit the written statement for the record. We'd appreciate it because it will help us get through our hearings in a little more expeditious way.

We'll start this particular panel with Mr. Brian Ruhr of the Selby Equity.

Mr. Ruhr, can you hold just one moment? Our reporter needs to change the tape so we can keep the record intact. I might say while the reporter is changing the machine here that a couple of people have asked me what the Joint Economic Committee is. It gets the title "joint" because it's a combination of the House and the Senate Members. There aren't very many committees in the Congress where we meet jointly, but this is the committee that was set up some years ago to maintain oversight on the major economic problems before the country. When the late Senator Humphrey died, I took his place on the Joint Economic Committee. I had some areas of choice as to the interests that I wanted to specialize in. I felt that transportation, the entire surface transportation system in this country, embracing railroads, the trucking industry, busing operations in the country, were all very important to our part of the Nation, so I chose that area.

All right, Mr. Ruhr. We'd be glad to hear from you.

#### STATEMENT OF BRIAN J. RUHR, SELBY EQUITY

Mr. RUHR. Senator McGovern, I'm honored to be able to express an opinion here today. I'll be very short in what I have to say. There's one thing I think must be looked at. The farmer again is going to be the one taking the bump if the railroads should be taken out.

There has been suggestions today of possibly a farming cooperative to take over the railroads. Now, maybe there could be a subsidy of

some kind. That has been done as far as storage—farmers being paid for storage. There could be some way of reimbursing farmers for shipping grain on the rail system rather than storing their grain. They would be in a position of promoting shipment right away. If a co-operative would be formed, this subsidy could be furnished to it.

But I think our first concern must be to fight for the Milwaukee line first, rather than to turn to this alternative.

And another thing is that the farmer cannot keep taking these blows because the community as a whole will be impacted. How many impacts of this nature can a community take?

That's all I have to say. Thank you.

Senator McGOVERN. Thank you, Mr. Ruhr. We appreciate your testimony.

We will now turn to Mr. Merlin Melcher of the Java Equity.

### STATEMENT OF MERLIN MELCHER, JAVA EQUITY

Mr. MELCHER. Senator McGovern, ladies and gentlemen, in regard to the abandonment of the Milwaukee Railroad from Minneapolis west, it would jeopardize many communities plus elevators situated along the Milwaukee which rely on the railroad for means of shipping their grain to market, whether they ship east to Minneapolis, Duluth, or west to Spokane and Vancouver, Wash. If all the elevators situated along the railroad were to rely on trucks for the movement of their grain, there is not enough trucks to service all the elevators involved. If we were to begin shipping all the grain by truck, I feel that the roads in the State are not adequately built to withstand the extra traffic and weight. In the years we have been shipping grain—and we were established in 1912—we have always relied on the railroad to move our grain to market. It has been the last few years that we have had to use some trucks in order to get our grain marketed. As far as using trucks completely to move our grain to market, we are located too far away from major grain terminals and export facilities. The amount of cars we ship in a year will depend upon weather conditions, market, and Government programs. The number of cars we ship vary from year to year. It would be more if the service were available.

Right now we are in the need of 50 to 60 cars to move grain which we have purchased in the last week; and if cars do not become available at a higher rate than we have received in the past weeks, we could have about 4 months' supply of grain to be shipped. There would be at least double this on farms to be moved before next harvest. Unless we get better service, we could end up losing 30 to 40 cents a bushel on this grain, if we have to wait the full 4 months to get it shipped out. With money costing 12½ percent interest, it does not take long to eat up the small margins that we are working on.

The commodities that we receive by rail are fertilizer and lumber. Fertilizer is the largest commodity we receive, and this also depends upon the condition as to the amount we take in each year. If all elevators were to rely to trucks, there would not be enough trucks to service all the elevators which sell fertilizer. This would not only mean a hardship to business but also would affect most of the farming operations in the community and every other community along the railroad.

The condition of the cars we have been receiving, I feel, has been

average. We usually try to load all cars that we receive by repairing them ourselves as best we can, although this is time consuming and costly on our part. We feel this is worth it in order to be able to have cars to move grain. In 1974 and 1975, we moved more grain than other years and did not seem to have the problem of getting cars that we have had in the last years. In the winter of 1977 and 1978, we did not receive a railcar from November until the end of April, partly due to the snow and the fact that the railroad did not remove the snow, as we are located about a half mile off the main line.

In closing, we have always tried to be 100 percent rail shippers, but the service we have been receiving is forcing us to look elsewhere for transporting our grain to market.

Senator MCGOVERN. Thank you. We appreciate your testimony, Mr. Melcher.

The next witness is Mr. Rhiney of the Farmers Cooperative at McLaughlin.

#### **STATEMENT OF RICHARD RHINEY, MANAGER, McLAUGHLIN FARMERS COOPERATIVE**

Mr. RHINEY. Senator McGovern, I am Dick Rhiney from McLaughlin, S. Dak., manager of the farmers elevator. I am accompanied here today by Don Dougal and Richard Rische, members of the board. I have also from McLaughlin Mr. Gil Young, an irrigator and businessman from McLaughlin.

I have here a short and very humble statement as to the business we've done in the last 3 years. It is necessary to look at basics. I propose no solution, other than to say that without the railroad our standard of living would be reduced. Our needs for a transcontinental railroad for defense or for moving large items would not be fully met. There are immense trainloads of coal going through our town and we as grain elevator operators are in the minority now.

In 1976, we shipped 88 cars of wheat, of which 65 went to the west coast for export; 1977, 70 cars, of which 64 cars went to the west coast for export; and 1978 to date, 87 cars, with 49 cars going west for export. We have had fair service on these cars as to quality. We have rejected six of the boxcars for structural faults that prohibited loading.

We need as many cars in the next 3 months as we have had in the past year. There's more grain than that being offered. But we have not been able to accept it on account of the lack of cars. We ship to the Minneapolis and Duluth market and to the west coast market for export. The long distance to market both east, west, and south, would be a loss that cannot be estimated at this time, if the railroad should go out and we were forced to rely on trucks.

Energy cost, highway damage due to increased truck traffic and loss of a prime market—would be very expensive to the farmers of South Dakota. We have other shipping requirements. We receive fertilizer by rail. In 1976, 12 covered hoppers; 1977, 5 covered hoppers; and 1978, 7 covered hoppers. We also receive minimum amounts of coal, about five cars a year which we supply a school district—Smitty Independent.

The farmers co-op elevator at McLaughlin has the capacity to service many trainloads. We could load from 15 to 25 covered hop-



pers in a given day, if such service was available. We have invested a considerable amount of money in these facilities. We feel that the Milwaukee Railroad system is vital to the continuing existence of the small town in South Dakota.

Thank you.

Senator MCGOVERN. Thank you, Mr. Rhiney. We appreciate your statement.

Let me stress again to all of you, if you have additional comments that you want to file that aren't given here today, the hearing record is open and you can summarize your prepared statement any way you see fit.

Mr. Ervin Dupper is the next witness of the Glenham Equity.

**STATEMENT OF ORA HOFFMAN, MANAGER, GLENHAM EQUITY ELEVATOR, PRESENTED BY ERVIN E. DUPPER, ATTORNEY**

Mr. DUPPER. Thank you, Senator McGovern.

I am Ervin E. Dupper. I am an attorney and I live in Mobridge. I am appearing here today at the request of Orrie Hoffman, manager of Glenham Equity Elevator, located in Glenham, S. Dak., about 6 miles east of Mobridge. The Glenham Equity Exchange is a locally owned cooperative that presently has about 175 patrons. It operates a grain-buying business and also buys and sells feed and seed, stores grain and sells petroleum products to its customers.

When I was a small boy I used to attend the annual meetings of that cooperative with my dad, who was a director many years ago. He was one of the patrons at that time and I am one of its patrons now.

This elevator handles about 400,000 bushels of grain each year. Most of the grain is shipped to Savage, Minn., a small town near Minneapolis, and much of it is shipped to the west coast. This company has its storage facilities located adjacent to the Chicago, Milwaukee, St. Paul & Pacific Railroad Co., and uses the railroad to ship most of its grain. It has facilities for storage of about 200,000 bushels. In the 1978 harvest season, this facility was filled with grain that was hauled by the local farmers, but as railroad cars became available from day to day during the busy harvest season, this company was able to ship some grain from Glenham by rail and that enabled it to acquire more grain from the farmers, many of whom had filled their storage facilities on their local farms.

This company is important to the small town of Glenham and to the surrounding community. Glenham Equity Exchange is located in the middle of a farming community and its patrons are diversified farmers who raise wheat, corn, oats, sunflowers, millet, barley, flax, alfalfa, cattle, hogs, and sheep. It is the closest market for many farmers, including—and I want here to emphasize this—many farmers who are presently irrigating, using water from Oahe Reservoir. It is a real benefit to the farmers in the Glenham area to have this centrally located facility. It saves them time and miles traveled in handling their grain and taking it to market, which is especially important during harvest. It is also important to the continued existence of the town of Glenham, which, like many small communities, is finding it difficult to survive. The elevator is sort of a meeting place for farmers to secure

market reports and weather information and exchange ideas, so it also has a social impact in addition to an economic impact.

Ora Hoffman has managed the Glenham Equity Exchange for about 30 years and he was employed there for several years before he became the manager. He told me he did not believe that that company could continue in business without the railroad. If Glenham Equity dies, the town of Glenham can hardly survive.

For the foregoing reasons it is important to the town of Glenham, to the Glenham Equity Exchange, and to the rural residents who live near the town of Glenham that railroad service continue to serve Glenham and the Glenham Equity Exchange.

Thank you very much for your time.

Senator McGOVERN. Thank you for your testimony, Mr. Dupper.

The final witness on this panel now is Mr. Carl Smith, of the Century Services at Pierre.

#### **STATEMENT OF CARL L. SMITH, PRESIDENT, CENTURY SERVICES, INC.**

Mr. SMITH. Senator McGovern, staff, ladies and gentlemen; I am Carl Smith, president of Century Services, Inc., 326 North Madison, Pierre, S. Dak. I work with individuals and corporations in obtaining loans.

At present I am working with nine ranchers and farmers within or near Corson County on a loan of over \$2 million. The project we are working on is a new project, the McLaughlin Grain Co., Inc., specializing in sunflower seed. The McLaughlin Grain Co., Inc., plans on drying and processing 30 million pounds of sunflower seed this year.

There has been a 30-percent increase in the farmland used for sunflower seed production this year. Now, that's not just within this area here.

The company has purchased 5—or almost approximately 6 acres on the Milwaukee Railroad with railroad siding. The company has paid over \$7,000 for electricity to this site, plus two large dryers. The McLaughlin Grain Co., Inc., will employ three full-time and more part-time employees. In the near future, the company plans to extract oil from sunflowers by establishing a sunflower processing plant in South Dakota. The waste can be used for livestock protein feed.

Now, what would happen to moneys invested by this corporation, the future employment and assistance to farmers in this area, which includes 6, 8, 10 counties which will be served by this plant, if the Milwaukee Railroad is abandoned?

It takes five large tractor-trailer trucks to haul the amount of sunflowers that one boxcar could carry. Think about the impact this alone would have on Highway 12 going east and west.

It has been my understanding the U.S. Government would have kept the Chicago, Milwaukee, St. Paul & Pacific Railroad Co., from going into bankruptcy. I also understand that Burlington is interested in purchasing the Milwaukee Railroad, but other neighboring States were against it. Thank you.

Senator McGOVERN. Thank you Mr. Smith. It occurred to me while you were testifying that the sunflower processing business that you're developing is just one of a number of possibilities that I think are

available to us in the State; the development and processing and retailing of our agricultural products, and here again, as in the case with the powerplants that were referred to earlier, it does hold out the prospect of additional revenues for the railroad, as well as an additional favorable impact on the economy. So, I'm very much interested in what you're doing.

I think we missed a witness in the middle of the table here that we didn't have on the witness list. Would you identify yourself, your name and who you're with, and then we'll hear from you.

**STATEMENT OF LARRY LARRINGTON, GENERAL MANAGER, SELBY EQUITY UNION EXCHANGE**

Mr. LARRINGTON. I'm Larry Larrington. I'm the general manager of the Selby Equity Exchange at Selby, of which we have two branch elevators that we operate, all on the Milwaukee Road.

This little report I'm going to give you is based on the last 12 months, from October 31, 1977 to October 31, 1978. During this period we loaded 237 hopper-bottom or boxcars of grain; 107 of these went to the Minneapolis-St. Paul area; 63 went to Duluth-Superior; 57 went to the west coast; 5 went to the east coast; 2 to the Kansas City area; and we had 8 boxes that were rejected. Now, I might add these 8 boxes were extremely bad. We have loaded open cars which were used for hauling rock or gravel and we have completely relined the inside of certain boxcars in order to have the number that we needed to ship our grain.

At the present we need in the area of 60 to 70 cars to just load the grain that we have in our facilities at the present time. We also unloaded 16 cars of fertilizer at Selby. During this 12-month period I estimate that we could have shipped from 350 to 400 cars, had they been available. Being as how they were not, we were forced to ship the balance of our grain by semi.

Let us compare the cost of shipping by truck, rather than by rail. In the 12-month period, we would have to load some 1,400 semi's to be equal to the 350 cars of grain. This would take a minimum of 30 minutes to load one semi or 2 hours to load four, which is the equivalent of one hopper car. This would take approximately 350 more man-hours for loading at a cost of approximately \$6 per hour. It would cost our association an additional \$2,100 in labor just loading the trucks over hopper cars.

Selling grain in a truck is very costly to the farmers themselves. Truck grain must be sold on a to-arrive basis. This market is usually from 8 to 14 cents below the spot market. The spot market can only be used on carload lots. This figure of 8 cents per bushel amounts to \$95,200 less the farmer would receive for his commodity shipped by truck versus shipping by rail.

In summary, let me cite you two examples that happened to our association between the months of February 1978 and September of 1978. During this 8-month period we purchased a little over one-half million bushels of spring wheat. The last of this was shipped the 19th of September, 1978. Because of this delay we suffered losses of \$274,000 of Farmer Equity money through our association; \$88,000 of that was paid in interest on the money we had borrowed on the grain that we

had purchased; \$164,000 of that was lost due to premium decreases and charges for late delivery. Also, \$18,000 was paid out in insurance premiums on the grain while it laid in our facilities waiting to be shipped. These figures are verified by our auditors and may be reviewed, if you wish.

Another thing that I think we could do to improve the efficiency of our railroad: At the present time we are allowed 24 hours to load each car and yet after these cars are loaded, they may sit on our siding for as long as 1 week before the railroad will pick these cars up. Now, we are penalized if we do not load these cars within that allotted time. I do think we could achieve more efficient rail service if the railroad was penalized for not picking that car up within a reasonable length of time after it was loaded.

It is not that we don't or wouldn't utilize the railroad; it is that, really, the railroad will not allow us to do it right now.

Thank you.

Senator MCGOVERN. Thank you, Mr. Larrington, and thanks to all the witnesses on this panel. We appreciate your testimony this morning.

Now, there are two men who were not on the witness list who have asked to be heard briefly, and we'll have to ask them to be brief, since it's past the hour of noon already. Mr. Robert Streeter of the Dakotas Dairy Corp. and Mr. Jerry Bergum of the fifth planning district at Pierre, have requested an opportunity to be heard briefly. We'll be glad to hear those gentlemen now.

Some of you have comments that you want to make from the floor? Perhaps we could take just a very few minutes at the end of this testimony to hear any comments or suggestions—any advice or questions you want us to look into and we'll just recognize you from the audience.

All right, gentlemen, you can proceed. We'll start with Mr. Robert Streeter of the Dakotas Dairy Corp.

#### **STATEMENT OF ROBERT STREETER, TWIN DAKOTA DAIRY CORP.**

Mr. STREETER. Thank you, Senator McGovern and Congressman Pressler, my name is Robert Streeter. I live in Pollock, S. Dak., about 35 miles north of Mobridge, where I own and operate the Twin Dakota Dairy Corp.

The Twin Dakota Dairy Corporation does not ship by rail as such. Our interest here at the meeting today pertains to the cost of electrical power delivered to our plant by MDU. The cost of this power is directly related to the cost of the coal that is used by the powerplant at Milbank. MDU people have informed us that if this powerplant was to cease in operation that our electrical cost would double at that plant. We currently spend about \$26,000 a year for electrical power. Our anticipation is that this electrical cost, based on current costs, would probably be about \$40,000 within 2 to 3 years' time. If these costs were to double, it would be a very severe hardship on that particular operation.

The reason we use a lot of electricity at Pollock, S. Dak., is because we manufacture more than cheese. By the way, Senator, I brought some samples of our 4½ million pounds of cheese along for you to enjoy today—

Senator McGOVERN. You know, that's one of my weaknesses.

Mr. STREETER [continuing]. Which we'll present to you later on.

We also process a byproduct of the cheese operation, which is whey, and this whey takes a lot of energy to process. We've developed a process by removing the protein from the whey and selling it as a human food supplement. It's currently enjoying some export also, by the way. But the other product that's left over is our lactose, and in working with lactose, we need huge amounts of electricity at an economical cost. We have done a preliminary study and the costs are being developed at this point to install an alcohol plant at that location for fermenting and using the lactose. The byproduct from the lactose operation will be a feed supplement which will be available to local cattlemen.

I'm not here to ask for consideration on my part, but only to let the Senator and the subcommittee know that, and I'm sure they do—that as a businessman, we locate and operate our business in an environment where we're welcome. We feel South Dakota has such an environment, and I did make the move here 4 years ago to enjoy such an environment. However, doubling the cost of electricity to our plant would be a serious detriment not only to the future of the plant but to any future expansion. We currently have about \$2 million invested in facilities there and we expect to double that investment within the next 5 years. However, that investment could easily be reinvested at some other location where electricity was available and energy was available at a reasonable cost.

We would like to see the staff and yourselves seriously look at this problem of resolving the Milwaukee Road bankruptcy situation. As a businessman, I do think that probably the largest and the most economically important thing railroad management has looked at is maintenance of the track beds and supplying powerful enough engines to deliver the goods. I think this is one area we do have to look into. I don't think that the labor problems or the service problems can be resolved if they haven't efficient, modern equipment to work with and maintain their beds.

I'd like to thank you for the opportunity to be here this morning. I will submit some written testimony to you that I don't have with me today with some factual data accordingly.

Senator McGOVERN. Well, thanks ever so much, Mr. Streeter, and I appreciate the fact that you requested to be heard; and we'll keep the record open for any additional material you want to make available to us.

Mr. Jerry Bergum is with the fifth planning district at Pierre.

#### **STATEMENT OF GERALD BERGUM, FIFTH DISTRICT PLANNING AND DEVELOPMENT COMMISSION, PIERRE, S. DAK.**

Mr. BERGUM. Thank you, Senator.

I'm Gerald Bergum. I represent the fifth district planning and development commission, and I'd like to read the following letter into the record:

DEAR SENATOR McGOVERN: Congratulations on taking the lead in focusing attention on the impacts of the Milwaukee Railroad Reorganization on South Dakota and on neighboring states.

The meeting in Aberdeen clearly brought out the need to increase revenue producing traffic on the Milwaukee Railroad Pacific Coast Extension no matter who owns the rail line. There are three potential areas which I would like to offer for consideration as ways to increase revenue producing traffic.

First: West Coast grain shipments. South Dakota and its neighboring states must develop mechanisms to increase grain shipments to the West Coast markets.

Second: Heartland Power Plant. The Heartland Power Cooperative should be encouraged to located its new plant on this rail line. Movement of coal from Montana or North Dakota to the power plant could then occur over the Pacific Coast Extension.

Third. Otter Tail Power Plant. Otter Tail Power Company should be encouraged to located its new plant at its current Big Stone site. This plant, which will be needed in 1986 or 1987, according; to John McFarlane of Otter Tail Power Company, could then receive coal from Montana and North Dakota over the Pacific Coast Extension.

Thank you for the opportunity to present these views.

Respectfully,

DENNIS POTTER,  
*District Director.*

Thank you.

Senator MCGOVERN. Thank you, Mr. Bergum, for your testimony.

I see Mr. Mike Madden of the Pollock-Herreid project and also of the Oahe Board is present. Did you want to make a statement, Mr. Madden?

#### STATEMENT OF MICHAEL MADDEN, ADVISER, POLLOCK-HERREID IRRIGATION DISTRICT

Mr. MADDEN. Yes; I did, Senator, and thanks for giving me the opportunity.

I'm Michael Madden, adviser of the Pollock-Herreid Irrigation District and a member the Oahe Board. I am working with anybody that will help me in collecting information on the effects that the present irrigation that we have in this area and the additional irrigation that we expect from both acquifers and from the reservoir will have on carloading and business for the railroad. We'll get that information and we'll try and have it to you on time.

Thank you, Senator, for this opportunity.

Senator MCGOVERN. Thank you for your statement, Mr. Madden.

Now, is there anyone in the audience who would like to—Mr. Richardson.

#### STATEMENT OF LLOYD RICHARDSON, ATTORNEY, MILWAUKEE RAILROAD

Mr. RICHARDSON. My name is Lloyd Richardson. I'm an attorney for the Milwaukee Railroad and have been for 25 years. I didn't intend to speak here, but there's a few things that I think perhaps might be helpful on the record—just a few little things. For example the Federal Government—

Senator MCGOVERN. Maybe you should come to the microphone over here.

Mr. RICHARDSON. The Federal Government has given us a number of very expensive electric signals, wigwags, gates, and so on. The gift is very much appreciated and, of course, it helps the public and it helps us by reducing damage to our property and injury to our employees. But every time they make that gift to us, it costs us about \$700

to \$1,000 a year to maintain that signal, and that cost is just one of the additional things.

I'm reminded of when the Government generously built us a new bridge over the river at Chamberlain, we had a bridge that worked very good, but they built this new bridge and the taxing authority said, "You now have \$8 million more value to your property." Well, we really didn't have and we were able to convince them of that. But that's the type of thing that I think is happening. I think, for example, the attitude in the cities has changed and it's changed for the better for the railroad industry. The cities, for example, think that all railroad crossings should be maintained by the railroad. If there's a rough crossing, they jump all over us because the crossing isn't fixed. Well, the crossing didn't get rough because the train went over the rails. The crossing got rough because the trucks and cars went over the rails. It's the public traffic not the railroad traffic, that caused the damage. Therefore, the public has got to understand that we no longer can maintain crossings in all of the little towns that we operate in, in the 16 States that we operate in. We're going to have to have some cooperation from the cities and from the people, and I think we're getting it.

I heard some comment with regard to management. I don't speak for management here. I'm just an attorney for the railroad but I remember when Ben Radcliffe and I first got on the task force—the railroad task force—and Ben said to me, "You know the thing that's wrong—the whole thing that's wrong with this is management." And I said, "Ben, when you first took over the Farmers Union, there were a lot more farmers than there are today." I said, "I don't attribute that lack of farmers to the fact that you've been president of the Farmers Union. There's other causes that are causing these difficulties besides management." And there's other causes here that have caused the railroad to go into bankruptcy in the situation that they're in.

I think hearings like this will greatly increase public understanding. I don't expect to go down to Pierre next fall and have to face the type of legislation that I have where we have bills introduced to require the railroad to pay \$100 to every fire department that goes out to put out a fire. We've had bills introduced to put public toilets on every crossing for the employees—things that would just—would have bankrupted us a long time ago. I think one of the things that management, if it has been wrong, has been that it hasn't recognized early enough that the railroads were overbuilt and that we have to get rid of some of the plant. Mr. Hillman has said it would cost about \$300 million to bring the plant up to condition where it was.

Now, this deferred maintenance didn't happen overnight. It happened not because we were paying dividends to stockholders because we didn't have any money. It happened because we were hanging on, hoping that the line someday would make money. It just kept getting worse and worse until we found ourselves in the position we're in today.

Thank you.

Senator MCGOVERN. Thank you for your testimony, Mr. Richardson.

I understand that Mr. Jon Merchant had a brief statement he wanted to make. Is there anyone else?

Mr. MERCHANT. Do you want me to come up to the front or—

Senator MCGOVERN. Yes. Why don't you come up to the microphone here, Mr. Merchant, so it can be picked up by everyone? Is there anyone

else who wants to make a statement or offer any advice or raise any question? As I understand it, we're going to have a lunch following this hearing, and I'll be around for another 1½ hours or so to talk to any of you privately about your ideas, either on this issue or anything else that you're especially concerned about.

Mr. Merchant.

### STATEMENT OF JON MERCHANT

Mr. MERCHANT. Thank you, Senator McGovern. I know that all the testimony that was given here this morning certainly has added something to my thinking and it's very valuable. But somebody suggested here that we own this railroad bed on a cooperative basis. Then, second, how do you use it cooperatively? I think the railroad and the trucking people should cease to be competitors. They no longer should be competitors hauling grain—hauling anything, because you could innovate a rig that would run on rubber down to a crossing, enter the railroad tracks and go to Minneapolis on the rails. You could have those chains of small trucks hauling 40,000 pounds per truck going every 10 minutes. That rail line doesn't have to be idle 90 percent of the time.

Senator McGOVERN. You mean a vehicle that could operate either on the track or on the highway?

Mr. MERCHANT. On roads and rails.

Senator McGOVERN. Are you aware that such a vehicle has been developed?

Mr. MERCHANT. I'm not aware that its been developed, but I'm certainly innovative enough to think it could be developed.

Senator McGOVERN. Well, it has been.

Mr. MERCHANT. All right. Then we take our trucks off the highways; don't we?

Senator McGOVERN. Yes.

Mr. MERCHANT. We put them on the railroad track. We maintain our railroad track that's cooperatively owned. We don't have the competition. Let the fellow that uses the railroad pay a fee to run on that railroad with that load.

Senator McGOVERN. At the hearing in Aberdeen on Friday, we had Mr. Robert Reebie there from Connecticut. He's a railway consultant, and he showed us a brief film of exactly the kind of a rig you're talking about that has retractable rubber tires that can be pulled up when it's on the rail line and then when it leaves the rail line, the steel wheels are pulled up and the rubber tires come down. It can run on the highway. I don't—to the best of my knowledge, that's not in operation anywhere yet, but it is a feasible answer.

Mr. MERCHANT. Maybe that's what we need.

Senator McGOVERN. Yes. It indicates creative minds are still moving in the same channel.

Mr. MERCHANT. Well, I could visualize the use of that railroad to a degree that they could have as many running on the rails as they have running on the highways. You could take this heavy load off your highways if somebody would get busy and innovate a rig that would do this. It can't be that impossible to do. It takes a lot of money and it takes a lot of backing and it takes a cooperative effort between railroads and trucks to accomplish something that would work and work very efficiently and do the job. I think it's a solution to the problem.



You take a farmer out here that has 100,000 bushels of stored grain. Think of the difference in the handling. The truck runs out there, loads up 40 tons and comes right onto the rail and puts it in Minneapolis. Loading and handling costs are reduced. Nothing could reduce costs any more than reducing handling. I happened to be in the lumber business for some 35 to 40 years. It's handle, handle, handle, if you don't plan how you're going to put that product from the lumber mill to the consumer. And it's just as simple as that in my mind. It could be solved other ways and with a cooperative effort by the modes that are involved in this.

Senator McGOVERN. Thank you very much for your suggestion—  
Mr. MERCHANT. I Thank you.

Senator McGOVERN [continuing]. Mr. Merchant, I think your suggestion certainly is worth evaluation. I've been impressed in this hearing, not only this morning but throughout the series by the general concern regarding transportation, and with the way so many of the problems that we face in the country today overlap and affect each other. We're all concerned with inflation, for example. So anything that's going to raise the cost of transportation, such as the abandonment of an important rail line, bears directly on the inflation problem.

We're all concerned about energy. If we have to go to higher energy consumption because of the loss of rail service, that aggravates our energy crisis. We're concerned about employment opportunities and as these railway labor people particularly emphasized today, the loss of a major transportation link directly affects employment levels.

All of us are concerned about the quality of our environment. Here again, the kind of transportation we have and the ability to move heavy goods like coal and wheat and granite and cement and livestock, all of this bears on the question of the environmental impact of transportation. So I think all of these major problems are related. I don't think any of them are insoluble. There must be an answer to the rail problem and I fully believe we're going to find that answer. We're going to find some way to save this rail line and to enable it to continue to serve our area, but I think it's going to take a great deal of effort on our part to do that.

I do want to thank all of you for being here in the hearing room at the lodge in Mobridge today. We appreciate your contribution to this important issue.

Thank you so much. The subcommittee will stand in recess.

[Whereupon, at 12:27 p.m., the subcommittee recessed, to reconvene at 3:30 p.m., the same day.]

#### AFTERNOON SESSION

The subcommittee met, pursuant to recess, at 3:30 p.m., at the American Legion Club, Lemmon, S. Dak., Hon. George McGovern (member of the subcommittee) presiding

Also present: Philip McMartin, professional staff member; and Robin Carpenter, Senator McGovern's staff.

Mr. ELMO CAIN. I am happy to see this kind of a group out. We have a lot of competitors here. It goes to show you if we work cooperatively, we can get something done. I am overwhelmed seeing this group here. There was about 200 in Aberdeen, 100 in Mobridge, and I think we've got a good count here today. If we can solve this problem it will mean prosperity for the farmers and ranchers, for the manufacturer,

prosperity for the banker, merchant, and incidentally, all of us. We are here today to participate and hear discussion on this vital problem we are faced with.

Again, I want to thank you, each and every one of you for participating in this meeting. I will present to you my good friend, who is going to be conducting this hearing. Senator George McGovern. [Applause.]

#### OPENING STATEMENT OF SENATOR MCGOVERN

Senator MCGOVERN. Thank you, Elmo Cain and members of the Lemmon community. First of all, we are holding this hearing about a matter that I think is of vital concern to everyone who lives in South Dakota, but especially the communities like Lemmon that are along the Milwaukee Railroad right-of-way that has depended so many years on the shipment of grain, movement of cattle, movement of coal and other commodities that the railroad has carried in this part of the country.

Last August we had indications from the trustee of the Milwaukee Road main line, which is now in bankruptcy. They may want to close down the line west of Minneapolis from Butte, Mont., from there on to the west coast. Their plan was to sell off the main line to the Union Pacific. In effect, that would mean that the Milwaukee Railroad was reducing the service to the Twin Cities and Chicago.

This, of course, would be a catastrophic blow to the people of our area. It would mean among other things, the probable closing of the Big Stone powerplant that is now dependent upon coal moved from the North Dakota lignite fields by unit train into Milbank. It would also mean a drop of 10 to 25 cents a bushel in income to the grain shippers of South Dakota. It would mean that proposals that are now being considered such as the establishment of a lignite plant in the Lemmon area would probably be foreclosed. In short, it would seriously handicap both the agricultural and the overall economic development of the Dakotas, parts of Montana, parts of Minnesota and in that sense, represents a regional concern to all of us in this part of the country.

I think it is possible to save the Milwaukee Railroad. I think it is imperative that we do it, but it is going to take, not only a vigorous effort, but a well-coordinated effort, one that involves the communities all along the right-of-way, that involves the elected officials in our State, and also in our sister States. I don't think South Dakota acting alone can keep the Milwaukee Railroad operating between Minneapolis and Montana, to say nothing of our west coast connection. I do think it is possible, if we build on the kind of concern that has been developing in these hearings over the last few days, for us to work out some kind of a compromise plan with the Milwaukee line that will keep this railroad in operation. We all know how beneficial it has been to our part of the country over the years that we have had a main-line connection all the way to the ports on the west coast. It is possible that one compromise that might be worked out would be to maintain the Milwaukee operation between Minneapolis and Miles City, Mont., with the possibility of utilizing the Burlington track from there to the west coast. That is where the two lines might join. It is conceivable some other arrangements could be worked out that could convince the Milwaukee Road they can operate profitably all the way to the coast.

In any event, the purpose of these hearings we are now conducting is to gather information to identify the problems, to discover more about the management difficulties that the rail line has been having, to develop the reasons why we think the line can be made profitable in the future, and we hope to use this hearing record as the beginning of the kind of case that is going to need to be built to be put before the Interstate Commerce Commission and the Milwaukee officials to keep this line in operation, and hopefully, while going through this exercise, to improve the service, to make it more efficient. I think it is quite possible that some of the trackage in South Dakota is going to be lost but we don't want to lose this main-line service. We want to do everything we can to work with the railroad to help put them into a profit situation.

We had an excellent hearing in Aberdeen on last Friday, and on Monday noon I met with about 100 people in a meeting sponsored in Milbank by the chamber of commerce of that city. This morning, as Elmo Cain said, we conducted a hearing in Mobridge that was well attended. I am pleased with the attendance and interest here in Lemmon this afternoon.

Without any further delay, we will begin hearing the statements from those who want to be heard on the question of the railroad. May I suggest this: We are going to keep this hearing record open for 10 days. If you have prepared statements that you want to deliver today, you can either read the entire statement or if you wish, just submit the statement for the record and summarize it briefly, and it will appear in the printed record. Those of you who would prefer not to make any public statement, but would like to have your views presented in the record, can simply hand them to us.

This hearing, as I think you know, is being conducted under the auspices of the Joint Economic Committee. That simply means it is a committee of both the House and the Senate, representative of both bodies of the Congress, which gives it the name Joint Economic Committee. I became a member of this committee following the death of Hubert Humphrey, at which time I was assigned to this subcommittee, making the question of surface transportation, rail, trucking, buses, a matter of first concern in terms of my work on the Joint Economic Committee. That is the reason for our effort in connection with the Milwaukee Rail Line.

Elmo, did you have anything you wanted to add to what you said? Do you have a statement to make with reference to the rail line?

Mr. CAIN. I have a statement.

Senator McGOVERN. We will hear further from you at this time.

#### **STATEMENT OF ELMO CAIN, GENERAL MANAGER, LEMMON EQUITY EXCHANGE**

Mr. CAIN. First of all, I want to say that we have many elevators represented here today. I would assume there's 30 or 40 South Dakota and North Dakota elevators here. I am going to read this as I think I can get my point over in less time.

My name is Elmo Cain, general manager of the Lemmon Equity Exchange, a farmers cooperative located at Lemmon, S. Dak., on the main line of the CMSTP&P Railroad.

Our trade area is about 8 miles east, 15 miles west, 20 miles north, and 60 miles south of Lemmon.

The success of our business depends very much on the shipment and sales of grains such as Spring wheat, Winter wheat, flax, Durum, rye, barley, and oats.

We are now being serviced by the main line of the Milwaukee Road, and if abandonment were to become a reality, it would be a terrific economic blow, especially to producers of grain in this area and all other business. During the past 5 years, much of our wheat has been channeled to the west coast which is generally a better market and has higher protein premiums.

Our station ships from 500,000 to 1 million bushels of wheat per year. Figuring at a 10-cent price differential, it would amount to from \$50,000 to \$100,000 or more which our customers would lose by not having a coast market.

From January 1, 1978, through September 1978, we shipped 99 cars and 155 trucks. Car shortages forced us to use the east market; truck rates were higher and the market lower resulting in lower prices to our customer.

Freight paid to the Milwaukee from Lemmon Equity Exchange was \$600,000 in 1975, \$560,000 in 1976, and \$500,000 in 1977. Incoming freight amounts to approximately \$50,000 per year; this is bulk and bagged fertilizer brought in via Milwaukee Railroad.

I believe it would be impossible to move all wheat west to an export market by truck. A 100-car train is equal to 400 trucks. Revenue on a car train to the west coast, 335,000 bushels at \$1.04 per bushel, is \$348,500.

In 1976, we shipped 180 cars and 106 trucks; 1977, 145 cars and 159 trucks; 1978 so far, 108 cars and 160 trucks.

We need 39 cars before January 1 at this time with much more grain being offered, but we are reluctant to commit ourselves as we can only expect at present service to receive 10 to 15 cars per month.

Service and management seem to be a problem. For example, we loaded two cars on December 5, 1977, and they were not taken out of our local yard until January 21, 1978. We did not receive a car in January and February of 1978. In January and February of 1976, we loaded 45 cars. In January and February of 1977, we loaded 25; and none in January and February 1978.

Another example, a car spotted for loading in June was found to be full of Durum—car No. Milw. 32458—a card on the door read: "Fumigated 3-18-78 at 3 p.m.; don't open until 3-21-78." Which means this car would have been sitting around for almost 3 months. This looks as if there is poor control of transit grain.

Many a time, hopper fertilizer cars could be washed out and loaded, but being foreign cars we were unable to load them. These cars still go back to Minneapolis to get back to the point of origin. These could have just as well taken on a load, as 3,350 bushels times 51 cents per bushel is \$1,708.50 in revenue to someone, whatever the arrangement be with foreign cars, but I believe ICC has rules about loading these cars.

Senator McGOVERN. In that connection, I know about the practice where you haul fertilizer and pesticides in a car and you can't put grain in it until it goes back into the divisional terminal and is cleaned out. I raised a question with Raven Industries, of Sioux Falls, who are manu-

facturing a plastic cone strong enough to store grain over the winter if you want to avoid piling it up on the ground. I raised the question why you couldn't put that liner on the inside of a boxcar so you could move fertilizer or other commodities; you could put it in with a staple gun and load the car with grain instead of sending the car back to the terminal to be washed out.

Mr. CAIN. That is correct on a boxcar, but we had new hopper cars and mill cars and we are allowed to wash these out and load them. I am talking about Sioux Line cars spotted into the fertilizer plant. They wouldn't let us wash them out.

Senator McGOVERN. If they had been lined with the plastic material, all you had to do is remove the plastic and load the grain, as I understand it.

Mr. CAIN. Most fertilizer bulk comes in hopper cars.

In closing we would hope that our congressional people and our Government will not let any main line to an export market be disbanded. I am not a statistician but I'm sure we have much more moneys invested in foreign countries which give very little return.

Our area multiplied by similar situations in North Dakota, South Dakota, Minnesota, and Montana could lead to a economic disaster in grain, other agriculture, implement, and fuel shipments.

Senator McGOVERN. Thank you. Mayor Smith, did you care to make a statement?

#### **STATEMENT OF HON. GEORGE B. SMITH, MAYOR, LEMMON, S. DAK.**

Mr. SMITH. I have a short statement.

Senator and members of the subcommittee, my name is George B. Smith, a 25-year resident of city of Lemmon, S. Dak., and currently serving as mayor of the city.

It has been said that the railroads were chiefly responsible for the "Dakota Boom" which brought thousands of settlers and millions of tons of freight to eastern Dakota between 1878 and 1887. The Chicago, Milwaukee and St. Paul Railroad and the Chicago Northwestern were the two companys credited for most of the railroad building in South Dakota. As a matter of fact both companies actively participated and promoted the establishment of towns in unsettled country, certain that settlers would follow and create business for them, and in later years supported leading contenders in one of the three State capitol fights. Their role was no less significant in the western movement, settlement and development of western South Dakota and southwestern North Dakota.

In anticipation of the extension of the Chicago, Milwaukee and St. Paul Railroad west from Mobridge, G. E. Lemmon established the town site of the present city in 1907. When the railroad came through in 1909 the town of Lemmon became the only western South Dakota town on the only transcontinental railroad to run through South Dakota. The city still maintains that distinction.

According to Herbert Schell, author of "South Dakota, It's Beginnings and Growth" the Chicago, Milwaukee, St. Paul and Pacific—formerly the Chicago, Milwaukee and St. Paul—Railroad had 1,766 miles of track in operation in South Dakota in 1938. Now 40 years later that same company apparently seeks to abandon every inch of it not

previously abandoned and leave the towns and cities that it spawned and which were so long dependent upon the rails, to their own questionable destiny.

Granted, improved roads, the automobile, the truck and the airplane have taken business away from the railroads and the labor unions and inflation have added to the cost of operation, still the railroad is the backbone of the transportation system of the United States. It is the only system in this area capable of the daily movement of millions of tons of coal from mines to plants, grains to mills and terminal markets, lumber from the mills to distributors and generally speaking, all items too bulky and too heavy for our highways and airlines. The city of Lemmon is deeply indebted to the railroad since its very existence was perpetuated by the progressiveness of the early railroad companies. Indeed, its continued existence and economic growth and the improvement of the welfare and advancement of the society and its lifestyle may well be dependent upon the maintenance of the beloved Milwaukee Road.

Humanitarian ideals, concern with man's welfare, cultural development and the preservation of our society dictate that we make this urgent plea. We respectfully ask that this great institution be preserved by whatever means possible and that the proposed abandonment be eventually denied and service be continued to serve this community and the great area of western South Dakota and southwestern North Dakota.

Thank you.

Senator MCGOVERN. I think it is good to be reminded of the historical role that railroads played in the development of this country. The town of Mitchell where I have lived since 1928 is a community that was named after the president of the railroad, A. L. Mitchell and towns across this State would not have been here without railroad service. I do think we are talking about a vital artery that has sustained this State from the beginning in which we have to do everything necessary to preserve it.

Some mention was made of turning entirely to trucks. We were told by the South Dakota Secretary of Transportation at the hearing in Aberdeen Friday, if it became necessary to go to truck service entirely it would add \$50 million to the maintenance cost of the highways. They would be pounded to pieces, particularly in the movement of coal and grain and other heavy commodities of that kind.

In any event, we appreciate the mayor's testimony. I think these points are well taken. Now the next witness is Mrs. Carol McKenna, testifying for the South Dakota Farmers Union, District VI.

#### **STATEMENT OF CARROLL MCKENNA, DIRECTOR, SOUTH DAKOTA FARMERS UNION**

Mrs. MCKENNA. My name is Carroll McKenna. My husband John and I operate a ranch near Zeona, S. Dak. Zeona is about 70 miles southwest of Lemmon.

I am also a member of the South Dakota Farmers Union State board of directors, representing district VI. My district includes: Corson, Perkins, Ziebach, Harding, and Dewey counties.

First, I would like to thank Senator McGovern for holding this hearing in Lemmon. The people in this part of the State really appreciate your concern.

I want this committee to know that District VI Farmers Union strongly supports any action that will keep the Milwaukee lines in operation. The Milwaukee is, in fact, the only railroad operating in this part of South Dakota and we simply cannot afford to lose it. What we are talking about, of course, is the Milwaukee main line as well as two branches to Isabel and to Faith.

I simply cannot understand how the government—either in Washington or in Pierre—could standby and allow the main Milwaukee line between Butte, Mont., and Minneapolis to be closed down.

We recognize that this particular Milwaukee line has a better chance of survival than many others. Not because farmers and their cooperatives need it to move our production to the west coast, although we do need it. This line stands a good chance of survival because it is vital to the continued operation of the private utilities' Big Stone powerplant in Grant County.

I won't quarrel with the need to move coal to the Big Stone plant. What bothers me is that the transportation interest of the farmers and ranchers don't seem to count for as much as those of huge private utility companies.

The trade areas served by the Milwaukee in my district ship an average of almost 7 million bushels of grain per year. But the Milwaukee system could handle much more grain from further East. As our markets grow in Asia, we are going to see more and more of our grain moving to the west coast and the only realistic way to ship grain in that direction is by rail.

We all recognize what years of deferred maintenance and the Milwaukee's sad financial condition have done to these lines. We have reached a point where if anyone is going to operate railroads in this area, someone is going to have to spend some time and money repairing the tracks.

As I see it, the Milwaukee system is an essential part of the overall transportation system here in South Dakota. It would be a real tragedy if the Milwaukee main line is preserved solely as a coal-hauling line for the Big Stone plant. Farmers here and elsewhere in South Dakota need and deserve good rail service.

We need to preserve as much of the Milwaukee system as we possibly can. If that means Government—State and Federal—ownership of the rail beds, I'm for it and the vast majority of farm and ranch people here in South Dakota feel the same way.

Thank you.

Senator MCGOVERN. Thank you, Mrs. McKenna, for your statement.

Our next witness is Mr. Ernie Erickson, president of the Western Dakota Grain Dealers of Reeder, N. Dak. I think we have a number of North Dakota people here which is very fine.

#### **STATEMENT OF ERNEST ERICKSON, MANAGER, REEDER EQUITY**

Mr. ERICKSON. I'm Ernest Erickson, manager, Reeder Equity, Reeder, N. Dak. I also am president of the South Western Dakota Cooperative Managers Association.

I'd just like to touch on a few things. We definitely need the railroad. Look what its loss would do to our community, the dollars it would cost our farmers and the business places. Look at how much unemployment it would cause. We don't need our unemployment rate to go any higher. I just can't see how the railroad came up with those figures they have telling us they're losing money.

If they would give us the cars that we need to move our grain they could just about double their income. Trucks are hauling half the grain and in some areas it's as high as three-quarters of all grain shipped. It isn't that the business isn't out here. It's just that the railroad isn't giving us the cars so we can ship by rail.

I have some figures here from five elevators in our area. The amount of freight that the railroad got from these five elevators in the past 2 years amounted to \$5.5 million. Right now Reeder Equity has over a quarter of a million bushels of grain to ship that we are behind on. So if we can't move our grain, the interest on borrowed money to cover the grain will soon break the elevators and once the elevators are gone the town will go downhill. One business place after another will close. The grain elevators are absolutely the biggest assets of the towns in this area.

Senator MCGOVERN. Thank you, Mr. Erickson, for your testimony. Our next witness is a rancher, Mr. Lane Knutson.

#### STATEMENT OF LANE KNUTSON, RANCHER

Mr. KNUTSON. Senator McGovern, Mr. Mayor, ladies and gentlemen: I am here this afternoon with many friends and neighbors and merchants of Lemmon and the surrounding area to do whatever we can to retain and hopefully improve our rail service. Losing this service, such as it is, would cause a severe economic hardship on most of the businesses in the area. Since agriculture is the largest of these enterprises in our west river country, let's talk about the effect of losing the Milwaukee Road on agriculture.

I am going to talk about an average size farm in this area, of about 1,000 acres. Consider about 600 acres of this farm land, 300 acres in grain and 300 acres of fallow, the balance in pasture, farmstead, trees, roads and conservation practices. This farm could produce wheat or feed grain on 300 acres with an average of 30 bushels per acre for wheat and 50 bushels for barley. Total production on the farm would be 11,000 bushels. Without rail service, the extra freight on that amount of grain to our most favorable market would cost the producer between \$1,100 to \$1,200 per year. I am not so sure we in the agricultural business could adjust to this expense.

Now, some people may say \$1,100 or \$1,200 isn't that much money and wouldn't be too much of an added expense for a farm to carry. But let's consider the trade area of Lemmon, S. Dak., and the number of farms that may be affected in this area. I know we have people from Thunder Hawk, Haynes, Hettinger, but just for a minute, let's look at the Lemmon trade area. I feel an area 20 miles east and west and north and south is a conservative estimate of this trade area. This figures around 250,000 acres more or less, or an average of some 250 farms, the size of the farm I mentioned earlier. With the additional expense of \$1,100 to \$1,200 per unit, you can see this would be an unbearable drain on agriculture.



I realize every business has its problems, the railroads, implement dealers, service stations and bulk dealers and all would be affected by the lack of rail service.

We have discussed agriculture, there's others here to testify on other businesses. In closing, I would just like to make a few remarks about railroads and their problems as I see them, not because my viewpoint could change or could solve all the problems or because it looks greener on the other side. Obviously, they have complex difficulties, but anyway, the railroad has been picking up less and less cars of wheat in this area every year. I ask why? Surely, it is not because of the shortage of grain. I note figures released just last week, a drop of approximately 25 percent per year in the number of cars available for loading in Lemmon in the past 3 years, from 180 cars in 1976 to 108 so far in 1978. Again I say why? Is it because of the lack of equipment?

Let us look again at the average farm I mentioned. If we didn't get 25 percent of those acres or about 150 acres, seeded, cultivated or harvested, there is no way that that farm could show a profit. I say most operators, most farmers would invest in the proper machinery to get the job done. Thank you.

Senator McGOVERN. Thank you, Mr. Knutson for your testimony. I want to comment on remarks made earlier. I don't think there is any chance that this line would be maintained simply to operate the coal train between North Dakota and the Big Stone plant. That is an idea some people have, that we might abandon everything except the movement of coal. There is no chance based on what I have been able to learn, that we can preserve this line without involving the total service of the Milwaukee, including the important movement of grain. Of course, the coal shipments from North Dakota to the Big Stone plant are important, but we ought not to count on that as an alternative.

VOICE. We can't hear back here.

Senator McGOVERN. I want the witness to use the microphone. I want to stress that ought not be the only consideration, the fact that the line is needed to serve Big Stone's powerplant. It is one item. It is important, but we've got to demonstrate in these hearings that there is a balanced need for the rail line which includes the movement of grain and other commodities. Lumber was mentioned, there is a possibility of cement, possibility of new powerplants coming on the line to be served. It is all of these things that we are concerned about saving.

Our next witness is Mr. Alwyn Rose, who is the chairman of the Perkins County Commissioners. Is Mr. Rose here?

MR. ROSE. I am going to release my time to some of the other witnesses.

Senator McGOVERN. Next witness, Bud Anderson, Scranton.

#### **STATEMENT OF BUD ANDERSON, MANAGER, SCRANTON EQUITY EXCHANGE**

MR. ANDERSON. Senator McGovern, representatives of the Milwaukee Railroad, ladies and gentlemen, my name is Bud Anderson and I am the manager of Scranton Equity Exchange in Scranton, N. Dak. Our company employs 32 people in five different departments. We do busi-

ness in the Montana, North and South Dakota tri-State area. Rail and truck transportation is very important in our grain and feed manufacturing operation; in fact it is a vital part of our daily business.

We do not know exactly why the Milwaukee Road is in such dire disorder. Is it management? The Milwaukee Holding Co.? The Union? Certainly we feel, each one of these factors have contributed to the inefficiency of the railroad.

It is again worth noting that North Dakota pays the highest freight rate for shipping grain of any State in the Union, an average of \$1,150 per carload. This rate is to be raised another 8 to 10 percent by December 15. Our frustration is very understandable when we angrily wonder how a railroad can raise rates when their service is so bad.

Scranton Equity has tried to help the Milwaukee Railroad. We have invested \$65,000 of our money in their hopper car repair program in order to have 10 cars specifically assigned to us. It is extremely irritating to have these cars take a month to 5 weeks to go from Scranton to Minneapolis and return. In addition, dispatchers and agents have permitted other companies to take our hopper cars for their use.

Ten years ago 98 percent of our grain was shipped by rail. Since then, because of poor service—or no service at all—only 40 percent of our grain is being transported by rail. Our volume is 1,500,000 bushels. This means a revenue loss of something like \$750,000 for the railroad from our station alone each year. We know the Milwaukee Road could use this revenue, but their inefficiency has forced us to choose other means of transportation.

At the present time we could use 70 to 80 hoppers to move 240,000 bushels of cash grain. The interest we are paying on this money could take all of the profit on this grain away from our company. We are also looking at a 10 to 15 cent late shipping charge imposed on us by the grain commission companies. This is in addition to that 10-percent increase which is coming on December 15. It doesn't take much imagination to become aware of our worries.

All of us here today are very much concerned with the Milwaukee road and its financial plight. Our ties with this railroad go back a large number of years. We feel we are justified in asking for service and quality. We desperately need the cars and hoppers so that we can use the railroad as a means of shipping our grain. We ask that with our help and concern Mr. Stanley Hillman and others put the Milwaukee road back on its economic feet. Thank you.

Senator McGOVERN. Thank you for your testimony. Our next witness is Mr. Ron Randam, of the Farmers Co-Op of Thunder Hawk.

#### **STATEMENT OF RON RANDAM, MANAGER, FARMERS CO-OP ASSOCIATION**

MR. RANDAM. Since January 1, 1975, the Farmers Co-Op Association has shipped 1,617,150 bushels of grain. This amounted to 486 railcars and 124 semitruckloads. The freight cost on this was \$1,132,027.

As of October 31, 1978, we have on hand 156,266 bushels of cash wheat and over 1 million pounds of sunflowers. This is grain that we own and cannot ship because of lack of railcars. We have 65,000 bushels of this piled on the ground outside because of lack of space.

As of today we need 58 hopper cars or 93 boxcars to take care of our immediate needs. During 1978 we received on the average 8.42 railcars per month from the Milwaukee road. At that rate it will take us to May 31, 1979, to take care of our present needs. This does not take into consideration the grain we will be purchasing between now and then.

We have loaded 37 truckloads of grain in 1978, and if we wait for them to haul our grain, we would need 183 semi's. At the rate we have been getting trucks it would take 61 months to get rid of cash grain we have on hand. As you can see, the trucking industry is not the answer. What it boils down to is we need the railroad to provide us with transportation. Even though their rates are high, and their service is questionable, the people of South Dakota need a railroad to provide the services that are urgently needed.

Senator McGOVERN. Thank you for your testimony, Mr. Ransom. The next witness is Mr. Rollo Lillehaug of the Lemmon Gas Co.

#### **STATEMENT OF ROLLO LILLEHAUG, LEMMON GAS CO.**

Mr. LILLEHAUG. My name is Rollo Lillehaug from the Lemmon Gas Co. We are in the LP gas business. We have 208,000 gallons storage for LP gas. We shipped in 20 jumbo cars from January 1, 1976, to December 31, 1977. From January 1, 1977, to December 31, 1977, we shipped in 22 tank cars.

From January 1, 1978, up to October 31, 1978, we shipped gas in 15 cars. Most of this comes from Canada, Alberta or Saskatchewan.

If this gas had to be transported by truck, I don't think we could afford to pay the freight and stay in business. Even if some of it doesn't come from there, it would no doubt have to come from the underground storage at Kansas, Texas, or Oklahoma, and it would be just as drastic as far as freight costs are concerned. It would raise the price of gas.

Senator McGOVERN. Thank you. Mr. Myron White, CPA, from Lemmon?

Mr. WHITE. I will submit a written statement.<sup>1</sup>

Senator McGOVERN. It will be entered into the record.

Is there a representative here from the North Dakota Farmers Union? We will hear from you right now. Tell us your full name.

#### **STATEMENT OF INA M. OPHEIM, PUBLICITY DIRECTOR, NORTH DAKOTA FARMERS UNION**

Mrs. OPHEIM. I am Ina Opheim, publicity director for the North Dakota Farmers Union on behalf of Paul Slater, who is a director, and myself. I will give a point of view that I wrote originally for my husband and myself.

It is apparently true that the Milwaukee Road is bankrupt, although many people would not believe us when we first said last January that we had read it in the paper. Maybe their disbelief and ours was caused

<sup>1</sup> See appendix for Mr. White's statement beginning on p. 161.

by the number of trains and goods we had all seen moving both east and west.

However, where does this bankrupt railroad leave the local agricultural community? Much grain, fertilizer, and machinery is moved in and out locally by rail. Grain goes both to Portland and Minneapolis-Duluth.

What happens to the daily transport of coal from the Gascoyne area?

We see no way that truck transport can suddenly handle all the agriculture-related products, coal, and automotive products shipped by train each day. That is only the products we can see going by train. What about the enclosed cars where we can't tell what is being shipped?

It would seem money should have been made by the Milwaukee Road, with that amount of shipping. If it wasn't, then maybe they should have had a long, hard look at their management several years ago before they allowed their line to go bankrupt. They don't have a corner on a smaller margin of profit. Farmers have been making less income each year even with a rise in total income. We have to tighten our management with each passing year, and yet we are making it. We don't like it, but we have to make do. It's not a pretty picture, no how.

Railroads are subsidized, too. Quite heavily, according to what we've been reading—then why, with that help, are they still unable to make it? That question needs careful study, with plenty of action to force changes to correct the problems. We can't afford to lose our railroads any more than we can afford to lose our family farmers.

Some would say haul by truck. We can't believe that is wise. Aren't trains more fuel efficient than trucks when hauling the same volume a given distance? What would happen to our road system with the wear and tear created by the trucks needed to transport that amount of goods? Think of the traffic jam on just U.S. Highway 12, not to mention all the other roads affected.

We want to see a railroad, some railroad, take over the line and continue to operate this route—under hopefully, top management, at a profit, at prices users can afford. We want the line to serve us. We need the line to serve us, but it will have to be at a price that is not exorbitant—or prohibitive for us to use. As farmers we are in a financial tight spot, too.

We would like to reemphasize these points:

1. We definitely need the service of a railroad to haul commodities to and from this area.
2. That railroad must make a profit, but under careful management—not wasteful in any way. They will have to cut operating costs even in minute amounts, which may add up to millions in the long run. It could mean the difference between profit and bankruptcy.
3. Keep rail rates in line. Rates will have to be within a range not exorbitant, or prohibitive to the users; because as soon as a cheaper way to transport goods is found the railroad will lose business.
4. We need a strong railroad, one that we feel will be here to serve for an indefinite time. The minute we feel that service is on shaky ground, we will be forced to look to new routes of transportation.

I'm afraid some of that has already happened, and more will, the longer it takes to set up secure rail service for this area.

5. We need good, efficient service. For example, this means good turnaround time on grain cars during peak seasons.

One question: With company-owned cars like those of the GTA and the Montevideo Co-Op, doesn't this have any effect on helping the railroad cut costs, plus improving service?

Senator McGOVERN. Thank you. Mr. Ken Bartell, president of the Lemmon Area Chamber of Commerce.

#### **STATEMENT OF KENNETH BARTELL, PRESIDENT, CHAMBER OF COMMERCE, LEMMON, S. DAK.**

Mr. BARTELL. I am Kenneth Bartell, president of Lemmon Chamber of Commerce.

It had become a widely accepted fact that farmers and ranchers operate at times on a very slim profit margin. It should also be understood that in the area of agriculture, much success or failure of business is contingent upon proper timing.

The area of Lemmon is definitely influenced by agriculture.

It is evident that agricultural shippers in this area have already paid a price this past summer. One need only to have observed the piles of unshipped wheat that was necessarily stored on the ground, because of lack of carriers.

If this railroad abandonment is allowed to become a reality, it will further complicate the farmer's plight. It is unrealistic to turn this vast shipping over to highway carriers. Even now, extreme and unrealistic regulations keep us from attaining maximum efficiency from truck carriers. I have heard of no surplus of trucks to fill the void the abandonment would create. Does this mean two piles of wheat instead of one laying in waiting?

At the same time, shipping by highway carriers is more expensive. Now, in most businesses, this expense can be absorbed by raising of prices. This is not the case here. The commodity market surely will not boost payments on farm goods just because we are hurting here. Realistically speaking, it is doubtful that the rest of the country will even give more than a fleeting glance to our predicament here.

Now, if the farmer must pay more to ship his commodities, and if he cannot tack this expense onto his price, then, as logic would have it, he will necessarily have less spendable income.

If the farmer has less spendable income, and more of it is eaten by inflation and higher wages, he will have to go into deficit spending or shave expenses. Our people will choose to "shave expenses."

Obviously, this would affect all of Lemmon. The less the farmer spends, the less we sell. The less we sell, the lower our income, and with utilities and wages rising so much, we need to increase sales just to stay solvent.

Now, I do not profess to be an efficiency expert, but I doubt very much efficiency has been built into trying to save the line. For one thing, when you have no cars to sell, you will have no income. It appears to me that this railroad has operated on a shortage of cars for a very long time. Could it be they wish to force abandonment? Maybe they could sell more car space to individuals other than farmers if

they made an effort to, and, if they delivered on their promises. Maybe the Government could cooperate by being more realistic in their regulations and stop passing senseless rules to make it look like they are working. Maybe labor unions could be less piggy—not only about wages, but also with senseless demands concerning working conditions. If one man can handle the job why should two men be paid for the same job. This was not the premise our country was founded on.

These are not radical suggestions—just plain common horsensense as we in South Dakota see it.

The history of our country is peppered with compromise, and these compromises have never been easy pills to swallow. Compromise brings pain, because every special interest, of course, wants it own way. In this case, however, we are being told to bear the full burden, and we are offered very weak alternate recourse.

We of the chamber of commerce, are not asking that bandages be placed on the wound. We are asking that the roots of the ailment be treated.

And so, in the true spirit of our country, we, of the Lemmon Area Chamber of Commerce ask—“Come, Let us Bargain Together.” Thank you!

Senator McGOVERN. Thank you for your testimony. Mr. Bartell. I understand Mr. Allen Olmstead of the North Dakota Farmers Union, Jamestown, is here.

#### **STATEMENT OF ALLEN OLNSTEAD, NORTH DAKOTA FARMERS UNION**

Mr. OLNSTEAD. Senator McGovern, ladies and gentlemen, the point is, the amount of movement that we are talking about is in vast numbers. Whatever happens, costs are going to be large. Rehabilitation of the rail lines will cost a huge amount and if we are going by truck, we will have to rebuild the highways. The question that has to be answered is where will the money be spent, and by whom? It is not fair, in our opinion, to place the cost of abandonment of the Milwaukee Railroad on the citizens of the area. The problems are basically of their own making. One of the problems, since the Milwaukee is in poor financial shape, do we want to save the Milwaukee as it presently is?

We will submit more written testimony later in the week.<sup>1</sup>

Senator McGOVERN. Are there others in the audience who would like to be heard on the Milwaukee problem? One thing I have been impressed with as we listened to these hearings the last week or so and also as I try to study this whole question of transportation in the United States, is the way many of the issues that we are grappling with today tend to overlap.

Presently, we are concerned with the problem of inflation in the United States, probably as much as any other problem on the agenda, and it is quite clear that if we were to lose a major segment of our rail transportation, it would increase the cost of moving every bushel of grain that goes out of this part of the country. That, obviously, is a step towards more inflation.

We are worried about energy and that is another one of the problems that confronts us in the United States, the necessity for conserving

<sup>1</sup> See appendix for the North Dakota Farmers Union's statement beginning on p. 185.

energy wherever we can. I don't think there is any doubt that you can move coal and other commodities with less energy per ton mile on rails than any other method that is available to us.

We are worried about unemployment. That is another issue. If we were to lose major parts of this Milwaukee system, we would be faced with a major loss of jobs and employment opportunities for our people.

We are concerned about the environment, keeping the air of the countryside as clean as we can. I don't know of any cleaner way to move large quantities of goods than by rail.

It has been brought out that the impact of moving all of these commodities by truck would be enormously costly and beyond that, I think it would aggravate every one of these other concerns I have mentioned.

I would like to make a suggestion to the people of the Lemmon area: there have been rail task forces formed in some parts of the State. There is one in Aberdeen now, one in Milbank and one in Mobridge in which farmers, ranchers, businessmen and others in the area, have set up a working committee to explore various ways of encouraging better operation of the rails, to encourage the continuance of rail service and its upgrading.

It has been my hope that out of these hearings we can get a regional task force moving that would employ the officials of our own State and of the surrounding States. This is a matter I have discussed briefly with Governor Wollman and Secretary of Transportation Decker, and also with members of the South Dakota Utilities Commission, but I think it is important that we move on from a South Dakota effort to begin close consultation and cooperation with our counterparts in the other States of the region. I fully agree that it is unthinkable that we can permit the abandonment of this main line rail service. We have to find a formula to make it possible for that line to operate and to do it with reliable service. We discovered last winter in what was a severe winter, but not worse than some we have had in memory, that a good many of the locomotives were out of service because they hadn't been properly maintained. They lost locomotives power all across the Milwaukee line until it was almost shut down at times. So, last summer we began a series of meetings with the Milwaukee officials and with the Interstate Commerce Commission, to work out an emergency plan to try and maintain adequate service this winter. If necessary, the ICC could be authorized to make public assistance available on a short term basis when the railroad may have a cash problem, so they can keep the locomotives well maintained and be ready for the kind of situation that confronted us last winter.

If there are some other people in the room who have some things they want to say, we would like to hear from you.

Mr. Jackson, please come forward.

#### **STATEMENT OF HON. LARRY JACKSON, MAYOR, REEDER, N. DAK.**

Mr. JACKSON. I feel the railroad must be kept operating if there is any way possible. It would be a terrible loss to our business and the town of Reeder and the whole community if service is discontinued. We serve an area of about 40 miles south into South Dakota, and

probably 10 miles east, 5 miles west and 15 miles north. As has been said, the service has been terrible. I speak for all of Reeder and I feel that it has been terrible. We need a good, operating, serviceable railroad. I imagine our taxes on gas and oil would go way out of line if we had to ship everything by truck to keep the road in shape.

Senator McGOVERN. Thank you.

Gordon Hersrud.

#### STATEMENT OF GORDON HERSRUD, PRESIDENT, HERSRUD IMPLEMENT CO.

Mr. HERSRUD. Our firm, Hersrud Implement Co., located in Lemmon, S. Dak., engages in the retail sale and distribution of International Harvester farm implements. During the period January 1, 1978, to October 31, 1978, 40 percent of our per unit shipments came to us by rail. These shipments amounted to 235,000 pounds. Our per unit shipments received by rail during the calendar year 1977 also equals 40 percent of total shipments. Because of adverse moisture and crop conditions over the 22 month period, the 40 percent figure is highly conservative, well below our average and certainly below our potential.

Most of the merchandise we receive; for example, drills, combines, windrowers, is over width and over weight, thereby being almost impossible to be shipped any other way than by rail. Also, some of our suppliers are starting to unitize the equipment; that is, ship units already assembled, which makes the pallets much larger and again almost impossible to be shipped any other way except by rail. Besides our own shipments we have often unloaded merchandise for many of the surrounding dealers: Bison, Buffalo, and Timberlake in South Dakota; Hettinger, Bowman, Carson and New England in North Dakota. These rail shipments are, of course, not reflected in the 40 percent figure mentioned earlier.

Outside of some kind of shelter and some kind of energy for our homes, the production of food is probably the most important and necessary industry we have in the United States, and certainly to this area. We feel that the abandonment of the Milwaukee Road will jeopardize this industry and those who make their living in agriculture. Not only our business, but many other businesses dependent upon the railroad are going to find it hard to adjust should abandonment occur. These adjustments will be felt both directly and indirectly and any business unable to adjust will simply go out of business.

We firmly believe a concerted effort should be made between the Federal and State governments, the Milwaukee Road, and all employees to determine a course of action that will again make the Milwaukee Road a viable business.

We strongly urge that the Milwaukee Road system of the Dakotas and Montana be preserved.

Senator McGOVERN. Thank you for your testimony, Mr. Hersrud. Are there any lumber or farm implement dealers or others here who may have some additional testimony. We have heard from the grain people. We have heard from the farm equipment businessmen. Do we have lumber people or anyone else who might have something to say?



**STATEMENT OF HON. RICK MAIXNER, REPRESENTATIVE, NORTH  
DAKOTA STATE LEGISLATURE**

Mr. MAIXNER. I am the State representative from the 39th District, which is the southwestern corner of North Dakota. I am also the head of the Democratic legislators of the western part of North Dakota and designated to speak for them. The major portion of the Milwaukee Road line runs through the district I represent. The coal mine which supplies the Big Stone power plant is in my district, and the community that I do business in is served by the Milwaukee Line.

A number of questions have been brought about the economic picture of the Milwaukee Road. One of the questions that needs to be answered, in addition to the question of how we are going to solve the problem, is how the line got into the trouble it did. We talk about the top heavy organizational eschelon, the long turn around and the disappearance of rolling stock. One of the things that happened in New England in the last few years appears to be the complacency of the ICC in the face of gradual deliberate abandonment of the Milwaukee branch line there. In 1975, 75 percent of the grain shipped was by rail. In 1976, 525 cars or about 50 percent of shipments; in 1977 212 cars of 20 percent; and in 1978 to date, they have had 95 cars or 10 percent. It appears that the Milwaukee is forcing abandonment of the line. Last winter for 4 months, not a single rail car left the town. Each day the tracks were chipped out through the towns. Money was spent to keep the tracks open when it was known there would be no trains. It appears the Milwaukee is attempting to show a loss on the line to justify abandonment.

The ICC has been to North Dakota and listened to our problems. Senator Burdick, a good friend of yours I am sure, has been there and all of them have listened. I don't think anything has happened yet. Part of the problem that has to be addressed is the revolving policy between the ICC and the railroad people. We are going to have to solve the problem on a nationwide basis. I agree we have no choice but to continue the railroad. I would certainly like to offer any assistance of the Legislature of North Dakota. We are talking about hopper cars in North Dakota to be operated by the State Industrial Commission to haul grain. That will be supported in the legislature and anything else the State of North Dakota can do to work with South Dakota to keep a viable railroad, we certainly will do. Thank you.

Senator MCGOVERN. We appreciate your testimony. Do you know whether or not North Dakota, under its own State rail plan is considering designating that sector of the Milwaukee Road that we are talking about today, as a high priority line? My understanding is it hasn't been done. Here in South Dakota we have designated the Milwaukee main line as the highest priority in the rail system. That has not been done yet in North Dakota.

Mr. MAIXNER. I received a copy of the Transportation Committee's action on it but with the campaign I haven't read it yet.

Senator MCGOVERN. I urge you, as a representative of the State to look at that. I think I am right, North Dakota's rail plan does not designate the Milwaukee main line that diagonals across your State as a high priority track. We think it should as it is in South Dakota. We are hoping North Dakota will see it the same way. We appreciate your testimony here today. Are there others here in the room now?

Mr. Mortimer.

**STATEMENT OF HON. GEORGE MORTIMER, REPRESENTATIVE,  
SOUTH DAKOTA STATE LEGISLATURE**

Mr. MORTIMER. To keep it from being a Democratic Party forum, I am George Mortimer and I represent the 28th District which is Butte, Harding, Perkins, and Corson counties. I drove up from Belle Fourche today, 165 miles. That is on the Chicago & Northwestern line and one thing you don't have to worry about coming from Belle Fourche to Lemmon and that is getting run over by a train. There isn't any between here and there. So if you consider the area that those two railroads cover, it is a very serious problem and just between you and me, the Chicago & Northwestern isn't very much better off than the Milwaukee and they handle their business just about the same way. You get very poor service, and it looks like they are trying to go out of business. I can't understand it. The business is there; the profit is there if they handled it in a businesslike manner.

One of the serious problems is the labor union, the railroad union. They have got the railroad just about like John L. Lewis with the coal mines. He shut them down when demands got so they took the profit out of digging the coal. Personally, I think that is one of the big problems of the railroad today. The union is set up with rules and regulations that is just about killing the railroads off. I think that is one thing that will have to be taken into consideration.

The State of South Dakota Legislature worked on this problem at the last session. We did pass some laws that would make it easy for the communities to work together and support these lines the railroads want to abandon. Anything that I or Senator Jensen or Representative Millett can do, we would be more than pleased to work with you.

Senator McGOVERN. I appreciate this testimony because I think there is a point at which we may have to call on our State legislatures for some help on rail service. It may very well be that even if management practices are improved on the line and even if the labor work rules that you referred to are reformed—and I think that is a real possibility—it still may be necessary, for a period of a few years at least, for some kind of partial public support, public assistance, to be given to that line from Federal sources or possibly from the various States in the area. We are glad to have you here as a representative of the legislature.

I want anyone here who has anything to say, please feel free to do so.

A VOICE FROM AUDIENCE. Senator, I have two statements I would like to submit for the record, American State Bank of New England and the New England Chamber of Commerce.<sup>1</sup>

Senator McGOVERN. We will make those statements a part of the record. Anyone else?

**STATEMENT OF JERRY RAETHER, MANAGER, FARMERS UNION  
OIL CO.**

Mr. RAETHER. Senator McGovern, I am manager of the Farmers Union Oil Co., Bowman, N. Dak.

This company uses the railroad solely for the purpose of transporting fertilizer into this area from central Florida and the St. Paul

<sup>1</sup> See appendix for American State Bank of New England and the New England Chamber of Commerce statements beginning on pp. 187 and 188, respectively.

area. If the railroad were to abandon this line, all fertilizer would be trucked. The number of trucks to fill this company's fertilizer plant would be approximately 95 trucks, which would be virtually impossible to locate and hire. In terms of increased dollar cost of product, a \$5 per ton up charge is added to fertilizer prices when trucks are used. This means an approximate additional \$9,500 increase in cost to the people in the Bowman community. The useage of trucks over rail would mean an increase in handling charges and bookkeeping. An additional \$3.50 a ton or about \$6,000 would be passed on to the people in this community.

Gentlemen, as you can see, for a mere 1,900 tons of fertilizer the increased cost of approximately \$16,000 will be passed on to the farmers in this area.

Let us not forget the cost of equipment that was installed in 1977 to facilitate the unloading of fertilizer cars. This company spent \$20,000 for this equipment and to abandon this line would render the equipment totally useless and the \$20,000 would be plowed back into increased produce cost to pay off the existing debt.

In closing, the total tangible impact of railroad abandonment in the community can never be expressed in words or figures. It is just another missing link to small community decay, our community.

Senator McGOVERN. Thank you, a good addition to the hearing record. Are there any oral statements that you would like to have filed?

Mr. FRYE. I would like to present a statement.

Senator McGOVERN. What is your name?

#### **STATEMENT OF LYNN FREY, FREY RANCH, INC.**

Mr. FREY. My name is Lynn Frey. I am a rancher and farmer representing Frey Ranch, Inc., a family farm corporation located 10 miles west and 3 miles south of Lemmon. S. Dak.

In August of this year we, in partnership with our neighbors, Larry and Gary Foss, who operate as Foss Brothers, purchased the present grain elevator located at White Butte, S. Dak., from the Bison Grain Co. This grain elevator is situated on the Milwaukee line 9 miles west of Lemmon.

Both Foss Brothers and the Frey Ranch had immediate and pressing need for additional grain storage facilities. These needs were brought about by an increase in acreage farmed and an above average growing season which resulted in a very good grain yield. With previous year's grain already in the Federal grain reserve program, additional facilities were necessary to store this year's harvest. At this time the elevator at White Butte is essentially full.

This is all well and good, but we are now faced with the eventual disposal of this grain. To handle this problem we had forseen ourselves as new customers of the Milwaukee Railroad in shipping grain. Although we are new to grain marketing, we had envisioned an opportunity to make grain sales to major terminals to take advantage of volume shipments, better markets, and thus greater profits.

The grain elevator at White Butte is already located along the Milwaukee Road track and has a siding track for grain loading although it hasn't seen active use in the past 5 years. The elevator itself is built and equipped primarily for loading railroad cars. Considerable

renovation and reconstruction has been accomplished to date to facilitate truck unloading into the elevator to meet current needs. Present plans under consideration call for additional bins to be erected to meet future needs and the operation of a grain cleaner.

To transport the grain that our elevator does and could handle, railroad shipment is most preferred. This is primarily because of the greater hauling capacity than truck, and the lower existing freight rates. The greatest profit potential is to be realized with railway shipment.

Should the Milwaukee Road abandon this line through northern South Dakota, Foss Bros. and the Frey Ranch face the following impact in regard to our grain facilities and operations.

First, our grain elevator would be a storehouse only. We would not become railroad customers or potential grain terminal customers at eastern or western markets.

Second, our profit potential would be diminished due to the alternatives available.

The first of these alternatives would be to sell our grain locally as we have done previously and receive a lower than market price reflecting the costs of grain handling and transportation. In this instance our own capability of handling, loading, and marketing grain would be of little value or use. The second alternative would be to have grain hauled from our facility to eastern terminals in order to receive a current market price, but we would also have to pay higher transportation costs for trucking. It is felt that these costs generally would prevent any shipments by truck to western markets, where better markets often are. Our third alternative would be to enter the trucking business by purchasing our own truck transport and assume directly all shipping costs. For only limited use it is felt that this option would not be practical or feasible.

We feel we have a real need for railroad service and urge measures be undertaken to keep the Milwaukee Railroad in South Dakota from abandonment. I have been told that the Milwaukee Road plans to remove unused rail sidings. Even as late as this morning I saw railroad personnel removing switching rail parts from the siding on which our elevator is located. The time to act is now before it is too late entirely.

For these reasons, Senator McGovern, we appreciate your inquiring into the possible abandonment in South Dakota of the Milwaukee Railroad, and the opportunity to address the Joint Economic Committee. Thank you.

Senator McGOVERN. Thank you, Mr. Frey. It is getting close to 5 o'clock. Let me say what I said at the beginning, this hearing record will stay open for another 10 days and additional statements, or ideas, advice, information, anything of that kind that you would like to have made a part of this hearing record, please make it available to us. Send it direct to our office in Washington or hand it to Elmo Cain or the mayor or someone else here in Lemmon and have it passed on to us.

I do want to thank everyone who came to this hearing. I will stay around to talk with anyone informally for a while. Thank you so much for your attendance. The subcommittee stands adjourned.

[Whereupon, at 5 p.m., the subcommittee adjourned, subject to the call of the Chair.]

## APPENDIX

### U.S. GOVERNMENT BUREAUS AND OFFICES INNEROFFICE MEMORANDUMS RELATIVE TO THE HEARINGS ON NATIONAL RAILROAD POLICY

OCTOBER 12, 1978.

Reply to: Alan Fitzwater, Director, Office of Proceedings, ICC.  
Subject: Joint Economic Committee Hearings On National Railroad Policy.  
To: Associate General Counsel O'Hara, ICC.

You have asked for this Office's comments concerning the hearings about the importance of the Milwaukee Road's transcontinental line across the Northern Great Plains and development of possible approaches aimed at designating viable alternatives in order to maintain adequate service to those shippers who depend on this Milwaukee line.

It could be helpful to outline some of the more recent developments concerning this line and the future of Milwaukee Road's transcontinental service.

#### Attachment.

Union Pacific Railroad (UP) and Chicago, Milwaukee, St. Paul and Pacific Railroad (Milwaukee Road) have indicated that they intend to file an application under section 5 of the Interstate Commerce Act (act) for UP to acquire the westernmost 1500 miles of the Milwaukee Road's line from Butte, Montana to Seattle, Washington and Portland, Oregon. This segment is called the "Pacific Coast Extension". For certain, as yet unspecified segments of the line, abandonment applications will be filed. No formal agreement between UP and Milwaukee Road has been reached, thus the terms of the acquisition or the lines to be abandoned are unknown; however, the parties anticipate reaching an agreement by the end of this year and filing the appropriate applications in early spring. They have also indicated that they will seek waiver or clarification of certain relatively unimportant sections of the Commission's Consolidation Regulations—49 CFR 1111—*Railroad Acquisition, Control, Merger, Consolidation Project, Trackage Rights and Lease Procedures*.

Additionally, Milwaukee Road has indicated that in an amended system diagram map to be filed by the end of this month, it will designate its main line from Butte, Montana to a point near Minneapolis, Minnesota as Category II or "potentially subject to abandonment"—49 CFR 1121.20(b)(2). These are "lines which the carrier has under study and believes may be the subject of a future abandonment application because of either anticipated operating losses or excessive rehabilitation cost, as compared to potential revenues."

Lines in Category I (49 CFR 1121.20(b)(1)) are lines which the carrier anticipates will be the subject of an abandonment application within three years. A line must be in Category I for at least 4 months prior to filing of an abandonment application, except if no opposition is anticipated.

The Commission requires that carriers keep certain data for lines in Category I and II (49 CFR 1201), by individual line but to report this data on a system aggregate basis. There is a possibility that when Milwaukee Road submits its required annual update of its system diagram map next spring that the Butte-Minneapolis line could be placed in Category I. Milwaukee has confirmed that this is a possibility. Additionally, Milwaukee's designation of the Butte-Minneapolis line as Category II would seem to indicate that transcontinental traffic moving over the Pacific Coast Extension might not be retained by Milwaukee Road at a Butte interchange with the UP. Finally, there are no indications that other railroads (notably BN), would be interested in any segments of the Butte-Minneapolis line.

A related matter may also have relevance. The Commission recently received an adverse decision in the Seventh Circuit Court of Appeals in No. 77-1453, *Chicago, Milwaukee, St. Paul and Pacific Railroad Company v. United States of America And Interstate Commerce Commission*, decided October 4, 1978. Pur-

suant to terms stated in *Great Northern Pacific & Burlington Lines, Inc.—Merger, etc.—Great Northern Ry. Co. et al.* 331 I.C.C. 228 (1967) and 331 I.C.C. 869 (1968), Milwaukee Road sought inclusion in Burlington Northern. The Commission denied the application. The Seventh Circuit characterized this action without an adequate hearing on the matter, as arbitrary, capricious and unreasonable and remanded the proceeding to the Commission for further hearing.

Additionally, Milwaukee Road has indicated that it intends to present a plan of reorganization to the Bankruptcy Court by Summer of 1979, and believes that the Commission could consider the plan under 77(d) of the Bankruptcy Act along with the UP's acquisition of the "Pacific Coast Extension." It would be logical to assume that an abandonment application for the Butte-Minneapolis line would be filed so as to also be considered concurrently with Milwaukee Road's plan of reorganization.

Several options may be available for maintaining adequate service to those shippers who depend on the Milwaukee Road. Obviously service on the Pacific Coast Extension of the Milwaukee Road would be continued by the UP if its acquisition of this segment of the Milwaukee is filed with the Commission and approved.

Under section 1a(1), of the act, no railroad is allowed to abandon a rail line or abandon all of its service over a line unless it has received a certificate authorizing such abandonment. A complete termination of service over a line or unauthorized removal of a line would be an unauthorized abandonment. Such action can be enjoined by a civil action filed in an appropriate district court by an action maintained by the United States, the Commission, or the Attorney General or the transportation regulatory body of the affected state or area.

Any cessation of service short of total cessation of operations, which would be an unauthorized abandonment under 1a(1), is not easily remedied by Commission action. Until this year the Commission specifically stated that it lacked jurisdiction under section 1(4) to establish minimum levels of service for common carriers. See *Adequacies-Passenger-Services-Southern Pacific Co.* 335 I.C.C. 415, 430 (1969) and *Duralite Co. Inc. v. Eric Lackawana Ry. Co.*, 339 I.C.C. 312 (1971). However, this was reversed in Finance Docket No. 28412, *Winnebago Farmers Elevators Company v. Chicago and North Western Transportation Company*, decided March 29, 1978 in which the Commission addressed the issue of adequate service and, in this instance, ordered upgrading based on the section 1(4) requirement to provide adequate service. The Commission found that a carrier had failed to render adequate service under section 1(4) of the Act. It defined adequate service for branch lines as track and roadbed maintained to minimum Class I standards of the Federal Railroad Administration (49 CFR 213), reasonable availability of boxcars for loading grain and service on an "as needed" basis. This relief was designed for the peculiar fact situation, but indicated that other additional relief could be ordered if warranted. It is clear that the jurisdictional finding is broad enough to encompass other, differing factual situations. In *Winnebago*, a profitable railroad (North Western) was ordered to maintain a particular line. In the Milwaukee Road situation upon complaint it would be a much more complex decision to order a bankrupt to make similar repairs.

A carrier may embargo a line of railroad if it becomes unserviceable. The Commission may lift the embargo if it believes it is not proper or appropriate. If a carrier embargoes a line and fails to make reasonable efforts to lift the embargo, the aforementioned parties may go to district court and get the embargo lifted because it has become in essence an authorized abandonment or service. See *I.C.C. Maine Central Railroad Company*, 505 F 2nd 590.

We believe the *Winnebago* standard would require the carrier to rehabilitate its track to a degree necessary to comply with its common carrier obligation. As a matter of practicality, embargoes may be necessary until such time as the carrier is physically able to make the necessary repairs. In view of Milwaukee's current financial condition, this may become extremely difficult. While the Commission does possess the authority to issue embargoes it ordinarily does not unless the carrier fails to take timely action and permits traffic to be unduly delayed.

The holding in *Winnebago* should be tempered with the understanding that the Commission has long recognized a distinction between economizing in maintenance and withholding funds from a viable operation, a practice which combined with other factual elements it has labeled "deliberate downgrading." *Missouri-Kansas-Texas R. C. Abandonment, Okla.* 338 I.C.C. 728 (1971). The practice whereby a railroad, which is financially marginal, limits expenditures of the bulk of its maintenance funds to the segments of its system that provide the bulk of its revenues has been specifically approved in *Missouri-Kansas-Texas*.

If an abandonment application for the Milwaukee line from Butte, Montana to Minneapolis, Minnesota is filed, several options are available. Firstly, information concerning how to oppose an abandonment is found at 49 CFR 1121.36. Assuming Milwaukee Road filed such an application and if it is granted, an offer of financial assistance under section 1a (6) and (7) of the act and 49 CFR 1121.38 could be made by States or interested individuals to provide for continued rail services. The offer must be submitted to the railroad and the Commission 15 days after publication in the Federal Register of the Commission's findings that abandonment is permitted. An offer of financial assistance may either be in the form of a subsidy payment or acquisition of the line. Both of these types of financial assistance may encompass all or any part of the line.

The Commission has 30 days from the date of the Federal Register publication to determine whether a financially responsible person or group has made a reasonable offer. When an offer is made, the Commission asks if it covers (1) the difference between the revenue of the line and the avoidable cost of providing rail service, plus a reasonable return on the value of the line, or (2) the acquisition cost of the line.

When it decides these matters, the Commission may postpone issuing a certificate authorizing abandonment or discontinuance for a reasonable time, not to exceed six months, to permit negotiations for the subsidy or purchase. When it receives notice of an agreement between the parties, the Commission will postpone the issuance of a final certificate authorizing abandonment for the length of the agreement.

However, the recent adverse decision by the Seventh Circuit Court of Appeals in *Chicago & North Western Transportation et al v. United States*, No. 76-2283 (U.S.C.A., 7th Cir) severely limits the Commission's ability to impose reasonable terms on a railroad that is unwilling to operate under subsidy or sell the line. Under this decision a railroad may reject all offers of financial assistance and physically remove its line after the six month negotiation period has terminated. The Commission has sought review of this decision by the Supreme Court.

Offers of financial assistance for continuation of rail service may be negotiated or made at any time prior to or during an abandonment proceeding, and the Commission encourages such negotiations.

Acquisition or operation over the Milwaukee line by other railroads or by shipper consortium (non-carriers) is possible.

The Commission has promulgated regulations outlining procedures for acquisition and operation of rail lines of one railroad by another under section 5(2) of the act. These regulations are found at 49 CFR 1111—*Railroad Acquisition, Control, Merger, Consolidation Project, Trackage Rights and Lease Procedures*. These procedures involve the preparation of an extensive application and for its handling in an adversary procedure. An explanatory report is found in *Railroad Consolidation Procedures*, 348 I.C.C. 771 (1977).

In addition, a carrier can obtain the right to operate over the lines of another railroad. These agreements are between two or more rail carriers and are called trackage rights or joint use agreements. Generally, trackage rights that do not involve "major market extensions" by carriers are not subject to as extensive informational requirements as applications to acquire, control or merge under section 5. These application requirements are found at 49 CFR 1111 also. Trackage rights which are "major market extensions," as defined in *Burlington Northern, Inc.-Control & Merger-St. L.*, 354 I.C.C. 616 (1978), are subject to the same informational requirements as major rail consolidations.

When a person or group of persons who are not presently carriers under the act acquire a line of railroad and conduct operations or acquire trackage rights of the line over a railroad, they are not subject to section 5(2) of the act and 49 CFR 1111. Where only one carrier is involved, i.e., acquisition is by a non carrier, the transaction is under section 1(18). The regulations and procedures for filing applications under this section are found at 49 CFR 1120—*Construction, Extension, Acquisition, or Operation of Railroad Lines*. Applications under section 1(18) have substantially less information requirements than applications under section 5(2).

Finally, a line of railroad for which a certificate of public convenience and necessity permitting abandonment has been issued may be acquired by another railroad or a non-carrier without an application under section 1(18); however, an application to conduct operations under section 1(18) is required. Once a certificate has been issued, the property is no longer a line of the railroad and its acquisition (but not operation) would lie outside the scope of Commission jurisdiction. Operation of the lines as a common carrier would require an application under section 1(18) of the act.

Finally, Milwaukee has sought relief in F.D. 28583 (Sub-No. 1F) Burlington Northern, Inc.-Control and Merger-St. Louis-San Francisco Railway Company et al which would give it trackage rights over BN lines in Montana from all present and future coal mines served by BN to Miles City, Montana. [F.D. No. 28583 (Sub-No. 15F), Stanley E. Hillman, Trustee of the Property of Chicago, Milwaukee, St. Paul and Pacific Railroad Company, Debtor-Trackage Rights Over Burlington Northern, Inc., Between Miles City, Montana and All Present and Future Coal Mines Located on the Burlington Northern In Montana.] This application was rejected as not in compliance with the Commission's Consolidation Regulations by decision dated August 25, 1978. An appeal of this decision was filed. Votes are due October 13, 1978.

It should be emphasized that these trackage rights are directly related to the BN-Frisco proceeding, and would be designed to mitigate harm to Milwaukee Road which would result from Commission approval of BN-Frisco. However, if the application for these trackage rights is accepted and these trackage rights granted, Milwaukee Road would have to retain its main line between Miles City, Montana and Minneapolis, Minnesota. Thus it is likely that if Milwaukee Road were granted this relief, it could influence its decision to look at the entire Butte-Minneapolis line as a candidate for abandonment.

The Commission is aggressively using its available resources to remedy the competitive and economic problems being faced by the railroads, particularly the bankrupt lines like the Milwaukee Road. There are a number of proceedings recently completed or underway which are directed at improving the railroads' overall financial and competitive position. While these efforts are not directed solely at the Milwaukee Road, that railroad as well as all others, should benefit thereby. In addition, these measures will benefit all rail users—including those in South Dakota and the Upper Great Plains.

Recent initiatives include:

(a) Facilitating the determination of actual carrier revenue needs<sup>1</sup> as well as improving procedures governing revenue increase proceedings;<sup>2</sup>

(b) Promoting better car availability and reducing seasonal traffic surges with associated car shortages and system congestion;<sup>3</sup>

(c) Promoting a more cost-oriented pricing system necessary to meet motor and barge competition more effectively;<sup>4</sup>

(d) Promoting quicker rail service also needed to enable the railroads to meet motor competition.<sup>5</sup>

OCTOBER 19, 1978.

To: Director Fitzwater, Office of Proceedings, ICC.

From: James B. Thomas, Jr., Director, Bureau of Accounts, ICC.

Subject: October 25, 1978, special conference on Milwaukee Road

Enclosed is our input for the Commission's staff briefing on the Milwaukee Railroad.

Attachment.

#### BUREAU OF ACCOUNTS

#### INFORMATION FOR COMMISSION SPECIAL CONFERENCE ON THE MILWAUKEE ROAD

##### *Levels of service*

The Milwaukee's level of service has improved since the beginning of last winter when measured by the average daily unfilled orders for freight cars. For example, during the week ending December 3, 1977, the daily average of unfilled orders was 3,083 cars, including 1,425 covered hopper cars, whereas for the week ending November 30, 1978 average unfilled orders totalled 1,854 cars, including 851 covered hoppers, a drop of 40 percent for both covered hoppers and all other types of cars. However, the number of cars in unserviceable condition, both in absolute numbers and as a percentage of total cars owned, rose from 3,194 or 11.3 percent of total cars owned on January 1, 1978 to 3,705 or 13.4 percent of the

<sup>1</sup> Ex Parte No. 338, Standards and Procedures for the Establishment of Adequate Railroad Levels. — I.C.C. —, 43 FR 25774 and 43 FR 29296.

<sup>2</sup> Ex Parte No. 290, *Procedures Governing Rail General Increases Proceedings*, 351 I.C.C. 544.

<sup>3</sup> See, for example, Ex Parte No. 324, *Standards and Procedures Governing Regional, Seasonal, and Peak-Period Rates*, 355 I.C.C. 521.

<sup>4</sup> See, for example, Ex Parte No. 331, *Expedient Procedures For Permitting Publication of Separate Rates for Distinct Rail Service*, 355 I.C.C. 684.

<sup>5</sup> Ex Parte No. 270 (Sub. 2), *Investigation of Railroad Freight Service*, 345 I.C.C. 2941 and Ex Parte No. 344, *Terminal Performance Standards Governing the Transportation of Non-Perishable Commodities*, pending, 43 FR 33774.



total fleet on September 30, 1978. During the same time span, total cars owned dropped by 646 cars or 2.3 percent. Thus the apparent improvement in meeting shippers orders for freight cars was partially a function of decreased traffic (carloadings) which dropped by 2.6 percent overall between the week ended December 3, 1977 and the week ended September 23, 1978. In summary, therefore, the Milwaukee's capability of providing service seems to have diminished rather than improved since the beginning of last winter.

However, during September the Federal Railroad Administration signed a contract with the Milwaukee for the guarantee of a \$21.3 million Section 511 loan to be used for repairing 111 locomotives and 950 freight cars, and the installation of waste water facilities in Milwaukee. Also, FRA has agreed to provide \$24.5 million of Section 505 funds for the upgrading of main line between Milwaukee and St. Paul. These projects are scheduled for completion by the end of 1979.

Up to September 30 the Milwaukee had drawn down \$5.4 million of its entitlement and had repaired 13 locomotives and 57 covered hopper cars. Over the coming months additional drawdowns of these funds should enable the Milwaukee to significantly upgrade its service capability. However, the amount of improvement which can be accomplished before winter may permit only moderate improvement in the service level if we have another severe winter.

#### *Prospects for winter*

Insofar as the severity of the winter, the Long Range Prediction Group of the National Weather Service will not publish its winter forecast, which includes its projections as to precipitation, until the end of November. However, at the request of the Department of Energy, the Climate Analysis Center of the National Meteorological Center is updating its monthly 90 day temperature predictions, necessarily on a somewhat limited basis.

The latest prediction for the October to December period—with a 3 to 2 probability of accuracy—is that temperatures will be below normal from the Continental Divide to the Mississippi Valley which encompasses the bulk of the Milwaukee service area.

Thus another severe winter should not be surprising, and service levels over last year may be only moderately improved on the Milwaukee.

#### *Status of merger negotiations and efforts at rationalization*

In March 1977, the ICC denied the Milwaukee's petition to be included in the Northern Lines merger. Within the past few weeks, however, the Seventh Circuit Court of Appeals remanded this denial to the ICC asserting that the denial was "arbitrary and capricious," and that adequate notice was not given to the interested parties. No decision has yet been made as to any action which might be taken by either the ICC or the Milwaukee. The Milwaukee nevertheless is continuing to move forward on its plans for reorganization.

These plans include the sharp reduction of its system calling for sale or abandonment of all lines west of the Twin Cities. The Milwaukee is currently in negotiations with the Union Pacific (UP) for the sale of certain of its lines west of Butte, Montana. Milwaukee's management hopes that decisions will be made by early December as to which lines will be sold and which will be candidates for abandonment or subsidy, at which time appropriate filings will be made to the ICC.

In addition, the company is studying its system between Butte, Montana and the Twin Cities. At this time it does not know how or when these lines will be disposed of but are presently trying to determine how much of the existing business in this area will have access to the Burlington Northern or the Chicago, North-Western, and therefore will not be left without service.

Milwaukee's Trustee hopes that determinations in those areas will be made fairly soon in order that a plan of reorganization can be filed by mid-1979.

In regard to the effect of the potential abandonment of the Pacific Coast Extension by the Milwaukee, the Trustee, Mr. Stanley Hillman, in an October 12, 1978, speech given in Montana before various interested parties, stated that the Milwaukee currently serves only 37 communities in Montana which are not also served by another railroad. These communities have a total population of 11,000 out of the state's population of 700,000. Thus over 98 percent of Montana's population would still have rail service. He noted that except for three or four points of significant originations, the bulk of the traffic passing through the state was bridge traffic between the West Coast and the Twin Cities. Depending on negotiations with the UP, there would still be two transcontinental railroads serving Montana.

Insofar as the Dakotas are concerned, in addition to the Milwaukee, the Burlington Northern and the Northwestern also serve these areas. It would appear that most shippers now using the Milwaukee could be served to some extent by one of these other roads.

#### *Status of employment layoffs*

The Milwaukee's employment rolls have declined in total from an average of 11,999 in the third quarter of 1977 to 11,397 during the third quarter of 1978, a drop of 5.0 percent. However, maintenance of way employees dropped 13.8 percent below the third quarter average of 1977 while maintenance of equipment employees increased by 9.2 percent, reflecting the Milwaukee's program of locomotive and freight car repairs initiated last spring and which is now receiving Federal assistance under Section 511 of the 4R Act. Milwaukee Trustee Hillman has acknowledged, in a letter to the Montana Consumer Counsel dated September 11, 1978, that "certain reductions in the level of maintenance-of-way forces were initiated on September 1," although the number of personnel involved was not specified.

#### *Operating results and outlook for the remainder of 1978*

For the first six months of 1978, the Milwaukee reported a net loss of \$34.0 million which included a \$1.1 million undistributed loss from affiliated companies and a \$5.8 million cash dividend received from its land company affiliate, the distribution of which is still being contested by Milwaukee creditors. Without this dividend and affiliate loss, the net loss would have been \$38.7 million.

For the last six months of 1978, we see the possibility of operating losses of about \$24 million (excluding affiliate earnings). This would bring operating losses for 1978 close to \$63 million (excluding affiliate earnings of approximately \$8-\$10 million) which compares to a loss of \$38 million reported to the ICC in 1977.

Cash appears to have stabilized around the \$16-\$18 million level and the company has not yet drawn down \$5.1 million of Emergency Rail Services Act funds. FRA has not released these funds because the railroad now has sufficient operating cash. Thus, no cash crisis should occur before the year end. The Section 511 and Section 505 funds should also be of help to the railroad insofar as service improvements are concerned—but because of FRA restrictions, these funds cannot be applied to road maintenance west of the Twin Cities so additional deferred maintenance, and thus service deterioration can be expected to accrue there.

OCTOBER 12, 1978.

To : Hanford O'Hara, Associate General, Counsel for Legislation, ICC.  
 From : Ernest R. Olson, Director, Bureau of Economics, ICC.  
 Subject : Hearings before the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee of Congress on Rail Transportation Problems of South Dakota and the Upper Plains States.

This refers to your memorandum of October 6, 1978, regarding the above subject.

The Bureau has developed some regional economic analyses of the territory over which the Milwaukee Railroad operates. We are attaching a copy of the results of these analyses.

We are also sending a copy of a table covering estimated carloads, tons and revenues on the Milwaukee for the years 1972 through 1976, by selected states, based on origin and destination traffic only. This table does not include traffic overhead to the Milwaukee. Overhead traffic information is not available in the Commission.

In order to facilitate a discussion of the Milwaukee Railroad and its present financial condition, we are attaching a table covering selected financial and operating data for year 1977 and first six months of 1978.

Regarding possible future options open to the Milwaukee, the carrier has been in the Bankruptcy Courts since December, 1977. A Trustee has been appointed and is currently developing a reorganization plan for the carrier. The nature of the Trustee's plan will not be known until sometime in mid-1979.

Currently the Union Pacific is interested in acquiring Milwaukee lines (as yet unspecified) west of Butte, Montana.

In a current proceeding before the Commission involving the merger of the BN and Frisco railroads, the Milwaukee Road has filed for extensive trackage rights over the BN.

Still another option left open is the inclusion of the Milwaukee Road in the BN merger approved by the Commission in 1970.

The Subcommittee can be assured that when the Commission is called upon to approve whichever option is presented will not only consider the viability of the Milwaukee Road, but will also consider the transportation needs of the shippers and the needs of the communities it serves.

Attachment.

#### THE ECONOMIC IMPORTANCE OF THE WEST COAST EXTENSION OF THE MILWAUKEE ROAD SYSTEM

The Milwaukee road operates an extensive rail network of about 10,000 miles of track in numerous midwestern and western states. Analysis of the 1976 one percent waybill for the Milwaukee road shows the relative importance of both West coast and midwest originations and terminations for Milwaukee road traffic compared to states near the middle of the Milwaukee line.

The western extension of the Milwaukee road system covers the states of Minnesota, North Dakota, South Dakota, Montana, Idaho, Washington, and Oregon. The economies of these northern tier of states are diverse. While agriculture is an important industry in each of these states, its degree of importance varies depending on the diversity of the individual states' economy. In North Dakota, 1976 agricultural earnings represent 14.8 percent of total state earnings while in Oregon agriculture represents 3.0 percent of state earnings. The economies of the more central states of North Dakota, South Dakota, Montana and Idaho are more closely tied to agriculture (with agriculture representing about 10 percent of each economy). The Washington and Oregon economies on the West coast and Minnesota in the eastern end of the Milwaukee road have more diverse economies where the overall importance of agriculture is less important. In addition to raw agricultural production, each of these states manufactures food and kindred products related to the agriculture sector. Combining earnings in the manufacture of food and kindred products with earnings in agriculture results in the following relative importances of agriculture and products compared to total state earnings shown in the following table.

TABLE 1.—*Agriculture and products as a percent of total State earnings, 1976*

	<i>Percent</i>
Minnesota -----	7.8
North Dakota -----	16.4
South Dakota -----	14.2
Montana -----	10.7
Idaho -----	14.3
Oregon -----	5.6
Washington -----	5.8

The economies of the states on the western extension of the Milwaukee road system grew generally slower than the national average from 1975 to 1976. The exceptions were Idaho and Oregon which grew slightly faster than the U.S. during the same period. Projections of state real personal income from the Bureau of Economic Analysis of the Department of Commerce indicate that real growth is expected in personal income of each state from 1976 to 1980 as shown in the following table.

TABLE 2.—*Average growth rate, real personal income, 1976-80*

	<i>Percent</i>
Minnesota -----	4.2
North Dakota -----	3.6
South Dakota -----	4.0
Montana -----	4.1
Idaho -----	4.8
Washington -----	4.1
Oregon -----	4.7

Although the individual sectors in each state are expected to grow at different rates, the overall state growth should generate additional freight traffic. However, depending on the commodity, the traffic could be moved by rail, motor carriers and possibly water carrier.

Of importance to the western extension of the Milwaukee road are carloadings of grain, coal, grain mill products, food and kindred products, primary forest products and lumber and wood products. Grain and related food product car-

loadings originated in each of the states while primary forest products and lumber and wood products originate in the west coast states, especially Washington.

The one percent waybill used to determine state-to-state movements of traffic does not include bridge traffic and cannot be used to make conclusive statements about distribution and commodity patterns. The 1976 waybill does indicate the following information on commodities important to the western extension.

#### *Grain and products*

Most Milwaukee road movements of grain originate in the midwest in states such as Iowa, the Dakotas and Minnesota. Most of the grain is shipped to states in the midwest with a few shipments moving to the west coast especially from originating states closer to the west coast. Most grain movements originate and terminate on the Milwaukee and generally the short line mileage is less than 500 miles.

Grain mill products also originate in the midwest for Milwaukee destinations in the midwest. Shipment distances are generally less than 500 miles except for a few shipments to the west coast.

Food and kindred products generally originate in the midwest with midwest terminations.

Analysis of the 1976 waybill indicates that shipments of grain, grain mill products and food and kindred products will depend on the overall level of domestic and world grain supply and demand and the level of demand for food and kindred products. Since the Milwaukee operates in the grain and food processing belt of the United States, increased grain movements, expected for the next few seasons should benefit the Milwaukee. In addition, the Milwaukee should participate in any increased demand and resultant shipments of food products from midwest origins.

#### *Coal*

The 1976 waybill data for coal is deficient and of little value in determining origination and terminations. However, the Milwaukee participates heavily in the movement of western coal and should increase traffic as new western coal mines are developed with midwest terminations.

#### *Forest products*

Most primary forest products hauled by the Milwaukee originate and terminate in the Pacific Northwest of the United States. A lesser amount move in local shipments between Michigan, Wisconsin and Minnesota. Most shipments at either the eastern or western terminus travel short distances possibly from timberlands to lumber mills or for possible export.

Lumber and wood products represent items generally manufactured from primary forest products. Shipment of lumber and wood products on the Milwaukee mostly originate in the Pacific Northwest with terminations throughout the United States. Lumber is an intermediate product used in construction and many other uses through the United States. As in the case of primary forest products, the states of Minnesota and Wisconsin also originate lumber shipments destined to all points in the country. Given the predominance of shipments from west coast originations to midwest and eastern states, the average distance hauled is considerable. However a significant percent of Milwaukee's 1976 lumber and wood traffic is received from connections delivered to connections and not included in the waybill sample.

#### *Summary*

An examination of the economies of the state serviced by the western extension of the Milwaukee road system indicates that real growth in personal income can be expected through 1980 in each state. In each state, agriculture is important but of less relative importance in the states on the western and eastern terminus of the Milwaukee western extension.

Despite expected overall growth in the state economies, the Milwaukee road may not participate fully in carloadings of commodities that originate in these states due to competition from other railroads, motor carriers, and the perception of the Milwaukee road as a bankrupt railroad.

Grain and food products is the most important commodity hauled by the Milwaukee in these western extension states and the distribution of carloads indicate that the western extension is beneficial. Carloadings of coal and lumber and wood products also originate in these states and use the Milwaukee western line. However the significant carloadings of primary forest products originate and terminate on the Milwaukee road in the state of Washington and hence make little use of the overall western rail extension.

Overall, the Milwaukee appears to handle significant traffic at both its eastern and western ends but originate mostly grain related traffic in its central regions.

MILW TRAFFIC BY STATE FROM WAYBILL SAMPLE<sup>1</sup>

States	Origin			Destinations				
	Number of records sampled	Carloads	Estimate of Tons	Revenue	Number of records sampled	Carloads	Estimate of Tons	Revenue
<b>1972:</b>								
Minnesota.....	755	85,910	.....	\$37,919,420	1,025	113,850	.....	\$64,977,770
North Dakota.....	142	15,610	.....	11,251,020	27	3,080	.....	1,890,680
South Dakota.....	322	35,640	.....	18,304,220	179	19,910	.....	8,404,330
Montana.....	193	22,000	.....	20,677,750	68	7,700	.....	4,642,110
Idaho.....	164	18,040	.....	16,222,030	48	5,280	.....	2,032,690
Washington.....	793	92,290	.....	64,517,420	632	74,800	.....	43,903,090
Oregon.....	107	12,100	.....	16,074,630	91	10,230	.....	11,998,140
<b>1973:</b>								
Minnesota.....	826	97,350	4,651,460	49,771,920	969	108,790	4,863,430	67,112,760
North Dakota.....	145	16,280	1,095,710	13,207,810	26	3,410	120,450	1,759,010
South Dakota.....	299	33,220	2,051,390	19,999,430	128	14,080	727,760	7,146,260
Montana.....	261	28,710	1,878,800	30,826,400	81	9,900	496,320	5,965,850
Idaho.....	167	18,700	1,812,680	14,430,130	59	6,600	216,260	2,216,060
Washington.....	983	113,740	4,745,510	69,286,360	951	109,010	4,714,820	65,398,410
Oregon.....	137	15,290	657,910	20,461,320	101	11,110	673,860	13,606,230
<b>1974:</b>								
Minnesota.....	759	85,581	4,182,480	49,034,028	1,013	114,996	5,174,043	79,403,850
North Dakota.....	129	14,319	966,144	13,578,297	28	3,108	151,626	22,322,655
South Dakota.....	261	29,415	1,847,262	21,072,795	106	12,654	658,008	7,674,873
Montana.....	230	24,974	1,672,215	28,978,104	107	11,877	593,184	7,830,939
Idaho.....	135	15,086	694,749	14,168,484	42	4,662	182,928	2,101,452
Washington.....	959	110,778	4,602,070	64,677,591	933	106,782	4,524,138	56,021,801
Oregon.....	100	11,322	461,1205	17,812,392	89	10,656	588,411	15,096,999
<b>1975:</b>								
Minnesota.....	681	82,953	4,017,546	52,252,785	896	107,055	4,923,360	85,312,656
North Dakota.....	154	18,018	1,449,864	14,178,060	26	3,042	142,506	2,071,368
South Dakota.....	181	21,523	1,350,648	16,636,932	145	16,965	1,273,194	8,650,629
Montana.....	190	23,634	1,594,710	31,078,944	90	10,998	628,758	8,935,641
Idaho.....	151	17,667	770,913	16,413,228	60	7,020	260,091	2,320,344
Washington.....	878	106,587	4,443,777	73,784,412	820	97,344	4,146,129	65,172,861
Oregon.....	75	8,775	406,575	16,758,109	87	10,296	553,410	17,174,547
<b>1976:</b>								
Minnesota.....	680	81,900	4,190,355	56,568,906	871	106,938	5,047,380	98,637,318
North Dakota.....	82	9,828	683,810	12,237,849	30	3,978	209,898	3,467,763
South Dakota.....	131	15,327	969,579	14,322,204	68	7,956	458,757	7,742,475
Montana.....	226	26,793	1,891,188	40,733,316	90	10,764	581,373	9,734,868
Idaho.....	186	21,762	1,023,165	18,891,288	94	10,998	478,647	2,337,426
Washington.....	1,140	138,645	6,285,474	81,773,172	1,055	125,541	5,899,608	70,898,256
Oregon.....	105	12,519	570,375	28,052,388	96	11,349	654,849	18,995,886

<sup>1</sup> The estimated carloads, tons, and revenues contained in this statement cover origin and destination traffic only. It does not include traffic overhead to the Milwaukee. This traffic information is not available in the Commission.

## CHICAGO, MILWAUKEE, ST. PAUL &amp; PACIFIC RR—SELECTED FINANCIAL AND OPERATING DATA FOR YEAR 1977 AND FIRST 6 MONTHS, 1978

(In thousands)

	1977	1978 (6 mo)
Working capital, including material and supplies.....	\$18,332	\$5,286
Working capital, excluding material and supplies.....	15,773	13,244
Railway operating revenue.....	444,502	210,840
Freight revenue.....	407,996	190,246
Railway operating expenses.....	386,810	250,027
Net railway operating income.....	55,921	39,196
Ordinary income.....	38,693	33,999
Net income.....	36,247	33,999
Tons of revenue freight.....	45,526	20,585
Ton-miles, revenue freight.....	18,430,488	8,678,333

<sup>1</sup> Deficit.

Source: Individual carrier reports.

## OFFICE OF THE GENERAL COUNSEL, ICC, SECTION ON LEGISLATION

HEARINGS BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE OF CONGRESS ON RAIL TRANSPORTATION PROBLEMS OF SOUTH DAKOTA AND THE UPPER PLAINS STATES

OCTOBER 6, 1978.

Memorandum to the heads of Bureaus and Offices: The Commission has been asked to testify on October 27th, by the above-listed Subcommittee at a hearing in Aberdeen, South Dakota.

This hearing is part of a series which Senator McGovern has been holding on the national rail industry. In an earlier memorandum dated July 6, 1978, I noted that Senator McGovern has said that the hearings were being held in order to bring some order out of the chaos of our national rail system.

The focus of this hearing will be on the railroad transportation problems confronting South Dakota and other Upper Plains States. The Subcommittee is particularly concerned with the need to clarify the economic importance of the Pacific Coast Extension of the Milwaukee Road system. They are also concerned with the development of approaches aimed at designing viable alternatives in order to maintain adequate service to those shippers who depend on the Milwaukee line.

In addition, it will be necessary to generally address the subject of the Milwaukee Road, its present financial condition and possible future options.

I regret the short notice but once again we have been little time for response. May I please have your comments on these matters by the close of business, Thursday, October 12, 1978.

HANFORD O'HARA,  
*Associate General Counsel for Legislation.*

Attachment.

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, D.C., September 28, 1978.*

Mr. DANIEL O'NEAL,  
*Chairman, Interstate Commerce Commission,  
Washington, D.C.*

DEAR MR. O'NEAL: I am pleased to learn that you will be able to testify at a hearing which I shall chair for the Subcommittee on Economic Growth and Stabilization at 9 a.m., Friday, October 27, 1978, at the Holiday Inn, Aberdeen, South Dakota.

The hearing, which is part of a series I am conducting on the national rail industry, will focus on the railroad transportation problems confronting South Dakota and other Upper Plain States. Of particular concern is the need to clarify the economic importance of the Pacific Coast Extension of the bankrupt Milwaukee Road system to South Dakota, western Minnesota and Montana, and to develop sound approaches aimed at designing viable alternatives to maintain adequate service to shippers who depend on this portion of the Milwaukee line.

Please send 20 copies of your prepared statement to Mark Borchelt, Administrative Assistant, Joint Economic Committee, Room G-133, Dirksen Senate Office Building, Washington, D.C. to arrive at least 4 working days prior to your appearance. These copies will accommodate the Committee Members and Staff. If you wish your statement to be disseminated to the press, please also bring an additional 80 copies on the day of your appearance. While your written statement may be of whatever length you consider appropriate, please limit your oral presentation before the Subcommittee to about 10 minutes. You are invited to file a longer, more comprehensive statement together with any appropriate exhibits, for inclusion in the printed record of the hearings, if you wish.

On behalf of the Subcommittee, I would like to express our appreciation for your cooperation and willingness to meet with us and look forward to bene-

fitting from your views. If you have any questions, please contact Robin Carpenter of my staff at (202) 224-2321 or Phil McMartin of the Joint Economic Committee staff at (202) 224-7945.

Sincerely,

GEORGE MCGOVERN.

RAPID CITY, S. DAK., *October 16, 1978.*

Senator GEORGE MCGOVERN,  
*Dirksen Senate Office Building,*  
*Washington, D.C.*

DEAR SENATOR MCGOVERN: I am prompted to write you my views on the proposed railroad abandonment in South Dakota, but especially that of the Rapid City-Mitchell Line.

I do not agree with this planned abandonment at all. I do not think it is necessary. I believe the traffic is here, and that extra business can be generated to keep this Line in operation on a profitable basis. I do not believe that the Line can be "chopped up"—that is, a discontinuance of service beyond Kodoka westward, and a merger of the Rapid City Milwaukee Road facilities with those of the C&NW Railroad. The complete line should be kept intact. Rapid City to Mitchell, to make a viable operation. If anyone thinks the line can survive by cutting it off west of Kadoka, they are just kidding themselves, in my opinion. The traffic originated and terminated at Rapid City must be included to provide a balanced, well-rounded, profitable operation.

Traffic from Rapid City was less than it should have been this year. This was caused mostly by decreased cement traffic. As you know, the cement plant had its problems with their new expansion. Shipments had to be curtailed or halted entirely to points served by our line. However, the "bugs" in that operation are being corrected, and Milwaukee traffic should enjoy a substantial upturn next year.

The lumber products industry—pulpwood and wood chips, is being expanded, limited only by the railroad's inability to furnish enough wood chip box cars and pulpwood log gondolas. A rather new source of revenue to the Milwaukee is beginning to intensify—that of bentonite shipments from the "Blind Siding" of Murphy, S.D., located approximately 5 miles East of Rapid City. One of the Bentonite companies at Belle Fource has started to truck raw bentonite to Murphy for re-shipment to destinations located on the Milwaukee, such as Green Bay, Wisconsin. This commodity is increasing, and the firm has indicated that they wish to do an even greater business, subject to the availability of open top hopper cars for loading. Other bentonite firms are also showing interest in getting on this "Murphy bandwagon."

The efforts of the Milwaukee to furnish grain equipment, both hoppers and box cars, were little more than pathetic. Many of the covered hoppers furnished shippers between Interior and Chamberlain were the small type, normally used for cement. Fortunately for the grain elevators, they were not being used for cement (for reasons mentioned before), so were available to help alleviate the critical shortage of grain equipment. Box cars were almost non-existent for much of the period. There is no way of knowing for certain, without a lot of individual research, but I would estimate that only one-third to one-half enough grain equipment was furnished to satisfy the requirements. I know of one elevator operator who was forced to ship 98,000 bushels of grain out by truck during the month of August because of his inability to obtain the grain cars he needed, and it cost him a 23¢ per bushel penalty.

If more grain cars could be allocated to the Rapid City Line, it would have the effect of drawing more of this traffic to the Line. Indeed, I have been told that when the C&NW Railroad pulled out of Winner, the large grain terminal there investigated the possibility of bringing their products to the Milwaukee at Presho or Kennebeo. However, when they learned that they could not be assured of equipment, and frightened by reports of abandonment, they went elsewhere (reportedly at Line Pine, Nebraska), and that business was lost to the Milwaukee.

About two months ago, I wrote you and suggested that if the industry found itself unable to do so, that the Government set up a grain hopper pool for use by the Milwaukee (and others) on a per diem basis. This would not be a gift, but would be a business proposition that would aid grain men and railroad alike. Certainly, with all the aids good old Uncle Sam has given to other forms of transportation, this kind of assistance would not seem out of order.

Another possible good source of revenue to the Milwaukee would be the establishment of the much-talked about "Gasohol" plant, especially if it were located on the Milwaukee line. The possibilities there are tremendous.

One very important matter that I believe has escaped the attention of everyone is National Defense. The Defense Department thought nothing of the expenditure of \$120,000,000.00 plus for the Titan Missile project, which was obsolete before it was completed. Other millions followed for the Minute Man. I was privileged to sit in over 15 years ago on a study of a "roving missile area" in the Badlands. The Milwaukee Road runs right through the heart of that area. Would it not therefore make sense to keep that Line through these Badlands, "just in case?" This, of course, is in the area between Kadoka and Rapid City which we hear mentioned from time to time as "unproductive."

Apathy seems to be the rule. The Railroad does not seem to be interested in "potential." In order for the Railroad to succeed, we should have "balanced transportation", which means traffic both in and out. Yet, we find that the ICC has indiscriminately awarded authority to almost anyone who seeks it to get into the trucking business. Many large firms have not only gone to "wholesale trucking", but have established trucking operations that seem to be as important as their primary business. Any thought of efficient use of energy in transportation seems to have been thrown to the winds, which makes me wonder if we are approaching the day when we cannot drive our private automobiles because fuel will be needed for the growing fleet of trucks!

It is not my purpose to knock other railroads, but by examination of the records, you will find that the Milwaukee has been a leader, if not the leader in rate reductions and revisions, not only to help industry, but to try to assist itself in attracting more freight revenue. It was the Milwaukee which instituted lower rates on cement to Sioux Falls, which were then followed by another railroad. The Milwaukee also lowered the rates to Aberdeen and led the reduction request on cement to Bismarck. It was the Milwaukee which drastically lowered grain rates on the Rapid City Line by establishing 5-car minimums on grain to the Minneapolis area, and it initiated the 15-car rate on milo to the Northwest coast. This Road also placed special rates on bentonite from Murphy to Green Bay.

Without getting into such areas as railroad efficiency, impact on local and state economies, and the population, which would include the effect on jobs, I feel that with some help from all levels of government, the Main Line of the Milwaukee and some branch lines in the State of South Dakota, can be made much more profitable. It is my opinion that we should do whatever it takes to keep these lines in operation. And of course, this includes the desire to do something by all concerned.

Thank you for taking the time to read such a long letter. You have my support, and I am ready to offer any assistance possible.

Respectfully yours,

LOWELL H. SHACK.

WISCONSIN TRUSS, INC.,  
Cornell, Wis., October 20, 1978.

Senator GEORGE MCGOVERN,  
% Leonard Stingel, Secretary, Milbank Chamber Commerce, Milbank, S. Dak.

DEAR SENATOR MCGOVERN: It is with great interest to our corporation as to what is going to become of the railroad service into Milbank, South Dakota with the bankruptcy of the Milwaukee Railroad.

One and half years ago, we purchased 14 acres of land in Milbank for future expansion of our company. The reason Milbank was selected was due to our needs for railroad service and the availability of this service in Milbank. Without rail service, we can no way expand into that area.



We will appreciate any and all efforts of you and the members of Milbank in securing and maintaining rail service in Milbank, South Dakota.

Sincerely,

WILLARD J. SCHULNER, *President.*

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HOLLAND, DELANEY & VANDER LINDEN,  
*Webster, S. Dak., October 23, 1978.*

Re Railroad Abandonment through City of Webster.

Mr. JAMES A. MELGAARD,  
*Immediate Past President of South Dakota Association of County Commissioners,  
 Yankton, S. Dak.*

DEAR MR. MELGAARD: I am writing this letter on behalf of Berdell Cavanaugh, the Mayor of the City of Webster, for the purpose of protesting any railroad abandonment in the Webster area. Unfortunately, we will be unable to be present at the October 27th meeting in Aberdeen at 9:30 a.m. However, we would request that this letter be entered into the official record as a statement of impact in connection with railroad abandonment in the Webster area.

The abandonment of the Milwaukee Railroad through the City of Webster and Day County will have a detrimental impact upon our economy. Agriculture is the most important business of our City and without adequate railroad facilities, almost every facet of our business community will be injured. The farmers must have railroad cars to transport their products to market. The products which our farmers purchase also come to our community by rail. Therefore, without this mode of transportation available to the citizens of this area, our entire economy will suffer.

During the past seven or eight years, the City of Webster has made a giant step in procuring industry for our City and the surrounding area. One of the most important criteria for obtaining this industry was to have rail service available. In the event that rail service is curtailed, this will be injurious to the present industry and also prohibit us from obtaining any new industry.

We feel we must have a link with the East and West Coasts other than just highways. Railroads provide this link and make it feasible for our residents to use both rail service and highways. We feel a competitive situation must be maintained for the transportation of our products. Having rail service for our residents provides this competition and makes it more favorable to obtain a fair freight rate.

Therefore, we ask that the City of Webster be placed on record as opposing abandonment of the Milwaukee Road in South Dakota.

Yours very truly,

LEON J. VANDER LINDEN.

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STATEMENT OF HON. WENDELL R. ANDERSON, A U.S. SENATOR FROM THE STATE OF MINNESOTA

I want to express my appreciation for your leadership in convening these hearings on rail transportation and the future of the Milwaukee Road Line Westward from the Twin Cities. The distinguished Senator from South Dakota has consistently worked toward a reliable, rational and efficient rural transportation system, and for this he merits our sincere thanks.

Though the Milwaukee Road has been in bankruptcy proceedings since December, 1977, the recent announcement of its intention to abandon the main line west of the Twin Cities was alarming to many. While plans are underway for the Union Pacific to take over lines between Montana and the Pacific Coast, the Milwaukee Road apparently has no plans for the line between Minneapolis/St. Paul and Butte.

Mr. Chairman, I believe that the revitalization of our Midwest rail system is imperative. Much has been done to begin such a revitalization, but much more needs to be done. Today's hearings are a valuable step in evaluating the impact of the Milwaukee Road abandonment, and in determining the most effective regional policy aimed at keeping an adequate Midwest rail system in service.

An efficient rural rail system is crucial to the economy of our nation. Agriculture and industry cannot survive without rail service, as was dramatically illustrated during the recent nationwide strike by railway clerks. Yet rural rail lines, particularly in the Midwest, have been allowed to deteriorate. We have begun to see a cycle of decreasing shipments and revenue, leading to de-

creases in maintenance and increases in employee layoffs. This trend must be reversed, if a vital rail network is to be retained.

In recent years, I have been increasingly concerned about the number of branch line abandonment applications. Often, shippers along a line object to its abandonment. In these instances, I have worked with the Interstate Commerce Commission to give residents of communities along a threatened branch line the chance to state their views at public hearings.

The impact of abandoning a branch line can be dramatic for the communities involved. However, we are not talking today of the abandonment of a branch line. We are discussing the future of a main line, stretching across the plains to the Pacific Northwest. It is certainly fair to say that the abandonment of this line would have a most dramatic and far reaching impact on the states involved.

The impact of this anticipated abandonment must be determined, but the job will not be a simple one. In early October, I joined Congressman Richard Nolan in requesting that the Department of Agriculture immediately undertake an agricultural assessment of the impact of abandoning the Milwaukee Road line in question. I have been informed that the Department of Agriculture began such a study this week, and that its results will be released by January 1, 1979. Such an analysis will be most useful in determining the best regional response to the abandonment applications, if they indeed are filed as expected in the summer of 1979. Authority for this assessment by the Department of Agriculture comes from the Agriculture Adjustment Act of 1938, the Agriculture Marketing Act of 1946, and the Rural Development Act of 1972.

In addition, I understand that a study of the impact of the Milwaukee Road abandonment has been undertaken by the Old West Regional Commission.

Mr. Chairman, as you know, Congress has established a rural transportation advisory task force, to be chaired by the Secretaries of Agriculture and Transportation. This task force will report on rural transportation needs, focusing in particular on impediments to an adequate rail system for agricultural products. In the past, a tendency has developed for transportation decisions to be made without adequate consideration of agricultural factors. The new task force is a much needed step toward a national rural transportation policy, and I will be looking forward to its report.

In evaluating the importance of the Milwaukee Road line through the Minnesota towns of Glencoe, Buffalo Lake, Renville, Montevideo and Ortonville, among others, one good resource is the residents of those communities. Often, they can tell us very effectively what a federal agency would spend months studying. I would like to share with you the comments of a Montevideo man from a letter he sent to me to express his alarm about the possible abandonment of the rail line through his community. The evaluation of this situation by Mr. Kenneth R. Ostlie tells us a great deal about how the residents along the line view the anticipated abandonment.

"Being a farmer's son," wrote Mr. Ostlie, "I can't help noticing the importance of railroads to agriculture. Closure of this Milwaukee Road line would result in economic chaos in this part of the state. Elevators would have to switch to the trucking of grain. The end result would be a price drop to the farmers. You as well as I know that the current price situation for grain is very poor, and that the section of Minnesota which we are talking about is struggling economically . . ."

Moreover, the impact upon rail employees would undoubtedly be severe. Already, according to the Interstate Commerce Commission, the number of maintenance of way employees in Minnesota and the Dakotas has dropped from 4133 in 1977 to 2409 this year. Obviously, abandonment of the entire line would mean the loss of a large number of jobs. These realities deserve our very serious consideration.

In conclusion, I am very grateful to have the opportunity to add my views on the proposed abandonment of this line, and on rural transportation in general. I believe the move toward a renewed rural transportation system has already begun. It will not be accomplished overnight, but I believe that working together, we will be successful in insuring that agricultural products continue to travel efficiently by rail, that rail employees continue to work, and that the government pursues a rational, considered, and comprehensive national rural transportation plan for the future.

## STATEMENT OF STATE SENATOR ROGER MCKELLIPS, ALCESTER, S. DAK.

Mr. Chairman, I appreciate this chance to submit a statement concerning the importance of a good rail system for South Dakota. I commend you, Senator McGovern, for bringing this hearing to South Dakota for grassroots input into finding solutions to the railroad crisis.

I am especially concerned about the decline of our railroads because it hurts our chances for economic development to build jobs in South Dakota. We lose 5,000 young people every year because they cannot find work in our state. That is sad, but it is something that can be changed through positive economic development.

We need a good rail system to move our grain and other heavy goods. Railroads provide us an economical access to the major markets of the nation.

As you know, Mr. Chairman, population movements in the country make South Dakota an ideal location to supply food to the fastest growing regions, such as the so-called "sunbelt." If we can salvage rail service and restore our highway system, we are going to be in an enviable position in the 1980s.

It has been pointed out many times that railroads are the most efficient way to move South Dakota grain. Rail shipments mean a lower use of energy and easier handling. Beyond that, it means better prices for grain producers.

The issue today is that we are losing our railroads. It is no longer just that we are losing branch lines. We are faced with the loss of the entire Milwaukee Railroad Company. That makes the situation a major crisis that will require strong action and, hopefully, immediate attention.

South Dakota cannot tackle this problem alone.

I propose that South Dakota join forces with Minnesota, Wyoming, Montana, North Dakota, Iowa and Nebraska to fight railroad abandonments, and to come up with a positive plan of attack to develop a workable rail system for our part of the country.

The Governors of these states should meet to plan a common strategy. If the leaders of these states can agree, then the help of the states' Congressional delegations can be enlisted. Totally, South Dakota and our neighboring states have 23 U.S. Representatives and 14 U.S. Senators. By working together in a bipartisan effort, we could have considerable clout in Washington on transportation legislation and on the federal agencies affecting transportation.

I commend you, Senator McGovern, for your efforts to improve our transportation system. You have stood out as a leader in trying to convince Washington that we need railroads in this part of the country. I believe if we could merge the efforts of at least these seven states, we could provide a great deal more reinforcement for your efforts and enable you and your colleagues to forge a coalition.

Thank you very much for this chance to submit a statement.

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STATEMENT BY TOM DASCHLE, CANDIDATE, FIRST CONGRESSIONAL DISTRICT OF SOUTH DAKOTA

I want to thank the members of the Joint Economic Committee for allowing me the opportunity to submit a statement. I wish also to commend the Chairman of the Subcommittee hearings, Senator George McGovern, for his efforts to improve the South Dakota rail system.

The deterioration of South Dakota's rail system is a problem that receives a great deal of attention, especially at harvest time when we can't provide enough box cars to handle the abundance of our harvest and our railroads are so decrepit that track can't even support the new, more energy efficient hopper cars.

A major challenge facing South Dakota is the revitalization of our State's rail system. We cannot afford to allow the further decline of rail lines in our State. The decline of many of our rural communities and the centralization of population in the larger communities can be at least partially attributed to the loss of branch lines and general decay of our once first rate rail network.

It is imperative that we change existing federal legislation which requires a railroad to be slated for abandonment before it is eligible for federal assistance. However, this is only a short term remedy. Streamlining federal funding procedures should begin without further delay.

We must also develop regional approaches to solving our rail system problems. South Dakota's rail system is inextricably linked with our neighbors. We must work jointly with North Dakota, Minnesota, Wyoming, Nebraska, Iowa, and Montana to develop strong programs to make the most out of federal assistance.

In the past we have not taken full advantage of using our highways in connection with the rail system. We need to develop a bimodal approach to our transportation dilemma, utilizing our extensive highway system with our rail network.

We cannot wait any longer. We must take action now to prevent the further abandonment or degradation of our rail lines.

Thank you again for the opportunity to submit this statement.

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MILBANK-GRANT COUNTY DEVELOPMENT CORP.,  
*Milbank, S. Dak., October 27, 1978.*

Senator GEORGE MCGOVERN,  
*Milbank, South Dakota.*

DEAR SENATOR MCGOVERN: The Milbank-Grant County Development Corporation is presently working with 2 industries that wish to locate in Milbank. Both need rail to bring in their raw materials. One has already purchased 14 acres on the railroad. The other has a site selected but is waiting to see if the R/R is going to stay before he goes through with the purchase.

Employment projections by these two industries total 80 to 100 persons. These jobs could well be used by our South Dakota youth, but will not be available if the R/R does not continue to operate.

For these and many other reasons, we feel it is imperative that the Milwaukee railroad continue to be operated, under whatever management or method that can finally be devised.

Yours truly,

WILLIAM A. GIESEN, *President.*

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GRANT COUNTY, S. DAK.,  
*Milbank, S. Dak., October 30, 1978.*

Senator GEORGE MCGOVERN,  
*Congressional Joint Economic Committee*

Grant County in South Dakota is very concerned with the possibility of abandonment of the Main Line of the Milwaukee Road in South Dakota.

The Railroad is a valuable asset for our County and it's demise would severely limit our economy and greatly deter economic growth in the future. The Railroad in our County, not only services agriculture, but assists our other Industries, such as the Big Stone Power Plant, the Granite Quarries, and our Cheese processing Plants.

We are also concerned with the increased traffic on our roads, if Rail service is eliminated.

Grant County has two County Roads leading to the Big Stone Power Plant, neither of which is capable of handling the heavy trucks required to haul all of the coal necessary.

We would also be willing to assist in solving the Railroad problem in any way that we are capable. Our goal is to have both viable Agriculture and good industry in our County. Rail service is necessary to accomplish these goals.

RUDOLPH A. NEF,  
*Chairman, Grant County Commissioners.*

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STATEMENT OF EUGENE F. PATNOE, ROBERT HUNTER GRANITE Co., MILBANK,  
 S. DAK.

Subject: Abandonment of the Milwaukee Railroad through this area.

*To Whom It May Concern:*

Since the Robert Hunter Granite Company began operations in 1908, our policy was not to sell rough granite blocks but in the last few years this has become a very attractive market. We therefore, started selling rough granite blocks to customers in the United States, Japan, and Europe.

To handle shipments of this nature it is imperative that we use railroad gondolas for transportation of the large heavy blocks. In the last 4½ years we have shipped 51 cars (2,410 tons) to Japan, 93 cars (5300 tons) within the United States and most recently shipments to Italy and Austria.

We presently have a large contract with Austria and this combined with our regular rough stock customers will require continued useage of rail gondolas.

We have had more inquiries for foreign business but our capacity is limited. We intend to increase our quarry operations to handle additional business as it develops. We assume the reason for increased foreign business is the decline of the value of the American dollar which makes us more competitive with granites produced in other parts of the world.

Obviously, in a small way, it does help the United States balance of trade deficit and we are happy to contribute whatever we can.

If the railroad is abandoned, this would mean we could not use our recent \$100,000.00 installation of loading equipment on the Milwaukee mainline. This would represent a very heavy loss to us.

We know that is the railroad is discontinued, it would increase our costs substantially and we would be less competitive with other granites on the world market and perhaps diminish this market.

We are most interested in preserving rail service to this area.

We would like to close by saying the local railroad employees including Milbank, Ortonville, and Aberdeen have been very helpful in arranging shipments in spite of the difficulties the Milwaukee Road has been having for some time.

Sincerely,

EUGENE F. PATNOE.

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FIFTH DISTRICT PLANNING AND DEVELOPMENT COMMISSION,  
Pierre, S. Dak., October 31, 1978.

HON. GEORGE MCGOVERN,  
Dirksen Senate Building,  
Washington, D.C.

DEAR SENATOR MCGOVERN: Congratulations on taking the lead in focusing attention on the impacts of the Milwaukee Railroad Reorganization on South Dakota and on neighboring states.

The meeting in Aberdeen clearly brought out the need to increase revenue producing traffic on the Milwaukee Railroad Pacific Coast Extension no matter who owns the rail line. There are three (3) potential areas which I would like to offer for consideration as ways to increase revenue producing traffic.

1. *West Coast grain shipments.*—South Dakota and its neighboring states must develop mechanisms to increase grain shipments to West Coast markets.

2. *Heartland power plant.*—The Heartland Power Cooperative should be encouraged to locate its new plant on this rail line. Movement of coal from Montana or North Dakota to the power plant could then occur over the Pacific Coast Extension.

3. *Otter Tail power plant.*—Otter Tail Power Company should be encouraged to locate its new power plant at its current Big Stone site. This plant, which will be needed in 1986 or 1987, according to John MacFarlane of Otter Tail Power Company, could then receive coal, from Montana or North Dakota over the Pacific Coast Extension.

Thank you for the opportunity to present these views.

Respectfully,

DENNIS W. POTTER,  
District Director.

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STATEMENT OF BILL MYERS, PRESIDENT, THE MILBANK CHAMBER OF COMMERCE,  
MILBANK, S. DAK.

The welfare of the people of the Milbank area is inextricably tied to the railroad. The village, Milbank Junction, came into being to serve the railroad nearly 100 years ago. Most of the communities, large and small, that dot our state were founded as the railroad progressed westward.

100 years ago, progress stopped where the railroad stopped. The same is true today.

Milbank, and the surrounding area, desperately needs the railroad to haul grain, coal, granite, cheese, lumber, machinery, and other commodities into and out of the community.

This area has a history of strong expansion and growth. We expect this situation to continue. However, diminishing rail service would severely inhibit this expansion and growth. Every expanding business or industry that our Industrial Development Commission has worked with in the past several years has wanted a place with dependable, efficient railroad service. Without full rail service, future growth of this area would become impossible.

Several local corporations are providing testimony today concerning their specific needs for dependable, efficient rail service. This statement is to underscore the need, not only of these corporations, but also the need of over 9,000 residents of this area for dependable rail service.

A quick survey shows that local industry used 957 railroad cars in 1977. These same industries employ approximately 240 people. The payroll would run into the millions of dollars. These figures do not include the Big Stone Power Plant operation.

It is interesting to note that the elevators would have used at least 400 more railroad cars if they had been available. Right now, there are nearly 300,000 bushels of corn piled on the ground within the City of Milbank simply because railroad cars are not available to haul this corn to larger terminals.

The corporate managers that I spoke with did not feel that they would be forced out of business if rail service were discontinued, but their expenses would skyrocket, which would mean a larger bite out of the consumer's dollar.

In this day of energy awareness, it seems incomprehensible that we would consider reducing the most efficient method (the railroad) for transporting freight. It is hard to imagine the impact that would occur if we had to move all this freight by truck.

The Milbank Area Chamber of Commerce urges the Public Utilities Commissioner to take the necessary steps to see that the needs of our citizens are met by the continuation of full, dependable, and efficient rail service.

We also urge you, Senator, to exert every possible effort toward this end.

Thank you very much for your consideration.

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MILBANK SCHOOL DISTRICT No. 25-4,

Milbank, S. Dak., October 30, 1978.

*To Whom It May Concern :*

If the Milwaukee Railroad were to cease operation in Grant County, South Dakota, the Milbank Public Schools would not be able to operate its present program within legally authorized tax levies. In fact, if our district were unable to tax the power plant personal and real property, we would have a shortfall of \$293,083 or 17.8878 percent of our 1978 tax call for the current school year. Add to that the loss of railroad taxable value and possibly that of the industries they serve and the end result would be devastating.

The present school district taxable value is \$85,046,597. Of this amount, centrally assessed property assigned to the Big Stone Plant has been computed at \$44,262,518 in the Milbank District. From the above figures, it is apparent that the Big Stone Plant accounts for over 52 percent of the total taxable value found in the school district.

Using only the Big Stone Plant taxable values for a comparison, and not including other property loss due to the removal of the Milwaukee Railroad, the following comparison of local tax levies has been computed :

Tax year 1978, taxes payable 1979 present valuation.—(General fund only), agricultural property, 14.29 mills or .01429; non-agricultural property, 20.58 mills or .02058.

Tax year 1978, taxes payable 1979 loss of big stone plant valuation.—(General Fund Only), agricultural property, 28.60 mills or .02860 (24 mill limit); non-agricultural property, 49.20 mills or .04920 (40 mill limit).

Our taxing ability based on the loss of only the Big Stone Plant would generate only \$1,345,365 of a fiscal year 1979 request of \$1,638,448. This action would spell the end of a modern, child-centered and progressive education in the Milbank School District No. 25-4.

GEORGE L. SMITH, *Superintendent.*

VALLEY QUEEN CHEESE FACTORY, INC.,  
Milbank, S. Dak., October 30, 1978.

SENATOR GEORGE MCGOVERN,  
Congressional Joint Economic Committee

We are extremely pleased that your committee is holding public hearings on the potential abandonment of the main line Milwaukee Railroad in South Dakota.

Our firm, Valley Queen Cheese Factory, Inc., and our related firm of Milbank Storage, Inc. have been major users of the railroad for many years. Valley Queen Cheese Factory, Inc. is a producer of cheddar cheese, which is sold to Kraft Foods, Inc. This cheese is then stored by Milbank Storage, Inc. for Kraft Foods, Inc. until it is shipped to a final destination for packaging.

In the past ten years we have received 408 cars and shipped out 961 cars. By this usage, you can appreciate our concern. We plan to continue to use rail shipping in the future, if rail cars are available, and if basic economic do not change.

We are not in a position to suggest action for the future but trust that your committee will explore all alternatives available.

Very truly yours,

MAX GONZENBACH.

MYRON WHITE,  
Lemmon, S. Dak., November 1, 1978.

HON. GEORGE MCGOVERN,  
Senate Subcommittee on Economic Growth and Stabilization,  
Washington, D.C.

DEAR SENATOR MCGOVERN: I would like to submit some observations in regard to the economic importance of the Milwaukee Railroad to my clients in the Lemmon area.

My name is Myron White and I reside at 209—8th Street West in Lemmon, S. Dak. I am a licensed South Dakota Public Accountant, and have been in public practice since 1952, specializing mainly in farm record keeping, tax returns, and financial consulting. Some of my clients are businessmen, but in a small rural community of 2,500 persons like Lemmon, we are all dependent on agricultural production as our source of income. I will therefore, confine my remarks to the relationship of rail transportation to my farmer clients and friends.

Some of my clients are of long standing, and to illustrate the general economic problems of farmers in this area, I have selected from my files 3 typical farm operations for comparison. As labeled, one is primarily a grain farm, one a livestock ranch, and the third a widely diversified farming operation. Attached are copies of the farm schedule of each for 1957, 1967 and 1977, with identification deleted. The combined totals are as follows:

	1957	1967	1977	Percent of change
Combined sales.....	37,648	107,184	174,022	+472
Expense:				
Repairs.....	2,757	7,524	15,287	+554
Gas and fuel.....	5,056	7,156	19,782	+391
Taxes.....	1,562	4,806	8,607	+551
Utilities.....	420	1,732	2,741	+653
Depreciation.....	11,526	19,634	48,440	+420
Other expense.....	13,597	44,859	125,959	+926
Total expense.....	34,918	85,711	220,818	+632
Net incomes.....	2,730	21,473	(46,796)	

None of these farmers have materially altered operations in the past 20 years, except for expanded production. Obviously, if these are typical, and I think they are, farmers in this area are financially not able to assume greater costs.

We feel that removal of railroad transportation from Lemmon will have the following adverse effect on farm incomes:

(a) gross receipts from sales of grain will be diminished due to greater transportation costs.

(b) funds will be needed to improve highways, probably resulting in increased local taxes.

(c) utility rates will be increased due to higher transportation costs to regional power plants.

(d) cost of major farm equipment will be increased, due to added cost of transportation.

(e) more petroleum products will be used by transportation equipment, eventually resulting in higher fuel costs for farmers.

Inspection of arterial highways serving Lemmon will disclose that main routes U.S. 12 and S. Dak 73 are not adequate to carry an increased volume of freight by truck transport until substantial improvements have been made in road beds, bridges, and across roads.

Until such time as alternate means of transportation are made available at reasonable cost, I urge your committee to consider any reasonable plan to keep freight rolling on the Milwaukee Road in this area.

Yours truly,

MYRON WHITE.

Enclosures.







SCHEDULE F  
(Form 1040)  
U.S. Treasury Department  
Internal Revenue Service

Schedule of Farm Income and Expenses  
(Compute social security self-employment tax on Schedule F-1 (Form 1040))  
Attach this schedule to your income tax return, Form 1040

1967

EXHIBIT B - Livestock Ranch #2

FARM INCOME FOR TAXABLE YEAR—CASH RECEIPTS AND DISBURSEMENTS METHOD

PART I.—Report in the applicable column below receipts from sale of livestock held primarily for sale. (Do not include other sales of livestock held for draft, breeding, or dairy purposes; report such sales on Schedule D (Form 1040))

SALES OF MARKET LIVESTOCK AND PRODUCE RAISED AND HELD PRIMARILY FOR SALE					OTHER FARM INCOME	
Kind	Quantity	1. Amount	Kind	Quantity	2. Amount	3. Amount
Cattle		\$15,078.52	Eggs		\$ 27.12	
Sheep			Meat products			
Swine			Poultry, dressed			
Poultry			Wool			
Bees			Honey			
Grain		4,780.27	Syrup and sugar			
Hay			Other (specify):			
Cotton						
Tobacco						
Vegetables						
Fruits and nuts						
Dairy products		6,647.17				
Total of columns 1, 2, and 3. Enter here and in Part IV, line 1 below.						\$23,391.14

PART II.—SALES OF PURCHASED LIVESTOCK AND OTHER ITEMS PURCHASED FOR RESALE

a. Description	b. Date acquired	c. Amount received	d. Cost or other basis	e. Profit (or loss)
14 <i>Redhorn River</i>		\$ 468.12	\$ 125.00	\$ 343.12
45 <i>Bees</i>	11/86	7650.20	3425.60	4224.60
Totals (enter amount from column e, in Part IV, line 2 below)		\$8118.32	\$3551.60	\$4566.72

PART III.—FARM EXPENSES FOR TAXABLE YEAR (see separate instructions)

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

Items	1. Amount	Items	2. Amount	Items	3. Amount
Labor hired	60.00	Veterinary medicine	83.51	Retirement plans, etc.	
Repairs, maintenance	1145.55	Gasoline, fuel, oil	1396.76	(Other than your share— See instructions)	
Interest	4363.51	Storage, warehousing		Other (specify):	
Feed purchased	6005.92	Taxes	1280.22	ACCOUNT	
Seed, plants purchased	37.86	Insurance	292.84	JOURNALS	35.05
Fertilizers, lime	901.85	Utilities	506.25		
Machine hire	2121.76	Rent of farm, pasture	1442.00		
Supplies purchased	607.37	Freight, trucking			
Breeding fees		Conservation expenses			
Total of columns 1, 2, and 3. Enter here and in Part IV, line 4 below (cash method), or page 2, Part VII, line 6 (accrual method)					\$16,000.06

PART IV.—SUMMARY OF INCOME AND DEDUCTIONS—CASH RECEIPTS AND DISBURSEMENTS METHOD

1 Sale of livestock and produce raised and other farm income	\$ 23,391.14	4 Farm expenses (from Part III)	\$ 16,000.06
2 Profit (or loss) on sale of purchased livestock and other purchased items	4558.52	5 Depreciation (from Part V)	4611.45
3 Gross profits*	\$ 27,949.66	6 Other farm deductions (specify):	
B Net farm profit (or loss) (subtract line 7 from line 3). Enter here and on page 2, Part II, line 6, Form 1040. Make your computation of self-employment income and the self-employment tax on Schedule F-1	\$ 733.15	7 Total deductions	\$ 20,611.51

\*Use this amount for optional method of computing net earnings from self-employment. (See line 3, Schedule F-1 (Form 1040).)

SCHEDULE F  
(Form 1040)  
U.S. Treasury Department

Schedule of Farm Income and Expenses  
(Compute social security self-employment tax on Schedule F-1 (Form 1040))  
Attach this schedule to your income tax return, Form 1040

1967

EXHIBIT A - Grain Farm #1

2800 acres

FARM INCOME FOR TAXABLE YEAR—CASH RECEIPTS AND DISBURSEMENTS METHOD

PART I.—Report in the applicable column below receipts from sale of livestock held primarily for sale. (Do not include other sales of livestock held for draft, breeding, or other purposes; report such sales on Schedule D (Form 1040))

SALES OF MARKET LIVESTOCK AND PRODUCE RAISED AND HELD PRIMARILY FOR SALE				OTHER FARM INCOME			
Kind	Quantity	1. Amount	Kind	Quantity	2. Amount	3. Amount	
Cattle		\$	Eggs		\$	Midge. rec'd for produce	\$
Sheep			Meat products			Machine work	2362.50
Swine			Poultry, dressed			Wood and lumber	
Poultry			Wool			Other forest products	
Bees			Honey			Patronage dividends, per unit retains	2057.60
Grain	10,678.37		Syrup and sugar			Agricultural program payments:	
Hay			Other (specify):			(1) In cash	4778.64
Cotton						(2) In materials and services	
Tobacco						(3) Commodity Credit loans forfeited (or under election)	12,049.77
Vegetables						Other (specify):	
Fruits and nuts						GRS TAX REFUNDS	434.78
Dairy products							
Total of columns 1, 2, and 3. Enter here and in Part IV, line 1 below.						\$	33,261.63

PART II.—SALES OF PURCHASED LIVESTOCK AND OTHER ITEMS PURCHASED FOR RESALE

a. Description	b. Date acquired	c. Amount received	d. Cost or other basis	e. Profit (or loss)
1966 WHEAT LOAN RECEIVED	6-67	\$ 11,924.31	\$ 9,732.00	\$ 2,202.31
Totals (enter amount from column e, in Part IV, line 2 below)				

PART III.—FARM EXPENSES FOR TAXABLE YEAR (see separate instructions)

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

Items	1. Amount	Items	2. Amount	Items	3. Amount
Labor hired	2007.80	Veterinary, medicine		Retirement plans, etc. (Other than your share—See instructions)	
Repairs, maintenance	2548.50	Gasoline, fuel, oil	2724.95	Other (specify):	
Interest	3238.58	Storage, warehousing		Board Labor	282.60
Feed purchased		Taxes	1375.41	T. Acct. &	22.15
Seed, plants purchased	1385.81	Insurance	563.00	Soc. Sec. contrib.	93.01
Fertilizers, lime		Utilities	202.20		
Machine hire	10,867.74	Rent of farm, pasture	865.90		
Supplies purchased	2076.41	Freight, trucking			
Breeding fees		Conservation expenses			
Total of columns 1, 2, and 3. Enter here and in Part IV, line 4 below (cash method), or page 2, Part VII, line 6 (accrual method)					

PART IV.—SUMMARY OF INCOME AND DEDUCTIONS—CASH RECEIPTS AND DISBURSEMENTS METHOD

1 Sale of livestock and produce raised and other farm income	\$ 33,261.63	4 Farm expenses (from Part III)	\$ 18,770.44
2 Profit (or loss) on sale of purchased livestock and other purchased items	2,202.51	5 Depreciation (from Part V)	4,637.40
3 Gross profits*	\$ 35,464.14	6 Other farm deductions (specify):	
B Net farm profit (or loss) (subtract line 7 from line 3). Enter here and on page 2, Part II, line 6, Form 1040. Make your computation of self-employment income and the self-employment tax on Schedule F-1.	\$ 12,056.30	Total deductions	\$ 23,407.84

\*Use this amount for optional method of computing net earnings from self-employment. (See line 3, Schedule F-1 (Form 1040).)

SCHEDULE F (Form 1040)	U. S. Treasury Department—Internal Revenue Service <b>SCHEDULE OF FARM INCOME AND EXPENSES</b> (For computation of Self-Employment Tax, see page 4) Attach this schedule to your Income Tax Return, Form 1040	<b>1957</b>
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EXHIBIT B - Livestock Ranch #2

FARM INCOME FOR TAXABLE PERIOD COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD  
 (Do not include sales of livestock held for draft, breeding, or dairy purposes; report such sales on Schedule D (Form 1018).  
 Report sales of other livestock in column 1 or column 4 below, whichever is applicable)

1. SALE OF LIVESTOCK RAISED			2. SALE OF PRODUCE RAISED			3. OTHER FARM INCOME	
Kind	Quantity	Amount	Kind	Quantity	Amount	Items	Amount
Cattle		\$ 7533.94	Grain		\$	Mdse. rec'd for produce	\$
Horses			Hay			Machine work	
Mules			Cotton			Breeding fees	
Sheep			Tobacco			Wood and lumber	
Swine			Vegetables			Other forest products	
Chickens			Fruits and nuts			Agricultural program pay- ments	150.00
Turkeys			Dairy products		309.54	Patronage dividends, rebates or refunds	14.63
Ducks			Eggs		17.16	Other (specify):	
Bees			Meat products			Federal Gas	63.03
Other (specify):			Poultry, dressed			State	126.10
			Wool			Soil Tank	204.75
			Honey				
			Sirup and sugar				
			Other (specify):				
<b>Total</b>		<b>\$ 7533.94</b>	<b>Total</b>		<b>\$ 326.70</b>	<b>Total</b>	<b>\$ 1163.52</b>

4. SALE OF PURCHASED LIVESTOCK AND OTHER PURCHASED ITEMS

a. Description	b. Date acquired	c. Gross sales price	d. Cost or other basis	e. Profit (or loss)
3 horses	1955	\$ 245.36	237.00	\$ 8.36
<b>Total (enter on line 4 of summary below)</b>				\$

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD

1. Sale of livestock raised	\$ 7533.94	42	6. Farm expense (from page 2)	\$ 4142	42
2. Sale of produce raised	326.70	70	7. Depreciation (from page 3)	245.00	49
3. Other farm income	1163.52	52	8. Other farm deductions (specify):		
4. Profit (or loss) on sale of purchased livestock and other purchased items	8.36	36			
5. Gross Profits*	\$ 9037.52	58	9. Total Deductions	\$ 6399	91
10. Net farm profit (or loss) (line 5 minus line 9) to be reported on line 9, page 1, Form 1040.	\$ 2638.52	61			

\* Use this amount for optional method of computing net earnings from self-employment. (See line 13, page 4.)



**SCHEDULE F**  
**(Form 1040)**  
Department of the Treasury  
Internal Revenue Service

**Farm Income and Expenses**  
(Compute social security self-employment tax on Schedule SE)  
▶ Attach to Form 1040 or Form 1065. ▶ See Instructions for Schedule F (Form 1040).  
▶ If rental income, see instructions before using this schedule.

**1977**

**EXHIBIT A - Grain farm #1**

Part I Farm Income—Cash Receipts and Disbursements Method Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report such sales on Form 4797.			Part II Farm Deductions—For Cash and Accrual Method Taxpayers Do not include personal or living expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling.		
Sales of Purchased Livestock and Other Items Purchased for Resale			Sales of Market Livestock and Produce Raised and Held Primarily for Sale and Other Farm Income		
a. Description	b. Amount received	c. Cost or other basis	Kind	Quantity	Amount
1 Livestock:	\$	\$	5 Cattle		\$
2 Other items:			6 Calves		
3 Totals	\$	\$	7 Sheep		
4 Profit or (loss), subtract line 3, column c from line 3, column b. ▶	\$	\$	8 Swine		
<b>Sales of Market Livestock and Produce Raised and Held Primarily for Sale and Other Farm Income</b>			9 Poultry		
			10 Dairy products		
			11 Eggs		
			12 Wool		
			13 Cotton		
			14 Tobacco		
			15 Vegetables		
			16 Grain		10,967
			17 Fruits and nuts		
			18 Other (specify): FED. CRAP 115		146.0
			<b>OTHER FARM INCOME</b>		
			19 Machine work		486
			20 (a) Patronage dividends (See Sch. F instructions)		
			(b) Per-unit retains (See Sch. F instructions)		
			21 Nonpatronage distributions from exempt cooperatives		
			22 Agricultural program payments:		
			(a) Cash		5504
			(b) Materials and services		
			23 Commodity credit loans under election (or forfeited)		19,813
			24 Federal gasoline tax credit		22.4
			25 State gasoline tax refund		25.7
			26 Other (specify):		
			27 Add lines 5 through 26		\$ 38,510
			28 Gross profits* (add lines 4 and 27). ▶		\$ 38,890
			29 Labor hired		\$ 453.2
			30 Repairs, maintenance		700.5
			31 Interest		675.8
			32 Rent of farm, pasture		33.13
			33 Feed purchased		5.8
			34 Seeds, plants purchased		295.8
			35 Fertilizers, lime, chemicals		31.7
			36 Machine hire		105.8
			37 Supplies purchased		153.1
			38 Breeding fees		
			39 Veterinary fees, medicine		9.15
			40 Gasoline, fuel, oil		150
			41 Storage, warehousing		104.5
			42 Taxes		57.0
			43 Insurance		7.3
			44 Utilities		17.4
			45 Freight, trucking		
			46 Conservation expenses		
			47 Land clearing expenses		
			48 Pension and profit-sharing plans (see Sch. F instructions)		
			49 Employee benefit programs other than line 48 (see Sch. F instructions)		
			50 Other (specify): Premium Payment to OPERATOR ACCIDENT SCHEDULE A15.0		56.8
			51 Add lines 29 through 50 ▶		\$ 452.08
			52 Depreciation (from line 57, Part II) ▶		10,671
			53 Total deductions. Add lines 51 and 52. ▶		\$ 55,879
			54 Net farm profit or (loss) (subtract line 53 from line 28). Enter here and on Form 1040, line 19 or on Form 1065, line 2. ALSO enter on Schedule SE, Part I, line 13 ▶		\$ (16,989)

\* Use amount on line 28 for optional method of computing net earnings from self-employment. (See Schedule SE, Part I, line 33)





**SCHEDULE F**  
**(Form 1040)**  
U.S. Treasury Department  
Internal Revenue Service

**Schedule of Farm Income and Expenses**  
(Compute social security self-employment tax on Schedule F-1 (Form 1040))  
Attach this schedule to your income tax return, Form 1040

19 **57**

Name and address as shown on Form 1040

**EXHIBIT C - Diversified Farm #3**

**PART I—FARM INCOME FOR TAXABLE YEAR—CASH RECEIPTS AND DISBURSEMENTS METHOD**

**PART I—** Report in the applicable columns below receipts from sales of livestock held primarily for sale. (Do not include other sales of livestock held for draft, breeding, or dairy purposes; report such sales on Schedule D (Form 1040))

SALES OF MARKET LIVESTOCK AND PRODUCE RAISED AND HELD PRIMARILY FOR SALE				OTHER FARM INCOME			
Kind	Quantity	1. Amount	Kind	Quantity	1. Amount	Items	3. Amount
Cattle		\$18,504.82	Eggs		\$	Misc. rec'd for produce	\$
Sheep		5943.07	Meat products			Machine work	
Swine		4295.76	Poultry, dressed			Wood and lumber	
Poultry			Wool		1332.15	Other forest products	
Bees			Honey			Patronage dividends, per-unit returns	596.54
Grain		6146.82	Syrup and sugar			Agricultural program payments:	
Hay			Other (specify):			(1) In cash	5272.77
Cotton						(2) In materials and services	326.23
Tobacco						(3) Commodity Credit loans forfeited (or under election)	
Vegetables						Other (specify):	
Fruits and nuts						603 THU KLEINUS	442.66
Dairy products		1011.35					
Total of columns 1, 2, and 3. Enter here and in Part IV, line 1 below							\$43,922.03

**PART II—SALES OF PURCHASED LIVESTOCK AND OTHER ITEMS PURCHASED FOR RESALE**

1. Description	2. Date acquired	3. Amount received	4. Cost or other basis	5. Profit (or loss)
1 - P.O.A.K.		1966	\$ 73.01	\$ 125.00
1 - P.O.A.K.		1767		100.00
Totals (enter amount from column 2, in Part IV, line 2 below)				\$ 73.01
				\$ 225.00
				\$ (151.99)

**PART III—FARM EXPENSES FOR TAXABLE YEAR (see separate instructions)**

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

1. Amount	2. Amount	3. Amount	
Labor hired	917.71	Veterinary, medicine	711.02
Repairs, maintenance	3531.89	Gasoline, fuel, oil	2034.27
Interest	1657.24	Storage, warehousing	
Feed purchased	3234.73	Taxes	2147.35
Seed, plants purchased	889.38	Insurance	1153.44
Fertilizers, lime		Utilities	623.92
Machine hire	1196.25	Rent of farm, pasture	770.35
Supplies purchased	2296.37	Freight, trucking	423.30
Breeding fees		Conservation expenses	472.77
Total of columns 1, 2, and 3. Enter here and in Part IV, line 4 below (cash method), or page 2, Part VII, line 6 (accrual method)			\$ 25,127.88

**PART IV—SUMMARY OF INCOME AND DEDUCTIONS—CASH RECEIPTS AND DISBURSEMENTS METHOD**

1 Sale of livestock and produce raised and other farm income	\$ 43,922.03	4 Farm expenses (from Part III)	\$ 25,127.88
2 Profit (or loss) on sale of purchased livestock and other purchased items	(151.99)	5 Depreciation (from Part V)	10,355.00
3 Gross profits*	\$ 43,770.04	6 Other farm deductions (specify):	
8 Net farm profit (or loss) (subtract line 7 from line 3). Enter here and on page 2, Part II, line 6, Form 1040. Make your computation of self-employment income and the self-employment tax on Schedule F-1.		7 Total deductions	\$ 35,512.88
			\$ 10,257.16

\*Use this amount for optional method of computing net earnings from self-employment. (See line 3, Schedule F-1 (Form 1040).)

(Form 1040)  
Department of the Treasury  
Internal Revenue Service

**FARM INCOME AND EXPENSES**  
(Compute social security self-employment tax on Schedule SE)  
▶ Attach to Form 1040 or Form 1065. ▶ See Instructions for Schedule F (Form 1040).  
▶ If rental income, see instructions before using this schedule.

1977

**EXHIBIT C - Diversified Farm #3**

**Part A Farm Income—Cash Receipts and Disbursements Method**  
Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report such sales on Form 4797.

Sales of Purchased Livestock and Other Items Purchased for Resale		
a. Description	b. Amount received	c. Cost or other basis
1 Livestock:	\$	\$
2 Other items:		
3 Totals	\$	\$
4 Profit or (loss), subtract line 3, column c from line 3, column b.		\$

**Sales of Market Livestock and Produce Raised and Held Primarily for Sale and Other Farm Income**

Kind	Quantity	Amount
5 Cattle		\$ 31913
6 Calves		
7 Sheep		5809
8 Swine		19680
9 Poultry		
10 Dairy products		
11 Eggs		
12 Wool		1277
13 Cotton		
14 Tobacco		
15 Vegetables		
16 Grain		6324
17 Fruits and nuts		
18 Other (specify):		
<b>OTHER FARM INCOME</b>		
19 Machine work		
20 (a) Patronage dividends (See Sch. F instructions)		830
(b) Per-unit retains (See Sch. F instructions)		
21 Nonpatronage distributions from exempt cooperatives		
22 Agricultural program payments:		
(a) Cash		1025
(b) Materials and services		
23 Commodity credit loans under election (or forfeited)		
24 Federal gasoline tax credit		214
25 State gasoline tax refund		465
26 Other (specify):		
27 Add lines 5 through 26		\$ 67457
28 Gross profits* (add lines 4 and 27)		\$ 67402

54 Net farm profit or (loss) (subtract line 53 from line 28). Enter here and on Form 1040, line 19 or on Form 1065, line 9. ALSO enter on Schedule SE, Part I, line 1a

**Part B Farm Deductions—For Cash and Accrual Method Taxpayers**

Do not include personal or living expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling.

Items	Amount
29 Labor hired	\$ 3147
30 Repairs, maintenance	5028
31 Interest	1829
32 Rent of farm, pasture	4773
33 Feed purchased	8572
34 Seeds, plants purchased	976
35 Fertilizers, lime, chemicals	2163
36 Machine hire	1003
37 Supplies purchased	2906
38 Breeding fees	
39 Veterinary fees, medicine	1532
40 Gasoline, fuel, oil	6132
41 Storage, warehousing	
42 Taxes	2022
43 Insurance	2223
44 Utilities	953
45 Freight, trucking	774
46 Conservation expenses	
47 Land clearing expenses	
48 Pension and profit-sharing plans (see Sch. F instructions)	
49 Employee benefit programs other than line 48 (see Sch. F instructions)	
50 Other (specify): Repairs, misc	285
51 Add lines 29 through 50	\$ 41163
52 Depreciation (from line 57, Part III)	26754
53 Total deductions. Add lines 51 and 52	\$ 73447

54 Net farm profit or (loss) (subtract line 53 from line 28). Enter here and on Form 1040, line 19 or on Form 1065, line 9. ALSO enter on Schedule SE, Part I, line 1a

\* Use amount on line 28 for optional method of computing net earnings from self-employment. (See Schedule SE, Part I, line 3.)

BOWMAN GRAIN, INC.  
Bowman, N. Dak., November 1, 1978.

*Testimonial Railroad Abandonment:*

How the abandonment of the Milwaukee Railroad would effect us as an independent elevator, the farmers in the area, and the businessmen on main street.

The service and reliability of the Railroad has steadily gotten worse the past 6 or 7 years, to where we only had 66 cars for the year of 1977 or an average of 5.5 cars per month. We never received a car from November 20, 1977 to March 20, 1978.

After they are loaded they sit at the elevator loaded when they could be in transit to speed up turn-around time. Such as on November 10, 1977, two cars were released and not moved till November 17, 1977 or on June 19, 1978, one car was released and not moved till June 28, 1978.

Up to 1973 80 percent of our grain moved by rail and 20 percent by truck, with 10 percent of this local Feed Grain Sales. To date in 1978 one-half of our grain has moved by rail and one-half by truck. We haven't shipped grain by truck because we wanted to, but the rail service kept getting worse and truck service better. When you own cash grain you move it the best way possible.

To date, in 1978 if cars had been available, the Milwaukee could have had approximately \$185,000 more revenue from our elevator, for just a little service and reliability. So it would be virtually impossible for Bowman Grain to operate as an elevator without the railroad, the farmers grain would be turned into cash at a point where there is a railroad. Where a portion of their dollars would be spent, creating a hardship on the main street of Bowman. Plus the farmer would have the extra expense of getting his grain there, leaving less cash for his operation.

In closing it would be virtually impossible to put the impact to the community and the city in figures.

LYLE SANDER, *Manager.*

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PETERSON'S IMPLEMENT AND AUTO SALES, INC.,  
Lemmon, S. Dak., November 1, 1978.

*To Milwaukee Railroad:*

My name is Lawrence Jensen, Manager of Peterson Imp. & Auto Sales, Inc. of Lemmon, South Dakota. I am writing this testimony in an effort to retain the Milwaukee Railroad service into Lemmon.

Our business is the retail Sales, and service of John Deere tractors, and Equipment, and Mercury cars, and Ford cars, and trucks. All of our cars and trucks are shipped in by Truck transport, however, about 30 percent of our machinery is shipped by rail. Possibly more would be shipped by rail, if it were not for the time element between Factory and Dealership.

Shipments by rail are more convenient for us because we can have a couple days to unload, whereas by truck, we must drop what we are doing, and get the truck unloaded right away.

In 1970, about 70 percent of John Deere equipment was shipped into Lemmon by rail, and this figure has declined some each year, and this year it will be about 30 percent figure. If it were up to us as Dealers, we would have more shipped by rail, however all shipments are controlled by John Deere Company, and this comes from the standpoint of better service, and sometimes better rates by Truck Transport.

We, at Peterson Implement & Auto Sales, Inc. in Lemmon, certainly don't want to lose the rail service into Lemmon.

Respectfully submitted,

L. A. JENSEN.

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SISSETON SEED & GRAIN CO., INC.,  
November 8, 1978.

*To Senator George McGovern:*

My concern in Railroads and highways in South Dakota is that I own an Elevator in a farming community in Roberts County. As a shipper, local farmers as well as others depend on rail service completely to get their grain moved to market. In the last five years we have shipped by rail 2,400 cars.

We have gone through the car shortage in 1973-1975. In the year of 1976 we had a total crop failure. Our shipment still ran at the rate of 400 cars. (Our 1977 rail usage was 820 cars.)

We order on an average week 25 cars. This year we received 8.2 cars average per week which is far behind last year.

In Dec. 1977, Milwaukee Railroad filed for bankruptcy. Since that time our service started to deteriorate. I know they had the problems of snow and car shortage.

I believe there is a program that can be worked out with a tariff rate to help rebuild branch lines in South Dakota.

We can put a tariff on all grain shipped by every elevator. This money to be handled by a Branch Corporation. The Branch Corporation to buy supplies for upkeep on the tracks. There would have to be long term contract with the Railroad. Over a period of years we could get some of the bigger branch tracks back in condition. With a combination of State and Federal Government we could save our Railroads.

Our projected grain handle for rail shipment next year will be 1,000-1,200 cars. This would bring revenue back to the railroad in the sum of \$700,000. Remember this is only a 38 mile spur track.

Sincerely,

JOHN WENSCHLAG.

Attachment.

	January	February	March	April	May	June	July	August	September	October	November	December	Total
<b>Cars:</b>													
1974.....	30	34	45	43	39	29	25	14	8	33	44	43	387
1975.....	63	46	4	26	13	14	28	51	42	51	41	32	411
1976.....	28	36	53	14	25	28	50	40	44	37	45	26	426
1977.....	74	45	43	52	75	16	95	95	99	88	71	73	826
1978.....	36	15	25	15	20	31	50	57	70	-----	-----	-----	319
<b>Total.....</b>	<b>231</b>	<b>176</b>	<b>170</b>	<b>150</b>	<b>172</b>	<b>118</b>	<b>218</b>	<b>257</b>	<b>263</b>	<b>209</b>	<b>201</b>	<b>174</b>	<b>2,369</b>
<b>Trucks:</b>													
1974.....	2	11	4	1	8	18	45	11	25	49	11	29	214
1975.....	24	19	9	6	10	17	26	15	19	10	4	2	161
1976.....	1	2	8	2	-----	-----	1	1	5	4	0	0	24
1977.....	0	0	0	0	2	0	1	30	6	10	1	0	50
1978.....	0	4	1	0	0	11	9	65	17	-----	-----	-----	107
<b>Total.....</b>	<b>27</b>	<b>36</b>	<b>22</b>	<b>9</b>	<b>20</b>	<b>46</b>	<b>82</b>	<b>122</b>	<b>72</b>	<b>73</b>	<b>16</b>	<b>31</b>	<b>556</b>

Source: Sisseton Seed Grain Co. Inc., Sisseton, S. Dak.

STATEMENT OF HON. KENNETH WOODELY, MAYOR, CITY OF BOWMAN, N. DAK.

As Mayor of the City of Bowman, I am deeply concerned about the future of the C.M. St. P. & P. railroad mainline. The loss of rail service would have devastating effects on the economy of our entire trade area as well as the City of Bowman.

As a shipping center for grain and livestock the city enjoys being a center of trade for all household items, machinery, fuel, building materials, food, clothing and service business that make a healthy economy. Coal shipments alone from Montana and our area mines at Gascoyne are a necessity for energy in large areas of the midwest.

To move rail service to another area such as Dickinson, would cause a tremendous expense and time delay to all people presently served by the C.M. St. P. & P. railroad and would have considerable adverse impact on coal fueled generating plants in a much larger area.

I would urge you and the entire committee to study this crisis and advise local leaders as to what steps may be taken to avoid a shutdown of rail service through this area. Also I would hope there are steps the Senate could also take to assist in the problem.

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STATEMENT OF MARCUS BURKE, MANAGER, MORRISTOWN GRAIN Co.,  
MORRISTOWN, S. DAK.

We are shippers on the main line of the CMSTPR Railroad. During the last three years we shipped the following hoppers : 1976, 22 ; 1977, 20 ; 1978, 17.

We could have purchased more grain if we had the car available.

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CHAMBER OF COMMERCE,  
*Hettinger, N. Dak., November 1, 1978.*

*To whom it may concern:*

The Chamber of Commerce of Hettinger, North Dakota, opposes the proposed abandonment of the Milwaukee Railroad. This abandonment would mean a great loss to all the towns along the line. The losses would be too many to mention in this letter.

Therefore, the Hettinger Chamber of Commerce strongly opposes any action which would adversely affect railroad service to our city and surrounding cities.

Sincerely,

HETTINGER CHAMBER OF COMMERCE.

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ROOSEVELT-CUSTER REGIONAL COUNCIL FOR DEVELOPMENT,  
*Dickinson, N. Dak., November 9, 1978.*

Re Milwaukee Road.  
Hon. GEORGE MCGOVERN,  
*Dirksen Senate Office Building,*  
*Washington, D.C.*

SENATOR MCGOVERN : In response to your current hearings on the possible abandonment of the Milwaukee Railroad, the following are provided for your consideration.

Like most of the comments you received at Lemmon and from around the State of South Dakota, the abandonment of the Milwaukee Railroad would have severe impacts on that portion of North Dakota that is also being served by this line.

After doing a survey on the effects of abandonment of branchlines in southwestern North Dakota, we were able to partially analyze certain ramifications that can be directly applicable to the Milwaukee Mainline. Of significant findings were the fact that :

(1) the distances for transshipments increase drastically for both shipper/receiver and elevator categories ;

(2) any transition in transportation made would be extremely costly in terms of capital outlays. Average costs range from \$64,000 for local shipper/receivers to over \$500,000 for elevators ;

(3) truck rates would rise as much as 20.3¢/cwt if rail operations ceased ;

(4) trucks could not effectively substitute for rail transporting.

One clear factor that came out was that all parties blamed the problems railroads were having on just poor management.

This part of the country is characteristically isolated. And as such, towns and markets are distant. Likewise, population distribution is relatively sparse. However, if agriculture is to remain the backbone of this area as well as the nation, adequate transportation of goods has to prevail and even improve.

Your comments regarding North Dakota's lack of mainline priority listing is correct. Currently the State is in the midst of addressing branchline abandonment problems which would have a significant impact on this State if that situation were to continue. The Milwaukee problem arose after the branchline concern was well underway. In discussing a projected timetable with a State official, I was told that they are concerned about North Dakota's mainlines and they will be reviewed in short order. This review would most certainly cover the economic ramifications of Milwaukee Road abandonment.

Also in a recent conversation with a Federal Railroad Administration official out of Denver, unofficial reports relate that Milwaukee is seriously considering the compromise of keeping the line operational from Miles City, Montana, eastward. Coupled with the petition now before the ICC to include the Milwaukee in the Montana coal transporting business, it would seem reasonable to consider such a posture. If complaints of poor management practices could be reduced and adequate commercial service and cars could be provided, the Milwaukee could conceivably come into its own again.

Quite a few people will or could be affected by what's taking place. Not only is the local population directly involved, but the consequences could have a far-reaching adverse effect on urban areas that are separated by many miles of track.

Yours,

ROD LANDBLOM,  
*Executive Director.*

---

DAKOTA WESTERN BANK,  
*Bowman, N. Dak., November 1, 1978.*

Senator GEORGE MCGOVERN,  
*U.S. Senate,  
Washington, D.C.*

DEAR SENATOR MCGOVERN: Abandonment of rail service by the Milwaukee Railroad to portions of the Dakotas would most certainly create an economic hardship. I am personally most acquainted with Bowman County, located in the extreme South Western county in North Dakota. Our economy is totally dominated by Agriculture, specifically wheat and livestock. The majority of our farmers in Bowman County and surrounding counties market their grain through their local elevator. The elevator then sells the wheat and ships it via rail to its ultimate destination. If rail service is not available, the elevator would be forced to use trucks to ship its grain. It would be impossible for an elevator to arrange for enough trucks to move its annual volume of grain. It would be impossible for an elevator to operate under those conditions. We would then lose our local elevators and their marketing services. The end result to this chain of events would most certainly reduce the price farmers receive for their wheat. Not to belabor a point, but wheat farmers are not in the position to absorb lower prices. As a banker, I know that lower prices would only accelerate the ultimate bankruptcy of most wheat farmers in Southwestern North Dakota.

Any government action that would insure rail service to our area should be given careful consideration.

Sincerely,

ROGER N. BERGLUND,  
*Executive Vice President.*

Attachment.

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## NORTH DAKOTA CROP AND LIVESTOCK REPORTING SERVICE

NORTH DAKOTA SHIPMENTS FROM COMMERCIAL STORAGES BY COUNTY  
AND MODE OF SHIPMENT 1/1, 1976-77

District and County	Hard Red Spring Wheat				Durum				Rye			
	Truck	C.C.C.	Total	Total	Truck	C.C.C.	Total	Total	Truck	C.C.C.	Total	
	--- Thousand Bushels ---				--- Thousand Bushels ---				--- Thousand Bushels ---			
Burke	865	508	--	1,373	853	168	2	1,023	27	--	--	27
Divide	771	181	--	952	2,801	338	38	3,177	11	2	--	13
Mountain	758	83	6	847	4,431	372	30	4,833	32	3	--	70
Renville	1,101	541	18	1,660	1,177	233	28	1,438	22	48	--	75
Ward	1,672	1,885	39	3,596	4,900	1,162	55	6,117	10	64	--	74
Williams	3,643	851	10	4,504	2,422	565	25	3,012	58	9	--	67
<b>Northwest</b>	<b>8,808</b>	<b>3,849</b>	<b>73</b>	<b>12,730</b>	<b>16,584</b>	<b>2,836</b>	<b>179</b>	<b>19,599</b>	<b>160</b>	<b>125</b>	--	<b>285</b>
Benson	747	226	3	976	3,339	549	34	3,922	27	27	--	54
Bottineau	1,159	404	10	1,573	2,950	849	24	3,823	50	231	--	281
McHenry	2,265	1,043	5	3,313	755	387	8	1,150	57	100	--	156
Place	619	135	6	770	920	98	6	1,024	15	25	--	40
Rolette	86	113	--	199	1,093	341	14	1,448	11	14	--	25
<b>North Central</b>	<b>4,886</b>	<b>1,921</b>	<b>25</b>	<b>6,832</b>	<b>9,056</b>	<b>2,223</b>	<b>88</b>	<b>11,367</b>	<b>160</b>	<b>397</b>	--	<b>557</b>
Caveller	1,800	834	17	2,651	3,146	690	46	3,882	71	--	--	71
Grand Forks	2,958	2,460	25	5,443	406	195	4	605	9	8	--	18
Nelson	817	343	6	1,166	2,230	375	50	2,655	2	11	--	13
Peabody	4,161	2,424	29	6,614	169	58	--	227	26	23	--	49
Ramsey	1,404	800	11	1,895	5,239	539	80	5,858	8	2	--	11
Towner	284	82	10	376	3,340	466	57	3,863	9	6	--	16
Walsh	5,086	921	13	6,020	1,068	249	22	1,339	5	6	--	11
<b>Northeast</b>	<b>16,509</b>	<b>7,545</b>	<b>111</b>	<b>24,165</b>	<b>15,597</b>	<b>2,571</b>	<b>260</b>	<b>18,428</b>	<b>131</b>	<b>58</b>	--	<b>189</b>
Dunn	732	284	6	1,022	9	14	3	26	4	1	--	5
McIntosh	2,046	162	2	2,210	281	67	--	348	1	1	--	2
McLean	2,164	1,476	4	3,644	3,153	164	22	3,339	88	27	--	115
Mercer	1,098	246	4	1,348	30	10	--	40	2	--	--	2
<b>West Central</b>	<b>6,040</b>	<b>2,169</b>	<b>17</b>	<b>8,226</b>	<b>3,473</b>	<b>255</b>	<b>25</b>	<b>3,753</b>	<b>96</b>	<b>28</b>	--	<b>124</b>
Eddy	467	158	24	649	427	10	17	454	35	8	--	44
Foster	1,772	577	15	2,364	522	80	9	611	29	27	--	55
Kidder	615	115	--	730	223	37	--	260	37	23	--	60
Sheridan	559	817	--	1,376	147	104	--	251	--	9	--	9
Stutsman	4,036	960	6	5,002	1,538	321	--	1,859	108	63	--	171
Wells	4,359	818	9	5,186	1,306	245	12	1,563	75	29	--	104
<b>Central</b>	<b>11,808</b>	<b>3,445</b>	<b>54</b>	<b>15,307</b>	<b>4,163</b>	<b>797</b>	<b>38</b>	<b>4,998</b>	<b>285</b>	<b>159</b>	--	<b>444</b>
Barnes	3,428	712	8	4,148	848	169	9	1,026	30	26	--	56
Cass	4,340	4,385	12	8,737	399	137	--	536	43	37	--	80
Griggs	1,380	754	11	2,125	247	84	7	338	3	--	--	3
Steele	1,024	1,155	--	2,179	249	106	--	355	6	3	--	9
Trellis	3,093	1,749	31	4,872	281	52	1	334	11	3	--	13
<b>East Central</b>	<b>15,265</b>	<b>8,735</b>	<b>61</b>	<b>22,061</b>	<b>2,024</b>	<b>549</b>	<b>18</b>	<b>2,591</b>	<b>93</b>	<b>68</b>	--	<b>161</b>
Adams	1,165	731	34	1,930	421	41	19	481	4	7	--	11
Bowman	2,037	1,284	13	3,328	19	--	--	383	--	--	--	--
Golden Valley	229	1,051	--	1,280	117	358	--	475	--	--	--	--
Hettinger	1,850	2,316	--	3,966	460	47	--	507	16	63	--	79
Stark	1,093	3,631	22	4,746	108	77	5	190	2	2	--	4
<b>Southwest</b>	<b>5,149</b>	<b>9,014</b>	<b>70</b>	<b>14,252</b>	<b>2,474</b>	<b>543</b>	<b>24</b>	<b>2,038</b>	<b>71</b>	<b>--</b>	--	<b>93</b>
Burleigh	1,197	749	--	1,946	235	116	--	351	2	--	--	2
Emmons	1,048	156	2	1,206	144	41	--	185	41	7	--	48
Grant	1,000	409	4	1,413	64	14	--	78	11	52	--	63
Morton	1,668	1,414	--	3,082	53	56	--	109	--	4	--	4
Sioux	53	88	--	141	23	13	--	36	--	1	--	1
<b>South Central</b>	<b>4,965</b>	<b>2,817</b>	<b>6</b>	<b>7,788</b>	<b>519</b>	<b>241</b>	--	<b>760</b>	<b>54</b>	<b>64</b>	--	<b>118</b>
Dickey	1,227	331	--	1,358	158	6	--	164	119	13	--	132
LaMoure	2,800	611	27	3,438	586	238	23	847	204	109	--	313
Logan	1,171	666	3	1,840	304	121	--	425	27	50	--	76
McIntosh	594	61	--	655	88	39	--	127	5	17	--	22
Ransom	1,542	25	--	1,567	150	1	--	151	38	3	--	41
Richland	2,360	572	1	2,933	122	16	2	140	58	5	--	63
Sargent	1,081	192	4	1,277	278	15	--	293	142	9	--	151
<b>Southeast</b>	<b>10,775</b>	<b>2,258</b>	<b>35</b>	<b>13,068</b>	<b>1,687</b>	<b>437</b>	<b>24</b>	<b>2,148</b>	<b>594</b>	<b>205</b>	--	<b>799</b>
<b>STATE</b>	<b>82,224</b>	<b>41,753</b>	<b>452</b>	<b>124,429</b>	<b>54,574</b>	<b>10,452</b>	<b>656</b>	<b>65,682</b>	<b>1,595</b>	<b>1,175</b>	--	<b>2,770</b>

1/ Totals may not add due to rounding.

Source: Summarized by Upper Great Plains Transportation Institute from Public Service Commission records.

May 1976



**NORTH DAKOTA SHIPMENTS FROM COMMERCIAL STORAGES BY COUNTY AND MODE OF SHIPMENT 1/, 1976-77**

District and County	Flax				Barley				Oats			
	Rail	Truck	C.C.C.	Total	Rail	Truck	C.C.C.	Total	Rail	Truck	C.C.C.	Total
	---Thousand Bushels---				--- Thousand Bushels ---				--- Thousand Bushels ---			
Burke	3	24	--	27	211	8	--	219	46	144	--	191
Divide	4	--	--	4	188	15	--	203	16	92	--	109
Mountrail	8	8	--	17	263	19	--	282	34	83	--	116
Renville	19	107	--	127	863	96	--	959	179	513	--	492
Ward	6	268	--	274	1,233	39	--	1,272	177	1,072	--	1,249
Williams	1	1	--	3	263	33	--	296	39	114	--	153
Northwest	42	408	--	450	5,022	208	--	5,230	491	1,818	--	2,309
Benson	12	160	--	172	2,888	315	--	3,203	85	90	--	175
Bottineau	34	197	--	231	2,006	497	--	2,503	66	690	--	757
McHenry	18	154	--	172	344	86	--	430	330	422	--	752
Pierce	98	91	--	189	590	45	--	635	83	189	--	272
Rolette	--	29	--	29	754	236	--	991	27	98	--	125
North Central	162	632	--	794	6,582	1,179	--	7,761	592	1,488	--	2,081
Cavalier	4	31	--	35	3,252	3,234	--	6,486	101	215	38	354
Grand Forks	165	68	--	233	4,023	1,249	--	5,271	339	78	627	1,044
Nelson	19	83	--	103	1,247	681	--	1,927	181	78	--	259
Pembina	11	15	--	26	2,759	1,670	--	4,428	265	98	21	387
Ramsay	43	105	--	148	4,452	840	--	5,332	92	63	145	300
Towner	6	8	--	15	2,218	368	--	2,586	41	48	--	89
Walsh	54	41	--	95	2,608	1,989	--	4,597	257	46	--	303
Northeast	304	352	--	656	20,558	10,081	--	30,639	1,277	627	830	2,734
Dunn	5	6	--	11	2	6	--	8	--	6	--	6
McKenzie	--	--	--	--	77	54	--	131	--	3	--	3
McLean	9	269	--	279	136	65	--	201	23	384	--	407
Mercer	5	12	--	18	--	6	--	6	5	16	4	20
West Central	20	288	--	307	215	130	--	345	39	397	--	436
Eddy	14	38	--	52	341	10	--	352	80	14	--	95
Foster	31	82	--	113	222	194	--	406	83	60	141	284
Kidder	26	43	--	69	16	31	--	47	--	1	36	57
Sheridan	2	67	--	69	105	46	--	151	26	105	--	131
Stutsman	40	71	--	110	857	1,346	--	2,202	106	235	383	724
Wells	231	184	--	415	1,270	345	--	1,615	175	90	--	265
Central	344	484	--	829	2,811	1,962	--	4,773	471	505	560	1,536
Barnes	100	70	--	170	1,844	1,409	--	3,253	187	80	3	270
Cass	14	78	--	92	4,676	3,063	--	7,739	458	125	113	696
Griggs	23	66	--	88	1,062	724	--	1,786	176	35	49	260
Steele	4	75	--	79	1,073	2,062	--	3,135	35	66	2	103
Traill	4	61	--	64	4,207	2,321	--	6,528	378	193	--	571
East Central	140	350	--	491	12,862	9,578	--	22,440	1,234	499	166	1,899
Adams	--	23	--	23	--	43	--	43	--	17	--	17
Bowman	--	15	--	15	250	39	--	289	--	56	--	56
Golden Valley	--	--	--	--	--	7	--	7	--	15	--	15
Hettinger	8	29	--	37	78	50	--	128	3	107	--	109
Stark	--	24	--	24	17	29	--	46	4	23	--	27
McIntosh	91	91	--	182	151	169	--	320	97	218	--	225
Burleigh	16	69	--	85	21	148	--	169	--	103	--	103
Emmons	47	153	--	201	5	10	--	16	41	6	--	47
Grant	--	6	--	6	10	16	--	26	--	39	--	39
Morton	3	29	--	32	2	23	--	25	17	20	--	37
Sioux	--	--	--	--	--	2	--	2	--	--	--	--
South Central	66	257	--	323	38	199	--	237	58	168	--	227
Dickey	15	110	--	125	94	248	--	342	102	45	13	160
LaMoure	109	90	--	199	229	406	--	635	225	437	--	662
Logan	53	185	--	239	8	51	--	59	3	65	40	108
McIntosh	72	176	--	247	2	9	--	11	--	--	--	--
Ransom	9	8	--	17	476	175	--	651	320	20	--	339
Richardson	5	43	--	47	876	437	--	1,314	638	28	--	666
Sargent	5	56	--	61	265	225	--	490	258	129	44	431
Southeast	268	667	--	935	1,949	1,552	--	3,501	1,546	723	97	2,366
STATE	1,354	3,529	--	4,883	48,168	25,058	--	73,226	5,715	6,443	1,653	13,813

1/ Totals may not add due to rounding.  
 Source: Summarized by Upper Great Plains Transportation Institute from Public Service Commission records.  
 May 1978

**NORTH DAKOTA HARD RED SPRING WHEAT SHIPMENTS FROM COMMERCIAL STORAGE  
BY COUNTY AND DESTINATIONS 1976-77 1/2/**

District and County	North Plains 1/	Upper Great Plains 2/	West	Miscellaneous 3/
----- Bushels -----				
Burke	690,000	290,000	47,000	143,000
Divide	343,000	212,000	246,000	152,000
Mountrail	393,000	287,000	42,000	118,000
Renville	890,000	449,000	45,000	259,000
Ward	1,315,000	1,888,000	47,000	309,000
Williams	534,000	699,000	2,897,000	364,000
Northwest	4,162,000	3,827,000	3,322,000	1,345,000
Benson	533,000	240,000	38,000	161,000
Bottineau	935,000	365,000	26,000	237,000
McHenry	1,981,000	972,000	56,000	300,000
Pierce	560,000	87,000	7,000	111,000
Rolette	119,000	40,000	---	40,000
North Central	4,128,000	1,703,000	126,000	849,000
Cavaller	1,627,000	578,000	---	428,000
Grand Forks	3,035,000	1,372,000	2,000	1,009,000
Nelson	731,000	306,000	---	123,000
Pennington	4,267,000	1,279,000	2,000	1,037,000
Ramsey	1,188,000	322,000	23,000	351,000
Towner	211,000	80,000	---	76,000
Walsh	3,305,000	1,213,000	---	1,488,000
Northeast	14,364,000	5,149,000	27,000	4,512,000
Dunn	368,000	322,000	145,000	181,000
McFensie	239,000	344,000	1,343,000	282,000
McLean	1,041,000	1,812,000	754,000	293,000
Mercer	467,000	359,000	449,000	69,000
West Central	2,115,000	2,537,000	2,732,000	825,000
Eddy	341,000	87,000	18,000	170,000
Foster	1,113,000	904,000	113,000	218,000
Kidder	258,000	219,000	196,000	57,000
Sheridan	557,000	661,000	17,000	142,000
Stutsman	2,034,000	1,601,000	348,000	1,013,000
Hells	2,422,000	2,109,000	343,000	303,000
Central	6,725,000	5,592,000	1,034,000	1,903,000
Barnes	2,523,000	893,000	31,000	694,000
Cass	4,209,000	3,387,000	44,000	1,075,000
Griggs	1,452,000	405,000	27,000	230,000
Steele	1,283,000	612,000	---	284,000
Trails	2,997,000	1,321,000	16,000	509,000
East Central	12,463,000	6,629,000	117,000	2,791,000
Adams	145,000	579,000	1,122,000	50,000
Golden Valley	243,000	776,000	1,167,000	133,000
Golden Valley	147,000	446,000	553,000	133,000
Hettinger	1,006,000	1,354,000	1,039,000	567,000
Stark	526,000	1,791,000	2,058,000	350,000
Southwest	2,072,000	2,948,000	5,939,000	1,224,000
Burleigh	465,000	749,000	538,000	194,000
Emmons	350,000	227,000	519,000	108,000
Grant	504,000	324,000	541,000	40,000
Morton	920,000	1,211,000	746,000	205,000
Sioux	37,000	24,000	73,000	7,000
South Central	2,276,000	2,534,000	2,417,000	554,000
Dickey	357,000	761,000	70,000	170,000
LaMoure	1,604,000	739,000	322,000	744,000
Logan	551,000	896,000	240,000	150,000
McIntosh	403,000	113,000	105,000	34,000
Ransom	966,000	355,000	94,000	152,000
Richland	852,000	1,770,000	34,000	277,000
Sargent	379,000	678,000	96,000	120,000
Southeast	5,112,000	5,314,000	960,000	1,647,000
STATE	53,419,000	38,230,000	16,675,000	15,651,000

1/ Does not include CCC shipments. 2/ Totals may not add due to rounding. 3/ Includes all other destinations.  
Source: Summarized by Upper Great Plains Transportation Institute from Public Service Commission records.

May 1978

**NORTH DAKOTA DURUM WHEAT SHIPMENTS FROM COMMERCIAL STORAGE  
BY COUNTY AND DESTINATION, 1976-77 1/2**

District and County	Delaware/Superior	Dixie/Spartan	West	Miscellaneous 3/
----- Bushels -----				
Burke	771,000	303,000	40,000	106,000
Divide	1,697,000	569,000	370,000	502,000
Hountrill	2,913,000	1,221,000	139,000	531,000
Renville	988,000	228,000	13,000	181,000
Ward	4,326,000	1,139,000	144,000	452,000
Williams	1,061,000	913,000	520,000	492,000
<b>Northwest</b>	<b>11,756,000</b>	<b>4,173,000</b>	<b>1,226,000</b>	<b>2,265,000</b>
Benson	1,967,000	1,233,000	4,000	684,000
Bottineau	2,482,000	744,000	41,000	532,000
McHenry	793,000	252,000	3,000	95,000
Pierce	541,000	239,000	---	238,000
Rolette	783,000	443,000	---	207,000
<b>North Central</b>	<b>6,565,000</b>	<b>2,910,000</b>	<b>48,000</b>	<b>1,756,000</b>
Cavalier	2,147,000	760,000	---	929,000
Grand Forks	282,000	134,000	---	180,000
Nelson	1,227,000	657,000	---	720,000
Pennington	143,000	42,000	---	41,000
Ransom	2,952,000	1,156,000	51,000	1,619,000
Towner	2,141,000	624,000	1,000	1,041,000
Walsh	693,000	358,000	---	266,000
<b>Northeast</b>	<b>9,586,000</b>	<b>3,735,000</b>	<b>52,000</b>	<b>4,796,000</b>
Dunn	8,000	5,000	1,000	9,000
McKenzie	214,000	68,000	19,000	47,000
McLean	1,655,000	1,414,000	14,000	235,000
Mercer	8,000	18,000	10,000	3,000
<b>West Central</b>	<b>1,885,000</b>	<b>1,505,000</b>	<b>44,000</b>	<b>294,000</b>
Eddy	180,000	66,000	---	192,000
Foster	306,000	256,000	---	40,000
Kidder	167,000	85,000	1,000	7,000
Sheridan	103,000	110,000	---	38,000
Stutsman	1,131,000	503,000	8,000	218,000
Wells	904,000	446,000	---	201,000
<b>Central</b>	<b>2,790,000</b>	<b>1,466,000</b>	<b>9,000</b>	<b>696,000</b>
Barnes	520,000	393,000	---	104,000
Cass	308,000	194,000	---	34,000
Griggs	166,000	114,000	---	52,000
Steele	179,000	92,000	---	84,000
Trails	180,000	125,000	---	27,000
<b>East Central</b>	<b>1,353,000</b>	<b>919,000</b>	<b>---</b>	<b>301,000</b>
Adams	46,000	330,000	27,000	60,000
Bowman	64,000	246,000	1,000	69,000
Golden Valley	81,000	176,000	178,000	40,000
Hettinger	188,000	232,000	14,000	72,000
Stark	32,000	117,000	22,000	15,000
<b>North Plains</b>	<b>1,416,000</b>	<b>1,103,000</b>	<b>621,000</b>	<b>450,000</b>
Burleigh	84,000	231,000	2,000	35,000
Emmons	80,000	67,000	---	37,000
Grant	10,000	44,000	14,000	10,000
Morton	45,000	22,000	---	41,000
Sioux	15,000	13,000	---	9,000
<b>South Central</b>	<b>235,000</b>	<b>377,000</b>	<b>16,000</b>	<b>131,000</b>
Dickey	30,000	117,000	---	18,000
LaMoure	382,000	245,000	---	196,000
Logan	241,000	144,000	---	40,000
McIntosh	91,000	19,000	---	18,000
Ransom	81,000	59,000	---	-11,000
Richland	30,000	96,000	---	12,000
Sargent	97,000	158,000	---	37,000
<b>Southeast</b>	<b>952,000</b>	<b>838,000</b>	<b>---</b>	<b>333,000</b>
<b>STATE</b>	<b>35,537,000</b>	<b>17,024,000</b>	<b>1,636,000</b>	<b>10,827,000</b>

1/ Does not include CCC shipments. 2/ Totals may not add due to rounding. 3/ Includes all other destinations.

Source: Summarized by Upper Great Plains Transportation Institute from Public Service Commission records.

May 1978

NORTH DAKOTA BARLEY SHIPMENTS FROM COMMERCIAL STORAGES  
 BY COUNTY AND DESTINATION, 1976-77 1/2/

District and County	Duluth/Superior	St. Paul	West	Miscellaneous 3/
----- Bushels -----				
Burke	34,000	154,000	1,000	32,000
Divide	38,000	124,000	---	38,000
Mountrail	55,000	206,000	---	22,000
Renville	145,000	640,000	---	174,000
Ward	314,000	700,000	---	258,000
Williams	106,000	131,000	38,000	21,000
Northwest	692,000	1,955,000	39,000	544,000
Benson	547,000	1,647,000	---	1,009,000
Bottineau	424,000	1,655,000	---	423,000
McHenry	134,000	289,000	---	6,000
Pierce	130,000	465,000	---	40,000
Rolette	233,000	704,000	---	54,000
North Central	1,469,000	4,760,000	---	1,532,000
Cavalier	3,200,000	3,214,000	16,000	145,000
Grand Forks	1,236,000	4,003,000	---	33,000
Nelson	842,000	1,064,000	---	21,000
Pembina	1,782,000	2,558,000	---	88,000
Ramsey	1,423,000	3,679,000	---	229,000
Towner	615,000	1,757,000	---	213,000
Walsh	2,248,000	2,120,000	17,000	222,000
Northeast	11,347,000	18,395,000	34,000	952,000
Dunn	7,000	---	---	1,000
McKenzie	45,000	64,000	8,000	14,000
McLean	64,000	123,000	1,000	13,000
Mercer	4,000	1,000	---	---
West Central	120,000	187,000	9,000	28,000
Eddy	105,000	234,000	---	23,000
Foster	220,000	181,000	2,000	5,000
Kidder	33,000	10,000	---	4,000
Sheridan	29,000	119,000	2,000	---
Stutsman	916,000	744,000	1,000	541,000
Wells	499,000	1,008,000	---	107,000
Central	1,802,000	2,287,000	5,000	678,000
Barnes	1,688,000	1,399,000	7,000	159,000
Cass	2,867,000	3,334,000	---	1,537,000
Griggs	686,000	940,000	---	161,000
Steele	1,680,000	874,000	---	580,000
Traill	2,308,000	3,861,000	---	358,000
East Central	9,229,000	10,409,000	7,000	2,795,000
Adams	27,000	---	16,000	---
Golden Valley	1,000	---	6,000	---
Hettinger	65,000	48,000	1,000	14,000
Stark	35,000	7,000	4,000	---
McIntosh	---	---	---	---
Burleigh	128,000	35,000	1,000	5,000
Emmons	13,000	---	---	2,000
Grant	5,000	10,000	---	11,000
Morton	20,000	2,000	---	3,000
Sioux	2,000	---	---	---
South Central	169,000	47,000	1,000	21,000
Dickey	265,000	48,000	---	29,000
LaMoure	382,000	196,000	1,000	57,000
Logan	49,000	17,000	---	4,000
McIntosh	---	4,000	---	---
Ransom	137,000	409,000	---	5,000
Richland	505,000	736,000	---	73,000
Sargent	242,000	190,000	3,000	54,000
Southeast	1,676,000	1,600,000	4,000	221,000
STATE	26,672,000	39,728,000	126,000	6,788,000

1/ Does not include CCC shipments. 2/ Totals may not add due to rounding. 3/ Includes all other destinations.  
 Source: Summarized by Upper Great Plains Transportation Institute from Public Service Commission records.

REGENT CO-OP EQUITY EXCHANGE,  
Regent, N. Dak., November 8, 1978.

Senator GEORGE MCGOVERN,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR SENATOR MCGOVERN: On Wednesday November 1st I went to Lemmon S. Dak. to listen to a hearing in regards to the future of the Milw. R.R. in our area. This prompted me to write this letter.

I am the Manager of the Regent Co-op Equity Exchange Elevator at Regent, N. Dak. The Elevator where I am employer has a capacity of 400,000 bu. and has been filled to capacity since the first of August. As of today we have on hand 181,000 bu. of Cash wht. and Durum. At \$2.50 a bushel, we are looking at \$452,000 tied up in inventory on grain and have no way to go to market with it. This is costing a tremendous amount of money in interest and we are also looking at discounts for late arrival.

The few cars that we do get very seldom have any sign of having hauled grain previous. Where these cars are picked up I don't know, but it seems at a time as this every car available would be used. Also the reason for the train not coming last week, is because a suitable caboose could not be found. This sounds like very poor management and almost an intentional reason to show a lose of profit and excuse to go out of business.

In the last three years, we have shipped 342 R.R. Milw. Cars, and 1,788 trucks or 1.5 millions bus. more by truck than rail. Had cars been provided it could have meant many dollars to the Milw. R.R.

Regent is a community of 400 people. the grain elevators are the biggest business in our town, but if we have no railroad they may be the smallest and it will be a severe economic blow to our town. We are already feeling the impact as a lot of grain is moving to the main line 50 miles North of us as we have no room and had to lower prices as a protection against another rate increase.

Our area is an excellent grain area and to have all grains trucked to terminal points would be almost impossible. Imagine the energy it would take and the dollars to keep the highways in good condition.

The point I want to get across is without rail service it will be a severe economic lost to our area and our chance of survival will be hampered.

Very truly yours,

LAWRENCE KLEIN, *Manager.*

STATEMENT OF ALAN AUSTAD, NORTH DAKOTA FARMERS UNION,  
JAMESTOWN, N. DAK.

We welcome this opportunity to present our views of the problems and what may be possible solutions to the Milwaukee Road's plans to abandon their mainline and associated branch lines from Minneapolis to the west coast.

The North Dakota Farmers Union is a general farm organization with headquarters in Jamestown, North Dakota. Our business address is Box 651, Jamestown, North Dakota, 58401. We have a membership in excess of 33,000 members located in all of the state's counties. In the six southwestern North Dakota counties which are served by the Milwaukee mainline and New England branch line we have in excess of 1,600 members.

As you are well aware for grain to have value it must move or have the ability to move to a market. The five year average production of wheat in the six county area has been in excess of 15 million bushels with peak production in 1976 of over 19 million bushels. Production figures for 1978 are not yet available but with the excellent growing season 19 million bushels will not be an unrealistic figure for this seasons production.

The problem we must face is how we can most efficiently move our grain. It is generally agreed that to move large volumes of grain from a country point to a terminal market, rail is the most energy efficient means we have available. The Iowa Department of Transportation estimates that rail movement consumes half of the energy required to move the same volume than the same movement would take by truck.

To move the entire production from this area by truck would take in excess of 21,700 large semi-trucks per year. This movement in itself would be restricted during the spring months when highway load restrictions are in place.

The immediate effect of the discontinuance of Milwaukee service will be in the area of highway maintenance and rehabilitation. South Dakota estimated that if the Milwaukee ceased to provide service, highway costs would increase, from this

factor alone, about 50 million dollars per year. While North Dakota has not estimated its increased costs, they may very well approach this figure. Neither state has the financial capability to withstand this massive cost increase.

While shipments into the area are not near as large as the volume shipped out they are important in that without rail service the costs of these shipments will increase. A local cooperative estimates that to bring fertilizer into the area by truck will increase the cost per ton five to eight dollars. Major machinery manufacturers are increasing their procedure of unitizing machinery at factory points. This procedure will make the movement of machinery by truck much more expensive while increasing the road hazards of moving such machinery.

The impact the abandonment of the Milwaukee will have on the locally owned cooperatives is tremendous. The primary marketing agency for grain in the area is a locally owned cooperative. The cessation of rail service will have serious economic effect on their ability to exist as a business.

If the business is closed because of the loss of rail service it will be the local member-owner who will lose his investment. It will not be a national or multinational company, but a business which has all of its assets and its ownership in the local community. This loss will most seriously affect the producer who is the member-patron but will also affect the community as a whole.

It is reasonable to assume that business attract business, if the major business in a community ceases to exist the business volume of the community will decrease. It will in fact move to where the producer must then market his grain.

The major consideration that has to be considered is that of energy consumption. As stated earlier it takes twice as many BTUs of energy to move grain from one point to another by truck, as it does by rail. We can ill afford this needless waste of energy. The amount of energy we import now and the price we must pay is one of the prime causes of the rapid inflation we now are enduring. To increase this usage by allowing the Milwaukee to discontinue its service would be sheer folly where better alternatives are available.

We have an energy policy in this nation which essentially calls for conservation as our major means to decrease our dependence on foreign oil. This policy must be coordinated in all agencies of the federal government so that the goal each is working toward does not conflict with our national energy policy. It appears that the major goal of the U.S. Department of Transportation is to have only mainline rail carriers devoid of branch lines and with fewer transcontinental lines. These two policies of the Departments of Energy and Transportation are in serious conflict with each other. We must determine which policy is of greater importance and then coordinate activities so that a reasonable solution can be reached.

It is important to realize that what ever action is taken concerning the Milwaukee road large amounts of money will have to be expended. The situation is quickly becoming one in which the Milwaukee Road is existing on a day-to-day basis. Managers of local cooperatives cannot plan for the future or operate on a daily basis because of the Milwaukee's erratic condition and behavior.

It is our recommendation that the Milwaukee Road's operations be discontinued and its corporation dissolved. The operations on its lines should be continued by a rail line in the area which has the management ability to function. It is our suggestion that federal funds be expended to upgrade the lines to a Class I level and then integrate the portions which are deemed necessary into the operations of a viable carrier. This appears to be the only viable solution which will be the least harmful. It is hard to imagine the situation continuing as it now is.

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UNITED TRANSPORTATION UNION,  
Huron, S.Dak., November 20, 1978.

Senator GEORGE MCGOVERN,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR SENATOR MCGOVERN: I regret that I was unable to attend your Railroad hearings held in South Dakota. I had been called to meet with other State Legislative Directors of the UTU and Mr. Hillman and Mr. Smith of the Milwaukee Road in Minneapolis during your Committee Hearings.

I did advise Mr. Hillman that a number of years ago the U.S. Supreme Court ruled that the parent company was held responsible for the deferred maintenance. I could not cite the case but it was on an eastern railroad. I would recommend should you have staff available, that they research this case. The stockholders may take a different view then, that of the present time.

I would like to submit for the record and a part of your hearings, the following statement:

The United Transportation Union has always openly made this organization available to negotiate with any Carrier the Crew consist, run through terminals etc. The first reduced Crew Agreement in the Nation was between the Chicago Northwestern Transportation Co. and the UTU, the second was this year—the UTU and the Milwaukee Road.

It has often been stated by anti-labor forces that Railroad Labor has been the demise of the Railroads in America. This is not true. The railroad employees are the most productive work force in America today.

To site another example of railroad employee crafts, railroad clerks were clerks only at one time, today, they are clerks that also do janitor work, take train orders, check railroad yards and many other duties including calling roads crews for work assignments.

This is not true in the nonunion or management class. The ICC records will show Railroad companies increased the management level and supporting personnel by fifty percent from 1945 to today in comparison to trains operated in 1945 to trains operated today. An example of excess management level on a small railroad in recent years would be the Rock Island that reduced 200 management class of employees.

I would submit a report should be provided on each railroad including Conrail, Amtrac dividing management class and union class of employees, including number of employees and cost of each class of service, then compare the class and number of employees in 1945 with today's class of employees and train miles operated.

I disagree with Secretary Adams of U.S. DOT, regarding statements made that railroad mileage must be reduced 20 percent, also, the population of a state should not be used as a criteria to reduce rail mileage. A case in point is South Dakota which is an exporting state with a low population base. I would admit Iowa has excessive rail mileage. However, that is not the case in South Dakota, as rail mileage has been reduced almost 50 percent since 1945.

Looking around us at the suburbs, shopping centers, streets and highways crowded with cars and trucks, oil fired furnaces and power plants and the plastics and other petrochemical products, were all created on a cheap and plentiful supply of petroleum fuel, this is no longer the case as America will soon learn. Railroads are the most energy-efficient mode of transportation and to reduce rail mileage when it has been predicted 143 percent increase in freight ton miles by 1990 is not sound policy making decisions for the future of America.

As a former legislator and citizen of this State, I am concerned as to the future of our agricultural industry to which our Nation and the Free World depend on. Being without a choice and sufficient transportation system and the cost of production of the food products in South Dakota will one day cause the agricultural producers to change their productive systems to raise only that which will be consumed in the state or sell to large corporations that will only produce on demand. The future of our agricultural industry as we know it today will depend on the cost of fuel and transportation.

I sincerely hope my statement hasn't been repetitious, and will provide your Committee the necessary information that will assist them in planning for our present and future.

Sincerely,

JACK JACKSON,  
*South Dakota State Legislative Director.*

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STATEMENT OF DONOVAN L. NEPRASH, EXECUTIVE VICE PRESIDENT, AMERICAN STATE BANK, NEW ENGLAND, N. DAK., CONCERNING MILWAUKEE RAILROAD ABANDONMENT

Ending rail service to New England will have a serious, detrimental impact on my business, banking and the entire community.

Revenue will be lost in a number of ways:

1. Jobs lost by employees and owners of local elevators, will reduce:

(a) Deposits at financial institutions thereby reducing funds available for lending.

(b) Goods and services purchased at local businesses thus reducing their profits.

(c) The movement of these people from the community will reduce taxes paid, grants to schools and loss of donations to churches and organizations. Thus farther edging the community to falling apart.

2. When a needed service such as rail service is not present in the community then:

(a) Those needing the services must seek them elsewhere. This most surely will be at an additional cost, and again will reduce the money available to spend at home, thereby reducing profits and deposits.

(b) Our residents traveling to other areas will tend to buy other goods and services while they are there. This will deal another blow to our home community and may well set in motion its final demise.

In view of some of our national goals as a energy conservation, deurbanization and highway safety, can any of these be served by adding more caravans of trucks to the highways and destroying of small communities through abandonment of the railroads.

In conclusion I want to express my extreme opposition to the abandonment of the rail service to New England, North Dakota, and the other small communities served by the line.

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STATEMENT OF BEN O. EATON, PRESIDENT, NEW ENGLAND CHAMBER OF COMMERCE, NEW ENGLAND, N. DAK., ON THE MILWAUKEE RAILROAD ABANDONMENT: EFFECT ON NEW ENGLAND BUSINESSES

The following statement outlines the impact the proposed Milwaukee Railroad abandonment would have on the New England business community.

At present, there are over 45 businesses in New England, all of which depend on local farmers as customers.

The farmers presently sell their grain products in New England, and because of convenience, do the bulk of their other business here also.

Should the railroads be abandoned, the local elevators would likely be forced to close, farmers would be forced to market grain in other towns, and the business they do will largely go along with the grain to the other town. All New England businesses would be economically depressed, and many would likely be forced to close for lack of business.

The New England Chamber of Commerce therefore takes the stand that the railroad is vitally important to this business community.

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STATEMENT OF HAROLD PAHLMAYER, REGENT, N. DAK.

The honorable Senator McGovern, Mr. Mayor, ladies and gentlemen: I am Harold Pahlmeyer of Regent, North Dakota. I am a farmer raising small grains and some cattle and also a board member of the Regent Cooperative Equity Exchange.

My concern is the effects of the proposed abandonment of the Milwaukee Road main line and its branches. The service we have been receiving is poor. We have 190,000 bushels in storage in the elevator. This has been purchased from the farmers but we have been unable to get transportation to move it. We have tied up all our working capital, plus \$50,000 borrowed last month, to carry this. Our elevator has already dropped the price of wheat 15 cents to compensate for the penalty of not being able to deliver it by November 15 and for the 10 percent freight rate increase on December 15.

Our fears are that if the main line does succeed in remaining viable that our branch line will still be abandoned. New England, Regent and Mott together annually ship out over four million bushels of grain which would generate considerable revenue for the railroad as they earn about \$1000.00 per box car (one cent a pound). About two-thirds of this volume has been moving by truck because of the lack of boxcars. We cannot see any reason why at least 90 percent of this amount couldn't be moved by railroad and save much wear-and-tear on our roads besides being much more fuel efficient. If we loose our rail line and our elevator fails it would double the miles that I would have to travel to the next shipping point. With agriculture already being squeezed unmercifully, this could be the straw to put my farming operation out of business. It would also raise my gasoline consumption for hauling grain to town by at least 200 gallons per year.



THE FIRST NATIONAL BANK,  
Bowman, N. Dak., November 1, 1978.

*Statement of interest for congressional hearing on the Milwaukee Road:*

This letter is to serve as a statement of impact on the Bowman business community should the Milwaukee Road downgrade or eliminate service along this line. We are very aware of the "use it or lose it" requirement which would be true of any service industry. I submit that the serviceability and reliability of the rail service has lead businessmen to look to alternatives to insure movement and delivery of their commodities. Even with the reduced reliability of the rail service in the form of non-availability of cars and the late deliveries, the fact remains that rail service is absolutely essential to the Bowman community.

Our community is primarily agricultural in nature, and the annual shipment of approximately 1.5 million bushels of grain by rail makes the rail service essential for the marketing of our production. Without rail service it is estimated that transportation of the 1.5 million bushels of grain to Dickinson for subsequent rail shipment would cost an additional 15¢ to 20¢ per bushel or up to \$300,000.00 in reduced profits. The implement businesses receive their larger implements strictly by rail as delivery by truck would be impossible because of load restrictions.

Our economic foundation relies heavily on the Milwaukee Road for continued and especially improved rail service. Lack of rail service would lead to reduced profit margins because of increased transportation costs. Those reduced profit margins will be reflected directly on main street. Because of our geographic location our alternatives for shipments and deliveries are severely limited.

It is with our concern for a healthy free enterprise system that we urge not only continued but improved service to insure profitability for the Milwaukee Road and our business community.

STAN DARDIS, *Director.*

FARMERS COOPERATIVE ASSOCIATION,  
McLaughlin, S. Dak., November 31, 1978.

Hon. GEORGE MCGOVERN,  
*Senator, State of South Dakota.*

DEAR SENATOR MCGOVERN: We have shipped grain via the Milw Railroad as follows:

1976, 88 cars, 65 cars west, 23 cars east, hoppers; 1977, 70 cars, 64 cars west, 6 cars east, hoppers; 1978, 87 cars, 49 cars west, 38 cars east; 41 of the 1978 shipments are box cars, 46 hoppers, the balance covered hopper cars.

We have rejected 6 box cars in 1978, to date, because of structural damage to cars.

We need, in an orderly manner, at least as many more cars as we have already loaded—this in the next three months.

We ship to the Minneapolis-Duluth Market and to the West Coast Market for export.

The long distance to market, east, west and south would be a loss that cannot be estimated at this time.

Energy costs, highway damage due to increased truck traffic loss of the prime market for high protein wheat all indicate a substantial dollar loss in a time of increasing expense.

We have received by rail fertilizer as follows:

1976, 12 cars, covered hoppers; 1977, 5 cars, covered hoppers; 1978, 7 cars, covered hoppers.

We receive about 5 cars of coal per year and furnish coal to Schmee Independent School District (Wakpala).

The Farmers Coop. Assoc., Elev at McLaughlin has the capacity to load 15 to 25 covered hopper cars as a unit in a day of 9 hours. We have invested a considerable amount of money and plant capacity in the event such a service would be offered by the Milwaukee Railway Co.

By the direction of the President of the Board of Directors.

R. E. RHINES, *Manager.*

## STATEMENT OF CARL L. SMITH, PRESIDENT, CENTURY SERVICES, INC., PIERRE, S. DAK.

I am Carl L. Smith, President of Century Services, Inc., 26 N. Madison, Pierre, S. Dak. I work with individuals and corporations in obtaining loans.

At present, I am working with nine ranchers and farmers within or near Carson County on a loan of over 2 million dollars. The project we are working on is a new project, the McLaughlin Grain Company, Inc. specializing in sunflower seed. The McLaughlin Grain Company Inc. plans on drying and processing 30 million pounds of sunflower seed this year.

There has been an increase of over 30 percent farm land switching to sunflower seed production this year.

The company has purchased 5,972 acres on the Milwaukee Railroad which has a rail siding. The company has paid over \$7,000 for electricity to the site plus two large dryers. The McLaughlin Grain Company, Inc. will employ 3 full time and more part time employees. In the near future the company plans to extract oil from the sunflowers by establishing a sunflower processing plant in South Dakota, the waste can be used for livestock protein feed. NOW what would happen to monies invested by this corporation, the future employment and the assistance to the farmers in the 6 to 8 counties which will be served by this plant if the Milwaukee Railroad is abandoned? It takes 5 large tractor trailer trucks to haul the amount of sunflowers that one box car could carry. Think about the impact this alone would have on Highway 12 going West.

## STATEMENT OF CHARLES T. BURDIC, SUPERVISOR, RAIL FLEET OPERATIONS, AMERICAN COLLOID CO.

I am Charles T. Burdic; I am the Supervisor of Rail Fleet Operations for American Colloid Co. in Skokie, Ill. Our company operates a facility for processing and shipping lignite in Gascoyne, N.D. which is about 245 miles west of Aberdeen on the Milwaukee Road.

Lignite is a form of coal which has various uses, but our sales are concentrated in the domestic oil well drilling industry, which uses it as a major component in deep well drilling as a weight additive to drilling mud (drilling mud is used to cool the drilling bit and to remove rock and dirt from the hole). Lignite is a relatively low value material that has high density and is shipped over long distances to the south central area of the country. Shipments of many materials having these characteristics (lignite included) are usually made by rail, since rail rates have historically been less expensive than truck rates (at present, truck rates are about three times the rail rates on certain routes). Given this rate disparity, we would become noncompetitive if rail service was discontinued and we would be forced to shut down.

The availability of rail service to our business is very important if we are to remain competitive to alternative lignite deposits located throughout Texas. We have and are expanding our plant production capacity and despite the present railroads inability to provide a sufficient number of railcars we have managed to ship over 3100 tons per month by rail. In anticipation of continued rail service and a known significant demand for our product we are investing in a fleet of private railcars for service from this location. If rail service at this plant was discontinued, we would lose our investment and the area would lose a growing industry.

Our position is that rail service should be maintained along the Milwaukee route in this area. If the Milwaukee road cannot afford to operate it, either a solvent carrier should be permitted to take over the line or perhaps a new carrier could be formed to provide service. If no service is provided, our existence at Gascoyne will be seriously affected.

## ELECTED OFFICIAL'S TASK FORCE REPORT ON RAILROAD ABANDONMENT

The railroad abandonment public hearing was held October 23, 1978, at Craven Corner. Jim Melgaard began the hearing with opening remarks. He stated that the purpose of this public hearing was to obtain joint testimony on the abandonment of railroads in the area from local elected officials and to discuss the social and economic impacts of abandonment and to explore possible alternative strategies.

The following persons were present to express their views on abandonment of the railroads:

Omer A. Nelson, Mayor, Gorton; Marvin Uhrich, Commissioner, Roscoe; Erv Bader, Mayor, Roscoe; Peter Geffre, Mayor, Ipswich; Milton Ochsner, Campbell County Commissioner, Artas; Otto Mueller, Walworth County; Leonard Olson, Marshall County Commissioner, Veblen; Joe D. Lacher, Retired Farmer; William A. Morrison, Commissioner, Mobridge; K. Schanzenbach, Aberdeen American News Reporter; Larry Rehfeld, Fourth Planning District, Aberdeen; Bill Delett, Chairman, Rail Transportation Awareness, Aberdeen; Dick Awe, Treasurer, Rail Transportation Awareness, Aberdeen; Earl Johnson, Alderman, Ipswich; John Zeller, Mayor, Java; Peg Lamont, State Senator, Aberdeen; Louis Thares, Edmunds County Commissioner, Ipswich; James Melgaard, Yankton County Commissioner, Yankton.

Marvin Uhrich, Edmunds County Commissioner, indicated loss of tax revenue to the school districts in the area would result from railroad abandonment. He stated that one spur line has already been taken out, with talk of another one being taken out in the future. He estimated total tax revenue from railroads in Edmunds County to be between \$17,000 and \$18,000.

A hardship on the grain elevators in the area was expressed by Otto Mueller, Walworth County Commissioner. William Morrison, also a Walworth County Commissioner, stated that while there are no industries in his area that depend solely on rail transportation, future industrial recruitment will be seriously hindered without rail service availability. Those businesses in the area that do use the railroad will be hurt financially.

Bill Morrison stated that any attempts to broaden the economy will be lost if the railroads are abandoned because it is almost inconceivable that an industry would come into an area that didn't have rail service. He also stated that their industrial park is next to the railroad, so there is a location for industry. Mr. Morrison stated that there are many obvious losses such as loss of job. There are 60 families in Mobridge that would be directly affected, and it is very obvious how that would hurt the area. He pointed out that without transcontinental rail service, the choice of shipping crops to the east or west coast, where market prices differ, would not be available. He stated that the general feeling is that an attempt at better service would have increased the amount of business the railroads could realize in this area.

Omer Nelson, Groton, cited a similar problem in the Groton area as in the Mobridge area on a smaller scale.

Erv Bader stated that Roscoe has already felt the economic impact by the loss of section crews and the loss of tax base by the school district. He also cited the shortage of boxcars in the area which forces the use of trucks. He also brought up the fact that with the railroads, there is the flexibility of shipping the crops east or west, wherever the market is best. He stated that there is business to be had if there were the availability of cars.

Pete Geffre, Mayor of Ipswich, pointed out the higher cost of shipping by truck than by rail, which will be paid by the farmer. Since Ipswich is a farming community, the City will definitely feel that effects of abandonment.

Bill Morrison stated that the cost to our State of maintaining highways with the increased use of trucks should also be looked at. Energy costs were also discussed.

Milton Ochner, Campbell County Commissioner, indicated the probability of an elevator shutting down if the line is abandoned which could cause some farmers to drive as far as 80 miles to the nearest elevator with their crops.

Leonard Olson, Marshall County Commissioner, and Otto Mueller, Java, cited examples of grain that was sold and couldn't be moved due to the lack of railroad cars.

Joe Lacher indicated that he is in favor of government subsidy of the railroads, the same way the care and maintenance of our highways are subsidized.

Bill DeLette, Rail Transportation Awareness Chairman, stressed the importance of putting this issue on a national level so it isn't concentrated in South Dakota. He also explained the shortage of boxcars relates to the slow turnaround of boxcars which is a high cost factor for the railroads. Since it is such a large and complicated problem, he felt that it should be approached from a regional and federal level. He stated that there is a multitude of approaches but right now they are thinking that the best approach is the regional approach because South Dakota lines connect with lines from other states. He also indicated concern over obtaining power to move the trains.

Earl Johnson, Ipswich, indicated that the implement dealers and rural electric companies rely on the railroads for shipping. He also stated that five families in Ipswich would be affected.

John Zeller, Mayor of Java, also stated that grain elevators would be hurt by railroad abandonment.

Bill Morrison, Mobridge, stated that the people in the Mobridge area are hoping for time to investigate the several different plans that might be possible and to do whatever they can to curtail the partial sale of any small portion of the railroad. Mr. Morrison read a resolution by the Mobridge Rail ask Force and accepted by the Upper Missouri Valley County Commissioners which in effect is asking for time before action is taken on railroad abandonment.

Mr. Melgaard suggested the group form an association and select one person, an elected official, as a spokesman for the association.

Ervin Bader made a motion nominating Bill Morrison to lead the elected officials in this area and to empower Mr. Morrison to call a meeting of this group.

The major conclusions reached are as follows:

The loss of rail service would have a devastating effect on the areas people and economy.

Loss of tax revenues and population accompanied with major increases in the cost of affected goods and services will further deteriorate this area of the nation.

The existing roads cannot substitute for rail service.

Improved service and increased availability of cars would result in better utilization of the existing services.

Local governments must take an active role in the finding of solutions to the rail service dilemma.

An association of affected local governments should be formed to represent the local constituency.

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[From the Aberdeen, S. Dak., American News, Oct. 25, 1978]

#### STALL TACTIC EYED ON RAIL ISSUE

(By Karen Schanzenbach)

Craven Corner—The specter of abandonment of the main Milwaukee Road line that slices through northern South Dakota has local officials of the towns along the line uneasy.

They're shifting from foot to foot, wondering just which way they should step to try to preserve rail service in the area.

Sixteen people, mostly mayors of small towns and county commissioners, met Monday afternoon at Craven Corner to discuss what an unused Milwaukee main line would mean to their areas.

The gathering was called by James Melgaard, a Yankton County commissioner and GOP candidate for the Public Utilities Commission. Comments made at the meeting will be condensed into a position paper that's to be given to U.S. Sen. George McGovern Friday in Aberdeen at a congressional committee hearing on Milwaukee abandonment.

Mayors and county commissioners expressed about the same fears. They're worried about increased freight costs for farmers if the Milwaukee line falls into disuse and grain shippers must shift to trucks. If that happens, they know railroad jobs will be lost, and they don't like to think about losing families from already small communities.

Some fear utility costs will jump if the rail-fed coal stockpiles at Big Stone are cut off. Others foresee rapidly deteriorating highways because of increased truck traffic if the line is abandoned and trucks attempt to fill the transportation gap.

No one in the group had any answers for easing the Milwaukee Road's, and therefore the towns', problems. When two members of the Aberdeen-based Rail Transportation Awareness Committee, a group of railroad employees working to inform the public on railroad issues, dove into the complexities of railroads' problems and reminded the group that the troubles are national in scope, the group decided the only position they were immediately prepared to rally around was that of seeking more time before any decisions are made on the Milwaukee line.

What they hope to do is to stall any action on the line, be it abandonment, sale to another railroad or piecemeal disposition of the line.

With that end in mind, Melgaard suggested the group form a "loose" organization of local officials from towns in northern South Dakota. He said he felt any

push to save the Milwaukee line would have to come from people in the towns that would be affected by abandonment, and he urged them to band together to concentrate their political clout.

Those at the meeting took Melgaard's advice and asked William Morrison, from Mobridge and a Walworth County commissioner, to shepherd the local officials' group. Morrison, who is already on the Mobridge Rail Task Force, agreed. His duties will include keeping other local officials informed on the abandonment issue and the organizing of any meeting he feels necessary.

Melgaard and Morrison aren't looking very far ahead at this time.

Their immediate concerns are Friday's hearing in Aberdeen and other early-November hearings on rail abandonment. Morrison said he has no plans to push for organizing a local officials group until after the November hearings. He said he thinks it might be easier to unite people then, depending on what comes out of those hearings.

Counties represented at the meeting were Brown (Groton mayor Omer Nelson and rail committee members Bill DeLett and Dick Awe), Edmunds (commissioners Louis Thanen and Marvin Uhrich, Roscoe mayor, Erv Bader; Ipswich mayor, Peter Geffre, and Ipswich alderman, Earl Johnson); Campbell (commissioner Milton Ochsner), Walworth (commissioners Morrison and Otto Mueller and Java mayor John Zeller), Marsrall (commissioner Leonard Olson), and Yankton (Melgaard).

Others at the meeting included retired farmer Joe Lacher, State Sen. Peg Lamont, and Larry Rehfeld and Sue Weber of the Fourth Planning District.

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STATEMENT OF JAMES T. LENAHAN, MANAGER, DOMESTIC TRAFFIC, NL BAROID/  
NL INDUSTRIES, INC.

My name is James T. Lenahan, I am Manager, Domestic Traffic, of NL Baroid/NL Industries, Inc. My business address is P. O. Box 1675, Houston, Texas 77001. I am authorized to submit this statement on behalf of NL Baroid/NL Industries, Inc.

NL Baroid's primary business is supplying minerals, chemicals, equipment and technical services to the Petroleum and Petro-chemical Industries. Our products and services are used in the drilling for and production of oil and gas. NL Baroid has been in such business for over fifty years.

NL Baroid produces a line of drilling mud chemicals, which uses a special lignite coal as one of its basic ingredients. We also produce a combination of lignite and bentonite clay widely used in the Foundry Industry. This lignite is nuique; in that it has a very low BTU content and is not suitable for fuel or steam purposes, but it does contain properties which make it very effective for the uses described. To our knowledge this type of lignite coal can only be found in North Dakota.

NL Baroid has large lignite holdings in Adams County, North Dakota. We presently mine this lignite and it is initially processed for us by American Colloid Company at Gascoyne, North Dakota. It is then shipped from Gascoyne, North Dakota in covered hopper and box cars to our manufacturing facilities in Arkansas and Texas via the Chicago, Milwaukee, St Paul and Pacific Railroad and by truck to our Colony, Wyoming plant. After further processing the lignite is shipped to drilling sites in the United States, Canada and exported to foreign countries.

During 1977 we shipped approximately 11,000 net tons of lignite coal from Gascoyne, North Dakota. Ninety percent of this tonnage was shipped via the CMSTP & P. In 1978 we will ship in excess of 14,000 net tons of lignite coal. In 1979 we estimate 18,000 net tons will be shipped from Gascoyne, North Dakota to the Southwest. Almost 100 percent of this tonnage will move by rail.

With anticipated increases in demand, NL Baroid is planning to construct a \$25 million lignite coal processing plant on the CMSTP & P in the vicinity of Lemmon, South Dakota in 1980. This plant will have the capacity to process 30,000 net tons of lignite coal a year. Rail shipments from this plant are the most economical mode of transportation and distribution of the products produced.

At present NL Baroid is totally dependent on the CMSTP & P to ship its products to the Petroleum and Petro-chemical Industries. We do not have an alternative form of transportation available. To ship lignite coal by truck to the southwest would result in much higher costs and customer prices. The present truck rates are 300 to 400 percent higher than the present rail rates. An additional 820 trucks per year would be required to ship 18,000 net tons of lignite coal.

There presently exists and will continue to exist a need for reliable, efficient rail service in the North Dakota and South Dakota area. NL Baroid is unequivocally opposed to any curtailment or abandonment of rail service by the CMSTP & P in this area of the United States.

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STATEMENT OF VINCENT H. ERZ, MANAGER, GRAIN DIVISION, SOUTH DAKOTA WHEAT GROWERS ASSOCIATION

The South Dakota Wheat Growers is served by the Milwaukee Railroad in the following counties: Brown, Brule, Day, Edmunds and Spink. It has been projected that the total production of major grains in these respective counties will be 43,781,000 bushels in 1979. This projection is made up as follows:

	<i>Bushels</i>		<i>Bushels</i>
Wheat -----	17,751,000	Sorghum -----	1,114,000
Barley -----	6,436,000	Flax -----	364,000
Oats -----	9,674,000	Rye -----	963,000
Corn -----	5,436,000	Sunflowers -----	2,343,000

We feel that it would be realistic to assume that 90 percent of the wheat, 75 percent of the barley; 30 percent of the oats; 30 percent of the corn; 30 percent of the sorghum; 90 percent of the rye and 100 percent of sunflowers will move to a market that transportation revenue could be captured by railroads. If this assumption is correct the railroads could capture the revenue on a movement of approximately 29 million bushels of grain in these respective counties. Taking an arbitrary freight rate of 30 cents per bushel is, a potential revenue of \$8,596,000.

It is our belief that the railroads could capture this revenue and similar revenues throughout the State of South Dakota in other counties, if they could realistically provide the equipment and service that is needed to efficiently move this production.

On Monday October 23, we had 622 railroad cars ordered in these five counties. During the previous week we received a total of 48 cars which was about 8 percent of our total need. Although our car need fluctuates from week to week it would be fair to say that a definite negative car supply has been in existence for many years, which is one of the basic reasons we feel, railroads are losing potential revenue to competing carriers.

According to a recent market potential study conducted by the Market Research Department of Farmland Industries, the future of fertilizer usage will increase in the immediate area served by the Milwaukee Railroad and the South Dakota Wheat Growers Association. The counties that will be referred to are: Brown, Day, Edmunds and Brule. The projected tons of fertilizer to be used in these counties in 1980 are: 45,232, 10,217, 7,432 and 2,932 respectively.

Approximately 80 percent of this tonnage is brought into the State from Minnesota, Kansas, Florida, Idaho, Iowa and other States by rail or truck. The remainder of the tonnage is brought into the State by pipeline to terminals in Sioux Falls and Watertown. The bulk of this tonnage is brought into the above mentioned counties by rail. Trucks are used only when car shipments are delayed, cars are not available, or when demand in season is greater than can be met by car.

In 1978, the total number of cars of fertilizer received at our stations in Brown, Day and Brule counties was 145.

COMMENTS

If rail activities are restricted, it will be impossible to meet the demands that are indicated for the year 1980. This will result in less grain produced both in quantity and quality. This can then be equated to farm income and the general economy of our agricultural State.

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STATEMENT OF STEPHEN R. GARTNER, RAIL TRANSPORTATION MANAGER, GREEN GIANT CO., LESUEUR, MINN.

My name is Stephen R. Gartner, and I am the Rail Transportation Manager for Green Giant Company, with headquarters at LeSueur, Minnesota. I recently

joined Green Giant in this capacity, having been employed with the Union Pacific Railroad prior to this time.

Green Giant Company is very much concerned, as is everyone here, with the recent placement of Milwaukee Railroad trackage from Jonathan, Minnesota to Butte, Montana under study to determine the possibilities of abandonment. The reason for our concern is due to our facility at Glencoe, Minnesota, served direct by the Milwaukee Railroad.

Our plant at Glencoe, Minnesota is the largest corn processing plant in the world. Not only do we produce all forms of canned and frozen corn, but also canned and frozen peas. Our Glencoe plant is also a distribution center for our midwestern region. In rank of importance to Green Giant, Glencoe is our single largest tonnage producing plant. One hundred ten full-time people are employed at this facility with 1,400 additional seasonal workers during packing seasons.

Total product shipped or received from Glencoe amounts to approximately 348 million pounds per year. Of this total volume, 55% is distributed by rail. The majority of this product originating at Glencoe is destined to our distribution centers throughout the nation.

Green Giant's distribution patterns are set up to move large volumes of product by rail to our distribution centers. Effective rates have been established from Glencoe to get the best possible utilization of rail cars at the most economical price for both us and the carrier. If rail service at Glencoe is removed, our entire distribution pattern will be upset. Moxing traffic by motor carrier in this volume is not feasible. Not only is price uncompetitive, but motor carriers in this area to handle this amount of product are unavailable.

If rail service is removed from Glencoe, Minnesota, Green Giant estimates the increased costs for changing distribution patterns to other rail served facilities or conversion to motor carriers to be in excess of one-half million dollars. Additional costs will be incurred on a yearly basis. The only manner in which to recover this type of cost is through increased product costs that ultimately affects the consumer. Increased costs could restrict Green Giant's participation in markets that we are presently servicing by rail. Financially, if abandonment would take place, it would result in a very burdensome hardship on Green Giant.

We have tried to assist the Milwaukee Railroad in several ways to make the line from Jonathan, Minnesota to Montevideo, Minnesota profitable. Green Giant traffic makes up 20% of the total traffic originating or terminating on the line between Jonathan and Montevideo. In addition to this fact, we have sought equipment from other carriers to be assigned at Glencoe for our use, thus, removing the pressure upon the Milwaukee Railroad to supply this equipment. Assigned equipment by the Milwaukee, which has become bad-ordered, has been repaired by Green Giant under contract with the Milwaukee Railroad.

We are repaid for this service on a per car basis determined by the number of cars shipped. Long haul or maximum Milwaukee participation in routing of traffic has always been a priority, when possible. Excess switching service has been cut back and only required during packing seasons. We have tried to do everything possible and I think everyone else has to or at least should have.

I have only mentioned the highlights of the possible effects Green Giant would experience if abandonment would take place. I would like to take the opportunity to discuss my feelings of plans that should be taken to get the Milwaukee Railroad back on its feet.

#### SALE OF SEGMENT OF THE PRESENT MILWAUKEE RAILROAD

Green Giant is agreeable with the present plan to sell certain segments of the Railroad to the Union Pacific or Burlington Northern. By the Milwaukee limiting its span of operation, the results could only strengthen the situation. This would free up equipment and motive power for use in the midwest as versus transcontinental operation. Resources could be spread over less trackage resulting in better upgrading of trackage and replacement and repair of unusable equipment.

#### RESTRUCTURE OF UNPROFITABLE DUPLICATION OF SERVICE

We must all agree that intramodal competition among rail carriers has to be considered advantageous. I do not feel nationalization of the nation's railroads is the answer to our present rail problems. Competition, either intramodal or intermodal, in our main factor in determining service, performance, pricing, and all major functions of the transportation industry. However, competition can cause a detrimental effect.

For example, if two carriers serve one common point and traffic only warrants service for one carrier, both carriers will receive their share of the traffic, but more than likely will operate unprofitably. I feel that today's carriers must analyze each point that this type of situation is taking place at and work out agreements among themselves. Market swaps, joint facilities, and negotiated service agreements are all manners in which the railroads could strengthen themselves and provide service profitably. Recently a situation as I just mentioned happened at Montgomery Minnesota. Montgomery was served jointly by the Milwaukee and the Chicago and Northwestern Railroads. Traffic did not warrant service by two carriers. The involved railroads analyzed the situation and the Milwaukee Railroad decided to place their trackage under abandonment. As Green Giant has a facility at Montgomery, Minnesota, we were agreeable to this type of decision. The C & NW service was strengthened and the Milwaukee Railroad could appropriate men, equipment, and funding to other strategic points.

#### THE POSITIVE APPROACH TO ABANDONMENT BY THE RAILROAD

It's understandable that not every branch line operated today is profitable. Distribution patterns change, market areas change, and requirements of service and equipment also change. This results in traffic either increasing or decreasing on branch lines built over a century ago. Today's railroads have taken a negative view of this situation. Present abandonment procedures are comprised of: (1) placing the line under possible abandonment situations; (2) determining volume of traffic during this time frame while placed under study; and (3) if volume is unfavorable—abandon. Why not take a positive view?

If a line is not profitable, meet with the shippers served by that line. Analyze the situation to determine new methods of service, pricing, or equipment that would put additional traffic back on the rails. If after a concentrated effort, the results still point to unprofitable operation, then file for abandonment, but at least take the initiative to determine if the traffic is there and if it can be moved by rail. Keep in mind, not every industry is served by main line trackage, nor is it feasible to do so. Eliminate the branch line traffic and watch what happens to the line haul traffic. Can you imagine the impact on ConRail, for example, if all traffic originating on branch lines interchanged to ConRail ceased.

#### CAPITAL EXPENDITURES BY INDUSTRY DELAYED OR CANCELLED DUE TO ABANDONMENT STUDIES

Industry growth and expansion is seriously effected by the possible plans of abandonment. Management of any industry would not invest capital funds in plant expansion or growth if one of its main modes of distribution or receiving its product was removed or is the subject of possible removal. Time is so important in today's business world. I do not feel we can sit by and let this study go on for one to two years without decisions being made. Everyone should get involved and push as much as possible to get our desired results of continued rail service and assist the railroad in every way possible to make it profitable for all concerned.

In summation, Green Giant would be seriously effected, both financially and economically, by abandonment of the proposed line between Jonathan, Minnesota and Butte, Montana. We are going to do everything possible in an effort to keep our required service at Glencoe, Minnesota.

The Milwaukee Railroad is going to have to take affirmative action to strengthen itself. Sale of segments of the Milwaukee Railroad to other carriers, restructuring of unprofitable duplicating service, taking a positive view of developing traffic as versus the negative view "what's gone is gone" in regards to abandonment, and doing these things in the shortest period of time possible are steps, I feel, must be taken. We must be supportive and assist the Milwaukee Railroad in order to retain and strengthen the service we need.

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#### STATEMENT OF ROBERT D. ORR

Senator McGovern, it appears that railroad advocates favor some kind of federal and or State subsidy, flexibility in labor-management relations, and favorable tax adjustments.



As you know, the railroads own numerous parcels of commercial properties in or near the corporate limits of the towns and cities through which their lines pass. Historically, these properties were an economic asset, this is to say, they generated operating revenues to the railroads. Today, most of these properties are a liability. Some railroads have disposed of these uneconomic parcels of real estate through favorable market sales and used these moneys in their operations, thus lowering their tax liabilities. Other railroads have not been quite so active in this respect.

It would be interesting to see an *inventory of these kinds of properties* owned by the Milwaukee Railroad between Chicago and Butte, Montana, and their approximate value. I do not object to subsidy, but the railroad management should pursue vigorously the disposal of unneeded properties which would be put to better economic use.

ROBERT D. ORR.

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POSITION PAPER ON MILWAUKEE ROAD ABANDONMENT, BY DAVID B. WEBER,  
COMMUNICATIONS DIRECTOR, DAKOTAH, INC., WEBSTER, S. DAK.

The abandonment of the rail line on the Milwaukee Road west of Minneapolis would hold dire consequences for Dakotah, Inc., as an industry.

As a major corporation in this last part of the state (approximately 1978 sales equals 5.5 million dollars), we are dependent on the rail service of the Milwaukee for the equivalent of ten boxcars of raw material per month. This figure will increase almost two fold during 1979.

At the present, however, this is what rail abandonment would spell for us economically :

Each boxcar costs us \$280; \$280 by 10 (boxcars per month) equals \$2,800. We would need 17 tractor/trailers per month to haul the equivalent of ten boxcars. Each tractor/trailer costs \$1,000; \$1,000 by 17 (trailers per month) equals \$17,000.

Difference; \$17,000 minus \$2,800 equals \$14,200 per month.

We as an industry, could lose \$14,000 per month in transportation costs, or, \$645 per working day.

Needless to say, this amount of new expense would be difficult for any company to absorb. For us, it would be disastrous.

In addition to our own expense, 17 tractor/trailers per month, from Chicago, would mean 408 trips over the same roads. What this would mean in damage to the road is inestimable.

It is our position, that in lieu of complete abandonment, the railroads be permitted to raise their tolls. There is a huge disparity between \$280 and the almost \$1,400 it takes us to move an equivalent amount of materials by tractor/trailer. Rising costs would be difficult for us to absorb, but would not put us in the impossible position that complete abandonment would involve.

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STATEMENT OF ED KRAUS, CHAIRMAN OF THE BOARD, BIG STONE, INC., CHASKA,  
MINN., RELATIVE TO THE ABANDONMENT OF THE MILWAUKEE RAILROAD

My name is Ed Kraus, and I am Chairman of the Board of Big Stone, Incorporated, which is the second oldest canning company in the state of Minnesota, having been founded in 1902. It's headquarter office is located at Chaska, Minnesota. I also have the questionable distinction of being the oldest active canner in the state of Minnesota.

In addition to our plant at Ortonville or Big Stone, it's right on the state line. we have plants at Arlington, Minnesota and Bloomer, Wisconsin. We also had a plant in Red Lodge, Montana, which we recently sold. We can a variety of vegetables, such as corn, peas, beans, potatoes, dry pack, and specialty items. In Ortonville, we are co-jackers for Hi-C and for Hawaiian Punch. There we also can a concentrated orange juice, pineapple-grapefruit, and grapefruit juice for Big Tex. At Ortonville, we also maintain the midwest distribution center for the RJ Reynolds Company dry line. The total sales value of all the items that we process is approximately twenty-four millions of dollars, and of this sum Ortonville represents sales value of \$8,640,000.

In addition, we also have distribution centers in Billings, Montana, Salt Lake City, Utah, and Denver, Colorado.

Minnesota and Wisconsin pack approximately 50 percent of all the nations supply of canned corn, canned peas, and canned green beans. Other canned items are also processed in these states. In Minnesota, for example, 90 percent of the canned food packed in the state is sold outside of the state; it follows that transportation is a vital part of the distribution system. Along the Milwaukee Railroad lines in question, and served exclusively by these lines, are located three of Minnesota's canning plants, which includes our Ortonville plant and one of the largest canning plants in the world. Branch lines of the Milwaukee also serve four other state canning plants. Totally, this represents seven canning plants out of a total of fourteen in the state of Minnesota. When I first became involved in the canning industry, the entire canning pack was shipped in railroad cars. Today this is not true as the result of the failure of the railroads to give the customer proper and efficient service which has resulted in the loss of business by all railroads.

The sales area of the Big Stone, Incorporated encompasses the entire United States plus foreign countries.

That we have expanded the operation can best be illustrated by the example that in 1933, when I first became involved with Big Stone, the pack at Ortonville averaged 125,000 cases. This year we will pack over two million cases. We would like to expand this operation further and right now need another warehouse at Ortonville. This is amply illustrated by the fact that we hauled by truck over 225,000 cases this fall to outside warehouses. However, we will neither expand nor build another warehouse at Ortonville until we have assurance that we will receive adequate service from a railroad. Service is a very important part of our business. Chains and jobbers who buy from us have inventory control and with the advent of the computer, this is being reduced down to a science. Many jobbers try to maintain a ten-day turnover on inventory. Obviously this is impossible if you rely upon a railroad that may or may not deliver you a car. Waits of weeks to several months are not uncommon and even then, many of the cars that are delivered have been so poorly maintained that these cars cannot be used. I question if, in the past few months, we have been delivered one damage free car by the Milwaukee Railroad.

At Ortonville last year the average number of employees on the payroll was an even 100, with this figure reaching as high as 212 during the corn pack. We processed 3,105 acres of corn this year and farmed another 1,300 acres of our own. Our annual payroll amounts to \$755,000; the value of our raw product is approximately \$1,204,000 and in addition we use \$539,000 worth of sugar, salt, and starch. The total weight of this production, at Ortonville, is 72,574,850 pounds of which 26,590,000 is vegetable production and 45,984,850 pounds is juice production.

In addition, incoming freight for the RJR warehouse distribution center amounted to 21 cars and while our can requirements amounted to 241 cars, only 76 railcars of cans were actually received. The balance was shipped by truck. If proper service is given by the railroad it is the best estimate of Big Stone that two thirds to seventy percent of the canned vegetables would be shipped by rail as well as additional railroad cars of cans.

At Ortonville we can the year around and when you are out of either cans or raw product, you have to shut down. The jobber who sends in an order wants it within a week and cannot afford to wait a month for a car of merchandise. This to him represents a loss of sales as well as a loss of profits.

I wish to assure this committee that we are vitally interested in seeing that we have adequate railroad services and that it is performed by a viable company. I can assure you, gentlemen, that you can rely on our 100 percent cooperation.

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ZABEL IMPLEMENT CO.,  
Selby, S. Dak.

I am very sorry that I have been unable to attend this meeting. Due to other plans for this date, this letter will have to take my place.

The Milwaukee Railroad has many memories for me, as my grandparents came to South Dakota by railroad in 1906 by immigrant train. The end of the line was at Java, S. Dak.

The railroad played a major role in the development of this area of S. Dak., and I feel every effort should be extended to save this vital transportation system. Being a farm equipment dealer and farmer, we use the railroad to ship in many items needed of farm equipment we sell, as well as to ship our grain to Minneapolis, St. Paul, and Portland, through the facilities of the Selby

Equity Union Exchange. One of the major grain hauling systems in north central S. Dak., without the main line railroad, this farm owned business, would be unable to serve the needs of its hundreds of farmer members. I know trucks also haul large volumes of grain and other material, but if everything was moved over highways by truck, we would find our highways wearing out faster than we could rebuild them. Just the movement of coal to the Big Stone power plant, would require hundreds of trucks each way, everyday, which would mean higher electrical costs.

In summary, I would have to say we need our railroad. It is part of what makes America great, and everyone should dig in and help work out a program that will be beneficial to everyone concerned.

Once again, I am sorry not to have been here in person. I do hope you had a productive meeting.

WATER L. ZABEL,  
*State Representative Elect of the 20th Legislative  
District of South Dakota.*

