THE RAILROAD WEEK IN REVIEW
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"A leader who looks at workers as a cost instead of a resource is fatally flawed." -- Peter Drucker

Peter Drucker's passing marks a great opportunity to reflect on his contributions to The Practice of Management and the lessons his works hold for us today. One tenet has to do with hiring talent outside the organization where that talent is better at the task at hand than the resident resources. Shortlines surely seem to fit that description.

But it's time to revisit the agreements that set up the shortlines and see whether the realities of today fit what's in those agreements. I don't mean "paper barriers" – that horse has been beat to death. But I do mean references to car hire relief and fuel surcharge sharing. It's a fact that there were many line sales and leases where car hire relief was given in lieu of higher handling fees. Those agreements reflected what the Class 1 carriers at the time were providing to their own customers in terms of incentives to load rail versus truck versus and with an emphasis on equipment velocity.

Car hire relief may have been OK when marketeers wanted to grow market share and pick up more business, and ops managers just wanted to get cars out of their hair and paying somebody to do it seemed like a good idea. Times have changed. Fleets are sized to the market and excess equipment is gone. Empties represent new loads and the faster loads are made empties the faster they can take new loads. Car hire relief thus incents the wrong behavior in today's world.

Now Class I market managers want those cars loaded as soon as they're empty and paying somebody not to move them doesn't make sense. And, with the carriers starting to reinvest in new equipment to replace their legacy fleets, ROIC and contribution per car day measurements are getting prioritized and scrutinized to determine which cars get acquired, and (shortlines take note) *which customers get them.* Not moving cars quickly will send one directly to the bottom of car supply food chain.

Concerning fuel surcharge sharing, I should have asked a third question in my recent e-mail to Class I shortline managers: "Have you, in transferring operating authority for a branch line to a shortline operator, ever included a provision or requirement to pass along fuel surcharges if collected?" So this week I did.

The response was pretty much as I thought: No. The shortline spin-off phenomenon has been around for more than 20 years; fuel surcharges only surfaced recently. Going back to the beginning of 2004 only CSX and BNSF have been active in creating new shortline opportunities. We know CSX uses a junction settlement process that is quite straightforward and the revenue division – including FSC -- for every OD pair is negotiated. BNSF has already told us where they stand. The other four, not having been actively shedding branches of late, have had less opportunity to use FSC sharing as a bargaining chip.

That brings me back to Drucker. I started reading him in 1978 (I know because my copy of *Management: Tasks, Resposibilities, Practices* is so marked as a birthday present from my dad) and I return to it regularly to keep my focus. Particularly apt in the present case is this tidbit: "We need to know which are key activities of the organization. We need to know in what areas would lack of performance endanger the results, if not the survival, of the enterprise."

In the rail business, lack of adequate car supply for the business tendered is one. The letters to WIR over the past few weeks indicate shortlines can do more to turn cars faster and Class Is can do more to encourage it. There has to be better coordination between and among Class Is, shortlines and customers working various guaranteed car supply programs.

Car hire relief *per se* has to be replaced by allowance levels that support the shortlines paying their own car hire (see slide BNSF shortline slide 147, first bullet under “proposed”). And it is only right that shortlines bringing revenue moves to the Class Is get a percentage of the fuel charge equal to the percentage of the line haul received or of the FSC revenue generated by the Class I.

Moving to a mileage-base FSC facilitates such an arrangement as it is not commodity-specific. Where FSC is a function of the rate charged, high-rated commodities (think STCC 28) pay more than low-rated ones (STCC 01, e.g.). Locomotives burn the same amount of fuel per ton regardless if what’s in the ton. So the mileage-base FSC does not pit the plastics shipper against the grain guy.

That said, trying to pay shortlines a piece of the FSC revenue collected on each move would be an administrative nightmare. The BNSF proposal addresses that by paying all shortlines a fixed share of the total FSC collected (slide 145). Moreover, the fuel surcharge payment will be the same for all cars handled and will not vary by car type, commodity, or miles handled. I like this because it’s out in the open, equitable, and easily administered.

I have to believe most shortline operators will respond to incentives to turn cars faster. However in every group there will be laggards. Recall the 75 small shortlines that still do not comply with event-reporting protocol. Similarly, there are shortline operators that view car hire relief as a right and who have not the slightest clue what that “right” costs.

Linking car hire reclaim and FSC sharing is not the necessarily the best solution, and my opinion on that has not changed. However, I am willing to concede that where shortline operators are not willing to clean up their car management acts there has to be a cost. The load lost for want of equipment is FSC revenue lost as well and there’s no reason to share FSC revenues earned with those who don’t contribute to the earning of those revenues.

Managing capacity – and creating more of it – continues to take center stage. Lately, some have chastised the rails for investing in capacity to accommodate intermodal trains when “everybody knows” it’s a low-margin business. Larry Kaufman nails them thus in JOC: “Investment in longer sidings and double-track projects makes the entire system more fluid and benefits all customers.

“When UP triple-tracked its main line across Nebraska, the rails didn’t know whether it was an intermodal, coal or mixed freight rolling over them. Similarly, CSX’s recently announced expanded capital-spending program may be primarily for intermodal, but the River Line on the west side of the Hudson between Albany, N.Y., and New Jersey terminals has many automotive and mixed freight trains among the intermodal trains.

“Railroading is a network business Relatively few facilities exist for just one line of business. Investment in one usually benefits all lines of business. It’s not an either/or situation.”

GWR October loadings were up by 11,718 carloads including 2,656 revenue loads from the Tazewell & Peoria Railroad which GWI started operating November 1, 2004, 2,057 loads from the First Coast Railroad which GWI started operating April 9, 2005, and 8,339 loads from the former Rail Management properties that GWR started operating June 1, 2005. That’s 13,052 added revenue units. The 1334 difference was mainly due a a fall-off in Louisiana sugar production and the effects of Hurrican Stan in Mexico, partially offset by more coal shipments in the US.

All in, during Oct GWR properties handled 66,418 loads with significant gains in pulp & paper, largely offsetting declines elsewhere. Paper is a biggie in the former RMC service area, so the acquisition was timely. Month-to-month changes have been running about one percent; YTD loads, including the acquisitions, are up 16.4%, however.

RailAmerica October loadings came in at 112,360 units, up 2.3% from 109,839 in October 2004. The acquisitions of the Fremont line in Michigan and the Alcoa roads net of the impact of the sale of the Arizona Eastern Railway in 2004, accounted for 2,206 of the carload increase. For the ten months ended October 31, 2005, total carloads increased 5.7% to 1,088,324 from 1,030,066 in 2004. Note that RRA excludes carloads it had last year on lines since sold. Not sure I agree. If you had a car last year, selling the line does not make it go away. Doing so skews the whole railroad results.

Looking at the whole carload picture, it's not bad. It's a nice bump up 4.5% from Sep 05, where that month as off 1.6% from August, in turn up 7% from July. The attached table shows the month-to-month swings to be wider at RRA than at GWR.

Re changes in trucking HOS rules, heavy truck user/light rail users often ask why they must pay RR demurrage when truckers don't charge detention. They will also say the trucker does his own unloading whereas the receiver has to use his floor staff to unload boxcars.

Logisitics gooroo Jim Giblin says, "Until about 18 months ago almost no one enforced the waiting time rules much less charged for delay and detention. This radical change in policy and behavior seems to have been prompted almost entirely by the first change in the HOS regulations. One bulk trucker I know started enforcing it on the smaller (easier) customers right away. But it was quite a struggle to get the larger national accounts under control.

"Would be curious to know if the companies you have observed were chronic offenders or rarely delayed drivers. Carriers are still allowing a limited amount of free time. The issue becomes what happens after the free time expires." Anybody?

Week 45 AAR volumes up 2.3% yoy in Week 45, writes Bear Stearns' Ed Wolf, in-line compared with the rolling six-week trend of 2.2% growth but below the YTD trend of 2.8% growth. Results in Week 45 were up y-o-y in 3 of 8 segments, led by intermodal, metal and coal. Leaders were NS, vols up 3.4% yoy, and BNSF, up 2.3% yoy *vs.* 6.0% growth last week and a 6-wk average of 4.1%. Total Class I grain loads were off 6.2% yoy, 2.7% in Week 44 and 0.3% Week 43.

Happy Thanksgiving. And if you're out and about, make it a safe trip. (No WIR next week; breaks for Thanksgiving and Christmas weeks are why WIR is a 50-week proposition.)

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GWR and RRA Revenue Units

2005 by month, YTD

	2004	2004	2005	2005	Change	Change	2005
RRA	month	YTD	month	YTD	Month	YTD	ch MTM
Jan	97,821	97,821	105,508	105,508	7.9%	7.9%	
Feb	95,506	193,327	106,256	211,764	11.3%	9.5%	0.7%
Mar	108,214	301,541	118,115	329,879	9.1%	9.4%	11.2%
Quarter	301,541		329,879		9.4%		
Apr	102,035	403,576	111,993	441,872	9.8%	9.5%	-5.2%
May	99,407	502,983	109,648	551,520	10.3%	9.6%	-2.1%
June	101,429	604,528	105,429	656,949	3.9%	8.7%	-3.8%
Quarter	302,871		327,070		8.0%		
July	104,662	709,190	102,158	759,107	-2.4%	7.0%	-3.1%
August	106,631	815,821	109,287	868,394	2.5%	6.4%	7.0%
Sep	104,406	920,227	107,570	975,964	3.0%	6.1%	-1.6%
Quarter	315,699		319,015		1.1%		
Oct	109,839	1,030,066	112,360	1,088,324	2.3%	5.7%	4.5%
Nov							
Dec							
GWR							
Jan	48,462	48,462	52,705	52,705	8.8%	8.8%	
Feb	49,291	97,753	53,316	106,021	8.2%	8.5%	1.2%
Mar	53,455	151,208	58,765	164,786	9.9%	9.0%	10.2%
Quarter	151,208		164,786		9.0%		
Apr	53,586	204,794	57,787	222,573	7.8%	8.7%	-1.7%
May	53,464	258,258	56,919	279,492	6.5%	8.2%	-1.5%
June	50,412	308,670	66,937	346,429	32.8%	12.2%	17.6%
Quarter	157,462		181,643		15.4%		
July	52,942	361,612	66,213	412,642	25.1%	14.1%	-1.1%
August	55,114	416,726	67,141	479,783	21.8%	15.1%	1.4%
Sep	53,736	470,462	65,734	545,517	22.3%	16.0%	-2.1%
Quarter	161,792		199,088		23.1%		
Oct	54,700	525,162	66,418	611,935	21.4%	16.5%	1.0%
Nov							
Dec							

Source: Company reports