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August 31, 2009

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

Re: Railroad Service Demands – CSX Transportation, Inc. Fall Peak Planning

Dear Chairman Elliott:

This letter provides detailed information on the steps that CSX Transportation, Inc. (“CSXT”) is taking to prepare for the anticipated demand in the fall of 2009 and beyond.

As the Board is well aware, today’s economic climate presents a challenging environment for CSXT and the rail industry. There is no denying that the global recession and downturn in traffic volumes will present substantially reduced demand compared to years past.

Demand

While the economy continues to challenge the industry, CSXT remains optimistic about the ability of our industry to deliver value to our customers and the national economy. CSXT continues to invest for the future, even in current conditions. Specifically, CSXT plans to spend \$1.6 billion in capital spending this year, and \$1.0 billion of this investment will go directly into track and signal infrastructure.

As you well know, rail is the safest, most secure, most environmentally friendly mode of transportation and investing in the future is critical to meet the transportation needs of tomorrow. The U.S. population is growing, and over the next 25 years there will be a dramatic increase in freight rail traffic. CSXT’s top priority is, and must continue to be, to meet expected long-term demand. CSXT must act prudently to position itself for this future growth and rely upon the assumption that sound, balanced regulatory policies will ensure the continued ability to build and maintain the system.

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On an ongoing basis, CSXT communicates with its customers to forecast their future traffic demand. Customer volume forecasts, combined with the company's own monitoring of market and economic conditions, are critical in planning for resources, operations, and capacity investment.

Safety and Service

Safety

Safety remains the top priority of our company, with all departments relentless in their focus on prevention of injuries to employees and the public and train accidents. FRA personal injuries are down 10 percent versus 2008 for the first seven months of the year. Our transportation team continues to be the safest transportation department of all the major Class I railroads. FRA train accidents have declined by 20 percent versus 2008. Human factor train accidents are down an impressive 30 percent, while our track-caused accidents are down 29 percent. Even with the significant downturn in business, CSXT will install a record 3.2 million ties in our continued effort to improve the quality and safety of our rail structure.

Service

The economy has affected CSXT's business, as it has all Class I railroads. CSXT's most recent volume forecasts for the second half of 2009 (including the fall season), show a decline in traffic levels versus same period 2008, especially in automotive. However, the decline seems to be slowing, and CSXT is taking decisive actions to meet these challenges in both the short and long-term.

An important element in reliable rail service is forecasting future market demand. CSXT continues to improve its forecasting to ensure that adequate resources are available, both in the short term and longer range. The company regularly consults its customers to determine anticipated traffic on key corridors.

Although CSXT's carload traffic is down about 20 percent, we continue to plan for long-term demand. This 20 percent drop in carload traffic year over year has created both challenges and opportunities for service improvement. We aggressively reduced train service early in the year, including reducing days of week local service, in order to "right size" the network to the realities of the economy. This aggressive action has allowed us to maintain our capital spending programs close to prior year levels, even during this unprecedented period of declining traffic.

Due to a combination of reduced transportation demands, operational management initiatives, and unabated improvements to CSXT infrastructure, service measurements in 2009 are strong. In 2009, we are providing our customers a very high level of service reliability.

Velocity: Train speed for the year is 21.7 mph, significantly faster than 2007 or 2008. The two previous years both had a year-to-date number of 20.4 mph. The 1.3 mph difference translates favorably to reduced demands for crew and locomotive resources.

Dwell: Due to efficiencies in our yards as train service is reduced, yard dwell has not been affected as adversely as one might logically expect. The year-to-date number of 24.1 hours indicates our cars are spending less than one additional hour in the yard. (Last year's comparable number at this point was 23.2 hours). This is in spite of a reduction in the number of days per week many of our trains now run, and a robust program of system shutdowns for holidays. For example, unlike in the past, CSXT curtailed service for the Memorial Day holiday this year. This created a spike in yard dwell and impacts year-to-date measurements. It is important to keep in mind that CSXT does not suspend or adjust measurements when these spikes occur. All data are included and reported.

Cars On Line: Since mid-2008, there has been a reduction in cars on North American Class I railroads. CSXT has kept pace with the reductions, and in addition has placed approximately 30,000 of the on-line cars into storage.

A review of service measurements indicates CSXT is well positioned to absorb seasonal changes in demand, or in general business upturns.

Capital Related Items

CSXT continues to invest for the future, even in the current economy. The industry, as is well documented, does not earn a return equal to its cost of capital. As mentioned earlier, CSXT is on track to spend in excess of \$1.6 billion on capital projects in 2009, with nearly \$1.0 billion spent on roadway and signals improvements. Although the current economic conditions are a concern, CSXT remains bullish on our industry and the rail renaissance.

The National Gateway project initiative is an \$800 million public/private partnership to create a more efficient service between the Mid-Atlantic ports and the Midwest. Once the planned doublestack clearances and terminals are in place, CSXT will be well positioned to take even more trucks off the public highways, relieving pollution and congestion. In 2009, Evansville Western Railway, a CSX affiliate, began construction for a new \$175 million intermodal facility in North Baltimore, Ohio, a critical cornerstone of the project. This state-of-the-art terminal will complement other terminals being constructed or expanded as part of this initiative in Pennsylvania, Maryland, Virginia, and North Carolina. In Ohio alone, the National Gateway will bring new economic opportunities that will help deliver nearly \$700 million in public benefits by shifting freight from 2.2 million trucks from the highway to rail, reducing emissions by nearly 1.5 million tons, and creating more than 20,000 jobs.

CSXT continues to work aggressively to further improve operating performance and customer service, increase asset utilization, and reduce operating costs.

Resources

With the significant downturn in business and the economy, resources will not be an issue during fall peak or for any uptick in business in the near term. CSXT has been averaging 600-700 serviceable locomotives in storage on a daily basis. Even with the anticipated fallout of over 3,000 cars from CSXT's fleet, we have been storing on average 30,000+ cars, or nearly one-third of our fleet, throughout the year.

Employees

Similarly we have been "right sizing" our train and engine employee base throughout the year in accordance with train demand, attrition, and vacations. Unfortunately, we have significant numbers of employees in furlough status right now. We recently started to implement furlough boards to ease the transition back to full-time status, improve crew availability, and provide economic benefits to our employees earlier than traditionally done. CSXT is taking these actions to ensure sustainability over the long term. The availability of furloughed employees will allow CSXT to easily support any increase in demand in the fall. It is our hope to bring many of our employees back as business conditions improve.

Customer Focus

CSXT is in the business to serve customers. "It Starts With the Customer" is at the heart of the company's core values. Efficient, reliable service enables growth. By anticipating and meeting customers' needs and making it easier for them to conduct business with the company, CSXT retains and expands its customer base. Service innovations, streamlined operations, and prudent capital investment have positioned the company to achieve long-term growth from the global economy.

CSXT communicates to its customers on a regular basis through its many Sales & Marketing, Customer Service, and Operations professionals. Communication also occurs in customer forums, including the company's annual Feeder Line Conference, and through websites and other electronic tools. The website, www.csx.com, provides information about service plans and maintenance curfews, and also features shipment status tracking. CSXT's Customer Service Center team can be reached at 1-800-ShipCSX for questions and problem resolution. Company representatives will continue to communicate our plans for serving customers throughout 2009.

Threats to the U.S. Rails

With CSXT operating safely, more reliably and efficiently, the railroad is well positioned to meet demand during the fall of 2009. Yet, in the not too distant future, it is conceivable that the outlook for CSXT and the entire industry will be very different. It would be irresponsible for us to comment on planning and investment to meet customer and national needs without discussing two serious threats to our ability to do that over the long term.

“Massive Reprogramming” of Rail Capital

About six weeks ago the FRA promulgated regulations on positive train control systems (PTC). The FRA said in the Notice, point blank, that PTC will require a “massive reprogramming of capital funds.” If that happens, there could be serious implications for the U.S. rail industry. There can be no doubt that U.S. railroads would have to delay capacity and service investments to offset some of the substantial cost burdens of PTC.

Under those circumstances, and with FRA’s own analysis estimating \$13.85 billion of costs over the next two decades, the government must act to help mitigate this cost through grants, tax incentives, and flexibility in PTC implementation. Otherwise, CSXT and every other railroad subject to the requirements will have to make difficult tradeoffs and “reprogram” capital investment. This will have serious consequences on investments to improve safety, service, capacity, infrastructure, and reliability.

Unbalanced Economic Regulation

Also threatening to the health of U.S. rails are the extreme calls to fundamentally change the current balanced economic regulation of U.S. railroads. If those calls are heeded, the outcome will be limits on profitability and increased uncertainty for U.S. freight rails. Doing what is being asked by these groups is the very essence of “short-termism.” The long term consequences will be real and damaging to the U.S. transportation infrastructure.

Significant investment in the safe, green assets of the rail industry, especially in constrained credit environments, would be untenable. Healthy earnings, with some level of predictability for investors, are essential for rails to remain healthy, much less grow. If ill-considered policies drive down railroad earnings and introduce even more uncertainty, investment will stall – just when the need for U.S. infrastructure investment is clear.

The goal of policymakers and industry, collectively, should be a sound transportation policy that meets the needs of industry to ensure safe, efficient, and reliable rail transportation service over

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the long-term. I urge the Board to consider these important issues as you review responses from CSXT and the other Class I railroads. As always, CSXT will continue to work productively with our customers, the industry, and the STB.

Very truly yours,



Michael J. Ward

cc: Mr. Edward R. Hamberger
President and CEO
Association of American Railroads

The Honorable Charles D. Nottingham
Vice Chairman
Surface Transportation Board

The Honorable Francis P. Mulvey
Commissioner
Surface Transportation Board