

Demurrage Tariffs and Management

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Thank you, Doug Lumry



This presentation was a result of significant time and research contributed by Doug Lumry.

Demurrage Statutes



History & Purpose

- Following 4-R and Staggers Acts: ICC in 1985 allowed RRs to establish storage and demurrage rules and charges for RR equipment based on market forces.
- However, the rules and charges are still subject to statutory requirements for reasonableness under 49 U.S.C. 10702 and demurrage under 49 U.S.C. 10746
- The STB later clarified that private cars would be included
- Primary purpose - incentivize efficient use of rail equipment (and track) by holding rail users accountable if their operations use RR resources beyond a specified time.

Demurrage Statutes



Current Events

- PSR trends have resulted in numerous changes in terms and pricing related to movement of assets. The STB conducted a two-day oversight hearing on demurrage and accessorial charges in May 2019.
- Per 49 U.S.C. 11101(c), a 20-day notice period is prescribed for rate and service terms changes. However, rail carriers generally provide 45-60 days of notice.
- One Class I Railroad recently stated:
“Recent tariff changes are designed to improve the efficiency through better asset utilization and increase network fluidity and velocity.”
- While shippers may have other complaints, none would disagree with becoming more efficient. Changing demurrage and accessorial terms are incenting shippers to develop solutions to streamline throughput.

Demurrage, Storage Rules, Charges



Free Time, Notification, Credits

- **Free Time** - defined in 24-hour increments
- **Credit Days** - commonly begin at 12:01am the day following actual or constructive placement
- **Constructive Placement** - notification that railcar is available for delivery but cannot actually be placed at the receiver's facility for reasons attributable to the receiver. Notification can be via email, a CLM Y siting, or RR website
- **Credits** - charges may be offset by credits due to certain delivery issues and delays.



Demurrage, Storage Rules, Charges



Recent Trends

- **Reduced Free Time** - time allotted is being reduced or taken away.
- **Increased Charges** - increased per day charges for demurrage/storage days.
- **Tiered Charges** - increasing rates based on extended time held

Generally speaking, the carrier rationale for the above is to incentivize shipper efficiency to promote network fluidity for improved service, reliability, and reduced cycle times



How to Mitigate Demurrage



Know the Tariff Rules

- How is Demurrage/Storage Calculated ?
- Debits vs. Credits ?
- Free time ?
- Credit offsets ?
- Start & End Triggers ?
- Order In or Spot on Arrival ?
- Dispute Rules?



How to Mitigate Demurrage



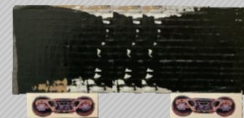
- **Reasons for Dispute**
 - Delays that shipper or receiver did not cause:
 - Bunched deliveries
 - Missed or unpredictable switches
 - General rail service variations
- **Rules for Dispute**
 - Allowance of short pay or set-offs
 - Penalties for nonpayment
 - Procedures and time periods for dispute and resolution
- **RR Engagement**
 - Work with the your carrier to alleviate issues
 - Collaborate to better manage car flow
 - If possible, negotiate a private demurrage agreement



How to Mitigate Demurrage



- **Supply Chain**
 - If possible, manage your pipeline of cars to mitigate excessive arrivals
 - Review spotting instructions
 - Order and release cars specified by tariff requirements.
- **Labor/Production Changes**
 - Modify shifts
 - Align production with shipping process
- **Additional Infrastructure**
 - Faster loading/unloading systems
 - Additional product storage/handling infrastructure
 - Additional track infrastructure - if space allows
 - Optimal scale location - stationary or moving
 - Locate and coordinate with storage providers - but consider added freight and switch charges



Systems Solutions



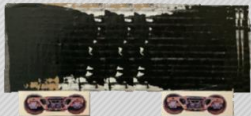
- **Capture Key Dates and their Deltas**
 - Constructive placement
 - Call-In request
 - Actual placement
 - Release request
 - Release actual
- **Automate with AEI Hardware**
 - Stationary scanners at key gates. And scales
 - Portable scanners quicken field operations
 - Hardware cost is trending down
- **Streamline Operations**
 - Automate empty and loaded inspections
 - Better manage car inventory
 - Optimally schedule loading/unloading
 - Automate seal and photo capture
 - Optimize train assembly and blocking
 - Integrate with RR systems - RR website is manual, 423 is going away, new UP API holds promise



Systems Solutions



- **Manage Demurrage Tariffs**
 - Terms - free days, switch costs, other
 - Rates - rates, tiers
- **Invoice Analysis**
 - Automate calculation of potential liability before invoice received
 - Create process to digitize the invoice - manual or automated - for matching
 - On-demand reconciliation reports that compare per car liability to invoice
 - Generate dispute evidence and streamline submission to the RR
 - Do this within the dispute period
- **Allocate Resource(s) to Manage**
 - Allocate staff to manage the above
 - Internal resource cost may be worth it
 - Further consider outside consulting if the potential return exists



Thank You

