

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION

In re: Consolidated Rail Corporation
Public Hearing

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Verbatim report of hearing
held in Minority Caucus Room,
Main Capitol Building,
Harrisburg, Pennsylvania on

Thursday
July 28, 1983
10:00 a.m.

HON. AMOS K. HUTCHINSON, CHAIRMAN
Hon. Victor J. Lescovitz, Subcommittee Chairman on Aviation
Hon. Thomas J. Murphy, Subcommittee Chairman, Highways
Hon. Robert C. Donatucci, Subcommittee Chairman on Public
Relations
Hon. Joseph A. Steighner, Subcommittee Chairman on Transportation
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Hon. William R. Lloyd, Secretary

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Reported by: Dorothy M. Malone

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Also Present:

Hon. Charles P. Laughlin
 Jim Martini, Executive Director
 Scott Casper
 Vincent Rossi

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CHAIRMAN HUTCHINSON: It is five minutes after ten. I'm a little late calling this meeting. This meeting was made possible by a resolution by Representative Laughlin. This is the second meeting we have had and I think everybody knows what we're here for. And I think it might have broadened a little bit since what I read in the paper this morning that Santa Fe is interested in buying the company, that one of their many vice-presidents, if they are like the old Penn Central, they have lots of them.

The idea was to investigate PennDOT to see if the layoffs they had made were still keeping safety. Like I say, I think it has been broadened a little bit beyond that. As Chairman of the Transportation Committee I will be having another hearing in Bloomsburg and maybe because of this we might have one in Philadelphia.

The first on the agenda is Mr. Michael Williamson, President of Industrial Development Corporation of Clinton County.

Before you start, I would like to have all the members of the Committee introduce themselves.

REPRESENTATIVE LAUGHLIN: Representative Charles Laughlin, 16th District, Beaver County.

REPRESENTATIVE PETRACA: Representative Petraca,

55th District, Westmoreland County.

MR. CASPER: Scott Casper, House Staff.

CHAIRMAN HUTCHINSON: I am Amos Hutchinson.

REPRESENTATIVE STUBAN: Representative Ted Stuban,
Columbia-Montour County.

REPRESENTATIVE LLOYD: Representative Bill Lloyd,
Somerset County.

REPRESENTATIVE GEIST: Rick Geist, Altoona.

CHAIRMAN HUTCHINSON: Thank you very much and you
can proceed.

MR. WILLIAMSON: Mr. Chairman, my name is Michael
Williamson. I am the President of the Clinton County Industrial
Development Corporation and with me is Mr. James Eckert, who is
a County Commissioner from Clinton County and is also the
Chairman of our Industrial Attraction Committee for the IDC.
We appreciate the opportunity to be here today not because we
want to put any blame on anybody, but we simply want to make
the Committee and take this opportunity to make the Committee
aware of the peculiar problems that we, in Clinton County, have
encountered with respect to CONRAIL and the abandonment program
that CONRAIL is presently engaged in.

We have, over the past ten years, been developing
an industrial park in the McElhattan Wayne Township area of our

county. This park has been developed through the financial efforts locally as well as from the federal and state governments. We have been successful in creating a very attractive park and have advertised, over the past several years, in all our brochures and literature many of the benefits of that park included in which is the rail connection to the CONRAIL's main line which runs from Buffalo to Harrisburg.

As a matter of fact, when the bypass for Route 220 was constructed it cut off the rail spur that linked the industrial park with the CONRAIL's main line and in consideration for that PennDOT entered into various agreements and spent substantial sums of money in reconnecting the rail spur that went into the park to CONRAIL's main line.

We have attracted an industry from Belgium by the name of Velda U.S., which is a wood processing company, which now employs approximately 70 people. Over the past several years we have been engaged in continuing discussions with them trying to convince them to increase and expand their present facility to include furniture manufacturing as well as pure wood processing.

Inherent in any expansion of their plans as well as essential for the attraction of industry to this park is the continued existence of the rail spur and much to our

chagrin approximately eight or nine months ago we woke up and someone said, do you know that CONRAIL is out there tearing up the track. Lo and behold we went out and CONRAIL was in fact tearing up the track which PennDOT had paid to put in. I think that ought to be of some interest to this Committee since it was in fact the state tax dollars that went into this rail line and now that rail was no longer there. Without that rail line we do not have access to CONRAIL. The cost to Industrial Development Corporation is simply prohibitive to try to put that line back in on our own. We need that rail spur not only for Velda expansion but also in order to continue to attract industries to our particular park. In addition, the actions of CONRAIL, although there was some minimal notice apparently that was designed to take care of the federal regulations, we are extremely concerned that CONRAIL is going to continue to abandon sections of spurs, take out switches, which is going to eliminate the access that we have to our existing facilities, which are now either abandoned or temporarily vacant. So that our efforts in attracting industries to Clinton County is going to be severely affected if not totally limited. For instance, there is a rail spur now which serves the Hammermill Paper Company which employs approximately a 1,000 people in Lock Haven and which is constantly expanding their facilities

and pouring great sums of money into modernizing and updating their facilities in our county.

That spur could easily be cut off by CONRAIL's removal of the switch which is essentially what they do. First they remove the switch and then since the switch -- since the line doesn't lead anywhere, they sell the rail, the actual rails, and there is nothing there and then they sell the ties and ballasts and all of a sudden you can't tell that there has been a rail there at all. We had a company from Michigan that came into our county. We took the company down to the industrial park in Wayne Township and had to tell them honestly that although we had advertised, and they came here with the thought that there was a rail access, that that rail access had been removed. We then took them up into an area of Lock Haven where there were old facilities which could be removed and some fill put in and an industrial site provided, but again that site is on this rail spur. If CONRAIL continues to remove these spurs without any consideration for the industrial development implications of those types of actions, then we are going to be in a situation where it is virtually impossible for us to engage in industrial development.

We have, for instance, several buildings now which are vacant buildings which are potential sites for new industries

coming in and taking over those buildings. Those buildings are located adjacent to one of two main lines that CONRAIL used to have running through Lock Haven. What they have done now is they have discontinued one of those entire lines. As a result, any time we want to use an existing facility we are going to have to have the potential new tenants go to the expense, unless they can work out some arrangement with CONRAIL, to put in the new track and the new spurs to connect to the main line.

The whole point of our being here is simply to express to you our concern, both potential and actual as we have experienced it over the last eight, ten months or a year with not knowing what CONRAIL is doing. Not being able to predict in the future whether or not we are going to have the rail which is there now, having to worry about how we are going to finance the reconnections of the rails that have been taken out by CONRAIL and most particularly with respect to our industrial park for the purpose of making you aware of the fact that we now have a million dollar industrial park which was financed substantially by the state government which simply no longer has rail access because CONRAIL has removed the tracks.

CHAIRMAN HUTCHINSON: Is that all?

MR. WILLIAMSON: Yes, sir.

CHAIRMAN HUTCHINSON: Peter, I know you didn't come here to answer questions. Does CONRAIL have to tell the PUC when they are going to take the switch out or anything like that? Don't have to notify you at all?

MR. PETERITAS: They file with us.

CHAIRMAN HUTCHINSON: They file with you. After they do it or before they do it? Do you have to have a hearing or --

MR. PETERITAS: They file with the ICC, they file a copy with the PUC.

CHAIRMAN HUTCHINSON: But you don't do anything?

MR. PETERITAS: We have no -- ICC preempts abandonment.

CHAIRMAN HUTCHINSON: Would you tell the young lady what your last name is?

MR. PETERITAS: Ray Peteritas, P-e-t-e-r-i-t-a-s, Director of the Bureau of Rail Transportation.

CHAIRMAN HUTCHINSON: Is there anybody from Mass Transportation from Ryan's Office?

MR. BLACK: My name is Mike Black from the Goods Moving Division.

CHAIRMAN HUTCHINSON: Are you notified, like he said, they take out the switch and then they do the rest. Are you

notified before they take out the switch?

MR. BLACK: Usually, yes, when they file with the ICC they send us a copy.

CHAIRMAN HUTCHINSON: Do you notify anybody? I know that legislators in the last year and a half have been notified, but sometimes after the fact than before the fact, but they are still notified. Is there any system over there that you can notify local governments or someone?

MR. BLACK: We don't have a system at this time, I don't think, to notify local governments. I think we send letters out to the legislator notifying them.

CHAIRMAN HUTCHINSON: I know. I used a couple of them. I was able to save a couple because of that letter.

MR. BLACK: If anyone voices a concern, we try to.

CHAIRMAN HUTCHINSON: Are there any questions starting from Charlie over?

REPRESENTATIVE LAUGHLIN: Basically, Mr. Chairman, the only thing that I would say that the gentleman merely substantiates the facts that we received in western Pennsylvania and across the state with regard to CONRAIL's activities and their lack of consideration. They did the same thing with employees of their own company, giving them the minimum announced advanced notice of the close-down of their shops.

They do that consistently. I just wish there were something we could do about it to accommodate you to protect the interest of the people in your county and also the state's money on that investment. We cannot guarantee you anything with the Federal Government's ability to allow them to abandon lines without us having any real say over it.

MR. WILLIAMSON: I might say, Mr. Chairman, the notice obviously would be helpful to us, but it is my understanding that in order to, in looking at abandonment they are looking at what the current use is of that track.

CHAIRMAN HUTCHINSON: Right.

MR. WILLIAMSON: Now, our problem is that most of the track is not being currently used because we don't have the industries. But if they don't look at the future use and take that into consideration, then that is where we have a severe problem.

CHAIRMAN HUTCHINSON: One of the things we have, we do have in that act that there is money in the Transportation Department to help buy that track and keep that track in order. And that happened in my district or the next district to me that we were able to get it at the right time to keep about a mile and a half of track for a big company.

MR. WILLIAMSON: Well, with respect to this track

into the industrial park, it is my understanding that that track was under agreement between the State Department of Transportation and CONRAIL. And the State Department of Transportation apparently was not successful in stopping them from taking the track out.

CHAIRMAN HUTCHINSON: Representative Petraca.

REPRESENTATIVE PETRACA: Mr. Chairman, the way I understand, at one time before anyone could abandon a line they had to go to the PUC. But since new legislation was passed in 1981, ICC preempts the PUC. At one time we used to have a lengthy discussion before they ever abandoned it. Now they can do it in 90 days. It seems that that was an experiment that didn't work. We have got to revert back to the old system where we should have public hearings on it. Like you say, you see a misery out there, times are hard. If you want any industry to come in you have got to have rail lines.

When we built the Volkswagen plant, the first thing the German company wanted besides a four-lane highway was a railroad, which we put in. Now when we have rail lines, the last thing you want to do is abandon them and then later when you have an industry coming in lose that artery. So, somehow, someway, we got to reverse what we did in 1981.

CHAIRMAN HUTCHINSON: Representative Geist.

BY REPRESENTATIVE GEIST:

Q The first question was definition of term. When you said connecting to the main line, did you mean the main line at Altoona?

A My understanding that the CONRAIL line runs from Williamsport up through Renova to Buffalo. How it gets to Altoona, in order to get to Altoona, you have to go to Harrisburg and then go west to get to Altoona. The line that we would have access to is the Buffalo to Williamsport line.

Q The next question is what is your alternative in Clinton County if CONRAIL is unprofitable and unable to provide service and is sold off in a piecemeal fashion? Who do you think would buy that line and ^{how} do you think they would connect it?

A Well, I don't think anybody would buy the line. I think we are relegated at this point to laying a track, purchasing a switch and getting CONRAIL to permit us to hook that switch onto the line. Whether or not they would provide the service then over that line would depend upon the arrangement that they would make with the users of the line and I assume there would be a substantial surcharge that they would impose under the rate tariffs based upon the somewhat limited use of that line. Until the industrial park got to the point

where it was totally full, in which case we would hope there would be sufficient use that it would economically justified.

Q I was just wondering if any short line operators had inquired to purchase it?

A Mr. Eckert indicates to me he is not aware of any and I am not aware of any either.

Q I would be concerned in my district about CONRAIL and keeping it intact in one piece. Those questions are probably a little slanted towards my district. I do sympathize with the need to service Clinton County by a rail shipper. Whether it be CONRAIL or whether it be somebody else, I certainly sympathize with you, but I sure hope we can keep CONRAIL profitable.

MR. ECKERT: If I may, Mr. Chairman, also I think one of our concerns at the same time is the amounts of dollars that the government, both state and federal are pumping into Clinton County, for example, to turn the economic picture around. And it is more increasingly a priority that we address one of our main strangleholds right now in bringing economic turnaround to that county is in fact the rail line and what is going to be its future. So what are we going to do. If in fact we can't feasibly have it, what are we going to do then? Just seal off the county economically and forget about it. I

certainly hope not, but for me, I realize that your argument as well.

CHAIRMAN HUTCHINSON: Barry.

REPRESENTATIVE ALDERETTE: No questions.

CHAIRMAN HUTCHINSON: Do you have any questions, Scott?

BY MR. CASPER:

Q Mr. Williamson, one thing that Mike mentioned in his presentation was the unpredictable rail situation in trying to lure industry to Clinton County and having to face this situation where you are not sure of whether or not you will be providing rail service down through the future. Do you think it would be helpful if Clinton County as well as the other economic development corporations throughout north central Pennsylvania had a mechanism to help handle that problem? In other words, to coordinate and help finance acquisition of way and equipment and accelerate the maintenance that would be required to bring the lines up to FRA standards. In other words, perhaps a state mechanism where the state would come in and help do all these things, of course, obviously local cooperation.

MR. WILLIAMSON: We have a fair relationship with CONRAIL to the extent that we can get their attention and have

them answer some questions we have. We have no clout as Clinton County per se in getting them to make any decisions at all. I think to the extent that we could join with other counties in any type of organization, whether it be a state governmental organization or a voluntary organization of the counties interested in the problem, that would obviously be a benefit to us. We simply are not big enough to be heard and they really don't care about Clinton County. Obviously, that is our well-being, our economic well-being, is not their priority for some reason.

Q Well, I would assume that their priority is looking at their profitability inasmuch as whatever they do, their operations would affect their profitability. Obviously, Clinton County and the IDC, you are looking at a situation, you are looking very much to bring industry into the area. To do that you need rail service. The problem is there are two different goals. Perhaps if there was a mechanism in place to help foster not only just cooperation but perhaps deal with the railroad and make alternate plans, then perhaps a short line could be formed to link up with CONRAIL. Short lines right now are a very important source of track for Consolidated Rail Corporation. But they would rather not be into the marketing low density freight traffic or carrying low density

freight traffic over these lines. If someone else is willing to do that, they are willing to pick up the retail service, or rather I should say the wholesale service, not the retail service?

A That would be very helpful to us. Something that we need. As I say, we need some organization, some mechanism to deal with them other than just on our own as a small six class county.

CHAIRMAN HUTCHINSON: I understand that the legislators in the northeast maybe northern central have organized in a group to help the rail service in their area. Ted Stuban is one of the organizers and we're going to meet next week. If you want to talk to Ted Stuban and how their organization operates after the meeting, he will probably be glad to talk to you.

MR. WILLIAMSON: Fine. Thank you.

CHAIRMAN HUTCHINSON: Thank you very much. Mr. Dennis Shaffer, Delaware and Hudson Railway Company.

MR. SHAFFER: Mr. Chairman, gentlemen, my name is Dennis Shaffer and I am Assistant Vice-President of Pricing and Marketing for the Delaware and Hudson Railway.

CHAIRMAN HUTCHINSON: Excuse me, is this the railway that one of the Mellons will take over?

MR. SHAFFER: Yes. Hopefully within the next several weeks.

To give you a bit of background, the D and H is the oldest continuing operating transportation company in the United States. We went into business 160 years ago in Honesdale, Pennsylvania as the Canal Company, and during that 160-year period we have remained as a solvent railroad which is rather unique in the industry. We are a small regional carrier compared to the size of CONRAIL and many other railroads in the nation. Basically, our route structure extends from Montreal, Canada on the north to Buffalo on the west and Washington, D.C. and Philadelphia on the south. We have two primary functions. We act as a bridge carrier for traffic to and from Canada, New England, New York State and we also provide a local service in much of New York State, eastern Pennsylvania and northern New Jersey.

We play a significant role, we think, in eastern Pennsylvania, 567 route miles in the state which is about a third of our system. Our north-south main lines traverse the eastern part of the state basically from Binghamton through Scranton, Harrisburg to Washington, from Scranton, Allentown, Philadelphia and eastward from Allentown to Newark, New Jersey.

We also provide local service in Susquehanna, Wyoming, Lackawanna, Luzerne, Columbia and Montour Counties and we serve Bethlehem, Pennsylvania and a limited number of customers in Philadelphia.

We originate and terminate about 7,000 carloads a year at our local stations, another 4,000 that we carry over head to Pennsylvania points and we carry approximately 70,000 carloads a year through this state going to points on either side of Pennsylvania.

We employ 243 Pennsylvania residents and have a payroll in excess of six million annually in the state, primarily in the Scranton area and to a lesser degree in Harrisburg and Allentown.

The D and H has had a long history as a profitable carrier and this turned to losses in the mid-sixties primarily for two reasons. One was the general decline in rail oriented industrial activity in the northeast, and the second and more important reason was the beginning of a merger movement that really started with Penn Central and culminated with the formation of CONRAIL in 1976.

The D and H previously was part of an interlocking network of railroads that basically competed with Penn Central, the old PRR, Reading, Erie Lackawanna, Lehigh Valley and Jersey

Central were friendly connections to us. Of course, when they were folded into CONRAIL, these friendly connections became one huge, dominant, overwhelming competitor.

When CONRAIL was formed, the D and H was placed in the role of providing competition to CONRAIL in large parts of the northeast. However, I would characterize that more like a David and Goliath situation. The small D and H regional carrier up against a very huge CONRAIL and a CONRAIL that was also receiving enormous amounts of taxpayer funding for operating subsidies, modernization, rehabilitation, employee protection, buy out and things of that nature.

In addition, CONRAIL was given de facto traffic, rail traffic monopoly in much of the northeast, including large parts of Pennsylvania. Where previously there were two or sometimes three carriers competing for the traffic, in many cases, it just came down to CONRAIL and that was the only option left. D and H was very restricted in its grants under the final system plan in '76 as to what traffic it could serve and where it could compete. All of these things led to a rather precipitous decline in our operating income and net income and we have never really been able to overcome that.

Despite these enormous inequities and CONRAIL's past efforts to really force D and H out of business, we have

survived much to the surprise of a lot of people and we continue to provide local service and to compete with CONRAIL. And I guess as a smaller carrier we are a little more tenacious and aggressive and competitive than a larger carrier and maybe that is why we have been able to hold on in these past ten years.

One thing that particularly concerns us, recent activities on CONRAIL's part, encouraged by the Interstate Commerce Commission to tighten its control of the marketplace and really give it the total dominance over its captive customers in the northeast and to restrict competition in the market area. Among some of the things that CONRAIL has done to maintain or to increase its dominance is it has closed virtually all of the competitive routes into the northeast. In many cases the only route the shipper now has available is CONRAIL. It has effectively and severely restricted what we call reciprocal switching. In other words, where CONRAIL as a carrier might switch a car for another line haul railroad on its captive customers and it most recently has successfully pushed for total deregulation of boxcar traffic.

All of these moves have been sanctioned by the ICC and it certainly appears to us that the Commission is overly concerned with the well-being of CONRAIL as opposed to possibly

the interest of other carriers, shippers, communities and the public in general. The Commission seems to rather unquestioningly approve everything that CONRAIL wants. Especially those actions designed to increase its market dominance and I suspect part of this is their concern that CONRAIL survives as carrier. But they seem to move very rapidly on what CONRAIL wants and very slowly on requests for carriers such as the D and H to increase its ability to compete in the marketplace. For example, over a year ago the D and H applied to the Interstate Commerce Commission for switching access to all traffic in Philadelphia to access to Pier 124, the coal pier, and for access to the Philadelphia Belt Line Railroad. In our initial application to the ICC we received considerable shipper support. We received support from various political bodies including the Pennsylvania DOT and the port interests in Philadelphia.

The Commission's initial decision was favorable to us and gave us competitive access to all of these areas. However, CONRAIL appealed this decision and the Commission has not acted on that appeal despite the fact that the statutory deadline was July 4th. So they technically are in violation of the law that they have not given us a decision. We are very disappointed that the Commission has chosen to drag its feet because we feel that competitive rail service in Philadelphia

is very important to the region, port and the city.

I might mention that our application was the first application under Section 223 of the Staggers Rail Deregulation Act and basically Section 223 was put in the Act to allow carriers and community ports and regions to gain competitive access in areas where none existed. Basically the theory was if you're going to have deregulation, then you have to have competition. CONRAIL has, of course, fought us at every step of the way in this endeavor and the Commission has moved very slowly if at all. We yet don't know what their final decision will be.

I might mention that we also support, strongly support, the efforts of the Philadelphia Belt Line to re-establish its operations as a neutral terminal carrier in the City of Philadelphia. And I believe one of the witnesses today will probably be talking at greater length about that. We think this will have great benefit to the port and the city because it will provide the shipping community with access to three railroads whereas now they are really captive to one which is CONRAIL.

I do want to stress that the D and H generally supports deregulation and we also want to see CONRAIL succeed. We are not necessarily anti-CONRAIL even though we compete with

them. We certainly are willing to cooperate with them where it is appropriate. However, we do feel that not only in our interest but in the public interest it is not appropriate to have such a large part of the region's railroad shippers served exclusively and being captive to CONRAIL. We feel that if railroad deregulation is to work in Pennsylvania and elsewhere there has got to be a greater access for other carriers and more intramodal competition.

I would like to touch briefly on one other subject. The D and H has received funds from the Pennsylvania Department of Transportation the past two years for track rehabilitation. This is in the amount of \$926,000. These funds have been extremely important to us, especially in our financial condition in enabling us to upgrade our railroad facilities in the state. Most specifically this money went into track upgrading in the Scranton area and also it went toward upgrading a line of railroad between Wilkes-Barre and Sunbury that we purchased from the Penn Central in 1976. This is now our north-south main line. The railroad, when we purchased it from Penn Central, was in absolutely deplorable condition. We used the Pennsylvania funding to substantially improve this line and we feel it is important for the state government to continue to kind of what I would guess you would call infrastructure

improvements. And we think the railroad line and the railroad infrastructure in the state is just as important as investments in highways, ports, bridges, waterways and airports. We hope the state will realize the importance of these investments to the railroad industry.

I might mention as an aside we have also received, as well as other railroads including CONRAIL, considerable amounts of rehabilitation monies from the State of New York. They have had two transportation bond issues in the past ten years and have made very substantial investments in the railroad infrastructure. As a result, they probably have one of the best railroad systems physically of any state in the country.

In conclusion, I think D and H's future is very bright. We will soon become part of the Guilford transportation system, which will merge the main central Boston and Maine and Delaware and Hudson into one regional carrier. Still a relatively small carrier compared to CONRAIL and most other main line railroads in the country. We think this system will provide financial stability to D and H and will be very important in providing a rail service to eastern Pennsylvania. Thank you.

CHAIRMAN HUTCHINSON: The members that just came in, will they give their names?

REPRESENTATIVE LESCOVITZ: Vic Lescovitz, Washington-

Beaver County.

REPRESENTATIVE ALDERETTE: Barry Alderette, Beaver County.

REPRESENTATIVE GAMBLE: Ron Gamble.

REPRESENTATIVE MURPHY: Tom Murphy, Allegheny.

REPRESENTATIVE NAHILL: Charles Nahill, Montgomery County.

REPRESENTATIVE PITTS: Joe Pitts, Chester County.

CHAIRMAN HUTCHINSON: Starting with Joe Pitts.

BY REPRESENTATIVE PITTS:

Q The only thing I would be interested in asking is does your company have any dealings with Roadrailer?

A Yes.

Q What has been your experience?

A We have had discussions with Roadrailer and very preliminary at this point they are interested in expanding their concept which is a new technology and they have discussed with us the possibility of using their equipment but nothing has gone beyond that at this point.

Q None of your lines have been used up to this date?

A Up to this date, no. I think it is a good technology by the way. It is very, very efficient technology as compared to the present piggyback technology.

REPRESENTATIVE PITTS: That is all.

CHAIRMAN HUTCHINSON: Representative Nahill.

BY REPRESENTATIVE NAHILL:

Q I don't know whether you read the paper this morning. I think the Santa Fe Railroad is interested in the possibility of taking over CONRAIL. Would that make your problems worse, better or what would that mean at the moment?

A I really can't tell at the moment. It is too early to give an opinion.

BY REPRESENTATIVE ALDERETTE:

Q Sir, you say your railroad is for deregulation, but as a result of that your railroad is being restricted in certain areas and unable to ship as maybe they had in the past year, 180 years till now. Just directly from you what would be your suggestion as a middle road or compromise or something?

A My personal feeling is that for deregulation to work you have to have competition. If, for example, you look at the trucking industry, airlines, etc., industries that have essentially been deregulated, prices have generally come down. There have been a lot of new companies entering the market. To get into the trucking business all you need to do is be able to buy a rig and trailer. The railroad business is much different. In many cases, there is no possibility for entry. If you have

a plant on the line of CONRAIL or any other railroad, that's the only railroad that you deal with. And if CONRAIL chooses or any railroad, I am not just picking on CONRAIL. Here, they in essence dictate terms and conditions to the customer and the customer has no recourse.

Q There are restrictions, but they are not being put forth by the government. They are being put forth by that private carrier.

A Well, under deregulation there are no restrictions. It is a free for all. And what we are proposing here in Philadelphia and elsewhere is if you're going to have that, we think it is in the public interest to have as many rail carriers where practicable competing for this traffic. You should not have a captive customer situation. That does not work with deregulation.

Q Then how do we get the point to CONRAIL ^{some} or/railroad like that that they should let you be competitive and let you use their switching? How do we get that point to them?

A The only way is to go through the Interstate Commerce Commission. You are really at the mercy of their decisions. Up to this point, and I guess the jury is still out on this, I don't want to be unduly critical, but certainly up to this point all of their decisions have been in CONRAIL's

favor in terms of giving them deregulation. But they have not made any decisions in favor of competitive entry or at least of significance, and that is really what you need. And possibly short line railroads is another way to get around this. A short line that has connections with two or three line haul carriers. In essence he is a broker almost.

CHAIRMAN HUTCHINSON: Vic.

BY REPRESENTATIVE LESCOVITZ:

Q You are merging, you said next year, this year?

A Hopefully within the next month or two.

Q I was just curious, if next year CONRAIL was broken up into small pieces would it benefit your railroad or not?

A Possibly, yes. Again, I am assuming there would be where you now have one huge carrier you might have several carriers in there and you would have more options for us as a connecting carrier.

Q Have they closed any lines in your area?

A You mean abandoned them?

Q Abandoned them.

A Oh, yes. In fact we have purchased some lines that CONRAIL did not want.

Q Would you have kept those lines or did you take over any of those lines that were abandoned?

A We took over one line which CONRAIL didn't want and we are now operating that at a profit. It is in Southern Tier, New York. We also have purchased one segment of CONRAIL, a line they did not want between Binghamton and Scranton which we now use for our main line.

Q So you purchased two abandoned lines out of how many that you know?

A Those are really the only two that we could have had access to.

REPRESENTATIVE LESCOVITZ: Thank you.

CHAIRMAN HUTCHINSON: Charlie.

BY REPRESENTATIVE LAUGHLIN:

Q Mr. Lescovitz touched on the point that I wanted to make and that was in fact that the Delaware and Hudson had already taken advantage of a number of lines that had been abandoned and also according to the program that I read, which was approximately a year and a half ago, on the floor of the House there were continuing plans by the Delaware and Hudson to expand into the areas of the east coast facilities, Philadelphia, etc. In the event that you would be able to secure some of those lines. Certainly, I can understand your company's wish to do that. By the same token you can understand our wish that the greatest amount of concentration of

CONRAIL be kept intact and would be so. So our ideas certainly do not coincide with what the benefit of the Delaware and Hudson is. By the way, where is the Delaware and Hudson physically structured as far as its operating base is concerned?

A Our headquarters?

Q Yes.

A In Albany, New York.

Q To what degree have you taken advantage of the tax credits in the State of Pennsylvania?

A I can't answer that. I don't believe we have to any large degree because we haven't shown a profit.

Q With regard to the base that you would then have if you were able to take over any of these CONRAIL lines, is it your plan then to either keep them in operation or to abandon them and utilize that land for some other purpose?

A I would say if we took over a CONRAIL line at this point it would be pure speculation on my part as to what lines we might take over. But if we took over a line it would be our intent to operate it. We certainly have never gotten into --

REPRESENTATIVE LAUGHLIN: Well, you just listened to the gentleman from Clinton telling you how concerned their commissioners were about the loss of business in their area because of that. That is why I asked the question. I have no

further questions.

BY CHAIRMAN HUTCHINSON:

Q That \$900,000, that was probably gross receipts tax. You don't have to show a profit to get your receipts tax. You have got to pay whether it makes a profit or not. That \$900,000, what was that from?

A The \$900,000 was from the Pennsylvania Department of Transportation. We invested that money in upgrading these rail lines in northeastern Pennsylvania.

CHAIRMAN HUTCHINSON: Ted.

BY REPRESENTATIVE STUBAN:

Q I guess some of the questions that I wanted to ask maybe were asked. With the CONRAIL abandonments, do you look at all these abandonments and see if you can tie into them?

A Generally, yes. Unfortunately, there are not too many where we can physically get to them. In some cases our rights under the final system plan have restricted our access.

Q Out of this \$900,000 money that you said that you rehabilitated the track through Columbia County out of Scranton and in the eastern part of the state, have you ever considered tieing into abandoned track that they are abandoning from Montour, Northumberland and Columbia County. With Catawissa with the bridge there and the old Reading Railroad Bridge. Has

that ever been considered or looked at?

A Yes, we have looked at that and the problem is, as I understand it, the bridge is owned by a private individual and is not necessarily available. I don't know all the facts but that is my understanding of it.

Q I understand the bridge has been sold. You mean to tell me there cannot be some agreement made or some consideration there to pick up that?

A I am sure there could be, yes, to get across the bridge and onto the line on the north side of the river. We have never become too involved in looking at that for those reasons. However, we certainly would be interested in discussing further if it is something that would provide a reasonable traffic pace for us, we might be interested in operating it or having a short line operate it.

Q Well right now they are pretty close to coming to terms with shippers and everything to save that piece of line. I feel down the road there once they lose that bridge across the river, they are going to lose a source to a good area of growth, you know, the Delaware and Hudson, and we're spending so much money on that track it is just a shame to see that one whole area could be closed out there and maintaining that bridge we could save that area.

A I certainly think if a short line, for example, would operate that line it would be wise to make the connection to cross the bridge, so they would have access to two main line carriers.

Q Can you get your company to look at that to see what possibly could be worked out?

A Certainly.

BY REPRESENTATIVE LAUGHLIN:

Q Mr. Chairman, one other point of clarification. The gentleman said they were having difficulty gaining access to the new \$26 million investment the state made in the pier in Philadelphia for coal hauling. Are you talking about new business and new hauling for that area or are you merely talking about being competitive with an existing hauler in that area? We are looking for new business, not merely competition with an existing business.

A Well, D and H serves part of the coal regions, of course, going through Scranton and Wilkes-Barre. I am sure if we were in the coal pier in Philadelphia or had access to it, there would be some business where we would be competitive with CONRAIL. There might also possibly be some new business. For example, I understand a lot of coal was, in the past, I don't know whether it is being done right today was being trucked to

Port Newark because they couldn't get into the coal pier. At the time there was congestion so they trucked it to Newark and that is business that should have gone through Pier 124. Now possibly if we had access we could handle that. I don't know.

REPRESENTATIVE LAUGHLIN: Thank you.

BY REPRESENTATIVE STUBAN:

Q Can I pursue that question? Out of the Luzerne-Lackawanna County area how much of that coal is going to that pier? Is anybody hauling it to that pier?

A Pier 124?

Q Right.

A I suspect CONRAIL is hauling anthracite coal to Pier 124, yes. We are not.

Q But your railroad has no access?

A That is right.

Q And there are areas in Luzerne or coal areas that are not really being covered because CONRAIL has abandoned some of those lines, is that right?

A As I said, one time they were trucking this to Port Newark. That was their only way of exporting coal.

REPRESENTATIVE STUBAN: I think Bill Lloyd ought to take note of that. I think Bill is always interested in revitalizing the coal industry. But he wants to revitalize it

in the western part of the state.

CHAIRMAN HUTCHINSON: Jim, do you have any questions?

MR. MARTINI: No.

CHAIRMAN HUTCHINSON: Scott?

BY MR. CASPER:

Q Mr. Shaffer, you said earlier you were not able to speculate possibly on a line-by-line basis but on a more general main line situation. If Santa Fe is going to be coming in and taking over a large part of the CONRAIL operation if not the whole thing, considering the fact that Santa Fe is primarily east-west rather than a north-southwestern carrier, would you assume or could you say that the D and H would be prepared to come before the ICC or the Federal Department of Transportation, request that the current main lines that it has trackage rights over, in other words, support roads through Dauphin and Lancaster Counties in Pennsylvania to get to the Pott yard in Alexandria and also to the Allentown yard and the eastside Chessie yard in Philadelphia, would the D and H have a plan to come in and acquire those main lines as opposed to traffic rights or trackage rights where you do not have the option of picking up the local rail service?

A I really don't know. As far as I know at this point there is no plan by D and H or Guilford to acquire any of those

lines and what might happen with the purchase of CONRAIL by someone else. I really don't know at this point. We have not had an opportunity to really think about it and review it.

MR. CASPER: Thank you.

CHAIRMAN HUTCHINSON: Thank you very much, sir.

Mr. Everett Croyle, Tex for short.

MR. CROYLE: Mr. Chairman, I can call you Chairman, can't I?

CHAIRMAN HUTCHINSON: You can call me anything. Your ex-boss calls me lots of things.

MR. CROYLE: Mr. Chairman, I have with me Thomas P. Shearer, who has been an attorney for our organization for a number of years. He is here possibly if you have some questions for me on abandonments and what have you that he is more knowledgeable than I am.

My name is Everett Croyle and I am the Pennsylvania State Legislative Director of the United Transportation Union. The United Transportation Union is a railway labor organization representing all of the operating personnel on the railroad in the United States and Canada except some locomotive engineers. My position includes the responsibility of representing the interests of our members as it may be affected by legislation and regulation particularly on the state level. Our interests

in this regard include the safety and general welfare of our members which in large part are dependent upon the economic health of the rail industry and the economic well-being of the Commonwealth in general and for all these reasons I welcome the opportunity to appear before this Committee and present my views on some of the matters with which House Resolution No. 60 is concerned.

Initially, I would like to comment on a matter that was mentioned at the prior hearings in Baden -- the sale of Consolidated Rail Corporation by the federal government. The United Transportation Union was in favor of the creation of CONRAIL, as it has come to be known. The alternative would have been disastrous for Pennsylvania and the surrounding area as well as for our union. When it became obvious that CONRAIL would be returned to private ownership, we urged that it be transferred as a whole and its more desirable lines not be sold to the highest bidders. This would have resulted in a sort of government authorized "cherry picking" and the final result would have been to deny rail service to many areas of Pennsylvania where shippers find it essential. In order to make binding the sale as one whole unit it was necessary to make this requirement contingent upon CONRAIL showing a profit. This was done. The rail labor unions then assisted in the

achievement of this vital goal by agreeing to wage concessions of approximately 12 percent. They also made possible substantial reductions in total employment by changes in rules and made early retirement more palatable by federal assistance. In addition, rail labor softened or withdrew its objections to federal legislation which sought to enhance CONRAIL's profitability by making abandonments and freight rate increases easier. It was at this point that the interests of the individual shippers and the UTU no longer were identical. For years the union had stood side by side with the shipper to preserve essential service. Now with abandonments possible almost, if not entirely at the will of CONRAIL and the union's primary goal the profitability of CONRAIL the alliance between the union and the shippers practically ceased. Nonetheless, in Pennsylvania the UTU has continued to fight for the continuation of needed service against the wish of CONRAIL particularly when it appeared that CONRAIL's judgment as to the loss being incurred seemed suspect.

With the success of the effort made by many to see that CONRAIL passed its profitability test, it then became essential that some entity be found willing and able to buy CONRAIL as a whole. No one came forward and so rail labor to preserve the goal for which it and so many others had strove

for these past years did indeed make a good faith offer to purchase CONRAIL. No other buyers have, shall we say, surfaced that was up until today. It is my understanding, and I so assure you, that rail labor does not wish to manage CONRAIL. The head of the rail negotiating committee, Fred Hardin, who is also President of my union, has publicly stated his satisfaction with Stanley Crane, head of CONRAIL's present management team. The UTU will continue its effort to prevent the breakup of CONRAIL and we urge that Legislature and the people of this Commonwealth do the same.

While desirability of a unified CONRAIL cannot now be disputed, problems remain. For Pennsylvania one of the remaining problems is that created by the merger of the New York Central and Pennsylvania systems on April 1, 1968. My predecessor and the Commonwealth stood almost alone in their opposition to this merger for years, primarily because they anticipated the problem concerning which you have already heard much. I refer to the potential superiority of the Great Lakes-Water Level Route (the former New York Central) to the Pennsylvania Route sometimes called the Keystone Corridor. In its effort to enhance its profitability CONRAIL has, at least we of Pennsylvania so believe, favored the Great Lakes routing. Mr. Swanson testified and produced figures at your prior hearings

indicating that 1982 traffic measured by tonnage versus 1978 was off 36 percent for the Keystone Corridor and only 17 percent for the Great Lakes Route (p. 49 of transcript). There is no doubt but that the Keystone Route does have geographical handicaps and we of Pennsylvania must do all that we can to overcome such handicaps by any and all means at our disposal. An important step in this direction has been accomplished by the proposal that a high speed rail line be considered in the Keystone Corridor. Engineering studies are beginning. I am privileged to be a member of this Commission.

There have been many complaints recently with regard branch line abandonments. In truth, the federal legislation permits CONRAIL, and indeed all railroads, to abandon with impunity any trackage they desire. My personal feeling is that such legislation went too far. I will mention a few examples. In 1981, CONRAIL imposed surcharges, or dollars per car, on freight shipped to and from certain points. These extra charges varied greatly being as high as \$2180 per car at Cloe (Jefferson County). With regard the West End Branch at Allentown, Pennsylvania, the proposed surcharge was \$690 per car. There were approximately 232 cars per year which would have resulted in an extra \$160,080 per year to service and maintain a three-mile branch.

With regard safety, CONRAIL has advised you that FRA statutes indicate a reduction in total rail accidents within Pennsylvania from 403 to 118, comparing 1977 to 1982.

I would like to point out that although total rail employment has dropped about 25 percent in the past 18 months, employee fatalities increased from 62 in 1981 to 72 in 1982 and that in 1982 there were 36,759 injuries to railroad employees, close to ten percent of the workforce. In 1982, FRA's limited force of safety inspectors found 31,305 defects in motive power and equipment and only 489 violation reports were filed. Out of 138,267 track defects discovered -- the highest cause of train accidents -- FRA issued only 60 violation reports.

FRA now has 275 inspectors to inspect 300,000 miles of track, 28,000 locomotives, 1.5 million freight cars, and 125,000 miles of signal systems. Attempts to increase this force have been resisted by the federal administration although 150 new positions have been added to the Department of Labor to "investigate unions."

CONRAIL has asked the Special Court created by Congress to handle rail reorganization matters to relieve it of compliance with the stipulated order of the Pennsylvania Public Utility Commission that it not operate engines without

cars with only one man in a limited number of situation in which it formerly agreed that such a procedure was dangerous. CONRAIL has successfully secured an order from the federal courts that the Pennsylvania law requiring speed recorders on engines operating in excess of 30 m.p.h. be declared void. CONRAIL has successfully asked that it be exempted from asking the FRA's approval of changes in its signal systems except in rare instances. CONRAIL has implemented a practice of shoving cars at the Enola Yard which previous management had agreed was dangerous. CONRAIL has removed, apparently permanently, one track sweeper out of two at the Conway Yard because it was urgently needed elsewhere although it told this Committee that Conway's reduction in cars dispatched had not fallen to an extent greater than the railroad in general.

We of Pennsylvania had a good rail safety program administered by the Public Utility Commission. The transfer of many of its responsibilities to the FRA by federal law certainly did not help rail labor's efforts to achieve a reasonable degree of safety in this state. We feel that anything that the Legislature can do to make safer the railroad employees' job should be done. CONRAIL's profitability may well be achieved by wage concessions. It must never be achieved as a result of the injury and death of our members.

Lastly, I turn to the tax credits made possible by Act referred to in Resolution No. 60. Whether or not any improvement to rail right-of-way was achieved by its passage is doubtful as railroad expenditures in this category are seemingly much higher than those necessary to secure the maximum credit. Pennsylvania has been, as you know, very reluctant to impose real estate taxes on railroad operating properties. Some of our sister states have imposed or continued to impose high taxes and earmarked the receipts for the subsidization of low density lines. The gross receipts tax credit was a very limited movement in the direction as it required written agreements that abandoned right-of-way be conveyed to the Department of Environmental Resources at fair market value within five years. I am advised that as of September, 1982, no such transfers have in fact occurred and that DER has no money and is not interested unless the right-of-way be in or adjacent to an existing state park or state forest.

It is my opinion that the Act providing the tax credit was well intentioned and has been of financial benefit to the railroads but that it has not increased expenditures for maintenance nor has it been of value in permitting state purchase of abandoned right-of-way. It might better benefit the economic life of the Commonwealth if the credits were

eliminated and the tax money received allocated to the purchase and operation, now or in the future, of abandoned lines which are essential to service the shipping public.

Railroads and their employees have made progress in productivity. Seventy-three percent less employees now handle 40 percent more traffic than after World War II. We must not overlook, however, the safety of the remaining employees and the plight of the captive shipper.

I thank the Committee for the opportunity of appearing today and would be happy to answer any questions you may have.

CHAIRMAN HUTCHINSON: Thank you, Tex.

BY CHAIRMAN HUTCHINSON:

Q I'll ask the first question. You mentioned it. How about the Santa Fe putting their oars in buying CONRAIL?

A My personal opinion, Mr. Chairman, is that the Santa Fe is looking for an entrance to the New England, New York and Philadelphia-East Coast market. I believe they are mainly interested in a main line. I believe if they are successful in acquiring CONRAIL and I don't think they want the entire system, that you will find the abandonment will probably be accelerated to what they are now under CONRAIL. Because they are mainly interested in entrance to these ports.

Let me point out another thing to you. As I said to you the RLEA, the rail unions have made an offer. I believe that if any other railroad, be it Santa Fe, the Chessie, any system would attempt to acquire CONRAIL in the whole, there would be a great abandonment of a number of branch lines. But further than that I don't believe it will happen for a great number of years, because I can see the other railroads who are not successful in their bidding going to court to prevent it. It is not unusual for mergers, as you know, in the past to last an excessive amount of time before they are consummated.

CHAIRMAN HUTCHINSON: Ted.

REPRESENTATIVE STUBAN: No questions.

CHAIRMAN HUTCHINSON: Charlie.

REPRESENTATIVE LAUGHLIN: Thank you, Mr. Chairman.

BY REPRESENTATIVE LAUGHLIN:

Q Mr. Croyle, I appreciate your testimony very much here before Representative Hutchinson's Committee. I would like to ask you a couple of questions with regard to your negotiations with the rail giant as we call it. Number one, are there a great deal of costly grievance problems and costly labor problems being set aside in order to enable CONRAIL to be a profitable entity?

A They are being set aside -- Representative Laughlin,

I don't understand really.

Q Let me redirect the question.

A You are right to a certain extent, but not by the unions. But go ahead.

Q What I am saying to you is that I have been told in a number of cases by a number of union officials that cases have been held up and have not been pursued by the International Union when they go beyond the local or regional level because there is a wish to try to help CONRAIL be profitable and again you already mentioned that they are profitable at the expense of the concessions granted by your members. Now are we also allowing them to be profitable at the expense of a legitimate grievance of a union member?

A I can only speak for the United Transportation Union and I can say that is not true. They are being delayed and held up for this reason. That Congress has seen fit or quite honestly I should say that the Reagan Stockman proposals to Congress on their budget has not provided money for mediation or referees and these cases are not being handled. We have made many requests for mediation, for referees and what have you and the FRA has no money for them.

To go a little bit further on that on the inspection of equipment, I have been advised a number of times by FRA

inspectors that their expense allowance, their mileage allowance have been cut down. This month you are only allowed X amount of miles before they could go wherever they were needed for inspection and things like that. But as far as our union is concerned, sir, the holdup, if there is any, in the federal procedure how the grievances must be handled.

Q Mr. Croyle, in addition to that you had earlier testified about your support for the tax funding that was granted to the railroads by the State of Pennsylvania and I recall your support. You also recall when that bill was being considered there was an amendment put into it to protect that east-west Keystone Corridor you're talking about?

A Yes, sir.

Q Do you recall your position on taking it out of the bill?

A It was my understanding the only way the bill could finally get passed would be with that out.

Q Are you also aware in other states such as New York, which you had mentioned earlier, was bond financing, Indiana, Ohio, other places, that concessions were given to the state in return for their tax money?

A I did not mention that in my testimony.

Q No, I said previous, the previous gentleman testified

to the fact that New York had floated bond issues.

A I recall, especially in New York that the amount of money that was put into the rail lines in New York. If it was in the legislation, Representative Laughlin, it must have been vague because I believe it ended up going to court making CONRAIL comply with using these lines.

Q Well, they got concessions to the extent of running one train across their tracks on a 24-hour period in order to maintain their connection in that short line which would have been similar to the concerns of the Clarion County Commissioner, that there was protection granted. Where we, in Pennsylvania, received no protection whatsoever.

A Right. Let me point out one other thing to you, Representative Laughlin. I believe, I cannot prove, that quite a bit of the freight that used to come through Pennsylvania now goes by the so-called Water Level Route. To go back a little bit, after the merger of the PRR and the New York Central it was the intention then of Penn Central to use that route. At that time the density of traffic was such they could not handle the business. So consequently it reverted back to Pennsylvania and came through Pennsylvania. Now with the drop of the density in traffic, I think very possibly it is going the other way. I don't think the intentions or the attitude of

management is changed, I think that they believe this is the route that is better suited.

Q I am not really familiar with the top management of CONRAIL other than a few of the gentlemen I have talked to in trying to get the kind of information that you are talking about, that is, the relocation of their traffic over the low water route through New York. As you know we brought that out in Conway when the Committee was there. However, I was looking in to see who the top level of our management are today as they relate to their previous affiliation with the Pennsy and the New York Central. It would seem that if that direction of administration is going towards the New York Central, it seems that our traffic is going right along with it. I am checking now on their piggyback system. I am told that coming from the west now all of that traffic is starting to be rerouted up through New York so as to lessen the effect of Pennsylvania in that order. We don't disagree in our direction, Mr. Croyle, I just don't want there to be any misunderstanding that, you know, when we had a chance to do something with these people, we didn't get the support to do it with from our rail friends.

A Representative Laughlin, that was one of the reasons that we originally opposed the merger of the New York Central and the PRR.

REPRESENTATIVE LAUGHLIN: Thank you.

CHAIRMAN HUTCHINSON: Gordon Linton.

REPRESENTATIVE LINTON: No questions.

CHAIRMAN HUTCHINSON: Ron.

BY REPRESENTATIVE GAMBLE:

Q I find this very informative, Mr. Croyle. This 36,759 injuries, did they result in work loss?

A Yes, that's the only kind that have to be reported, sir.

Q 36,759?

A Now wait, that is not Pennsylvania now. That is nationwide.

CHAIRMAN HUTCHINSON: Rick.

BY REPRESENTATIVE GEIST:

Q Tex, I want to tell you that parts of your testimony concerning the employee buy out of CONRAIL, I agree with you 100 percent. I believe that if CONRAIL is sold to a western line you will see a break up that is going to be disastrous to Pennsylvania and especially in the City of Altoona. I hope that the brotherhood are more successful. The one profitability that wasn't brought out in your testimony is to receive operating capital, to go out in the capital markets, there has to be enough profit that CONRAIL can do that. Just

recently they had their first announcement of the private sector capital available in the capital markets. I hope the profitability continues. I hope to see the brotherhood some day buy it and I hope Mr. Crane lives to be a 100. Thank you very much.

A Representative Geist, let me say to you if the unions do take it over, they have made a \$500 million offer and they have another \$400 million credit available.

CHAIRMAN HUTCHINSON: Bill.

BY REPRESENTATIVE LLOYD:

Q Mr. Croyle, does your union represent employees who work for the Chessie system as well as CONRAIL?

A Yes, sir.

Q The statistics which you cited with regard to accidents, those are figures applied, you said across the country?

A Nationwide.

Q Do you have any statistics to indicate whether CONRAIL has more or fewer derailments than the Chessie system?

A I have no figures like that. Let me go back a little bit. It used to be the Pennsylvania Public Utility Commission kept a relatively good record of accidents, fatalities, injuries, what have you. They were preempted now, they

turn their reports into the FRA and they are awful hard to decipher or discern what is what or which is which. I am sure Mr. Peteritas could tell you more about that than I can. But at that time we objected strongly to the FRA reporting system compared to what the PUC's was.

Q Your comments that you don't think the tax credits really have done very much in terms of getting railroads to upgrade their track. That was the statement which you intended to apply across the board to all railroads in Pennsylvania, not just to CONRAIL?

A True. This legislation was originally introduced in the Senate at the urging of the United Transportation Union. Now our reason was at that time they had legislation in the State of Michigan that was somewhat similar. I was informed by our people in Michigan for that reason the railroads had come up and had accelerated their improvement of track. At that time the track, CONRAIL, in fact, a lot of railroads in Pennsylvania was in very, very bad shape. And I realized this, and speaking of CONRAIL, they come out with a budget each year and each region and what have you is allowed so much for track and so much for this. My thought was that if the Legislature would give them a break on their taxes, which possibly they did not get in another state, they would put more of that money from

the budget into Pennsylvania to repair than other states.

Q Well the reason that I am interested is, I am just trying to get a point of comparison because I have CONRAIL and the Chessie system and probably more of the Chessie system in my district than CONRAIL and in my opinion we have an inordinate number of derailments in the Chessie system in Somerset County. I am just trying to get a handle of whether that is typical of railroad business or rather that is somehow unique to the Chessie.

Finally, your point with regard to the speed recording devices, I am not really familiar with how that works. Is speed recording device something like a speedometer?

A No, sir, and I guess maybe the wording is wrong the way the legislation was written. A speed recording device, which by the way when that legislation was introduced and passed, practically all railroads in the state except CONRAIL, I believe except CONRAIL, had such a device on it. That measures how fast you are going, what happens, where you are. It is so complete that it even can tell you when the engineer blows the whistle or rings the bell. It is on a permanent tape. The reason for this, one of the reasons for this at that time was that the speedometers that registered a speed were quite often inaccurate and some of our members were being

trapped by handheld radar guns by supervision. And to counteract this, we thought that a speed recording device would verify and would also provide much evidence in case of an accident as to just how fast what had happened at that time.

Q This decision which CONRAIL got from the Federal Government, does that just apply to CONRAIL or does that apply to all railroads?

A It would negate the legislation which applies to all railroads.

Q Is there anything -- I'm sorry, go ahead.

A But remember what I said, to the best of my knowledge, and they still do. I think all the other railroads in the state still use it.

Q Is there anything in that decision which in any way prohibits the PUC from imposing a speed limit on a railroad train traveling through a populated area?

A I am not -- it is entirely different and I am not exactly -- if it's a dangerous situation, I would assume that the PUC could. But I think more or less tracks and speed might more be handled by the Federal Railroad Administration. Mr. Peteritas could tell you better than I could.

Q For the benefit of counsel my point was if the decision of the Federal Government was based on the preemption

doctrine, then arguably any right of the state to impose speed limits might fall under the same doctrine. That was the source of why I think it is not a different subject.

REPRESENTATIVE LLOYD: Thank you, Mr. Chairman.

CHAIRMAN HUTCHINSON: Vic.

BY REPRESENTATIVE LESCOVITZ:

Q Tex, I just had one question. I'm trying to go back to what you and Representative Laughlin were talking about in Baden. There were some questions about CONRAIL was taking the northern route through New York, through Buffalo instead of going down through Pennsylvania. I'm trying to think of what CONRAIL's statement was. It was something where they didn't have as many exchanges as far as going through Enola whereas New York was more of a direct route. I think that was something similar to what they were saying. Can you give me a comment on that? I am not sure that was, maybe somebody else could clarify that. I think it was something what they said, it was more of a direct route --

REPRESENTATIVE LAUGHLIN: It was a lower cost route because of the fact you have to go over the mountain.

MR. CROYLE: Better terrain. They call it the Water Level Route because it is better terrain.

BY REPRESENTATIVE LESCOVITZ:

Q I think it was switching yards and all they have to go through. What is your comment on why you think they are going up the northern route? Is it the terrain, not as many stops or what? Why they are going up, your opinion?

A Well, like I said, I believe the terrain has something to do with it. Representative Laughlin mentioned something that I didn't really think about before. Possibly the views of the management could be -- could have something to do with what their former affiliation was. Although I hope not. But I think the main thing, especially when it was originally considered was the type of territory that they had to operate over. That it was probably more energy efficient and probably faster.

CHAIRMAN HUTCHINSON: Thank you very much, Tex. Mr. Hasselman, CONRAIL. Would you give your name to the lady.

MR. DeYOUNG: I am Larry DeYoung, Executive Representative of Government Affairs Department at CONRAIL.

CHAIRMAN HUTCHINSON: Go ahead.

MR. HASSELMAN: Thank you. I have a prepared statement and I can also make a few remarks to cover some of the things I heard here in the last hour or so when the prepared statement is concluded.

CHAIRMAN HUTCHINSON: You have a right to protect

yourself.

(Laughter.)

MR. HASSELMAN: My name is Richard B. Hasselman and I am Senior Vice President-Operations, of Consolidated Rail Corporation, based in Philadelphia. We appreciate the opportunity to speak again, both to this resolution and to CONRAIL's position in the Commonwealth.

At the June 16 hearing in Baden, Pennsylvania, you heard testimony from Donald A. Swanson, Vice President - Transportation, of CONRAIL. While it is part of your record, and although I have provided you with copies of it this morning, I would like to review key portions of his remarks and update you on some recent developments of importance both to CONRAIL and the Commonwealth.

Pennsylvania is vitally important to CONRAIL; one-third of CONRAIL's employees work in Pennsylvania; one-quarter of CONRAIL's 15,000-route mile system is located in Pennsylvania; all of CONRAIL's major locomotive and freight car repairs are performed in Pennsylvania; three of CONRAIL's 11 major classification yards are located in Pennsylvania. Additionally, Philadelphia is CONRAIL's corporate headquarters; and two of CONRAIL's five regional offices and four of our 17 division offices are in Pennsylvania.

Between 1976 and 1982, CONRAIL invested \$540 million of its \$2 billion track rehabilitation funds in Pennsylvania. This \$540 million has paid for the laying of 1,235 miles of rail on CONRAIL's 4,000 miles of right-of-way in the Commonwealth, the installation of 5.5 million crossties, and the surfacing of more than 16,600 pass miles of roadbed.

This track improvement program, of course, relates directly to the tax credit law this Committee is studying. That legislation, which went into effect for the tax year beginning January 1, 1981, permits a credit against the gross receipts tax, equal to 25 percent of the amount expended in the Commonwealth for the maintenance and improvement of rights-of-way during the previous year and each year thereafter.

In each of the two years since the amendment went into effect, CONRAIL's investment in right-of-way improvement has far exceeded its gross receipts tax liability. For the tax year 1981, CONRAIL had a gross receipts tax liability of nearly \$8.7 million, while our investment on which the 1981 credit is based exceeded \$65.9 million. CONRAIL's gross receipts tax liability for 1982 was about \$7.8 million, while our eligible investment was \$53.6 million. In other words, I think the process is working as you gentlemen intended.

A concern, which has been expressed to us by state

officials, is that the excess tax credits could be carried over from year to year, or transferred with the sale of CONRAIL. I understand that there is no carryover of unused credits and, further, that they will not accrue to a CONRAIL purchaser.

While CONRAIL claims tax credits only on its track rehabilitation program, it has invested heavily in other projects within the Commonwealth through its "Additions and Improvements" or what we call "A&I programs. In 1981 and 1982, CONRAIL spent \$87.5 million, or 40 percent of its A&I budget in Pennsylvania.

Some of the projects completed under this program include: the \$14 million modernization of Allentown Yard, the \$15 million modernization of the Juniata locomotive shops in Altoona, and the \$7.4 million construction of a new Delaware Valley Intermodal Terminal in Morrisville. And, there is the \$41 million modernization of the Pier 124 export coal facility in Philadelphia, with slightly more than half of the financing being provided by a loan from the Commonwealth.

In the six weeks since the House session in Baden, two new developments have occurred for CONRAIL which I should note.

On July 20, CONRAIL reported second quarter 1983 net income of \$97.2 million -- the largest quarterly net income

ever reported by the corporation. First half 1983 net income was \$109.9 million -- CONRAIL's best first half income ever. Those results are evidence of both the cost controls in place across the rail system and the stable traffic base which is developing as the result of the country's economic upturn.

In June, carloadings of freight traffic handled across the CONRAIL system increased by about three percent when compared with June of 1982. Obviously, if that upturn continues -- reflecting the recovery in the auto and steel industry so vital to the region -- CONRAIL will benefit for the rest of the year.

But I must emphasize that CONRAIL has idle capacity -- freight cars and locomotives -- to handle a sizable increase in activity before there is likely to be any commensurate increase in CONRAIL's employment across the system.

The focus of our prior testimony and what I've said today has been the relationship of CONRAIL to the Commonwealth. We depend on Pennsylvania for a large portion of our business and Pennsylvania depends on CONRAIL to bring its natural resources and products to market. To reemphasize our commitment to bringing Pennsylvania products to market I should note that on Monday, July 25, CONRAIL announced that effective August 5, it will charge a common rate of \$13.40 per net ton on train load

shipments of export coal moving from mines on CONRAIL lines everywhere in Pennsylvania and West Virginia to Pier 124 in Philadelphia. This rate is \$1 to \$2 below comparable rates charged by competing railroads to other east coast export piers. It is expected that this pricing program will attract lower sulphur coal from the Kanawha District of West Virginia and the Westmoreland District of Pennsylvania to Philadelphia both for direct export and for mixing with higher sulphur Pennsylvania coals to create blends suitable for the demands of the export market. I should pause on this point and point out to I believe we are moving all the coal to Philadelphia that people can find sales for. I think the limitation in the volume of coal traffic that is moving in Pennsylvania now is the amount that the producers can sell overseas. One of the problems with Pennsylvania coal or at least Clearfield District Pennsylvania coal is that, of course, its sulphur content is higher than coal that is available elsewhere.

The idea of this rate reduction is to pull some of the lower sulphur coal from West Virginia and western Pennsylvania to blend with this higher sulphur coal so that it will be easier for the coal brokers to export this coal and generate more volume for CONRAIL and more business for Pennsylvania. I should also mention on this point that as far

as I know we are handling via 124 all the anthracite coal that is presently being exported. There is no more trucking of coal to any export pier that I am aware of at the present time. That was something that took place before Pier 124 was improved and as far as I am aware there is none of that any more. The exporting, of course, of anthracite coal is also limited by the volume that can be sold overseas.

In answer to the point that someone asked of the D&H representative, if D&H were to be permitted to serve our Pier 124, it just seems to me that they would be sharing some of the business that we presently have handled. I don't see how they could bring more traffic or more coal to the pier. I don't know where the coal would come from or where it would be sold.

In regard to a separate coal-related matter, you may have already heard that we have experienced some startup problems with breakage of larger-sized anthracite coal at the new Pier 124. Our shippers are working closely with us to analyze this breakage and possible measures to correct it. We have already invested some \$2 million in corrective modifications to the loading systems at the pier and we are still in the process of determining what, if any, further alterations might be required. In the interim, we have notified all of our

anthracite shippers that as of August 9, we will handle prepared sizes of anthracite and anthracite briquettes through the pier only under special agreements.

I want to emphasize, however, that there is no problem with the smaller sizes of anthracite, bituminous coal or coke handled through the pier.

To conclude, CONRAIL's investment here in the Commonwealth is substantial, our commitment is genuine, and our goal to return to the private sector is vital to both that continuing investment and commitment. Thank you very much.

BY CHAIRMAN HUTCHINSON:

Q First question I want to ask you is the same one I asked Tex Croyle. Do you know anything about the Santa Fe statement in today's paper?

A We heard from the Santa Fe people. Our chairman heard from the Santa Fe people that they were going to make such a statement. The Santa Fe, of course, is one of several western railroads. I think each of those western railroads is wondering what is going to happen with CONRAIL and none of them want to be left out in the event that one of the others were to buy CONRAIL. So I think you will see every one of the western railroads studying CONRAIL. Now whether this study actually leads to a purchase remains to be seen.

The government, as you know, CONRAIL is owned by the United States of America. The Department of Transportation, who is the overseer along with USRA, has adopted a policy that they would like to see CONRAIL back in the public sector. They would like to stop being the owner of CONRAIL. I think the idea was, and as they phrased it at the time, they wanted to find a buyer, hopefully a major railroad, that had deep pockets which means cash reserves so that if CONRAIL did encounter problems in the future that the purchaser would have sufficient cash reserves to tide them through this problem period.

There are probably several things about that that one must think about. One is that there is hardly anybody that has got enough money to buy CONRAIL and have these deep pockets to tide it over problems in the event that problems should occur. But even more important than that is the fact that I think CONRAIL has gone a long way towards turning around the economics of its operation and is now generating a profit. A \$100 million in the first half is a nice profit. Now, it is not a lot of profit compared with the value of the company, but it indicates that we have gone a long way from losing \$250 million in a half. Now we are making a million dollars in a half. This is great progress.

If we keep up this progress, if CONRAIL can generate

a profit instead of a loss, maybe the U.S. Government's interest in disposing of CONRAIL won't be as great as it has been in the past. Maybe the urgency to sell it to another railroad or another company won't be as great as it was in the past. I don't know. I can only speculate on these things. This is something that falls within the responsibility of the U.S. Department of Transportation and I guess they will decide ultimately whether the various people expressing an interest in CONRAIL are really qualified to purchase it.

Q One other question, would it benefit Pennsylvania and New York and other states that have CONRAIL or is competition between New York and Pennsylvania so great that we could not get together trying to get more tonnage over each line? They talked about the one to Buffalo, the one that goes there or the one that goes through the heart of Pennsylvania?

A Okay, you asked a couple of questions I think. Let me try to answer them one at a time. In the first place, I think the main subject for Pennsylvania, the thing that Pennsylvania should mainly be interested in, is keeping CONRAIL intact as a unit rather than having it broken up in pieces. If CONRAIL is sold as a unit to some western railroad, I don't know whether that would be either good or bad for Pennsylvania. I don't suppose it would make an awful lot of difference. I

don't know why the Santa Fe, for example, would want to buy CONRAIL and then cast off the part in Pennsylvania and keep the part in New York State. I really don't think that would do anything for them.

There has been some conversation about the fact, there has been some discussion here about the fact that we supposedly have taken traffic away from Pennsylvania and are routing it through New York State. Well that really is not true. I mean, really, where would that traffic go? The traffic that goes across New York State basically goes to New York State and points in New England and a certain amount up to Canada. The traffic that goes through Pennsylvania basically goes to points along the eastern seaboard to Newark, New Jersey on the north, to Washington, D.C. on the south. The traffic of flow more or less splits ^{of} west/ Pittsburgh and channels down either the route across Pennsylvania or the route across New York State, depending upon where it is going. Now, there is a little bit of piggyback traffic that goes across the northern New York State and drops down into the New York area, but there always was. So I don't see that as being a shift. I mean, that amounts to maybe one or two trains a day at the most. And that runs that way because it hooks up with piggyback traffic that comes out of New England.

Now Representative Laughlin referred to a chart that Mr. Swanson had at the testimony in Baden that showed a greater drop in Pennsylvania than across any of the other CONRAIL main lines. I don't think that is the result. I'm sure that is a fact. The tonnage has dropped, but not as a consequence of having taken traffic that formerly moved across Pennsylvania and rerouting to any of those other lines as much as it is a drop off in the ore and coal business that used to move across the State of Pennsylvania. You fellows will remember that a couple years ago, I think, U.S. Steel used to source most of its ore in Venezuela and brought it in through the port of Philadelphia and we moved lots of ore trains across the State of Pennsylvania to Butler, Pennsylvania to the smelter at Saxonburg. U.S. Steel now sources all their ore in Canada. So it comes across the Great Lakes to their subsidiary, Bessimer at Lake Erie's pier at Conneaut, Ohio and then moves down to the Pittsburgh area in that direction instead of moving across the State of Pennsylvania.

Similarly, there was an awful lot of coal that was used domestically that moved across the State of Pennsylvania from west to east a few years ago that gradually got phased out as power plants shifted from coal to oil because of environmental considerations. Now we have been looking forward to some

of those power plants shifting back again from oil to coal so that we can move some of our Pennsylvania coal to them. But there has only been one significant conversion from oil back to coal and that is a power plant up in New England which we are handling their coal right now through Pier 124. The power plant is served only by water. The coal is barged up from Philadelphia, that is New England Electric Company, and we are handling their coal from Central Pennsylvania to Philadelphia and loading it there into a barge through our --

Q An article was in the paper a couple weeks ago.

A Yes, sir.

Q Bill Lloyd would be interested in moving more coal from western Pennsylvania. If he can make all the power plants go to it.

A We are all interested in doing that. We are all trying our best to do it. We hope our reduction in the export rates will have some effect on stimulating more coal going from Philadelphia. But there again, I don't think any more coal is going to move than what can be sold and I think the sales are the problems.

Can I say one or two other things on the subject? We do have speed recorders on most of our locomotives. We think that the regulation that was promulgated in the State of

Pennsylvania a couple years ago requiring speed recorders was really preempted by FRA. Therefore, the state has no jurisdiction in that area. However, we have voluntarily equipped most of our high horse power freight locomotives with speed recorders which are of a much more modern design than the legislation contemplated. So that we are able to police speeds and police the performance of our employees as well as maintaining a record of the performance of our individual trains.

Secondly, Mr. Croyle read the national injury record. Our injury record has been extremely good and it has been constantly improving. As a matter of fact, our Allegheny Division, which is, as you may know, based in Altoona. Our President was just over there last week or so and presented them with an award for having achieved a million man hours without a reportable injury during the latter half of 1982 and the first quarter of 1983. So our employee injury record has vastly improved on CONRAIL and our derailment record has gone way down, not the least of which is caused by the fixing up of physical plant, track plant, which this gross profits tax is really all about.

Q I have one other question. I don't know whether it is a question or a statement. Since the Pennsylvania Legislature took you off the hook last December and November

and took some of the bridges, took them over. Are you going to the bridges that weren't taken over to see if they are fixed up a little bit quicker?

A We have an awful lot of bridges, Mr. Chairman.

Q I know. We took over a lot, too.

A Thank you. I appreciate that very much. We have an awful lot of bridges. We deal with these bridges one at a time. Our chief engineer's office has representatives that work with each of the states on problem bridges and generally, you know, the bridges are very old. The bridges were built maybe at the turn of the century or before. The bridges were built to carry horses and carriages or small automobiles. Nowadays the state wants bridges with higher carrying capacity, wider roads and the railroad, obviously, should not be required to share any of the costs that goes toward to the highway improvement aspect of the projects.

Now, in many of these cases the railroad has made some contribution, I hope as small as possible, but the railroad has made some contribution to the replacement of the bridge and then the state or the municipality has taken over the actual replacement process. But it wouldn't be fair for me to give you a generalized answer because we deal with each bridge on a specific basis and some action has occurred.

CHAIRMAN HUTCHINSON: I have a couple bridges need fixed up. Thank you. Mr. Pitts.

REPRESENTATIVE PITTS: No questions.

CHAIRMAN HUTCHINSON: We'll start down the line. Bill Lloyd.

BY REPRESENTATIVE LLOYD:

Q Mr. Hasselman, on page two of your statement where you're talking about the tax credit and your investment in track rehabilitation, what was that investment in the year before that tax credit went into effect?

A I don't know if we have that number here. It might have been about the same. Let me explain that. We have been through, as you know, a heavy rehabilitation program ever since 1976. We have put a lot more money into the physical plant in each of those years since 1976 than we ordinarily would or than we probably will in the future once we get all of the plant rehabilitated up to a good level. We basically have our main lines in Pennsylvania upgraded now to an extremely high level and we are working on the heavier branch lines. It has been a process of first rehabilitating the lines with the heaviest tonnages and then working our way down through the system. So, I think those numbers are about typical. If you are asking me whether the gross receipt tax credit stimulated

us to spend more money in Pennsylvania, if that is your point, I don't know whether it did in those several years. But I certainly think it will in the future as we get the plant rehabilitated and the costs more leveled out.

Q Why would it, in the future, if you presumably make your decisions as to what needs to be rehabilitated on the basis of trying to hold down derailments, make great flow as efficiently as possible, why would the availability of the tax credit make a difference five years from now when it makes no difference today?

MR. BEREN: Mr. Chairman, may I insert myself on some of these answers since I remember, not the specific figures, but the responses to your question in general. For the record, my name is Daniel Beren. I represent CONRAIL up here. Representative Lloyd, in direct response to your question, it is my recollection that the year before the tax credit went into effect CONRAIL spent more money, in fact, on rehabilitation than it did in the year after the tax credit went into effect. But the reason for that, the reasons for that were several.

Number one, you have to remember when CONRAIL came into existence the roadbed in the state and indeed throughout the system was in gross disrepair. At that time CONRAIL was utilizing the borrowing of federal funds to just do everything

they could to bring these roadbeds up to grade so they could move the traffic. It was our understanding, and I am sure that we represented it as such to the members of the General Assembly we discussed this with at the time this legislation was passed, that the real benefit of the tax credit, we knew there would be less money spent in the next year. And I would like to, at some point, to get into this if I can, Mr. Chairman. But the real benefit to CONRAIL in passing this tax credit would be in terms of their internal investments they could justify additional repairs in the Pennsylvania system that they could not otherwise do because of demands throughout CONRAIL's system in Ohio, Michigan and what have you. So, the response to your question, Representative Lloyd, is that, yes, more money was spent in earlier years regardless of the tax credit because the need was so great. But in terms of the internal investment, the tax credit in Pennsylvania justified CONRAIL spending greater amounts of money in this state than they would have without the tax credit.

BY REPRESENTATIVE LLOYD: (To Mr. Beren)

Q Are you saying then if we were to look at those other states in which CONRAIL operates, that if we were to have a graph that showed each state on a graph, that as we move through time the spending in the other states has dropped

more than the spending in Pennsylvania?

A No, first of all I wouldn't have the knowledge to make that presentation.

MR. HASSELMAN: What Mr. Beren is saying, when we rehabilitate lines every year we work out a program each fall for what we're going to do next year. Now certain main lines we are going to rehabilitate anyway because they are important to meet inner city trunk lines. But as we work our way down into the branchier type lines, we try to figure out the economics of each line because we only have so much money we can put into rehabilitation. So we try to work out the economics of each line. Now, the more the line costs us to rehabilitate and the tax credit would be a reduction of that amount, the more the line costs us to rehabilitate compared with the earnings of that line, the less the chance is that line will get rehabilitated. So if you don't have the tax credits where CONRAIL will have to cut its program in Pennsylvania will probably be in some of the branchier type lines that are not important inner city trunk lines. This is important to the customers on those lines as it is important to the economy of those areas I think. I think this is the very type of thing that a state should do. It should foster industrial development on branch lines where rail business is either

shipped or received.

BY REPRESENTATIVE LLOYD: (To Mr. Hasselman)

Q (A) I understand what you're talking about. You are talking about rate of return on each of the investments. (B) I don't disagree that is something we ought to be doing, but (C) unless Mr. Swanson's statistics have it in, one of the things I would like to know as a result of this investigation is whether in fact what you are telling us in general terms has happened. One of the things we are charged with doing is finding out whether those tax credits have really resulted in any investment decisions or any significant investment decisions which would not have otherwise been made.

A What we would have to do to answer that I guess would be to pick out some specific examples where we have invested in a certain line where we might not have invested in that line if this tax credit had not been available to us.

Q What we need is some proof that we should not be taking the suggestion of some of the other people here this morning, cancelling that tax credit and using that same money to buy track which you are abandoning. It would also be interesting to know at the same time when we are giving you these tax credits, which you are not getting in other states, whether you are abandoning more track in Pennsylvania than you

are in those other states?

REPRESENTATIVE LAUGHLIN: Representative Lloyd, as a clarification for you, the Congress of the United States wiped out the taxing ability of the State of Pennsylvania on the CONRAIL system with the exception of the local level.

MR. BEREN: May I respond a little bit more because I think already, first of all, without preempting Mr. Hasselman on several things.

REPRESENTATIVE LLOYD: Before you do that, I am now confused. Are you saying that we don't have the power to impose the gross receipts tax on CONRAIL even if we wanted to?

MR. CASPER: Until it is transferred, the rail property is transferred.

REPRESENTATIVE LAUGHLIN: We are no longer giving them a tax credit as such. They have an exemption.

MR. CASPER: Until the property is transferred.

REPRESENTATIVE LLOYD: Maybe, Mr. Beren, you can clarify.

MR. BEREN: Yes, I will again go on to what I had hoped to make were some brief remarks afterwards. To try to put this in perspective, number one, I am sure those figures will be forthcoming from the railroad, the figures that you specifically requested so that you can look at them.

Number two, in the statements that you have already heard from Mr. Hasselman and in the matters that you have reviewed before you, you have the figures before you that demonstrates that this tax credit act not only accomplished what it set out to do, it went way beyond it. Regardless of whether CONRAIL is excused from paying this tax credit right now under federal legislation or not, just stop for a minute and think. This legislation said in essence that if you spend four times your liability under the gross receipts tax, we will give you a credit up to the maximum amount of that money. If you look at Mr. Hasselman's testimony on page two, he says that in 1981 they had a tax liability of \$8.7 million and they spent almost \$66 million on their railroad. In order to qualify for the next year's tax credit, they would only have had to spend \$32 million. They spent twice as much money in that year. Now, if you recall, those of you who were in the General Assembly, and Tex, if you recall, one of the reasons that this piece of legislation had appeal to members of the General Assembly was that this was labor intensive work or that one half of all the money that was going to be spent under this tax credit act. was going to go to people who actually work on the railroad as opposed to railroad equipment, etc. I don't believe anybody ever dreamed, those of us who were

involved in this legislation let alone economists, that we would get into the type of recession and depression that we have just gone through. Regardless of that, in 1981 you had \$65.9 million spent by this railroad in this state, twice as much as it had to do to qualify for its maximum credit and in 1982 come back and spend almost \$54 million. Now, this is labor intensive work. You have the facts right before you that says to you as clear as can be that this act works. You ought to be very proud of this act.

REPRESENTATIVE LLOYD: Well that may be. But what I am still looking for, and I think when we get the figures we may know, but there is a cause and effect relationship. You're saying, well, they spent more than they needed to, but if they were going to do that anyway, then the granting of the tax credit didn't have anything to do with that.

MR. HASSELMAN: Well the answer to that, we have to answer that by giving you some specific examples of where there are some jobs that we did.

BY REPRESENTATIVE LLOYD: (To Mr. Beren)

Q Mr. Beren, could you just explain for me what is the legality of that tax credit now? Is it because of federal law it somehow, that it is a deferral, if CONRAIL is transferred, then we get to collect the tax?

A I believe, Larry, do you have the exact -- I believe that's it. We don't have to pay that tax now.

MR. DeYOUNG: The Northeast Rail Services Act, which is essentially is what the CONRAIL sale is operating under now, etc., provided that CONRAIL specifically did not have to pay taxes to states within which CONRAIL ran. So that we, technically, would not be liable for the gross receipts tax if we did not qualify for the gross receipts tax credit which was provided by the Commonwealth.

MR. BEREN: You should be aware that regardless of that we are keeping our records. We are acting as though the tax credit were still in existence. We are doing the repair work on the lines as charged under the tax credit. We will be supplying the members of the General Assembly. In other words, we are acting as though we still had that obligation to pay.

REPRESENTATIVE LLOYD: What difference does it make to CONRAIL if they are not liable for the tax? What difference does it make to CONRAIL whether we give you a credit or not? Because if CONRAIL is sold to somebody else, they get to go back and pick up all those credits and apply that in some future year.

MR. HASSELMAN: It does not.

REPRESENTATIVE LLOYD: They do not accrue.

MS. BALL: They lapse every year and will not be offered to a purchaser as part of the negotiations. They will not carry forward credit.

MR. DeYOUNG: If the credit is in existence at the time CONRAIL was sold, say, it happened before the expiration in 1986, for the duration of that existence, this new corporation would be eligible for the tax credit prospectively, but not accumulatively for the past.

BY REPRESENTATIVE LLOYD: (To Mr. DeYoung)

Q One final question just as to what the law is. The statute which relieves CONRAIL of that state tax, does that same statute relieve other railroads?

A Northeast Rail Services Act, no, it does not.

Q In other words, the Chessie system for example, this tax credit means something to them today not --

MR. CASPER: They don't apply, Bill. The Chessie system and the Norfolk and Western do not apply for the tax credit.

REPRESENTATIVE LLOYD: Why not?

MR. CASPER: They choose not to. It's a corporate decision.

REPRESENTATIVE LLOYD: But they would be eligible for it?

MR. CASPER: They would be eligible. They are eligible, but they choose not to.

REPRESENTATIVE LLOYD: Well does anybody apply for it?

MR. CASPER: Oh, sure, your Class II railroads in Pennsylvania, almost all of them applied for it. As a matter of fact, three --

REPRESENTATIVE LLOYD: The smaller ones like the gentleman we had this morning?

MR. CASPER: Well, the three smaller ones. But, of course, if you want to call it D and H, P&LE and B&LE small, I guess, compared to CONRAIL. They wouldn't call themselves small. The rest of the railroads do apply for it and get it and it is rather -- as three railroads testified in Baden, they considered it of great importance to them.

REPRESENTATIVE LLOYD: It's not my district. Okay, thank you.

CHAIRMAN HUTCHINSON: Richard.

BY REPRESENTATIVE GEIST:

Q Mr. Hasselman, what railroad did you work for before you worked for CONRAIL?

A I worked for the New York Central. I started with the New York Central in 1947 and then I worked for the Penn

Central and now I work for CONRAIL. Now it doesn't make any difference --

CHAIRMAN HUTCHINSON: Where do your alliances lie?

MR. HASSELMAN: My alliance, Mr. Chairman, lies with CONRAIL. I am 56 years old, I am employed by CONRAIL, I want to stay employed by CONRAIL. I want CONRAIL to be successful so that I can continue the rest of my railroad career and CONRAIL is not going to be successful if I were to take traffic that should move in Pennsylvania and move it through New York State or vice versa.

REPRESENTATIVE GEIST: That's not what I'm getting to.

(Laughter)

REPRESENTATIVE LAUGHLIN: He's already making a defense.

BY REPRESENTATIVE GEIST:

Q My reasoning would go that since you hired a man who was president of Southern, that he would try to divert as much traffic as possible through the Southern route?

A That is an interesting point, too. Mr. Crane is a fellow with a lifetime of railroad experience and all he wants to do is the best thing for CONRAIL as I think most of us want to do. It is always interesting to speculate as to whether,

you know, some diabolical scheme is at work whereby traffic that should move through Pennsylvania moves through New York. But you can't afford to do that. I mean, I wouldn't be employed by the railroad if they ever caught me doing a thing like that.

Q I have one serious question for you and that would be on a breakup. If Scott Calkins and Tex Croyle were successful in buying CONRAIL, how much could they sell in tax credits to IBM: It would be the largest in the United States right now, wouldn't it?

CHAIRMAN HUTCHINSON: The only thing you can talk about is cabooses.

BY REPRESENTATIVE GEIST:

Q What is that total figure right now? It is astronomical, isn't it?

A On our tax loss carried forward?

Q Yes.

A It is a big number, but I don't know what it is and I don't know if it is --

MR. CASPER: It is 1.4 million.

BY REPRESENTATIVE GEIST:

Q About one and a half million dollars?

A It may be. I don't have that.

Q If the Santa Fe were to successfully buy CONRAIL,

they could cherry pick the lines that they want, abandon the rest and turn around and sell the tax credits without ever having to put a dollar in the lines, isn't that true?

A I don't know. It might be true. I don't know, if the lines wouldn't be any good for the Santa Fe, it seems to me that CONRAIL would have abandoned them themselves. Why would -- I am not defending the Santa Fe because I --

Q I am saying that the real plum to me, I am looking at this as a politician from Altoona and a politician from Pennsylvania, to me the real plum is not CONRAIL. The real plum is the tax credits that can be sold. Because they can go out, raise capital, sell the line, run a profitable line and say to hell with the rest of them and sell the tax credits.

A I don't even want to try to answer that. I don't know whether the DOT would let the tax credits be sold.

Q It is not a matter of DOT, it is corporate business.

CHAIRMAN HUTCHINSON: If you don't mind, Scott, what do you have?

REPRESENTATIVE GEIST: We got 'em fired up.

MR. CALKINS: Several railroad officials throughout the country have looked at that from the standpoint of purchasing CONRAIL. Surprisingly, Santa Fe came up yesterday with an offer or suggested offer. The federal law prohibits CONRAIL from

passing on any tax credits to any purchaser. That is why you have not had one nibble on the worm until yesterday from Santa Fe. That is why when the employees came up with their offer, which U.S. DOT is very concerned about because there is no real money there in that offer, what is it, Goldman Sachs, they are restricted in their marketing of CONRAIL because of the fact they cannot sell the tax credit.

REPRESENTATIVE GEIST: To an operating railroad, but they can sell to another corporation once it is bought.

MR. CALKINS: I don't think so, sir.

MR. HASSELMAN: It can only be used in the same endeavor as --

MR. CROYLE: The figure I have is about two and a half billion dollars.

CHAIRMAN HUTCHINSON: Go ahead.

BY REPRESENTATIVE GEIST:

Q That is that part of the question. The next part of the question is how much does CONRAIL have right now on the capital market? What is their line of credit in the private sector?

A Oh, I think we have a \$100 million line of credit.

Q What line of credit would you need to operate a railroad successfully without government help?

A Well, I don't know. You know, you don't know what the business is going to hold. Now our operation, if the volume of the traffic stayed the same as it does today and if the competitive situation stayed the same as it is today and if our operating efficiency stayed the same as it does today, I think we could operate indefinitely with our present situation. We have a comfortable cash position and a \$100 million line of credit. That is why I say I don't think the impetus to get the CONRAIL out of the public ownership and into the private sector should be as great today as it was when that idea was conceived. That, again, is my own personal opinion.

Q Thank you very much for keeping the rail training center in Altoona going. We really appreciate that. We also would like to know when you're going to reopen Juniata?

A Well, I guess we're not prepared to say. Let me say I am sure it will reopen.

BY REPRESENTATIVE MURPHY;

Q Mr. Hasselman, I guess there has been a lot of discussion about abandonments and your policy and I understand you need to do that for profitability. But at the same time it seems to me, as was testified earlier by the Commissioner from Clinton County, that your abandonment preempts the possibility to offer any other railroad or shipper going in and

buying the spur and maybe running it in a different way to at least make a profit?

A No, no, it's to the contrary.

Q Do you want to describe that?

A The NERSA abandonment process makes a fast process for CONRAIL. That is to say if CONRAIL declares a notice of insufficient revenue and then after a certain waiting period we can file the line for abandonment and basically the abandonment is a fairly automatic process. However, if the line is abandoned, it can be purchased for 75 percent of what is called net liquidation value which is really the scrap value of the line minus the cost of taking it up. So that anybody that wants to can come in and buy that railroad for 75 percent of that scrap value. However, they must operate it for four years if they do. So really, CONRAIL's getting out doesn't necessarily mean that the line is dead forever. I mean, CONRAIL's getting out can permit somebody else to come in and it has in fact done that. I think Swanson's testimony said that we abandoned 788 miles of line in Pennsylvania and at the time he made the testimony 100 miles of that 788 had been picked up by other people. I think mostly short line operators and put back in operation.

Now, a short line operator, as somebody mentioned

earlier, can do some things cheaper than we can. Now they can't do everything better than we can I want to hasten to add, but they can do certain things cheaper than we can so it is sort of a happy solution for all concerned when it happens.

Q What is your policy for them to continue to tie in traffic?

A We encourage short line operators. There are certain areas where a big railroad can't do a particularly good job. Where there is very little volume and where with some local, some close local working relationships on a day-to-day basis are necessary that CONRAIL simply cannot provide. In those cases, a short line operator can get in and operate that line on sort of a local basis and do a good job of serving the customers and feeding the traffic to CONRAIL, as somebody termed it earlier, wholesale handling, handling on the main line. And that is a pretty good solution for all concerned where it can be worked out. And as I say, there have been a number of cases where that has worked out.

Now, on the other hand, CONRAIL is not about encouraging D&H to come and open up the CONRAIL treasury and help themselves to the gold bars that are in there. I mean, you heard D&H talk about wanting to serve Pier 124. If all D&H wants to come and do is to help themselves to some of the

stuff in our refrigerator, why, we don't look upon that too favorably. So there is two sides to this question of getting out of business in a certain area or welcoming somebody else in.

Q You mentioned 700 miles of track closed and 100 miles picked up. Are you suggesting the other 600 miles was not going to be profitable for anyone?

A I suspect a lot of it had not even been used for five years or more. I mean, there are an awful lot of miles in Pennsylvania, particularly laying around in the coal fields where mines have been closed years ago, where the abandonment process was just really going through the motions of cleaning up the books where tracks that hadn't really -- the tracks were there but they weren't being used and there was no prospect of their being used.

Q I was just told about 400 miles of that 700 miles were in service?

A Oh good. Were in service or out of service?

Q Were in service.

A I see. You know, Swanson also pointed out that abandonments in Pennsylvania represented 15 percent of the state route mile total but only one and a half percent of the traffic volume. So I would assume short lines picked up most

of that one and a half percent. So really what was left over was, your know, you just can't afford to have a railroad for what is left over. I think that is the essence of it.

CHAIRMAN HUTCHINSON: Vic.

BY REPRESENTATIVE LESCOVITZ:

Q I just want to pick up on what Tom was just talking about. Out of your 790 miles line that has been sold, how does it enter into your profit figure? You said you made 90-some million dollars in the second quarter of 1983 and then last year, 1982, you made a profit. Will you just give me some specific figures?

A I don't know that I can give you any specific figures. I guess I could say that it probably, on some of the lines that weren't in service it really didn't make any difference. On the lines that had a trickle of traffic on them, it probably saved us some operating costs and some maintenance costs which undoubtedly was greater than their revenue. So there must have been some positive effect on our profit as a consequence of abandonment.

Q On the 790 miles sold how much money was made on it?

A Not a helluva lot because we sell it at 75 percent of net liquidation value which is the scrap value minus the cost of taking up the scrap. So really I would say not a lot.

I don't have a number on that. I am sure we can come up with a number on that. We can furnish that. I am sure we must have that somewhere.

MR. DeYOUNG: I might also add that that does not go into the bottom line calculation. There is a special reserve set aside for handling abandoned lines.

BY REPRESENTATIVE LESCOVITZ: (To Mr. Hasselman)

Q Just to follow up to Tom's question. I see I have some figures from United States Railway Association and NERSA, N-E-R-S-A progress report number 483 and it says, it looks like Delaware and Illinois, I guess Maryland, a few other states that the miles of abandonment, that you have sold a very high percentage of those in those states where in Pennsylvania I think it is like one-seventh and there are some other states like New Jersey is a very small percentage of lines sold, maybe Michigan. I am just curious on why?

A Really, you know, if we abandon more in Illinois, it probably meant we just had more dead lines in Illinois. There might have been a surplus for years. We had two real long abandonments in Illinois. One was the line that ran from Paris to east St. Louis which basically paralleled our main line. It was on the New York Central main line. We kept the Pennsylvania. Who was asking me about my ancestry?

(Laughter.)

We kept the Pennsylvania line and abandoned the New York Central line because it was a parallel line for 200 miles and really didn't have anything on it. So that made a lot of miles in that total.

We also abandoned a line that went down to Carroll, Illinois from Paris which was another couple hundred miles that had very little on it either. We sold a part of that to Southern Railway and abandoned a part of it. So it was just a question of there was more surplus there I guess.

Q It seems some states the percentage is higher than the lines that were sold as compared to other states. You just mentioned that before and I see here in 1983 Pennsylvania, you are abandoning another 76 miles, New Jersey 74 and Ohio 1.7 miles. It looks like these three states are getting more?

A We are not abandoning anything that is profitable. Now, the NERSA process gives us considerable latitude in abandonments, but we are committed not to abandon anything that is profitable. Nor are we abandoning anything that is profitable and turn it over to short line because they can operate cheaper than we can. I mean, we have committed ourselves not to do that. So, the only thing we are abandoning are lines that are unprofitable and in some of those cases a

short line. Even if it is unprofitable for us a short line can take it over.

Q Such as Delaware picked up two of yours and made it profitable?

A That is correct. They invested a lot of Delaware money into that line to put it back into condition to operate again.

Q One last question, is there any way in Pennsylvania, as I said, it looks like one-seventh of the lines were sold, is there any way that the Commonwealth could help in trying to do you recommend any type of subsidization for Pennsylvania to get involved in to pick up some of these short lines to have other small railroads pick them up?

A Well, the Commonwealth has some funds available, I think, to rehabilitate railroad branch lines. Much of those funds have gone into short lines, but I think few of them have gone or will go to some of our branch lines so that we can keep them operating. And I think that is really appropriate, because I think that gets into the area of industrial development and maintaining industry. I don't think we expect the Commonwealth to invest in our main line, but I think when you're talking about branch line that serves industries, the line really exists for the benefit of the industries and it is

appropriate for the Commonwealth to invest in lines like that. And I think the Commonwealth is doing that if I understand correctly.

Q Is the Federal Government involved in that, too?

A Yeah, I think they supply most of the funds, like 70 percent of the funds.

MR. DeYOUNG: They have in the past. That has been introduced.

BY REPRESENTATIVE LESCOVITZ: (To Mr. Hasselman)

Q So you think the Commonwealth is doing as much as it can to try to help abandonments?

A I don't know if it is doing as much as it can because I simply don't know, but I think they are doing the right thing.

CHAIRMAN HUTCHINSON: As much as they can afford.

MR. HASSELMAN: All right, sir. I am a taxpayer here, too.

CHAIRMAN HUTCHINSON: Gordon, Gordon Linton.

BY REPRESENTATIVE LINTON:

Q Just one short question, Mr. Hasselman. What percentage of the lines that were abandoned were involved in your track rehabilitation program of \$540 million as mentioned in your testimony?

A Oh, none of them, none of them. None of the lines that were abandoned were involved in the track rehabilitation program. I was describing that earlier. Maybe you didn't hear it. When we started on the track rehabilitation program, we really started on the heavy tonnage lines where the rehabilitation was most necessary and worked our way down to the lighter density lines. I can't think of any, maybe you can, but I can't think of an example where we rehabilitated a line and then subsequently abandoned it.

BY MR. CASPER:

Q How about the Bald Eagle branch?

A I don't think we put much rehabilitation money into it. Anything we put into it was just enough to keep it going. Bald Eagle Valley branch is a candidate for abandonment and there is somebody talking about purchasing it or operating it. But I don't think it was, I'm sure it was not part of our major rehabilitation program.

MR. DeYOUNG: If I may interject, I think there was one line which was subject to the tax credit which we have subsequently abandoned. That was done through a cooperative effort with PennDOT because they needed the right-of-way. They would have had to build a two million dollar bridge over the line had we not abandoned it, which if I am not mistaken,

had no local traffic on it.

MR. HASSELMAN: I don't know that we put a lot of rehabilitation money in it.

MR. DeYOUNG: I think we have put some in there, but not very much.

CHAIRMAN HUTCHINSON: Charlie.

BY REPRESENTATIVE LAUGHLIN:

Q Mr. Hasselman, your reputation precedes you. A lot of my friends in western Pennsylvania told me when you talk to him, Charlie, you are going to be talking to the guy that told the fellow that came to Beaver County what to say. I hope that wasn't at all inaccurate.

I notice that your preparation of your remarks is very well done. You list the importance of freight car repair in Pennsylvania, but conveniently for some reason the repair and the operation of engines, which was taken out of Conway, to the tune of 120 jobs somehow may be an oversight. I don't know exactly, but maybe you can answer that for me.

Is there or is there not a reduction of jobs and a reduction of capacity in the State of Pennsylvania in that area and an increase in the area of Selkirk in Cleveland?

A Well, I think you're talking about the engine house that Conway, which, of course, is not a --

Q I'm glad you recognize that.

A It is not a major facility. I mean, in my remarks I talk about the heavy repair to locomotives, which of course, is all performed at Altoona. Now besides Altoona, of course, we had about six other points around the system where we did minor repairs to locomotives. The trouble is we had six places and we needed about four. We had six places that were working about 16 hours a day and as a result we had a line of locomotives standing in six different locations on the system getting repaired 16 hours a day.

With the business down the way it is, with fewer locomotives operating, with almost 1,000 locomotives stored, we looked the whole situation over again and we reduced down to four maintenance points which we could operate 24 hours a day and put the locomotives through faster and more economically. So that the same locomotive fleet on CONRAIL is being maintained with fewer people at four locations instead of at six. Unfortunately, Conway was a victim of that because the facilities at Conway are not as good as they are at some other areas and the locomotives that appear at Conway are the same locomotives that appear here at the Harrisburg area and which can have their work concentrated on them right here in Enola rather than at Conway. So, you know, some place I guess is always the

victim.

Q Mr. Hasselman, I am glad to hear you admit finally that CONRAIL has victimized Conway.

(Laughter.)

I am not surprised to hear you say that because you are an honest gentleman and your reputation, as I say, precedes you. Some of your PR people and some of your executives were damn liars.

A No, no.

Q I want to tell you they are because whenever we called them and asked them three weeks before it happened they said it wasn't going to happen. As late as the day before it happened, they told the Secretary of Commerce of the State of Pennsylvania that it was not in fact the truth, that there was not going to be reductions at the Conway yard. You, sir, I see tell the truth. I appreciate that.

The other thing that I want to ask you about is with regard to the questions that Representative Lloyd have placed to you and that is that, yes, you did spend a tremendous amount of money in Pennsylvania. We appreciate that, especially in the area of job intensification. But he also mentioned to you the truth of what I was going to ask you at any rate, that is, we want to see a verification. And that is why I put the

resolution in of how that money was spent and where in fact it improved our circumstance. Even though we no longer have the right to anticipate any kind of tax situation for you.

You also, in your report, and it is basically a follow up of your representative who came to Conway, on the amount of money and the investment and the overall profitability, Mr. Hasselman, could you give me a figure on what the amount per hour of reduction the employees are presently suffering at the CONRAIL facilities as opposed to operation of other facilities in rail companies on an hourly basis?

A Now, as Mr. Croyle pointed out it is 12 percent. Every CONRAIL employee, and this applies to me, too, and every other employee of CONRAIL, their wages are 12 percent less than what they would be if they worked for the B&O for example. In other words, as the railroad industry wages increase, our wages were held flat until other railroads were paying at a rate 12 percent greater than our rate.

Q Is the 12 percent a reflection at all pay level scales?

A Oh, yes, yes it is, indeed it is.

Q What would you say is the amount of money at present that CONRAIL is saving with regard to a yearly wage package with their employees, the amount?

A As somebody says, who said that?

MR. CROYLE: Probably about \$400 million for a three-year period for the life of the contract.

MR. HASSELMAN: Yes. It is about \$125 million a year or something on that order. Now, it depends upon the employment, of course, If the employment goes down, the savings are less. But it was intended to be about a \$400 million saving over three years. Now if your question is if we went back and paid --

BY REPRESENTATIVE LAUGHLIN:

Q I'll give you the next question so you have it.

A Okay, I won't anticipate it.

Q The amount of that particular reduction in salaries represents what I would consider a very substantial amount of your profitability as far as CONRAIL's operation?

A It is a very substantial contribution to the profitability. It is not all -- it doesn't represent all of the profitability, but it represents a substantial segment of it.

Q Then maybe you can understand certainly my concern for my home district and for the people I represent when we see jobs being packaged out of our area and sent to Selkirk and sent to Cleveland along those lines. I, for one, after

looking at the amount of money that CONRAIL received in the way of a tax benefit from the state, some \$20 million, I, for one, would have been willing to even talk to you people about doing something in the way of preserving that east-west corridor as Mr. Croyle had mentioned, the Keystone line as he put it. I merely call it the east-west corridor from Conway to Philadelphia. That was my major concern three years ago that you not reduce traffic along that route and that you not reduce employment along that route. That is why I felt we were giving you the \$20 million. It certainly has not turned out that way.

A Well, you got to keep in mind, sir, that the railroad doesn't generate the business. The business is generated by the industrial customers along the railroad and the railroad would love to move more traffic across the lines through Pennsylvania. We do move all traffic along the lines through Pennsylvania that is available to be moved there. But the reduction in tonnage has occurred because of circumstances outside of our own control, some of which I mentioned. I mean, the reduction, I guess, the biggest single one probably is the reduction in U.S. Steel ore.

Q See our problem is that when you relocate these jobs and you look to the future and even in your remarks you say we would certainly have to have more employees if we had

a considerable increase in traffic. I can understand that. But you see when you remove the jobs and the capability in that area, and you remove to Selkirk in Cleveland, it lends some marginal credence to the statement that you are rerouting traffic over the low water route, the profitable route to you. And I am not saying it is because you are a New York Central employee or you are a Pennsy Central. That was mostly in jest. I am sorry that the representative picked up on it with you.

However, how many of the upper echelon are New York Central since we're on that subject?

A Well, I mean, Mr. Crane, as you pointed out came from the Southern and Mr. Reed came from American Motors.

Q He's sort of a replacement in that area. We are talking about top echelon people like yourself in the operational end of the system. Where was your fellow from Baden?

A He was from, he is from the former New York Central. But Cliff Owens, who is in charge of maintenance and other staff, who also reports to me, the same as Swanson does as a PRR man. We have people from everywhere.

Q One out of three. That is 33 and a third percent.

A And we have people from everywhere and all we are trying to do is move the traffic in the best possible manner.

CHAIRMAN HUTCHINSON: Okay --

REPRESENTATIVE LAUGHLIN: Last question, Mr. Chairman.

CHAIRMAN HUTCHINSON: Make it short.

REPRESENTATIVE LAUGHLIN: It's going to be short, Mr. Chairman.

BY REPRESENTATIVE LAUGHLIN:

Q I'm looking at the manner in which you put together your trains and the new federal laws that relates to your allowability for safety inspections, etc. At the CONRAIL yards I asked the PUC to conduct a surprise examination of your yards. Just a few weeks ago when Representative Hutchinson was good enough to bring the Transportation Committee to Beaver County. At that time they found 14 violations and 13 cars that were examined that were ready to go out on the line. Your rail company said that, well, we would have caught that anyhow. Yet they were in line ready to be shipped out. Yet they said we would have caught that anyhow.

We had a fatality on your line. I am sure you are aware of that. I am sure they send in those kinds of reports to your office, in Pittsburgh. Now that fatality was a result of a 20-car mail train with five diesels pulling that train and the distance of visibility for the trainman was some 700 feet in order to allow him to bring that train to a halt. I

believe the train was traveling 35 miles an hour. At least that's what my inquiry brought out from the policeman on duty, the gentleman who inspected it, the supervisor and so on. I wrote to the federal agency requesting information on what is a nominal distance for halting a train at that speed. Of course, it was on a downgrade so that added further weight to it. At least so far the inquiry leads me to believe that CONRAIL is not responsible in any way for that fatality. However, the train was moderately inspected at your Pittsburgh stop over at the station, that is, an outside inspection. And I would ask you personally, sir, if you would be kind enough to give the Chairman a report on that circumstance so that I would have the factual information from yourself and your company as well as from the federal agency. That is the only request I make of you, sir.

A Sure, I am sure that is public record, a matter of public record.

CHAIRMAN HUTCHINSON: Scott has two minutes.

REPRESENTATIVE LAUGHLIN: One other thing, before I leave I want to give the gentleman a copy of the Beaver County Times and what they thought of your safety.

CHAIRMAN HUTCHINSON: Ted.

BY REPRESENTATIVE STUBAN:

Q I just want to follow up a little bit on abandonment and putting lines back in and people purchasing it, since I have interest in the Northumberland to Bloomsburg line. What is the progress on that line?

A I understand that somebody is going to purchase that from us. Somebody made an offer for that line to purchase it and with, I think the state did. Am I wrong on that? Do you remember? I just heard about it yesterday so it is premature for me to say. We were looking at some things yesterday and somebody made an offer to purchase that. Now I really don't know that we had intended to sell it, but apparently this was a new development.

MR. BEREN: As always, we will get you the information.

BY REPRESENTATIVE STUBAN: (To Mr. Hasselman)

Q That's something new to me. What's a new development? Is it the extra money we put in the budget and everything else that now the state has decided?

A We'll have to get back to you.

CHAIRMAN HUTCHINSON: I'm glad you asked the question.

REPRESENTATIVE STUBAN: I'd appreciate the information. It's a new development to me then.

CHAIRMAN HUTCHINSON: Scott.

BY MR. CASPER:

Q Obviously, we recognize the reason for CONRAIL's existence besides service is profitability. At least eventually it is a goal in the Three R Act and Four R Act. And obviously, we know that large blocks of cars moving over a longer distance is certainly more profitable than one or two boxcar movements moving a short distance.

In that regard that CONRAIL has had tremendous success, even during this deep recession with regard to simulating providing piggyback traffic or piggyback carloadings are up almost three percent to the point that in '81, and it is probably around 23 percent now, but in '81, 1981, TOFC traffic counted for 20 and a half percent of your loaded car miles far above anyone in the east. Chessie had 6.9, N&W 6.5. The east average, excluding CONRAIL, was 6.8. So in other words, they are about three to one ratio. CONRAIL's piggyback loaded car miles to the east average. Interestingly in the south, everyone seems to be about equal, Southern Seaboard System, both the Old Seaboard Coastline and Louisville-Nashville. In the west Mopac is lower at 12 and a half, Southern Pacific at 19.9, Union Pacific 20.2.

Interestingly enough, the road you connect with at

Streeter, a major connection Santa Fe, who has expressed some interest, is an unbelievable 35.6 percent in '81 of TOFC traffic. And at this point I dare say it might even be about 38 percent of their carloadings, loaded carloadings.

CHAIRMAN HUTCHINSON: Is that Santa Fe?

MR. CASPER: Santa Fe.

BY MR. CASPER:

Q The question is, and perhaps you cannot answer it, it would be speculation, but of all the major railroads in the country it seems like you have a superstar in the east for piggyback traffic and a superstar in the west. There doesn't seem to be any superstars in the south. The fact that you have a linkage, and despite American history notwithstanding, we do not have a transcontinental railroad, never had a transcontinental railroad in this country, unlike the Canadians, we may have one now.

What I'm coming to speak on is the fact that if we have a merger, in a sense or acquisition of the two TOFC superstars in the east and the west, the question will then become what happens to the admittedly much less profitable, much more administrative headachy one and two boxcar shippers and carloadings on those low density branch lines in such areas as Luzerne County or Columbia County?

A Well, let me say this. Thank you for terming us as a superstar in the piggyback business. You are absolutely correct, we are. We run an excellent piggyback service. We have a good high speed railroad. We spend a lot of money improving our piggyback terminals and we do give an excellent service and that is why we have generated a lot of that business.

However, we haven't turned our back at the other business at the same time. In other words, you have to take whatever business is available. In other words, if you want to go out and seek business, you got to find out where the business is and you have got to chase it. Now, if there is a lot of trucks moving from Chicago to New York City and we can handle them in piggyback service, that's the business we are going to chase. That doesn't mean we are going to walk away from Luzerne County though. I mean, our objective, as you said, is to become profitable. Now, you become profitable by increasing your revenue and reducing your costs. We are doing as much as we can to control our costs in this downturn of business and we are doing a pretty good job of that. We are doing everything we can to build up revenue. Now, we have built up revenue by increasing our piggyback volume. Unfortunately, piggyback traffic is head to head competitive with trucks

both time-wise and revenue-wise. So you can't do much about raising piggyback rates or you price yourself out of the market. Therefore, the margin in the piggyback^{business}/is very skinny.

At the same time, you know, there is no sense just because we get a little bit more piggyback business even along our east-west corridor, doesn't mean we want to walk away from good business in Luzerne County or any other place in Pennsylvania.

Q The question is is one boxcar or two boxcars per week good business?

A It all depends on where it is. I mean, really, it all depends on where it is. If it is at a location along a main line or if it is adjacent to other business, it might be good business. If it is way off all by itself on some branch line, it is probably not business that can justify a railroad. You can't have, you know, one car a week on the end of a 25-mile branch. You can't justify owning and maintaining a railroad there. I don't think the two fit together.

Q From what you mentioned earlier, a confirmation of the earlier statement of the fact that the Class I carriers are -- really should be involved or are experts in involving the retail or maybe I got that the other way around, the wholesale rather than the retail and looking at the number of short lines

that have cropped up in the country, most of them have cropped up in the northeast as a result of the Three R and Four R Acts and that may come to be that we will have so many more crop ups after the restructuring of the industry now going on once the CONRAIL transfer takes place. Especially if, obviously, you are not in a situation where you can answer that question. Obviously, if the super giant that comes out of it decides that they are going to go where the ducks are and that this type of retail car movement is simply not profitable for a larger railroad like that.

A There is a proper place for a short line railroad to do certain retail things in certain locations. But, of course, you can go too far. You can have too many short line railroads all competing with each other and competing with the big railroads to do something the big railroad can do better. So you cannot generalize on this stuff. You really have to figure out each specific example and what is the best solution to that example.

MR. CASPER: Thank you.

CHAIRMAN HUTCHINSON: We will recess until 1:30.

(Whereupon at 12:45 p.m. the hearing was recessed to be reconvened at 1:30 p.m.)

AFTERNOON SESSION

CHAIRMAN HUTCHINSON: Let's get this show on the road. Al, would you please come front and center. Are you going to give us a brief highlight of all of this?

MR. DERR: Yes.

CHAIRMAN HUTCHINSON: You're not going to read it?

MR. DERR: No. Mr. Chairman and members of the Committee, my name is Albert J. Derr. I serve as Executive Vice-President of the Philadelphia Belt Line Railroad Company.

This statement is being made on behalf of the Belt Line to identify rail problems that exist within the City of Philadelphia, particularly in the port and potential solutions to improve rail service. Improved rail service will preserve industries, preserve employments and expand traffic through the port. My verbal statement will summarize briefly the history and the background of rail service to the port of Philadelphia and the current state of events which has been fluid in the last 30 days. To support this brief outline, I am transmitting to the Committee additional background information providing more details of the history, including a description of the structure of the Belt Line and its role to preserve competitive rail service in the public interest.

Basically, the Belt Line was incorporated by a

group of public spirited citizens in 1889 to prevent the formation of a monopoly of railroad service in the port of Philadelphia by the Pennsylvania Railroad. In 1891, by agreement with the City of Philadelphia it was restructured to operate in the public interest with control vested in the board of voting trustees. The formation of the board was the responsibility of the Commercial Exchange of Philadelphia and the Greater Philadelphia Chamber of Commerce as successor to the Philadelphia Board of Trade.

Through the exercise of the Belt Line rights, obligations, franchises and other interests, competitive rail service was preserved in Philadelphia. The existence of the Belt Line permitted service to the port by Pennsylvania Railroad, the Reading Company and the Baltimore and Ohio Railroad Companies. With at least two of the carriers serving each part of the port.

The Baltimore and Ohio service was limited generally to that portion south of center city. The Pennsylvania Railroad and Reading Company provided competitive service north of that point. The Baltimore and Ohio's direct access was thus limited and much of their access for competitive purposes was accomplished by working agreements with the Reading Company.

Under the Regional Rail Reorganization Act of 1973,

the Federal Government took control of the number of bankrupt carriers including among them the Reading Company and the Penn Central Transportation Company which had become the successor to the Pennsylvania Railroad. It merged these companies into a single entity, Consolidated Rail Corporation or CONRAIL. With the creation of CONRAIL effective April 1, 1976, the combination of the Penn Central and the Reading gave CONRAIL a monopoly over most of the port of Philadelphia and nearly all of its industries. In the events that ensued, the Baltimore and Ohio access to the northern part of the port and to other industries, which had been achieved by relationships with the Reading Company, were terminated leaving CONRAIL with a natural monopoly to all but a limited portion of the city's rail traffic.

The Belt Line, not being in bankruptcy, was not subject to the Three R Act and continued to operate. CONRAIL continued to use the Belt Line facilities, both through the rights of the Reading Company or the Penn Central pursuant to the old agreement. Initially, CONRAIL compensated the Belt Line in accordance with the terms of those agreements.

As part of the arrangements to preserve rail service in the northeastern United States, the United States Railway Association pursuant to the Three R Act granted limited overhead

rights to the Delaware and Hudson Railway Company to gain access to Philadelphia for the purpose of interchanging with the Baltimore and Ohio Railroad Company. These arrangements were silent as to other rights of the D&H to gain access to Philadelphia traffic. The D&H expressed interest in becoming a competitive carrier within the City of Philadelphia as early as 1980. Simultaneously with that, CONRAIL unilaterally terminated its payments to the Belt Line leaving the Belt Line essentially without a source of revenue to survive as a corporate entity. Because of the timely coincidence of these actions and statements made, the Belt Line filed suit under the anti-trust laws to compel CONRAIL to pay past due bills, to permit the Belt Line to continue its role as a neutral terminal carrier, to establish its own transportation services and otherwise restore competitive rail service to the port and associated industries of Philadelphia.

Essentially, the Federal Government was the one who created the monopoly of rail service in Philadelphia through the implementation of the Three R Act. The suit was withdrawn on the basis of an arrangement whereby CONRAIL would pay some compensation to the Belt Line, however inadequate, for continued use of its property north of Allegheny Avenue. The settlement, however, did not address the issue of truly neutral terminal

service, competitive rail service or the rights of the Belt Line in general.

In the passage of the Northeast Rail Service Act of 1981, NERSA, the Congress of the United States deemed that competitive rail service was essential to Philadelphia and that trackage rights for the Belt Line should be provided to permit it to operate and restore competitive rail service. After a year of negotiation during which proposals were made by the Belt Line to CONRAIL to which a response was not made for more than six months, the Board of Directors of the Belt Line on March 22nd, 1983 directed the staff to take every step to initiate, to institute its own transportation function to return to the city competitive rail service as intended by the Belt Line charter and its obligations to the city under the 1981 agreements and to carry out the intent of Congress under the Northeast Rail Service Act.

The Belt Line attempted to carry out this function through amicable negotiations with CONRAIL. Somewhat in the true Philadelphia spirit we tried to see if we couldn't solve this problem. However, such a process results in interminable delay. While CONRAIL has admittedly recognized the right of the Belt Line to operate its own service, it has failed to provide interchange agreements and insists on occupying the same

tracks at the same time for the same purpose of operating pick up and delivery service to the customers on the Belt Line.

The CONRAIL position, as stated to the Belt Line, is that CONRAIL holds an inherent right to occupy the tracks of the Belt Line for the purpose of delivering its own traffic and that the only issue is that of compensation. In the absence of progress, the Belt Line notified CONRAIL on June 16th that the present operating agreement under which CONRAIL operates a property will be terminated effective August 1, 1983. Two and a half weeks following that notice, the first interchange agreement was offered to the Belt Line. This is the one which implies the co-occupation. This would be unsatisfactory because it leaves no traffic to the Belt Line to support itself. The Belt Line revised the agreement for its exclusive operation, executed it and submitted it to CONRAIL. It was summarily rejected. Other offers were made to CONRAIL which were rejected. Including among these was an offer to CONRAIL that the Belt Line permit CONRAIL to occupy the Belt Line property in exchange for carrying out the spirit of the Northeast Rail Service Act. This offer was also rejected.

Failing to make progress by that time, the Belt Line on July 1st filed with the Interstate Commerce Commission a request that the ICC assume jurisdiction and establish an inter-

change with the terms and conditions thereof. The parties are now awaiting ICC action. A revised proposal has been suggested to CONRAIL by the Belt Line but response has not yet been made. CONRAIL was asked to continue its service beyond August 1st. The Belt Line has offered a day-to-day extension until the ICC should act.

The major difficulty experienced by the Belt Line in attempting to carry out its obligation has been the lack of timely response by CONRAIL. Failure to meet and discuss details, alternatives on specific solutions, requests for lengthy written proposals, which result in an inordinate delay before response, are frustrating, inefficient and costly ways of doing business. As a result of the delays, shippers are frustrated, turn to more expensive transportation, reduce their activities, eliminate jobs.

How CONRAIL can succeed if it conducts all its business in a similar manner will be a remarkable discovery. As will be noted by other speakers, CONRAIL has moved to transfer its terminal obligations and operations, its branch lines and other pick up and delivery services to small, Class III private enterprise short lines. Yet it resists every opportunity to do so in and for the port of Philadelphia and the city's older industrial districts.

I will be pleased to respond to any questions you may have.

CHAIRMAN HUTCHINSON: Bill Lloyd.

BY REPRESENTATIVE LLOYD:

Q What, if anything, can we, in the state, do about the problem?

A At this point, I have spoken with your staff member here about the possibility of just some moral persuasion to let Philadelphia get back the rail service it had prior to March 31, 1976 and that was service by three carriers. At this point in time the Belt Line stands ready, willing and able to operate the terminal service and pick up and deliver to all three carriers.

Q But the legal issues are really a matter of federal law, not that we have any jurisdiction?

A That is correct. They are both federal and constitution because there is a property right involved here.

REPRESENTATIVE LLOYD: Thank you.

CHAIRMAN HUTCHINSON: Mr. Linton.

BY REPRESENTATIVE LINTON:

Q Have injunctions been filed?

A Not right now. The filing for the injunction was made under the anti-trust suit which was withdrawn by the

interim settlement. Now, the present action is before the Interstate Commerce Commission and there is, at this point, unless my attorney who is going to speak later corrects me, there is no injunctive relief before the Commission.

Q How long do you expect it will be before we get a decision?

A Well, as an emergency issue they could possibly respond within several days to a week. If they put it in a normal procedure, it could be 90 days plus possible appeals.

Q Is there anybody from CONRAIL that can give an answer on what the problem is to resolve this matter, on what their problem is?

CHAIRMAN HUTCHINSON: Karen.

MS. BALL: Larry will be back. Maybe we can try to give you --

MR. DERR: I don't want to leave the wrong impression. I am not sure that they are unwilling. It is, I guess, the inertia of the large organization is what keeps delaying things.

CHAIRMAN HUTCHINSON: Any more questions?

(No response.)

BY CHAIRMAN HUTCHINSON:

Q I have a couple. Have you discussed this with your congressional delegation out of Philadelphia?

A Not the congressional representative delegation. One of the Senators is aware of it and we have not been able to pursue it with him any further.

Q Have you talked to your legislators and state senators?

A Not directly. This thing I am talking about is something, well, we have tried the past year, we tried to do this on an amicable basis. The formal actions weren't taken until, actually the first major formal action was telling them to get off the property which was served on June the 16th. So we have been on a tight schedule since.

Q You had in your statement, you say you had something in front of the ICC and you settled it after. Why did you settle it? Did you find it wasn't worthwhile pursuing?

A Okay, the first settlement, that was a federal suit under anti-trust and CONRAIL offered a payment for the use of the property and the Board of Directors of the Belt Line at that time agreed to accept it to survive to get the settlement of the past due expenses which were settled for about 70 cents on the dollar and regroup. I guess it was about that time that NERSA was just coming into being and the first thing we did after we got the settlement was go back to CONRAIL and said, let's sit down and negotiate again. So we withdrew the

anti-trust suit and settled for an interim holding position. Then we started again by asking CONRAIL for NERSA trackage rights in April of 1982 and we submitted a formal proposal, I think, within 30 days. We never got a response to that proposal till December of 1982.

Q How much rolling equipment do you have?

A We have none right now. We have arrangements to lease locomotives when we start. Freight cars we do not have to provide because they will be provided by the connecting carriers. We own the track and we maintain it.

Q How about the city administration, I mean, the Chamber of Commerce, do they think it is important?

A Yes. I would say the city administration by majority is in favor of it. There are some concerns about the future of CONRAIL's role in Philadelphia, that is, they're keeping their main office. The port people are, well, you will hear a statement about the port people later on. The rest of the community is in the majority in favor of it. There are a few people to whom the CONRAIL service is ideal and do not want to get upset, get CONRAIL upset.

CHAIRMAN HUTCHINSON: Thank you very much. Do you have any questions?

BY MR. CASPER:

Q Mr. Derr, how many carloads are involved per year?

A Since the last time, CONRAIL has not given us the car reports as they did, but on the section that they were operating north of Allegheny Avenue, our present estimate is 4,000 carloads a year.

Q North?

A North.

Q And on your southern section does the Chessie handle that?

A The southern section is under the 1914 agreement under which the B&O and Pennsylvania Railroad, now CONRAIL, and the Belt Line all have equal rights to operate. So they serve their own traffic as well as CONRAIL serving its own traffic.

Q So Chessie, the B&O Chessie, comes up from the east side yard around --

A South Philadelphia.

Q South Philadelphia back by the sports complex and grainage yard --

A Yes.

Q And comes up the water front and connects with the water front?

A Their main yard of the piggyback terminal is at

Delaware Avenue and Snyder down to Jackson Street.

Q And that is as far as they go?

A Their rights extend up to somewhere around the Adelia Street crossing. Then they operate on the Belt Line rights up to center city. That is up to Pier 19.

Q The southern section doesn't seem to be any problem?

A The southern section could be negotiated since settlement.

Q Since the D&H also has trackage rights via CONRAIL into the Chessie's East Side Yard and Philadelphia, they likewise would have access to the southern section of that route that we're speaking of with the exception, of course, going on to CONRAIL property at the Greenwich Pier 124 at the Greenwich Yard?

A No, they would not because their rights under the final system plan only allows them to interchange with B&O at East Side Yard and the customers that they have served, you could say the major one has been ARCO, has been by a negotiated arrangement with B&O for traffic that B&O would not ordinarily handle because it is an on-line move for D&H.

Q But D&H traffic that would interchanged at the East Side Yard could be switched for a reciprocal switching fee --

A That is correct.

Q -- by the B&O?

A Sure, to the Belt Line.

Q But not so on the Belt Line, the northern end of the Belt Line above Allegheny Avenue?

A That is correct. The only access that either carrier would have to the Belt Line north of Allegheny Avenue would be through the Belt Line's own rights. We would have to operate from south Philadelphia to Bridesburg.

BY CHAIRMAN HUTCHINSON:

Q Is the Belt Line only within the City of Philadelphia?

A Only within the City of Philadelphia.

BY MR. CASPER:

Q Also you mentioned you had a settlement with CONRAIL of 70 cents on the dollar of what they owed you?

A Yes, on the past.

Q The dollar that you computed is that based on your maintenance of way costs or standard switching charges or price rights fees?

A No, no. Under the 1891 agreement it was to support the Belt Line and its costs. By the time they had settled, they had accumulated so much that they wanted to settle for

part of the costs.

Q So in other words, they would get a billing and then they would worry about it later?

A Yes.

Q You mentioned about going operational and your delay in that. You have an agreement to lease motive power. to bring that about?

A Yes. I mean, access to motive power, I think, is one of the simpler problems today. Even CONRAIL is trying to peddle its locomotives.

Q Would you also be operating in the southern section of the Belt Line or just in the north?

A No, our intent is to operate the entire line from Bridesburg to south Philadelphia and such other trackage in the City of Philadelphia that we can either gain access to by negotiation with CONRAIL, for example, some of the street trackage that is low traffic, but we would preserve the service for the benefit of the industries and/or what we can achieve under the trackage rights as applied by NERSA.

Q There is a connection between your areas north and south. I guess you don't call them divisions, but your areas north and south via CONRAIL property?

A That is correct. The property ownership on the

north end stops at Allegheny Avenue leading in a southward direction. We pick up again some proprietary rights on what was the river front railroad at Cumberland Street. The old documents indicate that we have a right to, in effect, pass from Allegheny Avenue to Cumberland Street but no right to serve any traffic in between.

Q Trackage rights?

A Basically trackage, well, proprietary in the sense that our right to be there is inherent.

Q Fine. Is there any problem in you moving, once you become operational, moving across that territory? Is that another problem?

A Well, we have to have an operational understanding with CONRAIL in doing so.

Q Is that separate from this problem?

A No, that is buried into the total negotiations.

Q Presumably the two will be taken care of in one package?

A Correct.

MR. CASPER: Thank you.

MR. DERR: Thank you.

CHAIRMAN HUTCHINSON: Wait a minute. Gordon, you had a question to ask from somebody from CONRAIL?

REPRESENTATIVE LINTON: Yeah, I was just asking what was CONRAIL's version of this disagreement or lack of resolution of the Belt Line trying to resolve this open access to terminals at the port?

CHAIRMAN HUTCHINSON: You weren't here when he talked, but you probably know about the cases between the FCC and ICC and the court cases with Belt Line?

MR. DeYOUNG: I would not represent myself as knowing all about it, no, sir. I do not feel prepared that I can respond to that question.

CHAIRMAN HUTCHINSON: Thank you.

MS. BALL: Gordon, do you want a follow up on that?

REPRESENTATIVE LINTON: Yes.

CHAIRMAN HUTCHINSON: Thank you, Al, very much.
Do you have a final statement to make?

MR. DERR: Just to say thank you all for your time and attention.

CHAIRMAN HUTCHINSON: Mr. George Mohr, Go ahead.

MR. MOHR: My name is George F. Mohr, Manager Regulatory Matters, Delaware River Port Authority, Camden, New Jersey 08101. I have been employed by the Port Authority since 1953 and held my present position since 1971. I am authorized to file this statement.

Delaware River Port Authority (DRPA) is a self-sustaining, public corporate instrumentality of the Commonwealth of Pennsylvania and the State of New Jersey created by compact between the states with the consent of Congress.

The purposes of the Authority include the promotion of the Delaware River as a highway of commerce and the institution of litigation involving matters vital to the interest of the Port District. The Authority through its World Trade Division currently spends in excess of \$1,000,000 per year alone promoting the facilities of the Port of Philadelphia and encouraging shippers from all over the world to "Ship Via Port of Philadelphia."

Port business helps make the City of Philadelphia and the Commonwealth thriving metropolitan areas. The economic effects of port activity, however, are probably not self-evident to the average citizen, nor do they stop at city lines. The immediate economic benefits of the river ports are felt throughout the Delaware Valley. Competitive rail service is a very important factor but before discussing that phase, we want to indicate just how important the Port is to the economic life of the area.

In January 1983 Booz, Allen and Hamilton, Inc. completed a regional port study, one topic is entitled "The

Economic Impacts of the Delaware River Ports." This document indicates that more than 90,000 jobs in the Delaware River Valley are in some way related to shipments and receipts of cargo through the port. In 1980 nearly \$1 billion in total revenue was generated by this activity, approximately 42 percent of it coming from surface transportation. Almost \$19 million of state and local personal income taxes were paid by the residents of the Commonwealth employed directly by the port. In addition, the state sales tax generated about \$8 million and firms doing business in the port activity contributed another \$18 million. Thus it can be seen that port activity is a very vital factor in the economic life of the area.

No port can operate without good railroad service and Philadelphia is no exception. Prior to April 1, 1976, three railroads served the port, Baltimore & Ohio (now known as Chessie), Penn Central and Reading Company. Between the three, shippers had a choice of carriers and very competitive rail service. Both the B&O and Penn Central provided direct service to most of the industrial area between Philadelphia and the Mississippi River. The Reading Company was a regional carrier and provided service to the area by the use of joint routes and rates with the B&O and other carriers. The entire metropolitan area of Philadelphia enjoyed competitive rail

service.

However, some carriers in the northeast, including the Penn Central, ran into financial problems and the Federal Government created a new organization of the bankrupt railroads called Consolidated Rail Corporation (CONRAIL). Both the Penn Central and Reading became a part of the new organization effective April 1, 1976. As a result, the Philadelphia shippers lost most of their competitive service because the routings via the former Reading Company and its connections were cancelled. More than two-thirds of the shippers in Philadelphia lost competitive service. Most of the Port of Philadelphia had only CONRAIL service. The B&O was unable to provide service except to those points which it reached directly. Although we have been speaking about the local situation in Philadelphia, the same conditions are existing elsewhere in the United States. Jervis Langdon, Jr., formerly Trustee and President of Penn Central Transportation Company, was quoted in the July 4, 1983 issue of Traffic World as follows:

"Inspired by the government-financed CONRAIL, through routes with joint rates are being cancelled in instances where, as a consequence, competitive business can be attracted to the single line because

of lower rates. There is nothing more repelling than a through route made up of a combination of local rates. Since CONRAIL serves all of the principal stations in the northeast, almost 3,000 of them as a rail monopoly, other carriers, including smaller regional lines, which have traditionally joined with CONRAIL in providing parts of the service to this area, will be quietly derailed and excluded from the network.

"If the smaller carriers escape liquidation, they will have to rely on locally originated and terminated traffic beyond reach of a rail competitor -- thin pickings, indeed, for many of them. Other big railroads are following CONRAIL's lead.

"The cancellation of competitive routes will deal these regional carriers a further blow. The simplistic notion that by avoiding the interchange of freight cars, single-line service is necessarily faster, more economical and, therefore, in the public interest is illusory and often wrong. For many years the single-line services of both the old Pennsylvania Railroad and Baltimore & Ohio between the midwest and the eastern seaboard were slower, by at least one day, than the competing "Alphabet Route" comprised of five regional

carriers (the former Nickel Plate, Pittsburgh & West Virginia, Western Maryland, Reading and Jersey Central) all working together in the providing of through service.

"The big railroads are also trying, by rate restrictions to monopolize the business in large terminal cities where, for many years, shippers located on one railroad have had the benefit of service by competing carriers under "reciprocal switching" arrangements."

A representative from the Philadelphia Belt Line RR will explain what steps are being taken to restore competitive rail service in Philadelphia by the creation of a neutral switching railroad.

Another factor which has developed in Philadelphia because of the consolidation of carriers and greater freedom of operation brought about by the Staggers Act of 1980 is the development of new terminal facilities. The rail carriers have been able to utilize motor carrier service as a substitute for rail service. For example, Chessie System has created a subsidiary motor carrier, called CMX, which provides pickup and delivery service within a radius of one or two hundred miles of the rail terminal. This has necessitated the enlargement of the railhead to properly accommodate the interchange between

rail and motor carrier. At the present time the City of Philadelphia is attempting to locate sufficient acreage to accommodate Chessie's needs. However, the rail carrier has indicated that it already has a suitable location just outside Wilmington, Delaware. CONRAIL has already moved its container railhead from Philadelphia to Morrisville, a site about 20 miles north of the city. For domestic shippers and receivers these moves may not present any problems, but for the Port of Philadelphia it does adversely affect its competitive position. The marine terminal facilities provide an area for the interchange of cargo between the ocean carrier and the land carrier. The geographical location of Philadelphia, Baltimore and New York is such that all ports are readily accessible to most inland shippers and receivers. Failure to have a direct connection between ocean carrier and rail carrier increases the cost of transportation and places a port in a noncompetitive situation. Both Baltimore and New York have interchange areas in proximity of the marine terminals. Philadelphia requires a drayage of 20 miles to CONRAIL's facility at Morrisville, which is a cost not encountered at Baltimore or New York. If Chessie decides to establish its facility at Wilmington, Delaware we are faced with the same situation. The containership operators will favor Baltimore or New York where the terminal

cost is less.

It is our understanding that this Committee is seeking testimony relating to the overall rail situation. The Staggers Act of 1980 has changed the regulations governing railroads for the purpose of increasing competition and to enable the carriers to adjust to current conditions by independent action. The law reduces the grounds for objections by shippers and port interests. Competitive rail service is being denied in some locations unless private parties or non-railroad associations provide the necessary financial relief. It is not the purpose of this statement to present any recommendations for improvement but rather to illustrate the rail situation as it is today, compared to the situation before the creation of CONRAIL. The Port of Philadelphia is a very important economic factor to the area and competitive rail service is one necessary ingredient to keep it that way. We are leaving any recommendations for improving the rail service in our Port to those witnesses who are more experienced in the operation of railroads. Suffice to say, the Port of Philadelphia needs adequate and competitive rail service to all of its marine terminals.

CHAIRMAN HUTCHINSON: Ted.

REPRESENTATIVE STUBAN: No questions.

CHAIRMAN HUTCHINSON: Gordon.

BY REPRESENTATIVE LINTON:

Q What impact, I guess, the monopoly situation by CONRAIL has on the pricing of items that shippers have to deal with coming out of the port? Does it have any impact whatsoever?

A Well, as has been mentioned earlier today, CONRAIL has filed with the ICC various requests and in most cases granted to exempt the movement of certain cargos from regulation which means that they can set the rates in whatever way they want.

Under the Staggers Act, there is a certain area of freedom for all carriers, whether it is CONRAIL or some other carrier in which the rates cannot be challenged. If you do challenge them, you have to prove that it is more than that carrier's figure. They are allowed a certain percentage over their actual operating costs. And it is very difficult for a nonrailroad party to challenge that because they don't have access to the carrier's figures. So they can only make certain assumptions and then when they get before the ICC or some party like that, the carrier comes up with other ones and there is no way of verifying. It is just one person's word against another. So that there is a position that CONRAIL

has that they can set their own rates.

CHAIRMAN HUTCHINSON: Any others?

REPRESENTATIVE LINTON: Yes. I've been looking forward to the opportunity to being able to ask somebody some questions from the Delaware River Port Authority. I think it is fortunate that you happen to be here.

BY REPRESENTATIVE LINTON:

Q What was your employment prior to your present position?

A I started in 1939 and except for military service had about ten years with the Pennsylvania Railroad and then I had five years with Levino Shipping Company and then I went with the Delaware River Port Authority.

Q What positions did you hold at the Port Authority prior to your present position?

A I have worked in the traffic section. The Port Authority came into existence by compact about 1952 and in 1953 we had what was called the Port Development Department which purpose was to promote the Delaware River. And we had a director there, we had a sales force of people that went out and then we had the traffic section and I was in the traffic section there, started in as a rate analyst and moved right on up the line to my present position.

Q You started out as a rate analyst?

A Right.

Q How many series of promotions have you had prior to your present position?

A Well, rate analyst, assistant traffic manager, traffic manager, then I think they made it manager of regulatory matters. I am not sure whether there was something in between there or not.

REPRESENTATIVE LINTON: Thank you, sir. I won't belabor this any longer. I have some questions with the Port Authority. I thought I'd speak to someone at some other date that deals with my concerns at the Port Authority.

CHAIRMAN HUTCHINSON: Murphy.

REPRESENTATIVE MURPHY: No.

CHAIRMAN HUTCHINSON: Bill.

REPRESENTATIVE LLOYD: No.

CHAIRMAN HUTCHINSON: Thank you very much, sir.
Mr. Heffner.

MR. CASPER: Do you have copies of your --

MR. HEFFNER: I do not have a prepared statement, but I do have, shall we say, the basic material. I would be happy to put my statement in a prepared form and send it to you.

MR. CASPER: We would appreciate that very much I am sure.

CHAIRMAN HUTCHINSON: Mr. Heffner.

MR. HEFFNER: No relation to Hugh. Otherwise I would be able to be the purchaser for CONRAIL. I have always wanted to be in the railroad business.

Unfortunately though, Mr. Chairman and members of the Committee, I am not Hugh Hefner. My name is John Heffner and I have been asked by the Railroad Task Force for the Northeast Region to appear before you today to discuss the task force's plans for restructuring rail service in Pennsylvania and the northeast. The task force originally prepared its report in August 1981 during a time of great uncertainty over CONRAIL's future as well as the availability of federal rail funding. To put things in perspective, the task force report was being prepared during the early months of the Reagan Administration and its economic recovery plan. The centerpiece of that plan was the liquidation and sale of the Consolidated Rail Corporation, CONRAIL, the dominant railroad in the northeast as well as a termination of all federal railroad assistance.

Many rail planners feared and expected that CONRAIL would indeed be dismantled and sold to a profitable western or southern railroad or railroads. While service would be preserved

over the key route linking the east coast with the south and the midwest, local services would be jeopardized, indeed, the resulting uncertainty over rail service would be yet another nail in the coffin of the industrial areas of the northeast.

In short, the task force's report was an effort to preserve essential local rail service in the face of this uncertainty. Briefly, the task force's report was built around several key points. The most significant of these points was the recognition that rail service has two competing and sometimes inconsistent functions, and the report was the first and now one of many reports to recognize the separation of rail service into a retail and a wholesale component.

In addition, the task force report proposed to maintain competitive access to several major rail networks to preserve essential local trackage in the face of possible abandonments through public acquisition of rights-of-way and to insure quality service by leasing the publicly owned, in other words, publicly acquired and subsequently owned lines to locally owned and operated private operating carriers. Altogether the task force report envisioned that 15 different groups of properties in central and eastern Pennsylvania, the southern tier of New York plus New Jersey and Delaware would be acquired from CONRAIL. Nine of these properties would be

organized into terminal facilities, that is, basically originating or terminating areas for traffic and would be leased to privately owned short line railroads for local, that is, pickup and delivery railroad service. The remaining six properties would be leased to trunk line carriers, what in the rail industry are called Class I railroads. Those with revenues over \$50 million a year. Railroads such as the Delaware and Hudson to provide competitive rail access for local industry.

Several aspects of this plan, which I am submitting for the record today, they are more detailed examination and comment. By the term wholesale service, I mean the provision of freight service in train load lots over medium to long distances with minimal enroute switching. In other words, a move from Boston to Chicago or Harrisburg to St. Louis. This wholesale function envisions substantial volumes, volumes in excess of five million gross ton miles per year. Essentially, it is really in the nature of western railroading where a train will move virtually without switching from, say, Denver to Los Angeles or Dallas to Seattle. Under the task force's plan, this function would be handled by Class I railroads such as CONRAIL, Chessie, D&H and so forth.

The second component is what we call retail service.

That's the provision of the local pickup and delivery business. What Mr. Derr likes to call the ones's and twos's. The local way freight that goes down the line and works the local industries two and three cars at a time. This pickup and delivery retail function would be provided over regional network of branch and feeder lines between individual customers and the interchange point with the Class I line haul railroads. The volumes are small to modest, say, under five million gross ton miles a year. This function would be handled by short line railroads usually Class III, sometimes Class II. Revenues of less than ten million or at most under \$50 million a year. In most cases closer to about one million dollars a year. These short line railroads would not own the rights-of-way but rather would lease the trackage and facilities from the public terminal entities which had acquired them from CONRAIL.

Industries in communities served by the local terminal concept would enjoy competitive rail service in line with the Staggers Act philosophy of marketplace regulation instead of government regulation. Since open switching of local industries, in other words, access to an industry by several different railroads would not, in most cases, be economically or operationally feasible, competitive rail service would be provided by the neutral switching carrier in

turn connecting with several line haul or Class I railroads. Thus, the customer would deal with the ABC short line railroad and through that short line would enjoy the service of CONRAIL, D&H, Chessie, Norfolk and Western, and so forth. Because of their local orientation and management and low overhead, terminal operators could be expected to be more responsive to community and shipper needs.

And if I can just add a parenthetical for a minute, I noticed in his presentation this morning, Mr. Hasselman made a valid point in terms of profitability. There is really or there really are three aspects to railroading from the profitability point of view. There are those operations where any railroad can make money on. CONRAIL will make money on, the Philadelphia Belt Line will make money on. There are those operations where no railroad, no matter how small, no matter how well managed can make money on. Finally, there is a gray area. The short line railroad shoots for that gray middle area where the Class I either cannot make any money at all or the profit is so marginal it is just not worth the return on investment. Many of those properties are very attractive to short lines.

Finally, the task force plan envisions that local agencies will acquire CONRAIL lines for their original purchase

price set by USRA, the so-called net liquidation value as adjusted for improvements and retirements.

I might mention in this connection that, unfortunately, the Pennsylvania Department of Transportation has not assisted acquiring entities with the purchase of lines being abandoned by CONRAIL under its 308 abandonment process, the quicky CONRAIL NERSA abandonments. It is our position that PennDOT should either be authorized, empowered or directed to participate both with financial and moral assistance in carrying out these acquisitions.

For payment the local terminal agencies under the task force plan would assume a portion of CONRAIL's debt to the U.S. Government. As you recall, when CONRAIL bought the bankrupt rail lines, basically, the government said and here is a check, Mr. CONRAIL. Go out and pay Penn Central and Reading, etc., and in terms of how we are going to work this you now owe us several billion dollars. Well, if a branch line is transferred to a public entity under the task force plan, that entity would be responsible for a small portion of that debt. Upon sale or retirement of a line, the debt would be repaid. In addition, as the operating carrier may lease payments or generated a profit, that money would flow to the acquiring entity which in turn would use some of that money to

repay the debt to the government.

It has now been three years since the task force plan was issued. The question is how has it fared. How does it look in terms of recent development. Since 1981 CONRAIL's fortunes have improved drastically. The Reagan Administration has relaxed its goal of a fire sale for CONRAIL. Much to its credit, CONRAIL has begun to improve its operations while achieving a respectable profit. The Interstate Commerce Commission has continued to interpret its legislative mandate to emphasize marketplace over government regulation in a manner that makes it preferable for local retail service be provided by local retail carriers. Timothy Mellon, the so-called Guilford Transportation, Inc., Timothy Mellon has assembled a northeastern rail network out of the Boston and Maine Central and Delaware and Hudson Railroads offering a competitive northeastern rail service to CONRAIL. A new wave of major rail mergers is upon us again with the likely result that the merged carriers will seek to abandon duplicate main lines which have been rendered excess by consolidation. Indeed, as you have heard this morning, the rumor mill indicates that the Santa Fe may be interested in CONRAIL. A likely result of these developments is that local authorities wishing to preserve trackage necessary for local but not national needs should be

prepared to acquire them.

The task force report is not new and it is not revolutionary. For years the wholesale and retail long haul local split has been recognized in other areas such as the Federal Highway Program, the airline industry and the trucking industry. With deregulation, it is becoming a way of life in the bus industry and even more widely accepted with airlines and truck transportation. The split up of AT&T into a series of component entities has now brought the wholesale-retail distinction to the telephone industry and the split is even receiving recognition from CONRAIL selling its local operations to short lines and to some other states, such as South Dakota and Iowa to name two.

The task force program is even being implemented in a limited if not somewhat haphazard way. Not haphazard because we want it to be that way, but that just seems to be the way it is happening. After a long battle with CONRAIL, Monroe County, Pennsylvania is acquiring a major portion of the old Lackawanna main line from Port Morris, New Jersey to Scranton, Pennsylvania.

I can tell you as the attorney who handled that case in Washington for Monroe County and who has represented them in the CONRAIL negotiations, that PennDOT did not lift a

finger to help us when we were in the most dire of circumstances and we had seriously thought we had lost the line.

CHAIRMAN HUTCHINSON: You asked them?

MR. HEFFNER: We certainly did ask them.

CHAIRMAN HUTCHINSON: Talked to Don Bryan.

MR. HEFFNER: I personally did not, but Nancy Shikatis (phonetic) and the other commissioners, I can assure you, did talk with PennDOT, they talked with Elaine King and ^{moral} there was no monetary and not even too much/assistance that was forthcoming. I don't believe, and this is speaking kind of as an aside and off the record, I don't even believe that they picked up the phone and called CONRAIL. CONRAIL has been cooperative, but I think it was outside of whatever PennDOT might have done.

The several central Pennsylvania counties comprising the organization known as SEDA COG are negotiating to acquire several CONRAIL branch lines in the Bloomsburg, Bellefonte and Tyrone area. I am representing SEDA COG. Once again, there has been no monetary assistance available through PennDOT. I say that personally, not on behalf of my client. And incidentally, the Bald Eagle Line was substantially rehabilitated. New Jersey Transit has acquired most of CONRAIL's Erie Lackawanna, North Jersey and South Jersey shorelines and is

starting to negotiate with short line operators to provide local service. The Delaware and Hudson Railway has acquired CONRAIL's Lackawanna-Scranton-Binghamton line and is looking to increase its market penetration in eastern Pennsylvania right in keeping with the spirit of the task force report. The Philadelphia Belt Line is in the process of initiating its own service to customers in the port area giving them competitive access. The first competitive access since 1976 when Reading and Penn Central were rolled into one.

Finally, a new carrier, the Anthracite Railway is about to take over three PennDOT owned branch lines in eastern Pennsylvania formerly operated by CONRAIL. My impression is those lines were purchased under the previous administration here in Harrisburg. I will be pleased to answer any questions. I must say that, as Mr. Casper knows, I am a little bit time limited because I have a train at three o'clock, but I would be pleased to answer some questions.

CHAIRMAN HUTCHINSON: Ted.

BY REPRESENTATIVE STUBAN:

Q First of all, can I ask where is your major office?

A My office is in Washington. I would be happy to give you my card.

Q You say that you represent the Northeast Region

Task Force?

A Yes.

Q Who is that composed of?

A It is a series of organizations headquartered in Avoca, Pennsylvania. The Executive Director is, I'll think of the name in a second, well, Frank Minni (phonetic) is associated with him, Phillip Lieberman I believe is the Executive Director.

BY MR. CASPER:

Q Excuse me, aren't they a spinoff from the Economic Development Council?

A Yes, I understand there has been some bit of a spinoff, yes.

BY CHAIRMAN HUTCHINSON:

Q Is that just in northeast Pennsylvania or the northeastern part of the United States?

A I think it is northeast region.

Q Of Pennsylvania?

A I believe it would not be limited wholly to Pennsylvania. I am not 100 percent sure.

BY REPRESENTATIVE STUBAN:

Q When did you become involved in the Pocono interest?

A Representing Pocono County?

Q Right.

A On March 3, 1983.

Q And you say that PennDOT has not cooperated or been involved in any way?

A Well, they have not offered any financial cooperation. I don't know that they have been in a position where they could. But they have not endeavored to try to persuade CONRAIL not to abandon the lines. You must understand the situation under which we are operating. We had to resort to litigation to prevent CONRAIL from abandoning the lines. Then when we got to negotiation and a negotiation that has been successfully completed and I think we are now pretty pleased with the way that CONRAIL has conducted themselves, but for a while things were very tense and CONRAIL would say to us make your best offer by April 30th otherwise we're going to rip up the tracks the next day. That was the type of situation.

Now, I understand CONRAIL's point of view and I'm not faulting them. Their point of view is that they are doing some major track work. They need the rail. They don't want to go out and buy rail they don't have to buy if they can avoid it. That is completely reasonable, and I am not faulting them for it. But during the times when we were having some

difficulty communicating with CONRAIL, we really got no help to speak of from PennDOT.

I will tell you that I am offering this as a personal observation. I am not representing Monroe County before your body, but I can just tell you as a matter of fact that when we needed to come up with six and a half million dollars there was no money in Harrisburg.

Q When did you become involved with SEDA COG?

A Around June 1st.

Q What part have you played in the negotiations with CONRAIL? What have you done?

A I have gone to all the meetings between SEDA COG and CONRAIL and I have been the chief negotiator for SEDA COG.

Q How about updating me as to what has taken place?

A Well, they have agreed to sell us the so-called Bloomsburg branch. That's what CONRAIL calls it. It is about 38 miles long. It would be purchased through -- under the normal Northeast Rail Service Act financial provisions but not through the actual NERSA provisions. In other words, we would buy it for 75 percent of the net liquidation value.

Q Have you done anything? Have you filed for any financial --

A Yes, that is not my baliwick, but we do have money

available through the Federal EDA for the purpose.

Q You have filed?

A We have, yes.

BY CHAIRMAN HUTCHINSON:

Q Have you ever tried PIDA or any one of the others, Department of Commerce?

A I do know for a fact, and once again I am just speaking personally, but I do know for a fact that efforts have been made to get some sort of money other than or supplementing our EDA money. There is simply more track that we want to buy when we have the money available for it. Some effort has been made to get state money. As far as I know it is not available or it is not available in sufficient quantity.

BY REPRESENTATIVE STUBAN:

Q Well, I guess we are not up to date on negotiations. What has happened on Centre County lines?

A Well, in the case of the Centre County lines, we only have about \$1.7 million available, some of which has to go for track rehabilitation work and that is the money available through EDA and there is a small amount of shipper money that is included in that pot I believe. We would like to buy the Centre County lines, but unfortunately, the price that CONRAIL wants for those lines, when added to the Bloomsburg

line, far exceeds our available funding. If you can persuade CONRAIL to decrease the price, we would be most anxious to get those lines.

Q Mr. Hasselman said this morning that the state agreed to some of that line, the Bloomsburg line. Are you up to date on what has happened there?

A Well, as far as I know it is not the state. Based upon my last conversation with SEDA COG, and I was there at the meeting with CONRAIL, the funding would come through EDA and local sources. CONRAIL made a representation to EDA that they would sell it to us for 75 percent of its net liquidation value.

Q I don't know, Karen, if you got an answer on this thing. Isn't what Mr. Hasselman tried to say this morning there was a five-mile piece of line from Berwick to Hicks Ferry, that PP&L uses and that the state has renewed its agreement for five more years on that piece of line?

A Well, all I know, sir, is it is a 38-mile segment. I don't know if that embraces the five miles in question.

MR. DERR: Maybe I can clarify the geography. The line from Berwick to Hicks Ferry was left out of CONRAIL in 1976. The state subsequently, with PP&L, acquired the title to that section. The section under discussion with CONRAIL is from

Northumberland to Berwick, the end-to-end connection. There is two separate --

REPRESENTATIVE STUBAN: Mr. Hasselman made a statement here this morning that the state made an agreement and that's the agreement they made is on the five-mile piece.

MR. DERR: That is an operating agreement.

MR. HEFFNER: If that is true, then that is good. I am glad to hear it.

BY REPRESENTATIVE STUBAN: (To Mr. Heffner)

Q You are saying that the state has not committed any money, there is no money going to --

A Not to my knowledge.

CHAIRMAN HUTCHINSON: EDA is what?

MR. HEFFNER: Federal Economic Development Agency.

CHAIRMAN HUTCHINSON: Usually you cannot get any money from them if you do not go through PIDA. If you are going to build an industrial plant, you cannot get money from them if you don't get an okay. And nobody has asked PIDA for money --

MR. HEFFNER: Well, to tell you the truth, sir --

CHAIRMAN HUTCHINSON: I can't understand. I know what I would do back home. I would be sitting over there in PIDA's office, not only in Transportation's office.

REPRESENTATIVE STUBAN: Well, Hutch, we have met with Transportation and I met with SEDA COG and Transportation people and there are some commitments to that line. I wish they would update me on what is taking place.

MR. HEFFNER: I would very much like to do that and as soon as I get back to Washington to my office I will speak to Mr. Devine and ask him.

MS. BALL: The only thing I can tell you, there have been discussions. There is an offer and I cannot get the details for you yet. That was as of yesterday there was a discussion of an offer.

MR. HEFFNER: We have made an offer.

REPRESENTATIVE STUBAN: Well, the offer has been made and they filed for EDA money. But there are some commitments from the state as to that line. We had money put in the budget for rehabilitation of the line and everything else.

MR. HEFFNER: Now this was acquisition funding. I am only talking acquisition funding.

MR. CASPER: He is talking acquisition.

MR. HEFFNER: I am not talking rehabilitation.

CHAIRMAN HUTCHINSON: He's going to fix them before you get them.

MR. HEFFNER: Great.

CHAIRMAN HUTCHINSON: Any other questions? Bill.

REPRESENTATIVE LLOYD: My only question, and I don't want to hold this gentleman up. I hope at some point maybe from him and some of these other ABC companies or whatever they call themselves, we could get some idea of what the financial requirements would be if we were to try to put together some kind of a package for the state to go out and assist these people. How much money are we talking about? Is this something totally out of the question or by bits and pieces from other places could we really do something? I don't think you have that material, Scott. I would hope when we are all done with this we would be able to make a decision whether we want to recommend --

MR. CASPER: Just quickly, we have some of the data on the various projects. Some of the sales that were made and some of the maintenance needs. We can put something together.

REPRESENTATIVE LLOYD: It seems to me that would be useful and maybe it is something we could --

CHAIRMAN HUTCHINSON: You better go if you have to catch a train.

MR. HEFFNER: Thank you very much, sir. Thank you, Mr. Chairman.

CHAIRMAN HUTCHINSON: Bruce Conrad.

MR. CONRAD: Gentlemen, I'm sorry I don't have a prepared statement. I have been too busy trying to get a train operating by next Monday. I suspect that I'm here late in the day because you wanted to hear some good news late in the day. We are not here to tell you how everything is going wrong. We are getting things going right in Carbon County.

MR. CASPER: Thanks for coming, Bruce.

MR. CONRAD: As of a year and a half ago, Carbon County became the first county in Pennsylvania to buy rail property. We did not buy it with state assistance at all either morally or otherwise. We bought the former Nesquehoning branch of the Lehigh and Susquehanna Railroad which is property that prior to the bankrupt estates being merged into CONRAIL had been leased to the Central Railroad of New Jersey.

Our railroad was left half in and half out of the USRA final systems plan, because of inadequate testimony from the Pennsylvania Public Utilities Commission, they left the half in that didn't have any traffic and left the half out that did. Needless to say, back in 1974 when it became evident that we were only going to solve these problems with local effort, we started working with our local industries and we started developing and updating, sometimes every week and sometimes every six months, worse case scenarios of how we could

keep our local industries operating and what we would do if nobody else did what they said they were going to do. I think it goes without saying that we are a bunch of superstitious Dutchmen down there and we did not believe the Commonwealth of Pennsylvania was going to be good for its word when it said it was going to acquire this line and it is damn good we didn't believe it because we would have been left high and dry.

Our railroad will start operation with our short line company, next Monday we'll run our first official train out of CONRAIL. It has been operated by CONRAIL while we have been rehabilitating it and getting our short line company set up under a contract. But we will be operating our first rail next Monday morning and it will be a great pleasure. Our line serves principally two main industries and some other industries that are more or less price sensitive in terms of whether or not they use the rail. But there were two industries that come on the line and this was a cause of great frustration back in the mid-70's when the PUC refused to acknowledge them because they used 1973 as a traffic year in their testimony to the USRA and these two industries were built in 1974. But the two principal users of the line, both of them are real captive, are Ametek West Chester Plastics Division and Air Products and Chemicals Corporation in Hometown which makes many, many military

cargos, including some of the fuel components for the space shuttle.

We also have several smaller shippers on the line including a coal company who has been prohibited by CONRAIL from loading coal on the line without a siding when their business didn't justify a siding and a once a week drill on the line didn't justify calling it a main line and you can really run the whole thing as one big siding and accommodate all of your shippers. We are changing a lot of those things. And as of next week we are projecting through the end of the year that we will ship about 380 carloads of traffic. Through January 1, CONRAIL last year shipped 85. The reason that is going to happen is principally because we are going to market the hell out of the line. We are going to allow shippers that are on the line to load in spot cars on the main. If they only need a boxcar once a month or if they need two a week and we will accommodate the operation of the railroad around the shippers needs and not just through a rigid set of work rules that make no sense and make no business sense.

We are also working to help them aggressively sell the products and route them to their customers and working with them on rates and routings that will get their products to and from where they want them in the time that they

want them and help to steal some of the business that has been on the highways and get it back on our railroad.

Since we moved to acquire the Nesquehoning branch, it is now going to be called the Panther Valley Railroad, in 1979 the two principal and one smaller industry on our line on the aggregate invested over \$25 million in new plant. They have hired over 350 people in some of the worst recession years in our area period. We have had industries growing and expanding at a time when everything else had industries going away.

We used several federal sources to help us finance the acquisition in addition to an awful lot of county money over time. Just more or less had to keep going into our studies.

CHAIRMAN HUTCHINSON: Can I ask you, when you set up a commission was it an authority where you could borrow money?

MR. CONRAD: We have not so far needed to borrow money. We received a \$1.7 million grant from U.S. HUD and we received \$600,000 from the Appalachian Regional Commission. This has allowed us to acquire the line and put it substantially in almost Class III condition so that we can, using a normal maintenance of way program keep it in good shape forever.

BY MR. CASPER:

Q Excuse me, was that 1.6?

A 1.7 million.

Q From HUD?

A From HUD.

Q How about the Appalachian?

A It was \$600,000.

MR. CASPER: Thank you.

MR. CONRAD: As to what happened in our area and what happened, I think, across the Commonwealth of Pennsylvania due to the lack of a coherent rail policy on the Commonwealth's part, as we saw a lot of industries go away. It wasn't something that they said publicly, but if you asked them privately what turned them around or what made them leave or what made them locate somewhere else, they would say they weren't sure of rail service and even if they didn't need it they wanted to know it was available. The notoriety of Carbon County's buying this rail line has attracted several new industries to our county and we hope very soon we'll have a new one on the line. We know for a fact that that is how they heard about us. And that is how they started looking at Pennsylvania. In one case the industry makes atomized aluminum powder which is another one of the solid fuels that the space shuttle uses. They didn't locate on our line, but they located

on another short line in Carbon County. And prior to hearing about Carbon County buying a railroad, their Board of Directors had forbidden the Search Committee to look anywhere in eastern Pennsylvania because they could not be sure of rail service. And yet eastern Pennsylvania was where they wanted to locate. We made it possible for them to see that there could be secure rail service in Pennsylvania. One of the things that became evident to us and I don't think is the fault of anybody but just the fault of the cycles of Pennsylvania politics that happened in our state that didn't happen in some of our neighboring states was that when this crisis hit the fan Pennsylvania was in the last two years of the Shapp Administration and any policy that was developed by that administration quickly became moot as the new administration came in and took a couple of years to form its own policies and by that time the crisis was really over. We had lost an awful lot of business in Pennsylvania. New York State, conversely, was in the first two years of the eight years of the Carey Administration and they were solidly on their feet in making policy and able to stick with it. I am not sure that any other scenario could have happened considering where Pennsylvania was in its political cycles.

It is too bad, but it is incredibly important now

that we recognize the importance of our rail transportation system to the future commerce of this Commonwealth.

BY CHAIRMAN HUTCHINSON:

Q You said one place where you got your money was Appalachia. Well Appalachia is out of the Commerce Department.

A It is federal.

Q They have to okay that?

A Yes.

Q And also HUD money would be the same thing. They didn't go after Appalachia or PIDA money?

A Who didn't?

Q This gentleman before you was talking. Ted is interested in up in the northeast where he is at up in Bloomsburg.

A Appalachia would no longer have money available for these kinds of projects. All of Appalachia's --

Q You got --

A We were one of the last projects of this type to be funded.

Q Also a change in the Reagan Administration when the Secretary of Transportation, other ones were doing away with Appalachia money.

A I have got to say, too, in terms of the Reagan

Administration in spite of their policy to try to get rid of rail programs and to ignore the rail problem, we had some incredible cooperation from Drew Lewis on all levels from the time he was a trustee at Reading in regard to negotiations to purchase our line because Reading owned a future fee interest in it. To the time he was Secretary of Transportation and we had problems with Mr. Hasselman wanting to withhold the last mile of the line which was in worse shape of the whole damn railroad, insisting that there was some vague operating reason why he had to have it. When in fact his reason to withhold it was to prohibit us from ever having any chance of interchanging with the Delaware and Hudson, which we had no intention of doing anyway.

Q Are you going to have moving equipment, your own moving equipment or are you using CONRAIL's?

A Virtually all we need is an engine. We have a 3,000 horse power General Electric locomotive which will run the railroad.

Q It's going to be like a shifter?

A Yes.

Q You move it into where?

A Pardon?

Q You move it into what yards?

A We have an old yard in Jim Thorpe which was the old central road of New Jersey yards, the Mauch Chunk Yard. And we will be rebuilding a portion of the engine house there. The turntable is still there and a lot of yard track is still there. With some minor improvements, we can get it all functional again. We built interchange tracks for interchange with CONRAIL and we built runaround tracks that we needed to properly service our industries in the last year and a half. We have a few more major rehabilitation projects to go, but at this time you could run an Amtrak metroliner over our track at 70 miles an hour and you wouldn't hurt the metroliner or our track.

CHAIRMAN HUTCHINSON: Are there any questions?

Thank you very much.

MR. CROYLE: I'm just curious --

CHAIRMAN HUTCHINSON: Go ahead.

MR. CROYLE: About these short line railroads, do they have any problems, maybe someone can answer it, do they have any problems establishing rates with carriers that you interchange with such as CONRAIL?

MR. CONRAD: At the present time our rate will be our allowance from CONRAIL which is, as we understand it currently, will be \$258 a car. We build the volume of traffic

up to the extent that we can, we will not need more than that for the next couple years. After two years' time we go to full proportional rates at which time we set our local rate. CONRAIL sets the through rate and any other intersecting carrier sets their own rate. At the time that we go to proportional rates, we will actually probably be able to give our industries better service because at that time the industries will have a local agent to help them negotiate their rates. Where other short line railroads in the country have gone immediately to proportional rates, it has made CONRAIL very happy. It has also made their industries very happy. Because they can go in and say the problem with your shipments is that if you send me one car of coal every other day it really isn't an economical move for CONRAIL. Why don't you hold it and send me five cars a week at the end of the week and we'll knock off the per diem on the cars and CONRAIL has agreed to do that. We will give you a break of five dollars a ton on our move. CONRAIL will give you ten dollars a ton off on the move to New England and that is going to make your cargo competitive. Those kinds of marketing things can be done by a short line on behalf of the customers. They represent like an independent insurance agent. Whereas, CONRAIL's marketing department can't possibly go out and cut out all those myriads of details.

MR. CROYLE: You are still at the mercy though, whether it be CONRAIL or some other roads that you interchange with that takes your traffic, as far as rates are concerned, is that right, especially for the long haul?

MR. CONRAD: For the long haul, yes.

BY CHAIRMAN HUTCHINSON:

Q What are you going to do if that car gets stuck in the Mauch Chunk Yard and doesn't get moved out? The customer starts raising hell because he has got to wait. That is what I find out was the matter with the railroads if you had something locked up someplace.

A CONRAIL has a beautiful computerized yard in Allentown. Air Products and Chemicals regularly have cars that they know by their own transportation commuters have moved into the Allentown yards. They need them in Hometown and CONRAIL in Allentown says they can't find it. So Air Products and Chemicals employs people to go down to the Allentown Yard, walk through the rows of cars and point out to CONRAIL where the car is. So they can move it up to the Nesquehoning --

Q They have computers you say?

A The whole yard was computerized when CONRAIL was created over a couple of years.

Now admittedly, those problems are getting better.

They are learning to use the computerized equipment. The yard has functioned better in the last couple of years than it did a few years back. But Air Products' transportation department still employs people who go out and physically locate the car and point it out to the railroad. Here it is, move it for us.

BY MR. CASPER:

Q Just quickly, Bruce. Will you sustain an operating income or will you need a subsidy to operate in the next year?

A Our projection is that in the first year we probably will need a subsidy. We might even in the second year. If all of the cargo, all of the traffic that we are projecting in our most liberal estimates occur, the subsidy will be a moot point. We could continue, and I think it is essential to continue to receive maintenance of way money to keep these lines up. One of the problems that I think happened in Pennsylvania was that the condition of the rail lines deteriorated to such a point that it wasn't the acquisition costs but the rehabilitation costs that became prohibitive. And I think that is something that is a matter of state policy. I highly applaud that the State Transportation Department is saying we would like to get out of the operating subsidies over a period of time, but continue to assist with keeping right-of-way up so that we don't ever get so far behind again.

Q Your annual volume was 380 cars? You said it would build up to 380 or --

A We're hoping to move that many between now and January 1st. CONRAIL in a 12-month period only moved 85 cars.

Q So your annual capacity now in volume would be 760 cars?

A Yes. And at that point we probably are -- a little bit better than break even.

Q How long is the rail line link?

A Twenty miles.

Q How many employees do you have on the railroad?

A There will be three employees.

Q And just one engine?

A One engine.

BY CHAIRMAN HUTCHINSON:

Q Is the engineer union?

A No, it is nonunion.

CHAIRMAN HUTCHINSON: Thank you very much. You don't have to answer.

MR. CONRAD: On days when he is not operating the engine he is going to be fixing it or laying ties.

MR. CASPER: He's also president.

CHAIRMAN HUTCHINSON: Mr. Jacobson.

MR. JACOBSON: I am here as a representative of Rohm and Haas Company, who is a major rail shipper in southeastern Pennsylvania. We run in and out of the Delaware Valley approximately 3,000 cars per year both in raw materials coming in and finished products going out. It represents somewhere in the neighborhood of an \$11 million annual railroad expenditure bill.

Our particular situation in the Delaware Valley, we have not been affected in any way, shape or form by CONRAIL abandonments. We suffered no serious service deterioration. In fact, over the years, or to five years, we have seen tremendous improvement in the service provided to us by CONRAIL.

The same comments apply to pricing practices where they have maintained a very competitive position we think and have seen no cancellation in switching agreements or interline haul agreements on our particular portion of business.

However, we have noticed over the years and we have felt very strongly that one of the things that was missing in the Delaware Valley was the access or open access to the Port of Philadelphia and parts of the Delaware Valley to other rail competition. All rail moves coming in and out of our plants are captive to CONRAIL. We have no other choice. So, in that light we have supported very actively the efforts of the

Philadelphia Belt Line to set up switching agreements and to operate on a track in the Port of Philadelphia. We certainly expect to continue to support and hope that it will bring competition into the Port of Philadelphia and into us in particular.

BY CHAIRMAN HUTCHINSON:

Q Are you talking about price and service or service when you're talking about competition?

A Well, we're looking, I think, mainly for price. The markets that we service and the plants that we are supplied from. We do not have a service problem in dealing with CONRAIL. We are primarily looking for price competition as protection against the possibility of aggressive pricing practice from CONRAIL.

Q Do you use piggyback?

A Yes, we do. Of that 3,000 cars going out of the Philadelphia area, approximately 850 of those are piggybacks. Those are not handled by CONRAIL. We take them to a trucking facility in Philadelphia and truck them to access to the Chessie. But anything that comes in in bulk tanker is 100 percent CONRAIL on the outbound or inbound side.

CHAIRMAN HUTCHINSON: Any questions? Gordon.

BY REPRESENTATIVE LINTON:

Q Mr. Jacobson, would you be able to expand on the Chamber's position on the Belt Line's situation in the Port of Philadelphia?

A The Chamber's position?

Q Yes.

A I would not be. We have a representative on the Chamber. We also have a representative on the Belt Line Board. In our attitude, at least the attitude in the transportation area has just been to support them because we see the need for the competition and we are going to support them at perhaps some excess cost at Rohm and Haas and we are actually physically supporting them in establishing their facilities, Maybe establish their offices in our plant, right?

Q You would not be able to make a position and know what position of the Chamber is?

A I could not speak for the Chamber, I could not.

REPRESENTATIVE LINTON: Thank you.

CHAIRMAN HUTCHINSON: Any other questions?

BY MR. CASPER:

Q Just one. Why would you truck your trailers to Chessie, because of the price differential?

A Primarily price, Second consideration would be what markets we have access to. Our piggyback shipments going out of

Philadelphia are generally in two areas, Chicago and Los Angeles. And in the Chicago area we are getting better pricing from the Chessie. In the L.A. area it is a combination of Chessie and the delivering railroad.

Q Where do you truck them to, Edgemore?

A I believe that's where they go, yes.

Q Delaware?

A Yes.

CHAIRMAN HUTCHINSON: Any other questions?

REPRESENTATIVE LAUGHLIN: Mr. Chairman, one question of the gentleman.

BY REPRESENTATIVE LAUGHLIN:

Q Under the present circumstance of CONRAIL with the government connection, I would think it would be less likely that they would be gouging you on prices for delivery of shipments than it would be if they were sold to another competing railroad and then that competing railroad using that profit motive a little differently, you would be subject to even more of a pressure of an increased price?

A I don't necessarily agree with that. One of the things, we are very concerned that CONRAIL be disposed of as a complete entity and a profitable entity. The potential connection of CONRAIL with a western railroad to provide true

east-west ocean-to-ocean corridor, I think would be welcomed. And one of the reasons it would be welcomed there would be some tremendous operating efficiencies for the railroads. And as a result, and even in today's market, we see operating efficiencies transferred into lower rates. It is not only the fact that there is competition, but the railroads have achieved some tremendous operating efficiencies and most of it is working in cooperation with the shippers.

REPRESENTATIVE LAUGHLIN: Thank you.

BY CHAIRMAN HUTCHINSON:

Q One question, logistics manager, is that the same as a traffic manager?

A Well, it is a little bit more than that. We handle not only material movement and our transportation activities and facilities, we also handle inventory placement all over the United States and containerization.

CHAIRMAN HUTCHINSON: Thank you very much, sir.
Any other questions?

(No response.)

CHAIRMAN HUTCHINSON: Mark Bennett.

MR. BENNETT: Mr. Chairman, my name is Mark Bennett. I am President of the Octoraro Railroad and I'm here to comment a little bit on the ABC's that you have all been discussing

this morning and this afternoon, the short line railroad.

We appreciate this opportunity to explain a little bit about what we're doing and how we interface with a lot of other people in the transportation business. As a way of background, I have been in rail transportation since 1961 when I graduated from Villanova. In that capacity I have been with the Department of Defense, Pennsylvania Railroad and the Shell Oil Company. Also I was with the Chessie System where I worked on the aborted Chessie acquisition of the Reading and the Erie-Lackawanna. When that collapsed, I was then assigned to the Branch Line Abandonment Committee of Chessie where I was part of the commercial team evaluating the various proposals.

The line we operate today is somewhat unique. We are located in southeastern Chester County, but we also serve a portion of Cecil County, Maryland and New Castle County, Delaware. We operate an X shape line, the former Reading line, about 30 miles long which runs along the Brandywine River. We also operate a 42-mile ex-Pennsylvania line which crosses in an east-west fashion at Chadsford on the Chester-Delaware County line.

The east-west line was flood damaged in 1971 and the Penn Central at that time refused to make repairs and restore

service. Given the implications of the Three R Act and changes in federal legislation, we are now in the unique position of operating a three state line with part of our properties being operated under lease from SEPTA; part under operating agreement with the Commonwealth of Pennsylvania and part under direct lease with the Reading trustees.

Our principal connections are with the Chessie System at Wilmington, Delaware. We maintain connections also at Wilmington with CONRAIL and the Coatsville area and also at the Coatsville area we interchange with a subsidiary of Lukens Steel in Brandywine Valley.

All our operations since inception have been under agreement of one form or another with PennDOT. And I might add in comment to that, that our relationship through two administrations has always been very positive. Perhaps it was the timeliness of our advent, but given the circumstances I think the relationship with the department has been surprisingly good.

In 1982 we acquired an additional B&O line in New Castle County adding an additional eight miles to our operation. And as has been noted earlier this afternoon, Monday morning we will begin operation of three former CONRAIL operated light density lines on account of the department.

In reviewing, and I'm trying to edit my notes a little bit based on the comments of some of the other appearances here, I think our overall position is that we are in general agreement with CONRAIL, although we often compete with them, we do not necessarily think that CONRAIL is playing the game by all the rules that are fair and equitable. Obviously a small company like ours is not in an equal bargaining position in trying to resolve rate service or price differentials for CONRAIL. But I think it is safe to say that an unhappy owner forced to operate a branch or provide a service that he is dissatisfied is going to ultimately be detrimental to all parties. We think that there is a changing attitude in CONRAIL which reinforces this retail-wholesale shift and the change in philosophy I think bodes well for continuation of service on some light density lines.

There is no universal definition of a short line, but in the context that most people toss it around today, we are talking about a carrier who is a Class III carrier, less than ten million gross. And quite frankly what I have seen most of the carriers are going to be a lot smaller than that. In our case our gross is only about \$400,000 a year. This will be more typical of your emerging short lines. To provide the transportation over approximately 80 miles of railroads, we

maintain three locomotives and do that with eight to ten employees.

I think I would begin any serious discussion of short line aspects by saying short lines are not the magic cure. The rail industry is a cooperative beast and it depends on mutual self-help. Even with a new merger there is a great deal of traffic that moves between carriers and it is an inevitable projection that bulkinization could take place and the advantages of the intercooperation between carriers now will soon disappear. A short line is, however, an alternative to the loss of rail service. The other two alternatives that I see on the front burner would be to relocate the economic centers that are involved or expand perhaps truck or water transportation. I think that continuation of rail service under a short line is preferable because in our view an uninterested major carrier is basically an abandonment case in the making. Short lines can put a ceiling on operating costs, but they are not necessarily always less costly. They do tend to be somewhat insulated from outside pressures. In that regard, they also have a great deal more at stake in the survival of their customers. It is very easy to draw a straight line between the unbranched customer and the paycheck. So we try to look at it as being positively provincial.

In looking at the limitations of short lines, I regard the lack of capital as being the number one problem. Quite frankly, the short lines emerging in support of or in operation of light density lines are at the low end of the scale and probably at the low end of the low end of the scale to be quite frank about it. It makes it difficult to attract funds. Many of the people that participate in operation of new emerging short lines do it for indirect or nondirect financial returns. When I say participants, I extend that to employees, to managers, to investors, to communities and the shippers. All of them make a sacrifice to continue rail service by trading off some of their other direct economic benefits.

The second biggest problem I see affecting the short line is time. Time to correct problems, rebuild traffic and to repair the physical plant. We have been operating now since 1977 officially and during that time we have seen some pretty wild swings in the economic cycle. Just as we thought we were beginning to get all our house in order and things looked like we were on the right road, the economy would take a serious downturn. In our particular case, we have the unique situation of betting on two people who have really taken it on the chin, the steel industry and the mushroom business. If you

can solve either of the problems of those two industries, you will do a lot to help us.

Anyway, one of the key elements here is giving the short line operator time and protecting him from the fluctuations of the business cycle while he tries to recover what he can out of the base that he has to work with. I think I have to be quite honest and admit, and I think it should be recognized up front, that all branches are not winners. There are going to be some losers. The time element could be important to all factors of the community to determine what it is that they want to preserve. Maybe the cost of preserving rail transportation is too high. But it should be something that should be carefully weighed and decided upon before rational decisions are made.

The third area of our problem, third critical area in terms of problems, is connection cooperation by the Class I carriers. In the past, CONRAIL has been the big villain here. Even today their attitude toward revenue allocations between the short line and CONRAIL are not necessarily what we would agree as being fair. I strongly suspect that they are not even uniform in the treatment of carriers, Classes I versus Class III, performing essentially the same service. To a degree, Chessie is even a greater threat with the interchange of inter-

modal activities through their own trucking subsidiary. A short line can meet some of these problems if there is a degree of cooperation between the Class I carriers that they connect with.

It is my observation that given time and support short lines can perform the retail function significantly and reduce and mitigate the effect of any possible rail abandonment. We would have a rather complex program to do this. We would suggest that there be some sort of statewide self-supporting railroad authority which would assist the operator in making the transition from Class I carriers to the short line or light density operator. He could accomplish this by either guaranteeing a mortgage effect or actually holding a mortgage. He could also guarantee the operator of the four or five or six years he needs to weather the business cycle and try to physically rebuild his traffic base and repair his operations. Hopefully, if the program was extended for a sufficient period of time like a municipal or industrial revenue bond, the last years of the repayment program would provide additional funds that could be used as seed money for further branch line abandonments and the transition to other carriers. The authority could perform the function that PennDOT has done so well in the last few months, that is, screen operators in an attempt to

coordinate the direct involvement of users, communities, operators and shippers.

Quite frankly, in the railroad business today there cannot be any free rides. The best you can hope is slow down the speed in which the change takes place. In our new operations that we start Monday, we are going to have the direct involvement of ourselves, the shippers, through a revenue guarantee program, as well as PennDOT on a subsidized basis. So all those factors put together will buy us the time we need to see if there can be true viability incorporated in the branches we operate.

And lastly, any kind of authority funding a program like this could well control the disposition of assets should there be unsuccessful operations and the need to terminate them. We feel that any part of any system that requires or provides incentives to certain carriers, that these incentives or benefits should flow to all the carriers, large or small. That is simply put, that if in this case CONRAIL were to enjoy significant tax advantages, a portion of that be recognized in any dialogue between CONRAIL and any future operator. This could be accomplished by CONRAIL maintaining a mortgage interest at a reasonable interest rate. The temporary use of CONRAIL facilities during the transition period and technical and

marketing support. It is essential, however, that any such organization or arrangement may not become a burden to CONRAIL because that just self-destructs.

In conclusion, I feel that short lines can and do work for the public interest and they are better than having a negative attitude by the large carriers. Short lines cannot offset the abandonment effect however without the same degree of support from the public sector that has been given the large carriers.

I'll be glad to answer any questions from the ABC Department if anybody would care to.

BY CHAIRMAN HUTCHINSON:

Q Of course, when you talk about you do business in Maryland and Pennsylvania?

A Yes, sir.

Q What is Maryland doing for you?

A Our operations in Maryland are very small. We serve only about two miles, one station. As such they are not very active. The state itself, as an overall policy, is pretty broadly based. They have spent a great deal of time and effort on the eastern shore where they have extensive operations.

CHAIRMAN HUTCHINSON: Any other questions?

BY MR. CASPER:

Q The lines that will be operating on Monday, where are they, Chester County?

A No, we're beginning to operate on Monday a line in Boyertown which is both in Berks and Montgomery County. A line in East Greenville, Pennsylvania, which is in Lehigh and Montgomery County and at Kutztown which is in the upper part of Berks County.

BY CHAIRMAN HUTCHINSON:

Q There is no connecting link?

A No.

BY MR. CASPER:

Q I was just going to ask that. They don't connect to your lines?

A No, we will taxi personnel between lines. They will be self-contained.

Q Will they travel by CONRAIL or Amtrak?

REPRESENTATIVE LAUGHLIN: I don't know, but I got to catch a plane at 4:15.

BY MR. CASPER:

Q Last question. Your locomotives, are they diesel operations?

A Yes.

Q Did I read somewhere you had a steam locomotive

shuttling freight?

A Not us.

MR. CASPER: It must have been another one. Okay, thank you.

CHAIRMAN HUTCHINSON: Thank you very much. That is it. Thank you very much.

(Whereupon at 3:30 p.m. the hearing was concluded.)

I hereby certify that the proceedings and evidence taken by me in the within matter are fully and accurately indicated in my notes and that this is a true and correct transcript of same.

Dorothy M. Malone
Dorothy M. Malone
Registered Professional Reporter