



500 Water Street
Jacksonville, Florida 32202
(904) 366-5210
(904) 359-1216 (Fax)

Michael J. Ward
Chairman, President
Chief Executive Officer

July 5, 2005

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

Re: CSX Transportation Inc. – Fall Peak Planning

Dear Chairman Nober:

This letter provides detailed information on the steps that CSX Transportation Inc. (“CSXT”) is taking to be responsive to the interests of our customers during the 2005 Fall Peak and beyond.

Demand

CSXT and other Class I railroads continue to see unprecedented growth in the demand for freight rail transportation. Our customers increasingly rely on CSXT in order to participate fully in the global economy.

Led by increases in intermodal and merchandise traffic, in the fourth quarter of 2003 alone CSXT experienced an overall volume growth rate of 5%. Again in 2004, CSXT experienced a 3% growth in volume, led by increases in coal, intermodal and merchandise shipments.

Our customers’ volume forecasts are key to our ability to see “over the horizon” and plan well in advance. Forecasting is a critical component of our business, as the lead times for hiring train and engine employees and for acquiring additional assets can range from 9 to 18 months or more.

We augment our customer forecasts with our own analysis of macro-economic forecasts, market-specific drivers and trend analysis in order to develop a complete picture of future demand. We are then able to model and project our network resource and expansion capital needs.

Robust demand for rail transportation has continued in 2005. Our most recent volume demand forecast for the second half of 2005 (which includes the fall peak), shows continued strong levels, especially in the coal, intermodal, and merchandise sectors.

CSX strategies for handling this increased volume involve both finding more effective ways to handle freight rail traffic, and increasing capacity with the addition of more train crews, equipment and infrastructure. Yet, investing in new capacity to meet growing demand remains extremely capital-intensive for Class I railroads. The industry, as is well documented, does not earn a positive return on the cost of capital investments.

CSXT's Performance

CSXT is better positioned to achieve its Fall Peak performance goals and meet customer expectations than it was at this time last year. In May and June 2005, CSXT had stronger performance metrics across a variety of key indicators than it did at this time in 2004.

System velocity is up this year from June 2004. Moreover, in 2004, system-wide velocity was dropping through the May-June period. This year, it has held steady, but we must and will improve. CSXT also has significantly fewer cars-on-line in May and June 2005 than it had online in June 2004, and the trend is positive. This year, cars-on-line has remained stable through the same monthly time period.

Dwell times reflect similar positive trends. Late June 2005 average dwell times were lower than in late June 2004. In 2004, dwell times lengthened through May and June. Over the same period this year, the trend has reversed and dwell times have improved. On-time originations have also improved dramatically, when compared with metrics of a year ago. Fifty-two percent more CSXT trains left on schedule in June 2005 than in June 2004.

CSXT's Action Plan

In order to meet growing customer demand during the Fall Peak and beyond, CSXT's operations personnel are focusing on six key initiatives to ensure that we serve our customers safely, reliably and efficiently. Those initiatives are:

- Improving fluidity on the CSXT route network by continuing to optimize the ONE Plan, our system-wide operating plan designed to simplify the operating network through reduced terminal handlings and more efficient routing of merchandise and automobile traffic;
- More-fully integrating our locomotive power plan into the ONE Plan in order to ensure that we have the locomotives in place to meet customer expectations;
- Renewing our focus on grade-crossing safety;
- Enhancing crew availability by focusing on extra boards, optimal crew balancing, and improved crew utilization;
- Optimizing our curfew plan to minimize its impact on train operations and the ONE Plan; and
- Instilling leadership and initiative among CSXT field managers in order to optimize operational effectiveness.

In addition to these six initiatives, CSXT continues to simplify its intermodal network in order to improve service and increase capacity in key lanes. Changes made in spring 2005 in the Midwest and Southeast are part of this ongoing effort, which began last summer with the Network Simplification Initiative that reduced sorting at our key intermodal hubs and improved service on core lanes. This summer, working with the western railroads, CSXT will implement a number of through-train improvements in Chicago, to reduce congestion and switching at this critical intermodal gateway.

Continued optimization of the ONE Plan will more efficiently move freight in CSXT's Merchandise and Automotive networks, creating capacity to handle additional demand. The Merchandise and Automotive networks consume a majority of the yard switching capacity and line capacity on the CSXT network. The ONE Plan is expected to free up terminal switching capacity and reduce car miles in order to deliver better performance across the network and customer base.

Capital and Capital-Related Improvements

In addition to the operational steps outlined above, CSXT is also undertaking a number of projects to improve its infrastructure. Those initiatives include improvements to our equipment, crews, facilities, and infrastructure. Some highlights are outlined below:

Equipment:

Cars. CSXT believes that the equipment inventory in its serviceable fleet will be sufficient to meet the demand that it anticipates during the Fall Peak. CSXT has, however, accelerated a number of car repair programs and expects continued improvement in its fallout ratio.

Locomotives. In the coming three to four months, CSXT will take delivery of 100 new locomotives. Through the Fall Peak, we will be maintaining our current level of lease units. In addition, we continue to take steps to maximize the utilization of CSXT's locomotive fleet.

Crews

CSXT continues to accelerate its efforts to recruit, hire, and train crews. Engineer training has doubled over 2004 levels. CSXT expects to have trained 1350 train and engine service employees by the start of this year's Fall Peak.

In February 2005, CSXT opened a state of the art 'Railroad Educational & Development Institute' in Atlanta, Georgia. This multi-million dollar facility has already significantly enhanced consistency in a centralized training experience for CSXT employees. The facility currently handles training for all new CSXT yardmasters and conductors. Starting this month, all new CSXT engineers will also attend this facility.

Facilities & Infrastructure

In the second half of 2005 CSXT will be completing significant investments in its St. Louis Gateway and connecting routes. These investments will make it easier for CSXT to satisfy the demand of its utility customers for western coal. This improvement is just one of a series of investments scheduled to facilitate the more efficient movement of western coal to CSXT's rail system.

To prepare for long-term growth in customer demand, CSXT is currently undertaking a comprehensive analysis and simulation along key corridors where it believes future capacity

improvements may be required in order to handle a sustained increase in freight traffic. As those plans are finalized, CSXT will communicate more detail including anticipated timeframes for completion.

In addition to CSXT's efforts to address capacity-related infrastructure needs, CSXT and other Class I Railroads continue to work together on initiatives like CREATE in Chicago and similar initiatives in other cities such as New Orleans.

As demand for rail transportation has increased, the Chicago area has had to accommodate growing traffic volumes. In addition to railroad specific investments in terminals and line capacity, the industry has recognized the need for greater combined investment. Established in 2003 CREATE seeks a public-private partnership solution to this growing investment need.

It Starts With the Customer

CSXT prides itself on its customer focus. In fact, "It Starts With the Customer" is one of CSX's Core Values. We communicate to our customers on a regular and ongoing basis in several different ways. Those communications include day-to-day communications, customer meetings, customer forums, websites & electronic tools, and others.

As mentioned earlier, sustained dialogue with our customers is a critical element of CSXT's volume forecasting. As we progress through 2005, including the Fall Peak, we will communicate our continued plans for serving our customers through these same means, as well as at our Annual Customer Meeting scheduled for September 21st in St. Louis.

As with CSXT's forecasting process, customers can help impact service performance as well. Some of the ways customers can help include:

- Providing timely and accurate car orders;
- Submitting timely and electronic Bills of Lading;
- Submitting electronic work instructions;
- Using CSXT based tools to track shipment status; and
- Calling 1-800-ShipCSX for problem resolution.

CSXT's Customer Service Center team will continue to advance efforts to increase the quality of our communications, and improve our data quality and timeliness. CSXT's recent web-based customer tool improvements provide customers with service plan and performance information as well. Recent improvements in local switching performance have been impacted by Customer Service Center monitoring and problem resolution efforts.

In closing, I appreciate the opportunity to respond to your letter, and outline some of the steps CSXT has taken and continues to take to improve performance for the Fall Peak, and beyond. I look forward to keeping you abreast of positive trends at CSXT, and working with the STB and the other Class I railroads to address common challenges – such as the need for adequate return on investment – that impact performance, regardless of carrier.

If you have any questions about the items included in this letter, please do not hesitate to contact me.

Sincerely,

Michael Ward

Cc: The Honorable W. Douglas Buttrey
The Honorable Francis Mulvey
Mr. Edward R. Hamberger