THE RAILROAD WEEK IN REVIEW

September 11, 2015

"We will continue to invest in the best training available as well as continue to invest in our infrastructure as needed and where needed." Central Maine & Quebec Railway President John Giles, "Open Letter to Megantic," August, 2015

Oscar Munoz has left CSX to pilot United Airlines. After the market close on Tuesday CSX issued a press release saying simply that Munoz has "been named President and Chief Executive of United Continental Holdings, Inc. The changes are effective immediately." (Munoz has been a UCH director for years and was the logical choice following an internal flap that sent the incumbent CEO packing.)

The new CSX line-up is impressive and is yet another demonstration of the strong executive bench Ward has created. Clarence Gooden becomes President, bringing 40-plus years of marketing and operations experience with CSX and its predecessor companies. Fredrik Eliasson steps into the marketing slot Gooden vacates, capitalizing on 20 years of leadership positions across CSX financial management and commodity marketing roles.

Cindy Sanborn moves up to Chief Operating Officer from EVP Operations, having joined CSX in 1987, serving in a succession of operations management positions. And Frank Lonegro, who hired on to CSX in 1999, steps into the CFO shoes from his previous position as Vice President-Service Design, where most recently he led the PTC charge.

Personally, I think it's a winning team. Clarence and I go back at least 20 years and I knew Frederick when he was in commodity marketing. Cindy brings a railroad family heritage as the daughter of Dick Sanborn, who grew up on CSX predecessor roads and went on to be CEO of Conrail. I only met Frank a few years ago when I was working on a PTC story for *Railway Age*, and spoke with him again last March about the then-new 28-hour operating plan. His grasp of railroad financials will serve him and the company well in his new CFO assignment.

Genesee & Wyoming August carloads dropped 11 percent year-over-year for the North American sector; 13 percent if you exclude the 3,055 cars from the three Arkansas lines acquired from Pinsly last January. The big hits were in coal and Class I overhead traffic. In the table below, I exclude overhead from the commodity list because one has little control over what shows up from one day to the next. As you can see, it's half what it was a year ago.

Among commodities, coal/coke volume was again the big downer at 19 percent year-over-year and 18 percent of total carloads. Metals took a 30 percent hit, but is only eight percent of carload volume, down from ten percent a year ago. Pulp & Paper was only off a point, which is surprising, and has increased to ten percent of carloads from nine a year ago. Also in forest products, lumber was off seven percent and remains at eight percent of total carloads.

GWR NA units							
August				2015	2014	YOY	
	2015	2014	% Chg	% Total	% Total	Chg	Cume
Coal & coke	25,099	31,089	-19.3%	17.6%	19.5%	-1.9%	17.6%
Mins & Stone	18,715	18,092	3.4%	13.1%	11.4%	1.8%	30.7%
Ag Products	17,632	17,962	-1.8%	12.4%	11.3%	1.1%	43.1%
Chemicals	14,987	14,292	4.9%	10.5%	9.0%	1.5%	53.6%
Pulp & Paper	14,856	15,007	-1.0%	10.4%	9.4%	1.0%	64.0%
Metals	11,587	16,565	-30.1%	8.1%	10.4%	-2.3%	72.2%
Lumber, FP	11,319	12,135	-6.7%	7.9%	7.6%	0.3%	80.1%
Petroleum	8,902	8,433	5.6%	6.2%	5.3%	0.9%	86.3%
Food, Kind.	5,142	5,195	-1.0%	3.6%	3.3%	0.3%	89.9%
Waste	3,705	3,464	7.0%	2.6%	2.2%	0.4%	92.5%
Auto	2,455	2,964	-17.2%	1.7%	1.9%	-0.1%	94.3%
Metallic Ores	2,174	1,769	22.9%	1.5%	1.1%	0.4%	95.8%
Other	5,998	12,269	-51.1%	4.2%	7.7%	-3.5%	100.0%
Carloads	142,571	159,236	-10.5%	100.0%	100.0%	0.0%	
Intermodal	0	398	-100.0%	0.0%	0.2%	-0.2%	
Total rev units	142,571	159,634	-10.7%	100.0%	100.2%	-0.2%	
Less new roads	3,055						
Same-store	139,516	159,634	-12.6%				

In short, five of the seven commodity groups that comprise 80 percent of GWR's North American franchise (yellow highlight) saw volume declines. Four of the seven are highly susceptible to truck or even intermodal diversion, which explains the close parallels between The RailConnect Shortline Index and the AAR's trends of what's up and what's down. Year-to-date carloads drifted south six percent to a million-one from a million-two.

The Central Maine & Quebec Railway has won the Maine DOT contract to run the 58-mile Rockland Branch freight operation and to operate and maintain the Brunswick Yard. Next comes the negotiation of a 10-year operating agreement starting Jan 1, 2016. For the past ten years, New Jersey's Morristown & Erie short line has operated the branch as the Maine Eastern, providing such limited freight service as there was and running excursion trains.

CMQ first came to Maine as the successor to the Montreal Maine & Atlantic, which ceased operations over this ex-CP Montreal-Halifax line as a result of the Lac Megantic oil train accident in July, 2013. Since acquiring the line in March, 2014 CMQ President John Giles has worked assiduously to reassure Lac Megantic and other on-line communities that, after investing more than $20 million to make the railroad safe for 25 mph operation, CMQ is open for business.

Unfortunately, last May saw the beginnings of a rumor mill spreading word that the railroad was neither safe nor had the purchasers of the railroad had "lived up to their commitments." Taking this bull by the horns, Giles last month authored an "Open Letter to the Town of Megantic" to dispel what he called the "myths" being perpetrated upon the CMQ.

Of course, the crux of the matter had to do with trains of crude oil, which Giles addresses as Myth Number Three: That sometime in early January 2016, the self-imposed embargo of crude oil will be lifted and oil trains will be queued up and ready to roll through town. Giles' response:

> The reality is there are no plans to restart movements of crude oil through the town of Lac-Mégantic at this time. As far as I can determine, there is currently noftr great demand to move crude on CMQ's lines. But, things change all the time, so here is my commitment to you: if things do change, I will come to the town, as I have done in the past, and meet with you and your leaders to discuss this possibility.

As it happens, the receiver of the CMQ oil trains, Irving Oil in Halifax, has just said it's no longer buying Bakken or other rail-delivered crude, preferring the Brent product by sea with its lower delivered cost, and making the whole oil train question moot for Megantic. But that in no way moots the efforts of Giles and the CMQ team to reassure the good people Lac Megantic.

I think these good-neighbor efforts may have helped CMQ to win the Rockland contract. I have always maintained that the "Four Cs of Shortline Railroading" — Customers, Class Is, Co-workers and Communities — rely most heavily on this last. After all, it's easy to look people in the eye in church, at PTA meetings, in the barber's chair, or at the gas station when you're doing them right. CMQ is a part of the Maine community, is doing its best to do what's right, and it's only right that the Rockland Branch go to one of Maine's own. Break a leg, John.

Every week the AAR "Performance Measures" tell you what Class Is are running the fastest, staying out of yards the longest, and whether cars on line are up or down. But only BNSF lets you lift the curtain to see what's behind the numbers. From the September 4 Service Update: Trains held, down 72 percent vs. the same 2014 week; weekly train starts constant at 1,600; loco miles/day to 281 from 279 the prior week (one mph faster on a railroad this size means you can run the network with 200 or so fewer units).

Total revenue unit volume for the week increased by more than 3,500 units from the prior week and hit a year-to-date high of 211,411 units (an intermodal box is one unit). Terminal dwell improved two percent week-over-week to 24.6 hours, down 12 percent year-over-year. And work continues on the 60-plus expansion projects in the 2015 capex program. Most recently, four miles of new double-track went into service between Minneapolis and St. Paul. These tidbits are useful, and kudos to BNSF for putting them up on their website.