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August 8, 2008

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ENTERED
Office of Proceedings
AUG 17 2008
Public Record



Via hand delivery

The Honorable Anne K. Quinlan
Acting Secretary
Surface Transportation Board
395 E Street, SW
Washington, D.C. 20423-0001

RE: STB Finance Docket No. 35160, Oregon International Port of Coos Bay—Feeder Line Application—Coos Bay Line of the Central Oregon & Pacific Railroad, Inc.

Dear Secretary Quinlan

Enclosed for filing in the above-captioned docket please find the Supplement to the Feeder Line Application of the Oregon International Port of Coos Bay, as requested in the Board's August 1, 2008 decision.

An original and 15 copies are included for your use. An additional copy is included for date-stamping.

Please feel free to contact me if you have any questions.

Very truly yours,

Sandra L. Brown

Enclosures

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

SUPPLEMENT TO FEEDER LINE APPLICATION

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August 8, 2008

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

SUPPLEMENT TO FEEDER LINE APPLICATION

I. INTRODUCTION

The Oregon International Port of Coos Bay ("Port") respectfully submits this Supplement to Feeder Line Application ("Supplement") to the Surface Transportation Board ("STB" or "Board") in response to the decision served on August 1, 2008 by the Board in this docket. With this Supplement, the Port provides further support for its Feeder Line Application ("Application") which was filed on July 11, 2008. As shown in the Application, and reinforced by this Supplement, the Board should use its authority under 49 USC § 10907 to order the sale of the Coos Bay Line (the "Line") of the Central Oregon & Pacific Railroad, Inc. ("CORP") to the Port under the feeder line railroad development program.

II. BACKGROUND

Despite annual traffic in excess of 5,000 carloads, the great majority of the Line was embargoed by CORP on September 21, 2007 and remains out-of-service to this day. After the embargo, CORP displayed a clear unwillingness to repair the Line and put it back into service,

and the Port became increasingly concerned about the effects on the communities, businesses, and employees of southwestern Oregon. Hence, the Port decided to pursue acquisition of the Line.

By now, the Board is well aware of the additional history of the Line and the Port will not repeat that history here. The Port has amply described the Line, its history, and events surrounding CORP's embargo in filings made in Docket 35130 (the Show Cause Proceeding) and Docket 35160 (this proceeding). In particular, the Port directs the Board's attention to the Reply filed by the Port on June 3, 2008 in Docket 35130, and the Application itself.

The Port filed its Application on July 11, 2008 to acquire the Line under the feeder line development program at 49 USC § 10907. The Board accepted the Port's Application in a decision served August 1, 2008. In that same decision, the Board also adopted a procedural schedule which stated that the Port should supplement its Application with additional information on three issues mentioned by the Board: (1) the proposed operator for the Line, (2) any preconditions such as subsidies that would be placed on shippers, and (3) sources of other subsidies the Port might receive. With this Supplement, the Port responds to the Board's request for additional information on these three matters.

III. PROPOSED OPERATOR FOR THE LINE

The Board has encouraged the Port to supplement its Application regarding the proposed operator of the Line, as described in 49 CFR § 1151.3(a)(7). In the Application itself, the Port noted that a proposed operator had not yet been selected. However, the Port did state that a number of shortline railroads or experienced industry veterans expressed interest in operating the Line. Application at 30-32. See also Verified Statement of Martin Callery, attached to the Application at pages 142-148. In particular, the Port noted that discussions had occurred with

- Portland & Western Railroad, Inc
- RailServe
- Dan Lovelady
- Yreka Western Railroad Company
- Venango River Corporation¹

In addition, Watco Companies, Inc and OmniTRAX, Inc have asked to be included in any bid requests

Since the filing of the Application, discussions with the above potential rail operators have continued. In addition, Permian Basin Railways / Iowa Pacific Holdings has contacted the Port and expressed interest in operating the Line. As described in the attached Supplemental Verified Statement of Port Executive Director Jeffrey Bishop ("S.V.S. Bishop"), Permian Basin Railways / Iowa Pacific Holdings recently acquired the Mount Hood Railway in Oregon and has a history of profitably operating rail lines that had previously been marginal performers. Patriot Rail Corporation has also expressed interest. S.V.S. Bishop at 3-5

As it has now become likely that the Board will issue a decision in this case by October 31st, the Port has begun making preparations to ensure that rail operations will be provided on the Line as soon as the feeder acquisition is complete. Of course, only a small segment of the Line is currently operational. Moreover, the rail service demand of the three shippers on the active portion of the Line has been very light in 2008 due to poor CORP service. See Exhibits 11, 18, and 22 to the Application. Given the current minimal rail service demand and the likelihood that the first day of operations may have to be before the end of the year, the Port currently believes that it would be most efficient to have an interim operator or the Port provide operations on the Danebo-Vaughn segment ("Initial Segment") until a permanent operator is selected. S.V.S.

¹ In its Application, the Port noted that John Darling had expressed interest in operating the Line. Application at 30. Further discussions with Mr. Darling have revealed that he was not expressing interest personally, but on behalf of the Venango River Corporation, of which he is the CEO.

Bishop at 2-3 In fact, the permanent operator may want to wait until the entire Line is operational before beginning service due to the differences between Initial Segment operations and long-term, entire Line operations See attached Supplemental Verified Statement of Charles Banks of R L Banks & Associates ("S V S Banks") at 3-4

As described more fully below in Section III A, the Port itself would provide rail service on the Initial Segment if there is no interim operator in place Mr Bishop has experience in overseeing rail operations, and the Port is authorized to own and operate railroads under Oregon law S V S Bishop at 2 Moreover, the limited operations on the Initial Segment would require a comparatively simple commencement of service These operations would be increased in frequency as needed to meet any increase in demand from the three Initial Segment shippers The current dissatisfaction of these three shippers with CORP's service suggests that rail service demand may well increase as the reliability of the Port's railroad encourages the shippers to reconfigure their operations to take advantage of rail transportation S V S Banks at 4.

It is worth noting that the Port has been pursuing discussions with consultants and potential contractors regarding the rehabilitation and tunnel repairs necessary on the Line to ensure that rail service can be provided to all Line shippers as soon as possible S V S Bishop at 5 The Port still strongly believes that CORP's deferral of Line maintenance for the past several years was unlawful, and that the Board should order CORP to repair the tunnels to a serviceable condition or reimburse the Port for the tunnels' repair Application at 48-54.

A. Rail service will be provided from day one

As mentioned above, the Port will be prepared to provide rail service on the Initial Segment from the day the acquisition is effective The Port will select a Rail Manager to oversee the Port's ownership of the Line S V S Banks at 2-3 This role could be filled by Mr Bishop

due to his experience in managing rail operations at other facilities. See Mr. Bishop's Verified Statement, attached to the Feeder Line Application at pages 64-65. Additionally, the Port has had discussions with the former General Manager of CORP, Dan Lovelady, and he would likely make an excellent Rail Manager due to his familiarity with CORP. S V S Banks at 2-3.

Operations on the Initial Segment would be fairly straightforward at the start due to the low traffic levels reported so far in 2008. See Exhibits 11, 18, and 22 to the Application. Along the same lines, certain tasks such as locomotive maintenance would likely be contracted out during this initial period. S V S Banks at 7. As the shippers on the Initial Segment adjust their operations to allow for more reliable rail service, traffic would likely increase in the future. Of course, once the tunnels and other aspects of the entire Line are repaired, rail operations on the Line will increase greatly and become more complex. See Verified Statement of Charles Banks, attached to the Application at pages 83-88.

The Port is engaged in a comprehensive search for an appropriate third-party to conduct rail operations on the Line. Various Port witnesses have previously noted that the Port would use a competitive bidding or request for proposals ("RFP") process to select a rail operator. See, e.g., S V S Banks at 5-6; Verified Statement of Martin Callery, attached to the Feeder Line Application at pages 143-146. This RFP process will allow a thorough evaluation of each potential operator. Unfortunately, however, the excessive use of the Highly Confidential designation by CORP in the Feeder Line case and CORP's abandonment, Docket AB-515 (Sub-No. 2), has made negotiations with potential operators more difficult. See Section III B below.

Due to the tight timeframe in this case and the fact that the initial operations will be less complicated than operations on the entire Line, it is likely that the Port would hire an interim operator for Initial Segment operations while, at the same time, continuing the RFP process for a

permanent operator for the entire Line. Additionally, the Port would be ready to commence operations itself over the Initial Segment if necessary. The Port would do this by establishing a rail operations subsidiary to hire employees, lease locomotives, and undertake the other tasks set forth in the Banks Supplemental Verified Statement.

B. The Port is seeking additional information from CORP

The Port's discussions with proposed rail operators have been hampered by a lack of concrete information from CORP. Prior to the Application, CORP refused to give the Port access to the Line so that the Port could (1) evaluate the Line's physical condition, (2) determine the rehabilitation that is required to resume operations; and (3) complete an assessment of future ongoing maintenance and capital needs on the Line. Application at 30-31. The Port again asked for access to the Line in discovery requests sent to CORP on July 11, 2008, the same day the Application was filed. CORP responded to this discovery on July 28th, granting access to the Line if certain conditions were met, including (1) being accompanied by a CORP employee at all times, (2) signing of an indemnity and waiver agreement, and (3) proof of insurance. Furthermore, CORP contends that the Port cannot perform any testing during the inspection, in clear contravention of 49 CFR § 1151.30(a)(2). Lastly, CORP apparently has a few employees that are not currently available, making scheduling of inspections somewhat of a challenge.

The Port originally suggested August 6-8 for an initial inspection of the Line, but scheduling problems and finalization of the agreement terms have delayed the inspection. The parties continue to negotiate to determine an appropriate time for the first inspection to occur, and it is likely that inspections will begin in the next week or two. The Port envisions that more than one inspection will be necessary due to the proliferation of bridges and tunnels on the Line, but CORP has stated that only one inspection of not more than 3 days can occur. Additionally,

the Port has been informed by CORP that the inspection will be limited and possibly time-consuming because the Line is not passable from start to end due to fallen trees and the fact that CORP has installed tunnel gates which will not be opened for the inspection. Ironically, then, CORP is refusing to give the Port access to the most critical aspect of the Line – the tunnels – which were the very cause of the Line embargo and abandonment.

The confidentiality dispute between CORP and the Port has also complicated the Port's efforts in searching for a rail operator. In particular, certain information that would be useful in the rail operator vetting process remains unavailable to the Port. Documents that should have been provided to the Port by CORP in response to the Port's feeder line discovery requests (served on July 11, 2008) remain in CORP's possession because there is no protective order in place in the feeder line case. As the Board is aware from CORP's filing on August 4, 2008 in the abandonment case, Docket AB-515 (Sub-No. 2), CORP's attorneys have indicated that the Port should file for a protective order in this docket, but it is CORP that seeks to protect information. In contrast to the assertions of CORP, the Board's regulations make clear that a protective order can be sought by any party who believes there are materials that are entitled to be kept confidential. 49 CFR § 1104.14. In this case, that is CORP, not the Port. *Norfolk Southern Railway Company – Abandonment Exemption – In Norfolk and Virginia Beach, VA*, Docket AB-290 (Sub-No. 293X), slip op. at 3 (served December 6, 2007), *Trailer Bridge, Inc. v. Sea Star Lines, LLC*, Docket WCC-104 (served December 10, 1999).

A significant portion of the information sought by the Port in discovery from CORP in this Feeder Line proceeding was included in either the Highly Confidential version of CORP's abandonment application in Docket AB-515 (Sub-No. 2) or the response of CORP to the Port's request for OFA-related information pursuant to 49 CFR § 1152.27(a). In fact, CORP's Feeder

Line discovery response repeatedly referred the Port to the abandonment application (including its Highly Confidential parts) and appeared to refer to the OFA information provided by CORP. Thus, the Port could have relied on this information in the Feeder Line case, but the Highly Confidential designation has prevented the Port from using this information. This information is crucial to the Port's business planning, rail operator negotiations, and financial feasibility analysis.² In its August 4th filing in the abandonment case, CORP did finally agree with the Port regarding the Public designation for some material. However, the lack of a protective order in the Feeder Line case means that untold information, promised to the Port once a protective order is in place, remains withheld from the Port. This issue is now before the Board and the Port is hopeful that a decision will be reached soon.

IV. PRECONDITIONS BEFORE SERVICE IS PROVIDED

The Board asked the Port to provide additional information regarding any preconditions that may apply to rail service on the Line, as described in 49 CFR § 1151.3(a)(9). In its Application, the Port noted that its interest in owning the Line results from the Port's role in economic development in the region. Application at 7-8. Hence, ownership of the Line would be a quasi-partnership with shippers in which the Port would keep its books open to the shippers as much as possible while conducting regular business meetings with the shippers to discuss rail service, the level of subsidy needed, and other issues. See Verified Statement of Jeffrey Bishop, attached to Application at pages 70-71.

This collaborative process has continued in the four weeks since the Application was filed. The Port and shippers have further discussed the per-car subsidy payment that would be

² The Port continues to strenuously object to CORP's argument that sufficient access to the Highly Confidential information exists because the Port's outside counsel and outside consultants already have access to it. It is the Port that would be owning and operating the railroad, not the outside counsel or consultants.

needed to rehabilitate the Line and keep it operational. Based on feedback from shippers, the subsidy will likely vary depending on the commodity that is being transported. Although exact figures have not been determined yet, the subsidy currently under discussion ranges from \$50 per car amount for some commodities to up to \$600 dollars per car for other commodities. For example, it has been discussed that finished wood products should likely pay a higher subsidy per car, while woodchips should pay a much lower subsidy. As described above in Section III B, certain information has not yet been received from CORP and inspection of the Line has not yet occurred. After receiving the relevant information and inspecting the Line, it will be easier for the Port to determine the exact subsidy required. S V S Bishop at 5-7.

Even once the inspections occur, however, the Port is still in the dark about the crucial details of the Line's operations due to the Highly Confidential designations used by CORP. As discussed in the Port's Motion to Re-Designate (filed July 30th in the abandonment case), the Port's outside counsel and consultants may have access to this data, but the Port itself does not. Hence, the Port's discussions with shippers have necessarily occurred in somewhat of a vacuum. Moreover, the Port is being forced to decide whether to purchase an asset to support the public interest of an entire region of a state without having clearly relevant information which exists but is being withheld. S V S Bishop at 6.

V. SOURCES OF OTHER SUBSIDIES

Finally, the Board has requested that the Port provide further information regarding the sources of other subsidies that the Port would receive, as described in 49 CFR § 1151.3(a)(10). In its Application, the Port noted that it is actively seeking other sources of funding to support the purchase and rehabilitation of the Line. Application at 12-13. See also the Verified Statement of Jeffrey Bishop, attached to the Application at pages 69 and 71.

In the four weeks since the Application was filed, the Oregon Department of Transportation ("ODOT") has re-directed \$4 million that was previously awarded to the Port for long-term rehabilitation of the Coos Bay swing bridge. As a result of the ODOT action, the \$4 million can now be used by the Port in the acquisition and repair of the Line. From a broad perspective, the re-direction of these funds makes perfect sense because there is no reason to repair a railroad bridge if there is no railroad providing service. Moreover, as the financial situation surrounding the Line has come more into focus, it has become clear that debt service is not a viable scenario for the Port due to the Line's projected operating losses and the rehabilitation costs necessary. Re-direction of the \$4 million in bridge repair funds will assist the Port in avoiding debt service. S V S Bishop at 7-10

Along the same lines, Congress previously authorized \$8 million to the Port for the same repairs to the Coos Bay swing bridge under the SAFETEA-LU program. The Port is now working with officials in Washington to also get these funds re-directed so that they can be used for the acquisition and rehabilitation of the Line. Thanks to the efforts of Congressman Peter DeFazio, language was inserted in H.R. 3248 to re-direct the \$8 million in previously authorized bridge repair funds so that the Port can use the money to acquire and repair the Line. It appears that the Senate will be considering this re-direction after returning from the August recess. S V S Bishop at 8-9

The Port will be making continued efforts to obtain additional state funding to assist with the acquisition and rehabilitation of the Line. Oregon has shown a strong commitment to freight rail investment in recent years. For example, \$53.9 million of the \$99.6 million dispersed through the *ConnectOregon II* program on June 20, 2008 went to freight rail projects in the state.

Unfortunately, the Oregon legislature is not currently in session and does not reconvene until January 2009, hence, additional state funds are limited at this time S V S Bishop at 8.

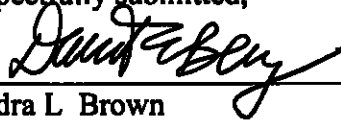
The Port has also engaged in preliminary discussions with the Union Pacific Railroad ("UPRR") regarding the terms of any agreements that would govern interchange of traffic, trackage rights, and other matters in the event the feeder acquisition is successful. The terms of these agreements should be of great importance to both the Port and UPRR, the latter because continued operation of the Line would obviate the need for UPRR to salvage the Coos Bay Bridge S V S Bishop at 7

The preservation of rail service along the entire Line is of vital importance to the future economic health of the communities of southwestern Oregon and the south coast region. The Port is a political subdivision of the state established by statute and, as a governmental entity, the Port works for and represents the citizens of Oregon. It is not surprising that the Port is willing to take all necessary steps to save the Line. During its consideration of the Port's Application and CORP's abandonment plans, the Board should consider the long-term impact of removing a key piece of infrastructure from the Oregon landscape compared to the short-sighted desire of a few investors to capitalize on the recent spike in steel prices. S.V S Bishop at 9-10.

VI. CONCLUSION

The Port appreciates this opportunity to provide the additional information requested by the Board in support of the Feeder Line Application. The Port continues to believe that the Board should order the sale of the Line to the Port at the value set forth in the Port's Application, and should order CORP to repair the tunnels to a serviceable condition. The Port remains more than willing to provide any further information the Board desires.

Respectfully submitted,



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Counsel for the Oregon International Port of Coos Bay

CERTIFICATE OF SERVICE

This is to certify that on this 8th day of August 2008, I caused the foregoing Supplement to Feeder Line Application in STB Finance Docket No 35160 to be served upon all parties required by regulation of the Surface Transportation Board, as identified below.

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David E Benz

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

SUPPLEMENTAL VERIFIED STATEMENT OF JEFFREY BISHOP

1 My name is Jeffrey Bishop. I am the Executive Director for the Oregon International Port of Coos Bay ("Port"), which is located in Coos Bay, Oregon. I am qualified and authorized to offer this Supplemental Verified Statement on behalf of the Port in the above-captioned proceeding.

2 My background and experience is provided in the Verified Statement I submitted with the Port's Feeder Application on July 11, 2008. In addition to my Verified Statement filed July 11, 2008 in this proceeding, I also filed a Verified Statement with the Surface Transportation Board as part of the Port's Reply in the "Show Cause" Proceeding in Finance Docket No. 35130 (filed June 3, 2008).

3 In its August 1st Decision, the Board encouraged the Port to "supplement the information it has provided thus far with regard to section 1151.3(a)(7), which addresses the proposed operator of the line, section 1151.3(a)(9), which addresses any preconditions that would be placed on shippers in order for them to receive service, including shipper subsidies, and section 1151.3(a)(10), which addresses the sources of other subsidies the applicant would receive." This Supplemental Verified Statement addresses all three items.

Proposed Operator on the Line:

4 As I previously stated, the Port is authorized by Oregon state law to own and operate railroads. While the Port had not intended to own or operate the Coos Bay Line ("Line"), the actions of Central Oregon & Pacific Railroad's ("CORP") have severely harmed the Port, the shippers and the southwestern region of Oregon. The Port is committed to the resumption and long-term success of rail operations along the entire Coos Bay Line. Furthermore, the Port has long played a key role in prior projects associated with the Line, and the Port believes the preservation of rail service through the feeder line proceeding, at a true constitutional minimum value taking into account all salvage costs that would be incurred by CORP, is vital to the economic health and vitality of the entire southwestern Oregon region.

5. As I previously stated, I have prior personal experience with rail operations and thus the Port believes that it could provide service on the currently active Dancho to Vaughn segment on Day 1 if necessary either with Port staff (most likely through a Port subsidiary that would be established) or by contracting for interim service either through a rail manager hired by the Port or directly with an existing rail operator. At this time, the Port believes that it would be preferable to hire an interim operator to provide operations on Day 1. The Supplemental Verified Statement of Charles Banks of R L Banks and Associates, also submitted today, provides additional detail on the Port's proposed plan for operations on the Line.

6. The Port had previously used January 1, 2009 as a targeted Day 1 for the start of operations. Under the Board's current procedural schedule it appears that the earliest that Day 1 could occur would be December 1, 2008. This is based upon an assumption that a Board decision would be issued in this proceeding on October 31, 2008 and based upon a very aggressive schedule subsequent to the Board's decision to provide the time permitted for the

Port's acceptance of terms of the sale set by the Board, finalization of funds for the purchase and closing of the transaction. The Port hopes that the Board is mindful that all of the compressed time frames in place with respect to the Coos Bay Line are driven or caused by CORP's actions. CORP decided to defer maintenance on the Line and not seek help via a partnership prior to the embargo. Moreover, CORP, with the approval of RailAmerica and Fortress, decided on the embargo date with no notice to the shippers, the Port, or the state. As I will discuss below, CORP's actions and inactions are causing a further spiraling of harm to the southwest region of Oregon and appear to be at least partly driven by the short-term perspective of a hedge fund owner.

7 As the Port previously testified, various rail entities have expressed an interest in either assisting the Port, providing operations on the Line, and/or being included in any bid for operations on the Line. Since the filing of the feeder application, additional entities have expressed an interest in assisting the Port, providing operations on the Line, and/or being included in any bid for operations on the Line. The Port believes that the expression of interests to date establish that there are many qualified entities interested in the Line and the Port will work diligently over the next few months to formalize arrangements needed for the most reliable and cost-efficient service provider to meet the service needs on the Line for the interim and then the longer term basis. The updated list of rail entities includes.

- Portland & Western Railroad, Inc., a wholly owned subsidiary of Genesee and Wyoming, Inc. ("GWI"),
- Venango River Corporation (John Darling is CEO),
- RailServe,
- Dan Lovelady, former general manager of CORP,
- Yreka Western Railroad Company,
- Watco Companies, Inc.;
- OmniTRAX, Inc.,
- Patriot Rail Corporation;
- Permian Basin Railways/ Iowa Pacific Holdings

8 As the Board is aware, CORP is not providing any service to shippers on the majority of the Line right now and thus by definition the service that the Port will provide itself or via contractor will be better than both the lack of service because of the embargo and CORP's plan to abandon/discontinue service permanently. Furthermore, the three shippers located on the active portion of the Line have filed letters of support for the Feeder Application. I understand that only one of these shippers is actually shipping on the Line right now because of service problems these shippers have faced with CORP. Moreover, to date the Port is not aware of any shipper objection to the Feeder Application.

9 As previously stated in the Verified Statement of Martin Callery for the Port, the Port has had discussions with Dan Lovelady, the former General Manager of CORP, regarding his availability and ability to step in and provide the expertise needed for immediate operations. The expertise and specific knowledge that Mr. Lovelady has with the Coos Bay Line make him a strong candidate to provide immediate rail management for operations on the portion of the Line still in operation, he could also assist with start-up and re-development going forward.

10. I am also continuing to have follow-up discussions with many of the entities above. Recently, I was contacted by Permian Basin Railways/ Iowa Pacific Holdings ("IPH") which has expressed an interest in operating the Coos Bay Line. As a result of my discussions with IPH and with the support of the shippers, IPH has provided a letter confirming their interest in providing operations on the Coos Bay Line. See Attachment 1 to my Supplemental Verified Statement. Permian Basin Railways is the holding company for the rail operating companies of Iowa Pacific Holdings, LLC of Chicago. Many of the rail subsidiaries now owned by IPH were former RailAmerica subsidiaries. In addition, IPH recently acquired the Mount Hood Railway in Oregon. As IPH stated in its notice to the Board regarding the Mount Hood acquisition, IPH has

a record of profitably operating rail lines that had been marginal performers for their prior owners and that IPH works closely with the local community on developing the potential of its rail lines. See Finance Docket No. 35108, *Permian Basin Railways, Inc. - Acquisition of Control Exemption - Mount Hood Railroad*, Verified Notice of Exemption filed December 3, 2007.

11 I was also recently contacted by the Patriot Rail Corporation, which has also expressed interest in operating the Line. Patriot noted that it is familiar with the Line, knowledgeable about the customer base, and excited about the Line's growth potential. See Attachment 2 to my Supplemental Verified Statement.

12 In addition, the Port has been pursuing discussions with consultants and potential contractors to line up the staff and equipment necessary to begin rehabilitation on the Line as soon as possible. The Port is hopeful that the right of entry to the Line will be worked out with CORP in the very near future so that the Port's consultants can inspect the Line in more depth and provide an update on the condition of the Line. As stated in the Port's Feeder Application and filings in the Show Cause proceeding, the Port believes that the Board should find that CORP's actions, including the deferred maintenance prior to the embargo of the Line, was the cause of unlawful actions resulting in an unlawful cessation of service and that CORP should be responsible for restoring the Line to its minimum serviceable condition.¹ Nonetheless, the Port is working toward the development of a full plan for restoration of the Line.

Shipper Preconditions:

13 I have also continued to have meetings individually and collectively with most of the shippers on the Line in order to finalize any shipper preconditions and/or subsidies that will

¹ Such an order would be consistent with a finding that CORP violated its common carrier obligation and consistent with the Board's recent decision regarding a rail line in Mississippi Application at 48-54.

be needed. The Port and shippers recognize that the operational costs associated with the Line are high particularly in light of the deteriorated condition that CORP has allowed to occur on the Line. The Port is continuing its work on a formal business plan. However, notwithstanding the discovery served on CORP including a right of entry request, the Port does not have the information and access that it needs to confirm the current condition of the Line, the costs that will be necessary to rehabilitate the Line, or the terms of the agreement between Union Pacific Railroad ("UPRR") and CORP. The Port is hopeful that the agreement for the right of entry for the Port's inspection of the Line will be worked out soon. The Port has received little to no data regarding the Line since that information has been designated Highly Confidential. In addition, while the Port's counsel and consultants can view the Highly Confidential information provided to date by CORP, they cannot share that information with the Port. This creates an implausible situation where the Port may have to decide to purchase a Line in order to protect the economic viability of the southwestern region of Oregon but without knowing exactly what the Port is purchasing.

14 As I previously stated, the Port and shippers have discussed a per car subsidy in the range of a few hundred dollars. These discussions are still ongoing, and as stated above there are some unknown factors that may impact the level of subsidy needed to restore and maintain reliable rail service. The latest discussions with the shippers have included a scenario that would likely result in an average of a few hundred dollars per car surcharge but that would contain a surcharge that would depend upon the commodity shipped, for example finished wood products would pay a higher surcharge per carload than woodchips. The range for the surcharge discussed to date under such a scenario would be between \$600 and \$50 per carload depending upon the commodity.

15 As I previously testified, the Port views its ownership of the Coos Bay Line as a quasi-partnership with the shippers. In particular, the Port will own and operate the Line with its books open to the shippers (subject to appropriate protections or aggregations of any shipper specific information that the Port may obtain) and the Port will strive to (1) reduce expenses, (2) obtain capital funding, and (3) increase volumes on the Line.

16 The Port will not place any preconditions on shippers for the provision of rail service that have not been disclosed in this proceeding, without shipper agreement and/or Board authorization.

Other Subsidies:

17 I have also engaged in discussions with UPRR regarding the potential terms of any agreements that the Port would enter into with UPRR if the Feeder Application is granted. The appropriate agreements with UPRR are particularly vital in light of the allegations raised by CORP regarding its agreements with UPRR and also the salvage cost UPRR would avoid from abandonment and removal of the Coos Bay Bridge. The discussions with UPRR are ongoing.

18 As I previously testified, the Port has previously been able to secure funding from a number of sources for bridge restoration. The Port obtained authorization for \$8 million from the federal SAFETEA-LU program and \$4 million from the state *ConnectOregon* program for long-term bridge rehabilitation. The Port has been working with elected officials to re-program funds to be available for all aspects of the Coos Bay Line, including the acquisition of the Line, in order to restore service to the region. This re-programming is vital since there would be no Coos Bay rail bridge to rehabilitate if CORP is permitted to abandon and discontinue service on the majority of the Line.

19. On July 16, 2008 the Oregon Transportation Commission ("OTC") approved the change of scope which permits the \$4 million in *ConnectOregon* funds previously approved for Phase II of the Coos Bay Railroad Bridge Long-Term Rehabilitation project to be used to purchase and rehabilitate the Coos Bay rail line and restore rail service to the south Oregon coast. See Attachment 3 to my Supplemental Verified Statement.

20. The State of Oregon's commitment to rail in its state is further evidenced by the *ConnectOregon* program in general and the recent announcement of projects approved by the Oregon Transportation Commission ("OTC") under *ConnectOregon* II. See Attachment 4 to my Supplemental Verified Statement. Based upon the *ConnectOregon* II program of \$100 million lottery-bond-backed program approved by the 2007 Legislature, over half of the funds dispersed by the program went to freight rail programs. In particular, the OTC approved 12 freight rail projects of the 30 total approved on June 20, 2008. See Attachment 5 to my Supplemental Verified Statement. These projects total \$53.9 million of the \$99.6 million awarded by the State for vital transportation improvements. Of course, as I previously testified, the State and the Port's budget are set similar to the Board's budget process, which means timing is critical. The State Legislature does not convene until January 2009 to begin the biennial budget and appropriations process for the following biennium. Hence, the Port will not be able to seek additional state funding until January at the earliest, meaning that CORP's control of the timing further frustrates and harms this region. Notwithstanding that it is CORP's actions that have resulted in the loss of rail service, the Port is committed to exploring every opportunity to obtain additional state and federal funding to restore rail service to this region.

21. As I previously stated, the Port was also going to work with the Congressional delegation with respect to the \$8 million the Port previously received authorization for to make

repairs to the Coos Bay Bridge. Recently, Congressman DeFazio secured language in H R 3248, the SAFETEA-LU Technical Corrections Act, that would make the \$8 million in Federal funding previously authorized available to help the Port purchase the Coos Bay Line. See Attachment 6 to my Supplemental Verified Statement. This bill is currently under consideration in the Senate.

22 Finally, the Port wants to make the record clear that CORP's actions have jeopardized the businesses and local community in the southwestern region of Oregon. If CORP's past actions and inactions are condoned and CORP is permitted to abandon and discontinue service on the majority of this Line, the future of the Oregon International Port of Coos Bay will also be in jeopardy. I understand that the limited discovery that CORP has produced to date reveals that CORP stopped making repairs that had been previously completed on a cyclical basis once Fortress Investments announced that it was acquiring RailAmerica, thereby apparently confirming the milk-the-asset strategy described in the Port's Application. The Port is troubled by facts such as these that are appearing to crystallize in this matter. Ultimately, it appears that CORP is seeking permission to keep the profits it has admitted it made in past years while it deferred maintenance on this Line. At the same time, CORP is now claiming that it is losing money on the Coos Bay Line, yet, CORP is refusing to produce its system operating data thereby prohibiting our experts from verifying whether CORP is playing a shell game with its financials and alleged losses.

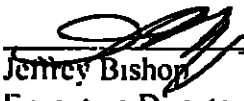
Moreover, CORP, RailAmerica and Fortress appear to be taking advantage of a confluence of events that would result in a windfall to them while dealing a crushing and potentially fatal blow to the southwest region of Oregon. CORP, with support provided by the short-term outlook of its owners RailAmerica and Fortress, is using the current declining

economy and corresponding cyclical traffic dip to justify its alleged right to rip up a long-term public asset and obtain an inflated net liquidated value based upon a recent spike in steel prices. In addition, I understand that they have not even included the salvage costs that would be associated with removal of bridges over navigable waters or the environmental impact to the region from the salvage activities.

CORP's actions have forced the Port to swiftly take measures necessary to preserve rail service to the area. As the Port continues to develop the financial picture based upon the condition of the Line and the current sagging economy it is becoming increasingly clear that debt service, particularly long-term, will not be sustainable for this Line due to the rehabilitation needs of the Line and the projection that there will be operating losses. The Port is a municipal corporation and political subdivision of the state established by statute, it obtains the majority of its funding from public tax dollars, thus the ability of the Port to use a commercial loan with its accompanying debt service cannot be sustained. Recognizing this fact, the State has quickly given the Port the ability to obtain the \$4 million of state money and re-direct it to the acquisition and purchase of this vital asset. In addition, the Oregon Congressional delegation has worked diligently to secure authority for the Port to receive the \$8 million in federal funds and re-direct it to the Coos Bay Line. The Port is willing to invest its last dime on saving rail service for the region and bringing reliable service and an operator committed to a true partnership with the region. The Port likewise asks the Board to dig deep to see the harm that will come if CORP, RailAmerica, and Fortress are permitted to benefit at the expense of the southwest region of Oregon.

VERIFICATION

I, Jeffrey Bishop, verify under penalty of perjury that the foregoing is true and correct based on my knowledge, information and belief. Further, I certify that I am qualified and authorized to file this Supplemental Verified Statement in Finance Docket No. 35160.



Jeffrey Bishop
Executive Director
Oregon International Port of Coos Bay

Dated 8/8/08_____

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 1



Permian Basin Railways

Arizona Eastern Railway
Chicago Terminal Railroad
Mount Hood Railroad
San Luis & Rio Grande Railroad
Texas-New Mexico Railroad
West Texas & Lubbock Railway

118 South Clinton Street, Suite 400
Chicago, IL 60661

August 6, 2008

Mr. Jeffrey Bishop
Executive Director
Port of Coos Bay

VIA EMAIL

Dear Mr. Bishop:

This refers to the potential need for a railroad operator for the Coos Bay line.

Permian Basin Railways is the holding company for the rail operating companies of Iowa Pacific Holdings, LLC of Chicago. Please consider this our expression of interest in operating the Coos Bay line. Should the Port issue a Request For Proposal we would appreciate the opportunity to respond.

Mr. Ed Ellis is President of IPH and PBR and his address is above. He can be reached at 312-545-7245, and my contact is 806-438-0891 (both of these are cell phones).

Please let us know if we can be of assistance.

Yours very truly,



Stephen Gregory
Vice President – Marketing

cc. Ed Ellis

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**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 2

From: stanley wlotko [mailto:stanwlotko@yahoo.com]

Sent: Friday, August 08, 2008 11:19 AM

To: Jeff Bishop

Cc: gary@patriotrail.com

Subject: Operation on Coos Bay Line

Mr. Bishop,

Thank you for taking the time to discuss the Coos Bay Line issue. Patriot Rail is familiar with the line and is very interested in partnering with the Port to be the exclusive rail operator on the line. We have a good knowledge of the customer base and are very excited about the growth potential moving forward.

Please include Patriot Rail in your filing to the STB as an interested party to provide all of the rail transportation requirements on the Coos Bay Line. My contact information follows:

Stan Wlotko

Senior Vice President - Operations

Patriot Rail Corporation

561-443-5300 - office

561-756-0726 - cell

561-443-5319 - fax

patriotrail.com - website

As mentioned in our telephone conversation, Patriot Rail will meet with you in Oregon at your convenience to discuss our plan to operate the Coos Bay line. Please provide me with some dates for the meeting and I will get back with you to finalize the meeting date and agenda.

Please call me on my cell phone with any questions.

Thanks,

Stan Wlotko

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**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 3



Oregon

Theodore R. Kulongoski, Governor

Department of Transportation
Office of the Director
Rm 135
355 Capitol St NE
Salem, Oregon 97301-3871

DATE: July 11, 2008

TO: Oregon Transportation Commission

FROM: Matthew L. Garrett
Director

FILE CODE:

SUBJECT: Change Scope of Port of Coos Bay *ConnectOregon* I Project

Requested Action:

Approve a *ConnectOregon* I project scope change from rehabilitation of the Coos Bay railroad bridge to purchase and rehabilitation of the Coos Bay rail line for restoration of rail service to south Oregon coast.

Background:

On July 19, 2006, the Oregon Transportation Commission approved \$4 million in *ConnectOregon* funds for the Phase II Coos Bay Railroad Bridge Long-Term Rehabilitation project. The request was submitted by Oregon International Port of Coos Bay.

On September 21, 2007, Central Oregon & Pacific Railroad (CORP), asserting hazardous deterioration in three of nine tunnels, embargoed service over the Eugene-Coos Bay line. On June 16, 2008, CORP formally notified the federal Surface Transportation Board of its intent to file an application to abandon and/or discontinue service over the majority of the line. The rail mileage subject to abandonment includes the Coos Bay railroad bridge that is the beneficiary of the approved *ConnectOregon* I grant as well as trackage serving the communities of Coquille, Coos Bay, North Bend, and others.

On July 11, 2008, the Oregon International Port of Coos Bay will initiate a formal process to acquire the Coos Bay line pursuant to federal feeder line statutes. With the approved change of scope for the *ConnectOregon* I project (No. 23183), the \$4 million will be available for the purchase and rehabilitation of the Coos Bay rail line.

Copies to:

Doug Tindall
Joan Plank
Kelly Taylor

Lorna Youngs
Patrick Cooney
Marty Andersen



From: REDDEN Julie K [mailto:Julie.K.REDDEN@odot.state.or.us]

Sent: Thursday, July 17, 2008 3:33 PM

To: Mike Gaul

Cc: REDDEN Julie K; ADAMS Scott

Subject: ConnectOregon I - Oregon International Port of Coos Bay - 23183-01-Phase II Coos Bay Railroad Bridge Long-Term Rehab

Mike - <<Attached Image>> Attached is an OTC Agenda Item that was approved by the OTC on July 16, 2008. The Change of Scope that was approved by the OTC will allow the \$4,000,000 for the Coos Bay Rail Bridge-Phase 2 to be used to purchase and rehabilitate of the Coos Bay rail line that was abandoned by the CORP on June 16, 2008.

Please fill out a Request for Change Order on this project to reflect the change in the scope of work for the project and send it to Scott Adams for approval.

—

Thank you.

Julie Redden, Policy Analyst
Local Government Section
Oregon Department of Transportation
355 Capitol Street NE, Room 326
Salem, OR 97301-3871
Phone. (503)986-3153
FAX. (503)986-3290

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
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**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 4

News Release

ODOT News

Commission approves transportation projects for ConnectOregon funding

June 20, 2008

For more information, contact Patrick Cooney (503) 986-3455 or Shelley Snow (503) 881-5362

The Oregon Transportation Commission has approved the recommended list of multi-modal projects for *ConnectOregon* II funding. Thirty projects involving rail, air, marine and public transit transportation from around the state will receive funding through the \$100 million lottery-bond-backed program. The complete ranked listing is available at www.oregon.gov/ODOT/COMM/CO/index.shtml

"A strong transportation system is key to a strong economy, and that means investing in our entire transportation network," Governor Ted Kulongoski said. "The *ConnectOregon* program has delivered economic opportunity for communities across Oregon through vital investments in railroad, marine ports, airports, and transit."

Over the past six months, committees made up of representatives from air, rail, freight, marine and public transit advisory committees, regional transportation advisory committees, industry groups, transportation stakeholders, ODOT staff and members of the public reviewed applications. In April, a 25-member Final Review Committee ranked the original list of 70 projects requesting a total of \$178.5 million. The first 30 projects, approved for funding, total \$99,584,690 and include 10 aviation, two marine, 13 rail and five transit projects.

"I am pleased that through *ConnectOregon* II we are able to continue making these important investments to strengthen our ability to move people, commerce and goods throughout our state," Kulongoski said. He emphasized the value of public and private entities working together to make thoughtful decisions about investments in Oregon's transportation system.

ConnectOregon II, approved by the 2007 Legislature and coordinated by the Oregon Department of Transportation, provides funding through lottery-backed bonds and leverages partnerships to fund transportation projects other than highways. In conjunction with cities, counties, planning organizations and other jurisdictions, businesses and stakeholders, the *ConnectOregon* program improves connections, enhances transportation options and supports the economy statewide.

To learn more, visit www.oregon.gov/ODOT/COMM/CO/index.shtml

Brief descriptions of approved projects (In order of priority)

PORTLAND & WESTERN RAILROAD, APP# R10026. Portland and Western Railroad (P&W) will upgrade 23 miles of deteriorated 100-year-old rail along the Columbia River to reduce congestion and improve safety. The rail line will better connect several industries and will reduce emergency egress at highway-rail crossings.

PORT OF PORTLAND, APP# A10040. This project will extend the north runway of Portland International Airport from its current length of 8,000 feet to 9,827 to provide consistent airfield operational capability, in particular when the 11,000 foot long south runway must be closed for rehabilitation in 2011.

PORT OF ASTORIA, APP# M20042. The Port of Astoria includes two piers that host cruise ships, commercial vessels and a dredging barge. This project will expand the North Face of Pier 2 to support the Port's history of serving multiple use vessels and continue building the economic base of the Lower Columbia River.

PORT OF PORTLAND, APP# R10066. This project will expand South Rivergate Yard in the Northwest's busy shipping terminal to include one additional lead track and five additional storage tracks and will install a critical crossover in Bonneville Yard. These improvements will enable the yard to provide competitive rail access and help reduce congestion.

BURLINGTON NORTHERN SANTA FE RAILWAY, APP# R10047. BNSF's East St. Johns siding extension project will create a controlled siding with 7,700 feet of clear length by constructing 2,950 feet of new siding (a short railroad track used for unloading or bypassing a main track) and rehabilitating the existing 4,900-foot siding. This will provide more opportunities for trains to meet and pass in the heavily congested "Portland Rail Triangle."

PORTLAND & WESTERN RAILROAD, APP# R20025. P&W will rehabilitate the Millersburg Yard and add or extend several tracks within the facility. This will allow trains direct access to the Millersburg yard, enhancing connectivity, reducing transportation costs, eliminating a corridor bottleneck and improving safety.

CITY OF BEND, APP# T40010. This project will create a regional Intermodal center, connecting six bus companies, five shuttles, five vanpools, one mass transit system, and several other alternative transportation options. The new center will reduce transportation costs, improve access to jobs, and provide a critical link to the existing transportation system.

GRESHAM REDEVELOPMENT COMMISSION AND TRIMET, APP# T10076. The 188th Street Light Rail station, a key part of Gresham's urban renewal efforts, will be reconstructed to improve safety, allow for increasing usage and contribute to the redevelopment of the Rockwood area. It will include expanded platforms, wider sidewalks, bike lanes and new lighting.

CITY OF SALEM – MCNARY FIELD, APP# A20021. Salem's airport activity has picked up with the addition of daily passenger service. This project will expand the terminal waiting area to allow improved baggage processing, additional restrooms, expanded passenger drop-off/pick-up areas and additional parking.

GRANT COUNTY – GRANT COUNTY REGIONAL AIRPORT, APP# A50045. This project will replace the aging airport terminal facility (originally a private airfield) with one designed to meet the needs of pilots, visitors and airport operations, as well as the needs of the U S Forest Service as it improves its Fire Base facility.

UNION PACIFIC RAILROAD, APP# R10072. This project will provide additional track capacity to support the busy Port of Portland and its customers, reducing congestion, improving connectivity and supporting a highly efficient directional flow of rail traffic moving through Portland.

UNION COUNTY ECONOMIC DEVELOPMENT CORP. AND PENDLETON GRAIN GROWERS, APP# R50007. Improving the ability to move agricultural goods is the main goal of this project. It will allow the purchase of land, the construction of a one-quarter mile rail spur extension and the addition of a 755,000 bushel grain storage facility, improving safety on I-84 and supporting the local and regional economies.

CITY OF PRINEVILLE, APP# R40005. The Prineville Freight Depot serves as a multi-modal distribution center to bring rail traffic to the city's short line railway, offering freight options for central and eastern Oregon. This project will expand the depot's capabilities by building additional warehouse space and a bulk trans-load facility.

LANE TRANSIT DISTRICT AND CITY OF VENETA, APP# T20024. A new Veneta Transit Center will stimulate economic activity, reduce congestion on busy Oregon 126 and offer residents more options for commuting. It includes an enhanced Park and Ride facility in the city's growing downtown area.

MODOC NORTHERN RAILROAD CO. AND LAKE COUNTY, APP# R40043. This project will provide new rail infrastructure in four key areas to accommodate growing shipping needs while allowing increased speed and handling efficiency. It will also improve economic opportunities and reduce transportation costs in the area.

PORT OF MORROW AND NORTHWEST CONTAINER SERVICES, INC., APP# R50044. This project will create a multi-modal rail logistics facility that will provide alternative shipping options, support the local economy and increase mainline capacity by building a new siding (short track for unloading or bypassing), purchasing lift equipment, adding control switches and more.

CITY OF MADRAS, APP# A40075. A new "heavy aircraft and major engine maintenance facility" at the Madras Airport will support businesses in this rapidly growing area. A new 30,000 square foot hangar and associated infrastructure will bring on-demand air carrier service to Madras and provide transportation options for community businesses.

ALBANY & EASTERN RAILROAD CO., APP# R20051. Bridges on the critical "Mill City Branch" will be rehabilitated in this project, supporting several key industries and improving safety along the line. The new bridges will better accommodate today's heavy rail loads and enhance the area's economic appeal to businesses.

COOS COUNTY AIRPORT DISTRICT, APP# A30001. This project will support the effort to construct and equip an air traffic control tower at the Southwest Oregon Regional Airport in North Bend. An air traffic control tower is vital to meet the needs of the area, which is experiencing growth in tourism, air freight and business needs.

COLUMBIA COUNTY, APP# T10038. Columbia County's public transit facilities are operating at maximum due to increasing numbers of commuters, elderly riders and new residents. This project will build a multi-modal public transit facility to function as a hub for services, helping provide safe, reliable and convenient access to transportation options, reduce congestion and support community livability.

BURLINGTON NORTHERN SANTA FE RAILWAY, APP# R10048. This project will provide powering switches between the BNSF and Portland & Western Railroad, enabling trains to move more quickly throughout the busy rail system. This improvement will support more than 10,000 carloads annually and reduce wait times for Amtrak and other trains, while increasing the rail's ability to handle traffic from the Port of Portland.

CITY OF NEWPORT AND PORT OF ASTORIA, APP# A20030. Scheduled passenger air service, funded through this project, will provide important connections from two major coastal communities to

the Portland International Airport. It will reduce travel time and costs for people needing to get to and from Oregon's northern and central coast.

SALEM-KEIZER TRANSIT, APP# T20035. This project will create the Keizer Transit Center, a new facility designed to improve connections, provide options and reduce congestion, with parking spaces, bike facilities, room for eight buses, a pedestrian plaza and more.

PORT OF ST. HELENS, APP# R10016. These rail improvements will allow locomotives to turn around at this vital port for the return trip to Portland and beyond. It will also enhance intermodal transportation connections, providing attractive incentives for new businesses to support the local economy.

CITY OF SALEM – MCNARY FIELD, APP# A20022. This project will extend the primary runway/safety area for aircraft by up to 1000 feet. As growth continues at the facility, runway extensions give a greater margin of aircraft safety and growth capacity and make the airport a more viable option for travelers and businesses.

PORT OF PORTLAND, APP# M10029. A new multi-user pipeline system at the busy Port of Portland will enhance the area's appeal to the growing renewable energy industry in Oregon. The project will include a pipeline corridor and rack system in the Pier 1 area of Terminal 4 that can serve several tenants and provide options for commodities transportation.

REDMOND AIRPORT – CITY OF REDMOND, APP# A40031. Creating better access for air cargo is this project's goal. It will include a new aircraft ramp and development area solely for cargo companies, enhancing security and safety and offering potential new companies incentives for using the airport's cargo services.

CITY OF VALE, APP# A50020. Vale's Miller Memorial Airport will create a more viable airstrip in this project, increasing the airport's usefulness as a community resource and enhancing its appeal to businesses. The project involves paving the longest runway, which is currently gravel.

ROGUE VALLEY INTERNATIONAL – MEDFORD AIRPORT AND SKY AIR CARGO, LLC, APP# A30061. This project will improve Rogue Valley International's small parcel freight handling capabilities by constructing an air cargo handling building, rehabilitating the existing air cargo apron areas, adding parking and upgrading utilities. These enhancements support continued growth at the facility and in the local economy.

MT. HOOD RAILROAD, APP# R10004. Repairing 22 miles of this rail line will bring back a long-established freight line as well as a tourism draw that has been missing since 2006. By relocating the river channel and rebuilding sections of the line, businesses that have since closed may re-open and freight haulers will have restored connections.

###ODOT###

**BEFORE THE
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STB FINANCE DOCKET NO. 35160

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—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 5

Connect Oregon Projects Approved by the Oregon Transportation Commission Sorted by region					
MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
R	1	Portland & Western Railroad	Columbia River Rail Corridor Improvement - Portland and Western Railroad will upgrade 23 miles of deteriorated 100-year-old rail along the Columbia River to reduce congestion and improve safety. The rail line will better connect several industries and will reduce emergency egress at highway-rail crossings.	\$ 6,300,000	1
A	1	Port of Portland	PDX North Runway Extension - This project will extend the north runway of Portland International Airport from its current length of 8,000 feet to 9,827 to provide consistent airfield operational capability, in particular when the 11,000 foot long south runway must be closed for rehabilitation in 2011.	\$ 6,000,000	2
R	1	Port of Portland	South Rivergate Yard Expansion - This project will expand South Rivergate Yard in the Northwest's busy shipping terminal to include one additional lead track and five additional storage tracks and will install a critical crossover in Bonneville Yard. These improvements will enable the yard to provide competitive rail access and help reduce congestion.	\$ 8,942,200	4
R	1	BNSF	East St. Johns Siding Extension - BNSF's East St. Johns siding extension project will create a controlled siding with 7,700 feet of clear length by constructing 2,950 feet of new siding (a short railroad track used for unloading or bypassing a main track) and rehabilitating the existing 4,900-foot siding. This will provide more opportunities for trains to meet and pass in the heavily congested "Portland Rail Triangle."	\$ 5,221,405	5

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
T	1	Gresham Redevelopment Commission and TriMet	188th St Light Rail Stn Reconstruction – The 188 th Street Light Rail station, a key part of Gresham's urban renewal efforts, will be reconstructed to improve safety, allow for increased usage and contribute to the redevelopment of the Rockwood area. It will include expanded platforms, wider sidewalks, bike lanes and new lighting.	\$ 3,000,000	8
R	1	Union Pacific Railroad Company	St Johns Lead Improvements – This project will provide additional track capacity to support the busy Port of Portland and its customers, reducing congestion, improving connectivity and supporting a highly efficient directional flow of rail traffic moving through Portland	\$ 6,995,221	11
T	1	Columbia County	Public Transit Facility – Columbia County's public transit facilities are operating at maximum due to increasing numbers of commuters, elderly riders and new residents. This project will build a multi-modal public transit facility to function as a hub for services, helping provide safe, reliable and convenient access to transportation options, reduce congestion and support community livability	\$ 1,600,000	20
R	1	BNSF	Astoria Wye – This project will provide powering switches between the BNSF and Portland & Western Railroad, enabling trains to move more quickly throughout the busy rail system. This improvement will support more than 10,000 carloads annually and reduce wait times for Amtrak and other trains, while increasing the rail's ability to handle traffic from the Port of Portland	\$ 2,040,158	21
R	1	Port of St. Helens	Port Westward Railroad System Wye – These rail improvements will allow locomotives to turn around at this vital port for the return trip to Portland and beyond. It will also enhance intermodal transportation connections, providing attractive incentives for new businesses to support the local economy.	\$ 840,000	24

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
M	1	Port of Portland	Terminal 4 Pipeline Infrastructure - A new multi-user pipeline system at the busy Port of Portland will enhance the area's appeal to the growing renewable energy industry in Oregon. The project will include a pipeline corridor and rack system in the Pier 1 area of Terminal 4 that can serve several tenants and provide options for commodities transportation	\$ 4,507,760	26
R	1	Mt. Hood Railroad	Repair Flood Damaged Track - Repairing 22 miles of this rail line will bring back a long-established freight line as well as a tourism draw that has been missing since 2006. By relocating the river channel and rebuilding sections of the line, businesses that have since closed may re-open and freight haulers will have restored connections	\$ 700,000	30
M	2	Port of Astoria	Pier 2 North Face Upgrade - The Port of Astoria includes two piers that host cruise ships, commercial vessels and a dredging barge. This project will expand the North Face of Pier 2 to support the Port's history of serving multiple use vessels and continue building the economic base of the Lower Columbia River	\$ 973,920	3
R	2	Portland & Western Railroad, Inc	Albany Rail Corridor Improvement Project - P&W will rehabilitate the Millersburg Yard and add or extend several tracks within the facility. This will allow trains direct access to the Millersburg yard, enhancing connectivity, reducing transportation costs, eliminating a corridor bottleneck and improving safety	\$ 6,990,516	6
A	2	City of Salem - McNary Field	Passenger Terminal Expansion - Salem's airport activity has picked up with the addition of daily passenger service. This project will expand the terminal waiting area to allow improved baggage processing, additional restrooms, expanded passenger drop-off/pick-up areas and additional parking	\$ 1,200,000	9

Mode R=rail, A=aviation, M=marine, T=transit
Regions See map at www.oregon.gov/ODOT/COMM/CO/index.shtml

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
T	2	Lane Transit District and City of Veneta	Veneta Transit Center – Eugene – A new Veneta Transit Center will stimulate economic activity, reduce congestion on busy Oregon 126 and offer residents more options for commuting. It includes an enhanced Park and Ride facility in the city's growing downtown area	\$ 656,000	14
R	2	Albany and Eastern RR	Mill City Branch Bridge Rehab and 286k Rail Upgrade – Bridges on the critical "Mill City Branch" will be rehabilitated in this project, supporting several key industries and improving safety along the line. The new bridges will better accommodate today's heavy rail loads and enhance the area's economic appeal to businesses	\$ 3,777,280	18
A	2	City of Newport-Port of Astoria	Coastal Oregon Air Service – Scheduled passenger air service, funded through this project, will provide important connections from two major coastal communities to the Portland International Airport. It will reduce travel time and costs for people needing to get to and from Oregon's northern and central coast	\$ 3,600,000	22
T	2	Salem-Keizer Transit District	Keizer Transit Ctr – This project will create the Keizer Transit Center, a new facility designed to improve connections, provide options and reduce congestion, with parking spaces, bike facilities, room for eight buses, a pedestrian plaza and more	\$ 2,516,000	23
A	2	City of Salem / McNary Field	Runway / Safety Area Extension - McNary Field – This project will extend the primary runway/safety area for aircraft by up to 1000 feet. As growth continues at the facility, runway extensions give a greater margin of aircraft safety and growth capacity and make the airport a more viable option for travelers and businesses	\$ 2,600,000	25
		Region Totals		\$ 14,226,676	

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
A	3	Coos County Airport District	Air Traffic Control Tower- Southwest Oregon Regional Airport (North Bend) - This project will support the effort to construct and equip an air traffic control tower at the Southwest Oregon Regional Airport in North Bend. An air traffic control tower is vital to meet the needs of the area, which is experiencing growth in tourism, air freight and business needs.	\$ 624,000	19
A	3	Rogue Valley International-Medford Sky Air Cargo, LLC	Medford - Multi-Modal Express Air Cargo Expansion - This project will improve Rogue Valley International's small parcel freight handling capabilities by rehabilitating the existing air cargo apron areas, adding parking and upgrading utilities. These enhancements support continued growth at the facility and in the local economy.	\$ 4,760,000	29
T	4	City of Bend	Central Oregon Intermodal Transit Center - This project will create a regional intermodal center, connecting six bus companies, five shuttles, five vanpools, one mass transit system, and several other alternative transportation options. The new center will reduce transportation costs, improve access to jobs, and provide a critical link to the existing transportation system.	\$ 2,800,000	7
R	4	City of Prineville	Prineville Railroad / Freight Depot - The Prineville Freight Depot serves as a multi-modal distribution center to bring rail traffic to the city's short line railway, offering freight options for central and eastern Oregon. This project will expand the depot's capabilities by building additional warehouse space and a bulk trans-load facility.	\$3,520,000	13

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
R	4	Modoc Northern Railroad Company	Lakeview Branch Improvement - This project will provide new rail infrastructure in four key areas to accommodate growing shipping needs while allowing increased speed and handling efficiency. It will also improve economic opportunities and reduce transportation costs in the area.	\$ 648,000	15
A	4	City of Madras	Heavy Aircraft and Engine Maintenance Facility - A new "heavy aircraft and major engine maintenance facility" at the Madras Airport will support businesses in this rapidly growing area. A new 30,000 square foot hangar and associated infrastructure will bring on-demand air carrier service to Madras and provide transportation options for community businesses.	\$ 2,157,749	17
A	4	Redmond Airport - City of Redmond	North Side Cargo Ramp & Development - Creating better access for air cargo is this project's goal. It will include a new aircraft ramp and development area solely for cargo companies, enhancing security and safety and offering potential new companies incentives for using the airport's cargo services.	\$ 1,500,000	27
Region 5 Totals					
A	5	Grant County	Airport Terminal Building - This project will replace the aging airport terminal facility (originally a private airfield) with one designed to meet the needs of pilots, visitors and airport operations, as well as the needs of the U.S. Forest Service as it improves its Fire Base facility.	\$ 4,064,167	10
R	5	Union County Economic Development Corp. and Pendleton Grain Growers	Alcief Intermodal Transportation Project - Improving the ability to move agricultural goods is the main goal of this project. It will allow the purchase of land, the construction of a one-quarter mile rail spur extension and the addition of a 755,000 bushel grain storage facility, improving safety on I-84 and supporting the local and regional economies.	\$ 2,723,888	12

MODE	REGION	APPLICANT	PROJECT NAME	Total Connect Oregon Funds Requested	Priority Number
R	5	Port of Morrow	Morrow Multimodal Rail Logistics Center - This project will create a multi-modal rail logistics facility that will provide alternative shipping options, support the local economy and increase mainline capacity by building a new siding (short track for unloading or bypassing), purchasing lift equipment, adding control switches and more	\$ 7,926,626	16
A	5	City of Vale	Miller Memorial Airport - Vale's Miller Memorial Airport will create a more viable airstrip in this project, increasing the airport's usefulness as a community resource and enhancing its appeal to businesses. The project involves paving the longest runway, which is currently gravel	\$ 400,000	28
		Region 5 Totals		\$ 8,326,626	
		Totals		\$ 99,584,690	

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

**SUPPLEMENTAL VERIFIED STATEMENT
OF JEFFREY BISHOP**

Attachment 6

NEWS

FROM U.S. REPRESENTATIVE

PETER DeFAZIO

Fourth Congressional District, Oregon

July 21, 2008

Contact: Molly Simmons—(202) 225-6416

FOR IMMEDIATE RELEASE

****ACTUALITY AVAILABLE****

DEFAZIO SECURES FUNDING TO REOPEN CORP RAIL LINE

WASHINGTON, DC – Congressman DeFazio (D-Springfield) announced today that he has secured language in legislation, H.R. 3248, to make \$8 million in Federal funding available to help the Port of Coos Bay purchase the Coos Bay Line from the Central Oregon & Pacific Railroad (CORP). He also commended the Oregon Transportation Commission for allocating \$4 million in matching funds to purchase and rehabilitate the line.

DeFazio, Chairman of the House Highways and Transit Subcommittee, originally secured the \$8 million in the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy For Users (SAFETEA-LU) to help the Port make repairs to a rail bridge on the Coos Bay Line in 2005. However, CORP embargoed the line last September and now plans to abandon it altogether.

“It doesn’t make sense to continue to repair a bridge on a line that is being abandoned, so I made the decision to change the purpose of that \$8 million to help the Port acquire and rehabilitate the line,” DeFazio said

The Port has made enough repairs to the bridge with funding secured by DeFazio in the 1998 highway

bill, the Transportation Equity Act for the 21st Century, that the bridge will last another ten years. Combined with the \$4 million in state funding, the Port of Coos Bay will have access to \$12 million to help purchase and rehabilitate the rail line.

"I am pleased that I could work with the Port of Coos Bay, the Oregon Department of Transportation, and local shippers to reallocate this funding," DeFazio said. "This vital rail line is an imperative component of the South Coast economy."

H.R. 3248, which contains the language for Coos Bay, is currently under consideration in the Senate. Once the Senate passes it, the bill will be voted on by the House of Representatives, before going to the President for his signature.

Last September, CORP closed the Coos Bay rail line with little more than 24 hours notice. This line provides critical rail access to businesses on the South Coast and is a key transportation link for the Port of Coos Bay. Since the rail closure the average shipper along the Coos Bay Line now pays 10 – 15 percent more in shipping costs because they have to use trucks. The Port of Coos Bay has since filed an application with the Surface Transportation Board in Washington, DC to purchase the Coos Bay Line.

To access the radio actuality:

For Internet Explorer users:

1. Go to the following website: www.defazio.house.gov/audio
2. Right click on the file entitled "6.21.08 DeFazio Secures Funding to Reopen CORP rail line"
3. Choose "Save Target As..." from the menu to save the file on your computer.

For Mozilla Firefox users:

1. Go to the following website: www.defazio.house.gov/audio
2. Right click on the file entitled "6.21.08 DeFazio Secures Funding to Reopen CORP rail line"
3. Choose "Save Link as..." from the menu to save the file on your computer.

If you have any problems or questions about downloading the feed, please contact Molly Simmons at 202-225-0540.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

**SUPPLEMENTAL VERIFIED STATEMENT
OF CHARLES H. BANKS**

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 35160

**OREGON INTERNATIONAL PORT OF COOS BAY
—FEEDER LINE APPLICATION—
COOS BAY LINE
OF THE CENTRAL OREGON & PACIFIC RAILROAD, INC.**

SUPPLEMENTAL VERIFIED STATEMENT OF CHARLES H. BANKS.

I am Charles H Banks, President of R L Banks & Associates, Inc (RLBA), railroad transportation economics, engineering and planning consultants, located in Suite 750 at 2107 Wilson Boulevard, Arlington, VA 22201 I have prepared this Supplemental Verified Statement in support of Feeder Line Application filed by the Oregon International Port of Coos Bay ("Port") My complete qualifications are included in the Verified Statement I filed for the Port in this proceeding on July 11, 2008.

I. Shortline Service Startup

The Port has already developed an outline of rail operations that would be provided over the entire Coos Bay rail line ("Line") in the event the Feeder Line Application is successful These operations were described in my Verified Statement at pages 86-88 of the Feeder Line Application A crucial initial step in owning and conducting rail operations on the Line will be the selection of a shortline rail operator As described in the previous Verified Statement of Martin Callery (which was also attached to the Feeder Line Application, at pages 143-148) and

also the Supplemental Verified Statement of Jeffrey Bishop (being filed today with this Supplement), the Port is actively engaged in extensive discussions with potential rail operators.

The purpose of my Supplemental Verified Statement is to further describe and show the feasibility of the Port's plan to select an operator. Additionally, I will describe how the transition to Port ownership and operations on the Line would occur.

A. Engaging a Port Rail Manager

A logical first step in implementing rail operations would be designation by the Port of a Rail Manager. That individual either could be someone already on staff at the Port or someone recruited specifically to get rail operations off to a quick and smooth start. The Port would probably want to hire a new employee to fill this important role on a full-time basis, but the Port's Executive Director, Jeffrey Bishop (as detailed in his Verified Statement which accompanied the Port's Feeder Line Application), enjoys more than a passing familiarity with railroad freight service and could fill the role temporarily if necessary. The Port Rail Manager would be responsible for developing and executing a rail startup plan addressing the issues listed below in sections I B and II.

I am aware that Martin Callery, Director of Communications and Freight Mobility, at the Port has been in contact with Dan Lovelady, currently the General Manager of the City of Prineville Railway and previously the General Manager of CORP. Mr. Lovelady is known to RLBA and has held several other senior positions in the shortline railroad industry in addition to his work with CORP and the City of Prineville. Given his experience and familiarity with the Coos Bay rail line, I believe that Mr. Lovelady would make an excellent Rail Manager for the Port. In addition, it is also possible that Mr. Lovelady could also be hired by the new shortline

operator. If Mr. Lovelady does not become the Port Rail Manager, I believe that other qualified candidates for the post could be found.

Alternatively, or in the interim, any number of qualified railroad freight consultants could act as an interim Port Rail Manager until a permanent Rail Manager were on board.

B. Contract Operator Identification and Procurement

The Port intends to provide rail service itself or through a contract rail operator. At pages 144-145 of the Feeder Line Application, the Port's Martin Callery briefly described the steps taken by the Port thus far, as well as the Port's plans regarding the future operator as the Feeder Line Application process moves forward. Additionally, I am aware that the Port's Supplement today includes a Supplemental Verified Statement of Jeffrey Bishop that describes further progress toward selection of a rail operator of the Line.

Initially, the Port (likely through its rail operator) must be prepared to operate the currently active segment of the Line between Danebo and Vaughn ("Initial Segment") on the first day that the Feeder acquisition is effective. Meanwhile, operations on the embargoed section of the Line would have to wait until the tunnels and other aspects of the Line are repaired to a safe and operational condition.

C. Initial Segment Operations

There is a disparity between operations that would occur on the Initial Segment and operations on the entire Line once rehabilitation is finished. That is, the Initial Segment is only twenty miles long and serves just three shippers. While the Port is actively seeking a permanent third-party rail operator right now, it is possible that the Port's comprehensive search process will not be complete by the time the Board issues its feeder line decision. Moreover, it may be more efficient to engage different operators – one temporarily during the Initial Segment

operations and one permanently serving the entire Line once rehabilitated – due to the difference in traffic and operations between the Initial Segment, on the one hand, and the entire Line on the other

Given the compressed time schedule now in place in this proceeding, the Port is preparing for the possibility that it will need to operate the Initial Segment itself from the day the acquisition is effective. Such operation would be only on a temporary basis until a permanent operator is selected. It is also possible that the permanent rail operator may want to wait until the entire Line is operational before beginning rail service on it.

Alternatively, the Port may be able to select a temporary operator to provide Initial Segment operations. An abbreviated bidding process would be appropriate to select a temporary rail operator to conduct rail operations on the Initial Segment.

It is my opinion that a temporary rail operation can be assembled fairly quickly to serve the three Initial Segment shippers (Rosboro, Swanson Group and Swanson Brothers) at the traffic levels revealed in their letters attached to the Port's Feeder Line Application. An existing railroad operator might be able to mobilize more quickly than the Port due to having the required equipment and expertise on-hand already. As the three Initial Segment shippers increase their use of rail, Initial Segment operations, likewise, can increase in frequency.

D. The Port as Rail Operator

If the Port itself is the entity that will begin operations on the Initial Segment, several steps will have to be taken. The Port likely would create a subsidiary to hire employees, acquire equipment and commence operations. The Port would lease two locomotives, hire a small number of employees and follow the additional steps listed below in Section II, albeit in an

abbreviated fashion The Port's Rail Manager likely would serve as General Manager of the rail subsidiary

E. Selection of a Permanent Rail Operator

As mentioned above, the Port desires to have a permanent third-party contractor provide rail operations on the Line The Port already has engaged in significant contacts with numerous potential rail operators, including

- Portland & Western Railroad, Inc (operating nearby),
- Venango River Corporation,
- RailServe,
- Dan Lovelady,
- Yreka Western Railroad Company,
- Iowa Pacific Holdings (recently purchased the Mount Hood Railroad),
- Watco Companies, Inc and
- OmniTRAX, Inc

It is my understanding that the Port has not yet been given access to all relevant information regarding CORP's operations on the Line, shipper identities, traffic volumes, operating costs and other important information Prompt receipt of this information will help the Port negotiate with potential rail operators In addition, I am aware that the Port is in the process of working with CORP to plan on-site visits to the Line so that its current condition and rehabilitation needs can be evaluated

When all key information is secured, the Port can move forward with selection of a rail operator by issuing a Request For Expressions of Interest and Qualifications ("RFQ") directly to potentially interested parties. The RFQ can be advertised in the trade press or through industry publications and associations such as the American Short Line and Regional Railroad

Association In addition to the railroads and parties mentioned above, I believe that other potentially interested parties could be identified and might be interested in submitting a bid ¹

The RFQ would outline the expected parameters of operations on the Initial Segment (if operations have not begun already by the Port or a temporary operator) and would explain the eventual operation of the Line once restoration beyond Vaughn is complete The RFQ would specify general information to be provided by each respondent, including qualifications, experience, key personnel and evidence of sufficient financial resources

The Port would review responses to the RFQ and would select a limited number of respondents (perhaps three to six) to advance to the next stage of evaluation The selected respondents would be sent a Request For Proposals (RFP) which would invite bids to enter into a contract with the Port to operate the Initial Segment and/or the Line under conditions outlined in the RFP The conditions would define qualifications of employees, service levels, maintenance levels, insurance requirements, funds to flow between the Port and the operator as well as other terms and conditions The Port would evaluate bids received in response to the RFP and enter into negotiations with the most attractive candidate Should negotiations fail, the Port could move on to negotiate with the next best qualified bidder The Port could choose to enter into a contract with one of the bidders, or, if no bids were deemed adequate, it could choose to operate the line directly

¹ It should be noted that even if there is a question about the Initial Segment's ability to generate sufficient revenue to support a stand-alone rail operation, that does not necessarily mean that there would not be entities interested in performing contract operations Many public entities owning railroad lines subsidize their respective operators (often in the form of maintenance assistance or low line use fees) in order to maintain service to on-line customers The Port could choose to do go down that well worn path if deemed necessary and appropriate

II. Mobilizing the Rail Operator

The rail operator, whether it be a third party or the Port, would need to develop a startup plan that addresses getting the necessary assets, agreements and certifications in place and ready for startup. The plan should incorporate, at a minimum, each of the following issues:

A. Employees

The new operation will need FRA-licensed engineers (49 CFR 240), qualified track inspectors (49 CFR 213.7), qualified car inspectors (49 CFR 215.11), qualified signal maintainers, conductors, maintenance of way workers, locomotive and/or car repair personnel (the number depends upon equipment repair strategy) and office staff capable of handling necessary waybilling and accounting functions. I believe that an operating shortline railroad or an individual well connected in that industry will be able to find and attract sufficient qualified personnel to commence operations. In addition, there are firms in the industry that specialize in training and certification, such as Transportation Certification Services, Inc., which also has a sister company that provides qualified railroad employees on a temporary basis. The operator always should be mindful of potential employee turnover and should establish an ongoing program to train and certify "extra" employees in the various disciplines noted.

During the time when operations are limited to the Initial Segment, the operator may choose to contract equipment maintenance and repair to CORP, Portland & Western Railroad, or another entity. The operator then would need only a utility mechanic who could service locomotives, inspect cars and perform minor repairs such as changing brake shoes. Given the relatively small scale of the Initial Segment operations, contracting out these maintenance and repair tasks would be preferable.

B. Equipment

The startup operation will need two locomotives, one or two hi-rail vehicles, and various track and shop tools. Suitable used freight locomotives are readily available in the marketplace. Similarly, securing the other items would not present a problem. It would be reasonable to assume that all track work requiring on-track equipment such as tampers or ballast regulators would be contracted out at least during operation of the Initial Segment.

C. Agreements

The new operation would need to execute agreements with Union Pacific covering trackage rights to facilitate interchange and operations in the Eugene area. CORP currently has trackage rights on UP between Danebo and Eugene Yard and Springfield Junction. The Port would want a similar level of trackage rights to 1) provide easy interchange with UP; 2) enable access to maintenance shops in the Eugene Yard² and 3) facilitate possible interchange with CORP in the Springfield Junction area.

Before the entire Line becomes operational, the Port also would need an agreement with UP regarding service on the Cordes-Coquille segment of the Line, just as CORP now enjoys.

In addition to trackage rights, the agreements with UP will have to address interchange of cars, data exchange and the operator's per-car revenue split from UP. While it is not automatic that a new operator would reach or want to reach the same terms with UP, there is no reason to believe that UP would not cooperate with a Port-sponsored operator, especially given the Port's interest in resuming service over the entire Line, which would provide significant interchange traffic to UP at Eugene.

² See my earlier Verified Statement at pages 87-88 of the Feeder Line Application.

CORP currently interchanges some Line traffic with the Portland & Western Railroad in the Eugene area. If the Port-owned railroad also interchanges traffic in this way, some coordination will be necessary between the new rail operator and the Portland & Western. This interchange could provide a potential route to the BNSF Railway.

D. Software

Software systems to handle waybilling, electronic data interchange, car accounting, revenue accounting, and/or other functions would be procured and installed by the startup date. Multiple choices tailored to shortline railroads exist. An existing operator probably would prefer a particular system or suite of systems with which it is familiar.

E. Financial Resources and Insurance

The Port has presented evidence of its financial resources and its current five million dollars of comprehensive general liability insurance, while affirming its intention to acquire appropriate additional insurance as needed. Those resources were described in the earlier Verified Statement of Jeffrey Bishop at pages 67-71 of the Feeder Line Application.

F. Customers

The new operator, or the Port on behalf of the rail operation, should enter into agreements so that both shippers and the provider of rail service are clear as to expectations and terms regarding compensation, volume commitments and service levels. The Port has been working closely with shippers over the past several months so that all parties understand what is needed to restore rail service on the entire Line. Given the tunnel deterioration and other problems on the Line, all parties need to be aware of the hurdles faced, what can be done and what needs to be done to restore service over the entire Line. Jeffrey Bishop described these efforts in his Verified Statement at pages 70-71 of the Feeder Line Application. Mr. Bishop is providing

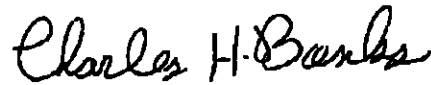
additional information regarding the Port's cooperation with shippers in his Verified Statement today

G. Regulatory - FRA and STB

Approval of the Port's purchase of the Line and the operator's intent to operate will have to be obtained from the STB. The operator will need to make preparations to comply with FRA reporting requirements with respect to accidents, employee safety and hours of service, and alcohol and drug control policy. Furthermore, the operator will be required to maintain a copy of its current code of operating rules, timetables and timetable special instructions at its headquarters and provide such information to FRA inspectors (49 CFR 217.7).

VERIFICATION

I, Charles H Banks, verify under penalty of perjury that the foregoing is true and correct based on my knowledge, information and belief Further, I certify that I am qualified and authorized to file this Supplemental Verified Statement in Finance Docket No 35160

A handwritten signature in black ink that reads "Charles H. Banks". The signature is written in a cursive style with a horizontal line underneath it.

Charles H Banks

Dated August 8, 2008