

SURFACE TRANSPORTATION BOARD**Docket No. EP 711 (Sub. No. 1)*****Reciprocal Switching***

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**Summary of Ex Parte Meeting Between CN
and Surface Transportation Board Member Patrick Fuchs**

March 29, 2022

CN Attendees: Rob Reilly, Executive Vice-President and Chief Operating Officer; Bernd Beyer, Vice-President and Treasurer; Kathryn Gainey, Deputy General Counsel; David Woodruff, Assistant Vice President & Head of U.S. Public & Government Affairs; Andreas Aepli, Cambridge Systematics; Matthew Warren, Sidley Austin LLP

STB Attendees: Patrick Fuchs, Board Member; Lisa Novins, Attorney Advisor; Stephanie Borges, Administrative Assistant.

CN thanked Member Fuchs for the opportunity to meet. Because of time constraints on the last day of the hearing, CN explained that it wanted to provide Mr. Aepli's modal market share presentation and allow an opportunity for any questions (available on the STB website, filing ID 304148).

Mr. Aepli provided an overview of his analysis using 2019 Transearch data, which showed truck having a larger market share than rail carload for all commodities except coal and metallic ores. Mr. Aepli described his analysis by mileage bands and explained that, if coal is excluded from the analysis, there are no distance ranges where the mode share for rail carload exceeds highway. CN and Member Fuchs discussed different ways to calculate modal share and the relationship between Mr. Aepli's data and other data sources.

CN and Member Fuchs then discussed whether changes could be made to the available remedy at 49 C.F.R. pt. 1147 to clarify the circumstances when a reciprocal switch could be prescribed if there has been a substantial, measurable deterioration in rail service over a period of time. Member Fuchs asked whether providing more certainty regarding the duration of a reciprocal switch order under pt. 1147 would better allow shippers and alternate rail carriers to assess capacity and resources and allow the incumbent carrier to improve service.

CN explained the importance of planning for anticipated customer demand, including people, locomotives, railcars, and capacity. CN discussed the importance of recovering from disruptions resulting from natural disasters, including fires and

washouts, and reduced capacity from extreme cold temperatures during winter or during summer with capital and maintenance projects. CN also discussed the challenges in responding to unexpected changes in demand from rail customers.

Member Fuchs asked CN to consider whether particular metrics could help define the circumstances under which a reciprocal switch could be prescribed when an incumbent carrier has a substantial, measurable deterioration of service, such as an unexpected change in cycle time. CN indicated that it would consider this.

Member Fuchs and CN discussed whether the Board should consider modifications to pt. 1147 relating to service inadequacies. Member Fuchs encouraged CN to engage with other stakeholders on these topics.

Member Fuchs asked CN whether it views Canada's compensation for interswitching as appropriately compensatory. CN explained that the nationwide cost-based compensation approach in Canadian interswitching is inappropriate and results in cross-subsidization, which underscores the need for market-based compensation in no-fault situations.

CN thanked Member Fuchs and the Board's staff for their hard work on these important issues.



EP 711 (Sub-No. 1) Hearing

304148

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March 21, 2022
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presented to
US Surface Transportation Board

March 16, 2022

presented by
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3.10.22

CAMBRIDGE SYSTEMATICS



Purpose & Approach

High level examination of the freight marketplace, and the degree to which competition is inter- vs. intra-modal, and how this may affect consideration of the reciprocal switching scheme that is being debated in EP 711 (Sub-No. 1).

We examined modal market share across major commodities and by length of haul to assess the level of modal competition across the primary modes – highway, rail, and water – for freight shipments handled within the US.

Focus on originated tonnage, since shippers and markets are concerned with volumes shipped, not transportation system production that is most commonly measured through ton-miles.

Analysis utilized S & P Global Market Intelligence Transearch for the year 2019, an industry standard freight flow database that reports commodities consistent with STB and rail industry usage.

US Domestic Shipments Originated Tonnage by Mode, All Commodities, 2019

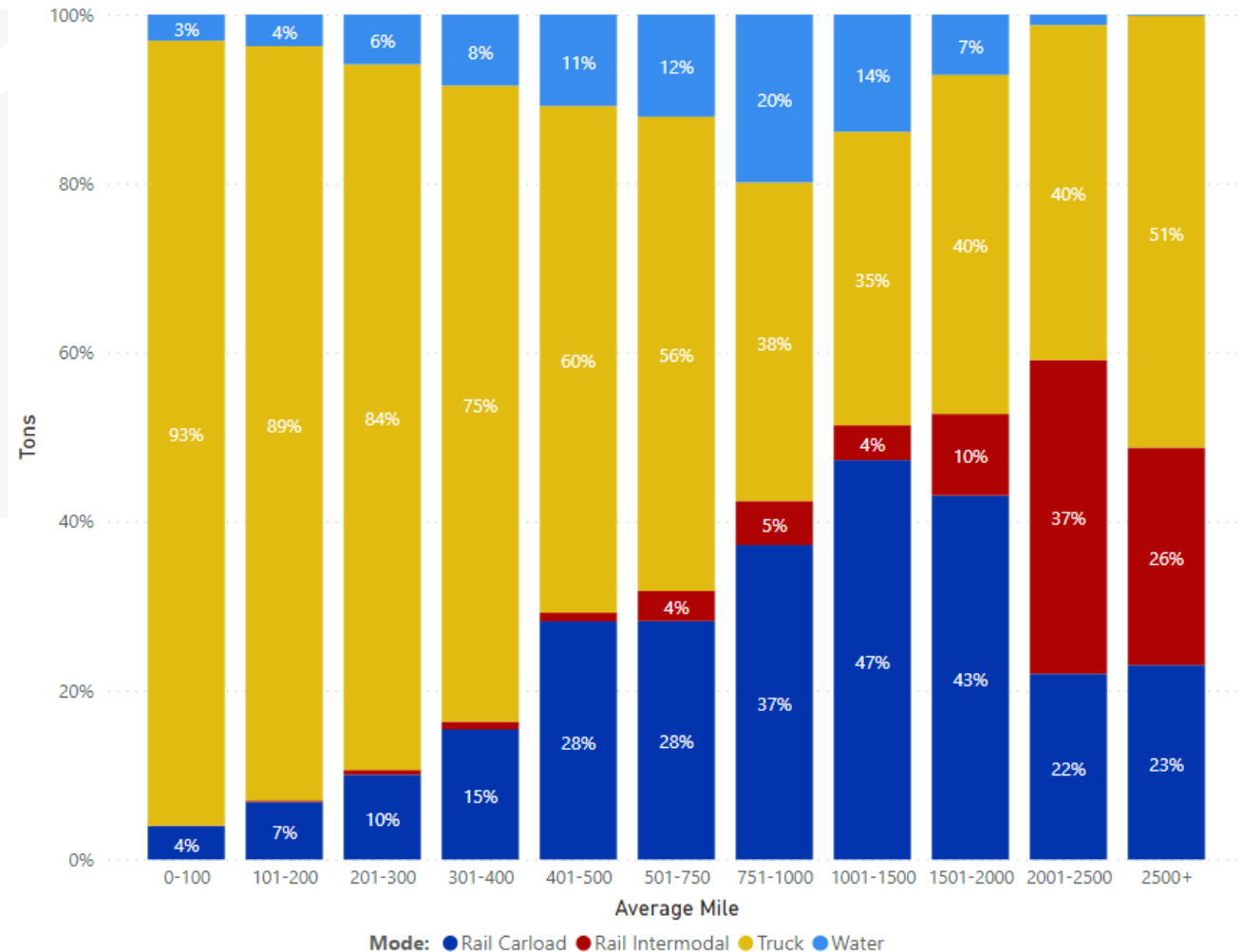
Mode ^a	Tons		Ton-Miles		Average Length of Haul (miles)
	Amount (billions)	% of modal total	Amount (trillions)	% of modal total	
Truck	8.8	78.5%	1.86	53%	211
Rail	1.63	14.5%	1.27	36%	784
Carload	1.45	13%	1.03	30%	712
Intermodal	0.18	1.5%	0.24	7%	1,380
Water	0.8	7%	0.35	10%	449
Total	11.0	100%	3.48	100%	311

^aExcludes air and pipeline. Air constitutes a negligible portion of domestic freight tonnage, and pipeline volumes are only partially reported in Transearch, and thus were not included in analysis.

Source: S & P Global Transearch

Domestic Tonnage by Distance All Commodities, 2019

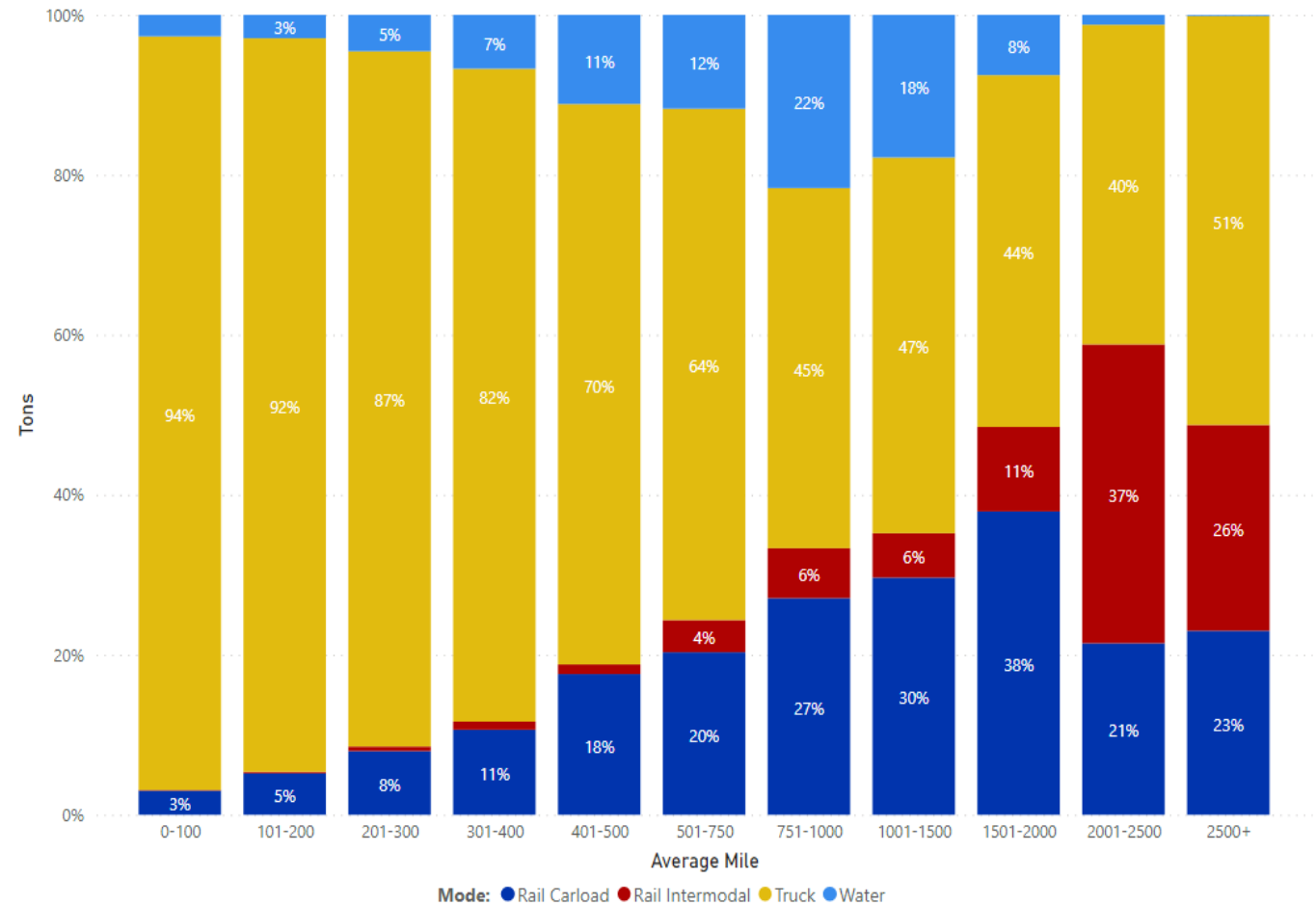
- *Modal share for rail carload service exceeds highway only in the 1,001-1,500 and 1,501-2,000 mile bands.*
- *Rail carload and highway share are roughly equal for the 751-1,000 mile bands.*
- *This is directly related to the high volumes of coal coming out of the Powder River Basin headed to destinations in the south and east.*
- *For all other distance bands, highway mode share exceeds carload rail significantly.*



Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting
Source: S&P Global Transearch

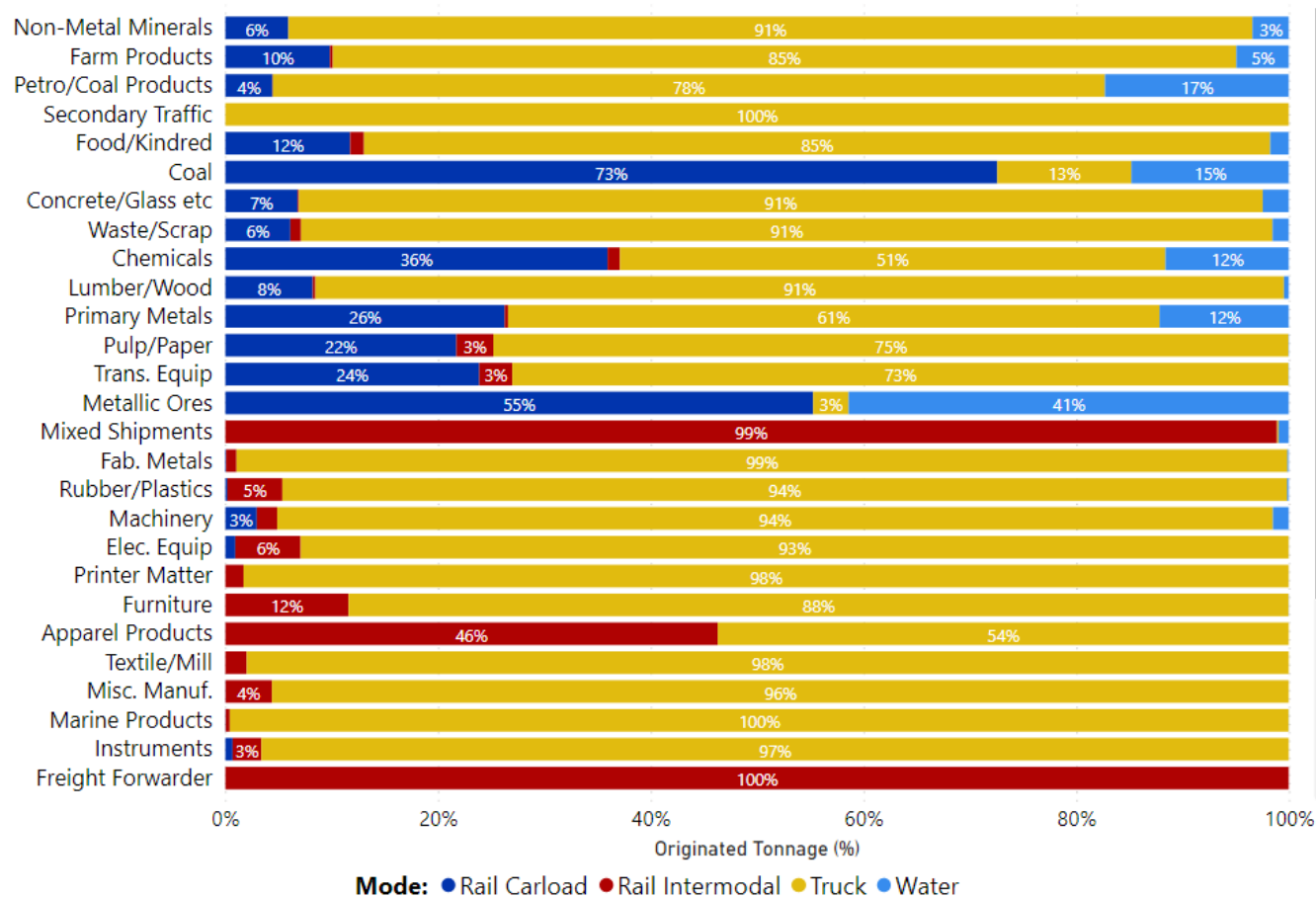
- A clearer picture of modal competitiveness across distance emerges when coal, with its particular characteristics that are not representative of most rail-competitive markets, is excluded.
- Excluding coal, there are no distance ranges where mode share for carload rail exceeds highway. The closest is in the 1,501-2,000 mile range, where carload rail tonnage accounted for 38% vs. 44% for highway.
- Even in distances exceeding 750 miles where carload rail tends to be most competitive, highway still outperforms rail.

Domestic Tonnage by Distance Excluding Coal, 2019



Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting
Source: S&P Global Transearch

Domestic Originated Tonnage by Mode



- *Commodities with carload rail mode share exceeding 25%: coal, chemicals, primary metals, and metallic ores.*
- *Commodities with carload rail mode share exceeding 50%: coal and metallic ores.*

Note: Excludes crude petroleum, shipping containers and hazmat products due to incomplete reporting

Source: S&P Global Transearch