BNSF RAILWAY

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February 9, 2018

Mr. Pedro Ramirez
Office of Economics
Surface Transportation Board
395 E Street, S.W.
Washington, DC 20423
pedro.ramirez@stb.gov

Via Email

Dear Mr. Ramirez:

As a result of the passage of the Tax Cuts and Jobs Act, which President Trump signed into law on December 22, 2017, BNSF Railway Company experienced a significant one-time downward adjustment to its deferred income tax liability during the fourth quarter of 2017 as well as an approximate $100 million increase to Equity in Undistributed Earnings. For the reasons set forth below, BNSF hereby requests the Board's approval pursuant to 49 C.F.R. § 1201, Inst. 1-2(d) to treat these adjustments as extraordinary items in our STB financial reports for the year 2017, including in our Quarterly Report of Revenues, Expenses and Income ("RE&I") for the fourth quarter 2017.

The Tax Cut and Jobs Act reduced the marginal federal corporate income tax rate from 35% to 21% effective January 1, 2018, thus requiring a revaluation of BNSF's deferred tax liability as well as the deferred tax liability of an equity-method affiliate. These revaluations were reflected in BNSF's fourth quarter 2017 financial results, the quarter in which the change in tax law occurred. The combined impact recorded by BNSF is approximately $7.4 billion.

BNSF believes that these adjustments should be classified as extraordinary items. The Board's regulations provide that items should be classified as extraordinary if they are of an unusual nature and infrequent occurrence. 49 CFR §1201, Instr. 1-2(d)(1). The Board's rules further provide that extraordinary items must satisfy the materiality standard, which is met if the item, or aggregated items arising from a single specific event, exceeds 10% of annual income. *Id.*, at Instr. 1-2(d)(6). The adjustments meet these criteria.

Changes in federal tax law of the magnitude of the Tax Cuts and Jobs Act are very rare, with the last similarly substantial change in the corporate tax rate occurring more than 30 years ago. Accordingly, the reduction in BNSF's tax expense in the fourth quarter of 2017, which is caused primarily from the reduced marginal federal corporate income tax rate, is a highly abnormal event that is unrelated to BNSF's ordinary and typical activities and is unlikely to recur in the foreseeable future. Further, the approximately $7.4 billion combined adjustments exceed 10% percent of BNSF's annual income.

BNSF has filed our RE&I for the fourth quarter 2017 without reflecting the aforementioned items as extraordinary pending approval from the Board. Upon receipt of such approval, BNSF will file an amended RE&I, as well as BNSF Railway's 2017 Class 1 Railroad Annual Report (R-1) reflecting the approved treatment. Furthermore, upon filing of BNSF Railway's 2017 Schedule 250 to the R-1, BNSF plans to make these adjustments, appropriately, to both the numerator and the denominator of the regulatory ROI calculation.

Please contact me at (817) 352-4854 should you have any questions concerning this request.

Sincerely,

Mark Bracker

cc: Mr. Alexander Dusenberry (alexander.dusenberry@stb.gov)

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March 9, 2018

BNSF Railway Company
2650 Lou Menk Drive
Fort Worth, Texas 76131-2830

Dear Sirs/Madams:

You have informed us that the management of BNSF Railway Company (the "Company") has sent a letter to the Surface Transportation Board (the "STB") dated February 9, 2018, requesting approval from the STB to include the impact of the Tax Cuts and Jobs Act signed into law on December 22, 2017 (the "Tax Act"), as an "extraordinary item" in your amended December 31, 2017 Quarterly Report of Revenues, Expenses, and Income – Railroads (the "RE&I report"), and in your 2017 Annual Report to the STB on Form R-1 ("Form R-1"), both of which you have indicated will be filed with the STB in March 2018 (the "Company's request"). We understand that the staff of the STB has told the Company that General Instructions 1-2(d)7 under the Uniform System of Accounts for Railroad Companies, Title 49 CFR Part 1201, requires a letter from the independent accountants of the Company approving or otherwise commenting on the Company's request, and you have requested such a letter from us. This letter is provided to you in accordance with your request.

We have audited the consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements") (the "audited financial statements"), in accordance with the standards of the Public Company Accounting Oversight Board (United States), and have issued our report thereon dated February 23, 2018. We have not audited any financial statements of the Company as of any date subsequent to December 31, 2017, and we have not performed any procedures with respect to the audited financial statements subsequent to February 23, 2018.

Our audit was conducted for the purpose of forming an opinion on the Company's financial statements taken as a whole, and was not planned or conducted in contemplation of the Company's request. We make no representations as to the sufficiency of our audit of the Company's financial statements for purposes of the Company's request, or for the STB's purposes in connection with the Company's request.

We refer you to Note 4 to the Company's audited financial statements describing the impact of the Tax Act which states, in part, that "the provision for income taxes for the fourth quarter of 2017 was adjusted to reflect the revaluation of BNSF Railway's deferred tax liability by $7.4 billion as a result of the reduction of the federal income tax rate from 35 percent to 21 percent effective January 1, 2018." We also refer you to the Financial Accounting Standards Board (FASB) Update No. 2015-01, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*, effective for annual periods beginning after December 15, 2015, which simplified the income statement presentation by eliminating from U.S. Generally Accepted Accounting Principles the concept of an extraordinary item.

We have not expressed, and by providing this letter we do not express, an opinion, conclusion, approval, or any other form of assurance on any individual account balances, financial amounts, or disclosures of the Company in the audited financial statements, or on the Company's RE&I report or the Company's Form R-1, and we assume no responsibility for, and disclaim any association with the Company's request.

This letter is intended solely for the information and use of the management of the Company and the STB and is not intended to be and should not be used by or distributed to anyone other than these specified parties for any purpose.

Yours truly,

Deloitte & Touche LLP