THE RAILROAD WEEK IN REVIEW

October 14, 2011

"The Shortline Velocity Tool uses car-cycle data to improve service, efficiency and yield of freight cars moving to and from shortline customers." -- BNSF Shortline Meeting presentation

Did you know that your typical over-the-road truck driver is 61 years old, weighs in at 261 lbs, hardly ever sleeps, lives on junk food, has high blood pressure and gets no exercise? Or that his numbers are diminishing due to new federal regulations on event recorders, hours of service and medical standards? Such are a few of the tidbits Stifel Nicolaus transport analyst John Larken served up at this week's BNSF Annual Shortline Meeting in Dallas and they show all's not well out there in Truckland, creating a healthy environment for truckload conversions on short lines.

Now you may well ask, what's a sell-side Wall Street guy doing talking about trucks at a shortline function? Two things. First, showing shortliners yet another area where tomorrow's new business can come from (try asking your truck-using prospect how he will function with 15 percent fewer truckers on the road). Second, adding yet another strategic dimension to BNSF's Alignment for Velocity and Growth theme of this year's shortline gathering.

That railroads are a growth business once again was evident from the outset of the program. Industrial Products (Group VP Dave Garin) and the ag business (Barbara Haertling, Group Marketing VP) took center stage Day One and ran parallel themes: both are BNSF growth industries and short lines have a major role to play.

The Ag Group shuttle train program is still growing and Industrial Products is looking to unitize more O-D commodity pairs. That said, both Garin and Haertling reassured the assembled multitude that they're "not out to unitize everything" and that manifest service is alive and well in those lanes where it still yields the best returns. Drilling down to specifics, Garin says it will be a long pull back to the peak vols of 2006.

The 2011 second quarter was sequentially down from Q1 and 2012 isn't looking all that robust yet market is still winnable on increased reliability and velocity. It's working, too. The renewed focus on these two service aspects has done so well that boxcars and many other car types are sold out. And the frac sand phenomenon has had them filling idled grain cars with sand - who'd have thought of sand as a growth business five years ago, quipped Garin.

Some frac sand numbers: a supplier on an Illinois short line now ships a unit train a day vs. 30 cars a week not that long ago. The market potential out two years is pushing 900,000 annual units and will need another 18,000 cars in the fleet assuming cycle time is halved from the present 42 days. The question must be asked: if you can turn a grain shuttle in 12 days, why not sand trains? To unitize or not to unitize is a function of economics and my BNSF sources assure me they're looking to make the most of shortline resources.

Barb Heartling's remarks went largely to the state of the grain world and the role of the railroads in it. BNSF ag loads including ethanol were flat year-over-year through Oct 2 with wheat alone down six or seven percent. Dry conditions out on the range have forced cattle into feedlots increasing the demand for corn even as Asian markets are increasing corn imports to support the shift to more meat and fewer grains in the diet.

The rate of growth in ethanol loads has slacked off as the "blend wall" is hit and people are driving less to conserve scarce household funds. That said, the number of shuttle loaders continues to grow, creating the need for shortline gathering networks (see Eastern Washington Gateway) and other creative ways to use short-haul rail moves from country elevators to supplant the shrinking supply of local truckers (see Larkin, above). And it's working. Barb concluded her remarks saying shortline ag loads have increased over the past four successive quarters.

BNSF president and operating officer Carl Ice took the stage to wrap up Day One with a remarkable video on the extent of the summer's flooding and the heroic work to put the railroad back together. (Copies of the seven-minute DVD "Rising Above" were distributed in the mail with the Summer, 2011 issue of the BNSF employee magazine, *Railway*. It's also on the bnsf.com home page.) Ice said it was "as bad a weather year as we've ever seen" and they've put as much effort into service restoration as they did in getting the track safely back in service.

He then spoke about some key performance metrics and put them in year-over-year context. I think the volume stats are particularly telling. BNSF volumes hit an all-time record of 216,000 revenue units a week in 2006 and a new low of 154,000 units in 2009. Units are now running right at 200,000, a level Ice says he's "comfortable" with, and is looking at gains of three to five percent a year, regaining the 2006 peak volumes in late 2013. Car-miles per-day is now running around 130, though he's shooting for 150. And since the miles here are for the entire move, how fast short lines turn cars can affect this number.

Running parallel and concurrent with the breakout sessions we had three "informational" small group sessions that repeated so all who wanted to could participate. Topics were the AIM program to simplify and streamline local and branch line operations, aligning shortline and BNSF financial, operating and commercial goals, and "Velocity," a pilot program to manage shortline dwell times.

This last deserves special mention. Whereas the first two sessions were really updates on programs begun a year or more ago, Velocity is an on-line web-based tool that shows the locations of very car on the short line, when and what the last move was, and the interval between events. You can quickly scan the list to find the outliers and drill down to root causes and determine the right corrective action.

But more works needs to be done. The Velocity tool discussions exposed two serious BNSF shortline shortcomings. First, not all short lines have Interline Service Agreements in place. Rather than legally-binding agreements, they are more like guidelines or a cookbook that sets out the frequency, time and place of interchange as a matter of record. A common complaint among short lines is those ISAs are often ignored by BNSF train masters, nullifying their value.

In those instances, it is better to have an agreement to measure against than to have none. You can use the Velocity tool to document missed interchanges and take appropriate measures. The second shortline shortcoming relates to event reporting. It appears that even though events are posted to Railinc through RMI or similar software, the short line must proactively tell what events to relay to BNSF. Absent that data, the Velocity metrics are meaningless and the non-reporting short line will find itself at a competitive disadvantage.

BNSF is making strides bringing older shortline agreements and pricing into alignment with today's realities. I see three areas that need particular attention: where over time shortline car allowances have grown on auto-pilot to outstrip the value of the move, where the 20-year old handling allowance no longer reflects current operating realities, and where unit trains are new to the short line. I sense from both Dean Wise (Network Strategy) and Dick Ebel (Shortline Development) a sincere commitment to addressing these matters quickly and equitably.

Administratively, Paula Jacob and her team from Dean Wise's Network Strategy Group did a terrific job of anticipating questions and making sure everybody knew where they were supposed to be when, starting with airport arrivals. For example, I walked straight out the door to the Pre-arranged Transportation Zone as directed and found a car and driver waiting for me. The registration desk ladies handed out fat loose-leaf folders with everything you needed to know, including 27 pages of individual breakout sessions, plus a flash-drive with 18 PDFs of phone numbers, org charts, maps and guides to new tools and systems from AIM to Velocity.

In short, everything I would have asked about on arrival or to be e-mailed to me afterward was already there. And for getting back to the airport, there again, everybody had a pre-arranged ride to the right terminal at the right time. In short, this attention to detail leaves one with the impression that here is a company that really wants to do business with one.

My friends Paul Vilter (Amtrak) and Charles Hunter (RailAmerica) will present a panel on the Vermonter high-speed rail upgrade Oct 25. The occasion is the annual Railway Age *Passenger Trains on Freight Railroads* conference at the Washington Marriott. This is the second time I've moderated a panel here with a shortline aspect, and I hope you can join us.

The 2011 Edition of RailTrends is just a few weeks away. The program kicks off at 0730 Tuesday, Nov 1 and runs until noon the next day. On tap are presentations and comments from suppliers, short lines, the Class Is (BNSF and KCS in particular), a Wall Street investor, the FRA, the House of Representatives, the STB, and an intermodal panel. See you there?

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