RAILROAD WEEK IN REVIEW

August 23, 2019

“It doesn’t really help that we’ve created academic and professional environments in which we respond to models that don’t produce The Answer by making adjustments to reflect what they missed most recently, calling it Bayesian Updating, finding a time horizon, data set and parameters for which we can get an acceptable value, and publishing a new paper.” — Rusty Guinn, “The World ‘Twixt Ought To and Is,” epsilontheory.com, August 16

“Today, the world celebrates the potato. It's been a staple food in cultures across the work for millennia, and certainly took root here in the U.S. In 2018, Watco hauled more than 1,400 carloads, mostly on the EIRR, with its Perishable Express and Burley Warehouse.” — @watcorail tweet August 19

OmniTRAX will discontinue service on its Central Texas & Colorado River Railway. In its STB filing (AB-1272X), OmniTRAX requests permission “to abandon its entire line of rail, covering approximately 67.5 miles of track located in McCulloch, San Saba, Mills, and Lampasas Counties, Texas, extending from a connection with BNSF Railway Company at milepost 0.0 at Lometa, Texas, to the end of the Line at milepost 67.5 near Brady, Texas.

I visited the property a while ago, and though it appeared to have prospects for new aggregates and frac sand business, that never happened. Consequently, the entire CTXR was placed under embargo on July 25 due to bridge problems (more than a bridge a mile) and unsafe track.

OmniTRAX had invested some $2 million to upgrade the property after acquiring it from the Heart of Texas Railroad in 2016. However, per the filing,

> Despite CTXR’s good faith efforts to work with existing and potential customers to generate sufficient operating revenues to keep the Line in service, and despite CTXR's sizable capital investments, hoped-for traffic increases, which had motivated the purchase of the Line, have not materialized.

> Worse, a substantial customer plans soon to cease operations, and the largest customer by revenue carloads recently sold its Brady-area facility to a new operator that projects to move roughly 20% of the traffic volumes of its predecessor. Collectively, all of these developments will only contribute to CTXR's already unprofitable operation.

The proposed rock-crushing facility was expected to generate 8,000 to 10,000 loads annually. But the facility never opened as planned in 2017 and is unlikely to ever be developed. Frac sand volumes have declined considerably as area oil and gas drillers rely on new “brown sand” mines closer to their operations. The railroad is expected to haul just 553 carloads in total this year, down from 1,210 in 2018. That’s a mere eight cars a mile, and, per the Rule of 100, a 67-mile short line would need 6,700 cars a year on already Class 2 track to barely break even.

The filing provides a great and detailed history on the line, for those academically inclined. As it was, CTXR used three locomotives and a two-person crew out of Brady. The crew taxied on Mondays to Lometa to pick up the locomotives and make the BNSF interchange, then operated westbound to Brady on Mondays, performed local switching in Brady on Tuesdays and Wednesdays, then returned eastbound to Lometa on Thursdays. OmniTRAX is wise to cut its losses promptly.

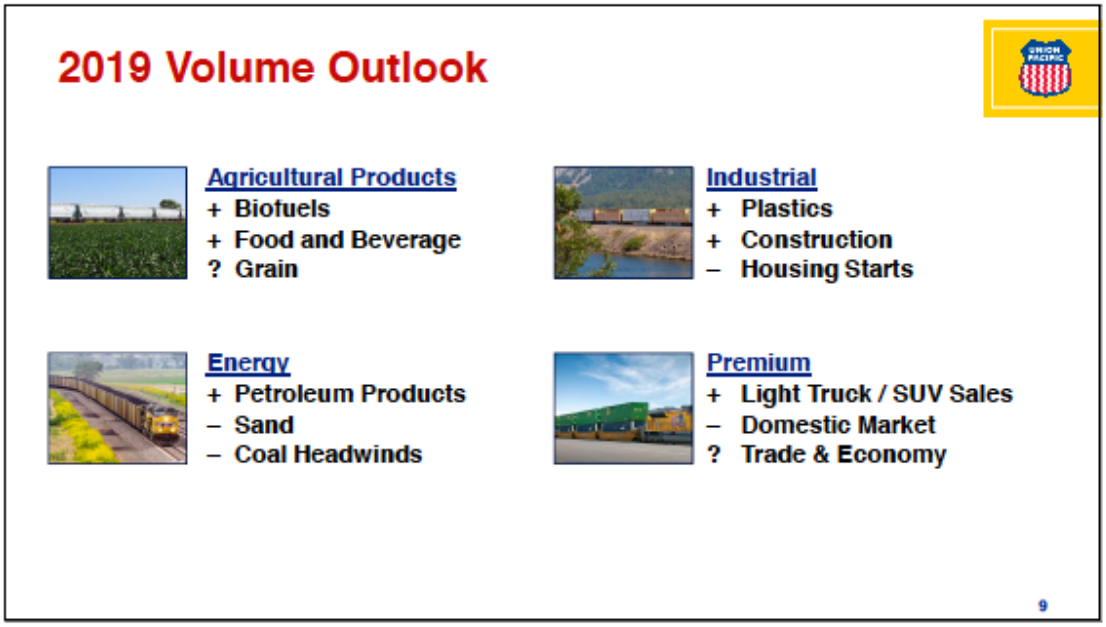
Canadian National has published its 2019-2020 Grain Plan and invites your input. The Plan is a Canadian government requirement and spells out how the railroad will meet the volume of grain expected to be moved in the crop year. To develop its plan, CN collaborates with key stakeholders, including producers, seeking their views and input.

Click on the link above to go to the CN page about the plan, download a copy of the 28-page plan, and add your own input via the links provided. The resultant measures reflect extensive consultations with grain producers, grain-handling companies, customers and government officials. For example, see page 19 on CN capacity in terms of the car fleet, locomotive, and crews in position to move the anticipated volumes (pages 12-13).

CN updates the grain plan on a regular basis as estimates of crop production evolve. CN will also update the plan to reflect performance to date and report on any significant events that may have temporarily impacted performance, and will continue to consult the industry through the course of the crop year.

The “consultation” questionnaire asks for customer input on such matters as crop size, weather impact to date in the crop year, anticipated carloads by O-D pairs, possible railroad capacity constraints, and so on. To me, asking customer input like this is yet another example of CN’s intense focus on customer supply chain requirements. Attention must be paid.

At this point, halfway through the third quarter, I think it might be useful to compare year-to-date commodity trends with the outlooks presented on the second quarter warnings calls. Take Union Pacific, for example. I'm looking at the AAR carloads reported through Week 33, August 17, sorted into these four groups. (There will be some small percentage discrepancies as I have frac sand in the AAR aggregates group and coke in energy, e.g.)



Ag Products and Industrial accounted for nine percent and 27 percent of total revenue units respectively, and were down four percent year-to-date. Food and beverage increased three percent, grain was off six percent and grain mill products (where I put ethanol) slipped five percent. The broad chemicals group, where plastics live, was up a point. Construction (mainly aggregates) was off 16 percent, and housing starts (lumber) dropped nine percent.

Energy (coal and coke plus petroleum products including STCC 29, but driven mainly by crude oil vols) was up six percent as coal — 11 percent of total revenue units — dropped 11 percent. Petroleum — three percent of vols — gained three points. In Premium, automotive was off a point and intermodal (domestic/international break not provided) was off three percent.

All in, total revenue units were off four percent and reflects what we heard was coming back in July. UP's commodity pattern pretty much mirrors what's happening on all the US Class Is, but I think that as the drivers of the global economy settle down, UP is well-position to capitalize on renewed transportation demands.