THE RAILROAD WEEK IN REVIEW
SEPTEMBER 9, 2005

We in the railroad industry must develop a vision and promote it because we can't count on it coming from the government. – Tom Judge in Railway Track & Structures.

Katrina's impact on the railroads comes in two forms – shifts in revenue and cost patterns and added fuel expense. The former is a function of through-traffic reroutes and business that normally originates or terminates in the hardest hit areas. The latter is a function of how well each carrier manages fuel costs through hedging, fuel surcharges or both.

A while ago I did an operating and financial audit for the New Orleans Public Belt Line (NOPB) and in the process got to know a little about who's where and why. Five of the Big Six Class Is plus KCS serve New Orleans (CP does not). There are three shortlines in Louisiana: NOPB, New Orleans Gulf Coast (Rick Bertel) and Louisiana & Delta (GWR). I'm told the L&D which lays to the west of NO was pretty much unscathed, but there's no way to know about the others just yet.

There are two east-west freight routes through NO, both of which use the Huey Long Bridge. BNSF uses NOPB to link up with NS and CSX over track that follows the Miss River up to NS' Oliver Yard and over to CSX' Gentilly. The other route is the NS "Back Belt" across the north side of NO through Metairie and UP uses this for most of its eastern business. This line appears to have been spared much of the flooding and may be back in business by the time you read this.

CN's former IC route and KCS both come into town from the northwest and their involvement with NOPB – when I was there at least – is minimal. The former does a lot of export grain out of the Midwest (I remember Hunter Harrison telling me about six turns a month on grain trains on the IC) as well as a significant chemical trade, much of which is head-to-head with KCS. It's entirely possible that the chemical plants worst hit won't be rebuilt and the business will migrate west to Houston.

CSX has said it'll have to fix about 150 miles of rail east of NO through Miss and into AL, including its Bay St Louis bridge. NS hopes to have its Pontchartrain bridge back shortly, literally picking the pieces of the concrete-deck ballast bridge up out of the water and putting them back on the pilings. Both UP and BNSF come into town over former SP track, so such that is damaged is UP's to fix. The net result is that through traffic that traditionally uses NO is finding other ways – St Louis, Memphis, the KCS "Meridian Speedway" over to Dallas.

As for fuel costs, we know the Class Is are replacing hedge programs with fuel surcharges that cover more contacts and freight quotes. This is a smart move given the volatility of oil. Why get locked into a 70-dollar barrel six months out if the price drops to $60? At least with the FSC tied to highway diesel fuel, (see bnsf.com for example) you can float it up and down with real prices.

But what worries me is the short shortline without the ability to hedge or put on its own FSC. Most of these guys are paid fixed per-car allowances with little room for change other than an annual RCAF-adjustment. And the high fuel prices made higher by the NO area supply shortage may yet show up in Shortlineville.

CSX gets the Good Citizenship Award for its post-Katrina efforts, The corporation is prepaying county property taxes in the three affected states, and is providing guaranteed pay and benefits through Sep for some 300 Gulf Coast employees most severely affected by the storm. In addition, CSX has pledged up to $700,000 in employee and community assistance through cash and in-kind payments to individual employees, direct contributions to the American Red Cross and other relief funds.

CSX has also pledged an additional dollar-for-dollar match to employee contributions made to qualified funds. To date employee contributions have passed the $80,000 mark. CSX has established a resource center (1-800-633-4067) to put employees in the most severely damaged areas in touch with the help they need. The company also has established a Hurricane Katrina-related web page on http://www.csx.com .

The AAR freight traffic count for the week ending Sep 3 increased 2.3% over 2004's Week 35, though intermodal trailer and containers were up 6.4%, masking the 0.4% drop in commodity carloads. Take out coal and non-intermodal traffic was up 0.5%. Ag products including all STCC 01 and 20 groups account for 9.4% of all commodity carloads and all were up for Week 35, the past four weeks, 3QTD and YTD.

Pulpwood and paper account for less than 5% of volume and are down across the board with all the STCC 24s but pulp posting a 2.2% gain for the week and 3.4% YTD. Aggregates and related (STCC 14, 32) make up 6.8% of volume with 14 up 8.6% YTD and 32 even. Look for 14, 24 and 32 to increase later as the post-Katrina rebuild gets under way.

Among the Class Is CN and CP took the top spots, up 8.2% and 5.9% respectively thanks largely to 10% intermodal gains. KCS took the biggest hit, down 14.8% in Week 35 vs. down 1.5% over the four-week trend, so clearly the storm took its toll – not surprising since so much of KSC' service area was in the storm's path. CSX was off 1.3% for the week vs. up 0.7% across four weeks. Week 35 chems and IM were off 9.2% and 3.7% respectively, much more than they were across four weeks.

The RailConnect Index of Shortline Traffic, an invaluable tool from RMI, tells us that ag-related products make up 13.5% of shortline traffic and YTD through Week 33 were up 1.0% though the STCC 20 group saved the day with STCC 01 essentially flat. Forest products (both 24 nd 26) make up 12% of shortline loads, about equally split and up 10% YTD. Stone, clay and aggregates (the 14 and 32 group) were up a whopping 24.1% YTD. So it looks like the ill wind of Katrina may yet blow some good to the shortlines.

RailAmerica reported two transactions on Friday. In the first RRA will acquire the four Alcoa shortlines and assume switching services at Alcoa facilities presently served by other railroads. The four lines are the 13-mile Point Comfort & Northern south of Houston, the 6-mile Rockdale Sandow & Southern near Austin, the 3-mile Bauxite & Northern outside Little Rock, and the 3-mile Massena Terminal in upstate NY. According to Ed Lewis' *American Shortline Railway Guide*, now nine years old, the four were doing something north of 30,000 cars in 1996. Purchase price is $77.5 mm cash of which RRA will fund $75 mm through an increase in the term loan portion of its existing senior secured credit facility.

Of course, when one is buying company railroads one likes to know something about the industry in which one finds oneself. RRA ought to be OK. The Alcoa 2Q05 press release says total sales were $6.8 bn, up 13% yoy, up 8% over the previous quarter, and the highest quarterly sales in the company's history. Record performance by the alumina business, a better mix of value-added fabricated products, coupled with stronger pricing and demand in the aerospace, commercial vehicle and building markets drove revenues higher, offsetting lower prices in the primary metals business.

In the second transaction RRA struck a 25-year lease with CSX Transportation (CSXT) for the operation of the 48-mile Fremont branch. The line runs from Fremont, Michigan south to West Olive, Michigan and interchanges with RailAmerica's Michigan Shore Railroad and CSXT. RailAmerica will commence operations on September 10, 2005.

One mark of insanity, it is said, is doing the same thing over and over again expecting different results. I'm afraid some in our favorite industry continue to exhibit that trait. A friend writes, "I'm working with a group to set up a transload cum rail operation. This is not the usual situation requiring resources -- just the opposite where all the resources are in place: land, money, management, labor. But we've run into a brick wall with the would-be serving Class 1, where the glacial reaction reminded me of the British film "I'm all right Jack", a Peter Sellers spoof about the British labor unions' intransigence after WW2. The unspoken rule is never finish a job so there's always something left for the other guy.

"About a year ago somebody was announcing the end of the 'golden age of the traffic manager,' when there was always a surplus of trucks to snipe at rail and the principal (if not only) traffic management tool was to bang down truck rates and take them back to the railroad and then vice-versa. That does not breed compassion when the tables turn, and turn they will.

"The rails have moved from the outside salesman-cum-cigars model, through the inside order-taker telemarketing model of marketing, to the present capacity-allocation mode, which is appropriate in principle, under the circumstances. However, the wise pro-rail shipper will take retribution with a dose of circumspection.

"What seems to frustrate these 'rail partisans' most is that the Class Is do not seem to be concerned for long-term customer relations at all. They are finishing off what little customer rapport was left in this Kabuki dance of rate-making. But, there is now a good chance for another economic pause, setting off a whole series of chain reactions, wherein the capacity-allocator becomes the supplicant" as many once-loyal rail customers have now found other transportation supplier and filled in their loading docks.

My *Quarterly Review* tells us that more than half of all revenue is merch carload revenue for all but BNSF, where it's 45%. We keep hearing about the resurgence of railroads and the shift to a growth mentality from a shrinkage mentality. Yet the tales of head-in-the sand, anti-customer action on the part of some rail reps keep popping up. Making customers mad costs money, so why does senior management keep allowing it? Keep it up and the results won't be any different. It's insane.

The Railroad Week in Review, a weekly compendium of railroad industry news, analysis and comment, is sent via-mail 50 weeks a year. Individual subscriptions and shortlines with less than $12 mm annual revenues $125. Corporate subscriptions $500 per year. The Quarterly Review, a statistical analysis of the ten largest publicly traded railroad operating companies is $50 per copy to subscribers, $100 per copy to non-subscribers. Both are publications of the Blanchard Company, © 2004. Subscriptions are available at www.rblanchard.com/week_in_review/index.html ***or by writing*** rblanchard@rblanchard.com **.**

RailConnect Index of Short Line Traffic

Traffic Type: All

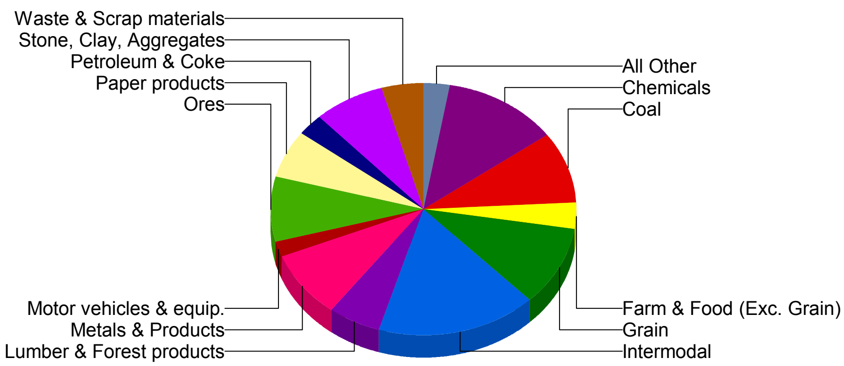
For the week ending: 8/20/2005

Week Number: 33

Carloads Handled	Current Week			Year-To-Date		
	2005	**2004**	**% Change**	**2005**	**2004**	**% Change**
Coal	8,999	9,259	-2.81%	293,633	300,249	-2.20%
Grain	10,327	10,072	2.53%	326,235	323,436	0.87%
Farm & Food (Exc. Grain)	3,399	3,021	12.51%	104,737	91,463	14.51%
Ores	8,578	8,262	3.82%	263,700	244,269	7.95%
Stone, Clay, Aggregates	8,398	8,022	4.69%	238,675	192,301	24.12%
Lumber & Forest products	5,452	5,749	-5.17%	181,213	162,941	11.21%
Paper products	6,171	5,909	4.43%	201,008	182,832	9.94%
Waste & Scrap materials	4,592	4,361	5.30%	140,195	124,614	12.50%
Chemicals	12,045	11,794	2.13%	396,832	353,219	12.35%
Petroleum & Coke	2,788	2,445	14.03%	89,670	68,359	31.18%
Metals & Products	7,606	7,502	1.39%	272,430	218,615	24.62%
Motor vehicles & equip.	2,142	2,404	-10.90%	66,473	68,477	-2.93%
Intermodal	19,408	12,903	50.41%	544,525	435,393	25.07%
All Other	2,630	3,232	-18.63%	87,028	97,615	-10.85%
Total	**102,535**	**94,935**	**8.01%**	**3,206,354**	**2,863,783**	**11.96%**

RailConnect Index

Year-To-Date



All Other	2.7%
Chemicals	12.4%
Coal	9.2%
Farm & Food (Exc. Grain)	3.3%
Grain	10.2%
Intermodal	17.0%
Lumber & Forest products	5.7%
Metals & Products	8.5%
Motor vehicles & equip.	2.1%
Ores	8.2%
Paper products	6.3%
Petroleum & Coke	2.8%
Stone, Clay, Aggregates	7.4%
Waste & Scrap materials	4.4%
Total:	100.0%