

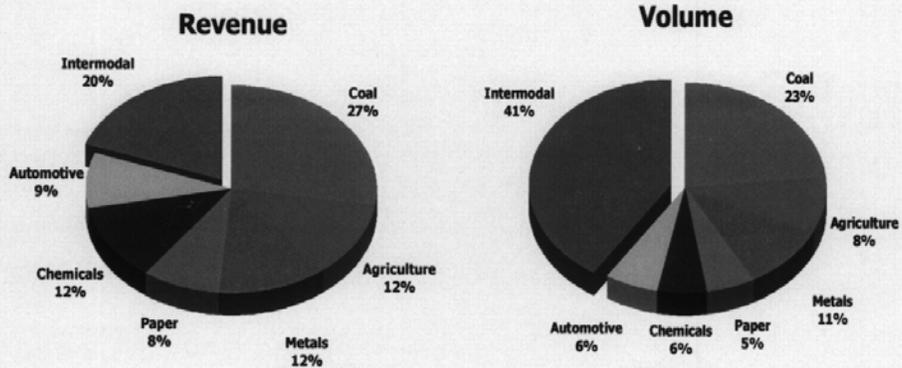
# Presentation to the Joint Subcommittee to Study Public- Private Partnerships (HJ72 Seaports)

Mike McClellan  
Vice President – Intermodal & Automotive Marketing  
Norfolk Southern

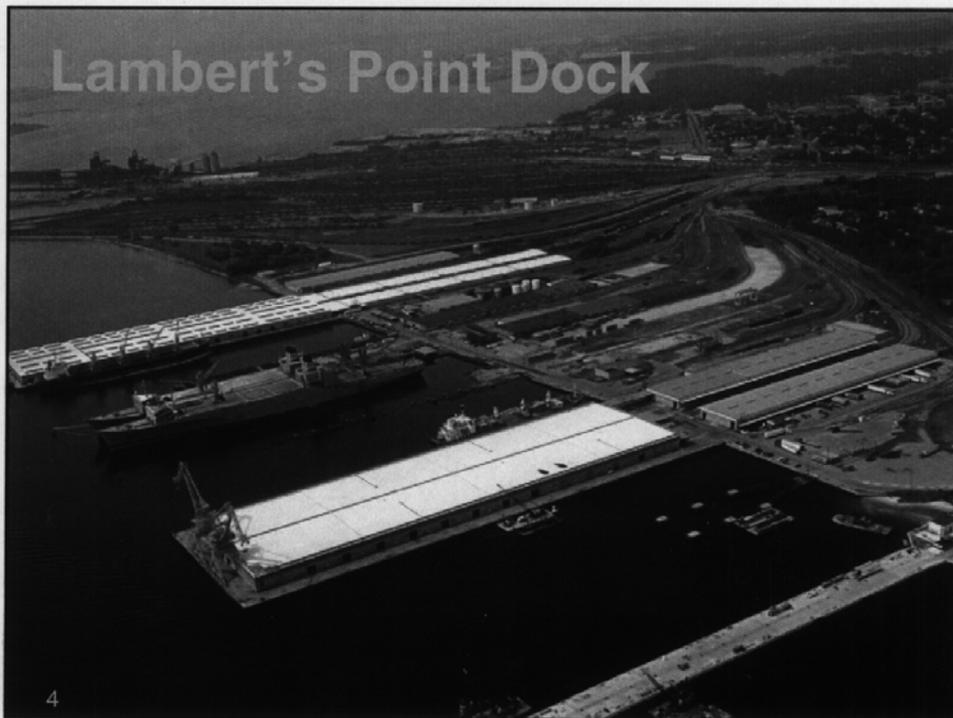
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# NS Business Mix: 4Q07 - 3Q08



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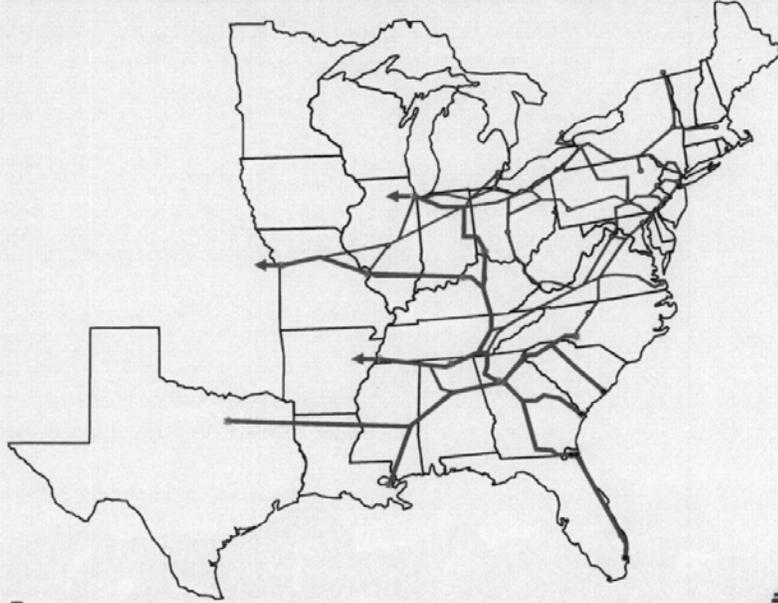
## Lambert's Point Coal Pier



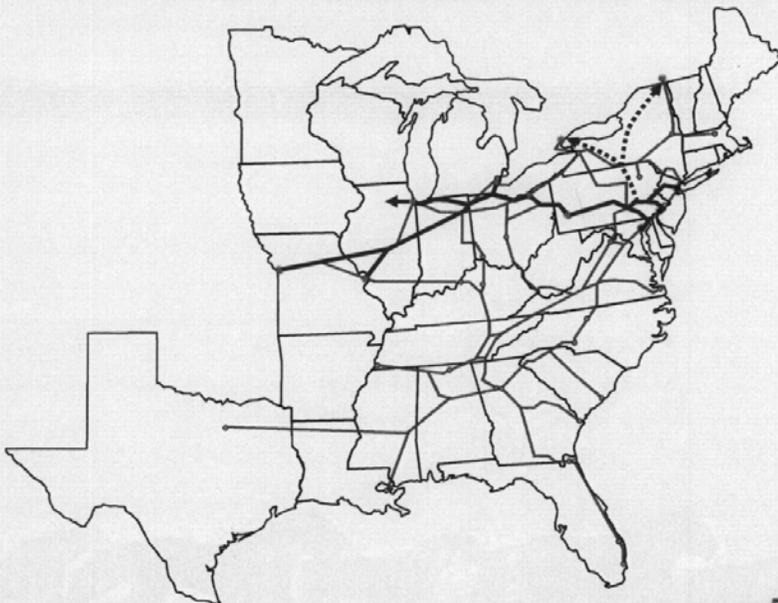
## Portlock Intermodal Yard



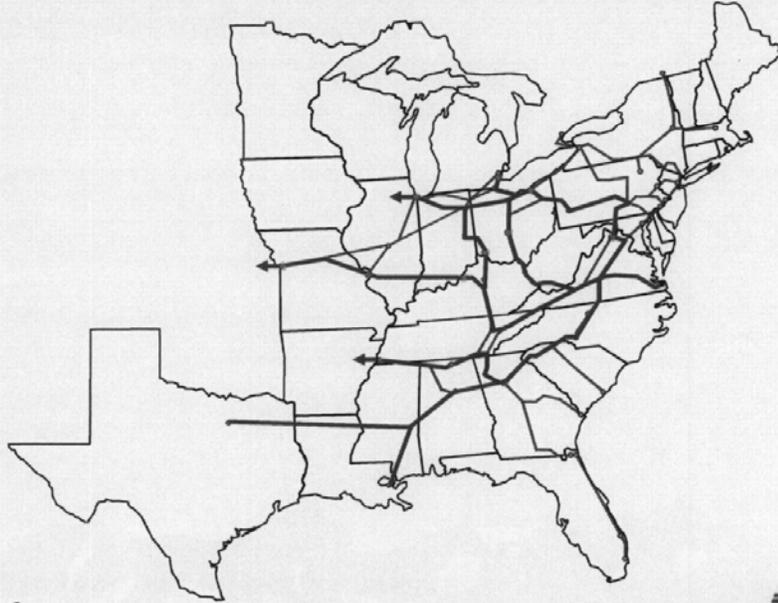
## NS South Atlantic Port Services



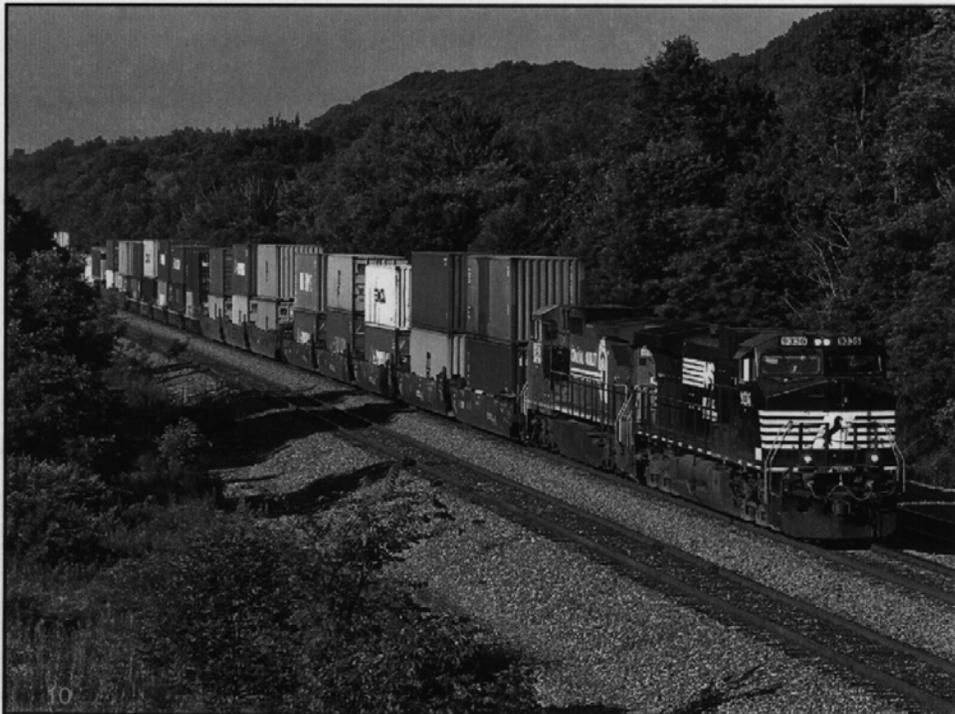
## NS North Atlantic Port Services



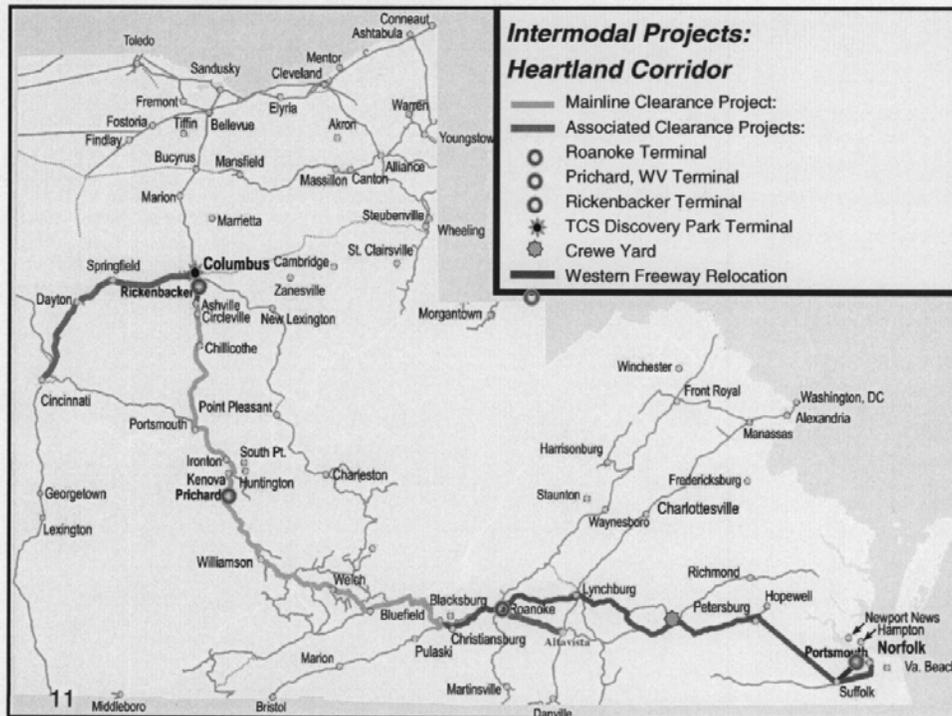
# NS Mid-Atlantic Port Services



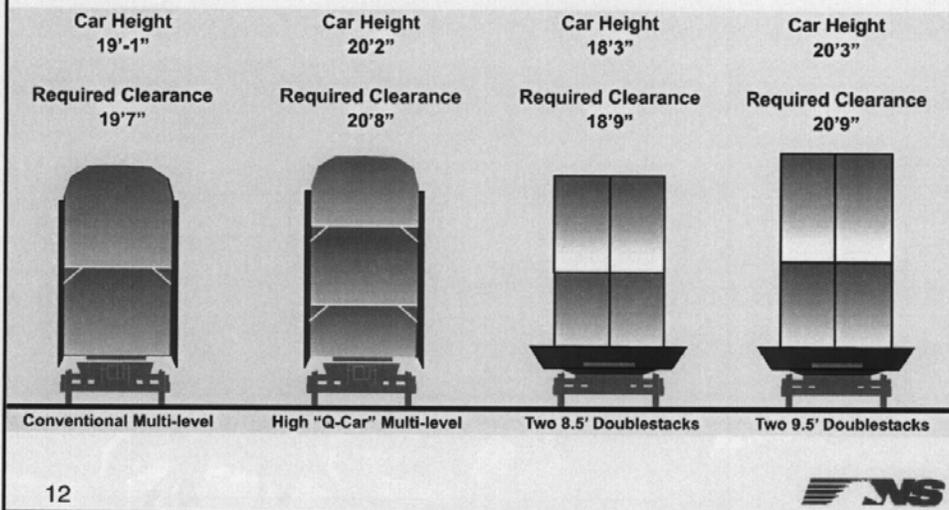
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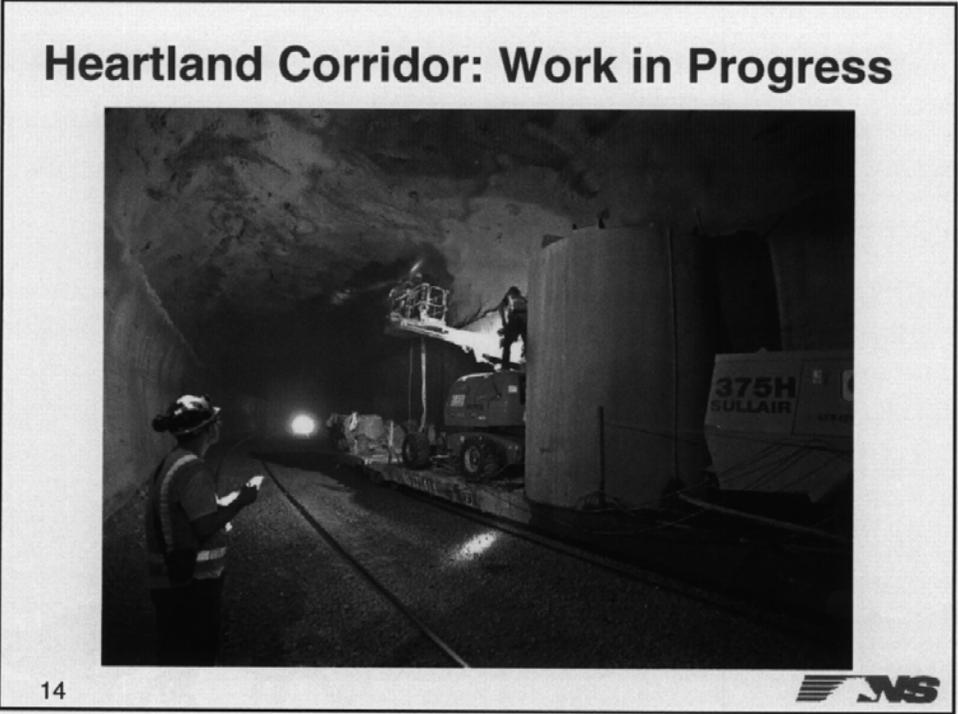


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## The Heartland Corridor Project Requires "Clearing" 28 Tunnels





## Heartland Corridor: Work in Progress



15



## Heartland Corridor: Work in Progress



16



## Heartland Corridor: Work in Progress



17



## Heartland Corridor: Work in Progress



18





**Presentation to the Joint Subcommittee to Study**

**Public Private Partnerships**

**(HJ72 Seaports)**

**By**

**Mike McClellan**

**Vice President – Intermodal/Automotive Marketing**

**Norfolk Southern**

(Slide 1)

Good afternoon to members of this commission and other guests, and thank you for the opportunity to speak here today.

My name is Mike McClellan, and I am Vice President of Intermodal and Automotive Marketing at Norfolk Southern. I am responsible for, among other things, Norfolk Southern's conventional Intermodal business, automotive business and our Triple Crown motor carrier subsidiary.

(Slide 2)

Norfolk Southern is the second largest eastern railroad carrier in terms of revenue and track mileage. We employ over 30,000 people throughout our network and have over 22,000 route miles. Our railroad extends directly and through haulage and trackage rights agreements as far west as Dallas, Kansas City and Chicago, as far south as Miami and New Orleans, and as far north as Boston. We also serve almost all of the primary ports on the east coast.

(Slide 3)

In the last 4 quarters, NS generated over \$10 billion, with Coal and Intermodal accounting for about 47% of this revenue. Intermodal is 20% of revenue and 41% of units.

While NS serves most of the primary ports on the east coast and does significant Intermodal and dry cargo business at all of them, the port facilities of Hampton Roads are of particular importance to our railroad for several reasons.

(Slide 4)

First, we own and operate a large general merchandise port facility here called Lambert's Point Docks where we have done over 900 carloads of import and export material so far in 2008, and our business there is growing.

(Slide 5)

Second, Norfolk is home to our Lambert's Point coal piers, which provide the majority of Norfolk Southern's capacity for coal exports. We have handled over 15 million tons of coal here so far in 2008, well above the tonnage moved in recent years.

(Slide 6)

Finally, the Hampton Roads container terminals - including our Portlock facility pictured here in Chesapeake, Va - are a critical part of Norfolk Southern's overall intermodal network.

(Slide 7)

NS has an extensive Intermodal Network serving the East Coast Ports. I might add here that the ownership structure of the ports that we serve on the east is extremely diverse, and ranges

from private ports – such as APM Virginia here in Hampton Roads - all the way to the publicly owned and operated model deployed in Savannah by the Georgia Ports Authority. Having this view of many east coast ports, our perception is twofold. First, each organizational structure appears to have strengths and weaknesses which seem to balance out up and down the east coast. Second, it appears to us that the most important determinant of a port's success is not ownership structure, but the overall competitiveness of a port's connectivity, its capacity, its flexibility and most importantly, its cost structure.

In the Southeast, we provide a large network serving ports from Miami to Charleston, and have on-dock capabilities at Savannah.

(Slide 8)

In the Northeast, we also have an extensive network serving the Ports from New York to Baltimore through our Hub in Harrisburg Pennsylvania.

(Slide 9)

With regards to the Ports in Hampton Roads – primarily through APM Virginia, Norfolk International Terminal, and our Portlock Intermodal Terminal – NS provides the most extensive Intermodal network on the east coast. While NS derives over 100,000 moves per year from the Ports of Savannah, Charleston and New York, the Ports in Hampton Roads generate the largest international container volumes for NS.

(Slide 10)

With regards to the issue of public private partnerships, and the potential for port privatization, Norfolk Southern is not in a position to directly comment on the merits of privatizing all or a portion of the property or operations of the Virginia Port Authority. The reason is straightforward: NS simply does not know the structural form or economic costs and benefits that the Commonwealth might be considering for such a transaction. However, given that Norfolk Southern has a large portion of its international Intermodal business generated from VPA facilities,

we feel that we are – and need to remain – a key stakeholder in this process. We want to ensure that whatever structure is ultimately adopted promotes the viability of this Port. To this end, we would recommend that this Subcommittee consider three key criteria in evaluating any change in the current structure of the container operations of the Virginia Port Authority, those being economics, development and investment.

Our first recommended criterion for evaluating a structural change for the VPA and its operations is preserving and enhancing the ports economic competitiveness. Steamship lines, particularly nowadays, are extremely sensitive to even small changes in their overall cost structures. When costs go up for either port or inland services, the steamship lines have proven very adept at quickly shifting their networks to lower cost solutions when cost inputs change. This is particularly true when they perceive that these cost changes are structural and permanent. Thus, if a change in the current structure of the VPA would result in an increase the cost structure – and price structure - of the port

in a meaningful way, we believe that this would be a negative for the port overall. Such a cost increase might manifest itself in container fees, increased debt by a new entity, or increased land rents or taxes, all of which would ultimately drive up the prices per unit to the steamship lines and ultimate shippers. And this, we believe, could drive away freight. I would like to say here, although maybe a little out of place, that developing privately funded and operated terminal facilities on Craney Island seems to be one of the approaches that VPA might engage in to ensure cost competitiveness of the port, particularly for those steamship lines who are demanding their own terminal assets on the east coast.

The second criterion that NS would recommend for the evaluation of any changes in the structure of VPA and its operations is preserving and enhancing the Port's economic development role and capabilities. While the vessel and port economics are the opening ante when Steamship lines determine their vessel rotations, having a strong base of customers that

receive or generate cargo is required for a winning hand.

Competition to develop landside customers and facilities up and down the east coast is fierce, and we believe that ensuring that the VPA or any new entity has an economic development mission, and is closely aligned with other economic development entities in the Commonwealth of Virginia, is a very important capability for the success of this, or any, port.

The third and final criterion that we would recommend for the evaluation of any change in the structure of VPA or its operations is ensuring the continued investment in the port for both capacity and productivity. While it is conceivable that a change in structure of the VPA and its operations might not result in any immediate increase in today's cost structure, if such a deal inhibited investment in the Port's facilities, it would be easy to envision a gradual erosion in the strategic competitiveness of the port.

Capacity growth capability and ongoing operational productivity improvements are key determinants when steamship lines select ports for their operations. Any degradation in the ability of a new

owner to invest in capacity and productivity – whether perceived or real – will degrade the strategic competitive position of any port.

Of course one criterion not mentioned above is the ultimate value that could be derived by the Commonwealth from the privatization of all or part of the VPA and its operations. Clearly, the assessment of this value will be at the center of any deliberations over the future of the port. Our position, however, is that any tactical value or annuity gained for the Commonwealth of Virginia must be tempered against the three decision criteria listed above, those being cost competitiveness, economic development and investment.

Now, as I mentioned earlier, the competitive position of all of the Ports in Hampton Roads is of extreme importance to the NS, and not just because the Ports in Hampton Roads produce more container volume for Norfolk Southern, than any other port.

Norfolk Southern, along with the Commonwealth of Virginia and the Federal Government, and with the support of the VPA and the

Virginia Maritime Association, are undertaking one of the most expensive and complex clearance and line improvement projects in our company's history.

(Slide 11)

Excluding terminals, NS will invest over \$60 million, and about \$220 million overall will be spent to improve the route structure of NS and the Commonwealth Railway lines between Hampton Roads and the Midwest. While this includes general improvements along the NS lines, and the relocation of the Commonwealth Railway line into the median of the Western Freeway, the centerpiece of these projects is the clearance of 30 tunnels in Western Virginia, Kentucky and West Virginia to ensure that taller trains carrying double-stacked containers can move through this part of the railroad.

(Slide 12)

Right now, a typical stack train is as tall as 20'3" above the rail and has a square profile as shown on the far right of this diagram. Currently, however, as shown on the left hand side of this diagram, the tallest car that most tunnels on the Heartland can accommodate is just 19'1", and has a curved profile that conforms to the roof of the tunnel. Once completed, the profiles of all of the tunnels will be raised to accommodate the tallest stack trains operated.

(Slide 13)

The reason these clearances are so important is that currently, NS must move double-stack trains on one of these two routes between Chicago and Norfolk: Either the southern route through Knoxville or the northern route through Harrisburg. These routes are up to 230 miles longer than the route through West Virginia. Once complete, the time, mileage and expense of moving trains between Hampton Roads and the Midwest will be reduced.

(Slide 14, 15, 16, 17, 18)

As these pictures show, I am pleased to report that this project is well underway. (Review pictures). By the end of this year, about 1/3<sup>rd</sup> of the tunnel footage will be cleared, and we are projecting that all of the clearances will be complete in the first half of 2010.

(Slide 19)

In summary, Norfolk Southern has a very strong interest in the health of *all* of the ports that it serves, but in particular, the private and public ports in Hampton Roads. We have a strong working relationship with the Virginia Port Authority and APM Virginia, and the Ports in Hampton roads produce more intermodal and overall cargo for NS than any other port on the East Coast. As we have shown, NS, the Commonwealth and the Federal Government are engaged in an unprecedented public private partnership to improve the rail routes between Hampton Roads and the Midwest. This corridor is not only a major

investment by NS, but by all of the entities that worked to get this project through the last highway reauthorization bill.

Because of this position in Hampton Roads, NS is very interested in any deliberations and potential changes made to the structure of public ports in Virginia, and feel that we need to be a key stakeholder in these deliberations. While we are not in a position to opine on the merits of any specific deal or prospective new structure of the VPA, NS wants to ensure that whatever structure is ultimately adopted promotes the viability of the Port. As such, we counsel and encourage this commission to balance any monetary benefits of port privatization against 3 key decision criteria: These criteria again are 1) Ensuring that the port remains economically competitive for its customers 2) Ensuring that the VPA or its successors are structured to actively engage in economic development activities and 3) Ensuring that the port has the capability to invest in continuous productivity and capacity expansion when required.

Thank you for your time and I'll be glad to entertain any questions.