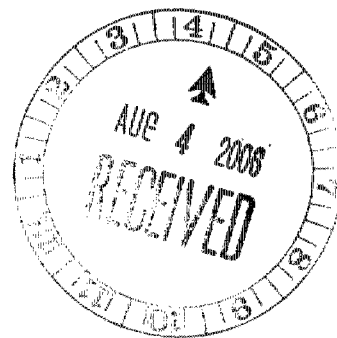


BAKER & MILLER PLLC

ATTORNEYS and COUNSELLORS

2401 PENNSYLVANIA AVENUE, NW
SUITE 300
WASHINGTON, DC 20037

TELEPHONE: (202) 663-7820
FACSIMILE: (202) 663-7849



William A. Mullins

DIRECT DIAL: (202) 663-7823
E-Mail: wmullins@bakerandmiller.com

August 4, 2006

BY HAND DELIVERY

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

FEE RECEIVED

AUG - 4 2006

**SURFACE
TRANSPORTATION BOARD**

217239

RE: STB Finance Docket No. 34890
*Pyco Industries, Inc.—Feeder Line Application—Lines Of South Plains
Switching, Ltd. Co.
Competing Application of Keokuk Junction Railway Co.*

Dear Secretary Williams:

I am enclosing herewith, pursuant to the Board's order of July 21, 2006, an original and eleven copies of the Competing Application of Keokuk Junction Railway Co. ("KJRY") to acquire the lines of railroad that are the subject of the initial application filed in the above-captioned matter by Pyco Industries, Inc. Also enclosed is a filing fee check in the amount of \$2,600.00, pursuant to 49 C.F.R. §1002.2(f)(13).

Please acknowledge the receipt and filing of the enclosed application by time stamping the eleventh copy and returning it to the courier for delivery to me. If there are any questions about this matter, please contact me directly, either by telephone: (202) 663-7823 or by e-mail: wmullins@bakerandmiller.com.

FILED

Respectfully submitted,

AUG - 4 2006

**SURFACE
TRANSPORTATION BOARD**

William A. Mullins
Attorney for Keokuk Junction Railway Co.

cc: All Parties of Record
All Parties Listed in 49 CFR §1151.2(a)

**ENTERED
Office of Proceedings**

AUG - 8 2006

**Part of
Public Record**

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB DOCKET NO. 34890



**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.**

**COMPETING FEEDER LINE APPLICATION
OF KEOKUK JUNCTION RAILWAY CO.**

FEE RECEIVED
AUG - 4 2006
SURFACE
TRANSPORTATION BOARD

**William A. Mullins
David C. Reeves
BAKER & MILLER PLLC
2401 Pennsylvania Ave, NW
Suite 300
Washington, DC 20037
Tel: (202) 663-7820
Fax: (202) 663-7849**

Attorneys for Keokuk Junction Railway Co.

DATED: August 4, 2006

FILED
AUG - 4 2006
SURFACE
TRANSPORTATION BOARD

**ENTERED
Office of Proceedings**
AUG - 8 2006
Part of
Public Record

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB DOCKET NO. 34890

**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.**

**COMPETING FEEDER LINE APPLICATION
OF KEOKUK JUNCTION RAILWAY CO.**

By order served July 21, 2006, the Surface Transportation Board ("STB" or "Board") granted in part the motion of Keokuk Junction Railway Co. ("KJRY") for an extension of time to file a competing feeder line application in this proceeding. KJRY hereby files its competing application to the initial application filed by PYCO Industries, Inc. ("PYCO").

APPLICATION

- (1) Identification of the line to be purchased including:***
(i) The name of the owning carrier;

South Plains Switching, Ltd. Co.
P.O. Box 64299
Lubbock, TX 79464-4299

(South Plains Switching, Ltd. Co. is herein generally referred to as "SAW.")

and

- (ii) The exact location of the line to be purchased including milepost designations, origin and termination points, stations located on the line, and cities, counties, and States traversed by the line.***

Track 5, SAW yard,	2,400 feet;
Track 1, SAW yard,	2,100 feet;
Track 9200,	3,900 feet;
Track 9298, east of BNSF main,	4,320 feet;
Track lead to PYCO plant 2 to 50th St.,	6,280 feet;
Track 231 lead to 9200/9298,	960 feet;

Track 310 through Farmers 1,
TOTAL:

5,600 feet
25,560 feet

In addition, KJRY seeks to acquire all of Track No. 6 from the western end of SAW yard to the western clearpoint of the easternmost switch of the "wye" track connecting to Track No. 6 from the south, and also the western branch of said "wye" from its southern clearpoint north to and including its connection with Track No. 6, estimated to be 1,100 feet.¹ Also, KJRY would acquire a crossing right as follows: Crossing right Track 9298 to and through SAW yard, 5,000 feet. All of the lines are located in Lubbock County, TX. These are the "Alternative Two" lines as described by the Board in its decision served July 3, 2006, accepting PYCO's initial feeder line application (as modified) only for the Alternative Two lines (referred to herein generally as "Lines"). KJRY seeks to acquire the same lines sought by PYCO's Alternative Two application.

(2) Identification of applicant including:

(i) The applicant's name and address;

Keokuk Junction Railway Co.
1318 South Johanson Road
Peoria, IL 61607

(ii) The name, address, and phone number of the representative to receive correspondence concerning this application;

William A. Mullins
David C. Reeves
BAKER & MILLER PLLC
2401 Pennsylvania Ave., NW
Suite 300
Washington, DC 20037

¹ Because of the abbreviated time allotted for preparation of this competing feeder line application and because PYCO has indicated that it will challenge the legality of any competing feeder line application covering lines beyond those that are governed by Alternative Two, KJRY here seeks only to force the sale of the lines sought by PYCO's amended application filed June 13, 2006. KJRY will attempt to acquire the remaining SAW lines through negotiation, or alternatively, if the Board accepts PYCO's All-SAW alternative in light of the recent shipper statements from the majority of the shippers on SAW's lines, KJRY intends to file a competing feeder line application for the All-SAW option if and when appropriate.

Tel: (202) 663-7820
Fax: (202) 663-7849

(iii) A description of applicant's affiliation with any railroad;

KJRY is a Class III railroad subsidiary of Pioneer Railcorp ("Pioneer"), a railroad holding company. KJRY is an experienced short line operator. The company operates approximately 147 miles of rail line in Iowa and Illinois. As the Board is aware, KJRY was the successful feeder line applicant in Finance Docket No. 34335, *Keokuk Junction Railway Co.-- Feeder Railroad Development Application--Line Of Toledo, Peoria & Western Railway Corporation Between La Harpe And Hollis, IL* ("KJRY-Feeder Line") served February 7, 2005, appeal pending. KJRY has been operating the rail line acquired from TP&W in *KJRY-Feeder Line* for nearly 18 months. The company has a good safety record and a good record of service to its customers. Thus, KJRY is an experienced and capable rail carrier.

Pioneer's other rail subsidiaries, and the approximate number of miles of track each operates, are as follows:

Alabama Railroad CO. (ALAB)	60 miles
Alabama & Florida Railway Co. (AF)	43 miles
Decatur Junction Railway Co. (DT)	38 miles
Elkhart & Western Railroad Co. (EWR)	10 miles
Fort Smith Railroad Co. (FSR)	18 miles
Garden City Western Railway Company (GCW)	40 miles
Gettysburg & Northern Railroad Company (GET)	25 miles
Indiana Southwestern Railway Co. (ISW)	23 miles
Kendallville Terminal Railway Co. (KTR)	1.1 miles
Michigan Southern Railroad Co. (MSO)	48.3 miles
Mississippi Central Railroad Co. (MSCI)	51 miles
Shawnee Terminal Railway Company (STR)	2.5 miles
Vandalia Railroad Company (VRRC)	3.5 miles
West Michigan Railroad Co. (WMI)	15 miles

Applicant and all of its affiliated railroad companies are Class III railroads. None is a Class I or Class II carrier.

Pioneer Railroad Equipment Co., Ltd., Pioneer Railroad Services, Inc., Pioneer Resources, Inc., and Pioneer Air, Inc., are wholly-owned subsidiaries of Pioneer Railcorp which provide corporate support operations to Pioneer's subsidiary railroads. None are themselves railroads.

and

(iv) If the applicant is a corporation, the names and addresses of its officers and directors.

Officer	Officer's Address	Director	Director's Address
J. Michael Carr	1318 South Johanson Road Peoria, IL 61607	J. Michael Carr	1318 South Johanson Road Peoria, IL 61607
Scott Isonhart	1318 South Johanson Road Peoria, IL 61607	Guy L. Brenkman	1318 South Johanson Road Peoria, IL 61607
		Orvel Cox	1318 South Johanson Road Peoria, IL 61607

(3) Information sufficient to demonstrate that the applicant is a financially responsible person. In this regard, the applicant must demonstrate its ability:

(i) To pay the higher of the net liquidation value (NLV) or going concern value (GCV) of the line;

As stated in more detail below, KJRY believes that the Going Concern Value ("GCV") of the Lines exceeds their Net Liquidation Value ("NLV"). Therefore, KJRY must demonstrate that it has the financial ability to pay the GCV of the lines.

KJRY estimates that the GCV of the lines, as more fully set out below, is \$935,070.92. KJRY is fully capable of paying that amount to acquire the lines. In particular, Pioneer has cash on hand available in the amount of \$1.5 million, which exceeds the GCV of the lines. As stated in Mr. Carr's verified statement, this amount is available to KJRY to purchase the Lines. Mr. Carr has the authority to determine on behalf of Pioneer to make that investment.

Moreover, Pioneer's ongoing operations continue to generate income which would be available to KJRY to fund the cost of purchasing the Lines. Pioneer's subsidiaries operate over 500 miles of line in eight states. Pioneer's gross revenues in the first five months of 2006 were approximately \$9.5 million, with net income of approximately \$2.3 million.

Finally, Pioneer has available to it a line of credit with National City Bank of Michigan/Illinois in the amount of \$1.5 million. See Exhibit 1 to the attached Verified Statement of J. Michael Carr, President, CEO, and Chief Financial Officer of Pioneer (Appendix 1 hereto). Pioneer is willing to make the funds that are available under that line of credit available to KJRY if necessary to fund the acquisition of the Lines.

and

(ii) To cover expenses associated with providing services over the line (including, but not limited to, operating costs, rents, and taxes) for at least the first 3 years after acquisition of the line.

The fact that the Lines have a positive GCV results from the fact that the estimated revenues from operating them exceeds the operating costs. Accordingly, KJRY expects a positive cash flow from operating the Lines, and does not expect to need to subsidize their operation from other available funds. Should such a subsidy for some reason become necessary, however, the financial resources detailed under the preceding subheading would be available to KJRY to cover any shortfall in revenue.

(4) An estimate of the NLV and the GCV of the line and evidence in support of these estimates.

"Under 49 U.S.C. 10907(b)(1), we set the purchase price of a line at its constitutional minimum value, which is defined in 49 U.S.C. 10907(b)(2) as 'not less than the net liquidation value of such line, or the going concern value of such line, whichever is greater.'" *Keokuk Junction Railway Company—Feeder Line Acquisition—Line Of Toledo Peoria And Western*

Railway Corporation Between La Harpe And Hollis, IL, STB Finance Docket No. 34335 (served Oct. 28, 2004). As stated in the Board's initial decision in the KJRY-TP&W Feeder Line proceeding, a feeder line applicant must provide estimates of both NLV and GCV, even if that applicant believes that one or the other is clearly the higher value. *Keokuk Junction Railway Company—Feeder Line Acquisition—Line Of Toledo Peoria And Western Railway Corporation Between La Harpe And Hollis, IL*, STB Finance Docket No. 34335 (served May 9, 2003), slip op. at 4. Thus, in this instance, KJRY provides estimates of both NLV and GCV, even though GCV is the higher value of the Lines.

NLV estimate.

“In the absence of a higher going-concern value for continued rail use, the proper valuation standard in proceedings for offers to purchase under section 10904 is the NLV of the rail properties for their highest and best nonrail use. Chicago and North Western Transp. Co.—Abandonment, 363 I.C.C. 956, 958 (1981) (Lake Geneva Line), aff'd sub nom. Chicago and North Western Transp. Co. v. U.S., 678 F.2d 665 (7th Cir. 1982). NLV includes the value of the underlying real estate plus the NSV of track and track materials.” *Greenville County Economic Development Corporation – Abandonment And Discontinuance Exemption – In Greenville County, SC*, STB Docket No. AB-490 (Sub-No. 1X) (served March 16, 2006), slip op. at 2. “For purposes of computing NLV, [the Board assigns] value only to land to which a railroad holds marketable title. Marketable title generally means that held by warranty or quitclaim deed without restrictions or reversionary language. Thus, property that is subject to a reversion, if no longer used for rail purposes, or if held by easement for railroad purposes, is not included in determining real estate NLV. Southern Pacific Transportation Company—Abandonment Exemption—Sacramento and El Dorado Counties, CA, Docket No. AB-12 (Sub-No. 159X) (ICC

served Oct. 20, 1994) (Southern Pacific).” *San Pedro Railroad Operating Company, LLC—Abandonment Exemption—In Cochise County, AZ*, STB Docket No. AB-1081X (served April 13, 2006), slip op. at 5.

PYCO values the NLV of the Lines, including track 9298 (SAW’s main line running through the SAW yard) at \$606,000. PYCO application filed May 5, 2006 at 19, n. 11. SAW apparently did not offer an NLV figure, though its engineering report on the Lines (*see* SAW’s reply to PYCO’s application dated August 1, 2006 - “SAW’s Reply” - at Appendix 3) generally confirms the assertions by PYCO’s witness that most of the rail involved in the Lines is 90# rail or lighter. SAW’s engineering report also indicates that the materials comprising the Lines are for the most part worn, but suitable for their current use.

Mr. Carr states that, based on his experience in the railroad business, his review of the PYCO net salvage value report, a brief review of the PYCO real estate appraisal report, and brief review of the SAW engineering report, it is his conclusion that the PYCO NLV calculation of \$606,000 is a realistic view of the NLV of the Lines. He bases that conclusion in part on the willingness of PYCO’s track valuation witness to make assumptions favorable to SAW about the value of certain assets, such as his willingness to attribute reroll quality to rail that might be treated as scrap. Exhibit B to PYCO May 4, 2006 application at ¶7. Similarly, the assessment by PYCO’s witness of most of the ties in the Lines as scrap appears to Mr. Carr to be sensible based on the witness’ description of the ties and the photos and descriptions by SAW’s engineering witness in Appendix 3 to SAW’s Reply. It may be that SAW also thinks that PYCO’s NLV calculation is reasonable, inasmuch as SAW apparently did not present a competing NLV calculation. Accordingly, KJRY accepts \$606,000 as the NLV of the Lines for purposes of this proceeding.

GCV estimate.

When a line can be operated by its owner at a profit, “the only fair way to value this line” is at its GCV (assuming that GCV is established with reliable evidence). *Caddo Antoine and Little Missouri Railroad Company-Feeder Line Acquisition-Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR*, 4 S.T.B. 326 (1999) (“*Caddo*”), *rev’d in part* 4 S.T.B. 610 (2000) at 14. “GCV is defined as what a line is worth as an operating business, not its break-up value.” *Id.* It is the line’s worth to the seller, not its projected value to the buyer, which is determinative. *Id.*, citing *United States v. Miller*, 317 U.S. 369, 375 (1942). GCV is calculated by applying a multiplier based on the railroad industry’s pre-tax cost of capital² to the net revenues³ earned from operating the line. *Id.*, at 15.

Both PYCO and SAW present GCV calculations for the Lines. PYCO (through the statement of its witness Charles H. Banks, Exhibit C to PYCO’s application filed May 5 - “Banks Statement”) concludes that the Lines have a negative GCV. SAW, on the other hand, through the statement of Joseph Plaistow, Appendix 2 to SAW’s Reply (“Plaistow Statement”), asserts a GCV for the Lines at either \$5,463,649 or \$8,053,614 (Plaistow Statement at 31), depending on the assumptions employed.

Mr. Carr’s review of the SAW and PYCO GCV estimates finds difficulties with both, though he finds that PYCO’s estimate is closer to the mark. Therefore, based on adjustments to Mr. Banks’ GCV estimate, Mr. Carr concludes that the GCV of the Lines to be \$935,044.74.

Mr. Carr is critical of Mr. Plaistow’s GCV analysis for the same reasons that Mr. Plaistow criticized Mr. Banks; that is, that Mr. Plaistow’s analysis is “totally hypothetical.”

² Specifically, 100/rail industry pre-tax cost of capital established by the Board in Ex Parte No. 558.

³ Gross revenues less variable costs, less fixed costs (if any). *Caddo* at 16.

Specifically, Mr. Carr points out that Mr. Plaistow's estimate of GCV appears to be based on the hypothetical results of a stand alone carrier, which he calls "NEW," operating the Lines, even though Mr. Plaistow explicitly recognizes - Plaistow Statement at 4 - that GCV is supposed to measure the value of the operation to SAW, the seller, not to the hypothetical new buyer. Thus, Mr. Plaistow's basic assumption seems to contradict the Board's definition of GCV. Moreover, Mr. Plaistow's method of calculating GCV - discounted value of hypothetical future earnings - is contrary to the Board's methodology evidenced in *Caddo*, described above.

Other assumptions by Mr. Plaistow also are unrealistic. For example, he uses 2005 as the base year for the projected traffic of NEW, and then escalates that traffic level using a formula. Plaistow Statement at 26. There are two major problems with this assumption. First, 2005 was a banner year for traffic on SAW due to a bumper cotton crop that boosted PYCO traffic. *See* Delilah Wisener statement, Appendix 1 to SAW's Reply - "Wisener Statement" - at 3 (referring to the large cotton crop which greatly increased PYCO traffic in 2005), and Plaistow Statement, at 10, Table 2 (showing that total SAW traffic between 2000 and 2004 varied between 5922 and 8616 carloads, while 2005 traffic was 14,048). Thus, Mr. Plaistow's projection has a very skewed and unrepresentative starting point.

Second, Mr. Plaistow does not substantiate that the index that he uses to project the rate of traffic growth on the Lines for purposes of his GCV calculation applies to the primarily agricultural traffic base of the Lines. The index that he uses is produced by the Energy Information Administration (*see* Plaistow Statement at 27) as part of its Annual Energy Outlook. A copy of the table relied on by Mr. Plaistow is attached as Appendix 2 hereto. It apparently is used to forecast energy consumption by the entire U.S. transportation system. It shows, on its second page, the level of projected increase in overall rail traffic nationally - coal, intermodal,

etc. It is not targeted in any respect to the agricultural traffic that is the principal traffic moving on the Lines, nor is it at all site-specific. As Mr. Carr states, from his experience with Pioneer's shortline subsidiaries, which predominantly handle agricultural commodities, he is well aware that the volume of demand for hauling agricultural products fluctuates up and down significantly with conditions such as weather in the U.S. and in other agricultural regions of the world. No clearer example of this is needed than Mr. Plaistow's Table 2, which shows SAW traffic more than doubling between 2004 and 2005, due to a bumper crop of cotton.

In short, Mr. Plaistow's analysis is based on theoretical traffic and revenue projections and on a methodology other than that approved by the Board. Thus, the GCV which Mr. Plaistow bases on them is unproven and theoretical.⁴

The principal flaw of Mr. Banks' GCV calculation is his conclusion that the new operator would invest roughly \$1.18 to \$2.13 million in rehabilitation of the Lines, making operation of the Lines at a profit impossible. This approach is unrealistic and impractical.

First, the Lines are being operated now, serving the three shippers at issue. This is evidence that the huge rehabilitation costs projected by Mr. Banks are not required. As stated by SAW's engineering witness (Appendix 3 to SAW's Reply at ¶ D.3) and as confirmed by Mr. Carr, a line comprised of 90# rail is capable of handling 286,000 pound cars under certain operating conditions. As the agency said in *Caddo*, "Inasmuch as trains are regularly using that portion of the line [where the shippers alleged that rehabilitation was needed] to serve IP, we have assumed that the amount of rehabilitation on that portion will be minimal." *Caddo* at 342.

⁴ Mr. Plaistow also apparently assumes that certain surcharges that SAW has not previously implemented would be implemented, and inflates his GCV based on that. The flaw with this is that it does not account for the impact that the surcharge might have of reducing traffic levels. Because the ability to impose the surcharges is purely "theoretical," its use suffers from the same type of faulty theoretical assumptions as Mr. Plaistow accuses Mr. Banks' statement of suffering.

Second, Mr. Banks' approach is simply impractical. Mr. Carr states that, in his opinion, no new carrier (at least not KJRY) would spend so much on rehabilitating the Lines that it would prevent itself from ever making a profit. In Mr. Carr's opinion, a gradual approach, making investments as necessary to serve the shippers and to maintain safety, is far more practical than a huge upfront capital project that insures perpetual unprofitability. Thus, Mr. Banks' rehabilitation assumption that forces the Lines to have a negative GCV is seriously flawed.

Otherwise, however, Mr. Carr believes Mr. Banks' GCV assessment to be realistic and to be consistent with the rates and service features of the Lines as stated in the PYCO application and the SAW reply, and as confirmed by Pioneer's and his own inquiries. Specifically, Mr. Banks' traffic levels and rate assumptions seem to conform to Mr. Plaistow's data that is based on internal SAW data. The operating expenses that Mr. Banks projects using URCS accounting seem reasonable in light of Mr. Carr's experience and the operating conditions described by Messrs. Banks and Plaistow. Likewise, Mr. Banks' projected track maintenance costs (annual and routine maintenance, but not his projected rehabilitation, costs) are generally in line with figures with which Mr. Carr is familiar. In short, but for Mr. Banks' assumptions about rehabilitation expenditures, Mr. Carr finds Mr. Banks' methodologies and factual assumptions realistic and consistent with his experience and his knowledge about the Lines.

Accordingly, Mr. Carr develops a GCV estimate for the Lines based on modifying Mr. Banks' calculations as follows:

Banks' preliminary positive annual cash flow (Banks Statement at Table 7)	\$227,683
Banks' annual program maintenance cost (Banks Statement, Table 17)	(\$42,078)
Banks' annual routine maintenance cost (Banks Statement Table 18)	<u>(\$53,760)</u>
Net operating revenue less annual maintenance	Subtotal
	\$131,845

Multiplier based on railroad pre-tax cost of capital (100/14.1) x7.0921986

Going Concern Value Estimate \$935,070.92

KJRY offers to purchase the Lines for this valuation.

(5) An offer to purchase the line at the higher of the two estimates submitted pursuant to paragraph (a)(4) of this section.

KJRY hereby offers to purchase the Lines at the higher of the two above estimates; namely, the GCV estimate of \$935,070.92.

(6) The dates for the proposed period of operation of the line covered by the application.

KJRY requests that the Board order closing on KJRY's purchase of the lines to occur within 60 days of the service date of the Board's order granting KJRY's application. KJRY will close on the purchase at the earliest possible time within that period. Thereafter, KJRY intends to operate the lines for a minimum of three years, and in all likelihood for a considerably longer period.

(7) An operating plan that identifies the proposed operator; attaches any contract that the applicant may have with the proposed operator; describes in detail the service that is to be provided over the line, including all interline connections; and demonstrates that adequate transportation will be provided over the line for at least 3 years from the date of acquisition.

KJRY, an experienced rail operator, intends to operate the lines itself. In so doing, KJRY intends to interchange with BNSF Railway Company, the only major carrier with a direct connection to the lines. KJRY will provide service that meets the service needs described by the shippers on the line in the initial feeder line application in this proceeding and in the related alternative service order proceeding.

It appears that SAW has recently operated the lines on a five day per week basis (with occasional weekend operations), and generally uses three of its eight operating and maintenance-of-way employees to operate the lines. See Wisener Statement, Appendix DW-5 (showing

PYCO requests for and deliveries of boxcars in January 2006 occurring in four five-day blocks with two additional days - albeit with no orders or deliveries - on the two days following the fourth block); Plaistow Statement at 13 (showing that SAW currently has six locomotive/maintenance-of-track employees and two additional track maintenance employees, and stating the three of the six locomotive/maintenance-of-track employees would not be needed by SAW in a post-sale environment); and PYCO feeder line application at 21 ("WTL currently operates alternative service five days per week, with additional service on weekends as needed.") Accordingly, KJRY would anticipate providing service on a five-day-per-week basis, utilizing roughly four operating/track maintenance personnel. KJRY would accept applications from any such SAW employees who would be laid off as a direct result of the grant of KJRY's application, and would give those persons priority consideration for hiring as specified below under heading 15. KJRY would anticipate providing office and support services through its existing personnel and those of Pioneer, though if it were necessary to add to that level of staffing, KJRY would do so.

To handle the volume of traffic currently moving on the lines, KJRY has three locomotives available for its immediate use. Car supply, as KJRY understands matters, is handled by BNSF, and KJRY would anticipate that relationship would continue. KJRY would coordinate its operations with those of BNSF in terms of interchange and other operational matters, as BNSF provides the linehaul movement for most or all of the traffic moving to or from the Lines.

Based on a review of the information contained in Exhibit C to PYCO's initial feeder line application as relates to traffic levels and rates and divisions, KJRY estimates that the operation of the lines (with the exception of rehabilitation cost), will be self-sustaining. KJRY intends to

fund any required rehabilitation of the lines through net income from operations of Pioneer or through Pioneer's available line of credit to the extent such costs are not supported by current cash flow from operations. As stated in the attached Verified Statement of J. Michael Carr, Pioneer will make the necessary funds available to KJRY for these purposes.

Finally, KJRY wishes to address some of the operating concerns expressed by both BNSF and PYCO. Both of these parties have expressed operating concerns regarding having more than one carrier operate over the lines, which would be the case if only the Alternative Two feeder line was granted (thus leaving the remaining SAW lines to continue to be operated by SAW). To resolve this issue, KJRY fully intends in pursuing a negotiated purchase of the remaining SAW lines, or, if the Board accepts PYCO's recent shipper statements and begins an All-SAW feeder line process, KJRY fully intends to file a competing application in that proceeding as well.

Having one carrier own and operate all of SAW's line is the best for all parties. As KJRY stated when it asked the Board to extend the deadline for KJRY to file an application in competition with PYCO's, KJRY's view is that SAW's existing customers would be best served by a carrier that replaces all, not just some, of SAW's operations. This would resolve many, if not all, of PYCO's and BNSF's operating concerns. For that reason, KJRY originally intended to file a competing feeder line application that would encompass all of SAW's lines, not just those covered by PYCO's application. However, due to the short time available to prepare KJRY's application, and in light of PYCO's threat to expand the litigation here by challenging acceptance of an application encompassing more than just the lines covered by PYCO's application, KJRY has limited its application to just those lines covered by PYCO's application.

That does not mean, however, that KJRY has surrendered its vision that all of the existing SAW lines should be operated as a unit. As shown by Mr. Banks' GCV statement, there is significant traffic on the SAW lines beyond that of the three shippers that would be served on the Lines at issue in this proceeding; indeed, there appears to be nearly as much SAW traffic on the other lines as on the Lines encompassed in this application. KJRY believes that there are significant operating economies available if all of SAW's customers - not just PYCO, Attebury Grain, and Farmers' Cooperative Compress - are served by the same carrier. Those economies include at least operating efficiencies and elimination of duplicative management functions. Those economies would benefit both the operating carrier and the shippers by creating a stronger, coordinated, more viable long-term operation.

For these reasons, KJRY is pursuing, outside of this application proceeding, a plan that would allow all existing SAW customers and lines to be operated by KJRY. Because of PYCO's feeder line application, it has been necessary to pursue a portion of KJRY's goals through its competing feeder line application here, but KJRY's efforts will not stop here and KJRY hopes soon to be able to offer a plan for unified operation of all of SAW's lines. Doing so in this proceeding quite simply became impossible because of the short time frames of the proceeding and because of PYCO's positions in this litigation. Likewise, given the rancor that has arisen between PYCO and SAW, it is highly unlikely that those parties will ever be able to reach a negotiated settlement. As a neutral third party carrier with a long standing record of operating both a financially strong and safe railroad, KJRY is in the best position to resolve this dispute while at the same time ensuring that BNSF's operating concerns are addressed.

(8) A description of the liability insurance coverage carried by applicant or any proposed operator. If trackage rights are requested, the insurance must be at a level sufficient to indemnify the owning railroad against all personal and property damage that may result from negligence on the part of the operator in exercising the trackage rights.

The Company maintains insurance that covers claims arising from personal injury and property damage in the event of derailments or other accidents or occurrences. Certificates of insurance coverage in the amount of \$25 million for personal injury and \$1.5 million for property damage are attached hereto as Appendix 3.

(9) Any preconditions (such as assuming a share of any subsidy payments) that will be placed on shippers in order for them to receive service, and a statement that if the application is approved, no further preconditions will be placed on shippers without Board approval. (This Statement Will Be Binding Upon Applicant if the Application is Approved.)

Absent Board approval, no preconditions will be placed upon shippers in order to receive service. Applicant is not seeking Board approval for any such conditions at this time.

(10) The name and address of any person(s) who will subsidize the operation of the line.

KJRY anticipates that the operation of the line will be self-supporting. Accordingly, KJRY does not anticipate any need for any entity to subsidize the operation of the Lines. However, should such a need arise, Pioneer will provide the needed subsidy.

(11) A statement that the applicant will seek a finding by the Board that the public convenience and necessity permit or require acquisition, or a statement that the line is currently in category 1 or 2 of the owning railroad's system diagram map.

KJRY seeks a finding that the public convenience and necessity permit or require acquisition of the lines.

(i) If the applicant seeks a finding of public convenience and necessity, the application must contain detailed evidence that permits the Board to find that:

(A) The rail carrier operating the line refused within a reasonable time to make the necessary efforts to provide adequate service to shippers who transport traffic over the line; [and]

(B) The transportation over the line is inadequate for the majority of shippers who transport traffic over the line;

The lines involved in this application have been the subject of an ongoing service dispute between PYCO and SAW for over a year. The Board found that SAW's service to

PYCO was so severely deficient that the Board issued an alternative service order, *Pyco Industries, Inc.—Alternative Rail Service—South Plains Switching, Ltd. Co.*, STB Finance Docket No. 34802 (served Jan. 26, 2006), replacing SAW temporarily as the carrier serving PYCO. In so doing, the Board found that -

PYCO is a rail-dependent shipper with two plants from which it ships annually more than 6,000 carloads of cottonseed oil and related products. Moreover, PYCO is served only by SAW. Here, the daily shortfall of 14 carloads for switching at Plant No. 1 (more than half of the 26 carloads that PYCO previously could load there), the continued lack of delivery of sufficient boxcars to serve Plant No. 2, and the period in November 2005 during which SAW performed no switching at all at Plant No. 2 indicate a serious deterioration in SAW's service to PYCO. PYCO has demonstrated through ample, credible evidence that, as a consequence of these service inadequacies, it will soon run out of storage capacity for its cottonseed oil and related products, and will be forced to curtail or close operations. Consequently, we find that PYCO has shown, as to itself, "a substantial, measurable deterioration or other demonstrated inadequacy in rail service provided by the incumbent carrier." 49 CFR 1146.1(a).

(Footnotes omitted.)

Even during the period of the alternative service order, multiple disputes between PYCO and SAW have been brought to the Board's attention, requiring a series of decisions by the Board to referee between the warring parties. So exasperated did PYCO become with SAW's behavior that it has sought a permanent solution to its disputes by seeking in its feeder line application to force SAW to sell PYCO the lines serving PYCO and two other shippers - Attebury Grain, LLC ("Attebury") and Farmers Cooperative Compress ("Farmers") - who, like PYCO, have declared their complete dissatisfaction with SAW's service.

Clearly SAW's service is inadequate to meet the needs of the three shippers served by the Lines.⁵ PYCO, which ships the vast majority of the traffic moving on the Lines, is so

⁵ PYCO's August 2 filing attaching Shipper Comments makes much of the fact that these three shippers support PYCO's feeder line application and do not support KJRY's application; however, that is not the relevant statutory standard. The statute does not require KJRY to

dissatisfied that it has gone to extreme lengths in litigation to rid itself of SAW. Attebury and Farmers have likewise declared the inadequacy of SAW's service to meet their needs. While SAW's witness Delilah Wisener argues that the increase in SAW's traffic since 1999 demonstrates that SAW's service has been adequate, it appears from Mr. Plaistow's Table 2 and from Ms. Wisener's own testimony that a bumper crop of cotton, not SAW's service, is responsible for the vast increase in SAW's traffic in 2005, whereas SAW's 2004 traffic level (6541 carloads) was only about 10% higher than SAW's 2000 traffic level (5922 carloads). In short, the fortuitous increase in SAW's traffic in 2005 is insufficient to counter the vigorous demonstrations by PYCO, Attebury and Farmers to the Board that SAW's service is inadequate to meet their needs, and that SAW has failed to remedy those inadequacies and perhaps has made them even worse rather than better.

(C) The sale of the line will not have a significantly adverse financial effect on the rail carrier operating the line;

The sale of the Lines will not have a significant adverse financial effect on SAW because paying the GCV of the Lines will fully compensate SAW's ongoing business operations for the transfer of the Lines and the business they generate. SAW's arguments to the contrary are unconvincing.

The purpose of valuing a feeder line based on the higher of GCV or NLV is to give the carrier the highest value it can establish that it would lose as a result of transferring the line. In

demonstrate both that service is inadequate and that the shippers on the line would prefer KJRY's operations vis-à-vis the proposed operations of another carrier. The statute only requires KJRY to demonstrate that "transportation over such line is inadequate for the majority of shippers who transport traffic over such line." 49 U.S.C. § 10907(c)(1)(B). PYCO, Attebury, and Farmers have already made that demonstration and the August 2nd comments further support that notion. KJRY adopts and accepts their statements regarding the inadequacy of SAW's service over the lines.

particular, the concept of GCV is designed to compensate the carrier for the lost opportunity to profit from continued operation of the line. KJRY's instant application offers to pay SAW the GCV of the Lines. Paying GCV will make SAW whole for the loss of the business opportunity to continue operating the Lines.

Ms. Wisener contends that transfer of the Lines to PYCO (or, presumably, to KJRY) would clearly have a serious adverse financial impact on SAW because the Lines account for "57 percent of [SAW's] total revenue, but would leave [SAW] with about 64% of its trackage on which it would continue to incur costs for maintenance and operation." "It is evident that such a disproportionate loss of revenue vis-à-vis retention of costs would have a significant adverse financial effect on SAW," she says. Wisener Statement at 13.

Ms. Wisener is comparing apples to oranges. Merely because SAW would be retaining 64% of the track structure does not mean that it would be retaining 64% of the operating costs. Rather, it is clear from Ms. Wisener's statement that the 36% of SAW's track comprising the Lines at issue in this Alternative Two feeder line proceeding actually constitute the largest portion of SAW's operating costs due to the denser heavy traffic load on these Lines as compared to the other lines. Moreover, inasmuch as PYCO's testimony indicates that the Lines carry the vast majority of the 286,000 pound cars moving on the SAW's lines, one would expect the track maintenance costs on the remaining 64% of SAW's trackage to be relatively lighter. Thus, Ms. Wisener's apples to oranges comparison fails.⁶

⁶ Ms. Wisener also argues that Southern Cotton Oil inquired about receiving larger groups of cars and that transfer of the Lines to a feeder line applicant would prevent SAW from using the Lines to meet this additional possible service need. Merely because SAW might not be able to serve that new service need - if it ever materialized - in the way it might have previously done does not mean that SAW could not meet that need in other ways, using other tracks or other arrangements with its connecting carrier. Again, Ms. Wisener's argument is unconvincing.

Mr. Plaistow's testimony bears some of the same logical difficulties as Ms. Wisener's apples to oranges comparison. Like Ms. Wisener, Mr. Plaistow essentially argues that SAW would lose a larger percentage of its revenues than the percentage of costs that it would lose. But again, this comparison is based in significant part on eliminating costs in direct proportion to the percentage of SAW's current tracks that are sought in PYCO's Alternative Two and by KJRY. But again, it must be recognized that costs are largely a function of the level of operations, and that shedding more than half of the number of carloads handled is likely to lead to a proportionate reduction in costs. Also, it is unclear whether Mr. Plaistow treated SAW's surcharges or potential surcharges in the same manner when he assessed the supposed impact of the application on SAW as he did in calculating his asserted GCV of the Lines.

(D) The sale of the line will not have an adverse effect on the overall operational performance of the rail carrier operating the line;

SAW claims that forced sale of the Lines would deprive it of tracks that it must have to serve shippers, and thus would adversely affect its operational performance. SAW neglects to acknowledge, however, that it would be compensated for the Lines at an amount exceeding their NLV, meaning that SAW would have funds to construct additional facilities better than the current facilities.

Moreover, the mere fact that SAW would have to coordinate its remaining operations with those of KJRY on the Lines does not mean that SAW could not serve its remaining customers. Instead of wrangling with WTL during a period of interim service, KJRY would hope that SAW would recognize that the permanence of the feeder line sale would necessitate cooperation rather than confrontation with the feeder line buyer.

Finally, as stated by Mr. Carr, KJRY continues to work toward acquiring all of SAW's remaining operations, in addition to the Lines:

KJRY is pursuing, outside of this application proceeding, a plan that would allow all existing SAW customers and lines to be operated by KJRY. Because of PYCO's feeder line application, it has been necessary to pursue a portion of KJRY's goals through its competing feeder line application here, but KJRY's efforts will not stop here and KJRY hopes soon to be able to offer a plan for unified operation of all of SAW's lines. Doing so in this proceeding quite simply became impossible because of the short time frames of the proceeding and because of PYCO's positions in this litigation.

Carr Statement at 41. This option would entirely eliminate any potential for an adverse effect on SAW's operations. Thus, granting KJRY's application would not force SAW to suffer any operational difficulties.

and

(E) The sale of the line will be likely to result in improved railroad transportation for shippers who transport traffic over the line.

Prior to yesterday's Board decision, there were several issues that could have prevented either PYCO or KJRY from being able to completely restore efficient railroad operations even if the Board granted both feeder line applications. Those issues involved in large part the property sales to Choo-Choo and the continued use of a crucial yard and wye track by SAW during the time on which WTL operated. Yesterday's Board decision significantly resolved those issues.

Even with those issues resolved, there still exist certain operating and service concerns. Perhaps the largest such concern is the fact that the Alternative Two proposal would split SAW's operations in two, leaving SAW to operate over the majority of the track serving roughly 20 shippers while PYCO or KJRY would operate over 36 % of the track serving three shippers. The net effect would be the imposition of two carriers while previously there had been only one – a result that concerns BNSF and has led them to ask for Board-mandated operating protocols. For this reason, a feeder line application governing all of SAW's line is the preferred alternative.

While KJRY believes it can negotiate the purchase of the remaining SAW lines, as an alternative, KJRY supports PYCO's August 2 request that the Board promptly accept a feeder line application from PYCO for the All-SAW alternative. However, KJRY cautions that PYCO has not presented new evidence or changed circumstances warranting reversal of prior Board action, inasmuch as yesterday's filing by PYCO of letters from the majority of the shippers on all of SAW's lines stating that they have received inadequate service could have been accomplished previously. If the Board does agree to PYCO's request, it should change the procedural schedule to accommodate the filing of competing feeder line applications for the All-SAW Alternative. KJRY intends to likewise file a competing feeder line in that proceeding as well.

However, if the Board does not agree with PYCO's request and continues to solely process the Alternative Two feeder line, then KJRY believes its proposal represents the best means by which to restore service to the shippers.⁷ KJRY is an experienced rail operator with a good record of service and a good safety record. It has sufficient experience and financial resources to operate the Lines at least as effectively as SAW has operated them and can do so jointly with SAW, without the acrimony, litigation, blocked crossings and other inefficiencies that are likely going to result of PYCO and SAW both continue to try and operate in the same

⁷ PYCO has been able to obtain letters from the majority of the shippers on all of SAW's lines expressing their dissatisfaction with SAW's service. Some of those letters also express a preference for PYCO's application vis-à-vis KJRY. Most of the letters appear to be "form" or "fill in the blank" letters suggested to them by PYCO. It is unfortunate that KJRY did not have the time to sit down with these shippers and show them its financial and safety records. In doing so, the shippers perhaps would better understand that their service would improve under KJRY's application. Regardless, as noted earlier, it is not a statutory requirement that KJRY obtain letters from shipper's supporting its competing feeder line application in order for the Board to accept KJRY's application for consideration. Compare, Caddo Antoine et al. -- Feeder Line Acquisition -- Arkansas Midland Railroad, 10 I.C.C.2d 323 (1994); Finance Docket No. 32613 (ICC served Nov. 23, 1994, and Mar. 9, 1995); Glenwood and Southern Railroad Company-- Feeder Line Acquisition--Arkansas Midland Railroad Company Line Between Gurdon and Birds Mill, AR, Finance Docket No 32613 (ICC served March 9, 1995 and Nov. 23, 1994).

area. As neutral third party, KJRY is in the best position to return the operation of the Lines to a normal operating footing, leading to vastly improved service for all the shippers who are currently caught up in the continued tit-for-tat wrangling between PYCO, its operator WTL, and SAW.

PYCO is not a rail carrier and has no experience owning or operating a railroad; rather, PYCO is a shipper, an orientation that is reflected in its instant application. PYCO is a shipper that got into a service dispute with SAW and is now proposing to buy some of SAW's lines and operate them via a contract carrier. KJRY submits that such a proposal raises substantial issues under the feeder line statute as to whether or not PYCO has the ability to operate the line for the required time and to do so safely and consistent with the statute. The Board simply does not know who the operating railroad will be and whether or not that railroad's operations will be safe and financial viable to sustain consistent with the feeder line statute. As an operating railroad with a strong safety record, KJRY's proposed application does not suffer from those deficiencies.

(ii) If the applicant seeks a finding that the line is currently in category 1 or 2 of the owning carrier's system diagram map, the relevant portion of the current map must be attached to the application.

Not applicable.

(12) A statement detailing applicant's election of exemption from the provisions of Title 49, United States Code, and a statement that if the application is approved, no further exemptions will be elected. (This Statement Will Be Binding Upon the Applicant if the Application is Approved.)

KJRY does not choose to be exempt from of Title 49 of the U.S. Code pursuant to authority available under 49 U.S.C. Section 10907(g).

(13) A description of any trackage rights sought over the owning railroad that are required to allow reasonable interchange or to move power equipment or empty rolling stock between noncontiguous feeder lines operated by the applicant, and an estimate of the reasonable

compensation for such rights, including full explanation of how the estimate was reached. The description of the trackage rights shall include the following information: Milepost or other identification for each segment of track; the need for the trackage rights (interchange of traffic, movement of equipment, etc.); frequency of operations; times of operation; any alternative to the use of trackage rights; and any other pertinent data. Trackage rights that are necessary for the interchange of traffic shall be limited to the closest point to the junction with the owning railroad's line that allows the efficient interchange of traffic. A statement shall be included that the applicant agrees to have its train and crew personnel take the operating rules examination of the railroad over which the operating rights are exercised.

No such rights are requested.

(14) If applicant requests Board prescribed joint rates and divisions in the feeder line proceeding, a description of any joint rate and division agreement that must be established. The description must contain the following information:

KJRY does not request the establishment of joint rates and divisions at this time.

- (i) The railroad(s) involved;*
- (ii) The estimated revenues that will result from the division(s);*
- (iii) The total costs of operating the line segment purchased (including any trackage rights fees).*
- (iv) Information sufficient to allow the Board to determine that the line sought to be acquired carried less than 3 million gross ton-miles of traffic per mile in the preceding calendar year; and*
- (v) Any other pertinent information.*

(15) The extent to which the owning railroad's employees who normally service the line will be used.

KJRY anticipates that if its instant application is granted, it will need to hire additional operating employees in roughly the same number as any who may be displaced by this transaction. In doing so will give priority consideration to any current SAW employees displaced as a direct result of this transaction. KJRY is willing to accept employment applications from former SAW employees and to accord such persons priority over other, equally-qualified applicants. To be hired, all applicants must be qualified by training and other capabilities to fill an available position and be willing to accept employment under the terms and

conditions available to KJRY's employees. If any rehabilitation of the Lines is required, KJRY expects to use outside contractors.

(16) A certificate stating that the service requirements of Sec. 1151.2(a) have been met.

Such requirements have been met.⁸ See Certificate of Service attached hereto.

Specifically, out of an abundance of caution, KJRY is serving a copy of its application on all shippers identifiable from either PYCO's application or from Appendix DW-1 to the Wisener Statement, a list of SAW's shippers, except that KJRY has not been able to locate through internet or telephone records any entity named Dodson Lumber, listed on Appendix DW-1. KJRY is also serving a copy of its application on all parties of record listed on the Board's website.

RESPONSE TO BNSF'S AUGUST 2 REPLY

BNSF's August 2 reply to PYCO's initial feeder line application, as amended, raises two issues that require brief comment. First, BNSF requests that if PYCO's Alternative Two is granted, the Board require SAW and PYCO to enter into an operating protocol that would prevent their undue interference with BNSF's operations in the area. If the parties were not able to enter such a protocol, BNSF asks that the Board resolve any disputes. KJRY does not object to this request. If KJRY is the successful feeder line applicant, KJRY anticipates striving with all affected carriers in Lubbock to operate without interfering with others' operations. KJRY would expect that other carriers would treat KJRY similarly.

BNSF's second request is that its right of first refusal to purchase any of SAW's lines that are sold not be compromised. It is unclear whether by this request BNSF means that it should be

⁸ Amtrak does not operate on this line and therefore has not been served a copy of the application. To the best of KJRY's knowledge, SAW's employees are not unionized; therefore, copies of this application have not been served on offices of national railway unions.

able to prevent the consummation of a feeder line sale ordered by the Board or if BNSF means that, should the successful feeder line buyer sell the Lines back to SAW under SAW's right of first refusal - 49 U.S.C. §10907(h) - or sell them to another entity if SAW does not exercise its 10907(h) rights, that BNSF then should have the right to step in.

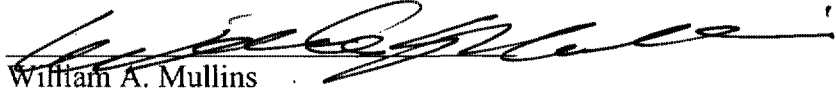
If BNSF is seeking to assert a right of first refusal to preempt a grant of PYCO's or KJRY's feeder line application (or both) by the Board, KJRY believes such a request is improper as it would negate the processes set forth in Section 10907. If, however, BNSF is seeking to preserve its rights agreed to with SAW should the successful applicant here sell the Lines back to SAW (or to another entity should SAW not exercise its Section 10907(h) rights), KJRY has no objection.

CONCLUSION

The GCV presented herein by KJRY is more reliable than the GCV calculations of either PYCO or of SAW, and presents a higher value than the NLV calculation by PYCO, which appears to be the only NLV calculation of record. KJRY has ample financial resources available to purchase the Lines for their GCV and to operate them for a minimum of three years. KJRY is an experienced rail operator whose ultimate objective is to acquire and operate the remainder of SAW's entire system, in order to provide improved service to all shippers on that system, not just to PYCO and its two neighbors. Accordingly, granting KJRY's application will serve the public convenience and necessity by resolving the ongoing grudge match between PYCO and SAW via the sale of the Lines to KJRY, a neutral, experienced carrier, capable of providing quality service to PYCO and other dissatisfied shippers, as well as to neighboring shippers on a sustained basis. The Board should grant KJRY's application and set the constitutional minimum value of the Lines at \$935,070.92. Should the Board also determine that PYCO's application for the

Alternative Two Lines should be granted, the Board should, consistent with 49 CFR 1151.4(c) and Board precedent, grant both applications and allow the incumbent carrier to choose between the two competing feeder line applications.⁹

Respectfully submitted,



William A. Mullins
David C. Reeves
BAKER & MILLER PLLC
2401 Pennsylvania Ave, NW
Suite 300
Washington, DC 20037
Tel: (202) 663-7820
Fax: (202) 663-7849

Attorneys for Keokuk Junction Railway Co.

August 4, 2006

⁹ Cheney Railroad Company-Feeder Line Acquisition-CSX Transportation, Inc. Line Between Greens and Ivalee, AL; Tyson Foods, Inc.--Feeder Line Application-CSX Transportation, Inc. Line at Ivalee, AL, 5 I.C.C2d 250, 1989 ICC LEXIS 19 at *60, ordering paragraph 3, aff'd sub nom. Cheney Railroad v. I.C.C., 902 F.2d 66 (D.C. Cir.); cert den. 498 U.S. 985 (1990).

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB DOCKET NO. 34890

**PYCO INDUSTRIES, INC.— FEEDER LINE APPLICATION—
LINES OF SOUTH PLAINS SWITCHING, LTD. CO.**

**COMPETING FEEDER LINE APPLICATION
OF KEOKUK JUNCTION RAILWAY CO.**

VERIFIED STATEMENT OF J. MICHAEL CARR

My name is J. Michael Carr. I am President, CEO and Chief Financial Officer of Pioneer Railcorp (“Pioneer”). Pioneer is the parent company of Keokuk Junction Railway Co. (“KJRY”), which is filing the competing feeder railroad development application (commonly known as a “feeder line application” - “FLA”) to which this statement is appended. I am also the President of KJRY.

The purposes of this statement are to (1) present KJRY’s valuation of the lines currently owned by South Plains Switching, Ltd. Co. (“SAW”) at Lubbock, TX and which are the subject of the feeder line application filed by PYCO Industries, Inc. (“PYCO”) and accepted by the Board in its July 3, 2006 decision (the so-called “Alternative Two” feeder line application); (2) to describe the financial resources available to KJRY to acquire the Alternative Two lines that are likewise at issue in KJRY’s competing feeder line application; (3) to offer on behalf of Pioneer and KJRY to use the companies’ resources to pay the value of SAW’s lines at issue here

("Lines");¹⁰ (4) to describe KJRY's plan for operating the Lines; and (5) to briefly address KJRY's broader vision in connection with SAW's remaining properties not covered by KJRY's application.

Qualifications of Witness

My duties with Pioneer place me as the senior executive over all of Pioneer Railcorp's eight departments, its fifteen shortline railroad subsidiaries currently conducting rail operations, and its four subsidiaries which support the operations of those carriers. Of particular note, I am responsible for day-to-day executive management of the company and for financial and other reporting to the Board of Directors and to Pioneer Railcorp shareholders. I also oversee all financing activities (including dealing with lenders to obtain and utilize lines of credit made available to the company), stock transfer activities, and the day-to-day functions of the Company's accounting staff. As a result, I am personally knowledgeable about Pioneer's

¹⁰ The Lines encompassed by PYCO's Alternative Two application and likewise by KJRY's instant application are defined as follows:

Track 5, SAW yard,	2,400 feet;
Track 1, SAW yard,	2,100 feet;
Track 9200,	3,900 feet;
Track 9298, east of BNSF main,	4,320 feet;
Track lead to PYCO plant 2 to 50th St.	6,280 feet;
Track 231 lead to 9200/9298,	960 feet;
<u>Track 310 through Farmers 1,</u>	<u>5,600 feet</u>
TOTAL:	25,560 feet

In addition, all of Track No. 6 from the western end of SAW yard to the western clearpoint of the easternmost switch of the "wye" track connecting to Track No. 6 from the south, and also the western branch of said "wye" from its southern clearpoint north to and including its connection

available financial resources, including cash on hand and lines of credit. I am also a member of Pioneer's Board of Directors. From over a decade in the rail industry, I have a strong working knowledge of economic and operational issues related to operating shortline railroads.

Before joining Pioneer in March 1993, I worked in public accounting and banking for seven years, most recently as Controller for United Federal Bank of Peoria, Illinois. I am a certified Public Accountant (CPA), and hold a Bachelor of Science in Accounting from Illinois State University.

In preparing to make this statement, I have reviewed pertinent portions of the initial feeder line application filed by PYCO, including portions of the Going Concern Value ("GCV") analysis of Charles H. Banks (Appendix C to the application), its valuation of the rail and track materials (Appendix B to the application) and its real estate appraisal (Appendix D to the application). I have also had a very brief opportunity to look at portions of the reply in opposition to PYCO's amended initial feeder line application filed August 2, 2006 by SAW ("SAW's Reply"). Furthermore, I and others on Pioneer's behalf have, within the very limited time available for preparing KJRY's competing application, conducted our own investigation of the properties and operations of SAW on the lines involved in this application. Although the length of those investigations has, of necessity, been compressed by the procedural requirements in this proceeding, I am comfortable that the information I have reviewed and gathered personally and through Pioneer's staff and others gives me a firm basis for Pioneer's and KJRY's valuation of SAW's properties and operations for the purpose of going forward with KJRY's competing application.

with Track No. 6, estimated to be 1,100 feet. Also, the applicant would acquire a crossing right as follows: Crossing right Track 9298 to and through SAW yard, 5,000 feet.

Valuation of Properties

Net Liquidation Value ("NLV").

Net liquidation value, as I understand the concept based on KJRY's feeder line application involving TP&W's Peoria to LaHarpe line, is a calculation of the gross value of salvaging the rail assets comprising a line (rail, OTM, reusable ties), less the cost of removing them and moving them to point of resale, plus the gross value of the real estate less sales commissions, holding costs, etc. From my review of the filings in this case by PYCO and SAW, it appears that PYCO values the NLV of the Lines, including track 9298 (SAW's main line running through the SAW yard) at \$606,000. PYCO application at 19, n. 11. SAW did not offer an NLV figure that I could see. Its engineering report on the Lines (Appendix 3 to SAW's filing dated August 1, 2006), however, generally confirms the assertions by PYCO's witness that most of the rail involved in the Lines is 90# rail or lighter. SAW's engineering report on SAW's lines also indicates that the materials comprising the Lines are for the most part worn, but suitable for their current use.

Based on my experience in the railroad business, my review of the PYCO net salvage value report, a brief review of the PYCO real estate appraisal report, and brief review of the SAW engineering report, it is my conclusion that the PYCO NLV calculation of \$606,000 is a realistic view of the NLV of the Lines. In part my conclusion is based on the willingness of PYCO's track valuation witness to make forgiving assumptions about the value of certain assets, such as his willingness to attribute reroll quality to rail that might be treated as scrap. Appendix B to PYCO May 4, 2006 application at ¶7. Similarly, his assessment of most of the ties in the line as scrap appears sensible from his description that most are buried in the dirt (see same paragraph), which appears to conform to the photos and descriptions by SAW's engineering

witness in Appendix 3 to SAW's Reply. It may be that SAW also thinks that PYCO's NLV calculation is reasonable, inasmuch as SAW did not present a competing NLV calculation that I am aware of. Accordingly, I accept \$606,000 as the NLV of the Lines for purposes of this proceeding.

Going Concern Value ("GCV").

I believe, however, that the GCV of the Lines is higher than their NLV. Again, as I understand matters from KJRY's prior feeder line experience, GCV is a measurement of the value to SAW of operating the Lines as a continuing business enterprise.

Both PYCO and SAW present GCV calculations for the Lines, PYCO, through the statement of its witness Charles H. Banks, Exhibit C to PYCO's May 4 application ("Banks Statement"), concludes that the Lines have a negative GCV, while SAW (through the statement of Joseph Plaistow, Appendix 2 to SAW's Reply - "Plaistow Statement"), asserts a GCV for the Lines at either \$5,463,649 or \$8,053,614 (Plaistow Statement at 31), depending on the assumptions employed.

In reviewing the SAW and PYCO GCV estimates, I find difficulties with both, though I find that PYCO's estimate is closer to the mark. Therefore I estimate the GCV of the Lines to be \$935,044.74, based primarily on Mr. Banks' analysis and data. My principal difference with Mr. Banks is that his estimates of rehabilitation expense, which was the main expense that led to his attributing a negative GCV to the Lines, are not reasonable or prudent, in my opinion.

First, however, I will address some of the reasons that I find Mr. Plaistow's analysis to be an unreliable basis for GCV calculation. Mr. Plaistow criticizes Mr. Banks' analysis as "totally hypothetical" and "wrong." To me, however, it seems that Mr. Plaistow falls into some of the same pitfalls of which he accuses Mr. Banks. First, Mr. Plaistow's estimate of GCV appears to

me to be based on the hypothetical results of a stand alone carrier, which he calls "NEW," operating the lines. This seems to me to be the wrong approach because NEW is not SAW and, as Mr. Plaistow even recognizes - Plaistow Statement at 4 - GCV is supposed to measure the value of the operation to SAW, the seller, not to the hypothetical new buyer or through using concepts and methodologies employed in stand-alone rate complaint cases. Thus, Mr. Plaistow's basic assumption seems to contradict the Board's premise for determining GCV. For example, in the prior KJRY feeder line case involving TP&W, the Board found that a certain segment of the line involved there had no GCV to TP&W because it had no local traffic, even if it might have value to KJRY as part of some different, future operation.

We differ with some of the other assumptions by Mr. Plaistow. For example, he uses 2005 as the base year for the projected traffic of NEW, and then escalates that traffic level using a formula. Plaistow statement at 26. There are two major problems with this assumption. First, 2005 was a banner year for traffic on SAW due to a bumper cotton crop that boosted PYCO traffic. See Delilah Wisener statement, Appendix 1 to SAW's Reply - "Wisener Statement" - at 3 (referring to the large cotton crop which greatly increased PYCO traffic in 2005), and Plaistow Statement, Table 2, p. 10 (showing that total SAW traffic between 2000 and 2004 varied between 5922 and 8616 carloads, while 2005 traffic was 14,048). Thus, Mr. Plaistow's projection has a very skewed and unrepresentative starting point. Second, Mr. Plaistow does not show that the index that he uses to project the rate of traffic growth applies reliably to project growth in the primarily agricultural traffic base of the Lines. I am not familiar with the index that he uses, but the fact that it is produced by the Energy Information Agency (see Plaistow Statement at 27) indicates to me that the index is likely more oriented toward coal shipment trends than toward agricultural shipping. Coal shipment continues to grow as the demand for

electricity expands with population growth and modernization. However, I know from my experience with Pioneer's shortline subsidiaries, which predominantly handle agricultural commodities, that the volume of demand for hauling agricultural products fluctuates up and down significantly with conditions such as weather in the U.S. and in other agricultural regions of the world. No clearer example of this is needed than Mr. Plaistow's Table 2, which shows SAW traffic more than doubling between 2004 and 2005, due to a bumper crop of cotton. Therefore, I believe that Mr. Plaistow's traffic projections and the GCV which he bases on them are unproven and theoretical.¹¹

Turning back to Mr. Banks' GCV calculation, I believe the principal flaw of his calculation is his conclusion that the new operator would invest roughly \$1.18 to \$2.13 million in rehabilitation of the Lines, making it impossible to operate the Lines profitably. This approach is unrealistic and impractical, in my view, for at least two reasons.

First, the Lines are being operated now, serving the three shippers at issue. This is evidence that the huge rehabilitation costs projected by Mr. Banks are not required. As stated by SAW's engineering witness (Appendix 3 to SAW's Reply at ¶ D.3) and as confirmed by my own knowledge of the rail industry, a line comprised of 90# rail is capable of handling 286,000 pound cars under certain operating conditions.

Second, Mr. Banks' approach is simply impractical. In my opinion, no new carrier (at least not KJRY) would spend so much on rehabilitating the Lines when doing so would prevent

¹¹ Mr. Plaistow also apparently assumes that certain surcharges that SAW has not previously implemented would in fact be implemented in the future, and inflates his GCV based on that. The flaw with this is that it does not account for the impact that the surcharge might have of reducing traffic levels (otherwise, why would SAW not have implemented the full surcharges already?). Because the surcharges have not been implemented, I find the value estimates based on assuming that they had been implemented to be "theoretical," as Mr. Plaistow calls Mr. Banks' statement.

that carrier from ever making a profit. Obviously, a gradual approach, making investments as necessary to serve the shippers and to maintain safety, is far more practical than a huge upfront capital project that insures perpetual unprofitability. Thus, Mr. Banks' rehabilitation assumption that forces the Lines to have no GCV is seriously flawed; a conclusion supported by SAW's witness as well.

Otherwise, however, Mr. Banks' GCV assessment seems to me to be realistic and to be consistent with the rates and service features of the Lines as stated in the PYCO application and the SAW Reply, and as confirmed by Pioneer's own inquiries. Specifically, Mr. Banks' traffic levels and rate assumptions seem to conform pretty closely to Mr. Plaistow's data that is based on internal SAW data about its existing operation. The operating expenses that Mr. Banks projects, apparently based on Board-approved URCS accounting, seem reasonable in light of my experience and the operating conditions described by Messrs. Banks and Plaistow. Likewise, Mr. Banks' projected track maintenance costs (annual and routine maintenance, but not his projected rehabilitation, costs) are generally in line with figures with which I am familiar on some shortlines. In short, but for his assumptions about rehabilitation expenditures, Mr. Banks' methodologies and factual assumptions seem realistic and consistent with my experience and with what I have learned about the Lines.

Accordingly, I have developed a GCV estimate for the Lines based on modifying Mr. Banks' calculations and following as closely as possible previous Board precedent regarding how to calculate GCV. Those calculations are as follows:

Banks' preliminary positive annual cash flow (Banks' p. 17, Table 7)	\$227,683
Banks' annual program maintenance cost (Banks' p. 37, Table 17)	(\$42,078)
Banks' annual routine maintenance cost (Banks' p. 38, Table 18)	<u>(\$53,760)</u>

Net operating revenue less annual maintenance	Subtotal	\$131,845
Multiplier based on railroad pre-tax cost of capital (100/14.1)		x7.0921986
Going Concern Value Estimate		\$935,070.92

Financial Resources Available to KJRY to Pay for The Lines

One element of any FLA is the requirement that an applicant establish its ability to fund the constitutional minimum value (either GCV or NLV) and to assure adequate transportation over the line for a period not less than three years. I hereby confirm, as Chief Financial Officer of Pioneer, that Pioneer has available, and will make available to KJRY for purposes of acquiring the SAW lines covered by KJRY's application, cash on hand in the amount of \$1.5 million. Moreover, Pioneer also has available a \$1.5 million line of credit which is available to support acquiring and operating these lines.

My statement is confirmed in a letter by the National City Bank of Michigan/Illinois (the "Bank"), which is attached to my statement as Exhibit No. 1. As noted in that letter, the purchase of the Lines, at either the NLV value set forth by PYCO or the GCV as calculated by me, could be easily financed and would not violate any financial covenants. Debt service, to the extent there was any, could also be easily accommodated through existing cash flows.

As discussed in more detail below, it is KJRY's desire to acquire all of SAW's lines, either through the negotiation process, the feeder line process, or through a combination of both. As such, I am currently in discussions with the Bank to develop a line of credit that would be sufficient to finance the purchase of all of SAW's lines. I am aware of a letter in which SAW last year offered to sell PYCO what appears to have been all or substantially all of SAW's rail operation for \$5.5 million. Consistent with that figure, we are seeking such a line of credit from the Bank. Initial indications are very positive, but given the short time frames, the Bank needs to

do further due diligence on SAW's financial statements before giving us a commitment letter, which we expect in the next week or so.

Offer

KJRY hereby offers to pay \$935,070.92 for the SAW lines involved in KJRY's competing FLA for Alternative Two. As President and CEO of Pioneer and President of KJRY, it is within my authority to make this offer.

Operating Plan

It appears that SAW has recently operated the lines on a five day per week basis (with occasional weekend operations), and generally uses three of its eight operating and maintenance-of-way employees to operate the lines. See Appendix DW-5 to Appendix 1 to SAW Reply (showing PYCO requests for and deliveries of boxcars in January 2006 occurring in four five-day blocks with two additional days - albeit with no orders or deliveries - on the two days following the fourth block); Plaistow Statement at 13 (showing that SAW currently has six locomotive/maintenance-of-track employees and two additional track maintenance employees, and stating the three of the six locomotive/maintenance-of-track employees would not be needed by SAW in a post-sale environment); and PYCO feeder line application at 21 ("WTL currently operates alternative service five days per week, with additional service on weekends as needed.") Accordingly, KJRY would anticipate providing service on a five-day-per-week basis, utilizing roughly four operating/track maintenance personnel. KJRY would accept applications from any such SAW employees who would be laid off as a direct result of the grant of KJRY's application, and would give those persons priority consideration for hiring. KJRY would anticipate providing office and support services through its existing personnel and those of Pioneer, though if it were necessary to add to that level of staffing, KJRY would do so. To

handle the volume of traffic currently moving on the lines, KJRY already has two or three locomotives that are readily available and could be assigned to the SAW operations. Car supply, as KJRY understands matters, is handled by BNSF and KJRY would anticipate that relationship would continue. KJRY would coordinate its operations with those of BNSF in terms of interchange and other operational matters, as BNSF provides the linehaul movement for most or all of the traffic moving to or from the Lines.

KJRY's Broader Vision

As KJRY stated when it asked the Board to extend the deadline for KJRY to file an application in competition with PYCO's, KJRY's view is that SAW's existing customers would be best served by a carrier that replaces all, not just some, of SAW's operations. This would resolve many, if not all, of PYCO's and BNSF's operating concerns. Indeed, BNSF is adamant that only one carrier operate the SAW lines and we intend to be that carrier. For that reason, KJRY originally intended to file a competing feeder line application that would encompass all of SAW's lines, not just those covered by PYCO's application. However, due to the short time available to prepare KJRY's application, and in light of PYCO's threat to expand the litigation here by challenging acceptance of an application encompassing more than just the lines covered by PYCO's application, KJRY has limited its application to just those lines covered by PYCO's application.

That does not mean, however, that KJRY has surrendered its vision that all of the existing SAW lines should be operated as a unit. As shown by Mr. Banks' GCV statement, there is significant traffic on the SAW lines beyond that of the three shippers that would be served on the Lines at issue in this proceeding; indeed, there appears to be nearly as much SAW traffic on the other lines as on the Lines encompassed in this application. KJRY believes that there are

significant operating economies available if all of SAW's customers - not just PYCO, Attebury Grain and Farmers' Cooperative Compress - are served by the same carrier. Those economies include at least operating efficiencies and elimination of duplicative management functions. Those economies would benefit both the operating carrier and the shippers by creating a stronger, coordinated, more viable long-term operation.

For these reasons, KJRY is pursuing, outside of this application proceeding, a plan that would allow all existing SAW customers and lines to be operated by KJRY. Because of PYCO's feeder line application, it has been necessary to pursue a portion of KJRY's goals through its competing feeder line application here, but KJRY's efforts will not stop here and KJRY hopes soon to be able to offer a plan for unified operation of all of SAW's lines. Doing so in this proceeding quite simply became impossible because of the short time frames of the proceeding and because of PYCO's positions in this litigation.

August 3, 2006

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

RE: STB Finance Docket No. 34890
*Pyco Industries, Inc. – Feeder Line Application-Lines of South Plains
Switching, Ltd. Co.*

Dear Secretary Williams:

We understand that the Keokuk Junction Railway Co. ("KJRY"), a wholly owned subsidiary of Pioneer Railcorp ("Pioneer"), is offering to purchase certain rail lines currently owned by South Plains Switching, Ltd. Co. ("South Plains") line. As we understand it, KJRY plans to offer \$935,070.92 to purchase these lines. As Pioneer's primary financial institution, it is our understanding that Pioneer Railcorp has sufficient cash reserves to provide that amount of funding to KJRY and in so doing Pioneer would not be in violation of any financial covenants or other financial obligations known to us. Pioneer also has available to it a working capital line of credit that currently has approximately \$1.5 million of unused availability that could be used to fund KJRY's purchase. We believe that Pioneer has sufficient cash flow from operations to service the debt payments on that line of credit.

We also understand that Pioneer and KJRY are in discussions with South Plains to purchase South Plains' remaining rail lines not covered by the initial purchase application and has offered approximately \$5 million to cover that purchase. We are in discussions with Pioneer regarding funding that additional amount. Although we have not completed our analysis and have not issued a commitment to provide financing, it appears that the cash flow from operations from the purchased lines combined with Pioneer's existing cash flow situation would sufficiently cover the debt payments on this additional borrowed amount. We should be in a position to provide a completed analysis in the near future.

Respectfully submitted,



Michael A. Zeller
Senior Vice President

VERIFICATION

I, J. Michael Carr, verify under penalty of perjury that I have read the foregoing verified statement and that the same is true and correct as stated. Further, I certify that I am qualified and authorized to file the foregoing statement.

Dated: August 4, 2006



J. Michael Carr
President, CEO and Chief Financial
Officer, Pioneer Railcorp

APPENDIX 1

	2014	2015
223.35	228.42	2
2.21	2.26	
0.89	0.26	
0.89	0.95	
226.72	231.88	2
285.73	292.34	2
648.50	665.37	6
194.25	195.38	1
10.69	11.05	
18.24	20.07	
871.68	891.88	9
4906.34	4970.48	50
37.53	38.30	
4.48	4.56	
15.37	16.29	
4963.72	5029.64	50
5554.84	5635.86	57
231.78	235.68	2
15.17	15.61	
33.61	36.36	
5835.40	5921.51	60
8.44	8.44	
8.76	8.79	
7.55	7.60	
7.97	7.98	
8.49	8.50	
5.69	5.75	
7.37	7.39	
7.26	7.26	
7.27	7.27	
5.71	5.77	
6.12	6.17	
2.85	2.90	
1.64	1.62	
0.06	0.06	
0.07	0.08	
4.62	4.67	
5.63	5.71	
0.26	0.26	
0.01	0.02	
0.04	0.05	
5.94	6.04	
10.57	10.70	
8.46	8.46	
9.10	9.14	
8.00	8.00	
8.00	8.00	
8.55	8.56	
6.06	6.17	
7.50	7.50	
7.28	7.28	
7.28	7.28	
6.08	6.19	

Average	6.10	6.02	5.99	5.96	5.97	5.97	5.99	6.03	6.09	6.17	6.28	6.41	6.52	6.57	6.64	6.69	6.70	6.71	6.73	6.80	6.81	6.82	6.95	6.95
Sales (millions)																								
Medium																								
Diesel	0.12	0.14	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.18	0.18	0.18	0.19	0.19
Gasoline	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07
Liquefied Petroleum Gas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Compressed Natural Gas	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Medium Subtotal	0.18	0.21	0.22	0.22	0.22	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.24	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.26	0.27	0.27	0.27
Heavy																								
Diesel	0.24	0.31	0.35	0.35	0.33	0.33	0.33	0.33	0.32	0.32	0.32	0.33	0.34	0.35	0.35	0.35	0.34	0.34	0.34	0.34	0.35	0.35	0.36	0.36
Gasoline	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	
Liquefied Petroleum Gas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Compressed Natural Gas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Heavy Subtotal	0.25	0.32	0.36	0.37	0.35	0.35	0.35	0.34	0.34	0.34	0.34	0.35	0.36	0.36	0.37	0.37	0.36	0.36	0.36	0.36	0.37	0.38	0.38	0.38
Total Sales	0.42	0.53	0.59	0.59	0.57	0.57	0.58	0.57	0.57	0.56	0.57	0.58	0.60	0.61	0.62	0.62	0.61	0.61	0.61	0.61	0.62	0.63	0.64	0.65
Railroads																								
Ton Miles by Rail (billion)	1489.02	1539.44	1552.17	1594.69	1635.60	1662.05	1698.42	1721.13	1757.72	1780.00	1794.67	1808.56	1825.44	1859.71	1886.78	1912.25	1937.61	1982.73	2021.48	2062.70	2101.82	2145.71	2187.60	2234.87
Fuel Efficiency (ton miles per thousand Btu)	2.90	2.90	2.91	2.91	2.91	2.92	2.92	2.92	2.92	2.93	2.93	2.93	2.94	2.94	2.94	2.95	2.95	2.95	2.95	2.96	2.96	2.96	2.97	2.97
Fuel Efficiency (ton miles per thousand Btu)																								
Domestic Shipping																								
Ton Miles Shipping (billion)	597.44	629.23	649.20	659.93	665.19	670.89	678.80	683.13	692.21	700.51	710.40	717.61	727.34	740.13	748.18	756.41	762.43	767.07	771.85	776.65	782.96	787.67	792.48	799.73
Fuel Efficiency (ton miles per thousand Btu)	2.13	2.13	2.14	2.14	2.14	2.15	2.15	2.16	2.16	2.17	2.17	2.17	2.18	2.18	2.19	2.19	2.20	2.20	2.21	2.21	2.21	2.22	2.22	2.23
Fuel Consumption (trillion Btu)																								
Domestic Shipping																								
Ton Miles Shipping (billion)	597.44	629.23	649.20	659.93	665.19	670.89	678.80	683.13	692.21	700.51	710.40	717.61	727.34	740.13	748.18	756.41	762.43	767.07	771.85	776.65	782.96	787.67	792.48	799.73
Fuel Efficiency (ton miles per thousand Btu)	2.13	2.13	2.14	2.14	2.14	2.15	2.15	2.16	2.16	2.17	2.17	2.17	2.18	2.18	2.19	2.19	2.20	2.20	2.21	2.21	2.21	2.22	2.22	2.23
Fuel Consumption (trillion Btu)																								
International Shipping																								
Gross Trade (billion 2000 \$)	2068.78	2278.46	2432.97	2581.23	2749.35	2948.21	3141.66	3336.37	3542.48	3767.37	3999.61	4250.25	4520.91	4810.57	5154.37	5504.75	5832.19	6167.19	6529.97	6914.25	7321.42	7758.86	8227.10	8724.78
Exports (billion 2000 dollars)	715.75	783.55	840.32	905.13	1007.81	1124.18	1231.36	1340.28	1463.91	1598.44	1737.68	1883.09	2036.97	2213.91	2424.12	2618.86	2798.97	2985.74	3185.53	3395.19	3611.22	3853.28	4110.80	4364.41
Imports (billion 2000 dollars)	1350.03	1494.91	1592.65	1676.10	1741.54	1824.05	1909.70	1996.00	2078.57	2168.94	2261.93	2367.16	2484.34	2596.66	2730.25	2885.86	3053.21	3161.45	3304.44	3519.47	3704.20	3903.58	4116.30	4340.36
Fuel Consumption (trillion Btu)																								
Domestic Shipping																								
Residual (oil)	78.28	80.38	87.70	88.96	88.21	87.52	87.09	86.18	87.15	88.01	89.07	89.79	90.82	92.23	93.04	93.87	94.42	94.80	95.19	95.61	96.17	96.55	96.94	97.62
Motor Gasoline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
International Shipping																								
Gross Trade (billion 2000 \$)	2068.78	2278.46	2432.97	2581.23	2749.35	2948.21	3141.66	3336.37	3542.48	3767.37	3999.61	4250.25	4520.91	4810.57	5154.37	5504.75	5832.19	6167.19	6529.97	6914.25	7321.42	7758.86	8227.10	8724.78
Exports (billion 2000 dollars)	715.75	783.55	840.32	905.13	1007.81	1124.18	1231.36	1340.28	1463.91	1598.44	1737.68	1883.09	2036.97	2213.91	2424.12	2618.86	2798.97	2985.74	3185.53	3395.19	3611.22	3853.28	4110.80	4364.41
Imports (billion 2000 dollars)	1350.03	1494.91	1592.65	1676.10	1741.54	1824.05	1909.70	1996.00	2078.57	2168.94	2261.93	2367.16	2484.34	2596.66	2730.25	2885.86	3053.21	3161.45	3304.44	3519.47	3704.20	3903.58	4116.30	4340.36
Fuel Consumption (trillion Btu)																								
Domestic Shipping																								
Residual (oil)	78.28	80.38	87.70	88.96	88.21	87.52	87.09	86.18	87.15	88.01	89.07	89.79	90.82	92.23	93.04	93.87	94.42	94.80	95.19	95.61	96.17	96.55	96.94	97.62
Motor Gasoline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
International Shipping																								
Gross Trade (billion 2000 \$)	2068.78	2278.46	2432.97	2581.23	2749.35	2948.21	3141.66	3336.37	3542.48	3767.37	3999.61	4250.25	4520.91	4810.57	5154.37	5504.75	5832.19	6167.19	6529.97	6914.25	7321.42	7758.86	8227.10	8724.78
Exports (billion 2000 dollars)	715.75	783.55	840.32	905.13	1007.81	1124.18	1231.36	1340.28	1463.91	1598.44	1737.68	1883.09	2036.97	2213.91	2424.12	2618.86	2798.97	2985.74	3185.53	3395.19	3611.22	3853.28	4110.80	4364.41
Imports (billion 2000 dollars)	1350.03	1494.91	1592.65	1676.10	1741.54	1824.05	1909.70	1996.00	2078.57	2168.94	2261.93	2367.16	2484.34	2596.66	2730.25	2885.86	3053.21	3161.45	3304.44	3519.47	3704.20	3903.58	4116.30	4340.36
Fuel Consumption (trillion Btu)																								
Domestic Shipping																								
Residual (oil)	78.28	80.38	87.70	88.96	88.21	87.52	87.09	86.18	87.15	88.01	89.07	89.79	90.82	92.23	93.04	93.87	94.42	94.80	95.19	95.61	96.17	96.55	96.94	97.62
Motor Gasoline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
International Shipping																								
Gross Trade (billion 2000 \$)	2068.78	2278.46	2432.97	2581.23	2749.35	2948.21	3141.66	3336.37	3542.48	3767.37	3999.61	4250.25	4520.91	4810.57	5154.37	5504.75	5832.19	6167.19	6529.97	6914.25	7321.42	7758.86	8227.10	8724.78
Exports (billion 2000 dollars)	715.75	783.55	840.32	905.13	1007.81	1124.18	1231.36	1340.28	1463.91	1598.44	1737.68	1883.09	2036.97	2213.91	2424.12	2618.86	2798.97	2985.74	3185.53	3395.19	3611.22	3853.28	4110.80	4364.41
Imports (billion 2000 dollars)	1350.03	1494.91	1592.65	1676.10	1741.54	1824.05	1909.70	1996.00	2078.57	2168.94	2261.93	2367.16	2484.34	2596.66	2730.25	2885.86	3053.21	3161.45	3304.44	3519.47	3704.20	3903.58	4116.30	4340.36
Fuel Consumption (trillion Btu)																								
Domestic Shipping																								
Residual (oil)	78.28	80.38	87.70	88.96	88.21	87.52	87.09	86.18	87.15	88.01	89.07	89.79	90.82	92.23	93.04	93.87	94.42	94.80	95.19	95.61	96.17	96.55	96.94	97.62
Motor Gasoline	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
International Shipping																								
Gross Trade (billion 2000 \$)	2068.78	2278.46	2432.97	2581.23	2749.35	2948.21	3141.66																	

Ton Miles by Rail (billion)
 Fuel Efficiency (ton miles per thousand Btu)
 Fuel Consumption (trillion Btu)
 Distillate (diesel)
 Residual Oil
 Electricity
 Domestic Shipping
 Ton Miles Shipping (billion)
 Fuel Efficiency (ton miles per thousand Btu)
 Fuel Consumption (trillion Btu)
 Distillate (diesel)
 Residual Oil
 Motor Gasoline
 International Shipping
 Gross Trade (billion 2000 \$)
 Exports (billion 2000 dollars)
 Imports (billion 2000 dollars)
 Fuel Consumption (trillion Btu)
 Distillate (diesel)
 Residual Oil

MFG = Miles per gallon.
 Btu = British thermal unit.
 N/A = Not applicable.
 Sources: 2003 and 2004 derived using: Oak Ridge National Laboratory, "Transportation Energy Data Book: Edition 24 and Annual (Oak Ridge, TN, December 2004); United States Department of Transportation, 1989 Carload Waybill Statistics Traffic and Revenue by Commodity Classes, September 1991 and prior issues; Reebie Associates, TRANSEARCH Database, (Greenwich, Connecticut, 1989); Army Corps of Engineers, Waterborne Commerce of the United States, (New Orleans), 1991 and prior issues; U.S. Department of Commerce, Bureau of the Census, "Vehicle Inventory and Use Survey," EC97TV (Washington, DC, October 1999); Federal Highway Administration, Highway Statistics 2003 (Washington, DC, December 2004), and Energy Information Administration (EIA), AEO2006 National Energy Modeling System run aeo2006.d111905a. Projections: EIA, AEO2006 National Energy Modeling System run aeo2006.d111905a.

08/04/06

ACORD**CERTIFICATE OF PROPERTY INSURANCE****PRODUCER**

Aon Risk Services, Inc. of Illinois
200 East Randolph
Chicago IL 60601 USA

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND
CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE
DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE
POLICIES BELOW.

COMPANIES AFFORDING COVERAGE

PHONE-(312) 381-4000

FAX-

INSURED

Pioneer Railcorp
1318 South Johanson Road
Peoria IL 61607 USA

COMPANY
A

Essex Insurance Company

COMPANY
BCOMPANY
CCOMPANY
D

Holder Identifier :

COVERAGES

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD
INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS
CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS,
EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	COVERED PROPERTY	LIMITS
	PROPERTY				BUILDING	
	CAUSES OF LOSS				PERSONAL PROPERTY	
	BASIC				BUSINESS INCOME w/o Extra Expense	
	BROAD				EXTRA EXPENSE	
	SPECIAL				BLANKET BUILDING	
	EARTHQUAKE				BLANKET PERS PROP	
	FLOOD				BLANKET BLDG & PP	
	INLAND MARINE					
	TYPE OF POLICY					
	CAUSES OF LOSS					
	NAMED PERILS					
	OTHER					
	CRIME					
	TYPE OF POLICY					
	BOILER & MACHINERY					
A	X OTHER	RRP1220-3	08/20/05	08/20/06	Per Occurrence	\$1,530,000
	RR Property	Comprehensive Railroad Pr			Rolling Stock	\$1,500,000

Certificate Number : 570018956082

LOCATION OF PREMISES \ DESCRIPTION OF PROPERTY**SPECIAL CONDITIONS / OTHER COVERAGES**

SEE ATTACHED ADDENDUM

CERTIFICATE HOLDER

SERVICE TRANSPORTATION BOARD
1925 K STREET, N.W.
WASHINGTON DC 20423-0001 USA

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE
EXPIRATION DATE THEREOF THE ISSUING COMPANY WILL ENDEAVOR TO MAIL
30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT,
BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY
OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

Aon Risk Services, Inc. of Illinois

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YY)
08/04/06

PRODUCER

Aon Risk Services, Inc. of Illinois
200 East Randolph
Chicago IL 60601

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

COMPANIES AFFORDING COVERAGE

COMPANY A Lexington Insurance Company

COMPANY B

COMPANY C

COMPANY D

PHONE - (312) 381-4000

FAX -

INSURED

Pioneer Railcorp
1318 South Johanson Road
Peoria IL 61607 USA

COVERAGES

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

CO LTR	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
	GENERAL LIABILITY ☐ COMMERCIAL GENERAL LIABILITY ☐ CLAIMS MADE ☐ OCCUR ☐ OWNER'S & CONTRACTOR'S PROT				GENERAL AGGREGATE PRODUCTS - COMP/OP AGG PERSONAL & ADV INJURY EACH OCCURRENCE FIRE DAMAGE (Any one fire) MED EXP (Any one person)
	AUTOMOBILE LIABILITY ☐ ANY AUTO ☐ ALL OWNED AUTOS ☐ SCHEDULED AUTOS ☐ HIRED AUTOS ☐ NON-OWNED AUTOS				COMBINED SINGLE LIMIT BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE
	GARAGE LIABILITY ☐ ANY AUTO				AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY: EACH ACCIDENT AGGREGATE
	EXCESS LIABILITY ☐ UMBRELLA FORM ☐ OTHER THAN UMBRELLA FORM				EACH OCCURRENCE AGGREGATE
	WORKER'S COMPENSATION AND EMPLOYERS' LIABILITY THE PROPRIETOR/ PARTNERS/EXECUTIVE OFFICERS ARE: ☐ INCL ☐ EXCL				WC STATU- TORY LIMITS ☐ OTH- ER ☐ EL EACH ACCIDENT EL DISEASE-POLICY LIMIT EL DISEASE-EA EMPLOYEE
A	☒ Railroad Liab	115-6626 RAILROAD LIABILITY	07/07/06	07/07/07	Per occurrence \$25,000,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS

CERTIFICATE HOLDER

SERVICE TRANSPORTATION BOARD
1925 K STREET, N.W.
WASHINGTON DC 20423-0001 USA

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE *Robert H. McLaughlin*

INSURED

Pioneer Railcorp
1318 South Johanson Road
Peoria IL 61607 USA

NAMED INSUREDS

NAMED INSUREDS

PIONEER RAILCORP
ALABAMA RAILROAD CO,
ALABAMA & FLORIDA RAILWAY CO.
DECATUR JUNCTION RAILWAY CO.
ELKHART & WESTERN RAILROAD CO.
FORT SMITH RAILROAD CO.
GETTYSBURG & NORTHERN RAILWAY CO.
INDIANA SOUTHWESTERN RAILWAY CO.
KENDALLVILLE TERMINAL RAILWAY CO.
KEOKUK JUNCTION RAILWAY CO.
MICHIGAN SOUTHERN RAILWAY COMPANY
MISSISSIPPI CENTRAL RAILROAD CO.
PIONEER INDUSTRIAL RAILROAD CO.
PIONEER RAILROAD SERVICES, INC.
PIONEER RAILROAD EQUIPMENT CO., LTD.
SHAWNEE TERMINAL RAILWAY COMPANY
THE GARDEN CITY WESTERN RAILWAY, INC.
VANDALIA RAILROAD COMPANY
WEST MICHIGAN RAILROAD CO.
MIDWEST TERMINAL RAILWAY
KEOKUK UNION DEPOT
PIONEER AIR, INC.
PIONEER RESOURCES

CERTIFICATE OF SERVICE

I, David C. Reeves, hereby certify that on August 4, 2006, I caused a copy of the foregoing Competing Feeder Line Application of Keokuk Junction Railway Co., to be served by first class mail, postage prepaid, or by more expeditious service upon each of the following persons or entities, as required by 49 C.F.R. § 1151.2(a):

(1) **Owning Railroad**

South Plains Switching, Inc.
c/o Thomas F. McFarland, Esq.
208 South LaSalle Street
Suite 1890
Chicago, IL 60604-1112

(2) **Shippers:**

Farmrail System, Inc.
1601 West Gary Boulevard
Clinton, OK 73601

PYCO Industries, Inc.
P.O. Box 841
Lubbock, TX 79408

PYCO Industries, Inc.
c/o Charles H. Montange, Esq.
426 NW 162nd Street
Seattle, WA 98177

Teinert Metals, Inc.
1801 E. 50th Street
Lubbock, TX 79404

Russell E. Womack
1300 E. 42nd Street
Lubbock, TX 79404

84 Lumber
102 E. 50th Street
Lubbock, TX 79404

Wilkerson Storage
500 East 50th
P.O. Box 2525
Lubbock, TX 79408

Vulcan Construction Materials LP
Regional Sales Office
3509 Hulen Street., Suite 102
Ft. Worth, TX 76107

Acme Brick
2301 Ave. A
Lubbock, TX 79404

Robertson Bonded Warehouse, Inc.
833 E. 40th Street
Lubbock, TX 79404

Stock Building Supply
801 E. 40th Street
Lubbock, TX 79404

Pantex
1116 E. 42d Street
Lubbock, TX 79404

BlueLinx Holdings, Inc.
4300 Wildwood Parkway
Atlanta, GA 30339

International Fiber Packaging
704 E. 42d St.
Lubbock, TX 79404

Ron Harkey, President
Farmers Cooperative Compress
3800 Southeast Drive
Lubbock, TX 79404

Lehmer Dunn, Vice President
Attebury Grain, L.L.C
2500 E. 37th Street
Lubbock, TX 79404

Southern Cotton Oil Company
P.O. Box 2788
2300 E. 50th Street
Lubbock, TX 79408

Hanson Aggregate
8505 Freeport Parkway North, Suite 300
Irving, TX 75063

Brite Trucking Co, Inc.
P.O. Box 537
Lubbock, TX 79408

ABC Supply Co. Inc.
404 34th Street
Lubbock, TX 79404

Dynamic Foods
1001 E. 33rd Street
Lubbock, TX 79404

South Plains Food Bank, Inc.
d/b/a Breedlove Hydrated Foods
1818 North Martin Luther King, Jr., Blvd.
Lubbock, TX 74903

Calvin Kidwell, General Manager
Hi-Plains Bas and Bagging Company
707 East 44th Street
Lubbock, TX 79404

David C. Weaver Grain Company
P.O. Box 94582
Lubbock, TX 79493

John Goetz
Goetz and Sons, Incorporated
P.O. Box 740635
Dallas, TX 75374-0635

ADM
2300 E. 50th
Lubbock, TX 79404

Georgia Pacific
702 E. 44th Street
Lubbock, TX 79404

Todd Parker
Penny-Newman Grain
2591 S. Cedar Avenue
Fresno, CA 93725

Sheila Bracken
Transportation Manager
Allenberg Cotton Company
P.O. Box 3254
Cordova, TN 38088-3254

Rhonda Lambert
Logistics Coordinator
Cargill Cotton
1212 13th Street, Suite 200
Lubbock, TX 79401

Mr. O.E. Floyd
Floyd Trucking, Inc.
P.O. Box 3456
Lubbock, TX 79452

(3) State Agency:

Texas Governor's Office of Budget and Planning
P.O. Box 12428
Austin, TX 78711

Texas Department of Transportation Rail Division
Dewitt C. Greer State Highway Building
125 East 11th Street
Austin, TX 78701-2483

(4) County Governments:

Honorable Tom Head
Lubbock County Judge
904 Broadway
Lubbock, TX 79401

(5) National Railroad Passenger Corporation (if operates on the line):

Amtrak's website says Amtrak serves no station within 150 miles of this location.

(6) **National offices of rail unions with employees on the line:**

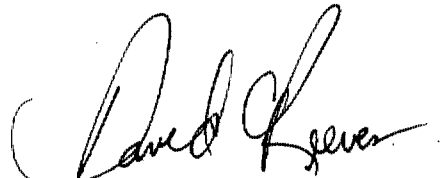
KJRY is informed that there are no unionized employees on SAW.

Other

Michael Roper, Esq.
BNSF Law Dept.
2500 Lou Menk Drive
AOB 3d Floor
Fort Worth, TX 76102

Adrian L. Steel, Jr., Esq.
Mayer, Brown, Rowe & Maw
1909 K Street, N.W.
Washington, DC 20006-1101

James L. Gorsuch, Esq.
James L. Gorsuch, P.C.
4412 74th Street, Suite B-102
Lubbock, TX 79424


David C. Reeves