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BNSF gets top billing this week for its back-to-back shortline and transload conferences. As to the first, more than 100 shortliners sized up, reacted to and enlarged upon the presentations and informal remarks of some 80 BNSF staffers. It was perhaps the best elucidation of class 1 corporate goals and shortline opportunities to gain from the realization of those goals. On the other hand, not everyone came away rosy-eyed.

Ditto for the transload conference. This was a first-ever event of this sort and again the attendee list topped 100. As Kathleen Reegan, VP e-Business Development noted, it was to be as much a learning experience for BNSF as it was for the truckers, warehouse operators, and shortliners in attendance. Here again, it was a superb exercise in creating a highly interactive environment – breakout sessions, a case study, web-based training. Yet some expressed fears that the expanded transload program would be more a threat than an opportunity.

That's a mistake. There is a significant parallel between the shortline and transload opportunities at BNSF. It's been stated *ad nauseam* here and elsewhere that the modern rail industry paradigm is based on a strong core network supported by feeder routes. Increasingly, feeder operations can be on the highway as well as the railway. As supply chains shrink both in terms of time between shipments and amount per shipment, economics drive the highway feed.

That said, rail economics, whether intermodal or carload, work best when the point where the goods leave the rail car is as close as possible to the ultimate receiver's door. Thus it is in nobody's best interest to substitute a class 1 railroad cross-dock truck transfer for goods that can be delivered by rail direct to the door. The importance of feeder shortlines and transloaders in terms of BNSF's rail transportation economics could have been stated more strongly.

The theme of the shortline session was really "real prices for the right markets in real time." BNSF is ahead of the industry curve getting freight rates on the net and generally simplifying the too-tedious process of getting a price. We do it at anyairline.com automatically, so why not here? Here's why.

Asked for a show of shortline hands on who uses the bnsf.com for rates, only a few hands. Asked how many are used to searching reams of published paper tariffs for rates – many hands. It's a knowledge gap that has to be closed. Unfortunately the onus is on the class 1s since some shortliners alas seem committed to running the Museum of the American Railway circa 1950. Here's the challenge: go to bnsf.com and get rates for pulpboard from Pasco to Phoenix, Memphis and Peoria. Three months free WIR to the fastest reported time. (My test was 3 mins.)

The fear of public pricing seems to come from a lack of understanding. Shortliners don't all see how the bnsf.com rates can be door-to door with the feeder line allowances already included. Worse, it appears that some BNSF staffers may still think shortline allowances are add-ons to whatever rate is quoted. Whether this is true or note is immaterial. If the perception is there, it's real. The solution is for shortliners to know their way around bnsf.com's "I-power" and "my bnsf" tools and then go walk their customers through 'em. Moreover, *all* BNSF staffers must be able to lay this out in so many words when shortlines call for rates.

For example, Parker AZ is served only by RailAmerica's Arizona & California. Go to the "Prices" bar at bnsf.com and click "price groups – look up by city." Enter state and city in the blocks provided. Click on "search" and see that Parker takes Phoenix. Ergo the Phoenix rate in the pulpboard example above applies to Parker and includes the ARZC allowance.

The real elegance lies in the way rates, guarantees, event reporting, car inventory management, initial trip plans, and performance to plan are linked together at bnsf.com. To my knowledge, nobody else has this. Without it, there's no way BNSF's LOGS (Loading Origin GuaranteeS) or "On Time or On Us" programs could ever work. But for them to work with shortline points, the serving roads' car movements must be visible to Train II, and that means being e-connected.

BNSF has said in its public pronouncements that it intends to grow the annual carload (everything but intermodal and coal) revenue base to more than $5 bn by 2010, up 20% from 2002's estimated $4 bn. At the same time the present 25,000-mile owned-and-maintained network will shrink by 10% as additional feeder routes are shortlined. With the carload revenue target up 20% and shortline miles up 10%, I'd say the outlook is good for BNSF shortlines. Up-to-the-minute market-based rates posted on the web, guaranteed car supply and 100% money-back on-time guarantees for carload transit time can only make that good outlook even better.

We still hear from shortlines with interchange problems even where there are ISAs in place. The most common difficulty occurs when the local class 1 trainmaster treats the ISA as optional. There also appears to be some confusion as to the definition of "interchange." Now I don't know if there is an official AAR definition but most of us probably would agree that interchange occurs when A makes cars available to B. It does not mean the time B's cars passed some distant AEI reader on their way from A to B. Anecdotal evidence says all Big Four US roads are guilty.

Getting these practices stopped needs more than an e-mail of complaint to the class 1 shortline department. It takes measurements with actual dates, times and events submitted in some kind of list form. Only then can the class 1 drill down to root causes take remedial action. And if you're at a loss as to how to set up a measurement process, you need look no further than the interchange tool at www.rblanchard.com. It's FREE and is downloadable.

Canadian National reported stellar 3Q numbers with double-digit increases in carloads and revenues for every commodity group. Operating income rose 13% to $C484 mm on revenues of $C1.5 bn, up 13%. Operating expenses went up 14% taking the OR to a still industry-leading 67.8. Net income came to $C268 mm, up 12%. Looking ahead, the powerful yield position – revenues are up more than carloads in most cases – will likely lead to an earnings acceleration in 2H03. Morgan Stanley's Jim Valentine writes, "The best non-bulk volume trends in NA are due in part to superior service levels." Fair enough.

Canadian Pacific posted a one percent rise in freight revenues to $C917 mm against a 3% bump in operating expenses leading to a 3% ops income decline to $C224 and taking the OR up 90 BP to 79.6. Net income fell 43% to $C65 fueled largely by a bigger tax bite and unfavorable foreign exchange effect on debt. The 10,000 carload, $C20mm loss in grain billings was offset by carload gains in fertilizer, forest prods and automotive. At least the $12mm decline in coal was overcome by the $C27 gain on the intermodal side, but that's small comfort to the carload interests.

It's sometimes instructive to compare properties occupying the same space. Both CN and CP have significant US operations and while CN tells us a lot about the IC and WC sides, we hear little from CP about contributions from the ex-D&H and ex-Soo houses. At CN we see revenue increases generally running ahead of carload which goes to more-money-less-work thesis that drives yield and ROA. What's more the AAR's 3Q carload volumes show both properties even at +2.8% yoy with commodity loadings including coal off 0.5% at CN and 3.2% at CP. Yet CN's 3Q revenues were up 13% to CP's one-point increase. The view from here is that CP needs to be more aggressive on pricing and on reigning in T&E expenses.

RailAmerica saw NA (all-in, not just same store) revenues up 36% on a 24% more carloads, an indicator that the portfolio strategy is working. Recall in one of the earnings conference calls CEO Gary Marino said specifically he was looking to replace under-performing lines with properties offering higher returns. Consolidated revenues (NA plus offshore) rose 22% yoy to a record $113.9 mm. A 27% gain in operating expense kept the operating income growth to 4%, $19.8 mm. Net income rose 20% to $5.9 mm however the 26% increase in shares outstanding thanks to the StatesRail and Park Sierra purchases meant eps stayed at the 17-18 cent level yoy.

Reminder: Once again we'll provide detailed carload, revenue, and earnings information for all ten railroads we follow in our Quarterly Review, due out shortly. Individual copies are $25 for single subscriptions and $100 for corporate subs. The price to non-subscribers will be $50.

Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.