

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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GROWTH IN THE FREIGHT RAIL INDUSTRY

Docket No. EP 775

**FULL WRITTEN TESTIMONY OF
CSX TRANSPORTATION, INC.**

Pursuant to the Board's August 23, 2024 order in the above-captioned proceeding, CSX Transportation, Inc. ("CSX") submits a full version of the written testimony summarized in its August 16, 2024 filing. CSX's hearing testimony will be delivered by CSX's President and Chief Executive Officer, Joseph R. Hinrichs and Executive Vice President and Chief Commercial Officer, Kevin Boone.

Mr. Hinrichs:

Dating back to our start in 1827 as the B&O Railroad, CSX has a storied history as a key player in the U.S. freight rail industry. We understand the critical role that railroads play in our nation's economy.

Underpinned by our ONE CSX culture to drive service excellence and business growth, we will be sharing with you today the strategic initiatives, operational successes, and future goals that CSX is pursuing to transform and strengthen our company while generating profitable growth through a better customer experience.

As some of you might know, I spent more than 30 years as a customer of railroads before joining CSX in 2022, so I have a unique perspective on our industry and how it operates.

From my roles as a Plant Manager to President of Ford Motor Company's global automotive business, my experience with railroads was disappointing as it never felt like the railroads had an authentic customer-centric approach to doing business. Over the years I watched as we converted rail docks to truck docks and moved most of our parts by truck instead of rail.

This first-hand experience is important because it paints the picture of the opportunity before us—the opportunity that I saw—and was energized by—when I took this job. For CSX to fully seize this opportunity, we must change, we must become one team working better together, and we must become authentically service-oriented and customer-focused.

To really do that we have to start with our culture. We are working to create an environment at CSX where every employee feels valued, appreciated, respected, included, and listened to. It is essential to our day-to-day operations. We use those words intentionally and often to make sure we are setting the right framework for our leaders in how we treat people.

While we have an undeniably priceless and irreplaceable network, in 2024 our most valued assets are the 23,000 employees working collaboratively across our extensive network seven days a week, 365 days a year, and in all weather

conditions, to move the goods that millions of Americans rely on to meet their everyday needs.

What our railroaders do is invaluable—if the railroads do not run, the economy shuts down.

Through our ONE CSX initiative, we are creating a culture where our employees are not only engaged in their work but also motivated to serve our customers even better and more efficiently. We believe that any successful service business relies on engaged, motivated, and inspired employees. When our employees feel valued and empowered, they are more likely to go the extra mile to deliver efficient and exceptional service to our customers.

Further, we are continually listening to our front-line employees about what is needed to make positive and impactful improvements to our work environment. Their well-being is critical to our success. We survey our employees every year—all employees—and I and our leadership read through the comments and results and announce to our employees what we heard and what initiatives we are putting in place to respond. In the last two years I have personally read over 11,000 comments from our employees from these surveys.

That is why beginning in 2023, we led the industry and were the first to take a proactive approach in addressing the issue of paid sick leave for our unionized workers—and, based on employee feedback, we are the only railroad that changed our attendance policy to excuse all absences for medical appointments and documented illness or injury.

In August of this year, we again took the lead and announced—ahead of schedule—that we have reached new tentative five-year collective bargaining agreements that secure fair wage increases, improved paid time off, and enhanced healthcare benefits. To date, we’ve reached these proactive agreements with 11 labor unions, covering 15 different work groups and more than 50 percent of our unionized workforce.

We did this because it was the right thing to do, and we remain committed to working with our other labor partners to secure the timely agreements that all our employees deserve.

But the ONE CSX initiative is not just about improving employee morale—it is about driving real business results. By fostering a culture where our people feel connected to the company’s mission and values, we are building a stronger, more resilient organization. This, in turn, helps us restore trust, earn more business, and unlock the type of growth that has eluded CSX and the rest of the industry for years.

Over the last two years, we have implemented several programs designed to enhance employee engagement and improve communication across the company. These programs include regular town hall meetings where employees hear directly from senior leadership and share their feedback. We have also launched new training and development programs aimed at equipping our employees with the skills and knowledge they need to succeed in their roles. And I personally try to get

out to our rail yards every week— showing up unannounced throughout our network to see what is really going on and to meet and thank our great employees.

In 2023 and 2024, we held CSX family days at our rail yards across our network that have reached more than 30,000 members of the CSX family, including employees and their loved ones as we come together to celebrate the pride and camaraderie of being part of ONE CSX.

We are also reinforcing the importance of safety in everything we do from our day-to-day operations to our long-term planning. Creating and maintaining a safe working environment for all our employees and the communities in which we live and work is core to our daily operations so that each person can go home unharmed, every single day.

Our employees are the backbone of our company, and their dedication and hard work are critical to our ability to deliver on our promises to our customers.

We keep reminding the entire ONE CSX team that when we are aligned with each other and work together as one team, there is really nothing we cannot achieve. Our employees, our customers, and our shareholders are seeing how we are growing the business, controlling costs, leading in customer service, and leveraging our network capacity in ways we never could before. The successful culture we are building at CSX is delivering positive business outcomes.

One of the areas we are proud of is the continued reinvestment in our network. Since 2019, we have increased our annual capital expenditure from \$1.7 billion to \$2.5 billion.

- We allocated \$1.7 billion of our 2023 capital investment to track, bridges, signals, and other infrastructure.
- We have focused on increasing investment in strategic opportunities for growth, speed to market, and ease of doing business.
- We are currently undertaking the Howard Street Tunnel project to complete double stack clearance of the I-95 corridor so we can better serve the Port of Baltimore.

Against this backdrop, I am pleased to say we are seeing some fruits from our labor. In 2023:

- We improved safety performance through the year.
- We had consistent and industry-leading service metrics, recognized by third-party surveys and awards by Journal of Commerce and Loop Capital to name a few.
- We saw merchandise volume growth ahead of industrial production, solid coal volume growth, and superior intermodal service performance.
- And we had strong alignment between commercial and operations, focused on customer experience.

In the second quarter of this year, we saw quarter-over-quarter increases in revenue, operating income, and earnings per share. We are proud to have achieved these results even with the constraints at the Port of Baltimore that impacted our coal shipments.

As of this summer, our train-and-engine employees—which operate trains both between terminals and in railroad yard environments—account for approximately 7,900 workers, our highest headcount since 2018, and a nearly 10% increase from pre-COVID January 2020 levels. Most importantly—we are still hiring where needed so we can attract more business growth and give our customers the service they deserve.

Beyond expanding our workforce and increasing our customer solutions team to deliver the best-in-class service and interaction that our customers have come to expect from CSX, over the past few years we have also extended the reach of our network—including through more first and last-mile services and, in the U.S. Northeast, more single-line service opportunities—and offered access to new products, markets and regions for our customers.

Our approach to growth is not just about weathering the storms of economic uncertainty—it is about positioning CSX for long-term success. This requires a commitment to strategic investments that enhance our network’s efficiency, capacity, and resilience. By making these investments, we are not only responding to current challenges but also preparing for future opportunities.

I will now turn it over to Kevin Boone who will provide further details on our growth initiatives.

Mr. Boone:

We touch nearly every part of the economy with a heavy concentration in the U.S. industrial base. While some of these industries have faced secular headwinds, we are excited about the future and the opportunity to grow.

Our objective is to drive initiatives that deliver opportunities for share growth in the market. These initiatives can be broken down into four distinct categories, which are growth of existing customers, industrial development, emerging markets and expanding the reach of the CSX network.

First, you have to start with **growth with existing customers** and winning modal share. We have been actively listening to our customers through increased site visits, surveys, whiteboarding sessions, and other touchpoints. With our operations and sales and marketing employees collaborating closely as a ONE CSX team, we have been able to better identify solutions to customer issues and demonstrate that they are our top priority. We are really focusing on what is important to the customer and that can be vastly different depending on the industry.

Our focus on improving the overall customer experience is evident in our pursuit of transparent, customer-centric innovations that simplify doing business with us. This commitment is reflected in the modernization of our ShipCSX portal, tailored to meet the specific needs of merchandise, automotive, intermodal, and unit train customers. The platform's redesign simplifies navigation around core tasks—plan, ship, trace and pay—making the user experience more intuitive and efficient. We are also working with specific industries that have unique requirements to ensure we are measuring the right things and partnering together to drive transparency and coordination to improve the customer experience.

We are also introducing GPS shipment tracking on rail cars, which lets CSX customers see where shipments are almost in real-time, much like the GPS in your phone or car. Unlike the former system that only tracked shipments when they passed certain points, GPS gives a continuous view of a shipment's journey. As we expand this technology, our customers will gain unprecedented insights into their

shipment's progress. Joining RailPulse earlier this year allows us to work with a coalition committed to increasing use of GPS and other telematics technologies across North America's freight industry.

CSX was also the first among the Class I railroads to implement an Intermodal Terminal Reservation System. This innovative system enhanced the booking process for intermodal shipments by allowing shippers to easily reserve slots for their truckers to either return empty containers or deliver loaded ones at CSX terminals. It is used by more than 99% of our intermodal customers and significantly enhances operational efficiency, delivering a better and more consistent experience for the customer.

On the **industrial development front**, we are really seeing a shift in investment. As opposed to trying to offset losses from industry offshoring production, post COVID, we have seen customers pursue investments in our footprint. Our strong service product combined with investments in our industrial development team is helping customers identify rail-served locations for new manufacturing facilities, yielding impressive results. Over the last year, the CSX Select Sites program has successfully brought on \$4.2 billion in total partner investment.

Building on this momentum, CSX industrial development is poised for transformative growth, with over 500 new projects in our development pipeline. These projects range from those anticipated to launch later this year to proposals set for construction in the coming years. While project scopes and timelines may

evolve, the outlook is promising, indicating substantial growth contributions spanning multiple years.

Similar to our current book of business, we see a very diverse set of investments that span across almost every business segment we serve. Central to facilitating these developments is our Select Site tool, which now offers four levels of site qualification to better align with diverse project requirements. This interactive online tool provides comprehensive data and analysis, covering demographics, workforce characteristics, local and regional business details, consumer spending, and key infrastructure information.

The reshoring trend in the U.S. is generating substantial opportunities for industrial development, especially in the Midwest and Southeast, where demand for new manufacturing facilities is high. Our extensive network in this region positions CSX perfectly to meet the growing transportation needs of these facilities. We are actively expanding our capabilities to serve these projects, ensuring that the concentration of new developments is supported by robust rail services.

In addition to new facilities, **new markets** are also emerging that offer tremendous long-term growth potential for CSX. One of the most compelling opportunities is the increasing demand from environmentally conscious consumers. As companies strive to reduce their carbon footprints, they are turning to more sustainable solutions, such as rail transport, which aligns perfectly with these environmental goals.

We are working to make a strong case for customers to look to rail transport, and CSX specifically, for help in achieving their sustainability goals. We are doing this by providing credible, hard data on emissions reductions when shifting freight from truck to rail. The data we offer helps our customers with their environmental reporting, allowing them to demonstrate their commitment to sustainability to their customers and stakeholders.

We are also exploring alternative fuels, such as biofuel, to further enhance our sustainability efforts. Our pilot program using rebuilt engines to accommodate biofuel is already showing promising results, with significant improvements in fuel efficiency and reductions in emissions.

Additionally, CSX is investing in battery-electric locomotives and developing hydrogen locomotive conversion kits for diesel-electric locomotives in partnership with CPKC. We released our first hydrogen-powered locomotive earlier this year.

The CSX Carbon Calculator offers customers detailed insights into the carbon dioxide savings achieved by choosing CSX rail over truck transport. Our carload shippers can access year-to-date totals and year-over-year trends and apply variables to better understand carbon emission impacts when making supply chain decisions.

As reliance on coal decreases, CSX is strategically positioned to provide essential logistics support for emerging industries, reinforcing our role as a key partner in the transition to a more sustainable future.

Finally, large-scale state and federal infrastructure initiatives promise to create demand for critical materials and products, further increasing the demand for rail transport. Specifically, the Infrastructure Investment and Jobs Act and the Inflation Reduction Act have multiple projects associated with them.

CSX is also **expanding our reach** to tap into new markets and customer segments. The key here is finding opportunities to reach customers that we do not currently serve by rail today. This includes extending our rail network through investments and combining truck capabilities with rail to serve locations that our network is unable to serve directly.

- TRANSFLO, our subsidiary that provides bulk material transloading has grown to nearly 50 terminals and has capacity expansions planned to ensure we meet increasing customer volumes. As an example, in 2023, we ventured into a new market by adding a new terminal in Portland, Maine. We also expanded four existing terminals at Tilford, Georgia; Charlotte, North Carolina; Sanford, Florida; and East Chicago, Indiana.
- Additionally, TRANSFLO has four expansions scheduled for 2024 that will result in approximately 10% more network capacity.
- Quality Carriers, which was acquired by CSX in 2021, is the largest provider of bulk liquid chemicals truck transportation in North America, serving large chemical producers and processors. In 2023, we introduced a new patented ISO-tank equipment solution to provide efficient connections to our intermodal product and to appeal to additional chemicals customers not directly served by CSX today.
- Our strategic acquisition of Pan Am Railways in 2022 has extended the CSX geographic footprint, enabling us to serve every major market in the eastern U.S. With over \$100 million in investment to date, our customers are seeing the benefits of an improving network in the New England region.
- MNBR, our newest initiative pending STB approval, is a potential new interchange in partnership with CPKC near the Alabama-Mississippi border that will create greater connectivity and efficiency for East-West and Mexico traffic.

Concurrently, CSX is making infrastructure improvements that further enhance service efficiency and stimulate growth. For example:

- CSX is modernizing the rail infrastructure of the Howard Street Tunnel in Baltimore, Maryland. The project increases the vertical clearance of the tunnel and 22 other locations along CSX's I-95 Rail Corridor, which will for the first time allow for double-stack intermodal service.
- At CSX Avon Yard in Indianapolis, we are extending the hump leads to increase the number of cars we can pull at one time, which will boost yard capacity by about 250 cars per day.
- We are also reconfiguring CSX Cumberland Yard in Maryland. The new structure will extend yard tracks and improve switching capability allowing us to flow more traffic through that corridor into and out of the Midwest, eliminating thousands of touches and millions of out-of-route miles in a given year. This will enhance safety, double production capacity, and ensure faster and more reliable delivery of customer goods.

As highlighted in my opening comments, CSX is privileged to have a very diverse customer base. To achieve our growth goals, we have to implement a diverse set of initiatives to address the varied opportunities that exist in the unique markets we serve. By working together with a ONE CSX mindset we are to drive innovation to address the needs of our customers.

Mr. Hinrichs:

In closing, the freight rail industry has a storied legacy and has served as a vital part of America's transportation history and economy for nearly 200 years. The railroads laid the groundwork for our economy by connecting domestic markets and breaking down regional barriers to trade.

At CSX, we recognize the challenges we face and are excited to work together to take them on. Each morning when I go to work or visit our frontline employees at our yards, I am excited about the opportunities ahead. I know our team is as well.

Rail is good for meeting our collective economic and environmental goals. Rail is significantly better than truck when it comes to emissions. Rail is the safest way to move goods on land. Rail decongests highway traffic for everyday Americans. And, rail reduces taxpayer burden because we largely cover our own infrastructure costs. I would challenge anyone to find a service that has all these benefits and is more cost effective for customers.

It is hard to not be excited and motivated by those outcomes—and to unite collectively to create a sustainable future while driving economic growth.

At CSX, we are committed to the future of safe, reliable, and efficient rail transport. We are committed to moving forward—and going further—together, working better with all our key stakeholders to drive profitable growth. We are committed to our ONE CSX culture. It starts with prioritizing our employees and our customers in everything we do.

We appreciate the Board's ongoing interest in these important issues and look forward to continuing to work together to ensure the ongoing success of the railroad industry.

Respectfully submitted,

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