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June 3, 2002

BY HAND DELIVERY

Vernon A. Williams
Secretary
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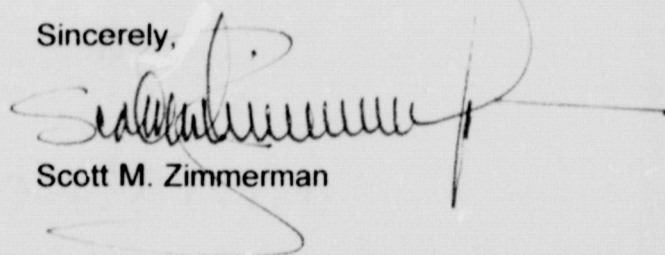
Re: CSX Corp. et al. – Control and Operating Leases/Agreements – Conrail Inc. et al., Finance Docket No. 33388 (Sub-No. 91) (General Oversight)

Dear Secretary Williams:

Enclosed for filing in the above-referenced proceeding are the original and 25 copies of NS-8, the "Third General Oversight Report Of Norfolk Southern Corporation and Norfolk Southern Railway Company." Also enclosed is a 3.5-inch computer disk containing the text of NS-8 in WordPerfect 5.0 format.

Kindly date-stamp the enclosed additional 5 copies of NS-8 and return them to our messenger.

Sincerely,



Scott M. Zimmerman

Enclosures

cc: All parties of record

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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET No. 33388 (Sub-No. 91)

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CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-- CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

(GENERAL OVERSIGHT)

THIRD GENERAL OVERSIGHT REPORT OF
NORFOLK SOUTHERN CORPORATION
AND NORFOLK SOUTHERN RAILWAY COMPANY

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BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET No. 33388 (Sub-No. 91)

CSX CORPORATION AND CSX TRANSPORTATION, INC.
NORFOLK SOUTHERN CORPORATION AND
NORFOLK SOUTHERN RAILWAY COMPANY
-- CONTROL AND OPERATING LEASES/AGREEMENTS --
CONRAIL INC. AND CONSOLIDATED RAIL CORPORATION

(GENERAL OVERSIGHT)

**THIRD GENERAL OVERSIGHT REPORT OF
NORFOLK SOUTHERN CORPORATION
AND NORFOLK SOUTHERN RAILWAY COMPANY**

Pursuant to Decision No. 6 in Finance Docket No. 33388 (Sub-No. 91)
(served December 13, 2001) ("Decision No. 6"), Norfolk Southern Corporation
and Norfolk Southern Railway Company (collectively, "NS") hereby submit their
third comprehensive report on implementation of the Conrail control transaction
authorized by the Board in Decision No. 89 in Finance Docket No. 33388
(served July 23, 1998) ("Decision No. 89," reported at 3 S.T.B. 196).

INTRODUCTION

In Decision No. 89, the Board approved, with conditions, acquisition of control of Conrail Inc. and Consolidated Rail Corporation (collectively, "Conrail") by (a) NS and (b) CSX Corporation and CSX Transportation, Inc. (collectively, "CSX"), and the division of the operation of a portion of the assets of Conrail by and between NS and CSX. On April 25, 2001, the Board's decision was affirmed by the Second Circuit in *Erie-Niagara Rail Steering Committee v. Surface Transportation Board*, 247 F.3d 437 (2d Cir. 2001). NS and CSX began the separate operation of their respective allocated portions of Conrail on June 1, 1999 ("Split Date").

In this subdocket the Board established the five-year general oversight proceeding called for in Decision No. 89. The purpose of this proceeding is to permit the Board to "assess the progress of implementation" of the Conrail transaction "and the workings of the various conditions" the Board imposed. Decision No. 89, 3 S.T.B. at 305. The STB retained jurisdiction to impose additional conditions "if, and to the extent, we determine that additional conditions are necessary to address unforeseen harms caused by the transaction." *Id.*

In Decision No. 5 in this proceeding, served February 2, 2001, the Board issued its findings and conclusions with respect to the first year of general oversight, covering the first post-Split Date year (June 1, 1999 – May 31, 2000).

In Decision No. 5, the Board found, in sum, that:

CSX and NS have substantially resolved their transitional service problems, and that the conditions we imposed are working as intended. No problems related to increased market power have been demonstrated. CSX and NS have made significant progress in implementing various environmental conditions and settlement agreements, although negotiations to resolve various environmental conditions continue.

Decision No. 5 at 1.

The second annual oversight round covered events from June 1, 2000 through May 31, 2001. The Board addressed that round of oversight in Decision No. 6, served December 13, 2001. There, the Board again found, as it had the year before, that CSX and NS had resolved the service problems resulting from the implementation of the Conrail transaction; indeed, said the Board, in the second year, no party complained about ongoing transaction-related service disruptions. Decision No. 6 at 3. The Board further found that there continued to be no competitive or market power problems stemming from the transaction, *id.* at 1, and that no party participating in the second oversight round had demonstrated that competition has been impaired by the transaction. *Id.* at 3.

The Board concluded that the conditions it imposed in approving the Conrail transaction were working as intended. *Id.* at 1. Further, as to environmental matters, the Board noted that CSX and NS continued to negotiate solutions, that progress was being made, and that no issue required the Board's intervention. *Id.* at 3.

This report covers events during the third year of post-Split Date operations (June 1, 2001 – May 31, 2002). Like NS' first two oversight reports, this report is divided into two main parts. The first part discusses a number of broad issues pertaining to implementation of the Conrail Transaction during the past year.¹ The second part consists of a point-by-point discussion of specific continuing conditions imposed on NS (or both Applicants) or directly affecting NS.² NS, however, will not reiterate its compliance, described in its previous reports, with one-time conditions imposed by the Board.

¹ These issues relate to general matters that the Board in its decisions in this proceeding has indicated an interest in monitoring or as to which parties have expressed concern but have not requested specific conditions or relief.

² This report, like NS' previous reports, does not address conditions that pertain solely to CSX and do not directly affect NS.

I. IMPLEMENTATION OVERVIEW

A. In General

In its second general oversight report, NS reported that, although the first two years of post-Split operations were a "challenging period" for NS, NS had overcome its initial operating difficulties, implementation of the transaction was proceeding satisfactorily, and some of the anticipated benefits of the Conrail transaction had begun to be realized, including increased rail-to-rail competition and single-line service, new and improved traffic flows, increasing operational efficiency, and new industrial development opportunities.

This year, NS is able to report continued progress in a number of areas.

Operationally, the NS system has been fluid, with favorable trends in key performance measures such as cars on line, terminal dwell time, and average train speed.

NS also has worked diligently over the past year to streamline its operations, improve efficiency, and cut costs. One key element in this effort has been implementation of the Thoroughbred Operating Plan (TOP), a combined effort of NS marketing, transportation, strategic planning and field operations personnel to redesign NS' merchandise freight service network so as to streamline operations and improve NS' service consistency and reliability. TOP uses 250 new train schedules and routings and eliminates or reduces car handling

at more than 200 rail yards across the NS system, resulting in improved on-time performance, shortened routes, higher train speeds and improved asset utilization.

Other significant operational and service-related developments over the past year include the following:

- NS and the Delaware Department of Transportation recently entered a significant public/private partnership to restore the Shellpot Bridge near Wilmington. Under the agreement, Delaware will fund the cost of restoring the bridge, and NS will compensate the state over a 20-year period based on its use of the bridge. Restoration of the bridge will free up capacity in the Wilmington, Delaware Amtrak station corridor, improving both passenger and freight operations in the Wilmington area.
- The opening of a new Thoroughbred Bulk Transfer terminal operation in Chicago, capable of handling the intermodal transfer of both dry and liquid bulk products.
- The opening of NS' new intermodal terminal in Maple Heights, Ohio, replacing the NS intermodal terminal in downtown Cleveland.
- The start of operations at NS' John W. Whitaker Intermodal Terminal at Austell, Georgia.

- The announcement in September 2001 that NS will construct a new intermodal terminal at the former Philadelphia Navy Yard.
- The start of NS direct service to the Port of Savannah's Mason Intermodal Container Transfer Facility.
- New joint intermodal service by NS and Canadian Pacific Railway between eastern Canada and the Port of New York/New Jersey.
- New seamless intermodal container service between Los Angeles and Atlanta, Charlotte, Jacksonville and Miami by NS and Union Pacific Railroad.
- New seamless intermodal trailer service between southern California and Rutherford, PA and Croxton, NJ, offered by NS and the Burlington Northern and Santa Fe Railway.
- The creation of the East Carolina Business Unit ("ECBU"), a marketing and operating unit in eastern North Carolina to develop new business, improve customer service and increase operating efficiency. The ECBU, which is the first of its kind within NS, began operations April 1, 2002, with headquarters in Raleigh. Local management is responsible for the 485 miles of railroad track that runs east and south from Raleigh. The ECBU functions as an internal unit with its own budget, so it has the flexibility and speed of a short line railroad, but it enjoys the industrial development and technological resources of a major

carrier, such as centralized dispatching, customer service and operating systems. The ECBU's main terminal for sorting freight cars and building trains is at Raleigh, with satellite terminals in Chocowinity, Goldsboro, New Bern and Morehead City. The ECBU, which employs about 100, operates three main rail lines and serves more than two dozen communities.

NS also has worked to improve efficiency and reduce costs by continuing to rationalize its facilities and equipment. Since June of last year, NS has trimmed over 200 miles from its rail system, reduced its freight car fleet by over 6,000 cars operated by NS, and closed several redundant or underutilized facilities.

In calendar year 2001 NS participated in the location of 76 new industries along its rail lines and supported the expansion of 33 others. These new and expanded facilities, in industries such as plastics, steel, agricultural and food products, automobiles, paper and construction materials, are expected to create more than 5,100 jobs and generate more than 95,000 carloads of new rail traffic annually. In 2002 we continue our efforts in locating and expanding new facilities. Some of these projects include:

- An IPSCO Inc. steel plate minimill in LeMoyne, AL;

- A Stolt-Nielsen Transportation Group deep-water terminal and liquid bulk distribution facility in Braithwaite, LA;
 - A Minnesota Corn Processing sweeteners distribution terminal in Devault, PA;
 - Expansion of a Coors Brewing Co. bottling facility in Shenandoah, VA;
- and
- A new Haines and Kibblehouse, Inc. quarry in Trap Rock, PA.

Finally, as will be discussed further below, NS in 2001 reaffirmed its ongoing dedication to rail safety, as reflected in its receipt last month of an unprecedented 13th consecutive E.H. Harriman Gold Medal.

B. Capital Improvement and Investments In Infrastructure

The NS Operating Plan submitted in STB Finance Docket No. 33388 estimated the need for over \$500 million in construction and upgrade projects related to the Conrail transaction. *See CSX/NS-20 (Volume 3B) (NS Operating Plan) at 267 et seq.* NS began reporting the progress of these projects as of the Control Date as part of its periodic operational monitoring reports to the STB.

In NS' first general oversight report, NS reported that it had completed 35 construction projects related to the transaction and was working on 12 others. Last year, in NS' second annual report, we noted that seven of the twelve

projects in progress during the first post-Split year had been completed, with the design phase completed on two others.

This year, NS has continued to make significant progress on construction projects related to the Conrail transaction. All of the projects relating to the Transaction and their status (as of April 30, 2002) are listed in the following chart:

Location		Project	Dept	Phase	Status
Alexandria	IN	Construct track connection Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
			Signal	Const	Complete
				Design	Complete
				Const	Complete
Allentown - Reading	PA	Traffic Control System	Signal	Design	Note 2
	PA	Estimated Completion Date: Undetermined		Const	
Angola	NY	Upgrade existing siding, construct new siding Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Bridge	Design	Complete
				Const	Complete
			Signal	Design	Complete
	Const	Complete			
Ashtabula	OH	Construct connection track Estimated Completion Date: Complete	Track	Design	Complete
				Const	Complete
			Signal	Const	Complete
Attica	IN	Extend siding 4, 580 track feet Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
			Const	Complete	
Boundbrook	NJ	Extend siding 15,000 track feet Estimated Completion Date: Undetermined	Track	Design	Note 2
				Grading	
			Signal	Const	
				Design	
				Const	
Bristol	VA	Extend siding 14,255 track feet Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete

Location		Project	Dept	Phase	Status
			Bridge	Design	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Bucyrus	OH	Construct track connection Estimated Completion Date: Complete	Land		Complete
			Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Buffalo - Cleveland	NY	Traffic control system and remove pole line.	Signal	Design	Complete
	OH	Estimated Completion Date: Complete		Const	Complete
Buffalo	NY	Rehabilitate tracks in sub-leased BPRR yard Estimated Completion Date: Complete	Track	Const	Complete
Buffalo	NY	Construct connection to BPRR yard Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Buffalo	NY	Reconstruct portion of Bison Yard Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Butler	IN	Construct track connection Estimated Completion Date: Undetermined	Track	Design	Note 2
				Grading	
				Const	
			Signal	Design	
				Const	
Chicago	IL	Expand and improve 47th St Yard Intermodal Terminal Estimated Completion Date: Complete	Track	Design	Complete
				Grade/Pave	Complete
Cloggsville	OH	Track Rehabilitation Estimated Completion Date: Complete	Track	Design	Complete
				Const	Complete
Cloggsville	OH	Construct second main Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Bridge	Design	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Columbus	OH	Construct track connection Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete

Location		Project	Dept	Phase	Status
Crockett	VA	Construct 9,100 foot new siding Estimated Completion Date: Complete	Land Track	Const	Complete
				Design	Complete
				Grading	Complete
				Const	Complete
			Bridge	Design	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Croxtan	NJ	Expand and improve intermodal terminal Estimated Completion Date: Complete	Track	Design	Complete
				Grade/Pave	Complete
E-Rail	NJ	Expand and improve intermodal terminal Estimated Completion Date: Complete	Track	Design	Complete
				Grade/Pave	Complete
Erie	PA	Erie Track Realign Project Estimated Completion Date: 3Q02	Track	Design	Complete
				Grading	Complete
				Const	In progress
			Signal	Removal	In progress
				Design	Complete
				Const	In progress
Flemington	NJ	Construct 12,500 foot siding Estimated Completion Date: Undetermined	Track	Design	Note 2
				Grading	
			Signal	Const	
				Design	
Hadley Jct (Ft Wayne)	IN	Double tracking Estimated Completion Date: Undetermined	Track	Design	Note 2
				Grading	
			Signal	Const	
				Design	
Hagerstown Sec (Greencastle)	PA	Construct siding Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
			Signal	Const	Complete
				Design	Complete
Hagerstown Sec	PA	Traffic Control Estimated Completion Date: Complete	Signal	Const	Complete
				Design	Complete
				Design	Complete
Harrisburg	PA	Construct double track Estimated Completion Date: Complete	Land Track	Design	Complete
				Grading	Complete
			Signal	Const	Complete
				Design	Complete
				Design	Complete

Location		Project	Dept	Phase	Status
Harrisburg (Rutherford)	PA	Construct intermodal terminal	Track	Const	Complete
		Estimated Completion Date: Complete		Design	Complete
				Grade/Pave	Complete
Harrisburg - Reading	PA	Traffic Control System and remove pole line	Signal	Design	Complete
	PA	Estimated Completion Date: 2Q02		Const	In progress
KD Tower - Cumberland Falls	KY	Extending double track 40,120 feet	Track	Design	Complete
	KY	Estimated Completion Date: Complete		Grading	Complete
			Signal	Const	Complete
Knoxville - Chattanooga				Design	Complete
				Const	Complete
			Track	Design	Complete
Marshallfield	TN	Double Stack Clearances	Track	Design	Complete
	TN	Estimated Completion Date: Complete		Const	Complete
			Bridge	Design	Complete
Marshallfield	IN	Upgrade and extend siding 7,908 feet	Land		Complete
		Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Bridge	Design	Complete
				Const	Complete
Oak Harbor			Signal	Design	Complete
				Const	Complete
	OH	Construct track connection	Land		Complete
		Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
Pattersonburg			Signal	Design	Complete
				Const	Complete
			Bridge	Design	Complete
Pattersonburg	NJ	Clearance-9 Bridges	Bridge	Design	Complete
		Estimated Completion Date: Complete		Const	Complete
			Track	Design	Complete
Pattersonburg	NJ	Siding Extensions		Grading	Complete
		Estimated Completion Date: Complete		Const	Complete
			Signal	Design	Complete
Pattersonburg				Const	Complete
			Bridge	Design	Complete
				Const	Complete
Philadelphia	PA	Construct crossover - Zoo	Track	Design	Note 2
		Estimated Completion Date: Undetermined		Grading	
				Const	
Piney Flats			Signal	Design	
				Const	
	TN	Extend siding 6,610 feet	Land		Complete

Location	Project	Dept	Phase	Status
	Estimated Completion Date: Complete	Track	Design	Complete
			Grading	Complete
			Const	Complete
		Signal	Design	Complete
			Const	Complete
Port Reading NJ	Chemical Coast Clearance Projects	Track	Design	Complete
	Estimated Completion Date: Complete		Const	Complete
		Bridge	Design	Complete
			Const	Complete
Rader TN	Extend siding 5,189 feet	Land		Complete
	Estimated Completion Date: Complete	Track	Design	Complete
			Grading	Complete
			Const	Complete
		Bridge	Design	Complete
			Const	Complete
		Signal	Design	Complete
			Const	Complete
Reading - PA	Traffic Control System and remove pole line	Signal	Design	Note 2
Philadelphia PA	Estimated Completion Date: Undetermined		Const	
Riverton Jct - VA	Clearance projects	Bridge	Design	Complete
Roanoke VA	Estimated Completion Date: Complete		Const	Complete
Sandusky (Bellevue) OH	Construct Triple Crown Terminal	Track	Design	Complete
	Estimated Completion Date: Complete		Grade/Pave	Complete
		Building	Const	Complete
Sandusky-Columbus OH	Double Track: S 13.60 - S 26.00	Track	Design	Complete
	Estimated Completion Date: Complete		Grading	Complete
			Const	Complete
		Signal	Design	Complete
			Const	Complete
Sandusky-Columbus OH	Double Track: S 78.10 - S 88.40	Land		Complete
	Estimated Completion Date: Complete	Track	Design	Complete
			Grading	Complete
			Const	Complete
		Signal	Design	Complete
			Const	Complete
Sandusky-Columbus OH	Double Track: S 88.30 - S 95.60	Land		Complete
	Estimated Completion Date: Complete	Track	Design	Complete
			Grading	Complete
			Const	Complete
		Signal	Design	Complete
			Const	Complete
Sidney IL	Construct track connection	Track	Design	Complete
	Estimated Completion Date: Complete		Grading	Complete
			Const	Complete

Location		Project	Dept	Phase	Status
			Signal	Design Const	Complete Complete
Sido	MO	Double tracking 36,458 track feet Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Bridge	Design	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Sloan	IL	Extend siding 5,027 track feet Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Southern Tier	NY	Southern Tier Rehabilitation Estimated Completion Date: Undetermined	Track	Const	Note 2
			Bridge	Design	
				Const	
St. Louis (Mitchell)	MO	Expand Mitchell Triple Crown Terminal Estimated Completion Date: Complete	Track	Design	Complete
				Grade/Pave	Complete
			Signal	Design	Complete
				Const	Complete
Toledo	OH	Intermodal Terminal Estimated Completion Date: Undetermined	Track	Design	Note 2
				Grade/Pave	
Tolono	IL	Track Connection Estimated Completion Date: Complete	Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
				Const	Complete
Vermillion	OH	Track Connection Estimated Completion Date: Complete	Land		Complete
			Track	Design	Complete
				Grading	Complete
				Const	Complete
			Signal	Design	Complete
Wabash	IN	Construct connection track Estimated Completion Date: Complete		Const	Complete
			Track		
			Signal	Design	Complete
				Const	Complete

Note 1: Bold print indicates changes from previous report. If status of project phase is blank, work on that part of the project has not yet begun.

Note 2: Project on hold pending evaluation of revised traffic requirements.

Moreover, a number of significant projects in the Shared Assets Areas have been completed in the past year, including the installation of new circuits for FN Interlocking to CP Mill at Trenton, Michigan; installation of remote control at the Darby Drawbridge in Darby, PA; extension of the Thorofare Siding in West Deptford, NJ; and rehabilitation of the UG Bridge in Bayonne, NJ. Planned capital expenditures in the Shared Assets Areas comes to approximately \$21.8 million for 2002, including, among other things, \$7 million for information technology upgrades, \$6.6 million for renewal of rail and ties, and \$1.7 million for completion of the Northern Branch project, an ongoing project, to be completed in 2002, in which NS, CSX and Conrail are working with New Jersey Transit to add a second main track from the Weehawken Tunnel at North Bergen, NJ, south to Marion, NJ for freight service so as to permit NJT to use a parallel segment of the River Line for light rail service.

In December 2001, NS announced that it planned to spend a total of \$705 million for capital improvements in 2002, including \$482 million for roadway projects and \$173 million for equipment. The planned roadway spending includes \$366 million for rail, crosstie, ballast and bridge programs; \$43 million for marketing and industrial development initiatives, such as increasing track capacity and access to coal receivers and vehicle production and distribution

facilities, and intermodal infrastructure; \$31 million for communications, signal and electrical projects; and \$17 million for environmental projects and public improvements such as grade crossing separations and crossing signal upgrades. Planned equipment spending includes \$102 million for locomotive purchases and upgrades and \$57 million for projects related to computers and information technology.

C. Service/Operational Monitoring

Last year, in NS' second report, we noted that in the second post-Split year, three key measures of operational performance – average train speed, terminal dwell time, and total cars on line – had remained within acceptable ranges, reflecting the general fluidity of the NS system. This year, each of those figures reflect a continued positive trend, showing that the NS system remains fluid and the system's operational efficiency is increasing.

D. Labor

As previously reported, prior to Split Date NS and CSX entered into implementing agreements with all of the labor organizations representing their hourly employees. Additionally, in compliance with Ordering Paragraph 27 of Decision No. 89, an NS Labor Management Task Force met with labor organizations that had responded to NS' invitation to meet for the purpose of "promoting labor-management dialogue concerning implementation and safety

issues.” No labor organization filed comments in either the first or second round of this oversight proceeding.

As reported last year, on March 28, 2001 the Commonwealth of Pennsylvania and several rail unions petitioned the Board protesting NS' announced decision to close its car repair shops at Hollidaysburg, Pennsylvania and asking the Board to require the shops to remain open for some additional period of time. After receiving and considering evidentiary submissions from NS and the Commonwealth and unions, as well as comments from various other interested parties, in a decision served September 19, 2001 the Board declined to require NS to keep the shops open, but imposed certain enhanced labor protective conditions should the shops be closed. Petitioners sought review of the Board's decision by the U.S. Court of Appeals for the Third Circuit. The shops remained open pursuant to a stay issued by the court, but on May 17, 2002, the Court issued a decision denying the petition for review and lifting the stay on the closure of the shops.

Labor issues on Conrail Shared Assets Areas have progressed without difficulty. In early May of 2002, a tentative agreement was reached for the coordination of police work within the Shared Assets Areas to be performed under the supervision of NS and CSXT in respective territories. This agreement

is subject to ratification by the agreement police officers on Conrail. Since the ratification vote had not occurred by the scheduled arbitration date, the parties arbitrated the issue of the formation of the implementing agreement on May 20, 2002. However, the parties asked the arbitrator not to issue a decision unless the tentative agreement is not ratified.

There have been few disputes on Conrail regarding labor protective conditions. A total of 503 employees have been certified as entitled to New York Dock displacement allowances, with approximately 225 displacement allowances being paid each month. Claims for displacement allowances have been submitted under the New York Dock protective conditions on behalf of employees represented by several labor organizations. Discussions of these claims are ongoing. Two organizations, the BMW and the Transportation Workers Union ("TWU"), have requested arbitration, but to date the parties are still in discussion over these claims.

E. Relationship with Shortlines

In this third post-Split year, NS continues to enjoy generally good relations with its shortline partners. NS' compliance with specific conditions imposed with respect to particular shortlines will be discussed in Part II.

F. Relations with Amtrak and Other Passenger Authorities

Four passenger operations operate over Conrail lines that NS now operates: Metro-North Commuter Railroad Company ("Metro-North"), New Jersey Department of Transportation/New Jersey Transit Corporation ("NJT"), Southeastern Pennsylvania Transportation Authority ("SEPTA") and Amtrak. NS currently has agreements with all of these passenger interests.³

In the second round of oversight, Amtrak was the only passenger railroad to file comments, and sought no relief from the Board. Over the past year, NS has continued to have good communication and working relations with Amtrak, Metro-North, NJT and SEPTA, and no major problems have arisen.

G. Safety Implementation

Last year, NS reported that the FRA and NS had held Safety Integration Plan Accountability ("SIPA") meetings in June and September of 2000 and on February 7, 2001, and that the FRA had concluded that a comparison of NS' safety record before and after Split Date warranted termination of the SIPA process. The FRA recently advised NS that its "Fourth Safety Integration Plan/Safety Update and Final Report" will be filed with the STB in the very near

³ NS anticipates that negotiations on a replacement agreement with Metro-North will take place this year.

future. According to the FRA, all SIPA conditions have been met to its satisfaction.

Safety has always been, and continues to be, a top priority for Norfolk Southern, and NS' efforts on that front have remained vigorous over the past year. On May 2, 2002, NS accepted its 13th consecutive Gold E.H. Harriman Memorial Award for employee safety. This award is granted to railroads on the basis of the lowest casualty rates per 200,000 employee hours worked – a formula that takes into account the volume of work performed, as well as the number of fatalities, injuries and occupational illnesses confirmed by the FRA.

H. Impact on Chicago Switching District.

As reported in NS' previous reports, Chicago continues, in this third post-Split year, to work well from an operational perspective. The Conrail transaction has had no material adverse effect on Chicago operations or on the status of IHB as a neutral switch operator. No such issues were raised by any commenting party in either of the first two rounds of oversight, and NS is aware of no significant complaints or controversies with regard to those matters now.

I. Effects of the Transaction on Jurisdictional Thresholds and Revenue Adequacy.

Decision No. 89 discussed at length the arguments of some parties that NS and CSX had paid an excessive price for the Conrail and the requests of these

parties for conditions that would have prohibited CSX and NS from using their costs of acquiring the Conrail stock in calculating jurisdictional thresholds under 49 U.S.C. § 10707(d)(1)(A) or in calculating revenue adequacy. The conditions these parties requested would have required instead the use of predecessor (*i.e.*, Conrail's) historic book value for those purposes. The Board rejected their arguments and declined to impose the requested conditions, but said it would continue to assess in the oversight proceedings the effect of the Conrail transaction on the jurisdictional threshold applicable to rate reasonableness cases and on the Board's revenue adequacy determinations. This aspect of Decision No. 89 was squarely upheld by the Second Circuit. *Erie-Niagara Rail Steering Committee v. STB*, 247 F.3d 437, 442-43 (2d Cir. 2001).

In its first oversight report, NS described in detail the actual methods of accounting, required by GAAP, that it was employing with respect to the costs and carrying values related to the lines operated by NS in the Conrail transaction. NS continues to employ those methods. In the second round of Conrail general oversight, no party raised any concerns about these issues. NS continues to believe that the Board's finding that applying GAAP to NS' accounts in connection with the Conrail transaction will not materially affect the statutory

threshold for rate regulation or the determination of revenue adequacy remains correct.⁴

J. Buffalo-Area Infrastructure

In its decision served February 2, 2001 discontinuing the Buffalo Area Infrastructure proceeding (Finance Docket No. 33388 (Sub-No. 93)), the Board directed NS and CSX to continue “to provide updates on the Buffalo area infrastructure, as well as related cooperative actions with other entities in the Buffalo area, as part of their respective annual progress reports to be filed in the Conrail General Oversight proceeding.” *Id.* at 6.

NS operations in the Buffalo terminal area have significantly improved over the past year, due primarily to operational changes. Nevertheless, NS continues to have discussions with Canadian National Railway Company (“CN”), the Genessee & Wyoming Railroad Company (which now controls both the South Buffalo Railway Company (“SB”) and Buffalo & Pittsburgh Railroad Company (“B&P”)), and Canadian Pacific Railway Company (“CP”), as well as a variety of New York state and local interests, concerning operations and infrastructure

⁴ NS currently is involved in two rate cases before the Board. *See Duke Energy Corp. v. Norfolk Southern Ry. Co.*, STB Docket No. 42069, and *Carolina Power & Light Co. v. Norfolk Southern Ry. Co.*, STB Docket No. 42072. Because those cases are before the Board in proceedings separate from this one and those

(continued on next page...)

that address matters of system-wide, as well as local, operational interest. NS continues to work, in a variety of ways and forums, to achieve New York State property tax reform as well as public funding for the efforts described by NS in the joint CSX/NS report submitted in the Buffalo Area Infrastructure proceeding.

II. REVIEW OF OTHER SPECIFIC CONDITIONS IMPOSED BY THE BOARD

We address below NS' compliance with specific ongoing conditions imposed in Decision No. 89.

A. Adherence to the NITL Agreement, as Modified.

The Board ordered Applicants to adhere to all of the terms of the NITL settlement agreement, subject to the modifications ordered by the Board in Decision No. 89. Decision No. 89, Ordering Paragraph 20. NS continues to be in compliance with all of the terms of the NITL agreement as modified by the Board:

- *Conrail Transaction Council.* Pursuant to the NITL agreement, CSX and NS created the Conrail Transaction Council, whose members, in addition to NS, CSX and NITL, include organizations such as the American Chemistry Council,

(...continued from previous page)

proceedings are the proper forum for discussion of those cases, they are not discussed further in this report.

the Society of the Plastics Industry, Inc., the Intermodal Association of North America, the American Iron and Steel Institute, the Transportation Intermediaries Association, the National Grain and Feed Association, Edison Electric Institute, the American Forest and Paper Products Association, the Institute of Scrap Recycling Industries, the American Automobile Manufacturers Association, and The Fertilizer Institute.

As reported last year, on December 5, 2000 the Council agreed that its regular monthly meetings be discontinued and that further meetings be convened only as needed to deal with specific subjects. The Council has held no meetings since December 2000.

- *Interline service.* The NITL agreement provides that, with respect to Conrail customers on routes over which at least 50 cars were shipped in single-line Conrail service in the year prior to the Control Date, and where service would become joint-line CSX-NS service after the Split Date, on request of the customer, NS and CSX will, for three years, maintain the Conrail rate subject to RCAF-U adjustment, and “work with that shipper to provide fair and reasonable joint-line service.” Disagreements over routing or interchange points may be submitted to binding arbitration. NS continues to be in compliance with this

provision. No shipper has requested arbitration of routing or interchange point issues in the past year.

The Board in Decision No. 89 expanded this provision to cover situations in which a Class III carrier could provide through service connecting solely with Conrail pre-transaction, but post-transaction must provide a three-carrier connecting service with both CSX and NS. Again, to date, no such protection has been requested.

- *Gateways.* The NITL agreement provides that "NS and CSX anticipate that all major interchanges with other carriers will remain open as long as they are economically efficient." NS continues to comply with this condition, and has closed no economically efficient major interchanges.

- *Facilities within Shared Assets Areas.* The NITL agreement provides that during the term of the Shared Assets Areas Operating Agreements, any new or existing facility within the three SAAs (other than an "Operator Facility") shall be open to both CSX and NS to the extent and as provided in those Agreements, and construes those Agreements as generally providing that both CSX and NS shall have access to existing and new customer-owned facilities in the SAAs, that both CSX and NS may invest in joint facilities in the SAAs in order to gain access to such facilities, and that either NS or CSX may solely develop facilities

that it will own or control and exclusively access. NS continues to comply with this condition.

- *Board oversight and reporting.* The NITL agreement sought STB oversight for three years; the Board expanded its oversight to five years. The agreement also provided for quarterly reporting by NS and CSX and development by CSX, NS and the Conrail Transaction Council of objective, measurable standards to be used in the quarterly reports.

As reported in both of NS' previous reports, NS, CSX, and the Conrail Transaction Council developed certain metrics to monitor performance, including cars on line by owner and by type, average train speed by traffic mix, average terminal dwell time at specific terminals, and average days on line for empty and loaded cars. NS continues to report these metrics on a weekly basis on the Norfolk Southern web site.

- *Reciprocal switching.* The NITL agreement provides that NS or CSX, as the case may be, will keep open to reciprocal switching for ten years any point at which Conrail provided reciprocal switching and also that for five years, reciprocal switching charges between NS and CSX at those points will not exceed \$250 per car, subject to annual RCAF-U adjustment. Further, at all other points and/or with all other carriers, switching rates are to be limited to existing rates

plus RCAF-U adjustment or a negotiated amount not to exceed the existing rate plus RCAF-U adjustment.

The Board expanded these provisions in Decision No. 89 to require, where feasible, preservation of switching agreements in both directions – NS and CSX over Conrail and Conrail over NS and CSX – under the same terms provided in the NITL agreement. The Board also mandated preservation of switching arrangements and rate accommodations in cases in which shortline railroads paid switching charges to Conrail pre-Transaction. Decision No. 89, *slip op.* at 57. NS reported last year that it had continued to comply with this provision of the NITL agreement, as expanded by the Board, and that holds true for the present oversight round as well.

B. Adherence To Other Settlement Agreements.

The Board specifically required NS and CSX to adhere to the terms of settlement agreements entered into with Amtrak, the Southern Tier West Regional Planning and Development Board, the United Transportation Union, the Empire State Passengers Association, and the City of Indianapolis. Decision No. 89, Ordering Paragraph 21. NS is not a party to the latter two agreements.

Last year, NS reported that the parties to the settlement with the Southern Tier West Regional Planning and Development Board had complied with that

agreement by making the underlying real estate transfer, and that the line thereafter was subleased to the Western New York & Pennsylvania Railroad.

Last year, Amtrak suggested a suspension of quarterly reports as to NS, and those reports have been suspended. In all other ways, NS continues to comply with the terms of its settlement agreement with Amtrak.

NS continues to comply with the terms of its settlement agreement with UTU as well.

C. Intermodal Truck Traffic Monitoring.

The Board required applicants to monitor the origins, destinations and routings for truck traffic at their intermodal terminals in Northern New Jersey and Massachusetts so as to permit the Board to determine whether the Transaction has led to substantially increased traffic over the George Washington Bridge, and to report their findings quarterly. Decision No. 89, Ordering Paragraph 22.

NS has submitted to the Board eleven such reports, including four in the past year, and has continued to serve copies of these reports upon a representative of the New York State Economic Development Commission. NS' reports include data surveyed from the NS intermodal terminal in Croxton, NJ.

NS is continuing to monitor truck traffic at Croxton, and expects to file in early July its report for the months of April, May and June, 2002.

D. Indianapolis Power & Light.

In the second round of general oversight, IP&L renewed its request for relief from the year before – namely, that the Board should grant direct access to IP&L's Stout plant by Indiana Southern Railroad ("ISRR"). IP&L asserted that the events surrounding IP&L's effort in 2001 to negotiate a new contract for the transportation of Stout coal to replace an expiring 1996 agreement with the Indiana Rail Road ("INRD") demonstrated that NS, in joint-line service with ISRR, could not effectively compete with INRD in serving Stout.

The Board, however, in Decision No. 6, found that the facts showed that pre-transaction competitive conditions at Stout effectively had been preserved, and the Board therefore denied IP&L's request for additional relief. IP&L sought review of the Board's decision before the U.S. Court of Appeals for the District of Columbia Circuit. In that court, NS and CSX each have moved for summary affirmance, supported by the Board, and the court's decision on those motions is pending.

As alluded to above, in 2001 IP&L and INRD reportedly entered into a new contract for transportation of coal to Stout. Over the past year, no coal has moved to Stout via NS.

E. CSX Access to the Monongahela.

The Board directed that the Applicants adhere to their representation that although NS will have operational control of Conrail's MGA lines, CSX will have equal access to all current and future facilities located on or accessed from those lines. Decision No. 89, Ordering Paragraph 26.

As reported in the First Report, commercial access to the Monongahela and operation on the Monongahela is covered by the Monongahela Usage Agreement and an operating plan and accounting plan which provide assurance of commercial access to CSX on a fair and equal basis. Last year, CSX reported to the Board that it had no complaints regarding Monongahela access at that time. *See CSX-4 at 66.* Similarly, NS this year is aware of no significant disputes or concerns on CSX's part regarding the administration of access to the Monongahela. It continues to be the case that planning for the scheduling of train pickups occurs weekly and monthly and is coordinated daily through frequent communication between NS and CSX.

F. Nonexpansion of Paper Barriers.

Decision No. 89 provided that, with respect to any shortline that operates over lines formerly operated over by CSX, NS, or Conrail (or any of their predecessors), and that, in connection with such operations, is subject to a "blocking" provision, CSX and NS, as appropriate, must enter into an arrangement that has the effect of providing that the reach of such blocking provision is not expanded as a result of the CSX/NS/CR Transaction. Decision No. 89, Ordering Paragraph 39. As was reported last year, to date no shortline has requested that NS enter into any formal agreement memorializing this provision.

G. Ann Arbor Railroad's Contract with Chrysler.

Decision No. 89 provides that CSX and NS must take no action that would undermine or interfere with the ability of the Ann Arbor Railroad "to provide quality interline service" under its new contract with Chrysler. Decision No. 89, Ordering Paragraph 40.

As has been the case previously, NS continues to comply with this condition, and Ann Arbor Railroad has not raised with NS any complaints or concerns in this regard.

H. Wyandot Dolomite and National Lime and Stone ("NL&S").

To mitigate the effects of the Conrail transaction on aggregate shippers Wyandot Dolomite and National Lime and Stone, the Board in Decision No. 89 (Ordering Paragraph 43) required NS and CSX to make arrangements to permit one of them to provide single-line service for movements tendered in unit trains of 40 or more cars for five years. Over the past year, NS and CSX have complied with this condition.

I. NS access to Joseph Smith & Sons ("JS&S").

Pursuant to Decision No. 89, Ordering Paragraph 44, NS shall have access to any new line constructed by JS&S or NS, or by any entity other than CSX, between the JS&S facility at Capital Heights, Maryland, and any line over which NS has trackage rights.

Like last year, it continues to be NS' understanding that, to date, no build-out from the JS&S facility has been constructed.

J. Wheeling & Lake Erie Railway Co.

In Decision No. 89, the Board required Applicants to provide: (a) "overhead haulage or trackage rights access to Toledo, OH, with connections to the Ann Arbor Railroad and other railroads there" (the "Toledo Access Condition"), (b) "an extension of W&LE's lease for the Huron Docks and

trackage rights access to the Huron Docks over NS' Huron Branch (the "Huron Dock Condition"), and (c) "overhead haulage or trackage rights to Lima, OH, including a connection to Indiana and Ohio Railway Company (the "Lima Access Condition"). The Board subsequently clarified these conditions. *See* Decision No. 107 in Finance Docket No. 33388 (served December 9, 1998). Compliance with the Lima Access Condition is within the purview of CSX, so NS will discuss further only the other two – the Toledo Access Condition and the Huron Dock Condition.

Huron Dock. Since Split Date, NS has complied with this condition, as both the W&LE and NS have treated the current agreements governing the lease of, and access to, the docks as *de facto* "extended." The only issue of contention between the parties has been the term. NS believes that an extension of five years (an extension even longer than the original lease term) to September 15, 2003, is appropriate. NS has proposed that all other terms and conditions in the lease (including compensation) would remain the same, but only the W&LE would have the right to terminate the lease, on six months' notice, before

expiration of the extension term. NS would not reserve for itself any similar right.⁵

Access to Toledo. Since Split Date, NS also has complied with the condition requiring Applicants to ensure that W&LE has had access to Toledo. Nevertheless, NS and W&LE have not yet fully negotiated the definitive terms of an agreement pertaining to this condition.

The W&LE currently has access to Toledo by means of an interim agreement permitting the movement of one train per day in each direction between Bellevue and Toledo, over the Maumee River Bridge. The one train per day provision is necessary due to capacity constraints at Bellevue and on the NS line between Oak Harbor and Bellevue, and is consistent with the operating plan originally submitted by W&LE in the main proceeding, which anticipated one train in each direction per day, six days per week between NS' line at Yeomans, Ohio, and Toledo for interchange with the Ann Arbor Railroad, Canadian National, and the Indiana & Ohio ("IORY").⁶ WLE-4 at 82.

⁵ NS would reserve for itself the right to terminate the lease in the case of a material breach of the lease agreement.

⁶ The IORY does not reach Toledo.

The Maumee River Bridge is a swing bridge requiring maintenance and a bridge tender. As the W&LE is the sole remaining user of the bridge, the W&LE has agreed to purchase, and NS has agreed to sell, the bridge for \$1.00, but this transaction has not been progressed pending resolution of other issues related to the Toledo Access Condition. This has resulted in substantial NS subsidization of W&LE operations because the W&LE is the sole user of the bridge, and it pays only a minimal mileage fee for that use. NS and the W&LE are currently exploring a lease of the bridge pending final resolution of other issues.

Although final agreement on the formal terms of the Toledo Access Condition and the Huron Dock Condition remains outstanding, those conditions, as described above, are being observed and complied with in the meantime. NS believes there is no need for Board intervention at this point, but NS reserves the right to seek relief from the Board with respect to these matters should circumstances warrant.

K. Environmental Conditions

In the year that has passed since NS submitted its last annual oversight report, NS has diligently worked to satisfy the remaining environmental mitigation measures ("Environmental Conditions") imposed by the Board in

Decision No. 89. NS will not list in this report the various Environmental Conditions contained in Appendix Q to Decision No. 89 which NS previously reported satisfied in the First and Second Annual Oversight Reports. Rather, NS will briefly describe herein the environmental mitigation measures it implemented during the period June 1, 2001 through May 31, 2002 and the status of the few Environmental Conditions that remain to be completed.

In accordance with the Board's directions in Decision No. 6, fn. 2, NS has continued during the past year to provide quarterly community outreach reports to the Board, with copies to the relevant communities in Ohio, Indiana and New York as well as the Ohio Rail Development Commission ("ORDC"). NS has endeavored to address the Conrail transaction-related environmental and safety issues of concern to the individual communities and has extended its outreach efforts in those communities and with the ORDC well beyond only those issues directly relevant to Conrail transaction impacts or within the Board's jurisdiction.

As a result, NS is pleased to report that it has made significant strides in establishing and furthering cooperative relationships with the local governments and citizenry. Issues recently addressed by NS at the request of the various communities have included such diverse topics as assistance in local planning to

attract new businesses to an area, real estate sales and leases, maintenance of NS rail properties, control of trespassing on NS property, grade crossing repairs and upgrades, rail shipments, Operation Lifesaver training exercises, participation in local charitable events, reports on blocking incidents and evaluation of rail and industry development proposals. In the relatively few instances during the past year where NS and a local government have disagreed about the resolution of a community issue, the subject of the disagreement has been extraneous to NS' mitigation obligations under Docket No. 33388.⁷ The seventh quarterly community outreach report was submitted by NS to the Board and to the local governments on May 17, 2002. NS looks forward to continued productive consultations with the local communities in the coming year.

⁷ The litigation between the City of Mentor and NS wherein the City desires to impose a grade crossing at a location that would severely impede interstate rail operations continues. In that litigation, the City claims, in part, that NS' argument in the 1999 Conrail General Oversight Proceeding that the crossing controversy was not related to the Conrail transaction and thus not a proper subject of the STB's Conrail General Oversight Proceeding, *see* NS-2 at 53, and the STB's response to the same, *see* Decision No. 5, *slip op.* at 31, precludes NS from arguing in the court proceeding that preemption arising from the ICCTA applies. This argument arises, in part, we believe, from a misapprehension of the nature of the Conrail General Oversight Proceeding itself, and the relevant subjects thereof. Nevertheless, the Mayor and NS have vowed to keep that dispute from interfering with the positive cooperative relationship developed by NS and the City on other local issues.

Set out below are updates on those Environmental Conditions which NS has satisfied since its Second Annual Oversight Report, as well as a brief status report on the few remaining Environmental Conditions.

1. Environmental Condition 4(B) (Hazardous Materials Response Plans)

Environmental Condition 4(B) requires, *inter alia*, that Applicants distribute Hazardous Materials Emergency Response Plans ("Hazmat Response Plans") at least once every three years during the Board's oversight period, or whenever Applicants materially change a Hazmat Response Plan in a manner that affects Applicants' interface with the local emergency response organizations. On June 27, 2001, NS distributed Hazmat Response Plan updates to the local emergency response organizations for the NS rail line segments designated "key routes" or "major key routes" by the Board.

2. Environmental Condition 8(A) (Safety: Highway/Rail At-Grade Crossings)

To date, NS has submitted fifteen quarterly reports to Secretary Williams summarizing the completion status of the upgraded improvements to the NS at-grade crossings subject to Environmental Condition 8(A). The most recent quarterly report was submitted May 15, 2002.

Alternative mitigation requested by the Virginia Department of Rail and Public Transportation, consisting of cantilever signals and train detection circuitry, was completed and placed in service on August 14, 2001 for the at-grade crossing at SR 7 in Berryville, Virginia (N-091). NS certified completion of the safety upgrades at this grade crossing by letter to Secretary Williams dated September 27, 2001, and the Board approved the mitigation in compliance with Environmental Condition 8(A) in Decision No. 203 (served November 2, 2001). In addition, NS completed the upgrades to the grade crossing at Loomis Street in Ripley, New York on April 17, 2002. A certificate of completion under Environmental Condition 8(A) will soon be submitted to the Board.

There remain only two at-grade crossing upgrades to be addressed by NS under Environmental Condition 8(A). The Board extended the completion date for the York Road/ SR 74 at-grade crossing in Mechanicsburg, Pennsylvania (N-091) until August 22, 2002 in Decision No. 197 (served August 22, 2001). The Pennsylvania Public Utility Commission has not yet issued its order directing the changes to be made to this grade crossing. In the case of the Guilford Springs Road at-grade crossing in Guilford Springs, Pennsylvania (N-091), NS is still waiting for the Guilford Springs Township to relocate Guilford Springs Road and the existing at-grade crossing. In Decision No. 155 (served May 31, 2000), the

Board extended the date for installation by NS of flashing lights at the new grade crossing until six months following completion of construction by the Township of the relocated road and grade crossing. NS advises the Board that the construction project by the Township has not yet been completed.

3. Environmental Condition 11 (Noise)

In Decision No. 206 (served February 22, 2002), the Board granted extensions for completion of noise mitigation until February 22, 2003 for rail line segments N-079 and N-085 in Ohio and until May 22, 2003 for rail line segment N-100 in Virginia and N-111 in West Virginia.

In June 2001, after obtaining authorization from the relevant local governments, NS initiated contacts with the owners of the eligible noise sensitive receptors identified by the Board along N-079 and N-085 in Ohio. Subsequently, NS has entered into settlement agreements with all of the owners of the eligible receptors located along N-085. To date, NS has obtained settlement agreements with 89 out of 92 owners of the eligible receptors along N-079.

Since the Second Report was submitted, NS has entered into Negotiated Agreements with four more local communities along N-100, for a total of eight Virginia community Negotiated Agreements:

- Rockingham County, Virginia
- City of Waynesboro, Virginia
- Warren County, Virginia
- Page County, Virginia

The Board has amended Environmental Condition 11 and Environmental Condition 51 to incorporate the Negotiated Agreements with Rockingham County (Decision No. 194, served August 3, 2001), the City of Waynesboro (Decision No. 204, served February 8, 2002) and Warren County (Decision No. 207, served March 15, 2002) and Page County (Decision No. 208, served March 15, 2002). As directed by the local authorities of the remaining communities along N-100, in December 2001 NS initiated contacts with the owners of the noise-sensitive receptor locations identified by the Board that were not resolved through community negotiated agreements. To date, NS has obtained settlement agreements with 37 out of 40 owners of the eligible receptors along N-100.

With respect to the rail line segment N-111 in West Virginia, since the Second Report was submitted by NS the Board has amended Environmental Condition 11 and Environmental Condition 51 to incorporate NS' Negotiated Agreements with the Town of Gauley Bridge (Decision No. 190, served July 6,

2002) and with Nicholas County (Decision No. 193, served August 3, 2002). Fayette County, West Virginia has requested that the noise-sensitive receptor location(s) along N-111 within its jurisdiction be verified. Work is underway by NS in coordination with Fayette County authorities to complete that effort so that NS may proceed with settlement discussions in Fayette County. Upon completion of the noise mitigation obligations in Fayette County, NS will have satisfied Environmental Condition 11 with respect to N-111.

NS and CSX are working in coordination with the Board's Section of Environmental Analysis ("SEA") to develop a sound insulation installation program to be implemented at receptors not covered by settlements. Upon receipt of approval by SEA of the protocol prepared by NS and CSX, discussion of the sound insulation program with the owners of the remaining receptors will begin.

4. Environmental Condition 21(i) (Four City Consortium, IN)

Since the Second Report was submitted, NS and CSX have attended joint meetings convened by the Four City Consortium ("FCC") on June 19, 2001, on October 12, 2001, on November 15, 2001 and, most recently, on April 9, 2002. The meetings have provided a cooperative environment for the FCC members to bring to the attention of NS local issues of concern, a number of which are not

related to impacts of the Conrail transaction, and for NS to exchange with the cities' representatives information relevant to the development of solutions for the FCC concerns where practicable.

As was noted in the Second Report, the infrastructure and operational improvements implemented by NS, CSX and the IHB have done much to alleviate traffic congestion in the FCC area. NS has continued to make improvements in the rail movements over the former NKP line. Consequently, the issuance of citations by the City of Hammond has decreased. When isolated blocking incidents have occurred, NS has promptly followed up on those exceptions. At the most recent FCC meeting, the FCC Chief of Staff noted that NS operations in the FCC area have experienced remarkable improvement.

5. Environmental Condition 26(C) (Cleveland Area, OH)

Full implementation of the various detection devices identified for this condition is awaiting a final engineering assessment and utility evaluation of the equipment.

6. Environmental Condition 36(B) (Oak Harbor, OH)

The Board amended Environmental Condition 36(B) and Environmental Condition 51 in Decision No. 192, served July 11, 2001, to approve the Negotiated Agreement between NS and the Village of Oak Harbor, Ohio.

7. Environmental Condition 42(A) (Erie, PA)

In connection with implementation of the amended Memorandum of Understanding between NS and the City of Erie, Pennsylvania to relocate track off of the 19th Street rail corridor in Erie, NS terminated freight rail operations over the 19th Street tracks on September 28, 2001, ahead of schedule. An official ribbon cutting ceremony took place in Erie on October 12, 2001. Roadway construction work is underway and is scheduled to be completed in Fall 2002.

8. Environmental Condition 49(A) (Safety Integration Plans)

A summary of the status of NS's compliance with Environmental Condition 49(A) may be found at Section I.G of this Report.

9. Environmental Condition 51 (Negotiated Agreements)

NS has continued during this past year to obtain settlement agreements with local communities and individuals to address its Appendix Q environmental mitigation obligations. As NS has noted elsewhere in this Section II. K., the agreements with local communities have been memorialized in the form of Negotiated Agreements and submitted to the Board for approval and incorporation under Environmental Condition 51.

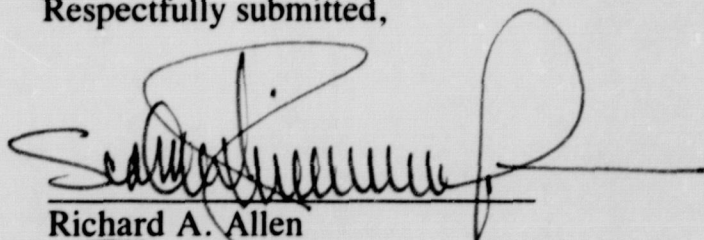
Implementation by NS of the outstanding requirements of the Negotiated Agreements incorporated under Environmental Condition 51 has continued during the third year of STB oversight in this docket. NS has continued to attend community meetings, provide periodic reports as agreed and implement other community-specific mitigation measures addressed in the Negotiated Agreements.

CONCLUSION

In the third post-Split year, NS has continued to work diligently to streamline its service, improve operational efficiency, and increase productivity. Much progress has been made in those areas in the past year, and NS will continue to work hard to continue that progress. NS continues to comply with the various conditions imposed by the Board, and those conditions are working as intended. No further conditions or other actions by the Board are necessary at this stage of the oversight process.

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Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard A. Allen", is written over a horizontal line.

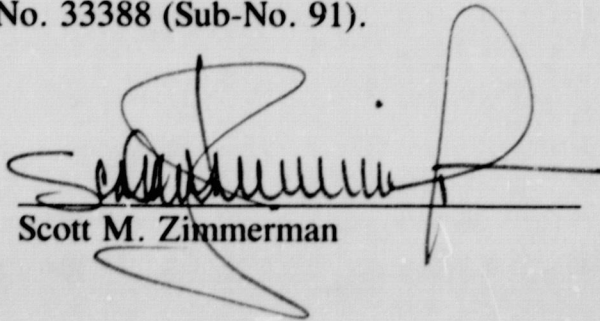
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CERTIFICATE OF SERVICE

I certify that on June 3, 2002 a true copy of NS-8 was served by first class U.S. Mail, postage prepaid, or by more expeditious means, upon all known parties of record in Finance Docket No. 33388 (Sub-No. 91).



Scott M. Zimmerman