

Written Submission to the Surface Transportation Board

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Company: Graniterock
P.O. Box 50001
Watsonville, Ca. 95077-5001

Author: Dan Slavin
Manager of Rail Service
(831) 768-2369
dslavin@graniterock.com

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As background: Graniterock is a 107-year old family-owned Construction Materials Supplier and General Engineering Contractor. In 1992, Graniterock was a recipient of the Malcolm Baldrige National Quality Award. Graniterock has been doing business with the railroad for its entire 107 years as the very foundation of the company was first centered on supplying ballast for the railroad's expansion. The company now supplies construction aggregates from Wilson Quarry near Watsonville, CA to rail-served locations from San Jose to San Francisco. These locations rely heavily on the UP for daily rail service as congestion on highways and in surrounding neighborhoods makes delivery of aggregate by truck impractical and undesired by local municipalities. In the peak construction season, rail shipments are between 90 and 115 railcars per day. Graniterock is geographically captive to the Union Pacific Railroad as no other railroads service our delivery locations.

We thank the Surface Transportation Board for its request for input regarding rail capacity, traffic forecasts and infrastructure requirements. We view access to adequate rail delivery in the greater San Francisco Bay Area, critical to the economic health of the region. We have become increasingly concerned of the railroads inability to regularly complete required deliveries over the past couple of years. Minimizing truck traffic along the congested Bay Area freeway system is in the best interest of all Bay Area residents and businesses. In 2006 alone, rail service issues caused emergency trucking putting over 1,224 truckloads back on local roads. The reasons for these non-deliveries will be discussed in this document. Our concern about the future is intensified as we realize that the San Francisco Bay Area is now emerging from a five-year building slump. We forecast significant rail delivery growth over the next five-year period.

Considering current Graniterock rail-served customers only, rail demand will increase over 50% by 2009. This is an increase of over 6,800 carloads per year. If we include shipments to customers who wish to acquire or re-acquire rail delivery, the forecast will

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increase by over 60% (+8,700 carloads) in 2008 and by 93% (+11,900 carloads) in 2010. These new shipments will directly pull current truck traffic from Bay Area highways.

It is our view that a number of rail infrastructure changes coupled with capacity issues have caused the delivery failures stated above.

Closure of the Newhall Rail Yard In 2004 the Union Pacific sold for real estate development and began closure of its Newhall Yard located in San Jose. The closure forced the relocation of crews and equipment critical to reliable rail service along the San Francisco Peninsula. Rail business was redistributed to other surrounding rail yards. Holding tracks at Newhall were reduced from fifteen to three. Without a Newhall base, crews now conflict to a greater degree with commuter train traffic for access to the Peninsula Mainline. Peninsula freight traffic has been limited for years to a window between 10:00 p.m. and 5:00 a.m. daily. This narrow window has worked for over fifteen years until the Newhall capacity was reduced. Crews originally based at Newhall, where loaded railcars sit while awaiting delivery up the peninsula, now originate in South San Francisco increasing the opportunity of being held from the mainline by commuter traffic. This also increases delivery cycle time as cars now wait an additional day for delivery. The reduced availability of storage track in the San Jose area also contributes to missed deliveries as side-tracked trains can block access to delivery locations. Often crews run out of time prior to completing their delivery cycles due to dispatchers holding access to the mainline.

Daily rail string size to two Graniterock locations has been temporarily reduced by 30% to assist the UP with their current logistics inefficiencies. The railroad is reluctant to increase freight traffic along the San Francisco Peninsula to levels once supported prior to the 2001 "dotcom recession." Discussion to make service improvements continue but progress is discouragingly slow.

The new or re-acquired rail-delivered aggregate business mentioned above has been hampered also by the inefficiencies resulting from the Newhall closure. In one case a 1,500 carload per year customer has been hindered from re-acquiring rail service because their track now sits on the wrong side of the mainline. Another 1,500 annual carload customer has been dissuaded from re-acquiring rail delivery because rates quoted recently are significantly higher than were previously quoted. The UP alleges that the higher rate is due to the inefficiencies of local crews relocating to more distant home yards. Both of these viable and willing rail customers now haul by truck because of failure to expand rail service at reasonable rates.

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In late 2005, Graniterock and the UP jointly organized a Rail Service Improvement Team. Both teams have service goals measured daily. Improvements have been achieved to a limited degree but even these incomplete service improvements give us hope that the railroad will continue to work on improving their operational reliability.

Competition for Mainline with Commuter Traffic (JPB-Caltrain & Amtrak)

As stated above, freight traffic along Peninsula Line has been restricted to the hours of 10:00 p.m. and 5:00 a.m. daily for many years. Although commuter trains have been added to the system during the daytime and evening period (5:00 a.m. and 10:00 p.m.) we have not seen evidence to support UP contentions that commuter traffic has had an impact on freight traffic along the San Francisco Peninsula. Along the southern portion of the corridor south of San Jose, the UP has no hourly freight restrictions. Freight competes with a small number of commuter trains for the mainline through the day. In the future, increased commuter traffic does limit freight main line access and could eventually this southern section of the mainline track to only nights.

Railcar Availability Graniterock and the UP jointly provide railcars to the Graniterock Pool. In 2006, the UP pulled 20% of their cars from the pool midyear as the peak construction season began. Unacceptable railcar maintenance issues caused a further reduction of the active pool size by an additional 20%. Coupled with the rail service inadequacies listed above, the railcar pool size caused rail delivery schedules to be adjusted at least one day per week during the September through November time period. Some trucking was required to meet daily customer demand. Along with the efforts of the Service Improvement Team to improve railcar cycle time, we are also negotiating with the UP to reinstate the pool size to its former size. An increased proactive focus on railcar repair of all cars in the pool is now in place to ensure cars in the pool are in service. Railroad officials state that they will not be purchasing additional open-top hopper cars of our type in the future.

Crew and locomotives Since the re-assignment of crews and equipment discussed above, the UP appears to be only minimally equipped to handle daily scheduled business. If a locomotive goes down or a crew is unable to work for any reason, there appears to be little or nothing in reserve. I commend the local UP Teams for making do with the few resources that they have available. Locomotive maintenance issues are to the point that crews leave equipment idling for shifts at a time while sidetracked. It has been stated that they are afraid of not being able to restart the locomotive when the train is re-crewed.

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Track Maintenance There are many sections of UP Lead Track in the Bay Area requiring major repair or replacement. Certain sections go out of service yearly if not more often. Once out of service, no deliveries along these lines are possible. There also appears to be an unacceptable level of communication between UP Maintenance and Away staff and the UP Operations Teams. Operations people often have no idea what track defects exist and when repairs are scheduled and completed. This is entirely a communication issue and seemingly easy to resolve amongst the UP Teams.

In conclusion, Graniterock forecasts rail demand increasing 50% to 93% over the next three to five-year period. We are concerned that the railroad is now only minimally equipped to handle the current level of business and often does not meet delivery schedules. If this increased demand is not handled by rail, it will have to be moved by truck. The increased truck traffic will further negatively impact already congested roadways, add additional pollutants to the environment and reduce traffic safety. Local community governments are depending on rail maintaining its current, if not increased volume, of freight deliveries. We recommend the following:

- Improved communication and cooperation between the Joint Powers Board (JPB), who operates the commuter service, and the UP regarding coordination of rail freight traffic on the mainline.
- UP should re-establish a base at Newhall for at least one Local to service the peninsula. This will require negotiations with the JPB.
- Increase railcar availability (Open-Top Hoppers in our case)
- Increase locomotive availability. UP should continue to purchase locomotives and fine-tune their procedures to share locomotives between UP yards when shortages occur.
- Continue to hire and train new crews. Provide ample crew availability so that trained backup crews are available when needed.
- Repair and replace where necessary marginal track so to reduce track out-of-service and derailments.
- UP should discontinue the practice of "de-marketing" formerly operated rail service to customers in the San Francisco Bay Area that are currently forced to receive aggregate shipments by truck after receiving the shipments by rail for decades.

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It seems to us that through deregulation, the railroads have been given the responsibility of providing adequate rail service to shippers thus keeping additional truck traffic from the highways. If the railroads are not able to manage this resource that is so vital to the health of the nation, the Surface Transportation Board and Congress should intervene for the public good.

Thank you for the opportunity to comment.