

BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 35187

GRAND ELK RAILROAD, LLC – LEASE AND OPERATION EXEMPTION –NORFOLK
SOUTHERN RAILWAY COMPANY

MICHIGAN STATE SENATOR RAYMOND E. BASHAM'S
COMMENTS TO THE NOTICE OF EXEMPTION

I, Raymond E. Basham, State Senator for the 8th District , respectfully submit to the Surface Transportation Board my comments with regard to Grand Elk Railroad, LLC's proposed acquisition and operation of certain rail lines currently owned and operated by Norfolk Southern Railway Company in Michigan and Indiana.

Since early 2007, I have been in communication with Norfolk Southern regarding the proposed sale or lease of its lines, including those from Grand Rapids to Kalamazoo and continuing to the Indiana border. While I firmly support efforts to grow business in the state of Michigan, I have expressed concerns about public safety, the deterioration of these tracks due to reductions in maintenance and investment, and the subsequent negative economic development impacts for captive shippers along these routes.

Unfortunately many of my original concerns remain unaddressed by this more recent proposal by Watco for the Grand Elk Railroad. First, as a result of the forced service change from Norfolk Southern (a Class I carrier with operating income in excess of \$250 million per year) to that of Watco (a Class III carrier with operating income of less than \$20 million per year), captive shippers will most assuredly see a degradation of equipment while at the same time experience an increase in shipping costs.

The change from a Class I to a Class III carrier will also affect the level of training and safety provided for the fifty-four employees Watco's Grand Elk Railroad intends on hiring. As I am sure you are well aware, Norfolk Southern is known industry-wide as the safest railroad in the country, winning the prestigious E. H. Harriman Gold Award for the safest railroad in North America a record eighteen years in a row. To the contrary, Watco subsidiaries are often among the most unsafe according to Federal Railroad Administration statistics.

Watco Transportation Services' current Dunn & Bradstreet rating of 1R4 and a credit score of 419 is also very concerning. The 1R4 rating indicates slowness in meeting trade obligations, including, but not limited to open suits, liens (including delinquent taxes in multiple states) and/or judgments. I expect their 419 credit score will severely limit their access to the significant financial resources required for the capital improvements they claim will be accomplished within the first year.

Those so called "improvements" are also a concern. Norfolk Southern currently lists the line proposed to be leased by Watco's Grand Elk Railroad as a Class 3 level track with an authorized speed of 40 mph, requiring additional safety inspections. Watco, however, only proposes to maintain this entire track as a Class 2 track, which mandates a top speed of only 25 mph and requires significantly less with regard to maintenance and safety inspections. If public safety and timely service is indeed what Watco strives for in the Grand Elk transaction, then they should be required to maintain this entire line at the Class 3 level.

The fact that an alarming number of public crossings at grade on this line have fallen into complete disrepair is only cause for additional consternation. Public safety is already being threatened. There are currently twenty-eight crossings on this line that are listed by the Michigan Department of Transportation Rail Safety Division as being "deficient" and have been placed

under order for repairs or rebuilds. Many of these crossings are listed as grossly inadequate and unsafe and immediate attention has been noted for several. The Surface Transportation Board should, at the very least, require a detailed action plan to ensure public safety and have this plan as a prerequisite for approval, if given.

Finally, I believe that this proposal will put considerable strain on two very dilapidated switching facilities: Hugart Yard (located in downtown Grand Rapids) and Botsford Yard (located in downtown Kalamazoo). Given that Norfolk Southern currently block swaps most of the traffic in these areas, it is reasonable to assume that either of these two facilities will see an increase of more than 100 percent in rail traffic. It can be expected that Watco will use both of these facilities to serve as the Grand Elk's prime switching stations. If so, the limited amount of funds they have publicly announced to rehabilitate these yards is grossly inadequate compared to the increase in volume they will see. This is dangerous considering their geographic locations within heavily populated areas.

The fact that the Bostford Yard is not set up to receive southbound freight in a safe, productive manner only makes this situation worse. As a result, any southbound moves into this terminal will require taking the train into downtown Kalamazoo and blocking several public crossings for lengthy periods in order to make a reverse move into the yard. Quite simply, it should be mandated prior to any approval from the Surface Transportation Board that Watco install a northern spur to facilitate more productive and safe movement at the Botsford Yard.

In closing I would like to express my sincere appreciation for the opportunity to formally present my comments regarding this proposed transaction. Given the serious concerns being raised it seems prudent for the Surface Transportation Board to at the very least require that an environmental impact and public safety study be completed prior to making any final decision.

Doing so will ensure that the captive shippers' and public's interests are maintained in concert with the claimed growth in business.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Raymond E. Basham". The signature is fluid and cursive, with a long horizontal stroke at the end.

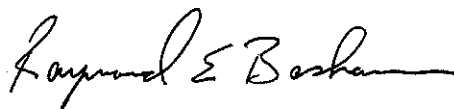
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Dated: January 12, 2009

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of January, 2009, copies of "Michigan State Senator Raymond E. Basham's Comments to the Notice of Exemption" in this proceeding were served via first-class mail, postage pre-paid, upon the following:

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Raymond E. Basham, State Senator