

SURFACE TRANSPORTATION BOARD

Docket No. EP 711 (Sub-No. 1)

RECIPROCAL SWITCHING

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Summary of Ex Parte Meeting Between Packaging Corporation of America (PCA) and Surface
Transportation Board ("STB") Acting Chairman Ann Begeman
Held July 19, 2017, 12:00pm-1:15pm

PCA Attendees: Bruce Ridley, Vice President EH&S and Operational Services, Karyn Booth, Thompson Hine LLP, Partner and Transportation Group Leader (PCA Representative), Denise Bode, Partner, Michael Best Strategies (PCA Representative), Kevin Swanson, Senior Associate, Michael Best Strategies (PCA Representative)

STB Attendees: Acting Chairman, Ann Begeman; James Boles, Chief Legal and Policy Advisor; Onika Williams, Attorney Advisor; and Erika Naraghi, Attorney Advisor.

Meeting Summary:

The meeting began with introductions and PCA thanking Acting Chairman Begeman and her staff for the opportunity to meet with them and discuss PCA's view on the Board's proceedings regarding reciprocal switching. The Acting Chairman thanked PCA for taking the time to meet with the Board members. Mr. Ridley handed out a memo with his talking points to guide the discussion (attached). Mr. Ridley introduced himself in his role as Vice President over Environmental, Health & Safety and Operations. PCA's attending representatives introduced themselves as well. He also shared that he is an active member of the National Industrial Transportation League (NITL), American Forest and Paper Association (AF&PA) and Paper and Forest Industry Transportation Committee (PFITC). Mr. Ridley began with a presentation about his role and responsibilities in the company and a description of PCA's business. Mr. Ridley shared that he is responsible for transporting the containerboard roll stock from the mills to PCA's converting operations and for transporting their white paper from the mills and converting operations to distribution centers and to PCA's customers. Mr. Ridley shared that PCA is one of the largest producers of containerboard and corrugated packaging in the United States and the third largest producer of uncoated freesheet in North America, based on production capacity. Mr. Ridley shared that PCA has approximately 14,000 employees, with operations primarily in the United States.

Mr. Ridley provided an overview of PCA's manufacturing operations and shared that PCA's Packaging segment includes five containerboard mills, one containerboard machine at their Wallula, Washington white paper mill and ninety-four converting operations. Mr. Ridley shared that PCA's Paper segment operates under the trade name Boise Paper, a Division of Packaging Corporation of America. Boise manufactures and sells white papers, including both commodity and specialty papers at three white paper mills located in the United States. Mr. Ridley shared

that PCA's net sales for 2016 were \$5.8 billion. The company's headquarters are located in Lake Forest, Illinois, a suburb approximately 30 miles north of downtown Chicago.

Mr. Ridley stated it is most economical and efficient for PCA to ship by rail and that PCA prefers to use rail. Only ten of PCA's ninety-four box plants are not served by rail. In 2016, PCA shipped about 3.7 million tons of corrugated paper, 58 inches in diameter by 36 – 132 inches tall. Rail was 58%, truck was 40% and intermodal was 2%. Also that year PCA shipped approximately 1.1 million tons of white paper either rolls or palletized. Rail was 61%, truck was 38% and intermodal was 1%. Although PCA ships by truck, Mr. Ridley described that PCA's dependency on rail is based on the volume and size of their products, limitations on truck capacity, and the configuration of PCA mills and certain customer facilities which were set up for rail and have limited truck loading docks.

Mr. Ridley shared that PCA works with all the Class 1 railroads. He explained that of PCA's eight mills, three are dual-served and the other five are single-served. Mr. Ridley explained that where the first and last mile of their service is served by short lines, their service works well and they have good relationships with short line railroads. Mr. Ridley explained that rail prices are much more competitive at the facilities that are dual served whereas rates at the three single served facilities are in excess of 180% of variable cost. Mr. Ridley explained that where they are dual served, the Class 1 railroads compete for their business and there is a competitive environment. Mr. Ridley explained that rates are so high at their Filer City, MI mill that they are shipping to Miami, FL by truck at a lesser cost. Mr. Ridley explained that at PCA's Tomahawk, WI plant the transportation mix has gone from 80% rail to 40% due to the lack of rate competition and the frequency of rail service. Acting Chairman Begeman asked if PCA's move to truck usage was reversible and Mr. Ridley said yes.

Mr. Ridley said that PCA is in favor of reciprocal switching (RS) because PCA believes it will help create a more collaborative and competitive environment for Class 1 railroads to come to the table and discuss pricing and service. Mr. Ridley then presented the map of their plants and rail lines in Wisconsin (map attached) and a chart of their plants which included the distance to the nearest switch. PCA representatives shared their support for Sen. Baldwin's Rail Shipper Fairness Act which would define the reasonable distance from a shipper's facility to the working interchange to be within a radius of 100 miles. Mr. Ridley said this is because most of PCA's mills are in rural areas because they were built to be closest to the wood basket and that switching opportunities are generally available at longer distances.

Acting Chairman Begeman asked if RS on a case-by-case basis would be feasible and Mr. Ridley said yes, that he believes RS would only occur where it makes operational sense since shippers would not use inefficient routings or routings that would adversely impact their supply chains. Mr. Ridley stated that PCA is willing to accept some of the risk to help make RS arrangements feasible, including providing guaranteed volumes of shipments and longer term contracts.

Mr. Ridley stated that with respect to interchange fees, RS will only work if the fees are prescribed on a case-by-case basis taking into account the switching movement variable cost plus a margin. This interchange fee should also be transparent to the shipper and published in a tariff. Ms. Booth noted the importance of avoiding consideration of lost contribution should the Board

be asked to set the switch fee, since this practice would eliminate the very benefits of competition created from RS.

Mr. Ridley asked whether or not exempt shippers such as PCA and the forest and paper products industry would be able to participate in RS if they remain exempt commodities and stated that exempt commodity shippers should have the same opportunity to participate in RS as non-exempt shippers, since he believes RS would bring about a more competitive and collaborative pricing environment for stranded shippers.

Mr. Ridley also suggested that short lines / regional carriers should be allowed the same opportunities to participate in RS. Mr. Ridley cited Kansas City as a good example where there is a short line carrier working with all the Class 1s very efficiently. Acting Chairman Begeman asked if this would cause the Class 1s to compete for traffic currently handled by the short lines and Mr. Ridley did not agree that this would happen for lower density lines and that large short lines are quite sophisticated and could fairly compete.

Acting Chairman Begeman commented that she has concerns about how RS would impact rail operations. Acting Chairman Begeman cited the Chicago region as an example where RS could pose difficulties in terms of adding rail congestion. PCA acknowledged this but stated that RS would only be employed where it makes sense and that the STB's case-by-case approval process should provide the Board with control of the pace and breadth of RS. Ms. Booth noted the success of inter-switching in Canada which is more widely available and has not created operational challenges or adversely impacted the finances of the Canadian Class 1s. Acting Chairman Begeman also expressed concerns about how the proposal's case-by-case approach could affect the ability of the STB to handle many RS petitions simultaneously and efficiently.

The meeting concluded with each side thanking each other for their time and an acknowledgement that the ex parte meeting process on EP 711 has allowed for valuable input from shippers and their perspective on the need for a competitive rail-pricing environment that ultimately serves the public interest.



I. PCA BACKGROUND

Packaging Corporation of America (PCA) is one of the largest producers of containerboard and corrugated packaging in the United States and the third largest producer of uncoated freesheet in North America, based on production capacity. We have approximately 14,000 employees, with operations primarily in the United States.

PCA's Packaging segment includes five containerboard mills, one containerboard machine at our Wallula, Washington white paper mill and 94 converting operations. In 2016 PCA produced about 3.7 million tons of containerboard and shipped about 51.3 billion square feet (BSF) of corrugated products.

PCA's Paper segment operates under the trade name Boise Paper, a Division of Packaging Corporation of America. We manufacture and sell white papers, including both commodity and specialty papers at three white paper mills located in the United States.

PCA's net sales for 2016 were \$5.8 billion. The company's headquarters are located in Lake Forest, Illinois, a suburb approximately 30 miles north of downtown Chicago.

I am Bruce Ridley and I am the Vice President over Environmental, Health & Safety and Operations. I have been with PCA since July of 1999 and in my current position for over 5 years. One of the areas I am responsible for is transporting the containerboard roll stock from the mills to our converting operations and for transporting our white paper from the mills and converting operations to distribution centers and to our customers.

II. PCA RAIL TRANSPORTATION

In 2016 we shipped about 3.7 million tons of corrugated paper, 58 inches in diameter by 36 – 132 inches tall. Rail was 58%, truck was 40% and intermodal was 2%.

Also that year we shipped approximately 1.1 million tons of white paper either rolls or palletized. Rail was 61%, truck was 38% and intermodal was 1%.

As you can see, over half of our mill production is shipped by rail. Of our 8 mills, 3 are dual-served and the other 5 are single-served. Most of these facilities are located in isolated areas, usually built in well forested areas to be near the raw material used to produce paper. At that time, wood fiber was one of the highest costs for the operation and now in two of our single-served mills, the transportation costs are greater than the wood fiber. This is not because the price for wood fiber has gone down but rail transportation has increased and there is not enough truck or intermodal capacity to switch modes completely. One of those mills has gone from 80% rail to today about 40% rail.

III. PCA SUPPORTS EXPANDED RECIPROCAL SWITCHING

PCA supports expanded reciprocal switching (RS) which would allow competition to set the line haul price and would reduce the need for STB rate regulation, if any, to the short switching segment rather than the long haul portion of the route.

One recommended change for the proposed rule is to clarify the “reasonable distance” between a captive facility and a working interchange to be 100 miles as proposed in bill S.1233 introduced by Sen. Baldwin. RS encourages the rail network to be more competitive, efficient and innovative, however, for the paper industry, the interchange area needs to take account of remote operations or it will have little effect.

I do not believe rail operations will be negatively impacted by RS as demonstrated by the broad inter-switching arrangements that exist in Canada. RS has existed in Canada for many decades and it works extremely well. Neither the shipper nor the carrier would use RS if it was inefficient or would create service

problems. I think the city of Kansas City is a good example where there is a short line carrier working with all the class 1s very efficiently. Also the Board's case-by-case approval process should provide the Board control of the pace and breadth of RS.

PCA's products are exempt commodities. Thus, our industry's exemption needs to be revoked or we will not be able to participate in new reciprocal switching arrangements. We believe that PCA should be on a level playing field with our Canadian competitors and should have the same rights to address railroad concerns as shippers of non-exempt commodities.

Also, I would suggest short lines / regional carriers should be allowed the same opportunities to participate in reciprocal switching.

On the subject of interchange fees, I believe RS will only work if the fees are prescribed on a case by case basis taking into account the switching movement variable cost plus a margin. This interchange fee should also be a published rate.

I would like to end by saying thank-you for giving me some of your valuable time today. I appreciate the agency allowing those affected by this possible rule change to be able to speak to you to express our views and answer any questions you might have.

Bruce A. Ridley

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Mill Type	City	State	Origin Railroad	Class I Access	Class I Access Location
Containerboard - Liner	Counce	TN	Kansas City Southern (KCS)	Kansas City Southern (KCS)	Counce, TN
Containerboard - Liner	Counce	TN	Kansas City Southern (KCS)		

Containerboard - Liner/Medium	Deridder	LA	Timber Rock Railroad (TIBR)	Kansas City Southern (KCS)	DeRidder, LA
Containerboard - Liner/Medium	Deridder	LA	Kansas City Southern (KCS)		
Containerboard - Liner/Medium	Deridder	LA	Kansas City Southern (KCS)		

Containerboard - Medium	Tomahawk	WI	Tomahawk Railway (TR)	Canadian National (CN)	Tomahawk, WI
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Containerboard - Medium	Filer City	MI	Marquette Railroad (MQT)	CSX (CSXT)	Grand Rapids, MI
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White Paper	Jackson	AL	Norfolk Southern (NS)	Norfolk Southern (NS)	Jackson, AL
White Paper	Jackson	AL	Norfolk Southern (NS)		
White Paper	Jackson	AL	Norfolk Southern (NS)		
White Paper	Jackson	AL	Norfolk Southern (NS)		

White Paper	International Falls	MN	Minnesota, Dakota, & Western Railway (MDW)	Canadian National (CN)	Ranier, MN
White Paper	International Falls	MN			

Containerboard - Liner	Valdosta	GA	Valdosta Railroad (VR)	Norfolk Southern (NS)	Valdosta, GA
Containerboard - Liner	Valdosta	GA	Valdosta Railroad (VR)	CSX (CSXT)	Valdosta, GA

Containerboard / White Paper	Wallula	WA	Burlington Northern Santa Fe (BNSF)	Burlington Northern Santa Fe (BNSF)	Wallula, WA
			Union Pacific (UP)	Union Pacific (UP)	Wallula, WA

Alternative Class I Access	Alt. Interchange Location	Distance from Origin Mill (rail miles)
NS	Corinth, MS	19
BNSF	Tupelo, MS	69

BNSF	Kirbyville, TX	32
UP	Westlake, LA	56
UP	Beaumont, TX	83

UP	Wisconsin Rapids, WI	83
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NS	Grand Rapids, MI	119
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CSXT	Le Moyne, AL	41
BNSF	Kimbrough, AL	52
CSXT	Mobile, AL	60
CN	Mobile, AL	60

BNSF	Duluth, MN	170
UP (Haulage)	Superior, WI	175

