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**James A. Squires**  
Chairman, President and  
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April 2, 2018

The Honorable Ann Begeman  
Chairman  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

The Honorable Deb Miller  
Vice Chairman  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

Dear Chairman Begeman and Vice Chairman Miller:

I am writing in response to your letter of March 16, 2018 requesting our service outlook.

We readily admit our service is not where we or our customers need it to be, and restoring our service levels is our top priority. As you know, our strategy at Norfolk Southern is built on four pillars: Safety, Service, Productivity, and Growth. While not perfect in our execution, providing a level of service that will support volume growth on our network is a critical component of our success. We have been and will continue to take steps to address these challenges.

Although we can discuss what caused our recent service challenges, which started in the southern part of our system with September and October hurricanes followed by significant snowstorms in December and January, we know that what matters is the service our customers are actually receiving. Our weekly average velocity and dwell metrics for the first 11 weeks of 2017 and 2018 are summarized below:

Speed:

- Year-over-year: Q1 2018\* speed is down 16% vs. Q1 2017
- Sequentially: Q1 2018\* speed is down 7% vs. Q4 2017

Dwell:

- Year-over-year: Q1 2018\* dwell is 21% higher vs. Q1 2017
- Sequentially: Q1 2018\* dwell is 9% higher vs. Q4 2017

\* Q1 2018 numbers are through March 16, 2018.

Our local performance is currently 7% below where we typically perform. Terminals and yards in the southeastern portion of our network in particular are performing below historical norms. These metrics are not where we want them to be. But, we are committed to improving for our customers.

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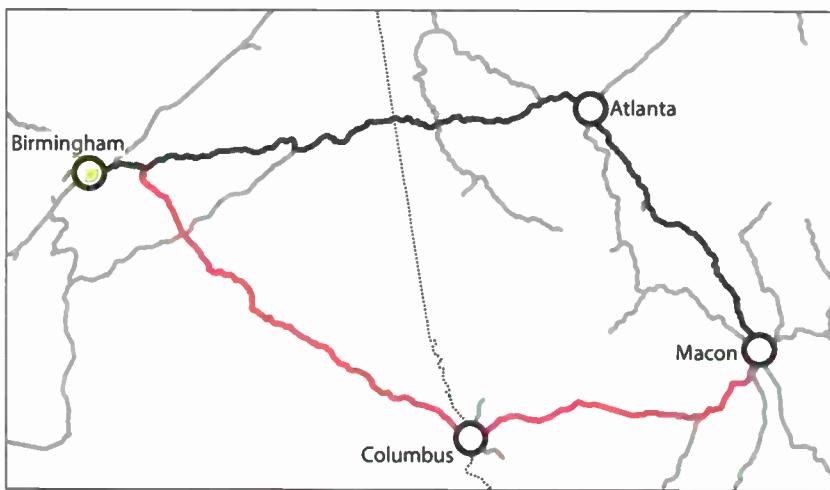
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Accordingly, the remainder of this letter focuses on the remedial efforts that are underway. Decreased velocity and increased dwell time increase, in the short term, the need for track capacity, locomotives, and crews, and place a premium on having an effective operating plan and maintaining solid communications with customers. NS is responding on all fronts. The following details our efforts to meet these needs, as well as the particular issues affecting service to automotive and grain customers.

### Capacity

To help address the capacity constraints in the southern part of our network, we recently resumed through freight operations on our Central of Georgia route, shown in red below. While we never idled this line, we ceased through freight operations over the route in the first half of 2017. We restored full through freight service to help improve network fluidity.



Going forward, we have no plans to dispose of or close mainlines, and we are implementing improvements to areas of our southern network that act as chokepoints for traffic flows in Birmingham, Charleston, Columbia, Savannah, and Louisville, as well as in our northern network in Chicago, Ft. Wayne, and Pittsburgh. Our 2018 capital budget is up more than \$120 million over 2017.

### Locomotives

We maintain a fleet of stored road locomotives to mitigate service issues or unforeseen increases in demand. As soon as service issues began to mount in the southern part of our network in the fourth quarter of 2017, we deployed this fleet of approximately 100 stored road locomotives. In addition, we assessed a need for an additional 90 road locomotives beyond our stored fleet and quickly began the process of leasing these locomotives in what proved to be a tight market. Even in a robust locomotive lease market, it takes time both to find and lease locomotives, as well as to transport them to NS property and to bring them into the condition required to deploy them into active service. This process takes even longer in periods of high overall demand for leased locomotives. Through March 23, 2018, we have 27 of the anticipated 90 locomotives on our property and have deployed 22 of these 27 in active service. We are continuing our efforts to acquire the additional 63

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locomotives and deploy them into active service as quickly as possible. We anticipate that, once acquired and deployed, these 90 additional locomotives will enhance our ability to meet current service demands.

In addition, we are continuing with our DC to AC road locomotive conversion program. Our current plan is to convert a total of 500 locomotives from DC to AC. We converted 57 of these 500 in 2017, and plan to convert another 150 of these 500 in 2018. Two AC locomotives can move the tonnage of three DC locomotives, so converting these locomotives will result in more powerful locomotives and increased resiliency. In the short run, however, while these locomotives are being converted or in the queue to be converted, they are not available for use in our daily operations.

### Employee Resources

Slower train speeds and increased dwell times increase re-crew rates, requiring increased crew head-count. Our re-crew rates for February 2018 were 133% higher than February 2017. Because it takes approximately five months from the date of hire before new conductors can be deployed in active service, we recently began to utilize train and engine crew "go teams" that are able to deploy to the site of local disruptions within 48 hours and remain in those locations for weeks at a time. We also began use of temporary transfers of crews that can be deployed to the impacted sites within two weeks and remain in those locales for several months. In addition, we are and have been actively recruiting long-term hires to meet forecasted needs and service demands. In 2017, we hired approximately 1,100 conductor trainees and will hire approximately 1,400 more in 2018, with the preponderance of these being hired prior to June. We currently have 459 active conductor trainees and an additional 400 candidates processing for employment. After taking into account the effects of attrition, we are forecasted to have a net increase of 275 qualified employees heading into peak season, which will strengthen our ability to respond to current service challenges. We have had and continue to have a sufficient managerial presence in the field, but are committed to continuous monitoring of crew and managerial availability in the face of continued service demands in this very tight freight market. We will continue to respond accordingly.

### Operating Plan Improvements

We currently are involved in a two-year implementation period to improve our terminal operations and to simplify our overall operating plan. Through data analysis, we are identifying weak spots in our operations and are using technological advances to help drive solutions, with the overall goal of decreasing dwell time and improving our consistency and on-time performance. In addition, we are looking at individual yards and evaluating process improvements and streamlining that will improve throughput. We believe that the end result of this improvement plan will be a more resilient railroad that is both less prone to service failures and more capable of rebounding from external forces that impact our operations.

One of the techniques we are using is Clean Sheet, which in summary can be described as a re-engineering of the train plan in specific locations and with a terminal-centric focus. The intent is to drive capacity and create enhanced ability to sustain more volume. We have completed Clean Sheet Birmingham, Allentown, Chattanooga and our so-called 3B District, which runs from Birmingham down to Mobile. Birmingham terminal is now very fluid. Allentown was also hugely successful. We are currently focused on Enola. Macon, Binghamton and Savannah are next on the list.

### Communication

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We strive to communicate proactively with our customers at the tactical and strategic levels. Tactically, we are in constant communication with our customers, whether in regards to delayed shipments or missed switches at the local level. Our guiding principle is to tell them early and often what we can and, equally important, what we cannot do. We have driven this philosophy down to all levels of our company from the support groups in Atlanta to field personnel. To that end, we recently distributed a short vignette to all T&E reminding them of why this is so important: <https://vimeo.com/norfolksouthernmedia/review/238942580/929241b0b6>

Longer term, we are in the process of developing a robust system of notifications, which our customers can tailor to their specific needs, regarding delayed shipments. In addition, we are beginning the review of predictive analytics on local switching, which will give internal stakeholders, as well as our customers, a better picture of any pending switch.

In terms of strategic communication, we are having broader discussions with our customers (at all levels within the company) to better understand their service concerns and develop a short-term plan to correct our service issues.

#### Automotive and Grain Issues

We are aware that the Board has received communications from automotive and grain shippers regarding current service levels at Class 1 carriers. Although automotive demand has been in line with our expectations, our service has suffered due to an inability to secure our proper allotment of multilevel equipment from TTX. As you know, TTX acts as a clearinghouse to ensure all carriers receive the requested allotment of multilevels, calling upon carriers to correct imbalances in their allotment by delivering extra multilevels to carriers that lack sufficient equipment. Due to service issues affecting other carriers, NS has not been able to receive its requested allotments of multilevels, leaving NS less equipped to meet automotive demand, compounded by the slowed current status of our own network.

Grain demand also has been in line with expectations. We have worked with all of our end users on their deliver-by dates to prevent shutdowns, and have been able to build back inventory levels at most locations. We also have added extra train sets to help mitigate decreases in velocity. Also, to alleviate the congestion over our main corridor (CNO&TP) and to improve transit on our grain network, we have re-routed a number of trains around this congestion via Roanoke routing. As you may be aware, we recently suffered a derailment on the CNO&TP which has aggravated our recovery efforts, but that specific element is a very short-lived hindrance.

\* \* \*

In closing, I would like to reiterate Norfolk Southern's commitment to providing a level of service our customers need and expect. We have and will continue to make investments that will allow us to improve our service and grow with our customers.

Sincerely,

