



Norfolk Southern Corporation
Three Commercial Place
Norfolk, Virginia 23510-2191
Telephone (757) 629-2601
Fax (757)533-4954

C.W. Moorman
Chairman, President and
Chief Executive Officer

August 31, 2009

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 the letter sent by then-Acting Chairman Mulvey that requested an update on Norfolk Southern's preparations for this year's peak shipping season, which is commonly referred to as the "Fall Peak."

As you know, there was no Fall Peak last year, nor do we expect a Fall Peak this year. For the first quarter of 2009, Norfolk Southern's traffic levels were down 20 percent compared to the first quarter of 2008. Traffic volumes in the second quarter were down 26 percent compared to the second quarter of 2008. Due to this lower traffic volume, Norfolk Southern has stored equipment, including over 26,500 rail cars and 460 locomotives. Due to low traffic volumes, we have also idled two rail yards and had to reduce our employment levels.

We have not impaired service even while storing equipment and downsizing operations. In fact, our public service metrics that are provided to the Board have remained steady or improved, even after these actions. Therefore, we believe that Norfolk Southern is poised to play an important transportation role when freight volumes return.

I. Traffic Expectations for the 2009 Fall Peak

Based on our present understanding of various markets, Norfolk Southern outlines its views on business levels. But the weakness in traffic levels on Norfolk Southern have been seen in all major commodity groups thus far in 2009. Of course, market conditions could change and render our current views incorrect.

Looking first at coal, the decline in coal volumes is a result of weak metallurgical demand in U.S. and export markets, lower electricity demand, stockpiles at utilities being at or above target levels, and increased competition from natural gas.

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In intermodal, overall traffic is down, largely as a result of a net decrease in our international volume due to the soft economy and resulting import weakness and from excess truck capacity.

As for our merchandise business, all of our commodity groups have experienced year-over-year declines in volume through the second quarter.

Finally, automotive traffic has been weaker as automobile companies struggle with adverse market conditions.

Looking ahead at the rest of 2009, we do not see volumes increasing to a level that would create a true Fall Peak.

II. Operating and Capacity Efforts

With lower volumes, we have taken steps to "right-size" operations and our investment levels. But there are many factors outside our control that could affect our operations at any time.

Norfolk Southern's Thoroughbred Operating Plan, as well as the technology and people that support that plan, has been an effective tool for Norfolk Southern to re-examine its operations in light of current traffic levels. As a matter of routine we make periodic changes to the plan due to changes in business volume and shifts in traffic mix, and such changes have been made periodically during this economic downturn to size our operations to the volume trends and expectations.

Through this process, we have reduced the number of train starts on our system by about 23 percent since October 2008. Similarly, our yard assignments have decreased by more than 22 percent.

Importantly, our planning and careful consideration of adjustments to our network to balance our operations with the current traffic levels has not affected service levels as you can see from the metrics posted on the Board website.

In addition, Norfolk Southern continues to make sizeable, albeit reduced, investments to maintain and expand its infrastructure for the eventual economic recovery. Our investment budget for 2009 was originally \$1.412 billion, but has been reduced to \$1,301 billion in recognition of the continuing unfavorable economic environment. Of this amount, approximately 28 percent is for growth and 72 percent is for maintaining the existing network.

Norfolk Southern's current 2009 capital budget includes, among other things:

- o Investing in capacity by making capital roadway improvements. Norfolk Southern plans to spend \$675 million for rail, crosstie, ballast, and bridge programs.
- o Spending \$95 million on intermodal terminals and equipment, bulk transfer facilities, and mechanical repair and service facilities.
- o Making \$105 million in capital investments on locomotives and railcars.
- o Investing \$66 million in technology to enhance safety, improve operating efficiencies and equipment utilization, and automate and update planning and modeling tools.
- o Spending \$360 million on other infrastructure and other projects.

As always, our employees are a critical component of our overall capacity. That is why we have taken a measured approach in reducing our employment levels so that we are ready whenever traffic rebounds. Recently, we have brought back some employees who had been furloughed, and are ready to bring more back as traffic levels warrant. However, these recent difficult times just prove that the economics of our railroad, the economy, and the associated traffic levels largely determine how many people are required to run our operations. Norfolk Southern and its employees therefore share a mutual interest in a healthy economy and a healthy rail industry.

Norfolk Southern has only recently begun its 2010 capital budget process, so we are unable to report on those plans at this time.

We may make further adjustments as necessary during the remainder of the year to our operations, capital budget, and employment levels so that NS can take advantage of the economic recovery when it occurs.

III. Customer Communications

At Norfolk Southern, customer communication is what we do every day. It starts with our active sales and marketing team, who make calls and visits to customers and participate in shipper association meetings. In addition, our Central Yard Operations team serves as the primary contact point for day-to-day customer

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relations and receives and places thousands of calls each day for shipment pickup and delivery orders. Norfolk Southern's National Customer Service Center assists customers with information on shipment status and other information on active shipments. Information on active shipments is also available through Norfolk Southern's Voice Response shipment tracking system. AccessNS, which is a secure web-based system where customers can access detailed information on active shipments, pipelines, ETA information, shipment performance, and a number of other reports, is also a powerful customer communication tool.

In Norfolk Southern's letter last year, we noted the launch of Pacesetter, a web-based application which provides current and more detailed information about active shipments, customer pipelines, and ETAs, and the launch of optional, serviced-based demurrage, which gives customers extra demurrage credits when shipments arrive more than 24 hours earlier or later than originally scheduled. Today, over 54 percent of our customers are taking advantage of Pacesetter and, of those, 87 percent have opted for service-based demurrage.

Whether by phone, fax, email, or any of our web-based applications, customer communications are an important and ongoing part of our business.

IV. Selected Major Initiatives

Work on the Heartland Corridor project, which you will recall is a public-private partnership that will improve 28 tunnels in four states so that they are able to handle double-stacked intermodal trains, is now well underway. We are pleased that efforts thus far continue to go according to plan. Of course, any project of this size and scope can encounter minor disruptions, and we do expect to continue to encounter some delays along these rail lines that run through our primary Central Appalachian coal-hauling territory while we work on tunnel clearances. Nevertheless, we think the plans we formulated are minimizing the impact of this construction project.

Norfolk Southern recently announced the first three terminals to be built as part of our Crescent Corridor project. These new facilities, which will be constructed in Memphis, Tennessee; Birmingham, Alabama; and Greencastle, Pennsylvania, are vital links in the Crescent Corridor and will support growing intermodal opportunity within the Southeast and eastern seaboard. We expect construction of all these terminals to be complete by or in 2012.

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Early this year, Norfolk Southern opened a new intermodal terminal in Titusville, Florida, that will provide shippers of containers and trailers with improved access to central Florida. Norfolk Southern also has established a new, faster route for intermodal traffic between Chicago, Illinois, and Jacksonville and Miami, Florida, improving service by a full day.

Finally, Norfolk Southern and Pan Am Railways have launched a joint venture, recently approved by the Board, to create a new rail carrier. Pan Am Southern, and to infuse significant additional capital for infrastructure improvements along the Patriot Corridor. The bulk of the rail work anticipated by the transaction will be accomplished this year, and the infrastructure improvements will add significantly to the available rail capacity in upstate New York and New England.

VI. Regulatory and Legislative Landscape Could Disrupt Our Ability to Meet Rail Transportation Demands in the Future

As in past years, we remain concerned about discussions in Washington that could significantly affect railroads and infrastructure investment. As in prior years, calls to re-regulate the railroads remain very troubling. In addition, although railroads are generally subject to antitrust laws, there are efforts to subject railroads, in the few areas where the antitrust laws do not apply because railroads are heavily regulated by the Board, to two irreconcilable masters - the Board's regulatory regime and antitrust laws. Legislation in these areas could disrupt our ability to invest, the service we provide customers, or both.

In closing, we look forward to working with you during your tenure as Chairman of the Surface Transportation Board.

Sincerely,

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Charles W. Moorman

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