

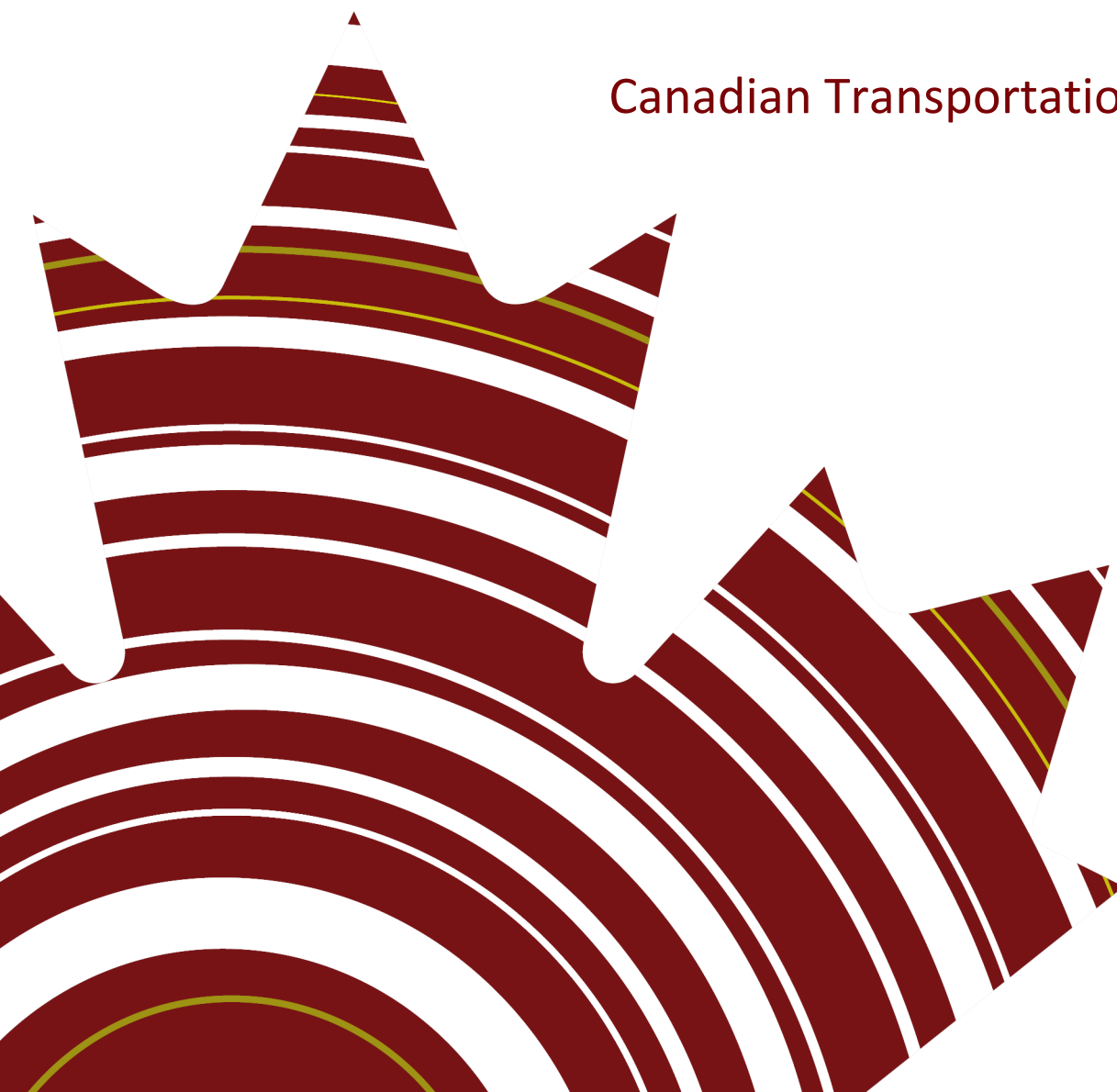


Canadian  
Transportation  
Agency

Office  
des transports  
du Canada

# Consultations on proposed changes to interswitching rate-setting and billing: What we heard report

Canadian Transportation Agency



Canada 

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# Introduction

On August 28, 2020, the Canadian Transportation Agency (CTA) launched consultations on proposed changes to the *Railway Interswitching Regulations*. Our aim in proposing changes was to keep regulated interswitching rates simple, fair, and accurate, and ensure that billing is transparent.

We opened the consultations to the public and rail industry stakeholders, including freight railway companies (railways), shippers, and their respective associations. We provided a [consultation paper](#) that explained the proposed changes, which were as follows:

- To help simplify interswitching, there would be one zone with one rate.
- To help keep rates fair for high-volume shippers, there would be one block rate for 60–99 cars, and a new, lower rate for blocks of 100 cars or more.
- To help increase accuracy, we would define “car” to clarify that for interswitching intermodal traffic, “car” includes “platform”.
- To help increase transparency, railway companies would have to show the regulated interswitching rate on the waybill.

The consultations closed on October 27, 2020. Due to the pandemic restrictions in place at the time, we did not hold any in-person meetings during the consultation period. However, over that period we received 12 written submissions and held seven teleconferences. This report summarizes what we heard in these consultations.

# Background

Interswitching is the transfer of freight between two railways. Shippers use it to access railways that do not directly serve their facilities or sidings. The railway that does provide direct service transfers the cars with the shipper's traffic to a different railway with which the shipper has made shipping arrangements.

The CTA regulates some interswitching to make sure that shippers have fair and reasonable access to service from more than one railway at a regulated rate, which is a way to increase competition in the system.

The proposals we consulted on and discuss in this report concern 30-kilometre interswitching, not the long haul interswitching that the CTA also regulates. The law allows a shipper to have its cars interswitched at a regulated rate if the origin or destination of its traffic is within a radius of 30 kilometres of an interchange or is, in the CTA's opinion, reasonably close to the interchange. "Within a radius of 30 kilometres" means within 30 kilometres of the interchange as measured in a straight line.

The CTA sets the interswitching terms and conditions, as well as zone distances within the 30-kilometre radius, through the *Railway Interswitching Regulations*. The CTA also sets the rates for each zone each year through a decision. The rates are cost-based to ensure railways are compensated appropriately for their interswitching services.

We initially raised three of the proposals with rail stakeholders in 2019: moving to one zone, adding a block car category, and clarifying billing. This was during a different consultation described in the related [discussion paper](#). Responses on one zone and block cars were mixed, while a range of stakeholders supported showing the rate on the waybill.

The 2020 consultations aimed to provide greater detail about the ideas and allow stakeholders to consider them in more depth. We added one new proposal (definition of "car") to bring further accuracy to interswitching terminology.

To read the law and regulations on interswitching, see:

- the [Canada Transportation Act](#), sections 127 and 128; and
- the [Railway Interswitching Regulations](#).

# Proposal 1: One zone with one rate

We proposed collapsing the current four interswitching zones into one 30-kilometre zone. Below are some reasons why.

At one time, the CTA used a zone-based approach to set interswitching rates that increased with distance from the interchange. The rates were lowest in Zone 1 (the closest to the interchange), then got higher with each additional zone. This reflected the view, at the time, that distance was the most important driver of interswitching costs (and therefore rates).

The CTA stopped setting rates this way in 2010 after finding that distance from the interchange was not the main driver of the railways' costs. It is only one factor, along with:

- volume (the number of cars and amount of commodity being interswitched); and
- how quickly and efficiently the railway can carry out the interswitching, which is driven by track speeds and other network features.

Now the CTA uses a weighted average of costs like these to set the rates based on real-world data from the previous year. The rates don't necessarily increase with distance now that distance is a smaller part of the calculations.

For the above reasons, we questioned whether we need four distance-based zones, each with its own rates. Having one zone and rate would make interswitching easier to use, and for most interswitching movements, rates would stay largely the same. This is because we would still set the rates using a weighted average. This would keep rates in the one zone close to the rates charged for the majority of interswitching movements in the current system.

That said, rates would drop for some shippers who have modern, high-capacity sidings, which cost the railway less to serve. Their rate would better reflect this efficiency. Right now, some of these shippers are in zones where the rate reflects the cost of serving the less efficient sidings there.

# What we heard on Proposal 1

**Shippers:** Most shippers we heard from were against the one zone proposal. They told us the current structure is easy to understand, and they raised concerns about moving to one rate. In particular, they worried that:

- rates might increase if four zones with differing rates are collapsed into one; and
- they didn't have enough information about the impact on rates to make an informed decision.

A number of shippers asked for more analysis. They would like us to show more clearly how moving to one zone might affect rates.

**Railways:** The one railway that commented on the one zone proposal also opposed it. This railway believes distance-based zones are a reliable way to organize interswitching, even if distance isn't the main driver of costs and rates.

## Next steps on Proposal 1

We have heard stakeholders' concerns about the one zone, one rate proposal and will provide further information and analysis, as they requested. We are currently identifying data we can use to analyze further the rates that would result if we moved to a one zone structure. For example, we may draw on:

- new railway GPS data that will show more clearly where shippers who use interswitching are located, which is relevant to rates. We started receiving GPS data in spring 2021; and
- updated information on the number and location of official interchanges, which affects zone boundaries and therefore rates.

Depending on the outcomes of this work, the CTA may reintroduce this proposal in the future.

## Proposal 2: New block car category

We proposed adding a new size category for car blocks being interswitched. Right now, a block means 60 or more cars coming from, or going to, a single shipper. We proposed having two block categories: 60 to 99 cars, and 100 or more cars. The rate we set for 100+ cars would be lower than the rate for 60–99 cars.

We made this proposal because 60 cars is no longer a long block. Modern trains can have 170 cars or more. Shippers of these very long blocks pay the same rate as shippers with the shortest (60-car) blocks, even though switching long blocks is more economical for the railways. They often move long blocks with a similar number of railway crew and locomotives as they use to move short blocks, so the cost per car goes down.

For the above reasons, having a category and lower rate for very long blocks would:

- ensure each shipper is paying their fair share in rates; and
- still compensate the railways fairly for moving blocks, no matter how long.

## What we heard on Proposal 2

**Shippers:** Shippers and their associations were split on this proposal. Some supported it and further suggested that we keep looking at block categories in future, as train lengths continue to grow. Other shippers were opposed or supported the proposal only conditionally. Some of these shippers told us:

- they support having a low rate for very long blocks, provided the rate for short block does not go up as a result;
- they think a new category would make interswitching rates more complicated. For example, they wonder what rate would apply if a train starts out with 100 cars, but some cars are removed before reaching the interchange because they need repair or for other reasons.

**Railways:** Railways were also split on this proposal. One railway opposes it because it does not believe the rate for very long blocks would be very different from the current block rate. Another railway supports the proposal but would like it also to include new categories for medium, short, and very short blocks.

## Next steps on Proposal 2

While we still believe adding a category for very long blocks is worth considering, we note stakeholders' mixed response to this proposal and the concerns some of them have. This includes other block sizes some think we should look at. As a result, we will study the issue further, including:

- collecting data on block switching workloads for 2021;
- analyzing trends in block sizes and whether additional block categories are called for;
- if the evidence supports adding categories, using it to set the right cut-offs (such as 100–130 cars, 131–170 cars, or other ranges).

Depending on the outcomes of this work, the CTA may develop a new proposal on block categories in the future.

## Proposal 3: New definition of car

We proposed making the meaning of “car” clearer for those interswitching intermodal traffic at the single car rate. This is the rate that applies to switches of one to 59 cars. However, intermodal traffic does not move in traditional cars. It moves on platforms that may be welded together into sets of three or more.

For this reason, we proposed writing a new definition of “car” that would include intermodal platforms. In this definition:

- one platform would count as one car for interswitching rates; and
- in a set of platforms, each one would count individually. For example, a set of three platforms welded together would count as three cars.



## What we heard on Proposal 3

**Shippers:** A small number of shippers who responded to our consultations commented on this proposal. Those that commented on it, supported it. In general, they did not provide specific reasons.

**Railways:** The railways that responded were split on this proposal. One railway supports having a new definition of “car”, but suggests it should include intermodal containers, not intermodal platforms. Another railway is opposed to the proposal because, in its view:

- intermodal traffic rarely needs to be interswitched;
- when it comes to costs and billing, platforms cannot always be treated the same as regular cars. For example, in some cases, billing is done by container, not by platform;
- treating one platform as one car would not work in all cases (for example, when there are five platforms welded together but only some are loaded and the others are empty).

The railways also made comments about interswitching and intermodal traffic that went beyond the scope of our consultation on the definition of “car”. For example, they suggested that there is enough competition for intermodal traffic to justify excluding it from regulation altogether.

## Next steps on Proposal 3

We note the limited response to this proposal and the concerns some stakeholders have. We appreciate the detailed information some stakeholders gave us to show that very few intermodal platforms are interswitched. This proposal will not be moving forward at this time.

# Proposal 4: More transparent billing

We proposed requiring railway companies to show the regulated interswitching rate they charge on the waybill. Currently, this is not something they have to do, though some may do it if the shipper asks. The proposal would:

- make billing consistently transparent for shippers; and
- allow shippers to check that the rate is correct, reducing the chance of billing errors.

## What we heard on Proposal 4

**Shippers:** Only one shipper stakeholder opposed this proposal, saying it seems unnecessary. All other shippers who responded supported the proposal, mainly because it would make their bills more transparent.

**Railways:** The railways that responded opposed this proposal. Their views included:

- billing is already clear and the proposal would complicate it;
- interswitching is an arrangement between two railways, which means the rate is a matter between those railways and not an item for the shipper's bill;
- all railways in North America use the same electronic waybill template. It would be difficult to change for only the railways operating in Canada.

In addition, one railway felt that CTA authority over interswitching issues does not include setting out billing requirements. Another suggested an alternative: instead of the rate, waybills could show whether the traffic was switched and if so, which interswitching zone applied.

## Next steps on Proposal 4

Transparent billing is important, and we appreciate that most shippers we heard from support this proposal. That said, the fact that the North American rail system is integrated and includes a uniform waybill template makes this a complex issue. As a result, we will focus on simpler ways to make shippers aware of the interswitching rate, including:

- promoting awareness of the rates on our website and through stakeholder outreach; and
- our ongoing enforcement activities. We investigate cases where the wrong interswitching rate may have been charged. We can issue monetary penalties to railways if we find they charged the wrong rate.

## Conclusion

We thank the shippers, railways, and others who participated in our consultation. To repeat the outcomes in brief, no changes to the interswitching regulations will be made at this time, but we will continue our work, including:

- collecting more data on the effects of moving to one zone with one rate, and also on block car movements;
- promoting transparent billing through outreach and enforcement.

For more information about interswitching, including how we resolve disputes about it, visit our [Interswitching](#) page.