

The Blanchard Company
www.rblanchard.com

The Railroad Week in Review 8/18//2001

Copyright © 2001 All Rights Reserved

My good friend Dick Russack who toils for BNSF as VP Corporate Relations has correctly chided me for writing last week, “Nobody sees a missed interchange between a class 1 local and the core system.” I should have known better. The Trip Plan that BNSF generates for every car tells the customer how many hours it will take origin to destination.

Moreover, if that trip plan is in danger of being missed a “jeopardy alarm” is triggered automatically within BNSF. And since BNSF makes Trip Plan info available to the customer, a missed interchange will cause BNSF to make adjustments to meet the original Trip Plan. And *everybody* will know it. Thanks, Dick.

Trip plans across two or more carriers are inevitable, too. We have the UP-CSX “Express Lane” service for perishables from west to east, several BNSF-CN collaborative moves, and the BNSF-KCS-NS intermodal product. And as of this month we have BNSF and CSX making improvements to their interline carload service through Chicago.

Carload business destined for New York and New England will receive more consistent service with BNSF delivering the Northeast-bound freight directly to CSX rather than having a third-party terminal railroad do the work. Cars bound for mid-Atlantic destinations (Phila, Balto, Portsmouth) will be blocked in Galesburg for Chicago interchange. On the flip side CSX will block westbound BNSF cars at Willard, Ohio for movement directly to Galesburg and Kansas City, eliminating intermediate handling in Chicago. The move will save a minimum of 24 hours transit time and improve consistency.

On the intermodal front, BNSF and NS now have a seamless, coast-to-coast intermodal trailer service for time-sensitive premium freight moving between Southern California and Rutherford, Pa., and Croxton, N.J. Eastbound service begins today and will run Thursday through Sunday. Westbound service began Tuesday, August 14 and will run Tuesday through Saturday. Now the rails can sell coast-to-coast third and fourth day service to the marketplace—something previously only available through team driver over-the-road transportation.

Norfolk Southern now offers web-based car ordering, replacing the old and error prone fax and phone system. We first wrote about this in *Railway Age* back in 1994 when the yard master nominally supplying cars to a shortline client took care of his friends first, and all it took to be a friend was a case of Jack now and again.

The web is a great way to level the playing field as it puts all orders on an equal footing. Now NS can see what cars are needed where and improve forecasting and car supply. You can see how the new NS systems works with a spiffy demo at www.nscorp.com “What’s New” and follow the signs.

Canadian Pacific continues to make news as the October split approaches. By way of review, new stock of the “when issued” variety ought to start trading on the TSE later this month and on

the NYSE shortly thereafter. The deal is set to close October 1 with shares trading in NY and Toronto October 3.

In a note this week MSDW's Jim Valentine said, "We collectively value the five CP subsidiaries at US\$43 on the basis of our 2002 earnings forecast for each subsidiary. Potential acquisition premiums drive this to the high US\$40s." CSFB's Gary Yablon sees the sum of the parts worth \$US48 and change, 20% premium to Friday's close. Jolan Toth of Merrill Lynch thinks the number is closer to \$US52. My number is around \$US45.

Fortune columnist Geoffrey Colvin asks in the July 23 issue, "How good is your company?" He challenges the reader to rate the firm on a scale of one to ten, with ten being the "undisputed, take-no-prisoners, competitive killing machine" in the business. He warns if you're not a nine you can start closing up shop and stealing off into this good night.

For freight railroads, the message is writ large. Transportation costs are a major part of doing business, and rates are a small part of that cost. We're down to fewer class 1s than fingers on two hands and the independent regional carriers – of which there are hundreds – see the handwriting on the wall. Some of the small carriers (the nines and tens) are doing something about it while too many (the marginal players) are wringing their hands. The latter had best find their way to becoming tens in a hurry.

Dennis Washington's I&M Rail Link (IMRL) made *Traffic World on-line* this week. Seems that there is a fair amount of interest despite the \$100 mm rehab loan from the FRA. It's really two railroads: a granger road for local getting corn, wheat and beans to market and as a bridge carrier, though recent mergers have cast the latter in doubt.

When news of its potential sale first came up, I ran the IMRL through my benchmark mill (see www.rblanchard.com for a downloadable version) and it fell short in a number of key metrics. According to the *TW* story, there has been more than passing interest from the usual suspects: RailAmerica, DM&E, Rail World Inc. (a group lead by Ed Burkhardt), and Iowa Pacific Holdings LLC (headed up by Ed Ellis, formerly with Amtrak).

Bangor & Aroostook (BAR), a troubled regional carrier in northern Maine with roots extending back to 1891, may be heading for bankruptcy court. Three leasing companies with locomotives and cars out to BAR say they are owed more than \$7 mm in back leases, and they have filed a petition for involuntary reorganization with the US Bankruptcy Court in Bangor. Requests for relieve are sought by Helm Financial, Ebenezer Railcar Services, and Union Tank Car. The largest exposure is for Helm – more than \$5.7 mm for 28 locomotives and some freight cars.

The essence of the involuntary petition is that the three leasing companies are asking the Court to put the railroad in the hands of a Trustee thus opening the books to public scrutiny and shielding it from creditors' lawsuits while it reorganizes. Expenditures will have to be approved by the court, and that's clearly what Helm et al would like to see. Under the rules governing railroad bankruptcies, the trains will continue to run and BAR has 20 days to respond.

Roy Blanchard

Disclosure: Blanchard may from time to time hold long, short, or debt positions in the companies mentioned here. A list of such holdings is available on request.