

REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
MILITARY SURFACE DEPLOYMENT & DISTRIBUTION COMMAND
Operations Center
661 Sheppard Place
Fort Eustis, VA 23604-1644

July 1, 2004

Office of the Staff Judge Advocate

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

ENTERED
Office of Proceedings

JUL 02 2004

Part of
Public Record

Re: Finance Docket No. 27590 (Sub-No. 3), Application of TTX Company for Approval of
Pooling of Car Service with Respect to Flatcars

Dear Secretary Williams:

On June 24th the United States Army Military Surface Deployment and Distribution Command (SDDC) requested that the Surface Transport Board allow Mr. George Gounley to testify during the oral hearing scheduled for July 7th concerning TTX's application for extending its current pooling authority. In accordance with the guidance given in your notice dated June 22, 2004 and 49 CFR §1104.4 I have enclosed a verified statement by Mr. Gounley.

The original and 10 copies of this letter and the statement are sent by Federal Express for the Board's file.

Should any questions arise regarding this request, please feel free to contact me at (570) 895-7210 or kaminskij@sddc.army.mil. Thank you for your consideration in this matter.

Sincerely,

Janet D Kaminski
Attorney Adviser

Enclosures
Statement
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that on July 1, 2004, I caused to be served by first class mail a copy of the witness notification letter to the following:

Oliver W. R. Champagne, Jr.
General Counsel
General Electric Railcar Services
Corporation
161 North Clark Street
Chicago, Illinois 60601

John C. Christie, Jr.
Hale and Dorr L.L.P.
The Willard Office Building
1455 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1008

Michael J. Farrell
Standard Steel LLC
500 North Walnut Street
Durham, PA 17009

Michael H. Higgins
Thompson Hine, L.L.P.
1920 N Street, N.W.
Washington, D.C. 20036-1600

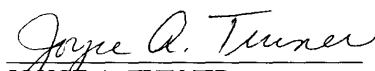
Patrick B. Loftus
General Counsel & Corporate Secretary
TTX Company
101 North Wachter Drive
Chicago, IL 60606

James MacLellan
P.O. Box 151
San Pedro, CA 90733-0151

David L. Meyer
Covington & Burling
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2401

Patrick M. Raher
R. Latane Montague, IV
Hogan & Hartson, L.L.P.
555 Thirteenth Street, N.W.
Washington, D.C. 20004-1109

Alan P. Sherbrooke
18th Floor
1191 Second Avenue
Seattle, WA 98101-2939


JOYCE A. TURNER
Legal Assistant

Embossed Hereon Is My
Commonwealth of Virginia Notary Public Seal
My Commission Expires May 31, 2006
JOYCE A. TURNER

CERTIFICATE OF SERVICE

I hereby certify that on July 1, 2004, I caused to be served by first class mail a copy of the witness notification letter to the following:

Burlington Northern and Santa Fe Railway Co.
General Counsel
2650 Lou Menk Drive
Fort Worth, TX 76131-2830

Canadian National, US Region
455 North Cityfront Plaza Drive
Chicago, IL 60611-5504

Canadian Pacific Railway – Soo Line R.R. Co.,
Administrative Office
501 Marquette, Box 530
Minneapolis, MN 55440

CXS Transportation Inc.
General Counsel
500 Water Street
Jacksonville, FL 32202

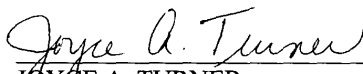
Florida East Coast RY. Co.
General Counsel
P.O. Drawer 1048, 1 Malaga Street
Saint Augustine, FL 32085

Guilford Rail Systems
General Counsel
Iron Horse Park
North Billerica, MA 01862

Kansas City Southern Railway Co.
General Counsel
P.O. Box 219335
Kansas City, MO 64121-9335

Norfolk Southern Railway Co.
General Counsel
Three Commercial Place
Norfolk, VA 23510-2191

Union Pacific R.R.
General Counsel
1416 Dodge Street
Omaha, NE 68179-1000


JOYCE A. TURNER
Legal Assistant

Embossed Hereon is My
Commonwealth of Virginia Notary Public Seal
My Commission Expires May 31, 2006
JOYCE A. TURNER

**VERIFIED STATEMENT OF
GEORGE GOUNLEY**

My name is George Gounley. I am employed by the United States Army Military Surface Deployment and Distribution Command, known as SDDC. SDDC is the surface traffic and seaport manager for the Department of Defense, and so I speak here for DOD. I have managed the military services' interchange freight cars, known as the DODX fleet, which includes over thirteen hundred chain-tiedown flat cars, since 1985. Since 2002 I have also served as the Army Rail Program Manager. My undergraduate degree is in transportation economics. I have Class I and shortline railroad management experience, and I have also worked as a consultant, primarily on railway line capacity studies.

SDDC's objectives in my testimony today are the same as those in its April 5th comment to the Board on the matter at issue, namely:

- To support the extension of TTX Company's pooling authority.
- To strengthen the economic justification for that pooling authority by improving the free running aspect of TTX's chain tiedown flat cars, at least for the military during periods of high demand, and
- To clarify that mutually agreeable contracts or other agreements between TTX Company and DOD entities to improve the national defense, whose terms respect the limits of TTX's pooling authority, do not endanger that authority.

SDDC believes that the background to its second and third objectives is unique to DOD and does not support general changes in TTX's pooling authority. SDDC respectfully asks that the Board be mindful of the national defense objective of the National Transportation Policy in evaluating SDDC's comment and this testimony.

In its rebuttal dated May 12th, TTX Company listed (p. 7) the Department of Defense as one of the supporters of “reauthorization of the full scope of TTX’s flatcar pooling activities.” That characterization is correct. While our second and third objectives are aimed at making a good thing better, our primary goal in this proceeding is to preserve what we have. Some of the other commenters suggested that TTX’s pooling authority be limited to only intermodal flats, or only intermodal and automotive flats, apparently on the basis that the other car types are not pooled or do not offer shippers the benefit of pooling. This is contrary to our own experience, and such suggestions, if implemented, would be extremely detrimental to national defense. With their infrequency, sudden onset, and volume of material shipped, military deployments could serve as the poster child of the benefits of pooling. In fact, given the small peacetime market for chain tiedown cars and thus the small number of such cars in existence, deploying for war would be impossible without pooling.

In the section of the rebuttal devoted to discussing DOD’s concerns (pp.20-21), TTX writes, “TTX does not dispute that the distribution of these [chain tiedown] cars has not achieved the same levels of efficiency as TTX’s intermodal fleet. But Board action is not needed to motivate TTX to continue to improve utilization of these cars. . . . As a result, railroads that have idle TTX chain tiedown cars on their systems are understandably reluctant to release that equipment out of concern that an urgent need may suddenly arise to supply empty cars to military bases that they serve.” I would summarize these lines this way: there is an opportunity to improve, and TTX wants to seize that opportunity, but it needs the cooperation of the railroads to do so. It is for this reason that DOD is seeking the involvement of the Board, not to motivate TTX but to motivate the railroads.

The next paragraph of the rebuttal (pp. 21-22) details the actions that TTX took to improve chain tiedown car supply during Operation Iraqi Freedom, or OIF. It is significant that, once cars in storage are returned to service, TTX's actions there described were all in the nature of advising or assisting, not directing. DOD could not direct the TTX cars it just emptied to where it next needed them, nor could TTX. Effectively then, the free running status of a TTX car could only take effect with the consent of the railroad in possession of the car. This led to the situations which were detailed in SDDC's comment, where the railroad delivering a loaded TTX car generally treated the car once empty as if it were in its own reporting marks, and considered its own interest first in deciding the disposition. This works fairly well as long as there is an immediate need for more cars for loading at installations on or tributary to its lines, but that situation never lasted very long. Given the extensive spread of Class I railroads today, it also negates the possibility of inter-railroad exchanges of empty cars that could save significant time and empty miles.

The military deployed differently in OIF than in the Gulf War's Operation Desert Shield, in order to match the deploying units more exactly to the field commander's requirements. This reduced the number of troops and the amount of equipment deployed, and thus enabled the deployment process to be accelerated. The OIF deployment in general was considered very successful, and will likely serve as the pattern for future deployments. Its accelerated pace meant that things did not proceed as deliberately as they did in Desert Shield, and as a result anxiety levels were higher at deploying installations and on the railroads serving them. The desire to be ready for anything, admirable in itself, caused just what TTX wrote in their rebuttal, "... (R)ailroads that have idle TTX chain tiedown cars on

their systems are understandably reluctant to release that equipment out of concern that an urgent need may suddenly arise to supply empty cars to military bases that they serve.”

The result was a successful deployment that was also a clear warning that change was needed. TTX cars taken from storage or from commercial service into deployment service were rarely released before the initial wave was over. TTX cars once placed in deployment service on one railroad were rarely permitted to load for a destination on another railroad without the two railroads first working out arrangements for the backfill of cars to the originating railroad. Over time, more and more cars ended up underutilized as they were held at or near installations for longer and longer periods between loads. Thus cars at the ports peaked in mid-February 2003 at about 500 cars and cars en route to the ports in late February at about 1,050 cars; however, empties en route to the forts peaked in early March at about 1,700 cars and cars at forts peaked in mid-March at over 3,000 cars. We were fortunate that there were enough cars available to us to support car distribution that inefficient, but if the deployment had been larger, longer, or more intense we could have had widespread, instead of isolated, car shortages.

Since OIF, SDDC's Transportation Engineering Agency has started to update its studies on how many cars are needed to deploy. Rather than build inefficiencies into its estimates, its first efforts were devoted to establishing a baseline number, that is, the number of cars required assuming flawless execution in car supply, loading, movement, unloading, and repositioning. The good news is that the baseline number it came up with is lower than the current inventory of chain tiedown cars, even under the worst assumptions as to the size and timing of a deployment. The bad news is that car utilization efficiency during the OIF deployment was only 43% of that assumed in the study. Improvements can

and will be made elsewhere in the process, but it is clear that, in order to be prepared to meet any threat to the nation, either the empty car distribution process needs to be much more efficient or someone needs to buy a lot more cars. Since the utilization rate of the existing chain tiedown fleet is already low, the only practical solution appears to be improving the car distribution process. Since the accelerated deployment process raises the anxiety level of both individual installations and individual railroads, and since the natural response of both is to try to squirrel away cars, it is apparent that a party able to view the big picture needs to be able to intervene as necessary to direct empties. SDDC already has that ability with respect to the cars it owns and TTX needs the same ability for its cars. As stated in its comment, SDDC is not in the position of knowing how this should be done, only that it needs to be done. DOD is confident, based on its past dealings with TTX and TTX's general success in pooling cars, that it can devise a workable solution. Since this solution will likely involve negotiations between TTX Company and its owner railroads, DOD asks that the Board, in such manner as it sees fit, encourage an acceptable agreement.

SDDC's last objective in making a comment in this proceeding looks to the future. It has devoted a considerable amount of thought in the last two years to how it can assure itself of access to the resources it needs to deploy by rail. This process was occasioned by the railroads' continuing efforts to eliminate excess capacity and accelerated by the problems which were experienced in OIF. The process is far from done, but it is obvious that TTX Company will be a player in some way, because of its ownership of chain-tiedown, intermodal, and bi-level cars, all of which are used to deploy.

In its comment, SDDC mentioned a number of ways in which it might in the future desire to contract with TTX Company. SDDC believes, from its prior dealings with TTX,

that a major question for that company will be whether it could sign a contract or other arrangements with DOD without endangering its pooling authority. SDDC asks that the Board make a part of its decision on the current application a determination that, provided the agreement does not broaden the limits of TTX's pooling authority, TTX can so act in the interest of the national defense without endangering that pooling authority.

Dated at FORT EUSTIS, VA this FIRST day of July 2004.


GEORGE GOUNLEY

I, George Gounley, the Army Rail Program Manger, declare under penalty of perjury, under the laws of the United States of America, that I have read the foregoing Verified Statement and that its assertions are true and correct to the best of my knowledge, information and belief. I further declare that I am qualified and authorized to submit this verification statement on behalf of the DOD. I know that willful misstatements or omissions of material facts constitute Federal criminal violations punishable under 18 U.S.C. 1001 by imprisonment up to 5 years and fines up to \$10,000 for each offense. Additionally, these misstatements are punishable as perjury under 19 U.S.C. 1621, which provides for fines up to \$2,000 or imprisonment up to five years for each offense.

Dated at FT. EUSTIS, VA, this FIRST day of July 2004.


Embossed Hereon is My
Commonwealth of Virginia Notary Public Seal
My Commission Expires May 31, 2006
JOYCE A. TURNER

