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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 Board Member Oberman:

Union Pacific Railroad Company hereby submits the revised 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. The revisions reflect the testimony of Mr. Rocker, as actually delivered, on May 22, 2019. We anticipate that the Board will wish to maintain the record's integrity while also accounting for these revisions. To that end, we request that the Board treat this testimony as a supplement to the original.

Very truly yours,

Rhonda S. Ferguson

Enclosure

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

STB Oversight Hearing on Demurrage and Accessorial Charges

- from Kenny Rocker, EVP, Marketing & Sales¹

Good morning, Chairman Begeman, Vice Chairman Fuchs, Commissioner Oberman and Board Staff. I am Kenny Rocker, Executive Vice President of Marketing and Sales at Union Pacific Railroad, and I want to thank you for allowing me to speak on behalf of Union Pacific with regard to our demurrage and accessorial tariff charges.

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 impact to our customers following the recent changes to accessorial tariffs.

OVERVIEW

But before I jump into those topics, it is important that I explicitly tell you how we think about accessorial and demurrage charges at Union Pacific and what we've done to work with customers through the recent changes. Our top priority is to provide safe and reliable service to all our customers. 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.

As we made changes to our transportation plan in 2018, we began to put 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. Likewise, we made changes to our demurrage and accessorial program to align it with our overall objective to keep the network fluid, which benefits all of our customers and the entire supply chain.

¹ As delivered on May 22, 2019.

More importantly, here's what we did to help our customers navigate through the changes:

1. First, we have taken a proactive posture at every turn with our customers, notifying them of changes well in advance.
2. Second, we utilized technology to hold Union Pacific accountable and provide our customers visibility to manage their inventory levels. And I'll provide you with more details about this in a minute, but before doing so, I want to emphasize the next point which is...
3. Third, in preparation of this hearing, we read our customers' comments and listened to their concerns. In fact, we made the following recent changes to our accessorial tariffs as a direct result of the Board's hearing today:
 - We changed our "Not Prepared for Service" tariff to bill on a "per occurrence" versus on a "per car" basis.
 - We further changed the "Not Prepared for Service" tariff to issue billing to only those customers who have three or more occurrences in a calendar month.
 - And I stress that since we implemented the "Not Prepared for Service" tariff in January, we have not and will not bill customers for multiple accessorials at the same time – so for example, we do not assess demurrage for cars that are subject to the "Not Prepared for Service" tariff. We changed the tariff language to bring it into conformity with our actual practice.

Thank you for allowing me to take time to provide you this relevant background. I'll now move on to our recent experience with accessorials for Union Pacific.

RECENT EXPERIENCE

So as it relates to the recent experience, over the past couple years, we have worked to standardize and simplify the tariffs for accessorials to make them easier for our customers to navigate and understand. For example,

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

We inserted technology and tools to provide superior visibility to help customers better manage their inventory pipelines. For example,

- We are leveraging the GPS data from our locomotives to provide customers with more real-time arrival data for their shipments and we applied artificial intelligence to that GPS data to improve the ETAs for delivery times.
- We have an online shipment management tool to provide inventory management solutions to customers so they can see the number of rail cars en route, the number of rail cars in their serving area waiting to be delivered, and the number of rail cars at their facility.
- 98% of our crews report their daily work events using our mobile work order devices. This gives us more accurate and timely data on customer deliveries and pickups.
- And we have proactive notifications like “You Are Next” and “Local Service Today” to alert our customers 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

As it relates to the second topic, regarding accessorial tariffs and fairness, over the past three years, the total average annual charges for accessorials and demurrage have been only 1% of our total operating revenue. This is not a revenue-generating initiative for us. And although these charges have increased in the first quarter 2019, 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 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 or plant outages. For demurrage, I mentioned in my submitted remarks on May 8th all the various ways we issue credits so I won't list them again. The bottom line is that we issue credits:

1. To allow for every car, both railroad and privately owned cars, to unload in 24 hours.
2. To compensate the customer if UP fails to deliver a rail car when the customer has capacity to take the car.
3. For private empty equipment, to allow charges to accrue only when the private rail car is stored on UP property.

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.

But our approach to reciprocity and fairness goes beyond simply adding credits to a demurrage bill. For all our accessorial and demurrage billing, we listen to our customers and assess the facts with data to make a fair judgment about the validity of the charges. Our billing accuracy is 95% – we know we aren't perfect as our billing data is subject to human error from crew reporting, but we are making progress on improving the accuracy of their inputs. We also have made it easy for our customers to dispute any accessorial charges using our online billing and receivable systems. We research each disputed claim by tracing the rail car shipment, even if it begins on another railroad. If the facts show the charges were the result of any railroad disrupting the customer's supply chain, then we cancel the charges. However, if we determine that the cause of the accessorial was within the customer's control, then to be fair to our other customers, we will assess the charge to help align the particular customer's behavior with network fluidity. All customers benefit when assets – both the customers and ours – move faster through the network.

Furthermore, Union Pacific understands the Board's commitment to "evidence-based decision-making." We agree with that approach. We believe the facts and data of each particular case must be looked at, in order to know what is really going on in any case. UP encourages the Board to take that same approach here.

General, broad statements really don't shed much light on what actually happened in any particular case. We suggest that, after going through our billing dispute resolution process -- which we believe is a fair and reasonable process designed to confirm validity or correct errors -- if a customer still feels they have been charged unfairly or unreasonably, there are tools available to bring their concerns to this Board's attention, including the complaint process as well as informal complaints through OPAGAC. As a reminder, Union Pacific has signed up for the Board's informal mediation process, and we would be open to using that process to give customers streamlined access to the Board's assistance.

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 developed material to help our customer service and sales teams explain the what, why, and how to customers.
- Our customer service and sales teams called all customers who were identified as being at greater risk of experiencing accessorial and demurrage charges.
- We worked with customers who were impacted by situations outside their reasonable control, such as city ordinances that prevented night loading and unloading, to give them more flexibility.
- We provided bulk tariff 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.
- We delayed our billing for the bulk tariff.
- We also suppressed not prepared for service billing associated with 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. Today this number is at 65%. 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 the last two years.

Again, I want to reiterate that our top priority is to provide safe and reliable service to all our customers. 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. Further, I want to emphasize the following actions that we took while making changes to our accessorial program.

1. We proactively worked with our customers in advance of any change to be transparent and help customers navigate through the potential impact to them.
2. We inserted technology and tools to give customers better visibility to their inventory pipeline and help them manage their shipments more effectively.
3. And furthermore, we listened to our customers and already made improvements to the program based on their early feedback. Each customer has a unique supply chain and we will continue to listen and work with them. We remain committed to make sure we are fair in how we execute our accessorial program.

In closing, these steps are improving asset utilization and we are seeing our key operating metrics get better. Union Pacific remains dedicated to working with our customers to provide them with a safe and reliable service product, while also maintaining their ability to remain competitive in their own markets.

Thank you, Chairman Begeman, Vice Chairman Fuchs and Commissioner Oberman, for allowing me to speak to you this morning. I stand ready to address any questions you may have.