

THE WALL STREET JOURNAL.

Judges OK sale of railroad in Canada disaster

Associated Press | January 24, 2014

Judges in the U.S. and in Canada on Thursday approved the sale of a Maine based railroad that went bankrupt after one of its trains derailed in Canada, setting off an explosion and fire that killed 47 people.

New York-based Fortress Investment Group, which won an auction this week, hopes to close on its purchase of Montreal, Maine and Atlantic Railways by March 31, Chapter 11 trustee Bob Keach said after a hearing in U.S. Bankruptcy Court in Bangor, Maine. Fortress will continue to operate the railroad in Maine, Vermont and Canada.

A Fortress subsidiary bid \$14.25 million for the railroad. The value of the sale grew to \$15.85 million when Fortress forfeited \$1.6 million worth of locomotives that will be sold separately.

It's far cry from what's necessary to repay creditors and victims, but it's a fair price for the railroad given the changing landscape following several other railroad oil spills, the prospect of higher insurance premiums and an uncertain regulatory future, Keach said.

"Given the environment that we were in, it's a very good deal. You had an environment where we had a number of high-profile derailments, one after the other," he said.

Montreal, Maine and Atlantic, which owns about 500 miles of track in Maine, Vermont and Canada, went bankrupt after an unmanned train with 72 oil tankers derailed in Lac Megantic, Quebec. The company has blamed the solo operator for failing to set enough brakes.

Proceedings were held Thursday in Superior Court in Quebec and U.S. Bankruptcy Court in Bangor as transportation officials in both countries recommended tougher regulations for shipping crude oil by rail.

Canada's Transportation Safety Board, in conjunction with the U.S. National Transportation Safety Board, recommended that so-called DOT-111 tanker cars like the ones that exploded in Lac Megantic be required to meet more stringent safety standards. In Lac-Megantic, the older DOT-111 tank cars ruptured at low speed, releasing crude oil that fueled the fire, regulators said.

The \$15.85 million sale of the railroad, which faces additional regulatory hurdles, adds to \$25 million in insurance payouts available for wrongful death, personal injury, property damage, fire suppression and environmental impact. But the environmental costs alone are expected to exceed \$25 million. Some estimates put the cleanup costs at \$200 million or more.

All told, more than a dozen companies expressed interest in the bankrupt railroad. But Fortress, the "stalking horse" bidder, was the only company to bid for the entire operation, and it came out as winner of a closed-door auction on Tuesday.

Nate Moulton, who oversees the rail program at the Maine Department of Transportation, said he's pleased that the railroad will remain intact under the ownership of a Fortress subsidiary.

"These guys are well financed. They've run railroads before and they know what they're getting into," he said. I'm hopeful they'll be a good operator and a good partner for the states."