

The Commonwealth of Pennsylvania, which has long been known as the "Keystone" state, is geographically situated such that it forms the major passageway where the main East-West and North-South highway and rail routes converge to access our nation's Northeastern / New England economic centers. That reality starkly magnifies the anticipated effect, for Pennsylvania and the entire Northeast region, of the massive freight growth predicted in the coming decades. Pennsylvania's transportation planners must begin to identify and implement solutions to the current condition of the transportation system that cannot adequately accommodate today's traffic volumes, let alone handle projected capacity demands. The expansion of the freight-rail system may be a cost-effective way of alleviating congestion-associated highway costs and increase the capacity of the total transportation system.

Nationally, domestic freight tonnage will increase 57% by 2020 across all modes of transportation. Since 1990, rail traffic density has risen over 100%. The freight rail system, which plays an integral part in the movement of goods across the country, currently carries 16% of domestic tonnage. The American Association of State Highway and Transportation Officials (AASHTO), in their Freight Rail Bottom Line Report, states that by 2020, the rail system must carry an additional 888 million tons to maintain its current share of freight flows – an increase of 44%.

Capacity constraints on the Pennsylvania railroads have rapidly increased over the past several years. Currently there are fourteen identified choke points and congested line segments on three of the four Class One Railroads in the Commonwealth. It is important to understand these locations, as they create slow downs on the primary corridors traversing the State. Of course, these are the same routes that our 62 short line and regional railroads use to access their markets, as well as receive raw materials.

The Class One choke points and slow down areas include the following:

CSX:

1. The Trenton Line from Philadelphia to Morrisville
2. South Broad St. Clearance Project in Philadelphia
3. The inability to get double stack traffic from Pittsburgh to Cleveland

NS:

1. The Lemoyne Connector in Harrisburg, from the Lurgan Branch to the Port Road Branch.
2. The Port Road Branch.
3. The NS Main Line (Lebanon Valley) from Harrisburg to Philadelphia.
4. South Broad St. Clearance Project in Philadelphia.
5. The Port Perry Branch in Pittsburgh
6. The NS Main Line from Harrisburg to Pittsburgh and West.

CP:

1. The New Milford Passing Siding in Susquehanna County
2. The Taylor Yard Siding in Scranton
3. The Buttonwood Siding
4. The Bloomsburg Siding
5. The Sunbury and Nescopek Sidings

It should also be pointed out that increases in freight activity are further accentuated by passenger service on some of these same lines. For instance, Amtrak and SEPTA have some of their heaviest traffic

on Class 1 freight lines in the Philadelphia area. Additionally, NS operates on the Keystone Corridor, the busy Amtrak Line from Harrisburg to Philadelphia. As the Philadelphia to Harrisburg NS Main Line becomes more congested, some of the single stack traffic is being shed from this route to the Keystone Corridor, causing even greater capacity problems. Also, Amtrak traffic from Harrisburg to Pittsburgh and west is along the busy NS double stack Main Line.

As previously indicated, freight railroads have been experiencing one of their busiest times in decades. Several commodities/trends that are contributing to this are the re-emergence of coal in electric power generation and the recent explosion of ethanol production and distribution facilities. Given Pennsylvania's strategic location in the Northeast and Mid-Atlantic, much of this traffic traverses the Commonwealth. We have projections that several of the proposed ethanol facilities will double car-loadings on several of our short lines. Of course most of this traffic will travel over the Class Ones to reach these facilities. This additional freight will put increased strain on the limited capacity and finances of the nation's and Pennsylvania's railroads, and the industry is expected to have difficulty absorbing its share of the growth at current investment levels.

Class I railroads spend approximately \$2 billion annually on infrastructure, above and beyond repair and maintenance. More than 17% of the railroad industry's revenue is spent on capital investments, and railroad investment in infrastructure and equipment is the largest private investment in the transportation system. The fact that the rail industry is extremely capital intensive puts strains on the amount the railroad industry has available to spend on capital investments. If current levels of investment continue, the rail system will continue to carry the same volumes of freight in 2020 as it carries today, but little more. The freight volume forecasts published by AASHTO, FHWA and other agencies and researchers make it clear that if the freight rail system cannot keep pace with the growing capacity need, the excess tonnage will be shifted to the nation's roadways, causing more congestion and costing more money for maintenance.

Yearly, Pennsylvania funds rail freight projects through the Rail Freight Assistance Program (RFAP) and the Capital Budget Transportation Assistance program. In 2006, the state awarded 45 RFAP and 21 Capital Budget grants to railroads and businesses served by rail, totaling \$30.5 million. The state annually receives requests for more than double the amount of money available for funding these projects. This disparity between the amount the Commonwealth is able to fund and the amount of requests received speaks to the overall funding needed for freight projects, both through the state and federal governments and the railroad companies themselves. With total freight-rail shipments to Pennsylvania expected to double by 2035, the Commonwealth can anticipate increasing requests for financial support in the not-too-distant future.

If a higher level of investment can be achieved, the freight rail system could not only maintain its current traffic level, but accommodate its fair share of forecasted growth, and potentially more. Funding, however, would have to come from a combination of railroad investments (above and beyond what currently can be funded from revenues and borrowing) and public sector participation. AASHTO has estimated that this scenario will cost between \$175 billion and \$195 billion over 20 years, with 70-80% of the funding provided by the railroads themselves.

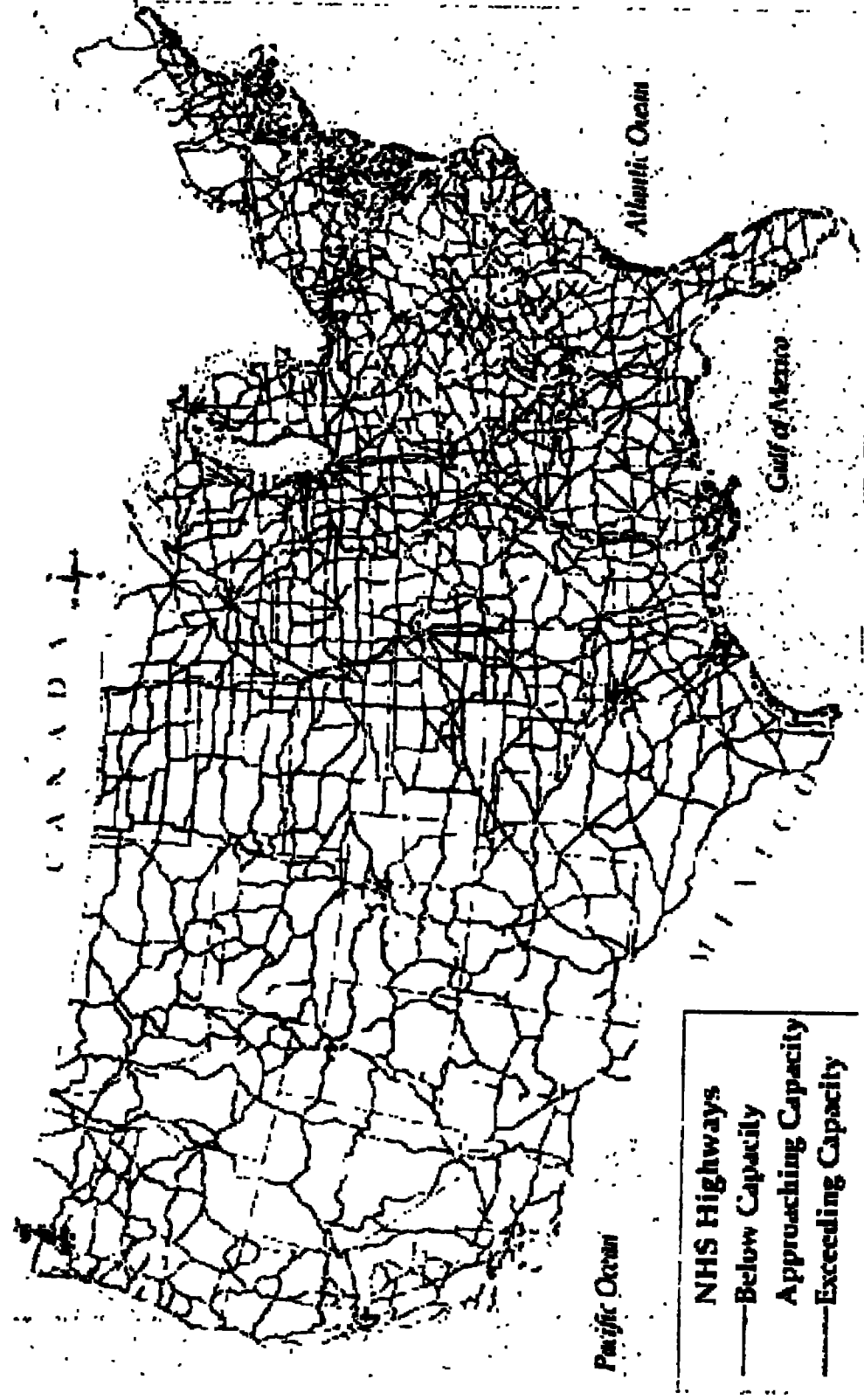
In order for the freight rail system to meet the forecasted demand in the coming years, public policy and public participation strategies will need to clearly reflect the importance of rail in the alleviation of highway capacity. Strong public sector financial support will be needed, as AASHTO estimates that the rail system needs an additional \$2.6 to \$4.0 billion in annual capital investment to meet future capacity needs. Some recommended strategies for increasing public support for the rail industry include increasing loan and credit enhancement programs, expanding the state's ability to invest where rail freight improvements will have significant highway and public transportation benefits, and instituting

inter-state partnerships allowing investment and policy to reach across state borders to address the nation-wide freight capacity issue. Additionally, the use of innovative tax-expenditure financing programs, including accelerated depreciation, tax-exempt bond financing, and tax credit bond financing are invaluable tools in ensure the ability of the rail system to handle future tonnage increases.

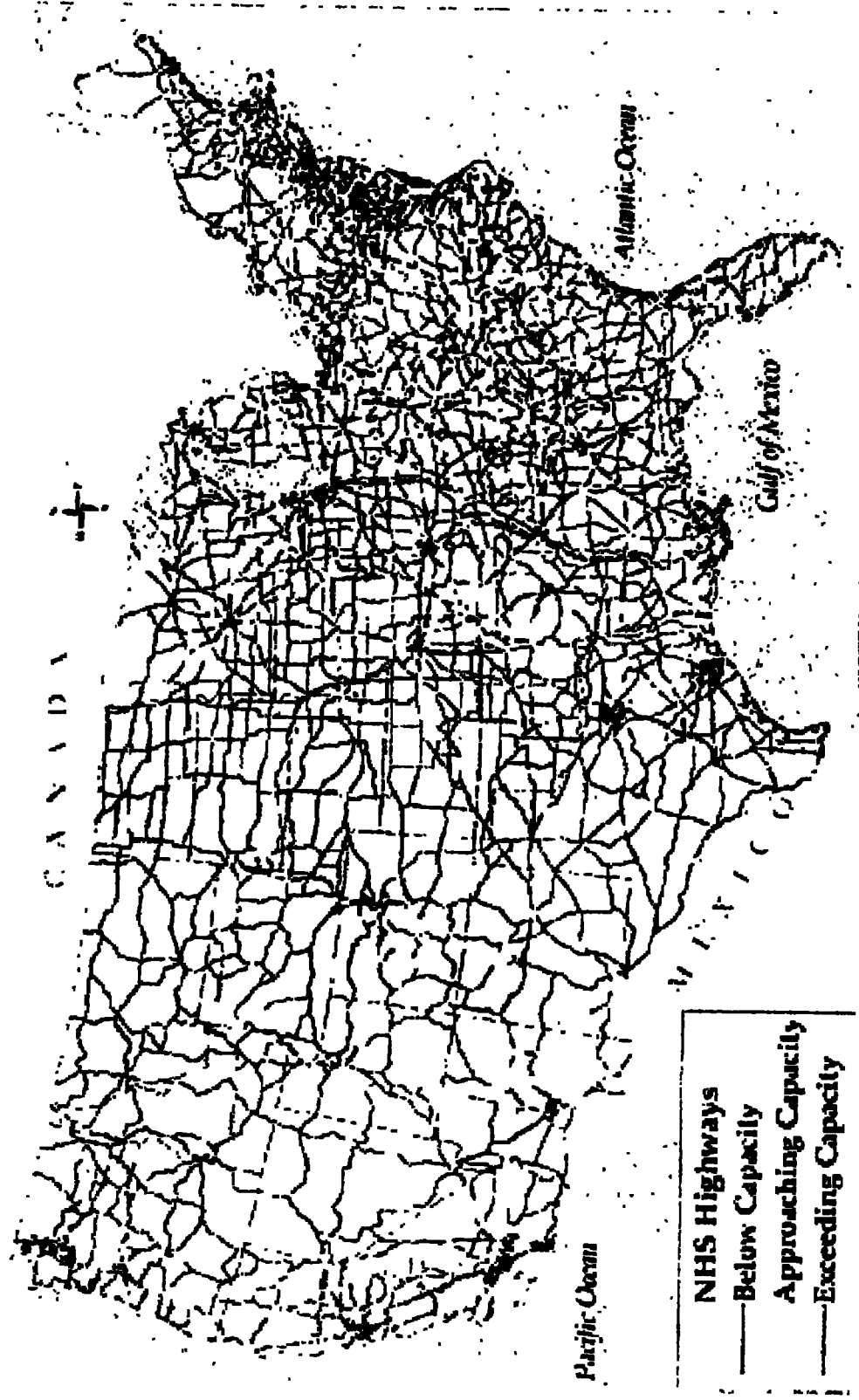
Additionally, the Federal government can continue to support the freight-rail industry by encouraging private investment in railroads and resisting attempts to reregulate it. Government policies that discourage the large private investment needed, such as limiting the ability to price to the market and limiting railroad earnings, may be shortsighted. The health of the nation's rail system can be seen as a measure of the health of the entire transportation system, and if rail capacity is not increased in the coming years, the strain will be felt on the nation's highways as additional freight is shifted to trucks. Public policy encouraging capacity increases in the system are necessary, and the proper steps to implement programs and strategies reflecting this necessity should be undertaken as soon as possible.

In view of the critical implications of burgeoning domestic freight growth, for Pennsylvania and for the nation as a whole, the policy approach to addressing the freight capacity issue must include specific provisions for rail freight and a formula for public rail investment. Our railroads alone cannot supply the capital investment needed to increase capacity sufficiently to meet the demands of the future. Only through a workable policy of public-private investment can the railroads be encouraged to reinvest the revenue dollars at the level that will be required for capacity to keep pace with exploding freight volumes.

National Highway System Estimated Peak Period Congestion: 1998

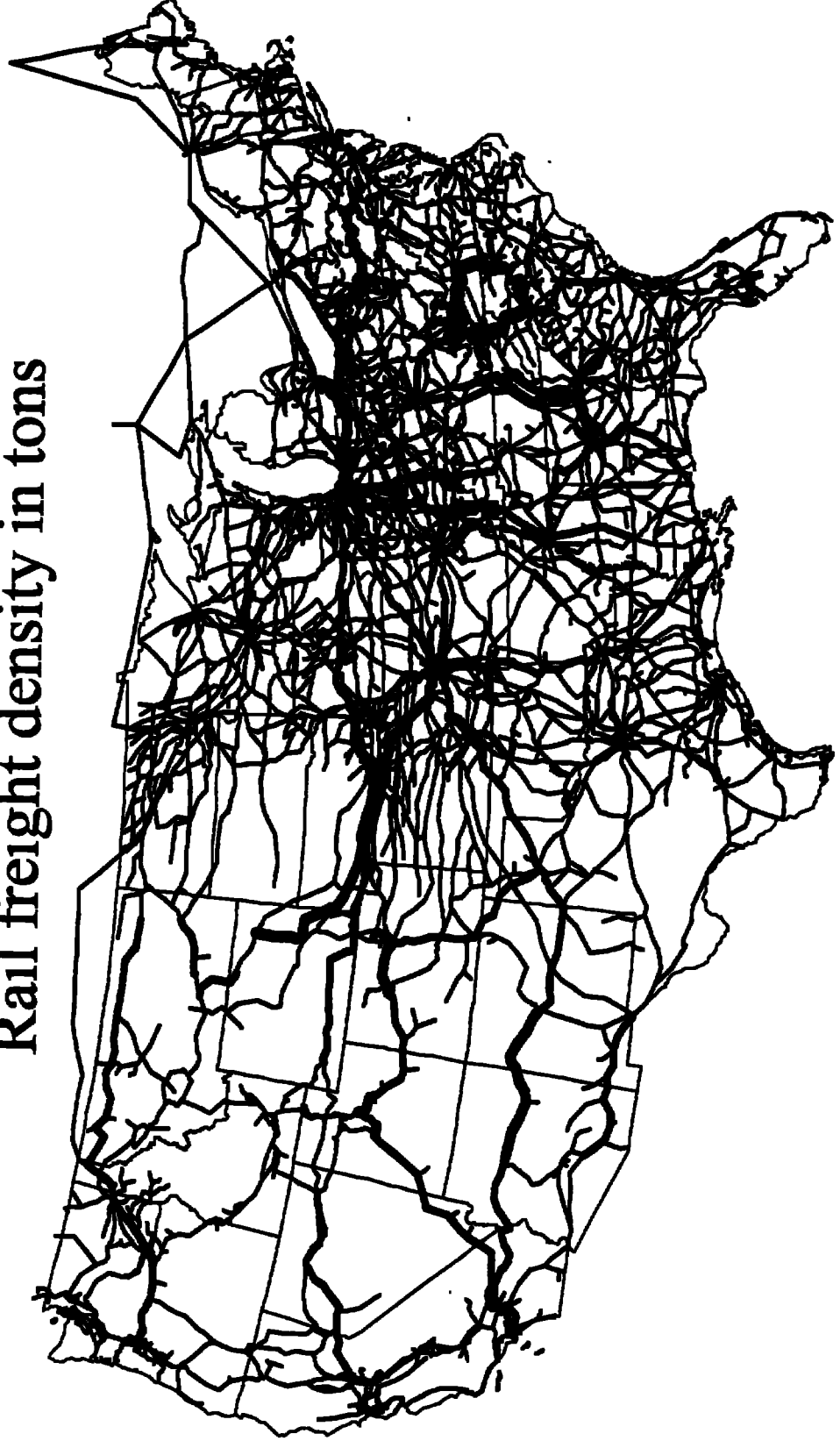


National Highway System Estimated Peak Period Congestion: 2020

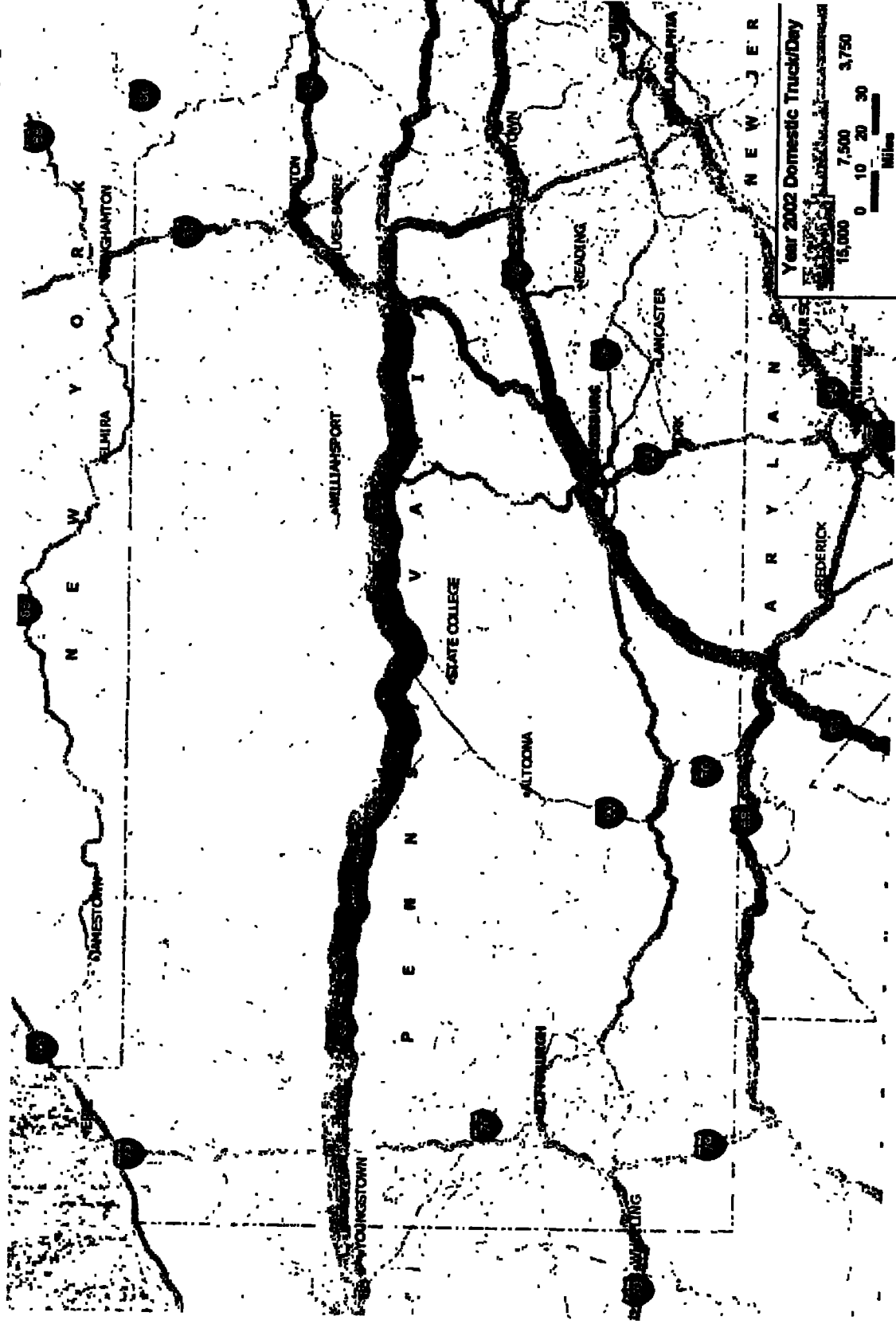


Rail Freight Flows, All Commodities

Rail freight density in tons



Domestic Freight Flow-2002 (truck/day): PA



Source: Battelle

Domestic Freight Flow-2035 (truck/day): PA



Source: Battelle

Shipments by Weight: 2002 and 2035 (Millions of Tons)

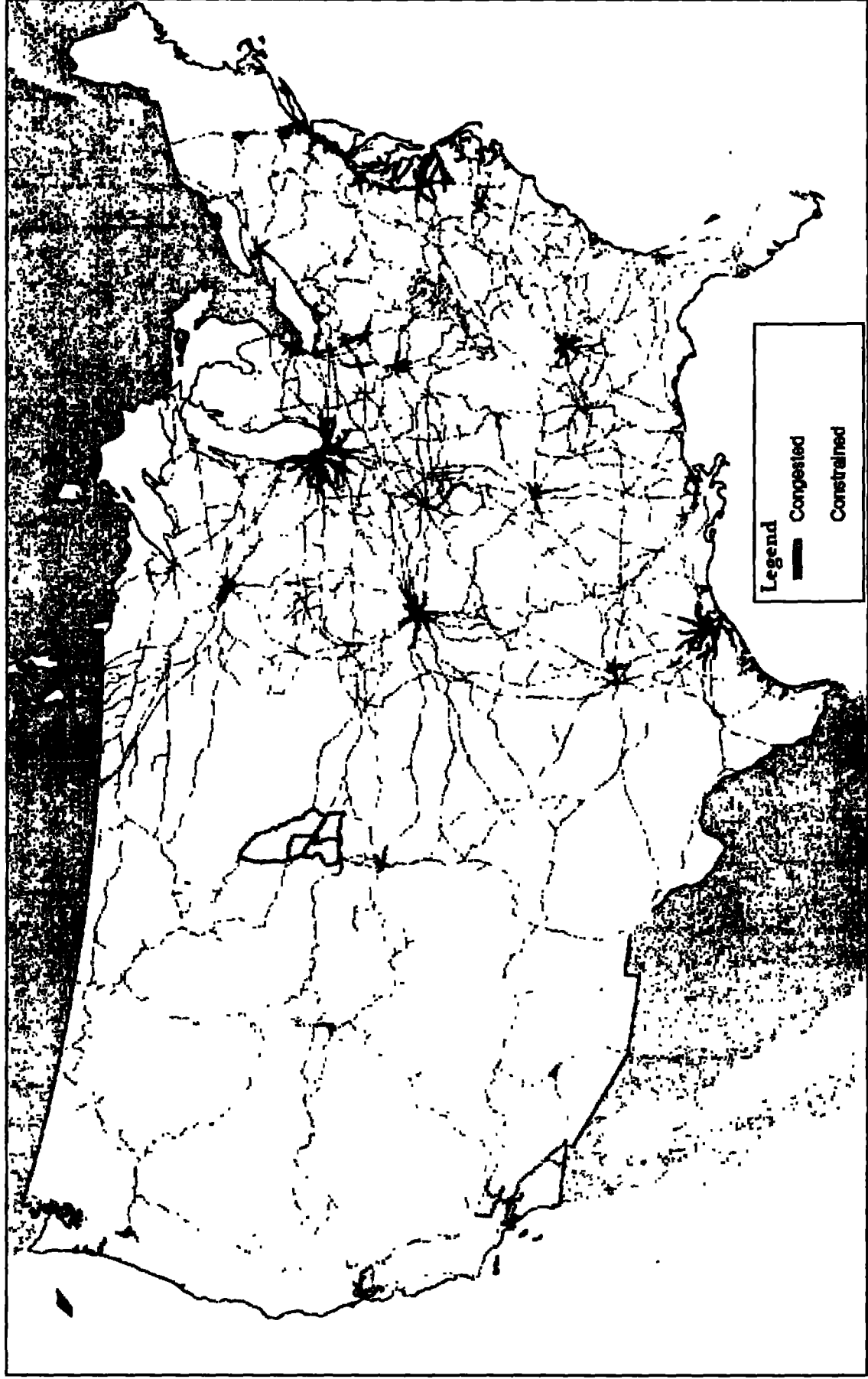
	2002						2035					
	Within State		From State		To State		Within State		From State		To State	
	#	%	#	%	#	%	#	%	#	%	#	%
Total	306	100	234	100	298	100	396	100	305	100	598	100
Truck	248	81	124	53	171	57	321	81	173	57	361	60
Rail	123	40	38	16	44	15	12	3	32	11	103	17
Water	2.7	<1	8.8	4	8.7	3	3.9	1	7.2	2	21.7	4
Air, air and truck	<0.1	<1	<0.1	<1	0.1	<1	<0.1	<1	<0.1	<1	0.3	<1
Truck and rail	<0.1	<1	0.2	<1	1.4	<1	<0.1	<1	0.2	<1	3.5	<1
Other Intermodal ¹	1.1	<1	8.1	3	12.3	4	1.4	<1	5.3	2	8	1
Pipeline and unknown ²	30.6	10	54.2	23	59.8	20	56.9	14	87.4	29	101	17

1 Other intermodal includes U.S. Postal Service and all intermodal combinations except air and truck

2 Pipeline and unknown shipments are combined because data on region-to-region flows by pipeline are statistically uncertain

Note: Numbers may not add to totals due to rounding.

Major National Freight-Rail Choke Points and Congested Areas



Source: AASHTO, 2006

