# THE RAILROAD WEEK IN REVIEW
## AUGUST 21, 2009

*"Safety is my responsibility." – Back cover of UP Employee Table #4, Roseville Area*

**There's no better way** to know what's going on out on the railroad than to go look at it. Which is exactly what I did this past week (and it's why WIR is both short and late). The occasion was a five-day trip to California with a stop en route in Omaha for an upcoming TRAINS magazine article in which the UP will have starring role. My time was spent mostly in the San Joaquin Valley between Bakersfield and Fresno (with a side trip to Tehachapi simply because we could).

We saw the entire Fresno Division between Bakersfield and Sacramento with a brief foray on the Martinez sub Elvas to Roseville. Yard. This is one busy place. On my five-hour trip north Wednesday night, for example, there were ten opposing trains and several right behind us. Half the trains were grain trains, which is not surprising as the Valley is the largest single grain-consuming area on the UP. There are super-sized feed mills every few miles, each of which can take a train or two a week and some even have their own switch engines. (See "Elevator Critters," *TRAINS*, April 2009 page 40; Zacky Farms at Travers is one such. Foster is another though we saw the Turlock and Modesto plants, not Livingston where David Lustig got his shot.)

The Railex facility at Delano, MP 283.5, thirty miles north of Bakersfield, has added a second train of non-stop perishables on a five-day guaranteed delivery schedule for the Albany NY area, running in partnership with CSX. RailAmerica's Cal Northern and San Joaquin Valley Railroad have interchanges with the Fresno Div and have significant food franchises of their own, typically running in UP-CSX "Express Lane" service with somewhat slower time cards.

BNSF is a player here too, though more on the intermodal side. However, the SJVR serves the mammoth Bolthouse Farms facility near Bakersfield for a Chicago service in jumbo reefers. In the Stockton area, Dave Buccolo's Central California Traction, an industrial switching road that BNSF and UP jointly own, has a number of food-related projects that will quite literally bear fruit. Genesee & Wyoming's Rail Link division has the switching contract at UP's Lathrop intermodal ramp.

Bakersfield, elev. 400, MP 315, at the south end of the San Joaquin Valley, may be hot and dry most of the year, but the grape vines and citrus trees love it. Heading north, and dropping slightly in elevation you get into nut trees, cattle farming and more grapes. One gets the sense the farther north one goes the greener it gets -- the cornfields around Tulare, MP 251, are reminiscent of Iowa, for example. By Stockton you're at elev. 24 and it's much less green.

One also gets the sense that the merch carload business, while robust, is not what it used to be. Train consists are boxcars, covered hoppers, tank cars, gons -- but the center-beams are few. Many, in fact are in storage thanks to the downturn in new housing construction. However, an after-dark cab ride north shows a non-stop stream of small-town lights, industries and sidetracks. This is truly merch carload heaven and from what I saw the UP is well positioned to make hay when next the economic sun shines.

Here's why. UP is currently running 65 percent of its trains with distributed power ("dupes", in UP parlance). As older, non-dupe equipped units fall out of the fleet through age and attrition, replacement units come DPU-equipped from the builders. I have it on good authority that trying to make a non-dupe unit a dupe is prohibitively expensive, so UP is clearly taking the only reasonable approach. The way UP is adding tonnage to existing train starts, I can see them getting to CEO Jim Young's goal of a 200,000 car-per-week railroad, though that may be later rather than sooner. As we approach that number, UP's increasing dupe train starts to 90 percent or more would not be a surprise.

Going back to Railex, their Wallula (Washington) train now runs 55 cars "four by two," four units on the point and two dupes pushing, currently SD 70s and C44s, to get them over the Blue Mountains in Oregon and Idaho. The Delano train is 35-55 cars behind three SD70s or equivalent. As business grows (and I predict it will), the Delano train could comfortably go to 100 cars with a four-by-two lash-up, nearly doubling the tonnage per crew start without affecting line capacity.

As I write this Saturday morning, the train that left the Railex facility in Delano at seven PM on Wednesday is now in mid-Iowa running twelve hours ahead of plan with a Chicago ETA of six AM tomorrow. Assuming a quick hand-off to CSX with its run-through power, it ought to be at the Railex dock in Rotterdam NY Monday morning for a fourth morning delivery – faster than a non-team truckload and at a third of the cost. And it's more than a hundred trucks not on I-80 through Indiana. What a great way to make supply chain managers smile.

**There are two kinds of customers.** There those that don't want surprises and are willing to plan their supply chains around the most efficient transportation they can get. Then there are those who play the price game, constantly changing vendors to get the lowest rate-du-jour. NY Analyst Ed Wolfe wrote of one in a recent Friday Freight letter: "We spoke with a forest products shipper [who] has moved roughly 15 percent of his freight off the rails and onto trucks due to sharply reduced truck rates over the past couple of years.

"Generally, this shipper's rule of thumb calls for rail rates to be roughly 20 percent cheaper than truck rates in order to justify moving freight on the rails because of the added costs [relating to] having to maintain higher inventory levels due to the rails' slower transit times as well as increased administrative work required to track down misplaced rail cars, line outages and other service issues the rails face. However, when truck pricing eventually heads back north this shipper expects to quickly move freight back to the railroads."

The railroad challenge with the price-shopping customer is building the long-term relationship that proper infrastructure and consistent car supply demands. You can't afford it. Price is not a unique selling point and the price-shopper will get what he's paying for. His competition will eat his lunch.

**Chris Ceraso** at Credit Suisse recently upgraded CSX to Outperform from neutral based on its industrial as opposed to consumer franchise: "less intermodal, a potential up-tick in demand for metallurgical coal; and a valuation that still shows a [double-digit] upside from current levels. Our outlook for the industrial economy is modestly more favorable than that of the consumer in the near-to-intermediate term." Iron ore, met coal, chemicals, plastics, glass and other raw materials get specific mention. That's a plus for short lines.