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June 19, 2002



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

Re: Finance Docket No. 34177
*Iowa, Chicago & Eastern Railroad Corporation --
Acquisition And Operation Exemption -- Lines Of I&M Rail Link, LLC*
Comments Of The Kansas City Southern Railway Company

Dear Secretary Williams:

Enclosed for filing are the original and eleven copies of the "Comments Of The Kansas City Southern Railway Company" to the Surface Transportation Board in Finance Docket No. 34177, *Iowa, Chicago & Eastern Railroad Corporation -- Acquisition And Operation Exemption- - Lines Of I&M Rail Link*. Also enclosed are three 3.5 inch diskettes which include the enclosed filing.

Please time and date stamp the extra copy of the Comments and return it with our messenger.

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

Very truly yours,

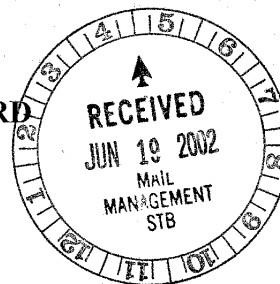

William A. Mullins

Enclosures

ENTERED
Office of the Secretary
JUN 19 2002
Part of
Public Record

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

FINANCE DOCKET NO. 34177



**IOWA, CHICAGO & EASTERN RAILROAD CORPORATION
-- ACQUISITION AND OPERATION EXEMPTION --
LINES OF I&M RAIL LINK, INC. LLC**

**COMMENTS OF THE
KANSAS CITY SOUTHERN RAILWAY COMPANY**

**ENTERED
Office of the Secretary
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Public Record**

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June 19, 2002

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

FINANCE DOCKET NO. 34177



**IOWA, CHICAGO & EASTERN RAILROAD CORPORATION
-- ACQUISITION AND OPERATION EXEMPTION --
LINES OF I&M RAIL LINK, INC. LLC**

**COMMENTS OF THE
KANSAS CITY SOUTHERN RAILWAY COMPANY**

The Kansas City Southern Railway Company ("KCS"), by its counsel, hereby provides the Surface Transportation Board ("STB" or the "Board") with its "Comments" in Finance Docket No. 34177, *Iowa, Chicago & Eastern Railroad Corporation -- Acquisition And Operation Exemption - Lines Of I&M Rail Link*. While KCS is not taking any position on the merits of the current exemption notice, neither the Board nor any party should interpret this position to mean that KCS is disinterested in the ultimate disposition of I&M Rail Link LLC's ("IMRL") properties. Indeed, due to the importance of the IMRL system to KCS and the shipping public, it is vitally important that any proposal to change control of IMRL, or transfer its assets, should be carefully reviewed to ensure that any successor company has the ability to be both financially strong and independent.

As detailed in the attached Verified Statement of David C. Bastress, Vice President Marketing, Agriculture and Minerals Business Unit for KCS ("V.S. Bastress"), KCS has a strong interest in this transaction. KCS and IMRL have a Marketing Alliance and through this Alliance and other agreements, KCS has worked very closely with IMRL in order to provide shippers with a competitive alternative to the large Class I systems, such as Burlington Northern Santa Fe ("BNSF") and Union Pacific ("UP"). As a result, IMRL is now KCS's largest non-Class I interchange partner, and its geographic reach provides a strategic complement to KCS's own

system. For example, through KCS's connection with IMRL at Kansas City, the nation's second largest rail hub, numerous shippers have the option of using a KCS/IMRL routing from Mexico to Chicago, the nation's largest rail hub. V.S. Bastress at 9. Likewise, IMRL's "Corn Lines" have provided new markets for Iowa and Minnesota grain originators to KCS's grain users, such as poultry producers in Missouri, Arkansas, Oklahoma, Louisiana, Texas, Mississippi and Alabama. V.S. Bastress at 8. KCS also moves Iowa and Minnesota corn and soybeans to export markets. These markets include the Louisiana and Texas Gulf as well as Mexico via Tex Mex through Laredo, Texas. V.S. Bastress 8-9. The Alliance also provides IMRL processors with access to alternative markets of starch, soybean meal, soybean oil and other grain products. V.S. Bastress at 9.

KCS and IMRL also have other contractual relationships. KCS and IMRL are joint and equal owners of a yard facility in Kansas City, Missouri pursuant to a 1942 agreement between KCS and IMRL's predecessor, MILW. V.S. Bastress at 9. KCS and IMRL also both own shares of the Kansas City Terminal Railway Company ("KCT"), a terminal railroad operating in Kansas City Missouri and Kansas. KCS and IMRL thus provide the "small railroad" voices with respect to management of KCT, to assure that it is operated in the best interests of all concerned. V.S. Bastress at 10.

As the above discussion summarizes and as Mr. Bastress more fully discusses, the public has been well served by an independent KCS and IMRL. Indeed, given the importance of the IMRL/KCS relationship and the fact that KCS is IMRL's biggest interchange partner, it is surprising that the management of the Dakota, Minnesota and Eastern and of the Iowa, Chicago & Eastern has not yet fully addressed the concerns of KCS and the numerous shippers who depend upon the KCS/IMRL relationship. As a result, it may become the Board's responsibility to ensure that the competitive options that shippers enjoy today due to the IMRL/KCS Alliance and IMRL's independence will continue to remain if the proposed transaction goes forward. Anything less would cause a reduction of competition and would not be in the public interest.

Because of the importance of IMRL, KCS believes that any disposition of IMRL's assets, or control of those assets by or in conjunction with any other railroad, must maintain two important, and inter-related, attributes: financial strength and independence. The shipping public is best served through a strong, independent carrier, such as IMRL, and any proposal to change control of IMRL, or transfer its assets, should be judged with these two principles in mind.

Respectfully submitted,

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FINANCE DOCKET NO. 34177

**IOWA, CHICAGO & EASTERN RAILROAD CORPORATION
-- ACQUISITION AND OPERATION EXEMPTION --
LINES OF I&M RAIL LINK, INC. LLC**

**COMMENTS OF THE
KANSAS CITY SOUTHERN RAILWAY COMPANY**

VERIFIED STATEMENT OF DAVID C. BASTRESS

My name is David C. Bastress. I am Vice President Marketing, Agriculture and Minerals Business Unit for The Kansas City Southern Railway Company ("KCS"). I have held this position for 11 years. My responsibilities include all aspects of the Business Unit including marketing and sales.

I am submitting this verified statement in support of KCS's comments with respect to the verified notice of exemption filed by Iowa, Chicago & Eastern Railroad Corporation ("ICE") in *Iowa, Chicago & Eastern Railroad Corporation – Acquisition and Operation Exemption – Lines of I&M Rail Link, LLC*, Finance Docket No. 34177. It is my understanding the ICE has filed to acquire substantially all of the operating assets of I&M Rail Link, LLC ("IMRL"). I also understand that ICE is a newly-formed subsidiary indirectly owned by Dakota, Minnesota & Eastern Railroad Corporation ("DM&E"), and that DM&E intends at some future point to acquire control of ICE.

KCS has a strong interest in this transaction. Through our connection with IMRL at Kansas City, the nation's second largest rail hub, our shippers have an independent routing to the nation's largest rail gateway at Chicago, along with access to IMRL's very substantial corn

originations in Iowa and Minnesota. Further, we have contractual relationships with IMRL relating to a recently-negotiated Marketing Alliance, a Joint Agency in Kansas City, and ownership of the Kansas City Terminal Railway Company ("KCT"). In short, the future of IMRL will have significant repercussions on KCS's ability to provide its shippers with access to an efficient, competitive rail network.

At this time, KCS has elected not to take any position with respect to the transaction proposed in this docket. Nor does KCS take a stand on the merits of the petitions for stay filed last week by various parties. However, KCS intends to participate fully in this and any subsequent transactions, with a focus on determining whether any owner of IMRL is committed to keeping it both financially strong and independent. My comments serve to illustrate why these points are crucial to KCS.

I. KCS's Position in the National Railroad System

As the Board is aware, KCS is the smallest of the nation's seven Class I rail carriers. KCS's primary main line stretches from Kansas City to New Orleans, Port Arthur, and Beaumont. Strategic secondary East-West mains are located between Kansas City and East St. Louis, Illinois (the former Gateway Western Railway), and between Meridian, Mississippi and Dallas, Texas. KCS's system exceeds 3,000 miles in length. KCS holds an indirect minority ownership position in the Texas Mexican Railway ("Tex Mex"), and, in conjunction with Transportacion Maritima Mexicana, KCS owns Grupo Transportacion Ferroviaria Mexicana, which operates the primary rail route in northern Mexico and interchanges with Tex Mex via the Laredo gateway. Coupled with Tex Mex's trackage rights connecting its system with KCS at Beaumont, KCS and its affiliates form the "NAFTA Railway."

As this brief introduction indicates, KCS's rail network, though significant, does not have the expansive reach of Class I's such as Union Pacific Railroad ("UP") and Burlington Northern Santa Fe ("BNSF"). In order to provide competitive options for our shippers to reach origins and destinations off of our system, we work closely with our non-Class I connections to attempt to replicate the seamless service available elsewhere. In recent years, we have attempted to work

very closely with IMRL to leverage their access to Chicago and the Twin Cities, along with their on-line grain origins and processors, into an attractive choice for rail shippers. IMRL is KCS's largest non-Class I interchange partner, and its geographic reach provides a strategic complement to KCS's own system. Quite frankly, we have worked very hard with IMRL in recent years to improve our viability for traffic moving through the heart of the nation. In the next section of this Statement, I will describe some of the ways in which IMRL is important to KCS and its shippers.

II. Relationships Between KCS and IMRL

A. Marketing Alliance

With the formation of the IMRL in 1997, KCS and IMRL signed a Marketing Alliance to coordinate service, expedite the joint-line rate making process, and essentially form a seamless transportation alternative for customers located on both the IMRL and KCS. This Marketing Alliance is used for a variety of products and has proven successful in providing a competitive option to UP and BNSF.

1. Grain and Grain Products

Any assessment of IMRL's on-line traffic base must begin with grain, particularly corn. IMRL serves the heart of Iowa with a network of branch lines known as the "Corn Lines." The grain segment of the Alliance has brought IMRL grain customers in Iowa and Minnesota and KCS poultry markets together. A large portion of IMRL's corn shipments terminate on KCS, moving in unit trains known as "bullet trains" in the trade. KCS is responsible for supplying the equipment for this business. These "bullet trains" supply corn to some 33 feed mills serving the poultry industry in Missouri, Arkansas, Oklahoma, Louisiana, Texas, Mississippi and Alabama.

In addition to these "bullet trains," KCS also moves Iowa and Minnesota corn and soybeans to export markets. These markets include the Louisiana and Texas Gulf as well as

Mexico via Tex Mex through Laredo, Texas. The Alliance also provides IMRL processors with access to alternative markets of starch, soybean meal, soybean oil and other grain products.

2. Access to Chicago

As the Board has previously recognized, Chicago is the nation's largest rail hub. Access to Chicago through the Alliance provides KCS with pricing authority and a competitive route to Chicago and beyond. This segment allows chemical, forest products and other carload customers alternative routes between Chicago and KCS' territory. Shippers between Chicago and Mexico are afforded a direct, viable alternative to the single-line routings offered by UP and BNSF.

3. Transloads

The Alliance provides for KCS' customers to use and move their products through transload or cross dock facilities in the Rockford, Rockton and Chicago, IL, the Quad Cities and Twin Cities markets.

4. Service

The Alliance has developed a run-through train between Shreveport, LA and Davenport, IA. The train has reduced transit times by 48 hours in that corridor and has provided a value added service to all carload customers. KCS and IMRL have also implemented an agreement allowing for an exchange of locomotive power to handle this Alliance traffic.

B. Joint Agency

KCS and IMRL are joint and equal owners of a yard facility in Kansas City, Missouri pursuant to a 1942 agreement between KCS and IMRL's predecessor, MILW. The Joint Agency supervises the operation and maintenance of the facility in the equal interest of KCS and IMRL and performs the yard and customer switching for both parties. KCS and IMRL share in the cost of the facility on a proportionate basis according to the number of cars handled for each road in each month. Both roads are required to provide locomotive power for operation of the facility

according to their proportionate use. Supervisors are appointed by mutual agreement between KCS and IMRL.

C. KCT Ownership

Finally, KCS and IMRL both own shares of the KCT, a terminal railroad operating in Kansas City Missouri and Kansas. In recent years, KCT's operations have been significantly downsized, with dispatching, maintenance and operations all being outsourced. Nevertheless, KCS and IMRL provide the "small railroad" voices with respect to management of KCT, to assure that it is operated in the best interests of all concerned.

III. IMRL's Future

Given the importance of IMRL to KCS's strategic significance, KCS believes that any disposition of IMRL's assets, or control of those assets by or in conjunction with any other railroad, must maintain two important, and inter-related, attributes: financial strength and independence. I will elaborate on each of these points below.

A. Financial Strength

For KCS to continue to provide shippers with competitive alternatives to BNSF and UP, access to Iowa grain markets, and access to Chicago, it is absolutely crucial that any purchaser of IMRL's assets is financially strong and independent of either BNSF or UP. For example, it is of little utility to have an "independent route" to Chicago if the owner of that route lacks the funds to maintain the route to competitive speeds, or lacks the motive power fleet to move traffic as expected by shippers. As the Board is undoubtedly aware, in recent years IMRL has struggled to maintain its financial strength. Regardless of the causes of these struggles (and KCS suspects they are myriad), a financially weak connecting carrier, while better than no connecting carrier at all, cannot hope to develop the competitive opportunities that are currently available to Iowa and Chicago shippers. If IMRL is going to continue to fill an important role in the heartland's transportation solutions, it must have a strong financial base.

B. Independence

Just as critical is the necessity for IMRL to maintain its independence if it is to continue to provide a viable connection for KCS's shippers. It has been my repeated observation that railroads do not generally short-haul themselves. Currently, KCS can count on the fact that it is in IMRL's best interests to make effective connections between Kansas City and points on its system. This same principle might not hold true if the owner of IMRL's route structure also served points competitive to the KCS system. Such a result would reduce, if not eliminate, an existing competitive route currently enjoyed by shippers. Accordingly, it is crucial that the competitive options that shippers enjoy today due to the IMRL/KCS Alliance and IMRL's independence will continue to remain if the proposed transaction goes forward. Anything less would cause a reduction of competition and would not be in the public interest.

CONCLUSION

In summary, KCS is not taking any position on the current exemption notice. However, neither the Board nor any party should interpret this position to mean that KCS is disinterested in the ultimate disposition of IMRL's properties. The shipping public is best served through a strong, independent carrier, such as IMRL, and any proposal to change control of IMRL, or transfer its assets, should be judged with these two principles in mind.

VERIFICATION

I, David C. Bastress, verify under penalty of perjury that the foregoing is true and correct.

Further, I certify that I am qualified and authorized to file this statement.

6/18/02
Date

David C Bastress
David C. Bastress

Subscribed and sworn before me
This 18th day of June, 2002

Julie A Robinson
Notary Public

My Commission Expires July 14, 2002

State of Missouri

County of Jackson

JULIE A. ROBINSON
Notary Public - Notary Seal
Commissioned in Jackson County
My Commission Expires July 14, 2002

CERTIFICATE OF SERVICE

This is to certify that on this 19th day of June, 2002, I caused the foregoing "Comments Of The Kansas City Southern Railway Company" in Finance Docket No. 34177, *Iowa, Chicago & Eastern Railroad Corporation -- Acquisition And Operation Exemption -- Lines Of I&M Rail Link* to be served upon counsel for all known parties of record by first class mail, postage prepaid, or by more expeditious means.



William A. Mullins