

SURFACE TRANSPORTATION BOARD

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

RECIPROCAL SWITCHING

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Summary of Ex Parte Meeting Between CF Industries Holdings, Inc. (“CF Industries” or “CF”)
and Surface Transportation Board (“STB” or “Board”) Member

Held March 7, 2017, 1:00 PM – 1:30 PM

CF Industries Attendees: Terry Huch, Vice President, Supply Chain; Ken Zintak, Director, Rail; Rosemary O’Brien, Vice President, Public Affairs; Alex Stege, Manager, Public Affairs Policy

STB Attendees: Commissioner Deb Miller; Brian O’Boyle, Attorney-Advisor

CF Industries began by expressing its appreciation for the opportunity to meet with Commissioner Miller and her staff to discuss its perspectives on the Board’s proposed rule to allow reciprocal switching in certain situations. Commissioner Miller expressed appreciation that the Board had lifted its traditional prohibition against ex parte meetings with stakeholders to discuss the proposed rule.

CF provided a PowerPoint presentation to guide the discussion. CF first provided an overview of the company, commenting that it is North America’s largest producer of nitrogen fertilizer products. CF explained that nitrogen is one of three essential nutrients to plant growth, that nitrogen fertilizers help to increase crop yields on farms across the globe, and that the importance of synthetic fertilizers will grow with a rising global population.

CF then provided an overview of its key nitrogen products, including ammonia, urea, UAN solution, and Diesel Exhaust Fluid. CF described its operations, including that it operates five nitrogen complexes in the U.S., two in Canada, and two more in the U.K.

Commissioner Miller asked if CF is able to take advantage of interswitching under the Canadian system. CF responded that for one of the Canadian plants, two carriers have voluntarily agreed to a reciprocal switching arrangement.

CF noted that it is the nation’s largest shipper by rail of nitrogen fertilizer, moving between four and five million tons annually at a cost of approximately \$500 million. CF further noted that each of its five U.S. manufacturing plants is captive to a single Class I railroad.

CF expressed its support for the Board’s proposed rule to allow competitive switching. CF noted that it agrees with the comments submitted by the Shipper Coalition for Rail Competition in support of the proposal. Specifically, CF explained that it believes that the Board has legal authority to promulgate the rule and that the proposed rule would increase competition for captive shippers and thus result in improved system-wide performance.

Commissioner Miller asked whether better rates or improved performance would be the primary benefit to CF if switching were allowed. CF responded that the two are inextricably linked and that shippers would likely see improvements in both rates and service if switching were permitted.

CF further expressed its view that if competitive switching were allowed, it is likely that few cases would actually be brought to the Board because the potential for such a case would provide an incentive for railroads to meet their customers' needs in situations where that is not currently the case. In that sense, CF believes the proposal cannot be labeled re-regulation, as it would actually constitute the replacement of regulation with competition.

CF then presented case studies to demonstrate how competitive switching could benefit its ability to serve its agricultural customers. Specifically, CF highlighted potential switching arrangements close to two different manufacturing sites that would significantly reduce the distance and time its rail cars would have to travel to reach key agricultural markets.

Commissioner Miller asked CF how competitive switching might impact railroad's behavior with respect to rates, specifically, whether railroads compete for business. CF responded that based on its experience in Canada—where CF has operations and where switching has been allowed for over a century—railroads would be more likely to offer competitive rates to captive shippers and provide better service if switching was more readily available by regulation, but that business would likely remain with the origin carrier in most cases.

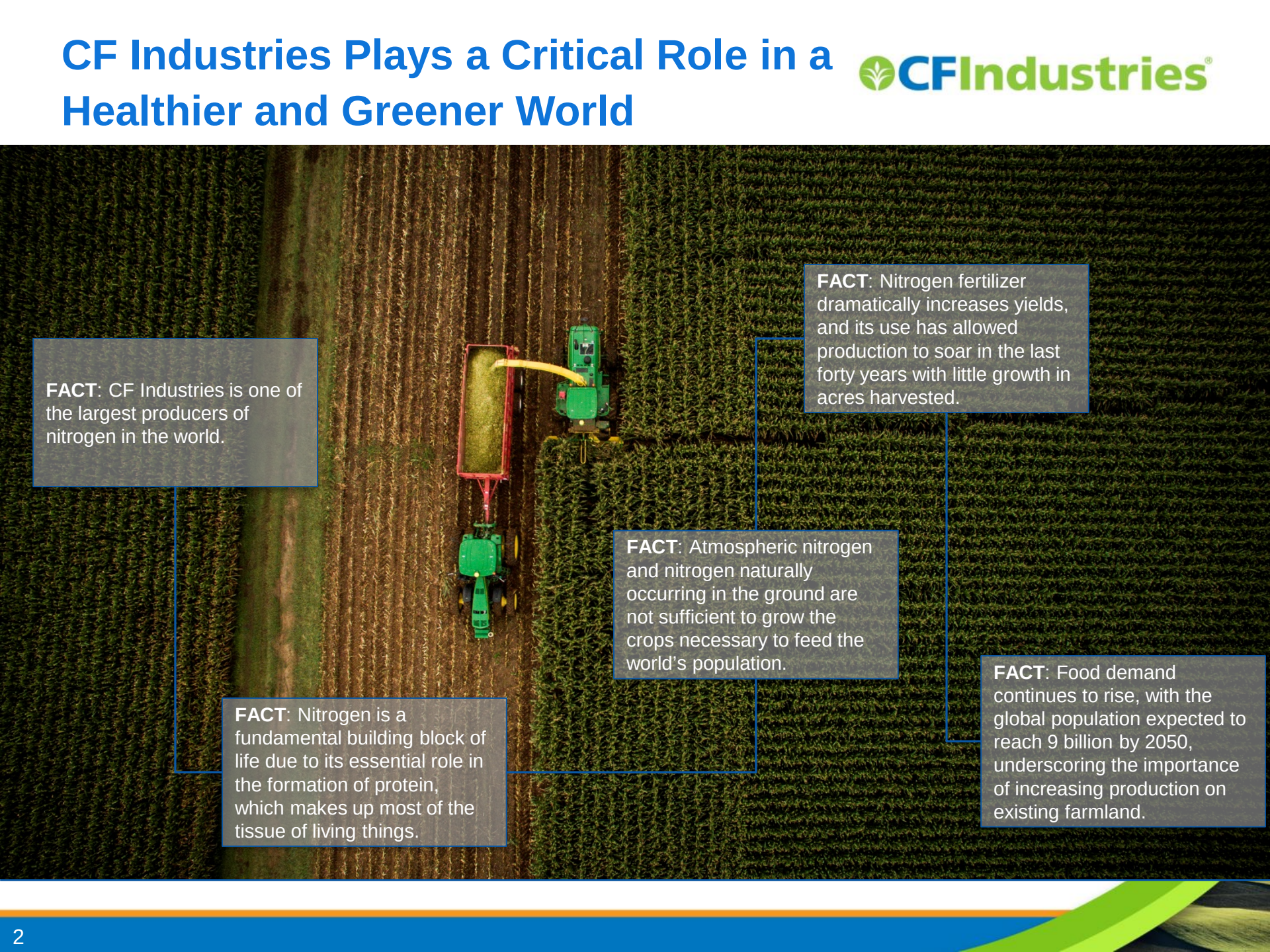
Commissioner Miller asked whether CF had a response to concerns that requests for competitive switching brought to the Board would be costly and time-intensive. CF responded that these concerns could be mitigated in part by adding procedures to the final rule that would limit discovery by requiring parties to specifically identify the factual bases for their claims earlier in the case and also by imposing strict deadlines for evidentiary submissions that would ensure that cases were resolved quickly.

Attorney-Advisor O'Boyle asked whether CF believed the distances in its examples would meet the "reasonable distance" criteria in the proposed rules. CF responded that reasonable distance should be determined on a case-by-case basis, and that in these specific instances, it would be a reasonable distance. CF finally expressed its concern that the proposed rule would allow reciprocal switching in situations only where the infrastructure at an interchange is already in place. CF recommended that the proposed rule be amended to allow shippers to invest in infrastructure at possible interchange sites (at their own expense) to allow for switching.

CF Industries' Perspectives on the Surface Transportation Board's Competitive Switching Proposal (Docket No. EP 711)



CF Industries Plays a Critical Role in a Healthier and Greener World

An aerial photograph of a large agricultural field. A green tractor is pulling a red trailer filled with green material, likely fertilizer or feed, across the field. The field is divided into sections of different colors, including green, brown, and yellow, suggesting different crops or stages of growth. The tractor is moving from the top center towards the bottom center of the frame.

FACT: CF Industries is one of the largest producers of nitrogen in the world.

FACT: Nitrogen fertilizer dramatically increases yields, and its use has allowed production to soar in the last forty years with little growth in acres harvested.

FACT: Atmospheric nitrogen and nitrogen naturally occurring in the ground are not sufficient to grow the crops necessary to feed the world's population.

FACT: Nitrogen is a fundamental building block of life due to its essential role in the formation of protein, which makes up most of the tissue of living things.

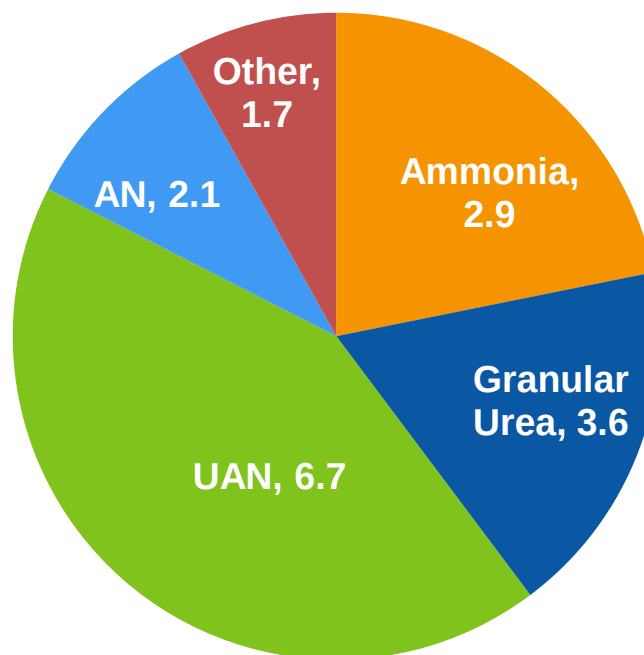
FACT: Food demand continues to rise, with the global population expected to reach 9 billion by 2050, underscoring the importance of increasing production on existing farmland.

CF's Global Footprint



- ◆ CF's products feed the crops that feed the world
- ◆ CF is the largest nitrogen manufacturer in North America
- ◆ CF serves agricultural and industrial customers
- ◆ 2,900+ employees
- ◆ Nine nitrogen complexes in four U.S. states, two Canadian provinces, and the UK
- ◆ Over \$5 billion recently invested in expansion projects in Port Neal, IA, and Donaldsonville, LA
- ◆ \$3.7 billion nitrogen sales in 2016

17 Million Tons of Nitrogen Products Sold in 2016



CF's Nitrogen Product Mix



Product	Composition	Properties
Anhydrous Ammonia	82% Nitrogen	• Liquid fertilizer • Building block for other nitrogen-based crop nutrients
Urea Ammonium Nitrate (UAN) Solution	28-32% Nitrogen	• Liquid nitrogen fertilizer • Fast/slow release properties • Easily blended with crop protection chemicals or irrigation water • Applied readily after planting • Easy to transport and store
Granular Urea	46% Nitrogen	• Dry nitrogen fertilizer • Easy to store and handle
Ammonium Nitrate	34% Nitrogen	• Dry nitrogen fertilizer • Used on fruits, vegetables and specialty crops
Urea Solution Aqua Ammonia	Variable	• Liquid solutions used in pollution and emissions control (diesel exhaust fluid)

CF Has an Unmatched North American Asset Base



■ Nitrogen Complexes
● Distribution Facilities

- ◆ Largest industrial investment play in North American natural gas conversion
- ◆ CF operates five world-class nitrogen production complexes in the United States and two in Canada
- ◆ CF has the largest nitrogen distribution network in North America
- ◆ Over 4.3 million product tons move by rail annually using a CF-supplied 5,700 rail car fleet with shipping costs of approximately \$500 million
- ◆ CF's system of storage has static capacity of over 2.5M tons for nitrogen products

CF Industries is the Nation's Largest Shipper by Rail of Nitrogen Fertilizer

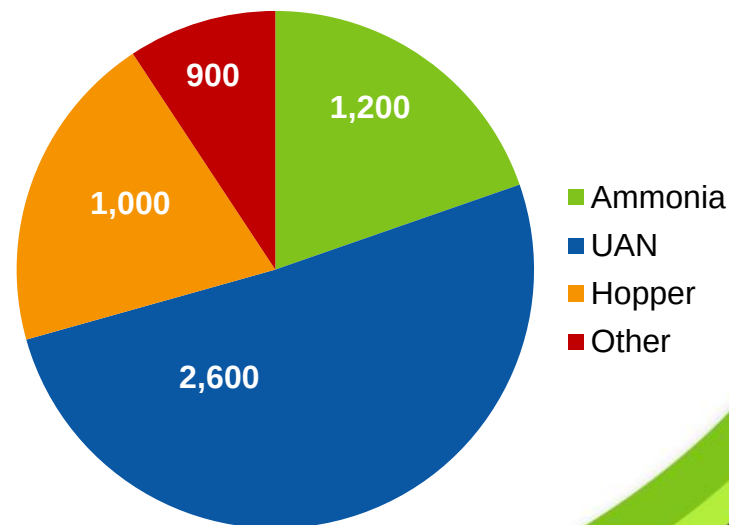


- ◆ CF ships by rail over 4 million tons of nitrogen product annually at a cost of approximately \$500 million
- ◆ CF manages a fleet of approximately 5,700 rail cars for use in its rail service
- ◆ CF is captive to a single railroad at all of its U.S. manufacturing facilities:

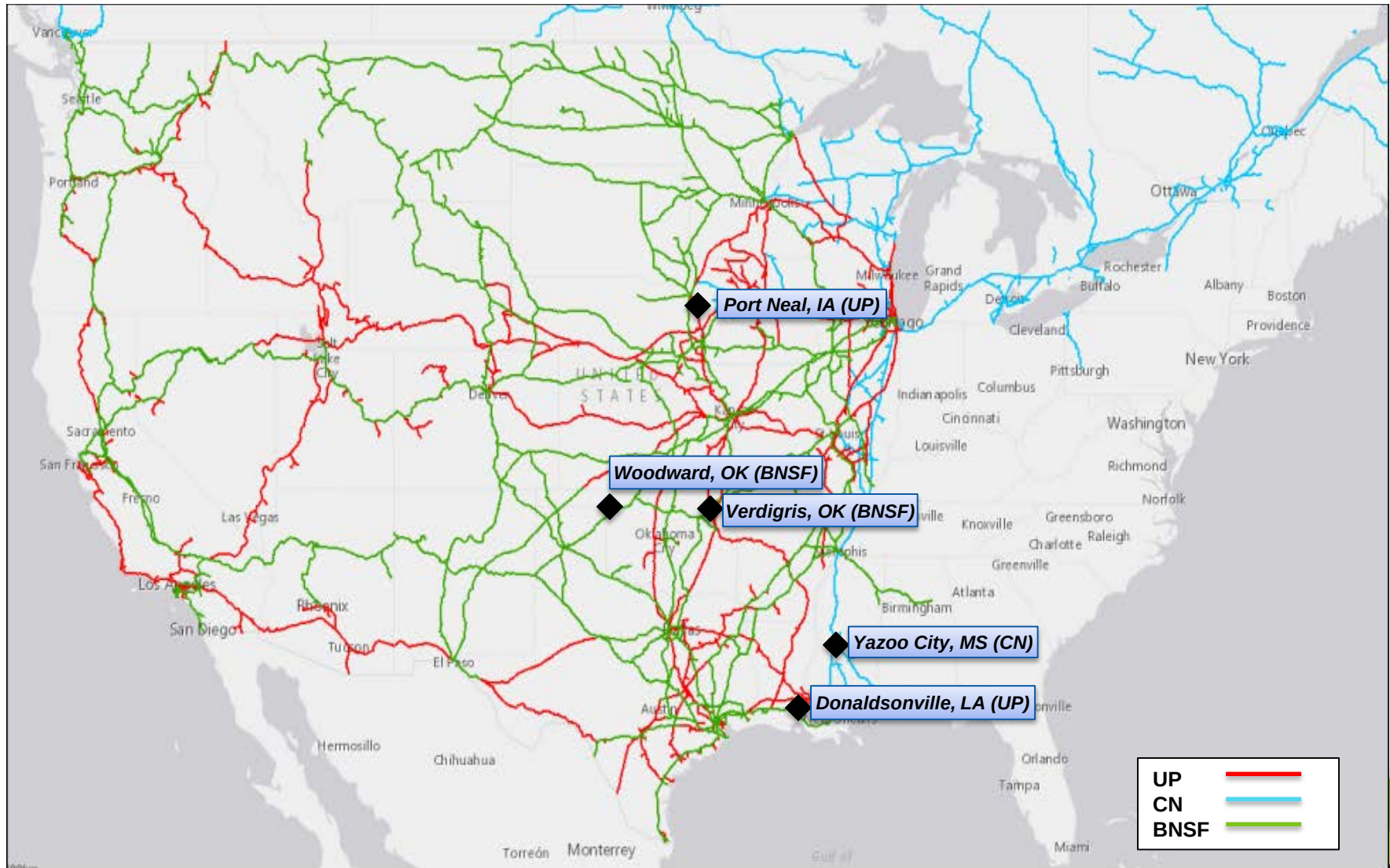
- Donaldsonville, LA: UP
- Yazoo City, MS: CN
- Verdigris, OK: BNSF
- Woodward, OK: BNSF
- Port Neal, IA: UP



CF's Railcar Fleet by Car Type



CF's Five U.S. Production Sites Are All Captive to Class I Carriers



CF Industries Strongly Supports the STB's Competitive Switching Proposal

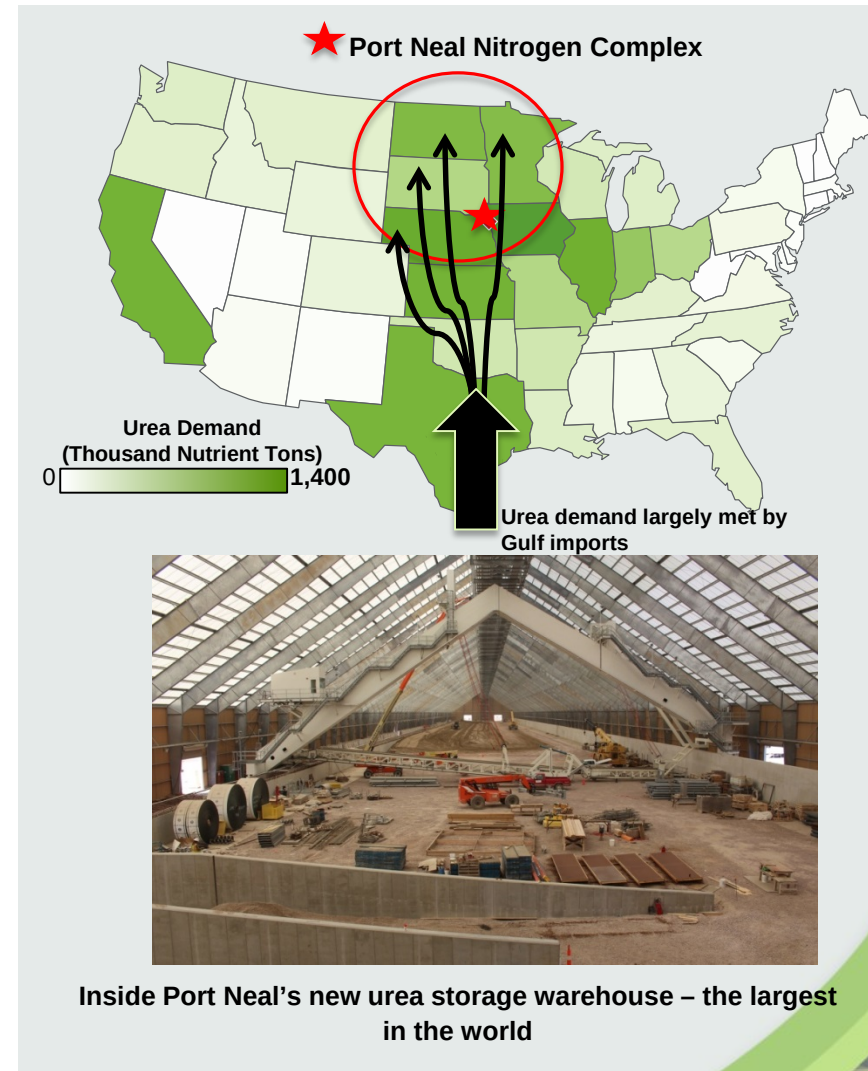


- ◆ CF agrees with comments submitted by the Rail Customer Coalition (RCC) that the STB has statutory authority to revise its competitive switching regulations
- ◆ CF further believes that the STB's proposal has the potential to increase competition for captive shippers and thus result in improved performance
 - Competitive switching has worked well in Canada for over a century
- ◆ Competitive switching will also increase efficiencies in the rail network by reducing shipment lengths and times in many instances
- ◆ CF has multiple potential switching arrangements that are strong candidates under the STB's proposed rule



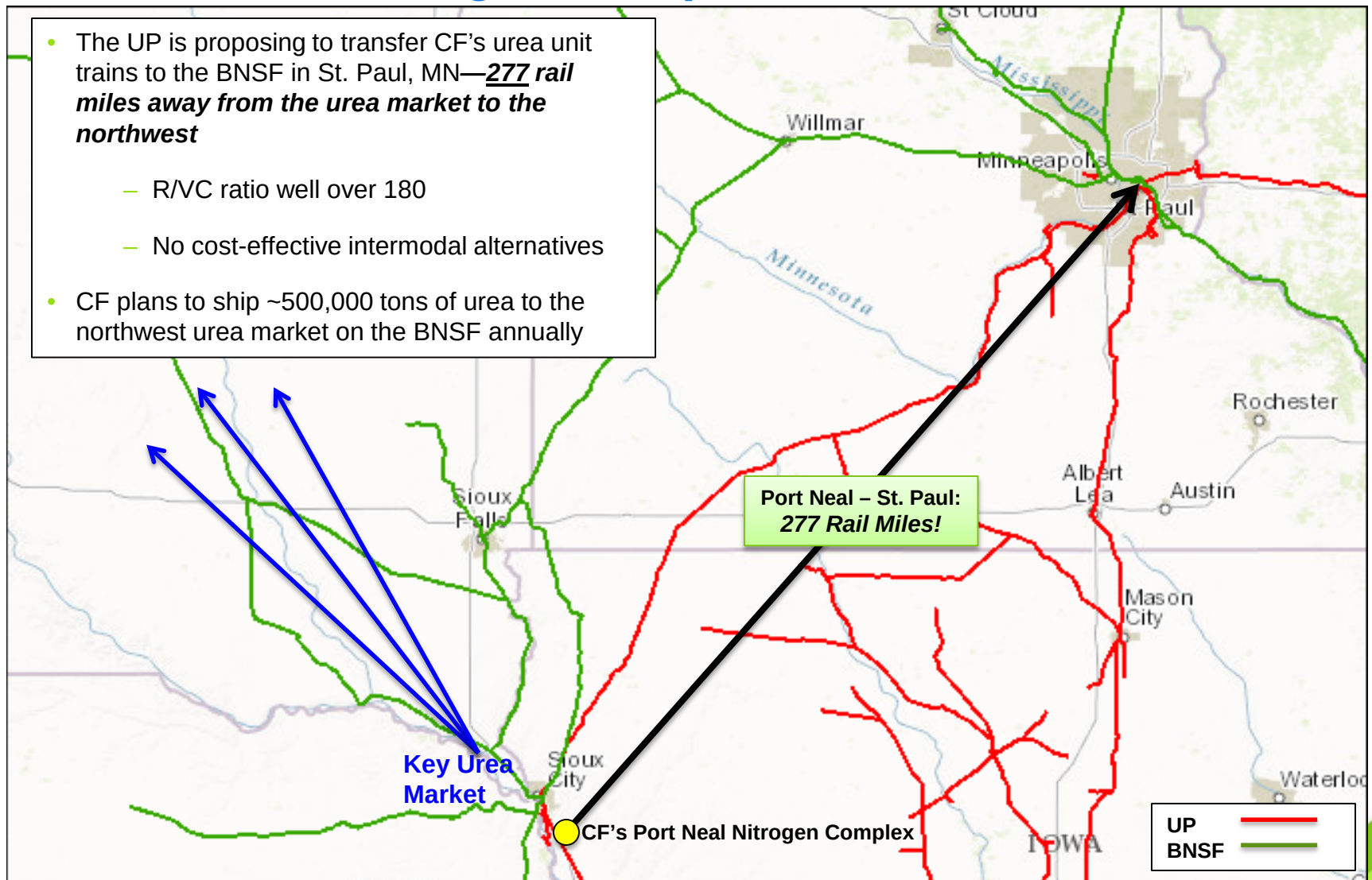
Case Study #1: Urea Shipments from CF's Port Neal Nitrogen Complex

- CF's Port Neal Nitrogen Complex in western Iowa is one of the northernmost nitrogen facilities in the United States
- Recent \$2 billion expansion adds urea capacity in a region with significant demand
- Midwest urea demand is currently sourced heavily by imports moving in through the Gulf Coast
- Port Neal is captive to the UP, but the demand for urea is largely on the BNSF line to the north and west of the plant
 - Nebraska, South Dakota, North Dakota, Minnesota
- CF's Port Neal facility has the potential to displace urea imports

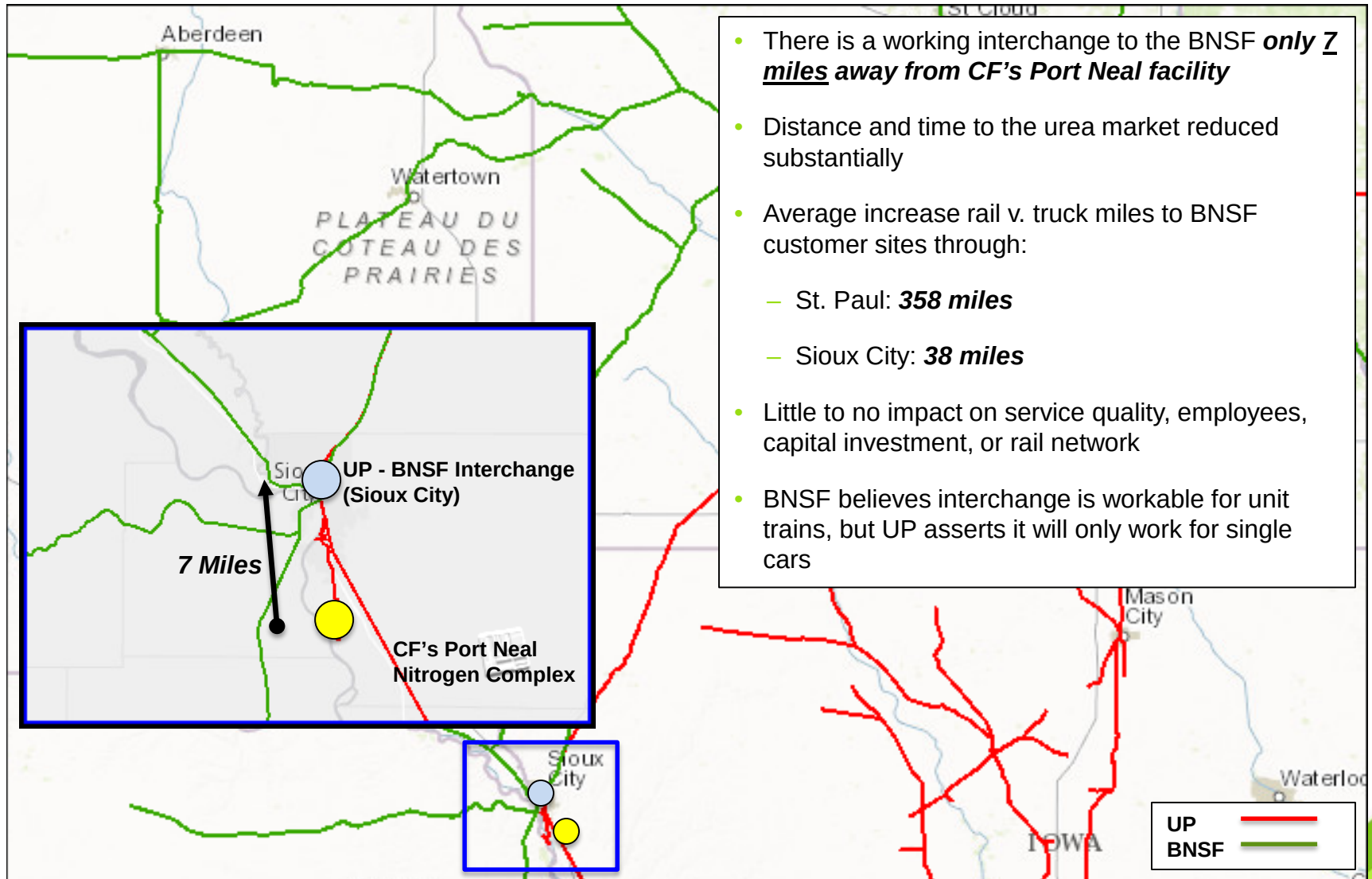


Case Study #1: Urea Shipments from CF's Port Neal Nitrogen Complex

- The UP is proposing to transfer CF's urea unit trains to the BNSF in St. Paul, MN—***277 rail miles away from the urea market to the northwest***
 - R/VC ratio well over 180
 - No cost-effective intermodal alternatives
- CF plans to ship ~500,000 tons of urea to the northwest urea market on the BNSF annually



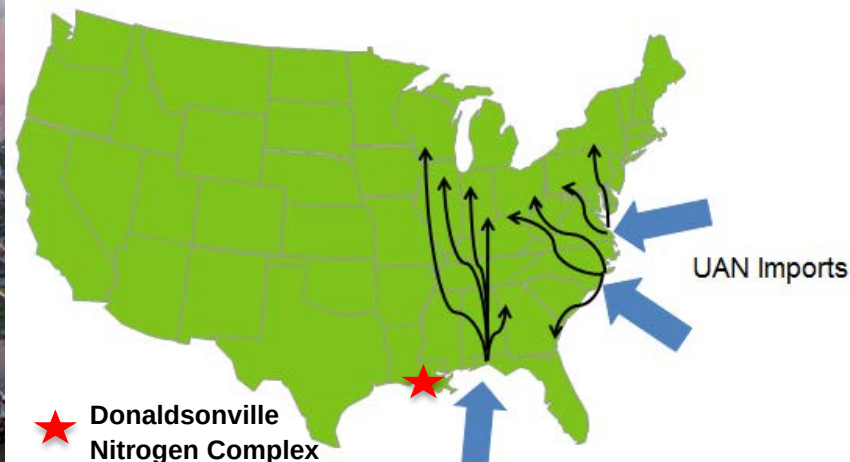
Case Study #1: Urea Shipments from CF's Port Neal Nitrogen Complex



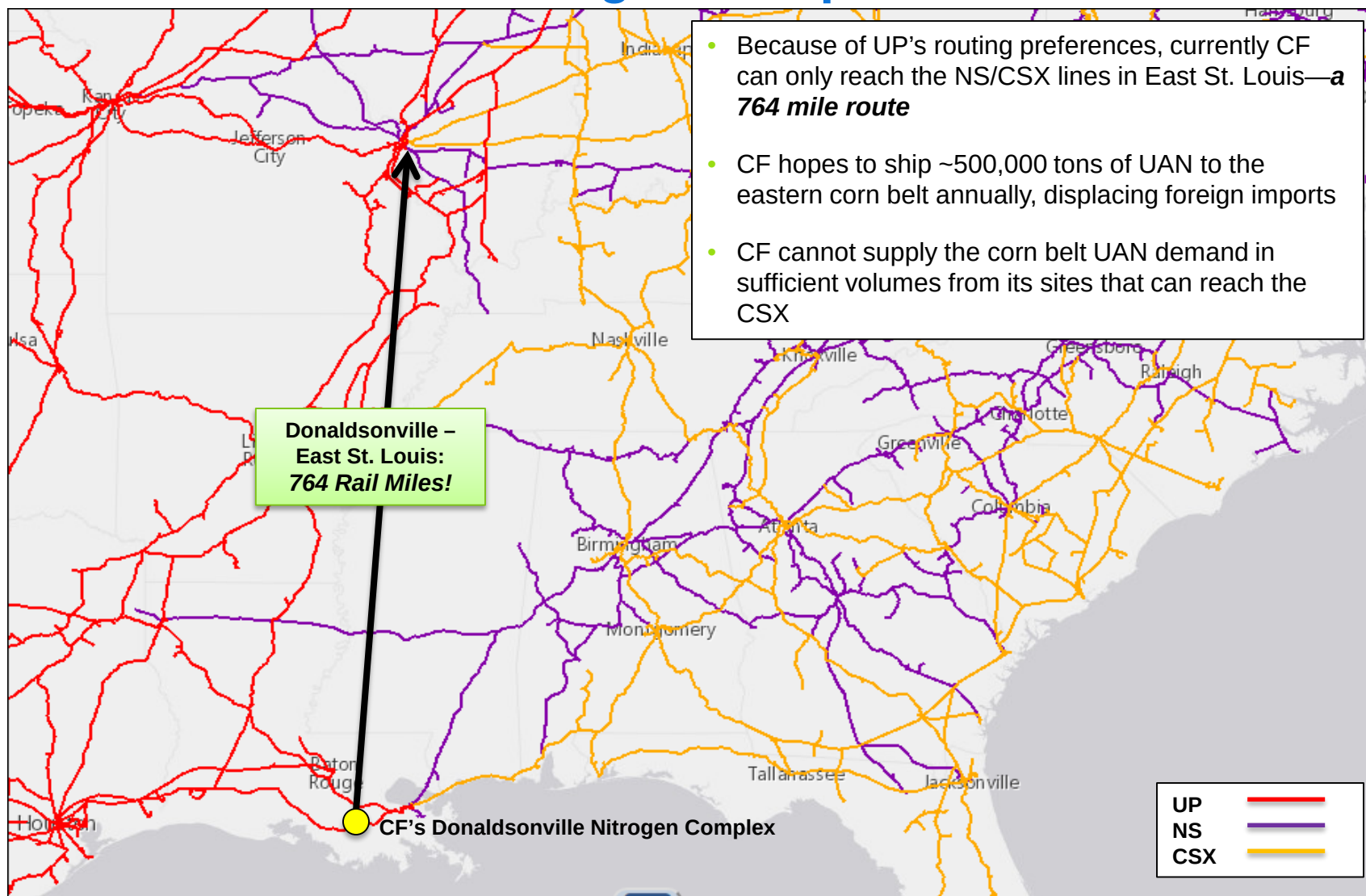
Case Study #2: UAN Shipments from CF's Donaldsonville Nitrogen Complex



- Recent \$2 billion expansion makes CF's Donaldsonville Nitrogen Complex in Louisiana the largest nitrogen production facility in the world—increased annual capacity of UAN increased to from 2.4 to 4.2 million tons
 - Also ammonia capacity increased from 3.1 to 4.3 million tons; granular urea capacity increased from 1.7 to 3 million tons
- CF would like increased UAN capability to supply demand in eastern corn belt (Ohio, Indiana, Illinois, Michigan), which is currently served in large part by imports coming in through the East and Gulf Coasts
- To reach eastern corn belt, CF must transfer traffic to the NS and/or CSX lines

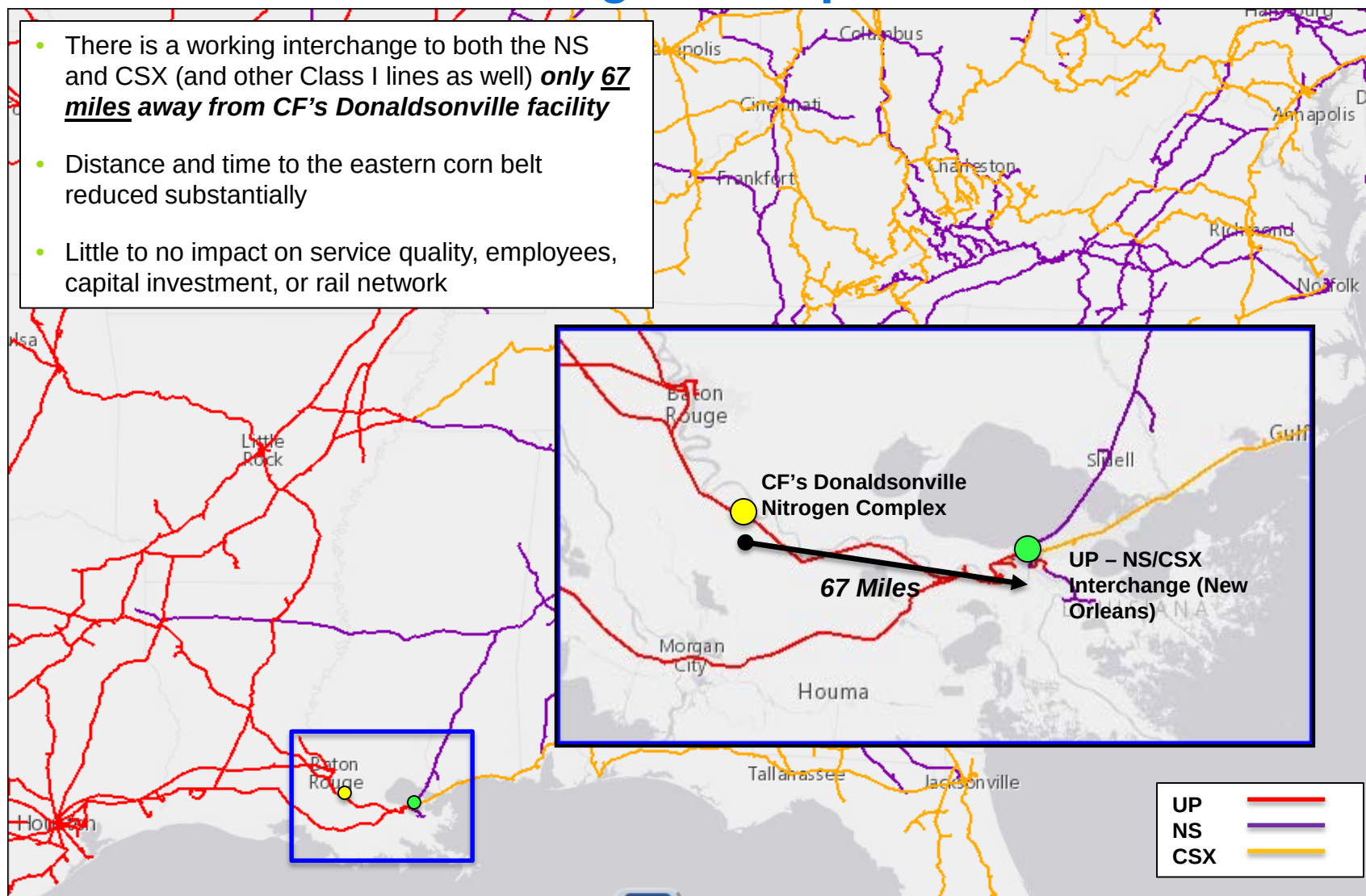


Case Study #2: UAN Shipments from CF's Donaldsonville Nitrogen Complex



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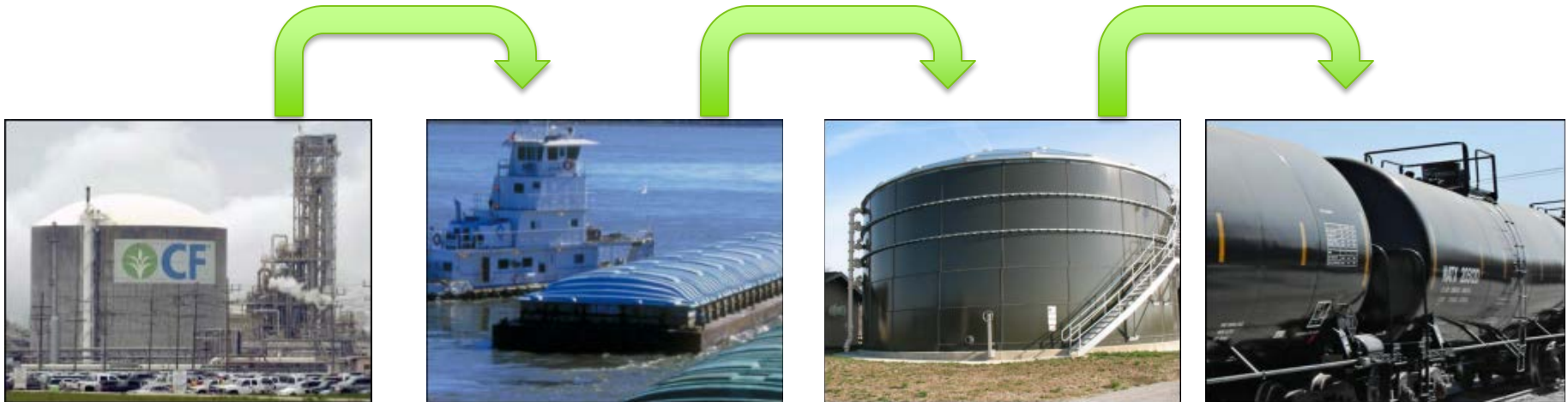
- There is a working interchange to both the NS and CSX (and other Class I lines as well) **only 67 miles away from CF's Donaldsonville facility**
- Distance and time to the eastern corn belt reduced substantially
- Little to no impact on service quality, employees, capital investment, or rail network



Case Study #2: UAN Shipments from CF's Donaldsonville Nitrogen Complex



- In an effort to reach the eastern corn belt, CF has gone to costly and burdensome lengths to reach the eastern rail carriers:
 - 1) Loading UAN onto barges at the facility;
 - 2) Shipping the product to a holding tank in southern LA by river;
 - 3) Transferring to the NS from the holding tank



CF can bypass this process and load UAN to rail cars directly at Donaldsonville if it can switch to the eastern rail carriers at New Orleans

Conclusion



- CF is committed to the safe transport of its products by rail to support North American farmers and industrial customers
- Competitive switching should be adopted in a manner so as to foster true competitive alternatives for shippers currently captive to a single railroad—including all of CF's U.S. production facilities
 - Competitive switching should not be limited solely to “terminal” areas
 - Competitive switching should be authorized for a reasonable distance between the shipper facility and carrier interchange
- Possible switching arrangements for shipments from CF's plant's in Port Neal, IA, and Donaldsonville, LA, would increase CF's ability to displace imports with domestically produced fertilizer products
- There are many more possible switching arrangements that would enhance CF's ability to serve its customers more effectively and efficiently
- CF is committed to working with the STB as it continues its consideration of this important issue



For more information, please visit www.cfindustries.com