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Office of the Chairman

Surface Transportation Board
Washington, D.C. 20423-0001



November 30, 1999

The Honorable Charles E. Schumer
United States Senate
313 Hart Senate Office Building
Washington, DC 20510

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Re: Rail Service in the Buffalo Area

Dear Senator Schumer:

As we agreed I would do, I am following up with you regarding various matters relating to rail service in the Buffalo area, including the plan that I outlined in my letters to Norfolk Southern Corporation and CSX Corporation, sent after our visit with shippers in the Buffalo area.

It is clear that a key cause of the service problems in the Buffalo area — and elsewhere in the East — has been the less-than-smooth integration of Conrail's operations into the existing railroad operations of NS and CSX. My plan is intended, among other things, to focus on these integration problems, including the adequacy of the rail infrastructure in the Buffalo area. We are beginning to receive the responses of the railroads to the several requests I made in the letter I sent them last month. I will immediately study those responses and the carriers' actions to improve service in the Buffalo area, and will continue to work with you to ensure that existing local service issues are promptly resolved in a satisfactory manner.

Beyond these existing local service problems, I continue to be aware of your concern about the strength of competition in the Buffalo area. In this regard, I know that arguments have been made by various interests that the service problems have developed because the Board did not inject enough additional competition in the area when it approved the Conrail transaction. I certainly understand the need of Buffalo area shippers for responsive and reliable rail service at competitive rates, and the Board's actions approving the transaction were intended to meet that need in accordance with the law that the Board implements. By imposing conditions that reduced certain switching charges, and by giving both CSX and NS access to certain shippers that had previously been served only by Conrail, the Board provided for more competitive service than the area has seen since before Conrail was created out of the bankrupt eastern railroads in the 1970's.

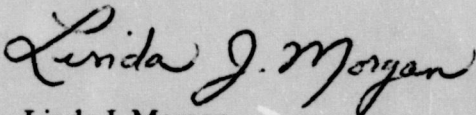
Specifically regarding rail rates, I certainly do understand the importance of rate levels to the overall competitiveness of Buffalo area shippers. You have expressed concern that, as approved, the Conrail transaction may have adversely affected the rates that Buffalo area

shippers pay. In approving the Conrail transaction, the Board imposed various conditions to address concerns about the impact of the merger on Buffalo area rates, and it provided for a rates study that would, on an annual basis over a three-year period, review rate levels in the area with a view toward determining whether rates have gone up or down since the integration of Conrail into the NS and CSX rail networks. I expect the Board to approve a decision, to be issued in the next few weeks, initiating that study, and I expect the first summary of rate levels, including switching rates, to be issued as early as March.

Once the appropriate review is completed, the Board Members then will determine what further action, if any, might be appropriate to ensure that the competitive conditions applicable to the Buffalo area are having the impact envisioned by the Board. It is not possible to determine at this point what would be appropriate if it turns out that the Conrail transaction has caused rates to increase in the Buffalo area. Among other things, however, parties might ask the Board to consider imposing further limits on switching charges, adding the competitive presence of additional carriers, or creating some form of a shared assets area. Any relief requested would need to be considered in accordance with the Board's legal authority. I should note that the existing shared assets areas, all of which were proposed by CSX and NS as part of the original Conrail deal presented to the Board for approval, have certainly not escaped the rail congestion that has tied up traffic at other points in the East. I also should note that the Board has determined in other circumstances that putting more carriers into an already fragile and crowded rail infrastructure does not necessarily ensure high-quality rail service. In any event, you have my commitment to continue to carefully monitor competition in the Buffalo area and to proceed accordingly.

I remain committed to ensuring that service is improved in the Buffalo area and that competition in that area is vigorous. I look forward to working with you on this important matter.

Sincerely,


Linda J. Morgan

