THE RAILROAD WEEK IN REVIEW

August 31, 2012

*"Without data, it's just another opinion," Ron Batory, President, Conrail Shared Assets Operation, in October **Trains** magazine.*

Data drives virtually everything the Class Is do these days, and the bigger Class II and III roads are following suit. The AAR Performance Measures -- cars on line, average over-the-road train speed and terminal dwell -- are but the tip of the iceberg. All they do is provide clues as to where one needs to drill down to root causes. Let me give you two examples.

I saw an open door on an empty boxcar in an over-the-road freight train the other day. The regs specifically prohibit putting a car with an open door into a train -- see 49CFR Part 215 Appendix D, if you want to get picky. The open door tells me the car could have been pulled from the receiving customer dock this way, and if so it was made into a train at the next class yard and started on its way with nobody catching it. (I made a few phone calls and found out where the car was made empty and how it got into the train I saw.)

No doubt, a run-by inspection will catch it eventually and the road crew will then have two options, both of which require stopping the train and clogging up the railroad. Option one is to send the conductor back to close the offending door or, option two, drill out the car if he can't close it. Either way, it's going to take time because the car was 80 cars deep in an 84-car train. And the delay will affect system average train speed.

The second delay-causing event has to do with yard dwell. It sometimes happens that when crews either go on overtime or outlaw before finishing their runs that they don't do the paperwork for that run until they go on duty for the next run, possibly delaying their departure. As every railroader knows, the biggest cause of late arrivals is late departures, and late departures increase average yard dwell-time. Worse, late arrivals can cause missed connections and make yard dwell-times even worse. Ergo do your paperwork before you mark off.

Short lines can help by tracking ISA compliance, having crews inspect outbound empties for Part 215 non-compliance, and minimizing shortline dwell times from interchange-on to interchange-off. To do so effectively requires keeping records so that when one drills down into performance lapses, one can get to the facts of the matter as opposed to just giving an opinion.

KCS has started posting its weekly AAR carload report by 1300 Eastern Time Mondays, moving the release date up from Thursday. These weekly carload reports may be accessed at http://www.kcsouthern.com/en-us/Investors/Pages/PerformanceMetricsMain.aspx along with AAR Performance Measures, the most recent quarterly investors report, and live links to the Wall Street houses covering KCS.

The Week 34 report (through August 25) is three columns -- KCSR, KCS Mexico, and Total -- for 2012. There are no year-over-year comps, unfortunately, so the numbers are sort of in a vacuum. I'd like to see, for example, 2011 comps and year-over-year changes by commodity. I'd also like to see a commodity map so I know what's in "crushed sand and gravel" or "stone clay and glass" or "grain mill products," for example. As is, I can't tell where the frack sand or ethanol is counted. But, hey, this is right out of the box and will take time to tweak. Thanks, KCS, for taking the initiative.

From the *Trains Newswire* comes word that the Winchester & Western Railroad has completed a $10 million project to build a 1.25-mile spur to Essroc Cement in Martinsburg, West Virginia. The project includes a $2 million, 205-foot bridge over U.S. Highway 11. This plant was rebuilt by Italcementi Group, Essroc's parent company, in June 2010 for $650 million. The plant loads out some 6,000 cars a year of dry, powdered cement. W&W President Phil Light gave me a guided tour of the project when I was in Virginia back in April. Here's what it looked like then. No small undertaking, this.

For the record, Winchester & Western operates approximately 60 miles of railroad between Hagerstown, Md., and Gore, W. Va., and connects with both Norfolk Southern and CSX Transportation. The railroad also operates a separate division in southern in New Jersey, connecting with CSX and NS through the Conrail Shared Asset Operation at Millville.

The Patriot Rail Gang is going international. Gary Marino, Don Redfearn and Bennett Marks -- Patriot Rail founder, EVP and CFO respectively -- have started a new venture, International Rail Partners, to pursue the acquisition and operation of freight railroads outside of the United States. The company will be headquartered in Boca Raton and also open an office in San Francisco, Calif.

The group had formed Patriot Rail in 2006 after having worked together in the Early Years of RailAmerica. They began the Patriot venture with the 118-mile Tennessee Southern Railroad, and eventually grew Patriot to 13 railroads including the Butte, Anaconda & Pacific, the Columbia & Cowlitz, the Golden Triangle, the Piedmont & Northern and the Sacramento Valley. Earlier in 2012 SteelRiver Infrastructure Partners acquired Patriot Rail, so the three are ready to lather, rinse, repeat.

Says Marino, “We look forward to repeating our success by building IRP into a world class rail transportation service provider. We have an ambitious strategic plan to make a number of select freight rail acquisitions outside of the United States over the coming years. In partnership with our rail operations, IRP also seeks to acquire ancillary rail service providers located in the U.S., Canada, and other countries. Our goal is to utilize our expertise to enhance operations and add significant value to our acquisitions.” Break a leg, guys.

RailAmerica July carloads (all carloads, no intermodal boxes) increased 5.4 percent to 72,433 units, down half a point sequentially from June and up 3.8 percent year-to-date. Coal remains RA’s top volume producer, followed by ag products, chems, non-metallic minerals, paper and metallic minerals which together make up 81.5 percent of RA’s franchise by volume. Each held its own in year-over-year changes ranging from plus 0.1 percent (coal, ag products) to -1.6 percent (chemicals).

The big percentage gainers were finished vehicles from Honda on the CIND, petroleum in the midwest and “other,” which includes crude oil over the NECR from CP and Vermont Rail. Same-railroad carloads increased 3.1 percent absent the Alabama acquisitions. The month provides yet further proof of RA’s even distribution of commodities, with eight of RA’s 12 commodity groups clustered in the five to ten percent of total volume range. Perhaps that’s why we see consistent month-to-month year-to-date deltas consistently in the plus four percent range. Not a lot of home runs, but consistent back-to-back singles. And that’s how games are won.

Genesee & Wyoming’s North American lines handled 62,400 cars and intermodal units July, down 6.0 percent year-over-year. Total NA units YTD are off 9.4 percent; however, July was up 6.5 percent from June. Overhead coal was once again a major downdraft cause as NS has totally vacated GWR’s ex-PRR Panhandle overhead coal route through east central Ohio, taking out 4,568 units. Lower rock-salt and other aggregates dropped another 2,324 carloads in the northeast and lower metals traffic took out another 1,178 units in the south.

On the plus side, non-overhead coal, now 27.4 percent of total units, was actually up 2.8 percent. Paper, 15.1 percent of vols, increased 13.4 percent with lumber, 9.7 percent of vols, up 14.9 percent and chemicals, 9.0 percent of loads, up 15.2 percent. This group, plus the afore-mentioned coal, aggregates and metals comprise 86.0 percent of GWR’s North American revenue units. Metallic ores, less than one percent of vols, jumped 32.8 percent and, though no details were given, I suspect the recent AZER acquisition may be the driver.