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SURFACE
TRANSPORTATION BOARD

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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

STB FINANCE DOCKET NO. 34942

ENTERED
Office of Proceedings
OCT 24 2006
Part of
Public Record

**IOWA INTERSTATE RAILROAD, LTD.
-ACQUISITION EXEMPTION-
LINCOLN & SOUTHERN RAILROAD COMPANY**

**VERIFIED PETITION FOR
EXEMPTION OF IOWA INTERSTATE RAILROAD, LTD.**

EXPEDITED CONSIDERATION REQUESTED

FILED

OCT 24 2006

SURFACE
TRANSPORTATION BOARD

**Edward J. Krug
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**Attorney for Iowa Interstate
Railroad, Ltd.**

Dated: October 20, 2006

Pursuant to 49 U.S.C. § 10502, and the regulations of the Surface Transportation Board ("the Board"), at 49 C.F.R. § 1121, the Iowa Interstate Railroad, Ltd., ("IAIS"), submits this petition for an exemption from the prior review and approval requirements of 49 U.S.C. § 10902 for IAIS's acquisition of a 26.2 mile rail line owned by the Lincoln & Southern Railroad Company ("L & S"), located near Peoria, Illinois.

The IAIS has operated the entire L & S line since the line was placed into service in 1985, following purchase of the line from the Trustees of the Rock Island Line bankruptcy. This is a stock purchase of the corporation. A single shipper (an aggregates producer) which first did business in 1990 is located on the line. Thus, no significant service issues or concerns are associated with this transaction.

Attached as Exhibit A is a map showing the subject L & S line.

I. Background

A. Identification of the Parties.

1. The complete name and address of Petitioner is: Iowa Interstate Railroad, Ltd., 5900 6th Street SW, Cedar Rapids, Iowa, 52404.

Petitioner, IAIS, is a Class II common carrier by rail, which owns or operates approximately 552 miles of rail line in Iowa and Illinois. IAIS's line extends from Council Bluffs, Iowa in the west to Blue Island, Illinois (near

Chicago) in the east. From Bureau, Illinois, IAIS operates to Peoria, Illinois. It is on this line that L & S trackage is located from Henry, Illinois to Peoria, Illinois.

IAIS began operations in 1984, after acquiring its core rail lines following the bankruptcy of the Rock Island Railroad.

2. The complete name and address of Lincoln & Southern Railroad Company is: Lincoln & Southern Railroad Company, 33587 Walker Road, Avon Lake, OH 44012

L & S is a Class III common carrier by rail. It has no employees and no equipment or rolling stock. The railroad is solely a stock company. It is this stock which IAIS seeks to purchase.

B. L & S's Line.

L & S, which is entirely operated by IAIS, currently provides rail service to Peoria, Illinois. Under the terms of the transaction, IAIS will acquire all of the stock of L & S and, in turn, it will have 100% controlling interest in the corporation.

The sole customer on L & S's line is an aggregates company, which IAIS presently serves under its longstanding arrangement with L & S. In the years 2004 and 2005, service to the aggregates company accounted for approximately 1,500 rail cars of sand per year.

C. The Proposed Transaction

Pursuant to an Agreement for Purchase of Stock dated October 19, 2006, between IAIS and L & S, IAIS proposes to acquire all of the shares of stock for L & S. Under the terms of the proposed transaction, IAIS will acquire the company in its entirety.

IAIS does not anticipate any change in the level of service to the aggregate producer, Galena Sand and Gravel. This is the sole shipper served by the line and it will not lose any existing rail service or competitive rail options, and in fact, it will gain transit options. All of IAIS's current customers could benefit from the transaction as well. L&S currently is not capable of handling loads in excess of 263,000 pounds. The IAIS mainline has been rehabilitated to handle loads up to 286,000 pounds. IAIS moves grain and other products to Peoria markets, and it is vital that the L&S line be upgraded to handle 286,000 pound loads. The current owners of the L&S do not desire to upgrade the line and that is why the line is being sold to IAIS.

II. JURISDICTION AND STATUTORY STANDARDS

To the extent that Board consideration is required, pursuant to 49 U.S.C. § 10902, enacted by the ICC Termination Act of 1995 ^[1], a Class II rail carrier may acquire a line of railroad from another carrier if the Board finds that the acquisition is not inconsistent with public convenience and necessity. 49 U.S.C. § 10902(a), (c). Under 49 U.S.C. § 10502, however, the Board must exempt a transaction from regulation under Part A of Subtitle IV of Title 49 of the U.S.

^[1] Pub. L. No. 104-88, 109 Stat, 803 (1995)

Code (including Section 10902) if the Board finds that: (1) regulation is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either (a) the transaction is of limited scope or (b) regulation is not necessary to protect shippers from the abuse of market power.

In enacting the Staggers Rail Act of 1980, Congress made clear its intent that the Interstate Commerce Commission would use its expanded exemption authority under former Section 10505 to free certain transactions and service from the administrative and financial costs associated with continued regulation:

The policy underlying this provision is that while Congress has been able to identify broad areas of commerce where reduced regulation is clearly warranted, the Commission is more capable through the administrative process of examining specific regulatory provisions and practices not yet addressed by Congress to determine where they can be deregulated consistent with the policies of Congress. The conferees expect that, consistent with the policies of this Act, the Commission will pursue partial and complete exemption from remaining regulation.

H.R. Conf. Rep. No. 1430, 96th Cong. 2d Sess. 105 (1980). Congress reaffirmed this policy in the conference report accompanying the ICC Termination Act of 1995, which reenacted the existing exemption provisions as Section 10502. H.R. Conf. Rep. No. 422, 104th Cong. 1st Sess. 168-169 (1995).

An exemption from the requirements of Section 10902 for IAIS's acquisition of L & S stock (and accordingly, its property) would be fully consistent with the standards set forth in Section 10502. Detailed scrutiny of the transaction, through an application for review and approval under Section 10902, is unnecessary to carry out the rail transportation policy of 49 U.S.C. § 10101.

In fact, exemption from such review and approval would further several of the objectives established in the national transportation policy. Moreover, the proposed transaction is of extremely limited scope and will not result in an abuse of market power.

III. EXEMPTION CRITERIA

A. Regulation is Not Necessary to Carry Out the Rail Transportation Policy of 49 U.S.C. § 10101.

IAIS's acquisition of L & S stock is wholly consistent with the rail transportation policy outlined in 49 U.S.C. § 10101, and thus, regulation is not necessary. The proposed transaction will solidify IAIS's position on the L&S by upgrading the track to 286,000 pounds, enabling IAIS to handle heavy loads to Peoria and will permit it to invest the capital money needed to maintain the line. The purchase serves the interests of grain customers in Iowa and other industries with heavy load traffic destined to Peoria and beyond. As such, exemption will promote efficiency, coordination and competition among rail carriers and other transport modes. See 49 U.S.C. §§ 10101(4), (5) and (9). Thus, this transaction also will promote the continuation of a sound rail system to meet the needs of the public. 49 U.S.C. § 10101(4).

Granting the relief sought herein will advance several other goals enumerated in the rail transportation policy as well. Section 10101 provides that the Board should minimize the need for regulatory control over the rail transportation system, reduce the barriers to entry into and exit from the rail transportation industry, and provide for the expeditious resolution of all

proceedings. 49 U.S.C. §§ 10101(2), (7) and (15). The statutory exemption contained in Section 10502 obviates the need for the expensive and time-consuming processes attendant to a proceeding under Section 10902. By limiting the level of regulatory review of this transaction and by relying upon the adequate and more expeditious exemption procedure, the Board would minimize the burden of unnecessary regulation on this transaction. E.g., Livonia, Avon & Lakeville Railroad Corporation -- Acquisition and Operation Exemption -- Line of Consolidated Rail Corporation, Finance Docket No. 32754 (STB served March 11, 1996) at 4.

B. Regulation is Not Necessary to Protect Shippers From an Abuse of Market Power.

IAIS's acquisition of L & S stock will have no adverse impact on competition. Rail operations on the line will not change in any manner. The sole shipper serviced via the rail line will not lose access to any rail service which it currently receives.

Approval of this transaction will not lessen competition or transportation options for the sole shipper being serviced on the line. Indeed, the proposed acquisition will ensure the continued efficiency of IAIS's service by providing IAIS with certainty about its ability to continue operating on the Peoria line. Accordingly, the transaction satisfies the market abuse standard set forth in 49 U.S.C. § 10502(a)(2)(B).

C. The Transaction is Limited in Scope

Because regulation is not necessary to protect the sole affected shipper from an abuse of market power, IAIS need not demonstrate that the proposed transaction is of limited scope. 49 U.S.C. § 10502(a)(2); Fort Worth & Western Railroad Company, Inc. -- Lease Exemption -- St. Louis Southwestern Railway Company, Finance Docket No. 32955 (STB served September 5, 1996) at 3.

Nevertheless, it is clear that IAIS's acquisition of L & S stock satisfies this criterion as well. The proposed transaction involves the acquisition of the stock of a closely held corporation and will not result in any change in operations for the single industry served via the rail line. Accordingly, the Board should find that this transaction is of limited scope within the meaning of Section 10502(a)(2)(A).

IV. LABOR PROTECTION

Under 49 U.S.C. § 10502(g), the Board may not exempt a rail carrier from otherwise applicable employee protection obligations. The applicable level of labor protection for this transaction is that specified by 49 U.S.C. § 10902(d) and Wisconsin Central Ltd. -- Acq. Exem. -- Union Pacific R. Co., 2 S.T.B. 218 (1997), rev'd in part sub nom. Association of Amer. Railroads v. STB, 162 F.3d 101 (D.C. Cir. 1998.)

L & S has no employees and no equipment or rolling stock. Additionally, no IAIS employee will be adversely affected by this transaction. IAIS's level of service on the line will not be reduced as a result of this transaction. Hence, there are no labor protection issues associated with this transaction.

V. ENVIRONMENTAL ASSESSMENT

A petition for exemption must comply with the Board's environmental reporting requirements, if applicable. 49 C.F.R. § 1121.3(a). Under 49 C.F.R. § 1105.6(c)(2). IAIS's proposed acquisition of the L & S stock is exempt from environmental reporting requirements. The proposed acquisition will not result in significant changes in carrier operations, i.e., changes that exceed the thresholds of 49 C.F.R. § 1105.7(e)(4) or (5).

Under 49 C.F.R. § 1105.8(b)(1), the proposed acquisition of L & S stock is also exempt from historic preservation reporting requirements. IAIS's acquisition of the rail line is for the purpose of continued rail operations. Even though IAIS questions whether Board approval would be required as a prerequisite to any abandonment or discontinuance of service, and there are no plans in connection with this transaction to dispose of or alter properties subject to the Board's jurisdiction that are 50 years old or older.

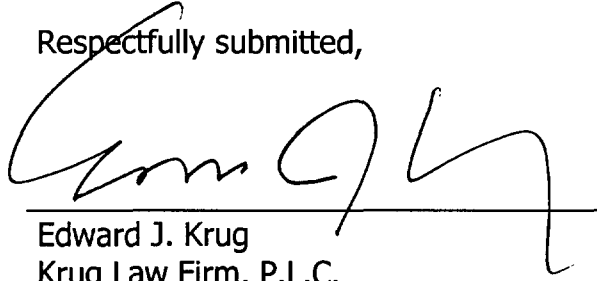
VI. EXPEDITED CONSIDERATION REQUESTED

As set forth above, given that the subject matter of the transaction is a rail line that IAIS has operated for 21 years, IAIS questions the extent to which the proposed transaction is subject to Board jurisdiction. However, to the extent this petition is required, IAIS requests that the Board expedite consideration of this petition and issue its decision to be effective on or before December 31, 2006. L & S and IAIS desire to fully transfer the stock of the company as soon as possible.

IAIS and L & S desire to close on this transaction by December 31, 2006.

WHEREFORE, IAIS respectfully requests that the Board grant an exemption from the provisions of 49 U.S.C. 10902 for IAIS's acquisition of L & S's stock with the exemption becoming effective on December 31, 2006.

Respectfully submitted,



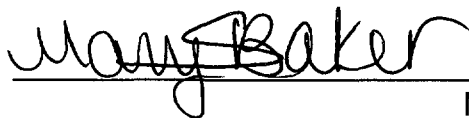
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ekrug@kruglawfirm.com
ATTORNEY FOR IOWA INTERSTATE
RAILROAD, LTD.

CERTIFICATE OF SERVICE

I certify that I have this day served a copy of the foregoing document upon the following by Federal Express, overnight delivery:

Donald M. Murray
33587 Walker Road
Avon Lake, OH 44012

Dated: 10/20/06



Mary S. Baker

VERIFICATION

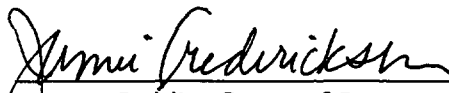
STATE OF IOWA :
: SS
COUNTY OF LINN :

Lori L. Frost, being duly sworn, deposes and says that she is the Vice President of Finance, of the Iowa Interstate Railroad, Ltd., that she has read the foregoing Petition for Exemption, and knows the facts asserted therein, and that the same are true as stated.

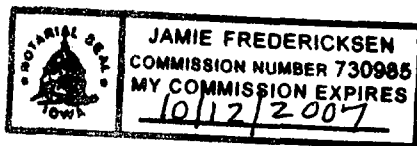


Lori L. Frost

Subscribed and sworn to before me by Lori L. Frost this 20th day of October 2006.



Notary Public, State of Iowa



LEGEND FOR STATE MAP

National Forest
 Shaded area with diagonal lines

State Game Refuge
 Shaded area with cross-hatch pattern

County of Columbia
 Shaded area with horizontal lines

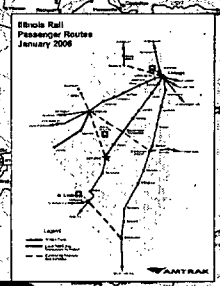
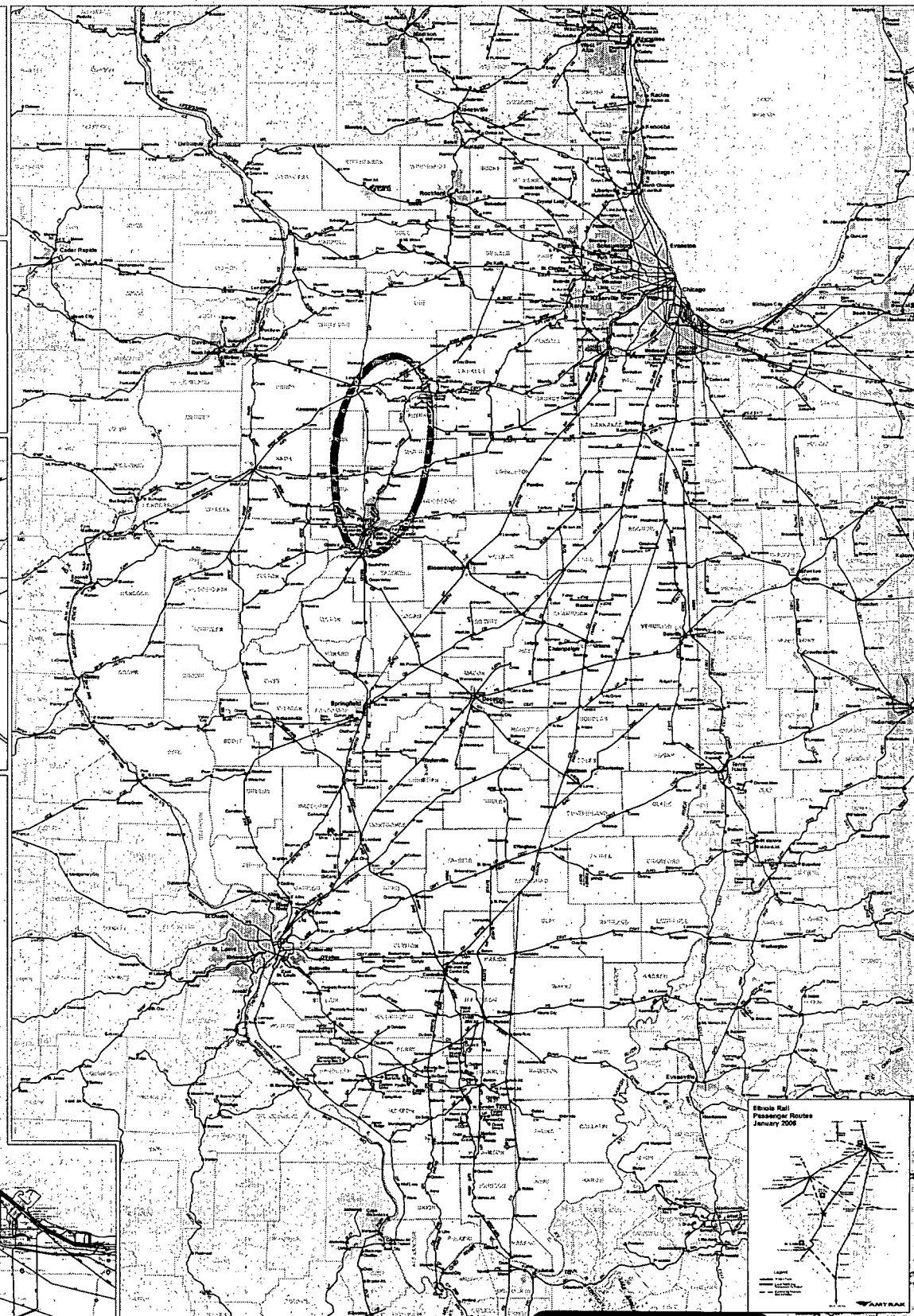
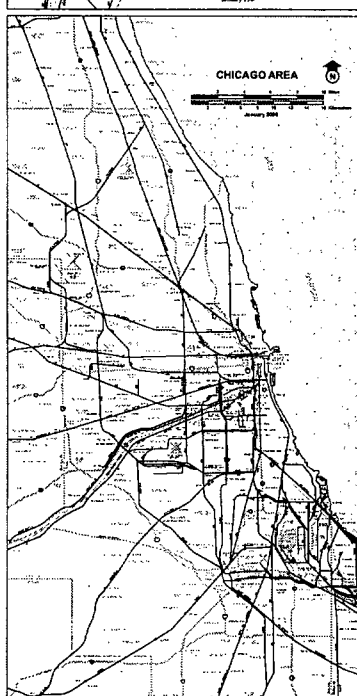
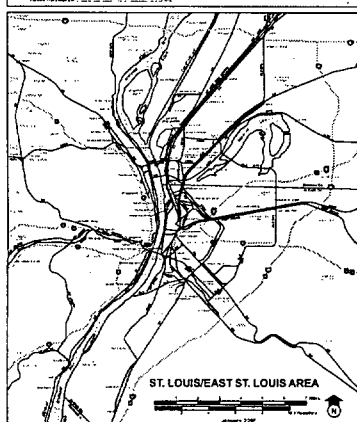
Land Ownership
 Shaded area with vertical lines

Scale
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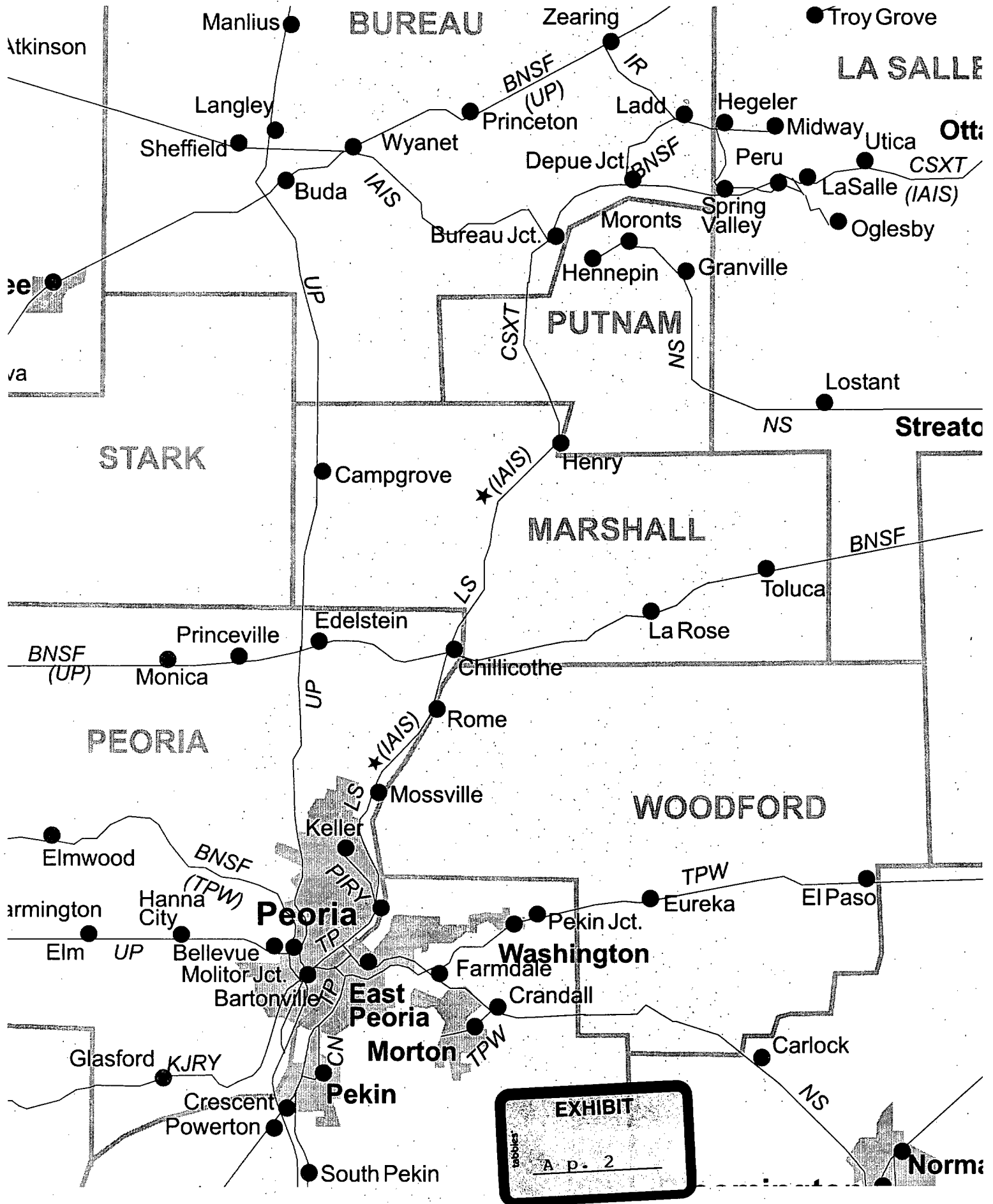
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**tablets.**

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October 23, 2006



217914

VIA FED EX

Surface Transportation Board
1925 K Street N.W., Suite 700
Washington, D.C. 20423

Attention: Mrs. Harding

RE: Finance Docket No. 34942, Iowa Interstate Railroad, Ltd. -
Acquisition Exemption - Lincoln & Southern Railroad

Dear Mrs. Harding:

Thank you for your telephone call on October 23. Enclosed is a check for \$200 for the remainder of the docketing fee.

Very truly yours,
Krug Law Firm, P.L.C.

By:

Edward J. Krug

EJK/msb
Enclosure

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