

THE RAILROAD WEEK IN REVIEW

December 3, 2010

“Recovery has taken far longer than anyone would like, but I don’t know anyone in the industry who thinks railroads won’t eventually meet and then surpass their peak traffic levels.” -- Ed Hamberger, President, AAR, October 2010 interview

Looking back to 2007, before the current unpleasantness began, US and Canadian Week 46 combined revenue units came in at 31.5 million units including 12.9 million intermodal units (trailers and containers), 41 percent of the total. (See attached table) For 2010 year-to-date through Week 46 (ended Nov 20) the US and Canadian Class Is handled 28.8 million units, off 8.6 percent from 2007; intermodal units came in at 12.2 million units, 42 percent of the total and off just 4.9 percent over the three years. So what’s happening in part is that intermodal revenue gains are masking some of the carload decline.

As for short lines, the RMI RailConnect Index, faithfully forwarded every week by Cheri Denton, tells the tale most forcefully. The table at the end of the Letter provides the shortline revenue unit counts for Week 46 for 2010 and 2007. The first take-away is there are no wide swings in the distribution of commodities.

However, there are some other considerations. First, I suspect ethanol is a major contributor to the jump in the chemicals mix. Ethanol (STCC 28 184) is a chemical, even though Class Is tend to put it in the ag group, which I think is a mistake. Even though much of it moves in unit trains, there are still originators and receivers that do not move products in trains.

Industrial Products group (chems, forest products, aggregates, etc.) deals in single-car moves almost exclusively while the ag products crowd thinks in terms of unit trains. Not good. Please guys, the minute corn becomes ethanol, going from STCC oh-one to STCC 28, put it in the IP group where single-car service design is part of the language spoken by the market managers.

Next, consider grain. Here again, the short lines are doing a booming business in every aspect from animal feed to export grain. It’s the kind of unit trains the short lines and Class I can hand back and forth with run-through power and leased cars, making for very attractive margins. I suspect it’s taking some of the slack from the downturn in building materials. Lastly, coal. Eastern short lines are big in Central App coal, and that’s at risk, at least in the steam side. Expect to see the coal share continue to slip going forward.

A week or so ago Pennsylvania awarded \$32.5 million for 38 rail-related projects split roughly half and half between shippers on the one hand and individual railroads or counties and county authorities on the other.

The big railroad winners were Allegheny Valley (freight yard expansion, \$1.8 million), Buffalo & Pittsburgh (bridge upgrades, \$3.0 million) and Strasburg Railroad (transload and track upgrades, \$1.0 million). Local government agency winners included SEDA-COG (Marcellus

shale support in five locations, \$3.9 million), the Allentown Economic Development Corporation (restoring and expanding rail service, \$1.4 million) and the Pennsylvania Northeast Regional Rail Authority (added rail infrastructure to support Marcellus shale, \$1.3 million).

The big winner among shippers was the US Steel Mon Valley Works (rail infrastructure in support of the Clairton Coke Works pollution control project, \$3.8 million). Air Products (rail infrastructure upgrades, \$1.8 million) and American Refining (rail infrastructure and loading racks, \$1.4 million) were the other big shipper hits.

These grants could not have come at a more opportune moment. As it happens, the Senate this week is set to vote on granting a permanent waiver for heavier trucks in Maine and Vermont. According to a note from the ASLRRRA, "The current Continuing Resolution (CR) providing federal transportation funding expires on December 3. It is expected that Senator Collins of Maine and Senator Leahy of Vermont will attempt to include a permanent extension of increased truck weight limits in those two states. It is highly unusual for controversial measures to be included, so our job is to make all 98 other senators understand the serious problems that would be created by allowing this extension into the pending CR."

The Association included four bullet points to make in letters for the Members to send to their Senators and the message sent by the Pennsylvania rail freight grants could not have been clearer: Putting heavier trucks on Pennsylvania's highways will only serve to divert yet more traffic from the railroads, mooting the good work of the Pennsylvania Rail Freight Assistance Program.

Will the World's Greatest Deliberative Body Listen? I'm not holding my breath, but in any event it will be instructive to track exactly how much the company grant recipients actually increase rail usage over the next year or so.

The Reading & Northern, a 300-mile regional railroad in eastern Pennsylvania, publishes a first-rate employee newsletter and the Fall 2010 number is particularly instructive. It features the subject of maintenance of way and gives the reader *numbers*. What we have is a kind of Year in Review, in which we get a taste of what they've been doing, where and why.

In the course of the Letter's 16 pages we learn of 12 track, yard and bridge projects, starting with the the 14-mile Susquehanna Branch project that consumed 11,000 ties and took 28,000 feet of surfacing, increasing train speeds to 30 mph from 10 mph, saving crews an hour in each direction. At another location, they changed out 20 miles jointed mainline rail for welded, did 11 miles of tamping and surfacing (T&S), and replaced 1,000 ties in five curves.

For dessert, they re-timbered a bridge (1,875 timbers) and put in CWR in place of the old jointed rail and rebuilt the bridges on another branch to meet the needs of an expanding coal customer. Then they started on the ex-Lehigh Valley yard in Pittston, once the heart of that fallen flag, rehabbing yard tracks, putting in 200 ties, 50 switch timbers, 2,000 tons of stone and adding an new 1,800-foot siding just for good measure.

Although the R&N newsletter doesn't give us the number of ties, pieces of rail and length in miles of each project, it does give us a sense of the expense involved. For example, we're talking more than 14,000 ties at a nominal \$50 each installed, 2,000 bridge and switch timbers at double that, plus 50 miles of T&S at perhaps a dollar a foot. But that's not all. On the mechanical side, R&N just took delivery of 110 aluminum rotary-dump coal hoppers and they are awaiting delivery of another 77 similar cars. It takes good track to support the kind of volumes these new cars are going to deliver. Nice work.

Patriot Rail is on the move again, entering into a 20-year agreement with the North Carolina Department of Transportation to operate the Piedmont and Northern Railway ("P&N") in Gaston County, North Carolina. The 13-mile P&N is located approximately 20 miles west of Charlotte extending from Mount Holly to Gastonia, with a spur line towards Belmont. The railroad interchanges with NS at Gastonia and CSX at Mount Holly.

NCDOT has completed an upgrade of the westernmost four miles of the rail line from Gastonia to Ranlo, and anticipates upgrading the remainder of the line during the spring of 2011. Patriot expects to commence rail service on the westernmost four miles in the first quarter of 2011. The rail line was purchased by NCDOT in 1991 and preserved as a rail corridor for future service.

I played hooky Thursday and went to see "Unstoppable" on my lunch hour. The best part was seeing portions of the ex-PRR Buffalo Line now operated by the Western NY & Pennsylvania Railroad and which I rode a month ago (pix at www.flickr.com/photos/rblanchard/sets). There's a fair amount of solid railroad photography in it, and the sustained running scenes are beautiful. But there are some safety lapses that require the willing suspension of disbelief.

I've heard it said that PTC could prevent a train from getting away like this. I'm not so sure. You need brakes to stop it and the train had none. All PTC does is apply the train brakes automatically if an unsafe condition arises. I have to assume the cut of cars that got away had no air in the reservoirs so there was no air to apply the brakes. If PTC can stop a train with no air that's news to me and I'd like to know how it's done.

Still, the conductor could have opened the angle cock on the last car when he was between the engine and the train. If there had been any air in the reservoirs they would have gotten at least some application. The movie is accurate in that setting the independent on the road loco does no good if the throttle is in Run 8 as the yard engineman said later. Still, the number of safety lapses, starting with big ones like the yard engineman jumping off a moving loco to set a switch ahead of the train, down to little ones like the Denzel Washington character stepping on a railhead as he crosses the yard. How many can you find? Go to my Facebook page (search on "Roy Blanchard") and join the conversation.

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Short Line Commodities YTD as of Week 46 (November 20)

Commodity YTD	2010	2007	Delta
Chemicals	16.2%	13.8%	2.40
Grain	13.3%	11.4%	1.90
Coal	11.9%	12.4%	-0.50
Aggregates	11.4%	9.4%	2.00
Metals	8.3%	9.2%	-0.90
Intermodal	7.1%	12.1%	-5.00
Paper	6.5%	6.6%	-0.10
Waste	5.2%	5.1%	0.10
Petrol/coke	5.0%	4.7%	0.30
F&F ex-grain	4.9%	3.8%	1.10
Lumber & FP	3.8%	4.9%	-1.10
Ores	3.1%	2.3%	0.80
Other	2.1%	2.5%	-0.40
Automotive	1.2%	1.8%	-0.60
Total	100.0%	100.0%	
Short Lines			
TTL loads	4,461,936	5,497,250	-18.83%
Intermodal	315,325	665,852	-52.64%
Carload	4,146,611	4,831,398	-14.17%
US+Canada Class Is			
Carload	16,581,073	18,657,593	-11.13%
Intermodal	12,249,745	12,879,832	-4.89%
Total	28,830,818	31,537,425	-8.58%

Sources: RMI for shortline data; AAR for Class I data