

THE RAILROAD WEEK IN REVIEW

September 26, 2014

“The Norfolk Southern service area covers three-quarters of the US population, more than half of the energy consumption in the country and nearly two-thirds of the national manufacturing base.” — Don Seale, Norfolk Southern EVP and Chief Marketing Officer

Norfolk Southern’s 2014 Investors Day was, for me, really all about the merchandise carload franchise — which at this moment, including automotive and crude oil, accounts for 33 percent of NS revenue units, with coal 17 percent and intermodal 50 percent. But that’s not really a fair comp as capacity is a function of train size, and intermodal units average 1.7 boxes per platform or well. Convert intermodal units to platforms or carload equivalents and merch carloads become 42 percent of the total carload equivalents.

Drilling down a bit further, I confirmed on Tuesday that shortline participation in automotive and coal/coke is minuscule. Thus the merch carload franchise where short lines do most of their work is roughly two out of every five carload equivalents running over the NS franchise. And it’s that very core of NS volumes that NS seeks to streamline with the Bellevue expansion.

A bit of history is in order before we go any further. NS predecessor Norfolk & Western acquired the Nickel Plate Road (NKP) and the Wabash (WAB) in 1964 to get into the northeast at Buffalo and the midwest at Kansas City. At that time, the NYC’s multi-track “Water Level Route” was the dominant Chicago-NY route (Penn Central didn’t happen until 1968) yet the NKP’s single track route via Cleveland and Fort Wayne, with connections east on the Lackawanna, offered stiff competition. (And their famous Berkshire steam engines had stayed in service until 1960).

The NKP system map of April, 1953 clearly shows the importance of the Bellevue hub, some 60 miles west of Cleveland. With lines radiating out to Toledo, Chicago, St. Louis, Muncie, Wheeling, and Cleveland, Bellevue was NKP’s hub-and-spoke class yard. When NS and CSX split Conrail in 1999, and NS took control of the former Conrail (ex-NYC) line between Chicago and Cleveland, NS built a connection between the ex-NYC line and the ex-NKP line at a town called Vermillion, 37 NKP miles west of Cleveland at a cost of \$2.6 million according to the STB filing that documented the Conrail transaction. (We went over that track on our business car ride to Bellevue on Tuesday.)

As the present NS system evolved, Bellevue Yard became, in the words of NS President Jim Squires, “the right asset in the right place at the right time,” and the service challenges of the past winter only amplified that point. The Bellevue expansion will, for example, let NS eliminate the Elkhart class yard for traffic to and from the BNSF and UP, take out a Conway stop for Philadelphia cars, and allow Chicago cars to-from Chattanooga and beyond to skip Elkhart.

Jerry Hall, VP Network and Service Management, said in his Bellevue remarks that these changes will nearly double the daily car volume at Bellevue and increase train starts and trains terminated by 75 percent while simultaneously decreasing starts and terminations by 30-40 percent at Conway, Columbus (Watkins) and Elkhart. In other words, blocking for the distant node is alive and well at Bellevue.

Which is why I said at the outset that Bellevue is all about the merch carload network. Intermodal, automotive and other point-to-point jobs (crude oil and grain unit trains, e.g.) run mainly on the ex-NYC route, leaving Bellevue to focus on the carload network. That carload network, ex-crude, NGLs and auto, is up four percent or 55,000 cars year-to-date through September 20. Put that in track-space terms and we're talking 550 trains of 100 cars each. Another reason why Bellevue needs to block for the distant node and increase train starts.



This is looking west from the brand new hump control tower. The tank car is heading for the working original half of the yard with all those cars in the distance. The new class yard extending out of the frame on the left effectively doubles the size of the “bowl” and the tank car is atop the double crossover that will allow cars from either of the two hump tracks reach any track in the bowl. That’s how you double the number of outbound train-starts.

The impact on the carload franchise is going to be immediate. Take the industrial products group — half manufacturing (paper, chems, metals), a quarter agriculture and the balance split evenly between construction products and energy (frac sand, ethanol, NGLs, etc). These are the commodities that are a big part of that 42 percent of carload equivalents — the things that take up space — mentioned above.

NS relies on the proprietary Thoroughbred Operating Plan (TOP, to long-time WIR readers) to manage the carload network, aided by the home-grown ABC (Algorithmic Blocking & Classification) system to minimize miles and handling plus the NS-developed Operating Plan Developer to quantify the selected routing's impact on various operating metrics before ever turning a wheel. As you can see, train speed is critical, especially when you realize that a one MPH improvement in train speed reduces the number of locos needed to run the plan by a factor of 60. At \$2.5 million a pop, 60 fewer locos is a fair piece of capex.

And so it is the combination of the Bellevue expansion, the TOP and its tools, and a growing merch carload franchise bode well for NS. Says Don Seale, “Putting the industrial products group in context, it represented 28 percent of our network volume [my 42 percent is carload equivalents; Don’s counting revenue units] in the 2014 first half. About a quarter of that gets classified at Bellevue.”

That, in nutshell, is why Bellevue is all about the NS commitment to the carload franchise. Good news for the short lines who are invested in the future of the NS carload business.

I’m getting the vibes that RailTrends 2014 will once again exceed all expectations. The dates are Nov 20-21 and the venue once again is the W Hotel, 541 Lexington at 50th Street. The speaker list is a veritable “Who’s Who” in railroading. To cite but a very few names: Matt Rose from BNSF, CP’s Keith Creel, Dick Kostler from FTR, Oliver Wyman’s Rod Case (a companion on a couple of notable business car trips this year), Deb Butler of NS (whom I saw just this week at the NS Investors Day festivities) and, of course, AAR President Ed Hamberger.

In total, we’ll hear from all seven Class I rails plus GWR and Watco, the two largest short line operators. The emphasis is, as always, on operations and growth as seen by the very people who will make it happen. Go to www.railtrends.com for the full agenda, speakers list, and registration forms. Is it worthwhile? I can tell you this: I’m still dining out on stuff I learned at RailTrends v. 2013.

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