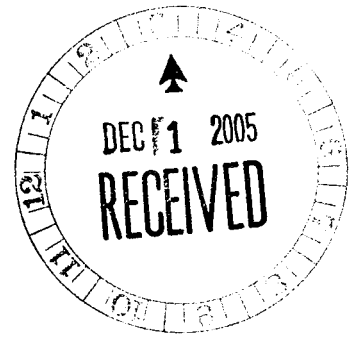


krug law firm, plc
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The Hach Building, Suite 330
401 First Street SE PO Box 186
Cedar Rapids, IA 52406-0186
p 319.297.7515 f 319.297.7518
ekrug@kruglawfirm.com



December 1, 2005

Via Hand Delivery

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

RE: Finance Docket No. 34796; Iowa Interstate Railroad, Ltd. - Sublease
Exemption- of Line from CSX Transportation, Inc.

Dear Secretary Williams:

I enclose the following material for filing in the above proceeding:

1. An original and ten (10) copies of a Petition for Exemption covering the transaction proposed in the above proceeding;
2. A diskette of the petition and exhibits; and
2. A check in the amount of \$5,400.00 for the filing fee required by 49 C.F.R. § 1002.2(f), Part IV (41)(vi).

Please indicate receipt of the enclosed materials by returning a stamped copy of this letter in the self-addressed, stamped envelope enclosed for this purpose.

Very truly yours,

Krug Law Firm, P.L.C.

By:

Edward J. Krug

EJK/slm
Enclosures

215261
ORIGINAL

BEFORE THE
SURFACE TRANSPORTATION BOARD



FINANCE DOCKET NO. 34796

FILED
- 1 2005
SURFACE
TRANSPORTATION BOARD

IOWA INTERSTATE RAILROAD, LTD.
--SUBLEASE EXEMPTION--
OF LINE FROM CSX TRANSPORTATION

VERIFIED PETITION FOR EXEMPTION

EXPEDITED CONSIDERATION REQUESTED

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Attorney for:
IOWA INTERSTATE
RAILROAD, LTD.

Dated: December 1, 2005

Office of the
General Counsel
Surface Transportation Board
Washington, D.C. 20430

BEFORE THE
SURFACE TRANSPORTATION BOARD



FINANCE DOCKET NO. 34796

IOWA INTERSTATE RAILROAD, LTD.
--SUBLEASE EXEMPTION--
OF LINE FROM CSX TRANSPORTATION

PETITION FOR EXEMPTION

In this Petition, Iowa Interstate Railroad, Ltd. ("IAIS"), a Class II carrier, requests that the Surface Transportation Board (the "Board"), pursuant to 49 U.S.C. § 10502 and 49 C.F.R. § 1121, exempt from 49 U.S.C. § 10902 IAIS's sublease of a 31.9-mile railroad line presently leased and operated by CSX Transportation, Inc. ("CSXT"), from Milepost BIF 95, Utica, Illinois to Milepost BIF 126.9, Henry, Illinois ("the Line"). The Line is shown on the maps attached hereto as Exhibit 1.

IAIS also respectfully requests expedited consideration of this Petition to permit closing of the transaction by February 6, 2006.

SUMMARY OF THE TRANSACTION

CSXT, as a successor in interest, is the lessee of the Line under a lease dated December 3, 1981, and entered into with William M. Gibbons, Trustee of the Property of the Chicago, Rock Island and Pacific Railroad Company. The present owner of the Line, International Mining Company, has entered into an agreement with CSXT that allows subleasing of the Line.

IAIS and CSXT have agreed to enter into a sublease for the Line. At present, IAIS and CSXT are parties to a trackage rights agreement by which IAIS already operates over the Line. The proposed sublease will allow IAIS to operate over the line extending the entire distance from Utica, Illinois, Milepost BIF 95, to Henry, Illinois, Milepost BIF 126.9. In addition, IAIS will assume maintenance responsibilities for the line. This will result in enhanced maintenance of the track structure, with the capital work to begin in the spring of 2006.

THE PROPOSED TRANSACTION

The transaction calls for IAIS to sublease 31.9 miles of railroad line that CSXT presently leases from International Mining Company. IAIS will acquire complete possession of the Line and it will have the exclusive right to serve all local industries on the Line. IAIS will also maintain the Line, and under the transaction, it will improve the Line to enhance track structure so that trains may travel at speeds that are considerably faster than those allowed now due to the condition of the track. This single improvement alone will greatly increase transportation efficiency on the Line.

Located on the Line are only a limited number of industries. In 2004, local carloads totaled approximately 1100 cars. This number is not expected to increase for the year 2005. IAIS presently holds overhead trackage rights for the Line through CSXT, but it has not been servicing the local industries. IAIS alone will service the Line's shippers under the sublease. The trackage rights have permitted IAIS to become familiar with the Line.

The sublease term is for twenty years, commencing on February 6, 2006, with IAIS having the right to sublease the Line for an additional five year increment at the conclusion of the initial sublease term. It is anticipated that at the conclusion of the sublease, IAIS's former trackage rights for the line will resume.

The purpose of this transaction is to give IAIS reliable/accessible track into the Chicago area, something which IAIS presently lacks due to the fact that its Chicago access is restricted to trackage rights arrangements. The transaction is also intended to result in enhanced maintenance of the track structure of the Line. As a local railroad, IAIS intends to market rail service to the existing and potential shippers on the Line more aggressively than has been done by CSXT in the recent past.

Additional Information. Pursuant to the requirements of 49 C.F.R. § 1150.43 for Section 10902 transactions, IAIS provides the following additional information:

1. The full name and address of the petitioner is Iowa Interstate Railroad, Ltd., 5900 Sixth Street S.W., Cedar Rapids, Iowa, 52404. IAIS is currently a Class II carrier with trackage in Iowa and Illinois. After subleasing the Line, IAIS will remain a Class II carrier.
2. The name, address, telephone number and email address of the petitioner's representative who should receive correspondence is Edward J. Krug, Krug Law Firm, P.L.C., 401 First Street, S.E., P.O. Box 186, Cedar Rapids, Iowa, 52406-0186, phone no. 319-297-7515; email ekrug@kruglawfirm.com.
3. The name and address of the railroad subleasing the line is CSX Transportation, Inc., 500 Water Street, Jacksonville, FL 32202. It is a Class I carrier with trackage in 23 states, including Illinois.
4. The parties will enter into a sublease agreement covering the proposed transaction prior to commencement of operations under the sublease; however, IAIS presently operates on the Line under an overhead trackage rights agreement with CSXT.
5. The parties propose to consummate the transaction as soon as the exemption requested in this Petition becomes effective.

6. The line being subleased runs from Utica station, Milepost BIF 95, to Henry, Milepost BIF 126.9, a total of 31.9 miles. The Line is located entirely in Illinois.
7. A map indicating the Line is attached hereto as Exhibit 1.
8. After the transaction, IAIS will continue to be a Class II carrier.

THE REQUESTED EXEMPTION SHOULD BE GRANTED

IAIS's sublease of the Line from CSXT requires authorization from the Board pursuant to 49 U.S.C. § 10902.

Pursuant to 49 U.S.C. § 10502, however, the Board must exempt a transaction from regulation when it finds that: (1) regulation is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either: (a) the transaction is of limited scope, or (b) regulation is not necessary to protect shippers from the abuse of market power.

The legislative history of Section 10502 reveals a clear Congressional intent that the Board should liberally use its exemption authority to free certain transactions from the administrative and financial costs associated with continued regulation. In enacting the Staggers Act of 1980, Pub. L. No. 96-448, 94 Stat. 1895, Congress encouraged the Board's predecessor to liberally use the expanded exemption authority under former Section 10505:

The policy underlying this provision is that while Congress has been able to identify broad areas of commerce where reduced regulation is clearly warranted, the Commission is more capable through the administrative process of examining specific regulatory provisions and practices not yet addressed by Congress to determine where they can be deregulated consistent with the policies of Congress. The conferees expect that, consistent with the policies of this Act, the Commission will pursue partial and complete exemption from remaining regulation.

H.R. Rep. No. 1430, 96th Cong. 2d Sess. 105 (1980). *See also Exemption From Regulation -- Boxcar Traffic*, 367 I.C.C. 424, 428 (1983), *vacated and remanded on other grounds, Brae Corp.*

v. *United States*, 740 F.2d 1023 (D.C. Cir. 1984) (the “*Boxcar Exemption*”). Congress reaffirmed this policy in the conference report accompanying the ICC Termination Act of 1995, Pub. L. No. 104-88, 109 Stat. 803, which re-enacted the rail exemption provisions as Section 10502. H.R. Rep. No. 422, 104th Cong., 1st Sess. 168-69 (1995).

IAIS’s sublease of the Line should be exempted from detailed scrutiny for the reasons stated herein.

A. Regulation of the Proposed Acquisition is Not Necessary to Carry Out the Rail Transportation Policy.

The transaction will promote significant provisions of the national rail transportation policy and will not run counter to any of the goals of this policy. Detailed scrutiny under a full application is not required to carry out the transportation policy of 49 U.S. C. § 10101.

IAIS’s sublease of the Line promotes significant provisions of the rail transportation policy. The transaction will promote development of a sound and efficient rail transportation system. 49 U.S.C. § 10101(4), (5), and (9). And, an exemption under § 10502(a) will minimize the need for federal regulatory control over this transaction and expedite resolution of the regulatory decision. *Id.* § 10101(2) and (15).

In addition, this proposed transaction does not have any anticompetitive effects. As far as local service is concerned, IAIS will merely replace CSXT as the carrier. Local industries located on the Line will be served by IAIS on trackage where IAIS will enhance maintenance so as to move freight more efficiently. See Norfolk S. Ry. -- Purchase Exemption -- Union Pac. R.R., Finance Docket No. 33609 (STB Decision served Oct. 29, 1998), at 3 (finding no anticompetitive effect where “transaction represents only a change in owners”); S.C. Central R.R. -- Purchase -- CSX Transp., Inc. Line Between E. Greenville and Laurens, S.C. Finance

Docket No. 31469 (ICC Decision served July 30, 1990), at 3 (finding no anticompetitive effect where the number of competitive alternatives available to shippers remains unchanged).

Subleasing the Line will also enhance competition by enabling IAIS to better serve shippers on the Line through greater efficiency. See Tex. Mexican R.R. -- Purchase Exemption - Union Pac. R.R., Finance Docket No. 33914 (STB Decision served Dec. 11, 2000), at 5 (approving exemption where transaction would encourage efficient traffic management).

Today, IAIS and CSXT can provide overhead service over the Line. But, CSXT does not provide overhead service today because of lack of demand. Under the sublease CSXT will no longer be a potential overhead carrier on the Line. However, shippers have numerous other railroad lines in northwestern Illinois over which to route traffic. Indeed, many of these lines are the main lines of Class I railroads (the BNSF Railway Company ("BNSF") and the Union Pacific Railroad Company ("UP")) that are maintained to a higher FRA track Class than IAIS will maintain the Line, and hence capable of greater speed. The sublease will foster the competitive aspects of the Rail Transportation Policy. See 49 U.S.C. § 10101(1), (4), and (5).

B. The Transaction is of Limited Scope.

The proposed transaction is clearly of limited scope. The Line is only 31.9 miles in length. Previous Board and Interstate Commerce Commission decisions hold that acquisition and operation transactions of even greater length to be limited in scope See, e.g., Southwestern R.R. -- Acquisition Exemption -- The Atchison, Topeka and Santa Fe Ry., Finance Docket No. 32471 (ICC Decision served April 22, 1994), at 2 (acquisition of 24.85 mile segment of track); Indiana R. Co.--Acq. & Oper.--Illinois Central R. Co., 6 I.C.C.2d at 969, 1011 (1990) (acquisition of 90.3 miles of track). Moreover, the Line is in one State and only in three counties in that State.

C. The Proposed Transaction Will Not Result In An Abuse of Market Power.

It follows from the conclusion that there will be no competitive harm as the result of the proposed transaction that the proposed transaction will not subject shippers to an abuse of market power. Today, IAIS operates over the Line pursuant to overhead trackage rights, while CSXT provides overhead and limited local service. After subleasing the Line, IAIS will provide both overhead and local service on the Line. The elimination of CSXT from a potential routing of overhead traffic over Henry will not increase IAIS's market power. IAIS faces strong intramodal and intermodal competition for the vast majority of traffic it handles, including the two dominant Class I railroads in the western United States, the BNSF and the UP. Consequently, the proposed transaction will not result in any market abuses.

Instead, the proposed transaction is expected to produce benefits to the shipping public. IAIS will rehabilitate the Line, will market rail service on the Line to local shippers more aggressively than CSXT, and will offer more local contact with the shippers on the Line than CSXT.

D. The Board has Adopted a Class Exemption for Similar Transactions

In a 1996 decision, the Board noted that the criteria for approving transactions under Sections 10901 and 10902 were substantially the same and determined that it was appropriate to adopt a class exemption for acquisitions by Class III carriers that was similar to the class exemption adopted for non-carriers. See Class Exem. for Acq. or Oper. under 49 U.S.C.10902, 1 S.T.B. 95 (1996). In that decision, the Board stated “(w)e find that the proposed class exemption meets the criteria of section 10502(a). A class exemption from the requirements of section 10902 will facilitate acquisition of rail lines by Class III carriers and ensure the continuation of (rail lines that may be subject to abandonment). Detailed scrutiny of such transactions...is not necessary to carry out the rail transportation policy of 49 U.S.C. 10101.” *Id.* at 103.

Since Section 10902 does not establish different criteria for acquisitions by Class II and Class III carriers, the same reasons given by the Board also justify the exemption sought in this proceeding. Here, the subleasing carrier is a regional Class II carrier and the Line being leased is less than 32 miles long; it is located in one state, and it has limited industries located thereon. Furthermore, IAIS already operates over a portion of the Line and it believes that by enhancing the track structure, it will be able to provide better service to the industries/shippers located on the line. Finally, the grant of an exemption will not adversely impact transportation policy under 49 U.S.C. § 10101.

EMPLOYEE PROTECTION

The parties recognize that this transaction will be made subject to the employee severance conditions described in 49 U.S.C. § 10902(d). Under the sublease, IAIS will be responsible for compliance with employee protective conditions, except that IAIS and CSXT are each responsible for their own employee protection costs. The parties do not anticipate that the sublease will result in the loss of employment for employees of either carrier.

ENVIRONMENTAL AND HISTORIC IMPACT

The Board's regulations governing general petitions for exemption under 49 U.S.C. § 10502 call for compliance with environmental or historic impact and notice requirements under 49 C.F.R. Part 1105, "if applicable." See 49 C.F.R. § 1121.3(b).

Under 49 C.F.R. § 1105.6(c)(2)(i), no environmental documentation need be prepared for a transaction (such as the instant) that will not result in: (1) a traffic diversion from rail to motor carriage of more than 1000 carloads per year or 50 carloads per mile; (2) a 100% increase in rail yard activity; (3) increases of more than 10% or 50 vehicles per day in truck traffic; (4) prescribed level increases in rail or truck traffic in class 1 or non-attained areas under the Clean Air Act. See 49 C.F.R. §§ 1105.7(e)(4) and (5). Any changes from IAIS's operation of the Line

will not lead to any changes in rail operations that exceed the thresholds that would require the preparation of an Environmental Report.

IAIS is subleasing the Line from CSXT. Discontinuance of operations by IAIS under the sublease will require authorization from the Board pursuant to 49 U.S.C. § 10903.

Abandonment of the Line by CSXT would also require authorization from the Board pursuant to 49 U.S.C. § 10903. Hence, the proposed transaction meets the criteria of 49 C.F.R. § 1105.8(b)(2), which provides that a historic report is not required where the lease of a rail line for the purpose of continued rail operations where further Board approval is required to abandon any service and there are no plans to dispose of or alter properties subject to Board jurisdiction that are 50 years old or older. Therefore, the historic reporting rules are not applicable in this case.

CERTIFICATION OF NOTICES

IAIS anticipates that the notice to CSXT employees will be posted at the CSXT Customer Service Center in Jacksonville, Florida, and at CSXT's locations on the Line no later than December 2, 2005. Copies of the notice were served on the national offices of unions with potentially affected employees on November 30, 2005, will be filed with the Board, together with the notice, upon completion of the posting. A copy of the notice is attached as Exhibit 2 hereto.

EXPEDITED CONSIDERATION

IAIS has agreed with CSXT to have the proposed sublease commence on February 6, 2006. IAIS acknowledges that the Board's regulations under 49 C.F.R. § 1121.4(h) require 60 days notice to labor before the acquisition exemption can be effective. IAIS does not seek to reduce the notice period, but instead, it requests that the Board issue its decision on the requested

exemption, making it effective after completion of the notice period, i.e. by February 6, 2006, which is slightly more than 60 days following the filing of the labor notice certification.

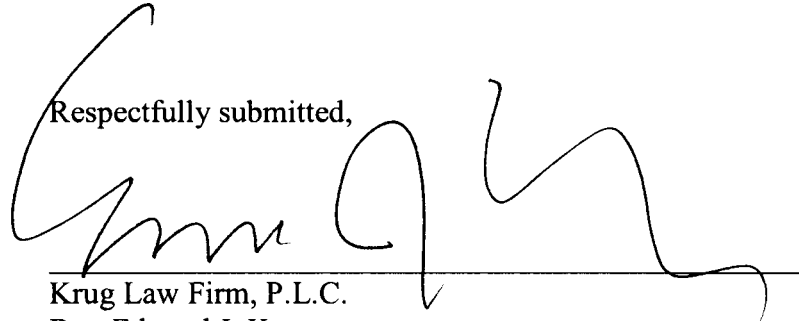
A significant part of the sublease is based on IAIS agreeing to assume maintenance obligations for the Line. This includes IAIS's plan to enhance maintenance of the Line's track structure. IAIS intends to aggressively rehabilitate the Line in 2006. The Line is in northwestern Illinois and the construction season does not normally start until April. As a short line railroad, IAIS does not maintain an inventory of the materials necessary to rehabilitate the Line. In order to be in a position to start rehabilitation in April, IAIS must order the materials it needs in advance. However, IAIS does not want to make the financial commitment required to order the materials until it is certain that it will have regulatory authority to sublease the Line. Because of the lead time needed for ordering materials for track rehabilitation for the 2006 construction season, IAIS respectfully requests the Board to expedite its handling of this Petition so that IAIS may take possession of the Line and begin operations under the sublease by February 6, 2006, the proposed commencement date of the sublease. This would leave little more than two months before the 2006 construction season would begin.

IAIS does not anticipate any opposition to the Petition based on its discussions with the shippers on the Line.

CONCLUSION

For the reasons set forth herein and based upon the facts as verified by Mr. Dennis Miller, IAIS respectfully requests that its Petition be considered expeditiously and granted, and that pursuant to 49 U.S.C. § 10502, the Board exempt IAIS's sublease of the Line from the prior approval requirements of 49 U.S.C. § 10902 and that the exemption be made effective on February 6, 2005.

Respectfully submitted,

A large, stylized handwritten signature in black ink, likely belonging to Edward J. Krug, is written over a horizontal line.

Krug Law Firm, P.L.C.
By: Edward J. Krug
401 First Street SE
P.O. Box 186
Cedar Rapids, Iowa 52406-0186
Phone: (319)297-7515
Facsimile: (319)297-7518

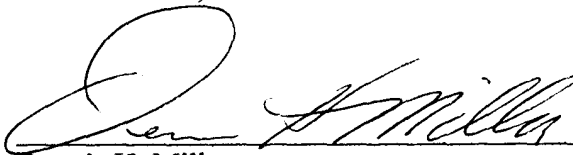
Attorney for Iowa Interstate Railroad, Ltd.

Dated: December 1, 2005

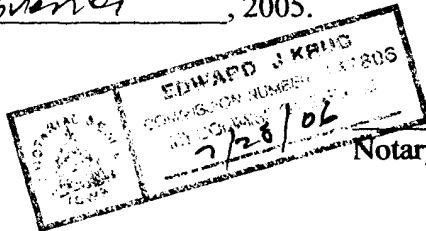
VERIFICATION

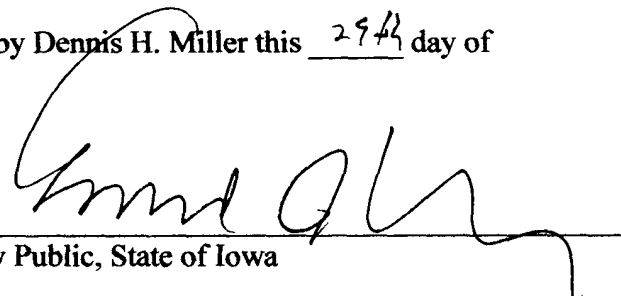
State of Iowa :
: SS
County of Linn :

Dennis H. Miller, being duly sworn deposes and says that he is the President and Chief Executive Officer of the Iowa Interstate Railroad, Ltd., that he has read the foregoing Petition for Exemption, and knows the facts asserted therein, and that the same are true as stated.


Dennis H. Miller

Subscribed and sworn to before me by Dennis H. Miller this 29th day of
November, 2005.

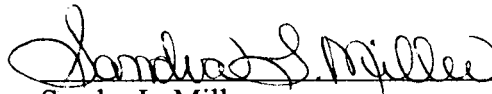



Notary Public, State of Iowa

CERTIFICATE OF SERVICE

I certify that I have this day served a copy of the foregoing document upon the following
by Federal Express, overnight delivery:

Louis E. Gitomer
Ball Janik, L.L.P.
1455 F Street, N.W., Suite 225
Washington, D.C. 20005
Dated November 30, 2005

A handwritten signature in cursive script, appearing to read "Sandra L. Miller", is written over a horizontal line.

Sandra L. Miller
December 1, 2005

EXHIBIT 1

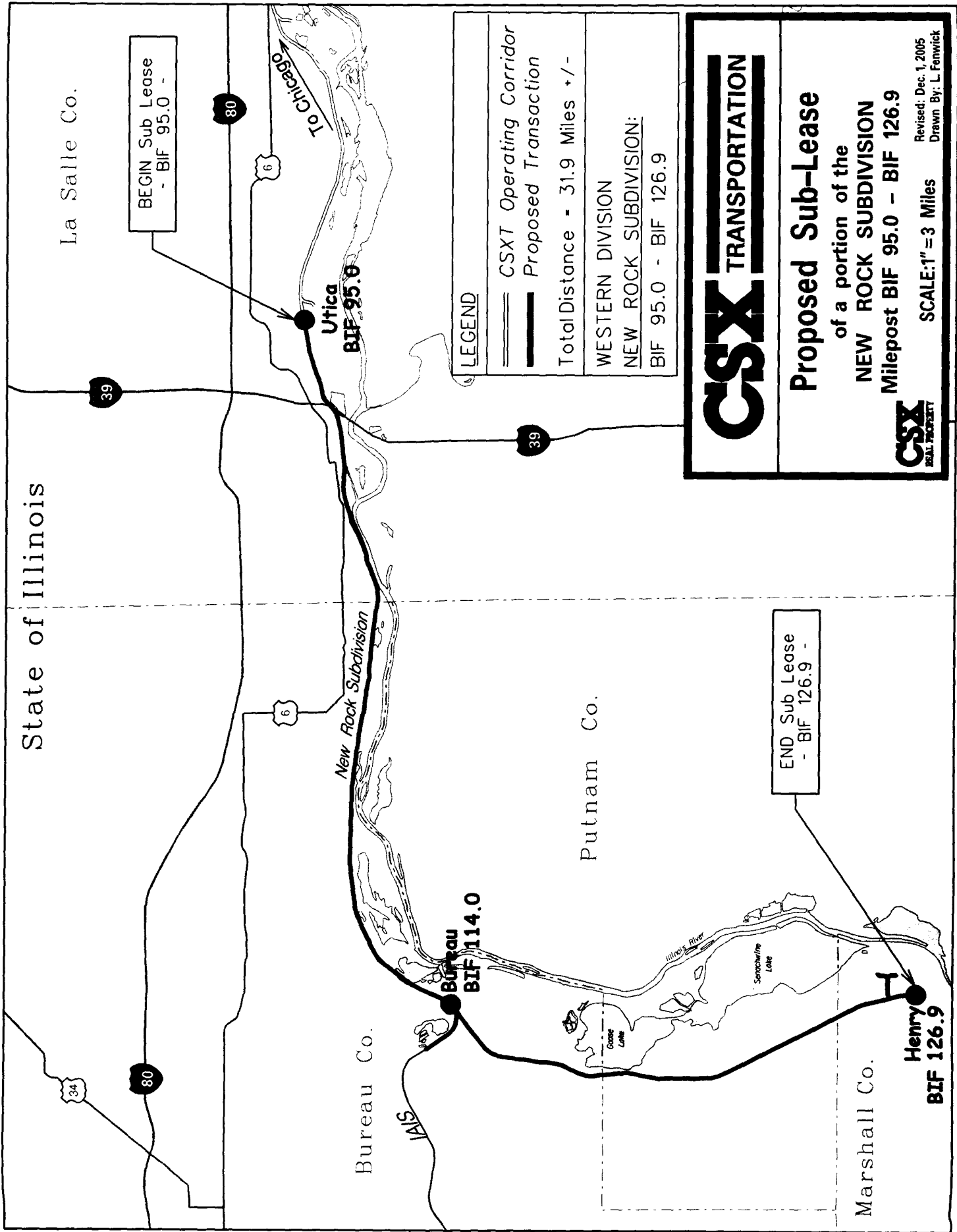


EXHIBIT 2

Iowa Interstate Railroad, LTD.
5900 6th Street S.W.
Cedar Rapids, IA 52404

December 2, 2005

NOTICE TO CSXT EMPLOYEES

Pursuant to Surface Transportation Board regulations at 49 C.F.R. § 1121.4(h), the Iowa Interstate Railroad, Ltd. ("IAIS") hereby provides notice to the employees of CSX Transportation, Inc. ("CSXT") that IAIS intends to sublease the track and real estate and operate the approximately 32 mile line of railroad between Milepost BIF 95.0 near the Utica, IL station to milepost BIF 126.9 at the Henry, IL station.

Following the transaction, CSXT will no longer operate trains on any of this line segment. The transaction is expected to occur on or after February 6, 2006.

As a result of these transactions, IAIS does not expect to hire any additional employees. This estimate is preliminary and is subject to modification prior to commencing operations.

Employees will be provided wages and benefits comparable to those on other lines affiliated with IAIS. IAIS will select employees on the basis of skills and aptitudes required for each position. The most qualified candidates will be selected from the available pool of applicants without regard to race, creed, color, religion, national origin, sex, age, marital status, or disability. Successful candidates must have a stable work record and demonstrate a commitment to safety and customer service. The ability to work in a team environment is critical. Successful applicants will be required to pass a pre-employment drug and alcohol screen and complete a medical questionnaire, and will be required to take a physical exam.

CSXT employees interested in seeking employment with IAIS should contact:

Human Resources
Iowa Interstate Railroad, Ltd.
5900 6th Street S.W.
Cedar Rapids, Iowa 52404
Telephone (319) -298-5400