THE RAILROAD WEEK IN REVIEW
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What with al the finger-pointing and NIGYYSOB-ing over city, state and federal government FUBARs following Katrina, it's nice to read that our favorite industry is doing things right. Last week we noted that CSX stepped to the plate for its communities and co-workers. NS has been busy, too, providing $1 mm for community recovery efforts, while enhancing its other relief-related programs.

In communities along its lines in Louisiana, Alabama and Mississippi, Norfolk Southern will contribute directly to local and state emergency responders and other community organizations a total of $500,000 and will match employee donations to designated national relief organizations up to a maximum corporate donation of $500,000. Norfolk Southern will grant up to $4,000 each to eligible affected employees to help cover their un-reimbursed losses and temporary living expenses and provide interest-free loans up to $15,000 to eligible affected employees to cover uninsured residential or property damages or losses. See also www.nscorp.com.

Meanwhile, out on the railroad, repairing the Lake Pontchartrain has been a Herculean task, with the first train interchanged with UP on Tuesday. Nearly five miles of track were washed from the top of the 5.8-mile long rail bridge and into the lake. Nine miles of track running through New Orleans itself required major repairs due to washouts and other water-related problems.

What a difference private enterprise can make. Since the hurricane struck, Norfolk Southern employees have inspected some 1,400 miles of railroad track, removed 5,500 downed trees, installed 11,000 railroad ties and unloaded and surfaced track on 55,000 tons of ballast to restore bridges and rail lines to service. This note from WIR reader and railroad professional Nate Clark puts it all in perspective:

"Not quite ten days after Hurricane Katrina storm surge stripped the track from the deck of the longest railroad bridge in the world trains were again moving across the lake into New Orleans. The NS focused resources, laser-like, on this problem to get it fixed. They concentrated on the desired outcome, and *made it happen*. As one astute observer noted, the NS did this *without* help from FEMA, waiting for Big Brother to approve it, and the unproductive verbal bashing of politicians. Quite simply, this enormous job just GOT DONE.

"NS used a flotilla of heavy-lift cranes on barges, carefully, methodically fishing the miles of errant track out of the lake and slowly threading it back onto the concrete deck of the bridge. The ribbon-like steel rails were still attached to the wooden cross ties, for the most part, so the largely-intact track behaved 'flexibly', much like a gigantic strand of al dente fettuccine noodle [also looks like HO gauge Atlas flex-track with some ties missing]. Missing cross ties were replaced, stone ballast was then dumped to support them and the track was surfaced to take any kinks and dips out. A high-volume main line railroad was placed back in service.

"At first, this monumental-yet-quickly-executed engineering feat may seem far removed from all the incredible human suffering that Katrina left in her wake. There might appear to be little -- if any – connection in the minds of the general public between the devastation that has been shown daily on the news and the nation's railroads, until one considers the massive damage also visited upon the public highway infrastructure, and the individual, private losses of homes and businesses. Then, it becomes sadly apparent just how essential it was that this vital freight corridor be restored absolutely as soon as possible.

"In the coming months and years, even after highways are repaired, it is over this critical lifeline (and those of the other five major railroads serving New Orleans) that will pass vast quantities of inbound food, water treatment and purification chemicals, heavy construction machinery, building supplies and many other materials necessary for the relief and rebuilding process throughout the region.

"Unfortunately, it will no doubt *also* carry hundreds of thousands -- if not millions -- of tons of outbound structural demolition debris for disposal. A large part of the successful rebirth of New Orleans will hinge upon the remarkable capacity of the railroads radiating from it to carry in what is needed by the city...and carry *out* that which is not.

"As of Tuesday, this key, privately-owned freight route is again going to work. Railroaders, truckers, aircraft pilots, barge pilots, ship captains, pipe line operators: all united in a common goal of relief and rebuilding. Not perhaps since D-Day in 1944 has the profession of Logistics played such a high-profile role in a large, non-routine operation, and certainly never domestically." Thanks, Nate. And be sure to look at the NS photos at www.rblanchard.com/katrina_2 , courtesy of NS' Bob Fort.

Of course, all this takes money, and NS is particularly well-prepared in this regard. One measure of a well-run company is free cash flow: cash provided by operations less capex, dividends and share buy-backs. Among the Big Six Class Is only NS has increased cash from operations, capex, dividends and operating FCF every year over the past three years. In Bear Stearns' Katrina report of Sep 6 the storm's impact on NS' forward estimates was among the smallest of the Big Six. And NS is tied with BNSF with an industry-leading one-dot-nine First Call recommendation one week after the storm hit.

Moving from the sublime to the ridiculous, a good friend who's been the shortline business a right long while writes, "You have a way of making folks stop and think. 'One mark of insanity' did it for me in the most recent WIR.

"While your message has been repeated in the railroad industry for years, it's particularly insightful now. Until a few years ago railroads struggled to earn competitive returns for shareholders. At the same time, railroads weren't known for their stellar customer relations track records.

"Then, for the first time in my 20 year railroad career, revenues, profits and the cost of rail service began growing at unprecedented rates. Do most growing, thriving businesses become a little hard of hearing their customers when revenues and profits are expanding? And do those same businesses grow elephant ears when they struggling?

"Of course. However, most railroad executives and employees have never experienced this kind of financial success. How they handle it now will determine how well their shareholders do when the cycle turns."

To wit: On Monday alone a fabricated metals company told me it's cheaper to supply raw materials from off-shore and truck to his plants in the southwest than it is to use his usual Midwestern US sources because of high freight rates and irregular transit times. A grain merchandiser says 40-day cycle times to the plains states from Ohio are killing his lease-fleet economics. Another tells me in some markets boxcar-truck transloads are faster and cheaper than rail direct. Something ain't right.

Rate increases are earned with a quality product, though the AAR Performance measures at www.aar.org seem to show the quality is not much improved over August 2004. Take average train speed, which, according to the AAR, is "total train miles in the period divided by the total hours operated." Average speeds are given for intermodal trains, coal and grain unit trains, manifest trains, multilevel auto trains and "all trains." If I'm not mistaken, these are all core trains with local freights and switch jobs are excluded.

That doesn't detract from unit and intermodal trains that operate point-to-point. But the merch trains are something else. The AAR measures performance from *train* origin to *train* destination and gives a very misleading picture to the carload shipper. For example, a carload of potatoes released to BNSF at Pasco,WA will take 336 hours to cover the 2,576 miles to Birmingham, AL according the mileage and schedule pages at www.bnsf.com , for an average speed of eight miles an hour.

The bnsf.com price page says this 100-ton move in BNSF owned or leased refrigerated boxcars is $6,998. My truck cost model suggests that the non-private reefer truck rate is $5,500 per 25-ton load or $22,000 per 100 ton-boxcar equivalent, a $15,000 advantage for rail. Even if you subtract an inventory penalty for the longer rail transit time the advantage is still $14,500. What a great story!

But the potato shipper knows his trucks can run 80 mph across I-80 and when he sees BNSF's average manifest train speed is a quarter of that for the week ending 9/9/2005 the comparison is ludicrous. Then tell him a car will take 14 days and his gut will tell him $15,000 more for a five day trip is worth it. That's why the AAR metric is meaningless.

Cast your minds back to last November's BNSF Analyst Meeting where they unveiled Operation Pentagon (WIR 11/12/2004). Central to the scheme is limiting major yards to five, each building trains for the other, eliminating a lot of intermediate stops. Our potato car under the Pentagon Plan, goes in a KC train at Pasco and from KC to Memphis and on to Birm. Three yards, a local at each end, and half a day in each of the yards. And *that's* what killing the carload business.

BNSF, NS and CN are probably the best-run rails in North America today. And if the best these guys can do is 14 days for a 2,500-mile boxcar haul, then maybe the Pasco-Birmingham lane is inappropriate for perishables. The UP-CSX model of unit trains from eastern Washington to Albany NY would seem the better model and a $12,000 per-car price tag would not be not of line.

RailAmerica's Alcoa transaction may face some challenges ahead. In Monday's "Ahead of the Tape" column, the WSJ reports that some traders "believe he secular trend for most industrial metals may well be down." Aluminum in particular "has long been the beneficiary of strong car sales" but as rail watchers we know where that business is headed.

Moreover, the high energy costs associated with aluminum smelting have taken out some of the US supply only to be replaced with exports from China. And Katrina may yet "mark the top of the commodity cycle" depending on a number of factors from product demand to energy costs.