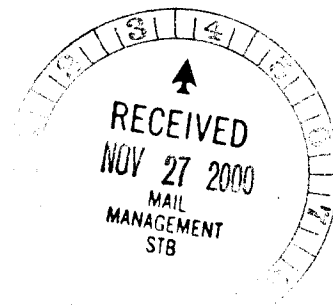


200635-



BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 634

CONSOLIDATED RAILROAD REPORTING

COMMENTS OF
PINSLY RAILROAD COMPANY

John P. Levine
President
Pinsly Railroad Company
53 Southampton Road
Westfield, MA 01085
(413) 568-6426

Dated: November 27, 2000

Pinsly Railroad Company ("Pinsly") is filing the below comments in response to the proposal by the Surface Transportation Board ("STB") to require consolidated financial reporting by commonly controlled railroads¹.

BACKGROUND INFORMATION

The Financial Accounting Standards Board ("FASB") issues statements of financial accounting standards that provide guidance on proper accounting procedures. In October of 1987, FASB issued its Statement of Financial Accounting Standards No. 94, "Consolidation of All Majority Owned Subsidiaries" ("FASB 94"), which was to become effective for fiscal years ending after December 15, 1988. FASB 94 amended an earlier statement to require consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. FASB 94 requires consolidation of a majority-owned subsidiary even if it has "non-homogeneous" operations, a large minority interest, or a foreign location.

EFFECTS ON PINSLY RAILROAD AND ITS SUBSIDIARIES

Pinsly Railroad is an interested party as it is a non-carrier holding company which owns the shares of five Class III shortline railroads², three distribution facilities, and one storage facility³. Each of the railroads within the Pinsly corporate structure is a separate and distinct enterprise and are not integrated. The shortline railroads are geographically separated, serve different customers, perform different railroad operations, and are separately managed.

As Class III railroads, the Pinsly railroads are not required to comply for Revenue Adequacy Standards, nor to maintain expense accounts in conformity with the Uniform System of Accounts ("USOA") reporting. Consolidating reporting, if enacted, may cause the Pinsly railroads to be reclassified as Class II carriers. Such a reclassification would place a significant financial burden on Pinsly. Specifically, the accounting system of each Pinsly railroad would have to be converted to the USOA reporting methods. The costs of implementing USOA would have an extreme detrimental effect on the Pinsly railroads. The existing consolidation for Pinsly, performed under GAAP, but not using USOA, includes non-rail entities, thus the proposed rulemaking would require and additional consolidation with increased expense to Pinsly.

Lastly, for Pinsly, conversion to USOA reporting is simply not economically practical. There would be no financial benefit for Pinsly, but in fact a financial detriment.

¹ The STB initiated this proceeding in its decision of Proposal To Require Consolidated Financial Reporting by Commonly Controlled Railroads, Docket No. #P-634-0, September 25, 2000. The time for filing of comments was subsequently extended to November 27, 2000 by its decision served October 20, 2000.

² Arkansas Midland Railroad, Florida Central Railroad, Florida Midland Railroad, Florida Northern Railroad, and Pioneer Valley Railroad.

³ The distribution facilities are in Arkansas, Florida, and Massachusetts. Pinsly also controls a facility in Texas for car storage.

Pinsly consolidate rail operations would not equal a major rail system and as such, could tend to skew the more meaningful information the STB seeks to obtain.

GENERAL EFFECTS OF THIS PROPOSAL

Pinsly urges the STB not to implement this proposal to require consolidated financial reporting by commonly controlled railroads, as there is no reason to make this proposed change. The reasons set forth below show that, by implementing this method of accounting, the STB would cause substantial problems and increase costs of regulatory compliance for small companies, and could have serious unintended consequences.

If the STB were to elect to mandate the use of consolidated financial reporting by commonly controlled railroads, it could cause some small railroads to fall into a higher classification category. For example, if consolidated reporting were mandated by the STB, that could cause a group of commonly controlled small railroads that are all Class III carriers today to fall in to the Class II category on a consolidated basis, which action could have far-reaching effects. It could cause: (i) older boxcars with these small railroads' marks to fall out of grandfathered status; and (ii) a different level of statutorily mandated merger rules and labor protection to apply in a line acquisition by an affiliated non-carrier company; and (iii) the smaller shortline railroads to have to charge higher prices to their customers to cover the increased cost to it, and ultimately reduce the competitiveness of the shortline.

Another effect that this action could have would be to remove negotiated protections between Class I railroads and Class II and III railroads. The privately negotiated Railroad Industry Agreement ("RIA") between the Class I railroads and the Class II and III railroads contains different provisions and protections for small railroads depending on their classification status. These RIA protections could be affected by this proposed accounting change. No reason has been given to justify making a change that would have consequences of this magnitude.

The STB has developed its own set of accounting rules that are appropriate for the railroad industry and the STB's particular regulatory responsibilities. The STB's accounting rules are found at 49 CFR 1201, *et seq.* While the STB may adopt "generally accepted accounting principles" ("GAAP") if it decides they are appropriate for its purposes, it is not required to do so, and indeed often does not. For instance, the STB has not adopted the principles set out in FASB 94 despite the fact that it has been in existence for more than a decade. As the STB's September 25, 2000 decision explains, consolidated reporting is currently required by STB only for Class I railroads filing Annual Report Form R-1, Schedule 250, related to revenue adequacy filings, but not for any other purposes. No compelling reason is given for making such a major change in the *status quo*.

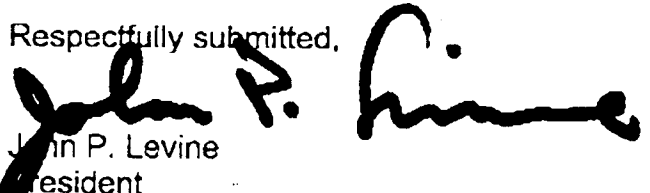
The proposal to mandate application of some of the requirements of FASB 94 is illogical and flawed. It would selectively adopt some, but not all, of FASB 94's

provisions. FASB 94 mandates consolidated reporting of all commonly controlled entities, including those that are not engaged in railroad-related activities, or those in foreign locations. The STB's proposal, however, would exclude non-U.S. railroads, non-railroad related operations, and might exclude commonly controlled railroads that do not connect with each other. These exclusions serve to point out how illogical FASB 94 is when applied to the railroad industry, and undercuts the argument that FASB 94 should be applied in the first place.

No reasons have been given to justify making such a substantial and burdensome change in the *status quo*. The system in place today is working, and has been working this way for many, many years without any evident problems. There is no reason for the STB to mandate this change, which will be burdensome and costly and could have unintended consequences for small railroads. There is no compelling reason why the STB should adopt the more-than 12 year old FASB 94 at this time. The number of exceptions make this proposal a hodge-podge, and goes to further clarify what a poor fit FASB 94 is for the U.S. Railroad Industry.

For all of these reasons, Pinsly urges the STB to reject the proposal to change its current practice regarding consolidate reporting by commonly controlled railroads, and discontinue this proceeding.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John P. Levine". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

John P. Levine
President

Pinsly Railroad Company
53 Southampton Road
Westfield, MA 01085
(413) 568-6426