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**C.W. Moorman**  
Chairman, President and  
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September 15, 2010

The Honorable Daniel R. Elliott, III  
Chairman  
Surface Transportation Board  
395 E Street, S.W.  
Washington, D.C. 20423-0001

Dear Chairman Elliott:

I write in response to your letter sent on August 9, 2010, regarding end-of-year business demands.

Like you, we are hopeful that we have turned the corner economically and that rail business will be strong for the remainder of the year.

The initial recovery was at a faster rate than many predicted. As the economy has improved, we have worked to return equipment and crews to service. In addition, we have been training new crews which are becoming available for service. Therefore, Norfolk Southern is confident about meeting transportation demands for the remainder of the year.

#### **I. Traffic Expectations for the Remainder of 2010**

Based on our present understanding of various markets, Norfolk Southern outlines its views on business levels. Market conditions could change, of course, which would render our current views incorrect.

Looking first at coal, shipments of metallurgical coal are up both for domestic use and for export. Shipments of utility coal have varied by region so far this year. Utility stockpiles are at or below target levels due to the extreme weather this summer in our service territory, and improvement to inventory levels has been slow. We have also witnessed an increase in demand for industrial uses of coal.

In intermodal, overall traffic has been up in each of the first two quarters of this year. Domestic intermodal traffic has increased in part from diversions of traffic

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from truck. Meanwhile, International intermodal has improved along with the world economy.

As for our merchandise business, all our commodity groups have experienced year-over-year growth in volume through the second quarter. Our Metals and Construction volume has been driven by increased steel demand, new business, and energy-related construction materials. We have also seen additional corn, ethanol and fertilizer shipments in our agricultural markets. As has been widely reported, it is expected that this year's harvest will be one of the largest ever, and the demand for export grain is also expected to be very strong. Based in part on conversations with our customers and their representations regarding their forecasted demand, NS believes it has the assets and capacity to manage these shipments. Our Paper and Forest volume has increased largely because of growth in shipments of pulpboard and lumber, although we anticipate neutral volumes for the remainder of the year.

Finally, automotive traffic has grown because of increased vehicle production and new Northeast business.

Looking ahead to the rest of 2010, we are hopeful that traffic will be strong. However, year to date, we are still over 10 percent short of the traffic levels in 2008.

## **II. Operating and Capacity Efforts**

With lower volumes, we took steps to appropriately size our operations to the declining traffic in 2009. With the return of traffic in 2010, we similarly have been working to match our operations to the traffic levels, which in the first half recovered faster than predicted. In fact, carloadings were up 22 percent in the second quarter of 2010 compared to the second quarter of 2009.

So far in 2010, we have increased our trainstarts compared to last year. For example, we had 6,529 more crew starts in July 2010 compared to July 2009.

As our carloadings and trainstarts have increased, we have seen some degradation in our system average train speeds and in our terminal dwell as you can see from the metrics posted on the Board web site. However, our Amtrak service performance has remained consistent.

In response, we have brought back crews that were furloughed. For existing T&E employees, we offered to buy back vacation. Moreover, we created incentives for T&E employees in surplus areas to move to deficit areas on temporary assignment. Earlier this year, we also authorized the hiring of 830 new conductor trainees, and in August, we supplemented that authorization with

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approval to hire another 570 conductor trainees. Our training operations center is operating with multiple shifts, and we are accelerating training for some new conductors by limiting the size of the geographic area in which they qualify--typically a deficit location. New crews are completing their training over the next few months and will be in service once they are certified.

In addition, Norfolk Southern continues to make sizeable investments to maintain and expand its infrastructure for the eventual economic recovery. Our investment budget for 2010 was originally \$1.442 billion. Of this amount, approximately 25 percent is for growth and 75 percent is for maintaining the existing network. Norfolk Southern's 2010 capital budget included, among other things:

- o Investing in capacity by making capital roadway improvements. Norfolk Southern plans to spend \$706 million for rail, crosstie, ballast, and bridge programs.
- o Spending \$184 million on intermodal terminals and equipment, bulk transfer facilities, and mechanical repair and service facilities.
- o Making \$81 million in capital investments on locomotives and railcars.
- o Investing \$140 million in technology to enhance safety, improve operating efficiencies and equipment utilization, and automate and update planning and modeling tools.
- o Spending \$110 million on infrastructure for various public-private partnership investments and network improvements.
- o Spending \$221 million on other projects.

With subsequent adjustments, NS expects total capital expenditures for 2010 to be approximately \$1.5 billion. That level of spending will be the second largest ever.

We may make further adjustments as necessary during the remainder of the year to our operations, capital budget, and employment levels if warranted.

### **III. Heartland Corridor Project and Other Initiatives**

As you know, the work on the Heartland Corridor project is complete. You will recall that the project is a public-private partnership involving the Federal Highway Administration, and the states of Ohio, West Virginia and Virginia that improved 28 tunnels so that they are able to handle double-stacked intermodal

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trains. We are pleased to report that the first double-stack train operated on that corridor on September 9. A ceremony at the railroad's recently enlarged Cowan Tunnel near Radford marked the occasion, as Norfolk Southern Train 233 pulled through the tunnel that day with a consist of 148 double-stack containers moving to the Midwest. The new routing improves transit time from Norfolk, Virginia, to Chicago, Illinois, from four days to three and is nearly 250 miles shorter than previous circuitous routings.

Another major corridor project for NS is underway. The Crescent Corridor is a program of improvements to infrastructure and other facilities geared toward creating a high capacity 2,500-mile intermodal route spanning from New Jersey to Louisiana that touches 26 percent of the nation's population and 30 percent of the nation's manufacturing output. It provides the shortest intermodal double stack route between the South and the Northeast. When fully operational, it will handle more rail freight traffic faster and more reliably, creating or benefiting some 73,000 green jobs by 2030, and producing these estimated annual benefits:

- 1.3 million long-haul trucks diverted from interstates
- \$141 million in accident avoidance savings
- 1.8 million tons in CO2 reduction
- \$565 million in congestion savings
- \$262 million in highway maintenance savings
- 163 million gallons in fuel savings

Earlier this year, we eliminated a critical choke point on this corridor when we reconfigured a rail junction near Front Royal, Virginia. This was the final and most complex of six capacity improvement projects in Northern Virginia to handle more trains at higher speeds. Funded by \$43 million from the Virginia Department of Rail and Public Transportation (DRPT) and nearly \$20 million from Norfolk Southern, these projects lengthened or built new passing tracks between Manassas, Virginia, and Front Royal, Virginia; installed five miles of double track near the Virginia Inland Port; improved signal and traffic control systems; and increased train speeds through Riverton Junction near Front Royal. In addition to this support, the Crescent Corridor program has received tremendous support from states along the route. Recently, six states submitted requests for TIGER II grant money for projects related to the Crescent Corridor program.

#### **IV. Developments in Passenger Rail**

The projects discussed above, along with NS's other infrastructure investments and projects, are targeted at the future and our belief that the freight rail system will play a large role in the movement of freight in the United States in the future.

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Like other railroads, we believe that there can be a tension between maintaining the best freight rail system in the world and accommodating the public sector's desire to expand passenger rail service over that freight rail system. In addition, we believe that major segments of our business--particularly the movement of truck trailers and containers--could grow significantly in the coming years as highways become more congested, and additional freight rail network capacity will be needed to accommodate that growth.

Thus, NS carefully considers the current and future compatibility between freight and passenger rail service whenever a passenger rail project is proposed. Accordingly, NS has several key principles when looking at potential passenger rail projects. The primary principle, of course, is that goal one is safety--for everybody involved, including the passengers, the freight and passenger employees, and the communities in which the operations take place. Among the other key principles that guide our considerations are: (1) all projects must recognize the private ownership of the freight corridors, as well as the existing and potential capacity within that corridor; (2) there must be adequate capacity so that passenger operations will not delay or hinder current or future freight rail operations; (3) there must be adequate liability protection for NS; and (4) passenger trains operating in excess of 90 mph must operate on separate tracks from freight trains.

That said, NS is deeply involved in projects involving the expansion of passenger rail service. We have been working with North Carolina, Indiana, Michigan and other states to advance passenger projects in their states. As in the past, we will continue to work with the states and the federal government to progress passenger rail service projects.

**V. Conclusion**

Thank you for your inquiry. We look forward to the remainder of 2010.

Sincerely,



cc: The Honorable Francis P. Mulvey  
The Honorable Charles D. Nottingham