

SURFACE TRANSPORTATION BOARD**Ex Parte 711 (Sub. No. 1)****Reciprocal Switching****Summary of Ex Parte Meeting Between CSX Transportation, Inc.,
and Surface Transportation Board Chairman Martin Oberman****April 13, 2022**ENTERED
Office of Proceedings
April 27, 2022
Part of
Public RecordCSX 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:

- Martin Oberman, Chairman
- Ellen Erichsen, Chief of Staff
- Laura Wilson, Attorney Advisor

Meeting Summary:

CSX thanked Chairman Oberman 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 Chairman Oberman 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.

Chairman Oberman asked how often, in recent years, CSX had been asked by a customer to make a substantial investment and had done so. CSX responded that it maintains an annual pipeline of industrial development projects, representing investments in new or expanded customer facilities. CSX's industrial development team specializes in attracting new and relocating customers to rail by identifying property that is shovel-ready for rail operations. Chairman Oberman asked how, with a reciprocal switching rule in place, contractual terms could be set to preserve railroad investment incentives. CSX responded that a number of variables affect those incentives, such as contract rate, length, capital expense, and other matters that call for negotiation between CSX and the customer.

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 and Chairman Oberman's suggestion to rely upon existing reciprocal switch 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.

In response to the Chairman's observation that not all customers with access to a reciprocal switching remedy use it today, CSX responded that an important issue with expanding the remedy is the introduction of investment uncertainty at those locations. From an investment standpoint, the permanence of the remedy and uncertainty about continued future service to the customer would disincentivize investments.

Finally, CSX discussed existing measures at 49 C.F.R. part 1147 that allow relief, in the form of ordering alternative rail service, to address service inadequacies on a temporary basis. CSX explained that the temporary relief under part 1147 is key for preserving railroad investment incentives because the railroad can always win the business back. CSX reiterated that the permanent nature of switching orders and rate compression impacts of the proposal produce uncertainty and negatively impact investment decisions. CSX views existing remedies at part 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. Chairman Oberman responded that the use of the service regulations is a constructive suggestion that the Board is thinking through carefully. Chairman Oberman further stated that he is thinking about the Board's temporary and emergency service regulations in conjunction with reciprocal switching, not instead of it.

CSX and Chairman Oberman thanked each other for their time and insights and concluded the meeting.

Copies of the slides used in the meeting are attached.

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			





