THE RAILROAD WEEK IN REVIEW
November 8, 2013

"At the end of the day, the important thing is to keep a close eye on the world coal market and be ready for almost anything." -- Don Phillips in TRAINS magazine

A reader takes exception to my turn-the-cars comments, writing,

> The Class 1s never seem to understand that the goal of keeping cars moving is often inconsistent with the goals of growing profitable business and providing excellent customer service. Our customers often demand access to their cars for many days so, to keep them happy, and to grow their business, we accommodate them. As a result, our merchandise business is up more than 10 percent year-to-date.
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> On the merchandise side, there is no such thing as one size fits all. It would be nice if Class 1s understood that and stopped trying to measure something that does not make sense. We are not losing loads, nor are they, when a carload receiver holds cars for weeks. We are not losing loads doing so, nor are the Class Is, for that matter.

He has a valid point. One caveat, which my reader also made: his point is site-specific and the shoe does not fit all feet. There are three variables that help define the different conditions: Who owns the car; Whether the owner is long or short the car type; The overall network fluidity. As to car ownership, shippers using their own cars to store product on private tracks are fine -- plastics, e.g. But when that private fleet gets tight the shipper will demand greater velocity from short lines and Class Is alike.

As for railroad-owned cars, even if a particular fleet is stored surplus, such cars as are still in service must move expeditiously to keep the network fluid, keep service at a high level, and provide adequate supply with the active fleet. The most difficult condition is where both the network is under pressure and many car types are fully active. If all players don't all focus on velocity under these conditions, everybody loses.

BNSF third quarter total revenues increased 5.8 percent to $5.7 billion on 5.2 percent more revenue units. System RPU was essentially unchanged at $2,065. The Industrial Products commodity group increased RPU 2.7 percent as volume increased 9.2 percent and revenues increased 12.1 percent, besting coal, auto and ag on all counts. Merchandise carloads (IP plus Ag) increased 4.2 percent and revs were up 5.3 percent.

Operating income was $1.7 billion, up only 4.3 percent as ops expense increased 6.5 percent, 130 basis points more than the revenue gain. I calculate the Operating Ratio as a respectable 69.2, up 45 basis points; BNSF reports 68.6 vs. 68.3, excluding "impacts of BNSF Logistics." The difference is that BNSF has traditionally figured the OR as ops expense less other income, all divided by freight revenues. Below the line, net income was $989 million, up 5.5 percent.

A word is in order on how BNSF counts Industrial Products (IP) carloads. At the most basic level, IP includes everything but coal, ag products, auto, and intermodal. It includes STCC 20 processed foods -- canned goods or frozen vegetables, e.g. -- and all STCC 28 chemicals except fertilizers and ethanol, which are in ag products. STCC 291 petroleum products plus STCC 131 crude oil are also Industrial Products. How does one know how much of each?

The BNSF weekly car-count for September 29 shows 121,000 loads of "petroleum products." The usraildesktop.com Quarterly Commodity Statistics tables based on historical waybill samples can help sort the STTCs. The numbers won't match the BNSF quarterly numbers exactly because the days don't precisely match, but it's close enough to get a sense of relative weights. Comparing these two STCCs for 2Q2013 I found the variance between what BNSF reported and the QCS is a mere 20 basis points.

In 2Q2013, crude oil cars were 65 percent of total petroleum products with STCC 291 the rest. I then applied these percentages to the 121,000 petroleum products loads and compared the STCC 131-291 break with the actual 3Q2012 break from desktop. Thus I can say with a fair degree of confidence that crude-oil loads were up 68 percent year-over-year and other petroleum products were off 11 percent in the same period. Which helps explain why the chemicals group presenters at the shortline meeting were pushing short lines to expand their STCC 291 businesses.

Among Class Is, BNSF was the winner in the 3Q2012 percentage revenue units increase at five percent, besting second-place NS at four percent. They were more moderate in pricing, however, with system RPU gaining less than one percent, lowest among The Seven. The BNSF franchise is weakest in carload, too, at just 41 percent of total units, though BNSF alone does not put automotive in the merchandise car-count. That said, merch carloads for BNSF increased four percent, tied with UP and lagging NS and CSX slightly.

Don Phillips writes in Trains magazine on the political arguments about coal, pro and con.

> [The AP reports] it was in the best interest of the Obama administration to reassure coal states that the administration is trying hard to make coal clean enough to remain a part of the U.S. energy picture indefinitely. Republicans and the energy industry see their role as keeping the pressure on Obama to be certain he will think twice before cutting back on clean coal experimentation. In the end, it is quite possible something good will come of this political argument that would make "clean coal" something more than a phrase.
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> At almost the same time I saw the [above], I stumbled across another story that made me even more confident in the future of coal. [O]ver the years, NS has invested $43 million to upgrade and maintain the [Lambert's Point] facility, with capacity for 6,500 cars on 150 miles of track with an annual capacity of 36 million tons. In a world market capable of

> pushing shipments in both directions, the primary benefit of the Lambert's Point experience is to remind NS that traffic can go up and it can go down.
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> At the end of the day, the important thing is to keep a close eye on the world market and be ready for almost anything. America is filled with coal. In some locations, life is not good for coal miners. But in other locations, coal is staging a comeback. Even the Powder River Basin has had some downs lately. But Powder River shipments are now coming back, and environmental concerns are only one small item in a world of up-and-down causes. Remember that coal lives in a complicated world. Political arguments have a place, but don't ever be led into believing that life is that simple. [*reprinted with permission*]

The Union Pacific Shortline Group this week sent notice to its "short line partners" [*their choice of words -- rhb*] that the FRA has issued an advisory that it has $1.87 million in grants "for repairs of Class II or Class III rail infrastructure damaged by severe weather in places the president has declared as disaster areas since 2008." The UP note provides a link to the specifics; the deadline is December 8.

RailTrends 2013 hits NYC again November 21-22, and again at the W Hotel on Lexington Ave at 49th (541 Lex, to be precise). The conference cuts across ALL of the rail-industry disciplines and stakeholders. Attendees include members of the financial and capital communities, railroad owners, lenders, operators, marketers and every other group directly or indirectly affected by the rail business.

This year's theme is *Securing Rail's Role in a New Energy and Manufacturing Era* with a program shaped by the internal changes in the industry, timely topics, and controversial, button-pushing subjects. Rail presenters include a number of good personal friends who really know their onions, as the British put it.

Among them: shortliners Jack Hellmann, GWR President, and Tom Hoback, Indiana Rail Road President; Class I presidents Jim Squires, NS, and Hunter Harrison, CP; for the how-things-work angle, CSX Chief Transportation Officer Cindy Sanborn. AAR President Ed Hamberger provides the industry view. Wick Moorman, CEO at NS, is RailTrend's *Innovator of the Year* and will address the multitudes Friday morning over second cups at 0830.

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