THE RAILROAD WEEK IN REVIEW

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"We would not be surprised to see 2H'08 crude oil prices retreat by 30% or more from the current level." -- Netaxis Blaiehroeder

Short lines that can make good use of grant and tax programs for track rehab and repair can save themselves a ton of capex money. In fact, the extent to which somebody else foots the track bill can make my Rule of One Hundred[1] a Rule of A Lot Less. A good example comes from the Western New York & Pennsylvania. Excerpts from their press release:

The Western New York & Pennsylvania Railroad (WNYP) will install more than 31,000 ties in 2008, its third-largest rehab year since the company was formed in 2001. The railroad, which has facilities in Olean, Falconer, Meadville, and Emporium, is set to launch several additions and improvements to its track in cooperation with New York's Salamanca-based Southern Tier Extension Railroad Authority.

Between the west side of Cuba and Olean, 13.5 main line miles will be extensively rehabilitated using company capital investments and a New York State DOT Multimodal Program grant. This work will upgrade track speeds from 10 and 25 MPH to 40 MPH, complementing major [CWR and tie] improvements that were undertaken in late 2006 and 2007 between Cuba Summit and West Cuba, as well as segments at Tip Top, Andover, Belmont, and Belvidere.

In Pennsylvania, WNYP will install more than 15,000 ties across 15 miles of main track as well as the passing siding at Meadville. Another 4,500 ties will go into the Meadville Yard rebuild and a new track will be built north of Rouseville to improve efficiency of local operations. This work is being funded by Penn DOT Capital Budget and Rail Freight Assistance Program grants supplemented by required WNYP matching funds. [For more on this program, see my lead feature in the June 2008 *TRAINS*.] Later this year, WNYP will upgrade the McClintockville Yard north of Oil City.

Also in Pennsylvania, WNYP has received a Rail Freight Assistance Grant to build a new switch at Turtle Point permitting southbound trains to pick up empty stone cars at the Glenn O. Hawbaker asphalt plant there. Currently, it is necessary for the empty cars to be shuttled north to Olean before returning southward to their origin in central Pennsylvania.

As part of the initial rehab that reopened the Hornell-Jamestown line in 2003, 44,000 ties were installed. Another series of projects in 2006 accounted for 33,000 crossties. In addition to the major projects planned for this year, WNYP will also undertake tie renewals and track resurfacing as part of regular maintenance programs.

Generally, the ties being removed have been in the track since the 1960s or 1970s, although some are still occasionally found that go back to the 1930s. When WNYP assumed operation of the former Erie Lackawanna main line between Hornell and Meadville in 2001, it inherited 25 years of deferred maintenance under Conrail, which had intended to abandon the line. Ties typically have a life of about thirty years.

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[1] A short line railroad needs 100 revenue cars per route-mile per year to be sustainable. See www.rblanchard.com/resources/texts/rule100.htm

Tony Hatch has triggered a valuable exchange on the merits of electronically-controlled pneumatic braking (ECP) that might benefit from further airing. He opens with a discussion about the merits of ECP's simultaneous braking feature and how it can reduce the size of the path that each train takes up as it moves down the railroad. It means trains can run closer together because it takes less time to stop each train. It's essentially a moving version of the 1200-foot signal spacing NYC installed on its Park Avenue line from 138th to GCT way back when.

ECP ain't cheap ($4000 a car?) and in no way can it be applied universally. For one, the NA freight car fleet is roughly divided between the railroad companies and private ownership from utility companies to GATX et al. For another, to run ECP in a train you need a loco so equipped to make it work. I don't see many of the 500+ short lines in the US and Canada jumping into the queue to stick it on their first generation GP-9s, Also RS-3s, Baldwins and other relics still in short line service.

Tony quotes a mutual friend thus: "ECP brakes do permit closer spacing of trains, however the economic challenge comes from the fact that it doesn't work very well on a mixed system and because of all of the single-car stuff, it will be long time, if ever, before the whole fleet is done. ECP makes sense on corridors that are largely unit trains, such as BNSF out of Wyoming to both south and east (though other trains move on those corridors). The transcon may make sense but a lot of the traffic is interchanged and a lot of IM is switched en route. Last time BNSF tried something on this order, it was not long before the dedicated cars were spread all over the network."

Want proof that ECP works best in a narrow application band? Exactly a year ago at the NS Investors' Conference VP-Chief Mechanical Officer Tim Heilig said that the combination if ECP and distributed power reduces in-train dynamic forces, permits better over the road transit times and better equipment utilization. But that requires ECP-equipped train-sets running between defined OD pairs, exactly the opposite of the merchandise carload network. In other words, ECP is not a silver bullet that is going to solve everything, never mind that Wall Street at times wants to think there is.

Railroading is a tough business with a lot of moving parts that don't always find an elegant fit one with the other. Any tendency to think things are easier than they are and to take some specific piece of technology and try to extrapolate results to the entire network is a mistake. The ECP-distributed power model is a tool that suits specific applications best. But it is not a solution to the single-car network of various equipment types and ownership, commodities, origins, destinations and even different carriers along the route. The old-timer was right when he said, "Any fool can start a train; it takes a good one to stop it."

The STB late last week -- as part of the ongoing EP-575 saga -- issued a decision to amend its regulations requiring parties to a sale or lease of a railroad line to "identify any provision in their agreements that would restrict the ability of the purchaser or tenant railroad to interchange traffic with a rail carrier other than the seller or landlord railroad." The decision also sets down the process "whereby a shipper or other affected party may obtain access to such provisions."

In other words, the paper barrier battle has been rejoined, though there is some question as to the merit of reopening the matter. Ten years ago, following the original 575 decision, the ASLRRA and AAR set up the "Railway Industry Agreement" and the "Railway Industry Working Group" with a rotating membership of short line and Class I representatives to, among other things, address paper battiers. The RIA goes into great detail about how to address matters dealing with paper barriers, car supply and "new business," among other things.

I have the a copy of the RIA before me as I write this. (Disclosure: Many of the provisions of 575 came out of the work that a small group of us did on short line matters as part of the Conrail

Transaction. In fact, I recall being out on a short line with some concerns about the deal and hearing the news of the 575 decision on a cell phone call from a dear friend at the ASLRRA -- now at the STB -- and my heaving a huge sigh of relief. But I digress.) One of the tenets is “private sector solutions are best” and over the years that has held true, at least as far as individual short lines go.

I’ve stayed pretty close to various members of the RIWG, the ASLRRA, and the individual Class Is about paper barriers and it’s safe to say just about every question brought up by a short lines was amicably resolved. (True, there are still disputes over interchange rules and handling fees, by they are outside the scope of this discussion.) And in one case I know of, the short line needed access to a second carrier and literally “bought its freedom” by renegotiating the terms of the lease with the sponsoring Class I road.

From the language of the present decision, it looks like certain big shippers did not like the answers they were getting from the Class Is so they took the legislative route instead. The decision heading says it all: “The decision adopted the interchange commitment disclosure regulations that were proposed in the Federal Register [November 2, 2007].” Yet, in a decision served Oct 30, 2007, “[The STB] concluded that the propriety of an interchange commitment is best considered on an individual, case-by-case basis, and we therefore declined to adopt rules of general applicability regarding the use of interchange commitments.

“While we did not prohibit the enforcement of existing interchange commitments across the board, we stated that affected parties may attempt to show that a particular interchange commitment is causing, or would cause, a violation of the Interstate Commerce Act.” Recall we had, in March 2005, the Western Coal Traffic League petitioning the STB to issue new regulations “for restricting contractual provisions included with a sale or lease of a rail line that limit the incentive or the ability of the purchaser or tenant carrier to interchange traffic with a rail carrier other than the seller or lessor railroad.” Which is exactly what has happened.

Thus it now appears that if the AB&C wishes to sell an underperforming branch to the Fallen Flag & Eastern, and if that branch has a connection with the AB&C’s arch competitor at the other end, then the AB&C and FFE have to disclose any restrictions about interchange with the competitor before the fact. That means that the AB&C will have to disclose a certain amount of proprietary customer information that none of the parties want disclosed. Ergo the transaction stops, literally dead in its tracks. Not a good omen for keeping under-performing branches open for business.

Ethanol tidbits: During the Q&A following the ARII earnings call: “We are shifting some production capacity away from [ethanol] tank cars as demand changes to other commodity-type cars… NY Investment Bank Netaxis Bleichroeder: “There are strong fundamental reasons for why crude oil prices have raced upward to $130/bbl and should be sustainable over $100/bbl for the foreseeable future.”

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