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BALL JANIK LLP

A T T O R N E Y S

1455 F STREET, NW, SUITE 225
WASHINGTON, D.C. 20005

www.balljanik.com

TELEPHONE 202-638-3307
FACSIMILE 202-783-6947

AUG 2 2005
RECEIVED

August 2, 2005

BY HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W., Suite 715
Washington, DC 20423-0001

FEE RECEIVED

AUG 2 2005

**SURFACE
TRANSPORTATION BOARD**

Re: Finance Docket No. 34736, Watco Companies – Continuance In Control
Exemption – Yellowstone Valley Railroad, Inc.

Dear Secretary Williams:

Attached for filing are the original and ten copies of a Verified Notice of
Exemption under 49 C.F.R. § 1180.2(d)(2), and a check covering the \$1,100 filing fee.

Please time and date stamp the extra copy of the Verified Notice of Exemption
and return it with our messenger.

If you have any questions, please call me.

Sincerely,



Karl Morell

Enclosures

ENTERED
Office of Proceedings
AUG 3 2005
Part of
Public Record

FILED
AUG 2 - 2005
**SURFACE
TRANSPORTATION BOARD**

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 34736

WATCO COMPANIES, INC.
--CONTINUANCE IN CONTROL EXEMPTION--
YELLOWSTONE VALLEY RAILROAD, INC.

VERIFIED NOTICE OF EXEMPTION
Pursuant to 49 C.F.R. § 1180.2(d)(2)

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TRANSPORTATION BOARD

FILED

AUG 2 - 2005

SURFACE
TRANSPORTATION BOARD

ENTERED
Office of Proceedings
AUG 3 2005

Part of
Public Record

KARL MORELL
Of Counsel
BALL JANIK LLP
Suite 225
1455 F Street, N.W.
Washington, D.C. 20005
(202) 638-3307

Attorney for:
WATCO COMPANIES, INC.

Dated: August 2, 2005

BEFORE THE
SURFACE TRANSPORTATION BOARD

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FINANCE DOCKET NO. 34736

WATCO COMPANIES, INC.
--CONTINUANCE IN CONTROL EXEMPTION--
YELLOWSTONE VALLEY RAILROAD, INC.

VERIFIED NOTICE OF EXEMPTION
Pursuant to 49 C.F.R. § 1180.2(d)(2)

Watco Companies, Inc. ("Watco") files this Notice of Exemption, pursuant to 49 C.F.R. § 1180.2(d)(2), for Watco to continue in control of the Yellowstone Valley Railroad, Inc. ("YVRR"), a non-carrier, upon YVRR's becoming a Class III railroad. In support of this Notice of Exemption, Watco submits the following information as required by 49 C.F.R. § 1180.4(g):

Section 1180.6(a)

- (1) A description of the proposed transaction.
 - (i) A brief summary of the proposed transaction, the name of applicants, their business address, telephone number, and the name of counsel to whom questions regarding the proposed transaction can be addressed.

Watco, a non-carrier, is a Kansas corporation which currently controls twelve (12) Class III railroads operating in thirteen States. Watco also owns 100 percent of the issued and outstanding stock of YVRR. YVRR, an Idaho corporation, is a non-carrier that was formed for the purpose of leasing two rail lines owned by BNSF Railway Company ("BNSF"). Concurrently with the filing of this Notice of Exemption, YVRR is filing a Notice of Exemption in STB Finance Docket No. 34737, *Yellowstone Valley Railroad, Inc. – Lease and Operation*

Exemption – BNSF Railway Company, under 49 C.F.R. § 1150.31, to lease and operate the two rail lines. Upon consummation of the transaction in STB Finance Docket No. 34737, YVRR will become a Class III carrier.

Watco also controls, through stock ownership and management, the South Kansas and Oklahoma Railroad Company ("SKO"), Palouse River & Coulee City Railroad, Inc. ("PRCC"), the Timber Rock Railroad, Inc. ("TIBR"), the Stillwater Central Railroad, Inc. ("SLWC"), the Eastern Idaho Railroad, Inc. ("EIRR"), Kansas & Oklahoma Railroad, Inc. ("K&O"), the Pennsylvania Southwestern Railroad, Inc. ("PSWR"), the Great Northwest Railroad, Inc. ("GNR"), the Kaw River Railroad, Inc. ("KRR"), the Mission Mountain Railroad, Inc. ("MMT"), the Appalachian & Ohio Railroad, Inc. ("AO") and the Mississippi Southern Railroad, Inc. ("MSRR"). SKO, PRCC, TIBR, SLWC, EIRR, K&O, PSWR, GNR, KRR, MMT, AO and MSRR are Class III carriers which operate rail lines in thirteen States.

The rail lines operated by SKO, PRCC, TIBR, SLWC, EIRR, K&O, PSWR, GNR, KRR, MMT, AO and MSRR do not connect with the rail lines being leased by YVRR. The rail lines being leased by YVRR are located in the State of Montana. MMT also owns and leases two rail lines in the State of Montana. MMT's lines, however, are located in northwest Montana whereas the rail lines being leased by YVRR are located in northeast Montana.

Also, the involved transaction is not part of a series of anticipated transactions that would connect the rail lines being leased by YVRR with any railroad in the Watco corporate family. Finally, neither YVRR nor any of the carriers controlled by Watco are Class I rail carriers. Accordingly, this transaction falls within the class of transactions described at 49 C.F.R. § 1180.2(d)(2), and exempt from prior approval by the Surface Transportation Board ("Board").

The name and business address of Applicants are as follows:

Watco Companies, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

Yellowstone Valley Railroad, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

Mississippi Southern Railroad, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

Appalachian & Ohio Railroad, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

Mission Mountain Railroad, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

South Kansas and Oklahoma Railroad Company
123 N. Depot
Cherryvale, KS 67335

Palouse River & Coulee City Railroad, Inc.
325 Mill Road
Lewiston, ID 83501

Timber Rock Railroad, Inc.
505 West Avenue F
Silsbee, TX 77656

Stillwater Central Railroad, Inc.
123 N. Depot
Cherryvale, KS 67335

Eastern Idaho Railroad, Inc.
618 Shoshone St. West
Twin Falls, ID 83301

Kansas & Oklahoma Railroad, Inc.
1825 W. Harry
Wichita, KS 67213

Pennsylvania Southwestern Railroad, Inc.
1200 Midland Avenue
Midland, PA 15059

Great Northwest Railroad, Inc.
325 Mill Road
Lewiston, ID 83501

Kaw River Railroad, Inc.
315 W. 3rd Street
Pittsburg, KS 66762

Applicants' representative:

Karl Morell
Of Counsel
Ball Janik LLP
1455 F Street, N.W.
Suite 225
Washington, D.C. 20005
(202) 638-3307

- (ii) The proposed time schedule for consummation of the proposed transaction.

Watco intends to consummate this transaction on or shortly after August 9, 2005.

- (iii) The purpose sought to be accomplished by the proposed transaction.

Watco intends to reduce overhead expenses, coordinate billing, maintenance, mechanical and personnel policies and practices of its rail carrier subsidiaries and thereby improve the overall efficiency of rail service provided by the thirteen railroads.

- (5) A list of the State(s) in which any part of the property of each applicant carrier is situated.

SKO's lines are located in Missouri, Kansas and Oklahoma.

EIRR's lines are located in Idaho.

PRCC's lines are located in Washington, Oregon and Idaho.

TIBR's lines are located in Texas and Louisiana.

SLWC's lines are located in Oklahoma.

K&O's lines are located in Kansas and Colorado.

PSWR's line is located in Pennsylvania.

GNR's lines are located in Idaho and Washington.

KRR's lines are located in Kansas and Missouri.

MMT's lines are located in Montana.

AO's lines are located in West Virginia.

MSRR's line is located in Mississippi.

Upon leasing the BNSF rail lines, YVRR will lease and operate two rail lines in Montana.

(6) Map.

Maps illustrating the rail lines of SKO, PRCC, TIBR, SLWC, EIRR, K&O, PSWR, GNR, KRR, MMT, AO and MSRR and the rail lines to be leased by YVRR are attached as Exhibit 1.

(7)(ii) Agreement.

Watco will not enter into any agreement, or sign any written instrument, to continue in control of YVRR.

Because SKO, PRCC, TIBR, SLWC, EIRR, K&O, PSWR, GNR, KRR, MMT, AO and MSRR are Class III carriers and YVRR will become a Class III rail carrier upon the lease of the rail lines from BNSF, no labor protection may be imposed on this transaction pursuant to 49 U.S.C. § 11326(c).

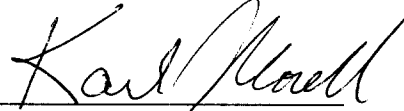
ENVIRONMENTAL AND HISTORIC IMPACTS

Watco will continue to control YVRR for the purpose of continued rail operations where further Board approval is required to abandon or discontinue any service, and there are no plans to dispose of or alter properties subject to the Board's jurisdiction that are 50 years old or older. Hence, this Notice of Exemption does not require an historic report under 49 C.F.R. § 1105.8(b)(1).

Watco's continuance in control of YVRR will not result in significant changes in carrier operations. There will not be a diversion of: (1) more than 1,000 rail carloads a year to motor carriage; or (2) an average of 50 carloads per mile per year for any part of these lines to motor carriage. This transaction will not result in: (1) an increase in rail traffic of at least 100 percent or an increase of at least eight trains a day on any segment of the lines; (2) an increase of rail yard activity of at least 100 percent; or (3) an average increase in truck traffic of more than 10 percent of the average daily traffic or 50 vehicles a day. This transaction will not affect a Class I or nonattainment area under the Clean Air Act. In any event, the thresholds of 49 C.F.R. § 1105.7(e)(5)(ii) will not be exceeded. Finally, this transaction does not contemplate the transportation of any ozone depleting materials. Therefore, no environmental documentation is required under 49 C.F.R. § 1105.6(c)(2).

This action will not significantly affect either the quality of the human environment or energy conservation.

Respectfully submitted,

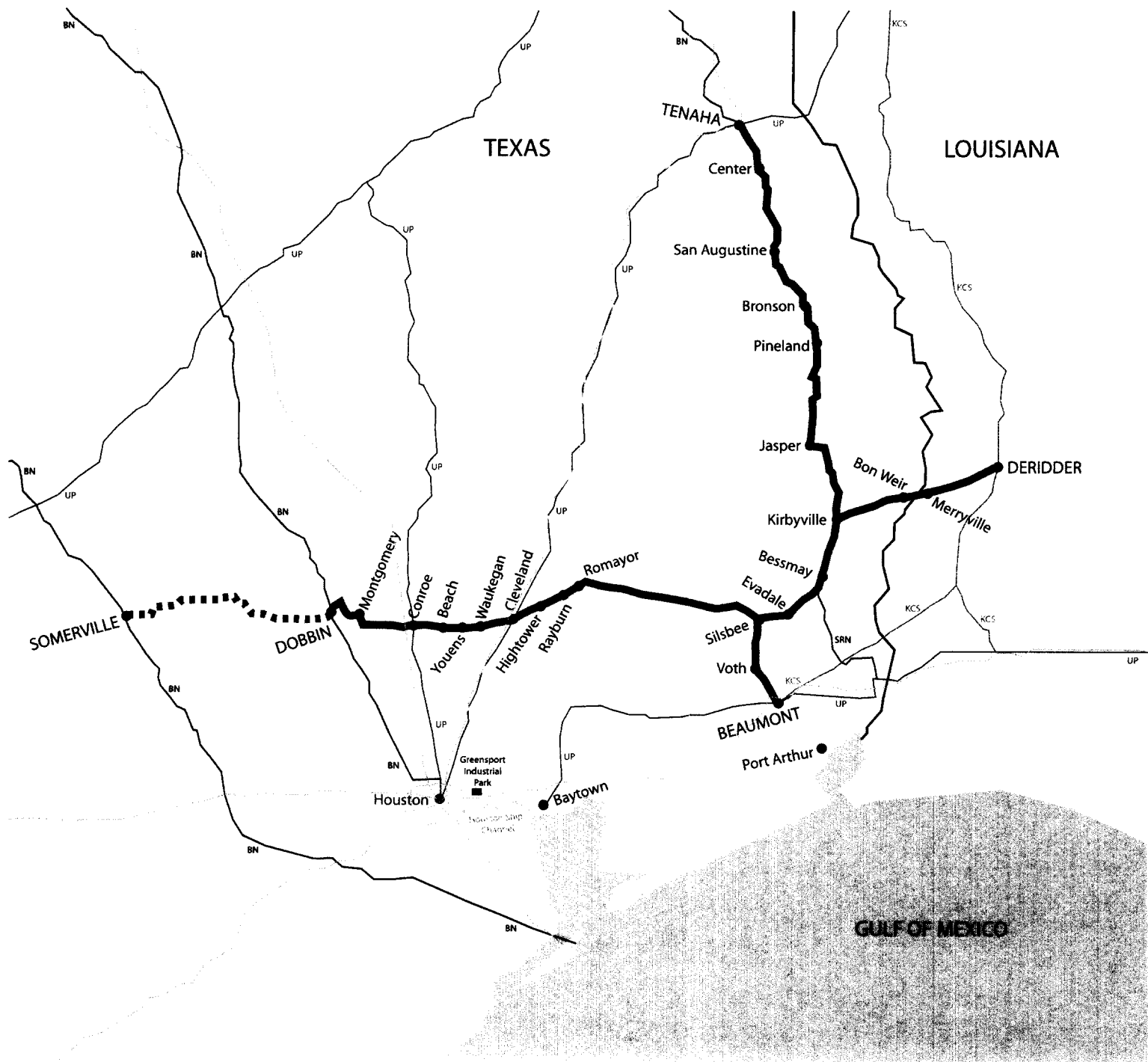
A handwritten signature in cursive script, appearing to read "Karl Morell", written over a horizontal line.

KARL MORELL
Of Counsel
BALL JANIK LLP
1455 F Street, N.W.
Suite 225
Washington, D.C. 20005
(202) 638-3307

Attorney for:
WATCO COMPANIES, INC.

Dated: August 2, 2005

EXHIBIT 1



LEGEND:

Timber Rock RR (TBR)

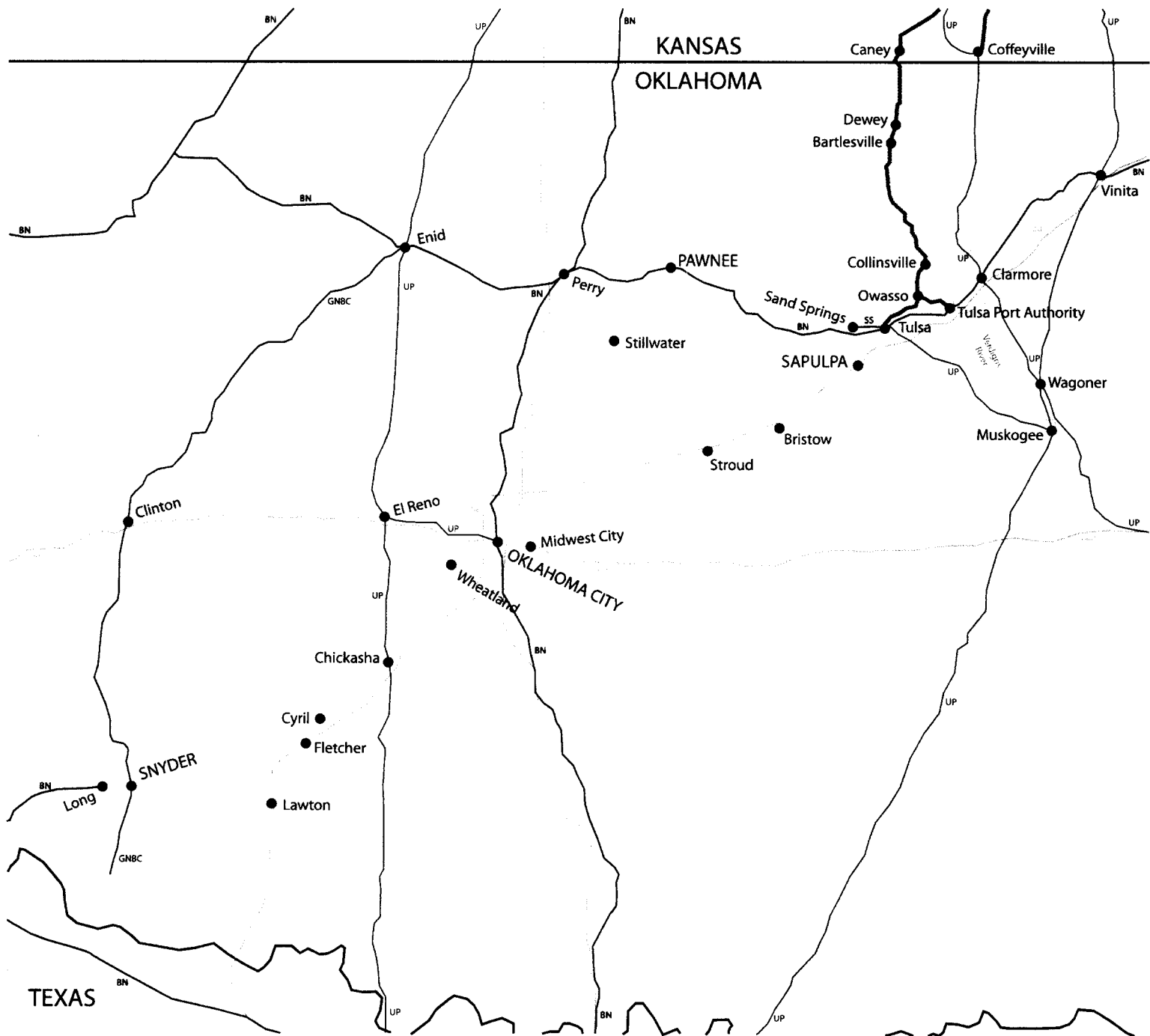
Timber Rock Trackage Rights



Interchanges

BNSF - Tenaha, Beaumont, Somerville, Dobbin

KCS - DeRidder



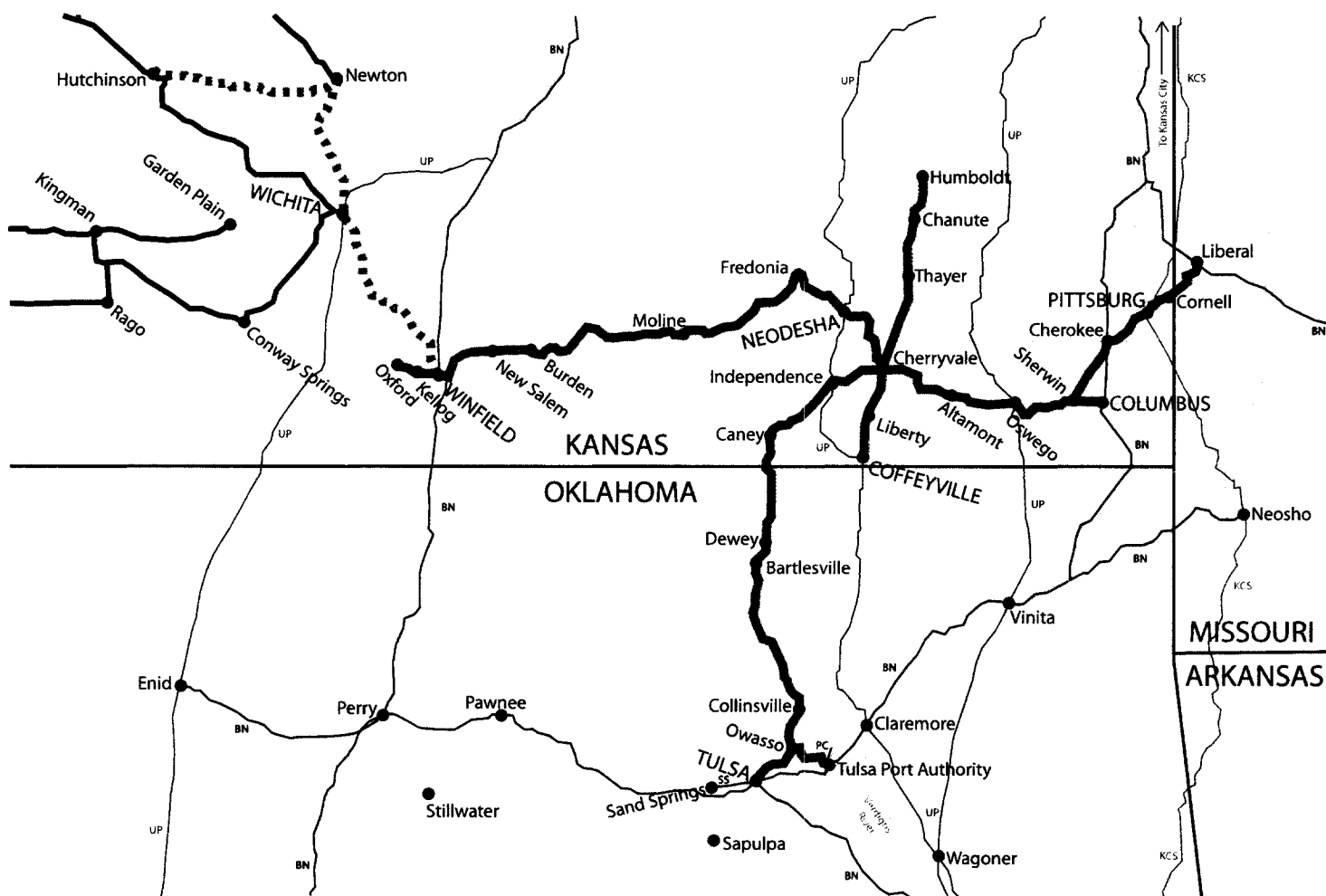
LEGEND:

Stillwater Central Railroad (SLWC)
 Stillwater Central Trackage Rights (SKOL)
 South Kansas & Oklahoma RR (SKOL)
 Sand Springs RR (SS)
 Grainbelt Corporation (GNBC)



Interchanges

UP - Oklahoma City
 BNSF - Pawnee, Sapulpa, Oklahoma City, Snyder
 GNBC - Snyder



LEGEND:

South Kansas & Oklahoma RR (SKOL)

South Kansas & Oklahoma Trackage Rights

Kansas & Oklahoma RR (KOR)

Stillwater Central RR (SLWC)

Stillwater Central Trackage Rights

Sand Springs RR (SS)

Tulsa's Port of Catoosa (PC)



Interchanges

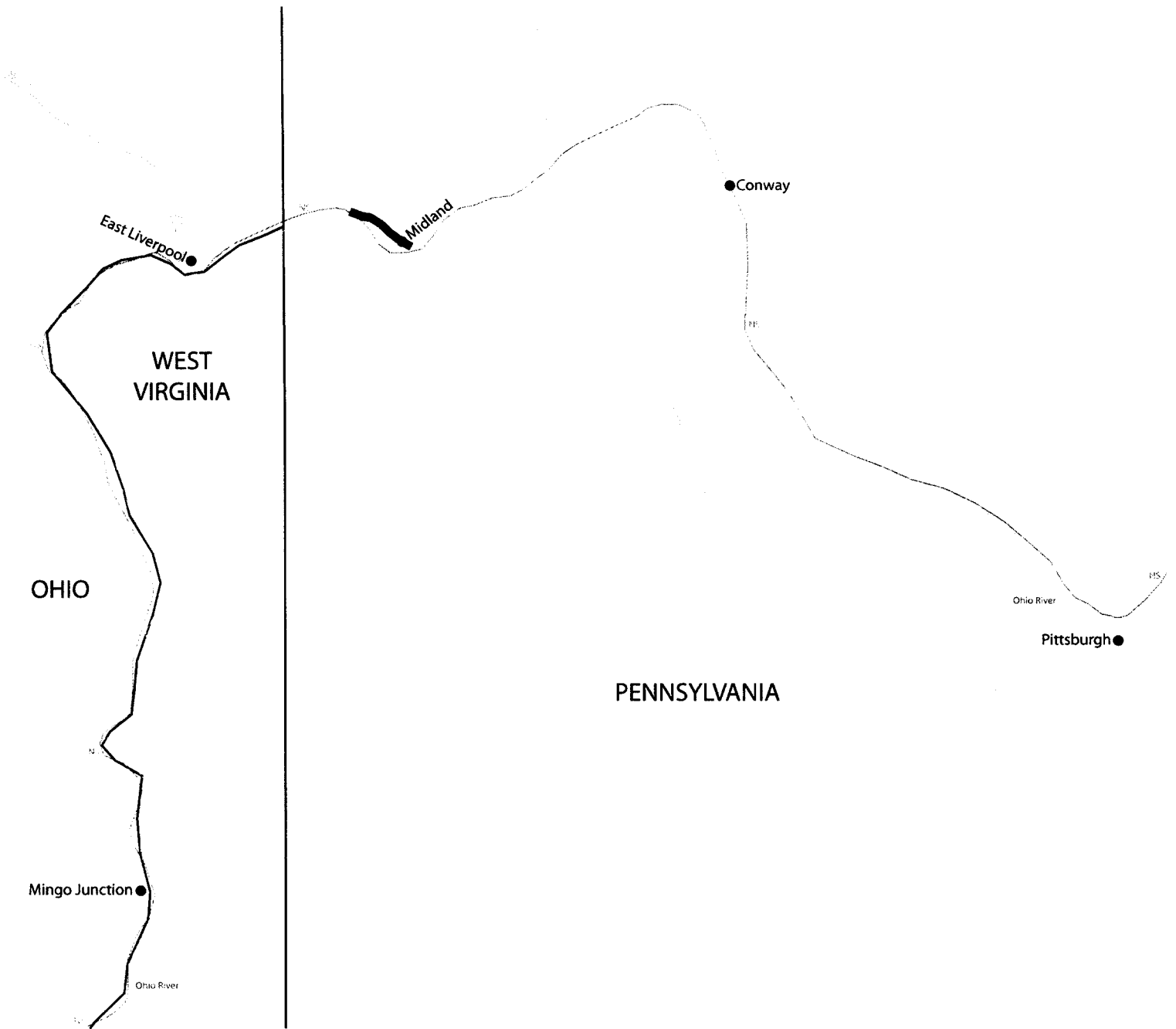
UP - Coffeyville, Winfield, Tulsa, Neodesha

BNSF - Winfield, Tulsa, Columbus

KCS - Pittsburg

KO - Wichita

SS - Tulsa



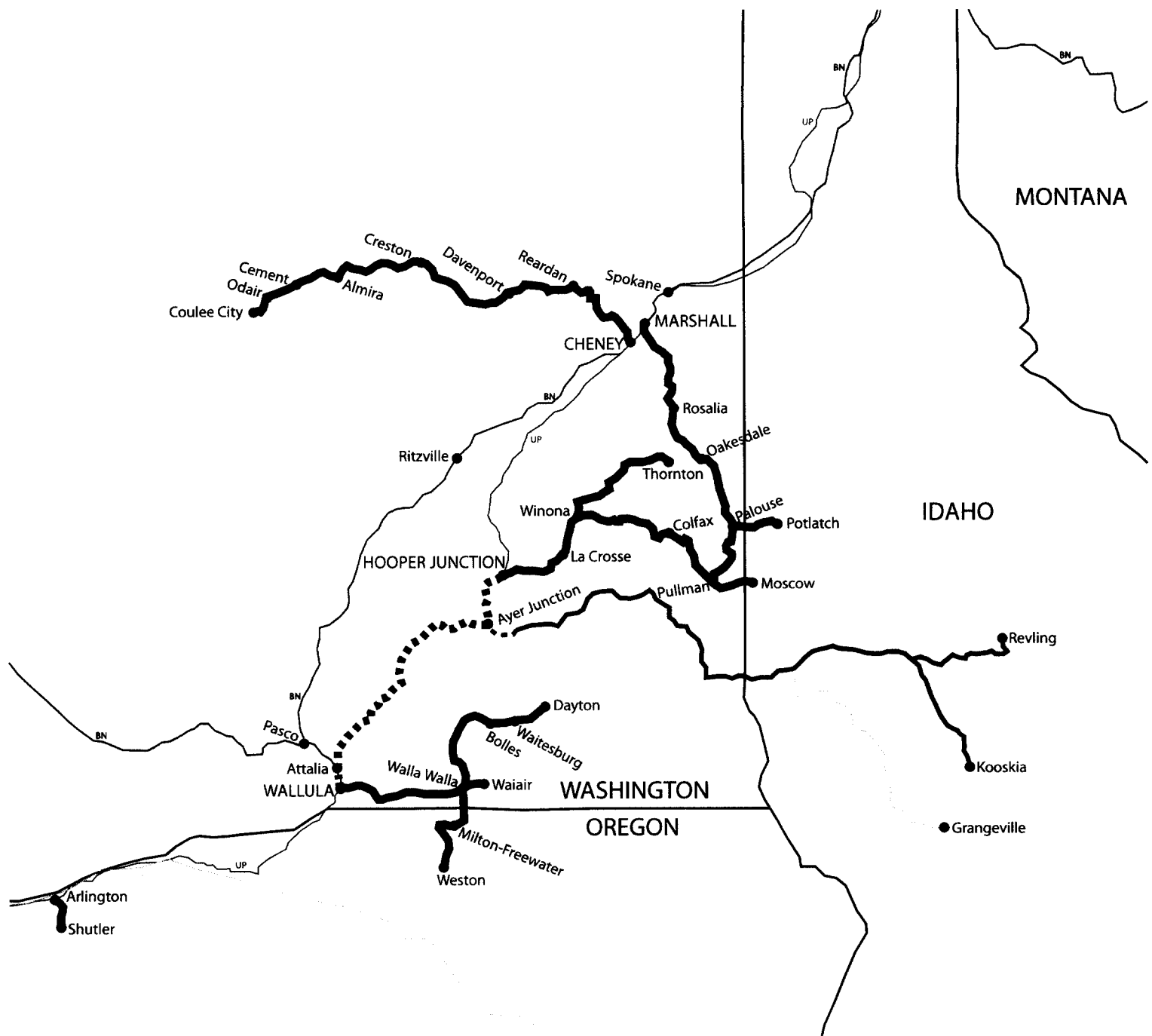
LEGEND:

Pennsylvania Southwestern RR (PSWR)

Interchanges

NS - Midland







LEGEND:

Mississippi Southern RR (MSR)

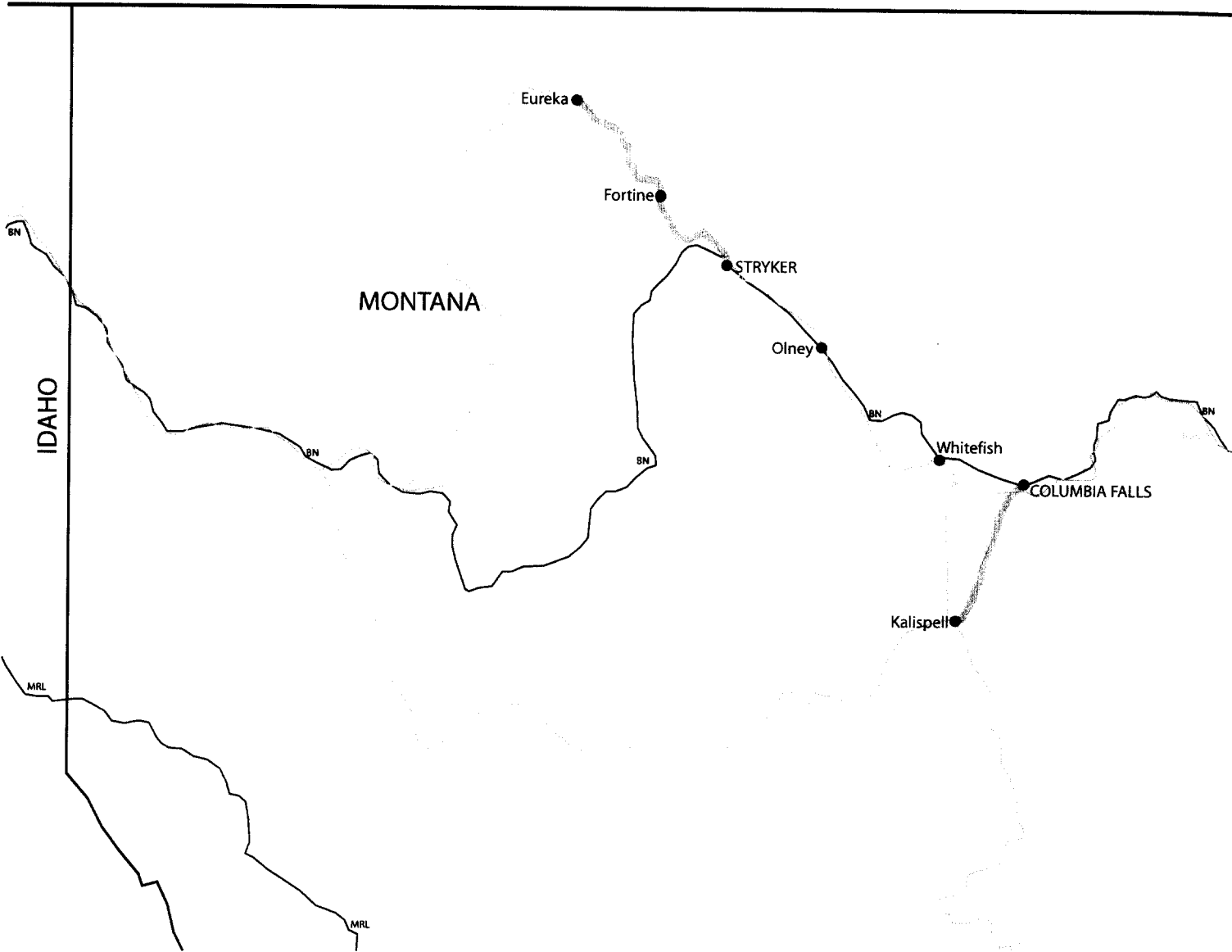
Mississippi Southern RR Trackage Rights



Interchanges

KCS - Newton

CANADA



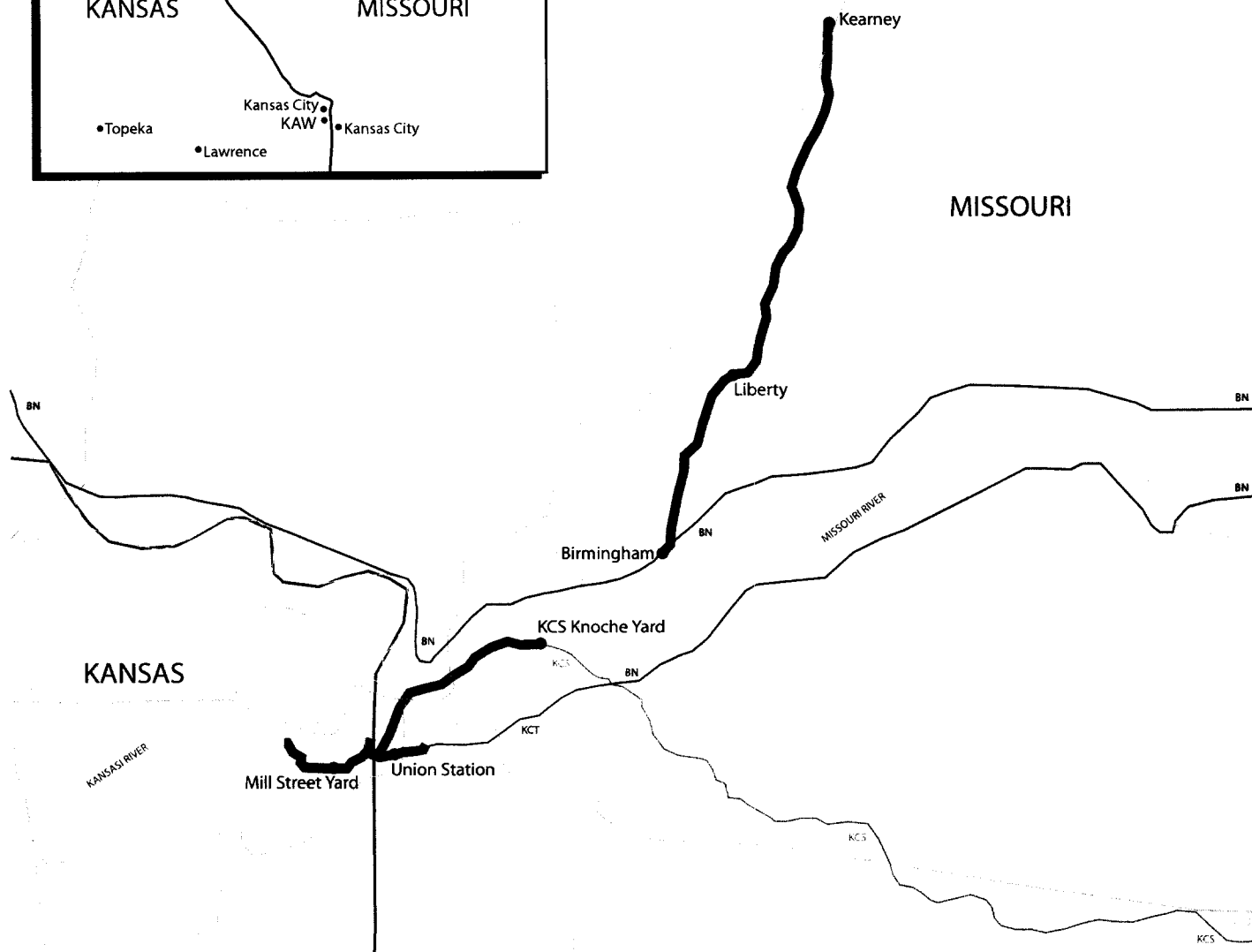
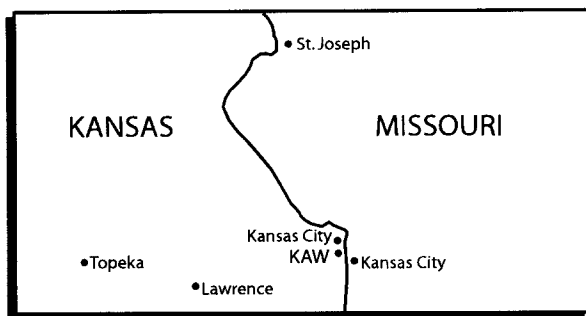
LEGEND:

Mission Mountain Railroad (MMT)

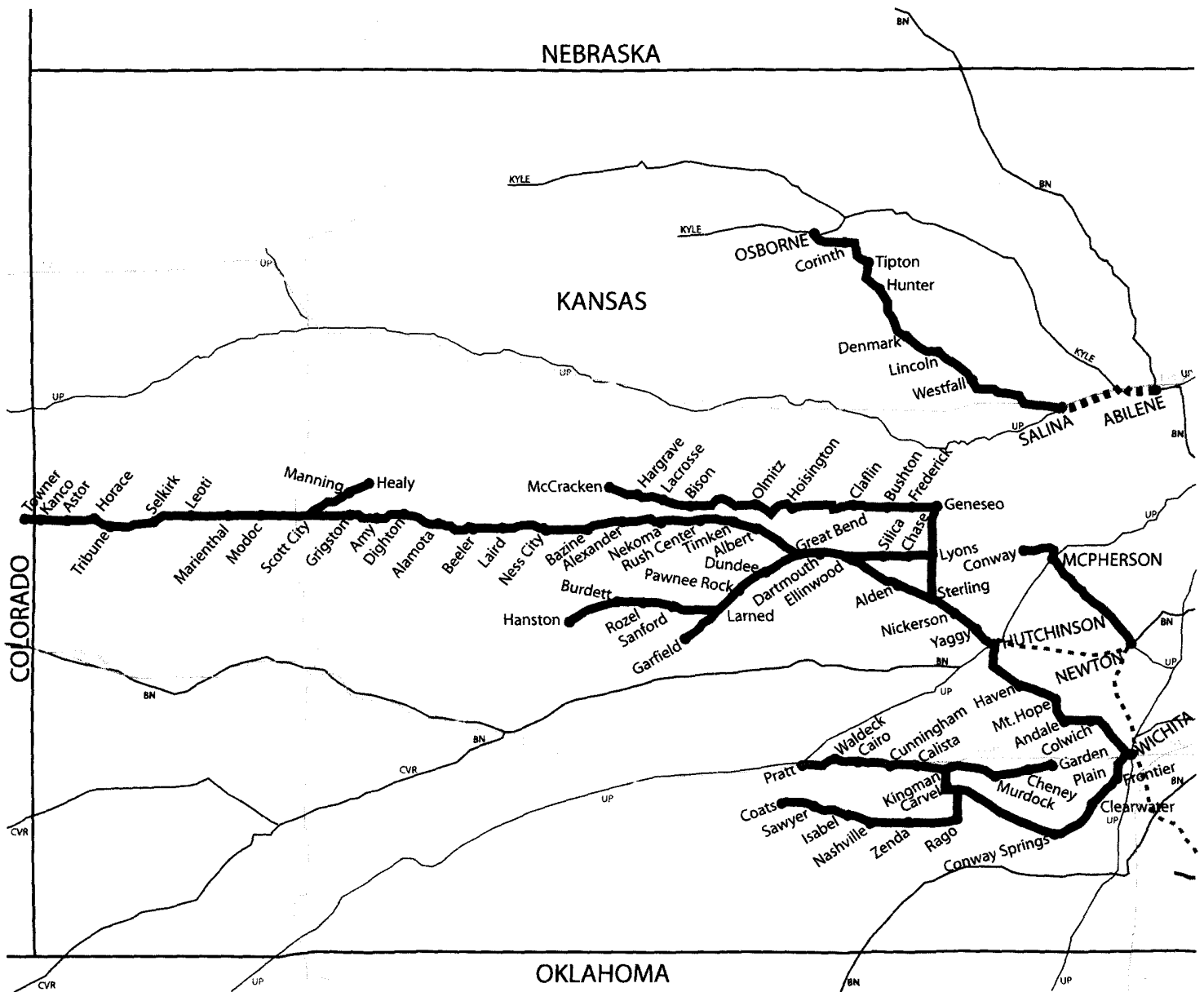
Interchanges

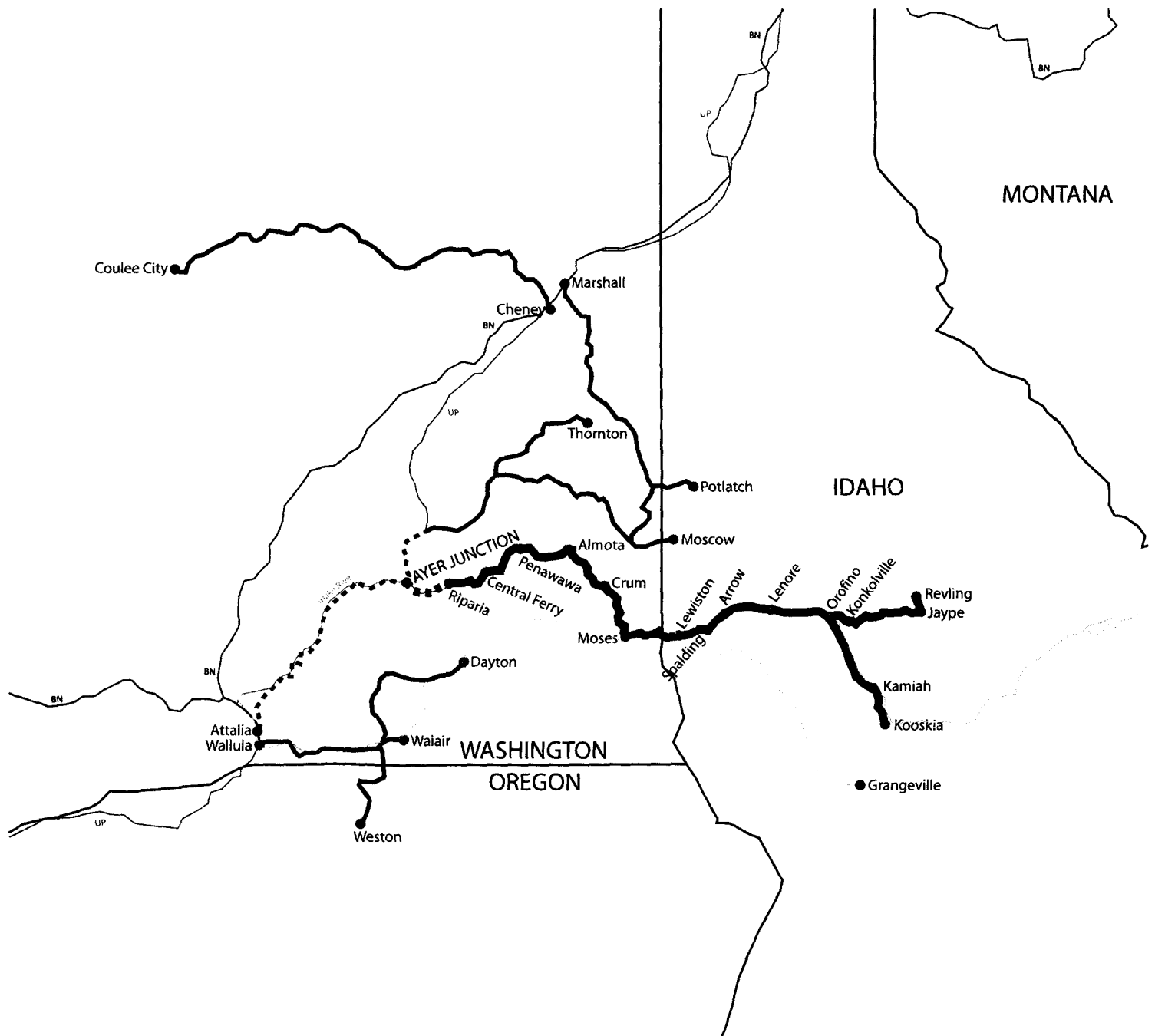
Interchanges

BNSF - Stryker, Columbia Falls



LEGEND:
 KAW River Railroad (KAW)
 Kansas City
Interchanges
 BN - Kansas City, Birmingham
 KCS - Kansas City





LEGEND:

Great Northwest RR (GNW)

Great Northwest Trackage Rights

Palouse River & Coulee City RR (PCC)

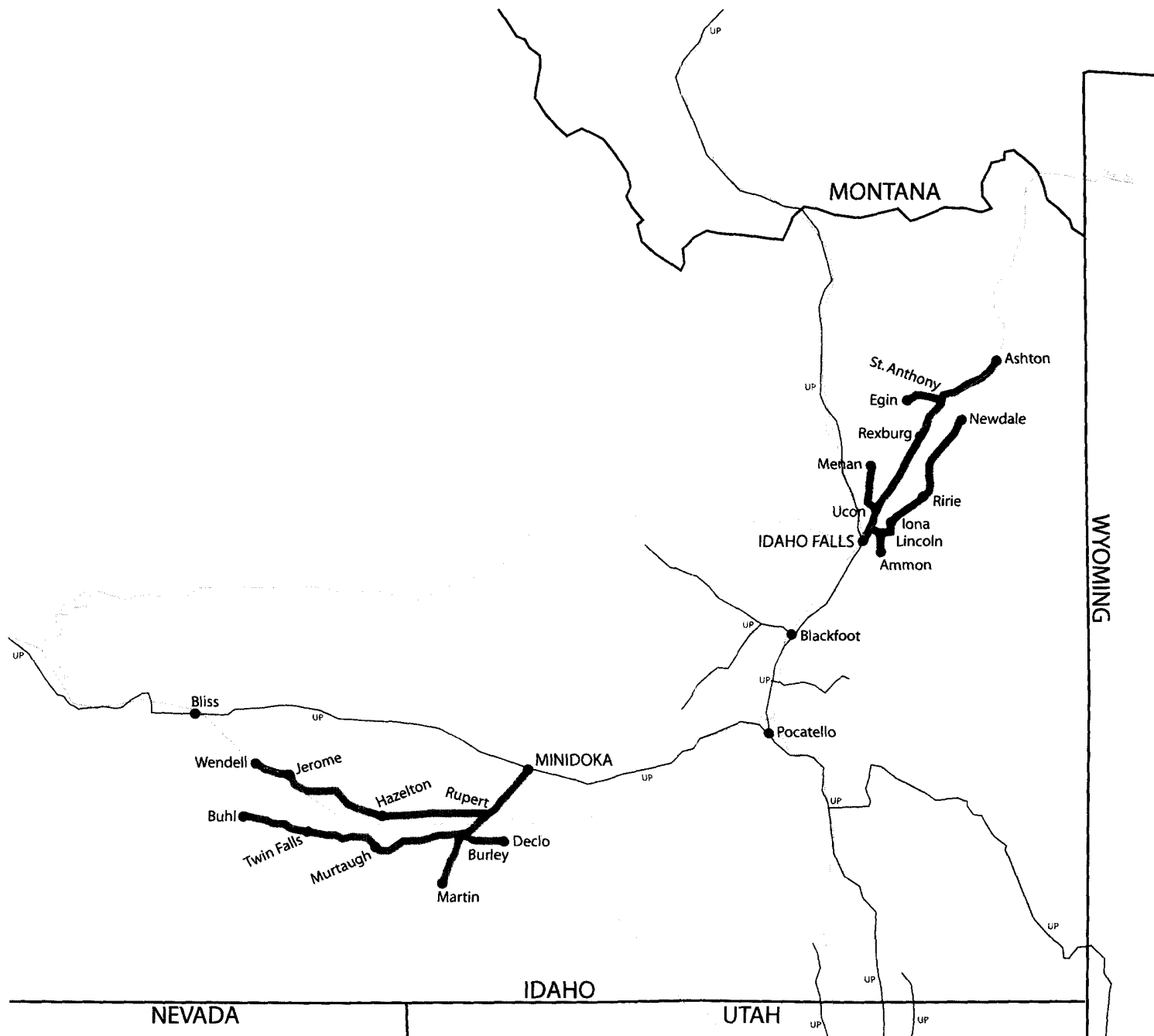
Palouse River & Coulee City Trackage Rights

BG & CM Railroad

Interchanges

UP - Ayer

BNSF - Ayer



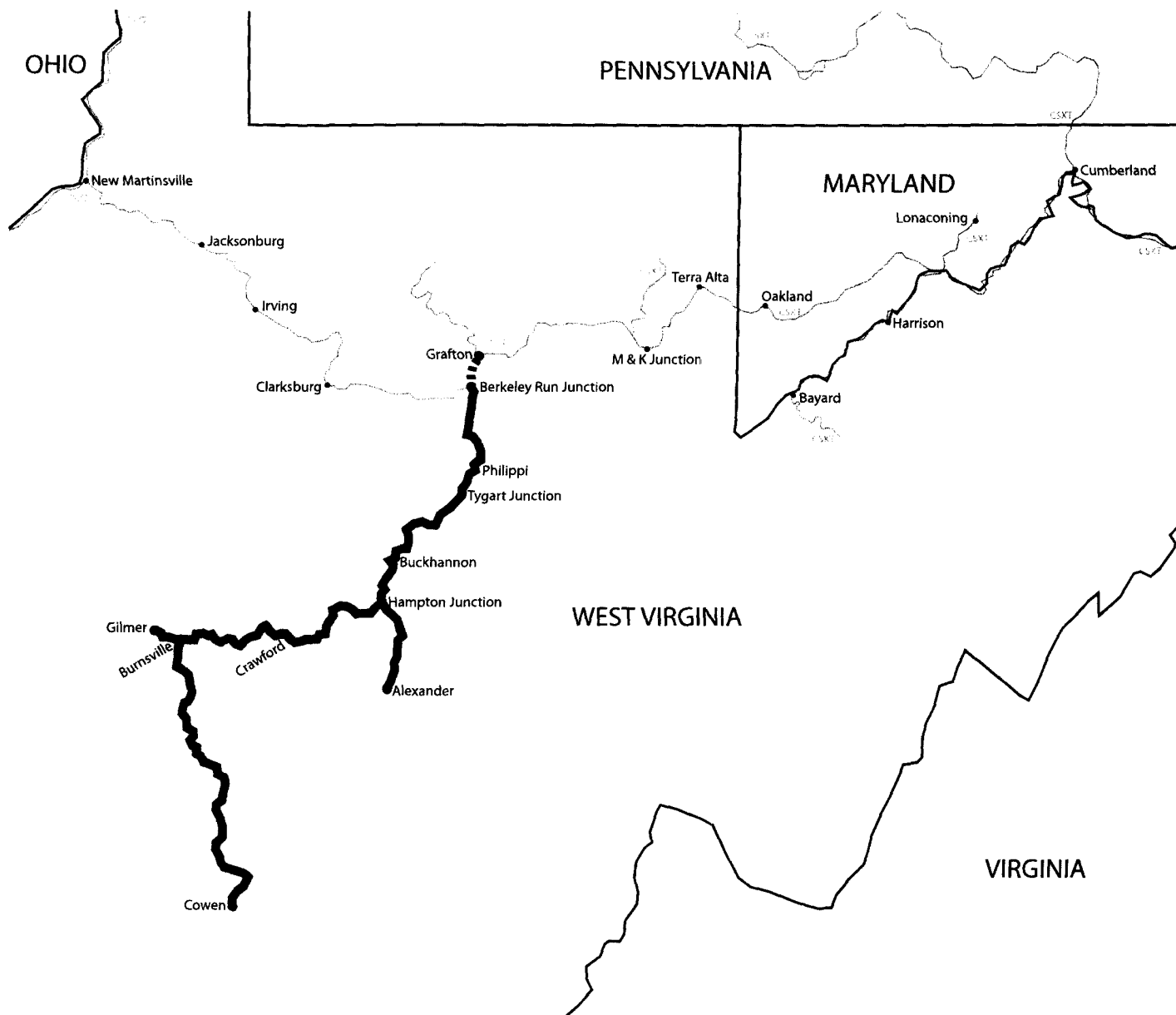
LEGEND:

Eastern Idaho RR (EIRR)



Interchanges

UP - Minidoka, Idaho Falls



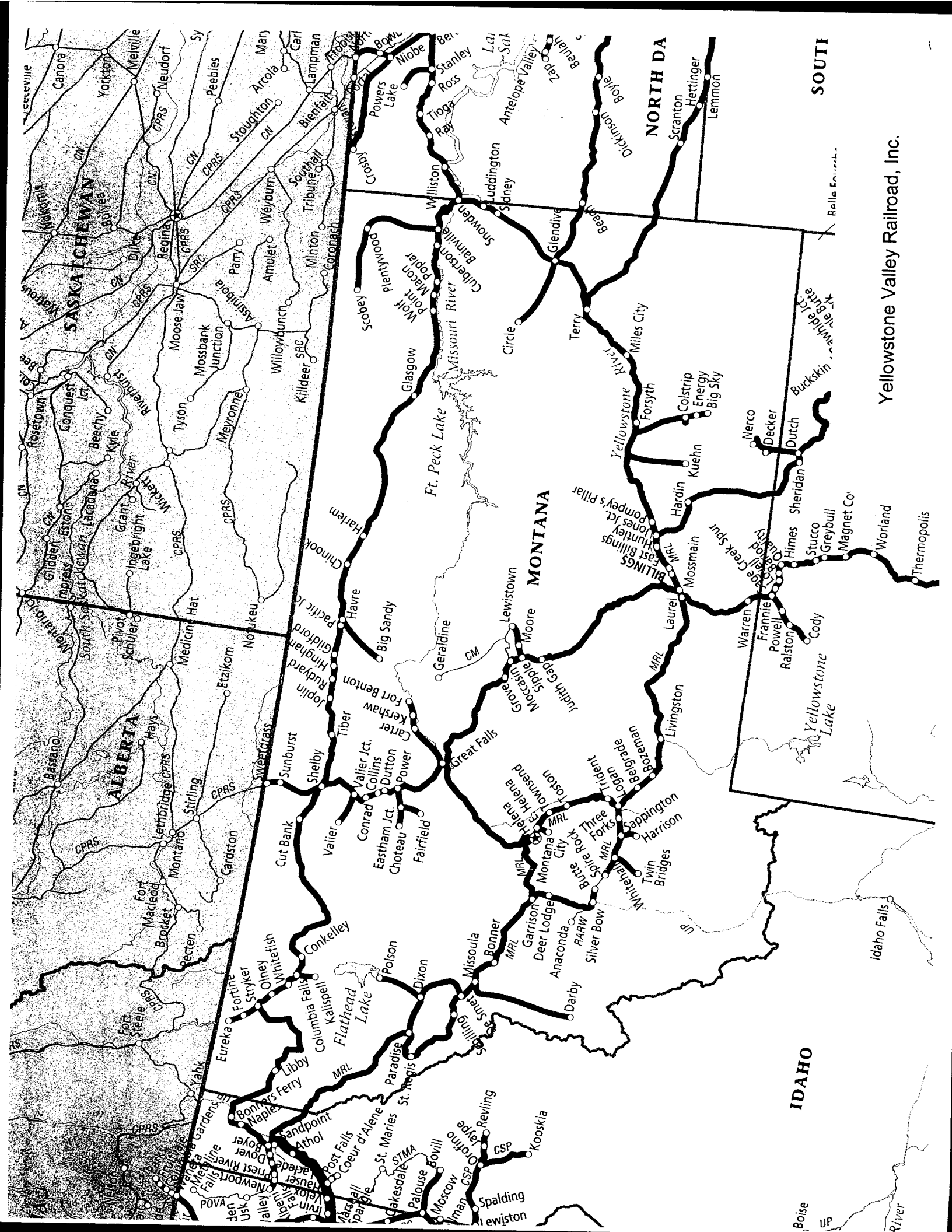
LEGEND:

Appalachian & Ohio Railroad (A&O)
Appalachian & Ohio Trackage Rights



Interchanges

CSXT - Grafton



Yellowstone Valley Railroad, Inc.

VERIFICATION

STATE OF KANSAS

)

)

ss.

COUNTY OF CRAWFORD

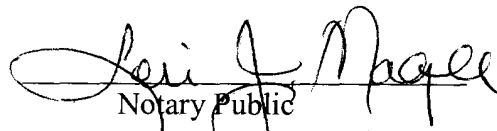
)

I, Arthur E. McKechnie III, being duly sworn depose and state that I am Executive Vice President of Watco Companies, Inc., that I am authorized to make this verification, and that I have read the foregoing Notice of Exemption and know the facts asserted therein are true and accurate as stated to the best of my knowledge, information, and belief.


Arthur E. McKechnie III

SUBSCRIBED AND SWORN TO before me this 25 day of July, 2005, in the County of Crawford, State of Kansas.

My Commission Expires: 8/16/08


Notary Public