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Background on Passenger Rail

Statewide projects

Michigan – Detroit – Kalamazoo
Ohio – “3C” – Cleveland – Columbus-Cincinnati
North Carolina – Raleigh – Charlotte
Georgia – Atlanta – Macon

Regional and commuter projects

Detroit – Ann Arbor, Mich.
Cleveland – Vermillion, Ohio
Norristown – Reading, Pa.
Camden – Glassboro, N.J.
Greensburg – Pittsburg, Pa.
Wilmington – Dover, Del.
Norfolk – Richmond, Va.
Asheville – Salisbury, N.C.
Selma – Raleigh, N.C.
Raleigh Triangle Transit
Charleston, S.C.
New Jersey Transit Lehigh Line

Future Projects

Atlanta – Charlotte
Atlanta – Birmingham

- **I'd like to thank Steve Branscum and the Board for the invitation to join you today. It's great to see ITI working to address the country's transportation crisis at such a crucial time, given the economy and political environment.**
- **As I look around the room, I see a lot of customers. Norfolk Southern appreciates serving you, and we are dedicated to enhancing our intermodal service to meet your needs. I'll talk more about that as I move along.**
- **As far as the economy goes, we're all dealing with a downturn the likes of which we have not seen in awhile. *[Talk about how recession has affected all business groups, with traffic down 18 to 20 percent earlier in the year.]***
- **Norfolk Southern is responding in three ways. (1) Managing costs aggressively and right sizing operations. (2) Continuing to improve and enhance our service while remaining focused on safety. (3) Investing in capacity -- we won't sacrifice long-term opportunities for short-term profits.**

- **Even in this economy, it's a very exciting time in terms of intermodal on the railroad. When the railroads first entered the intermodal market, we were basically carrying international goods coming off steam ships 500 miles or more from the coasts to the Midwest. As the result of this economic downturn, import business has fallen substantially. But while we are seeing these substantial declines in international, we have seen an increase in our domestic intermodal year-over-year volumes.**
- **That's why we remain focused on our strategy to create new business corridors such as the Heartland Corridor and Crescent Corridor. It's an exciting concept to work with government and our trucking partners in a public-private partnership to alleviate congestion.**
- **There's a lot going on in the political climate that makes these kinds of investments exciting as well. The new administration's passing of the federal stimulus package has really opened up our country to a lot of opportunity when it comes to both freight and passenger rail. The \$8 billion appropriation for high-speed rail and inner-city rail outside of Amtrak appropriations has states and localities across the NS system taking a very hard look at implementing passenger service.**

- **That kind of funding plus additional annual allocations of \$1 billion a year for 5 years after the program takes place generates interest for transportation departments and planners across the NS system. In the course of last six to eight weeks we have communicated with more than 15 jurisdictions making us aware of their intention to seek public funding for passenger projects -- ranging from statewide projects, such as in Michigan and Ohio, to small regional projects that may only qualify for design and preliminary engineering funding.**
- **For the first time, we are able to get past the initial impediment of funding to begin planning and paying for the infrastructure improvements required for passenger rail.**
- **Passenger expansion and increased passenger rail activity is going to occur because of public interest. I liken it to the similar attitude shift that took place to put intermodal on the railroads a dozen years ago. With that new reality, and to the extent that there is likely to be a growing amount of public support for public rail capacity, public policy makers need to promote cooperation of passenger rail and freight rail through funding.**

- **It's quite analogous to what we saw when the railroads took on intermodal. The railroads' entry into intermodal was viewed as nothing short of revolutionary -- these were truck containers, our competitors -- how could we have a partnership between the two of us? It took a real shift in our thinking to make it happen.**
- **Just as we saw dramatic movement of intermodal onto the freight railroads then, so it may be that the opportunity for freight railroads to move into the passenger arena in the future.**
- **When it comes to passenger rail in America, it's possible to change the business model. If we approach a passenger operation from a business perspective, freight railroads can theoretically make money in passenger business. Passengers can be viewed as customers just as intermodal; we're charging a fee to deliver a service. The real economic impact in the passenger arena is nowhere near the intermodal arena. Revenues from passenger rail will never be anywhere near the levels we see in coal or intermodal.**
- **But there still remains a huge business opportunity for freight railroads in playing our role to solve the nation's transportation crisis. NS is a leader in exploring these kinds of out-of-the-box approaches to passenger rail.**

- **At NS, we really believe in this interactive and cooperative relationship. It's the right time and circumstances. As a company, we are prepared to engage, be responsive and cooperative. We will really set an example for the railroading industry in terms of the attitude to promote these mutual interests.**
- **Review four general principles for passenger activity: (1) The introduction of any passenger activity cannot cause any degradation to existing or future freight service. (2) The introduction of passenger service cannot expose freight railroads to any increased liability. (3) We expect to receive fair compensation for our assets that will be used by the passenger entity. (4) We will not directly or indirectly subsidize the introduction of passenger activity.**
- **We should all be excited by the federal funding in the stimulus because it means a better rail network for everyone out there using it. The public sector will help both freight and passenger rail. This is going to increase opportunity for additional public investment in the freight rail arena. Increased public enthusiasm and investment in the Crescent Corridor shows how we can support intermodal growth while accommodating passenger service.**

- **However, a couple of legislative issues pose a serious threat to all of this cooperation and opportunity. Capitol Hill legislation could wreak havoc on the rail industry and on Norfolk Southern. Efforts that would in effect reregulate the industry and also repeal the railroads' limited anti-trust exemptions would do just that.**
- **Summarize goal of regulations: Would push down rates on higher-end. We will have to raise the lower-end and make the pricing more competitive for intermodal. That will spell the death of a lot of intermodal on the railroads.**
- **If current legislative efforts are successful, it would be a disastrous impediment to capital investments in the rail industry at the very time they are most needed to help the nation get out of its transportation crisis and to help restore our economy.**
- **We are in talks with House and Senate staff to find a compromise to preserve balanced regulation. By preserving balanced regulation the freight railroads will be ready to serve the nation when the economy recovers. I ask for your support in this critical effort to keep the freight rail industry healthy and investing in the capacity and opportunities I've laid out today.**

- **Thanks for allowing me to be with you today. At this time, I will be happy to take questions.**