RAILROAD WEEK IN REVIEW

May 6, 2022

"Railroad performance metrics need to improve soon. The country is going to have a lot of trouble if 30 days and 60 days from now these numbers aren't much different. If we're relying only on hiring, I don't see you being able to get there in 30, or 60 or 90 days. We're going to miss the planting season, we've got fuel problems. That's what I'm concerned about." — Martin Oberman, STB Chairman, April 27

"PSR hasn't yet proven its future business case shift mode. As evaluated by others like Oliver Wyman, the Class Is since 2006 have had nearly120 million train-miles of annual freight capacity upon which to grow traffic volume and market share. But there was zero evidence given to the STB that the 'pivot to growth' job is getting done." — Jim Blaze, Railway Age, on STB hearings, April 26-27

"When PSR was first introduced in the US in 2017, there was some optimism, but mostly fears and concerns of how significant cuts in railroad operations and staffing would impact rail service. Unfortunately, our members' worst fears have become the current reality. PSR has become ubiquitous in our already competition-constrained rail network, and we are faced with compounding adversity." — Robert Benedict, VP, American Fuel & Petrochemicals Manufacturers, STB hearings, April 26

"The Fertilizer Institute attributes the erosion of cycle times to implementation of PSR, which has had several consequences, including eliminating too much rail carrier personnel, idling of locomotives, and closures of service yards, all of which has compromised rail carrier operational elasticity and the ability to handle unexpected issues." — Justin Louchheim, The Fertilizer Institute, STB hearings, April 26

The STB's "Urgent Issues in Freight Rail Service" hearings April 26, 27 brought into sharp focus both customer stories of railroad service failures and the Class I railroads' rebuttals. The two customer quotes above hit on the general theme running through the shippers' testimony. The Class Is all took the position of acknowledging service problems, providing root cause examples, and telling how they plan to set things right over the next six to twelve months. But nobody put any real dollars against the matters at hand. On either side.

For example, the American Forest & Paper Association testified that service failures caused their members to spend "many days engaging in damage control, shifting resources to track down delayed shipments, addressing the insufficient car supply, dealing with reduced switching services." But although we heard about the size of their industry in dollars and economic impact, there were no indications of the direct cost of railroad service failures — hours spent on car tracing, percentage increase in freight costs, carload equivalents shifted to truck, e.g.

Among Class Is, CSX COO Jamie Boychuk for example produced a Power Point of service improvements, T&E head-count increases, growth partnerships, service enhancements, and expanded employee benefits. CEO Jim Foote (the only CEO of a US railroad to appear) explained the challenges of projecting market changes, especially when customers over- or under-state their own outlooks. A first-mile/last-mile exchange during the Q&A was helpful. But once again, we heard no real numbers.

The BNSF slide deck also tracked performance histories and trends, showing how weekly carloads lag cars-on-line (five percent more cars, three percent less tonnage), and service recovery actions. Chief Commercial Officer Steve Bobb stressed the need to be able to say YES to customers when discussing service requirements. The weekly commodity network updates on bnsf.com provide something of the transparency the Board asked all the railroads about in the Q&A.

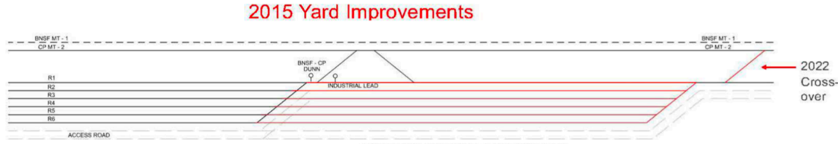
Though the hearings were all about US railroads, both CP and CN testified about the need for proper communications both ways between the railroad and its customers. And since both of these roads were running PSR long before the concept hit the US, it was refreshing to hear how they made it work. I think CP's James Clements, SVP for Strategic Planning, said it best: We took our time and followed the precepts from asset allocation to hiring the right people, spending more than C$750 million over the past decade for the infrastructure needed to support the service goals.

Foundation for Successful Execution

Network configured to support PSR operations

- **Network infrastructure to support PSR operating model:**
  - Yards with long tracks to efficiently handle trains
  - Siding infrastructure between terminals
- **CP has spent over $750 million dollars over the last decade on creating the infrastructure needed**
  - New sidings and siding extensions
  - Centralized traffic control
  - Yard reconfigurations across network
    - St Paul yard is illustrative with track extensions from 6,800' – 7,200' up to 9,800' – 10,300'

2015 Yard Improvements



- **Effective implementation yields safe growth and customer satisfaction**
  - Continued improvements in safety
    - 1.80 to 0.99 on FRA reportable train accidents since 2013
  - Customer Satisfaction going from 6.5 in 2014 to 7.3 in 2021

Over the course of the hearings, I got the impression the Board was looking for ways they could help address the service failures the shippers cited, and what the railroad can do NOW to be better customer advocates. Having been down the customer service path myriad times over the past three decades, I'd suggest three things. Class Is, get closer to your customers in such a way as to improve margins and stakeholder returns.

Shippers, document the real cost of every service failure — the cost of bringing in unload crews when the train doesn't show up, the business lost for inadequate car supply, delays en route between OD pairs and trip plan non-compliance. A simple spreadsheet will do the trick. And the STB can help by asking the railroads for cost estimates for resolving customer service complains and a timeline for accomplishing same.

In sum, the hearings showed the real need to get everybody on the same page and set measurable objectives, accountability, and timelines. Then repeat the hearings in another year or so. It will be time well spent, and extricate us from what one railroad user called a "dire" supply chain situation.

BNSF reported first quarter freight revenue $5.6 billion, up 10 percent, on 2.4 million revenue units, down three percent. They did not go nuts on RPU increases. Merchandise was up six percent, auto/intermodal ("consumer") gained 21 percent, coal increased 14 percent. Operating income was $2 billion, up eight percent; the OR added a mere 93 bips to a respectable 64.6. Net earnings came to $1.7 billion, up nine percent.

Eight of 17 merchandise carload commodities were up per the AAR Week 13 car count. Chems, metals, and aggregates increased double digits. Grain, petroleum products (crude and STCC 29), and lumber/wood items were down double digits.

BNSF came in for some criticism from shippers and labor at last week's STB roast, but VP Transportation Matt Garland said service will start to improve as the first of their 1,700 conductor trainees get qualified. Coal-fired power plants say unit trains need to move out smartly after being unloaded; holding for crews hurts transit cycle times. Getting more crews out there faster will help.