Touchbase

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Norfolk Southern returning stored cars and power to service

BNSF CEO predicts revenue will fall about $3 billion this year from $18 billion in 2008 primarily because of lower fuel surcharges

Railroad Updates

As an indication that the rail industry is truly on the rebound, analysts have been awaiting the return of stored freight cars and locomotives to service. That is now happening.

Norfolk Southern is reported to have returned to duty approximately 9,500 of the 35,000 freight cars previously in storage, along with about 200 of 700 idled locomotives. This has happened gradually in recent weeks and leaves about one-fourth of the railroad's total freight car fleet and around 14% of its motive power in storage.

Rising traffic demands have also led Union Pacific to bring back on line an undisclosed portion of its stored rolling stock.

All major Class I chief executives commented in announcing second-quarter results that the recession appeared to have bottomed out. The year-over-year percentage decline in traffic, which at one time was in the mid-20s, has recently been in the upper teens.

Read More At:
http://www.railwayage.com/breaking-news/ns-begins-returning-stored-cars-and-power-to-service.html

Burlington Northern Wants Automatic-Brakes Rule Eased

Burlington Northern Santa Fe Corp., the largest U.S. railroad, is pushing Congress to scale back a requirement for carriers to install automatic-braking systems on most of their tracks.

“Heavy-handed” legislation enacted last year would cost Fort Worth, Texas-based Burlington Northern almost $2 billion, Chief Executive Officer Matt Rose said August 25, 2009. Rose predicts revenue will fall about $3 billion this year from $18 billion in 2008 primarily because of lower fuel surcharges.

“It’s in everybody’s best interest that we lower the cost of this installation tremendously and not just turn a tin ear to the railroads’ whining about this,” Rose, 50, said August 25, 2009 in an interview in Dallas. “This is one of those great examples of regulation gone awry where there will be unintended consequences.”

So-called positive train control technology is designed to stop trains in perilous situations without an engineer’s involvement. Congress acted after investigators said such a system may have prevented the Los Angeles crash between a commuter train and a Union Pacific Corp. freight train that killed 25 people in 2008.

Rose said Burlington Northern is urging lawmakers to allow carriers to put the technology only on the busiest lines. The Federal Railroad

Administration, which regulates rail safety, is now writing the rule to carry out Congress's mandate.

Costs Versus Benefits

Outfitting all U.S. tracks would be a $10 billion expense for the industry

Outfitting all U.S. tracks would be a $10 billion expense for the industry, Rose said. Burlington Northern has tested its own automated control systems and would have preferred to install the technology on its own timetable, he said.

The four largest U.S. railroads agreed last year to a common standard for the crash-avoidance technology. Under the law, railroads are required to install the technology on major routes by 2015. Then-Federal Railroad Administrator Joseph Boardman, who is now CEO of Amtrak, the U.S. passenger railroad, said the technology would have stopped the trains in the Los Angeles accident before they collided.

Technology would have stopped the trains in the Los Angeles accident before they collided

The Federal Railroad Administration plans to have a final rule on the technology out in October, Warren Flatau, an agency spokesman, said.

Rose, citing the agency's analysis, said the technology would have a $600 million benefit for the $10 billion in costs. He called the cost-benefit ratio "horrible."

Read More At:
http://www.bloomberg.com/apps/news?pid=20601103&sid=a2mh9pY6W7KM

AAR Updates

Railinc released a notice in mid-August that it was pleased to announce the long anticipated deployment of their new Umler system.

The production implementation for Railinc Umler (also known as Umler/EMIS) will occur between 02:00 EDT Saturday, August 29, 2009 and 23:59 EDT Monday, August 31, 2009.

Rail carriers, equipment owners and shippers will have real-time access to more detailed equipment information, enhanced features and greater system functionality

For more than 40 years, legacy UMLER has been the official, mission-critical source for reliable rail equipment information. Railinc says the new Umler system technology is a major leap forward. Rail carriers, equipment owners and shippers will now have real-time access to more detailed equipment information, enhanced features and greater system functionality. The result is better communication and collaboration among rail partners for better asset management and improved rail safety.

For More Information Visit Railinc at:
www.railinc.com/umler

AAR Urges FRA to Stick to Congressional Scope of PTC Mandate

The Association of American Railroads (AAR) on August 13, 2009 urged the Federal Railroad Administration (FRA) to faithfully follow the Congressional statutory mandate requiring railroads to implement positive train control (PTC) technologies across certain portions of the national freight rail network. In 2008, Congress passed a law requiring the nation's freight railroads by Dec. 31, 2015 to implement PTC on certain main line tracks used for transporting passengers or toxic chemicals (TIH). However, AAR notes that FRA's proposed rule would impose a financial burden above and beyond what Congress intended, potentially adding hundreds of millions of dollars in additional cost to the railroads as they face using private capital to pay for the federal PTC mandate.

"The railroad industry provides efficient, safe and environmentally beneficial transportation services," said AAR Senior Vice President Safety and Operations, Robert VanderClute. "By proposing substantial expenditures beyond what Congress is requiring, the proposed regulations would undermine the ability of the railroads to continue to provide the public benefits of rail."

"The railroad industry provides efficient, safe and environmentally beneficial transportation services"

In his testimony, VanderClute noted several elements of the FRA proposed rule that pose significant technical, operational and financial challenges to the industry. Specifically, AAR objected to FRA's proposal to:

- base PTC implementation on 2008 traffic patterns;
- require dual displays in locomotives, and
- allow Class II and Class III railroads to operate locomotives unequipped with PTC technology over PTC equipped tracks.

"It does not make any sense that Congress would mandate PTC for TIH routes that existed in 2008, knowing that those routes would be subject to change in the years to come," VanderClute said. He also noted that FRA is aware these routes would change after 2008 due to implementation of other federal rules requiring risk assessment of the routes used for TIH.

"Given FRA's cost-benefit analysis, and the adverse consequences of extending the mandate beyond what Congress required, FRA should use Dec. 31, 2015 as the date governing the extent of the railroads' mandatory PTC obligation," he said.

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AAR also said FRA's proposed requirement for dual-displays in the locomotive could cost the industry as much as $200 million for equipment that would serve no additional safety purpose.

"Simply put, the engineer operates the locomotive, and the presence or absence of a second display will have no effect on how the engineer carries out his or her responsibilities," VanderClute said. "All a second display would accomplish is to require the industry to spend hundreds of millions of dollars on a screen serving no useful purpose."

Finally, AAR questioned FRA's logic surrounding its proposal to allow Class II and Class III railroads to use locomotives not equipped with PTC technology on PTC-equipped routes. FRA was basing this proposed part of the rule on the assertion that the financial burden on

"Surely Congress did

not require Class I railroads to spend billions of dollars on PTC systems only to allow Class II and III railroads to operate trains without the technology on our tracks equipped with PTC"

Class II and III railroads outweighs the safety benefits.

"Surely Congress did not require Class I railroads to spend billions of dollars on PTC systems only to allow Class II and III railroads to operate trains without the technology on our tracks equipped with PTC," VanderClute said.

Visit the AAR at:
http://www.aar.org/NewsAndEvents/PressReleases/2009/08/081309_PTCTestimony.aspx

Railroad Traffic

AAR reports rail freight traffic down in July – all major commodity groups continue to see decline

The Association of American Railroads reported August 6, 2009 that there were 1,319,387 carloads of freight in July 2009, down 17.5 percent compared with July 2008. U.S. intermodal rail traffic, comprising trailers and containers on flat cars not included in carload figures, totaled 922,734 units in July 2009, down 18.0 percent compared with July 2008.

For the first seven months of 2009, total U.S. rail carloadings were down 19.0 percent (1,854,657 carloads) to 7,885,039 carloads, while intermodal traffic was down 17.2 percent (1,153,208 units) to 5,569,802 trailers and containers.

All 19 major commodity categories tracked by the AAR saw carload declines in July. The biggest carload declines were coal (down 9.9 percent); metals and metal products (down 47.7 percent); metallic ores (down 58.9 percent); and crushed stone and gravel (down 25.8 percent).

"If you see the glass as half full, 14 carload commodity categories were 'less worse off' than they were in the first half of the year"

"July was an interesting month," said AAR Senior Vice President John T. Gray. "If you see the glass as half full, 14 carload commodity categories were 'less worse off' than they were in the first half of the year. But then you remember 15 commodity groups still saw double-digit declines relative to last year, including metals and products down 48 percent and motor vehicles down 38 percent. While the automotive performance was an improvement over recent levels, we should remember that it was supported by a billion dollars of federal assistance. When this assistance ends, it remains to be seen whether the combination of production, inventory and sales levels will continue to boost railcar loadings."

Combined cumulative volume for the first 30 weeks of 2009 on 12 reporting U.S. and Canadian railroads was 9,676,045 carloads, down 20.0 percent (2,413,030 carloads) from last year; and 6,774,956 trailers and containers, down 17.0 percent (1,386,267 trailers and containers) from 2008's first 30 weeks.

Visit the AAR at:
http://www.aar.org/NewsAndEvents/PressReleases/2009/08_WTR/080609_Traffic.aspx

Industrial Inside

New U.S. housing starts and permits unexpectedly fell in July, pulled down by steeper declines in multifamily units, a government report showed in August 2009.

New U.S. housing starts and permits unexpectedly fell in July, pulled down by steeper declines in multifamily units

The Commerce Department said housing starts fell 1 percent to a seasonally adjusted annual rate of 581,000 units, well below market expectations for 600,000 units. June's housing starts were revised up to 587,000 units from the previously reported 582,000 units.

Multifamily unit starts tumbled 13.3 percent in July. However, groundbreaking for single family homes -- the worst-hit part of the housing market, rose 1.7 percent to an annual rate of 490,000 units, the highest since October.

Compared to July last year, housing starts dropped 37.7 percent.

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New building permits, which give a sense of future home construction, fell 1.8 percent to 560,000 units in July. That compared to analysts' forecasts for 580,000 units. Compared to the same period a year-ago, building permits declined 39.4 percent.

New building permits, which give a sense of future home construction, fell 1.8 percent in July

The inventory of total houses under construction fell to record low 609,000 in July, the department said, while the total number of permits authorized but not yet started also hit a record low at 102,300.

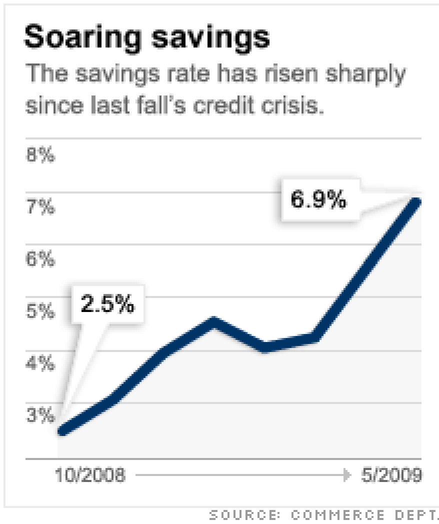
Read the entire article:
http://www.reuters.com/article/businessNews/idUSTRE57A0K720090818?feedType=nl&feedName=usbusinessearly

Financial Focus

Bernanke: Economy to bounce back stronger
At a town hall meeting in Kansas City, Mo., the Fed chairman said the recovery will take some time, but that lessons learned will benefit the nation

Federal Reserve Chairman Ben Bernanke said in August that lessons learned from the recession and the financial crisis will help make the economy stronger than it was before the crisis.

The Fed chairman answered questions from members of the public as well as moderator Jim Lehrer of PBS at a town hall event sponsored by the Federal Reserve Bank of Kansas City, Mo.



"The silver lining in this whole thing is that people are starting to save more, since they saw what happened with 401(k) investments," Bernanke said. "People are adopting good habits, so not only will we will be back on track, but the economy will be stronger than it had been before this started."

The Fed chairman also noted that government regulators are working to ensure that such a crisis can never happen again by addressing the issue of too big to fail and lobbying Congress to pass a regulatory reform bill. "I don't think we'll ever completely eliminate financial crises, but there are ways to make sure one this severe never happens again," Bernanke said. "We need to have a council or group of regulators that look at the financial system as a whole and look for gaps. And 'too big to fail' has to go."

Bernanke suggested instituting a new kind of bankruptcy process for big non-bank financial institutions similar to what the Federal Deposit Insurance Corp. uses for banks.

"Sell [a large corporation] off, let it fail, but ensure that the whole financial system is not brought down with it," he said.

Slow recovery: Facing questions from many concerned consumers, Bernanke sought to assure the audience by noting that "recessions happen." Though he said this is the worst recession since the Great Depression, he also said that, like all prior economic downturns, this one will end too.

Bernanke said the economy is beginning to show signs of improvement, but recovery will be gradual. He said gross domestic product will likely rise by the end of the year into 2010, but job growth will lag. He conceded, "economic forecasts make weather forecasts look like physics," but said unemployment will top out above 10% before falling back in the second half of next year.

Taking heat: In addition to questions about timing of the recovery, Bernanke also took heat from some small business owners and people who had lost their jobs about how the Fed handled the crisis.

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"People are adopting good habits, so not only will we will be back on track, but the economy will be stronger than it had been before this started."

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"Economic forecasts make weather forecasts look like physics"

"We were late in addressing the subprime lending problem"

Many questioned whether it was problematic for the Fed to reward banks' irresponsible behavior by bailing out financial institutions. But Bernanke said he was left with no choice.

"Nothing made me more frustrated than having to intervene in a couple cases where wild bets threatened to bring down the financial system," he said. "But I was not going to be the Federal Reserve chairman who presided over the second Great Depression."

Though the Fed chairman mostly stood by the Fed's decisions, on the subject of subprime lending regulation, he said the Fed deserved some criticism.

"We were late in addressing the subprime lending problem," Bernanke admitted. "We put together a set of rules that apply to all lenders, and I hope that solves the problem, but those weren't in place early enough. We have to take some heat for that, I think that's appropriate."

Learn more at:
http://money.cnn.com/2009/07/26/news/economy/bernanke_town_hall/index.htm?postversion=2009072710

The Edge

We first heard serious talk about High Speed Rail ("HSR") in the run up to the 2008 presidential election. "Look at those great systems in Europe and Asia, why isn't it happening here?" or words to that effect. Pledges were made that a program would be started, and as our economic difficulties increased so HSR investment became one of the many vehicles by which to stimulate the economy. Initially the government pledged $8 billion, with various add-ons in different bills that may or may not be funded when the time comes. So 220mph trains are on their way, right?

Well, hold on a minute. $8 billion doesn't go very far these days when it comes to new railroad construction, especially spread over a country as large as ours. That sum of money is barely a down payment for some of the systems proposed such as the California or Midwest projects. Will the federal government take the position that all the resources available will be poured into one scheme so that it will act as a demonstration project for the rest of the country once it is complete? Er, well, no, that's not how things are done in Washington. In order to share the money around among the states the FRA came up with a definition for HSR (higher speed rail?) that is distinctly different from Europe and Asia. A cynic would say that just about any train that hits 100mph downhill with a tail wind now qualifies for HSR funding. It's not quite that bad but certainly we've moved some distance from the vision of dedicated super speed rights of way. The philosophy now is to incrementally improve existing routes using shared infrastructure. It will mean more mixed traffic railroads similar to the Northeast Corridor and the higher speed lines in the UK (The UK lines are similar to the NEC i.e. upgraded mixed traffic lines without a dedicated HSR).

What does this mean to freight shippers, railroads, and freight car owners? Well, in the longer term, quite a lot. Let's take a look at how upgraded and higher speed main lines, with more and faster trains operating, can impact you.

Anyone familiar with the Northeast Corridor or any city with suburban rail service will tell you that rail served industries on these lines are a rare breed. Few railroad activities absorb line capacity more than industrial switching off a mainline track. Unless there is room to add drill tracks or to conduct all switching "in the clear" without the need for mainline track time, then if you are an industry located on a route designated for higher speed passenger service you should expect some serious changes. Here in Los Angeles, both during the Metrolink commuter start up and the Alameda Corridor development, any inactive industrial spurs disappeared very rapidly. Owners of other lightly used tracks were encouraged to relocate, switch to team track or reload centers, or convert to intermodal.   The least change you might expect would be a change from daytime to nighttime switching service, which could involve you in added manpower expense, or safety or security costs.

For freight train operators, there will be many pressures for change. Freight trains, especially those locals that still operate, will perforce become scheduled, as they have to fit in more precisely between passenger trains. Operating Discipline will be the order of the day, as will Positive train Control. In the longer term, assuming the passenger services are successful and there is a desire to increase frequencies, then track occupancy and point to point running times of freight trains will receive a lot of focus. This will likely result in pressure for greater use of ECP braking systems and more horsepower per ton in order to move heavy freights in and out of sidings and across passenger divisions more quickly.

Track maintenance costs are another issue. Passenger vehicles (and their occupants!) are less tolerant of anomalies in the track, and the standard American three piece truck with a 286,000 pound gross railcar above it is notoriously tough on the roadbed. Will we see a move towards higher tech bogies for freight cars which cause less stress? Imagine the investment involved in upgrading the 1.4 million freight railcars with ECP and self steering bogies. Economic stimulus indeed!

There are a lot of unanswered questions here. If passenger services are successful on mixed use routes I think we are likely to see diversion of some of the heavier and slower freight trains to alternative lines rather than see the expense of ECP equipped trains and additional locomotives. Such diversions can impact on line customers along those routes as capacity is absorbed by additional through trains. Or perhaps it will be simpler and cheaper to add tracks and run the heavy haul freights alongside the passenger lines but in the same right of way, rather than require improved trucks and brakes on 1.4 million pieces of freight rolling stock.

Whatever our opinions about the proposed passenger rail programs we should stay on the lookout for unintended consequences. Whether you are a carload customer on one of the proposed passenger lines or an investor in freight rolling stock, there are changes on the way in our industry. Some of these changes may lead to the overall modernizing of North America's freight cars, but that's a multi-million dollar issue. You service may deteriorate, it may improve, you may be "encouraged" to relocate. But whenever changes are made there will be consequences. We at Tealinc. Ltd. will do our best to keep you informed.

-This month's "The Edge" was written by Paul Dyson, Vice President Sales at Tealinc, Ltd., president of the Rail Passenger Association of California and a member of the Burbank Transportation Commission. Paul has over 40 years of rail, truck, barge and vessel transportation experience. Paul was an operations manager with British Railways in West London during introduction of the Intercity 125 diesel High Speed Trains. He was also with Southern Pacific in Los Angeles during the startup of Metrolink commuter service. You can contact Paul Dyson at (818) 845-9599 or via email at **Paul@tealinc.com**

We look forward to earning your business!