RAILROAD WEEK IN REVIEW

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"Let's have the debate, let's update the data, let's update the record, let's update the arguments and see where we end up. But I can tell you right now, from where I sit, it makes absolutely no sense to put a rule into effect that knowingly adds complexity into the network at a time when we're trying to maximize fluidity; we're trying to keep the supply chain moving." — AAR President Ian Jeffries at MWARS, January 13

"We urge the USDOT to acknowledge the unique identity of our industry when considering issues that will impact rail transportation. Excessive implementation costs, or labor mandates that impede innovation and efficiency with no safety benefit, threaten the viability of short line service. Rather than aiding in resiliency, such unnecessary intervention hampers operations, especially short lines' ability to bring efficiency to the country's supply chain." — ASLRRA President Chuck Baker, comments on the draft DOT strategic framework,December 17

CP and KCS have filed their merger schedule. BNSF, NS, and CN have all filed for conditions concerning who winds up owning what when the dust settles. CSX is in the process of acquiring Pan Am Railways and a number of interested parties from Norfolk Southern to the State of Vermont have filed conditions. Last year Grupo Mexico acquired the Florida East Coast.

Meanwhile, Class I metrics are trending down. Looking at the consecutive years 2016-2020, averages for the seven North American Class Is show revenue units have declined, total revenue is up just one percent, and operating income increased less than three percent. Net income increased 4.6 percent, largely as the result of below-the-line activity.

Perhaps the reason for the acquisition activity is that organic growth is slowing and the only way to add carloads and revenue is to buy them. After all, if truckers are seeing seven percent growth and the railroads half that, the implication is customers are going elsewhere for goods movement. So if on-line business is stagnant, you need more line to generate more carloads.

The reason for these sorry results is, I think, largely due to loss of market share to trucks and the decline of coal as a principal commodity. We have STB Chair Martin Oberman saying he wants to see more competition between railroads. But he says nothing about more competition in the broader transportation market. I wrote in WIR last September 17,

> Listening and reading between the lines of recent STB Decisions, one gets the feeling that the STB sees its mission as leveling the transportation playing fields between and among They would like to see the end of "competitive pricing" whereby customers with the lowest margins get the highest rates, partly to keep the operating ratios down. In a similar vein, the practice of charging demurrage on privately-owned equipment constructively placed on a railroad-owned track to accommodate less frequent switching moves has got to stop.

And yet we see the feds actually in the way. For example, AAR President Ian Jeffries is concerned about the STB position on competitive access and the FRA position on two-man crews, both of which seem to run afoul of the stated goals and actions of the Biden administration. Then there's track inspection and PTC.

With respect to the former, you can put track inspection technology in a freight train running at track speed that will not only do in a matter of hours what it would take a crew in a hi-rail vehicle a full day, but also "You're using tools that provide a much higher level of sensitivity" — in some cases, finding 90 percent more potential flaws."

As for PTC, he notes that crew-size rules were established well before PTC came along. "Now we have PTC on 56,000 miles of mainline track in this country. Between that and technology such as Trip Optimizer, basically allowing for cruise control once the train is up and running, the argument for a second person being physically located in the cab at all times" is flawed.

ASLRRA President Chuck Baker has a number of suggestions for the DOT Strategic Framework. Baker urges USDOT and the FRA to issue rules that permit greater railroad operational flexibility; to create a means to provide dedicated funding to mitigate the effects of extreme weather events and other natural disasters — as has been done for other transportation modes — and to insure "stakeholder engagement as USDOT implements strategic plan priorities."

Moreover, Baker wants DOT "to stop putting resources into replacing CMV [commercial motor vehicles] drivers with autonomous vehicles, while at the same time, working on efforts like a rule that would require a minimum of two people working on a locomotive. And for dessert, he asks the USDOT and FRA to support the grant programs created and continued through the enactment of the Infrastructure Investment and Jobs Act.

What Baker is asking for is having regulators propose guidance that can work based on actual field experience and devoid of political expediency. The books are full of regulations and guidance written in the passive tense and with little application in the real railroad world out there on the ground. I applaud Chuck for taking this initiative.

Union Pacific led off the 4Q2021 earnings season Thursday morning. Everything considered, not a bad quarter. Total revenue uncreased 12 percent to $5.7 billion even though revenue units slipped four percent to just under two million — RPU averaged $2,686, up 15 percent with double-digit gains in ag products (includes ferts), coal/renewables, and intermodal.

Merchandise freight revenue hit $3.2 billion, up 12 percent, as carloads increased five percent to 847,000, with particular strength in fertilizer and metals/minerals. Favorable nat gas prices, the strong fertilizer demand, and packaging paper products contributed. See Kenny Rocker's slides for more detail.

Operating income increased a whopping 22 percent to $2.4 billion as ops expense increased only five percent against the 12 percent total revenue gain. Fuel expense was the biggest hit, up 80 percent even though fuel burn increased only three percent handling four percent more GTMs. Gallons per GTM came down a point to slightly more than a gallon per thousand GTMs.

CSX in Q4 reported 3.0 $billion in freight revenue, up 11 percent, on 1.6 million revenue units, down two percent. Revenue per carload increased 13 percent to $1,918 (I calculate RPU as freight revenue divided by units. CSX calculates RPU based on total revenue, including demurrage and trucking, divided by units.) Merchandise carload revenue increased four percent to $1.9 billion on 645,000 carloads, down 3 percent, and RPU was $3,003, up eight percent.

Operating expense increased 28 percent, pushing the OR up 315 bips to 60.1 (the Quality Carriers acquisition added to most expense lines). Operating income increased 12 percent to $1.4 billion. Net income increased 23 percent to $934,000. Fuel expense jumped 103 percent thanks to an 80 percent increase in the price per gallon and two percent more gallons burned to produce four percent fewer GTMs. Fuel efficiency remains at 0.99 gallons per thousand GTMs..

CSX is aggressively addressing the challenge of adding TY&E crews to run the trains it needs to run. In Q4 they nearly doubled the number of active trainees; the number of new employees getting qualified increased 50 percent in Q4 versus Q3 and is expected to double sequentially in Q1 to about 300 folks. Operating performance improved with better trip plan performance.

Among the commodity groups, chemicals increased due to a nine percent jump in core chemicals, offsetting a drop in crude oil and other energy-related commodities. Ag products slid on fewer cars of export grain and ethanol. Forest products saw more loads in both STCCs; downturns in short-haul phosphates were not offset by more long haul moves in other ferts. Metals gained on STCC 33 primary products and ferrous scrap.

Finally, the CSX business development crew has landed three new customers planning to build new facilities – two for electric vehicles a new steel mill — to be CSX-served. Keep that up and we will definitely see nice growth in the merchandise carload sector.

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