RAILROAD WEEK IN REVIEW

November 22, 2019

"Carload trip plan compliance rose to a new record, 82.5 percent in October. By way of review, trip plan compliance measures success in meeting end-to-end customer departure and arrival commitments made for every revenue unit based on a specific time of arrival." — Jim Foote, CSX President & CEO, 2019 Baird Global Industrial Conference

"The inevitable final form of the professional allocator or adviser is not so much the nihilist as the practitioner of serendipity. They recognize that randomness reigns and control what they can control." — Rusty Guinn, Epsilon Theory, November 20

Comparing rates of change for revenue units and revenue per unit over time can be very helpful. For example, there has been a lot of chatter about how PSR-driven service changes and market-based rate increases have affected total commodity revenue.

Here I compare CSX and NS paper volumes and RPUs from the 2015 first quarter with the same numbers for the 2019 second quarter. Carloads for CSX, arguably the more aggressive in applying PSR principles, have declined by 35 percent compared to the 12 percent drop at NS. At the same time CSX has taken up generic paper RPU by 32 percent to Norfolk's six percent.

STCC 262 (generic paper) Rates of Change

Road/measure	2015 Q1	2019 Q2	Chg	Chg %
CSX Carloads	16,536	10,724	-5,812	-35.1%
NS Carloads	25,111	22,137	-2,974	-11.8%
CSX RPU	$1,564	$2,056	$492	31.5%
NS RPU	$1,093	$1,154	$61	5.6%
CSX Total Revs (mm)	$25.9	$22.0	-$3.8	-14.7%
NS Total Revs (mm)	$18.1	$12.4	-$5.7	-31.5%
Source: USRailimpact QCS tables				

At first blush it would appear the more aggressive RPU increase at CSX has had a much greater effect on carloads than the more modest RPU gain for NS. But on total revenue, CSX declined at half the rate seen at NS. Which suggest the CSX has been more selective in balancing prices and volumes. Some paper commodities can support higher margins than others, and CSX seems to have done the better job at balancing the two.

This further suggests that customers with access to both roads would be well-served by seeing where their commodity OD pairs fit the relative values to each carrier. And short lines with access to both would do their customers a great service by taking the lead in this analysis.

Shortline operator R. J. Corman Railroad Company has won three of the five ASLRRA 2018 outstanding safety performance awards, presented at the Association's annual Southern Region meeting held Nov. 11-13 in Charlotte, N.C., for the Southern Region. The awards were:

Most Hours of Injury-Free Operation – R.J. Corman Railroad Company/Central Kentucky Lines
Best Safety Rate, greater than 500,000 man-hours – Florida East Coast Railway
Best Safety Rate, 150-250,000 man-hours – R.J. Corman Railroad Company/Central Kentucky
Best Safety Rate, 50-150,000 man-hours – R.J. Corman Railroad Company/Memphis Line
Best Safety Rate, less than 50,000 man-hours – Alabama Warrior Railway

Presenting the awards, ASLRRA President Chuck Baker said, "The recipients of our President's Awards lead our industry in safety, striving each and every day to value safety above all competing priorities. Their impressive performance, with either zero reportable accidents, or the best safety rate below the industry average per man-hour of operations, has led the way to record levels of safety performance for the short line industry."

Corman operates more than 1,000 route miles across 14 short lines in ten states, handling some 80,000 revenue units a year. The company's shortline involvement began with founder Rick Corman's purchase of the Bardstown Line in January of 1987. Eight months later, he purchased the Memphis Line in Guthrie, Kentucky. Those two lines, spanning 180 miles of track, have grown into today's holding company, in effect increasing operating miles by a factor of more than five over 30 years.

The largest railroad in the R. J. Corman system is the Pennsylvania Lines, consisting of 243 miles of track in the Clearfield coal district over rails originally put down by the PRR, B&O and NYC. The principal interchange is NS. The Central Kentucky Lines consist of nearly 150 track-miles, serve some 30 customers, and interchange with NS and CSX.

In August 2015, R. J. Corman purchased a pair of present-day short lines operating over ex-ACL track radiating out from Mullins SC to Myrtle Beach. Last year, the company was awarded a USDOT TIGER VIII grant to carry out an extensive rehabilitation project on this railroad. Most recently, in January 2019, R. J. Corman acquired the Nashville & Western and the Nashville & Eastern from the previous shortline operator. No doubt they're looking to lather, rinse, repeat.

RailTrends 2019 sold out once again as more than 250 souls representing Class I railroads, regional railroads, short lines, suppliers, government agencies, and financial analysts gathered in New York City this week. The program and side conversations were rife with themes and threads shortlines can use to enhance the railroad value proposition.

In addition to the formal presentations, the event gave one the chance to have one-on-one conversations with industry leaders. UP's Kenny Rocker, EVP Marketing, says they're at 70 percent trip plan compliance; short lines can help cover the remaining 30 percent with technology and visibility. J Ruest, CN President & CEO, calls on short lines to look beyond track side with transload and maybe even intermodal services. John Scheib, NS' chief Strategy Officer calls on the industry to lower the customer effort needed to use the railroads.

Mark Wallace, CSX' Chief Commercial Officer, reminds us that every revenue unit touch adds transit time and must be reduced. Pat Ottensmeyer, KCS President and CEO (and winner of the RailTrends Innovator of the Year award) says strict adherence to PSR principles is bringing KCS a "new normal" in service design. CP Chef Marketing Officer John Brooks reinforces the shortline message from last month's session in Calgary: Short lines bring a $billion in revenue to CP and are essential in "deepening customer relationships."

Then there was the usual roundup of shortline leaders and thinkers. Once again this year the insights issuing forth were worth their weight in gold. Anacostia's Eric Jacobowski held forth on *Getting to Yes* when you take a new commodity pair opportunity to a Class I. Justin Broyles of R. J. Corman showed how to second-guess Class I goals before they have even elaborated on.

Mike Bostwick of Pan Am Rail showed how persistence and predictability pay off. Watco's Stefan Loeb laid out the value of selling supply chain solutions. Barbara Wilson, President of RailUSA (and newly to the shortline scene after 20-plus years in railroad equipment leasing) stressed the importance of the carload sector as the shortline growth vehicle.

RailTrends 2019 was a perfect antidote to the recent NEARS meeting where the common complaint was how difficult it is to do business with the railroads. The RailTrends session showed how and why the railroads are becoming accessible, reliable, and predictable. I am sorry for those short lines with dogs in this fight who could not attend. The next opportunity is November 19 and 20, 2020. Mark your calendars now.

Canadian Pacific is buying the 481-mile Central Maine & Quebec Railway ("CMQ") from Fortress Transportation and Infrastructure Investors LLC. Thus CP regains the transcon status lost in 1995 when it sold the Montreal-St John line in three easy pieces to area short lines. The $130 million transaction gets CP to St John once again and gives Pan Am Rail, the Eastern Maine, and the New Brunswick Southern single-line access to all of Canada. Fortress will retain ownership of Katahdin Railcar Services (KRS), a tank car cleaning and repair facility.