RAILROAD WEEK IN REVIEW

November 8, 2024

“Our ‘forest’ of companies contains five ‘groves’ of major importance…. The most valuable grove in Berkshire’s forest is the many dozens of non-insurance businesses that Berkshire controls [and BNSF is one of them.]” — Warren Buffett, Chairman of the Board, Berkshire Hathaway, Chairman’s Letter, February 23, 2019

“Burlington Northern Santa Fe, LLC (BNSF) operates one of the largest railroad systems in North America, with over 32,500 route-miles of track in 28 states. BNSF also operates in three Canadian provinces. BNSF classifies its major business groups by type of product shipped: consumer products, industrial products, agricultural products and coal.” — Berkshire Hathaway 3Q2024 10-Q

“BNSF’s OR improved 390bp y/y and 200bp sequentially to 65.2%, its best y/y improvement in 9 years. That said, BNSF still reported the worst OR among the rails in 3Q and its margins were 490bp worse than UNP's in 3Q. But this is down from a 710bp spread in 2Q, and the smallest margin difference in 11 quarters.” — Scott Group, Wolfe Research, November 4

BNSF 3Q2024 freight revenue increased 3% to $5.7 billion on 2.5 million revenue units, up 8%. System RPU slipped 5%, mainly in auto/intermodal. Merch revs — ag+industrial at BNSF — increased 6% on 5% more carloads. But it was all ag — grain, grain-mill output, processed foods and beverages, carloads up 15% — whereas industrial carloads— everything from chems thru waste — were down 2%. In the “Consumer Products” category, intermodal units gained 17% but automotive was flat.

Total revenue was up a point to $5.9 billion as other revenue slipped 37% and FSC was flat. But ops expense came down 5%, putting operating income up 14% to $2 billion. The OR shed 4 points to 65.2. Below the line was pretty clean. Just interest and taxes, and little “Other” noise. Net income was $1.4 billion, up 13%. Cash from operations was 146% of net income, a very handsome number. Buffett’s fave, owner earnings (cash from ops less capex), jumped 22% and capex remains at 16% of net income.

The year-to-date revenue unit breakout by category is roughly 55% intermodal (a box is a unit), 29% manifest commodity carloads, 13% coal/coke, and 3% automotive. Within the manifest carload sector, grain — as noted above — was the heavy hitter: 11% of total units, with chemicals from ferts to fly ash plus petroleum products from crude oil to nat gas coming in second with a combined 8% of total revenue units system-wide.

Which means none of the remaining 12 carload commodity groups represents more than small single digits in terms of percent of BNSF's total revenue unit count for the first nine months of 2024. One would expect lumber and paper products to be more than 4% or aggregates more than the 2% reported. Even metals, if you include ferrous scrap and coke, brought in less than 3% of total year-to-date revenue units reported to the AAR.

Of course, adding carloads is going to require more mainline capacity to provide consistent, reliable, cost competitive service. Just last month BNSF in mid-Kansas completed a twelve-mile segment of second mainline track — part of a multi-year project to add fifty miles of new double-track to the ex-Santa Fe transcon. BNSF says there is a mere three-mile segment left to double-track but isn't saying where.

Years ago I did a westbound business car trip out of Kansas City into Texas and beyond, giving me a first-hand look at the scope of the project and some of the engineering feats making it possible. For example, after adding the sub grade for the second main they literally put down a macadam road to go under the ballast, facilitating not only proper drainage but also longer tie life. The plan was to repeat the process for the original main after the new main had been placed in service.

So it's not surprising that today I come away with the sense that BNSF's strong suits are intermodal, ag, and chems/petrol — all of which are time-sensitive. Yet it's also surprising that more than half the AAR carload commodity groups posted declines. This is where I think the Ed Harris consultancy can help.

As long as I have known Harris — 20 years? — making manifest carload networks work right has been a specialty with hi. Based on my own experience traveling about the railroad, BNSF can have a very effective carload network — if they let it work. And Katie Farmer, a former marketeer herself, can do it.

The ASLRRA has been busy spreading the word. Last week ASLRRA and AAR jointly responded to the FRA, calling for the withdrawal of the Direct Final Rulemaking (DFR) that sets forth policy on gathering information and consulting with stakeholders. The railroads request that the FRA refrain from making the regulation effective on November 15, 2024, and take no final agency action until FRA has properly introduced the rule-making and provided an opportunity for public comment.

The parties identify several areas where the FRA has failed to properly implement the Infrastructure and Jobs Act (IIJA) mandate, including vague catch-all provisions for determining triggering events, the description of stakeholders for technical expertise, underestimation of cost of compliance, and insufficient outreach to Class I and shortline railroads prior to issuing the DFR.

Looks like another one of the FRA's series of DFRs that are more politically based than grounded in facts and experience. Three cheers to the railroads for calling them on it.

Two days before that the ASLRRA group celebrated the announcement of the $2 billion in Fiscal Year 2023 and 2024 Consolidated Rail Infrastructure and Safety Improvement (CRISI) grant awards. The Association offers its congratulations and appreciation to the Congressional leaders that created and funded the CRISI program, the FRA personnel that administer the program and select the awards, and the shortline railroaders and their partners that applied for and will receive grant awards.

In September, the ASLRRA participated in the STB hearing entitled "Growth in the Freight Rail Industry." The hearing's purpose was to gather information about recent trends and strategies for growth in the freight rail industry. In addition to ASLRRA, five of its member railroads testified to growth strategies being used on short lines. ASLRRA participants' transcripts are at aslrrra.org.

Meanwhile, the ASLRRA is gearing up for its 2025 Conference and Exhibition, scheduled for April in Denver. They're teeing up more than 40 hours of educational sessions with presenters experienced in the many aspects of running non-Class I railroads, formal presentations from many of the industry's Name Brand speakers, and of course the Exhibit Hall with more than 200 industry suppliers of everything from brake shoes to track inspection services.

For the *piece de resistance* they are sponsoring an April 6 train trip west out of Denver over the ex-DRG&W Moffatt Tunnel line. The organizers describe the outing as the "Rocky Mountaineer Train Excursion," running about 20 miles out on the Moffat Tunnel subdivision to Eisele. The route will include the "Big 10 Curve," one of the most popular attractions on the route as it portrays vast and beautiful scenes of downtown Denver and the surrounding plains.

Brunch will be included, but steam power will be sorely lacking. Maybe the UP can be prevailed upon to remedy that lack by bringing the 4014 to town for show-and-tell.