

GREAT LAKES TRANSPORTATION, LLC

P.O. Box 68
135 JAMISON LANE
MONROEVILLE, PA 15146
Telephone: (412) 829-6892
Fax: (412) 829-6607

LEEAN GREENWALD
GENERAL COUNSEL AND SECRETARY

April 30, 2001



The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Mercury Building, Room 711
Washington, D.C. 20423-0001

Re: Finance Docket No. 34000, Canadian National Railway Company, et al. –
Control and Merger – Wisconsin Central Transportation Corp., et al.

Dear Mr. Williams:

Enclosed for filing in the above-captioned docket is the "Reply of Great Lakes Transportation LLC to Petition Suggesting Procedural Schedule; Petition to Dismiss Application or Require Supplemental Information" and a "Petition for Leave to File Late."

Very truly yours,

Leean Marynchak Greenwald

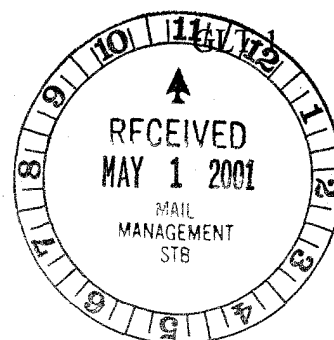
Enclosures

ENTERED
Office of the Secretary

MAY 01 2001

Part of
Public Record

BEFORE THE
SURFACE TRANSPORTATION BOARD



Finance Docket No. 34000

CANADIAN NATIONAL RAILWAY COMPANY,
GRAND TRUNK CORPORATION, AND WC MERGER SUB, INC.
- CONTROL AND MERGER -
WISCONSIN CENTRAL TRANSPORTATION CORPORATION,
WISCONSIN CENTRAL LTD., FOX VALLEY & WESTERN LTD.,
SAULT STE. MARIE BRIDGE COMPANY, AND
WISCONSIN CHICAGO LINK LTD.

**REPLY OF GREAT LAKES TRANSPORTATION LLC
TO PETITION SUGGESTING PROCEDURAL SCHEDULE;
PETITION TO DISMISS APPLICATION
OR REQUIRE SUPPLEMENTAL INFORMATION**

Leean Marynchak Greenwald
General Counsel & Secretary
Great Lakes Transportation LLC
135 Jamison Lane
P.O. Box 68
Monroeville, PA 15146
(412) 829-6892

April 30, 2001

ENTERED
Office of the Secretary

MAY 01 2001

Part of
Public Record

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 34000

CANADIAN NATIONAL RAILWAY COMPANY,
GRAND TRUNK CORPORATION, AND WC MERGER SUB, INC.
- CONTROL AND MERGER -
WISCONSIN CENTRAL TRANSPORTATION CORPORATION,
WISCONSIN CENTRAL LTD., FOX VALLEY & WESTERN LTD.,
SAULT STE. MARIE BRIDGE COMPANY, AND
WISCONSIN CHICAGO LINK LTD.

**REPLY OF GREAT LAKES TRANSPORTATION LLC
TO PETITION SUGGESTING PROCEDURAL SCHEDULE;
PETITION TO DISMISS APPLICATION
OR REQUIRE SUPPLEMENTAL INFORMATION**

Pursuant to 49 C.F.R. 1104.13, Great Lakes Transportation LLC
("Great Lakes") respectfully opposes applicants' proposed procedural schedule for a
"minor" transaction. Pursuant to the same provision and 49 C.F.R. 1117.1, Great Lakes
also petitions the Board to dismiss the CN/WC application as incomplete or to require
applicants to file supplemental information. Great Lakes seeks this relief for the following
reasons:

On the present record, the Board cannot make the findings required to
classify the CN/WC transaction as "minor." This is so because the application anticipates
a significant diversion of waterborne transportation to the merged railroad without
discussing the competitive and other effects of this diversion. This diversion could

undermine the economics of water transportation service on the lakes and would eliminate essential rail services, but the application does not address these risks. On that basis alone, the applicants have not established the prerequisites for a “minor” transaction: the clear absence of anticompetitive effects, or public benefits that clearly outweigh those effects. 49 C.F. R. 1180.2(b). Accordingly, the proposed schedule--which assumes that the transaction is “minor”--is inappropriate. 49 C.F.R. 1180.4.

The Board should dismiss the application as facially incomplete or require applicants to supplement it for two interrelated reasons. First and foremost, the application fails to discuss the major competitive, operating, labor, environmental, safety, and public interest consequences of a significant diversion of water traffic to CN/WC. The Board needs this information to evaluate the transaction. Second, applicants should be required to supply all elements of an application for a “significant” transaction of regional transportation importance.

Great Lakes and Its Interests in This Proceeding

Great Lakes is a new entity. It indirectly owns a water carrier that sails the Great Lakes, two Class II railroads, and a dock company that is also a Class III carrier. Verified Statement of Peter Stephenson (“Stephenson V.S.”), p. 1. The water carrier is USS Great Lakes Fleet, Inc. (“USS Fleet”). The rail carriers are The Duluth, Missabe & Iron Range Railway Company (“DM&IR”) and The Bessemer & Lake Erie Railroad Company (“B&LE”). The dock company is The Pittsburgh & Conneaut Dock Company (“P&C Dock”). Owned entirely by the Blackstone Group and the management team at Great Lakes,

Great Lakes was formed earlier this year after Blackstone and USX Corporation reorganized the transportation subsidiaries of Transtar, Inc.¹ Id.

Together, DM&IR, USS Fleet, P&C Dock, and B&LE provide integrated transportation of taconite pellets and related materials from the iron ore producing region of northeastern Minnesota to steel plants throughout the Midwest region. Id. at 2-4. DM&IR moves thousands of trainloads annually from taconite plants in Minnesota to its docks at Duluth and Two Harbors, Minnesota. The taconite is unloaded from trains directly or indirectly into USS Fleet boats for movement on the Great Lakes. Some of the ships unload at P&C Dock, where taconite is reloaded into B&LE trains for movement to U.S. Steel's Edgar Thomson steel mill.

Great Lakes appears in this proceeding because CN and WC intend to divert some or all of these taconite shipments from waterborne movement to all-rail movement. If successful, this diversion would have very substantial impacts on the public interest. The CN/WC application is silent about these impacts, which include:

- The diversion threatens essential rail services and would eliminate the competition they provide.
- The diversion could limit competitive options for some or all users of water transportation on the Great Lakes.
- The diversion would cause hundreds of sailors, dock workers, and rail workers to lose their jobs.
- The diversion would have significant, undisclosed operating effects. It would add large numbers of trains to WC lines between Duluth and Chicago and to CN or other lines east of Chicago. It would substantially increase rail traffic in the congested Chicago terminal.

¹ Cf. Finance Docket No. 33942, USX Corp. -- Control Exemption -- Transtar, Inc., Decision served Nov. 30, 2000, pp. 1-2.

It would cause substantial operating changes in the Duluth-Superior terminal. Applicants' Service Assurance Plan does not mention these changes.

- The diversion would divert millions of tons of freight from fuel-efficient, low-emission water transportation to less efficient, higher-emission rail service.
- The diversion would tax rail capacity on WC and CN, either requiring new construction projects or impairing rail service. The application does not explain how this traffic would be handled.
- The diversion would adversely affect safety, increasing grade crossing accidents and the number of employee injuries compared to those occurring in water transport.
- The diversion would adversely affect communities on and near the lakes that support and serve the lakes shipping industry.

These and other effects not discussed in the application confirm that the proposed CN/WC merger is a "significant" consolidation requiring careful analysis and a more complete application than CN and WC submitted.

I. THE CN/WC TRANSACTION SHOULD PRESUMPTIVELY BE TREATED AS MORE SIGNIFICANT THAN A "MINOR" TRANSACTION

The CN/WC consolidation should presumptively be regarded as at least a "significant" transaction under 49 C.F.R. 1180.2. CN is one of North America's largest railroads, the only railroad that reaches the Atlantic Ocean, the Pacific Ocean, and the Gulf of Mexico. WC is a 2,855-mile collection of railroads that, in aggregate, would qualify as a Class 1 carrier. WC's annual revenues, as reported in its 2000 Report 10-K to the SEC, exceed \$370 million annually. Indeed, were the Board's proposed financial reporting rules in effect, WC could be classified as a Class I carrier today. CN/WC would then be a "major" transaction. Ex Parte No. 634, Consolidated Railroad Reporting, Decision served

Sept. 25, 2000 (proposing to adopt FASB 94, requiring consolidated financial information for all majority-owned and controlled subsidiaries).

The proposed transaction escapes classification as "major" only by virtue of competitively insignificant corporate distinctions within the WC family. In filings with the Board, WC describes itself as a single "System" of carriers that operate "together as a coordinated regional network." Initial Comments of Wisconsin Central System, Ex Parte No. 582 (Sub-No. 1), dated May 16, 2000, p. 1. WC does not purport commercially to separate its U.S. rail carriers. CN/WC-2, Vol. 1, Verified Statement of Thomas F. Power, Jr., pp. 121-125. From a competitive standpoint, WC is one system and could be treated as such.

This billion-dollar transaction stands in stark contrast with other proposals classified as "minor" and is also more complex than proposals classified as "significant." For example, in the CN/IC proceeding, the Board rejected a CSX petition to classify a request for trackage rights over a short KCS segment as a "minor" transaction. CSX sought trackage rights between New Orleans and a point southeast of Baton Rouge, Louisiana, to preserve an opportunity to build tracks serving the Geismar area. Although it is hard to imagine any anticompetitive impact from that proposal, the Board rejected the petition because "similar trackage rights proposals in connection with service to Geismar, LA, were not minor." Finance Docket No. 33556, Canadian National Ry., et al. -- Control -- Illinois Central Corp., et al. ("CN/IC"), Decision No. 10 served Oct. 2, 1998, p. 3. In contrast, CN persuaded the Board that requests for modest trackage and dispatching rights in the Detroit, Chicago, and Buffalo terminal areas were "minor transactions." Finance Docket No. 33388, CSX Corp., et al. -- Control and Operating Leases/Agreements -- Conrail, Inc. and

Consolidated Rail Corp. ("Conrail"), Decision No. 30 served Sept. 11, 1997, p. 3. The longest of these segments extended only from South Bend to Chicago.

The Board should presume that a consolidation between a Class I carrier and an affiliated group of carriers that is equivalent to a Class I carrier has "regional transportation significance." The proposed transaction will consolidate a transcontinental Class I carrier with the nation's largest regional railroad, eliminating a carrier that has compiled a sterling record of customer service. If successful in their plan to divert water carrier shipments to the rails, CN and WC will sharply curtail or eliminate some of the transportation services Great Lakes provides, eliminating hundreds of jobs and changing regional transportation patterns. The regional impact would be undeniable and merits greater scrutiny than CN and WC propose.

II. THE CN/WC APPLICATION FAILS TO ESTABLISH THE ABSENCE OF COMPETITIVE HARM

A. The Applicants Anticipate a Major Diversion of Waterborne Traffic

Applicants expect to substitute WC-CN all-rail routes for Great Lakes' water carrier routes. They identify this as one of the "Shipper Benefits Resulting From CN/WC Transaction." CN/WC-2, Vol. 1, Joint Verified Statement of James M. Foote and William R. Schauer, p. 155. According to Messrs. Foote and Schauer, "the merged system can fill a new role in the transport of taconite." *Id.* at 169. They specifically anticipate all-rail service displacing Great Lakes' movement of taconite between Minntac, Minnesota, and U.S. Steel's Edgar Thomson Works in Pittsburgh. *Id.* at 170.

The proposed transaction would give CN/WC single-line routes from the Duluth/Superior gateway, through Chicago, to destinations throughout the Upper Midwest

that Great Lakes now serves via rail-water routes. These destinations include Gary, Indiana; Detroit, Michigan; Toledo, Ohio; Nanticoke, Ontario; and Pittsburgh, Pennsylvania. In aggregate, CN and WC could attempt to capture up to 18 million net tons of waterborne taconite each year. Stephenson V.S. at 3-6.

B. The Application Is Silent About the Effects of Diverting Waterborne Traffic

Although CN and WC note that the proposed transaction may have a major impact on waterborne traffic, the application fails to consider any of the effects of diverting large volumes of taconite from rail-water routes to all-rail routes. This is evident from the fact that applicants predict no significant increase in train traffic over WC's lines. DMIR delivers an average of more than six unit trains of taconite daily for shipment on USS Fleet via dock facilities in Duluth and Two Harbors. Stephenson V.S. at 3. If these trains operated via an all-rail route to Chicago and beyond, rail traffic on WC's lines would significantly increase by a dozen or more trains per day.

Similarly, CN/WC's competition analyses fail to discuss the potential adverse effect of this diversion. See, e.g., CN/WC-2, Vol. 1, Verified Statements of Foote and Schauer, Bottorff, Vellturo and Bottorff, and Woodward. CN/WC claim public benefits for this potential diversion but do not admit any costs. The application contains no indication that the applicants considered the impacts of diversion on Great Lakes' ability to provide transportation services. It contains no indication that the applicants considered the effect on shippers of curtailing transportation on the lakes or on Great Lakes' rail carriers.

The application is equally silent on other effects of diverting waterborne traffic. The operating plan fails to reflect the impact of such a significant increase in unit

taconite trains on WC and CN lines. The Service Assurance Plan fails to consider the major service adjustments that these trains would require. The Labor Impact Analysis fails to provide for employees to handle the trains. Great Lakes anticipates that applicants' safety assurance plan will not consider the safety effects of a substantial increase in taconite traffic on WC and CN lines.

C. On This Record, the Board Cannot Make the Findings Necessary to Classify the Transaction as "Minor."

Lacking any analysis of water-to-rail diversion in the application, the Board has no basis for making the findings required to declare this transaction "minor." Under 49 C.F.R. 1180.2(b), a transaction is "minor" only if the Board can "clearly" reach one of two conclusions:

- that the transaction "clearly will not have any anticompetitive effects;" or
- that "any anticompetitive effects of the transaction will clearly be outweighed by the transaction's anticipated contribution to the public interest in meeting significant transportation needs."

The Board cannot make the first determination, because applicants have not even discussed the competitive effects of their anticipated water-to-rail diversion. The Board has rejected other requests to classify transactions as "minor" when the applicants failed to discuss competitive and other effects. In Conrail, for example, the Board rejected a CP request to declare proposed trackage rights "minor" because it was unclear "what the competitive effect of the [transaction] would be." Decision No. 36 served Sept. 18, 1997, p. 3. Similarly, in CN/IC, the Board refused to find a proposed divestiture a "minor" transaction because the proponent had not submitted sufficient information about the "public

interest justification in support of the application.” Decision No. 21 served Nov. 17, 1998, p. 4.

The Board also cannot make the second determination. It lacks the record to determine that the anticompetitive effects of the transaction are “clearly” outweighed by benefits that meet “significant transportation needs.” 49 C.F.R. 1180.2(b)(2). The applicants’ public benefits claims have not yet been tested by discovery or by evidence from Great Lakes and other parties. For now, they are only claims.

Moreover, applicants have not explained how they will meet “significant” transportation needs that are not being met by CN and WC as interline partners today. Their application portrays this billion-dollar transaction as a minimalist merger. The applicants expect to achieve cost reductions, but such financial benefits do not meet any “significant transportation needs.” Applicants stress that the transaction will allow CN to guarantee access to the WC mainline in the future, but they identify no presently unmet transportation needs.

Applicants assert that their operations will change little: CN’s Mr. Tellier declares, “Operating changes, on balance, will be minor.” CN/WC-2, Vol. 1, Verified Statement of Paul M. Tellier, p. 111. Other than automatically eliminating interchanges in Chicago and Superior, CN asserts that “the traffic changes expected to occur at any given location are relatively modest in scope” and “few significant changes in terminals will occur.” CN/WC-2, Vol. 1, Joint Verified Statement of Gordon T. Trafton II and J. Edward Terbell, p. 330. Moreover, “CN and WC do not expect to make any significant physical changes to their systems.” CN/WC-2, Vol. 1, Exhibit 15 - Operating Plan - Minor, p. 370. The merged system plans “[f]ew changes in traffic patterns and operations,” “no changes

in routing and a net total of only one new train pair.” *Id.* at 371. It is difficult to reconcile these statements with the need to find that the merger is meeting any “significant transportation needs.”

Accordingly, the applicants have not provided a basis for declaring their transaction “minor.” In light of the potential impact of the transaction on competition and the public interest, such a finding could not be made. The CN/WC threatens essential transportation in ways that applicants do not address and may have overlooked.

III. THE CN/WC TRANSACTION THREATENS ESSENTIAL TRANSPORTATION SERVICES

The Verified Statement of Peter D. Stephenson discusses the potential effects of the CN/WC transaction on water and rail transportation. Great Lakes is handicapped in evaluating the full impact of the proposed transaction, because applicants provided no details about their plans for diverting rail-water traffic. There is little doubt, however, that the transaction is likely to eliminate essential rail competition on the southern half of the B&LE. It also could drive USS Fleet out of business and impair competition provided by water carriers on the lakes. Even if USS Fleet survives, reduced use of the lakes navigation network could adversely affect all remaining water transportation on the lakes.

A. The Transaction Is Likely to Eliminate Essential Rail Service On Half of the B&LE

If CN/WC succeeds in diverting the Pittsburgh taconite traffic to its all-rail route, the southern half of the B&LE will no longer be viable. Stephenson V.S. at 7-8.

As Mr. Stephenson explains, the financial viability of B&LE between Greenville and North Bessemer, Pennsylvania, a distance of 90 miles, depends on taconite traffic. This year, that segment is expected to carry some 2.9 million tons of taconite. This is the taconite shipment

to USX that applicants specifically target in their application. Without these taconite movements from USS Fleet ships, this line segment is no longer viable.

All active shippers on this 90-mile line will be deprived of rail service. Local shippers on the line in communities such as Grove City and Branchton, Pennsylvania, will lose direct rail access and will be forced to use more expensive trucks. At least one major shipper, AK Steel at Butler, will lose competitive rail service and become "captive" to a single railroad. Abandoning the 90-mile segment of B&LE will also require longer routings for time-sensitive shipments on the line. Id.

B. The Transaction Would Undermine Water Carrier Transportation on the Great Lakes

If CN/WC succeeds in diverting rail-water taconite movements to all-rail routes, USS Fleet will be forced to reduce its operations on the lakes, and it may go out of business. It will mothball or sell several of its ships and cut up to 400 or more sailings per year. USS Fleet will lose almost 70 percent of its revenues. Most of its employees, more than 200 of them, will lose their jobs, as will more than 100 DMIR employees who work on its docks. *Stephenson V.S.* at 5. Other water carriers may lose taconite shipments as well.

If CN/WC successfully diverts the majority of taconite traffic, water transportation would no longer be an effective competitor for backhaul shipments of limestone and other commodities to the northern region of the lakes. Without the "head haul" taconite shipments, freight rates could rise as the costs of transporting these shipments rises. Water transportation may no longer be competitive for these commodities, diverting them to CN/WC, other railroads, or motor carriers.

The decline in or loss of taconite operations would hurt all shippers who rely on transportation on the Great Lakes. Taconite shipments are the “base load” for vessel transportation on the lakes. Without it, the economics of water transportation will deteriorate and water transportation will be less competitive against railroads (including CN/WC) and motor carriers. Water transportation on the lakes depends on government investment in facilities, such as the locks at Sault St. Marie, Michigan. As the number of ships on the lakes declines, the justification for government investment erodes. Id. at 67.

The Board needs to investigate and understand the effects of this transaction on waterborne transportation on the lakes before rushing forward with a “minor” proceeding. To fully understand the complex implications of the proposed transaction for water transportation, the Board should consult with other governmental entities responsible for water transportation, including the U.S. Coast Guard and the Corps of Engineers. The Board's schedule should provide for these and other interested federal, state, and local agencies to register their views.

C. P&C Dock

Reduced volumes of taconite handled by the USS Fleet will directly impact the volumes handled over the P&C Dock. These reductions cannot be matched proportionately with expense reductions at this facility. This will result in this facility becoming less competitive with other lake facilities, resulting in a loss of competitive options for shippers currently using the facilities. Id. at 8.

IV. REQUEST FOR RELIEF

For the foregoing reasons, Great Lakes opposes the CN/WC petition suggesting a procedural schedule for a “minor” transaction. A billion-dollar acquisition

of America's largest regional carrier is "significant," not minor. Because it threatens essential transportation services, the Board cannot find that this transaction is a "minor" event. The schedule should be expanded to correspond to the time periods provided in the statute and the Board rules for a "significant" transaction. 49 U.S.C. § 11325(c); 49 C.F.R. 1180.4. That schedule will give the Board and the parties adequate opportunity to study this important transaction.

Great Lakes also respectfully requests that the Board either reject the application as incomplete or require applicants to submit supplemental information. In particular, applicants should be required to submit information about all of the effects of replacing water transport of taconite shipments with all-rail movements. Applicants failed to justify treating this transaction as "minor." As such, they should be required either to refile their application or supplement it with all information required for a "significant" transaction. The Board defined the principal additional elements CN and WC should file in CN/IC, Decision (No. 7) served Sept. 18, 1998, p. 4. The supplemental information must, at a minimum, include much more detailed environmental information and a full operating plan.

April 30, 2001

Respectfully submitted,

Leean Marynchak Greenwald

Leean Marynchak Greenwald
General Counsel & Secretary
Great Lakes Transportation LLC

VERIFIED STATEMENT

OF

PETER D. STEPHENSON

My name is Peter D. Stephenson. I am currently Vice President of The Duluth, Missabe and Iron Range Railway Company ("DM&IR") and USS Great Lakes Fleet, Inc. ("USS Fleet"). For most of my career, I worked directly for DM&IR, and my office was located in Duluth, Minnesota. From 1979 to 1983 I was Assistant Superintendent in the Transportation Department of the DM&IR, and from 1984 to 1991 I was Superintendent-Transportation, DM&IR.

I am submitting this verified statement to describe the potential effects of the proposed Canadian National/Wisconsin Central merger on transportation services and competition provided by Great Lakes Transportation LLC ("Great Lakes").

Great Lakes Transportation and Its Affiliates

Great Lakes was formed in 2001 to acquire four transportation companies formerly owned by U.S. Steel Company. Great Lakes owns, indirectly through holding companies, The Duluth, Missabe and Iron Range Railway Company, a Class II rail carrier operating in northeastern Minnesota and Wisconsin; The Bessemer and Lake Erie Railroad Company ("B&LE"), a Class II rail carrier operating in western Pennsylvania and northeastern Ohio; The Pittsburgh & Conneaut Dock Company ("P&C Dock"), a Class III carrier that conducts stevedoring operations at B&LE's bulk material handling facility in Conneaut, Ohio; and USS Fleet, a water carrier providing vessel transportation on the Lakes Superior, Huron, Michigan and Erie.

Before 1988, USX Corp. (the former U.S. Steel Company) owned all of these companies, as well as five other railroads. U.S. Steel had created or acquired all eight railroads and USS Fleet primarily to satisfy its own needs for freight transportation, but all of the carriers provided common carrier service to the public.

In 1988, USX formed Transtar, Inc. as a holding company for its transportation subsidiaries. USX then sold a controlling interest in Transtar to an investment group consisting of Blackstone Capital Partners, L.P. and Blackstone Transportation Partners, L.P. USX retained 49 percent of the stock of Transtar and numerous rights to control the management and operation of the subsidiaries. Blackstone Transportation Partners became Transtar Holdings, L.P. in 1993, acquiring the entire 51 percent stock interest in Transtar.

Last year, USX and Transtar Holdings decided to reallocate their ownership of the Transtar subsidiaries. Holdings acquired all of the stock of DM&IR, B&LE, P&C, and USS Fleet. In exchange, it transferred its Transtar stock to Transtar, leaving USX as sole owner of Transtar and the remaining Transtar transportation subsidiaries.

Rail-Water Transportation of Taconite

A significant part of Great Lakes' business consists of transporting taconite pellets in rail-water service. Taconite pellets are concentrated iron ore used in blast furnaces to make iron. The leading source of taconite in the U.S. is northeastern Minnesota, an area that includes iron ore deposits known as the Minnesota Iron Range. Approximately half a dozen Minnesota producers refine crude iron ore and process it into pellets, which they load into rail cars for transportation. Most of the taconite moves by rail to Lake Superior and then by boat on the Great Lakes. Some of the taconite returns to the railroads at lake terminals such as P&C Dock.

DM&IR. DM&IR exists primarily to serve the taconite plants. Although it transports shipments for a few other shippers, DM&IR primarily delivers limestone and related products to the taconite plants and picks up unit trains of taconite from the plants. Most of the taconite pellets move to Lake Superior for later movement by boat. DM&IR operates two large pier facilities, called shiploaders, to load taconite pellets into boats. One is just west of downtown Duluth, Minnesota; the other is northeast of Duluth at Two Harbors, Minnesota.

DM&IR operates six or more loaded unit trains per day to Duluth and Two Harbors in order to deliver the taconite moved on water carriers. DM&IR delivers approximately 18 million net tons of taconite to lake boats every year. Of this total, over 12 million tons of taconite flow into USS Fleet ships.

USS Fleet. USS Fleet owns and operates the vessels that transport taconite from the DM&IR shiploaders at Duluth and Two Harbors. USS Fleet has provided this service for over 40 years, dating back to the development of taconite. Before that, USS Fleet transported iron ore for six decades. USS Fleet operates eight ships supporting taconite service. Taconite originates at the two Minnesota ports and is delivered to ports on the lower Great Lakes.

USS Fleet delivers taconite to several destinations. The largest volume of taconite moves to the USX Steel plant at Gary, Indiana. USS Fleet delivers smaller amounts of taconite to users in Lorain and Toledo, Ohio. It also delivers approximately 2.9 million tons of taconite annually to P&C Dock in Conneaut, Ohio, and additional tonnage to other docks.

In 2000, taconite shipments generated some \$66 million in revenue for USS Fleet. Almost 70 percent of USS Fleet's total revenues comes from taconite shipments. The remainder of its revenues comes from natural ores, limestone, coal and other commodities.

P&C Dock. P&C Dock receives taconite from vessels, stores it, and transloads it to rail cars for movements to US Steel's Edgar Thomson Works in Pittsburgh, PA. In addition to three million tons of taconite, it handles over a million tons of limestone and seven million tons of rail-delivered coal for water shipment throughout the Great Lakes.

B&LE. B&LE transports taconite from P&C Dock southward to Pittsburgh for ultimate delivery to USX's Edgar Thomson Works. These shipments provide more than one quarter of B&LE's gross revenues. On the south half of B&LE, they are the primary movements.

CN and WC Plans to Divert Rail-Water Shipments

We were not surprised to discover that CN and WC will attempt to divert taconite shipments from their current rail-water routes to all-rail movements on their merged system. These efforts are already underway. WC has been soliciting these shipments, as shown by the attached advertisement that appeared in Skillings Mining Review, a newsletter that serves the taconite industry. We were surprised, however, that the CN/WC application provides no details or information about these efforts.

Effects of Diversion to All-Rail Routes

The CN/WC plans concern Great Lakes for a number of reasons. Obviously, we have private financial concerns. We cannot predict with certainty how much of our rail-water taconite might be diverted to all-rail service, because CN and WC did not provide any detail about their plans in their application. Other than mentioning the plans for a year-round, all-rail taconite service, the Application provides no insight into the extent that CN/WC will penetrate the existing rail-water market. If the CN/WC merger is approved and the merged system

succeeds in diverting all or even a substantial share of our rail-water taconite business to all-rail routes, however, the diversion will have devastating financial impacts on Great Lakes. Our combined companies could ultimately lose in excess of \$70 million in annual revenues.

If successful in capturing taconite business, the CN/WC plans will have other negative effects as well:

- Large numbers of rail and water carrier employees will lose their jobs, with no hope of receiving STB labor protection. We estimate a total of over 400 employees will be put out of work, more than 200 of them at USS Fleet. DM&IR would lay off more than 100 employees at its docks and other facilities.
- Fuel consumption would increase. All-rail movement of taconite pellets requires 46 percent more fuel than rail-water routes. This is so because water transportation is extremely fuel-efficient.
- Air pollution and noise will increase. With increased fuel consumption, diversion to all-rail would increase air pollution by 104 percent. The increase in trains on WC and CN lines will result in more noise for surrounding neighborhoods.
- Safety will be affected. Water transportation is extraordinarily safe, as lake vessels have almost no interaction with the public. The same cannot be said of rail transportation, despite its advantages compared to motor transport. The additional trains in taconite service will increase grade crossing accidents. In addition, the number of rail employee accidents and injuries will grow.

- Increased use of rail transportation will cause various types of transportation congestion. Rail crossing delays will increase as taconite moves in slow trains of over 100 cars. Public safety could also be affected as the ability of emergency vehicles to respond quickly to incidents will be reduced. The Chicago rail terminal is already congested, and it will become more congested if six or more trains of taconite, plus an equal number of empty movements, transit the terminal each day.

As I understand, though, the Board's primary concern in deciding whether a transaction is minor or significant is its effect on competition. A CN/WC merger would have significant negative effects on competition and essential services.

Impact on USS Fleet and Great Lakes Water Transportation. Without the taconite traffic, USS Fleet will suffer irreparable harm. Losing up to 70 percent of its revenues, USS Fleet would not be able to operate viably without the taconite traffic. The impact, however, is more far reaching than the viability of USS Fleet. In 1999, USS Fleet accounted for nearly one-third of the 57.1 million tons of the US mined iron ore shipped on the Great Lakes. Elimination of a major carrier such as USS Fleet could significantly reduce competition on the Great Lakes.

The decline in USS Fleet operations may adversely affect all shippers who rely on transportation on the Great Lakes in various ways: First, water transportation would become less competitive with railroads (including CN/WC) and motor carriers. Loss of all or part of the USS Fleet will result in a reduction in competitive options available to shippers now using the services of this company. Second, in addition to the taconite and iron ore shippers now using the USS Fleet, there is another group of current shippers that would be negatively impacted: those using the USS Fleet on a "backhaul" basis for the movement of coal, limestone and salt from lower Great Lake ports. With a decline in the taconite iron ore "headhauls," the ability of the

USS Fleet to provide economically viable "backhaul" services will be negatively impacted and eventually eliminated. Third, water transportation on the lakes depends on government investment in facilities, such as the locks at Sault St. Marie, Michigan. As the number of ships on the lakes declines, the justification for government investment erodes.

Impact on B&LE. CN and WC specifically target B&LE's 2.9 million annual tons of taconite traffic to Pittsburgh. Eliminating this traffic from the south end of the B&LE will destroy the viability of the south half of the railroad, south of Shenango, Pennsylvania. Revenue from this 90-mile segment will be reduced by 80 percent. Local customers in Grove City, Branchton and the Pittsburgh area would lose rail service due to the closure of this line. Grove City and Branchton are now served only by B&LE. No other railroad would earn sufficient revenue to serve these points. Customers such as Montgomery Lumber and Mercer Limestone would lose the option of shipping by rail and be forced to use trucks.

The most significant customer affected by abandoning the south end of the B&LE would be AK Steel. It uses B&LE rail service via an interchange from Norfolk Southern in Shenango. Abandoning B&LE would leave AK captive to the Buffalo & Pittsburgh Railroad. Rates could increase for service to AK's various plants, including those in Middletown and Aliquippa. AK could also lose competitive service on scrap movements to Butler. Eliminating B&LE's North Bessemer connection with Union Railroad would force all of the rail movements to B&P for delivery at Butler. Pig iron movements via Duquesne Wharf (50-60 cars monthly) would be shifted to CSX for movement to Butler, requiring longer transit times. The elimination of the B&LE line therefore will eliminate rail competition for AK Steel shipments of both inbound and outbound traffic.

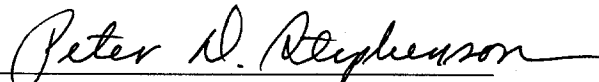
Impact on P&C Dock. P&C Dock has made a significant investment in equipment and machinery to handle both inbound and outbound taconite and the subsequent transload to rail cars for movement to Pittsburgh. Eliminating taconite shipments through P&C Dock will mothball this equipment and eliminate both operating and maintenance jobs. This would compromise P&C's ability to compete for all other shipments with Pinney Dock, Ashtabula Dock, and other Great Lakes port facilities.

ON CHARGE OF THE P.O. BOX 5157 • RICHMOND, IL 61801 • 216

VERIFICATION

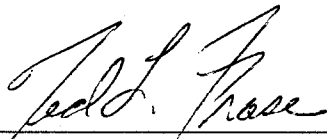
STATE OF MINNESOTA)
) ss:
COUNTY OF **ST. LOUIS**)

I, PETER D. STEPHENSON, Vice President-Operations of The Duluth, Missabe and Iron Range Railway Company and USS Great Lakes Fleet, Inc., being duly sworn, state that I have read the foregoing statement, that I know its contents, and that those contents are true as stated.



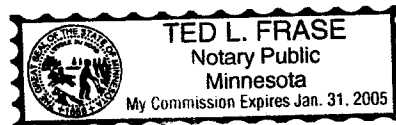
Peter D. Stephenson

SUBSCRIBED AND SWORN TO before me this 30th day of April, 2001.



Notary Public

My Commission Expires: 1/31/05



CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 30th day of April, 2001, a copy of the foregoing "Reply of Great Lakes Transportation LLC to Petition Suggesting Procedural Schedule; Petition to Dismiss Application or Require Supplemental Information" (GLT-1) was sent by facsimile to:

Paul A. Cunningham
Harkins Cunningham
801 Pennsylvania Avenue, N.W.
Suite 600
Washington, D.C. 20004-2664
Facsimile Number: 202-973-7610

William C. Sippel
Fletcher & Sippel LLC
180 N. Stetson Ave., Suite 3125
Chicago, Illinois 60601-6721
Facsimile Number: 312-540-9098

and was sent via airborne express on the 1st day of May, 2001, to all parties of record.


Leean Marynchak Greenwald, Esquire