

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

FD 36843

**WATCO HOLDINGS, INC.
— ACQUISITION OF CONTROL EXEMPTION —
GREAT LAKES CENTRAL RAILROAD, INC.**

PETITION FOR EXEMPTION

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ATTORNEYS FOR WATCO HOLDINGS, INC.

Dated: March 6, 2025

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TRANSPORTATION BOARD**

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PETITION FOR EXEMPTION

Watco Holdings, Inc. (“Watco”), a non-carrier, hereby files this individual petition for an exemption (the “Petition”) under 49 U.S.C. §10502 and 49 C.F.R. § 1121 from the formal prior review and approval requirements of 49 U.S.C. § 11323(a)(5) to authorize Watco to acquire control of Great Lakes Central Railroad, Inc. (“GLC”), a Class III carrier.¹ The exemption will allow Watco to acquire all of GLC’s common stock from Federated Capital Acquisitions, Inc. (“FCA”), a subsidiary of Federated Capital Holdings, LLC (“Federated”).

¹ Certain Internet sources identify GLC as being a Class II (or “regional”) rail carrier. *See, e.g.*, <https://www.railwaygazette.com/maps-and-data/great-lakes-central-railroad-glc/51943.article>. The designation appears to stem from Association of American Railroads (“AAR”) criteria classifying individual railroads according to annual operating revenue and route mileage, with any railroad with at least \$20 million in annual operating revenue and operating 350 or more route miles of railroad lines qualifying as a “Regional Railroad.” *See, e.g.*, American Short Line and Regional Railroad Association’s Railroad Definitions web page at <https://www.aslrra.org/about-us/about-aslrra/history/railroad-definitions/> (offering the Board’s standards as of January 1, 2024, and then the “AAR Railroad Classifications”). But here the governing standard is 49 C.F.R. § 1201(1-1). GLC’s annual operating revenues are below the \$47,299,851 Class II threshold under § 1201(1-1). TGLC is, for present purposes, a Class III railroad.

Watco controls one Class II rail carrier² and 43³ Class III rail carriers. Because GLC's rail lines connect at Ann Arbor, Michigan, to a rail line owned and operated by Ann Arbor Railroad, Inc. ("AA"), an existing Watco railroad holding, the proposed transaction does not qualify for the class exemption procedures at 49 C.F.R. § 1180.2(d)(2).

A map depicting GLC's railroad lines is attached as Exhibit A.

The State of Michigan Department of Transportation ("MDOT") supports the present transaction and has supplied a written statement (attached as Exhibit B) urging prompt and favorable Surface Transportation Board ("Board") action on the Petition.

In support of this Petition, Watco submits the following:

I. BACKGROUND

A. Identification of the Parties

Watco is a non-carrier holding company that currently controls one Class II rail carrier and 43 Class III rail carriers, each listed in Exhibit C. A map identifying the operating area of those railroads is attached as Exhibit D. (In addition, more detailed mapping information for each of the U.S.-based railroads within the Watco corporate family can be found on Watco's website at <https://www.watco.com/system-map/> and from the menu of Watco-controlled railroads available online at <https://www.watco.com/service/watco-railroads/>.

² Wisconsin & Southern Railroad, L.L.C., ("WSOR"), an indirectly controlled Watco subsidiary. *Watco Holdings, Inc. and Watco Transportation Services, L.L.C. – Acquisition of Control Exemption – Wisconsin & Southern Railroad, L.L.C.*, FD 35573 (STB served Dec. 15, 2011).

³ *Watco Holdings, Inc. – Continuance in Control Exemption – Texas Coastal Bend Railroad, L.L.C.*, FD 36595 (STB served May 27, 2022).

GLC is a Class III⁴ railroad common carrier operating approximately 360 route miles of predominantly State-owned rail lines through central and northern Michigan. The majority of GLC's route miles are operated pursuant to modified certificates of public convenience and necessity secured under GLC's prior name, Tuscola and Saginaw Bay Railway Company, Inc. ("TSBY").⁵ GLC's lines extend generally from Petoskey, Michigan, on the north via Cadillac and Durand to Ann Arbor, Michigan, on the south, with branch lines to Grawn, Williamsburg, Yuma, Middleton, and Fergus, Michigan. GLC interchanges with Huron and Eastern Railway Company and Grand Trunk Western Railroad, Inc. at Durand, with CSX Transportation at Howell, Michigan, with AA and Norfolk Southern Railway Company (via AA) at Ann Arbor, and with Mid-Michigan Railroad at Alma, Michigan.

As previously mentioned, GLC's tracks connect with those owned and operated by AA just north of Ann Arbor. GLC and AA interchange traffic there on two long side tracks. However, Watco's proposed control of GLC will not result in any 2-to-1 (GLC/AA) shipper locations, as GLC and AA do not serve any customer facility in common. Because the transaction would not involve any Class I carriers, and would not be an element of anticipated transactions that would result in further connections among Watco carriers, Watco's proposed acquisition of control of GLC would be eligible for authorization pursuant to the class exemption at 49 C.F.R. §1180.2(d)(2) but for the GLC-AA connection.

⁴ GLC's annual operating revenues place it squarely below the Board's Class II threshold. *See Indexing the Annual Operating Revenues of Railroads*, EP 748 (STB served May 23, 2024) (establishing the current minimum annual operating revenue threshold for Class II rail carriers at \$47,299,851).

⁵ *See Tuscola and Saginaw Bay Railway Company, Inc., Modified Certificate*, FD 32743, 32744, and 32745 (STB served Oct. 12, 1995), and FD 30569 (ICC decided Oct. 23, 1984). In 2006, Federated renamed TSBY to GLC after acquiring control of TSBY earlier that year.

B. The Proposed Transaction

Under to the terms of an agreement between Watco and FCA, Watco would acquire control of GLC through the purchase of all issued and outstanding shares of GLC common stock.

II. JURISDICTION AND STATUTORY STANDARDS

Pursuant to 49 U.S.C. § 11323(a)(5), acquisition of control of a rail carrier by a person that is not a rail carrier but that controls any number of rail carriers requires prior Board approval. 49 U.S.C. § 11324(d) sets forth the formal application procedures under which a transaction such as this one could be reviewed and authorized. However, under 49 U.S.C. § 10502, the Board must exempt a transaction from the more taxing regulations set forth Part A of Subtitle IV of Title 49 of the U.S. Code (including Sections 11323-11325) if the Board finds that: (1) regulation of the transaction is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either – (a) the transaction is of limited scope or (b) regulation is not necessary to protect shippers from the abuse of market power.

In enacting the Staggers Rail Act of 1980, Congress made clear its intent that the Interstate Commerce Commission (and now the Board) would use its expanded exemption authority under former Section 10505 to free certain transactions and service from the administrative and financial costs associated with continued regulation:

The policy underlying this provision is that while Congress has been able to identify broad areas of commerce where reduced regulation is clearly warranted, the Commission is more capable through the administrative process of examining specific regulatory provisions and practices not yet addressed by Congress to determine where they can be deregulated consistent with the policies of Congress. The conferees expect that, consistent with the policies of this Act, the Commission will pursue partial and complete exemption from remaining regulation.

H.R. Conf. Rep. No. 1430, 96th Cong. 2d Sess. 105 (1980). Congress reaffirmed this policy in the conference report accompanying the ICC Termination Act of 1995,⁶ which reenacted the existing exemption provisions as Section 10502. H.R. Conf. Rep. No. 422, 104th Cong. 1st Sess. 168-169 (1995).

An individual exemption from the requirements of Sections 11323-11325 for Watco's acquisition of control of GLC would be fully consistent with the standards set forth in Section 10502. Detailed scrutiny of the transaction through an application for review and approval under Section 11323 is unnecessary to carry out the rail transportation policy ("RTP") of 49 U.S.C. § 10101. In fact, exemption from such formal review and approval would further several of the objectives set forth in the RTP. Moreover, the proposed transaction is of limited scope and will not result in any abuse of market power.

Further, exemption of Watco's proposed acquisition of control of GLC is consistent with the Board's decisions in prior dockets in which an exemption was sought (and granted) for the acquisition of control of a railroad carrier that physically connected to one or more railroad carriers already controlled by the petitioner. *See, e.g., Genesee & Wyoming Inc. – Acquisition of Control Exemption – Atlantic Western Transportation, Inc. and Heart of Georgia Railroad, Inc.*, FD 36105 (STB served Apr. 18, 2017); *Genesee & Wyoming Inc. – Acquisition of Control Exemption – Providence and Worcester Railroad Company*, FD 36064 (STB served Dec. 16, 2016); *Pinsly Railroad Company – Control Exemption – Warren & Saline River Railroad Company*, FD 35923 (STB served Nov. 3, 2009).

⁶ Pub. L. No. 104-88, 109 Stat. 803 (1995).

III. EXEMPTION CRITERIA

A. Regulation Is Not Necessary to Carry Out the Rail Transportation Policy of 49 U.S.C. § 10101.

Watco's proposed acquisition of control of GLC is wholly consistent with the RTP set forth at 49 U.S.C. § 10101. The transaction will bring to GLC the strengths and resources of a well-established short line holding company in Watco, and will assure the preservation and viability of the local rail service currently provided by GLC. As such, exemption will promote the continuation of a sound rail system to meet the needs of the public. 49 U.S.C. § 10101(4). Watco's common control of GLC and AA will allow coordination of the railroads' connecting operations, enhancing effective rail management and the economic benefits of GLC's service. Thus, this transaction also will promote efficiency, coordination among rail carriers and competition with other transport modes. *See* 49 U.S.C. §§ 10101(5) and (9).

Granting this Petition will also advance several other goals enumerated in the RTP. Section 10101 provides that the Board should minimize the need for federal regulatory control over the rail transportation system, reduce the barriers to entry into and exit from the rail transportation industry and provide for the expeditious resolution of all proceedings. 49 U.S.C. §§ 10101(2), (7) and (15). Authorization under Section 10502 obviates the need for the expensive and time-consuming processes attendant to a proceeding under Sections 11323-11325. By limiting the level of regulatory review of this transaction and by relying upon the adequate and more expeditious exemption procedure, the Board would minimize the burden of unnecessary regulation. *E.g., Livonia, Avon & Lakeville Railroad Corporation – Acquisition and Operation Exemption – Line of Consolidated Rail Corporation*, FD 32754 (STB served Mar. 11, 1996) at 4. Other aspects of the RTP will not be adversely affected.

As evidence that the proposed transaction advances the public interest, see MDOT's statement in support of swift and favorable Board action on the present Petition (attached as Exhibit B).

B. Regulation Is Not Necessary to Protect Shippers from an Abuse of Market Power

Watco's acquisition of control of GLC will not have an adverse impact upon competition. While GLC and AA connect near Ann Arbor, they do not serve any shipper facilities in common. Watco's proposed control of GLC will not increase whatever market power GLC or any of the involved Watco railroads may possess (if any), and it will not otherwise reduce competition or transportation options for shippers. Rather, GLC will simply be incorporated into the Watco family of short line carriers, and, in turn, shippers may benefit from greater service efficiencies. *See Genesee & Wyoming Inc. – Control Exemption – Georgia Southwestern Railroad, Inc.*, FD 35183 (STB served Dec. 15, 2008) at 4 (no abuse of market power likely where no shipper located on a rail carrier's line "is expected to lose rail service options as a result of the control transaction."). Accordingly, the transaction satisfies the market abuse standard set forth in 49 U.S.C. § 10502(a)(2)(B).

Furthermore, as both a matter of market impact and scope, it warrants observation that the proposed control transaction would have the practical effect of re-uniting portions of the *historical* Ann Arbor Railroad, an entity that had existed as a holding of various larger railroads from 1895 until 1976. Watco's *modern* AA operates the portion of the *historical* Ann Arbor

Railroad from Ann Arbor south, while GLC operates most of the historical Ann Arbor Railroad's lines north of there.⁷

C. The Transaction Is Limited in Scope

Because regulation is not necessary to protect shippers from an abuse of market power, Watco need not demonstrate that the proposed transaction, involving its acquisition of a controlling interest in a single Class III railroad, is of limited scope. 49 U.S.C. § 10502(a)(2); *and see, e.g., Finger Lakes Railway Corp. – Control Exemption – Ontario Central Railroad Corp.*, FD 35062 (STB served October 5, 2007) at 2. Nevertheless, Watco's acquisition of GLC clearly satisfies this criterion as well. GLC is a Class III railroad carrier whose lines are located entirely in one state. Furthermore, acquisition of several hundred miles of rail lines have previously been found to be of "limited scope." *See, e.g., Manufacturers' Junction Railway Company – Lease and Operation Exemption – Missouri Pacific Railroad Company*, FD 31783 (ICC decided Feb. 25, 1991) (Transaction involving some 300 miles of railroad lines to be operated by a Class III carrier found to be limited in scope). Accordingly, the Board should find that this transaction is of limited scope within the meaning of Section 10502(a)(2)(A).

IV. LABOR PROTECTION

The proposed transaction involves Watco's control of one Class II carrier (Wisconsin & Southern Railroad, L.C.C.), multiple Class III carriers (Watco's remaining existing subsidiary carriers), and now GLC. Accordingly, the transaction is subject to the labor protection requirements of 49 U.S.C. § 11326(b) and *Wisconsin Central Ltd. – Acquisition*

⁷ [https://en.wikipedia.org/wiki/Ann_Arbor_Railroad_\(1895%E2%80%931976\)](https://en.wikipedia.org/wiki/Ann_Arbor_Railroad_(1895%E2%80%931976)) ("On October 7, 1988, a new Ann Arbor Railroad began operating the portion south of Ann Arbor; the Great Lakes Central Railroad now serves the remaining portions of the line.")

Exemption – Union Pacific Railroad Company, 2 S.T.B. 218 (1997), rev'd in part sub mon. Ass'n of Amer. Railroads v. STB, 162 F.3d 101 (D.C. Cir. 1998).

V. ENVIRONMENTAL AND HISTORIC PRESERVATION MATTERS

Under 49 C.F.R. § 1105.6(c)(1)(i), the proposed control transaction is exempt from environmental reporting requirements. Watco's acquisition and control of GLC will not result in significant changes in carrier operations, *i.e.*, changes that exceed the thresholds established in 49 C.F.R. § 1105.7(e)(4) or (5).

Under 49 C.F.R. § 1105.8(b)(3), the proposed continuance in control also is exempt from historic preservation reporting requirements. That control transaction will not substantially change the level of maintenance of any railroad property.

VI. INTERCHANGE COMMITMENT

The proposed transaction does not involve the acquisition or operation of a rail line, and thus the provisions of 49 C.F.R. § 1180.4(g)(4) are not applicable. Nevertheless, the proposed transaction does not involve the imposition of any interchange restrictions.

Respectfully submitted,

/s/ *R. A. Wimbish*

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ATTORNEYS FOR WATCO HOLDINGS, INC.

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EXHIBIT A
MAP OF GREAT LAKES CENTRAL RAILROAD, INC.

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EXHIBIT B

**MICHIGAN DEPARTMENT OF TRANSPORTATION –
STATEMENT OF SUPPORT**



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

BRADLEY C. WIEFERICH, P.E.
DIRECTOR

March 4, 2025

The Honorable Patrick Fuchs
Chairman, Surface Transportation Board
395 E Street, SW
Washington, D.C. 20423

Dear Chairman Fuchs:

The Great Lakes Central Railroad (GLC) is a Class III railroad in the central and northern Lower Peninsula of Michigan. It operates over a roughly 400-route mile network, most of which is owned by the State of Michigan and managed through an agreement with the Michigan Department of Transportation (MDOT), Office of Rail.

The State Transportation Preservation Act of 1976 allowed for Michigan's state-owned rail network to preserve critical rail lines in Michigan. For nearly 20 years, MDOT has partnered with railroads, including GLC, to maintain and grow freight rail service along the state-owned lines to support a vast network of rail customers throughout Michigan.

The GLC railroad franchise is in the process of being acquired by Watco Companies, LLC. Watco also has a long history of working with MDOT Office of Rail through its two other short line railroads in Michigan - the Ann Arbor Railroad and the Grand Elk Railroad. Based on this history and our knowledge of the strengths and resources Watco will bring to GLC, we fully support this transaction.

We look forward to growing our strong partnership with Watco to include preserving the critical rail service in Michigan and working together to further the public's interest by enhancing the rail service provided to customers along GLC. We encourage prompt and favorable action on Watco's petition for authority and control of GLC.

I appreciate your time and attention to this important matter. If you have any questions, please feel free to contact me at 517-243-2710 or AnastorP@michigan.gov.

Sincerely,

E-SIGNED by PETER ANASTOR
on 2025-03-04 15:51:19 EST

Peter Anastor, Director
Office of Rail

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EXHIBIT C
**LIST OF RAILROADS CURRENTLY CONTROLLED BY
WATCO HOLDINGS, INC.**

Class II Carriers

Wisconsin & Southern Railroad, L.L.C. [Illinois, Wisconsin] (WSOR)

Class III Carriers

Alabama Southern Railroad, L.L.C. [Alabama, Mississippi] (ABS)
Alabama Warrior Railway, L.L.C. [Alabama] (ABWR)
Ann Arbor Railroad, Inc. [Michigan, Ohio] (AA)
Arkansas Southern Railroad, L.L.C. [Arkansas, Oklahoma] (ARS)
Austin Western Railroad, L.L.C. [Texas] (AWRR)
Autauga Northern Railroad, L.L.C. [Alabama] (AUT)
Baton Rouge Southern Railroad, L.L.C. [Louisiana] (BRS)
Birmingham Terminal Railway, L.L.C. [Alabama] (BHRR)
Blue Ridge Southern Railroad, L.L.C. [North Carolina] (BLU)
Bogalusa Bayou Railroad, L.L.C. (d/b/a Geaux Geaux Railroad) [Louisiana] (GOGR)
Boise Valley Railroad, L.L.C. [Idaho] (BVRR)
Cicero Central Railroad, L.L.C. [Illinois] (CERR)
Decatur & Eastern Illinois Railroad, L.L.C. [Illinois, Indiana] (DREI)
Dutchtown Southern Railroad, L.L.C. [Louisiana] (DUSR)
Eastern Idaho Railroad, L.L.C. [Idaho] (EIRR)
Elwood Joliet & Southern Railroad, L.L.C. [Illinois] (EJSR)
Fox Valley & Lake Superior Rail System, L.L.C. [Wisconsin] (FOXY)
Grand Elk Railroad, Inc. [Indiana, Michigan] (GDLK)
Great Northwest Railroad, L.L.C. [Idaho, Washington] (GRNW)
Ithaca Central Railroad, L.L.C. [New York, Pennsylvania] (ITHR)
Jacksonville Port Terminal Railroad, L.L.C. [Florida] (JXPT)
Kanawha River Railroad, L.L.C. [Ohio, West Virginia] (KNWA)
Kansas & Oklahoma Railroad, L.L.C. [Colorado, Kansas] (KO)
Kaw River Railroad, L.L.C. [Kansas, Missouri] (KAW)
Louisiana Southern Railroad, L.L.C. [Louisiana] (LAS)
Lubbock and Western Railway, L.L.C. [Texas] (LBWR)
Mission Mountain Railroad, L.L.C. [Montana] (MMT)
Mississippi Southern Railroad, L.L.C. [Mississippi] (MSR)
Palouse River & Coulee City Railroad, L.L.C. [Idaho, Oregon, Washington] (PCC)
Pecos Valley Permian Railroad, L.L.C. d/b/a Pecos Valley Southern Railway [Texas] (PVS)
Pennsylvania Southwestern Railroad, L.L.C. [Pennsylvania] (PSWR)
Ringneck & Western Railroad, L.L.C. [South Dakota] (RWRR)
San Antonio Central Railroad, L.L.C. [Texas] (SAC)
Savannah & Old Fort Railroad, L.L.C. [Georgia] (SVHO)
South Kansas and Oklahoma Railroad, L.L.C. [Kansas, Missouri, Oklahoma] (SKOL)
Stillwater Central Railroad, L.L.C. [Oklahoma] (SLWC)
Swan Ranch Railroad, L.L.C. [Wyoming] (SRRR)

Texas and New Mexico Railway, L.L.C. [New Mexico] (TXN)
Texas Coastal Bend Railroad, L.L.C. [Texas] (TCBR)
Timber Rock Railroad, L.L.C. [Louisiana, Texas] (TIBR)
Verdigris Southern Railroad, L.L.C. [Oklahoma] (VESO)
Vicksburg Southern Railroad, L.L.C. [Mississippi] (VSOR)
Yellowstone Valley Railroad, L.L.C. [Montana, North Dakota] (YSVR)

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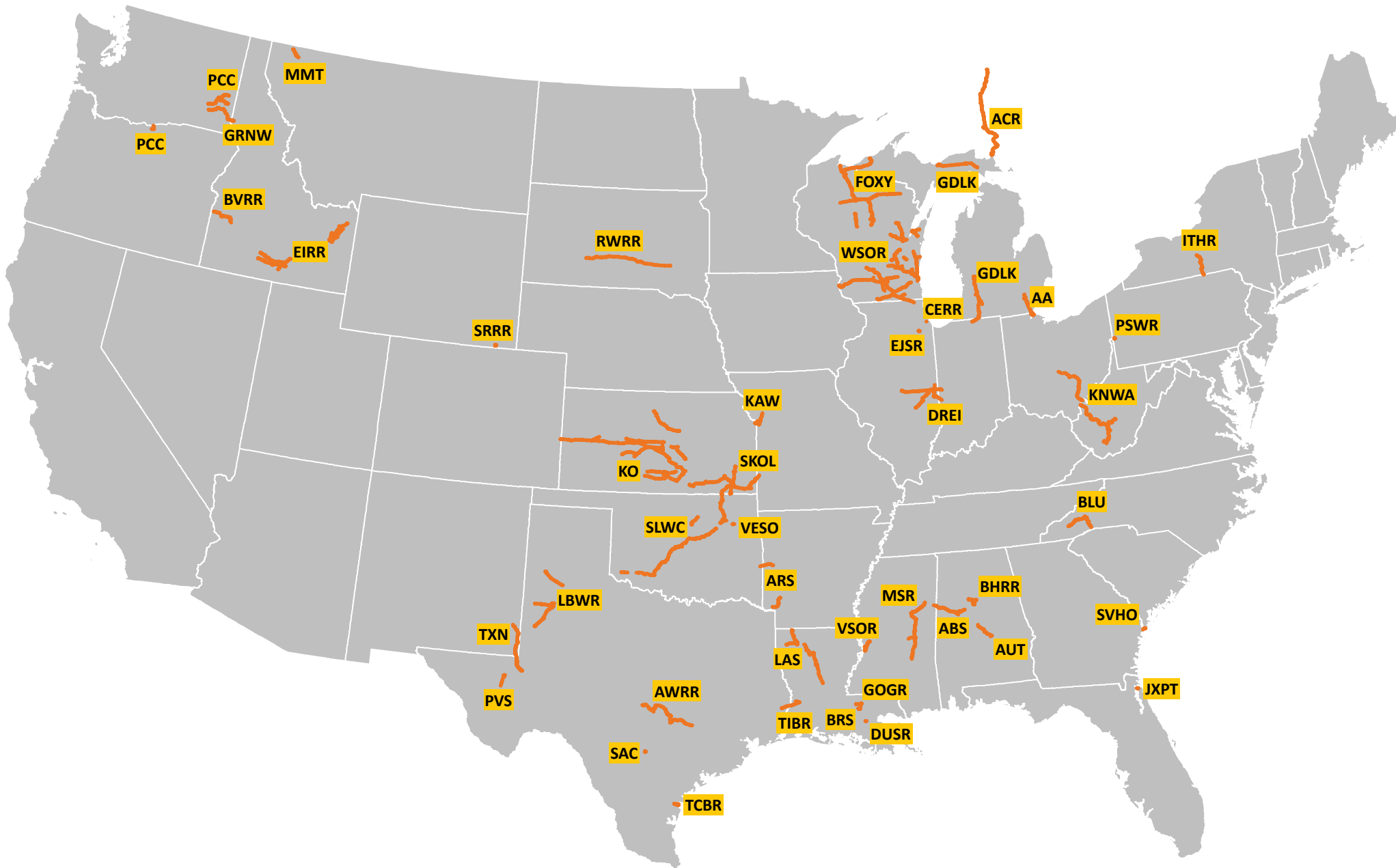
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**EXHIBIT D
MAP OF WATCO HOLDINGS, INC.'S RAILROADS**

Watco System Map



— Watco Track

