

RAILROAD WEEK IN REVIEW

November 22, 2024

“Rail management and trade associations shared optimism that the Washington regime change would have favorable impacts on the industry in the coming years and delivered customer-centric pro-growth pitches while remaining muted on the macro nearer term. Mid-term, we believe the door to further Class I consolidation could be open if CPKC continues to deliver on its pro-growth/pro-competition merger promises.” — Bascome Majors, Susquehanna Financial Group, on last week’s RailTrends conference

“Three of the four Class One rails filed suit against the FRA based on their slow-walking waivers on safety technology and other forms – two RT presenters, Duos and Parallel Systems, have been, for lack of a better term, victims of the job-saving bent of what is meant to be a safety agency. The new undefined “public interest” clause in the FRA rule-making is particularly galling.” — Tony Hatch note, Nov 12

“With the holidays ahead, BNSF just delivered a big present to customers, especially those with intermodal loads filled with wish-list goodies moving on our Southern Transcon. We officially unwrapped this “gift” on Monday, Nov. 18, when the last 3.5 of about 51 miles of new double track were officially cut over on BNSF’s Emporia Subdivision.” — BNSF Presser, November 20

Can coal make a comeback? The Peabody Coal share price (I love the ticker symbol - BTU) jumped on the Trump win, presumably based on expectations that many of the Biden environmental restrictions will be eased. But, as you can see, the share price is back to where it was pre-election.

That said, there are signs that the downward slope of coal-fired electric power generation could become less steep. In fact Peabody said at a recent investors conference that they continue to see “strong positive margins and free cash flow” from their US thermal coal operations.

And yet, according to their 3Q2024 10-Q, “Through the nine months ended September 30, 2024, electricity generation from thermal coal has decreased year-over-year driven by continued low natural gas prices and stronger renewable generation. Coal’s share of electricity



generation has declined to approximately 15% for the nine months ended September 30, 2024, while wind and solar's combined generation share is at 17%.

I use \$3/mm BTU as the break point between coal and nat gas, i.e, the thermal output of coal isn't cost-competitive with nat gas less than \$3. Year-to-date gas has remained right around \$3/mm BTU, and Trump's "drill, baby, drill" mantra isn't going to help Peabody and its peers.

Same goes for the replacement rate of open-top hopper cars, now at historic lows. with with some forecasts indicating less than 150 new open-top hopper cars per year. Some say the primary reason for the low build rate is the "decreasing demand for coal transportation, which is the main commodity typically hauled in open-top hopper cars."

At least UP says its coal tonnage outlook is flat. YTD coal carloads are down 21% compared to last year. Said EVP Marketing Kenny Rocker on the earnings call, "Coal continued to face difficult market conditions in the quarter, resulting from reduced coal demand due to high inventory levels and competition from low natural gas prices." But if NG stays more than three bucks...

2024 Fourth Quarter Volume Outlook

Commodity	Outlook	2024 Volume Drivers
Bulk	↓	<ul style="list-style-type: none">− Coal+ Grain+ Grain Products
Industrial	↓	<ul style="list-style-type: none">− Rock↔ Petroleum+ Petrochemical
Premium	↑	<ul style="list-style-type: none">+ International Intermodal+ Domestic Intermodal↔ Automotive



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RailTrends 2024 is now history, it being number 20 of a series that gets better every year — one Class I CEO called the event “the Woodstock of Railroads.” This annual event, hosted by *Progressive Railroading* magazine and hosted by Tony Hatch — who also organizes the proceedings, lines up the speakers, and otherwise keeps things lively — attracted 350 souls from all tracks of railroading: C-Suite members of all the Class Is, leaders of name-brand short lines, associations (AAR, ASLRRA, STB), investors of all types (PE, Infra, long-only, hedge fund and even activists), suppliers, consultants, shippers, lessors, OEMs, etc, etc, etc.

As usual, the festivities began with the *Progressive Railroading* “Railroad Innovator of the Year” award. Keith Creel, CEO of the newly merged CPKC property, was the recipient — again. This makes Creel the first to win it twice since the award’s 2009 inception. For good reason.

He’s built an organization that keeps its word: “When we say we will do something, we do it” is his mantra and the proof of the pudding is an enviable record of RTM growth. Which means more than carload growth because CPKC is moving more tonnage per carload, meaning better asset allocation from crews to locos to mainline track capacity. And CPKC has built an enviable shortline network, adding even more RTMs, under the able leadership of Adolph Gameiro.

For me, a particular *RT* highlight was the Association panel (presidents of the AAR, ASLRRA, RAC) noting, in Tony’s words, “that the changing administration would mean new leadership in the FRA. Things like FRA waivers on ATI (automatic track inspection), Railcar inspection portals (like Duos’ RIP), and other innovations like Parallel Systems’ battery-electric self-propelled intermodal platforms will no longer be stonewalled.

“The AAR sees great opportunities to work with a reconstituted STB on preemptive rights, etc – in other words, playing offense, not just defense. AAR’s Ian Jefferies is also eager to work with the new Senate Majority leader John Thune, a man with a wealth of rail knowledge. The ASLRRA talked about the 45-G update — a very big deal, perhaps even more important with grant monies being perhaps de-emphasized.”

And that’s only the tip of the iceberg. The complete presentation lineup is [here](#), and, since every *RailTrends* event is even more informative than its predecessor, I’d recommend not delaying in securing your spot for *RailTrends 2025* exactly a year from now.

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