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BEFORE THE  
SURFACE TRANSPORTATION BOARD

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Ex Parte No. 705

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COMPETITION IN THE RAILROAD INDUSTRY

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ORAL TESTIMONY  
OF  
LANCE M. FRITZ

**STB Ex Parte No. 705  
Competition in the Railroad Industry**

**Oral Testimony of Lance M. Fritz,  
Executive Vice President-Operations for Union Pacific Railroad Company**

Good afternoon. I am Lance Fritz, Executive Vice President-Operations for Union Pacific Railroad. I provided written testimony twice in this proceeding, and I appreciate the opportunity to appear before you today.

The access remedies proposed in this proceeding would have profound and adverse effects on rail safety, productivity, service, capacity, and investment. They are not merely economic and regulatory arrangements. They would change how rail cars and trains move. They also would transfer control of rail moves from railroads to shippers or the Board. The proposals would be destructive to decades of investment and hard work to improve rail safety, service, and productivity on Union Pacific and across the nation. They are inconsistent with everything railroads have been trying to do to compete and to provide efficient service for the last 30 years.

As your own experts have told you, the railroad industry achieved spectacular gains in productivity, efficiency, and safety after 1980, providing huge benefits to shippers. Those improvements were possible only because we gained control over how cars and trains move over our networks. Prior to 1980, shippers could choose any plausible route, and they divided their shipments into inefficient traffic flows that guaranteed an unproductive rail system. Without traffic density, routes could not attract investment, and many carriers either went bankrupt or were headed that way.

The Staggers Act overturned that regime. It allowed railroads to consolidate traffic flows onto fewer routes and achieve much higher densities. We achieved even more productivity gains thanks to the mergers that allowed us to expand control geographically. Recall that the ICC and the Board approved those mergers because they provided the public benefits of single-line service and reduced costs, while maintaining or enhancing competition as well. We delivered on all scores.

In effect, Union Pacific created rail pipelines on which we maximize traffic flows and density. These pipelines are productivity machines. They allow cars and trains to move further without time-consuming delays, such as en-route switching. We call those work events, and we do everything we can to reduce them. With greater densities, we can reduce transit time, improve reliability, reduce costs, and improve safety.

At Union Pacific, we always begin with safety, so I want to explain why density is essential to safety. As you know, railroads have reduced employee injuries by more than 80 percent since

the Staggers Act, and we have eliminated a similar percentage of derailments. This year Union Pacific is again achieving record-breaking safety results.

Well-planned, high-density operations help drive this improvement in two ways. First, although we do all that we can to make rail yards and switching safe, anytime we require employees to conduct a switching operation we add risk to the operation. The more we can move cars without stopping and switching them, the safer we can be. Density allows us to move more cars from origin to destination with fewer switching events.

Second, by consolidating traffic on high-density routes, we are able to justify major innovations and investments in safety on those routes. For example, on our highest density lines, especially those that carry large amounts of coal, we have installed premium rail, concrete ties, and new defect detection technologies that find defects before they find us.

At Union Pacific, by running a well-planned, controlled network we deliver not just on safety, but on service and value as well. These three priorities are co-dependent – by pursuing one we pursue all three. In my opening testimony, I explained how we use traffic density to improve service. In all of our major corridors, we take advantage of volume to run trains that don't have to stop as often, which reduces transit time, improves reliability, and reduces costs. Using those efficiencies, Union Pacific service is earning record high marks for customer satisfaction.

Since 1999 we have invested some \$30 billion in our network. We are using high-quality rail and ties to improve maintainability and reliability; we are replacing and strengthening bridges; we are rebuilding our switching yards and the industrial leads that reach customer facilities, and installing technology that eliminates service interruptions. We tailor our capacity to the demand we expect on each corridor and at each terminal. We strive to maintain enough capacity to provide consistent, high-quality service, which includes surge capacity to handle temporary disruptions such as weather events or maintenance work.

As the pre-Staggers Act world showed, all of these gains can be destroyed by regulation that deprives railroads of the ability to control traffic movements. Think about it. With this agency's encouragement, we spent decades and tens of billions of dollars to build a rail network that maximizes single-line service and productivity, funneling interchange traffic with other railroads over the most efficient gateways. Proposals to change the access rules tell us to turn around and move in the opposite direction. They tell us to reduce traffic density, reduce single-line service, and increase interchanges and make them less efficient. They tell us to under-utilize the investments we have made and to have no confidence that future investment will be justified. They tell us to be less productive and to incur higher costs. This makes no sense and can't be in the public interest.

The specific proposals that will lead us backwards include forced reciprocal switching and forced interchange points. Reciprocal switching consumes limited terminal capacity and reduces efficiency. Expanding reciprocal switching inevitably results in at least one additional

movement between railroads and one additional switching classification that delays shipments, adds costs, and increases safety risks. Track capacity within terminal areas is not designed for additional interchange movements. If we add more movements, we create more delay and more congestion, delaying all shipments. In many major terminals, the additional switching load could exhaust capacity and require capital expansion, an investment that may not be justified economically. Houston, for example, is vulnerable to congestion. The terminal configuration is over a hundred years old, with little room for expansion. The same risks apply in many other terminals, such as Chicago. Any significant increase in terminal switching presents a large risk to the national rail system.

Changing interchange locations, whether by changing the bottleneck rules or creating new through routes, presents a different set of risks. I provided examples in my opening testimony of how Union Pacific carefully structures its train movements to let trains move without stopping and switching. If we instead spin off cars for interchange at various points en route, we will create delays at those points and block other trains serving other shippers. The existing operating plan might not be supportable. In addition to the loss of efficiency, track structure in many places is inadequate for increased interchange. For example, several shippers say that we should interchange more traffic in New Orleans. New Orleans has a lot of trouble handling the traffic it's facing already, and it is the number one gateway for delays on the Union Pacific system today.

For both reciprocal switching and changes in junction points, the ability to make changes quickly would present enormous problems and risks for the railroad. We use a robust business planning process to plan for future traffic volumes. The result is a transportation plan that includes the necessary locomotives, crews and capital investments to meet our three objectives – safety, service and efficiency. Obviously, we adapt to changes in markets and competitive traffic patterns. But we don't take traffic until we are ready to handle it.

If a shipper can make sudden changes in routes, planning would be impossible. All of our services would suffer. We need visibility of future traffic as far in advance as possible.

Introducing another railroad also undermines the planning process. Here's an example: For many years, BNSF – which uses some Union Pacific lines in Texas – handled export grain trains on our line south of Houston, interchanging them to KCS at Robstown. Recently, and with no notice to UP, BNSF shifted a train or two per day to a different route via San Antonio and Eagle Pass. The new operations are causing congestion in San Antonio, where we must stage BNSF trains that can't move to Eagle Pass, and also near Eagle Pass, a Mexican border crossing, where we don't have capacity for these additional trains. If this sort of unexpected change were the norm instead of the exception, our rail service would be crippled.

The Board also needs to understand that today's interline services between willing railroads work a lot better than forced interchanges between competitors, one of which is losing business.

Take the example of coal trains coming from Colorado mines through Denver. Union Pacific spent over \$30 million to create a through route in Denver. If a shipper were to decide that it wanted those eastbound trains interchanged to BNSF, both railroads would be blocked with reverse movements in the center of Denver. Our \$30 million investment would be underused or wasted. We would have no incentive to spend millions more to improve interline service to help a competitor win business from us.

While shippers are likely to see the negative impact of access remedies on service and investment, I remain most disturbed by the safety implications. As I discussed above, more switching and more work events mean more risk. In addition, less incentive and ability to invest means less innovation and less new technology to improve safety even further. None of the shippers even mention the potential safety risks that are inherent in their proposals.

Finally I want to address a brief statement by Richard McDonald which asserts that my concerns do not apply to unit coal train traffic.

First, as Mr. McDonald should recall, Union Pacific and CNW merged into one system because their service was trouble-plagued and not good enough, even though they had every advantage available to interline moves. They built their facilities as an integrated whole and they had every incentive to cooperate. But they disagreed about the number of locomotives on coal trains, which required that trains be stopped to add and remove locomotives, and CNW delayed trains to and from mines that it did not service.

Second, one of the major problems we face today is that connecting railroads will not take coal trains when they arrive at interchange points. When this happens, we often must stage the train on one of our busy tracks for hours or more, where they block other trains. Locomotive and car utilization both suffer, as does service to our joint customer.

## **CONCLUSION**

Railroads have done what Congress expected when it enacted the Staggers Act. They became highly efficient and passed along many of the benefits to customers in lower rates. They became amazingly safer. They improved infrastructure. They invested hundreds of billions of dollars to carry out their objectives of providing more reliable on-line service and the best service possible over limited interchanges. The ICC and the Board encouraged them to build larger systems that have invested more and improved safety and service. The Board should not destroy these successes by moving backwards to reduce rates for some shippers.