THE RAILROAD WEEK IN REVIEW
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“Declining global output, coupled with a recovering global economy, could spell very high oil prices:$150 a barrel as early as 2010…and as high as $180.” – Steven Kopits, Douglas-Westerwood, as quoted in Barron’s, April 6, 2009

Kopits’ argument is “the odds of the oil supply increasing greatly from today’s levels don’t appear high.” He suggests that the global economy cannot sustain such high prices and reminds us the recessions of the 1970s and 1980s were all linked to high oil prices. “By the numbers, the Chinese have it right. We will need all the oil we can get. Failure to appreciate the seriousness could get us the very economic situation we find ourselves in today.”

The chatter still seems to center around $70 oil and the “heat and eat” theme we’ve been spinning in these pages of late was amply borne out by Norfolk Southern during its short line caucus session at their Brosnan Forest facility last week. Rob Robinson, AVP Shortline Marketing, tells me energy-related commodities account for a large portion of recent and projected shortline carload gains.

As you may know, NS has the “250-squared” challenge in which each of 250 NS short lines is asked to come up with at least 250 carloads of new business over the next twelve-month period. At every shortline gathering Robinson puts up blank easel where individual short lines can jot down their commitments. Prior to the Brosnan-fest Rob had pledges for more than 30,000 units (18,000 realized to date) and then picked up another 5,000 at the Forest.

Asked whether there were any threads as to geography, shortline size or commodities, Rob said there was not much correlation as to geography or size of short line, however energy-related commodities are the clear leaders. Ethanol-related commodities (corn in, DDGs and ethanol out), frac sand for natural gas drilling, coal, and scrubber stone for power plants dominate. Says Robinson, “There’s no doubt that energy-related commodities have become the short lines’ growth engine in an otherwise depressed freight transportation world.”

The Brosnan Forest gathering was the first one for this broad an audience in years. I remember a decade ago regular short line sessions there (who can forget Bob Gentzel’s playlet of a conversation between “Norfolk Stubborn” and the “Pinch Penny & Eastern”?) were frequent. At this most recent one I counted about 50 individuals representing some 30 short lines, regional and holcos plus more than two dozen NS staffers and managers, including EVP Marketing and Sales Don Seale and newly-tapped EVP Ops Mark Manion.

Arranged largely by Brady Anderson of the NS shortline team, there were more than fifty individual and group breakout sessions and a minimum of speechifying. That said, Seale’s remarks on the economy and how NS is coping with softer volumes in so many commodities were helpful in that they were laden with short line opportunities for new revenue streams. Manion’s remarks went directly to shaping service to stay ahead of the demand curve and how the Operating Plan Developer can take days out of transit times even as it reduces crew starts.

Among the non-private breakout sessions I have to give high marks to Finger Lakes’ Mike Smith for his commentary on the Empire Link success to date and encouraging near-term outlook, showing how shippers’ increasing focus on dock-to-dock transit costs have added to the concept’s competitive advantage. I also have to applaud Pan Am Railway’s Mike Bostwick for his Pan Am Southern presentation that, like Smith’s, stressed competitive advantage for shippers. In short, it is good to see

NS moving away from the Annual Big Show in Roanoke and toward smaller, more intimate sessions where shortliners and their NS counterparts can get nose to nose under the same roof for a couple of days. CN has used this format successfully for a couple of years now and I should not be surprised to see other Class Is go down this track.

The results from NS' 250-squared initiative are indicative of the short line successes that are popping up all over the map. In Pennsylvania, the Lycoming Valley has signed on the Speedy Heavy Hauling Co, an ultra-heavy-duty trucking and rigging company that caters to the oil & gas industry. LVRR Marketing Director Todd Hunter writes, "Speedy, with its new Williamsport 'Camp' (oil field lingo), is one of the first such players with direct rail access supporting the Marcellus Gas field."

Further, Todd writes, "Speedy has hired local workers and has retained Altoona-based railroad track contractor Finkbeiner & Associates to install new timbers on a siding that has never been used since LVRR took over this operation 14 years ago. Their work will be completed by the end of the week and the track will then be in service. LVRR M&W crews have already completed restoration of the switch into this property. The addition of this property gives Speedy more than 40 acres of lay-down yard for pipe and equipment."

Speedy will be in business in a big way a month from now with the start of gas pipe shipments from Birmingham Pipe in Alabama. Chief Oil & Gas (http://www.chiefoilandgas.com) for one plans on using Speedy as a rail to truck transload and storage yard for gas well piping and casing. Todd adds, "I am happy to be the railroad communication link to direct any machinery, pipe or other gas well related opportunities to Speedy Heavy Hauling. We look forward to working with them and they with us." It is this pro-active attitude that has enabled the Lycoming Valley and other North Shore properties to add carloads where others are singing the blues. Just ask for the order.

Watco's Grand Elk Railroad (GDLK) is now open for business on what had been Norfolk Southern's Grand Rapids, Mich.-Elkhart, Ind., route. The company has hired 54 employees and is prepared to invest $9 million in the track. According to the *TRAINS* magazine Newswire, "Grand Elk has been operating freight in caretaker mode for NS for the past few weeks.

The new railroad plans to replace 20,000 ties between Kalamazoo and Grand Rapids during the summer, getting the track back to FRA Class2 spec for 25-mph operation. Until that time, General Manager Rodney Gordon has said speeds will remain at 10 mph over that stretch. Gordon said he also plans to replace a bridge in Portage, Mich., to handle 286,000-pound cars. Michigan's poor economy led to 3,600 people applying for Grand Elk's 58 total jobs; the railroad began hiring in mid-February.

Watco's newsletter, *The Dispatch*, says there are 55 active customers on the 123-mile line yet "due to a prior crew shortage, many customers had not received service for over three weeks so the crew jumped in to move the 700-plus cars that needed to be switched, delivered or spotted." Now, says *The Dispatch*, "Customer response and support of this transaction has been overwhelming. Giving our customers the attention they deserve has brought many opportunities to the table. We wouldn't have come to West Michigan if we thought it was going to be a long-haul recession."

***TRAINS* Associate Editor Andy Cummings** recently did a *Newswire* follow-up on the travails of the East Washington Gateway Railroad, the subject of a feature article Andy did in this month's magazine (page 57). He writes, "In a reversal, the Washington State Department of Transportation has decided it will not revoke Eastern Washington Gateway's lease on a 108-mile, state-owned rail line. The decision, following a round of negotiations, requires the short line to meet a series of benchmarks."

John Howell and his US Rail Partners group set up the EWG in 2007 to lease a state-owned ex-NP grain line in the northeastern part of the state, until recently operated under Watco auspices. Howell hit a snag when he was unable to meet the lease requirement to replace a particular number of ties each year. The upshot, says Andy, was the state's decision "to revoke the lease and find a new operator." Unfortunately, for EWG at least, the 2008 wheat crop was a disaster and the railroad was hit with a "a devastating wildfire and an expensive derailment."

Washington DOT concedes that EWG "is known for excellent service and everyone is hopeful that EWG will be able to meet its DOT obligations." It probably didn't hurt that Central Washington Grain Growers, the railroad's largest customer, helped convince the state to reverse its stance on the lease. Reminds me of Michael Ward's Core Value Number One: It begins with the customer.

And for dessert, UBS' ubiquitous Art Cashin notes that there was a Treasury auction and nobody came. "The two-week extension for participation in its P-PIP program was granted to attract more participation. It may not work." It seems that then-Treasury Secretary Paulsen had pressured big banks to take TARP money whether they wanted it or not, whereupon "Congress participated in a round of outrage about 'abuses' among TARP participants [and] suggested that the government should have a say in compensation levels at any firm participating in the government programs."

Now it appears a number of key players are exiting the Big Bank scene, preferring to be on their own. "Seeing this handwriting on the wall, firms petitioned to give back TARP money. The government said no. With the threat by Congress to take retroactive actions, partnering with the government was not only unattractive, in some cases it was frightening." And so it is the very program that could help solve the toxic asset program has no takers.

Moreover, commercial loans on bank balance sheets have plunged by nearly $117 billion. "Leading the drop is a sharp decline in credit card loans. The consumer is cutting back and cutting back sharply." And new ventures are finding even the most aggressive private-equity players are taking a breather. Which is one reason I won't be recommending any new entrants attempt to play in the short line sandbox until this is over.

This just in. Regular WIR readers know well the disdain in which I hold certain numbers of our elected representatives when it comes to doing their homework. Now comes a report of a scary exchange in upstate NY. The subject of the hearing was high-speed rail and grade crossings came up. A state representative asked what a grade crossing is. Among other things, the response noted that the right-of-way is the private property of CSX. To which it is reported the Member said that if CSX will not cooperate "we'll just have to take the right of way." Lovely.

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