Meeting the Challenges of Growth

Richard Flynn
President & CEO, NELS,LLC

North East Association of Rail Shippers
2014 Spring Conference
Millions of Carloads Moving One At A Time

May 1, 2014 – Providence, RI

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The Challenges

Maintaining Service

Meeting New Customer Expectations

Public Policy, Regulation, Safety

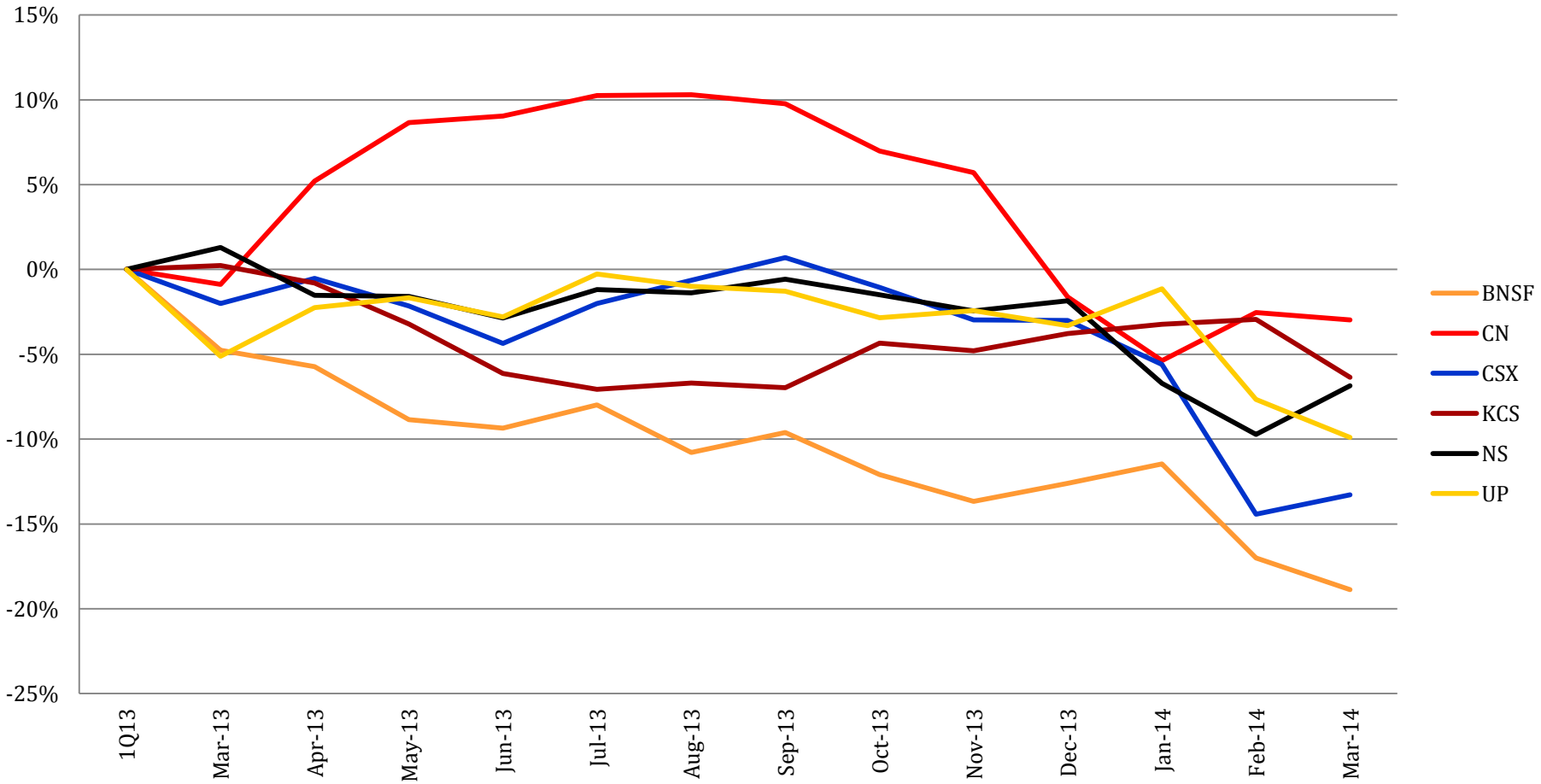
Tuning Rail Network Performance

Next Generation of Railroading

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Maintaining Service – Train Speed

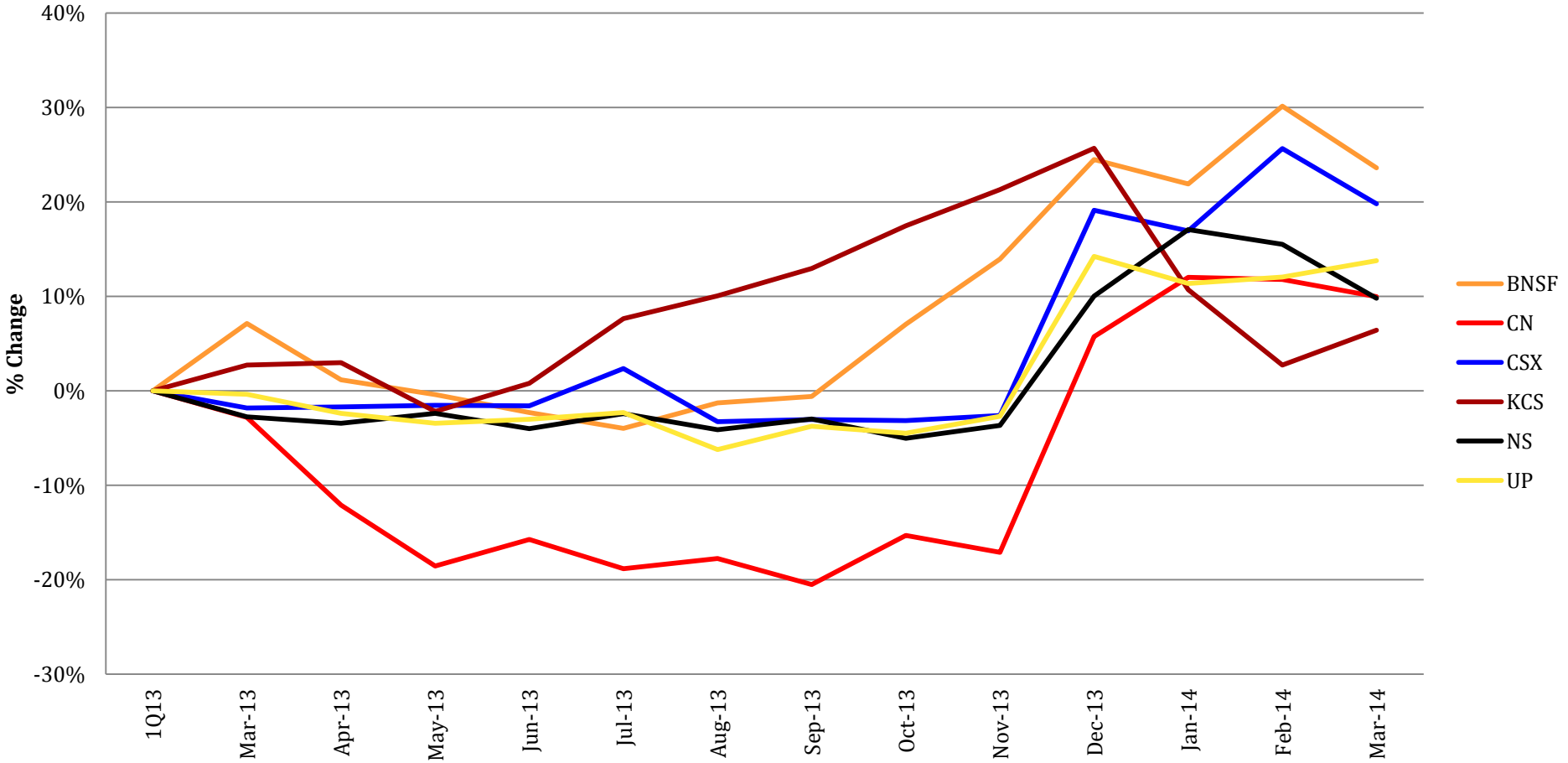
% Change in Train Speed from Average of 26 MPH in Q1 2013



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Maintaining Service - Dwell Time

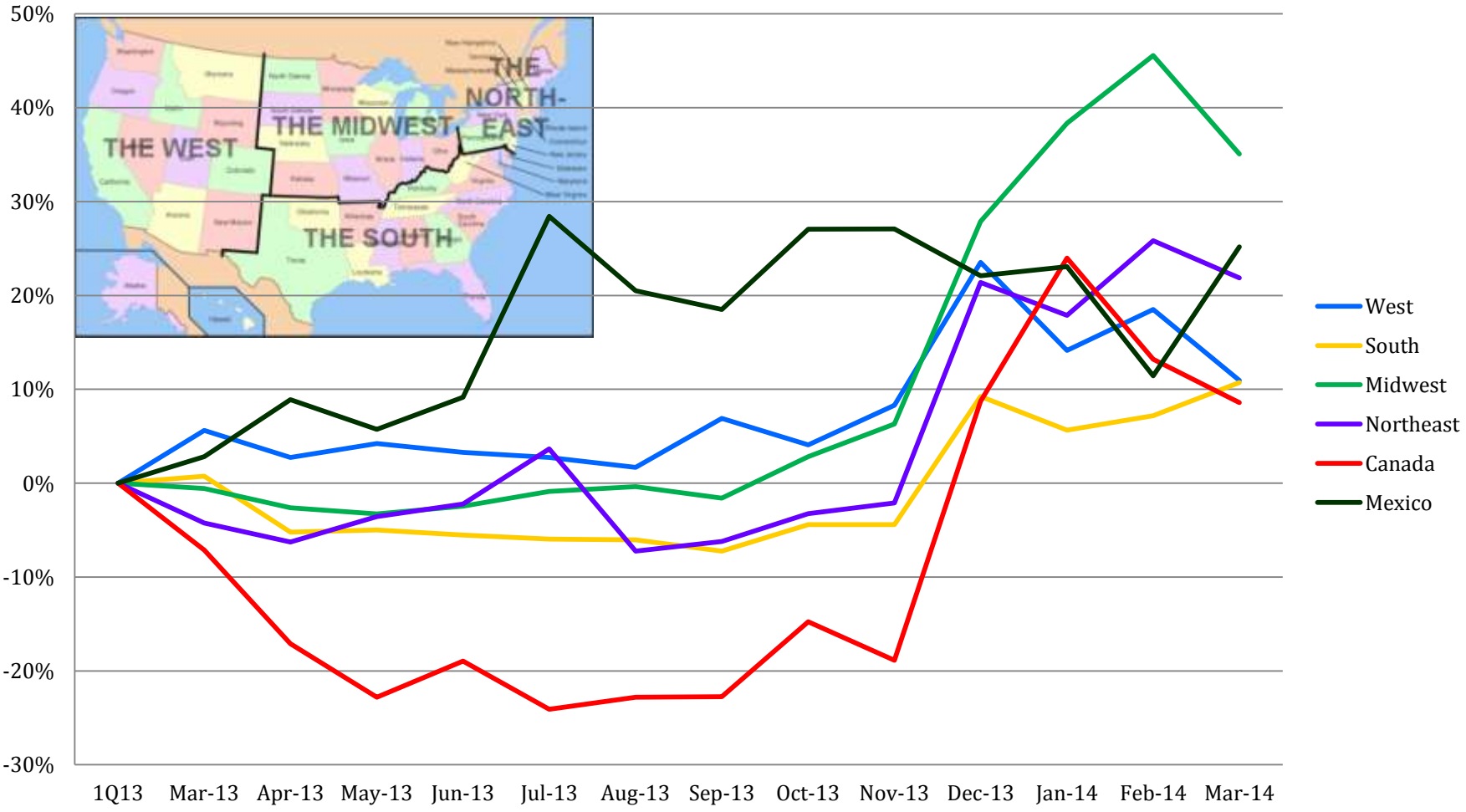
% Change Dwell Time from Average of 22 Hours in Q1 2013



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Maintaining Service - Dwell Time

% Change Dwell Time from Average of 22 Hours in Q1 2013



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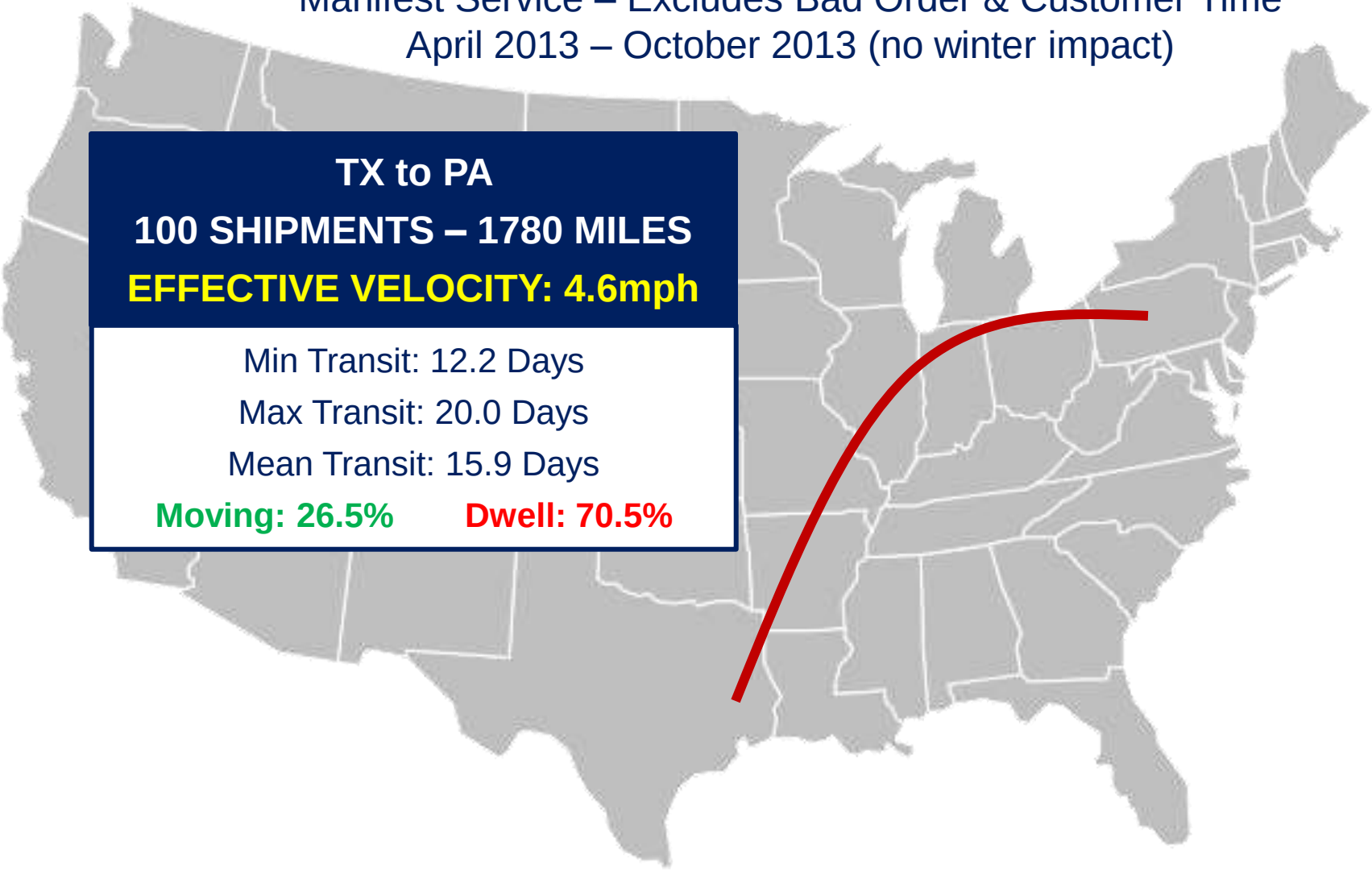
Maintaining Service

- **Do these metrics truly portray performance?**
- **Is it the winter or something more?**
  - All class I's impacted
  - All regions impacted
  - All classes of service impacted
- **What does the customers actually get?**
  - Plant Pull to Destination Arrival
  - April 2013 to October 2013
  - Some Examples… Manifest Service

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Maintaining Service – Customer View

Manifest Service – Excludes Bad Order & Customer Time
April 2013 – October 2013 (no winter impact)



TX to PA

100 SHIPMENTS – 1780 MILES

EFFECTIVE VELOCITY: 4.6mph

Min Transit: 12.2 Days

Max Transit: 20.0 Days

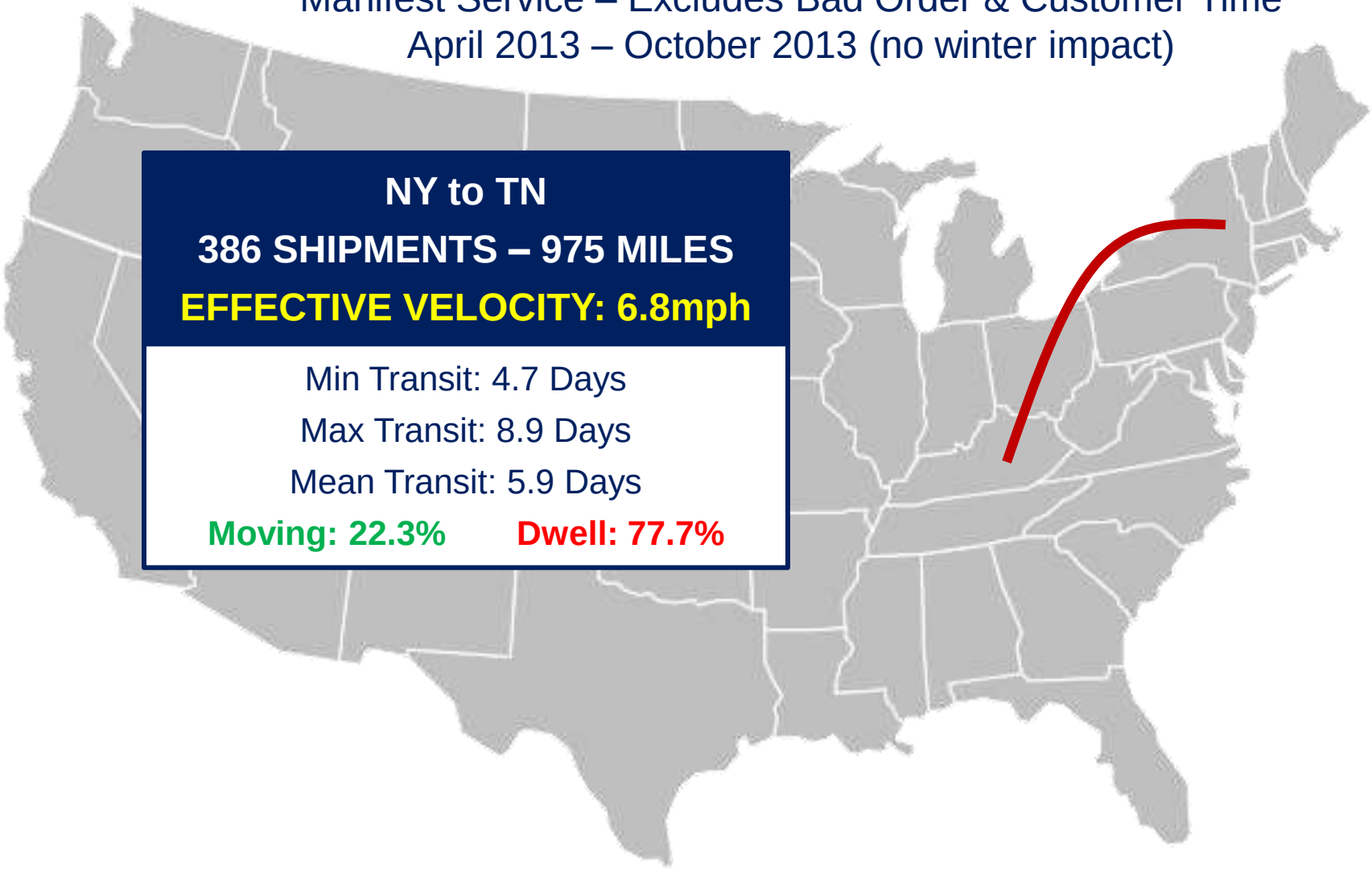
Mean Transit: 15.9 Days

Moving: 26.5% **Dwell: 70.5%**

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Maintaining Service – Customer View

Manifest Service – Excludes Bad Order & Customer Time
April 2013 – October 2013 (no winter impact)



NY to TN

386 SHIPMENTS – 975 MILES

EFFECTIVE VELOCITY: 6.8mph

Min Transit: 4.7 Days

Max Transit: 8.9 Days

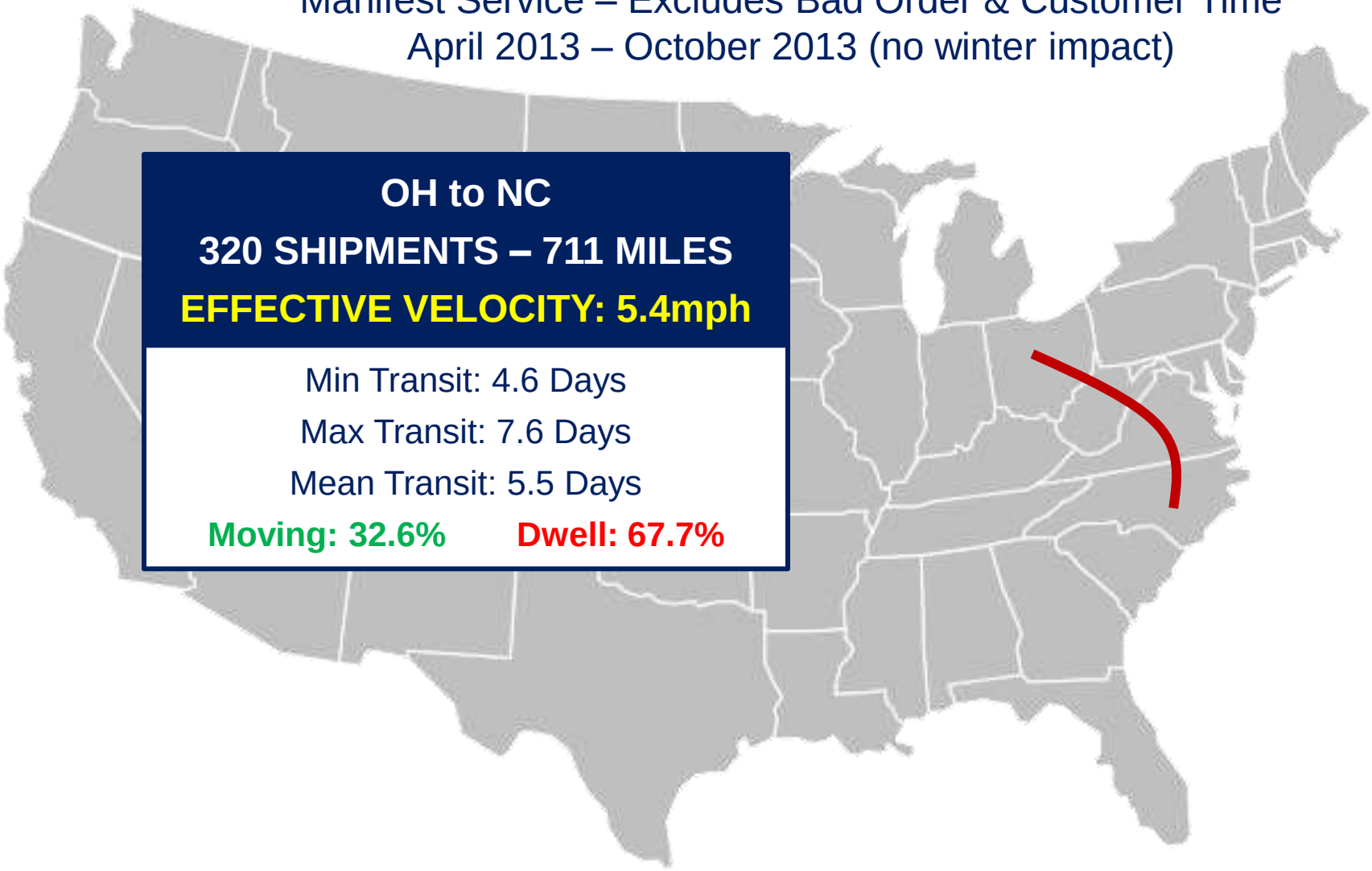
Mean Transit: 5.9 Days

Moving: 22.3% **Dwell: 77.7%**

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Maintaining Service – Customer View

Manifest Service – Excludes Bad Order & Customer Time
April 2013 – October 2013 (no winter impact)



OH to NC

320 SHIPMENTS – 711 MILES

EFFECTIVE VELOCITY: 5.4mph

Min Transit: 4.6 Days

Max Transit: 7.6 Days

Mean Transit: 5.5 Days

Moving: 32.6% **Dwell: 67.7%**

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Maintaining Service – Customer View

Manifest Service – Excludes Bad Order & Customer Time
April 2013 – October 2013 (no winter impact)



OK to WY

295 SHIPMENTS – 825 MILES

EFFECTIVE VELOCITY: 5.2mph

Min Transit: 4.7 Days

Max Transit: 9.7 Days

Mean Transit: 6.6 Days

Moving: 36.9% **Dwell: 63.1%**

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Maintaining Service – Customer View

Manifest Service – Excludes Bad Order & Customer Time
April 2013 – October 2013 (no winter impact)



TX to CA

210 SHIPMENTS – 2091 MILES

EFFECTIVE VELOCITY: 6.6mph

Min Transit: 11.4 Days

Max Transit: 14.7 Days

Mean Transit: 13.2 Days

Moving: 31.1% **Dwell: 68.9%**

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Maintaining Service – Customer View

- **The Manifest Product:**
  - 5 mph head-haul velocity
  - High variability
  - Will it support new business?
- **Challenge: Moving cars that are not moving.**
  - "First Mile"… "Last Mile" issue?
  - ***Every*** mile matters!

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Meeting New Customer Expectations



Crude By Rail – Safe Transportation



Intermodal - Fast, Predictable & Reliable



Unit Trains – Improved Asset Utilization



Merchandise – Reduced Variability

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Meeting New Customer Expectations

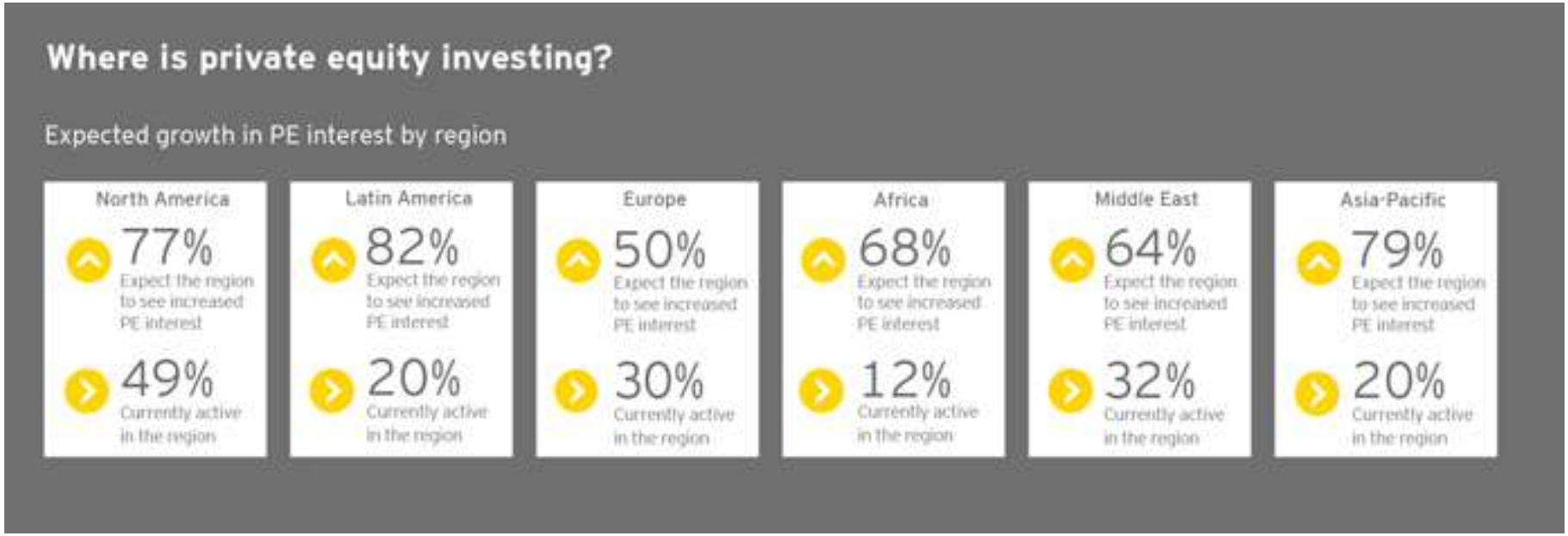
Oil & Gas Plays



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Meeting New Customer Expectations

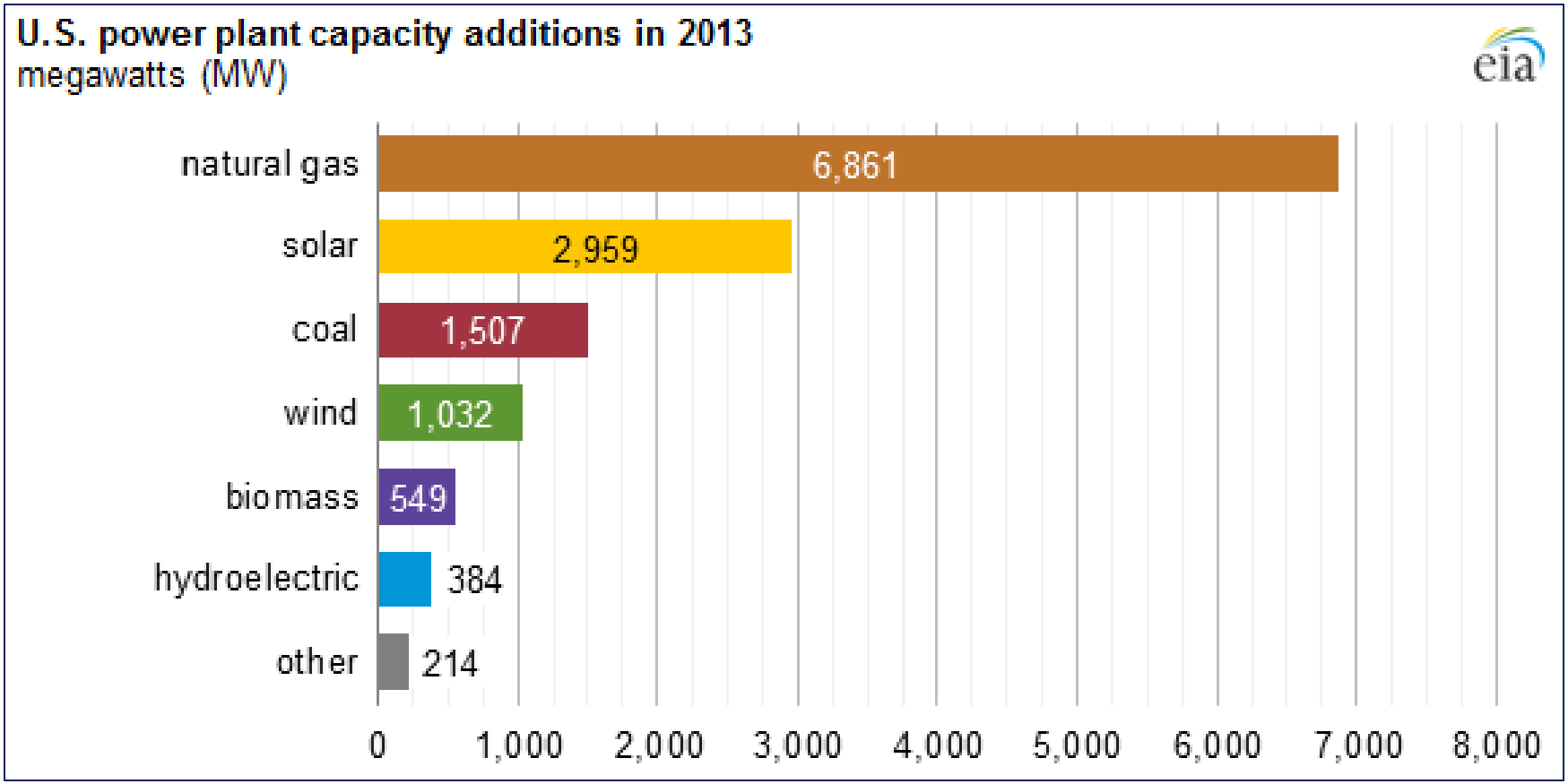
A World-Wide Competitive Market



The investment community is referring to CBR in the US as “the rail phenomenon”

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Meeting New Customer Expectations



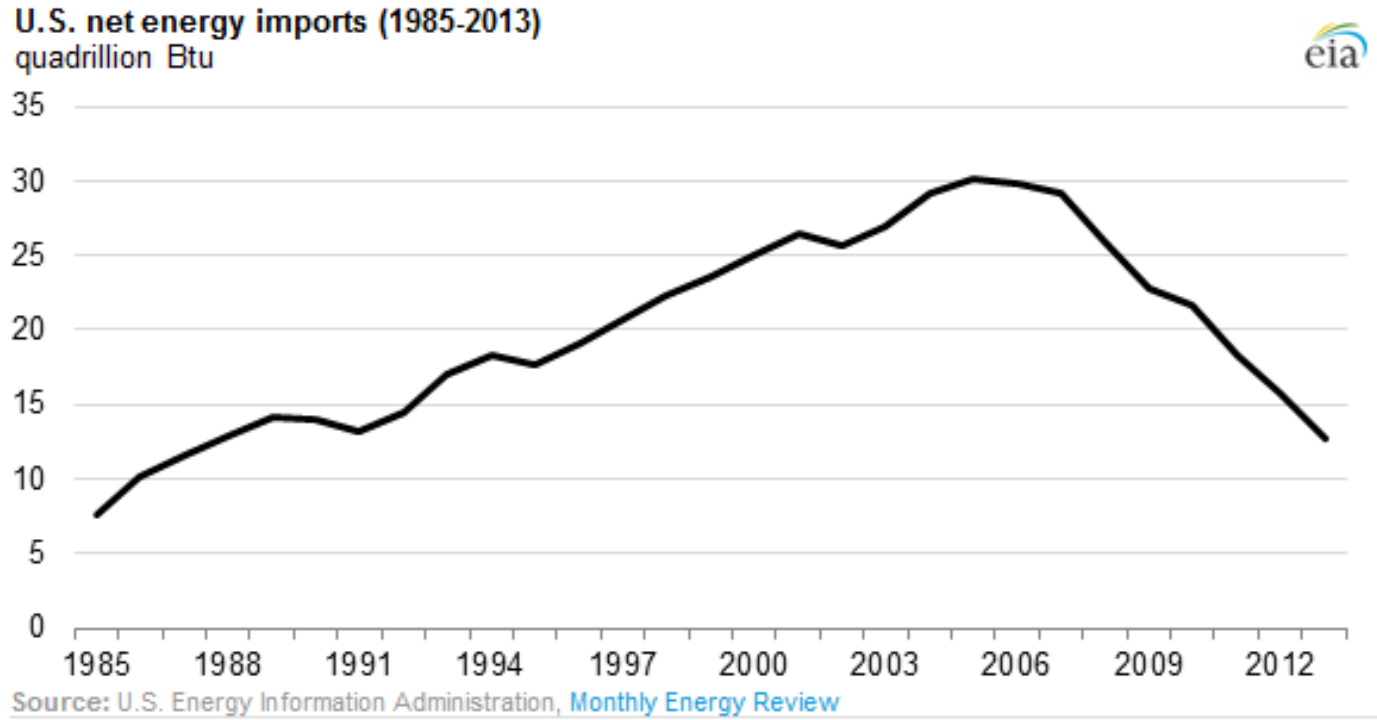
Cheaper natural gas will drive increased industrial production – chemicals, plastics, etc.

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Meeting New Customer Expectations

APRIL 2, 2014

Net energy imports in 2013 lowest in more than 20 years



Rail play? Long term proactive strategy?

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Public Policy, Regulation, Safety

Regulatory action has been reactive to events…

PRESS RELEASES

FRA to Issue Proposed Rule on Minimum Train Crew Size

09 APR

PRESS RELEASE NUMBER: FRA 03-14
CONTACT: FRA Public Affairs
PHONE: (202) 493-6024

2/21/2014

Freight Railroads Join U.S. Transportation Secretary Foxx in Announcing Industry Crude By Rail Safety Initiative

WASHINGTON, D.C., Feb. 21, 2014 – The nation's major freight railroads today joined U.S. Transportation Secretary Anthony Foxx in announcing a rail operations safety initiative that will institute new voluntary operating practices for moving crude oil by rail. The announcement follows consultations between railroads

DOT Issues Emergency Order Requiring Stricter Standards to Transport Crude Oil by Rail

Today's action marks the 4th emergency order or safety advisory on crude oil in the last seven months

EDITOR's NOTE: As of March 6, 2014, this article links below to an *amended* Emergency Order that supercedes the earlier order.

WASHINGTON – The U.S. Department of Transportation (DOT) today

Trains hauling crude oil taking it slow through Rockland

Despite the test results, officials say more steps need to be taken to boost safety.



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STORY HIGHLIGHTS

- **The freight trains traveled at an average speed of 26.5 mph through Rockland.**

River Line, the busy freight railroad owned by CSX Transportation.

Oil trains rumbling through Rockland gained the attention of the county's top public safety officials following a Dec. 1 crash of a locomotive hauling 99

families and communities along rail lines nationwide —if you intend to move crude oil by rail, then you must test and classify the material

What are people saying?

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Public Policy, Regulation, Safety



FRA Regulation



Emergency Response



Labor



Infrastructure

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Public Policy, Regulation, Safety



Tank Car Risks



Network Capacity



Prevention of Incidents



Uncertainty

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Public Policy, Regulation, Safety

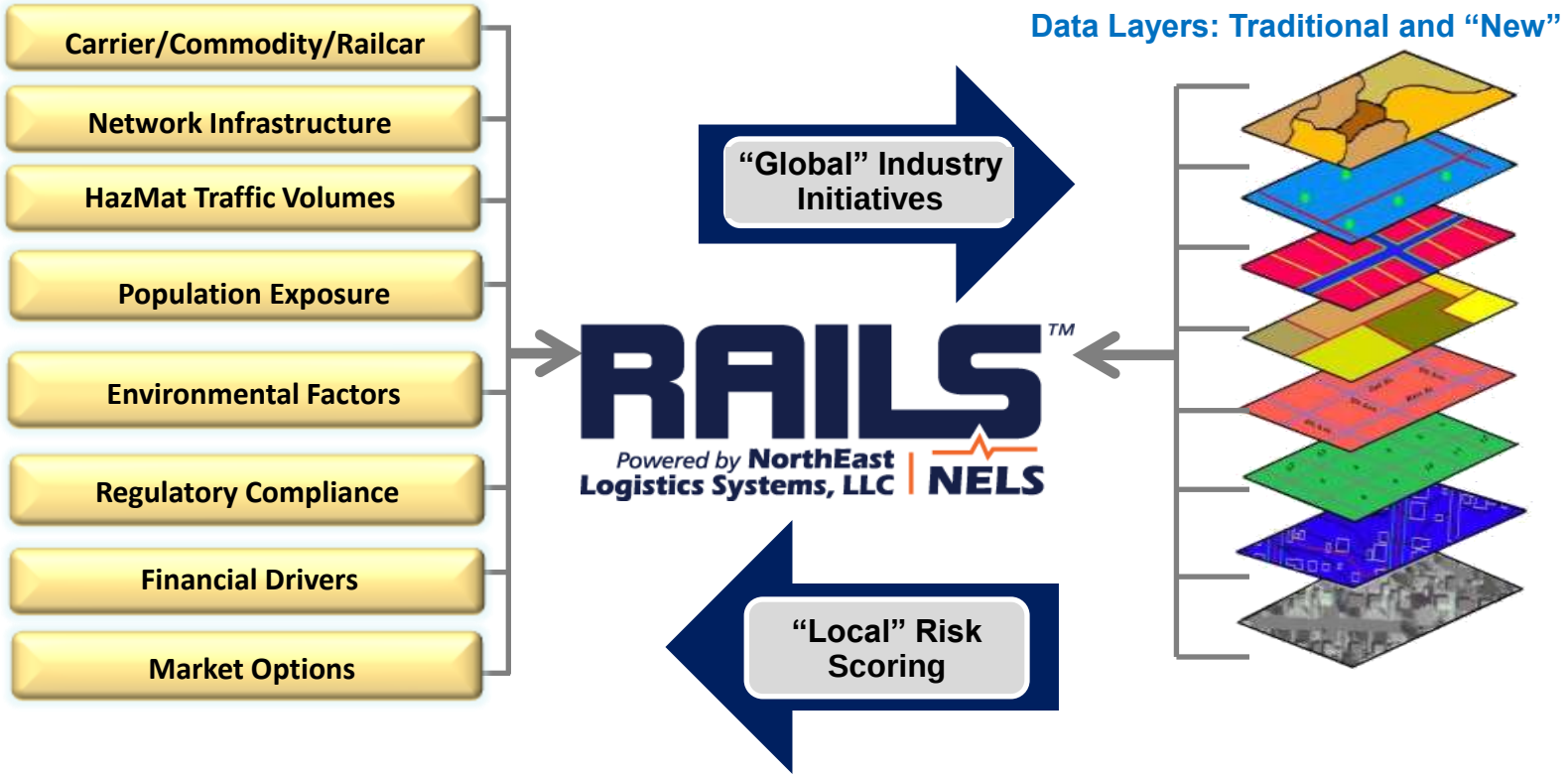
- The dialog has become very emotional
- We need to step back and consider the issues calmly and logically
- The right investments:
  - Cars? PTC?
- Proactive stance vs. reactive response
- Risk management and active mitigation

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Public Policy, Regulation, Safety

Proactive Risk Management

"The more you know, the more you can prepare for"

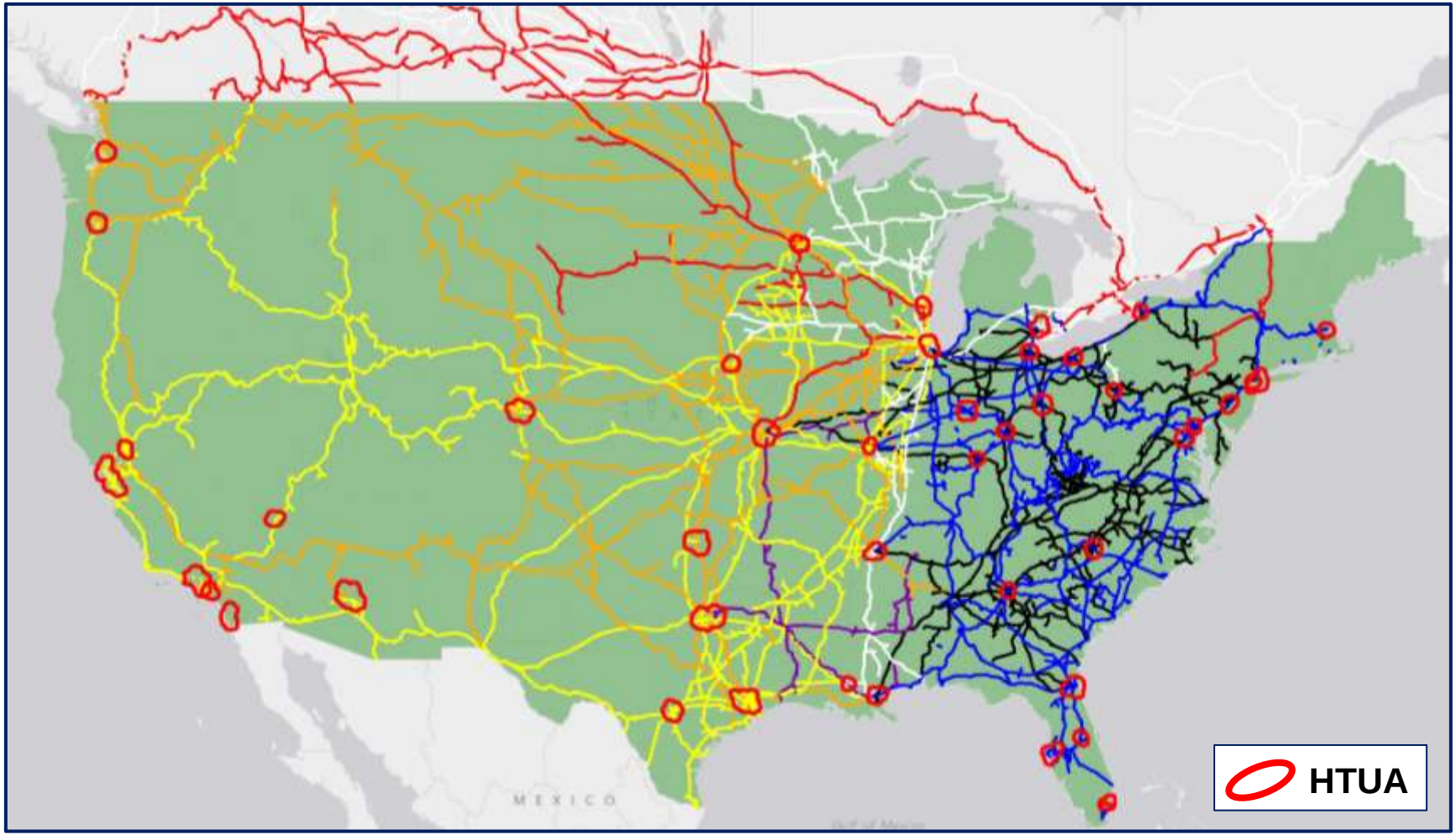


Proactive action is the key to a balanced regulatory environment.

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Tuning Rail Network Performance

Adjusting Operations within HTUAs.



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Tuning Rail Network Performance

2 biggest growth areas for rail now are operationally in conflict:

- Intermodal trains running at 70mph with few interruptions.
- Crude Oil: Restricted by Federal mandate to 40 mph in HTUAs, and 50 mph elsewhere.

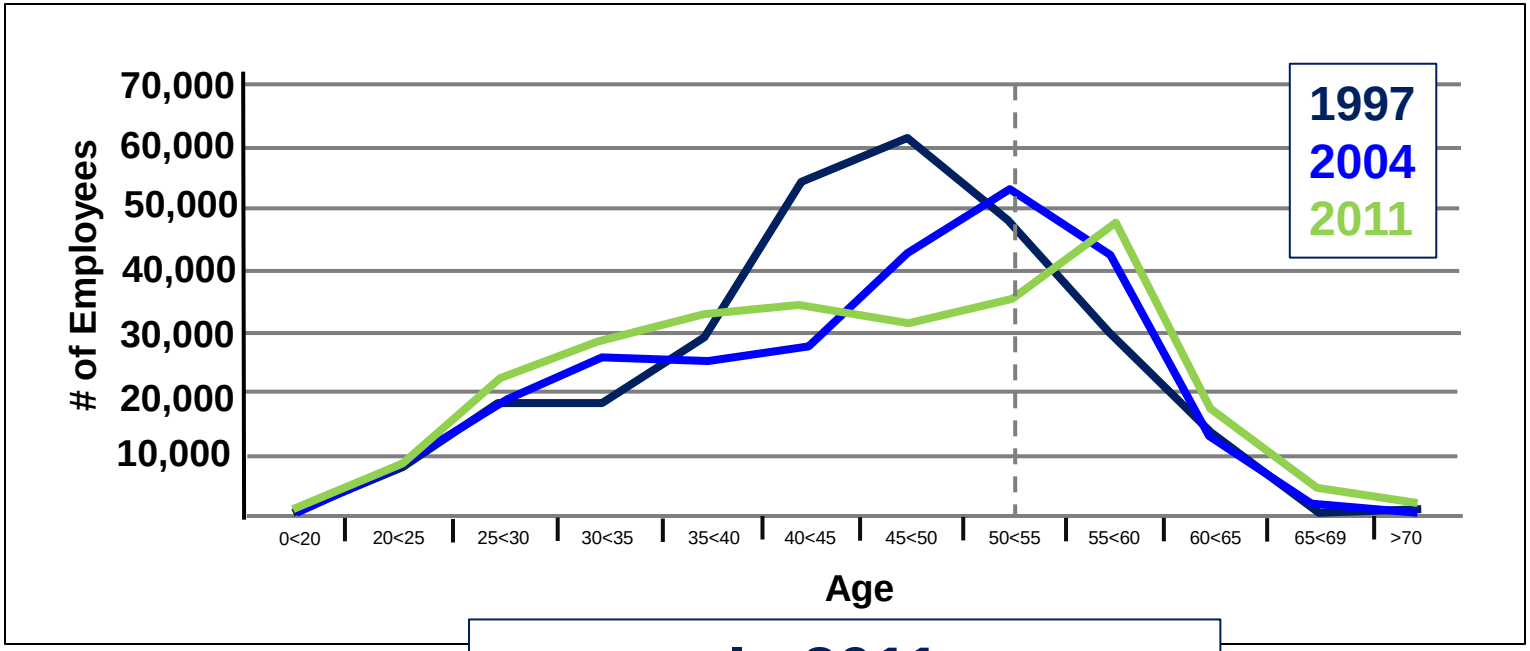




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Next Generation of Railroading

Age Demographics of the RR Industry



In 2011:
39% over age 50
25% over age 55

Source: Railroad Retirement Board.

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Next Generation of Railroading

- **Workforce is changing rapidly**



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Next Generation of Railroading

- What does it mean to today's railroaders?
  - The next generation railroader will inherit a new set of challenges…
  - New thinking needed
  - Active mentoring a necessity
  - Develop a culture that encourages empowerment and action…

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Closing Summary

- Railroad industry never in better shape
- Opportunities are huge:
  - Energy, Ag, Metals
- But -- Nothing is guaranteed…

- Need to get a hold of current issues
- Can't rest on our past accomplishments
- Still have to earn every carload

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Meeting the Challenges of Growth

We achieve greatness when we pull together.

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Thank You



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