

THE RAILROAD WEEK IN REVIEW

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“Emergency Response Services will offer customized emergency preparedness and response solutions tailored to specific risk profiles” -- Chief Robert C. Andrews, Bob Andrews Group

The recent Lac-Megantic tragedy has created an immediate need for a pro-active railroad industry process to prevent a recurrence and limit the damage if there is another such incident. And there will be, even as crew sizes have come down to two from five while FRA injury and incident rates have come down markedly. Yet it still takes just one person not following Best Practices to get himself or somebody else hurt. Think Chatsworth, e.g.

Moreover, given the myriad reactions and responses to the Megantic event, one can only conclude that the best prevention comes from having the railroad industry offer its own solution and not wait for solutions to be forced upon the industry by well-meaning regulators, public officials, elected officials, concerned citizens, experts, and others.

Non-Class I railroads that are handling crude-oil unit trains are particularly vulnerable in any accident approaching the scale of what we saw in Quebec. Industry leaders and regulators have been very good about promptly issuing Best Practices guidelines to prevent such accidents, but not much has been said about containing the damage.

Based upon what we are seeing in the aftermath of the Lac-Megantic accident, the non-Class I carriers appear to be more vulnerable than the Class Is:

1. Most short lines do not have the financial resources, nor are of sufficient net worth, to pay for the potential costs and claims associated with a Lac-Megantic-type event.
2. Many short lines are either under-insured or non-insured for such an event.
3. Short lines do not typically participate in the American Chemical Council’s “Responsible Care Program”, as Class 1 railroads do, yielding as they do a much higher “level of care” in the handling of chemical, hazmat, and TIH commodities.
4. Short lines do not as a rule have robust emergency planning, emergency preparedness, nor first-responder training programs. (This spreads to NIMBY concerns about ethanol terminals.)
5. As we’ve seen with the MMA bankruptcy, unless significant procedures to reduce the risk of moving crude-oil unit trains by short lines are implemented, these short lines are betting the farm every time they move a crude-oil unit train.

A best-practices solution will significantly reduce the hazards, and the associated damage, should an accident similar to Lac-Magantic happen in the future. The overall goal is to respond quickly to a derailment or similar event where product is released, and contain the spill/damage/fire rapidly. The faster the emergency is mitigated, the smaller the impact is to the railroad, the

public, and the environment, resulting in a much-reduced overall accident cost. Once implemented, a best-practices solution would address the following “hot ticket” items:

1. The flammable risk inherent to crude oil unit trains will be mitigated by dramatically enhancing firefighting and emergency response.
2. The training of public first responders will be dramatically increased over each unit train route.
3. The enhanced firefighting and emergency response program will provide a counter-measure to the concerns related to the current design of DOT 111 tank cars.
4. Such a program, as adopted by a shortline railroad, will show a pro-activeness by that short line equivalent to the ACC “Responsible Care” program.

The crude-by-rail phenomenon is not going away. According to the July 2013 AAR “Rail Time Indicators” report, oil-train traffic for July 2013 was up 24.9 percent over July of 2012, and July 2012 was up 86.2 percent over July 2011. Railroads remain cost-competitive versus truck and are only bested by pipelines (which are long lead solutions to build, and then are only effective if they run where they need to).

However, in order for railroads to enjoy this market, and not bet the farm on every move, they need to increase their emergency preparedness and response capability. While the costs of these necessary improvements would initially be borne by the railroad, they should then be passed on to the oil producer or shipper and ultimately passed on to the consumer. The economics of the crude-oil marketplace are such that there is enough room to bear these reasonably small incremental costs to increase emergency response capability.

The fact that governments are forcing railroads to accept hazardous shipments under their common carrier statutes, but then leaving the cost of an accident to the railroad, at the railroad’s extreme peril, has also been well illustrated post the Lac-Megantic accident. This situation must be resolved. Increasing emergency response capability, passing those costs on to the consumer, reducing the railroads’ risk while still allowing them to carry these dangerous goods while meeting their common carrier obligation will in combination present a win-win-win proposition.

Step One is coordinating handoffs and continued care with the Class Is. They all have supported short lines in hazmat training. I commented on the BNSF first-responder program being extended to short lines Aug 23 and last week I got assurances from Union Pacific that they will engage short lines even as spelled out for their own local customers in the 10-K:

[UPRR Security Measures – We maintain a comprehensive security plan designed to both deter and to respond to any potential or actual threats as they arise... Our employees undergo recurrent security and preparedness training, as well as federally-mandated hazardous materials and security training. We regularly review the sufficiency of our employee training programs. We maintain the capability to move critical operations to back-up facilities in different locations.](#)

Which is all to the good: train crews learn how to recognize different types of fires and what to do until the first responders arrive. That's where the Bob Andrews Group comes in. Chief Andrews has been fighting oil fires around the world for some 30 years. He also knows railroads, too, and is in the process of rebuilding a set of PRR Broadway Limited cars, incorporating state-of-the-art fire suppression systems designed specifically for excursion trains, Ed Ellis' Colorado operation being Exhibit A.

Based -- not surprisingly -- in San Antonio, Bob originally hails from Philadelphia, ergo his Broadway Limited interest. We were first acquainted some years ago when he joined Philadelphia's Union League and became active in the League's Civil War Round Table Group. We first began talking about crude-oil train emergency preparedness when the Philadelphia area started seeing such trains heading for half a dozen refineries and other destinations. And when the MMA had its incident, Bob went into overdrive to find the best means to contain the inevitable damage that ensues when a trainload of crude oil comes off the rails.

This week he issued his first press release, excerpts of which follow, emphasis added:

*The Bob Andrews Group, LLC (BAG) today [Sep 4] announced the formation of BAG – Emergency Response Services, LLC (BAG-ERS), a wholly-owned subsidiary that will focus on providing specialist emergency preparedness and response services to protect crude oil unit trains in North America as well as the communities in which they operate. The new company will provide industrial firefighting specialists as well as *specially-designed firefighting equipment aimed at crude oil unit trains and their associated fixed loading and unloading facilities.**

Andrews will create user-specific emergency preparedness plans to address the frequency and routes of unit train travel, the population density and any environmental sensitive areas along the route, and the current preparedness level of local first responders. The company will apply three emergency response deployment models, alone or in combination, in order to provide sufficient personnel and equipment to curtail the growth of an emergency in its earliest stages and within agreed-to response time parameters.

Location options include both wayside fixed emergency response facilities housing specially designed, hi-rail equipped, firefighting vehicles, as well as purpose-built firefighting railcars that will be part of the crude-oil unit train consist. Says Andrews, "Being able to interrupt the growth of the fire or emergency at its earliest phase is critical to preventing a Lac-Mégantic -type disaster in the future." He has a point.

Norfolk Southern's shares continue to languish. A lead item from *TopStock Analysts* this week suggests that if under-performing shares led Bill Ackman to target CP and The Children's Fund to target CSX, then who knows what shareholder activist might be out there licking his chops over Norfolk Southern? The railroad has a great franchise that builds on its Southern-NS-PRR

heritage, has an impressive intermodal network, has led the field in computerized network operations, and a first-rate operating plant. So what's wrong?

Two things, I think. First, coal. Every quarter we see coal tonnage slip a little more, to the point where second quarter 2013 tonnage is down 14 percent since the 2011 second quarter. Utility coal is 63 percent of the total now vs. 69 percent then; tonnage over the two years is down 21 percent. Export coal is 21 percent of the total now vs. 17 percent then and is actually up three percent over the two years. My gut feel is that total coal tonnage will settle out at roughly 40 percent of what it was in its heyday, and ain't never coming back.

Second, cost control. Compared with the other five reporting Class Is, NS for the first half of 2013 posted the second-highest operating ratio (CP took the dubious honors here), had the highest operating expense per thousand gross ton-miles and thousand gross ton-miles ex-fuel. Second quarter revenues slid 2.5 percent and system RPU dipped 4.6 percent, both worse showings than their Class I peers.

I have no doubt the NS core railroad is running like a TOP (pun intended) and every quarter Chief Operating Officer Mark Manion has the charts to prove it. But I also suspect NS has yet to get its arms fully around what the STB's R-1 report calls "way freights" -- the first-mile, last-mile train services to local customers and shortline interchanges. Comparing NS and CSX stats from the R-1s is instructive.

NS and CSX operate roughly the same number of route-miles. NS operates one-third fewer train miles but 18 percent more way train miles. NS runs 8 percent fewer loco miles but 59 percent more miles in way freight service; NS uses 1.75 units per way freight to CSX's 1.35. Both roads run the same ratio of RTMs to total GTMs yet NS runs 83 percent more GTMs in way freight service. NS gets 11 percent fewer GTMs per loco owned than does CSX and runs 1.5 times as many car-miles in way freight service than CSX does.

For the sake of argument, assume local service ops cost per car ex-fuel and power in local service are about equal. However, if it's costing both roads about the same in local service and NS is running half again the way freight tonnage of CSX, you can see where at least part of the OR spread might be.

I realize this may be new mileage in the use of R-1 and desktop data; however, my sense is that if NS puts its laser-like focus on local ops, costs will come out and per-car yields will increase faster than you can say Thoroughbred Operating Plan. And share-holder activists need not apply.

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