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JACK QUINN

30TH DISTRICT, NEW YORK

COMMITTEES:

TRANSPORTATION AND INFRASTRUCTURE
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CHAIRMAN, STEEL CAUCUS EXECUTIVE COMMITTEE



Congress of the United States

House of Representatives
Washington, D.C. 20515-3230

July 24, 2001

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

Re: Finance Docket No. 33388; CSX Corp. and CSX Transp., Inc., Norfolk Southern Corp. and Norfolk Southern Ry. Co. – Control and Operating Leases/Agreements – Conrail Inc. and Consol. Rail Corp.

Dear Chairman Morgan:

The Railroad Subcommittee of the House of Representatives Committee on Transportation and Infrastructure has worked diligently to compile information obtained during our hearing on July 16, 2001, regarding Norfolk Southern's proposed closure of the Hollidaysburg, Pennsylvania Car Shops. I therefore submit for the Board's consideration the following information:

- Copies of the written testimony submitted to the Subcommittee;
- Information in response to questions asked by Members at the hearing;
- A videotape submitted to the Subcommittee during the hearing and containing video clips of statements made by Norfolk Southern officials; and
- A videotape of the testimony obtained at the Subcommittee's hearing.

The videotape of our hearing is submitted in lieu of a written transcript of the hearing because that transcript will not be ready for some time.

Sincerely,

Jack Quinn

Jack Quinn, M.C.
Chairman
Subcommittee on Railroads

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CHARLES MONEYPENNY
International Representatives

July 23, 2001

The Honorable Jack Quinn
U.S. House of Representatives
Committee on Transportation and Infrastructure
Chairman Railroad Subcommittee
2448 Rayburn House Office Building
Washington, D.D. 20001

Via Fax (202) 226-0347 & U.S. Mail

Dear Chairman Quinn,

This is in reference to issues which arose during the Monday July 16, 2001 Railroad Subcommittee hearing concerning Norfolk Southern's proposed closing of Hollidaysburg Car Shop in Altoona, Pennsylvania.

During the hearing the Subcommittee requested a copy of the declaration of Joseph Letcher, which was referenced during the organizations (TWU) presentation before the Subcommittee. As stated during our testimony, Mr. Letcher was a Carman at Hollidaysburg, on the Local insourcing team, and intimately aware of insourcing projects at Hollidaysburg. Attached you will find a copy of Mr. Letcher's declaration. We also point out that a signed copy of Mr. Letcher's declaration is part of our July 16, 2001 filing with the Surface Transportation Board (STB) as exhibit 35.

Also, during the hearing the issue of Norfolk Southern's use of outside contract shops to repair equipment arose. Information developed by the organization indicates that Norfolk Southern is sending a considerable amount of work to outside contract shops. As an example, just one week prior to the Subcommittee

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The Honorable J. Quinn
RE: HCS RR Subcommittee Hearing

hearing in Altoona, on July 09, 2001 NS routed equipment from Canton, Ohio to Transco, a contract shop in Bucyrus, Ohio, as outlined below.

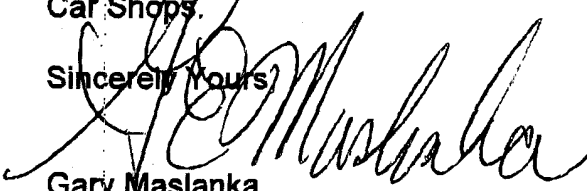
SOU 62776	Coil Steel Gondola	Hood Repairs
SOU 62778	Coil Steel Gondola	Hood Repairs
SOU 62780	Coil Steel Gondola	Hood Repairs
SOU 62793	Coil Steel Gondola	Hood Repairs
SOU 62799	Coil Steel Gondola	Hood Repairs

The above referenced cars represent only a sampling of the type work Norfolk Southern is sending to contract shops for repair. With respect to these particular cars, we point out that Hollidaysburg has both built these type cars and repaired them in the past on numerous occasions, and is well equipped to perform such work.

It is also important to point out that this was not an isolated, or one time occasion in which NS sent equipment to a contract shop for repairs. To the contrary we have investigated this matter and found that NS is routinely sending equipment to numerous contract shops around the country. As referenced during the Subcommittee hearing, we have followed-up on Norfolk Southern's use of Ebenezer Rail Car Services in West Seneca, New York, and have been advised that NS has, on a quite regular basis, forwarded equipment to this contract shop for repairs.

In closing, we would again like to thank you as Chairman, and the Railroad Subcommittee for having provided us the opportunity to present testimony and information concerning Norfolk Southern's planned closing of the Hollidaysburg Car Shops.

Sincerely Yours,



Gary Maslanka
International Staff Representative

Attachment/ 1/

CC: S. Hall
J. Czuczman
T. Lutton
R. Edelman
Railroad Subcommittee w/attachment (Attention: J. Scheib @ (202-226-0727)
File -- rrsjquinn72301

DECLARATION OF JOSEPH H. LETCHER

1. My name is Joseph H. Letcher. I was a Carman employed for Norfolk Southern in Altoona, Pennsylvania until May 04, 2001. Previously I was employed by Consolidated Rail Corporation, and the Penn Central Railroad, when I began my employment in the Altoona shops back in 1974.

2. In the mid to late 1990's Conrail, who operated the shops at that time embraced the concept of insourcing aimed at increasing utilization of the shops. Consistent with Conrail's focus on insourcing work I accepted a position on the insourcing team at Hollidaysburg Car Shop in late 1996, and was involved in insourcing projects on a full time basis until May of this year. As an estimator on the insourcing team I became increasingly involved with the process of estimating potential jobs and assisting in the preparation of proposals to secure insourcing projects. In fact, during my tenure on the insourcing team I traveled to numerous locations, both within and outside of the United States to review and estimate potential jobs.

Due to my involvement, and personal knowledge of the insourcing work efforts at the shops I have worked with and frequently spoken to Thomas Lutton, President of TWU Local 2017 concerning insourcing work at the shops. In fact, it was quite common for me to speak with Mr. Lutton concerning these issues because when Conrail was operating the shops the organization was viewed as a partner in the insourcing efforts. Unfortunately, however, as time progressed after split date it became increasingly evident that Norfolk Southern's management style did not involve the same type partnership that was in place during Conrail's operation.

3. I have also had the opportunity to read declarations of Mr. Lutton and verified statements of David L. Veron and Robert H. Belvin, as well as others in various filings in the current case involving the Hollidaysburg Car Shops before the United States Surface Transportation Board. In addition to addressing various other issues I will respond to various statements embodied in these verified statements which have been filed with the Board.

4. Having worked in the Car shops in Altoona over the past 27 years I have a quite extensive understanding of the shops operations and the type of work which is performed in the shops.

Page Two (2) / Declaration of Joseph H. Letcher

5. As time progressed, from the beginning of our insourcing efforts, our insourcing team grew more and more proficient. The ability of our insourcing team to secure projects was supported greatly by the reputation of the shops at Altoona and the work force which was recognized as having the ability to perform quality work in a timely fashion. In fact, the shops at Hollidaysburg were recognized for the ability to perform several type specialized projects which other car building and repair facilities were not suited to perform. These factors resulted in a steady increase in insourcing work being performed in the car shops in the late 1990's, into year 2000.

6. In late 1996 and early 1997 in response to merger announcements, first the CSX/CR proposal, then the CSX/NS acquisition of Conrail, our insourcing team became skeptical and was uncertain what to expect with regard to insourcing at the shops due to the proposed mergers. However, within only a short period of time, our insourcing team, as well as employees at the shops began receiving good news from Norfolk Southern who ultimately acquired the shops in the Conrail Transaction. The good news provided to us at the shops by Norfolk Southern was that they, NS was not only going to continue operation of the shops, but also consolidate other work into the shops and promote employment at the shops. Even more encouraging to the insourcing team, and employees at Hollidaysburg, was the fact that NS obviously recognized the shops for their ability to perform insourcing projects, and there repeated commitments to increase insourcing at the shops. These commitments to increasing insourcing were reaffirmed repeatedly by Norfolk Southern officials who visited the shops prior to acquisition date, publicly applauded the insourcing efforts and the quality of workmanship. In addition, during NS officials visits to Hollidaysburg, they repeatedly reassured employees that they were focused on increasing insourcing, as stated not only in their operating plan, but in new releases, via the media and throughout various other forums.

7. Upon split date, and the continuing commitments by Norfolk Southern to continue operations and promote employment at the shops our insourcing team rolled forward continuing on a steady and increasing rate of securing profitable insourcing projects for the shops. In fact, in year 2000 the shop insourced work on 1850 cars, nearly a 25% increase from the previous year, and the largest number of cars ever insourced at the shops in a given year. Moreover, these increasing projects brought in substantial profits for the shops. These profits could have been increased by the shops performing additional insourcing projects, which had already been secured, however had to be turned away due to inadequate staffing levels at the shops.

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8. This brings me to my next point with respect to Norfolk Southern's claims concerning underutilized capacity in the shops. In fact, capacity in the shops is controlled by the company, and as illustrated in year 2000, several insourcing projects which were already scheduled for the shops beginning in the 4th quarter of 2000 and into 2001 were turned away by Norfolk Southern, in large part due to the fact that manpower at the shops had decreased considerably since split date, the day in which NS took over operations of the shops. Inasmuch there was not sufficient staffing in the shops to keep up with the increased flow of insourcing projects coming into the shops. Outlined below is a schedule of insourcing projects which were scheduled in the shops beginning in the 4th quarter of 2000, any number of which could have begun in year 2000 had there been sufficient manpower in the shops.

Table 1**SCHEDULED INSOURCING WORK FOR 4TH QUARTER OF YEAR 2000 INTO YEAR 2001**

1.	Open Top Hopper Fastener Replacement Program	260 Cars
2.	CSX Box Car – Heavy Repair Program	333 Cars
3.	CSX Aggregate Rebody Program	350 Cars
4.	CCX (4300) Wood Chip Gondola Program	150 Cars
5.	Rail Trust Covered Hopper Program	25 Cars
6.	Greenbrier Quad Hopper Modification Program	100 Cars
7.	Greenbrier Quad Hopper Heavy Repair Program	75 Cars
8.	GCCX Hood Program	160 Hoods

Total of 8 Programs Scheduled, Including 1393 Cars & 160 Hoods for Repair or Modification

The programs outlined in Table 1 above were all scheduled in for the shops with preparations being made to order materials. Many of these programs could have been performed, at a substantial profit in the shops during year 2000, but were held back due to insufficient staffing in the shops, then ultimately turned away by Norfolk Southern. In fact, due to the success of the insourcing efforts and the amount of work scheduled for the shops, it is my understanding that in approximately October of 2000 Shop management attempted to get additional employees for the shops but were turned down by Corporate Norfolk Southern management in Roanoke, Virginia.

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9. The news that manpower was requested to keep up with the insourcing work and refused was not only disturbing, but signaled problems for several reasons. First, the insourcing programs outlined in Table 1, scheduled into the shops, were all programs which would generate a substantial profit for the shops. Second, it is my understanding that the organization representing members at Hollidaysburg Car Shop, the Transport Workers Union of America, Local 2017 had previously negotiated a reduced rate agreement for new hires at the Hollidaysburg Car Shops, and that Norfolk Southern management, not the organization, backed out of the agreement. It is also my understanding that this agreement that the organization agreed to provided for new hires being paid at a 75% rate of pay, which would have resulted in even substantially higher profits on these insourcing programs. Third, it should be pointed out that these insourcing programs are negotiated to be fully allocated. In other words all of the overhead, material and labor costs are figured in, as well as a margin of profit. In addition, on a regular basis the margin of profit over the duration of a program usually increases substantially as increased efficiency and productivity normally occurs over the duration of a program. Forth, and certainly not last, Norfolk Southern's refusal to augment the forces in Hollidaysburg signaled quite strongly that they were beginning an attempt to renege on the unequivocal commitments they had made repeatedly to increase insourcing at the shops.

10. In response to reading both declarations of Thomas Lutton, and the verified statement of David L Veron which attempted to refute statements in Mr. Lutton's declaration I do not find Mr. Veron's statement to be entirely accurate and detect several misleading statements. Before addressing various statements made by Mr. Veron I should point out that I find Mr. Lutton's declarations are consistent with my general knowledge of the insourcing efforts at Hollidaysburg car shops.

After having read Mr. Veron's verified statement in Norfolk Southern's June 25, 2001 filing with the Surface Transportation Board, in particular I would like to respond to the following statements made by Mr. Veron, which in my judgment do not accurately reflect the status of various insourcing projects based on my involvement and knowledge with the insourcing program at Hollidaysburg Car Shops.

(a) In response to Mr. Veron's statement at page 6 of his verified statement, "**Mr. Lutton is misinformed as to work that " would have kept the shops fully operational well into 2002 "**" I do not agree with Mr. Veron's statement. As outlined in Table 1 of this declaration, there are 8 programs

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identified which were already scheduled into the shops in the last quarter of 2000, into 2001 which entailed a considerable amount of work. In addition, as I will discuss later in this declaration, we were in the process of securing numerous additional insourcing projects which would have obviously kept the shop fully operational, based on employment levels, throughout 2001, well into 2002 and most likely well beyond 2002. It is also important to emphasize that requests for additional employees at the shops were made and declined by Corporate Norfolk Southern management, further supporting our assessment that, in consideration of the work scheduled (Table 1) and additional projects nearing being secured the shops would have been fully operational at current employment levels well into 2002 and beyond.

(b) In response to Mr. Veron's statement at page 6 of his verified statement, "*For Example, he is mistaken that NS had a commitment from Bombardier for the conversion of 250 gondola cars at a cost of 4.5 million. Lutton V.S. at 4. In fact, NS did have some initial discussions with Bombardier to build and apply a drop-in trough to 225 gondolas, but Bombardier was willing to spend no more than 1.9 million on the project, not the 4.5 million Mr. Lutton claims.*" again I do not believe that Mr. Veron's statement accurately reflects the status of this insourcing proposal, which to my understanding, as part of the insourcing team was still in negotiation. My recollection of this insourcing proposal was that the cost of the cars was \$ 8300.00 per car x 250 cars equaling \$ 2,075,000.00, then the cost of hoods for the 250 cars which was \$ 7200.00 per car x 250 cars equaling \$ 1, 800,000.00, and in addition during negotiations additional truck work, at additional costs were being discussed. Inasmuch, based on my knowledge, Mr. Lutton's declaration more accurately described this insourcing project proposal, which as stated before was still in negotiation, with good potential and indications that this project would be secured based on the shops past experience in doing this type work.

(c) In response to Mr. Veron's statement at page 6 of his verified statement, "*Mr. Lutton incorrectly claims that NS passed up work on 200 covered hopper cars for Johnstown America at an asserted cost of \$ 5 million. In fact, in November of 2000, NS provided a quote to Johnstown America offering to work on these cars at a price of \$ 4.675 million. Although we were hopeful that we would bring that work to Hollidaysburg, Johnstown America informed in February that they would do the work in their own shops.*" , based on my knowledge concerning this insourcing proposal, again Mr. Veron's statement does not accurately reflect the status of this proposed project.

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Although there does not appear to be a dispute concerning the cost of this particular insourcing project proposal, what transpired with this project, in my judgment and based on my knowledge is not accurately stated by Mr. Veron. It is my understanding that Johnstown America did not actually do this work, as alleged by Mr. Veron, but in fact contracted with Millennium rail in Altoona to do the work. In fact, it is interesting to note that Veron states that Johnstown America provided notification to NS in February 2001, alleging that they, Johnstown America were going to do the work, in the same time frame in which NS again announced it was closing the Hollidaysburg shops. When considering that the proposal was submitted in November 2000, then NS's announced closing in November 2000, then Johnstown America providing notice in February 2001, when NS again announced plans to close the shops, in addition to information that Millennium rail actually performed this work, it is quite apparent that Mr. Veron's statement is incorrect. It was also brought to my attention that the initial prototype car that Millennium did for this order was not successful. In this regard, the Hollidaysburg shops had successfully built prototypes and performed these types of orders in the past. In view of the foregoing it appears that indeed Johnstown America had no intentions of doing this work itself and was depending on Hollidaysburg car shops, which had experience with this type work, to do the work, but subsequent to two announced closing of the shops by NS contracted with Millennium rail to do the work.

(d) In response to Mr. Veron's statement at page 6 of his verified statement "*Mr. Lutton is also mistaken in claiming that NS received a \$1 million commitment from Greenbrier for 1,000 container car covers. Lutton V.S. at 4. NS is not aware of any such proposal from Greenbrier.*", I do not agree with Mr. Veron that there was no such proposal. Again, based on my involvement in the insourcing programs at Hollidaysburg, and my recollection, contrary to what Mr. Veron states, indeed we were in negotiation with Greenbrier for an order to build covers for CRLE cars. It was also in my recollection that the potential for securing this job was very good, and that we were in the process of working out details such as various sizes and other specifications.

(e) In response to Mr. Veron's statement at page 6 of his verified statement "*Nor have we received any proposals from First Union to provide warranty work on 400 gondola's, as Mr. Lutton claims on Page 4 of his statement.*", again I do not agree. Although I do not recall all the particulars of this particular insourcing proposal, I am quite certain that we were in discussions with First Union to perform warranty work on cars as stated in Mr. Lutton's declaration.

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(f) with regard to Mr. Veron's statement at page 6 of his verified statement "*We did, however, have discussions with the Department of Defense. Those discussions concerned the possibility that NS would perform preventive maintenance on some of DoD's car fleet, and we had in fact provided them with a per-hour quote. Unfortunately, the Department of Defense did not contact us again until February 20 of this year- the day before NS announced the closure of the shops. Even if we had entered into an agreement with the Department of Defense, I seriously doubt that the work would have been worth even close to \$ 8 million per year. The contemplated arrangement would have been an agreement on price per hour for work done on cars-not an agreement for the repair of a set number of cars.* ", for several reasons I disagree with Mr. Veron's statements and find them both incorrect and misleading. Based on my knowledge and recollection we were confident that we were going to get this work. In fact, it is my recollection that the DOD actually waived a mileage criteria in place to see that the work could be performed at Hollidaysburg Car Shops. It is also my recollection, that contrary to what Mr. Veron alleges with regard to the price and amount of work, this proposal entailed maintenance on a fleet of 2000 cars, at a minimum of \$ 4000.00 per car equating to the \$ 8 million dollar amount referred to in Mr. Lutton's declaration. It should also be pointed out that NS' November 2000 closure of the shops made customers a bit skeptical, however, as stated previously, and contrary to Mr. Veron's obviously self-serving choice of wording, such as the " Possibility " concerning securing this program, our insourcing team was quite confident right along that we were going to secure this program. Inasmuch, Mr. Veron's statement regarding being notified a day before the announced closing appears to imply that the securement of this project came as a surprise, which again based on my involvement and knowledge of this proposal was not the case.

(g) With regard to Mr. Veron's statement at page 7 of his verified statement "*Mr. Lutton claims that the Finger Lakes Railroad committed to have NS refurbish 20 cars at a price of \$380,000.00. Lutton V.S. at 4. In fact, this railroad expressed an interest in acquiring from NS an assortment of old cabooses and ballast cars. It wanted Norfolk Southern to then rework them. When we informed the Finger Lakes that we had no such cars for sale, the discussions ended.* ", I do recall discussions concerning cabooses and that NS did not have any cabooses for sale. However, I do not believe Mr. Lutton's declaration stated anything about cabooses. It is also my recollection based on my involvement in the insourcing programs that we were negotiating with the Finger Lakes concerning a project wherein they were interested in purchasing coal hauling (Tubs) from NS which would have been worked at Hollidaysburg Car Shop. I am also aware that these cars were available, in storage at

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the yard in Juniata, and we were awaiting for a release to sell the cars to finalize the project, which to my understanding would have been at a cost of \$ 380,000.00.

In addition to the insourcing projects discussed above, and also due to an insufficient work force at the Hollidaysburg shops, other work, which was already in progress was farmed out. As an example, the shops had an insourcing order with GATX for SP Flat cars, a project which had already been started in the shops. The material (Steel Kits) for completing 24 of these cars had already been fabricated, when Norfolk Southern sold the kits to Millennium rail and farmed the work out.

In concluding on Mr. Veron's statements, based on my involvement, knowledge and recollection concerning insourcing projects at Hollidaysburg Car Shops, it is quite apparent that Mr. Veron's statements are not only incorrect in large part, but misleading and worded in a self serving fashion which fails to reflect an accurate picture of insourcing programs at the shops.

11. As stated previously, in addition to the insourcing work which was already scheduled into the shop beginning in the 4th quarter of year 2000, the insourcing team was in the process of negotiating numerous additional insourcing projects for the shops, many of which looked very promising and that we felt confident that we would be awarded based on the shops experience and reputation for doing the work in the past. Among other projects which were being considered, the insourcing team at Hollidaysburg was actively working on the insourcing projects outlined below in Table 2. Insourcing project proposals outlined in Table 2 are in addition to both the work which was already scheduled, as outlined in Table 1, and in addition to insourcing projects discussed above, as outlined in Mr. Lutton's declaration and Mr. Veron's verified statement. As noted in Table 2, an excellent potential for securing work on up to 2,832 addition cars and 300 containers existed and was being actively pursued. I believe it is also important to point out that in Mr. Veron's verified statement at page 4, the chart showing insourcing customers reflects several of the same customers outlined in Table 2 below. This, I believe is significant because it establishes that the customers negotiations were ongoing with in Table 2 are customers which have used the Hollidaysburg Car Shop facilities in the past, and who recognize the shops abilities and the quality of work, adding to our confidence that much, if not all of the work outlined in Table 2 would have been secured.

Page Nine (9) / Declaration of Joseph H. Letcher**Table 2****INSOURCING PROJECTS BEING ACTIVELY NEGOTIATED**

1. Greenbrier - CRLE Container Well Car PM Program	2000 Cars
\$ 800.00 - \$ 1000.00 Per Car	
2. GATX - FURX High Side Gondola Mod Program	200 Cars
\$ 19, 282.00 Per Car	
3. GATX - Flat Car Container Repair Project	300 Containers
\$ 2500.00 Per Container	
5. ANDERSONS - Covered Hopper Mod Program (Cut Down)	200 Cars
6. ANDERSONS - Box Car Conversion 70T-To 100T	92 Cars
7. ANDERSONS - Twin Aggregate Re-Body Program	200 Cars
8. 1st Union Rail - Rapid Discharge Car Modification Program	40 Cars
\$ 23,000 Per Car	
9. Gilford Rail - Sell & Refurbish Open Top Hoppers (Tubs)	50 Cars
10. Altoona P/S - Sell & Refurbish Open Top Hoppers (Tubs)	50 Cars

10 Additional Insourcing Projects Involving 2832 Cars and 300 Containers

12. I have had the opportunity to read various statements by Norfolk Southern representatives who attempt to state that the company made a significant attempt at increasing insourcing work at Hollidaysburg, however that such attempts were unsuccessful. With regard to statements saying significant attempts to increase insourcing work were made, from at least a local vantage point I can certainly agree, as I was involved in this process and can comfortably state that our efforts to increase insourcing were quite aggressive.

However, with regard to statements alleging that these insourcing efforts were not successful, I could not disagree more. Such statements are completely false and appear to be nothing more than self

Page Ten (10) / Declaration of Joseph H. Letcher

serving to justify the carriers actions. To the contrary, as supported by information provided in this declaration, and elsewhere, the insourcing efforts at Hollidaysburg Car Shops over the past few years were very successful and insourcing work was continually increasing.

To be clear, when considering the increase in insourcing work and numerous additional pending insourcing programs, it is obvious that contrary to Norfolk Southern's allegations that they attempted to increase insourcing and were not successful, the fact is Norfolk Southern, for no apparent good cause literally pulled the plug on insourcing work at Hollidaysburg Car Shops.

Verification

I, Joseph H. Letcher, verify that under penalty of perjury that I was a Carman employed by Norfolk Southern in Altoona, Pennsylvania until May 04, 2001, that I have read the foregoing document and its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed July____, 2001

Joseph H. Letcher

Testimony of
David R. Goode, Chairman and CEO
Norfolk Southern Corporation
Before the U.S. House of Representatives
Committee on Transportation and Infrastructure
Subcommittee on Railroads

July 16, 2001
Altoona, Pennsylvania

Congressman Quinn, Members of the Subcommittee:

I am pleased to have this opportunity to address this committee. Of course, I wish it could be under different circumstances. But some hard realities have brought us all here today. And there is no reason to avoid those hard realities. On February 21, 2001, Norfolk Southern announced its intention to close the Hollidaysburg Car Shops, and several unions and the Commonwealth of Pennsylvania ("Petitioners") petitioned the Surface Transportation Board (the "Board" or "STB") to stop that closure. The Petitioners argue that, while seeking the Board's approval for the joint acquisition of control over Conrail during the Conrail Proceeding, Norfolk Southern committed to keep the Shops open notwithstanding business, operational or economic conditions, and that this commitment had no limit in time. In response, the Board ordered Norfolk Southern to show "why the Board should not order NS to cancel its proposed shut-down of its Hollidaysburg Car Shops."

Norfolk Southern responded to the Board's order three weeks ago. We explained that there was no commitment to keep the Shops open, and further set forth many of the business considerations and the background facts that led to our decision to close the facility. We described our operation of the Shops since June 1, 1999 when Norfolk Southern and CSX first began their separate operations of their respective allocated portions of Conrail. We described the substantial efforts we undertook to develop business for the Shops, and the current economic, business and operating conditions that led to the difficult decision to close the Shops. We described a number of other long-term actions we have taken to restructure Norfolk Southern to move towards a sustainable capital structure. Today, the Petitioners file their rebuttal. We believe that the facts do not justify an order preventing the closure of the Shops.

This morning I will try to put the issues in context. The decision to close the Shops was not and can not be viewed in isolation of the several other actions taken by the railroad to right-size its infrastructure to meet the business, operational and economic conditions it faces now and in the future. I will discuss these. Norfolk Southern is and will continue to be a significant presence in Pennsylvania; we are proud of that fact and have demonstrated through our significant efforts and investment our dedication to Pennsylvania. I will describe those efforts and investment. Finally, I will

address briefly the broader policy issues involved. We need the flexibility to make the day-to-day business decisions governing the operation of the company on a system-wide basis, with all of the attendant considerations those complex decisions entail.

Norfolk Southern operates the Hollidaysburg Car Shops as a result of an agreement it reached with CSX in 1997 for their joint acquisition of control over Conrail. As part of that agreement, Hollidaysburg was allocated to Norfolk Southern. In June 1997, Norfolk Southern and CSX filed their Application for STB approval of the proposed Conrail transaction. The Board approved the Application in July 1998. After approval, Norfolk Southern and CSX began their separate operations over their respective allocated portions of Conrail's assets on June 1, 1999, a date commonly referred to as "Split Date."

An important part of the Application submitted to the Board for its consideration and ultimate approval of the proposed transaction was the Operating Plan. The Operating Plan – including the discussions concerning the post-Split Date use of the Shops – was based upon several assumptions and expectations that have not been borne out by events since Split Date. The Operating Plan, however, also anticipated that Norfolk Southern would have to be flexible in order to react to the marketing, operating and economic environment and to operate the new and expanded system consistent with the long-term health of the enterprise.

Norfolk Southern, in fact, has had to be flexible. The marketing and economic realities Norfolk Southern has faced subsequent to Split Date (such as the significant reduction in export coal volumes and the dramatic increase in the price of diesel fuel) have caused Norfolk Southern to fundamentally rethink its operations. We have had to take a very detailed look at all aspects of its operations and economics so as to right-size the physical plant to reflect the actual (rather than the projected) traffic and revenues on the expanded Norfolk Southern system since Split Date.

Rather than expand our freight car fleet as we anticipated in the 1997 Operating Plan, we have curtailed the purchase of new freight cars and disposed of several thousand surplus rail cars. We announced the planned disposition of 12,000 surplus rail cars and we are well on our way, having sold 9,000. Earlier this year we began implementation of a line rationalization program targeting 3,000 to 4,000 underutilized or duplicate track miles. We have curtailed operations, closed or announced the closure of several facilities including at the 38th Street Car Shop in Norfolk, Virginia, the foundry and parts reclamation facility in Roanoke, Virginia, the Roanoke Car Shops, the Birmingham, AL frog shop, and the Coster wheel shop in Knoxville, TN. We are studying the consolidation or disposition of several other facilities. We have taken several other significant actions since Split Date that have resulted in lowering expenditures, increasing profitability, and improving our cash flow.

These are fairly fundamental actions taken to respond to changing operational conditions and financial challenges. None of these actions was anticipated in the Operating Plan that we submitted to the Board in the Conrail Proceeding. Many have affected employees and communities on other parts of the Norfolk Southern system, but we believe all were the result of reasonable and necessary business decisions. Norfolk Southern has operated the new and expanded system consistent with the long-term health of the enterprise. This is as it should be, and this is in the interest of everybody, including Norfolk Southern's employees and the public.

As is evident, Hollidaysburg is neither the first facility nor the first car shop affected. Earlier this year Norfolk Southern closed the foundry and the parts reclamation facilities in Roanoke, Virginia. Norfolk Southern made the hard decision to exit the business conducted at these facilities. Before that, we idled Norfolk Southern's large car shops, also located in Roanoke. With the completion of a major coal car rebodging program and the significant reduction in export coal volumes, we determined that there simply was not sufficient work at the present time to maintain employees at this facility. The Operating Plan submitted in the 1997 Conrail Proceeding anticipated the continued operation of each of these facilities. We have continued, however, to operate the Hollidaysburg Shops, which are by far the largest car shops on the Norfolk Southern system, together with several other geographically diverse and smaller car repair facilities.

As we anticipated in the Operating Plan, Norfolk Southern has made efforts to develop and obtain additional work – so called “insource” work from other railroads and car owners – for the Hollidaysburg Shops, to supplement the work done at the facility on our own fleet. We created an office, headed by David Veron, devoted to insourcing efforts at Hollidaysburg and other facilities. We conducted a national advertising campaign and made extensive use of direct customer contact in order to obtain new business. We went further and resorted to substantial price reductions in order to obtain new business. The effort did prove successful in bringing in business – we have built new coil steel hoods for GE Rail, we have modified GATX equipment, and performed program repairs for Greenbrier, GATX, First Union, and others.

Even with these substantial insourcing efforts, however, the Hollidaysburg Shops have continued to operate only at about one-third capacity since Split Date. Last year, for example, only 4,000 cars went through Hollidaysburg – half of those were insource work done for others.

We took a hard look at the facts. Other currently-active car repair facilities on the Norfolk Southern system have the physical capacity, with the transfer of employees from Hollidaysburg, to perform the repair work on Norfolk Southern equipment generally performed at Hollidaysburg now. The Shops are redundant. Further, because it is by far the largest facility on the Norfolk Southern system, operating at such a low level of capacity and, consequently with a higher overhead, the

Hollidaysburg Car Shops are a prime candidate for closure. We made the difficult decision to close the facility.

Future growth in insourcing is not the answer for the Hollidaysburg Car Shops. As we demonstrated in our filing made three weeks ago, freight car owners have a growing number of options for utilizing independent private car repair shops. These independent shops are characterized by their smaller size, geographical dispersion, specialization, favorable cost structure, and ability to more easily invest in the latest technologies, all of which make these shops highly competitive and able to adapt quickly to changing market conditions. The same cannot be said about Hollidaysburg. Closure of the Shops is the correct decision.

We realize that the closure of the Hollidaysburg Shops will affect the local economy. Although each and every agreement employee will have an opportunity for continued employment with Norfolk Southern, the facility itself will be closed, and the Norfolk Southern work moved.

Therefore, Norfolk Southern has taken, and continues to take, significant steps to help the local community mitigate those effects. Among other things, Norfolk Southern has explored the possibility of selling the Shops to maintain employment in Blair County. We have worked closely with Martin Marasco, president of the Altoona Blair County Development Corporation ("ABCD Corp."). We have provided funding to ABCD Corp. to be used as part of the match for the Economic Development Administration federal funding grant to initiate an opportunity marketing program for the I-99 Corridor, with special emphasis on the Altoona/Blair County area and the Shop facilities.

We have worked to sell the complex as a whole, and Norfolk Southern would consider the possibility of subdividing it. Potential partnering opportunities also have been discussed. Norfolk Southern would be willing to explore any reasonable initiative to redevelop the facility for others, with the explicit recognition that Norfolk Southern intends to close the facility in October. Norfolk Southern will be transferring its program car repair work to its other, currently under-utilized facilities.

Obviously we do not know what type of enterprise will ultimately utilize the Hollidaysburg site – the building itself is a half-mile long. But Norfolk Southern also is working to develop other properties in the immediate area as well. For example, ABCD Corp. has suggested possibilities for the economic redevelopment or the creation of a reload center in the Rose Yard area of Altoona, and this is being explored. Just last week Norfolk Southern met with the Governor's Action Team and ABCD Corp. on a possible rail expansion into the Ardie J. Dillen Industrial Park in Blair County.

Further, Norfolk Southern has devoted substantial resources since Split Date to develop its system elsewhere in Pennsylvania as well, and with significant results. For

example, our Industrial Development department has assisted in the location and expansion of several industries in the Commonwealth, including the locating of Filmtech Corporation, a plastic film manufacturing company in Allentown and Schmalbach Lubeca Plastic Containers USA, a plastic bottle manufacturer in Chapman, and the expansion of the R.R. Donnelley & Sons Company's printing house in Lancaster.

We are proud of our efforts in Pennsylvania – Norfolk Southern's current and in-process investment in the Commonwealth exceeds \$300,000,000 since Split Date. This is an investment larger than that in *any* other state in which we operate. These expenditures enhance the Commonwealth's fiber optic network, the delivery systems for its power plants and the Commonwealth's infrastructure. Industrial development and port projects bring additional jobs to the Commonwealth. Norfolk Southern investments in track improvements and signaling make the Commonwealth a safer place to live and work.

Some of these efforts were anticipated a few years ago in the Conrail proceeding and in the Operating Plan. Some have their genesis in the Operating Plan, but have been implemented in ways more appropriate to the current and long-term business and operational climate. Others are new initiatives that go far beyond what we originally anticipated for the Commonwealth.

Finally, and I wish to stress this point, *each and every Hollidaysburg agreement employee* will have the opportunity for continued Norfolk Southern employment. The work at the facility is being transferred for consolidation at smaller shops with existing excess capacity, not eliminated. In the Conrail transaction we negotiated agreements provide for relocation benefits in excess of those called for in *New York Dock*. Three of these agreements generally provide that transferring employees will have their earnings levels automatically protected under the *New York Dock* process for up to six years. We will extend this protection to employees represented by the other shopcraft unions who transfer as a result of the Hollidaysburg transaction if we can reach a negotiated implementing agreement with their unions.

In the end, however, we still have before us the possibility that the Surface Transportation Board will order Norfolk Southern to rescind its notice of closure of the Shops. We made a concerted effort at Hollidaysburg, but we have now made the decision to close Hollidaysburg. It was a difficult decision. We knew it would be unpopular. We knew it would affect the community. We are willing to help the community deal with the effects. But ultimately this needs to be a business decision for Norfolk Southern to make.

Deciding how long, and at what capacity, to operate particular facilities is the very essence of the business of managing a railroad enterprise. These are difficult decisions that railroad managers make continuously, based on a host of business,

economic and operational considerations. The STB has observed that "government cannot operate private businesses as well as private businesses themselves," and frankly we agree. In the case of a major rail facility such as the Hollidaysburg Shops, the fact of the matter is that facility rationalization decisions cannot be made, and must not be made, in an environment divorced from considerations of their impact across the rail carrier's system.

Norfolk Southern and other privately owned railroads need to have the ability to make necessary business decisions to react to changing business, operational and economic conditions. To do otherwise could force the railroad to operate to its detriment, and ultimately to the detriment of its employees, its customers and the public.

This morning I have described to you some of the context surrounding Norfolk Southern's difficult decision to close the Hollidaysburg Car Shops - how many of the assumptions forming the basis of the Operating Plan submitted in the Conrail Proceeding have not been borne out over time. I have described the efforts taken to develop the insourcing that we knew would be necessary to keep the Shops open. I have explained how our insourcing efforts, while successful, have not proven sufficient.

It is up to Norfolk Southern to run the day-to-day operations of its system. Norfolk Southern has done so in taking this difficult and unpopular action, as well as the other difficult and unpopular actions it has taken in Virginia and elsewhere to right-size its expansive system to the environment in which we now find ourselves. We have recognized that the Hollidaysburg decision would affect the local community. But we also have taken our responsibilities as a corporate citizen of Pennsylvania seriously and will work to help the community mitigate the effects of the closure locally, as we continue our other efforts and investments throughout the Commonwealth.

I would be pleased to take any questions you may have.

Senator Robert C. Jubelirer
Testimony Before The House Subcommittee on Railroads
July 16, 2001

We deeply appreciate the efforts of our Congressman, Bill Shuster, to push for this hearing. And we are grateful to the Chairman and the members of the Subcommittee for the consideration given to this critical matter for the future of our region. It is important for those in positions of responsibility to look at this situation up close, and not solely through the dry prose contained in legal briefs. This hearing will allow you to see the impact Norfolk Southern is having on a community, quite a different view from the outlook when NS and CSX divided Conrail.

When Norfolk Southern came to town, they brought bright hopes about employment, and investment, and service. This was to be a huge step forward, a much-needed revival of rail work, and nearly everyone in the community bought into the promise. Thus, there was understandable shock when the decision was announced, and serious bitterness as the explanations and justifications have been made public.

Since the announcement of the planned closing of the car shop, the workers, in tandem with their community of support, have pursued every possible legal and political avenue to reverse this decision. We have drawn a line in the sand here, determined to make a stand, and not with the idea that we are playing Alamo.

I, along with state Representative Jerry Stern, joined in the suit to defend the interests of the workers and the community. The initial reaction from the Surface Transportation Board has been encouraging, but that is just an early step in a complicated and emotional struggle.

This is not the standard fight to protect jobs, because of the circumstances under which Norfolk Southern gained control of the shops and the commitments they made about the future of those facilities and the future of rail in this region.

No community parts easily with a piece of their economic heritage. No one surrenders good jobs without a fight. What makes this situation different from the rest is the contrast between what Norfolk Southern said when they needed approval and what they are now attempting to do.

These commitments were not local or isolated phenomena. They were not casual comments. They did not come with caveats and footnotes. Governor Tom Ridge has said directly that Norfolk Southern has not lived up to the commitments it made to Pennsylvania. The Governor had more than a decade of experience in Congress before becoming the state's chief executive, and I do not believe he fell for stardust or mistook projections for more substantial commitments.

The question that we are forced to confront is whether there is accountability in this regulated process. If statements of purpose are to be treated as just a matter of convenience, then there is no reason for an oversight mechanism. The integrity of the

governmental process and the credibility of the players in that process should matter very much. The outcome of this controversy will decide whether these things do matter.

I have seen the argument made that the government has no business poking around in this sort of decision. I strongly disagree with that view. If a company offered a product, and misrepresented it, regulators would be all over that company, to protect consumers. Why would it be any different with a service? What you promise, people expect you to deliver.

The workers, the leaders in this area, and the community, must challenge Norfolk Southern's intentions in regard to the Hollidaysburg shop, and we must challenge it with the backdrop of the uncertain fate of the Juniata shops. Because good faith has been shattered, there is more than uncertainty - there is suspicion that the area risks more, for if the compelling factor is Norfolk Southern's economic interest, then they can do whatever they want, whenever they want, for whatever reasons they choose to offer. If there is no check on their actions, then promises, commitments, and guarantees all can evaporate faster than the morning dew on a July day.

What makes this all so frustrating is that we must depend on Norfolk Southern, irrespective of how the proceedings before the STB turn out. Thus, we are locked in intense and emotional battle with an entity that will make many decisions in the years to come that can help or hurt our local economy. Presumably, there are going to be decisions on jobs and contracts that are highly discretionary. So victory comes not in a short-term decision that goes our way, if the long-term implications are bad. At the same time we are battling over what we regard as a broken commitment on Hollidaysburg, we are seeking to secure a lasting commitment on the future of the Juniata shops.

We ask several things of the federal government - to determine the extent of the obligation of Norfolk Southern, to decide a fair and appropriate remedy to this situation, and to protect against retribution down the track.

My intention is not to give voice to every concern, every worry, every fear to be found among the families affected by this proposal. They can give you that directly and effectively. But I do want to convey the sentiment prevalent across our community, the confusion and conflict that stretch across months and that will not end soon. And when Norfolk Southern comes to Congress asking for legislation to help them out, as they inevitably will, we want to be sure that you understand what their definition of commitment is, how they abide by what they say, and where down the list of priorities they place the welfare of workers and the interests of communities.

**TESTIMONY OF REP. RICK GEIST
TO THE CONGRESSIONAL SUB-COMMITTEE ON RAILROADS
FIELD HEARING, ALTOONA, PA
JULY 16, 2001**

Good morning, members of the committee, and welcome to Altoona and beautiful Blair County. As chairman of the Pennsylvania House of Representatives' Transportation Committee and a 12-term state representative of this 79th legislative district, I sincerely appreciate the opportunity to testify before this Congressional sub-committee regarding Norfolk Southern Corporation's proposed shutdown of the Hollidaysburg, Pennsylvania Car Shop.

It has been three years since the Surface Transportation Board authorized Norfolk Southern's acquisition of Conrail. It was an acquisition accompanied by a series of capital investment promises made by Norfolk Southern to this community and to this Commonwealth. Three years later, those promises remain unfulfilled, and Norfolk Southern is intent on abandoning its commitments and abandoning the 375 employees of the Hollidaysburg Car Shop.

I would like to state for the record that I was one of the few public officials who was skeptical of this acquisition from the very beginning. Frankly, I doubted whether Norfolk Southern could live up to its commitments. Sadly, my concerns have proved to be well-founded.

Prompted by those concerns, the state House Transportation Committee held hearings on the proposed acquisition during the Surface Transportation Board's authorization process. At that time, late in 1997, our committee forwarded to the Board documentation of Norfolk Southern's specific commitments which included \$4 million in capital improvements at Sam Rea and \$63 million at Juniata Shops. These comments are Appendix A to my testimony.

After the Surface Transportation Board authorized the acquisition and the deal was made, myself and the Minority chairman of the House Transportation Committee felt it necessary to continue a dialogue with the Board on this matter. That is why on July 13, 2000 we submitted to the Board our comments on Norfolk Southern's first general oversight report to the Board.

Our comments on the oversight report, which I've attached as Appendix B, enumerate the specific capital investment commitments made by Norfolk Southern and detail the status of each of those. Our conclusion even at that time was that Norfolk Southern had lost its focus on building rail business in Pennsylvania and that continued oversight of this acquisition transaction by the STB was necessary and appropriate.

Late last year, Norfolk Southern announced its intention to close the Hollidaysburg Car Shop. This announcement confirmed our worst fears. Since then, the state House Transportation Committee has actively opposed this decision. We held two hearings in April, one in Harrisburg and one here in Altoona, collecting testimony from Norfolk Southern officials and union officials on this issue.

Finally, let me add that I strongly endorse the Commonwealth's recent legal filing with the Surface Transportation Board in opposition to Norfolk Southern's proposed shutdown of the Hollidaysburg Car Shop. The governor, the Transportation Committees of the state House and Senate, and the entire General Assembly are united in our desire to hold Norfolk Southern accountable to its unfulfilled commitments.

I have also submitted to the sub-committee a video that previously was shown at the state House Transportation Committee hearings held on April 12 and April 26 of this year. This video is a compilation of news reports and excerpts from Norfolk Southern press conferences. It effectively illustrates the broken promises that NS Chairman Goode made to this community and it provides a good summary of where we stand at this point.

I believe this video speaks for itself. I would be happy to answer any questions that the members of this sub-committee might have.

In conclusion, I think that it is time that NS voluntarily complies with the STB order and work with government and economic officials here in Blair County, the state, the craft unions to make this the center for the most productive and profitable shop complexes in North America. In Chairman Goode's own words, Hollidaysburg and Juniata are the heart of the NS system. The time is now for them to demonstrate that they truly believe this. Again, thank you for the opportunity to testify before this esteemed panel.

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Testimony of Pennsylvania State Representative Jerry A. Stern
US House Sub-Committee on Railroads
July 16, 2001

Good morning, members of the US House Railroad Sub-Committee and welcome to Altoona. I would like to thank Congressman Shuster and all the committee members for taking the time from their schedules to be in Altoona and to hear testimony on this important matter.

The information presented today may be new to the members of the panel but to those of us from the area, the development of the railroad is synonymous with the development of Altoona. There are a great number of families that have a history with the railroad. I know and have worked with many of those families who would be affected if the shops are closed and am aware of the difficulties this would create in their lives.

It is important to have some of the background, so let me begin with a brief history of the events that have brought us to this current situation.

For years, workers at the shops were concerned about the possibility of the shops being closed. Rumors of a possible closure came up every few years, but at each turn, these concerns were confronted with strong opposition from the community, and the shops remained open. Those efforts were led by former Congressman Bud Shuster in his position on the House Transportation and Infrastructure Committee. In 1997, the proposal for CSX to acquire Conrail and sell half to Norfolk Southern was being discussed. Although some job security concerns remained, having one of the best operating railroads take over a struggling Conrail had a lot of appeal. The efforts by Norfolk Southern to gain the support of government, political, community, and business leaders and to diminish the job security concerns were effective in putting to rest a great deal of those concerns and in gathering the support necessary for the agreement.

The arguments they used in support of their efforts are legendary and well documented.

From L.I. Prillaman, Executive VP of Marketing for Norfolk Southern March 19, 1997:
"We are very impressed with Conrail Shops at Altoona and Hollidaysburg. These are very important operating facilities, and we believe they are underutilized and we will find a way to make these facilities grow."

From a letter to legislators from David Goode, Chairman, President, and CEO of Norfolk Southern dated April 4, 1997:

"All of us from Norfolk Southern were very impressed with the Altoona and Hollidaysburg facilities and the obvious commitment of the employees there. I want to assure you again that the locomotive repair and car shops will play an important role in Norfolk Southern's future."

Again from Chairman Goode on June 1, 1999 in Altoona to mark the beginning of the

merger:

"I want people to look back 100 years from now and say that it (railroading) is a tradition that has continued and Altoona is still the heart of railroading in the world."

If these statements were indeed made in a truthful and straight-forward manner, then how, less than 12 months after the agreement was finalized, does the best operating railroad in the country announce that the functions in Hollidaysburg are redundant and need to be eliminated? This action brings the credibility of all of their statements comes into question. Norfolk Southern argues that these were not part of the formal agreement and cannot be used for a present day business decision. However, these are statements that go to the very basis of gaining the approval of the agreement. Whether they are part of the formal agreement is not relevant. Norfolk Southern can't have it both ways.....use the arguments to garner goodwill and then discard them at its convenience and not be held to them.

Norfolk Southern makes the claim that the Car Shops operate at a loss. Any maintenance operation, by definition, will operate at a loss. By nature, maintenance is not a revenue generator but a cost, which must be closely monitored. For Norfolk Southern to make the claim that a \$6 million loss is not expected does not make sense and to transfer work that would possibly make a profit or at the very least reduce the operating loss is immoral. This action was taken during an extremely difficult operating year for Norfolk Southern and with no commitment to work with employees to increase efficiencies and thereby reduce operating costs.

The basis of the goodwill developed during negotiations of the split of Conrail was based in part on high expectations for growth and expansion for the future of our area. I understand the need for Norfolk Southern or any other public company to be responsive to markets and their investors and hate the idea of government getting involved in the operation of a privately operated company. However, when Norfolk Southern entered into the public realm to develop the goodwill necessary for the agreement to move forward, it forfeited some of that independence and opened itself up to this public scrutiny.

The community now finds itself in the difficult position of being at odds with the largest employer in the Altoona and Hollidaysburg area. This is not a position I find particularly satisfying or am happy to be in. Altoona and Hollidaysburg need Norfolk Southern and we were led to believe Norfolk Southern needed them. I remain committed to doing everything possible to make sure Norfolk Southern sticks to their commitments. The families affected and the future of our area is too important to do otherwise.

Thank you.

STATEMENT OF RICHARD S. EDELMAN

BEFORE THE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE SUBCOMMITTEE ON RAILROADS

Mr. Chairman, I am Richard S. Edelman of O'Donnell, Schwartz & Anderson, P.C. I represent the unions who are joint petitioners with the Commonwealth of Pennsylvania in the Surface Transportation Board proceedings regarding the plan of Norfolk Southern Corp. ("NS") to close the Hollidaysburg Car Shop ("HCS"). Those Unions are the: Transport Workers Union of America ("TWU") and the National Conference of Firemen and Oilers/SEIU ("NCFO"), International Association of Machinists and Aerospace Workers ("IAM"), International Brotherhood of Boilermakers and Blacksmiths ("IBB") International Brotherhood of Electrical Workers ("IBEW") Sheet Metal Workers International Association ("SMWIA") and Transportation Communications International Union ("TCU")

The Unions I represent appreciate the Committee's decision to hold a hearing on this important matter and to hear our views on the subject. I intend to focus on several points. First, I will show that NS clearly made the commitments that it would retain, invest in and expand employment at the Altoona Shops, second I will respond to NS' assertions that it has acted in good faith in this matter, third I will explain why the so-called *New York Dock* conditions processes are not adequate to deal with this issue, and fourth I will address, NS' assertions that the STB has no business enforcing the Order binding NS to its representations that was part of the STB's order approving the NS/CSX acquisition of control and division of Conrail.

As an initial matter I note that one would think that through its experience of the last three years NS would have gained some humility, and increased its respect for others concerned with its operations such as its employees, elected officials, shippers and this agency. However, none of that is evident in NS' approach to the HCS issue. NS denigrated the concerns of its employees regarding NS' breach of the commitments it made about the HCS, their loss of employment in Altoona, the legitimacy of NS' assertions of employment opportunities elsewhere and their security at new work locations given NS' lack of credibility and statements that it plans further cutbacks. NS is also dismissive of the concerns of communities and elected officials of Pennsylvania who did not oppose or supported the Conrail Transaction based on commitments made by NS on the record, in public and in person. Notwithstanding the debacle of its implementation of the Conrail Transaction, NS' response has the same tone as its initial overconfident, and now admittedly inaccurate, filings before the STB. NS continues to assert that it knows best and knows all, that its projections and assumptions should not be questioned and must be accepted on faith, and other parties and the Board have no business involving themselves in its decisions regarding its operations, even when a decision involves a repudiation of

representations made in order to obtain Board approval of the Conrail Transaction and even though the Board's approval Order bound NS to its representations.

We are hopeful that the STB will order NS to retain the HCS at at least its present capacity for significant period of time beyond September 1, 2001 as is contemplated the Board's Decision No. 186, but we are also glad to shed light on this matter before this committee because of the importance of the issues both here in Pennsylvania and for all persons who are affected by major transactions subject to the jurisdiction of the STB.

I. NS COMMITTED TO RETAIN, OPERATE AND INVEST IN THE HCS

On November 18, 1996, NS placed an advertisement in numerous newspapers *York Times* addressed "To Conrail Constituencies" and titled "You Don't Have to Be a Conrail Shareholder to Benefit from Norfolk Southern's Offer"; "A Norfolk Southern/Conrail Combination Will Be Better for All of Conrail's Constituencies". In that advertisement, NS asserted. "Norfolk Southern is committed to continuing to operate Conrail's Hollidaysburg Car Shop and its Juniata Locomotive Shop at Altoona, and will promote employment there.... What has CSX promised? Nothing. And, don't forget that CSX's locomotive shops at Cumberland, Maryland are less than 70 miles from Conrail's Altoona and Hollidaysburg shops." An *Associated Press* report on December 6, 1996 described an advertisement placed by NS in the Philadelphia Inquirer and the Pittsburgh Post Gazette and in other papers that ran a headline "Where Will Conrail Employees Be If Competition Dies?" NS Vice President-Public Relations Robert C. Fort was quoted as saying "We think we have a clear message to Conrail employees, that they have a much better future in the Norfolk Southern". According to the *AP*, the advertisement stated that "Conrail's major Hollidaysburg and Altoona shops are within just 70 miles of CSX's facilities in Cumberland, Md. Redundancies like these could add up to lost jobs...Norfolk Southern's system extends and complements Conrail's system, rather than duplicating it".

On March 20, 1997, a Subcommittee of the Senate Committee on Appropriations held hearings on the then recently announced joint CSX/NS acquisition of control and division of Conrail. One witness at the hearing was NSR CEO David Goode who testified that NSR would retain the Hollidaysburg shop and indeed would expand it. An exchange between Mr. Goode and Senator Arlen Specter went as follows:

Senator Specter. OK. Moving east to the Altoona shops, the locomotive repair shops, and Hollidaysburg, again, Mr. Goode, what would your expectation be there as to the employment situation?

Mr. Goode. Well, we have looked, as you know, earlier this week at those shops, we had some knowledge of them earlier than that. John and I had a very good tour of the shops, they are excellent facilities.

Since Norfolk Southern will be the likely beneficiary of the lines and of those shops, we do not have nearby shop facilities, as CSX did in Cumberland, so we are in a position of not only being able to give assurances that we will keep those shops and keep them operating, we are going to need them.

In May of 1997, NS Resident Vice President Public Affairs M. Patrick McCune responded to questions of State Representative Geist about the fate of the Altoona shops stating "...I'm prepared to tell you that we will operate those shops at the same level that Conrail presently utilizes those shops and we think that the addition of Norfolk Southern as the new owner of those shops will bring additional opportunities for growth at both Juniata and the Hollidaysburg shops". In response to questions about the Norfolk Southern advertisement that stated that NS was "committed to operate Conrail's Hollidaysburg Car Shop and the Juniata Locomotive Shop", and NS' appeal for support from Conrail employees about potential redundancy with respect to the Altoona shops and NSR shops Mr. McCune answered: "I hope I've answered that, Mr. Chairman. We see no duplications and no redundancy and no threat."

The actual application and supporting documents filed by CSX and NS contained repeated clear statements by NSR that it would retain the Hollidaysburg and Juniata shops and that work for the shops would probably increase. Moreover, NSR expressly stated that it would invest \$4 million in the Hollidaysburg shops alone.

The sworn statement of Mr. Goode characterized the Hollidaysburg shops as "excellent", and stated that NSR would use the Hollidaysburg shop and that NSR would maximize utilization of the shop by "in-sourcing". Mr. Goode stated:

This transaction also will permit NS to look carefully at its existing shops and other facilities as well as those on the Conrail properties NS will operate and to use each facility for the maximum efficiency and advantage to the combined operation. For example, Conrail has excellent locomotive and car repair facilities at Altoona/Hollidaysburg, Pennsylvania, while NS's comparable facilities are in Roanoke, Virginia. As explained in the Operating Plan and the Verified Statement of D. Michael Mohan, important efficiencies can be gained by concentrating different types of mechanical work at each location. To facilitate this effort, the truck and wheel work now performed by NS at Pegram Shop in Atlanta and by Conrail at Altoona will be centralized at Altoona, with the transition to be completed by the end of Year 1 after the Closing Date. So-called "insourcing" provides another opportunity to maximize utilization of the system shop at Altoona/Hollidaysburg and Roanoke. Fortunately for our insourcing plans, CSX plans to use NS's services at Altoona/Hollidaysburg for at least a portion of its Conrail car and locomotive fleets.

Verified Statement of David Goode p. 16 App. Vol. 1 p. 338.

NSR's Operating Plan witness Michael D. Mohan's sworn statement also referred to the "excellent facilities of Conrail" at Hollidaysburg, and stated that NSR would consolidate car program work at that shop. Mr. Mohan stated:

This transaction offers substantial opportunities to improve efficiency and fully utilize the excellent facilities of Conrail and NS in the Altoona/Hollidaysburg, PA and Roanoke, VA areas, respectively. Following the consolidation, NS intends to seek the efficiencies and other benefits of specialization at each of these facilities. . . . After the consolidation, the Conrail shop at Hollidaysburg will absorb most car program work, with Roanoke Shops - Car concentrating on new car construction and rebodging. Program car repair operations at Macedonia, OH, Decatur, IL and Williamson, WV will be eliminated.

Verified Statement of Michael Mohan p. 50 App. Vol. 3B at 62.

NSR's Operating Plan was even more clear and specific. The Operating Plan unconditionally stated that NSR would invest \$4 million in the Hollidaysburg shop. The Operating Plan reported that:

In order to implement the mechanical plan, the following facility improvements will be undertaken. Capital expenditures required for these improvements are approximately \$102,000,000. . . .

- Hollidaysburg, PA
Material handling improvements at car shop.
Capital investment required \$4,000,000.

NSR Operating Plan p. 219 App. Vol. 3B p. 287. With respect to NSR's plans for the shop, the Operating plan stated that:

Recognizing the shop capacity NS gains as a result of the addition of Conrail facilities, as well as the advantages of a stable work force, NS anticipates performing car and locomotive repairs and overhaul for other rail carriers and other prospective customers. Because CSX will use approximately 42% of the former Conrail car and locomotive fleets, the transaction agreement provides for the terms under which CSX will be one of NS' insourcing customers. Facilities which will provide these services are in Altoona, PA (including the nearby Hollidaysburg Car Shop) and Roanoke, VA. These facilities are known for their capabilities and the craftsmanship of their employees.

NSR Operating Plan p. 253 App. Vol. 3B at 253. Elsewhere in its Operating Plan, NSR said:

Hollidaysburg will absorb most car program work with Roanoke Shop-Car concentrating on new car construction and rebodging. Extensive fabrication equipment at Roanoke will be used in lieu of kits furnished to Hollidaysburg by car suppliers, thereby saving an

average of \$3 million annually. Program car repairs at Macedonia, OH on Conrail and Decatur, IL, and Williamson, WV on NS will be eliminated.

NSR Operating Plan p. 258 App. Vol. 3B p. 326. Thus, the CSX/NS Application in the Conrail Transaction proceeding contained several clear and specific commitments by NSR to invest in and retain the Hollidaysburg shops that were not conditional, contingent or limited in time.

NSR's public statements contemporaneous with the filing of the Application echoed the assurances given in the Application with respect to Hollidaysburg. In a press release entitled "The New Norfolk Southern The Best Choice For Pennsylvania", NSR stated: "Because Conrail and Norfolk Southern operations do not overlap in Pennsylvania, most Conrail operating employees can count on working for Norfolk Southern or CSXT. Norfolk Southern is committed to operate Conrail's Hollidaysburg car shop and Juniata locomotive shop and will promote employment there". And an NSR "Fact Sheet" for Pennsylvania, under the heading "Economic Development", NSR cited "Estimated \$4 million in capital improvements at Hollidaysburg shop".

NS' has argued that its statements about the HCS were not really on the order of commitments, but were more like aspirations, or illustrative examples of what might do, rather than representations on which parties and STB could rely. In its most recent filing with the STB, NS has said that its statements about the HCS were only that "NS believed that the Shops would prove useful to it and hoped and expected to use them, but for no definite period"

It is simply outrageous for NS to contend that it did not make commitments to retain, operate and invest in the HCS. Given the number of such statements made by NS and its officers, the content of those statements and the circumstance of the statements being made as part of a political and public campaign to obtain support for the Conrail transaction and to gain approval of that transaction, it is pure sophistry for NS to argue that its statements were not representations on which parties to the CSX/NS-Conrail proceedings and the Board could rely, and commitments to Unions and to the Commonwealth of Pennsylvania and its officials.

Furthermore, NS' current position is directly at odds with the statements of its CEO Mr. David Goode who was in Altoona on Day One of the division of Conrail with then Congressman Bud Shuster to speak to the Juniata and HCS employees.

In his remarks Congressman Shuster stated that he had made a "deal" with the CEOs of CSX and NS that Norfolk "Southern would do several things for our shops here", including "Investments of \$67 million in capital improvements would be made to the Juniata and Sam-Ray [Hollidaysburg Shop]. Employment in the shops would be increased by at least 178 jobs". Tr at 2. Congressman Shuster also noted "And how important is Altoona going to be to Norfolk Southern? Well, in talking about Norfolk Southern being in 21 states, we're talking about 21,600 miles of track, an awful lot of places to be; but the top man, the chairman of

Norfolk Southern, David Goode, where is he today on this historic takeover? Of 21 different states where he could be, countless cities where he could be, he's here in Altoona."

NS CEO Goode spoke after the remarks of Congressman Shuster. Mr. Goode stated that NS would not be where it was "without the support not only of all of the people here but of the people standing on this podium with me today... that would not have happened without the support of the people surrounding me on this platform, and it wouldn't have happened without the support of all of you". Mr. Goode then stated "And Chairman Shuster has read off an impressive list of the commitments that Norfolk Southern has made. This is going to be the finest, the heart of the Norfolk Southern system in many ways. The finest shops that we can create in railroading today. Mr. Goode further said "I want people to look back 100 years from now and say that is a tradition that has continued, and Altoona is still the heart of railroading in the world".

It is certainly clear that NS CEO Goode understood his statements, and those of his company, to be commitments. Indeed, in view of his own remarks, it is surprising that Mr. Goode would allow his subordinates and NS' representatives to file papers with the STB denying that NS' statements about the HCS were commitments.

The Unions submit that the foregoing summary makes it absolutely clear that NS represented that it would retain, invest in and expand the Altoona Shops, that everyone involved including NS recognized them to be such, and that NS' current denials are simply false.

Since the STB decision approving the CSX/NS-Conrail Transaction contained an express Order that "Applicants must adhere to all of the representations they made during the course of this proceeding, whether or not such representations are specifically referenced in this decision", it is entirely appropriate for the STB to enforce that Order as is contemplated by the Board's recent Order No. 186.

II. NS HAS NOT ACTED IN GOOD FAITH

NS says has acted in good faith with respect to its statements regarding retention of shop, to employees and to Pennsylvania but its actions belie its self-serving words.

A. NS Has Not Acted In Good Faith With Respect To Its Commitments To Retain And Invest In The HCS

It must be remembered that NS originally sought to close the HCS in November of 2000, a mere one and one-half years after the June 1, 1999 Split Date, and a mere eight 8 months after NS says it returned to normal operations after its implementation debacle. This can not possibly be viewed as a good faith effort to retain the HCS. To the extent NS claims that its action is a result of lower levels of demand for transportation than it expected, it must be remembered that it was NS that made the projections of available business and then made commitments based on its

own projections. It must also be remembered that NS drove business away because of its own failure in implementing the transaction. In that context, NS has no basis to claim that it has acted in good faith in deciding to close the HCS based on assessments of its business after a mere eight months of normal operations, well before a reasonable time has passed to see whether NS' original confident projections were correct.

NS' lack of good faith is also shown by its failure to invest the \$4 million in the HCS that it said it would. That commitment was clear and unequivocal, but NS did not invest a dime. Perhaps insourcing possibilities would have been enhanced had the investment been made as promised. NS says no; but it has offered no explanation for that assertion. It appears that NS never intended to live up to its commitment at the HCS, that is why it never made the investment.

NS has asserted that it made a good faith effort to bring in new work and to retain shops and that it lost \$7 million on the Shop last year. The Unions dispute NS' accounting but even if its is valid NS has not shown circumstances changed significantly at the HCS since NS made its commitments.

Utilization of the HCS is not substantially below the levels of utilization of the HCS when NS made its commitments and NS has voluntarily reduced utilization of the Shop through layoffs and deferred maintenance. In 1995, the base year for the financial projections for the Application, the HCS worked on 4667 cars whereas the total number of cars worked at the HCS in 1999 was 4138 and the total for 2000 was 3583. In its STB filing NS compared the current work load to the 13,000 cars worked on at the HCS in 1978, but comparison of current work loads to the work load in 1997-1998, when NS actually made its commitments also does not show a significant difference. The HCS worked on 6398 cars in 1997, 5456 cars in 1998, 4138 cars in 1999 and 3538 cars in 2000 after the furloughs in March of 2000. Moreover, the reduction must be put in the context of general cost cutting by NSR because of its transaction implementation problems and furloughs of workers who would have been available to do additional work. NS' Safety Integration Plan projected that there would be 436 employees at HCS, The current work force was reduced to 330 employees as a result of NSR's furloughs that flowed from its stated need to reduce expenses to offset the costs it incurred in digging out of the hole NS dug for itself in its bungled implementation of the transaction. Thus NSR's own reduction in the work force at the HCS was a major cause in the reduced output in 2000. Indeed, there is strong evidence that the work done in 2000 is not reflective of the work that was actually available to be done because it appears that NSR has deferred necessary maintenance work. For example, a report on cars rejected by shippers for the first quarter to 2001 shows that the number of rejects more than doubled from the first quarter of 2000. Moreover, data at the HCS shows that the total number of cars worked necessarily fluctuates and is somewhat cyclical. For example the years with the lowest number of cars worked were 1983 and 1984 (2678 and 2969 respectively), and that the number then gradually increased into the 1990. The chart shows a number of years with changes in production of 1000 or more cars from the preceding years: 1988-4547, 1989-6105, 1990-5121; and 1994-6327, 1995-4667, 1996-6078.

The Unions deny that NS could unilaterally repudiate its commitments based on changed workload for the HCS, but they submit that all of the foregoing refutes NS' suggestion that there were significantly changed circumstances with respect to the workload for the HCS that could justify its actions. NS simply has no basis for arguing that the work load has changed significantly from the time when it made its commitments, or that the actual reduction of work is reflective of a long term lack of work as opposed to a cyclical trough and/or a self-imposed deferral of necessary maintenance. Given the historic fluctuations in workload at the HCS, there is no basis to conclude that there is a real and lasting reduction in work based on 6-8 months of NSR operations in normal circumstances (as opposed to transaction implementation crisis circumstances); moreover, NS' quick repudiation of its commitments given the historical record refutes NS' claims that it has made good faith efforts to comply with those commitments.

Accordingly, even if NS' claim of financial losses was relevant and true, it follows that similar financial conditions applied when NS made its commitments, so NS has no basis for even asserting that changed financial circumstances at the HCS permitted its repudiation of its commitments.

B. NS' Belated Suggestion That It Might Sell Or Lease The HCS, Or Consider An ESOP Arrangement After It Closes The HCS Does Not Show That NS Has Acted In Good Faith Toward Its Employees, The Altoona Area Communities, Or The Commonwealth Of Pennsylvania

NS has attempted to demonstrate its supposed good faith by suggesting that it might sell or lease the HCS, or consider an ESOP arrangement after it closes the facility. But NS has provided no actual competent evidence of details about its alleged new plans, it has offered mere general assertions. Moreover, it is not a demonstration of good faith for NS to suggest possible alternatives once the HCS closed and it has no business prospects. True good faith would have been for NS to have explored those options when it first considered closing the HCS at a time when still had work and prospects for work into the Spring of 2002. Simply put, it is far easier to sell an active concern than it is to sell one with no work. This mere eleventh hour floating of an abstract concept is more indicative of bad faith than of good faith.

C. NS' Dealings With Its Employees Have Been In Bad Faith

NS claims made good faith efforts with its employees by making offers for them to transfer to other NS facilities, but its actual position is confusing, conditional and in bad faith. For example, NS has told the STB that "*each and every Hollidaysburg agreement employee* will have the opportunity for continued NS employment". However, there are over 300 employees currently working at the HCS, and NSR's notices to the Unions identified only 156 jobs that would be available at locations where NSR would transfer work. Moreover there were 481 employees at the HCS in 1998 and 451 in early 2000; all of these employees were working when NS said it would retain the HCS at work levels consistent with Conrail work levels, but NS does not even purport to have addressed the losses of employment beyond the individuals currently at

the Shop. Moreover, NSR has not identified the work that supposedly will be transferred, the quantity of the work that may be available at those locations, or the potential time period that additional work will be available at those locations. Since a large amount of the work at the HCS since Day One has been insourced work, and NSR says that there will be no insourced work at the transferee shops, the workers at the HCS have reason to be concerned that there really is no work for them at the new locations, or that such work will not last long.

The Unions have submitted with their reply to NS' response to the STB's show cause order declarations of 205 HCS employees who have expressed their concerns about NS' purported offers of work at other locations because of NS' general lack of credibility when it comes to the HCS, the lack of information about the work supposedly being transferred, and NS' assertions that there will be more cost cutting. Indeed, they question why they should move when there may be additional furloughs at the new locations.¹

III. ENFORCEMENT OF NS' COMMITMENT REGARDING THE HCS IS NOT A MATTER FOR A *NEW YORK DOCK* ARBITRATOR TO DECIDE, AND AN ORDER BLOCKING NS FROM REPUDIATING ITS COMMITMENTS WILL NOT UNDERMINE THE *NEW YORK DOCK* CONDITIONS

NS has argued that this dispute between it and its employees must be handled under *New York Dock* employee protective conditions arbitration. However, a *New York Dock* arbitrator would have no authority to order NS to comply with its commitments or to enforce the STB's Order binding NS to its representations--only the STB has such authority. Moreover, a *New York Dock* proceeding could not possibly address the claim of the Commonwealth of Pennsylvania.

¹ In their declarations, these employees stated that they read or were made aware of NS newspaper advertisements addressed to Conrail employees as a Conrail constituency, and Norfolk Southern press releases, in which NS committed to the continued operation of both Hollidaysburg and Juniata shops, so they were confident of continued employment in Altoona, Pennsylvania for years to come. These employees also stated that they attended the "Day One" celebration at Altoona where NS CEO Goode, spoke to the Altoona workers and acknowledged and reaffirmed the commitments NS made to the shops in Altoona. The employees also stated that they have not been told what work NS supposedly plans to transfer to other locations and that they have concerns about whether NS would actually pay protective benefits given the experiences of co-workers who were adversely affected by the Conrail Transaction but were denied protective benefits. These workers also expressed their fears about breaking their ties to the Altoona area and uprooting their families to move to new locations, when NS has not identified any of the work being transferred and NS has announced that there will be more cost cutting measures. They are concerned that there may not be work available at the locations NS has identified or that new jobs may be eliminated in the in the near future, especially given NS' plans for more cost-cutting.

The fact that the *New York Dock* process exists as a mechanism for ameliorating adverse effects of transactions on employees, and to resolve certain disputes relating to implementation of transaction related changes involving reassignments of employees does not mean that all disputes between carriers and employees about a merger/control transaction must be arbitrated. And the fact that the conditions provide for arrangements for employee transfers and transfers of seniority does not mean that those arrangements deal with the issue of whether the transfer action can take place in the first instance--the conditions apply only once it is clear that the carrier can take the action that gives rise to adverse effects on employees. NS has argued that some 1000 employees have transferred to other locations pursuant to *New York Dock* procedures, but those were legitimate transfers based on permissible changes by NS whereas here the planned closing and transfers are not legitimate.

IV. THE STB'S ENFORCEMENT OF ITS ORDER BINDING NS TO ITS REPRESENTATIONS IS NOT GOVERNMENT INTERFERENCE IN THE INDUSTRY OR IMPROPER MICRO-MANAGEMENT OF NS' BUSINESS

The most galling aspect of NS' response to the Petition by the Unions and Pennsylvania is its claim that it should be free to walk away from the commitments it made because enforcement of the order binding it to its representations would impose restrictions on NS that are not imposed on other businesses. NS is complaining that enforcement of the Board's Order would be improper government interference in the industry. But NS could not have acquired Conrail's lines without the STB's approval, and that approval came with the conditions that were attached to it. And NS consummated the transaction subject to the Board's Order and its conditions. Moreover, the approval provided NS with an extraordinary self-executing immunity from other law in the carrying-out of the transaction--immunity that NS has already invoked. Recent history in this industry is that merger/control applicants enjoy unprecedented anti-trust immunity and immunity from other laws. They have used the immunity that comes with STB approval of a transaction to negate even non-rail finance or operations related laws such as environmental laws and zoning laws, they have the ability to avoid solemnly undertaken contracts with shippers and small railroads for which quid pro quo was exchanged. As to other parties with whom they deal the railroads do not operate in a pure free market economy. The STB authorized get out of jail free card is a major governmental intervention in the industry on their behalf. The major railroads, including NS, have been huge beneficiaries of governmental intervention in the industry.

With respect to labor relations, rail workers have often been the victims of the governmentally sanctioned "cramdown" authority exercised by carriers, including NS. Under the guise of government sanction, NS has effected the taking of employee rights, not only in pay and benefits but also in work rules. Here in Altoona NS forced a change from the Conrail collective bargaining agreements to less protective NS agreements for no reason other than its own convenience and a desire to reduce labor costs for NS--even though NS acquired these shops whole as stand alone facilities as they were when they were owned by Conrail. The railroads have espoused arguments that union agreements must give way in order for the railroads to gain

efficiencies that supposedly would ultimately benefit the public--this is a highly regulatory regime when it comes to dealings between rail management and rail labor. While the railroads talk a good game about deregulation they have engineered a massively invasive regulatory scheme for industry labor relations.

It is therefore disingenuous for NS to complain that an order enforcing the requirement that it comply with the representations it made in obtaining approval of the Conrail Transaction would be inconsistent with common notions about the ability of businesses generally to make entrepreneurial decisions and react to changed circumstances. NS simply has no right whatsoever to now complain that the government would be interfering in its affairs if the Board enforces its Order binding NS to its representations.

Mr. Chairmen we appreciate the opportunity to address the committee on this matter and we will be glad to answer any questions that you may have.

Statement of John E. Carroll, Jr.
President
Johnstown America Corporation

before

Subcommittee on Railroads
Committee on Transportation and Infrastructure
U.S. House of Representatives

July 16, 2001

Mr. Chairman and members of the Committee, I am pleased to represent Johnstown America Corporation at this hearing to discuss the proposed closure of a major railroad freight car rebuilding and manufacturing facility in Hollidaysburg, Pennsylvania.

Our company, Johnstown America Corporation, employs between 500 and 1,200 employees in Johnstown, Pennsylvania. We are in the business of building and rebuilding railroad freight cars. We do exactly the same jobs as Norfolk Southern Hollidaysburg, Pennsylvania Car Shops; they are our direct competitors, and bid for the same business we do.

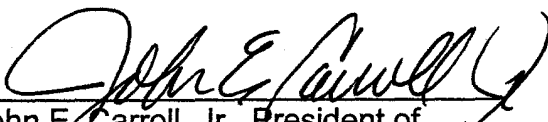
The North American freight car industry is in one of its severe cyclical declines, which forces us to fight for every piece of business available. The Hollidaysburg car shop fought for many of the same orders we did – and lost. The reason we have been more successful than the Hollidaysburg car shop is because we are more competitive – we build and rebuild railroad freight cars at a lower cost than the Norfolk Southern shop.

Specifically, I would like to address why in our free enterprise system should the government support one company over another competing in the same business? Business, unfortunately, is ruled by "survival of the fittest"; the Hollidaysburg car shop is not a low cost competitor – even in Western Pennsylvania, much less in the whole of North America. The government, local, state or Federal, has no place supporting one competitor over another, particularly in a market that is experiencing a deep recession; that is, the current North American production rate of railroad freight cars is one third of what it was just two years ago.

In summary, keeping a company in business that has no economic justification for being in business should not be the role of government, in our opinion.

Mr. Chairman and members of the Committee, I respectfully request that my full written statement be included in the record.

Respectfully submitted:


John E. Carroll, Jr., President of
Johnstown America Corporation

Appendix A

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**STB 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**

**Comments and Requests for Conditions by the
Transportation Committee of the Pennsylvania
House of Representatives**

**Richard R. Wilson, Esq.
Special Counsel to the
Pennsylvania House of Representatives
Transportation Committee
1126 Eighth Avenue, Suite 403
Altoona, PA 16602**

Dated: October 21, 1997

INTRODUCTION

On April 8, 1997 CSX Corporation ("CSX") and Norfolk Southern Corporation ("NS") after months of a fierce bidding war to acquire Consolidated Rail Corporation ("Conrail"), announced that they would jointly acquire Conrail and divide the Conrail system between them. As described in the Railroad Control Application filed with this Board, most Conrail lines in Pennsylvania will be operated by NS, but the Philadelphia area and coal origins on the Monongahela Railway Company in southwestern Pennsylvania will be jointly served by CSX and NS. However, due to the broad scope of the proposed acquisition and the potential impact on Pennsylvania jobs and businesses, the Transportation Committee of the Pennsylvania House of Representatives conducted legislative hearings to assess the impact of this transaction on the Commonwealth. Hearings were held in Altoona, PA on May 15, 1997, in Malvern, PA on August 19, 1997 and in Pittsburgh on October 16, 1997.

I. SUMMARY OF TRANSACTION - PENNSYLVANIA

Application documents were filed by NS and CSX with the Surface Transportation Board ("STB") on June 23, 1997. CSX and NS will each have a 50% voting interest in Conrail but will operate 58% and 42% of Conrail's assets respectively. Under the terms of the Transaction Agreement, Conrail will create two corporate subsidiaries, one referred to as New York Central Lines, LLC to which assets to be operated by CSX will be transferred and the other,

Pennsylvania Lines LLC, to which assets to be operated by NS will be transferred. Conrail will retain ownership of three "shared asset areas" in northern New Jersey, southern New Jersey/Philadelphia and Detroit. The Monongahela Railway Company (MGA) in southwestern Pennsylvania will be transferred to Pennsylvania Lines but will be subject to a Joint Usage Agreement which will give CSX access to all MGA lines.

In effect, NS and CSX have "condoned" Conrail by creating separate units over which they exercise exclusive control and allowing Conrail to retain certain "common areas" where both railroad companies will have access to shippers formerly served only by Conrail. As a consequence, this transaction is exceedingly complex and involves many operating agreements, leases, trackage arrangements and other contracts which specify the rights and obligations of the various entities which have been created to accomplish the division of Conrail assets. We view this complexity with concern because of the potential for disagreement between two competing rail systems and the consequent impact of such disputes on day to day management and operational decisions which can affect rail safety and service.

II. PENNSYLVANIA IMPACTS

A. PHILADELPHIA AREA IMPACTS

NS and CSX have proposed that substantial portions of Conrail facilities in the south Jersey/Philadelphia area in a new "shared asset area". Under the terms of a separate Shared Asset Area Agreement, CSX and NS will be given joint access to customers within this area. The Philadelphia/South Jersey shared asset area will be operated by or through Conrail which will conduct rail operations within this area with its own crews and personnel.

The advantage of the shared asset area is that shippers located within the area will have access to both NS and CSX for the shipment of their goods thereby creating rail to rail competition where none had previously existed. It remains to be seen, however, whether the shared asset areas can be efficiently operated by Conrail in a manner which will provide meaningful rail to rail competition between CSX and NS, particularly since applicants have introduced major changes in Conrail's Philadelphia operations and have submitted no operating plan for this for shared asset area. Moreover, the creation of a shared asset area with reestablished rail to rail competition will necessarily discriminate against those locations outside of the shared asset area which will have service from only one railroad.

The merger application is very sketchy on what impact, if any, the proposed shared asset area operations will have on SEPTA and New Jersey transit operations on Conrail lines. We share the concerns raised by the Pennsylvania Senate Transportation Committee's comments on this topic.

The merger application also outlines significant job reductions and relocations in the Philadelphia area. Based on the information in the Application, approximately 444 agreement positions will be abolished and 134 positions will be relocated to areas outside of southeastern Pennsylvania. Approximately 739 management positions will be terminated and 743 management positions will be relocated to areas outside of southwestern Pennsylvania. While there will continue to be a Conrail headquarters located in Philadelphia, the size of that headquarters and the scope of its operational functions will be drastically reduced.

The merger application also outlines possible new facilities and investments by NS and CSX in the Philadelphia area. NS indicates that it intends to expand the intermodal facility at Morrisville and create a new \$4,000,000 Triple Crown Roadrailer terminal at Morrisville. There

will be a new \$15,000,000 automobile unloading facility near Philadelphia/Norristown and CSX has announced plans for similar improvements to intermodal facilities in the Philadelphia area. Since much of the increased revenues and projected benefits of this merger are dependent upon the substantial growth in intermodal traffic to be handled by both CSX and NS, the future of these intermodal facilities is dependent upon the successful growth of that segment of rail traffic.

B. CONRAIL EMPLOYEE BENEFIT PLANS

The impact of this merger transaction on Conrail retirement plans receives very little attention in the application. The provisions of the Conrail/CSX/NS Transaction Agreement dealing with non-agreement employee benefit plans give applicants broad discretion to continue providing these benefits to non-agreement employees and to make virtually any changes deemed advisable or necessary. The employee benefit plans and programs for those employees which will operate NS assets and CSX assets will become the liabilities of the Conrail subsidiary corporations set up to operate those assets.

CSX, NS and Conrail have agreed to take any actions permitted by law that are necessary or appropriate to determine the amount of excess assets in a Conrail benefit plan and to allow allocation to CSX and NS or their respective affiliates of those excess assets provided that no such transfer shall reduce the assets remaining in any Conrail defined benefit plan to a level that is less than 100% of the liabilities for benefits on a termination basis as reasonably calculated by Price Waterhouse using usual and customary methodologies and assumptions. Thus, the Transaction Agreement specifically permits NS and Conrail to transfer assets from Conrail's benefit plans to the extent that those assets exceed the liabilities of those plans.

Since the liabilities of benefit plans are often calculated based on actuarial and interest rate assumptions which fluctuate from time to time it would appear that the merger agreement

provides substantial flexibility and opportunity for NS and CSX to siphon off excess assets from Conrail retirement plans.

C. HARRISBURG IMPACTS

In general, the Harrisburg area may benefit from the NS acquisition of Conrail assets in that area. NS has indicated that Harrisburg will become a major north-south, east-west axis on its expanded system. NS has announced plans to increase freight service on the line from Harrisburg to Buffalo which will provide for increased north-south rail traffic to and from Canada. In addition, NS and Canadian Pacific have announced plans for interchange of traffic at Harrisburg. In addition, NS has announced plans to create a new \$40,000,000 intermodal facility at Harrisburg and to increase capacity on the Reading-Harrisburg line by improved signaling and crossovers.

Despite these changes in the Harrisburg area, NS and CSX will abolish 124 agreement positions and transfer 128 jobs out of the Commonwealth. Twenty-one management jobs will be eliminated and eleven management jobs will be transferred out of the Commonwealth.

D. ALTOONA AND HOLLIDAYSBURG REPAIR SHOPS

After the legislative hearings conducted in Altoona, PA in May, NS and CSX clarified their plans and intentions for utilization of these facilities. NS has announced that it intends to transfer locomotive truck overhaul work to Altoona and to transfer most of its freight car program to Hollidaysburg. It has announced approximately \$4,000,000 in capital improvements for the Hollidaysburg shop and \$63,000,000 for improvements at the Altoona locomotive repair shops. In addition, CSX has agreed to undertake a portion of its car repair work at the

Hollidaysburg and Altoona shops. As a result of these plans, NS projects an increase of approximately 170 jobs in the Altoona area.

E. PITTSBURGH AREA IMPACTS

The southwestern Pennsylvania facilities which will be most directly affected by the allocation of Conrail lines are:

(1) Conrail National Account Service Center

Conrail presently operates its National Accounts Service Center in North Fayette Township along the Parkway West. This office is a centralized customer and service coordination facility which receives calls from shippers and receivers served by Conrail and handles requests for service, rail car tracing, and other service related matters.

NS operates a similar national accounts center for its customers in Atlanta and has stated that this facility will be consolidated with its own facility in Atlanta. This will result in the transfer of approximately 215 jobs from Pittsburgh to Atlanta, GA. CSX will transfer 185 jobs to Jacksonville, Fl. Thirty-one management personnel will be transferred to Atlanta and 16 to Jacksonville.

(2) Conway Yard

At present, Conway Yard is one of the principal east/west classification yards for Conrail. It will be acquired and operated by NS under the proposed operating plan. NS has indicated that it intends to eliminate multiple blocking and classification of trains in order to improve service on east/west routes. As a result of these changes, trains which had previously been blocked and reclassified at Conway yard will be preblocked at other yard facilities and run through Conway Yard. As a result, NS projects a slight reduction in classification and blocking

activities at Conway Yard. Approximately 45 agreement and 7 nonagreement jobs (based on 1996 data) will be abolished at Conway Yard.

NS has also announced that it intends to spend approximately \$30 million for a new locomotive repair shop at Conway Yard just north of Pittsburgh in Beaver County.

(3) Pitcairn Intermodal Center

Conrail's recent improvement of its intermodal facility Pitcairn Yard never lived up to its billing because Conrail marketing objectives focused on long haul intermodal movements which bypassed this yard. NS has indicated that it intends to concentrate more heavily on short haul intermodal moves of five hundred miles or less and has identified Pitcairn Yard as a facility which it intends to utilize in connection with increased short haul intermodal movements. It remains to be seen whether this strategy will prove successful and create higher utilization levels at this intermodal facility.

(4) NS Regional Headquarters in Pittsburgh

NS has stated that in order to operate its Conrail lines it intends to establish a regional headquarters in Pittsburgh. This headquarters will exercise control over several subordinate division offices and will make Pittsburgh the operational headquarters for all Conrail lines acquired by NS. The STB application does not indicate how many jobs will be associated with this regional headquarters.

F. MONONGAHELA RAILWAY COMPANY

The Monongahela Railway serves the coal fields of Green County, Pennsylvania and northern West Virginia. It is the largest rail traffic generator in the Commonwealth. Prior to 1990, the railroad was owned and operated by three carriers: Conrail, CSX and P&LE. Eventually, Conrail acquired the interests of P&LE and CSX and most recently operated the lines

for its own account. NS will acquire operating control over the Railroad under the proposed operating plan but has granted CSX joint use of Monongahela railroad lines. This plan reestablishes competitive rail service from the Monongahela coal fields and should substantially benefit coal production from those coal fields, if daily operations are conducted by NS in an efficient and non-discriminatory manner.

G. ERIE, PA

NS and CSX have announced that as part of the merger application they plan to relocate NS's rail line in Erie out of the middle of 19th Street to an area along the Conrail right-of-way which will be acquired by CSX. As part of this relocation project, NS and CSX have agreed, if feasible, to maintain the connection between the NS line and the Allegheny and Eastern Railroad line which serves northwestern Pennsylvania and connects with the former Conrail line from Corry, PA and Hornell, NY. The NS merger application fails to mention that a portion of the line which it intends to acquire in the Corry area is already leased and operated and will be conveyed to the Northwest Pennsylvania Rail Authority. The Authority has notified NS of this situation and NS has indicated that it is under investigation.

III LEGISLATIVE FINDINGS

A. JOB REDUCTIONS

The acquisition transaction proposed by NS and CSX will have a major adverse affect on employment within the Commonwealth. In particular, the Philadelphia area will be seriously impacted by the loss or relocation of a substantial number of Conrail management positions. The closing of the Conrail National Account Service Center in Pittsburgh is the next largest center for job loss in the Commonwealth. However, in Pittsburgh, NS will establish a

Northeast Operations Center for all of its Conrail lines. Thus, it appears there will be some offset to the job loss at the National Account Center.

Throughout the rest of the Commonwealth, the applicants have identified various reductions in force associated with the closing or consolidation of various facilities. While the numbers are not as large, the loss of those positions will not help these communities.

NS and CSX have indicated that they plan to modestly increase employment levels at the Hollidaysburg and Altoona shops. However, these commitments appear to be interim measures and long term employment commitments are not assured.

In addition, there is substantial concern on the part of Conrail employees that CSX will use its portion of Conrail's overfunded pension plan to offset the underfunded CSX plan. Neither NS nor CSX witnesses were willing to make any commitments as to the future disposition of the overfunded portions of Conrail's retirement plans.

B. RAIL OPERATIONS WITHIN THE COMMONWEALTH

1. Philadelphia/South Jersey "Shared Asset Area". CSX and NS have proposed an extremely complicated terminal switching operation to be performed on their behalf by a truncated Conrail in the Philadelphia area. While theoretically providing increased competition, it remains to be seen whether NS and CSX will provide adequate financial support to the Conrail switching operation to assure efficient service within the Shared Asset Area. Both acquiring railroads will be under extreme financial pressure to cut costs and enhance revenues in order to pay for this transaction. This will not only restrict financial resources available to Conrail, but may cause CSX and NS to favor those east coast ports at which the other is not a significant competitive force.

2. Monongahela Railway Company - Joint Access. As noted previously, NS will acquire operating control over the Monongahela Railway under the proposed operating plan and has granted CSX joint use of the Monongahela Railway lines. The plan reestablishes competitive rail service from the Monongahela coal fields and should substantially promote production in those coal fields, if the day to day operations on this railroad are conducted by NS in an efficient and non-discriminatory fashion.

The Bessemer & Lake Erie Railroad Company has sought access to the Monongahela coal fields through trackage rights and appropriate haulage arrangements with Norfolk Southern and/or CSX. Protective conditions granted by the ICC when Conrail's acquired 100% control of the Monongahela Railway Company were not adequate to enable B&LE to become an active competitor for Monongahela coal traffic. B&LE is an effective rail competitor in southwestern Pennsylvania and has excellent port facilities on Lake Erie at Conneaut Dock which would greatly facilitate the marketing of Monongahela coal to lake served electric utilities in the midwest and Canada. Since the relief sought by Bessemer merely reconfirms and implements competitive access rights already recognized by the former ICC, the imposition of meaningful competitive access conditions by the Board would assure effective rail competition and participation in Monongahela coal traffic by B&LE and other regional carriers with B&LE connections. It will also insure that Monongahela coal fields are served by a regional competitor which does not have alternative long haul coal sources which might be preferred by CSX and NS to enhance freight revenues.

3. Relationships with Short Line Railroads. Short line and regional railroads which service communities within the Commonwealth uniformly testified to difficulties in negotiating interchange and access arrangements with NS. While some of those carriers have

reached agreements with NS, it is evident that Pennsylvania short lines will have to make significant adjustments when working with NS. It is also likely that as financial pressures to cut costs and increase revenues grow in the wake of this transaction, NS and CSX will squeeze short line revenues.

4. Intermodal Operations. The application filed by NS proposes substantial investments in intermodal facilities at Philadelphia, Harrisburg, and Pittsburgh. Indeed this entire transaction is financially justified on the basis of increased revenues derived from the diversion of substantial volumes of motor carrier traffic to intermodal trains. The abilities of NS and CSX to realize these revenue gains from intermodal traffic is doubtful. Intermodal traffic is extremely competitive and produces some of the smallest contribution margins of all railroad traffic. Minor changes in technology or configurations of transportation equipment (such as triple trailers) could alter the competitive assumptions upon which railroad revenue projections are based. Captive shippers such as coal and chemical companies are therefore justifiably concerned that when intermodal traffic does not produce the revenues projected by the applicants, they will turn to those shippers who do not have competitive options and seek to maximize revenues on captive traffic.

5. Safety and Operational Concerns. The experience of Union Pacific which has suffered fatal rail accidents, severe equipment shortages and major traffic congestion presents significant concerns on the part of many rail shippers that the premium price which NS and CSX have paid for Conrail will force both carriers to underinvest in capital improvements and equipment necessary to maintain current service levels and safe operations. This is especially true if the economy declines over the next five years. We are also extremely concerned that the

STB does not have adequate staff resources to evaluate the CSX and NS operating plans from a safety standpoint and will rely on outside consultants to perform this assessment.

IV CONDITIONS REQUESTED BY THE PENNSYLVANIA HOUSE TRANSPORTATION COMMITTEE

In view of the foregoing concerns, the Pennsylvania House Transportation Committee has serious reservations concerning whether or not the acquisition of Conrail by NS and CSX is in the public interest. Certainly, we recognize that NS has the best operating and financial performance in the U.S. railroad industry and brings many strengths to this transaction. CSX also has impressive operating statistics and capabilities. Nonetheless, the Committee is unconvinced that the applicants can generate projected revenue levels from the diversion of truck traffic. We are especially concerned that the applicants' intermodal projections are based on assumptions which do not adequately account for economic down turns or changes in equipment availability in years 2 - 5 of this transaction. We certainly hope that the projections presented by the applicants can be achieved, but our evaluation of this transaction is not driven by a predetermined goal to obtain STB approval. If NS and CSX projections are overstated, applicants will have to make up revenues from other sources of traffic or cut costs and defer capital projects which have been presented in the application as part of the public interest justification for this transaction.

Accordingly, it is the position of the Pennsylvania House Transportation Committee that the proposed division and acquisition of Conrail by NS and CSX is a "high risk" transaction and, if approved, should be subject to ongoing monitoring by the Surface Transportation Board to assure compliance with proposed service schedules and FRA safety standards. In particular, STB oversight should monitor the integration of Conrail operations into

the NS and CSX systems to insure that management and operational breakdowns such as those experienced by Union Pacific do not occur in this transaction.

Accordingly, the Committee requests the Board condition its approval of this merger on the following public interest commitments, many of which have been proposed by applicants:

A. That NS and CSX give priority for all job vacancies to former Conrail employees whose jobs were abolished or transferred as a result of this transaction.

B. That hiring and placement for agreement and non-agreement positions within the Commonwealth be coordinated and administered through Pennsylvania regional employment councils for the communities adversely impacted by Conrail job terminations and transfers.

C. That for a three year period NS and CSX respectively allocate all equipment and supply purchases for Conrail lines on competitive bid basis to former Conrail suppliers.

D. That the following capital investments in new and improved facilities be undertaken:

- (1). NS Triple Crown Railroad terminal at Morrisville, PA - \$10 million;
- (2). NS improvements to Greenwich Yard - \$5 million;
- (3). NS construct new automobile unloading facility near Philadelphia/Norristown - \$15 million;
- (4). CSX construct intermodal facilities in Philadelphia including a new intermodal ramp at Greenwich Yard - \$15 million and \$14 million for double stack clearance in Philadelphia;

- (5). CSX - \$4 million investment for Greys Ferry Bridge - Eastwick connection.
- (6). NS Construct new intermodal facility at Harrisburg, PA - \$40 million;
- (7). NS increase capacity on the Reading - Harrisburg line - improved signaling and crossovers - \$10 million;
- (8). NS - Hollidaysburg, PA car shop - capital improvements - \$4 million;
- (9). NS improvements at the Altoona, PA locomotive repair shops - \$63 million;
- (10). CSX assignment of car repair work to the Hollidaysburg and Altoona shops;
- (11). NS construct new locomotive repair shop in Beaver County, PA - \$30 million;
- (12). NS Increase capacity of Pitcairn Yard intermodal facility at Pittsburgh, PA - \$5 million;
- (13). NS establish and staff Regional and Division operational headquarters in Pittsburgh, PA;
- (14). NS upgrade Harrisburg, PA to Binghamton, NY line;
- (15). NS relocated NS main line from 19th Street in Erie, PA.

E. That NS and CSX be required to obtain independent review and approval by the Board as to future disposition of any overfunded portion of Conrail's retirement plans.

F. Monongahela Railway Company - Joint Access

That the conditions for competitive access sought by Bessemer and

Lake Erie Railway Company be imposed as a condition of this transaction and that the Board require quarterly reports of coal train originations from the Monongahela Railway Company via CSX, NS and B&LE to assure that joint access is provided on a nondiscriminatory basis.

G. Wheeling and Lake Erie Company

The House Transportation Committee concurs with the conditions sought by the Senate Transportation Committee.

H. Buffalo and Pittsburgh Railway Company

The House Transportation Committee concurs with the conditions requested by the Senate Transportation Committee.

I. Reading and Northern Railroad

The House Transportation Committee concurs with the conditions sought by the Senate Transportation Committee.

J. Canadian Pacific Railway Company

The House Transportation Committee concurs with the conditions sought by the Senate Transportation Committee.

K. STB Monitoring

That the STB establish a schedule for oversight hearings to monitor applicants compliance with these and other conditions imposed in this transaction.

None of the foregoing conditions should significantly deprive applicants of any benefits anticipated from this transaction. Indeed, most of these conditions have already been proposed by applicants in their filings with the Board. Accordingly, there should be no objection by applicants to the Board requiring that these commitments be honored and that this transaction

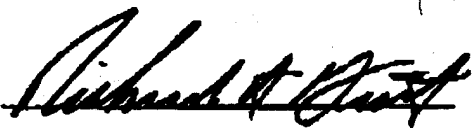
be subject to further review by the Board in the event that applicants are unable to implement the public interest benefits presented in their application.

IV. CONCLUSION

In the meantime, the Pennsylvania House Transportation Committee will work closely with NS and CSX and other agencies of the Commonwealth to monitor rail operations within the state and to partnership with NS or CSX in the creation of rail served industrial parks, infrastructure improvements and economic development projects. We understand that for better or for worse, the interests of the Commonwealth are inextricably linked to those of NS and CSX in doing whatever is possible to make this transaction succeed and assuring that efficient and safe railroad transportation is provided by the applicants to the citizens of this Commonwealth. If the concerns addressed and the conditions sought in this statement and that of the Pennsylvania Senate Transportation Committee are granted by the Board, this Committee will support the proposed transaction and will look forward to a positive and productive relationship with NS and CSX.

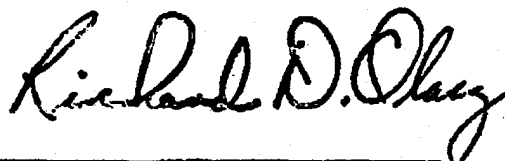
VERIFICATION

We, the undersigned, declare under penalty of perjury, that the foregoing is true and correct. Further, we certify that we are qualified and authorized to file these Comments on behalf of The Pennsylvania House Transportation Committee, of which we are Chairman and Minority Chairman respectively. Executed on October 15,, 1997



Richard A. Geist, Chairman

House Transportation Committee



Richard Olasz

Minority Chairman

Appendix B

**Before the
SURFACE TRANSPORTATION BOARD**

STB Finance Docket No: 33388 (Sub No 91)
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

**COMMENTS OF THE TRANSPORTATION COMMITTEE CHAIRMEN
OF THE PENNSYLVANIA HOUSE OF REPRESENTATIVES
ON THE FIRST GENERAL OVERSIGHT REPORT SUBMITTED
BY NORFOLK SOUTHERN CORPORATION AND
CSX CORPORATION**

Pursuant to Decision No. 1 in Finance Docket No: 33388 (Sub No. 91) ("Decision No. 1") Norfolk Southern Corporation and Norfolk Southern Railway Company (collectively "NS") and CSX Corporation and CSX Transportation, Inc. (collectively "CSX") on June 1, 2000 submitted their first comprehensive reports on the implementation of the Conrail control transaction authorized by the Surface Transportation Board ("STB" or "Board") in Decision No. 89 in Finance Docket No: 33388 (served July 23, 1998) ("Decision No. 89").

The Transportation Committee of the Pennsylvania House of Representatives was an active participant in the proceedings leading to the publication of Decision No. 89 and sought the imposition of a number of protective conditions regarding commitments made by NS and CSX to the Commonwealth of Pennsylvania in that proceeding. In that connection, the Committee was particularly gratified by Condition 19 imposed by the Board which states:

Applicants must adhere to all the representations they made during the course of this proceeding, whether or not such representations are specifically referenced in this decision.

This condition recognizes that Applicants made numerous commitments and representations to many participating parties in the control proceeding, including the Commonwealth of Pennsylvania, not all of which were formally incorporated as conditions in STB Decision No. 89 but which nonetheless constituted binding obligations on the part of the Applicants as part of the Conrail control proceeding.

In general, the House Transportation Committee Chairmen believe that both NS and CSX have made significant progress in the implementation of their acquisition and division of Conrail assets since the conveyance date for this transaction. We are not, however, unmindful of the fact that both NS and CSX have encountered significant problems and are still addressing serious service deficiencies as the result of inadequate planning and unforeseen difficulties arising from the incorporation of Conrail lines into their respective rail systems. In the Commonwealth of Pennsylvania, these service problems have had significant and harmful economic impacts which continue to exist to this day and have yet to be rectified. As NS struggled to incorporate Conrail operations into its system and account for the new Conrail traffic, NS computer systems failed to properly account for cars, track shipments and provide accurate information to railroad managers. Conrail lines and yard facilities in the Commonwealth became choked with delayed trains and NS has been required to call on the services of regional and short line carriers to assist in the switching and classification of traffic throughout the state. As indicated in the Oversight Reports filed by NS and CSX, these problems appear to be slowly improving, but there are still numerous situations throughout the Commonwealth where the failure of NS to adequately prepare

operational plans and martial equipment and personnel have economically damaged citizens and business in the Commonwealth.

As a result of these service problems and failures, the final answer on whether or not this transaction is in the public interest is still in doubt. The current stock price of both NS and CSX suggests that investors are not optimistic given the fact that this acquisition was largely justified on the basis of diversion of substantial volumes of intermodal traffic which has yet to materialize. Indeed, we have observed little, if any, reduction of truck traffic on the Commonwealth's major highways. This was precisely the concern expressed by the House Transportation Committee in its comments in the acquisition proceeding filed with the Board on October 15, 1997. Notwithstanding that fact, this transaction cannot be undone and the Applicants, their connecting carriers, shippers and public agencies must work together to see that this acquisition transaction works efficiently and for the benefit of the public.

In reviewing the NS report, we are particularly concerned regarding the absence of adequate specificity in reporting on the capital commitments made by NS to the Commonwealth of Pennsylvania. In the control proceeding, NS committed to undertake the following capital investments in new and improved facilities within the Commonwealth:

1. NS Triple Crown Rail Terminal at Morristown, PA - \$10 million.
2. NS improvements to Greenwich Yard - \$5 million.
3. NS construction of a new automobile unloading facility near Philadelphia - Norristown - \$15 million.
4. NS construction of a new intermodal facility at Harrisburg, PA - \$40 million.
5. NS increased capacity on the Reading - Harrisburg Line - improved signaling and crossovers - \$10 million.
6. NS - Hollidaysburg, PA Car Shop capital improvements - \$4 million.

7. NS improvements at the Altoona Locomotive Repair Shops - \$63 million.
8. NS construction of a new locomotive repair shop in Beaver County, PA- \$30 million.
9. NS increased capacity at Pitcarin Yard Intermodal Facility at Pittsburgh, PA - \$5 million.
10. NS to establish staff regional and divisional operational headquarters in Pittsburgh, PA.
11. NS upgrading of Harrisburg, PA to Binghamton, NY Mainline.
12. NS relocation of NS mainline from 19th Street in Erie, PA.

The NS Report directly addresses only numbers 4, 5, and 12 but makes no mention of the status of the other listed capital improvements. Indeed, to date, NS, the City of Philadelphia and the Commonwealth of Pennsylvania have yet to execute an agreement regarding the development of the Philadelphia Naval Base Center which includes a provision for an intermodal facility at the AmeriPort International Terminal with a capital investment of approximately \$16 million. Moreover, rather than establish its regional divisional/operational headquarters in Pittsburgh, PA, those headquarters were moved to Philadelphia. In addition, NS has reported that it has commenced operations of a new intermodal facility constructed in Bethlehem which was not even listed in the capital commitments made to the Commonwealth in the control application. While this is a commendable project, we would like to confirm that it is in addition to, and not a substitute for other capital projects. NS has proceeded with the construction of the new intermodal facility at Rutherford Yard in Harrisburg, PA and is likewise increasing capacity on the Reading-Harrisburg-Philadelphia main line with improved signaling and crossovers. NS plans to relocate the NS main line from 19th Street in Erie, PA have been deferred pending further engineering studies.

However, the NS Report makes no mention of its commitment to a Triple Crown Terminal in Morrisville, PA, to the improvements in Greenwich Yard, to the construction of an automobile unloading center in the Philadelphia-Norristown area, to the capital improvements promised for the Hollidaysburg, PA Car Shop or the Altoona, PA Locomotive Repair Shops. Nor has NS made any comment regarding its commitment to construct new locomotive repair shops in Beaver County, increase the capacity of Pitcarin Yard Intermodal Facility or upgrade the Harrisburg, PA-Binghamton, NY line. All of these commitments were made by NS in connection with its pleadings in the control application proceeding and the Committee would be most interested to learn of the current status of those capital projects which NS failed to discuss its initial General Oversight Report.

With respect to the CSX Oversight Report, CSX lists the construction of a new merchandise facility in Philadelphia, PA and the construction of a new facility at Greenwich Yard but does not discuss its commitment to \$14 million for double stack clearances in Philadelphia or its commitment to assign car repair work to the Hollidaysburg and Altoona shops. The Committee would appreciate a short description of the implementation of these commitments on the part of CSX.

The House Transportation Committee Chairmen are also seriously concerned regarding the impact of NS implementation plans on short line railroads within the Commonwealth. In many cases, short lines have worked diligently with NS to assist in congestion problems on NS main lines and yards. Nonetheless, reports from various carriers indicate that delayed interchange, line congestion and shortages of NS locomotives and crews continues to disrupt and impede efficient rail service for shipments originated or terminated on short lines throughout the Commonwealth. In many cases, it appears that NS gives priority to its own main line trains and traffic leaving its short line connections to be

interchanged if and when crews and locomotives are available. As a consequence, short lines report the serious loss of traffic as well as delayed and lost shipments, which have resulted in diversions of rail traffic to truck and the loss of that traffic for both the short lines and NS. Moreover, short lines report to us that they are not getting timely payments from NS of freight and service revenues which cause serious cash flow shortages for these carriers. Finally, many short lines are reluctant to discuss these matters publicly for fear of economic or operational retaliation from NS local managers.

In other instances, NS has yet to implement various interchange agreements and access arrangements which would afford Commonwealth short lines competitive routing alternatives with other Class I carriers. While these are matters of primary concern to the respective parties involved, they ultimately impact on the rail service provided to Commonwealth shippers and on jobs of Commonwealth citizens. Accordingly, the House Transportation Committee urges NS to promptly implement interchange and access arrangements with Pennsylvania short lines which will facilitate efficient and timely interchange service and the establishment of competitive routing alternatives.

Finally, given its operational problems, NS appears to have lost its focus on growing rail business in the Commonwealth. Former Conrail employees report low morale due to recent layoffs and the top down management style utilized by NS which forces decisions to be made at higher executive levels stifling initiative and innovation at local management levels. Former Conrail employees report that NS managers assigned to Conrail properties are resistant to utilizing Conrail methods of decentralized management decision making and have told Conrail employees that "it is either the NS way or the highway." Vendors that supply Conrail in Altoona and other areas of Pennsylvania are finding it hard to get payments for work completed or supplies purchased during the Conrail transition process. NS

managers have been slow to respond to legislators who have raised these concerns with them.

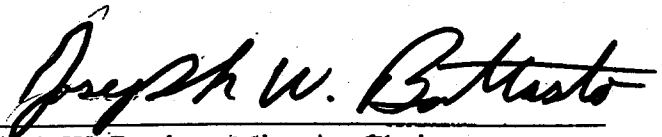
Despite these failures, the Commonwealth of Pennsylvania has included in its most recent capital budget over \$300 million in funds to lay a third track on the NS main line from the Ohio line to Harrisburg, PA. Given this level of Commonwealth investment in the NS system, NS must honor its commitments to the Commonwealth and work more diligently to develop effective and cooperative partnerships with state government and Pennsylvania shippers and railroads.

In conclusion, the House Transportation Committee Chairmen, speaking on behalf of our Committee, believe that continued oversight of this acquisition transaction by the STB is necessary and appropriate. Continued monitoring of NS and CSX service parameters should be maintained and the Board should continue to use its resources to assist affected parties in the resolution of arrangements arising as a result of this acquisition transaction. The Board must also continue to monitor carefully the commitments and protective conditions to which CSX and NS are subject and insure that these public interest obligations are fulfilled by the Applicants.

Respectfully submitted,



Richard A. Geist, Chairman
House Transportation Committee



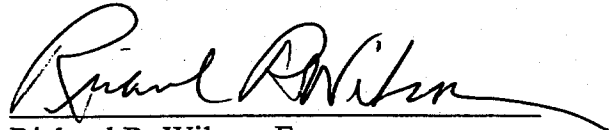
Joseph W. Battisto, Minority Chair
House Transportation Committee

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of July, 2000, a copy of the foregoing
Comments are hereby served by first class U.S. mail addressed as follows:

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**Before
The
House Committee on Transportation and Infrastructure
Subcommittee on Railroads**

**Testimony
of
the
Transport Workers Union of America
(AFL-CIO)**

**Gary Maslanka
International Staff Representative**

Proposed Closing of Norfolk Southern's Hollidaysburg Car Shop

Altoona, Pennsylvania

July 16, 2001

**Testimony of
The Transport Workers Union of America**

**Gary Maslanka
International Staff Representative**

**Before the
House Committee on Transportation and Infrastructure
Subcommittee on Railroads**

Proposed Closing of Norfolk Southern's Hollidaysburg Car Shop

July 16, 2001

Chairman Quinn, and distinguished members of the Subcommittee, my name is Gary Maslanka. I currently hold the position of International Staff Representative for the Transport Workers Union of America. I began my career in the railroad industry in 1974 with the Penn Central Railroad, then Conrail, during which time, from 1979 through 1998, prior to my current position with the Transport Workers Union, I was a representative of Local 2020 of the Transport Workers Union.

Chairman Quinn, and members of the Subcommittee, the Transport Workers Union of America, AFL-CIO takes this opportunity to thank you for conducting this hearing and this opportunity to offer testimony and present information during this hearing.

We appear here to offer testimony concerning Norfolk Southern's planned closing of Hollidaysburg Car Shop in Altoona, Pennsylvania. As stated previously, we point out that this is not about what may be referred to as a common plant closing situation. This is about a company, Norfolk Southern, which made repeated firm and unequivocal commitments to continue operations at Hollidaysburg Car Shops. This is about a company, Norfolk Southern and its officials, from CEO David Goode on down which, during an extremely aggressive campaign to win approval of the "Conrail Transaction" literally worked the stakeholders, including the United States Congress, the Commonwealth of Pennsylvania, the employees of Hollidaysburg and numerous others, making repeated Commitments, Assurances and Promises that subsequent to approval

of the " Conrail Transaction " Norfolk Southern would not only continue operation of the shops, but would promote employment at these shops.

It is equally important to point out that Norfolk Southern's repeated firm commitments to continue operations at Hollidaysburg Car Shops were not conditional, contingent or time limited. The fact is, the only commitment that had a three – year time frame associated with it was that CSX would provide cars to be refurbished over a three year period, which Norfolk Southern also reneged on.

Chairman Quinn, members of the Subcommittee, as you are aware, on March 28 of this year, the Transport Workers Union of America filed a Petition with the United States Department of Transportation, Surface Transportation Board (STB). Joining with TWU in this petition were all of the other organizations representing workers at Hollidaysburg Car Shops and the Commonwealth of Pennsylvania. Since our initial filing with the Board there has been an exchange of several filings with the Board.

It is not our intention to recite all of the information entailed in these filings with the Board, but to highlight the core issues in this matter. In particular, Norfolk Southern's Commitments to continue operations at the shops and the Surface Transportation Board's (STB) involvement in this matter, which flows from the jurisdiction of this Subcommittee of the United States Congress.

As set forth in our initial petition to the Board, we have clearly demonstrated that Norfolk Southern, during the proceedings leading up to the Board's Decision 89, approving the " Conrail Transaction ", made repeated commitments to interested stakeholders, as stated previously. To effectively outline these commitments, we reference Exhibit 1 to this testimony, titled " **THE NORFOLK SOUTHERN COMMITMENT – TO CONTINUE OPERATIONS AT HOLLIDAYSBURG CAR SHOP** "

As also set forth in our initial petition to the Board, we have Highlighted the Board's Decision 89, July 23, 1998, approving the " Conrail Transaction ", with specific conditions. In particular we have emphasized the Board's condition requiring applicants (Norfolk Southern) to adhere to all of the representations they made during the course of this proceeding, whether or not such representations were specifically referenced in the Board's decision.

We have clearly established before the Board that Norfolk Southern's planned closing of Hollidaysburg Car Shops not only completely contradicts its repeated commitments to continue operation of the shops, and promote employment at the shops, it indeed violates the Board's order in Decision 89.

In fact, in the Board's Decision 186, issued May 21, 2001, the Board Directed " **Norfolk Southern To Show Why the Board Should Not Order It To Cancel its Proposed Closing of Its Hollidaysburg, PA. Railcar Shops** " It is important to note that this decision of the Board was issued subsequent to review of both the March 28, 2001 petition of TWU and others, and Norfolk Southern's responses to our Petition.

Clearly, the Board's decision 186, which was issued after review of our petition to the Board and the applicants (Norfolk Southern) responses to the petition, reflects that (1) The Board recognizes and understands the extraordinary commitments which were repeatedly made by Norfolk Southern, (2) That the Board takes very seriously comments made by all parties, and that the Board will continue being vigilant to ensure that representations made by parties to our proceedings are actually honored, and (3) That the Board, after having had the opportunity to review Norfolk Southern's responses to our Petition, found that Norfolk Southern had not demonstrated a reason for the Board not to enforce its order in Decision 89.

In particular, it is important to emphasize that in review of the Board's Decision 186, it is obvious that Norfolk Southern had not demonstrated any reason for the Board not to

enforce its order in Decision 89, with respect to Hollidaysburg Car Shops, as evidenced by the Board directing Norfolk Southern to show why the Board should not order it to cancel their proposed September 01, 2001 closing of the shop. When considering the fact that Norfolk Southern offered nothing new in their June 25, 2001 filing to the Board, even after being granted a two week extension in which to submit their filing, it is clear and reinforces the obvious, (1) That Norfolk Southern's planned closing of the Shops clearly violates the Boards order in Decision 89, and (2) The Board is correct in, and must enforce its order compelling Norfolk Southern to continue operations at the Hollidaysburg Car Shops.

Further, with respect to Norfolk Southern's June 25, 2001 filing with the Board, we have carefully reviewed the contents of this document and have found nothing new. What we have detected, is additional misleading allegations which we have addressed in our response to Norfolk Southern's filing which is being filed with the Board today.

It should also be pointed out that in addition to the foregoing there are numerous additional points which further support our position that Norfolk Southern made repeated firm commitments which the board must make them adhere to, as outlined in the Board's order in Decision 89. However, as stated previously, we have addressed all of these points in our submissions to the Board and it is not our intention to restate all of these issues here today.

With regard to Norfolk Southern's stated reasons for their planned closing of the shops, as outlined in their February 21, 2001 news release, we find them to be nothing more than self-serving and unsubstantiated allegations. Moreover, even if Norfolk Southern was able to provide legitimate support for their claims, which we hold they cannot, it does not relieve them of their obligation to comply with the Boards order in Decision 89 and live-up to their repeated firm commitments to continue operations and promote employment at the shops.

First, with respect to claimed changing economic conditions, Norfolk Southern has not shown how changing economic conditions have had any impact on the shops.

Furthermore, even if changing economic conditions had an impact on the shops, which we submit they do not, two additional points must be made. First, when NS initially announced their plans to close the shops in November of 2000 it was prior to the realization of the type of economic downturn NS alleges. Second, and as recognized by NS CEO David Goode himself, and as CEO Goode was quoted as saying in a recent issue of NS NEWSBREAK, "***This economic downturn is clearly temporary***". Norfolk Southern's planned closing of the shops is not.

In response to Norfolk Southern's claims that excess capacity in the freight car repair industry has reduced the workload at Hollidaysburg, we could not disagree more. As stressed in our filings with the Board, when reviewing the history of work performed at Hollidaysburg it is clear that the work load at Hollidaysburg, at the time NS announced the closing, in comparison, was not substantially different then the workload at Hollidaysburg at the time NS was preparing for the acquisition of the shops and made its commitments to continue operations at the shops.

In fact, with respect to insourcing, and Norfolk Southern's repeated commitments to increase insourcing at the shops, during Norfolk Southern's first full year of operation work records indicate that insourcing increased by nearly 25% and the number of cars insourced was the highest number of cars insourced in the shops in any given year. It must be also pointed out that this insourcing work generated a substantial margin of profit.

Of equal importance is the fact that, in addition to the increased insourcing and profits generated by insourcing in year 2000, which Local 2017 President Thomas Lutton will address a bit further, Hollidaysburg was indeed realizing the rewards of an aggressive insourcing team effort, as numerous additional insourcing projects were scheduled into the shops in the 4th quarter of 2000, into year 2001.

That's not all, beyond the insourcing work already scheduled, the insourcing team at Altoona was actively negotiating numerous additional, some quite sizeable insourcing orders. Several, if not most of these orders being negotiated were with customers that Hollidaysburg had performed orders for in the past. Customers which recognized not only the ability of Hollidaysburg employees to turn out a quality product, in a timely fashion, but also their unique expertise in performing various type orders for which other car repair facilities are not suited. Inasmuch, the prospect for being awarded most, if not all of these insourcing orders was excellent. This insourcing work would have generated additional profits for the shops.

Further, with regard to the issue of capacity, which NS has raised, in fact capacity in the shops is controlled by the company. As illustrated in year 2000, several insourcing projects which were already scheduled for the shops beginning in the 4th quarter of 2000, going into 2001 were initially put on hold. These projects were put on hold due to the fact manpower at the shops had decreased considerably since day one (6/1/99) when NS took over operation of the shops. When you consider the foregoing, contrary to what NS alleges with regard to capacity, there was not enough manpower in the shops to keep up with the increasing flow of insourcing work coming into the shops.

Logically, the appropriate response from Norfolk Southern, which would have been consistent with their repeated commitments, should have been to increase manpower at the shops to handle the increase in profitable insourcing work. In this regard it is our understanding that a request was made by the shop management, sometime in October 2000, however corporate management in Roanoke, contrary to the commitments made, refused to increase manpower at the shops. Not only was this management decision inconsistent with Norfolk Southern's commitments, it made no sense because it ignored the ability to increase profits at the shops.

In fact, Norfolk Southern's refusal to increase manpower to handle the increased insourcing, when considering special arrangements which were agreed to by the

organization, which Mr. Lutton will address a bit further, clearly defied Norfolk Southern's ability to even further enhance profits on insourcing work at the shops.

In view of the foregoing, it is abundantly clear that contrary to Norfolk Southern's stated reasons for the planned closing of the shops, in particular the issue of capacity, there is no merit to their obviously self-serving claim

Moreover, with respect to the issue of insourcing, consistent with Norfolk Southern's repeated commitments to increase insourcing, the Local insourcing team was well on their way to quite dramatically increasing insourcing, at a substantial margin of profit, when Norfolk Southern, for no legitimate reason literally pulled the plug on insourcing work in the shops. Such an action can be viewed as nothing less than a flat out, blatant breaking of their repeated commitments.

As stated previously, it is not our intention to rehearse the numerous exchanges before the Board (STB) in this matter. However, there are a few points which are necessary to emphasize in this case.

Commitments

First, the record in this case makes clear that Norfolk Southern made not one, but repeated commitments to continue operations at Hollidaysburg Car Shops and to promote employment at the shops. These commitments were made during an extremely aggressive campaign designed and pursued by Norfolk Southern to attain approval of the " Conrail Transaction ".

STB Decision 89

In its Decision 89, released July 23, 1998 the Surface Transportation Board (STB) approved the " Conrail Transaction ", but not without conditions. The Board's order in Decision 89 (*No. 16 & 19 at 171*) made clear that applicants (NS) must adhere to representations made during the merger proceeding.

Now, after having attained approval of the " Conrail Transaction " , subsequent to continuous, extraordinary commitments to continue operations at Hollidaysburg Car Shops Norfolk Southern is now attempting to break its commitments.

Now, they are attempting to assert that NS believed the shops would prove useful to it and hoped and expected to use them, but for no definite period of time. As clearly reflected in the record, these assertions are simply not true.

Norfolk Southern, and its representatives, from CEO David Goode on down, had complete control of what they said in their aggressive journey in acquiring their piece of Conrail. They had countless opportunities to say what they are now asserting " NS believed the shops would be useful to it and hoped and expected to use them, but for no definite period of time " , **AND THEY NEVER SAID IT.**

The Real Truth, with respect to Hollidaysburg Car Shops, Exactly What They Said, and they said it, **NS IS COMMITTED** to continuing operations at Hollidaysburg, not once, but repeatedly – in several ways, and before every audience they could.

In drawing our comments to a close, we again reference an article which appeared in the Wall Street Journal on March 5, 1997. In that article, Pennsylvania, House Transportation Committee Chairman, Richard Geist was quoted as saying " They're the Darth Vader of the railroad industry " , They're lean. They can be overpowering. " We in the Transport Workers Union of America can relate to that statement, we certainly believe Norfolk Southern was overpowering in their quest to acquire their piece of Conrail. However, we must not forget, in large part, with respect to the Commonwealth of Pennsylvania, in particular Hollidaysburg Car Shop, Norfolk Southern's overpowering approach included a rock solid commitment to continue operations at Hollidaysburg.

They must not be permitted to overpower the Commonwealth of Pennsylvania, the Surface Transportation Board, the dedicated employees of Hollidaysburg, this

community, and so many other interested parties by getting away with breaking their commitment to continue operations at Hollidaysburg.

Chairman Quinn, members of the Subcommittee, again, we in the Transport Workers Union of America thank you for this opportunity to offer testimony here today. We sincerely hope we have been able to shed important light on this matter before the Subcommittee.

We would be happy to answer any questions members of the Subcommittee may have.

**Before
The
House Committee on Transportation and Infrastructure
Subcommittee on Railroads**

**Testimony
of
the
Transport Workers Union of America
Local 2017
(AFL-CIO)**

**Thomas Lutton
President – Local 2017**

Proposed Closing of Norfolk Southern's Hollidaysburg Car Shop

Altoona, Pennsylvania

July 16, 2001

**Testimony of
The Transport Workers Union of America
Local 2017
Altoona, Pennsylvania**

**Thomas Lutton
President Local 2017**

**Before the
House Committee on Transportation and Infrastructure
Subcommittee on Railroads
Proposed Closing of Norfolk Southern's Hollidaysburg Car Shop, Altoona Pennsylvania
July 16, 2001**

Chairman Quinn, and distinguished members of the Subcommittee, my name is Thomas Lutton. I currently hold the position of President, Transport Workers of Union America, Local 2017. I began my career in the railroad industry in 1973 with the Penn Central Railroad, then Conrail, during which time, from 1978 through the present time I have been a representative of Local 2017 of the Transport Workers Union of America.

Chairman Quinn, and members of the Subcommittee, before making my comments before this committee which will be brief, I would like to thank this Subcommittee for conducting this hearing and the opportunity to present testimony here today.

I appear here to offer testimony concerning Norfolk Southern's planned closing of Hollidaysburg Car Shop here in Altoona, Pennsylvania from a Local perspective. In particular, concerning Norfolk Southern's repeated commitments to the workers at the shops, this organization, and our community.

In doing so, I point to the declaration of Robert G. Chirdon who is actively employed by Norfolk Southern at the shops here in Altoona, as I believe Mr. Chirdon's declaration provides an accurate account of what is taking place here, from a local vantage point, an employee who has been directly subjected to Norfolk Southern's actions.

(Exhibit 1)

I should also point out, that this declaration is just one of over 200 hundred declarations signed by workers here in Altoona attesting to what Norfolk Southern committed to with regard to the shops here in Altoona.

As a worker at the shops and President of TWU Local 2017 here in Altoona, one who has lived through this ordeal, at a local level, I can assure you that what these workers are saying, in addition to what this organization has stated in its filings with the Surface Transportation Board (STB) is completely accurate.

In addition, I have reviewed and am intimately aware of all the filings before the United States Transportation Board, and respectfully submit that Norfolk Southern's allegations in this matter are not accurate and represent nothing more than an attempt to repudiate and avoid the repeated firm commitments it has made to the workers at Hollidaysburg Car Shops.

In keeping my comments brief, I would like to address a bit further, the issue of insourcing here at the shops. First, the insourcing team here at Altoona was aggressively seeking additional work for the shops, and was quite successful in their efforts. The facts are, there were several insourcing orders scheduled, numerous additional orders being negotiated, when Norfolk Southern turned away the work.

These insourcing jobs generated a substantial profit for the shops. In fact, it was common knowledge around the shops that insourcing work was not only steadily increasing, but that the profit margin on this work was substantial, even considerably higher than the profit of margin figured when bidding jobs. To illustrate this fact, attached to these comments, (**Exhibit 2**), is a financial breakdown which outlines the profits on insourcing work for the year 2000. When reviewing this document, dated November 21, 2000, which to my understanding comes from David Veron, Manager of Insourcing, you will see that from January 2000 through November 20, 2000 NS realized a profit on insourcing of \$ 1,834,329.00, an 18.08% profit margin.

In view of the foregoing, and the fact that there were numerous additional insourcing jobs scheduled, as well as numerous additional insourcing jobs being negotiated, insourcing projects were returning a substantial profit.

In fact, previously, in 1999, this organization negotiated a special agreement, which ultimately Norfolk Southern backed out of, which would have even enhanced profits on insourcing work further.

This organization, and our members employed at the shops have always been, and continue to be dedicated to enhancing operations at the shops. In fact, as difficult as it is currently, when considering Norfolk Southern's attempts at breaking their repeated commitments, and with the planned closing of the shops looming, remarkably, these employees continue to work safely and productively. To illustrate this point further, the current insourcing job being performed in the shops, even considering the circumstances, moves forward ahead of schedule.

Chairman Quinn, members of the Subcommittee, these fine, dedicated employees, who on average are age 48, with approximately 25 years railroad service have experienced some difficult times throughout the years. They have been through different ownership's, bankruptcies and government ownership. However, they have never experienced the type situation they are now confronted with now, a company that made repeated, unequivocal commitments and literally promised them, that if the " Conrail Transaction " were approved, that their employment would be secure. A company who now, just a short period of time after taking over operations, is blatantly attempting to break their commitments.

In concluding my comments here today, which are brief, there is one additional point I would like to make concerning Norfolk Southern's actions. As you are aware, it was in November of 2000 when Norfolk Southern initially announced plans to close Hollidaysburg. In response, Congressman Bud Shuster, then Chairman of the House Transportation and Infrastructure Committee intervened, and scheduled a hearing here

in Altoona. However, subsequent to discussions with NSR Chairmen Goode, Norfolk Southern cancelled its planned closing of the shops. What is important to point out is that, as stated in the announcements canceling the shops closing, the need to work together to bring work into the shops was of importance. In this regard, let me assure you that no one worked harder than the insourcing team here in the shops, and they were bringing the work in. In addition to numerous other insourcing projects which were scheduled in, just one day prior to Norfolk Southern's announced closing of the shops on February 21, the Department of Defense was preparing to move the first of 2000 cars to the shops, and Norfolk Southern turned the work away, as well as numerous other insourcing orders.

These actions by Norfolk Southern, just a few Months subsequent to yet another NS commitment, this time to work together to bring work into the shops, and only weeks subsequent to then, Congressman Bud Shuster's announced retirement, speaks volumes to the fact that Norfolk Southern cannot be trusted. It makes clear that Norfolk Southern, and its representatives, from the CEO on down, will and do commit to whatever they deem necessary for the moment, with no intentions of living up to their commitments.

As stated previously, Norfolk Southern has made continuous commitments to continue operations at Hollidaysburg, they must be compelled to adhere to their commitments.

Again I thank you Mr. Chairman, and the Subcommittee for conducting this hearing and for this opportunity to present testimony and information here today. We would be happy to answer any questions the Subconmmmittee may have.

DECLARATION OF ROBERT G. CHIRDON

1. My name is Robert G. Chirdon. I am a Carman employed by Norfolk Southern in Altoona, Pennsylvania. I am a former employee of Consolidated Rail Corporation and was employed in Altoona during the years leading up to Norfolk Southern's acquisition of the Altoona shops (Hollidaysburg / Juniata) and split date, June 1, 1999.
2. As an employee of Conrail, subsequent to the announced merger of CSX and Conrail in 1996, and then the announced agreement between CSX and NS to acquire and divide Conrail's assets I had reason to be seriously concerned about my employment as a result of these proposed mergers. This concern resulted in my paying very close attention to what Norfolk Southern was saying with regard to the future of the shops in Altoona.
3. From October 1996, when the first merger between Conrail and CSX was announced through June 1, 1999, split date of the CSX/NS acquisition and division of Conrail, I personally read or was made aware of continuing commitments being made by Norfolk Southern with respect to the future of the shops in Altoona. I also read or was made aware of news paper advertisements taken out by NS, addressed to myself as a " stakeholder ", committing to the continued operation of both Hollidaysburg and Juniata shops, and the promotion of employment at these shops. In addition to numerous news articles and Norfolk Southern press releases, as time progressed towards the ultimate approval of the " Conrail Transaction " and then the actual takeover in June 1999, based on repeated news and other reports of commitments being made by Norfolk Southern with respect to the shops in Altoona, I had reason to be confident that my employment in Altoona, Pennsylvania, with Norfolk Southern was secure for years to come. In fact, based on Norfolk Southern's repeated commitments, I had reason to be confident that the work at the Altoona shops was going to grow, as well as employment levels. Based on what Norfolk Southern was telling everyone concerned, which was widespread public knowledge, I was quite confident concerning my employment.
4. Further, Norfolk Southern CEO David Goode, in a speech to us workers at Juniata Locomotive shop on June 01, 1999, acknowledged and reaffirmed the commitments NS made to the shops in Altoona, this time subsequent to the merger being approved, once again providing reassurances concerning employment for years to come.

Page Two (2) / Declaration of Robert G. Chirdon

5. Unfortunately however, this has changed with Norfolk Southern's announced plans to close the shops. Since Norfolk Southern's announced closing of Hollidaysburg, obviously I have had cause to closely follow all that has happened. In doing so, there are at least two things which stand out based on my knowledge of Norfolk Southern's commitments to continue operations at the shops in Altoona.

(a) That Norfolk Southern's planned closing of Hollidaysburg Car Shop completely contradicts repeated, firm commitments to continue operations at Hollidaysburg Car Shop, and (b) That Norfolk Southern is now attempting to assert that they merely stated aspirations, expectations or beliefs concerning the shops, which is completely false. To the contrary, as employees, we were repeatedly assured via the news, advertisements run by NS, NS publications, and the operating plan that NS made an unconditional commitment to continue operation of the shops and promote employment at the shops. In fact, throughout this process NS officials made frequent visits to the shops, holding meetings with the workers, again, during which time they repeatedly told employees of the commitment NS made to the shops, and that we, as workers had no reason to be concerned.

In view of Norfolk Southern's obvious attempts to renege on the clear promises they made to the workers at Hollidaysburg, I have now lost all trust in Norfolk Southern.

6. Also, with respect to what work is allegedly being transferred to other locations, I am not aware of any such work which is being transferred, and to my knowledge Norfolk Southern has not advised anyone of specifically what work is actually being transferred.

7. With regard to protective benefits, again, I have no reason to believe that Norfolk Southern is going to provide protective benefits. Beyond having no reason to trust Norfolk Southern, as it is obvious they cannot be trusted, with respect to protective benefits, I have become aware of numerous co-workers who have been adversely affected by the Conrail Transaction who were denied protective benefits. As workers, our experience and understanding since implementation of this transaction is that Norfolk Southern does everything they possibly can to avoid the payment of protective benefits.

8. Finally, my reservations concerning the integrity, or lack thereof, of anything Norfolk Southern officials state is based on the obvious and outright lies stated by Norfolk Southern to gain approval of the Conrail Transaction.

9. In addition, especially when considering that NS has not identified any of the work they are allegedly transferring, along with their increasingly aggressive cost cutting measures which have been announced publicly in various forums where it appears they are cutting as many employees as possible, I have serious concerns that there will be no work available for me at the locations NS identifies. Further, I am seriously concerned that even if jobs may be available initially, as alleged by NS, they may very well be eliminated in the in the near future, especially when considering NS' actions in reducing employees.

10. I am currently 46 years old and have worked here at the shops in Altoona since 1974. I have deep family and other ties here in the Altoona area and fear uprooting these ties and disrupting my family, only to be told in a short period of time by Norfolk Southern, who obviously cannot be trusted, that again there is no work at a location that I may have the opportunity to transfer to.

Verification

I, Robert G. Chirdon, verify that under penalty of perjury that I am a Carman employed by Norfolk Southern in Altoona, Pennsylvania, that I have read the foregoing document and its contents, and that the same is true and correct to the best of my knowledge and belief.

Executed on July____, 2001

Robert G. Chirdon

**HOLLIDAYSBURG CAR SHOP
INSOURCING SUMMARY****November 21, 2000****Closed Shop Orders - 1/1/00 through 11/20/00
(Final Accounting completed)****Sales****\$10,141,570 Billed to Customers****Cost of goods sold**

\$ 1,218,210	Direct Labor
\$ 2,608,555	Overheads
\$ 4,277,645	Material
\$ 202,831	Warranty Accrual

\$ 8,307,241 Total Cost of goods sold**\$ 1,834,329 Gain = 18.08% Profit**

It should be noted that although most jobs are bid at a 4% margin, the actual profit is usually increased due to:

- **the learning curve on larger jobs driving up efficiencies and reducing actual man-hours**
- **extras that the customer may ask for once the cars are in the shop, and**
- **lower than expected pricing on required material.**

Also, other income not included in the above figures is realized through:

- **transportation charges for cars moved in & out of the shop**
- **other work performed such as customer car inspections**

Marketing Summary - 1/1/00 through 10/31/00**22 Jobs awarded (includes some jobs that were bid in 1999)****50 Proposals sent to customers****28 Proposals declined by customer****27 Proposals under study not furnished to customer**

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WASHINGTON, DC 20515-3230

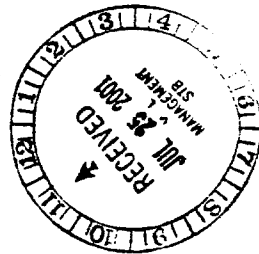
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OFFICIAL BUSINESS

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M.C.

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