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February 13, 2020

The Honorable Ann D. Begeman, Chairman  
The Honorable Martin J. Oberman, Vice Chairman  
The Honorable Patrick J. Fuchs, Commissioner  
United States Surface Transport Board  
395 E Street, S.W.  
Washington, D.C. 20423

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Office of Proceedings  
February 13, 2020  
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Public Record

Re: *EP 761, Hearing on Revenue Adequacy – Information Requested of CP*  
*EP 722, Railroad Revenue Adequacy*

Dear Chairman Begeman, Vice Chairman Oberman, and Commissioner Fuchs:

At the hearing in this matter on December 12, 2019, Soo Line Railroad Company (CP) was requested to provide additional information regarding the number of interswitch locations in Canada and the frequency of interswitch activity. Please accept this letter in response thereto.

#### **Brief History of Canadian Interswitching**

To provide context, the following quote has been excerpted from the Canadian Transportation Agency (the Agency) web page regarding regulated interswitching rates:

“Regulated in Canada since 1904, interswitching is a commercial agreement between railway companies whereby one railway company will carry traffic for the other railway company to ensure that captive shippers (i.e. shippers with only one choice of railway) have fair and reasonable access to the rail system at a regulated rate. Railway companies are fully responsible for reimbursing each other on a yearly basis.” (<https://www.otc-cta.gc.ca/eng/interswitching-rates>; accessed on February 10, 2020)

As indicated, although interswitching activity is regulated, it occurs under private commercial agreements between railways.

As CP understands it, the primary reason interswitching regulations were put in place in 1904 was to eliminate the need for multiple railroads to build into the same origin and destination facilities. As a result, the interswitching framework shaped the build-out of Canada’s railroad transportation system over the decades. For example, at the key port of Vancouver, historical changes and regulation have resulted in CN controlling access and serving shippers on the north shore of the Burrard Inlet with CP accessing the north shore via interswitching, and CP controlling access and serving shippers on the south shore with CN accessing the south shore via interswitching. The two railways hand off traffic to one another to complete the movement.

Given this history, most interswitching activity in Canada is properly thought of as “structural.” That is to say, this is activity that is a necessary consequence of the physical structure of the Canadian railroad network, rather than a response to a regulatory application for an interswitching order made by a customer or other interested party.<sup>1</sup>

### **Interswitching Activity**

CP exchanges traffic with other carriers at 68 regulated interchange locations across the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, but most of activity takes place in two locations, Vancouver and Thunder Bay. CP interswitch activity in Calendar Year 2019 was as follows:

|                             | Vancouver Area | Thunder Bay Area | Eastern Canada | Prairies |
|-----------------------------|----------------|------------------|----------------|----------|
| <b>Carloads (thousands)</b> | 224            | 50               | 54             | 80       |

These values include carloads that were switched by CP for other carriers, as well as carloads that were switched by other carriers for CP. Some of this activity occurs subject to the interswitching regulations, and some of it occurs under private agreement.

The Agency annually calculates and publishes the regulatory interswitching rates for each of the 68 interswitching locations.<sup>2</sup> Interswitching payments are settled between the railroads. The entire process is transparent to the shipper.

### **Long Haul Interswitching**

A recently introduced regulation, known as Long Haul Interswitching (LHI), provides shippers with an opportunity to apply for interswitching orders over much longer distances. However, this regulatory tool operates quite differently from the traditional interswitching regulations, and is subject to numerous restrictions. LHI has not been used by any shipper, to date, to the best of CP’s knowledge.

### **Agency Ordered Interswitching**

While the vast majority of interswitching activity is a result of structural considerations, shippers and other interested parties may request the Agency to issue an interswitching order. For the purposes of this discussion, interswitching activity carried out under a direct Agency order is truly “regulated” interswitching.

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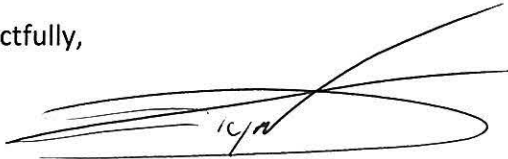
<sup>1</sup> The original interswitch regulations limited application to origins and destinations that were within 4 miles of a regulated interchange. Over the years, the regulations have been expanded such that today, a shipper’s origin or destination must be within 30 km (approximately 19 miles) of a regulated interchange.

<sup>2</sup> The Agency has a mandate to calculate and publish regulatory interswitching rates each year. Under this mandate, the Agency determines rates for four distance zones, with separate rates for “single” cars and for blocks of 60 or more cars. For more information please see the Railway Interswitching Regulations, accessible on the Government of Canada, Justice Laws Website: <https://laws.justice.gc.ca/eng/regulations/sor-88-41/page-1.html#docCont>.

The Agency has only heard five separate applications for regulated interswitching orders in the last ten years. It has not heard any interswitching applications in calendar year 2020 (to-date), and heard none in 2019. In 2018, the Agency heard two applications (see CTA decision CONF-18-254, November 16, 2018, and CONF-15-2018, October 2, 2018). The Agency heard no applications in 2017. It heard one application in 2016 (CONF-4-2016, April 19, 2016). It heard no applications in 2015 and 2014. The Agency heard two applications in 2013 (165-R-2013, May 1, 2013, and 466-R-2013, December 19, 2013), and no applications in 2012 and 2011. The Agency has not yet heard any applications for a Long Haul Interswitching order. As the foregoing shows, truly regulated interswitching activity is not a common feature of Canadian railroad operations.

In summary, CP does not believe that the Canadian experience provides a good proxy for what may be expected in the United States if a similar regulatory scheme were introduced. The Canadian rail industry has grown up with interswitch regulation, which significantly influenced the build-out of the Canadian transportation system.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Tyme Wittebrood', with a large, sweeping flourish extending from the end of the signature.

Tyme Wittebrood  
Director, Regulatory Finance  
CP - 7550 Ogden Dale Road SE Calgary AB, T2C 4X9