

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

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Summary of Meeting between The Association of American Railroads (“AAR”) and Surface
Transportation Board (“STB”) Commissioner Miller

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: Commissioner Deb Miller; Brian O’Boyle, Legal Advisor; William Brennan, Acting Director, Office of Economics

The meeting began with introductions. The AAR expressed appreciation for the opportunity to meet with Commissioner Miller to discuss the important issues in this proceeding. The AAR also thanked Commissioner Miller for her leadership on facilitating direct communications with stakeholders in this proceeding and in general. The AAR believes that efforts in this regard will clarify issues and lead to more informed agency decision-making.

The AAR referred to its written submissions in this proceeding that detail the AAR’s objections to the proposal contained in the Notice of Proposed Rulemaking (“NPRM”) and the arguments why the Board may not lawfully adopt the rules on forced switching as proposed in the NPRM. The AAR stated that its focus in this meeting will be focused on the operational issues related to switching and how the experience of Canadian interswitching does not support the NPRM proposal. The AAR made clear that, to the extent individual customers have raised specific switching scenarios in previous ex parte meetings, those issues will be addressed by individual railroads in subsequent meetings.

The AAR explained the necessary steps to switch cars in and out of industry on a single railroad, and demonstrated the added complexity associated with switching cars between multiple railroads. Some of the complexity arises from the fact that the line-haul carrier provides the cars and local trains and crews must be available for switching operations. The AAR explained that nearly all significant service issues arise because of problems keeping terminals fluid, either because of capacity constraints that limit the railroad’s ability to move cars or circumstances that cause railroads to increase the number of touches of cars in terminals, lowering efficiency and adding costs.

In a forced switch scenario, the availability of appropriate yard infrastructure, crew and power would be more relevant to the operational efficiency of a switch than distance between carriers. Rail infrastructure in the U.S. has evolved over time, as carriers have consolidated and rationalized facilities and decisions have been made with existing traffic in mind.

The AAR also explained why interswitching in Canada does not support the NPRM proposals. The AAR explained that Canada's different, significantly less complex network 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 pointed out the significant difference in the complexities associated with switching in the two countries. In Canada, there are only 67 interswitching locations between CN and CP in the entire country, so there is usually only one alternate operating scenario, while there are potentially 1,500 interchange points across the US rail network, making for many different alternate operating scenarios. Commissioner Miller asked about these numbers, and the AAR explained that they were derived from the AAR's testimony in the lead EP 711 docket, that was refiled into the record in this proceeding.

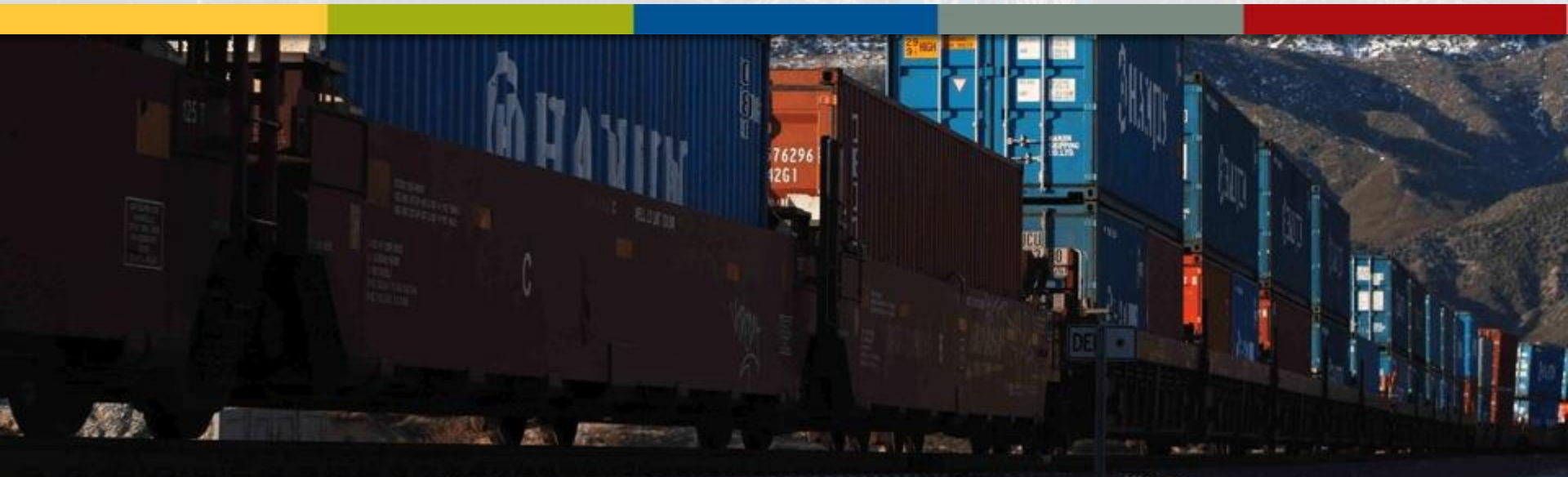
The AAR concluded with two examples of instances of where interswitching was used in Canada causing service problems for third-parties. Both are examples where the regulations forced traffic to move against the flow of network traffic over facilities that were not designed to accommodate the traffic. Brian O'Boyle asked if there is a distinction between these examples, which were mandated under Canada's interswitching requirements regardless of the operational disruptions, and the Board's proposal, which allows a railroad to argue that switching is not feasible or safe. AAR responded that while the Board's proposal allows it to deny reciprocal switching that would be disruptive to a railroad's operations, determining what is not feasible is subject to different interpretations. AAR also stated that demonstrating the disruptive impact on operations would involve extensive modeling of railroad operations, which in turn could lead to extensive litigation.

Brian O'Boyle and William Brennan asked if the number of reciprocal switching cases might be limited, as the threat of reciprocal switching would cause railroads to alter their behavior. The AAR explained that it could not comment on the competitive reaction that its members might have, but pointed to its written testimony that addressed this issue and noted that regulations must be invoked before they are likely to alter behavior.

Commissioner Miller stated that she has heard from shippers that believe that reciprocal switching could be a regulatory mechanism that causes railroads to be more responsive to shippers served by one railroad. The AAR responded that the forced switching proposal would attempt to accomplish this in a way that would hurt many third-party rail customers that would not benefit from the rule. Commissioner Miller questioned whether a Board decision ordering reciprocal switching would be much different than if there were a new customer that a railroad had to serve. AAR responded that that situation is different because a new customer coming online is a situation that the railroad has more ability to plan for and, because it can estimate the revenue that customer can generate, the railroad can invest in necessary infrastructure to serve that customer. The AAR thanked Commissioner Miller and STB staff for their time.



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

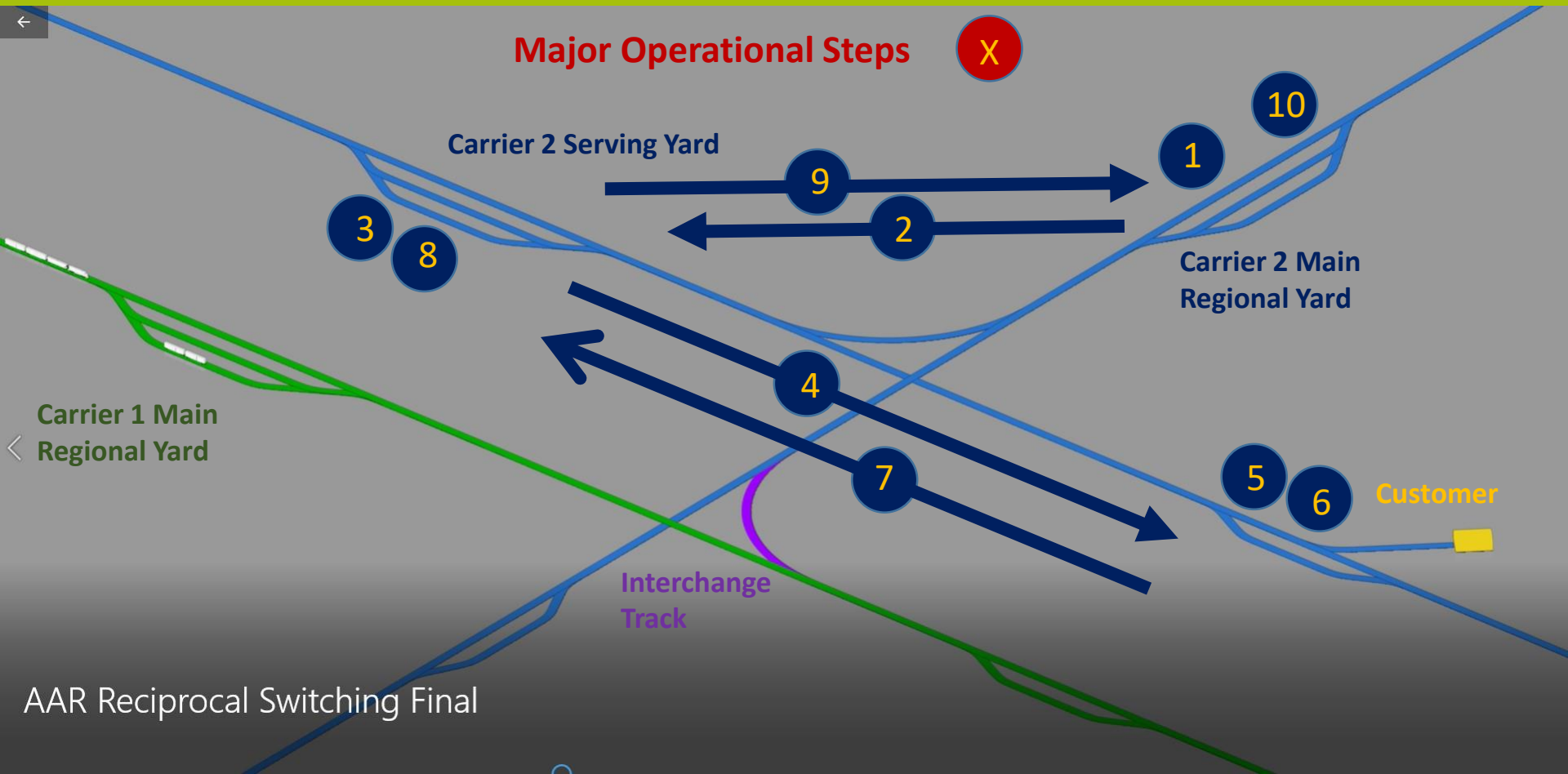


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Forced Yard and Line-of-Road Switching Will Result in Service Deterioration

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

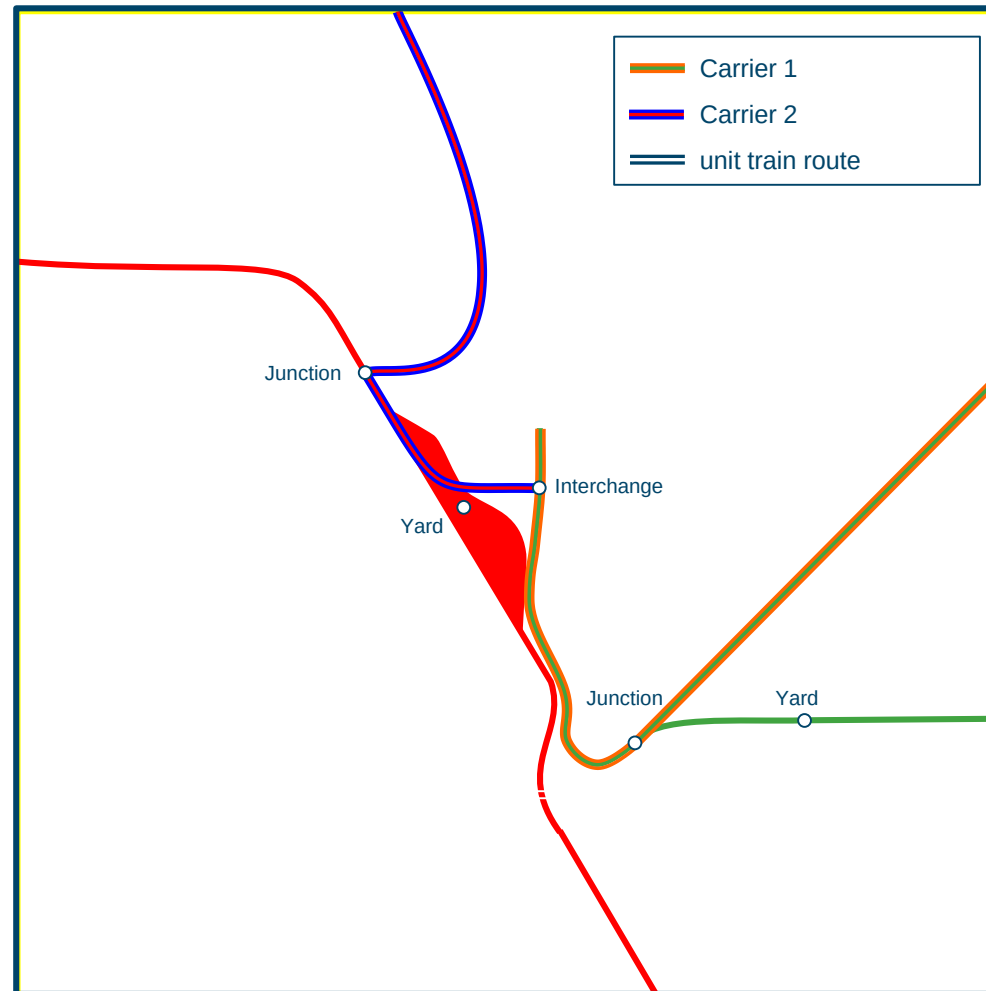
- The size and structure of much of the Canadian rail network, its simplicity and east-west orientation, is the product of a national policy focused on resource development and foreign trade.
- This structure has concentrated interswitching in only a limited number of production and export/import locations 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

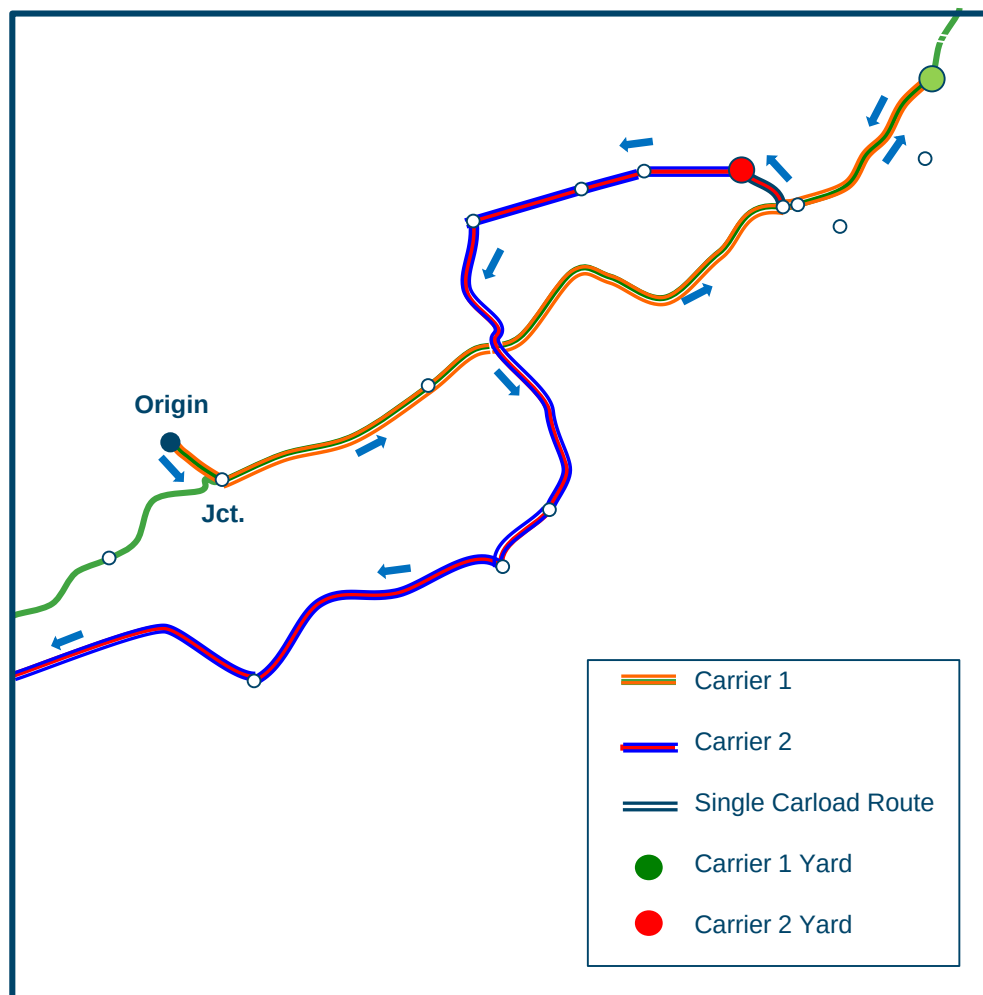
- The unit train is originated on Carrier 2 and originally used Carrier 2 to destination.
- The change to Carrier 1 required interchange in a significant terminal area.
- This interchange location required the unit train to be broken into segments in order to fit the physical facilities available.
- 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