

COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES  
COMMITTEE ON TRANSPORTATION

In re: Rail Transportation  
Public Hearing

\* \* \*

Verbatim report of hearing held in the  
Lackawanna County Courthouse Annex,  
Commissioners Conference Room, Scranton,  
Pennsylvania on

Friday  
September 23, 1983  
9:30 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  
Transportation  
Hon. Joseph A. Steighner, Subcommittee Chairman on Transportation  
Safety  
Hon. William R. Lloyd, Secretary

MEMBERS OF COMMITTEE ON TRANSPORTATION

Hon. Barry L. Alderette	Hon. Charles F. Nahill, Jr.
Hon. Harry E. Bowser	Hon. George Miscevich
Hon. Brian D. Clark	Hon. Dennis M. O'Brien
Hon. Rudolph Dininni	Hon. Joseph A. Petraca
Hon. Ron Gamble	Hon. John E. Peterson
Hon. Richard A. Geist	Hon. Merle H. Phillips
Hon. Michael C. Gruitza	Hon. Joseph R. Pitts
Hon. John Kennedy	Hon. Ted Stuban
Hon. Gordon J. Linton	Hon. Benjamin H. Wilson

Also Present:

Hon. Joseph G. Wargo

Reported by: Dorothy M. Malone

---

Dorothy M. Malone  
Registered Professional Reporter  
135 S. Landis Street  
Hummelstown, Pennsylvania 17036

**Also Present:**

**Scott Casper, Research Analyst**  
**Paul Landis, Sr. Research Analyst**  
**Vince Rossi, Minority Staff**

**INDEX**

<b><u>Witness</u></b>	<b><u>Page</u></b>
<b>Sam Milazzo, Milazzo Industries</b>	<b>3</b>
<b>Hon. Robert Pettinato, Chairman, Lackawanna County Board of Commissioners</b>	<b>13</b>
<b>Joseph McCourt, Vice-President, Pocono Northeast Railway</b>	<b>22</b>
<b>Robert McNichols, General Manager, Pocono Northeast Railway</b>	<b>23</b>

ACTING CHAIRMAN WARGO: Mr. Milazzo, are you ready?  
I am Joe Wargo. This is Representative Ted Stuban, Scott Casper, Paul Landis, Vince Rossi.

You have no prepared text?

MR. MILAZZO: No.

ACTING CHAIRMAN WARGO: That's better testimony.  
We are ready.

MR. MILAZZO: Well, I had received a letter and I spoke to Mr. Casper regarding the rail situation and I was asked to come up and testify and I am here. I am owner of Milazzo Industries in Pittston, Pa. We are in the manufacturing business of charcoal, Qik Joe Ice Melter, coal briquettes. We ship most of our material out by truck and we receive a lot of material in by rail car. We receive, roughly, I received 103 cars last year. We expect to raise it up to possibly 150 cars this coming year. I think it generates something like a half million dollars of tariff for the railroad. Without rail service, believe me, we could never survive. In fact, I went down to Washington about a year and a half ago and testified to that when they were talking about taking the railroad out.

We employ about 27 people, 27 to 30 people. As I said, without the railroad there is no way we could ever survive. Because the material we take in from the middle of Michigan and

it just would not be feasible by truck.

MR. CASPER: I'm sorry, what did you --

MR. MILAZZO: We take material in from Midland Michigan, which is a calcium chloride, and it just would not be feasible to take it in by truck. Also, we are thinking of taking char, which is used for making charcoal, out of Missouri and that most likely will be rail car.

We have invested a lot of money into bucket conveyors, under car conveyors. I would say within the last five years we probably put \$100,000 in this kind of equipment just for unloading rail cars.

So that is all I have to say.

BY REPRESENTATIVE STUBAN:

Q Sam, what railroad services do you use?

A CONRAIL and Pocono Northeast.

Q CONRAIL and Pocono Northeast?

A Well, it is coming in through CONRAIL and Pocono Northeast receives it in Coxtan Yards, Pittston.

Q How long has Pocono Northeast been servicing you?

A About a year.

Q Have your rates increased since Pocono Northeast took over?

A I think we're paying \$40 a car for the extra service

from Coxton Yards down to our area.

Q You are paying \$40 more?

A More per car.

BY MR. LANDIS:

Q Is that more or per car?

A Per car, \$40 per car.

BY MR. ROSSI:

Q Has it increased at all? Has there been an increase in that period of time?

A No, no. Let me just say this. Pocono Northeast is doing a helluva job. The service is fantastic. I am very, very well satisfied.

BY REPRESENTATIVE STUBAN:

Q Then Pocono Northeast took over the entire line. You didn't have any investment of your own put into it or any of the other industries?

A No, sir.

Q Have they upgraded the line any since they took over?

A Yes, they have. They have put, I guess, new ties in every fifth tie I believe. I know the tracks were in deplorable condition and now they are passable. Every fifth tie I believe it is that they have put in there.

BY ACTING CHAIRMAN WARGO:

Q What other industries are serviced on that line, if any?

A Well, I know there is Luzerne Products. Of course, I don't think they get any freight in there lately. You have Air Products down in Wilkes-Barre. You have some lumber yards. You have Pittston Lumber in Pittston which receives a lot of cars. I really don't know all the people. As I said, I definitely expect to, in fact, I just set up a contract with another company and we will be getting more cars of material in, coming in from Syracuse. So we expect to generate, like I said, 150 cars per year which will definitely generate a half million dollars of freight. That is what our freight bill will be approximately, possibly over this.

BY MR. CASPER:

Q Mr. Milazzo, the \$40 per car, that's your total rail charge per car or is that a surcharge?

A No, no. That is some kind of a surcharge, I guess, from Coxtton down to my place,

Q If you lost your rail service, were forced to divert to motor truck, carriers, to get your materials from Missouri and also Midland Michigan, I guess it would be a trunk truck for the calcium chloride?

A Yes, yes.

Q What percentage increase would that be over rail service would you say, roughly?

A I would say almost double.

Q It would be almost double?

A Almost double and I would be out of the ball park. My competition would eat me right up. There is no way I could ever survive.

Q So if you didn't have rail service, you would have to relocate or shut down presumably?

A That is right. And I have over a million dollars invested in my plant. I just put a briquetting plant in about two years ago making a coal fuel briquette and also a charcoal briquette. I have a modern plant and we have approximately, we are on four acres of land. We also have another ten or twelve acres right on the other side of the railroad for expansion. As I said, there is no way I could possibly operate without rails. My competition would eat me right up. The freight rates would be almost double, close to double.

Q Even if you were to sell your plant or would want to if you couldn't survive --

A I'd put 30 people out of work.

Q You would put 30 people out of work?

A That is right.

Q And your plant is a specialty, with the one million dollars that you put in, especially for doing what you are doing?

A Yes.

Q Making briquettes?

A Surely.

Q And someone else interested in making briquettes couldn't come in and buy it because they would need rail service, too?

A That is right.

Q So it would sit there and rust.

A Positively. And as I said, we just put in a modern plant in there. It is going on three years now, two and a half years ago. We have one of the most modern charcoal briquette plants in the country.

Q So with your investment and good rail service, you are extremely competitive?

A Oh, positively.

Q Without it you're done?

A Positively. I am the largest packer in the country of a calcium chloride in retail value. We go under the Qik Joe label.



ACTING CHAIRMAN WARGO: What is that, sir?

MR. MILAZZO: Qik Joe, Q-i-k J-o-e, Qik Joe.

BY ACTING CHAIRMAN WARGO:

Q Where is that marketed?

A Where is it marketed, all over the country.

ACTING CHAIRMAN WARGO: I liked the Joe part. That is good.

MR. MILAZZO: It is catchy, my son. But I just hope that the service keeps, that we hold on to the service, and as I said, the job that the Pocono Northeast, really these people did not put words in my mouth or anything else. They just give me fantastic service. I cannot complain. If I need a car, it is right there. They are very, very cooperative. If a car has to be moved, they will move the car, whatever has to be done.

BY MR. CASPER:

Q How many times a week is your plant serviced?

A Three times, three, four times a week.

Q Three or four times a week?

A Yes.

Q Almost daily per work day?

A Oh, yes. And that is all we need.

BY REPRESENTATIVE STUBAN:

Q How many miles of service in that branch do you know?

A I really don't know. I know it goes from Coxtton down to Wilkes-Barre maybe.

Q Down to Air Products?

A Maybe 20 miles, possibly 20 miles.

ACTING CHAIRMAN WARGO: Paul?

MR. LANDIS: No.

ACTING CHAIRMAN WARGO: Vince?

MR. ROSSI: No.

ACTING CHAIRMAN WARGO: You learn something every day. It is a big operation.

MR. MILAZZO: We have a good size operation. As I said, we employ as high as 30 people.

BY ACTING CHAIRMAN WARGO:

Q Did you ever invite our guys from that area into the plant, Tom Tye (phonetic)?

A Would we, Jim Nelligan has been in there.

Q Nelligan?

A Yes. Ray Musto has been in there.

Q Ray has been there?

A Yes. And the business was started 54 years ago by my dad who was in the coal business and my grandfather, my

grandfather had started in the hauling business and my dad opened with a coal business. Then we expanded to the manufacturing business. I have been running the company for the last 25 years I guess.

BY REPRESENTATIVE STUBAN:

Q You say you are making coal briquettes?

A Coal fuel briquettes, coal fuel briquette, that is right. A coal fuel briquette, when there was a shortage of coal, oil got tight, you couldn't get coal, so we started getting coal fines, anthracite coal fines, and started briquetting them with a special binder. They just made a very, very good briquette. It was very, very well accepted. Of course, that has died down a little bit due to the coal situation because there is plenty of coal around. But it will happen again where there will be a shortage.

As I said, we will have char coming in. We will possibly generate, I would say, we will probably generate about 200 cars a year over the next year.

BY ACTING CHAIRMAN WARGO:

Q That is the limit of your growth, approximately 30 people?

A I would say. Yes, because I have a lot of machinery in there. Who knows. We just got a windshield washer fluid

business now. That is sort of being accepted, very, very well accepted. So there is a possibility of a couple more men to work there. We may go to 40 people. I can't say.

BY MR. LANDIS:

Q Do you ship everything out by truck?

A Mostly by truck. We will possibly, it is really convenient to a certain extent with some of the people that we service who do not have a rail service. But all my raw materials will be coming in by car, by rail car.

If you gentlemen want to come down some day when we are running, we will be glad to show you our operation.

MR. CASPER: That would be very interesting.

MR. MILAZZO: We<sup>re</sup> are right on River Road in Port Blanchard which is right near the Wyoming Bridge which is right on the outskirts of Pittston, Pa.

We have to do everything possible, men, to keep this rail in service. That is all I can say.

ACTING CHAIRMAN WARGO: Okay, thank you, Sam.

MR. MILAZZO: That's it.

MR. CASPER: Thank you very much.

REPRESENTATIVE STUBAN: Thank you for your testimony.

MR. CASPER: Commissioner Pettinato is on his way in from his office. He will be a minute or two, but he is in

route down the hall.

MR. CASPER: Commissioner, do you have prepared remarks, an extra copy?

COMMISSIONER PETTINATO: We will be able to reproduce it.

MR. CASPER: That is okay. That is fine. Just so we could have one copy for the court reporter's record and the Committee's record. We can make copies if we have one copy after you are finished your testimony.

COMMISSIONER PETTINATO: Gentlemen, first let me express my appreciation to all of you for coming here to Lackawanna County to hear our problems as they relate to rail transportation. And we certainly welcome you to the county and hope your stay is a fruitful one.

Railroad transportation is an essential element of this nation's transportation system. It can be fairly stated that in Lackawanna and surrounding counties (Luzerne, Monroe), CONRAIL by its actions in abandoning key railroad lines has exercised a negative effect on our area's efforts to become self-sufficient in the movement of commerce to the major port areas and markets of New York and New Jersey. Fortunately, we are blessed with an excellent system of Interstate highways connections which offers direct/ to those cities, including Philadelphia,

southern New Jersey, New England, and points south. However, in many cases highway trucking is far too expensive for freight movements that could be moved more competitively and efficiently by rail.

I have no doubt that in CONRAIL's mode of operation, smaller metropolitan areas such as Scranton and Lackawanna County count for very little and are viewed as almost totally insignificant.

They have proven this by their actions in the wholesale abandonment of vital segments of trackage in the Lackawanna Valley corridor. It is painfully obvious to all who are familiar and have been a part of this unfortunate scenario that CONRAIL's only interest in small to medium-sized markets is to serve vital connecting links of trackage preparatory to total abandonment and isolation.

These actions by CONRAIL serve two purposes as we see them:

(1) By serving selected links in main line operations, they effectively discourage other potential operators from offering competitive service along those lines.

(2) The physical removal of rails from the abandoned segments assures that rail service will be lost forever in these areas while CONRAIL utilizes these rails as replacements to

build up their trackage. Thereby effectively eliminating any competition for the present as well as for the future.

CONRAIL's uncompromising posture in negotiations with interested purchasers of these abandoned lines adds further support to our view of their ultimate goal; the economic isolation of any communities that do not fit into their Master Plan for rail service in the northeast corridor.

It has been stated that the present demand for CONRAIL's services exceeds the corporations capacity to fully handle certain lines of business. This is understandable for an entity of CONRAIL's size serving everything from valuable automobiles to bulk coal. It is beyond management capabilities to make such an organization viable.

Density of traffic, or the lack of it, is not CONRAIL's problem as has been suggested. Top management must get out on the railroad, solving problems, correcting, innovating, inspiring, and creating a whole new trend of situations. More importantly, CONRAIL must actively promote and market its service rather than actively discourage actual and potential shippers through poor service and threats of service eliminations. Other businesses know that they must spend money to make money. CONRAIL and several other railroads mistakenly think they can become viable by only cutting expenses and eliminating

competition. They possibly can, but only if service holds up to sustain the revenue and attract new business. The fallacy becomes apparent when gross savings do not automatically become net revenue. More service, rather than less, may be necessary to increase revenue and better utilize the plant, and reduce the incidence of cost on individual units of traffic.

It is also essential that the question of the inherent inability of the total railroad system to raise adequate capital be addressed. The sale or lease of portions of the renovated CONRAIL system to competent connecting operators is one sure method of coping with part of the shortfall, but much more must be done much more broadly. I would suggest one possible approach would involve an excise tax on all locomotive, and barge fuel, the proceeds of which would be trust funded, by mode, for capital improvement grants to railroads, closely proportional to their payments; for the federal waterway program. The contribution that such an excise tax would make to national energy policy may well do as much for the balance of payments and energy conservation as it does for sustaining the railroads. A rail rate decrease of four percent to five percent, offsetting much of the tax cost increase, should be applied concurrently to reflect the major savings that will flow from an adequate capital improvement program.



The preservation and strengthening of rail freight service is vital to the continuing economic recovery of Lackawanna County and Northeastern Pennsylvania. We believe an instrument such as a State Rail Maintenance Authority (as per H.B. 865) which would acquire lines about to be abandoned by CONRAIL and operate or lease them to private operators is essential to preserving critical freight corridors. We further believe that the acquisition price of such lines should be based on the net liquidation value less the tax credits accrued by CONRAIL or other RR companies based on their expenditures for maintenance and improvement of rights-of-way as provided for in H.B. 866, H.B. 867, and H.B. 868, amending the Tax Reform Code of 1971, dated March 27, 1980. Thank you.

ACTING CHAIRMAN WARGO: Before any questions, I am sure that the Commissioner will answer any questions. But I would like to note the presence of our former colleague, Charlie Luger, Commissioner Luger.

MR. LUGER: I just wanted to make sure that he read it the way I wrote it.

(Laughter.)

ACTING CHAIRMAN WARGO: You have always been a ghost writer.

The Commissioner is subject to questions. Scott?

MR. CASPER: No.

ACTING CHAIRMAN WARGO: Paul?

MR. LANDIS: No.

MR. ROSSI: May I ask a question?

ACTING CHAIRMAN WARGO: Sure.

BY MR. ROSSI:

Q Do you believe it is important for CONRAIL to show a profitability?

A Well, yes, I do believe it is important for CONRAIL to show profitability. But I think they have lots of other problems that they could get to to bring that black ink to the bottom line before they wholesale abandon railroads and take up track. I think also that not enough effort is being exerted by officialdom of CONRAIL in marketing the existing lines intact to other operators, who because of their smaller size and lower overhead, are competitively able to operate that rail service along those lines. CONRAIL has avoided dealing with railroads of this nature, especially over line carriers because they see it as a competitive influence that they would not like to have to deal with.

I think in an effort to bring to the bottom line, they want to do business as usual in the highly inefficient way that railroads have been operated. I don't necessarily

lay the blame for their inefficient operations totally at the management of the railroads. I think labor has a lot to do with that as well. Be that as it may, we cannot afford business as usual in the railroad industry and save that industry. So we have got to force CONRAIL to dispose of those lines that they cannot operate themselves, but dispose of them intact. Not with the track picked up, but intact to other operators who feel as though that they can both from an over line as well as from a short line carriers point of view.

BY MR. CASPER:

Q Commissioner, you mentioned in essence endorsement of 865?

A Yes.

Q The Rail Maintenance Authority. And one aspect of that quite possibly would be to create a certain holding pattern. Not for the sake of unnecessary delay, but as you know, under NERSA, the Northeast Rail Services Act of '81 you have an expedited abandonment procedure. This was in response to traditional ICC, Interstate Commerce Commission, dragging on forever abandonments and costing everyone involved a lot of money in legal fees. Do you think that the State Rail Authority can be of service in, for example, entering direct negotiations with CONRAIL while helping the local officials and local shippers

to possibly get a financing act together which takes a fair amount of time? Do you think that is a practical aspect of this?

A I do. The only one hazard, and it is addressed in my statement, that I see associated with House Bill 865 is that it ought not to become a panacea for CONRAIL to get rid of at whatever price they ask the lines that they are talking about. I think that CONRAIL, whether they want to admit it or not, more than anything belongs to the taxpayers at this point. And as such, the prices for the lines are not to be set at such a level that it makes it impossible then for the private sector, through other railroad operating entities and more and more people are interested in operating railroads today than ever before. Especially if they can do it without the burdens that are placed on existing railroads such as CONRAIL in terms of labor contracts that are today, in today's marketplace unrealistic. But the fact is that if we can keep the capital requirements for these businesses down to a level which will allow them to make a profit, I think that House Bill 865 will be very, very effective. But if, as a result of 865, the railroads are allowed to bilk the public out of enough money to then render it impossible to operate that line at a profit by anyone else, then I think House Bill 865 would have

been a failure.

Q Well, the companion bills to 865, 866 and 868 will help address that as you did mention in your testimony.

I just wanted to mention, too, Representative Stuban is prime sponsor of the legislation. Representative Merle Phillips, who was with us yesterday, are co-sponsors, for your information.

A My compliments to you gentlemen for having the foresight to deal with this legislation. I think it is a very, very good way in which the Commonwealth can help local communities who have really had a difficult time in getting out of the stranglehold that they have been placed in by CONRAIL.

Q Also giving them some time?

A Yes.

BY ACTING CHAIRMAN WARGO:

Q How much rapport have you had with Commissioners of Luzerne County and Monroe County on this whole package?

A Well, we worked very closely. More with Monroe County than Luzerne County associated with acquiring the line that the Monroe County Rail Transportation Authority is in the process of acquiring. I see that last night Congressman McDade was successful in having a special appropriation passed by the

Congress for four and a half million dollars that would allow them to purchase that line in accordance with terms and contracts that CONRAIL has been approaching. But that has been negotiating with Monroe. But the acquisition of that line is a perfect example of the thrust of my testimony. It was only after people found CONRAIL out actually removing track that the whole uprising began here and CONRAIL was forced to stop removing the track. The negotiations began. Again, I think that CONRAIL was unfair in establishing the price at the level that they did. Be that as it may, it was much higher, I think, than the salvage value of the track and also especially if it takes into consideration the tax consequences to CONRAIL having sold the track at that figure. So that I think to a certain extent we are paying CONRAIL too much for that track, but we cannot afford to be without it.

ACTING CHAIRMAN WARGO: Thank you.

MR. CASPER: Thank you very much, Commissioner.

The next is Mr. John Sheehan. Pocono Northeast is supposed to be here very shortly if they are on time.

ACTING CHAIRMAN WARGO: If you will identify yourself for the record.

MR. McCOURT: My name is Joseph McCourt, assistant to the president of Pocono Northeast Railway.

MR. McNICHOLS: I am Bob McNichols. I am the general manager of Pocono Northeast Railway.

ACTING CHAIRMAN WARGO: Do you have a prepared text? Do you wish to make a statement?

MR. McCOURT: Pocono Northeast Railway is a private corporation that has acquired presently 40 miles of track in Lackawanna and Luzerne Counties. At the end of September 1983 we will acquire an additional 40 miles of track from CONRAIL. The operation of these 80 miles of track is conducted by 13 individuals. The acquisition cost of the lines and the rehabilitation costs are estimated to be in excess of four million dollars. That money coming from the private sector. Evidence of interest and funds for acquisition of rail lines to be abandoned by CONRAIL is evidenced by two additional parties who are interested in acquiring both Phase I acquisition and Phase II acquisition of lines from CONRAIL.

in  
We have been in operation over a year now and our customers, our employees, have exhibited a high degree of camaraderie to ensure that these lines become viable and that the continued operation of these lines is upheld.

It is Pocono Northeast's position that the abandoned lines of CONRAIL as well as the D&H or other carriers in the northeast corridors continue to be available to the private

sector. At such time that the lines are not considered for purchase, they should be acquired by the state and not allowed to be abandoned. Evidence of abandoned lines in this area over the last seven to ten years by former railroads, Lehigh Valley, Erie-Lackawanna, Penn Central, Central New Jersey.

In my opinion it has caused an erosion of availability of industrial users to locate in northeastern Pennsylvania. The continued erosion of those lines would only mean the demise of maybe some towns in this area. Unemployment in this area is high. By Pocono's acquisitions we have secured or preserved approximately 4,000 jobs. These numbers were not prepared by Pocono Northeast Railway, but by the Pennsylvania Department of Transportation.

In conclusion, Pocono Northeast Railway would hope that continued efforts of the Commonwealth of Pennsylvania through the rehabilitation program, these meetings, these board meetings, will ensure that Pennsylvania will not miss the boat in keeping railroad businesses and lines in this area active, safe and secure.

Any questions?

REPRESENTATIVE STUBAN: Bob, do you have anything to say?

MR. McNICHOLS: Well, we are certainly here for the



private sector. We would not like to see the formation of authorities to buy railroads. That may be a little self-serving on our part, but that is our stand. We have various reasons for that. One, we feel that we are a little more aggressive than a public authority would be for various reasons which I don't think we should get into. We could name them and I just spent three and a half years with the government service and I have good feelings and bad feelings about the government; more good than bad.

But we feel there is enough private money out there, but there is always that one piece of track that everybody knows should not be abandoned but is going to be abandoned but nobody is going to buy it, and they are all over the state. I think Laurel Lines here is one big one. When that was abandoned, and CONRAIL abandoned it, of course, it was in the beginning infancy of abandonment. That has been ripped up, destroyed. It is gone forever now. That is in Luzerne County. That is something that should have gone to an authority. I know I am double talking here, but there are those tracks. You look at the Nicholson track that came from Hop Bottom, which is the old Foster Station, which was picked up in the LDL days by the state. There was no sooner rehabilitation done on the tracks and it was torn up for scrap. That was a

mistake there.

BY MR. CASPER:

Q Excuse me. About what time period would you say that was?

A That was rebuilt, I believe, in 78-79 before the D&H acquisition of the old DL&W main line from Binghamton to Scranton. That was called the Old Line branch.

Q Is that the old D&H main line that was abandoned?

A No, that is the old Lackawanna main line. The D&H is presently running it.

Q I'm speaking of the one that was abandoned?

A That was the old, this is going back 100 years. That was the old main line of the Lackawanna before the cutoff was built and was put up on the high road. The state put a lot of ties in there. It was before I left. Just after I left CONRAIL they come in and did that work through CONRAIL. Then CONRAIL turned it over to D&H. Then the rail users went away or stopped using rail. Of course, the line evaporated. Of course, that was the close of the LDL and a lot of the LDL lines did evaporate. There was no one to pick them up at that time. Of course, that was part authority meaning the LDL through the state and a private carrier. It was a miss mix, what I might just call it.

Right now what does the state put out, Joe? The nine lines to be taken out by private carriers?

MR. McCOURT: That is correct.

MR. McNICHOLS: We chose not to bid on it, you know. There is our failure as a private company not to bid on something.

MR. McCOURT: Of course, the numbers weren't there. You can ill-afford to service one customer at the expense of other parties. It won't be able to survive in this area. These lines were meant, I think we would have to purchase seven -- five locomotives to service nine lines. It is a capital intensive business. That was prohibitive. I worked with Penn Central, the Lehigh Valley Railroad Company liquidating railroads. I tell you, it is a lot more fun to try to get one to work. It is a lot --

BY MR. CASPER:

Q A lot more productive, too.

A A lot more productive and you sleep better at night knowing the Montrose branch, from Montrose to Tunkhannock, which was ripped up, an old dairy line, old farmlands that you have in the last few years have ceased business and now can be used for industrial purposes has no railroad. Once you take that rail up --

Q It is not coming back?

A It is not coming back. It is prohibitive. The cost of acquiring the land and laying the railroad is very expensive. We have installed, through the help of PennDOT over 11,000 ties since we took over the Wilkes-Barre section of our Phase I acquisition. That is the type of thing we have to do to show our customers that we are here to operate a railroad. We are here to put in as efficient and safe standards as we possibly can. I think Pennsylvania is probably the front runner in the United States in allocating funds, energy and time to structuring what is going to happen to their rail base with the abandonment of lines by CONRAIL. We have been allotted a half million dollars in state funds and one year's time to improve our lines. Without that it would be difficult to purchase the lines. I guess it is a combination of private sector and the Commonwealth's interest in maintaining these lines which is going to be the catalyst in restoring them.

BY MR. CASPER: (To Mr. McCourt)

Q That one-half million dollars was for accelerated maintenance?

A Yes. That's under the accelerated maintenance program.

Q Mr. McNichols made an interesting comment about the

local shipper organizations. I shouldn't say that, about the local rail authorities. Mr. Tom Shepstone was in, he was in I guess in a dual capacity. He is a director of the Delaware Ostego system and I guess the general manager, whatever, of the Lackawaxen and Stourbridge, which is part of that system. And also executive director of the Lackawaxen and Honesdale Shippers Association.

The interesting point he made was the fact that in his opinion it was absolutely essential to have the local shippers involved in the operation of the short line at least from his perspective. It might be brought out that a lot of the rail authorities that have been created by a county or group of counties are absolutely not what you would call strictly from the governmental end or the public sector. Just a lot of county commissioners getting together and deciding that we are going to do this. But really came about by local shippers having this interest and saying we don't know exactly what we are going to do in the long run, but we know we have to do something. We are getting together and discuss it.

And when you have the rail authorities formed, you may have a few county commissioners or county planners, a few governmental people, but essentially these rail authority, the membership of the rail authorities, are actually that of the

local shippers as opposed to, if you will, government people who aren't used to operating a business. Even though, obviously, for purposes of gaining federal or state or even local taxpayers' money have to be sanctioned and brought into being by local government officials. What do you think about the involvement of local shippers being involved in the operation of the short line or at least in a rail authority like that.

MR. McNICHOLS: Getting back to our situation, we are a private corporation and we have local shippers on our line which are stockholders.

BY MR. CASPER: (To Mr. McNichols)

Q In Pocono Northeast?

A In Pocono Northeast. It is basically the same thing. The equity money --

Q It would be where they are on that particular line that you are operating now?

A Exactly. That makes, you know, it makes us to run a little faster and a litter leaner, I think. You are directly responsible to the man you are delivering the car to. He has got more than a little say than if you go into an authority. It weakens his position.

Q Well, that is true. That is absolutely true. But then in an instance where you have your stockholders who are

local shippers that may be so on one line, but, of course, it wouldn't necessarily be so on another line.

A No, not necessarily.

Q It might be. In other words, they may not, of course, have equity in the company. Therefore, the exact same situation would not apply?

A In our situation we contacted all the shippers on the line for the first offer on the private stock offering.

Q When you began?

A Yes.

Q But as you go on acquiring as CONRAIL, I shouldn't just say CONRAIL, I should say CONRAIL, the D&H or anyone else. They are the main two Class 1 carriers in the northeastern part of the state. As the Class 1 carriers were to abandon a line, of course, it would go on. And presumably you would, and you have had successful operation your first 40 miles. As you mentioned, you went another 40 miles and presumably you would continue to grow as long as you can put things together. And from what I read in the New York Times that is probably going to be going on for quite a while?

A Hopefully. Well, right now we are in Phase II which we call it and we have our second stock offering. Again, these people will or have been contacted to be a part of the

corporation. Instead of having a second party, it is a lot stronger when you pick up the phone and you know that that guy is part of your organization. We kind of pride ourselves on running a lean ship.

You agree with that, Joseph?

MR. McCOURT: Yes, I will.

BY REPRESENTATIVE STUBAN: (To Mr. McCourt)

Q Joe, you say you are running 40 miles of line and you are going to acquire 40 more. Where are these 40 that you are running?

A The 40 miles that we run now, the line begins at the Coxtan Yards in Pittston, Pa. where we interchange with CONRAIL. It runs through Pittston, Port Blanchard, Plains, into the Wilkes-Barre area. Terminating it actually at Pa. We have feeder lines off of that main line that service companies like Air Products, Simpson Lumber, Allen Industries. We have lines in the Avoca area. We have a line across the river, which is our only line on the other side of the Susquehanna, which services Celtex. That basically comprises, we have a line that services Independent Explosives up in Goax (phonetic), up near the airport. Basically, somewhere in the neighborhood of about 37 miles of that is in Luzerne County in the first acquisition and three miles in Lackawanna.



The second phase we will acquire everything in the Kingston area, Edwardsville, Wyoming. Again, emanating from the Coxton Yards, across 92, over the former Erie-Lackawanna and Lehigh Valley lines and approximately 20 to 21 miles in the Scranton area.

MR. McNICHOLS: The Dunmore section, a couple miles, about four miles or five miles in Scranton. Yes, that will bring us into the Laurel Line Tunnel into Scranton proper and over the Diamond branch and the Green Ridge branch will take us out to Green Ridge Avenue.

MR. McCOURT: Now, there were other buyers, other interested parties in acquiring Phase II of our acquisition. Initially, when we contacted CONRAIL we wanted to buy everything they had. We saw it as a network and that is why I refer to it as phases. It is phases of our acquisition. It is impossible for another short line to be viable in Luzerne-Lackawanna County areas. If another short line wants to purchase the Kingston side, we both would have fell.

BY MR. CASPER: (To Mr. McNichols)

Q You both would have been short haul?

A Not short haul. Volume is the secret to a railroad.

MR. McCOURT: So that it is critical and CONRAIL is aware of this. CONRAIL is like our big brother. If we

succeed, CONRAIL makes money. It is as simple as that. So they are out there to work with us so that we do succeed. We work very closely with their people. As far as the operations are concerned, we have little problems. So it is nice to know that CONRAIL realizes that if another short line was successful in the bid or the operation of the Kingston side and the Scranton side, that that would be the demise of both railroad parties.

So it is as we acquire our base. We have 13 employees now. When we acquire the lines in Scranton and Kingston, if we hire one or two more individuals, that is a lot. Because once you set up your base, the structure of the company, you are not increasing your manpower dramatically. It is not like you are doubling in size and your employees. But your base is going to go up. Our base volume will just about double.

BY MR. CASPER: (To Mr. McCourt)

Q How many carloads do you move a year? I know it may change, but what is your annual rate now do you think, approximately?

A Somewhere in the neighborhood of a 1,000. We are about 10 or 15 percent above CONRAIL's projections.

Q Ten to 15 percent above what they thought they would be hauling?

A Yes.

BY REPRESENTATIVE STUBAN: (To Mr. McCourt)

Q Have you negotiated with CONRAIL for the lines on the other side of the river in the Kingston area?

A Yes, we have. We have an agreement of sale.

MR. McNICHOLS: We should be closing within the next 10 or 15 days.

BY REPRESENTATIVE STUBAN: (To Mr. McCourt)

Q Has there been any other interest in that line?

A Yes, there has. There were two other parties who looked at the line and met with CONRAIL's management to purchase it.

Q And CONRAIL chose to deal with you?

A Yes. They have a policy, first come first serve. If you make an offer to the Interstate Commerce Commission, that is who they come after first. I am delighted in this instance. In other instances we are not, we are second.

But it is not as if you come in like you are selling your house. You come into buy your house and they offer you \$50,000. Bob comes in a day later and offers you '60.

Q Have you any other interest in any other lines around?

MR. McNICHOLS: We have made an offer on the Bloomsburg line. We have made an offer on the Herndon line and we have made an offer on the Shimer industrial line in the Hazleton area. Those are live offers in front of the Interstate Commerce Commission. They have been, oh my goodness, some of them must be six, seven weeks old.

BY MR. CASPER: (To Mr. McNichols)

Q Is Shimer running track, too, in Schuylkill County?

A Yes. I believe we are second or third in line on that one.

MR. McCOURT: We are first on Bloom.

MR. McNICHOLS: And on Herndon.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q How are you first on Bloom?

A We made the offer first through the ICC.

ACTING CHAIRMAN WARGO: There was some concern yesterday by Mr. Franchella, Chairman of the Railroad Acquisition Committee, Plains Township Taxpayers Association.

MR. McNICHOLS: Plains Township?

ACTING CHAIRMAN WARGO Yes. It is about strip mining or --

MR. CASPER: 6.3 miles of line in Plains Township, Luzerne County. I believe you fellows had an offer, probably

their first offer on that.

MR. McNICHOLS: Oh, that is the Laurel Line I was talking about.

MR. CASPER: Laurel?

MR. McNICHOLS: The Laurel Line. That goes from South Main Street in Pittston. Roughly --

ACTING CHAIRMAN WARGO: Who owns the property now?

MR. McNICHOLS: CONRAIL. What happened there --

ACTING CHAIRMAN WARGO: How would they bring in you people? They had something about a nice spot for a nursing home and yet people are planning on stripping the area --

MR. McNICHOLS: What happened there, back in '76, '77 when CONRAIL was in its infancy, that line, I think there was one shipper -- two shippers, Sincavage Lumber and Thomas C. Thomas in Wilkes-Barre. Thomas C. Thomas could be served off the Lehigh Valley and Sincavage, I believe, just had low rail use. CONRAIL took the line out of service and in the meantime found coal on it. They took the coal off --

ACTING CHAIRMAN WARGO: They had already taken the coal.

MR. McNICHOLS: That is gone.

ACTING CHAIRMAN WARGO: Our testimony says they are planning on --

MR. McNICHOLS: Well, when you are going -- do you know where United Furniture is in Wilkes-Barre?

ACTING CHAIRMAN WARGO: Yes.

MR. McNICHOLS: When you are down there on the bridge you go under, look out to your right and you'll find it, and the rail hangs in the air.

MR. CASPER: And the rail hangs in the air?

MR. McNICHOLS: Plus Helen Street in Plains Township was covered over by the township in 1977. They wanted to fix the bridge. They couldn't get an answer off of CONRAIL. So they took the bull by the horns, took the bridge out and filled it in. So it was impassable.

ACTING CHAIRMAN WARGO: Well, it is not the Pocono Northeast property?

MR. McNICHOLS: No.

MR. McCOURT: It is not our property. In fact, we met with Kings College, Rutt Flynn (phonetic) and Dave Roland who is planning that housing project, across from United Furniture if that is the same piece --

MR. McNICHOLS: If it is the Laurel Line.

MR. McCOURT: If it is the Laurel Line, that is the same piece. And we sent letters to CONRAIL and said that we were not interested in those pieces and that we applaud Dave

Roland's project to bring new jobs to this area.

ACTING CHAIRMAN WARGO: We'll get back to Mr. Franchella.

MR. McCOURT: Franchella, I am not familiar with Franchella.

ACTING CHAIRMAN WARGO: He is listed here as the Chairman of Railroad Acquisition Committee, Plains Township Taxpayers Association.

MR. McNICHOLS: That is also the same track that runs directly behind Luzerne County Courthouse. It runs across the street and up through Kings College. So it is 99 percent not there.

MR. CASPER: So you are not interested in acquiring that line?

MR. McCOURT: We were interested in acquiring a portion of it just to Thomas C. Thomas and the Steam Heat.

MR. CASPER: How long would be the length of that line?

MR. McCOURT: Oh, a tenth of a mile.

MR. McNICHOLS: A half a mile would be the max.

MR. CASPER: And the rest you weren't interested in bidding on?

MR. McCOURT: Right, and evidence of that is in

CONRAIL's records.

MR. CASPER: That settles that.

ACTING CHAIRMAN WARGO: We'll get back to Mr. Franchella.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q Have you got any ties across the river? Is there any way that you are tieing your tracks with both sides of the river?

A Oh, yes. Right now we have terminal access through CONRAIL which gives us rights across the Lackawanna River into Coxtan Yard and terminal access from Coxtan Yards across the Susquehanna on the Old Lehigh Valley to New Castle, New Castle Junction I believe. I might be wrong on that name, which brings us down on the WP&E.

Now on the Phase II acquisition, this should be in the next 15 days. We will own both bridges across the Susquehanna River, the one at West Pittston and the one back beyond on Route 92 going toward Harding, the Lackawanna and Lehigh Valley Bridge.

Q You are going to buy those bridges?

A Yes.

BY MR. LANDIS:

Q That Phase II, would that connect down into



Bloomsburg then?

A No, that track is tore up from Edwardsville just below Shickshinny up at Hicks Ferry at the power plant.

Q How many miles?

A From the power plant down to Berwick is owned by the state. It is an LDL line.

Q How many miles?

A Nineteen.

Q In other words, if you went across you wouldn't be going down that way? You wouldn't be laying tracks?

A Oh, no, that property was not taken by CONRAIL and the Erie-Lackawanna trustees sold it, I believe. I don't know who they really sold it to. And the track was tore up including the welded rail for that entire length. I believe all the property has been sold.

REPRESENTATIVE STUBAN: They have been using some of that right-of-way for, I guess, gas lines?

MR. McNICHOLS: I don't think there is any buildings on it. The bridges are still in Shickshinny.

REPRESENTATIVE STUBAN: Yes. They sold the right-of-way.

BY MR. ROSSI: (To Mr. McCourt)

Q Mr. McCourt, you said, "that lines should be acquired

by the state," and I assume that you are referring to abandoned lines. There was testimony yesterday that approximately seven to 800 miles of rail line had been abandoned by CONRAIL. Are you suggesting that seven or 800 miles that CONRAIL is abandoning should be acquired by the state? Maybe you could clarify or expound on that?

A No, I am not. What I meant to say or what I thought I said was lines that are not, that have shown little interest or no interest by the private sector to purchase should be looked at to be bought by the Commonwealth.

Q By the state?

A By the state. But if there is money available from the private sector to purchase the lines then, then I think that is where the lines should stay, the private sector.

Q The private sector first and then the state?

A Then the state.

Q Do you have any idea where the state would acquire the money to buy these lines?

A Well, there is obvious federal money available from the Federal Railroad Administration through 501 funds and 711.

MR. CASPER: If the big truckers pay their way through interstate highways to compete with you fellows that

might help.

MR. McCOURT: Well, there have been studies done, through CONRAIL, on what the big truckers should pay for damages to roads.

MR. CASPER: And also the Federal Highway Administration, also various states involved in the fact that the passenger<sup>car</sup>/owner and driver subsidizes your competitors and to the point that we, instead of having 50 trains run per day over the Oak Island Buffalo main line, we have about four or five now.

MR. McNICHOLS: Oak Island and Buffalo main line, you have one train.

MR. CASPER: I saw two last evening.

MR. McCOURT: One is a turn job. It goes out of Pittston, down to Allentown, picks up and comes back to Pittston. The other train comes from Mehopany to Pittston, sets out, picks up and goes back to Mehopany. There is one train that goes through.

MR. CASPER: Well, there is another line other than the Mehopany. I am not speaking of the old Lehigh Valley. I am speaking of the old Erie-Lackawanna.

MR. McNICHOLS: That is a D&H run. That is strictly D&H. The one that goes through Nicholson?

MR. CASPER: No. Well, perhaps we're getting our lines mixed. This line is further to the east of that. It is actually part of the Southern Tier main line. It dips down through Susquehanna County.

MR. McNICHOLS: Oh, yeah. They are guaranteed the State of New York five or seven trains a day. I think you will find studies going way back on what is in those trains. It may really open your eyes. As a matter of fact, we would like to get an empty up there and run it back and forth for a week or so.

MR. CASPER: Well, in any event before the interstates were built it was a lot heavier.

MR. McNICHOLS: Oh yes, that is true, extremely heavy.

MR. CASPER: And they didn't pay their way. We paid their way.

MR. McCOURT: Neither did the airports nor the seaports.

MR. CASPER: That is true,

MR. McCOURT: The railroads were the only industry that paid for the construction of their lines.

MR. CASPER: That is true and it was the only industry that hasn't been subsidized from top to bottom by the

government.

MR. McCOURT: The only one.

MR. CASPER: As a matter of fact, you were punished by the Interstate Commerce Commission by overregulation.

ACTING CHAIRMAN WARGO: Get this in the record. Plains Township Taxpayers opposes tearing up the rail line. Plains Township Taxpayers Association plans to appear before legislators today to discuss a plan to prevent Pocono Northeast Railroad Company from tearing up the stretch of rail line in the township.

The group wants to prevent the railroad from tearing up the track which runs the 6.3 miles from Jenkins Township to Wilkes-Barre city line and using it for scrap iron, according to Ted Franchella, Chairman of the Railroad Acquisition Committee of the group.

Thursday, members of the group appeared to ask why Pocono Northeast had bought the track and to investigate the possibility of their group acquiring it instead.

Any credibility to this?

MR. McCOURT: None.

MR. CASPER: Well Mr. Franchella --

MR. McNICHOLS: He just has the name wrong.

MR. CASPER: Mr. Franchella mentioned that.

MR. McNICHOLS: That is Jenkin Township. That is the old Laurel Line. There's a big hole in it. The hole has been there a long time.

ACTING CHAIRMAN WARGO: Okay, we have taxpayers in my community.

MR. CASPER: That puts a different light on it, doesn't it?

MR. McCOURT: That would be absolutely prohibitive.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q Joe, how many state dollars have been awarded to your company?

A For rehab?

Q Yes.

A Right now, I think it is very, let's just call it 475,000, give or take some change.

Q About 475,000?

A Yes.

Q How much do you expect to acquire if you get the rest of the lines across the river?

A We sent a rehab budget in. I believe, and I can't break up across the river with Dummore. I think it is lumped together around \$800,000.

Q So you have already acquired 475,000 and with the

rest of the lines you are going to get 800 and some thousand?

A That is for rehab.

Q For rehab?

A And with the rehab we also take on a liability of guaranteeing that track at Class 1 for five years.

MR. McCOURT: Plus those numbers are at 20 percent our participation.

MR. McNICHOLS: Yes, 20 percent our participation.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q Have you acquired any federal dollars there?

A There is a federal state mix in that.

Q There is a federal state mix in that?

A Right. There is 80 percent state-federal money and 20 percent private money.

Q So then really all the dollars that is going into that railroad isn't all private funds?

A On the rehab.

MR. McCOURT: That's the rehab.

REPRESENTATIVE STUBAN: That is the rehab.

MR. McCOURT: Purchase is.

REPRESENTATIVE STUBAN: Purchase is all private funds. None comes through the rail or industrial development people or low term interest loans or anything like that?

MR. McCOURT: Sure, we look for return under every rock that hasn't been turned over for funds to support our programs. EDCNP, Economic Development Council Northeast Pennsylvania, we have a loan from their group of \$100,000. That was for equipment. Luzerne County Office of Community Development have a time deposit swing type loan with Girard Bank for \$900,000 on the first acquisition. We are planning to go to the FRA for funds. We'll go after every dollar that is available to keep these railroads alive. If the burden of debt is such that we have to go to two points or three points over prime, we will be in trouble again. CONRAIL tried to abandon these lines and they weren't off base when they wanted to abandon them. The carloads are not there.

We felt that it is because basically of the service. The service wasn't there. I think evidence of what we have done, gentlemen like Sam Milazzo, people at Air Products, like Brook March, Bob Egleston of Carbon Sales, the kind of input we have, we are restoring a mile of railroads to one of our shippers. So we can move his product right from his site. I don't think that would have been done by CONRAIL. It has got to be a local, personally oriented type of business that will prevail. That will make survival of the roads in northeastern Pennsylvania possible. We are nowhere near making this thing run.



It is going to take time and efforts and help of both the Commonwealth and our people. I think evidence of what we are trying to do is supported by our people. We have 13 people. Somewhere in the neighborhood of 107 years experience. We have picked up people who have 25 to 30 years experience with CONRAIL and came to work for us for a sizable decrease in pay and they are not complaining. They enjoy running the railroad. They enjoy the personal camaraderie we have in our company. It just doesn't show up in the big corporation.

MR. CASPER: The fact that the president of the company may also be the engineer in another occasion.

MR. McCOURT: Right, well, not in our instance, not our president.

MR. CASPER: Well, some other instances in short line operations.

MR. McCOURT: Not in ours.

REPRESENTATIVE STUBAN: How about some of these acquisitions where you don't have full ownership? Do you have interest in running it as a short line operator?

MR. McCOURT: Certainly. We made a proposal to Monroe County to be a short line operator there. We thought we could best serve their needs, Bob, you can better explain what happened.

MR. McNICHOLS: On the Monroe County deal, CONRAIL is going to make the interchange point Scranton. CONRAIL's schedule to Scranton is three days a week, which would mean you would be interchanged three days a week. We made, one of our strong points in our proposal was we come right out of the Pittston Yard, with our interchange we could interchange five days a week which would make it much more advantageous for Pocono or the short line operator on the per diem and the mileage business. You could move the cars that much quicker plus you have five day/pick up and delivery for the customers.

But still your schedules are tied right to CONRAIL, how they come in the Pittston Yard. You cannot get away from the big railroad.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q What was the decision of the Pocono people?

A Monroe County?

Q Monroe County.

A I believe they are now with D&H.

Q They are going with the D&H?

A Yes, sir.

MR. McNICHOLS: Has a short line operator been suggested?

MR. McCOURT: Sure. As far as I know a short line

operator hasn't been selected. You don't know what is going on with Monroe County D&H. Maybe they have selected someone.

We thought we offered the best services connected with Wilkes-Barre-Scranton which would go into the second phase. I think everyone in the room is aware that we hope to have an excursion train run from Wilkes-Barre to the Scranton area.

BY REPRESENTATIVE STUBAN: (To Mr. McNichols)

Q. Did the Pocono Northeast have an interest in acquiring the Monroe County line?

A We had great interest in it, but there is a seven million dollar bill that goes along with it. That is a lot of money for the carloads. And when you're running 110 miles, you figure an average of four days per diem on a car, it is a lot of money. They are going to take away the portal interchange from Stroudsburg up in Scranton. That's going to make a lot of money. There is a lot of thought that has to go into that.

MR. CASPER: On a more general note, but something I think you fellows probably thought about, with Staggers, with NERSA the following year, do you foresee, looking a bit futuristic now, do you foresee especially in the future if CONRAIL is merged or acquired or transferred, whatever to Western or a southern carrier, no one can really tell for sure,

obviously. It depends upon the philosophy that emerges out of any union like that. But do you foresee that similar occurrence only more intensifies what happened in the conveyance of the Penn Central to CONRAIL and then window one and window two where essentially you have short lines coming into existence or growing as a result of the larger operator looking in terms of the bulk volume long haul and having the short lines do the local freight service on these light density lines where they simply can't make a go of it or if they can make a go of it, it is a marginal operation handling so few carloads when they are dealing in bulk primarily over longer distance. Do you see a large future, a big future for short lines in Pennsylvania?

MR. McNICHOLS: I do. I feel, whoever takes CONRAIL over or if they stay by themselves, if they can run into, say, Pittston Yard and set off a block of cars, say, for Pocono, pick up the empties and go to Allentown, what does that take them, 20 minutes?

If they have to stay in Pittston, maintain a yard, maintain the diesel service, maintain the local service, it is like anything else, your big cost is your pick-up and delivery.

MR. CASPER: Terminal costs.

MR. McNICHOLS: Terminal costs.

MR. CASPER: Not line running costs?

MR. McNICHOLS: Running costs and right now I think it is obvious CONRAIL has one of the best records of on time performance of any railroad. I think they are 97 percent.

MR. McCOURT: They are getting the award.

MR. McNICHOLS: They are getting the award.

MR. McCOURT: In 1970, when Penn Central, I was with the Penn Central trustees in the early '70's, Lehigh Valley and Central New Jersey, Erie-Lackawanna. When they hit rock bottom, when they hit hard times and filed Chapter 11, there were somewhere in the neighborhood of a quarter of a million people working on those roads. When CONRAIL took over acquisition, they had somewhere in the neighborhood of 110 to 115,000 employees. Today they have 34,000 employees. The future of Class 1 carriers in this country is short line railroads. There is no question about that.

MR. CASPER: To do the retail end of the operation as opposed to the wholesale long haul.

MR. McCOURT: CONRAIL has an unwritten law that they do not go out and seek customers who do less than 100 carloads a year.

MR. CASPER: They want clusters of customers and massive amounts of carloads.

MR. McCOURT: Sure. Look at Proctor and Gamble.

They're there a lot, they do 30,000 cars a year or more. Proctor and Gamble is a jewel. That is one of their top, I guess, they are number 13 or 14 on their top 20 list. So they see Proctor and Gamble often. The little guys in Wilkes-Barre, Air Products and Carbon Products, they don't have the time. Their offices are in Philadelphia. They are not locally -- they don't have local offices is what I am trying to say. We are in Wilkes-Barre. We can be at Air Products in five minutes if there is a problem. We can be at Sam Milazzo's shop in ten minutes.

MR. McNICHOLS: He said he could be there in ten minutes. He hasn't seen you in four days. He has been promising to see you.

MR. McCOURT: But that is not about cars. Is that about traffic?

MR. MILAZZO: Yes. As I said before, I really cannot complain about the service of Pocono Northeast Railway. They have really proven themselves with me.

MR. CASPER: So you would agree then that that looks like the future of rail operations in this state especially?

MR. McCOURT: I would say.

MR. CASPER: And the fact that Pennsylvania has more short lines than any other state in the country as a result of

the railroad history of the large carriers in the northeast.

MR. McNICHOLS: Well, it is very simple. They are going to hang on to Portland, Pennsylvania. You got Metropolitan Edison down there. They can roll in there with a 100 car coal train. You got a 100 cars revenue. You roll into Wilkes-Barre, maybe of ten cars. Out of those ten cars, you got ten people they are going. It probably takes longer to take care of those ten cars than the 100 in Portland.

ACTING CHAIRMAN WARGO: All right, thank you very much.

(Whereupon at 11:15 a.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 the same.

Dorothy M. Malone.  
Dorothy M. Malone  
Registered Professional Reporter