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

June 29, 2012

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 on June 8, 2012, regarding end-of-year business demands.

For the first quarter of 2012, traffic levels were up 1 percent over the first quarter of the previous year. Improved economic conditions and new business projects helped generate continued growth in NS's general merchandise and intermodal traffic volumes, which more than offset declines in our coal traffic.

Productivity improvements in labor, equipment rents, and fuel consumption have resulted in increased system average train speeds and decreased terminal dwell. Given the current direction of the economy, Norfolk Southern is confident about meeting our customer's transportation demands for the remainder of the year.

#### **I. Traffic Expectations for the Remainder of 2012**

Based on our present understanding of various markets, Norfolk Southern outlines its views on business levels below. Of course, market conditions could change in a manner that might render those views incorrect.

Looking first at coal, utility coal volumes continue to be negatively impacted due to high stockpiles caused by a mild winter and competition from natural gas. The export market remains relatively strong due to new steam coal opportunities and continuing demand for world met coal primarily in Asia. We also see continued strength within the domestic metallurgical market due to increased domestic demand for steel in the automotive industry.

In intermodal, NS continues to see increasing opportunities for highway conversion amidst tightening truck capacity. Meanwhile, favorable international trade patterns favor increased international intermodal volume.

As for our merchandise business, our Metals and Construction and Automotive businesses continue to see steady volume due to stronger production and new business gains. NS projects growth in crude oil and waste product shipments as well as an increasing demand for materials in natural gas drilling operations. Through the first two months of the second quarter, volumes have grown slightly, increases in all commodity groups except for coal. We are hopeful that traffic will remain solid for the rest of 2012.

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

Our steady focus on productivity improvements has positively affected our ability to handle traffic. In our intermodal business, infrastructure and load planning improvements have allowed us to double stack more units, resulting in increases in capacity with marginal increases in crew starts. We continue to invest in our intermodal and automotive terminals to meet traffic demands in those businesses. NS also works with its customers to develop capacity to handle demand. By way of illustration, NS is working with shippers and receivers of various bulk commodities to develop unit-train infrastructure at origins and destinations to accommodate unit trains. For single car shippers, we are enhancing our operations at major classification terminals. Our significant investment in Bellevue, Ohio essentially doubles the size of that terminal to provide faster and more consistent service.

These types of infrastructure improvements coupled with our technology initiatives, such as the Unified Train Control System, Remote Intelligent Terminal and LEADER, have allowed us to optimize our network resulting in reduced train and engine service overtime, reduced re-crews, lower equipment rents, fewer locomotives in service and reduced fuel consumption. A more efficient operating plan yields service improvements that improve asset utilization across our system. For example, service improvements in our automotive network this year have increased dramatically the overall velocity of the railcars in the National Multilevel Reload Pool, an industry equipment pool in which NS participates.

Additionally, NS manages its resources to accommodate demand. Employment levels were up in 2011 and we expect employment levels in 2012 to be higher than 2011. We continue to invest in our fleet to support business demands. Our 2012 planned equipment purchases include new and rebuilt locomotives, coal cars, intermodal containers and chassis, and multilevel automobile racks. Locomotive spending planned for 2012 includes the purchase of 35 new units, as well as continued investment in alternative power programs. Such investment in equipment ensures NS' ability to modify its operating plans to handle our customers' business.

In addition to adjusting resources and our operating plan to accommodate our volume outlook, NS is working with other rail carriers to address congestion points on its system. NS and other parent carriers of the Indiana Harbor Belt Railroad took action that resulted in the construction by the IHB of additional track to better handle multilevel traffic in Chicago. Additionally, through the Class I railroads' Chicago Planning Group and its Chicago Terminal Coordination Office, NS continues work to coordinate the implementation of procedures to mitigate congestion in the Chicago area. The CTCO is now fully staffed with representatives from all of the major Class I railroads operating in the Chicago area.

Finally, Norfolk Southern continues to make sizeable investments to maintain and expand its infrastructure for the demands of the business. Our capital budget for 2012 is \$2.420 billion, which is a record level of investment for NS, of which approximately 23 percent is for growth, 10 percent is for Positive Train Control implementation, and 67 percent is for maintaining the existing network. Norfolk Southern's 2012 capital budget includes, among other things:

- Investing in capacity by making capital roadway improvements. Norfolk Southern plans to spend \$840 million for rail, crosstie, ballast, and bridge programs.
- Making \$588 million in capital investments on locomotives and railcars.
- Spending \$322 million on intermodal terminals and equipment, industrial products facilities, Crescent Corridor facilities, and mechanical repair and service facilities.
- Spending \$247 million on the development and implementation of Positive Train Control.

- Spending \$134 million on infrastructure for various public-private partnership investments and network improvements for coal and merchandise traffic.
- Investing \$92 million in technology to enhance safety, service, improve operating efficiencies and equipment utilization.
- Spending \$197 million on other projects.

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

### **III. Corridor Projects and Other Initiatives**

We continue to invest to support our corridor strategy. Construction of new intermodal terminals in Memphis, Tennessee, Greencastle, Pennsylvania, Birmingham, Alabama and Charlotte, North Carolina, are all currently underway. Work on the first three terminals should be complete by Fall 2012 and we should complete the Charlotte terminal in Fall 2013. Also, major expansions to two existing intermodal terminals in the Harrisburg, Pennsylvania region are expected to be completed in 2013 and 2014. Upon completion, these projects combined will provide annual volume capability of approximately 600,000 annual lifts.

Currently, the Crescent Corridor has received or expects to receive approximately \$267 million in public capital funding commitments from the Commonwealths of Pennsylvania and Virginia, the state of Tennessee, the federal TIGER Stimulus Program and other federal funding sources related to projects in Alabama, Pennsylvania, Tennessee, and North Carolina where there are substantial public benefits to be attained. We currently estimate spending up to approximately \$350 million for the substantial completion of work on these projects which is expected in 2014, including planned 2012 capital expenditures of approximately \$130 million.

NS continues its participation in the CREATE project, a public-private partnership to reduce rail and highway congestion and add freight and passenger capacity in the metropolitan Chicago area. NS and its CREATE partners are currently implementing the Englewood flyover project, which is a critical project to Phase I of the CREATE program.

Just recently, we learned that the State of Illinois was awarded additional federal funding under the TIGER IV program, which grant will complete a \$370 million funding package of 15 local projects in the CREATE program.

In January 2012, Pan Am Southern LLC, a joint venture between NS and Pan Am Railways Inc. (PAS), opened a new intermodal facility serving NS in Mechanicville, New York, providing NS with additional, more efficient capacity in the Northeast. PAS plans to begin operations at the adjacent automotive facility in the summer of 2012. The addition of this facility has improved NS's service performance in these businesses in the Northeast and its completion will further improve service performance.

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

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. Accordingly, NS's focus is on freight rail transportation as we compete more broadly in the freight transportation market.

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 passengers, railroad employees, and the community 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) after any capital improvements have been constructed, passenger operations should 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 79 mph must operate on separate tracks from freight trains.

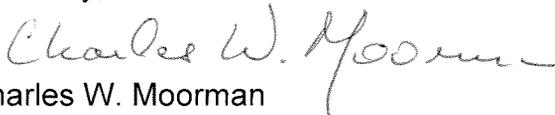
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We continue to work with the states and the Federal government to progress passenger rail service projects and acknowledge that increased freight volume affects passenger rail service performance given the existing infrastructure. NS has actively supported the extension of the Charlotte Area Transit System (CATS) light rail Blue Line. As a result of a multiyear joint planning process, agreements key to the Federal Transit Authority funding application were signed between CATS and NS in May. NS has worked diligently with North Carolina Railroad, North Carolina DOT, Illinois DOT, Michigan DOT, Amtrak and the Federal Railroad Administration to implement planned infrastructure improvements that will contribute to passenger rail performance over the NS system. Of particular note is the fact that NS and Michigan obtained STB approval for the purchase and sale of NS' line of railroad between Dearborn and Kalamazoo, Michigan, which will pave the way to the introduction of high-speed passenger rail service along this portion of the Detroit – Chicago route. NS anticipates that this transaction will close on a timely basis.

#### **V. CONCLUSION**

Thank you for your inquiry. We look forward to continued growth through the remainder of 2012 and beyond.

Sincerely,

  
Charles W. Moorman

cc: The Honorable Francis P. Mulvey, Vice Chairman  
The Honorable Ann D. Begeman, Commissioner