# THE RAILROAD WEEK IN REVIEW
## MARCH 11, 2005

In a note to clients **Jason Seidl of Avondale Partners** writes, “A number of U.S industry leaders representing electric utilities, coal companies, chemical makers and other major industries dependent on rail freight service have begun lobbying congress to remove protections from antitrust lawsuits provided to the major railroads.

“These frustrated customers argue that the STB has done little to prevent railroads from charging unfair rates and imposing stifling service restrictions such as bottlenecking and paper barriers to effectively trap shippers onto their service networks at high prices. A bill expected to be introduced in March will seek to weaken the STB, thereby allowing the Justice Department, state attorneys general and private citizens to formally file antitrust complaints that have otherwise been pre-empted by the STB.

“This piece of potential legislation could be a very negative sign for the Class I railroads, as most still do not earn their cost of capital in spite of current rates. The elimination of paper barriers, however, could help shortline rail operators. Nevertheless, given the Class I rail industry’s historically strong lobbying power, we believe that any such proposed legislation would not be completed without a long, drawn-out debate, and therefore we do not expect a serious industry-wide change such as this to happen in the near future.”

Now before we get too carried away with “paper barriers,” recall that these restrictions were part of the original agreements transferring branch line operating rights and sometimes ownership to shortlines. Customers on the target line had always been the selling Class I customers and paper barriers were meant to keep them that way. One of the chief arguments for shortlining a property is the small railroads can and do serve those customers better and cheaper than the Class I, and the latter retains the long-haul revenue stream and at a wider margin by letting the shortline do the gathering and distribution.

The alternative was to abandon the line leaving the customers no rail service. Yet in too many cases the shortline has gone back to the selling or leasing Class I with a petition to share (or even shift) the original Class I franchise with the competition. That’s one reason we’re not seeing more line sales, and those we do see are fraught with conditions. Make it too difficult to spin off marginal lines and they will simply go away. Chinese adage: Be careful what you ask for. You might get it.

**Pennsylvania’s Lycoming Valley Railroad**, a member of the North Shore Railroad Group and part of the SEDACOG network, has landed a new 200,000 sq ft distribution facility in Williamsport, PA. The $7 mm food-grade DC will bring 35 new jobs and is the second Keystone Opportunity Zone to be sold in that city. The SEDA-Council of Governments Joint Rail Authority, of which the railroad is a member, will help the facility owner by providing materials to build a service side track, authority chairman Jeff Stover said. The DC will generate about 800 railroad cars of freight annually and is yet another example of how cooperation among all taxing bodies in the county — municipal, county and school district — has borne fruit in the form of economic development.

**Last week I opined** (WIR 3/4/2005) that switch carriers and shortlines sitting on empties and delaying loads ought to pay demurrage or forfeit car hire relief or both. Steve Friedland, my good friend and SDS ROCS inventor replies, “Ok Blanchard, now you've got my attention. The switching carrier, in many cases, is granted car hire relief by the Class I, or through application of Car Service Rule 5, which allows 120 hours of relief to the switching carrier by the connecting Class I. For argument sake, let’s look at a typical demurrage situation, which allows 48 hours free after the first 12:01am following placement, or in this case, interchange. Also, let's use a typical 50-foot boxcar from TTX, which costs about $.68 per hour.

“Terminal operator ABC Rwy, which is a switch carrier for Class I carrier CBKU, reclaims 120 hours from CBKU, and has a customer that receives widgets in 50-foot boxcars. ABC operates five days a week, is scheduled to interchange with CBKU on Monday, Wednesday, and Friday, has an ISA, uses the *Steelroads* site to report events, and has a respectable compliance grade of 80%. CBKU pays a switching allowance of $275 per boxcar of widgets, and ABC has a demurrage tariff that assesses $45 per car day over the 48 hours free time that ABC allows for the customer to unload the car.

“Car RBOX 12345 arrives on a Friday, and ABC places the car on the same day. Everyone goes home over the weekend, and the customer doesn't release the car until Wednesday afternoon. ABC places the car on the interchange track on Thursday, and the Class 1 picks the car up on Friday. The total car hire exposure is $.68 X 7 days X 24 Hours = $114.24. If ABC reclaims 120 hours, they are responsible for $32.64 of the cost, and CBKU picks up the rest. Additionally, the customer is charged for demurrage, to the tune of $135 for three days.

“Let's now try putting in the typical Class I demurrage charge of $60 per day, and using your thought of demurrage, ABC would now be responsible for five days (Monday-Friday, LCS would push the IC date to Friday if both sides report events), resulting in a charge to ABC of $300, $135 of which they can recover from the customer, leaving $165 to be paid to the Class 1. So a car that you should be receiving a $275 allowance for now has a lump of $110 for the car. This would be good for the car owners, as they would be assured of payment from the Class 1, and for the Class 1, because they have reduced the money to be paid to ABC, life is good.

So what can the terminal operators do? They can't raise rates, because they are set by the Class 1. They can raise and change their demurrage tariff, which might get the customer to move cars faster, but most likely it will not delight the customer, and that does not generally have good effect. While I agree with your premise that cars need to have higher velocity to get higher return, short lines sitting on cars is a *de minimus* problem to achieve that velocity. Far greater returns can be gained by the Class 1's improving their efficiencies, instead of hitting the small guy in the pocketbook.”

Excellent points, all. Yet in two projects I’m working on at this moment – one for a widget maker and one for a shortline – have parallel car supply threads. The terminal railroad serving Mr. Widget is sitting on loads and empties for days, in effect doubling the trip plan transit time (an automatic service failure) on the outbound and causing a shortage of empties system-wide for the Class I. The shortline does likewise, though more often on outbounds because trips to the interchange are irregular. The solution in both is the same: provide an incentive to move the cars faster. And, as it turns out, the best incentive is more business because as the Class I car turns improve the local carriers get more business from the Class I because they are viewed as reliable connections. QED.

**Hazmat rules** about car contents are very specific, one would think. However, a tank car leak on the UP Salt Lake City had local officials still guessing what was in the car 15 hours after the leak was discovered and 6,000 people had been evacuated. Yet the Dow Jones news item says “toxic chemicals” in line one and “not certain of the contents.” If they’re “not certain” how does one know it’s toxic? The news article goes on to say that the manifest said one thing, the beneficial owners said another thing and then changed their minds making it something else entirely.

Imagine if this had been on the Fallen Flag & Eastern in Podunk. Some years ago a grain-hauling shortline in the southeast derailed some covered hoppers loaded with corn at a point where the railroad and a state highway ran parallel. The train crew had hardly gotten to the PD when they were surrounded by police cruisers, fire trucks, EMT teams, reporters and even helicopters from a TV station 100 miles away. Looked like something out of *Alice’s Restaurant*. Yet when these fine citizens were told what it was, they acted like

they had been cheated. At least in this case the shortline knew exactly what was in the car and sent the sensation seekers packing.

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**Table 1. Shortline commodity breakout through 2/19/2005**
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