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Case: Hearing On Growth In The Freight Rail Industry

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SURFACE TRANSPORTATION Board

Docket No. EP 775

HEARING ON GROWTH IN THE FREIGHT RAIL INDUSTRY

PUBLIC HEARING

Monday, September 16, 2024

9:00 a.m.

Surface Transportation Board Hearing Room

395 E Street, S.W.

Washington, D.C. 20423

Board Members:

Robert E. Primus-Chairman

Patrick J. Fuchs

Karen J. Hedlund

Michelle A. Schultz

(CONTINUED):

Panel I

Oliver Wyman

Adriene B. Bailey, Head of North American Rail Practice

Loop Capital

Rick Paterson, Managing Director

Hum Industrial Technology, Inc.

Byron Porter, Chief Executive Officer

Wolfe Research

Scott Group, Senior Analyst, Airfreight and Surface Transportation

Panel II

Canadian Pacific Kansas City Limited, on behalf of its U.S. Rail Carrier Subsidiaries

John Brooks, Executive Vice President and Chief Marketing Officer

(CONTINUED):

Union Pacific Railroad Company

Kenny G. Rocker, Executive Vice President, Marketing and Sales

Panel III

Transportation Trades Department, AFL-CIO

Greg Regan, President

Brotherhood of Locomotive Engineers and Trainmen

Mark L. Wallace, Teamsters Rail Conference and National First Vice President BLET

Brotherhood of Railroad Signalmen,

Transport Workers Union of America,

International Brotherhood of Boilermakers,

National Conference of Firemen and Oilers/32BJ SEIU,

Brotherhood of Maintenance of Way Employes Division/IBT,

International Association of Machinists and Aerospace Workers District #19, and

International Association of Sheet Metal, Air, Rail and Transportation Workers/Mechanical Division

(CONTINUED):

Richard S. Edelman of Mooney, Green, Saindon, Murphy and Welch, P.C.

Panel IV

BNSF Railway Company

Tom Williams, Executive Vice President

Jill Mulligan, Executive Vice President and Chief Legal Officer

Grand Trunk Corporation, on behalf of the U.S. Rail Operating Subsidiaries of Canadian National Railway Company (CN)

Derek Taylor, CN Executive Vice-President and Chief Field Operations Officer

Patrick Lortie, CN Senior Vice-President and Chief Strategy Officer

Kathryn J. Gainey, CN Head of Global Regulatory Affairs

Allison Davis of Sidley Austin LLP

Panel V

American Short Line and Regional Railroad Association

Henry Posner III, Chairman, Iowa Interstate Railroad

Kennan H. Beard III, President and Chief Executive Officer, Sierra Northern Railway

Marlon Taylor, President, New York and Atlantic Railway

Shannon Drown, Vice President, Commercial and Industrial Development, R.J. Corman Railroad Company

Kimberly C. Thompson, Vice President, Sales and Marketing, Genesee and Wyoming Railroad Services, Inc.

Sarah G. Yurasko, Senior Vice President, Law and General Counsel, American Short Line and Regional Railroad Association

Panel VI

Railway Supply Institute

Patricia Long, President

Hoffman Supply Chain Advisors

David C. Hoffman

(CONTINUED):

Solutionary Rail

Bill Moyer, Executive Director

CNJ Rail Corporation and Railroad Restorations, Inc.

Eric Strohmeyer

P R O C E E D I N G S

CHAIRMAN PRIMUS: We're good. Well, officially good morning and welcome to the Surface Transportation Board's hearing on growth in the freight rail industry. Before we hear from witnesses, I need to address a few housekeeping issues. First, for everyone in the audience, please silence your cell phones and once the hearing begins please take all conversations out of the hearing room.

For the witnesses, our microphone system is a little sensitive, so to use the microphones, press the buttons on and also off when you're done. There may be a slight delay when you do so. Only one microphone can be used at a time so please turn yours off when you're not speaking. Bless you. You may be asked to repeat yourself if you say something while someone else's mic is on.

So just be aware of that and our court reporter is welcome to interject if they can't hear. We ask all parties to do your best to stick within your allotted times. We have the timer with lights that will serve as your guide. With one minute left, you'll see yellow light. When you see the red light, your time is expired and so we ask that you sort of move to conclude those remarks.

If you're using slides during your presentation just let staff know and we will have the slides displayed on the screens around the room. We'll provide you with remote, which I think you may have already that'll help you navigate through the presentation. Due to the number of witnesses and time limitations, Board members will hold their questions till the end of each panel.

Each member will have five minutes to question the panelists with a short window for follow-ups if need be keeping in mind of course, that we have a lot of panels to get through between now and the end of the day tomorrow. This hearing is also being streamed on YouTube and the link is available on the Board's website.

A transcript of this entire hearing will be placed on the Board's website after the close of the hearing and a recording will be available as well. Today we're going to be hearing from panels one through six. Tomorrow we'll begin with panel seven and go through the end of the speaker's list. We'll take a short 30 minute break for lunch. We'll take a 30 minute break for lunch each day and a short break during the morning and afternoon sessions.

Please also note tomorrow we'll begin again at 9:00 a.m. Eastern time. And with that let's begin. For the past 24 years, the Nation's freight rail network has closely resembled the opening line of a Charles Dickens A Tale of Two Cities. I'm told we're not streaming. So once again we're going to have to stop.

(Pause, streaming issue)

CHAIRMAN PRIMUS: All right. Let's try this again. Is everybody ready? Okay. For the past 24 years, the Nation's Freight Rail Network has closely resembled the opening line of Charles Dickens A Tale of Two Cities. "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness." Consolidation brought the remaining Class Is into the 21st century with greater operational and financial stability.

The sky was the limit and the growth potential of the network was promising. However, consolidation also brought a lessening of competition that in turn caused rates to rise exponentially, negatively impacting car loads, volume, and ultimately growth. Precision scheduled railroading truly ushered in the age of foolishness and with it the further erosion of market share to trucks and a continued slide of car loads and traffic volume.

It also highlighted the role of a short term investor who contrary to traditional rail investors, is not concerned with increased market share car loads or volume growth, nor do they care about service resiliency or the consistent flow of goods and bowing to these activist investors, Class Is chase suboptimal operating ratios that had a devastating effect on the network and our national supply chain.

Rail labor, the backbone of the industry saw its ranks cut by nearly a third while rail customers endured widespread service meltdowns and embargoes that cause significant interruptions and cost impacted businesses millions of dollars. So what's next for the network? Is the past prologue? Is the age of wisdom upon us? Can we see real growth? That is why we're here today.

In the wake of actions taken by this Board and following a series of moves at the Class I level, I believe some have finally begun to realize that sustainable car load and volume growth not only matters, but is an essential component to the long-term viability of the network. By prioritizing growth, we prioritize rail service, rail labor, and ultimately the nation's economy.

With that, I'd like to welcome all the panelists and I look forward to an enlightening hearing. So our first panel consists of the following. Starting off we'll have Ms. Adriene Bailey, who's the Head of North American Rail Practice for Oliver Wyman. We have Mr. Rick Paterson, Managing Director of Loop Capital. We have Byron Porter, Chief Executive Officer of Hum Industrial Technology Inc., and we have Scott Group, Senior Analyst, Airfreight and Surface Transportation from Wolfe Research. Good morning to all of you and Ms. Bailey, the floor is yours.

MS. BAILEY: Good morning. I'd first like to thank the Surface Transportation Board Chair and members for providing me with the opportunity to speak here today. I'm Adriene Bailey, a partner with Oliver Wyman, a leading general management consulting firm. Before joining Oliver Wyman, I held senior executive positions at Southern Pacific Railroad, which is now part of Union Pacific Railroad, CSX.

CHAIRMAN PRIMUS: Adriene, can you hold on one second?

MS. BAILEY: Yes.

CHAIRMAN PRIMUS: We're trying to get the camera to actually focus on you.

MS. BAILEY: Before joining Oliver Wyman, I held senior executive positions at Southern Pacific Railroad, which is now part of Union Pacific Railroad, CSX, Pacer International, which is now part of STG Logistics and Yusen Logistics. I led the service design functions at both Class I railroads and was involved in all aspects of intermodal operations at Pacer and at Yusen Logistics. At Oliver Wyman, I currently lead the North American Rail Practice and actively work with Class I railroads, intermodal equipment and drayage providers, terminal operators, technology enterprises. I have more than 30 years of experience in total as a railroad executive, railroad customer, and a consultant to the railroads. I publish and present regularly industry conferences on growth strategies and other topics for the rail industry. More detailed background and information on what I'm going to discuss today is available on Oliver Wyman's website and referenced as citations in this submission.

Today, I'd like to share my and Oliver Wyman's view of the importance of growth to the North American freight rail industry and what the collective stakeholders in this critically important industry must do to reverse market share erosion and what we have seen over the past 10 to 15 years. So why is growth in the rail industry important? To start, it's important to note that rail is a highly energy efficient, sustainable, safe, and low cost mode of transporting freight.

This is particularly true for North America as a whole, which is the largest self-sustaining freight rail network in the world. In other parts of the rail world, freight rail operations frequently require government subsidies. As the Board pointed out in its hearing notice, it's concerning that Class I railroad volumes have not materially grown over the last decade. Indeed, rail is the only freight transportation mode that has lost overall net tons since 2017.

Rail moved 8 percent fewer total net tons between 2017 and 2023 while truck increased, the net tons moved by 3 percent. In addition, the Department of Transportation in the US currently projects that rail will have the slowest growth among freight transportation modes through 2030, which means that railroads are predicted to lose more share to other freight modes over that timeframe. Now let's see if this works. Does that bring up a slide? I'm ready to put up slides. Well, I shall I just keep going and try to describe.

COURT REPORTER: We froze your time.

MS. BAILEY: Oh, we froze my time. It's like football. Flag on the field. I'm sure it will work. What do I point this at?

COURT REPORTER: At the screen.

MS. BAILEY: Here we go. To put context around what a continued loss of rail market share could mean for our society as well as rail stakeholders, I'd like to summarize an analysis that Oliver Wyman performed in 2022 in which we looked at the implications of several scenarios for rail market share through 2050. These are in Exhibit 1. The blue line is the baseline Federal Highway Administration forecast for rail market share.

We have created three alternative scenarios to project for the potential for rail to gain, hold, or lose additional market share. The baseline forecast anticipates that rail market share will drop four percentage points by 2050. We believe this may be optimistic, however, because the FHWA forecast simply grows the current volumes of individual commodities that are now shipping on rail, it does not reflect the more critical trend of flexible freight, which is freight with a choice between truck and rail migrating to truck.

That is, we believe that without changing the railroad's, operating performance shippers who are now using rail who have the option to ship by truck will continue the current trend of moving more freight by truck in the future. This is shown by the red lose share line in Exhibit Number 1. In every one of our future scenarios, the volume of rail freight grows.

What is critical to understand, however, are the far reaching implications of rail losing share versus gaining share relative to truck. As an example, let us consider these implications against four dimensions. Maybe not so I'm doing something wrong. There we go. As shown in Exhibit 2, in the area of safety, rail has far fewer incidents each year than trucking that cause injury or loss of life. With more freight moving on trucks, the US will be certainly see significantly more deaths and serious injuries.

On a ton mile basis, rail is about 28 times safer for the public and the workforce than trucking. Our analysis estimates that if railroads could regain share, this would save approximately 16,000 lives and prevent 660,000 serious injuries between now and 2050. More trucks on the highway also requires billions more in federal and state dollars to be spent on maintaining and expanding road infrastructure. There would be no choice but to keep adding more lane miles to keep roads from gridlock.

We estimate that by 2050 the US would need to spend an additional 332 billion on roads if railroads fail to take share back from truck. In terms of overall carbon emissions and energy efficiency, there is no question railroads are a better solution. In 2022, for example, US railroads accounted for 2 percent of transportation related greenhouse gas emissions while moving 40 percent of inner city freight.

Trucking moves 1.5 times as much freight, but to do so it generates 11.5 times more greenhouse gas emissions. But let us also consider a future in both rail and truck have achieved net zero emissions. At that point, our goal will shift from sourcing clean energy to minimizing total energy consumption. That's because no matter what future energy sources we use, we are unlikely to have them be limited, unlimited, or free.

Given that rail is four times more energy efficient than trucking, a world with little or no freight rail would consume vastly more energy than one that maximizes the use of rail. For example, we estimate that added energy requirements for trucking by 2050 in the rail market share loss scenario would require 30 percent of current renewable energy generation or put it another way, the US would need to install solar panels covering an area five times the size of Washington DC at a cost of approximately $170 billion.

Last but not least, if railroads fail to reclaim market share from trucking, the industry and its investors would miss out on billions in revenue and operating income. This would impact the railroad's ability to raise capital, to continue to invest in infrastructure and assets and to employ a growing workforce, all of which benefits the US businesses and the economy as a whole. Growing rail market share is a monumentally important public good.

Whether the goal is improving transportation safety, lowering public spending, ensuring energy independence, or maintaining the efficiency and resilience of the US transportation networks. Next, I'd like to briefly review what is causing current rail market share erosion. Since the Staggers Act of deregulated rail in 1980, the railroads have delivered tremendous improvements in productivity, much of which was delivered back to shippers and consumer in the form of rate reductions as shown in Exhibit 3.

Starting around 2015, however, productivity gains began to flatten and rates began to move up again. Volumes have stagnated and coal volumes have declined as utilities moved away from using coal to generate electricity. To be clear, revenues have still grown, but volume games have not kept pace with the rise in the overall freight volumes and the industry has been ceding share to truck year over year. It's tempting to attribute railroad market share loss exclusively to the decline of coal.

As shown in Exhibit 4 except for intermodal, major non coal sectors of the rail freight industry have also not been growing. Truck ton miles, on the other hand have grown steadily about 1.4 percent a year since 2000. What is behind this shift? In 2020, Oliver Wyman surveyed large rail shippers to identify some of the key reasons as well as their views on what might need to be changed to reverse this trend.

Notably, 100 percent of the executives we surveyed found truck to be superior to rail on all attributes of customer experience as we show in Exhibit 5. At the same time, shippers consistently told us they want to do more with rail because of its advantages, but the product and the experience simply are not meeting their supply chain needs.

Since the 2000s and even before, supply chains have only become more globalized, often involving multiple transport modes. There have been radical changes in how industries and consumers source and buy goods. Shippers have had to become much more sophisticated to manage these complex supply chains, including changing the criteria by which they evaluate their transportation mode choices. When I began my career in this industry, the most important thing to a shipper was the pure transportation cost on the invoice.

Today's shippers are increasingly focused on the total cost of doing business with a carrier or a transport mode. Freight rates are still important of course, but shippers now factor in many other considerations in their choice of a carrier or a mode such as safety stock, warehouse productivity, inventory turns, billing accuracy, the speed of problem resolution, shipment visibility, timely and accurate data reporting. Based on our interviews with shippers, Oliver Wyman identified three important factors that are causing shippers to shift more freight to trucks.

The first is that railroads have failed to adapt as supply chain structures and shipper choice models have changed. Railroads must become more integrated with their customers to understand how they can best fulfill shippers more complex needs. They also need to be more proactive and ensure shippers are not making decisions that could lock them out of future rail access.

For example, some shippers told us they're converting rail sidings and rail unloading doors to higher value purposes, while others were evaluating sites for distribution centers without considering whether this would make it more difficult to use rail or intermodal, railroads cannot grow back share if they allow themselves to be dealt out before the game even starts.

The second factor is that rail service performance is simply not good enough. Shippers we surveyed expressed disappointment in rail's poor on-time performance and lack of shipment visibility and ETAs. It's important to note here that shippers are not expecting fast service nor even the same degree of reliability as trucking, but they do expect substantially more transit time consistency and a more responsive approach to problem resolution if they're going to risk their freight to rail.

Third, the railroads are not delivering an overall customer-centric experience. It is no secret that trucking is the gold standard for ease of doing business. Rail shippers we talk to are frustrated with slow response times, overly complex transaction processes and a general unwillingness by the railroads to be accountable for rail service related failures.

Ultimately, this may be the most difficult challenge to overcome as it requires railroads to make full on culture shift and to take a different approach to how processes are designed, how employees are evaluated and rewarded, and how resources are deployed and how strategic projects are selected. So given the challenges that have led to market share erosion for rail, is there hope this trend can be reversed? At Oliver Wyman, we say yes.

If railroads can deliver consistent, reliable transit times and a customer experience that is much closer to truck on all touch points and moments of truth, we think this is entirely feasible. Assuming railroads can solve their transit reliability and customer experience issues, Oliver Wyman has identified several specific volume and market share growth opportunities that the Class I railroads could begin to pursue and I'll briefly discuss here. There we go.

The first of these is intermodal. As shown in Exhibit 6, railroads already have a 65 percent market share for intermodal lanes that are over 1,500 miles and served by a single railroad. I'll just say that again. They already have 65 percent of the market share for lanes over 1,500 miles served by a single railroad, but rail only accounts for 11 to 13 percent of volume in lanes under 750 miles. We estimate that rail intermodal could serve as many as 27 million out of the 41 million truckloads in these lanes using the current intermodal terminal and rail network.

In addition, some lanes over 750 miles that are now served by trucks could be made more accessible to rail in the future by adding smaller, more flexible terminals closer to demand. Railroads have already noticeably lowered share of intermodal when there is more than one railroad involved. So when there's a connection, they have a lower market share. If we streamline interchanges to match single railroad levels of service, we could add more volume to the existing network as well.

The second opportunity for rail is capturing freight growth from the manufacturing upturn now occurring in North America. Railroads are indeed investing to develop large flagship transloading industrial parks in locations they can efficiently serve, but we believe a more comprehensive view of the industrial space is needed. As I mentioned previously, shippers do not always consider rail access to their site selection and some shippers have repurposed existing rail infrastructure.

These are lost opportunities that will tax our system for decades to come as that freight will default to moving in the highway with no rail option. Thus, there is a need for renewed focus on building rail access to shippers, including new lanes, connections, service offerings, and transload facilities, as well as preventing further loss of access at existing rail serve sites. A third opportunity lies in the short line rail sector.

With strong customer first culture, many of these railroads have realized impressive volume gains in recent years by leveraging infrastructure, ancillary services and industrial development that is not directly available to Class Is, although they only account for a small share of industry revenues, short lines contribute 25 to 35 percent of Class I railroad volume. Oliver Wyman recently interviewed senior executives representing 300 of these short line railroads over half the industry.

Many of them believe there's more volume to be captured if Class I railroads will help their short line connections better leverage their strengths and complement their efforts to deliver growth. There are several steps the Class Is could take here. One would be to ensure C-suite level line of sight and support for growth-oriented strategies. Another would be to increase active collaboration with short lines and attract more shippers to rail.

To justify investment and transit time risks of choosing rail shippers need to be confident in the partnership between their serving short line and the Class I, providing mainline transportation. Lastly, Class Is could work to improve their timelines for responding to short line requests for new business support, as well as interchange performance with their short line connections. Many short line customers have the option to ship by truck, which typically can supply a rate and a capacity commitment in a matter of hours.

By comparison, Class I railroads may take days or even weeks to provide a response. In general, the railroads face a challenge that truckers do not, which is they must work with connecting railroads, whether it's a Class I, a regional, or a short line for well over half their shipments. Is that harder? Yes. Does it mean it's impossible to design joint processes that are simple, fast, easy for customers, or to deliver consistent transit times door to door? At Oliver Wyman, we believe the answer to that is no. It's totally possible.

But if the railroads fail to figure out how to solve for this, their share of freight will continue to erode. I do believe that as a group, the Class Is are more strategically focused on growth now than they have been at any other time in my career. I'm hearing CEOs articulate that while efficiency is always a goal and there are always ways of making any operation more efficient over time, earning more of shipper's share of wallet and bringing more volume to the railroad is going to be the next opportunity to create substantive earnings growth.

However, I am not yet sensing that the investor community has bought into this strategy. We should not underestimate the influence of the investment community on where public companies focus their efforts. Ultimately, I'm confident that successful railroad growth strategies will prove that increasing market share also yields higher investor returns.

If railroads can deliver a customer-centric experience and more reliable on-time performance, they will take trucks off our highways and we will all enjoy the benefits of a US transportation system that is safer, less costly, more energy efficient, more sustainable. Thank you for this opportunity to appear before the Board. I appreciate your attention to this matter and I'm happy at the end to take any questions.

CHAIRMAN PRIMUS: Thank you, Ms. Bailey. Mr. Paterson, and we'll give you a second. Staff, get ready for Mr. Paterson's slide deck please before he starts.

MR. PATERSON: Good morning Chairman Primus, Vice Chair Hedlund, member Fuchs and member Schultz. For the opportunity to be here today, I represent, as you know, Loop Capital, a Chicago based private investment bank, and I've been a Wall Street analyst covering the railroads for 24 long eventful years. I'll start by putting some numbers around the industry's lack of growth. Then I'll offer some reasons why, and what the future may hold.

So this first slide and the others that come after it show consolidated volumes for Union Pacific, BNSF, CSX and Norfolk Southern. It's annual data back to 2000. But if we focus on the 20 year track record between 2003 and 2023, it is a depressing picture. Coal is now less than half of 2003 levels. AG products are 11 percent lower. Intermodal is the bright spot up 29 percent over the last 20 years, automotive has crashed by 37 percent as the rail heavy big three US automakers have struggled. All other commodities combined are down by 8 percent. If you put it all together, the four major railroads hauled 7 percent fewer loads last year than they did 20 years ago. Over that same period, US GDP grew by 50 percent, industrial production by 13 percent and for hire truck tonnage as measured by the American

Trucking Associations was 43 percent higher. We can drill down further with tonnage data that's available from 2006.

This is the freight commodity statistics reported to the STB, here's US corn production versus corn tonnage hauled by rail with positive crop tonnage, but negative rail tonnage. 2006 is an unusual base year. But if we start from 2007, the rail share loss is about 19 percent. Another share loss in wheat with last year's crop flat with 2006 by the rail tonnage hauled was 30 percent lower. Soybeans is a better story with tonnage hauled by the railroads, outpacing crop tonnage by 16 percent since 2006. So some growth in soybeans.

Now here's, a different view of intermodal. The railroad's big success story isn't quite what it appears. Volumes last year were 6 percent higher than 2006. But if we ignore empties and compare the tonnage of customer freight with the truck tonnage index to be more comparable, we have a 16 percent decline in rail tonnage versus truck growth of 35 percent over the last 17 years. That's a 51 percent underperformance on tonnage, 51 percent. Here's automotive tonnage.

This industry obviously took a big hit during the Great Recession and since then rail tonnage has only recovered by 7 percent. In contrast, North American light vehicle production is up 43 percent and US light vehicle sales worth 31 percent above 2009 levels last year. Here's a breakout of some of the other smaller categories, most of which rely on local operations.

If we go back to using a 20 year timeframe, chemicals have grown by 12 percent and construction aggregates by 18 percent, which is good of course, but it gets ugly after that. Building materials are down 31 percent, metals are down 29 percent waste and scrap is down 15 percent, food is down 25 percent and paper and forest has been cut in half as print media continues to go digital. It is clear that in most of the markets, the railroads are shrinking.

While in a handful of others, they're growing slower than the industries they serve. In a nutshell, the railroads are losing relevance and participate less in the US economy every year. So the obvious question and the reason we're all here is why. In my view, it boils down to three reasons. The first is that the railroads quite rationally have exploited the opportunity from post Staggers consolidation and a lack of rail to rail competition to extract above inflation pricing starting in 2004.

Given the choice a for-profit company will always prioritize price over volumes because unlike volumes, price has no associated cost and drops straight to the pre-tax line. A consequence of pulling on the pricing lever for 20 years, however, is that the rail product has gotten a lot more expensive and customers have reacted by simply using less of it. This has still been a no-brainer for the rail roads because price driven revenue growth and margin expansion has enabled the rail stocks to outperform the S&P 500 by 3.7 to one since 2004, despite a 10 percent loss of business.

The second reason is of course service as we discussed here two years ago, 13 Class I meltdowns in the last 10 years. It's a little hard to hide from customers, and the other required element of a modern supply chain is customer tracking visibility. While service will remain a problem, tracking is actually solvable with emerging car telematics, and this is why initiatives like rail pulse are so important. We need everybody on Board with rail pulse, no exceptions.

The final volume growth handicap is the fact that the railroads are completely captive to Wall Street. So let me take you down that rabbit hole and explain why that is and how the Wall Street pressure points ultimately manifest themselves in terms of price, service and growth. Wall Street obviously likes growth in any industry, but the railroads are unusual because volume growth has not been a component of the dramatic outperformance of the stocks over the last 20 years.

We remain skeptical of the railroad's ability to grow because we just haven't seen it apart from sporadically in certain business units at certain times. Wall Street still believes that railroads are primarily a pricing story with the ability to raise prices above inflation on heavy weight and bulk shippers where trucking is not a viable option. Wall Street also wants to see operating ratios in every year that are lower than the year before.

Now, Wall Street nagging companies to do it at once is completely normal. It happens in every industry. What's different about the railroads is the fact that Wall Street additionally has a very effective policing mechanism to enforce its demands, and that policing mechanism is shareholder activism. Now, while activism is obviously not limited to the rail industry, we've seen an absurd concentration and success of it here. We've had four major activist battles since 2008.

There's only six companies, and one of those is protected from activism under the Berkshire Hathaway umbrella. So the next question is, why are the railroads so frequently targeted? The short answer is the scarcity and premium based on a handful of operational change agents in networks that are extraordinarily difficult to manage. What's unique about the rail networks is the dedicated right of way.

If a plane, a ship or a truck has a problem, the ones behind just go around it with little or no network wide effects, not so on a rail network where a derailment on BNSF's Southern Transcon, for example, will quickly back up 200 trains. Domino effects and backlogs take at least two weeks to normalize if everything goes well. The role of Class I chief operating officer is therefore, in my view, the most difficult job in the transportation sector. We've then taken that hard job and made it next to impossible with PSR.

When PSR was originally sold to Wall Street, there was supposed to be two huge benefits. The first was much lower operating ratios because you're removing lanes, reducing complexity and running fewer longer trains, reducing costs and capital intensity. That piece has played out. The second promise was better service. In theory, by decongesting the system with hundreds fewer daily train starts, it should be easier to get what's left to run on time.

This worked at Illinois Central, it then worked at Canadian National and then it worked at Canadian Pacific. However, when we've tried to apply it to the more complex spiderwebs at UP, CSX and NS, it's proven much more challenging. One example of the impediments is the so-called no fitter problem. In order to run longer trains, in some cases, they're trying to build trains longer than the yards and past trains longer than the sidings.

In other words, there's a mismatch -- a mismatch between the operating plan and the infrastructure when in many cases, which in many cases cannot be solved. So we've now put these Class I operating departments in very difficult positions. We've taken the most difficult transportation network to optimize rail and further starved it of critical resources under PSR.

In pursuit of operating ratio, operating teams are pressured to build trains that don't fit in yards, pass trains that don't fit in sidings and deliver service with not quite enough crews, mechanics and maintenance of way and not quite enough capex. Negative growth and periodic service chaos has been the result. It's frankly a minor miracle that these networks function at all, but a tiny handful of individuals have managed to figure out how to do it.

Think about this, out of a population of 370 million in the US and Canada, there are by my account, exactly eight people with a track record of being able to run these networks consistently and successfully. Two of them are retired, one of them is dead. Those that are left are the change agents that an activist like Ancora can pick up and use to try to persuade other investors that it is time to replace incumbent management deemed not PSR enough.

In the case of Ancora, Norfolk Southern only prevailed because it counted and caused PSR change agent Jamie Boychuk with its own PSR change agent John Orr. Technically, NS won that proxy battle. So the next question is whether that will discourage future activism in the industry, thereby removing the policing mechanism. My view is yes, but only partially and temporarily.

What we also learned from the Ancora battle is that even when you win, you lose. NS came out of the 2022 service crisis determined to focus on resiliency rather than operating ratio, yet in order to win the proxy contest, management was forced to issue aggressive operating ratio targets and reintroduce operating ratio as a management incentive compensation metric. The proxy battle, as we all saw, got personal and nasty and cost Norfolk Southern $50 million in expenses.

No company wants to go through that. So activism as a policing mechanism while diminished has not been banished in my view. I will wrap up with three growth scenarios we could see going forward. Scenario one is the most negative and it is the current status quo. The rails will continue to grow slower than the market in a handful of commodities, most prominently intermodal that will stagnate in others like grain and continue to lose business in a lot of their merchandise traffic that entails local operations plus of course coal.

At some point, this will necessitate infrastructure rationalization or sharing if revenues become insufficient to justify maintenance and operating costs. Scenario two is that the Wall Street pressure points on price and operating ratio do not change, but the railroads are able to manage their way out of the no growth quagmire by improving service and Adriene gave a great example of what that might look like.

I basically said earlier that I regard these big US PSR networks as borderline unmanageable, so for this to work, someone is going to have to take this PSR foundation and figure out a way to make these networks more manageable, resilient, and consistent to the point where multi-year service track records can be established and customer confidence is restored. This may require a partial rollback of PSR.

We basically need a growth version of Hunter to emerge, but realistically, I think this scenario is least likely. Scenario three is I think how this ultimately plays out. In this scenario, the Wall Street pressure points do change. After a 3.7 to one outperformance of the stocks over the last 20 years, there's an understandable reluctance to believe that the rail price story is over, but it is.

The glory days were 2004 through 2011 when annual price growth exceeded 5 percent, that throttled back to 3.4 percent between 2012 and 2016 and decelerating again to just 2.5 percent from 2017 through the present. With the recent exception of intermodal, we've been in a freight recession for two years now, and the last piece of Wall Street hope is that when demand strengthens, we'll see a significant increase in rail pricing.

If that proves underwhelming, which I think it will, that might be the last straw. When Wall Street finally accepts the end of the pricing story and pressure on management will rebalance into a healthier blend of volume and price. You will know when we reach that point because someone will get on a call, the earnings call and ask railroad management a question that goes something like this.

We all know the rail pricing story is over, so what are you doing to grow volumes? Just finally, for your reference, I've got the four magic Class Is at the back and the 24 year growth picture. I'll leave it there. I thank you for your attention and look forward to your questions.

CHAIRMAN PRIMUS: Thank you, Mr. Paterson. Mr. Porter. We'll, wait till we get your slides up.

MR. PORTER: I apologize. I actually don't have slides. See now this is my first rodeo.

CHAIRMAN PRIMUS: That's okay.

MR. PORTER: But yeah, so I apologize especially for those who are in attendance. I just have four charts. They're embedded in my testimony if you care to go see those. Chairman Primus, Vice Chair Hedlund and members Fuchs and Schultz I come to you today wearing three different hats. First, as the CEO of Hum, a rail technology company that I founded in 2019. Second as a former grain shipper and third as an analyst at the rail industry.

At Hum, we design build and sell wireless sensors for the onBoard monitoring of rail cars, and we're fortunate to work with, excuse me, great partners across the industry, including the brotherhood of Railroad signalmen, the University of Texas, Rio Grande Valley, and a wide range of shippers car owners in both Class I and short line railroads. I started Hum for two reasons based on my experience as a rail shipper to keep workers from getting killed in the rail yard and to fix chronic issues like the lack of visibility and to rail operations that shippers have struggled with for decades.

Our mission is to help the rail industry become smarter and safer. The products we offer at Hum are designed to provide rail shippers, rail car owners and railroads with greater visibility of rail shipping. We make devices that provide basic functions such as GPS tracking of a rail car or whether a door is left open along with state-of-the-art devices like our predictive wheel and bearing condition sensor, or our scale replacement load sensor.

A healthy growing rail industry means that my business is also healthy and growing. Hence, I have a vested interest in seeing that more freight shippers choose to move their goods by rail. To that end, I have taken up a second role as an amateur industry analyst. I have written extensively about some of the most pressing issues I see for the rail industry, namely the lack of volume growth for Class I railroads, the need for greater investment in safety and the long history of how public policy has shaped this industry. That the railroads have struggled to grow volumes of no surprise to anyone in the industry, carloads peaked in 2006, even as key economic signals suggested that they should have continued to rise.

To illustrate this point, chart one shows the monthly seasonally adjusted carload volume in the United States since 2000 plotted alongside the carload volume is the US Bureau of Transportation Statistics Truck Tonnage Index, which we can use as a proxy for trucking volume growth since gross vehicle weight hasn't changed since 1974.

Coming out of the global financial crisis in 2009, both truck and rail bottomed out at approximately the same time, yet while rail volumes quickly plateaued before taking another significant drop in 2015, trucking tonnage grew steadily from 2009 to 2019. This period does coincide with the growth of Amazon and E-commerce and perhaps this truck friendlier freight fueled growth and trucking while rail declined, plotting the same carload volume against industrial production shows that wasn't the case.

Chart two shows that the industrial production index also grew steadily from the bottom of the global financial crisis in 2009 until it peaked in January, 2015. We have been in a stagnant industrial period since 2015 yet in that time, rail volumes have declined roughly 25 percent. Clearly attributing volume loss to the state of the industrial economy does not explain why so much volume has left the rails and has not returned.

My thesis on why the rail industry has

been unable to grow volume is made up of three key points. First, all companies must choose between a strategy of profitability or growth. Second, for the past 20 years, railroads have chosen a profitability strategy at the expense of growth. And third, the incentives of public markets create structural barriers that prevent the Class I railroads from switching to growth strategy, as my colleagues highlighted already today. I'll elaborate on these three points.

First, railroad management teams must choose between pursuing the strategy of profitability or growth. These are, I believe, mutually exclusive choices and trying to do both results and inability to do either strategy well. Profitability strategy is predicated upon driving down costs and increasing prices to squeeze more cents out of every dollar. A growth strategy prioritizes growing revenue by increasing volumes rather than increasing revenue solely through pricing.

In fact, reducing prices or pricing below fair market value is a tool used in a growth strategy to meet the goal of increasing sales volumes. And before continuing I want to point out that there's absolutely nothing wrong in and of itself with a business pursuing a profitability strategy, examining your business for ways to reduce unnecessary costs, improve productivity, improve safety, and reduce chaos, are all good things to do to neglect to do so would be in violation of the fiduciary duty that company officers have to their shareholders.

However, the law of diminishing returns cannot be ignored. You can only ring so much water out of a wet towel. At some point, a profitability strategy can become value destructive in the long term rather than value constructive as companies given to short term incentives at the expense of long-term gain.

Second, since at least 2004, Class I railroads have explicitly or implicitly chosen a strategy of profitability over growth. This is evident. From the data from the deregulation of the rail industry in 1980 until the end of the merger period in 2003, Class Is grew through consolidation. Once that era was over, they were able then to enjoy their increased economies of scale and reduced competition to expand their profit margins far more effectively.

From 1980 to 2003, the cost of rail shipping increased at a steady rate of 2.2 percent annually. From 2004 until today, the rate of annual price increases for rail shipping nearly doubled to 3.8 percent. Chart three shows us inflection point in 2004. Not surprisingly, as the cost to ship by rail increased, freight volumes decreased. Yes, large macro events like the global financial crisis in 2008 and the COVID pandemic in 2020.

The secular decline in coal and cheap financing from the era all played a part in the modal shift. But what is notable is that with each downturn in freight volumes, the freight that did come back shifted from rail to truck. When shippers who had the luxury to pick modes were given the chance to reevaluate their supply chains, they specifically chose trucks. And this is shown in chart four.

Third, Class I railroads are structurally incapable of switching to a growth strategy. Why? There are many reasons, but I'll highlight the largest one: Wall Street. Class I railroads are held accountable for the ability to deliver inflation plus pricing while minimizing expenses. Growth is not expected, so it is not rewarded.

In fact, anything that leads to a larger operating ratio is often viewed as heretical, thus restricting the amount of capital available to reinvest in growth oriented initiatives and handcuffing railroad sales and marketing professionals from offering more competitive rates to shippers in effort to increase their volume shipped. The patience necessary to grow mature new business opportunities is lost after a few quarters and projects are killed before they can bear fruit.

One salesperson at a Class I told me that they are heavily restricted from traveling to meet with customers while unsurprisingly, a large shipper expressed their desire for the railroad to come meet with them one-on-one to talk about more opportunities to shift freight to rail. Instead, the shipper is treated to lavish dinner or a party where in the presence of their competitors who were also invited, very little is discussed about the specific opportunities for each business.

As Norfolk Southern discovered, wall Street also has a little patience for expanded head counts and active locomotives that could provide essential slack in the operating capacity of the railroad. A business absolutely should be able to scale up and down as the market dictates. Yet, if that reduced capacity in a down cycle means you miss out on the upcycle, it may be worth taking a bet on getting in the water before the next wave crest.

For the time being, railroads are stuck in a game of chicken where any deviation from a focus on minimized expenses, pricing above inflation and returning all non R&M cash to shareholders is punished. It is my belief, even as an optimist, that without radical change or significant external factors, the rail industry will continue to contract until it becomes nothing more than the transporter of low value, bulk commodities and railroads are sidelined to little more than dividend producing utilities.

I don't believe that there's a soul in this industry who wants that future. We all want shippers to choose rail and for railroads to continue their long proud history as the backbone of this country. The Staggers Act saved the rail industry and put it on a path toward profitability. Now the industry needs to take the next step and make the radical changes necessary to embrace a growth mindset.

Rather than seeking obscurity and irrelevance, the railroads can do several things today to reverse this fate. Putting my tech company CEO hat back on, I will focus on the technology aspect. My belief is that rather than continuing to maintain or reduce the amount of value captured by their customers, railroad should seek to grow the services included in their offering. And I call this concept growing the service stack.

There are additional services that railroads can and should offer built on top of their core function of moving goods from point A to point B. And there are three ways the railroads can do this. First, upgrading the underlying data infrastructure to enhance network visibility and transparency. Second, become more deeply integrated with operations over the fence from the rail yard and third, reduce the regulatory burden for innovation.

First, as a rail shipper, my life was thrown in a turmoil on a regular basis because train ETAs were constantly rewritten. Having to continuously shuffle inventory around reschedule the crew that was supposed to unload the train that now wasn't going to show up again and call the railroad to find out where our train actually was created a constant headache.

GPS equipped rail cars would provide tremendous benefits to shippers and assist railroads with informing their customers on the disposition of their freight. The inability to plan a real-time 24/7 operation or make bets in a real-time 24/7 global marketplace because you are stuck with sporadic CLM updates is as astonishing in 2024 as it is laughable.

I would even argue that the railroads would find a positive ROI in providing GPS equipped rail cars to their customers or reimbursing the investment through rate discounts. Increasing the car hire rate for rail cars equipped at the latest sensor technology would be another positive incentive for private car owners to equip their fleets and share the data with the railroads.

Too often it seems that there is a zero sum lens for tech adoption by railroads where it's believed that the only positive ROI out there has to come from headcount reduction. I estimate the cost to equip and maintain GPS on the 1.6 million rail cars in North America to be an extra six to $14 per car per month, or 120 to $260 million a year. Looking at the industry as a whole in 2023, the six Class I railroads earned revenues of $95.4 billion on expenses of $62.5 billion or an industry OR of 65.5 percent.

Assuming they took on the full cost of telematics adoption, which they wouldn't, the increased cost of the railroads would be a whopping 0.2 percent to the industry OR. There is a 50 to a hundred million dollars a year industry dedicated to providing rail shipping transparency services for rail shippers. Railroads could reclaim a large portion of this market simply through upgrading their underlying data infrastructure and making that information more easily accessible for their customers.

Second, using technology to more deeply integrate into a shipper's operation would provide benefits to both the railroad and the shipper. The railroad would be able to anticipate the needs of the shipper more effectively, while also reducing inefficiencies. Since shippers are incentivized to and operate with a mindset of no one ever got fired for ordering too many rail cars, railroads would be able to deliver just the right number of rail cars at the right time.

I call this concept railroad managed inventory, or RMI. Railroads would be able to see how quickly a shipper was loading or unloading rail cars to create a modern forecasting tool to understand when a shipper would need a spot or a pull. Using modern data analytics and AI, railroads and shippers would be able to more accurately anticipate each other's operational capabilities in real time all digital with data available to both parties instantaneously and without picking up the phone or shooting off another email.

Third, it has been said that Silicon Valley will not save the railroads, meaning that technology companies are not going to build solutions for the rail industry. And this is true. The rail industry is a small market, relatively speaking, is highly concentrated and has a large number of regulations to contend with.

This often leaves innovation in the industry to DIY industry players or squash by dominant duopolistic suppliers. However, rather than use this as a stick to beat away innovation, the rail industry should seek to reduce these barriers. One primary example is the laborious process of seeking approval through AAR committees and pseudo committees.

This can take years, cost hundreds of thousands of dollars and significantly deter investment. If Hum wasn't committed to its mission of helping the rail industry become safer and smarter, we would've packed it in long ago. Of course, safety is paramount and equipment should be tested thoroughly before being broadly adopted. However, when it is determined that a wireless sensor on a lumber car needs to have the same hazardous certification as a sensor on a hydrochloric acid car, it would seem that we've lost the purpose of the regulation.

Moreover, the cell phone in your pocket or the radio clip to a worker's vest carry orders of magnitude more risk than these low power wireless sensors. Investing in and reducing the hurdles to greater innovation in the rail industry can usher in the next generation of technological benefits the rail industry desperately needs to attract shippers back to rail.

The hard truth remains that while a

shipper can expect trucking to deliver end-to-end transparency, real-time transactions and seamless integration into their ERP and broader supply chain management tools, railroads cannot even offer a fraction of that value far more can and should be done. There are certainly challenges to growth in the rail industry, some of which I've outlined here. Despite these obstacles, the industry can and should build upon its profitable operations to pull more and more freight onto the rail network.

At Hum, we stand ready and willing to develop the technology to assist with that endeavor. Thank you for the opportunity to share this perspective today and I look forward to your questions.

CHAIRMAN PRIMUS: Thank you, Mr. Porter. Mr. Group. Waiting on some slides.

MR. GROUP: Thank you Mr. Chairman, Board members and your staffs for the opportunity to present Today's important hearing regarding growth in the freight railroad industry. My name is Scott Group. I'm the Senior Transportation Analyst at Wolfe

Research, a leading equity research firm. Our clients are primarily mutual fund and hedge fund analysts and portfolio managers who invest in the public equity and debt securities of the railroads and other transportation companies.

I come today with a more optimistic message looking ahead to the future. First, given the focus of these hearings, let's acknowledge that the rails have not grown volumes over the past decade. As shown here, total rail industry volumes have declined by almost 1 percent annually over the past decade. In part, this reflects a 40 percent decline in coal volumes over this period, but industry volumes are still down slightly, excluding the impact of secular declines in coal traffic as intermodal volumes have also declined modestly during this 10 year period.

We believe there are several factors here, including a challenging macro backdrop the past couple of years with a broad freight recession and the ISM manufacturing index in contraction territory below 50 for 21 of the past 22 months. The rails also face an industrial recession in 2015 through 2016 and large declines in volumes during the peak of the pandemic in 2020.

In addition, the rails called some volumes during the implementation of PSR in the latter parts of the last decade and certainly lost some business due to service challenges coming out of the pandemic. So we believe the lack of industry growth reflects a combination of secular declines in coal, a challenging macro backdrop, and some self-inflicted wounds.

But as we discussed today, we believe the industry is increasingly focused on profitable growth moving forward. It's also worth noting on this slide that the two rails with the worst operating ratios currently BNSF and Norfolk Southern have actually lagged CSX and Union Pacific on volumes over the past five years. Next, we take a more recent look at volume trends for the rail industry.

Following the freight recession in 2022 through '23, the rails are currently leading the broader transport complex out of the freight recession with positive volumes the past four quarters. Rail volume growth has accelerated the past two quarters, and volumes are currently trending up 4 percent in the third quarter, the highest growth rate in the past 13 quarters.

Intermodal growth has also accelerated in each of the past four quarters, and we are currently witnessing the best intermodal growth in three years in the third quarter. In addition to intermodal strength, we're seeing strength in grain and petroleum and chemicals volumes. We're currently forecasting over 2 percent rail volume growth this year after declines in four of the previous five years.

We also want to highlight an important change in behavior we've witnessed from the rails the past couple of years during the past freight recession. We show that from 2000 through the pandemic in 2020, there were nine years of negative rail volumes for the industry, and on average in those nine years, the rails reduced headcount by 5 percent on average, perfectly matching the historical decline in volumes.

But we saw something very different in '22 and '23 with rail headcount up 2 percent in '22 and another 5 percent in '23, despite industry volumes falling nearly 4 percent over this two year period. As a result, as a result of these large increases in headcount, the rails faced unprecedented declines in margins in '22 and '23 with margins declining in nine of the past 10 quarters through Q1 before inflecting positive again in Q2.

We believe this investment in resources over the past couple of years is paying off today as we're now seeing a period of both volume growth and improving service levels as shown on this slide. Historically, volume growth in the industry has coincided with periods of increased rail congestion and rail service challenges. In fact, from 2013 through 2021, there have only been five years of positive rail industry volume growth, and in each of these five years with positive volumes, rail service levels measured by an average of train speeds and dwell times deteriorated by 5 percent on average.

But once again, we're seeing something different today. In 2024, year to date train speeds and dwell times have improved by 2.5 percent while rail volumes are tracking up more than 2 percent. This shows that the rails can in fact grow volumes without sacrificing service quality for shippers.

Staying on this topic of service, slide six shows that absolute train speeds and dwell times have clearly improved over the past two plus years, and with improved service levels, we're starting to see signs of the rails gaining share from trucks again. Slide seven shows results from our proprietary quarterly shipper survey of large traffic managers and railroad shippers.

Each quarter, we asked shippers about market share shifts to and from the rail. Based on our survey results shown here, shippers had been making net shifts to trucks since 2018 amidst periods of lower fuel prices, poor rail service, and more recently falling truck rates.

But we've seen an inflection the past two quarters with our survey respondents now reporting net shifts back to the rails. We're encouraged with the volume and service trends we're seeing in recent quarters. I now want to address the topic of rail operating ratios. I've heard certain industry analysts and Board members talk about the cult of the OR for the rails. While analysts and investors certainly care about rail margins, it's important to understand that the operating ratio is an output in our models and not an input.

Rather, we often talk about the three legs of the stool as the key inputs into our rail models, volumes, pricing, and productivity. If a railroad is successful at growing volumes, improving pricing and generating positive productivity and operating leverage, that rail's margins will naturally improve over time. And ultimately, if a railroad is able to provide good service and grow volumes, we don't believe it should be an issue if that rail's margins are naturally improving.

So to be clear, I do not believe that volumes and profits are in any way mutually exclusive. I want to illustrate the power of the three legs of the stool on this slide. The rails achieved double digit earnings CAGR over the past 15 years without actually growing volumes as margins doubled from 2004 through 2020. But going forward, if the rails are unable to start growing volumes, the industry will struggle to maintain double digit earnings growth from just pricing and margin improvement alone as illustrated with hypothetical railroad three.

Rather, we believe volumes are an increasingly important third leg of the stool for the rails to maintain double digit earnings growth going forward as illustrated in railroad four. And to be clear, we believe investors will reward the railroad stocks with the best profitable growth going forward. Speaking of margins, let's take a longer term look at rail margins in slide nine.

Rail margins more than doubled from almost 20 percent in 2000 to over 40 percent in 2021 through a combination of inflation plus pricing and improved productivity trends. However, margins have declined the past two years and reached their lowest level in six years during 2023. We believe this reflects some of the headcount investments discussed above record levels in cost inflation and the more challenging pricing backdrop with record declines in competitive truck rates the past couple of years.

With that, now let's discuss rail pricing trends, the next couple of slides. Here, we're showing rail and truck pricing over the past 40 years. Since deregulation in 1980, rail rates dropped sharply over the following 20 plus years. Rail rates have since increased since 2004, at an average rate of around 2 percent on an annual and an inflation adjusted basis.

However, rail rates remained down nearly 40 percent since deregulation and the spread between truck and rail pricing has widened. We take a closer look at medium term pricing trends for the rails compared with truckload and less than truckload carriers here. Over the past 10 years, rails have averaged 2 percent annual pricing increases relative to more than 5 percent increases for both the TLS and LTLs.

So while rails continue to generate positive pricing, they've actually materially lagged the pricing increases of their closest competitors. Thus, we do not see evidence of excess or outsized pricing power being exhibited in the rail industry. I know I'm over, I'm going to try to finish up quickly. I want to now talk about capital expenditures.

Rail CapEx peaked at over 17 billion in 2015 or 24 percent of revenue, and then hit a trough of 10 billion in 2021 amid the proliferation of PSR and the slowdown from covid. However, rail CapEx has ramped up again the past two years, and we expect total spending to reach almost 13 billion in 2024, more than 15 percent of total revenues.

So the rails represent one of the most capital intensive industries anywhere, and as a result, the rails have low financial returns on a replacement basis. We also note the rails are completely responsible for maintaining their own track and terminal infrastructure, which is obviously not the case for the trucking industry where the government funds highway maintenance.

For the sake of time, I'm going to go to my conclusion, but there's a couple of other slides I'm going to skip over Our conclusion, we believe it is important to maintain a regulatory framework that supports future rail spending and growth. The rails are vital to the North American Transportation Network, and we believe the rails play a crucial role in alleviating highway congestion and promoting a safe and environmentally conscious transportation grid.

The implementation of PSR is behind us. Rail investors are increasingly differentiating the stocks based on expectations for profitable growth with higher PE multiples being applied to the rails with the highest growth expectations and with more of a focus on growth, we've seen clear changes in not just the words, but the actions from the rails, including rising headcount and CapEx, and this change in behavior is paying dividends today with improving service during a period of growing volumes this year.

Thus, we believe the interest of rail shareholders, the rails themselves, and the STB are more aligned today than they have been for many years. We do not see the need for meaningful regulatory reform at the Board to incent growth. Rather, we believe it's critical that the STB maintain a regulatory framework that supports the rail's ability to differential pricing power and thus healthy margins and cash flow to support continued investment for growth.

In other words, we believe any regulatory action that would lead to reduced pricing power for the rails would lead to less capital spending and less growth for the industry in the years ahead. Thank you for your time.

CHAIRMAN PRIMUS: Thank you, Mr. Group. And I appreciate this is exactly the way I wanted to start the hearing off in terms of the overlook from analysts from different spectrums. I think we've heard a lot. I think one of the things I'll start off with you Mr. Group, even just what you said there about regulatory interference, cutting into pricing power going forward, we heard from your fellow panelists that that's eventually going to happen anyway, even without us, without regulation.

That the whole pricing power is about to run its course. And the question is, if it does what's going to happen. You're saying that if we did that, it would reflect negatively. But if it does naturally, is it going to reflect negatively also?

MR. GROUP: I do think that there is an expectation as duopolies that the rails can maintain pricing power going forward. I believe the message that I guess I wanted to ultimately convey is that I believe that Wall Street increasingly cares about a mix of both volume and pricing.

And the message that I guess I tried to share is that I think we're seeing these actions from the rails, and that if a railroad is able to improve volumes while providing good service, if a natural output of that is a better service, is increased pricing and ultimately improved margins. I don't know why that should be an issue. Again, assuming that the rails providing growing volume and providing good service.

CHAIRMAN PRIMUS: Well, your mic, sorry about that. We had to play that game. I don't disagree with you from that standpoint. I mean, my only problem is, again, well for me, the role that you play and that analysts and those on Wall Street played to get that to move quicker.

The reason why I believe they're not moving quicker is there's less pressure from Wall Street to do so. You know, you guys play an outsize responsibility to motivate and move rail. You did it under PSR, and while PSR was going on, there was very little complaint about where PSR was going when they knew that they were driving suboptimal ORs, because you saw it in service degradation, you saw it in people leaving rail, you saw it in the volume and carload reduction, but the profits were there and the returns to investors were there, and I think they overlooked it again, to the nation's detriment. That's all behind us.

You said PSR is behind us, but what now is the role of your organization and others like it, who talk to the hedge funds, who talk to your customers what are you selling to them? What are you telling them to tell the railroads? Because then you're demanding the railroads start moving in a better direction.

So what pressure are you prepared to do to move the railroads away from this sort of destructive nature that we saw in the last few years to more towards growth and honest again, I wanted to ask you what profitable growth means, because I don't really understand that. I thought I think when you grow that you grow as a result of your profit, as a result of your growth.

But I'd like to see what the responsibility is from Wall Street to help us, to help the nation move that I agree. I don't want to, again, you said regulatory pressure. I don't want to put pressure on them, but that's also beholden to you because again, you guys are the larger influencer right now. And so if we don't do it, it falls on you to do it. So how are you doing that?

MR. GROUP: Thank you for the question. I do believe that some of the extreme service challenges were this was coming out of the pandemic, we're unique. I just want to say that. But in terms of going forward, I believe that what we are most focused on ultimately is which rails have the best ability to grow earnings, not just improve.

One, I'm not focused just on operating ratio, I'm not focused just on volume, I'm not focused just on price. Ultimately, who is able to generate the best earnings growth and free cashflow growth. I think those will be rewarded as the best stocks going forward. And the illustration I tried to show of the -- of the hypothetical railroads, I think the idea was that if a railroad can get the best mix of volume and price together, right, that should be the railroad that generates the best earnings growth.

So I think earnings growth is what we are and free cash flow or what we are ultimately most focused on.

CHAIRMAN PRIMUS: And I know my time is expiring, but I would say that the only thing that railroads sell is service. And so if you're not emphasizing that as an analyst and to your customers, and ultimately to the shareholders, I think that's also a problem too, because if you focus on service, which is again, the only thing that railroad sells, because if you're not selling service, I don't know what else you're selling, and I don't know what else you're offering, but if you can't accomplish that, which we did not accomplish over the last several years, then I don't know where we're going with that.

MR. GROUP: May I make a comment? So I agree. Every Wednesday when the railroads report their service metrics, we write about them. And I do think I showed a slide. I do think it's important to realize that for the first time in basically 15 years this year, and I understand it's one year, it's not forever, but for the first time in almost 15 years, we're seeing an environment where railroad volumes are growing this year, and railroad service metrics are improving at the same time. So it does feel like there are signs of a different industry.

MR. FUCHS: Thank you. I'll start with Ms. Bailey. Focusing on the opportunity section of your testimony and I took note of your view that railroads should smooth interchanges and specifically some of the evidence you put forward about single line service having 26 percentage point higher market share than interchange service.

So how should the Board be thinking about single line service? How much is a -- can the industry achieve through partnerships like the UP-CN Falcon premium? How much can the industry achieve through government assisted collaboration, like CREATE, and how much necessitates transactions particularly for lines that need investment and therefore certainty as we have seen in recent years, particularly for those lines, like I said, that need investment.

So in those three buckets, where do you see opportunity to be achieved and the Board's role in that?

MS. BAILEY: So this is not something that Oliver Wyman has done a deep dive on, but it's the right question, which is, if you're not going to merge everything into one railroad, so that we have a single line, which for a lot of reasons may not be the right answer, how do you get single line like service across interchange points. And I think one of the things that we haven't done enough with is technology.

This is a little bit of a diversion, but in very early in my career, I was actually the chair of an operating committee at the AAR to invent interline service agreements. And the problem to be solved was each railroad had an operating plan. The problem was nobody told each other when they changed their plan so suddenly a block would disappear, or the interchange cut would come over at a different time, which then would change everything about the connections that those cars were making.

I see very little reason in the world that we live in today, that we couldn't have universal airline trip plans and absolute transparency between the railroads, at least at a minimum of the operating plans that are happening at interchange, and a much greater focus on compliance at interchange operations.

This is another thing that has come up repeatedly with the short line discussions that we've had, which is we have a plan. We're supposed to be there at 2:00 o'clock every day. Well, how often are we actually there at two o'clock every day? And when we're not there at 2:00 o'clock, we know what the downstream implications are in terms of the inability to meet the customer's overall service requirements.

And usually it ends up adding at least a day to the transit time. So that would be where I would place my bets.

MR. FUCHS: I appreciate that very much. And I, of course took note of Norfolk Southern short line performance project, which I think has a lot of the communication that you're talking about. Byron, thanks for being here. I want to focus on the aspect of your testimony about reducing barriers to innovation.

And I think you have experience in

introducing new technology in multiple countries. I'm wondering if you could speak to the private and governmental barriers to introducing new technology and if you have any suggestions for reform?

MR. PORTER: Yeah. You know, having recently gotten back into the country from yeah, we serve other markets. We're kind of growing internationally in that respect. And you can see just how different it is from the United States, the North American rail industries, to these other rail industries that are very regulatory light. There's a willingness to go out and invest and throw on and try and let's do this, let's do that.

That doesn't exist in this industry. And it's a blessing and a curse. But interchange especially is really what drives a lot of that, and right that created the AAR committees, that's where you have set committees that establish rules to govern a lot of the adoption of different changes in equipment especially to make sure that it can be interchanged, it can be used effectively across the network, and no freight gets holed up.

But at the same time, those committees then get staffed by, I mean, clearly experienced, well knowledgeable folks from shippers, car owners, railroads but then it's also suppliers. And so then it invites the opportunity for suppliers to put their thumb on the scale for establishing standards and the language that goes in that, that really then becomes a barrier for new market entrants, like ourselves or for others who would like to get into the market.

They then have to face the burden of hundreds of thousands or millions of dollars years of testing. It's almost a requirement. You have to go through MXV or you have to go to TTC in order to prove yourself and that all just adds added friction and 5, 7, 10 years before real technology adoption happens in the industry.

MR. FUCHS: So how would you change it?

MR. PORTER: So in changing that I highlighted the standard for wireless sensors where we have to go through a six plus month long process of hazardous certification to put a three volt milliamp micro amp powered device on a lumber car that has the same kind of stringent, HazLoc certification you need for where you would want it, which would be on a hazmat service, right?

So it would be so much more helpful in being able to reduce the time to put stuff out there. Because ultimately, especially when you talk about hardware as opposed to software, we throw a device out there. I mean, we we're on the seventh, eighth iteration of some of our devices. You throw a device out there, it doesn't work. You need to fix some part of it. It's an extra six to 12 months to go and put out a new batch.

And so if you can reduce the time to actually throw out there and put those devices on the cars, it makes it just so much more effective. So whatever it takes to actually get out there, create data, get it out of the committees, get it out of the bookwork, and actually get real field results, it makes it so much more effective.

MR. FUCHS: Thank you.

MS. HEDLUND: Let me repeat the question. I didn't have my microphone on. These regulatory barriers that you have discussed has the Federal Railroad Administration been involved in these efforts at all or do they have any oversight over because we certainly don't.

MR. PORTER: Correct, yeah. And the FRA does or doesn't, depending on what's being talked about. Most of the time though, it really is kind of just in the industry members and done at the AAR level. Sometimes you see some of this bubble up at the RSAC committee with the FRA and their involvement at that point.

MS. HEDLUND: Certainly we hope and expect the FRA is watching in today and tomorrow because there are issues here that are beyond our jurisdiction and may within theirs. Ms. Wyman, you talked about the importance of growth in the railroad industry in terms of the fact that it is more fuel efficient and certainly more environmentally friendly.

And as a tree hugging Democrat, I'm all in favor of getting trucks off the road. But I want to ask a bigger question and that is, why is growth of railroads, and I'm assuming the answer here, but why is it important to the economy?

MS. BAILEY: Well, in my remarks, I talked about the burden on the taxpayer of more trucks on the road. So that's a drain on our economic health. Railroads are cheaper than trucks. So if we think about every point of share that goes to the trucking community versus the rail, that's essentially a tax on our consumers, it's a tax on our manufacturing industry, because we all are paying the price of that, ultimately in the price of the end goods, and it makes us less competitive.

One of the great advantages of the North American economy over the centuries has been this freight rail network that has made our logistics cost as a percentage of GDP, as a percentage of revenue of these companies that produce things and sell things is one of the lowest in the world. And so I think it's a very direct correlation between how healthy and vibrant and growing our rail industry is in terms of how we all benefit in the economy.

MS. HEDLUND: Thank you for that. I do

remember having a conversation with Tracy Robinson up in Montreal about a year or so ago, and I said, well what's your strategy for your railroad and what's your objective? And she said, to grow the economy. And I was sort of surprised by that answer. Maybe the Canadians have a different point of view. I don't know. But it was certainly refreshing.

One of the things that puzzles me, and I remember our former chairman talking about this is, if the railroads are taking advantage of their oligopolistic positions in order to increase rates now, our friend from Wolfe has indicated they haven't really gone up that much relative to rates of trucks and so forth, why haven't we seen more rate cases? I've been on this Board for two and a half years. I haven't seen a rate case. The staff says, that's wonderful.

No, they don't really say that. And we've tried to make rate cases easier, and now we're being challenged even in our efforts to do that. But why are the shippers not complaining?

MR. PATERSON: That's a great question.

Remember this, the whole pricing explosion in 2004 was a rate case. It was Duke Energy versus Norfolk Southern and Norfolk Southern effectively won, which was the aha moment, we can get price. We had a few, they were long, they were expensive and generally unsuccessful. So they were not a good use of their time and budgets. They paid it out.

And we are now we've just hit the 20 year anniversary in terms of price fatigue. And I think the customers just are just going to their beds made and they're just lying in it, frankly.

MS. HEDLUND: Thank you.

MS. SCHULTZ: So my question is actually directed to the panel whoever wants to volunteer. I've watched a number of investor day presentations now, and as soon as the floor is open to questions, so many of them seem to focus on why the carrier is making investments in infrastructure. And I was wondering if any of you could speak to what it will take to perhaps gain the patience of short-term investors to make the growth that you've all spoken about?

MR. GROUP: I think that if there is a clear path that higher CapEx leads to a period of higher volume and in turn accelerated earnings growth, I believe Wall Street analysts investors will reward the railroads. I think that Perhaps it hasn't necessarily been clear that higher capital spending has in fact led to better growth in in the past.

But again I believe that and I tried to show some, some slides illustrating that there, there's evidence of change here. And I believe that we very well may be at an inflection point, and I believe that the rails there was a period from 2004 through 2014, a 10 year period of really, really strong intermodal volume growth and rails gaining share from trucks. And I think that followed a 10 year period where the rails were losing share to trucks again for a bunch of factors.

It could be low fuel, could be PSR, bunch of factors and I believe that we very well may be at that inflection point of rails starting to gain share from trucks again. And if that plays out I do believe that the industry as revenue is growing, if CapEx should naturally grow with that.

MS. SCHULTZ: Thank you. This question is directed to Mr. Porter. Oh, I'm sorry. Oh, sorry.

MS. BAILEY: I just wanted to add two quick things. The first is that in that time period that Scott is talking about the Norfolk Southern went through a quite extensive period of investment in what they call the Crescent Corridor. And you can see quite a bit of share shift off of the highway when we opened up new lanes in that territory in the east.

And the eastern railroads have seen a very nice resurgent in growth in shorter haul lanes proving you can run trains in shorter haul and take trucks off the highway. So I think there's an important lesson there in terms of the relativity between an investment in infrastructure, and then the growth that happens there. The other comment is around the idea that the street will reward those who can show the highest earnings growth potential.

And I do think there is a conversation to be had around the timeframe under which that's expected, because if the timeframe is short, then really the only levers you have to pull are to cut, cut, cut and in the world of the railroad, at some point, as Byron said, it becomes value destroying.

So we have to find a way, and I don't know the answer to this, but we have to find a way to lengthen the appetite for a longer period of return on some of these kinds of investments, whether it's truly infrastructure or whether it's the investment that's required to change the way the operations of these railroads perform.

MS. SCHULTZ: Thank you. Mr. Porter, it's estimated that currently there are approximately 30 to 40,000 cars that are equipped with Telemetrics out of approximately 1.6 million freight cars. I was wondering if you could maybe speak to what it will take to have more cars become connected with Telemetrics?

MR. PORTER: Yeah, there's a few issues. I mean, highlighting, again, the international experience if somebody wants to do it, they just go and do it. Whereas here, I think different industry initiatives as well as first 20 years ago was the, the technology wasn't mature enough and it was costly but there's a bit of a everyone's looking at everyone else saying, are you going to do it?

And it's my belief too, at GPS I highlight railroad managed inventory as a way that the railroads really could perhaps become more productive because of it and therefore it's a path towards incentivizing adoption through rate discounts for private shippers who own most of the rail cars. But I also think that setting aside the cost there's just not enough value for the individual shipper to go and throw that on track and trace sounds nice. It doesn't pencil out.

There's no ROI just in knowing where your rail car is at, what the real ROI in is using that as a foundation or a building block to the second order applications to where you can get real time predictive ETAs corridor by corridor and you integrate that. Then with your project 44, your four cut your supply chain management tools, and you automate a lot of the process.

So the in and of itself, for a shipper to go and put it on a hundred cars or a thousand cars, they're often interchanging with other shippers, or they use the railroads' cars. And so the value proposition to even just getting their fleet visible just isn't there for the cost of it.

MS. SCHULTZ: Thank you.

CHAIRMAN PRIMUS: Anybody follow up questions? Okay. I want to thank again the four of you for really setting the pace and starting off I think what you shared this morning is important. I know I leaned hard on Mr. Group and others, but I think it's also important that we start that dialogue as to how we get to that point where we emphasize Wall Street that growth is important and it should be dominant in terms of moving forward.

Again, if you don't want us to get engaged, the quickest way is to engage from that perspective. I also want to say to Mr. Porter, I appreciate raising the fact that AAR is more bureaucratic in their rulemaking and programmatic than we are. So I'd like to think that that's another way that we're better than AAR. So thank you for highlighting that for us.

With that, you guys are excused and we'll call the second panel. Well, I just was informed by majority of the members up here and others that I think a break is needed. So we're going to take a five minute break. Is that okay? Five minute break and we'll come back.

(Whereupon at approximately 10:44 a.m. the meeting took a break)

CHAIRMAN PRIMUS: All right. Ready to go. Let's get to the second panel. We have from Canadian Pacific, Kansas City Limited on behalf of its US Rail carrier subsidiaries, Mr. John Brooks, the Executive Vice President and Chief Marketing Officer. Good morning. We also have from the Union Pacific Railroad Company, Mr. Kenny Rocker, who's the Executive Vice President of Marketing and Sales. Good morning to you as well. Mr. Brooks.

MR. BROOKS: I have some slides if we could bring those up. All right. Good morning

Chairman Primus, Member Fuchs, Member Hedlund, Member Schultz. It's my honor to be here this morning representing CPKC. I'm the Executive Vice President and Chief Marketing Officer. I've got 30 years of railroading this month. Started my career at the UP, spent a number of years at the short line industry, the names of the IMRL, IC&E, and DM&E. And then went to Canadian Pacific. Certainly, was part of the journey to acquire the KCS and now I'm leading the commercial efforts at CPKC.

So look, it's my honor to be here today and talk about what I think is a unique growth journey that CPKC is on now, but also really started back in 2017. In 2017 when Keith Creel was appointed the CEO of CP at the time, he appointed me into my role as chief marketing officer. And really at that time an intense focus on how we grow that company to best position it in the marketplace, but then also grow now as CPKC

Okay. I'm really going to focus in on my time on the first five slides. I've got a few other slides that are certainly illustrative that I'd be happy to talk to. As you think about our growth story, a couple points here I want to make. Number 1, we're proud of the effort at Legacy CP to grow that network.

To really take it from I would consider a, maybe a laggard in the industry in terms of service performance and growth to a leader in the industry. And something that really I think set itself up to be in the position we were with KCS. But also looking at KCS and their efforts, again, I think a very like-minded organization in terms of their intense focus on growth, thus making the combination we think a powerful growth engine for this industry into the future.

I'd also point out, we like to look at growth in terms of RTMs and I think maybe that's a little bit different. There's a lot of good metrics out there. It's just RTMs is really reflective of the service we provide to our customers and what they look for. It helps us understand workload and the resources required to move the products.

As I said, I would say that growth has

been our focus intensely since 2017. It is what we focused on in terms of taking the rebuilt engine at CP, a service model that was completely overhauled and redefined, but then taking that service model and using it to ultimately underpin how we think about growth going forward. And that's really the point I want to hit home here this morning on, and I'll talk to you in more detail in a couple slides here.

And if it wasn't without that I don't believe at all we would've been in position to put forth the opportunity with KCS. You know, certainly I said it earlier, a like-minded, smallest Class I in the industry combined with the second smallest Class I in the industry to now create, I think, perhaps the most relevant railroad in the Class I industry.

And this is the slide I really want to take a few minutes to dive into. And I know I was a little hesitant in building the slide titling it PSR up top there. But I truly believe, call the model what you want, it's our operating model. This is exactly how we think about growth. It's how we've thought about. It is part of CP. And it's really the same model as you think about how we are putting together these two companies and going to grow CPKC.

In our mind, it all starts with operational and safety excellence. It starts and stops at that point. And frankly I view it as kind of like this virtuous cycle, that to get and stop with that point, you got to go through a very series of methodical efforts to get yourself into the point. And it doesn't mean they're slow and take a long time, but they are intentional and disciplined. And it starts with customer collaboration. It starts with optimizing processes.

We talk about whiteBoarding a lot at CPKC. That is an effort not only internally but externally to work with our customers to understand what's the service they really need? What's the growth platform that's out there? How do we collaborate? But really then how do we optimize it? How do we make it cost effective? How do we make it highly efficient? How do we optimize asset turns in the process?

And again, that's not railroad self-serving, that that's how we do it in the customer. It's working with them to stopwatch their performances and the same time them articulating to us exactly what we need. And hopefully the output of that effort is a service product that's doing what we said we were going to do. That is in line with what the customer needs, that's ultimately very transparent in terms of those expectations, and driven down not only from, I'm going to say the Keith Creel level, but down to the superintendent and train master and the folks that are actually doing the work on a day-to-day basis with collaboration with my sales team. And we do that, and we do that well.

What we find is I think it builds a level of trust with our customer base. It builds a understanding in alignment that maybe ultimately moves from trust to even strategic. And when you get to that part of the journey, it really it's where it becomes fun. It's really where growth becomes unlocked in investment, in a lot of different elements.

But let me be real clear about one piece of once you get to that point. You got to do it in a way that also protects the network and protects your customers. Because sometimes grow, grow, grow, grow, grow is really good and we are focused on that as part of our journey, as the number one piece of our journey. But how do we do it, but also in a disciplined way to where we can be successful and live up to the expectations. Because the last thing I want to do is to destroy that trust and give that customer the reason to flip back to trucks or go put it on a barge.

But we get to that point, it becomes the catalyst for investment. It gets to the point where those tactical discussions around, I need $5 off my rate or I need a half day service or I need you to work 24/7 customer, it moves out of that space because those expectations are understood. And it really moves into more of a, what I would consider strategic. How do we invest in more auto racks? How do we take our grain cycles and shave a day off of them? How do we take your future vision of growth customer and use the land assets that we have in our terminals to coexist?

And really, if you go through the rest of our deck, here we tried to illustrate, I think, some pretty monumental growth strategies that I think are unique to CPKC, maybe even unique to the industry a you think about, you know, growing in the, the cold temp controlled area in the US.

It's something we've done a lot in Canada, but it's a massive truck market in the US that we think we can flip into intermodal and provide sort of a whole new revolutionary product. But it doesn't happen without this discipline product, our operating model. I guess you can call it whatever, whatever we want, but our operating model is what sort of is the ultimate catalyst to get us to that point.

So with that, again, I'm happy to go through more slides, the rest of the information around our investment and some of those opportunities were part of my testimony, but perhaps I stop and we can follow up in questions. Thank you.

CHAIRMAN PRIMUS: Thank you, Mr. Brooks. Mr. Rocker.

MR. ROCKER: All right. Good morning, Chairman Primus, Vice Chairman Hedlund, Board member Fuchs, Board member Schultz and Board staff on behalf of Union Pacific. Thank you for the opportunity to speak to you about our growth strategy and our company's innovation to achieve growth.

Today I'm focusing on how Union Pacific thinks about this growth strategy. And there are three things that I really want to hit hard. First, delivering the service we sold to our customers. Second, investing in our network, and third, innovating with technology and new product offerings to meet the needs of our customers.

But first, let me make it clear. Union Pacific has been growing. Since 2010, our volume has grown over 500,000 carloads if you exclude coal. We've seen growth across several markets, which are also very competitive. With trucks in our agricultural business segment, biofuels have grown 65 percent and beverages have increased 62 percent. For the industrial markets, we've seen a 68 percent growth in plastics and a 42 percent growth in industrial chemicals. And in our auto parts business, it's increased by 47 percent.

We're not immune to the external factors that impact the markets we serve, but we find ways to adapt. In 2010, Union Pacific launched over 30 coal trains per day out of Wyoming, each with over 100 cars. Today, that number averages closer to, to 10 trains per day, which translates to about 20,000 fewer cars per week due to increased fuel competition with natural gas and public policies that have reduced coal fired utilities. But our team has hustled to recover from the backdrop of coal and done a fabulous job to fill that void.

The beauty of our franchise lies in the diversity of our business mix, which gives us strength by providing stability during the ebbs and flows of the economy. Some examples of growth markets includes domestic intermodal, automotive, petrochemicals, and construction. Our unmatched network allows us to capitalize on these growing markets and protects us when other markets struggle.

Next, let me briefly outline Union Pacific strategy for long-term growth. The team is all in When it comes to safety, service, and operational excellence. Safety is at the forefront with the goal of becoming the best in the industry. We strive to deliver the service that we sold to our customers, and our focus on operational excellence ensures that we are using resources efficiently and wisely.

In addition, we maintain a buffer, a buffer of both people and equipment so we're ready for unforeseen weather events or surges in demand. In fact, quarter to date, our car loads are up double digits year over year for grain, petroleum, and renewable fuels.

And despite expecting international intermodal volumes to be down this year because of a contract loss, we've seen the market grow double digits, and we've been able to capture all that volume. My commercial team has a passion for growth in all markets we serve both in carload and for our intermodal customers.

The team has a hustle mindset to engage our customers, be the first to act on new opportunities and find innovative solutions to help our customers win. We focus on what we can control, and we're out there meeting face-to-face with customers to drive business development. Plus, becoming a more efficient railroad has led to a lower cost structure, which helps us compete especially on shorter haul business.

For example, we won new business with fertilizer construction and lumber customers where the length of haul was less than 500 miles. Those efficiencies, along with a solid service product, have opened up more doors for us, allowing us to grow and reach markets that we previously could not reach. So I'm proud of our team's hustle.

We've launched more than 90 business development campaigns to generate sales leads this year, and have a strong pipeline of new and incremental business opportunities totaling over $1 billion. For us, every carload matters when we're hunting for new growth.

Despite the challenges from the freight recession and the secular decline of coal, Union Pacific remains committed to investing back in the network. In the past five years, we've invested $3.4 billion specifically for long-term growth.

The rail industry is capital intensive and requires significant investments to promote and maximize growth for customers. Last year alone, we spent $3.7 billion in total capital for infrastructure, equipment, technology, and network expansion. This equates to investing about $10 million per day. And I want to just make sure we think through that. That's $10 million per day.

We strategically deploy our, our capital dollars to invest where the cost benefit over the long term shows opportunity for growth and make rail an easier and more accessible option for our customers. Compared to truck, rail is the most environmentally responsible way to ship freight over land. To capture more over-the-road shipments, Union Pacific extends its reach through new transloads, short line partners, and industrial rail parks.

Our subsidiary company Loop Logistics manages 18 transload sites and has over 800 transload partners across all of North America to help shippers who don't have tracks at their doors. Since 2021, we purchased two new transload facilities in Phoenix, Arizona, and Colton, California to extend our reach in the fastest growing areas in the nation.

Last year, union Pacific acquired MHX, a full logistics service provider in California who provides first and last mile solutions. MHX operated seven transload facilities when we acquired them. And since then, has added two more transload facilities in Portland, Oregon, and Tacoma, Washington.

Union Pacific connects to more than 260 short lines and ports, which extends our reach by over 20,000 track miles. Last year, nearly 25 percent of Union Pacific's volume touched a short line. Earlier this month, we invited 125 individuals from short lines and ports to meet with our senior leadership and our commercial team. We listen to them and partner on specific ways to increase business. It's very productive.

In addition, growth is often driven by customers who want to build or expand their own facilities. We have a team of experts who will guide customers looking to connect to rail. Our industrial development team supports customers who want to build a new rail serve site. Since 2023, we've completed 70 construction projects to locate new customers on Union Pacific's rail network. And we made the onBoarding process faster by taking out around 15 to 25 percent of the time to complete a project.

For customers who want to utilize on an existing rail-served site, we deploy a site selector tool that currently lists over 6,000 properties located within a half a mile of UP's track. We also promote 30 focus sites, which are premier rail-served locations across our network. These sites are shovel ready with access to utilities and roads, which provides an easier way for customers to connect with us.

Whichever option is chosen, our dedicated team of experts is there to help walk our customers through this process. But if customers do not want to make the investment to build a rail-served site, then intermodal is one of the quickest ways to convert business from over the road to rail.

Over the last five years, we've accelerated our investments to support intermodal growth and spent $1 billion in commercial facilities. And we're not stopping there. Over the next three years, we're investing in our intermodal terminals to expand capacity by 11 percent.

We invest. We're the nation's fastest growing markets or thriving, like the Inland Empire in Southern California, like Phoenix and Minneapolis and we're looking to expand in Kansas City in the near future.

And lastly, Union Pacific continues to innovate creative new product offerings to meet our customer needs. This includes promoting cross border growth and responding to the changing market needs through new services with our interline partners and supporting international crews.

Product development means leveraging technology too. We've doubled down when it comes to technology and spent about 50 million of our capital dollars over the last three years to improve the customer experience and make it easier to do business with us.

So as you can see, Union Pacific has a strong focus towards growth with the investment and innovation driven by our team. And I'd be remiss if I didn't mention that the STB plays a crucial role in minimizing regulatory barriers to grow for our company and our customers. We thank this Board for taking the steps, like defending a coherent NEPA process at the US Supreme Court and creating a uniform regulatory system for rail service through preemption.

Both are helpful steps towards supporting growth of the rail industry. We look forward to partnering with this Board on opportunities to support growth and expand our services for new and existing customers.

So I like to close the same way I started off. You know, our focus on growth is built around three things; is safely delivering the service that we sold to our customers, investing in our network to support growth, and innovating through technology and product development to meet the needs of our customers. These three key areas are needed to compete in an ever-changing landscape and drive growth at Union Pacific.

This is how we win and grow with our customers, and we have great momentum and I'm confident Union Pacific has the right strategy. Thank you for allowing me to be here today and share our growth story. I'm open for any questions.

CHAIRMAN PRIMUS: Thank you, Mr. Rocker. Okay Mr. Brooks let me start off with you. And let me also start off by saying precision schedule railroading as a concept, you know, I don't have a problem with, I have a problem with the implementation of it. And actually, here on this side of the border, you know, it wasn't customer centric at all as you're describing your network to be. It was more OR and profit centric, which is what caused the service issues that we had.

Had it been, you know, in involving the customer from the beginning, I think a lot of the issues probably wouldn't be present. So I think there is a clear distinction between, you know, how it's implemented in there. You know, I still have problems, but I think the idea of implementation is where it's at.

I want to applaud you also in your written testimony submitted very detailed in terms of the examples that you had, you know, working to grow in a number of different areas. I thought that was expansive and I appreciate, you know, the opportunity to read and more about each one of those areas.

There are a couple things that I want to talk about. And one is, you know, one of the challenges to growth for me is also, you know, barriers to entry or barriers to actually operate. A little over a year ago your organization implemented a $100 million insurance increase on TIH, PIH, and other hazardous chemicals.

I want to get your understanding on that because, you know, they're the industry we've heard, and we've heard that BNSF is doing the same. They're very concerned about entry and continuing moving on rail, which of course many of them are captive to and necessary of the interest of actually knocking out some of the small and mid-size shippers of these same products because they can't afford that rate.

And many have said that the rate in terms of being insured to that point is unfair on the shipper aspect because it's putting more of a burden on them but their understanding has its product. And so for me, especially in terms of this one area, I see it as a barrier to growth in terms of how we're working, you know, to overcome that. Because, of course, chemicals actually as a group, is one of the fastest growing right now products on rail. So I'm a little concerned from that standpoint. Would you mind commenting on that?

MR. BROOKS: Yeah. I guess first of all, thank you for your comments Chairman Primus. You know, what? The a hundred million dollar requirement it is something that in Canada that we have, I guess, for quite some time worked through with our customers. And I'm not going to suggest that those were easy discussions or not a lot of heavy lifting, but it is something that we ultimately believe is, I don't know, trying to find the right balance in working with those customers to haul those goods.

You're right. The ECP, that portfolio, frankly, I think it's one of our fastest growing areas as we speak right now. This is simply about finding an equal balance of risk working with those shippers. And I would for the most part, we've been able to work through those issues with the preponderance of shippers.

Now, I'm not suggesting we don't have outstanding ones out there. Obviously, there's a few that are that we've worked on collectively with your group. But it is trying to find the balance of hauling those products, doing it in the safest way matter, and still enabling, you know, those opportunities on our rail running across the network.

You know, maybe as much as anything, I've found that if we spend the time to really educate, if we work to incentivize the right car types with those shippers, if we look to work through the safest sort of destination or origin terminals or loading procedures and can support those customers in the right way to do it, again, more often than not, we've been able to find solutions with shippers big or small.

CHAIRMAN PRIMUS: And my time's expired. I think the one thing I'd only suggest, and I know going forward, it sort of hit. You know, it was suddenly and the impact was swift. And I would suggest that even if there was a way to do it, maybe a graduated way of bringing in and having those conversations with those shippers as to how better to implement that probably would've been from a better standpoint. Patrick,

MR. FUCHS: Thanks, Mr. Chairman. Mr. Brooks, I'll start with you. I want to dig in a little bit about what's going on in your network as well as how the Board should be thinking about growth. I think at the start of your presentation, you said that CPKC focuses on revenue ton miles, which of course includes a measure of distance.

Customers oftentimes thinks about car loading and then the reliability and transit time associated with that. They might not always even want more distance associated with their move. So talk me through why you prioritize RTMs and how that relates to a car loading measure for growth.

MR. BROOKS: Yeah. Thank you. You know, as an operating company, the underpinning effort in our growth is really around the service required to deliver the growth. The service that we collaborate with our customers on. The best way we can measure how we're doing against that is really moving of a revenue load over those tons over a mile. Whether it's a short haul or a long haul, doesn't really matter.

It's really helps us understand not only what the services required on us for the customer. But then maybe more critical than that, the resources required rather than just a car load. And obviously as we know, it requires a different level of resources to haul, you know, a product maybe a few thousand miles versus 500 miles depending on those dynamics.

So it's just been a better metric for us. And frankly, if you look at our carloads today, you see a divergence around that. And I would say in answer to that, Member Fuchs, you know, we've seen carloads divert because of the competition I'd say we've created in the industry.

We had a big intermodal shipper move to another new intermodal route that I think was a pure product of us, our entry into the marketplace. And if that benefits the shipper, if benefits that other railroad. And, frankly, it's benefited us in the extent it's allowed us to grow the pie to grow with other shippers take more trucks off the road. So there's no right answer on the right measure, it's just one we like to use.

MR. FUCHS: I appreciate it. Mr. Rocker, turning to you. You mentioned in your testimony public policies and macro forces can naturally affect volumes. And, you know, there are summary presentations that group certain categories of traffic together, but obviously markets are more complex and more granular than that. And so as the Board is trying to disentangle natural forces from railroad conduct it may need to dig deeper into what's going on in particular markets. So I'm sort of wondering from you, how do you think about differences across markets, the natural forces that are affecting those markets, and how it relates to growth?

MR. ROCKER: Yeah. So there are a few things here when you asked that question, let me just take a step back and tell you how we look at the market and how we try to invest in the markets. We're looking at all the macroeconomic indicators like, you know, interest rates. We're looking at the automotive SAR, the number of housing SAR that's out there. But we have to have a very deep understanding of the markets and have to get to a granular level.

A granular level might be, you know, iron ore prices, lumber prices, how much cement consumption is going to happen in Texas. We're talking to our customers, and we have to have a deep understanding of what they're trying to accomplish so that we can invest in growth.

When we do that, sometimes we hit it right, and sometimes we miss. Crude by rail was a little bit more short-lived than we wanted it to be. Frac sand was a little bit more short-lived than we wanted it to be. But at the same time, we're not afraid to invest and to grow. We know coal is going to inevitably go away, and that's why I'm mentioning we're just so close to the marketplace to control what we can control and invest in the growth there.

MR. FUCHS: And lastly, for you, Mr. Brooks. You mentioned in your testimony that certain regulatory policies have contributed and enabled growth. And you cite, of course, specifically the CPKC transaction. Obviously, you all have seen good growth out of the CMQ transaction. Did you have in mind just the regulatory environment as it pertains to transactions? Or, or are you thinking more broadly than that?

MR. BROOKS: Well, I'm thinking more in the context of maintaining a predictable understandable sort of policy that ultimately, I think, recognizes the spirit of competition that exists right here at this table, that it recognizes the challenges to compete head to head and provide the service we need to compete against the trucks. It recognizes supply chain diversity and variability across all the different things we haul and move, and allows us to then adapt our model.

That virtuous cycle that I described is a little bit different for every customer shipper. It's not rigid at all. It actually is the opposite of that. So a regulatory environment that allows that quick adoption, the ability to, as Kenny just said, maybe understand the markets and react to them quickly is what I'm referring to and critically important.

MS. HEDLUND: I have a question for both of you. Going back to the theme of the importance of railroads to growing the economy, railroads were also very important to growing our exports. Mr. Brooks, your railroad is a USMCA railroad with Canada, the United States and Mexico. And we came to understand in the acquisition of KCS, the real importance there was getting the access that they had to Mexico through KCSM. And Mr. Rocker, your railroad owns 25 percent of FXE in Mexico.

We're currently experiencing some significant difficulties in exporting particularly grain to Mexico through FXE. I don't know that KCSM we haven't heard of difficulties in that connection. But my question here for both of you is what role do you think the US federal government and the STB or maybe other agencies in the US federal government should play in facilitating the resolution of problems across our borders?

MR. ROCKER: So why don't I start first. And I appreciate that question. We care deeply about our customers, and so the challenges in Mexico on the FXE are different than the challenges we have here at Union Pacific. So I want to differentiate that.

And I do want to hit this one head on by saying that, you know, it starts at the top of us being engaged with trying to improve that service product. Our CEO Jim Vena has spent a lot of time down in Mexico. He's even ridden a train into the interior of Mexico to try to see if there are some things that we can improve upon there. I know I have spent more time in Mexico than any other time in my career to help work with my counterparts. And the same thing is true for Eric Gehringer, who's our Chief Operating Officer.

We also, at our Board level, have now a safety and service quality Board. And that Board is also looking at the service aspect to that. Further down in our organization, we have spent time in Mexico looking at their network working through transportation plans where we can, we train them, where we can progress with international crews, we've done that. We have a few Board seats, and so we've expressed our concerns there.

So we have really exhausted all the efforts to really improve the service, but at the end of the day the FXE is its own railroad, but we can tell you and tell customers all the time that we've exhausted efforts there.

Now, let me back up and just quickly hit on a question you asked about the international aspect of the economy. For us, for Union Pacific, about 40 percent of our business comes into or out of the US so we are always talking to our customers about how we can be competitive with them to win in a global environment. That's why I mentioned, you know, some of the iron ore prices. And we've invested to go out there and compete globally.

We just have recently won some business into our Minneapolis ramp for intermodal that's coming in globally. We set up and stood up a ramp in Phoenix. That's all international traffic that's taken trucks off the road. We've inserted new services in the port of Houston to now have more inbound traffic. So we're very dogged and competing internationally.

You've heard us talk about Mexico and nearshoring and what we expect to achieve there with some of the services that we put on there. So we're aware of it and we're all over it, and we're investing in it.

MR. BROOKS: Thank you for the question,

Member Hedlund. I guess maybe I would start by saying we're open for business in Laredo, in our cross-border business. We are actively deploying our sales team in Mexico to, to increase the amount of that trade flow that we're doing both directions.

We are immensely excited about, I guess, the forethought KCS had in developing the second bridge in Laredo, and excited about that additional capacity that is going to come online at the end of the year here. That, again, I think provides us a differentiated product in the marketplace in capacity that maybe has never been available in the past.

You know, I would point to also you know, as we went into 2024 we didn't earmark 75 million of new sightings and passing tracks for the Mexico corridor, but quickly as we saw the growth potential and continue to see the growth potential, and some of the things that we've been able to develop in the automotive space that I wrote about in our testimony is unlocked. You know, that 75 million of additional capital investment down there to go along with the second bridge.

You know, I would say just thinking about it also maybe just a little differently, we've put an enormous amount of time in with USDA, the US government, the Mexico government, SENASICA, around creating a custom seamless border. And again, our belief around how do we, whether it frankly is coming in the Port of St. John and traversing through the state of Maine and back into Quebec or the cross border up in Portal between, you know, North Dakota and southern Saskatchewan and Manitoba or in and out of Mexico.

How do we bring, you know, really these three countries together from a customs in ease of doing business standpoint that unlocks that trade. And, again, we've put a lot of effort this year in doing that because we do see that as a way to better create a product that will track more on rail and off the road in the future. Thanks.

MS. HEDLUND: Thank you for that.

MS. SCHULTZ: Mr. Brooks you spoke about how CPKC supports relationships between its, its customers and frontline operating personnel. To what extent do those frontline personnel have an ability to make decisions and address the customer issues?

MR. BROOKS: Thank you, Member Schultz. Yeah, so I do believe it's a little bit of a unique model. Something Keith firmly, our CEO and Mark Redd, our chief operating officer, firmly believe on giving you know, certainly a certain level of autonomy down to that trainmaster, assistant trainmaster to the locomotive engineer to be engaged.

I'll tell you a big part of our operating model is as I described this whiteBoarding process in building a deep understanding. And I spent 11 years, 12 years in the short line in regional railroad side of the business. I'll tell you, the operating model we deploy is more short line and regional-like than it is not because it is built on the core foundation of this level of collaboration.

To your point, that means if we walk away with a deep understanding, including those train and engine men and assistant trainmaster and trainmaster and GM of what they need to do and the commitments they made to that customer, they have the autonomy to make those decisions on the fly. Now, look every scenario is different. But unlocking that relationship on the local level is, is a powerful tool.

MS. SCHULTZ: Thank you. Mr. Rocker so many of the issues between shippers and railroads seem as if they could be addressed through better communication. What are some of the ways, in your view, that that issue could be better resolved?

MR. ROCKER: So we're always looking through the lens of the customer, and we do that at the highest levels of the company. Jim Vena and myself spend quite a bit of time going through our customer engagement strategy on how many customers that we can meet.

We have a customer advisory Board that is made up of anywhere from 12 to 15 customers, and we get really good, what I'll call real time feedback about how things are going at the time and also strategic feedback on where things are going, and how we can help them grow.

We've increased, and I mentioned this in my remarks, the number of face-to-face visits. And the reason why that's so important is because we're out there listening to our customers to understand what the gaps are, what the issues are, and also how we can grow. We're having data centric conversations with them when we talk to them.

The other thing that I think is also important is just on a personal level, I want to make sure that the customers know that they can contact me. I send out a monthly letter to our customers, and I update them on where we are from a service perspective. We talk about product offerings. And from time to time, I'll get a email back that I can follow up on.

We have a number of surveys that are out there that we're sharing with our customers, and we give real time surveys after they call into our customer service center or work with our billing area. So, again, on a personal level, inside the company and inside the commercial team, we want to hear from our customers.

MS. SCHULTZ: Thank you.

CHAIRMAN PRIMUS: I'm going to take a few minutes, Mr. Rocker to go over some concerns that I have. I know you spoke about the increases in a lot of your businesses recently but it doesn't hide the fact that you're still, you know, from a 20-year view, down 32 percent in autos, 23 percent ag and a number of other areas.

You know, the concern that I have in terms of growth from the Union Pacific perspective is one, from, from the time that I've been here on the Board. Let me say also, you know, you submitted your written statement to us was probably two-and-a-half pages, which I found extremely thin especially compared to some of the other railroads, but really not expansive on growth and also service, because especially when you look at service from the last few years, it has been way below the standard that I believe UP should be.

In your written statement you began talking about you've been in business for 160 years. Union Pacific was created for growth. Not by private, but by the federal government for growth.

And I think, you know, if that was your creative moment, and looking at service somehow, again, the last few years has been strained and sort of strayed from that.

And I say that because in order to grow, as you said, you know, the one thing that we sell, again, number one thing you sell is service. And the last several years' service has been one of the biggest stumbling blocks for Union Pacific. Whether it's been the embargoes, whether it's been emergency service, orders that we've had to place, it's always come down to service. And we've heard from your customers time and again about that service.

Again, you referenced the fact that you send letters out to your customers. I remember quite clearly a time during those service problems that they complained so much that you actually had to send another letter out apologizing for the first letter, and talking about admitting to service issues there.

And I think when we talk about growth, it's about also being honest and being upfront with those customers. You know, we've lost a lot of customers because of that service, because of those issues. And I know your CEO was not there at the time. I know that he's come in, you know, with a new look.

But even now there is some concern because we look at some of your conversations with investors where you talk about pricing and where you talk about the need for margins to be acceptable to your network or else you'll lose the business that's concerning because that's against the common carrier obligation.

We don't measure common carrier to profit margin or whether or not a business fits within the profit margins. It's whether or not, you know, they have a legitimate ask for service and that service be rendered. So there's a couple of things that I'd like to ask you.

And the first one is, are you familiar with an erosion report? Okay. That's typically an internal report that usually Class Is run that talk about business loss.

MR. ROCKER: A variance report. Yes.

CHAIRMAN PRIMUS: Okay. Can you talk to me a little bit about, you know, the recent report and some of your findings when talking to customers and how you're addressing some of those concerns?

MR. ROCKER: Yes. There's a lot that you mentioned and I want to address a number of those and then certainly lamb with the erosion report that you mentioned. First of all, Union Pacific resembles what you mentioned over the last few years from a service product. I can tell you over the last year that service has improved and our customers have acknowledged that both from a car velocity perspective and some of the other metrics that we have, the service that we've sold to our customers. They have given us favorable comments.

So, yes, the last two to three years was not our brightest moment, but here we feel really confident about where we are. You know, from an embargo perspective, we're averaging less than one embargo per week. And I think the most important thing is that we've inserted technology so that our customers have a great visibility on where they are from an inventory perspective where the tracking and tracing has come from.

And we've done a really great job, I think, of making sure that we've exhausted other efforts before we get to an embargo. We've kept a buffer out there to help us grow and support a lot of the increased volume that's come on especially this year. So we're excited that we're able to handle that business.

The pricing comment that you mentioned for us, I mentioned for growth, specifically for growth, we've invested 3.4 billion over the last five years. For us to do that, we want the carloads to be reinvest, meaning we want to grow more. Our customers want us to grow more. That's what you're hearing when you hear me talk about that in that context.

As far as the variance report, you know, we lead with our service metrics when we're talking and sitting down with our customers, and we want to make sure that we're providing the service we sold. When I say that some customers, like some of our unit trained customers, want tonnage over a certain month. Some of our carload customers just want a consistent time without a lot of deviation. And then we have a few customers that are willing to pay differently, like our parcel customers for speed.

And so we have to have very specific conversations before we even start talking about the variance reports. We have to earn our right to be able to talk about volume growth that's been missed or volume we want to grow. So we lead with service we do have an idea on where we are on the variance reports, and then we go in and ask for more business.

CHAIRMAN PRIMUS: Well, I appreciate that. I think issues, like I said, when I talk about the erosion report, and maybe you have it differently. But my understanding is that, you know, your team is tasked for identifying the cause and if the historical traffic can be won back for the traffic.

Do you actually try to go after that? the traffic that was lost? Try to get that back. There's also sort of identifying why it was lost. And so for me, in terms of looking at growth from a

UP standpoint, I mean, you guys lost a major international intermodal. The lessons learned from that going forward of how we can recover and how we can grow and how we can, you know, better serve that customer.

I think from the pricing side, the thing that worries me is, and honestly, you know, where I took that from was Mr. Group asking that question in early January about pricing and about how that pricing was going to happen. And there was an inference that you did control pricing. And I have the transcript talking about how, you know, if it doesn't fit within the margin, then that business may be lost.

And my issue is to me, that's not looking at from a growth standpoint or even from a common carrier standpoint, that we've got to be careful. You know, those small and mid-sized shippers that are growing may not meet that profit margin. We've got to look beyond that return and say, okay, are they worth investing in?

The issue that I have, and I'll close out here, the challenge that I have is that we're going to hear from the short lines early this afternoon. I mean, there are some there that are experiencing double digit growth. You know, when we have these conversations, I'm sure we'll hear the testimony about how they're growing and how they're moving forward in many of the same areas that we hear the Class Is sort of struggling or not looking at.

And I think for us, again, that common carrier obligation is important, but also the idea that we've got to make sure that the markets have to be open and accessible for these small and mid-sized shippers to come in.

MR. ROCKER: So at Union Pacific, we definitely want to be competitive. It doesn't do us any good if we have it priced at a point that we're not able to grow. So you need to hear that I see our pricing strategies, I see the carloads, I know where we want to go in terms of growing with customers, and there's nothing to suggest that we're going to price ourselves out of a market. We want to price to be competitive.

MS. HEDLUND: Last month this industry

lost a great leader, Pat Ottensmeyer, and I attended the memorial service for him at Union Station in Kansas City in August. And what I would like to do is just read the tribute that our former chairman, Martin Oberman, wrote about Pat which I think is so instructive.

He said, "Pat has left us when he had so much more to give. He will be treasured and missed by all who understand the crucial role in our country, not only of the railroad industry, but of corporate leadership with vision and integrity.

"As CEO of Kansas City Southern, Pat showed that it was possible to run a railroad which returned profits to its shareholders, while at the same time fulfilling his and the railroad's duties to serve the public interest by meeting the company's common carrier duties." Thank you.

CHAIRMAN PRIMUS: My thanks to both of you for, for coming and testifying. You're excused. And we will have panel 3, which is made up of transportation trades department Greg Regan, President. I'll wait till you guys sit down. And just another housekeeping item. We're going to take lunch after this panel here. So hopefully we'll able to break around 12:45 or so.

(Change of panels)

So we have our next panel, panel 3 Mr. Greg Regan, who's the President of Transportation Trades Department for the AFL-CIO. We have Mark Wallace Teamsters Rail Conference and National First Vice President of the BLET. And we have representing a myriad of unions. I will not go down all the list. Rich Edelman of Mooney Green, Saindon, Murphy and Welch. So welcome the three of you. Mr. President the floor is yours.

MR. REGAN: Thank you Mr. Chairman and to the other members of the Board for having us here today. My name is Greg Regan, I'm the president of the Transportation Trades Department, AFL-CIO. By way of background, TTD represents 37 unions across every mode and every sector of America's transportation network including the totality of rail labor. That includes both freight and passenger rail workers and I'm here to speak on behalf of those unions and their members.

Rail workers understand better than most that the stagnation of the freight rail industry is a critically important issue. And we think this is an important hearing for you all to be having. Everyone in this room, no doubt agrees that freight rail is of vital importance to the US economy. Unfortunately, safety, service, and staffing deficiencies continue to plague the industry and contribute to its lack of growth.

Given their size and reported profits, Class I railroads clearly have the wherewithal to take the steps necessary to improve safety, service and staffing levels, which would contribute to renewed growth in this industry. What appears to be missing, however, is their willingness to do so.

Since 2015, Class I railroads have reduced their total workforce by 30 percent, slash their private investments in physical infrastructure like rail yards, and sold off or sidelined essential equipment such as railcars and locomotives.

For example, BNSF slashes number of maintenance and equipment and stores employees from a recent high of about 9,000 in March of 2019 to just over 6,000 in June of 2024, a decrease of over 30 percent. As a result of self-inflicted cuts like this, the railroads do not have the workforce or equipment necessary to provide adequate rail service.

For years, TTD and our affiliate affiliated unions have warned that these reductions leave zero margin for error. And we've seen the consequences of that during some of the supply chain crisis that we've dealt with over the last few years.

In addition to widespread safety issues in the freight rail industry, the safety issues have contributed to over 1000 freight rail derailments every single year. That is nearly three a day. And contrary to the railroads' rhetoric, the industry safety records getting worse, not better. Rail workers can attest to that a high level of safety is an essential element of efficient and reliable transport of goods.

Class I railroads have strayed from the

traditional operating model of a service industry that responds to the demands and needs of its customers. Instead, the Class I railroads began pursuing an operating model known as precision scheduled railroading, which I know you all have discussed at length.

For the last 10 years, PSR dictates that rail cars operate on a set of often arbitrary schedules arriving and departing at specific times regardless of the needs of customers. PSR proponents claim that this improves train velocity, how quickly trains can move from one terminal to another, not how quickly and responsibly cars are picked up from and delivered to a shipper's facility.

Fundamentally, however, PSR seeks to generate the highest possible profits through the lowest possible operating ratios to achieve these profits. Railroads have stripped rail networks of their physical and human capital.

In order to address the lack of growth in the freight rail industry, we encourage the Board to further delineate the scope of the common carrier obligation, which would provide much needed clarity on an important legal obligation of the railroads, target the heart of freight rail service problems, and holistically address the ongoing issues with the Class I railroads.

Enforcing a robust common carrier obligation would hold railroads collectively accountable for providing a higher quality of service, effectively address many of the problems the shippers continue to experience, and in turn contribute to renewed growth in the industry.

As it stands now, railroads continue to fail their customers and their employees by providing insufficient levels of service. It will take action from this Board, from Congress, from the Class I railroads themselves and from the Federal Railroad Administration to resolve the core staffing service and safety issues that have restricted growth in this industry.

And, you know, I've been lucky enough to testify here a couple of times and I've made this point before, but you know, as a, obviously as a labor leader, you know, we have a high stake in making sure that we have growth in the industry that we want to see higher staffing levels, better service, and we want to see, of course, our members be fairly compensated for the work that they do to drive that profit and drive an industry that is so critical to our economy.

And as a citizen, I think it is of the utmost importance that we see this industry grow. We want to see it to be thriving. We want to see fewer trucks on the roads and more goods being moved by rail. And frankly if you just look at the mild tonnage data over the last several years, we're not seeing that growth. There's opportunity for it.

We saw the need for greater capacity during the supply chain crisis just a couple years ago. So there is that room for growth and opportunity, and I think that we should be seizing every single chance we have to make this industry thrive. Thank you.

CHAIRMAN PRIMUS: Thank you. Mr. Wallace.

MR. WALLACE: Yeah. Good morning Chairman Primus members of the Board. I appreciate the Board holding the hearing and the opportunity to appear before you this morning. My name is Mark Wallace. I'm the first vice president of the Brotherhood Locomotive Engineers and Trainmen.

The BLET is the oldest trade union in North America, founded in 1863, representing over 33,000 active engineers and Trainman. I also serve as president of the Teamsters Rail Conference. When it comes to service, we want the Surface Transportation Board and the country to know that rail workers want shippers to receive high quality on time service.

Our members are proud of the work they do to keep goods moving and the critical role they play in our economy and the supply chain infrastructure. We want the railroads to be profitable and increase market share. While there are many ongoing safety issues, rail is still the safest, most cost efficient and climate friendly method to move freight on land.

One of the main themes I hope that the Board takes away from my testimony is that despite the Board's oversight, the Class I carriers still have not meaningfully improved the rail service, the number of employees they employ, or the working conditions and quality of life for their workers.

Class I carriers must be held accountable for the current business model's impact on the supply chain, their customers, and the fluidity of their network. The Class I carriers will not change voluntarily, and that's why we urge the Board to continue to hold them accountable and act when necessary.

To be clear, today's rail service problems and lack of customer growth is not the result of the pandemic or any other outside influence, but by the Class I carriers inept management of their operations. It's not coincidental that the lack of industry growth over the last 10 years is the exact same time period that the railroads have been implementing precision schedules and railroading or PSR to cut cost.

They've increased the length of trains and reduced the number of trains they operate. With fewer trains, shippers see less frequent service. They see less on-time service because the PSR business model relies on longer trains, which break down more, cause congestion, and exceed the capacity of the existing network of sidings and yards. With less frequent service, customer operations become even more sensitive to even the slightest delay in shipment.

With the reduction of yard operations and emphasis on eliminating yard tracks on our car dwell times, our locomotive engineers and trainmen see firsthand how PSR impacts local customers. The railroad's reduction in head count impacts customer service by attempting to do more with less, resulting in the customer paying the price.

The carriers undoubtedly deflect and deny their operational plans are based on PSR. But make no mistake about it, if it looks like a duck and sounds like a duck, it's a duck. They will claim market share has been lost or gains unrealized because they can't compete with the trucking industry without eliminating a crew member utilizing unsafe technology or altering agreements to create a more competitive economic environment. That the failure to grow the industry is somehow labor's fault.

They will say that the issue we address today has nothing to do with their business model. We say that the carrier's employees, our members, and their customers know that the growth of the industry has been intentionally stymied.

The carriers continue to have operational plans that will negatively impact middle and small size customers, forcing those that really prefer rail to trucks. Their focus on cutting costs, raising prices, and failing to improve customer service will not lead to growth. What it has led to is record short term gains that have been utilized in stock buybacks and increases in executive salaries, but not real growth.

As a result, customer service safety employment standards have collapsed, making it impossible to identify the service standards required to fulfill their common carrier obligation. This culture of profits over safety, customer service, and the lives of railroad workers continues to be exposed as the industry's networks are clearly not healthy.

As rail labor, we've been sounding alarm about PSR for years. We know you're tired of hearing it, we're tired of talking about it, but our members are tired of being asked to do the work that was previously done by two or three people. It's not safe, it's not good for shippers, it's not good for consumers, and it's not sustainable.

All of these policies could be changed, but the railroads have chosen to aggressively pursue profit and not just reasonable profit. The railroads were quite profitable prior to PSR when the industry was functioning with much better and less service and quality issues.

We want the railroads to be profitable because it ensures we still have jobs. What we do not want is the railroads to pursue profit unsustainably, which is exactly what is happening now. Even as the railroads make the most nominal profits they have ever made in their history, their

Wall Street and hedge fund investors demand they continue to make even more money every quarter. The pressure is real.

A pattern that started almost 10 years ago with a fixation on lowering operating ratio at all costs, while losing volume reveals the long-term damage the PSR has had on our industry. Don't just take my word for it. Experts you heard earlier today from Oliver Wyman are also pointing out that Class Is must shift toward volume growth to maximize sustainable growth in the medium and long term.

BNSF, CSX, NS and UP eliminated nearly 25,000 train and engine employees over the past nine years, representing 35 percent of the operating employees. The train and engine employment has actually declined this year and still has not surpassed the pre-pandemic levels in 2019.

A long-term strategy to growth requires a commitment to the labor force. This commitment demands recognition of the worth of our members, the carriers' employees by ensuring that basic quality of life issues are met and honored. This includes off days and sick days.

Locomotive engineers still do not have sick days on CSX, CN or CP, and have had implementation issues with off day agreements required by the National Freight bargaining round settled in 2022.

UP has stalled the implementation of the 11 and four off day agreement and are involved in disputes with the BLET. NS is still involved in litigation over engineers being forced to protect conductors' assignments.

We urge the Board to consider the lessons of history and act accordingly. The railroads were called robber barons for a reason. Following similar practices by the Class I carriers in the 1800s that hurt customers, consumers, and workers, sweeping changes were imposed on the industry.

The railroads' abusive practices and bad treatment of workers is why the BLET is the oldest labor union in North America. It's also why Congress created the first governmental body to regulate interstate commerce. The STB's predecessor, the

Interstate Commerce Commission with a specific focus on railroads.

To protect interstate commerce, the industry must be appropriately regulated. Carriers have proven that left to their own devices, they will act only to satisfy hedge fund investors' need for ever increasing profits, which will slow the supply chain and furtherly harm the economy.

Stability can be improved by limiting train length, defining crew size, mandating quality of life improvements that will retain current employees and attract new ones, and requiring the maintenance of the infrastructure, including yards, locomotives, and railcars that have been idled.

BLET desires a healthy and profitable industry that requires the Class I carriers to shift towards a long-term growth strategy that will give shippers a reason to return to rail or increase their current service. The current model isn't working for the customers we serve or the employees we represent. Thank you.

CHAIRMAN PRIMUS: Thank you, Mr. Wallace.

Mr. Edelman.

MR. EDELMAN: Good morning. Today I'm speaking on behalf of the Brotherhood of Maintenance Away Employees Division, IBT, the Brotherhood Railroad Signalmen, the SMART Sheet Metal Workers, District 19 of the International Association of Machinists, the International Brotherhood of Boilermakers, and the Transport Workers Union of America. And offices of those unions are here today.

All of those unions represent non-operating crafts; workers who inspect, maintain, and repair the carrier's infrastructure and equipment. Today I'm going to address whether the Class I railroads are positioned to handle increased traffic, whether they actually seek to have increased traffic and what the unions recommend to encourage growth. And, last, I will address other commenter's arguments about the appropriateness of this proceeding and the appropriateness of the remedies that we propose.

Are the railroad Class I rails positioned to grow? Simple answer, no they're not. Railroading is a service business services provided by rail workers, but the railroads have reduced staffing to levels that cannot support growth.

For maintenance of way signal and shop crafts for the big four Class Is employment is down 22 percent since 2016, down 17 percent since 2019. And despite the talk of hiring in 2022, employment is down 1 percent since 2023. I picked those using June, the most recent thing before I filed the comments. Snapshots from June each year from 2016 for the shop crafts and the maintenance way and signal.

There is no way for the railroads to pivot to growth with such reduced staffing. Now, the railroads sometimes claim the reductions simply reflect declines in business. That is not true. if you could put up on my slide. Okay. Thank you. This slide shows the reductions in employment exceed the reduced car loadings. So the profit level red on top, then the middle line is car loadings, and green at the bottom is employment.

Car loadings were down 6 percent from

2016 levels, 7 percent from 2019 levels, but employment was down 24 percent from 16 levels and 18 percent from 2019. Now AAR says in their filing, the reductions in employment are consistent with the decline in coal traffic. And it gave you a graph that shows employment and decline in coal going down. That's in their expert's paper.

But ARR also said that coal is just 13 percent of their volumes. So that statistic and that graph are just noise. It's correlation, not causation. And we can see the consequences of the job cuts. For the big four, the number of track miles per employee has steadily increased between 2016.

The track miles per employee for maintenance of way and signal have increased between 2016 to '22 for all the big four from 17 percent to 22 percent among those railroads. So the track amount of tracks the same, but the number of employees has been to maintain the same infrastructure has been reduced.

Now the railroads sometimes say, well, that just reflects changes in the way we perform work. There have been no changes in the methods of performing the engineering department work that justify the reduced amount of workforce and the increases in territory by employee can't be explained by new technology. There has been no technological change since 2016 that allows so many fewer engineering department employees for the same infrastructure.

Also running longer trains puts more stress on the tracks, which creates more defects and potentially more derailments. So the more track miles per employee is an even greater problem as they move to longer and longer trains. And this is described in the statement of BMWED President Tony Cardwell.

The job cuts also mean that the Class Is can't take necessary actions to accommodate additional traffic where there's only single tracking as trains moving in opposite directions meet, practice should be for one of them to pull into a siding to allow the other to pass. But many sidings were constructed when trains were one mile or one and a half miles.

When both of the trains are two or three miles long and they're going to meet, well either a train is held in a yard or a point well before the meet until the other train passes or a train is directed to a circuitous routing. We have shippers complain about that and our dispatchers have talked about doing that.

In either case, movement of one or both trains is delayed and traffic is slowed. When a carrier builds a two or three-mile-long train in a yard, the train will extend out onto the main line because the yard tracks weren't made for such long trains, that results in blocking other trains, getting in and out of the yard, again, causing congestions and delays.

There was a good example of this shown by CPKC in the hearing where they showed UP building a long train out on the main. So if the plan is to continue to run long trains, the solution is to lengthen the sidings and yard tracks, but with the reductions in maintenance of way forces, they lack the workers to do it.

Last fall UP abruptly announced an early cutoff of a bunch of maintenance of way production gangs who do the capital work. UP denied that anyone would actually lose work. That denial turned out to be false. And it was a lie when it was said. And I'm saying that because that's true. It was a lie when said. UP denied that anyone would actually lose work. False. UP asserted the furloughs were seasonal. False. And we showed that in other filing compared to their prior year and other carriers. They said that those furloughs would be of short duration. False.

So the work on necessary projects stopped but the OR for the quarter, right after Jim Vena was a was appointed, that looked better. So they sacrificed the employment of these individuals and necessary capital work to make the OR look good.

Just last week we documented BNSF cutting off a number of production gangs and deferring projects as part of a new cost cutting plan. Among the gangs cut were two huge ballast gangs. And you want to know what happens when you don't do the ballast work? Think about UP's Winnemucca line and the signal system shorting out because the ballast was foul.

They also deferred signal replacement project. In announcing the cuts UP, frankly acknowledged. And this is in the email that we provided to you. We filed this on Friday. Their manager sent that email, acknowledged that the deferrals of work brought what he called risks, including more slow orders and service disruptions.

What we see here, the railroads eliminating or postponing work that is necessary to support current levels of service. It's certainly necessary if volume is going to increase. But at this moment, the cost cutting prevails over the future of those railroads.

The reductions in number of signalmen have negatively impacted the abilities of Class Is to do capital work, preventive maintenance, and timely respond to trouble calls. As stated by BRS President Michael Baldwin, many locations need new crossing cases, but the projects remain incomplete for lack of manpower.

At many locations, defective rails, joint bars, insulated joints are left to stay in service until there's a complete breakdown. Often trouble tickets are issued and then the railroads do not address the trouble for several hours, sometimes days. In our filing and our comments we filed in August, you have documentation that BRS sent to the FRA about this. All these failures and delays lead to slow orders and capacity constraints, reducing the ability of the railroads to increase freight on their networks.

For the mechanical department, it's a similar story. Between 2015 and 2022, the Class Is reduced their active locomotives by 12 percent and their cars by 22 percent, thus reducing their capacity to move freight. But the reductions in shop workers over that period were dramatic, 43 percent, and way disproportionate to the reductions in locomotives and cars. Now the railroads may say, well, that reduction in mechanics reflects a smaller locomotive fleet. But the reductions in staff far exceeded the reductions in locomotives.

The ratio of shop craft employees was reduced from about one employee per locomotive in 2015 to 0.67 employee per locomotive in 2022. So it's not just that they have fewer locomotives, it's fewer employees per locomotive. And this reduction diminishes the railroad's motive power capacity when locomotives are not thoroughly and adequately expected and maintained. And there has been no change in technology that would allow reduced fleet to be adequately inspected and repaired and maintained by such a reduced workforce.

We have provided statements from IAM District 19 and Smart Mechanical that various Class I railroads are sending locomotives out when they have not been fully inspected and maintained. BNSF had over 1000 locomotives overdue for FRA required inspections in January of 2023. That's the most basic thing.

We're not talking about the maintenance you do just to keep your locomotive running. This is what you have to legally do to have them on the system. 1000. It was about 20 percent of their locomotive were overdue. The situation was so dire they asked the FRA for what they called enforcement discretion.

A year later, 600 locomotives were overdue so BNSF had decreed a mandatory six-day work week for the mechanics to clear up the backlog and then it furloughed hundreds of shop craft workers a couple of weeks later. Now there are 433 BNSF locomotives that are broken or missing parts. That's about 9 percent of BNSF workforce.

BNSF is not situated to respond to a surge in demand and it certainly cannot show its shippers or potential new customers that has the equipment to handle the more traffic. BNSF and NS have been cannibalizing stored locomotives for spare parts, rendering those locomotives unavailable if there's a surge in demand or if a customer requests new or increased service. And CSX has eliminated its ports inventory so it often takes days to get necessary parts.

Union Pacific shops that service the Los Angeles basin, the ports of Los Angeles and Long Beach, are understaffed. The drop pit at the Dolores shop is not operational, they're not planning to make it operational. Rather than maintain and repair the locomotives near the ports, they send them 65 miles away.

UP recently notified the shop craft unions that 115 of its locomotives had been so heavily vandalized, or perhaps cannibalized, that they're being scrapped. That's 115 locomotives unavailable for increase in demand. And they can't even be refurbished or exchanged. That's irresponsible. Potentially a breach of their fiduciary duty to allow 115 locomotives to be just so vandalized that they're valueless. What railroads normally do, they either sell older locomotives to short lines or they sell them to a refurbishing place, they get others back. So that's where they are in terms of their capacity.

Do they want to grow? Again, no. While managements of the Class I say, and you just heard two people say they have plans to increase traffic, they've disclosed their contrary aims and discussions with the finance interests. And this is best illustrated by the remarks of Jim Vena and other UP top managers that Mr. Chairman you referenced just a little while ago.

The UP managers told financial analysts they are not interested in traffic that can be handled at a profit but not at their target profit margin. To be specific, they said they will gain profitability by efficiencies, they will continue to reduce head count, and that UP has maintained price discipline and would not lower price to increase volumes. Mr. Rocker said the profit margins have to be acceptable for a shipper to be on our network. That's what he said.

Mr. Vena said we need to replace lost business without making an adjustment to price to get the business. And Mr. Rocker said he's bullish on intermodal, but wants to make sure they're moving product at quote, acceptable margins.

This morning, Mr. Rocker tried to

mitigate the impact of those statements. Say those words don't really mean what they sound, to me, like, but I heard it. You can hear it. The analysts, the way they responded, they knew what they meant.

The Union Pacific officers aren't interested in growth if serving a new shipper cannot be done at the desired profit margin. Even if the shipper may be served profitably but not maximally profitably. And I agree that is inconsistent with their common carrier obligation.

In February, Warren Buffet released a letter complaining about BNSF profit margins. He praised the rail workers who worked outdoors in dangerous conditions, but then he criticized their pay increases, which were recommended by a presidential emergency Board and legislatively imposed at the carrier's request.

Mr. Buffet said the pay increases were quote, far beyond the country's inflation goals, but actual inflation was well above those goals. So Mr. Buffet credited rail workers for their hard work and dangerous and difficult conditions, but he doesn't believe that they're worth the pay increases recommended by the PEB and he would've preferred wage increases that were less than the actual cost of living. That's what he said.

Two days after Mr. Buffet's letter BNSF suddenly furloughed 360 shop craft employees, mind you, just after a requiring mandatory six-day work weeks to deal with a backlog on FRA inspections. So we have a clear rejection of the philosophy of former BNSF CEO, Matt Rose, that you grow the business by growing the business.

As for Norfolk Southern, its response to the encore challenge to the NS management was an announcement of reductions in employment and locomotives and abandonment of the program of building and resilience, which is similarly reflective of the philosophy that prevails among the Class Is today.

Now, the railroads sometimes attempt to justify the retrenchment strategy by citing reduced profits, but that has to be put in context. The 2022 was a record year for profits after 12 years of fairly consistent significant profits. Note, also, profits are up and employment is down relative to car loads. Employment has gone down as profits have gone up. The increase in profits has been based significantly on cuts in employment.

There is no reason to go about slashing employment, deferring capital work, moth-bowling and scrapping locomotives and refusing to try to grow the business because year over year the railroads are doing very well, just not as extraordinarily well as a record year. Now, of course, we want the railroads to be profitable.

They need to be profitable to operate and to provide employment with good wages and benefits for union members. But the manic fixation on ever increasing profits year over year and quarter over quarter, which is driving industry contraction, hurting service, and preventing growth, is harmful to the national interest and will be harmful in the long run to the railroads themselves after the finance interests move on and extract value from some other business.

And you might expect me to be the person saying this, but you heard Oliver Wyman say this, you heard Loop Capital say this, the NIT league says this. This is not just labor saying that Wall Street is a problem here. I'm going to move on quickly.

Just want to talk about, I mentioned extensively in comments why having short lines expand on to doing Class I work is wrong. I want to be clear. We don't want to oppose them expanding work on their own lines, but proponents of increasing rail by increasing short line service for Class I customers, that would undermine standard national collective bargaining agreements on the Class Is and would be flat unacceptable. You don't remedy the Class Is' failure to do their jobs by putting the short line railroads operating on Class I territory and in yards.

So what should be done? The ICC and STB allowed the mergers that created today's duopolies on the basis they were consistent with the public interest and there were benefits to the size of the current Class I. But the finance interest driven adoption of the cost cutting business model has undermined the assumptions of the agency when it allowed those mergers.

With government authorized duopoly, the Class Is have no incentive to improve service increased traffic because they don't face competitive consequences of continuing the cost-cutting low service business model. And because there was a regulatory regime left over from when the railroads were an economic extremists, they have evaded meaningful enforcement of the common carrier obligation.

The Class I railroads will not provide more and better service until there are regulatory consequences for doing. Most important things that can be done it will be enforcement of the common carrier obligation. Enforcement of the statute as currently written, is certainly welcome and we urge the Board to do all it can in that regard, but that will not be enough.

What is necessary is better definition and enforcement of the common carrier obligation.

The Reliable Rail Service Act drafted by Senator Tammy Baldwin and co-sponsored by Senator Roger Marshall will do that. The bill is supported by rail labor and major shipper groups.

The unions urge more shippers to take this effort. We say to companies who complain about service, complain to the Board, complain about the Class Is desire to grow. Don't just complain to the Board, join the effort to enact the Baldwin Marshall Bill. And in addition, the efforts of your government affairs representatives are great, calls from your CEOs will matter if you want to fix the problem.

And to members of Congress and congressional staff who may be watching, if you hear complaints from constituents about rail service and capacity, and you want to tell them that you're doing something, join the effort to pass the Reliable Rail Service Act.

Member Schultz, to your question, how to incentivize long-term thinking and investing. We need to disincentivize short-term thinking and short-term investing by creating consequences for the poor results of short term thinking and investing.

Now, last point. The railroads and others have contended that this Board and Congress have no business getting involved in the railroads business. That the railroads are private entities, that whether they should grow or contract who they serve, how frequently they should be served, should be determined solely by their managements and ultimately the shareholders without so-called government interference.

The railroads often argue that any change to the regulatory environment would bring back the bad old days prior to the Staggers Act. Now, much of that ignores historical context, and I'm not going to get into that here unless anybody wants to ask me. But we want to be absolutely clear. The unions are not advocating going back to the pre-Staggers era level of regulation. Nobody we know is saying that. The railroads and their think tank allies are setting up a straw man and taking pot shots at it.

By the way, they like the regulation when they get immunity after a merger. They like the regulation when it preempts other state laws and other laws. What we advocate is a regulatory regime that fits the highly concentrated and profitable industry we have today. Not the fractured and troubled industry that existed in 1980.

The poor freight service and a reluctance to increase shipping by rail when it would benefit the economy, transportation, safety and environment are matters of national concern. And the railroads are not like other private businesses in a variety of ways. They operate under a government certificate. They have a common carrier obligation. They are government-permitted duopolies with each of the big four spanning half the United States.

The big mergers never would've been allowed in other industries. They were allowed because the combinations were deemed consistent with the public interest and that the public transportation benefits of the combinations were found to outweigh the potential negative effects of industry concentration.

The Class Is have immunity from antitrust law and other laws with respect to post-merger actions with the scope of that immunity broadly applied. And it was wielded heavily against rail labor, overriding the Railway Labor Act, overriding their collective bargaining agreements. Just focus on this again. "Oh my God. Government's getting in our way." The government has given them an immunity from antitrust law and other laws like the Railway Labor Act.

Additionally, the railroads were the recipients of federal land grants that combined would be larger than 46 states. The federal government paid to build much of the Western railroads, substantial parts of CSX and Norfolk Southern benefited from government takeover of the Penn Central lines by creation of Conrail and the rationalization of its lines.

All of the railroads were relieved of their common carrier obligations for passenger service with the federal government's creation of Amtrak, which eliminated parts of their service that ran at significant losses.

And the government has repeatedly intervened to prevent strikes and other actions by railroad employees and to impose substantive terms of collective bargaining agreements in order to prevent disruptions in the country's rail service because it was in the national interest. That has limited the ability of workers to address their problems with the railroads and to share in the profits.

So all of that support, protection, special treatment relative to other businesses and legal immunity were based on the premise that it was necessary because the importance of rail transportation to the economy and the country generally. Simply put, the railroads have no business complaining about government oversight and intervention in their businesses. Thank you. Sorry, I ran over.

CHAIRMAN PRIMUS: We appreciate that testimony. I see why they moved to the side, but had all yours. And I can assure you that all four of us take our responsibility seriously and we're not ready to give up those responsibilities in oversight of the network.

You know, I think it's interesting because of our first panel actually, again, Wolf Research talked about the fact that labor has increased but it also hasn't negatively impacted growth from the perspective of the railroads. There was also a question, I was speaking to another group, Essential Minerals Association, where they talked about the cyclical nature of railroading.

That service is good one day bad the next then it gets good and bad as the economy goes and the lag time. They asked, was that normal? And I said it doesn't have to be. And one of the reasons it doesn't have to be is because if we incorporate as, again, the panelist said before, we incorporate that slack into the network so we have enough labor to handle both the increase, but also when volume is not there, you still keep that labor on. So when it does recover, because we always do recover. We always do grow, and we become stronger. The notion is to have that slack ready so when we do, we're not falling behind. So by the time we catch up, it's already over and we're already on the other side.

So I think my question for the group is, assessing where we are now in terms of today, what more needs to be done to sort of prepare ourselves? Because again, everyone says that we're economically, we're sort of stable. We're not bad, but we're primed ready to grow. What needs to happen from a labor perspective in order to be ready for that growth?

MR. EDELMAN: Well, first of all, they need to hire more people. And, you know, the gentleman from Wolf said numbers are up. Well, relative to what? Relative to really, really awful? As I pointed out, they're down again from '23. And you have to, as I said, change the focus. We have to get out of this doom loop of short term thinking and this quarter over the next quarter.

I mean, if you look at the graph that I put up there, you see the profit line looks like a 30-degree incline since 2010, since the end of the great recession. Yeah. There's a dip in 2016 and there's a little dip in the beginning of the pandemic, but it continues to go up. 2022 is a record year. They need to build in the resilience and they need to run the operation in a more customer service orientation.

And I've heard from numerous railroad workers, they view the shippers as their customers. They want to do a better job. They want to serve them and they can't. I mean, again, if you sit and listen to that up call, all the analysts are UP on their little hind legs praising them for cutting, cutting, cutting, cutting.

Until the reward system shifts to running a good railroad we're not going to see things improve. And what we think is until there is a better definition and enforcement of the common carrier obligation, and that can be enforced, that there are consequences to bad service, you won't see a change.

MR. WALLACE: So my suggestion would be that to increase the fluidity in all of their networks. There was a portion of the slide that one of the economists had up that talked about CN. You know, CN recognized the fact earlier this year, and the Trains magazine did an article on it, where they understand that long trains congest their network. Long trains hampers customer service, and it prevents the customer from getting their goods. And so we have to run trains that are rightsized for their network.

And I think that we have manpower in place to do that. I do agree that need a buffer for when there is uptakes and down takes and they need to maintain that level of employment. There should be a static number that they're comfortable with if their business levels are right.

But you can't have commitment from your customers unless you're giving them the proper service. And we represent locomotive engineers and trainmen so we know that our members see all of those industries as customers.

They're the customer service teams, not the people that were sitting here in the panel before us. They're talking to the high-end salespeople in the industry but our people see it on a day-to-day basis. And they want to service them and they want to service them in a timely manner.

MR. REGAN: Yeah. And I would just add a point. One of the things I heard in the previous panel was about investment in technology and that's something that they're trying to adopt. But, you know, if you look at the incorporation of technology, the way the Class Is have often take any sort of advancement, it has never been to enhance service or to allow the employees to do their jobs in a more effective or safer way.

It's always, "Well we got this new thing that means we don't have to employ this many people." And they try to cut them back, whether it be on break inspection stuff or track inspections, you name it. Their first response is, well, this just replaces what the people already did. They're never thinking about "how does this make our operation better? How can we incorporate this into the work to the professionals who are already doing this work and make it more effective?"

And I think that alone, and you can look at the TTD regulatory website and see all of the waiver requests that we have opposed over the past several years. Consistently I'd say that, you know, 80 or 90 percent of all of our regulatory filings are opposing waivers requested by the Class Is from some sort of safety requirement by the FRA.

If you talk to many of the members I've spoken to, they embrace technology as a way that can help them do their jobs. That's true in every industry that we represent, where you see an opportunity for workers to do their jobs better, to do it more safely. But they want to see it as something that can incorporate and help them grow.

What we've seen is the opposite; is "How can this piece technology be another shortcut or another way to furlough more workers?" Not as, "how is this something that can enhance our business?" And I think that's the general mindset that needs to change.

MR. EDELMAN: Let me just put one thing succinctly. The railroads are fond of saying that railroading is an outdoor sport, but they're playing it like they're in an indoor stadium. That nothing's ever going to go wrong. I mean, it's like there's a polar vortex, there's fires, there's whatever. That's been gone on since they were building the western railroads under snow sheds, right?

So you need to be staffed to deal with the reasonably predictable things that happen and you need to be prepared for some ups and downs in demand. But this notion of no slack in the chain, which is where they're at under the cost cutting business model, prevents them from doing that. That's what's got to change.

MR. FUCHS: Mr. Wallace, I hear you on the need for Class Is to continue to hire more people. I'm wondering, as they have increased employment, what has worked well, particularly among carriers? What do they need to expand and do more of to bring in people?

MR. WALLACE: Well, you know, most of the Class Is have offered sick days to the locomotive engineers and trainmen. We have three Class Is that we don't currently have. And with off day provisions from the National Freight Railroad, our freight agreement from 2022 we have we're hoping that'll attract more workers to the craft and also, you know, keep the workers that are currently here employed.

The one thing I would go to technology, this has to do with being able to maintain employment and attract new workers, is we're 165 years into the railroad industry and locomotive engineers and trainmen still don't know when they're going to work.

And so if none of the Class I carriers are going to be here today, can tell you that they have a accurate train lineup where somebody that's working a pool job or an extra Board can know when they're going to work, they definitely can't tell a customer when they're going to spot their car.

And so when looking at technology, maybe the technology we need to first look at is to give the workers some predictability from the freight side about when they're going to work. I mean, to me, that would be the first step in being able to say we're going to run a train at three o'clock. It's going to be your train and your customer's car is going to get here. That's precision schedule railroading, not what they're doing.

MR. EDELMAN: Yeah. Patrick, one thing I think is actual efforts to recruit people. You know, I mean, to really try put in one of our other papers. Amtrak has aggressively increased its workforce because they tried. And I see stuff from Fleet railroads. I had BNSF said, we couldn't meet the minimum staffing requirement to contract out on Montana Rail Link after we acquired Montana Rail Link because it's, gee, really hard to hire Signalmen to work in Montana. Well, guess what? They got the great northern line running across the top of Montana. Is that news to them? That who has to work in Montana?

There are constant contracting out notices to say we don't have adequate staffing. Well, at some point you can keep saying, we don't have adequate staffing either do something to recruit people more aggressively and retain people, you know? Or what you're basically doing is acting in bad faith and not complying with your commitments.

MR. FUCHS: Thank you. Rich, I want to turn to some of the Board specific authorities. And you know, your testimony in various proceedings has made great use of the Board service metrics and particularly how they relate to employment levels.

And, you know, in this docket you filed very specific instances where there were potential deferred maintenance and then connected to risk of slow order. I'm thinking how, does the Board get at that problem with granularity? Our service metrics are very broad, they're grouped by big commodity category or large geographic area. Do you have a particular view on whether or not more specific service data has merit understanding particular confidentiality protections?

I'm thinking the Board has a way bill where we get specific rate data. Is there merit to getting specific service data saved via timestamps that already exist within Rail Link for the Board's specific analysis, focused on outcomes and not necessarily various inputs into those outcomes? And I'm wondering if you have a view on that type of action?

MR. EDELMAN Well, don't get me started on confidentiality on the railroads. But, yes, obviously more data in that regard should be good. But one of the things and one of the benefits of the Baldwin Marshall Bill is one of the criteria they would ask the Board to look at in determining whether the carrier is complying with this common carrier obligation, is what's its workforce? What's his workforce been and is that workforce adequate to provide the service?

So when they say we don't have train crews, you know, sufficient to service you, or we don't have the train sets to service you, but 1000 locomotives are noncompliant with FRA requirements, that would be useful evidence for a shipper and for the Board to consider whether or not the railroads are complying their obligation with respect to their employment. Because, again, the employees move the railroad, the employees take care of the infrastructure and the equipment by which it moves.

MR. FUCHS: I appreciate it very much. And, you know, I'm sort of thinking through what is the data that's useful for the Board to collect for ongoing monitoring efforts and what is the data that's most appropriate to be, you know, garnered in discovery and presented on a case by case basis.

So I'm sort of thinking through what is most beneficial relative to the burden. And, you know, I think that this is a useful ongoing discussion because it's good for the Board to have, you know, the best available information as it's assessing trends in the industry.

MR. EDELMAN: One thing about the data, there's a lot of cherry-picking data that has gone on. I mean, for example, and I commented on this, the data on derailments. I mean, they sit there and they tell you that's down since 2000. Whoopee. They were in terrible shape in 2000. That's a ridiculous comparator.

Or, for example, as Mark alluded to, system velocity is good. Well, they measure it from terminal to terminal. That doesn't do the originating, you know, shipper or the receiver any good. And they have a lot control a lot of that data. You know, same thing, for example, terminal dwell. I've been told trains sometimes move out of the yard to cross the first signal that basically stops the terminal dwell, then they pull the train back in the yard. So one of the issues involves in is how good is the data you're getting and how is it being manipulated.

MS. HEDLUND: Mr. Edelman, I'd like your comments on this. Does the Board have direct authority to regulate employment levels? And if you have a question mark about that. Would one-off cases on violations of common carrier obligation be sufficient to incentivize the railroads to maintain adequate employment levels?

MR. EDELMAN: Sure. Thank you. The short answer to the first question is no. I would, that it did but it doesn't. There was actually in the 1930s. Let's not go there. Why now? No. But that's the reason why we're focusing on better definition and enforcement of a common carrier obligation. Because if they were required to provide better service, they are going to need the employees to do it.

And so that's what we think will help in this. And to change the incentives, and frankly, again, to incentivize long-term investing, long-term thinking in an important national asset. And I've said this sometimes I'll say it. You know, when a Sears, a Payless, you know, one of those companies goes down because a hedge fund comes in and Toys'R'Us, when they piled on debt on them, that is a tragedy for their employees. It is an inconvenience for their customers. But when we're talking about an essential piece of the national transportation infrastructure, that's a different level problem.

To your second question, I do not think that individual litigation of individual cases will get us there for two reasons. One, it'll take a really long time. You know, people are talking about developing a common law of the common carry obligation. Well, you know, the British common law of torts or contract is a couple hundred years in making, right?

And second, the railroads have a tendency to settle out the cases that are going to look bad. The cases where people go, well, that'll begin to define where we are, they settle. I don't know which one of my colleagues the shipper world would want to do that, but I think that we need something more. Again, that is why we advocate the Reliable Rail Service Act.

MS. HEDLUND: Thank you. Mr. Wallace, do you think we have authority to regulate the length of trains? I mean, FRA may have the authority from a safety perspective, but does the STB have the authority to regulate the length of trains from a network congestion perspective?

MR. WALLACE: I would say no. That you don't have that authority.

MS. HEDLUND: So how do we get it?

MR. WALLACE: Well, we're trying. We're trying through legislation and regulation. And so, I mean, it's common sense. And so I think part of this conversation is maybe that you don't have the authority to do it, but that we're having the discussion that that one railroad, at least, CN recognize the fact that they have to operate trains within the size of their net network and right-size their trains based on that. And that where they thought they were short staffed, they weren't because they had fluidity in their network. And I think that's, you know, part of the common carrier obligation is to provide service. And to us it would be on time service.

MS. HEDLUND: Let me just share with you a personal experience I had last week. I live in central Colorado, and I went for a drive up the Colorado River and came along to a place where there's some lengthy sidings. Been there for years and years. And there was a very, very long oil unit train. I couldn't even see the front of it. It went around the bend back of it. I think it was the back of it, not the front of it. Two locomotives that were running. So it was waiting for something.

And then I went on a another mile or two and there was the front end of a coal train that was about two miles long, going in the opposite direction with the crew waiting to be picked up. They had timed out.

And so I was wondering, well, why couldn't they have, you know, gone into a siding a little ways down, but maybe it wasn't siding long enough. And the thing that really raised the question was, behind that freight train was the Zephyr. And the Zephyr, I'm told, was delayed by 70 minutes because it took that long to change out the crews that were on the mainline.

And so it was just seeing that sort of, you know, with my own eyes, I started asking a whole lot of questions about why does this happen? And maybe it had to do with where there were sightings there, they weren't long enough for the two trains to cross. And what do we do about that?

I mean, I know maybe we can do something about it in the context of an Amtrak case and we've got one and we're not going to talk about that. But just in terms of network fluidity, do we have a role in doing something about congestion that is driven by lack of infrastructure?

MR. EDELMAN: I think that if you're given the tools to be able to sit there and clearly add that to your calculation of whether or not there's a violation of the common carrier obligation, that for example, a shipper could come forward and say, look, the long trains servicing my facility, the sidings are only a mile and a half long. They're running two and three-mile-long trains or either I can't get into my yard, then you're beginning to get into the area where they're running a long train is impacting service where you do have authority.

MS. HEDLUND: Thank you.

MS. SCHULTZ: Mr. Edelman, first thank you for your passionate testimony. I think what it underscored is what we all know, which is the most valuable asset that the carriers have is their trained workforce. My question today is about technology.

We've heard from the carriers that they see the advantages and want to advance technology and it sounds as if you see that as well. But there, there seems to be very much a disagreement over the deployment of that use. And I was wondering if you could share any thoughts you might have on how the carriers and labor could get on the same page.

MR. EDELMAN: So thankful for that question. So the railroads keep talking about automated track inspection and they keep saying that this is great technology that will help us and the FRA is stopping us from doing it. And I will tell you that unqualifiedly, that is a lie.

Nobody, no reg rule administrator is stopping the railroads from running the machines as much as they want as often as they want. They want to run a consist of track inspection machines. They can do that. The issue there, the waiver they asked for was not to run more machines. The waiver they asked for was to reduce the frequency of human track inspection over that territory from basically twice a week to twice a month. And the human track inspectors see things that the machines don't. The machines are great with infrared and lidar and all that other stuff, but they don't see the surrounding conditions.

And the FRA said this in their recent report, that there are things that the machines as good as they are, don't get. And we are not opposed to using the machines. We think they should use the machines. But there needs to be a mindset of using the technology, as Greg said, to enhance service and safety, not just slash employment.

Our people want to be trained in the new technology. They want to use drones to inspect track and inspect bridges. It should be a maintenance of way employee who looks at those images because they've done that work from the beginning.

We want to move with the technology. We're not fighting the technology, but as long as they just look at technology as a way of reducing headcount to reduce operating ratio, it is going to be contested. Again, automated track inspection, really good example.

They filed a petition to suspend the rules on the frequency of human track inspection at the FRA. There was six months of back and forth between the FRA and BNSF and then where they changed constantly what the parameters of this test would be. It was published in the federal register in like October. It was the first, the maintenance of way employees even knew that it was going on and it went into effect.

At no point did the union that represents the track inspectors who do this work, have any information that this was even happening. And then when we sued them, it later came out they produced 600 pages of communications between BNSF and the FRA over this stuff.

At no point did anybody, and it ended up going on over six months, say, what does the union's take on this? Does the union have any input? How can this be integrated with the workers doing this? That's an example of the way they deal with technology.

Or take virtual block. They had a big thing about virtual block. I said, I wasn't going to get into confidentiality, but here we go. They wanted a waiver to do this. They presented the FRA with a whole bunch of stuff and one of it was 30 percent redacted and the other piece was like 60 percent redacted. Blacked out. And some of them it was even the headings. So we couldn't even tell whether what they had redacted even mattered.

If they want to engage with technology, engage with the unions with technology. But, you know, I see these ads they put in the Washington Post, "Railroads are technology companies." You know, there's transportation companies. This is supposed to help them do that. They should work with the employees to help do it. But right now their approach to technology doesn't involve engaging with their employees and having the employees do the work that they're qualified to do with the new equipment.

MS. SCHULTZ: Would it be fair to say then that you have not had an opportunity then to sit down and have that dialogue?

MR. EDELMAN: Well, not in connection with their petitions to the FRA in which they basically don't want us to have any involvement in it. I've recently with one or two railroads started across the bargaining table and had a proposal that basically sort of said when you proposed new technology in the area of the craft, that the employees will get trained on the new technology and learn how to do that and it will be their work. And I will tell you that one railroad said to me, well Rich, maybe that's just not even your scope work anymore. And I won't repeat my response because it's not suitable for a public hearing. So we, we would like to engage with them on this but so far it's not been very positive.

MR. REGAN: I'll add to that. I mean, I've had folks from the railroad side, whether it be AAR or specific railroads, ask how do we improve? The relationship between the railroads and the unions has gotten so bad recently. How can we start to improve it?

And this is something I point to over and over again. The bare minimum you can do to try to repair that relationship is to take examples of automatic track inspection or the brake inspection or other technologies and approach the unions who it's going to affect and say, how do we do this the right way?

With your members' expertise about how this work needs to be done, how can this be incorporated effectively and help them do their jobs better? Maybe it frees them to better identify other risk factors in the system. I mean, there's a lot of things that they could do to make to improve and to utilize the benefits of technological advancement in an effective way. They simply are not open to that conversation in any meaningful way. And it's been one of the biggest frustrations the last several years for me.

MS. SCHULTZ: Thank you.

CHAIRMAN PRIMUS: All right. I want to thank our panelists here. I appreciate you being here and for your contributions. On that, it's one o'clock on the dot. We will take a 30-minute lunch break. We'll be back at 1:30.

(Whereupon at approximately 12:56 p.m. the meeting took a break.)

A F T E R N O O N S E S S I O N

CHAIRMAN PRIMUS: I think we're all set for the afternoon session. I don't hear any objections behind me or from the computer room, so I assume we are. So we are at Panel Four and sitting on panel four, we have Mr. Tom Williams, the Executive Vice President from, uh and Jill Mulligan, the Executive Vice President and Chief Legal Officer from BNSF Railway Company. Next we have Mr. Derek Taylor, Executive Vice President and Chief Field Operations Officer.

Patrick Lortie, Senior Vice President and Chief Strategy Officer. Kathryn Gainey, head of Global Regulatory Affairs, and Allison Davis of Sidley Austin, LLP, representing CN or Grand Trunk Corporation on behalf of US Rail operating subsidiaries of Canadian National Railway Company. That's long to say. So we thank both of you, well, both groups for being here.

I always laugh when I see like outside council here is, oh, they're going to ask like any crazy questions. And yet, here we go. So anyway, I want to welcome everybody to the panel and again you know, we had a great morning session and I look forward to a great afternoon session as well. So, on that Mr. Williams the floor is yours.

MR. WILLIAMS: Thank you, Chairman Primus and other members. Before I start my prepared comments, I do feel like it's important to address some of Mr. Edelman's assertions. BNSF's Unwavering commitment to safety is reflected on our results. Our strong safety culture has made us the safest railroad in the industry. We established all time records for safety in 2023 and continue to lead the industry in 2024, and we've also spent more to maintain our network than any other railroad in 2024.

Our consistently high level of annual investment has resulted in a 30 percent year over year reduction in our ratio of rail equipment incidents per million train miles, and our employees are fiercely proud of their collective efforts to drive these results. And I couldn't continue without speaking to that directly. Again, my name is Tom

Williams and I'm BNSFs Executive Vice President and Chief Marketing Officer. And over my 31 years at BNSF, I've had the privilege to work with customers across our entire portfolio.

Several years ago, I also served on the STB's Rail Shipper Transportation Advisory Council, and I appreciate the opportunity to be back here today to share with the Board about how we work with our customers to grow their businesses. BNSF has continuously prioritized growth since the formation of our company in 1995.

As the US economy and our customers businesses have evolved over the past 30 years, growth opportunities today emerge in different areas. The decline of coal as a source of electricity generation in the US has been a well-documented impact to rail industry volumes. At BNSF, we've been successful in developing supply chain solutions for our customers and generating growth that offsets that coal impact.

Our overall unit volumes, excluding coal, have grown by approximately 65 percent since our merger. Our unique growth story --

MS. MULLIGAN: Please stop. I'm sorry. We're having a hard time advancing the slides. Sorry. I do want to make sure to get your visuals. Let me try again.

CHAIRMAN PRIMUS: You may want to point this way

MS. MULLIGAN: This way?

CHAIRMAN PRIMUS: I think for some reason the clicker works better from this side. I don't know why. Perfect.

MS. MULLIGAN: Okay.

MR. WILLIAMS: There we go.

MS. MULLIGAN: I'm going to keep it like that. Thank you. Apologies.

MR. WILLIAMS: All right. So our unique growth story come from a wide range of markets that are highly competitive with trucks. We've grown annual industrial products volumes by 17 percent, agricultural products by 26 percent, and consumer products by almost 70 percent. BNSF has grown to become the largest intermodal and agricultural products rail carrier in North America by a significant margin.

Our status as a growth leader is the result of decades of consistent strategic investments in both our network and our customer relationships that have allowed us to succeed in highly competitive global markets. Importantly, this also reflects the tremendous efforts of our employees who have dedicated themselves to serving our customers.

Our continued growth largely depends on our ability to innovate and create the efficiencies necessary to keep up with our customers while providing a customer experience that attracts volume away from trucks, as well as making forward leaning investments so that we can serve emerging growth opportunities.

Capitalizing on these emerging opportunities is also important to replace some of the volumes that will inevitably decline as global markets that we serve evolve over time. I'll start today by focusing on our intermodal business, which has been our main growth engine since the Santa Fe

Railroad first put a JB Hunt trailer on the back of a flat car in 1989.

That was a groundbreaking moment in our industry that marked the beginning of a partnership that has taken millions of long-haul truck movements off of our highways and prevented hundreds of millions of tons of greenhouse gases from entering the air. Today, intermodal represents about half of all of BNSF's volume with almost 2 million units of incremental growth since 1996, which is particularly notable given the intensely competitive nature of that market.

Our ability to continue converting traffic to intermodal rail depends on BNSF constantly innovating and reinvesting in that service. Over the past 10 years, BNSF has invested approximately $1 billion in facility expansion and another 300 million on strategic land acquisitions in support of our intermodal business. Recognizing the potential of our logistics parks to support their growth, our intermodal customers have also invested $13.6 billion to open over 340 new warehouses at our intermodal logistics park, serving the Chicago, Kansas City and Dallas-Fort Worth markets. Expanding our intermodal logistics park set the stage for what we're doing now in Barstow, California. Our largest intermodal operations are in Southern California, where millions of containers flow through North America's largest container ports in Los Angeles and Long Beach. We think there's an opportunity to grow this market significantly in the next 20 years.

Doing so will require expansion of existing infrastructure and BNSF has announced plans to make the necessary investments. We're planning to invest one and a half billion dollars over the next five years to build a 4,500 acre integrated rail intermodal facility in Barstow, California. Our Barstow International gateway, or BIG for short, will eliminate thousands of truck miles from California's highways, reduce carbon emissions, and dramatically increase the speed at which our customers can get their products to market.

BIG is also projected to directly or indirectly create about 20,000 jobs. Our proposed investment in BIG will represent the single largest investment in an intermodal facility that has ever been made in the history of our industry. Last year we announced the launch of the Quantum Service with JB Hunt to specifically target service sensitive moves from the highway to our intermodal network.

To meet the needs of those customers, this service delivers better than 95 percent on time door to door performance on a transit schedule that is one day shorter than our traditional intermodal offering. We've seen very positive early reception and expect solid growth in quantum to continue. Next, I'm going to turn to our agricultural products business.

Our partnership with America's Agricultural Producers is a central part of our heritage. As I mentioned, we're the largest transporter of agricultural products in North America, and the grain we haul to the Pacific Northwest alone represents more than a quarter of the entire amount of grain that the US exports every year across all modes.

We're an integral part of the success of this market and our approach reflects the responsibility we feel to America's agriculture economy. We devote resources across all layers of this industry. For the past 20 years, we've had a team of dedicated regional ombudsman whose job is to embed themselves with producers, elevator operators, and traders around our network to make sure that we understand their business opportunities and challenges, as well as to make sure that we're getting any feedback that we need.

For the past 15 years, we've also been operating our Agriculture Rail Business Council, which helps us main direct lines to those farmers and producers across our network who we indirectly serve. We're proud of the fact that our network investments have created a cost effective pipeline for these customers and has contributed to the opening of significant new markets for America's farmers.

In 1996, our grain shuttle program was in its infancy, amounting to just four loading facilities. We now have 268. Additionally, we have 119 new destination facilities that have helped open up new export opportunities as well as additional domestic markets for our customers products. While much domestic grain processing occurs very close to where grain has grown, BNSF plays an important role in helping processors find new markets for their finished products.

From ethanol to fuel refineries to meal for dairies in California to animal feed, to support cattle ranchers in West Texas. And because of these efforts, our agricultural products volume last year was 25 percent higher than it was in the year 2000. To be clear, we're not just focused on intermodal and agricultural products and we see tremendous growth opportunities across our entire portfolio.

Our Innovative Logistics Center concept is an example of how we've been investing in facilities that support the growth of our existing carload customers and make it easy for other carload shippers to convert truck volume to rail. The logistics Center concept was born from a desire to reach regions and customers who have not historically been served by rail. In the past decade, we've opened up logistics centers, servicing manifest and unit train traffic in southern California, Denver, Oklahoma City, and in west Texas.

These facilities provide customers with already permitted shovel-ready rail served locations, which can cut up to nine months off of their development timeline. Construction will finish this year on a fifth location serving the Houston market, and we have plans to continue to expand in other markets in the future. One market, our logistics center support is the fast growing renewable fuel segment, which shows how our forward-leaning investments allow us to quickly respond to diverse growth opportunities.

Our focus on this fast-growing area is already bearing fruit as volumes in our ethanol and renewable fuels category has seen four consecutive years of year on year growth and we had an all time record volume month in that segment in August. We also pursue carload growth by partnering with short lines. BNSF has relationships with over 200 short lines, and those relationships are key to providing carload customers with efficient competitive door-to-door service.

Our short line partners have unique market insights and we use those to benefit our joint customers. And we recently announced our new Short line Select initiative, which we are piloting with Genesee and Wyoming as a program specifically designed to target and realize growth opportunities. So regardless of which market is the biggest driver of growth at any given time, our overall growth strategy relies on constantly collaborating with all of our customers on solutions to their emerging supply chain needs, and then making the necessary investments to bring those innovations to life.

And it's important to underscore that any successful effort to serve our customers does start with safety. As I mentioned before, safety is foundational to our work. We succeed when our employees return home in the same condition as they came to work, and we eliminate incidents that impact the communities in which we serve.

In 2023, we achieved an all time record low number of injuries and the lowest injury frequency ratio in our railroads 170 plus year history. This year we're on pace to do even better. Our work in this space is never done, but we're tremendously proud of the commitment of the entire BNSF team that has made this progress possible.

Over the past 10 years BNSF has steadily committed substantial capital to our network, and within that I want to focus on our investments in capacity expansion. To grow our business, we must make smart investments to have the right capacity in the right places when opportunities arise. The need to build that capacity is constant throughout the business cycle. So over the past five years, we've invested over $3.2 billion in expansion capital during a very turbulent period where supply chains have been impacted by a number of factors outside of our control, including the COVID pandemic.

BNSF has engaged in a years long effort to expand capacity on our southern transcon route, including a project that we completed this year to add an additional 40,000 feet of processing tracks adjacent to our Belin to Mexico terminal. Belin is the single largest locomotive fueling facility in North America, and these additional tracks will minimize the time it takes for fueling inspections and crew changes.

And we expect these investments to improve total train capacity through this portion of our railroad by 30 percent. We make these investments to support growth sometimes knowing that there's no guarantee that the growth we seek will continue over the long term. Our experience with Crude by Rail is a good example of this.

In the early 2010s, we saw an opportunity to haul more crude oil by rail as advancements in fracking technology drove oil production that outpaced existing pipeline capacity. But we also understood that investments to build capacity to pursue this business would benefit our network more broadly and particularly with respect to our agricultural products customers in the region.

So we invested significantly in infrastructure to pursue this growth opportunity increasing crude by rail capacity in the broader Williston basin by 25 percent. But after crude by rail peaked in 2014, market conditions changed and new pipeline capacity was approved that resulted in a significant reduction in our volume. As of today, our crude volumes are down more than 50 percent and our FRAX end volumes are down more than 40 percent.

We knew that modal shift to pipeline was a significant longer term risk to this business yet we undertook these investments to aggressively support that growth opportunity. And while crude and FRAX end volumes have diminished, our core network has benefited from the greater capacity which has contributed to our efforts to grow other businesses such as export grain.

These calculated risks demonstrate that we mean it when we say that we're here to grow our customer's business. Our commitment to growth has persisted even as our customers markets change over time and sometimes those markets change quite significantly, such as with coal. BNSF moves more coal than any other railroad by a considerable margin. So we've been especially exposed to this dramatic shift.

Our commitment to our coal customers though is reflected by how we've grown our share of coal volumes, even as volumes have shrunk overall. In our peak coal volume year of 2008, BNSF accounted for 52 percent of all Western coal volumes. Last year, our share of western coal volumes was 65 percent. We've worked hard to keep our coal customers competitive with natural gas and wind generation, even while navigating a significant impact to our own business.

This sort of market evolution means that BNSFs future growth might take a different form than it did years ago and not follow a linear path. The rational efforts of our customers to modernize their businesses to compete in global markets may reduce their inputs and negatively affect rail volumes. But BNSF remains dedicated to helping their businesses grow and in doing so, grow the volumes that we handle within those market dynamics.

I hope that my testimony today has confirmed for each of you BNSFs commitment to our customer's growth through evolving market conditions is steadfast. We demonstrate that commitment to them every day with our communication and engagement, our service and our investments.

That approach produces the results I've described and they continue to happen as we speak through the first two quarters of 2024 BNSF led the Class I industry in volume growth and last month we set all time August volume records for domestic intermodal and have tied our August record for agricultural products. I appreciate the opportunity to present this testimony and thank you for your time today.

MS. MULLIGAN: Good afternoon. I'll only speak briefly in order to applaud this Board's effort to bring to the forefront of the regulatory conversation the topic of growth. As you can tell from Tom's comments, growth is our bias and our birthright at BNSF. We are extremely proud of that legacy and of our employees continued commitment to bringing more and more of our customers business to our railroad through service, investment and innovation.

The Board is asking the important question of what role regulators play to support our shared goal of growth. As Tom outlined, we continually invested in our network to enable our growth with our customers. A critical fact supporting that investment has been a relatively stable regulatory environment that one,` allows market forces to define commercial relationships between railroads and shippers. And two, when market forces are not present, provides a backstop in the form of well tailored regulatory remedies equally rooted in market concepts.

We appreciate the opportunities the Board continually provides to highlight unintended consequences for investment and growth in individual regulatory proceedings. BNSF is freshly committed to engaging with the Board in a dialogue around whether we expect proposed regulatory actions to make it easier or harder to compete with other modes and bring growth to our rail network.

Federal regulators also have a role to play in reducing barriers to critical new investment in facilities like our Barstow project. One clear example of a regulatory obstacle to growth is the California Air Resource Board's proposed in use locomotives. Those rules, if enacted, would impose requirements that are impossible to meet, including paying around $800 million a year into a fund for locomotive technology that does not exist.

Put simply if this regulation ultimately takes effect, it would be likely fatal to our Barstow project and many others. This Board recognized the potential of our Barstow product to revolutionize West Coast supply chains, taking trucks off congested roads and dramatically cutting the associated emissions. This Board also recognized the risk that the CARB rules posed and put forward a forceful preemption analysis encouraging the EPA to give full effect to the federal statutes that prevent state laws from interfering with interstate commerce.

We greatly appreciate the Board's comments and I know our customer community did as well. Tom and I are very happy to answer questions you have and for now, we'll finish by thanking you for this opportunity to tell BNSFs growth story.

CHAIRMAN PRIMUS: Thank you Ms. Mulligan.

MR. TAYLOR: Good afternoon, Chairman Primus for rest of the Board members. Thanks for having us today. My name is Derek Taylor. Derek,

CHAIRMAN PRIMUS: Derek, hold on one second. We're going to reset.

MR. TAYLOR: Sorry, Chairman.

CHAIRMAN PRIMUS: For you and we're going actually get your presentation up and ready to go. There we go. Okay, good to go.

MR. TAYLOR: Okay. So thanks again, Chairman Primus for hosting us today. Rest of the Board members, good afternoon. My name is Derek Taylor. I'm executive Vice president and Chief Field Operations Officer at CN. I'm responsible for running CNs operational plan network wide. I've been with CN since 2000. Relevant to today's hearing I served as vice president transportation for the southern region, which covers the entire US portion of our network.

MS. DAVIS: We are also having trouble advancing the slides. There you go.

MR. TAYLOR: You're good? Role for two today on the railroad. And in 2022, I also served as vice president operational excellence and was responsible for driving continuous improvement across CN's key operating metrics. CN's purpose is to power the economy. We do that by running an efficient, reliable and scheduled service. We have three strategic priorities to grow our railroad.

One of those strategic priorities is to sustain and build service excellence. Providing reliable and efficient customer service is a foundation for growth. Operating consistently is a key to achieving success in CN's growth strategies. That reliable, consistent service is best accomplished through scheduler operations.

CN's operating approach is disciplined scheduled railroading. At CN, we call this make the plan, run the plan, sell the plan. This operating strategy forms a foundation for efforts to grow our business, our customers, and the North American interconnected supply chains. In a nutshell, this approach to operations centers on designing and regularly updating a system-wide service plan that the operations team then adheres to.

The goal is to run a more efficient and reliable network to the best of our ability, while recognizing that there will always be circumstances outside our control that could occur at any time, such as unexpected weather disruption or network disruption that impact our adherence to the plan on any given day. One such disruption was Hurricane Francine, which made landfall on the Gulf Coast last week and as of yesterday, service has resumed in all of our affected lines.

This is a kind of unforeseen event that can impact our adherence to the operating plan, but we work diligently to plan for such impacts and communicate regularly with our customers about those. That said, our data shows that our schedule rarity approach improves asset velocity, ensures more consistent utilization of power and crews, drives business growth opportunities, and ultimately provides more predictable and consistent service for our customers and the economy.

The operating plan is built to optimize train speed, car velocity, and asset utilization. The network operations team is the plan architect. The goal is to send traffic by the most efficient route, minimize handling events, and avoid auto rot miles or back hauling of rail cars. Under this approach, the cars arrive at their destination for loading or unloading, so they can then be released for their next move.

As we say, the next empty is the next load. The foundation of our plan is what we call core trains. That is our scheduled intermodal and merchandise trains across the entire network. Bulk trains are then slotted in around these core trains to reduce conflicts as much as optimal and to optimize those train meets. All of these features optimize capacity across the network.

Terminal dwell, or the amount of time cars are in yards is reduced and car velocity increases meaning that cars move more miles per day. Once the plan has been designed, the field operations team execute or runs the plan. Running the plan involves several steps. First, we have to run the trains on time by adhering very tightly to the schedule for the train starts.

It is critical that every train departs on time because the train's locomotives are expected at the next terminal to be used in another train with a new crew. In practice, this means we're more focused on ensuring trains depart on time than holding a train at a yard to build the longest train possible. That does not mean CN never runs long trains.

Under our current operating approach, CN runs trains at siding length and there are portions of our network with sidings that can accommodate trains of between 10 and 12,000 feet very effectively day in and day out. The difference is that such long trains are now a tool in CN's operational belt that we only run when it makes sense and was built into the plan and fits on our respective network.

Second, we have to place the right cars and the right block and on the right train to maximize efficient operations at the next terminal and ensure that customers receive their cars on time. Third, we must maintain disciplined power and crew plans. Our people and locomotives and equipment have to be strategically placed to keep traffic moving. Running the trains on time and maintaining that discipline plan between power and crews are two sides of the same coin.

The network operations team is regular refining the plan to account for changes in volume associated with market forces, our expanding and changing customer base and in response to new technologies, whether they be to enhance safety or improve efficiency. Sometimes the field operations team determines some aspect of the plan is not working as well as it should. That does happen from time to time.

That might be due to operational or logistical challenges unique to a particular area or corridor, changing customer demands, a change in traffic mix or any number of other factors. The network operations team then adjust the plan accordingly in partnership with us. And as I mentioned earlier, sometimes unforeseen circumstances cause operations to deviate from or get off plan.

When that happens, network operations revises the plan and consultation with the field operations team in a way that accounts for any disruptions that have occurred to allow for a quick recoverability. Our success in building the plan and running the plan is in a large part due to our improved integration between the sales and marketing and operations teams.

In the past, these two teams were somewhat siloed, whereas today, they communicate weekly to discuss everything from car supply and customer issues to anticipated opportunities and challenges across the entire network. Under this approach, instead of operations being reactive to the business that sales and marketing brings in, now these teams coordinate to onBoard new customers and increase traffic from existing customers in a seamless way by incorporating that traffic into the overall network plan.

Our discipline scheduled operating approach is supporting CN's overall growth strategy. Strictly adhering to the scheduled train starts across the network, creates predictability and consistently for our employees and our customers. Train speeds improved because the service design team develops a system-wide plan that optimize needs for the network, not one region or division.

On-time train departures ensure our locomotive power and crew starts arrive where they needed for the next train start. A more efficient railroad similarly promotes better local service and better local service for our existing customers help CN earn a greater share of their business. When our customers win in their markets, we win in growing rail traffic.

When cars move more efficiently through

the network, there is more available capacity on the network, which enables CN to grow rail traffic to build density. A great example on the slide now illustrates the impact. In January of 2018, CN had 35,000 more cars on the network and delivered 11 percent less volume compared with Q1 of '23.

That's when the schedule operating plan was first implemented, where CN delivered 6 percent more volume or rail ton miles with 15,000 fewer rail cars across the network. The increased velocity is good for customers that own or lease their own rail car fleets also. As cycle times across their network became more reliable, customers require fewer rail cars to move the same amount of product, which reduces their supply chain costs.

CN's car velocity, which measures how many rail car or how many miles rail cars move per day. In Q1 of '24 was the second highest since 2017. With Q1 of '23 being the highest at more than 220 miles per day. Very important to us is our customer-centric metrics. CN measures local service performance using an internal metric known as local service commitment plan or LSCP for short. LSCP is a percentage of cars that successfully completed their daily operating plan.

In other words, LSCP measures whether we had delivered the customer the right cars on the right day, and in the right respective switch window. In the second quarter of 2024, our LSCP performance reached an all time high of 94 percent, which is up 3 percent since the second quarter of 2023 and up 11 percent since the second quarter of 2022. We believe service like this is a key catalyst to enable future growth.

Another metric that reflects the positive impact of CN's operating model is revenue ton-miles or RTMs. RTMs reflect the amount of work we are doing for our customers by measuring the amount of freight hauled and revenue service per mile. Our RTMs have increased 3 percent year to date and approximately 8 percent since 2015.

One other noteworthy benefit of our scheduled operating model is the environmental benefits associated with more efficient operations.

A disciplined scheduled operating plan improves fuel efficiency with improved network fluidity and reduce unplanned train stops. We also work with customers to achieve their sustainability goals, including by providing detailed reports of our customers, estimated greenhouse gas emissions based on all their loaded shipments, as well as the emissions avoided from choosing rail over truck.

Of course, our dedicated talented personnel are our most valuable asset. That is why another strategic priority at CN is growing our people. At CN, we understand that our schedule operations and growth strategies are only as good as effective as the people who implement them every day. CN is dedicated to attracting and developing the right talent to support our growth aspirations, embracing diversity, and reaching the next level of safety performance.

Each of these factors make CN a more attractive place to work and we are mindful of the need to attract the next generation of railroaders. We are constantly looking for ways to improve the safety and wellbeing of our people. We invest substantial resources in developing the talent pipeline and to keep our well-trained crews and schedules departing on time.

Employees receive ongoing training to advance their safety in non-job skills. In 2023, for example, approximately 7,200 new hires and experienced railroaders pass through our training campuses in Homewood, Illinois, and Winnipeg, Manitoba. CN employs over 18,000 personnel of which 7,000 are located in United States. And to attract and retain the best possible talent, CN offers a competitive compensation portfolio to its employees.

That includes base salary benefits and retirements plans. Those benefits also include scheduled days off for all US employees. Thanks for your time and I'll turn it over to Patrick.

MR. LORTIE: Thank you, Derek. Ready to go on the slides? Yes? All right. Good afternoon. My name is Patrick Lortie. I'm senior Vice President and Chief Strategy Officer at CN. In this capacity, I'm responsible for the development and implementation of CN's corporate strategy, which includes our network strategies and relationships with other railroads.

Along with Remi G. Lalonde, our Chief commercial Officer, I'm also responsible for overseeing the development and implementation of our growth strategies. Before joining CN, I led the global transportation practice at Oliver Wyman, which includes all of our rail activities and clients. I had long aspired to become a railroader and was inspired by CN's mission to power the economy.

Vice Chair Hedlund, thank you so much for acknowledging your conversation with Tracy. I think a lot of us at CN are there for that specific reason. So when the opportunity came to join the CN family, I took it. I am honored to represent the great people of CN and to participate in this hearing to provide the Board with information about CN's proven approach to growth.

At CN, we have three strategic priorities. As Derek mentioned, building sustained service excellence, grow our business and grow our people. You just heard Derek speak about the service excellence and growing people piece. My testimony today will focus on that second of our priorities, grow the business. There are three primary ways we are meeting our goal of growing volumes.

First, CN grows by winning more business from our existing customers by investing in our network, people and equipment. Second, CN pursues opportunities to extend our reach and collaborate with other railroads to provide new superior interline service to our customers. And third, CN is constantly innovating to improve the customer service experience, which in turn helps attract new customers and convert goods moving by truck to rail.

Each of these growth strategies are centered around the best way to grow our business, which is to serve our customers well. By providing reliable and consistent service and improving the customer service experience we are strengthening supply chains, supporting the environment, and reducing transportation costs for all involved.

Let's start with how CN grows with its

customers. CN's North American network consists of approximately 20,000 route miles of track and connects the Atlantic Pacific Gulf Coast, and the Great Lakes through seven major port connections. This expensive network allows us to offer our customers multiple single line service options and access to domestic and international market.

I will give you two examples of network investments. The first type of a network investment is expanding the number of customer facing facilities, CN has 31 transload facilities in 18 automotive facilities across our network. As shown on the slide, our new facility in Flat Rock Michigan is a great example how these facilities help attract new business to our network.

This 20,000 square foot transfer logistics facility in Flat Rock specializes in steel coils and is strategic located for rail and truck transfer. Because of this, our main customers now converting a large part of its traffic from truck to rail. The flat rock location is just one of many projects that CN is pursuing. Another large new intermodal hub is planned for the Chicago area to service demand for consumer good in the Midwest.

CN also facilitates growth by investing in our network to support our customers as they grow. Nearly half of our growth comes from customer specific projects located on CN. For instance, we have supported track and yard expansions project at renewable energy plants in Iowa and Louisiana among many others. Finally, CN facilitates growth by investing in equipment. CN has made significant fleet investment over the last several years combining its commitment to building a sustainable future with its strategy of growing the business.

So we are excited about these 110 locomotives that CN has modernized in recent years. Those remanufacturing locomotives will improve our operational reliability and reduce our carbon footprint. Today, CN also maintains a fleet of more than 45,000 own and lease rail cars. That fleet includes nearly 15,000 new rail cars acquired since 2021.

Our recent rail car investment include

new hopper cars in both 50 and 60 foot box cars. These new rail car acquisition and leases help CN meet customer demand and replace older rail cars to enhance service, quality, and safety. You will be happy to know that as part of our overall customer service and growth strategy, CN maintains a buffer in its rail car fleet to account for seasonal changes in volume and other demand variations.

The purpose of this buffer is to ensure we have the resources necessary for customer demand and remain flexible in our operation. You have heard me talk about the investments. Investment in facilities, investment in our network, investment in equipment, but now let me illustrate how it all ties together. Let's take our iron ore customers in steel supply chain as an example.

Iron ore moves from the mine in Minnesota and Michigan across CN's network to manufacturing plant in Midwest of the United States. To facilitate more efficient movement of iron ore CN put into service its new 15 million loop track at our terminal in Two Harbor Minnesota. Prior to the construction of this loop track, inbound train needed to be split in half for unloading and then split again to be set for outbound movement, which involves significant switching operation. As you may imagine, cost and delays.

With the new loop track in place, trains now unload as a unit and there is no additional switching required. So car unloading time now average two hours down from four to five prior to the loop track installation. From an equipment standpoint, CN announced that it's acquiring 600 new iron ore jennies. Those are specialized hopper cars built for transporting heavy loads of iron ore from the mines to domestic manufacturing facilities all the way to Great Lakes.

Our iron ore range operations are also beneficiaries of the investment in the modernization of our CN locomotive fleet to make them more carbon efficient and reliable. Next, I want to focus on the efforts that CN's making to collaborate with other rail carriers to provide new interline service. So my team and I work on this every day because we recognize at CN that such interline collaboration is key because supply chains are not constrained by individual railroad networks.

Our Falcon Premium intermodal service is an excellent example. It was launched in 2023. This Falcon Premium is a collaboration between CN, Union Pacific and group of Mexico to offer the fastest most direct route and to move intermodal from Canada to Mexico and vice versa. This interline service offering leverages each carrier's unique strengths to deliver a superior service to customers. We've also partnered with the Norfolk Southern to launch an all rail domestic intermodal service offering.

This new service links CN served Canadian destination to Norfolk Serve Atlanta. This program utilizes an intermodal steel wheel interchange in Chicago to seamlessly operate like a single line and more effectively convert long haul trucks to rail along this important corridor.

I also want to highlight the work that CN is pursuing with our short line partners. They serve as an invaluable extension of our network. My team is dedicated to fostering collaboration with short lines and expanding opportunities to grow our business together. These efforts have resulted in volume growth with short lines of nearly 10 percent between 2022 and 2023.

Finally, one of the way we grow at CN's Rail Network when the opportunity presents itself is through acquisition. The proposed combination of CN Iowa Northern is an excellent example of a strategic acquisition that supports growth. If approved, the customers on both railroads would benefit from access to new, more efficient single line service offering.

For example, ethanol and renewable fuel manufacturing in Iowa would have greater access to storage to export facilities and to high demand markets. Grain customers would also benefit, particularly as our harvest season is starting. This transaction is supported by customers, government officials, and rail labor, and we look forward to a Board decision on this exciting growth option for CN.

Of course, CN's most important partnership for growing our business is with our customers. We are constantly looking for ways to improve our customer's experience by shipping by rail, and to help attract new customers. Most recently, CN launched an ease of doing business initiative. We want to be the railroad that customers are drawn to because placing orders, tracking shipments and customer service are straightforward and accessible.

To that end, CN has identified specific areas to improve the customer experience. One of these initiatives, it's integrated carload and shipment tracking tool with a modern user interface. It's called a CN one e-business platform. It allows customer to use mobile app to trace intermodal and carload shipment on CN's network in real time.

Once fully rolled out, customers will be able to search, filter and share critical shipping information anytime, anywhere, and use intuitive maps to follow the progress of their shipments. We also use APIs or application programming interfaces to allow customers and short lines to pull information that they need directly into their system, such as bill of lading information, proof of delivery, shipment status, invoices, estimated time of arrival, and much more.

In short, CN is constantly innovating to improve customer service experience. Now, I have shared a lot of information with you today about CN's long term strategy for growing volumes on our network, empowering the economy. There are three key messages to remember. One is that we are committed to growth. We're investing in our network technology and equipment, and we're collaborating with other railroad to expand our reach and draw new customers to rail. Thank you for the opportunity. We would be happy to take any questions the Board might have.

CHAIRMAN PRIMUS: Well, thank you to both groups for that presentation, that thorough presentation. I may have to permission for the other members to come back for a couple other questions, but let me start with BNSF. Mr. Williams, thank you for that testimony. I have to say that, you know, looking at, you know, your long-term volumes and there's 12 categories that you guys are leading or doing well in seven of those 12.

So again, giving you credit that, you know, you are moving to grow that business that's over a 20 year period. One of the challenges I think, and that I've been in discussion with your organization recently related to growth is the resiliency of the network. You know, I think when, you know, I agree with you in terms of your growth and what you have to offer in terms of growth, especially agriculture.

That is a big issue for us here at the Board, especially considering that, you know, we have the National Grain Car Council and you know, we're right in the middle of beginning harvest now. But you know, you're also aware that, you know, I sent a letter to your CEO earlier this year about my concerns about harvest going forward, especially in the PNW. We know we have challenges now in Mexico as well.

But focusing on the PNW and other issues that the question of resilience sort of comes into play. And I have to also be very honest with you. I mean, we've seen an uptick in concerns and really contact to our agency within OPAGAC, our outreach office from some of your customers about service issues recently. So, I mean, one of the things that I'd like to talk to you about or like to hear from you is about that.

I know you had a response back to labor about safety. And I appreciate that response, but I think it's also to the point of not, when I think of labor, I'm thinking a lot about resiliency and what we can do when there is going to be a spike, when we're going to have an uptick in volume and how we're going to be able to respond to that.

I know Labor spoke about the reduction in service employees earlier, the maintenance folks who repair the locomotives and others. And that still is a concern to me, because again, we want to make sure that we have those locomotives available that we're not going into a backlog, FRA backlog, going forward, because that does affect, again, our service operations.

So I wonder if you could talk to me a

little bit more about, you know, as the leader in terms of the marketing and sales, how you have to also rely on, but also insist on resiliency for that network to be able to have your organization deliver on the service that you're promising your, not only current customers, but also future customers.

MR. WILLIAMS: Yeah. Thank you for that question and the opportunity to speak to resiliency. You talked about a number of efforts, but I also want to highlight some of the capital investments. And certainly this year we've been challenged by service and some of those things have been impacts to our network that we've had to respond to in terms of weather events and so forth.

And so, as we think about hardening our network to be more resilient in the face of those impacts we've raised our track over 3000 miles as we've gone through our maintenance effort to be less susceptible to, you know, water related events. We've also built and made a significant investment in an area of our railroad in New Mexico that was most exposed to wind events. And so we have a new wind fence this year.

So we're ongoing less exposed to some of those impacts over time. Now, what I would say as we sit here today in the middle of September, we're handling more volume than at any point than we've handled since early December of 2021. And the key service metrics that we look at in terms of train speeds, car velocity, trains holding for crew or other reasons, is as low as it's been since prior to that time.

And so, you know, as far as preparedness for peak harvest our TPM is going into peak right now, trips per month on our shuttle sets is 2.9. We've got a goal of 2.7 to meet demand for peak. And so I think the one encouraging thing, most encouraging thing is that as our volumes have grown on the railroad through this fall, our service metrics have been improving sequentially as well.

CHAIRMAN PRIMUS: And I'll just follow up. I know we will go Patrick now, because I want to come back with CN afterwards. I mean, with volumes increasing, and I said that that's a positive thing, but for me, the resiliency is exactly what you alluded to prior in terms of how you're hardening from an infrastructure standpoint.

But the reality is the infrastructure is only one part because if you don't have the necessary crews in place, as we saw during the Montana Harvest earlier this year, you know, it creates a real problem. And for me, it's looking at that resiliency across the network. We know there's going to be winter, we know there's going to be storms, we know that. But it's the ability to recover from those storms. And the timing of that.

And I'll just say this, that, you know, you are having greater volume, but, you know, some of your highest periods were previous to 2015's. And I can talk to a polar vortex around that time. I can talk to a number of other large weather events that you were able to recover and really respond in a much quicker way. And but it also, when you look at the employment numbers that you had the people in the places where you needed the resiliency was there to recover.

And I think that's to me is a bit of the concern that coming out of PSR, coming out of the labor reductions that we still haven't hit that level yet, but the demand is going to be there and you're going to see, I think we're still going to see it. You saw it in the harvest in Montana. I think it's something that, you know, again, we really need to sort of get our arms around and be able to address moving forward.

And again, you know, you've got the ports in West coast that are also seeing a large upswing. We've seen a little bit of dwell at point of LA Long Beach right now. You know, they're expecting above average peak season. So again, it's the resiliency that I'm worried about and whether or not we're able to respond to those upswings that we know are going to come.

MR. FUCHS: Thanks, Mr. Chairman. You know, the majority of the decisions, the Board issues are licensing. And, you know, Congress has given the Board what has been called the most comprehensive and pervasive federal regulatory scheme reflecting an intent for rail operations to be regulated at the federal level. Speaking of the Board's preemption authority. Joe, you mentioned carb and its impact on big, and certainly that's an extraordinarily high profile example. But thinking more broadly about both environmental review processes and preemption could you speak to how those issues affect specific investments in addition to BIG and how that relates to growth? Both for Tom and Jill?

MS. MULLIGAN: Thank you. We unfortunately have a good deal of experience of how those state and sometimes even federal regimes, permitting regimes can really delay projects. I think right now the average EIS period is four plus years. That's for small projects and large projects combined. We've had some projects that have had significantly longer timelines than that and ultimately been put on hold because of the extent of that.

Tom can maybe speak about specific facilities, including one intermodal, one that he's very familiar with. But before he does that, I would just mention we've also had coal facilities that were entirely defeated on the basis of issues that were similar to what the Board is addressing right now in terms of the use of scope within the environmental process to essentially defeat projects by requiring that they deal with, on the coal side, it was the environmental impacts going back to the mining of coal all the way to where they were burned post export in Asia, which is clearly a standard that's unbeatable. And so we have had, unfortunately, several circumstances. I'll let Tom talk about one other too.

MR. WILLIAMS: Yeah, I mean, it was well documented, but we spent over a decade and tens of millions of dollars attempting to permit an intermodal facility in Southern California that should have been built before the supply chain crisis of 2021. And that capacity would've been very meaningful to lessen the impact of the strong imports that were coming in. So that is what it is.

We're focused now within Southern California on Barstow, but it's not just, does a terminal get permitted, but how fast does that play out? Input cost, you have inflation over time, that can diminish the business case, or you could miss a window of customer need if the permitting process doesn't play out with alacrity. So it's important not just the projects are permitted, but the pace at which they get through that process is important.

MS. MULLIGAN: And if I could just add one more thing. I know that a lot of what we just talked about is not the primary jurisdiction of the STB, but I do think that there's an opportunity for the STB to be a voice for freight fluidity in those environments. And, you know, obviously you are on the front line of that right now. Which we appreciate and through the AAR joined as an amicus in that.

But I also think that there's things that the Board might take a look at, again, in terms of some of its own precedent. In my comments, I made a mention of a prior decision where the Board implemented a pretty bright line rule in terms of if there was a state regime that was interfering with the federal commerce it was okay as long as it was a rail facility, not a railroad constructed facility, so a customer facility. I think railroads and our customers would really appreciate the Board taking a look at that again.

MR. FUCHS: I appreciate it, Jill and I did make note of the citation to Valero in your testimony, and I think in that proceeding, there were both railroads and shippers that spoke of the growth impacts of that type of decision. Turning to CN, I'm thinking, you know, particularly for you, Patrick, you know, the interline work that you've been spearheading at CN, and at the same time, you know much has been made about the benefits of single line, and particularly in the context of transactions.

And of course, you know, CN has been a party to transactions to increase its single line presence in the United States. Could you maybe elaborate on single line, interline as well as just smoothing interchange along the lines of what Ms. Bailey was testifying about and how the Board should be thinking about how it can be constructive in in any of those spaces?

MR. LORTIE: Yeah. Well, one of the great benefit of our network is that the amount of single line service that we can offer to our customers, and we originate about 85 percent of our loads in single line, over two thirds of our freight. This allows us to be more efficient and enable us to offer more competitive rates to our customers as well.

And we've one of our experts as part of the Iowa North and documented the rate advantage or the cost advantage of single line service versus an interline service. So there's a lot of obvious benefits to single line. Now, obviously, we cannot cover the entire Americas with only our network. So we have to be able to partner productively.

And this is what our team is looking at, is how do we make these interchange as efficient, effective, as possible so that it still serves the customer, it's still a better alternative to truck. And it is, you know, a second best option to a single line service.

MS. HEDLUND: Tom, I think you mentioned that you raised 3000 miles of track for resiliency. And this is a question for you as well as the other railroads. And the ones who've spoken, the ones who've not spoken, do each of you have a specific strategy for dealing with the long-term impacts of climate change on your infrastructure?

MR. WILLIAMS: So, I'll start, but, you know, certainly BNSF has a pledge to reduce emissions 30 percent by the year 2030. And we continue --

MS. HEDLUND: That's not my question. My question is the impact of climate change on your infrastructure, not your contribution to climate change.

MR. WILLIAMS: Okay. So to the --

MS. HEDLUND: This is a resiliency question.

MR. WILLIAMS: Yes. To the extent that, and we've seen some of the insurance numbers that, you know, wind related, water related heat and cold related events seem to have increased over the last several years. And those investments in hardening our network are really specific to some of those increased events. So as we had seen an increase in wind events more recently in the ABO Canyon region of New Mexico we made the decision to invest in a wind fence to allow us to safely operate through that area as opposed to stopping trains.

Some of the water related events, again, you know, as we have an event we go back with elevated track or slope armoring to make sure that we lessen the exposure at that specific location as well as we think about those hardening efforts over time and understand that we have seen an increase in those events over the more recent years.

MS. MULLIGAN: And could I just add as well that a big part of this is the hard infrastructure side of it, but then also leveraging technology. And so one of the things that we spend a lot of time internally is looking at how do we predict things more? How do we understand the impacts? How do we have more nimble operations in light of those challenges, as well as our ability to recover when they happen to us?

And so there's a fair amount that we're doing in the proprietary space that I won't share sitting in a room with my competitors.

MR. TAYLOR: You don't want to share?

MS. MULLIGAN: No. But we had an opportunity to share some of that with the chairman, and we're happy to have conversations on the side with folks. Because there's some pretty neat things that we're doing there too.

MS. HEDLUND: Yeah. One of the things I think we would all be interested in is, you know, how much you, each of the railroads are and admit this may be proprietary again, are expending on AI. And particularly AI as it applies to dispatching and reducing congestion. You know, is CN in its make the plan, do the plan, still, you know, doing it on a eight by 14 yellow pad, or are have you automated that process?

MR. TAYLOR: We're getting better at it. No longer legal pad, but no when you look at the next generation of dispatching, there are tools out there, you know, we're considering and looking at that. You know, we're almost exclusively a single track railroad. So that allows some unique opportunities to maybe use some types of technologies to become more efficient, such as some of the automated dispatching with some of our peers actually have tried or have some form of.

So that continues to be something we're looking at to invest in. My counterpart, Mr. Whitehead, is very heavily into that right now in the network operations side. Also when you look at it, whether it's inspection portals, ATIP cars, you heard a lot of things earlier. And I think a key thing about the ATIP cars I bring up, when you look at that technology, it is better than a human eye, but it's not meant to replace a human being in terms of fixing the defects.

You know, we tried that from Chicago to New Orleans as the test, it eliminated over 95 percent of the slow orders on that route segment. And that's also where the city of New Orleans runs and the four Illini-Saluki trains. But I want you to think about that. It allowed us to eliminate these floaters before they happen because we were able to redeploy the people to become the proactive fixers.

The technology can't be beat. So that's where I think when you heard some of the comments earlier that this technology is out there, it is the best thing going, and we've proven that to your point, but to continue to have to do visual inspections that can't meet that standard doesn't make sense. And we can deploy those people to actually proactively fix the railroad, you know.

And then in closing it on the technology piece, you look at the inspection portals or other items that continues to be a different generations. I know each railroad that is a little competitive proprietary stuff depending on the system, but there's a lot of algorithms we've been working on. And that will allow us to do the same thing.

Though, it's about redeploying people to fix things versus finding them. I think we can all agree that technology is a better finder than a human. What we want to do is redeploy that human capital to fix these things proactively.

MS. HEDLUND: Finally, one last thing, and I'm not looking for answers here because again, I think this may be getting into proprietary information, but for those of you who are public companies, I think you break down your investments in capital between maintenance capital and capital expansion. But with respect to capital expansion, it would be interesting for us to understand, you know, how much of that is going into track? How much is going into new employees? How many new employees are you hiring for expansion?

I think, you know, you referenced thousands of employees that might result from the big expansion. How much money is going into transload facilities? How much money is going into track and yard expansions? And then, you know, overall, what percentage of your net operating revenues does that represent?

I mean, billions sounds like a lot of money, but when you're talking to railroads, you know, it's billions and billions and billions. So when AR says, oh, we spend, you know, billions of dollars in investment every year, well, a lot of that, majority of that we know is capital maintenance. So I think for us to monitor what you guys are doing, we might want to get more granular on some of those statistics.

MS. SCHULTZ: Mr. Williams, you mentioned a new program that you're doing with Genesee and Wyoming, and I wondered if you could speak to what is unique about that program as well as any other efforts that you might have made towards partnering with other short lines as well.

MR. WILLIAMS: So this is a program that we just announced, I think, last week or the week prior. So it is a pilot, but it is a purposefully focused growth initiative with our short line partner, in this case, Genesee and Wyoming, that we would expect to expand over time to other carriers on our network. As I mentioned, I think we work with over 200 Short line connections, and so the focus here is to reduce the friction of the business development process with them so that we can move opportunities faster.

One unique thing that we're doing is we have a certified site program as it relates to trans loads on our line. We're expanding our certified site program onto their property. They're in Alabama. And then also just a joint planning process. And so building a plan together and then measuring our joint success. Our success in terms of our interchange to them, their success in terms of the velocity of the cars that are moving to and from the stations on their network.

MS. SCHULTZ: Thank you. And then this question is to anyone on the CN panel. When you're engaging with your customers and looking to invest in a new location to be rail served, what role does forecasting play, and, you know, how much involvement is there with the customer?

MR. LORTIE: At the macro level, we always use forecasting and we track a number of metrics to find opportunities by commodity, by region, and so on, so forth. When it comes to investment, it usually between us and the customers. And the macro level metrics may point us in a different direction, but a customer specific development may happen on our line.

So 50 percent of our growth is tied to customer specific investments or customer specific initiatives that are over and above the economic growth. So if the GDP grows, everyone benefits from this, but even without GDP growth or strong GDP tailwind or economic tailwind, we do always have customer specific initiatives.

And so that comes from very close engagement between our commercial team and the customer, as well as our operation team with Derek and team to make sure that we understand how to best resource these new projects.

MS. SCHULTZ: Thank you.

CHAIRMAN PRIMUS: I just have a couple quick questions for CN. You talked about your success with LSCP being I think 94 percent in terms of meeting that requirement. Is that your total network or is that in the US?

MR. TAYLOR: That's the total network, and I tell you, the US is actually leading the way on that portion.

CHAIRMAN PRIMUS: Okay. Okay. Well thank you for that because one of the other questions I had is when you described your operating model is to make, run and sell, how flexible is that in terms of when as you grow? Reason being is, and this is a two part, I guess a question. I want to ask about your incremental car loads, sort of your small and medium.

You know, most of them, again, and I'm sure we'll hear about in the next panel with our short lines, there is actually is a need to be more flexible with those small and medium businesses in terms of how you do. And so for me, I guess I need a little clarity on the flexibility of that program because, you know, you're making it first and you're running it, then you're selling that operation.

But as I found out in the three and a half years I've been here, you know, customers are different and, you know, bigger customers can you know, bend to that to where you're going, you know, midsize and smaller sometimes need more flexibility to fit in a system. So can you talk to me a little bit about, you know, how flexibility works into that and allows you to promote that growth? External?

MR. TAYLOR: Sure and thanks for the question. I mean, first off, from past experience, you know, and this is maybe a Canadian example, but you can't oversell your network, right? We've been through that. What we can do is make sure we sell to the capacity we have. The good news in the southern region of the US specifically we are ready to grow.

You know, similar to what BNSF said, you know, we had a frack sand boom and crude boom and bus cycle. We have an infrastructure from both Canadian borders to the Gulf Coast that's unparalleled, that's ready for volume to come online. So we're good in the physical capacity aspect. We also are completing a double track portion on the E, J and E this year, and one more next year. Those are the last two things that we see as any type of even small impediment to growth. And we can handle that volume today.

In terms of flexibility, and we have 90

locomotives in storage right now. We've actually pre-positioned some of these locomotives ready for US grain harvest. You know, October, November coming up. We're hopeful to see some opportunities. So we have some flex there. And I'd be remiss not to mention our Ireland agreement in the US.

If you look at the macroeconomic environ in the US the past few years, it's not been helpful, right? We had the unique ability working with our partners in the union here. We've done some voluntary furloughs. We've done four and three type of arrangements on the extra Board versus five and two working with them. That's not done in a silo. If it wasn't for that, we likely would've furloughed people six months or even a year ago.

So we've got a good relationship there and some flexibility with those agreements. Now, if the macro environment continues as it is, you know, that can change. We'll work with them and let them know. But that's a unique ability that we've had that I think gives us some of that flex you talk about. I'd also say, you know, when you talk about

LSCP, you know, one thing we're doing, a lot of folks have been talking about the short line opportunities they have in measuring it. We have something similar.

We're going to roll out and measure how our short line performance is. You know, we've got, you know, great relationships with Watco, G&W, Anacostia Pacific, all very key short line partners that own multiple short lines that we obviously have touch points with. And, you know, this is public. You know, you saw some articles probably about a year ago about Watco and the Dutchtown Southern and the Geiser corridor.

Very, very complex switching. It is one of the toughest places I've seen on this network to switch. We partnered with them, they've been able to grow that volume and give that customer in a very complex environment what they need, which we not be as good as that, but we've benefited because we have the line haul business in working with them. So that's a great example chairman of how you can partner with some of these short lines or the conglomerate and be successful.

CHAIRMAN PRIMUS: I was just going to --

MR. LORTIE: If I can add something on the flexibility topic. So today in the southern region, as Derek said, we believe we're very flexible. So we have trained packages, we're running a schedule, remember. So we've got trains that go off. We're not waiting to build a longer train. It leaves on the schedule. And oftentimes what happens is that there are some of these trains that have capacity on them and they leave without filling all of that capacity.

And so that gives us a lot of flexibility to add smaller shipments to our railroads. And where it gets a little bit more complicated is when we fill that train, then we need to think about another train package. But again, that's the great work that Derek and Patrick Whitehead are doing. And they can, in the US today, we do have the resources and the capacity. To add that.

MR. TAYLOR: Yeah. We can grow at very low incremental costs. I mean, we're open for business in the US.

MS. GAINEY: And one more thing to add, and I think Derek alluded to this earlier, the plan is not something that's fixed in time that once it gets set, then that's it forever in eternity. It's something that evolves over time as circumstances change in terms of what our customers need from us.

CHAIRMAN PRIMUS: And one last question for that, and you mentioned it before about interchanges. So how does that relate to 94 percent success rate, you know, from a customer, but how does that also, do you also measure that with your interchanges as well? And if you do, how?

MR. TAYLOR: Yeah, it's not measured by LCP for the short lines. That's something we're going to go to, very similar process. So it'll be the same visibility, but we have a different scorecard. Maybe you want to talk about that, Patrick, if you'd like.

MR. LORTIE: Yeah, certainly. So from an interchange basis with the short line, what we're looking at doing right now is making sure that there's short lines of visibility on everything that's coming to them, whether it's full or empty, and estimated time and arrival, and that we're building on that with more access to more information along the way. So that's the approach that we're taking. And we're piloting that with some of our short line partners at this moment.

CHAIRMAN PRIMUS: Excellent. Well, I want to thank both groups CN and BNSF for being here, for testifying. I will say one thing on your way out, you two are the only two that's not on Rail Pulse. And we've said that earlier, and I will preach it to both your CEOs. I'll continue to do so. We need everybody on point and on Board, should be on Board for this. It's a great innovation. It's a collaborative. It's something that I think is a network we need to show forth that we're doing something collaboratively.

And I really believe that it can, you know, we talk about innovation, we talk about the way forward. I think it's the key to that next step. So I hope you guys will take that away with and remind your CEOs that you know, the two outliers, we'd like to see you both on Board. With that, thank you for being here. Appreciate it. All right. We'll take a second to switch everyone out. We're coming up on panel number five, our short line folks.

(Change of panels)

I think Karen will be back shortly, but kind of we're going to move forward in the interest of time. So panel five this afternoon, we have representatives from our short lines. Coming up first, Mr. Henry Posner III, chairman of Iowa Interstate Railroad. Kennan Beard III. Is there a trend here? President and CEO of Sierra Northern Railway.

Mr. Marlon Taylor, president New York and Atlantic Railway. Shannon Drown, Vice President, commercial and Industrial Development, RJ Corman Railroad Company. Kimberly Thompson, Vice President Sales and Marketing, Genesee and Wyoming Railroad Services Incorporated. And Sarah Yurasko, did I pronounce that correctly? Excellent. Senior Vice President, Law and General Counsel, American Short line and Regional Railroad Association.

Welcome to all of you. I have to say I'm very excited to have you guys here. I think when I think growth I think of our short lines and I look forward to hearing the testimony from all of you. So we'll start with Mr. Posner, you're up first. Thank you. And welcome.

MS. YURASKO: In the order that we have our presentation?

CHAIRMAN PRIMUS: Sure. This is the line I had, but yes, whatever order. Are you?

MS. YURASKO: Yes, I'm first.

CHAIRMAN PRIMUS: Okay. Well, let's hear it.

MS. YURASKO: All right. Thank you so much. Sorry for the kerfuffle there. All right. So good afternoon. My name is Sarah Yurasko and I'm the Senior Vice President of Law and General Counsel of the American Short Line and Regional Railroad Association. ASLRA is a National Trade Association, representing the interests of about 600 short line and regional railroad members in legislative and regulatory matters.

Short lines operate nearly 50,000 miles of track in the United States, or nearly 30 percent of the National Freight Network, touching an origin or destination one out of every five cars moving on the National Railroad System, serving customers who otherwise would be cut off from the National Railroad Network.

Both in legislative matters before Congress and in regulatory and legal proceedings before the Board. Other federal agencies and the courts, ASLRA advocates for Enlightened Public Policies, which promote a strong regional and short line rail component for the national transportation infrastructure. We like to say that as an industry, short line punch above their weight loss.

Although the typical short line employees about 30 people, serves 18 shippers and transports freight about 50 miles for those customers, we have an outsized impact, particularly in small town and rural America in getting our customers goods to market. Growth in the freight rail business is essential to Short line railroads. Carload volume is the lifeblood of the short line industry.

Short lines keenly focus on retaining and growing carload volume and will partner with anyone to better serve a customer or to build out a rail option for a new customer. Whether it is one carload of scrap metal a year that is hauled for a one man scrap processor who hand loads rail cars with specialty aluminum, lumber through a transload site, steel on a shortcut, unit trains of ethanol or several hundred carloads of grain a week, there is no customer that our industry will not work with to serve and grow their business.

ASLRA firmly believes that the way short lines do business is the reason short lines grow business so successfully growing business. Where little existed before is at the heart of the Short line story. Growth is what the Short line railroad executives go to bed and wake up thinking about. Since the Staggers Act, jumpstarted, the modern short line industry, short lines have turned the most neglected rail lines in America into thriving collection of small businesses where carload growth has been the lifeblood of success.

Today we've brought representatives from five short line railroads who will detail their strategies to retain and attract more business to short lines, ultimately delivering more volume to our Class I partners and the rail network as a whole. I have Ken Beard, president and CEO of Sierra Northern Railway who will discuss his railroads inline port and transload facility.

Shannon Drown, vice president of commercial and industrial Development at RJ Corman Railroad Company who will talk about RJ Corman's unique service connecting to industry metals, industry customers. Henry Posner, chairman of Iowa Interstate Railroad, who will discuss his railroads project benefiting Patterson Company's aggregate transload for Western Iowa markets.

Marlon Taylor, president of New York and Atlantic Railway who will talk about growth involving the New York City aggregate market. And Kimberly Thompson, Vice President of Sales and marketing for

Genesee and Wyoming, who will speak to a project on the Puget Sound and Pacific Railroad in Western Washington state.

ASLRA's member Short line railroads commonly highlight four components as critical to short line freight rail growth and success. Number one, a deep understanding of our customers, their pain points, their growth strategies, the ability to provide efficient rail service that is responsive to their specific needs. Number two, investment in infrastructure always with private funds, but also often supported by state or federal funding.

Short lines are willing to invest with the long-term in mind and are eager and willing to work with public partners when the opportunity arises. Number three, working closely with local business development groups such as chambers of commerce and government groups such as economic development agencies to develop rail serviced commercial properties such as business and industrial parks.

And number four, strong partnerships with the community and Class Is to develop and efficiently deliver the white glove excellent customer service that our customers depend upon. And on that note, I would like to highlight two recently announced partnerships between short lines and their Class I partners.

Last year, Norfolk Southern launched its short line performance project. This initiative has seen interchange volume at 40 NS short line interchange locations grow 9 percent since March 1st. G&W's Vice president of Interline Management said recently, from our perspective, the program has significantly improved communication transparency, operational effectiveness, fostering an environment for growth at very little cost.

Omnitrax's chief commercial officer said, we are seeing double digit volume growth at our railroad as a result of this. And I think it's simply just a function of great service leads to opportunity. Watco's senior vice president of rail sales said, we've created an environment where it's okay to be the squeaky wheel. Finding the solution is mutually beneficial.

And you heard earlier today BNSF mention that they recently announced the launch of their new short line program; Short line Select. Select short lines will partner with BNSF on a suite of operational process improvements and have predefined economic arrangements with BNSF that enable expedited responsiveness to customer rate requests.

Starting with ASLRA Member Railroad, Alabama and Gulf Coast Railway, the program seeks to drive growth by improving service performance with participating short lines. The short line industry is nimble, necessary and noted for its attentive and customized service. Shippers rely on local rail service, often a short line for access to markets regionally and nationwide.

By working with local partners, Class Is, other short lines or economic development agencies, short lines drive growth for the local communities and for the freight rail system, one creative solution at a time. Thank you for having us here today and I will now turn to my colleagues starting with Ken Beard.

MR. BEARD: Thank you Sarah. Good afternoon. My name is Ken Beard and I'm the president and CEO of Sierra Northern Railway. We're a short line operator with locations throughout the state of California. I appreciate the opportunity to speak before the Board today and share my perspective about operating a Short line railroad.

The Sierra Northern Railway is an integral asset to the state of California. The success of the Sierra Northern is fueled by the passion its employees have for rail and serving the community as well as its loyal shippers and customers on the line. The growth of Sierra Northern Railway and the innovative strategies to implemented over the years has far surpassed what anyone could have anticipated when our parent company Sierra Railroad Company acquired it first railroad interest in 1995.

Throughout my presentation, I will reflect on the past and present, while also looking toward future efforts to serve and accommodate our shippers needs. Our story began in 1995 when Mr.

Mike Hart, the current CEO and founder of Sierra Railroad Company, purchased the 49 miles of rail line that now makes up one of two subdivisions on Sierra Northern's Oakdale division.

At the time when Mr. Hart acquired the track, it served zero customers. The track had not been well maintained to the point that was neither possible nor safe to service any customers. Immediately Mr. Hart began working on rehabilitating the line and started serving a few customers. The initial success was seen as a result of these rehabilitative efforts was a clear interest in the use of the rail line by shippers inspired Sierra Railroad Company to expand.

And in 2003, Sierra Railroad Company merged with yellow short line and created the Sierra Northern Railway. When Sierra Northern was formed, the Oakdale division moved less than 2000 carloads a year. As things got up and running, Sierra invested its efforts by first focusing on building back up the historic levels of business it had lost in the decades before then, strategizing ways to surpass those levels.

As part of SNR's plan to improve service and track new business, we undertook a number of transactions and projects, including selling an underutilized line. The Clarksburg branch that had been part of the yellow short line, we sold that to the city of West Sacramento. In 2001, Sierra undertook construction to expand switching operations at McClellan Park, a former Air Force base that was privatized and took advantage of the existing railroad tracks to aid in the commercial development of the park by introducing common carrier rail service.

Between 2003 and 2014 SNR strategized on business expansion efforts and implemented them to both improve its current service on all divisions as well as attract new business SNR dedicated itself to making as many repairs as it had capacity to take on to bring the line to a state of good repair. In November of 2014, I joined the Sierra Northern team. When I joined the team, I brought with me 20 years of railroad operating and management experience as I'm a fifth generation railroader.

Prior to working with the Sierra Northern, I had spent 20 years serving as a COO of the Modesto and Empire Traction Company in Modesta, California, which has been owned by my family for generations since it was founded in 1911. My prior experience and overall upbringing in the family rail industry helped me aggressively and successfully improve short line operations.

I was able to apply my knowledge on how to build a business and implement a business model, and after both witnessing and involving myself in my family's business, additionally, I had worked with all divisions of the railroad. So I understood how to repair tracks, how to build and manage a reliable team, and had overall operation knowledge of the daily ins and outs of successful short line service.

In 2014, there was approximately 4,600 carloads and 41 customers. When I joined the SNR they had successfully managed to successfully repair much of the business that these lights had lost over the previous decades. But carloads and customers currently served at that time were not enough to provide sufficient revenue to bring their line fully in a good state of good repair.

I began to identify infrastructure needs and growth opportunities. I started thinking about Sierra Northern's business model and avenues to acquire the needed revenue. In 2017 my efforts and strategizing led me to begin exploring state and federal grant opportunities. In particular, FRA's CRISI program.

In 2019, SNR was awarded approximately $17 million to replace 90,000 of the lines, 175,000 railroad cross ties and improve safety at 10 crossings. Being awarded this CRISI Grant in 2019 was a major turning point for SNR as it advanced its goal of ensuring the line was an engine for continued economic growth in the region and globally for decades to come.

Shortly after the excitement of our 2019 CRISI Award, the global pandemic hit and posed many economic threats and setbacks to our recently acquired momentum. However, SNR overcame that disadversity. And in July of 2020, we broke ground on the projects that were awarded funding in the 2019 CRISI. In addition, we also purchased 116 acres that is now the home to our Oakdale division's, transload facility and inland port.

The results of these two noteworthy events in 2020 can be appreciated by looking back at the preceding years. In 2017, we shipped approximately 5,900 car loads and served 47 customers. In 2020, we shipped 6,800 car loads and directly served 45 customers. And as our most recent data, we are projected to ship over 15,000 car loads. This includes 45 direct serve customers and over 300 dairy and feed customers via transload operations over the line this year in 2024.

In addition to these projects, SNR also began pursuing several hydrogen locomotive projects. In 2021, we awarded nearly $4 million to fund the design integration and demonstration of the first Sierra hydrogen fuel cell switching locomotive. This project is currently underway and we're eager for the switching locomotive to be implemented into our regular operations later this year.

In July of 2023, we received additional funding of approximately 19.5 million for three more hydrogen locomotives. We are optimistic that this project will be underway by October of this year. With these two transformative projects, SNR is leading the industry in environmentally friendly rail based solutions. And by 2027 we'll have a fleet of four zero emission hydrogen switching locomotive operating in the Sacramento region.

This is only the beginning. Our goal is to transform our entire fleet of locomotives to hydrogen fuel cells and the more than 260 switchers operated by short lines throughout the state of California. In January of 2024, Sierra Northern and our affiliate railroad became the first and only railroad to close a joint loan under the Build Americas Bureau RRIF Express Program.

This loan process started right at the beginning of COVID-19 and took just under four years. With respect to SNR, the RRIF express loan allowed the company to develop and expand capacity and car storage by adding four critical new sightings. Sierra recognizes this, they would not have been able to overcome the many hurdles faced by Short line railroads without funding opportunities. Most short line struggle with aged infrastructure and lack the capital to efficiently address the needed repairs.

The cost of short line infrastructure improvements cannot be spread over the vast rail system or large customer base like a Class I. And loss of even a portion of revenue from a single shipper can have significant adverse effects to the short line and its ability to service customers. These grant and federal loan opportunities make it possible for short line to more heavily invest in rail infrastructure and operations.

SNR's recent success in using federal and state funding as a tool to facilitate its business goals has inspired us to continue pursuing the opportunities for future endeavors. We recently applied for a CRISI grant that would fund groundbreaking project involving what we call the freight rail triangle. The freight rail triangle is an innovative triangular freight pattern that culminates both unit train and container traffic operations.

In the case of container traffic loading containers come into the port of LA from Asia and head to the southeast portion of the United States. These containers are unloaded, reloaded, and routed to our Oakdale facility, where they're once again unloaded and reloaded with agricultural products that'll be exported to Asia via the Port of Los Angeles.

The freight rail triangular is particularly innovative. That involves three loaded movements that are entirely transported by rail. The container traffic has grown so large that the additional infrastructure is needed to support the operation and enhance the locomotive connections for continued economic growth. Thank you.

The Freight rail triangle will take trucks off the road over the entire route, reducing congestion of port entrances, while also stimulating additional international trade, including additional foreign markets for business and regions near Sierra's Oakdale facility. The growth and innovation of Sierra is something I take great pride in as a fifth generation railroader.

These projects have increased revenue and grow our business significantly. And because of this, we only continue to grow and undertake additional products to accommodate the growing capacity and volume. Our enthusiasm is what drives us as ultimately our goal is to serve the needs of our customers. They are the true driving factor in all the business ventures.

Each customer depends on Sierra to provide the safe and efficient service, and we try our hardest to accommodate any and all of their requests. Sierra's experience in growing the business has taught us the key to operating successful short line is that every carload matters. Thank you.

MS. DROWN: Good afternoon. First, I want to thank Chairman Robert Primus and the Surface Transportation Board for their inclusion of short lines in their invitation to speak to the growth in the freight rail industry. As I'm sure you've already heard and will continue to hear today, the short line industry's expertise lies in customer-centric service that yields sustainable growth. And I look forward to sharing our unique perspective.

My name is Shannon Drown. I'm the Vice President of commercial and industrial development for RJ Corman Railroad Company. We proudly serve approximately 235 customers across 11 states on 19 short lines. And I personally had the opportunity to work firsthand with many of our customers through shared successes, challenges, and everything in between.

RJ Corman's Origin story is well known to most in the industry. Founded in 1973, Richard J Corman's legacy exemplifies a mandate for growth, starting out on borrowed money in a backhoe, a tireless work ethic, the fortitude to put plans to action, and a whole lot of charisma, he built a burgeoning railroad services and operating company that stands 51 years young today.

RJ Corman Railroad Group has grown to serve all six Class I railroads, many regional and short line railroads, as well as rail served industries with services spanning from railroad construction, emergency response, industrial switching, signal design and construction, track material logistics, distribution centers and excursion train and last, but certainly not least, the short line railroad operations.

This is clearly a mandate for growth and is why we've all been convened here today. We as an industry can champion growth by working together as partners. Class I railroads, regional railroads and short lines to provide superior service through leveraging our unique strengths within the complex but robust North American Freight Rail Network.

If Class Is are the backbone of the rail network, short lines are the opposable thumb creating additional support and flexibility and service offerings that can then be extended to our current and prospective customers to innovate and execute complex and logistical solutions. These are the type of solutions needed to deliver sustainable growth for our industry. And that is the growth story that I will be sharing with you today.

RJ Corman Central Kentucky line referred to as the RJCC was acquired from CSX Transportation when it sought to short line the old road that ran between Louisville, Kentucky and Winchester, Kentucky. At the time, RJ Corman was specifically interested in this railroad due to its close proximity to his hometown and company headquarters. However, with the line's existing business sitting at only 5,000 car loads of traffic annualized on a hundred plus rail line, the business case for the acquisition remained tenuous at best without new ideas for growth.

However, RJ Corman did have new ideas for growth. The booming industrial metals supply chain in Kentucky. One of the world's largest recyclers of industrial metals had a facility located on CSX'S CC subdivision less than 50 miles from the newly acquired RJCC. Equally of note, a metal toll processor, one of the industry's largest, was located on RJ Corman's Memphis Line or the RJCM.

These two facilities had historically shipped tens of thousands of truckloads of raw industrial metal between themselves as the metal producer on CSX supplied the ingot that the metal toll processor refined. These presented a prime opportunity for RJ Corman to explore how we could team up with our Class I partner, CSX Transportation to leverage each organization's unique strengths to convert this high tonnage traffic to rail.

Working extensively with both the metals producer on CSX and the metal toll processor on RJC, both RJ Corman and CSX were able to craft a custom unit train service that not only satisfied the transportation requirements for the metal producers ingot shipments, but it also added additional value to the metal toll processor's finish coil supply chain.

A 40 rail car unit train was realized utilizing custom fabricated rail cars and multiple trackage rights agreements between CSX and RJ Corman enabling rail service to overtake the value proposition of truck. This very lane now moves more car loads of rail traffic as a single standalone account than the entire RJCC railroad did at the time of its acquisition.

Each aspect of this successful collaboration is in service is unique, but likely more relevant to our discussion today is the fact that this success story is capable of replication under the right conditions. The 40 car unit train is a short unit train by almost any measure in the railroad industry, this high level of dedicated service is often reserved for commodities of traffic moving and consists of 90 plus rail cars.

However, in this case, the strategic decision by both RJ Corman and CSX enabled this new rail customer to receive highly consistent service while minimizing the risk of in-transit disruptions, allowing for service predictability and peace of mind. Furthermore, the dedicated fleet of custom fabricated cars allowed for ease and speed of loading and unloading as it did not require any resources for additional securement, such as banding of the ingots.

Lastly, freight rail transportation was able to compete directly with truck by utilizing track and trades agreements to reduce transit time between the origin and the destination. As mentioned previously, the Metals Producer facility is located on CSX'S CC Subdivision, which runs between Corbin, Kentucky and Cincinnati, Ohio.

A typical service design might include CSX servicing the metal producer directly at origin, transloading their carloads north to Cincinnati to then move south to Louisville, Kentucky, and then further southwest to Memphis Junction, Kentucky before interchanging with the RJCM for final delivery. This routing had the potential to add multiple days of transit time.

However, CSX made the strategic decision to extend to RJ Corman Trackage rights, allowing for RJ Corman to directly service the metals producer resulting in transit time being shortened from a two to three day transit time to an 18 hour transit time between origin and destination. A win-win for railroads and customers alike.

With RJ Corman Railroad Group having a wide swath of railroad services in addition to our railroad operating company, we were able to offer Interplant switching services at both the origin and the destination. This worked to streamline the customer's rail experience as RJ Corman is the provider of both the first mile and the last Mile Freight transportation service, as well as the provider of switching services at each facility to support loading and unloading operations.

Finally, RJ Corman constructed a 200,000 plus square foot warehouse on the RJCM to provide rail served warehousing and inventory management for the metal toll processors finished metal coils. These metal coils are the finished product that are created at the mill using the ingot feedstock that was received by the metal producers unit train.

Specifically specialty equipment, including a 30 ton overhead crane and a 35 ton capacity forklift paired with expert material handling provided improved customer cycle times and quality assurance. By working hand in hand with our Class I partners and customers, we were able to offer a completely integrated freight rail transportation and supply chain solution.

And most importantly, using this same methodology, RJ Corman and CSX are partnering again to compete with trucking and win on traffic between additional facilities of these very same customers with new traffic, anticipated to start in 2025. Thank you again for your time today. We appreciate the opportunity to share our perspective on how short lines can work alongside our Class I partners to provide the customer-centric service that yields sustainable growth.

MR. POSNER: Okay. So what I'm going to do is make a brief introduction myself and then figuring that you can read faster than I can talk I'll hit some of the highlights of the two PowerPoint slides, which I'd like to put up here. And begin by introducing myself, I'm Henry Posner.

I'm privileged to serve as chairman of Iowa or State Railroad and Chairman of Railroad Development Corporation.

Couple interesting things related to that I will talk about later, but first, if you'll note the map of the Iowa Interstate. There are a couple of interesting things that make us different from I believe most of our peers in the short line of regional railroad industry. First, we are the formerly abandoned main line from Chicago to Omaha.

At one time, there were seven, then there were three, and when our formerly abandoned railroad came back, that took it back to four. We were founded by customers who put skin in the game, didn't want to be in the railroad business, but had to buy a railroad in order to create the alternative. And has morphed to what we see today, which is a Class II railroad that interestingly connects with every Class I.

So for every Class I in the room here, we have something going on with them, and it's usually a combination of competition and cooperation, which is one of the great things behind our industry. A couple of other interesting things are that we handle intermodal double stack traffic between Omaha and Chicago, and we are the future Amtrak route to Moline.

So the specific customer example that I want to give you today is not an example of competing with trucks nor other railroads or rather geographic competition, in which for Patterson which is a family owned aggregate producer in northeast Iowa, we have made them competitive in southwest Iowa on a geographic competition basis.

Meaning that they compete with truck served producers, and we make them competitive due to the economics of rail long haul and also the environmental benefits of fewer truck miles. But perhaps the most counterintuitive is that there is a Class I railroad involved CPKC, whose haul is actually shorter than ours.

So the traffic originates on CPKC, we get it at Davenport and move it most of the way across our railroad as a joint underlying piece of traffic.

So I think the lesson here is the easiest way to make rail grow is to make rail's customers succeed. And we would like to think that we've had a part in that. Finally on the back, there are a couple of interesting anecdotes about some of the other businesses we're in, like inner city passenger service in Germany, rail freight in France, a business model based on family ownership and long-term partnerships.

I'm also proud to serve on the STB Passenger Rail Advisory Committee. And finally, I teach an undergrad course on rail deregulation at Carnegie Mellon, which is why I know the difference between geographic competition and product competition, let alone intermodal or intramodal. So if we could just go back to the original slide, so that's not too distracting.

There are a couple of things that came up in the discussion earlier today that I would like to focus on. And first and foremost, we are an investor in Rail Pulse. So why is that? Well, we are an investor in rail related businesses, and it was an opportunity to do something for the industry. And so we're very proud to be one of the first investors in Rail Pulse and also rail flow, which is a European platform for, among other things, booking capacity, which even has a pricing component.

I've said, you know, we're a significant inner city and local passenger operator in Germany, which would be impossible and possibly illegal in this country. I've also heard talk about resiliency. Keep in mind, having a fourth main line from Chicago to Omaha does advance the cause of resiliency. And we know a lot about that in Peru where we are prepared for natural disasters as part of showing up for work every day, at least during the half a year, which is the rainy season.

So the only other thing I'd like to mention is something which I don't think has come up today, which is that in order to get customers to use rail, you're basically talking about having somebody put their job on the line to save 3 percent on their transportation costs. And do you really want to put your job on the line to save 3 percent in transportation costs, especially if the person you're dealing with will be gone within a couple years and or restructured and or taken over and otherwise removed.

That's one of the benefits that a family owned railroad company can bring. And I think we've heard that earlier, which is at least with a family, you know, you're going to be dealing with decades from now, probably. So, at any rate I hope I've taken less of my allotted time and hope that I bought some time minutes in the bank for some good Q and A. So thank you very much,

MR. TAYLOR: Mr. Chairman and the Board, our thank you for having us. I think, I believe this hearing matters to our shippers, our customers, and to our employees especially. It signals to them that their work and their efforts matter and is worth the conversation. So we're glad to be here and we're glad that you're doing this. My name is Marlon Taylor. I am from the New York Atlantic Railway and Anacostia Railroad.

Our growth story is our partnership with the Providence and Worcester Railroad and serving aggregate customers in New York City. As you may know, New York City is always in, sorry about that. Okay. There we go. Can I slide over? There we go. We can be closer. Okay.

As you may know, New York City is always in the middle of some infrastructure expansion or renewing, and a critical part of that is aggregate. Aggregate may be crushed stone or sand for asphalt or cement work, and on Long Island and New York City. Luckily for us, there are no cores. So all that material needs to be trucked in or barged in.

In 1999, the NYA and P&W decided to offer customers a freight option by a rail. By 2000 we had one quarry, one customer, and a once a week, 40 car rail train coming in to New York City to serve customers. By 2023, we had two quarries online, we had eight stone receiving yards, and we have a twice a week service for aggregate. That all may seem relatively easy until you look at the map. You'll realize to get to Queens, to get to New York, that P&W needs to travel over the Northeast corridor.

That means traveling over Amtrak, Metron North, and then at the very end CSX to get to our interchange. In turn, we need to travel over the Long Island Railroad to get to our East End customers, and that network is the densest passage network anywhere in the US. And so operating windows are tight. They're always in the middle of some infrastructure improvement on their railroad.

And so coordinating, navigating that network is immense. It's a lot of work and a lot of people spending time to make sure that we can provide this service. Also, the Northeast corridor on the Long Island Railroad, it's not restricted speed 20 miles per hour railroading. It is high speed. And so we need to invest not only in qualifying our people, but also in locomotives that can deliver that service without issue.

When we talk about growth, for us, it's investment in our people and in our equipment. Our growth story is tied to the quality of our people, and so their work is what we stand on every single day. And although our growth is not explosive, it went from 1000 carloads in 1999, 2000 to 7,000 in 2023. It's a story that we're proud of and it's a history that we stand on, and we thank you for the time.

One closing comment about Rail Pulse. We are a late adopter, but you will hear from our CEO, we're also looking to get involved here in the next week or two. So we're also a fan of Rail Pulse, and thank you for your time.

MS. THOMPSON: Good afternoon, and thank you Chairman Primus and members of the Board for the opportunity to speak today about growth in the freight rail industry. My name is Kimberly Thompson, and I'm the Vice President of Sales and marketing for Genesee and Wyoming. G&W is the largest Short line railroad holding company in North America. And our affiliates handle approximately one and a half million car loads annually for 2000 customers with 4,000 employees and 110 rail operations in the US and Canada.

Today, I'd like to talk about the Puget Sound in Pacific or PSAP Railroad in Western

Washington state. PSAP is located between Seattle and Portland and is just under 160 track miles running from Centralia Washington up north to Bangor, and then out to the west to the coast with service to the Port of Grace Harbor in Aberdeen, Washington.

As a result of continued investment, we are 286 K weight capable across the entirety of the line. And PSAP's 55 employees handle a variety of commodities for 25 customers. PSAP primarily handles shipments of agricultural products with the co-op AG processing or AGP, lumber and wood products with Sierra Pacific and municipal solid waste with Waste Management.

PSAP does connect with both BNSF and Union Pacific and directly serves the Deepwater Port of Grace Harbor, which is the closest mainland port to the Pacific Rim. And today, I'm pleased to share with you the growth story of PSAP to highlight how short lines work with our Class I partners, our strategic ports and existing and new customers to secure incremental freight to the National Rail Network, provide a stellar service product to link domestic and international markets, and further diversify commodity portfolios that are moving over railroads.

We are very excited that PSAP is projected to grow carload volumes by 50 percent over the next five years. And really we're doing this in two key areas. First, with new import automotive business, and second, with increased soybean meal shipments as PSAP's largest ag product, shipper expands export capabilities there at the port. As a result of the significant carload growth, PSAP is planning to dedicate more than $50 million in capital investments.

These investments are expected to start this year and include capacity expansions at the interchange with our Class I partners, as well as the addition of new sidings to accommodate incremental unit train growth. One key way that short lines deliver value is having deep local knowledge of our customers and providing dedicated and flexible service that allow us and them to react nimbly when problems need to be solved.

One recent challenge faced by many industries has been congestion at West Coast ports, and this has been particularly problematic for automotive importers. To find an efficient and reliable solution, PSAP is working closely with our Class I partners, the Port of Grays Harbor, two major OEMs and the onsite vehicle processor to provide a timely solution to offload, stage and then transport import vehicles by rail to inland US destinations for further distribution.

This successful new PSAP auto business, which began earlier this year, will bring thousands of new rail carloads to our shoreline, as well as enhance the efficiency of the supply chain for the automotive industry. And finally, another gross success story on the PSAP is with AGP. In 2022, AGP's Board of directors approved a major expansion and upgrade of its agricultural export facilities at the Port of Grace Harbor.

The plans include upgrades to the current facilities at their terminal two, and the addition of a new ship loader at terminal four. These upgrades and expansions will provide AGP with the capability to load two ships simultaneously for export soybean meal to growing Asian and South Asian markets. PSAP has already seen freight volume gains with incremental terminal to traffic, and we expect to see the most significant volume gains in 2025 and 2026 with the opening of Terminal four.

PSAP is genuinely excited to participate in the growth of thousands of new export grain rail cars with our long tenured customers, and we have dedicated sales and operational team members who are collaborating frequently with all parties to ensure a successful volume ramp up. With that, I'll conclude my commentary, and again, I appreciate the opportunity to talk about our PSAP short line growth story with you today and reinforce how much we value our partnerships with both BNSF Union Pacific and as well as with the Port of Grace Harbor. Thank you very much.

CHAIRMAN PRIMUS: Great. Thank you to to the entire panel. I have to say that after hearing your stories about your growth and your examples again, it only reiterates, you know, my point of view of where the strength of the network right now is in terms of growth. Time and again, we've heard how this is, we're in a soft economy and soft markets, and it's hard to find, you know, business.

But again, we look at, I mean, I literally, you probably saw my eyebrows go up when you talked about how you're talking about a 50 percent, you know growth, especially in a time like this. And it seems I believe strongly that you know, it's almost like you guys are the wildcatters out there that's like, you know, we'll find the growth, we'll find the business, we'll grow it.

And I think that's what also allows the entire network, you know, to be resilient, and strong and grow. It's yeah, like I said, it's something where I think I wanted to build this opportunity for you guys to come because I also wanted to showcase that, but also want to also hear about, you know, some of the challenges beyond growing in terms of, you know, because part of it is that partnership with the Class Is and getting them to understand your formula for growth and how, you know, they can integrate within your systems to allow you to continue to grow.

But they'll grow as well, because again, it's not just developing the short line portion of it, it's developing, you know, the overall network. And I'm sure, you know, your partnership with CSX, you know, is clearly a great example, you know, of that. Same thing. But then alternatively, you know, for long term, you talking about the short haul of CPKC, which if you listen to at times, you know, it's like they're looking for more long haul business, but the recognition of them saying that there's actually the ability to grow in the short haul as well as helping the short lines to enhance their business is also important too.

So I'd like if you guys could each, if you have a chance to talk about some of the challenges going forward. I mean, you're succeeding during this time, which is again a great thing because again, when the economy really does start to hI think there's even more opportunity there for you.

But what are some of the challenges that you see now that within your individual networks or the short lines hold that you see partnering with Class Is or just growing that are in front of you, that, I mean, we've heard of CRISI helping you out and others that you're looking to overcome.

MS. YURASKO: Well, I'd be remiss if I didn't take the opportunity to say one of the largest threats that we see for the short line rail industry in particular is the locomotive emissions rule recently passed by the state of California by CARB. Just the threat that has to our small businesses. I just can't stress enough just the concern that we have there for our member railroads such as Sierra Northern who operate in California, who are doing great things and who are making investments and, you know, investing in the new technology but can't do it at the speed that has been mandated by the State of California.

MR. BEARD: No, I will certainly echo Sarah's comment about the locomotive regulation that it's going to be devastating to our industry.

Chairman, when you ask about challenges when I talk about the freight rail triangle and our intermodal move as well as our unit train moves, our biggest struggle was convincing the Class Is that we had capacity. And as it turns out, we have the capacity. Maybe they don't.

We have the resiliency. We, you know, we've built it in we can handle these things, but from a short line perspective, you're going to the Class Is and you're trying to share that, hey, we can do this, can you do this? And it has been a challenge. We've proved it, and the good thing I interchange with both the BNSF and the UP and once we got to the table and, you know, drew it out and explained it, and we proved that the, you know, the old adage, the proof is in the pudding. Once we did that the Class Is really understood and continued to work with us on these projects.

MS. DROWN: We see a lot of new business being complex and requiring creative solutions. So I think really getting that buy-in from the customer, the Class I partner, and then the short line to find a way to yes, is where we see a challenge and where we see an opportunity. And so what do I mean by that is a lot of the business, you know, maybe the first run at it, it doesn't make economic sense for one of the parties.

There's a juncture there where we can walk away or we can lean in and we can collaborate and we can ask more questions and gain greater understanding to see where can we all compromise a little bit to get a little bit more skin in the game so that we can work our way to yes.

So maybe for the customer that's agreeing to some kind of Mac, an annual commitment to make the railroad a little less concerned about making, you know, the capital needed for that. Maybe on the railroad, on the Class I side, maybe that looks like a car hire or locomotive hire agreement to take some expense off of the short line.

And then from the short line, maybe they can pass forward that reduced expense and help reduce the rate itself. So that's an example of something that's a challenge, but again, an opportunity.

MR. POSNER: So not to obsess too much about CARB, but I do think, you know, if California was a country, it'd be France. And that gives me the opportunity to talk about what we've achieved in France, which is probably the world's toughest rail freight market because you got toy trains competing with monster trucks. The state railway resents competition, and yet if you drink a bottle of Evian water in this country, it came on one of our electric single person freight trains.

Tick so many boxes of things that we just talk about in North America, and which is normal course of business that I believe is in fact consistent with the customer needs to have some confidence that their investment in time working with you is actually going to pay off, which might explain how the number five player in the market all of a sudden gets the Evian contract, and how conversely the threat of CARB putting the short line industry out of business can undermine a generation's worth of business development work.

Not to make this all about me, but in my

Carnegie Mellon class, we did a debate. Half the class was Californians, half the class was, for lack of a better definition, Iowans. And the Californians said, and this is more or less exactly what they said, in order to achieve the environmental objectives it's unfortunate that short line industry is going to be put out of business, but in order to save the planet, you've gotta break a few eggs.

That I believe is the type of message which can undo a generation of work on our industry's part. So there is a role for the STB that is preemption. Just because California doesn't want to see something happen does not mean that the wheels of interstate commerce can grind to a halt until France actually does become California, or vice versa.

MR. TAYLOR: We operate in New York and specifically Queens, Brooklyn, Long Island, and I think we have used a CRISI Grant to improve our railroad. I think for us infrastructure might be the answer. When you're in New York City, everything is expensive and everything is tiny. And so the idea of growth, I think for us would equal some amount of capacity, some amount of infrastructure, wherever that may be, will be difficult, again, tied for space. And so I think our answer would be infrastructure.

MS. THOMPSON: And I think one of our biggest challenges is to make sure we maintain equipment visibility. I know we've talked about Rail Pulse here. G&W is very proud to be a founding member of Rail Pulses. We appreciate that you've encouraged all the Class Is to join, and I'm excited to hear about other members joining.

There isn't a customer meeting that I don't attend that they are not excited about knowing exactly where their rail car is at any given time. And our field sales team receives tons of calls about, where's my car, when's it going to be here? And when we can effectively and efficiently provide those answers, our rail network will be stronger.

MS. HEDLUND: Henry, I have a question for you an issue we've talked about, and I want you to share your thoughts with everyone here. We are here talking about the growth of the freight rail industry. In the meantime, the Congress has given the passenger rail industry $66 billion. Some of that money is going to go onto the northeast corridor, which is owned by Amtrak and also shared by some freight rail. And the rest of it is going to go on the freight rail network.

Expanding passenger rail onto our Class Is, particularly on new corridors has proven difficult. The foster child for that, of course, is the Gulf Coast proceedings, which I'm hopeful of just about run their course. But you know, the short lines could grab a little bit of that money too. And there've been opportunities to put some passenger rail on short lines.

But Henry, would you like to talk about the issue of why that becomes more difficult for short lines than even for the Class Is? They're always looking for billions of dollars for the privilege of running a passenger rail. Here, there are billions of dollars that could be put into upgrading short lines for the benefit of passenger rail, but of course, it would benefit the short lines as well.

MR. POSNER: Okay. So I will not presume to speak for the entire short line rail industry, nor will I even presume to speak for the Iowa State Railroad. Joe Parsons, president of the Iowa State is in charge of the Amtrak project to Moline. And I do not want to speak for him. I have a concern, which is that if we don't decriminalize passenger service, it's just not going to happen.

The cost of insurance alone makes it a non-starter, and the smaller your railroad is, the more disproportionate the risk of having passenger service unless there's a liability cap makes it a non-starter. I will tell you that in Germany, we were moving 2 million people a year at 200 kilometers per hour. And I asked where our insurance cost was in our P&L, it was buried in general accounting. It was under a hundred thousand dollars.

We recently wound up paying a hundred thousand dollars just to run a demonstration operation. The cost is unconscionable, and all you have to do is pass a law. You pass Staggers, deregulating economically rail freight. Somebody could come up with a law that decriminalized passenger service, call it Henry's Law, or whatever you want. That would be the single biggest contribution that could be made to not only advancing the cause of rail passenger service, but actually saving lives if you believe that passenger trains save lives, which by the way, I do. I hope that's helpful.

MS. HEDLUND: Thank you.

MS. SCHULTZ: So this question is for anyone on the panel. Obviously, I would think that any of you would welcome a very large customer that wants to run unit trains as a way of growing your network. But from stakeholders, what I hear is that most railroads grow their businesses one carload at a time. And I wondered if anyone could speak to how railroads can improve on growing their railroads by one car load at a time.

MR. BEARD: Yes. So short lines, it is growing one customer, one car load. It's determining a need. What we've done in the past is locate somebody that typically ships by truck and work with them, you know, hold their hand and carry them through the process to show them the advantage of shipping by rail. And most of them are afraid to ship by rail. It's an unknown project.

So we have to have our marketing folks work with them, teach them, you know, help them through the rate process, the shipping process and everything else. And we found that once you get somebody converted, even if it's just a carload or two as the years progress, they continue to ship more and more so that that one carload customer actually in my case turned into a unit train customer after about five or 10 years.

So it took a long time, but it went from one car load to 30 car loads a month to hundreds of car loads a month. So it is handholding and doing that customer service and making sure that they get exactly what they need, because with trucks they do that all the time. The truck's always there, the truck always goes. And when you're the shoreline operator, you have to do that. You have to match that service.

MS. DROWN: Yeah, I would second Ken's point, I think education is is huge and can pay dividends. We've experienced exactly what he's spoken to where we've worked with a customer over time to gain their trust to where they've initiated rail shipments. And then over the years we've seen them grow into new lines or new commodities. So I think education's very important.

MR. POSNER: And for the theoretical example of the unit train customer, somebody's got unit trains that's probably sophisticated enough that they'll be able to play the Class Is off against each other and make a deal that's almost as good as being on a short line, which is why we don't see a lot of those, unless it is an actual industrial development decision, in which case you're working with the state and the environmental regulators. And inevitably the Class Is.

MR. TAYLOR: On my phone, there's a text from 20 minutes ago, customer said, can we talk tomorrow? Or can we talk on Wednesday? And I think being available in that way, I think for us matters. I think it's knowing who they are. They know who you are, and you can figure out together that we are in something together. It is not extracting a pound of flesh. It is, we're trying to do something together. And I think being available and understanding their needs and understanding what you can offer, I think is important. So I think being available is important.

MS. THOMPSON: And then I'll just add that single carload growth is the lifeblood of the short lines unit train. Large opportunities like we're talking about, don't happen every day. And our sales team, our national accounts team, our industrial development team work very hard to grow our railroads carload by carload.

MS. SCHULTZ: And then just one more question Ken, you mentioned that Sierra Northern had been awarded a $17 million CRISI grant for rail ties. And I'm sure many of you have, have also received CRISI grants. I wonder if you could just take a minute to speak to, you know, the value of what that grant meant to your organization or perhaps other grants that you've received as well.

MR. BEARD: Yes, as mentioned in my testimony, a lot of the infrastructure rehabilitation couldn't be done without the help of grants. We did receive a $17 million grant on our 55 mile Oakdale Branch. What that amounts to is replacing every other tie, replacing some curve worn rail and doing upgrades to 10 grade crossings, public grade crossings.

The importance to the line is that before that process, about 35 miles of that 55 mile was excepted track. It was barely manageable. We had restrictions on how many cars we could handle it hazmat at a time. We had a very slow speed, you know, 10 mile an hour. Now this project brings our track up to Class II track standards from start to finish 25 miles an hour. So what used to take 12 hour round trip for the crew, now we can serve a customer at about five hours round trip.

So the customers are seeing a faster service. We're taking longer trains and we're able to bring on more customers. And so going back to the unit train, we couldn't handle the unit train traffic if we did not have the ability to upgrade the main line. And the CRISI project, the CRISI grant was instrumental in allowing us to build back the infrastructure so that we could handle this type of rail traffic.

MR. FUCHS: Thank you. And I appreciate the discussion. I think thinking about single car load growth as well as convincing people to do short hauls, as you pointed out, Mr. Chairman, I think are both extraordinarily valuable discussions to be out in the public and did for everybody to learn what you all have done. I want to talk about the short line partnerships that have been announced.

Obviously Norfolk Southern's has been underway for some time and they've presented some pretty impressive preliminary results and, you know, BNSF recently launching theirs. Could you speak to what these partnerships are, how they work, and whether or not they could be models for the industry?

MS. THOMPSON: Sure. I'll take the BNSF

Short line Select program. We were really excited when we received the news that we were going to be part of that with our Alabama Gulf Coast, the AGR railroad down near Mobile running up to Amory, Mississippi. And this is really important to us for a couple of reasons. One we're going to be able to just sort of be a seamless part of their network in terms of their transload sites, in terms of their industrial development sites.

And more importantly, we're going to be able to have, to have access to the BNSF commercial resources to help us market these, which, you know, is tenfold the times of resources that we have as a short line. So we are really appreciative of the BN to allow the AGR to participate in this project

MR. POSNER: Sounds pretty good to me, and I hope that the BNSF people are in charge of that are still there in a couple years.

MR. FUCHS: Sure. I'll jump in. So switching, you know, to a topic that Michelle brought up about grant programs. You know, there are a couple companies here that have served on our advisory committees and, you know, FRA is, you know, a party to those committees. And, you know, one of the things that we, you know, talk about is kind of intermodal collaboration and modal equity. And so I'm wondering, does anybody have any insights as to a, the role that freight plays in those grant programs relative to other modes or even you know, passenger rail?

And b, one of the things that comes out quite often is that the STB is the body that receives service complaints or hears about congestion. But, you know, there's another government agency that provides grant money to hopefully address some service complaints and address congestion. And now I think that that is an appropriate division, and I'm not suggesting that we should have grant making powers, but perhaps there's an opportunity for additional federal agency collaboration or for the Board to provide its views.

So on those two fronts, can anybody on the panel speak to sort of the distribution of grant funding? And then secondly interagency coordination as you can perceive it from the private sector?

MR. BEARD: I can speak partially to it. CRISI Grant, as I know CRISI grants because we are a recipient of one. We've applied multiple years for CRISI Grants. In California, it's very competitive as I think it is across the country. This last round it was freight against passenger.

It was very much so of the 300 and I don't know, 50 million that was awarded to California, a vast majority, it went to California high-speed rail, and then some of the inner city passenger lines like the capital corridor. So freight plays a part. It's very important that grants, the CRISI grants and everything still are given to short lines as I mentioned before. But passenger does take a good chunk of it at times.

MR. POSNER: Two contributions here. One, I was shocked to learn recently that less than 20 percent of all intermodal moves across Chicago are steel interchange. I thought it was much higher. It shows, I think that's a great example of how if Chicago could somehow wind up having more steel interchange that would eliminate all kinds of truck moves, et cetera.

Completely separate to that is decarbonization is an example of how disconnected different parts of our system are. Decarbonization is at best an aspiration. And there is nowhere near the readiness at the safety regulatory level that seems to be happening. You know, everybody's got one hydrogen locomotive and they tick that box and they can go away for a couple years.

But there is tremendous disconnection as far as decarbonization goes, and we see that some of our other businesses, and that's not relevant to today's discussion, but that would be something to start thinking about is how does decarbonization fit in as well as the basics of urban congestion.

CHAIRMAN PRIMUS: Thank you. Before I let you guys go, I just have one quick question for the group. And it involves, we talked about it in previous panel about interchange. Over the past, since my time here, I know there have been a number of challenges concerning interchanges between the

Class Is and short lines. And we, especially during the service challenges the last few years. And so I just wanted to ask a quick question in terms of have you seen improvements at interchanges with your Class I partners? You know, in the past year or so?

MR. BEARD: That's kind of a mixed bag. It's up and down. Certainly one of the Class Is I interchange with, it's pretty much flawless. The other one seems to be a service issue on their part for interchange.

MS. DROWN: Yes, I would say across our 19 short lines, we have since 2022, I think that was a low point for us on the interchange service, but we've absolutely seen better interchange in '23 and '24.

MR. POSNER: And with regard to our one example, our interchange for the Patterson traffic is at Davenport, where the CPKC mainline from Canada to Mexico goes to a single track bathtub. And if that's not functioning, then the aggregate traffic is not going to move. And I have not heard a lot of issues coming from that. The fact is that traffic is moving, the customer is competitive, and there are not service issues that I've heard of that are slowing that particular piece of business growth down.

MR. TAYLOR: For us, we will duck the question. So let's go with that. We'll start by not answering the question. I think we spend our time trying to manage our railroad, our network our work is difficult. We run on a passenger railroad, and so windows are tight, opportunities are slim. And so we don't necessarily watch that so much, to be honest.

We watch what we can do and we respond to service. So we're committed to our customers, and that's what we focus on. What happens on another railroad it's not something that we can control. So it's not something that we pin our service around. We adjust, we make do what, when we can, and we keep pushing forward for service. That's how we handle that.

MS. THOMPSON: And I'll echo Shannon's comments. Yes, we have seen improvement over the last two years not only in terms of consistency, but also in terms of the data and the dialogue that we've had. So we've appreciate the improvements that have been made.

CHAIRMAN PRIMUS: Excellent. Well, I want to thank again everyone on this panel for participating. We truly appreciate you coming and also, you know what you do on behalf of the network. So thank you. As we switch it out. So we've got panel number six. Last but not least.

(Change of panels)

All right, well again, did we save the best for last? We shall see. Coming up we have our last panel of the day, panel six.

At the table we have Ms. Patricia Long, the President of Railway Supply Institute. Patty, I see that. We have David Hoffman, Hoffman Supply Chain Advisors. Thank you. We have Bill Moyer, executive director of Solutionary Rail, and rounding out the group we have Eric Strohmeyer, CNJ Rail Corporation and Railroad Restorations Incorporated. It's a pleasure having all of you thank you for being here. And we'll start off. Patty, you've got the floor.

MS. LONG: Thanks. RSI membership 182 companies is made up of locomotive freight and passenger rail car manufacturers, rail car owners and lesser, mechanical systems and component suppliers, railway measurement and maintenance systems and communications and signaling suppliers. RSI members build almost every freight rail car and collectively own approximately 70 percent of rail cars operating on the North American system.

In total, the domestic railway industry represents more than 682,000 direct, indirect and induced jobs across all 50 states. Rail is currently experiencing an evolutionary period because of technology. But RSI members understand that there are impediments to growth of the freight rail system. One of our primary organizational goals is to increase rail modal share, and we believe there are three ways that we can influence that growth.

One, improve rail service through innovation and technology. Two, highlight the sustainable benefits of rail to shippers. And three, create an environment that incentivizes RSI members to continue developing and deploying functional and innovative equipment to increase the efficiency of the rail system. Let's begin with technology.

With the current system. Data on train movement is procured from locomotives and wayside readers and collected in an AAR owned clearinghouse. Rail car owners must purchase that data about their own rail cars from the AAR. This system provides a delayed snapshot of train activity, a lack of transparency, and an inability for car owners to react to service related inquiries and decisions.

In 2021, coalition of rail car owners, rail operators and other users created an open architecture industry-wide rail car telematics platform to revolutionize the rail system. This platform, as you know, Rail Pulse will enable data from GPS and rail car mounted sensors to drive improved service levels, visibility, safety, sustainability, and productivity into North American rail base supply chains. Importantly, participating in Class I railroads, short line railroads, freight rail car owners and shippers each have a voice in the development of the platform and the overarching standards that govern it.

Freight rail car owners are committing to investing in telematics and gateway devices on individual freight rail cars to provide a single source of consistent data, allowing operators, rail car owners and shippers to procure data in real time benefiting the entire freight rails ecosystem. It's also important to note that RSI members who own freight rail cars, 70 percent of the American fleet use their own capital to invest in technology and telematics development.

We believe that telematics providing real-time information is the key to improving service, instilling confidence in the freight rail mode, and is the future of the industry. Next, the RSI can and should be an advocate for rail as a more sustainable mode of transportation. Freight railroads account for just 1.8 percent of transportation related greenhouse gas emissions, despite accounting for approximately 40 percent of US long distance freight volume.

One tool that Congress could give the industry to enhance sustainability and upgrade the rail car fleet is HR 838, the Freight Rail Car Act of 2023. This legislation encourages the replacement or modernization of older inefficient rail cars with higher capacity, more fuel efficient vehicles via time limited targeted tax credit for freight rail car manufacturers.

Lastly, RSI members stand ready to refresh the North American Rail fleet. We are working with Congress and the regulating agencies to encourage a regulatory environment to enable these companies to continue developing and deploying safe and functional equipment to the rail system. For example, the box car fleet needs an upgrade and has the capacity for growth.

The current rules setting box car leasing rates hinder the rail supply and rail car leasing industry's capability to invest in box cars. In conclusion, we're at a tipping point in the evolution of freight rail. Technological advancements will serve as an answer to many of the questions that hinder increased freight rail modal share.

The RSI and its members are committed to making freight rail the mode of choice, not just because we are dedicated to advancing safety, innovation and sustainability, but because we believe using freight rail makes good business sense. Thank you for giving the Railway Supply Institute the opportunity to testify, and I look forward to answering your questions.

CHAIRMAN PRIMUS: Thanks Patty. We're going to go to Mr. Hoffman.

MR. HOFFMAN: Good afternoon committee members, and thank you for allowing me to speak today. My name is David Hoffman and I'm with Hoffman Supply Chain Advisors. I'm excited to share my insights in the rail industry and offer some theories as to why rail volumes have been declining. Over the past 12 years. I've had the privilege of working with numerous companies across a variety of verticals with a strict focus on transportation and logistics.

My experience spans both sides of the transportation spectrum, working for a global third party logistics provider, and for the past five and a half years in-house with a global food ingredient manufacturer. During this time, I've collaborated with companies that collectively ship millions of pounds of goods every year with freight spends in the tens of millions of dollars.

My overall objective has always been to share industry knowledge and introduce best practices to help companies reduce their transportation costs, while also exploring alternative methods and strategies related to transportation. One of the strategies I've consistently advocated for is the introduction of rail as an alternative to truck transportation.

Rail offers many benefits, but for many shippers, the question remains is the cost worth the service? Today, I want to explore this question by examining some of the key drivers behind the decline in rail volumes. Let's start with the structure of the rail industry in the US. We have six major railroads creating a situation that closely resembles an oligopoly.

The high barrier to entry in the rail industry significantly limits competition, which in turn gives these railroads considerable leverage over shippers. Given the sheer volume of freight that railroads handle daily, it's clear that trucks alone cannot absorb and service this much freight. However, shippers are keenly aware that these six railroads operate under similar conditions.

They're all subject to government oversight and regulation pressured by Wall Street to deliver financial targets and involved in labor contract negotiations. This creates a somewhat rigid and predictable environment, but also one where shippers feel they have limited choices, often leading to dissatisfaction. Another significant factor contributing to the decline of rail volumes is the challenge railroads face in obtaining and retaining staff.

On paper, the average salary for a

railroad employees quite competitive around $160,000 per year. However, despite this attractive salary, railroads struggle to maintain a stable workforce. They have made strides by offering signing bonuses and incentives for workers to relocate to high demand regions. However, there is a broader trend in the US where jobs requiring physical labor are in decline.

The workforce that remains often faces extended shifts and longer working hours than originally scheduled. Additionally, labor negotiations between railroads and unions add another layer of complexity. Every few years, these negotiations bring the possibility of a strike, putting supply chains at risk, and causing potential loss of business for companies.

The uncertainty surrounding labor relations forces shippers to reconsider whether the cost savings from rail are worth the potential service delays that could arise from a strike. Shipper's preferences are another key factor. Even before the pandemic railroads were losing market share of trucks, a survey conducted by Bailey of

Oliver Wyman found that a hundred percent of executives believe that truck freight was superior to rail.

Trucks have a significant advantage in flexibility, they can pivot and adjust routes far more easily than trains. This adaptability is crucial in today's fast-paced supply chains. Moreover, shippers have found it easier to communicate with trucking companies, particularly when it comes to tracking shipments and understanding delays. In contrast, railroads have struggled to provide timely updates leaving shippers in the dark about the whereabouts of their containers.

While this issue isn't unique to rail, it's significant drawback when shippers are comparing their options. The discussion around autonomous vehicles, particularly trucks and cars, has been prominent in recent years, but less attention has been paid to the potential for automation and rail. Given that trains operate on tracks rather than roads. One could argue that automation and rail presents a safer and more feasible option.

Technologies already exist that could make railroads safer and more efficient, but regulatory hurdles often prevent their widespread implementation.

For instance, after a deadly train collision in Chatsworth, California in 2008, the National Transportation Safety Board mandated the installation of positive train control on trains. This technology can override operator errors and slow down trains that are going too fast. PTC is monitored from central dispatching systems leading rail operators to argue that some trains could operate safely with one person instead of traditional two person crews.

However, the Federal Railroad Administration has been inconsistent in its stance on this issue. In 2009, the FRA stated that there was no evidence to prohibit one person crews. But in 2022, the same agency proposed a rule requiring a minimum of two train crew members for most operations. This inconsistently highlights the tension between technological advancements and regulatory policies.

Rail companies have also expressed concerns about their automated rail inspection programs. Currently, conductors must walk the entire length of trains, which can be over a mile long to inspect them. Automated track inspection technology, which uses lasers and cameras, offers a more efficient solution. While some railroads have received federal approval to test this technology, the Federal Railroad Administration has allowed some of these test programs to expire.

And some companies are appealing these decisions. There is a growing concern that government delays in approving the use of such technology could hinder the railroad's ability to remain competitive and efficient. In conclusion, while rail has the potential to be a cost effective and efficient mode of transportation, several factors are driving its decline.

The oligopolistic nature of the industry, labor challenges, shipper's preference for the flexibility of trucks and the slow adoption of new technologies all contribute to this trend. As we look to the future, it'll be crucial for the rail industry to address these challenges head on. This may involve rethinking labor practices, investing in technology, and working more closely with shippers to better meet their needs. Thank you for your time, and I look forward to any questions you may have.

CHAIRMAN PRIMUS: Thank you. Mr. Moyer.

MR. MOYER: Chair Primus, Vice Chair Hedlund and Board members Schultz and Fuchs, good to see you. Thank you for the opportunity to share some thoughts with you today. My name is Bill Moyer. I am a lifelong activist, executive director of the Backbone Campaign and co-author of the book, Solutionary Rail, A people powered campaign to electrify America's railroads and open corridors to a clean energy future.

I would like to make three key points today. The rail industry's failure to compete with trucks is negatively impacting society every year. As Ms. Bailey pointed out so eloquently mode shift from trucks to rail cannot be separated from rail electrification. The key actions that the STB can do to support freight rail growth are strengthening and defining the common carrier obligations, revoke soup to nuts service and commodity exemptions, and with considerations for labor and safety, STB should explore expansion of reciprocal switching to Class II and III railroads.

I've submitted additional points I can address in questions if you wish. Solutionary Rail has engaged with hundreds of people from all walks of life and all corners of this country. We've conducted scores of interviews with stakeholders whose live intersect with railroads in numerous ways. It is clearly in the public interest to increase rail capacity and improve utilization and reliable service to draw freight from roads to rails.

On-time performance, and bringing back rail access to customers left behind by deregulation and globalization is critical to ensuring environmental protection, economic resilience, and national security. So yes, rail mode share is a critical public good for many reasons, but the benefits of mode shift must not come at the expense of already overburdened communities that live adjacent to rail operations and rail yards.

The Biden administration recently announced a national goal for a zero emissions freight system. This is an important recognition that the electrification of trucks and rail are connected. The growth of rail mode share is part of the pathway to the zero emissions system. Investment in the electrification of rail yards must go hand in hand with mode shift. I found it very difficult a few years back to try to characterize the actual conditions or the implications of mode shift.

And recently I found a 2015 report by the Congressional Budget Office systematically developed to a set of formulas to quantify the social cost of accident risk, pavement damage, particulates, NOx, traffic congestion, and Co2 emissions. There's a slide that shows from the 2016 CBO, showing the range of cost estimates. The societal cost of trucking is eight times higher than rail transportation on a per ton mile basis. You can keep going one more, I think, or a couple more.

In 2023 alone, this was a 53, one more, $53 billion cost to society. Go ahead. One more slide. Sorry. No, you got that. You're in control. Ready to go, man. Thanks. Highlighting the potential savings from a shift to trucks, from trucks to rail would've been a $46 billion savings. This is all in my submission. When rail operations overemphasize short-term profits, lower operating ratios and stock buybacks, rather than investments in capacity and service, we all suffer.

So how do we stop the managed decline of our rail system and turn it around to serve the public interest? What won't work are the half measures the Association of American Railroads call for to level the playing field, reliability and service are critical factors for shippers. But to achieve that, we will need a dramatic course correction that only the STB and our federal government can provide.

The Association of American Railroads say that they want regulatory certainty and uniformity. So give it to them by broadly protecting this infrastructure from the mandates of predatory capital. Restore common carrier obligations with soup to nuts, revocation of service and commodity exemptions. Expand reciprocal switching to include Class II and III railroads. If you can maintain labor and safety protections.

And because any measure of measurable mode shift to rail is going to increase the burdens on already overburdened communities, therefore, public goods through mode shift cannot be achieved without addressing rail emissions through electrification. The STB can do this most significantly by calling on the EPA to create a national framework for eliminating locomotive emissions and urge them to start with rail yard adjacent communities.

A system that prioritizes profit over public benefit is exactly what is pushing freight off of rails and onto roads, and is keeping the railroads from following the global trend to electrification. Without a shift in the ownership and operation model of US railroads, the public will continue to suffer and bear the unnecessary external costs of an industry flawed from its creation.

Three important documents that I hope you'll check out that I submitted is Toll Roads for Trains by Thomas White, Mattock Thomas' putting America back on track. The case for 21st Century Public Rail System. And the testimony of the Moving Forward Network in Environmental Justice Coalition to Senator Markey's committee last summer.

Let's actually level the playing field with trucks. Our national highways and waterways are owned and maintained by the public and accessible to all. They are never required to turn a profit. Why should it be otherwise with Rail?

Providing Class I railroads an exit strategy for maintaining the infrastructure by allowing them to shift that burden to the public is the most direct and rational manner for leveling the playing field. Today's US mainlines would become our steel interstate. The business model for railroading should be forced to lean on the competitive service to grow business and profits, rather than monopolistic control of infrastructure and its managed decline.

A voluntary off ramp from this disaster cycle should be win-win, allowing those who want to manage and grow railroads the opportunity to do so and protect them from the avers of unaccountable capital. Relieved of the need to use private capital to make the electrification and other infrastructure improvements, investments in that would be made by the public to modernize our system.

Railroad companies could focus on long-term growth. Railroads play a pivotal role in determining the future resilience, prosperity, and health of our country. Increasing rail capacity utilization, sustainability through investments in infrastructure and improvements in service and accessibility is inseparable from our public interest and national security.

A reorganization of how railroads are regulated, incentivized, and their assets utilized must be considered. It is time that we embrace the unique role that rail can play in our future and harness them to reconnect America. I appreciate the opportunity to speak to you today. I offer my support to put together a more panel in the future. Thank you.

CHAIRMAN PRIMUS: Thank you for that. Mr. Strohmeyer.

MR. STROHMEYER: Thank you Mr. Chairman. Honorable members of the Board. My name is Eric Strohmeyer. It's a pleasure to sit before you today and get a chance to have a conversation with you. I want to first apologize to the Board and thank the Board in the same sentence. One, I apologize for the delay in giving the written testimony to you.

However, it's given me a unique opportunity, which is where everybody else has written very nice testimony that has hopefully inspired you to engage in thoughtful debate with them. I have the unique opposite role of being able to give testimony that hopefully inspires you to want to read the book or read the testimony. So thank you for the opportunity.

The reason I'm here today is to talk

about growth in the rail industry. Many of you may or may not know my career started off in the intermodal side of the rail business, both with motor carriers and intermodal marketing companies in the early 1990s. And throughout the years, intermodal has always been a growth segment for the railroads, and for the most part, it has been until relatively recently.

And I use that term recognizing that you heard testimony today from the Class Is and many of the others that said, you know, rails, is an important part. But still based on statistics that the Intermodal association in North America has, you know, assembled from 2018 to 2023 there's been a decline about 10 percent in overall intermodal volume.

And so the question comes down to if it's a growth industry, why is it dropping? And that was the question that, you know, I said, well, you know what, I want to come down and talk to the Board about. In 2011, in EP 704, which was your review of your intermodal exemption hearing that you had I actually appeared and testified before the Board at that hearing and gave testimony that I thought that any potential changes to the intermodal exemptions that existed would be detrimental.

I was pretty adamant that, you know, leave well enough alone. However, in today's environment where PSR and precision scheduled railroading is having an impact on the overall industry, I don't know whether or not that testimony that I gave 13 years ago would be something valid to consider today. There may in fact be a need to specifically look at a potential to at least partially revoke some of the intermodal exemptions.

In particular to give this agency the ability to engage more robustly in the industry. And so what do I mean by that? In 2011, a company by the name of Weaver Popcorn appeared before this Board to ask for some help in a new business opportunity. It was a growth opportunity from their plant in Indiana to the port in New York. They had intermodal shipments that were headed overseas, and they wanted to be able to participate and compete effectively.

And to do so, they needed to be able to load intermodal containers at their plant and rail them directly into the seaport so that they can get the weight levels up. A fascinating project. And more importantly, they had the volume that would justify the investment. Need opportunity. And so the question was, why were they sitting here at the intermodal exemption item?

And the question that had come up was when they went to complain to the Board, they found that the exemptions were so broad that you basically exempted out every regulation under Title IV. So the question is, how do you ask the Board for any type of relief if there is no mechanism for providing a ability to at least bring a proceeding before the Board?

If you don't have, you know, the ability to, you know, ask for something regarding the common carrier exemption, you have to ask for a partial revocation first. And so that burden becomes quite a high bar, especially for a smaller shipper to pass. So the question that many people would've asked was, well, how do you get around that issue? You know, what do you do to get the ball started so that you can do something?

And so the question came down to there's three specific exemptions that the Board may just want to consider a partial revocation of, so that at least somebody could bring a proceeding before the agency to ask. And if you make it broad enough, meaning that you revoke it in its entirety, as we heard from some of the testimony earlier today, you know, when you can make a, you know, squeak loud enough, they -- the Class Is will settle.

If you want to get the Class Is attention, do a small, very limited revocation of those exemptions, and you'll get the Class Is attention pretty quick because now there's a mechanism for all of this stuff that's hidden that you don't see to actually come. And that will allow the Board to make much more informed decisions.

And so to that end that was something that I wanted to talk with you about and basically do something that most people don't normally do, which has come before the Board and say, you know, 13 years ago I testified one way, maybe we need to reconsider something. And perhaps maybe that should be the question we end today's testimony on. So, with that, I will thank the Board for giving me five minutes of your time and look forward to hopefully getting that written testimony to you. And my apologies for not doing it sooner.

CHAIRMAN PRIMUS: Not a problem. Thank you, Mr. Strohmeyer. We're going to do, do you have any questions?

MR. FUCHS: I have one question.

CHAIRMAN PRIMUS: Okay, go ahead.

MR. FUCHS: I have one question for Patty. Thinking about the Board's jurisdiction and some of the concerns of your members what do you hear most often for the aspect of the Board's regulatory framework that could be improved to facilitate you know, growth in the freight industry and by extension growth in the railway supply industry?

MS. LONG: Yeah, well, just the oversight in terms of our ability to invest in the technologies. So you know, taking a look at, you know, for example the car hire reform. I know we have a case pending before you, and we can't talk about that. But I mean, that's a very specific instance where we have members who are looking to invest and upgrade the fleet and keep that moving. And so that's a really specific example of where the Board could be helpful. Thank you.

CHAIRMAN PRIMUS: You took my question. That's okay. Karen, do you have any questions?

MS. HEDLUND: One for Mr. Moyer. Do we have enough grid capacity to support electrification of rail throughout the United States?

MR. MOYER: Well, I'm so glad you asked that question. I think that one of the things that is to the public's advantage, it's kind of a two for one, is that that what we need is grid capacity. And what you need for grid capacity is connective. You need right of way easement. And so actually, when we did the book in 2016, a key theme of that was the co-location of transmission on rail corridors. And that has only become more possible through buried

HVDC becoming cheaper, et cetera. But yes, I believe that that's not a problem.

CHAIRMAN PRIMUS: I just want to thank the entire panel. But Eric, I just want to let you know that at some point I do want to talk to you more about your ideas.

MR. STROHMEYER: Okay.

CHAIRMAN PRIMUS: So I find them very interesting. I'd like to follow up on that. So thank you. On that note, ladies and gentlemen, it is 4:28. We are two minutes ahead of schedule. I like that a lot. So our OTP is very, very good. We're off to a good start.

That concludes the first day of this hearing. I thank everyone at this panel and all the other panelists who came to testify today. We will see everyone back here at 9:00 a.m., tomorrow barring any unforeseen circumstances with our technology. Hopefully, we'll get started on time then. So thank you very much. And this hearing is adjourned for today.

(Whereupon the above proceedings concluded at 4:29 p.m.)

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