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The Honorable Ann D. Begeman, Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

The Honorable Patrick Fuchs, Vice Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

The Honorable Martin Oberman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

Re: STB Docket No. EP 754
Oversight Hearing on Demurrage and Accessorial Charges

Dear Chairman Begeman, Vice Chairman Fuchs and Commissioner Oberman:

Union Pacific Railroad Company hereby submits the written testimony of Kenny Rocker, Executive Vice President of Marketing and Sales, addressing the topics set forth by the Board in its April 8, 2019 order.

Very truly yours,

A handwritten signature in blue ink that reads "Rhonda S. Ferguson".

Rhonda S. Ferguson

Enclosure

cc: Cynthia T. Brown
Chief of the Section of Administration
Office of Proceedings, Surface Transportation Board

BEFORE THE
SURFACE TRANSPORTATION BOARD

Docket No. EP 754

OVERSIGHT HEARING ON DEMURRAGE AND ACCESSORIAL CHARGES

TESTIMONY OF KENNY ROCKER

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May 8, 2019

INTRODUCTION

The Board has specifically asked me to address the following topics today:

- 1) Our recent experience with demurrage and accessorial charges.
- 2) Our perspectives on the fairness of our accessorial tariffs during the past three years.
- 3) And lastly, the impacts on shippers, receivers, third-party logistics providers, and short line railroads following the recent changes to accessorial tariffs.

OVERVIEW

I would first like to set the stage by stepping back and providing a general overview of our accessorial and demurrage program at Union Pacific. Our top priority is to provide safe and reliable service to all our customers. Part of that commitment is to make sure we efficiently use our five critical resources: employees, locomotives, freight cars (both railroad and privately owned), main line track, and terminal capacity. By maintaining a fluid and adequate supply of rail cars, along with balancing other critical resources, like locomotives and crews, we will optimize the fluidity of our network. The objective of our accessorial and demurrage program is to align customer behavior in a way that promotes network fluidity for the entire supply chain. All customers benefit with improved service reliability and reduced cycle times when all assets are utilized to their fullest. I will be addressing your specific questions with regard to fairness later in my remarks, but first, I want to emphasize that Union Pacific is committed to implementing our accessorial and demurrage program in a way that is fair to all our customers — as that is just the right thing to do.

Coming out of some significant service challenges in the fourth quarter of 2017, such as Hurricane Harvey in the South and severe winter weather in the North, we saw our service start to degrade as rail car inventory increased and began congesting our network. This clogged network and poor service performance is what drove us to step back and evaluate how we were operating. We determined we needed to simplify our transportation plan by putting more focus on moving rail cars rather than trains. This was a fundamental change that we needed to make to improve our service product and make it more reliable for all our customers. As we started to focus more on the movement of rail cars and reduced transit times, we knew we needed to balance out our resources. High variability of resources is a drain on velocity, or to put it simply, when crews and locomotives are not readily available, our trains move slower. With these challenges in mind, we took a fresh approach to our transportation planning. We broke down the network, corridor by corridor, and mapped out the best way to move rail cars while balancing out resources at the same time. Unified Plan 2020 arose from this approach.

Not only is a consistent supply of rail cars critical to ensuring reliability, but having the right number of locomotives in our fleet is also important for consistent operations. Locomotives are costly to own and need to be utilized to their fullest extent. Having too many assets on our network clogs our system and impacts our ability to keep rail cars moving for our customers.

As I mentioned earlier, our demurrage and accessorial program is designed to make sure we keep our network fluid, which benefits all of our customers and the entire supply chain. Thank you for allowing me to take a moment to provide this relevant background. I'll now move on to our recent experience with demurrage and accessories for Union Pacific.

RECENT EXPERIENCE

Over the past couple years, we have worked to standardize and simplify the tariffs for accessorial to make them easier for our customers to navigate and understand.

- We reduced the number of pages in our accessorial tariff document by 45%.
- We eliminated 47 different items that were duplicative and antiquated.

We implemented technology to provide superior visibility and tools to help customers better manage their inventory pipelines.

- We are leveraging the GPS data from our locomotives to provide customers with more real-time arrival data for their shipments.
- About 98% of our crews report their daily work using our mobile work order devices, which give us more accurate and timely data on customer deliveries and pickups.
- We have proactive notifications like “You Are Next” and “Local Service Today” to alert our customers’ facilities to prepare for the arrival of our crews.

In January 2019, we implemented our bulk train tariff items to improve the utilization of our critical resources, like locomotives and crews, in order to provide more reliable service to all our customers. And during that same period of time, we rolled out a number of tools to help customers navigate through the changes. As you can see, Union Pacific has implemented a balanced mix of customer incentives and tools to help individual customers align their supply chains with our network, thus promoting more reliable and consistent service — system-wide — to the benefit of all our customers.

ACCESSORIAL TARIFFS AND FAIRNESS

Now that I have given an overview of our demurrage and accessorial program at Union Pacific, let me size up the accessorial charges to address the second topic you asked me to discuss this morning. Over the past three years, the total average annual charges for accessorial and demurrage have been \$212 million, or roughly 1% of our total operating revenue. For the first quarter of this year, our total accessorial and demurrage charges were \$71.6 million, compared to \$62 million from the first quarter of 2018. The reduction of free time to unload cars from 48 hours down to 24 hours, intermodal storage and the implementation of the bulk train tariff drove the increase in demurrage charges year over year. Although these charges have increased, we hope that increase is temporary because the intention is to improve service, not drive cost increases for our customers.

The next area of concern you asked me to address was the fairness of our billing processes. But first, let me be clear to you that our intent is not to assess any demurrage or accessorial charges that are a result of UP-caused service delays or items that are outside the customers’ control, like weather, plant outages and embargos. For demurrage, we issue credits in the following ways:

- 1) Once a rail car is delivered to the serving area, we issue one arrival credit for every car to unload regardless of car ownership. In other words, any private equipment that is placed into a customer’s facility is also issued one credit.
- 2) If Union Pacific fails to deliver rail cars to a customer when it has capacity within its facility to take the rail cars, we will then issue two credits for every car each day the customer waits for its loaded rail car.
- 3) We will also issue one credit per day from the time a rail car is ordered into a customer’s facility until it is delivered.

- 4) If Union Pacific fails to supply a rail car that the customer ordered and the customer has capacity within its facility to take the rail car, we will issue one credit per rail car not supplied.
- 5) And lastly, we will issue one credit for every loaded or empty rail car that is refused by the customer for any valid reason.

For private empty equipment, we issue one credit when the rail car is placed at the customer's facility to load.

We believe it is fair to base billing on the customer's ability to keep their capacity levels fluid during the course of a full month. This approach aligns customer behavior in a way that promotes network fluidity and improves service for all customers.

CUSTOMER IMPACTS

Finally, you asked me to address how our changes to demurrage and accessorial have impacted our customers. We have taken our customers' feedback into consideration and listened to each unique scenario. We have also taken measures to make the transition to our changes as seamless as possible. For example, back in November 2018, we gave 60-day advanced notice to our customers of our intent to change our accessorial and demurrage tariffs. Within that 60-day window:

- We proactively communicated the changes with our bulk customers.
- Our sales team reached out to customers who were impacted by the change to explain the what, why and how.
- We provided summary billing scenarios based on actual November and December data so customers would understand how the rules and charges under the new tariff would apply to their operations.
- Our sales team called all customers who were identified as being at greater risk of experiencing accessorial and demurrage charges.
- We delayed our bulk tariff billing so customers had more time to prepare for the changes.
- We worked with customers impacted by situations outside their reasonable control, such as city ordinances that prevented night loading and unloading, to provide them with additional flexibility.
- We also suppressed billing for third-party switchers where UP did not yet have a system solution in place to help them prepare for pickups.

The results of partnering with our customers to help them use our network more effectively have been impressive. We are beginning to see customers turning assets — both theirs and ours — faster. In the third quarter of 2018, only 55% of our bulk train customers loaded or unloaded their rail cars within 24 hours. I am pleased to report that statistic is now at 62% for the first quarter of 2019. Our service is improving and the network is more fluid. Compared to a year ago, our current seven-day terminal dwell has dropped by 13% and our rail car on-time delivery rates are the best they have been in two years. As the whole supply chain becomes more consistent, I am confident the changes we have made will result in a win-win for all of our stakeholders. With improved asset utilization, our network will be more fluid and resilient, which will drive improvements in service levels and increases in customer satisfaction. Union Pacific will continue working with its customers to provide an excellent service product that is safe and reliable.