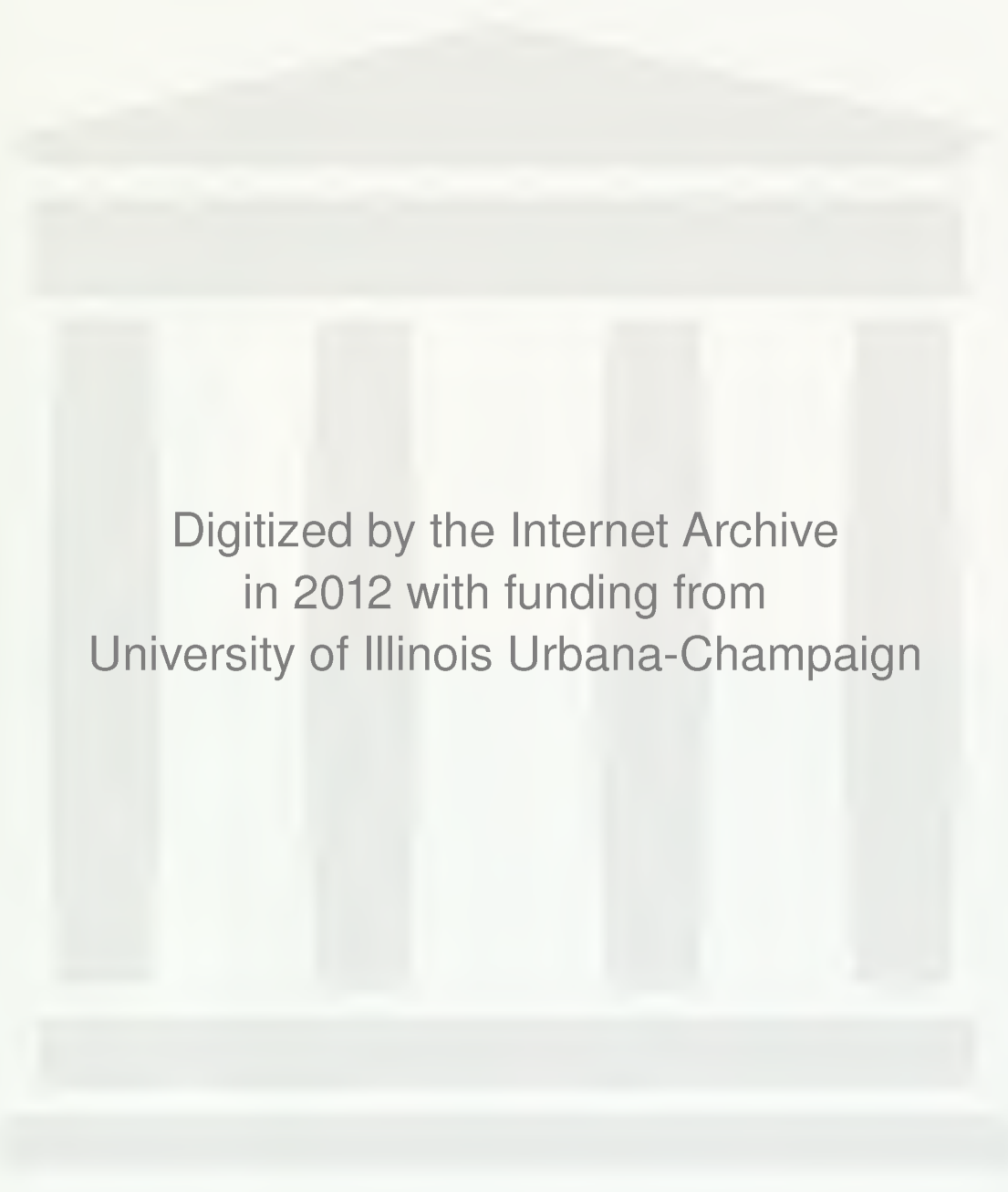




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Faculty Working Papers

THE PRELIMINARY SYSTEM AND FINAL SYSTEM PLANS
OF THE U.S. RAILWAY ASSOCIATION AND THE RESPONSE
OF THE RAIL SERVICES PLANNING OFFICE AND THE
INTERSTATE COMMERCE COMMISSION

John F. Due

#277

Transportation Research Paper #10

College of Commerce and Business Administration
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John F. Due
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September 1975

On February 26, 1975, the United States Railway Administration (USRA) issued its Preliminary System Plan (PSP), as required by the Regional Rail Reorganization Act of 1973.¹ Slightly over a year had elapsed since the Department of Transportation (DOT) had issued its proposal for restructuring the northeast railroads: A Report by the Secretary of Transportation, Rail Services in the Midwest and Northeast Region.² In turn, in April, 1975, the Rail Services Planning Office (RSPO) of the ICC issued its evaluation of the plan.³ On July 26, 1975, USRA issued its Final System Plan (FSP), and on August 25, 1975 the Interstate Commerce Commission issued its evaluation of the final plan.⁴

The USRA Preliminary Report

The USRA Preliminary Report is a much more carefully designed study than the DOT volumes, which of necessity had to be produced very quickly. The projected network of lines to be included in CONRAIL is similar to the DOT plan, but there are differences. The USRA report has had the advantage of a number of specialized studies made during 1974, plus access to testimony presented to RSPO at the extensive hearings held last year on the DOT proposal.⁵

¹Washington: 1975, 2 vols.

²Washington: 1974, 3 vols.

³Rail Services Planning Office, Interstate Commerce Commission, Evaluation of the U.S. Railway Association's Preliminary System Plan (Washington: 1975).

⁴U.S. Interstate Commerce Commission, Evaluation of the U.S. Railway Association's Final System Plan (Washington 1975).

⁵Rail Services Planning Office, Interstate Commerce Commission, The Public Response to the Secretary of Transportation's Rail Services Report (Washington: 1975), 3 vols.

Major Features of the Preliminary Plan

The major elements in the report, discussed in subsequent sections, are as follows:

1. Analysis of the causes of the financial difficulties of the railroad industry and forecasts for the future.
2. Recognition of conflicting objectives in the legislation, with stress placed on the requirement for financial viability of the new system.
3. Establishment of a single 15,000 mile CONRAIL to operate the basic system of the bankrupt roads, rather than alternatives such as sale of lines to solvent carriers, establishment of several CONRAILS, etc.
4. Inclusion in the system only of financially viable segments of the bankrupt roads, the remainder being noted as "available for subsidy"-- in other words, to be abandoned unless locally subsidized. Financial viability is the sole criterion for inclusion.
5. Projections showing that while CONRAIL will be profitable by 1978, substantial infusion of Federal funds will be required--several billion --for rehabilitation and covering of deficits.
6. Preservation of competition in the Northeast by transfer of certain lines to the Norfolk and Western and the Chessie system in order for them to compete with CONRAIL in the Philadelphia-New York area.
7. The need for changes in regulatory policy and in governmental emphasis on various forms of transport if the railroad industry is to regain financial health.
8. Utilization of the Penn Central line from Washington to New York for passenger service only; improvements in other corridor services are proposed.

In May, 1975, USRA issued a supplement to the Preliminary Plan covering the Erie-Lackawanna (EL), which had originally decided to stay out of the CONRAIL and be reorganized separately and then reversed its decision too late to be included in the original plan.

The supplement deals only with the EL 1,091 miles regarded as of light density; the remaining 1,800 miles, primarily the main lines east of Marion, Ohio, were regarded as suitable either for inclusion within CONRAIL or acquisition by the Norfolk and Western. Of the 1,091 mile western portion, only 192 miles are proposed for inclusion. The primary abandonment would be the entire main line west of Marion.

The RSPO Evaluation

As required by the legislation, RSPO conducted numerous hearings on the proposed plan, and on the basis of the responses at the hearings and its own analysis issued its Evaluation volume on April 28, 1975. The RSPO report, while agreeing with certain conclusions, is on the whole critical of the plan, as it was of the DOT's initial proposal in 1974.¹

The basic cleavage is on the question of the extent to which light traffic lines of the bankrupt roads are to be included in the system. USRA followed strictly a financial profitability test and attributed much of the difficulty of the bankrupt lines to excessive mileage; RSPO argues that this approach is contrary to the objectives of the Act, and that these lines are a minor source of losses, while highly important to the areas served.

¹Evaluation of the Secretary of Transportation's Rail Services Report (Washington: 1974).

The key points in the RSPO evaluation can be summarized:

1. The USRA proposal is certainly "preliminary" but is not a "plan" at all. It is unclear and lacks information on the decision making involved and on details of implementation.

2. The network of lines to be included in the system is seriously inadequate. The consequence is violent opposition from shippers and communities; USRA has failed to attain the confidence of the public in either its data or its methodology. USRA has regarded the light traffic lines as of only local concern when they are of much broader impact.

3. The estimates of the Federal funds needed for CONRAIL are grossly inadequate and the earnings projections clearly overoptimistic and unrealistic.

4. A Mid Atlantic-EL system (MARC), built around the smaller roads and the Erie-Lackawanna, is a preferable alternative to the proposed extensions of the N and W and Chessie to compete with CONRAIL.

5. Given the inadequacies of the data, all light traffic lines should be included in the system for two years pending further information.

6. A grants system financed preferably by a universal tax on energy should be established to aid in the rehabilitation of the entire railroad network of the country.

6. The existing properties are valued on a basis that considers net earnings and net liquidation value.¹

7. A detailed estimate is made of manpower requirements. There is no consideration whatever of the question of the need for readjusting train crew size and other aspects of labor contracts, which are accepted as given.

8. Various approaches to gaining additional revenue are considered, with stress on the establishment of a minimum charge per car, varying with distance and weight.

9. The lines proposed for inclusion in CONRAIL are specified in detail, as in PSP, and basically are the same; roughly 1,000 miles of line were added, as contrasted to PSP, but 5,757 miles will still be excluded.² Obviously USRA paid very little attention to public protests and RSPO recommendations.

¹The ICC calls attention to the tremendous difference between the plan's value figures for the railroads and what the railroads claim: \$471 million vs. \$7.4 billion for the Penn Central, for example. The problem of valuation is greatly complicated by the existence of leased lines in the properties of the bankrupt carriers.

²Plus a net of 1158 miles of line now out of service, for a total of 6915 miles.

USRA's Final Report (FSP)

The Final Report in part summarizes the presentation of the Preliminary Report but some material is new. Volume I summarizes the recommendations, elaborates on the details of the implementation of the plan, and analyzes in some depth the financial potential of CONRAIL and the question of valuation of assets. Volume II presents the final recommendations on each segment of the line. The major elements in FSP can be summarized briefly:

1. The basic CONRAIL plan, plus transfer of some of the bankrupt property lines to other carriers, is retained.
2. Failure of the Norfolk and Western to acquire the designated lines of the Erie-Lackawanna, coupled with the tentative willingness of the Chessie system to do so, resulted in substantial modification in the proposed structure of the eastern system. The N & W will remain much the same as it now is; the Chessie will expand substantially through the acquisition of the eastern portion of E-L and other lines.
3. The plan for transferring the Eastern Corridor main line from Washington via New York to Boston to AMTRAK is reaffirmed; through freight service will be operated on parallel lines of other roads.
4. Capital funds of \$1.85 billion will be required from the Federal government, with acquisition of debentures and preferred stock; the creditors of the bankrupt roads will receive equity interest in CONRAIL.
5. A detailed estimate of revenues and earnings is provided; positive cash flow will be generated by 1979 and thereafter, and no additional Federal funding will be required beyond that year.

found unwarranted. The commission, unlike RSPO, accepts the 70/30 subsidy rule.

6. The failure to stress the need for modifying labor agreements is noted.

The Issues

Each of the major issues raised by the USRA reports will be summarized, together with responses of RSPO and ICC where applicable.

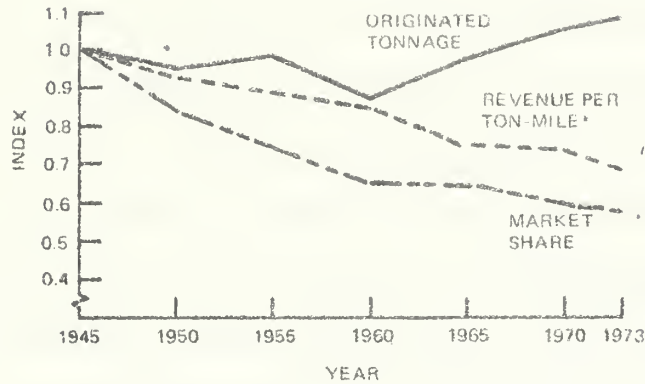
1. The Decline of the Railroad Industry (PSP¹ pp. 1-10; 309-19).

The sources of the decline of the railroad industry and of the north-west roads in particular are analyzed, utilizing the material of the

¹USRA, Preliminary System Plan, op. cit.

FIGURE 1

U. S. CLASS I RAIL CARRIERS
TRENDS OF ORIGINATED TONNAGE,
MARKET SHARE AND REVENUE PER TON-MILE
IN CONSTANT DOLLARS*
1945-1973



*DEFLATED WITH THE 1967 WHOLESALE PRICE INDEX

SOURCE: AAR, FACTS AND FIGURES; TAA
TRANSPORTATION FACTS AND TRENDS.

USRA, p. 118

TABLE 1

MODAL SHARE OF INTERCITY FREIGHT TRAFFIC IN THE UNITED STATES
IN BILLIONS OF NET TON-MILES

YEAR	RAILROADS		MOTOR CARRIER*		INLAND WATERWAY SYSTEM		GREAT LAKES		PIPELINES		AIR CARGO		TOTAL	REAL GNP (1958 \$) IN BILLIONS
	TON MILES	% OF TOTAL	TON MILES	% OF TOTAL	TON MILES	% OF TOTAL	TON MILES	% OF TOTAL	TON MILES	% OF TOTAL	TON MILES	% OF TOTAL		
1920	454.8	74.9	18.7	3.3	8.7	1.4	97.3	16.0	26.9	4.4	0.003	-	607.4	703.6
1920	338.8	62.4	52.8	9.7	19.9	3.7	76.3	14.0	65.0	10.2	0.012	-	643.5	709.4
1942	646.4	89.8	58.9	8.5	26.4	2.8	122.2	13.1	78.1	8.1	0.034	-	929.0	297.8
1947	684.5	65.3	102.1	10.0	34.8	2.4	112.2	11.0	165.2	10.3	0.16	0.01	1,018.7	309.9
1952	823.4	54.5	184.6	17.0	63.8	5.6	104.5	9.1	157.6	13.8	0.41	0.03	1,144.3	385.1
1957	628.2	46.9	254.3	19.0	114.6	8.6	117.3	8.8	222.7	16.7	.57	0.05	1,336.6	452.5
1962	800	43.8	309	22.5	133.	9.7	90.	6.8	238	17.3	1.3	.09	1,371	528.8
1967	731.2	41.4	388.5	22.0	174.0	9.9	107.0	8.1	361.0	20.8	2.50	0.15	1,765	675.2
1970	771.0	36.8	412.0	21.3	204	10.0	114	5.9	431.0	22.2	3.3	0.17	1,836.9	722.5
1971	748	38.2	445	22.7	210	10.7	105	5.4	448	22.9	3.5	0.18	1,954	746.3
1972	784.3	37.8	470.0	22.6	229.8	11.1	108.9	5.2	480.0	23.1	3.7	0.18	2,076.7	792.7
1973 (P)	880.0	38.7	510.0	23.0	237.0	10.7	114.0	5.1	495.0	22.3	4.2	0.2	2,220.2	835.2

* Includes both for-hire and private carriers.
(P) - preliminary figures

SOURCES: American Trucking Association, Inc., American Trucking Trends - 1973
American Waterway Operators, Inc., Inland Waterborne Commerce Statistics
Association of American Railroads, Yearbook of Railroad Facts, 1974 edition
and Railroad Transportation, A Statistical Record 1921-1959, Washington,
December, 1960
Interstate Commerce Commission, Intercity Ton-Miles 1939-1959, Washington,
April 1961

Transportation Association of America, Transportation Facts and Trends,
Tenth Edition, Washington, July 1973

Senate Commerce Committee study of the Penn Central¹ and the Improving Railroad Productivity volume.² The rapid development of technology in competing fields since 1930, in contrast to the slow rate of technological development in the railroad industry, and the substantial governmental investment and some subsidization of competing modes have played a major role. Restrictive regulation, particularly in preventing downward adjustments of rates by railroads to meet competition and to undertake other forms of transport, has played a role in the difficulties. The basic changes in the economy, developed in the Railroad Productivity volume (e.g., relative increase in the services sector), added to the difficulties, as well as geographic shifting of economic activity, which resulted in excess capacity in many areas. The light traffic line situation adds to the financial problems. The effects of the Penn Central merger, as developed in the Commerce Committee volume, are reviewed.

The report sees both positive and negative factors affecting the industry over the coming years. On the negative side, are slower growth in GNP, further decentralization of industry, smaller automobiles, greater regulatory freedom for trucks, increased truck size, and higher rail maintenance costs not accompanied by similar increases for trucks. On the positive side are the revival in the use of coal; higher fuel costs, which affect competitors more severely; environmental concerns over additional highway building; and expanded containerization.

¹The Penn Central and Other Railroads, U. S. Senate Committee on Commerce (Washington: 1973).

²National Commission on Productivity and the Council of Economic Advisers, 1973.

The Interstate Commerce Commission's Evaluation of the Final Plan

Late in August of 1975, the Interstate Commerce Commission itself (as required by law), not the RSPO, issued its evaluation of the final plan. In brief summary, the major points are as follows:

1. The CONRAIL plan should be accepted by Congress; despite defects, it is basically satisfactory.

2. If the plan for Chessie acquisition of major routes is not implemented, then a single CONRAIL is not acceptable because of the loss of competition in the east, and should be accepted only as a temporary emergency measure, pending implementation of a dual CONRAIL and MARC-EL system.

3. The capital structure proposed is unsatisfactory; the obligations that will be due to the Federal government will prevent the system from becoming free of Federal domination. The government should not insist on high priority for interest and dividend payments to it.

4. The forecasts of increased traffic and revenue are unduly optimistic, and therefore profits will be attained less soon than anticipated.

5. The plan for abandonment of substantial mileage is basically satisfactory, but there are a number of marginal lines that warrant further study before exclusion. Questions are raised about USRA's methodology. No attention has been paid to lines of national as distinct from local interest. While the states have made progress in planning for subsidization, some are not yet in a position to act.

The Commission, therefore recommends changes in legislation that will allow Federal subsidy provided anyone will put up 30% without the requirements relating to the states being met; provide a system for further study of the doubtful lines; and provide a means for adding them into CONRAIL if this is

2. Financial Condition of the Railroad Industry (PSP, pp. 243-58).

An analysis of the earnings and the rate of return in the industry is enlightening:

1. Net railway operating income has fallen over the post war years, and particularly for the eastern region. The bankrupt roads have shown deficits since 1967.

2. The return on investment has not reached 5% since 1945, has trended downward, and in 1974 was only 3%.

3. Cross tie and rail replacement has run consistently below the levels necessary to maintain the lines over long periods; the financial picture is thus even worse than the rate of return figures suggest.

4. Cash flow has been inadequate to meet capital requirements. About half is taken to meet the steadily rising fixed charges. The Class I roads as a whole only generate about half as much cash as is necessary for capital improvements; many do not generate enough to replace existing rolling stock.

5. A substantial portion of the limited cash flow has been paid out as dividends--reflecting deliberate transfer of capital out of the industry into more profitable activities. One consequence has been a sharp decline in working capital.

3. Conflicting Objectives of the Legislation (PSP, pp. 11-16; RSPO, pp. 17-18).

The conflicting objectives of the legislation are stressed, but primary emphasis is placed by USRA upon the need for developing a system

TABLE 2. Rate of return for Class I railroads¹

(In millions of dollars)

	United States ²	Eastern District railroads		
		All Eastern	USRA bankrupt ³	Other Eastern
1920.....	5.30	6.03		
1930.....	2.56	3.14		
1947.....	3.44	3.07		
1962.....	4.16	3.80		
1967.....	3.38	3.29		
1982.....	2.74	1.80		
1987.....	2.46	1.58	-0.28	3.57
1988.....	2.43	1.27	-0.98	3.58
1989.....	2.26	1.10	-1.29	3.44
1970.....	1.73	-0.93	-4.80	2.78
1971.....	2.47	-0.39	-3.57	2.74
1972.....	2.96	.37	-2.83	3.25
1973.....	3.04	.48	-2.54	3.16

¹ Net railway operating income to net investment in transportation property—including cash, materials, and supplies.

² Excludes Amtrak.

³ 8 bankrupts, includes Erie Lackawanna, but excludes Lehigh & Hudson River R.R., as non-Class I.

Source: Association of American Railroads.

USRA, PSP, p. 245

	Percent
Western Maryland ¹	11.70
Southern Railway System.....	11.49
Chesapeake & Ohio ¹	9.65
Union Pacific.....	9.42
Norfolk & Western.....	8.22
Baltimore & Ohio ¹	7.26
Missouri Pacific.....	7.20
Louisville & Nashville ²	7.04
Atchison, Topeka & Santa Fe.....	5.16
Seaboard Coast Line.....	4.12
Southern Pacific Trans. Co.....	3.89
Burlington Northern.....	3.62

¹ Controlled by the Chessie System.

² Controlled by Seaboard Coast Line.

Rate of Return, Selected Railroads 1974
 ICC, Evaluation, p. 43

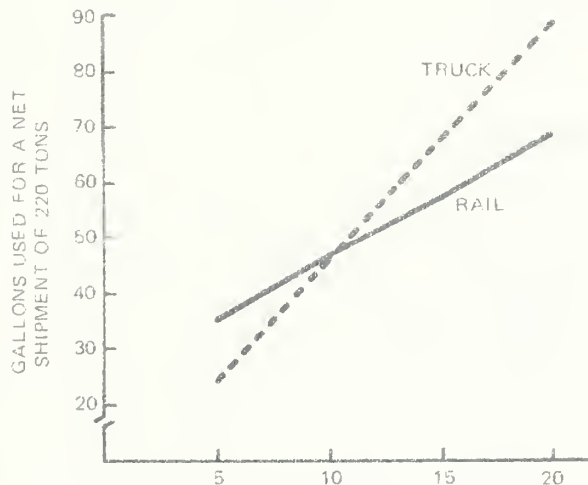
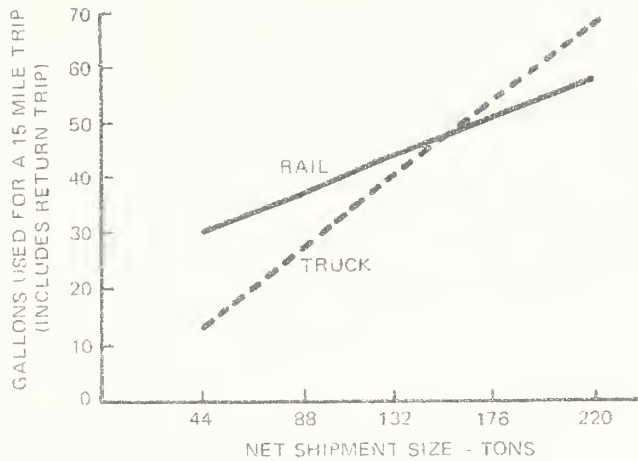
in the northeast that is financially viable--a prime feature of the legislation, with limited consideration to the other objective of an "adequate" system. In order to accomplish this result, the plan calls for inclusion only of those lines whose revenues exceed their costs, plus lines very close to this position and showing promise. As a part of the viability principle, the report condemns--and very appropriately--all forms of cross subsidization. Accordingly, the Federal-local subsidy system as provided for in the legislation is regarded as a highly desirable way of reconciling the relative objectives of viability and adequacy. A key element in RSPO's criticism relates to objectives. RSPO and ICC stress the need for greater consideration to the adequacy, environmental, and other criteria and less to financial viability, per se. This difference in attitude will be discussed below with respect to light traffic lines. RSPO does recognize the basic undesirability of cross subsidization, but suggests that Congress may not.

4. The Need for Preserving the Northeast Rail System (PSP, pp. 145-50).

USRA, as well as RSPO, stress the need for retention of the rail system in the northeast and the rehabilitation of it, to allow improved service and lower costs and lessen highway congestion. For example, if Toledo had no rail service, an additional 1,400 trucks would enter and leave the city daily. The report also shows the much greater fuel economy of rail over motor carrier, except where traffic is very light. For the economy as a whole, trucks produce 50% more tons of pollutants than the railroads, while producing only a little over half the ton miles; thus the energy and pollution advantages of the railroads are 4 to 1. Abandonment

of the rail system in the Northeast would increase energy use 4 fold, and pollution 40 times. This rule does not hold if traffic is very light (Fig. 2). For a 15-mile haul, fuel use is less with trucks for movements under 150 tons (4 cars); alternatively, for a shipment of 220 tons, fuel cost is less for trucks for movements under 11 miles. Thus while abandonment of most lines would have disastrous effects on fuel use and pollution, abandonment of very light traffic lines would not.

FIGURE 2
ESTIMATED FUEL USAGE
FOR RAIL & MOTOR CARRIERS



SOURCE: US DEPARTMENT OF TRANSPORTATION
THE ENVIRONMENTAL IMPACT STATEMENT
ON "THE TRANSPORTATION IMPROVEMENT
ACT OF 1973"

5. The Basic CONRAIL System (PSP, pp. 31-50; 251-258; FSP, pp. 13-37.)

As noted in the introduction, USRA recommends that the viable lines of the bankrupt roads be incorporated into a single CONRAIL system, essentially a private profit making concern, although initially with substantial Federal financial assistance and Federal majority on the Board of Directors until obligations are met. Various alternatives, such as a CONRAIL West and CONRAIL East, were rejected. CONRAIL would be made up primarily of the Penn Central main lines, but with some routes from other bankrupt carriers.

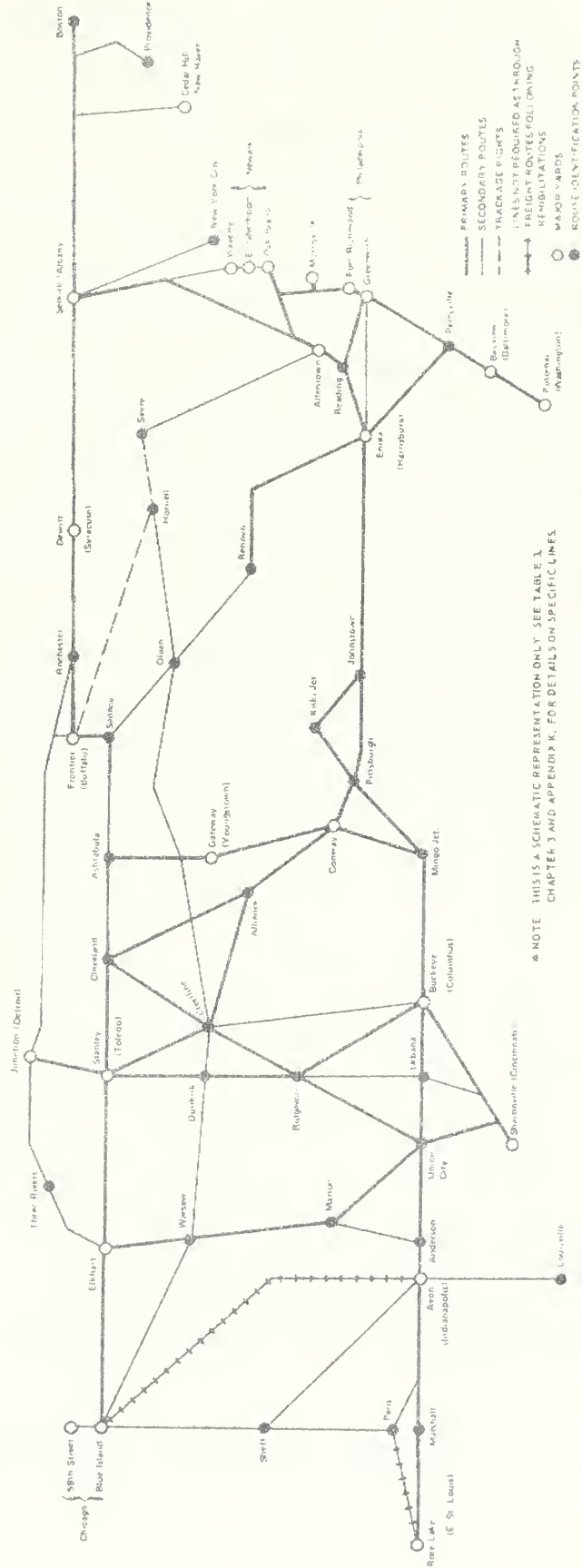
The key east-west route would be the former New York Central line via Cleveland, the Pennsylvania line via Fort Wayne to be downgraded west of Pittsburgh. A second major east-west route would be the ex-Pennsylvania line from St. Louis via Indianapolis and Pittsburgh to New York (Figure 1). In general, where former NYC and Pennsylvania routes more or less parallel (e.g., St. Louis-Indianapolis), one would be abandoned or downgraded materially.

Rehabilitation would be centered on the main routes as specified, with initially only patchwork repair on the branch lines, with completion of overall rebuilding over 14 years.

RSPO is highly critical of the Plan for failing to specify adequately just what the system does include, particularly the main lines and why particular ones were chosen. RSPO raises some specific questions about routes designated as main lines--for example, between Indianapolis and Cincinnati, where the proposed route through Anderson and Union City adds 58 miles and 53% circuitry over the ex-New York Central line via Shelbyville.

FIGURE 3

THE CONRAIL SYSTEM PLAN: *
PRINCIPAL FREIGHT ROUTES AND MAJOR CLASSIFICATION YARDS



6. Improved Operations (PSP, pp. 55-94; 275-93).

Substantial effort was made by USRA to plan improved operations for CONRAIL over those of the existing bankrupt roads. Stress is placed on the need for a completely restructured system. The report considers at some length the possible improvements in operating techniques as a means of cost reduction. This is a highly complex task; the bankrupt roads serve over 100,000 shippers¹ directly and receive 42,000 carloads of freight a day. These roads have substantially higher operating ratios than the roads of the country as a whole, almost all of the difference being in transportation expenses--those involved in running the trains--while they need a lower ratio because their car rental figures are so much higher than the average. The source of the difference arises mainly from lower productivity per man hour, particularly in yard operations. In addition, much of the loss of time in transit arises out of handling of cars in intermediate yards. Integrated planning and control were found to be almost nonexistent. A prime requirement is to lessen the time freight cars are idle in yards (Fig. 4).

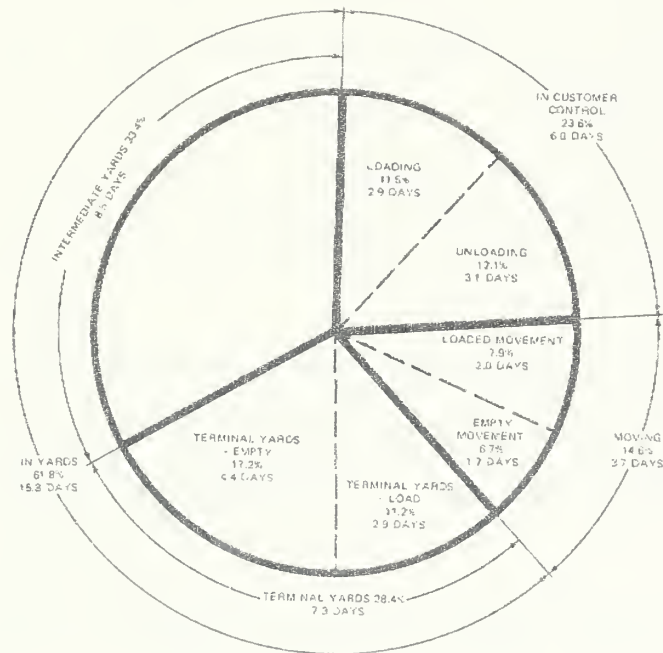
Productivity in the industry was discussed at length. Wages have risen much faster than productivity in recent years, a trend that must be reversed, or rates will rise to noncompetitive levels. Labor agreements stressing improved productivity of labor are regarded as imperative.

An analysis of existing track and equipment was made, and requirements for track improvements and equipment acquisitions ascertained and specified. For example, some 1,650 miles of new rail and 2.4 million ties must be

¹Over 60% of the tonnage, however, is supplied by 125 firms.

FIGURE 4

AVERAGE EQUIPMENT TRIP CYCLE



NOTES

AVERAGE CYCLE TIME 21.6 DAYS
 DERIVED FROM TIME DISTRIBUTIONS BASED
 ON SAMPLE OF 12,549 CAR RECORDS OUT OF
 1971 CAR FLEET TOTAL OF 1,752,000 INCLUDES
 SYSTEM AND PRIVATE CARS
 SOURCE: FR-4 REPORT FR-4-73-1

installed annually over the next several years. One of the major constraints to the program is the limited potential output of the rail rolling mills, even with current reduced general demand for steel. Freight car needs are substantial; not only did the roads lag in their acquisition of new cars, but they have an extremely high percentage (11) of cars not in usable condition. Plans were designed for consolidation and improvement of shop facilities; the Juniata shops in Altoona and the Hollidaysburg shops will be the chief repair shops (diesels and freight cars respectively).

Costs of rehabilitation of lines range from \$180,000 per mile for major lines (maximum) to as low as \$10,000 on light traffic lines.

There is little basic disagreement by RSPO in this sphere, but questions are raised:

1. Some branch lines are in such bad condition that cost savings will be greater through priority of rehabilitation of these over some main lines.

2. The estimated improvement in car utilization (31%) is believed to be unrealistically high.

3. Inadequate attention is given to certain constraints on yard and line capacity.

7. Piggyback Operation (PSP, pp. 259-302; RSPO, pp. 61-65).

USRA proposed major expansion in piggyback operation as one of the chief sources of additional traffic, and increased role of CONRAIL in truck handling of the piggyback trailers.

RSPO expresses substantial skepticism over this proposal. First, much of the service now operates at a loss--and expanding it will simply increase losses. Secondly, any expansion is likely to come primarily

from existing freight car traffic. RSPO questions the need for the railroads to extend the scope of their own trucking operations, urging better cooperation with motor carriers as an alternative; and it has great doubt about the desirability of seeking to regain small shipment traffic. RSPO much prefers the approach of seeking to get the over-the-road trucking firms to use piggyback for their vehicles, rather than railroad expansion of their operations of this nature. Yet present rail rates for piggyback operation discourage over-the-road-truckers from shipping their trailers by rail.

RSPO also urges a review of the old issue of piggyback vs. containers; there is evidence that the U. S. railroads were in error in pushing piggyback over containerization just because trailers could be loaded and unloaded with little investment in facilities.

8. Financial Prospects for CONRAIL (PSP, pp. 123-35; 193-217; FSP, pp. 13-14; 37-47; 47-88; ICC, pp. 30-39.)

USRA reviews the financial prospects for CONRAIL. Traffic is expected to increase, partly from improved service, partly from growth of the economy, primarily in coal and piggyback traffic. An overall 24% increase in traffic over the next ten years, or a compounded growth rate of 1.4% a year, is forecast.

The overall projection shows that a profit can be earned by 1978 (revised in FSP to 1979) and a \$382 million profit by 1985 (\$355 million in FSP). The improved profit situation is attributable partly to cost reductions, partly to increased traffic, and partly to appropriate rate adjustments to make all traffic compensatory. Legislation allowing greater rate flexibility is regarded as essential.

A basic change in accounting is proposed; instead of treating track expenses entirely as operating expenses, as to present, all rehabilitation costs would be charged to capital account and not depreciated. This proposal was abandoned in FSP.

RSPO is very critical of these estimates, believing them to be excessively optimistic:

1. Projected increases in traffic, particularly in coal, are believed to be overoptimistic.
2. The report, while recognizing the possibility of inflation, plays down its significance; inflation is almost certain to increase materially the net cash outflow and require additional outside (i.e., government) funding.
3. The expected projected reduction in expenses is overoptimistic, on the basis of data available for comparable solvent Class I roads.
4. The improved financial structure is largely a result of write down of the assets upon transfer of them to CONRAIL.
5. Failure to depreciate the rehabilitation costs, warranted only under the assumption that these properties are perfectly maintained indefinitely, is open to serious question, and the practice, of course, overstates profits.

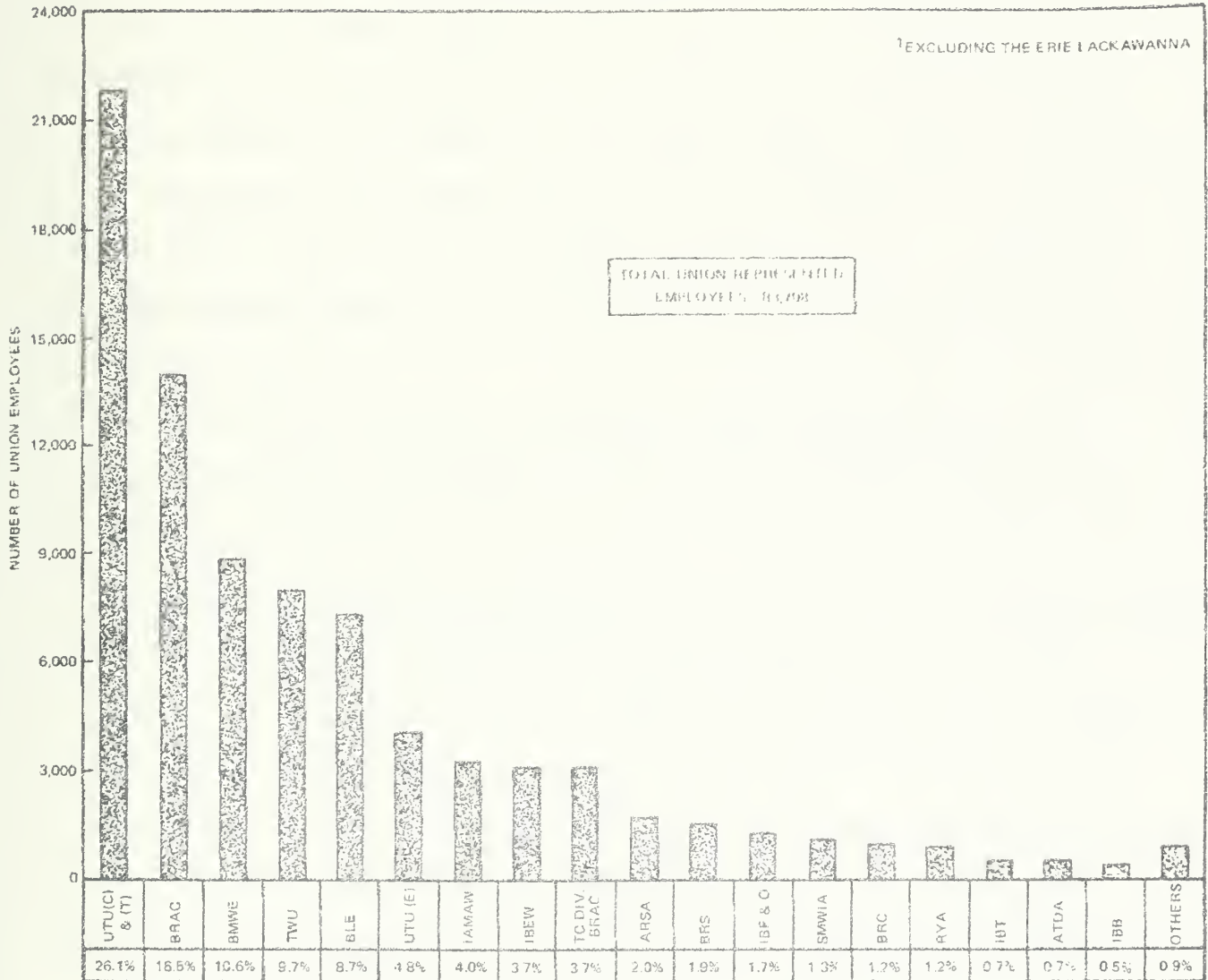
In summary, RSPO argues that realistic projections are imperative and that far more Federal funds will be required than suggested by USRA; USRA makes only minor concessions in the final report.

9. Personnel (USRA, pp. 158-65; RSPO, pp. 16; 66-69)

The USRA report stresses the complexity of the present labor agreements (there are 26 unions and a large number of separate contracts - note Fig. 5), and the dominance of the seniority rule, which introduces rigidities. Under

FIGURE 5

EMPLOYEES OF RAILROADS IN REORGANIZATION¹
BY UNION REPRESENTATION



SOURCE: EMPLOYEE DATA SHEETS, 1/2/74
U. S. RAILWAY ASSOCIATION

the legislation CONRAIL will be subject to the existing collective bargaining agreements, a source of substantial inflexibility. The report stresses the need for improved productivity of labor but does not specify how this is to be accomplished.

RSPO is somewhat critical of the failure of USRA to include labor unions in the planning process, and of failure to stress the role of employees in the transition to CONRAIL. The evaluation report discusses this question at some length, stressing that failure or success of CONRAIL may depend more than anything else upon the way individuals are treated in the process. The need for changes in contract rules and other features of collective agreements are obvious, but they must be approached in a cooperative manner.

On the related matter of management, RSPO stresses the need for early appointment of management personnel, and, of course, the need for high quality personnel.

10. Preservation of Rail Competition (USRA, pp. 10-11; 19-36; ICC, pp. 5-14).

The analysis of competition in the USRA plan has essentially two aspects, one part dealing with rail competition, the other with intermodal competition. While intermodal competition has lessened the need for rail competition, the report concludes that retention of rail competition in major markets in the northeast is highly desirable. Only a relatively few firms even now have direct siding access to more than one railroad; extension of this form of direct competition is not feasible or necessary. But it is desirable to provide indirect rail competition, in the form of service in the general area by more than one carrier, thus offering alternatives to shippers.

The USR preliminary proposal called for competition by CONRAIL with two systems, both of which would be allocated segments of the bankrupt roads to extend their territory:

1. Under PSP, the Norfolk and Western would acquire the portion of the Erie Lackawanna from Buffalo to Newark, giving it direct access to the New York area. The N and W had controlled the EL until the latter went into bankruptcy. This proposal, however, has been rejected by the N and W.

2. The Chessie system would acquire the line of the Reading into Harrisburg and receive trackage rights over CONRAIL from Harrisburg to Allentown and Philadelphia, the Delaware and Hudson being given rights into Allentown. The Chessie has agreed, and also tentatively agreed to purchase the eastern portion of the EL rejected by N and W.

As an alternative, if the two roads would not cooperate, USRA suggested a separate Mid Atlantic-EL (MARC-EL) competitor for CONRAIL consisting of the Erie Lackawanna, Reading, Jersey Central, and the Lehigh Valley. In FSP, this approach is rejected.

The RSPO report is critical of the basic USRA three carrier plan:

1. Under the present structure the small bankrupt roads are important feeders for the Chessie and the N and W. If most of their lines go to CONRAIL, the effective competition may not be significant, despite some expansion of their own lines.

2. As noted, the solvent carriers might not--and in the case of the N and W did not--participate.

RSPO strongly favored the MARC-EL approach, except that EL lines west of Buffalo would not be included. This approach would, in RSPO's estimation, provide much more effective competition (in conjunction with the solvent roads) and be much easier to create. Much more service would be retained. The existing long established service connections with the various shippers would be retained. The ICC favors the MARC-EL approach if the Chessie acquisitions are not implemented.

11. Rail-Truck Competition (FSP pp. 116-122; 137-44).

Detailed attention is given to intermodal competition, with the following conclusions:

1. Truck competition has resulted in substantially lower rail rates than would otherwise exist--the basic explanation of why the national railroad financial position had been worsening despite rising (until 1975) traffic volume.

2. Rail and truck are highly competitive for a substantial spectrum of the present rail traffic, particularly of manufactured goods. One study shows that shippers are willing on the average to pay 20% higher rates for truck service because of the service advantages. Truck rates (common carrier) average only 18% more than rail rates on manufactures, and owner-operated truck costs are lower than rail rates on many manufactured goods. (with 25% empty backhaul).

3. No more than 40% of the truck ton mileage moving in interstate commerce is subject to regulation. The chief competition today for the

TABLE 3

Domestic intercity freight tonnage

1970 Modal market share (percent)

	Rail- roads	Private and for-hire trucking	Water
Agriculture	34.8	56.6	8.3
Iron ore.....	52.6	7.3	39.9
Coal.....	78.6	9.1	12.9
Food and drugs.....	33.4	62.8	3.6
Textiles.....	6.7	92.4	.1
Lumber.....	46.9	18.5	34.5
Paper products.....	56.6	39.1	4.1
Chemicals.....	43.1	44.0	12.7
Stone, clay, glass.....	36.0	62.3	1.6
Iron and steel.....	36.6	53.1	10.1
Nonferrous metals.....	45.2	49.3	5.3
Fabricated metals products.....	22.9	75.8	.8
Motor vehicles.....	32.5	65.6	1.6
Scrap.....	82.6	5.5	12.0

Source: *Transportation Projections 1970-80*, U.S. Department of Transportation, July 1971.

rail traffic is the private operator, working long hours, having no terminal costs, not subject to union restriction, and not infrequently, from many indications, not being careful to obey hours regulations, speed limit laws, weight limits and the like.

4. Reluctance of the I.C.C. to allow rail rate reductions to meet water and truck competition, while having at least limited justification in the past, has virtually none now, given the importance of the private carriers, and has contributed to the railroad's difficulties. Changes in regulatory policies allowing the railroads much greater flexibility in setting rates are regarded as imperative.

12. Coordination with Solvent Roads (PSP, pp. 51-54; 259-76; FSP, pp. 285-374; RSPO, pp. 11-13; 87-134; ICC, pp. 27-29).

The overall USRA plan involves proposals for cooperation with solvent roads, in addition to those noted above. There are several elements:

1. Proposals by solvent roads of measures that would lessen duplication are listed. Examples include proposed abandonment of certain Penn Central lines, with solvent carriers taking over service to customers at junction points, and proposals for operation by trackage rights, either of solvent lines on CONRAIL lines or CONRAIL operation on trackage of solvent roads.

2. A list of lines not to be included in CONRAIL and available for sale to solvent roads, without impairing the profitability of CONRAIL. These represent only a very small portion of the total lines not to be included in CONRAIL; most lines will not be offered for sale to solvent roads.

A major line offered for sale is the Delmarva Peninsular route with the connecting car ferry to the Norfolk area, in which Southern Railway is interested.

3. Lines to be offered for sale to solvent roads but to be included in CONRAIL if not purchased. This group is small.

4. In PSP, a list of proposals by solvent roads to buy portions of the bankrupt lines that USRA is not willing at present to approve because of the effects upon CONRAIL. Some would take existing roads far out of their existing territories; the Santa Fe to Buffalo and Pittsburgh, the Grand Trunk, to Cincinnati, for example.¹ These would of course be significant proposals if the CONRAIL plan had been abandoned in favor of controlled liquidation of Penn Central.

13. Light Traffic Lines (PSP, pp. 95-106; 327-52; PSP, vol. 2, pp. 1-17; RSPO, pp. 14-16; 135-531; ICC, pp. 46-57.)

The portion of the USRA plans, like the DOT plan before it, that has attracted the greatest criticism, is that relating to light traffic lines. The controversy centers around the extent to which they contribute to the financial problems of the railroads.

A. Contrast to the DOT Plan.

There are several major differences in approach between the USRA and DOT plans:

1. The USRA plan involves more detailed study of each individual line and thus avoids the meat axe techniques of the DOT plan. The planned reduction in mileage is substantially less than the DOT plan, for four reasons:

a. Only the bankrupt roads are covered, whereas the DOT plan was concerned with all roads in the area.

¹Substantial expansion proposed by the Grand Trunk is rather curious; the road is wholly owned by the Government of Canada.

b. The USRA plan does not seek to force through traffic on a smaller number of lines to the degree envisaged in the DOT plan. The proposed elimination by DOT of the Peoria and Eastern portion of the Penn Central (Peoria-Indianapolis) is a good example of the difference in policy. But use of the principle remains as, for example, elimination of the Indianapolis-Richmond line of the Penn Central.

c. Individual lines were evaluated on the basis of actual revenues and costs attributable to the line, rather than on the basis of traffic originating and terminating. The 75-car rule of DOT, under which points originating or terminating less than 75 cars a year were disregarded, has been eliminated.

d. USRA has included those lines which would cover costs with a slight increase in traffic, whereas DOT did not.

The net result is somewhat smaller proposed abandonment (unless locally subsidized), 7,300 miles (out of 23,900), in FSP¹, including EL, 6915 in FSP², instead of 15,600 miles (out of about 46,000).

The report also, because of its greater care and thoroughness, avoids much of the error and confusion of the DOT report, as for example:

(1) The DOT report contained some outright errors, lines being shown on the map for abandonment that DOT did not intend, the Louisville and Nashville's St. Louis line, for example.

(2) The implication that points on lines to be retained would not receive service if they originated or terminated under 75 cars a year--apparently not intended by DOT--has been eliminated.

(3) Effort was made to insure that traffic was assigned to the correct stations, although, according to the RSPO evaluation, some errors remain.

¹Including the supplement on the Erie-Lackawanna.

²1158 miles of this figure are out of service.

For the Final System plan, reconsideration was given to all lines about which there was question; errors pointed out by RSPO were corrected; and some lines were further segmented to ascertain profitable portions.

Basically, however, the same criteria were used; the lines added back in FSP were ones on which errors had been made, a few through routes recognized to be essential, and profitable sub-segments of other lines.

B. The General Approach.

Despite the differences from the DOT plan, the USRA plan follows a very harsh approach. As noted, the basic rule is simple: a line must contribute more in revenues than in costs if it is to be retained (or must come very close to doing so); the financial viability criterion is the sole one used. This point of view reflects essentially the philosophy of George Hilton and others that the railroads should cease to be "retailers" of transport service; that they should essentially operate only main lines, with unit trains of bulk commodities and integral piggyback or container trains operating between major cities.¹

The sources of the existence of light traffic lines are explored in PSP: competitive overbuilding, shifts in location of economic activity, and the development of trucking being the most important, plus rail mergers themselves. Failure of the I.C.C. to give abandonment approval often has resulted in de facto abandonment--deterioration of track and service to the point at which the line is of little value to the communities. PSP and FSP both conclude that the light traffic lines do constitute a significant element in the financial problem of the railroads in the area, and that CONRAIL must be confined to those lines that are financially self supporting, or will be in the near future. Yet the report also estimates that the total cost of keeping the light traffic lines in operation is about \$38 million a year; thus only \$11 million of local subsidy and \$27 million of Federal subsidy would be required to retain them.

C. The USRA Techniques.

The approach followed involved first of all the identification of light traffic lines. These were largely identified from those designated

¹The extremists would go much farther than USRA does in abandoning lines.

as potentially excess by the DOT report, plus lines for which abandonment had been considered by the railroads and ones suggested by the USRA staff. These lines were then divided into segments, and each segment evaluated on the basis of profitability alone: would it yield more in revenue than it would add to CONRAIL's total cost?

The method involves the following:

1. All revenue generated from the traffic on the line--usually the entire amount received by the carrier (but not the share of the joint rates received by other carriers) was determined.

2. From this figure, the cost attributable to the line was subtracted:

a. On-line cost.

(1) Operating costs of the line, calculated by using system averages per mile or per hour or day. The labor costs were determined on the basis of service hours and overall cost per service hour, given the size of the crew.

(2) Track maintenance costs, based upon the typical cost of maintaining lines, given traffic density and other factors influencing costs.

(3) Return on salvage value, based upon an estimated value of the rails, value of good ties, and value of land, using an 8.3% rate of return.

(4) Some overhead supervisory costs allocated to the line.

(5) Cost of reconstructing the line to Class I standards (10 m.p.h.).

b. Off-line costs of handling the traffic to and from the line; these were calculated on the basis of I.C.C. costing data, which attempts to ascertain the marginal or out-of-pocket cost of handling additional traffic on the main lines. This is a more sophisticated approach than the I.C.C.'s 50% rule commonly used in abandonment decision making.

Following the computer ascertainment of profitability, each line was reviewed to see whether there had been new traffic since 1973, the year of the computerized data, and if there were strong possibilities of immediate growth.

Thus, in general, USRA did seek to follow the rule of comparing costs with benefits on each line--but it did so on the basis of system averages for costs and a calculated measure of out-of-pocket costs on the main line, rather than ascertaining the actual costs on the particular line; and it did so strictly in terms of profitability without regard to externalities or effects upon the communities.

D. Impact Study. (USRA, pp. 369-78).

The report included a general study of the impact of abandonment, seeking to ascertain the effects upon employment, income, and transport costs. The procedure was as follows:

1. For each county in a sample (510), it was assumed that all activities of the given type would lose rail service if the line was abandoned.
2. It was assumed that all types of economic activity used inbound and outbound rail service to the same extent as the national average for the type of activity. The results were then adjusted by the ratio of the traffic generated on the potentially excess lines in the county to total traffic for the DOT zone in which the county was located.
3. The additional transportation cost was calculated as the difference between rail and common carrier motor costs.

The conclusion reached was that the overall impact on these counties of the abandonment of rail service would be extremely low. In only 32 of 510 counties do any of the changes exceed 3% of the total; in only 15 does the loss in employment exceed 1%. This conclusion is reemphasized in FSP.

E. Subsidy.

The Report stresses the fact that some of the lines not to be included in the system may be regarded as justifiable by the local communities. The legislation provides for a subsidy system--the Federal government putting up 70% of the amount of the subsidy if the locality, state, or other unit will take the initiative and put up 30%. Certain other conditions must also be met. The Federal subsidy is provided for two years only, although of course Congress may extend the provision. The amount available for each state is limited.

F. Criticism.

This portion of the report received by far the most criticism at the RSPO hearings, and it is this portion of which RSPO is most critical--as it was of the DOT plan. A number of objections are raised:

1. The approach of USRA was wholly negative: what lines can be excluded from CONRAIL, under the philosophy that much of the difficulty of the bankrupt roads arose out of "excess capacity." The report assumes that other money-losing aspects of the lines can be overcome (e.g., losses on piggyback traffic) but those on the light traffic lines cannot--they must be eliminated from the system. The sole test used is financial viability--despite the multiple objectives of the Act. Many of these services are of

national impact; RSPO argues that Congress, in funding CONRAIL, presumed that not all individual lines would be self supporting.

2. The subsidy system as established by law has merit for services of primarily local benefit, but it can be argued that such services have important national impact, and the continuation of the lines should not have to rest on willingness of local units to take the initiative. Many states--given the legislative processes--are not yet in a position to act on the provision of subsidies, yet the lines will be lost if the plan is implemented in its present form.

The ICC stresses this aspect and the failure to consider some lines as being of entirely national concern.

3. The input data were obviously inaccurate, though not as badly so as those underlying the DOT plan of 1974. The data were obtained from the railroads and contain numerous errors, as became evident at the RSPO hearings; data of frequency of trips, time necessary, condition of the track (affecting reconstruction expenses), revenue attributable to the line were frequently in error. For example, on two lines, costs were overstated by 43 and 47% respectively. Differences between billing point and shipping point--a major source of trouble in the DOT study--were not fully corrected.

4. There were serious errors in methodology:

a. The rather arbitrary basis for selection of lines to be retained.

b. The artificial division of these lines into segments--leading to exclusions that would not occur if the entire line were considered.

c. Excluding lines that are out of service but if placed back in service could be self supporting.

d. Failure to consider the entire contribution of the line to CONRAIL revenues, and to railroad system revenues, instead of that to the particular bankrupt road of which it is

a part. The lines involved generated a total of \$70 million a year to the owning roads but \$200 million to the railroads as a whole.

e. Lack of explicit explanation in the report of why through traffic was omitted from some lines but not others, or in other words, why some lines were selected for through routes instead of others.

f. Use of a statistical approach, involving use of system averages for each line instead of seeking to determine actual costs for each line.

g. Inconsistency of statements relating to reconstruction costs for these lines..

h. Unjustifiable application of "overhead costs" to the lines when in fact overhead probably would not be reduced by elimination of the lines.

i. Requirement of a return on salvage value--when no such requirement is applied to the system as a whole. The best that is hoped for CONRAIL is earnings comparable to the rest of the industry--and much less than the 8.3% used in the calculations. This is a very basic defect in the USRA's reasoning.

j. Use of system averages, resulting in a salvage value of over \$20,000 per mile and land values of \$500 an acre--clearly unreasonably high, as the ICC stresses.

This figure would provide a total value for all lines to be abandoned of \$175 million, while the entire system to be acquired is valued at \$651 million.

k. Failure to give adequate attention to the possibility of profitable operation of parts of branches if taken over by another road, lessening total mileage on the branch. In some instances USRA appears to be very unreasonable in refusing to offer such segments for sale. There is no effective means in the legislation or the plans to ensure that the other roads will take over these lines, even if they are offered to them.

5. Failure to recognize that while the overall impact effects may not be great, effect on particular communities may be disastrous; Canajoharie, New York is given as a specific example. The absolute insistence of USRA that damage to communities is not to be considered is a basic difficulty with the approach used.

6. Examination of each line separately results in complete withdrawal of rail service from large areas--the upper portion of the lower peninsula of Michigan being the prime example, contrary to the intent of the law.

The major conclusion RSPO reaches, after examining the testimony on each line, is that the basic data used are so defective that all lines should be included in CONRAIL for a two-year period to allow careful appraisal of each line. This would require a subsidy of only \$35 million for the two-year period. Detailed analysis line by line shows that subsidization of all the lines would fall within the sum provided by Congress for subsidy.

The ICC, however, rejects this RSPO proposal as too extreme in the opposite direction. It stresses the immediate problem, that some states are unable, for constitutional reasons, to act quickly enough to meet the requirements, and there is no means whereby lines not now included can be added following study. The ICC, therefore, proposes amendments to the legislation that would allow retention of lines for which anyone would put up 30% of the subsidy, even though the requirements of state legislation had not been met, and provide for further study of marginal lines and inclusion with CONRAIL of those whose retention is found to be warranted.

G. The Overall Results by State

Table 4 shows the PSP proposals by state in terms of mileage. By far the heaviest loser is Michigan; 1,333 miles, more than half the mileage of the bankrupt roads in the state, would not be included in the system and thus abandoned unless subsidized locally. Primarily this consists of the Penn Central lines into the upper portion of the lower peninsula; abandonment of these, together with the abandonments being independently proposed by the C and O, would leave the entire upper portion of the lower peninsula without rail service except the Detroit and Mackinac's line along the east coast. Ohio, Pennsylvania, New York and Indiana would be the other major losers.

Most of Vol. II of both preliminary and final reports is devoted to analysis of each individual segment regarded as of light density.

H. An Analysis of the Proposals for Indiana.

For this paper, the state of Indiana was chosen for an analysis of the USRA plan recommendations because of its diverse agricultural, manufacturing,

TABLE 4

THE REGIONAL RAIL SYSTEM

The bankrupt carriers in the Northeast and Midwest comprise only a part of the rail network of that area.

The following chart presents ConRail in the perspective of these overall rail services.

<u>STATE</u>	<u>TOTAL MILES OF ALL RAILROADS</u>	<u>TOTAL MILES OF BANKRUPT RAILROADS*</u>	<u>PRELIMINARY SYSTEM PLAN TOTAL MILES TO BE INCLUDED IN CONRAIL</u>	<u>LIGHT DENSITY LINES AVAILABLE FOR SUBSIDY AND FURTHER STUDY</u>
Connecticut	816	596	446.4	142.5
Delaware	293	257	194.0	57.2
District of Columbia	99	13	13.0	-
Illinois	14,446	1,322	659.3	353.5
Indiana	7,118	2,845	1,927.1	714.8
Maine	1,907	-	-	-
Maryland	1,313	450	206.9	195.0
Massachusetts	1,639	768	534.7	208.9
Michigan	6,990	2,163	780.9	1,332.7
New Hampshire	911	-	-	-
New Jersey	2,008	1,324	956.8	211.6
New York	6,618	2,980	1,973.9	824.4
Ohio	9,182	3,572	2,230.5	940.3
Pennsylvania	10,374	5,467	3,947.8	891.7
Rhode Island	159	109	51.7	57.3
Vermont	767	-	-	-
Virginia	4,349	81	16.8	59.2
West Virginia	4,127	370	172.2	51.1
TOTAL	73,116	22,317	15,155.0	6,040.2

*Mileage owned or operated under lease by railroads in reorganization; Erie Lackawanna mileage is not included; Mileage does include approximately 1,000 miles of out of service rail line.

From Statement of Arthur D. Lewis, Chairman of USRA,
Released February 26, 1975.

and mining activities.¹ Sixty-three segments were analyzed by USRA, including several extending into adjacent states, with a total of 1,458 miles. These were all either light density routes or secondary main lines paralleling other lines. Thirteen of the 63, with mileage of 224, were lines not proposed as excess by the 1974 DOT report.

Of the 63 segments, one was not reviewed by USRA because it is technically an independent road (Central Indiana). Inclusion in the system was proposed in PSP for 26 segments totalling 637 miles, while 36 segments, totalling 789 miles, were not recommended for inclusion. Of the 26 proposed for retention (the DOT plan had proposed all except nine of these for abandonment); 13, with 406 miles, were regarded as justified as through routes; another 13, with 231 miles of line were found to have adequate traffic for profitable operation.

Analysis was made in this study of those NOT proposed for inclusion in the system, on the basis of traffic potential and potential effect upon the communities. The results are indicated below.

1. Retention justified. Seven segments are clearly justified for retention; five with some modifications of present operations should be able to cover costs, and the other two (essentially one line) of great significance for the area served, should come close to doing so.² The lines are as follows:

¹ See also Technical Statement, William R. Black, Governor's Rail Task Force, Before RSPO, Ex Parte 293 (Sub. No. 9), March 1975. The conclusions in this statement are similar to the author's analysis, made independently.

² Two of these have been added into the final plan by USRA.

USRA #	Line	Miles	Principal Stations	Carloads per Year	Traffic, Cars per Week	Cars per Mile ⁴	Required Subsidy
F 593	Gosport Jct.- Spencer ¹	9	Spencer	1,361	27	151	nd
PF 633	Indianapolis- Richmond	67	Carthage ² Knightstown Centerville Charlottesville Greenfield Gem Other, total	1,299 105 440 117 577 180 224	295 ³	228	0
579a	Knightstown- Carthage	6	Carthage	(1,299)			
S 520	Richmond-Eaton	14	Eaton Other	1,063 73	22	81	nd
S 630	Effner-Kenneth	56	Remington Goodland Wolcott Other stations	927 945 159 84	87	82	95
589	N. Vernon- N. Madison	19	Madison	806			
	N. Madison- Madison	3	Wirt Vernon	73 49			

¹ Suggested take over by L&N. This is a portion of the Martinsville-Rincon Jct. line.

² Served by the Knightstown-Carthage branch, which can only be operated from the Indianapolis-Richmond line if the track north of Knightstown is abandoned. Building of an interchange track will be necessary at Knightstown.

³ Including through traffic.

⁴ Originated or terminated.

F: Added to final plan as part of longer line.

PF: Part added to final plan (32 mi).

S: To be offered to solvent carrier.

nd: Not determinable.

The USRA proposal for abandonment of the Indianapolis-Richmond line and the Effner-Kenneth line, in themselves profitable, reflects a carryover of the DOT philosophy of concentrating through traffic on fewer lines---but in doing so it would deprive communities shipping substantial quantities by rail of continued service. Service to Spencer was provided in the final plan as a result of retention of the Rincon Jct.-^eMartinville line. The Madison line should logically be transferred to the C and O - B and O system, which once was interested but now is not, or operated as an independent road. While this line is marginal, the traffic available and the future potential clearly warrant retention. All of these lines offer over 40 cars per mile per year and 19 or more cars per week.

A second group warrants serious consideration for retention by a local company or governmental unit:

USRA #	Line	Miles	Principal Stations	Carloads per Year	Traffic, Cars per Week	Cars per Mile	Required Subsidy (000s)
571	Brookville-Cedar Grove	7	Brookville	685	14	104	0
418	Kendallville-LaGrange ³	15	LaGrange	342	7	23	nd
429	Decatur-Berne ³	12	Berne	159	5	22	nd
			Monroe	105			
399	Goshen-Shipshevana	17	Shipshevana	275	9	30	31
			Middlebury	178			
417	Auburn Jct.-Auburn ^{1,3}	2	Auburn	269	5	135	29
FP 574	Lebanon-Brant	24	Rock Island	212	20	44	0
			Augusta	418			
			Zionsville	285			

596	Duff Jct.- Washington ²	2	Washington	85	1.6	37	16
FP 577a	Kankakee-Sheff	38	Beaverville	204	}	47	64
			Donovan	184			
			Raub	109			
			Iroquois	109			
							nd

¹Transfer to the B and O required.

²Justified because of very short distance.

³Part of a longer line; retention of the remainder is not warranted.

FP: Part included in Final Plan; 12 mi. of 574; 8 mi. of 577a.

Two of these lines, the Lebanon-Brant and Kankakee-Sheff lines, have traffic volume in excess of some lines given top priority but only because of traffic supplied by points also having access to other lines. Preservation of them as through routes appears less necessary than those given top priority but still desirable. The other lines are of considerable importance to the communities served, and retention can be justified on the basis of community interests, but they are not likely to be fully self-supporting.

2. Retention Unjustified. At the other extreme, there are two groups the abandonment of which is clearly warranted:

a. Six segments, totalling 94 miles, made no contribution at all.

Three of these have only nominal traffic--two carloads or less generated per mile--and three are parts of unneeded through routes with no local shippers.

b. Twelve segments, totalling 237 miles, have such limited traffic that there is no possible economic justification; all offer less than five cars a week traffic, and all except one less than ten cars per mile.

3. Marginal. A third group, with six segments and 167 miles, is strictly marginal and probably could not be operated even by a local company without a subsidy; the lines average 6 cars per week and 12 cars per mile. These are:

USRA #	Line	Miles	Carloads per year	Traffic Cars per Week	Cars per Mile	Required Subsidy (000s)
420	North Manchester-Mexico	23	175	3	7	nd
524	Kokomo-Elwood	18	177	3	10	38
554	Hunter-Glen Karn	64	196	12	10	nd
571a	Cedar Grove-Valley Jct.	19	385	7	20	0
401	Angola-Montgomery	15	258	5	17	nd
FA 467	Michigan City-Buchanan	28	16	6	11	nd

FA: To be offered to AMTRAK in final plan.

Thus, in summary:

	<u>Segments</u> ¹	<u>Mileage PSP</u>	<u>Mileage FSP</u>
Total considered	63	1,458	1,458
Included by USRA	26	637	732
Not considered	1	32 (an independent road)	
Proposed for abandonment by USRA	36	789	694
Evaluation results:			
Hopeless	6	94	94
No justification	12	237	205
Doubtful justification	6	<u>167</u>	167
Subtotal		498	466
Some justification to retain	8	117	97
Top priority to retain	7	174	133
Subtotal	25	291	230

¹The total number of segments evaluated is 71, since portions of 8 lines are treated differently than the other portions.

Retention of the 133 top priority miles, most of them on through routes that are in themselves profitable, would lessen most of the economic damage to be done by the restructuring, and retention of the additional 97 would eliminate virtually all damage. If not retained in the system or taken over by other roads, all the top priority lines

and most of the second group would cover costs if operated by local companies with the proper rate division.¹ These segments are evaluated on the basis of their local traffic only, without regard to their desirability as through routes.

¹USRA is reportedly very unsympathetic to the "local company" approach.

The final plan involves very little adjustment. Three adjustments were made, three in the top priority list above, one in the second, and sale of other segments was proposed for continued operation:

1. The Gosport Junction-Spencer line will be retained as a part of a longer segment. (The 42 mile line from Rincon Jct. to Martinsville.)

2. A portion of the Indianapolis-Richmond line, between Indianapolis and Charlottesville and a ten mile eastern segment.

3. Half of the Lebanon-Brant line, from Brant to Zionsville.

4. Eight miles of the Kankakee-Sheff line from Sheff to Sheldon, to be offered to the Toledo Peoria and Western, but retained in CONRAIL if not purchased.

In addition, three segments are proposed for sale: Effner to Kenneth to the Toledo Peoria and Western; Richmond-Eaton to the Norfolk and Western, and Michigan City-Buchanan to AMTRAK (this is mainly a passenger train line).

Of the segments still excluded, top priority should go to the segment of the Indianapolis-Richmond line serving Cambridge City, Knightstown and Carthage; it is incredible that this was omitted. (A connection is required at Knightstown.) Next would come the N. Madison-Madison line, and then the lines serving Auburn, Brookville, LaGrange, and Berne.

I. Illinois

The original DOT plan for Illinois called for drastic abandonments, including several through routes of substantial traffic volume. This in turn produced strong protests. The PSP greatly reduced the mileage to be abandoned, limiting it primarily to the old New York Central line to Cairo in southern Illinois, except for minor segments, and the former Pennsylvania line from Terre Haute to Peoria. In the final plan, additional segments of the Cairo line were retained to facilitate through movement of coal.

Except for four short lines in the Peru area and a segment south from Olmstead in southern Illinois, the lines to be abandoned under FSP are listed below, grouped by priority for retention:

Segments	Miles	Towns left without rail service, and carloads 1974	cars per week	cars per mile
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Top Priority

605B	Hutsonville- Robinson	11	Hutsonville, 2146	71	337
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This line serves a major power plant, and retention is imperative; it is incredible that the segment was not included in CONRAIL

611(part)	Midland City- Waynesville subsegment	6	Tabor 356 Waynesville 183	11*	30*
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577A	Kankakee- Sheff	27	Beaverville 264 Donovan 184 Irquois 109	40	60
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These two lines, primarily serving grain elevators, clearly have adequate traffic to be able to cover their costs if locally operated.

Priority:

Part of 609	Lovington- Prairie Hall subsegment	9	Lake City 172 Prairie Hall 148	21*	15*
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Marginal:

611	Maroa- Midland City	13			
611b	Atlanta- East Peoria ²	39	Armington 75	13	23
609	Remainder of Paris-Decatur Line	64		ns	ns

Sub Marginal:

605a	Paris- Hutsonville	33		.2	.3
415	Frankfort- Matteson ¹	8	Frankfort 139	3	1.7

* Figures for entire segment. 2. May be acquired by Illinois Terminal
 1. May be acquired by Burlington Northern ns Not available separately

The original plan of the Illinois Terminal to acquire the entire line from East Peoria to Decatur has apparently been thwarted by inability to obtain transfer of the Penn Central's trackage rights over the Illinois Central Gulf from Decatur to Maroa.

The former New York Central main line from Paris to Pana and St. Louis is included in CONRAIL but with the warning that CONRAIL may seek to abandon this line after the route via Effingham is improved. The portion south of Pana is also used by the Missouri Pacific and would be offered for sale to it.

14. Passenger Service (PSP, pp. 167-89; 303-07; FSP, pp. 37-46; RSPO, pp. 16-17; 69-71; ICC, pp. 15-23).

While CONRAIL is to be a freight-only service, the report devotes considerable attention to passenger service in the area. The development of AMTRAK has resulted from recognition of the need for preservation of some intercity rail service, and the inevitable deficit position of AMTRAK has finally been recognized. The key points in the report's analysis include the following conclusions:

1. With a substantial volume of traffic, rail passenger service is much more energy-efficient than air service, although less efficient than bus service, except where volume is very high.

2. Potential conflict between freight and passenger service in the Northeast corridor suggests the need for separating the two, transferring freight service to the B and O line and confining the Penn Central line to passenger service (plus local freight).

Certain track outside the corridor should be transferred to AMTRAK because of primary use for passenger service. The ICC raises question about some of those proposals.

3. Additional corridors are suggested, with service improvement over present AMTRAK service, as for example, Chicago-Detroit. Track improvements would be limited to those required for high speed freight service.

4. Clearly, passenger operations should be charged all costs for which they are responsible (but not a share of common costs) since freight service should not be required to subsidize passenger service.

Concluding Observations

Analysis of the preliminary and final plan and the RSPO and ICC evaluation suggests the following observations:

1. USRA is being unreasonably harsh in its elimination of light traffic lines, applying stricter standards than those applied to the system as a whole. USRA has become a victim of the trite "need for slimming down" philosophy, rationalizing far more track elimination than is economically justifiable. If Indiana is reasonably typical, inclusion of about 19% of the mileage proposed for abandonment would have negligible and possibly positive effects on CONRAIL earnings, and an additional 15% would have very minor adverse effects. Inclusion of the 34% would eliminate most of the opposition to the plan. The great danger of the USRA policy, like that of DOT before it, is overkill; by failing to include the lines in the system for which there is strong support, the result may be that Congress will reject the plan or require the inclusion of too many lines. In addition, substantial injury is currently resulting as firms on these lines delay expansions--thus making the financial situation of the lines worse.

2. At the other extreme, a substantial portion of the mileage is useless, contributing little to anyone, and constituting a serious

financial drain. About 42% of the mileage proposed by USRA for abandonment in Indiana is in this category. The remaining 24% is very marginal and retention can be justified only under special local circumstances. The basic trouble with the RSPO proposal of freezing all lines for two years is that this hopeless 42% would be included along with the rest. A more rational approach by USRA would have avoided this hazard.

3. While a reconstituted CONRAIL may be able to cover its costs, one cannot help but wonder where the miracles are coming from in the transition to do this. The RSPO evaluation is much more realistic. Unfortunately, however, recognition of this fact for a time caused elements in the Administration to seek to back away from the CONRAIL plan, endorsing "controlled liquidation" or sale of lines to solvent roads. But the great difficulty with the approach is that it would produce endless timeconsuming legal battles among the various roads seeking particular pieces, and the administration has dropped it, at least for the immediate future.

4. The MARC-EL proposal in the east had merit as an alternative to preserve competition, but neither USRA nor RSPO recognizes that it is most unlikely that such a road could be economically viable without continuing Federal aid. As experience in the air transport industry has shown, merging several weak lines merely produces a large weak line (e.g., Hughes Air West), not a strong one. The continuing deficits do not constitute a controlling argument against this approach, but must be recognized.

5. Neither USRA nor RSPO give adequate attention to the labor problems of the rail industry. An essential step is the negotiation of industry and labor agreements that will provide adequate protection to workers but allow much greater flexibility in the use of labor and reduction in crew sizes in some operations. Railway labor has unfortunately developed a rather bad public image, which in turn makes shippers and Congress less willing to provide assistance to the industry. Many of the beliefs about union policy are erroneous--but the bad image is an unfortunate barrier for the industry. But clearly by some adjustments in contracts, labor productivity could be increased materially, allowing, ultimately, higher wages rather than lower, yet providing adequate security protection.

6. The program for local subsidy does not provide adequate time for state-local action, and the two year limit on federal subsidies is objectionable given national interest in continued operation of the marginal lines.

The Future of the Plan

As this is written, Congress will shortly consider: 1. Whether to reject the plan or not. If Congress does not act, the plan automatically becomes effective. If it rejects the plan, the various agencies must start all over again; meanwhile, the bankrupt roads drift on and the reconstruction task will become more serious.

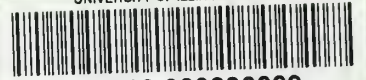
2. Since the plan requires more funds than the original act authorizes, provisions of the additional money if the plan is to be implemented. The administration has indicated, however, that it will not approve the additional funds unless Congress also passes deregulatory measures proposed by the administration. Long experience suggests that this tactic on the part of the Administration is politically an extremely unwise one, regardless of the merits of the deregulation legislation.

3. Action to free Chessie from any obligations arising out of suits relating to property it is scheduled to acquire from the bankrupt lines; otherwise the acquisition will not be made.

Congress has facing it various proposals relating to amendment of the subsidy provisions, ranging from RSPO's proposals to freeze all abandonment with full Federal subsidy to ones retaining the 70-30 formula but liberalizing the requirements and providing for further study of marginal lines.



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