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**Before the  
Surface Transportation Board**

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**Rail Transportation of Resources  
Critical to the Nation's Energy Supply**

**Ex Parte No. 672**

**July 18, 2007**

**Kansas City, Missouri**

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**Written Submission  
of  
CSX Transportation, Inc.**

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CSX Transportation, Inc. (CSXT) welcomes the opportunity to participate in this hearing with our customers on the subject of energy and the role of railroads. At CSXT, we believe that our core infrastructure investment and service to our coal and ethanol customers play an essential role in the nation's economy and must be considered as part of a sound national energy policy for the future.

These written comments will address:

- The role of railroad transportation in energy policy
- Coal Transportation on CSXT today and in the future
- Ethanol Transportation on CSXT today and in the future

## **Railroads Can – And Should – Play An Important Role In Sound Energy Policy**

The United States faces major freight transportation and energy challenges on the horizon. Current projections forecast a 67 percent growth in total freight traffic over the next 20 years. And, according to the Energy Information Administration's (EIA) *Annual Energy Outlook 2007*, "total U.S. gross petroleum imports increase . . . from 13.7 million barrels per day in 2005 to 17.7 million in 2030, deepening U.S. reliance on imported oil in the long term. In 2030, gross petroleum imports account for 66 percent of total U.S. petroleum supply . . . up from 60 percent in 2005."

In short, over the next two decades, the United States economy faces a tremendous increase in demand for transportation services and will require a concomitant increase in petroleum imports – unless a solution is found.

Railroads can be part of that solution. A much-expanded role for railroads in the overall transportation picture can reduce highway congestion, and reduce our nation's addiction to oil. Rail is about 11.5 times more energy efficient (on a BTU per ton-mile basis) than heavy trucks, and has been improving its energy efficiency for 25 years.<sup>1</sup> In 1980, one gallon of diesel fuel moved one ton of freight an average of 235 miles by rail. In 2006, a gallon of fuel moved a ton of freight an average of 423 miles – equal to the distance from Boston to Baltimore and a seventy-six percent increase over 1980.

A single freight train can replace up to 500 trucks, reducing fuel consumption, emissions, and lessening traffic. If just one percent of the long-haul freight now moving by truck moved by rail instead (for instance, via intermodal involving both trucks and rail), fuel consumption would fall by over 110 million gallons per year.

At a time when our rail traffic has been increasing, new technology, improved operating efficiency, and fuel conservation efforts have allowed CSXT to reduce fuel use by 30 million gallons since 2000. It takes investment to make these kinds of improvements. Since 2002, CSXT has spent more than \$1 billion to upgrade its fleet with newer, more energy efficient and lower-emission locomotives.

But our work has just begun. It will take huge capital investment in expanded infrastructure to provide the capacity on rail to accommodate the projected 67 percent growth in transportation demand. As a direct result of improved earnings, CSXT has been able to make substantial increases in our capital investment, which for many years had remained in the range of \$1 billion. CSXT will spend \$1.5 billion in 2007, \$1.6 billion in both 2008 and 2009, and \$1.7 billion in 2010.

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<sup>1</sup> Source: Energy Information Administration Annual Energy Outlook 2007.

CSXT will use this increase in its capital investment to meet future transportation and energy challenges in its core railroad business.

Serious concerns over global climate change are now requiring policymakers to balance our environmental and energy needs. Policymakers must confront the conflicting societal demands for increased electrical power production and for transportation for an increasingly mobile and growing population – all at the same time that concerns over green house gas emissions pressure policymakers to find ways to cut back.

Railroads can offer an important solution to some of this conflict. Because greenhouse gas emissions in transportation are directly related to fossil fuel consumption, the key to reducing transportation-related greenhouse gas emissions is reducing fuel consumption in transportation.

Additionally, greater use of freight rail provides other public benefits, such as reduced highway gridlock, enhanced safety and mobility, and reduced costs of maintaining existing roads and the pressure to build costly new roads. But private capital investment alone cannot create enough additional rail capacity to accomplish what needs to be done, quickly enough.

Public policymakers should take steps to attract more freight to railroads and expand the fuel consumption/environmental benefits of rail transportation. For example, rail's energy security benefits can be maximized by leveraging private investment in freight railroad capacity expansion through tax incentives and by promoting public-private partnerships for freight railroad infrastructure projects. Conversely, any policy that endangers future rail revenue and capital cost recovery will shrink rail spending on core infrastructure and, thus, decrease the public benefits of rail's highly energy-efficient and environmentally-friendly transportation service.

### **Coal Transportation On CSXT Today And In The Future**

CSXT is a major transporter of coal and welcomes opportunities to expand our participation in the coal transportation market. In 2006, CSXT handled over 192 million tons of coal. Over seventy-seven percent of our coal volume is to electric utility customers. CSXT serves more than 119 mines in nine states, including three of the nation's top coal-producing states. In a typical week, nearly 31,000 cars of coal are loaded at mines served by CSXT, and more than 4,000 additional cars are received in interchange service from other railroads.

Coal is a central focus of our business. CSXT understands well its role as a vital link between mines and utilities in the production of electricity, and we are committed to providing reliable service consistent with our important role. Year after year, coal has represented over a quarter of CSXT's total revenue, and (as a percentage of tonnage) over forty percent of the company's volume.

Over the past three years, CSXT has transported ever-increasing volumes of coal to our customers. In 2004, 2005, and 2006, we saw volume increases of four, six, and five percent, respectively. Coal carload volumes for the first five months of 2007 were off 2.2 percent from the prior year, but actual tonnage shipped was off only 0.8 percent. (This is a consequence of increased use of higher volume cars; the fundamental measurement is, of course, total tons of coal delivered.)

We expect coal to continue to be a growth story for CSXT. The southeastern states, throughout which CSXT operates an extensive service network, are experiencing a tremendous surge in population. By the year 2020, the population of Georgia and Florida is expected to exceed that of New York and New Jersey. Many new coal-fired power plants are planned for this region as our utility customers strive to meet the growing demands of their own customer base.

While utility burn rates follow consistent patterns throughout the year and have exhibited gradual growth across CSXT's service network, railroad transportation demand fluctuates considerably from year to year. This is a direct consequence of the decisions of our customers. The underlying demand for electric power is the prime driver, but our customers' decisions about how much power to produce at which plants, how high or low to maintain their inventories, which carriers to use, and other considerations all affect the CSXT volumes.

Since 1998, these decisions by our customers – particularly inventory decisions – have resulted in considerable fluctuation in coal tonnages. These variations in utility coal demand are best explained by reviewing stockpile data. The change in eastern electric power coal stockpiles (utility and non-utility generators from Energy Ventures Analysis, Inc. data) are shown on Chart 1 on the following page.

## Eastern Utility Coal Stocks Fluctuate With Market Conditions and Utility Decisions



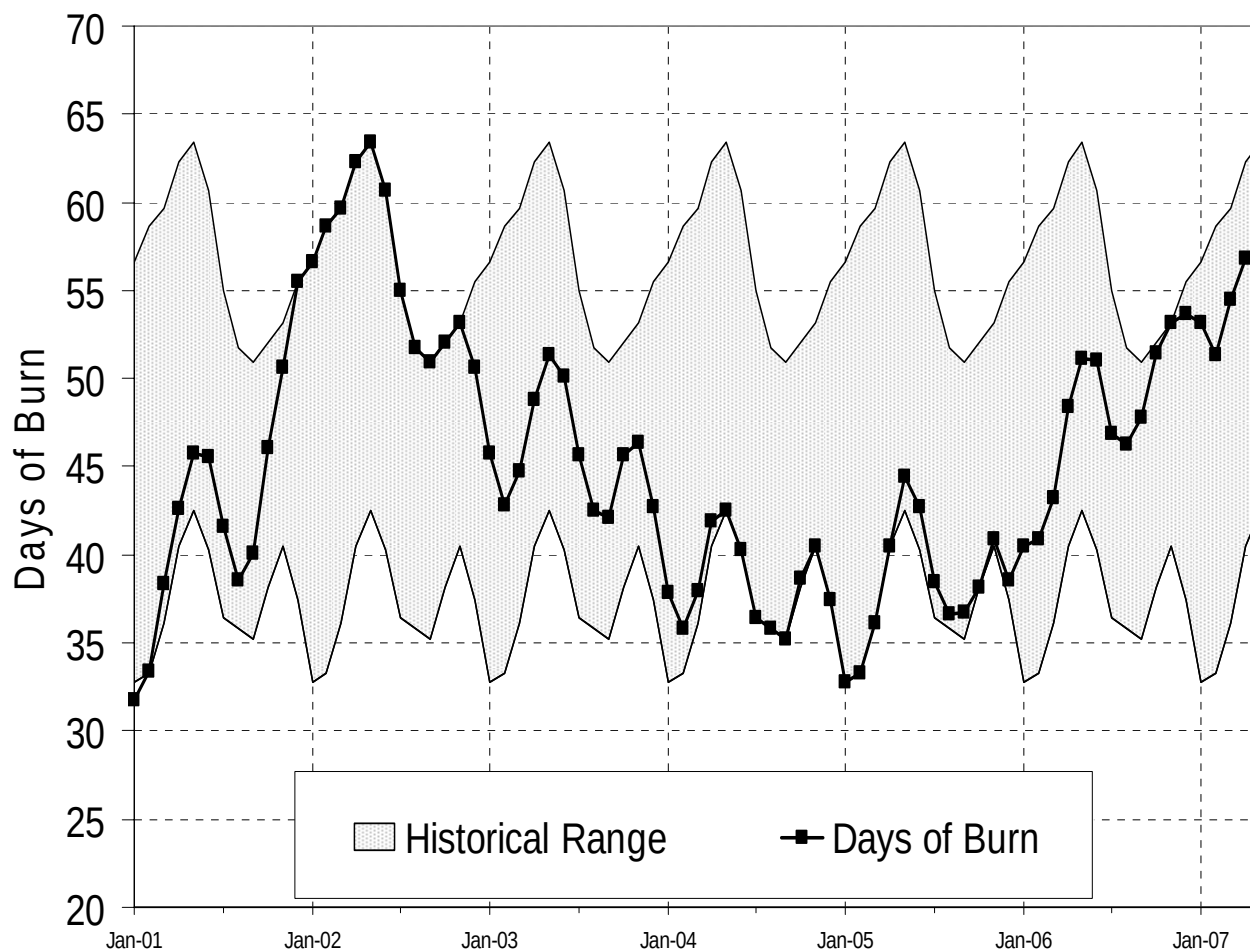
The annual changes that we have experienced include:

- |           |                                                                                                                                                                           |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1989/1999 | Utilities built stockpiles because of concerns about Y2K and eastern stockpile increased by 14.5 days of burn.                                                            |
| 2000      | Utilities reduced inventory build-up from prior years, and cold weather increased burn in late 2000 so eastern stocks fell by 20.8 days of burn.                          |
| 2001      | Utilities purchased more coal to rebuild low stockpiles for the winter, but burn fell due to mild weather and the recession, so eastern stocks grew by 22.5 days of burn. |

- 2002/2003     Utilities reduced stockpiles from 2001 by cutting purchases. Coal prices collapsed and many Central Appalachian producers filed for bankruptcy. Eastern stocks fell by 13.2 days of burn.
- 2004           Boom in world coal markets and strong growth in domestic demand increased demand for transportation. Hurricanes adversely affected both transportation and coal production with extensive flooding in Kentucky, Tennessee, and Virginia, and widespread damage in Florida. Eastern stocks fell by 7.2 days of burn.
- 2005/2007     Year to date – Coal production responded to increased demand and high prices. Full recovery from the hurricane impacts of the summer of 2005 was evident by Q1 2006. Stockpile build continued throughout 2006 and 2007 supported by strong coal production, efficient railroad service, and minimum impacts of weather. Stockpiles grew nearly 25 days from 32.8 days in January 2005 to 57.7 days in May 2007.

On the next page, Chart 2 (“Eastern Utility Coal Stocks”) shows how increased coal production and shipments have restored Eastern Utility stockpiles within the ranges of historical levels by April 2006, and continued to favorably increase to nearly 60 days of inventory.

## Eastern Utility Coal Stocks



What these charts show is that the Eastern railroads, and CSXT, have the ability to meet utility day-to-day burn requirements and meet peak demand burn needs, and still move sufficient additional coal volumes to build up inventory. As recently as this year, from January to May of 2007, Eastern coal-fired generation burn was above its normal historic range. Yet, over that time period, coal inventory increased from 53.2 to 57.7 days, an increase in 4.5 days inventory.

A relatively recent, longer rebuild period also demonstrates the ability to build inventory. For the better part of two years (early 2002 to early 2004), eastern utilities embarked on a financial strategy revolving around reduced inventories. Aside from the obvious savings in inventory carrying costs, high coal supply prices led many utilities to believe that they were seeing a temporary peak in coal prices. Hoping to avoid those high prices, utilities adopted a strategy to burn down inventories in the expectation of rebuilding when coal prices fell again.

After two years of widespread inventory reduction policies it not only became obvious that the anticipated drop in prices was not going to happen, but also utilities and their regulators began to be uncomfortable with the low levels of their stockpiles. Utilities began to rebuild stockpiles in the January 2004 to December 2006 time period, putting great stress on CSXT's rail network. With many customers simultaneously calling on CSXT to not just meet their current needs, but also to quickly replenish their inventories, the demand did strain CSXT's short term abilities. CSXT feels that it rose to the challenge: hiring crews, adding locomotives, and increasing the number of coal cars under lease. Inventories fluctuated and then, over the next two years, Eastern utility inventories were rebuilt from just over 32 days to a level that is approaching 60 days today. And, that has been accomplished despite burn levels above historic norms.

This is not to suggest that CSXT has unlimited capacity. Indeed, it does take time to rebuild customer inventories, as the data show. Our point here is that, with proper planning and communication, CSXT can meet the needs of our customers today, and tomorrow. As our utility customers grow, CSXT is prepared to grow with them. We expect that coal will continue to be a profitable segment of our business that will financially justify continued investment.

Looking ahead, CSXT is investing heavily to position itself for growth in the coal markets we serve, and to adjust to changes in demographics and coal production patterns. We continue to strive to "design in" productivity, with increased car capacity, enhanced locomotive technology, and information technology. Our independently-conducted customer surveys for May 2007 showed the highest score ever recorded by CSXT, reflecting customer satisfaction.

CSXT appreciates the efforts of the Board to bring the various interests together at this hearing and in other contexts as well. Communication is essential between the utilities, coal producers, and railroads. While CSXT maintains an active customer outreach and communication through our sales force and extensive day-to-day contact between our operations staff and our customers, failures of communication do happen. Sometimes, we have found that our customers change coal originations/sourcing without sufficient advance notice to CSXT for us to put in place the localized changes that are required to provide the service. This would include crew and sometimes infrastructure. This kind of failure of communication can lead to particularly difficult issues when a shift is from one coal-producing region to another. If the number of trains being re-sourced is substantial, there can be times when there are scheduling conflicts with other coal, or even non-coal, trains on a corridor. Adjustments have to be made, which takes time and sometimes will take a few tries before the right set of changes is found. Advance planning, which is made possible by better communication, can work to the benefit of everyone involved in the coal supply chain.

Every link in the supply chain is important – from the mine itself to the receiving tracks and unloading capabilities at the power plant. When utilities ask for more coal, it cannot always be provided at the places desired, in the quality needed, at the exact moment in time that it is wanted. If railcars cannot be promptly unloaded, they cannot be returned to the coal fields for another load. Decisions to draw coal from more remote locations require longer hauls in distance and time. This is neither a good nor bad thing, it is simply one more complicating aspect of supply chain management. Communication among all participants in that process is crucial to success.

And, unquestionably, this is a two-way street. Our customers need to know about changes in CSXT's service situation so they can plan accordingly. We begin discussing with our customers major planned curfews to track for scheduled maintenance as soon as those plans are firm. We keep in daily – sometimes hourly – contact with customers who may be affected by unusual events. Still, communication and understanding can always be improved. For that reason, CSXT has fully supported the Board's consideration of an industry-government advisory committee for coal transportation issues.

Today, CSXT-served utilities have solid inventories, and we stand fully capable of meeting all reasonable needs of our utility customers. Inventories simply do not present a reliability issue at CSXT-served utilities. Our customers' inventories are at their highest levels since early 2002. CSXT has some, although not unlimited, capacity for additional trains weekly in most corridors. And, we currently have over 650 coal cars in storage that could be immediately activated for use should demand require.

CSXT is making investments today to keep up with the growth that we can predict in the future. Working closely with our customers, we can understand and react to many of their infrastructure expansion plans. The long lead times for a new coal plant or the addition of a scrubber at an existing plant are longer than the current lead time required for additional rail capacity on CSXT. The future capacity needs for CSXT's coal customers will not be unexpected events and we are prepared to invest where the market and customer needs support an investment. These capacity improvements represent decades-long investment decisions. Cars and locomotives can be re-deployed, but only if there are alternative uses. Track, bridges, and signals are fixed in place for their useful lives. If CSXT expands a corridor's capacity to meet a demand that evaporates, that investment is forever stranded. And, under the federal rail regulatory scheme, CSXT earns revenues only on the carloads of freight it hauls in a competitive marketplace. Stranded investments do not go into some "rate base"; they simply represent a loss. There must be a balance between the appropriate level of risk and the capacity our customers want. The marketplace is a wonderful mechanism for achieving that balance. Confidential, negotiated contracts, with maximum and minimum volumes, have become an essential, and

we believe successful, requirement for future understandings between CSXT and its coal customers.

CSXT submits that the single most important question in considering reliability of coal supplies to power plants is inventory. While CSXT would never suggest that our judgment of how much inventory should be maintained at a utility is superior to that of our power company customers, we do note that some reasonable inventory level is – has to be – prudent. Historically, we believe state public service commissions have permitted compensation to utilities for inventories carried at around 70 days, and in the 1980s inventories typically were more in the range of 70 to 90 days. Whatever inventory level is carried, it certainly should be sufficient to provide a cushion against the many events that can occur in the real world that affect the various links in the coal supply chain.

In summary, CSXT is highly optimistic about the future for coal. Growing demand for electricity and the political imperative to reduce the nation's dependence on foreign energy sources will make coal an important part of the nation's energy policy for decades to come. New clean coal technologies and emerging carbon sequestration science hold great promise. CSXT wants to transport more coal and could do so today if the demand were there. Coal will continue to be a vital sector for CSXT's financial success in the future, and our railroad looks forward to being an integral part of the coal-based electric supply chain for generations to come.

## **Ethanol Transportation On CSXT Today And In The Future**

### ***CSXT Ethanol Market Strategy***

Ethanol has been a rapidly growing segment of CSXT's Agricultural Business Unit for the past four years. CSXT has worked hard to expand its traffic base, and our volumes have grown at a brisk pace.

Government mandates coupled with private initiatives have encouraged investment in ethanol production facilities, rail infrastructure, destination terminals, destination storage capacity, and freight car construction. CSXT feels we have been very successful in growing this business on our railroad, and that our service to our customers has been a success story.

Ethanol on CSXT has grown from just over 51 million gallons in 2004 to over 800 million gallons handled over the past 12 months. We have accommodated this tremendous growth with virtually no service disruptions or operational difficulties. This is a tribute to our customers, terminal operators, interline connections, and all involved in the logistics chain.

CSXT has worked closely with ethanol producers, customers and other key participants in the logistics chain to ensure that we have all shaped our respective strategies to achieve success.

From CSXT's perspective, our strategy to handle this growing market has revolved around three principles:

- Efficient freight car utilization
- Shipment size
- Supply Chain Diversity

### ***Efficient Freight Car Utilization***

CSXT has created a logistics model that gives a high priority to efficient freight car asset utilization. Ethanol moves in specialized tank cars, which are provided by the customer and are dedicated to ethanol shipments. By maximizing turn times (trips per month), CSXT can reduce the customer's total equipment requirements to transport a given quantity of product. That in turn reduces the customer's capital investment in car capacity.

CSXT ethanol traffic, originating in the Midwest and moving to the Northeast, primarily moves on our premium double-tracked, high-speed lines. Unit trains from well-designed production facilities in Illinois, Indiana, and Ohio can often reach their destination terminal in 36 to 48 hours. CSXT encourages destination terminals to focus on unloading unit trains of ethanol in 24 hours or less. With

proper storage and load capacity at origin production facilities, this combination of efficiencies can enable a set of cars to turn as many as three times per month, which minimizes the required investment in rail car capacity. (By comparison, equipment in non-unit train service often turns only once a month.)

### ***Shipment Size***

Unit train shipments are not just desirable because they expedite transit times. The efficiencies that come from unit train movements, as the Board is well aware, can also lead to economies of scale. CSXT has provided economic incentives to customers to ship in train size quantities where appropriate.

Unit train service requires commitments from all participants in the logistics supply chain. It does little good to have a shipper who can load and ship a unit train if the receiver cannot receive and promptly unload the train as a unit. Particularly in the Northeast, where demand is expected to ultimately exceed 1.9 billion gallons per year, CSXT has encouraged investment in train-capable receiving points. At these terminals, ethanol can be temporarily stored, and then barged or trucked to final destination. CSXT currently serves four terminals that are capable of receiving unit trains, and will serve one more in the Northeast by the end of 2007.

### ***Supply Chain Diversity***

CSXT's strategy is to build a network that offers customers flexibility and choice of shipment size and terminal location – enabling them to compete in any given consumption market within CSXT's service territory.

CSXT has invested capital into the development of this industry. For example, in Albany, New York, CSXT invested over \$2 million in capital to provide a fast unload train capable terminal to the market. In addition to direct capital investment, CSXT has several agreements in place with customers and terminals which provide capital refund incentives based on volumes shipped. These investments are designed specifically to assist shippers and receivers in developing efficient rail facilities at both origin production and destination delivery locations. In this way, CSXT can share in the risks and rewards of the marketplace. Similarly, CSXT's affiliate, TRANSFLO®, has invested over \$1.9 million in specialized transfer equipment at its terminals, and has expanded its storage track infrastructure – solely related to ethanol projects.

CSXT's supply chain diversity strategy has led us to invest in, and otherwise support, customer flexibility for ethanol sales into our destination marketplace. Rather than partnering with only one or two mega-terminals, CSXT is working with five different independently owned and operated terminals in the Northeast. CSXT currently serves unit train unloading facilities in Albany, New York; Sewaren, New Jersey; Baltimore, Maryland; and Providence, Rhode Island. (A

fifth facility at Linden, New Jersey is expected to open by October 2007.) With this flexibility, CSXT customers can diversify their inventory, giving them security in their supply chain should problems arise at any one terminal. All of these facilities can accept unit trains of ethanol, and can unload them rapidly – usually in 24 hours or less. As noted, a central element of the CSXT ethanol strategy revolves around unit train capabilities.

However, CSXT also recognizes the existing limitations in the marketplace. Not every customer can justify unit train service. This is often driven by limitations at destination, or by the fact that some destinations are not directly rail-served. And, not every customer has long-term supply arrangements that give it certainty of business volumes to certain destinations out into the future. To meet the needs of this market, CSXT maintains a network of 60 TRANSFLO® terminals. TRANSFLO® terminals can receive rail car quantities of ethanol and transfer to trucks for ultimate delivery. This process allows customers to enter into a new market on a short term basis without capital investment on their part in transfer operations. We can also accommodate our customers' long term business objectives using our TRANSFLO® terminal network. Naturally, the economics of unit train shipments cannot be available for single car movements. Nonetheless, many customers have availed themselves of the TRANSFLO® alternative, and have developed their business through that channel. CSXT has worked diligently to keep ethanol cars in this service moving efficiently, and we have been pleased with the results. Still, CSXT continues to believe that, long term, the most successful participants in the ethanol business will be those who make commitments to efficient unit train operations, with the necessary shipper and terminal infrastructure at both ends of the logistics chain.

CSXT urges the Board to use its position of transportation policy leadership to communicate and emphasize to shippers the importance of origin and destination planning for efficient rail transportation service. Many new entrants in the ethanol business are emerging. Many have shown a level of logistics sophistication commensurate with their large capital investment and commitment to the ethanol business, but a few have not. Those who construct production facilities, or receiving terminals, without prudent consultation with the serving railroad run a very real risk that their transportation opportunities and economics will be sub-optimal. As the ethanol business grows – and it will – those who have failed to plan adequately in partnership with the railroad may quickly become disappointed and disaffected.

## ***Railroads Are Poised To Handle The Growth In Ethanol Traffic***

As noted, rail is just one link in the ethanol logistics chain. CSXT is doing its part to be the strongest of those links and, by and large, our customers and terminal partners are doing theirs. We believe that rail will be well-positioned to accommodate the growth in ethanol consumption that is expected over the next decade.

In that regard, CSXT has noted that some government leaders and other commentators have expressed concerns about the rail industry's ability to accommodate this growth. CSXT believes strongly that it is ready and well-positioned to accommodate the anticipated surge in ethanol demand.

Estimates of future demand vary, but we note that President Bush, in his 2007 State of the Union Address, called on the nation's renewable fuel industry to use 36 billion gallons of renewable fuels by 2025. If that target could be reached, and, if it were all ethanol and if all of it were to move by rail, it would require 14,000 unit train movements per year. While that seems at first blush to be a staggering number, it would in fact represent a mere four percent of the nation's rail carloads.

In a marketplace where economic signals are allowed to freely allocate resources, CSXT believes that unit trains of ethanol will continue to move readily over its network. In short, it is not so much the surge in ethanol to be transported by rail that should be the central concern – for that is clearly manageable – but rather, the projected 67 per cent increase in transportation demand over the coming two decades. CSXT believes – at least in the ethanol markets that we serve – the capacity constraints that are likely to most affect ethanol transportation in the future are elsewhere in the logistics chain.

The Board should keep in mind that the logistics chain will only be as strong as its weakest link. (And actually, there will be multiple logistics chains in a market this diverse.) Railcars, which again are provided by the customer, are a central consideration. If the number of rail cars available does not keep up with demand, there will be imperfections in the logistics chain. This could be aggravated if many producers adopt a marketing strategy favoring single car shipments to smaller terminals. The efficiencies enjoyed by producers who adopt a unit train distribution strategy will give them competitive advantages and marketplace forces should result in economically-efficient distribution decisions.

Of course, unit train service requires infrastructure at origin that can accept and load a unit train. Unit train service also requires a receiving terminal that has private track capacity of sufficient size to accept a unit train – and tank storage capacity to unload it. (Tank capacity needs to accommodate not just the unit train, but all other inventory of ethanol that the receiver is holding on hand.) Here again, an infrastructure tax credit offers the opportunity for federal energy

policymakers to leverage public and private funds on a favorable ratio to facilitate the development of ethanol as a major source of fuel. The STB, with its unique insights into freight transportation issues, is certainly well-positioned to carry the message that the future of ethanol transportation depends not just on railroads, but on the infrastructure that the railroads connect at origin and destination. CSXT would welcome an opportunity to meet with the Board periodically on these issues to share insights, together with others in the ethanol industry, and to enhance communications between private industry and government.

Similarly, producers who locate on rail lines in locations that do not lend themselves to good service will be similarly disadvantaged. As traffic volumes grow nationwide in all commodities, there will inevitably be a premium on sound location decisions. In the 21<sup>st</sup> century, all connections to the national rail network are not created equal. Those in locations that lend themselves to efficient operations will have advantages over those in operationally awkward places. This is both a function of tightening capacity and modern rail operations. CSXT endeavors to explain these important considerations to potential new ethanol producers considering locations on CSXT's lines, and maintains a professional Industrial Development group trained to help these new customers make the most of rail opportunities. Still, it would be helpful for potential new customers to hear the message of consultation and cooperation with the railroad from this agency before they advance their plans to site commitments.

To date, CSXT's primary ethanol marketing efforts have been focused on the Northeast. As CSXT looks to the future of the ethanol industry, we see the next large growth in the Southeast, where we have long had specific capacity constraints – which we are already addressing. The capital investments that CSXT is making in expanded-line capacity on its Chicago–Florida corridor are crucial if we are to maintain fluidity over the primary route from the corn-producing regions of our service territory to the next large growth region. Public private partnerships, such as CSXT is developing with the State of Florida, are paving the way for the rail capacity requirements of the next decades.

CSXT is already working on several terminal projects in the Southeast – all of which conform to our marketing strategy of Speed, Size, and Supply Chain Diversity. We are working to design key unit train facilities, coupled with development of TRANSFLO® terminals in several southeastern locations. CSXT's goal is to do all it can – with the cooperation of other participants in the ethanol market, such as producers and terminal service providers – to stay one step ahead of demand, as ethanol increases in importance as a national energy resource.

## **Conclusion**

CSXT is a vital link in the energy chain, and we take that responsibility seriously. CSXT links ethanol producers to terminals and fuel blending facilities. CSXT links coal mines and electric power plants. We work closely with our customers in both markets to understand, and prepare for, their needs – today and tomorrow.

Today, we have the capacity to handle all of our energy customers' reasonable needs. Our utility customers have the highest inventory levels since 2002, and many have reduced their orders for additional coal because they have concluded that they now have too much inventory on hand. Ethanol is flowing smoothly to market, with no impediments. We are investing at record levels to be prepared to meet our energy customers' needs in the future.

CSXT is making these investments as a matter of sound business. The potential financial returns from investing in rail capacity to accommodate our coal and ethanol customers' future needs look encouraging. As railroaders, we are pleased to be able to justify capital investment in our railroad to our shareholders. But these investments are not risk-free. Investment in railroad capacity is a decades-long investment and much of it is fixed in place permanently. Changes in the regulatory rules could potentially undercut some or all of the value of that investment. We urge the Board to keep in mind always, as it applies the laws it is charged with enforcing, the need for a fair opportunity to earn a fair return on that investment.

CSXT believes that the railroads can and should play a central role in national energy policy:

- Railroads are the most energy efficient way, by far, to move goods on land.
- Greater use of rail reduces dependence on foreign oil.
- Railroads produce substantially less greenhouse gases per ton-mile of freight than motor carriers.
- Railroads take trucks off the nation's congested highways.
- Railroads can move large quantities of coal to the power plants of the future, which will use newer, cleaner and more efficient energy technologies.

CSXT would welcome an opportunity to participate in any advisory committee, information sharing forums, or other hearings that the Board might think would further advance the understanding of stakeholder groups with an interest in the nation's energy needs.

Respectfully submitted,

A handwritten signature in cursive script that reads "Peter J. Shudtz" followed by the initials "P.J.H." in a smaller, more stylized script.

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