

AUGUST 20, 2013

TESTIMONY OF T.M. POTTS
GENERAL MANAGER, NORTH OPERATIONS RJCP

PENNSYLVANIA SENATE TRANSPORTATION COMMITTEE HEARING

Dear Mr. Chairman and committee members:

Thank You for allowing me the opportunity to speak to you today, on behalf of the R.J. Corman Railroad Pennsylvania line.

SHORT LINE HISTORY

Following World War II, rail volumes began to decline over a period of 50 yrs. The decline was exacerbated by the construction of the interstate highway system in the 1950's and 1960's. The nations large railroads identified rail branch lines where traffic had fallen to financially unstable levels. The railroads were largely unable to sell or abandon these lines due to the interstate Commerce Commission regulations in place at the time. In addition labor contracts were a constraining factor. As these "economically challenged" lines were identified, railroads significantly reduced all repair and maintenance work. Rail lines once operating at 60 m.p.h. (FRA class 4) were downgraded and forced to operate at 25 M.P.H. or 10 M.P.H. (FRA Class 2 and FRA Class 1).

In 1980, Congress passed the Staggers Act. This Act dramatically changed the rules and regulations governing large railroads and provided a mechanism to divest branch lines that could not justify reinvestment. While some short lines have existed since the 1800s, the short line industry, as we know it today, was born as a result of the capabilities provided by the Staggers Act. Today there are over 500 short line railroads operating 50,000 miles of track in 49 states, which is more than one third of our Nations network. These short lines continue to suffer from the historic lack of investment spanning decades.

Over the last 17 years, R.J. Corman Pa. Line, like other short lines, has reinvested profits, to the extent possible, to repair and rehabilitate these lines, in spite of the sparse number of shippers per line. However, given the extensive deferred maintenance that existed at the time of acquisition, cash flow has not been sufficient to meet our customers demands. Capitol infusion is needed to rehabilitate the infrastructures of rail, ties, bridges, tunnels and culverts. Many of the bridges and tunnels are over 100 years old, running through mountainous terrain, thus increasing the cost of these improvements.

R.J. CORMAN COMPANY BACKGROUND

Corman is headquartered in Nicholasville, Kentucky. It owns/leases and operates 11 short line railroads, totaling roughly 780 miles, all of which are spin offs from large railroads. The short line operations are located in Kentucky, Tennessee, Ohio, Pennsylvania and West Virginia where rail offers significant employers a low cost means of shipping goods in regions where highway access and capacity are limited. Rehabilitation of these rail lines will provide customers continued access to the nations rail network, keeping hundreds of thousands of trucks off the highway system.

Goods moved by railroad offers several additional public benefits:

- Railroads are able to move one ton of freight 436 miles on one gallon of fuel.
- One railcar can move four truckload equivalents.
- For example: The Rosebud Shuttle which moves raw coal from Cherry Tree, Pa. to a cleaning plant in Bigler, Pa., approximately 51 miles, removes 4,680,000 tons of coal from state highways each year.
- It is estimated that each truck removed from the highway saves \$.01918 per mile of highway resurfacing costs after roadway taxes and avoids an average annual expenditure of \$.01035 per mile of additional roadway capacity cost

PENNSYLVANIA LINE, PA.

This short line runs 283 miles and serves 21 customers and carries over 22,500 outbound carloads of coal mined by small, rail dependent producers. The line requires immediate rehabilitation due to the aging infrastructure. Corman has recently financed drainage improvements, but problems persist. Rehabilitation is necessary to increase capacity for existing customers and to help attract new customers to locate on the line. Upgrades to the rail will position these coal producers to take advantage of the recent surge in the export coal market, a 37.8 increase over last year. This line keeps approximately 136,800 trucks off the highway each year.

- REHABILITATION NEEDED INCLUDES 45,000 OF CROSSTIES, SEVEN MILES OF NEW RAIL, 43,500 TONS OF BALLAST, 87 MILES OF SURFACING, AND REPAIR TO 31 BRIDGES AND TUNNELS
- 50,637 MAN HOURS WOULD BE GENERATED IN COUNTIES CURRENTLY EXPERIENCING 5.90% TO 11.30% UNEMPLOYMENT

THE SIGNIFICANT ROLE OF PENNSYLVANIA'S RAIL FUNDING PROGRAMS

In 1984, Pennsylvania enacted The Rail Preservation Act, laying the groundwork for the Rail Freight Assistance Program (RFAP) and the Rail Transportation Assistance Program (RTAP). These grant programs enable the Commonwealth to assist the rail freight industry with funding of viable infrastructure projects.

The RFAP program has been a vital means for class II and class III entrepreneurial railroads to grow and service their customers shipping needs. They are often "the first mile and the last mile" of many rail shipments.

The RTAP program has allowed the state to partner with railroads on larger projects, such as alleviating railroad congestion, expanding rail yards, building bypasses around choke points and rebuilding railroad bridges. These projects are necessary for railroads to service their customers today and to accommodate future freight traffic expected to grow due to the Panama Canal expansion and the continued development of Marcellus Shale natural gas.

- By 2015, the widening of the Panama Canal may shift significant volumes of goods from West Coast ports to Gulf and Atlantic Coast ports.
- By 2020, the trucking industry will move three billion more tons of freight than today, putting another 1.8 million trucks on the road.
- By 2050, overall freight demand will double. Freight carried by trucks will increase 41%, and by rail 38% from today's quantities.

Pennsylvania is directly in the path where much of this freight movement will occur and will continue to be the "keystone" to our national commerce. The increased freight, and increased vehicular traffic will place a tremendous strain on our roadways creating greater congestion and bottlenecks. Freight railroads can help alleviate some of this demand.

To quote the National Conference of State Legislators, "Rail must have the same financial security provided the other modes of transportation... A viable rail system offers the opportunity to alleviate traffic congestion, provide alternatives in land use planning, provide a transportation alternative to highway and air travel and address environmental concerns"

For those of you who question investing in a railroad that is primarily a coal hauler in today's political environment, I would like to say the following: Coal has a long life remaining. As fuel for America's power plants, it's in decline and will probably remain so for some time. Natural gas is cheaper, causing utilities to switch.. The U.S.

Environmental Protection Agency is doing all in its power to make new coal fired power plants prohibitively more expensive and to close older, smaller, dirtier generating stations.

There remains a big and expanding overseas market for North American coal. The U.S. And Canada have always been big exporters of metallurgical coal from Hampton Roads in Virginia and Roberts banks in British Columbia. Now the world wants U.S. Steam coal. The result was a record year for the U.S. coal exports in 2012. 124 million tons, or more than twice the volume of 5-10 years ago.

You may wonder what fuels the demand for U.S. Steam coal. Natural gas is not easily transported from one country to another, so prices reflect local availability. Natural gas is not so abundant in Europe, for example, making it more expensive as a fuel than coal.

R.J. Corman Pennsylvania Line has consistently been a positive economic factor in central Pennsylvania. Once again I would like to stress our short line has 21 customers and carries over 22,500 outbound car loads of coal mined by small RAIL DEPENDANT producers. Without R.J. Corman Railroad the Pennsylvania coal industry would suffer a loss that they might not be able to recover from.

Timothy Potts

General Manager, North Operations
R.J. Corman Railroad Company