January 30, 1998

The Honorable Edward M. Kennedy  
United States Senate  
2400 JFK Federal Building  
Boston, MA 02203

Dear Senator Kennedy:

Thank you for your letter regarding the proposal by CSX and Norfolk Southern (NS) to acquire control of Conrail and to divide certain assets of Conrail between the two acquiring railroads. You express concern about the competitive impact of the proposal on shippers in Massachusetts served by short lines such as the Housatonic Railroad Company (HRRC), and request that the Surface Transportation Board (Board) give serious consideration to the request of HRRC for protective conditions.

This proceeding has been docketed at the Board as STB Finance Docket No. 33388. As you may know, the Board adopted a procedural schedule for deciding the merits of the control application filed in this proceeding, which it extended by 45 days to accommodate the filing of safety integration plans by the applicant railroads. As provided by the procedural schedule, the Board has received comments and evidentiary submissions from all interested parties addressing the merits of the merger proposal, which were filed with the Board on or before October 21, 1997, and the Board has received replies to these filings, including the rebuttal by the applicant railroads, which were filed on or before December 15, 1997. The Board is currently analyzing those filings. A final written decision in this matter will be issued on July 23, 1998.

In deciding whether a control transaction such as the one being proposed here is in the public interest and should be approved, the Board must consider various factors required by law, including the effect of the proposed transaction on the adequacy of transportation to the public, and whether the proposed transaction would have an adverse effect on competition among rail carriers in the affected region or in the national rail system. In this regard, let me assure you that the Board will give full consideration to the issues that you have raised. Because this proceeding is pending before the Board, however, it would be inappropriate for me to comment further on the case.
I am having your letter and attachments made a part of the public docket in this proceeding. I appreciate your interest in this matter, and if I may be of further assistance, please do not hesitate to contact me.

Sincerely,

[Signature]

Linda J. Morgan

Linda J. Morgan
Mr. Dan King, Director  
Congressional and Public Affairs  
Surface Transportation Board  
Suite 843  
1925 K Street, NW  
Washington, DC 20423-0001

Dear Director King:

I am forwarding to you information I have received regarding the proposed acquisition of Conrail properties by CSX Corporation (CSX) and Norfolk Southern Corporation (NS). In particular, the Housatonic Railroad Company (HRRC) has expressed deep reservations about the impact of the proposed acquisition on Massachusetts and Connecticut.

The HRRC is very concerned that while CSX and NS are promising increased competition with this deal, it will in fact decrease competition in Massachusetts and Connecticut. Massachusetts' shippers will not benefit from the promised lower rates because they will not be able to connect to the new competitor (NS) in the area. Therefore, shippers in Massachusetts are in danger of losing business due to lower rates outside the region.

HRRC has three requests to address this issue. I am forwarding along the letter which enumerates these requests. In general, HRRC would like to be allowed to continue to traffic to other connections, and to preserve neutrality between HRRC and CSX stations in Massachusetts.

I urge you to give the proposals by HRRC in regards to this acquisition every consideration. If you have any questions, please feel free to contact Suzanne Morse in my Boston office at (617) 565-3170. Thank you for your attention to this matter.

Sincerely,

Edward M. Kennedy

2400 JFK Federal Building  
Boston, MA 02203
Ms. Suzanne Morse  
Office of U.S. Senator Edward Kennedy  
2400 J.F.K. Federal Bldg.  
Boston, Massachusetts 02203  

Re: Acquisition of Lines of Consolidated Rail Co.  
by CSX Corporation and Norfolk Southern Railroad  

Dear Ms. Morse:  

Thank you for taking the time to speak with me today. I have enclosed a copy of our filing with the STB. As the filing indicates, HRRC believes that it and its shippers will be harmed by the proposed transaction in various ways.

The proposed acquisition of Conrail properties by CSX Corporation and Norfolk Southern Corporation has been described as a transaction whose benefits include (1) enhancing rail competition in the Northeast and (2) achieving economies by creating additional single line traffic movements.

While the Transaction as proposed will result in enhanced rail competition in certain Northeastern markets, no such pro-competitive benefits will accrue to New England. All of the Conrail lines in Connecticut and Massachusetts are proposed to be acquired by CSX Corporation. Housatonic Railroad, which currently interchanges all of its traffic with Conrail, will, if the Transaction is consummated as planned, interchange all of its traffic with CSX Corporation. Neither HRRC nor its customers will have direct rail access to other Class I carriers.

Currently, Conrail serves as a neutral, although monopolistic, gatekeeper to HRRC and much of New England as well as to nearby New York and New Jersey. With respect to traffic which neither originates nor terminates on Conrail, Conrail serves as a neutral overhead carrier to southern and western gateways. In general, Conrail faces the same market rate constraints throughout the region, with the effect that no part of the Northeastern region is disproportionately benefited or burdened by freight rate differentials which do not reflect differentials in the cost of providing service or meeting truck competition.
After the transaction is consummated, some areas of the Northeast (those areas west of the Hudson River) will have new and vigorous rail freight competition while other areas (those east of the Hudson River including the HRRC market area) will not have such competition. CSX and NS agree that the increased competition in the competitive areas will cause shippers located there to experience decreased rail rates and therefore decreased transportation costs. Shippers in Massachusetts which are served by HRRC will not benefit from the lower rates created by competition.

HRRC shippers will thereby be put in a competitive disadvantage. As a result of higher costs relative to their competitors, shippers in the non-competition area, and Housatonic Railroad, will lose business. The loss of business will naturally lead to decreased employment, decreased capital investment and decreased tax revenue for state and local government.

HRRC also expects to experience predatory competition from rail/truck transfer facilities in the rail competitive zone. The harm to HRRC's competitive position lies not in the inefficiency of Housatonic Railroad nor the inability to provide economical value added freight service, but it lies in the inability of HRRC to connect with the new competitor (NS) which has been added to the market area.

Competition is good for the customer, good for the country and good for the industry and HRRC vigorously supports increase rail competition. However, new competition should not be introduced to a region in a manner which arbitrarily excludes some of the present rail providers and their rail customers from participating in the competitive environment. However, if the transaction is consummated without some protective measures taken for the benefit of HRRC and its customers, that is exactly what will happen. HRRC and its customers will be unfairly disadvantaged in competing for business.

HRRC has requested that the Surface Transportation Board attach conditions to its approval of the proposed transactions which would allow HRRC customers economic access to other Class 1 connections and preserve rate neutrality.

Specifically, HRRC has requested the following:

1. That the Surface Transportation Board approve that portion of the Responsive Application filed by New England Central Railroad seeking trackage rights for NECR between Palmer, Massachusetts and Albany, New York for the purpose of interchange with connecting carriers. [This would enable NECR to transport HRRC traffic to other connections.]
2. That the Surface Transportation Board require CSX to enter into a Haulage arrangement on reasonable terms with HRRC, under the terms of which CSX will haul HRRC traffic over the Boston-Albany Main Line (1) from Pittsfield to the Albany, New York area for the purpose of interchange at Albany with connecting carriers including, but not limited to NS, CP Rail and ST Rail, and (2) from Pittsfield to Palmer, Massachusetts for interchange purposes at Palmer and intermediate points. [This is another way of achieving access to other connections].

3. That the Surface Transportation Board issue an order requiring that CSX maintain through class and commodity rates to HRRC Connecticut and Western Massachusetts stations for plastic, lumber and other forest products, which are no higher than it maintains to former CR stations in Connecticut and Western Massachusetts, with revenue between CSX and HRRC to be divided in accordance with existing division agreements between HRRC and CR. [This will help preserve neutrality between HRRC stations and CSX stations in Massachusetts.]

The purpose of this letter is, of course, to request Senator Kennedy’s support of the HRRC application. I would be very pleased to discuss this matter with you at your earliest convenience. If Senator Kennedy is willing to support some or all of our requests, I would like to be able to attach a letter of support to a supplemental filing with the Surface Transportation Board which we plan to make on or before December 15.

Thank you for your time and consideration.

Very truly yours,

Edward J. Rodriguez
Vice Pres. and General Counsel
BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 33388
Sub. No. 70

CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

HOUSATONIC RAILROAD’S REQUEST FOR
PROTECTIVE CONDITIONS AND COMMENTS
HRRC-10

October 21, 1997

Atty. Edward J. Rodriguez
P.O. Box 298
Centerbrook, Conn. 06409
(860) 767-9629

Attorney for:
Housatonic Railroad Company, Inc.
INTRODUCTION

In a Decision served July 23, 1997, the Surface Transportation Board accepted for consideration the primary application (hereinafter, the "Application") and related filings submitted by Applicants CSX Corporation and CSX Transportation, Inc. (hereinafter "CSX"), Norfolk Southern Corporation and Norfolk Southern Railway Company (hereinafter "NS"), Conrail, Inc. and Consolidated Rail Corporation (hereinafter "Conrail" or "CR") for Board approval and authorization under 49 U.S.C. 11321-25 for, as is relevant here, (1) the acquisition by CSX and NS of control of CR, and (2) the division of assets owned by CR by and between CSX and NS.¹

In a Decision issued July 23, 1997, the Board confirmed the procedural schedule previously prescribed for this proceeding. As pertinent here, the Board has required that all parties wishing to offer comments, protests, and requests for protective conditions, and any other opposition evidence and argument must make such filing(s) by October 21, 1997. In keeping with the Board's procedural schedule, Housatonic Railroad Company, Inc. ("HRRC") hereby submits its comments and requests for protective conditions in response to Applicant's proposed Transaction.

¹ Hereinafter CSX, NS and CR collectively will be referred to as "Applicants" and the series of transactions proposed in Applicants' primary application and related supplements shall be referred to as the "Transaction".
provided that it is approved subject to the conditions described herein.

As described in greater detail herein, HRRC enthusiastically endorses and requests that the Surface Transportation Board approve certain trackage rights requests of New England Central Railroad ("NECR") as set forth in a Responsive Application to be filed by NECR on October 21, 1997, and HRRC requests additional protective conditions as more particularly set forth below.

The Transaction which is the subject of the Primary Application, involving the partition and division of the Conrail assets between two competing class 1 carriers, is different in scope and in kind from any previous transaction which the S.T.B. or the I.C.C. has been called upon to review. As more particularly set forth herein, the difference in kind, while producing unprecedented benefits for some, will cause harm to certain shippers, certain Class III carriers, and the public, of a type not previously considered by the S.T.B. The Transaction requires a review of factors not usually present in merger transactions and an application of the law and regulations in a way that takes account of the unique nature of the Transaction and the public benefits sought to be achieved.

Finally, as explained more fully below, the relationship between Housatonic Railroad and Conrail is not merely that of connecting carriers. Housatonic Railroad should also be considered, for purposes of this proceeding, a Conrail customer and partner, and thereby entitled to different relief than might be
appropriate if HRRC were merely a connecting carrier.

DESCRIPTION OF HOUSATONIC RAILROAD

A. GENERAL DESCRIPTION

Housatonic Railroad Company, Inc. is a Class III rail carrier which interchanges all of its interline freight with Conrail at Pittsfield, Massachusetts. HRRC operates two connecting lines over approximately 161.3 miles in Massachusetts, Connecticut and New York. The so-called Berkshire Line is a predominately north/south line between Pittsfield, Massachusetts and Danbury, Connecticut. The so-called Maybrook Line is a predominately east/west line from Derby, Connecticut through Danbury, where it connects with the Berkshire Line to Beacon, New York.

B. HISTORICAL SUMMARY

All of the lines operated by HRRC are either former Conrail lines or lines which were taken out of service in connection with the formation of Conrail. The history of HRRC's development is relevant to its relationship with Conrail.

HRRC began rail operation after it leased a thirty-five mile section of the Berkshire Line between North Canaan, Connecticut and New Milford, Connecticut from the State of Connecticut in 1987. That section of track was former Penn Central track which was not included in the Final System Plan prepared by the U.S.R.A. and was purchased by the State of Connecticut and rail banked. At the time
of the lease from the State of Connecticut, the track had been out of service and was impassable with sections of track missing. HRRC rehabilitated the track and began freight operation with one customer in 1989.

Upon its formation, Conrail acquired the remaining Berkshire Line from North Canaan, Connecticut north to Pittsfield, Massachusetts and from New Milford south to Danbury, Connecticut. Conrail also acquired what became the HRRC Maybrook Line.

In 1982, Conrail sold the northern part of the Berkshire Line between North Canaan and Pittsfield to Boston & Maine Railroad. At the time of the sale, CR and B&M agreed upon a certain division of revenue and a haulage arrangement by which CR would haul cars between Pittsfield and Springfield, Massachusetts for the account of B&M. In 1991, B&M sold that part of the Berkshire Line to an HRRC affiliate and transferred the division arrangement, haulage arrangement and certain other agreements to HRRC.

In 1992, Conrail sold the remainder of the Berkshire Line and what became the HRRC Maybrook Line to an affiliate of HRRC and agreed to extend the divisional agreement which HRRC had inherited from B&M to the lines being sold, with slight modifications.

C. HRRC AS CONRAIL CONNECTING CARRIER

In 1997, HRRC expects to handle approximately 5750 cars consisting of approximately 5000 inbound cars and 750 outbound cars. Housatonic Railroad owns and operates a lumber reloading facility in Hawleyville which is expected to handle approximately
600 cars in 1997. All traffic is interchanged with Conrail at Pittsfield, Massachusetts.

D. HRRC AS CONRAIL CUSTOMER/SHIPPER

HRRC as a captive Conrail shortline cannot compete with Conrail. HRRC can not take business away from Conrail since HRRC does not interchange traffic with any other carrier and since, in any event, Conrail ultimately controls the through freight rates.

HRRC is, in effect, the local retail provider of Conrail transportation services. HRRC should be regarded as a Conrail customer and shipper, both with respect to the cars which HRRC receives at its reloading facility and with respect to the cars which HRRC receives from Conrail for further delivery to firms on HRRC’s lines.

Conrail itself regards Housatonic Railroad as its customer. In 1995, Conrail appointed an "Account Executive" to service the Housatonic Railroad Account and to monitor and to assist in growth of the Conrail business from the short line customer. Conrail has described its short lines as customers in official publications. Apparently Conrail furnished a list of its customers to CSX in connection with the proposed merger since HRRC

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2 A letter from Wayne Michel, Senior Director, Short Line Network (Conrail) notifying Conrail of the appointment of an Account Executive is attached as part of Exhibit 1 together with a description of the Account Executive program which appeared in the Fall 1995 issue of the Conrail publication Partners.

3 Excerpts from Partners referring to short lines as customers are attached as part of Exhibit 1.
received a letter from John Q. Anderson, Executive Vice President of CSX dated June 23, 1997 in which Housatonic Railroad is consistently referred to as a Customer. It is clear by the letter that CSX considers HRRC as a customer also. In addition, Conrail and CSX consider HRRC direct rail served customers as present Conrail and future CSX customers as is indicated in a letter from Mr. Anderson to Fairfield Processing Corporation, an HRRC customer in Danbury, Connecticut.

The role of short lines as customers is not unique to Conrail, although Conrail may have embraced the role more enthusiastically than other Class 1 carriers. In an interview with former I.C.C. Commissioner Edward M. Emmett which appeared in the Journal of Commerce on September 23, 1997, Mr. Emmett is quoted as having said:

"Short lines are excellent at what they’re doing, but short lines become more like shippers than they do railroads. A short line to a Class-1 railroad is a shipper; it is not a railroad. How do they fit in?"

Housatonic Railroad, like many other short lines, lack both the bargaining power and market access to be anything other than customers. Surely, it is as much a customer and shipper of Conrail as United Parcel Service whose status as shipper is well established.

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4 A copy of the letter is attached as Exhibit 2.

5 A copy of the letter is attached as Exhibit 3.

6 A copy of a portion of Edward Emmett’s comments are set forth in Exhibit 4.
The fact that HRRC can not compete with Conrail does not mean that Conrail can not compete with HRRC. Conrail can compete for HRRC business in a variety of ways including, but not limited to, establishment of lower commodity rates to potentially competing Conrail stations. For purposes of reviewing the harmful effects of the proposed transactions in this proceeding and the appropriate remedial measures, HRRC should be considered a railroad, a shipper and a member of the public which the Interstate Commerce Act and the I.C.C. Termination Act of 1995 were designed to protect.

E. HRRC AS CONRAIL PARTNER

Conrail has long recognized its captive short lines as partners. Indeed it published, until the acquisition transaction was announced, a short line newsletter entitled "Partners". The Conrail characterization of its short lines as partners has been persistent. Some examples are set forth in Exhibit 5. Perhaps, the Conrail attitude was best described by Wayne Michel, Conrail Senior Director of Short Line Network in the Fall, 1995 edition of Partners in which he said:

Partners is only one facet of our ongoing efforts to improve two-way communication between all of Conrail and you, our critical partners....

Partnership for Profit is the way we at Conrail are thinking about our future business relationship with you. It will serve as the slogan for our forthcoming annual meeting and it is meant to quickly convey Conrail's sincere belief that only a partnership that benefits both of us will work for either of us....

In closing, I want to let you all know how much I appreciate your feedback and your willingness to
work with me and all of us at Conrail to make our relationship a true partnership.

A partnership or joint venture is characterized by an association of two or more parties to carry out a business enterprise for profit for which purpose they combine their property, money, effort, skill and knowledge. Viewed in this light, the relationship between HRRC and Conrail has been truly a partnership.

HRRC acquired its principal lines directly from Conrail together with the locomotive power necessary to operate the lines. Conrail and HRRC agreed upon a division of revenue to enhance the likelihood of HRRC meeting its financial obligations and being able to enhance and develop the business on the line. Conrail provided an account executive to assist in monitoring the partnership/customer relationship and to assist in the development of business for the mutual benefit of both partners. Conrail and Housatonic worked cooperatively to develop competitive freight rates with reasonable revenue to both which would enable the business to grow and develop.

Both Conrail and HRRC have derived substantial benefits from the partnership between them. However, with the benefits of partnership come the duties of partners to each other. Partners owe to each other fiduciary duties of care and loyalty. Generally, Conrail fulfilled its duties. The partners developed equalized freight rates to HRRC stations and Conrail stations which could compete with HRRC where equalization was important, and generally
Conrail took steps as required to prevent competition with its weaker partner.

If Conrail were to merge with another railroad, the merger transaction could be accomplished without any breach of partnership duties and the partnership arrangement would continue with the surviving railroad to the merger. However, in the Conrail Acquisition Transaction, as proposed, joint assets and partnership opportunities may be wrongfully destroyed or appropriated for the benefit of one of the purchasers and, as set forth below, the proposed Conrail successors have refused to give assurances that the partnership obligations of Conrail will be honored.

EFFECTS OF THE PROPOSED ACQUISITION TRANSACTION

A. ENHANCED COMPETITION IN PARTS OF NORTHEASTERN UNITED STATES RESULTS IN LOWER TRANSPORTATION COSTS WHICH DISADVANTAGES SHIPPERS EAST OF HUDSON RIVER.

The proposed acquisition of Conrail properties by CSX Corporation and Norfolk Southern Corporation has been described as a transaction whose benefits include (1) enhancing rail competition in the Northeast and (2) achieving economies by creating additional single line traffic movements.

While the Transaction as proposed will result in enhanced rail competition in certain Northeastern markets, particularly New Jersey, no such pro-competitive benefits will accrue to New England. All of the Conrail lines in Connecticut and Massachusetts are proposed to be acquired by CSX Corporation. Housatonic
Railroad, which currently interchanges all of its traffic with Conrail, will, if the Transaction is consummated as planned, interchange all of its traffic with CSX Corporation. Neither HRRC nor its customers will have direct rail access to other Class I carriers.

A superficial examination might suggest that the post-transaction competitive position of HRRC and its customers will be unchanged from pre-transaction conditions. However, in fact, the position of HRRC and its customers is much worse.

Currently, Conrail serves as a neutral, although monopolistic, gatekeeper to HRRC and much of New England as well as to nearby New York and New Jersey. With respect to traffic which neither originates nor terminates on Conrail, Conrail serves as a neutral overhead carrier to southern and western gateways. In general, Conrail faces the same market rate constraints throughout the region, with the effect that no part of the Northeastern region is disproportionately benefited or burdened by freight rate differentials which do not reflect differentials in the cost of providing service or meeting truck competition.

After the transaction is consummated, some areas of the Northeast (those areas west of the Hudson River) will have new and vigorous rail freight competition while other areas (those east of the Hudson River including the HRRC market area) will not have such competition. The applicants agree that the increased competition in the competitive areas will cause shippers located there to experience decreased rail rates and therefore decreased
transportation costs. It is likely that increased rail competition will lead to increased competition by trucking firms as they seek to compete for business with the railroads. Shippers in Connecticut and Massachusetts will not benefit from the lower rates created by competition.

Shippers in the non-competition area will thereby be put in a competitive disadvantage. As a result of higher costs, shippers in the non-competition area, including Housatonic Railroad, will lose business. The loss of business will naturally lead to decreased employment, decreased capital investment and decreased tax revenue for state and local government.

B. INTERMODAL AND DISTRIBUTION FROM COMPETITIVE ZONE WILL HARM BUSINESS OF HOUSATONIC RAILROAD.

The existence of enhanced rail competition west of the Hudson River will be harmful to HRRC by creating artificial intermodal competition. Norfolk Southern has announced the successful conclusion of negotiations with CP Rail which will give NS an economic presence in the Albany, New York area, approximately 45 miles west of HRRC’s Conrail interchange at Pittsfield, Massachusetts. In addition, NS will be acquire the Southern Tier line and have a presence in the Maybrook, New York area which is approximately 15 miles west of Housatonic’s western terminus at Beacon, New York and is convenient to Interstate 84 with access to current HRRC market areas.

NS is a leader in intermodal transportation and rail/truck
distribution and can be expected to compete vigorously for New England traffic in that manner. This competition will come at the expense of New England short lines and most particularly, because of location, at the expense of Housatonic Railroad. One can expect that either NS or an NS served private facility will vigorously engage in competition at those locations proximate to HRRC’s market areas.

HRRC anticipates that NS or another party will establish reload facilities for lumber, woodpulp and other forest products as well as flexiflo and bulk transfer facilities for plastics, chemicals and other bulk products. The rail freight rates in the competitive area will enable those operators to successfully compete for current HRRC business. While HRRC’s reload business is especially vulnerable to this competition, HRRC direct rail business in woodpulp, plastic and lumber is also vulnerable.

Approximately 82% of HRRC’s current inbound traffic presently consists of lumber, woodpulp, other forest products and plastic. HRRC currently operates a lumber reload facility which distributes forest products throughout Connecticut, New Jersey and Eastern New York. This business is seriously threatened by the proposed transaction. As CSX and NS vigorously compete for business, any gain by NS will be at the expense of Housatonic Railroad.

The harm to HRRC’s competitive position lies not in the inefficiency of Housatonic Railroad or the inability to provide economical value added freight service, but it lies in the inability of HRRC to connect with the new competitor (NS) which has
been added to the market area or to any other Class 1 carriers.

Competition is good for the customer, good for the country and good for the industry and HRRC vigorously supports increase rail competition. However, new competition should not be introduced in a region in a manner which excludes one of the present rail providers from participating in the competitive environment. If the transaction is consummated without some protective measures taken for the benefit of HRRC, that is exactly what will happen. HRRC will be disadvantaged in competing for business travelling over the NS portion of the former Conrail lines.

C. INTRODUCTION OF A SECOND CLASS 1 CARRIER IN TRAFFIC ROUTING WILL JEOPARDIZE HRRC BUSINESS.

CSX and NS have both stated that the acquisition of the Conrail system by those two carriers would result in the conversion of certain two carrier moves into single carrier moves with resulting cost efficiencies. Of course, this is true. However, those cost savings on existing traffic movements are likely to benefit CSX and NS, not the customers, and certainly not the short line carriers. In fact, HRRC has not been able to identify any cost saving or revenue enhancing opportunities to HRRC as a result of the conversion.

On the other hand, not frequently mentioned is the fact that the breakup of the Conrail system will inevitably result in certain traffic movements requiring handling by more carriers than was the case prior to the breakup. For example, HRRC currently forwards ground limestone traffic from Canaan, Connecticut to Gypsum, Ohio.
Conrail currently serves Gypsum, Ohio and the traffic movement is currently a two line movement. If the transaction is consummated as proposed, NS will serve Gypsum, Ohio and the traffic movement will introduce an additional carrier. HRRC will interchange the traffic to CSX who will then interchange the traffic with NS, the destination carrier. It is likely that introduction of an additional carrier will introduce additional transportation costs. Since the Connecticut limestone producer competes directly with southern limestone producers, it is more likely that NS will successfully be able to divert that business to an NS served southern origin.

Attached as Exhibit 6 is a verified statement from Specialty Minerals, Inc., the HRRC shipper, expressing concern about the traffic movement and doubt about the likelihood that the movement will continue after the transactions are consummated unless the S.T.B. takes some protective action.

The concerns of Specialty Minerals, Inc. and of Housatonic Railroad are not in any way alleviated by the responses of CSX and NS to interrogatories addressing this issue. When questioned about the projected transit time and routing of this traffic following the Acquisition, CSX responded that it had not determined a projected routing beyond Pittsfield, Mass. nor a projected transit time.\(^7\)

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\(^7\) NS responded by indicating three alternative routings subject to negotiation with CSX and by indicating that NS would work to insure current transit time and service reliability. Housatonic Railroad’s First Interrogatories to CSX Parties, Interrogatory No. 16 and response thereto attached hereto as
When asked what steps would be taken to ensure that rate levels for the Gypsum Traffic are preserved at competitive levels after the current rate authorities expire, NS failed to respond and instead stated only that "NS intends that it will honor all current single line Conrail rates that will become joint rates until their expiration." CSX stated more directly, but no more helpfully, that CSX is unable to state at this time what rate actions, if any, it might take with respect to that traffic following approval of the transactions.8

When asked whether CSX or NS would attempt to divert the Gypsum traffic by offering lower rates from other origins, NS replied that NS does not know what rates, if any, would be offered to Gypsum from an origin other than Canaan but that NS plans to take all steps necessary to move traffic in an efficient manner. CSX responded that it had not studied the situation and is unable to provide a response at this time.9

The Gypsum Ohio business is very economically important to Housatonic Railroad and loss of the business would threaten the

Exhibit 7 and Housatonic Railroad’s First Interrogatories to NS Parties, Interrogatory No. 10 and response thereto attached hereto as Exhibit 7.

8 Housatonic Railroad’s First Interrogatories to CSX Parties, Interrogatory No. 17 and response thereto attached hereto as Exhibit 7 and Housatonic Railroad’s First Interrogatories to NS Parties, Interrogatory No. 11 and response thereto attached hereto as Exhibit 7.

9 Housatonic Railroad’s First Interrogatories to CSX Parties, Interrogatory No. 17 and response thereto attached hereto as Exhibit 7 and Housatonic Railroad’s First Interrogatories to NS Parties, Interrogatory No. 11 and response thereto attached hereto as Exhibit 7.
financial health of the company. During 1996, revenue from the Gypsum, Ohio limestone business accounted for 7.46% of HRRC freight revenue. The traffic moves in private zero mileage covered hoppers so there is no car hire cost associated with the traffic. HRRC switches the shipper’s plant for other business and there is no measurable cost savings to reduce the revenue loss which the loss of the traffic would represent.

During 1996, HRRC operated at a net loss. The net loss would have been substantially greater if the Gypsum traffic had not existed. During 1997, it is projected that HRRC will operate at a small profit with the Gypsum business but at a net loss without the Gypsum business.

COMMISSION AUTHORITY TO IMPOSE PROTECTIVE CONDITIONS

The Interstate Commerce Act requires the Board to approve and authorize a transaction when "it finds that the transaction is consistent with the public interest". In making that determination, the Board is instructed to consider at least the

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10 Verified Statement of Richard Apell, C.P.A. designated as highly confidential and set forth in the highly confidential appendix filed with the Board. During 1996, Danbury Terminal Railroad Company (DTRR) operated a portion of the lines now operated by Housatonic Railroad Company, Inc. Both DTRR and HRRC were subsidiaries of Housatonic Transportation Company. As of January 1, 1997, DTRR merged into HRRC. Unless otherwise indicated, all 1996 financial data for HRRC is consolidated with financial data for DTRR. If DTRR is not included, Gypsum, Ohio traffic accounted for 21.65% of HRRC 1996 revenue.

11 Verified statement of Richard Appel, C.P.A.

12 49 U.S.C. 11324(c).
following:

"(1) the effect of the proposed transaction on the adequacy of transportation to the public;

(2) the effect on the public interest of including, or failing to include, other rail carriers in the area involved in the proposed transaction;

(3) the total fixed charges that result from the proposed transaction;

(4) the interest of rail carrier employees affected by the proposed transaction; and

(5) whether the proposed transaction would have an adverse effect on competition among rail carriers in the affected region or in the national rail system. 13

The act states that "[T]he Board may impose conditions governing the transaction..."14 but does not state the criteria which the Board should employ in imposing conditions. It is clear, however, that the resulting transaction must be consistent with the public interest, and it seems apparent that the conditions themselves must be consistent with the public interest.

In determining whether proposed conditions are consistent with the public interest, the Board should consider not only the five factors which it is required to consider in deciding whether the transaction is consistent with the public interest, but it also should consider the Rail Transportation Policy of the United States Government15, the interests of the public as articulated in the proceeding by public officials who submit comments, the fostering

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13 49 U.S.C. 11324(b).
14 49 U.S.C. 11324(c).
and preservation of competition, and environmental goals.\textsuperscript{16}

The Board has broad discretion to impose conditions, so long as the conditions are consistent with the public interest. The Board has traditionally exercised restraint in imposing conditions. The Board's policy statement regarding the imposition of conditions is set forth at 49 C.F.R. 1180.1(d) as follows:

The Commission has broad authority to impose conditions on consolidations, including those that might be useful in ameliorating potential anticompetitive effects of a consolidation. However, the Commission recognizes that conditions may lessen the benefits of a consolidation to both the carrier and the public. Therefore, the Commission will not normally impose conditions on a consolidation to protect a carrier unless essential services are affected and the condition: (i) is shown to be related to the impact of the consolidation; (ii) is designed to enable shippers to receive adequate service; (iii) would not impose unreasonable operating or other problems for the consolidated carrier; and (iv) would not frustrate the ability of the consolidated carrier to obtain the anticipated public benefits. Moreover, the Commission believes that indemnification is ordinarily not an appropriate remedy in consolidation proceedings. Indemnification conditions can be anticompetitive by requiring the consolidated carrier to subsidize carriers who are no longer able to compete efficiently in the marketplace.

In applying its policy, the I.C.C. and the Board have traditionally recognized two types of potential harm from rail consolidations that warrant imposition of protective conditions to protect competing carriers: (1) harm to essential services and (2) harm to competition.\textsuperscript{17}

\textsuperscript{16} The Commission must also consider the impact of any transaction on the quality of the human environment and the conservation of energy resources. 49 C.F.R. 1180.1(a)(2).

\textsuperscript{17} See, Lamoille Valley Railroad Co. v. I.C.C., 711 F.2d 295, 302 (D.C. Cir. 1983); Guilford Transportation Industries, Inc. -- Control--Boston and Maine Corporation, Finance Docket No. 29720
Congress has at times noted its belief that the I.C.C. [S.T.B.] should take an active role in structuring transactions to advance the public interest. "The I.C.C. is not intended to be a passive arbiter but the 'guardian of the general public interest' with a duty to see that this interest is at all times effectively protected."18

Both the I.C.C. and the courts have sometimes described the circumstances in which conditions should be imposed more broadly. For example, the D.C. Circuit Court of Appeals recently stated:

[T]he Commission will impose conditions only when a transaction threatens harm to the public interest, the conditions are operationally feasible, they would ameliorate or eliminate the harm, and they would result in greater benefit to the public than detriment to the transaction.19

As specifically detailed below, the conditions requested herein are consistent with the public interest and operationally feasible. In addition, the conditions, if imposed, would result in public benefit and would in no way interfere with the public benefit to be obtained by the transaction.

As indicated in detail above, Housatonic Railroad is not a carrier in competition with Conrail. It is a carrier, but it is also a customer/shipper of Conrail and a partner with Conrail in

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18 See, discussion and material cited in Lamoille Valley, at 322 and footnote 55.

providing local rail service. As such, and in the context of this transaction, Housatonic Railroad is a member of the general public which the Board has the mission and duty to protect. The conditions requested herein will help protect HRRC and CR/HRRC’s customers from harms created by the proposed transactions and will advance the public interest and the transportation policy of the United States.

SPECIFIC REQUESTS FOR CONDITIONS

I. ACCESS TO CONNECTING CARRIERS

A. DESCRIPTION OF REQUESTED CONDITION

By notice dated August 21, 1997 (HRRC-2) Housatonic Railroad indicated its intention to file a responsive application seeking trackage rights over a portion of the Conrail Boston and Albany main line which is proposed to be transferred to CSX Corporation. In that same notice, HRRC indicated that it expected to seek other relief in the form of protective conditions, which other relief would not require the filing of a responsive application.

By notice dated August 21, 1997 (NECR-2) New England Central Railroad ("NECR") indicated its intention to file a responsive application seeking trackage rights over essentially the same portion of the Conrail Boston and Albany line over which HRRC had anticipated seeking trackage rights. NECR also indicated that it would seek additional trackage rights and other relief.

HRRC, after consultation with NECR, has determined that its objectives in seeking trackage rights could be accomplished through a commercial arrangement with NECR, if NECR is successful in its
trackage rights application. In addition, trackage rights by both HRRC and NECR would lead to additional potential traffic on the line and additional capital investment in equipment, both of which can be avoided by a cooperative arrangement. Accordingly, rather than submit a responsive application, HRRC submits these comments in support of certain portions of the NECR responsive application seeking trackage rights, as more particularly set forth herein.20

If the Board does not grant trackage rights to NECR between Palmer, Massachusetts and the Albany, New York area which will permit HRRC, through a commercial arrangement with NECR to interchange traffic with NS, CP Rail and Springfield Terminal Railroad in Albany, and with connecting carriers at Springfield and Palmer, HRRC requests that the Board order a protective condition as follows:21

A Haulage arrangement by CSX over the Boston-Albany Main Line (1) from Pittsfield to the Albany, New York area for the purpose of interchange at Albany with connecting carriers including, but not limited to NS, CP Rail and ST Rail, and (2) from Pittsfield to Palmer, Massachusetts for interchange purposes at Palmer and intermediate points.22

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20 HRRC supports the application of NECR to acquire trackage rights between Palmer, Mass. and Albany, New York but takes no position with respect to other relief sought by NECR.

21 As of the date of this filing, HRRC and NECR have reached agreement in principle for a commercial arrangement under the terms of which NECR would haul traffic for HRRC. If a commercial arrangement is not finally concluded, HRRC reserves its right to withdraw its support for the NECR proposal and to seek the haulage remedy set forth herein notwithstanding any relief which may be granted to NECR.

22 For purposes of this request the "Albany Area" includes Albany, Selkirk, Mechanicville and Rotterdam Jct. The nature of the request is to provide the most efficient interchange location
B. REASON FOR THE REQUEST - HARM CAUSED BY THE PROPOSED TRANSACTION

1. Rail Competition available to Competitors Disadvantages HRRC Customers’ ability to Compete.

As discussed above, if the transactions are approved as proposed, shippers currently served by HRRC will not benefit from the increased rail competition which is advanced by the primary applicants as a public benefit resulting from the merger. In fact, the benefits of competition which will accrue to nearby competitors will be harmful to HRRC shippers because their competitors will enjoy lower transportation costs. HRRC shippers can be expected to experience a reduction in revenue and profit as a result of the merger.

Verified Statements submitted by the following shippers, and attached as Exhibit 8, address this concern:

- Kimberly Clark Corporation
- Quality Food Oils, Inc.
- Stevenson Lumber Company
- Weyerhaeuser Canada
- FIDCO

The harm to effective competition caused by these proposed transactions is different from but just as real as the harm caused by a merger transaction which reduces competition.

2. Failure to extend Rail Competition to HRRC Damages HRRC’s ability to Compete.

By introducing rail competition in HRRC’s backyard but failing to extend the competition to Housatonic Railroad, HRRC is

with each of the carriers.
disadvantaged as both a Conrail customer and as a carrier in the following ways:

(i.) HRRC expects to receive less inbound traffic as a result of a reduction in business experienced by HRRC customers as a result of the competitive transportation cost advantage to be experienced by the competitors to HRRC’s customers.

(ii.) HRRC expects to experience a reduction in traffic to its lumber reloading facility or a loss of Weyerhaeuser or other customers because of competitive pressures which those firms will experience as a result of competition from NS and CSX reload points within the competitive zone west of the Hudson River.

(iii) As outlined above, HRRC expects to face predatory competition from transloading, reloading and distribution facilities located within the HRRC market area but within the rail competitive zone west of the Hudson River. HRRC expects NS, CSX and/or private firms to compete successfully for HRRC business by rail truck transfer from those points.

HRRC’s inability to compete effectively is not the result of inefficient operation by Housatonic nor of natural transportation barriers. It is the result of introducing competitive rail service within a few miles of its rail line while leaving Housatonic Railroad without any competitive alternatives.

The harm derives directly from the proposed transactions. Currently, Conrail enjoys a virtual monopoly on rail service to the HRRC market area. HRRC’s only connection is with Conrail. However, as a rational monopolist, Conrail has no incentive to disadvantage HRRC relative to its other customers nor to compete with HRRC for traffic. If the transaction is consummated as proposed, the new
competition which will be created will give both NS and CSX an incentive to compete to take HRRC business for themselves.

This is not a traditional situation in which a merger is claimed to have the result of reducing competition. It is a divisive transaction in which competition is created where none existed before. Such competition is good. However, HRRC is wrongfully harmed by being excluded from competition in the same way as it might be harmed if existing competition were eliminated. HRRC is not seeking indemnification or subsidy. HRRC is merely seeking the opportunity to compete on a level playing field.

C. PUBLIC INTEREST AND APPROPRIATENESS OF THE PROPOSED CONDITION FOR ACCESS TO CONNECTING CARRIERS VIA HAULAGE ARRANGEMENTS

It is clear that the request for a Haulage Arrangement with CSX satisfies the four Board criteria for imposing protective conditions in general.23

1. As indicated above, the transaction as proposed threatens to harm the public interest by disadvantaging shippers/customers, including HRRC, who are situated just east of the Northeast competitive zone. There is real harm to competition.

2. The conditions are operationally feasible. Haulage rights are the least obtrusive method for obtaining access to other connections. They do not involve operation over CSX by another carrier, create scheduling conflicts, nor otherwise burden CSX operation.

3. The proposed conditions would not eliminate the harm but would ameliorate the harm by providing access to competition at a reasonable cost.

23 The trackage rights which NECR seeks may also satisfy the criteria.
4. The proposed haulage condition would result in benefit to the public by providing increased competition in rail transportation to an area which would otherwise not have the benefit of such increased competition. The proposed protective conditions would not in any way reduce competition in other areas nor otherwise cause detriment to the public benefits of the proposed transaction.

In addition, the proposed protective condition enhances competition in general and furthers the transportation policy of the United States. Not only does the proposed haulage arrangement foster competition by opening access to connecting carriers in order to provide rate and service competition for existing rail business, it also fosters competition for truck traffic in certain markets.

As the verified statement of Stevenson Lumber Company indicates, there is a large quantity of eastern Canadian spruce which is imported into the HRRC market area by truck. According to the verified statement, that traffic does not move by rail solely because of cost. A direct connection with CP Rail in Albany by haulage and a connection with CN via NECR would enhance the possibility of constructing truck competitive rail freight rates for that traffic. If successful, that additional traffic would benefit HRRC, CSX, and the other connecting carriers as well as the lumber receivers on HRRC, without any cost to the primary Applicants and without sacrificing any benefit to be derived from the transactions. Such traffic would also advance the goals of N.A.F.T.A. and would reduce air pollution, reduce highway traffic congestion, and conserve energy to the extent that traffic is diverted from truck.
The rail transportation policy of the United States would be advanced in the following ways:

1. By allowing, to the maximum extent possible, competition and the demand for services to establish reasonable rates for transportation by rail.\(^{24}\)

2. By ensuring the development and continuation of a sound rail transportation system with effective competition among rail carriers and with other modes, to meet the needs of the public and the national defense.\(^{25}\)

3. By avoiding predatory pricing and practices and avoiding undue concentrations of market power.\(^{26}\)

4. By fostering sound economic conditions in transportation and ensuring effective competition and coordination between rail carriers and other modes.\(^{27}\)

5. By encouraging and promoting energy conservation policies.\(^{28}\)

In addition, this request for protective conditions is supported and endorsed by the Coalition of Northeastern Governors who are filing separate comments simultaneously with this filing.

II. Gypsum, Ohio Switching Charge

A. Description of Requested Condition

HRRC requests the Board to order a protective condition to preserve through rate competitiveness for the limestone traffic

\(^{24}\) 49 U.S.C. 10101a(1).

\(^{25}\) 49 U.S.C. 10101a(4).

\(^{26}\) 49 U.S.C. 10101a(13).

\(^{27}\) 49 U.S.C. 10101a(5).

\(^{28}\) 49 U.S.C. 10101a(15).
from Canaan, Connecticut to Gypsum, Ohio in order to preserve the viability of the traffic for the benefit of the shipper and for the benefit of HRRC. Specifically, HRRC requests the following protective condition:

An order establishing a switching charge to be charged by NS to CSX for switching cars between Cleveland, Ohio and Gypsum, Ohio for existing limestone traffic originating on HRRC, interchanged by HRRC with CSX, and terminating at Gypsum, Ohio.

B. REASON FOR THE REQUEST - HARM CAUSED BY THE PROPOSED TRANSACTIONS - APPROPRIATENESS OF THE REQUESTED REMEDY

As discussed above, if the Transaction is approved as proposed, the traffic movement is likely to be diverted to another origin because of the introduction of a third carrier and a second class 1 carrier in the route. Such a traffic diversion will be a direct result of the Transaction and will harm both the shipper and HRRC.

The request satisfies the four Board criteria for imposing protective conditions. The harm to the shipper is a direct result of the proposed Transaction. The condition is clearly operationally feasible. The proposed conditions would not eliminate the harm but would ameliorate the harm by allowing Specialty Minerals, CSX and HRRC to jointly compete for the business on a reasonable basis. The proposed condition would not in any way reduce competition in other areas nor otherwise cause detriment to the public benefits of the proposed transaction.

A remedy is required to address the harm to competition caused by the Transaction.
III. COMMODITY RATE EQUALIZATION

A. DESCRIPTION OF REQUESTED CONDITION

HRRC requests the Board to order a protective condition to preserve and establish certain commodity rate equalization between stations of HRRC and potentially competing Conrail stations which are proposed to become CSX stations. Specifically, HRRC requests:

An order requiring that CSX maintain thru class and commodity rates to HRRC Connecticut and Western Massachusetts stations for plastic, lumber and other forest products, which are no higher than it maintains to former CR stations in Connecticut and Western Massachusetts, with revenue between CSX and HRRC to be divided in accordance with existing division agreements between HRRC and CR. This provision shall apply both to traffic governed by tariffs and circulars and to traffic governed by contracts and quotes for shipments of the same class of commodities from the same origin. Western Massachusetts shall consist of Berkshire and Hampden Counties.

B. REASON FOR THE REQUEST - HARM CAUSED BY THE PROPOSED TRANSACTION - APPROPRIATENESS OF THE REQUESTED REMEDY

In the case of lumber and other building materials, shippers on HRRC compete regionally. If through freight rates for lumber to HRRC stations are higher than rates to CSX/CR stations in the same region, HRRC customers will be disadvantaged relative to customers served by CSX. The verified statements of Stevenson Lumber and Weyerhaeuser Canada attached hereto as Exhibit 8 address that concern.

As set forth above in the discussion concerning the relationship between HRRC and Conrail, HRRC is unable to effectively compete with Conrail. However, Conrail can effectively
compete against HRRC. That is especially true in the case of commodities which are easily transported by truck or by rail/truck transfer, such as lumber and plastic. The problem is even more acute when the commodities are shipped to HRRC by rail for further distribution, as in the case of Housatonic’s lumber reload facility.

CSX will in the future, if the Transaction is approved, be able to harm the competitive position of HRRC and HRRC’s lumber customers and to divert lumber and certain other commodity traffic from HRRC stations to CSX stations by maintaining lower through rates to CSX stations than are maintained to HRRC stations. Conrail has generally refrained from doing so.

Certain rate and division arrangements with Conrail were acquired from Boston and Maine Railroad in connection with the 1991 line sale by Boston and Maine to HRRC, and certain understandings between HRRC and CR arose in connection with the 1992 line sale by Conrail to HRRC. Some of those arrangements and understandings deal directly or indirectly with the rate equalization issue. Some are legally binding as contracts and some are not.

Notwithstanding the extent of enforceability of the arrangements, Conrail has been precluded from competing with HRRC because of the partnership relationship which exists between CR and HRRC. As a result, rate equalization currently exists, in almost all cases, for lumber and plywood. Furthermore, when opportunities to establish reloading, transloading or distribution facilities have arisen, Conrail has been careful to equalize through rates to
potential HRRC locations and to CR locations which potentially compete with HRRC locations so that the location decision can be made on factors other than rail freight rates.

When equalized through rates are put in place to HRRC stations, the division of revenue is determined by agreement between CR and HRRC or, failing agreement is governed by an established confidential divisional basis CR60050.

With the partition of Conrail, CSX should logically assume the position of CR as a partner or joint venturer with HRRC and should assume the partnership duties of CR to refrain from competition and should honor the rate equalization understanding and the existing divisional arrangement. Unfortunately, CSX appears to construe its duty more narrowly.

In response to an interrogatory asking whether CSX will establish and maintain higher through freight rates for plastic, lumber and forest products to HRRC Connecticut and Western Massachusetts stations than to CSX stations in those areas, CSX responded that "It is possible that Connecticut and Western Massachusetts shippers of plastics, lumber and other forest products located on HRRC will face higher rates than Connecticut and Western Massachusetts shippers of those commodities located on CSX as a result of HRRC's revenue requirements and other factors."29

In response to an interrogatory asking whether CSX will assure

29 Housatonic Railroad's First Interrogatories to CSX Parties, Interrogatory No. 3 and response thereto attached hereto as Exhibit 7.
HRRC that, after the Transaction is implemented, CSX will not, without agreement with HRRC, attempt to decrease HRRC’s proportion or percentage of revenue on current traffic movements, CSX responded that CSX will honor existing Conrail contracts for the remainder of their term but "CSX will not provide any other assurances with respect to HRRC’s proportion or percentage of revenue."\(^{\text{30}}\)

A failure by CSX to assume the contractual, divisional and partnership obligations of Conrail and to maintain rate equalization between HRRC stations and potentially competing CSX stations will result in irreparable harm to the ability of HRRC to compete for new and existing business.

The request satisfies the four Board criteria for imposing protective conditions. The harm to the shippers, including specifically HRRC’s lumber customers and HRRC\(^{\text{31}}\), is a direct result of the proposed Transaction. The condition is clearly operationally feasible. The proposed conditions would eliminate the harm and would increase competition. It would not in any way reduce competition in other areas nor otherwise cause detriment to

\(^{30}\) Housatonic Railroad’s First Interrogatories to CSX Parties, Interrogatory No. 4 and response thereto attached hereto as Exhibit 7.

\(^{31}\) HRRC serves the following lumber customers directly: Georgia Pacific Company, Stevenson Lumber Company and Wickes Lumber. Through its lumber reload center HRRC serves Weyerhaeuser Canada, Saxonville USA and other customers. Lumber business accounts for approximately 34% of HRRC’s inbound cars and 28% of HRRC’s revenue, as set forth in the verified statement of Richard J. Apell which is classified as highly confidential and is part of the highly confidential Appendix submitted to the Board.
the public benefits of the proposed transaction.

ESSENTIAL SERVICES BASIS FOR IMPOSING CONDITIONS

All three of the requested conditions - Haulage Arrangements; Gypsum, Ohio Switching; and Rate Equalization - address harm to competition caused by the Transaction. In each case the harm will be suffered both by HRRC’s customers and by HRRC, which should be considered a Conrail customer. In each case there is an adequate and sufficient reason and basis for the Board to impose the conditions which are requested.

In addition to the reasons previously set forth, there is an Essential Services justification for the requested action. The financial condition of Housatonic Railroad should be regarded as fragile. During each of the years 1995 and 1996, HRRC experienced a net loss. In 1997, the company’s profitability has turned around and for the first three quarters of 1997, HRRC has a small net income. Actual income figures are set forth in the verified statement of Richard J. Apell, the company’s controller, which statement is designated highly confidential and is a part of the highly confidential appendix filed with the Board.

It is clear from the above discussion and even clearer from the financial data that even a small loss of traffic has the potential of jeopardizing the financial health of Housatonic Railroad. More significantly, any action which jeopardizes Housatonic’s viability could severely harm or put out of business customers dependent upon Housatonic’s services. For example, one of its customers, Sheffield Plastics, Inc., has submitted a Verified
Statement attached as Exhibit 9, stating that loss of rail service would severely affect Sheffield's ability to continue to operate and compete in the marketplace. The protective conditions requested herein are necessary to preserve the long term financial viability of Housatonic Railroad.

**SUMMARY OF RELIEF REQUESTED**

Housatonic Railroad Company hereby requests:

1. That the Surface Transportation Board approve that portion of the Responsive Application filed by New England Central Railroad seeking trackage rights for New England Central Railroad between Palmer, Massachusetts and Albany, New York for the purpose of interchange with connecting carriers.

2. That the Surface Transportation Board require CSX to enter into a Haulage arrangement on reasonable terms with HRRC, under the terms of which CSX will haul HRRC traffic over the Boston-Albany Main Line (1) from Pittsfield to the Albany, New York area for the purpose of interchange at Albany with connecting carriers including, but not limited to NS, CP Rail and ST Rail, and (2) from Pittsfield to Palmer, Massachusetts for interchange purposes at Palmer and intermediate points.

3. That the Surface Transportation Board require the establishment of a reasonable switching charge to be charged by NS to CSX for switching cars between Cleveland, Ohio and Gypsum, Ohio for existing limestone traffic originating on HRRC, interchanged by HRRC with CSX, and terminating at Gypsum, Ohio.

4. That the Surface Transportation Board issue an order requiring that CSX maintain thru class and commodity rates to HRRC Connecticut and Western Massachusetts stations for plastic, lumber and other forest products, which are no higher than it maintains to former CR stations in Connecticut and Western Massachusetts, with revenue between CSX and HRRC to be divided in
accordance with existing division agreements between HRRC and CR. This provision shall apply both to traffic governed by tariffs and circulars and to traffic governed by contracts and quotes for shipments of the same class of commodities from the same origin. Western Massachusetts shall consist of Berkshire and Hampden Counties.
Respectfully submitted,

Atty. Edward J. Rodriguez
P.O. Box 298
Centerbrook, Conn. 06409
(860) 767-9629

Attorney for:
Housatonic Railroad Company, Inc.

Certificate of Service

I hereby certify that a copy of the foregoing Request for Conditions and Comments has been served upon all parties of record, as amended, by U.S. mail, postage prepaid, this 21st day of October, 1997.

Edward J. Rodriguez
September 29, 1995

L. Edward Rodriguez  
General Counsel  
Housatonic R.R.  
P. O. Box 537  
Old Saybrook, CT 06475-

Dear Ed:

Over the past few months Conrail has been listening to our Short Line connections about the need to strengthen our partnership and develop a closer working relationship. As a result, one of the programs that we are introducing is the Short Line Account Executive Program.

With this program, each and every Short Line connecting to Conrail will have one single point of contact within Conrail. Each has been assigned to one of the members of the Short Line Marketing Staff. These are people who are veterans of Conrail and are knowledgeable and skilled in dealing with your needs. They will also continue to work together as a group to deal with those issues which involve the general Short Line community.

Their responsibility will be to foster communication between the two companies and to assist the Short Lines in every way possible in maintaining and developing rail business. You can expect to have direct contact with your account executive through meetings, visits, phone conferences, etc. As your initial contact, they are here to help to resolve operating issues that interfere with efficient service to you and your customers, to assist in the identification of new business and to act as a liaison between the Short Line and the Conrail Marketing Department in the development of service and rate packages. All questions and issues relating to billing, service, reporting, etc. will be able to be funneled through this one person, thereby simplifying your efforts and expediting the resolution of any problems that may occur.

We are confident that you will find this arrangement to have great benefit in your future dealings with Conrail. At the end of 1995 we will be surveying you to see how the program is working and to solicit your suggestions for improvements.

Your Account Executive will be Pat Pilla, at (215) 209-7746. You will be contacted by Pat in the next few weeks, but in the meantime, do not hesitate to call her with any of your questions.

Sincerely,

Wayne Michel  
Senior Director, Short Line Network
Account Executive Program

Consistent with the commitment made to you in April by John Sammon, we are pleased to announce that effective October 1, 1995, Conrail assigned an Account Executive for each short line carrier.

The people chosen to be your Account Executives—John Leahy, Pat Pilla and Janice Sladzinski—have worked with short lines for years and already know many of you personally. We believe their talents and experience will help make the Account Executive Program a success.

The goal of the program is to provide you with a single point-of-contact responsible for answering the daily commercial, operational and billing inquires Conrail receives from you. Now, you will be able to make one telephone call to Conrail and receive a response to any subject that previously may have required second and third calls or transfers from the party first contacted. Now, Conrail’s Account Executives perform the task of contacting the right person needed to answer the question.

Account Executives

John T. Leahy
Harrisburg & Philadelphia Divisions
(215) 209-5664

Janice Sladzinski
Pittsburgh, Newark, Indianapolis Divisions
(215) 209-5657

Patricia Coughlin
Albany Division
(215) 209-7746

Continued on page 3
1996 Short Line Conference

The theme for the 1996 Conrail Short Line Conference will be Partnership for Profit. This theme was carefully chosen to reflect our belief that in order for either of us to profit, we both must profit.

The meeting will take place next April 25 and 26 at the Wyndham Franklin Plaza Hotel, located at 17th and Vine Streets in Philadelphia. This hotel has been completely refurbished to create an atmosphere enjoyable for both business and pleasure.

In order to make this conference a valuable use of your time, we are focusing the meeting on issues related to growing market share. Accordingly, we will be inviting the chairmen, presidents and senior marketing representatives of our connecting short line and switch carriers to attend and interact with Conrail's marketing officials. Given our intention to keep the conference focused on commercial issues, we will continue to hold regional meetings in 1996 to discuss operational matters that can be best addressed at the local level.

We will also provide time for you to discuss business opportunities individually with key marketing contacts at Conrail. This face-to-face interaction received positive comments at the previous meeting with suggestions to continue the format.

We have held a block of rooms at the Wyndham Franklin Plaza Hotel, and we recommend you make reservations early, as accommodations in the Philadelphia area are becoming increasingly difficult to locate since the opening of the new convention center last year. Further details will be sent early next year.

Panel Volunteers
We are looking for a few good men and women to share success stories. We’d like to present a panel discussion on specific business development initiatives in which the short line and Conrail jointly succeeded in gaining new business. Volunteers should contact their Account Executive if interested in participating.

Account Executive Program

Continued from page 1

The geographic location of each short line determined the assignment to a particular Account Executive. (See the listing on page 1 of the Short Line Marketing Account Executives and their regions.) However, be aware that the divisional formula is not always used to determine assignments. If a carrier is part of a family of short lines, then the Account Executive responsible for one family road, will also be the point-of-contact for the roads that belong to that family. We will be surveying you in a few months to see how the program is working. At that time, if we need to make changes in the program to ensure adequate coverage of all short lines, we shall do so. Until then, please get to know your Account Executive and begin the process of educating them about your railroad.
Organizational changes
By John Leahy

Conrail's Short Line Marketing organization and our Division Sales unit have been combined in recognition of the importance of our regional partners and customers.

Fredancka C. Moffitt has been appointed Director, Division Marketing and Sales, to lead the group and is reporting to Marianne Gregory, AVP—Forest and Manufactured Products Business Group. Fredancka most recently served on Conrail's Corporate Quality Council, creating the structure and process for implementing Continuous Quality Improvement (CQI) at Conrail. She has been a Sales Director and a Marketing Manager at Conrail.

Joining her in the new organization are Rel MacKavanagh and Larry DeYoung, both Directors, Short Line Marketing. John T. Leahy, Manager, Short Line Administration, Jim Conway, Account Executive—Division Sales, Philadelphia, Lena DiSimone, Account Executive—Division Sales, Indianapolis, and Carol Yapco, Account Executive—Division Sales, Albany.

Rel, Larry and John will continue to be available to provide short lines with the information needed to do business with Conrail, to answer questions, and to resolve issues that arise. The Division Sales Account Executives can help with commercial development opportunities in their geographic areas. But most importantly, the group will continue to examine our business processes and consult with short line executives to identify ways that Conrail can work more effectively with short lines.

Headquarters Contacts
Consolidated Rail Corporation
Short Line Marketing
2001 Market Street, 24-A
P.O. Box 41424
Philadelphia, PA 19101-4224
John T. Leahy, Editor (215) 209-5604

Customer Service Contacts
Assistance at Conrail is at your fingertips with a touch-tone phone and the following number:
1-800-ACTION (1-800-226-4661)

For assistance in:
Electronic Data Interchange Prompt 10
Car Tracking Prompt 11
Diverting or Reconsigning of Cars Prompt 12
Rate Requests Prompt 44

For any other service:
Dial your Customer Service Representative (Prompt 48) or wait for assistance.
June 23, 1997

Dear Conrail Customer:

I am sure that as a Conrail customer you have a keen interest in the plan put forward by CSX Corporation and Norfolk Southern to acquire and divide Conrail's assets and operations. As you are probably aware, Conrail shares are now held in a joint voting trust pending federal regulatory approval of the acquisition. Today, CSX and NS filed a joint application with the Surface Transportation Board, an action which started the clock ticking on the agency's 350-day review period. Because our proposal will create the most balanced, competitive transportation marketplace shippers and receivers in the eastern United States have ever had access to, we are confident our application will be approved.

The joint application includes CSX's formal plan for operating the portions of the Conrail system we propose to integrate into the CSX network. It details our plan to use the best routes available on the combined system, to eliminate interchanges that might have slowed traffic movement in the past and to upgrade the infrastructure to ensure that traffic flows smoothly.

The operating plan was developed with the needs of Conrail's customers firmly in mind. Once the acquisition is complete, CSX will compete hard to earn your business. In addition to expanding the breadth of our service area, implementation of the plan will position CSX to offer you reliable, truck-competitive, single-line rail service to new markets. Across the entire expanded CSX network, our goal will be to deliver unprecedented value for your transportation dollar.

Even before beginning operations in new areas, we want to learn more about your transportation needs and how CSX can offer the services that will meet them. We will be introducing ourselves to Conrail customers we have not worked with in the past over the next few months. In the meantime, I am committed to keeping you informed. In a few days, you will receive additional information about the impact the operating plan filed today will have on our service and the expected benefits that will result. More details, including portions of the application itself, are available on the internet at the CSX home page at www.csx.com.

As we prepare to begin operation as the "new" CSX, we look forward to working with you.

Sincerely,

John Q. Anderson

2-1
September 11, 1997

Mr. David Dannin  
Vice President  
Fairfield Processing Corporation  
88 Rose Hill Avenue  
Danbury, CT 06810  

Dear Mr. Dannin:

The proposed CSX/Conrail acquisition is a complex transaction with a simple aim: restoring balance in the eastern transportation marketplace by creating competition and better serving rail customers.

We believe this acquisition offers many benefits and we're anxious to get underway. But before we come to market in your area, we would like to introduce ourselves and begin learning about your business. We want to meet you, and will host a customer briefing session at 10:30 am September 17 at the Crowne Plaza, 10 Lincoln Square, Worcester, Massachusetts. Lunch will be served after the meeting. Our agenda includes an overview of CSX and highlights of our plan for acquiring our part of Conrail, a discussion of our proposed operating approach in your area, and a question and answer period. Please plan to join us.

We have teams already at work to ensure the combination of CSX and Conrail goes smoothly and avoids disruption. We plan to incorporate the best practices of Conrail with those of CSX, remembering that our goal is to provide you with the best value for your transportation dollar. You can help us. Shortly after our meeting, we will conduct a brief customer survey which we hope you will use to tell us more about your needs and expectations.

Please let us know if you and/or some of your colleagues can attend by returning the enclosed fax sheet by September 15, 1997. I look forward to seeing you in Worcester.

Sincerely,

John Q. Anderson  
Executive Vice President -  
Sales & Marketing
Edward Emmett: In his own words

“Our system is a throwback to an earlier era.”

Edwaid M. Emmett, president of the National Industrial Transportation League, the nation’s oldest and largest shippers association, met with The Journal of Commerce editorial board in New York recently. He was asked about several issues the influential NIT League has taken up, including its leading role in pushing Congress to further deregulate ocean shipping.

In a wide-ranging interview, he also spoke about the UPS strike and its impact on NIT League members, shippers’ growing interest in rail cargo policy, and why his association looks favorably on CSX and Norfolk Southern’s plan to divide up Conrail.

What are some of the big rail issues NIT League members are dealing with? There are big problems out West. We started getting phone calls in August that shippers in the Houston area were very concerned over the UP’s poor rail service. We started checking and found out there are shippers who have horror stories like a rail car they expected in five days was taking five weeks, (or) some not showing up at all.

What’s your take on the CSX and Norfolk Southern’s plan to divide up Conrail? Not everybody is going to get better rail service, and not everybody is going to get more service, but if you look at the big picture they (CSX and Norfolk Southern) are doing what shippers have asked to have done for years. If you are sole-served by Conrail now, and you will be sole-served by Norfolk Southern after the merger, are you happy? They all say “yes,” I’m not picking on Conrail, but that is the general feeling.

The only shippers who seem to have some difficulty are shippers where they are going from two (railroads) to one. The Buffalo area also has some concerns. They’re upset about their switch charges. And then there are some individual shippers that right now have interline service that when this is all said and done are going to have single line service with one railroad, whereas before they were able to set competitors off against each other. All in all, it is an entirely different situation from any of the other mergers because it is eliminating a monopoly and putting two railroads in.

Do you think there will be a merger of east and west railroads? John Snow (chief executive of CSX) told us he thought that would eventually occur.

I think it will happen. But there is no reason for it to happen. If you look at traffic patterns, West Coast to East Coast traffic is not that big a deal. But the first time there is one merger, then you will see a second merger. My prediction for years was that you would have two east-west and one north-south railroad down the middle of the country.

What other rail issues do you see coming up? The discussion of rail transportation is always interesting, because shippers have never had a choice of railroads in terms of who comes to your plant. There are very few shippers that are big enough to have two railroads come to their plant, so it matters that there are 40 others in the country, or three others? That is what shippers are wrestling with. They don’t know the answer to that. I don’t know the answer to that.

It is interesting that the Staggers Act (deregulating railroads) was passed when there were 50 Class I railroads, and now we are getting down to a handful. Do you need a different type of approach in terms of what is a captive shipper? I think that is what various coalitions like the Alliance for Rail
Continued

Competition are going to be looking at.

... You mean a different approach in terms of new regulations?

We've always said in the case of railroads that you've got to have some form of regulation because you don't have freedom of entry. You don't have a free market system. You have some shippers in the extreme who think they want open access: One railroad rolling up and down another railroad's tracks. A whole lot of shippers have looked at that and said 'that ain't going to work. I'd like to know which rail operator is coming into and out of my plant.' They don't want just anybody showing up at the gate driving a locomotive. And would that allow the biggest railroad to pick and choose where they use their power units around the country? And would that leave other rail shippers completely out?

Right now what we have is mainly anecdotal information about rail-to-rail competition. In the next couple of years I think you are going to see people develop real hard information. AAR has been saying for quite some time that rail rates have gone down dramatically. We don't know for sure that there is a big problem, but it is something we need to look at.

... How do the short lines fit in when considering new railroad regulations?

Short lines are excellent at what they're doing, but short lines become more like shippers than they do railroads. A short line to a Class-1 railroad is a shipper; it is not a railroad. How do they fit in? All those questions have to be answered, and I don't think it is going to be an adequate answer to form some group called the Committee Against Revising Staggers at all costs.

The Staggers Act is approaching 20 years old. The industry has changed. There may be some changes, but I sure wouldn't want to go out and say we want to do this or that at this point. We need to find out what that is.

Atlanta Journal - Sept 21, 1997

Business Commentary

Divvying Conrail a boon for some, bane for others

By Ernest Holtsedolph

Nearly everyone is clamoring to board the Conrail express.

The $10 billion plan to divide Conrail, the huge Northeast railroad, between rivals CSX and Norfolk Southern has brought broad grins to the faces of the shippers, who stand to benefit most directly from the changes.

And why not? The bigger operations of CSX and Norfolk Southern will make it easier and cheaper for the chicken producers to get their birds to market and receive feed grains from the Midwest.

Lumber products will move more easily from the forests and plants here to points throughout the East and the Midwest. Finished goods will move better toward this growing Southeast market. And automotive assembly plants, such as the GM facility in Doraville and the Ford plant in south Atlanta, will be able to receive parts and ship finished vehicles faster and better.

Economic development officials and all of these shippers are urging the government's Surface Transportation Board, which is processing the application to divide Conrail between CSX and Norfolk Southern, to move ahead full throttle. Specifically, Georgia shippers ranging from giant Gold Kist Inc. of Atlanta to Tucker Materials of Tucker, have organized themselves into a Washington-based group called Transportation Advocates for Competition to lobby for the new rail plan.

Leaders from many major corporations have spoken out for the rail plan, or promised to file statements supporting it. But, if so many can be for it, who could be against the plan? Especially one that would beef up Norfolk Southern and CSX, make them compete harder against one another and supposedly provide cheaper, improved rail service? Well, some shippers are wary of it. Some safety experts have raised red flags. And most rail unions are dead set against the possibility that the merger will cost jobs. The merger of differing systems and computers will be a complex operation at best, giving some credence to the argument that the merger has safety implications.

Others are concerned about a $2.5 billion judgment against CSX over the mishandling of dangerous materials in a community near New Orleans. Though the judgment is under appeal, and the
Hello again.

Because so many of you reacted so positively to our last issue of Partners, we have decided to make this greetings page a regular feature to update you on the changes occurring at Conrail and in our industry.

Partners is only one facet of our ongoing efforts to improve two-way communication between all of Conrail and you, our critical partners. I am delighted to report that our new Account Executive Program is now in place (see story on page 1). All of you have received a letter laying out the purpose of this program and identifying your individual Account Executive. Over time, it is our hope that you and your Account Executive will form a true understanding of your needs and determine how you and Conrail can work in a Partnership for Profit.

Partnership for Profit is the way we at Conrail are thinking about our future business relationship with you. It will serve as the slogan for our forthcoming annual meeting and it is meant to quickly convey Conrail's sincere belief that only a partnership that benefits both of us will work for either of us. Conrail's strategies for industrial development, line sales and equipment utilization all stem from the premise that short lines are well-suited to efficiently feed traffic into Conrail's efficient main line system. In the coming months, you will see these words turned into actions that benefit both of us and our customers.

Because any change can be stressful, I believe that the key to our success together must be constant, honest, two-way communication. We are demonstrating our commitment to that communication with the AE Program, the resumption of the annual meeting, the continuation of the division meetings in 1996, the continuation of the Short Line Git and, of course, Partners.

To date, the short line community has been very supportive of our efforts. Turnout at our division meetings was excellent and feedback received at the annual ASLRA meeting and in private discussions has shown that you are willing and desirous of working with us. In closing, I want to let you all know how much I appreciate your feedback and your willingness to work with me and all of us at Conrail to make our relationship a true partnership.
Organizational changes
By John Leahy

Conrail's Short Line Marketing organization and our Division Sales units have been combined in recognition of the importance of our regional partners and customers.

Fredaricka C. Moffitt has been appointed Director, Division Marketing and Sales, to lead the group and is reporting to Marianne Gregory, AVP-Forest and Manufactured Products Business Group. Fredaricka most recently served on Conrail's Corporate Quality Council, creating the structure and process for implementing Continuous Quality Improvement (CQI) at Conrail. She has been a Sales Director and a Marketing Manager at Conrail.

Joining her in the new organization are
Kel MacKavanagh and Larry DeYoung, both Directors, Short Line Marketing; John T. Leahy, Manager, Short Line Administration; Jim Conway, Account Executive-Division Sales, Philadelphia, Lena DiSimone, Account Executive-Division Sales, Indianapolis, and Carol Yurco, Account Executive-Division Sales, Albany.

Kel, Larry and John will continue to be available to provide short lines with the information needed to do business with Conrail, to answer questions, and to resolve issues that arise. The Division Sales Account Executives can help with commercial development opportunities in their geographic areas. But most importantly, the group will continue to examine our business processes and consult with short line executives to identify ways that Conrail can work more effectively with short lines.
1996 Short Line Conference

The theme for the 1996 Conrail Short Line Conference will be Partnership for Profit. This theme was carefully chosen to reflect our belief that in order for either of us to profit, we both must profit.

The meeting will take place next April 25 and 26 at the Wyndham Franklin Plaza Hotel, located at 17th and Vine Streets in Philadelphia. This hotel has been completely refurbished to create an atmosphere enjoyable for both business and pleasure.

In order to make this conference a valuable use of your time, we are focusing the meeting on issues related to growing market share. Accordingly, we will be inviting the chairmen, presidents and senior marketing representatives of our connecting short line and switch carriers to attend and interact with Conrail's marketing officials. Given our intention to keep the conference focused on commercial issues, we will continue to hold regional meetings in 1996 to discuss operational matters that can be best addressed at the local level.

We will also provide time for you to discuss business opportunities individually with key marketing contacts at Conrail. This face-to-face interaction received positive comments at the previous meeting with suggestions to continue the format.

We have held a block of rooms at the Wyndham Franklin Plaza Hotel, and we recommend you make reservations early, as accommodations in the Philadelphia area are becoming increasingly difficult to locate since the opening of the new convention center last year. Further details will be sent early next year.

Panel Volunteers

We are looking for a few good men and women to share success stories. We’d like to present a panel discussion on specific business development initiatives in which the short line and Conrail jointly succeeded in gaining new business. Volunteers should contact their Account Executive if Interested in participating.

Account Executive Program

The geographic location of each short line determined the assignment to a particular Account Executive. (See the listing on page 1 of the Short Line Marketing Account Executives and their regions.) However, be aware that the divisional formula is not always used to determine assignments. If a carrier is part of a family of short lines, then the Account Executive responsible for one family road, will also be the point-of-contact for the roads that belong to that family. We will be surveying you in a few months to see how the program is working. At that time, if we need to make changes in the program to ensure adequate coverage of all short lines, we shall do so. Until then, please get to know your Account Executive and begin the process of educating them about your railroad.
Greetings

Hello to all of you. I’m Wayne Michel, the new Senior Director of the Short Line Network. I understand that the unveiling of our new Strategic Business Plan has raised some questions for some of you, especially after the rather distorted picture painted by The Wall Street Journal, so I would like to clarify just where we stand in this changing business environment.

First of all, we are in the process of devising a commercial strategy for short lines that is intended to keep both halves of this partnership profitable. The strategy will be based on Conrail’s Strategic Business Plan, particularly the mandate to earn our cost of capital on all traffic. To achieve this in the carload business means we must continue to simplify the pricing and billing of our product. We must make our rate and service offerings clear and have fewer of them. In this way, we can be assured that our dealings with short lines, and our dealings with our joint customers, can be administered effectively, accurately, quickly and efficiently.

We also must make more efficient use of our assets. As you may have heard, we are currently studying many of our branch lines to see whether they can support continued capital investment. If they cannot, the lines will be offered for sale according to the same policy we have always had, which is to try to sell them to a viable new operation.

Continued on page 8
Greetings

The new short line commercial strategy is not yet complete. As soon as it is, we will inform you of it personally through our group meetings, through this newsletter, and through a new method, your own account executive. When the account executive system is in place, each short line will have its own personal contact at Conrail, someone trained to be the one person to call for all business issues. We hope that will make life easier and communication clearer, both for you and for us.

Change is never comfortable, but keep these things in mind over the next few months. Short lines account for 20% of Conrail's revenues. We have a vested interest in you, as you do in us. What is motivating change at Conrail is the need to secure our financial future. That's a need that created our relationship with you in the first place and will keep it healthy over the long run. There is no reason to believe that our mutual futures cannot continue to be bright.

In the last few weeks, I have attended the ASLR region meetings in Cincinnati, OH and Oak Brook, IL, the Conrail Pittsburgh and Dearborn Division meetings, and the Short Line QIT meeting. As a result, I have had the opportunity to rekindle some old friendships and to forge new ones. In the months to come, I look forward to continuing this dialogue by meeting all of you personally.

May we help?

The Short Story

Did you know?
Association of American Railroads (AAR) embargo notices are available to short line and switching carriers electronically through Conrail's electronic mail system (accessible through Conrail's Quik-Connect software package). To get a listing of embargo notices and reroute orders issued by the AAR, access the EMBARGO Notices bulletin board.

Changing locations?
Does the label on this mailing show your current address? To keep you up-to-date on the news at Conrail, we need your correct address. Please check the mailing label on this newsletter and send corrections to:

Address Correction
Consolidated Rail Corporation
Short Line Network Group
2001 Market Street, 24-A
P.O. Box 41424
Philadelphia, PA 19101-4124

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VERIFIED STATEMENT OF David C. Kane

October 20, 1997

Mr. Vernon A. Williams
Secretary
Surface Transportation Board STB
Finance Docket # 33338 1925 K Street, N.W.
Washington, DC 20423-0001

Dear Mr. Williams:

My name is David C. Kane. I am the Director of Transportation for Specialty Minerals Inc./Barretts Minerals Inc. with offices at “The Chrysler Building” 405 Lexington Avenue, New York, NY 10174-1901. My responsibilities include planning for rail service, negotiation of rail contracts and arranging for carload shipments.

Specialty Minerals Inc. owns a mine and manufacturing facilities at Canaan, CT. We have shipped bulk limestone by rail transportation to the U.S. Gypsum Company at Gypsum, OH for several years. Our facilities are served by the lines of Housatonic Railroad Company, Inc. (HRRC). All of our rail shipments are routed via HRRC (Pittsfield, MA) Conrail. Conrail is also the serving carrier at Gypsum. The transaction, as proposed, will transfer the line serving Gypsum, OH to Norfolk Southern and transfer the line from Pittsfield, MA to Cleveland, OH to CSX. We anticipate the introduction of a second Class I carrier in the route will result in higher transportation charges. Our main competitors for the Gypsum business are located in Georgia on NS and Alabama on EARY (with connections to NS). The introduction of single line routes to Gypsum, OH gives them a competitive advantage which I anticipate will result in Specialty Minerals and HRRC’s loss of this important business.

Specialty Minerals urges the Surface Transportation Board to take steps to preserve competitive rail access to Gypsum, OH for shipments of limestone from Canaan, CT.

I, David C. Kane, declare under penalty of perjury that the foregoing is true and correct. Furthermore I certify that I am qualified and authorized to file this verified statement. Executed on October 20, 1997.

Sincerely,

David C. Kane
Director of Transportation
BEFORE THE
SURFACE TRANSPORTATION BOARD

CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
—CONTROL AND OPERATING LEASES/AGREEMENTS—
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

STB FINANCE DOCKET NO. 33388

NORFOLK SOUTHERN'S RESPONSES
TO HOUSATONIC RAILROAD'S
FIRST INTERROGATORIES AND
FIRST REQUESTS FOR PRODUCTION OF DOCUMENTS TO
NS PARTIES (HRRC-7)

NS\(^4\) hereby responds to Housatonic's ("HRRC" or "requester") First Interrogatories and First Requests for Production of Documents to NS Parties.

GENERAL RESPONSES

The following general responses are made with respect to all of the requests and interrogatories:

1. Any responsive documents will be made available for inspection and copying in Applicants' document depository, which is located at the offices of Arnold & Porter in Washington, D.C. Copies of documents will be supplied upon payment of duplicating costs (including, in the case of computer tapes, costs for programming, tapes and processing time).

\(^4\)NS refers collectively to Norfolk Southern Corporation and Norfolk Southern Railway Company.
**Interrogatory No. 10**

HRRC currently enjoys dolomitic limestone traffic moving from Canaan, Connecticut to Gypsum, Ohio (hereinafter "Gypsum Traffic"). The traffic is currently routed "HRRC PTSFD CR". Please indicate how such Gypsum Traffic is proposed to be routed after the Transaction is implemented and the projected transit time for the Gypsum Traffic movement after the Transaction is implemented.

10. Without waiving any objection, and subject to the General Objections stated above, NS responds as follows:

    Routings will be the subject of negotiations between the extended NS, extended CSX, their customers and connections. NS plans to work to insure maintenance of current transit time and also to insure service reliability. Possible routing choices for the referenced Gypsum Traffic include: 1) HRRC Pittsfield - CSX Buffalo - NS Gypsum; 2) HRRC Pittsfield - CSX Cleveland - NS Gypsum; and 3) HRRC Pittsfield -- CSX Oak Island, NJ -- NS Gypsum (via Pittsburgh).

**Interrogatory No. 11**

Please indicate whether NS and CSX will honor the existing rates for the Gypsum Traffic as set forth in Freight Tariff CR 3151-A until its stated expiration date of 4/30/99 and indicate what measures, if any, will be taken to ensure that rate levels for the Gypsum Traffic are preserved at competitive levels after current rate authorities expire.

11. NS objects to this request on the basis that it seeks a business commitment to which requester is not entitled to in the discovery process. Without waiving that objection, and subject to the General Objections stated above, NS responds as follows:

   NS intends that it will honor all current single line Conrail rates that will become joint line rates until their expiration.

**Interrogatory No. 12**

Please indicate whether NS will attempt, by offering lower thru rates to Gypsum from an origin other than Canaan, to divert or assist other suppliers to attempt to divert the Gypsum Traffic which HRRC currently enjoys to another origin from which NS would enjoy a longer haul, greater revenue, or greater contribution.
12. NS objects to this request on the basis that it seeks a business commitment to which requester is not entitled in the discovery process. Without waiving any objection, and subject to the General Objections stated above, NS responds as follows:

At the present time, NS does not know what rates, if any, would be offered to Gypsum from an origin other than Canaan. NS plans to take all steps necessary to move traffic in an efficient manner.

Interrogatory No. 13

Please indicate the commodities presently handled at the existing NS intermodal facility in the Albany, New York area and indicate whether that facility is devoted solely to TOFC/COFC transportation. If the facility presently handles other than TOFC/COFC cars, please describe in detail the other types of traffic handled including a description of the types of cars, commodities transported, original origin of the traffic excluding TOFC/COFC cars, and ultimate destination of such commodities.

13. NS objects to this request as overbroad and unduly burdensome. Without waiving any objection, and subject to the General Objections stated above, NS responds as follows:

NS' Albany, NY intermodal facility handles TOFC and COFC traffic only. The commodity is FAK or freight of all kinds and is governed by STCC 4611110.

Interrogatory No. 14

Please indicate whether NS plans, intends or anticipates that it will handle other than TOFC/COFC traffic at the existing Albany facility within the next five years or whether NS has prepared, received, or caused to be prepared any reports or studies concerning such possibility. If so, please identify the report or study and describe in detail the other types of traffic anticipated, including a description of the types of cars, commodities, anticipated origin of the rail cars excluding TOFC/COFC cars, and ultimate destination of such commodities.

14. NS objects to this request on the basis that it calls for speculation regarding events that may occur up to five years in the future, far beyond the period covered by the NS
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket No. 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-- CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

RESPONSE TO HOUSATONIC RAILROAD’S
FIRST SET OF INTERROGATORIES AND
FIRST REQUESTS FOR PRODUCTION OF DOCUMENTS
TO CSX PARTIES

CSX Corporation and CSX Transportation, Inc. hereby
respond to Housatonic Railroad’s First Set of Interrogatories and
Document Requests to CSX Parties (HRRC-06), served September 24,
1997.  

GENERAL RESPONSES

The following general responses are made with respect
to all of the requests and interrogatories.

1 CSX Corporation and CSX Transportation, Inc. are
collectively referred to as "CSX"), Norfolk Southern Corporation
and Norfolk Southern Railway Company as "NS" and Conrail, Inc.
and Consolidated Rail Corporation as "Conrail". CSX, NS and
Conrail are collectively referred to as "Applicants". Housatonic
Railroad is referred to as "Housatonic", "HRRC" or "requester".
and westbound) to Pittsfield/HRRC; Conrail train SPSE (eastbound and westbound) from Pittsfield/HRRC. However, future interchange arrangements may be subject to negotiations between CSX and HRRC.

INTERROGATORY NO. 2:

Please indicate the terms upon which CSX will guarantee on time interchange in accordance with the interchange schedule in effect at any given time and the car hire relief, if any, available in the case of missed HRRC connections resulting from late interchange by CSX.

Response:

CSX objects to Interrogatory No. 2 to the extent it calls for speculation regarding potential future business arrangements. Without waiving any objection, and subject to the general objections set forth above, CSX responds as follows:

CSX has no plans to "guarantee on time interchange" with HRRC and has not determined on what terms, if any, it might do so.

INTERROGATORY NO. 3:

Please indicate whether, after the Transaction is implemented, CSX will allow HRRC to be disadvantaged by CSX offering or maintaining higher thru freight rates for plastic, lumber and other forest products to HRRC Connecticut and Western Massachusetts stations than to CSX Connecticut and Western Massachusetts stations. For purposes of this interrogatory "Western Massachusetts" consists of Berkshire and Hampden Counties. This question contemplates that HRRC would not be competitively disadvantaged by CSX offering private contract or quoted rates to individual shippers so long as those shippers were offered the same rates to competing HRRC stations.
Response:

CSX objects to Interrogatory No. 3 on the ground that the term "allow HRRC to be disadvantaged" is vague, ambiguous and an improper, argumentative characterization by HRRC. Without waiving any objection, and subject to the general objections set forth above, CSX responds as follows:

It is possible that Connecticut and Western Massachusetts shippers of plastics, lumber and other forest products located on HRRC will face higher rates than Connecticut and Western Massachusetts shippers of these commodities located on CSX as a result of HRRC's revenue requirements and other factors.

INTERROGATORY NO. 4:

Please indicate whether CSX will assure HRRC that, after the Transaction is implemented, CSX will not, without agreement by HRRC, attempt to decrease HRRC's proportion or percentage of revenue on current traffic movements, whether such traffic is moving by contract, tariff, quote or otherwise.

Response:

Without waiving any objection, and subject to the general objections set forth above, CSX responds as follows:

CSX will honor existing Conrail contracts, including the rate provisions thereof, for the remainder of their term. CSX will not provide any other assurances with respect to HRRC's proportion or percentage of revenue.
INTERROGATORY NO. 16:

HRRC currently enjoys dolomite limestone traffic moving from Canaan, Connecticut to Gypsum, Ohio (hereinafter "Gypsum Traffic"). The traffic is currently routed "HRRC PTSFD CR". Please indicate how such traffic is proposed to be routed after the Transaction is implemented, and the projected transit time for the Gypsum Traffic movement after the Transaction is implemented.

Response:

Without waiving any objection, and subject to the general objections set forth above, CSX responds as follows:

CSX has not undertaken a specific study or analysis of the expected post-Transaction routing for the identified movement. To the best of CSX’s knowledge and belief, the post-Transaction routing for this traffic would be: HRRC PTSFD CSX with a further interchange to NS at an as yet undetermined interchange point. CSX has not determined a projected transit time for this particular movement.

INTERROGATORY NO. 17:

Please indicate whether NS and CSX will honor the existing rates for the Gypsum Traffic as set forth in Freight Tariff CR 3151-A until its stated expiration date of 4/30/99 and indicate what measures, if any, will be taken to ensure that rate levels for the Gypsum Traffic are preserved at competitive levels after current rate authorities expire.

Response:

Without waiving any objection, and subject to the general objections set forth above, CSX responds as follows:

CSX has not reviewed the provisions of the referenced Conrail tariff. CSX is unable to state at this time what rate
actions, if any, it might take following approval of the
Transaction with respect to traffic subject to that tariff.

INTERROGATORY NO. 18:

Please indicate whether CSX will attempt, by offering
deeper thru rates to Gypsum from an origin other than Canaan, to
divert or assist other suppliers to attempt to divert the Gypsum
Traffic which HRRC currently enjoys to another origin from which
CSX would enjoy a longer haul, greater revenue, or greater
contribution.

Response:

Without waiving any objection, and subject to the
general objections set forth above, CSX responds as follows:

CSX has not studied the situation referenced in the
interrogatory, and is therefore unable to provide a response at
the present time.

INTERROGATORY NO. 19:

Please indicate whether CSX has conducted or caused
to be conducted any marketing surveys, assessments or other
studies to determine the potential opportunities for CSX to
operate or serve, alone or with others, transloading, reloading,
flexi-flow, distribution or intermodal facilities for any or all
of the following commodities:

- lumber, plywood and panel products, woodpulp, paper,
  plastic, minerals and aggregates.

in any of the following areas:

(a) the Albany, New York area which, for purposes of
    this interrogatory, is defined to include any site
    within 50 miles of Selkirk.

(b) The Maybrook, New York area which, for purposes
    of this interrogatory, is defined to include any site
    within 50 miles of Maybrook, but excluding the North
    Jersey shared asset area.

(c) The States of Massachusetts and Connecticut.
VERIFIED STATEMENT ON BEHALF OF
STEVENSON LUMBER COMPANY
STEVENSON, CONNECTICUT

Submitted to Surface Transportation Board
Acquisition by CSX Corporation and Norfolk
Southern Corporation of Assets of Consolidated
Rail Corporation. Finance Docket #33338

I am the President of Stevenson Lumber Company which sells
lumber, plywood and other building products in Connecticut and
eastern New York. Stevenson Lumber competes vigorously with firms
in New York and New Jersey, including firms situated in the North
Jersey shared asset area, who also sell lumber and building
products in our market area.

Stevenson Lumber is concerned about certain aspects of the
Conrail acquisition by NS and CSX. The transaction, as proposed,
will introduce vigorous rail competition by CSX and NS in areas
west of the Hudson River but will have no such effect in
Connecticut. We are rail served by Housatonic Railroad at
Stevenson, Connecticut. Housatonic Railroad will have access only
to CSX.

The CSX/NS competition in New York and New Jersey is expected
to reduce transportation costs for firms situated in the
competitive zone. As a consequence, those firms will gain a
competitive advantage over Stevenson Lumber and, because of their
lower material costs, will be able to gain market share at our
expense, causing a reduction in business and revenue to Stevenson
Lumber.

In order to address the competitive imbalance which will occur
by introducing rail competition for our competitors, we vigorously
support the application of Housatonic Railroad to acquire access to
other connections, including NS, CP Rail and ST through trackage
rights or haulage arrangements to the Albany area.

In addition to the substantial traffic which we now receive by
rail, we also receive a large amount of spruce lumber from eastern
Canada by truck. We expect the spruce shipments, which currently
are the equivalent of approximately 100 rail cars per year, to
increase as the regional market for spruce continues to mature in
our market area. Although we prefer to receive this traffic by
rail, we can not do so because rail rates are not truck
competitive. We believe that if HRRC acquires a direct connection
with CP Rail in Albany that this traffic will be able to move by
rail.

We urge the Surface Transportation Board to grant the
application of HRRC to acquire access to the Albany, New York area
for interchange with other carriers.
January 16, 1998

Mr. Vernon A. Williams
Secretary, Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Dear Mr. Williams:

I have been contacted by one of my constituents, Mr. Edward J. Rodriguez, Vice President and general Counsel of the Housatonic Railroad Company (HRRC). Mr. Rodriguez believes that HRRC and its shippers will be harmed by the proposed Conrail transaction.

I would greatly appreciate it if you would address my constituents questions and concerns and provide me with a response.

Thank you for your attention to this matter.

Sincerely,

Joseph I. Lieberman

Enclosure
Mr. Scott Jackson  
Office of U.S. Senator Joseph Lieberman  
One State Street  
Hartford, Connecticut 06103

December 3, 1997

Re: Acquisition of Lines of Consolidated Rail Co. by CSX Corporation and Norfolk Southern Railroad

Dear Mr. Jackson:

Thank you for taking the time to speak with me today. I have enclosed a brief description of Housatonic Railroad and a copy of our filing with the Surface Transportation Board. As the filing indicates, HRRC believes that it and its shippers will be harmed by the proposed Conrail transaction in various ways.

The proposed acquisition of Conrail properties by CSX Corporation and Norfolk Southern Corporation has been described as a transaction whose benefits include (1) enhancing rail competition in the Northeast and (2) achieving economies by creating additional single line traffic movements.

While the Transaction as proposed will result in enhanced rail competition in certain Northeastern markets, no such pro-competitive benefits will accrue to New England. All of the Conrail lines in Connecticut and Massachusetts are proposed to be acquired by CSX Corporation. Housatonic Railroad, which currently interchanges all of its traffic with Conrail, will, if the Transaction is consummated as planned, interchange all of its traffic with CSX Corporation. Neither HRRC nor its customers will have direct rail access to other Class I carriers.

Currently, Conrail serves as a neutral, although monopolistic, gatekeeper to HRRC and much of New England as well as to nearby New York and New Jersey. With respect to traffic which neither originates nor terminates on Conrail, Conrail serves as a neutral overhead carrier to southern and western gateways. In general, Conrail faces the same market rate constraints throughout the region, with the effect that no part of the Northeastern region is disproportionately benefited or burdened by freight rate differentials which do not reflect differentials in the cost of providing service or meeting truck competition.
After the transaction is consummated, some areas of the Northeast (those areas west of the Hudson River) will have new and vigorous rail freight competition while other areas (those east of the Hudson River including the HRRC market area) will not have such competition. CSX and NS agree that the increased competition in the competitive areas will cause shippers located there to experience decreased rail rates and therefore decreased transportation costs. Shippers in Connecticut which are served by HRRC will not benefit from the lower rates created by competition.

HRRC shippers will thereby be put in a competitive disadvantage. As a result of higher costs relative to their competitors, shippers in the non-competition area, and Housatonic Railroad, will lose business. The loss of business will naturally lead to decreased employment, decreased capital investment and decreased tax revenue for state and local government.

HRRC also expects to experience predatory competition from rail/truck transfer facilities in the rail competitive zone. The harm to HRRC’s competitive position lies not in the inefficiency of Housatonic Railroad nor the inability to provide economical value added freight service, but it lies in the inability of HRRC to connect with the new competitor (NS) which has been added to the market area.

Finally, HRRC and a limestone shipper in Canaan will be harmed by the transaction because what is now a traffic movement involving only HRRC and Conrail is proposed to become a traffic movement involving HRRC, CSX and NS as described in the S.T.B. filing.

Competition is good for the customer, good for the country and good for the industry and HRRC vigorously supports increase rail competition. However, new competition should not be introduced to a region in a manner which arbitrarily excludes some of the present rail providers and their rail customers from participating in the competitive environment. However, if the transaction is consummated without some protective measures taken for the benefit of HRRC and its customers, that is exactly what will happen. HRRC and its customers will be unfairly disadvantaged in competing for business.

HRRC has requested that the Surface Transportation Board attach conditions to its approval of the proposed transactions which would allow HRRC customers economic access to other Class 1 connections and preserve rate neutrality.

Specifically, HRRC has requested the following:
1. That the Surface Transportation Board approve that portion of the Responsive Application filed by New England Central Railroad seeking trackage rights for NECR between Palmer, Massachusetts and Albany, New York for the purpose of interchange with connecting carriers. [This would enable NECR to transport HRRC traffic to other connections.]

2. That the Surface Transportation Board require CSX to enter into a Haulage arrangement on reasonable terms with HRRC, under the terms of which CSX will haul HRRC traffic over the Boston-Albany Main Line (1) from Pittsfield to the Albany, New York area for the purpose of interchange at Albany with connecting carriers including, but not limited to NS, CP Rail and ST Rail, and (2) from Pittsfield to Palmer, Massachusetts for interchange purposes at Palmer and intermediate points. [This is another way of achieving access to other connections.]

3. That the Surface Transportation Board issue an order requiring that CSX maintain through class and commodity rates to HRRC Connecticut and Western Massachusetts stations for plastic, lumber and other forest products, which are no higher than it maintains to former CR stations in Connecticut and Western Massachusetts, with revenue between CSX and HRRC to be divided in accordance with existing division agreements between HRRC and CR. [This will help preserve neutrality between HRRC stations and CSX stations in Massachusetts.]

4. That the Surface Transportation Board establish a reasonable switching charge to facilitate the movement of limestone from Canaan, CT to Gypsum, Ohio.

The purpose of this letter is, of course, to request Senator Lieberman’s support of the HRRC application. I would be very pleased to discuss this matter with you or with Senator Lieberman at your earliest convenience. If Senator Lieberman is willing to support some or all of our requests, I would like to be able to attach a letter of support to a supplemental filing with the Surface Transportation Board which we plan to make on or before December 15.

Thank you for your time and consideration.

Very truly yours,

Edward J. Rodriguez
Vice Pres. and General Counsel
The Honorable Joseph I. Lieberman
United States Senate
Washington, D.C. 20510-0703

Dear Senator Lieberman:

Thank you for your letter forwarding correspondence from your constituent, Mr. Edward J. Rodriguez, regarding the proposal by CSX and Norfolk Southern (NS) to acquire control of Conrail and to divide certain assets of Conrail between the two acquiring railroads. Mr. Rodriguez expresses concern about the competitive impact of the proposal on shippers in Connecticut served by short lines such as the Housatonic Railroad Company (HRRC), and requests that the Surface Transportation Board (Board) give serious consideration to the request of HRRC for protective conditions.

This proceeding has been docketed at the Board as STB Finance Docket No. 33388. As you may know, the Board adopted a procedural schedule for deciding the merits of the control application filed in this proceeding, which it extended by 45 days to accommodate the filing of safety integration plans by the applicant railroads. As provided by the procedural schedule, the Board has received comments and evidentiary submissions from all interested parties addressing the merits of the merger proposal, which were filed with the Board on or before October 21, 1997, and the Board has received replies to these filings, including the rebuttal by the applicant railroads, which were filed on or before December 15, 1997. The Board is currently analyzing those filings. A final written decision in this matter will be issued on July 23, 1998.

In deciding whether a control transaction such as the one being proposed here is in the public interest and should be approved, the Board must consider various factors required by law, including the effect of the proposed transaction on the adequacy of transportation to the public, and whether the proposed transaction would have an adverse effect on competition among rail carriers in the affected region or in the national rail system. In this regard, let me assure you that the Board will give full consideration to the issues that have been raised. Because this proceeding is pending before the Board, however, it would be inappropriate for me to comment further on the case.
I am having your letter and that of your constituent made a part of the public docket in this proceeding. I appreciate your interest in this matter, and if I may be of further assistance, please do not hesitate to contact me.

Sincerely,

Linda J. Morgan

Linda J. Morgan
December 15, 1997

SURFACE TRANSPORTATION BOARD
OFFICE OF THE SECRETARY
1925 K Street, N.W.
Washington, DC 20423-0001

Re: STB Finance Docket 33388 -
CSX/Norfolk Southern Joint Application
Decision No. 57

Dear Sir/Madam:

This correspondence constitutes a request for address correction with respect to the above order adding the undersigned to the service list as a party of record.

I represent the Illinois International Port District, a Party of Record. My address as set forth in the Appendix to Decision No. 57 is in error. My address is as shown on the cover of the pleadings hereto filed in this case: PORT/CHI-1 and PORT/CHI-2, copies of which are attached hereto. Accordingly, my name should appear on the service list as follows:

Richard F. Friedman, Esq.
Earl L. Neal & Associates
111 West Washington Street-Suite 1700
Chicago, Illinois 60602

Should you have any questions in connection with this regard, kindly contact the undersigned.

Very truly yours,

Richard F. Friedman

Enclosures

S:\clients\PORT\NorfolkSouthern\Ltr\STB-3.wpd
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY

-----CONTROL AND OPERATING LEASES/AGREEMENTS-----

ILLINOIS INTERNATIONAL PORT DISTRICT'S
REQUEST FOR CONDITIONS
TO THE APPROVAL OF APPLICATION

The ILLINOIS INTERNATIONAL PORT DISTRICT (the "Port of Chicago"), a unit of local government of the State of Illinois, by EARL L. NEAL & ASSOCIATES, its attorneys, requests that the Surface Transportation Board ("STB") impose conditions upon the Norfolk Southern Railway Company ("NS"), as stated herein, if the STB approves the subject application.

In support hereof, the Port of Chicago states as follows:

SUMMARY OF REQUEST

The pending proposed operating plan of NS would aggravate an already poor competitive and service situation with respect to rail service into the east side of Calumet Harbor at the Port of Chicago. In contrast to open trackage rights over the NS maintained with respect to customers on the west side of Calumet Harbor, NS maintains, and refuses to relinquish, exclusive trackage rights to customers on the east side of Calumet Harbor. Service to the east side is through the overcapacity Calumet Yard. Shipments are delayed. Capacity is limited and service responsiveness is poor. This has resulted in a loss of business to users of Calumet Harbor, has
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY

----CONTROL AND OPERATING LEASES/AGREEMENTS----

ILLINOIS INTERNATIONAL PORT DISTRICT'S
MOTION FOR LEAVE TO PARTICIPATE AS A PARTY OF RECORD

ILLINOIS INTERNATIONAL PORT DISTRICT
THF PORT OF CHICAGO
3600 East 95th Street
Chicago, Illinois  60617-5193
Telephone:(773) 646-4400

REPRESENTATIVE FOR SERVICE:

EARL L. NEAL & ASSOCIATES
Earl L. Neal
Richard F. Friedman
Terrance L. Diamond
Kristen Barnes
111 West Washington Street-Suite 1700
Chicago, Illinois  60602
Telephone:(312) 641-7144

Attorneys for Illinois International Port District
December 9, 1997

SURFACE TRANSPORTATION BOARD
OFFICE OF THE SECRETARY
1925 K Street, N.W.
Washington, DC 20423-0001

Re: STB Finance Docket 33388 -
CSX/Norfolk Southern Joint Application
Decision No. 87

Dear Sir/Madam:

This correspondence constitutes a request for address correction with respect to the above order adding the undersigned to the service list as a party of record.

My address is as shown on the cover of the pleadings hereto filed in this case: PORT/CHI-1 and PORT/CHI-2, copies of which are attached hereto. Accordingly, my name should appear on the service list as follows:

Richard F. Friedman, Esq.
Earl L. Neal & Associates
111 West Washington Street-Suite 1700
Chicago, Illinois 60602

Should you have any questions in connection with this regard, kindly contact the undersigned.

[Signature]

Very truly yours,

Richard F. Friedman

Enclosures
S: clients/PORT/NorfolkSouthern/Ltr/STB-3.wpd
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-----CONTROL AND OPERATING LEASES/AGREEMENTS-----

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Attorneys for Illinois International Port District
BEFORE THE
SURFACE TRANSPORTATION BOARD

Finance Docket 33388

CSX CORPORATION AND CSX TRANSPORTATION, INC.,
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
--------CONTROL AND OPERATING LEASES/AGREEMENTS-------

ILLINOIS INTERNATIONAL PORT DISTRICT'S
REQUEST FOR CONDITIONS
TO THE APPROVAL OF APPLICATION

ILLINOIS INTERNATIONAL PORT DISTRICT
THE PORT OF CHICAGO
3600 East 95th Street
Chicago, Illinois 60617-5193
Telephone:(773) 646-4400

REPRESENTATIVE FOR SERVICE:

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Richard F. Friedman
Terrance L. Diamond
Kristen Barnes
111 West Washington Street-Suite 1700
Chicago, Illinois 60602
Telephone:(312) 641-7144

Attorneys for Illinois International Port District
The Honorable Linda Morgan  
Chairman  
Surface Transportation Board  
1925 K Street, N.W.  
Washington, D.C. 20423-0001  

Re: STB Finance Docket No. 33388,  
CSX Corporation, et al. -- Control and  
Operating Leases/Agreements -- Conrail Inc., et al.

Dear Chairman Morgan:

On behalf of Governor George E. Pataki, please accept this letter in support of the intervention petition of United States Representatives, The Honorable Jerrold Nadler, Et.Al., submitted in the referenced docket on October 8, 1997.

Stressing the need for the establishment of effective rail competition east of the Hudson River, Congressman Nadler and his colleagues asked the Board to condition any approval of CSX and Norfolk Southern's plan for the division of Conrail on their agreement to establish dual rail service in New York City, Long Island and Southern New England, including the restoration and enhancement of a cross harbor rail car float service across New York Harbor.

The establishment of effective rail competition east of the Hudson is a key priority of the State of New York, and as Governor Pataki has emphasized on numerous occasions, an essential component of any plan for Conrail that truly would serve the public interest. As a party of record, the State of New York, together with the New York City Economic Development Corporation, has filed a Responsive Application to promote competition through the introduction of efficient, alternative rail carrier service via trackage rights over the Hudson Line. While not an effective substitute for this relief, Congressman Nadler's cross harbor service proposal is
complementary to it. For these reasons, I respectfully urge that in addition to granting the State's Responsive Application, the Surface Transportation Board give careful and favorable consideration to Congressman Nadler's proposal.

Respectfully yours,

James G. Natoli
Director of State Operations

cc: Hon. Vernon L. Williams
October 24, 1997

Surface Transportation Safety Board  
1925 K Street, N.W.  
Washington, D.C., 20423-001

To Whom It May Concern:

As a member of the South Central Local Schools Community in Huron County, I am asking for your help. CSX Railroad is expanding their Willard yard and Greenwich connections without concern for public safety. Repeated attempts have been made by Huron County to get CSX to address this issue, but CSX has refused to commit to public safety.

Increased rail traffic, (80 to 100 trains per day) through Greenwich, Ohio, will virtually close all emergency response access to 2,067 residents of Greenwich Village, Ripley Township, part of Greenwich Township, and 923 students in the South Central school system (1/4 mile north of Greenwich)...THIS IS TOTALLY UNACCEPTABLE.

Huron County has requested that CSX install either an overpass or underpass for all three rail crossings on Townsend Street in Greenwich, Ohio. We cannot deny public safety to our residents and schools! Adding two more tracks will not lessen the blockage but only enhance it.

How can railroads do major expansions to enhance their profitability without any regard for public safety? I really need your help; my life and the lives of others, especially our children, depend on it!!!

Sincerely,

[Signature]

Better Schools Make Better Communities
October 24, 1997

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Increased rail traffic, (80 to 100 trains per day) through Greenwich, Ohio, will virtually close all emergency response access to 2,067 residents of Greenwich Village, Ripley Township, part of Greenwich Township, and 323 students in the South Central school system (1/4 mile north of Greenwich)....THIS IS TOTALLY UNACCEPTABLE.

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Sincerely,

Pat Durran
October 24, 1997

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Washington, D.C., 20423-001

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Sincerely,

[Signature]

Better Schools Make Better Communities
South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phones (419) 752-3354
(419) 752-3815
FAX (419) 752-6927

October 24, 1997

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Washington, D.C., 20423-001

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Sincerely,

[Signature]

JAMES DAVID INMON
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires May 10, 1989

DAVE INMON MOTOR SALES
4103 U.S. Highway 224 & St. Rt. 13
P. O. Box 65
Greenwich, Ohio 44837
Phone 419-752-4691

Better Schools Make Better Communities
October 24, 1997

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[Signature]

[Name, South Central Schools]
October 24, 1997

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Sincerely,

Robert F. Shaffer, Jr.
Superintendent
South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phone: (419) 752-3354
(419) 752-3815
FAX: (419) 752-6927

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Better Schools Make Better Communities
October 24, 1997

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October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

To Whom It May Concern:

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Sincerely,

[Signature]

High School Senior
Surface Transportation Safety Board  
1925 K Street, N.W.  
Washington, D.C. 20523

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student /Taxpayer
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Kevin Lasey
South Central student
October 24, 1997

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Todd Fay
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Robert O. Buckley, Board pres
October 24, 1997

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Better Schools Make Better Communities
October 24, 1997

South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phones (419) 752-3354
(419) 752-3815
FAX (419) 752-6927

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Sincerely,

[Signature]

1571 Plymouth Rd, E.
Stow, Ohio 44224

Better Schools Make Better Communities
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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October 24, 1997

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Sincerely,

Amanda [Handwritten Name]

Better Schools Make Better Communities
October 24, 1997

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1925 K Street, N.W.
Washington, D.C., 20423-001

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Sincerely,

[Signature]

Donna White

Better Schools Make Better Communities
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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James D. Inmon

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[Signature]

82217 S. Greenwich Rd.
October 24, 1997

Surface Transportation Safety Board  
1925 K Street, N.W.  
Washington, D.C., 20423-001

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Huron County Schools
October 24, 1997

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Sincerely,

Jeanne H. Hopkins

Better Schools Make Better Communities
October 24, 1997

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Washington, D.C., 20423-001

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Sincerely,

[Signature]

South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phones (419) 752-3354
(419) 752-3815
FAX (419) 752-6927

Better Schools Make Better Communities
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Victor Dittore

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Surface Transportation Safety Board  
1925 K Street, N.W.  
Washington, D.C.  
20423-001  

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Sincerely,

[Signature]

Teacher: S.C.H.S. (Resident)
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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Sincerely,

[Signature]

[Name]

SCAHS Math Teacher
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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Deana Ringler

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Sincerely,

[Signature]

Consumer Science Teacher
October 24, 1997

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

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[Signature]

Student Council Rep.
South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phone: (419) 752-3354
Fax: (419) 752-3815

October 24, 1997

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1925 K Street, N.W.
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Sincerely,

Susan Sparks

Better Schools Make Better Communities
October 24, 1997

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1925 K Street, N.W.
Washington, D.C., 20423-001

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[Signature]

[Name]
High School Teacher
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C. 20423-001

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South Central Local Schools

Better Schools Make Better Communities
South Central Local Schools

3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phones (419) 752-3354
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October 24, 1997

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South Central Schools

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High School Senior

Better Schools Make Better Communities
October 24, 1997

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Sincerely,

[Signature]
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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Sincerely,

[Signature]
Bus Driver/Resident

Better Schools Make Better Communities
October 24, 1997

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Sincerely,

[Signature]

Bushman Wheeler

[Signature]

Bushman Resident
South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-9443
Phones (419) 752-3354
(419) 752-3315
FAX (419) 752-6927

October 24, 1997

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Sincerely,

James J. Sprowl
Brenda J. Sprowl

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Sincerely,

Claude J. Honeycutt

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Sincerely,

Shirley F. Oney
Treasurer

South Central Local Schools
3305 Greenwich Angling Road, Greenwich, Ohio 44837-6443
Phones (419) 752-3554
(419) 752-3515
FAX (419) 752-6927
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Sincerely,

Karen Wilmot
October 24, 1997

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Sincerely,

Lou Taglione
Title: [Teacher]

Better Schools Make Better Communities
October 24, 1997

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October 24, 1997

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[Signature]

Florence J. Beck

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Deborah J. Brown
Bus Driver
October 24, 1997

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Washington, D.C., 20423-001

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As a member of the South Central Local Schools Community in Huron County, I am asking for your help. CSX Railroad is expanding their Willard yard and Greenwich connections without concern for public safety. Repeated attempts have been made by Huron County to get CSX to address this issue, but CSX has refused to commit to public safety.

Increased rail traffic, (80 to 100 trains per day) through Greenwich, Ohio, will virtually close all emergency response access to 2,067 residents of Greenwich Village, Ripley Township, part of Greenwich Township, and 923 students in the South Central school system (1/4 mile north of Greenwich)...THIS IS TOTALLY UNACCEPTABLE.

Huron County has requested that CSX install either an overpass or underpass for all three rail crossings on Townsend Street in Greenwich, Ohio. We cannot deny public safety to our residents and schools! Adding two more tracks will not lessen the blockage but only enhance it.

How can railroads do major expansions to enhance their profitability without any regard for public safety? I really need your help; my life and the lives of others, especially our children, depend on it!!!

Sincerely,

[Signature]

Better Schools Make Better Communities
October 24, 1997

Surface Transportation Safety Board
1925 K Street, N.W.
Washington, D.C., 20423-001

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Sincerely,

[Signature]

[Name]
The Honorable Alfonse M. D'Amato  
United States Senate  
Leo O'Brien Office Building  
Room 420  
Albany, NY 12207  

Dear Senator D'Amato:

I have received your letter forwarding correspondence from your constituent, Joseph C. Miorin, Jr. Mr. Miorin expresses concerns regarding the proposal by CSX and Norfolk Southern (NS) to acquire control of Conrail and to divide certain assets of Conrail between the two acquiring railroads, and the affect this may have on the Delaware and Hudson Railway and its employees.

This proceeding has been docketed at the Surface Transportation Board (Board) as STB Finance Docket No. 33388. As you may know, the Board adopted a procedural schedule for deciding the merits of the control application filed in this proceeding, which it recently extended by 45 days to accommodate the filing of safety integration plans by the applicant railroads. As provided by the procedural schedule, the Board has received comments and evidentiary submissions from all interested parties addressing the merits of the merger proposal, which were filed with the Board on or before October 21, 1997. The Board is currently analyzing those filings. A final written decision in this matter will be issued on July 23, 1998.

Regarding concerns over the impact of the proposed transaction on railroad jobs, in deciding whether a control transaction such as the one being proposed here is in the public interest, the Board by law must consider the interest of all rail carrier employees affected by the proposed transaction. Let me assure you that the Board will give full consideration to the interest of affected rail employees, as well as the other factors required by law, in deciding whether to approve the proposed transaction. Because this proceeding is pending before the Board, however, it would be inappropriate for me to comment further on the case.

I am having your letter, and that of your constituent, made a part of the public docket in this proceeding. I appreciate your interest in this matter, and if I may be of further assistance, please do not hesitate to contact me.

Sincerely,

Linda J. Morgan
United States Senate
WASHINGTON, DC 20510-3202

October 15, 1997

Dear Director:

Because of the desire of this office to be responsive to all inquiries and communications, your consideration of the attached is requested.

Please respond at your earliest convenience. Your findings and views, in duplicate, along with the return of this memo plus enclosures, will be appreciated.

Many thanks.

Sincerely,

Alfonse M. D'Amato
United States Senator

AMD:amr
Enclosure
August 27, 1997

Honorable Alfonse D’Amato
Hart Office Building
Room 520
Washington, D.C. 20510

Dear Senator D’Amato,

I am a 23 year employee of the Delaware and Hudson Railway. I have two children, one that entered college this year and the other will be graduating grade school in 1998. My wife works full time and I am a partial caregiver, along with my mother, for my father whom lives with me. He has Alzheimer’s.

So when I speak for myself and say that the ConRail breakup will effect my family is an understatement. When I say it will effect every D&H employee and his/her family goes without saying. As you know it will also effect every employer and employee that the D&H now serves or will serve, depending on how it goes.

We have had many rough years on the D&H and we (employees and family) have stuck it out and are happy to have CP as owners who have brought stability to our railroad. They have made a commitment to the employees, their families, the States they run though and the customers they serve. That is why I am asking you to make a commitment to help us in this time which is so vital to everyone concerned.

Some points that have hindered us from day one of ConRail formation are:
1. The D&H was intended by Congress to be the primary source of competition to ConRail but was not given the same financial consideration given to ConRail.

2. The D&H was allowed to move trains over ConRail track but was not allowed to service customers on that line.

3. D&H trains moved over ConRail tracks at the mercy of ConRail dispatchers and our trains moved with lower priority than ConRail trains, further tipping the scale in ConRail’s favor.

We need you to speak on our behalf to the STB to encourage the survival of a viable Delaware and Hudson Railway. Many lives depend on this transaction, not just the workers but whole families.

Please help us to continue to work and grow for our future and children’s futures.

Thanking you in advance for your support for the D&H, I remain

Very truly yours.

Joseph C. Miorin, Jr.
December 17, 1997

The Honorable John Engler  
Governor  
State of Michigan  
P.O. Box 30013  
Lansing, MI 48909

Dear Governor Engler:

I have received your letter expressing support for the proposal by CSX and Norfolk Southern (NS) to acquire control of Conrail and to divide certain assets of Conrail between the two acquiring railroads.

This proceeding has been docketed at the Surface Transportation Board (Board) as STB Finance Docket No. 33388. As you may know, the Board adopted a procedural schedule for deciding the merits of the control application filed in this proceeding, which it recently extended by 45 days to accommodate the filing of safety integration plans by the applicant railroads. As provided by the procedural schedule, the Board has received comments and evidentiary submissions from all interested parties addressing the merits of the merger proposal, which were filed with the Board on or before October 21, 1997. The Board is currently analyzing those filings. A final written decision in this matter will be issued on July 23, 1998.

In deciding whether a control transaction such as the one being proposed here is in the public interest and should be approved, the Board must consider various factors required by law, including the interest of all rail carrier employees affected by the proposed transaction, the effect of the proposed transaction on the adequacy of transportation to the public, and whether the proposed transaction would have an adverse effect on competition among rail carriers in the affected region or in the national rail system. In this regard, let me assure you that the Board will give full consideration to the issues that you have raised. Because this proceeding is pending before the Board, however, it would be inappropriate for me to comment further on the case.

I am having your letter made a part of the public docket in this proceeding. I appreciate your interest in this matter, and if I may be of further assistance, please do not hesitate to contact me.

Sincerely,

Linda J. Morgan  

Linda J. Morgan
Mr. Vernon A. Williams, Secretary  
Surface Transportation Board  
STB Finance Docket No. 33388  
1925 K Street, N.W.  
Washington DC 20423-0001  

Dear Mr. Williams:

CSX and Norfolk Southern have filed an application with the Surface Transportation Board jointly seeking authority to acquire control of Conrail and subsequently divide its assets. On behalf of the State of Michigan, I am writing in support of this proposed acquisition. This restructuring of the railroad system in the eastern United States will result in a more efficient transportation system with balanced competition between two strong carriers.

While I support the proposed acquisition, I also hope these companies will continue working with us on two major railroad issues that are important to the State of Michigan. First, I encourage Norfolk Southern to continue negotiations with Amtrak and the State concerning further upgrading of the Detroit-Kalamazoo-Chicago route for higher speed rail passenger service. This corridor is the principal rail passenger line in Michigan and has been identified by the federal government as a potential high speed route. Second, I urge both CSX and Norfolk Southern to continue their participation in the development of a large intermodal freight terminal at the Junction/Livernois Yard currently owned by Conrail. This major project will provide significant benefits to shippers and carriers throughout southeastern Michigan.

I am pleased to endorse the proposed acquisition and look forward to working with CSX and Norfolk Southern on implementation of additional improvements to the railroad system in Michigan.

Sincerely,

John Engler  
Governor

JE/dkl/pw

cc: Mr. John W. Snow, Chairman of CSX  
    Mr. David R. Goode, Chairman of Norfolk Southern
November 13, 1997

The Honorable Sherrod Brown
U.S. House of Representatives
Washington, D.C. 20515

Re: Finance Docket No. 33388, CSX and Norfolk Southern -- Control and Acquisition -- Conrail

Dear Congressman Brown:

Thank you for your recent letter forwarding correspondence from your constituent, Pamela Murphy. Her letter expresses concerns regarding the potential safety effects of the proposed changes in train traffic in Lakewood resulting from the proposal by Norfolk Southern (NS) and CSX to acquire Conrail.

The Surface Transportation Board’s (Board) Section of Environmental Analysis (SEA) is conducting an environmental review of the potential environmental impacts associated with the proposed Conrail acquisition and will prepare an Environmental Impact Statement (EIS). As part of its environmental review, SEA will address several environmental impact areas, including safety, transportation systems, land use, energy, air quality, noise, biological resources, water resources, environmental justice, and cultural and historic resources. In analyzing potential safety impacts, SEA will consider accident risk and vehicular delay at grade crossings.

The EIS also will present an analysis of the increased probability of derailments and releases of hazardous materials due to increased train traffic. Further, SEA will examine local truck traffic increases attributable to increased intermodal activities, and safety issues associated with the integration of differing rail operating systems and procedures. In addition, SEA will address potential impacts on emergency response capability because of vehicular delays at rail grade crossings due to increases in rail-related operations as a result of the proposed Conrail acquisition.

SEA is fully aware that these issues are of major concern to the residents of the west side of Cleveland and its western suburbs. A representative of SEA attended the public meeting held in Lakewood on September 21, 1997, in order to hear those concerns first hand, and also conducted an inspection of the NS route through Lakewood as well as neighboring communities. While the Board and SEA do not expect to conduct any additional public hearings, you can be assured that your views will be carefully considered along with all other comments that have been received in this matter.
Under the revised procedural schedule adopted by the Board, SEA plans to issue the Draft EIS in late December 1997, with a 45-day public review and comment period. After conducting an independent environmental analysis, reviewing all environmental information available to date, consulting with appropriate agencies, and fully considering all public comments, SEA plans to issue in May 1998 a Final EIS for consideration by the Board. In its final decision, the Board will consider the entire environmental record, including all public comments, the Draft EIS, and the Final EIS. The Board will issue its final written decision in July 1998.

SEA has established a toll-free environmental Hotline (1-888-869-1997) for interested parties to call to obtain information about the proposed Conrail acquisition and the Board’s environmental review process. Information is also available on the Internet on SEA’s “Conrail Acquisition Web Site” at www.conrailmerger.com.

Thank you for your interest in this matter. I will have your letter, and that of your constituent, made a part of the public docket for this proceeding. If you have additional questions concerning the EIS process, please contact Elaine K. Kaiser, Chief, SEA, or Mike Dalton, SEA’s Project Manager for this transaction, at (202) 565-1530. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Linda J. Morgan

Linda J. Morgan
October 13, 1997

U.S. Surface Transportation Board
ATTN: SEA-Finance Docket 33388
1925 K St., NW
Washington, D.C. 20423

To Whom It May Concern:

Enclosed please find a letter from my constituent, Pamela Murphy, regarding the proposed increase in train traffic in northeast Ohio.

Please take her concerns into consideration when making any decisions on the Norfolk Southern plan.

Sincerely,

Sherrod Brown
SHERROD BROWN
Member of Congress
Dear Congressman S. Brown

My name is Pam Murphy, and I am a resident of Avon Lake. I live in Sweetbriar Estates, a development that was built along the railroad tracks on the Avon/Avon Lake border. I have been reading the news about the possibility of increasing the train traffic on these tracks next to my home. At this time there are few trains traveling through the area, so they do not bother my family and me. However, if the traffic is increased as the newspaper says, I will become very concerned for many different reasons. I would like to briefly discuss my concerns with you as follows:

I am concerned about the safety of my small children. We have lived close to the tracks for two and a half years and my children do not notice them or go near the hillside directly in front of the tracks. Increasing railroad traffic will increase their attention to the trains. Also, the possibility of train derailments is greater. Toxic and hazardous materials could be carried on these trains.

The residents of Sweetbriar Estates have talked about putting trees along the tracks to help with the noise problem. However, if there is increased train traffic, I don't think the tree barrier will make that much of a difference. At this point in time, the noise level is bearable, but it won't be if train traffic is increased.

The railroad crossings will be busier if more trains are run. I am a teacher in Elyria. I travel to my job using the tracks. I would not appreciate being held up from doing my job because of waiting for a train to pass. Avon Lake has railroad crossings at all of its major roads leading that direction (Lear, Jaycox, Route 83, and Moore Roads). Another concern is getting to medical facilities. I use Elyria Memorial Hospital and St. John Westshore when I need to seek medical attention. I use I-90 to get to both facilities. A passing train at the major railroad crossings could delay me from getting to these facilities in emergency situations.

When my husband and I bought our house, we knew that trains would be a part of our daily lives. However, we never anticipated the amount of traffic to drastically increase. This will hurt our property value. We love where we live, and we want to feel safe and secure in our community. Adding additional train traffic will make our home less comfortable to live in. Please consider my concerns and share them with the people involved with this issue. Thank you.

Sincerely,

Pamela K. Murphy
Ms. Linda J. Morgan  
Surface Transportation Board  
Washington, D.C. 20423-0001  

RE: Amtrak Service to the City of Dunkirk  

Dear Ms. Morgan:  

Enclosed you will find a copy of a letter dated May 20, 1997 in which you were going to refer the issue of the use of the local train station in the City of Dunkirk for Amtrak passenger service to the Board's Office of Compliance and Enforcement because Conrail has ceased negotiating the use of this facility. The referral to the Board's Office of Compliance and Enforcement was to help with a more timely resolution to our problem. As of this date we have not heard anything from this office. I have also been informed that this issue has not been made part of the public record before the Surface Transportation Board.  

Your assistance would be greatly appreciated in this matter.  

Very truly yours,  

MARGARET A. WUERSTLE  
Mayor  

MAW: cao  

Enc.
May 20, 1997

The Honorable Margaret A. Wuerstle
Mayor
Randy J. Woodbury
DPW Director
City of Dunkirk
City Hall
Dunkirk, NY 14048

Dear Mayor Wuerstle and Director Woodbury:

Thank you for your kind words about my testimony before the U.S. Senate regarding the proposal by CSX and Norfolk Southern (NS) to acquire control of Conrail and to divide certain assets of Conrail between the two acquiring railroads. Your letter also expresses concern that, due to the proposed transaction, Conrail has ceased negotiating over the use of the local train station in the City of Dunkirk, New York, for Amtrak passenger service.

As you may know, CSX, NS, and Conrail have filed a notice of intent to file their control transaction with the Surface Transportation Board (Board) on or before July 10, 1997. The proceeding is docketed at the Board as STB Finance Docket No. 33388. Currently, the Board is analyzing comments from the public on a proposed procedural schedule for handling the case once it is filed.

While you have the right to participate formally in the control proceeding before the Board, you may be interested in a more timely resolution to your problem. I am therefore referring this correspondence to the Board’s Office of Compliance and Enforcement to look into this matter further.

I also am having your letter made a part of the public docket in this proceeding. I appreciate your interest in this matter.

Sincerely,

[Signature]

Linda J. Morgan
Office of the Secretary  
Case Control Unit  
Surface Transportation Board  
1925 K Street, N.W.  
Washington, DC 20423

Re: Finance Docket No. 33388

Dear Mr. Secretary:

My name is Keith L. Hanks. I am Director - Raw Materials and Traffic for Geneva Steel Company (Geneva), a major integrated steel producer located 45 miles south of Salt Lake City, Utah. My responsibilities at Geneva include the purchase of all raw materials utilized in iron and steel production and the negotiation of transportation contracts for movement of all inbound materials and outbound steel products.

Geneva purchases approximately 3.7 million tons per year of iron ore pellets that originate in Minnesota and the Upper Peninsula of Michigan. The ore is transported by the Wisconsin Central Railroad (WC) to Chicago for interchange through the Chicago Switching District to the Union Pacific Railroad for delivery to destination.

We are very concerned regarding the potential impact on Geneva and other industries that may result by granting CSX Transportation, Inc. (CSXT) ownership and control of Conrails rights and assets as proposed.

The Chicago Switching District is a vital gateway to movement of freight to Geneva and other customers.

CSXT now owns the Baltimore & Ohio Terminal Railway Company (BOCT). CSXT’s proposed control and administration of the Indiana Harbor Belt Railroad (IHBR), coupled with their major shareholder interest in the Belt Railway Company of Chicago (BRC), would give them dominant control of the terminal switching capacity in the Chicago district, with primary bias to their own movements.

It is extremely important that the neutral unbiased switching services now provided by the IHBR be continued, thereby providing prompt dispatching of trains and switching of customers at a fair and equitable price. We urge the Board to allow continuance of this service, thereby eliminating the potential for single-carrier dominance.

Further, we understand the WC has proposed acquiring and operating a segment of BOCT trackage known as the Altenheim Subdivision, and also a segment of Conrail trackage known as the Panhandle Line. We strongly support these sales as a condition to approval of CSXT and Norfolk Southern acquisition of Conrail. This should be done with the stipulation that WC would commit funds to improving these routes.
We believe that the steps proposed would continue and strengthen switching services in the Chicago District to the benefit of all customers. We strongly recommend that these comments be considered in your deliberation of this important issue.

Sincerely,

[Signature]

Keith L. Hanks
Director - Raw Materials & Traffic
Geneva Steel Company
October 20, 1997

Office of Secretary
Case Control Unit
Surface Transportation Board
1925 K Street, N.W.
Washington, DC 20423

RE: FINANCE DOCKET NO. 33388

Dear Mr. Secretary:

I am Jerry Moynihan, the Material Manager for Keil Chemical Division, Ferro Corporation. Keil Chemical is a metalworking manufacturer which is located in the Chicago Switching District and served by the Indiana Harbor Belt Railroad Company (IHB). IHB provides both terminal and intermediate switching service throughout the District.

We are very much concerned about the potential ramifications to us and other industries should CSX Transportation, Inc. (CSXT) and Norfolk Southern Railway Company (NS) be permitted to acquire Conrail’s 51% interest in the IHB, as proposed in the pending application in the Conrail acquisition case. We are particularly concerned about the effect of CSXT’s proposed control and administration of the IHB on the vital neutral switching services that IHB now provides. CSXT will dispatch and manage IHB and, as we understand the CSXT/NS application makes clear, will utilize IHB largely to accommodate and service CSXT’s own line-haul traffic to and from Chicago.

The Chicago Switching District is both an extremely important and an extremely congested terminal area. Efficient switching services accessible to everyone on an equal basis are vital for the movement of my company’s traffic - not to mention for the handling of the vast amount of other freight that moves through this vital gateway. We believe that CSXT’s control of IHB will seriously diminish IHB’s capability and availability to serve this role. With CSXT seeking to utilize IHB for its own self-serving purposes, we are concerned about the impact on charges assessed other line-haul carriers for intermediate switching service and for terminal service to access our facilities. In addition, CSXT’s prior performance and its record for fair and equitable dispatching of trains and switching of customers has been less than commendable.

The proposed Conrail transaction also would diminish any possible alternatives we might have to a CSXT dominated IHB. As the Board is aware, there are three major terminal and transfer carriers serving Chicagoland and the Northeast Indiana industrial area - IHB, the Belt Railway Company of Chicago (BRC) and The Baltimore & Ohio Chicago Terminal Railroad Company (BOCT). CSXT already owns BOCT outright. It is also a sizable (in fact, the largest) owner of the BRC. If its
application in this proceeding is approved as submitted, CSXT would not only own and operate BOCT, but would further increase its dominant holdings in the BRC (and together with NS would control half of BRC’s stock) and manage the day-to-day operations of IHB. The ownership and control of IHB will give CSXT a stranglehold on the vital Chicago switching district.

We feel that, in the best interests of the shipping public, the Surface Transportation Board should order that an independent owner or owners acquire Conrail’s share of the IHB, and continue the neutral control and operation of the IHB in conjunction with IHB’s existing minority interest owner, Soo Line Railroad Company (Canadian Pacific).

A consortium consisting of the Elgin, Joliet and Eastern Railway Company and its parent, Transtar, Inc., Wisconsin Central Ltd. and I & M Rail Link, LLC has indicated its desire to acquire Conrail’s interest in the IHB and continue to operate the carrier as an independent and neutral provider of switching services. We feel this is a desirable and viable alternative to the CSXT proposal.

We strongly urge you to take these facts and comments into consideration in your deliberation of this very important issue.

Sincerely,

Jerry Moynihan
Materials Manager
October 17, 1997

Office of Secretary  
Case Control Unit  
Surface Transportation Board  
1925 K Street, N.W.  
Washington, DC 20423

Re: Finance Docket No. 33388

Dear Mr. Secretary:

I am Jim Roberts, the Vice President Operations for Kaytee Products, Inc. Kaytee Products, Inc. is a pet and wild bird food manufacturer which moves traffic in and through the Chicago Switching District.

We are very much concerned about the potential ramifications to us and other industries should CSX Transportation, Inc. (CSXT) obtain ownership and control of Conrail rights and assets as proposed. We are particularly concerned about the effect of CSXT’s proposed control and administration of the IHB on the vital neutral switching services that IHB now provides. CSXT will dispatch and manage IHB and, as we understand the CSXT/NS application provides, will utilize IHB largely to accommodate and service CSXT’s own line-haul traffic to and from Chicago. We understand that CSX already owns Baltimore & Ohio Terminal Railway Company ("BOCT") and will be the largest shareholder of The Belt Railway Company with about 1/3 ownership.

The Chicago Switching District is both an extremely important and an extremely congested terminal area. Efficient switching services accessible to everyone on an equal basis are vital for the movement of my company’s traffic - not to mention for the handling of the vast amount of other freight that moves through this vital gateway. We believe that CSXT’s domination of terminal switching capacity will seriously diminish available rail capacity serving this role. With CSXT seeking to utilize IHB for its own self serving purposes, we are concerned about the impact on charges assessed other line-haul carriers for intermediate switching service on our traffic. Our prior experience with movements through the Chicago Switching District is that it is costly and often requires far too much time. We are concerned about the future for fair, equitable and prompt dispatching of trains and switching of customers.
We are dependent upon the WCL to deliver product to us in a cost efficient and timely manner. Significant amounts of our volume move through the Chicago Switching District. We are already concerned about the efficiency of the Chicago Terminal and feel the further control by CSX will lead to probable service decline for WCL traffic.

Our experience with the service levels of the WCL have been exceptionally good. We believe the WCL's ownership of the BOCT Altenheim Subdivision and Conrail's Panhandle Line would work to improve service through Chicago, avoid anti competitive concentration of operations by CSX in the terminal, and allow WCL to largely avoid CSX domination by giving an independent route to several carriers, including the NS, BNSF, and CN.

We understand that Wisconsin Central Ltd. has proposed acquiring and operating a portion of BOCT trackage known as the Altenheim Subdivision and a portion of Conrail trackage known as the Panhandle Line. We also understand that WCL would invest in improving these routes. We strongly support these sales as a condition to approval of CSX and NS acquisition of Conrail. Each will mitigate the impact of CSX domination of switching and serve to preserve and increase critical rail capacity in the Switching District.

We also believe the Board should seriously consider a condition which would assure that the IHB operations and facilities are dispatched on a fair and neutral basis, preventing the IHB from being operated primarily for the benefit of CSX.

We strongly urge you to take these facts and comments into consideration in your deliberation of this very important issue.

Sincerely,

Jim Roberts
Vice President Operations

William D. Engler, Jr.
Chief Executive Officer
October 21, 1997

The Honorable Linda J. Morgan  
Chairman  
Surface Transportation Board (STB)  
1925 K Street, N.W.  
Washington, D.C. 20423-0001  

Dear Chairman Morgan:

We are writing to share with you our interest in the pending application filed by CSX Transportation and the Norfolk Southern Railroad relating to the acquisition of Conrail. The Indiana Cities of Gary, Hammond, East Chicago and Whiting (the “Four Cities”) have joined together to express their concerns about a number of potential public safety issues relating to the acquisition proposal. The Four Cities Consortium has developed an alternative routing plan for the STB to consider. We hope the STB will carefully review the merits of the Four Cities’ proposal.

Located near Chicago and along the southern end of Lake Michigan, Northwest Indiana serves as a vital economic center for manufacturing, trade and transportation of the nation’s commerce. Virtually all of the rail traffic moving between Chicago and the east coast travels through Northwest Indiana. A sophisticated intermodal network of highway, rail, air and waterway transportation systems has been developed to move people, goods and materials to their destinations in a safe and efficient manner.

Competitive and efficient rail transportation is critical to the nation’s continued economic strength and is a primary goal of the acquisition plan proposed by CSX and Norfolk Southern. At the same time -- as elected officials -- we are interested in balancing economic efficiency with public safety for Indiana motorists, residents and citizens who live and work in Northwest Indiana.

The Four Cities Consortium recently commissioned a review of the proposed acquisition to determine the potential impact the proposed route and track usage could have on public safety and transportation efficiency for the region. We understand the review highlighted a number of areas where train traffic would increase along routes with high numbers of at-grade highway-rail...
crossings. The review also identified a number of grade-separated tracks that would be underutilized as a result of this merger.

Indiana is one of the most rail-intensive states in the nation, with the Northwest region having the highest concentration of highway-rail grade crossings in the State. Every year, Indiana ranks among the top five states for numbers of motorists killed or injured as a result of vehicle-train crashes at highway-rail grade crossings. We have led an effort in Congress in recent years to address this pressing safety issue. We are working in Congress to focus more resources and more federal highway construction funds to rail intensive states. Working together, we hope to assist local governments in their efforts to make infrastructure and other safety improvements that will help eliminate accidents at highway-rail grade crossings.

As in many U.S. communities, state and local governments in Indiana have made substantial investments in recent years to improve the safety and economic efficiency of its transportation systems. The Four Cities Consortium has identified a number of issues of importance to Northwest Indiana, and has included a number of alternatives that could mutually benefit the railroads and the Northwest Indiana region. As the STB continues its important work to review the CSX/Norfolk Southern acquisition proposal, we hope every consideration will be given to the merits of the Four Cities' alternative routing plan.

Thank you for your assistance with this matter.

Sincerely,

Richard G. Lugar
United States Senator

Dan Coats
United States Senator

Peter J. Visclosky
Member of Congress
October 22, 1997

Office of Secretary
Case Control Unit
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423

RE: Finance Docket No. 33388

Dear Mr. Secretary:

I am John L. Abbott, Manager of Transportation for FMC's Chemical Products Group, Philadelphia, PA. I have been with the company for nineteen years. Please accept the support of FMC for the acquisition of portions of the Altenheim Subdivision and the Panhandle Line by Wisconsin Central, Ltd. FMC moves traffic in and through the Chicago Switching District. We also own and operate a Distribution Center in Bedford Park, Clearing, IL is the rail station location.

FMC Corporation located at 200 East Randolph Drive, in Chicago, Illinois 60601, is one of the world's leading producers of chemicals and machinery in industry, agriculture and government. FMC participates on a worldwide basis in four broad markets: performance chemicals, machinery and equipment and defense systems. FMC operates 117 manufacturing facilities and mines in 28 countries.

We are very much concerned about the potential ramifications to us and other industries should CSX Transportation, Inc. (CSXT) obtain ownership and control of Conrail rights and assets as proposed. We are particularly concerned about the effect of CSXT's proposed control and administration of the IHB on the vital neutral switching services that IHB now provides. CSXT will dispatch and manage IHB and, as we understand the CSXT/NS application provides, will utilize IHB largely to accommodate and service CSXT's own line-haul traffic to and from Chicago. We understand that CSX already owns Baltimore & Ohio Terminal Railway Company ("BOCT") and will be the largest shareholder of The Belt Railway Company with about 1/3 ownership.

The Chicago Switching District is both an extremely important and an extremely congested terminal area. Efficient switching services accessible to everyone on an equal basis are vital for the movement of my company's traffic - not to mention for the handling of the vast amount of other freight that moves through this vital gateway. We believe that CSXT's domination of terminal switching capacity will seriously diminish available rail capacity serving this role. With CSXT seeking to utilize IHB for its own self-serving purposes, we are concerned about the impact on charges assessed other line-haul carriers for intermediate switching service on our traffic. Our prior experience with movements through the Chicago Switching District is that it is costly and often requires far too much time. We are concerned about the future for fair, equitable and prompt dispatching of trains and switching of customers.
We understand that Wisconsin Central Ltd. has proposed acquiring and operating a portion of BOCT trackage known as the Altenheim Subdivision and a portion of Conrail trackage known as the Panhandle Line. We also understand that WCL would invest in improving these routes. We strongly support these sales as a condition to approval of CSX and NS acquisition of Conrail. Each will mitigate the impact of CSX domination of switching and serve to preserve and increase critical rail capacity in the Switching District.

We also believe that Board should seriously consider a condition which would assure that the IHB operations and facilities are dispatched on a fair and neutral basis, preventing the IHB from being operated primarily for the benefit of CSX.

We strongly urge you to take these facts and comments into consideration in your deliberation of this very important issue.

Sincerely,

John L. Abbott
Manager of Transportation

cc: Al Smith - Wisconsin Central
Surface Transportation Board  
Department of Transportation  
400 Seventh Street, Southwest  
Washington, D.C. 20590  

Dear Board Members:

Norfolk Southern is seeking more than its fair share of Consolidated Rail Corporation's assets. Norfolk Southern proposes to acquire the Conrail routes with the highest traffic density enabling N.S. to capture about 70% of Conrail's revenues. In contrast, CSX would get the weakest routes rendering it to token competition.

Conrail's premier assets are the old New York Central and the former Pennsylvania Railroad New York-Chicago mainlines which should be conveyed to CSX and NS respectively in toto, not the 600 eastern most miles to one carrier and the 300 western ends to the opposite carrier.

The old New York Central mainline is already the longest New York-Chicago route, chopping off the Water Level Route west of Cleveland forces CSX-NYC trains onto less efficient, fuel and time consuming, more circuitous routes to Toledo, Detroit and Chicago. The former Pennsy mainline is the shortest New York-Chicago route, part of which is already owned by N.S.
The Chicago - Fort Wayne - Pittsburgh route is less expensive to operate, more efficient and the mileage is less than the Chicago - Toledo - Cleveland - Pittsburgh corridor for NS - Pennsy trains. Whereas, the Chicago - Toledo - Cleveland line is superior to either the Chicago - Willard - Greenwich - Cleveland or the Chicago - Fort Wayne - Crestline - Cleveland alternatives for CSX - NYC trains.

Norfolk Southern currently has a superb Chicago - Detroit / Buffalo (which includes a Chicago - Cleveland route) and St. Louis - Detroit / Buffalo network which fits perfectly with the former Pennsy and Erie Lackawanna routes, however, NS needs to double-track 300 miles of line.

CSX should get all ex New York Central and Central of New Jersey assets/routes and at least half (joint operation) of the former Reading properties. CNJ and Reading were integral components of the B&O family/operations. The remainder to NS, the former Pennsy from Fort Wayne, Indiana east, half/joint operation of the former Reading, former Lehigh Valley and former Erie Lackawanna. This is roughly a 50-50 split, however, NS’s half has a higher traffic density and more potential for future growth.

I have enclosed a copy of Chapter II of Conrail’s 1981 report Options for Conrail which explores splitting Conrail assets in two, Conrail North and Conrail South, and combining both halves with CSX and Norfolk Southern, respectively.

Yours Truly,

M.D. Potter
Chapter 11

ALTERNATIVES TO CONRAIL

INTRODUCTION

In addition to the alternatives for Conrail's future delineated in the Staggers Act, a sale of Conrail's properties is also being considered. Without actual experience, it is impossible to know precisely how much of Conrail's properties could be sold or transferred. However, in order to illustrate the expected effects, this chapter discusses two possibilities for sale, evaluates their structure and economics, outlines their impact on other railroads and political entities, raises a series of implementation issues, and suggests a process by which such sales could take place.

In the first scenario, most of Conrail's existing lines and operations would be sold to several other railroads. One or more federal agencies would "control" or guide the process so as to minimize the disruption of rail service and maximize the amount of service to be provided by the new owners. To illustrate the effects of such a sale, this chapter hypothesizes a two-package sale (the "North-South Transfer") in which the purchasers would collectively take at least 75 percent of Conrail's existing route mileage.

Because the Federal Government has no power to compel—and limited ability to induce—purchasers to acquire such large quantities of Conrail's properties, this chapter also evaluates the effects of liquidation—where only the most desirable properties would be acquired. While variations of these generalized approaches exist, these scenarios seem to be at opposite ends of the range of the available options.

The restructuring or disaggregation of Conrail would be a formidable task, since much of the Corporation's attention for the past five years has been focused on integrating its predecessor railroads into a coherent single rail system. Thus, implementation of a sale of Conrail's properties would be neither certain nor riskless, as traffic volumes, the number of employees, and operations affected are large and complex. Any sale which did not ensure that purchasers existed for substantial quantities of Conrail's lines would result in either large-scale abandonments or a "residual" patchwork of undesirable lines whose operation would entail deficits even greater than those of the present Conrail system. Negotiations with labor on issues of Title V protection, applicable work rules and number of employees to be hired by the purchasers would be difficult.
SALE AS AN ALTERNATIVE

A number of observers have questioned why Conrail could not be sold, and the alternatives posed in the Staggers Rail Act of 1980 to continued federal funding of Conrail include the identification of "... the lines (of the Corporation) which would be transferred. . .".

One of the reasons why this alternative might now be possible is that the physical condition of Conrail's plant and equipment has been sufficiently upgraded to be attractive to other railroads. Yet little growth in Conrail's traffic volume is expected in the foreseeable future, and without substantial external assistance to change its cost structure, Conrail's earning power will be insufficient to support normalized capital and maintenance budgets. Unless federal funding for capital programs continued to be available, Conrail's properties would become less attractive in the future to other carriers than they are today.

Other external factors also make consideration of the sale alternative timely. Principal among these is the emerging two-system structure of the eastern railroads which leaves Conrail as basically an east-west carrier with originating or terminating functions for some north-south traffic. CSX and NWS, the only major carriers within the Southeast, will penetrate deeply into Conrail's service territory, leaving Conrail without a friendly connection in that region, and perhaps causing the loss of as much as $150 million of the $270 million in gross revenue Conrail now earns on north-south interchange traffic.

Additionally, the relative profitability of the major western carriers and of the two new northeastern-southeastern systems, together with the Staggers Act's incentives for extending single-line control of traffic, make the emergence of transcontinental railroad companies seem possible within this decade. If transcontinental mergers exclude Conrail, it stands to lose perhaps half of the $850 million in gross revenues now earned each year on east-west interchange traffic, since it will be either short-hauled or denied access to such traffic altogether.

On the other hand, factors are present which suggest that sale of most of Conrail's properties at this time may not be feasible. First, some of the more important rail systems may not wish to buy. Several of the potential buyers are currently involved in mergers of their own. While the CSX merger has been completed, both NWS and UP/MP/WP (UMP) are pending before the Interstate Commerce Commission and are not likely to be approved before mid-1982. All three of these large
systems will need time to adjust to their own mergers, and the prospect of adding large portions of Conrail to their new systems during this process may be unappealing.

Second, many of the same actions required to continue Conrail with limited additional federal funding would also be required to increase the financial attractiveness of Conrail to other rail carriers. Specifically, legislative action may be necessary to eliminate existing Title V labor protection obligations and other such obligations which could result from a purchase of portions of Conrail. Similarly, it will probably be necessary to shift Conrail's commuter organizations to public agencies (since other carriers would not be willing to assume Conrail's passenger obligations), permit abandonment of its unprofitable lines, and resolve its Northeast Corridor level-of-compensation dispute with Amtrak. Until progress toward these objectives has been made, prospective rail carrier purchasers will probably regard Conrail's properties as financially unattractive.

**NORTH-SOUTH TRANSFER**

Any sale proposal should be designed to minimize interruptions to rail service in the Northeast and to maximize the return to the Government of its investment in Conrail. It should also maintain inter-railroad competition where feasible and produce the greatest possible improvement in the operating efficiency of the Northeast rail system.

These criteria were applied in the design of the hypothetical North-South transfer. The two resulting packages were configured to maintain rail competition in major markets and to minimize fragmentation of traffic flows, the unnatural segmentation of facilities, and the number of shippers and communities left without service. These two packages are proposed simply for analysis; depending on the relative importance accorded to the several design criteria, other two-package combinations could be created. The most important trade-offs would occur between competition and efficiency.

**Splitting Conrail into Two Packages**

The concept of breaking Conrail into two packages, rather than more, was based primarily on the need to maximize the number of bidders for Conrail's present operations and facilities. If, for example, four packages were offered for sale, each of which included important parts of Conrail, the chances are that one or more of them would generate no bids at all. There are only six major railroad systems in the United States that could bid for rail properties comprising as much as one-fourth of Conrail. If too many packages were offered to this limited
number of prospective buyers, the chances of competitive bids would probably be diminished. Finally, any suggested process could permit some of those who are interested to reduce their financial exposure by cooperating with others (after governmental approval) to submit joint bids.

**Maintaining Competition**

The two-package North-South transfer study first identified those rail markets that could support inter-railroad competition, identified redundant routes and facilities, and sized a number of alternative Conrail packages. Those packages were then analyzed in more detail, producing two sets of route and facility specifications for "Conrail North" (CRN) and "Conrail South" (CRS). These two packages of routes and facilities could (with some modifications) fit with any of the major northeastern/southeastern or western trunk line carriers, but—recognizing the emerging two system railroad structure east of the Mississippi River—they were designed to fit Conrail North with CSX and Conrail South with NWS for purposes of this analysis.

This does not mean, however, that CSX and NWS, or either of them, are the most likely buyers. Instead, the design was chosen to illustrate how competition could be enhanced over the eastern half of Conrail's present route structure and to predict what opportunities for improvement were possible in the overall operating efficiency of the Northeast rail system. Figures 11-1 and 11-2 (next pages) illustrate the combined CSX/CRN and NWS/CRS networks.*

To estimate volumes on the new, post-transfer systems, a network model was used to flow ICC One Percent Waybill traffic first over CSX and NWS in their post-merger configurations and over Conrail in its present configuration, and then over CSX merged with CRN and NWS merged with CRS. These traffic flow statistics were used to assess the extent to which the CSX/CRN and NWS/CRS systems would preserve inter-railroad competition in the region. Table 11-1 (on page 11-7) summarizes that assessment:

* A more detailed explanation of the methodologies used throughout the analyses described in this chapter is available on request from Conrail.
Figure 11-1

Hypothetical Route Network: CSX + CRN
Figure 11-2

Hypothetical Route Network: NWS & CRS

NWS
CONRAIL SOUTH
Table 11-1

<table>
<thead>
<tr>
<th>Competition Within City Areas In Official Territory</th>
<th>(Millions of carloads/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive</td>
<td>Dominant</td>
</tr>
<tr>
<td>(No road &gt;70%)</td>
<td>(One Road 70-90%)</td>
</tr>
<tr>
<td>Before North-South Transfer</td>
<td>4.7 (41%)</td>
</tr>
<tr>
<td>After North-South Transfer</td>
<td>4.1 (36%)</td>
</tr>
</tbody>
</table>

Competition would be preserved in Philadelphia, Baltimore, New York State, New England, and improved in the northern New Jersey and Allentown-Bethlehem areas. Competition at a few smaller points would be reduced, but the overall reduction would be insignificant. The CSX/CRN and NWS/CRS combinations also preserve or enhance competition over all important through routes in the Northeast rail network, as shown on Figure 11-3 (next page).

Estimating Revenues

The ICC One Percent Waybill traffic data was used in the same manner to estimate gross freight revenues. Table 11-2 shows that CRN would generate an estimated $1,418 million in revenue when joined with CSX, while CSX itself would generate an additional $11 million on its own lines, or a total of $1,429 million. That total, when added to the CRS/NWS estimated total of $1,459 million, yields North-South transfer gross revenues some $113 million larger (in 1978) than would have been generated on Conrail, and on CSX and NWS following their mergers.

Table 11-2

Gross Freight Revenues
(Millions of 1978 dollars/year)

| Post - CSX & NWS Mergers: CR Revenues | $ 2,775 |
| Post - North-South Transfer: CRN (Incremental) | $ 1,418 |
| CSX (Incremental) | 11 |
| CRN + CSX (Incremental) | $ 1,429 |
| CRS | $ 1,257 |
| NWS (Incremental) | 202 |
| CRS + NWS (Incremental) | $ 1,459 |
Figure 11-3
North-South Transfer Competition
Estimating Benefits

Most of the same changes sought by Conrail in its Case C will probably be necessary to induce other rail carriers to acquire Conrail's properties. For this reason, the analysis of the North-South transfer alternative included many of the savings projected for Case C. Specifically, it assumed that (1) Conrail would be relieved of its responsibility for commuter operations before transferring its property to other carriers; (2) Conrail's Northeast Corridor trackage rights payments would be reduced to a level comparable to trackage rights payments common in the rail industry; and (3) as a minimum, about 2,350 miles of low density lines would be abandoned. Other chapters of this report discuss these potential savings in more detail.

Other savings should be possible from the North-South transfer--those resulting from the acquiring carriers hiring at the outset only those employees they actually need to operate. As explained elsewhere in this report, Conrail expects to achieve--over a period of time--levels of efficiency comparable to those of other carriers. It is reasonable to expect, however, that carriers acquiring Conrail property without any obligation to hire more employees than they need could reach the higher efficiency levels of their own operations much more quickly. For purposes of assessing the North-South transfer alternative, it has been assumed that these carriers could operate Conrail property at the same level of efficiency as has been ultimately projected in Case C. This would generate an estimated $210 million annually. (A comparison of Chessie and Conrail costs provided a check on the reasonableness of these projected efficiencies.)

Finally, there should be extensive merger savings if CRN were combined with CSX and CRS with NWS:

- Savings should result from the consolidation of operations at numerous common points.
- A number of duplicate through routes could be consolidated.
- The combined traffic bases of CSX/CRN and NWS/CRS would make it possible to consolidate traffic flows, thus eliminating some switching.
- Costs could be saved by combining or closing shop facilities.
- Reductions in line haul circuitry and interchange transactions would result.
- Overhead costs would be reduced.
Table 11-3 summarizes the prospective merger savings that were estimated for each of these categories:

Table 11-3

Estimated Merger Savings From Transfer
(Millions of December 1980 Dollars/Year)

<table>
<thead>
<tr>
<th>Amounts For Both Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Points</td>
</tr>
<tr>
<td>Route Rationalization</td>
</tr>
<tr>
<td>Flow Consolidation</td>
</tr>
<tr>
<td>Locomotive &amp; Shop Facilities</td>
</tr>
<tr>
<td>Reduced Circuity &amp; Interchanges</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
</tr>
</tbody>
</table>

The revenue and cost estimates discussed above provide a basis for estimating the overall net benefits for the CSX/CRN and NWS/CRS scenarios. With some modifications and additions, these results can also be used to estimate the benefits associated with the acquisition of CRN and CRS by alternative pairs of major western carriers.

If Conrail properties were acquired by western carriers, there would be two major differences: first, traffic diversions to the acquiring carriers from non-participating carriers would be larger; and second, prospective merger savings would be smaller. A network model was used to estimate the traffic diversions that would result from three different western carrier acquisition scenarios; additional combinations would, of course, also be possible. Table 11-4 (next page) compares the resulting shifts in freight revenues with those developed for the CSX/CRN and NWS/CRS scenario. The table also highlights the prospective traffic losses that would be incurred by any western carrier which did not participate in a North-South transfer when some of its other western competitors did. The entry of western carriers into the Northeast would apparently not damage CSX or NWS, as they would benefit from increased traffic flows with nonparticipating western carriers to an extent that approximately offsets their losses to the entering carriers.
Table 11-4
Estimated Traffic Diversions From Controlled Transfer
(Millions of 1978 Dollars/Year)

<table>
<thead>
<tr>
<th>Acquiring Carriers</th>
<th>Roads Affected</th>
<th>Gross Revenue Losses</th>
<th>Net Revenue Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSX &amp; NWS</td>
<td>BNF</td>
<td>$25</td>
<td>$12</td>
</tr>
<tr>
<td></td>
<td>CNW</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>ATSF &amp; UMP</td>
<td>SP</td>
<td>$145</td>
<td>$72</td>
</tr>
<tr>
<td></td>
<td>BNF</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>ATSF &amp; SP</td>
<td>UMP</td>
<td>$230</td>
<td>$115</td>
</tr>
<tr>
<td></td>
<td>BNF</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>SP &amp; UMP</td>
<td>ATSF</td>
<td>$170</td>
<td>$85</td>
</tr>
<tr>
<td></td>
<td>BNF</td>
<td>60</td>
<td>30</td>
</tr>
</tbody>
</table>

These gross revenue losses were converted to net revenue losses to the nonparticipating carriers using a 50 percent cost-to-revenue ratio to reflect the difficulty of reducing costs in the face of substantial traffic diversions. For the acquiring carriers, a 75 percent ratio was used to reflect the long-run variable costs they would incur.

No detailed estimate can be made of the merger savings associated with these western carrier scenarios. The changes in traffic flows over both the Conrail property acquired and their own properties are too extensive. For purposes of this analysis, however, the western carriers were projected to enjoy the same savings from improvements in operating efficiencies discussed above, as well as the savings available from eliminating the fixed portion of Conrail's overhead costs.

Purchasers of substantially all of Conrail's properties would implicitly acquire whatever earning power the operation of these properties had at the time of acquisition. For this analysis, the Case C projection of Conrail's 1982 net profit of $28 million was adjusted to the ICC betterment accounting basis generally used by the purchasing carriers; this resulted in a restated 1982 net loss of $185 million (in December 1980 dollars). Having done so, the net benefits of the two-package North-South transfer alternative for the various scenarios are shown in Table 11-5 (next page):
Table 11-5
North-South Transfer Benefits Summarized
(Million of December 1980 Dollars/Year)

<table>
<thead>
<tr>
<th></th>
<th>NWS &amp; CSX</th>
<th>ATSF &amp; UMP</th>
<th>ATSF &amp; SP</th>
<th>SP &amp; UMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring Carrier Efficiencies</td>
<td>210</td>
<td>210</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td>Merger Savings</td>
<td>220</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Net Revenues from Diverted Traffic</td>
<td>35</td>
<td>85</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>Gross Benefits</td>
<td>$465</td>
<td>$355</td>
<td>$360</td>
<td>$365</td>
</tr>
</tbody>
</table>

CRN & CRS 1982 Net Loss     (185)     (185)     (185)     (185)

Net Benefits                 $280      $170       $175       $180

Table 11-5 shows that gross annual benefits would range from $170 million if ATSF and UMP were purchasers to $280 million if NWS and CSX were purchasers. Realization of the acquiring carriers' benefits would depend entirely upon the acquiring carriers' application of their managerial expertise to Conrail's properties. Although no allowance has been made for one-time implementation costs in calculating these on-going net benefits, such costs are estimated at $75 million. The principal implementation problems are discussed in the "Implementation Issues" section of this chapter.

**Estimating Conrail's Market Value**

The expected net earning power provides a basis for estimating the current market value of the Conrail operations and properties to be acquired. Factors to be considered are the applicable income tax rates of the acquiring carriers, their minimum required rates of return, and the method and timing of payment for the property. Assuming an effective tax rate one-half that of the statutory corporate income tax rate (to allow for offsetting investment tax credits from continual replacement of Conrail's physical assets) and a minimum required rate of return of 25 percent after taxes (to allow for high risk and buyer responsibility for generating earning power), the estimated market value of Conrail's properties ranges from $0.5 billion to $0.9 billion. Considering the amount of capital required from the purchasing carriers, they may seek to make payment over an extended period of time.
In any discussion of a sale of most of Conrail, it should be recognized that Conrail has a substantial tax loss carry-forward which could be utilized to shield the earnings of a prospective railroad purchaser. This "asset" is without significant value, of course, unless the prospective purchaser were persuaded that its Conrail property could produce positive earnings during future years. Further, in considering the sale of Conrail as two separate packages, only the purchaser of the Conrail entity could utilize the tax loss carry-forward. Thus, the second purchaser would be required to purchase assets from the Conrail entity. Obviously, approval of any such arrangement by the Federal Government would be essential.

Summarizing the Effects

The net effects of a North-South transfer upon route mileage, employees, and traffic volumes are shown in Table 11-6:

| Table 11-6 |
| Effects of North-South Transfer |
|-----------------|-----------------|-----------------|
| Route Mileage   | Base Case       | CSX & NWS       | Western Roads  |
| Employees (freight) | 17,700          | 14,150          | 15,350         |
| Carloads (Millions) | 65,000          | 45,000          | 48,000         |
| Revenue Ton Miles (billions) | 4.17            | 4.06            | 4.09           |
| (billions)      | 83.3            | 78.1            | 78.7           |

Conrail's existing route mileage would be reduced by the elimination of 2,350 miles of unprofitable lines as well as by expected mainline rationalizations if CSX and NWS were buyers. Traffic volume would decline slightly because of shifts to other carriers' routes. However, some 20,000 Conrail employees would no longer be required if CSX and NWS were purchasers (17,000 employees if western roads were the acquiring carriers) because of efficiencies imposed on Conrail's operations.

This analysis shows plainly that Conrail's estimated market value is inadequate to provide full Title V protection payments to the approximately 20,000 employees who would be displaced by a North-South transfer. Compared with an estimated market value of $0.5 to $0.9 billion, Title V protection payments alone (assuming current entitlement provisions) are estimated at $4.8 billion with federal debt at $3.3 billion (debentures and Preferred A Stock), plus whatever may yet be required to fund continuing Conrail's operations. Clearly, reconciliation of these claims would be required.
LIQUIDATION

The Conrail network has extensive mainline routes that could provide other carriers with access to major rail markets which they do not now serve directly. Various carriers expressed interest in many of these lines in 1975. Despite changes in the railroad industry's structure since that time, many of these carriers would probably be interested once again in purchasing some of Conrail's properties.

As a result, proposals made at the time of the Final System Plan are relevant even though they would be different today because of mergers, the relative financial condition of the various carriers, the expected traffic growth in the Pennsylvania coal fields, and other commercial factors. All of this information, together with data on Conrail's present traffic base, provided a basis for estimating what segments of the railroad could be sold today.

Estimated Effects

Although it is difficult to predict with certainty the total number of Conrail route miles that would be acquired by other carriers, this analysis indicated that about half the present route miles would probably be attractive to one carrier or another and would be bid for as operating property if Conrail were liquidated. Figure 11-4 (next page) shows this network of potentially marketable routes; Figure 11-5 shows the existing Conrail lines that would be more likely to be left behind. Many of the feeder lines in the "abandoned" system might be viable as short lines, at least for some period of time.
Figure 11-4

Liquidation: Acquired Lines
Figure 11-5

Liquidation: Abandoned Lines
Table 11-7 compares the 1980 Conrail Base Case with the "acquired" and the "abandoned" systems as developed in this analysis:

Table 11-7

Effects Of Liquidation

<table>
<thead>
<tr>
<th></th>
<th>Base Case</th>
<th>Acquired</th>
<th>Abandoned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Route Mileage</td>
<td>17,700</td>
<td>8,800</td>
<td>8,900</td>
</tr>
<tr>
<td>Employees (freight)</td>
<td>65,000</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Carloads (millions)</td>
<td>4.17</td>
<td>3.08</td>
<td>1.09</td>
</tr>
<tr>
<td>Revenue Ton Miles (billions)</td>
<td>83.3</td>
<td>48.2</td>
<td>-</td>
</tr>
<tr>
<td>Shipper locations (thousands)</td>
<td>64.8</td>
<td>55.1</td>
<td>9.7</td>
</tr>
</tbody>
</table>

Carloads left behind on the "abandoned" lines are by no means distributed evenly throughout the region; as Figure 11-6 shows, 70 percent of those abandoned carloads originate or terminate in just three states: Pennsylvania, New York, and New Jersey.

Figure 11-6

Loss of Rail Service in a Liquidation: Expected Distribution by State
(Percent of Total Carloads Originating or Terminating on Abandoned Portions)
The adverse impacts of liquidation would obviously be large for states, communities, and shippers as well as for the unneeded employees. Beyond these direct impacts, however, there would be economic dislocation, unemployment, and changes in transportation patterns throughout the Northeast. Not the least of these considerations must be the uncertainty as to which of Conrail's services would be acquired and continued. Although final liquidation could occur within two to three years, the uncertainty surrounding initial purchase decisions, some later failures, and subsequent resales would undoubtedly drag on for an extended period of time—as the Rock Island's liquidation experience illustrates.

The costs of operating the "acquired" network would depend on which railroads acquired what portions of Conrail. Since the combinations and permutations are so numerous, no assessment of these costs has been made. The number of employees shown in the Table 11-7 is, therefore, an estimate based on the route mileage and net ton miles estimated for the "acquired" system of lines.

Since the acquiring carriers would buy only those operations and lines which would be financially rewarding, most of the Case C actions would occur automatically. Prospective purchasers would not acquire responsibility for commuter operations; would not be required to pay for Northeast Corridor trackage rights (unless they chose to); would not employ personnel beyond their needs; would not pay protection payments to those 40,000 employees not needed; and would not acquire low density lines. In addition, purchasers could benefit from some consolidation of common point facilities and from the rationalization of redundant route mileage, especially where the facilities acquired from Conrail were more efficient to operate than their own. Typically, however, purchasers would not need Conrail's shop and overhead facilities, and they could realize general and administrative efficiencies by performing such functions largely with their present personnel. All in all, liquidation should provide rail transportation for the Conrail "acquired" lines at lower cost than is possible at present.

Liquidation could pose some special problems for Amtrak and its operations. There is no guarantee that all of the route miles now used for Amtrak operations would be acquired by trunk carriers; for example, the mainline between Altoona and Harrisburg might not be acquired. Amtrak might thus be compelled to acquire additional railroad property and to reorganize its service where several carriers might own parts of routes now under exclusive Conrail ownership and operation.
The impact of liquidation on the remainder of the railroad industry would be mixed. As Table 11-7 suggests, the "acquired" lines would contribute about 58 percent of the gross freight revenues generated on Conrail’s 1979 route system. If none of the 1979 carloads originated and terminated on the "abandoned" lines were handled by rail, however, a certain amount of freight revenues would be lost to other connecting carriers on traffic interlined with Conrail. These losses would be more than offset for the carriers acquiring parts of Conrail, but would be completely lost for those that did not. Overall, the loss to other railroads as a whole might be as much as $950 million annually.

**Estimated Value**

Because one can forecast neither how much of Conrail could be sold as operating properties, nor how much profit those properties could generate, no precise estimate can be made as to their selling price. It is possible, however, that bids for properties to be operated, together with the salvage available from those abandoned, could return as much of Conrail's invested capital as a North-South transfer, and probably more. Offset against that total would be the additional funding which the Federal Government would have to provide for employee protection (an estimated $9.7 billion for Title V payments) and to keep Conrail operating during the somewhat longer time required to liquidate Conrail.

**PARTICIPATION INCENTIVES**

No large-scale transfer will succeed unless other railroads can be induced to buy and operate some or most of Conrail's existing facilities. Although Conrail's history of deficit operations is a substantial deterrent, there are a number of incentives--some positive and some negative--that could make such sales work.

In the case of North-South transfer, for instance, there are positive financial incentives for acquiring carriers that come from eliminating Conrail's present responsibility for commuter operations; abandonment of substantial low-density line mileage; eliminating surplus employees not required on an efficiently run, merged system; and the net revenue generated on the additional traffic diverted to the lines of the acquiring carriers by virtue of their control of Conrail lines. If CSX and NWS acquired the two Conrail packages, they would also realize additional merger benefits from the elimination of facilities and operations at common points and of redundant route mileage. Table 11-5 summarizes these prospective savings and thus the incentives they would provide for acquiring Conrail's operations.
Negative incentives in North-South transfer derive from the loss of traffic that would be incurred by any carrier that does not acquire part of Conrail. This would be particularly serious for any major western carrier if one or more of its competitors acquired part of Conrail and it did not. As Table 11-4 shows, nonacquiring carriers could suffer gross revenue losses on the order of $150 to $230 million per year. Because some of the incentives to participate are negative, there must be a commitment to the sale process before potential purchasers could be expected to step forward.

The incentives for other carriers to participate in a liquidation of Conrail are similar in many respects to those for the North-South transfer. Conrail's property would be made available to them without commuter service obligations and without surplus employees beyond the minimum required to operate the acquired property. Some merger benefits of the sort available to CSX and NWS under the two-package scenario would also be available. Most important, the liquidation scenario assumes that only the most profitable portions of Conrail's property would be purchased and that all marginal lines would be abandoned.

In addition, all major carriers would be threatened with large revenue losses on their interline traffic if Conrail or a large part of Conrail were shut down altogether. Table 11-8 shows the gross revenue exposure of the two major northeastern/southeastern and four major western carrier systems:

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Carloads</th>
<th>Estimated Annual Gross Revenue Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATSF</td>
<td>160,000</td>
<td>$160</td>
</tr>
<tr>
<td>BNF</td>
<td>150,000</td>
<td>$115</td>
</tr>
<tr>
<td>CSX</td>
<td>750,000</td>
<td>$330</td>
</tr>
<tr>
<td>NWS</td>
<td>485,000</td>
<td>$285</td>
</tr>
<tr>
<td>SP</td>
<td>200,000</td>
<td>$155</td>
</tr>
<tr>
<td>UMP</td>
<td>315,000</td>
<td>$255</td>
</tr>
</tbody>
</table>
THE PROCESSES OF NORTH-SOUTH TRANSFER AND LIQUIDATION

Whatever sale alternative, if any, is selected, the process of sale should:

• Define pre-established time limits. Neither the funding requirements nor the uncertainty surrounding interim operations permit a lengthy process.

• Incorporate pre-established procedures for evaluating the bids for both fixed plant and equipment.

• Incorporate a clear-cut procedure for linking the bids for rolling stock and other equipment to the fixed plant bids.

• Establish bidder qualifications and incorporate bid bonds or their equivalent to prevent nuisance or frivolous bidding.

• Produce a set of bids which collectively put as much of Conrail's property as possible into the hands of operating railroads.

• Designate DOT or USRA to guide the process from a policy perspective but should use Conrail's technical knowledge and support because of the extensive detail involved.

• Permit all property not acquired to be immediately abandoned.

The process might be one which starts with pre-defined packages of fixed plant and equipment assets. This could be done for either the two-package (North-South transfer) or the multi-package (liquidation) scenarios. These pre-defined packages can be refined by mutual agreement, but the refinements should be permissible only at the margins of the packages so that each remains essentially intact.

The criteria for setting up the two-package approach have already been discussed. The multi-package approach would be set up using generally the same criteria, except there is no expectation that as much of Conrail's operating plant would be sold under this approach. The packages would still comprise logical groupings of lines and yards—probably between 100 and 200 packages in all. Once these packages had been established, bids would be entertained only for complete packages.

The multi-package approach would need to permit contingent bidding. That is, a bidder must be allowed to make his bid for any package contingent on his being awarded the contract on one or more of the other available packages, to ensure that
operationally complete routes and terminal combinations were created. The right would be reserved, however, to negotiate amendments to those contingent bids in situations where the overlap between them might otherwise foreclose the sale of some substantial part of Conrail's property.

Either process should permit joint bids (with appropriate prior governmental approval) for any of the packages. Bids for fixed-plant packages contingent on equipment package bids, however, should be permitted only for CRN and CRS under the North-South transfer alternative.

To provide the potential acquiring carriers time for analysis and to reduce federal funding of Conrail, the bidding process would follow a schedule in common with implementation of Case C up to the point at which it would be determined whether Case C was being satisfactorily implemented and/or whether acceptable bids for the North-South transfer packages had been submitted. If the answer to both of these questions was "yes," a decision would need to be made relative to Case C or North-South Transfer. If there were no acceptable North-South package bids and if the concessions required in Case C were found to be infeasible, additional time would be required to define the liquidation packages, put them up for bid, and work out the overlaps between the contingent multi-package bids. In any case, that process would also follow a pre-established time schedule.

Hypothetical implementation schedules for the processes are shown in Table 11-9 on the next page. Figure 11-7 (on page 11-24) compares the time frames within which Case C, North-South Transfer, or liquidation could be implemented.
<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-81:</td>
<td>Advertisement for bids and bidding notices mailed.</td>
</tr>
<tr>
<td>7-81:</td>
<td>Preliminary package specifications available to all prospective bidders.</td>
</tr>
<tr>
<td>8-81:</td>
<td>Recommended adjustments to package specifications submitted to Conrail.</td>
</tr>
<tr>
<td>9-81:</td>
<td>Final package specifications published.</td>
</tr>
<tr>
<td>1-82:</td>
<td>Bids due.</td>
</tr>
<tr>
<td>2-82:</td>
<td>Decision made on Case C vs. North-South Transfer vs. Liquidation.</td>
</tr>
<tr>
<td>3-82:</td>
<td>If North-South Transfer, Conrail North and Conrail South contracts awarded.</td>
</tr>
<tr>
<td>1-83:</td>
<td>If North-South Transfer, buyers assume operational authority.</td>
</tr>
</tbody>
</table>

**Liquidation**

<table>
<thead>
<tr>
<th>Date</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-82:</td>
<td>Advertisement for bids and bidding notices published.</td>
</tr>
<tr>
<td>4-82:</td>
<td>Preliminary package specifications issued.</td>
</tr>
<tr>
<td>6-82:</td>
<td>Recommended adjustments to package specifications submitted.</td>
</tr>
<tr>
<td>8-82:</td>
<td>Final package specifications published.</td>
</tr>
<tr>
<td>1-83:</td>
<td>Multi-package bids due.</td>
</tr>
<tr>
<td>2-83:</td>
<td>Required adjustments to bids announced.</td>
</tr>
<tr>
<td>3-83:</td>
<td>Adjusted multi-package bids due.</td>
</tr>
<tr>
<td>4-83:</td>
<td>Winning bids announced.</td>
</tr>
<tr>
<td>6-83:</td>
<td>Second round package specifications published.</td>
</tr>
<tr>
<td>9-83:</td>
<td>Second round bids due.</td>
</tr>
<tr>
<td>10-83:</td>
<td>Second round winners announced.</td>
</tr>
<tr>
<td>1-84:</td>
<td>Property transfers completed.</td>
</tr>
</tbody>
</table>
IMPLEMENTATION ISSUES

The negotiations which would precede any sale of Conrail property will be critical to the success of the process. They will also be difficult and complex, because many separate parties can significantly influence the outcome. Some parties have a primary role—that is, their determined opposition could probably prevent a substantial sale from taking place. These parties include the Federal Government, acquiring roads, organized labor, and parties to Conrail's equipment obligations. Other parties have a secondary role—that is, they could influence the process or timing of a sale but would probably be unable to prevent it. Secondary parties include nonacquiring roads, state and local governments, and snippers.
This section outlines the issues that will likely arise during the negotiation phase of any sale of substantial portions of Conrail, distinguishing between those fundamental issues that must be resolved and those issues that appear less crucial at this point. Included are: establishing the process; labor issues; demands by acquiring roads; transfer of equipment obligations; demands by nonacquiring roads; pressure from snippers and states, and transitional operations problems.

**Establishing the Process**

While legislation could offer a reconciliation of labor's protection claims with the Federal Government's debt and equity claims, and could also establish a time schedule and process permitting rapid transfer of whatever properties and operations were required without regulatory delay, obtaining sufficient consensus to produce a legislative solution would probably be difficult, at best.

In the event legislation were not obtained and federal funding of Conrail's operations were terminated, Conrail would be compelled to declare bankruptcy (and service would likely cease forthwith). The result would be loss of control by the transportation agencies of the Federal Government as responsibility would be assumed pursuant to law by the bankruptcy court. The court would then design its own plans by which a sale could be accomplished, subject to resolution of the Title V protection problem.

**Labor Issues**

Labor issues appear to be the most difficult to resolve. Compulsory arbitration would facilitate their resolution and may, in fact, be essential if service were to be continued without interruption.

- **Employee Protection**: Probably the most difficult and most costly problem to be faced would be that of employee protection. Conrail is currently required to provide greater protection payments than most other roads, and labor would be likely to object strenuously to any diminution of this protection.

At present, when Conrail "lays off" employees who were also employed by the predecessor roads, it becomes liable for Title V protection payments to those employees. Although the amount of these payments varies, based on current Title V entitlement provisions, Conrail's historical experience, and the average age distribution of Conrail's employees, the total cost would be an estimated $242 million per 1,000 employees.
A proposed alternative to Title V protection would offer either an annual maximum benefit of $25,000 and a lifetime benefit of $100,000, or a severance option (exercised at the discretion of Conrail) of $25,000. Although this proposal would lessen the amount of the payments, it would not release Conrail from its obligations to make such payments.*

There would likely be strenuous labor objection unless Title V provisions were continued in either a North-South transfer or a liquidation—both to protect employees not transferred to the acquiring roads and to preserve the level of benefits of those who do transfer. In addition, unions might demand coverage for employees who joined the railroad after the Title V cut-off date. Acquiring roads would almost certainly not accept either provision and both sides would look to the Federal Government for some resolution.

Assuming no additional funding for Conrail was available, if the Title V protection obligation could not be resolved legislatively, or by Federal assumption, or by protected employees relinquishing their claims, a complete cessation of Conrail's services followed by the probable abandonment of its lines would result.

• Number of Employees Hired: Labor would probably attempt to ensure that all employees were hired, while acquiring roads would likely insist that they have the right to hire only those employees needed. Acquiring roads are likely to insist on this provision and have shown their willingness to withdraw from a negotiation rather than lose the right of hire—as occurred in past USRA negotiations with Southern and Chessie over the Delmarva Peninsula and the Erie Lackawanna lines. Subsequently, however, carriers acquiring lines from the Milwaukee and Rock Island won the right to hire only those employees deemed necessary, under terms of the so-called "Miami Agreement." An adequate employee protection agreement would ease—but not eliminate—this conflict.

* At present, Conrail is liable for Title V payments even if any employee is later employed by another carrier, unless that employee voluntarily resigns from Conrail or unless a sale of Conrail's properties is deemed to be a supplemental transaction (Section 305 of the 3R Act).
Seniority Rights: Conrail's labor unions would be expected to negotiate strenuously to maintain current seniority districts in any sale. Both precedent and the difficulty of merging districts suggest that current seniority districts would prevail where the majority of Conrail employees were hired by the acquiring road. Only in areas where considerable overlap of territory (between the acquiring road and the Conrail package) occurred is it likely that districts would be merged.

Representation Rights: The amount of difficulty encountered in resolving differences of labor representation between Conrail and acquiring roads would likely depend on the degree to which acquiring roads attempted to consolidate agreements. There would probably be few significant representation disputes in those areas where acquiring roads operated Conrail territory using separate districts. In areas of territorial overlap, acquiring roads would probably attempt to consolidate agreements, though they may choose to do so slowly. Difficulty in consolidating agreements is anticipated only in those crafts where large numbers of Conrail employees are represented by units different from those on acquiring roads.

Work Rules: Most recent mergers (for example, CSX and BN-Frisco) have maintained separate agreements and thus the work rules of acquired employees have prevailed. Under the provisions of New York Dock (if applied), purchasing railroads would be required to continue the relevant Conrail labor agreements until changed by negotiation. Although the acquiring roads' rules prevailed as a result of the "Miami Agreement" in the Milwaukee and Rock Island properties purchases, the size of the Conrail transaction and the relatively stronger position of its unions argue against such an outcome in North-South transfer.

Conversely, the smaller packages associated with liquidation suggest a "Miami Agreement" approach would occur in that instance.

Rates of Pay and Benefits: There is little difference in basic pay and benefits between Conrail and the potential acquirers since most roads abide by the national agreement of the Railway Labor Executives Conference and the National Railway Labor Conference.
Demands By Acquiring Roads

Acquiring roads would negotiate to avoid being forced to acquire lines and facilities they believe to be undesirable, to buy only necessary equipment, and to pay only the lowest possible price.

Transfer of Equipment Obligations

Issues over the transfer of equipment obligations (leveraged leases and equipment trusts) should probably be resolved before a sale takes place because: 1) it is most unlikely that acquiring roads could accommodate the incremental freight traffic associated with Conrail's properties without using a significant portion of Conrail's cars, and 2) holders of the obligations appear to be able (if they chose) to legally prevent transfer of leases and trusts to the acquiring roads.

Conrail currently has over 300 separate equipment leases capitalized at more than $900 million. The disposition of these leases is complicated because five parties might have conflicting claims: Conrail, lessors, debt-holders, acquiring roads, and the Government. Most lessors would probably be interested in reassigning equipment quickly to cover debt payments, negotiating for terms near fair market value. Acquiring roads would likely negotiate to suit their own financial structures, perhaps desiring to substitute equipment trust obligations for leveraged leases. Debt-holders could agree to new terms unless such terms exceeded the debt-holder's ceiling with the new lessee.

Demands by Nonacquiring Roads

Roads not acquiring Conrail packages might suffer significant revenue diversion and thus could be expected to oppose proposed sales. However, recent precedents and stated ICC policy suggest that nonacquiring roads would not be in strong positions to prevent sales of Conrail's properties.

Pressure from Shippers and States

Shippers, states, and communities can be expected to lobby strongly against substantial line abandonments or decreases in service. It is unlikely, however, that they would be able to forestall a concerted effort to transfer Conrail's properties to other carriers unless they could convince Congress to provide additional funding for Conrail—an eventuality that is improbable since Congress would probably already have passed legislation to permit such transfers.
Transitional Problems

The sale of Conrail's properties to others would present transitional problems. Fragmenting system, regional, and local management jurisdictions and operating plans would result in some service changes and disruptions unless carefully planned in advance.

In a two-package sale, management information and accounting systems would have to be put in place before operating patterns could be changed. The most effective method for doing so appears to be to use current control systems for one package and to create a duplicate system for the second package. This would cost about $15 million and require 18 months to develop, starting 6 to 9 months in advance of the actual transfer of operations.

In contrast, liquidation of numerous, relatively small packages would become the responsibility of many acquiring carriers. Thus, the transitional problems associated with liquidation would be more manageable.

A COMPARISON OF THE ALTERNATIVES

A comparison of the alternatives for route miles operated, number of employees required and released, and carloads handled is presented in Table 11-10. North-South transfer is presented showing CSX and NWS as the assumed buyers. If western carriers were the buyers, about 1,200 more route miles and 3,000 more employees would probably be retained.

<table>
<thead>
<tr>
<th>Route Miles Operated</th>
<th>Base Case</th>
<th>Case C</th>
<th>North-South Transfer</th>
<th>Liquidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees (Freight)</td>
<td>17,700</td>
<td>15,350</td>
<td>14,150</td>
<td>8,800</td>
</tr>
<tr>
<td>Required</td>
<td>65,000</td>
<td>54,000</td>
<td>45,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Released</td>
<td>(0)</td>
<td>(11,000)</td>
<td>(20,000)</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Carloads (millions)</td>
<td>4.17</td>
<td>4.09</td>
<td>4.06</td>
<td>3.08</td>
</tr>
</tbody>
</table>

Liquidation would cause the most severe impact with abandonment of about one-half of Conrail's network, loss of about one quarter of Conrail's existing traffic, and elimination of some 60 percent of Conrail's employees.
Conrail's Solomon-like proposed split was basically similar to the United States Railway Association's proposed break-up of Penn Central and was based on the traffic flows of Conrail, CSX and Norfolk Southern with consideration given to maintaining competition. It had been determined that the former New York Central (Chicago, Detroit and St. Louis to Boston, Northern New Jersey and New York City) fits operationally with CSX along with the old Jersey Central and the remnants of the Pennsy and Reading railroads with Norfolk Southern. In Conrail's 1981 break-up plan CSX and NS share the Hagerstown - Allentown - Oak Island route. While Conrail is good route miles smaller than is was when this break-up plan was conceived, it remains valid. The former Pennsy generates more traffic than does the old New York Central, so NS gets the lion's share of Conrail's revenues. It has been reported that the Surface Transportation Board favors a 60-40 split, if this is so, this is it.

M.C. Pitts
Amsterdam, N.Y. 12010