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The Railroad Week in Review 6/2/2001

On Friday 5/25 BNSF sold 48 of the 70 coal transportation option contracts we wrote about in WIR 5/12/2001. These options are being sold monthly on the Internet for three, six, 12 and 18 months in advance of the date of the auction. For example, the May 25 auction included options for transportation in August 2001, November 2001, May 2002 and November 2002.

Tom Kraemer, BNSF Coal Group VP, says, "Federal, state and private institutions have pressed for structural change in the regulatory and commercial framework that has governed the electric power industry for years. This transformation in the nature of the market will create new customers, products, service offerings and, most importantly, new opportunities. We hope this product will be of interest to a broad cross-section of industry participants, not only the traditional power generators but also marketers, end-users and traders."

It is important to note that although the coal transportation option program does not commit the purchaser to the underlying transportation, BNSF offers several similar advance-transportation-purchase programs to customers in other lines of business. The Certificate of Transportation weekly auction program, established in 1988 for agricultural products customers, and the Loading Origin Guarantees weekly auction program, established in January 2000 for forest products customers, both allow customers to lock in future transportation capacity and price.

In a related development, Minnesota Power and BNSF have inked a 10-year agreement for transportation of coal to Minnesota Power's generating station near Grand Rapids, Minn. As a result, Minnesota Power will not pursue construction of an alternative railroad line to serve the generating station.

Under terms of the agreement, BNSF will single-source 4 mm tons a year to the Boswell Energy Center near Grand Rapids and to the Laskin Energy Center near Hoyt Lakes. Minnesota Power was the first utility in the early 1970's to ship Powder River Basin coal via BNSF unit trains and serves 144,000 customers in northeastern Minnesota and northwestern Wisconsin.

Emons Transportation (Nasdaq: EMON) is enjoying a bit of discussion on the Yahoo! message board (messages.yahoo.com, prompt EMON). The thread is among a number of individuals who have positions in the stock and are commenting on everything from capital structure to business acumen. Generally the company gets good marks in the latter while opinions differ on the former.

IMHO, CEO Richard Grossman has assembled a first rate team and is going about the business of growing the franchise in the right way, looking for business opportunities beyond simply carload-direct (see below re core route feeders). Unfortunately, the 52-week trading range has been $1.25 to $2.00, which is pushing the risky "penny stock" range. Writer TVBX runs some numbers suggesting prices as high as $4.00 may be in order. His argument bears attention.

CSX Intermodal is rolling out rates based on zip codes, something we've been advocating for some time, and which Conrail pioneered in some of its boxcar lanes. The first product offering will be for service between the Ohio Valley and Florida markets where CSX says it's running "nearly 100% on time." The aim is finally to get competitive in the market for consistent two-day service between the two regions. The door-to-door price is simply the highway miles between the origin and destination zip codes times the cents-per-mile rate. Sure beats tariff searches and makes the railroad offering a lot more truck-like.

Meanwhile, CSX has linked up with Canadian National for a new transcon service promising five days between Vancouver BC and NYC/Kearny NJ. At the same time a two-day service between Toronto and Kearny and a four-day product Toronto-Florida will come on line. Each railroad will be able to give shippers through prices for any O-D pair on the network. What's particularly nice is this is accomplished without a merger. Shows what alliances can do as long as each player can offer a service as good as the other.

There's nothing like getting out on the RR in a business car with some good tour guides to see what's really going on out there. Recall my report on the UP Triple Track (WIR 9/4/1999). This week BNSF invited me to ride a business car on the back of a Chicago-Stockton CA intermodal train. Our trip originated in KC and wound up 2000 miles and 37 hours later at the brand new, one-month-old intermodal terminal, capable of grounding the trailers on a 7,000-foot train in one hour in one pass. This replaces the old facility where they had to break the train in three.

By way of review, BNSF offers a spectrum of intermodal services differentiated mainly by train speed, from roughly 35 mph to 52 mph (our train averaged 55) and is becoming the single source provider to a growing number of trucking firms. The trip planning process has to be impeccable to make these products possible. Every box gets a trip plan (see WIR 5/26/2001) and more than 90% of the boxes run according to plan. (Similarly, finished automobiles, SUVs, and light trucks get trip plans by VIN.)

We're remarked here before about how the highway is rapidly replacing the railway as the principal feeder system to the core railroad. The number of distribution centers within hailing distance of the new Alliance (TX) intermodal terminal is one indication. Another is the fact that many trailers bound for eastern points are grounded on BNSF and driven east because it's faster.

It appears to me there are three reasons why the western roads can offer a wider spectrum of intermodal services than their eastern counterparts. First, the average length of haul is close to 2,000 miles, twice as long as the eastern roads. Second, The ability to trip plan boxes and build trains to customer spec gives more pricing options and therefor wider operating latitude. Third, the mainline track structure is uniformly FRA Class Five, allowing speeds up to 80 mph (we hung right around 70 on the flats).

Class 4 track only gives you 60 mph, which is isn't much room to run a 50-mph average. This by itself cuts one out of the premium market. For proof, take the short route LA to Atlanta via Amarillo, Fort Worth and Shreveport. The best intermodal service for the 2,400-mile trip is 80 hours. Rail LA to Fort Worth and truck beyond is 30 hours less. By comparison, it's 2,200 miles LA to Chicago, and the premium service is 48 hours on all class 5 track. So while Wall Street was kvetching about capex in track, BNSF was out there building a premium service network which could be priced accordingly, proving once again it takes money to make money. Class dismissed.

Roy Blanchard

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