

SURFACE TRANSPORTATION BOARD**Docket No. EP 711 (Sub. No. 1)*****Reciprocal Switching*****Summary of Ex Parte Meeting Between CN
and Surface Transportation Board Vice Chairman Michelle Schultz****May 4, 2022****ENTERED**
Office of Proceedings
May 9, 2022
Part of
Public Record

CN Attendees: Rob Reilly, Executive Vice-President and Chief Operating Officer; Bernd Beyer, Vice-President and Treasurer; Kathryn Gainey, Deputy General Counsel; Andreas Aeppli, Cambridge Systematics; Matthew Warren, Sidley Austin LLP

STB Attendees: Michelle Schultz, Vice Chairman; Christopher Diamond, Attorney Advisor

CN thanked Vice Chairman Schultz for the opportunity to meet. Because of time constraints on the last day of the hearing, CN explained that it wanted to provide Mr. Aeppli's modal market share presentation and allow an opportunity for any questions.

Mr. Aeppli 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. Aeppli 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.

Vice Chairman Schultz asked about CN's experience with regulated interswitching in Canada. CN described the history of regulated interswitching, the differences in the Canadian network, and the small number of places where interswitching is available. CN contrasted Canadian interswitching with the 2016 proposal, and described its potential broad impact. CN discussed an example from the hearing where a proposed forced switch would require additional movements between the serving location to the classifying yard to the interchange location with another carrier, where the car would then go to its classifying yard. In that example, because each step could add 24-36 hours, five to six days could be added to the cycle.

CN also discussed the importance of advance planning and the amount of lead time needed to adjust plans for crews, railcars, locomotives, and capacity.

Vice Chairman Schultz and CN discussed ways in which the 2016 proposal could have unintended consequences for the rail network. For example, if one customer obtains a reciprocal switch order, other customers could experience congestion and service deterioration as a result, thus resulting in winners and losers. Vice Chairman Schultz expressed concern about the breadth of the 2016 proposal.

Vice Chairman Shultz then asked about the idea raised at the hearing of limiting the 2016 proposal based on switching tariffs where voluntary reciprocal switching is occurring. Vice Chairman Schultz asked how that would relate to terminal areas. CN discussed the agency's precedents in determining which facilities constituted terminal facilities.

Vice Chairman Schultz and CN discussed the available remedy at 49 C.F.R. pt. 1147, including what would constitute a substantial, measurable deterioration in rail service, the appropriate duration of a reciprocal switch order under pt. 1147, and what happens when the service inadequacy is resolved.

CN and Vice Chairman Schultz thanked each other for their time.



EP 711 (Sub-No. 1) Hearing

presented to

US Surface Transportation Board

March 16, 2022

3.10.22

presented by

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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

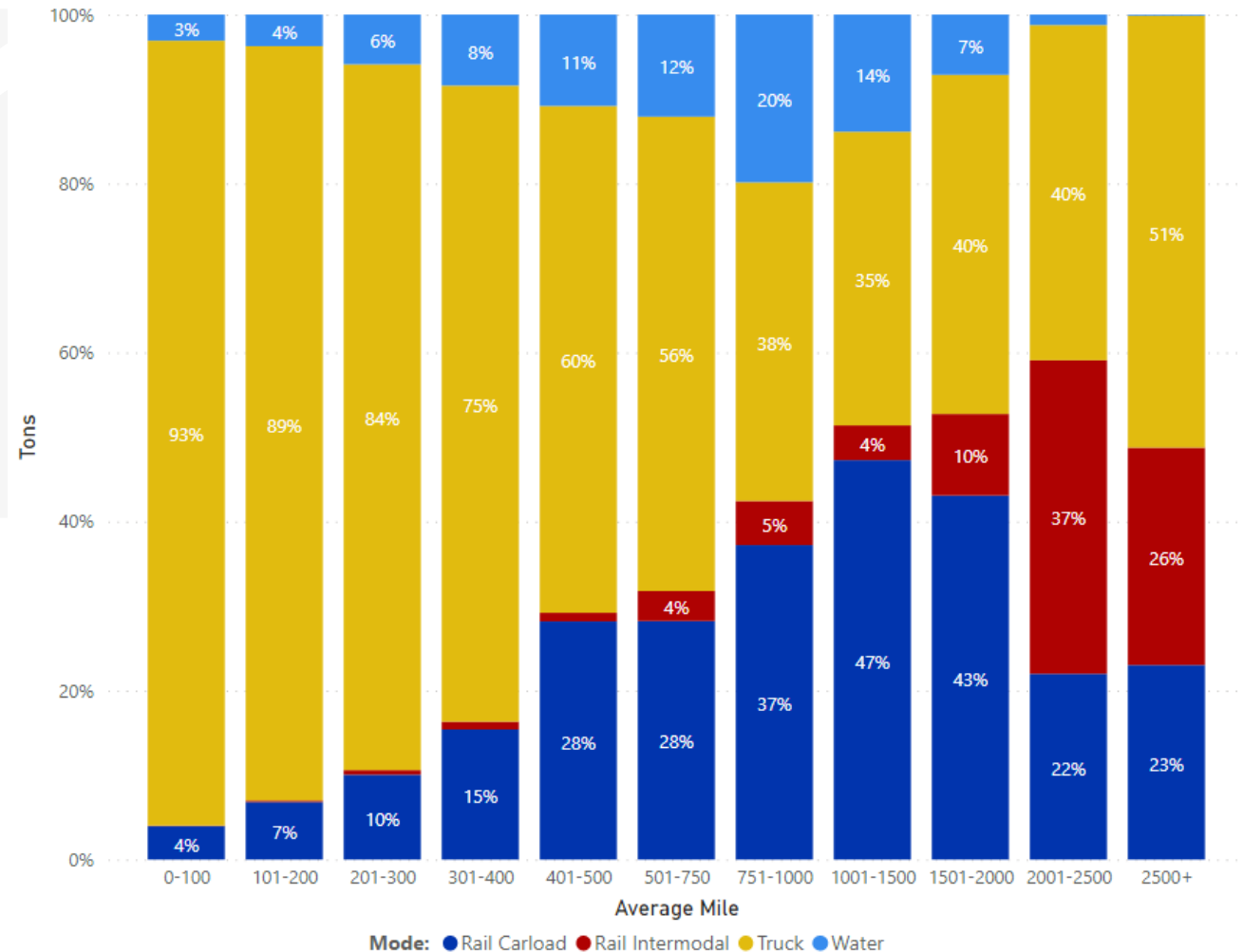
Mode ^a	Tons		Ton-Miles		Average Length of Haul (miles)
	Amount (billions)	% of modal total	Amount (trillions)	% of modal total	
Truck	8.8	78.5%	1.86	53%	211
Rail	1.63	14.5%	1.27	36%	784
Carload	1.45	13%	1.03	30%	712
Intermodal	0.18	1.5%	0.24	7%	1,380
Water	0.8	7%	0.35	10%	449
Total	11.0	100%	3.48	100%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

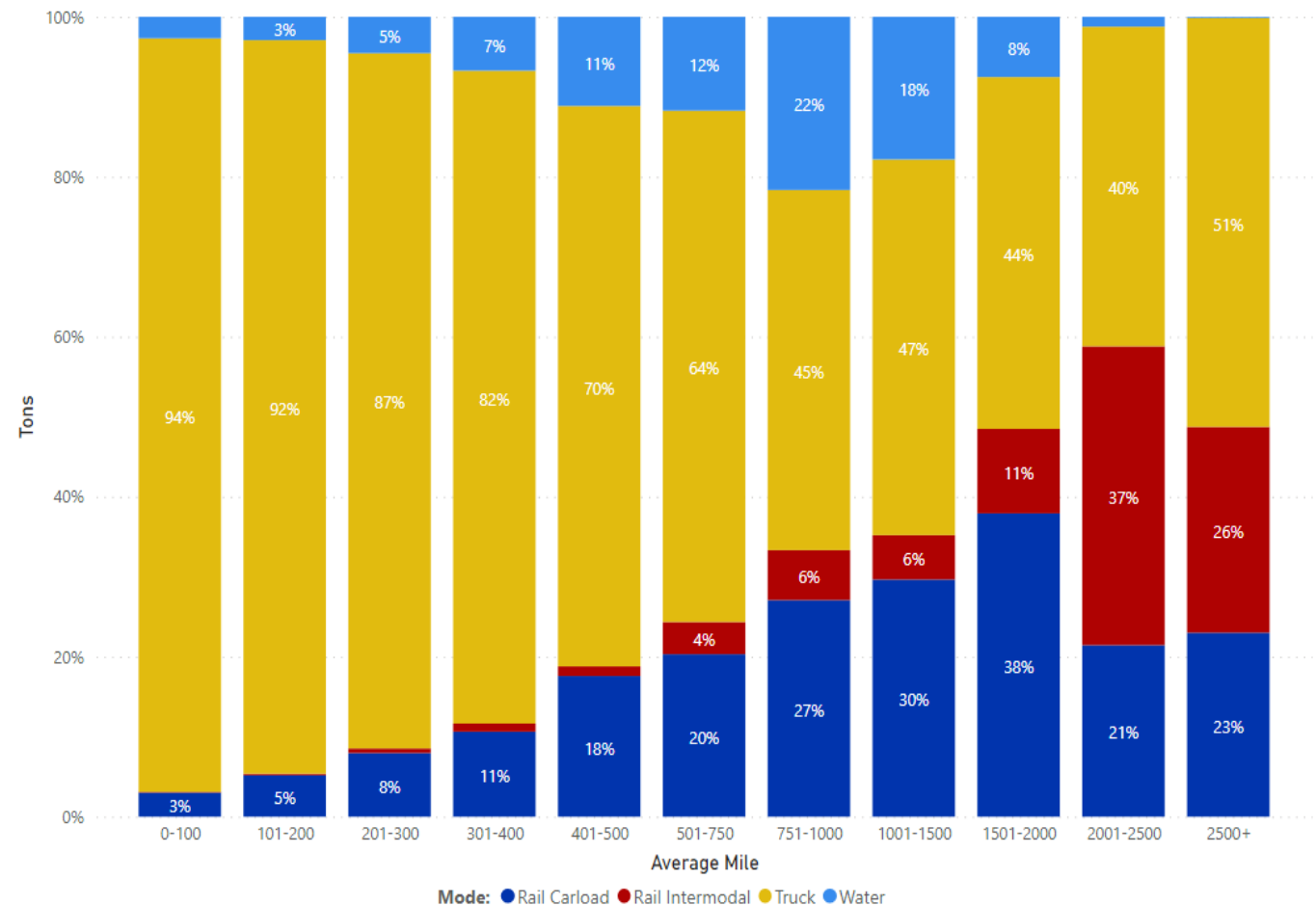
- *Modal share for rail carload service exceeds highway only in the 1,001-1,500 and 1,501-2,000 mile bands.*
- *Rail carload and highway share are roughly equal for the 751-1,000 mile bands.*
- *This is directly related to the high volumes of coal coming out of the Powder River Basin headed to destinations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

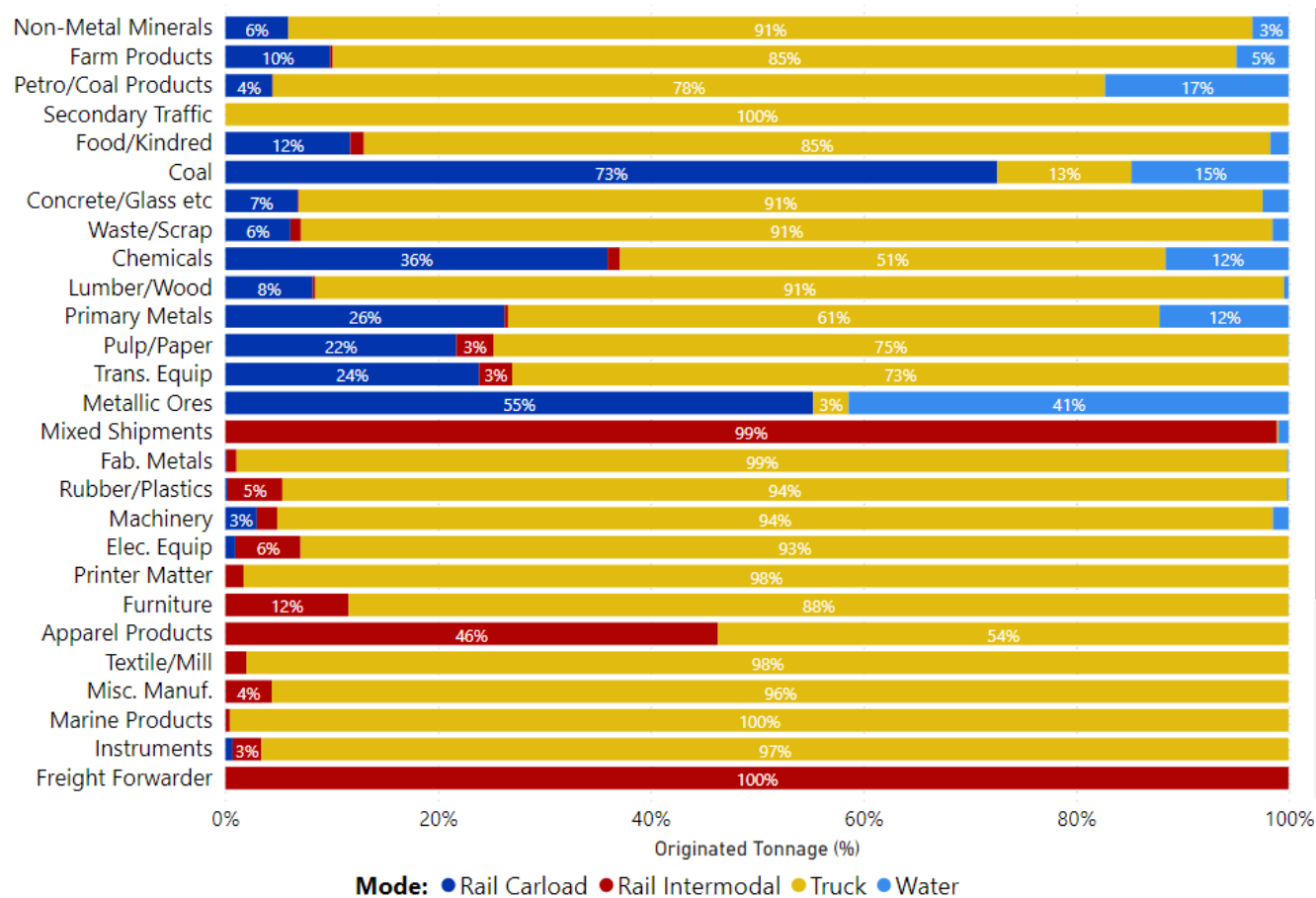
- A clearer picture of modal competitiveness across distance emerges when coal, with its particular characteristics that are not representative of most rail-competitive markets, is excluded.
- Excluding coal, there are no distance ranges where mode share for carload rail exceeds highway. The closest 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