THE RAILROAD WEEK IN REVIEW

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"More carload business plays to our strength." -- Norfolk Southern CEO Wick Moorman at the annual Shortline Meeting in Roanoke

How to Teach an Old Railroad New Tricks. Every year about this time I head south to Roanoke, Va., for the annual Norfolk Southern shortline meeting. The most pleasant, least congested way to get there is via Winchester, Front Royal and Waynesboro. This route has the added advantage of following the Norfolk Southern's ex-N&W Shenandoah Division, now part of the "Crescent Corridor" between Birmingham/Memphis and Harrisburg, Pa.

And so it was that I spent the better part of two days checking out the railroad between Berryville, Va., and Waynesboro, Va. I particularly wanted to see the Crescent Corridor improvements around Riverton Jct., Va. Boy, have things changed since I first photographed it in the mid 1950s.

Starting at Riverton Jct., where the ex-Southern line from Manassas joins the ex-N&W line from Roanoke, Va., on a connecting track built in the late 1980s, there is an S-curve that ends on the Shenandoah River bridge and limits trains to ten miles an hour. NS is reconfiguring the layout to eliminate the S-curve and is repositioning the bridge to accommodate the new alignment. I'm told the new alignment will get speeds up to 30 mph. In-service date is scheduled for July 25.

Within the seven miles north of Riverton Jct., NS has essentially built a new five-mile, double-track railroad. Not only does it feed the intermodal ramp at the Virginia Inland Port, it's also designed to relieve a congestion point for trains to and from the south.

The Crescent Corridor -- see http://www.thefutureneedsus.com/crescent-corridor.html -- comprises two parallel main lines between Birmingham and Riverton (Front Royal on the map). The easternmost of the two (dubbed the "Piedmont Route") via Atlanta, Charlotte and Manassas is all ex-Southern and, for the most part, was rebuilt and double-tracked about 95 years ago to handle large volumes of passenger trains and fast freights. The westernmost line (the "Shenandoah Route") is ex-Southern Memphis to Bristol, Va., thence ex-N&W to Riverton, a route largely built for tonnage, with a surfeit of grades and curves and therefore slower.

The ex-N&W north of Riverton, while generally fast and reasonably level, until recently has been a single-track railroad with short passing tracks more suited to Y-6s and drag freights than Dash-9s and doublestacks. It now represents a potential choke point – the "neck of the funnel", if you will – where the traffic flows from the Piedmont and Shenandoah Routes blend, and where high-speed intermodal jobs commingle with mixed freights on a daily basis. Something has to be done to maintain fluidity; ergo the Riverton rebuild and five-mile double-track projects.

So here I am at Fairgrounds Road, just north of the Virginia Inland Port (VIP) at one o'clock on a sunny Saturday afternoon. I'm admiring the new crossover at Control Point "Success" and am

looking at some pix of the site in pre-double-track days when I hear two longs a short and a long from a train heading for my location from the north. It's 80 cars of mixed freight wasting no time getting across the railroad.

Twenty minutes later I'm at the end of the road above the Riverton Jct. construction site and here comes a northbound stack-train off the Manassas line with UP run-through SD70macs on the point. This guy is not so spritely, being restricted to 10 mph through the esses. I can see immediately what increasing the speed to 30 mph is going to do for fluidity.

Then it's back to the VIP area, only this time at Rockland Road, a mile to the south. I barely stop the car and here comes another southbound merch job, this one closer to 100 cars. By this time much of the cloud cover has dissipated so I go back to Fairground Road to see if there's another shot to be had. There is.

As I approach the crossing, I look across the field to my left and here comes a southbound intermodal train. Happily, there's no car behind me so, like the quintessential railfan using "obsolete" equipment, I poke the Leica M-3 loaded with Kodachrome out the car window to get some nice slides as he crosses the field and another frame or two at the highway crossing proper.

In sum, not a bad afternoon of train-watching. I pull up not knowing what to expect at one and by five I've bagged four trains, recorded the track improvements made and in progress, and have seen a railroad much changed from the last time I was through here. As I wrote recently in this space, we're in a 90 percent economy with a railroad infrastructure that can take a return to 100 percent even now. This NS visit proves the point quite well.

The Norfolk Southern shortline meeting met all my expectations and then some. Rob Robinson, Norfolk Southern's AVP for Shortline Marketing and Business Development, set the tone with his remarks Monday morning. To begin -- something I had not fully grasped -- three quarters of NS' 258 shortline connections settle with handling allowances or switch fees and 22 percent are ISS roads (and thus less reliant on volumes alone for revenue gains).

Robinson says Norfolk Southern's shortline system is a "market-reach multiplier." That is to say, Class II and III railroads extend the NS reach in terms of network miles: NS by itself has 20,624 route-miles; the short lines bring total reach to 38,796 route-miles, an increase of 88 percent. Like NS, the shortline community has seen volumes drift south yearly since 2006, yet for the first half of 2010 NS shortline cars are up 25 percent year-over-year -- and ahead of NS itself, up 16 percent including intermodal and automotive.

Back out intermodal and automotive and NS is up 15 percent for the first six months, lagging the shortline gains by ten percentage points. At lease some of the credit must go to Robinson's "250-Squared" program in which he challenges each of NS' roughy 250 short lines to find 250 carloads of new business in the following year. It really worked. During the presentations NS cited 20 different short lines for carload gains from 250 to more than 1,000 units, representing new business gains north of 16,000 carloads -- carloads that weren't there a year ago.

(By way of comparison, RMI's RailConnect Index has its reporting North American Class II and III roads up nine percent year-to-date through Week 26. Thus it would seem that if NS short lines are up at twice the national average, others must be well below the national average. Kudos to NS for its leadership in this space.)

Not surprisingly the volume gains are in bulk, non-time-sensitive commodity groups such as export coal (17 percent), metals (40 percent) and municipal solid waste (up 40 percent). Ethanol is a winner, with nine new terminals in the last 18 months. And total carloads of all commodities in support of the Marcellus Shale development have increased by a factor of four. But there is a downside: short lines have work to do on safety, averaging three reportable injuries per 200,000 hours worked to NS's one. (During the Q&A following Moorman's talk at lunch somebody asked how NS does it. Said Moorman, it boils down to commitment and leadership.)

We also heard some very candid remarks from Chief Commercial Officer Don Seale and COO Mark Manion along with their PowerPoint presentations and, over lunch, CEO Wick Moorman's observations on the present business climate and how Washington's actions will most likely impact our favorite industry. Bottom line: NS is looking good 2010 vs 2009 but not yet back to the unit volumes or mix of the 2006-7 period (Seale), the railroad has room for more trains at little incremental expense (Manion), and, from Moorman, how "more carload business plays to our strength." Look for more on these themes woven into upcoming issues of WIR.

CSX kicked off the second quarter Railroad Earnings season on Monday. Quarterly revenue increased 22 percent to $2.7 billion on a 13 percent gain in revenue units year over year. Operating expense was held to $1.9 billion, up 18 percent, leveraging a 33 percent operating income gain to $768 million. Diluted earnings per share increased 36 percent to $1.07 and the operating ratio came down 2.4 points to a highly respectable 71.2, the lowest number we have seen at CSX for many a day.

Drilling down into commodities, every group but food & consumer and forest products posted double-digit revenue increases; only four commodity groups out of ten saw double-digit volume increases. Which is all very nice until you start running some longer-range comps. The table following the disclaimer looks at the various commodity groups for first-half results going back to 2005.

Look particularly at the "merch x auto"and coal lines. These are where the short lines live. The top half of the chart is the number of loads from the quarterly reports; the bottom half of the chart shows the 2010 first half variance from every other year. For example, CSX handled 1,110 merchandise carloads ex-auto in the first half of 2010. That compares 1,476 "merch ex-auto" units in the first half of 2005, down 25 percent. And so on.

That is not to say this pattern is unique at CSX. At the NS meeting we saw a chart with a steep drops in loads 2006-9 and a recovery beginning exactly a year ago and an expected leveling out at lower levels now through 2011 and possibly beyond. Yes, it's encouraging to see the rails recovering from the doldrums of mid-2009, but we're not out of the woods yet. Happily, we as an industry are learning to make money at these levels and have enough to keep up the capex.

RailAmerica and Genesee & Wyoming June carload volumes were about what one might expect. RailAmerica June carloads increased by by 12 percent over June 2009 making this the second month this year with a positive month-to-month change. RA posted double-digit deltas in all commodity groups but ag products and petroleum; forest products were down 11 percent year-over year. Total units were up eight percent year-to-date and 11 percent for the quarter.

Genesee & Wyoming June carcounts were 15 percent or 9,806 cars ahead of the June 2009 period. Half the gains were from the strong Australian grain market (more than 3,000 units) and overhead coal in Ohio (nearly 2,000 units). The quarter was up 17 percent though the year-to-date number improved by less than six percent. Continued weakness in coal, aggregates and paper, together representing nearly half GWR's volume, is not helping.

Railroad earnings continue next week with reports from Union Pacific and Canadian National. The week following we hear from KCS, NS, CP and RA. GWR brings up the markers Aug 3.

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CSX Commods	YTD thru June					
	2005	2006	2007	2008	2009	2010
Merch	1,725	1,687	1,606	1,514	1,127	1,272
Auto	249	251	228	188	99	162
merch x auto	1,476	1,436	1,378	1,326	1,028	1,110
coal	917	946	928	940	806	774
IM	1,071	1,063	1,048	1,038	897	1,038
TTL Rev Units	3,713	3,696	3,582	3,492	2,830	3,084
Check sum	3,713	3,696	3,582	3,492	2,830	3,084
	2010 vs					
Merch	-26.3%	-24.6%	-20.8%	-16.0%	12.9%	0.0%
auto	-34.9%	-35.5%	-28.9%	-13.8%	63.6%	0.0%
merch x auto	-24.8%	-22.7%	-19.4%	-16.3%	8.0%	0.0%
coal	-15.6%	-18.2%	-16.6%	-17.7%	-4.0%	0.0%
IM	-3.1%	-2.4%	-1.0%	0.0%	15.7%	0.0%
TTL Rev Units	-16.9%	-16.6%	-13.9%	-11.7%	9.0%	