

# THE RAILROAD WEEK IN REVIEW

## NOVEMBER 11, 2005

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*“The company’s task is moving goods and people first, and figuring out how the railroad can handle the job second.” Ascribed to GN President John Budd in Leaders Count by Larry Kaufman, © 2005.*

**“DM&E still has a long way to go,”** writes rail analyst Jim Valentine of Morgan Stanley. I’ll say. The buzz this week has to do with a new RRIF loan provision extending eligibility for funding to new construction. This thanks to a new provision in the Transportation Reauthorization bill authored by Senator John Thune (R-SD). The provision, according to a Nov 5 press release from Thune’s office, expands the RRIF program to \$30 bn from \$3.5 bn and sets aside \$7 bn for Class II and III rails.

Of this DM&E will apply for \$2.5 bn for its PRB project. This news will no doubt be welcome by coal users such as the members of the Western Coal Traffic League (WCTL). In its June 6, 2005 STB filing (FD 33407) WCTL says it supports the project because it provides a new competitive option, addresses “recurring service lapses” and offers a way out of the capacity constraints faced by the UP and BNSF. More recently, a group called the “Concerned Captive Coal Shippers” said in its filing for the Stagers 25<sup>th</sup> Anniversary hearings that recent STB coal rate rulings have placed “increasing burdens” on captive shippers.

The money will fund a brand new 263-mile line into the PRB plus upgrades to 250 miles of the ICE (ex-IMRL) in Iowa plus 150 miles of improvements on the present DM&E west end. However, Valentine notes that even if DM&E gets the money it’ll take several years to build the line and access will be limited to the mines it can reach without touching the joint BNSF-UP line. See [www.dmerail.com](http://www.dmerail.com) for maps and press coverage.

A minor quibble has to do with the wording of the press release on Class I loan precedents. My sources at the UP tell me the loan was made to the CNW in the late 70s and had little to do with coal per se. BNSF says it never got any FRA loans for So Dak and that the line in question is part of its general merchandise system, not specifically a “coal hauling route” as implied by the press release. Other sources tell me RRIF loans are designed as shortline tools, so the Class I examples can hardly be construed as “similar federal funding.”

Be that as it may, the DM&E funding, if awarded, may provide some relief for PRB coal users who feel trapped by BNSF and UP. It’s doubtful DM&E coal will reach any power plants local to the larger roads, so its customers will no doubt be those physically on DM&E and on connecting roads that are now sourcing PRB coal off the UP and BNSF. But here again, that’ll take time and one has to wonder how much of this “jump ball” business would actually move as rates are already competitive.

As for getting across the existing BNSF and UP lines, DM&E president Kevin Schieffer told me in a telephone interview that there will be grade-separated crossings over the BNSF near Edgemont SD and over the joint line within the PRB itself. These were part of the STB process and should present no obstacles.

Schieffer is to be congratulated for his perseverance in a project that has been going on for nearly ten years. Mike Haverly finally got to Mexico, so why shouldn’t Schieffer think positively about the PRB? Even though we’re looking out till 2009 at best for the first cars to roll, the mechanism to make it happen may finally be at hand. It will be instructive.

**Shortline car hire relief** needs a closer look before anybody starts linking it to turn-time. Consider the CN’s Guaranteed Car Order (GCO) program. The purpose of each is to insure that shipment

originators get the right car at the right time thus minimizing empty moves, bunched empties and demurrage charges. CN guarantees delivery of empty freight cars on specified “want” dates - dates agreed to with the shipper - in exchange for the shipper's commitment to accept the cars on those dates. The program is backed up by financial penalties for whichever party fails to fulfill its commitment.

A potential conflict arises when a shortline customer orders empties using one of these programs. Technically speaking, the agreement is between the shipper and the Class I and the shortline isn't a party to it. So here come fifteen cars to the shortline interchange on a Saturday for the Acme Widget Company to load three a day starting Monday. Even if the shipper loads to plan, it will appear to the uninformed observer that dwell times on the shortline ran as much as a week, assuming the Friday loads get spotted for interchange Friday night.

A similar theme has to do with car supply. Typically a Class I likes to see cars with its own marks loaded on a line they sold or leased to a shortline. As long as the Class I has an adequate supply of the car type in question everybody's happy. But what happens when the connecting Class I is short that car type?

The adult response is for the shortline to make other arrangements and do so with the knowledge and permission of the Class I. The revenue is protected, the customer never sees a wobble, and life goes on. Unfortunately, some roads are so organized that the car manager can veto any use of foreign equipment for loading because he's under the gun to reduce car hire. So rather than spend a dime in car hire the railroad loses a dollar in revenue and ticks off a good customer in the bargain.

The customer really doesn't care whose name is on the box. And he doesn't care whether the wheels are steel or rubber as long as the goods get to destination on time and in good shape. Duh.

**NJ shortlines sign ISAs.** This week all nine New Jersey shortlines railroads connecting with Conrail signed agreements governing how freight shipments are to be coordinated with the latter. The benefits for shippers served by these nine shortlines – as well as by Conrail itself -- is they can ship goods to or receive goods from any point from Boston to Birmingham, Chicago to Chattanooga that is on the CSX or NS railroad network. This situation is unique because in no other state do the majority of shortlines have access to two major trunk-line railroads directly from their locations.

Together these local railroads operate nearly 200 route-miles of track and serve industries ranging from agriculture to home building and from chemicals to grocery products. Conrail itself has more than 300 route-miles in NJ and serves an even broader range of industries as well as supporting port activities in Hudson, Union, Gloucester, Camden and Salem Counties.

Robert Bailey, President of the NJ Shortline Railroad Assn, said, “This week's signing means that our Member Railroads connecting to the national rail network through Conrail can now offer their customers the same level of reliable and consistent service enjoyed by shippers served directly by the major railroads. There are no ‘paper barriers’ barring any of our shortlines' customers from shipping via NS or CSX – it's entirely up to them.”

Ronald Batory, President of Conrail, said, “In the five years of its existence today's Conrail has increased rail usage in its service areas by unprecedented numbers thanks to our customers' having the choice of either CSX or NS routings, price, service and equipment in an extensive number of origin-destination markets. Moreover, our shortline interchange business has increased by more than 30% for the same reasons. Today's historic signing makes all our shortlines part of the same long-distance network.”

The nine signing shortlines are Cape May Seashore Lines, East Jersey Railroad and Terminal Co., New Jersey Rail Carrier LLC, New York Cross Harbor, Port Jersey Railroad, Raritan Central Railway, SMS Rail Service, Southern Railroad of New Jersey and the NJ division of Virginia's Winchester & Western Railroad. Congratulations, all.

**Indiana Rail Road (INRD) has just added** another 92 route miles, buying the CP (ex-Milwaukee) line between Terre Haute and Bedford. The purchase price was not disclosed. Terms include rights to use CSX tracks from Chicago to Terre Haute and from Bedford to Louisville, KY. The deal is expected to close in the first half of 2006, pending approval of the STB.

CP employees affected by the sale will either join INRD or be offered assignments elsewhere on CP. The sale will generate a modest gain for CPR and is part of the company's continuing efforts to streamline operations and drive efficiency. The sale will not have a material effect on earnings.

Indiana Rail Road is an Indianapolis-based regional freight carrier operating a 155-mile railroad between Indianapolis and Newton, Ill., over former Illinois Central track. In 1985, their last full year of operation, the Illinois Central moved about 12,000 carloads. Since the acquisition, INRD has grown the business to more than 105,000 annual carloads. In the past 10 years, INRD has invested more than \$50 mm in upgrading track, bridges and its locomotive fleet.

INRD connects with CSX, CN, CP and NS as well as RailAmerica's Indiana Southern and Central Railroad Co. of Indiana plus Anacostia's Louisville & Indiana Railroad. With the sale, INRD will acquire a connection with independent Paducah & Louisville. The announcement comes six months after CP said it would begin examining opportunities to improve rail service in southern Indiana and the Louisville market for the benefit of CPR and its shippers. The company invited expressions of interest from other companies. In May, CPR said it would examine new operating arrangements with other railroads or the sale of the rail line to another operator.

**Continuing the thread of wooing and winning customers**, Union Pacific has been named Home Depot's 2005 Rail Partner of the Year for its improved service performance to several Home Depot distribution centers. UP's Randy Evans, AVP for Industrial Products said, "Recognition from Home Depot is gratifying and an acknowledgement our efforts are meeting their requirements." Fair enough. The recognition was based on improvements in long-haul and switching transit times.

BNSF, meanwhile, garnered Wal-Mart's annual "Carrier of the Year" award. Selection criteria for the award included revenue/growth, ease of doing business, communication, flexibility, customer service and follow-up/correction of errors. "BNSF is honored to have received Wal-Mart's Rail Carrier of the Year award for the seventh consecutive year," said Steve Branscum, BNSF group vice president, Consumer Products. "We are dedicated to providing intermodal service and capacity solutions to support Wal-Mart's continued growth." And *that's* what takes trucks off the I-roads.

**Too late to make the cut-off:** GWR October North American revenue units up 21% yoy; RRA up 2% yoy. Commentary next week. In the meantime see [www.gwrr.com](http://www.gwrr.com) and [www.railamerica.com](http://www.railamerica.com).

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