THE RAILROAD WEEK IN REVIEW

March 1, 2013

"Norfolk Southern will cease regional railcar classification operations at its Roanoke Terminal hump yard in Roanoke, Va." NS Press Release, February25, 2013

My request for short line success stories has itself met with some success. Ed Ellis writes that the first freight in 25 years is moving over their former D&H North Creek branch. Now the Saratoga & North Creek Railway, the 57-mile road is part of the Iowa Pacific Holdings family of short lines and connects with Canadian Pacific, owner and operator of the D&H since 1991, just north of Saratoga.

These first cars are garnet rock en route to Reserve, Louisiana via CP and CN/IC; Seattle will be a second destination. The ops plan calls for thrice-weekly service in RBOX cars from CP. Ellis tells me this is just for openers; what he calls "high friction granite," will be the real prize, moving in significant volumes. Other potential commodities include iron ore, hardwood forest products, aggregates, inbound coal, and general merchandise.

I rode the line with Ed, some mutual friends from the CP and ASLRRA as well as railroad photographer and author Jim Shaughnessy (he covered this branch extensively in his D&H history) about a year ago on an ex-Santa Fe full length dome car, complete with breakfast. This is in regularly scheduled service, timed to meet Amtrak's Vermont and Montreal two train pairs at Saratoga Springs.

The line was built as the Adirondack Railroad in the mid-1800s to open the Adirondack Mountain region to rail service. Over the years, the line handled large quantities of ore, processed minerals, and general merchandise freight. The last freight train over the upper portion of the line operated in November, 1989, and in 2003 the freight service for the International Paper plant in Corinth was discontinued (passenger service ceased in 1956).

The north half of the line was purchased by Warren County in 1997, the southern half from Corinth to Saratoga Springs was purchased by the Town of Corinth in 2006. Iowa Pacific bought operating rights to the line as far as North Creek in 2011, investing some $1.5 million in new rail, ballast and OTM plus passenger stations and ancillary facility upgrades. Then last year IPH bought the 29 miles beyond North Creek to Tahawus from owner National Lead.

Out on the West Coast, Santa Maria Valley Railroad President Rob Himoto reports that he's seeing new and increased business from customers with origins and destinations on Canadian National and Union Pacific. Rob says that though the final 2012 numbers are not yet in, "This could be possibly the best year the railroad had in 20 years. For 2013 we are coming out of the gates strong with big increases year over year for both January and February. This is despite losing a major customer last July."

And back on the East Coast, Eric Moffett at the Grafton & Upton in Massachusetts writes, "Last October we opened a new warehouse transload in Hopedale, Mass on tracks that had not been active in over 20 years. We were able to capture some lumber products as well as local paper moves -- both in box cars.

"The transload facility we opened in 2010 as a wood pellet transfer site is now seeing bulk wood pellets transloaded from rail to truck, so we're growing -- one car at a time. GU handled 112 total cars for all of year 2009; in 2012 GU did 1,213 cars for the year. That's about 93 cars per mile for the GU, making us one of CSX's fastest growing (percentage basis) shortlines for 2012. The outlook for 2013 is 1850 cars per year or 142 cars per mile."

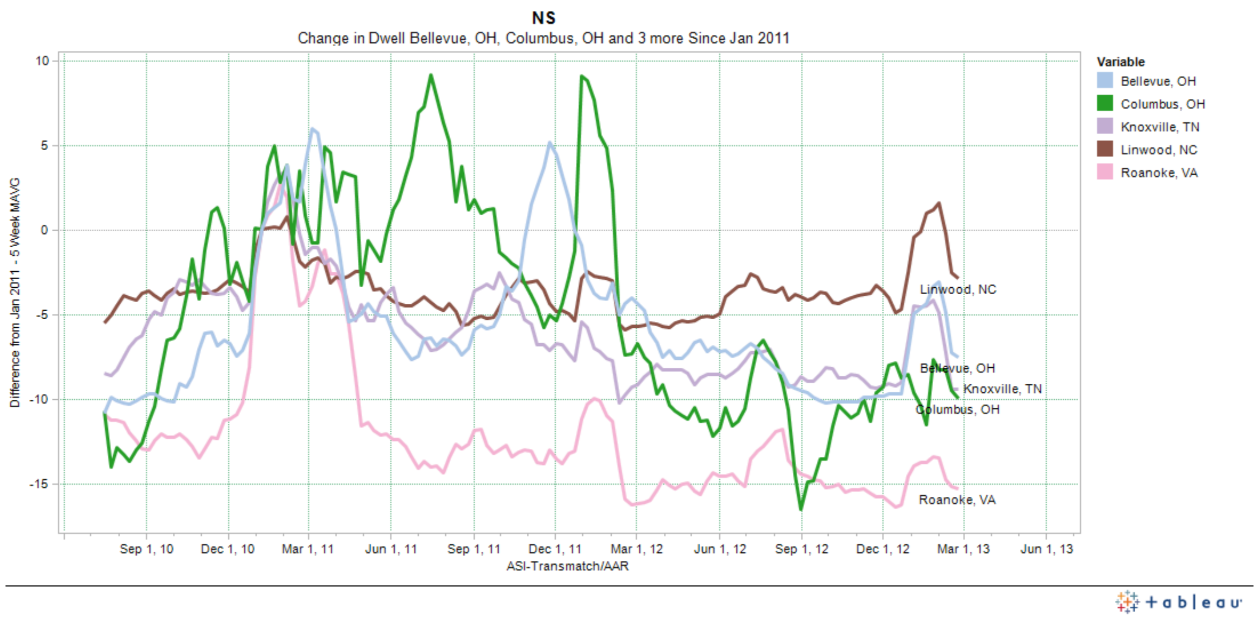
So what Eric, Ed and Rob are all saying is they have discovered new uses for old facilities, doing something about local scenarios that would otherwise suggest shrinking volumes.

NS appears to be taking a page out of Hunter Harrison's hump yards book. The Shaffer's Crossing hump in Roanoke is toast. Monday's press release says the yard "will continue to provide service to local customers, and to be a hub for through-train operations." The place is clearly nowhere near as busy as it used to be. Every year while in town for the NS Shortline Meeting I go out there to see what's happening, and every year there's less and less.

Says NS, "The Roanoke hump operation has seen a steady decline in the volume of general merchandise cars handled, now about 30 percent off 2006 volumes. At the same time, system-wide improvements in the railroad's operations have freed up network capacity such that classification operations now performed at Roanoke are no longer necessary." I'll say.

Week 7 carloads ex-intermodal, coal and grain are flat year-over-year. The only carload positives in Don Seale's 4Q2012 slide presentation are in petrochemicals, housing and construction. NS Week 7 (Feb 16) merch carloads are down in Metallic and Non-met Minerals, Auto and Other. So it's easy to see what's happened in places like Winnepeg and Bensonville on CP is happening here. More run-through single-commodity trains, smaller customer inventories driving LCL deliveries, and less coal mean more trains can run farther between class yards.

This dwell time chart compares Roanoke with a few other yards that build trains going through there. All are improved but Roanoke is a third or more better than the others. I suspect it's because the yard classifies fewer cars so OT departures are up and dwell times are down. And if that's the case, short lines who make their living on cars that must get classified along the way will cheer the development. Now, for example, if you're in Hagerstown en route to Birmingham or reverse, you can block for the distant node and not have your car waste a day in Roanoke.



I think it will be good for short lines in the short run as well as the long run. Such merch carload biz as remains will spend a day less for every class yard skipped between O-D pairs. What I'm hoping now is we'll see NS make quantum leaps in improvement for T&E overtime, crew starts, re-crews, car-hire, trailing tons per available horsepower, GTMs per gallon and empty days per car. Then we'll know the hump yard closures are working.

Meanwhile, Wall Street doesn't seem to be getting the message. NSC shares have lagged the recent hype about rails in general and crude-by-rail in particular. Yet my sources show NS the dominant player in forwarding trains off BNSF in Chi to eastern refineries. NS also waybills a portion of the CP origin trains terminating in the North Jersey and Phila Conrail Shared Areas. But if the Shaffer's Crossing hump closure is a foretaste of the feast to come, we will surely see points off the OR as expenses fall and revs grow thanks to better transit times.

The theme for this year's CSX Shortline Meeting is "Aim High, Grow Stronger." This year is Shortline XXIV, the longest-running such show in the biz. It happens March 3-5, 2013 at -- no surprises here -- The Renaissance at World Golf Village off I-95, 33 miles south of Jacksonville. This year's theme will be, "Aim High, Grow Stronger." Clearly the theme relates to the Total Service Integration -- Merchandise Model, headed up by VP Transportation Cindy Sanborne.

When I interviewed CEO Michael Ward for the February 2013 *Railway Age* CSX Capex story, he said, "What customers say they want most is for us to be there when they say they will be, with the right number of cars, and 'if you can't, tell us.' " TSI seeks the ideal train configuration: loco and crew assignments, the right cars on the right trains, more cars per train and more tons per car -- "The Holy Grail of Railroading," says Ward. "And Cindy's the right person for the job -- probably the most customer-focused chief transportation officer in the business."

I asked Ward how they measure all these variables.

> Our Industrial Service Excellence (ISE) measure is really a work order compliance tool. Does crew do the work on the work order? But what if car is not on the work order? That's an ISE failure, so we're changing the metrics to make sure that cars that are supposed to be on the work order actually are on it. The customer doesn't like to see cars that are scheduled to to be at his place still in the yard. It's worse than having the road train a day late. Conversely, if they load a car and release it, we better go get it or it's a service failure. We can make big changes to make local service more cost effective.

TSI really drills down into first-mile, last-mile details, and that's precisely where short lines live. Better local service begets more happy customers, and happy customers put more freight on the rails. Seems to be working. Year-to-date CSX merch carloads (total units less intermodal, coal and auto) are off only one percent. Carload gainers include chems, 11 percent of YTD units and

Commodity	YTD 2013	YTD 2012	YTD Chg	2013 % Vols
Agr 01,20	53,766	58,206	-7.6%	6.5%
Chems 28,29	91,972	88,127	4.4%	11.2%
Coal	144,118	169,937	-15.2%	17.5%
Forest 24,26	35,050	35,087	-0.1%	4.3%
Met Mins	36,534	36,534	0.0%	4.4%
Auto	51,383	53,488	-3.9%	6.2%
Non-Met Mins	60,015	58,132	3.2%	7.3%
Other	30,821	35,257	-12.6%	3.7%
Intermodal	318,973	310,014	2.9%	38.8%
All-in	822,632	844,782	-2.6%	100.0%
Ex-IM	503,659	534,768	-5.8%	
Ex-coal	359,541	364,831	-1.4%	
Ex-auto	308,158	311,343	-1.0%	
Source:	Dahlman Rose Week 7			

where CSX puts frack sand, up four percent; non-metallic minerals and products, seven percent of vols, up three percent; forest products and metallics, four percent of vols each, unchanged. I'm thinking that shortliners would find it worth their while to take these numbers into their breakout sessions to see where their properties fit and how they can use TSI to bring their numbers up.