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Bruno Maestri
Vice President
Public Affairs

October 1, 2002

The Honorable Linda J. Morgan
Chairman
Surface Transportation Board
1925 K. Street, N.W., Suite 820
Washington D.C. 20423-0001

Re: Finance Docket No. 33388, Altoona and Blair County Quarterly Report

Dear Chairman Morgan :

I am pleased to submit to the Board Norfolk Southern's second quarterly report, as required by Decision No. 198 (served September 19, 2001) in Finance Docket No. 33388, describing Norfolk Southern's efforts to develop insourcing business for the Juniata Locomotive Shop and to work with the Altoona and Blair County area on alternative economic development projects.

The enclosed quarterly report builds on the information provided in NS' initial quarterly report filed July 1, 2002. In this second report, newly-added information, covering developments during the third quarter of 2002, is highlighted in **Bold**.

Very truly yours,

Bruno Maestri

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cc: (w/encl.) Vice Chairman Wayne O. Burkes
The Hon. Arlen Specter
Scott N. Stone, Esq.
Richard S. Edelman, Esq.

Second Quarterly Report of Norfolk Southern Railway Company Regarding the Altoona and Blair County Area, Finance Docket No. 33388, CSX Corp., et al., Norfolk Southern Corp., et al., - Control and Operating Leases/Agreements - Conrail Inc., et al. (as of October 1, 2002)

Norfolk Southern Railway Company ("NS") submits this quarterly report pursuant to Decision No. 198 (served September 19, 2001) in Finance Docket No. 33388. This report describes NS' efforts since the beginning of the second quarter 2002 to attract insourcing business to the Juniata Locomotive Shop and its efforts to work with the Altoona and Blair County area on alternative economic development projects. In this report, updates from NS' previous report will appear in **Bold**. This report begins with a description of the major industrial facilities in the Altoona/Blair County area that can be served by NS.

As noted previously, NS' efforts to secure insourcing projects for JLS and to develop commercial relationships with regard to other facilities in the Altoona and Blair County area are ongoing and often involve commercially sensitive negotiations. Accordingly, in some cases, NS will not present a detailed discussion of particular initiatives in this report in order to protect NS' competitive and commercial efforts. In some cases, particular initiatives of significant competitive and commercial import will not be discussed at all until such time as agreements are reached.

Facilities in the Altoona/Blair County Area

The following are major industrial facilities in the Altoona/Blair County area that can be served by NS or by shortline railroads connected to NS:

Ardie J. Dillion Industrial Park is an industrial park located in the Interstate 99 Enterprise Zone.¹ It is located on Interstate 99 approximately half way between Tyrone and Altoona, and is adjacent to NS lines. Seven industries are located in the industrial park.

Juniata Locomotive Shop ("JLS") is one of NS' two current facilities for major locomotive repair, overhaul and heavy maintenance. (The other such facility is located in Roanoke, Virginia.) JLS also provides running repairs to NS' fleet of locomotives, as do other facilities on the NS system. The facility, which dates from 1890, has a total of 28 buildings. The on-site power plant, through its three coal-fired boilers and two turbine-generators, provides power to the facility. The E & M Shop houses the main overhaul facilities (current overhaul capacity estimated to be 340 units per year), the wheel shop, the traction motor shop and other dedicated facilities. The dedicated paint building has two paint booths currently operating. NS stores and performs maintenance on its 21 car fleet of business cars and 9

¹ Companies that locate within an "Enterprise Zone" are eligible for low-interest loans, corporate income tax credits, job training assistance, and grants.

research and test cars in another building. The facility serves as the part distribution center for the entire NS locomotive running repair system.

The JLS facilities were last completely renovated in the early 1980s, but partial renovations and modernizations have continued since that time. For example, a new power assembly line was installed in May 2002. Several portions of the shops were rehabilitated in 2000 and 2001, including the EMD overhaul line, the truck shop, the wheel shop, the motor shop and the power assembly cleaning area. Additional modernizations and rehabilitations will be performed as capital becomes available and when the work is justified.

Hollidaysburg Car Shop ("HCS"), one of several railroad car repair facilities on the NS system, is scheduled to close July 21, 2002. The facility, first operational in 1955, consists of over three-quarters of a million square feet of enclosed shop and car production space sitting on over 360 acres of land. The building housing the Shops is over one-half mile long and at points it is nearly 330 feet wide. The building contains four main tracks over 3,000 feet long, 12 overhead cranes, and three paint and blast facilities. Up to 3,500 rail cars can be stored at the Shops at any one time. There are over 65 miles of rail tracks in the main building and elsewhere throughout the property. The facility is located in a Keystone Opportunity Zone.²

Northern Altoona KOZ Site is a warehousing/distribution/manufacturing heavy industrial site that is located close to Interstate 99. The facility is located in a Keystone Opportunity Zone and along the Interstate 99 Enterprise Zone. NS rail service is available to the site. There are no occupants of this site as of June 2002.

Robert C. Jubelier Business Park is a distribution/logistics facility. Located along Interstate 99 at Business Route 220, the facility is located in a Keystone Opportunity Zone and along the Interstate 99 Enterprise Zone. As of June 2002, one trucking company is located at the facility. The park is served by the Nittany & Bald Eagle Railroad, a shortline connected to NS.

Rose Yard is a NS rail yard that borders on JLS.

South Altoona Business Park is an in-town industrial park facility located in an Enterprise Zone. Nine companies are located in the facility. NS rail service is available to the site.

Walter Business Park is a distribution business park with access to the Everett Railroad, a shortline connected to NS.

² A business located in an "Opportunity Zone" is eligible for an extended period of state and local tax relief.

William W. Ward Business Park is an industrial/business park located south of Altoona and west of Interstate 99. Eight companies are located in the facility. NS rail service is available to the site.

JLS Insourcing and Altoona/Blair County Economic Development

The following are the major insourcing projects undertaken or planned at JLS and other NS efforts regarding alternative economic development in the Altoona/Blair County area commencing with the second quarter of 2002:

- A JLS locomotive overhaul insourcing project for CSX, covering a total of 195 units at the rate of approximately eight overhauls per month, has just been completed during the second quarter, 2002.
- On October 25, 2001, NS' Thoroughbred Mechanical Services ("TMS") finalized a contract for a JLS locomotive remanufacturing insourcing project for First Union, covering approximately two units per month, which began in November 2000 and is scheduled to be completed in April 2004.
- NS has had discussions with the Altoona Blair County Development Corporation ("ABCD Corp.") for several years regarding ABCD Corp.'s interest in acquiring NS' Rose Yard for industrial development. NS has advised ABCD Corp. that NS does not wish to sell the property at present but is aware of ABCD Corp.'s continuing interest in it.
- ABCD Corp. is currently pursuing a \$100,000 grant from the US Department of Commerce Economic Development Administration for the purpose developing a regional marketing study for Blair County and the Interstate 99 corridor. The study will include investigation of highest and best use of the HCS in addition to a targeted marketing effort for the Interstate 99 corridor. Norfolk Southern provided ABCD Corp. a grant of \$50,000 in last year to assist with the fifty-percent local match requirement for the EDA funds.
- During May 2002, an industry contacted NS about leasing a portion of HCS. The NS mechanical, industrial development and other departments are proceeding to explore issues related to the proposed lease arrangement.
- On June 6, 2002, the Director of NS Industrial Development issued to six national real estate brokers a request for proposals to become the exclusive listing agent to represent the HCS property. It is anticipated that these proposals will be evaluated in July with selection of a broker in August.

- On June 18, 2002, the President of NS Development and Director of NS Industrial Development met with officials of ABCD Corp. to discuss progress in the marketing of the HCS facility. ABCD Corp. has discussed the development of a local task force to aid in that effort, and NS has agreed to participate.
- On June 18, 2001, the President of NS Development and Director of NS Industrial Development met with officials of a local trucking company to explore the possible development of a rail to truck transfer facility.
- On June 21, 2002, NS' Thoroughbred Mechanical Services group announced that it had reached an agreement with General Motors (EMD) to modify, over a period of two years, 46 General Motors EMD locomotives that are in service for the Long Island Railroad.
- On June 24 and 25, 2002, Director of NS Industrial Development conducted a site tour of HCS for two real estate brokers responding to NS' request for proposals to become the exclusive listing agent.
- In response to the June 6, 2002 request for proposals discussed above, on July 10, 2002 two of the six national brokers contacted by NS forwarded to NS Industrial Development proposals to become the exclusive listing agent to represent the HCS property. Three other firms reviewed the proposal opportunity and elected not to respond with proposals, and the sixth firm was non-responsive.
- As anticipated, the Hollidaysburg Car Shops were closed on July 21, 2002. With the closure of HCS, many routine railcar maintenance items such as air hoses and brake shoes that were previously furnished to short line and regional railroads by HCS are now being supplied to these customers from JLS.
- At the request of the NS Industrial Development Department, on July 23, 2002, a seventh broker specializing in the disposition of major industrial facilities presented a formal proposal for site planning consulting services, including potential site brokerage.
- Members of NS' Industrial Development and Real Estate Departments met with the two responding brokers on August 2, 2002.
- On August 21, 2002, NS' Industrial Development Director met with a private party interested in the possible purchase of the HCS.
- On August 27, 2002, NS's Industrial Development and Real Estate Departments met with the seventh broker that NS had solicited to represent the HCS.

- **Following the August 21, 2002 meeting referred to above, on September 5, 2002, NS' Industrial Development Director conducted a site tour of HCS for the private party interested in the possible purchase of the HCS.**
- **On September 5, 2002, the first of the 46 locomotives to be modified for the Long Island Railroad under the above-referenced agreement with General Motors arrived at JLS, and the work is underway.**
- **On September 19, 2002, the NS Industrial Development Department was contacted by the Everett Railroad regarding the expansion of one of its existing customers in Blair County. NS Industrial Development has agreed to provide preliminary engineering services for this project, with a site meeting to follow.**