THE RAILROAD WEEK IN REVIEW
SEPTEMBER 23, 2005

"Neighborhood of b-flat, boys" -- Tim Bake Nelson in "Oh Brother, Where Art Thou?"

Hurricane Rita bore down on the Texas Gulf Coast this week threatening refineries and chemicals producers. Effective 9/21 UP embargoed all traffic destined inbound *to* UP stations from Houston, TX south to Brownsville, TX along the Gulf Coast. This includes Dayton, Strang, Angleton, Bloomington and the Galveston area. Also, all intermodal traffic destined to Houston and Englewood is embargoed. UP has posted a detailed list of embargoed stations on its website, www.up.com .

Traffic *from* those locations continued to be pulled from industry until approximately noon on Thursday, September 22, at which time all rail operations in the affected area ceased. This embargo notice will be amended later to cover traffic *from* the affected area. Customers are encouraged to secure all rail equipment within their facilities in the impacted area. Handbrakes should be set, hatch covers and outlet gates closed and all loading/unloading hoses disconnected.

The railroad is pre-positioning ballast, cribbing ties, generators and other repair materials near the area. Signal masts and road crossing gates are being removed in anticipation of the high winds. Equipment is being moved out of the area to higher ground.

KCS is repositioning power and equipment away from several points in Texas including Beaumont, Corpus Christi, Port Arthur and indirectly, Houston. Embargoes are now in effect for traffic to and interchanging at Beaumont, Port Arthur, Port Neches and Chaison, TX. If heavy rains move inland, service may be disrupted to the intermodal facility in Laredo. KCS is watching these areas closely and will advise customers as new information becomes available.

BNSF and Trinity Railway Express ran a special six-car passenger train from Houston to Dallas on Thurs with about 450 evacuees. The train left Houston around 1500 and arrived about 12 hours later. For its part, Amtrak kept Union Station open until the train arrived and provided personnel to direct passengers upon their arrival.

Alcoa has shut its alumina refinery in Point Comfort, further exacerbating that company's challenges from the downturns in aluminum usage in the North American auto market. Alcoa says 3Q05 eps will be around 29 cents US, down from First Call's consensus of 43 cents and 3Q04's 34 cents. The company says it is being squeezed between a weaker upstream pricing environment and higher energy and raw material costs." Recall RRA is supposed to close on its purchase of Alcoa's four shortline railroads next Friday.

Katrina Clean-up. BNSF has lifted the Sep 7 embargo on all carload traffic moving to and from New Orleans, including interchange traffic. BNSF continues to work with the eastern carriers to detour shipments around New Orleans to the gateways of Birmingham, Memphis and East St. Louis in order to maintain fluid movement. BNSF is interchanging traffic with CN and NS at New Orleans as volumes dictate. BNSF will also continue to abide by other carriers embargoes.

UP resumed last week with NS (WIR 9/16) over the New Orleans gateway for traffic destined east of hurricane-embargoed points on their lines. UP-CSX via New Orleans is not yet open and the carriers are re-routing traffic that would normally flow through NO with additional trains via alternative gateways. Customers may to continue to waybill traffic through the NO interchange but should anticipate 24-48 hour delays on shipments being detoured through alternative gateways.

The only stations embargoed on the Union Pacific are New Orleans for local traffic and Westwego in the New Orleans area. UP is now able to provide local service to all other customers on the Livonia and Lafayette subdivisions. Customers who are not operational are encouraged to notify UP Customer Service (1-800-272-8777) of their current plans for beginning production. UP is staging rail cars for many customers and must make alternative arrangements for this equipment in order to keep the line fluid now that interchange traffic has been resumed. KCS has been opening track and removing embargoes as fast as the waters recede – see the press release chronology at www.kcsi.com .

As of Thursday 9/22 embargoes had been lifted for some traffic interchanged with NS and CN though BNSF and UP interchange were still closed. CSX has said only that "service to local customers will be restored as repairs are made in phases over an estimated six-month period. The rerouted trains will be brought back to the original lines when all major repairs are completed."

NS made Carol Hymowitz' page B-1 "In the Lead" column in Monday's *WSJ.* The thread of the article is how middle managers can save senior managers' bacon and cites Engineering Dept head Jim McCracken's leadership on the Pontchartrain Bridge recovery. Hymowitz writes, "McCracken conferred with dozens of engineers from Norfolk Southern and three bridge companies, and decided to try to rescue the miles of tracks from the lake. The other choice -- to rebuild the tracks -- would have taken several weeks at least."

Pictures of the enterprise are available at www.rblanchard.com/katrina2 and at www.nscorp.com . The point is that it was an opportunity to step out and save the day, even if it had never been done before. But McCracken clearly knew what was in the lake and how to get it back. Said he, "It was worth a try." I'll second that.

"**CNI: Dinner with the Dean of Railroading**," writes Morgan Stanley's Jim Valentine. "We recently met with Hunter Harrison, CEO of Canadian National, arguably the most dynamic and shareholder-focused CEO within the railroad industry in order to discuss a number of CNI-specific and industry-level issues. Based on our expectation for increased customer rate increases we're raising our US$ estimate by $0.15 to $5.25 in 2006 and $0.22 to $5.89 in 2007." Valentine says foreign exchange plays a big part as M-S sees the Looney worth 84 US cents going forward (it was 86 US cents Tuesday afternoon).

Jim had three take-aways for CNI. First, Katrina won't bite badly. Second, CN isn't about to start any next-round of industry consolidations [why should they? With a sub-70 OR, why should Hunter go a-hunting for something worse?]. And third it's not the ops plan but leadership that keeps CN out front. See also WIR 5/20/2005 re CN's "Five Guiding Principles."

Meanwhile, a brief note on the www.cn.ca media page tells us former IC Chairman Gil Lamphere is resigning from the CN Board. He joined CN's board of directors when CN acquired IC in 1998. He had been a member of four CN board committees – audit, finance and risk; human resources and compensation; environment, safety and security; and strategic planning. I first met Gil at the IC quarterly analyst meetings in NYC and it was he and Hunter Harrison who brought me up the learning curve on scheduled railroad operations and the drivers of railroad profitability. Thanks, Gil, and best wishes.

Speaking of leadership, I'm having a thought. Disconnects remain between opportunities to reduce operating expenses and opportunities to build revenues. For example, I recently heard about a class I ops guy who refuses to use an alternate route over a parallel shortline to relieve congestion that is so bad on a main route that they're turning away business.

My source says the ops guy is under the gun to cut trackage-rights fees and so has a great disincentive to use the alternate route. Meanwhile the marketing guy is turning away business because there is no more space in the lane. Yet if the shortline diversion were open to him there could be a brand new revenue stream. Yes, there would be trackage fees but net-net the corporation would be ahead.

Mind you, this is the same outfit that a couple of years ago was turning away commodity business for want of suitable equipment. Marketing said to the serving shortline they would use shortline cars to win back the business but car management shot it down because they were under orders not to take on any more foreign car hire. Sometimes you have to spend a dime to make a dollar, but when the guy whose job it is to save the dime winds up costing the corporation dollars something's wrong.

Fast forward to today and the business just keeps on coming. An eastern shortline operator tells me he's adding industrial track as fast as he can. His customers – and trackside neighbors – are facing high truck cost and low truck availability, especially as more truck assets are pulled into the hurricane zones where owners are reporting profits in five figures for five days.

Now the low unit cost of rail relative to truck more than offsets the increased inventory cost due to longer transit times – as long as longer transit times are *consistent*. JIT means just-in-time, and a shipper that can plan ten days out and can work with a nine-day transit time will be a winner. And the move to a scheduled railroad means cars can be scheduled, trip plan compliance measured, and JIT requirements met. The view from here is not that rails lack for business; they lack the leadership to get all the players on the same sheet of music.

Rail Stocks in the news: Market Edge upgrades GWR to Long from Neutral…BNI, CNI, CP and NSC all hit new 52week highs as did BTU and TRN; TOL was downgraded by Market Edge owing to weakness in housing and X predicts a dip in profits owing in part to energy costs. TOL is significant as it's an indicator of STCC 24 futures; X tells us something of the metals market, both important to shortlines in particular (see RMI chart attached).

The rails get a double-whammy from the metals shippers, though. Not only is their business up and down but they seem to have trouble telling when it will be which. Wall Street relies on the rails for revenue forecasts but that's hard with what one CEO calls "imperfect customer forecasting."

A year ago I held a panel discussion on forecasting, capacity and rate-making at NEARS near Boston. Recently at MWARS shipper forecasting came up again. And it will again in Jan when I speak at MWARS. Need more? Steel volume on one class I was up 11% last year, is down 9% YTD, net up 2% in two years. Now the gons are gone, and the shippers that are left are castigating the rails for not having the cars. As my friend says, "Once bit, twice shy."

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RailConnect Index of Short Line Traffic

Traffic Type: All

For the week ending: 9/10/2005

Week Number: 36

	Current Week			Year-To-Date		
Carloads Handled	**2005**	**2004**	**% Change**	**2005**	**2004**	**% Change**
Coal	10,201	10,926	-6.64%	344,650	332,639	3.61%
Grain	9,899	9,062	9.24%	355,165	349,704	1.56%
Farm & Food (Exc. Grain)	3,375	3,454	-2.29%	114,226	100,675	13.46%
Ores	7,257	8,582	-15.44%	286,719	268,142	6.93%
Stone, Clay, Aggregates	8,031	8,474	-5.23%	254,537	207,368	22.75%
Lumber & Forest products	5,120	5,582	-8.28%	196,676	178,676	10.07%
Paper products	6,217	5,985	3.88%	219,926	200,105	9.91%
Waste & Scrap materials	3,657	4,748	-22.98%	152,573	138,055	10.52%
Chemicals	12,784	11,800	8.34%	430,108	382,756	12.37%
Petroleum & Coke	3,149	2,410	30.66%	98,708	75,456	30.82%
Metals & Products	7,579	8,546	-11.32%	296,120	244,236	21.24%
Motor vehicles & equip.	1,662	2,226	-25.34%	72,746	75,126	-3.17%
Intermodal	17,008	12,964	31.19%	599,810	479,856	25.00%
All Other	2,370	3,029	-21.76%	94,531	106,644	-11.36%
Total	**98,309**	**97,788**	**0.53%**	**3,516,495**	**3,139,438**	**12.01%**

RailConnect Index

Year-To-Date