

SURFACE TRANSPORTATION BOARD**Ex Parte 711 (Sub. No. 1)****Reciprocal Switching****Summary of Ex Parte Meeting Between CSX Transportation, Inc.,
and Surface Transportation Board Member Robert Primus****March 25, 2022**CSX Attendees:

- Sean Pelkey, Executive Vice President and Chief Financial Officer
- John Patelli, Head of Regulatory & Federal Affairs, Associate General Counsel
- Raymond Atkins, Sidley Austin LLP

STB Attendees:

- Robert Primus, Board Member
- Elizabeth McGrath, Attorney Advisor

Meeting Summary:

CSX thanked Member Primus for the opportunity to meet. Because of the time constraints associated with CSX's hearing testimony, which was presented on the last panel of the last day of the hearing, CSX explained that it hoped to elaborate on its testimony and offer Member Primus an opportunity to ask questions about its presentation.

CSX began by revisiting slides 9 and 10 of its hearing presentation, which address how the mandatory reciprocal switching proposal would influence its capital budgeting process. Moving from sole access to dual access at customer locations creates substantial uncertainty over customer retention. Mr. Pelkey explained an illustrative example of how this would cause a reduction in expected returns of many new projects below CSX's cost of capital, thereby reducing CSX's incentives to invest.

Member Primus asked whether carriers might use contracts with longer terms to lessen the risk presented by reciprocal switching. CSX explained that could help in some circumstances, but cautioned that in general it is tougher for the investment to be justified and customers with access to a forced switch might not be interested in entering a long-term contract.

Member Primus asked about how CSX approaches investment decisions for customers that are dual-served. CSX responded that investments are made to dual access locations, but growth investment opportunities can be difficult to justify due to the risk of losing the traffic to the other carrier. CSX explained that, in its experience, it is typically sole-served customers, seeking to either locate or expand, that approach CSX about CSX capital investment to accommodate the new service.

CSX then addressed the idea raised by Chairman Oberman at the hearing to limit the proposal to existing reciprocal switching locations. CSX provided two maps to illustrate the limited difference to CSX between the rule as originally proposed, based on a 30-mile radius around Class I interchanges, and Chairman Oberman's suggestion. CSX also provided a map to contrast the small amount of reciprocal switching that took place in 2021, fewer than 20,000 carloads, with the roughly 1 million carloads that originate or terminate within 30 miles of a junction where reciprocal switching has been occurring.

Member Primus asked how many customers who are eligible to use a switch actually exercise that option. CSX responded that there had not been enough time for that factual inquiry, but that it was exploring that question.

Finally, CSX discussed existing measures at 49 C.F.R. pt. 1147, that allow relief to address service inadequacies on a temporary basis. CSX explained that the temporary relief under pt. 1147 is key for preserving railroad investment incentives because the railroad can always win the business back. CSX stated that the permanent nature of switching orders and rate compression impacts of the proposal produces uncertainty and negatively impacts investment decisions. CSX views existing remedies at pt. 1147 as adequate to address shippers' concerns and sees permanent open access as a back door to rate regulation, which carries enormous risks that outweigh any benefits.

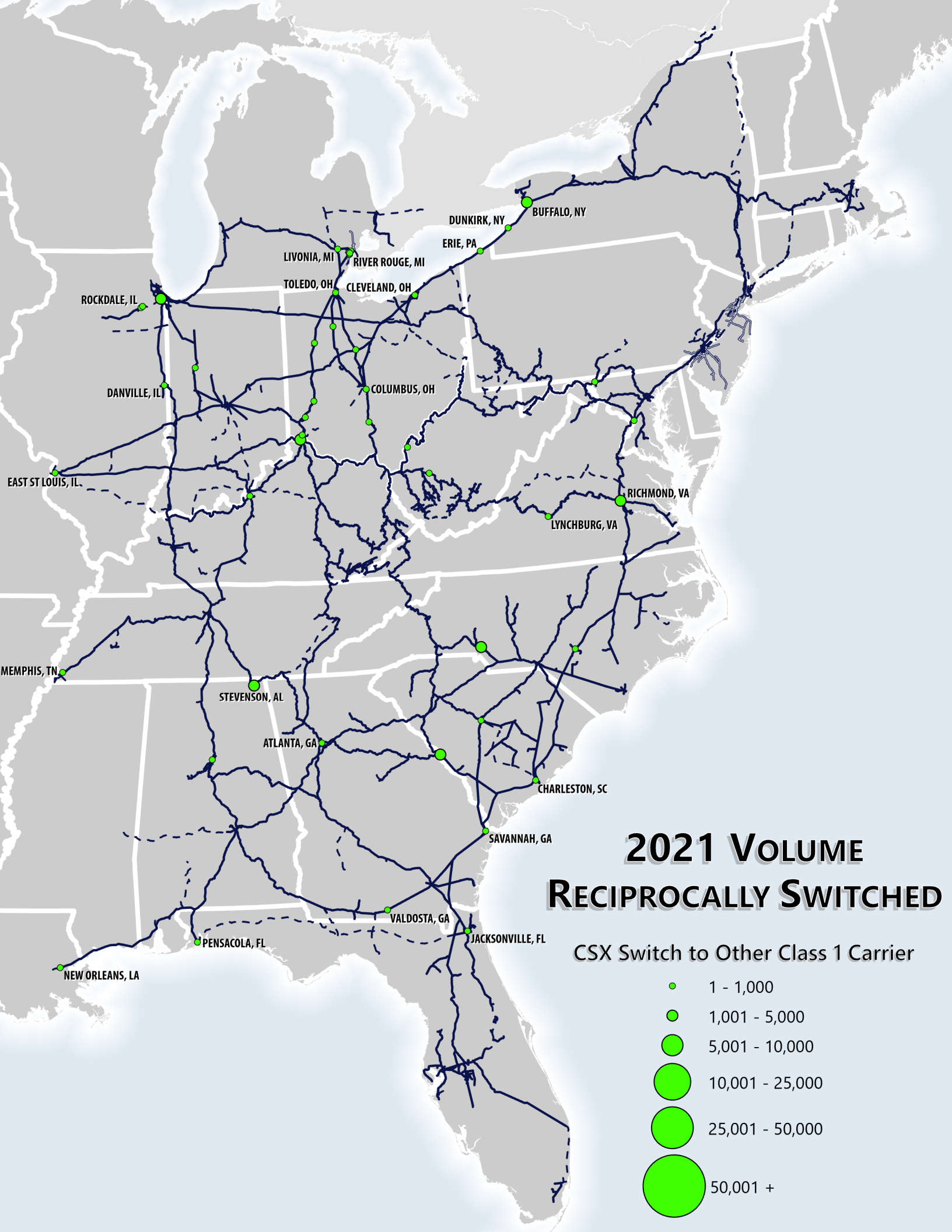
Member Primus expressed that the STB should explore all tools in trying to address the problems the agency is evaluating, but emphasized that his preference is for the industry to find non-regulatory solutions. He stated that the STB cannot let this proceeding linger indefinitely.

CSX and Member Primus thanked each other for their time and concluded the meeting.

Copies of the slides used in the presentation are attached.







2021 VOLUME RECIPROCALLY SWITCHED

CSX Switch to Other Class 1 Carrier

- 1 - 1,000
- 1,001 - 5,000
- 5,001 - 10,000
- 10,001 - 25,000
- 25,001 - 50,000
- 50,001 +

CSX's improved profitability enables new investments

- A shipper has asked CSX to invest **\$10 Million** in rail capacity upgrades at the customer's facility
- With the investment, CSX adds **\$7.5 Million** in annual revenue and 3,000 incremental carload

	Scenario 1: Pre-Scheduled Railroading		Scenario 2: Post-Scheduled Railroading	
	Years 1-3 Business Locked	Years 4-10 75% Retention Probability	Years 1-3 Business Locked	Years 4-10 75% Retention Probability
Revenue per Carload	\$2,500	\$2,500	\$2,500	\$2,500
Annual Revenue	\$7.5M	\$7.5M	\$7.5M	\$7.5M
OR on the Business	75%	75%	60%	60%
Annual Operating Income	\$1.9M	\$1.9M	\$3.0M	\$3.0M
Probability	100%	75%	100%	75%
Weighted Annual Cash Flow ¹	\$1.4M	\$1.1M	\$2.3M	\$1.7M
Rate of Return	3%		14%	
Will CSX Invest	NO		YES	

Reciprocal switching uncertainty will prevent growth investments

- The probability of retaining business after the 3-year contract is another major consideration in CSX's analysis
- **Reciprocal switching makes our projections much less certain...**

Revenue per Carload
Incremental Annual Revenue
OR on the Business
Annual Operating Income
Probability
Weighted Annual Cash Flow ¹
Rate of Return
Will CSX Invest

Scenario 3: Reciprocal Switching

	Years 4-10 Business Scenarios		
Years 1-3 Business Locked	Keep business at lower rate	Lose to other RR; receive switch fee	Lose to Truck
\$2,500	\$2,140	\$500	
\$7.5M	\$6.4M	\$1.5M	
60%	70%	75%	
\$3.0M	\$1.9M	\$0.4M	\$0.0M
100%	50%	25%	25%
\$2.3M	\$0.8M		
5%			
NO			