

## ANALYSIS

### Equipment market weak but offers opportunity

The downturn in the railcar equipment market will likely persist, but there are ways for companies to weather the storm.

Industry executives say railcar and component manufacturers can use the downturn to develop more innovative products while they wait for demand to return. Growth in domestic chemicals and plastics production could spur demand for railcars, and there are international markets to explore.

New York Air Brake vice president Jason Connell expects the downturn caused by lower railroad volumes to continue for years. Railroads are improving efficiency, which adds capacity to a system that already has more available space than goods and commodities to haul.

"There is so much capacity that has to be absorbed," Connell said. "Until we get some really meaningful traffic growth, I think it is going to be tough sledding."

Connell and others discussed the challenges facing the rail equipment sector at the FTR Annual Transportation Conference on 13-15 September in Indianapolis, Indiana.

"From our view, we would say the next few years look pretty soft," said Brad Myers, vice president of rail car component manufacturer Amsted Rail.

The railroad industry has not figured out a way to replace the declines in coal and crude this year and last.

Equipment and component manufacturers have responded by cutting costs, eliminating employees, and looking to international markets.

Another way to cope is to use the downtime caused by slack demand to develop new technologies, such as those that allow tracking of equipment and more accurate monitoring of the age of components, Myers said.

On 21 September Amsted and GE Transportation introduced a new system that uses sensors that provide real-time notifications about the integrity and operating characteristics of railcar components such as broken wheels, hot bearings and handbrakes.

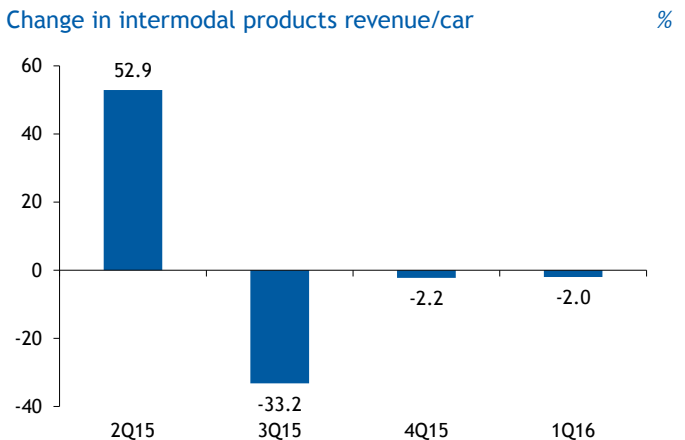
The initiative allows data to be collected constantly instead of intermittently, as is commonly done now through wayside

## QUARTERLY COMMODITY STATISTICS

Intermodal products, 1Q16					
	Revenues \$mn	Volumes railcars	±1Q16/ 1Q15 railcars	Revenue/ railcar \$	±1Q16/ 1Q15 \$
BNSF	52.9	97,855	+5,392	541	-74.00
Canadian National	11.7	19,843	+196	590	+45.00
Canadian Pacific	1.6	7,298	-2,931	222	-1.00
CSX	25.8	81,241	+15,997	317	-20.00
Kansas City Southern	0.9	6,085	-2,015	151	+1.00
Norfolk Southern	32.7	115,761	-403	283	+17.00
Union Pacific	43.5	70,097	-11,886	620	-25.00

— Argus rail analytics database

### Change in intermodal products revenue/car

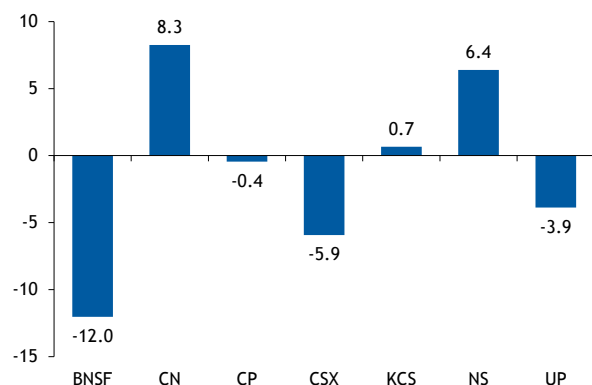


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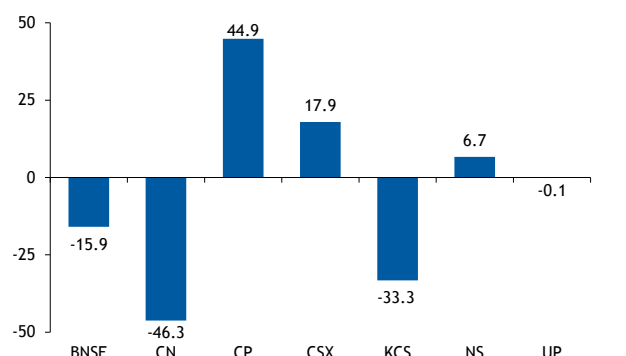
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## QUARTERLY COMMODITY STATISTICS

1Q revenue/car change over year



1Q revenue growth on year by commodity %



## ANALYSIS

detectors that are usually spaced hundreds of miles apart.

GE Transportation has developed other technologies to revitalize older locomotives and allow trains to self-diagnose problems.

Randy Thomure, vice president of fleet operations for major shipper The Andersons, said that railcar construction is only one piece of the rail equipment business.

Once a car is deployed it has to be maintained and its components replaced. The industry spends \$2.5bn-\$3bn annually on maintenance.

"A lot of that goes to these guys, so it is not all gloom and doom," he said, referring to Amsted and New York Air Brake.

Shippers will try to use the downturn to take advantage of the opportunity to maintain equipment because there are more railcar components and shop space available.

The downturn could force some equipment companies to merge, although the industry has already gone through periods of consolidation.

Troubling to equipment companies, there does not seem to be a catalyst for growth like the rapid rise in crude transport that proven highly profitable for railroads over the last few years. The decline in coal is widely seen as permanent because coal-fired power plants have been retired as new federal environmental rules come into play and natural gas prices remain low, although they have risen recently.

Data issued this week by the Association of American Railroads illustrates the downturn facing railroads. As of mid-September, US Class I carloads were down by 11pc from the

same period a year ago, to 9.2mn cars. Intermodal units are down about 3pc to 9.5mn units.

Total US traffic is down 7.1pc and is at about 18.7mn units in that period.

There are some positive signs. The Federal Reserve Board Industrial Production index rose by 0.7pc in June. Housing starts that drive demand for rail transport of lumber rose 2.1pc in July from June, and employment grew by 255,000 jobs.

For the rail industry, plastics could be an area of strength. There have been more than 400 projects in the US to build or expand plastics facilities since 2012, according to Nicole Lev Ross, vice president at AllTransTek, a rail management and consulting company based in Chicago. This is causing pent-up demand for cars that carry plastic pellets.

According to the US Energy Information Administration, exports of crude have risen to more than 660,000 b/d in May, up from about 100,000 b/d at the beginning of 2013 when most exports were still banned. Congress' removal of crude export limits last year has created new opportunities for railroads.

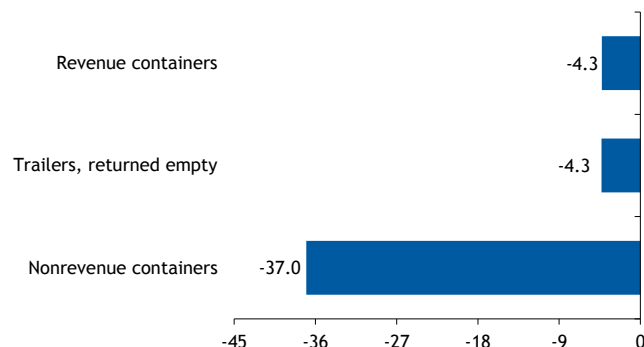
Shale gas production in places like Pennsylvania, West Virginia and Ohio has boosted the domestic plastics industry by lowering costs for a key feedstock. The production also drives business to railroads that transport fracturing sand and other components used in the drilling process.

But the bad economic news continues to outweigh the good for the rail industry. Equipment companies will have to develop new strategies to maintain profitability.

## QUARTERLY COMMODITY STATISTICS

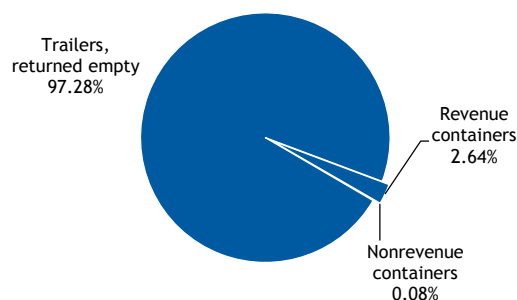
1Q revenue growth on year by railroad

%



1Q intermodal products mix

%



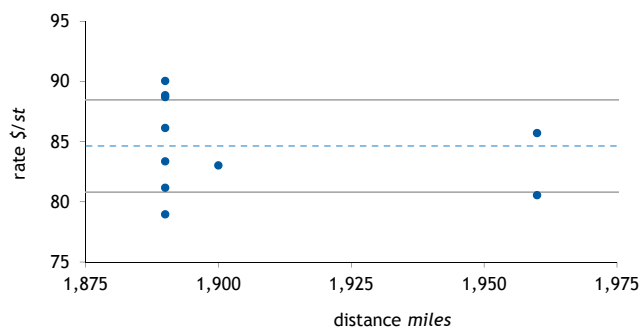
## WAYBILL ANALYSIS

Surface Transportation Board 2013-14 Waybill sample rates for pulp (26111)

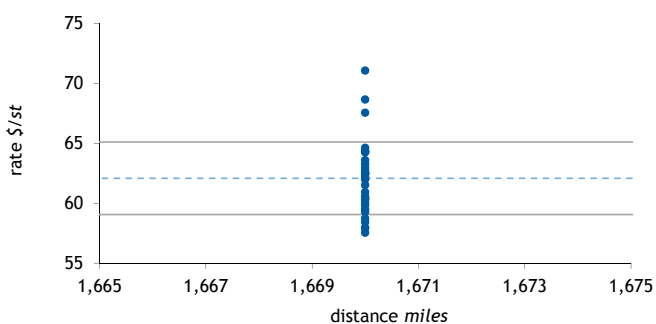
BEA Destination area, including:		BEA Origin area, including: British Columbia (BEA 182)			
		2013	2014	±	±%
Wausau, Wisconsin (BEA 108)	\$/st	83.54	84.64	1.10	1.3%
	\$/carload	8,046.20	8,247.40	201.20	2.5%
	total carloads available	20	10	-10	-50.0%
Duluth, Minnesota (BEA 109)	\$/st	62.64	62.08	-0.56	-0.9%
	\$/carload	6,239.17	6,227.47	-11.70	-0.2%
	total carloads available	24	34	10	41.7%

— Argus analysis of Surface Transportation Board Public Use Waybill File

British Columbia to Wausau, Wisconsin



British Columbia to Duluth, Minnesota



Dashed line denotes average rate; upper solid line, average rate plus one standard deviation; and lower solid line, average rate minus one standard deviation

The Surface Transportation Board's public waybill samples show movements of commodities moving from one origin in the country to several other destination regions. It shows a pricing sample for commodity traffic moving in specific lanes on the US railroads. The waybill, although not completely representative of movements and rates in given lanes, offers a sense of direction in rates and traffic patterns over time.

## DIESEL FUEL PRICES AND CARLOAD FUEL SURCHARGES

Diesel prices	\$/USG			
	Aug 16	Monthly average Jul 16	±	15 Sep - 21 Sep avg
San Francisco spot ULSD	1.43	1.39	+0.04	1.41
Houston spot ULS	1.39	1.33	+0.06	1.37
New York spot ULS	1.41	1.35	+0.06	1.40
Los Angeles spot ULS	1.42	1.37	+0.04	1.44
Chicago spot ULS	1.46	1.35	+0.12	1.44
Tulsa spot ULS	1.45	1.38	+0.07	1.44
DOE retail on highway diesel	2.35	2.40	-0.05	2.39

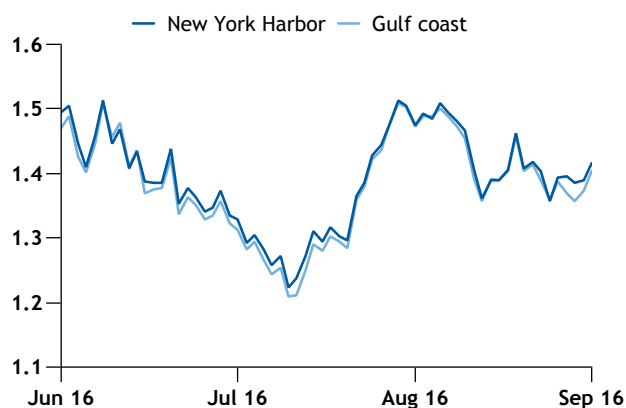
Estimated carload fuel surcharge				
Oct 16	Strike price \$/UCG	\$/mile	500 miles \$	1000 miles \$
BNSF	2.50	0.06	30.00	60.00
CN (\$US)	2.30	0.01	5.00	10.00
CP (\$US)	2.25	0.04	20.00	40.00
CSX	2.00	0.09	45.00	90.00
KCS	2.30	0.06	30.00	60.00
UP	2.30	0.06	30.00	60.00

When the diesel price meets or exceeds the strike price, the railroad will begin to apply its mileage-based surcharge at the above rate. CP value covers from 1 Oct

— Class I railroads

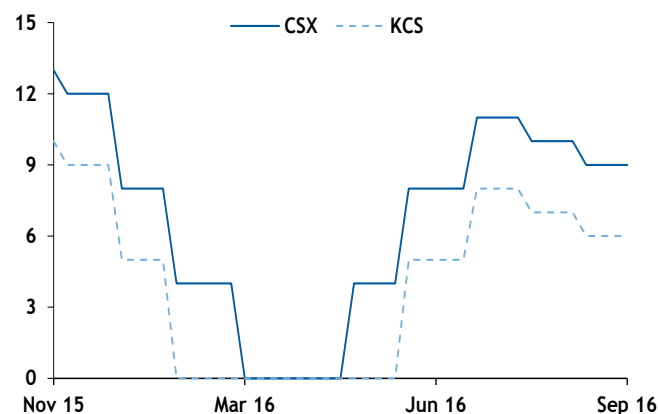
Argus diesel: New York Harbor vs Gulf coast

\$/USG

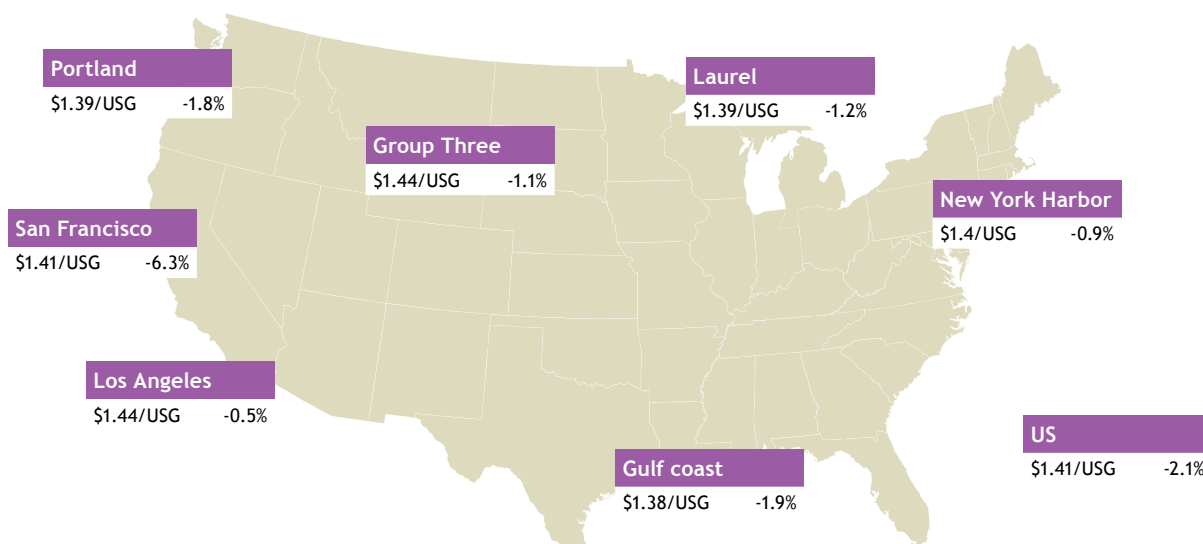


Fuel surcharges: CSX vs KCS

¢/mile



Average diesel prices, 15 Sep through 21 Sep



Average diesel prices are based on a rolling five-day average of days assessed. Change reflects the average of the five days preceding the current five days. The US price is the average of the other listed prices.

## SERVICE METRICS

Average train speeds				mph
	Average four weeks ended 16 Sep 16	Average four weeks ended 18 Sep 15	±	±%
BNSF	25.1	24.1	+1.0	4.1%
CSX	20.7	20.7	0.0	0.0%
KCS	27.8	25.6	+2.2	8.6%
NS	23.3	21.4	+1.9	8.9%
UP	26.0	26.0	0.0	0.0%
CP	24.0	22.2	+1.8	8.1%
CN	27.4	26.9	+0.5	1.9%

Dwell times				hours
	Average four weeks ended 16 Sep 16	Average four weeks ended 18 Sep 15	±	±%
BNSF	24.5	26.0	-1.5	-5.8%
CSX	25.3	25.1	+0.2	0.8%
KCS	25.1	22.8	+2.3	10.1%
NS	23.3	24.2	-0.9	-3.7%
UP	28.7	28.7	0.0	0.0%
CP	6.5	6.4	+0.1	1.6%
CN	13.4	14.3	-0.9	-6.3%

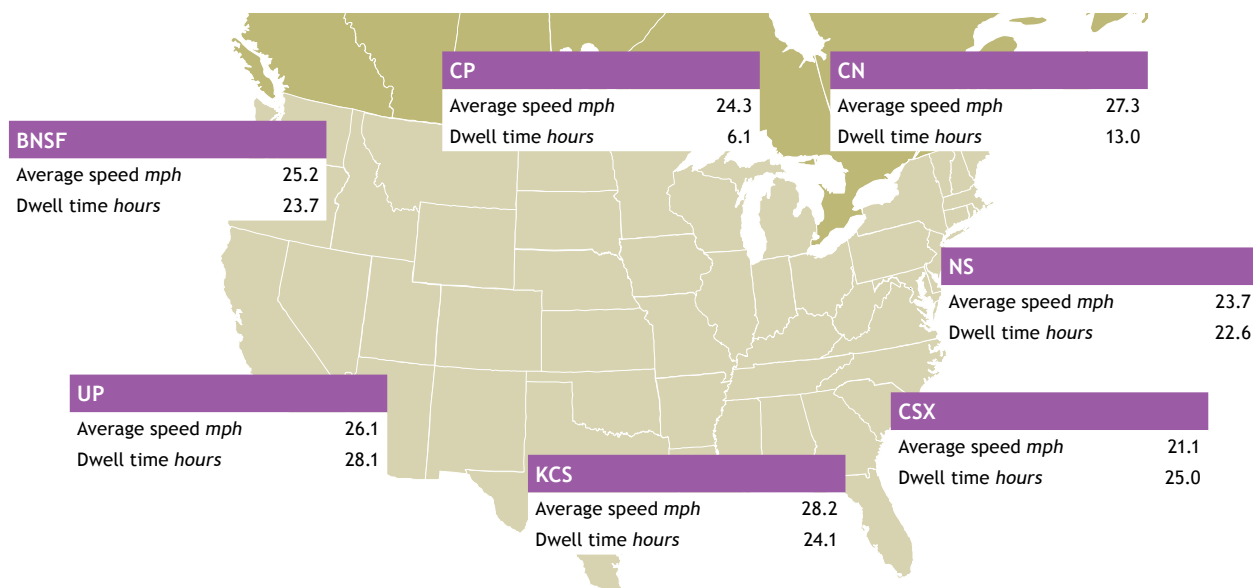
■ Kansas City Southern had the fastest average train speed in the four-week period ended on 16 September at 27.8mph, about 9pc faster than last year. CSX had the slowest average train speed in the period at 20.7mph.

■ All the Class I railroads had faster average train speeds in this year's period because lower volumes of traffic have freed up capacity on the US rail network.

■ Union Pacific had the longest average dwell time in the period at 28.7 hours, flat with last year's period. Canadian Pacific had the shortest average dwell time at 6.5 hours, about 2pc longer than last year.

Weekly stock price update, 22 Sep					\$
	Close	± last week	±%	± last year	±%
CNI	64.93	3.62	5.9%	8.59	15.2%
CP	147.72	0.69	0.5%	4.46	3.1%
CSX	29.57	0.62	2.1%	2.30	8.4%
GWR	66.62	0.87	1.3%	2.94	4.6%
GBX	35.01	1.96	5.9%	0.36	1.0%
KSU	90.03	-2.52	-2.7%	-1.77	-1.9%
NSC	93.91	3.24	3.6%	16.48	21.3%
TRN	24.53	1.28	5.5%	0.24	1.0%
UNP	95.08	2.36	2.5%	8.41	9.7%
Dow Jones					
Transportation	7,963.18	207.78	2.7%	66.82	0.8%
Industrials	18,392.46	357.69	2.0%	2,061.99	12.6%

## Average speed and dwell times, 16 Sep



## NEWS

### Rail rate challenges could be simpler, study says

The method by which federal regulators evaluate rail freight complaints is valid in some cases but could be simplified, a new study said.

The Surface Transportation Board (STB) also has less costly alternatives that are already available, the study issued yesterday by InterVistas Consulting said.

STB's "stand-alone cost test" (SAC) methodology "has stood the test of time as a maximum rate reasonableness methodology and is justifiable in some cases," the study said. STB's "simplified-SAC," and "three-benchmark" methods that are available to shippers can achieve similar results to the SAC and are less costly.

Board chairman Dan Elliott said he will hold a roundtable discussion with experts next month as well as a public hearing on the issue.

"I take very seriously the impact that our rate case proceedings and methodologies have on industry and commerce," Elliott said.

STB in 2014 commissioned the study to address long-standing complaints by rail shippers and Congress that challenging rates is costly and complicated. The board sought recommendations as to how it could incorporate other rate regulation methods.

The report also looked at rail regulation in Canada, the United Kingdom and Australia.

The SAC test requires shippers challenging a rate to

construct a hypothetical railroad to measure real-world costs against. Shippers say this is overly complex and onerous, and that railroads whose rates are being challenged can delay the production of data.

The study concluded that the SAC test could be simplified by changing the definition of one of its elements, creation of the "most efficient network." Railroad consolidation has led to much more direct routes, so defining a most efficient network for purposes of the SAC test could be eliminated.

STB should also consider simplifying the contribution of cross-over traffic from other railroads used in the hypothetical model, the study said. It is quite possible that railroads already have the maximum traffic that can be expected for a railroad.

Since there has been a wave of rail mergers since industry restructuring in 1980, "perhaps the US no longer needs to debate potential efficient routings as in the past, when networks were fragmented."

Next month's roundtable will include representatives from the Transportation Research Board of the National Academy of Sciences, Georgetown University, and the STB economists.

### Lawmaker slams lack of funding for key ports

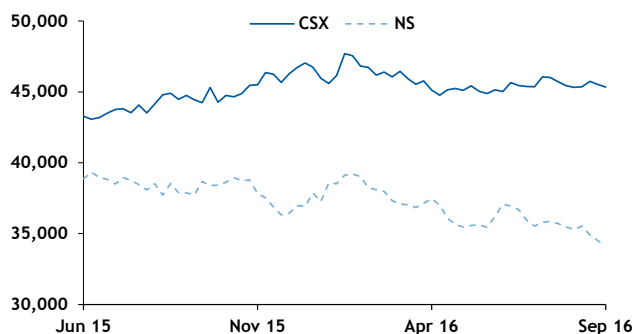
A member of Congress and a Maryland ports official expressed dismay that federal transportation grants are not going to ports that are critical to US economic growth.

Representative Janice Hahn (D-California) said no money from a federal grant program went to the ports of Long Beach

## SERVICE METRICS

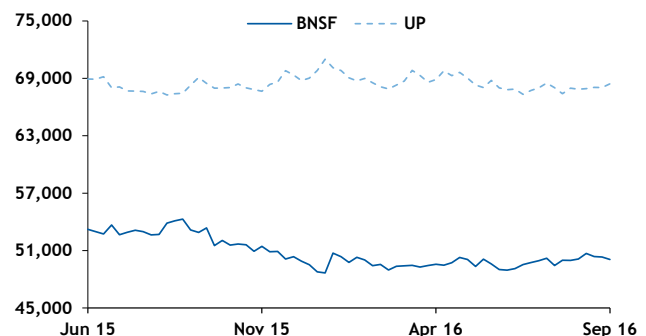
CSX vs NS tank cars on line

cars



BNSF vs UP tank cars on line

cars



Average ethanol rail metrics, 16 Jul 16 to 9 Sep 16

		Speed mph	Dwell time hours	Trains held short >6hrs	Unmoved loaded cars >120 hrs	Unmoved empties >120 hrs
BNSF	Last 4 weeks	22.8	12.3	15.3	30.3	81.5
	Prior 4 weeks	23.3	9.7	11.0	21.0	53.3
	±%	-2.1%	+26.8%	+39.1%	+44.3%	+52.9%
CN	Last 4 weeks	25.0	16.6	na	na	na
	Prior 4 weeks	24.1	14.6	na	na	na
	±%	+3.7%	+13.7%	nc	nc	nc
CP	Last 4 weeks	24.8	39.1	na	1.8	3.0
	Prior 4 weeks	22.3	34.0	na	4.5	1.8
	±%	+11.2%	+15.0%	nc	-60.0%	+66.7%
CSX	Last 4 weeks	20.6	11.3	7.8	30.0	33.8
	Prior 4 weeks	21.6	13.1	7.3	49.8	14.3
	±%	-4.6%	-13.7%	+6.8%	-39.8%	+136.4%
NS	Last 4 weeks	21.4	25.5	6.3	31.0	59.3
	Prior 4 weeks	21.3	32.5	5.3	8.8	8.3
	±%	+0.5%	-21.5%	+18.9%	+252.3%	+614.5%
UP	Last 4 weeks	22.3	24.8	2.5	40.3	39.3
	Prior 4 weeks	22.4	25.9	2.5	22.0	41.5
	±%	-0.4%	-4.2%	nc	+83.2%	-5.3%

## NEWS

and Los Angeles. Entities in the region submitted more than a dozen applications for freight projects that explored new technologies, increased capacity and reduced congestion.

“My region is once again looking to tax ourselves to meet our infrastructure needs,” Hahn said at a discussion yesterday with transportation executives in Washington, DC. “This makes no sense to me.”

The grant program is known as the Fostering Advancements in Shipping and Transportation for the Long-Term Achievement of National Efficiencies, or FASTLANE. The Fixing America’s Surface Transportation Act (FAST Act), passed in December, authorized \$800mn for the program for the fiscal year.

Hahn said that other members of Congress are quick to complain to her when freight stalls in the Los Angeles region. Los Angeles ports should be at the top of the list for federal funding because of their national significance, she said. About 44pc of the goods coming into the US pass through the Los Angeles ports, the largest complex in the country.

“I think that first round was really unfortunate in completely overlooking our region,” she said.

In July, Hahn and 15 other members of Congress wrote Transportation Secretary Anthony Foxx, asking for an explanation. They said the goals of FASTLANE will not be met unless Los Angeles is included in the funding.

Average grain rail metrics, 16 Jul 16 to 9 Sep 16

		Trains			Cars		
		Speed mph	Dwell time hours	Held loaded >120 hours	Held empties >120 hours	Open orders	Orders filled
BNSF	Last 4 weeks	22.4	6.6	251.0	662.0	26.0	2827.8
	Prior 4 weeks	23.0	5.0	153.5	701.5	31.8	2661.3
	±%	-2.6%	+32.0%	+63.5%	-5.6%	-18.2%	+6.3%
CN	Last 4 weeks	25.0	10.7	0.0	1.0	187.0	1191.5
	Prior 4 weeks	25.7	12.4	1.0	0.5	265.0	1532.5
	±%	-2.7%	-13.7%	-100.0%	+100.0%	-29.4%	-22.3%
CP	Last 4 weeks	30.0	41.6	36.8	25.8	611.0	2430.5
	Prior 4 weeks	29.2	43.6	32.0	19.3	0.0	2091.3
	±%	+2.7%	-4.6%	+15.0%	+33.7%	na	+16.2%
CSX	Last 4 weeks	18.3	14.6	153.5	193.0	0.0	0.0
	Prior 4 weeks	18.3	19.5	146.0	200.5	0.0	0.0
	±%	nc	-25.1%	+5.1%	-3.7%	nc	nc
KCS	Last 4 weeks	25.8	41.9	na	na	80.5	528.0
	Prior 4 weeks	25.8	32.7	na	na	26.8	462.5
	±%	nc	+28.1%	nc	nc	+200.4%	+14.2%
NS	Last 4 weeks	18.2	37.8	111.3	3.8	na	na
	Prior 4 weeks	18.4	43.4	169.8	3.8	na	na
	±%	-1.1%	-12.9%	-34.5%	nc	nc	nc
UP	Last 4 weeks	23.3	17.7	104.0	106.5	1745.3	912.3
	Prior 4 weeks	23.7	15.8	79.0	129.0	1030.8	852.8
	±%	-1.7%	+12.0%	+31.6%	-17.4%	+69.3%	+7.0%

4-week average grain train loadings, starting on 3 Sep 16

		Plan	Loadings	% met
Western grain				
Pacific Northwest	BNSF	3.2	2.8	87.5%
	CP	2.2	2.2	100.0%
	UP	na	6.3	na
California	BNSF	2.8	2.6	92.9%
California/Arizona	UP	na	3.1	na
Arizona/Texas	UP	na	3.8	na
West Texas	BNSF	3.8	3.7	97.4%
Eastern grain				
Eastern	CSX	17.0	15.3	90.0%
Gulf	BNSF	3.2	3.0	93.8%
	UP	na	2.9	na
Illinois to Louisiana	CN	8.0	na	na
Iowa to Louisiana	CN	10.0	na	na
Mississippi to Louisiana	CN	8.0	na	na
General grain				
Franchise	KCS	24.0	26.2	109.2%
System	BNSF	3.0	2.9	96.7%
Mexico	BNSF	2.0	1.4	70.0%
	UP	na	2.0	na
Other	CP	2.2	2.6	118.2%
	UP	na	5.0	na

UP did not provide planning data.

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Eleanor Holmes Norton (D), Washington, DC's non-voting delegate to Congress, said she wished the Transportation Department had given more feedback as to why certain projects were chosen, to aid in future applications.

Congestion is a major problem at US ports that could be mitigated with more investment, said Kathleen Broadwater, deputy executive director of the Maryland Port Administration and chairwoman of the American Association of Port Authorities.

"We have felt for a long time that freight is not adequately recognized nationwide and in Congress," she said.

Ports in her association have identified a need for \$29bn investment in surface transportation connectors and corridor projects around the country, she said.

Maryland requested \$155mn in FASTLANE funding for improvements to a major rail bottleneck – the Howard Street tunnel in Baltimore, but was also turned down. CSX was ready to invest in the project to allow double-stacking of containers through the tunnel.

The FAST Act brought ports into the national freight transportation network and made them eligible to receive funding. In fiscal 2016, the first year of the program, states, cities, ports and others submitted 212 applications, requesting about \$10bn. DOT earlier this year awarded about \$759mn to 18 highway, bridge, technology and intermodal projects across the country.

The Port Authority of New York and New Jersey received \$10.6mn for a rail-oriented cross harbor freight program, and the Georgia Ports Authority received \$44mn for a multi-modal connector.

### Hanjin bankruptcy could have ripple effect

The bankruptcy of South Korea's Hanjin Shipping has left companies in the US and Canada wondering who will pay to move the cargo sitting in its containers.

The intermodal industry, shippers and rail companies are also concerned that Hanjin's financial problems will create ripple effects across the rail network, resulting in delays ahead of and during the busy holiday season.

"Those [Hanjin] ships are going to come in" eventually, a rail consultant said. There are "a lot of t's to cross and i's to dot based on the payment that comes through" before cargo can get offloaded and shipped to inland destinations.

Hanjin filed for bankruptcy protection in Seoul on 31 Au-

gust after failing to receive financial backing from banks led by state-owned Korea Development Bank. A slowdown in global trade and the resulting slump in the container shipping sector crippled the Korean company.

The bankruptcy filing led to a reported \$14bn worth of cargo being stranded at ports around the world, including in the US. Hanjin won Chapter 15 bankruptcy protection from US courts on 9 September, allowing its containers to be unloaded without the possibility that the cargo could be seized by creditors.

The Chapter 15 designation implies that the bankruptcy may be more along the lines of a liquidation.

"Anyone who touches that container is going to want to be certain that their payment is secured. That is going to take guarantees from the shippers or prepayment from the BCO [beneficial cargo owner]," the rail consultant said.

A BCO is the company that owns the freight in the container. BCOs include retailers Target and Wal-Mart.

### Railroads concerned about ripple effect

In testimony filed in the Chapter 15 case, Canadian National (CN), Norfolk Southern and Union Pacific cited hardships that could cascade across the transportation network because of Hanjin's problems.

"Hanjin has caused a massive ripple effect," said Marc Blubaugh, general counsel for the Intermodal Association of North America. He said railroads are worried delays in vessel berthing and cargo unloading could leave carriers behind schedule in delivering cargo and containers for the BCOs.

Stranded Hanjin containers also would leave rail cars sitting idle as they wait on the cargo, causing schedule delays, Blubaugh said.

Railroads are also concerned about losing liens over the freight they currently possess. They are owed millions of dollars and want Hanjin or the BCOs to pay or provide "adequate protection" before the liens are released and the cargo is delivered, he said. "Little doubt exists that the flow of goods is already being negatively affected," Blubaugh said.

Eastern railroad CSX said it does not comment on specific customer relationships. CN said it is "working closely with its supply chain partners to protect the interests of importers through the Hanjin bankruptcy issue."

"CN's intermodal operations remain fluid," the company said.

Kansas City Southern (KCS) said it does not expect Hanjin's

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bankruptcy to impact the rail company. If KCS does business with Hanjin, it will be on cash terms, the railroad said.

### Problem for ports could grow as ships come in

For some ports, operations may not yet have been affected significantly by the bankruptcy. But that could change as ships that are heading to the US come to shore. Stakeholders are still trying to figure out how they will get paid for moving the cargo, the railroad consultant said.

The railroads may be seeking prepayment for the cargo before they accept it, while port workers will want assurances that they will get paid.

A number of US ports that have Hanjin ships calling regularly did not return requests for comment, including Long Beach, California, and Savannah, Georgia.

Some ports have said they are storing Hanjin's empty containers as the bankruptcy proceedings continue.

The port at Los Angeles said that it has been working with its terminals and other third-party operators to find additional space on port property for the empty Hanjin containers. The port has no terminal or contractual agreements with Hanjin. About 4pc of the containers that have come into the port this year were Hanjin containers via third-party, vessel sharing agreements.

"We have got a few small parcels that we are in the process of opening up to help with the Hanjin empties," the port said.

The port at Norfolk, Virginia, said on 16 September that as a result of collaboration between the port operator, Hanjin and the International Longshoremen's Association, cargo owners can take delivery of import loads or reclaim export loads. Empty Hanjin containers meanwhile are being stored at a port container yard.

An east coast port operator said that the bankruptcy declaration did not affect operations significantly because the port worked with its railroad and with motor carriers and cargo owners ahead of the bankruptcy declaration.

The port operator is working with cargo owners to find ways to move the cargo, including by helping to secure new ocean carriers.

### National Retail Federation raises the alarm

Meanwhile, a coalition of trade groups, including those that represent BCOs, asked US Commerce Secretary Penny Pritzker to work with the South Korean government to resolve the trade issues associated with Hanjin's bankruptcy.

The National Retail Federation, the Agriculture Transportation Coalition, the American Chemistry Council the National Association of Manufacturers, and dozens of other groups told Pritzker in a 20 September letter that "the level of anxiety remains high" over when and if cargo owners will get their freight.

There are also concerns about the fees assessed on cargo as stakeholders look for new transportation alternatives.

"US businesses rely on predictability in their supply chains, particularly during the busiest shipping season of the year," the letter said.

### Railroads, shippers brace for change

Railroads and shippers are focused on changing traffic mixes as coal and crude markets decline and they prepare for rule changes that could alter the federal regulatory landscape.

The coal shipments lost to railroads probably will not come back, and shortlines and Class I carriers need to be innovative in finding ways to make up the declining revenue, speakers at the North East Association of Rail Shippers conference in Portland, Maine, said this week.

It is not just coal that is lagging. New England carriers are trying to replace falling pulp and paper carloads with intermodal customers.

Shortline PanAm Railways launched a bottled water intermodal service from Maine into Connecticut and New Jersey that is making up some of the lost pulp hauls.

Norfolk Southern (NS) vice president industrial products Mike McClellan encouraged shippers to consider rail for freight that is moving on the highway today. NS will be rolling out ways over the next two years to add predictability and reliability to its process, McClellan said.

He said railroads are working to be as responsive as possible to shippers.

Railroads and shippers are also preparing for an onslaught of regulatory change at the Surface Transportation Board. McClellan said NS is fighting proposed changes to reciprocal switching.

Chemical shippers at the meeting said Total Petrochemicals' loss in its rate case against CSX will likely chill further complaints. It also increased shipper interest in alternative methods of resolving disputes that the board is developing in its proposed rule changes.

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### Railroad executives pan STB switching rule

The Surface Transportation Board's (STB) proposal to allow captive shippers to switch freight to another carrier would cause service issues and stifle investment, two railroad executives said.

Norfolk Southern (NS) vice president for government relations Bruno Maestri said this week that the board's "reciprocal switching" rulemaking, if adopted, will degrade service for all shippers.

The regulation could complicate the railroad industry's efforts to boost its intermodal business as it searches for ways to make up for declining revenues from other shipping categories, like coal. Intermodal is particularly sensitive to schedule delays, which Maestri said will happen if STB's switching proposal goes forward. The switching could add to congestion issues, delaying shipments, he said.

The railroad anticipates fighting the regulation in court if necessary, Maestri said.

The board proposed allowing some rail customers close to an interchange to access another rail carrier if one is available. It is an effort to inject additional competition and benefit shippers.

But Maestri told the Intermodal Association of North America's conference in Houston that if the proposal is adopted, "the agency is saying they are not concerned with service for most of your shippers." He said the proposal is a "solution in search of a problem" and a "bad regulation."

Carriers like NS hope intermodal can cushion the blow from falling bulk volumes. But it takes three intermodal containers to replace the revenue from one regular rail carload.

And intermodal faces its own headwinds.

FTR economist Noel Perry said he expects intermodal traffic to remain flat until 2020 because of a weak economy. FTR consultant Larry Gross said intermodal volumes have been weaker than expected this year, but carriers may see improvement in 2017. The trucking industry is facing several regulatory mandates that could help railroads compete for business.

Opening comments on the proposed rule are due to STB on 26 September.

### BNSF's Rose warns shippers to be wary of STB 'fixes'

Matt Rose, executive chairman of western railroad BNSF, said intermodal shippers should be wary of the switching rule.

The proposed fixes could leave railroads with less money to invest in their networks, which could create service issues for shippers, Rose said at the intermodal conference.

Rose likened the proposals to a dial being turned down on investment and said they could exacerbate challenges from the decline in coal volume.

Meanwhile a lengthy permitting process can delay the construction of terminals to handle more intermodal traffic, Rose said. BNSF has been trying to win permission to build an intermodal terminal in southern California for more than a decade without success.

Intermodal shippers should engage in the regulatory process at STB as the agency "revisits nearly all aspects" of the existing regulatory framework that governs how carriers interact with shippers, Rose said.

The board has several ongoing proceedings examining how and when shippers can apply for regulatory relief from railroad pricing and service policies.

Rose also said implementation of a carbon tax is "inevitable" in the political environment. That could be positive for intermodal rail traffic but not for the railroads generally, Rose said. The carbon tax will spur highway-to-rail conversions by shippers but will be the final "death nail" in BNSF's coal businesses, Rose said.

Carriers will invest in growth opportunities and meet the demand for growing intermodal service in coming years even as coal declines, if volumes and revenues materialize as they have over the last 25 years, Rose said.

But increasing delays and restrictions on the permitting processes to get facilities built will be a drain on capacity for all rail shippers.

### California city blocks Valero crude-by-rail facility

Valero Energy's plan to build an off-loading facility for crude trains at its Benicia, California, refinery suffered a major setback as city leaders denied the company a permit and federal regulators declined to intervene.

On 20 September the Benicia City Council, after four years of review, rejected the company's plan that would allow Union Pacific (UP) to provide unit-train service to the 165,000 bl/day refinery. Valero said rail is the only option to ship Bakken crude and stay competitive.

"We are disappointed that the city council members have chosen to reject the crude-by-rail project. At this time we are considering our options moving forward," Valero said.

Council members expressed reservations about the hazards of transporting crude by rail. The refinery currently receives crude by pipeline and barge.

In February the Benicia planning commission rejected an environmental impact report for the facility. Valero appealed that decision to the city council.

The refiner in June had also asked the Surface Transportation Board (STB) to overturn the planning commission's decision on the grounds that federal law gives STB exclusive jurisdiction over railroad operations.

But STB in a 20 September decision said that while it has exclusive jurisdiction over railroad operations, Valero is not a rail carrier.

The record in the case does not demonstrate that Valero "is performing transportation-related activities on behalf of UP or any other rail carrier at its off-loading facility," the board said.

Valero and other refiners had looked to STB to prevent state and local officials from blocking facilities that could accommodate crude trains.

The Benicia off-loading facility would have been able to receive 50-car unit trains twice a day, equaling about 70,000bl/day, or just over 40pc of the refinery's daily throughput.

Valero told the board that overturning the Benicia decision would keep localities from blocking or delaying construction of crude and ethanol rail projects proposed by BNSF, Buckeye Terminals, Phillips 66, Tesoro and Shell Oil.

The San Luis Obispo County board of supervisors today held a hearing on a request by Phillips 66 to build a crude off-loading facility at its 44,400 bl/day Santa Maria, California refinery. County staff have recommended denial of the permit in part because of "uprill" impacts associated with UP operations.

Phillips 66 in July filed with STB in support of Valero's petition, saying it would help guide county officials as they evaluate its project.

UP, Vancouver Energy, the Association of American Railroads, Canadian National, CSX, and QEP Energy had filed notices of support to STB for Valero's petition. Benicia had also requested the board provide guidance on the issue of federal-state jurisdiction.

The board said that it would have preempted the city's decision if it had imposed conditions that unreasonably interfered with UP's future operations of the facility.

Alaska Railroad to be first to haul LNG by rail  
The Alaska Railroad said it plans to demonstrate that LNG can safely be transported by rail in a month-long test beginning on 27 September.

The project will be the first time in the US that LNG has been hauled by rail. LNG normally ships by truck in the US, but it has been transported by rail in Japan for decades.

The carrier will use intermodal containers to transport LNG from south-central Alaska to the state's interior. Vancouver, Canada-based Hitachi High-Tech AW Cryo lent two 40ft containers to the railroad for the project.

The insulated steel containers carry up to 7,000 USG (26,500 liters) of LNG at -160°C (-260°F). They comply with International Organization for Standardization (ISO) and T75 regulatory standards for fortified tank walls and other protections.

Hitachi is "one of several T75-compliant ISO tank makers interested in Alaska's LNG market," the railroad said.

The tankers will be trucked to the Titan LNG facility near Port Mackenzie, then filled with Alaskan LNG and loaded onto flatcars at the Anchorage rail yard. They will be hauled 350 miles north with other freight to Fairbanks. There they will be transported by truck another five miles to the Fairbanks natural gas storage facility.

The tankers will run twice a week through October, the railroad said. The Federal Railroad Administration in October 2015 approved the carrier's project proposal.

### DOT issues automated vehicle policy

The Transportation Department (DOT) proposed a policy to support development of autonomous vehicles, a technology that could make trucking more competitive with rail.

DOT secretary Anthony Foxx on 20 September said the Federal Automated Vehicle Policy will provide a framework for how to safely implement driverless trucks. Autonomous vehicles driven by computers can be safer than those operated by humans, officials said.

"Automated vehicles have the potential to save thousands of lives, driving the single biggest leap in road safety that our country has ever taken," Foxx said.

The policy statement issued today includes a 15-point safety assessment for manufacturers developing and deploying autonomous vehicles, which are already in very limited commercial operation.

DOT also released a "model state policy" to delineate federal and state roles in monitoring implementation of the technology. It is meant to build a consistent national framework for laws that govern self-driving vehicles.

The policy also outlines options for further use of federal authorities to speed up implementation, and new tools and authorities the federal government might need.

"Ninety-four percent of crashes on US roadways are caused by a human choice or error," National Highway Transportation Safety Administration chief Mark Rosekind said.

DOT has held two public hearings on autonomous driving technology. It is taking additional comment for 60 days on the new policy, which is posted at [www.transportation.gov/AV](http://www.transportation.gov/AV).

The policy is focused on “highly automated” vehicles, or those in which the vehicle can take full control of the driving task in at least some circumstances. Portions of the policy also apply to driver-assistance systems already being deployed by automakers.

US railroads have complained that the federal government is working to help trucking companies operate with autonomous technology while it proposes that trains must be operated by two crew members. The Federal Railroad Administration is studying the two-person crew proposal that many rail workers support on the basis of safety.

### Coal-fired plant stockpiles remain high

More than 60pc of US utilities have more than 50 days of coal inventory on hand, according to a new survey.

The annual survey by the National Coal Transportation Association indicates that 43pc of utilities have more than 70 days of burn on hand. Last year only 29pc of utilities had that much coal in their stockpiles.

The number of utilities with 50-70 days of coal rose to 21pc from 18pc last year.

Only 14pc of US utilities had less than 30 days of coal on hand, down from 18pc last year.

The survey results were released on 22 September at a meeting of the Rail Energy Transportation Advisory Committee. The group of energy shippers and rail industry executives advises the Surface Transportation Board.

Record-high coal stockpiles earlier this year had some utilities negotiating delays in delivery or attempting to cancel coal contracts. But a number of generators instead decided to keep coal deliveries on schedule to avoid fees required under take-or-pay railroad contracts.

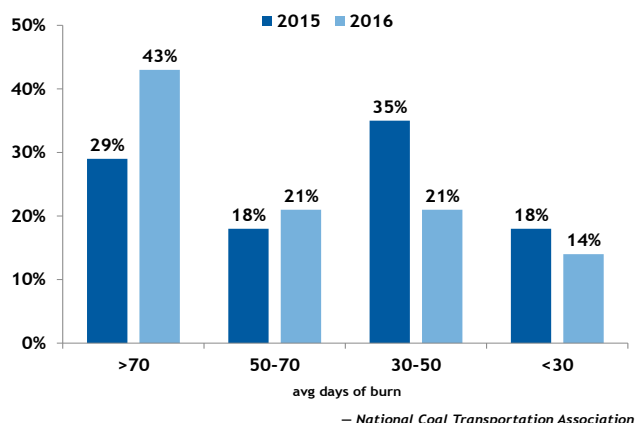
The management of those stockpiles means that year-to-date rail deliveries are at forecast levels despite attempts to postpone shipments.

About 57pc of utilities said deliveries were similar to their forecasts, up from 53pc during the same period last year, according to the survey. About 29pc of utilities said deliveries were below forecasts, down from 41pc last year.

And only 14pc of shippers said coal deliveries were above forecast, a jump from 6pc last year.

That coal is being delivered at a faster pace. Coal train cycle times are faster than in the prior year for 67pc of utili-

Survey: Current US power plant coal inventory



ties compared with 56pc of respondents in 2015. Only 11pc said cycle times were slower than the prior year, equivalent with last year's survey.

Cycle times were even with last year for 22pc of generators, down from 33pc in the prior year's survey.

The faster cycle times are both a help and a hindrance to utility use of coal trainsets. The higher speeds mean generators can get more use out of each set but at the same time they do not need excess coal. So they must idle trainsets and pay for their storage until needed again.

More sets were parked earlier in 2016 when many utilities had record-high stockpiles. The hot summer had generators increasing coal intake and bringing trainsets back into use.

Despite the increased use of trainsets, about 54pc of utilities are still storing trainsets. But that number has improved from September 2015 when the survey indicated 65pc of generators were storing sets.

About 46pc of utilities are not storing sets, up from 35pc last year.

Dynegy vice president of coal supply Rob Hardman, co-chair of the panel, said use of trainsets has been uneven by utilities all year. He said Dynegy had 30 trainsets in use last winter but that dropped to 15 sets by April. By August the generator was again using 30 sets.

DTE Energy's John Wagner said the utility is running 12 trainsets this month but had cut that to six sets at one point earlier this year.

The swift and steady coal deliveries have not aided coal use this year. A majority of utilities said actual coal-fired generation in 2016 was below forecast. About 79pc of respondents were below expectations, up from 71pc last year.

## NEWS

About 21pc of utilities said generation was above forecast compared with none in 2015. No utilities said they actually met their 2016 forecasts compared with 29pc last year.

### Legislation would enhance US transit security

Legislation introduced by senator John Thune (R-South Dakota) would overhaul federal oversight of security at transit stations that members of Congress say is lacking.

The bipartisan bill introduced yesterday would require the Transportation Security Administration (TSA) within 90 days to assess the threats posed to surface transportation and maritime systems.

Thune said the bill addresses concerns arising from recent attacks on transit stations in western Europe and New Jersey that involved passenger rail stations. TSA is "not adequately positioned" to identify security risks, or serve as a source of intelligence or training, he said.

The legislation, S. 3379, directs TSA to consider appropriate intelligence in terms of security and to assess breaches that have occurred at domestic and international transportation facilities. TSA would also examine vulnerabilities of

specific transportation modes and current allocation of agency resources.

"TSA has broad responsibilities for transportation security, but oversight and independent audits have raised considerable concern about its approach to protecting rail, transit, maritime, and highway travelers," Thune said.

He said the bill enhances rail transportation security by authorizing computerized vetting of train passengers and enhanced manifest data to better identify rail passengers. It would also require vetting and security training of "frontline" employees in various modes of transit.

It would also create an advisory committee to develop recommendations to enhance security that would include representatives from rail freight carriers. The committee would include officials from mass transit, pipelines, highways, buses, trucking, and port and maritime industries.

The bill would also authorize up to 200 new canine teams if a review shows that they are needed.

Co-sponsors include Commerce Committee ranking member senator Bill Nelson (D-Florida), and senators Deb Fischer (R-Nebraska), and Cory Booker (D-New Jersey).



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