# RAILROAD WEEK IN REVIEW

## May 10, 2019

*"If we think we can serve our customers well and get more efficient in the process, we will adopt whatever we observe. We don't have to do it today or tomorrow, but we do have to find something that gives at least equal satisfaction to our customers and makes our railroad more efficient." — Warren Buffett on PSR, Berkshire Annual Meeting, May 4*

*"BNSF's revenues were approximately $5.8 billion in the first quarter of 2019, an increase of 2.5 percent versus 2018. During the first quarter of 2019, BNSF's revenues reflected an 8.5 percent comparative increase in average revenue per car/unit, driven by increased rates per car/unit and higher fuel surcharge revenue." — Berkshire Hathaway 10-Q, May 4*

**CSX and Allegheny Valley Railroad**, a division of Carload Express, Inc., have inked an agreement for AVR to purchase the nearly 50 miles of CSX-owned rails AVR has operated in the Pittsburgh area for the past 15 years. Allegheny Valley's filing says no changes in operations are contemplated due to the purchase of the trackage.

AVR opened its doors in 1995 and operates 77 miles of track in the greater Pittsburgh area, with lines extending from Pittsburgh to New Kensington, Washington, and Allison Park; interchanges are with CSX, Norfolk Southern, GWR's Buffalo & Pittsburgh, and the independent Wheeling & Lake Erie. Carload Express also has  three other short lines — Delmarva Central, Southwest Pennsylvania, and Ohio Terminal Railway.

Based in Oakmont, Pennsylvania, Carload has been in business since 1992 and handles some 90,000 revenue units a year on 333 route-miles of track, for an enviable density pf 300 cars per mile per year. The company does it all with 44 well-maintained and attractive locomotives.

The transaction is outside the scope of the branch lines CSX has under review for sale or lease. Rather, it is similar to last July's OmniTRAX transaction. Their Alabama & Tennessee Railway and the Fulton County Railway had been leasing 176 miles of CSX trackage since 2004.

**The Nebraska Central Railroad** was cut between Columbus and Monroe, Nebraska, when the flooding Loup River washed the railroad's bridge off its pilings. The line is one of four railroads under the aegis of Fort Worth's Rio Grande Pacific. Mike Haeg, a VP with RGP (a good friend and former UP shortline group staffer) says that, though the bridge was not destroyed, workers have hauled in rock and new ties and are rebuilding the track from the east towards the bridge.

Haeg adds, "All of our lines have flooding damage, and I have been in a helicopter all day surveying damage. We had a very cold February, with the ground still frozen when we were hit by the weather. All the snowmelt and water had nowhere to go." RGP was prepared, however. They had rebuilt the Elkhorn River Bridge at Norfolk, Nebraska, in 2010 and it was unscathed.

**Reading the BNSF financial summaries** is always a challenge. To begin, there are two sets of financials -- one for “Railway and Subsidiaries,” another for “BNSF LLC and Subsidiaries.” The difference, as I recall, is that the latter has to do with debt and other obligations that came as a result of the Berkshire/BNSF transaction. The former is more or less pure railroad. One can see the differences when comparing what follows with the percentage revenue changes on page 32 of the Berkshire 10-Q.

Railroad revenue increased 2.5 percent to $5.6 billion and operating expense increased 2.5 percent to $3.8 billion; operating income increased 2.3 percent to $1.8 billion for a 68 OR, essentially unchanged. Below the line, net income gained 14 percent; free cash flow after capex including equipment rose 22 percent to $1.4 billion.

The operating expense gain is a function of volume-related costs and the impact of the adverse weather conditions. Compensation and benefits expense went up on wage inflation, higher employee counts, and related training costs. Fuel expenses decreased $56 million (7.3 percent) compared to 2018; equipment rents were unchanged, in spite of the weather-related track outages.

There are no tables of revenue units. I’ve created my own from the Week 13 (ended March 29) AAR summary and find the percentage volume changes are within a few basis points of the volume changes in the Berkshire report’s commentary. Bottom line, revenue units were down 5.2 percent, more than anybody else (next lowest was UP, off 1.8 percent); the BNSF system RPU was up eight percent, best of show.

Consumer Products (auto, intermodal) volume decreased 5.7 percent, attributable to lower international intermodal market share, increased truck competition, and the adverse weather conditions. Industrial Products volume increased 1.3 percent primarily due to strength in the energy (crude oil up 30 percent) and industrial sectors, with gains in metals, processed foods in boxcars (putting reefers in IP, not ag, is unique to BNSF), STCC 26 papers, and waste, partially offset by lower sand and taconite volumes as well as the aforementioned weather conditions.

Agricultural Products volumes dropped nine percent with grains down 12 percent (though export beans softened the blow somewhat) and grain mill products, up two points. Coal carloads dropped 11 percent and represented 17 percent pf total units.

During the Annual Meeting Q&A, somebody asked why BNSF lags UP on profitability even though it has grown revenue and traffic volume faster than its Western rival. Buffett replied, “We pay a lot of attention to what’s going on at the Union Pacific, as we should. It’s not like we’re losing business to anybody, but they have been operating more efficiently than we have during the last few years and, like I say, we take notice of it. UP has eliminated a lot of jobs as part of its efficiency drive, and we’ll see what that does in terms of shipper satisfaction.”

**You have to hand it to Union Pacific.** They have always been a bigger-than-life railroad and the current 4014 “Big Boy” show drives that home most elegantly. This YouTube video, once you get around the crowd scenes, has some lovely running shots that bring back fond memories to those of us who chased mainline steam in the late 1950s.

The 4014 was built by Alco in Schenectady, New York, and delivered the UP in December, 1941. The locomotive operated in revenue service until 1959. It was donated to the Railway and Locomotive Historical Society in late 1961 and thereafter displayed in Fairplex in Pomona, California. UP reacquired the locomotive from the RLHS in 2013 and returned it to home rails in 2014. Restoration work was begun in mid-2016. The locomotive was successfully test fired in April, 2019, and on May 1, it finally moved under its own power for the first time in 60 years.

Union Pacific hasn’t said how much the restoration cost, but *Trains* Editor Jim Wrinn estimates at least $4 million based on similar restorations. One has to stand in awe of the UP commitment of resources, time, and talent to bring this project to fruition. This is what serious railroading is really all about, and thanks, UP, for not letting us forget.


Ogden, Utah, Wednesday evening, courtesy John Behrens

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