

DENNIE WHEELER, CPA

Admitted to Practice before the United States Tax Court

P.O. Box 1215
327 Highway 101, Suite 1
Bandon, OR 97411-1215

Telephone (541) 347-4037
Fax (541) 347-4072
E-mail dlwcpa@orcacomm.net
Cell phone (541) 297-7742

August 21, 2008

Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

223426

Re: STB Docket Number AB-515 (Sub-No.2). Central Oregon and Pacific Railroad, Inc. –
Abandonment and Discontinuance of Service in Coos, Douglas, and Lane Counties, Oregon.

STB Finance Docket Number 35160. Oregon International Port of Coos Bay – Feeder Line
Application Coos Bay Line of the Central Oregon and Pacific Railroad, Inc

223427

August 21, 2008 Public Hearing on the Above Two Matters

SUBSTANCE OF MY TESTIMONY BEFORE THE SURFACE TRANSPORTATION BOARD HEARING IN EUGENE, OREGON, AUGUST 21, 2008

My name is Dennie Wheeler. I am a practicing Certified Public Accountant (CPA) in Bandon, Oregon with over 30 years experience. I would like to thank the Surface Transportation Board for traveling to Eugene, Oregon to hold its August 21, 2008 public hearing. I wish to offer testimony on behalf of Danish Dairy and my CPA practice, and in support of the Oregon International Port of Coos Bay's Feeder Line Application. No client or other person is compensating me for my time. Professionally and personally, I adamantly feel that the Coos Bay rail line should remain open and become operational again. For brevity, I sometimes refer to Central Oregon and Pacific Railroad, Inc. as CORP and the Oregon International Port of Coos Bay as the Port.

TESTIMONY ON BEHALF OF DANISH DAIRY AND MY CPA PRACTICE

1. DANISH DAIRY AND THE COOS BAY RAIL LINE

Danish Dairy, LLC is an organic dairy operated by members of the Foster family. That family has run dairies for more than 70 years. Danish Dairy and its family-owned predecessors have been innovators in the dairy industry. Danish Dairy's successful application of creative ideas is exemplified by its receipt of the Oregon Department of Agriculture's 2005 Environmental Stewardship Award. The accompanying photograph of Carl Foster with his father Ellis Foster,

and the written article were downloaded from the Oregon Department of Agriculture's website. A recent picture taken at the dairy of the Foster family covering four generations is on the same attached page.

As a certified organic producer, Danish Dairy feeds organic grains that must be transported considerable distances. The least expensive and most environmental sound transportation alternative for the organic feed is by rail in covered hopper cars. The rail cars are unloaded via a portable grain elevator and grains are hauled to the dairy in Danish Dairy's own trucks. In the later part of 2006, Danish Dairy placed in service a grain shed of its own design that required almost a year to build, and cost nearly \$300,000. The grain shed has the capacity to hold the organic feed from approximately 20 rail cars in well protected surroundings. The first picture on the attached page displacing four staggered photographs shows the grain shed with a Danish Dairy truck parked in front and four members of the Foster family. The second picture shows three of ten storage bins in the interior of the grain shed. The third picture is of cattle feeding in a loafing shed prior to milking, and the fourth picture is the interior of the milking parlor.

While Danish Dairy is a minor customer in terms of rail shipments, it does serve to illustrate the viability and use of rail by smaller businesses, and provides an example of the importance of the Coos Bay line. Without the Coos Bay line the closest rail offloading site is Roseburg, which is approximately 85 miles from the dairy.

2. MY COMMENT AS A PRACTICING CERTIFIED PUBLIC ACCOUNTANT

I have a number of clients who consume propane in their businesses. All of these clients have experienced sharp increases in propane prices. One reason is that all propane must now be brought in by truck. Prior to CORP's September 2007 embargo, at least some propane was shipped in by rail. The Surface Transportation Board's August 15, 2008 Environmental Review recites that 14 carloads of propane moved over the Coos Bay line between September 2006 and August 2007. Propane is another example of an important product formerly shipped on the Coos Bay rail line.

A number of my business clients have experienced downturns in their revenues after CORP's September 2007 embargo of the Coos Bay line. I cannot definitively attribute the entire decline to the sudden and unexpected termination of rail service, but the timing suggests at least a partial cause and effect.

TESTIMONY IN SUPPORT FOR THE OREGON INTERNATIONAL PORT OF COOS BAY FEEDER LINE APPLICATION

1. THE PORT'S OFFER IS IN THE REALM OF REASONABLENESS

In its July 11, 2008 Feeder Line Application, the Port offered \$9,811,100 to acquire approximately 111 miles of railroad currently owned by CORP. The Port has stated in substance that the price is essentially scrap value, and that the line has no going concern value. I believe the Port's position that the Coos Bay line has no going concern value is well demonstrated by. (i) CORP's application for abandonment, (ii) the Coos Bay line's lack of use since September of 2007, (iii) CORP's own statements that the line is unprofitable, (iv) the need for expensive repairs to the Coos Bay line for it to become safely operable, and (v) CORP's intention to salvage the Coos Bay line if allowed to abandon it.

To glean an approximation of salvage value of material in the Coos Bay line, I searched the Internet for prices of mixed scrap rail near the time the Port filed its July 11, 2008 feeder line application. At www.scrapmetalpricesandauctions.com, I found a June 30, 2008 report listing a truck load price of \$519.00 per ton for mixed scrap rail. The less than truck load price was \$467.10 per ton. Using this June 30, 2008 price data, 222 miles of rail, i.e. twice length of the 111 miles mentioned in the Port's feeder line application, and presuming the average rail is 90 lbs per yard, this mixed scrap rail would be worth \$9,125,266 once salvaged and delivered to a buyer. The computation is:

$$\frac{(222 \text{ miles of rail}) (1,760 \text{ yards/mile}) (90 \text{ lbs/yard}) (\$519.00/\text{ton})}{2000 \text{ lbs/ton}} = \$9,125,266.$$

The approximately \$9.1 million is not reduced for salvaging or transportation costs, nor does it include other salvageable materials and/or potentially marketable right of way. I suspect the salvaging and transportation costs would be very substantial. I have been on or near several parts of CORP's Coos Bay line. My observation of the rails is that they are smaller than rails typically found on mainlines of Class I railroads. I used 90 lb per yard based on my observations.

I do not intend that these computations be considered an appraisal or expert opinion. What I do feel is that the approximation infers the reasonableness of the Port's offer.

2. ADVANTAGES OF THE PORT, WHICH IS A GOVERNMENTAL ENTITY, OWNING THE COOS BAY LINE

Because of the Port is a governmental entity, it can potentially raise money for tunnel improvements and other capital expenditures by issuing municipal bonds, the interest from which should be at least partially exempt from federal and Oregon income taxes. Furthermore, the Port can receive inter-governmental payments from either the federal government or the State of Oregon.

A monetary motivation for the federal government and the State of Oregon to financially assist the Port with the Coos Bay line is that the rail line's use would promote more business incurring

Surface Transportation Board

August 21, 2008

Page 4 of 4

less deductible transportation costs thereby raising income tax revenues. Furthermore, the U.S. Treasury and the State of Oregon might benefit from increased estate and inheritance taxes, respectively, because I strongly suspect that real property and businesses in the line's service area owned by persons who pass away will be worth more if the rail line is functional.

A major focus of the Oregon International Port of Coos Bay is to promote commerce. If the Port is allowed to acquire the Coos Bay rail line, I believe the Port will make concerted efforts to better accommodate existing rail shippers and encourage new rail business.

Very truly yours,

Dennie Wheeler, CPA

Dennie Wheeler, CPA

Attachments: Two pages

Danish Dairy, Coquille, Oregon

Reprint from: <http://www.oregon.gov/OPSW/awards/Southern.shtml>

Oregon Plan for Salmon and Watersheds

Southern Oregon and South Coast



Carl Foster

(Right) Ellis and Carl Foster use natural methods to solve problems that challenge the Danish Dairy in Coquille.

Carl Foster, Danish Dairy, Coquille
ODA Environmental Stewardship Award 2005

Highlight: Solving problems using natural methods that protect water quality

Using natural methods to solve problems is the rule of the day at the Danish Dairy. This family-operated Coquille area dairy has installed a manure lagoon and distribution system that turn a waste product into a nutrient-rich fertilizer and irrigation commodity for use on over 1,000 acres of pasture. The Fosters' well-maintained operation has also successfully used a herd of goats to control weed problems. By making the commitment and effectively using procedures that protect water quality, the Danish Dairy has excelled in helping keep the Coquille area watershed healthy.

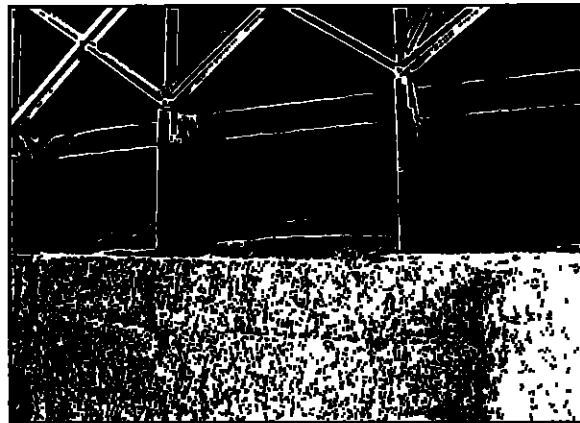


Four Generations of the Foster Family

Danish Dairy, Coquille, Oregon



Grain Shed: Built to Hold 20 Railcars of Grain



**Inside Grain Shed: Contains 10 Individual Bins
Held By Hay Bales To Separate Various Organic Grains**



**Loading Shed: Cows Feed Twice Per Day On The
Dairy's Custom Blend Of Organic Grain and Hay**



Milking Parlor: 750 Cows are Milked Twice Each Day