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February 29, 2000

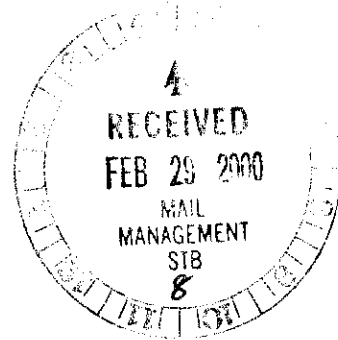
VIA HAND DELIVERY

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:

Enclosed herewith are an original and 11 copies of the Written Statement of A.V. (Tony) Reck, President and Chief Executive Officer, Paducah & Louisville Railway, for submission in the above-captioned proceeding. A 3.5-inch diskette containing a copy of this letter and Mr. Reck's statement in WordPerfect format is also enclosed.

Please also note that Mr. Reck will be presenting Paducah & Louisville's position to the Board in this proceeding on March 8, rather than Mr. Garrett, who was originally noted as being P&L's speaker at the hearing.

Please acknowledge receipt and filing of the enclosed statement by file-stamping the enclosed eleventh copy of the statement and returning that copy to the person making that filing for return to me.

Very truly yours,

A handwritten signature in cursive script that reads "David C. Reeves".

David C. Reeves
Attorney for Paducah & Louisville Railway, Inc.

Enclosures

cc: A.V. Reck
J. Thomas Garrett, Esq.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 582



**PUBLIC VIEWS ON
MAJOR RAIL CONSOLIDATIONS**

ENTERED
Office of the Secretary

FEB 29 2000

**WRITTEN STATEMENT OF A.V. (TONY) RECK
PRESIDENT, CHIEF EXECUTIVE OFFICER
PADUCAH AND LOUISVILLE RAILWAY**

**Part of
Public Record**

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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 582

**PUBLIC VIEWS ON
MAJOR RAIL CONSOLIDATIONS**

**WRITTEN STATEMENT OF A.V. (TONY) RECK
PRESIDENT, CHIEF EXECUTIVE OFFICER
PADUCAH AND LOUISVILLE RAILWAY**



My name is Tony Reck and I am the President and CEO of the Paducah & Louisville Railway, Inc. The P&L is a Class II regional railroad which operates over approximately 223 miles of main line track between Paducah and Louisville, Kentucky. P&L was formed in 1986 through purchasing its lines from IC, who, at the time, was seeking to downgrade and abandon portions of what is now P&L.

The P&L's rail operation is very similar to a Class I with the exception of the revenues. Our customers are similar in name, size and type of commodity shipped to those on Class I's. However, due to P&L's geographical size, there are simply fewer of them. These customers require that we provide Class I-type service, which requires the P&L to maintain 7-day-a-week, 24-hour-a-day service. We also must maintain switching yards, branch lines, and adequate equipment. Our employees are represented by eight labor organizations, which presents many challenges. Indeed, the P&L is somewhat unique among regional railroads in that it currently interchanges with five (5) Class I's. These interchanges, along with the P&L's ability to provide our shippers with alternative routes from origin to

destination, enhance our ability to provide cost competitive service and create value for our ownership.

On behalf of the P&L and myself personally, I want to say we are opposed in general to large railroad mergers. As the STB permits more Class I mergers, our routing options are reduced and our ability to negotiate acceptable divisions is adversely affected, which in short threatens our continued survival. We have already experienced the loss of one Class I connection, Conrail, on one end of our line, and the current CN-BN merger threatens the loss of another Class I connection on the other end of our line. Every time a short line such as ours loses such connections, it severely limits our ability to provide competitive routes and service to our customers.

The service problems created by recent Class I mergers and the division of Conrail have had a substantial negative impact on P&L and its customers. Lost and delayed shipments have resulted in equipment shortages and frustrated shippers. Large amounts of freight that would have otherwise moved by rail, including over the P&L, have been lost to truck. Private car shippers have seen their costs to ship by rail increase as they have had to add equipment to supplement the cars that congested rail service could not deliver. The result is pressure on the serving short lines, who have provided reliable service, to decrease rates to offset the increased costs incurred by angry shippers.

In addition to service problems created by mergers, every merger, like the proposed CN-BN, leaves fewer and fewer alternatives for the shippers on our railroad. As we have experienced in the past, the loss of an interchange partner at either end of our system not only causes an increase in rates to the shippers we

serve, but generally pushes our divisions lower. Thus, the short line's portion of the overall revenue gets lower and lower, which in turn reduces our ability to improve our capital facilities, invest in additional cars and locomotives, and provide service to our customers.

As our share of the overall through rate gets less, we must look for a way to make up for that revenue shortfall if we are to provide the same level of service to our customers as we did before the merger. One way to make up such revenue shortfalls is to increase prices to our customers, which we do not like to do, but are sometimes forced to do as a result of the market power gained by the newly merged Class I's. Of course this causes us to price our locations higher than locations located on the newly merged system, thus placing our customers and our railroad at a competitive disadvantage. Often times, however, due to the market power of our shippers, we cannot increase our revenues through rate increases. In fact, many of our customers are large shippers with multiple facilities and thus have much more competitive leverage than we do.

Another way to recover revenue shortfalls brought about by a merger is for us to cut costs or reduce service, neither of which is in the public interest or in the interest of P&L and its customers. It is simply not feasible for a small, regional short line to cut costs or reduce service to compensate for the loss of revenues suffered due to a merger.

Small railroads, like ours, with their small geographical territories, thin margins, and minimum labor forces, are simply too limited in our ability to counterbalance the adverse effects of rail mergers. We can't close gateways, restrict junctions,

raise prices, or cut costs to gain added revenue. Yet, small railroads are expected to maintain service levels, invest in infrastructure, and lower prices. In the end, every time a small railroad loses a connection to an independent Class I, it finds itself being squeezed on both ends—from the newly merged Class I's who demand higher divisions and from the shippers who demand better service at lower rates.

In the event that the Board does approve additional Class I mergers, it is crucial to the small railroad's continued survival that you impose conditions that preserve the regional or short line's routing options. For instance, if the small railroad pre-merger is served at a particular interchange point by two competitive railroads or it has service by two competitive roads to a major gateway off line, sufficient conditions should be imposed by haulage agreement, trackage rights, or similar agreement to allow the small railroad to have reasonable access to two or more competitive Class I's post-merger at the on line stations or off line gateway. Without such a preservation of routing options, the P&L and other small and regional railroads face a very uncertain future.

I urge the Board to move very cautiously on all future rail mergers.