

SURFACE TRANSPORTATION BOARD ISSUES DECISION ON CSX & NORFOLK SOUTHERN'S JUNE 1 DIVISION OF CONRAIL; NOTES PARTIES' RESOLUTION OF ALL LABOR IMPLEMENTING DISPUTES

Surface Transportation Board (Board) Chairman Linda J. Morgan announced today that Conrail [FOOTNOTE 1: Conrail Inc. and Consolidated Rail Corporation.] will be divided between CSX [FOOTNOTE 2: CSX Corporation and CSX Transportation, Inc.] and NS [FOOTNOTE 3: Norfolk Southern Corporation and Norfolk Southern Railway Company. CSX, NS, and Conrail are referred to collectively as applicants.] on June 1, 1999. [FOOTNOTE 4: CSX, NS, and Conrail are referred to collectively as applicants.]

On July 23, 1998, the Board, acting in the Conrail railroad control proceeding, [FOOTNOTE 5: Docketed as *CSX Corporation and CSX Transportation, Inc., Norfolk Southern Corporation and Norfolk Southern Railway Company--Control and Operating Leases/Agreements--Conrail Inc. and Consolidated Rail Corporation*, STB Finance Docket No. 33388.] approved, subject to various conditions, the application of CSX and NS to acquire control of Conrail and to divide its assets between them. [FOOTNOTE 6: The Board's decision approving the Conrail transaction is discussed in "Surface Transportation Board News" release No. 98-44 dated July 23, 1998.] Acquisition of control of Conrail was effected by CSX and NS on August 22, 1998 (referred to as the Control Date). One of the many conditions imposed by the Board required the applicants to give 14 days' prior notice to the Board and to the public of the date (referred to variously as Day One, the Closing Date, and the Split Date) on which the division of Conrail's assets will occur.

By notice filed with the Board on May 17, 1999, the applicants, acting in compliance with the notification condition, have advised the Board that the division of Conrail's assets will occur on June 1, 1999.

The existence of an interval between the Control Date (August 22, 1998) and Day One (June 1, 1999) reflects the unprecedented scope and complexity of the operational aspects of the Conrail transaction. In the history of the American railroad industry, no railroad the size of Conrail has ever before been partitioned between two other railroads the size of CSX and NS. In view of the common understanding that a poorly planned division might well lead to service problems of a significant magnitude, CSX and NS have undertaken an extraordinary effort to make the Conrail division a success. Arrangements have been made to reroute traffic formerly handled by Conrail; management information systems covering the CSX-Conrail and NS-Conrail systems have been established, tested, and coordinated; and CSX, NS, and Conrail personnel have been trained to perform their jobs on Day One.

As explained below, the Board also has taken a number of actions prior to Day One to help ensure the smooth and safe implementation of this procompetitive transaction. And the Board will continue to take action, including extensive monitoring, following Day One.

Operational and Service Monitoring. In its decision approving the Conrail transaction, the Board required extensive operational monitoring in the form of regular reporting by the applicants on a variety of subject areas (e.g., labor implementing agreements; construction and other capital projects; information technology; and customer service), and designated the Director of its Office of Compliance and Enforcement (OCE) to receive and review those reports and to interface directly with the applicants on a wide range of operational and informational issues. Monthly reports have been filed with OCE by the applicants since last August, those reports have been placed in the public docket, and OCE staff have met monthly with the applicants to discuss the reports and other operational issues. OCE staff have also visited the Northern New Jersey and Philadelphia Shared Assets Areas, to review firsthand the preparations for Day One, and have provided the applicants with observations and recommendations from those visits. OCE staff have also focused extensively on the critically important Chicago gateway, which will be a subject of post-Day One reporting. [FOOTNOTE 7: Emphasizing the Board's statutory authority over both the Conrail transaction and railroad service issues in general, the

Association of American Railroads, in a letter dated May 14, 1999, from Edward R. Hamberger, President and Chief Executive Officer, to Chairman Morgan, has updated the Board on the significant industry efforts to improve the functioning of the Chicago gateway.]

Once the transition of operations from Conrail to CSX and NS occurs on June 1, the applicants will be required to provide OCE with in-depth weekly reports both for Conrail lines acquired by CSX and NS and also for existing CSX and NS lines, including condition reports for the Shared Assets Areas, Chicago gateway operations, yard and terminal operations, and on-time performance. The OCE technical staff will continue to meet with the applicants after Day One, and will continue to be alert to conditions reflected in the reports and otherwise that could adversely affect operations or service and that might require Board action.

Labor Implementation. In approving the Conrail transaction, the Board expanded and imposed the settlement agreement between the applicants and the National Industrial Transportation League, which provided that the applicants obtain the necessary labor implementing agreements before Day One. In line with the Board's directive that applicants obtain these agreements through negotiation and resort to arbitration only if necessary, the applicants have reached final implementing agreements with all the many involved unions through private negotiation.

Environmental and Safety Monitoring. In connection with the Conrail railroad control proceeding, the Board's Section of Environmental Analysis (SEA) conducted a comprehensive environmental review resulting in the imposition of more than 50 environmental conditions, the majority of which address safety, including mitigation measures to address safety integration issues that could result from combining three separate railroads. To ensure that the Board's environmental conditions are properly implemented, SEA has continued to consult with the applicants and to monitor their progress in complying with the conditions.

Throughout the environmental review process and the 10-month period leading to Day One, the Board has continued to encourage the applicants to enter into privately negotiated agreements with affected communities because such agreements can often be the most effective way to address local environmental concerns. In those instances where negotiated agreements have been reached, the Board has imposed conditions requiring the applicants to comply with the terms of the agreements. The Board has used this procedure for a number of new agreements reached since the Board issued its decision approving the Conrail transaction, and will continue to do so.

With respect to safety integration issues, the Conrail railroad control proceeding marks the first time that the Board has required railroad control applicants to develop, and to comply with, detailed safety integration plans (SIPs) explaining how each step in implementing the transaction will be performed safely. Also, the Board and the Federal Railroad Administration (FRA) entered into a Memorandum of Understanding (MOU) setting up an ongoing safety integration process. Under the terms of the MOU, the applicants, in coordination with the FRA, have continued to modify and to refine their SIPs as the Conrail transaction has moved forward. Acting on behalf of the Board under the MOU, the FRA has undertaken to ensure the safe implementation of the merger as approved by the Board. The FRA is providing periodic reports to the Board regarding the applicants' progress, and the Board, upon request from the FRA, may take appropriate action regarding the plans. On May 4, 1999, the FRA filed its First Briefing Report advising the Board that, to date, there are no safety integration issues identified or foreseen warranting Board action. This monitoring on behalf of the Board will continue until the FRA advises the Board that the Conrail transaction has been safely implemented.

Written Decision. The Board has issued a written decision--**Decision No. 127 in STB Finance Docket No. 33388--** giving notice that Day One will occur on June 1, 1999. A printed copy of Decision No. 127 is available for a fee by contacting: **D.C. News & Data, Inc., Room 210, 1925 K Street, N.W., Washington, DC 20006, telephone (202) 463-8112.** This decision is available for viewing and downloading via the Board's website at **www.stb.dot.gov**.

