

COMMONWEALTH OF PENNSYLVANIA

HOUSE OF REPRESENTATIVES

TRANSPORTATION COMMITTEE

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Public Hearing :  
Conrail Acquisition :  
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Pages 1 through 101 Penn State Great Valley  
30 East Swedeford Road  
Malvern, Pennsylvania

Tuesday, August 19, 1997

Met, pursuant to notice, at 10:15 a.m.

BEFORE:

REPRESENTATIVE RICHARD A. GEIST, Chairman  
REPRESENTATIVE TIMOTHY HENNESSEY  
REPRESENTATIVE ROBERT FLICK  
REPRESENTATIVE STEPHEN BARRAR  
REPRESENTATIVE PETER ZUG  
REPRESENTATIVE SAMUEL SMITH  
REPRESENTATIVE JOSEPH BATTISTO  
REPRESENTATIVE ANTHONY MELIO  
REPRESENTATIVE ROSITA YOUNGBLOOD  
REPRESENTATIVE MIKE HORSEY  
REPRESENTATIVE CONSTANCE WILLIAMS  
REPRESENTATIVE THOMAS ARMSTRONG  
REPRESENTATIVE LEROY ZIMMERMAN

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1                                   P R O C E E D I N G S

2                   REPRESENTATIVE GEIST: This is the second  
3 hearing that we have held as a committee. We have  
4 extensive work that has been done, and now that the  
5 fifteen thousand pages have been read by every member  
6 of this committee, and you can always believe us when  
7 we talk about that.

8                                   The impact on the State of  
9 Pennsylvania through this whole process is going to be  
10 significant, very significant, and this region of the  
11 state is going to be impacted both good and bad  
12 in a way that we haven't seen probably since the  
13 railroad was developed West to Lancaster, and the  
14 general assembly got involved in the Philadelphia  
15 Columbia Railroad. A couple of us might have been  
16 around when that vote was taken, but the general  
17 assembly of Pennsylvania has a long history in the  
18 development of transportation projects, whether it be  
19 the canal system, the Philadelphia Columbia  
20 Railroad, or the creation, a hundred and fifty years  
21 ago of the standard railroad of the world, the  
22 Pennsylvania railroad.

23                                   Now that we have the biggest rail  
24 merger East of the Mississippi taking place in United  
25 States, this committee really researched and know what

1 the impact is going to be for the State of  
2 Pennsylvania, and if need be, prepared to present the  
3 general assembly's concerns to the Surface  
4 Transportation Board. In that light, the number of  
5 members to the general assembly that are here this  
6 morning is really impressive, usually at this kind of  
7 hearing if you get four or five people you are  
8 fortunate, we have almost enough for a quorum call in  
9 the caucus this morning, so rather than me run my mouth  
10 for a long time, I thought first of all we would go  
11 around and have the members introduce themselves, and  
12 at the same time after we do that, we will call on  
13 Bob Flick, who is chairing also to make a few remarks.

14 Now, I guess, Joe, you are the  
15 ranking member, aren't you?

16 MR. BATTISTO: I guess maybe I am.

17 REPRESENTATIVE GEIST: And Joe Battisto to  
18 make a few remarks. So why don't we do the  
19 introductions first, we will go around here, we will  
20 start with Mr. Hennessey.

21 MR. HENNESSEY: Thanks, Mr. Chairman.

22 Tim Hennessey, I represent the 26th  
23 District, Northwest Chester County in the general  
24 assembly.

25 MR. FLICK: And I am Bob Flick, I

1 represent the Malvern Chester County East area down  
2 into Delaware County, Radnor Township.

3 MR. BARRAR: Steve Barrar, I represent the  
4 160th, which is Western Delaware County

5 MR. ZUG: Peter Zug, I represent the  
6 102nd District which is about half of Lebanon County  
7 and a little bit of Dauphin County.

8 MR. SMITH: Sam Smith, I represent  
9 Jefferson and Clearfield Counties.

10 MR. WILSON: I am Richard Wilson, I am  
11 special counsel for the committee.

12 MR. BATTISTO: I am Representative Joe  
13 Battisto, I represent Monro County and the general  
14 assembly.

15 MR. MELIO: Tony Melio, a 141st District,  
16 Bucks County.

17 MS. YOUNGBLOOD. Rosita Youngblood, 198th  
18 Legislative District, Philadelphia.

19 MR. HORSEY: Mike Horsey, 190th District,  
20 Philadelphia.

21 MS. WILLIAMS: Connie Williams,  
22 149th District, Montgomery County, Upper Merion.

23 MR. ARMSTRONG: Tom Armstrong, 98th  
24 District, Lancaster County.

25 MR. ZIMMERMAN: Leroy Zimmerman, the 99th

1 District, Lancaster County.

2 REPRESENTATIVE GEIST: Bob?

3 MR. FLICK: I think you said it all. I  
4 would welcome the Transportation Committee here to  
5 Malvern, this is my home district and we thank you for  
6 coming down here today. This issue is very important  
7 that's why the Intergovernmental Affairs Committee asked  
8 to sit it on the meetings.

9 Thank you, very much.

10 REPRESENTATIVE GEIST: Joe?

11 MR. BATTISTO: Just a couple words.

12 First of all, I like to thank Rick  
13 Geist for conducting these hearings and for delving  
14 into these issues very deeply. It's good to have  
15 Rick as Chairman, because Rick has an interest in  
16 railroads too. As Rick said, the impact of this merger  
17 on the State of Pennsylvania will be considerable from  
18 east to west, therefore we have to gather as much as  
19 information as possible, I am happy to participate in  
20 these hearings to gather as much as possible so that we  
21 can make the best decisions, to help to make them for  
22 Pennsylvania. Thank you.

23 REPRESENTATIVE GEIST: Since we have such  
24 a small group out here, why don't we just go around and  
25 introduce ourselves, I think that will be good to do,

1 we will start on the left with the senior power guy  
2 from Conrail, Bob Baker.

3 MR. BAKER: Bob Baker of Conrail.

4 MR. TOLLIVER: I am Ted Tolliver for the  
5 Delaware Valley Regional Planning Commission, we are  
6 the Metropolitan Planning Organization of those  
7 regions. Welcome.

8 MR. FISK: Steve Fisk, CP Rail.

9 MR. MCTAVERN: Alan McTavern (ph) from CSX  
10 Transportataion, I am based in New Jersey.

11 MR. CALLAN: Steve Callan (ph) from CSX,  
12 Randy Evans will be joining us here shortly.

13 MR. WARGO: Paul Wargo (ph) with Penndot  
14 Central office, Bureau of Rail Freight.

15 MR. LEWIS: Craig Lewis representing  
16 Norfolk Southern.

17 MR. HEISLER: Gordan Heisler, Sun Company  
18 of Philadelphia.

19 MR. OATHOUT: Russ Oathout on behalf of  
20 Transportation Communications International TCU.

21 MS. SENOWCO: Catherine Senowco, (ph)  
22 Conrail employee with twenty years of railroad  
23 experience.

24 MS. NEWCOME: Edwina Newcome, (ph) I'm  
25 also a Conrail employee.

1 MR. TOMILSON: I am Walt Tomilson, (ph)  
2 from Pittsburgh, 21st legislative district.

3 MR. HOLDWELL: Fred Holdwell (ph) from  
4 Associates.

5 MR. GNAZZO: Paul Gnazzo, staff House of  
6 Representatives, and also, Joyce Grim (ph) is the  
7 executive director of govermental affairs.

8 REPRESENTATIVE GEIST: We are almost on  
9 schedule. First to testify is Steve Fisk from CP  
10 Railroad.

11 MR. FISK: Good morning, Mr. Chairman,  
12 representatives, thank you for the opportunity to  
13 address you. There's been a lot of talk about  
14 the importance of protecting Conrail jobs, we too  
15 believe that the protection of these jobs is important,  
16 however, there are the thousands of jobs, industries  
17 throughout the Northeast, these jobs are depend upon a  
18 short line and regional railroads to get their raw  
19 materials in and to deliver products out.

20 Short line and regional  
21 railroads play an essential role in the industrial  
22 development of the Northeast, these railroads allow  
23 communities in rural areas to track and maintain  
24 business for continued econmic life and growth of their  
25 community. Concerns of the short line and regional



1 railroads must be addressed in this merger. Some of  
2 these railroads stand to be seriously hurt if not  
3 driven out of business as a result of the split up of  
4 Conrail.

5                   Railroads such as Buffalo and  
6 Pittsburgh who are all dependent upon overhead traffic  
7 stand to lose this track in its entirety without  
8 offsetting business opportunities. NS and CSX may not  
9 adequately address these company needs. I ask you to  
10 focus on the survival of these companies, and  
11 specifically on the D&H who have struggled with the  
12 impact of the two new interest in this market.

13                   The D&H employees over six hundred  
14 people in New York and Pennsylvania and provides vital  
15 Class I links to Pennsylvania short lines, good paying  
16 jobs are at risk.

17                   What has D&H accomplished in the  
18 last few years, Pennsylvania will benefit from economic  
19 growth with help from Canadian specific and a  
20 subsidiary to D&H, it is bringing a customer  
21 to this region with over two hundred new jobs we  
22 created. In addition, to economic growth on a railroad  
23 company which serves the Northeastern, Pennsylvania  
24 will be a stronger, more economically viable carrier.

25                   The Philadelphia, Bethlehem and

1 New England railroad at Bethlehem has seen some of the  
2 benefits of industrial development by CP. CP helped to  
3 locate a lumbar transport operator, a coal distributor  
4 and a carbon dioxide distributor all creating jobs in  
5 Bethlehem. A canadian steel firm has agreed to locate  
6 a distribution center under PB&E, which will also  
7 create more jobs. CP and its unit subsidiary have  
8 worked with short lines to bring new customers to their  
9 lines which generates additional jobs on a short line  
10 regional railroad as well as windows.

11           The D&H is not asking for finanacial  
12 support, we are asking for the removal of artificial  
13 carriers that were inactive at the time Conrail was  
14 formed. As you may remember, it wasn't certain that  
15 Conrail would drive when it was pulled together out of  
16 bankrupt forever.

17           Predecessors and TSX and NS were  
18 asked to participate in the restructuring in order to  
19 maintain competition, both said no. Now, after seven  
20 billion dollars that the goverment funded as well as  
21 many many millions of dollars that the Commonwealth  
22 funded, Conrail when divided by the two companies, did  
23 not want it twenty years ago.

24           The spending of billions of dollars,  
25 tax dollars demanded that you consider carefully what

1 needs to be addressed when Conrail is split up. To be  
2 a viable carrier after the Conrail break up, the D&H  
3 needs unrestricted-single line from Philadelphia and  
4 Camden, it needs artificial barriers in order to connect  
5 to all short line roads along its roads. It needs to  
6 have the artificial barrier of high reciprocal switch  
7 charges to eliminate or to ultimately to have a neutral  
8 terminal carrier serving areas such as Philadelphia and  
9 Camden.

10                   The D&H unrestricted access  
11 which compliments the service offered by the  
12 NS, CSX, neither CSX or NS offer a single-line service.  
13 With access restrictions removed, the D&H could provide  
14 further single line service and parts, industries and  
15 short lines to encouraging increasing trade with  
16 Canada.

17                   Providing the D&H to unrestricted  
18 access would not remove value from CSX and NS,  
19 acquisition of Conrail. What does Pennsylvania get in  
20 return, they would get continued D&H service to the  
21 customers in Pennsylvania, access to the Canadian  
22 markets in the Northeast. Canada is Pennsylvania's  
23 largest born trade worker, and under Nassau, US trade  
24 will increase thirty-five percent and will continue to  
25 grow.

1                   Reduced congestion of freight line  
2 from Philadelphia to North of New Jersey. The D&H  
3 has entered into an agreement with Northfolk Southern  
4 which will remove approximately thirty thousand cars to  
5 the D&H route through Harrisburg, avoiding the  
6 congestion Northern New Jersey terminals through which  
7 these cars currently move.

8                   D&H does not utilize group, they  
9 provide the same service that CSX further reduced  
10 to make congestion. Using the D&H route will bring new  
11 jobs to the State of Pennsylvania, as well as providing  
12 an increase service to the community along its way.

13                   Additional port role, the port of  
14 Philadelphia can increase its role serving central  
15 Canada, Ontario and Quebeck are Canada's largest and  
16 second largest economy, together they are the  
17 industrial heart land of Canada and a major export over  
18 resource products. This is your last chance to get it  
19 right. A split up of Conrail and an entry of CSX and  
20 NS into Northeast is generally favorable to major  
21 shippers and ports, it introduces rail competition in  
22 many Northeast markets for the first time in over  
23 twenty years It is a definite step in the right  
24 direction. We need to take one step further though and  
25 assure the liability of the D&H.

1 Thank you very much.

2 REPRESENTATIVE GEIST: Would you go back  
3 in your testimony a little bit to your referral to the  
4 paper laws that were established before, and would you  
5 explain to us a little bit about the agreement that you  
6 have negotiated already?

7 MR. FISK: Okay, first the paper barriers,  
8 when Conrail was first formed and D&H was given its  
9 rights that we do maintain right now in the State of  
10 Pennsylvania which is from Sunberry to Harrisburg, from  
11 Harrisburg to Cherry Hill, Maryland, and then also from  
12 the Scranton area to Allentown, and from Allentown to  
13 Philadelphia, these rights were given to us as overhead  
14 rights only, we had no right to interchange with  
15 carriers along that route, short lines, and we have no  
16 right to service with the exception on the best deal in  
17 Bethlehem, industrial located along those routes also.

18 In New York State, however, we were  
19 given those rights to do that along southern fare line,  
20 we do interchange with any and all short lines that are  
21 able to connect with the short line, but those are the  
22 types of paper barriers we have. In Philadelphia, for  
23 example, when we get to Philadelphia for interchange  
24 and we do have a presence at the port of Philadelphia,  
25 however we are unable to connect to the belt line

1 North. Those are the types of barriers we have.

2                   The agreement we have negotiated  
3 with NS is a combination of college and tracking  
4 freights agreements. The NS has granted us tracking  
5 freights to run from Harrisburg to Philadelphia, which  
6 is generally along the Reading group, which is  
7 generally one of the favorable groups that we have  
8 right more directly cleared to access somewhere in the  
9 neighborhood it's eight hours faster for us to get from  
10 there to Philadelphia.

11                   In turn, we are giving NS hollage,  
12 D&H trains from Harrisburg to Singleton, and further on  
13 from Singleton interchanged with Gilbert Transportation  
14 Industry and Mechanicsville, New York which give some  
15 access to New England. The effect of this agreement is  
16 to give back to the D&H some revenue that we are going  
17 to be losing to both carriers, and it will flow back to  
18 us in a form of hollage revenues. Our major  
19 interchange right now is CSX and Virginia, that  
20 interchange for the NS cruise will be driven back to  
21 Harrisburg totalling approximately a hundred and fifty,  
22 two hundred miles of revenue in that regard.

23                   Addititonally, our interchange with  
24 D&S and Buffalo will be driven back to Singleton, this  
25 is where some of the revenue is coming from. They show

1 CSX along is taking twenty-six million dollars away  
2 from D&H in revenue by their own calculations. NS  
3 shows that we give eight million dollars back, but we  
4 are still in that nineteen million dollars.

5 REPRESENTATIVE GEIST: One more question  
6 before I open this up. CP currently serves Torando and  
7 Montreal?

8 MR. FISK: Yes, sir.

9 REPRESENTATIVE GEIST: And the port of  
10 Philadelphia being a specialty port, what plans do you  
11 folks have to increase the hollage that you are doing  
12 servicing the port of Philadelphia versus supporting  
13 the ST. Mar Seaway.

14 MR. FISK: CP has never had a policy of  
15 favoring one port over the other ports, our position  
16 is if we are in the port and somebody comes to us and  
17 wants rail transportation, we will work with anybody  
18 who comes to that particular port.

19 REPRESENTATIVE GEIST: Let me rephrase the  
20 question then.

21 Containerships from South America  
22 that have a port of calling Philadelphia on fruit and  
23 other commodities like that, especially commodities,  
24 are you going to aggressively market to take those  
25 containers more cheaply, faster than anything from

1 Philadelphia to Torando and Montreal, rather than have  
2 that ship go back out and come up and come back down.

3 MR. FISK: Oh yes, sir, there's no doubt  
4 about that.

5 REPRESENTATIVE GEIST: Would you put  
6 something in writing to the committee about marketing,  
7 especially the port of Philadelphia?

8 MR. FISK: Yes, we can do that.

9 REPRESENTATIVE GEIST: I'm sorry, I  
10 rephrased the question, I should not have done it,  
11 it's not that we want to take anything away from  
12 ST. Mar Seaway, but we want Phialdelphgia to prosper.

13 MR. FISK: We have identified, even as we  
14 speak today, three to five thousand container movements  
15 a year that are going by truck out of the Philadelphia  
16 area, the single-line haul service, in other words, the  
17 ability to take the car directly then would past off  
18 between railroads, we could have that on rail today, as  
19 we speak, this is all tracks that originate at the  
20 Tioga Marine Center, that's the north end of PBL  
21 Philadelphia Belt Line, and with a purchase of CP has  
22 just purchased some lights, containerships, and I  
23 believe at this point in time we are now the largest  
24 carrier in the north land. We will see what we can do  
25 to work with them.



1                    REPRESENTATIVE GEIST: Any questions from  
2 the panel, Joe?

3                    MR. BATTISTO: Mr. Fisk, I heard you  
4 mention Amber Mills, I know little about Amber Mills  
5 for two years by the way, the last only obstacle has  
6 been removed with respect to that project, I talked to  
7 the president of the company yesterday, he intend to  
8 break ground September 2nd, and the idea of jobs is  
9 consistent with what you said, in fact, we have another  
10 company interested in colocating that will profit from  
11 the wheat that will come from the midwest, so we  
12 anticipate between four thousand and six thousand car  
13 loads a year.

14                    Now would you explain to all of us  
15 how the wheat will flow from the midwest-- what part of  
16 D&H will be used, and how will you interconnect with  
17 the lock on the rail authority.

18                    MR. FISK: The track originates on a sewer  
19 line, which is a subsidiary of CP rail and the route it  
20 will be from the sewer line to Chicago, Chicago CP  
21 Detroit, Detroit to Buffalo and D&H will pick it up at  
22 Buffalo and bring it down to Singleton and down to the  
23 Scranton area, and at that point will hand it up to  
24 Delaware Valley.

25                    It's interesting because this

1 customer, which is a great point will not be located on  
2 that line, indeed will not be located in Pennsylvania.  
3 Delaware Valley has a direct connection on two class  
4 one period, Conrail and D&H.

5 Conrail has the ability to market  
6 and go after the trains themselves, to bring to the  
7 customer. The amber Milling, while they are a sew line  
8 customer in the midwest is looking to provide that in  
9 New York, Northern, New Jersey market, because there is  
10 no short line in New Jersey that has fuel class I  
11 access, they decided to move their business into  
12 Pennsylvania fifty more miles in marketing, in order  
13 not to be held up for ransom by a manopoly of one class  
14 I railroads. This is one of the incentatives that the  
15 short line and communities that they have touched will  
16 receive if they have fuel class I access here held  
17 hostage.

18 MR. BATTISTO: What you say is absolutely  
19 true, in fact, what happened to the Northwestern part  
20 of this state is attributal to the great service by the  
21 short lines air, you have mentioned some of them.

22 Thank you very much.

23 REPRESENTATIVE GEIST: Any other questions  
24 from the panel?

25 MR. HENNESSEY: Mr. Fisk, you indicated

10

1 that D&H has already entered into agreements with  
2 Northfolk, Southern to use the line that passes through  
3 Harrisburg, and if you have done that already on your  
4 own with Norfolk, Southern, why do you need a  
5 legislative help, or are you asking for legislative  
6 help to have you negotiate a similar agreement with  
7 CSX?

8 MR. FISK: We are just asking for your  
9 support. We are currently in negotiation with both  
10 CSX, and continued negotiations, but we would love to  
11 have your support.

12 MR. HENNESSEY: There's no need for any  
13 legislative action in that regard?

14 MR. FISK: No, sir.

15 MR. HENNESSEY: Thank you.

16 MR. FLICK: Mr. Fisk, when Rick mentioned  
17 the paper walls, you started to explain it, but the  
18 paper walls and the exorbitantly high switching, are  
19 they as a result of the act of Congress with the merger  
20 of the Conrail?

21 MR. FISK: The paper walls are already  
22 redeveloped, there has been new short lines that have  
23 developed over the years such as the Reading of Blue  
24 Mountains, they were never in existance when Conrail  
25 was first formed, in fact they sold a upper half of

1 Lehigh Valley to the Reading of Blue Mountains. The  
2 Reading of Blue Mountain now physically comes into my  
3 yard at daylight and pick up and set off cars there,  
4 but they cannot give me a load of a one piece of  
5 revenue freight. They currently have hundreds of cars  
6 going to Quebeck, right across the river to Montreal,  
7 that Conrail takes out at Reading, takes to Baltimore,  
8 it's barged up the ocean to ST. Mar Seaway, barged down  
9 to ST. Mar Seaway and put on the ground there, when it  
10 could come out and drive two hundred miles to Montreal,  
11 there's probably another two thousand loads a year that  
12 originate and terminate out of Reading as well, it's  
13 Canada that I can't touch because I am not allowed to  
14 interchange with Reading. What does it mean, it means  
15 the shippers have higher than normal rates, what does  
16 this do for them or to them it makes them competatives  
17 to other forms of energy for these mills that are  
18 trying to sell their coal, choices of electric, gas,  
19 things of that nature so they become less competitive.

20 MR. FLICK: What about the switching fees?

21 MR. FISK: The switching fees were an  
22 arbitrary number that come from Conrail and  
23 Philadelphia. for me to get a card to a customer  
24 citing in Philadelphia, can cost me anywhere between  
25 eight hundred to twelve hundred dollars to give Conrail

1 a card in South Philadelphia, for them to take it three  
2 miles up the track, it's an arbitrary number they came  
3 up with restrict our ability to access customers in  
4 that area.

5 MR. BATTISTO: Thank you.

6 MR. BAKER: Of course Conrail is going to  
7 go out of business very soon, but we still like to  
8 leave with our head held high, I think it's important  
9 to note they didn't agree what was going on in the  
10 Philadelphia area, one concerns transportation board  
11 ask for rights serving customers. Only just a few  
12 years ago Transportation Board rejected that petition.  
13 In addititon to that, Conrail would like to get into  
14 Montreal and have the same kind of rights as CP in  
15 Philadelphia, we talked about that, we don't have that  
16 authority, they are not about to give us that  
17 authority. Railroads indeed do sometimes have their  
18 own territory, but if we are going to be fair here, the  
19 same situation that presents itself in Philadelphia for  
20 CP presents itself in Montreal to Conrail.

21 In addition to that, it has an  
22 unloading facility where you don't have to use your  
23 car, which is an assett, sitting mainly on the rail  
24 side, it can be turned easily and taken onto Ontario,  
25 so you have to be careful when you start talking about

1 assets, but I think we have to be careful in how we  
2 look at these issues so it's fair all the way around.

3 MR. FISK: CSX and NS and Conrail by law  
4 in Canada anyplace they interchange with a Canada has  
5 the right to interswitch at extremely reasonable rates  
6 for up to thirty miles in that location, so they do  
7 have a right.

8 MR. BATTISTO: Thank you, Mr. Fisk.

9 REPRESENTATIVE GEIST: Next up is Gordon  
10 Heisler, Technical Expert, Sun Company.

11 MR. HEISLER: I am Gordon Heisler, I am  
12 the manager of Transportation and Services  
13 for Sun Company, and I have been with them about eleven  
14 years, and I do appreciate the opportunity to present  
15 Sun's position this morning concerning the break-up of  
16 Conrail.

17 First I would like to address  
18 several of the concepts of the CSX and D and SRR  
19 acquisition of Conrail, and the creation of the shared  
20 access. Sun Company has three facilities within the  
21 Delaware Valley, and all three of our facilities will  
22 be in the shared access as it's currently presented in  
23 the operating plan, those facilities employ in the  
24 vicinity of eighteen hundred to nineteen hundred  
25 positions in the Delaware Valley. Those facilities

1 will now be afforded rail competition for the first  
2 time since 1976 when Conrail was created. This  
3 improvement in economic and service competition really  
4 help ensure Sun Company a peer position with our  
5 competitors, primarily in the reclining industry, but  
6 also in the chemical industry that are located in the  
7 New Jersey shared access that's been created as well.  
8 The competitors are Tosco at Bayway New Jersey, Hess  
9 Company at Court Reading, Mobil in Falsboro and a  
10 coastal refining company in Eaglepoint, New Jersey.

11                   We compete with each among many oil  
12 chemical, fuel products, and it is absolutely critical  
13 that we have distribution parenting. Other transaction  
14 provides for that, service to customer destinations,  
15 particularly in the South should improve, as compared  
16 with present operations. My illustration here is that  
17 single line service, it could be either company into the  
18 south, will eliminate the need for the movement forcing  
19 all of my traffic out of the Delaware Valley heading  
20 south, so go up to Allentown, Pennsylvania, go through  
21 a classification yard, move in reversed direction on  
22 southbound area to entertain southern carriers as  
23 Conrail presently handles that traffic, and as an  
24 operator of over two thousand private rail cars, every  
25 day when that car is in transit means money to me,

1 whether it's loaded or empty, I got to either own that  
2 car or lease it and it adds to our cost to deliver our  
3 products. These service improvements have the  
4 potential to mean millions of dollars to Sun Company.  
5 We are also a shipper's hazardous material, and we need  
6 our car loads moved, via the most direct and  
7 expeditious routes to destination, to minimize highly  
8 transit, we also of course want to minimize population  
9 exposure.

10           The break-up transaction as outlined will  
11 reduce the security of all the southbound routes  
12 from our Delaware Valley corridors. Also some of  
13 the convenience of our traffic presently used all the  
14 way into Ohio before traveling north across the border  
15 gateway of Niagara Falls, we see this as somewhat  
16 unnecessary, and we feel with the three more direct  
17 routes, the Canadian gateway will be available after  
18 the acquisition. From an economic standpoint, the  
19 Norfolk, Southern CSX acquisition plan will open up  
20 competitive bidding on rail movements that have been  
21 monopolized by Conrail exclusively for twenty years.

22           Examples of existing business is  
23 business that will now have competitive options in both  
24 origin and destination to and from the Delaware Valley  
25 will include destinations to the Buffalo, Niagara Falls



1 area, Gateway into Ontario, the other shared access  
2 areas are Detroit, Michigan, and the entire state of  
3 New Jersey essentially. Any movements to the western  
4 destination that are served by the unit pacific or the  
5 DNSF, will also have an originating care and  
6 competition.

7                   We have some concerns, however, with  
8 the transaction. First of all, the post improval  
9 implementation has got to be planned and executed so  
10 that the service level do not decline on private  
11 levels. This has been and continues to be a major  
12 problem with the western railroad consolidations that  
13 we are experiencing right now. Transit times have  
14 deteriorated significantly through several lanes, and  
15 they show no signs of obtaining the consistently  
16 approved service that was promised in the transactions  
17 that went forward in the west.

18                   Continued capital invested in the  
19 physical plant must also continue. Conrail has  
20 deferred investment in bridge repairs on a bridge that  
21 they own over the Brandywine Creek in Wilmington,  
22 Delaware, and they made a decision to utilize all to  
23 service the Delmawra area traffic, this is impinged on  
24 Sun Company's ability by creating longer transit times  
25 and more secuity on hazardous material shipments to

1 be a more highly populated route. Access and  
2 interchange services to all other rail cares, and  
3 particularly the short lines, must be maintained and  
4 expanded. We cannot seek gateway restrictions or  
5 closures permitted, or the benefits, or the increased  
6 eastern competition will not be gained. Reasonable  
7 switch charges to smaller rail carriers need to be  
8 protected as well, and with the track rationalization  
9 process, we expect it to continue. Short lines must be  
10 protected in the break up as a means of providing rail  
11 service through an increasing number of shippers and  
12 receivers. In conclusion, Sun Company supports the  
13 plan to break up Conrail and have its access be  
14 acquired by Norfolk, Southern and CSX Transportation.

15                   However, we also have reservations  
16 that must be addressed to allow the benefits of this  
17 transaction to be realized. We urge you to support  
18 this and to provide for oversight of our concerns.

19                   REPRESENTATIVE GEIST: Sun Company, how  
20 much other than our petroleum do they bring in through  
21 the port of Philadelphia chemical wise and materail  
22 wise?

23                   MR. HEISLER: The port of Philadelphia?

24                   REPRESENTATIVE GEIST: Yes.

25                   MR. HEISLER: I have got to tell you

1 I don't know the exact answer on that. I am in Surface  
2 Transporatation, I have the sources back at the office  
3 that could be specific on the Marine side, but I don't  
4 have access to that information at my fingertips.

5 REPRESENTATIVE GEIST: Perhaps you don't  
6 know, but if you don't, we would really appreciate it  
7 in writing if you could get it for us. What we are  
8 trying to find out is because of this increased  
9 competition at the port of Philadelphia, how much more  
10 will that dictate an increase of shippage that's going  
11 to come into the port of Philadelphia by Sun Company,  
12 is it going to have a positive or negative impact on  
13 the use of the Philadelphia port.

14 MR. HEISLER: Okay. I can get back to you  
15 on that.

16 REPRESENTATIVE GEIST: I have no other  
17 questions. Does anybody on the panel have questions?

18 (No further questions.)

19 REPRESENTATIVE GEIST: We thank you very  
20 much.

21 One other person slipped in the room  
22 that I think I should introduce probably knows more  
23 about railroading as a policy than anybody in  
24 Harrisburg, and that's Scott Casper in the back back  
25 here. I have had the privilege of traveling all over

11

1 Europe and looking at railroads with Scott. He's got  
2 model trains from everywhere in every county in the  
3 world.

4 All right, next North Penn Regional  
5 Improvement, Pam Register.

6 (Not present.)

7 REPRESENTATIVE GEIST: Russel Oathout, Vice  
8 General Chairman, General Secretary-Treasurer,  
9 Transportation Communications Internation Union, better  
10 known as TCU in an altoun, and we still call it BRAC.

11 MR. OATHOUT: Good morning, Mr. Chairman  
12 and members of the Committee. My name is Mr. Russell  
13 Oathout, I am General Secretary-Treasurer, Assistant  
14 Board number 86 of the Transportation Communications  
15 Union, TCU AK BRAC, also I am currenty an employee of  
16 consolidating rail corporation on a leave of absence,  
17 and have more than twenty-two years of seniority in a  
18 clerical craft.

19 In my capacity as General Secretary  
20 of Treasurer, I represent clerical and other employees  
21 who work in various occupations throughout the Conrail  
22 system, including the State of Pennsylvania. On behalf  
23 of TCU, I appreciate the opportunity to testify to  
24 today about the sale of Conrail to the CSX and Norfolk,  
25 Southern. Any impact the sale will have on our

1 transportation system, rails service and employees in  
2 the Pennsylvania area, as well as throughout the entire  
3 Conrail system. To begin with, as most of us are will  
4 aware, the situation involving Conrail has changed  
5 dramatically, since the October 1996 announcement by  
6 Conrail and CSX about their intention to merge, what  
7 was build by the two original applicants as a quote  
8 merger equals, unquote, quickly escalated into a  
9 fitting war when Norfolk, Southern joined the fight for  
10 rail dominance in the east.

11 In an effort to pursue a rail  
12 consolidated plan that would past muster with the  
13 Surface Transportation Board, CSX abandoned its  
14 outright merger with Conrail, and instead chose to  
15 simply split up the railroad with rival bitter  
16 ennish(ph). While this latest three-way deal to make  
17 two mega railroads that much bigger has been positively  
18 received by certain interest, there are a number of  
19 crucial concerns that must be addressed.

20 While the railroads have released  
21 their operating plans to split Conrail, we are in the  
22 proceess of evaluating the impact that the plants will  
23 have on employees and the public interest in general.  
24 The plant vaguely identify what their intentions are  
25 for the office and shop facilities in the State of

1 Pennsylvania, as well as the corresponding effect this  
2 plan will have on the involved employees. Although the  
3 plans may not impact employees in some areas, they do  
4 in fact devastate employees in other areas.

5           Also, we can tell you that our  
6 experience with rail mergers in the past has been even  
7 less favorable than the indications contained in the  
8 particular operating plans, as workers have routinely  
9 lost their jobs, and forced to move in order to keep  
10 working, and have seen their economic security  
11 threatened. In other words, plans files are just that,  
12 plans which of course are subject to change, and if I  
13 can go off the written testimony for a moment, CSX and  
14 Norfolk, Southern has already amended their operating  
15 plans insofar as the labor impact, and I have a copy of  
16 that, I just received it, later on I will get into what  
17 that means.

18           Keep in mind that the involved  
19 employees average more than twenty years of service and  
20 are in many cases over fifty years of age. Some are  
21 describing this break up with Conrail as inevitable,  
22 this is incorrect, Conrail is an immensely profitable  
23 corporation with good markets, a terrific modern  
24 infrastructure, has productive employees and a bright  
25 future. In fact, Mr. Lavan (ph) himself stated in an

1 innercompany notice a year ago last may that Conrail  
2 was at the right size to remain competitive, to remain  
3 successful and independent, thus there never was nor is  
4 there anything inevitable about this transaction except  
5 the desire for some to make a quick profit which I  
6 might add is a huge profit.

7                   While we will keep an open mind as  
8 we learn more about the transaction, it is perfectly  
9 clear who the winners are, the winners are the Wall  
10 Street brokers, the same ones who denounced CSX and  
11 Conrail when the price wasn't as high as they thought  
12 it could be. Now they think because of the price that  
13 this is a great transaction, but I am not so sure that  
14 they have carefully studied the impact on the  
15 transportation infrastructure, the economy and the jobs  
16 in Pennsylvania, nor do I think they care. They are  
17 the winners along with corporate CEOs who get to  
18 enlarge their empire along with the other management,  
19 and it's clear who the losers will be, those who have  
20 put their sweat and money into preserving rail service  
21 in the Northeast. It is the public, the taxpayers who  
22 stand to lose the most.

23                   Rail laborers sweated throught the  
24 years when Conrail was a basket case begging the  
25 Congress to funds to repair an infrastructure which the

1 Penn Central and its predicesor intentionally  
2 neglected, fighting to preserve Conrail when some said  
3 it could never make it on its own, convincing Conrail  
4 employees that they had to sacrafice part of their  
5 wages and in some cases their jobs so Conrail could be  
6 a successful company.

7                   In my case, I accepted a twelve  
8 percent increase in wages along with my coworkers. My  
9 coworkers and I struggled for a decade and a half  
10 to preserve a viable competitive company that would  
11 preserve good rail service in the Northeast and we  
12 succeeded. May be we succeeded too weell, Conrail is so  
13 successful because of the efforts of the Federal  
14 government, State of Pennsylvania, the employees and  
15 certain management long gone, that it is now worth  
16 ten point five billion dollars. The obvious impact  
17 upon the employees flowing from a rail merger or sale  
18 is that substantial job reduction become virtually  
19 inevitable. It is the key to recovering the cost  
20 associated with the purchase. A likely job target  
21 could be the locomotive, car and maintenance equipment  
22 repair shops, exactly what we have in Altoona, where  
23 Conrail employees have a thousand workers a month. As  
24 well as offices located in Philadelphia, Pittsburgh,  
25 Bethlehem, et cetera, where thousands of workers will



1 lose their job or be unnecessarily reloacted to distant  
2 locations.

3                   The workers employed in these  
4 facilities are highly skilled, and their dislocation  
5 will have a dramatic effect on them, their families, as  
6 well as the local economies in which they live. This  
7 is what happened by Conrail when the merger created  
8 carrier back in 1976 took place, the same shop  
9 productions have also occurred on Northfork, Southern  
10 and CSX throughout the mergers that formed these roads,  
11 as well as every other meger in history. In fact,  
12 since enactment of the railroad deregulation  
13 legislation in 1980, mergers, consolidations,  
14 abandonments and other transactions have reduced  
15 industry workforce levels from well over five hundred  
16 thousand to just over two hundred thousand  
17 today.

18                   In ever merger, the carriers  
19 routinely proclaim that savings will be passed onto  
20 shippers and eventually consumers to the contrary, our  
21 experience is the exact opposite, profits rise, line  
22 sales occur, maintenance shops and offices are  
23 consolidated, and employees are cut to lose their jobs.  
24 Well this protection is something, it is nothing like  
25 the outstanding amounts being provided to management

1 employees, and it doesn't compare with a job. The hard  
2 working men and women who have made Conrail a success  
3 story through the sacrafices and the salaries, job and  
4 hard work must not be abandoned. While the Wall Street  
5 brokers, top management and other railroads count their  
6 millions, Conrail management has taken good care of  
7 himself by voting himself one point five billion  
8 dollers in severance pay, that's one point five billion  
9 for a couple of thousand employees with hundreds of  
10 management employees getting severances worth over a  
11 million dollars a piece. I understand that Chief  
12 Executive Officer Lavan (ph) alone will get twenty-two  
13 million.

14 Over ten percent of the purchased  
15 prices have been carved out top pay-off management  
16 employees, even if they start a new job the next day.  
17 No such luck for the ranking file workers, I find this  
18 really sick. How do you explain such a double standard  
19 to the employees who won't enjoy such benefits, and who  
20 are likely to be without a job. Most of these  
21 management people were not even here during the  
22 Conrail's early tough years. Those that were here did  
23 not play a key role in turning Conrail around, they  
24 just don't deserve the type of rewards being given  
25 while others get nothings.

1                   Notwithstanding, our union will not  
2 sit back and let the union employees get less than the  
3 management employees, hopefully we will be joined by  
4 others such as this committee to ensure fairness to  
5 all. In conclusion, I want to comend this committee  
6 for holding this hearing and the others, since it is  
7 congress and the State of Pennsylvania which created  
8 Conrail, funded it with taxpayers money and made it the  
9 success it is today. I do not believe that any of us  
10 who participated in that effort could stand by and  
11 watch our efforts be destroyed because a few managers  
12 and Wall Street speculators stand to make billions.  
13 This transaction should be judged on its merits, its  
14 effects on the transportation system, the economy of  
15 Pennsylvania and jobs.

16                   As I stated, the break up of Conrail  
17 is not inevitable, it is a transaction that if it does  
18 not meet the test of improving rail service, helping  
19 the economy and preserving jobs, then it should be  
20 rejected. We all need to look at this transaction with  
21 great care, there can be no rush to judgement, once it  
22 is done it will not be undone, and the damage of  
23 Pennsylvavnaia and other states of the Northern east  
24 will be permanent. TCU stands ready to work with all  
25 participants to make sure that these goals are

1 achieved.

2 Thank you very much, and I would  
3 welcome any questions you might have.

4 REPRESENTATIVE GEIST: I'm sure you are  
5 going to get a couple. Let me start out by asking you  
6 a couple questions.

7 In the mergers of the Western  
8 railroads and others that the TCU has studied, was  
9 there cross craft abilities to move and get jobs based  
10 on seniority, any cross craft agreements on  
11 negotiating.

12 MR. OATHOUT: When you say "cross craft"  
13 you mean innerrailroad, going from one railroad to  
14 another?

15 REPRESENTATIVE GEIST: No, for instance,  
16 there's not a need for machinist, the machinist roster  
17 has been exhausted, so rather than go out in the street  
18 and advertise for people, you have dislocated TCU  
19 workers who could be retrained and hired as machinist,  
20 and I am very concerned about that in Altoona, because  
21 we have heavier losses in one area and we gain in  
22 others. I want to make sure that no rail guy or woman  
23 loses their position because of the card that they  
24 carry for what lodge they belong to.

25 MR. OATHOUT: I can't tell you exactly

1 what was done on the Western railroad merger, but I can  
2 tell you this, under New York Dock, it is my  
3 understanding that if an individual has the ability to  
4 collect a protection payment, the carriers generally  
5 will require the employee to change craft and work in  
6 another craft rather than pay them, there are some  
7 restrictions and ability with qualifications which are  
8 always there, but the carriers do have that ability,  
9 and it is oftentimes exercised.

10 REPRESENTATIVE GEIST: I have a couple  
11 other questions that I am very much concerned about.  
12 Reloacted workers from ST. Artise Center in Pittsburgh  
13 will now be moving to Atlanta, will they enjoy carrying  
14 their seniority with them, and will they merge roster  
15 numbers in the seniority system in Atlanta?

16 MR. OATHOUT: Generally the answer to that  
17 is yes, but implementing agreements are required with  
18 the carrier involved and the union representatives  
19 from a particular region where the employees are coming  
20 from and where they are going to, but generally those  
21 who transfer do, but here again, it's got to be  
22 negotiated through implementing agreements.

23 REPRESENTATIVE GEIST: And I know that  
24 after fifteen thousand pages of reading, there may be a  
25 few questions that are dealt with with pensions and

1 other things. I am not going to get into the pension  
2 questions today, because we hit it pretty hard and we  
3 are supposed to be getting written testimony back on  
4 that on a later date, especially from Norfolk,  
5 Southern, but in your estimation right now, what will  
6 be the total job lost in your craft in Pennsylvania,  
7 just the State of Pennsylvania?

8 MR. OATHOUT: I can only give you what is  
9 in the carrier's operating plans which changed  
10 significantly, I guess probably about eight hundred  
11 positions from when they first filed to when they made  
12 the amendment here which I was just was handed  
13 yesterday, so I can't really tell you exactly, but in  
14 the clerical craft, it is anticipated that  
15 approximately seven hundred and two jobs will be  
16 transferred, five hundred and ninety-five jobs will be  
17 abolished and only four new jobs created.

18 REPRESENTATIVE GEIST: That's in the State  
19 of Pennsylvania?

20 MR. OATHOUT: Not in the State of  
21 Pennsylvania, I would have to get that that's  
22 system-wide.

23 REPRESENTATIVE GEIST: Would you have your  
24 people then at the research place prepare for our  
25 committee an estimate of job losses and job transfers,

1 et cetera, just inside the State of Pennsylvania.

2 Could you guys provide that for us?

3 MR. OATHOUT: Sure, absolutely.

4 REPRESENTATIVE GEIST: If you would  
5 like to ask the other craft to provide that also, we  
6 would like to have that. Now, I know that there's  
7 going to be jobs created in other crafts, so we want to  
8 take a look at that pretty seriously.

9 MR. OATHOUT: Generally the clerical craft  
10 is hit the hardest because of the two congress square  
11 situation, the NCSC in Pittsburgh.

12 REPRESENTATIVE GEIST: They are abolishing  
13 some others.

14 MR. OATHOUT: In most cases there are  
15 abolishments, but there are a number of them that are  
16 going to both CSX and Norfolk, Southern.

17 REPRESENTATIVE GEIST: That's all the  
18 questions I have, we will open it up to the other panel  
19 members.

20 Joe?

21 MR. BATTISTO: I have the same question  
22 that Representative Geist asked about focusing on  
23 Pennsylvania, giving us details analysis of the loss  
24 within the state, beyond that though let me ask, will  
25 there be any places in this state, from Altoona to

1 Philadelphia where TCU members jobs will expand and  
2 increase as a result of the increased competition.

3 Do you see any positive things?

4 MR. OATHOUT: Not as far as TCU is  
5 concerned, no, not at this point in time. In the  
6 entire system they only proposed creating four  
7 new jobs in clerical carft.

8 MR. BATTISTO: You just received the  
9 amended filing yesterday, is that it?

10 MR. OATHOUT: Yes.

11 MR. BATTISTO: How voluminous is it?

12 MR. OATHOUT: There is some redundancy in  
13 it, because they provide the original labor impact, and  
14 then they provide some statistic from the '95 and then  
15 versus the '96, '97 numbers.

16 Essentially what they did from  
17 looking at this is they used the 1995 job count  
18 numbers, man count numbers more commonly referred to,  
19 and because of reductions since those '95 numbers  
20 occurred until they filed, they have amended them and  
21 they are making a contention that those reductions are  
22 not merger-related, therefore they should not be taken  
23 into consideration, and that's one of the issues that I  
24 tried to point out, that you get into these type of  
25 arguments, whether these reductions prior to the



1 transaction were supported by the reductions, that's  
2 just one point.

3 MR. BATTISTO: I understand, thank you.

4 REPRESENTATIVE GEIST: Any other  
5 questions?

6 MR. MELIO: You are going to provide the  
7 committee with that after you read the proposal?

8 MR. BATTISTO: We have it here, according  
9 to Richard.

10 MR. HORSEY: You had mentioned that the  
11 executives who are part of this entire package, what  
12 was that amount?

13 MR. OATHOUT: I believe it was one point  
14 five billion in separation.

15 MR. HORSEY: Now, you may not be able to  
16 answer this question, but I am going to ask anyway,  
17 what member of employees are losing their jobs?

18 MR. OATHOUT: Over three thousand, that's  
19 in their plan.

20 MR. HORSEY: What would it cost to  
21 provide, hypothetical question, all those employees  
22 that are put in an appropriate severance program?

23 MR. OATHOUT: It would be several million  
24 dollars, I don't have the exact thing, you would have  
25 to run them in, but I can tell you this . . .

1 MR. HORSEY: Excuse me a second, I did  
2 hear you say several million dollars versus a billion,  
3 so excuse me, continue.

4 MR. OATHOUT: I can tell you this, Conrail  
5 has an ESOP program which the majority of agreement  
6 employees are not involved in, and there's all kinds of  
7 arguments why we were not advised in the early '80s  
8 which there were certain concessions that they wanted  
9 us to make which management was also not part of the  
10 tape, and in that ESOP program, they went through that  
11 series of disposing all of the stock that they had by  
12 selling it to Norfolk, so that in the information that  
13 we have is there's over five hundred million dollars in  
14 that ESOP plan, and Conrail was experiencing difficulty  
15 in distributing that five hundred million dollars to  
16 their nonagreement employees because of the tax loss.  
17 They were having difficulty in the period between the  
18 time that they started to make distributing at the  
19 maximum levels till the time the actual transaction was  
20 finally approved, they got the short window period  
21 there, and they can't give it all away, they got there  
22 legal tax advisors and attorneys and so forth looking  
23 for all kinds of ways and loop holes to make sure that  
24 happen, including given the contributions that  
25 the management employees had made in 1997, returning

1 that back to them so they can enjoy the other loop  
2 holes in the tax system, they give them even more money  
3 out of the ESOP, while at the same time the agreement  
4 employees are being told, sorry, you are not going to  
5 get anything.

6 MS. YOUNGLOOD: Could you give me the  
7 average age of the Conrail employee and the average age  
8 reaching retirement at the present time?

9 MR. OATHOUT: I can't give you the entire  
10 demographics to all of the various crafts, but I can  
11 tell you that for the most part, a very mature  
12 workforce, for the most part they have all of an excess  
13 of twenty-year service, and there are a great majority  
14 of them that are in the '50s and are just going to miss  
15 retirement because of this, they won't have their  
16 thirty years in, you have to have thirty years in order  
17 to take early retirement of the railroad retirement  
18 system at age sixty, and overtime at age sixty-two  
19 under the Early Retirement Act.

20 MS. WILLIAMS: Has there been any  
21 provisions where the employee that is, when you say  
22 "the mature emplyee" that is reaching age fifty that  
23 has twenty or thirty years for their service at  
24 Conrail, has Norfolk, Southern or CSX provided for  
25 these, because as it stands in today's economy, it's

1 very hard for someone in their late '40s or '50s to  
2 start all over in the job market, what provisions have  
3 been provided for these employees since the wisdom is  
4 there, the dedication is there, has there been any  
5 provisions provided for them as far as helping them?

6 MR. OATHOUT: Conrail has taken care of  
7 the management employees with regard to that issue,  
8 they have provided a couple of early retirement,  
9 incentive programs in the face of the merger, however  
10 Conrail has not done that for the agreement employees,  
11 and we have yet to start negotiations with CSX and  
12 Norfolk, Southern, I really can't tell you if they are  
13 interested in that, we would certainly be interested in  
14 trying to achieve with Conrail, Norfolk, Southern or  
15 CSX.

16 MS. WILLIAMS: What percentage of  
17 employees?

18 MR. OATHOUT: I would probably say it's in  
19 the seventy-five percent agreement versus twenty-five  
20 percent management, it may be five percent one way or  
21 another, but I think that's fairly close.

22 MS. WILLIAMS: And because you do not have  
23 the new impact you are not sure exactly how many,  
24 but seventy-five percent will be losing their jobs.

25 MR. OATHOUT: Of the nonagreements?

1 In the impact statement I do have the numbers, and they  
2 break it down for nonagreements as well.

3 MS. WILLIAMS: But you don't have it  
4 at-hand right now?

5 MR. OATHOUT: I have it here, but I can't  
6 give you the breakdown of what the Pennsylvania  
7 numbers along will be without going through them,  
8 because they go city by city.

9 MR. ARMSTRONG: So of the three thousand  
10 loss of jobs, you are saying about thirty percent of  
11 them were manager levels, which would make it roughly  
12 nine hundred?

13 MR. OATHOUT: Throughout the entire  
14 system, if you will bare with me just a second, I will  
15 look and see what the nonagreement number is.

16 Of the nonagreement jobs they show  
17 eight hundred and forty-seven transferred, eight  
18 hundred and thirty jobs abolished, eight new ones  
19 created, that's just system-wide, that's not  
20 Pennsylvania.

21 MR. ARMSTRONG: And do you have an average  
22 age for the management job?

23 MR. OATHOUT: No, I do not. I know that  
24 they tend not to be the same demographics as the  
25 clerical in the workforce.

1 MR. ARMSTRONG: The management level there  
2 are almost nine hundred employees there, that's where  
3 the one point five billion is broken up in severance  
4 pay?

5 MR. OATHOUT: Yes.

6 MR. ARMSTRONG: And I am understanding  
7 that there is not a severance pay for the other seventy  
8 percent?

9 MR. OATHOUT: For the agreement employees?  
10 Under New York Dock you are going to have to prove that  
11 your job is lost due to the transaction, which is  
12 sometimes very very difficult or it's impossible to do,  
13 and in most cases you are going to have to arbitrate  
14 it, and it may take years with no uncertain outcome.

15 MR. ARMSTRONG: That's all, Mr. Chairman.

16 MR. NEWCOMB: Do we have any idea how much  
17 the Norfolk, Southern and CSX will make for every truck  
18 that is on a rail car and how much money will they save  
19 the truck industry?

20 MR. OATHOUT: I don't know what those  
21 numbers are.

22 MR. HORSEY: We are talking about american  
23 corporations, right, owned by americans; is that right?

24 MR. OATHOUT: Right.

25 MR. HORSEY: And we are talking about

1 other americans who are employees and even management;  
2 is that correct?

3 MR. OATHOUT: Yes.

4 MR. HORSEY: Thank you, Mr. Chairman.

5 REPRESENTATIVE GEIST: If no other  
6 questions, thank you very much.

7 I would like to introduce  
8 Representative Todd Platts who came in, and we are  
9 going to keep moving right ahead here.

10 Our next presenter, proabably the  
11 first time that he's ever faced this many house members  
12 in his life, and he comes from the kind and gentile  
13 body of the Pennsylvania Senate along with Senator Pat,  
14 Norfolk, Southern is a big shooter in Pennsylvania,  
15 Senator Craig Lewis.

16 MR. LEWIS: Good morning, Mr. Chairman,  
17 and members of the committee, thank you for giving me  
18 this opportunity to be with you today.

19 I am going to attempt to give you,  
20 as best I can, specific numbers for Pennsylvania with  
21 regard to employment. Let me begin however, with an  
22 attempt to clarify an issue that Mr. Oathout  
23 referenced, and that's the issue of the difference in  
24 terms of the numbers for employment purposes between  
25 the STD filings and the current documentation, and in

13

1 fact the documentation to which I will refer. The  
2 STB (ph) require CSX and Norfolk for purposes of the  
3 filing to use employment statistics for 1995. The  
4 filing was done in June of 1997, and as Mr. Oathout and  
5 many as you know, in that intervening period, in 1996  
6 in particular, Conrail went through a number of changes  
7 in terms of its employment staff level, those are not  
8 speculative issues, those are changes which in fact  
9 have occurred within the Conrail system. So the  
10 difference in the roughly eight hundred or so jobs in  
11 the count between the STB filing and the numbers that  
12 we are using now represent the reality as it existed  
13 when the agreement was filed, the merger plan was filed  
14 by NS and CSX versus the artificial numbers from the  
15 end 1995 as The STB insisted that we use them.

16 There are jobs that's going to be  
17 lost, there's no question about that, and I am not  
18 going to try to sugar coat it for you, I am going to  
19 give you the numbers as specifically as I can. I am  
20 not going able to break them into any craft category, I  
21 heard you asking Mr. Oathout about that, I just have  
22 none of those statistics available to me.

23 In terms of Pennsylvania, Conrail  
24 currently employees nearly eighty-five hundred people  
25 in Pennsylvania, the net impact of the merger will



1 reflect a reduction of nearly twenty-five hundred  
2 people from that current compliment. The specific  
3 number that we have is two thousand four hundred and  
4 ninety-two. The largest portions of that reduction, as  
5 you know, come from the Philadelphia headquarters and  
6 from the Pittsburgh National Consumer Service Center.

7           In Philadelphia, the job reduction  
8 will be approximately sixteen hundred, of that number,  
9 about five hundred and fifty will be transferred to  
10 locations out of the state. In Pittsburg, NCSC number  
11 is approximately five hundred, and so between  
12 Philadelphia, the headquarters' jobs and the Pittsburgh  
13 NCSC, we see nearly twenty-one hundred of the  
14 approximately twenty-five hundred jobs that are going  
15 to be effected in Pennsylvania. Let me also point out  
16 that of the five hundred Pittsburgh NCSC jobs, four  
17 hundred of those positions are expected to be  
18 transferred to Atlanta or to Jacksonville, Florida.

19           There are two communities in  
20 Pennsylvania which are going to have measurable  
21 increases in their employment level, and I should say  
22 to you that from among the overwhelming majority of the  
23 other communities in Pennsylvania, the employment  
24 impact is not significant in terms of pluses or  
25 minuses, but in terms of two communities in

1 Pennsylvania for which there will be measurable  
2 increases, they are, Mr. Chairman, the Altoona area,  
3 which will reflect nearly eleven percent increase in  
4 employment from roughly fifteen hundred and thirty  
5 currently positions to roughly seventeen hundred and  
6 seven in Conway and Beaver County, which will experience  
7 an increase from seven hundred and fifty-five to eight  
8 hundred and seventy-three positions, a fourteen percent  
9 increase. Let me go through some of the major areas  
10 with you in terms of the impact, and as I heard  
11 you ask me, Mr. Oathout, about agreement and  
12 nonagreement employees, I pulled out my calculator and  
13 tried to quickly run through some of the numbers that I  
14 have.

15                   The key locations in Pennsylvania,  
16 of course outside of Philadelphia, and the Pittsburgh  
17 NCSC, include the balance of the Pittsburgh-region  
18 facilities, the Harrisburg area and the Altoona area.  
19 There are currently thirty-three hundred and forty  
20 agreement employees in those three major areas. When  
21 the merger is completed, we expect to have roughly  
22 thirty-six hundred agreement employees in those major  
23 areas, and so in fact we anticipate a measurable  
24 increase in agreement employees.

25

1                   There are currently three hundred  
2 and twelve nonagreement employees in those areas, and  
3 now I didn't get with my computer, it looks to me as if  
4 there are going to be roughly two hundred and  
5 thirty-five or so nonagreement employees in those  
6 areas, and so, in fact what we see is an increase in  
7 agreement employees, and a slight decrease in terms of  
8 the nonagreement employees in those areas.

9                   MR. FLICK: Excuse me, if I might,  
10 Mr. Chairman, Craig, are you talking about individuals  
11 who reside there retaining their jobs, or are you  
12 talking about a number of positions that will be filled  
13 but they may not necessarily be by the people who fill  
14 them at this point in time?

15                  MR. LEWIS: Representative Flick, I have  
16 heard no one express an opinion that anybody who  
17 currently has a job that's going to be retained will  
18 not be expected to fulfill that position. There are  
19 some transfers that will take place, both out of the  
20 state and into the state, in the few instances, for  
21 example, there is a facility in New Jersey, which is  
22 going to be transferred up to Harrisburg, it will be a  
23 new facility in the Harrisburg area, so there will be  
24 new people transferred in there, but the Conrail  
25 employees who are currently employed, we expect them to

1 welcome them to continue to do those jobs, keep in mind  
2 that with regard to Pennsylvania, everything that is  
3 happening here is new for Norfolk, Southern, with the  
4 exception of a few miles of track up in Erie, Norfolk,  
5 Southern has virtually no presence in Pennsylvania,  
6 and that's why the numbers aside from the Philadelphia  
7 headquarters and the NCSC are as they are, because we  
8 need all of these employees in order to run the  
9 railroad, it's not as if there is overlap that's taking  
10 place here in terms of the agreement employees, the  
11 people who are actually going to run the railroad, we  
12 need every one of them in order to continue to operate  
13 this railroad.

14 MR. FLICK: Thank you.

15 MR. LEWIS: A number of the other speakers  
16 have also indicated that looking simply at raw  
17 employment numbers doesn't really begin to tell the  
18 story of what the future might be like in Pennsylvania  
19 as a result of this merger, and I agree with that  
20 because, I think that although there are some  
21 adjustments that are going to need to be made at the  
22 time of the approval of the merger, particularly in  
23 Philadelphia and Pittsburgh, there are some very great  
24 opportunities and exciting opportunities for  
25 Pennsylvania in terms of its economic development.

1 Norfolk, Southern alone, after this  
2 merger is completed, anticipates spending two hundred  
3 and thirty-five million dollars on economic development  
4 improvements within the Conrail system, and I mention  
5 this number to you, because it means that Norfolk is  
6 committed to upgrading and improving the facilities  
7 across the Conrail system, which is going to guarantee  
8 for these employees that their jobs are going to be  
9 there for the long haul. These improvements are going  
10 to include things such as a new intermodal facility in  
11 the Harrisburg area, Steve Fisk talked about the  
12 agreement between CP and Norfolk. One of the  
13 consequences of that agreement is going to be this new  
14 thirty million dollar facility which will enable us to  
15 interchange our cargos in the Harrisburg area.

16 Another item to which Steve referred  
17 is a ten million dollar upgrade of the track between  
18 Sunburry and Scranton, this is an expenditure that  
19 Norfolk is going to make, which it is going to enable  
20 CP to have double stack clearance on that track and  
21 will be a material part of the improved opportunities  
22 to which he referred for the CP railroad.

23 There will be some major new  
24 expenditures in Philadelphia as well. We are committed  
25 to locating a new intermodal facility in the

1 Philadelphia area, a new automobile distribution  
2 facility in the Philadelphia area, and a new triple  
3 crown facility, all three of which will require  
4 approximately a thirty million dollar capital  
5 investment by Norfolk, Southern.

6 I was in Beaver County last week and  
7 talked to the Beaver County Economic Development  
8 people, and a number of the legislatures from the  
9 Beaver County area about the anticipated thirty million  
10 dollar improvement in terms of the locomotive  
11 inspection and maintenance facility in that area,  
12 again, news that was extremely welcome because the  
13 facilities that are now in place are old, and there is  
14 a fear that they might easily be closed down and the  
15 jobs would leave those areas.

16 So the story here in terms of  
17 economic development contributions is a very very  
18 positive one in terms of what the future has to offer  
19 as far as employment within the railroads in  
20 Pennsylvania, but the message in the story goes beyond  
21 that. Gordon Heisler from Sun Company talked about  
22 what this is going to mean to his company in terms of  
23 improved shipping opportunities, competitiveness in  
24 terms of rates, and I think that the real story for  
25 Pennsylvania is the long term benefit or economic

1 development across the state with improved competition  
2 with improved service, and what this means is not so  
3 much the opportunity for economic development or an  
4 employment increase within the railroad itself, but all  
5 of those jobs and businesses, Representative Battisto,  
6 you alluded to a facility in your district. These are  
7 the kinds of things that Pennsylvania for the first  
8 time in decades is going to have the chance to become  
9 competitive for with other states, we have not been  
10 competitive because of the monopolistic nature of the  
11 railroad service in Pennsylvania, and we believe that  
12 this Commonwealth is going to have the chance to  
13 substantially improve it's competitiveness for economic  
14 development. and that's going to mean more jobs  
15 throughout our communities because of the improved  
16 railroad service.

17                   The bottom line, and you have heard  
18 this before, is that this merger is not going to succeed  
19 unless both of the railroad, CSX and Norfolk, Southern  
20 improve and increase their busniess, a lot of money has  
21 been paid for the Conrail assets. It's not possible to  
22 make this an economically viable transaction by simply  
23 sitting back and letting the business that was there  
24 run today, Norfolk, as you will hear from Randy Evans,  
25 CSX as well are committed and eager to begin the

1 process of competition in Pennsylvania, and that's  
2 where the real benefit is going to come to our  
3 communities as well as to the railroads themselves.

4 Mr. Chairman, I will be glad to  
5 try an answer any questions that you or the other  
6 members have.

7 REPRESENTATIVE GEIST: Craig, when you  
8 break down Pennsylvania, because we have so many of the  
9 short-line railroads, have all the agreements been  
10 finalized with Norfolk, Southern as to what they can or  
11 can't do in the areas where there isn't competitive  
12 services outside of Philadelphia and Pittsburgh?

13 MR. LEWIS: I don't think so, as you have  
14 said, we have a lot of short-line railroads in  
15 Pennsylvania, so the task has been significant, I think  
16 that our people have talked to every one of the short  
17 lines, in fact I am certain that they have.

18 REPRESENTATIVE GEIST: Yes, they talked to  
19 him twice, when it was hostile and now that it's  
20 friendly, and that's what's causing some of the  
21 confusion with short line guys. We want to make sure  
22 that rural Pennsylvania, the short lines don't have  
23 their hands tied. we are really concerned about that.

24 MR. LEWIS: I would invite any information  
25 if any of the members of this committee have it to that



1 regard, with two or three exceptions, I believe that  
2 Norfolk and the short-line railroads in Pennsylvania  
3 have comfortable agreements with regard to how they are  
4 going to move forward after the merger.

5 REPRESENTATIVE GEIST: And the other thing  
6 that you didn't mention that a lot of us are very  
7 concerned about whether it's ties that are being made  
8 in DuBoise, Pennsylvania or pallets in Center County  
9 or axles and wheels in Louistown, Pennsylvania or  
10 whatever, Conrail is an absolutely huge buyer, and has  
11 an huge impact in Pennsylvania, and a lot of those  
12 suppliers, if you go to a simple source supplier in  
13 Georgia, versus a supplier in Pennsylvania, some of  
14 these communities in some small towns can really be  
15 really hurt. What assurances are we going to have  
16 that Norfolk, Southern is going to be doing business  
17 with those suppliers, I am very very concerned. Let  
18 me put it this way, I am far from being a labor  
19 democrat, but as far as I am concerned, Norfolk,  
20 Southern is a company that does a heck of a lot of  
21 business in right to work states, and Pennsylvania will  
22 be the first experiment that they have North of the  
23 mason dixonwide (ph) in a labor state, and I am very  
24 very concerned about the supply industry in this state,  
25 and how it's going to relate to Norfolk, Southern. I

14

1 believe that the number I was given from Conrail for  
2 years varies anywhere from four to seven people for  
3 every Conrail worker within the supply industry, the  
4 supply and service industry, so that impact could be  
5 absolutely awesome, it's not addressed anywhere that I  
6 could find it.

7 MR. LEWIS: I am not aware that it's been  
8 addressed.

9 REPRESENTATIVE GEIST: And I think it's  
10 something that we and the state should have something  
11 in writing from Norfolk, Southern on how they are  
12 going to transition the business, how they are going to  
13 be competitive. If you want to market and make  
14 business in Pennsylvania, I think the first place you  
15 start is with the supply industry, and Pennsylvania has  
16 a huge history of being a rail-supply state.

17 MR. LEWIS: In fact, Mr. Chairman, one of  
18 your answers to your question with regard to the future  
19 is to look at this history, and I think that you will  
20 discover in this statistic that Norfolk, Southern is the  
21 second largest supply consumer of the railroads in the  
22 United States for Pennsylvania business, so that even  
23 though we have essentially had no trackage presence in  
24 Pennsylvania, we have bought across the years, enormous  
25 amounts of goods from Pennsylvania suppliers.

1                   REPRESENTATIVE GEIST: That's because the  
2 only rail made is made in Pennsylvania, there are  
3 certain things you have to buy that are made in  
4 Pennsylvanai, we all know that, sir. I am concerned  
5 about the other stuff, whether it's paper products or  
6 whatever, it's right down to the staples in the office.

7                   MR. LEWIS: Norfolk also does business in  
8 states such as Illinois and Ohio which are, I think  
9 more often referred to as Northern states in terms of  
10 their concepts with regard to working agreements. The  
11 bulk of our business certainly is in the south, and we  
12 have been doing a lot of business in a lot of  
13 industrial states for many years now.

14                   REPRESENTATIVE GEIST: And I am not asking  
15 any questions about bathrooms.

16                   MS. WILLIAMS: I have a follow-up question  
17 to that. Conrail as headquarters states, we are losing  
18 a lot of the corporations to companies that have been  
19 headquartered in Pennsylvania. CSX and Norfolk are  
20 going to have advantage of this company here, and I am  
21 concerned as well, is the importance of their corporate  
22 industry and corporate philanthropy, involvement in the  
23 state where there are no longer headquarters

24                   MR. LEWIS: This subject has been the item  
25 of extensive discussions which I have been involved in,

1 and Randy Evans has been involved, the mayor of  
2 Philadelphia, the governor of Pennsylvania. We  
3 understand the importance of those issues, and I  
4 believe that in the very near future we will all reach  
5 some agreement with regard to them that can give  
6 everybody an idea.

7                   There will be a presence for  
8 corporate citizenship purposes, and in headquarters'  
9 purposes about the new railroads in Pennsylvania. And  
10 by the way, you may know, but if not, let me also point  
11 out that there will continue, after the merger to be a  
12 joint operating company headquartered in Philadelphia,  
13 which is likely to be known as Conrail. You heard some  
14 reference to the joined assets which basically are  
15 trackage assets that will be jointly owned and operated  
16 by Norfolk, Southern and CSX in the Philadelphia area,  
17 the New York area and Detroit area. These assets will  
18 actually be managed by a company which will be fully  
19 owned by Norfolk and CSX, but will have three hundred  
20 and fifty or so of its own employees, we believe it  
21 will continue to be called Conrail and located in the  
22 City of Philadelphia.

23                   REPRESENTATIVE GEIST: Peter?

24                   MR. ZUG: In this very thick book there's  
25 a section that says Norfolk, Southern is now going to

1 create a new in the increase capacity on the Reading,  
2 Harrisburg line by improving and signaling singles and  
3 cross overs.

4 How much traffic is going to be  
5 increased in that line that goes through where I live?

6 MR. LEWIS: I don't know the answer to  
7 that.

8 REPRESENTATIVE GEIST: Midnight to 6 a.m.,  
9 significantly.

10 MR. LEWIS: In fact tomorrow I am going to  
11 be in Harrisburg with the mayor and one of the Norfolk  
12 people to look at some potential sites for that new  
13 intermodal facility, but it's my estimate that somebody  
14 in strategic planning probably has specific numbers, I  
15 have not seen them, is that the increase in traffic is  
16 likely to be substantial. As you heard Steve Fisk from  
17 CP indicate, rather than running down an interchange of  
18 their trains below Pennsylvania that interchange is  
19 going to be done with us now in the Harrisburg area.  
20 The marketing agreement which we have signed with CP  
21 also anticipates them being our predominate carrier  
22 into Canada, so we would expect to be exchanging cars  
23 with them for net travel north up into Canada, I  
24 suspect that it will be a major facility and will have  
25 a substantial increase and volume

1 over the current level.

2 MR. ZUG: Can you get the committee in  
3 writing the increased percentage, the number of routes  
4 and what kind of improvements you are doing along with  
5 it, if we have the crossing that doesn't have the  
6 gates, there's an issue of those on that line.

7 MR. LEWIS: And you are asking  
8 specifically about which section?

9 MR. ZUG: This thing says Reading to  
10 Harrisburg, if you want to do a specific county  
11 it runs length and width.

12 The other question is is there any  
13 possibility of sharing that rail line with passenger  
14 rail?

15 MR. LEWIS: That's always a difficult  
16 problem for freight railroads, because freight trains  
17 travel so slowly, but of course there are sharing  
18 arrangements throughout the country, in fact we are in  
19 the process with negotiating with Amtrack with regard  
20 to the major corridor, so anything is possible, it is  
21 not something that is generally preferred, because it  
22 does create real problems in terms of the speed, but if  
23 somebody in the Lebanon county has some specific ideas  
24 that you would like to get to me, I will be glad to  
25 pass them along to the appropriate people.

1                   REPRESENTATIVE GEIST: Whose going to be  
2 the first locomotive engineer from Norfolk, Southern  
3 arrested in Merrysville?

4                   MR. LEWIS: Why do they arrest locomotive  
5 engineers in Merrysville?

6                   REPRESENTATIVE GEIST: Because they do,  
7 they got a history of doing thathem.

8                   MR. SMITH: Pretty much the chairman  
9 already kind of hit on the main points that were of  
10 interst to me in terms of the purchase of supplys and  
11 all and he referenced one other company in parochial  
12 sense close to my area, but I guess my bigger  
13 concern that I just wanted to reinterate was the  
14 interaction with the short line. CP refernced in the  
15 beginning of their testimony, and I am glad to hear  
16 that there has been some progress, but that's not quite  
17 the same as dealing with the B and P in my area, and I  
18 have seen that short-line railroad pick up some  
19 leftovers here and there, and although to say they are  
20 progressive is probabaly a misnumber, but they have  
21 been making progress in terms of economic development  
22 and in terms of helping some of the shippers, coal, and  
23 some of the other minerals and things like that. I  
24 just wanted to reinforce that that's an imporatant  
25 aspect of this from where I sit, and anything more

1 specific that you might be able to share in terms of  
2 the interaction between some of these other short line  
3 railroads in the rural western part of the state would  
4 be a great interest to me, and I would appreciate any  
5 comment you might have on that.

6 MR. LEWIS: I will be glad to share with  
7 you whatever information I can obtain about the short  
8 lines and their interactions with Norfolk and the  
9 western part of the state, but as a general matter, you  
10 heard me say that this merger will only succeed by  
11 growing businesses, and that means working with short  
12 lines. They are a dominant factor in railroading in  
13 Pennsylvania, without working with them that objective  
14 is just not capable of success, so it's in our best  
15 long term of interest to work as closely as we can.

16 MR. SMITH: the committee had put together  
17 this report, a compilation of the merger application, I  
18 just was skimming through, and it shows some projective  
19 revenues that Norfolk or CSX would expect impacts on  
20 some of the short lines, and they didn't look real good  
21 to me, and I presume those estimates may have been made  
22 based on existing agreements that were there when  
23 Conrail run this or that line, I just wasn't real  
24 thrilled with what I saw in there.

25 REPRESENTATIVE GEIST: Joe?



1 MR. BATTISTO: Craig, I had an official  
2 from Norfolk, Southern in my district about four or  
3 five months ago discussing economic development  
4 measures, and I was impressed over the fact that it  
5 appears as if Norfolk, Southern is an aggressive  
6 business creative company, and I like that idea really  
7 because it's not just protecting the status quo, and if  
8 this is not the place to discuss a particular issue,  
9 but I do want to talk to Norfolk, Southern in the very  
10 future about a line through Monroe county, because with  
11 the two rail authorities owned a good segment of that  
12 line, but there's a segment retained by Conrail which  
13 of course we would pick up, I believe, we want to  
14 discuss that very seriously, because that does impinge  
15 our ability to develop that line. We have an old  
16 abandon cite that we are going to have about three of  
17 the jobs on it, we will be breaking grounds as you  
18 probably heard, we have other possible cites along  
19 there, so we are very concerned about that short  
20 line, that potential for short lines, and all the other  
21 short lines, because if you want to grow business, the  
22 viability of short lines is very very important,  
23 because they are going to develop business along their  
24 short segments dumped to you, and I would like to see  
25 all of those prosper.

1 MR. MELIO: Just for the benefit of the  
2 committee, Craig, there's some bridges that people  
3 don't want to own, they say it's not my bridge,  
4 it's not my bridge.

5 Is that going to be addressed by the  
6 merger?

7 MR. BATTISTO: The attorneys are going to  
8 make a lot of money.

9 MR. LEWIS: It's going to have to be  
10 addressed, I can't tell you how. Let me underscore  
11 that point for you, Representative Battisto. The  
12 process of conveying title to the real property in this  
13 transaction is absolutely mind boggling. Bob may have  
14 a better idea on the numbers of boxes that are  
15 involved, but I am told by the team that has been  
16 assembled over in my office, which I think it's about  
17 six or seven people who will be committed to his simple  
18 project for at least the next year, that there are  
19 about a hundred thousand documents in boxes in storage  
20 at Conrail, which they need to go through just to  
21 effect the real property transfers associated with this  
22 merger, and I suspect that they are going to find lots  
23 of things in there that nobody knew was around, so it  
24 has to be addressed, but that has not been one of the  
25 principle priorities.

1                   If any of you have a particular  
2 item within your district that is of special concern,  
3 let us know, and we will try to deal with it.

4                   REPRESENTATIVE GEIST: Thank you.

5                   Mike?

6                   MR. HORSEY: Just one quick question.

7                   Did you say a hundred thousand  
8 documents?

9                   MR. LEWIS: Yes, sir.

10                  MR. HORSEY: Well my son just graduated  
11 from law school.

12                  MR. HORSEY: The question is you had  
13 mentioned that many of these jobs is going to Atlanta  
14 and Florida.

15                  Are those still going to be lost?

16                  MR. LEWIS: Those were the jobs from the  
17 National Customer Service Center in Pittsburg, out of  
18 the five hundred jobs that will be eliminated in  
19 Pittsburgh, roughly four hundred of them will be  
20 transferred.

21                  MR. HORSEY: You have answered my  
22 question. Thank you.

23                  REPRESENTATIVE GEIST: I am going to  
24 follow that up for a second.

25                  One of the biggest concerns that we

1 have in the State of Pennsylvania is the port of  
2 Philadelphia, I know it doesn;t havemuch to do with  
3 Altuna, and it doesn't have much to do with Conrail,  
4 but it has an awful lot to do with the economy of the  
5 state.

6 Norfolk, Southern currently has  
7 there own deep water ports, Philadelphia has been long  
8 considered a specialty port.

9 What plans does Norfolk, Southern  
10 has to develop the port of Philadelphia into a major  
11 league facility, and I asked the question before CP,  
12 because it is the gateway port from after to service  
13 Toranto and Montreal, and I haven't read anything in  
14 any of the rail stuff that I get about plans for the  
15 port of Philadelphia.

16 MR. LEWIS: We have had extensive meetings  
17 with the port representatives across the last four  
18 or five months, the chairman of the port, Terry Foley,  
19 the chief marketing person. I am comfortable  
20 representing to you that if either of them were here  
21 today they would speak very highly of those discussions  
22 they have done in a very very positive sense, we are  
23 talking with them now about how we can make the  
24 appropriate amount of space available in order to  
25 accomodate our knew there intermobile facility. Toward

1 that end, we had the port people and the Philadelphia  
2 Industrial Development people down to Atlanta  
3 to see our facilities there, because they had asked us  
4 how they could model their expansions to make sure they  
5 were going to be the most modern-technologically  
6 advanced possible, so we have had a very very good  
7 working relationship with the port people over the last  
8 couple months, and there is a tremendous amount  
9 of optimism about the future for the port and  
10 both CSX and Norfolk, Southern.

11 REPRESENTATIVE GEIST: Anything in  
12 writing?

13 MR. LEWIS: Some letters that have gone  
14 back and forth from the chairman and some of our people  
15 before he was happy with what we were doing, but he was  
16 chastising us a little bit. Nothing in writing yet,  
17 the discussion stages. I believe that it is likely  
18 that we will attempt to memorialize some of these  
19 discussions as soon as we possibly can for the benefit  
20 of the governor and the mayor of Philadelphia and our  
21 our railroad.

22 With regard to those discussions,  
23 the port aspects have done well enough that we are all  
24 now very comfortable with them and believe that that's  
25 no longer an issue among us, there are two or three

1 other little items that we are still trying to hammer  
2 out in some kind of writing we will ensue after we do  
3 that.

4                   REPRESENTATIVE GEIST: There aren't many  
5 of us who voted for Pier 124, all those other things  
6 down there, but I just believe that that's a  
7 lakeskin (ph) in this whole agreement, especially with  
8 the State of Pennsylvania. I know the port of Erie is  
9 going to be well taken care of, because the Governor is  
10 from Erie.

11                   Any other questions?

12                   MS. ARMSTRONG: What impact will the  
13 shared asset operations have with SEPTA and community  
14 services in this whole merger, because I was  
15 looking through there and I saw a Midville as far as  
16 the commuter tracks, and Midville happens to be in my  
17 legislative district, a yard master, and I do know a  
18 constituency, we have long complained about some of the  
19 set-ups that have happened at Midville, such as making  
20 it an overall maintenance facility, especially when  
21 it's a fifty-three acre park right adjacent to it.

22                   MR. LEWIS: Our discussions with SEPTA  
23 have just commenced within the last couple of weeks, I  
24 am not aware of any major issues with regard to track  
25 usage that vary from the current agreements between

1 SEPTA and Conrail, there are some other nontrack issues  
2 that we are talking about, but I don't expect that  
3 there are going to be any major difficulties in the  
4 agreements between Norfolk and SEPTA, or CSX and SEPTA  
5 with regard to its operation, at least I am not aware  
6 of any at this point.

7 REPRESENTATIVE GEIST: Tim?

8 MR. HENNESSEY: Thank you, Mr. Chairman.

9 Craig, there was a figure banging  
10 earlier about a one point five billion dollar fund that  
11 was set aside for severance packages for management  
12 personnel.

13 Is there any kind of similar fund  
14 that has been set aside for agreement personnel,  
15 nonmanagement personnel, I realize you are not the  
16 spokesman for Conrail, but the merger agreement deals  
17 with that, and if so, can you tell us if there is such  
18 a fund, and what its size would be?

19 MR. LEWI: Norfolk is not a party to any  
20 of those circumstances, the severance agreements were  
21 negotiated between CSX and Conrail, and so the things  
22 that I know are essentially those that I have read from  
23 the media. I am not certain where a one point five  
24 billion dollar number comes from, I think that it  
25 includes in the largest part the ESOP, the employee

1 stop option program which basically is a retirement  
2 program that employees from Conrail have each  
3 benefited.

4 Randy will know the answers to this,  
5 because they were involved in the negotiation.

6 MR. EVANS: I got some details.

7 MR. LEWIS: Okay, then why don't I just  
8 stop there, and he will be up momentarily.

9 REPRESENTATIVE GEIST: Any other  
10 questions?

11 (No further questions.)

12 REPRESENTATIVE GEIST: Craig, thank you  
13 very much.

14 The written reply as I understand  
15 that we asked for at the last meeting haven't been  
16 received yet, but Solicitor Wilson here as assured me  
17 that they are in the mail, I think they are coming by .  
18 . .

19 - - -  
20 (Discussion held off the record.)

21 REPRESENTATIVE GEIST: Before you step  
22 down, Rick as a couple questions for the record.

23 MR. WILSON: Mr. Lewis, if you know, and  
24 if not we can follow up with written responses, but,  
25 can you indicate to us how the actual rail operations



1 within the Philadelphia, North Jersey shared access  
2 area will differ from those that are presently  
3 conducted by Conrail, I know Mr. Heisler had expressed  
4 concern about the efficient implementation  
5 of these arrangements, and in my experience as a  
6 railroad transportation attorney is that terminal area  
7 are always a headache to operate, particularly when  
8 they are under joint management, and I was wondering if  
9 you could give us some clarification on exactly how  
10 this area is going to operate.

11 MR. LEWIS: I do not know the answer to  
12 that question.

13 MR. WILSON: Fine. One other question  
14 with respect in the shared access area, in the Norfolk,  
15 Southern application operating plan, it indicates that  
16 NS will preserve all rights and obligations of existing  
17 Conrail arrangements, for instance, switching charges  
18 for movements within each CSO region which is a  
19 reference to the shared access area, does that indicate  
20 that both Norfolk, Southern and CSX intend to continue  
21 to access reciprocal switching charges or some  
22 kind of a shared access area switching charge in  
23 addition to their line haul rates?

24 MR. LEWIS: You mean between themselves or  
25 for others?

1 MR. WILSON: Well obviously the shippers  
2 and that type of thing. You may have innercarrier  
3 arrangements, but I was thinking primarily of charges  
4 that would impact line haul shipping charges to  
5 shippers.

6 MR. LEWIS: Again, maybe Randy can speak  
7 to this more directly, but it's my understanding at the  
8 moment there is no expectation of changing the current  
9 Conrail circumstances.

10 MR. WILSON: Well then I will see if I can  
11 get clarification from Randy on that.

12 I have no other questions.

13 REPRESENTATIVE GEIST: Thank you very  
14 much, Craig.

15 Ted Dahlburg, Delaware Valley  
16 Regional Planning Commission MPO.

17 MR. DAHLBURG: Good morning, my name is  
18 Ted Dahlburg, and I am the manager for the Delaware  
19 Valley Regional Planning Commission. Thank you to  
20 Representative Geist and other house members  
21 here for making this hearing possible, and for bringing  
22 to light various perspective on pending sale of Conrail  
23 system. DVRPC is the metropolitan planning  
24 organization for this region, somewhat uniquely we  
25 encompass nine counties in two states, among many

2

1 functions and services we provide are developing of a  
2 long range transportation land use plan and also we are  
3 considered the gate keeper for the short-arranged  
4 transportation improvement program.

5                   Since 1991 we have actively  
6 sought to fulfill the freight mandate of Service  
7 Transportation Efficiency Act, and that is to  
8 incorporate this somewhat forgotten aspect of the  
9 transportataion into the entire formula. Our mechanism  
10 for addressing freight is the Delaware Valley  
11 Task Force co-chaired deputy secretary from Penndot  
12 and also John Cosha (sic) at DVRPC, we bring together  
13 shippers and private and public sector professionals  
14 to address freight issues.

15                   One minor digression if you will  
16 permit me, indicative of our true interest in freight,  
17 and adding this to consideration of passenger movement,  
18 it's a national freight summit that will conducted in  
19 November from the 17th and 19th at the Doubletree  
20 Hotel, and there's some information here in your  
21 hand-out, and I will delighted to provide you more  
22 later if you like.

23                   Back to the issue again, as the  
24 Conrail unfolded DVRPC embrace instead of underlying  
25 principal it used as sort of a prison to

1 evaluate the transaction. These principals  
2 can be summarized, they still remain valid to provide  
3 competitive access throughout the region to provide  
4 good services to our port both on the Pennsylvania  
5 and New Jersey side, to maintain a strong short line  
6 network, to provide for corridor shared by more than  
7 one interest, that would be both transit and freight  
8 operations, to effect and seek out important  
9 infrastructure improvements, and finally to maintain a  
10 healthy presence. Conrail has been an excellent  
11 corporate partner here in our region, we talked a  
12 little about both the jobs and some of their  
13 contributions and costs as well. Their loss would  
14 truly present a big hit for the region.

15                   As Representative Geist noted  
16 right on from this morning, the pending sale has both  
17 anticipated benefits and this benefits for the region,  
18 the benefits are significant, we could summarize  
19 them as follows: direct and faster service linkages  
20 to the south, new intermobile business that would  
21 entrap existing trucks off our congested highways,  
22 major capital investments that would begin to go after  
23 motion of seem of flows of transportation goods between  
24 modes, and finally greater competition.

25                   In our region there's often a lot of

1 talk about shippers who are adversely impacted by sales  
2 and mergers the so-called two to one shippers. In  
3 point of fact we have a lot of one to two shippers in  
4 our region, that is shippers who currently only have  
5 one class one option, most of them have two, but  
6 through CSX.

7                   We had distributed a map in your  
8 hand out that portrays the Philadelphia joint  
9 commercial area, those lines are noted in blue,  
10 and they extend along the river up tp Bucks County, all  
11 of Philadelphia, the Wilmington, Delaware County  
12 Waterfront down to some of the sunny facilities that  
13 Mr. Heisler referenced this morning, and also all of  
14 the DVRPC portions of South Jersey. You will note that  
15 the pink areas are those freight or passenger lines  
16 which would be uniuely operated by Norfolk, Southern  
17 and CSX.

18                   Now some of our regional concerns  
19 and some things that our constituents are concerned  
20 about as the merger progresses offer these for  
21 consideration. Number one, how would the long-term  
22 maintenance of the shared asset area be assured, for  
23 example, there's a major, the Delaware bridge, so that  
24 the main throat for all of the freight activity came to  
25 South Jersey. Shared asset like that requires

1 significant expenditure capital, how would that be  
2 characterized by the new arrangements. Number two, can  
3 the shared asset area be expanded, if you will look at  
4 the region now, part of it is a shared asset area, we  
5 have shippers that have access to two class one  
6 railroads, there will be others that will only have  
7 one class one railroads, you have to wonder what the  
8 impacts of that would be on development.

9                   Thirdly, we talked a little bit this  
10 morning about what kind of access CP rail would have  
11 into the region. Fourthly, the major transit  
12 initiative which had been on the table  
13 be accommodated. We have also included a map here, it  
14 shows three in particular, we had some discussion  
15 earlier about SEPTA operations, you will see the orange  
16 line is the proposed line of the Schuylkill Valley  
17 metro that would utilize the Harrisburgh line, the  
18 green line is the proposed crossed county metro which  
19 would use the Trenton cut off Morrisville line, and  
20 thirdly, our other service area in New Jersey,  
21 the teal color would be, make use of the Bordentown  
22 secondary that would be a transit initiative in New  
23 Jersey.

24                   To continue on with some of our  
25 concerns, how will current transit operations be

1 impacted, not only the proposed ones but the current  
2 transit operations, if freight traffic increases so  
3 much, we might have congestion on our railroads just  
4 like we have on our highways. Will existing  
5 box cart traffic bear the burden. There's a notion  
6 about good intermodal traffic in this transaction  
7 and bad intermodal traffic, bad intermodal would be  
8 current box cart traffic that gets usurped and  
9 converted to intermodal resulting in more traffic and  
10 truck activity in our region which is still an air  
11 quality area.

12                   Thirdly, which facilities will  
13 require national highway connectors. Our main way of  
14 looking at the highway system is to identify and focus  
15 on the national highway system, for one, provide good  
16 connectors, two major rail facilities require it  
17 require truck assets, and finally how will the loss of  
18 jobs be offset, Philadelphia, in our region, including  
19 South Jersey with Mt. Laurel, Cherry Hill is by far  
20 losing the great braise amount of job, in fact, the  
21 last slide that we prepared shows the job impact in the  
22 Delaware Valley versus remaining Conrail service areas  
23 and states, this is utilizing numbers from the first  
24 filing. You will see that the chart on the left shows  
25 all the jobs proposed for abolishment, our region in

1 total is facing about thirty percent of that job,  
2 again that's our nine county area based on the number  
3 from the first filing. If you look at the chart on the  
4 right side, that's sort of good jobs that's transferred  
5 to or nearly created jobs, while the greenm  
6 area which would be the Delaware Valley, based on our  
7 interpretation and reading of the filing barely shows  
8 up that was less than one percent. So, there are some  
9 significant states here, good benefits and some  
10 disbenefits.

11 I guess I can entertain any  
12 questions at this point.

13 REPRESENTATIVE GEIST: I have one for the  
14 MPO, Pitcaren, Weatherford and the yards down here can  
15 see very very significant increases in truck traffic  
16 bringing containers to those in land ports. The State  
17 of Pennsylvania somewhere along the line is going to be  
18 asked to put up liquid fields rather to build access to  
19 those sites, both in land sites definitely needs a lot  
20 of work. One of the things this community has to take  
21 a look at is whether or not we are legislatively do the  
22 same thing there that we have done to Mullers and  
23 everybody else, and all the highways asked them to  
24 participate in a cost to that. We need from the MPOs  
25 then what we consider to be very good numbers based



1 upon the increased movements, and the change of  
2 movements within an area, and hopefully that's going to  
3 be a very positive number for the Delaware Valley,  
4 that's one of my concerns about this whole thing,  
5 whether the increased interstates around Reading, the  
6 Mawn Valley expressway if, when it ever gets build,  
7 whether or not we paid Lebanon County for a yard to  
8 hold trucks, those things all have to be answered, we  
9 are pretty serious about trying to find out what we can  
10 anticipate for good planning, both for the Department  
11 of Transportation and within this committee.

12 Questions?

13 MR. WILSON: Have you had any discussions  
14 with Norfolk Southern, or CSX involving some of the  
15 planning issues, and particularly some of the road  
16 issues that Chairman Geist has discussed here at this  
17 point in time, and can you characterize them without  
18 going beyond whatever confidentiality constrictions  
19 exist?

20 MR. DAHLBURG: I guess I just like to say  
21 going back to my earlier remarks both of the railroads  
22 and also Conrail have since day one been very  
23 cooperative and very good participants in the MPO  
24 process. In terms of the mention of containers,  
25 we often like containers to hotel visitors,

1 particularly once they come through the port, they hold  
2 a lot of good benefits for our region, in terms of jobs  
3 and taxes and so on. There is a precedent in ice tea  
4 for funding highway improvements to facilitate  
5 connections and truck moves to those facilities, again  
6 we will rely on the ports and also the railroads too to  
7 help us identify those locations that are really going  
8 to require the good highway access.

9 REPRESENTATIVE GEIST: Any other  
10 questions?

11 (No further questions.)

12 REPRESENTATIVE GEIST: Thank you very  
13 much.

14 Our clean up hitter today,  
15 J. Randall Evans, Vice President, Acquisition  
16 Development, CSX Corporation, I guess right about now  
17 you are ready to do a maalox commercial.

18 MR. EVANS: I am Randy Evans, I am Vice  
19 President of CSX, I apologize for being late. If I  
20 can, I just like to make some preliminary remarks  
21 about the transaction, and anticipate some of the  
22 questions that you have based on the questions that I  
23 heard so far. CSX and Norfolk, Southern have purchased  
24 all the stock of Conrail, we bought forty-two percent  
25 and Norfolk Southern bought fifty-eight percent.

1 As Craig told you, Norfolk, Southern will have a major  
2 new presence in Pennsylvania, we already have  
3 a extensive presence in Philadelphia and Pittsburgh  
4 area and Southwestern part of the state, now, what we  
5 will be purchasing outright will be the tracks going  
6 north and east out of Philadelphia towards the  
7 New Jersey border, and also will have shared access in  
8 the Southwestern part of the state, so the new  
9 property that we will have in Pennsylvania will be  
10 relatively small, even though we are buying forty-two  
11 percent of Conrail overall.

12                   The service transportation board  
13 is the federal authority that takes a look at the  
14 application, that application was filed towards the  
15 ennd of June, they have announced a three hundred and  
16 fifty-day process, so that will mean the middle of June  
17 of next year is when they will announce their decision,  
18 and for planning purposes, Norfolk, Southern and CSX  
19 are planning on, on or about the first of September,  
20 just about a year from today for the control date when  
21 we will actually be taking over control over Conrail  
22 assets.

23                   This is the most procompetitive rail  
24 merger in the United States, why is that? You got two  
25 existing strong class one railroads with extensive

3

1 networks throughout the South and Southeast who will  
2 now have access to all of Pennsylvania and to the  
3 Northeast. Conrail has done really an excellent job,  
4 and you can see from building up their franchise and  
5 creating a freight, east to west network. Our  
6 motivation in purchasing our share of Conrail, and I  
7 believe Norfolk, Southern as well is that we believe  
8 there's a significant market opportunity to increase  
9 north, south track. What I mean by that is that  
10 for shippers in Pennsylvania and in the Northeast  
11 traffic, rail traffic has great potential to get into  
12 our existing network, north and south and southeast.  
13 That will be a benefit to shippers as well as to the  
14 short lines that are in Pennsylvania, because they will  
15 have access to other markets by rail, and that hasn't  
16 occurred before, so we see growth in the rail business,  
17 in fact just as an overall figure, and they are  
18 sometimes misleading, but take a look now, we  
19 think we have about twelve percent of the  
20 transportation market in the Northeast that is  
21 traveling by rail. We expect after three or four years  
22 that we will double that market share from twelve  
23 percent to twenty-two, twenty-four percent, so that's a  
24 very aggressive growth figure, but that, I think  
25 in some respect reflects that very aggressive

1 business transaction and competition we have in the  
2 Norfolk, Southern in trying to make this acquisition,  
3 so we think that there will be rail competition,  
4 Mr. Dahlburg spoke about many shippers that will go  
5 from one class one railroads to two, so there will be  
6 increased rail competition, and we think there will be  
7 increased transportation services, we fairly will be  
8 competing with trucks, some people say, well, trucks  
9 must be the enemy, trucks are not the enemy, a lot  
10 of trucking firms are our best customers, putting the  
11 trucks on our flat bed as far as moving them  
12 intermobile service has been a real large part of the  
13 Conrail business, basically we expect will be a  
14 brilliant part of our business base as well.

15 We expect this rail competition and  
16 transportation competition will help the port of  
17 Philadelphia and economic development, and as we talked  
18 about, we think this will be part of economic  
19 development for Philadelphia region and for the state,  
20 and the reason for that is there will be increased  
21 transportation opportunities, and we think decreased  
22 transportation cost, so the cost of doing business will  
23 be improved in the State of Pennsylvania, we think that  
24 that will help with economic development activities.

25 There was some discussion about

1 SEPTA, as Norfolk, Southern has had a series of  
2 meetings with SEPTA, we have as well, both Norfolk,  
3 Southern and CSX have agreed with all the past things  
4 and with all the short line railroads, that all of the  
5 contracts that they have enforced with Conrail will be  
6 assumed a hundred percent as part of this transaction.  
7 Now SEPTA looking ahead has indicated to us in a  
8 meeting that we had jointly with them, Norfolk,  
9 Southern a couple weeks ago that they would like to  
10 think about negotiating a new set of agreements, and we  
11 have agreed that that makes sense, so the ball is in  
12 their court, so they will try to give us the outline,  
13 when I say "us" I mean CSX and Norfolk, Southern  
14 about what that outline looks like in the future.

15 Craig spoke to you about the job  
16 abolishments and the charts that Mr. Dahlburg talked  
17 about the significant impact in the Philadelphia area,  
18 there's no doubt about that, Philadelphia is the  
19 general office building, it's the headquarters, the  
20 jobs that will be retained and groomed are the  
21 locomotive engineers and the conductors and people who  
22 repair the tracks. The consolidation of basically  
23 three companies into two mean many of the managers  
24 and the clerical working office buildings just aren't  
25 going to be needed into two companies that survive

1 what had been three companies.

2                   Let me speak a little to the  
3 severance packages that were spoke about and just try  
4 to give you some figures. There is a five hundred  
5 million dollar fund that is a severance package for  
6 Conrail management employees, that five hundred million  
7 dolalrs is for severance, they will, based on your  
8 years of service, if you have certain severance  
9 packages and you will no longer working for the  
10 railroad. There is also ESOP program, and the estimate  
11 on that is about five hundred million dollars as well,  
12 so if you add it together that would be a billion  
13 dollars. The first time I heard the billion five  
14 figure was here in that room today, so I don't know  
15 where that came from, but I do know those two other  
16 figures.

17                   Now, management employees will be  
18 separated from the company, that will be the end  
19 of their railroad employee, for the union work force  
20 there's been some discussion about New York  
21 dock provisions. Under the New York dock, and we  
22 expect the Service Transportation Board will tell us  
23 that the New York dock will be applied to all of the  
24 union employees, there will be up to six years  
25 continuation of wages and benefits. Now, we have taken

1 a look at the workforce for each of those trades, and  
2 we have taken a look at the age of our workforce at  
3 CSX, and I expect Norfolk, Southern has done similar  
4 thing, and based on what we see as our projected number  
5 of retirements, we expect that all of the Conrail  
6 employees who would lose their job as part of this  
7 transaction would be recalled to work within a  
8 three-year period. Now, how they would be recalled to  
9 work would be part of the implementing agreement  
10 that would be to the union would negotiate with the  
11 carriers, with Norfolk, Southern and CSX, what I mean  
12 by that is there's a complicated issue of seniority, we  
13 got existing CSX employees, existing Norfolk, Southern  
14 employees, existing Conrail employees, and working out  
15 the issue of seniority, who has the right to these jobs  
16 is something that would be part of a negotiation, but  
17 again, that would be a negotiation between the  
18 representatives of each of the unions and the carriers,  
19 and quite frankly that's some of the reason for the  
20 difference between the June date that the Service  
21 Transportation Board will approve and run the railroad  
22 to make sure we have time to negotiate those  
23 implementing agreements and start up the railroad and  
24 operate it right at the get go. I expect there may be  
25 other questions about that area, and I will be willing



1 to answer those in the future as well.

2                   Investment, there's been some  
3 question about investments, CSX currently has a capital  
4 program, seven hundred and fifty millions dollars to  
5 reinvesed ties, tracks, locomotives, cars that sort of  
6 thing, when we assume our portion of Conrail, that will  
7 go up by about three hundred million, so our annual  
8 investment or reinvestment program in your property  
9 will be about a billion dollars a year.

10                   Now on top of that, in the  
11 application we have also outlined an addititonal five  
12 hundred million dollars of investment that we are going  
13 to make in the three-year period around this  
14 transaction, so additional investments to make in  
15 connection in these facilities. About twenty-two  
16 million of that will be in Philadelphia right in the  
17 port where we have committed, we have gotten our board  
18 to approve a fifteen million dollar investment for new  
19 intermobile ramp in that port area.

20                   Additionally, we are going to invest  
21 another four million dollars to get a better connection  
22 between our existing tracks and the tracks that we are  
23 buying from Conrail, that will take hours out of the  
24 transit time, so we are trying to go for the time  
25 sensitive business, taking four hours out of the

1 transit time we think will give us a real advantage  
2 in trying to get some of that traffic. We will be  
3 investing another four million dollars for additional  
4 siding for Belmont to handle more traffic, so that's  
5 that's twenty-two million, that's right in the city  
6 area close to the port.

7                   There was some discussion  
8 also about the partnerships, we spent considerable time  
9 with Bill Hankowski and our economic development group  
10 has met with them, similarly in Harrisburg made some  
11 presentation to the state to the state economic  
12 development group about what we want to do, and our  
13 program very similar to Norfolk, Southern to make.  
14 It's in our self interest that we can locate a plan on  
15 our line, so we are a fairly aggressive program and  
16 want to work PIDC on that. The mayor and Mr. Hankowski  
17 have asked us to work specifically on the Navyyard  
18 developing that, and we are committed to do that in the  
19 future.

20                   As part of the education summit, the  
21 mayor spoke to us about trying to work with some of the  
22 high school youth, not education to jobs, but education  
23 to careers, he instructed us on that very fine  
24 distinction. We made a grant to the Community College  
25 of Philadelphia, and we will be working on an

1 Associate's degree there in transportation assistance,  
2 and also with the school superintendent and one of his  
3 top lieutenants about trying to get some students in  
4 the school system exposed to careers in the  
5 transporatation industry, and then having courses  
6 available at Community College to get an associate's  
7 degree in that particular area.

8                   And finally, as Craig Lewis pointed  
9 out, we too are working with the port authority  
10 other ways that we can make some progress in the  
11 future, and as Craig alluded, those discussions aren't  
12 finalized but they are in progress, they will be  
13 reported when we do that, they have been very positive  
14 discussions and I expect that they will continue that  
15 way.

16                   A couple final points about goods  
17 and services, I did this analysis a couple months ago,  
18 we currently, we "CSX" currently have over three  
19 hundred million dollars of purchases in the state of  
20 Pennsylvania for goods and services, you mentioned a  
21 lot of the rail equipment and components, we also buy  
22 insurance services and other goods and services  
23 in the State of Pennsylvania. Mr. Mallory made a big  
24 point in the series of meetings that we had, he's  
25 provided to us a copy of the Conrail, actually Conrail

1 provided us with a list oif all of theor suppliers in  
2 the State of Pennsylvania, we have given that to our  
3 Purchasing Department. I can't tell you, and I hope  
4 you wouldn't expect me to provide any preferance, we  
5 are going to make sure that they are contacted and get  
6 the list for when they compete for the goods and  
7 services in the future, but we already are making  
8 major purchases

9 Finally, I guess I would just say in  
10 summary, we think this transaction is going to have  
11 great benefits for the shippers, for the short line and  
12 for economic development in the state.

13 I will be happy to answer any  
14 questions.

15 REPRESENTATIVE GEIST: My first question  
16 is in the writings that I have been reading about, the  
17 merger and the acquisition, it seems that the focus for  
18 CSX is on the port of New York City, and what they are  
19 going to develop in the Northeast, and you leave  
20 nothing that's been published about plans for  
21 Philadelphia in there.

22 Is that the your company spin doctor  
23 just putting that out, or is that conjecture among the  
24 quest?

25 MR. EVANS: The first answer is what I

1 told you, the investments that we are going to make in  
2 Philadelphia are intermobile facility at Snyder Avenue  
3 is an intermobile facility it's just horrible, so we  
4 really need a new state of the art facility and we are  
5 going to make thar investment, and by making this new  
6 connection, we think that's going to be a big boost,  
7 now, what we are going to be doing in those New Jersey  
8 and New York area, it's a metropolitan area of  
9 thirteen, fourteen million consumers, so there's an  
10 awful lot business that Conrail has there now, and we  
11 believe because of the north/south connection that I  
12 spoke about earlier, we can see some growth in the  
13 future, there's no doubt about, part of our public  
14 relates to financial community, people who buy and sell  
15 stock and finance the debt, we borrowed over four  
16 million dollars to purchase our portion of Conrail. We  
17 expect to have real good business in Philadelphia, and  
18 I also think in the automotive area, there's two sides  
19 to that, we will be working with some of the result  
20 additional automotive facilities that are export or  
21 inport through the port, and because if we are going  
22 spend some money actually down in Washington D.C,  
23 a tunnel that Conrail has now called the Virginia  
24 Avenue tunnel.

25 Some of the auto production that's

1 in New Jersey that currently gets trucked to  
2 Philadelphia, which you put on a rail right in  
3 New Jersey and will come all the way through, and that  
4 tunnel will allow us to go to some of the consumer  
5 markets right now we have to go all the way to  
6 Cincinnati, so I think there will be some benefits.

7 REPRESENTATIVE GEIST: Just for the  
8 committee's edification, the deep water port that's  
9 farthest north on your system now is what?

10 MR. EVANS: Everybody's definition about  
11 deep water, I mean when we conclude the transaction  
12 we will go to Boston.

13 REPRESENTATIVE GEIST: Currently you are  
14 as far north as Baltimore?

15 MR. EVANS: No, we come here to  
16 Philadelphia right now, we currently service  
17 Philadelphia, we get into Philadelphia, we get into  
18 the Philadelphia port area, but we don't go a  
19 millimeter north of the City of Philadelphia.

20 REPRESENTATIVE GEIST: The question  
21 really is this, out of that billion dollars of capital  
22 investment, how much would that go back into the  
23 current ports that you already control?

24 MR. EVANS: I don't know that I know the  
25 answer to that, I do know I was with the New York

1 port the other day, and they were looking endlessly at  
2 the fifteen-million dollar investment in Philadelphia  
3 and wanted to know how come we weren't making similar  
4 investments in Northern New Jersey, so I think  
5 everybody was taking a look at that, but we service, I  
6 think twenty-two, twenty-three ports on the east coast  
7 and we see that as important business. If I can borrow  
8 from the Norfolk, Southern, David Dugan, (ph) chairman  
9 of Norfolk, Southern he put it well, he says our job is  
10 run from the waters edge inland, (ph) and we look  
11 towards the port authority and encourage other folks to  
12 develop the short line facility, so that's why working  
13 with the port authority is a natural partnership for  
14 us, each has there responsibility, and I think we can  
15 do good business for each other.

16 REPRESENTATIVE GEIST: How many miles of  
17 track would you have in Pennsylvania after the merger?

18 MR. EVANS: Steve, do you know the answer?  
19 I mean it's only about forty-five miles more than what  
20 we have today, I don't know the answer to that. Steve  
21 Purnell, I'm sure you know.

22 MR. PURNELL: You got me on that one. We  
23 have seven hundred and fifteen miles in Pennsylvania  
24 now.

25 MR. EVANS: So if seven hundred and

1 fifteen now it will be in the range of eight hundred  
2 after the transaction.

3 REPRESENTATIVE GEIST: I have no other  
4 questions,

5 Do you members?

6 MR. BATTISTO: You talked about having  
7 twelve percent of the business, are you talking about  
8 system wide or Pennsylvania?

9 MR. EVANS: No, just in the Northeast  
10 of the traffic that could go by rail. We don't carry  
11 many computer chips, light bulbs, that kind of stuff,  
12 but of the traffic that could go by rail, we figure  
13 we are only carrying about twelve percent. Our goal  
14 three or four years is to double that so that we are be  
15 carrying twenty-four percent of the traffic that could  
16 go by rail.

17 MR. BATTISTO: It appears as if you  
18 develop the north/south more aggressively, it appears  
19 that you will be taking that mostly from trucks, long  
20 distance trucks?

21 MR. EVANS: The barge market probably  
22 calculated at three or four percent the overall freight  
23 market.

24 REPRESENTATIVE GEIST: I tell you what,  
25 you guys, both railroads, if you are going to do that



1 are going to be spend a fortune in increasasing the  
2 port at the time if you are going to compete, you got  
3 to get those average train speeds up way up.

4 MR. EVANS: Well, part of our five hundred  
5 million dollar investment is almost two hundrerd  
6 million in Ohio and Indiana double tracking to Chicago,  
7 so we will have that route, our assisting route that  
8 comes through Pittsburgh and Philadelphia, and one that  
9 goes to st. Louis, so we think we will have a couple of  
10 good high speed routes to achieve that.

11 REPRESENTATAIVE GEIST: Any questions?  
12 Tim?

13 MR. HENNESSEY: Thank you, Mr. Chairman.  
14 Randy, I am still a little confused,  
15 I would like to revisit the area about the severance  
16 pay and stuff.

17 MR. EVANS: Sure.

18 MR. HENNESSEY: The five hundred million  
19 dollars estimate for the ESOP program is that straight  
20 across management and unionized employees?

21 MR. EVANS: I read a lot about this, so if  
22 I get this only eighty percent right I apologize, from  
23 what I have read is that there was one case in the past  
24 where Conrail management had negotiation with their  
25 union about joining ESOP, now I don't have the exact

1 details, but for a number of reasons the organized work  
2 force decided not to join in to the ESOP, so the  
3 management employees did decide to join in, they gave  
4 up some benefits and things like that to be part of  
5 that, and Conrail did a masterful job themselves  
6 throwing the company and put in stock, and at the time  
7 we entered those transactions and Conrail stock was in  
8 the range of about sixty dollars a share, and at the  
9 end of the transaction it was a hundred and fifteen  
10 dollars of share, so that's really built up that fund  
11 for the value of the company.

12 MR. HENNESSEY; Setting aside this five  
13 hundred million dollars presented to employees in terms  
14 of severance packages, when we talk about union  
15 employees that's up to six years of continuing wages  
16 and benefits, what does that amount to and how does  
17 that interplay with, I think you said on average you  
18 expect these people to be replaced within three years.

19 MR. EVANS: In our filing there's a  
20 number, I think I have this right, I can double check  
21 for the committee. In our filing we got a  
22 figure of sixty-six million dollars of what we expect  
23 will be the payouts, and again this is based on what we  
24 expect the attrition will be in calling people back to  
25 work, so what that typically would be, the general

1 chairman for the clerks, they are the trade that is  
2 most impacted by this transaction.

3                   What this would mean, for example,  
4 let's say they are currently working in Philadelphia,  
5 we said at the outset of the transaction is that there  
6 is a number of clerical jobs that would be involved, so  
7 if I was one of those clerks and my job was abolished  
8 and no other job was offered, what I would suggest is  
9 continuation of my pay, now, this is actually, this is  
10 kind of a wage insurance program. While I wasn't  
11 working for the railroad, if I went to work for short  
12 line or trucking company, let's just say that my salary  
13 was thirty thousand a year or thirty-five thousand, if I  
14 got work for twenty-five thousand dollars a year, the  
15 railroad would pay the difference so that there would  
16 be no loss in the wages, if I got no work, the railroad  
17 would pay the entire amount. So let's say I was off  
18 work for a year, year and a half or two years, the  
19 railroad would be making that wage and continuation pay  
20 to the individual during that time frame, and then when  
21 the job became available, but let's just say for our  
22 railroad it would be Jacksonville, we would say to the  
23 individual, okay, we now have a job available in  
24 Jacksonville, Florida at the same rate of pay that you  
25 have been getting, and we will pay the relocation for

1 your family and household goods to go to Florida.  
2 Now, if that individual at that point says, I like  
3 Philadelphia, I don't want to move to Jacksonville,  
4 then those payments stop, but if the person  
5 accepts that the railroads pays the location  
6 expenses and then he or she has that job in  
7 Jacksonville, so that's how it works.

8 REPRESENTATIVE GEIST: We are going to  
9 wrap it up now.

10 Are you going to be available for  
11 questions for some people out here?

12 MR. EVANS: Sure.

13 REPRESENTATIVE GEIST: I want to thank  
14 everybody for presenting today, we are going to  
15 probably be doing this one or two more times,  
16 especially as you folks put more information out for  
17 the public, we want to know the impact to the State of  
18 Pennsylvania, and what we and the general assembly can  
19 do to to either be the best partners you have ever had,  
20 or the best protectors of our turf called the state, so  
21 we are in the business of collecting as much  
22 information as we possibly can. I just want to close  
23 with one question if you can answer.

24 Which one of you two railroads will  
25 be the first to acquire one of the western railroads?

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Thank you all very much for coming.  
(Whereupon, at 1:15 p.m., the hearing was  
concluded.)

C E R T I F I C A T E

I hereby certify, as the stenographic  
reporter, that the foregoing proceedings were taken  
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