October 27, 2020

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RE: Consultation on the Canadian Transportation Agency's Proposed Changes to Rate-Setting and Billing on Regulated Interswitching

Background

Forest Products Association of Canada (FPAC) is the voice of Canadian wood, pulp, paper, and bio-products producers nationally and internationally. Canada's forest products industry generates 73.6 billion dollars annually and exports over half of that to the world. The industry is one of Canada's largest employers, operating in 600 forest-dependent communities from coast to coast, and directly employing over 230,000 Canadians across the country.

Our sector ships 10% of the total tonnage transported through Canada's railways. As an exporting industry, we rely on Canada's railways to provide continuous service, often in remote locations, so we have access to the necessary capacity to move goods to our international customers. FPAC has calculated that, on average, per year, poor rail service costs forest products companies over $500 million in additional costs[1]. Given that 80 percent of our member's operations are served by only one railway, where typically, the next competing railway is hundreds of kilometres away, the ability and opportunity to use interswitching in an efficient and effective manner is crucial to everyday operations for these mills.

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[1] This includes:

- Lost production (closures)
- Alternate transportation cost (e.g. trucking)
- Additional storage
- Additional overhead cost
- Long term business impacts

In June 2019, the Canadian Transportation Agency (Agency) launched consultations on its approach to setting regulated interswitching rates. FPAC responded to these questions through two submissions, one on August 21, 2019 and the second on January 20, 2020. You can see our answers in Annex 1.

FPAC welcomes the opportunity to provide feedback on the four proposals put forward by the CTA. You will find that our feedback on these proposals is consistent with our August 2019 and January 2020 submissions.

Conclusion

FPAC welcomes the opportunity to collaborate with the Agency, and supply chain partners towards enhancing data availability on Canada's rail freight system.

Thank you for your time and consideration of these thoughts, and we look forward to working closely and engaging with the federal government.

Sincerely,

Joel Neuheimer
Vice President, International Trade, Transportation, HR, Corporate Secretary

General Comments

Regulated interswitching is intended as a competitive access remedy to provide shippers who might otherwise be captive to a single rail carrier with the opportunity to access a second carrier. This legislative intent should remain the overriding principle guiding the Agency's consideration of potential changes to the methodology it uses to set regulated interswitching rates.

Successive reviews of the *NTA, 1987* and the *CTA*, while in some cases recommending certain changes, have consistently found that the remedy is generally working well and as intended in promoting competition. *The Agency should ensure that any changes it adopts do not reduce the usability of the remedy or otherwise worsen the position of captive shippers.*

Proposal 1: One Zone and Rate

FPAC believes that having one zone rate, could be beneficial to those who use higher-cost zones, but would be hurtful to those that use a lower-cost zone.

Proposal 2: New Block Car Category

FPAC has no opinion at this time on having two block car categories. Our sector's mills ship their product on manifest trains that typically include 60 or fewer cars, rather than on unit trains.

Proposal 3: A Clear, Accurate Description of "Car"

FPAC supports the idea to include "platform" in the definition of a rail "car". Additionally, FPAC recommends the CTA clarify that the regulated interswitching rate also applies when a terminal carrier moves an empty car between a siding and an interchange without performing a corresponding opposite loaded movement.

Proposal 4: More Transparent Billing

FPAC supports having more transparent billing, and the best way to accomplish this would be through requiring railway companies to show the rate as a separate item line on the waybills.

ANNEX 1

Issue 1: Federally Regulated Short-Line Railway Companies

FPAC does not have sufficient information to comment on this issue at this time.

Issue 2: Regional and commodity-specific regulated interswitching rates

a) Should the CTA continue to determine a single rate in each zone, to maintain the simplicity and ease of administration of the interswitching remedy, or should the CTA determine multiple rates for each zone, to better match the rates to the costs of providing the service?

FPAC believes that the Agency should continue to use a single rate in each zone. This would help maintain the simplicity and ease of administering the interswitching rates. It will also help maintain predictability, which FPAC believes is an important contributing factor to the overall functioning of the remedy.

Determining different rates based on region, province, or any other geographic factor would cause more complication than needed and be unfair to regions or provinces where interswitching costs are higher.

b) Should there be different rates for different commodities? If yes, how should the commodities be broken down?

FPAC firmly believes that there should not be different rates for different commodities. This would cause too much complexity in the calculation considering the large amount of different commodities and cars that exist. There is bound to be both overlap in the traffic characteristics of different commodity groups as well as significant variation in the characteristics of shipments within the same commodity group.

Issue 3: Interswitching zones up to 30 km

FPAC does not believe that other factors should be introduced to create a broader range of rates as it will cause more confusion and unnecessary work.

FPAC believes that the Agency's current distance based interswitching zones are sufficient and there is no need to collapse all four zones into one interswitching zone.

Issue 4: Long-term investment needs of the railway companies (cost of capital methodology)

Public financial reporting by CN and CP suggests that both have been, and continue to earn, more than sufficient returns to enable them to invest in their networks. FPAC believes that the Agency's inclusion of a cost of capital and depreciation allowance appropriately informs the consideration of long-term investment needed in the railway companies. The current cost of equity model, used to determine the rate of return on investment as is, is correct.

Issue 5 – Contribution to fixed costs

FPAC believes the current methodology to account for contribution to fixed cost is appropriate. FPAC does not believe that the Ramsey Pricing Model should be used to determine the contribution to fixed costs.

Issue 6 – Productivity factors

FPAC believes the current methodology of calculating productivity factors, the Ideal Fisher methodology, is currently the best method used.

Issue 7: Volume discount rate categories

FPAC does not have sufficient information to conclude that the current block size of 60 cars is inappropriate.

Issue 8: Collecting interswitching service units

FPAC does not have sufficient information to comment on this issue.

Issue 9: Transparency of the regulated interswitching rates and methodology

FPAC believes the Agency should create guidelines in plain language that explain regulated interswitching, the regulated interswitching rates and the methodology to stakeholders and any other Canadians interested in this topic. This should also include more detailed data considered and used in arriving at the rates and the methodology for setting them.

Additionally, FPAC believes that it would be useful for shippers to have the option to receive invoices for their regulated interswitching rate directly from the carrier performing the service, or to have the rate appear as a separate charge on the waybill as this would help with transparency. However, it should be the shipper's choice whether they would want this or not.