

May 13, 2004, 11:42PM  
Union Pacific's ills costly to shippers  
By BILL HENSEL JR.  
Copyright 2004 Houston Chronicle

Union Pacific's rail lines are again congested, meaning considerably higher costs for shippers forced to seek out alternatives.

The backup conjures up images of what occurred in 1997-98 following the merger of Southern Pacific and Union Pacific, when Houston was the center of a massive near-gridlock of rail service.

Union Pacific, easily the dominant rail line serving Houston, readily acknowledges its service has deteriorated.

The railroad is having problems throughout the country and has cited a severe shortage of train crews coupled with higher volumes of shipments. Union Pacific is hiring additional employees and adding equipment, but it warns this is a slow process.

"We recognize that we are failing to satisfy your expectations as well as our own," Jack Koraleski, an executive vice president, wrote in an April 15 letter to Union Pacific customers.

Houston-based Lyondell Chemical said Thursday the railroad's congestion this year could cost it millions of dollars. Spokesman David Harpole said Lyondell must meet the needs of its customers.

"We have shifted in some instances to truck transportation to meet those needs and that is a dramatic increase in costs," Harpole said. "At this point what we are hearing that it could be to the end of year before they get this crisis worked out. If we continue along the same lines as we have seen in recent months, that could cost us in excess of \$2 million."

In Houston, shipments that used to take two days are now taking up to five days, Harpole said.

Additional delays of two to three days are occurring at major gateways in other areas of the country.

"So what would normally be 10 days is now more than 15," Harpole said.

"It is a dramatic reduction in service."

Other shippers also are being impacted, in Houston and elsewhere.

Koraleski, who is executive vice president of marketing and sales, said

Union Pacific knows that many of its customers are experiencing delays and are concerned about reliable transportation.

The railroad has directed additional locomotives to the Houston area, but a May 4 letter acknowledges it's still short.

The railroad service problems in 1997 dominoed throughout the rail system and led to renewed calls for more competition — which Lyondell and others echoed on Thursday.

U.S. Rep. Gene Green, D-Houston, said he hasn't had an outbreak of complaints about the current Union Pacific situation but said it is reminiscent of what occurred in 1997-98.

"You can tell on the Hardy Toll Road how many trains are parked out there," he said. "I have noticed the number of trains just sitting there for days at a time over the last two or three weeks."

He vowed to have his staff investigate.

Lyondell was among four companies that partnered with one of Union Pacific's biggest competitors, Burlington Northern and Santa Fe Railway, to propose construction of an \$85 million, 12.9-mile rail line through the Clear Lake area to bypass a Union Pacific line. Union Pacific is the only line serving the Bayport Industrial District in Pasadena.

That proposal was blocked by a court ruling last October, which has been appealed.

Local industries in Houston need rail competition, Harpole argued.

"Houston is essentially a one-railroad town, and that is harming our local industry," he said. "It is having an impact on our customers and our ability to serve them and without a long-term solution, there will be a long-term impact on the regional economy."

The Washington, D.C.-based Alliance for Rail Competition said public policy needs to be changed so similar situations don't crop up in the future.

"You don't want to kick a sick dog, and they are having problems all over the place," said alliance spokesman Mike Grisso of the Union Pacific situation. "We do believe those problems are symptoms of a larger problem, which is a lack of rail competition."

"The shortages they are seeing now are a symptom of the inattention that is paid because they take their customers for granted," Grisso added.

"They take their customers for granted because there is no alternative."

Union Pacific, in its letters to customers, said it was making projections based on what it was being told. One large customer said to plan on an increase of 6 percent for this year, but shipments are up 19 percent, the railroad said.

"There are many similar examples in all of our business groups where demand was several times higher than predicted," Koraleski wrote in his April 15 letter. "While we are usually pleased with increases in demand, our inability to quickly meet these new levels has become obvious" and is very frustrating."