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Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
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November 26, 2019 300061

ENTERED
Office of Proceedings
November 26, 2019
Part of
Public Record

Re: STB Ex Parte Nos. 761 & 722, Written Testimony of Union Pacific Railroad Company

Dear Ms. Brown:

Union Pacific Railroad Company hereby submits its written testimony in the referenced matters. Union Pacific's testimony is contained in two separate documents. The first document is the written testimony of Cindy Sanborn, Union Pacific's Vice President, Network Planning and Operations, who addresses investment and operating issues presented by the "Bottleneck changes" described in the Board's Notice. The second document consists of written testimony addressing legal issues raised by certain of the proposals described in the Board's Notice.

Please contact the undersigned if you have any questions.

Sincerely,

/s/ Michael L. Rosenthal

Michael L. Rosenthal

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Docket No. EP 761

HEARING ON REVENUE ADEQUACY

Docket No. EP 722

RAILROAD REVENUE ADEQUACY

**WRITTEN TESTIMONY OF
UNION PACIFIC RAILROAD COMPANY**

PRESENTED BY

CINDY M. SANBORN

VICE PRESIDENT, NETWORK PLANNING AND OPERATIONS

UNION PACIFIC RAILROAD COMPANY

Date of Submission: November 26, 2019

Date of Public Hearing: December 12 & 13, 2019

WRITTEN TESTIMONY

OF

CINDY M. SANBORN

I. INTRODUCTION

My name is Cindy M. Sanborn. I am Vice President, Network Planning and Operations, for Union Pacific Railroad Company. I previously served as Vice President of Transportation for Union Pacific's Western Region. Before I joined Union Pacific, I spent 30 years at CSX Transportation, Inc., where I held a variety of leadership positions, including Executive Vice President and Chief Operating Officer, Vice President and Chief Transportation Officer, and Vice President of the Northern Region. I hold an undergraduate degree in computer science from Emory University and an MBA from the University of Miami.

In my current job, I oversee Union Pacific's service design function, which is charged with creating transportation plans to provide timely, reliable, and safe service for our more than 10,000 customers. I also oversee our resource planning function, which is charged with assuring we have the resources in place – tracks and yards, equipment, and workforce – to execute our service plans. My resource planning role includes responsibility for the Operating Department's input into the capital planning process, which involves allocating investment between maintenance projects (to keep the network working at a high level) and capacity projects (to handle growing and shifting traffic). Service design, resource planning, and capital planning must be closely coordinated to identify areas that require investment based on current operations and traffic projections to ultimately deliver a high-quality product for our customers.

Union Pacific is delivering strong value to our customers by providing more consistent and reliable service. With the implementation of Unified Plan 2020 (UP 2020), we are focused on moving cars faster. This creates a better customer experience through shorter car-cycle times

and more reliable service. In October of this year, we saw Union Pacific's best numbers for freight car velocity and near-best numbers for car trip plan compliance, two key metrics for determining if customers are receiving good service. When these metrics are performing well, customers need fewer cars to move the same amount of their product, which reduces car inventory on our network, a congestion-related goal of UP 2020. When car velocity is higher and inventory is lower, the customers receive more reliable and consistent service.

As Union Pacific best understands the recommendation of the Board's Rate Reform Task Force, the Board would suspend *Bottleneck* protections if Union Pacific is found to be long-term revenue adequate. While the implementation details of the recommendation are unclear, the outcome is certain: suspending *Bottleneck* would force us to interchange traffic with another railroad that today we handle in single-line service. This would significantly undermine our efforts to provide timely and reliable service for all our customers.

The purpose of my testimony is to explain how undermining Union Pacific's right to the long-haul, and forcing us to interchange traffic with another railroad by suspending *Bottleneck*, would significantly hinder our efforts to provide timely and reliable service for all our customers. Suspending *Bottleneck* would force Union Pacific to adopt a far more cautious network investment strategy. It would also impede service to our customers by mandating inefficiencies and imposing undue regulatory burdens on Union Pacific's service.

II. SUSPENDING BOTTLENECK WOULD REDUCE OUR ABILITY TO PLAN AND INVEST FOR THE FUTURE.

A regime in which Union Pacific could lose its right to the long-haul would reduce our capital investment by increasing the risk that expected traffic would not materialize or that existing traffic would disappear. Union Pacific's service design and capital planning processes are closely interconnected. The investments Union Pacific makes to expand and enhance our

network are very expensive, require long lead times, and last for decades. Most track and terminal expansion projects take at least three years, and often five or more years, from concept to operation. We must design the project, gain community support, secure property, address permitting issues, and relocate roads and utilities before we can even begin construction.

Suspending *Bottleneck* would have serious consequences for future investment. Union Pacific tends to focus our investments on projects that will increase throughput and velocity, for example double tracking lines. We need sufficient density on lines to justify a project and will not undertake a project unless we will see an adequate return on the investment. Before Union Pacific will “put money in the ground,” we must believe we will either make more money by moving more traffic or save money by more efficiently moving traffic. As an example, my capacity planning team might suggest adding capacity in a terminal that becomes congested. But if we studied the terminal and determined that the congestion was a result of interchanges brought on by suspending *Bottleneck*, it would be difficult, if not impossible, for a capital project in that terminal to show an adequate return. We would be concerned that by investing in the terminal we would actually encourage more use of forced interchange. Union Pacific’s investment would further reduce our revenue, subsidize competitor service, facilitate the creation of additional inefficiencies, and add even greater congestion in our terminal.

Reducing or removing Union Pacific’s rights to the long haul would introduce substantial new uncertainties in evaluating the merits of any capacity project. That cloud of uncertainty would ultimately make it more difficult to build a financial case for projects. Union Pacific’s ability to forecast changes in traffic levels and traffic patterns is critical in making capacity planning and funding decisions because of the long lead times required to put facilities and equipment in place. Forecasting traffic change is difficult enough as it is. But under the current

Bottleneck rules, we know customers we serve using single-line service will ship their rail traffic over our lines. We rely on this fact in evaluating potential capacity investments on our lines and in our terminals, and in considering changes to our operating plans or whether we hire and train additional crews for particular locations. If *Bottleneck* were suspended, however, we would have no assurance that customers would keep their rail traffic on our lines. We would not be able to shift our investments to meet new demand as quickly as customers could decide to move their traffic to our competitors. In other words, fewer capacity projects would have projected returns that exceed our hurdle rate of return, so fewer projects would be undertaken.

III. SUSPENDING *BOTTLENECK* WOULD MANDATE INEFFICIENCY AND DEGRADE UNION PACIFIC SERVICE.

A rule change that could allow a shipper currently receiving single-line service from Union Pacific to force us to interchange its traffic with another railroad would be inconsistent with everything we do to improve speed and reliability of service for all our customers. Suspending *Bottleneck* would reduce the speed and reliability of service not only for customers who elect to shift traffic, but for many other customers as well. This would also reduce our ability to accommodate traffic growth because new interchanges would consume existing capacity. But to best understand these outcomes, one needs to understand what Union Pacific is doing to provide better service.

Under UP 2020, Union Pacific improved car velocity by, in part, restructuring our network and transportation plans so cars avoid terminals whenever feasible. When a car must enter a terminal, we strive to get that car moving as soon as possible. While UP 2020 is a departure from our previous operating model, one core operating principle has been consistently reaffirmed: eliminate unnecessary car handling.

Every time a car is switched from one train to another, delay results and capacity is consumed. This is true whether the event occurs in a larger yard where incoming cars are sorted into blocks and placed on new trains, or at more remote locations where just a few cars are set out or picked up along a route. In both situations, forward progress stops and cars occupy valuable track space until movement resumes. This slows down the car and potentially increases inventory by requiring customers to use more cars. This also consumes capacity we use to serve other customers. Union Pacific's service plans are therefore designed to keep cars moving to their destinations without unnecessary handling.

Eliminating unnecessary car handling is also critical to our ability to pursue new business and accommodate future demand from our customers. At many locations across our network, expanding capacity through capital investment is extremely expensive or impossible. By keeping cars moving to their destinations, we can increase our total throughput without physically expanding our existing track and yard infrastructure.

We cannot eliminate all switching of cars from one train to another. We serve far too many origin-destination pairs to assign a train to each lane. We therefore use sophisticated technology to map our expected traffic flows against our available infrastructure and design transportation plans to handle cars as efficiently as possible given the constraints we face.

A rule allowing a shipper to force Union Pacific to interchange single-line traffic would inevitably create inefficiency because more time and resources would be required to provide the same amount of service. Every interchanged car would require additional handling and experience delay. If we interchanged the car where both railroads have active yards, it would typically mean 24 to 48 hours of delay per car as the cars wait for an interchange train to haul them from one yard to the other. This type of operation also undermines the performance

benefits of UP 2020 by forcing cars into a terminal where they would not otherwise go and forcing cars to wait for specific trains to leave the terminal.

Suspending *Bottleneck* would be bad enough if the harms could be confined to the shippers electing to use “break-up” interline service and other railroads agreeing to provide the interline alternative. But the impacts will inevitably harm our other customers. Other customers will experience direct harms to the extent we must change our existing operations to effect the new interchange. For example, if we must stop a through train to set out or pick up cars en route, all the other cars on the train will be delayed as we perform the extra interchange event. If we must add interchanged cars to a local train and add a stop at an interchange point, we run a greater risk our crews will run out of time before completing service to other customers with cars on the train, adding delay and decreasing reliability.

Other customers will also experience indirect harms from suspending *Bottleneck* because our infrastructure and operations are not designed to support the additional car handlings that would occur. We have developed our network and our transportation plans based on our long-established expectation that all traffic we can efficiently handle from origin to destination will move in single-line service. At some locations where our lines cross another railroad’s lines, we have no facilities for interchanging traffic – interchange facilities never existed, or we removed them as we expanded our single-line service or as we worked with connecting carriers to focus traffic flows on fewer, higher-volume interchange locations to improve overall efficiency. Yet the Board is considering a rule change that could allow the customer to determine interchange points regardless of volumes or facilities.

Where we interchange traffic with other railroads, our interchange tracks and yards are sized to accommodate interchange of traffic we cannot handle in single-line service. They are not

designed to hold cars that do not use the facilities at all, or that use them only briefly, when we handle the cars in single-line service. If we were forced to interchange cars that move today in single-line service, the extra time those cars would remain on our tracks or in our yards would consume capacity we need to serve our other customers efficiently. This would be a particular problem when locations are operating near capacity or are especially sensitive to traffic surges and other disruptions (locations like Chicago or Houston). Cars that would move through our terminals or depart on the next scheduled train would sit awaiting interchange, unnecessarily creating additional congestion and impairing service to other customers. In addition, because extra car handlings increase cycle time, shippers electing to use interchange service would need more cars to move the same volume of traffic, which would add even more cars to our network, undoing much of the benefit of increased car velocity customers are currently enjoying.

Suspending *Bottleneck* would also have a significant, negative impact on our operations because it would reduce our ability to monitor and control the flow of inbound traffic to prevent congestion. We have made great strides in reducing car dwell times in yards by developing car management technologies that allow us to match the flow of cars to and from customer facilities with the track capacity at those facilities. However, we cannot control the flow of interchange cars delivered to our yards for switching to customer facilities – we cannot tell the line-haul railroad to shut off its flow – and we have little choice but to accept interchanged cars even when a customer's tracks are full, because the cars are typically delivered with cars for other customers. That means we would be left holding the cars we cannot deliver in our yards. Those cars would consume extra track space making yard operations more difficult and time consuming. All of this would interfere with our ability to provide timely service to other customers and result in longer dwell, slower velocity, and degraded service.

The additional, unpredictable interchanges would also degrade service to our other customers because it would reduce our ability and incentive to adjust to changing traffic patterns. One important way that we adjust to changing traffic patterns is by investing capital in our network. However, as I explained earlier, our capital investment would be reduced.

IV. SUSPENDING *BOTTLENECK* WOULD IMPOSE INEFFICIENT RAILCAR INVESTMENT REQUIREMENTS ON CUSTOMERS.

When our network is performing well, we move cars faster. This allows customers to use fewer cars to transport the same amount of product as compared to when cars are moving slower. If our network slows down, customers with the resources will inevitably add more cars to the network to continue moving the same amount of product. These customers experience the direct cost of adding more cars through lease or acquisition costs and daily operating costs. If network performance improves, the additional cars may no longer be needed but customers may continue to be burdened with the additional costs to maintain a larger-than-needed fleet. These customers would no doubt prefer that Union Pacific's network perform well so the costs of additional cars can be avoided altogether.

Beyond the direct costs imposed on customers, the additional cars on the network will adversely impact service to all customers. The additional cars will increase inventory which will further degrade service. This degraded service will result in longer car-cycle times for all customers, including customers that do not have the ability to add cars to their fleet (for example, customers using railroad-owned cars or customers who are unable to acquire cars due to a lack of inventory). The costs and service impacts to customers can be avoided if Union Pacific is allowed to continue running our network in a way that achieves the best performance for all of our customers.

V. SUSPENDING *BOTTLENECK* WOULD INTRODUCE LESS SAFE COMMODITY ROUTING.

Union Pacific transports a number of potentially dangerous commodities, as our common carrier obligation requires. When we must move these commodities, we take steps to ensure the route does not create unnecessary safety risks, due to geography or other factors beyond our control. When this traffic is interchanged with another railroad, Union Pacific tries to locate these interchanges in places where we have the personnel and facilities to confidently conduct safe interchanges. If we lose the ability to fully control the routing and interchange locations for these commodities, then we also lose the ability to ensure these commodities are routed and handled in the safest possible manner. We could be required to transport and interchange these commodities in places and with methods we do not typically use today for good reasons. Mandating new operations (for example, interline service for materials that are currently handled by a single carrier) for these commodities inherently introduces risks that do not exist today. The Board should seriously consider the potentially dangerous safety impacts of its proposed rule.

VI. CONCLUSION

The change to *Bottleneck* would likely make rail service slower and less reliable, and therefore less desirable for many of our customers. The change would also increase the difficulty of anticipating future traffic flows, which would reduce our ability to make investments needed to attract new business and improve service for our existing customers. We do not believe the Board and our customers want less fluid rail service or reduced investment, but those are the inevitable consequences of adopting policies that would make our operations less efficient and reliable.