

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") Commissioner Deb Miller
Held July 19, 2017, 10:00am-11:00am

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: Commissioner Deb Miller and Brian O'Boyle Attorney-Advisor

Meeting Summary:

The meeting began with introductions and PCA thanking Commissioner Miller and her staff for the opportunity to meet with them and discuss PCA's view on the Board's proceedings regarding reciprocal switching. Mr. Ridley handed out a memo with his talking points to guide the discussion. Mr. Ridley thanked Commissioner Miller for her instrumental role in pushing to allow for the ex parte meeting process as part of the Board's EP 711 rulemaking proceeding. 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 94 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 described PCA's dependency on rail given the volume and size of their product. 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%.

Commissioner Miller asked if PCA is having problems with a specific class one railroad in Florida and Mr. Ridley shared that they are experiencing service issues and pricing concerns that are forcing them to absorb much higher costs and to look for alternative modes of transportation.

Mr. Ridley shared that PCA works with all the class one 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 one 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, which is not their preference. 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.

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 one 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 (chart attached) 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 the reality is that switching opportunities are in practical terms available at longer distances.

PCA representatives expressed concern that the Board's proposed rules, especially Prong 1, could require complex and expensive litigation similar to the Stand Alone Cost (SAC) rate process. The fear is that protracted litigation over RS would result in litigation costs that create disincentives to shippers from even participating. Commissioner Miller noted that she did not want the NPRM to create another SAC-like process.

Mr. Ridley also suggested that short lines / regional carriers should be allowed the same opportunities to participate in RS. Mr. Ridley cited the city of Kansas City as a good example where there is a short line carrier working with all the class 1s very efficiently and that STB's case-by-case approval process should provide the Board control of the pace and breadth of RS. Mr. Ridley also noted that short lines are becoming more regional and should be included in the Board's proposal to promote price competitiveness. Mr. Ridley and Ms. Booth explained that

operational concerns by the railroads are overstated based on the workings of inter-switching in Canada, and since RS would not likely occur everywhere. Rather, there are pockets of opportunity for RS to take place.

To help demonstrate the challenges shippers have in obtaining competitive rail service, Mr. Ridley described a situation where a class 1 right now is enforcing a paper barrier to prevent an interchange with another class 1 who is interested in handling PCA's traffic.

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. Mr. O'Boyle advised that as long as the exemption is in place then exempt commodities would not be eligible for RS unless they filed a petition to revoke the exemption.

Commissioner Miller asked PCA to elaborate on the issue of where they are dual served, and asked if PCA has a better voice in rate negotiations, and what other considerations should the Board take into account? Mr. Ridley explained that where PCA is dual served there is truly competition between the two class 1s and that PCA awards its business in a competitive manner based on a single bidding process, and that it may vary each contract cycle. Mr. Ridley and Ms. Booth conveyed that a change in policy to make RS more available would likely shift commercial behavior among the class 1s to be more collaborative and to engage in rate discussion with shippers. Additionally, Mr. Ridley stated that PCA is willing to accept some of the risk to help make RS arrangements work, including providing guaranteed volumes of shipments and longer term contracts.

Mr. Ridley stated that with respect 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 eliminating consideration of lost contribution should the Board be asked to set a switching fee, since this practice would eliminate the very benefits of competition to be created from RS.

Commissioner Miller acknowledged the difficulties that shippers sometimes face, including being forced into alternative business decisions to work around railroad service issues and pricing challenges.

PCA representatives concluded by saying they are in support of a fully staffed and funded STB and have reached out to Congress to communicate this view as well as support for moving the Board nominations through as expediently as possible.

The meeting concluded with each side thanking each other for their time and an acknowledging 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
Containerboard - Medium	Filer City	MI	Marquette Railroad (MQT)	CSX (CSXT)	Grand Rapids, MI
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
NS	Grand Rapids, MI	119
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