



**Rail Cents
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March 23, 2004

Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N. W., Room 700
Washington, D.C. 20423-0001

210414



Re: 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

Dear Secretary Williams:

Please find enclosed for filing in response to your Decision No. 12 regarding
the above-referenced proceeding an original and eleven copies of a written statement
by Rail Cents Enterprises, Inc. We request that you date-stamp the enclosed extra
copy of the pleading and return it in the enclosed self-addressed and stamped
envelop. If you have any questions, you may contact me at the telephone numbers
below.

Respectfully submitted,

Thomas F. Erickson, Jr.

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Enclosures as stated

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BEFORE THE
SURFACE TRANSPORTATION BOARD

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:
RAIL CENTS ENTERPRISES, INC.
TO BE FILED ON OR BEFORE MARCH 26, 2004



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INTRODUCTION

Rail Cents Enterprises, Inc. (RCE) has conducted a railroad consultation business, headquartered in Delaware County, Pennsylvania, since March, 1999. The Proprietor of RCE previously worked for fifteen years at Conrail in various marketing and terminal operating positions, and prior to that worked for seven years at CSX and its predecessors in various sales, transportation, and budgeting positions.

In the course of its consultation activities over the past five years, RCE has observed the inner workings of two of Conrail's three Shared Asset Areas: North Jersey and South Jersey/Philadelphia. As a proponent of railroad growth in general and railroad viability in the Middle Atlantic Region in particular, RCE would like to point out three fatal flaws in Conrail's current organizational structure.

OBSERVATIONS

1. The accounting rules for apportioning Conrail's expenses between CSX and Norfolk Southern (NS) discourage an ever-increasing volume of profitable business. More specifically, because CSX and NS apportion the common pot of Conrail's carload expenses between themselves simply by the ratio of carloads in their respective accounts, each carload is effectively charged back to CSX and NS at the average cost for all Conrail carloads. This discourages carloads occasioning less than average cost, since the rate necessary to cover charged-cost is artificially raised for below-average out-of-pocket-cost moves, often above what the traffic will bear. As cost-efficient or low-cost movements are eliminated, average cost moves ever higher, discouraging in successive iterations more and more potentially profitable business.

As an example of this problem, Camden Iron & Metal currently ships about 20,000 truckloads of scrap metal per year between their subsidiary in Philadelphia and Camden waterfront locations. Conrail's out-of-pocket cost for this short-haul traffic would be substantially less than current truck cost, which is, in turn, less than Conrail's average carload cost. Therefore, neither CSX nor NS can benefit by bidding on the Camden Iron & Metal traffic with a truck-competitive rate, since under Conrail's accounting rules this traffic would necessarily inflate Conrail expenses charged to the bidding railroad by more than the revenue it could derive from the customer.

2. The lack of commercial responsibility at Conrail preempts most industrial development. Conrail does not proactively solicit industrial development on line. It

relies on CSX and NS to develop new rail infrastructure, both of whom have a vested interest in locating industries on non-Conrail lines served exclusively by themselves, or even in moving traffic through intermodal distribution terminals with subsequent drayage into Conrail territory. There is no negative consequence within the Conrail organization when industrial development opportunities are ignored.

For example, in August of 2003, Penn Eastern Rail Lines identified potential rail traffic on an abandoned Conrail industrial track in Philadelphia and contacted Conrail verbally and in writing, asking how it could lease this rail property. There has been no response as of March 2004. In October of 2003, Safe Disposal Systems contacted Conrail requesting a Sidetrack Agreement so it could re-activate its out-of-service sidetrack in Philadelphia. There has been no response as of March 2004.

3. The lack of a revenue incentive discourages improvement in service quality. Conrail is only measured economically by CSX and NS on how much it reduces costs, not on how much it increases revenues. With no incentive to increase transportation revenues, there is no incentive to improve the quality of Conrail's service offering.

For example, in April of 2002 Advanced Lubrication Specialties, Bensalem PA (rail station Cornwells Heights), was scheduled to receive Conrail switching service on Mondays, Tuesdays, and Thursdays. As its business grew this had become less and less convenient for the industry, and it requested that switching days be changed to Mondays, Wednesdays, and Fridays. Conrail denied this request and the industry did not pursue the matter for fear of a return to Conrail's March switching performance, when out of twelve scheduled switches, four had been incomplete and two skipped.

CONCLUSION

In a free market economy, when an entity is blocked from growth, it inevitably dies. There are at least three ways that the current organizational structure of Conrail blocks revenue growth: 1) by an accounting system that treats all carload traffic as though it has the same cost basis, 2) by deferral of industrial development to parties that prefer growth on their own properties, and 3) by the lack of any monetary incentive to improve its service product. Conrail cannot survive with its current structure. It can only shrink until rendered irrelevant.

There are viable alternative structures. Conrail could be given its own commercial departments, like the Indiana Harbor Belt Railroad which is still owned by Class I railroads; it could be divided between CSX and NS, with some sort of reciprocal switching arrangements if dual commercial access were deemed essential; or it could be sold to independent operators.

Respectfully submitted,

for 
RAIL CENTS ENTERPRISES, INC.
Wallingford, PA