THE RAILROAD WEEK IN REVIEW

February 6, 2015

"The American Trucking Association estimates the shortage of about 35,000 drivers in 2014 could grow to around 50,000 in 2015." — Russ Quinn, dtnprogressivefarmer.com

Truck driver shortages plague grain-belt farmers. Even as lower diesel fuel prices help trucking companies lower the operating expense line, grain rigs sit idle as the supply of long-haul drivers has dried up. According to DTN, North Dakota farmers blow export grain into containers that are then driven to West Coast ports. Which was fine until the 2008-2009 economic downturn, when the demand for long-haul trucking slowed and many drivers left the fold.

Now, however, the energy growth in the Bakken region is siphoning off qualified long-haul drivers with offers of day jobs and decent pay. Rail congestion is slowing down grain train turns, adding cost and inconvenience to that alternative. So as demand for grain truckers goes up and supply goes down, driver turnover has passed the 100-percent mark, where every driver on the payroll today will be gone in a year and needs to be replaced.

Worse, coping with the federal regulatory climate "becomes a delicate balance between keeping highways safe by limiting the number of hours truckers can drive and keeping the trucking industry efficient," says Larry Johnson, Nebraska Trucking Association president.

Not every regulation fits every commodity lane, and drivers have to know what they're hauling and what regs apply to that run. Vehicles with ag license tags, for example, have different regs than commercial vehicles — no log books, no CDLs, limited to a 150-mile radius of home base. So once you hire a driver and he gets qualified on all the rules, he's a keeper. But when he takes a hike, you have to start all over. That ain't cheap.

Genesee & Wyoming reports 2014 fourth quarter and full-year results Feb 10, and I think it's important for the entire Class II and III railroad community to pay attention. GWR operates more than 100 individual names in every region of the U.S., missing only Idaho, North Dakota, Iowa, West Virginia, and Rhode Island. In Canada, GWR hits Ontario, Quebec and Labrador. And given that scale, they see the same carload developments their peers do, meaning GWR carload trends are a very good proxy for the shortline community at large.

December North American carloads were up 10 percent over December, 2013. Coal & coke, minerals & stone, chemicals, grains and and grain mill products were all up double digits. The newly acquired (June, 2014) Rapid City, Pierre & Eastern made significant contributions to the totals for grain, minerals (mainly bentonite for oil drilling), and plastics. Same-railroads carloads (names operating a year or more) were up 14 percent.

For the year, carloads increased eight percent to 1.8 million units and include the first full year of ownership of the former RailAmerica properties. The rate of growth is nearly double what the AAR shows for North American Class I railroad network and is not entirely surprising. GWR has a reputation for rapidly increasing revenue units on newly-acquired railroads owing to the economy of scale they bring to the combined operation. The RCP&E, for example hit its annualized Year One growth target in the first five months of operation.

GE Transportation, RMI to us older heads, holds its 26th Annual Client Conference in Atlanta June 15-16. (A busy travel month — NS just said they'll do their Roanoke shortline clam bake June 9-12). According to Jane Edgar, GE Trans Media Contact, the purpose of the event is to introduce new products and services as well as training in their use. Says Edgar, "The goal is to give our *RailConnect 360* users access to better shortline decision-making and business performance."

The conference will also feature GE Transportation's *RailConnect mCrew* for updating crew work orders and event reporting, and *ShipperConnect Demurrage Management*, a cloud-based software solution that improves railcar demurrage billing accuracy. I applaud the *mCrew* app for its ability to increase car velocity and event reporting; I'm hopeful the demurrage tool will (a) tell users why demurrage occurs in the first place and (b) provide the means to make *all* demurrage charges go away because cars are placed, loaded/unloaded and released on time.

I'm also pleased to learn that Linda Darr, the recently tapped new ASLRRA President, is a keynote speaker. We had the chance to chat and compare notes at October's BNSF shortline meeting and again in November at Norfolk Southern's Brosnan Forest for a shortline business development confab. She brings a unique level of energy and insight that will serve the Association well, building on the high standards that Rich Timmons set during his long tour at the helm.

Though I personally have not had the opportunity to attend the GE conferences, those who have tell me it's a great opportunity to learn the most recent product development trends, get hands-on training, find new ways to tweak the at-home systems, and lay Best Practices over all.

Watco Companies, LLC, has promoted Stefan Loeb to EVP and Chief Marketing Officer for Watco Companies. In this role, Stefan will lead and be responsible for the organic growth initiatives of Watco Transportation Services' (WTS) North American railroads and contract switching locations as well as Watco Terminal and Port Services' (WTPS) facilities.

Most recently, Loeb was SVP for Marketing & Strategic Development for WTS, having joined Watco in 2010 as Vice President of Business Development. In that role, he led and assisted with several acquisitions including the Wisconsin & Southern Railroad, Birmingham Terminal Railway, Ann Arbor Railroad, Blue Ridge Southern Railroad and the Autauga Northern Railroad.

He has a perfect background, coming to Watco from the financial side, having worked as a VP on mergers and acquisitions at Bank of America and before that with Rob Hart's group at LaSalle. He's also a pretty respectable railroad photographer.

The Watco Terminal & Port Services group (WTPS) has promoted Will Patterson and Derek Penner to the position of Senior Vice President, Marketing & Sales. Patterson is charged with leading organic revenue growth across Watco's extensive network of terminal operations, such as the Greensport Industrial Park in Houston. Penner gets to oversee business development for Watco's Energy by Rail terminal network, which includes facilities as far-flung as Phoenix, St. Louis, Rockford, Ill., Pittsburg, and Oklahoma City.

Patterson joined Watco in 2012 as Vice President of Growth and Development for WTPS with oversight of capital projects and new business opportunities at WTPS. He's been in the terminal and ports business for 16 years, 14 of which were with Kinder Morgan. Penner moves to this assignment from Director of Market Development for WTPS. He joined Watco in 2010 as business development manager and has played a vital role in expanding and adding value to the WTPS crude-by-rail product.

These promotions are timely. Watco is set to take ownership of 31 Kinder Morgan terminal operations across the U. S., from Stockton to Brooklyn. The transaction includes 14 traditional rail-to-truck transload and switching facilities, 13 barge-truck-rail transfer operations on inland waterways, three sites providing deepwater stevedoring with material handling activities, and an inland river tank farm. Consideration for the terminals is provided through an equity interest exchange with closing occurring in multiple phases beginning in the first quarter of 2015.

Tim Marsh is the new SVP for Marketing and Sales at Canadian Pacific, effective Feb 1. His assignment, not unexpectedly, is to zero in on meeting customer supply-chain requirements, building the same-store revenue base, and leveraging that base into new volumes and revenues. He is certainly well qualified, coming off 25 years of international sales and marketing experience. Most recently, he was Executive Vice President, North America Trade Division, at COSCO, having joined the firm 13 years ago as their general manager for national sales.