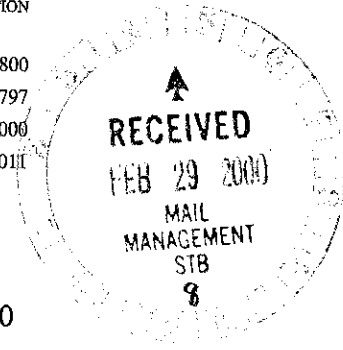


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February 29, 2000

BY HAND

Honorable Vernon A. Williams
Surface Transportation Board
Office of the Secretary
Case Control Unit
Attn: STB Ex Parte No. 582
1925 K Street, N.W.
Washington D.C. 20423-0001

ENTERED
Office of the Secretary
FEB 29 2000
Part of
Public Record

Re: Public Views on Major Rail Consolidations, STB Ex Parte No. 582

Dear Secretary Williams:

On behalf of our client, Southern Railway of British Columbia Limited ("SRY"), we hereby submit to the Surface Transportation Board SRY's written comments in the above-referenced proceeding. Enclosed are 10 copies of this filing and a 3.5-inch disk containing this letter formatted in Word Perfect.

Please acknowledge receipt of this letter by date-stamping the enclosed acknowledgment copy and returning it to our messenger.

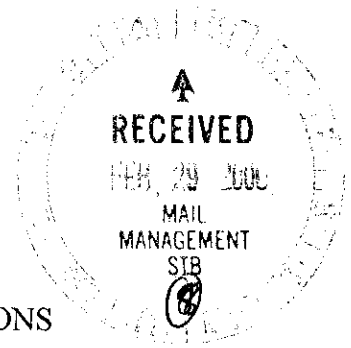
Very truly yours,

Jo A. DeRoche

cc: R.J. Stoeckly (by facsimile)

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BEFORE THE
SURFACE TRANSPORTATION BOARD
STB Ex Parte No. 582



PUBLIC VIEWS ON MAJOR RAIL CONSOLIDATIONS

COMMENTS OF SOUTHERN RAILWAY
OF BRITISH COLUMBIA

ENTERED
Office of the Secretary
FEB 29 2000

Part of
Public Record

The Surface Transportation Board (the "Board") has determined that public hearings are appropriate to discuss the views of interested parties regarding the trend of major rail consolidations occurring in North America. Southern Railway of British Columbia ("SRY") will participate in these public hearings on March 8, 2000. Pursuant to the Board's decision served January 24, 2000, SRY submits this written statement addressing important concerns that the Board should consider prior to approving any future major rail consolidations.

INTRODUCTION:

SRY is a 70-mile railroad located in the Fraser River Valley of British Columbia in western Canada. Headquartered in New Westminster, British Columbia, SRY operates in the greater Vancouver, BC area, from the Fraser River Port in New Westminster to Chilliwack, BC. It connects with Canadian National Railroad ("CN") at New Westminster and Chilliwack, Canadian Pacific Railway at New Westminster and Abbotsford, and The Burlington Northern Santa Fe Railway ("BNSF") at New Westminster and Sumas, Washington. In addition, following the UPSP/BNSF mergers, SRY has access to points on the Union Pacific west of the Rockies via UP's haulage agreement with BNSF.

In 1999, SRY handled approximately 52,000 carloads. Approximately 25 percent of that traffic is from or to the auto re-load centers at Annacis Island servicing Ford, Chrysler, General Motors, Nissan, Hyundai, Kia, Daewoo, Subaru, Hino, Volvo, Volkswagen and Mercedes Benz. Another 25 percent of SRY traffic is made up of forest products (lumber and finished paper) moving from points on its line to points in the United States. The remainder of the SRY traffic is a diverse mix of agricultural products, construction and steel. SRY handles no hazardous materials, chemicals, TOFC/COFC, grain or coal.

SRY celebrated 100 years of service in 1997. It was originally incorporated as the BC Electric Railway in 1897 to unite the interurban and street railway systems in Vancouver, Victoria and New Westminster. Since 1950, the line has been operated solely as a short line freight railroad. It was acquired by Dennis Washington, owner of Montana Rail Link, LLC and I&M Rail Link, LLC, in 1994, and operates as a separate, independent railroad.

Unlike many short line railroads in the United States, SRY is not a spin off from any large carrier. SRY has marketing authority to negotiate commercial arrangements for its shippers with all four class I connections. For example, SRY's customers currently access the Chicago gateway via three of the four class I carriers.

Because SRY is not tied in to a single class I connection, it maintains a fleet of over 1,000 freight cars, which it can use in arrangements with all connecting roads, either through standard switching rates or by being a party to the transportation contract.

COMMENTS:

SRY does not oppose mergers *per se*. SRY recognizes that there are benefits, economies and efficiencies to be realized from mergers, and that those benefits have helped to strengthen the North American rail network. But they do not come without cost. SRY appears before the

Board to ask that it carefully review those costs in subsequent mergers that come before it, to assure that they do not erode the benefits being claimed and that they do not unfairly burden a segment of the railroad industry or the shipping public.

A. Competition. At one time, SRY had five class I connections -- Northern Pacific ("NP"), Great Northern ("GN"), Milwaukee Road, Canadian Pacific and Canadian National. During its 103 years of operation, SRY has watched its class I connections decline in number. NP and GN became the Burlington Northern, and the Milwaukee Road connection is now abandoned. SRY now has three class I connections to offer its shippers rather than five. By the numbers, that is a reduction in the competitive options available to SRY and its shippers.

Those mergers produced benefits for the merging parties by enabling the consolidation of redundant facilities and routes. But they also eliminated options and produced a different type of competition among three large class I's than that which was found among five smaller railroads. It is commonly held that end-to-end mergers have fewer anti-competitive impacts, and while that may be true, it is not true that they have *no* competitive impacts. When an end-to-end merger occurs, the competitive options for traffic moving beyond the connecting gateway are substantially reduced. The merged carrier will price to close the former gateway and shift markets to sources served by its merged system. This is a natural action intended to maximize the merged company's longest haul. For example, in a situation with railroads A and B, which serve one region, and C and D serve a second region, if companies A and C merge to form railroad AC, then shippers in the region served by AC and B will find that if they are located on railroad B, they can no longer get competitive rates over the former gateway to points on the former railroad C, because the merged railroad AC prefers to source the traffic from points on

AC where it obtains its longest haul. By the same token, shippers on former railroad A find that rates work against their shipping over the former gateway to points on railroad D.

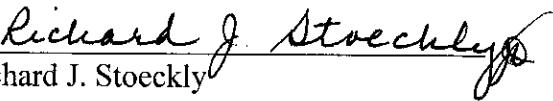
B. Operating Efficiencies. One of the things short line railroads' customers comment about most frequently is the personalized service they receive from the short line railroad. At one time, class I's provided local contacts so that the shippers and the short line connections had a real person to deal with at the railroad. Local agents gave way to division-wide customer service representatives and car distributors. Then came system-wide customer service centers. As railroads merge, the larger the system becomes that must be served from the single, customer service center, by people so remote from the shippers or the short line connections that they cannot be responsive.

SRY recognizes that in 2000, technological improvements have made such centralized operations possible, and it does not advocate a return to telegraphers sending messages to one another by key. But simply reducing bodies by centralizing functions does not necessarily improve communications or operations – it just reduces the money being spent on that function. For the merged carrier's constituents – its shippers and short line connections – things like good, responsive communications systems are worth the money spent on them. In evaluating future mergers, the Board should carefully evaluate whether or not appropriate protections have been put into place to protect the ability of those parties to continue to be heard. This is an extremely important issue in an industry where we are not growing our top line (total revenues) and where our customers often come to despise us.

CONCLUSION

For the reasons stated above, the Board should carefully scrutinize all future merger applications that come before it to assure that the benefits to be gained from a larger system do not come at the expense of the short line railroads, shippers and the entire industry.

Respectfully submitted,


Richard J. Stoeckly

Dated: February 29, 2000

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