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James A. Squires
Chairman, President and
Chief Executive Officer

December 4, 2018

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

Dear Chairman Begeman:

Thank you for your letter of November 27 alerting us to your potential concerns about changes to our operating plan and to our demurrage/storage tariffs.

Let me begin by saying that the changes we are making to our operating plan are intended to benefit our customers. Our focus is on five core principles: (1) serving our customers; (2) managing our assets; (3) controlling our costs; (4) working safely; and (5) developing our people. We have not been serving our customers at the level that we want or using our assets as efficiently as we expect of ourselves, and we are committed to making operational changes that are good for Norfolk Southern and our customers. Our goals are to improve service to customers through more efficient operations, improve our cost structure, and help our customers grow. We are also making these changes in a methodical way to minimize the disruption on the network. When we are done, we expect to have a railroad with more capacity for our customers to grow their freight with us.

As you have heard, we have begun with what we call clean-sheeting. Clean-sheeting involves a detailed look at our local serving yards as we focus on optimizing those operations. We have already begun that process and expect it to continue into 2019. We think clean-sheeting will yield efficiencies that will increase network fluidity, enhancing customer service.

Our goal is to maximize the use of our assets to provide consistent and reliable service. We will be pleased to update the Board on our progress on the weekly calls you have requested. In fact, we have recently created the position of Assistant Vice President – Regulatory Affairs in Washington. Randy Noe, who holds that position, will work with the Board's Office of Public Assistance, Governmental Affairs, and Compliance to schedule them.

To achieve the levels of efficiency and service to customer that we seek and to maximize the use of assets, we are making a number of changes to our demurrage/storage tariffs. We are making these changes to properly align stakeholder incentives with improving our asset utilization, because using assets more efficiently will lead to greater network fluidity and better service.

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These changes are in fact balanced. On the one hand, we are increasing certain demurrage charges to ensure efficient freight car distribution and an efficient supply of rail cars. We are also reducing certain credits related to the loading, unloading, and storage of freight in rail cars to incentivize customers to unload cars more quickly and return them into service. The faster these cars return to service, the more efficiently the nation's supply of railcars is being put to work.

On the other hand, because we are confident in our plan to improve our service, Norfolk Southern has balanced these changes by increasing the demurrage credits earned for certain NS failures. By making these enhanced demurrage credits available to customers, we are demonstrating to them our increased confidence in our service product, which should in turn cause them to further improve asset utilization, creating a virtuous cycle.

Norfolk Southern's team is working hard to communicate in many ways – in person, in our customer meetings, through correspondence and publications, and through our customer service group and marketing teams -- with customers as we go through this change process. Moreover, as we noted in our letter to customers announcing our tariff changes, we concurrently are working to enhance our digital interface with customers. We have redesigned our AccessNS customer portal, and we have developed a new customer relationship management system, ConnectNS, which includes a tool that provides a customized and efficient service experience.

Service to our customers is of paramount importance to us, and we are confident the changes to our demurrage/storage tariffs and our investments in technology will improve the customer experience with Norfolk Southern.

Let me close by saying that there are a lot of good people at Norfolk Southern working hard every day to make our railroad better. I look forward to working with them as we go through the significant change that is necessary to reach the goals that I have outlined in this letter. I see enthusiasm growing daily for what we are working to accomplish, which gives me great confidence in our plans.

Thank you for this opportunity to address your concerns. I will plan to call you and Commissioner Miller this week to answer any remaining questions you may have.

Sincerely,

A handwritten signature in dark ink, appearing to read "James E. Quinn". The signature is written in a cursive, flowing style.