

The Railroad Week in Review
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Continuing the thread of shortlines rubbing shoulders with the Class Is, take a look at the membership rosters of the AAR and IANA (Intermodal Assn. of North America). Full AAR membership shortline and regional railroad operators include Manufacturers Railway, RailAmerica, the Tex-Mex, Vermont Railway, and the Wheeling & Lake Erie. Non-Class 1 Associate members are the South Shore, Farmrail, Iowa Interstate, ISG's Cleveland Works Railway, and the Transtar group.

Over at IANA we find more shortline and regional operators sharing full Rail Division membership with the Class I roads. They are Anacostia & Pacific, Arkansas Louisiana & Missouri, Florida East Coast, OmniTrax, Providence & Worcester, RailAmerica, St Lawrence & Atlantic, Tacoma Belt, and Vermont Railway.

Membership in these august groups tells one that these are the non-Class I railroad companies committed to staying ahead of the curve and making a contribution to the good of the order. Last week I mused about opportunities for TOFC (not COFC) trains between shortline terminals. These are the companies that ought to be able to do just that.

Whether they can or not depends on the Class Is' ability to rid themselves of operating managers and market makers that are too busy protecting turf to see what's really at stake. This week alone there were two notes from shortlines about the "territorial" nature of some of their Class I counterparts. One writer in the south central states writes the local Class I managers are flexible but HQ is not. Another writes that Industrial Development is pushing shortline sites but he can't get competitive rates.

A third laments, "The majors want to take trucks off the highways BUT frustrate their connections and customers with very sporadic service." Unfortunately, these are the same complaints I've been hearing for some time. One would hope the specifics are properly aired – finally – at the upcoming Class I shortline meetings. For once I'd like to see something addressed and fixed and never hear about it again.

Turf protection hasn't done anything to grow improve shareholder returns. Even without inflation spit-adjusted share prices today for the Big Four US Class Is are exactly where they were four years ago – or worse. Not one of them scores an "A" on the Charles Schwab stock rating chart base on relative strength in fundamentals, valuation, momentum and risk. As one state DOT rail manager told me the other day, "Business generally wants railroads to be customer-focused." And if business thinks they're not then there's a perception – and revenue -- problem. QED.

British Columbia Rail this week collected four bidders for its semi-privatization. They were all the usual suspects (CN, CP, BNSF, and RailAmerica) with one unique twist. BNSF partnered up with OmniTrax (www.omnitrax.com), a privately held shortline operator based in Denver. The transaction envisions BC Rail's right-of-way, railbed and tracks remaining publicly owned. The winning bidder would assume operations and management of the freight service.

It works in places like Vermont and Pennsylvania, where the states or other public entities own and maintain the tracks with a contract operator actually running the trains. It takes the shortline off the hook for track maintenance, which can eat up as much as a third of revenue in an un-

subsidized shortline environment. The caveat is “open access,” as they’ve found in England and Australia. As long as the BC provincial government lets the franchise to one operator only it ought to work just fine, thank you very much.

BNSF was very much in the news this week aside from the BC Rail announcement. First, the Seadrift connection, begun just 15 months ago, is open for business. This is an eight-mile build-in on the Texas Gulf Coast south of Houston to access Dow's Union Carbide plastics plant heretofore local only to UP.

In a related matter, the STB in FD 304579 gave its final authorization for BNSF and San Jacinto Rail's partners to build and operate a 13-mile line into the Bayport Loop in southeast Houston, TX. As in Seadrift, UP is the sole service provider on the Bayport Loop. In this and related decisions over the past few weeks, it has been encouraging to note that Chairman Nober is making good on his commitment to seek fair resolutions and to encourage parties to work out differences -- *before* approaching the STB. Some eastern shortlines should take note.

Wabtec's Electronic Train Management System (EMTS) will be tested on BNSF later this summer on 50 locos operating over the 135-mile segment between Centralia and Beardstown IL. This train control system passes movement-related information, such as authority limits, speed limits and work zones through a digital communications network and displays them on a computer screen inside the locomotive cab. Inappropriate response from the engineer puts the train in emergency.

Wal-Mart tapped BNSF for its annual Carrier of the Year award for the fifth consecutive year, a winning streak exclusive to BNSF among railroads. Selection criteria for the award included revenue/growth, ease of doing business, communication, flexibility, customer service and follow-up/correction of errors.

Saving the best for last, BNSF boosted its dividend 25% to 15 cents a quarter from 12 cents, payable October 1 to shareholders of record Sep 10. This represents a 2.2% return on Friday's mid-day price of \$28.64. At 60 cents a year it amounts to a 25% payout of the 2004 estimated earnings and is the highest dividend return as a percent of share price in the railroad business.

E-connectivity for shortlines has taken on new urgency. The FRA has decreed that every railroad regardless of size must have on file the air brake test date for all online cars. A daunting task, to be sure, as one must access UMLER somehow or pry data from your friendly Class I connection. Happily, there's an easier way, but only if you're e-connected and using the BrakeCheck feature of the Rail Operations and Customer Service package from Shortline Data Systems (www.sdsrocs.com). BrakeCheck automatically downloads and updates the air brake dates from UMLER when the car is added to the user's database. Cars near or past dates are flagged.

CSX cut 143 more supervisory jobs as part its program to shed 900 workers. The affected employees got their pink slips earlier in the week in what a press release called “areas where the company had redundancy or excess management layers.” CSX has provided severance packages and assistance in job searches. And anybody looking for a shortline position is welcome to send me a resume.

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