RAILROAD WEEK IN REVIEW

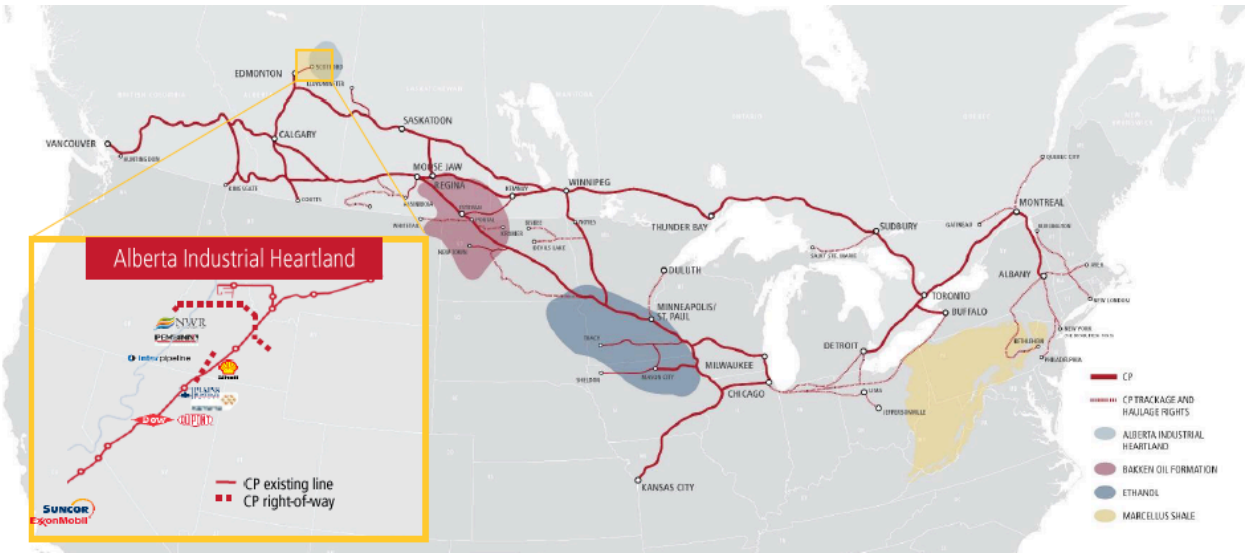
September 27, 2019

"Barclays used a machine learning tool to analyze company managements' commentary on capital expenditures during earnings calls. The result revealed a weaker corporate sentiment, where companies are likely to trim investments in new or upgraded plant and equipment." — CNBC on Twitter, September 24

The Canadian Pacific September 2019 Investor Presentation is a useful review of all CP has accomplished in its drive to deliver best-in-class customer service. The Diversified Book of Business discussion on page 8 tells you what's working and where in terms of both revenue dollars and revenue units. You can see how CP is re-purposing former class yards for industrial development (pages 10-12) and how improved service metrics create an essential tool to use to fill those business development spaces.

To that end, CP has developed its Railway Performance Monitoring (RPM) process to keep all the pieces moving in the right place at the right time. CP notes that "We didn't replace the locomotive; we replaced everything that slowed it down," spending some C$80 million this year alone in fleet modernization. The success of the RPM process and the power upgrades led logically to carload trip planning so that destination arrival time can be predicted for any origin release time.

Finally, the Our Markets discussion starting on page 21 tells any short line or regional railroad owner anywhere what moves from where to where. Take the Energy, Chemicals, and Plastic merchandise freight group, page 25. Principal origins are Alberta (plastics, LPG, petroleum products), the Bakken (crude oil), the upper plains states (ethanol); frac sand goes to Marcellus and other basins located from Pennsylvania and Ohio into West Virginia.



So here you have in one 30-slide deck, a thorough overview of what CP moves from where, to where, and how with a service design plan and delivery process that can create sticky, long-lasting customers. I'm sure we'll get even more color at the CP short line meeting in October.

The subject of truck rate changes is a popular theme in the financial press. These tidbits are useful for knowing the direction of truck pricing but not so helpful as to knowing why. Here's some of my thinking.

If truck rates – especially spot rates - are slipping, it has to be because there is more supply of truck bottoms than there is demand for same. As a railroad service provider for price-sensitive customers, you need to know when the competition is cutting rates and why.

This report tells you two things. One, that the competition is buying freight by offering cheaper rates. Two, the reason demand is slowing down is that manufacturers are finding orders for capital goods are shrinking and as a result inventories are increasing. Thus there is less freight to move and there is a scramble among truckers to keep trucks moving at any price.

Of course, the railroads aren't helping with their lack of movement transparency. A friend who's been around this business even longer than I have writes,

> They make train plans and try to follow them. These are available to credentialed shippers on the individual RR websites usually by train symbol and date as a function of "car tracing" routines. Generally a train must have left the initial terminal for the schedule to be shown on the website.
>
> Normally, history is maintained for a short period, say a week. Or he or she can refer to a recent past train history to approximate the expected schedule for that train/RR. A carload shipper can also generate a highly summarized train plan for future movements over one or more carriers. We never said carload railroading was easy!

He does concede that for intermodal, "the websites usually feature summarized schedules indexed by terminal and/or train. Usually, these can be accessed by making reference to the starting and ending terminals and then pulling down the available service schedules, typically shown from ramp to ramp." The destination ETA is transit time plus terminal time to arrive at a "ready for pick-up" time — or "cut-off time" for departures. To which an industry participant on the same thread adds,

> As a former trucker, I remain baffled by the Class I resistance to making real-time location info available to shippers. In the trucking industry, every trailer (well, almost all over the road vans) is equipped with a passive transponder which can be interrogated and sends back exact location. That way a shipper can track the progress of his shipment, and make realistic estimates of arrival (or pick-up) time.

Of course there are wide differences in the quality of the info provided, depending on the individual truck line, but sure seems to me that adopting this approach would be a big plus for railroads. Unless, of course, it would reveal just how poor Class I performance is when measured against any standard.

You may wish to query your customer base about where they stand with inventory on hand, demand for their products, and what that does to their demand for raw materials. You may also wish to ask your Class I railroad pricing contacts why it is that having no business is better than having low margin business. I think it's a subject that needs to be brought up at meetings such as next week's NEARS session in Vermont.

A reader whose career has spanned all aspects of Class I operations and asset management offers a bullet-point list of "What Managers of a Precision Scheduled Railroad Need to Know." He says managers need to know where mobile assets (locos, cars, crews, track forces) have been, are now, and are going; whether the equipment is serviceable, and whether fixed assets are ready to take the load.

Even more important, managers must know where mobile assets need to be in the near future and how to get them there; whether correct instructions are being conveyed to the right crews, and are being complied with. Though created mainly for Class Is, the ideas apply even more in the shortline arena.

The chief difference in environments is the Class Is are geared up for long haul, higher speed, bigger trains going longer distances over a well-maintained CWR railroad. Short lines and some regionals are almost the exact opposite: short, slow trains running short distances over FRA Class 2 (or worse) track. Because of the short-slow environment, locomotives in particular get short shrift in maintenance and measuring mean time between failures in days if not hours.

The importance of where assets are and where they need to be goes as well to loco fleet management. Is there sufficient power available to handle expected volumes as measured in ton-miles per available horsepower hour? "Available horsepower" is the total pulling power of all locos in service at the hour and day in question. It does not include locos stored or out for maintenance or 92-day inspections.

Short lines must take my friend's points to heart. And even if the short line is not a full-fledged PSR, it is still in the business of providing timely, reliable service for customers. Having sufficient serviceable assets to meet the demands of the day is just part of being in this business.