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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 expectations for the remainder of 2014, as well as the company's ongoing efforts to meet and exceed customer expectations in the future. This letter includes responses to your specific questions: the company's expectations for the traditional fall peak season; actions undertaken to preserve and improve network performance with significantly increased traffic; plans to return to the high levels of service our customers expect; and ongoing investment in the CSX network.

Overview

Freight rail transportation continues to be one of the most reliable, efficient and environmentally-responsible ways to move goods over land. The growth prospects for freight rail are significant, as highway congestion continues to increase, driver shortages and high fuel costs challenge trucking companies, and consumers are ever more focused on environmental responsibility.

CSX is investing now to create the freight rail network of the future, one that is capable of handling future freight demand, which is projected by the U.S. Department of Transportation to increase by 60 percent by 2040. Our goal is to sustain a network that is capable of continuing to safely deliver the high levels of service that our existing and prospective customers demand. With more than $16 billion of capital invested in the CSX network since 2005, the company is well-positioned to serve increasing customer demand safely and reliably. This investment in the future of U.S. transportation and logistics is predicated on maintaining the balanced regulatory approach undertaken by the STB in recent years.

The need for additional freight rail capacity has been clearly demonstrated in 2014. After a historically challenging winter as well as an unexpected and unprecedented surge in traffic volumes on CSX and across the rail industry in the first six months of the year, the expanding economy is setting up the strongest fall peak in recent years. CSX is responding with increasingly sophisticated planning, improved communication with customers and other railroads, and greater operational flexibility.

A focus on safety underpins all planning, strategy and operational efforts at CSX. Progress continues in the effort to prevent injuries and train accidents, and the life-changing index helps identify the potential for severe and catastrophic injuries. As the company continues to adjust plans to serve increasing demand and to improve network performance, safety remains the company's top priority.

Operations

As evidenced by previous STB hearings, including the September 4 hearing in Fargo, N.D., 2014 has been a challenging year for freight rail operations. The historic winter that began in 2013 tested companies across all modes of transportation. Repeated massive storms brought sustained freezing temperatures, snow and ice, which combined to disrupt not only rail operations, but the trucking industry and air travel as well. As winter abated, a surge in volume driven by pent-up demand coupled with continued broader economic recovery impacted network performance across all Class I railroads. CSX in particular experienced 20 percent volume growth across many of its northern lines in the second quarter with some areas, including Chicago, experiencing even higher growth rates.

Throughout the winter and spring, CSX worked around the clock to rapidly adapt to the new operating environment, implementing a comprehensive action plan with respect to the key drivers of service excellence: people, power, capacity and process. That action plan focuses on the most heavily impacted areas of the network, including the Chicago gateway and northern routes that handle intermodal, automobiles, agricultural and energy products among other commodities.

As CSX noted on its second-quarter earnings call, despite the significant volume growth in the second quarter that compounded weather-challenged operations, performance measures remained stable, albeit at lower levels. However, network performance is not yet where the company or our customers want it to be. To continue restoring network performance and support further growth, CSX is hiring and training new employees, increasing the available locomotive fleet, investing in infrastructure in critical segments of the network, and improving operating processes. CSX has also redoubled its focus on the company's operating plan, which is designed to minimize mileage and the number of times individual cars must be handled along their route. Reducing complexity and variability are key elements to improving transit time and service reliability.

- CSX plans to hire 3,000 new employees this year, representing a 20 percent increase over 2013 hiring. A total of 1,900 of those hired are for the train and engine service ranks. In addition, CSX is aggressively promoting conductors to engineers as it expands the active workforce. CSX expects crew hiring will remain aggressive through the end of 2014 and into 2015, focusing on critical areas such as the Northern Region.

In addition to alleviating short-term personnel needs, CSX continues to focus on longer-term workforce planning and development to offset attrition and meet growth expectations for demand for freight rail services. As part of CSX's commitment to hiring America's veterans and reservists, many of the new hires in 2014 and beyond will be military veterans. Currently, nearly one in five CSX employees served in the military and many continue to serve in the Reserve or National Guard.

- The company is expanding its locomotive fleet by bringing on leased units and accelerating locomotive rebuilds and heavy repairs. Much of that work is being done by CSX mechanical employees, working under new labor agreements that enhance productivity in exchange for improved wages and job security. The company has already increased its locomotive count by 375 units – about 10 percent – over this time last year, and expects up to 100 more locomotives to enter service this year. CSX has also ordered 300 new engines that will be delivered in 2015 and 2016. Additional locomotives will support system-wide on-time originations and arrivals, aid in network fluidity and recoverability, and support continued traffic growth. In addition, CSX is increasing other rolling stock resources to support sustainable growth. In the first quarter, CSX pulled approximately 5,000 rail cars out of storage to accommodate growth, with an emphasis on coal, grain and metals. In addition to aggressive car purchases over the past three years, CSX is now undertaking the largest car rebuild program in its history, including 470 stainless steel Coke Express cars and 1,400 stainless steel triple hoppers that have been refurbished and are now hauling freight. In addition to the rebuilt equipment already in over-the-road service, another 1,100 triple hoppers are expected to be complete by the end of the year. Work will soon begin on approximately 3,000 coal gondolas that will be converted from traditional carbon steel into hybrid stainless steel-aluminum cars and placed into service in 2015.

- Capacity improvements are currently underway across the network, with heavy concentration in the Northern Region most affected by winter and increased demand. Increased terminal and line-of-road capacity in key locations will help streamline interchanges, improve throughput capabilities, and increase network velocity.

  The $26 million double-track expansion of the River Line between Albany, New York, and northern New Jersey is underway, as well as expansions on CSX's Trenton Subdivision, to support service and growth. Additional staging tracks in our Selkirk, New York, yard will help reduce congestion and delays in the region. CSX is investing in a new facility in Kentucky that will support the grain harvest and increases in Illinois Basin coal shipments.

  CSX also continues to invest heavily in the Chicago interchange. As you know from your recent trip to the Elsdon Subdivision in Chicago, CSX's acquisition of that important line from the Grand Trunk Western Railroad, as well as our subsequent investment to support increased freight traffic, is now complete. The Elsdon project offers enormous benefits to the capacity and fluidity of the Chicago interchange and CSX's intermodal network, with the potential to reduce transit times through our Bedford Park intermodal terminal. The Elsdon project also opens up additional capacity to reach the Belt Railway of Chicago, a critical system for effective interchange. CSX has made proactive investments to support increased freight traffic on the Elsdon line, including track upgrades and more than $9.5 million for upgraded crossings in the most heavily populated communities.

The opening of the Elsdon line in early 2014 helped alleviate congestion over the Chicago gateway by creating an alternative interchange route as Chicago struggled to adapt to freezing temperatures and surging demand. Despite that positive impact, the full integration of the Elsdon sub into CSX's network continues as we train crews over the new routes and fully assimilate the new line into our operating plan. However, as a result of intense focus from our operations team and weekly discussions with their STB counterparts, significant performance improvements have been made in the past few months. In addition, the Thornton Junction CREATE project has improved fluidity of the north-south interchange, adding capacity and flexibility in the Chicago area. CSX is committed to continuous improvement to leverage the benefits of these opportunities for customers now and in the future, while minimizing impacts to neighboring communities.

CSX is also working to increase capacity and fluidity through a joint-use agreement with the Louisville & Indiana Railroad (LIRC). The agreement would include a significant CSX investment to upgrade LIRC tracks to standards necessary to handle 286,000-pound cars, allowing both railroads to better serve existing customers and attract new business.

- In addition to investments in people and assets, process changes provide near-term relief and longer-term strategic improvement as volume grows and traffic mix shifts. Routing protocols have been adjusted to improve freight flows and interchange efficiency, including working with interline partners to further alleviate congestion in Chicago by utilizing alternative gateways. The company has taken a leadership role in inter-railroad communication at the local, regional and executive levels to promote a holistic approach to interline customer service.

Solving crew and locomotive shortages significantly improves near-term service, but long-term success requires a multi-dimensional approach. Part of that approach includes collaborating closely with customers to promote efficient interactions and help customers understand how they can support improved network performance. In addition, CSX is committed to providing customers visibility into the company's plans as it works to handle increased demand. CSX continues to stay in regular communication with customers, through individual conversations; local, regional and commodity-specific customer advisories; and more formal Service Recovery Updates periodically. In addition, CSX has enhanced its processes, technology and staffing at its 24/7 customer service center to improve the precision and timeliness of communication and coordination with our customers.

Investments in Resource Availability and Capacity

Investment in infrastructure is investment in the future of safe, reliable and privately-funded freight service. Our business runs on the virtuous cycle of pleasing customers, earning more business, and generating investments in additional resources and new infrastructure. The 2014 CSX capital spending plan was originally announced to be $2.3 billion. It focused on asset planning and management, as well as expanding service to meet customer expectations for long-term increases in demand. In July, CSX announced an increase of around $100 million in its capital spending for 2014. The additional capital is focused on supporting sustainable growth through further investments in key infrastructure and freight cars.

CSX's 2014 capital spending plan continues the company's historic commitment to maintaining and replacing existing infrastructure, with approximately one third of the originally announced $2.3 billion spend devoted to the maintenance of way plan. That plan includes replacing or installing about 380 miles of rail, approximately 3.1 million wood crossties and about 3.3 million tons of ballast. Also planned are several bridge rebuilds and facility upgrades across the system. These essential investments are only possible when the railroad earns adequate revenues to replace existing assets. I urge the STB to remember that without the opportunity to earn that revenue, CSX and its peers will not be able to deliver safe, efficient and reliable service to customers and communities that depend on those services, while also investing in capacity to support sustainable growth.

The need for and benefits of capacity expansion projects, from track to terminals, is self-evident. However, as this Administration has articulated, essential infrastructure projects can fall victim to interminable permitting delays. While the Department of Transportation has shown great leadership by focusing on the need for infrastructure permitting reform to improve the existing network of federal roads and bridges, thereby enhancing American competitiveness, the need for permitting reform applies to railroad projects as well. While railroads largely finance those projects with private money, they can still be subject to lengthy federal environmental reviews. Long delays in that process – often many months or years – are burdensome, expensive, and ultimately discouraging to private investment. At risk is long-term job creation and enhanced service to our customers.

CSX currently estimates the company will need to spend a total of at least $1.7 billion on the development and implementation of Positive Train Control, with approximately $300 million planned for 2014. At this juncture, creation and implementation of the necessary technology remains a challenge, lengthening implementation timelines and raising costs across the industry. PTC-compliant signal design and testing require additional work, and the third party-designed PTC software systems are not yet finished. CSX continues to focus on implementing PTC safely and as quickly as possible, working with its peers to execute necessary interoperability protocols. As of mid-2014, CSX had spent approximately $1 billion in total on technology development, signal replacements and locomotive upgrades to meet the mandate. Nonetheless, the fact remains that the current deadline of January 1, 2015 cannot be met. The railroad industry continues to advocate an implementation deadline extension to safely deploy the new system while continuing to efficiently serve both freight customers and passenger services.

Passenger and Commuter Rail Services

CSX has a long history of cooperation with passenger and commuter railroads and other governmental entities to explore shared use of corridors. CSX's participation in these discussions is grounded in four principles – safety for CSX employees and the public, capacity to serve CSX's current and future customers, no subsidy for passenger rail borne by CSX shareholders, and reasonable liability protection against new risks. Every new passenger proposal must adequately address these principles and ensure that passenger operations will not hinder current or future freight service.

Over the past several years, CSX and the Florida Department of Transportation have worked together to deliver several rail capacity projects designed to enable the State's vision of commuter rail while preserving a fluid and efficient movement of goods by rail to serve its growing population and economy. The public-private partnership capitalized on CSX's parallel lines through Central Florida by making approximately 62 miles in the Orlando area available to passenger service, while investing about $500 million in a statewide infrastructure program, targeted toward capacity enhancements on a CSX line dedicated to freight service and the construction of the new logistics center in Winter Haven. The first phase of the new SunRail commuter service commenced operations in May, thereby expanding mobility options for Floridians while improving service to CSX's Florida-based customers.

In the spring of this year, CSX submitted comments in response to the State of New York's proposal for high-speed rail along CSX's Empire Corridor. CSX has partnered successfully with New York in the past to enhance passenger service, and the company shares the Cuomo Administration's vision for a revitalized upstate economy. CSX believes that the "125 option," which requires separate tracks for 125-mph operation, is the most promising opportunity to provide high speed passenger service to New York residents and preserve freight rail access for New York businesses. For CSX customers in New York, maintaining connectivity to reliable freight rail that moves products and goods to manufacturers, distribution centers and consumers is essential for economic growth and job creation. It is therefore critical that proposals for high speed passenger service also provide for continued customer access to CSX's freight network now and in the future.

In addition to commuter rail performance, CSX is committed to supporting Amtrak services operating on its network. In the spirit of cooperation to promote safe, reliable and on-time passenger service, senior management officials from both Amtrak and CSX convened a working group focused on improving passenger performance on CSX's northern lines. Focusing on the most heavily-impacted areas, the group engaged specifically on Amtrak's Lakeshore Limited service between Chicago and Indiana. Specific improvement measurements and tactical solutions have been developed, taking into account the CSX action plan for improving overall network performance. In addition, the group instituted quarterly face-to-face meetings to evaluate progress and ensure that longer term strategic issues are addressed.

Thanks to the diligent collaboration between CSX and Amtrak, there has been a marked improvement in performance along the Lakeshore Limited route and across the Amtrak network. There is still opportunity for improvement as both companies face significant challenges because of the continued higher-than-expected levels of freight traffic on the corridor.

Market Updates

Looking forward, CSX expects nearly 90 percent of the markets it serves to remain stable or grow in the third quarter. Those markets include products such as agriculture, intermodal, automobiles and chemicals, which are critical to the nation's economy. CSX will continue to implement its action plan to restore the service levels that customers have come to expect. As strong demand continues, that recovery is expected to be gradual through this year and into 2015.

Intermodal
The domestic and international intermodal markets continue to represent significant growth opportunities for CSX, as a steadily increasing population demands more consumer goods that are efficiently and responsibly moved via freight rail. Growth of 7 percent in the second quarter set an all-time quarterly volume record, driven by conversions of freight from highway to rail and the continuing economic expansion.

CSX is continuing to invest in its network to capitalize on the estimated nine million truckloads in the East that are candidates for intermodal conversion. Gains in CSX intermodal traffic are based in part on growth with existing customers who see the value of expanded intermodal service. In addition, CSX's highway-to-rail, or "H2R," initiative directly informs shippers about the economic and environmental benefits of intermodal service, and actively assists shippers in identifying portions of their supply chain that would benefit from intermodal conversion. These efforts and the secular growth trend of intermodal, driven by the efficiency of rail service and challenges in long-haul trucking, underpin CSX's expectations that intermodal traffic will continue to grow in the mid-single digits.

To serve those expectations, CSX continues to make strategic investments in the reach and capacity of its intermodal network. These investments include a new terminal in

Winter Haven, Florida, which opened in the second quarter and anchors a proposed 900-acre integrated logistics center serving Central Florida. CSX is also making significant progress on its intermodal terminal just outside of Montreal, which will open later in the year and will help shippers capitalize on cross-border NAFTA trade flows. These two terminals together will increase the annual lift capacity of CSX's intermodal network by 350,000. In addition, the company is currently undertaking an expansion of its award-winning Northwest Ohio intermodal hub facility in response to continued increases in demand. The latest expansion, expected to be completed later this year with two additional wide-span cranes operational by early 2015, will increase the facility's capacity by 50 percent.

Energy Markets
Relatively low natural gas prices and the expansion of hydraulic fracturing activities continue to drive the evolution of a new energy environment that includes increased natural gas production. CSX ships a diversified mix of energy products that allows the company to capitalize on growth opportunities while continuing to serve key markets.

The export coal market continues to show volatility, as global supply outpaces demand and pressures global market pricing for both thermal and metallurgical coal. Expectations for CSX export coal movements in 2014 remain in the mid-30 million ton range. Following three years of transition in the domestic coal market, the extreme winter conditions forced utilities to draw down their coal inventories, revitalizing the domestic coal market in the first half of the year. Domestic shipments increased 7 percent in the first quarter and 15 percent in the second quarter. CSX expects growth to continue in the double-digit range. As mentioned earlier, the company is investing in a new coal unit train processing facility in Kentucky that will support the increased growth of coal from the Illinois Basin as well as increased movements of grain unit trains.

Movements of crude oil by rail continue to grow on CSX. On average, the company moves three trains per day from western origins to customers in Philadelphia, New York and Virginia, an increase over the company's movements in 2013. Further growth is expected as the economics of hydraulic fracturing continue to support expansion. The safety of these shipments is CSX's highest priority. CSX has worked closely with regulators, first responders, local communities and their elected officials, oil producers, tank car owners, and other railroads to implement new regulations and process improvements to make the safe transportation of this important product ever safer. In addition to the growth in movement of crude oil, the liquefied petroleum gas (LPG) market has benefitted greatly from the energy renaissance. The wet gas shale projects have generated significant increases in domestic production. As a result, CSX volume has increased by one-third since 2013 and nearly doubled since 2012. Railroads are, and will continue to be, an important part of the supply chain for these critical shipments, which support the country's economic expansion by supporting America's manufacturing renaissance and promoting U.S. energy independence.

With these shipments comes an obligation to move them safely, as we do all of the freight entrusted to us. In February 2014, the nation's major freight railroads joined U.S.

Transportation Secretary Anthony Foxx in announcing a rail operations safety initiative that instituted new voluntary operating practices for trains carrying 20 or more cars of crude oil. Those practices, which CSX put in place prior to the July 1 deadline, include increased track inspections, reduced speed limits in federally designated high-threat urban areas, deployment of additional trackside monitoring technology at least every 40 miles, and increased emphasis on community and first responder outreach and training.

For example, CSX's Safety Train: Energy Preparedness Program, has traveled to 13 cities and communities on key oil train routes since mid-May, and to date has trained more than 1,300 first responders from more than 250 local organizations. The Safety Train supplements pre-existing and ongoing hazardous materials training offered to first responders in other areas on CSX's network, and at the industry's Transportation Technology Center in Pueblo, Colorado.

The February agreement also required that Class I railroads, including CSX, use the 27-factor routing tool that was developed in conjunction with the Federal Railroad Administration and has been used successfully for several years. The routing tool helps identify the safest, most secure routes for hazardous materials, including crude oil key trains. In addition, the company has inventoried locations and materials for emergency response, and has met and will continue to meet with federal, state and local officials on a regular basis to address potential issues and location-specific concerns.

These commitments build on CSX's track record of strong safety performance, while preserving service reliability and helping maintain public confidence in the industry's ability to safely transport oil by rail.

CSX supports strengthened tank car standards, as well as the USDOT's heightened vigilance and attention to the proper labeling of oil moving in tank cars. CSX, working through the AAR, recommended improved standards in response to PHMSA's Advanced Notice of Proposed Rulemaking late last year. CSX is working with suppliers and producers to further refine recommended tank car standards and is currently reviewing a proposed rulemaking by the Department of Transportation, which includes increased construction standards for tank cars.

In addition to the products of the hydraulic fracturing process, CSX ships input materials such as specialized "frac sand" for drilling, and pipe and concrete pads. CSX also ships the components of alternative energy solutions, such as wind energy components (e.g., blades, towers) and solar panels.

Agriculture
The record harvest of corn and soybeans in 2013 helped drive a recovery in the agricultural markets, refilling the grain supply pipeline that was constrained following the drought in 2012. In the second quarter, CSX's agriculture market grew 11 percent as grain shipments increased sharply and ethanol production increased as a result of low corn prices. This year is expected to produce another record-setting corn and soybean crop, which creates significant opportunities for transportation infrastructure of all

modes, including rail. As with each harvest season, CSX is working closely with the company's unit train customers to plan ahead to meet their harvest needs.

In addition to planning for efficient service in the near term, CSX is working collaboratively with grain customers to adequately prepare to handle future growth. CSX has worked with customers to implement long-term strategic improvements, including moving to longer 90-car trains and larger capacity covered hoppers.

The company also continues to work closely with customers to expand the 90-car Grain Express load/unload program, which offers a financial incentive for participating customers to load or unload a unit grain train within 15 hours, greatly improving the efficiency of the grain network. In addition to the financial incentive, CSX makes every attempt to position locomotives with our express load/unload customers, improving asset turnaround time and allowing more grain to flow through the system.

In addition to efficiency, CSX has purchased an additional 500 jumbo covered hopper cars to support the grain business. CSX expects delivery during September, with all the cars on line by the end of October. These larger cars have 5,200 cubic feet of carrying capacity and allow for 10 percent more bushels per car than the previous standard. CSX has also met with each of our customers to discuss their individual harvest needs and together we have developed a plan to balance those needs with our expected operational capabilities.

We are sensitive to the needs of our customers and work diligently to accommodate their requests, particularly when asked to establish any priority on handling specific shipments. However, we are equally mindful of the implication of establishing service priorities through regulation, which could force companies to choose one commodity or shipper over another and one route over another, impeding the overall fluidity across our network and hampering our ability to provide reliable freight service. A combination of factors, including market dynamics and capacity, helps to efficiently determine those priorities today.

In addition to initiatives to improve grain shipment efficiency, CSX continues to work with customers to implement more efficient ethanol unloading terminals, including the promotion of customers' ability to directly unload ethanol into a storage tank. This capacity improvement reduces cost and turn time, as cars do not have to wait to transfer product to trucks for final delivery. CSX will continue to focus on asset utilization in all of our agricultural markets to support significant customer growth now and in the future.

The severe winter weather extended the fertilizer application season, which allowed rail shipments to recover. Looking ahead, fall demand is expected to be strong, increasing the need for a streamlined transportation solution for fertilizer and grain unit train receivers. Working with fertilizer producers and receivers, CSX continues to enhance its unit train business model to allow for commodity diversification and scalable unit train business for its customers.

Automobiles
CSX's automotive service was challenged in the first half of 2014, as the majority of our automobile traffic is moved across CSX's heavily-impacted Northern Region. However, the company is well-positioned to return to historically high levels of service with a network of vehicle distribution centers that minimize intermediate handling and contribute to damage-free transportation.

CSX continues to have a positive outlook for the automobile market in 2014. As the economy expands, automobile sales continue their strong growth in response to pent-up demand for new vehicles. Growth in North American light vehicle production (NALV-P) is expected to again outpace gross domestic product and industrial domestic product. Expected NALV-P has been revised up to 17 million vehicles, the highest since 2000. The company continues to invest in state-of-the-art auto racks to serve this growing market, and remains the second-largest contributor to the North American multi-level reload pool administered by TTX.

Chemicals
The rail industry moves many commodities that support the production of industrial and manufactured products, making the chemicals market an important indicator of broader economic activity. CSX's overall chemicals business, including the movement of plastics and feedstocks, continues to grow at a moderate pace, reflecting the expanding economy. Service for chemicals products mirrors overall merchandise network service, with many areas of fluidity and some performance challenges. The outlook for continued low natural gas prices has led to a surge in announcements of planned capacity expansions of petrochemicals production in the United States that will occur over the next three to five years.

Looking Forward

As the freight rail industry continues to make progress against challenged network performance while preparing for the fall traffic peak and another potentially difficult winter, there is significant opportunity for the regulatory environment to support strong service. The high levels of traffic seen across the rail industry signal an exciting time for railroads to contribute to America's global competitiveness and energy independence. With increased capital spending, historic hiring levels, and significant capacity improvements underway, CSX is demonstrating its commitment to delivering superior customer service and moving the goods that America needs through the 2014 fall peak and into the future.

At the same time, every regulation, mandate, individual agreement or voluntary action carries some adverse effect on network fluidity. In isolation, those adverse effects may seem arguably acceptable when weighed against the outcomes the regulation seeks to accomplish. But in the aggregate, these obligations have the potential to significantly degrade the efficiency and fluidity of the national network, deteriorating service to customers and threatening the economic resurgence.

Amidst this environment, CSX continues to appreciate the Board's long-term view of the prospects of the freight rail industry. The Board's vision and policies are foundational to a balanced regulatory framework that supports future growth and the expansion of American commerce. CSX continues to invest heavily in that future while working diligently to respond to the challenges of the present.

Very truly yours,

Michael Ward

Michael Ward
Chairman, President and CEO
CSX Transportation Inc.

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