

SURFACE TRANSPORTATION BOARD
RECIPROCAL SWITCHINGENTERED
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Docket No. EP 711 (Sub-No. 1)

Summary of Ex Parte Meeting between the American Petroleum Institute (API) and Surface
Transportation Board Commissioner Deb Miller

April 5, 2017 10:00 -10:45 AM

API Participants: Robin Rorick, Group Director, Midstream and Industry Operations
Brett Barrus, Sr. Policy Advisor, Midstream and Industry Operations
Mara Zimmerman, Sr. Counsel, Office of the General Counsel
Vince Erfe, Director, Federal Relations

STB Participants: Commissioner Deb Miller
Brian O'Boyle, Attorney-Advisor

API expressed their appreciation for the Board holding ex parte meetings with interested stakeholders and their consideration of the reciprocal switching rule.

API provided an overview of API's membership and Midstream operations as well as the context for API's interest in the reciprocal switching proposal. API's membership represents all aspects of the oil and gas industry including companies that ship large quantities of crude oil and other petroleum products by rail. In the past decade, as the U.S. energy renaissance has developed, with new discoveries and increased access to oil and gas in shale deposits across the country, the movement of crude by rail also rapidly increased. While current crude by rail movements have diminished somewhat, rail will continue to be an integral component of the crude oil and petroleum product supply chain. API shared with the Commissioner information on the growth of crude by rail deliveries in the U.S. and how rail has provided a flexible and responsive solution to production growth in areas without adequate pipeline takeaway capacity. Rail also continues to be a primary method for delivering petroleum products including petrochemicals produced by API's members. API noted that shifts in traffic patterns for petroleum products can be sudden and dramatic, which is why having access to rail transportation will remain important, even with new pipeline capacity. (API presented charts and diagrams in support of these points.)

API expressed their strong support for the Board's action on the proposal rules regarding reciprocal switching. The ability to obtain switching will increase the flexibility and efficiency of rail shipment for API's members. Increasing competition among rail carriers will benefit shippers and will encourage greater improvements in rail service and investment in rail infrastructure.

API emphasized that it strongly supports a flexible determination of what constitutes "reasonable distance" beyond a fixed mileage requirement.

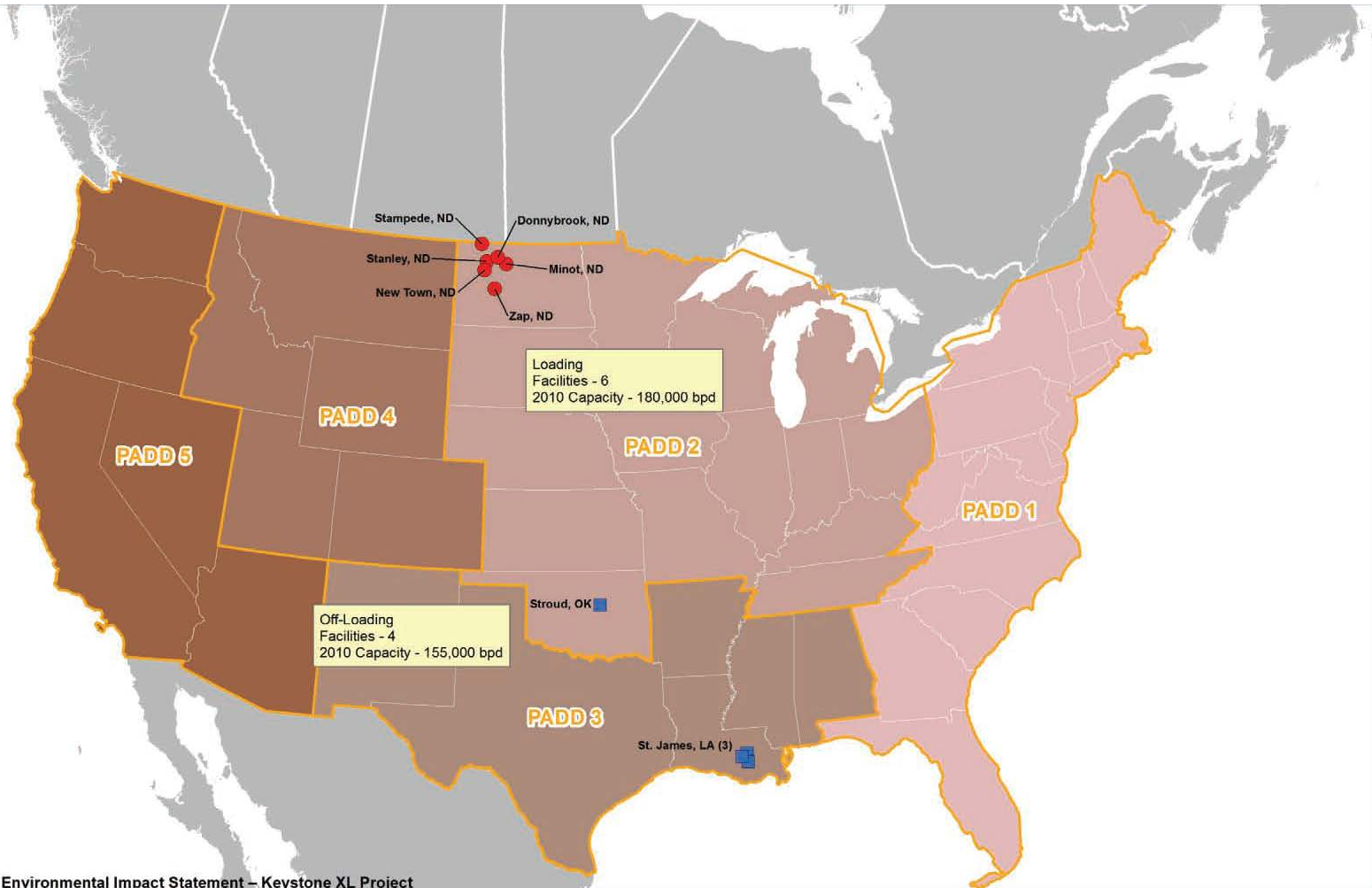
API also expressed concern that, absent a clearly specified and timely process, proceedings to consider switching agreements could become lengthy and onerous, serving as a bar to shippers seeking these kinds of agreements. Commissioner Miller asked what ideas API had for ensuring that consideration of these agreements was done in an effective manner. API directed the Commissioner to the detailed

process proposed in our joint comments as an example of the kinds of procedures that would help ensure these adjudicatory reviews are completed in an efficient manner. In particular, API suggested that limiting the scope of such reviews so that effects on the entire rail system are not considered, setting clear standards upfront, and establishing timelines for the discovery phase would all be beneficial.

In response to concerns from the railroad industry that the proposal will have negative impacts, API noted that its members do not believe that reciprocal switching is a remedy that will be frequently sought, but this is dependent on the overall efficiency of the process for securing these agreements. It also noted that it views the Board's action as more deregulatory than regulatory, as the proposed rules should place more rates outside the Board's jurisdiction.

Commissioner Miller asked whether better rates or improved performance would be the primary benefit to API's members if switching agreements were permitted. API responded that API's primary concern was the overall efficient movement of product, noting that switching allows the competitive market to improve service and establish rates.

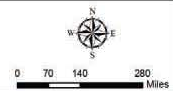
Rail Terminals (2010)



Final Supplemental Environmental Impact Statement – Keystone XL Project

Existing Terminals

- Crude by Train Loading
- Crude by Train Off-Loading



Rail Terminals (2013)

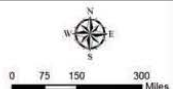


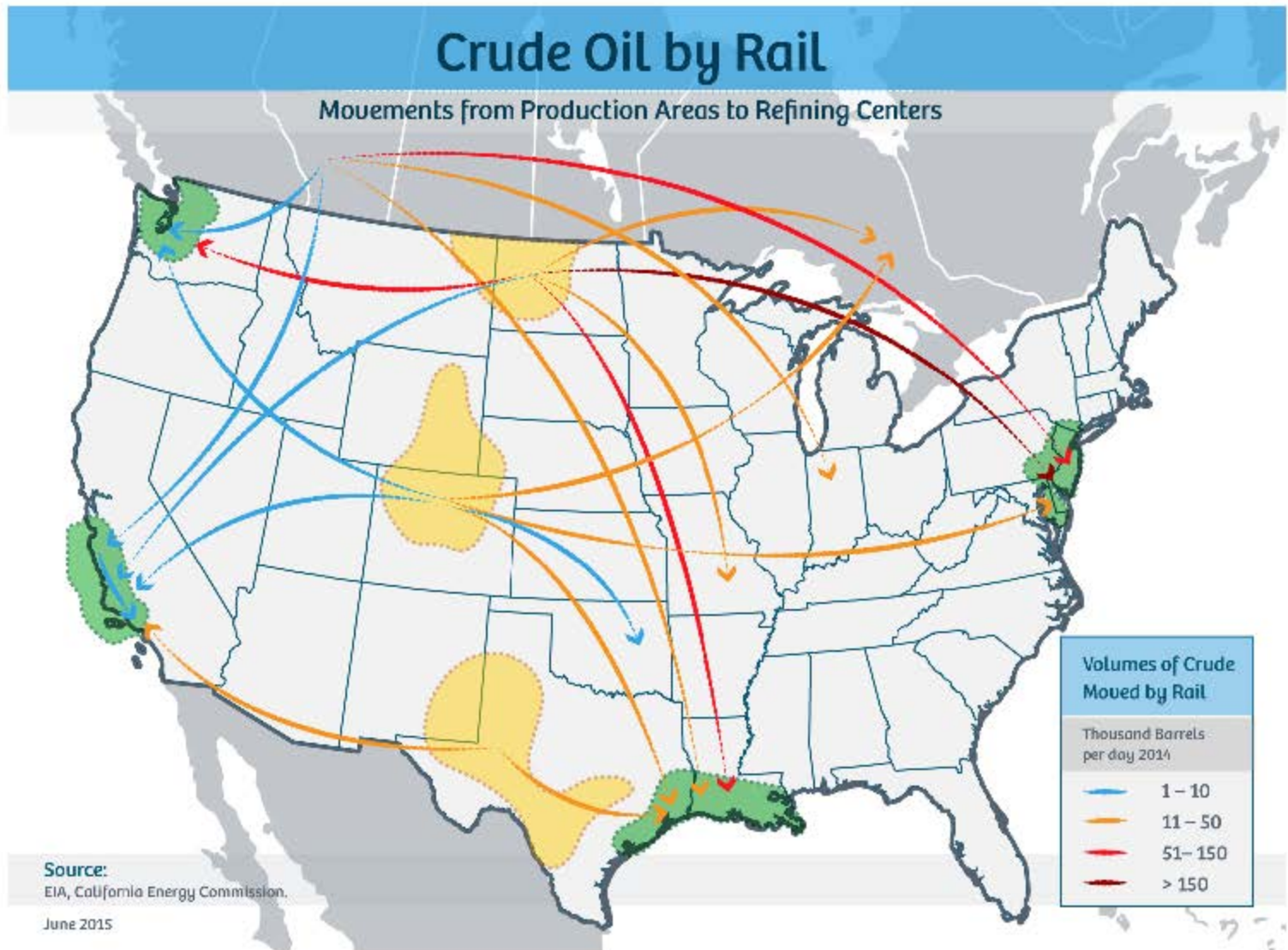
Final Supplemental Environmental Impact Statement – Keystone XL Project

Existing Terminals

- Crude by Train Loading
- Loading Capacity Unknown
- ◆ Terminal Planned/Under Development
- Crude by Train Off-Loading
- Off-Loading Capacity Unknown
- Potential Terminal
- ▲ Rail to Barge

Planned or Potential Terminals







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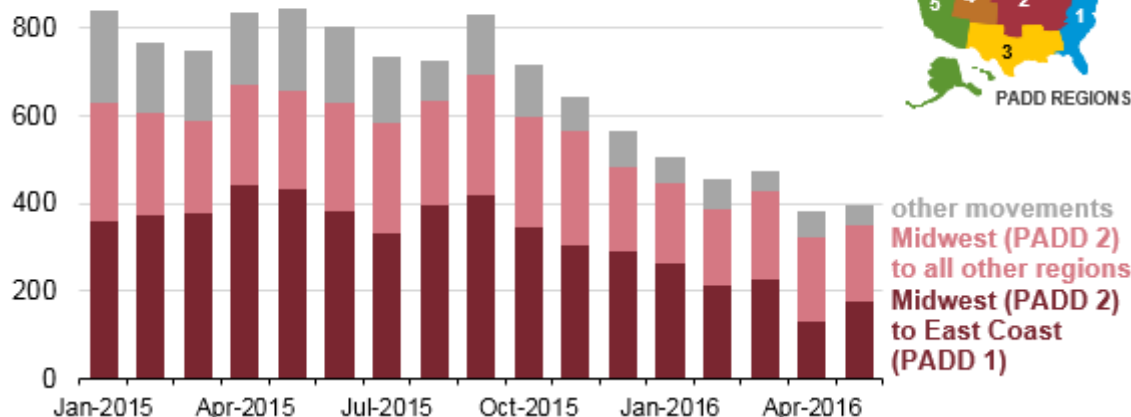
August 3, 2016

Crude-by-rail volumes to the East Coast are declining

Crude oil movements by rail (Jan 2015 - May 2016)

thousand barrels per day

1,000



Source: U.S. Energy Information Administration, *Petroleum Supply Monthly*

Note: PADD is Petroleum Administration for Defense District. Data shown include all U.S.-only rail movements (inter- and intra-PADD), and exclude movements to and from Canada.

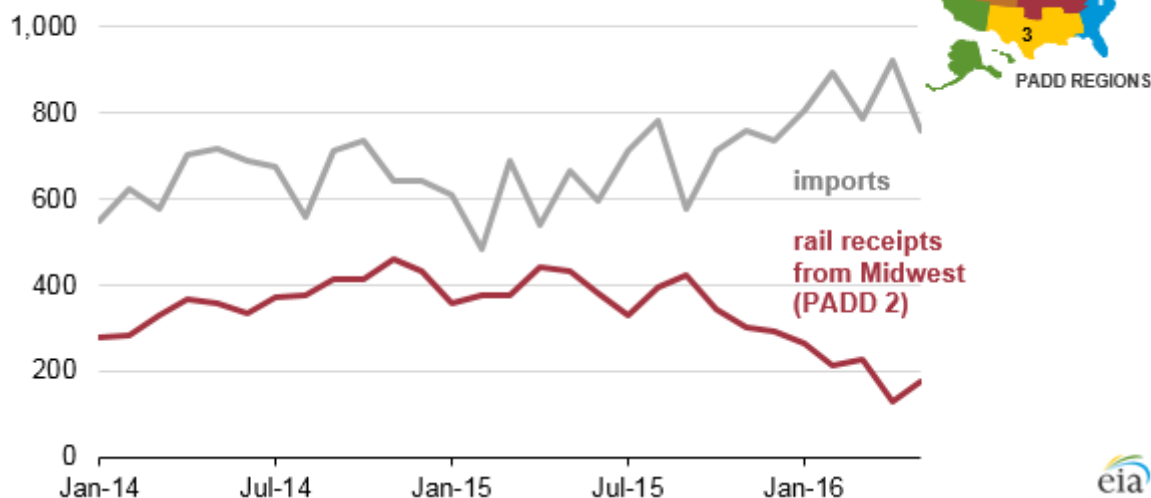
Movements of crude oil by rail within the United States averaged 443,000 barrels per day (b/d) in the first five months of 2016, down 45% from the same period last year. Fewer shipments of crude oil by rail from the Midwest (PADD 2) to the East Coast (PADD 1) account for about half of the decline. Crude oil shipments by rail have generally decreased since last summer for several reasons, including narrowing price differences between domestic and imported crude oil, the opening of new crude oil pipelines, and declining domestic production in the Midwest and Gulf Coast onshore regions.

The economics of crude-by-rail transportation depend largely on the relationship between the prices of domestic and international crude oils. Domestic crude oils priced in the Midwest and western Texas are no longer heavily discounted relative to imported crude oils priced in the North Sea. The narrower the spread between domestic and imported crude oils, the more likely coastal refiners will choose to run imported crudes rather than domestic supplies shipped by rail.

Crude oil carried by rail from the Midwest to the East Coast remains the country's largest crude-by-rail movement at 176,000 b/d, or 45% of the total crude oil moved by rail within the United States in May 2016. Crude oil imports processed by East Coast refineries have generally increased since early 2015, averaging 760,000 b/d in May 2016, up from 666,000 b/d in May of last year.

U.S. East Coast (PADD 1) crude oil receipts (Jan 2014 - May 2016)

thousand barrels per day

**Source:** U.S. Energy Information Administration, [Petroleum Supply Monthly](#)

EIA develops the crude oil and biofuels rail movement data using information provided by the Surface Transportation Board (STB), along with data from Canada's National Energy Board, other third-party sources, and several EIA surveys. EIA's energy-by-rail data are subject to revision as new information becomes available, especially the most recent one to three months of rail data from the STB. More information is available in EIA's [energy-by-rail data methodology report](#).

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