THE RAILROAD WEEK IN REVIEW

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"The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought. -- Dornbusch's Law

ASLRRA President Linda Darr gave eloquent testimony before the House Rail Subcommittee May 13. Railway Age political guru Frank Wilner was there and writes that the committee "was largely reviewing—and largely celebrating—35 years of partial deregulation under the 1980 Staggers Rail Act."

Under discussion was Senate Bill 808, the Surface Transportation Board Reauthorization Act of 2015, Open Access (also called reciprocal switching), which the Senate Commerce Committee is supporting. The list of those testifying in support of the bill is impressive. Economists Bob Gallamore and John Mayo, in Wilner's words, "independently cited boundless and conspicuous evidence that a 'light touch regulatory approach' (Mayo's words) has made the railroads' return to health possible and that "Congress should use extreme caution in tinkering with the law." To which Darr provided the perfect segue:

> Many of the economic freedoms and regulatory flexibility embodied in [the Staggers Rail Act] allowed the railroads to save light density branch lines rather than abandon them. In creating the modern-day short line industry, the Staggers Act ensured that huge areas of rural and small-town America would stay connected to that national railroad network.
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> For the small businesses and farmers in those areas, the short lines' ability to take a 25-car train 50 miles to the nearest Class I interchange is just as important as the Class I's ability to attach that block of traffic to a 100-car train and move it across the country. Tens of thousands of rail customers cannot make the journey across the country without Class I railroad service. But they can't start that journey without shortline service.

Darr closed, writes Wilner, by noting that short lines "reinvest as much as 30 percent of their annual revenue in infrastructure renewal, expansion and maintenance, and asking the subcommittee to support an extension of a federal tax credit for the short line industry (not major railroads) that helps leverage that investment." Good ink for the non-Class Is indeed.

Cherilyn Radbourne, lead rail analyst for Toronto's TD Securities, helps make the case for short lines and the carload business in her May 15 Union Pacific note. Not only does UP "boast of an outstanding franchise — which provides exclusive access to a number of markets — but also the railroad is well-situated to capitalize on population growth trends."

I'll say. First quarter results have UP with the most revenue from the merchandise carload sector including automotive ($3.4 billion), with 60.0 percent of revenues from carload ex-coal (CSX is second at 59.8 percent). Ag products (grains, grain mill output, packaged foods), chemicals and industrial products alone comprise 80 percent of the merch carload network. And UP's 200-some short lines touched about 300,000 of the 800,000 ag, chemical and industrial products carloads UP ran in the first quarter.

As for the chemicals sector (26 percent of UP merchandise carload volume), Radbourne writes:

> Union Pacific's franchise is ideally situated to benefit from renewed investment in the chemical sector along the U.S. Gulf Coast. The company expects a 25 percent increase in domestic nitrogen capacity by 2017, and has identified 22 new plastic plants or plant expansions that are planned or under construction, of which it can serve 14 directly, including eight of nine under construction.
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> Much of this capacity will be for export, which would involve a relatively short length of haul if exported off the Gulf Coast; however, Union Pacific believes that some of the export volumes will move off the east or west coasts to reach European and Asian markets.

Reading & Northern's Customer Appreciation Day train trip on Wednesday was a winner. The 320-mile regional railroad in north-central Pennsylvania attracted some 100 customers, state government representatives, and friends for an outing that included some of the best-maintained track I've ever seen anywhere and spectacular scenery. The high point — literally — was the 168-foot high, thousand-foot long bridge over the Little Schuylkill River north of Tamaqua.

The R&N got its start in 1983 as the Blue Mountain & Reading, owned by Reading entrepreneur and railroad advocate Andy Muller, with operating rights on a 13-mile state-owned ex-PRR line segment, between Reading and Temple. In 1990 Muller bought the state segment and in 1996 the R&N was one of the first short lines to join the Conrail Express program. R&N gradually acquired more light density branches that ran north out of Reading, creating today's network of contiguous line segments.

R&N is now the largest privately-owned railroad in the state, has more than 200 employees, serves a diverse mix of commodities including coal, pulp and paper, agricultural products, metals, packaged foods, aggregates, and chemicals, and does it all with a fleet of 32 locomotives and more than 1,000 freight cars, mainly coal hoppers for the anthracite customers and boxcars for specific, short-haul local moves.

I rode most of the trip on the back platform of the “Black Diamond,” a richly-appointed heavyweight that Jay Gould had built in 1889 for his daughter (thus the awning and railing in the photo). Our 60-mile round-trip jaunt was over mostly ex-Reading lines built to serve the anthracite coal, hardwood lumber, and agricultural interests that dominated the area in the early 1900s. Much of the line was built as double-track, as the wide subgrade clearly shows, allowing the R&N to add more track capacity at reasonable expense to accommodate a growing traffic base. Norfolk Southern is the sole Class I freight carload interchange.

Watco and Iowa Pacific Holdings have agreed on a transaction that will transfer ownership of the assets of two Texas railroads from Iowa Pacific Holdings to Watco: the Texas New Mexico Railroad and the Lubbock Railroad. Watco will operate the former as the Texas and New Mexico Railway, and the latter as the Lubbock and Western Railway.

The Texas and New Mexico Railway railroad extends from a Union Pacific connection at Monahans, Texas, to Lovington, New Mexico. The railroad serves the oil fields of west Texas and southeast New Mexico. The primary commodities moving on the line are oilfield chemicals and minerals, construction aggregates, industrial waste, and scrap.

The Lubbock and Western Railway is divided into two segments: the northern-most segment runs from just north of Dimmitt to Plainview; the second segment runs west from Lubbock, Whiteface, and southwest from Lubbock to Seagraves. The Lubbock and Western Railway commodity list includes fertilizer, construction aggregates, grain, cotton, chemicals, peanuts, and plastics. Watco has filed the requisite STB notices on both road names to begin the process for regulatory approval. The transaction is expected to close immediately upon STB approval.

Stifel Rail Analyst John Larkin: “Tightening capacity will give carriers greater ability to select the freight they choose to move. Some factors carriers will likely consider: geographical proximity, nature of fuel surcharge arrangements, load content, size of the shipper, shipper warehousing load/unload efficiency, and (of course) price.” This goes squarely to what the Class Is have been saying about revenue per car-day and “reinvestability” Comparing two moves of the same product to the same destination but from different origins, the one that wins these metrics wins the day. Short lines must know if they can compete before ever putting in a rate request.

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