

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 Karen Hedlund**

March 29, 2022

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CSX Attendees:

- Sean Pelkey, Executive Vice President and Chief Financial Officer
- Nathan Goldman, Executive Vice President, Chief Legal Officer and Corporate Secretary
- John Patelli, Head of Regulatory & Federal Affairs, Associate General Counsel
- Jason Marques, Senior Counsel, Corporate & Transportation Law
- Raymond Atkins, Sidley Austin LLP

STB Attendees:

- Karen Hedlund, Board Member
- Charles Vance, Attorney Advisor

Meeting Summary:

CSX thanked Member Hedlund 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 Hedlund 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. Uncertainty over customer retention would reduce expected returns of many new projects below CSX's cost of capital, reducing its incentives to invest. Member Hedlund asked why CSX's investment scenario assumed a three-year transportation contract. CSX explained that this timeframe generally reflects a balance between the required investment and a period of committed service by CSX. Member Hedlund asked whether contracts contain any service standards or customer remedies for service degradation. CSX responded that a baseline level of service is anticipated in every contract and increased service levels can be negotiated.

CSX then addressed the idea raised by Chairman Oberman at the hearing to limit the STB's proposal to existing reciprocal switching locations. CSX provided two maps to illustrate the limited difference to CSX between the rule as originally proposed and Chairman Oberman's suggestion to rely upon existing reciprocal switching locations. CSX also provided a third 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 occurs today.

Finally, CSX and Member Hedlund discussed the merits of the current fault-based reciprocal switching standard and the existing regulatory tools to address service problems, including relief at 49 C.F.R. § 1147.1. CSX noted that shippers seek open access as a means to reduce rates, and only recently have cited service as a justification for the proposed rule. CSX explained why that is misguided and reviewed the existing measures at 49 C.F.R. pt. 1147, that allow relief to address service inadequacies on a temporary basis—key for preserving railroad investment incentives because the railroad can always win the business back. CSX acknowledged that certain elements of the rule at pt. 1147 could be refined or clarified, but that this existing remedy is the appropriate path to address shippers' service concerns. By contrast, the reciprocal switching open access proposal is a back door to rate regulation, which carries enormous, known risks that outweigh any benefits.

Mr. Vance asked whether CSX had participated in the informal meetings with STB staff in 2018 regarding 49 C.F.R. pts. 1146 and 1147, and CSX confirmed that it had.

Member Hedlund asked what CSX was currently doing to make things better from a service perspective. CSX responded that improvement remains a daily focus, and that CSX is aggressively hiring to address staff shortages, with over 100 hiring locations, and hundreds currently participating in CSX's safety training. CSX explained that it is focusing on staffing the areas of the network where the need is the greatest, and that by mid-year, the railroad will be staffed at a level that will drive improved cycle times and meet customer demands.

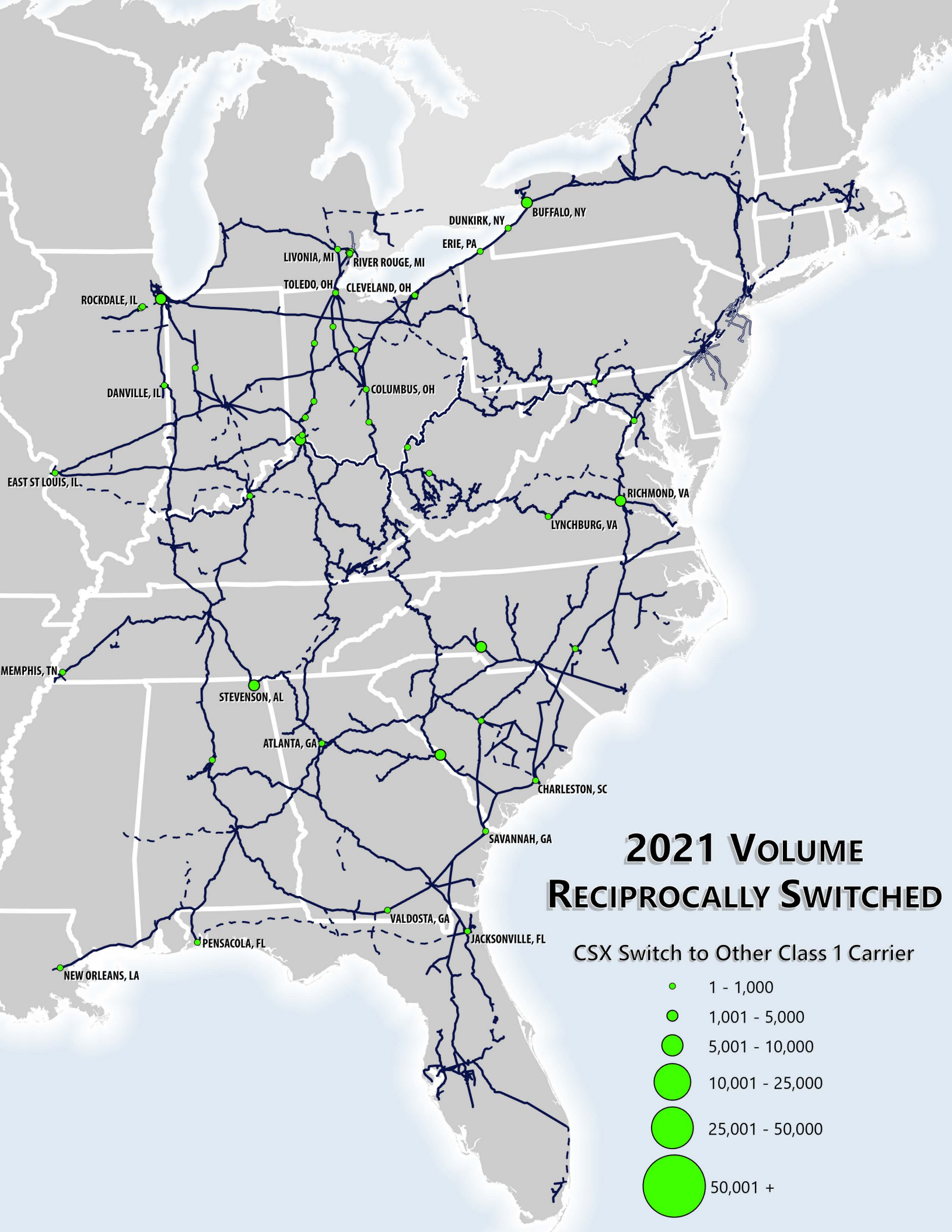
Member Hedlund asked how CSX was making railroad jobs more attractive and attracting more talent to CSX. CSX responded that it is focusing on diverse hires, has expanded its eligibility requirements and social media outreach, and is addressing quality of life issues to the extent possible given collective bargaining agreements. Member Hedlund noted that quality of life is an important issue and encouraged CSX to focus on that in order to bring more people to the railroad, which will allow the railroads to expand rather than contract.

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

Copies of the slides used in the meeting are attached.

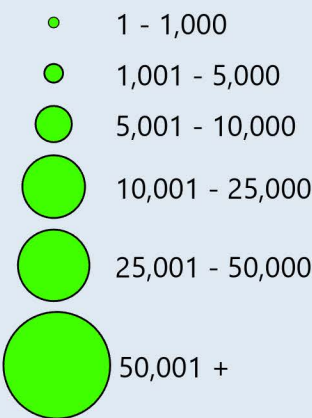






2021 VOLUME RECIPROCALLY SWITCHED

CSX Switch to Other Class 1 Carrier



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			