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Surface Transportation Board
EP 711 (Sub-No. 1)
Reciprocal Switching

Summary of Meeting between The Association of American Railroads (“AAR”) and Surface
Transportation Board (“STB”) Acting Chairman Ann Begeman

February 15, 2018

AAR Attendees: John Gray, AAR Senior Vice President, Policy and Economics; Rod Case, Partner Surface Transportation, Oliver Wyman; Tim Strafford, AAR Associate General Counsel

STB Attendees: Ann Begeman, Acting Chairman; Allison Davis, Attorney Advisor; Erika Naraghi, Attorney Advisor

The meeting began with introductions. The AAR thanked the Acting Chairman and her staff for the opportunity to meet with them to discuss the issues in this proceeding. The AAR also thanked the Acting Chairman for making face-to-face meetings between stakeholders and Board members possible in this proceeding and for pursuing reforms to the Board’s ex parte rules in informal rulemakings in EP 739. The AAR stated that it believes that such meetings will lead to a better-informed process.

The AAR noted that the AAR’s written comments detail the AAR’s objections to the proposals in the Notice of Proposed Rulemaking (“NPRM”) and the reasons those proposals cannot be lawfully adopted.

Acting Chairman Begeman noted her concerns with the NPRM in her dissent and also expressed her thoughts regarding the Board’s switching regulations.

The AAR stated that the focus of its prepared remarks would be on how switching operations work and the service implications of a forced access regime. The AAR also explained that it would describe why the experience of Canadian interswitching does not support the NPRM proposals.

Acting Chairman Begeman asked in what circumstances reciprocal switching occurs by agreement between carriers. The AAR responded that reciprocal switching occurs in many places around the country when it makes operational and commercial sense to the carriers and customers involved. Many reciprocal switching agreements are long-standing and reflect bilateral negotiations among carriers so that switching from one railroad to another can occur in one location and switching can be reciprocally allowed from the second railroad to the first in other locations.

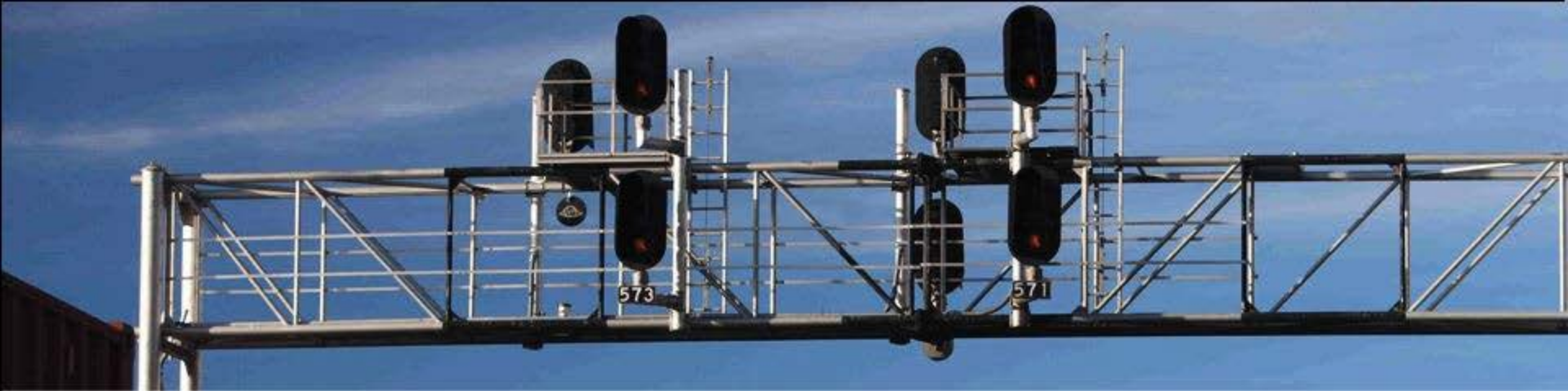
The AAR explained that rail service issues arise when railroads cannot switch cars through terminals. The AAR noted that the efficiency of those operations is directly tied to the facilities that are available in specific locations and that the railroads’ infrastructure has been rationalized over the years to accommodate prevailing traffic patterns. Disrupting those patterns and forcing switching on facilities not designed for these operations will be inefficient, costly, and lead to

service delays. The AAR also explained that distance to another railroad is not the most relevant consideration of whether a particular switch will be feasible or safe.

Acting Chairman Begeman asked about the mechanics of interswitching in Canada and the AAR explained that switching is customer requested and the carriers work to accommodate it. The AAR explained that Canada's different, significantly less complex rail network was built with interswitching in mind. As a result of the Canadian government's original objective of discouraging duplicative infrastructure, terminal infrastructure was consciously built to accommodate the combined traffic flows of two carriers. Thus, interswitching drove investment decisions and limited some infrastructure. The Canadian rail network is essentially linear and parallel, serving a few major urban centers that are effectively in a line from east to west. The AAR explained that where the interswitching regulations forced traffic to move against the flow of the network over facilities that were not designed to accommodate the traffic, service problems developed both for the customer forcing the switch and for other customers that shared facilities.

Acting Chairman Begeman also asked about the AAR's view of access pricing. The AAR noted that the statute calls on carriers to negotiate switching fees in the first instance. The AAR referred to its written filings for the principles that should guide the Board in setting fees if ever called upon to do so if carriers cannot agree.

The AAR thanked Acting Chairman Begeman and her staff for their time, and they expressed their appreciation to AAR for participating in the meeting.



ASSOCIATION OF
AMERICAN RAILROADS





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- AAR appreciates the opportunity to meet with the Board and discuss this important topic
- AAR believes that meetings such as this are a positive innovation in the rulemaking context and will lead to better outcomes for all stakeholders
- AAR has detailed its objections to the Notice of Proposed Rulemaking in its written filings and explained its legal position
- Today's presentation will focus on the operational realities of switching and a discussion of why Canadian interswitching does not support the NPRM proposals

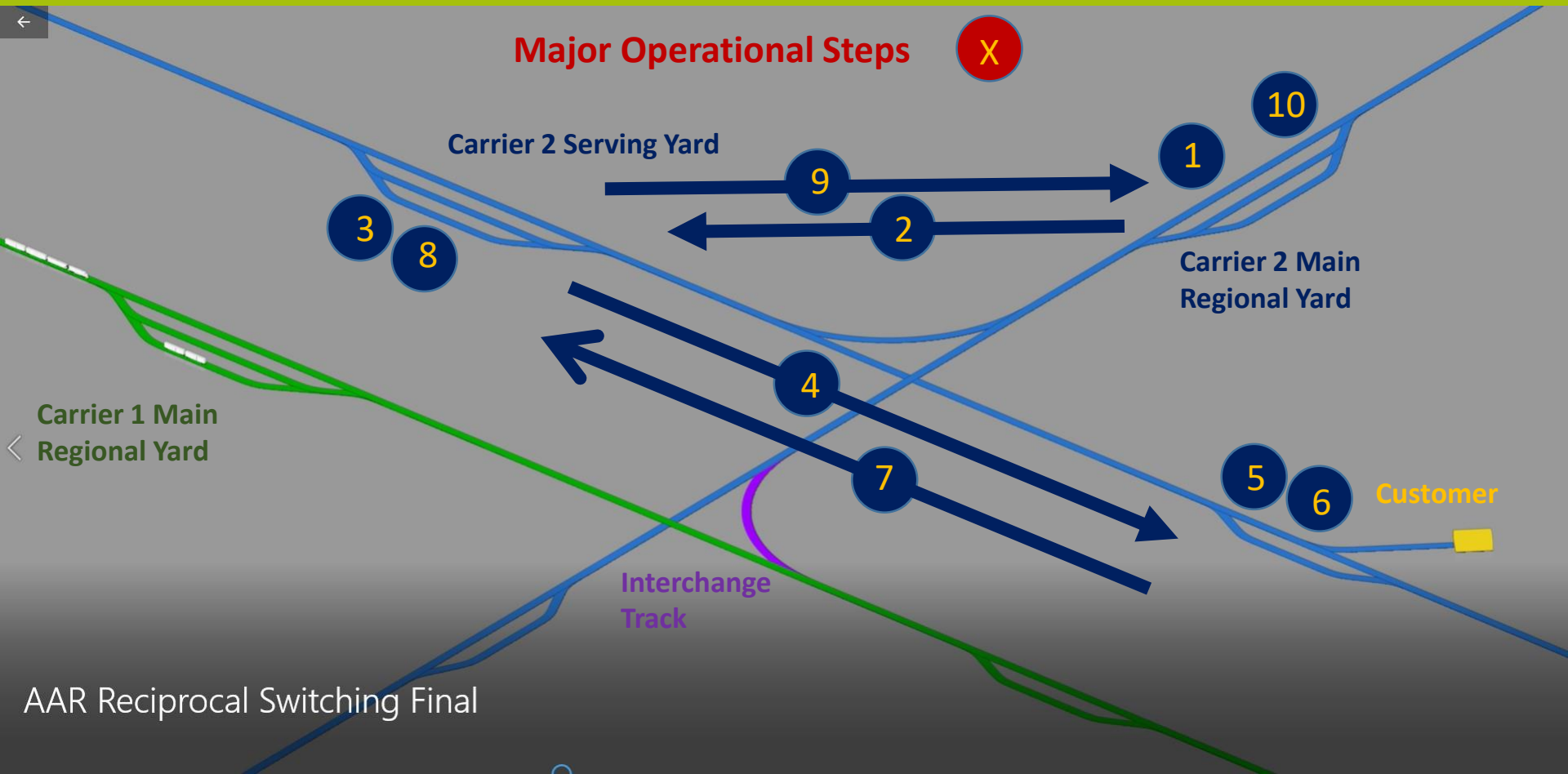


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Forced Yard and Line-of-Road Switching Will Result in Service Deterioration

Ordinary, Single Carrier Industry Switching Requires Significant Planning and Effort



Forced Access Will Result in Additional Switching Complexity That Yard Capacity is Not Designed to Accommodate

For Video Explaining the Full Operational Process Please See:

<https://www.aar.org/reciprocal-switching>





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**The Canadian Interswitching Model is not
Applicable to the United States**



Canada's Objectives in Adopting Interswitching are not Relevant to the US

- The Canadian rail network is a largely a product of national policy, not market forces.
- Prior to 1910, Government policy and investment resulted in heavy overbuilding of rail lines in a sparsely settled country.
- Interswitching was introduced as a mechanism to limit this overbuilding in population or industrial centers.
- Price competition had nothing to do with the introduction of interswitching.
- In fact, Canadian railways were prohibited from competing on the basis of price before 1987.
- At the same time interswitching was being introduced, a substantial portion of the rail network required backing by either federal or provincial governments to ensure its financial viability.
- Thus, regulated interswitching was adopted to accomplish objectives unique to Canada's markets and geography and with the recognition that meeting public policy objectives required public support.



Canada not a Valid Model for US Rail Service Risks

- The Canadian network developed primarily with an east-west orientation connecting a small number of population and economic centers.
- The much larger, far more complex and broadly distributed US population and economy has produced a rail system that is much denser with a more complex network of yards and terminals and thousands of possible route permutations.
- Canada's rail system had consolidated and began rationalization by 1923 prior to significant industrialization. Thus, Canada's subsequent and smaller scale industrialization took place around a functioning interswitching system.
- Canada has not had to accommodate the complexities experienced in the US caused by the essential, post-industrial physical plant rationalization occurring during the 1970 to 2000 era.
- The result is the potential to produce a far more disruptive effect from forced access in the US than interswitching does in Canada,
 - Only 67 interchange points are subject to interswitching in Canada versus,
 - Over 1500 potential forced access interchange points in the US.



Differences in Traffic Flows Suggest That Forced Switching in the US Would Have Greater Operational Impacts

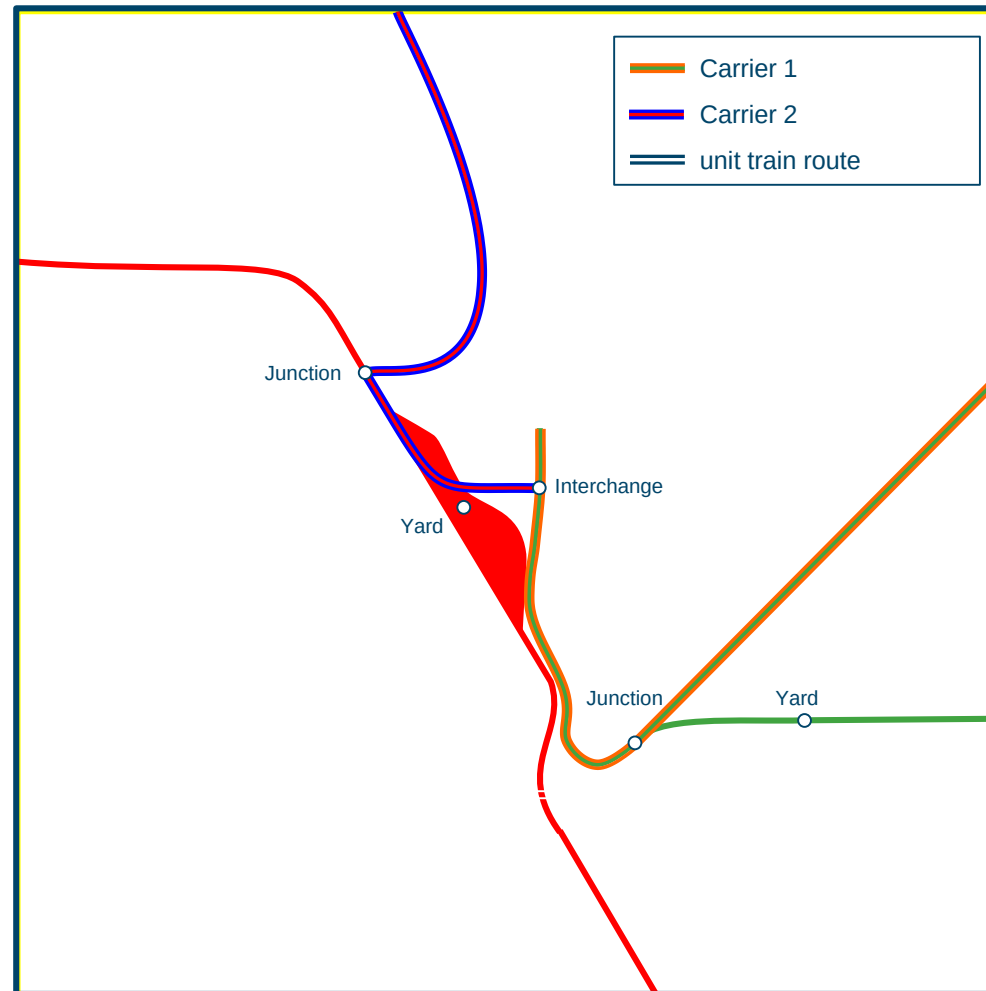
- The size and structure of much of the Canadian rail network, its simplicity and east-west orientation, is the product of a national policy focused on resource development and foreign trade.
- This structure has concentrated interswitching in only a limited number of production and export/import locations and in a small number of population centers.
- Thus, the opportunities for interswitching are substantially diminished due to:
 - Short distance carload hauls involving exports/imports in the east, and
 - Movements in trainload quantities involving exports/imports to port facilities in the west.
- Because interswitching has existed for over a century, Canadian rail infrastructure has largely, although not entirely, been in place to deal with the disruptions it can cause.
- However, interswitching's operating challenges remain where movements require handling that the network is not designed to accommodate.



Example 1 - Unit train challenges:

Unit train interchanges presented significant challenges in one location

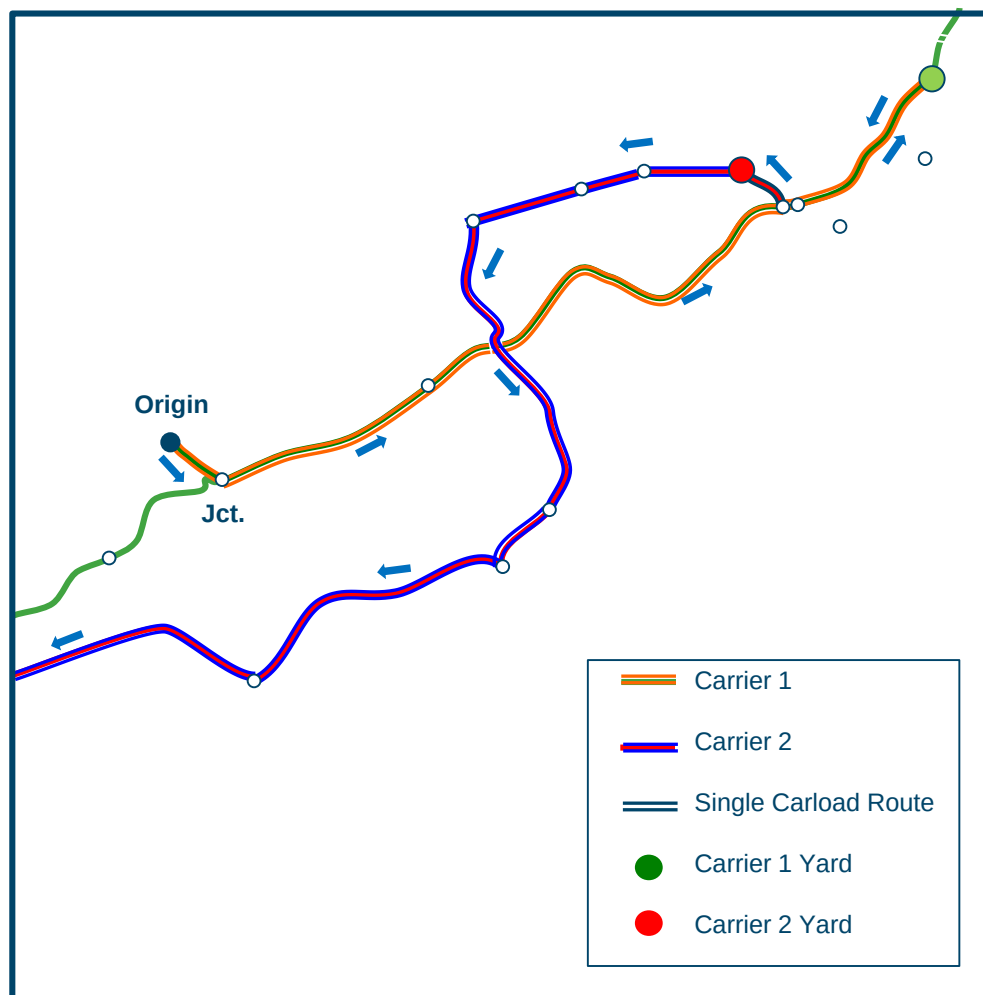
- The unit train is originated on Carrier 2 and originally used Carrier 2 to destination.
- The change to Carrier 1 required interchange in a significant terminal area.
- This interchange location required the unit train to be broken into segments in order to fit the physical facilities available.
- This interchange had severe impacts on yard operations including impacts on service levels to all other traffic using the yard when the interchange took place.





Example - Single carload challenges: Interswitching created operational inefficiencies for multiple parties

- The Origin is served by Carrier 1 with the destination being an export location to the west (left in the drawing).
- Prior to start up of interswitching, Carrier 1 simply picked up this traffic at Jct. and took it, in less than a day, directly to the export location.
- Carrier 2 has interswitching access to Origin.
- When implemented, Interswitching required the movement eastbound to a Carrier 1 yard; then interchange to a Carrier 2 yard before movement westbound could begin.
- Interchange added days to the car cycle and to delivery time as well as decreasing delivery reliability.





Thank you