

RAILROAD WEEK IN REVIEW

January 14, 2022

“The secret of our success is simple. Take care of your employees and work with them to take care of your customers. If you focus on people, everything comes together. That’s the Reading & Northern way.” — R&N President Andy Muller

“We welcome the MRL team and customers back into the BNSF family. We will continue to invest in the business, provide great service and maintain the highest level of safety just as we have for over a century in Montana. This will best position employees, customers and the communities we serve for future success.” — BNSF President Katie Farmer

BNSF has suspended its Loading Origin Guarantees (LOGs) auctions for lumber and panel cars effective Monday, January 10, 2022. The program allows the market to allocate equipment and improve utilization, yet BNSF reserves the option to put the program on hold based on equipment availability and the results of the rollover option; BNSF will send an announcement when auctions are available. Existing LOGs permits for guaranteed equipment and placement of center-beam flats, bulkhead flats and boxcars will remain in effect.

By way of review, BNSF Loading Origin Guarantees (LOGs) is an online auction program to guarantee empty equipment placement at the time of loading. LOGs is available to shippers who are able to commit to weekly minimums of desired equipment types and who are in good credit standing with BNSF.

LOGs is a Joint Commitment between BNSF and the Customer

BNSF	Customer
Delivers requested equipment within specified time frame	Orders equipment in advance as specified by LOGs rules
Allows customer to cancel LOGs orders that arrive late	Ships committed amount per week
Pays penalty to customer for failure to meet commitment	Pays penalty to BNSF for failure to meet commitment

BNSF 2021 Fourth Quarter and full year carload results are in. The railroad moved 10.1 million loads, up 7.4 percent for the year. Merchandise carloads (industrial and ag products) increased 4.5 percent to 2.8 million carloads with 15 of 17 commodity groups showing gains. Of particular note were metals, metallic ores, and ferrous scrap, all of which posted double-digit gains. Coal/coke gained 10.8 percent to 1.6 million carloads.

Ag products carloads (mainly grain and grain-mill products) eked out a 1.1 percent increase and the industrial sector gained 6.2 percent. Intermodal units (containers and trailers) increased 8.3 percent while automotive (parts and finished vehicles) slipped a point.

We'll get the full BNSF report toward the end of Feb when Berkshire reports. The Big Six (KCS will pass, of course) all report over the next two weeks. Shares have been essentially trading in a range for the last few months, so I'm not expecting any surprises to the upside in revenue units. This BNSF revenue unit report will be hard to beat.

Pennsylvania's Reading & Northern Railroad had another banner year in 2021. Freight revenues increased ten percent thanks to changes in freight franchise and increased passenger excursion ridership. Warehousing and transloading services added to the "other revenue" line. Forest products (pulp, paper, lumber and panel) was a big winner — up ten percent to more than 11,000 units.

Says R&N, "Much of the growth can be attributed to the so-called 'Amazon Effect' — the fact that more Americans are relying on home deliveries of goods thus increasing the demand for corrugated packaging." Packaging material is big, and could have been even bigger had it not been for "for the diversion of over 400 rail carloads to trucks due to various service disruptions on the nation's rail system."

Anthracite coal is another leader thanks to its use as a carbon source in electric-arc furnace (EAF) steel making. R&N continued its pattern of significant investment in the coal business in 2021. For the last few years, the EAF market segment has been R&N's largest and fastest growing line of business, with new mills coming on line last year and still more in the offing.

To handle this business R&N has invested more than \$1.5 million in 153 additional coal cars plus another \$600K for three more conveyor systems to transfer coal from trucks carrying coal from the mines into rail cars, some of which is loaded for barges for the last leg to water-served mills. The investment is timely as "the growth of the EAF market has helped to soften the blow of the rapid decline of export coal" and steps are being taken to recover it.

Over the last five years Pennsylvania anthracite producers — and the R&N — have lost half of their export business to foreign competition. Although R&N hopes to see an increase in exports in 2022, the fact is Russia has been dumping coal into the global market for the last few years and that has made exports a difficult market for Pennsylvania producers.

In addition to the base load of forest products and coal, STCC 20 “food and kindred products” (mostly beer and wine), plastics, industrial chemicals, and products in the metals group round out the traffic base and are likely to continue to grow. It’s in the railroad’s DNA to invest in support services and facilities like transloading, trucking, and warehousing. After all, these commodities add close to 10,000 carloads a year for R&N as well as millions of dollars in revenue.

And there is more to come. R&N has just completed construction on a large Marcellus Shale-focused transload facility, well-sited to support nat gas drilling if and when that comes back to life. R&N has also signed a construction contract for another significant customer who will come on-line in the third quarter of 2022. Thus the traffic base will be even more diversified in 2022.

Montana Rail Link is ending its 34-year lease arrangement with BNSF this year, subject to the usual regulatory and labor considerations. No timeline has been set. The AAR Class II 957-mile railroad has roughly 1,200 employees (BNSF has committed to retaining the entire MRL workforce). Recombining the railroads eliminates the need for interchange between the two, a smart move in that 90 percent of MRL’s traffic is BNSF trains.

MRL is essentially the former Northern Pacific main line — “The Main Street of the US” — between Huntley, Montana, and Sand Point, Idaho, with rights to the BNSF interchange at Spokane. There is also an interchange with Union Pacific at Sand Point. The railroad is headquartered in Missoula, the main classification yard is in Laurel, and the principal shops are in Livingston. Forest products (STCC 24 mainly) and grain are the principal commodity groups handled locally.

It was the 1970 merger of the GN, NP, and the CB&Q that formed the Burlington Northern Railroad and subsequently MRL. This was not the first time those three Class Is tried to merge. In 1902 James Hill, Edward Harriman and J. P. Morgan formed the Northern Securities holding company, which Teddy Roosevelt nixed. BN leased out the ex-NP lines to Dennis Washington in 1987.

End result: Northern Securities is back in business with all three operating as one railroad under the BNSF. No red and green teams here — Rob Krebs saw to that.

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