RAILROAD WEEK IN REVIEW

November 20, 2020

"The AAR's raw traffic data cover one week, with the week beginning on Sunday and ending on Saturday. We create monthly figures by assigning each week to a particular month. Weeks completely within a particular month are assigned to that month. Weeks that bridge two months are assigned to the month in which more of their days fall. This means some months have 4 weeks and some have 5. When comparing rail traffic from one month to another, we use weekly averages for each month." — Dan Keen, Rail Time Indicators

"Much of Pan Am's growth depends entirely on having a local commercial team that can connect the dots and meet with customers regularly to see projects come to fruition. And some of Pan Am's traffic moves in relatively short hauls, either entirely on its own rails or in conjunction with connecting short lines." — Bill Stephens, Trains magazine, November 13

Anacostia' s Pacific Harbor Lines is taking delivery of new battery-powered six axle locomotive from the Progress Rail division of Caterpillar. The locomotive features the latest lithium-ion battery technology and battery management system, combined with AC traction and state-of-the-art electronics. The zero-emission, zero-idle and low-noise EMD Joule locomotive is capable of developing 3,200 horsepower in this application. The locomotive includes battery capacity of 2.4 megawatt hours, for a run time of up to 24 hours, depending upon charging and utilization.

PHL serves all of the Port of Los Angeles terminals with on-dock railroad services, so the zero-emission technology is welcome. PHL President Otis Ciatt confirms: "PHL has always been in the forefront of demonstrating and acquiring successful new, low-emission technology. The Joule is the first battery-electric switcher locomotive designed by a major locomotive supplier for North America that appears robust enough for the demanding PHL environment." The new locomotive is expected to arrive in the second half of 2021.

AAR total North American revenue units for Week 46 ending November 14 declined eight percent year-over-year. Merchandise carloads (no coal, auto or intermodal) declined six percent and represented 35 percent of total units. Met ores/minerals, non-metallic minerals, and crude oil/STCC 29 petrochems were the double-digit decliners, roughly 15 percent of total units for the three. Ag products including grain were nine percent of total units and were the only commodity groups in the traffic gains column.

Railroad analyst Bascome Majors at Susquehanna Financial does a very useful breakout of commodities and railroads in his weekly report. One of the most useful tables is on page 2, traffic trends by commodity. Here he shows year-over-year changes by quarter and to date. For 2020 he shows quarterly variations from last year and quarter to date. He breaks it down by intermodal, bulk, merchandise, and total.

Total traffic was down 7 percent in Q1, 19 percent in Q2, 6 percent in Q3 and positive 2 percent in Q4 to date. The big take away here is that each quarter is less worse off than the one before it. In merchandise, we were down 1 percent in Q1, 22 percent in Q3 Q2, 11 percent in Q3 and Q4 to date down 4 percent.Perhaps the most striking improvement has been in intermodal up 10 percent Q4 to date from down 13 percent in Q2. In the carload sector, grain went from down 6 percent in Q2 to up 28 percent in Q4 to date. Every merchandise sector from chemicals to metals and ores has shown steadily shrinking deficits in Q3 and to date in Q4.

The number $700 million seems to keep popping up as a possible sale price for Pan Am Railways. Let's try that on for size. If the company operates 1,700 route-miles, that would imply 170,000 cars a year per the Rule of 100. If the discussion price is twice revenues, then estimated revenues would be on the order of $350 million. If the RPU is $2,000, you get 175,000 revenue units, a reasonable number. But then, if you have to share Pan Am Southern revenue with NS, that diminishes the PAR revenue stream somewhat.

Let's also say that PAR has an operating ratio of 85, high compared to a Class I like CSX, but then you don't have the economies of scale of the larger road. It's also low for a regional railroad or short line where operating ratios can hover in the high 90s. Call the operating income 15 percent of revenues, or about $53 million. Asking $700 million looks like 13 times ebit, another reasonable number given recent transactions. There, we've tried it on. Does it fit?

Kevin Shuba moves up. OmniTRAX CEO since 2013, Shuba has accepted a new role with The Broe Group, OmniTRAX parent company. He will be overseeing the development of a company-wide growth plan for The Broe Group's portfolio of railroads and real estate holdings. It's an excellent move for Shuba, who has shown ability and leadership in creating a track record of growth and expansion at OmniTRAX. His mission will be to provide the continuity and leadership for the next chapter of company growth.

Sergio Sabatini, OmniTRAX President, will assume interim CEO duties. Sabatini joined the OmniTRAX leadership team in 2013 from Canadian Pacific Railway. With the 2019 acquisition of the Winchester & Western, OmniTRAX now operates more than 2,300 miles of railroad in nine US states and two Canadian Provinces. The company handles more than 360,000 revenue units a year for a density of more than 150 units/route mile. Thanks, thanks Kevin.

Sometimes you have to look back to look forward. Bill Burt, a dear friend of more than 20 years, is an outstanding railroad historian who can show how what's happened in the past might well happen in the future — with a little creative thinking. He looks to the block-swapping operations of the old New York Central Flexi-Van program and sees how they might be applied today.

He writes about how, in the mid 1960s, the New York Central successfully integrated its Flexi-Van intermodal service with its manifest freight train service. Super Van was the name of the

Central's intermodal service using the Flexi-Van system, which consisted of a container that could be handled by truck or rail. The chassis that carried the Flexi-Van container on the highway was designed to allow the truck driver and a ground man to transfer the container to an adjacent Flexi-Van rail car without the need for lift equipment. Keeping terminal costs low allowed the Central to serve smaller cities directly, minimizing drayage costs.

What made it work were the numerous handoffs between the Super Van trains and merchandise freights. For example, Detroit, Pittsburgh (via subsidiary P&LE), Louisville, and at various times Cincinnati and Columbus enjoyed Super Van service, but by freight train. Super Vans moving between Chicago and Louisville were handled by freight train south of Elkhart. And this is just the tip of the iceberg.

The Central showed how one could mix intermodal and manifest freight in the same train, though the extraordinary amount of blocking that was required had its limits, and so it did not last. While the Central made effective use of it, and some connecting railroads joined the network, it was not universally adopted. Burt reminds us of the Central's insistence on keeping control of the technology and its refusal to allow competitors to have it. The failure to achieve universal adoption led ultimately to its replacement by the less efficient piggyback concept.

Yet intermodal block-swapping may be coming around again. Even as the Class Is have sought to limit the number of "events" that interrupt a train's flow between OD pairs, the steady stream of hump yard closures has brought pre-blocking and block swaps back into vogue. The NS intermodal terminal in Harrisburg comes to mind.

I recall a vest pocket FEC terminal in West Palm Beach that dispatched and received smallish blocks of intermodal platforms; they were swapped into and out of the longer-haul Miami trains to good effect. The selling point was truckers didn't have to venture into congested Miami for loads to and from north of Miami. In like manner, CSX and the North Carolina Port of Wilmington have conspired to create a short-haul intermodal service to and from Charlotte. Block swaps en route and Bob's your uncle. And so short lines that can build two or three platforms going to the same place may have a shot.

There will be no Week in Review next week.