THE RAILROAD WEEK IN REVIEW
FEBRUARY 27, 2009

"Almost no one in Congress remembers the dark days of the 1960s and 1970s when America's railroads were on the brink of collapse." – Editor Bill Vantuono, Railway Age*, February, 2009*

Continuing the BNSF coal case thread (WIR 2/23), Chris Rooney writes, "Thought-provoking about BNSF. But not so fast. We have made studies of route-specific costing for utilities and others. An *activity-specific cost* can be derived using a combination of public information and train specific modeling such as Train Performance Simulation. Such analyses should (but usually don't) recognize in some explicit way capacity constraints and service constraints *vis a vis* traffic levels and infrastructure costs.

"A classic example is the lore surrounding the original PRB rates. To stimulate business on light-density lines Lou Menk set coal rates at highly attractive levels (around seven dollars a ton) and the dog quickly caught the car or train, so to speak: the rates proved a vexation for years as they were ratcheted upward to match the heavy capex that was required to keep up with demand.

"Many re-regulatory arguments depend largely on ratio-based concepts – as did the STB in its latest decision by reference to 'reasonable needs.' This is really more of a *feel* issue because as a rule there is a level that suggests a threshold for reasonableness. One could argue that a threshold may have been passed, but what about the rest of the analysis? To stop at the reasonableness threshold effectively jettisons the differential pricing argument." Thanks, Chris.

As for the captive shipper argument on short lines, try this one. Andy Cummings writes in the Feb 23 *TRAINS Newswire* that the Dakota Missouri Valley & Western and BNSF Railway "have arranged to haul lignite coal on a shuttle between a mine and a new power plant. The contract, set to start in 2010, will see coal traveling just over 150 miles between the Falkirk Mine near Underwood, N.D., and Spiritwood Station at Spiritwood, N.D."

According to my maps, Spiritwood, Nodak is served solely by the BNSF, it being on the ex-GN "Builder" route between Fargo and Bismarck. The origin is on the ex-Soo about forty miles north of Bismarck. To initiate the service Cummings writes that the short line has bought eighty coal hoppers from Freight Car America and that DMVW will provide service in fifty-car cuts as far as Bismarck for BNSF service beyond.

Like Moba, WY, Spritwood, ND is on a BNSF main and is captive to BNSF. Moreover, unlike the PRB, which has service from both BNSF and UP, Underwood is captive to the short line. At what point does the coal receiver decide to haul BNSF or the short line or both before the STB citing the Moba case as precedent? Never mind it's an easy truck shot down US 83 and across I-94. Who will mind another 200 trucks a week out there? Mr. Obama may have set high-speed passenger rail as a "signature issue" in Pelosi's "stimulus" bill but the Forces of Darkness in Congress are leaning toward re-reg on freight. My bet is the President will do what Congress tells him to do.

The Temple family of eastern Washington state has taken steps to reorganize its Portland Vancouver Junction Railroad (PVJR) out of Vancouver, WA. The Temples first came into shortline prominence when in 1986 they purchased from Burlington Northern the ex-Northern Pacific Stampede Pass line between Kennewick and Auburn. Operating as the

Washington Central Railroad the Temples over the next ten years doubled the original BN business to more than 30,000 cars a year.

Shortly after the BN-Santa Fe merger the BNSF realized it needed a third route across Washington (it had the ex-GN line between Spokane and Seattle and the ex-SP&S Portland route along the Columbia River) and approached the Temples about absorbing the Washington Central. The transaction went though in late 1996. The Temples, however, were not done railroading and so acquired the 84-mile ex-NP branch between Connell WA (on the present BNSF/Amtrak route between Pasco and Spokane) and Moses Lake, naming it the Columbia Basin Railroad (CBRW).

Since then the Temple family has assumed operations on the former UP/NP shared Granger Branch connecting with the BSNF Yakima (ex-Washington Central) line at Gibbon and acquired by lease the 14-mile ex-NP branch between Vancouver Jct. and Battle Ground, owned by Clark County and operated up to this point as the Lewis and Clark Railway (LINC). The Temples renamed it the PVJR and ran it as a subsidiary of CBRW. Then in 2005 the STB authorized CBRW to acquire by lease and operate 19 more Clark County-owned rail east to Chelatchie.

Effective Jan 30, 2009, the Temples assigned all its interests in the 33-mile Clark County line to PVJR. Applicants state that, upon completion of the transaction, PVJR will assume the common carrier obligation regarding the Clark County line. The transaction seems to create a Chinese wall between the Clark County operation and its other two properties. The restructuring reflects that the Clark County line is geographically and operationally distinct from the remainder of CBRW's rail system and that it will insulate each of CBRW and PVJR from the financial, legal and operational risks of the other.

Meanwhile, another short line operation seeks to re-open 33 miles of the old Piedmont & Northern, a former 138-mile traction line running west and south out of Charlotte, NC. (There is a great Wikipedia history of the P&N, even down to equipment, a station list and freight carloads by commodity 1955 and 1956 if you're interested.)

The current plan is the brainchild of one Bill Gray, a Pennsylvania entrepreneur/rail enthusiast who bought the ex-IC Harwood Yard in Evansville and provided rail service on it as the Ohio Valley Railroad. His connection to the outside world depends on Pioneer Rail's Indiana Southwestern, formerly RailAmerica's Evansville Terminal Railroad (bought by Gary Marino in 1996 as RailAmerica's eighth acquisition). Thus in NC Mr. Gray is coming full-circle once again, picking up a property that has cascaded down through owners from Duke Power to Seaboard Airline to CSX to NC DOT, the present owner.

Gray, according to local newspaper reports, has garnered $5.5 million in state and local grants against the projected $7.8 million cost of service restoration. People familiar with the project tell me there is potential business on the line that is well situated along the I-85 corridor. With access to both CSX and NS, a reinvigorated P&N could be a boon to the trucks-off-the-highway movement. However, with capital effectively on strike in this economy, whether Gray makes his September 2009 start date is, according to NC DOT, "still a moving target." I'm not holding my breath.

Over drinks at my club the other evening a stockbroker friend was holding forth on the reason he likes surface transportation equities. He waxed with particular enthusiasm over the dry-bulk ocean carriers such as DryShips (DRYS) or Eagle Bulk Shipping (EGLE), which a *Forbes* on-line article called "IPO standouts." On the other hand, he feels the rails have yet to turn around, as so many rail users are themselves still in the throes of the soft economy.

Maybe not. I keep a screen of stock prices of twenty or so rail-using companies from ADM to X across a wide range of industries. One column of the screen shows the percent change from the 50-day stock price moving average. Gainers include ADM, BGE, FCX, HMC and TM; the list of those whose 50-day lag has fallen to single digits includes BHP, F, NUE and WY.

Combine this list of companies perhaps on the verge of a turn-around with the few glimmers of renewed liquidity (some shortline clients have seen their bankers' previously cold shoulders warming), a rally in corporate bonds (note KSU's recent Dec 2013 issue with a 13 percent coupon is oversubscribed, selling for $104 with a yield of just under 12 percent) and my friend's enthusiasm for the dry bulk shipping companies and we may be on to something – after all, doesn't most of the dry bulk going into the holds get there by rail?

AAR traffic data for Week Six (ending Feb 14) show US revenue-unit volumes down 16 percent ex-intermodal but including coal and auto. Coal (ex-coke) was up a tenth of a percent, chems (ex-petroleum) dipped 14 percent, grain (STCC oh-one only) down 13 percent and metals nose-dived 53 percent vs. Week Six in 2008.

Shortline carloads through Week Six as reported by RMI for 348 names are likewise down 16 percent ex-intermodal (reminder: WIR does not count intermodal because only a few short lines have any at all and among those that do some count boxes a la the Class Is whereas others count platforms a la nobody). Ex-intermodal the top five commodities by revenue units through Week Six are, from most to least, chems, coal, grain, aggregates and metals. Together they represent nearly two-thirds (62.8 percent if you want to nit-pick) of all revenue units; add paper, waste and food ex-grain to hit eighty percent of volumes.

Looking at the top five shortline commodities weekly trends through Week Six, we see chems as the steadiest performer with only one week down double-digits and single-digit losses in the one to nine percent range each week YTD. Coal was up 23 percent in Week One only to drop to double-digits the next week and slowly improving to essentially flat year-over-year. Grain is down double-digits every week but Week Five (up five percent for no real reason) and scrap is staying down 10-12 percent. In sum, these leading commodity groups appear to be less-worse for the short lines than for the Class Is. Could it be that staying close to the customer has something to do with it?

I'd like to think so. Rails are typically seen as leading indicators because companies start increasing inventories before sales pick up. The improving stock prices vs. 50-day averages (above) give us reason to believe these companies are beginning to see signs of increased business and are replacing inventory to accommodate that increase. But don't take those increases in coal, chems and grain to the bank just yet. In the words of UBS' Art Cashin, stay very, very nimble.

RailConnect Index of Short Line Traffic

Traffic Type: All

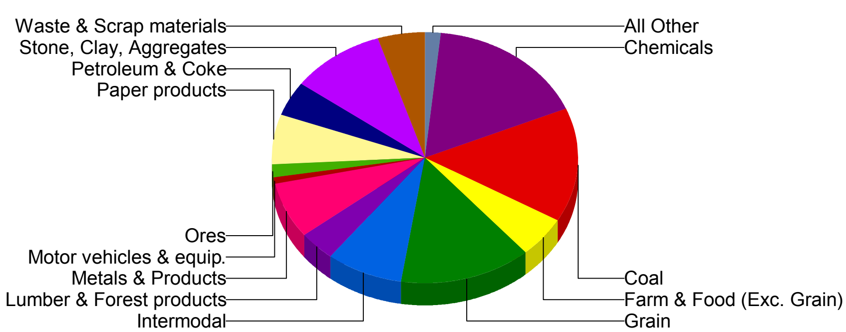
For the week ending: 2/14/2009

Week Number: 6

Carloads Handled	Current Week			Year-To-Date		
	2009	2008	% Change	2009	2008	% Change
Coal	14,457	14,243	1.50%	84,289	87,141	-3.27%
Grain	13,553	15,860	-14.55%	80,079	94,045	-14.85%
Farm & Food (Exc. Grain)	5,328	5,669	-6.02%	31,113	33,276	-6.50%
Ores	1,839	2,849	-35.45%	9,473	17,436	-45.67%
Stone, Clay, Aggregates	10,430	11,878	-12.19%	57,672	64,028	-9.93%
Lumber & Forest products	3,817	4,738	-19.44%	21,479	27,786	-22.70%
Paper products	6,539	7,491	-12.71%	37,964	48,095	-21.06%
Waste & Scrap materials	5,004	6,493	-22.93%	28,060	38,267	-26.67%
Chemicals	16,755	17,632	-4.97%	97,655	105,272	-7.24%
Petroleum & Coke	4,555	6,098	-25.30%	25,452	35,176	-27.64%
Metals & Products	7,775	12,168	-36.10%	41,736	70,322	-40.65%
Motor vehicles & equip.	1,067	2,183	-51.12%	4,834	9,134	-47.08%
Intermodal	7,604	14,804	-48.64%	46,320	81,372	-43.08%
All Other	1,746	3,172	-44.96%	9,438	15,674	-39.79%
Total	**100,469**	**125,278**	**-19.80%**	**575,564**	**727,024**	**-20.83%**

RailConnect Index

Year-To-Date



All Other	1.6%
Chemicals	17.0%
Coal	14.6%
Farm & Food (Exc. Grain)	5.4%
Grain	13.9%
Intermodal	8.0%
Lumber & Forest products	3.7%
Metals & Products	7.3%
Motor vehicles & equip.	0.8%
Ores	1.6%
Paper products	6.6%
Petroleum & Coke	4.4%
Stone, Clay, Aggregates	10.0%
Waste & Scrap materials	4.9%
Total:	100.0%