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Standard & Poors this week reaffirmed its "triple-B-plus" (adequate capacity to meet obligations with some constraints) and "A-2" (satisfactory capacity subject to the same constraints) ratings to various levels of BNSF debt. The agency said the ratings "reflect the company's strong competitive position in the low-risk US freight railroad industry, offset by a somewhat aggressive financial policy." In its discussion of "credit protection" measures, S&P notes that it anticipates EBITDA interest coverage improving to the six-to-seven times level and that the debt-to-total capital ratio will "fall to the 50% area."

More significant than the BNSF numbers is the fact that S&P here confirms a target level for interest coverage and debt levels. Note that the levels are commensurate with the guidance provided in the Shortline Benchmark spreadsheet at www.rblanchard.com and are as much a guideline for shortline operators as Class Is.

Which leads me to the AREMA presentation given Tuesday by Matt Rose, CEO of BNSF. In it are some mind-numbing numbers. BNSF has over seven years spent $5.5 mm *a day* on infrastructure and rolling stock. Its two track geometry cars can do 110,000 miles a year, enough to test every mile of highly-traveled main line track about six times. The "TieInspect" program records tie conditions, tie-by-tie and mile-by-mile and in 2001 mapped over 6,000 miles of track. And this is just the appetizer. The full menu is at www.bnsf.com but the point is that measurement and maintenance go hand in hand.

Truckers seem to be looking at a fairly robust Q3 in terms of yoy earnings increases. Among truckload carriers, Swift (up 50%) and J B Hunt (up 200%) caught my eye. Among national LTLs it's a mixed bag – Arkansas Best even, Roadway down 16%, Yellow up 125%. Still, with the Consol Freightways bankruptcy putting 15,000 drivers into the driver pool and the unionized LTL companies facing potential wage pressure, it's not going to be easy.

Truckload volume was up 7.7% yoy (compare that with the anemic 1% gain in total rail volume) boosting asset utilization. The one big advantage of truck over rail is it's easy. But market-based rail pricing, scheduled service, and economies of scale can mean a lot to the budget-conscious beneficial owner. As we've proven time and again, paying somebody $20 for an hour's work to save a dollar a ton in a truck is a fool's errand. Better to spend 15 minutes and save $100 by putting it on rails.

Union Pacific and NS have teamed up with prices for UP origins with NS destinations for sheet steel, coil, and all other finished steel products (not including scrap). The same for NS origins to the UP will be ready next month. UP is tackling the ease of doing business head-on, saying in a refreshingly candid turn of phrase, "We're working to remove phone-tag, waiting for a response, and shuffling through old files."

In another pricing bulletin, UP again speaks in the vernacular only in this case re public pricing for lumber in UP Circular 24: "Unless otherwise specifically noted in another bulletin, these rates have not changed, but have *simply migrated* to a more user-friendly document" [emphasis added]. A breeze, not bureaucrateze.

The Canadian Transportation Agency (CTA) has denied the running rights application of Ferroequus Railway Company Ltd (FRC). The company had been set up in Dec 2000 "intending to haul grain using CN rail lines and the Prince Rupert grain terminal." FRC had received about $C1 mm in financing through August 31 from the Working Opportunity Fund (WOF), self-described as "BC's largest venture capital fund." According to the website 70% of the WOF portfolio is in life sciences and information technology.

Needless to say, Canadian National was not amused, arguing that "granting FRC running rights would allow it to enter the rail business, not by investing in its own network, but by cherry-picking CN traffic through regulatory means. CTA for its part allowed as how imposing running rights is reserved for those cases where there is actual evidence of market abuse or serious service failure. FRC supplied none, the CTA adding that "granting of Ferroequus's application would negatively affect many participants in the grain handling and transportation system by injecting inefficiencies into the system." I for one am pleased CTA sent the FRC folk to their rooms.

Meanwhile, Reuters reports CN wants out from under its 42% stake in Britain's largest rail freight operator, English Welsh & Scottish Railway (EWS). Morgan Stanley has been hired to find a buyer or figure out a way for CN to get its cash clear of EWS. Could be EWS may have to take on some debt to buy out CN.

Kansas City Southern (KCS) has warned that 3Q earnings will fall short. In the last seven days the First Call consensus dropped to 16 cents from 20 cents, a 25% decline. Morgan Stanley went further, saying that they were reducing the year's estimate to 85 cents from 90 cents. At a nominal rail PE of 13, that translates to a stock price of $11 and change.

The KCS culprit appears to be higher operating costs "caused by congestion directly related to the implementation of a new computer operating system as well as temporary diversion of some traffic." Evidently the computer system changeover (WIR 7/27/2002) to a new "Management Control System," MCS for short. The July 14 changeover did not go well with "higher-than-normal freight car volumes in its major terminals," a situation lasting some weeks. As a result, KCS expects higher labor, equipment, car hire and fuel expense.

The good news is none of this is lasting and we expect to see a better railroad once the new systems have the bugs worked out. Says CEO Mile Haverty, "While there will be some residual effects over the next month, it is anticipated that fourth-quarter expenses will be closer to normal levels. The new operating system will result in vastly improved train scheduling, terminal operations, provide more sophisticated data for marketing and planning purposes, and allow us to more efficiently interchange with other rail carriers." I should hope so.

For dessert comes word that Genesee & Wyoming will be joining the NYSE's elite crowd effective Sep 27, ticker symbol GWR. Congratulations are in order.

Roy Blanchard provides railroad financial and operating performance measurements for shortlines and shippers. 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.