

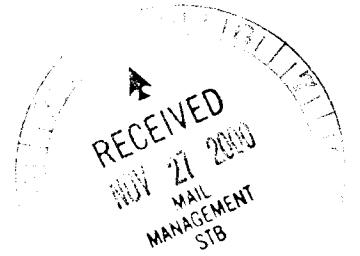
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BEFORE THE
SURFACE TRANSPORTATION BOARD



STB EX PARTE NO. 634

CONSOLIDATED FINANCIAL REPORTING BY
COMMONLY CONTROLLED RAILROADS

COMMENTS OF
EMONS TRANSPORTATION GROUP

I. Introduction

Emons Transportation Group ("Emons") hereby submits its comments in opposition to the Surface Transportation Board's proposal to require consolidated financial reporting by commonly controlled railroads. Emons respectfully submits that mandatory consolidated financial reporting by commonly controlled Class III railroads such as Emons would not provide the Board with any additional information regarding short line and regional railroad operations and that there is no need for more information from such railroads. In addition, consolidated financial reporting would soon convert Emons' Class III railroad subsidiaries into the equivalent of a single Class II railroad. Thus, the Board's proposal would be inconsistent with

Congressional intent expressed at the enactment of line sale provisions now codified at 49 U.S.C. § 10902 and would adversely affect many railroads involved in the leasing of grandfathered boxcars.

II. Emons Transportation Group

Emons is a rail freight transportation and distribution services company, serving the Mid-Atlantic and Northeast Regions of the United States and Québec, Canada. Emons currently owns four short line railroads:

- St. Lawrence Atlantic Railroad Company ("SLR")
- St. Lawrence Atlantic Railroad (Québec) Inc. ("SLQ")
- York Railway Company ("YRC"); and
- Penn Eastern Rail Lines, Inc. ("PRL")

Through its subsidiary, Emons Logistics Services, Inc., Emons offers transportation, storage and distribution services to customers in the Mid-Atlantic Region. Through its subsidiary, Maine Intermodal Transportation, Inc., Emons operates an intermodal terminal in Auburn, Maine. The Auburn facility is the only high-clearance, double-stack intermodal terminal in Northern New England handling traffic to/from Canada.

SLR and SLQ together operate 260 route miles of main line track between Portland, ME and Ste. Rosalie, Québec. SLQ

connects with CN and, through an interline regional rail carrier, Canadian Pacific Railway ("CP"). SLR connects with Guilford Rail System ("Guilford") at Danville Junction, Maine. Guilford has direct connections to CSX Transportation, Inc. and Norfolk Southern Railway Company. SLQ/SLR traffic includes L.P. gas, paper, woodpulp, chemicals, feed, lumber, salt, building products and intermodal traffic.

Emons' Pennsylvania operations include the 40-mile York Railway Company, with operations between York and Hanover, PA, and Penn Eastern Rail Lines, Inc. with rail operations on six branch lines located in eastern Pennsylvania. YRC interchanges rail traffic with the Norfolk Southern Railroad ("NS") and CSX Transportation, Inc. ("CSXT"), and also has commercial access to CP through NS. PRL's rail lines each interchange traffic with NS and one line also has access to CSXT.

III. The Board's Proposal Would Not Meet Its Stated Goal

The Board states that its proposal would provide it with "more meaningful and accurate information on major rail systems operating in the United States." Consolidated Financial Reporting, 65 Fed. Reg. at 57650 (Sept. 25, 2000). However, in the case of Emons, and I dare say many other groups of commonly controlled Class III railroads, the Board's adoption of FASB No. 94 would not trigger any data reporting requirements. Thus, the Board's proposal would not achieve the Board's stated purpose.

Moreover, the Board has not explained why it would need additional information from Class II railroads.

IV. The Board's Proposal Would Be Inconsistent With The Intent Of Section 10902

Like hundreds of other short lines formed since 1980, the success of Emons' short lines is attributable to deregulation of the railroad industry. First, the Interstate Commerce Commission established a class exemption for the acquisition of rail lines by non-carriers.¹ This class exemption spurred the growth of the short line railroad industry. SLR was formed pursuant to the 10901 class exemption.

In late 1995, Congress enacted a new provision, now codified at 49 U.S.C. § 10902, permitting Class III railroads to acquire additional rail lines on an expedited schedule and free of labor protection. Congress intended the new provision to promote "clear and more expeditious handling of [short line railroad] transactions, and avoid imposing additional and sometimes potentially fatal costs on start-up operations of smaller railroads." Conference Report of the House Committee on Transportation and Infrastructure, H. R. Rep. No. 104-3101 at

¹ Class Exemption -- Acq. & Oper. of Rail Lines Under 49 U.S.C. 10901, 1 I.C.C.2d 810 (1985), aff'd., Illinois Com'n v. I.C.C., 817 F.2d. 145 (D.C. Cir. 1987).

101 (1995). Shortly thereafter, the Board promulgated a new Section 10902 class exemption.²

The Board's 10902 exemption has been of great help to Emons. In October of 1997, Emons' rail subsidiary SLR used the 10902 class exemption to acquire (by lease) an additional 6 mile rail line from the Berlin Mills Railway, Inc.³ Emons' railroad subsidiaries are hopeful that they will have the opportunity to add additional rail lines to their rosters and that, when it makes sense from a business standpoint, Emons' railroads will be free to do the acquisitions with existing rail subsidiaries, without labor protection. The Board's proposed consolidated financial reporting would soon make Emons' railroad subsidiaries ineligible to use the Class III rail line acquisition provisions in the Board's 10902 class exemption.

V. The Board's Proposal Would Adversely Affect Lessees Of Grandfathered Boxcars

When the ICC exempted boxcars from regulation, it excluded boxcars that were owned or controlled by Class III carriers. Such "grandfathered" box cars were afforded the special protection of receiving prescribed car hire rates for the

² Class Exem. for Acq. & Oper. Under 49 U.S.C. 10902, 1 S.T.B. 95, 103 (1996).

³ St. Lawrence & Atlantic R.R. -- Lease and Operation Exemption -- Berlin Mills Ry., Finance Docket No. 33485 (STB served October 24, 1997).

remainder of their lives.⁴ Emons' railroad subsidiaries lease over 700 boxcars, a number of which are grandfathered. Our ability to lease boxcars on favorable terms is, we believe, in part attributable to our ability to include grandfathered boxcars in our fleet. These grandfathered boxcar leases are a key component of our overall marketing and service strategy. If we did not have the grandfathered boxcars in our fleet, we would have no assurance of being able to provide sufficient boxcars for our originating loads and shippers would look to truck alternatives for their transportation needs, especially with respect to paper and related products.

If we were to lose the ability to lease grandfathered boxcars, we would bear increased economic risks on our boxcar fleet or lose the cars altogether. In either case, we would need to seriously consider a reduction in our leased fleet, which could lead to boxcar shortages for our customers and a loss of business for our short lines.

Emons' railroad subsidiaries also lease their railroad marks to third parties. If our railroads were collectively a Class II railroad, we would no longer be able to enter into leases of our railroad marks. Our revenues for leased railroad marks drop directly to the bottom line because there are virtually no expenses associated with the leases. Consequently,

⁴ Box Car Hire and Car Service, 3 I.C.C.2d 1 (1986).

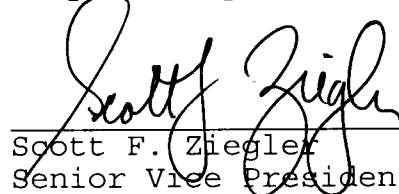
loss of revenues for leased railroad marks would have a direct effect on our railroad operating income.

I am confident that Emons would not be alone in this predicament. Other Class III railroads turned into Class II's and suddenly ineligible to secure prescribed rates on grandfathered boxcars, would face the same dilemma. Thus, the Board's proposal would adversely affect some number of Class III railroads using grandfathered boxcars.

VI. Conclusion

For the reasons summarized above, Emons opposes the Board's proposal to require consolidated financial reporting by commonly controlled railroads and urges the Board to withdraw the proposal.

Respectfully submitted,



Scott F. Ziegler
Senior Vice President and CFO,
Controller and Secretary
Emons Transportation Group, Inc.

Date: November 27, 2000