

THE RAILROAD WEEK IN REVIEW

SEPTEMBER 4, 2009

“We face the new and unfunded statutory mandate to install PTC on our system by the end of 2015.”
– Jack Koraleski, EVP Marketing and Sales, Union Pacific.

CSX gave the Railex Train (and me) a nice ride across the ex-NYC “Water Level Route” from Buffalo to Schenectady last Monday. It was, except for one brief pause while a large MOW crew spread out over several miles cleared up, a non-stop daylight ride from first pull to arrival at the Railex derail. And it shows what a railroad can do when everybody is reading from the same page and zeroing in on what makes customers smile.

Our train had left the Railex facility in Delano, California with 29 identical Plate F 100-ton mechanical reefers the preceding Wednesday evening at a quarter to ten with a mix of fruit and vegetables at temperatures ranging from below freezing to 55 degrees. Scheduled arrival at the CSX interchange at Barr Yard, Chicago, was eight-thirty Monday morning. The train stopped in Green River, Wyoming long enough to change crews and pick up another 33 cars of the same type containing Washington fruit, vegetables (mainly potatoes) and wine, departing at four thirty Friday afternoon, nine hours ahead of plan.

As usual, the train picked up still more time across the flatlands, arriving Barr Yard at one PM Sunday, nineteen hours ahead of schedule. Unfortunately, a road failure in one of the UP units caused CSX to scramble for a replacement and the train didn’t get out of town until nearly midnight. Thirteen hours later I joined the new crew at Buffalo’s Frontier yard for the six-hour trip to the Railex facility in Rotterdam, NY.

It’s basically a bi-directional two-track railroad the entire route though the traces of the former NYC four-track main line are everywhere. The traffic density keeps the dispatchers hopping and they did their job beautifully. We had meets and overtakes with a mix of trains from intermodal to unit trains of auto racks and ethanol as well as Amtrak. Six maintenance crews were at work on a total of nineteen miles of railroad doing everything from rail replacement to rail grinding, adding another challenge for the dispatchers.

We pulled at a quarter after one Monday afternoon and stopped short of the Railex derail at twenty after seven that evening. Elapsed time from the Delano departure -- two hours short of five days with a half day lost for the locomotive failure. We pulled the train through the warehouse past the 14-car dock and out the other end. Four hours later the first 14 cars were done and the entire train was ready for its empty return by noon Tuesday.

The whole Railex experience is a shining example of what the railroads and their customers can do when they put their collective minds to a creating an innovative transportation product. We can do more. There are, for example, places where short lines could assemble whole trains of a limited number of commodities with one two-place STCC going to one place and hand them over at interchange. The Class Is then take the trains to the distant shortline interchanges for final delivery.

The model gets good turns on equipment, too. I did an AEI trace of the lead car on the Delano train departing the 19th. It was passed to CSX the 23d at 0537 and was back the 26th at 0726. UP tells me these trains average two-plus trips a month and it’s easy to see why. For example, Railex uses different dunnage for the California trains than it does for the Washington trains and they’re careful

to put the dunnage they take out of a car for unloading back into the same car for the empty return. Thus the crews in Delano and Wallula see the same cars over and over again, removing yet another potential inconsistency from the process.

BNSF, meanwhile, has taken several innovative steps to lengthen trains and put more tonnage into track space each train fills up. The idea is to put more tonnage across the same piece of real estate without increasing the number of trains or the number of spaces between trains. BNSF says it has set new train length records for intermodal and grain trains using distributed power (DP) and is now testing intermodal train lengths up to 12,000 feet. A recent DP train had three locomotives in the front, two in the middle and two at the rear. Total tonnage was 11,256 tons and set a new record of 458 units.

Says BNSF, “It takes intense planning to put together a 12,000-foot train as they are more than two miles long, taking a significant amount of track space to get the train staged and loaded. To simplify the job, crews typically cut the job into more manageable pieces and use several different tracks to get the cars into complete trains and ready to go.”

The same process is being tried on grain trains in the northern plains. They doubled up two 112-car shuttle trains to make one 13,000-foot train. Power came from a pair of head-end units, a dupe between the two original trains and a pair pushing. After traveling the 225 miles from Staples, Minn., through Northtown to Willmar, the train was separated once again with each section going its own way to two different customers for loading. BNSF concludes, “This has made us look at how we use DP in a different way. We knew it would give us more flexibility, but we hadn’t really started to understand how much. The success of this endeavor only triggered the imagination of many as to what will be the next challenge.”

Here’s why we see so many stored center-beams and bulkhead flats. Thursday’s *Wall Street Journal* carried a chart of declines in housing prices since the June 2006 peak. Four of the five worst (Miami being the exception) are in California and Nevada where UP and BNSF have the Class I rail franchises. Price declines in these markets range from minus 54 percent (Las Vegas) to minus 41 percent in San Diego. Only Denver escaped the west’s double-digit declines at minus nine percent.

As noted above, Miami at minus 48 percent was the biggest loser in the east. CSX and RailAmerica’s Florida East Coast (with its NS marketing arrangement) are the rail players here. The *Journal* says the high number of properties now in foreclosure is keeping prices down and inventory is nowhere “near equilibrium.” Having a glut of houses in foreclosure has simultaneously crushed demand for new housing, especially in places like “overbuilt” Las Vegas.

The drag on the housing market cuts into STCC 24 loadings for the delivering carriers however the impact on feeder lines that originate the studs and plywood is severe. It is felt most acutely on short lines in the PNW, the Canadian Provinces of British Columbia, Ontario and Quebec, and northern New England. Particularly hard hit is the Montreal Maine & Atlantic, now seeking to shed 241 miles of railroad between Madawaska and Millinocket thanks to the decline in forest products demand.

Just as I saw parked center-beams on my recent UP trip to southern California, I saw miles of bulkhead flats parked along the CSX route between Buffalo and Albany earlier this week. If one is in the shortline business and depends on lumber for one’s livelihood, one must ask if it’s *ever* coming back. Look at the trend: The Big Six and KCS in 2006 did 962 thousand loads in STCC 24, according to USARail.desktop’s AAR waybill samples. By 2007 that number had dropped to 793 thousand, down 18 percent and to 631 thousand loads in 2008, down 21 percent, from the 2006 total. That’s a drop of more than 331 thousand revenue loads worth half a billion dollars in lost revenue.

Then there's everything else that goes into residential construction from copper wiring to plastic piping to cement for foundations and metal for refrigerators. Every single one of these commodity groups is down big, suggesting that feeder lines that depend on these lines of business might best be looking to separate the cash cows from the sacred cows, building the former and sending the latter to the slaughter houses.

UP's Jack Koraleski's Customer Letter for August tackles the matter of regulation-driven capital and operating expenses and their effect on rates. He writes, "I am writing to call to your attention a matter of great importance -- one that has the potential to significantly impact Union Pacific rail rates in the future.

"Under the Rail Safety Improvement Act of 2008, Union Pacific and other Class I railroads must install Positive Train Control (PTC) -- a new system for controlling train movement -- on most main lines over which Toxic Inhalant Hazards (TIH) or passengers are transported. To comply with these FRA regulations, Union Pacific alone will have to spend approximately \$1.4 billion to install PTC on our railroad. Since passenger operations on UP are relatively modest, most of that investment is attributable to the movement of TIH traffic.

"Union Pacific has filed evidence with the Surface Transportation Board (STB) in response to a TIH customer's challenge of our rates for transporting chlorine... In the filing, we are asking the STB to take into account UP's rapidly rising costs of handling TIH commodities when it decides whether challenged rates are reasonable. Costs are rising as a result of regulations that require more special handling of chlorine and other TIH commodities.

"More importantly, we face the new and unfunded statutory mandate to install PTC on our system by the end of 2015. Again, this requirement is primarily because of TIH shipments, which make up less than one-half of one percent of our traffic. We would not incur these costs were it not for the risks inherent in TIH commodities, and we believe that those who choose to produce and ship TIH should bear the vast majority of the costs. Simply allocating these costs across all customers' business would subsidize TIH shipments while penalizing other shipments."

Now extend Koraleski's argument to short lines. Because chlorine and other TIH materials are already carry higher rates in part to account for the risk, they can be a significant short line revenue source. But if the expense of PTC and other unfunded mandates puts that business at risk, then the short line will have no choice but to embargo the commodity because it cannot comply with the federal requirements for carrying it. As a result, it's back to the highways and *then* where are we?

BTW, I'm told that the second morning of the UP short line meeting scheduled for late September will be devoted to assessing PTC risks and obligations, separating myth from reality. And the ASLRRA Eastern Region's October meeting in Indianapolis will have sessions on TIH routing and "The ABCs of PTC." In this vein, I was not amused to see how much the industry trade press talks of could be, should be, ought to be. I'm looking for what *IS*, and at this point the UP and ASLRRA sessions are the only ones offering any answers.

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