



BUILDING AMERICA®

ENTERED  
Office of Proceedings  
December 14, 2022  
Part of  
Public Record

December 14, 2022

**Via Electronic Filing**

The Honorable Martin Oberman, Chairman  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

The Honorable Michelle Schultz, Vice Chairman  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

The Honorable Patrick Fuchs  
Surface Transportation Board  
395 E Street, SW  
Washington, DC 20423-0001

The Honorable Robert Primus  
Surface Transportation Board  
395 E Street, SW  
Washington, D.C. 20423-0001

The Honorable Karen Hedlund  
Surface Transportation Board  
395 E Street, SW  
Washington, D.C. 20423-0001

Re: STB Docket No. EP 772, *Oversight Hearing Pertaining to Union Pacific Railroad Company's Embargoes*

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

Union Pacific respectfully requests the enclosed Testimonies of Mr. Lance M. Fritz, Mr. Eric J. Gehringer, Mr. Kenny G. Rocker, and Mr. Bradley S. Moore be filed in Docket Number EP 772. Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Tonya W. Conley".

Tonya W. Conley

Enclosure

cc: Ms. Cynthia T. Brown, Chief,  
Section of Administration, Office of Proceedings

Surface Transportation Board

---

Docket No. EP 772

Oversight Hearing Pertaining to Union Pacific Railroad Company's Embargoes

December 13-14, 2022

---

Testimony of Union Pacific Railroad Company

**STB Hearing on Union Pacific Railroad Company's Embargoes**

December 13, 2022

Testimony of Lance Fritz

Union Pacific Railroad Company

Good morning. I am Lance Fritz, Chairman, President, and Chief Executive Officer of Union Pacific Railroad. I am joined today by Eric Gehringer, Executive Vice President Operations, Kenny Rocker, Executive Vice President Marketing and Sales, Brad Moore, Vice President, Customer Care & Support, and our counsel Mike Rosenthal. Thank you for the opportunity to address your concerns about our use of embargoes.

Union Pacific understands the vital role we play in the U.S. economy. We provide a critical service for our customers. We take these responsibilities seriously. We continuously monitor the health of our network, evaluate risks to operations, and seek opportunities to improve. We strive to engage with our customers to understand their perspectives before taking steps that affect them.

An efficient rail system free from excessive congestion is vital to all supply chain stakeholders. We provide a critical link in the global supply chain, serving twenty-three states in the western two-thirds of the country. We serve many of the fastest-growing U.S. population centers and all major West Coast and Gulf Coast ports.

Our objective is to maintain a fluid network—one that operates with consistency and reliability. We seek to achieve this objective by designing a transportation plan and working to ensure that our five critical resources—employees, locomotives, freight cars, line of road, and terminals—are properly aligned to execute the plan.

This year has proved challenging. Our network is not operating at the levels our customers expect and deserve. In large part, this is because one of our critical resources—employees—was out of

alignment. We did not have enough crews and did not have them in the right places at the beginning of the year. Union Pacific has taken steps to improve. We have hired 1,400 train, engine, and yard employees and graduated 1,109 of them from post-hire training. From mid-April to the week ending on December 2<sup>nd</sup>, we have seen a 39% decrease in the number of trains holding for crews. Train speed has increased by 13%, which has generated additional power to improve network fluidity. As train speed has increased, inventory decreased by 22,000 cars. We have continuously adjusted our transportation plan to achieve balance in the workload across the network.

As cycle times slowed earlier this year, some customers reacted by adding more cars into the system. That's a natural reaction, but it contributed to our challenges and delayed our full network recovery. Excess freight car inventory disrupts the alignment of our network resources. It requires us to use more crews and more locomotives to handle the same amount of business, and it produces congestion on our lines of road and in our terminals.

Union Pacific has reached out to those customers to reduce excess private car inventory. Union Pacific has also removed system cars from the network. These measures incrementally improved our key performance metrics; however, we are not improving fast enough and need to take action.

For many years, Union Pacific has used embargoes when we see customers accumulating cars in serving yards. In November, Union Pacific implemented a program similarly aimed to address excess cars in our pipeline. In both cases, we try to work with customers to achieve these aims without issuing an embargo. The decision to embargo a customer facility is not one that we take lightly or without engaging the customer beforehand. An embargo is a last resort.

Union Pacific uses embargoes to control traffic movements temporarily when we believe they are needed to address congestion, to help customers receive shipments, and to respond to other existing

or threatened physical or operational impairments. When we impose these temporary restrictions on some traffic, our objective is to facilitate the movement of all traffic—that is, to better serve *all* our customers.

Eric, Kenny, and Brad will discuss our embargo process in more detail:

- Eric will describe the challenges to network performance presented by elevated operating inventory and why embargoes are needed when customer engagement fails to provide a solution.
- Kenny will discuss our efforts to engage with our customers in the embargo process.
- And finally, Brad will discuss our embargo processes in greater detail, including our process for addressing excess cars in serving yards, and the newer process we have developed to address excess cars in private fleets.

We fully understand imposing embargoes can result in challenges for our customers. I again emphasize we only reach for this option as a last resort. Union Pacific is committed to restoring the fluidity of our network completely—and with that, the consistency and reliability of our service to all our customers. To achieve that, we are doing all we can to get the necessary crew resources in place, but we will also need the cooperation and help of those customers whose car inventories are excessive in relation to their demand. I would like to thank the STB, both its Members and Staff, for their understanding, cooperation, support, and extra consideration as we work to restore the network fluidity required to provide the quality of service both we and our customers expect. Union Pacific's customers deserve our special thanks as we work hard to improve our service performance and earn their business every day. Thank you.



**STB Hearing on Union Pacific Railroad Company's Embargoes**

December 13, 2022

Testimony of Eric Gehringer  
Union Pacific Railroad Company

Good morning. I am Eric Gehringer, Executive Vice President Operations for Union Pacific Railroad. I want to begin by thanking you for the opportunity to speak regarding Union Pacific's use of embargoes.

In my testimony, I will address three topics:

- First, UP's use of embargoes to address accumulation of excess cars in local serving yards
- Next, UP's use of embargoes to address excess private car inventories
- Finally, our plans to use embargoes going forward

The definition of an embargo is found in the AAR TD1 Circular. "An embargo is a method of controlling traffic movements when, in the judgment of the serving railroad, an actual or threatened physical or operational impairment, of a temporary nature, warrants restriction against such movements." When we think about the operational impairments that excess inventory creates, that is exactly what an embargo is for.

Let me start with embargoes related to serving yards. After experiencing significant congestion problems in the late 1990s, Union Pacific made a substantial investment in a system called Customer Inventory Management System, or CIMS. UP recognized many service problems began with the accumulation of excess cars in our local serving yards, which caused yard operations to deteriorate, slower service to our customers, and led to wider problems as the effects rippled across our interconnected network. CIMS was designed to prevent those service problems by alerting us to situations where customers were unable to process inbound cars as quickly as they were being delivered, and excess cars were beginning to accumulate in our serving yards.

We have naturally made some changes to our approach over time. Brad Moore will discuss the mechanics of the current process in more detail. But when you look at the number of embargoes issued by UP over

the past several years, the vast majority involve efforts to address accumulation of excess cars in serving yards due to the inability of receivers to process cars as quickly as we are delivering them.

This year, the substantial majority of UP's embargoes address excess cars accumulating in serving yards. UP has been careful to ensure that our serving yard embargo process is data driven, narrowly tailored, and equitable to all customers. Our process is not designed to limit traffic. Customers can order as many cars as they can process; and we do not stop customers from releasing outbound cars; embargoes only occur when customers allow excess inbound cars to accumulate in our serving yards.

Now I would like to turn to the set of embargoes we began implementing in November. When I appeared before the Board earlier this year, in April, I explained we had asked certain customers to take voluntary measures to reduce excess car inventories, but if they did not achieve the desired results, we might need to take additional steps to reduce the operating inventory further. Those measures certainly had a positive impact. Even so, the significant excess car inventories present on our network required additional measures – measures needed to deliver the consistent and reliable service our customers expect.

As we discussed back in April, one of our key metrics is **operating inventory**, which is the gross inventory minus stored cars and cars placed at customers' facilities. Union Pacific understands the direct correlation between operating inventory and service metrics, with lower operating inventory being directly linked to generating higher car velocity, train speeds, and improved service performance.

Our April inventory reduction program helped to decrease a portion of the operating inventory on our network. These results were achieved exclusively through cooperation with our customers. Not one embargo was issued. Since the last time I appeared before the Board, Union Pacific has continued to execute on several internal initiatives. First, we have worked hard to reduce operating inventory through a reduction in the number of Union Pacific controlled cars on the system by storing bulk sets and storing Union Pacific system-controlled equipment. Second, we achieved our goal of hiring over 1,400 new train service employees in 2022 through new hire incentives, employee referral bonuses, modified advertising,

developed new or additional hiring pipelines, signing and/or relocation bonuses, and added resources.

Third, we modified our transportation plan to generate additional TE&Y crews and improved our re-crew rate. Fourth, we used borrowouts in specific geographic areas that have difficulty hiring to partially offset those hiring challenges. And lastly, we deployed almost 200 locomotives to our network-adding locomotives into our most inventory constrained location.

Despite these efforts, Union Pacific continued to see elevated operating inventory. In November, our operating inventory was 189,317 cars, car velocity was 189 miles per day, and Dwell Time was 24.6 hours. Those metrics did not meet the expectations of our customers, and Union Pacific began looking at steps to reduce operating inventory further.

Ultimately, we rolled out our pipeline management tool. As a part of this tool, we established inventory fluidity targets for each customer location based on their average release rates and transit times. We have reached out to 311 customers who had inventories that exceeded their target. We asked them to reduce excess cars to the inventory target levels for fluidity. Of the 311 customers we contacted to reduce the excess cars on the network, 230 cooperatively developed plans with Union Pacific to reduce their operating inventory in the near term. For the eighty-one customers that did not respond or did not decrease their operating inventory, we issued embargoes with permits. Not one of the eighty-one embargoed customers was prevented from shipping altogether. These embargoed customers were provided permits for a minimum of 50% and up to a maximum of 100% of their average daily release rates. These last resort embargoes simply ask customers to do what most others have already done voluntarily.

Like our process for serving yards, this pipeline process is not about limiting traffic. It is intended to allow customers to continue shipping while they address the excess cars on the network. Consistent with Union Pacific's overarching goal to provide the service product that our customers expect and deserve, we anticipate using both CIMS and our pipeline management system on a continued basis when warranted by the circumstances. Union Pacific has a duty to our customers to provide them the service



they pay for and to make adjustments needed to improve service. Union Pacific's system performance is compromised when excess inventory begins clogging our terminals. It then cascades from the terminals onto the mainlines and slows the overall train speed and velocity. Congestion in the pipeline has similar impacts. Slower trains consume additional locomotives, crews, and increase the resource consumption on the system overall. Union Pacific agrees with our stakeholders that an efficient rail system free from excessive congestion and delay is vital to a robust supply chain and to the national economy. We know we can restore our service levels and grow carloadings by adding to our employee pipeline; being judicious with our crews; managing our locomotive fleet for current and projected volume; and eliminating excess inventory on the system.

Thank you for your time and for this opportunity to address our continued goal of providing the best service to our customers.

**STB Hearing on EP 772 – Union Pacific’s Embargoes**

December 13, 2022

Testimony of Kenny Rocker  
Union Pacific Railroad Company

Good morning, Chairman Oberman, Vice Chairman Schultz, Member Fuchs, Member Primus, Member Hedlund, and Board Staff. Thank you for the opportunity to address your concerns about Union Pacific’s use of embargoes, particularly as they relate to our efforts to remove excess cars from our network.

First, let me begin by saying Union Pacific is not blaming our customers for excess inventory levels – we view customers’ actions of adding cars to the network as a natural reaction to slower velocity. We do not impose embargoes without first engaging with our customers in advance to find alternative solutions. We look to take steps *together* – railroad and customer – to get the network back to supporting sound service levels, as we continue to take multiple actions to alleviate congestion with resources, we can control. Engaging with customers in reducing inventory through self-help is the best outcome. When we have exhausted all other means and have not been successful in reducing inventory, then, and only then, do we issue an embargo, to address the issue.

I want to spend time this morning talking about how we interact with our customers on recently imposed embargoes on outbound shipments, because they are somewhat different from what we were doing before.

As I previously testified, we have spent a great deal of time listening to our customers to better understand their processes and how we can improve their customer experience with us. The most important value customers seek is consistent and reliable service from their transportation provider. As we focus on the customer experience and the customers’ journey when they do business with us, it is critical we plan for and manage the flow of rail cars.

Last spring, Eric appeared at a hearing before you. He discussed our efforts to work with customers to achieve voluntary reductions of excess car inventory. Although many customers expressed

frustration and a lack of understanding of the process that we used to identify excess inventory situations, we appreciate the cooperation we received, and we were satisfied that we did not need to implement embargoes at that time. But after months of further monitoring and evaluating private car inventories, we recognized that we were not making improvements fast enough. We refined the process to identify excess cars in April to be more transparent and give customers a target that they could understand. The Customer Care and Support team, led by Brad Moore, collaborated with my team to develop a solid communication plan to provide customers more transparency on our efforts to reduce rail car inventories.

Our use of embargoes to limit outbound shipments by some customers is a step we needed to take to resolve persistent congestion on our network and restore the consistent, reliable service our customers value and expect from us. We have done our best to address customer feedback by developing processes that establish clear criteria for imposing embargoes and that allow us to share real-time data explaining our actions. Even where we believe embargoes are justified, we first engage with our customers to make sure we fully understand their specific circumstances and attempt to reduce congestion without resorting to embargoes. And, in those cases where embargoes are necessary, we use them with flexibility, including adjusting to the customer's unique circumstances and giving permits to bring customer shipments back quickly as they reach their targeted inventory level. Also, it is important to note that we work to ensure that at no time is a customer at risk of shutting down their operations. Finally, because this is a new and evolving process, we continue to monitor the impacts of our approach and incorporate customer feedback. By working *together* with customers, we will improve the overall fluidity of the network.

Thank you for your time.

**STB Hearing on Union Pacific Railroad Company's Embargoes**

December 13, 2022

Testimony of Brad Moore

Union Pacific Railroad Company

Good morning. I am Brad Moore, Vice President Customer Care and Support for Union Pacific Railroad. Thank you for the opportunity to address your concerns about Union Pacific's use of embargoes. The role of our Customer Care and Support (CC&S) team is to leverage our expertise and tools to educate, assist, and empower both our customers and the Union Pacific team to develop innovative customer applications, identify issues, overcome challenges, and implement solutions together.

For nearly 20 years, our team has been using the Customer Inventory Management System, otherwise known as CIMS, to monitor and address elevated local serving area inventory. Over the last several months, we have also developed and implemented a pipeline management process to monitor and address customers' elevated private car fleets.

You have already heard Lance, Eric, and Kenny describe how UP uses embargoes, as well as our efforts to engage with customers to avoid the need for embargoes. In my testimony, I will more specifically describe our embargo process. As Eric stated earlier, we use embargoes as a last resort to address physical and operational impairments. Our approach to embargoes is data driven, narrowly tailored, and equitable.

The purpose of CIMS is to prevent over accumulation of cars in our serving yards, which helps to protect our first-mile/last-mile service performance. CIMS prevents a customer from accumulating excess inventory in the serving yard which otherwise causes congestion and deteriorates service for all other customers in the serving area. My CC&S team is responsible for executing CIMS. In CIMS, each customer facility has a maximum inventory threshold, known as



MIT, which is the number of cars that can be held in its serving yard prior to receiving a warning or exception. MIT is based on the customer's release rate and our service frequency. We review our customers' release rates on a quarterly basis to update the maximum inventory threshold and ensure our system is taking into account any changes in demand. If the maximum inventory threshold is exceeded in the serving yard or projected to exceed MIT over the next 4 days based on the en route cars, CIMS triggers an alert. CIMS benefits Union Pacific and its customers by providing these timely and actionable alerts when excess inventory is being accumulated in our serving yards.

Once an alert is triggered, Union Pacific evaluates our local performance. If our first-mile/last-mile performance for the customer location is lower than eighty percent, we develop a service plan to address the issue. If our first-mile/last-mile service levels are above eighty percent, then we notify the customer and request a plan to reduce excess inventory.

Customers are then given seven days to either reduce the excess inventory or work with UP to develop a plan for reducing the inventory. Options for self-help for the customer can include increasing its consumption/unloading rate, requesting special switches, reducing the pace of inbound shipments, and/or diverting inbound traffic to other facilities.

Let me walk you through a customer illustration to better explain how we evaluate the inventory levels. Here, a customer has thirty-one cars on hand, which equates to more than twenty-two days of inventory in the serving yard based on their 1.4 car average release rate, with a MIT of ten cars. We can see that in the last two months their release rate has been slowing, with an additional seventeen cars en route that will increase the excess inventory. Fourteen days prior, CIMS triggered an alert for UP to evaluate. UP reviewed the industry spot and pull (ISP) rate, which measures our first-mile/last-mile service performance. At 100% ISP, we could see that UP

service was not an issue. UP then alerted the customer that their MIT inventory rate had been exceeded and coordinated with the customer to develop a plan to reduce inventory. That plan did not reduce the customer's inventory, an embargo was issued pausing new traffic, while the customer works off existing inventory, both the en routes and the existing on hand inventory.

Union Pacific understands that the Board is concerned with the increasing number of embargoes since 2018. Prior to 2018, a focus team was formed and utilized continuous improvement tools to address concerns with growing inventory in our serving yards. This led to a systematic review of our CIMS processes during 2018. We developed a more detailed process to proactively identify issues, which included the maximum inventory threshold calculation and a more formalized decision tree that made us more confident in applying our process objectively and consistently. Many customers utilize our online Shipment Management Technology tool to track shipments and manage rail car inventory. Union Pacific is developing an enhancement to our Shipment Management dashboard that will soon provide additional facility inventory metrics and graphical trending analysis to further assist customers in managing their pipeline.

While CIMS protects our serving yards and last mile of service to the customer, the current railcar inventory challenges extend beyond the serving yard. That is why Union Pacific recently evolved our pipeline management tools by incorporating feedback from our customers throughout 2022 and we are using data to identify excess private car inventory across the entire network.

Union Pacific's pipeline management process applies to private cars moving in manifest service. Inventory targets are based on the fourteen-day average daily release rate from a customer facility and the scheduled transit time with a twenty-four-hour buffer. If the customer's actual inventory exceeds the target, we contact the customer to discuss their inventory and ask for ways

the customer can work with UP to remove their excess cars or develop a plan to reduce the excess inventory.

In summary, Union Pacific has utilized CIMS since the early 2000's. Our approach to embargoes is very data driven, narrowly tailored, and equitable. The vast majority of customers will not be impacted by an embargo. A customer is given additional days and not moved to embargo status if considerable progress is made in reducing excess inventory. Only if a customer is not able to reduce excess inventory or develop a plan, will Union Pacific embargo the customer location. When the embargo process must be triggered, our communication with customers is continuous and constructive. An embargo is lifted once the conditions necessitating the embargo are abated.

Union Pacific reviews each customer's operational needs with great scrutiny, taking into consideration the commodities and demands needed to protect customer supply chains. UP does not use embargoes lightly. They are a tool of last resort, narrowly targeted in both time and scope, when all other levers have been pulled and customer communications have been exhausted. Union Pacific is continuously working with our customers to achieve better levels of service. I am happy to answer any questions you may have. Thank you.