

TESTIMONY

of

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on

**FREIGHT AND PASSENGER RAIL: PRESENT AND FUTURE ROLES,
PERFORMANCE, BENEFITS, AND NEEDS**

before

**THE SUBCOMMITTEE ON RAILROADS, PIPELINES,
AND HAZARDOUS MATERIALS
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES**

Wednesday, January 28, 2008

Introduction

Madam Chairwoman, Mr. Shuster, distinguished committee members:

My name is Lance Grenzeback. I am a senior vice president with Cambridge Systematics.

We provide transportation policy, planning, and management consulting services to federal, state, and local transportation agencies and to private-sector transportation and investment companies. We authored the *Freight-Rail Bottom Line Report* for AASHTO, and more recently, the *National Rail Freight Infrastructure Capacity and Investment Study* for the Association of American Railroads and National Surface Transportation Policy and Revenue Study Commission. We also work directly with state departments of transportation (DOTs) and railroads to develop freight and passenger rail policies and programs.

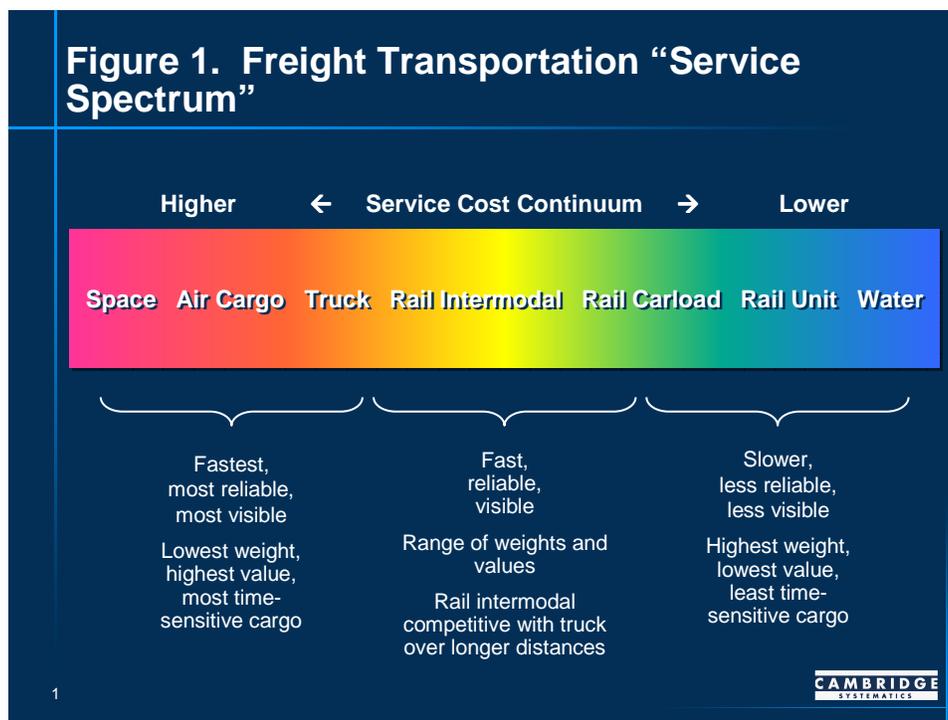
My testimony this morning will focus on:

- Role of freight rail in the economy;
- Impact of the economic crisis on freight rail; and
- Freight and passenger rail needs.

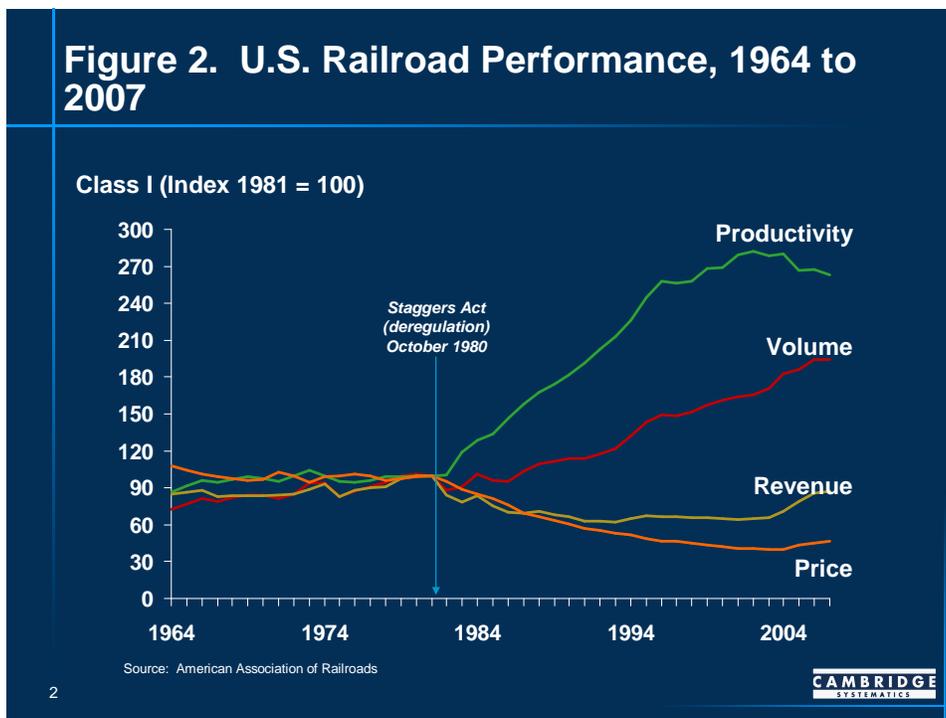
Role of Freight Rail in the Economy

Freight rail is a critical part of the freight transportation spectrum (see Figure 1. Freight Transportation “Service Spectrum”). It provides cost-effective transportation for long-distance shipments and movement of heavy bulk commodities:

- Intermodal rail competes with trucking to move international and domestic containers, truck trailers, and finished automobiles.
- Rail carload service carries thousands of products—machine parts, building materials, lumber, and chemicals—in boxcars, tank cars, and other specialized rail equipment; and
- Unit trains haul enormous quantities of bulk commodities, including 30 percent of the nation's grain harvest and 65 percent of coal used to generate electricity.



The productivity and cost-effectiveness of the freight rail system has improved significantly (see Figure 2. U.S. Railroad Performance, 1964 to 2007). Inflation-adjusted rail rates are about half today what they were in 1980, and freight tonnage has doubled. Rail presently accounts for about 30 percent of all ton-miles of freight movement in the United States and over 40 percent of long-distance, intercity freight movement. Rail reduces the cost of production and distribution, contributing to greater industry productivity and competitiveness in U.S. and global markets.



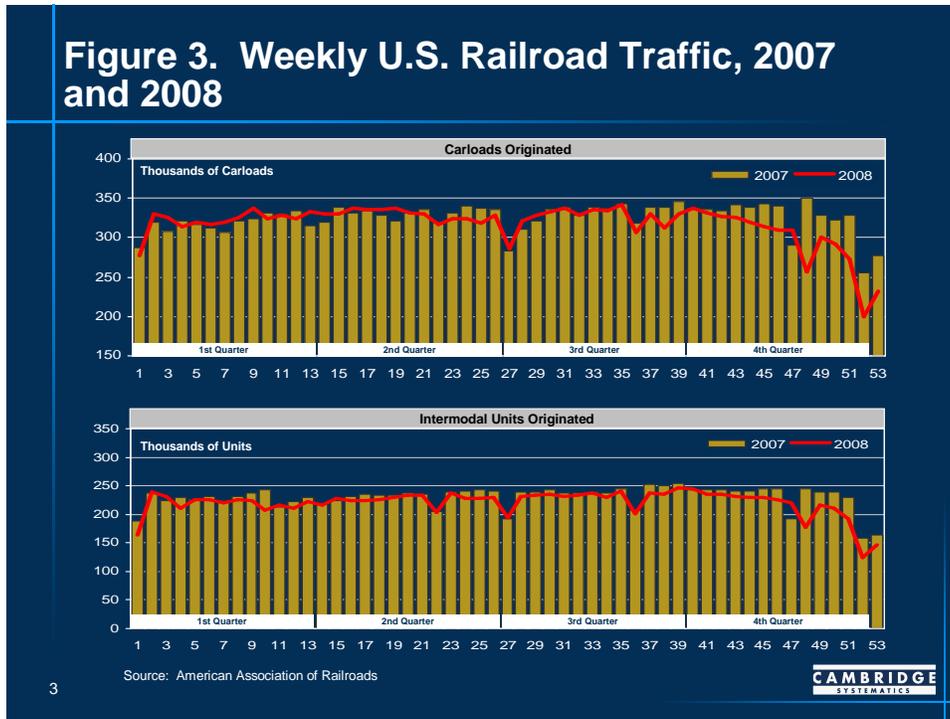
Rail also relieves truck pressure on our congested highways and the cost to state DOTs of maintaining highways and bridges. The freight carried by rail keeps the equivalent of 100 million trucks and 1.5 trillion ton-miles of truck travel off our highways.

And rail is energy efficient. Locomotive fuel efficiency has increased by more than 80 percent since 1980. On a ton-mile basis, rail is about twice as energy efficient as trucking. Moreover, in a world worried about climate change, rail accounts for less than 2½ percent of all U.S. transportation petroleum use and GHG emissions.

Impact of the Economic Crisis on Freight Rail

However, rail traffic has not grown significantly since 2005. We believe this is the result of tightening capacity in the freight rail system and the resulting deterioration in rail reliability.

The recession will bring unwanted short-term “relief” to rail system congestion because rail traffic is dropping (see Figure 3. Weekly U.S. Railroad Traffic, 2007 and 2008). Rail traffic in 2008 was the fourth-highest in history, but traffic dropped sharply in the fourth quarter of 2008. By December, carload traffic was down 14.2 percent and intermodal traffic was down 13.7 percent compared to 2007. Shipments of agricultural products and chemicals dropped by about 20 percent; forest products by 30 percent; motor vehicles by over 40 percent; and metals by nearly 45 percent. The decline has continued through the first weeks of January 2009, and all indications are that rail traffic volumes will drop further over the next year.



In the AASHTO and AAR studies, we reported that the economy would grow at about 2.8 percent per year, resulting in a 70 percent increase in the demand for rail freight transportation between 2005 and 2035. With the economy now estimated to grow at 2.5 percent or less over the period, we expect that forecast to be delayed three to five years. We may not see the 2035 volumes until 2040.

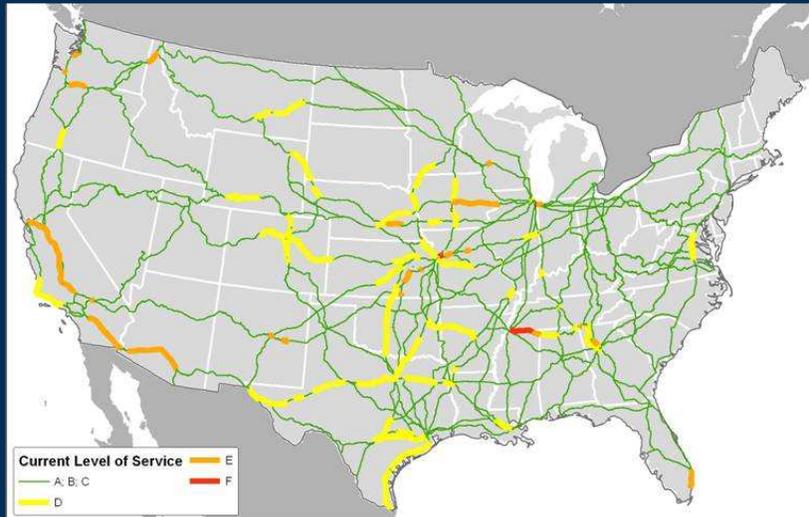
Freight and Passenger Rail Needs

The recession will also reduce revenue available for investment in new capacity. Railroad investment in new capacity had been increasing—from about \$1.1 billion per year in 2005 to almost \$1.9 billion per year in 2007. 2008 was a profitable year for the railroads and there was continued investment in new capacity, but this performance will not be repeated in 2009 and 2010. Investment in ongoing maintenance and replacement will be cut back because of lower revenues, and investment in new capacity expansion projects will largely cease. We will not see new investment to untangle congestion at major rail hubs such as Chicago, to add track and clear lines for doublestack intermodal trains, or to rebuild rail yards and terminals.

As a result, when the recession eases and the demand for freight transportation picks up, we will likely find ourselves with less capacity than we have today and well behind what we need for tomorrow.

In 2007, we estimated that 12 percent of primary rail corridor miles were operating at or near capacity, with about 1 percent—shown in red—operating above capacity (see Figure 4. Current Corridor Volumes Compared to Current Corridor Capacity, 2007).

Figure 4. Current Corridor Volumes Compared to Current Corridor Capacities, 2007



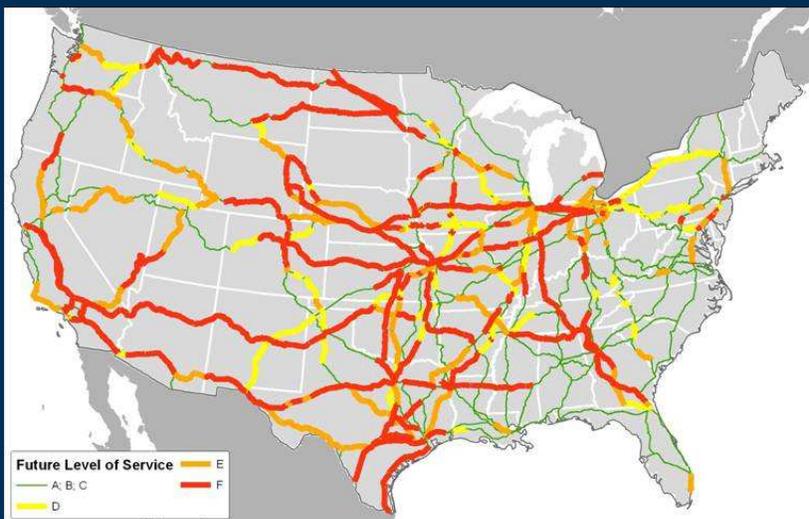
Source: Cambridge Systematics, *National Rail Freight Infrastructure Capacity and Investment Study*, prepared for the Association of American Railroads, 2007



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We projected that without capacity expansion improvements totaling nearly \$150 billion over the next 28 years, 30 percent of primary corridor mileage would be operating above capacity by 2035 (see Figure 5. Future Corridor Volumes Compared to Current Corridor Capacity, 2035 Without Improvements).

Figure 5. Future Corridor Volumes Compared to Current Corridor Capacities, 2035 *without* Improvements



Source: Cambridge Systematics, *National Rail Freight Infrastructure Capacity and Investment Study*, prepared for the Association of American Railroads, 2007



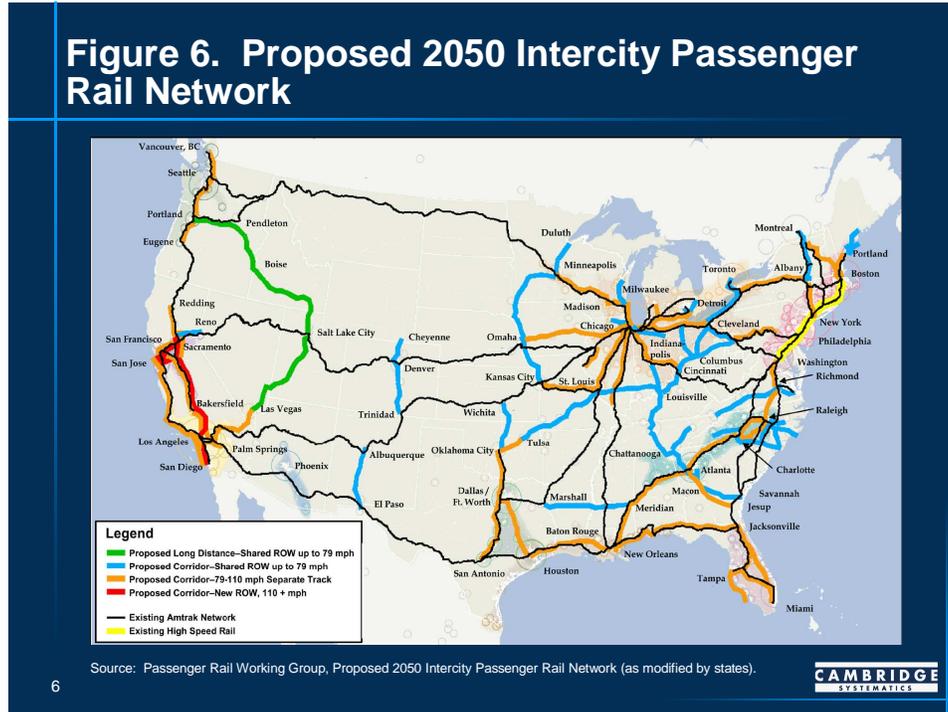
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If we delay improvements to the freight rail system, we may find ourselves closer to this hypothetical 2035 situation than we anticipated, especially if oil prices increase over the next years and if we decide to expand intercity and passenger rail services.

When oil prices shot up in 2008, we saw long-haul truck traffic shift to rail. If oil prices increase again with an economic recovery – even if they stabilize at rates below \$100 per barrel – we can expect to see a substantial and long-term increase in the demand for rail freight service. This will quickly absorb any remaining capacity in the rail system.

And if we follow through on our promises to make much needed improvements to our intercity passenger and commuter rail services, we will need to add capacity and improve signal systems on many already congested freight rail lines (see Figure 6. Proposed 2050 Intercity Passenger Rail Network).

Five years from now we could be pressing hard against the capacity of the rail system and struggling to catch up.



Policy Recommendations

We have an opportunity to take advantage of the lull in rail traffic growth to prepare for the recovery and position the rail industry to absorb future growth. This will be critically important if we are looking to the freight rail system to help reduce future highway congestion, cut back on the nation's fuel use and greenhouse gas emissions, and make space for passenger rail service.

To reposition the rail system, we should –

- Establish a national rail policy and outline the future of the national rail freight system. We do not need a detailed blueprint for the rail system, but we do need a broad consensus on where we must make improvements to keep pace with economic growth and meet freight and passenger demand.
- Increase public and private investment in freight and passenger rail systems and agree on how we will share the benefits, costs, and risks equitably.
- Create a mechanism such as a national infrastructure investment bank to finance improvements in economically important freight and passenger rail corridors where the costs are too high for a single railroad or state to undertake, but the improvements benefit many states and industries.
- Expand state and local rail programs to coordinate freight, short line, intercity passenger, and commuter rail services; to separate busy rail lines and highways at crossings; to improve intermodal connectors for trucking; and to mitigate the community impacts of more and more frequent freight and passenger rail trains.

The capacity of our rail system has not been keeping pace with economic growth. The rail capacity problem is not limited to a few chokepoints, hubs, and heavily traffic corridors. It is nationwide, affecting almost all the nation's critically important trade gateways, rail hubs, and intercity freight corridors. We must look past the immediate recession and put in place policies and programs that ensure we will have adequate capacity and efficient freight and passenger rail services tomorrow.

I thank you for the opportunity to appear before you today. I would be happy to answer your questions.