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Michael J. Ward
Chairman and CEO

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The Honorable Daniel R. Elliott III
Chairman, Surface Transportation Board
395 E Street SW
Washington, D.C. 20423-0001

Dear Chairman Elliott:

Thank you for the opportunity to comment on CSX Transportation's business expectations for the remainder of 2015, as well as the company's commitment to delivering safer, more reliable, more differentiated service to customers. This letter includes responses to the topics outlined in your letter dated July 13: expectations for the fall peak and service performance, activities designed to maintain Chicago fluidity and on-time Amtrak operations, ongoing investment across the CSX network, and efforts to maintain high-quality communication with customers. It also seeks to demonstrate that investment in U.S. freight rail infrastructure is the answer to many transportation policy needs and that balanced regulatory approaches that promote investment are essential.

Overview

Freight rail transportation continues to play a critical role in moving the goods and services demanded by the global supply chain in a safe, environmentally friendly, efficient and cost-effective manner. The population continues to grow and highway transportation continues to face challenges, including driver shortages and congestion with limited public funding for maintenance or improvement. For these reasons, the growth imperative for freight rail is significant.

To ensure it can meet and exceed customer expectations in the future, CSX has prioritized reinvestment into critical network components, including infrastructure and equipment, to promote fluidity, reliability and safety. With more than $21 billion invested in the CSX network just since 2003, the company is focused on continuing to improve network performance as demand increases. Those capital investments support the strengths of the U.S. freight and logistics supply chain, which is a foundation of the domestic economy and essential to America's global competitiveness. However, decisions to reinvest are predicated on maintaining the balanced regulatory approach promoted by this Board.

At CSX, the first priority is safety. This focus has led CSX to industry-leading results in an already safe industry for the past several years. In 2015, CSX continues to be an industry leader in both FRA train accident and personal injury rates. One reason for our safety success has been the creation of a predictive tool called the Life-Changing Index, which helps identify circumstances that can lead to a catastrophic incident, allowing sufficient time to correct the actions to prevent injuries.

The resilience of the U.S. freight rail network was demonstrated in 2015 as the industry rebounded from the 2014 service challenges caused by the combination of epic winter weather and an unprecedented increase in freight demand. CSX responded by intensifying its focus on the four capacity areas that impact network performance: crews, locomotives, infrastructure and processes. With long lead times for acquiring locomotives and crews, those resources began to materially impact service performance positively in the second quarter of 2015. As a result, and with consistent investments in capacity and network fluidity, CSX is well-positioned to handle forecasted volume through the remainder of 2015 and into next year.

Market Updates and Expectations for Fall Peak

In the third quarter, CSX expects overall volume to decline slightly compared to the same period last year, with favorable conditions expected for about half of its markets and stable or unfavorable conditions for the rest. While low commodity prices and a strong U.S. dollar are challenging many of the markets CSX serves, core segments of the economy – including the automotive and housing markets – do continue to grow. Overall, CSX continues to expect slow, steady economic growth. The company is forecasting continued growth in intermodal shipments in the third and fourth quarters. While we do expect to see a "peak" in that and other markets over the next several months, it will not be as dramatic as the traditional fall peak. That is because customers are generally keeping a steady flow of inventory throughout the year to avoid surges or supply chain disruptions around the holidays.

Automotive
CSX maintains a network of world-class vehicle distribution centers to deliver automotive customers' freight on time and free of damage. While demand at times exceeded the capacity of the automotive network in 2014, investments in crews and locomotives, as well as additional auto racks, along the Northern Tier restored fluidity in early 2015 and moved a backlog of about 2,400 rail car shipments. CSX is prepared to accommodate North American Light Vehicle Production, which is projected to increase to a record, approximately 17.5 million vehicles, in 2015. CSX should be prepared to handle increasing demand with crews and locomotives available in key geographies and access to additional multi-level auto racks purchased in 2014.

Intermodal
Domestic intermodal is growing as the expanding consumer population demands more goods that are most efficiently moved by freight rail. CSX's intermodal network reaches nearly two thirds of American consumers. Second quarter growth of nine percent set an all-time record for domestic movements, as the company's highway-to-rail conversion program continued to generate organic growth. CSX continues to compete for a share of the more than nine million truckloads in the East that are candidates for intermodal conversion by working closely with beneficial cargo owners and third party logistics companies through the "highway-to-rail initiative" to identify traffic that would benefit from intermodal service.

To effectively serve new and existing customers, CSX continues to invest in the premier intermodal network in the East. The state-of-the-art Northwest Ohio intermodal hub expanded earlier this year, adding two wide-span cranes as well as processing and yard tracks. Double-stack clearances on the Trenton Line between northern New Jersey and Philadelphia have increased capacity along that critical corridor. Major progress has been made on the National Gateway, CSX's public-private partnership to double-stack clear major strategic routes from the mid-Atlantic ports to Midwestern consumption centers. CSX began construction on the major remaining project, the Virginia Avenue Tunnel in Washington, D.C., in May. The tunnel is expected to be double-stack cleared by late 2016 or early 2017. Completing the Virginia Avenue Tunnel will eliminate a major capacity constraint for mid-Atlantic regional rail traffic, including freight, passenger and commuter services. At the same time, construction is expected to begin this quarter on an intermodal terminal near Pittsburgh, Pennsylvania, connecting shippers in Western Pennsylvania to global markets.

Energy Markets and Chemicals
CSX's earnings and ability to invest have been diminished by sharp declines in coal. Consistently low natural gas prices over the past several years have led to the decline of nearly $1 billion in coal revenue for CSX. With natural gas prices remaining consistently below $3.00 in 2015, many of CSX-served utility coal customers switched from coal-fired electricity production to firing natural gas. Further, relatively mild weather through the second quarter means utility inventories in both the North and South remain above historical normal levels. As a result, CSX expects year-over-year domestic coal volume declines of 15 percent in the third quarter and approximately 10 percent for the full year. At the same time, many customers who still burn coal have adjusted their sourcing from Appalachia to the Illinois Basin. The company's new coal unit train processing yard in Hopkinsville, Kentucky opened in the second quarter to help maintain fluidity and reliability as Illinois Basin shipments grow. This sourcing shift has resulted in a commensurate routing shift, challenging some existing high-traffic routes while creating line-of-road capacity in other places that, in some cases, can be utilized for other traffic.

The shift in coal sourcing by CSX customers has also led to a shift in resource demands on CSX's network. As a result of continued weakness in coal markets and an ongoing focus on sizing workforce to match demand in each region, CSX is furloughing contract employees in certain areas. At present, the company has approximately 600 employees on furlough or furlough retention board, primarily related to declining demand for coal movements. Most of the furloughed employees operate trains, either as locomotive engineers or conductors. Furloughed employees may be eligible to work in other areas where traffic volumes are higher. Additionally, many are on furlough retention boards under which they continue to receive health benefits in return for remaining eligible for a return to work.

The export coal market continues to see extreme variability, as ongoing global oversupply has continued to challenge benchmark prices for both thermal and metallurgical coal, substantially reducing the competitiveness of many American producers. CSX expects to move approximately 30 million tons of export coal in 2015, down from 39 million tons in 2014.

CSX continues to move an average of two to three crude oil trains per day, but expects overall crude oil volume to decline about 15 percent in the third quarter year-over-year, and to be slightly below 2014 levels for the full year. Similarly, the frac sand market is expected to decrease at least 15 percent year-over-year in the third quarter as rig counts decrease.

Knowing the importance of flexible domestic energy supplies to the economy and national security, CSX's commitment to moving energy products safely remains a top priority. CSX continues to work closely with stakeholders with regard to crude oil shipments – including other railroads, oil producers, tank car owners, regulators, first responders, elected officials and local communities – to identify and implement the best possible solutions to make the safe transportation of these important products even safer. CSX has implemented increased track inspections on primary crude oil routes and is further enhancing its outreach to first responders. As a member of the Association of American Railroads, CSX advocated for stronger tank car standards for flammable liquids. The company was pleased with the progress made by the U.S. Department of Transportation with its enhanced tank car standard issued in May. CSX continues to support additional measures, including thermal blanketing of the new tank cars, which will further enhance the safety of first responders and communities.

At the same time, CSX is deeply concerned by the requirement for electronically controlled pneumatic brakes, a braking technology that is still in development and not proven in regular service. This requirement could delay far more meaningful investments in safety, dramatically slowing railroad operations hurting customers.

Low natural gas costs have boosted U.S. chemical producers' competitiveness on the global market, and we expect to see increased petrochemical production over the next several years.

Agriculture
The 2014 harvest eclipsed the record yields from the previous year, straining resources across the national freight rail network. CSX ramped up early to handle as much demand as possible. The company worked closely with its grain customers to maintain communication throughout the harvest and subsequent months. Sustained high demand meant CSX continued to operate higher than usual numbers of grain trains into the summer of 2015. Throughout the end of 2014 and in 2015, CSX continued to work with customers to increase 90-car unit trains and to meet the company's 15-hour express loading and unloading criteria, which improves the grain network's overall velocity.

As shared in CSX's testimony before this Board at the June 10 hearing, the company continues to believe that a market not burdened by excessive regulation is the best solution to a host of transportation policy problems, including repairing our nation's declining infrastructure. Included in the June 10 testimony were examples of the various options that farmers, grain elevators and animal producers have to receive grain. CSX believes that the combination of rail, truck and barge transportation with multiple sourcing options offers wide options to market participants and provides the most efficient and cost effective method for our customers to market or receive their grain.

Ethanol movements on CSX have been relatively weak given high inventory levels at many customer locations, as many customers have invested in storage facilities at rail-served locations. CSX expects inventories to remain relatively high, and continued near-term weakness in the market. To ensure long-term viability, CSX continues to work with customers to facilitate more efficient ethanol unloading, including the ability for customers to directly unload ethanol into storage tanks. This enhancement reduces costs and asset turn times, supporting fluidity.

Improved Network Performance

In response to the demand surge of 2014, CSX invested heavily in the resources needed to achieve the excellent service levels that customers have come to expect. Bringing on those resources – particularly crews and locomotives – involves long lead times, but the effect is significant as they come on line.

Throughout 2014, CSX hired in key geographies to meet customer demand, including bringing on approximately 1,900 front-line operating employees. Those employees went through the requisite six to nine months of training to become conductors, and many began working in revenue service in early 2015. As part of its commitment to workforce planning and development, many of the new employees attended training at the company's state-of-the-art Railroad Education & Development Institute (REDI) in Atlanta, Georgia.

In addition to adding skilled personnel in key geographies, the company has purchased 300 new locomotives to be delivered in 2015 and 2016, and significantly ramped up its heavy repair and rebuild programs. As of the end of the second quarter, CSX had taken delivery of 75 new locomotives that are compliant with U.S. EPA Tier III regulations. Another 125 locomotives, which will meet EPA Tier IV rules, will be delivered in the second half of the year. These locomotives, with cutting-edge technology that benefits the environment, can carry replacement costs of approximately $3 million each.

Many of those locomotives and train crews are in Chicago, which has remained an area of intense focus for CSX and its peer railroads. Infrastructure investments and close coordination among railroads have significantly improved fluidity in 2015. In contrast to the winter of 2014, the Chicago gateway experienced a Chicago Transportation Coordination Office red alert – signaling significant operational impact – only one time this year, a major improvement. CSX has made several infrastructure investments to help reduce congestion in the Chicago region, including building a new interchange with BNSF at Smithboro, Illinois. That interchange allows the two railroads to make connections outside of Chicago for critical movements of energy products and merchandise trains and allows for contingency interchange options if needed to maintain fluidity. CSX also can utilize the East St. Louis interchange as an alternative to Chicago for interline movements with the Union Pacific.

CSX also renovated and reopened its Chicago locomotive shop, allowing the company to perform periodic locomotive inspections, repairs and maintenance at the terminal, rather than having to reposition them to other network inspection and repair facilities. In addition, the company remains committed to the CREATE public-private partnership, with all railroad-funded projects either underway or complete.

The cumulative effect of these investments in Chicago and elsewhere drove significant second-quarter improvements in on-time originations and arrivals, terminal dwell and network velocity. Looking forward, CSX is prepared to flexibly allocate its resources to meet variable customer demand across its diverse business mix.

At the same time, we urge the Board to recall the operational and service difficulties that could result from forced access in which one railroad, under certain circumstances, would be able to force another to provide switching service. If successful, that railroad could use the privately financed tracks of its competitor. Such forced access could significantly reduce the predictability of traffic that is critical to a safe, reliable U.S. rail network.

Commitment to Customers

Transparent and frequent communication is another way CSX is supporting its customers. Over the past three years, CSX has prioritized and invested in new and better ways to communicate and collaborate. The company intensified its commitment to Service Excellence with visits to more than 5,000 customer facilities to better understand needs and discuss mutually beneficial solutions. CSX has continued to host a Customer Advisory Council, through which customers from diverse industries attend biannual meetings with CSX executives to discuss opportunities and challenges, and provide CSX an informed focus group with which to consider new service offerings and other enhancements. CSX is also investing heavily in technology, including mobile applications that allow customers to interact with the company from their smartphones and tablets. For example, ShipCSX mobile allows users to track and trace shipments, order cars or change service requests, report damage or other customer service issues and contact the CSX Customer Service Center directly from a mobile device.

CSX expanded customer communication in 2014, posting service updates to the CSX.com website every two weeks, complemented by a bi-monthly resource snapshot. CSX continues to provide these periodic comprehensive service updates to give customers an accurate view of network fluidity. CSX redoubled its efforts to communicate frequently with customers through online service bulletins and direct communication. CSX also built a tool that provides automatic customer updates on the status of individual shipments on trains affected by mainline blockages.

All of these efforts – from face-to-face interaction to new technology solutions – are designed to ensure customers' access to timely, relevant information.

Investments in Safety, Reliability and Growth

In 2015, CSX will spend a record $2.5 billion dollars in capital, with about 80 percent devoted to maintenance and upgrades of tracks, locomotives and rail cars. Under its $860 million maintenance-of-way plan, CSX will replace 3.2 million rail ties, replace 510 miles of rail, install 3 million tons of ballast and surface more than 5,000 miles of rail. Included in the plan are several double- and triple-track projects, including double-tracking a portion of the heavily traveled Albany (New York) Division and constructing a third main track on the Baltimore Division. Also planned are major siding projects across the Northern Tier and bridge replacements and reinforcements in West Virginia, Maryland and Pennsylvania. The remaining 20 percent of the capital investment is devoted to strategic projects, including technology solutions to promote productivity and growth opportunities in the intermodal market.

In addition to investment to maintain the network and grow strategic opportunities, CSX expects to spend at least $1.9 billion on government-mandated positive train control (PTC), with approximately $300 million planned for 2015. The company now estimates approximately $400 million more will be needed after this year. CSX is diligently working to safely implement PTC as quickly as possible, with more than 1,000 employees assigned directly to the program and significant progress on the installation of base stations and hardware.

However, the range of necessary regulatory approvals, software development and interoperability standards remains a challenge, and CSX and its Class I peers have remained consistent in their commentary that the industry will not make the December 2015 deadline. The company supports efforts by the Senate Commerce Committee to further extend the implementation deadline. At this time, it is premature to anticipate what decisions might be necessary should an extension not pass. Anything other than an orderly implementation threatens network fluidity and customer service.

As noted in CSX's testimony before this Board on July 22, rate caps imposed on revenue adequate railroads would hurt reinvestment to meet current and increasing freight transportation demand. We continue to urge the Board to maintain a balanced regulatory policy in regards to revenue adequacy that:

- Measures progress, and does not constrain it: revenue adequacy should reflect regulatory success and not an arbitrary basis to limit pricing and investment;
- Addresses the replacement cost imperative: use replacement cost of expensive, long-lived assets rather than the current view of depreciated book value;
- Promotes differential pricing: continue to allow railroads to price based on the marketplace value of the service provided, and not a price set through artificial rate caps or forced access; and
- Ensures free market results to foster re-investment: publicly held companies must be able to reward shareholders with competitive returns.

As CSX and other railroads continue to make important supply chain investments, the need for efficient permitting remains essential. As this Administration has recognized, critical infrastructure projects can be delayed or even permanently halted because of excessive permitting delays. We applaud the Department of Transportation for calling out that the lengthy federal review of privately-funded infrastructure projects can ultimately discourage their development, jeopardizing long-term job creation and enhanced network performance.

Passenger Service and Amtrak Performance

Permitting reform is also critical to support the nation's passenger and commuter railroads. CSX supports the safe and reliable operation of 160 daily passenger trains. As part of its commitment to balancing freight service for CSX customers with providing adequate support for America's passengers, CSX is in constant communication with Amtrak and other commuter agencies. While overall Amtrak performance on CSX remains stable, the company is working to resolve concerns about the performance of the Amtrak Capitol Limited service. CSX is engaged in discussions with Amtrak under the fact-based STB mediation process, and believes a resolution should be possible that respects the realities of both freight network performance and on-time passenger service.

CSX is committed to engaging with passenger and commuter rail services and other government agencies to explore appropriate shared use of corridors. CSX's participation in these conversations is grounded in four imperatives: safety for both CSX employees and the public, capacity to serve CSX's current and future customers, no passenger rail subsidy borne by CSX shareholders and reasonable liability protection against new risks. CSX evaluates any new passenger or commuter rail proposal to ensure additional operations do not jeopardize current or future freight service.

At the same time, CSX promotes vehicular and pedestrian safety across its network and on lines shared with Amtrak and commuter trains. Following several serious incidents between Amtrak trains and passenger vehicles, CSX is coordinating with Amtrak and state Departments of Transportation on safety awareness campaigns. These initiatives draw heavily on CSX's existing safety education work, including the company's longstanding "Play it Safe" campaign, designed to reach motorists and pedestrians with critical safety messages.

Looking Forward

In 2015, CSX continued to make progress toward standard-setting levels of safety and service. With unprecedented reinvestment, CSX is making the decisions that will ensure the necessary freight capacity for America's future. As consumer demand grows and global supply chains are increasingly more integrated, CSX and the freight rail industry are uniquely positioned to move the goods that fuel our economy and help keep America competitive in an efficient, cost effective and environmentally friendly manner.

However, that ability is critically dependent on a regulatory framework that recognizes the importance of reinvestment and the cumulative impact of individual mandates. The Board's leadership in promoting balanced regulation is foundational to that aspiration.

Very truly yours,

Michael Ward

Michael Ward
Chairman and Chief Executive Officer
CSX Transportation Inc.

cc: The Honorable Ann D. Begeman, Vice Chairman
The Honorable Deborah Miller, Commissioner
Mr. Ed Hamberger, Association of American Railroads