

Railroads and Coal – Part I

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Volume I, No. 5, March 12, 2009

Coal is the most important single piece of business for most U. S. freight railroads. It produces upwards of 25% of gross revenue for the industry, scores above 40% in tonnage handled, and likely approaches 60% of revenue ton miles for the industry as a whole. The future of coal is of immense importance to the future economic health of the freight rail industry. Yet the long-term future of coal is currently being called into question. Many environmentalists believe that “clean coal” is an illusion. For sure, the burning of coal is going to get cleaned up, one way or another. How will all this impact the transportation of coal by rail? Nobody knows at this point, but it is a question worth pondering, and Virginia has a huge stake in the outcome.

Several decades ago, a respected senior executive of one of our Virginia railroads remarked to this writer, in the context of discussing his system’s network operations, that any line which did not have a significant volume of coal traffic just might not be viable.

Last year’s uptick in export coal handled through the port of Hampton Roads sent rail operators scrambling for locomotives and crews, as well as triggering a surge in both emergency and programmed track maintenance activity, all the while playing havoc with Amtrak train service on the Newport News route. Will the export coal business hold up? The answer is already clearly “no”. It never does. Cycles in export coal volume resemble a Bush Garden thrill ride. These fluctuations are determined by international demand and supply factors, as well as international currency valuation differentials, over which neither our domestic coal producers nor the railroads have much control.

But export coal is not the issue anyhow; it’s the demand for coal for domestic electric power generation. According to the U.S. Energy Information Administration (EIA), slightly more than one half of all electricity consumed in this country is generated by the burning of coal, which consumes more than 85% of the nation’s coal production. Railroads, in turn, are said to handle about two-thirds of coal consumed by the electric utilities. For individual roads, such as Virginia’s Norfolk Southern, 76% of their coal tonnage went to utilities in 2007, while only 8% was exported.

Back in January, 2001, when NS’ earnings were hit hard by a declining economy and a precipitous drop-off in export coal, former chairman and CEO, David Goode, was quoted in the Wall Street Journal as saying that the company’s routes and facilities for handling export coal were then “under intense scrutiny”. Four years later, the 38-mile NS line from Burkeville to Pamplin, via Farmville, vanished from the map. The vacated right of way is now being developed as a recreational trail.

With the Obama administration advocating steps to mitigate climate-change, the potential impact upon Virginia rail lines could be quite dramatic. In coming months we will, from time to time, revisit this subject, examining various possibilities, while further considering the potential implications for Virginia rail routes. # # # #