THE RAILROAD WEEK IN REVIEW
June 27, 2014

Norfolk Southern's 13th annual Short Line Meeting at the iconic Hotel Roanoke attracted more than 200 shortline and regional railroad representatives and not a few spouses and SOs. Moreover, some 100 NS folks were there, including CEO Wick Moorman, Chief Commercial Officer Don Seale, newly-tapped VP Industrial Products Mike McClellan, VP Transportation Terry Evans, and three regional GMs.

The meeting theme was Focus on Customers, Utilization and Safety with the formal remarks emphasizing the first two in the context of the third. McClellan set the tone, appropriately enough for this crowd, saying that we must do more metric-based service selling so customers can depend on predictable dock times and transit times. Listening between the lines, I'll go out on a limb and say NS will concentrate on those merchandise commodity O-D pairs that offer the best equipment turns, contribute to network efficiency, and generate yields that can cover replacement cost parameters. And, fact is, shortline car hire relief is going away. Finally.

The NS Shortline Group's Chris Spiceland once again stressed how the non-Class I railroads are NS Market Extenders, effectively increasing the NS-owned 20,000-mile network by half. He specifically mentioned combined new business opportunities of some 21,000 carloads between and among GWR, Watco and Pan Am Rail. And there are others.

The regional GMs all talked about new T&E hires, track capacity additions, and business levels increasing across many commodity groups, asking for short lines to "tell us how to improve interchange consistency." The shortline panel talked about more accurate advance consists and NS showing up with the cars they say they'll have. Getting senior NS marketing officers in the room with key customers would go a long way.

That said, the AAR performance metrics say NS has done better in the past. Train speeds averaged 20.5 mph for Week 25 (June 20) and have been trending steadily down since the 2013 Week 49 (December 6) most recent high of 25.0 mph. Wolfe Research has a running tally starting the first week in January, 2002 and NS has stayed in the 22-24 mph range over that time.

I think the AAR train-speed metric is only half the story because it reflects only core trains between core terminals. It does not capture performance at second- and third-level yards where so many short lines make interchange. And poor performance at NS satellite yards will drag down core yard performance as well as average train speeds as trains are held out of yards for lack of capacity to take them.

Consider: NS had 178,442 AAR Cars on Line for the week ending June 20, up 11 percent from 160,136 for the week ending January 3. The AAR defines Cars on Line as "the average of the daily on-line inventory of freight cars" and counts intermodal units as "freight cars." NS intermodal boxes and tank cars for the last month are holding steady at 9,000 and 34,000 respectively; the recent growth is in open-top hoppers (coal) and multilevel (auto). In any event, more cars mean more space needed to put them.

I spoke with a number of Norfolk Southern senior operating and commercial officers at the short line meeting and came away with the sense that these non-core yards are a concern, especially as traffic levels increase (YTD merchandise carloads are up 2.7 percent). Short lines can improve velocity by updating their ISAs to reflect current operating conditions and then hitting their windows consistently.

To this end, NS is working with the Railinc ISA Repository, a web-based app designed to let short lines store, view, update and publish ISAs with minimal hassle. Readers will recall the initial ISA process where you had to create a multi-page hard-copy document and then walk it through the chairs for multiple levels of approval. No more. My only regret is the ISA workshop NS sponsored in Roanoke was so sparsely attended; the session ought to have been SRO. (I'm reminded the Railway Industry Working Group Agreement has an ISA provision; my copy has gone missing so please check yours.)

In sum, it was a very worthwhile session for me and everybody I spoke to seemed to go away with a sense of accomplishment. The doors were left wide open for more shortline calls in Roanoke and I really think shortline ideas for value-added customer service and performance will meet receptive ears.

Benchmarking rate quotes from your friendly Class I carrier is a very good way to see whether the rates you get will actually move traffic for you and be profitable to the Class I. This afternoon I dialed in on Linda Glauber's USRail.desktop benchmarking seminar. What they've done is add a commodity-OD Pair and car type waybill sample freight rate to the costing screen. The sample rate gives you a place to start before you pick up the phone to get a quote.

Once you get a rate-plus-fuel surcharge number from the Class I, the software will tell you the RVC for the quote and its relative percentile ranking *vs.* other moves in that market. For example, you're quoted $6,000 for a carload of lumber from Spokane to Peoria. The software says it's a 1.7 RVC and ranks in the 45th percentile, i.e the 1.7 is better than 45 precent of all other RVCs in this lane. It's *not* better than 55 percent of the moves, so you have work to do.

The Class Is are pushing the need to maximize car-contribution per day, minimize transit times, accelerate first-mile/last-mile turns, and recover car-replacement costs. This new benchmark tool from Desktop helps you stay ahead of this curve and simultaneously sanity-check the rate quotes.

Anthony D. "Tony" Kruglinski, Founder and President of Railroad Financial Corporation, died June 15, at his home in West Orange, N.J. He was 66. His long-time friend and associate, RFC Senior VP David Nahass, writes, Our great friend and colleague, Anthony Kruglinski, passed away Sunday after losing his battle with pancreatic cancer. Tony was a fighter until the end and he carried himself with pride and honor throughout his treatment and his disease. In many ways, other than as the President of Railroad Financial Corporation, which he founded in 1989, the mark he put on the industry will be best epitomized by the annual Railway Equipment Finance conference and its relevance to the industry at large.

He was terribly proud of REF and the manner in which it has become a harbinger of spring and a leading indicator of the industry's health. The enthusiasm for his participation in this year's REF was remarkable for him, his family, and for all of RFC. We will always remember Tony for his old-school toughness and his appreciation for the people with whom he worked over the years. He was in so many ways an incredible man.

A man of generosity, kindness and intellect, Tony had a great love of life and was indeed a larger-than-life figure. He will be missed. As sad as we are to learn of and acknowledge his passing, we know that his pain has eased and he is in a better place. Rest in peace, big guy.

Born Sept. 13, 1947, Tony grew up in North Bergen, N.J. After serving as a drill instructor in the Army Reserves, he began his railroad career as a Penn Central brakeman. Prior to forming Railroad Financial Corporation in Chicago, he managed the Surface Transportation Division of Irving Trust Company in New York City. He joined *Railway Age* as Financial Editor in 1989.

To which *Railway Age* Senior Consulting Editor Luther Miller adds, "Tony was a man of formidable talent. Over the years, his many editorial contributions to the magazine — his Financial Edge column, the Guide to Equipment Leasing and the Financial Desk Book — set the standard for reporting and commentary on railroad equipment finance and leasing. But more significant, he was a man of integrity. Whether he was structuring a multi-million-dollar locomotive or railcar deal, or just giving advice, Tony inspired trust, confidence, and respect."

The last time I saw Tony was at the 2014 Railway Equipment Finance conference in March. At that time, we talked about how to generate greater REF interest among Class II and III railroad operators and managers (*see* page 2, WIR March 7). I have reason to believe David Nahass would like to keep the Kruglinski spirit alive in this sense. Drop me a note if interested.

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