THE RAILROAD WEEK IN REVIEW
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"The top venture firms don't want, don't need and are never going to take government money... The worst firms will gladly accept government money." – Fred Wilson, Union Square Ventures, as quoted by L. Gordon Kravitz in the Wall Street Journal, March 3, 2009

That shoe certainly fits the short line business. Just look down the list of grants issued to short lines and you can see the money is awarded in many cases where private capital will not tread. Though Union Square is mainly in the IT business, their homepage (www.unionsquareventures.com) says, "We look to back passionate, experienced entrepreneurs who are focused on creating highly scalable services and significant value propositions for their end users," something shortline owners ought to be striving for.

Wikipedia defines a *scalable system* as "a system whose performance improves after adding hardware, proportionally to the capacity added." Railroads fill the bill: you add track and customers and so add the resources to serve the larger customer base. The downside occurs when you add track or other hard assets where there are too few customers to support the added assets. I've been in involved in several situations where the owner wanted to pass the hat for additional equity but there was none. And so the state government grant system became the funder of the last resort.

The question becomes whether the so-called stimulus plan will perpetuate the throwing of good money after bad or whether the states will be more parsimonious about where they put their rehab dollars. The pot of funds is not bottomless, and I'd hate to see a worthwhile project get short-changed because somebody else with a weaker case has stronger political pull.

Monday's Wall Street blood bath left the railroads and their suppliers well bloodied. Among the Big Six Railroads, prices dropped as much as eight percent for CSX to as little as five percent for UNP. PWX, KSU and GWR took the biggest baths, down 18, ten and seven percent respectively. Suppliers hardest hit were GBX, TRN and KOP, all off double-digits while ARII, WAB, GMT and RAIL dropped in the six-to-nine percent range. FSTR was the "winner," down less than four percent.

I can see the car-builders and leasing companies taking a hit, but not the infra guys (KOP, FSTR). Why KOP was way down and FSTR escaped relatively unscathed is surprising. The Class Is have all said they are maintaining their capex programs pretty much as is, the short lines are seeing rehab grants from the states, possibly from highway money being diverted to rail, and the "stimulus" package has transit dollars in it -- all good signs for KOP and FSTR.

On the other hand, the Richmond *Times Dispatch* quotes John Boschen, professor of economics at the College of William and Mary, who says unemployment will continue to rise for the next three or four quarters. "I think it will top out around nine percent," he said. Boschen expects the jobless rate will stay high for the next couple of years. "Even after the economy recovers, it takes a while for people to be called back to work."

As if to corroborate, the *Wall Street Journal* reported that consumer savings have shot up to four percent of income, meaning that consumers are spending less on stuff -- stuff that moves on the rails, at least in part. Railroad owners ought to be getting some mighty sweaty palms over unemployment pushing nice percent.

Credit Suisse has been tracking coal shipments and has some disturbing news suggesting that given the trend since the beginning of Jan 2009 the relative strength and stability of coal carloads may be at risk. Chris Ceraso's note says US electric power consumption has declined three percent year-over-year while US coal production decreased two percent year-over-year. Steel production is less than half what it was a year ago and steel inventories are up -- three and a third months of supply against the "normal" figure of two and a half months. Finally, Ceraso writes that US coal exports dropped fifteen percent as opposed to year-over-year increases for every month in the 2008 fourth quarter.

My biggest concern is what's on page 2: "Railroad carload volume has been awful for the past few months. Among the hardest hit commodity groups have been automotive, industrial products, and intermodal. But coal carloads have been relatively strong and stable, with an average year-to-date decline of just under four percent vs. the 19 percent decline for all other, non-coal, carloads. A drop-off in coal volumes, therefore, would be particularly painful for the railroads."

RMI says coal represents nearly fifteen percent of shortline revenue units and it's down a bit more than three percent year-to-date through Week Six. Recall it had started 2009 down double-digits however it's been improving ever since, breaking positive in Weeks Five and Six. My sense is that most shortline coal volumes are steam coal for electric generating stations with some met and a little export (please correct me if I'm wrong). Note steel production is down and inventories are up, meaning there will not be much of a turn-around in met coal loadings until the inventories get worked down.

(In response to an earlier heads-up on this note, an eastern short line with considerable overhead steam coal reports Jan and Feb held their own; another short line in a neighboring state reports that they continue to originate unit trains for export steam coal.)

As for the BNSF-WFA controversy (WIR 2/20), we may have just seen the second olive out of the jar. We Energies, the trade name for the electric and gas subsidiaries of Wisconsin Energy Corp, sued the UP in Milwaukee Federal Court claming the railroad had overcharged them $23 million for coal deliveries to its Wisconsin power plants. The utility, UP's largest customer in Wisconsin, was successful in its suit only to be rebuked this week by the US Court of Appeals in Chicago.

The appeals court said We Energies wasn't entitled to relief after UP raised rates in 2004; We sued in 2006. UP did not act in bad faith when it failed to deliver as much coal as We Energies had sought under its contract, the court ruled. A spokesman for the utility said there were no plans for appeal and UP's Mark Davis said simply, "We hope that this ends the matter involving a contract that expired several years ago.

On a slightly lighter note, *TRAINS* Associate Editor Andy Cummings takes me to task about the BNSF line used for the new North Dakota coal move off the DMVW (WIR 2/27). He writes, "Thanks for your reference to my DMVW story, but I have a quick nit to pick: As a former (albeit briefly) North Dakota resident, I must mention the route between Fargo and Bismarck, the Jamestown Subdivision, is ex-Northern Pacific; it's also not the route the *Builder* takes.

"The westbound *Builder* switches from ex-NP track to ex-GN track at Moorhead, Minn., a twin city to Fargo, then heads north up to Grand Forks, then west across the Devils Lake Sub to Minot and points west, all ex-GN. There is currently no Amtrak service across the old NP, though it was the route of the *North Coast Hiawatha* until that train was cancelled in 1979. Mainly the NP line handles coal trains from the PRB bound for Minnesota and Wisconsin. It's sort of BNSF's northern coal corridor, plus carries a couple manifests and some grain business.

"The northern Transcon is actually a third route. The stack trains to and from the PNW mostly use the 'Surrey Cutoff,' which is the direct route between Fargo and Minot via New Rockford. Amtrak takes the loopier route so it can serve Grand Forks and Devils Lake; there's virtually no population along the Surrey cutoff. If I remember correctly, it was built around 1910, so all the towns had pretty much been built up by then.

"It's neat country out there. BNSF does a couple short lignite shuttles on the Mandan-Zap line (ex-NP), but heretofore, DMVW didn't get any lignite haul. They generally build the power plants immediately adjacent to the mines so trucks can make the haul. Lignite is low-BTU, and thus low-value, so it's not economical to ship it long distances. My understanding is that DMVW ships a little flyash from at least one power plant along its line, but this will be the first time they'll tap the lignite business directly. Good for them." And thank *you*, Andy.

In what may be a good news, bad news situation for Watco's Austin & Western, the DMU commuter service that was to begin shortly has hit a snag. According to the *Railway Age* newswire, the commuter operator, Austin's Capital Metropolitan Transportation Authority, says testing and training for its 32-mile passenger rail line is behind schedule, and could further delay the route's operational debut, currently set for March 30.

Cap Metro is considering a phased service startup, such as only running morning rush-hour trains southbound into downtown Austin, and evening counterparts north to Leander, postponing contraflow service. Cap Metro says it still plans to hold opening celebrations for the line on the March 21-22 weekend, regardless of when revenue service is scheduled to commence. Six Stadler-Bussnag diesel units will be placed in service, operating under "temporal" separation rules. That's the good news for Watco.

The bad news is that the AWRR is the freight provider for quarries providing more than 40,000 carload of construction and highway rock and the commuter rail requires the "temporal" separation, meaning freights can't run when the DMUs have the track. Yes, having all that federal and state money to build a new railroad with CWR and commuter flyovers is nice, but when there's rock to move, the DMUs are flat in the way. Let's hope the two-week breather lets Cap Metro and AWRR find a way to co-exist short of shutting down freight ops. We've seen it done on New Jersey Transit's River Line between Trenton and Camden, allowing Ron Batory's Conrail Shared Asset trains to work around the DMUs. Maybe they ought to give Ron a call.

A final note: Norfolk Southern's Pam Blakeney has written to tell WIR that her freight claims seminar scheduled for later this month has been postponed indefinitely. "The economic picture, to put it mildly, is less than favorable and so we have put off the seminar for now out of concern for our customers' bottom lines. We will be rescheduling later in the year and I will beg you to join with us again. There is a need for what we have to offer on many fronts and we will be ready as soon as the economic window has opened." And I shall duly note that here. Thanks, Pam.

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