

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

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

RECIPROCAL SWITCHING

**TESTIMONY OF CHUCK BAKER, PRESIDENT, AMERICAN SHORT LINE AND
REGIONAL RAILROAD ASSOCIATION**

**TESTIMONY OF DR. DAVID CLARKE, DIRECTOR (RETIRED) CENTER FOR
TRANSPORTATION RESEARCH AND RESEARCH ASSOCIATE PROFESSOR, THE
UNIVERSITY OF TENNESSEE, KNOXVILLE**

**TESTIMONY OF PETER “DOC” CLAUSSEN, JR., CHAIRMAN, AMERICAN SHORT
LINE AND REGIONAL RAILROAD ASSOCIATION AND VICE PRESIDENT, GULF
AND OHIO RAILWAYS, INC.**

Sarah G. Yurasko
American Short Line and
Regional Railroad Association
50 F Street, NW Suite 500
Washington, DC 20001
*Counsel for the American Short Line
And Regional Railroad Association*

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**TESTIMONY OF CHUCK BAKER, PRESIDENT, AMERICAN SHORT LINE AND
REGIONAL RAILROAD ASSOCIATION**

Good morning. My name is Chuck Baker, and I am the President of the American Short Line and Regional Railroad Association (ASLRRA). ASLRRA represents more than 1,000 members, including 500 Class II and Class III railroad members, commonly known as short lines, and 500 suppliers, contractors and service providers to the industry in legislative and regulatory matters.

We like to say that, as an industry, short lines punch way above their weight class. Although the typical short line employs about 30 people, serves 18 shippers, and hauls freight about 50 miles for those customers, we have an outsized impact – particularly in small town and rural America – in getting our customers’ goods to market. We operate nearly 30% of the nation’s route miles in 49 states, touch one in five cars on the network, and in several states, operate the entire freight rail network.

In the communities where we do business, we are job-creators and economic drivers. For each job on a short line, 2.6 jobs are indirectly supported. Nationally, 0.51% of business inputs rely on transportation services provided by the short line industry, amounting to 478,820 jobs,

\$26.1 billion in labor income, and \$56.2 billion in economic value added.¹ We take that responsibility extremely seriously and do not take our critical role for granted.

Short lines are small businesses with limited resources, but with relatively large private investment needs. We invest about 25-33% of our revenues each year into our infrastructure and have spent decades rehabbing light-density lines that were generally neglected and frequently headed for abandonment under past ownership. We are the critical first and last mile for more than 10,000 customers, and those customers know us as partners who will fight for every carload, creating opportunity where there was none before for any customer, or any potential customer, on the line.

Today, I am appearing before you to reiterate our opposition to regulations that we fear will make freight railroading less efficient, routing more complex, and decrease infrastructure investment into the rail network. In a time when the public has seen the need for a supply chain that is more sustainable, more resilient, and more fluid, we question whether forced reciprocal switching will help railroads meet those challenges.

While short lines often consider themselves “shipper representatives” and we certainly have our share of frustrations with our Class I railroad partners, we see this rule as counterproductive and likely to cause more harm than good. We believe that the existing suite of STB remedies is sufficient to handle problematic cases and that the current balanced regulatory structure has resulted in the world’s best freight rail network.

Over the years, ASLRRRA has provided comments in Docket No. EP 705, Docket No. EP 711, and Docket No. EP 711 (Sub-No. 1). We have submitted extensive written comments, testimony, and evidence demonstrating why forced reciprocal switching and other similar

¹ The Section 45G Tax Credit and the Economic Contribution of the Short Line Railroad Industry, PWC, July 2018.

proposals were contrary to the public interest. In particular, ASLRRA showed that short line railroads already face extensive competition, already go above-and-beyond to do right by our customers, have unique and fragile economics that would be put at risk if they were subject to a forced reciprocal switching rule, and that forced reciprocal switching that would apply to short line traffic is unnecessary and unwarranted.

The STB's proposed rule unnecessarily puts the nation's efficient rail network at risk and threatens future supply chain disruptions. An inefficient route due to an extra switch would not just impact the shipper who has requested the switch – it would impact all other shippers using the line. It may reduce throughput on a line, unnecessarily tie up inventory already in short supply such as boxcars and locomotives, and increase the potential for incidents and injuries with the addition of more switches and car handling which are two of the industry's most common areas of accident and incident risk.

This significant change in regulatory policy could drive deteriorating service for customers, forcing freight off the rail network and onto the highways, and resulting in negative public impact in the form of increased road congestion, decreased safety, and impact on the environment. All of these unintended adverse effects would lead to diminished capital investments in the freight rail network and risk progress toward an integrated, resilient, safe and ever more environmentally friendly freight rail network ready to handle the demands of tomorrow. In short, it seems a lot to risk for the near-term benefit of a small number of specific shippers in particular cases.

However, should the STB move forward with a reciprocal switching rule, we ask that you continue to exclude short lines expressly and specifically from the regulations. We recognize that the existing NPRM intends to exclude short lines, as did the original NITL petition the rule was

based on, but we do have three small wording suggestions to help the rule fully meet its intent. I'll speak to those changes in just a moment and they are also included in our written comments.

The economics of a typical short line would put its status as a viable entity at risk if a forced reciprocal switch were to significantly impact its revenue from a major customer. Compared to larger railroad carriers, short lines have shorter lengths of haul, higher fixed costs, and larger capital needs for infrastructure investment, including the task of upgrading bridges and track to handle modern, heavier freight cars. Short lines provide high touch service to a comparatively small number of customers, while facing pervasive competition from trucks, barges, and transloading operations for freight traffic due to their typically short lengths of haul.

While a larger carrier could potentially absorb a relatively small reduction in overall revenues due to mandated reciprocal switching, it would be a far different matter for short lines. On an average short line, three customers account for two-thirds of the rail traffic shipped. Loss of a significant portion of the revenues from a single shipper could have a meaningfully adverse effect on the financial viability of a short line, given the high infrastructure and fixed costs that must be supported by those revenues.

The loss of revenue from a key customer on a short line would have a multiplier effect. The other small shippers utilizing the line would be negatively impacted if the short line were no longer able to provide service to them at rates that make the shipper competitive. Even worse, if the line closed and the shipper was forced to find alternate transportation or relocate.

For the short line industry, that number of shippers is in the thousands. The stated purpose of this rule is to help shippers, but including short lines in the regulations would put these thousands of shippers in harm's way. Short lines are particularly important in rural and small-town America as job creators and economic drivers. One short line job supports 2.6 other

jobs in the community, and companies locate where rail exists as a transportation option. So, if a short line were to fail it would have far-reaching adverse effects on the vulnerable communities they serve and those 478,000 jobs in industries that are dependent on short line service.

Short lines are known for their responsive and customer-focused service. They fight to win every customer, and work even harder to keep the ones they have by ensuring that they are providing service that will further the customer's success. They grow their businesses painstakingly over decades, one customer and one carload at a time. If they need to provide an extra switch on a Sunday morning, they do it, they'll provide industry track maintenance, and they are constantly on hand to resolve issues for their customers. They also partner with their customers on state and federal infrastructure grants, they get creative on car supply, they'll find an extra place on the system for storage. Whatever it takes to serve their customers and get to yes, they do it. Short line customers tell me regularly that they could not be successful without their short line connections. In our comments you will see verified statements from shippers underscoring and confirming this partnership.

As I mentioned and as shown in our written comments, if the STB does proceed with this rule, ASLRRRA is proposing to add three words to the text that would clarify the exclusion of short lines in the current NPRM, which we believe would be consistent with the STB's intent and also with the intent of the NITL petition. When language is used that references customer facilities that are "served by Class Is", it should say that the facilities are "served **directly, physically, and exclusively**" by Class Is.

As currently written, while the plain English language would seem to mean that the facilities of the shipper or receiver must be served by a Class I rail carrier, it is not sensitive to the nuances in the accounting and billing practices in use between short lines and Class Is and

could leave some room for doubt. For example, in many cases short lines provide the first or last miles of service but do not appear on the waybill and may not be the entity sending the invoice to the customer, so upon examination of the waybill and invoice only, it could appear that a customer facility is “served” by a Class I even if it’s actually served by a short line.

In addition, there are some circumstances where one facility is served by both a Class I and a short line, and even though that’s a facility that is “served by a Class I”, it doesn’t seem to be a facility that the rule intends to put within this reciprocal switching regime. Adding the words “directly, physically, and exclusively” would clarify those situations and keep with the STB’s intent.

I thank you for your time and am happy to answer any questions.

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**TESTIMONY OF DR. DAVID CLARKE, DIRECTOR (RETIRED) CENTER FOR
TRANSPORTATION RESEARCH AND RESEARCH ASSOCIATE PROFESSOR, THE
UNIVERSITY OF TENNESSEE, KNOXVILLE**

My name is David B. Clarke. I have been active in rail research, education, and engineering for over forty years. I retired from full-time employment at the University of Tennessee, Knoxville (UTK) at the end of 2020 after 25 years of service. From 2008 through 2020, I was Director of the UTK Center for Transportation Research, one of the nation's oldest academic research centers focusing on transportation. I also held a research faculty appointment in the Department of Civil and Environmental Engineering. My academic training focused on railways, and during my academic career I regularly taught courses in railway transportation and conducted railway related research. I served as the UTK lead for the National University Rail Center consortium, a U.S. Department of Transportation funded research center led by the University of Illinois at Urbana-Champaign. I chaired the Transportation Research Board Rail Freight Transportation Committee and the American Society of Civil Engineers Rail Transportation Committee. Prior to coming to academia, I spent seven years in supply chain management, where I often dealt with rail shipping. In 2005, I collaborated in the establishment of company to operate a 43-mile rail line divested by a Class I carrier. I have also maintained a transportation consulting practice in which I frequently undertake railroad work. During my

career, I have worked on rail related research with Class I railroads, small railroads, shippers, and government agencies.

Over 600 separate companies operate the tracks that comprise our nation's freight railroad network. In contrast to other parts of the world, these companies are largely privately owned and operate over largely private infrastructure. No single railroad company serves the entire nation. However, the networks of individual companies connect at a multitude of interchange points, permitting the cooperative movement of freight between points throughout the U.S. and, ultimately, Canada and Mexico.

As private sector companies, railroads must generate sufficient revenues to cover operating and capital expenses, while providing a satisfactory return on investment. The railroad industry, as a whole, continues to achieve these goals. Economic deregulation, culminating with the Staggers Rail Act of 1980, has been a major factor, permitting railroads the freedom to react expeditiously to competitive challenges. Today, the overall efficiency of the U.S. railroad network is such that shippers pay the world's lowest rail freight rates.

In preparing my testimony, I was asked to address the following questions:

1. How do Class II and Class III railroads, hereafter termed small railroads, differ from Class I railroads?
2. How would mandated reciprocal switching adversely affect small railroads?

Besides my research and consulting experiences, my response draws upon several references, including publicly available STB and FRA data, AAR and ASLRRA statistical summaries, and ASLRRA surveys. I also referred to Carl Martland's 2011 testimony on behalf of ASLRRA addressing Docket EP 705 on competition in the railroad industry.

Comparison of Small Railroads with Class I Railroads

Within the railroad industry, there is a great disparity between the seven large Class I railroads and the more than 600 smaller Class II and III railroads. I will outline a number of the significant differences.

Class I railroads operate complex networks covering large geographic areas and serving thousands of shipping points. They provide line haul services covering hundreds and even thousands of miles. Statistically, Class I railroads dominate the industry, having over 70 percent of route-miles operated, nearly 90 percent of total employment, and over 93 percent of total revenue generated.

Small railroads, in comparison, are very limited in geographic scope. Only ten of these railroads have a network exceeding 650 route-miles. The average of 108 route-miles operated is biased by the few carriers having larger networks; the median of 47 route-miles better characterizes a representative company.

Class I railroads provide the long-distance movement for most traffic handled by small railroads. Nationally, the rail carload length of haul in 2016 averaged 1020.6 miles. Small railroads had average and median haul lengths of 37.5 miles and 24 miles, respectively. Even if a small railroad handles a shipment at both origin and destination, Class I railroads enjoy the majority of the line haul movement.

With short line haul distances, small railroad activities are heavily oriented towards “last mile” pick-up and delivery. Of total carloads these carriers handle, 81 percent are originated or terminated. Only nine percent is local traffic moving completely on a small railroad’s track, with the remaining 10 percent being bridged traffic. Many small railroads have no local traffic.

Whether conducted by a Class I or a small railroad, pickup and delivery functions have high unit costs compared with line haul movement. Long line hauls allow Class I railroads to offset these costs. Small railroads cannot.

On the whole, small railroads have low traffic densities in comparison to Class I railroads. Class I railroads average nearly 17 million revenue tons per route mile. In comparison, small railroads average about 620,000 revenue tons per route mile, or 3.7 percent of the Class I statistic. This disparity has important implications for small railroad economics.

By definition, Class I railroads have annual revenue far exceeding small railroads in the Class II and Class III categories. Of small railroads, the overwhelming majority fall into the Class III category. While the Class III threshold is less than \$40.4 million annual revenue, two-thirds of these companies fall below \$10 million in annual revenue. As density is lower for small railroads than for Class I railroads, so is the average revenue per route-mile. In 2016, the median annual revenue per route-mile for small railroads was \$97,000, only 19% of the Class I median of \$508,000 per route-mile.

With a limited geographic area served, small railroads typically cannot have a diversified traffic base. A 2016 industry survey found an average of 18 customers and a median of 11 customers per railroad. Typically, three customers account for two-thirds of carloads. Loss of a major customer can severely affect the financial condition of a small railroad. Class I railroads have a large customer base and, while loss of a customer might affect a line segment purely serving local traffic, it is much less likely to significantly affect the company's financial health. Further, core Class I railroad lines carry through traffic that keeps them viable even if local traffic declines.

A small railroad typically has a limited commodity mix compared with a Class I carrier. In general, a single commodity accounts for about half of a typical small railroad's revenue carloads. Most small railroads have no coal, intermodal, or automotive traffic—commodity groups that represent over 40 percent of tonnage and 33 percent of revenue for Class I railroads and are well suited to rail movement. For example, fewer than eight percent of small railroads handle any coal traffic; of these, three handle 50 percent of the total coal tonnage for this carrier group. Similarly, small railroad intermodal traffic is largely confined to a select few having lengthy haul distances or that switch port terminals.

Because of the commodities moved, the quantities typically handled, and the short mileage moved, small railroads are susceptible to diversion by competing modes. The United States' 4-million-mile road network provides trucks both access to shippers and the ability to expeditiously move goods over long distances. Where trucking diverts traffic completely away from an all-rail move, any participating small railroads lose business. However, trucks may also affect only the small railroad portion of a rail haul. This occurs, for example, when a carload normally handled by the small railroad is replaced by a truck haul to an intermodal terminal or transload facility. The shipment may continue by Class I railroad or, depending upon circumstance, a water carrier. Barge transportation poses a competitive threat to small railroads serving points accessible to the inland waterway network.

Discounting the coal, intermodal, and automotive traffic that relatively few small railroads handle, approximately 35 percent of carloads are products of manufacturing processes. Such general merchandise traffic includes paper products, lumber, food products, metals, and metal products. General merchandise has a relatively higher unit value than the bulk materials like aggregates, ores, grains, and scrap that form the remainder of the small railroad traffic base.

This makes such traffic especially susceptible to truck competition, either for the entire rail movement or the small railroad portion. Some bulk traffic carried by small railroads can also be susceptible to truck transloading.

Economic Implications

With limited territories, low traffic densities, and switching intensive operations, small railroads cannot achieve the economies of scale that characterize Class I operations. Fixed costs per shipment are high for small railroads. Average productivity is also much lower than that of their Class I counterparts.

While some small railroads have been in business for many years, a large number have been created post-Staggers to operate track divested by Class I railroads. Class I railroads routinely examine their networks to identify segments with declining traffic density, high capital investment needs, or that are redundant. Such segments will be candidates for abandonment or divestiture, especially when traffic density is low and the railroad sees little hope for future growth. Frequently, this decision-making process takes place over an extended period of time, during which the Class I owner reduces service, minimizes expenditures on infrastructure maintenance, and defers capital investment.

A small railroad taking over such a property must deal with degraded and/or obsolete infrastructure and a severely eroded traffic base. Over one-third of small railroad route-miles, for example, remain unable to handle the current generation of railcars having a loaded weight of 286,000 pounds. Railroading is a high capital cost industry. The capital small railroads invest to obtain the property and necessary rolling stock, address deferred maintenance, and modernize infrastructure represent fixed costs that must be spread across the units of traffic handled.

Maintenance, crew labor, and administration also reflect costs that are relatively fixed for a given range of traffic.

To remain viable, a railroad's revenue must cover both fixed and variable costs. Each individual shipment must be priced, at a minimum, to cover its variable costs and contribute to fixed costs. A simple way to allocate fixed costs is to spread them uniformly across all shipments. However, the fixed cost contribution of an individual rate is up to the railroad, and may vary for competitive reasons.

Class I railroads have efficient classification yards, long haul distances, heavily used and well-built mainline track, and lengthy trains hauled by modern locomotives. Economies of scale and efficiencies result in relatively low fixed and variable costs per carload. Small railroads are far different. Switching intensive operations, short line hauls, short trains, and low speed, light density track characterize these operations. As a result, small railroads are far less productive than Class I railroads by many measures. Consider the following examples:

- Small railroads annually generate 1.7 million revenue ton-miles per employee, 16 percent of the Class I average of 10.4 million revenue ton-miles/employee.
- Long-haul focused Class I railroads average 468 revenue ton-miles/ gallon of fuel, while small railroads, with their short haul and focus on pickup and delivery, produce 333 revenue ton-miles/gallon of fuel.
- Small railroads average \$3.29/loaded car-mile on track expenses, 340 percent higher than the Class I figure of \$0.97/loaded car-mile.

The reasons for these differences have nothing to do with competition and everything to do with the nature of small railroading. They highlight the reason why Class I railroads have divested so much of their light density track.

Small railroads are saddled with costly pickup and delivery operations with little opportunity to offset this with efficient line haul carriage. Employee productivity measured in ton-miles are naturally lower. Because of the fuel intensive nature of switching versus line haul movement, fuel is a higher proportion of expenses.

Although, on average, small railroad revenue is 15.7 cents per revenue ton-mile, versus 3.9 cents per revenue ton-mile for Class I carriers, the high revenue per loaded car-mile for small railroads reflects not higher margins, but rather the high fixed costs per carload and the low productivity of light density switching intensive operations. Small railroads must spread fixed costs over a relatively small traffic volume, leading to higher per-carload assessments. The high track expense per car-mile reflects fixed costs for addressing deferred maintenance and upgrading infrastructure to modern standards in addition. Small railroad revenue must also account for unit variable costs that are higher for switching than for long distance line haul service.

In evaluating line segments now divested to small railroads, Class I railroads recognized these same issues and concluded that the segments did not meet internal financial goals. By taking an entrepreneurial approach to such operations and emphasizing customer service, small railroads hope to make such operations viable. Yet, the inexorable rules of economics still apply—the railroad must cover fixed and variable costs to remain viable in the long term.

To do this, the railroad must retain existing customers, and, to the degree possible, attract new ones. Dependence on a small number of customers for a large percentage of traffic makes small railroads highly vulnerable to revenue loss from these customers. Moreover, stability can never be counted on. When interviewed, a number of veteran small railroad managers cited a

near 100 percent turnover in customers on their properties since initial startup. Many externalities affect traffic retention and development, including competition from other carriers, market economic forces, changes in customer supply chains, availability of suitable development sites, and so forth.

The large number of small railroads indicates the confidence investors have in entering the business. Through innovative practices, attention to customer service, and careful cost control, many short lines have maintained and even grown traffic. Success is by no means guaranteed, however, and failures, even after many years of operation, do occur. The economics of small railroad operation, coupled with light traffic densities, make these carriers especially vulnerable to revenue declines.

Potential Impacts of Reciprocal Switching

Under the current statute, the Board can require the establishment of a switching arrangement when the switching arrangement either is practicable and in the public interest or is necessary to provide competitive rail service. Under a proposed rulemaking first opened in 2016, the Board proposes to change current regulations under which it can mandate the establishment of so called reciprocal or competitive switching. In the notice, the Board defines reciprocal switching as an arrangement where “an incumbent carrier transports a shipper’s traffic to an interchange point, where it switches the cars over to the competing carrier.” The competing carrier pays the incumbent carrier a switching fee for this service, incorporating this fee into its total rate for the movement. In theory, this provides for competition between railroads.

In this discussion of small railroads, it is important to note that the proposed rule applies only to Class I railroads. While I question whether reciprocal switching should be mandated

even for Class I railroads, small railroads should certainly be excluded. Small railroads are incumbent carriers only in hauling traffic a relatively short distance to a Class I interchange. Effective competition must be between the Class I railroads that provide the majority of the line haul.

Examination of 692 small railroad operations (there are more operations than companies because some railroads have disconnected segments) found that about 47 percent have interchange access with a single Class I railroad. Many of these operations have no physical connection with another Class I carrier; “paper barriers” may preclude others from accessing another Class I carrier. Regardless, with only a single connection to the Class I rail network, a small railroad cannot directly play a role in providing competitive rail access for shippers.

In contrast, 53 percent of small railroad operations access multiple Class I railroads. Most advertise themselves as neutral carriers. The relative importance of each customer’s traffic, coupled with the high potential for modal diversion, provide powerful incentives for a small railroad to route traffic as customers wish. Existing customers on these operations therefore have alternatives for Class I service. Such access is a useful selling point in enticing major new customers to locate along a small railroad.

Mandatory reciprocal switching arrangements have great potential to harm small railroads. Competition between railroads is intended, of course, to lower shipper charges. While shipment revenue arrangements for small railroads vary, many receive either a flat fee or a portion of the Class I revenue. Under reciprocal switching, a new competing carrier with a lower total long-haul rate could replace the incumbent carrier. The small railroad would still handle the traffic, but would likely face pressure that it couldn't resist to reduce its revenue share, posing a threat to its fragile economics.

A railroad allowed access to another railroad's customers through reciprocal switching will be most attracted to those with high revenue potential. A small number of customers account for the majority of traffic and revenue on a typical small railroad. Reducing revenue from even one large customer can cause significant financial stress. With much small railroad traffic susceptible to modal diversion, raising prices to address lost revenue risks losing customers. Small railroads are unlikely to replace lost revenue through other means or attract new customers on short notice. Most lack deep capital reserves, so sustained financial stress will affect capital investment and expenditures for maintenance, employment, and operations. For some, it will ultimately mean ceasing operations, depriving communities served of rail service.

Summary

While I don't believe that reciprocal switching rules need revising at all, any revision should exclude Class II and III railroads. These railroads operate in a completely different economic realm than the Class I railroads that the proposed rulemaking addresses. Light traffic densities, high fixed costs, and low productivity because of switching intensive operations and short line hauls are characteristics of small railroads. The traffic base of these carriers is highly susceptible to modal competition, which keeps margins low.

Allowing other railroads to access a small railroad's customers via reciprocal switching has the potential to impact the small railroad's revenue share. Reduced revenue from one or more major customers can jeopardize a small railroad's financial health, raising the possibility of bankruptcy or cessation of operation. If the railroad is to survive, each unit of its traffic base must bear a greater proportion of the railroad's fixed costs, increasing the rate charged to

customers. Ultimately, these increases may push traffic to competing modes. Without an infusion of new traffic to bring stability, the railroad can enter a death spiral.

Over half of small railroad operations interchange with multiple Class I railroads, providing their customers with competitive access to the long-distance network. There is no benefit to be gained by allowing a Class I railroad to access shippers on these railroads through mandated access. Most of the remaining small railroads interchange with a single Class I railroad. Imposing mandated reciprocal switching on these small railroads could damage them economically. It is unnecessary for competition and the impacts to the small railroad outweigh any shipper benefits.

To survive, small railroads must be highly sensitive to the needs of their customers. This extends to routing traffic per customer wishes. There are no compelling reasons to include small railroads in the proposed reciprocal switching rules. There are only downsides to doing so.

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TESTIMONY OF PETER “DOC” CLAUSSEN, JR., CHAIRMAN, AMERICAN SHORT LINE AND REGIONAL RAILROAD ASSOCIATION AND VICE PRESIDENT, GULF AND OHIO RAILWAYS, INC.

Good morning, I am Doc Claussen, Vice President of Gulf & Ohio Railways, Inc., and Chairman of the Board of the American Short Line and Regional Railroad Association (ASLRRA). I have had the great fortune to be a second-generation executive officer of a family-run business that creates value every day for customers across the states of North Carolina, South Carolina, and Tennessee. Following a ten-year career as a diagnostic and interventional radiologist, I heeded the call (or the horn) of the railroad in 2006 and have been pleased to participate in an industry that is so vital to America’s success.

The G & O was established by my father in 1985, is a holding company for [five short line railroads](#), and the [Three Rivers Rambler](#) excursion train. Our railroads operate on 230 miles of track, using approximately 30 locomotives, to haul freight for 64 industrial customers. With over 50 full and part time employees, G&O plays an important role in the local economies where we operate. The railroads handle over 30,000 freight cars annually, hauling freight that ranges from ethanol to wood products to steel to chemicals. G&O railroads handle over 30,000 freight cars a year. We interchange with both NS and CSX.

Currently, I am also serving as Chairman of the Board of the ASLRRA, guiding the work of the organization alongside 500 other railroad members, and nearly as many associate members

who provide services to the short line industry.

You have heard from my esteemed colleague Chuck Baker about the short line position on the proposed forced reciprocal switching regulation under consideration today, and you have been briefed on the unique economics of short lines by David Clarke. My hope is that the testimony I provide today will further illuminate the potential impact to short line railroads, and in turn our shippers, thousands of local economies, and the overall U.S. freight rail system should short lines be subject in any way to this regulation.

Although short lines were in business as early as the mid-1800s, the Staggers Act passed in 1980 is considered the genesis of the modern short line industry. The economic freedoms and regulatory flexibility embodied in that Act allowed entrepreneurs to save light-density branch lines rather than abandon them. The results were quite remarkable. From 8,000 miles of track in 1980, the short line industry today operates nearly 50,000 miles (which is about 30% of the national network) in 49 states, and in several cases short lines operate 100% of a state's rail network. Moreover, the inflation-adjusted cost to move rail has declined 27% from pre-Staggers rates.

The hallmarks of our short line industry are well known and a source of great focus and pride for us - a constant customer focus, an entrepreneurial spirit, adaptability, resiliency, and an obsession with connecting our customers and communities to markets around the country and the world. As the first and last mile of the shipment, short lines provide flexibility and responsiveness to the unique needs of each customer – sometimes with significant private investment. Each customer is a critical partner to a short line, and the customer's success drives ours – one customer and one carload at a time.

For example, the Santa Teresa Southern Railroad in New Mexico has steadily built expertise in moving some unusual and complex loads – shipping windmill blades for wind farms. One of their key customers, GE Renewables, had the opportunity to nearly double its production but would need the capability of loading two full trainloads at a time. Rather than risking production moving to another plant, or blades moving via road, the Santa Teresa Railroad stepped up with investment dollars, partnering with GE to build out a dedicated train-loading facility for GE including 10,000 feet of track, a 10-acre staging and loading area, and a 4,000-foot roadway connected to a major county road. As a result, GE reduced its train-loading time from three days to one and expects to ship a significant volume of wind-turbine blades via rail in 2021. A total win for the railroad, the customer, and the county – all due to a strong partnership, shared investment, and the long view.

Short line success is driven by our size. A short line’s relatively small size, and entrepreneurial leadership allow us to quickly pivot to serve a customer. Examples of this abound in our industry.

When Anheuser Busch ceased purchasing beer bottles from Owens Brockway, the latter’s plant served by the Finger Lakes Railway (“FGLK”) at Sennett, New York, had to refocus its glass batch production for a different marketplace – the white flint bottle market - to survive. This change also presented FGLK with the prospect of losing all traffic from a major customer. Manufacturing white flint bottles required significant changes to the production batch raw material requirements. Quick action on the part of FGLK was required to remain the transportation provider, procuring new sources for limestone, sand, and soda ash.

FGLK was able to save and grow this business by setting up cross functional teams with CSXT, Norfolk Southern, and Owens Brockway at both the plant and Owens’ corporate

headquarters. Competitive rates from alternate suppliers were developed. Service was improved through pre-blocking of cars and more efficient interchanges and Owens Brockway agreed to unload cars seven days a week. FGLK's carloads with Owens Brockway jumped from 860 in 2010 to 1,302 cars in 2011 – a 51.4 percent increase. Remarkably, FGLK not only helped to save this plant – but ultimately grew its business, and the carload traffic on partner Class 1s.

The impact of short Lines on our local communities cannot be undervalued. Our role in connecting customers to markets drives the local economies, providing family-supporting jobs beyond the railroads themselves. The presence of rail in a community as an alternative transportation option (and an environmentally friendly one at that!) drives growth with companies willing to relocate on rail-served property.

Paying close attention to the auto industry's sales and production trends allowed the Ann Arbor Railroad of Michigan to entice Fiat Chrysler Automobiles to locate a new distribution center for finished automobiles at an under-utilized facility in Toledo, Ohio. Breaking ground in 2018 and beginning operations in time for the Jeep® Gladiator launch in July of 2019, the facility supports Fiat's Toledo and Detroit assembly production with an 1,800 car through-put capacity per day, has created 102 new jobs, and has helped stabilize the local economy.

Lake State Railway Company (LSRC) overcame the potential shutdown of several customer facilities in 2020 and pivoted attention to its transload business, bringing in nine new customers and growing carload volume in the last two quarters of 2020. One of the projects was the restoration of an auto-loading facility in Flint, Mich., constructing a 44-car spot facility at a former Buick loading site and rehabilitating two miles of an out-of-service former mainline, eliminating the need to move finished vehicles on the highway. The project brought approximately 20 new jobs to the area, not including jobs added by LSRC's subcontractors, and

invested several million dollars in the area surrounding the facility, helping to build back an area of town which had been vacated for decades.

For large parts of rural and small-town America, short line and regional railroads are the only direct connection to the national rail network. In my personal experience as a short line railroad operator with Gulf & Ohio Railways, there are many ways that we work with customers to capture long-term viability for moving products to market in a price-competitive manner.

The Yadkin Valley RR (YVRR) is located in Western North Carolina, where flat land is certainly at a premium. The YVRR has three feed mills it serves, all of which were built on the available or relatively easily adaptable flat land in the area. As unit trains of grain increased in length, eventually a point was reached wherein none of the three mills could handle a unit train of grain individually. Losing the economic benefits of unit train shipments would have put all three of the feed mills at a significant pricing disadvantage, due to increased shipping costs with an alternate method.

Led by YVRR, the three mills, the Class I that serves the YVRR, and the YVRR, a deal was constructed wherein the YVRR would manage the car supply and provide the service needed for the three feed mills to effectively share unit trains and maintain the value of that pricing. This arrangement has been working well for at least 8 years and has ensured that the grain produced in the heartland can reach the U.S. economy and beyond at a competitive price.

The Lancaster & Chester RR (LC) has a coiled steel customer who is located within 200 miles of their supplier. This makes this move very truck competitive. When G&O purchased LC, that customer did not have a trackmobile (a device that can run on pavement or rails to safely move railcars) and the employees, making the best use of what was available to them, were in the habit of moving the cars as necessary with the overhead crane. That practice was

eventually forbidden by upper management, and the plan was to ship by truck. The LC and the customer were able to make arrangements wherein the customer would purchase the \$500,000 trackmobile and the LC would provide a per-car rebate until the customer was reimbursed for the purchase. This significantly narrowed or eliminated the profit margin on this traffic in the short term but resulted in the securement of a long -term arrangement satisfactory to both parties that preserved a significant rail movement.

I could spend literally all day sharing these types of examples across the Nation's 600 short line railroads. Our shippers have also weighed in. As part of its written testimony today, ASLRRRA has submitted verified statement from several short line customers.

They, too, understand the criticality of short line service to their success.

Doug Flint, Facility Manager of the Sturgis, Michigan facility of Atlantic Packaging Corporation shared his perspective on the short line serving his plant – Michigan Southern Railroad. “Michigan Southern works with us every day to ensure great service to us and to resolve any problems that may arise. In fact, I look at them as an extension of my workforce.” Flint supports the ASLRRRA position on reciprocal switching, stating, “We urge the Board to consider the interests of small railroads in this proceeding and, at the least, exclude short line railroads from the proposed rule to assure that the critical role played by small railroads like Michigan Southern in the transportation system is not harmed.”

Brian Clelland, the Corporate Purchasing and Logistics Manager for Washington Penn Plastic Company, Inc., (“Washington Penn”) has the responsibility of arranging for the transportation of the commodities we ship and receive at their plant in Frankfort, Kentucky. They are served by R.J. Corman's Central Kentucky line. He shared, “Washington Penn now uses the rail services provided by Central Kentucky because those services are reliable, efficient, and

competitive. Imposition of the proposed rule could endanger the viability of short lines like Central Kentucky.”

These sentiments of concern about the impact of this proposed rule are shared by thousands of small and large customers served by short line railroads.

In my humble opinion, forced switching will not serve the public good. As illustrated by the testimony provided by Mr. Baker and Mr. Clarke, it will drive congestion of the delicately balanced freight rail network, create additional complexity, reduce the incentive to invest, and increase costs for everyone involved. The industry can address customer service issues successfully through other available avenues – both purely private solutions and through existing STB mechanisms.

While a forced switch may provide some near-term relief in economics for specific aggrieved customers, I cannot see how that value will provide more benefits than the costs of increased complexity and reduced efficiency in the overall network.

If the Board moves forward with this rulemaking, I hope I have shown today that applying forced reciprocal switching arrangements in any way to short lines, a segment of the industry that is a) already subject to unrelenting competitive forces, b) demonstrably focused on above-and-beyond customer service, and c) at significant financial risk if a customer is lost in the forced switch due to the simple economics of our operations, would have significant negative consequences. Moreover, subjecting short lines to forced reciprocal switching would have unintended and significant impacts to the communities we serve, and to the other shippers on our lines that require our efficient, safe, and environmentally friendly service to access markets domestically and abroad.

If a forced reciprocal switching rule is adopted, I urge the Board to accept the clarifying text changes submitted by ASLRRA, making the rule applicable only in such instances where a customer is serviced directly, physically, and exclusively by Class I railroads.

I thank you for your consideration this morning.