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Now let's take a look at the other side of the merchandise carload business. Let's look at contribution per unit, defined as what's left after paying the variable costs associated with the move. For a review, see WIR 10/11/2002 on Activity-Based Costing as practiced at BNSF.

To begin, every merchandise move starts and ends in local freight service. Coal, intermodal, and shuttle trains are all point-to-point, no local service involved. Making matters worse, the number of potential O-D pairs in the carload business is staggering. At BNSF, merchandise traffic lanes outnumber intermodal lanes by about 20-to-one while intermodal traffic density in units per lane bests carload by 34-to-one. Another way, 70% of the carload volume comes from one-seventh of the lanes.

And so it is the carload focus has to be one of shrinking the number of lanes to the most productive ones, abandoning or outsourcing the least productive lanes. Another class 1 has about 25,000 annual carloads in light density lanes and sees the same tailing off among stations served: the old 80-20 rule is more than at work with 20% of the stations generating 90% of that class 1's revenue. Now you can't just walk away from it all, but surely some lanes represent greater contribution than others. How do you sort them out?

My recommendation is to take the total revenue for the move and subtract all the variable costs – no activity, no cost. At BNSF more than 75% of variable cost is in crew, power, fuel and car hire. The more locals between OD pairs, the higher the avoidable costs per revenue dollar. Strip out the extraneous locals, offer faster, more reliable service, and charge more. The message to light-density shippers is use it or lose it.

The message to shortlines is to focus on class 1 contribution. Almost the same distribution pattern applies to shortlines as to stations. There are more than 600 properties in my shortline data base of which I have estimated annual carloads for 424, excluding the S&Ts, the former USX properties, and the big regionals like DME+ and MRL.

The top 20% of the 424 accounted for 67% of the 5.2 mm total shortline carloads, about what CSXT did in non-intermodal loadings in all of 2001, coal and auto included. Of the Top Ten, Genesee & Wyoming owns two and RailAmerica owns two. Needless to say, the larger the shortline the larger the class 1 contribution. QED.

The 90-year old Camas Prairie Line, set up in back in the Year Nine as a NP/UP joint venture, was sold to North American RailNet of Bedford, Texas in 1998. Two years later the STB gave its blessing to RailNet to abandon the 67-mile Grangeville branch. Part of the deal was the provision for the Nez Perce Tribal Executive Committee to be granted a 180-day period to negotiate an interim trail use/rail banking agreement with RailNet for the right-of-way, thus forestalling actual abandonment and keeping the ROW intact.

That 180-day negotiating period was scheduled to expire on March 12, 2001. But a decision served on that date extended negotiating to June 10, 2001 and yet a second extension was granted on May 15, 2001, this time authorizing the Camas Prairie Trail Conservancy (CPTC) to negotiate with RailNet and to serve as a trail user. Fast forward to December 17, 2002. RailNet, CPTC, and BG & CM Railroad, Inc. (BG & CM), jointly filed a petition requesting the Board to issue a new agreement substituting BG & CM in lieu of the CPTC as the interim trail manager. This was part of a transaction in which RailNet sold BG&CM the underlying ROW for the possible later restoration of rail service to the line.

Thus the original congressional intent of land banking has been met: to preserve railroad rights of way intact. Had the line been formally abandoned the ROW would have reverted to a wide range of entities from the Bureau of Land Management to the Nez Perce nation. And everybody knows that, as in the case of one H. Dumpty, you can't put a severed rail segment together again.

Maryland Midland (MMID) President Paul Denton got some air time with Lou Dobbs on *Money Line* the other night. The host introduced the topic saying that not all the stories from the transports are bad – Amtrak problems, two airline bankruptcies, e.g. Shortline railroads, however, are a different story and represent "one of the successful niches in a struggling broader market." Never mind passenger and freight are different worlds, but who am I to quibble?

The good news is that here we have a successful shortline operator telling his story to a national audience on prime time. Said Paul, "Right now it looks like we'll handle more than 15,000 carloads in 2003, up from 2,800 when we opened the doors in 1986. Return on investment can be as much as 15%. And there are other advantages that you don't see. Each of these cars will hold four to five truckloads, so every time you get carload of freight on the railroad, you're taking four to five trucks off the highway, and that's a good thing." And it's a *very* good thing for the MMID, a privately held company with only about 150 investors and one of the cleanest sets of financials you'll ever see. Let's hope Paul's words of wisdom fell on more than a few receptive ears.

Dave Garin, Group VP for Industrial Products at BNSF, writes, "We've launched a new truck conversion program that could be a boon for shortlines. The surface has been but scratched yet it's already booked nearly 1,000 carloads of new business with that many again" identified as opportunities. "Bags in Boxcars" is the name of the program, and Dave's right about shortlines.

It's all about super sacks or bags on pallets for everything from bentonite clay to baby food. This means shortlines can now address those customers who don't want a whole carload of material at once or even local companies that lack direct rail access. A major selling point is the equipment: plain-Jane, Plate F, 100-ton boxcars.

There are no load dividers, dunnage, or interior bulkhead doors to get broken and out of alignment – a major cause for shipper complaint. And BNSF's guaranteed empty supply and placement puts large and small shippers on an equal footing for empty car supply, eliminating another excuse for not using rail.

Logical shortline candidates are local distribution centers such as the one in Austin, Texas on the AUAR, or the hub-and-spoke network set up by Oregon's Portland & Western. Moreover, shortlines with ISAs and trip plans can offer dock-to-dock transit times with a scheduled delivery time shown for every release time, regardless of whether it's a shortline origin, destination, or both. Talk about an incentive to get your shortline's ISA up and running!

Roy Blanchard writes and consults on railroad commercial, financial and operating best practices for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.