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June 26, 2014

Cynthia T. Brown
Chief of the Section of Administration, Office of Proceedings
Surface Transportation Board
395 E. Street, SW
Washington, D.C. 20423

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ENTERED
Office of Proceedings
June 26, 2014
Part of
Public Record

**Re: STB Ex Parte No. 665 (Sub-No. 1)—Rail Transportation of Grain, Rate
Regulation Review**

Dear Ms. Brown:

Enclosed for filing in the above referenced matter are the Comments of CSX
Transportation, Inc.

CSXT is e-filing these comments. Thank you for your assistance, and please do not
hesitate to contact me if you have any questions regarding this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven C. Armbrust", written in a cursive style.

Steven C. Armbrust

Enclosure

BEFORE THE
SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 665 (Sub-No. 1)

RAIL TRANSPORTATION OF GRAIN, RATE REGULATION REVIEW

COMMENTS OF CSX TRANSPORTATION, INC.

JUNE 26, 2014

CSX Transportation, Inc. (CSXT) welcomes the opportunity to submit these comments to the Surface Transportation Board in response to the Board's invitation of December 12, 2013. As the Board is aware, CSXT submitted comments on October 30, 2006, in connection with the Board's related proceeding, Rail Transportation of Grain, Docket No. EP 665. Therefore, the following comments are intended to be a restatement of CSXT's earlier comments, updated to reflect CSXT's experience in the grain market over the past several years.

Overview

Grain transportation is an important, although comparatively modest, market for CSXT. Over the past two years, CSXT has handled approximately 155,000 carloads of grain (corn, soybeans, and wheat) per year, which constitutes approximately 40% of CSXT's Agricultural Products market. In 2013, transportation of Agricultural Products, including grains, accounted for approximately \$1 billion in CSXT revenue, or about eight per cent of CSXT's total line haul revenue.

At its core, CSXT's grain business can be thought of as a giant conveyer belt, integral to the poultry and pork production industry in the eastern half of the United States. CSXT moves soybeans from grain-producing Midwestern states (primarily Ohio, Indiana, Illinois, and Michigan) to processors in the Southeast. These mega-processors convert the soybeans into soybean meal and soybean oil. The processed soy meal then moves almost exclusively by truck, to poultry or pork producers.

CSXT also moves corn from the same general Midwestern region to large poultry and pork producers for their own feed mills, where the animal feeds are prepared. These producers mix their own specialized feeds as part of their

unique production processes, using corn they have processed and soybean meal, along with other specialized ingredients.¹

This animal feed market, which CSXT has served for decades, results in a relatively predictable movement pattern, with far less seasonal surge than seen in other parts of the country for other grains. Approximately two-thirds of all grain movements on CSXT fit into this business model.

Other movements of export grain and grain products, interline wheat movements to flour mills, and a few consumer grain movements make up the balance of CSXT's grain traffic base.

The Southeastern Animal Feed Market

Poultry and hog production is dominated by several name-brand producers, like Tyson, Perdue, Pilgrim's Pride, Smithfield, and other household names. Each has developed considerable brand-name recognition and consumer loyalty by providing high quality consistent products to its customers. Part of the consistency – and a means of distinguishing its products – is each producer's unique feed formula. Corn and soybean meal are the two main ingredients, but each producer purchases those and mixes its own feed formula with other additives. For this reason, each producer buys the main ingredients separately.

Three mega-processing plants – ADM in Valdosta, GA; Bunge in Decatur, AL; and Cargill in Fayetteville, NC – dominate soybean milling in CSXT's Southeastern markets. Each of these three facilities can receive soybeans via both CSXT and Norfolk Southern. (Bunge also receives barge shipments.) They produce two main products: soybean meal for animal feed, and soybean oil mostly for human consumption. These three facilities supply a large portion of the soybean meal used by CSXT-served Southeastern animal producers.

CSXT moves unit trains of corn from Midwestern elevators to feed mills owned by poultry and hog producers in the Southeast. Although many of them are local on CSXT, these movements are highly competitive. While CSXT attempts to obtain the most favorable pricing it can, these are large, sophisticated companies with multiple feed mill options from which to source their feed, many of which are served by our competition. Our customers are able to shift production from one plant to another. Indeed, several of them have overseas facilities where production could be shifted if the economics favored such a move.

¹ Some soybean meal moves by rail to the Southeast from Midwestern processors.

During most parts of the year, our customers have the ability to purchase local corn for truck delivery, providing additional competition to CSXT's rail service. The Alabama River system offers a low cost route for corn from the Midwest to the Southeast, with truck delivery. There are also import opportunities through Wilmington, NC; Mobile, AL; and Norfolk, VA to move both corn and soybeans through port facilities for trucking into interior customers. There are many opportunities for these sophisticated traders and transportation managers to find savings and opportunities in the marketplace. Receivers of corn, and producers of soybean meal have storage capacity at their plants enabling them to take advantage of attractive prices, particularly at harvest time. When prices fall, customers can purchase and store several weeks and, in some instances, months of their production requirements. CSXT is fully aware that it must remain competitive, with prudent pricing and satisfactory service, if it is to grow this market for the future.

The 2012 corn harvest produced 10.7 billion bushels. This crop was the sixth largest in history, but nonetheless fell far short of demand. Grain volume by rail decreased due to reduced shipments of corn for feed mills and for ethanol production. Rail shipments for animal feed declined as drought conditions in the Midwest impacted harvest levels and drove corn prices to double their historical levels. Consequently, customers in the Southeast transitioned from rail-transported Midwestern grains to lower cost import grains and the robust local crops, both of which are transported by truck. Despite the inevitable loss of volume to trucks, and the network inefficiencies and increased costs likely to follow, CSXT worked with its customers to meet their needs by reducing rates to allow them to take advantage of this import opportunity.

In contrast, the 2013 corn harvest was a bumper crop. Over 13.9 billion bushels of corn were produced. Feed grain shipments were impacted by low supplier inventories caused by the previous year's drought and increased competition from imports. At the same time, surplus corn in the East remained after the demand for ethanol and feed was fulfilled, creating opportunities for CSXT to export corn for the first time in many years. In anticipation of the strong 2013 harvest, CSXT leased 500 additional covered hopper cars, and re-invigorated our incentives. In addition to our domestic market, CSXT provided increased rail transportation capacity for export soy beans and soy bean meal through the ports of Norfolk, VA; Brunswick, GA; and Mobile, AL, primarily to satisfy growing demand for protein worldwide. Ultimately, CSXT handled 40% more grain, by volume, than the previous year.

Because consumer demand for our customers' products is relatively steady, CSXT's corn movement patterns tend to be balanced throughout the year. Feed mills will maintain about a week to ten days of inventory, and have the ability to truck from nearby locations to even out fluctuations in deliveries or to take advantage of attractive prices from time to time. Still, our customers' consumption is relatively constant throughout the year, with occasional shifts to

locally-produced corn, facilitating equipment planning and softening the effects of seasonal commodity pricing with the fall harvest.

Most of CSXT's commercial arrangements in this market are in the form of transportation contracts with negotiated rates with the end receivers. Demurrage responsibilities at origin aside, CSXT's commercial arrangements are with the receivers of grain, not the elevators or trading companies from which the grain is purchased. Overwhelmingly, our commercial arrangements are with large, sophisticated corporations.

Operations and Car Supply

CSXT owns or leases a fleet of about 8,000 jumbo covered hopper cars (4600 cu. ft. or more) suitable for grain transportation. To maintain this fleet, CSXT has invested over \$200 million to purchase over 2,300 cars since 2008. In addition, CSXT's fleet of system cars is supplemented with approximately 3,500 customer-supplied ("private") cars.

Customers that provide their own freight cars enjoy a number of commercial advantages. First, they have assurances of car supply throughout the year, particularly at harvest time when demand is highest. Second, they have the ability to use that capacity from time to time for storage or other commercial advantage. Finally, they negotiate discounted rail rates from CSXT in consideration of the value that they add by bringing needed car capacity on-line.

CSXT manages its grain operations with a "Grain Desk" at its Dufford Operations Center in Jacksonville, FL. There, a team of operations managers monitor the movement of an average of 78 grain trains, and as many as 92 grain trains, every day. CSXT provides "24 X 7" coverage of Grain Desk issues, often with three managers present simultaneously, and one always "on call." Decisions about priorities, conflicts, routings and the many other operational issues that arise across CSXT's 21,000 mile network are made constantly. Ready access to the senior operating official in charge ensures that our customers' grain transportation needs are closely coordinated within the Operations Center.

Although the frequency of trains has not changed much in the past decade, both the car capacity and cars per train average have increased significantly (i.e., 65 to 90 car trains). In order to accommodate the increased size, capacity, and weight, of these cars, CSXT has also invested in its track infrastructure. For example, CSXT invested approximately \$1.5 million on the Rose Hill Bridge on the W&W subdivision expressly to accommodate grain movements. In addition, in Decatur, IL, CSXT spent over \$11 million to improve

16 bridges and replace over 90,000 railroad ties on the Decatur subdivision to handle grain.

While CSXT made plans to improve its infrastructure, CSXT also looked for meaningful ways the customer could participate and improve its own economics. As the Board is aware, in 2004, CSXT began to implement the concept of Total Service Integration (TSI). The team responsible for TSI's implementation worked closely with the agricultural shipping community to address a grain market where demand increased at a record pace (with the most significant increase in ethanol production), ultimately outstripping the domestic supply of grain.

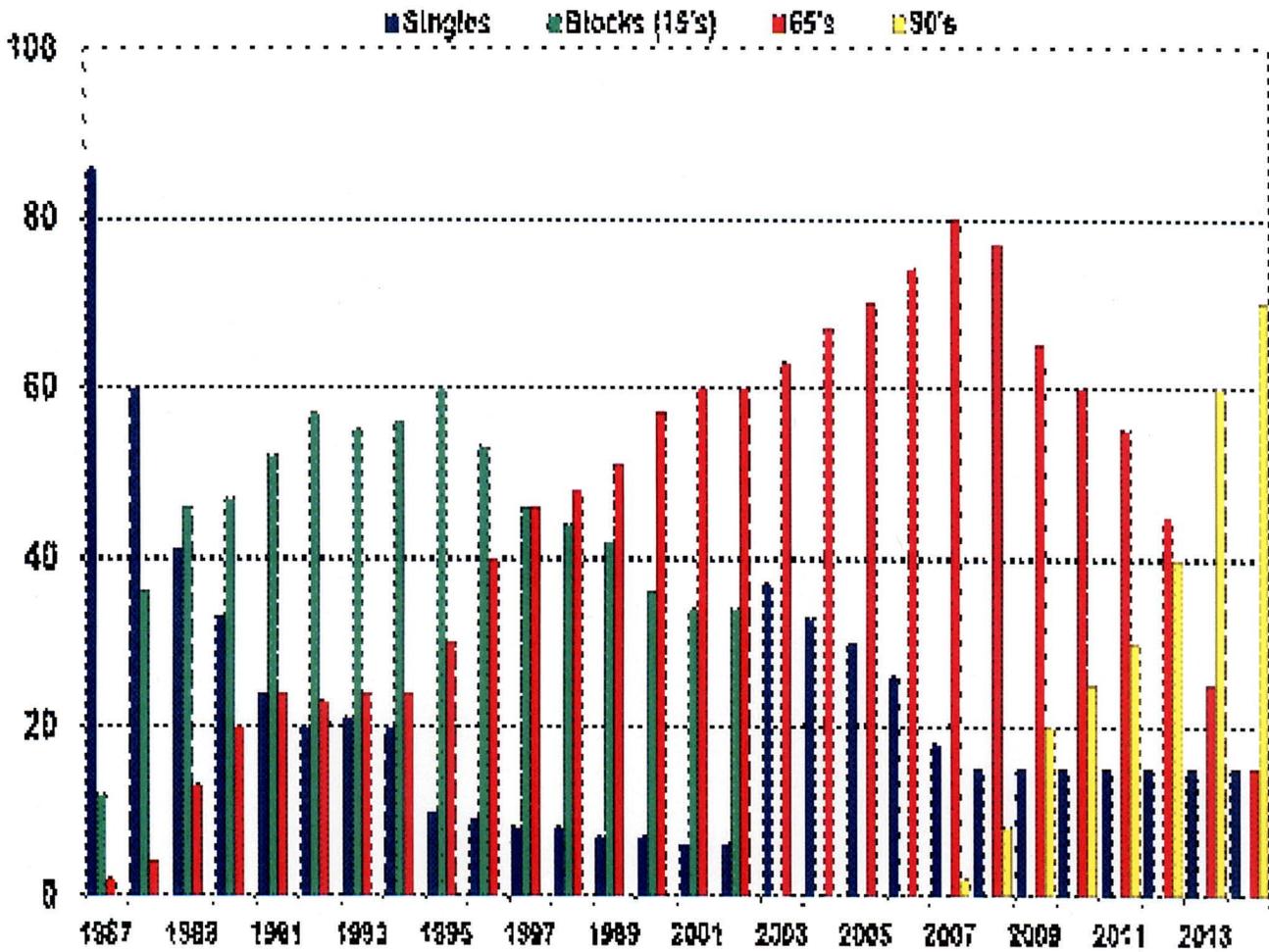
As acres of corn planted increased while crop yields increased as well, supply would naturally increase. However, given the pace of demand, corn prices continued to soar higher than historical levels. Consequently, feed facilities were expanded to handle more grain and export facilities were upgraded in a system-wide effort to meet the increasing global demand.

In the face of this historical shift in the global supply and demand for grain, CSXT assets have been more productive. For example, the latest fleet of locomotives provided greater tonnage pulling capacity; expanded 51-5300 cubic foot cars increased grain per car carrying capacity by 10%; and CSXT's track improvements and expansions supported longer train lengths.

As the market for grain adjusted to the new demand structure for corn, the TSI concept incorporated all of these factors to develop an "optimal," CSXT-served, origin and destination feed grain infrastructure within the CSXT network. CSXT and its customers invested in their existing grain facilities to improve their load times with industrial track infrastructure to handle 90 car unit trains consisting of the larger 51-5300 cubic foot cars. As incentive to meet the capacity and infrastructure requirements of TSI, CSXT offered rates for 90 car unit trains equal to approximately 18% off the rates (per ton) for 65 car unit trains. In addition, facilities with fast loading/unloading capabilities could receive an additional 3% savings. The positive reception of the TSI concept is reflected in the graph below, including the transition to 90 car unit trains, highlighted in yellow.

[GRAPH FOLLOWS ON NEXT PAGE]

% of Total Grain



The shift to 90 car unit trains, reflected in this graph, reflects a dynamic and cooperative transition which, together with increased car capacity and increased cycle times from more efficient facilities, facilitated the industry's ability to capitalize on the last several years' surge in supply and demand while allowing CSXT to realize its own productivity objectives.

The agriculture shipping community's advice and consultation was integral to the success of the TSI concept, and it remains integral to our agriculture

business model. For example, agriculture shippers are represented prominently on our Customer Advisory Council (CAC). The CAC is a group of shippers who meet with CSXT senior executives to share ideas, voice concerns and offer insights as to the future of transportation.

Building on the success of the TSI concept, CSXT launched the Service Excellence initiative, which is building a culture that engages all employees and focuses on the value delivered to customers through improved service. The initiative increases employee communication and dialogue to help identify and resolve customer issues at the lowest level, improving the customer experience and allowing CSXT to grow the business. This process involves engagement from all operating employees, as well as collaboration with sales and marketing employees and, ultimately, with CSXT's customers. Higher levels of customer service and satisfaction support CSXT's ability to profitably grow the business in a responsible manner by, among other things, increasing customer retention.

Outlook

CSXT's success in the Grain Market will always be tied directly to our customers' success. The Midwestern farmers' crops will drive the supply of grains available to both CSXT rail-served buyers and the many truck-served buyers who compete to buy that crop each year. The poultry and pork producers of the Southeast and the Soybean processors who serve them must succeed if CSXT is to succeed.

CSXT's core feed grain business continues to grow and become more efficient. Four new grain elevators have opened with access to CSXT directly, or through our short line partners. Now, 52% of CSXT's unit train facilities (and 70% of CSXT's unit train movements, overall) are capable of accepting our most efficient 90 car product. In addition, 44 facilities have joined CSXT's Express Load program, which provides economic incentives for loading/unloading in 15 hours or less. The benefits from this investment and growth were demonstrated during the harvest of 2013, as CSXT train utilization improved over 19%, with 16,000 more customer car loadings handled, all at a time when the crop size was 30% larger than the prior season.

CSXT is committed to meeting our customer's needs through collaborative initiatives to handle existing grain business efficiently (regardless of severe crop fluctuations) and is ready, willing, and able to prepare our Eastern grain network for future growth.