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October 30, 2006

Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, NW
Washington, D.C. 20006

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**Re: STB Ex Parte No. 665
RAIL TRANSPORTATION OF GRAIN**

Dear Secretary Williams:

Enclosed for filing in the above referenced matter are the original and ten copies of the Comments of CSX Transportation, Inc.

Thank you for your assistance, and please do not hesitate to contact me if you have any questions regarding this matter.

Sincerely,

Peter J. Shudtz

PJS/pkw

Enclosures

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 665

RAIL TRANSPORTATION OF GRAIN

COMMENTS OF CSX TRANSPORTATION, INC.

October 30, 2006

CSX Transportation, Inc. (CSXT) welcomes the opportunity to submit these comments to the Surface Transportation Board in response to the Board's invitation of October 11, 2006.

Overview

Grain transportation is an important, although comparatively modest, market for CSXT. In 2005, grain transportation accounted for approximately \$255 million in CSXT revenue, or about three per cent of CSX Corporation's total revenue base.¹

At its core, CSXT's grain business can be thought of as a giant conveyor belt, integral to the poultry and pork production industry in the eastern half of the United States. CSXT moves soybeans from grain-producing Midwestern states (primarily Ohio, Indiana, Illinois, and Michigan) to processors in the Southeast. These mega-processors convert the soybeans into soybean meal and soybean oil. The processed soy meal then moves almost exclusively by truck, to poultry or pork producers.

CSXT also moves corn from the same general Midwestern region to poultry and pork producers for their feed mills, where the animal feeds are prepared. These producers mix their own specialized feeds as part of their unique production processes, using corn they have processed and soybean meal, along with other specialized ingredients.²

¹ CSX Corporation subsidiary companies include CSXT and CSX Intermodal, Inc., CSX Corporation's surface transportation units. For 2005, CSX Corporation reported surface transportation revenues of \$8.618 billion.

² Some soybean meal moves by rail to the Southeast from Midwestern processors.

This animal feed market, which CSXT has served for decades, results in a relatively predictable movement pattern, with far less seasonal surge than seen in other parts of the country for other grains. Approximately two-thirds of all grain movements on CSXT fit into this business model.

Other movements of export corn, interline wheat movements to flour mills, and a few consumer grain movements make up the balance of CSXT's grain traffic base.

The Southeastern Animal Feed Market

Three mega-processing plants – ADM in Valdosta, GA; Bunge in Decatur, AL; and Cargill in Raleigh, NC – dominate soybean milling in the Southeast. Each of these three facilities can receive soybeans via both CSXT and Norfolk Southern. (Bunge also receives barge shipments.) They produce two main products: soybean meal for animal feed, and soybean oil mostly for human consumption. These three facilities supply the majority of the soybean meal used by Southeastern animal producers, including those served by CSXT.

While generally steady, there can be some seasonal variations in soybean traffic to these producers. These producers have large storage capacity at their plants enabling them to take advantage of attractive prices, particularly at harvest time. When prices fall, the producers can purchase and store several months of their production requirements.

Poultry production is dominated by several name-brand producers, like Tyson, Perdue, Pilgrim's Pride, Goldkist, Smithfield, and other household names. Each has developed considerable brand-name recognition and consumer loyalty by providing high quality consistent products to its customers. Part of the consistency – and a means of distinguishing its products – is each producer's unique feed formula. Corn and soybean meal are the two main ingredients, but each producer purchases those and mixes its own feed formula with other additives. For this reason, each producer buys the main ingredients separately.

CSXT moves unit trains of corn from Midwestern elevators to poultry and hog producers in the Southeast. Although many of them are local on CSXT, these movements are highly competitive. While CSXT attempts to obtain the most favorable pricing it can, these are large, sophisticated companies with multiple facilities, many of which are served by our competition. Our customers are able to shift production from one plant to another. Indeed, several of them have overseas facilities where production could be shifted if the economics favored such a move. Some 30 per cent of domestic meat production is exported, thus further enhancing these customers' price negotiating position.

During some parts of the year, our customers have the ability to purchase local corn for truck delivery, providing additional competition to CSXT's rail

service. The Alabama river system offers a low cost route for corn from the Midwest to the Southeast, with truck delivery. And, there are many other opportunities for these sophisticated traders and transportation managers to find savings and opportunities in the marketplace. CSXT is fully aware that it must remain competitive, with prudent pricing and satisfactory service, if it is to grow this market for the future.

Because consumer demand for our customers' products is relatively steady, CSXT's corn movement patterns tend to be balanced throughout the year. Feed mills will maintain about a week to ten days of inventory, and have the ability to truck from nearby locations to even out fluctuations in deliveries, or to take advantage of attractive prices from time to time. Still, our customers' consumption is relatively constant throughout the year, with occasional shifts to locally-produced corn, facilitating equipment planning and softening the effects of seasonal commodity pricing with the fall harvest.

Most of CSXT's commercial arrangements in this market are in the form of transportation contracts with negotiated rates with the end receivers. Demurrage responsibilities at origin aside, CSXT's commercial arrangements are with the receivers of grain, not the elevators or trading companies from which the grain is purchased.

Traffic Volumes by Grain Type

A brief summary of the volumes of grain by commodity may be of use to the Board in understanding CSXT's grain business.

<u>Commodity</u>	<u>2005 Carloads</u>
Feed Corn	118,000
Soybeans	23,000
Wheat	33,000
Export (all)	11,000

Wheat traffic is almost exclusively interline business received from Western carriers. It is destined almost exclusively to flour mills that sell trucked flour to local bakeries, and tends to move in single or multiple car lots rather than unit trains. As such, wheat flows in widely diverse movement patterns, with no other generalizations possible.

CSXT expects robust growth in each of the above commodities in 2006. Export traffic for 2006 will be approximately double that of recent years, due in large part to the worldwide grain market where demand is high and inventories are relatively low. With a strong U. S. crop production this year, American farmers and grain trading companies are seeing new opportunities in overseas markets. Most of CSXT's export grain moves through the ports of Mobile,

Norfolk, Brunswick, and Albany, with several other ports enjoying the balance of the business.

Operations and Car Supply

CSXT owns or leases a fleet of about 9,600 jumbo covered hopper cars (4600 cu. ft. or more) suitable for grain transportation. This fleet is supplemented with approximately 6,000 customer-supplied ("private") cars.

Customers that provide their own freight cars enjoy a number of commercial advantages. First, they have assurances of car supply throughout the year, particularly at harvest time when demand is highest. Second, they have the ability to use that capacity from time to time for storage or other commercial advantage. Finally, they typically negotiate discounted rail rates from CSXT in consideration of the value that they add by bringing needed car capacity on-line.

CSXT manages its grain operations with a "Grain Desk" at its Dufford Operations Center in Jacksonville, FL. There, a team of operations managers monitor the movement of as many as 92 grain trains every day. CSXT provides "24 X 7" coverage of Grain Desk issues, often with three managers present simultaneously, and one always "on call." Decisions about priorities, conflicts, routings and the many other operational issues that arise across CSXT's 22,000 mile network are made constantly. Ready access to the senior operating official in charge ensures that our customers' grain transportation needs are closely coordinated within the Operations Center.

As the Board is aware, in 2004 CSXT began implementation of the One Plan, a thorough realignment of the company's operating plan to move performance measurements to a higher level. As the Board has seen through its *monitoring of reported performance measurements*, CSXT has made tremendous strides in implementation of the One Plan. From the Grain perspective, operations achieved such a level of fluidity in 2006, that CSXT found that the number of grain cars it had on line actually exceeded the number needed. CSXT had over 500 cars in storage early in 2006, and these have remained in storage throughout the year. Only in October, with harvest well underway, is CSXT finding a need to bring those cars into service.³ All this, in a year that has brought a 100 per cent increase in export grain movements over CSXT-served ports.

³ Car capacity is measured in car-days. As operations become increasingly fluid, cycle times from Midwest to Southeast improve. This means that more trips per unit time per car are possible, and the resulting efficiency means that fewer cars are ultimately needed.

Outlook

CSXT's success in the Grain Market will always be tied directly to our customers' success. The Midwestern farmers' crops will drive the supply of grains available to both CSXT rail-served buyers and the many truck-served buyers who compete to buy that crop each year. The poultry and pork producers of the Southeast and the Soybean processors who serve them must succeed if CSXT is to succeed.

CSXT's growth potential also includes emerging opportunities for the corn grown in the markets we serve. As the demand for ethanol as a gasoline additive continues to grow, CSXT will be prepared to respond. In anticipation of the ethanol boom, CSXT developed a rail-water transfer facility in Albany, NY, which opened in 2004. This highly efficient facility can accept unit trains of ethanol, enabling CSXT-served Midwestern ethanol producers to gain access to the huge consuming markets of New York and New Jersey. Volume throughput in that facility has grown from zero to several trains per month in the first two and a half years of operation. CSXT has similar initiatives now underway in Baltimore, MD; Philadelphia, PA; Linden, NJ; and Providence, RI. These facilities will open in Fourth Quarter 2006 and First Quarter 2007. We expect nothing but growth for ethanol in the future.

The core feed grain business shares a similarly positive outlook. Two new 90-car feed mills opened on CSXT in 2006. Today, CSXT is running 92 train sets dedicated to grain – up from 85 sets in 2005 – and has improved utilization 25 per cent. Better service under the One Plan is enabling CSXT to win back traffic from truck. Additional projects to serve new feed mills and new port opportunities are expected to be announced sometime in 2007.

CSXT is committed to the grain market and is dedicated to helping our customers grow and thrive. Whether it is in the traditional animal feed business, or emerging new markets like ethanol, CSXT's goal is to be a solid, reliable partner for our customers' supply chain logistics into the future.