CSX TRANSPORTATION

James M. Foote
President & Chief
Executive Officer

500 Water St., C900
Jacksonville, FL 32202

January 3, 2018

The Honorable Ann D. Begeman, Acting Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington D.C. 20423

The Honorable Deb Miller, Vice Chairman
United States Surface Transportation Board
395 E Street, S.W.
Washington D.C. 20423

Dear Acting Chairman Begeman and Vice Chairman Miller:

This is in response to your December 14 letter concerning our continued progress in implementing Precision Scheduled Railroading (PSR). I am pleased to provide you with the additional information on the five performance areas you requested, which supplements the weekly updates that are available on CSX's website.

As you know, Mr. Harrison passed away since the time of your letter. However, his vision and legacy continue to flourish. As he's done elsewhere, Hunter has fundamentally transformed CSX. He achieved a tremendous amount of positive change at our company in a short time, and his presence will be dearly missed.

As a 40-year veteran of the railroad industry and someone with a long history with PSR, my experience has shown that PSR implementation consists of two phases. At CSX, the first phase involved top-to-bottom changes to the way the railroad operated. Mr. Harrison introduced the company to a new way of thinking about CSX's network, which led to major operational enhancements, including the conversion of certain hump yards to flat switching and strategic adjustments to other facilities. It also led to replacing CSX's traditional methods with a new, balanced, scheduled train plan comprised of significantly more mixed-freight trains. Most importantly, Hunter instilled a new railroad culture that has everyone focused on the five tenets of PSR: service, asset utilization, controlling costs, safety and people.

The second phase of implementation is the pure, daily execution of those five PSR tenets, which is well underway. We have outstanding railroaders who are working as a team with the clear focus of executing PSR.

As you noted in your letter, we have already witnessed results. Our performance metrics show a remarkable rate of positive change. Train velocity and car dwell have seen four consecutive months of improvement, and recent trends significantly exceed the prior full-year average, while car handling efficiency and terminal fluidity also exceed 2016 levels.

Our valued and skilled employees have achieved much over the last ten months. The one achievement I'd like to highlight is the progress we've made on velocity. Higher velocity serves as a catalyst for multi-faceted improvement. As trains speed up on the network and reach their destinations sooner, there are fewer total trains running at any given time. This improved line-of-road fluidity, in concert with terminals processing cars more efficiently, leads to a higher level of on-time originations. When trains are operating in their scheduled windows and executing in timely coordination on meets and passes, movements further accelerate across the network. As a result, fewer locomotives and crews are needed to handle the same amount of freight, and our cars are able to cycle more quickly, such that total cars online decline. The end result of this virtuous cycle is faster transit, better service, markedly improved asset utilization, and greater efficiency at lower cost.

In short, what you have is a better-run railroad. As evidenced by CSX's weekly updates, we're seeing these benefits today and we expect more to come as we move into 2018. I'll now turn to the five specific areas you raised:

I. Car order fulfilment

Early in the implementation of PSR, CSX undertook an extensive review of its assets and found opportunities to right-size our equipment in line with customer needs and market demands. The close monitoring of assets allows us to adjust equipment levels as circumstances warrant.

As highlighted in our weekly updates, customer car orders disconnected from historical and expected demand levels in the second quarter of 2017, resulting in over-ordering of cars and reduced fulfillment rates. Some customers have continued to maintain a buffer stock of CSX's empty cars, which elongates total asset turn times and reduces the asset pool available to fill other customers' needs.

CSX improved the car ordering process in mid-November to further accountability in ordering and fulfillment, and to better capture demand in a timely manner. To ensure that customers who choose to hold buffer stock do not preclude other customers' access to cars, we designate an empty idle car at a customer's facility greater than 24 hours as a filled order for the day, allowing for a rational and efficient allocation across all customers, aligned with market demand. We listened to our customers and broadened the fulfillment window, from seven days to fourteen days, to give each customer's order more time before expiration – an administrative convenience that relieves the customer from having to reset their car orders every seven days. Since implementation of these changes, CSX has demonstrated an average order fill rate of over 90%, as shown in the Attachment, and we have good equipment availability as compared to 2016.

As network velocity continues to improve and cars cycle more quickly, CSX expects to continue fulfilling demand at high levels – which is good for customers and the company – and also to further improve asset utilization and cars online.

II. Local service performance

At the Board's request, CSX re-instated the last mile tracking metric in late July, which is reported in our weekly update. As we've stated previously, the principal focus of PSR is on end-to-end transit and meeting customer expectations for the complete movement. Local service is a key element of that complete movement, and we've made significant improvements in this critical area.

Local operating teams have always been accountable for delivering reliable last mile pull and place performance. However, we are increasing the accountability for communication and problem solving with our customers for last mile performance by empowering local operations to take ownership of on-the-ground customer service needs like never before. We want our customers at the local level to know their trainmaster personally and reach out to him or her with questions or concerns. By developing a stronger local relationship with customers, issues can be resolved in real time and the overall customer experience will improve.

With terminals and line-of-road in a fluid state, and velocity and dwell substantially improved, we are targeting enhancements in yards, local service, and efficient switching. Accordingly, we expect ongoing improvement in our local service measurements concurrent with other performance measures.

III. Car trip plan performance

CSX is making good progress in our development of the end-to-end trip plan compliance measure and methodology. With the initial phase of PSR implemented and train plans stable, we can better focus on the business rules that will allow for the measurement of all cars in all operating circumstances and the real-time management and decision making around these cars to maximize delivery as scheduled. This will be an important focus in 2018 and we are on track to begin operational testing at the end of the first quarter of 2018. We anticipate a testing period of approximately 90-120 days to ensure the measurement works as intended and to educate and train our teams on how to modify operating practices through the lens of optimizing trip plan compliance which will directly benefit customer experience.

While the development of this new measure is underway, customers continue to have readily available access to CSX capabilities and performance via ShipCSX, customized to shippers' freight needs and patterns. All customers who use ShipCSX currently have access to the trip plan for a given car in scheduled service and can view this information to plan, ship, and trace their shipments. Our online tools allow customers to view their service schedules, provide on-demand railcar tracking with an estimated time of arrival, as well as view planned and historical transits that can be quickly analyzed for transit performance and exceptions.

IV. Communication

I am committed to a culture of customer advocacy. Our Sales and Marketing team works hard to win each customer's business, earn our customers' trust, and meet their comprehensive needs, including close coordination through necessary changes. CSX Customer Service personnel receive and address customer concerns when needed to supplement the direct outreach channels of local operations and Sales and Marketing. We also prepare and update our customers regularly utilizing the electronic platforms of ShipCSX, Service Advisories and Intermodal Fast Facts.

During my short tenure at CSX, I've been actively listening to our customers' expectations, and the ways in which PSR best serves them. As we move forward to the New Year, we will continue to be in close communication with our customers to ensure responsiveness to their supply chains and to address issues quickly and directly as they arise.

V. Chicago

Our Chicago interchanges remain current and fluid with no operational modifications currently planned. In addition, CSX's traffic profile across the Chicago terminals has stabilized over a period of several months. CSX is committed to doing its part in furthering well-coordinated and efficient operations in Chicago and working with our connecting carriers to ensure fluidity.

As to the winter, CSX will continue to manage its resourcing of crews, rolling stock and power, with additional resources available should they be needed. We continue to improve track and surface structures and upgrade winter weather related equipment. We have already faced cold temperatures and snow storms this season, and have recovered as designed. We're fortunate to have many experienced railroaders who have dealt with challenging weather conditions over the years.

As to your question on significant operating changes in 2018, we believe that PSR is in place at CSX, and do not foresee any significant operating changes at this time. Through our successful implementation, we've seen enhanced freight flows across the CSX network and tremendous progress toward our goal of providing a superior service product for our customers. At every level, we are focused on executing PSR each day to improve transit times, enhance reliability, and strengthen lines of communications with customers through the upcoming year.

Thank you again for this opportunity to address our performance improvements. I am available to meet with you at any time to answer any additional questions you may have.

Sincerely,

James M. Foote

ATTACHMENT

ORDER-FILL BY CAR TYPE

Fill by Car Type	2017 Fill % (Post Process Change)*	2016 Fill %**
Metals	94%	88%
Covered Hoppers & Minerals	98%	92%
Boxcars	91%	89%
Centerbeams	95%	85%
Total	**94%**	**89%**

** Car order and fulfillment process change implemented in week 45; the above represents fulfillment over the 14-day period under the improved process (weeks 45-51).*
*** Represents fulfillment against 2016 orders under prior seven-day car ordering process and fleet strategies.*