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**Before the
Surface Transportation Board**

**Ex Parte No. 658
Public Hearing on the 25th Anniversary of the Staggers Rail Act of 1980:
A Review and Look Ahead**

October 19 Public Hearing

**Comments of CSX Transportation, Inc.
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CSX Transportation, Inc. (CSXT) greatly appreciates the opportunity the Surface Transportation Board has given the Rail Industry, rail customers and the public to offer comments on the Staggers Rail Act of 1980, the successes of the past 25 years and the challenges ahead.

The Staggers Act stands as one of the truly great success stories of American transportation policy. It offered no subsidies; no federal bailouts. Instead, it offered the one thing the rail industry needed – and continues to need the most: Opportunity.

The Congressional policies embodied in the Staggers Act reflected a recognition that a private railroad system could only survive if federal policies allowed railroads the opportunity to achieve sustained revenue adequacy. The Staggers Act promoted differential pricing, whereby those rail shippers who gain the most value from the availability of a private rail network to move their goods and materials pay the most. Staggers freed the railroads to compete with the motor carrier industry, which for decades had been winning market share from the regulation-bound rail carriers. And, Staggers permitted carriers to achieve major improvements in service and efficiency through consolidations and branch line rationalization.

points in many network-critical locations where the system can fairly be said to be at overload.

At the same time, long distance supply chains are growing. Growth of imports, particularly from the Far East, demands heavy use of rail for cost savings in transportation. Industry is concentrating factory production in fewer, larger facilities, and the consequent traffic densities lend themselves to rail.

Faced with this demand, the privately financed rail network finds itself at a crossroads. CSXT, like any major business enterprise, has watched and learned from these macro-economic trends and has planned to position itself to react. But implementing those plans will require huge capital expenditures if CSXT is to be able to meet the changing requirements of its customers.

The North, and in particular the Northeast, remains a vibrant production and consuming region of the country. The demand for consumer products will remain strong for the foreseeable future and CSXT believes that intermodal traffic will continue to grow to and from the New York / New Jersey area, as well as the coastal metropolitan population centers. The economy in the Midwest remains healthy. Traditional manufacturing continues to grow, and the service economy is growing at an even more rapid rate. The Southeastern states, and in particular Georgia and Florida, are among the fastest growing regions of the country. Indeed, the 2000 Census predicts that by 2010, Florida's population will equal that of New York.

These macro-economic trends present at one time both tremendous opportunities for CSXT and great challenges. Our network reaches these key markets, but it is a network designed in different times for different needs. It will require additional capacity to accommodate expected growth, and to provide the reliable service and recoverability that our customers demand.

For example, our Chicago to Florida route, our Southeastern Corridor, is primarily single track. With frequent train meets at the available sidings, the route permits a velocity of only 20 to 23 miles per hour. It needs additional capacity to accommodate the demand for rail service that CSXT expects to see – not in the next decade –

but in the next several years. With the growth that we expect to see continue in the Southeast, this corridor presents CSXT's premier corridor capacity expansion opportunity.

The River Line along the Hudson River in New York is the main route of entry to and from the New York / New Jersey consuming market, and is the final leg of the old Water Level Route linking New York / New Jersey and Chicago. The River Line is, in most places, single track and requires additional investment in passing sidings to accommodate growth and deliver reliable and recoverable service. That added capacity will also enhance the ability of the route to handle occasional peaks in demand.

Coal demand from our Eastern utility customers will increasingly shift to more westerly sources. Western coal from the Powder River Basin and Colorado, along with coal from the Midwest in the Illinois Basin, will supplement traditional Eastern sources. Capacity investments are essential to efficiently accommodate the large coal volumes in the corridors that these emerging sources will have to use to reach destination. Again, reliability and recoverability are critical to CSXT's long-term success.

CSXT is acting now to position itself for these -- and other -- opportunities. We have developed a prioritized list of specific investments in our railroad that we feel offer the best pay-back for the dollar. We have conducted computer simulations of operations with the expanded capacity that these investments would bring. On-the-ground inspections and assessments by operating personnel have been conducted, and we are gearing up to build. Construction of extensive capacity expansion projects will begin in early 2006.

Our analysis focuses on line capacity and transportation demand, but it is not so limited. New and enhanced line capacity -- such as new sidings and signal systems -- adds line of road velocity, often permitting longer, more efficient trains. And, it improves service reliability and recoverability. CSXT is not just expanding capacity on line of road. Between the third quarter of 2005 and the second quarter of 2006, we expect to add at least 200 new locomotives to our fleet. We will expand facilities and terminal capacity at high growth

locations, further enhancing the value of the line capacity improvements.

At the same time, CSXT will continue to support new industrial development investments. In the railroad business, new customers are encouraged to make capital investments in places that the railroad can serve. CSXT has a team of experienced industrial development professionals that has succeeded in developing new business opportunities by helping customers locate on CSXT. Feed mills, aggregates quarries, distribution centers, new power plants, logistics centers, automotive assembly plants and virtually every other category of industry have invested in partnership with CSXT. Every situation is different, but in many cases, CSXT invests capital in the project as well -- as our contribution to the long-term strategic relationship.

How much will all this cost? Historically, CSXT has averaged about one billion dollars in capital expenditures annually. This is expanded capital investment. It does not include the more than a billion dollars that we spend annually on maintenance expense to fixed plant, locomotives, and rolling stock. With a Railroad Renaissance on the horizon, we have made a strategic decision to increase that spending between 30 and 40 per cent annually over the next two years. This represents a \$600 to \$800 million incremental investment in capacity, reliability, and recoverability.

CSXT's ability to make these additional investments is not merely a business judgment that the time is here to expand the network's capacity. In very great part, it is a function of our commercial success in 2004 and 2005. With solid operating income creating free cash flow, the money is now available to move to position the company to meet the demand that is now upon us. In short, our ability to reinvest in our railroad business is growing as our customers' need for our service is growing. With continued revenue growth coupled with productivity gains, we can continue to invest for reliability, growth, and recoverability.

Our focus, though, must remain on earning the right to spend. CSXT must earn its cost of capital -- consistently and sustainably.

While many light density branch lines were abandoned under Staggers, the real success in plant rationalization was the creation of a vibrant, entrepreneurial short line industry. Today, over 500 short line and regional railroads feed traffic to and from the Class I's. On CSXT in 2005, over a billion dollars in revenue will originate or terminate on a short line or regional partner. The growth of the short line industry, which could not have occurred under the pre-Staggers regulatory regime, has preserved rail service to thousands of customers across our network.

While some proponents of re-regulation like to recite the decrease in the number of Class I railroads over the decades, the real fact of the matter is that consolidation has benefited shippers. In 1970, a shipper in upstate, New York who wanted to ship to Mississippi might have routed his traffic Penn Central-B&O-RF&P-SCL-L&N. Today, the shipper routes his traffic CSXT-direct. Extended length of haul eliminates hand-offs between trunk line carriers, improves customer responsiveness, service, and carrier accountability. The Conrail transaction enabled the two largest competitors east of the Mississippi to fill in gaps in their networks, enabling them to offer balanced competition, including re-introduced competition into the northeast.

The Staggers Act, then, facilitated the re-shaping of the railroad map and freed railroads to react more nimbly to a competitive marketplace. But, the macro economic backdrop against which these changes took place has not been static over the past quarter century. Transportation demand has grown. The mix in transportation demand between domestic and import/export has shifted markedly. Population shifts have occurred, with tremendous growth in the Sun Belt. Centers of production and consuming regions will continue to shift.

Highway capacity has not kept up with the huge growth in demand for transportation. In many locations, there are times during the day when commercial trucking slows to a near-halt. Maintenance demands on the infrastructure are becoming both a fiscal concern and an operational fact of life for truckers. While most interstate highways could accommodate more traffic, there are congestion