On October 22, 2008, the joint subcommittee studying public-private partnerships regarding seaports in Virginia held its third meeting at 2:00 pm at Nauticus, Half Moone Terminal in Norfolk, Virginia.

Legislative members of the joint subcommittee in attendance were Delegates Purkey (Chairman), Cosgrove, Joannou, Massie, and Melvin and Senators Lucas and John Miller. Nonlegislative members of the joint subcommittee in attendance were Messrs. Godfrey, Martinez, Milliken, Moye, Padgett, and Taylor. A designee represented Mr. Whyte, also a nonlegislative member.

Delegate Purkey called the third meeting of the joint subcommittee to order and delivered opening remarks.

Michael R. McClellan
Vice President - Intermodal & Automotive Marketing
Norfolk Southern Corporation.

Please find below the full text of Mr. McClellan's remarks.

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.

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.

In the last 4 quarters, Norfolk Southern 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 Norfolk Southern 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.

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.

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.

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

Norfolk Southern 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.

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

With regards to the ports in Hampton Roads - primarily through APM Virginia, Norfolk International Terminal, and our Portlock Intermodal Terminal - Norfolk Southern provides the most extensive intermodal network on the East Coast. While Norfolk Southern 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 Norfolk Southern.

With regard 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: Norfolk Southern 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 Virginia Port Authority 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 Virginia Port Authority and its operation is preserving and enhancing the port's 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 Virginia Port Authority would result in an increase in 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 the Virginia Port Authority 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 Norfolk Southern would recommend for the evaluation of any changes in the structure of the Virginia Port Authority and its operation 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 Virginia Port Authority 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 the Virginia Port Authority 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 Virginia Port Authority 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 Virginia Port Authority 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 Norfolk Southern, 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 Virginia Port Authority and the Virginia Maritime Association, are undertaking one of the most expensive and complex clearance and line improvement projects in our company's history.

Excluding terminals, Norfolk Southern will invest over $60 million, and about $220 million overall will be spent to improve the route structure of Norfolk Southern and the Commonwealth Railway lines between Hampton Roads and the Midwest. While this includes general improvements along the Norfolk Southern 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.

Right now, a typical stack train is as tall as 20'3" above the rail and has a square profile.... Currently, however,...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.

The reason these clearances are so important is that currently, Norfolk Southern 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.

....I am pleased to report that this project is well underway. By the end of this year, about 1/3 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.

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 Norfolk Southern than any other port on the East Coast. Norfolk Southern, 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 Norfolk Southern, 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, Norfolk Southern 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 Virginia Port Authority, Norfolk Southern 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 three key decision criteria. These criteria are: (1) ensuring that the port remains economically competitive for its customers; (2) ensuring that the Virginia Port Authority 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....

Thomas J. Simmers
President and Chief Executive Officer
Ceres Terminals, Inc.

Mr. Simmers delivered a presentation to the joint subcommittee regarding privatization of port operations. After discussing the number of vessels, operating income, revenue, and locations of the operating and landlord ports of his company, Ceres Terminals, Inc., Mr. Simmers discussed how, in his opinion, privatizing works from an operating perspective. According to Mr. Simmers, the privatized model of ports operations increases profit margins, decreases costs, better utilizes assets, delivers more seamless service, and focuses on both land transportation and vessel production. Moreover, Mr. Simmers testified that privatization frees up government capital for other public projects and can make the ports more competitive because private industry can build quicker and cheaper than the government.

* Mr. Simmers' PowerPoint presentation is available at:
http://dls.state.va.us/GROUPS/ports/MEETINGS/102208/Simmers.pdf

Andy Hecker, *Project Manager*
Mike Crist, *Vice President*
Moffatt & Nichol

Mr. Hecker and Mr. Crist delivered a presentation about the 2040 Master Plan update for the Port of Virginia. The presentation began by the gentlemen discussing the purposes of the Port of Virginia: the promotion of maritime commerce, economic and local business growth, job creation. Next, Mr. Hecker and Mr. Crist discussed the needs of the Port of Virginia being met by balancing demand and capacity, long-term planning, investments, and fiscal discipline. Noting the efficient transportation, such as rail improvements, assists in the generation of statewide benefits, Mr. Hecker and Mr. Crist stated that opportunities exist to grow demand of port use, maximize productivity gains, promote distribution of jobs, buildings, and cargo, and advance technology through operational efficiency and automation. Furthermore, Mr. Hecker and Mr. Crist acknowledged the uncertainty of the national economy, that competition for cargo and land distribution centers is fierce, and the need for continual evaluation of short-term and long-term capital and resource allocations. In summary, Mr. Hecker and Mr. Crist stated that (1) "port activity continues to generate benefits for Virginia;" (2) "a fiscally conservative plan supports growth and needed investments;" (3) capital improvement plans relating to Craney Island fit funding scenarios; and (4) economic uncertainties affect the pace of long term plans.

* The above information is directly attributed to Mr. Hecker and Mr. Crist and such information can be found in their PowerPoint presentation, available at http://dls.state.va.us/GROUPS/ports/MEETINGS/102208/2040.pdf.

Jerry A. Bridges, *Executive Director*, Virginia Port Authority, Joseph A. Dorto, *President & CEO*, Virginia International Terminals, Inc., Barbara Reese, *Deputy Secretary*, Office of the Secretary of Transportation, and Dr. Wayne K. Talley, *Executive Director*, International Maritime Ports and Logistics Management Institute, Old Dominion University all offered statements in response to the presentations made and the discussions that took place.

The next meeting is scheduled for December 1, 2008.