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Surface Transportation Board
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Wilson

Topic: Ex Parte Meeting, EP 711 (Sub-No. 1), Reciprocal Switching

Summary of the Matters Discussed, Prepared by General Counsel Craig Keats:

In this meeting, held on January 21, 2022, staff of the Canadian Transportation Agency (CTA) provided a background briefing regarding rail interswitching in Canada. CTA staff described CTA's role as an independent, quasi-judicial tribunal and economic regulator in Canada. CTA staff then detailed the evolution of the statutory interswitching provision and how it works in practice. They also discussed the types of interswitching, the mechanics and rates of each type, and how those rates are developed. Responding to questions, CTA staff further explained the Canadian interswitching rate-setting process; the extent of interswitching in Canada; the frequency of appeals; and how Canadian interswitching fits into the overall operations of the Canadian railroad systems.

Attachment: power point



Canadian
Transportation
Agency

Office
des transports
du Canada

Regulated Interswitching

Canadian Transportation Agency

Canada

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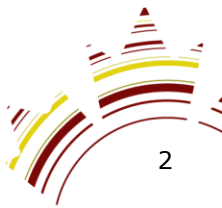
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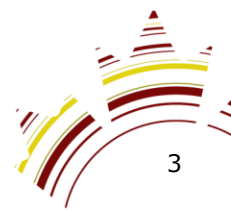


01

Introduction

The Canadian Transportation Agency

Analysis and Regulatory Reform

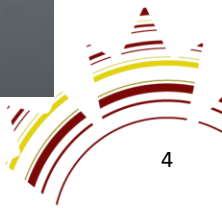


Introduction

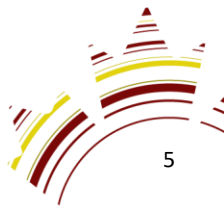
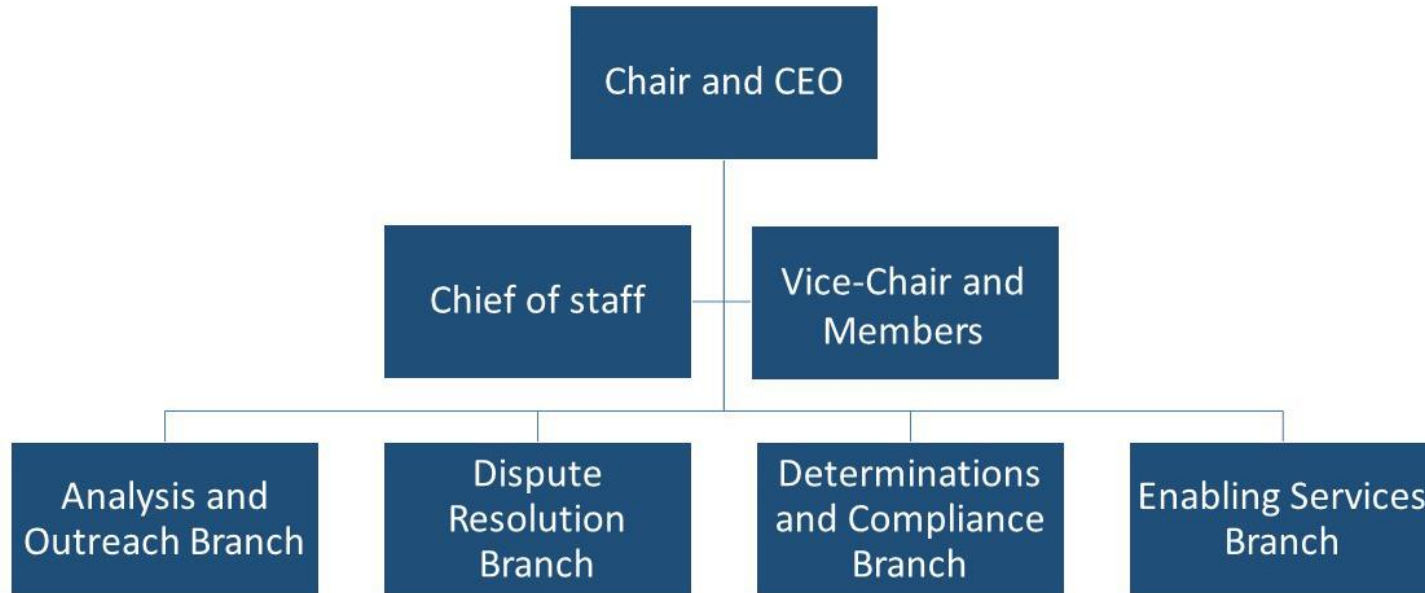


The Canadian Transportation Agency is an independent, quasi-judicial tribunal and regulator that has, with respect to all matters necessary for the exercise of its jurisdiction, all the powers of a superior court.

France Pégeot was appointed Chair and CEO of the Agency on June 1, 2021



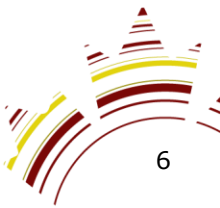
Introduction



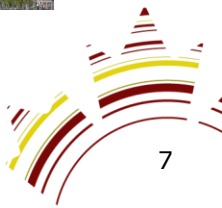


02

History of Interswitching
Canada Transportation Act



Origin of Interswitching



Canada Transportation Act

Canada Transportation
PART III Railway Transportation
DIVISION IV Rates, Tariffs and Services
Confidential Contracts
Sections 126-127

Transports au Canada
PARTIE III Transport ferroviaire
SECTION IV Prix, tarif et services
Contrats confidentiels
Articles 126-127

apply to a period that begins after the agreement, order, decision or tariff expires.

No investigation or arbitration of confidential contracts

(2) No party to a confidential contract is entitled to submit a matter governed by the contract to the Agency for final offer arbitration under section 161, without the consent of all the parties to the contract.

1996, c. 10, s. 126; 2013, c. 31, s. 8; 2018, c. 10, s. 25.

Interswitching

Application to interswitch traffic between connecting lines

127 (1) If a railway line of one railway company connects with a railway line of another railway company, an application for an interswitching order may be made to the Agency by either company, by a municipal government or by any other interested person.

Order

(2) If the point of origin or destination of a continuous movement of traffic is within a radius of 30 km of an interchange, the Agency may order

- (a) one of the companies to interswitch the traffic; and
- (b) the railway companies to provide reasonable facilities for the convenient interswitching of traffic in both directions at an interchange between the lines of either railway and those of other railway companies connecting with them.

Interswitching limits

(3) If the point of origin or destination of a continuous movement of traffic is within a radius of 30 km of an interchange, a railway company shall not transfer the traffic at the interchange except in accordance with the regulations and the interswitching rate.

Extension of interswitching limits

(4) On the application of a person referred to in subsection (1), the Agency may deem a point of origin or destination of a movement of traffic in any particular case to be within 30 km of an interchange if the Agency is of the opinion that, in the circumstances, the point of origin or destination is reasonably close to the interchange.

1996, c. 10, s. 127; 2018, c. 10, ss. 26, 95.

Arbitrage

(2) Toute demande d'arbitrage au titre de l'article 161 sur une question faisant l'objet d'un contrat confidentiel est subordonnée à l'assentiment de toutes les parties au contrat.

1996, ch. 10, art. 126; 2013, ch. 31, art. 8; 2018, ch. 10, art. 25.

Interconnexion

Demande d'interconnexion

127 (1) Si une ligne d'une compagnie de chemin de fer est raccordée à la ligne d'une autre compagnie de chemin de fer, l'une ou l'autre de ces compagnies, une administration municipale ou tout intéressé peut demander à l'Office d'ordonner l'interconnexion.

Interconnexion

(2) Si le point d'origine ou le point de destination d'un transport continu est situé dans un rayon de trente kilomètres d'un lieu de correspondance, l'Office peut ordonner :

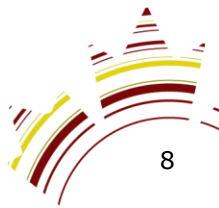
- a) à l'une des compagnies d'effectuer l'interconnexion;
- b) aux compagnies de fournir les installations convenables pour permettre l'interconnexion, d'une manière commode et dans les deux directions, à un lieu de correspondance, du trafic, entre les lignes de l'un ou l'autre chemin de fer et celles des autres compagnies de chemins de fer qui y sont raccordées.

Limites

(3) Si le point d'origine ou le point de destination d'un transport continu est situé dans un rayon de trente kilomètres d'un lieu de correspondance, le transfert de trafic par une compagnie de chemin de fer à ce lieu de correspondance est subordonné au respect des règlements et du prix fixé en application de l'article 127.1.

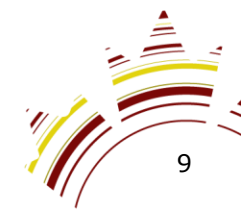
Agrandissement des limites

(4) Sur demande formée au titre du paragraphe (1), l'Office peut statuer que, dans un cas particulier où le point d'origine ou le point de destination du trafic est situé à plus de trente kilomètres d'un lieu de correspondance et où il est d'avis que, dans les circonstances, le point d'origine ou le point de destination est suffisamment près du lieu de correspondance, le point d'origine ou le point de



2022 Interswitching Rates

Interswitching Distance Zone	Rate per car (Single car)	Rate per car (Blocks)	Additional km rate for a car	Additional km rate for a car in a car block
Zone 1 (up to 6.4 km)	335	90	N/A	N/A
Zone 2 (up to 10.0 km)	460	140	N/A	N/A
Zone 3 (up to 20.0 km)	415	75	N/A	N/A
Zone 4 (up to 30.0 km)	475	95	10.75	0.98



Block Car Category

Canada Transportation
PART III Railway Transportation
DIVISION IV Rates, Tariffs and Services
Inter-switching
Sections 127-128

Inter-switching rate

127.1 (1) The Agency shall, no later than December 1 of every year, determine the rate per car to be charged for inter-switching traffic for the following calendar year.

Considerations

(2) In determining an inter-switching rate, the Agency shall take into consideration

- (a)** any reduction in costs that, in the opinion of the Agency, results from moving a greater number of cars or from transferring several cars at the same time; and
- (b)** any long-term investment needed in the railways.

Limit on rate

(3) In determining an inter-switching rate, the Agency shall consider the average variable costs of all movements of traffic that are subject to the rate and the rate shall not be less than the variable costs of moving the traffic, as determined by the Agency.

Publication of method

(4) The Agency shall, when it makes its determination under subsection (1), publish the method that it followed for determining the rate.

Inter-switching rate to be published

(5) The Agency shall cause the inter-switching rate to be published in the *Canada Gazette* no later than December 31 before the beginning of the calendar year for which the rate applies.

2018, c. 10, s. 27.

Regulations

128 (1) The Agency may make regulations

- (a)** prescribing terms and conditions governing the inter-switching of traffic, other than terms and conditions relating to safety; and
- (b)** establishing distance zones for the purpose of determining the inter-switching rate.
- (c)** [Repealed, 2018, c. 10, s. 28]

(1.1) [Repealed, 2014, c. 8, s. 7]

(2) and (3) [Repealed, 2018, c. 10, s. 28]

Transports au Canada
PARTIE III Transport ferroviaire
SECTION IV Prix, tarif et services
Interconnexion
Articles 127-128

destination, selon le cas, est réputé situé à l'intérieur de cette distance.

1996, ch. 10, art. 127; 2018, ch. 10, art. 26 et 95.

Prix par wagon pour l'interconnexion

127.1 (1) Au plus tard le 1^{er} décembre de chaque année, l'Office fixe le prix par wagon à exiger durant l'année civile suivante pour l'interconnexion du trafic.

Éléments à prendre en compte

(2) Lorsqu'il fixe le prix, l'Office prend en compte :

- a)** les réductions de coûts qui, à son avis, sont entraînées par le mouvement d'un plus grand nombre de wagons ou par le transfert de plusieurs wagons à la fois;
- b)** les investissements à long terme requis dans les chemins de fer.

Prix minimal

(3) Le prix tient compte des frais variables moyens de tous les transports de marchandises visés par celui-ci et ne peut être inférieur aux frais variables — établis par l'Office — de ces transports.

Publication de la méthode

(4) L'Office publie, quand il fixe ce prix, la méthode qu'il a suivie pour le faire.

Publication du prix

(5) L'Office fait publier le prix dans la *Gazette du Canada* au plus tard le 31 décembre précédant le début de l'année civile durant laquelle il s'appliquera.

2018, ch. 10, art. 27.

Règlement

128 (1) L'Office peut, par règlement :

- a)** fixer les modalités de l'interconnexion du trafic autres qu'en matière de sécurité;
- b)** établir des zones tarifaires en vue de fixer, en application de l'article 127.1, le prix par wagon à exiger pour l'interconnexion du trafic.
- c)** [Abrogé, 2018, ch. 10, art. 28]

(1.1) [Abrogé, 2014, ch. 8, art. 7]

(2) et (3) [Abrogés, 2018, ch. 10, art. 28]



Block Car Category



03

Single-Car Interswitching

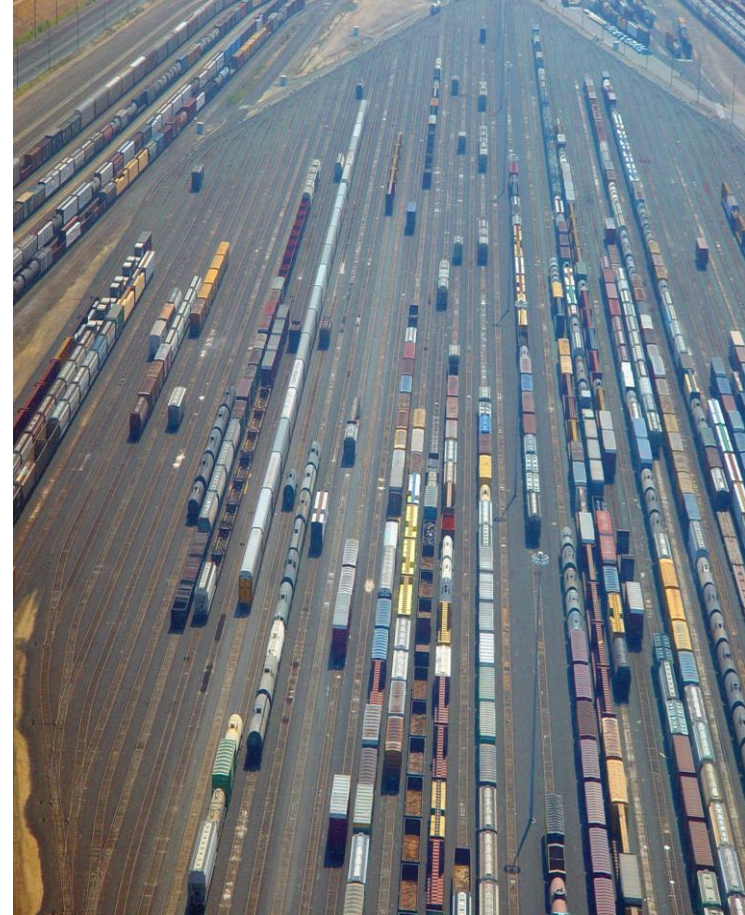
Block-Car Interswitching



Interswitching Movements

Single-Car Yard Switching Process

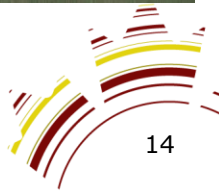
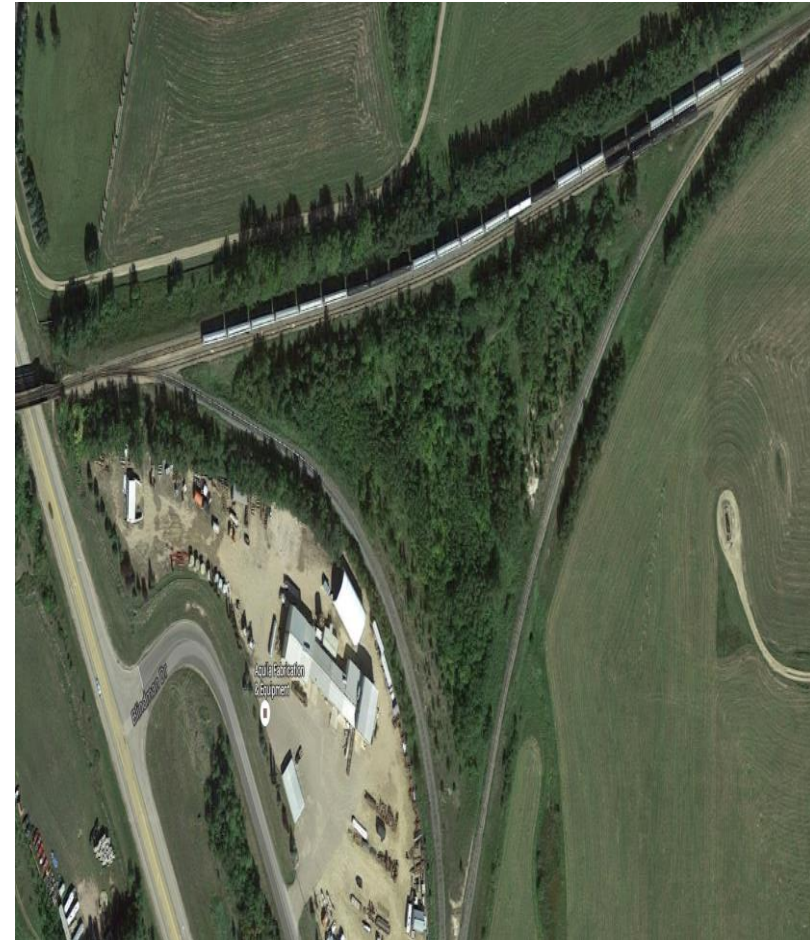
1. Train picks up and drops cars at the interchange
2. Train returns to the yard
3. Cars are separated from the train and placed into tracks based on their next destination (classification)
4. Delivery train is built (marshalling)
5. Train travels to shipper areas
6. Train drops and picks up cars at shipper siding
7. Train returns to yard with picked up cars
8. Cars are classified at the yard
9. Interchange train is built (marshalling)
10. Train travels to the interchange



Interswitching Movements

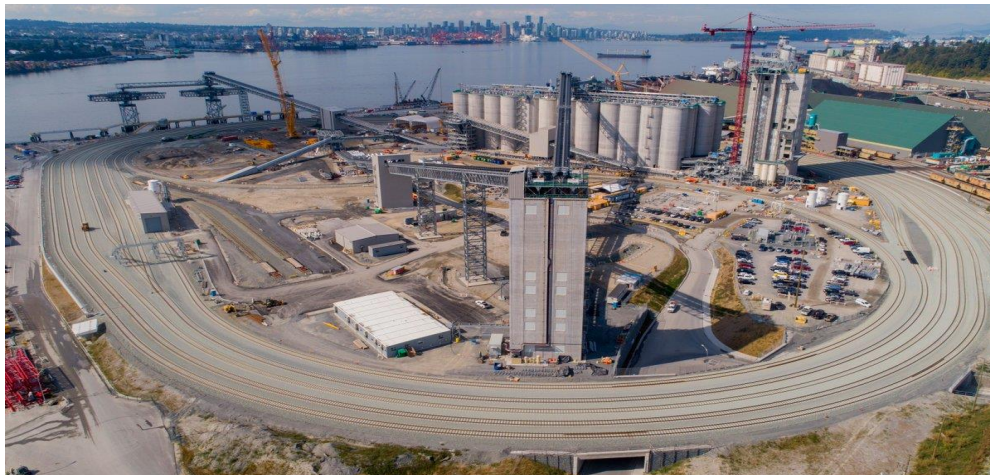
Single-Car Road Switching

1. Train stops at the interchange
2. Train picks up cars at the interchange
3. Classification & Marshalling at the interchange
4. Train travels to shippers, spots and pull cars
5. Train returns to the interchange
6. Train drops off cars at the interchange
7. Train returns to the yard



Interswitching Movements

Block Switching



1. Two to Three locomotives travel from the yard to the interchange
2. Locomotives hook up to the unit train and travel directly to the shipper's siding
3. Locomotive drops and picks up cars at the shipper's siding
4. Locomotives brings cars back to the interchange and drops off
5. Locomotives return to the yard





04

Interswitching Rate Methodology for Single-Car

Interswitching Rate Methodology for Block-Car



Agency Interswitching Rate Methodology



Railway Unit
Costs

Interswitching
Service Units

Volumes of
Interswitched
Cars



First Component for Calculating Interswitching Rates

$$\text{Unit Cost} = \frac{\text{Variable Cost} + \text{Fixed Cost}}{\text{Total Units Produced}}$$



Contribution to Fixed Costs

Canada Transportation
PARTIE B Railway Transportation
DIVISION IV Rates, Tariffs and Services
Interpretation
Sections 111-113

the point of origin or to the point of destination that is served exclusively by the class 1 rail carrier; (*transporteur local*)

long-haul interswitching rate means a rate determined by the Agency in accordance with paragraph 134(1)(a); (*Version anglaise seulement*)

service obligations means obligations under section 113 or 114. (*Version anglaise seulement*)

1996, c. 10, s. 111; 2018, c. 10, s. 22

Rates and Conditions of Service

Commercially fair and reasonable

112 A rate or condition of service established by the Agency under this Division must be commercially fair and reasonable to all parties.

Level of Services

Accommodation for traffic

113 (1) A railway company shall, according to its powers, in respect of a railway owned or operated by it,

(a) furnish, at the point of origin, at the point of junction of the railway with another railway, and at all points of stopping established for that purpose, adequate and suitable accommodation for the receiving and loading of all traffic offered for carriage on the railway;

(b) furnish adequate and suitable accommodation for the carriage, unloading and delivering of the traffic;

(c) without delay, and with due care and diligence, receive, carry and deliver the traffic;

(d) furnish and use all proper appliances, accommodation and means necessary for receiving, loading, carrying, unloading and delivering the traffic; and

(e) furnish any other service incidental to transportation that is customary or usual in connection with the business of a railway company.

Carriage on payment of rates

(2) Traffic must be taken, carried to and from, and delivered at the points referred to in paragraph (1)(a) on the payment of the lawfully payable rate.

Current to December 13, 2021
Last amended on June 10, 2020

Transports au Canada
PARTIE B Transport ferroviaire
SECTION IV Prix, tarif et services
Définitions
Articles 111-113

de destination qu'il dessert exclusivement. (*local carrier*)

1996, ch. 10, art. 111; 2018, ch. 10, art. 22

Prix et conditions de service

Obligation

112 Les prix et conditions visant les services fixés par l'Office au titre de la présente section doivent être commercialement équitables et raisonnables vis-à-vis des parties.

Niveau de services

Acheminement du trafic

113 (1) Chaque compagnie de chemin de fer, dans le cadre de ses attributions, relativement au chemin de fer qui lui appartient ou qu'elle exploite :

a) fournit, au point d'origine de son chemin de fer et au point de raccordement avec d'autres, et à tous les points d'arrêt établis à cette fin, des installations convenables pour la réception et le chargement des marchandises à transporter par chemin de fer;

b) fournit les installations convenables pour le transport, le déchargement et la livraison des marchandises;

c) reçoit, transporte et livre ces marchandises sans délai et avec le soin et la diligence voulus;

d) fournit et utilise tous les appareils, toutes les installations et tous les moyens nécessaires à la réception, au chargement, au transport, au déchargement et à la livraison de ces marchandises;

e) fournit les autres services normalement liés à l'exploitation d'un service de transport par une compagnie de chemin de fer.

Paiement du prix

(2) Les marchandises sont reçues, transportées et livrées aux points visés à l'alinéa (1)a) sur paiement du prix licitement exigible pour ces services.

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À jour au 13 décembre 2021
Dernière modification le 10 juin 2020

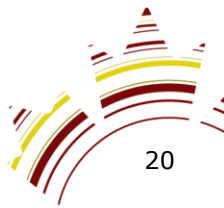


Agency Interswitching Rate Methodology (1st Component)



- Indexing and a productivity adjustment is required as we are calculating interswitching rates for the upcoming year
- Productivity adjusts the <Total Units Produced> portion of the unit cost to account for changes in the way inputs are used to produce the output

$$\text{Unit Cost} = \frac{\text{Variable Cost} + \text{Fixed Cost}}{\text{Total Units Produced}}$$



Agency Interswitching Rate Methodology



Agency Interswitching Rate Methodology (2nd component)

Interswitching service units

- Account 401 unit cost = Track and roadway maintenance expenses / Gross ton miles
- Account 741 unit cost = Loss and damage expenses / number of cars
- Subsection 127.1 (3) of the Canadian Transportation Act requires that, in determining an interswitching rate, the Agency consider the average variable costs of all movements of traffic that are subject to the rate **and the rate shall not be less than the variable costs of moving the traffic**, as determined by the Agency
- Economics Division conducts annual site visits to yards across Canada to speak with railway yard supervisors and/or railway assignment crews to find out how they serve a sample of interswitching shippers



Acquiring Block Train Service Units

- Agency staff will meet with rail personnel and ask them, for each step listed below, how much time is involved, how many crew is involved, how many locomotives are involved, how many cars are involved.
1. 2-3 locomotives travel from the Yard to the interchange
 2. Locomotives hook up to the unit train and travel directly to the shipper's siding
 3. Locomotives drops and picks up cars at the shipper's siding
 4. Locomotives brings cars back to the interchange and drops off
 5. Locomotives return to the Yard



Interswitching Service Units

Block and Road Switching Service Units

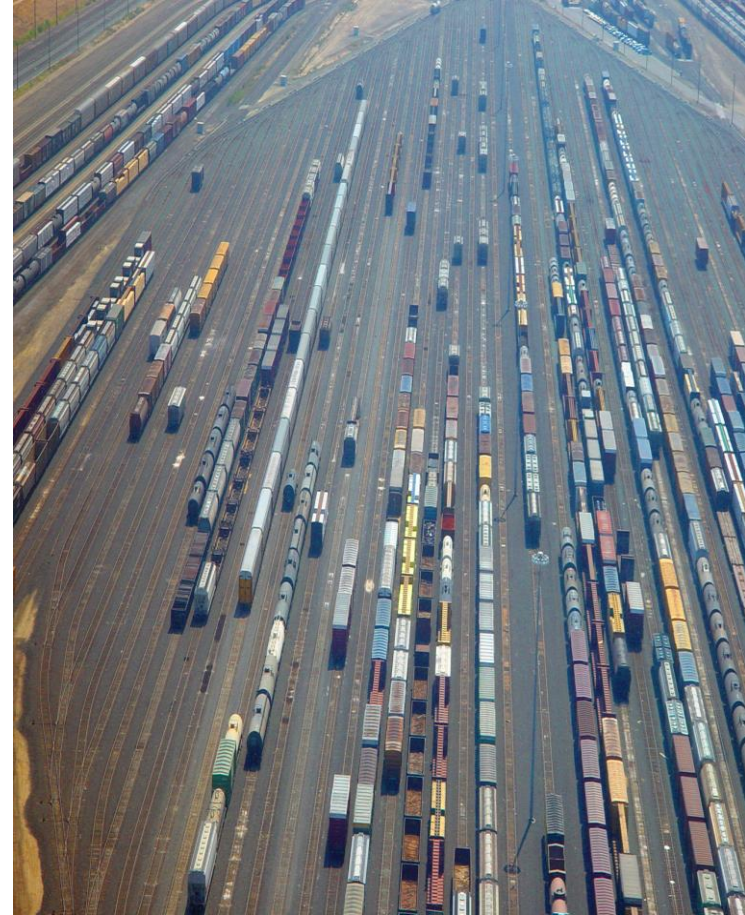
- Gross ton-miles
- Car-miles
- Train-miles
- Carloads
- Fuel consumed
- Crew hours
- Diesel unit miles



Interswitching Movements

Single-Car Yard Switching Process

1. Train picks up and drops cars at the interchange
2. Train returns to the yard
3. Cars are separated from the train and placed into tracks based on their next destination (classification)
4. Delivery train is built (marshalling)
5. Train travels to shipper areas
6. Train drops and picks up cars at shipper Siding
7. Train returns to yard with picked up cars
8. Cars are classified at the yard
9. Interchange train is built
10. Train travels to the Interchange



Agency Interswitching Rate Methodology



Railway Unit
Costs

Interswitching
Service Units

Volumes of
Interswitched
Cars



Agency Interswitching Rate Methodology (3rd component)

Carload data

- Submitted annually by CN and CP
- Database containing shipper name, carloads, interchange, zone, rate charged
- Sampling of customers for developing interswitching service units
- Carload data is used to calculate the system average interswitching rate



System Average Rate

- Average at the interchange level first (weighted average of all shipper costs for each railway).

Vancouver zone 1 for railway ABC	2020 carloads	% weight (share of traffic)	Variable cost per car	Weighted zone 1 cost
Shipper A	800	80%	\$100.00	\$80.00
Shipper B	200	20%	\$80.00	\$16.00
Vancouver zone 1 cost per car for railway ABC	1,000	100%		\$96.00



System Average Rate

- Average at the zone level (weighted average of all interchange costs in each zone for each railway).

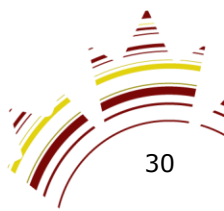
Zone 1 for railway ABC	2020 carloads	% weight (share of traffic)	Variable cost per car	Weighted zone 1 cost
Vancouver	1,000	62.50%	\$96.00	\$60.00
Toronto	600	37.50%	\$150.00	\$56.25
Zone 1 cost per car for railway ABC	1,600	100%		\$116.25



System Average Rate

- Average CN and CP costs to arrive at the zone rates.

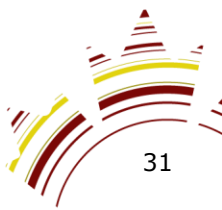
Zone 1	2020 carloads	% weight (share of traffic)	Variable cost per car	Weighted zone 1 cost
Railway ABC	1,600	44.44%	\$116.25	\$51.66
Railway XYZ	2,000	55.56%	\$125.00	\$69.45
Zone 1 cost per car	3,600	100%		\$121.11



Interswitching Rates

The interswitching rates calculated by the Agency:

- Cover all operating, maintenance, and administration costs incurred in providing the interswitching service;
- Cover the cost of investment in the infrastructure used in providing the service (cost of capital);
- Cover the cost of the infrastructure consumed in providing the service (depreciation);
- Cover the appropriate portions of the costs of interest, and federal, provincial, and municipal taxes;
- Provide an appropriate contribution to the railway company's fixed costs; and
- Provide an adequate return to the railway company's investors



Questions?

