The Railroad Week in Review
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Canadian National workers are now back at their assigned tasks following the recent work stoppage. The first quarter earnings impact will be in the range of six to eight cents a share (US) based on the present consensus of 53 cents, down from 58 cents a week ago yet up 13% from the 47 cents cited by First Call as the 1Q03 number.

There is little change in the forward estimates, calling for 72 cents (US) in 2Q04, a whopping 23% change yoy. A Dow Jones news item quoted CN officials as saying "there would be little other negative impact from the strike." Driving that point home CEO Hunter Harrison said on Thursday's conference call "This organization is smarter and stronger than we were prior to the strike."

I should say so. Other than intermodal loadings slowed by pickets at the ramps, the carload business remained at about 98% of normal. CN has the highest concentration of carload revenues in the business (73.6% of revenues in FY 2004), so that's good news. Harrison said that grain in particular moved "at record levels" and that further improvements in velocity and dwell times are on the horizon.

Conrail's five-year STB oversight period concludes this June. Hearings on the Shared Area operations (South Phila/New Jersey, North Jersey, Detroit) are scheduled in Trenton and Washington. In preparation for the April 2 Phila/South Jersey hearing in Trenton, Philadelphia's Delaware Valley Regional Planning Commission (DVRPC) has prepared a position paper citing its concerns and conclusions on the matter.

By way of review, the Phila/So Jersey Shared Area consists of 240 route miles and 16 rail yards. It includes all Conrail waybill stations within Philadelphia (CSX has freight rights over portions of SEPTA plus its own Greenwich Yard ops.) Also included is all Class I freight rail trackage in Southern New Jersey as well as the Conrail Industrial and Conrail Chester Secondary tracks plus exclusive local freight rights on Amtrak's Northeast Corridor from Zoo Tower to Trenton.

DVRPC's paper questions whether the commitments made by CSX and NS to address matters from employment to corporate citizenship have been met. Moreover the South Jersey crowd remains convinced CSX and NS are converting carload traffic to intermodal and short-stopping everything out of the Shared Area. I can't say much about the conversion charge other than to say what works best in carload tends to stay in carload service. But knowing what I do about South Jersey's carload business it's safe to say much of it is low-rated business and contribution [WIR 3/19/2004] rules.

Finally, the DVRPC holds that "within the South Jersey/Philadelphia Shared Asset Area, Conrail acts as a terminal railroad, yet it effectively has no commercial presence. Some feel that this arrangement has led to unnecessarily increased rates for shippers, particularly those served by short line railroads in South Jersey." It will be an instructive hearing to say the least. Too bad I have commitments elsewhere. Still, let me provide such feedback as I can.

On a related note, Todd Hunter, who toils as the Marketing Poobah for Pennsylvania's **North Shore Rail Group**, sent this bit from the March 14 New York *Times*. "Industrial real estate brokers say they have first-hand evidence of a back-to-the-rails movement in the freight industry in New Jersey: sites with rail connections are hot properties."

Commodities run the gamut from paper to grocery products to lumber, says the *Times*. To that I have to add my own structural steel client that has just completed the first new industrial siding ever off New Jersey Transit just 30 miles west of the GW Bridge. The *Times* goes on to quote a commercial realtor who says, "We used to see a lot of times when rail was 'nice to have' when a company was looking for a site. More and more now, it's a *must*."

The new trucking hours-of service rules are bound to have an impact. No longer can a distant distribution center serve a major metro area with single trucks making multiple stops per trip. A recent Northbridge study finds that drop-offs that were once made for a nominal charge or even no charge now cost the beneficial owner $100 or more a stop. Moreover, unload and fuel time is now duty time. Before, a driver could spend six hours making stops of all kinds and still drive 14 hours and be legal. **NS** is the dominant freight rail once you get off the NEC while **Conrail** takes care of business close in; **CSX** has exclusive rights on its own ex-NYC West shore route and the ex-Reading Manville-West Trenton line.

One of the sharper independent shortline outfits in the land is **Watco Companies** out of Pittsburg (no aitch) Kansas. They publish a dandy newsletter called "The Dispatch" and it's available on their website, www.watcocompanies.com . Of particular note is the Feb 6 issue's commentary on the relationship between the Annual Operating Plan (AOP) and core values.

It's quite an elegant argument. CFO Randall Readinger writes, "The standard budget process begins with the numbers and ends with the numbers usually with little or no consideration of other business factors. The AOP on the other hand, starts with the customer and ends with the financial numbers." Only then can WATCO make the necessary "link between customer satisfaction and the financial results we expect."

"The process starts with customer meetings so we can get a better understanding of the customer's business and the service requirements. Then customer satisfaction standards and measures are established from them we develop a service and operating plan." Profitability standards are set by service type (mechanical, switching, railroad, etc.). Profit centers are in turn uniformly measured on their operating profitability, assets employed, generation or use of cash flows and revenue growth. How refreshing. Betcha these folks can spell contribution.

From **BNSF** comes another industry first: the Customer Notification System, an advisory service alerting shippers to changes in rail service conditions that could affect shipments. Notices describe the type of service condition, including the date, time and location where service is being affected, when normal service will resume, and new destination ETAs by car number. A sample of the new type of advisory is at www.bnsf.com/html_emails/svcadv.html . Go take a look and then write me about the cars that are stuck between A and B or that have been in your serving yard and not placed for days.