The Railroad Week in Review
September 19, 2003
www.rblanchard.com
(215) 985-1110

Last week I had the opportunity to spend a day with NS senior management. What I wanted to see was how shortlines and shippers can become more active participants in the NS goals of sharpening its operating practices and yield enhancement. Recall CEO David Goode's remarks at the July analyst meeting: "We are engaged at Norfolk Southern right now in an Activity Value Added process which is already under way. The objective is to take work out of our processes - not just to reduce head count, although that will result from it - in a way that will allow us to continue to provide improved service for our customers."

Goode then laid out the three tenets of the AVA program. "First, we are continuing to eliminate unnecessary infrastructure. Second, we are now synchronizing our local operations into the Thoroughbred Operating Plan. This will not only improve service but will yield efficiency gains and improved asset utilization. Third, we continue to reduce the size of our work force in order to offset the increased cost of compensation and benefits." (Full text at nscorp.com, investors tab)

I came away with three major themes. First is that infrastructure management relates to increasing the revenue dollar per asset employed. Second, any reduction in the asset base cannot degrade the revenue stream. And third, five trains per car is about two trains too many and anything a shortline or shipper can do to help cars move better is to the good.

Continuing the thread of five trains per car, a friend who's been in this business a long time writes, "You report that merchandise carload traffic moves on an average of 5 trains and that if each train is 90% on time, then overall performance is 59%. Yet my studies show that on average, merchandise carload traffic is handled less than two times at intermediate locations. I think the term "train" in the presentation may have referred to "crew starts". [*I said trains and I meant trains – some trains take more than one crew to get over the road. – RHB*]

"Also, train arrival performance does not translate well into connection performance. A train with a 90% on time record does not mean that 10% of its cars miss connections. This presumes that all on time train's cars make connections and all late trains, no matter how much late, miss. For an intermediate yard with daily train service, a train that is one hour late would likely have $1/24^{th}$ of cars miss connections and a train that is 12 hour late would have 1/2 the cars miss.

"It's connection performance that drives carload shipment performance. Late train arrivals tend to degrade connection performance, but it's more internal yard operations that effect which cars make and which miss." [*True – miss the train in the yard and your whole trip plan is blown.*] Fortunately, the new focus on trip plan compliance (TPC) is changing behavior.

Another observer opines there's an inherent conflict between on-time departures and leaving cars behind to make the departure numbers. Then dwell gets hit. But having the measure, and building a database of failure causes "tells us what our connection performance actually is – a crucial piece of data we never had before." It's unfortunate, however, that sometimes the performance metrics are used as a hammer rather than lever. As a result the guy who's getting blamed is more apt to try to fix the reports instead of the problems. Then it's a leadership matter.

The benefit of storing TPC data at the car level is making it available for analysis. Primarily, it sheds light on flaws in the operating plan and car trip planning process. And as these are addressed systems get better at providing accurate ETA/ETI info, making the railroad a still more valuable partner in the collaborative forecasting and replenishment process their customers prefer.

Reuters reports that British Columbia is coming down to the wire in its selection process for a new BC Rail operator. The provincial government has been wrestling this question since last May. The carrier made money last year but is highly leveraged with more than US$424 mm in debt. Four bidders were named on the Short List announced in June -- Canadian National, Canadian Pacific Railway, OmniTRAX in partnership with Burlington Northern Santa Fe, and Rail America, though RRA has since opted out.

According to the *Service Plan 2003-2005* (available at www.bcrail.com) 78% of the carloads are in forest products and account for 65% of the revenue. This is, by their own budget and actual figures, a C$300 mm (US$225 mm) operation with historical operating ratios in the 90s and budgeted ORs in the low 80s. They spend C$23 mm on fuel, though at about 8% of revenues, it's in line CN's fuel expense as a percentage of sales. The accident frequency has in the past run at 6+ incidents per 200,000 hours worked, though the budget calls for bringing it down to 5 by '05.

Genesee & Wyoming (GWR) North American revenue units for August came in at 45,100, up 5,912 units, 15.1% yoy. Excluding 4,112 carloads from Utah Railway, which GWI acquired in August 2002, and 1,887 carloads from a new rail line in Oregon, which GWI started operating in late December 2002, North American traffic in August 2003 decreased by 87 carloads, or 0.2%. This same-railroad decrease was primarily due to a 993 carload decline in metals traffic and a 665 carload decline in autos and auto parts traffic. This decline was partially offset by an increase of 720 carloads of lumber and forest products traffic and an increase of 563 carloads of pulp and paper traffic. All other commodities increased by a net 288 carloads. See Table 1.

RailAmerica (RRA) reported 95,354 total North American revenue units for August 2003, down 0.8% from 96,118 in August 2002. The biggest gains yoy were in ag and food (21%), ores (12%) and metals (10%) while the main laggards were chems (-6%), petroleum (-7%) and automotive (-41%). On a same-railroad basis, August 2003 carloads decreased 3.9% to 92,411, from 96,118 in 2002. RRA same-railroad totals exclude carloads associated with railroads, or portions of railroads, sold or acquired by the Company after January 1, 2002. See Table 2.

This month I've included the AAR commodity carloads originated data as a point of comparison for the two shortline operators. It would be nice to show GWR and RRA carloads right along side the AAR commodity changes, but that's not an option. Neither shortline operator uses the same groups nor do we know exactly what STCCs are in each group. The AAR has provided a STCC list (see Table 3) so we at least can see what fits where.

At least we can compare traffic composition and total yoy unit volume changes. The AAR was off 0.3% for the four weeks. On a same-railroad basis, GWR was off 0.2% and RRA slipped 3.9%. I've ranked each of the shortlines by pct change and it's instructive to note where shortline strengths offset less robust Class I results. If everybody used the same commodity groups maybe we could tell where shortline wins are covering organic Class I losses.

Table 1.

GWR Revenue Units, North America				Aug-03
Commodity Grp	**Aug-03**	**Aug-02**	**Pct Chg**	**Pct Units**
Lumber & For Prod	4,741	2,965	59.9%	10.5%
Coal, Coke & Ores	14,884	10,824	37.5%	33.0%
Chemicals	1,930	1,413	36.6%	4.3%
Farm & Food Prods	2,290	1,714	33.6%	5.1%
Pulp & Paper	6,544	5,609	16.7%	14.5%
Minerals & Stone	5,387	5,243	2.7%	11.9%
Petroleum Prods	2,581	2,580	0.0%	5.7%
Metals	4,579	5,447	-15.9%	10.2%
Other	834	1,254	-33.5%	1.8%
Automotive	900	1,565	-42.5%	2.0%
Total Commod CL	44,670	38,614	15.7%	99.0%
Intermodal units	430	574	-25.1%	1.0%
Total Unit Volume	45,100	39,188	15.1%	100.0%

Table 2.

RRA Revenue Units, North America				Aug-03
Commodity Grp	**Aug-03**	**Aug-02**	**Pct Chg**	**Pct Units**
Other	2,623	2,037	28.8%	2.8%
Ag & Farm	8,636	7,155	20.7%	9.1%
Metals	7,615	6,790	12.2%	8.0%
Met/non-met ores	5,369	4,862	10.4%	5.6%
Lumber & For Prds	10,855	10,247	5.9%	11.4%
Paper Prods	8,783	8,448	4.0%	9.2%
Minerals	4,131	4,122	0.2%	4.3%
Coal	12,233	12,483	-2.0%	12.8%
Food Prods	5,179	5,443	-4.9%	5.4%
Chemicals	6,673	7,125	-6.3%	7.0%
Petroleum	3,200	3,465	-7.6%	3.4%
Automotive	2,477	4,188	-40.9%	2.6%
Total Commod CL	77,774	76,365	1.8%	81.6%
Intermodal units	3,156	4,368	-27.7%	3.3%
Bridge Traffic	14,424	15,385	-6.2%	15.1%
Total Unit Volume	95,354	96,118	-0.8%	100.0%

Table 3.
AAR Pct change by Commodity
YOY Four-week Trend, Week ending 8/30/2003

Commodity Grp	STCC	Pct Units	Pct Chg
Grain	0113, 01144	5.0%	6.3%
Other Farm Products	all other 01	0.3%	-7.3%
Metallic Ores	10	1.2%	-14.3%
Coal	11	31.7%	-1.0%
Crushed Stone, Sand	142, 144	4.2%	1.6%
Nonmetallic Minerals	other 14	1.8%	1.6%
Grain Mill Products	204, 20923	2.3%	-4.3%
Food & Kindred Prods	other 20	2.1%	-2.7%
Primary Forest Prods	241	0.9%	-1.7%
Lumber & Wood	other 24	1.4%	2.0%
Pulp & Paper	26	2.1%	2.8%
Chemicals	28, 49	7.0%	0.2%
Petroleum	291	1.4%	-3.2%
Stone, Clay, Glass	32	2.5%	2.1%
Coke	29911,3,4	1.1%	45.6%
Metals	33, 34	2.9%	-13.7%
Motor Vehicles	371, 41118	5.7%	-11.5%
Waste & Scrap	40, 48	2.2%	2.2%
All Other		1.2%	15.0%
Total Commodity		77.0%	-0.9%
Intermodal		23.0%	0.8%
Total Volume		100.0%	-0.3%