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October 30, 2006

By Electronic Filing

Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423

Re: Ex Parte No. 665 – Rail Transportation of Grain

Dear Mr. Williams:

Pursuant to the Board's Notice served on October 11, 2006, in the above-captioned proceeding, Norfolk Southern Railway Company ("NS") hereby submits the enclosed written statement. If the Board has any questions, NS would be pleased to respond.

Sincerely,

A handwritten signature in dark ink, appearing to read "John M. Scheib". The signature is fluid and cursive, with the first name "John" being particularly prominent.

John M. Scheib

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

EX PARTE 665

RAIL TRANSPORTATION OF GRAIN

**WRITTEN STATEMENT OF
NORFOLK SOUTHERN RAILWAY COMPANY**

Norfolk Southern Railway Company ("NS") submits these comments for the hearing in Ex Parte 665, Rail Transportation of Grain. The grain movements examined in the United States Government Accounting Office's ("GAO") recent report *Freight Railroads: Industry Health Has Improved, but Concerns about Competition and Capacity Should Be Addressed*, which the Board cited as a reason for holding this hearing,¹ were export grain movements in the West. Grain movements on NS are very different.

Although NS hauls considerably less grain than other railroads, NS moved 170,000 carloads of grain in 2005. Of those carloads of grain traffic, about:

- 130,000 were carloads of corn; and
- 40,000 were carloads of wheat.

A substantial portion of our grain traffic is for the domestic poultry feed industry. Most of the remainder is for domestic milling, with only a very small amount going for export.

Because NS fulfills domestic demand, its grain traffic is more predictable and the variation between the peaks and troughs of its grain traffic are relatively small. Demand for grain is more consistent in the poultry industry because, for example, chickens and

¹ Rail Transportation of Grain, Ex Parte 665, at 1-2 (Oct. 11, 2006).

turkeys eat every day. Domestic millers also have a generally consistent demand. As a result, NS' grain traffic is more predictable than grain for export, the demand for which is affected by many more variables in the world marketplace.

Moreover, NS' average rates for grain traffic currently do not approach 180 percent of revenue-to-variable cost – the statutory threshold for the Board potentially to have jurisdiction over a rate complaint; so NS grain traffic does not move at anywhere near the revenue-to-variable cost levels that the GAO cited, which demonstrates that export and domestic grain are two very different markets.

Nonetheless, as it does for all its customers, NS actively engages its grain customers and works closely with them to understand the transportation issues of that market. The grain industry needs NS to have sufficient capacity to meet its needs over the long-term, and NS will be able to be there for the grain industry so long as NS' rate levels permit it to sustain the investment needed to provide that long-term capacity.

NS stands ready to participate in any discussion of grain transportation by rail. If the Board has any questions about grain transportation on NS, NS would be pleased to respond to such questions.