RAILROAD WEEK IN REVIEW

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"The proposed transaction would result in significant investments in the region's rail infrastructure. Over the next five years, CSX would invest to upgrade and modernize the Pan Am system, which will make the New England rail network more efficient and safer for operations, communities and passenger rail." — CSX Amended STB Filing for Pan Am Rail transaction

"We have been fortunate to have strong support from all the elected officials in Carbon County and many of them helped us in our efforts to connect our Reading and Lehigh Divisions. My dream has long been to bring high quality freight and passenger rail service to the region and nothing epitomizes that more than the creation of a high speed rail line between Reading and Scranton." — Andy Muller, President, Reading & Northern

"Commodities (including lumber), although recently pulling back from recent highs, have been surging. Rail loads have risen above their 2020 levels (how couldn't they?) but languish below 2019 levels —which were lower than 2018." — David Nahass, President, Railroad Financial Corporation, in June 2021 Railway Age

CSX has amended its STB filing for the Pan Am Rail Acquisition. Recall that in late May the STB said the application lacked certain details, among them an outline of public benefits to accrue from the transaction, potential changes at East Deerfield Yard, and the benefits of "transitioning the Springfield Terminal locomotive fleet to the CSX locomotive fleet."

Other benefits cited include potential carload growth in forest products, construction materials, and truck-to-rail conversions. CSX says its strategy for New England is based "in large part on modal shifts" and that they intend to upgrade both main lines and branches to FRA Class 2 (25 MPH), thus eliminating the FRA Class I and Excepted track which limited ops to 10 MPH.

Specifically, CSX in the amended filing "addresses the following issues identified by the Board in Decision No. 3 regarding the analysis of the relevant markets and competitive effects of the Proposed Transaction…

> Greater specificity regarding New England transportation markets, including estimated market share by mode and carrier; the size of New England rail markets; evidence regarding city pairs, interregional movements, movements through a point, and other related factors; traffic flows in the market; [and]
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> Evidence regarding the amount of traffic moved by the PAR System and PAS broken out by commodity, including lists of commodities carried by Applicants based on volume, comparing lists to identify commodities where there is overlap between CSXT and PAR System/PAS.

The cover letter notes that the Amended and Supplemented Application contains "the supplemental information that the Board identified in Decision No. 3 as necessary to complete the Application." The proposed schedule in the filing calls for an April, 2022 decision.

Reading & Northern, a Pennsylvania regional railroad that has been cobbled together from the former Reading main between Reading and a bit north of Tamaqua, plus the ex-CNJ/LV/DLW north from Jim Thorpe to Scranton, has closed the gap. Except for 19 miles of formerly CNJ FRA Class 1 track between Jim Thorpe and East Mahanoy Jct north of Tamaqua, R&N owned its own railroad Reading to Scranton, something none of the predecessor roads had.

But 19 miles of 10-MPH railroad in the middle of the through route would not do. The line is owned and operated by Carbon County and has three customers. R&N and the county have reached an agreement to transfer ownership to the R&N, allowing the county-owned line to maintain its customer relationships while R&N runs its own through service. A $4.7 million price is mentioned in the press release.

The R&N has the twin advantages of not only owning its own railroad, but also being an ISS road so it can sets it own rates and be shown on the waybill. (Handling lines are paid flat allowances by the connecting Class I and do not show in the waybill.) Too often one reads that the local owner of a line segment (the lessor) has decided not to do business with the lessee incumbent and goes looking for another operator.

That hurts the customers, the connecting Class I, the entity that owns the railroad, and the new operator — can I trust them? When will they throw ME out? And what about all the $$$ I put into the railroad to create a competitive advantage? Here, Carbon County gets to keep its railroad, R&N gets a wholly-owned through route, Carbon County is off the hook for major capex, and the County keeps area employers happy. Kudos to all.

David Nahass writes in his 2021 "Guide to Equipment Leasing," *Railway Age*, June 2021, that railcar leasing is a "mature business," with a large number of competitors looking to place cars in customer lease fleets. He adds that PSR will over time shrink the number of cars needed to carry a given volume of goods. However, if the railroads get more aggressive in getting new lanes of opportunity, lessors will benefit.

It would seem to me a major factor in demand for leased freight cars is the amount of material being moved and how fast it moves. Let's say your customer is paying $400 a month for a car and it turns four times a month. Assuming 100 tons per load, that's a dollar a ton ($400 divided by 400 tons). If it turns only two times a month, that doubles the customer's lease cost per ton moved over the month. Worse, he now needs twice as many cars to move that 400 tons per month, adding still more to his lease cost per ton moved.

I think misuse of precision scheduled railroading is the elephant in the living room. It's being used primarily as a cost cutting tool. Fewer train starts, bigger trains, increased transit times between customer OD pairs, and so on. We're back to holding trains for tonnage. The whole purpose of PSR as originally designed by Hunter Harrison was to move cars faster between OD pairs by running the same train the same way every day. Yes it costs more money, but you're creating a better product for which you can charge more. And doing so creates greater demand for the railroad product. Good for lessors.

Nahass points out that carload volumes are still aren't back to where they were in 2018. One reason is worse service and higher rates. Completely the opposite of what the astute supply chain manager desires: smaller inventories, smaller shipments moving faster and more frequently. None of this can be good for the leasing business as the demand for rail cars will shrink along with the demand for railroad service. A sure sign of a "mature business."

Creating new customers is how any business stays in business. And whereas the Class I merchandise carload franchises as a whole have not fared well in this regard, the non-Class I feeder lines are remarkably successful. The most successful of these properties share a number of common traits, and, in my humble opinion, the more of these traits the railroad has, the better chance it has to land new customers.

More or less in order of importance, you have to have a selection of developable sites. You also need an industrial development professional on your full-time payroll. They have the leads on who's looking for land and can match their priorities with your availabilities. Direct interchange with at least two class Is and having access to major markets via interstate highways are key.

So much for the basics. To round out the solid offering, you will need strong relationships with the state department of commerce, or whatever unit in the state that offers incentives, along with strong relationships with the local industrial development board, the power company and private development organizations in your service area. Good relationships with the Class I Industrial Development staffs can also generate solid leads as long as your railroad enjoys excellent customer relationships.

Finally, you can't offer first class service with FRA excepted track, a fleet of hand-me-down locomotives, and less-than professional T&E employees. Your locomotives are your most visible calling cards and clean power has been known to attract more new customers than you can imagine. To sum up then, site availability and access to the rest of the world are at least as important as all of the rest combined because much of the rest will follow if you have the right people on staff to promote the railroad's competitive advantage.