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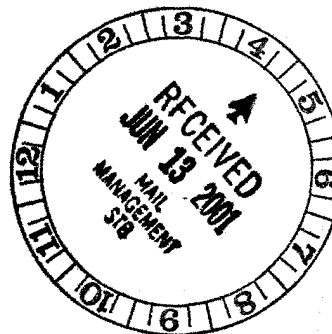
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VIA HAND DELIVERY

Office of the Secretary
Case Control Unit
Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423-0001

Attn: Ms. Phillis Johnson-Ball
Environmental Project Manager

Re: **Finance Docket No. 34000**
Canadian National Railway Company, Grand Trunk Corporation, and
WC Merger Sub, Inc. – Control – Wisconsin Central Transportation
Corporation, Wisconsin Central Ltd., Fox Valley & Western Ltd.,
Sault Ste. Marie Bridge Company, and Wisconsin Chicago Link Ltd.



ENTERED
Office of the Secretary

JUN 15 2001

Part of
Public Record

Dear Ms. Johnson-Ball:

As contemplated by Decision No. 2 in this proceeding, served May 9, 2001, public comments are due today on the Environmental Appendix issued on May 14, 2001 by the Applicants¹ and on the need for any environmental review in this railroad control proceeding. Applicants hereby submit these comments on a single subject that has been raised in recent weeks by certain parties and may be repeated in environmental comments filed with the Board – the potential diversion of significant volumes of taconite (a form of iron ore) to all-rail movements on rail lines of CN and WC.

¹ Applicants are: (1) Canadian National Railway Company and its railroad subsidiaries in the United States (Illinois Central Railroad Company, Grand Trunk Western Railroad Incorporated, Chicago, Central & Pacific Railroad Company, Duluth, Winnipeg and Pacific Railway Company, Cedar River Railroad Company and Waterloo Railway Company) (collectively, "CN"); and (2) Wisconsin Central Transportation Corporation and its railroad subsidiaries in the United States (Wisconsin Central Ltd., Fox Valley & Western Ltd., Sault Ste. Marie Bridge Company and Wisconsin Chicago Link Ltd.) (collectively, "WC").

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Great Lakes Transportation LLC ("GLT") has claimed that taconite traffic moving between U.S. Steel's Minntac mine in the Mesabi Range of Minnesota and U.S. Steel's Edgar Thomson Works near Pittsburgh, Pennsylvania will be diverted from a rail-water routing to an all-rail routing as a result of the proposed CN/WC control transaction.² That traffic is moved by rail from Minntac to the docks at Duluth or Two Harbors, Minnesota by the Duluth, Missabe & Iron Range Railway Company ("DMIR"); is transported across the Great Lakes to Conneaut, Ohio by the USS Great Lakes Fleet, Inc. ("USS Fleet"); is reloaded into rail cars at Conneaut by The Pittsburgh & Conneaut Dock Company ("P&C Dock"); and is moved by rail from Conneaut to the Pittsburgh area by the Bessemer & Lake Erie Railroad Company ("B&LE"). DMIR, USS Fleet, P&C Dock and B&LE are all wholly-owned subsidiaries of GLT.

All-rail movements of Minntac-Edgar Thomson taconite previously have occurred only in the winter months, when waterborne operations on the Great Lakes are restricted. (These seasonal movements do not occur every year, and did not take place in 2001.) Based on a single reference in the CN/WC control application (CN/WC-2, vol. 1 at 170), however, GLT has argued that potentially all Minntac-Edgar Thomson taconite traffic would shift to an all-rail routing that includes CN and WC as a result of the CN/WC Transaction.³ Other parties and maritime interests have echoed these claims. According to GLT, if these diversions were to occur, such new traffic could "result in potentially significant environmental impacts warranting the preparation of further environmental documentation." *See* Environmental Appendix at 9.

Such year-round all-rail handling of the Minntac-Edgar Thomson taconite traffic, however, is not likely to occur at all and in any event would require DMIR's consent and participation. The following facts demonstrate the frivolous nature of GLT's diversion claims:

1. DMIR, the bottleneck carrier on Minntac taconite traffic, has the pricing power to preclude all-rail moves. DMIR is the sole rail carrier serving Minntac, and any all-rail movement of Minntac taconite (including the previous seasonal movements of Minntac-Edgar Thomson taconite in which WC took part) necessarily involves the participation and approval of DMIR. DMIR has the pricing power to determine whether a particular all-rail movement will occur.

DMIR's pricing power has been in evidence for many years. WC has taken part in the past in all-rail movements of Minntac taconite to U.S. Steel's Fairfield (Birmingham), Alabama plant – a landlocked facility which does not have a rail-water delivery option. The DMIR handles that traffic from Minntac to an interchange with WC in Superior, Wisconsin –

² See, e.g., Reply of Great Lakes Transportation LLC to Petition Suggesting Procedural Schedule; Petition to Dismiss Application or Require Supplemental Information, at 6-8, 10-12 (filed April 30, 2001); Verified Statement of Peter D. Stephenson at 4-8 (filed April 30, 2001).

³ Applicants explained this reference in detail in their Reply to GLT's Petition to Dismiss Application or Require Supplemental Information (CN/WC-5 at 4-6).

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precisely the same DMIR movement that would be involved in any Edgar Thomson all-rail movements. Yet DMIR's revenue requirements for the Edgar Thomson traffic are consistently significantly higher than for the Fairfield traffic – reflecting both the desire and ability of DMIR to protect rail-water movements of taconite for its GLT affiliates. Because of DMIR's high revenue requirement and the low cost of lake vessel shipping, WC estimates that rates for all-rail handling of Minntac-Edgar Thomson traffic exceed rates for rail-water-rail handling of the same traffic by nearly 25%.

No amount of aggressive marketing can overcome such pricing by the origin carrier, and certainly nothing in the CN/WC transaction will provide such leverage. The only time Minntac-Edgar Thomson taconite traffic has moved via all-rail is when the rail-water option is literally unavailable. DMIR will continue to have the pricing power to assure that that situation does not change.

2. DMIR can unilaterally restrict the interchange of iron ore traffic between CN and WC. Duluth, Winnipeg & Pacific Railway Company ("DWP"), a CN subsidiary, has physical access to but does not presently serve two other iron ore mines on the DMIR: Minorca (owned by Ispat Inland Inc.) and EVTAC (owned by AK Steel, Rouge Steel and Stelco). (DWP does handle in-bound raw materials directly into EVTAC, but these operations do not reach the taconite loading site.) Even if DWP served those two mines, and even if it could somehow access Minntac, DWP cannot interchange taconite traffic from those mines with WC without DMIR's express consent.

Such traffic would be interchanged at DWP's Pokegama Yard in Superior, Wisconsin (the location for all CN-WC interchange on the north end of WC's system). However, both CN and DWP reach Pokegama Yard only on trackage rights over DMIR. The DMIR-WC trackage rights agreement specifically provides that "WCL shall not furnish transportation service over the joint tracks for iron ore, whether beneficiated or unbeneficiated[,] without first obtaining the consent of DMIR, which consent may include, at DMIR's option, participation by DMIR in the routing of such traffic." April 14, 1998 DMIR-WC Trackage Rights Agreement, ¶ 8; see Wisconsin Central Ltd. – Exemption – Trackage Rights – Duluth, Missabe and Iron Range Railway Company, Finance Docket No. 31265 (ICC served May 4, 1988).

Similarly, the agreement for DWP's trackage rights over DMIR provides that "DWP shall not furnish transportation service over the joint tracks for iron ore, whether beneficiated or unbeneficiated, which originates south of Britt Station (Brittmount), Minnesota, without first obtaining the consent of DMIR, which consent may include, at DMIR's option, participation by DMIR in the tariff routing of such traffic." July 30, 1981 DMIR-DWP Trackage Rights Agreement, ¶ 1(D); see Duluth, Winnipeg and Pacific Railway Company – Trackage Rights – Duluth, Missabe and Iron Range Railway Company – Exemption, Finance Docket No.

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29745 (ICC served Oct. 28, 1981). DMIR has not given its consent to either DWP or WC for the movements about which it professes concern.

3. DMIR has a contractual lock on the taconite traffic at issue for many years. WC understands that DMIR and its GLT affiliates have a binding contract to handle U.S. Steel's Minntac-Edgar Thomson taconite traffic via a rail-water routing that would make this traffic unavailable for at least the next five years. Thus, CN/WC could not even possibly compete for or handle this traffic for another five years. Such traffic cannot rationally be included in environmental threshold calculations in 2001 – especially when, even after 2006, CN/WC will continue to face the preclusive power of DMIR described above.

We understand that Ispat Inland also recently signed a long-term rail-vessel contract with DMIR that covers all non-seasonal taconite movements from the Minorca mine – making that traffic also unavailable for several (we believe at least six) years. Much of the taconite from EVTAC, the third mine located on DMIR lines, already is handled in all-rail service to AK Steel in Middletown, Ohio.⁴ The only other ore traffic shipped out of EVTAC is: (1) additional AK Steel-Middletown traffic that does not move all-rail due to supply requirements, and which moves via DMIR-vessel-CSX; and (2) rail-water shipments to Stelco, Hamilton, Ontario, Canada, which is not set up to receive ore by rail. (Rouge Steel, EVTAC's third owner, trades or sells its allocation of EVTAC taconite to the other owners, and currently moves no taconite from EVTAC to its Dearborn, Michigan facility.) Thus, as far as WC is aware, it is not just the case that there is no Minntac taconite available for CN/WC diversion to new all-rail service; there is no such traffic anywhere on DMIR lines available for such a diversion.

The Board should not be misled by GLT's professed environmental concerns. GLT is raising environmental issues in this proceeding solely because GLT recognizes that its case on the transportation merits is even weaker, and that exploitation of the Board's environmental process is GLT's best opportunistic hope of achieving concessions that are unrelated to the CN/WC transaction. The critical point is that neither aggressive marketing nor anything associated with the proposed CN/WC transaction will break DMIR's hold on the taconite traffic at issue here. Far from being likely to divert all of the existing Minntac-Edgar Thomson taconite traffic to an all-rail routing, a combined CN/WC isn't likely to divert any of it without DMIR's cooperation and participation, and then only after the expiration of existing transportation contracts. For purposes of the environmental review herein, no such alleged traffic gains are plausible and they should form no part of the basis for the SEA's determinations.

⁴ This traffic previously moved via a rail-water routing that did not include the USS Fleet, P&C Dock or B&LE, which explains in part why DMIR – once again the sole originating rail carrier – was willing to accommodate an all-rail movement.

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Ten copies of this letter are enclosed for filing at the Board.

Respectfully submitted,

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Attorney for Applicants