

April 21, 2021

VIA ELECTRONIC FILING

Ms. Cynthia T. Brown
Chief, Section of Administration Office of Proceedings
Surface Transportation Board
395 E Street, S.W., Room 1034
Washington, DC 20423-0001

ENTERED
Office of Proceedings
April 21, 2021
Part of
Public Record

Re: Petition for Revocation of Exemptions and Stay of Effective Date

Docket No. FD 36503
Grand Elk Railroad, Inc. -- Acquisition Exemption -- Lines of Wisconsin Central Ltd. in Michigan

Docket No. FD 36504

Fox Valley & Lake Superior Rail System, L.L.C. -- Acquisition and Operation Exemption -- Lines of Wisconsin Central Ltd. in Wisconsin

Dear Ms. Brown:

This petition is filed, on behalf of Northwoods Distribution Services and Branch Line Railroad, as a Petition for Revocation of the Exemptions and Stay of the Effective Date in each of the two above captioned finance dockets.

By way of background, the CN has not lived up to its promises when it acquired Wisconsin Central in 2001. It has continued to increase prices and reduce service, driving business out of the Northwoods, severely damaging the rural economy of the Northwoods (of Wisconsin and Michigan).

It is our belief that **full STB oversight hearings are necessary** to address the need to reduce the cost of shipping in the Northwoods as well as to address the need to provide consistent quality service which has been absent under CN's ownership.

For the good of the Northwoods economy and its people, this sale must be stopped until reasonable assurances are provided to address the deterioration of the infrastructure and service under CN's ownership and its management system, which emphasized large unit trains and long hauls with minimal staffing. CN's financial goals and management system did not match the requirements of the Northwoods shippers, which regularly have small trains and short distances. The effect of which was to continually increase costs and reduce service to the people of the Northwoods.

Watco has informed us that under the terms of their agreement with CN, they will be bound by CN's pricing structure. From our perspective, this is most unfortunate. Currently many Northwoods shippers cannot afford the cost of shipping with CN, and

many are already considering taking preemptive action to abandon rail altogether to survive. This leads to increased truck traffic, more road damage and more environmental impact.

So, if Watco cannot clearly demonstrate how they can reduce the cost of shipping, any promises to maintain CNs marginal service or to provide theoretical increases in rail service, will still be unaffordable to current and any potential new customers.

CN has driven most Northwoods shippers to truck transport because of their continued price increases compounded year over year. Then, when there is the concomitant decrease in shipping, they file petitions to abandon service. CN has orchestrated and created its own self-fulfilling prophecy and Watco is their solution.

The travesty is that CN has allowed significant deterioration and removed portions of the Route 8 rail infrastructure and the economic base of the Northwoods. Now Watco, a multi-billion-dollar corporation, has informed us that they will ask the State of Wisconsin (and by implication Michigan and the USDOT) to subsidize the rehabilitation.

There are several additional points the STB should address:

First, Watco informs us that they do not have a fleet of log cars. How can any Northwoods shipper take them seriously about serving the principal industry (timber) of the Northwoods if they don't have a log car fleet? Moreover, they have not considered the Northwoods's shippers' requirements sufficiently to have made appropriate plans to acquire a fleet of log cars for the Route 8 shippers.

Second, Watco operates transload facilities elsewhere in the country, and has informed us of an effort to establish a transload in Oshkosh, Wisconsin. There is nothing to prevent Watco and its current or future management/ownership from building more transload facilities and driving Northwoods Distribution Services out of business. When asked about this possibility, the Watco representative, declined the request to put in writing that Watco would not undertake this possibility.

Third, consider the size and ownership of the Watco. Watco is an American success story, formed in 1983 and based in Pittsburg, Kansas, it has grown to become a \$2.3 billion dollar railroad holding company, certainly not a locally owned and operated, service-driven, mom & pop railroad anymore.

Today, Watco is driven to maximize profits because of its investors and ownership. A brief review is useful background:

On January 8, 2019, Watco announced a \$450 million investment from Oaktree Capital Management and added two board seats for Oaktree.

<https://www.railwayage.com/freight/watco-gets-450m-in-oaktree-equity-adds-two-to-board/>

On September 30, 2019, Brookfield Infrastructure Investment acquired 61.2% of Oaktree Capital Group

<https://ir.oaktreecapital.com/news-releases/news-release-details/brookfield-asset-management-completes-acquisition-612-oaktree>

“The company’s objective is to generate a long-term return of 12 -15% on equity and provide sustainable distributions for unitholders while targeting annual distribution growth of 5-9%.”

We are not so jingoistic, as to suggest that there is necessarily a problem with our Canadian neighbor Brookfield controlling the future of rail transportation in the Northwoods of Wisconsin and the Upper Peninsula Michigan. Nevertheless, we do believe that it is useful to be cognizant of this.

On December 30, 2019, Brookfield Infrastructure Investment completed its acquisition of the Genesee & Wyoming Railroad (G&W). The G&W transaction was valued at \$8.4 billion, including outstanding debt. G&W owns or leases 119 freight railroads. It is also noteworthy the G&W owns the Tomahawk Railroad serving the Packaging Corporation of America (PCA) plant in Tomahawk Wisconsin.

https://www.progressiverailroading.com/m_a/news/Brookfield-Infrastructure-acquires-Genesee-Wyoming--59389

Brookfield now owns Watco, the world's largest privately held holding company of short lines, and the G&W, which was once the world's largest publicly traded holding company of short line railroads, which is now privately held.

Watco already owns the Wisconsin & Southern Railroad (WSOR), which includes approximately 598 track miles and trackage rights of 180 miles. If the proposed sale of the Wisconsin Central RR from CN to Watco is completed as proposed, Watco will acquire approximately 650 miles of track in Wisconsin and the UP. **This will make Watco and its investors the largest owner of track in Wisconsin by a very significant margin.**

While this may benefit service in southern and central Wisconsin, it can clearly lead to monopoly power and pricing by CN-Watco. As previously stated, CNs pricing policy has been destructive, and some would say predatory on Northwoods shippers. Further as Watco has stated, they are governed by CNs pricing. So, this sale, as presented, is clearly not the answer for Northwoods shippers and possibly others.

There is no need to rush to approve the CN-Watco sale, without deliberate and thorough consideration for the Northwoods (Route 8 corridor). Wisconsin’s and Michigan leaders in Madison, in Lansing, and in Washington, should work with the STB to craft a sale that works for everyone: CN, Watco, Northern & Central Wisconsin, Upper Michigan, Northwoods Distribution Services, and Branch Line Railroad.

Summary:

The CN-Watco sale, as presented, should not be permitted to advance without full STB oversight hearings to address the requirements of the Northwoods shippers and not just those of the larger customer dense regions of Wausau and the Fox Valley. With Watco's chosen abbreviation of FOXY, it seems to be clear where their focus lies.

It is our belief that no sale of these assets should be approved until and unless the acquiring company or companies can clearly demonstrate the willingness to reduce shipper's costs and to provide consistent, reliable rail service for the rural economy of the Northwoods.

We recommend that the STB should focus its attention on the most vulnerable part of the proposed transaction, the Route 8 corridor and its shippers of Northern Wisconsin and the Upper Peninsula Michigan.

Respectfully submitted,

/s/ Robert E. Quick Jr

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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing comment has been e-filed this 21st day of April 2021 via the STB's e-filing system and served via email or regular postage prepaid mail upon the parties of record:

/s/ Robert E. Quick Jr

Robert E. Quick Jr

Cc:

Parties of Record
Mr. Roger S. Dahlquist
Wisconsin Governor Tony Evers
U.S. Senator Ron Johnson
U.S. Senator Tammy Baldwin
U.S. Representative Tom Tiffany
Wisconsin State Senator Mary Felzkowski

Wisconsin State Representative Rob Swearingen
Wisconsin State Representative Calvin Callahan
Michigan Governor Gretchen Whitmer
U.S. Senator Debbie Stabenow
U.S. Senator Gary Peters
U.S. Representative Jack Bergman
Michigan State Senator Ed McBroom
Michigan Representative Greg Markkanen
Michigan Representative Sara Cambensy
Michigan Representative Beau LeFave