# THE RAILROAD WEEK IN REVIEW

## November 15, 2013

*"Total third quarter revenue was $66 million, up five percent, RPU increased nine percent and our EBITDA margin was 31 percent." -- Jim Hertwig, FEC President*

**At Canadian National, winter railroading i**s truly an outdoor sport. Acknowledging same, the railroad has formalized its WinterREADY Plan. This year, CN has involved customers in winter planning, the better to continue CN's unique supply-chain focus. Follow the link provided and read the five steps to Being Prepared, how and where CN is adding capacity, and what they're doing to make sure power and freight cars are in position.

By way of example, CN has invested C$100 million so bigger, longer trains can flow between Edmonton and Winnipeg, adding yard space so trains won't be be held out. (Those on last year's *Canadian* trip Vancouver to Toronto can tell you the horror stories; I'll be aboard when we do it next Jan.) Among the upgrades: new sections of double-track, additional long sidings and significant work on the parallel Prairie Line, providing a useful detour route and escape hatch.

There is absolutely no reason for any railroad, large or small, to be ill-prepared this winter given CN's roadmap for winter preparedness. I mean, you may not be able to afford -- or even need -- standby crews, but nothing's stopping you from -- borrowing from CN's WinterREADY Plan -- having enough generators, starting snow removal as soon as the flakes fall, and, most of all, giving customers the tools to keep you posted on their ability to take cars.

**Washington's Columbia Basin Railroad** (CBRR) joins the growing list of short lines interchanging unit trains with its Class I connections. Last week CBRR took delivery of its first unit train of canola seed destined for for the  Pacific Coast Canola facility in Warden, Wash. The 16,500-ton train was loaded at the Cenex Harvest States facility in Milton, N.Dak., and then traveled 1,345 miles to the Port of Warden via BNSF.

PCC's canola crushing and oil refining facility at the Port of Warden is the first and only commercial-scale canola seed crushing operation west of the Rocky Mountains. Given the Port of Warden's central location on the CBRR and its close proximity to Interstate 90 in the heart of a multi-state region that is ideal for canola production, the PCC facility is well positioned to supply the expanding demand for canola products on the West Coast of the U.S.

This first unit train shipment was the culmination of efforts that began in 2005 when a site at the Port of Warden on the CBRR was identified for a biodiesel facility, and then evolved into a canola seed crushing plant that produces canola oil. The plant began producing canola oil in January of 2013, but has ramped up production in the second quarter by receiving single railcars of canola seed from last year's crop along with some truck deliveries. CBRR President Brig Temple says a 110-car train is about ten days worth of raw material.

Columbia Basin Railroad is one of two properties run by the Yakima-based Temple family. The other line is the Central Washington Railroad operating over former NP trackage between Yakima and Prosser. The two properties handle in the neighborhood of 10,000 cars a year.

**Genesee & Wyoming October carloads** (one intermodal box is one carload) increased six percent to 145,894 units on a pro forma basis, counting RailAmerica's October, 2012 carloads as if the two companies had been combined at that point. Loads were up six percent over September, 2013 and year-to-date up five percent to 1.4 million units. Coal & Coke turned the corner, up three percent, with the commodity group the largest of all at 18 percent of loads.

Metals (nine percent of loads) increased nine percent on strength in the south, northeast, Canada and Ohio, though metallic ores came down one percent; scrap was up seven percent. Forest products (both STCCs) were up five percent and petroleum products rose 20 percent mostly on crude oil in GWR's Pacific Region. Merchandise units (ex-intermodal, petroleum and coal) increased five percent as well.

Elsewhere, some 30 cars of a 90-car crude-oil train on GWR's Atlantic & Gulf Coast Railway derailed and several caught fire in a remote area of western Alabama about 0100 Friday morning, November 8. The train was off the BNSF interchange at Amory, Mississippi *en route* to the Genesis Energy terminal in Walnut Hill, Florida. There product is pumped into a regional pipeline and delivered to an 80,000-barrel-per-day Shell Chemicals plant near Mobile, Alabama. This particular process has been in place since August, 2012 so it's nothing new.

What is new is the highly-commendable way GWR handled the news aspects of the incident. Undoubtedly, the first questions are going to be about track conditions and train handling. Here, GWR on-line commentary defuses the question:

"The locomotive data recorders indicate that the train was traveling below the posted track speed of 40 mph. No issues have been found with the performance of the train's two-man crew. Federal regulations require that the track be inspected weekly, and the track was last inspected on Monday, November 4, 2013. The most recent train to traverse this section of track was approximately 2.5 hours prior to the derailment."

This is exactly the kind of proactive response that is needed. Kudos to the entire GWR team for taking what I call the Tylenol approach, named after J&J's rapid response to a perceived product quality incident some 30 years ago. Eight people died from taking cyanide-laced Tylenol that had been tampered with after being put on store shelves. But J&J immediately recalled the product, reacting to the crisis swiftly and decisively, launching a massive public relations campaign urging the public not to use Tylenol. The company also ordered a national recall of 264,000 bottles of Tylenol and offered free replacement of the product in safer tablet form.

The source of the poison wasn't discovered until after the recall, but J&J's swift response immediately became the model for prompt action after something going horribly amiss. I'm very pleased the way GWR took a page from the J&J playbook.

**Florida East Coast's third quarter** total revenue increased five percent to $66 million, operating expense was up nine percent, and operating income decreased six percent to $14 million. The operating ratio rose 2.6 points to 78.9 from 76.3 a year ago. Comp & benefits expense increased 21 percent on more hires, additional rail testing expense helped push up purchased services 12 percent, locomotive fuel expense was up 11 percent on burn and price, and higher intermodal lease cost was part of the 14 percent car hire gain. A $700,000 45G credit eased "other" expense by nine percent. The injury rate came down a full point, 2.73 to 1.74.

FEC is predominantly an intermodal railroad, with boxes contributing 65 percent of revenues and 79 percent of revenue-unit volume. Merchandise carloads from chems to crushed stone account for the balance; crushed stone is more than half the carload business. Within the commodity sectors, intermodal revenue increased seven percent on vols up one percent and RPU up seven percent on yield management and value-pricing (the system average RPU grew nine percent). More ethanol pushed chems vols up 41 percent, thanks in part to a new multi-year ethanol contract dating from 4Q2012. But crushed stone vols got crushed for a 24 percent drop due to a three-month hiatus in the FLL airport project lasting the entire third quarter.

To be sure, FEC has seen some swings in year-over-year results, but I think it's all part of being a Work in Progress. Some regionals would kill for comp and benefits anywhere close to a mere 20 percent of revenues. Or turn a two percent volume drop into a six percent freight revenue gain. Or trim a full point out of the PI ratio in three months time. Well done.

**Don't forget RailTrends** in NY next week. I will be there Day One and expect to see a fair number of my fair readers there: Hotel W, 49th and Lex. I for one hope to hear Hunter tell us where the revenue will come from Thursday at 0915; having Jack Hellman (GWR), Rick Webb (Watco) and Tom Hoback (Indiana Rail Road) up after coffee at 1045 will alone be worth the price of admission.

Jim Squires, recently tapped NS President, holds forth after lunch on energy and industrial commodity trends and his boss, Wick Moorman, tees off Friday's proceedings with his *Innovator of the Year* award; CSX VP Trans Cindy Sanborn will tell us how the Carload Total Service Initiative works wonders for all players. And that's just the beginning. See you there.