RAILROAD WEEK IN REVIEW
July 10, 2020

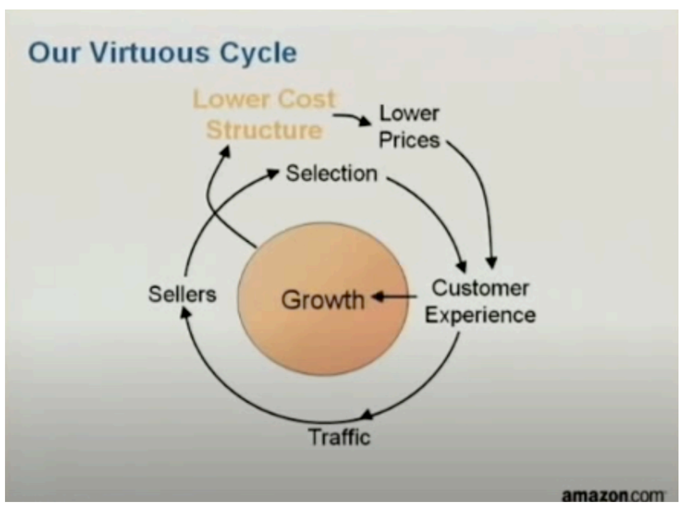
"Even if most workers continue to work full-time in the office, plausible projections for increased remote work should put a dent in long-term office demand. That is highly unwelcome for a sector that was already facing challenging fundamentals and lofty valuations." — Green Street Advisors, May 31, quoted in Almost Daily Grant's, July 2.

"New home construction needs to robustly ramp up in order to meet rising housing demand. Otherwise, home prices will rise too fast and hinder first-time buyers, even at a time of Record-low interest rates." — AAR Rail Time Indicators, July 6.

"Frac-sand supplier Covia Holdings Corp. has filed for bankruptcy as part of a plan to cut more than $1 billion in debt and shed its railcar leases after taking a beating from the economic disruption sparked by the coronavirus pandemic and lower energy prices… The bankruptcy comes amid a wave of financial distress sweeping companies that supply the oil-and-gas sector with sand used in fracking." — Wall Street Journal, June 30

"Selling our rail infrastructure assets to Watco aligns with Dow's strategy to continue to grow our core businesses in a capital-efficient manner. The transaction will liberate cash from our balance sheet that we will use to pay down debt and invest in our core value-generating businesses." — Jim Fitterling, CEO, Dow Chemical

A former Class I market manager writes, "Here's a slide from an Amazon internal presentation. Contrast this approach with what one sees on the publicly-traded U.S. Class Is.



"You can practically step through this exercise and make the case that some Class Is are doing the exact opposite. I would similarly argue this framework applies to the Amtrak conundrum as well: provide good service —> move more people —> lower unit costs —> make the case for better service —> move more people."

Concerning the NS Bellevue Yard changes, one reader calls the event "a stunning development." At the time of the opening I recall NS hyping its commitment to merchandise traffic and growing the business, pointing to the $160 million Bellevue Yard expansion as proof.

How times have changed. Merchandise volume was already on a downward trend before the pandemic. So it seems to me the “Quality Revenue” theme I hear from NS is an about-face from what was said at time of the Bellevue (now Moorman) Yard expansion (WIR June 26). Thus it would appear this facility is just one more casualty on the growing list of classification yards closed in the name of PSR.

It is becoming increasingly clear that the new breed of PSR disciples continues to monitor the railroad book of business, shedding all freight that doesn’t meet strict profitability criteria. Then, facilities that were “right-sized” become too large and subject to closure. Lather, rinse, repeat. When does it end?

Not two weeks ago I sent a note to select short lines concerning car movement data quality and how to make it better. My questions and response summaries:

Q. Does your Class I connection create trip plans by the carload and does it track compliance? If so, can you track TPC for your customers?

A. Our connecting Class Is purport to have carload level trip plans but to the best of my knowledge neither of them include short lines originating or terminating portions. This could be attributable to poor data reporting by Class II’s and III’s making the overall process unmanageable. [*I have heard as much from Class Is. — rhb*]

Q. How consistent are transit times for your customers for both inbound and outbound moves?

A. The level of consistency is highly variable. In one case, a Class I connection recently did a PSR type local crew reduction and as a result the switching of that road has gone from four or five days a week to one or two days. Cars that would normally arrive the day before they are now switching us have the regular transit times, the others have one, two, or three days added.

Q. How can TPC data help you add supply chain value for your customers?

A. If it were reliable, TPC by commodity OD pairs would help the short lines manage assets — crews, locos — used in switching customers. Moreover, measuring TPC would identify positively instances of bunching.

In sum, measuring Trip Plan Compliance is not only a marketing tool, but also a service-design tool. So far, TPC seems unevenly applied across the Class I community and, as the short line responses point out, lack of consistency and reliability is decreasing railroad market share and increasing that of truckers. See the Amazon Virtuous Circle, above.

Watco will pay $310 million for Dow's rail infrastructure assets and related equipment at six major North American facilities. They are Plaquemine and St. Charles, Louisiana; Freeport and Seadrift, Texas; and Ft. Saskatchewan and Prentiss in Alberta, Canada. Fourteen Dow employees and management of approximately 400 contract workers are expected to transition to Watco upon close of the transaction, expected in the fourth quarter of 2020.

Watco will partner with Oaktree Capital's Transportation Infrastructure group to execute the transaction. Oaktree, with $13 billion in assets under management, has been an investor in Watco since December, 2018. The firm specializes in alternative investments, with an emphasis on opportunistic, value-oriented and risk-controlled approach to investments in credit, private equity, real assets and listed equities.

Watco is no stranger to this sort of transaction. In May, 2019, Watco inked a similar agreement with refiner Meridian Energy to serve as the "main rail management contractor" for the Davis Refinery in Belfield, North Dakota. The facility is billed as "the first full-conversion, modern 'greenfield' refinery constructed in the U.S. since 1976."

In 2017 Watco teamed up with KCS in a joint venture unit train and liquid fuels terminal in San Luis Potoso, Mexico. KCS Mexico is the sole rail service provider. And in late 2016 Watco purchased 20 United States Kinder Morgan bulk terminals, expanding Watco's terminal operations footprint to 73 locations.

Coming full circle, Watco is the the switching provider on 12 miles of track inside the Bayway Refinery in Linden, New Jersey. Included is Bayway's 40-acre crude rail transload terminal. Watco receives unit trains of crude oil, spotting the trains to the unloading racks, unloading the trains, inspecting and repairing railcars. Conrail Shared Assets is the serving Class I.

I say "coming full circle" because I helped set up the very first Bayway contract refinery switching operation with the Morristown & Erie some 25 years ago. Turned out one of the refinery operator's principals had been thinking about hiring a contract switcher. He commuted out of Morristown on New Jersey Transit and frequently saw the M&E's shiny red Alcos working in the area and thought, why not them? He called, the M&E answered, and the rest is history.