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SURFACE TRANSPORTATION

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The Honorable Roger Nober
Chairman
Surface Transportation Board
Washington, D.C. 20423-0001

CSX Transportation, Inc. - Fall Peak Planning

Dear Chairman Nober:

This letter is to provide information about the steps CSX Transportation, Inc. ("CSXT") is taking to prepare for the Fall Peak. We share the view of the Surface Transportation Board that the current demand for rail freight services is unprecedented and that the freight railroads' ability to provide safe, high-quality service is vital to confidence in the industry and to America's economy.

We believe CSXT is taking aggressive and prudent steps to obtain more resources, to maximize the efficiency of operations, to improve the quality of operations and to communicate with customers more effectively. Those are outlined below and described more fully in the enclosed materials.

STEPS TO ASCERTAIN DEMAND AND PREPARE

Analysis of Demand. Because demand for rail freight service is derived from many U.S. and international industrial production, construction, consumer confidence and energy consumption factors, we closely monitor macroeconomic measures and indicators. We also regularly poll our customers to ascertain projected demand. The record volumes during the first half of this year significantly exceeded many demand projections of the customers themselves.

CSXT expects record level market strength to continue into, and beyond, Fall Peak. In the second quarter of 2004, CSXT had 2.4% volume growth in Coal and more than 4% growth in Intermodal and Merchandise. CSXT's most recent outlook for the second half of 2004 puts traffic 150,000 carloads above last year, which constitutes a faster pace of growth than during the first half of this year.

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CSXT sees the greatest volume strength coming from the Forest, Metals, Coal, and Chemicals markets. The company also expects to see continued record levels of new industrial start-up sites and major construction and building projects. Internally, CSXT's Commercial and Operations groups are coordinating closely to enhance the company's ability to safely and efficiently serve customers.

Equipment. The market for locomotive and car resources in the short term is extremely constrained. CSXT has added resources where possible, including securing 110 locomotives above our original 2004 locomotive plan. As to cars, despite accelerating repairs and adding capital to rebuild heavy bad ordered cars, CSXT is unable to fully meet this unusual demand. The company expects that in some commodity markets, for example finished coil steel, car resources will continue to be insufficient to meet the extraordinary demand.

Train and Engine Crews. Fortunately, CSXT took action early in 2004 in anticipation of continued higher than predicted demand. We believe that CSXT will have trained and available for service more than 1,400 new train and engine employees for Fall Peak compared to last year. In other words, target hiring and training are expected to be approximately 25 percent higher than attrition. Beyond that, we expect to have approximately 320 additional train and engine employees trained and ready in early 2005.

Facilities. CSXT reversed plans it made in recent months to close Ohio's Stanley Yard. Investment is now being made in the facility to reopen the yard, at least temporarily, to reduce congestion in the mid-West.

Longer Term. Currently the railroads and equipment manufacturers are evaluating whether demand levels will be sustained and, therefore, justify adding long-term capacity. CSXT has been spending nearly 18% of its revenue, or nearly \$1 billion, consistently over the past three years to reinvest into its business in order to safely meet customer demand. In a competitive market for capital and investment, the railroads' investment decisions require a very difficult balance.

Terrible disparity in capital consumption between railroads and all other industries is well known. The Class I railroads—all of which are publicly-traded companies—are hindered as they compete with the Fortune 1000 for investment dollars as they fail, year-in, year-out, to meet their cost of capital.

CSXT'S PLAN FOR ACHIEVING PERFORMANCE GOALS

Beyond adding equipment, employees and facilities, CSXT and CSX Intermodal have undertaken two major projects to maximize operating efficiency—one on the CSXT network and the other on the CSX Intermodal network. In addition, CSXT has given special attention to helping assure the availability of coal in the face of low stockpiles and high demand.

CSXT One Plan. The implementation of our new operating plan, the One Plan, will more efficiently move freight in CSXT's Merchandise and Automotive networks, creating capacity to handle additional demand. Early this year, CSXT hired for the design work, the MultiModal consultants who assisted the Canadian Pacific, Canadian National and Norfolk Southern in redesigning their operating plans.

The effort focused on the Automotive and Merchandise carload networks, as they consume approximately 90% of yard switching capacity and 60% of line capacity. Simplifying and reducing work in these two areas will deliver better performance across the network and customer base.

The One Plan is expected to free up 6% of the terminal switching capacity in the Merchandise network and reduce about 1% of the miles that cars travel. If achieved, a reduction of more than half a million car days, would free up car capacity to better fulfill high customer demand and reduce yard congestion.

The implementations of the first two stages of the One Plan have been on time and smooth. For example, results at Avon Yard in Indianapolis are impressive. Every key operating metric, originations, arrivals, dwell, velocity and connection performance, has significantly improved since implementation in that area. The One Plan roll-out will occur in two more stages, both scheduled to end before the start of the Fall Peak.

CSX Intermodal Network Simplification. CSX Intermodal simplified its network in late June to reduce excessive train switching at critical points in our network. This freed key mainline capacity between Philadelphia and Baltimore to facilitate better service for both the Intermodal network and CSXT's Merchandise network.

Coal Shipments. Low stockpiles and high power demand have drawn attention to the possibility of coal shortages. CSXT is to doing its part to avoid any such occurrence. CSXT currently is maintaining virtually constant communication with both coal shippers and end users to ascertain mine supply and destination inventory levels. Working proactively helps the company assess customer needs in real time and rapidly reallocate power, cars and crews as necessary to prevent stock-outs.

In addition, CSXT has prioritized the coal traffic within the system and allocated a portion of the additional locomotive resources being procured in the second half of 2004 to key coal locations. This should help increase the velocity of coal traffic, improve equipment turns and provide a consistent supply of coal for end users.

CSXT'S PERFORMANCE GOALS FOR THE NEXT 120 DAYS

Resources and network simplification will not, by themselves, allow CSXT to meet the surge in demand. CSXT's day-to-day operating performance must continue to improve. I am confident that under the operating leadership of Tony Ingram, CSXT will continue to see, and sustain, that improvement.

As a recent example, Mr. Ingram sponsored a program in early July to take advantage of normal holiday week slowdown. It was intended to bring focus and resources to major Merchandise hump yards to help clean up the network. We have already seen significant system-wide improvements in our operating performance. For example, our on time originations roughly doubled in the last 45 days, and our arrivals and dwell improved approximately 50% and 15%, respectively, in July. Moreover, weekly average velocity improved over 1.5 miles per hour during July.

However, with Wall Street and customers, CSXT has to be careful not to over-promise. To that end, we are discussing our efforts toward "consistent, continuous improvement". For your information only, by way of example, internally CSXT is specifically targeting on-time originations for gradual improvement, reaching approximately 55% in August, 60% in September and October, 65% in November and 70% in December – all during the heavy volumes of the Fall Peak. Notably, the July origination numbers give a good platform and some encouragement, with the last two weeks of July having come in above 60% on average.

Although CSXT believes these goals are achievable, I note that many external factors—from weather to security threats—can significantly impact the company's ability to reach them. For that reason, I am obligated to be highly cautious about articulating future performance targets.

CUSTOMER COMMUNICATION

CSXT shares your view that customer communications are critical. To follow-up the June 10 Customer Forum in Atlanta, last week CSXT published on its customer website the enclosed update on the plans discussed at that meeting. Beyond that, CSXT has taken or is now taking, the following steps to address some concerns about the performance of our Customer Service Center. Specifically, we have:

1. Implemented phone monitoring for quality. This includes a scoring system to provide feedback on conversations and additional training.