

SURFACE TRANSPORTATION BOARD

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OVERSIGHT HEARING ON DEMURRAGE AND ACCESSORIAL CHARGES

WRITTEN TESTIMONY OF NORFOLK SOUTHERN RAILWAY COMPANY

Norfolk Southern remains committed to collaborating with our customers to deliver sustainable and measurable improvements in our service. With customer input, we are implementing multiple initiatives, including “Clean Sheeting” our local serving yards to reengineer and optimize our local service product, thus increasing the consistency and frequency of local switching to our customers to our mutual benefit. We are redesigning our network operating plan through an effort called TOP21 to reduce train miles and circuitry. We are successfully lowering the number of cars-on-line to improve network fluidity and reliability.

As Norfolk Southern implements our version of Precision Scheduled Railroading, we are doing it at a measured pace and collaborating with our customers to minimize disruption. We are removing the work before reducing the resources, while improving our service product. With reduced asset intensity, some of the resources will be redeployed to support our customers’ businesses. Norfolk Southern’s operating changes are designed to create a “capacity dividend” that gives our customers an opportunity to grow. Our balanced plan focuses on both efficiency and growth, calling for the investment of between 16% and 18% of revenue on capital expenditures annually.

Foundational to our new strategic plan is consistently delivering a high-quality service product that helps our customers compete in an evolving market and provides our customers with a platform for growth. This collaboration towards mutually beneficial goals requires modifications by Norfolk Southern and our customers. Surplus cars on our network – whether railroad-owned or privately controlled – consume valuable, finite track capacity and add complexity to switching, with negative consequences for fluidity, service, and the ability to accommodate our customers’ growth. Additionally, underutilized and idled cars are unavailable for use by other customers and require NS to maintain a larger fleet of cars, creating a cycle that degrades network fluidity.

Demurrage and storage charges are the primary tools available to railroads to manage car detention, serving the dual role under the statute of “compensat[ing] rail carriers for the use of railroad equipment” and “penalizing those who detain rail cars for too long.”¹ In order for demurrage and storage charges to perform these dual functions properly, they must be effectively calibrated. Prior to January 1, 2019, Norfolk Southern did not charge otherwise applicable demurrage and storage charges to customers receiving service less than five days per week, meaning that these customers had no incentive to move cars quickly and could instead use the rail cars as a vessel for free storage. The generous number of free days and the low charges applicable under our prior demurrage and storage charge tariffs resulted in an inefficient market for car detention. In sum, our prior demurrage and storage charge tariffs were not fulfilling the mutual

¹ *Demurrage Liability*, Ex Parte 707 (STB served April 11, 2014) (citing 49 U.S.C. § 10746).

goal of Norfolk Southern and our customers of creating a more fluid rail network that turns equipment faster and provides our customers with consistent service and a platform for growth.

To address these inadequacies in our demurrage and storage charge application, we made some important changes. First, we increased our frequency of service by more than quadrupling the number of customers receiving more than five service days per week, from 504 customers to 2,182 customers, which represents over 71% of our customers. For those customers that receive fewer than five days of service per week, we are implementing demurrage and storage charges, offset by credits reflecting the lower frequency of service. Second, we increased certain demurrage and storage charges and reduced certain free days to incentivize customers to load and unload cars more quickly and return the assets to service. To further align our own incentives with that of our customers, we provide demurrage and storage charge credits to customers when we fail to meet our original estimated time of arrival. Added benefits of our demurrage and storage program include the capacity created in our local yards and improved utilization of the nation's supply of railcars as both Norfolk Southern and our customers get more use out of a smaller equipment fleet. Increased fluidity of our network and a better service product create a "capacity dividend," noted above, that we are utilizing to support more of our customers' growth on our network.

These changes are intended to accelerate efforts to reduce dwell time for equipment on our tracks, improve network fleet utilization for both private and railroad-owned car fleets, and reflect the importance of enhanced network fluidity for our customers and stakeholders. We have given these changes careful consideration, and we believe that these changes are assisting us in achieving our goals.

We notified our customers of the changes in our demurrage and storage charge policies on October 1, 2018, with an implementation date three months later on January 1, 2019. These changes, together with the operational changes we have implemented, have contributed to a positive and dramatic impact on our service product. For example, from December 2018 to April 2019, we have seen total cars-on-line fall by 9%, train speed improve 10% and dwell improve 29%. Dwell during the week ending April 26, 2019, was the lowest on record. Our internal cars-on-line data shows that the inventory at our serving yards has fallen 26% over this same period, at a time when volumes have increased. In short, customers are shipping and receiving as much freight as they have before, with fewer required assets, and benefitting from quicker and more efficient service. Some of our customers are returning leased equipment, while growing business on Norfolk Southern.

Publicly Available Metrics
(From AAR Weekly Performance Reports)

Metric	December 2018 Average	April 2019 Average	Difference	
			Number	Percentage
Cars-on-line	192,842	174,778	(18,064)	(9%)
Total Train Speed (mph)	19.8	21.8	2.0	10%
Total Dwell (hours)	26.2	18.7	(7.5)	(29%)

Significant improvement in our service underpins our strategic plan. We are holding ourselves accountable to a customer-facing service delivery index, which measures on-time delivery performance of our scheduled shipments against 2018 service levels. As discussed on our first quarter earnings call, we currently are meeting our 2019 goal of a forty percent improvement in this service delivery index compared to 2018.

We are reducing the number of cars-on-line through improvements in velocity and service frequency, combined with aggressive efforts to remove older, lower-capacity cars from our network, and we are well on our way to meeting our goal of a 20,000 car reduction this year versus 2018. This reduction in cars-on-line frees up capacity for growth and also allows our customers to reduce their own private car fleets.

We needed to improve our service product to our customers. We modified our local service product, providing more frequent and consistent local service. We aligned our accessorial policies to the mutual goals of Norfolk Southern and our customers of more consistency, better fluidity, and faster equipment turns. We are delivering for our customers with more frequent service, combined with materially improving the quality of our product as measured by shared KPIs with our customers.

For the January 1, 2019 tariff changes, which were the most significant, we provided our customers a three-month notice period between notification and implementation of demurrage and storage charge policies, which far exceeds the legally-required 20 days, allowing customers time to adjust their operations to comply with our new rules. For the vast majority of our customers, this three months' notice was more than sufficient, as evidenced by our performance metrics.

A key component of all our operational and policy changes is communication. While announcing our new demurrage and accessorial tariff changes and affecting those enhancements, Norfolk Southern communicated with customers regarding the nature of and rationale for those changes, similar to our approach for operating plan modifications. We are also improving our service product and communication with our customers through our digital interface, including a redesign of our AccessNS customer portal and development of ConnectNS, a new customer relationship management system, which includes a tool that provides a customized and efficient service experience. Service to our customers is of paramount importance to us, and we are confident the changes our operating plan, coupled with enhancements to our demurrage and accessorial tariffs and our investments in technology, will improve our network fluidity and the customer experience with Norfolk Southern.