



# Quarterly Newsletter

Railway & Locomotive Historical Society

Oldest Railroad History Organization in North America

Summer 2016 • Volume 36, Number 2 • rlhs.org



## Conrail People at 40

A Reprint

# Shared Assets Continues Conrail Tradition



Bridges are among Conrail's historic structures. The Upper Bay or Lehigh Valley Bridge (top), opened in 1930, is a vertical lift bridge spanning Newark Bay in New Jersey, near Oak Island Yard. It also was used by the Pennsylvania Railroad to access PRR's Greenville Yard.

In Michigan, the Rouge River bridge (cover) was built in 1919-1920 for the Toledo Division of the New York Central; its lift span later was converted to the bascule shown here. Huge counterweights are a part of the bridge. Workers climb steps to the Bridge Tower (below) to access the operating mechanism.

Photos and text / John Gruber

A sense of history guides Ronald L. Batory as he talks about Conrail, organized 40 years ago. Two freight railroads divided and absorbed most of the company on June 1, 1999, but the Conrail name today survives for a 1,209 mile switching and terminal property serving the two companies in three busy industrial areas. Commonly called Conrail Shared Assets Areas (SAA), it is a 21st century success story, which some naysayers said could not succeed when it was first proposed.

Batory, President and Chief Operating Officer since 2004, has the strongest emotion toward the people side of the business. He has been a railroader for more than four decades and went through the era of asset rationalization, mergers, and bankruptcies. "I was fortunate enough in my career to work alongside many people in different companies. During this tenure of mine at Conrail—what I joined back in 1998 and what is here today—I am very proud to stand alongside all of the people because they have done an excellent job in transforming it from a stand-alone profit entity to a high performance service driven joint facility operation for CSX and Norfolk Southern," he said.

How did all this come about? The U.S. government created Consolidated Rail Corporation (Conrail) in 1974 and provided interim funding while The United States Railway Administration Final System Plan was developed for 7 bankrupt eastern railroads. After Congress approved the plan, Conrail began operations on April 1, 1976. Its economic recovery started in 1980 when the Staggers Act largely deregulated railroads. In 1987, an initial public offering returned Conrail to the private sector. Ten years later, after various failed acquisition strategies, Norfolk Southern and CSX agreed to buy Conrail and split its assets between them. The Surface Transportation Board approved the acquisition and restructuring; NS and CSX took control on August 22, 1998. Conrail began its new role as a switching and terminal railroad on June 1, 1999, in three geographic areas of northern New Jersey, southern New Jersey/Philadelphia, and Detroit. In 2007, it expanded its operations to Staten Island, New York. NS and CSX competitively solicit traffic in the

geographic areas, and the two companies are provided their own specifically designed terminal services from Conrail.

Before the split in 1999, Conrail operated 20,942 miles with 19,611 employees. The Shared Assets Areas started with 1,725 people in 1999, down to 1,116 in 2016 while locomotive requirements went from 145 to 88 during the same period. Re-engineering of operating and maintenance processes drove these asset reductions to 36% and 39% respectively with customer service delivery results in excess of 95% of compliance. The overall productivity and performance of the current Conrail organization is precedent setting.

Batory moved from President of The Belt Railway Company of Chicago to become Vice-President of Operations at Conrail in March 1998 to help plan the split. He looks back to 1997 and 1998 when Conrail was sought by CSX and then CSX and NS. The shared areas evolved as the two were dividing Conrail. "There were a lot of articles back then being written," Batory recalled. "This is wrong; it's not going to work, splitting a railroad that big had never been done before. And hosting two competing railroads in the most complex terminals of Conrail will be an instant failure."

Prior to Conrail being split, probably the largest split was the Chicago & Eastern Illinois in 1969 with a joint terminal facility between L&N and MP at Yard Center, Dolton, Illinois. By comparison it is not very big. A much smaller regional railroad, the Chicago, Missouri & Western Railway, was split in 1989 between Gateway Western Railway and Southern Pacific Transportation with a joint facility between Godfrey and East St. Louis, Illinois.

"That is why there was a lot of naysaying going into this split 'Will it work? Can the two railroads successfully split it and absorb what they had acquired? And then having two railroads cohabitate in dense railroad areas raised a lot of doubt as well. They said, it has been designed to accommodate one railroad, how could it ever accommodate two? So that is why NS and CSX decided to create the Shared Assets Areas and institute a neutral joint facility arrangement."

There was no proving the decision wrong or right at the time. The only thing

that would prove it was the future reality. "We have shown over the last 15 years that sharing assets has been successful. Hosting CSX and NS road trains in and out of the shared areas as well as their overhead trains that operated through some of the territories give a service that was nothing less than what they would expect if they were doing it themselves."

Batory always has had a great deal of respect for history. He is a longtime member of the R&LHS. "So often, if you know the history and background of something, it strengthens your understanding as far as what you can do going forward. In this case, as I recall, there were numerous people that questioned the value of a joint facility operation. Will it work? Will it satisfy the needs? There were probably at the time more nays than there were yeas."

"From my career past, and my first-hand understanding of joint facilities, I knew joint facilities were nothing new to the railroad industry. We had them as far back as the 1800s, lines such as the Cincinnati Street Connecting Railroad. They continued to grow and blossom throughout the railroad industry in the 20<sup>th</sup> century. We saw a growing presence throughout the United States mostly in the passenger circles with the various joint facility union terminals. There also were freight operations across the United States where there were joint facility operations. There had been a demise of joint facilities especially right after the Staggers Act. As a result of Amtrak in 1971, passenger joint facility operations were closed in the 1970s. The Conrail Shared Assets Areas really was a reinvention of the past."

Right after the Staggers Act there was a fair amount of rate pricing frustration. The freight railroads were consolidating and vehemently competing among themselves. "I recall working for a Class I at the time, Grand Trunk Western Railroad Company. There was frustration in our commercial and operating departments in their attempt to ascertain what were the true costs of moving a car through their various joint switching

**Conrail people include Detroit Carman Roberto Nunez, River Rouge car repair facility; Upper Bay Block Operator Barry Strumeier in control room; and South Jersey Carmen Craig Holland and Roberto Osorio, discussing their work plan at Pavonia Car Shop.**



facilities as the monthly zone accounting results seemed to change continuously. With all the commercial contracts that were being established at that time with the shippers you had to have some sort of costs stability. Back in the early to mid-1980s, it was not unusual for people to ask, "What does it cost to get a car through Chicago?" Unfortunately no two costs were ever alike from month to month, so the frustration drove a business model change, Batory said."

"That is what precipitated the Class I carriers who owned these joint switching and terminal companies to shy away and say, 'let's make these entities as for profit type companies' and let them establish what their pricing is to handle a car for us. That is where joint facilities began to leave the railroad scene." Move fast forward to the late 1990's and early 2000's. CSX and NS emerge and say we are going to create a neutral joint facility with minimal zones for the two of us to serve a new competitive environment. That objective was jointly achieved through sound business principles that bred stability, and ultimately allowed us to very effectively on behalf of the two of them offer a costs structure and service product of minimal variability month to month or year over year.

"Joint facilities have a valuable purpose for businesses that elect to use them. They lend themselves to sharing the operating and capital expenses of the assets based on use of those assets. As long as the parties participating in the joint facility all have purposeful use of those assets it is much more efficient than each entity having its own portfolio of assets. It has the potential of reestablishing itself throughout the railroad industry on an as needed and warranted basis."

"Everything that I have seen and experienced working with CSX and NS leadership teams and their organizations has been nothing short of being spectacular. The jointly operated properties are integrated seamlessly into their respective systems now. Naturally, railroading is a people business and the Conrail employees have proven their worthiness to a business arrangement authored by two very strong and competitive railroads. I see a bright future going forward," he concluded.



The story of the success of Conrail Shared Assets Areas is its workers. Pavonia Car Repairmen Patrick Durso, Matthew Eichinger, Craig Holland, and Roberto Osorio; New York skyline from Oak Island Yard (facing page). On this page, Remote Control Operator Sean Walsh at Pavonia (left); Yardmaster Richard Mercado at the Oak Island Hump (top); Joe Galetti and Michael Rutherford, track maintenance at Oak Island; and Detroit Track Foreman Eric Hixon working at Livernois Yard.