

RAILROAD WEEK IN REVIEW

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“Chairman Oberman in his letter expresses concern that recent rail service problems, as reported by some shippers, may relate to a broader trend of rail labor reductions over the last several years, in addition to the furloughs and quarantines brought about by the COVID-19 pandemic.” — STB presser re Chairman Martin Oberman letter to Class I CEOs, May 27, 2021

Although benefits cannot be calculated with absolute precision at this time, Applicants do not even provide basic information, such as how much traffic would be converted to single-line service, a figure that is readily available through examination of Applicants’ own traffic data.” — STB Decision re CSX acquisition of Pan Am Railways, May 26, 2021

“However, the Board does have serious concerns about section 5.14(b) of the PSA, which restricts B&LE from ever seeking access to FGLK and NYSW—whether ‘directly or indirectly, before or after’ the Transaction, even through means other than the Transaction.” — STB Decision re CSX sale of Massena Line to CN, April 6, 2020

Justice has said CN’s application for a voting trust to acquire Kansas City Southern should be denied, because the proposed merger ‘raises sufficient competition concerns.’” — Railway Age Newswire, May 15

I get the feeling the STB is losing patience with the Class Is. The Chairman’s letter continues:

Chairman Oberman asks the railroads to provide information pertaining to the sufficiency of operating personnel and railroad equipment availability going forward, as well as longer-term expectations for hiring. The Chairman also acknowledges that the pandemic significantly disrupted rail operations and commends the Class I railroads for proactive communication with the Board and other stakeholders during this difficult time. He encourages continued robust engagement.

“The freight rail industry has performed admirably during the COVID-19 pandemic and, as the nation’s economy recovers, I want to be fully informed as to the Class I railroads’ preparedness to meet forecasted demand, including the railroads having the necessary labor and equipment resources in place to provide safe, reliable and efficient service to customers,” the Chairman noted. [end]

The exasperation I sense shows through in its recent decisions, excerpted above. The service miscues are indeed significant, as indicated by this sampling of complaints I got in response to a brief shortline client survey of Class I performance at interchange.

** The interchange at our location has been poor for a couple months. Both inbound and outbound. Gaming the system is exactly what is happening, offering cars for interchange when the cars aren't physically moved — in some cases still in the serving yard. We assume they are gaming their internal measures, particularly with respect to the car hire system. We've been here before — the car hire game has usually been a local issue caused by a yard manager — but this feels like it may be directed from higher up.

** Our connection a couple weeks ago had a dead train in every siding between two key O-D pairs. It looks like they're gaming the system so that re crews/trains held for crews look lower than they are. The hint that things are amiss is that the number of loaded cars sitting for more than 48 hours has doubled over the past few weeks.

** Part of the effect of PSR was a nearly one-third reduction in the number of executive-level staff at Class Is, with many of the old hands retired. It's been so long since there's been a major transaction that no one knows what to do. Ideally, the lawyers and senior executives should have had sufficient institutional knowledge to have anticipated the requirements clearly articulated by the STB. The way it is, it's likely to take the Class I about 30 to 60 days — or longer — to do their studies and then refine.

** Customers are complaining and moving freight to trucks, yet the Class Is receiving the complaints tend to blame their connecting roads, not themselves. As a result, morale is horrendous. We know of yard masters who have used their operating seniority to go back into train service.

** Our principal connecting Class I is a huge mess, especially on the line segment serving us. It appears the primary problem is crew shortages, yet word on the street has it that the COO is limiting how many conductor trainees they are allowed to hire. Doing so goes directly to the head-count reduction scheme that plays to the current Wall Street hot button.

This last is of particular concern because it usually takes six-eight months to fully qualify new TY&E personal, and I'm told that even after that the attrition rate is high, putting further strains on the available crew resources.

It's entirely possible the poor service levels experienced by customers and short lines will delay the KCS transaction proceedings. A reader who has experienced mergers both as a Class I manager and as a consultant says STB service concerns today have their roots in the 2001 experience. He writes that the quality of service is of such vital importance that the Board wants to see a Service Assurance Plan (SAP) identifying the precise steps applicants would take to ensure adequate service --- and to provide for improved service.

The Board wants to see in the SAP not only how affected parties from customers to other Class Is to feeder railroads are “affected by and benefit from the proposed consolidation,” but also how present satisfactory service will be perpetuated. As you can see, we've gone past the “do no

harm” phase to a requirement for service benchmarks as well as a plan for compensating affected parties for service failures, and “contingency plans that would be available to mitigate any unanticipated service disruption.” My correspondent concludes,

Specifically, the plan must include information about proposed operational integration; training; information technology systems; customer service; coordination of freight and passenger operations; management of yard and terminal operations; contingency plans for service disruptions; how changes or increases in traffic levels would be accommodated by the combined system; infrastructure improvement; labor issues; service benchmarking; and respective timetables for completion as appropriate.

Much to my surprise, the CSX applications both for the Massena Line sale to CN and the Pan Am acquisition appear to contain None of the Above. Let us hope that the players in the KCS transaction take heed and don't irritate the STB with further failures to follow instructions.

KCS has 56 short line, regional, port, and terminal connecting railroads on its website. I went down the list one by one to see where there are connections — either direct or through another carrier — with CN or CP. I did the same thing with the CN and CP short line lists, looking for the KCS short lines to confirm the overlaps.

Of the 56 KCS feeder lines, 16 reach CN either directly or through a CN connection, and most of these are off the former IC south end. Assuming the CN bid for KCS is successful, they all become CN direct properties, severely limiting any KCS-for-beyond OD pairs.

On the other hand, KCS has only one property where there is a direct connection with CP — the Watco KC Terminal property. The other CP connection is on the Iowa Northern, reached via an agreement with Union Pacific north of KC. KCS reaches CN in the same place in the same way, meaning there is only one KCS shortline with a direct connection to CP.

I think it behooves those 16 feeder lines with CN connections to take a close look at their present OD pairs involving KCS, looking for places where CN+KCS could create single-line hauls, eliminating any shipper's multi-railroad options. As noted above, the STB is looking for enhanced shipper options as a result of the transaction, and proof that the transaction will do no harm.

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