1st MONDAY
3rd MONDAY

Prepared for employees by the
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August 18, 1981

To All Milwaukee Road Employees:

The Reorganization Court today approved an agreement which would provide an interest-free loan of up to $1 million to institute immediately a program of additional maintenance on our mainline between the Big Stone Power Plant in South Dakota and the Gascoyne Mine, near Gascoyne, North Dakota.

As readers of this publication are aware, after failing to obtain adequate low-interest financing for the rehabilitation of the mainline between Ortonville, Minnesota and Miles City, Montana, Trustee Ogilvie filed with the Interstate Commerce Commission an abandonment application covering this line; presently, the ICC's report and recommendations are due to be filed with the Court by September 15, 1981.

Trustee Ogilvie recently rejected as inadequate an offer of $22.9 million by three utility companies to purchase the line. However, discussions commenced between the utilities which own the coal-burning power plant and the Trustee and his officers whereby the utility companies - Otter Tail Power Company, Northwestern Public Service Company and Montana-Dakota Utilities Company - would currently finance maintenance beyond that provided in the Trustee's 1981 maintenance budget for work to be done during the present construction season on that portion of the mainline between the Big Stone Plant and the Gascoyne Mine. This additional maintenance is intended to assure that coal can continue to be delivered to the Big Stone Plant in the immediate future while the ultimate disposition of the line is resolved. In the judgment of officers of the Trustee, this work should be done quickly, before the coming winter season, to hold the line in place.

The agreement approved today provides that the utility companies will make an interest-free loan of up to $1 million to the Trustee to cover all costs of the project, including materials, but exclusive of any administrative staff costs or profit allowance. The loan would be repaid from future revenues on the line or, in the event of a sale, from proceeds of the sale.

The agreement does not limit the right of the Trustee to continue to seek abandonment of the line or other lawful termination of service.

The work to be performed will benefit the estate by maintaining the line in a better condition than otherwise would be the case, thus enhancing its sale value for continued railroad use.

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Here's an update on the status of projects involving our marketing services section:

Federal Assistance Programs - 4R-505 Program: Phase 1 work has been completed and the contractor at the Knowlton, Wisconsin bridge has finished. Because of the washouts on the Kansas City line, the bridge at Knowlton has not had rip-rap placed on the abutments. All the work is completed except for the rip-rap. There are no other Federal Assistance Programs authorized as of this date.

Merger Study Activities - UP-MP-WP Merger: Cross examination of our witnesses in opposition to the primary application, support of requested conditions as well as trackage rights and inconsistent applications have all been completed. There are two due dates during the month of August: the 14th when verified rebuttal statements by trackage rights applicants were due and the 28th when verified rebuttal statements of the primary applicants are due. We are continuing to negotiate with the applicants on our conditions.

Southern-N&W Merger: We have filed verified statements in opposition to the Southern Pacific's trackage rights application over the N&W between Kansas City and St. Louis, Missouri, which involves the Southern Pacific requiring operating rights over 4.22 miles of our line in the vicinity of Birmingham, Missouri. Hearing on this application commenced on July 14, 1981 and has been completed. Our witnesses were not called to testify. However, the Office of Special Counsel, a branch of the ICC, has expressed a desire to cross-examine our witnesses, and we are now waiting to hear from them in this regard.

Northern Line's Merger: The Burlington Northern on June 24, 1981 petitioned the Interstate Commerce Commission for the elimination of all traffic protective conditions imposed by the Commission in the Northern Lines Merger case. While many of the conditions granted the Milwaukee Road are now moot, one condition, the so-called "DT&I Conditions," remains important to us. We are now in the process of evaluating if and how we will respond to the Burlington Northern's petition.

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On August 17, 1981, the Federal Appeals Court in Chicago upheld orders of Reorganization Court Judge Thomas McMillen relating to labor protection benefits in connection with abandonments and sales of Milwaukee Road lines to new short line railroads and States for continued rail operation. The orders had been appealed by the Railway Labor Executives' Association.

The Court of Appeals held that under the Milwaukee Railroad Restructuring Act (MRRA) ten days' notice of abandonments and sales, rather than the ninety-day period used under Oregon Short Line and New York Dock decisions, was acceptable. The Court also held that abandonments and sales can be completed under the MRRA before final negotiation of an implementing agreement.

With respect to payment of monetary benefits, the Court held that the Trustee should not pay New York Dock or Oregon Short Line claims now. Benefits available under the MRRA remain payable as they become due. The timing and amount of payment of New York Dock or Oregon Short Line claims will be considered in connection with the Trustee's plan of reorganization.

The Court also held that short lines and States acquiring Milwaukee Road lines are not required to provide protection for Milwaukee Road employees and are not bound by Milwaukee Road collective bargaining agreements.

Appeals having to do with labor protection in sales to existing railroads are still before the Court of Appeals.

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Rehabilitation of 36 miles of track between Winnebago and Jackson, Minnesota will begin this fall under an agreement signed earlier this month by Minnesota's Governor Al Quie. This is the final phase of an 86-mile rehabilitation project from Albert Lea to Jackson started in 1978.

The rail for the 36-mile project will be supplied by the Milwaukee Road for an estimated value of $2 million. The remaining finances will be split with the federal government providing $2.4 million; the Corn Belt Shippers Association providing $331,800; and the State providing $303,958. State money is provided through the Minnesota Rail Service Improvement Program, established by a 1976 State law which is implemented by a three-party contract with rail users, the railroad company and Minnesota Department of Transportation, each providing a portion of the financing needed for the construction.

Winnebago, Huntley, Granada, Fairmont, Welcome, Sherburn and Jackson community shippers in southern Minnesota are served by the line. The project will include replacing 55 lb. rail laid in the 1880's with 100 lb. ribbon rail. The new, heavier, rail will provide service for more than 25 years under normal maintenance and will increase the user's ability to compete and move more shipments.

New rail will also accommodate unit trains of 50 cars. Shippers benefit by utilizing lower unit train rates. The unit trains will be able to move at 25 m.p.h. instead of 10 m.p.h., allowing a greater number of shipments on the line because of the faster turnaround of the rail cars.

Rail service on the Winnebago to Jackson line will continue throughout the construction period.

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You may be interested in two current magazine articles concerning our reorganization activities: Business Week dated August 10 carries a piece on "Milwaukee II's viable route" in its Transportation section and the August issue of Modern Railroads gives good coverage of our progress in an article on "Milwaukee II: A Transformation of Assets."

W. L. Smith
President

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