RAILROAD WEEK IN REVIEW

November 6, 2020

"Since taking the railroad's reins in late December 2017, Foote has focused on safety and service, transitioning CSX into the next PSR phase. In doing many of the things Jim said he would do, he has led CSX past PSR 1.0 into 2.0, what I call the Post-Hunter Railroad, or PHR,"— Tony Hatch on Foote's nomination as the RailTrends Railroader of the Year award

"The silver lining in the pandemic is how much more self-reliant we have become. The consistent hot-selling items have been kitchen appliances, cookbooks, bread makers, gardening supplies, auto repair and tools, sewing machines and everything related to "do-it- yourself" home improvement." Breakfast with Dave Rosenberg, November 2

"In keeping with our rapid pivot towards steel and coking coal markets, we have launched an accelerated effort to evaluate strategic alternatives for our thermal operations, including possible divestiture. Simultaneously, we are finalizing plans to shrink the operational footprint at these operations, with a particular emphasis on our Powder River Basin assets." — Arch Coal CEO Paul Lang

The Express RRIF program Update (RRIF Express 2.0) announced last week incorporates several changes that will enable more short line railroads to access the program. The updates include extending the filing time for applications, increasing the size of loans eligible for the program up to $150 million and including in "eligible programs" most everything eligible under the traditional RRIF program. In addition, up to 75 percent of a loan application can be used for refinancing and the potential amount of Credit Risk Premium subsidy is now up to a max of ten percent of the loan size (with a $5 million cap).

Chuck Baker, ASLRRA President, says the RRIF 2.0 changes "form a robust and significant improvement to the program and should allow for more short line projects to be presented and selected for funding." The changes build on the original RRIF Express program launched a year ago. The new language applies for railroads that have already submitted applications under the RRIF Express program.

There still remains a fair amount of FRA Class 1 and Excepted track out there limiting moves to 10 mph. RRIF 2.0 will make it easier for short lines to fund improvements at least to FRA Class 2 for 25 mph, in effect halving the time required to get from here to there. With more and more Class I mileage going under PSR, trip plans are an increasingly important tool for adding value to the railroad transportation product. Reducing interchange-on to interchange-off dwell time increases trip plan compliance and removes some of the transit-time variability customers hate.

October grain on Canadian National was more than three million metric tons, beating the October 2019 record of 2.88 million metric tons set a year ago. This unprecedented performance follows seven record months of Canadian grain movement in March, April, May, June, July, August, and September this year.

CN is also pleased to announce that it is taking delivery of 1,500 North American-built new generation high-capacity grain hopper cars. Already on the property are 100 cars of these jumbos; another 500 expected to be in service between now and the end of the year. These new 5,431 cubic foot, 55-foot eight-inch jumbo grain hopper cars can carry approximately ten percent more grain than older generation cars.

We kind of knew this was coming. CN said on the third quarter earnings call that they had bought 2,500 new high-capacity grain hoppers and that CN customers were also investing in new private fleets of similar high payload cars. Moreover, the timing is perfect. CN sees record grain tonnage next year in both Canada and the US and there is a 50 percent increase in West Coast export grain capacity, all exclusively and physically served by CN.

On the service side, Chief Operating Officer Rob Reilly said on the same call that there was a "sequential recovery month-over-month during the third quarter and the team quickly adapted in rightsizing resources to the demand along the way. We have brought back crews, locomotives, and cars to handle the volumes, but our discipline throughout this pandemic in our structural changes implemented means that we are able to move similar volumes this year versus last year with lower labor costs."

Ease of doing business, or the lack thereof, remains a customer complaint about using the railroads. The question regularly arises whether railroads are "still relevant." Now comes a report that a BNSF chemical customer requested rates from his western origin to eastern destinations on CSX and NS. He had his BNSF rates the same day and the CSX portion the next day. Yet NS took three weeks to respond.

There is another report of a steel shipper in Pennsylvania looking to use NS for a series of moves — perhaps 100+ cars — to a UP-served destination in Chicago. Sorry. UP has a reciprocal switch with everybody in Chicago *except* NS so it was not an easy option.

There are indications, I hear, that the eastern and western roads are starting to talk seriously about "watershed" O-D pairs. The term generally applies to O-D pairs where one end of the move is close to the Mississippi River and so is a short-haul move for one of the railroads. Here again, not enough money so no dice.

However, there is, with the advent of PSR and increased interest in incremental revenue, more attention being paid. After all, if it can ride a short-haul move on an existing train with length and tonnage available, why not? Some revenue at low incremental cost is better than no revenue at any cost. Ease of doing business and relevance are worth money.

Anthracite as met coal is alive and well. NorthStar/BlueScope Steel (NSBS) in Delta, Ohio, operates one of the most efficient, lowest cost, hot steel electric arc furnace (EAF) steel mills in North America. The company announced a program to expand production and wanted to improve delivery of anthracite coal from Pennsylvania. Reading & Northern (RBMN) to the rescue.

North Star and the railroad have now set up a coal transload as part of a multi-year effort to convert shipments of anthracite from truck to rail. In early 2018, Reading & Northern began working with NSBS to establish a transfer center adjacent to their Delta mill. The railroad supplied unloading equipment, secured dedicated pneumatic trucks, and negotiated with one of NSBS's suppliers to locate a site to unload rail cars and load trucks. RBMN also purchased additional covered hoppers required to meet the supply needs for the steel mill.

RBMN's ability to bring together trucking and transloading services, make investments in rail cars, and provide unloading equipment made it easy for NSBS to convert all of their anthracite business from truck direct to rail-truck. RBMN Customer Service manages the moves and provides all stakeholders with daily pipeline reports. Norfolk Southern Railroad, Indiana and Ohio Railway, Ag Trucking, and Metal X collaborated. For what it's worth, this is not a first for Reading & Northern. Their transfer centers in Virginia, Florida, Illinois, Indiana, Missouri, and South Carolina have helped RBMN shippers of anthracite reach their customers by rail, reducing logistics costs and improving service.

Jaguar Transport Holdings has acquired the Marion Industrial Center, a logistics services company founded in 1975 by Ted Graham, headquartered in Marion, Ohio, about 50 miles due north of Columbus, and served exclusively by CSX. Marion Industrial Center has eight miles of rail infrastructure, 1.55 million square feet of distribution facilities, third party logistical services, transloading operations. There are more than 511 acres of industrial zoned land with 200 additional acres zoned industrial ready for further development.

Jaguar will rename the rail-centric facility Marion Industrial Rail Park, to enhance the focus on the rail infrastructure and opportunities to provide efficient and effective solutions to existing and new customers. CEO Stu Towner says there are two very appealing aspects to this venture. First is the addition of the facility to the Jaguar footprint (bought the Western Group of short lines a month ago — WIR October 9.) Second is the rapidly established partnership with the park's customers. I'm sure CSX SVP Sales Arthur Adams will be a great help.