



EP 705 - Competition

Norfolk Southern Railway Company

June 23, 2011

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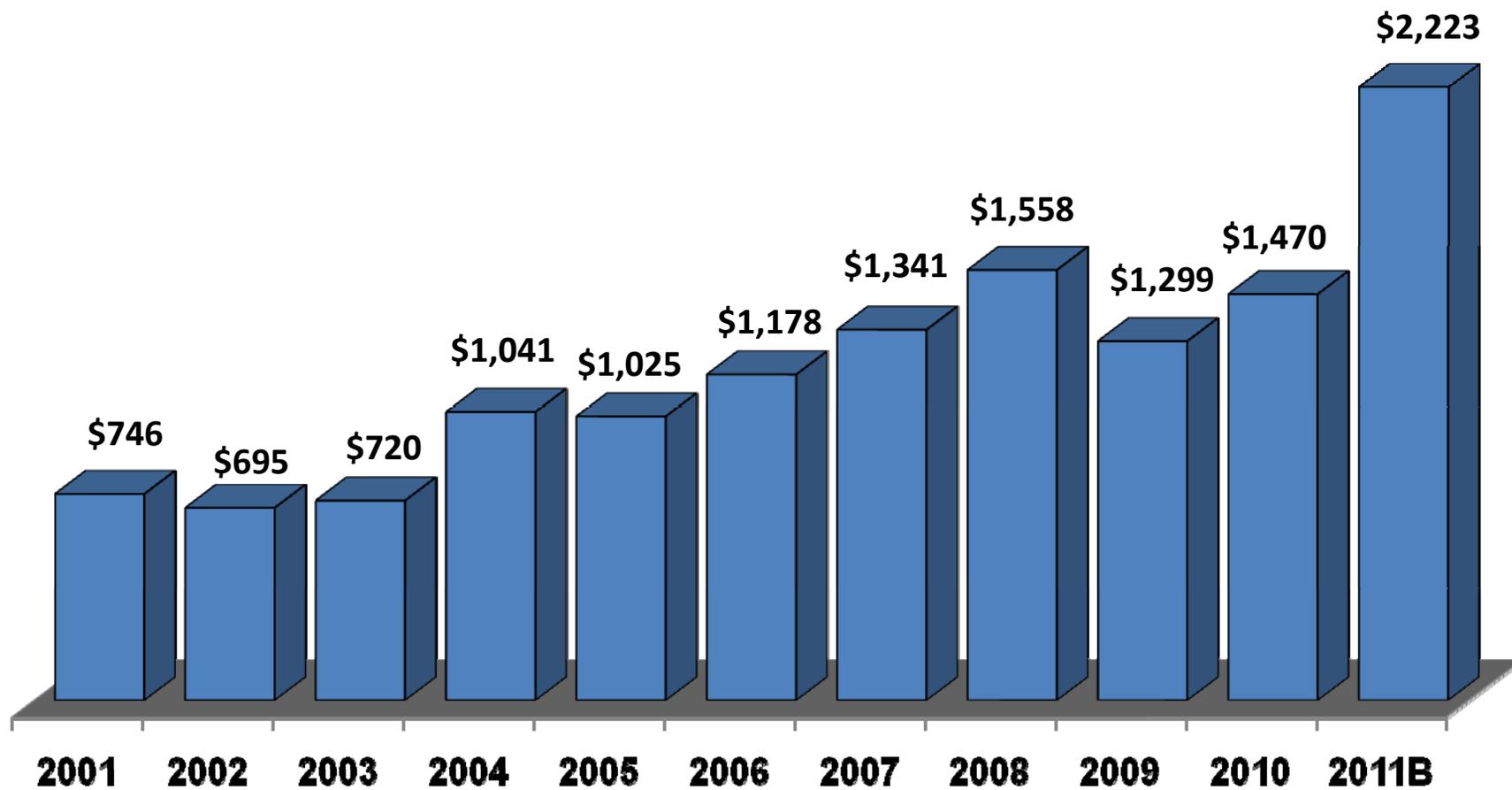


Record Investment and Innovation

- NS' projected investment in cap ex in 2011 is at a record level.
- NS is developing new technologies to improve service, efficiency, and the environmental benefits of rail.

NS Capital Expenditures

(\$ millions)



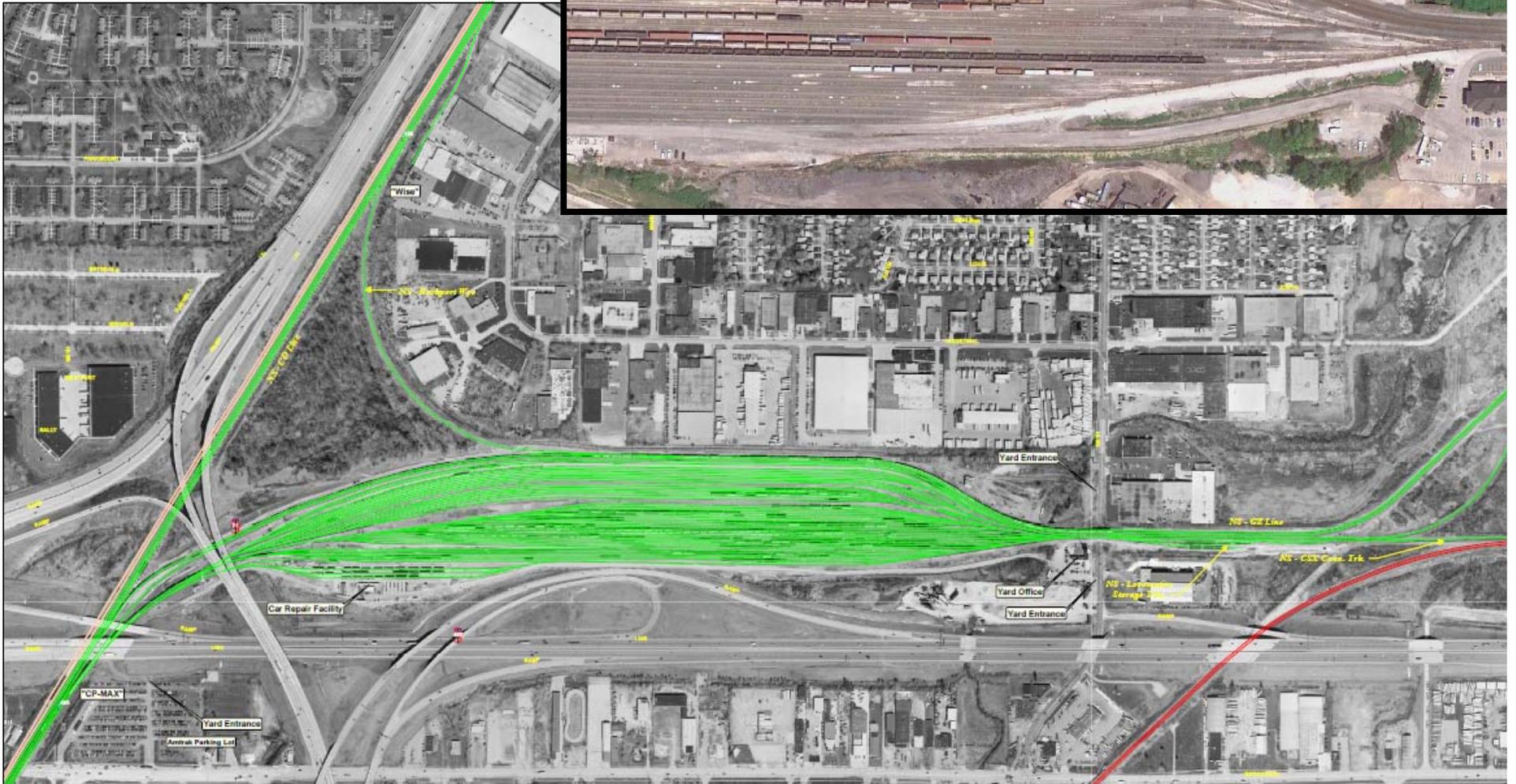
NS Innovations

- Operating Plan Developer (OPD)
- LEADER (a fuel efficiency technology)
- Unified Train Control System (UTCS)
 - 15 years in making
 - NS is only railroad in world pursuing
- Top of Rail Friction Modification
- Remote Control Locomotives
- Wayside Detection Systems
- Remote Intelligent Terminals (RIT)
- Wireless Event Recorder

Contrasting Interchanges



Rockport Yard



Efficient Interchange



- High capacity
- Secure

- Efficient because:
 - Sufficient infrastructure
 - Cars switched onto outbound trains in yard



Marion, Ohio Interchange Track



NS NORFOLK
SOUTHERN

One line, infinite possibilities.

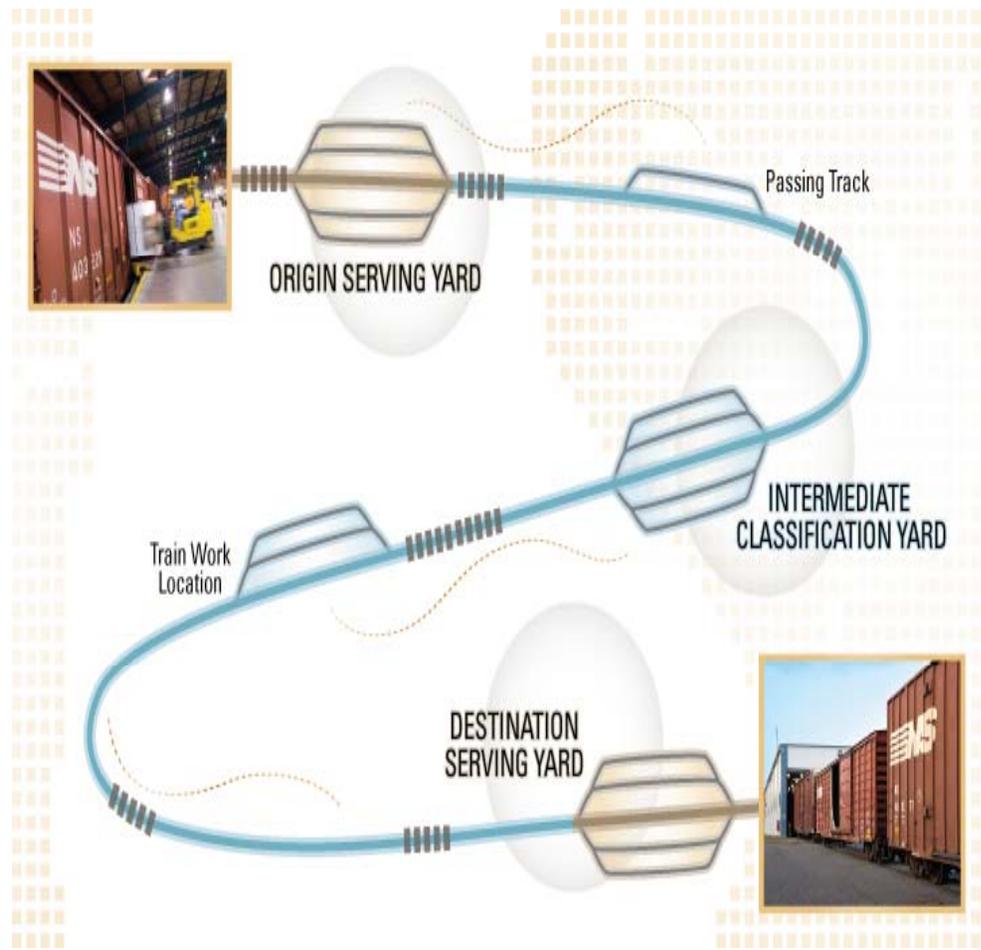


Inefficient Interchange

- Low capacity (35 cars max.)
- Little infrastructure
- Non-secure
- Cars must be picked-up and moved to Columbus to be classified
- Extra handlings

Harm to Rail Operations

- Upset the balance needed to serve all customers or various commodities and needs.
- Inject extra complexity in operations.
 - Extra handlings
 - Extra interchanges
- Undermine asset (crews, locomotives, cars, and track capacity) allocation and utilization.
- Inefficient or operationally-unjustified routings

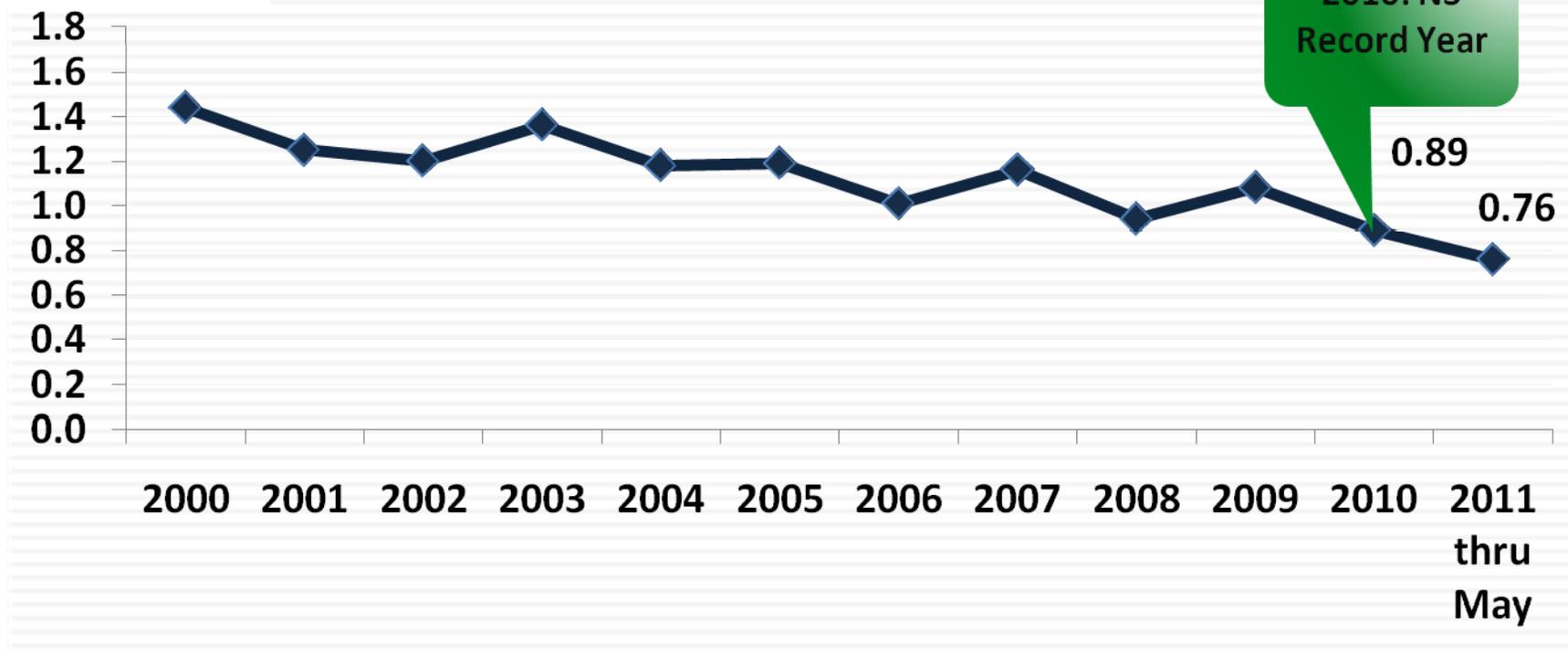


Don't Jeopardize Safety



NS Earns 22nd Consecutive
Harriman Gold Medal in 2010

Injury Ratio per 200,000 Employee Hours



NS Written Submissions

- Substantial legal hurdles exist.
- Many rail customers are rightfully concerned about the effects of regulatory changes. They know that changes to benefit the pecuniary interests of some shippers will adversely affect all rail customers.
- For that subset of customers which seeks forced access or forced interchange, it is really all about rates.

Statements Do Not Withstand Scrutiny

- Allegations are not factually supported by commenters.
- Statements are undercut by facts about:
 - Exports
 - Chemical industry

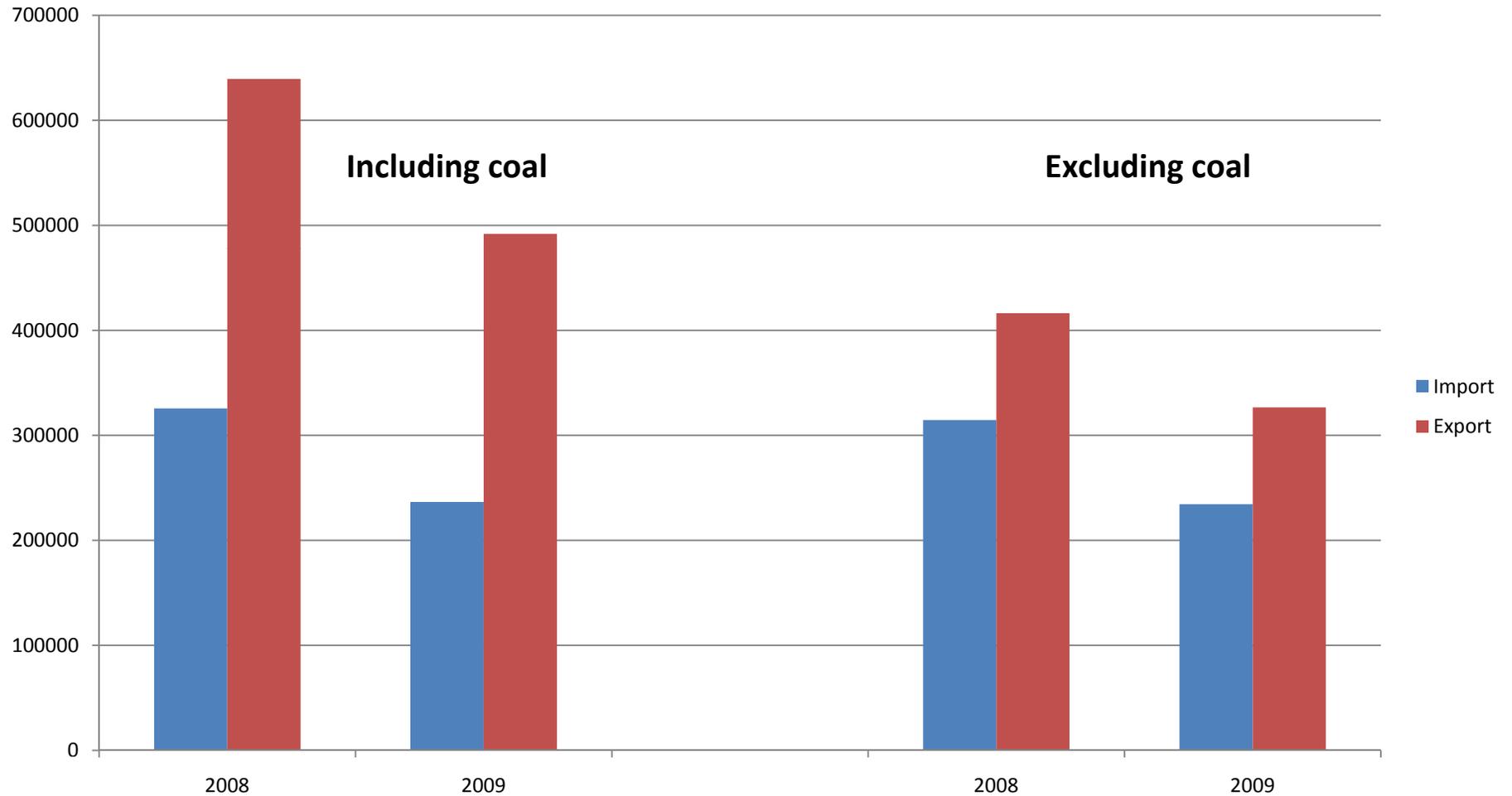
U.S. Exports

[millions of dollars] U.S. Bureau of Economic Analysis, last updated May 2011



NS NORFOLK SOUTHERN
One line, infinite possibilities.

NS Import/Export Traffic (in carloads)



Railroads Not Harming Chemical Industry

- Natural gas is what the chemical industry tells everyone -- except the STB -- drives the industry.
- In 2005, the American Chemistry Council testified before Congress that “higher natural gas prices shift chemical industry investment overseas.”

Chemicals Driven By Fuel Prices

- “U.S. natural gas markets have seen a dynamic shift over the past five years as a result of increased capacity to extract natural gas from organic shale deposits. Reserves have risen by one-third, resulting in lower prices and greater availability of ethane, a feedstock material derived from natural gas that is the basis for hundreds of manufactured products. **This low price for natural gas compared to oil has enabled U.S. chemicals manufacturers to become more competitive than producers in much of the rest of the world. ‘Shale gas extraction has been a ‘game changer’ for America's chemical manufacturers, enabling us to remain highly competitive in a global market,’** Dooley [ACC President] said.”
- Link on ACC web page to press release was removed subsequently. Nevertheless, it is available at <http://www.prnewswire.com/news-releases/economic-outlook-for-us-chemistry-industry-improving-accs-year-end-report-reveals-111264279.html>

April 21, 2011 08:30 AM Eastern Daylight Time

Dow Announces Plans to Fully Integrate and Grow North American Performance Businesses with Shale Gas Liquids



MIDLAND, Mich.--(BUSINESS WIRE)--The Dow Chemical Company (NYSE: DOW) today announced comprehensive plans to increase the Company's ethylene and propylene production -- and to integrate its U.S. operations into feedstock opportunities available from increasing supplies of U.S. shale gas in the Marcellus and Eagle Ford shale regions.

"The improved outlook for U.S. natural gas supply from shale brings the prospect of competitively priced ethane and propane feedstocks to Dow -- and the promise of new manufacturing jobs to America," said Jim Fitterling, Dow executive vice president and president of Corporate Development & Hydrocarbons. "Our plan is to further integrate Dow's businesses with the advantaged feedstocks, based on shale gas deposits and long-term ethane and propane supply agreements. These actions will strengthen the competitiveness of our Performance Plastics, Performance Products and Advanced Materials businesses, for example the Elastomers product family and the full Acrylates chain, as we continue to capture growth in the Americas."

Dow Increases Ethylene Supply and Ethane Cracking Capabilities in U.S. Gulf Coast

Dow is currently finalizing plans to increase the Company's ethylene supply and increase its ethane cracking capabilities at existing U.S. Gulf Coast facilities by:

- Re-starting an ethylene cracker at the Company's St. Charles Operations site near Hahnville, LA by the end of 2012;
- Improving ethane feedstock flexibility for an ethylene cracker at the Company's Louisiana Operations site in Plaquemine, LA in 2014;
- Increasing ethane feedstock flexibility for an ethylene cracker at the Dow Texas Operations site in 2016;
- Constructing a new, world-scale ethylene production plant in the U.S. Gulf Coast, for start-up in 2017.

Dow Increases Propylene Supply

Dow is currently finalizing plans to increase the Company's propylene supply by:

- Constructing a new, world-scale, on-purpose propylene production facility at Dow Texas Operations, for start-up in 2015;
- Exploring an option to commercialize its own technology to produce propylene from propane, with the potential start-up of a new production unit in 2018.

Dow Pursues Additional Feedstocks from the Eagle Ford and Marcellus Shale Regions

Dow plans to supply the required ethane and propane for these projects through a variety of supply arrangements, including: a possible joint venture fractionator in Texas, supply from existing fractionators, supply from future new fractionators to be built within the industry, and potential supply deals from various shale gas opportunities such as the Eagle Ford and Marcellus shale regions. Dow has signed ethane and propane supply contracts based on the Eagle Ford shale gas and is pursuing several more agreements from this area.

In addition, Dow has signed a Memorandum of Understanding (MOU) with a wholly-owned subsidiary of Range Resource Corporation (NYSE: RRC), stating plans to enter into a long-term supply agreement for the delivery of ethane from the Marcellus Region in southwest Pennsylvania to Dow's existing operations in Louisiana.

"As the largest consumer of propylene in North America, Dow has a unique opportunity to invest aggressively for on-purpose propylene production from propane. Additionally, Dow is the largest producer of ethylene in North America, which provides capabilities to increase our use of ethane in existing ethylene production units -- and to grow," Fitterling said. "All of these investments, combined with Dow's planned agreement with Range Resources, will dramatically increase our capability to consume ethane, while maintaining our industry-leading feedstock flexibility."



STB EP 705

ORAL ARGUMENT TESTIMONY

Mark Manion:

[Slide 1 - Cover page]

Good morning Commissioners. On behalf of Norfolk Southern Railway, I am Mark Manion, Executive Vice President and Chief Operating Officer. With me today is Jim Hixon, Executive Vice President – Law and Corporate Relations.

Two major points Norfolk Southern has made in this proceeding are (1) that any policy change would undermine past rail investment in infrastructure, future investment in infrastructure, innovation, and the economic benefits of rail throughout the U.S. and (2) that proposals such as forced access and forced interchange would adversely affect the rail network, rail operations, and accordingly the shipping community generally.

[Slide 2 – “Record Investment and Innovation”]

First, the Board should take care not to undermine the substantial investments railroads like Norfolk Southern have made to this Nation’s rail infrastructure and the innovation that is underway. It has been widely documented that there is a crisis in transportation infrastructure looming. Railroads, however, are private companies spending their private dollars to make sure that efficient and safe rail transportation remains a competitive advantage for the United States.

[Slide 3 – “NS Capital Expenditures”]

Norfolk Southern itself has invested billions of dollars over the last ten years.

The uncertainty in traffic flows that forced access and forced interchange would create would make investment more problematic and harder to

justify. The ability for customers to shift traffic would make it difficult to predict whether a particular investment could be justified.

[Slide 4 –“NS Innovations”]

In addition, Norfolk Southern is developing or implementing numerous innovations to improve its service so that it can compete even more aggressively against other railroads and other modes of transportation in the surface transportation marketplace.

As an example, Unified Train Control System is analogous to an air traffic control system on steroids. Whereas an air traffic control system allows a controller to coordinate and manage plane movements, UTCS safely and efficiently coordinates train movements and maintenance work into a dispatch system. It allows dispatchers to see trains well in advance of their arrival in the dispatcher’s territory. But UTCS does more than an air traffic control system because it prioritizes trains and determines the optimal place for them to meet and pass each other. Norfolk Southern is the only railroad in the world pursuing movement planning at this level of sophistication.

Importantly, UTCS is only as good as the information it is provided, including infrastructure, resource capabilities, operating objectives, operating plan, One of the critical pieces of information it must be provided are train flows. Because forced access or forced interchange removes predictability in rail movements by allowing shippers to alter movements on a whim, one of the key UTCS inputs – that being the operating plan – would be undermined.

Second, forced access and forced interchange would generate serious adverse network effects.

Running a massive network is incredibly complex, with multiple types of traffic – such as intermodal, coal trains, grain and others -- using the same set of limited resources. Norfolk Southern’s rail operations are designed both to meet customer needs and to function efficiently. We must meet the different needs of different customers.

To be able to hone operations to get the most out of our resources, Norfolk Southern must be able to make reliable predictions about its future operating patterns. We go to great efforts to look into the future and predict traffic flows to plan our resources. Forced access and forced interchange would undermine our ability to plan ahead and adequately place resources where they will be needed.

Operating Plan Developer is a technological tool that allows us to plan the movement of each of the more than 170,000 rail cars currently on the Norfolk Southern system. It uses algorithms to evaluate a host of variables – such as the least handling, the fewest crew districts, and shortest distance – to determine the most efficient and safest route for each of the cars, blocks of same-destination cars, and trains. If the shortest route has curves or speed restrictions it takes that into account and finds the most efficient route even if it is longer in distance. Forced access and forced interchange proposals would nullify the decades of effort Norfolk Southern has put into streamlining its network.

Forced access would create operational problems with two railroads operating on the same infrastructure, would increase the number of locomotives and cars needed, and would create crew qualification issues.

[Slide 5 – “Contrasting Interchanges”]

Similarly, forced interchange would create operational problems by altering traffic flows inefficiently. Compare two interchanges – one in Cleveland and the other in Marion. Here you are looking at an efficient interchange at Cleveland and an inefficient interchange at Marion.

[Slide 6 – “Cleveland, Ohio”]

Rockport Yard in Cleveland is on the lower left and is an interchange point between Norfolk Southern and CSX.

[Slide 7 – “Rockport Yard”]

That yard has ample capacity to interchange hundreds of cars.

[Slide 8 – “Efficient Interchange”]

It is secure and is very efficient. Importantly, cars received are immediately classified in the yard and forwarded on outbound trains. As you can see, there has been substantial investment in infrastructure at this facility.

[Slide 9 – “Marion Ohio Interchange Track”]

The interchange in Marion, on the other hand, is a single track. There is little infrastructure in place.

[Slide 10 – “Inefficient Interchange”]

Only about 35 cars can be interchanged here and even then, they must be forwarded to Columbus to be classified. Furthermore, any trains working this interchange block the main line.

[Slide 11 – “Harm to Rail Operations”]

In this comparison between a Cleveland interchange and a Marion interchange, under forced interchange, customers could opt for Marion. You clearly see Marion is a less efficient interchange point and in fact would result in congestion and delay.

While a modest amount of interchange is currently handled by local trains today at Marion, you can see that increased interchange would be very inefficient – stopping through trains, blocking the main line, adding work events and, in the end, delaying all our customers’ freight.

[Slide 12 – “Don’t Jeopardize Safety”]

Finally, as the safest Class I railroad for the 22nd year, a benefit of reduced handlings and work events is the elimination of risks of injury. Adding more work events increases the risk of injury and that is something we and the government should strive to avoid.

Jim Hixon:

[Slide 13 – “NS Written Submissions”]

Good morning. Norfolk Southern has submitted to the Board substantial comments on opening and reply, and we will not repeat all the points we made.

[Slide 14 – “Statements Do Not Withstand Scrutiny”]

Now, unsupported allegations have been made in the papers that do not withstand scrutiny.

Some say railroads harm exports. The actual facts tell a different story.

[Slide 15 – “U.S. Exports”]

As you can see exports have grown steadily since 1992, except during times of recession. In fact, U.S. exports in March 2011 were the most reported in history.

[Slide 16- “NS Import/Export Traffic”]

For Norfolk Southern export traffic has exceeded import traffic even when we remove export coal from the data.

[Slide 17- “Railroads Not Harming Chemical Industry”]

Some say railroads have harmed the chemical industry and forced them offshore. The story they tell outside the STB is much different. Outside the STB, the story is about the price of natural gas.

[Slide 18 – “Chemicals Driven By Fuel Prices”]

Recently, the ACC issued a press release noting that, and I quote, “this low price for natural gas compared to oil has enabled U.S. chemicals manufacturers to become more competitive than producers in much of the rest of the world. ‘Shale gas extraction has been a ‘game changer’ for

America's chemical manufacturers, enabling us to remain highly competitive in a global market.” This press release has been removed from the ACC website.

[Slide 19 – Dow]

That game changer has led Dow, like many other companies, to announce expansions in the United States, which undercuts the story chemical interests have told in this proceeding.

In conclusion, Norfolk Southern urges that the Board recognize the lack of justification for proposing changes to existing regulations dealing with access to the rail network and terminate this proceeding.