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JOHN F. ORR
EXECUTIVE VICE PRESIDENT - OPERATIONS
TEL. (816) 983-1794
E-MAIL: JOrr2@KCSouthern.com

April 22, 2022

VIA E-FILING

The Honorable Martin J. Oberman
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

The Honorable Michelle A. Schultz
Vice Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

The Honorable Patrick J. Fuchs
Member
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

The Honorable Robert E. Primus
Member
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

The Honorable Karen J. Hedlund
Member
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Re: Docket No. EP 770, Urgent Issues in Freight Rail Service

Dear Chairman Oberman, Vice Chairman Schultz and Members Fuchs, Primus and Hedlund,

My name is John Orr. I am Executive Vice President-Operations of The Kansas City Southern Railway Company ("KCS"). This letter responds to the invitation of the Surface Transportation Board ("STB" or "Board") in its April 7 Notice of Public Hearing inviting written comments "from any other interested persons" regarding current rail service conditions and plans for improvement of service levels. KCS was not specifically requested to testify; nonetheless, KCS understands the Board's concerns regarding service conditions on all railroads and is submitting these written comments to advise the Board on KCS's current operating conditions and plans for continued improvement. I am pleased to be able to tell the Board that KCS is generally operating well but experiencing some challenges due to the congestion and service problems on the rail network as a whole.

As a frame of reference for my comments here, I would begin by saying that I have spent nearly the last 40 years in all phases of railroad operations. I grew up in Ontario and began my railroading career in 1984 as a conductor with Canadian National Railway ("CN") in London, Ontario. Over the next 34 years, I progressed through many phases of CN's operating department, including service as senior vice president-operations for CN's U.S. (Southern)



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Region, CN's vice president-transportation for its network in Eastern Canada, and vice president-chief safety and sustainability officer for CN's entire North American network. I concluded my career with CN in 2018 as senior vice president and chief transportation officer, responsible for network assets and operations across CN's nearly 20,000-mile U.S. and Canadian network. From 2019 until early 2021 I worked as a top-level operations executive in railroading and transportation ecosystems across Europe, Asia, and North America. In February 2021 I joined KCS as a consultant, and moved to my current position in mid-April 2021 when my predecessor, Jeff Songer, transitioned from the role of Executive Vice President-Operations and Chief Operating Officer to Executive Vice President-Strategic Merger Planning following the announcement of Kansas City Southern's plan to merge with Canadian Pacific Railway Limited ("CP").

Given this background, throughout my career, I have seen many highs and lows in rail service. Today, while freight rail service as a whole is experiencing one of those low points, along with the rest of the participants in the supply chain, my experience indicates that it will get better. The rail industry has a self-interest in working to improve service to its customers and is doing so even now. Indeed, while KCS is not without challenges, its service is operating generally well and improving. It would be unfortunate, however, if that progress were hampered or stymied by unnecessary and burdensome government intervention. Data transparency and reporting can be helpful, but the Board should resist calls for mandates and fundamental changes in the network.

SERVICE ISSUES

Generally, although we face challenges in several areas, in those areas that we can control, I am pleased to say that KCS has managed well and has avoided many of the problems others have experienced. Nevertheless, we are being adversely impacted due to problems on other roads. KCS is highly subject to service problems on other carriers' networks because a higher percentage of KCS's traffic (over 80%) is interlined with other carriers. Also, a large segment of KCS's cross-border franchise operates over trackage rights on track owned by UP or jointly by UP and BNSF. Thus, when those carriers have problems on their tracks that we use, as in Houston as explained below, KCS suffers those problems as well.

A good indicator of our operations is our cross-border unit grain train cycle times. Our cross-border unit grain train cycle times have shown steady improvement since 2019. Beginning in September 2021, our unit grain cycle times between the U.S. and Mexico were as consistently good as they have ever been.¹ While our cross-border unit grain train cycle times historically have averaged in the 24 – 27 day range, from September through March we averaged 17.25 days per cycle. That enabled us to carry more grain for our customers, averaging well over 70 trains per month from October through March.

¹ *Kansas City Southern's Strong Operational Performance Drives Record Grain Performance*, <https://www.kcsouthern.com/media/news/news-releases/kansas-city-southern-s-strong-operational-performance-drives-record-grain-performance>

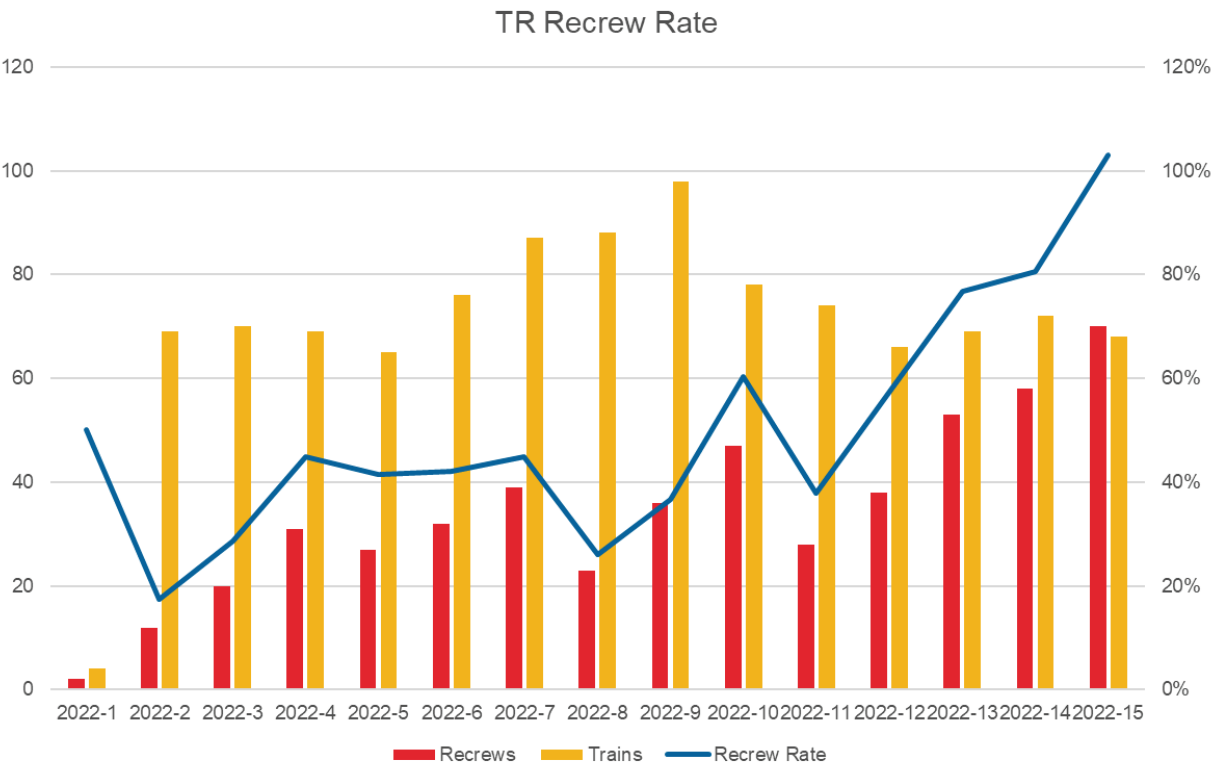


Unfortunately, our grain business started to hit some headwinds in early April. Our last 20 unit train cycles averaged almost 24 hours longer per cycle than in the September – March timeframe. In addition to the essential annual track maintenance cycles occurring now on KCS’s Heavener Subdivision and occurring now and into early summer on the UP trackage rights lines, these grain cycle time increases are due largely to (a) delays getting through Houston, where KCS operates via trackage rights and is dependent upon the dispatching and operating choices of others; and (b) interchange delays, particularly in Kansas City.

Houston Congestion

Due to the importance of its cross-border operations, it is KCS's objective to move over its trackage right lines through the Houston complex as quickly as possible. Due to congestion in Houston, however, this has become extremely difficult.

Because of congestion in Houston, KCS is currently averaging about one recrew per train moving through Houston. That means that essentially every train that should be able to move between Beaumont and Kendleton with a single crew requires a second, replacement crew to complete the trip due to exhaustion of the first crew’s federally-mandated hours of service. The chart below shows our week-by-week recrew experience on trains moving over the UP Beaumont-Rosenberg and UP Victoria-Robstown trackage rights through the greater Houston area.



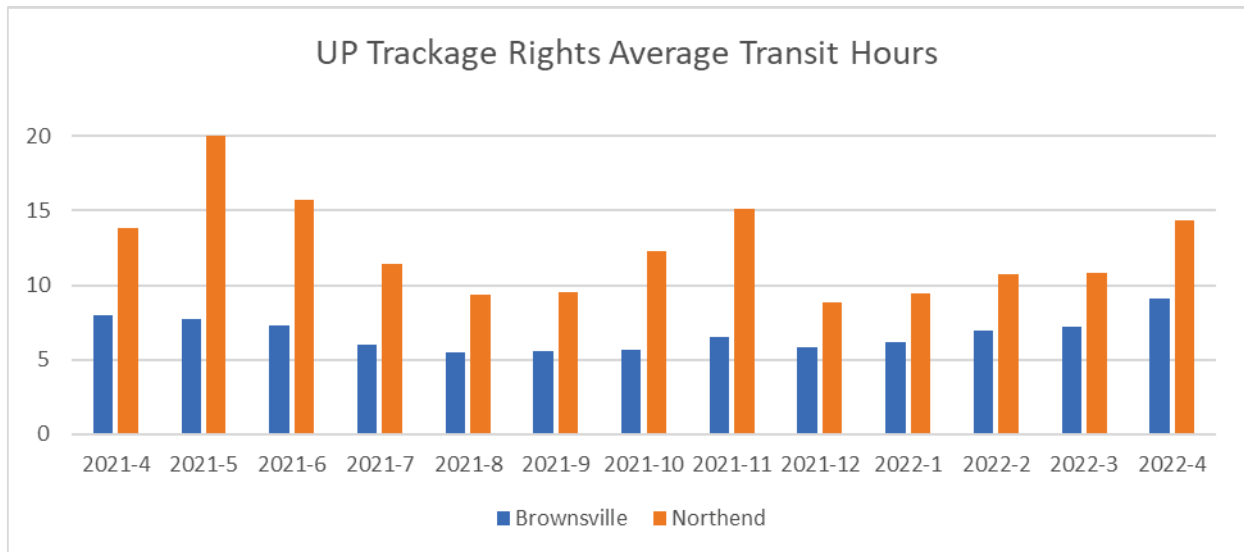


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Recrews are needed primarily because of other carriers' shortages of crews and other resources in the Houston area. Those shortages delay movement of their trains and ours.² In addition, other carriers have made operational changes such as operating longer trains through the Houston area and shifting work from closed yards into the main yards in Houston. These changes have caused their trains to sit on the main line instead of in sidings because they no longer fit in the siding, or to be assembled and broken up on the main line because they are too long to clear the main completely without being split to move into and out of the yard.

Similar to our recrew issue, the congestion issues in Houston are having adverse impacts on our transit times. Transit times on the Beaumont-Houston portion of the trackage rights have exceeded the 12 hours on-duty allowed to each train crew by federal law at least half of the months in the past year:



To help resolve the Houston congestion problems, KCS has actually offered its crews on several occasions to move BNSF and UP trains that lacked crews off the main line so that KCS trains can pass. We have also moved our interchange with BNSF for some auto traffic from the Robstown/Corpus Christi area to Rosenberg, just west of Houston, so BNSF has to expend fewer crews from their over-taxed crew base.

There may be other ways to help resolve the problems in Houston. For example, in the original Houston Gulf Coast service crisis, the Board imposed a so-called "clear route" provision.³

² Other carriers are aware of and have spoken about their service and crew issues, often coupled with reports of excessive numbers of cars on their networks. See, for example, <https://www.up.com/customers/announcements/customernews/generalannouncements/CN2022-15.html>, and <http://www.bnsf.com/news-media/customer-notifications/notification.page?notId=intermodal-network-update-for-thursday-april-14-2022>.

³ See *Union Pacific Corp., et al.-Control and Merger-Southern Pacific Rail Corp., et al. [Houston/Gulf Coast Oversight]*, STB Finance Docket No. 32760 (Sub-No. 26), 3 S.T.B. 1030, 1998 STB LEXIS 999, served Dec. 21, 1998. ("Under the "clear route" condition, the neutral and highly efficient joint Union



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Unfortunately, it is not clear to KCS to what extent the UP-BNSF Spring, TX dispatching director has been utilizing the clear route condition to enhance efficiency and facilitate the smooth movement of trains through the Houston Terminal. The Board might also consider granting temporary trackage rights or other routes so that KCS and others could bypass Houston to get to the Mexican gateways.

Kansas City Issues

In Kansas City, our interchange issues appear largely to be due to crew shortages on our connections, which in turn delays our interchange capability. For example, when we tender an empty unit train to a connection to haul back to the shipper for loading, we sometimes find that our connection doesn't have a crew available to move the train to their yard. Even though our crew is available to move the train to our connection's yard, often our connection doesn't have space in its yard to receive the train, again due to lack of road crews to move trains out of its yard to destination. This has added an average of 38 hours in April to our March cycle times for unit grain trains that move north from Kansas City to the Omaha/Council Bluffs area for reloading. This same problem has also slowed the movement of unit coal trains through Kansas City for utility customers.

Dallas Issues

KCS has also faced some challenges in its intermodal operations at Wylie, TX, northeast of Dallas, but we have overcome those problems. Delays in delivering some shipments to customers from Wylie between the end of February to the first week of April were due to a combination of weather, chassis and driver shortages, a pronounced shift in traffic flows, and employee shortages for our terminal operator.

On February 24th, the Dallas metro area had its third major ice storm of 2022. Each storm caused delays in getting containers off the Wylie terminal, but the February 24th storm greatly exacerbated the problem. Local Dallas drivers were not picking up loads for three to four days following the storm, while trains continued to deliver inbound loads.

The Dallas market suffers from both driver and chassis shortages. Driver shortages appear to be due to a tight labor market that many industries are experiencing.⁴ And despite chassis

Pacific Railroad Company (UP)/Burlington Northern Santa Fe Railway Company (BNSF) dispatching center at Spring, TX, will have the authority through its Joint Director to route traffic through Houston over any available route, even a route over which the owner of the train does not have operating authority. Thus, as a result of the Board's decision, a BNSF train may be permitted to operate over track of UP; a UP train may be permitted to operate over track of BNSF; and a Texas Mexican Railway Company (Tex Mex) train may be permitted to operate over track of either UP or BNSF.”)

⁴ Employee shortages with our contract terminal operator at Wylie continue to be a problem. Our vendor continues to struggle to get a full daily lineup of employees to get all of the daily work that needs to be done. Our vendor continues to work hard to get hiring done in order to provide a full lineup of employees each day.



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providers having brought thousands of chassis into the Dallas market since shortages became critical last November, a shortage of both private and leased chassis persists in the Dallas area. Much of this appears to be due to chassis remaining with the customer days longer than historically has been the case.

A shortage of chassis and drivers plus available drivers not moving containers due to hazardous driving conditions left KCS no choice but to stack containers on the ground at Wylie. Having to ground the containers in turn restricted parking, making terminal operations slow and strained. It also required double handling of each container – Step One: train to ground; Step Two: ground to chassis. At one point, KCS had 838 containers stacked on the ground at Wylie.

We needed to be able to clear inbound containers from the train to reload the same cars for outbound moves. Without a place to land containers coming in on trains, the complete operation at Wylie was at risk. Accordingly, we were forced to embargo some inbound traffic to give the customers and drayage companies a chance to catch up and to work off the backlog of grounded containers. The embargo was in place for less than a month and was lifted when we cleared out the grounded containers. Since much of the embargoed traffic was received from eastern origins and destined for interchange to UP or BNSF in Dallas, KCS believes the freight likely just interchanged between eastern and western carriers at another midwestern gateway, avoiding the KCS portion of the move.

As of April 19, 2022, the container ground stack count at Wylie had been reduced to zero, and we are again able to strip containers from trains upon arrival and mount them directly on available chassis.

CAR SUPPLY

Another indicator of the general good health of our operation in the first quarter has been our ability to supply requested cars to our customers. In Q1 2022, KCS was able to provide 97% of cars ordered by our customers. Our shortfalls in the quarter were largely due to an overall shortfall in February, largely due boxcar pool supply issues that were likely attributable to weather issues; higher-than-expected demand for centerbeam flatcars (generally used for transporting building materials like lumber and plywood) and higher loading requirements and timing for gondolas. Absent these February problems, our fulfillment would have been near 100% except for the centerbeam flats.

CAR ORDER METRICS 1Q 2022 Overview					
COUNTRY	EQ. TYPE	CARS ORDERED	CARS SUPPLIED	VARIANCE	% FULFILLMENT
KCSR	Boxcars	12518	11977	(541)	96%
KCSR	Covered Hoppers	9175	9179	4	100%
KCSR	Centerbeam Flats	1209	1053	(156)	87%
KCSR	Gons	22902	22209	(693)	97%
KCSR	ALL	45804	44418	(1,386)	97%



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System fleet sizing models are produced quarterly based on commercial forecasts. Recommendations and decisions on changes in fleet sizing are based on those models. This information is provided by our Network Operations group to the Executive team each quarter.

KCS accurately measures car order fulfillment and provides visibility on the issue to the entire operations and marketing teams so we can spot where shortfalls are occurring to adjust fleet size and execution to improve customer performance. KCS also compares model cycle time assumptions to actual performance so that variances from plan can be reviewed for improvement. KCS measures car order fulfillment by car type and compares the car orders (actual demand) to demand forecasts by our commercial team, coordinating with the commercial team to ensure that we understand variations between forecasted demand and actual demand.

To address the minor shortages in our car supply, KCS is undertaking several actions. We have requested an additional 50 centerbeam flatcars from TTX. That order is pending. Our July 2021 forecast of customer need for boxcars caused us to order an additional 200 sixty-foot high cubic capacity boxcars for use in 2022. Based on our October 2021 long range plan, that order was increased from 200 to 500. Some of those cars have arrived on line. The rest will continue to do so throughout the year, with completion of the order projected for November.

STAFFING ISSUES

KCS is fortunate that it has not experienced significant labor shortages in its own workforce or for its own operations. Indeed, KCS is well-staffed - perhaps overstaffed in south Texas – to meet current operational challenges. Our union headcount is flat to up over pre-pandemic levels, and we are not holding trains for lack of KCS crews unless there is a service interruption.

Like other carriers, when traffic dropped precipitously in the second quarter of 2020, KCS made rational decisions to exercise its furlough rights under its labor agreements. When our traffic reached its low point in 2020 due to the pandemic, our train and engine (“T&E”) headcount stood at 1050.

At the end of April this year, KCS expects to have an active transportation headcount of 1380, basically identical to our transportation headcount of 1377 reported to the STB in April 2019. In the latter part of 2020 and the first part of 2021, we recalled all of our T&E employees from furlough. About 85% accepted the recall. In mid-2021, we began hiring to increase our headcount in anticipation of traffic resurgence. In south Texas, we added 15% more crews than we had pre-pandemic, to provide a cushion against the type of recrew problems previously described and to be prepared for traffic growth. We have also worked to increase our availability rate. Crew availability has increased from the mid-70% range to the mid-80% range, which is quite good when vacation and other off duty rights are considered. We are also working to reduce unexcused layoffs from duty. In short, we are asking our people to come to work, and they have responded. By raising our train velocity and reducing dwell, we have been able to provide more reliable schedules to our crews.



KCS does have staffing problems in a few areas. With respect to our own hiring, East St. Louis seems to be a difficult area to attract and retain the crew base that we want to maintain. As a consequence, we are re-evaluating our hiring and retention policies to see if we can overcome these problems.

Like many businesses, some of our contractors who support railroad operations – such as crew taxis and intermodal terminal operators – are having difficulty keeping fully-staffed. We work with our contractors to the extent that we can, but we are exploring alternate crew taxi options to prevent staffing difficulties of the crew taxi provider from affecting the availability of our crews to move our trains when needed.

Another looming contractor problem is the availability of construction contractors to take on railroad projects. The flood of government infrastructure funding is absorbing available construction contractor capacity, and it is beginning to seem that some of our projects in the 10's of millions of dollars are not big enough to attract some of our previous contractors, who are pursuing bigger fish in the government-funding pond. Thus far this has not become a critical problem, but it looks as if it could affect the timing of future construction projects that we contract out because their sporadic nature and large demands for equipment and personnel make them impractical to perform with in-house personnel.

PSR

Finally, I would like to briefly address the elephant in the room - Precision Scheduled Railroading, PSR. It is my impression that in Washington, blame for every ill of railroading – real or imagined – is pinned on PSR. Each carrier decides for itself what its version of PSR is designed to achieve. KCS's version of PSR is focused on improving customer service, equipment cycle times, and efficiency. And KCS's implementation of its version of PSR is achieving these goals.

KCS has generally been clear not to say that it was 'implementing PSR', but rather that KCS was implementing **its version of PSR**. That is because PSR is simply a tool – an origin to destination method of managing a railroad - and KCS's objective in using that tool has been to create better service to grow its traffic base by serving shippers better, not simply to cut costs to grow its profits and shrink its operating ratio.

Unlike some other PSR implementations, from the very beginning KCS's version of PSR was driven by service and growth, not just cost reduction. We did not close any facilities or reduce any yard or line of road capacity, and our service metrics improved almost immediately.



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By using PSR techniques, KCS has made itself a better operating railroad. Our average system gross velocity⁵ for all train types has improved from 12.6 miles per hour for the first thirteen weeks of 2019 to 15.6 miles per hour for the first thirteen weeks of 2022.

Greater velocity has allowed us greater ability to manage the number of cars online. PSR tools have enabled KCS to reduce dwell time in yards, and to reduce origin dwell time for unit trains, usually keeping our origin dwell for unit grain trains in recent weeks to half a day or less. As part of our PSR implementation, we have invested even more in improving our infrastructure, including in safety technologies like scanners that support safer operations while supporting efficiency by eliminating unexpected breakdowns.⁶ And operating efficiencies and traffic growth support the business case for KCS moving forward this year and next in construction of a new, second bridge at Laredo to increase efficiency and capacity for U.S. and Mexico businesses shipping cross-border.

While KCS has improved its operations utilizing its version of PSR, KCS does not operate in a vacuum. Due to its size relative to its competitors and its geographic location, KCS interchanges a much higher percentage of its freight for interline movement than its larger competitors do. Moreover, as previously noted, the principal route for KCS cross-border traffic utilizes hundreds of miles of Union Pacific track. Much of that track is also used by BNSF, subjecting KCS's operations to difficulties like those in the Houston area described earlier in this statement. Thus, KCS cannot fully bring the benefits of its version of PSR to its customers when the operating and capital investment practices of the carriers whose tracks KCS uses are working at cross purposes to generation of the benefits KCS's PSR implementation offers.

This is why what I've called PSR 1.0 must evolve. In a series of articles appearing the *Railway Age* in the summer of 2020,⁷ my co-author Sonia Bot and I wrote:

⁵ Gross velocity is a statistic reported on KCS's website at https://investors.kcsouthern.com/performance-metrics/railroad-performance-measures?sc_lang=en. It differs from average train speed as reported to the Board pursuant to Ex Parte No. 724 (Sub-No. 5). Gross velocity is calculated as the sum of the miles traveled divided by the sum of total transit hours. Transit hours are measured by calculating the difference between a train's origin departure and destination arrival date and times broken down by segment across the train route. This metric includes all time spent at intermediate locations between a train origin and destination (including all crew changes, terminal dwell, delays, and incidents).

⁶ We also are making investments to offset the effects of outdated regulatory rules that prevent fluid interchange between carriers, especially with respect to cross-border operations, or that create problems in switching, storing, and loading/unloading cars. Our PSR efficiencies also support our cooperative efforts with Customs & Border Protection to improve border safety and security by increasing the speed of trains including not stopping trains at the border.

⁷ <https://www.railwayage.com/freight/class-i/psr-the-next-generation-part-1-the-case-for-mainstream-adoption/>, <https://www.railwayage.com/freight/psr-the-next-generation-part-2-implementing-and-scaling-psr-2-0-for-20-to-80-process-waste-reduction/?RAchannel=home>



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PSR 1.0 has its limits. Costs can only be cut so far before needing to transform the cost base. PSR 1.0 is focused on individual railroads and their internal operations, optimizing assets for reducing costs while trying to support new business ventures that may not be mature. For others in the transportation ecosystem, this created an issue of downstream impacts, with partners such as Class II and III railroads having to step up as “shock absorbers.” Customers experienced broad ranges of service quality, from painful marked degradations to unprecedented improvements.

PSR 1.0 may be where some carriers are today in their PSR implementation, with mixed results in some respects. But that is not where KCS wants to be. And we’re working hard to make sure we move beyond PSR 1.0, using data to make operational improvements based on customer need (as discussed above with respect to car supply, for example); taking an end-to-end focus involving our interline connections and our customers; sharing knowledge of PSR goals, methods and opportunities throughout our workforce, and accepting their input and that of our connections and our customers to hone our product to provide the most efficient, effective service possible.

Another area of criticism sometimes leveled at PSR is that PSR sacrifices safety. That is not KCS’s experience. Safety is a cardinal principle of KCS operations. Safety is also fundamental to PSR, and KCS’s implementation of its version of PSR. For example, KCS has experienced a 23% improvement in reportable train accident frequency ratio in the period from 2019-2022 (YTD). It simply is not the case that PSR is inimical to safety, as some have portrayed it.

Blaming PSR for every perceived problem is both inaccurate and unfair. PSR is merely a tool, and it depends upon what a carrier’s objective is in using that tool and how that tool is used in determining whether PSR results in damage or benefit. KCS’s implementation of its version of PSR has been positive for our railroad and our customers, and will continue to grow more so as we refine our use of the PSR tool.

PSR is a railroad operating methodology, a tool. Used in the right way and for the right reasons, it does add value for customers as well as for railroads. That is what KCS is striving every day to do – to use PSR techniques the right way to bring benefits not just to KCS but to our growing customer base. As our CEO Pat Ottensmeyer is fond of saying, service begets growth. That is what KCS’s implementation of its version of PSR is about.

CONCLUSION

KCS wants to thank the Board for allowing this opportunity to provide its thoughts and input. Given the general trend in the improvement of our operations and the lack of significant operating problems on the KCS system, except for those issues discussed above, KCS believed that it could best contribute to the topics of the hearing through written comment, rather than

and <https://www.railwayage.com/news/psr-the-next-generation-part-3-realizing-your-vision-of-psr-2-0/> .



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appearing in person. However, if the Board needs further information, I would be happy to provide it, either via further written comment or in person.

Sincerely,

DocuSigned by:

John F. Orr

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John F. Orr