

**REMARKS OF RICH TIMMONS
RESIDENT VICE PRESIDENT – PUBLIC AFFAIRS
NORFOLK SOUTHERN RAILROAD**

**TESTIMONY TO THE PA HOUSE TRANSPORTATION AND COMMERCE AND
ECONOMIC DEVELOPMENT COMMITTEES**

**SEPTEMBER 16, 1999 10:10 A.M.
HARRISBURG, PA**

Good morning, Mr. Chairman. It is a privilege to be here this morning to address this Joint Committee as they consider the vitally important subjects of economic development and the essential linkage of that development to transportation in the Commonwealth. Jim McClellan and Dan Mazur both send regrets. Hurricane Floyd has altered their plans and best efforts to be here this morning.

With me today are Bill Schafer, Director of Corporate Affairs and Roger Bennett, Director of Industrial Development. Both reside in Pennsylvania and many of you have had dealings with them in the past.

My theme today will focus on growth and the building of the infrastructure needed for that growth and I will briefly comment on the broad NS vision for the future in Pennsylvania. But I must first start with the question on all of your minds: When will Norfolk Southern's service return to normal? That question is complex, but we believe that we must deal with the problems that face us today before we can devote full attention to the future.

To begin with, let me publicly thank members of the legislature, other state agencies and departments and our customers for your continued patience and cooperation. I am all too aware that NS has experienced numerous service failures in its Conrail acquisition. That has hurt many in Pennsylvania, from shippers to railroad

employees to Amtrak passengers. This is not how we envisioned paying you back for your support of the Conrail transaction. I know our faulty integration surprised many of you, as it frankly surprised me, as a relative newcomer to NS.

So, what happened? There is no single answer, but rather a combination of things have upset the balance of our system. You all know how intricate and complex a large transportation network is, and how difficult it is to restore balance once it goes off-key. And in this case, it went off-key early. We experienced 1) problems with our information systems, 2) were confronted with crew-calling difficulties, 3) and then problems with our operating plan were immediately apparent, most likely stemming from last-minute new customer traffic demands that impacted our operations. In some cases, we simply miscalculated the complexity of the system we inherited and its demands.

I could speak to you for hours with the lessons of hindsight. For example, we might have been slower to convert some Conrail procedures to NS on Day One. We might have done more training with our new employees, and sooner. And we might have had better Information Technology controls in place that had been better melded with the Conrail software.

Our experience warned us that the integration of an entity as large as Conrail, relative to the former NS would be an enormous challenge. We knew that, and we spent millions to prepare drawing on the lessons from the UP/SP meltdown two years ago. We had contingency plans. Even so, we still fell short. Nevertheless, with Y2K just around the corner, we felt that the computer systems integration had to be done as a priority, and I remain convinced that the concept of integrating sooner rather than later will prove to be an important advantage for the future. While painful, we believe that the

worst of the problems are behind us, and, with important exceptions, we now have compatible systems. Most importantly, we have systems that are ready for the new millennium. This is not to imply that significant challenges will not continue to confront us or that service will return to a normal state in the near future. The process we are embarked on is one of incrementalism – there is no “silver bullet”.

But I will say that once the problems were identified, NS did not take long to respond. We redeployed locomotives and crews from other parts of the NS system. We accelerated hiring and training. We borrowed and leased locomotives – we now have another 400 locomotives leased. We used shortline and regional carriers for switching and for new, through routes. We reactivated Conrail yards that had seen little use in recent years. We even reactivated employees as we called back retirees. All of these efforts continue to this day.

The transaction did produce a number of benefits, rates for a number of PA customers were reduced and many got new service options. For example, some PA utilities are receiving coal at reduced transportation rates, and coal from the Mon Valley is moving to Southeastern utilities. And it is abundantly clear that the business is out there. Our shortline partners, marketing personnel and customers leave no doubt about that.

As many of you know, NS made huge investments in anticipation of the Conrail transaction. Of particular benefit to PA customers were the following:

1. The upgrade of the Sunbury Line, with the D&H.
2. Sidings and improved signals on Hagerstown Line.
3. New IM terminal at Rutherford Yards.
4. Improvements to CP Capital interlocking.

5. TC & Rail on the Buffalo Line.
6. The Bethlehem IM Facility.
7. The Erie 19th Street track relocation project and real estate donation.
8. The Pattenburg Tunnel for double stack clearance.
9. The purchase of 60 Erie GE locomotives which were then manufactured in Altoona.

And numerous other projects programmed in the NS Capital Budget.

Overall, NS spent well over half a billion in added infrastructure improvements. Yet it still fell short of the needs. How did that happen and what are the lessons we have learned?

The most important thing we have learned is the importance of having extra capacity in place when the unexpected occurs. Another valuable insight is that even good plans and preparation can unexpectedly unravel. NS had a good "sunny day" plan; but it was not robust enough to deal with widespread problems almost from Day One. It is impossible to provide quality service with a railroad that is running over capacity. Things do go wrong, and there has to be some wiggle room. Too often today, that wiggle room does not exist.

Unfortunately, our contingency planning was flawed and in my estimation, we were overconfident and possibly complacent.

Now the future of our railroad will be determined by how well we meet three specific challenges. First, we need to grow the business. Wall Street wants growth, and the country will have to depend on railroads more in the future, because it is increasingly difficult to add capacity to the highway system. Second, to grow the business, we must offer much better service. Obviously, we have taken a step

backward from that goal with the Conrail implementation. The diversion to highway was swift, and substantial. Service counts above all else except safety. Third, we must earn an adequate ROI. Not only must we take care of operating expenses for the railroad, we must commit to Capital spending for infrastructure and equipment, AND we must pay off the debt.

So, how do we plan to resolve these issues, and meet the challenges? At NS, we are concentrating on 5 key areas:

1. We are systematically identifying any remaining bottlenecks in the system. We are looking at our own network, as well as the networks of connecting shortlines and regional carriers to determine the most efficient way to increase capacity.
2. We are making certain that we do not sell off rail lines that we might need in the future. We are focused on potential through routes and routes in urban areas.
3. We are seeking public funding for some infrastructure projects. NS was the only Class I carrier to use ISTEA funding.
4. We are being very protective of capacity in terms of our relations with Amtrak and commuter trains. The days of surplus capacity are largely over.
5. And, we are reviewing what we are handling, and how we are handling it, to make certain that capacity is used to produce the best bang for the buck.

These initiatives are an azimuth that chart a course for future growth and service reliability for the future. But let me stress that we have always looked at our entry into Pennsylvania as a new player joining the team. That team consists of our customers, the state government and its agents, the shortline and regional railroads and the

communities in which we operate. This team has enormous potential for economic success if harnessed and focused toward goals that benefit the members.

Our future success is directly tied to the interaction of the team – state economic policies, legislation and regulations, funding, taxes, and the employee base all effect railroad economics and our capacity to contribute to the teams forward momentum. To date, we have enjoyed remarkably tolerant customers, state agencies and officials who have bent double to work with us (notably, PennDOT and the PUC), shortline and regional railroads that have eased our current difficulties and been magnanimous in every instance.

But I must be frank. The recent PURTA legislation has dealt the railroads in Pennsylvania a heavy blow, and that coupled with existing Capital Stock and Franchise and Corporate Net Income taxes. These conditions joined with other Capital Budget eliminations disadvantage railroads in the highly competitive transportation world. Remember that railroads are privately funded unlike roadways, ports and airfields. It is apparent to me that the pressures of the financial and the commercial marketplaces will force major rail carriers to think, and act, outside the box in the months and years to come.

Let me also point out that we are probably about a year or so behind our original projections for projects and activities in the Commonwealth and in other states that came our way in the acquisition of Conrail. As you may recall, most of our planning was linked to a 1998 split date of Conrail between NS and CSXT. This was delayed until this past summer so activities have been delayed, and reassessment of priorities and needs is underway. However, first things first, and the service problems of the moment must take priority.

In closing, I would like to congratulate the Commonwealth for its forward thinking and progressive attitudes toward railroads. No state has a more illustrious rail tradition and you have shown yourself to be a leader among states. You have supported an extensive shortline network and have invested in improvements in the tracks of those lines. And that investment played a key role in NS' ability to avoid "gridlock" early in the Conrail acquisition as these lines provided much needed extra capacity.

Your funding of the doublestack clearance route through the state coupled with Bethlehem and Rutherford intermodal yards, is going to make PA the hub of Northeastern intermodal traffic, with doublestack service in all directions from Harrisburg. No other road rivals that visionary investment.

With initiatives such as these, the "Pennsylvania Team" is demonstrating the right stuff for our businesses and communities. All of us at NS look forward to working with PA in developing the infrastructure, relationships, and seizing opportunities needed for growth into the 21st century.

Mr. Chairman, thank you for your forbearance in patiently receiving these remarks and now we are prepared (I hope) for your questions.