Draft Notes of April 26, 2023

Surface Transportation Board

RETAC Meeting

Meeting commenced at 9:06 AM with opening welcome by **Chairman Martin Oberman**, followed by remarks from **Vice Chairman Michelle Schultz, and Members Patrick Fuchs, Robert Primus, and Karen Hedlund**.

Members in attendance at the meeting were:

Brian Fuller, Southern Co.- Committee Chair

Daniel Sabin, IANR – Secretary-Treasurer

Adam Anderson, Western Fuels Association
John Bridson, Evergy
Jeff Eliason, CHS
Pat Forkin, Peabody Coal
Arielle Giordano, CPKC
Christopher Hand, Brotherhood of Railroad Signalmen
Laura Heisterkamp, Union Pacific
Lee Johnson, Hess Corporation
Vern Lund, Navajo Transitional Energy
James Rader, Greenbrier Management
Dave Slade, Chevron Renewable Energy Group
Bette Whalen, Lower Colorado River Authority
Kent Avery, PBF Refining
Angela Caddell, BNSF
Steve Ewers, NS
Joe Forkum, CSX Coal
Robert (Bob) Guy, SMART Transportation Union
John Haysbert, Hitachi Energy
Mark Huston, Louis Dreyfus Corp.
Paul Lang, Arch Resources
Phillip Obie II, Santee Power
Emily Regis, Arizona Electric Power Coop
Ben Sweat, POET Biofuels

<u>STB staff were present</u>:
Kristen Nunnally, RETAC DFO
Michael Small
Christopher Diamond
Lisa Novins
Charles Vance

Opening remarks by Brian Fuller
Since the last meeting in October, natural gas costs have plummeted.

Labor Overview—Christopher Hand and Bob Guy

Christopher Hand, Brotherhood of Railroad Signalmen (BRS), provided anecdotal observations regarding the status from a signal department standpoint. The BRS had 7,300 members pre covid, now down to 6,314. Several comments followed:

-Temporary fixes stay permanently
-Larger territories with higher asset counts

-Reduction in preventative maintenance, lack time to do it
-Construction forces lose workforce to maintenance and are not replaced
-Some railroads have signal side covered by the Maintenance of Way Union MBWE

Examples of concern:

-Winnemucca, NV, sand interference with signal circuits, all signals red followed by suspension of the signal system in that area.
-Alabama and Tennessee, underground cable exposed.
-need to get employment to pre pandemic levels.

Robert Primus asked, "Where is the largest problem?" Response: Detectors.

-Members are afraid of retaliation.
-Detector inspections have been rolled back from 5 weekly inspections to zero.
-Detectors are not regulated.
-Detectors may not have remote reporting.
-pre-Covid inspections were weekly, bi-weekly, quarterly, annually.

Bob Guy (SMART Union) expressed Labor's concern that:

-Drastic reductions put too much demand on the remaining workforce.
-20-30% retention of new employees.
-New Labor Contract is helping in retention.
-Discipline occurs even with retention issues.

Robert Primus asked if legalized marijuana is an issue. Response: Yes.

Mark Huston (Louis Dreyfus Corp.) read the shippers' prepared statement:

"Distinguished STB Board Members and RETAC members,

The shippers on this committee appreciate the opportunity to meet with you to voice our concerns regarding what continues to be unpredictable and unreliable railroad service for utilities, biofuels producers, energy groups and rail car owners. We wish for this statement to present the Board with the perspective of these shipper groups of the primary issues driving the rail service problems and the issues we see with the railroad reporting metrics requested by the Board.

While some market conditions have fluctuated in recent months, there are still many key service issues that more than warrant Board attention. We have prepared a detailed written appendix, but in the interest of time, we will simply identify them.

- Railroad performance should consider not only the metrics of trains and cars that do arrive, but also the requested and required volume demand that goes unmet.

- The railroads continue to employ PSR to squeeze margins from shippers and reduce costs, rather than meet shipper needs and maintain the surge capacity needed to overcome disruptions in service. The railroads also continue to suffer from a labor shortage.
- Shippers remain exposed to demurrage and other charges when things go wrong on their end, or for things beyond their control, while the carriers remain effectively unaccountable for their ongoing service problems.
- Continued lack of communication to customers from railroads.
- Service metrics that are being collected from the carriers should be enhanced.
- Service metrics will not provide a complete picture when they omit first/last mile data.
- Shippers remain unable to obtain adequate information from railroads. Automated and generic chat features are no substitute for being able to speak to a knowledgeable and experienced railroad rep.

In summary, the shippers of RETAC respectfully request the railroads and the Board continue to engage in real data-driven discussions in these committee meetings. We hope that the railroads will be prepared to present data that addresses the gap between volume nominations and actual deliveries. As we have stated before, we believe this committee should focus on the relationship between forecasts and deliveries, including how forecasts compare to volumes, the accuracy of the customer's forecast, railroad feedback sent back to the shipper, and railroads performance versus the forecast. And we look forward to the work done by the Board and this committee to address enhancement of the rail carrier and shipper forecasting communication effort.

Thank you for your engagement and concern of rail service and shipper issues.

Appendix to Shipper Summary Issues:

1. **Communication to Customers from Railroads.**
    a. The railroads' electronic customer interfaces rely heavily on one-size fits all on-line menus that are a poor fit for shipper needs. There may be an alternative "chat" feature for shippers to submit more individualized questions, but the operators are often unfamiliar with an individual shipper's needs, or shipper needs in general. Railroads use this feature to manage or track each request or issue characterized as "cases". Too often, there are too many cases submitted that can be responded to in a reasonable time. And local railroad operating officials have verified they are not able to respond to every case. The railroads also point to the use of the case management system to deny shipper invoice claims. If you neglected to create a case for an issue, the claim may be treated with less credibility. Often the drop-down menus are inadequate to cover unique situations that exist or simple requests that used to be handled via a phone call or email to an individual on the carrier's coal desk or dispatch center who knew the facility and its location and specific needs. The systems appear designed to manage shippers, not address shipper needs.

2. **Service Metrics.**
    a. The Board should continue to request key metrics from the railroads. Shippers believe the data could be improved to match more closely what shippers are experiencing in terms of service, and not just selective metrics such as velocity and dwell time. Shippers believe that reliance on averages fails to capture variations in service. The metrics could be broken down more by region and commodity type and possibly even car type. Shippers need consistency of service for planning and reliability purposes.
    b. Also, the metrics do not include first and last mile data, except for unit trains and intermodal movements, and such data can be critical for the overall shipper experience. It does a shipper little good if its cars move reasonably well from terminal to terminal, but then sit at the terminal before they are delivered, if local delivery switches are missed, or if a shipper needs, say, five days a week service and receives only three days of service. The overall volume of deliveries requested by shippers can be critical.

3. **Delivery Volumes.**

    The reported data focuses on trains and cars that actually arrive, but largely ignores the additional volumes that shippers needed and required, but the railroads were unable to even attempt to move. Over the past couple of years, energy shippers have experienced the railroads parking train sets or cars to relieve congestion on the system. No existing reporting metric attempts to address this issue. Parking trainsets may have some helpful impact on velocity or dwell time information that gets reported, but it may also reduce the volume of ultimate deliveries, which means that shippers are not getting the volume of product that they require. There are many shippers that require regularity in deliveries and pickups, but others shippers are able to stockpile deliveries. In essence, the railroads get to grade themselves on a curve of their own choosing in terms of the trains that are running, not the additional trains that may be needed. It may be helpful to see in the metrics how many cars or trains were parked against what volumes were not shipped per commodity group. A related problem is that much of the data is reported as averages, which conceals the variation inherent in the average. As noted, shippers vary in their ability to tolerate variations. A measure such as a standard deviation would help to indicate the representatives of the average.

4. **Precision Scheduled Railroading**
    a. The majority of the Class 1's continue to use Precision Scheduled Railroading (PSR) to enhance railroad shareholder revenues at the expense of the customer base. The railroads have fixated on reducing railroad operating ratios, largely by squeezing increased operating margins out of shippers, rather than to improve service, pass savings on to shippers, strengthen resiliency, or grow volumes.
    b. Shippers and railroads worked together in the past to manage fluctuations in demand driven by forces beyond our control. However, with the advent of PSR, shippers have noted the railroads have eliminated resources to respond to surges in demand. They used to be able to gather forces and respond to variances in demand that occurred. Now, they seem to have taken all surge capacity away. Whenever there is any weather event, surge in demand, service interruption or labor issue, rail service is impacted. The

carriers often point blame for lack of service on their own labor force, as if the railroads have no control over their headcounts. Shippers know from experience that rough weather did not used to have such an adverse effect on rail service. In fact, we have been told former CNW (now UP) actually used to have a sign that read, “Rough winters are no excuse”. The railroads also appear to have no ability to make up deficits. Shippers may try to shift forward missed shipments or defer nominations to future periods. Often these shipments must be canceled if they cannot be delivered at all and then the entire supply chain suffers.

5. **Accountability for Service Failures**
    a. While shippers have continued to rack up additional costs for undelivered and delayed volumes, there appears to be no accountability for the railroads. Shippers invest millions in rail equipment and infrastructure at no cost to the railroads to enable fast and efficient deliveries and loading of commodities to and from their facilities. However, there is no standard of reciprocity between carriers and shippers when the carriers fail to provide service. Poor rail service continues to have massive cost impacts for shippers who have no means of penalizing the carrier for lack of or missed deliveries. Meanwhile, the rail carriers are able to issue demurrage and other invoices penalizing shippers based on some computer algorithm that requires time and expense for the shipper to review and dispute, and in many cases may be found unjustified.”

Chairman Oberman asked if there has been any improvement since last April.

Response from Mark Huston: December-January had problems with no substantial improvement, still have major service issues.

Kent Avery (PBF Refining) added:

-no surge capacity anymore.
-recovery is less achievable.
-pre-PSR had more surge capacity.

Mark Huston added: The best performance was in January, and worst in April.

Patrick Fuchs commented: Metrics do not show what doesn’t happen.

Emily Regis (AEPC) added:

-Metric improvements are needed.
-Data is after the fact.
-Expectations do not match fulfillment of nominations.
-Date is hard to gather.

Patrick Fuchs commented: There has been a 6 to 7% increase in staffing while traffic is flat or reducing.

Kent Avery (PBF) added:
-Metrics don’t reflect reality.

-Stats are still lacking to show full story.
-Railroads cannot commit to cycle times.

Emily Regis (AEPC) asked: How many trains are parked?

Chairman Oberman asked: Have the railroads singled out service to energy or are the problems widespread beyond energy?

Robert Primus commented:
-Communication issues-define communication.
-Railroads say they are communicating.
-Customers don't see communication.

Kent Avery (PBF) added:
-UP-BNSF-NS have poor customer experience.
-Operations at local trainmaster level say too many service issues to deal with it.
-Both Canadian Railroads handle it better.

Emily Regis added: Any changes in diversions or symbols are not handled.

John Bridson (Evergy) commented: Need to dialogue better.

Robert Primus asked: Was it better pre-PSR?

Emily Regis (AEPC) commented: Turnover with railroads reduces relationships.

Mark Huston (Dreyfus): Some railroads are better than others.

John Bridson (Evergy): Used to be that the railroads were better informed internally.

Angela Caddell (BNSF): There is a difference between the website vs. customer support.

John Bridson: It is transitional in some cases.

Angela Caddell (BNSF): There is a need for different levels of reporting in unit trains vs. single car moves. Not everyone at the railroad can be an expert in all facets of concerns. Forecasts vs. Strategy vs. Operating Execution.

Kent Avery (PBF): Everything is expected to be in a "case report."

Bette Whalen (LCRA): BNSF provides good relationship with account manager, but tracing is getting impossible. We cannot find reasons for delays. We send group emails, but no one is responding.

Emily Regis: There are constant changes with contacts and inter-departments.

Steve Ewers (NS): We want to grow. We need a good service product and an easier system to address customer concerns. Quality of data is a big concern at NS. NS acknowledges that we are nowhere near where we need to be.

Robert Primus: Unless the communication gap is resolved, it cannot get better. Customer service must be increased and improved. Problems can be mitigated with communication.

Patrick Fuchs: NS has been a leader in customer service, but how can the railroad not know where a car is? Truck customer service is quite better.

Joe Forkum (CSX): Feedback real time is critical.

Break

Steve Ewers (NS) provided a railroad presentation on forecasting coal trains.

Regular Detailed Planning Process

1. Planning and nomination process
   Timing=July-October for upcoming year
   Monthly nomination process-end of month for following month
2. Receive demand view from customers
3. Cross verify with suppliers for feasibility and validity
4. Put plan into detailed network planning-locomotives, crews, capacity, etc.
5. Identify and address concerns
6. Receive regular updates on supply and demand from customers
   Update forecasts and resource plan accordingly

Forecasting and Resource Planning Framework

- Origin-Destination; single car or unit train; system equipment or private; new or existing business
- Above criteria funneled into current operating plan
- Drives resource planning, along with other attributes (namely fallout/attrition)
- Resource Planning:
  Crew Hiring: Current needs, expected attrition, expected retirements
  Locomotive and Equipment: Current needs, expected fall-out, specific equipment
  Operating Plan Review: Adding/Deleting trains, blocking opportunities, train length
- Repeat cycle on regular basis

Even Accurate Forecasts Run into Challenges, Despite Frequent Communication

- Shifts in market dynamics: Weather, gas and coal pricing can suddenly change demand and routing. Unanticipated growth in other markets affect network capacity. Outages and other events (e.g., mine outages, quality issues, LW moves, plant maintenance, labor issues, weather, source shifts, etc.)
- Monthly Nomination Process: May not align with annual or semi-annual nomination process-peaks/valleys, producers and receivers can overbook or shift reservations, daily/weekly schedules often remain dynamic and aren't controlled by railroads.
- Unique nature of unit trains: More resource intensive, train doesn't move if there is an issue, complexity with mix of set ownership and equipment types, requires coordination with producers, receivers, short lines, and other railroads.
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U.S. Rail Ton-Miles: Coal vs. Non-Coal

- Ton-Miles coal: trending down
- Ton-Miles excluding coal: trending up

2022 down 3.3% with 26.6 million units; Railroads handle 70% of coal in U.S.; coal is down 70%; coal is less than half of revenue in 2011. Coal exports are up with 13-15% of all coal increases in met coal vs. steam.

Patrick Fuchs: Will there be any changes in export volumes in 2023 and 2024? Steve Ewers' Response: We do not see any changes.

Pat Forkin (Peabody Coal): We don't see any increase in export volume because of railroad lack of trainsets, labor, and power.

Paul Lang (Arch Resources): Coal is moving now from U.S. to Eastern Germany, because of the Russia-Ukraine issues.

Laura Heisterkamp (UP): UP is adding more trainsets.

Adam Anderson (WFA): There is a demand for more export coal.

Steve Ewers (NS): Plastics is the highest demand move, with ethanol second. Rail employment is important. Capital Investment is critical for maintenance vs. capacity.

Robert Primus: Is more equipment going to export vs. domestic coal?

Brian Fuller (Southern Co.): Coal generation has been low because of not getting deliveries. Lower gas prices contribute to reduced coal burning.

Bette Whalen (LCRA): When gas was higher, we needed more coal but couldn't get it.

Adam Anderson (WFA): Coal inventory needs to be restored to cover future demands.

Jeff Eliason (CHS): Ethanol volumes are flat with ratable volumes. Why can't the railroads meet that?

Laura Heisterkamp (UP): Crews in training and qualification need to get caught up.

Angela Caddell (BNSF): Commodities that are ratable vs. seasonal affects forecasting. Train sizes vary by many factors.

Karen Hedlund: Are there differences in domestic vs. international traffic flows?

Chairman Oberman: What has changed over the history of the industry? Why has it taken so long for the railroads to know how long it takes to come back from major layoffs?

Industry segment presentations:

Presentations available from RETAC website.

Lee Johnson (Hess) provided the Oil Industry Segment Presentation:

- Equilibrium for the year in demand and supply.
- Refinery input and oil production.

- Total CBR (crude by rail) is four trains per day. Canada is shipping into the U.S., providing most of the CBR.
- Crude oil rig count shows more productivity vs. number of rigs.
- Summary slide:
    a. Global crude oil production and consumption continue to grow.
    b. US remains #1 crude oil producer now exceeding pre-pandemic level.
    c. Crude oil rig count run rate is flat and down 17.3% from pre-pandemic level.
    d. US refinery capacity is down 1.1 MBPD from 2020 level.
    e. RETAC shipper team plans to broaden the Oil Segment Update scope to include refined product by rail in addition to oil market and CBR information.
    f. Plan to present findings of a new downstream rail service survey at the fall RETAC meeting.

James Rader (Greenbrier) provided the Rail Cars Segment Presentation:

Recent weakness in natural gas pricing is a risk, as seen by the increase in stored cars.

Industry impacts on rail car supply:

1. Natural gas pricing
2. Greatest impact on tank cars
3. Tank car loadings and new tank car deliveries, crude cars in storage
4. Safety advisories from PHMSA after NS East Palestine, Ohio derailment: regarding aluminum covers and an acceleration of the phase-out period for old style tank car types
5. Number of cars in service by tank car type
6. Tank car regulation deadlines

Mark Huston (Dreyfus), Jeff Eliason (CHS) Ben Sweat (POET) and Dave Slade (Chevron) provided the Ethanol-Biofuels-Renewables Segment Presentation:

Tank car capacity is tightening with slower railroad service performance. Cost of steel is driving up the costs of tank cars to the industry. Other factors include:

1. Corn supply
2. Ethanol production dropped in January with higher costs of natural gas, many production facilities went to hot idle.
3. Gallons in transit
4. Train speeds by railroad graph
5. Renewable diesel vs. bio-diesel
6. RETAC bullet point summaries.

Phillip Obie II (Santee Power) provided the Utilities Segment Presentation:

1. Inventory Updates/Challenges-Percentage of utilities with days of inventory of 30 days or less is beginning to improve YTD 2023 due to mild winter weather. Deliveries remain about the same.
2. On Time Performance Survey/Concerns-Survey data collected August 2019 to December 2022 in six-month periods with 31 plants reporting.

a. 100% reported their company had to modify operations due to rail service issues in 2022 (was 64% in 2021 survey).

b. 75% reported rail service worse than 2021 and/or last three years. 19% said it was about the same. 6% said it was improving.

c. Over 85% reported coal unit curtailments needed in second half 2022 due to lack of coal deliveries.

d. Railroads serving plants reported-BNSF-UP-NS-Multi Railroads and Short Line movements.

e. Four coal supply regions mine sources reported: Southern Powder River Basin, Northern Powder River Basin, Rockies, and Illinois Basin.

3. Key Takeaways/Asks:
   a. Utility forecasting for coal deliveries involves a great deal of planning.
   b. Forecasts typically allow for some flexibility in deliveries.
   c. Utility stockpiles afford some cushion to allow for coal deliveries and burn forecasts/actuals.
   d. Coal deliveries continue to trend 20-30% below monthly nominations which is concerning. Resulting in:
      -Low stockpiles although improving but mostly due to mile weather.
      -Coal conservation and unit curtailment.
      -High operational costs for utilities to replace energy/fuel and production issues.
   e. Asks:
      -Better communication from railroads in meeting shipper forecasts and missed permits;
      -Updates on crew availability;
      -More railroad accountability and better reporting metrics.

Paul Lang (Arch Resources) Provided the Coal Production Segment Presentation:

2022 Coal Consumption and Price Impacts:

- Rail challenges contributed to higher energy prices for US consumers and to missed export opportunities for US coal producers throughout 2022.
- During 2022, US coal-based power generation was heavily constrained by low coal stockpile levels at power plants and overall deliverability concerns.
- The industry estimates that coal *consumption* was reduced by 20 to 30 million tons in 2022 due to utility coal conservation efforts leading up to and during the winter months.
- In the Powder River Basin alone, the industry estimates that 35 to 40 million tons of committed volumes failed to ship as scheduled – exacerbating stockpile shortages and energy security issues.
- This effort to conserve coal placed added pressure on domestic natural gas markets and pushed natural gas prices to an average of $6.54 per million BTUs on the year-76% higher than in 2021.
- Despite improvements since the beginning of 2022, western rail performance has continued to undershoot stated customer demand year-to-date in 2023.

2022 Export Considerations:

- Poor rail performance also reduced the ability of US coal producers to move volumes to international customers, at a time when many US allies were scrambling for additional energy supplies.

- Given restrictions on imported Russian natural gas and coal that took effect in August 2022, generators in many allied countries looked to US coal producers for replacement volumes.
- In many instances, US coal producers were unable to answer the call due to the inability to secure sufficient rail service to export terminals on the Pacific Coast, the Gulf Coast, and the Mississippi River system.
- These shortfalls include instances in which the rails failed to provide already agreed-upon rail service for export volumes, at a significant economic cost to US coal producers.
- While the world avoided a bull-blown energy crisis this past winter, EU generators could well struggle to build sufficient inventories of natural gas and coal in advance of winter 2023/2024 due to the continued lockout of Russian volumes.
- In short, US coal producers could once again be called upon to provide alternate sources of supply to allies in Europe and Asia but will require adequate rail service to provide critical assistance.

Impacts on Western Production and States:

- While inadequate rail service has had – and could continue to have – an adverse impact on coal producers and our customers, the cost to other major stakeholders has been substantial as well.
- The coal conservation efforts highlighted previously almost certainly played a major role in last year's significantly elevated natural gas prices.
- US power generators were forced to use more natural gas than they otherwise would have, creating upward pressure on power prices for all consumers.
- Higher natural gas prices affected virtually every US consumer, whether due to higher heating bills or increased input costs on a vast array of products and services.
- Given that taxes and royalties comprise nearly 30 percent of the selling price of Power River Basin coal, curtailed coal shipments have had an adverse impact on federal, state, and local government revenues.
- Based on the published average sale price for Powder River Basin coal in 2022, the industry estimates that rail disruptions reduced federal revenues by more than $40 million in 2022.
- Based on the same assumptions, the state and county governments of Wyoming may have experienced lost revenues approaching $100 million in 2022.
- Those revenues – particularly at the state and local levels – are integral to the funding of a wide range of critical public services, including education.

Summary of Written Public Comments from Kristen Nunnally

There were none.

The meeting concluded at 12:45 PM.

Respectfully submitted,

Daniel R. Sabin (IANR), Secretary and Treasurer for RETAC