THE RAILROAD WEEK IN REVIEW

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"A firm with highly leverage debt has no room for errors." -- Nassim Nicholas Taleb essay, Learning to Love Volatility

Excessive freight car dwell time on short lines continues to work against the smaller carriers. The Class Is are measuring car-days between O-D pairs and days between loads. They're taking an increasingly dim view of any commodity O-D pair that works against faster turns. More than three or four days between shortline interchange/on and interchange/off is too long, especially for railroad-owned cars. And one way to tighten things up is with real-time event reporting.

I've been talking with Dave Booker, Vice President Value Delivery for GE Transportation's Optimization Solutions business (formerly RMI), about RailConnect mCrew, their mobile software application that extends railroad transportation management from the office to the rail yard and beyond. RailConnect mCrew eliminates phone calls and manual data entry, as well as the inevitable lag that occurs between the actual car movement event and the reporting thereof with the paper-based process.

The hand-held, heavy-duty tablet device lets T&E crews drag and drop movements from where the car was to where it is as it happens in real time. Roads with multiple crews, roads with non-contiguous branches, or roads that have staff customer service on duty days only but have crews operating at night, use RailConnect mCrew to assure on-time event reporting. Customers benefit too, especially when scheduling cars are meet supply-chain requirements. For example, a chemical plant may be very dependent on timely reporting while a customer unloading a car or two of wallboard a week may not car whether the data is a day or an hour old.

To be sure, RailConnect mCrew costs more money than a pencil and a spiral notebook, and most RailConnect mCrew customers tend to be railroads with either larger operations or owned by holding companies with centralized customer service departments. Smaller, stand-alone railroads may not have sufficient operating complexity to require real-time event reporting. In particular, this is true for operations that have customer service staffed by a single individual or railroads with only one crew out each day.

What this comes down to is the fact that the information about the car can be more important than the car itself, especially when it's a high-valued commodity. The question of value devolves as well to the short line in terms of revenue ton-miles. The more RTMs the move produces, the more valuable the customer. Keeping those cars moving *and* reporting events in real time is one good way to insure repeat business.

Week 52 North American railroad revenue units increased by a mere 0.68 percent through 2012 Week 52 ("All Units," below) to the Class II and III roads 1.45 percent decrease. However,

Short Lines			
Commodity	**YTD 2012**	**YTD 2011**	**Delta**
Total	6,718,522	6,614,874	**1.57%**
intermodal	748,000	535,499	39.68%
Net	5,970,522	6,079,375	(1.79%)
Auto	155,983	137,359	13.56%
Net	5,814,539	5,942,016	(2.15%)
Coal	708,727	761,165	(6.89%)
Carload	5,105,812	5,180,851	**(1.45%)**
Class Is	**NA Rails**		
Commodity	**YTD 2012**	**YTD 2011**	**Delta**
Carload	19,440,940	19,828,973	(1.96%)
intermodal	15,459,909	14,836,822	4.20%
All Units	34,900,849	34,665,795	**0.68%**
Auto	1,272,716	1,117,067	13.93%
Net	33,628,133	33,548,728	0.24%
Coal	6,482,750	7,179,796	(9.71%)
Merch Carload	11,685,474	11,532,110	**1.33%**
Petrol prods	868,386	630,057	**37.83%**
SL Equivs	10,817,088	10,902,053	**(0.78%)**

the Class I all-in line includes intermodal and since only a few short lines carry any intermodal, I back that out to get at carloads. Automotive, like intermodal, is handled by a relatively few non-class I names and I back that out. Coal is another one. The number of short lines in the coal gathering network diminishes over time, leaving only a few -- Indiana Rail Road is the biggest in this group -- and the number of coal-delivering short lines is relatively few.

We also have to back out petroleum products from the shortline count. The Class Is saw petroleum carloads increase nearly forty percent year-over-year, thanks mainly to the Bakken Shale crude-by-rail volumes. Short lines are not big participants on the originating side; Iowa Pacific's holdings in the Texas Permian Basin are the biggest players here. We also see shortline operators like SMS and Morristown & Erie doing contract switching in refineries, but they do not show in the waybill route and so are not counted.

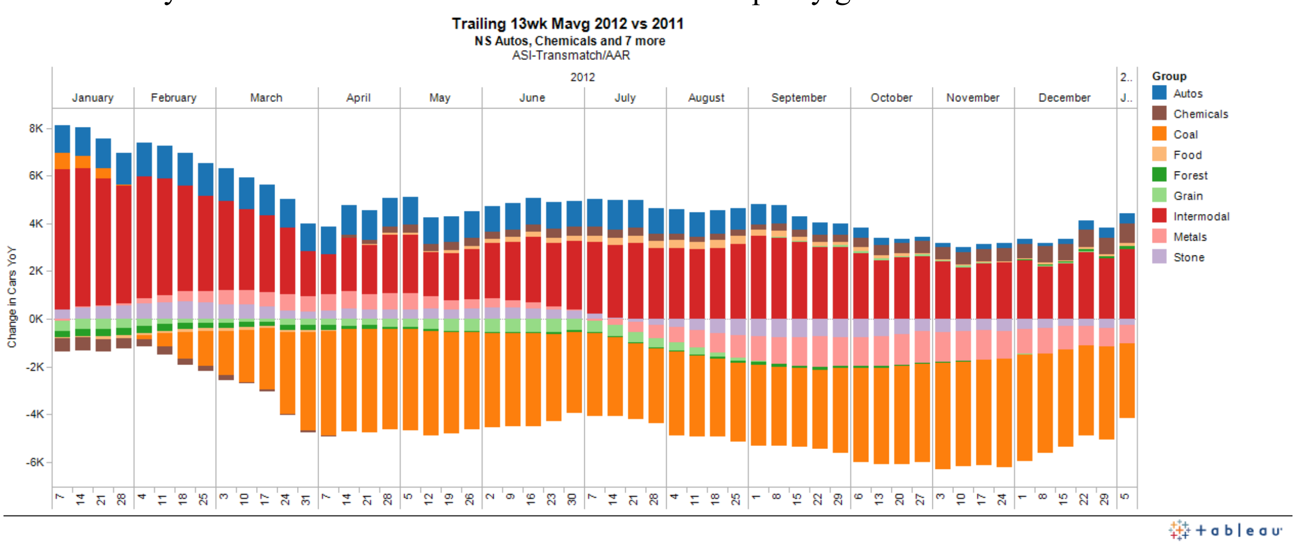
When all is said and done, "normal" merch carloads from grains and ferts through chems to forest products and aggregates for the Class Is dipped less than one percent and the smaller roads were off a bit more than one percent. Not exactly what you'd call barn-burning performances; we ought to be grateful it wasn't worse. I don't expect 2013 to be much better.

It's hard enough to make a buck in the shortline business in the normal course of events; external distractions only slow things down.Take the Twin Cities & Western's tiff with a would-be trolley car operation in Minneapolis. A *Railway Age Newswire* item tells us Hennepin County's Metro Transit wants TCWR "to reroute existing freight traffic to a rights-of-way with a steeper grade and additional curves in and around St. Louis Park, Minn."

The 146-mile regional freight hauler serves rural agricultural markets in Minnesota and South Dakota, was the *Railway Age* "Shortline Railroad of the Year" in 2008, and does a significant grain unit train business with both BNSF and CP. To make its point about the potential re-route hazards, TCWR retained the services of a consulting engineer who concludes, "having an elevated grade in a curve has safety implications for the railroad workers and the general public," as it presents greater opportunities for derailments.

When I saw this report, I asked TCWR President Mark Wegner for his take. Says he, " I'd rather be spending my time building carloads than fighting this issue." Couldn't agree more.

Norfolk Southern's 13-week moving average by commodity group shows clearly how coal's fall from favor has been a drag on revenue unit counts. Intermodal is the dominant player by far and the way NS has built out its intermodal network is a pretty good indication the trend will



continue. The downside for short lines is that the merch groups are literally squeezed in the middle. This tells me that NS wants to fill up the volume gaps left by coal with other volumes than can move fast and from point to point. It's all about seamless transportation, which brings me back to the event reporting theme above.

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