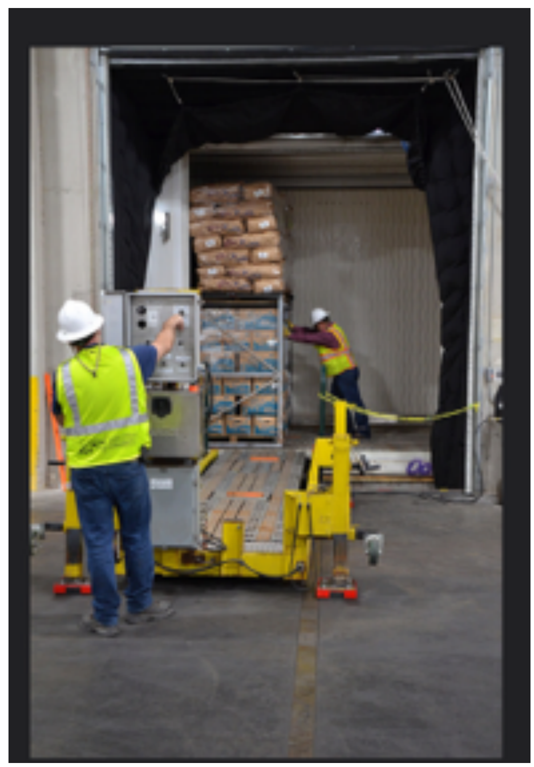
RAILROAD WEEK IN REVIEW

June 23, 2017

"Our Supply Chain Services group brokered farm-to-table pricing with one invoice versus the 7-8 in the current supply chain." — Stefan Loeb, EVP, Watco

Spuds by rail a winner. Watco's Eastern Idaho Railroad has teamed up with Union Pacific and Norfolk Southern to move Idaho potatoes to northeastern markets in Watco-leased 72-foot, Plate F, 100-ton mechanical reefers. End users include a gamut of customer types from local grocery outlets to McDonald's. The service is branded the the Perishable Express.

Watco and the origin shipper designed rollerized steel racks, each of which holds four standard grocery pallets of either boxed or bagged product. These are loaded end-first into the car, then rolled sideways into position, so there is no gap between the car wall and the rack, thus avoiding the need for space- and money-wasting dunnage. Each car takes exactly four truckloads worth.



Photos by Stefan Loeb

EIRR has partnered with Handy Truck Line out of Paul, Idaho to deliver product to the Watco facility in Burley. Loads move to the UP at Minidoka, then onto the UP Food Train (successor to Railex, which I rode and wrote about in *Trains* some years ago) at Pocatello, destined for UP's Global 3 terminal in Chicago.

An intermodal transfer takes the cars over to the NS Ashland Avenue facility, where they become part of an eastbound intermodal train consist that sets the EIRR loads out at the Bethlehem intermodal facility. Lehigh Valley Rail makes the final, last-mile move to the destination facility, convenient to I-78 on the east side of town. The move is truck-competitive, too — scheduled for ten days (and beating that regularly) vs. eight for a truck.

I asked Watco's Stefan Loeb, EVP for Network Strategy, what they had to do to create this customer. Says he, "It took a multi-faceted approach. You need better service to win business, so we worked on the FoodTrain/intermodal solution. The current 50-foot ARMN cars are being retired, and our solution is the 72-foot car that let us eliminate damage and dunnage with the unique racking and roller system. Our Supply Chain Services (SCS) group brokered farm-to-table pricing with one invoice versus the 7-8 in the current supply chain.

"In essence, we basically took a broken, inefficient 40-year old supply chain and completely transformed it into the most truck-competitive offering in existence. And it's not just potatoes. Watco has shipped butter and onions as well. With the racking system, Perishable Express allows receivers to determine what's in each car. Having the SCS one-invoice solution is the special sauce that makes it all work." Don't you love it?

PFL is a railcar brokerage outfit that sends out periodic updates on the state of the car-leasing industry and what's available. Summary: Covered hoppers (mostly grain, plastic pellets, cement) and tank cars collectively handle half of all rail moves. However, truck-hauled west Texas brown frac sand is replacing some long distance white sand. PFL says this new disruption is expected to impact source mines and their rail logistics.

PFL sources cars for both sides, lessors and lessees. They are long covered hoppers and tank cars, and short cement cars and small-cube covered hoppers (Texas brown sand by truck ought to relieve some of this). Tank cars are another story. The non-pressurized general service fleet is shrinking, with thousands of cars being scrapped.

FTR's Dick Kloster puts the tank car picture in perspective. There are more than 400,000 units in the national fleet with general purpose and pressurized cars making up more than 90% of the total. Chemicals and petroleum products make up nearly four out of every five loads. Shippers and leasing companies own all but a few, and ownership is shifting to lessors from shippers.

Cowen's Matt Elkott writes that we could see orders for more new cars this year and next, and that orders for small-cube covered hoppers predominate with some 7,000 new units coming off the assembly lines in 2017. Moreover, "monthly lease rates on frac sand cars are hovering around the high $400s, a significant increase from the roughly $250/month bottom seen last year."

As more commodities move in leased equipment, the need for reasonable cycle-times is even more critical. If you're paying $425 a month for DOT-111 tank cars, or $385 a month for 5250 cu ft covered hoppers, and getting one turn a month, you're paying nearly $4 a ton in lease cost.

Turn that car twice a month and lease cost drops to $2 a ton. Where margins are thin (grain farmers will kill for a penny a bushel), that per-ton last penalty can mean the difference between many cars and no cars.

Texas shortline operator TNW Corporation is another outfit celebrating more than 30 years of operation this year. The Dallas-based owner-operator of shortline railroads and logistics center was yet another beneficiary of the 1980 Staggers Rail Act that deregulated the American railroad industry to a significant extent, replacing the 1887 ICC regulatory structure, and making it easier for Class I roads to shed under-performing branches.

TNW Corporation started in 1982 as the holding company for a shortline railway, Texas North Western Railway (TXNW), serving customers in the Texas panhandle near Sunray, Texas, with an interchange connection on the Burlington Northern Santa Fe. Fast forward to now, and TNW is a holding company for three shortline railroads and three logistics centers in Texas.

The company supplies railcar storage, servicing, cleaning and repair services. It also operates logistics parks that include manufacturing, storage and agricultural facilities for on-site companies that use short line railways to import raw materials, export finished products and maintain their daily operations.

CEO Paul Treangen says, “We’re extremely proud of the progress the company has made since 1982. Through steady internal growth and a series of strategic acquisitions, we have built a solid foundation for continued success in the future. As we continue to expand our operations and become more involved in economic development initiatives with the communities and commercial development entities in our market areas, TNW is well-positioned for future opportunities.” I’ve known Paul for years and his word is his bond. Look for more to come.

Allison Landry, Credit-Suisse lead rail analyst, says GWR is a “natural beneficiary of Class I spinoffs, particularly if NS and CSX speed up the right-sizing of their asset bases to the new norm for coal.” She adds, “GWR could pre-block trains for CSX before it picked up the freight; and since we know that Hunter likes to touch a carload only once (to the extent possible), GWR would get paid for this value-added service.”

I’m not so sure that’s unique to GWR, and many short lines are in position to pre-block already. As for CSX spin-offs, Hunter’s MO is more to buying short lines than spinning them off. Says he, why should I support a short line with an OR of 90 when I can do it for 60?