



Texas Pacific
GRUPO MEXICO



ON TRACK FOR SUCCESS



Texas Pacific Railroad is a railroad operating company in west Texas, running on the South Orient Rail Line, which is roughly 391 miles of track from the San Angelo junction to Presidio, ending at the Presidio-Ojinaga International Rail Bridge on the Mexican border.

Written by Ryan Cartner

Established in 2001, Texas Pacific Railroad is owned by Grupo Mexico. The majority of the parent company's holdings are in Mexican mining operations, but they have also made a significant foray into the railroad industry, operating the two largest railroads in Mexico: Ferromex and Ferrosur, and now two railroads in the United States. ▶▶





► The story of Texas Pacific Railroad is one of incredible foresight on the part of Grupo Mexico. For many years, the South Orient Rail Line was seen in the industry as a fruitless endeavor. After a number of operators tried and failed to run viable businesses on it, the Texas Department of Transportation bought the asset and put it out for bid in 2001. Grupo Mexico saw value where no one else did and purchased a 40 year operating lease with renewal options on the line for 3.5 million dollars. "It's my understanding," says Elizabeth Grindstaff, Vice President of Sales and Marketing with Texas Pacifico, "that they were the only bidder."

The company began operation that same year, moving primarily steel and sometimes grain depending on the season, but this was not enough to make Texas Pacifico Railroad a profitable operation. During its first ten years running, the company lost anywhere from one to one and a half million dollars every year, but in 2011 Grupo Mexico's perseverance was rewarded. When the track was originally laid in the early 20th century, the plan was to connect Kansas City, MO and the Midwest to the Orient, but the developers couldn't have known then how fortuitous the location of this particular rail line would prove a century into the future.



LEGADA DEL TREN INAUGURAL
A PRESIDIO TEX.

La llegada del Tren Inaugural a Presidio, Texas. El 2 de Noviembre de 1930. Dedico esta foto para nuestro amigo Chayo Amaya de parte de sus amigos Elian Juárez y Jaqueline Vazquez 03/4/2006 para que la colecciones junto con los otros.



In 2011, hydraulic fracturing technology was brought to the Permian Basin. Often called fracking, this is a technique used to make natural gas and petroleum wells more productive. Hydraulic pressure is used to pump a specially designed fluid into bore holes with enough force to fracture the rock formations deep underground. This enables the gas and oil to flow freely through the cracks into the well where it can be easily extracted. The fracturing fluid contains a granular component called "frac sand" so that, once the cracks are formed, the fluid can hold them open while letting the gas and oil flow through them.

Today, about ninety percent of Texas Pacifico Railroad's business is hauling frac sand, and over the last six years it has seen forty and fifty percent growth year over year as a result. "2012 was the first year we operated in the black," says Grindstaff. "Before that we would move anywhere from two to three thousand cars per year; last year we moved about forty-five thousand."

"Beyond frac sand, the company also hauls pipe for crude oil transmission pipelines and hydrochloric acid for the energy sector, as well as a small amount of steel, lumber and grain."

For the energy sector, 2016 was considered a subpar year because the price of a barrel of oil had dropped significantly, but to the benefit of Texas Pacifico Railroad, the amount of frac sand used per well had increased, benefiting the company tremendously. After a decade of continual losses, Grupo Mexico's risk had begun to pay off. Beyond frac sand, the company also hauls pipe for crude oil transmission pipelines and hydrochloric acid for the energy sector, as well as a small amount of steel, lumber, and grain. ▶▶



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► Prior to 2008, the South Orient Rail Line was connected to a large industrial hub in Chihuahua, Mexico by the Presidio-Ojinaga International Rail Bridge, but in February of that year the structure was destroyed by a devastating fire. This bridge is one of five rail border crossings in Texas, and one of only eight in the entire United States.

Texas Pacifico Railroad has been working toward its reconstruction, and has just recently been granted the necessary permits to begin the rebuild. When the company began the market study for the project, the plan was to diversify the mix of industries it works with in order to make it less dependent on frac sands and the energy sector. This plan continued throughout the bridge design and the permitting process. “The ironic thing,” says Grindstaff, “is that most of the calls we’re getting about the bridge have to do with getting refined energy products into Northern Mexico. It’s possible that we’ll remain energy tied for a long time.” The company estimates that the bridge’s construction will take roughly ten months.

The Presidio-Ojinaga rail bridge project represents a substantial capital investment that will result in a significant economic boon for the United States. Recognizing this, the Texas Department of Transportation used Texas Pacifico’s financial commitment to this project in an application for a federal Fastlane Grant, and was awarded a 50/50 match subsidy totaling seven million dollars as a result. This grant will be used to rehabilitate a 72 mile stretch of track from Presidio county to Paisano Junction in Alpine, Texas. Much of this track was laid in the early twentieth century and is still in use, despite its worn

condition. Fastlane grants are awarded as a component of the Fixing America’s Surface Transportation (FAST) program, which helps pay for highway and freight projects. In order to run the heavier locomotives and train cars on the South Orient Rail Line, rehabilitation is an absolute necessity, and the Fastlane grant is a crucial component to enabling its success.

When the line was initially purchased, speeds were restricted to ten miles per hour due to the poor condition of the tracks. Now, after a great deal of repair work has been done, that restriction has been adjusted to 25 miles per hour between the San Angelo junction and Sulfur Junction near Fort Stockton. Further rehabilitation will enable safe transport further down the line.

Investing in a century-old railroad is a risky endeavor. Grupo Mexico took over a railroad that was built in the 1920s, and has had such rapid growth that its principle challenge has become managing it. The demand is increasing, which is in turn increasing revenue, but as the volume of cars grows, so does the need for track rehabilitation. “It’s a balancing act, certainly,” says Grindstaff. “We sort of pay as we go. We do our rehabilitation with the revenue that we produce. It’s slow, but we have a plan in place to manage those operational windows to continue to move a growing volume of cars.”

The company understands that in order to safely operate the rail line they must continually reinvest revenue back into its infrastructure. Specialized train cars used for ultrasonic and geometric analysis are run along the line to detect defects in the rail, and rehabilitation efforts are applied based on the results.

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For any railroad operation, infrastructure and maintenance is intensive. Grupo Mexico invested more than one hundred million dollars into rehabilitating a rail line that had virtually no business on it prior to frac sand becoming a viable commodity in the region. It was a bold and dangerous undertaking that paid off in the end. Having succeeded with Texas Pacifico Railroad, the company acquired the 565 mile long Florida East Coast Railway in 2017 for 2.1 billion dollars, and might be looking toward acquiring similar U.S. rail assets going forward.

"I think our story is about Grupo Mexico seeing an opportunity and taking a risk," says Grindstaff. "They were the only bidder, and now they have a real gem. We've seen thirty, forty, fifty percent year over year growth on a railroad that nobody wanted to touch." Grupo Mexico recognized the value in the South Orient Rail Line when everyone else had given up on it. The team has invested in its rehabilitation, and has begun to rebuild one of the only eight rail bridges connecting the United States to Mexico. Now, the company's vision is paying dividends, and further success is on the horizon. Texas Pacifico Railroad is on track for a very bright future. ■



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