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

C. W. Moorman
Chairman and
Chief Executive Officer

August 22, 2013

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

Dear Chairman Elliott:

In response to your August 1, 2013, letter regarding end-of-year business demands, Norfolk Southern does not expect to see a traditional "fall peak." The elongation of supply chains has led over time to orders being placed earlier in the summer, and we no longer see a true "peak" season. Rather, in the coming months, Norfolk Southern expects to see a gradual uptick in volumes in support of retail sales. Even with this anticipated increase in volume, however, Norfolk Southern is confident in our ability to meet our customers' transportation needs for the remainder of the year.

I. Traffic Expectations for the Remainder of 2013

For the second quarter of 2013, traffic levels were up two percent over the second quarter of last year, with gains in intermodal and merchandise traffic offsetting a four percent decline in coal traffic. With respect to the remainder of 2013, I will now outline for you Norfolk Southern's expected outlook based upon our current understanding of various markets. Please keep in mind that market conditions may change in a manner that might render these views incorrect.

First, with respect to coal, Norfolk Southern continues to face significant headwinds across most of our coal business. With respect to utility coal, both competition from natural gas and flat-to-declining electricity demand continue to impact our utility franchise; although, firming natural gas prices reflect some relief. We provided a detailed explanation of the dynamics in this marketplace in Norfolk Southern's filing in Ex Parte 717. For domestic metallurgical coal, however, we expect modest improvements for the remainder of 2013.

With respect to exports, we continue to see sluggish demand for metallurgical coal in Europe and slowing shipments into Asia. Thermal coal exports face lower volume associated with the weak API2 index into Northern Europe. Accordingly, we expect a softer third and fourth quarter for export volumes as compared with the first half of the year.

Regarding the outlook for intermodal, Norfolk Southern continues to see increasing opportunities for highway conversion as we launch new service lanes, and we expect further growth in our international segment as we look ahead.

As for our merchandise business, we expect growth in several industrial business groups, driven by chemicals, automotive, and housing related materials. With respect to our agricultural business, we should see increased volumes in soybeans and corn in the fourth quarter as a result of the new crop. We also expect modest increases in our metals and construction segment as the year progresses, primarily due to increases in our frac sand business.

In sum, despite the current headwinds in the coal market, we expect that our diverse market base will generate continued volume growth in the coming months of 2013.

II. Operations Management

Norfolk Southern continues to manage our manpower and asset base commensurate with our traffic volumes and improvements in network velocity. Our network velocity improved in the second quarter of 2013, with average train speeds remaining comparable to last year's high levels and terminal dwell time improving two percent over last year. Our improvements in velocity and productivity and lower traffic volumes mean that we have about 244 locomotives and 9,900 freight cars currently in storage.

Nevertheless, as we continue to adjust our manpower and asset base in accordance with our traffic volumes, we also continue to maintain consistently high service performance. In spite of inclement spring weather consisting of flooding and a series of storms in the Midwest, all of the components of our service metrics have remained high.

III. Capital Budget for 2013

Norfolk Southern continues to make sizeable investments to maintain and expand its infrastructure to meet business demands. Our capital budget for 2013 is approximately $2 billion, which includes, among other things:

- Capital roadway improvements, including $831 million for rail, crosstie, ballast, and bridge programs.

- Equipment spending of $420 million to acquire new locomotives and rebuild and upgrade existing units; re-body coal cars; buy multi-level freight cars to handle increased automotive traffic; and purchase intermodal containers and chassis.

- Positive train control implementation costs of $229 million.

- Investments in facilities and terminals of $203 million, which includes the continuation of a multi-year project to expand Bellevue rail yard in Northern Ohio; construction of a new intermodal terminal in Charlotte, N.C., as part of Norfolk Southern's Crescent Corridor initiative; completion of a new locomotive service facility in Conway, Pa.; and new and expanded bulk transfer facilities.

- Infrastructure improvements in the amount of $84 million to increase main line capacity, to accommodate traffic growth in various aspects of the business, and to provide Norfolk Southern's match for innovative public-private partnership investments, such as the Crescent Corridor and the CREATE project, which aims to reduce rail and highway congestion by adding freight and passenger capacity in the metropolitan Chicago area.

- Technology investments of $57 million for new and upgraded systems and computers to enhance safety and improve operating efficiency and equipment utilization.

Although we may adjust these budgeted amounts during the remainder of the year as necessary, after the first half of 2013, we remain on target to hit over $2 billion in capital expenditures for the year.

IV. Conclusion

As in the past, Norfolk Southern remains concerned about calls to re-regulate the railroad industry. At the heart of these proposals is the irreconcilable notion that shippers can have better service, quality rail infrastructure, and ever-declining rates – all at the same time. This inconsistency is at the core of proposals such as forced access, which would undermine the progress that has been made since passage of the Staggers Rail Act of 1980 to ensure that the nation's rail system gives it a competitive advantage over the rest of the world.

We also remain concerned about the policy vacuum regarding the potentially ruinous liability associated with the transportation of highly hazardous materials, an issue recently given dramatic emphasis in Canada. The risks railroads face must be recognized by the regulatory system.

In closing, I thank you for your inquiry. We look forward to the rest of the year and to serving our customers.

Sincerely,

Charles W. Moorman

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