



November 7, 2007

The NS Crescent Corridor Initiative and the I-81 Freight Rail Study Concept Compared and Contrasted

It's been a bit over a year since Norfolk Southern CEO Wick Moorman's October 19, 2006 talk here at Hotel Roanoke, which he characterized as a coming out party for NS strategy in the I-81 Corridor.

Now NS has announced the I-81 Crescent Corridor initiative. In many ways this is foreshadowed in Moorman's comments from last October. It certainly is consistent with his definition of the Corridor as running from Texas to New Jersey, and it seems consistent with his projection that a million trucks could be diverted in this market with an investment of several billion dollars.

But something is missing. A central element of the October, 2006 talk was the understanding Moorman exhibited of the unique characteristics of the I-81 market and the challenges these would present in deploying a successful rail intermodal initiative there.

He mentioned specifically that the I-81 market is highly fragmented; that it is mostly trucks (in contrast to the conventional container orientation of, say, the Chicago – New York market); that many are mom and pops; and that a prerequisite for capturing the I-81 truck traffic would be a more open intermodal strategy that can carry all kinds of trucks. He did a great job crafting this distinction in understandable terms for his non-transportation audience.

We have seen the NS PowerPoint presentation on the I-81 Crescent Corridor. Nowhere do we see addressed the special characteristics of the I-81 market that Wick Moorman elucidated so well last October. There is no focus on the mom and pops. No open intermodal dimension. Loading highway trailers with cranes into well cars is so not 21st Century!

Most of that business is controlled by large companies. The narrowly-focused NS design parameters exclude nearly all of the owner-operator, and fleet operator truck traffic that so dominate in the Corridor. That's where the real volume is and where the really exciting diversion potential lies. So its omission from the I-81 Crescent Corridor project is both puzzling and disappointing.

When RAIL Solution asked Bill Schafer about this seeming inconsistency, he called the NS Crescent Corridor project “a real world proposal,” and added, “Our customers are happy with technology today, but unhappy with the level of service.”

The pivotal shortcoming of selecting an approach “our customers are happy with” is that *an overwhelming percent of truckers in the Corridor are NOT NS customers*. The Crescent Corridor concept, as now being promulgated, will do nothing to appeal to the vast number of new *potential* customers.

RAIL Solution initiated HB-1581 that led to the I-81 Freight Rail Study now ongoing between NS and Virginia Department of Rail and Public Transportation. That assessment focuses on the segment of the I-81 Corridor between Knoxville and Harrisburg, a distance of almost 600 miles. HB-1581 starts with the premise that we want to divert up to 60% of through trucks to rail in this market, and asks what would be necessary to accomplish such a goal.

While we don’t want to second guess what the study will come up with, it seems virtually impossible that diversion anywhere close to such a target could be accomplished without deploying some kind of open intermodal concept capable of handling all trucks, as anticipated in Wick Moorman’s talk last year.

Yet Norfolk Southern’s slide presentation on the Crescent Corridor shows the conventional service (crane-loaded trailers in well cars) to start-up in 2012. And the rolling highway type of open intermodal service that we have advocated is projected for start-up in 2020-2035

Besides the conventional vs. open intermodal philosophy, another key difference is how the first step is taken geographically. You have to start somewhere and build out. In the Crescent Corridor plan NS targets small improvements across a multi-state region. In the open intermodal scheme we favor, all investment is concentrated in one lane of 600 miles – in essence a pilot project.

Here are some contrasting advantages we see in the latter approach:

Financing. *Crescent Corridor* approach will require participation and buy-in by dozens of state and local government entities to come up with the public funds NS needs to supplement its own investment. Securing all these commitments may be difficult and time-consuming. Many more jurisdictions will be involved than with the Heartland Corridor and it may be hard to determine and dramatize effectively to all of them the public benefit from their involvement.

Open Intermodal is much more geographically compact. As a pilot project it is easy to describe and package for financing. Think of a New York State

Thruway kind of model. That project was of similar length and was financed with bonds. Revenues from the project serviced the principal and interest on the bonds. Such an approach would be impossible on a project with bits and pieces of new investment scattered over 14 states.

Truck Competitive. *Crescent Corridor* will require long hauls to amortize the cost and time associated with loading and unloading and still produce competitive delivery with over-the-road truck times.

Open Intermodal requires far less expensive and elaborate terminal facilities and the loading and unloading is quick and easy. This permits the service to be truck competitive in much shorter corridors and appeal to a wider population of drivers.

Markets. *Crescent Corridor* appeals to large truckers who are NS existing customers. The size of this market is limited. It may be difficult to come up with Act II even if the initial deployment of the concept is successful in removing one million trucks per year from highways in the greater I-81 Corridor.

Open Intermodal appeals to everyone – the mom and pops, the fleet operators, the non dry van truckers, the over-dimensionals that have to hire pilot cars and secure special permits, and even the big truckers who now have to send two drivers to keep their trucks moving. A huge market advantage is that truckers using this service keep all their existing business and revenues and in turn become the railroad's customers. In many cases a tractor/trailer/driver combination is inseparable. If the service is structured to be comparable in speed, cost, and reliability with over-the-road driving, it would have a strong allure in enhanced productivity so important to owner-operators. Even just "skimming the cream" by attracting truckers overhead to the entire Knoxville-Harrisburg segment, it may be possible to divert three million trucks per year from I-81. Should the concept prove popular, it would be easy to follow the initial success by tweaking the network; e.g., adding Knoxville-Alexandria, or Charlotte-Harrisburg, or Harrisburg-Greensboro.

Infrastructure. *Crescent Corridor* would spread the billions of dollars over many states, lines, and facilities. Altogether the resulting increase in over-the-road train speed is small.

Open Intermodal concentrates the billions of dollars in one place where it can make a meaningful difference in speed and competitiveness. There has to be a wow factor that the public can buy into if we want to make a case that public investment in freight rail is more prudent and effective than building more lanes of interstate highway. Virtually all the investment deployed in the Knoxville-Harrisburg corridor to support a successful open intermodal initiative would benefit the operation and timeliness of conventional trains as well.

As we embark on an era where we hope to encourage more public investment in new railroad capacity, it will be critical to be able to demonstrate that public benefits exceed public cost. It will probably also be necessary to show that public benefit from a rail project exceeds that from a highway project of comparable capacity. This will not be easy. Detractors will be quick to decry such public investment in private companies, using all the familiar catchwords such as subsidizing shareholders and enriching management fat cats. So it becomes very important how public/private projects are packaged and sold.

We are concerned that one million trucks spread over 14 states will never be noticed. It is probably less than the growth of trucking in the greater I-81 corridor over the next five years. This compounds the difficulty in adding up a convincing slate of public benefits, since no avoided costs of new highway capacity can be included.

Yes, the open intermodal approach does require NS to step out beyond its present list of customers, and yes it does require a unique approach not in use elsewhere in the corridor. But the concept is readily deployed, would be a highly visible demonstration of rail capability for the public, and could result in greatly reduced scope and urgency of new highway construction. The risks seem manageable. While it has not been done in North America, rolling highway truck trains operate day in and day out around the clock in Europe.

In September RAIL Solution representatives visited the Hupac operation at Freiburg, Germany and watched truck trains to and from Italy load and unload. Color photos and commentary are on our website: www.railsolution.org. To their credit, Hupac has designed an equipment and service package that works. We can do even better in the U.S. It's time to get going.

For all the reasons Wick Moorman so ably characterized in his Roanoke talk last October, a successful rail initiative in the I-81 Corridor requires an open intermodal dimension. For an investment similar to what the Crescent Corridor would spread over 14 states to divert one million trucks, we can focus on five states and divert three times as many trucks, right here in Virginia.

The incongruity of the NS Crescent Corridor initiative with Wick Moorman's own vision and strategy for the I-81 Corridor was highlighted by RAIL Solution in a letter to Moorman dated September 28, 2007, citing many of the arguments above. No reply has been received.