



2014 SEP 17 PM 3:42
OFFICE OF CHAIRMAN

September 16, 2014

Daniel R. Elliott III, Chairman
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423-0001

Dear Chairman Elliott:

Watco is pleased to provide you this update on our efforts to make sure our rail network is prepared to handle the fall peak season. This year I am pleased to report we have again made significant strides to insure the needs of our Customers are being met on a daily basis. We have invested heavily in three areas: 1) track infrastructure; 2) locomotive availability; and 3) Improved training in safety for our team members.

These investments in our network, locomotives and people have given us significant flexibility in managing our capacity and our ability to deal with peak volume periods.

I also want to underscore the most important thing the STB could do for the benefit of short line railroad Customers:

1. For short line railroads, our best ability to deal with increased volumes is the utilization of the 45G tax credit that is used for capital improvements to the short lines tracks. As this tax credit expired in Dec. 2013, and has not been reauthorized by the Congress, it becomes harder to meet the needs of our Customers that require additional investments in our railroads.

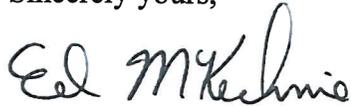
The most help the STB could lend this year to the short line railroad industry in regards to managing peak and surge rail traffic, would be to advise Congress that their inaction on the short line tax credit threatens future peak/surge shipping seasons, and the ability of short lines to managing that traffic.

In the last two years short lines have made more than \$325 million in additional track investments that have been used to add and improve capacity on the short line network. This has given the rail industry additional capacity to deal with increasing volumes and I believe is a primary reason for service improvements on America's short line railroads. Re-authorization of

the section 45G tax credit should be paramount on the STB Congressional agenda as a primary tool to meet the needs of the seasonal surge traffic.

I hope this information is helpful and meets the needs of the STB.

Sincerely yours,

A handwritten signature in black ink that reads "Ed McKechnie". The signature is written in a cursive, slightly slanted style.

ED McKECHNIE
Chief Commercial Officer
Watco Companies, L.L.C.