

210785

ENTERED
Office of Proceedings

MAY 03 2004

Part of
Public Record

**STATEMENT OF DAVID R. GOODE
Chairman, President and Chief Executive Officer
Norfolk Southern Corporation**

**Before the Surface Transportation Board
Conrail transaction oversight hearing
Washington, D.C.
May 3, 2004**

Thank you, Chairman Nober, for this opportunity to present the views of Norfolk Southern on the Conrail transaction.

We are at the end of the Surface Transportation Board's five-year formal oversight period. The Board set up this oversight period to ensure that the conditions it imposed worked as intended and to determine whether the transaction resulted in any major competitive issues. In its decisions at the end of the first four years of oversight, the Board found that the conditions have worked as intended.

We believe that continues to be the case. Accordingly, we recommend that formal oversight should terminate as scheduled. It should not be extended.

It is useful to review the broad contours of the transaction the Board approved in 1998.

Before 1998, there were three major rail systems in the East – Norfolk Southern, CSX and Conrail. Significantly, though, while there was competition in the southeast, most areas north of Maryland and east of Ohio were served by only one Class I railroad – Conrail – and had been for more than 20 years.

The Conrail transaction approved by the Board in 1998 divided the use and operation of most of Conrail's 10,500-mile system between NS and CSX.

A very important and, indeed, unique aspect of the transaction was that both NS and CSX would serve shippers on some 700 miles of lines to be retained by Conrail in three Shared Assets Areas – the North Jersey, South Jersey/Philadelphia and Detroit SAAs.

NS and CSX both have the right to operate on those lines, but they serve most of the shippers in these areas through a physical interchange with Conrail. Conrail handles the traffic for those shippers as the agent of either NS or CSX.

This aspect of the transaction brought direct, two-carrier competitive service to shippers in important population and industrial centers in the Northeast that had not had such service for many years. The transaction also gave CSX access to shippers on some 190 miles of line allocated to NS in what we call the “Monongahela,” or “Mon,” coalfields in Pennsylvania and West Virginia.

In assessing whether the transaction has met the expectations of the Board, I refer to the Board's specific approval language in 1998. The Board said – and I quote here – “the transaction will result in a pro-competitive restructuring of rail service throughout much of the Eastern United States. ... After the transaction is fully consummated, both CSX and NS will provide vigorous, balanced and sustainable competition, each over approximately 20,000 miles of rail line in the East.”

The history of the past five years shows that the transaction has lived up to the Board's expectations. The transaction greatly expanded the single-line reach of NS and CSX in the eastern United States. Shippers now enjoy single-line service on NS between all points on our former system and many former Conrail points in New Jersey, Maryland, West Virginia, New York State and Pennsylvania. That provides better service.

The transaction also brought new two-carrier competitive service to the Shared Assets Areas and the Mon coalfields and that is working smoothly and well. Perhaps most importantly, the transaction resulted in two competitively balanced rail systems serving the eastern United States. NS and CSX are now engaged in strong competition, not only with each other but also with other modes of transportation, particularly trucks – a factor that was important at the outset, but it has become much more important since the transaction was approved.

In specific terms, the transaction has led to improvements at Norfolk Southern in safety, service, and competition.

First, with respect to safety, the Board required NS and CSX to prepare Safety Integration Plans and to work with the Federal Railroad Administration to ensure that those plans were properly implemented.

We did that. I am very pleased to report that those efforts, representing the hard work and commitment of a lot of people, have paid off.

In 2003, Norfolk Southern employees won their 14th consecutive E.H. Harriman gold medal award for achieving the lowest employee injury ratio among Class I railroads. CSX won the silver award. Conrail won the silver award in the switching and terminal railroad category.

While we can never be satisfied when it comes to safety, we have every reason to believe the transaction has been successful from a safety standpoint. The good results of all three participants in the industrial benchmark competition illustrate that.

Regarding customer service, the story is also strong. After some initial challenges, we are very pleased that the service metrics on Norfolk Southern are the best ever. In the first quarter of 2004, our network velocity (based on average train speed) reached an all-time high and was among the best in the industry. The average dwell time for cars in Norfolk Southern terminals has decreased from 25.3 hours in 2000 to 22.9 hours in 2003. And overall, our network fluidity has continued to improve, and this, of course, only serves to increase our ability to compete more effectively against other rail carriers and against other modes of competition. In recent days increasing traffic volumes have been handled without disruption to the system.

In addition, of course, the transaction has created vigorous new rail-to-rail competition throughout the former Conrail territory. The prime beneficiaries of this new competition, but by no means the only ones, are shippers and communities in the Shared Assets Areas, which were the focus of the Board's hearing in Trenton last month, and intermodal shippers in the critical Chicago-New York and North-South lanes, which now have two carriers competing for their business.

The expanded reach of our system and the new rail-to-rail competition brought about by the transaction has allowed us to achieve some noteworthy results in addition to the overall improvements in our service metrics that I've mentioned. These include:

- An increase of 230,000 intermodal units handled by Norfolk Southern from 2000 to 2003;

- An increase in rail traffic in the Shared Assets Areas of almost 10 percent from 2000 to 2003.
- A steady increase in the number of carloads interchanged with our short line partners in the Shared Assets Areas from 9,521 in 2000 to 12,228 in 2003.
- A record number of Norfolk Southern coal trains moved in the Monongahela Valley in February and March 2004.

- An increase in our north-south intermodal traffic through Hagerstown, Maryland from just over 30,000 units in 2000 to 90,000 units in 2003, and with an additional 28,000 units handled in just the first quarter of this year. These increases are particularly gratifying because it is traffic that, before the Transaction, Conrail had little incentive to move on a joint-line basis. We are now better able to move it because of the single-line service that the Transaction created.
- Another instance of this increased north-south traffic is the explosive growth of intermodal traffic into and out of the Ohio Valley. As just one example of this, the number of intermodal units we moved between the Ohio Valley and Norfolk Virginia more than doubled from 2000 to 2003.

I think it's important to understand that our business has changed in major respects since the transaction was approved. The economy today is very different from 1998. Our traffic base has diversified as a result of our expanded reach and greater efficiency and competitiveness. This means that Norfolk Southern today has greater flexibility to respond to economic and market changes than before the transaction. A good example is our export coal business. Despite a downturn in that business in the years after 1998, we have more than made up for it in other areas, such as automobile and intermodal. Our success in doing that is apparent by any measure I can apply. I note parenthetically that we have seen some upward trends in the export coal market, and I can only say that I hope that this trend continues.

It's also important to note that over the last four years, we've made very substantial capital investments in the former Conrail territory. Our major projects have included:

- New intermodal facilities in Rutherford, PA, Maple Heights, Ohio, and soon at the former Navy base in Philadelphia, PA;
- An expansion of our yard in Croxton, New Jersey;
- Major improvements in coal lines and facilities on the former Monongahela Railroad, in central Pennsylvania to serve the Keystone plant in Shelocta, PA, and in Baltimore, MD and Stratton Ohio
- Other major improvements in our yards at Enola, PA and Bison Yard in Buffalo, NY;
- We have increased the weight limits on lines on the Delmarva Peninsula from 263,000 pounds to 286,000 pounds, which has greatly improved the economics and opportunities for our coal and grain customers in the Peninsula.

- Major reconfiguration of our track structure through Cleveland.
- In partnership with Delaware, reconstructed the Shellpot Bridge, which, when completed, will positively affect operations through Wilmington, DE.

In addition, over the last four years, Norfolk Southern has spent almost \$95 million annually on program rail, tie and ballast program work on former Conrail lines, and this year we have budgeted an additional \$110 million.

In other words, the Conrail transaction has been a success. We haven't always made everybody happy. We have had to systematically improve service levels. That has, however, occurred, and we now have a stable, well-tuned system in the former Conrail areas. Not everything is perfect. Some issues were raised in the first four years of oversight. The Board addressed them in its previous decisions, and other issues likely will be raised in these hearings.

For the most part, however, the issues raised have been the kinds of issues that arise routinely between railroads and their customers. They are concerns about service or problems affecting a particular locality. They are important to the parties, but they are not really related to the transaction. Moreover, they are issues that carriers and their customers can – and routinely do – resolve in the normal course of business without the need for Board intervention or oversight.

In that connection, I note that Larry Parsons of the Wheeling & Lake Erie will not be here to speak today. He asked me to convey his regrets and to inform the Board that he is very pleased that the Wheeling and Norfolk Southern have been able to reach a tentative resolution of the various issues between the two railroads. He asked me to convey his appreciation for the hard work that went into that result.

In summary, we think the Board's previous conclusions continue to apply today. The conditions it established for the transaction have worked as intended. No major competitive – or other – problems related to the transaction have occurred.

No party has demonstrated any transactional or other issues that warrant extending the formal oversight period beyond its five-year term. We therefore request that the Board not extend its formal oversight and the periodic reporting requirements that go along with it.

Of course, the Board retains jurisdiction, even in the absence of a formal oversight proceeding, to address any major problems related to the transaction that might arise in the future.

Thank you again, Mr. Chairman, for the opportunity to appear before you today. I will be pleased to answer any questions you might have.