

## SURFACE TRANSPORTATION BOARD

Docket No. EP 724 (Sub-No. 4)

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## UNITED STATES RAIL SERVICE ISSUES—PERFORMANCE DATA REPORTING

Summary of Ex Parte Meeting between The Kansas City Southern Railway Company (KCS)  
and Surface Transportation Board (STB) StaffHeld December 4, 2015, 10:30 AM – 11:26 AM, via telephone

KCS Participants: William Mullins (Baker & Miller PLLC), David Reeves (In-House Counsel, KCS), Greg Walling (Vice President, Network Design, KCS)

STB Participants: Michael Higgins, Stephanie Lyons, Ronald Molteni, Lisa Novins, Nderim Rudi, Jason Wolfe

KCS expressed its appreciation that the Board is holding ex parte meetings in this proceeding. KCS stated that the meetings are a valuable way to foster dialogue on the issues.

KCS noted that it has filed data on a weekly basis since the reporting requirements began and has worked to make compliance a manageable weekly task. KCS explained that it has limitations with respect to data collection and has previously documented those limitations. It also has distinct needs regarding Requests Nos. 7 and 8 in the Notice of Proposed Rulemaking (NPR) and the October 2014 interim order in Docket No. EP 724 (Sub-No. 3). Data reported under those requests has the potential to disclose confidential shipper information; KCS also noted that this concern was raised by one of its customers. KCS believes the NPR provides an adequate measure over time with respect to those metrics.

With regard to Request No. 9 in the NPR, KCS explained that it went on the record in its October 22, 2014 filing in the Docket No. EP 724 proceedings about grain train metrics it could introduce; it also provided a generic grain train metric over time for its shuttle business. KCS is willing to continue to work on that metric. Overall, KCS stated that it believes a few relevant performance measures are more useful than a significant number of granular data points. To assess the fluidity of its network, KCS's executive team relies on a few comparative metrics over time to keep internal conversations relevant. KCS emphasized that the Class I railroads are very different and that data is not comparable between them. Identifying a small number of key relevant measures is the right approach for KCS and the industry in general.

KCS emphasized that it is a much smaller railroad than the "Big Four" Class I railroads and that a greater portion of its traffic is interchanged. That makes the same metric appear different for KCS versus other Class I railroads. Approximately 80-85% of KCS's traffic is interchange traffic, originated or terminated by another railroad. In that sense, KCS is more akin to a short line or regional railroad than a Class I railroad.

KCS explained that it is important to be open and to proactively communicate about ongoing events on the network with its customers. KCS stated that the information it provides to its customers is more specific than the public metrics provided by the Board or the Association of American Railroads (AAR). It shares information about service status, maintenance of way, outages, and major impacts on fluidity. That information is tailored for a broad-based customer group, and the KCS customer service team is responsible for understanding how a customer will be impacted. For example, on October 21, 2015, there was a service status update on the Meridian Speedway, a joint venture with Norfolk Southern Railway Company to move intermodal product. When addressing issues on the Speedway, KCS tailors messages to truckload and less than truckload customers down to a detailed level of trains per day so that customers can plan their driver base adequately. Those conversations are a far more relevant and meaningful way to address service challenges and impacts to the customer.

STB Staff asked which metrics are most relevant to KCS for decision-making at the executive level. KCS provided a real world example that impacted its customers. During the summer of 2015, there were weather events followed by disruptions on the North/South line caused by maintenance-of-way activity and a rebound in coal traffic around the July 4 weekend. Although the cars online metric showed a change and diminished service, the metric alone did not explain all the circumstances causing the change. The cars online data is the top line in KCS's daily report. There is a complex methodology to why service diminished, how to change it, and how to prevent degradation.

STB Staff asked what other metrics are valuable at an executive level. KCS explained that it closely follows velocity. When coal demand spiked during the summer of 2015, three metrics came together, moving in opposite directions, which led to a service crunch. In a short period of time, KCS executives could see it happening as the metrics moved.

STB Staff then asked where terminal dwell fits into the hierarchy of metrics. KCS responded that it looks at cars online, then velocity, and then terminal dwell. STB Staff asked whether carloadings on a seven day basis was an important metric, and KCS responded that while a seven day average is important, it focuses more on monthly averages. Seven day carloadings may be more important for the large western carriers due to higher volumes and coal traffic.

STB Staff next inquired whether the Board should consider other metrics that are somewhat more granular, such as trains held. KCS responded that at the core of profitability and customer satisfaction is asset efficiency, so when considering the fulfillment of customer needs, it looks at cars dwelling. The Board's interim metric for loaded and empty cars in service that have not moved for more than 120 hours is a measure of asset efficiency and network fluidity. Although data about trains held for six hours is susceptible to interpretation, a car sitting for 120 hours presents a clearer insight into fluidity.

STB Staff stated that other railroads report composite service metrics including on-time arrival, on-time departure, plan adherence, or other similar metrics, and asked whether these metrics could be useful for the Board or its stakeholders. KCS responded that these measures would not be helpful and noted that it does not have a service composite metric. KCS explained that the inputs for these metrics are subjective and assigned various weighting, which makes the indices

impossible to compare across railroads. KCS sees utility in productivity, fluidity, asset utility, car order fulfillment, and a safety component all weighted equally.

STB Staff next asked whether “unit train” is a term that the railroads should define individually. KCS responded that a railroad definition would be far more useful than a Board prescribed definition. In its own business, KCS may add 25 cars from one customer to 75 cars from another customer, to run thousands of miles before they split up. It serves both customers better to run that as a unit train. KCS then asked whether that definition would be most relevant to Request No. 9 in the NPR. STB Staff replied that it also relates to other items, such as Request No. 4. KCS reiterated that it would be more useful to report what KCS itself tracks as units or shuttles, recognizing that some railroads do not use the term “shuttle.” It is the trend that matters, rather than the definition. Railroads are different, so a comparison of one to another using one set of data could be misleading.

STB Staff asked what type of data provides more detail to KCS beyond the macro-level metrics. KCS said that car fulfillment is important, and stated that its role is to understand how changes affect car flow, to ensure adequate cars in the supply chain, and to understand impacts on shippers. KCS cited an example of an auto shipper that is changing its distribution pattern and how that affects 2016 planning. KCS takes steps for the customers who call to help them understand the impacts.

STB Staff next asked how KCS communicates with its customers about equipment availability, such as boxcar supply. KCS replied that that information is available on its customer website, which has a car flow module showing car and equipment orders. Because the module is customer specific, customers cannot see changes in KCS’s boxcar fleet, which could raise anti-competitive concerns between shippers. However, as members of various equipment pools, customers are routinely given information that can show macro-level shifts that might impact them.

STB Staff then asked whether there is value in reporting locomotives stored or cars in storage over time as an indicator of network health. KCS explained that, while it shares that information with Board staff during monthly status calls, there is limited value in sharing that with the public, unless the railroad is sharing it in response to a specific customer inquiry. KCS suggested that this information has the potential to be misinterpreted. STB Staff inquired about whether seeing a rapid decline in stored locomotives could help a customer conclude that there is a spike in demand. KCS responded that this data is available through AAR carloading data. Industry-level loading numbers are available on KCS’s investor websites.

STB Staff next asked if KCS considers the number of slow orders and how those impact the network. KCS replied that it performs a daily review of slow orders, but does not believe that that information is valuable to customers. The data is very specific, it changes from week to week, and it is very difficult to determine the true impact of a slow order on a section of track. The net impact of a slow order can be observed in velocity. A slow order might be useful to the operators of trains, but not stakeholders. KCS pointed out that, once the data is examined and reported, the slow order may be over.

STB Staff next asked for feedback on the weekly average dwell time for unit trains at origin and interchange locations. KCS said it does not examine this data; it looks at asset utility to get at this information.

In closing, KCS appreciated the Board's proposal to exempt KCS from Requests Nos. 7 and 8, due to the commercially sensitive nature of the data. KCS said that, generally, while the reporting requirements do create burdens, they have some utility, and KCS has learned how to handle and comply with the requirements. KCS again emphasized that railroads cannot be compared because they are different networks.