THE RAILROAD WEEK IN REVIEW
APRIL 1, 2005

Watco's first CSX acquisition, the 158-mile Appalachian & Ohio, opened for business effective 12:01 am Friday, March 25. The A&O is entirely in WV running from Grafton to Cowen and has a traffic base that is 90% coal. Also included is the former Pickens Subdivision, running from Hampton south to Alexander West Virginia. They were off to a good start, too with several unit trains of coal from A&O origins to interchange with the CSXT at Grafton for beyond on the very first weekend.

A&O management credits the employees for the successful start-up. Many A&O employees not only have years of railroad experience, but have many years of experience working for CSXT. The management team is experienced on the lines, creating an ideal customer service team. Collectively, the general manager, trainmaster and road foreman of engines has 93 years of rail experience with CSXT.

Commenting on the successful start-up Rick Webb, Watco CEO, said, "I want to share my appreciation for the effort and energy the A&O team put forth during the start-up of the A&O. I am certain the A&O will be successful under the leadership of our experienced Customer Service team and that they will take every action needed to meet the needs of our customers. Customers are our first priority and we will not rest until we fulfill every transportation need."

The A&O office is located at 54 North Kanawha in Buckhannon, West Virginia. The phone number is 304-472-3710. General Manager James "Buddy" Harr can be reached at this office or by e-mail at jharr@watcocompanies.com . Printable maps of the A&O are available at www.watcocompanies.com ; click on Railroads and then Appalachian and Ohio Railroad.

OmniTRAX announced Friday that it has reached an agreement with North American RailNet for the acquisition of RailNet's properties in Illinois, Nebraska and Georgia. The transaction is structured so that an OmniTRAX affiliate will merge with NAR and acquire NAR's U.S.-based rail operations. The transaction is subject to STB approval and is expected to be completed in early May, 2005. The transaction excludes NAR's Canadian subsidiary, Alberta RailNet, which will be owned post-transaction by current NAR shareholders. The transaction brings the OmniTRAX portfolio of properties to 18 railroads and about 3,000 route miles mainly in the western US and Canada.

Georgia & Florida RailNet (GFRR) has about 300 route miles radiating out of Albany GA over former NS, CSX and predecessor lines serving a diverse base of some 60 customers and commodities from beer to kitty litter. Illinois RailNet (IR) operates 113 route miles in central Illinois with a large silica sand business. Nebraska, Kansas & Colorado RailNet (NKCR) has more than 550 route miles serving agricultural customers and the largest coal-fired power plant in Nebraska. Terms were not disclosed however the transaction is expected to close next month.

Kansas City Southern stockholders have approved the issuance of 18 million shares of common stock, plus the potential issuance of additional shares under certain circumstances, in conjunction with KCS' acquisition of a controlling interest in TFM, S.A. de C.V. (TFM). With this approval, all of the conditions precedent to the closing covered in the December 15, 2004, Amended and Restated Acquisition Agreement have been satisfied. Closure is expected to take place today.

KCS President and CEO Mike Haverty notes that "With the railroads already physically linked in an end-to-end configuration, common control will enhance competition and give shippers in the NAFTA trade corridor a strong transportation alternative as they make their decisions to move goods between the United States, Mexico and Canada." Recall that KCS was founded in 1887 by Arthur Stilwell, whose vision was to build a railroad from the U.S. heartland directly south to the Gulf of Mexico and to Mexico to transport commodities from there to markets throughout the world. With the signing of the North American Free Trade Agreement, KCS made a strategic decision to build upon Stilwell's 19th century vision, and to become a significant carrier of North American freight through the NAFTA trade corridor.

BNSF Railway will start assessing fuel surcharges on a mileage basis effective January 1, 2006, a first in the railroad industry. It will replace BNSF's current fuel surcharge, which is assessed as a percentage of a customer's freight transportation bill. The mileage-based fuel surcharge will apply to movements that originate and terminate on BNSF, to the BNSF portion of Rule 11 shipments, as well as to certain movements involving BNSF and one or more short lines.

Mileage calculations will be based on the Household Goods Carriers' (HHG) Mileage Guide (Rand McNally) and the surcharge tables will reflect the fuel use intensity of four types of rail movements: coal and taconite; carload and agricultural products; intermodal trailers; and intermodal double-stack containers. The surcharge tables will be based on the On-Highway Retail Diesel Fuel (HDF) prices published by the DOE. Two additional points: many BNSF customers already participate in mileage-based fuel surcharge programs that the trucking industry initiated in the early 1990s and – IMHO -- mileage-based fuel charge are more equitable than rate-based add-ons.

I've been looking at some graphs of Class I terminal dwell, train speed, and cars-on-line going back to Jan 2004. Unfortunately, time and space constraints prohibit my including them, but here's the short form. Connect he dots for Jan 1 and Dec 31 2004 and do the same for 2005 YTD. How the two lines interact gives you a trend.

Average train speed: BNSF trends for both years declining at the same rate; CN has improved YTD after declines in 2004; CPR is off sharply in 2005 after modest improvements in 2004; CSX has 2005 rate of decline greater than 2004; NC ditto; UP increasing sharply YTD after declining in 2004.

Terminal dwell: BNSF increasing slightly YTD after flat 2004; CN flat both years though 2005 is at a lower level coming off the year-end peak shared by all; CP declined slightly in 2004 and still declining at about the same rate YTD; CSX essentially unchanged YTD from Jan 2004; NS up slightly though 2004, down a tad YTD though still up yoy; UP increased at about the same rate as NS in 2004 but had the steepest decline of all YTD.

Cars on line: BNSF up sharply after increasing slowly through 2004; CN up in 2004, up at a faster rate in 2005; CP flat in 2004, increasing slightly YTD; CSX in 2004 had the steepest upward trend with 2005 showing some improvement; NS up almost as fast as CSX in 2004, increasing faster YTD; UP presents almost a perfect overlay of the CSX chart.

Conclusions: UP and CN had the best reversals of downward trends in train speed. UP and NS show the steepest YTD declines in terminal dwell following identical upward slopes in 2004; CSX and UP have the most-improved cars-on-line trends. The takeaway is the rate of improvement (or deterioration) as an indicator of potential improved 1Q05 results. We'll see if the thesis holds in a month.

Class I freight volumes with one week left in the quarter were up 4.6% YTD with intermodal increasing at twice the rte of the commodity trade including coal; ex-coal and IM volumes were up 70 basis points. BNSF was the big winner with IM up 10.3% and commodity carloads including coal up 4.9%. Second place went to NS in both intermodal (up 7.0%) and commodity carload (3.2%). Coal was up 5% on NS and right around 7% on the other three US members of the North America Big Six.

The AAR task force charged with improving event reporting by the short lines reports that compliance with industry standards has been growing, the time gap between the event and the reporting thereof is shrinking and the number of non-reporters dropped to about one hundred out of more than 500 shortlines and regionals. Steve Freidland, one of the members of this task force, reports that there are basically two things keeping roads from reporting.

There were legacy systems that did not report or there was no clear understanding of the difference between the tracing and reporting modules in Steelroads. Once this was cleared up, they started to use the tool. The stakes are high. As we've mentioned in this space multiple times, non-reporting railroads put their shippers at a commercial and economic disadvantage versus the customers' competitors on railroads that do.

Shortline event reporting gets easier every day. Railinc's just-released "Mobile Command" is a rugged, wireless, field-proven device designed exclusively for train crews to record car movement events easily and accurately while out on the railroad. The system synchronizes communication between and among train crews, their office staff and rail customers. Mobile Command comes pre-installed on shock-proof hand-held hardware that saves shortlines and regionals money by reducing the time consumed and error opportunities inherent with hard copies.

Satisfied customers of Railinc's Command module include a diverse list of shortlines including Georgia Southwestern, Minnesota Northern, RailAmerica's North Carolina & Virginia, and the Stockton Terminal & Eastern in California.

Also new from Railinc this month is "Shipper Tools," a customer program for managing transportation and logistics tasks in real-time with any rail carrier. Shipper Tools is an on-line application program (OLAP) that uses icons and drop-down menus to provide a dashboard view of rail shipments from any internet connection. It provides users with shipment locations and destination ETAs, something we've found sorely lacking in many locations (see "Weekly Rant," WIR 3/18/2005, e.g.). Better still the OLAP lets users initiate order cars, initiate bills of lading, generate switch requests for the serving road and track demurrage charges. To learn more about these and other Railinc productivity tools, see www.railic.com or stop by booth #218 at the upcoming ASLRRA Annual Meeting.

Correction. Last week I wrote that BNSF had been awarded one of the Owens-Corning Transportation Excellence Awards. Not exactly so: it was **BNSF Logistics** that was recognized though the inference from my note was it was the railroad. To set the record straight, BNSF Logistics (www.bnsflogistics.com) is an indirect wholly owned subsidiary of Burlington Northern Santa Fe Corporation (NYSE: BNI). BNSF Logistics provides its customers with high-value logistics solutions through in transportation execution, supply chain management and consulting services. WIR regrets any inconvenience.

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