

Surface Transportation Board
Ex Parte 711 (Sub-No. 1) Meetings
September 20, 2017

Acting Chairman Ann Begeman

Participants

PotashCorp: Bob Felgenhauer

The Fertilizer Institute: Justin Louchheim
Jeff Moreno (Thompson Hine, TFI Outside Counsel)

STB: Acting Chairman Ann Begeman
James Boles
Alison C. Graab
Elika Naraghi

Meeting Summary

Meeting attendees expressed appreciation for the opportunity to engage with the Board in Ex Parte meetings.

Mr. Bob Felgenhauer with PotashCorp (PCS) shared that PCS is a Canadian based organization with a market cap of \$14.5 billion, transportation expenditures of approximately \$600 million (about \$350 million on rail), and a rail car fleet exceeding 10,000 cars.

PCS noted that many of its facilities in Canada are dual-served by railroads. However, one of its Canadian facilities located in Patience Lake is single served by the Canadian Pacific Railway (CP) and benefits from Canadian rules that permit reciprocal switching, known in Canada as inter-switching. PCS noted that the Patience Lake mine is located 29 km from the interchange point, 36 km from Canadian National yard, and 24 km from CP's yard (CN and CP yards are 12 km apart). PCS works with both railroads on three options to interchange traffic:

- 1) Patience Lake to Allan mine;
- 2) Downtown Saskatoon interchange yard; and
- 3) Mine to mine interchange

PCS indicated that the current operation agreed to by railroads at Patience Lake is alternating time frames to interchange in each other's yards. PCS noted that the ability to inter-switch in Canada gives PCS an opportunity to:

- 1) Negotiate competitive rates and service for Patience Lake;
- 2) Adjust traffic flow for potential service disruptions related to labor negotiations;
- 3) Adjust traffic due to other service disruptions because of track outages, or power shortages;
- 4) Improve transit times and service to specific geographic areas by using the most efficient routes (CN to BN in Western Washington through Vancouver or CP to UP in Eastern Washington/Idaho through Eastport)

PCS noted that Canadian railroads have publicly stated they have no issue with regulated inter-switching and would support its use in the United States. PCS also noted that both Canadian railroads had the lowest operating ratios in 2016 of all the class 1 carriers (CN: 55.9%, CP: 58.6%).

PCS also discussed its operations in the United States, including that competitive access already exists for its facilities in Aurora, NC, and Augusta, GA.

In Aurora PCS operates a phosphate mine that is dual served through a trackage rights agreement between the Norfolk Southern Corporation (NS), who is the track owner, and CSX Transportation (CSX). In Augusta, PCS operates a nitrogen plant and is served by a reciprocal switching agreement between CSX (delivering carrier) and the NS. Which rail carrier PCS uses for a particular movement to or from these locations depends upon whether the other end of the movement is captive to either carrier. On competitive gateway traffic, PCS routinely commits its traffic to one carrier for a fixed term contract after a competitive bidding process. PCS typically shifts traffic between carriers only when contracts expire or there are service problems.

PCS explained that inter-switching in Canada and reciprocal switching in the United States in Aurora and Augusta work very well. Rail carriers continue to compete for business with PCS and the carriers work well together and with PCS to ensure cars are interchanged without any adverse impacts on their networks. Moreover, it was noted that the benefits to PCS customers were substantial as it promotes more timely and reliable shipments.

Acting Chairman Begeman asked if PCS has recently used reciprocal switching in Augusta or Aurora. PCS explained that, with respect to Augusta and Aurora, the availability of reciprocal switching has been very helpful in light of CSX service degradation issues. In this case, PCS has been able to switch traffic to NS as CSX works to resolve its operational challenges thereby providing more stability for PCS and its customers.

PCS expressed support for an approach that more closely resembles inter-switching in Canada. PCS also expressed concerns about the case-by-case approach as currently drafted could be unworkable for shippers if it is not efficient. It was also noted that the Board should consider an approach that removes some of the burden from itself so the Board does not have to review every request for a reciprocal switch.

PCS noted that it competes extensively with fertilizer imports which are significantly less expensive to transport by ocean vessel and barge than rail transportation in North America. Reciprocal switching could improve the competitiveness of U.S. manufacturers through better rate and service options.

PCS summarized that it will continue to have a strong relationship with all rail carriers. PCS also expressed that, based on its experience, rail carriers are more competitive in their rates and more responsive in their service when competition via inter- and reciprocal switching are available.