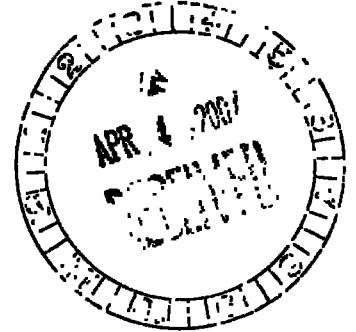


**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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ORIGINAL



**STB DOCKET NO. EP-671
RAIL CAPACITY AND INFRASTRUCTURE REQUIREMENTS**

**COMMENTS OF IOWA PACIFIC HOLDINGS LLC
AND
PERMIAN BASIN RAILWAYS, INC.**

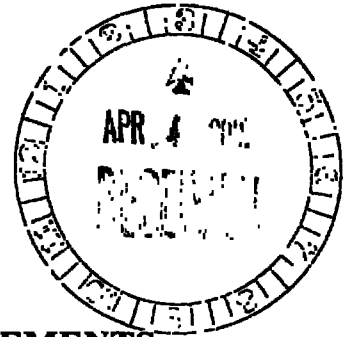
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Submitted by:

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April 4, 2007

**BEFORE THE
SURFACE TRANSPORTATION BOARD**



**STB DOCKET NO. EP-671
RAIL CAPACITY AND INFRASTRUCTURE REQUIREMENTS**

**COMMENTS OF IOWA PACIFIC HOLDINGS LLC
AND
PERMIAN BASIN RAILWAYS, INC.**

INTRODUCTION

By notice served on March 6, 2007, the Surface Transportation Board announced that it would hold a hearing on April 11, 2007, to examine issues related to rail traffic forecasts and infrastructure requirements. Iowa Pacific Holdings LLC and Permian Basin Railways, Inc. (hereinafter collectively referred to as "IPH") responded to the Board's invitation and asked for the opportunity to present oral testimony at that hearing as well as to file written comments. By decision served March 30, 2007, the Board accepted IPH's request.

STATEMENT OF INTEREST

Iowa Pacific Holdings is an entrepreneur-owned noncarrier entity established in 2001 for the purpose of acquiring, owning, and operating short line and regional railroads in the United States and abroad. Through its

wholly-owned subsidiary, Permian Basin Railways, Inc. (“Permian”), IPH wholly owns five subsidiary class III short line railroads operating in the western half of the United States. These carriers are the Arizona Eastern Railway Company, Inc., the Chicago Terminal Railroad, the San Luis & Rio Grande Railroad Company, Inc., the Texas New Mexico Railroad, and the West Texas & Lubbock Railway Company. IPH also controls several other companies engaged in repairing rail cars and providing excursion passenger service. Additional background information about IPH and Permian can be found on the Permian Basin website at www.permianbasinrailways.com.

IPH and Permian are recent players in the short line and regional railroad industry. Permian acquired its first two properties by purchasing stock control in 2002 of two short line railroads¹ formerly owned and operated by RailAmerica, Inc., the largest owner of short line and regional railroads in the United States. Subsequently, it purchased the stock of two additional RailAmerica-owned short lines.² Most recently, Permian established the Chicago Terminal Railroad to operate rail services over certain Chicago-area switching operations formerly provided by the Canadian Pacific Railway and Union Pacific Railroad Company.

¹ Texas New Mexico Railroad and West Texas and Lubbock Railway Company.

² Arizona Eastern Railway Company, Inc., and San Luis & Rio Grande Railroad Company, Inc.

IPH is the epitome of the growth and marketing oriented entrepreneurial short line owner. Rail traffic was static or declining at the time Permian acquired each of its first four properties. During the first five years of Permian's corporate existence its car loadings and rail freight revenues have grown by 371%. Even more significantly, "same store sales," as that term is used in the retail merchandise business, have grown by 130% on the first two railroads bought in 2002. Very few short line and regional railroads can claim such an outstanding record of success with same store sales. This growth is due in part to aggressive marketing, a high level of customer service, and a close working relationship with our class I railroad partners. Additionally, Permian is the only short line or regional railroad owner that is currently pursuing a request to build traffic by seeking authority from the Board to construct a new line of railroad.³

COMMENTS

The March 6 decision initiating this proceeding advised that the purpose of the public hearing would be to examine issues related to rail traffic forecasts and infrastructure requirements. It should be borne in mind that the traffic that short line and regional railroads generate is critical to local economies and the preservation of jobs. The ability of Permian and

³ In STB FD No. 34836, Permian subsidiary Arizona Eastern Railway seeks an exemption permitting it to construct and operate a new line of railroad to serve a new mine owned by Phelps Dodge at Safford, AZ.

other growth-oriented small railroads to develop what is primarily interline, long-haul traffic is only as strong as the nation's Class I rail transportation network capacity for handling that traffic. The network's capacity is a function of three elements: 1) mainline track and signals and yard facilities; 2) rolling stock including locomotives and cars; and 3) highly trained employees.

Currently, the American railroad industry generates about \$50 billion in annual operating revenues. Short line and regional railroads like those in Permian's corporate family originate or terminate approximately one in every five merchandise car loads handled by the nation's seven class I railroads. With demand for transportation over the nation's rail network continuing to grow, as the Board correctly observed in its March 6 decision, short line and regional railroad traffic are competing for a finite amount of track space with other class I railroad traffic. Vast volumes of intermodal traffic, coal traffic, and other types of unit train traffic, some moving under contract, can force class I railroads to use congestion pricing to displace some individual car load traffic that short line and regional railroads have been so effective at developing. That car load traffic will then be forced back on to the nation's highway system. This represents poor public policy. Studies have shown that the traffic diverted from railroads, especially the

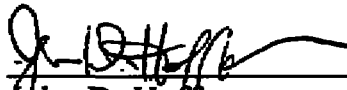
light-density rural lines operated by short line railroads will have a significant negative effect on local road and highway infrastructure. State and local officials are telling us that many highways are beyond their design capacity and are in serious need of repair as well. Scientists advise that global warming is a real threat to our survival. No one need look further than the morning newspaper and the gas pump to see that a constrained energy supply is forcing up the price of scarce gasoline and oil imported from third world countries. The rail mode is the only form of transportation that is energy efficient, environmentally friendly, and conserving of precious land. Common sense dictates that the nation reorient its transportation policies back to promoting such a clean and efficient mode.

It is imperative that the Class I railroad industry expand its capacity to handle the nation's future rail freight needs. It is the IPH view that the class I railroad industry is reinvesting in its physical plant and equipment every dollar that sound financial practices will permit, in the magnitude of 17% of their revenues over the past ten years. No other industry is investing such large sums in its physical plant; manufacturing, for example, has averaged four percent over the same time period. But even this huge amount is not enough to keep up with demand. A key action to support proper public policy is needed: The railroad industry is pursuing legislation

granting class I railroads an investment tax credit to facilitate private investment in capacity improvements to the rail network.

IPH recognizes that tax legislation establishing a railroad tax credit is beyond the jurisdiction of the Surface Transportation Board. However, IPH believes that the result of this proceeding should be official Board support for the Freight Rail Infrastructure Capacity Expansion Act of 2006, which will allow and encourage railroads to invest necessary additional funds in their plant and equipment to handle the nation's growing traffic needs.

Respectfully submitted,



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and Permian Basin Railways, Inc.

Dated: April 4, 2007

CERTIFICATE OF SERVICE

I, John D. Heffner, certify that a copy of the Comments of Iowa Pacific Holdings LLC and Permian Basin Railways, Inc. was served on April 4, 2007, on All Parties of Record.


John D. Heffner