
Before the
INTERSTATE COMMERCE COMMISSION

Finance Docket No. 30400

SANTA FE SOUTHERN PACIFIC CORPORATION
— CONTROL —
SOUTHERN PACIFIC TRANSPORTATION COMPANY;
MERGER — THE ATCHISON, TOPEKA AND SANTA FE
RAILWAY COMPANY AND SOUTHERN PACIFIC TRANSPORTATION
COMPANY

RAILROAD MERGER APPLICATION
VOLUME 1A
SUMMARY

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VOLUME IA
SUMMARY OF APPLICATIONS
AND SUPPORTING EVIDENCE

Preface

This is a summary of the applications and supporting evidence filed by applicants in this proceeding. It describes the proposed transactions, explains the reasons for those proposals and generally describes the studies and testimony submitted to address public interest issues. To assist the Commission in analyzing the extensive materials filed herewith, reference is made to specific portions of the application and supporting evidence which are pertinent to matters contained in this summary.

The Transactions

In this proceeding Santa Fe Southern Pacific Corporation (SFSP) applies for authority to control Southern Pacific Transportation Company (SPT) and its transportation

subsidiaries. That control will be accomplished through a merger of SPT and The Atchison, Topeka and Santa Fe Railway Company (ATSF) into a newly formed, wholly owned subsidiary of SFSP, The Southern Pacific and Santa Fe Railway Company (SPSF Railway). [Immediately prior to that merger, SPT's subsidiary, St. Louis-Southwestern Railway Company (SSW) will be merged into SPT.] The SPT-SSW merger is an exempt transaction under 49 C.F.R. § 1180(2) (d). SPSF Railway applies for authority to [assume the obligations and liabilities of ATSF and SPT (including those of SSW).] Petitions for exemption also are filed with respect to the proposed control by SPSF Railway of Sunset Railway Company and Central California Traction Company (SFSP 6). A related application for trackage rights in a terminal area and a number of line abandonments also are proposed.

In addition, [SFSP applies for authority to acquire control of SPT's motor carrier subsidiaries, Pacific Motor Trucking Company (PMT), Pacific Motor Transport Company (Transport) and Louis Heller, Incorporated (Heller) (SFSP 5).] No changes in the motor carrier operations are contemplated at this time.

Events Leading to the Proposed Transactions

[In January 1980, officers of Santa Fe Industries (SFI) and Southern Pacific Company (SP) met to discuss the possibility of combining the companies. Union Pacific had just announced its intention to acquire Missouri Pacific and Western

Pacific. This would result in a powerful system serving all principal ports from the Pacific Northwest to New Orleans (except San Diego), all principal mid-continent gateways and most major traffic centers in the West. The merger of the Burlington Northern and Frisco was pending before the Commission. That merger, which seemed certain to be approved, would create a 29,000 mile system with direct routes between the Midwest and the Gulf of Mexico, access to all midcontinent gateways except New Orleans, and access to Birmingham, Alabama, as well as the southeastern ports of Mobile and Pensacola.

[The impact of these consolidations on the competitive capabilities of ATSF and SPT as independent railroads would be severe.] In addition, ATSF and SPT were facing intense intermodal competition, particularly from motor carriers. The financial performance of the two companies, and particularly SPT, in the years immediately prior to 1980 was less than satisfactory and it was apparent to [the management of the companies that efficiencies and economies would have to be achieved in order to justify the large capital investments required to sustain the railroads' service capabilities.]

Merger of the rail operations appeared to provide an opportunity to achieve a measure of competitive balance with the proposed Union Pacific and Burlington Northern systems, [as the combined 25,500-mile ATSF/SPT system would serve the major West Coast ports (except Seattle/Tacoma), all the principal mid-continent gateways, all major Texas and Louisiana Gulf

Coast ports and provide direct access to principal gateways to Mexico.] (See Exhibit 1 enclosed in the front cover of this summary.)

[Merger of ATSF and SPT also promised to afford substantial opportunities to achieve efficiencies and economies and to reduce the capital requirements of the railroads under separate ownership.]

[Combination of the extensive non-transportation properties of SFI and SP was also a critical factor in the transaction, under which SFI was proposing to acquire the stock of SP at a substantial premium. [No means were found, however, whereby SFI could fulfill its obligation to its stockholders to protect its investment in SP's non-transportation assets pending Commission proceedings to merge the transportation companies, yet enable SP to fulfill its obligation to manage those assets. As a consequence, in September, 1980 the companies terminated their attempt to combine SFI and SP.]

In the months that followed, a number of events occurred which made the merger of the rail operations of SFI and SPT imperative. The Burlington Northern Frisco merger was consummated in November 1980, and its impact on ATSF began to be felt. Valuable grain movements were lost, and ATSF lost its friendly connection with Frisco at Avarad, Oklahoma, ATSF's primary access to the Southeast. Union Pacific's consolidation was effected in December 1982, and major segments of ATSF's and SPT's traffic were now vulnerable to the substantial power of

the new Union Pacific system. In addition, motor carrier competition was becoming even more intense as a result of deregulation, increased truck sizes and weights, and wage concessions.

In October 1980, the Staggers Rail Act was passed. The contract and ratemaking provisions of the statute afford substantial competitive advantages to railroads which have broad geographic coverage and access to markets. This served to aggravate materially the impact of the Burlington Northern and Union Pacific consolidations on ATSF and SPT.

Finally, the economic downturn of 1981 and 1982 underscored the fragile nature of the earning power of ATSF, and even more so SPT. ATSF's return on net investment, which had reached a peak of 7.01% in 1980, had fallen to 2.66% in 1982. SPT, which had \$86 million in income from operations in 1980, lost \$69.5 million in 1982 and had a negative working capital of \$154.6 million.

[In the context of these events, the principal officers of SFI and SPT met in June 1983 to renew efforts to combine the holding companies and merge the rail properties.

The SFI-SP Combination

SFI and SP entered into a Combination Agreement dated October 4, 1983. Under that agreement, SFI and SP stockholders were to receive, respectively, 54% and 46% of the equity in the new holding company, Santa Fe Southern Pacific Corporation. In

order to achieve immediate combination of the non-regulated transportation properties of SFI and SP, the stock of SPT was to be placed in an independent, irrevocable voting trust immediately prior to consummation of the Combination Agreement.

Under the terms of the voting trust, which was approved by the Commission in its order served December 23, 1983, SFSP and its affiliates cannot exercise control over the management of SPT or its subsidiaries. Upon approval of the application, SPT's stock will be released to SFSP; and SFSP will cause the railroads to consummate the proposed mergers. If the Commission denies the application or imposes materially adverse conditions upon it, SFSP will be required to dispose of either ATSF or SPT.

SFI and SPT shareholders approved the Combination Agreement on December 14, 1983. The Commission, on that date, issued a temporary restraining order while it examined issues relating to the voting trust. That order was dissolved on December 23, 1983, and the Combination Agreement was consummated on that date.

Merged Operations

The Operating Plan for the merged company (Exhibit 13, Volume 5) was developed by Mr. Neal Owen of Booz, Allen & Hamilton (BAH), under the supervision of J. R. Fitzgerald and W. J. Lacy, Vice President-Operations and Vice President-Transportation of ATSF and SPT, respectively (SFSP 13). In

formulating the Operating Plan, Mr. Owen was assisted by experienced persons from both railroads, as well as other BAH analysts. In addition, Mr. Owen utilized BAH's advanced network simulation model to develop network train flows and yard/terminal switching and blocking strategies.

Details of the proposed plan are described in the testimony of Messrs Owen, Fitzgerald and Lacy. Related testimony is contained in the joint verified statements of J. F. Lynch and A. K. Pottorff (engineering projects and coordination plans), and T. D. Mason and P. D. Lively (mechanical coordinations). See SFSP 13. The Operating Plan itself contains a mass of detail including proposed new or changed TOFC and manifest train schedules, principal new routes and train flows by line segment, changes in yard and terminal operations at common points and elsewhere, rehabilitation or upgrading of existing facilities, construction of new facilities, and post-merger changes in train miles and line densities.

[Basic objectives underlying development of the Operating Plan were: (i) to establish routes that would maximize service improvements through the combined use of line segments of both railroads; (ii) to permit, through consolidation of redundant facilities, maximum integration of rail operations at the lowest possible cost; (iii) to maximize the use of well-maintained high-capacity routes, and thus avoid the need for extensive rehabilitation; (iv) to design traffic flows that

would, to the extent compatible with other objectives, balance the impact on labor forces on parallel lines; and (v) to avoid abandoning line segments where active rail shippers are currently being served.

New Trains And Improved Schedules. The Operating Plan discusses the establishment of new dedicated train service in a number of corridors. Fifteen new TOFC and perishable trains have been identified in the plan. In addition, 36 new manifest trains have been proposed, including Conrail and Southern run-throughs and a number of dedicated trains. Many of these new trains will be moving under schedules that are improved over present schedules in the same corridors. These improvements are the result of a combination of factors. First, merged ATSF-SPT traffic bases, together with new diverted traffic, will result in SPSF carload and trailer volumes in some corridors that will justify running dedicated trains that do no work en route, or additional daily trains on better schedules. Second, by using a combination of the shortest and/or highest capacity lines of both SPT and ATSF to develop new internal routes, witness Owen and his team of railroad and BAH analysts, using the network simulation model, have been able to create improved train flows and schedules in a number of corridors, and simultaneously, move a greater volume of traffic.

In summary, the Operating Plan promises the shipping public a broader geographic range of service, more dedicated

trains, faster or additional train schedules in many corridors, and increased capacity that should enhance service reliability.

7 Cost Savings Flowing From Operating Plan.* The SPSF plan of operation substantially influences Mechanical Department and Engineering Department organization, facilities, functions, and work forces; and it has a direct impact on the use of the combined equipment fleet of the two companies.

As a result, the benefits of the merger involve not only new trains, better schedules and improved service reliability, but also efficiencies and cost savings from operations-related areas: mechanical and engineering coordinations; and improved equipment utilization. Following are some of the cost benefits:

° Internal Reroute Efficiencies. Because of the ability of the new system to move traffic over more efficient internal routes, the network simulation model was able to identify and quantify reductions in car, train, locomotive, and gross ton miles of 1.1, 2.1, 2.6, and 1.3 percent, respectively. While small on their face, the train mile and car mile reductions translate into significant savings -- nearly \$60 million annually -- due principally to reduced fuel consumption, maintenance costs and labor savings.

° Other Operating Efficiencies. Increased efficiency of the merged system will result in a net reduction of 18 local freight assignments and 37 yard/terminal switch engine shifts.

* A summary of the economic benefits after full implementation of the merger appears in Appendix I below.

This will translate into operating savings of about \$25 million annually.

° Engineering and Mechanical Coordinations. Combined rail operations in fewer yards and terminals will result in a reduction in the number of mechanical facilities required to support train operations. In addition, savings will result from consolidating certain mechanical functions in more efficient shops of one railroad or the other. / Engineering and maintenance savings will result from a variety of coordination projects such as expansion of ATSF's tie-treating plant to provide ties for the entire merged system; use of SPT's ballast sources to supply the new railroad; and use of ATSF's more efficient rail welding facility at Amarillo, Texas. It is estimated that these and other mechanical and engineering coordinations will generate savings of about \$40 million each year.

° Recurring Equipment-Related Savings. Applicants have conducted numerous studies and analyses to determine savings the merged system will achieve as a consequence of more efficient equipment distribution, use of more efficient routes, and enhanced equipment availability. Most of these savings are of the one-time-only type, and will be discussed below. However, the studies reflect that some recurring savings will be generated also. These amount to approximately \$25 million annually.

° Avoided Capital Expenditures. The consolidation of railroads that parallel each other in some areas and that are

structurally and functionally similar, provides many opportunities to avoid capital expenditures planned for the future. For example, SPT has been planning substantial capital expenditures -- in excess of \$140 million over five years -- to upgrade and expand the capacity of its single-track route between Los Angeles and Kansas City. The Operating Plan would transfer a substantial volume of that traffic to ATSF's double-track route. As a result, the merged railroad will not need the additional capacity on SPT's route and will avoid a planned capital expenditure of about \$142 million. Applicants have identified over one hundred operations-related capital projects that can be avoided as a consequence of the merger. In addition, there will be substantial capital expenditures avoided in mechanical, engineering and other areas. The total capital savings in this category amount to approximately \$308 million.

On the other hand, applicants estimate spending approximately \$146 million in capital expenditures to facilitate operating, mechanical, engineering and other coordination plans. For example, applicants estimate spending approximately \$98 million in operating plant improvements such as construction of track connections, yard expansion, and upgrading of certain line segments, to ensure efficient rail operations over the combined system.

° Non-Recurring Equipment Utilization Savings. The verified statement of John Winner describes non-recurring cost efficiencies to be derived from combining the SPT and ATSF equipment fleets (SFSP 13). Applicants' equipment studies, which were directed by witness Winner, identified four categories of benefits the merged system would be able to achieve through more efficient utilization of rail cars and locomotives. One important group of benefits would result from "peak use balancing," or the smoothing out of each carrier's peak loading periods through the combination of ATSF's and SPT's customer bases. This balancing of demand for equipment would have permitted the merged carrier to handle its 1982 traffic by using 2,634 fewer cars. "Network" improvements described by Mr. Owen would enable SPSF to improve significantly car and locomotive utilization. These improvements include use of shorter routes, reduced terminal handlings, and higher train velocities. Using a complex linear programming process, Mr. Winner measured reductions in empty car miles which would occur because of improved distribution of system cars over the merged carrier; these reduced empty miles translate into lower fleet requirements and lower operating costs. Working with car distribution groups from both railroads, Mr. Winner also found that the merged carrier could realize savings from sharing equipment of various types. Such cooperative actions would permit SPSF to avoid purchasing new

equipment. Grouping all categories of improved equipment utilization opportunities, Mr. Winner's testimony reflects that the merged company will achieve non-recurring savings of about \$360 million.

These non-recurring savings, added to the avoided capital expenditures of \$308 million, give a total projected capital savings of approximately \$668 million, which, offset by the estimated capital expenditures to facilitate coordination plans, result in net capital expenditures avoided of approximately \$521 million, as summarized in Appendix I.

Non-Operating and Miscellaneous Savings

A study of potential non-operating or overhead savings and certain miscellaneous savings was coordinated by R. M. Champion, Jr. The study included the executive, traffic, accounting, operating and other staff departments as set forth in Mr. Champion's testimony. These annual savings upon full implementation of the merger were found to be in excess of \$68 million. In addition, annual savings of over \$6 million from coordination of information systems functions are described in the testimony of W. L. Paul and J. M. Graziani (SFSP 12).

Service Improvements

Substantial service improvements will result from the merger, which has the characteristics of both an end-to-end and a regional consolidation. The extension of service to Mississippi River gateway points (St. Louis, Memphis, and New

Orleans), Portland, and additional Mexican border crossings for ATSF, and the extension of service to Chicago and Denver, plus a north-south route to Kansas City for SPT, are the principal end-to-end advantages. Included in the regional aspects of the proposal are improved route efficiency and increased service concentration in California, Arizona, New Mexico, Texas, and Kansas. Both aspects of the proposal will extend single line service, broaden market coverage, improve rail service, improve equipment availability, and rationalize the use of operating routes and facilities. In terms of the top 75 western population centers and/or freight traffic generation areas, SPSF Railway will bring efficiencies and new single line service to more than 650 station pairs.

Improved transit time and overall operating performance, reduced loss and damage, improved equipment supply, and an improved response to changing market conditions will benefit all present customers. With respect to some of the major industrial/commodity areas served, the following benefits are expected:

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- The East Texas and California paper industries will benefit from SPSF's greater competition with trucks for inbound raw materials and outbound paper products.
 - The automotive industry will see improved transit time and reliability due to greater system-wide single line market coverage, and as a consequence of planned

investment in a new automobile unloading facility near Willow Springs, Illinois. The new merged system's greater scope of service and reliability will favorably affect these shippers' inventory control and costs.

- The Arizona and New Mexico copper industry will experience more fluid marketing and production channels and improved service, which will contribute to its efforts to compete against imports.
- ATSF's route structure, linked with SPT's coverage of lumber production areas in Northern California and Oregon, will better position those shippers to compete in the Southwest and Midwest against Canadian lumber producers.
- For southeastern New Mexico potash shippers, the proposed merger will expand single line service to the Mississippi River and should result in increased rail-barge distribution, reduced distribution costs, improved product flow and better market positions.
- The Gulf Coast chemical industry will see more vigorous rail competition for traffic from ATSF-served plants moving to Southeastern and Eastern markets. The same will be true for shippers at SPT-served plants shipping to Kansas City, Chicago and the Great Lakes Region.
- The SPSF Railway will improve grain shipper access to more foreign and domestic markets by linking expanded

growing areas, transit points, ports, and Mexican border crossings via single line service.

- Farm machinery manufacturers will see their distribution systems more broadly encompassed by expanded SPSF routes in Texas, Arizona, and California, allowing for expanded rail-truck distribution in competition with direct truck handling.
- With respect to the food and beverage industry, ATSF-served California shippers will have single line service to the Mississippi river gateways, while SPT-served shippers will gain single line service to Chicago.
- A more expansive SPSF Railway system will be of particular benefit to present intermodal shippers (TOFC/COFC) but will be of greater general strategic importance as intermodal distribution increases for an ever widening array of products and commodities. The new merged network will offer 32 new single system mechanized ramp pairs.
- Perishable shippers will benefit from expansion of ATSF's highly successful Plan III concept which has been instrumental in renewed, vigorous rail competition for what had been an almost completely truck dominated market. Improved schedules will encourage expansion of service to both Northeastern and Southeastern gateways.

Abandonments

The merger will permit abandonment of 146.6 miles of track which will no longer be needed for train operations following implementation of the SPSF Operating Plan. The segments to be abandoned are:

<u>ATSF</u>	<u>Miles</u>
a. Collier (MP 1179.1) - Maltby (MP 1166.9), CA	12.2
b. Figarden (MP 1007.0) - Hammond (MP 1001.0), CA	6.0
c. Corcoran (MP 1.0) - Visalia (MP 23.0), CA	22.0
d. Visalia (MP 26.0) Calgro (MP 36.0), CA	10.0
e. Wharton (MP 42.7) - Rayner Junction (MP 19.9), TX	22.8
f. Eagle Lake (MP 16.0) - Sealy (MP 1.0), TX	15.0
<u>SPT</u>	
a. Goshen Jct. (MP 240) - Hanford (MP 251.5), CA	11.5
b. Colton (MP 538.9) - Riverside (MP 545.4), CA	6.5
c. Texas City (MP 46.8 to MP 56.6), TX	7.6
d. Wharton Jct. (MP 2.0) - Bay City (MP 35.0), TX	33.0
TOTAL	146.6

After experience is gained under the Operating Plan, further abandonments of railroad facilities will be pursued where economies can be achieved without undue adverse effects on rail service or shippers.

Market Impact Analyses

The application and supporting statements contain extensive analyses of market impact and the effect of the

merger on competition. Detailed studies have been conducted in the following areas:

- Traffic gains from competing railroads
- Traffic gains from motor carriers
- Shippers' transportation options
- Shippers' benefits from the transaction
- Participation shares in relevant traffic flows

In addition, the application is supported by two well known and respected economists, William Baumol and Paul MacAvoy.

Rail Traffic Diversion

Rail traffic diversion studies were based upon a computer model designed by DNS Associates in conjunction with ATSF and SPT marketing officers. The data base consisted of the Commission's 1982 Waybill Sample enhanced by a slightly greater than 10% sample of ATSF and SPT 1982 traffic. The rail traffic diversion study is explained in the testimony of Robert Keyes, Newton Swain, R. R. Reyff, F. M. Guerin and K. E. Medley (SFSP 14).

The study projects that the merged system will gain \$221.2 million in annual gross freight revenues based on 1982 data. About \$90 million of this gain will result from traffic diverted from Union Pacific and about \$42 million of the gain will result from traffic diverted from Burlington Northern, confirming applicants' proposition that the merger will help restore a more balanced level of competition among the principal western rail systems.

Costs were applied to the diverted movements, and a net revenue gain of \$65.9 million is projected when the merger is fully implemented. Joint verified statement of J. Darling and T. Sjostrand (SFSP 12). Projected rail traffic diversions also were calculated to save rail shippers on a national basis over 6.4 million loaded car miles annually, enabling shippers to avoid over 413,000 carload interchanges each year for about 19,350,000 tons of freight traffic.

Truck Traffic Diversion

A truck-to-rail traffic diversion study was conducted using Reebie Associates' truck diversion model with input from ATSF and SPT marketing officers. The study is explained in the testimony of Carl Liba and A. J. Lawson (SFSP 14). The study projects a gross revenue gain of \$45.4 million annually, confirming the fact that the merger will make the merged rail system more competitive for truck traffic. The net revenue gain from this diverted traffic is estimated at \$7.5 million annually. Truck diversions also will result in saving nearly four million gallons of fuel consumption each year.

Shippers' Transportation Options Study

An evaluation of whether the proposed merger of these railroads would reduce transportation options for rail shippers in the Santa Fe and Southern Pacific service region was performed by Temple, Barker and Sloane, as described in the testimony of David L. Anderson and James D. O'Connell (SFSP 16

and 17). The study defines those points and areas which are commonly served, examines those areas, and determines the role of rail and other mode transportation in area industries. The study then evaluates the current transportation options for rail shippers at these locations.

Overall, TBS found that shippers of only 3 million tons (or less than 2 percent) of the approximately 168 million tons in the combined ATSF-SPT rail system potentially could be without sufficient logistics options after the merger. For those 3 million tons, TBS, with the assistance of Transportation Research and Marketing (TRAM), was able to confirm the existence of sufficient other logistics options for 1.9 million tons. Thus, shippers of only 1.1 million tons, or less than 1 percent of the combined ATSF-SPT 1982 system tonnage, were not found to have sufficient logistics options after the merger.

The testimony of Forrest Baker of TRAM describes the pervasive presence of motor carrier service in the SPSF service territory, and the availability of truck service as well as its ease of substitutability for rail service. (SFSP 18). The strong presence of motor carriers in these regions also is confirmed by the traffic flow participation data (SFSP 19 and 20).

Economists' Testimony

The testimony of the Dr. William J. Baumol (SFSP 18) reviews the basic principles of economic analysis which should

be applied to an evaluation of this merger, the criteria which are appropriate for determining whether such a merger can be expected to yield net benefits to the consuming public, and why an efficiency enhancing merger yields such benefits.

Dr. Baumol describes the proper way in which the concepts of "market power" and the "market" should be viewed in the context of this merger, and how firms are in the same market if the presence of either constrains the price setting options of the other. He explains that there is no clear boundary to a given market, but rather, real markets are "continua" with the price constraining effects of competitors only gradually attenuating as one moves to less and less perfect substitutes. For transportation, this means that the transportation market is a very broad one reflecting the many competitive restraints of the same and competing modes of transportation, as well as the competition of alternative sources of supply.

Dr. Baumol describes the contestability of most real transportation markets where a railroad's rivals are not only other railroads, but trucks, barges and even ocean-going vessels. Trucks, for example, constitute the ultimate in capital mobility and ease of entry into and exit from any given geographic market. In markets served by trucks or water carriers, noncompetitive pricing is effectively precluded.

In this environment, the enhanced efficiency of the merged firm, reflected in both operating and non-operating

savings, will contribute to the competitiveness of the nation's transportation network. Another reflection of this enhanced efficiency and competitiveness are the projections of diversion of new traffic to the merged system. A consolidation of this sort is a case in which a reduction in the number of competitors increases the strength of competition. Competition is strengthened by the increase in efficiency--reflecting benefits that the contestability of transportation markets will necessarily extend to the users of this network.

The testimony of Dr. Paul W. MacAvoy (SFSP 18) also reviews the economic principles appropriate for an analysis of this merger. Dr. MacAvoy describes the competitive characteristics of the transportation industry, and in particular, the extent to which trucks and other modes of transportation provide meaningful competition to rails. He explains that because intermodal competition has become increasingly intense over time, the recognition of its impact on rails is crucial in evaluating the proposed merger, and that this view is consistent both with economic theory and with the merger guidelines which were established by the Department of Justice and Federal Trade Commission.

Dr. MacAvoy also examines the future of the railroads, and how the increasingly intense competition in the transportation industry has threatened the viability of the railroad network. In order to survive, railroads must realize

greater operating efficiencies. The increasing number of rail mergers in recent years, which has resulted in the formation of "mega-rails systems" such as the Union Pacific System and the Burlington Northern, are a natural development toward that end. This merger is analogous to other recent large rail mergers as two rail companies seek to improve their efficiency and, in turn, improve their competitive position compared to competing mega-rails and other modes of transportation.

Dr. MacAvoy also presents an economic method for performing a welfare analysis based directly on benefits and costs of the proposed merger, and uses such a framework to weigh the net benefits and costs which are likely to arise from the proposed consolidation. The social benefits include the substantial operating efficiencies anticipated from the merger. Not only do these cost savings reduce the resources necessary to ship a given level of tons by rail, but improved service, resulting in significant traffic diversion, will enhance interrail and intermodal competition across the majority of broad transportation markets.

From the standpoint of costs to society through the potential increase in SPSF market power, which theoretically could give rise to a potential ability to raise rail rates above competitive levels, [the merger will result in little or no increase in market power because the consolidated railroad still will face, after merger, sufficient competition to

constrain its ability to raise rail rates. Gains to society generated by the merger will far outweigh any potential loss of competitive transportation options. Rather, this consolidation will enhance efficiency, improve the competitive structure and viability of the rail industry, and offer substantial service improvements to shippers.

Shippers' Competitive Benefits

The verified statements contained in volume SFSP 15, Independent Analyses of Shipper Benefits, prepared by Kearney: Management Consultants, provide detailed analyses of shipper benefits by commodity group (i.e., automotive, cotton, food and beverage, grain, intermodal/perishables, machinery, petrochemicals, and bulk and neo-bulk). The verified statement of Lester K. Kloss of Kearney: Management Consultants (SFSP 15, Statement 1) summarizes shipper benefits in general. The benefits are categorized into nine areas:

- (1) Lower long-term relative rate levels due to increased operational efficiency of the merged system, resulting in reduced cost of providing transportation;
- (2) Improved transit time reliability, resulting in reduced shipper warehouse cost and reduced inventory carrying cost;
- (3) Improved transit time speed, resulting in reduced inventory carrying cost, warehousing costs and private car operating costs for shippers;

- (4) Improved continuity of service resulting from the strengthened financial position of ATSF and SPT;
- (5) Improved equipment supply and utilization;
- (6) Reduced loss and damage to commodities;
- (7) Improved responsiveness of merged system in pricing under Staggers Act, enabling shippers to market their products on a more timely basis;
- (8) Improved administration for tracing shipments, processing freight claims, and the like; and
- (9) Expanded single system service, enabling shippers of each railroad to improve their market access through new gateways and to new regions.

Consequently, the study concludes that the merger will permit shippers served by the new merged rail system to enter new markets and to improve their market positions in markets where they now compete.

Traffic Flow Participation Share

Presented in volumes SFSP 19 and 20 are comprehensive data concerning all intraregional and interregional traffic flows which could be affected by this merger, including virtually all flows in which ATSF, SPT, or both, participate today. These data show the participation shares of ATSF/SPT for each traffic flow between and within the various regions of the United States. Also shown are the participation shares of other major rail carriers and other transportation modes in

each traffic flow. These data are explained and analyzed in the verified statements of R. R. Reyff and Carl Liba (SFSP 18). They reflect the pervasiveness of intermodal competition in relevant markets and the minimal impact of this transaction on concentration in those markets.

Shipper Support

330 verified statements of shippers supporting the merger are filed with the application (SFSP 7 through SFSP 11). They represent a cross section of almost every geographical, industrial and agricultural element of the shipping community. Their statements confirm in detail the results of the market and competitive analyses and underscore the importance of the service benefits that the merged system will be able to provide.

Conclusion

The application and supporting evidence demonstrates that the merger will result in substantial service improvements, economies and efficiencies, and will have a positive effect on competition.

APPENDIX I

SUMMARY OF BENEFITS

FOLLOWING FULL

IMPLEMENTATION

	<u>Annual Benefits (Millions)</u>	<u>Capital* Avoided (Millions)</u>	<u>Capital Required (Millions)</u>
Net gains from diverted rail traffic	\$65.9		
Net gains from diverted truck traffic	7.5		
Internal reroutes	57.6		
Yard and local switching	25.3		
Equipment utilization	24.8		
Engineering coordinations	27.0	\$ 0.6	\$ 6.9
Mechanical coordinations	12.6	63.6	41.8
Non-operating and miscellaneous	68.0	5.2	
Information systems	6.3		
Rehabilitation, expansion and track connections			98.0
Avoided capital projects	<u> </u>	<u>203.1</u>	<u> </u>
	\$295.0	\$272.5	\$146.7
Longer Term Avoided Capital Expenditures		<u>\$395.3</u>	
Total Capital Avoided		\$667.8	
Capital Required		<u>(\$146.7)</u>	
Net Capital Expenditures Avoided		\$521.1	
Net Capital Expenditures Avoided In First Three Years		\$125.8	

* First three years

