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**Paul R. Hitchcock**  
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Admitted in OH - FL Authorized House Counsel

July 26, 2016

Via Electronic Filing  
Ms. Cynthia Brown  
Chief, Section of Administration  
Office of Proceedings  
Surface Transportation Board  
395 E Street, S.W., Room 1034  
Washington, D.C. 20423

**RE: Docket No. EP-704 (Sub-No. 1)**  
**Review of Commodity, Boxcar, and TOFC/COFC Exemptions**

Dear Ms. Brown:

Enclosed for filing in the above referenced docket are CSX Transportation's comments to the Board's Review of Commodity, Boxcar, and TOFC/COFC Exemptions. Please note the filing includes:

- 1) An electronic copy of the Highly Confidential version of CSXT's Comments. Double braces (e.g., "{{ }}") signify material designated Highly Confidential pursuant to the pending request before the Board for a Protective Order ("Protective Order"). These materials should not be placed in the Board's public docket or on its website.
- 2) An electronic copy of the Public version of CSXT's Comments. Material that is designated Highly Confidential pursuant to the Protective Order is redacted from the Public version. These materials may be placed in the Board's public docket and posted on its website.

Thank you for your assistance in this matter. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Paul R. Hitchcock". The signature is written in a cursive, flowing style.

Paul R. Hitchcock

BEFORE THE  
SURFACE TRANSPORTATION BOARD.

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Ex Parte No. 704 (Sub-No. 1)

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REVIEW OF COMMODITY, BOXCAR AND TOFC/COFC EXEMPTIONS

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**COMMENTS OF  
CSX TRANSPORTATION, INC.**

Paul R. Hitchcock  
Steven C. Armbrust  
John P. Patelli  
David Prohofskey

CSX Transportation, Inc.  
500 Water Street J-150  
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904-359-1192  
Counsel to CSX Transportation, Inc.

Dated: July 26, 2016

*Filing Contains Color Images*

**CSXT Comments**

CSX Transportation, Inc. joins the comments of the Association of American Railroads, but offers these separate comments in the hope that they will help the Board better appreciate the intensely competitive nature of the transportation markets for the commodities under consideration from the perspective of marketing officers who compete in these markets every day.

The Board's NPR relies almost exclusively on R/VC ratios and waybill data analysis. While economic analysis and modelling can often provide a great deal of insight, when asking the statutory question: Is there a need for regulation "to protect shippers from the abuse of market power", there is no substitute for understanding the market.

Much of our comments and testimony focus on direct head-to-head competition, but they also address indirect competition, or what the Board often refers to as "product/geographic" competition. While the Board has elected not to consider that aspect of competitive markets in making market dominance decisions in maximum rate cases, the agency has always acknowledged that these kinds of marketplace factors play a very significant role in the real world. Accordingly, they must also be considered when making a determination whether to revoke an exemption, particularly in light of the Congressional mandate that the Board "shall" exempt when the statutory conditions are present.

CSXT offers the Board verified statements from three marketing officers who make competitive decisions every day. These insights supplement and complement the analysis of the prominent economists offered by AAR.

**Crushed Stone and Hydraulic Cement**

As an initial matter, it is important to recognize that, overwhelmingly, these products are not delivered directly to the end user by rail. They must move through some point of distribution where they are transferred onto truck for final delivery. Thus, crushed stone for highway or other construction projects will typically be mixed with sand and cement to make concrete and delivered to the project site by mixer trucks. Crushed stone for stand-alone use, such as for driveways or for drainage control will be delivered by truck as well. If cement is to be prepared for re-sale in small lots, it will be bagged at a processing facility and delivered to retailers in trucks.

As a consequence, an end user will generally have multiple options available for purchasing crushed stone and cement. This makes the markets for crushed stone and cement highly competitive. In turn, CSXT must ensure that its transportation prices do not put its customers, who are intermediate receivers of these products, at a competitive disadvantage. Indeed, any effort by CSXT to assess above-market prices will cause its customers to lose business—and CSXT will lose business as well. This is the very essence of a competitive marketplace.

As noted by CSXT witness, Louis Muldrow, Director of Marketing—Minerals, most northern aggregate consuming markets have access to local quarries within ready truck distance. To expand its presence in these markets, CSXT has designed services to move aggregate ever-longer distances to distribution centers within those consuming markets. This initiative has enabled quarries located on CSXT, but too far from a particular consuming market for trucking, to compete with local quarries.

## PUBLIC VERSION

The southern aggregate market is different, and lacks easy access to local quarries for crushed stone and thus, unlike the other regions that CSXT serves, must source its aggregate from remote areas or from out of state. This will often mean long-haul rail moves from more remote quarries, but often means competition from imported crushed stone via vessel from northern states, the Bahamas, or South America. And, again, the product is delivered from distribution points by truck so that imported rock competes against rock delivered by CSXT or by Norfolk Southern (sometimes in a joint move with a short-line partner).

Higher R/VCs are to be expected as length of haul increases, and that is precisely what has been happening at CSXT. By seeking out new opportunities to make more distant quarries located on CSXT competitive with local quarries delivering by truck, CSXT has developed highly efficient volume movements that have driven R/VC ratios upward. This is not a sign of increasing market power. It is a sign of active competition and efficiency.

The story is similar in the hydraulic cement market. Consolidation in the industry has led to the closing of many cement plants, and as a consequence, rail length of haul has tended to increase. Many cement plants are dually served, but far more importantly, most consuming markets are served by multiple rail and/or water carriers. Imports are also making inroads in the cement marketplace, putting further pressure on CSXT's customers. CSXT customers have opened new distribution facilities served solely by CSXT. They have done so knowing well that the realities of the marketplace are more than sufficient to ensure that CSXT rail pricing will be market based.

Citing R/VC ratios or calling solely served competitive facilities "captive" is no evidence of market power. To the contrary, as Mr. Muldrow describes, longer hauls imply higher R/VC

numbers and decisions by customers to invest in facilities on CSXT demonstrates confidence in the competitiveness of the transportation markets.

**Coke**

The receivers of Coke are major steel producers, among the largest industrial companies in the US economy. They purchase and transport far more than just coke. They use many other raw materials and produce a wide range of finished and semi-finished products. This means that each of them brings to the negotiating table a large book of business with many transportation options for each. These customers often bundle their transportation "buy" into packages to increase further their negotiating position with CSXT.

Coke is one of the most competitive transportation markets. Most of the coke receiving locations are major steel mills that are served by more than one railroad. Five of the 16 receivers have nearby or in-house coke ovens that are heavily relied upon to meet demand. Others have direct barge service. All 16 coke consuming locations have rail access, at least 56 percent can be considered highly truck competitive, and 33 percent have docks at their plants. None lacks a fiercely competitive option to CSXT rail service.

CSXT's Assistant Vice President of Export & Pier Operations in the Coal Service Group, Russ Epting, recounts a number of recent examples of customers shifting their business from and to CSXT in the course of competitive business negotiations. These kinds of large business shifts do not occur in markets where suppliers have substantial market power.

One of the rationales offered by the Board for considering revocation of its longstanding exemption is that the average length of haul has increased by 39 miles. As Mr. Epting points out, that is a minimal increase in length of haul. "I can't recall a time where someone beat us out of a bid, or where we lost a bid, on the basis of a 39 mile difference. It's just not material." More to

the point, it says nothing about the average length of truck movement. As noted by Mr. Muldrow in discussing the aggregate markets, length of rail haul is equally indicative of rail becoming more competitive with truck over time (or perhaps more so).

The change in traffic over the jurisdictional threshold says nothing about the relative market power of railroads. Indeed, absent a finding that motor carrier and barge market shares have changed, increasing rail prices (if, indeed, the statistics cited by the Board actually indicate increasing prices—and overall they may not) is equally consistent with a tightening transportation market in which no single mode or single carrier has gained any market power.

### **Iron or Steel Scrap**

CSXT Assistant Vice President—Industrial Products, Michael Rutherford, describes the intensely competitive scrap iron/steel market. This product is a commodity, and the steel companies that purchase it compete in an intense, world-wide market themselves. They are sophisticated buyers who weigh the delivered cost of scrap carefully in their purchasing decisions. With over 200 significant scrap producers to choose from, and the ability to truck product from many producers, rail prices must be competitive to win and maintain any market share.

Most steel facilities have service from two railroads, and are well positioned to play them off against one another. The fact that two serving railroads may each solely serve a number of different scrap dealers gives neither any substantial market power. CSXT must price to keep its solely-served scrap producers competitive or CSXT will be out of the scrap transportation business.

As a direct consequence, the economics of scrap transportation do not currently support capital investment in CSXT's rapidly aging fleet of gondolas. Mr. Rutherford sets out a table of

financial metrics based on CSXT, not URCS, measures. {{

}} CSXT

has developed a strategy whereby it could sustain a fleet of gondola cars for this service, but that strategy is contingent on securing contract rates in the future at levels that can support the necessary actions. Only the give and take of our negotiations with our customers will determine whether that strategy can be made economically viable. If not, the fleet will eventually shrink and customers will have to consider investing in their own gondola fleets or shifting more heavily to truck delivery.

**Primary Iron or Steel Products**

Mr. Rutherford offers a unique perspective into the highly competitive transportation market for these products. He recounts how trucking has become an increasingly effective competitive force as excess truck capacity has led to motor carriers seeking even longer haul movements. Nearly 85% of the steel mills in our service territory are jointly served through dual rail access, trackage rights agreements, haulage agreements, or reciprocal switching. Water transportation, both on the river system and to ocean ports has become more significant as so much steel is now sourced overseas.

He describes how bi-modal movements are a significant competitive factor, as rail-truck or water-truck moves are readily arranged. Oversupply of steel world-wide has led to changes in how our customers do business. As it affects CSXT, our customers are now reaching beyond their traditional markets and using longer rail hauls to sell their excess capacity to buyers they would not traditionally have sought out. If CSXT is to be a participant in these opportunities, it must offer a competitive service at a competitive price.

CSXT urges the Board to consider how any decision to re-regulate these products will affect the already difficult capital investment decisions that need to be made as the railroad-owned fleet further ages. Sending a signal that the already-low returns on investment in freight cars for steel products will be artificially constrained by regulatory intervention will inevitably raise uncertainty (and therefore risk) of investment and tend to redirect scarce capital dollars to other uses.

**Conclusion**

R/VC ratios are a very poor indicator of market power.

Length of haul is as much an indication of increasing competition as it is a measure of increasing market power.

Sole-served facilities such as cement and aggregate distribution centers are no more subject to railroad market power than the market power of the facility itself. If a distribution facility is to be competitive in its markets, the serving railroad must be competitive as well.

The term “potentially captive” traffic and “captive shipper” are all too often used in advocacy before the Board. Yet, the term “captive” has proven to be of nearly infinite flexibility. It certainly has no definition. It can mean just about whatever the user wants it to mean, while carrying the connotation of monopoly power. When some shipper advocates use the term, closer inquiry frequently reveals that they mean nothing more than “served by only one railroad,” without any consideration of actual competition. When the Board speaks loosely of “potentially captive traffic” a thoughtful reading indicates that it means nothing more than traffic above the Congressionally established (and arbitrary) jurisdictional threshold. Respectfully, the quantitative jurisdictional threshold says nothing about economic power in any marketplace. A far more accurate term would clearly be “jurisdictional traffic”—or even “potentially jurisdictional

**PUBLIC VERSION**

traffic,” if one considers that traffic over 1.80 R/VC is not subject to Board jurisdiction unless there is an actual finding of an absence of effective competition.

As demonstrated by the marketing officers who must compete every day in their respective markets, transportation services for the commodities under review are highly competitive. When one looks at the actual workings of the marketplace rather than a few statistics, it is clear that these commodities should remain exempt from regulation.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Paul R. Hitchcock". The signature is written in a cursive style with a large initial "P" and "H".

Paul R. Hitchcock  
Steven C. Armbrust  
John P. Patelli  
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**VERIFIED STATEMENT OF LOUIS MULDROW**

**TO**

**CSXT COMMENTS**

*Ex Parte No. 704 (Sub-No. 1)*

*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

## **VERIFIED STATEMENT OF LOUIS MULDROW**

My name is Louis Muldrow, and I serve as Director of Marketing - Minerals for CSX Transportation, Inc. ("CSXT"). I have had this position since September 1, 2014. Immediately prior to this position, I served as Director of Sales and Marketing - Coal from November 1, 2001 to August 30, 2014. My responsibilities include the oversight and management of CSXT's pricing in the minerals market. For CSXT, the Minerals market includes both crushed stone products with STCC 14-2 (the "Stone Market"), and hydraulic cement with the STCC 32-4 (the "Cement Market").

In connection with my Verified Statement, I have reviewed the comments of the Association of American Railroads ("AAR") and CSXT in this proceeding.

CSXT shares the concerns expressed in the AAR Comments regarding the Surface Transportation Board's ("STB") disregard of the competitive realities in the Cement and Stone Markets.

CSXT's role in the Stone Market and Cement Market is more limited than the STB perceives. In the majority of cases, CSXT delivers the cement or stone to a distribution center, with final deliveries made by truck. As a middleman in a multistage transportation option, CSXT's market position is, almost by definition, subject to elimination in favor of direct truck delivery. For this reason, a distribution point served exclusively by CSXT (and truck) competes directly for sales to end users with distribution centers that may be served by truck, another railroad, or by vessel deliveries. So long as the respective final truck movements from the distribution centers to point of end use are competitive, the movements to the distribution centers must also be competitive.

The STB's general review of the Stone Market fails to distinguish among the varied competitive conditions in its component markets. The most glaring oversight is the lumping of the scrubber limestone market in with other broken stone markets. Scrubber limestone is a specialized product used by coal-fired electric utilities in flue gas desulfurization ("FGD") systems to control sulfur dioxide (SO<sub>2</sub>) emissions. The scrubber limestone must contain specific chemical properties in order to effectively remove emissions from the coal combustion process. These requirements effectively divide scrubber limestone from the remainder of the Stone Market. The Board has not described the competitive situation in the Stone Market since it has not described the distinctions between the two submarkets.

Rail transportation enables utilities to diversify their Scrubber Limestone sources for use in controlling SO<sub>2</sub> emissions of coal-fired electric generation stations, allowing them to comply with federal environmental regulations, including the Clean Air Act. Few electric generation stations are in close proximity to scrubber limestone sources. Those that are, do not have multiple local sourcing options. By expanding utility sourcing options, the overall cost of compliance is reduced. Further, scrubber limestone is a more rare, more valuable commodity, and CSXT's ability to expand the scrubber limestone competition is therefore more valuable than the service it provides in other crushed stone markets. By expanding the reach of electric utilities and expanding the supply of scrubber limestone, CSXT lowers the overall costs of environmental compliance, and benefits the public interest. This market has grown over the last twenty years.

One reason that R/VCs have risen in the crushed stone market is improved service that allows CSXT and its customer to share the value from the reduction of costs. For example, CSXT has developed a dedicated unit train operation for one customer with a 36 hour cycle time

that provides steady and reliable service that creates value for CSXT to share with its customer. The efficiencies of that operation result in a higher R/VC, even though the customer shares from CSXT's ability to increase value for both companies through a mix of better service and pricing.

For the southern crushed stone market, an important factor is that most quarries are located in remote areas, far from consumption markets. For example, Florida is a large market for crushed stone that is predominantly sourced from out of state. Given the geography of Florida, water transportation has easy access to the market, and both U.S. and imported stone arrive by water. As Martin Marietta's most recent 10-K indicates, the company moves aggregates by both rail and water to reach growing markets that do not have aggregate supplies nearby. Martin Marietta indicated that it expects that for those markets, "gross margin (excluding freight and delivery revenues) should continue to improve." Thus, Martin Marietta sees a market opportunity where demand exceeds supply and in which end-market prices are outstripping increases in transportation costs. In that situation, any Board action that would limit investment in transportation infrastructure may be very damaging to the public interest in building supply networks that would bring those markets into balance.

These markets are growing quickly as Florida construction is driven by increasing population. Despite stiff competition from the Norfolk Southern (NS)-Florida East Coast (FEC) connection and imported stone, the relatively high demand has made routes into Florida some of CSXT's most profitable general crushed stone routes. These high revenue routes are experiencing some of the highest carload growth rates as demand continues to push prices up. The high R/VCs in this market are driven by longer length of haul and rising demand, not market power.

Competition comes from rail as well. NS serves numerous quarries that sell into the Florida market, including through its connection with the FEC in Jacksonville. The NS-FEC interline service is a formidable competitor. That the market is functioning properly can be seen in the volatility in volumes in many routes. CSXT has seen swings from month to month of significant amounts of the traffic in some lanes as particular shipments are lost to other railroads, trucks, or vessels.

CSXT also continues to see strong growth for rail transportation to southern destinations as customers seek to build new rail receiving facilities to expand their reach into the consuming market. The investment our customers are making in new, sole-served rail receiving facilities demonstrates their confidence in the constraints other railroads and modes of transportation exert in the transportation market.

CSXT sees strong rail competition across the Great Lakes region, as there is usually a shortline or Norfolk Southern served unloading terminal well within the truck-served radius of aggregates terminals served by CSXT. There are also larger numbers of local production sources in these regions. Rail distribution centers bring competition into the home territories of many local stone producers, enhancing competition and serving the public interest.

Our customers are very aware of the competitive market for transportation. One large aggregates customer's annual report shows how water transportation has grown from 0% to 4% from 1994 to 2015, as water transportation has started to make inroads in aggregates transportation. While that report shows that rail has increased its share from 7% to 21% in the period, that still leaves trucking handling 75% of the customer's aggregates transportation. Competitive actions – not market power – has led to the growth of CSXT's business.

That same report shows that trucking dominates their transportation, even though it is the most costly on ton-mile basis. That report shows that vessel transportation costs \$0.005 to \$0.015 per ton-mile; rail transportation costs \$0.04 to \$0.09 per ton-mile; and trucks costs between \$0.15 to \$0.35 cents per ton-mile. These market prices do not reflect a circumstance where rail generally holds market power. Customer decisions are made on price per ton – not price per ton mile. If a truck move is 20 miles at \$0.015 per ton-mile (\$0.30 per ton), to be competitive CSXT must price its 80 mile move at \$0.00375 per ton-mile (\$0.30 per ton) or less to make its quarry competitive.

The hydraulic cement market is also highly competitive. Many of the larger cement producing plants are dually accessed, either directly or via a shortline. In addition, the volumes originating from those cement mills is predominantly handled by trucks, and rail traffic often shifts between rail providers based on competitive, head-to-head economics.

In this market, again, two or more distribution centers generally compete directly for sales to end users, forcing their transportation suppliers (rail, truck, or water) compete directly with each other. CSXT's customers are investing several million dollars to add rail capacity at their facilities. This is happening at several locations across the CSXT network.

CSXT also sees customers making large investments in rail facilities that allow rail service to compete with all-truck service. In one instance, a multi-million dollar investment by a customer allowed rail service to displace several thousand truck shipments. This displacement released those trucks to compete with rail across the country, and demonstrates rail competing head-to-head with trucking and winning business.

Cement market length of haul has grown since 2008 due to consolidation of cement producers. Plant closings and the resulting consolidation have not been inhibited by

'uncompetitive' transportation costs. A result of this consolidation has been longer lengths of haul, which results in higher R/VCs. CSXT has active routes in excess of 1200 miles, demonstrating that rail is underwriting geographical competition in the cement market, by enabling large plants to enter distant markets.

CSXT is well aware of competition from other railroads and from vessels. CSXT has lost business to vessels as well as rail competitors in recent years. CSXT has worked hard to win business from those same competitors.

In particular, CSXT finds that it has tremendous difficulty competing against trucks at distances of less than 500 miles in the cement market. CSXT is not aware of tightness in the trucking market. To the contrary, customers have expressed confidence that, with capital readily available, they can easily expand their trucking operations to replace rail service if CSXT's prices are not competitive. Customers have also expressed confidence in the ability of trucking companies to support their operations.

The cement market also faces competition from imports. CSXT has lost significant business in recent years in New England as its multinational customers shift production to low-cost overseas sources, including from Turkey.

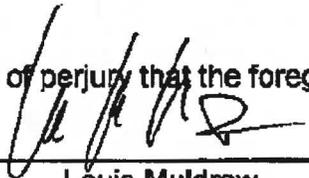
CSXT's creativity and service have allowed customers to share the value of win-win solutions. For example, In 2012, CSXT developed a unit train operation that took well over 10,000 trucks off the road by shuttling unit trains to fill a barge in order to deliver it by vessel to New York City. This allowed the customer to serve a new market that was unobtainable previously. The efficient service yielded a high R/VC for CSXT's cement line of business, while expanding competition in New York City and earning new markets for the customer. Yet even here, in 2016 CSXT could not retain the business in the face of stiff import competition.

My experience in the Stone and Cement Markets is that R/VCs rise when CSXT enhances service in ways that allow CSXT and its customer to share the incremental value jointly created by combining consolidated, efficient production with reliable transportation that can enable our customers to expand into new, and ever distant, markets.

**VERIFICATION**

I, Louis Muldrow, declare under penalty of perjury that the foregoing is true and correct.

Executed on July 25, 2016



\_\_\_\_\_  
Louis Muldrow

# **REDACTED**

**HIGHLY CONFIDENTIAL**

**VERIFIED STATEMENT OF RUSS EPTING**

**TO**

**CSXT COMMENTS**

*Ex Parte No. 704 (Sub-No. 1)*

*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

**VERIFIED STATEMENT OF RUSS EPTING**

**I. Introduction**

My name is Russ Epting and I serve as CSXT's Assistant Vice President of Export & Pier Operations in the Coal Service Group. In this role, I have responsibility for all of CSXT's Export Pier facilities and the Sales & Marketing function for Export and Industrial Coal Markets.

My prior positions at CSXT include Director of Export Coal from 2009-2014, Director of River and Industrial Coal from 2001-2009, National Account Manager for Integrated Steel Companies from 1996-2001, and Market Manager for Utility Coal from 1999-2000. I've been with CSXT for 26 years, spending time in coal, grain, and network sales & marketing roles. I received my B.S. from the Mars Hill University near Asheville, NC in 1990 and my MBA from the University of Tennessee in Knoxville, TN in 2012.

I understand the Surface Transportation Board has proposed to revoke the current exemption on coke produced from coal (STCC 29-914) with the intention of treating it as a regulated commodity. Upon reviewing the proposal, it appears the agency is taking this action as a result of two perceptions: (1) the 39-mile increase in average length of haul (372-411 miles) for coke movements over a 22-year period may indicate less short haul movements and therefore less modal competition from trucks; and (2) an increase in revenue-to-variable cost ratios (R/VCs) between 1992 and 2013 may indicate coke "is becoming increasingly captive to railroads." To address these concerns, I'd like to give you some context about coke itself, explain the current competitive landscape for the transportation of coke, and help foster a better understanding of how much we value our coke customers and the investment CSXT has made in our service product.

## **II. Coke's Production and Functionality**

Coke is created by baking a blend of metallurgical coal in a high temperature oven without contact with air to around 2000 degrees Fahrenheit for 12-36 hours. The heating process burns off the volatile matter and fuses fixed carbon and inherent ash. Upon completion of the heating process, the coke is removed, cooled with water or air, and weighs about two-thirds the weight of the original raw material. The final product is a nearly pure, non-melting, solid carbon with sizes ranging from basketballs (foundry coke) to a fine powder (coke breeze).

Since metallurgical coal is the key raw ingredient in the making of coke, the coke is commonly referred to as metallurgical coke, or “met coke.” For purposes of this Statement, any reference to coke is a reference to met coke, which is to be distinguished from petroleum coke (or “pet coke”) derived from oil refineries and used in a variety of industrial applications (e.g., production of aluminum).

Metallurgical coal (“met coal”), unique for its low ash, low sulfur content, is mined predominantly in the Central Appalachia region of the United States—the one exception is the much smaller amount of met coal mined out of Alabama with some different characteristics. In light of the concentration of met coal in Central Appalachia, nearly all met coke in the U.S. is produced at plants within convenient reach of that region, mainly in Indiana, Pennsylvania, Michigan and Ohio.

The great majority of met coke is used to produce iron and steel. When met coke is combined with limestone and iron ore in high temperature furnaces (termed “blast furnaces”), the extreme heat causes the chemical properties to bond, forming iron and steel.

### **III. The Decline of Coke Production in the United States**

While coke production reached its height in the 1950s, it has since fallen dramatically due to the decline suffered by the U.S. iron and steel industry. In general, less raw steel is needed due to a combination of greater reliance on imports of finished and semi-finished steel, the introduction of new technologies, and challenges associated with environmental regulations.

On the technology front, blast furnaces have been improved in a way that has reduced the amount of coke needed to produce a ton of pig iron. Over time, we've seen advances to the basic oxygen furnace, which enables scrap iron to replace pig iron in some processes. There is also the electric arc furnace, which produces steel from a charge consisting of 99 percent scrap iron and recycled steel and 1 percent iron pellets. The substitution of other products for steel (including plastics, aluminum, magnesium, and titanium) has also indirectly reduced the need for coke.

We've also seen the use of granulized coal injection (GCI) and pulverized coal injection (PCI) in blast furnaces to supplement and reduce the use of coke by up to 40%. PCI is pulverized coal with the consistency of face powder, while GCI is less finely ground and has a consistency similar to granulated sugar. In both cases, the coal injections are mixed with high-pressure air and blown into the blast furnace. Since the cokemaking is generally seen as the major source of pollution in the production of raw iron, the use of these coal injection technologies are viewed favorably in the effort to decrease emissions. In addition to mitigating environmental issues associated with coke production, they can reduce the need for more costly supplemental blast furnace fuels, including natural gas.

On the environmental front, we've witnessed many closings that targeted older plants as a result of the high cost of refurbishing needed to meet air pollution standards. The coke industry

is faced with the advanced age of many of their coke ovens and the rising costs of replacing them with environmentally clean ovens.

**IV. Today’s Competitive Landscape for Coke**

With respect to plants that receive coke in the U.S., there are currently 16 receivers. They all have rail access. CSXT either connects with them directly or we can reach them through a destination carrier. It’s possible there are smaller receivers in the East or the West that I’m not aware of, but these 16 should be generally representative of all receiver locations in the U.S.

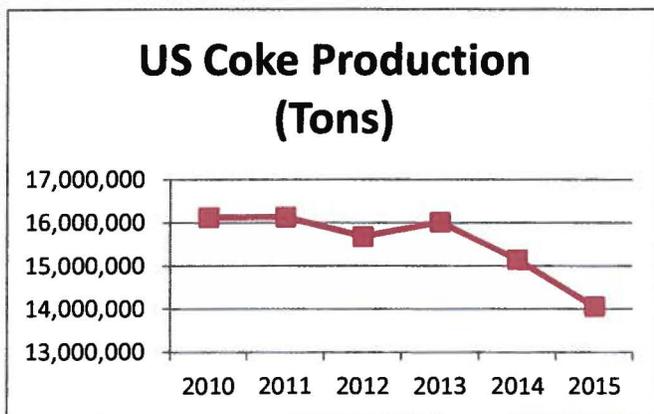
The 16 receivers are indicated on the receiver map, included here as Addendum 1. They are predominantly steel production plants, but there are also a few foundries that use the coke for varying industrial applications, such as the General Motors plant at Defiance. Each one relies on some combination of truck, barge, railroad (CSXT and other railroads) and/or next-door production to meet its coke demand.

It would be mistaken to assume, on the basis of R/VC ratios or other data extrapolations, that any of these plants are “captive” or “potentially captive” to CSXT. That couldn’t be further from the truth. The coke marketplace is highly dynamic—a marketplace where receivers have a variety of options, and where CSXT has historically gained or lost significant market share over short periods of time. To better illustrate, the following chart shows CSXT’s coke volume trend from 2010 to current:

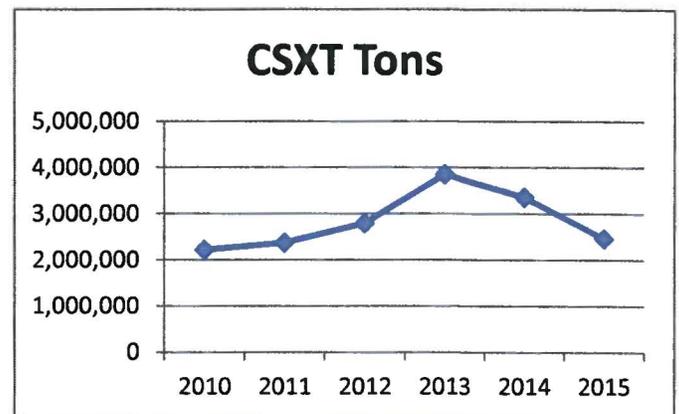
Year	Volume (carloads)
2010	34,185
2011	38,200
2012	45,164
2013	56,629
2014	48,756
2015	36,170
2016 (estimated for full year)	21,396

You'll see that we've fluctuated from a low of 34,185 in 2010 to a high of 56,629 in 2013—a sizable increase of 66%. But in 2015, we unfortunately dropped back down to effectively our 2010 level. Worse yet, we project a dramatically lower amount of coke volume for 2016. This loss is a direct result of competition and the overall declining market.

The charts below provide a comparison between U.S. coke production tonnage and coke tonnage moved on CSXT.



US Coke Production Information provided by the American Coke & Coal Chemicals Institute (ACCCI)



While CSXT tonnage is clearly influenced by overall production, competitive gains and losses have at times caused our volumes to move in contrast to the general trend, and at other times the effect of the general trend is minimized or exacerbated by competitive forces.

In the Board's proposal, I observed that the agency's study of the coke market appeared to heavily rely on waybill records, and that the study ended in 2013. In light of that, I'd like to provide the Board with a closer evaluation of some of the actual competitive dynamics, including some recent examples of the competition we've faced since 2014.

**In-House or Nearby Coke Production**

I'd like to begin by making clear that five of the 16 receivers served by CSXT have their own in-house coke producing plant and/or a nearby third party coke supplier (Sun Coke Energy),

as set forth on the receiver map. The in-house plants typically rely on conveyor systems to connect their coke plant to their steel plant—usually on the same site. In one case, however, the receiver (Bessemer) is connected to its own coke plant by relying on its own shortline to transport coke over the roughly 12 miles that separate the two plants. Similarly, Sun Coke Energy sites are within immediate proximity to a receiver, and deliveries are made by conveyor belt or via the receivers’ own rail car shuttle pulled by the receiver’s own motive power.

It’s important to understand from the outset that 31% of the receivers have their own nearby coke production facility to rely upon. Any CSXT-delivered coke to these plants is merely a supplement to their primary supply. The “make-or-buy” decision is based on competing economics, including the cost of CSXT rail delivery.

**Rail Competition**

On the receiver map, please note that all 16 have railroad access. The related spreadsheet entitled “CSXT Coke Receivers” (Addendum 2), shows that CSXT only connects directly to five of the receivers (Ashland, Defiance, Dearborn, Middletown and Etowah), only three of which are sole-served by CSXT (Ashland, Defiance and Etowah). For the remaining 11 receivers that CSXT does not serve directly, CSXT must rely on another railroad to reach them. It’s important to recognize that five of these 11 receivers have chosen to directly involve themselves in their rail transportation by owning in some fashion the shortline delivering carrier. In each case where the delivering carrier is a shortline, that shortline connects to other railroads besides CSXT.

CSXT has both lost and gained significant market share to its rail competitors in the last few years. Here are a few examples:

- CSXT moved coke from {{ }}. The business represented roughly {{ }} carloads of coke in {{ }}, representing 28% of our total volume for that year. Upon expiration of our agreement in {{ }}, the business in its entirety was lost to {{ }}.

- CSXT moved coke from {{ }}. Upon expiration of our agreement at the end of {{ }}, CSXT lost this business to {{ }}. The loss amounted to {{ }} that would have represented an increase of 7% to {{ }} volumes.
- {{ }}  
CSXT won roughly {{ }} to be moved in {{ }}, which represents 3% of the {{ }} volume.
- In {{ }}, CSXT bid on new business for {{ }} CSXT lost the bid to {{ }}, losing what would have been a 37% increase to total volume moved in {{ }}.
- {{ }} put out a bid for a projected {{ }}. CSXT lost the bid to {{ }}, which would have represented a 19% increase to total volume moved in {{ }}.

**Barge Competition**

Five of the 16 receivers (31%) indicated on the receiver map have docks at or near their plants and are capable of receiving coke by barge today:

- Ashland has its own dock on the Ohio river and has received coke by barge;
- Granite City is within a few short miles from a dock owned by a third party transloading facility (Beelman) located on the Mississippi river that has received coke by barge, then short-haul trucked to the Granite City plant;
- Gary has its own dock on Lake Michigan and has taken iron ore by barge;
- Indiana Harbor has a dock on Lake Michigan and has taken coal by barge; and
- East Chicago has a dock on Lake Michigan and has taken coal by barge.

In terms of marketplace examples, there is one particularly significant event where we recently lost out to barge competition that I'd like to highlight. {{

}} This represented a 16% loss to our

{{ }} coke volume.

{{

}}

**Truck Competition**

While trucks are always a competitive threat in light of their speed and door-to-door capability, we've taken a conservative approach and labeled only nine of the receivers with truck icons on the receiver map. Five of the nine are foundries where the coke is consumed in furnaces for melting metal and in the preparation of molds (Defiance, Zanesville, Etowah, Medley, Waupaca). They often require just-in-time service, have comparatively lower inventory capacity and will frequently ship in smaller quantities, giving trucks a particular advantage for the business. The remaining four are steel production facilities (Ashland, Cleveland, Dearborn, Bessemer) that have the benefit of exceedingly short hauls to origins ranging between 8.5-54 miles. {{

---

<sup>1</sup> {{

}}

}} In sum, it's my view that at least 56% of the receivers are highly truck competitive.

I'll also take a moment here to touch on the Board's concern with the increase in average rail length of haul (39 miles) when comparing 1992 and 2013. First, that's really a minimum amount, and I'd caution the Board from drawing any conclusions from it. I can't recall a time where someone beat us out of a bid, or where we lost a bid, on the basis of a 39-mile difference. It's just not material. Second, there are a variety of reasons as to why it could have occurred. Anything from routing changes, sourcing decisions, or certain shorter hauls by rail being displaced by in-house capabilities or the entrance of SunCoke Energy into the market (e.g., SunCoke began operations at Middletown in 2011, Indiana Harbor in 1998, and Granite City in 2009).<sup>2</sup> But none of these occurrences led to rail market power. Finally, I'll again re-emphasize that trucks are very competitive in this market, and my team works hard to compete against their distinct advantages.

**Product Competition**

As I mentioned previously, GCI and PCI are technologies that can reduce the use of coke by up to 40%. {{

---

<sup>2</sup> See SunCoke Energy's facility fact sheets for each cokemaking facility at <http://www.suncoke.com/English/our-business/facilities/default.aspx>.

<sup>3</sup> {{

}}

}}

It's also a clear indication of product competition in the market.

### **Geographic/Source Competition**

Receivers have a variety of choices on where to source their coke. To best illustrate this, I've included a map, entitled "Coke Receivers Rely on Geographic Competition" that shows the known origination options available to CSXT's top six receivers by revenue (Addendum 3) and a related spreadsheet (Addendum 4). These six combined represent approximately 85% of our 2015 coke revenue.

Each of the six is represented by a different color connecting them to varying sources. Importantly, we've only included known sources of their coke in recent memory—it's possible there are other sources they've drawn from that we're unaware of. Sometimes we're aided by our receivers' geographic sourcing, and sometimes we're hurt by it. But it holds as an undeniable marketplace fact that steel producers benefit immensely from the negotiating leverage that source shifting provides to them.

### **Competitive Landscape Summary**

With respect to the 16 coke receivers in the U.S., 31% have in-house/nearby coke production capabilities, 100% have rail access, 31% have dock-ready barge options, and at least 56% are highly truck competitive. Product competition is an ongoing threat to CSXT, and geographic competition is undeniably pervasive throughout the marketplace.

I'd like to again take this opportunity to refer back to the Board's proposal, and the assumptions of "captive" and "potentially captive" that are drawn on the basis of R/VC ratios. Respectfully, they're not fact-based and they assume a level of market power that's not present. The terminology tends to pre-judge the actual circumstances on the ground, and that's not

helpful to the larger dialogue between shippers and railroads where both sides ought to be encouraged to thoroughly understand the other's situation before any assumptions of market power are made. The coke marketplace is highly dynamic—a marketplace where shippers have a variety of transportation options, and where CSXT is working hard to win the customer's business and constantly improve its service product offering.

**V. CSXT's Investment in Coke Customers**

CSXT is committed to our coke customers, and we've heavily invested in the service product we provide to them. Since 2006, we've invested more than \$67M in our coke car fleet. We have 1400 cars in our fleet of coke cars, termed "CSXT Coke Express Cars." They are larger in size (holding 75 tons/car) than many other cars carrying coke that only hold up to 62 tons/car. The larger size allows our customers to be more efficient, utilizing less cars in total due to the higher carrying capacity per car. They also allow customers to forego investment in their own private equipment.

As I explained earlier, we have for some time been facing a declining coke market. A business case could be made to do less of the type of investment in rolling stock that we've done in the past as we consider capital expenditure decisions going forward. The prospect of additional regulation and any form of artificial rate compression to today's market-based rates would only dis-incentivize these types of investments that are good for both customers and railroads, and our country's transportation system.

I greatly appreciate the opportunity to provide these comments, and would be glad to serve as resource to answer any questions you might have.

VERIFICATION

I, Russ Epting, declare under penalty of perjury that the foregoing is true and correct.

Executed on July 26, 2016

  
\_\_\_\_\_  
Russ Epting

**ADDENDUM 1**  
**TO**  
**VERIFIED STATEMENT OF RUSS EPTING**

*Ex Parte No. 704 (Sub-No. 1)*  
*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

# U.S. COKE RECEIVERS



Receiver	In House Coke Plant	Waterway
Barge	Sun Coke Energy Supplier	Highway
Rail	CSX Rail Service	
Truck	CSX Operating Agreement	

0 150  
Miles

July 2016

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**ADDENDUM 2**  
**TO**  
**VERIFIED STATEMENT OF RUSS EPTING**

*Ex Parte No. 704 (Sub-No. 1)*  
*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

Addendum 2

U.S. COKE RECEIVERS

Coke Receivers	Destination	Destination Carrier	Known Potential Modes of Transportation			In House Coke Plant	SunCoke Energy
			Rail	Barge	Truck		
AK Steel	Ashland, KY (facility temporarily idled)	CSXT	X	X	X		
ArcelorMittal	Burns Harbor, IN	2 railroads serve - Chicago South Shore Railroad and NS	X			X	
ArcelorMittal	Cleveland, OH	Cleveland Works Railway Company - Mittal Steel USA (owned by ArcelorMittal)	X		X		
AK Steel (previously Severstal)	Dearborn, MI	3 railroads serve - CN/NS/CSXT	X		X		
General Motors	Defiance, OH	CSXT	X		X		
US Steel	Detroit, MI	Delray Connecting Railroad - Transtar (owned by US Steel)	X				
ArcelorMittal	East Chicago, IN	Indiana Harbor Belt Railroad Company	X	X			X
ArcelorMittal	Indiana Harbor, IN	South Chicago and Indiana Harbor Railway (owned by ArcelorMittal)	X	X			
Waupaca Foundry	Etowah, TN	CSXT	X		X		
US Steel	Gary, IN	Gary Railway Company - Transtar (owned by US Steel)	X	X			
AK Steel	Middletown, OH	2 railroads serve - CSXT/NS	X			X	X
US Steel	Granite City, IL (facility temporarily idled)	Terminal Railroad Association of St. Louis	X	X			X
US Foundry	Medley, FL	Florida East Coast Railway, LLC	X		X		
Waupaca Foundry	Waupaca, WI	Canadian National	X		X		
Casting Solutions	Zanesville, OH	The Columbus & Ohio River Railroad Company	X		X		
Edgar Thomson - Mon Valley Works (owned by US Steel)	Bessemer, PA	Union Railroad (owned by US Steel)	X		X	X	

**REDACTED**

**HIGHLY CONFIDENTIAL - ADDENDUM 3**

**TO**

**VERIFIED STATEMENT OF RUSS EPTING**

*Ex Parte No. 704 (Sub-No. 1)*

*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

# **REDACTED**

**HIGHLY CONFIDENTIAL - ADDENDUM 4**

**TO**

**VERIFIED STATEMENT OF RUSS EPTING**

*Ex Parte No. 704 (Sub-No. 1)*

*Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

# **REDACTED**

**HIGHLY CONFIDENTIAL**

**VERIFIED STATEMENT OF MICHAEL RUTHERFORD  
ON IRON OR STEEL SCRAP**

**TO**

**CSXT COMMENTS**

*Ex Parte No. 704 (Sub-No. 1)  
Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

**VERIFIED STATEMENT OF MICHAEL A. RUTHERFORD**

**Iron or Steel Scrap**

My name is Michael A. Rutherford, and I serve as Assistant Vice President – Industrial Products for CSX Transportation, Inc. (“CSXT”). My responsibilities include the oversight and management of CSXT’s Metals, Forest Products, Minerals, Equipment and Military Business Units. I have had this position since August 1, 2013. Immediately prior to this position, I served as Director – Market Intelligence & Strategy for CSXT from August 1, 2011 to July 31, 2013. I received my Bachelors of Science degree in International Finance and Commerce from Georgetown University, and my Masters of International Economics and Management from SDA Boccioni in Milan, Italy.

For CSXT, the metals markets include both iron and steel scrap with STCC 40-211 (the “Scrap Market”), and the primary iron and steel products markets, with the STCC 33-12 (the “Primary Steel Products Market” and, together with the Scrap Market, the “Metals Market”). In this Verified Statement, I will discuss CSXT’s Scrap Market.

**Scrap Market – Industry Description / Introduction:**

Ferrous scrap, the most recycled material on a worldwide basis, is a global commodity that is a key raw material utilized by Electrical Arc Furnaces (EAF) / Mini-Mills in the production of steel. Scrap generally comes from two sources: end of life products (“obsolete scrap” – e.g., automobiles); and, scrap generated from an industrial or manufacturing process (“prompt scrap”). Scrap consumed by the EAF process to produce steel accounts for more than 60% of the raw steel produced in the U.S., and trades on a monthly cycle based on the demand of the marketplace.

Exports are also a key attribute of the ferrous scrap market. The U.S. is the single largest global supplier of scrap, exporting nearly 13 million metric tonnes of scrap in 2015 to numerous

countries. Scrap exports can have a significant impact on the domestic marketplace by influencing the supply and demand balance and associated scrap market pricing.

Both domestic and foreign mills rely on scrap as a vital raw material in the production of steel. Like many commodities, market forces can significantly impact and alter shipping patterns.

CSXT's Scrap Market:

On a volume basis, the Scrap Market is the largest line of business among all of CSXT's Metals Market, and accounts for over {{ }} of the carloads shipped in CSXT's Metals Market. It is a mature, highly competitive and transactional marketplace with over {{ }} active customers. The customers are typically scrap processors and brokers. Although CSXT's top {{ }} scrap customers account for {{ }} of its scrap business, the large number of competitors (modal, source, geographic, etc.) keeps the market competitive, and forces CSXT to actively monitor market conditions to stay competitive.

CSXT is well positioned in the Scrap Market because about 87% of the U.S. steel production is located east of the Mississippi. CSXT and Norfolk Southern ("NS") compete hard for business in the Scrap Markets, with NS currently holding a slightly larger share of the portion of the eastern transportation market that moves by rail. Of course, the respective market shares of CSXT and NS, and the rail share of the overall transportation market, shift over time.

The scrap business is primarily regional in nature. The scrap business has an average loaded length of haul by rail of just 480 miles, reflecting the single-car nature of the business and the prevalence and viability of trucking alternatives. It is widely dispersed across the CSXT network and all moves in merchandise (or "batch") service. Key service needs revolve around availability of equipment and consistent, reliable service. {{ }} of all

CSXT moves are local to the CSXT network, as the service requirements and competitive price constraints make more costly interline movements largely uncompetitive.

A mix of railroad and private gondolas are utilized in the transportation of scrap, with private equipment accounting for up to {{ }} of the scrap movements in recent years. Pricing the transportation of scrap by CSXT is frequently done on a “per car” (vs. per ton) basis, which benefits the shipper. The majority of such movements move under contract. Only about {{ }} of the Scrap Market moves under tariffs. CSXT seeks to capitalize on the value of the service it provides. CSXT is very focused on both price and yield management in an effort to earn an appropriate return on assets. Because pricing must reflect the amount of capital sunk into the assets, CSXT frequently cannot meet the pricing of other transportation options, which have lower capital costs.

Competition is so significant that, under current conditions, the return profile on CSXT’s fleet of gondolas does not justify reinvestment. The gondola is the backbone to the steel industry and is a key asset for delivering scrap and metals growth. Over the last 10 years, the CSXT 52’ gondola fleet size has declined {{ }}, falling from {{ }} to {{ }} cars. CSXT’s 52’ gondola fleet continues to be under pressure and will require capital to replace an aging fleet as it is facing significant fallouts over the near term. CSXT has developed a gondola strategy that could provide a systematic approach to address the issues facing the fleet. The strategy includes maintaining a quality 52’ gondola fleet via purchases, repairing heavy bad orders (HBO), life extensions and leasing, employing actions to manage future capital “peaks and valleys” and implementing a transition strategy or moving toward a 65’ 286K gondola in scrap service. Unfortunately, current pricing cannot support most of the elements of this strategy. Absent the ability to reinvest, our customers will have to become increasingly reliant on

privately -owned equipment. The fact that CSXT cannot justify reinvesting in gondolas for the Scrap Market shows the weakness of CSXT's competitive position in the Scrap Market.

Competition:

Customers in the Scrap Market compete strongly with each other, and those competitive pressures are passed through to rail carriers in the Scrap Market. Each shipper (scrap processor) and receiver (steel producer) has a variety of competitive options dependent on location.

Rail and truck are considered the key competitors in this market.

CSXT's primary rail competition comes from the NS. Nearly 85% of the steel mills in our service territory are jointly served through dual rail access, trackage rights agreements, haulage agreements, or reciprocal switching.

Today, given the downturn in many industries, demand for trucking services has weakened, creating truck capacity and more aggressive truck pricing at all mileage levels. In some cases, truck also provides a competitive advantage to customers by round tripping scrap or shredder feedstock with finished steel movements, something that rail cannot provide due to equipment issues.

Ocean vessel and barge also provide competitive options given the number of steel producers located on or near the coast or river system. It has also become more of a factor with the strengthening of the dollar as steel mills look toward scrap imports to supplement their monthly buy program. These steel producers also have access to and benefit of water-borne scrap from the domestic market, especially when the export market is limited and the scrap exporters implement a domestic sell strategy. On the shipper or processor side, those with water access also have competitive options to move material export or domestic.

Given multiple competitive options by both the shippers and receivers of scrap, there is no market dominance or justification to re-regulate the commodity.

Ferrous Scrap Financial Metrics:

Based on CSXT financial profitability metrics, ferrous scrap provides thin to modest margins and currently cannot support additional capital investment in system cars, as can be seen in the chart below: {{

}}

Re-Regulation:

Re-regulation of ferrous scrap would restrict the Scrap Market's financial stability and further limit CSXT's ability to invest in equipment and infrastructure required to expeditiously move our customers' traffic today and in the future. Rail productivity enhancements and capital

**PUBLIC VERSION**

investment would suffer leading to less capacity, reduced service, and reduced ability to pass along productivity cost savings to customers in the form of lower and more competitive rates.

I, Michael A. Rutherford, declare under penalty of perjury that the foregoing is true and correct.

Executed on July 31, 2016

  
Michael A. Rutherford

# **REDACTED**

**HIGHLY CONFIDENTIAL**

**VERIFIED STATEMENT OF MICHAEL RUTHERFORD  
ON PRIMARY IRON AND STEEL PRODUCTS**

**TO**

**CSXT COMMENTS**

*Ex Parte No. 704 (Sub-No. 1)  
Review of Commodity, Boxcar, and TOFC/COFC Exemptions*

**PUBLIC VERSION**

**VERIFIED STATEMENT OF MICHAEL A. RUTHERFORD**

**Primary Iron or Steel Products**

My name is Michael A. Rutherford, and I serve as Assistant Vice President – Industrial Products for CSX Transportation, Inc. (“CSXT”). My responsibilities include the oversight and management of CSXT’s Metals, Forest Products, Minerals, Equipment and Military Business Units. I have had this position since August 1, 2013. Immediately prior to this position, I served as Director – Market Intelligence & Strategy for CSXT from August 1, 2011 to July 31, 2013. I received my Bachelors of Science degree in International Finance and Commerce from Georgetown University, and my Masters of International Economics and Management from SDA Boccioni in Milan, Italy.

For CSXT, the metals markets include both iron and steel scrap with STCC 40-211 (the “Scrap Market”), and the primary iron and steel products markets, with STCC 33-12 (the “Primary Steel Products Market” and, together with the Scrap Market, the “Metals Market”). In this Verified Statement, I will discuss CSXT’s Primary Steel Products Market.

**Primary Steel Products Market – Industry Description / Introduction:**

The 33-12 STCC group is made up of a diverse set of steel products that include Semi-Finished, Sheet, Plate, Bar, Rod, Structural, Pipe, and Track Material. These are also the basic steel products that define the key segments of the steel industry and Metals business at CSXT.

The steel marketplace is no longer just domestically oriented and driven, as it was decades ago. Today, it is an intensely competitive global marketplace that can have far reaching impacts on the U.S. steel industry.

Global steel production has grown significantly over the last 15 years driven primarily by China. China now dominates global production producing over 803 million tonnes in 2015,

followed by Japan at 105 million tonnes. The U.S. ranks fourth producing 79 million tonnes, which accounts for about 5% of the global steel produced.

The U.S. steel industry has also changed significantly due largely to improvements in steel making technology, global competition and industry consolidation. The mini-mills have become dominant producers due to their lower production costs and more efficient operations. Numerous consolidations have redefined the industry. There have been over 50 steel mergers and acquisitions in the U.S. over the last 15 years. Today the U.S. steel market is fairly concentrated, with the three largest producers accounting for about 60% of the domestic steel output.

Steel imports also play an important role in the U.S. marketplace. For the past several decades, the U.S. has imported up to 30% of its steel. Typically the U.S. consumes more steel than it produces, creating a supply gap. Imports have long played a key role in filling that gap. Today however, slowing global economic conditions, especially in China, has created a significant surplus of steel. This surplus has found its way to the U.S. in the form of excessive imports and has been a key headwind for domestic steel producers and their ability to compete. This oversupply situation put downward pressure on prices, squeezed margins, and caused numerous domestic mills to idle or cut production. In turn, U.S. producers filed trade cases and received favorable rulings in an effort to re-balance the market and level the playing field.

Overall steel industry demand is primarily driven by three key steel end-markets. The automotive and construction sectors are the two largest steel consuming industries or end-markets, accounting for 24% and 42% of the steel consumed respectively. Energy is the third key steel consuming sector and accounts for around 7% of the steel shipped. Today, the market is being driven by continued strength in automotive. The construction sector has been improving

but remains below pre-recession levels. Energy (drilling) is a challenged market that has struggled since the decline in oil prices and is not expected to rebound over the near term.

CSXT Steel Products / Metals Market:

The Metals business at CSXT is composed of ten lines of business of which five are associated with the 33-12 STCC group. These five primary LOB markets make up the bulk of the CSXT Metals business. It is a mature and highly competitive market where the shippers / producers typically pay the freight. A majority of steel shipments are sold by steel companies directly to end-use markets. The balance is distributed by service centers, converters and other processors. There are approximately {{ }} in the CSXT primary steel products space. In this space the freight payer customer base is highly concentrated with the {{ }} freight payers accounting for {{ }} of the business. Conversely, the receiver side of the CSXT primary steel products business contains approximately {{ }} customers and is highly fragmented with the {{ }} receivers accounting for {{ }} of the business.

CSXT is well positioned to compete actively in the metals market given about {{ }} of the U.S. steel production is located in CSXT territory. The Metals traffic is most heavily concentrated in the Indiana-Ohio region and along the East Coast, although many new entrants into the market have located in the South, which is consistent with the shift in population centers and transplant automotive producers. With the industry consolidations and strong global demand dynamics, traditional shipping patterns have also shifted with many shippers and receivers reaching well beyond their normal shipping limits.

With the advent of mini-mills, steel producers are now located closer to end-use markets. However, consolidations and market forces continue to impact shipping patterns. The Metals

business has an average loaded length of haul of approximately {{ }} but is also competitive on shorter haul traffic.

A majority of the Metals business moves in the batch or merchandise service network. Key service needs revolve around availability of equipment and consistent, reliable service. Unit train movements are also utilized, but are not as common, with about {{ }} of the Metals traffic moving in unit trains.

The Metals business is predominately local traffic with {{ }} of the business moving within the CSXT local network. However, with over {{ }} of CSXT's traffic originating on CSXT (local + forwarded), our Metals business is highly equipment dependent. As such, equipment is a key competitive attribute of the business. The overwhelming majority of this business moves in railroad supplied equipment. Private car usage is best described as minimal to limited. Given the variety of steel products that move by rail, a mix of equipment types are required and include coil cars, gondolas and flat cars.

Capital Investment:

Capital investment in both equipment and infrastructure will be required to develop service packages that consistently meet our steel customers' needs and expectations.

Supplying equipment is a core competency of the Metals' business given a majority of the Metals' business moves in system equipment. Yield improvement strategies are currently in place for all Metals' car types. The goal is to improve the various fleets' profitability profiles to a level that justifies re-investment, and enables the Metals' fleets to successfully compete with other CSXT needs for scarce capital. Unfortunately, {{ }} are the only equipment type that currently meets the CSXT reinvestment hurdle.

Competition:

Norfolk Southern (“NS”) and truck are the primary CSXT competitors in the metals market. But barge, and even ocean vessel, are intense transportation competitors in the market. CSXT faces extensive source competition not only from other domestic steel producers, but also from imports. Virtually any existing CSXT rail move can be supplanted by one or more alternatives:

1. A direct NS rail move from an alternative domestic supplier (where the end user is one of the many destinations in CSXT’s service territory that is jointly served in one capacity or another, as further described below).
2. A truck move from an alternative domestic supplier.
3. A NS rail-truck move via a nearby metals distribution center to the destination user.
4. An import steel move through a river or coastal port and a truck move to the destination user.

Modal decisions in the metals market are typically based on the lowest cost provider, on a delivered basis. Pricing dynamics fluctuate with market conditions and available transportation capacity.

The NS Metals franchise has a significantly larger presence in the market with its eastern rail share currently running at 67%. This advantage is due, in part, to certain of the routes allocated to NS in connection with the CSX-NS joint acquisition of control of Conrail (“CR”), which routes served a majority of the former-CR Metals portfolio.

Very few customers in this market would be considered local to one rail carrier as nearly 85% of the steel mills in our service territory are jointly served in one capacity or another (including via haulage, trackage rights or reciprocal switching).

Truck is typically limited to shorter haul traffic that is not considered to be rail-centric. Today, however, given the downturn in many industries, demand for trucking services has weakened, creating increased truck capacity and more aggressive pricing at all mileage levels. In some cases, truck also provides a competitive advantage to customers by round tripping scrap or shredder feedstock with finished steel movements; something that is not viable by rail.

Ocean vessel and barge also provide competitive options given the number of steel producers located on or near the coast or river system. Imports have also become more of a factor with the strengthening of the dollar as steel consumers look toward potential steel imports to fulfill or supplement their buy programs.

Given multiple competitive options by both the shippers and receivers of primary steel products, there is no market dominance or justification to re-regulate the Metals Market.

Primary Steel Products Financial Metrics:

Primary steel products deliver a diverse range of profitability but the pricing certainty does not reflect rail market power. In fact, except for {{ }}, none of the profitability of steel products supports reinvestment. {{

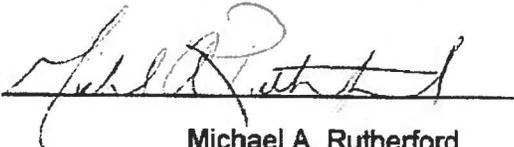
}}

Re-Regulation:

Re-regulation of the primary steel products market threatens to constrain the attractiveness of the various lines of business, and to further limit our ability to invest in equipment and infrastructure required to compete in these markets. Rail productivity enhancements and capital investment would suffer, leading inevitably to less rail capacity, and reduced rail service.

I, Michael A. Rutherford, declare under penalty of perjury that the foregoing is true and correct.

Executed on July 35, 2016



A handwritten signature in black ink, appearing to read "Michael A. Rutherford", is written over a horizontal line.

Michael A. Rutherford