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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

Ex Parte No. 775

GROWTH IN THE FREIGHT RAIL INDUSTRY

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My name is Sandra Dearden. I am founding President of Highroad Consulting, Ltd. (Highroad), a transportation consulting firm established in 1996. Our practice focuses on all modes of surface transportation; however, because of our knowledge of rail, more than 80% of our projects are rail related. About 70% of our clients are shippers; others include law firms, short line railroads, and other consulting firms and 3PL's that sub-contract rail projects to our firm.

The Surface Transportation Board is conducting a public hearing to gather information about recent trends and strategies for growth in the freight rail industry. The Board requested attendance of executive-level officials from Class I Railroads, and invited other interested parties who can contribute to the Board's understanding of how the industry has grown and intends to grow in the future.

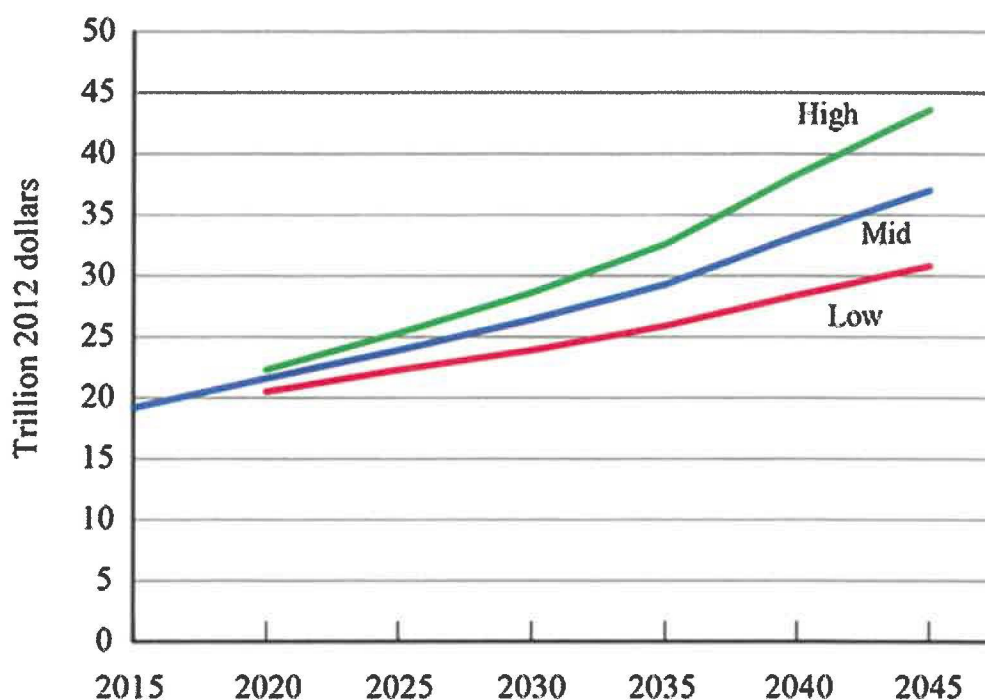
We appreciate the opportunity to participate in this proceeding, to present Highroad's experiences, and the experiences of our clients, including shippers and economic developers.

1.0 BACKGROUND.

The developing capacity issue is not a new topic. In 2011, Highroad conducted a seminar at the McDonald University campus, titled *Future Shock – Preparing for 2035!* The focus of the seminar promoted the need for improved surface transportation planning to address developing capacity issues based on the U.S. Department of Transportation (DOT) forecast. Joshua Schank of the Eno Transportation Foundation was the keynote speaker. Other presenters included senior level executives from John Deere, Schneider National, IBM, FTR Associates, NITL, Bravo Solutions, and Bill Thompson of the AAR CREATE Program.

Consideration of capacity issues should not be isolated to rail. Instead, we are approaching a crisis in the transportation industry as a whole. DOT updates its 30-year forecast every five years; the most recent projections released by DOT's Bureau of Transportation Statistics in 2020, stated freight tons moving on our nation's transportation network will grow 40 percent in the next three decades while the value of the freight will almost double, increasing by 92 percent (Table below).

Value of Goods Shipped in the United States 2015-2045



Source: U.S. Department of Transportation, Bureau of Transportation Statistics and Federal Highway Administration, Freight Analysis Framework, version 4.1, 2016.

By 2045, total freight on all modes – air, vessel, pipeline, rail, and trucks – is projected to reach 25 billion tons while the value is expected to grow to \$37 trillion. These statistics underscore the significant impact a fluid transportation network has and will continue to have on the U.S. economy.

2.0 INDUSTRY REACTION TO CAPACITY ISSUES IN THE TRUCKING INDUSTRY.

It's disappointing, to say the least, that rail volumes are down at a time when Highroad has been connecting railroads with shippers who are new to rail. Shippers have already made some changes to address the shortage of drivers and trucks for loading, adopting rail as a solution. Helping shippers that do not have rail infrastructure to access rail has been a major part of Highroad's work in recent years. Some shippers do not have the space or volumes to justify construction of a rail siding. Due to the demand, Highroad developed its REIDI™ (Regional Economic and Industrial Development Initiative) analytical model to plan for strategic location of

distribution terminals, including transloads and warehouses. Economic developers have also contracted studies to locate logistics terminals to serve industries in their regions. When interviewing local industries that could not access rail, more than 95% told Highroad's interviewers that they wanted rail access, citing the shortage of truck drivers; some told us their truck rates had doubled in 2023. Individually, while most shippers and industries do not have sufficient volumes to support a distribution terminal on their own, terminals that serve groups of shippers become viable.

We have also used the REIDI™ model to assist clients to strategically locate manufacturing plants, factoring in logistics costs. Currently, we are working with a small shipper on construction of a \$4 million industry track, and we have assisted other clients to increase, sometimes doubling, their existing rail infrastructure. These projects, and the feedback we have been receiving from shippers, point to the fact that a reliance on rail transportation will continue to grow. Opportunity!

We have worked collaboratively with the railroads, and all of these projects have been deemed successful. However, I sometimes wonder if these are simply short-term plans that do not address current and future capacity requirements, and how should we plan for the future.

3.0 CARRIERS AND SHIPPERS SHARE THE NEED FOR BETTER PLANNING.

Previously, while serving on Chicago Metropolitan Agency for Planning's Intermodal Committee, I authored the freight component of the agency's 2030 Plan, which was the transportation plan for northeastern Illinois. Of interest is the fact that this was the first time freight was included in the plan. While serving on the committee was a lot of work, it was a privilege, but my general observation was transportation planners tend to plan based on today's infrastructure requirements so by the time plans are implemented, more is needed (hence CREATE, initiated in 2009 which was initially planned to be a seven-year program).

It is not practical to believe we can build enough roads to accommodate the level of growth forecasted by DOT, so something has to change. Existing capacity and service issues in the rail and trucking industries have created an environment where carriers seem to be in a reactionary mode, just trying to keep up, and often falling short, of serving customer demand.

It is also not practical to think we can continue down the same path while keeping up with increased demand. While the railroads have impressive capital programs, it seems they plan to simply accommodate growth with additional infrastructure. However, the volumes forecasted will require significant and innovative change at a time when the term of long-range planning has been truncated.

In my presentations before groups, and to clients, I submit that in the future, while there will be some exceptions, there will be a progressive transition towards long haul shipments moving on rail, while truckers will focus on local and regional shipments. Trucking company owners I have talked with have embraced this concept, stating it will be easier to recruit drivers because they will be home at night. Furthermore, based on the volume forecast, there will be enough, and possibly more than enough, business for all carriers and modes.

A logical place to start when initiating change is to identify inefficiencies in the existing network. Summarized below are only a few examples of topics to consider.

- (1) The river system in the U.S. is an under-utilized resource. A better definition of Intermodal is *between modes*. One of the commodities that I managed during my tenure as General Manager Marketing & Sales at Chicago & North Western (C&NW or North Western) was potash, which is mined in Saskatchewan. Farm retailers in the east and southeastern U.S. do not have track capacity for unit trains, so the trains moved to intermediate points such as Twin Cities, MN or Chicago, then single car shipments were rebilled to the final destinations. Under this scenario, the average turn time on the equipment was sixty car days.

One of the potash producers expressed an interest in loading barges at a location on the Illinois River which is open year-round. Instead of rebilling single cars, we rebilled entire trains from the Twin Cities to a port on the Illinois River. The barges moved south to progress northeast on the Ohio River and the empty trains were returned as a unit. This

proved to be mutually beneficial for the potash company, and for the railroads:

- Pre-season the barges served as floating warehouses, so the potash was in position to respond to just-in-time service requirements.
- The average turn time on the cars was reduced to twenty days, resulting in improved productivity of the covered hopper fleet, and increased profitability for the railroads.

At the time when Union Pacific (UP) acquired C&NW, it was North Western's policy to prioritize grain shipments to the Mississippi River (versus direct rail to the Gulf) when it was open. Again, car days were reduced but most important, profits per car day were higher.

These are only two examples of ways to better utilize existing assets and under-utilized resources, that can free up capacity while making a positive impact on the railroads' bottom lines.

- (2) Chicago Intermodal. Back in the 1800's when railroads were start-ups in the U.S., for shipments involving more than one railroad, cars were unloaded at interchange and reloaded to cars transported by the destination railroad. That, more or less, defines Chicago Intermodal as it exists today.
- (3) Approximately 25 percent of all freight trains and 50 percent of all intermodal trains in the U.S. pass through metropolitan Chicago, which serves as the continent's main interchange point between western and eastern railroads. Containers are not sorted at the West Coast ports, so a single car will typically carry containers for more than one railroad. When the intermodal trains arrive at Chicago, they go directly to an intermodal terminal operated by a Class I railroad, where the containers are unloaded and sorted by destination carrier. Subsequently, a

container is loaded and trucked across the Chicago metropolitan area to the destination railroad, resulting in thousands of trucks moving between intermodal yards each day (aka, Chicago's Rubber Tire Interchange).

Trucks account for about one in seven vehicles on the urban interstate highways in Illinois, and some facilities in metropolitan Chicago carry over 30,000 trucks each day.

Railroad personnel I have talked with acknowledged this is an inefficient system, however, one told me that if he doesn't do it, his competition will. What is needed is a railroad that is cognizant of the long-term benefits, which railroad can become a leader in creating positive change. A steel wheel interchange based on the current makeup of the cars and trains is not possible. Most likely there are other options to explore; however, one idea is to develop intermediate yards (e.g., Omaha and Kansas City) where the containers can be sorted and blocks of cars organized by destination railroad, so blocks of cars move direct to the destination railroad for Steel Wheel Interchange.

It will take a serious commitment to acknowledge the inefficiencies that currently exist because it will probably result in devaluation of some existing assets. However, whether now or later, it will have to be addressed. Long term, thousands of trucks and truck drivers will be freed up to handle new and currently under-served business, and the network will become more streamlined.

- (4) Routing Protocols. Routing protocols are controversial to say the least, but it is not my intent to discuss the pros and cons of routing protocols. Instead, I submit routing protocols and related policies should be scrutinized more carefully. Recently when analyzing rates for a new client we decided we needed to examine the Rule 11 combinations and

routes more carefully. One lane that raised a red flag routed cars originating in Iowa to Illinois to interchange with a western carrier, to a destination in western Arkansas. By changing numerous Rule 11 combinations to more direct routes, we reduced this shipper's costs simply with existing tariff rates). The cost savings on the shipper's total traffic base averaged nearly \$800/car. The railroad claimed the former routes were routing protocols, but we remained firm with the new routes. In this case, the railroad's routing policies resulted in higher costs for the shipper, they increased the railroad's operating miles, and miles increased on the shipper's tank cars. If the industry is to prepare to handle the volumes forecasted by DOT, it will be important to identify and eliminate inefficient operations like this to the fullest extent possible.

4.0 SUMMARY.

Everyone, including carriers, shippers, and equipment providers, has a vested interest in strategic planning and development of an efficient rail network. It would be most unfortunate if we fail to plan ahead to design and implement positive change. However, the volume increase of this magnitude is alarming, and it is not practical to think that a single carrier or shipper can address this on their own (although we do need an industry leader to open the dialogue).

Some changes that will be needed may result in facing some tough decisions and accepting the possibility that some major assets may become obsolete or changed. It has been our observation that the people we work with are experts about their business, and know a lot, or everything, about their company, but they may not be cognizant of what other businesses are doing or issues that impact other businesses. Compound that with the current environment where the first phone call becomes the priority of the day versus what was planned on the whiteboard.

We seriously need to move past the current reactive mode and plan for the future, and when I say "we" I mean just that as it would be unfair and probably ineffective to simply make this a railroad problem.

I commend the Board for opening this conversation, which will probably be just that – a conversation – since we are starting with no targeted results. Our

industry (and I am talking about carriers, shippers, and equipment providers) has a number of impressive leaders. However, changes of this magnitude, if we are to do it right, will take a community. While there is no clear-cut solution, an obvious first step is to open communication between carriers (truck and rail), shippers, government agencies, and other industry experts to define the future. These should be high level discussions that focus on the primary objective, i.e., to define the future, negating any potential antitrust concerns. By gaining a better understanding of future markets, volumes, labor requirements and resources, potential modal scenarios, technology and capacity requirements, the parties will have the strategic vision needed to plan ahead.

Respectfully submitted,

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