THE RAILROAD WEEK IN REVIEW
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"We feel so strongly about locomotive and car velocity that we have changed our compensation program goals to reflect this focus." BNSF Feb 17 Customer Letter

Velocity with a Capital *VEE* is the name of the game at BNSF. Never have I seen so single-minded a focus on any goal on any railroad ever before. The difference here is that Matt Rose and Company know they have go out and *buy* capacity, and there are two ways to do it. You spend north of $2 billion a year on capex and new track and you make it worth your employees' while to accomplish the job in less time.

As to the first, capex, BNSF is buying capacity by double-tracking the entire 2200-mile former ATSF route between Chicago and LA. When they started the process in 1996 there were 43 single-track gaps to fill. As of last week there remained but five: two on the Oklahoma-Kansas border, three in New Mexico (Abo Canyon, Vaughan and Ft Sumner, home-gamers), and one near San Bernardino. That's only 53 miles out of 2200, but a visit to any one of the sites will tell you right away how much these spots can slow down the railroad. **V**elocity in other words.

As to the second, every BNSF paycheck has a velocity-related component in it. Agreement personnel see it in profit-sharing. Attorneys see it in how fast they can close property transactions. Engineers see it in how fast they can design a piece of track. As Matt put it in his remarks on the cars, "Chris Roberts (VP Ops-South) may be in charge of the railroad but I'm in charge of the time line. You say three months? Why not two?"

Steve Branscum, Group VP for Consumer Products (intermodal, auto, perishable carload) will tell you intermodal boxes represent 50% of BNSF's total revenue units and that 70% of BNSF revenue is derived from 30% of the route miles. And the BNSF loco fleet is being constantly renewed to the point where the average loco age is but 10 years vs. 16 at merger.

It's all about working smarter. Filling up the voids in stack trains, building trains for the distant mode and running to plan. It's about pricing the product to reflect value as perceived by the customer and winnowing out those customers that do not meet productivity thresholds – cutting free time in intermodal terminals to one day from two is the tip of the iceberg.

Merchandise carload shippers benefit as well because capacity enhancements driven largely by the phenomenal IM growth make *every* train run better. Anybody who doubts this ought to drive US 60 between Belen and Vaughn and see how BNSF dispatchers and crews keep everything moving. There's lots more to tell, so watch this space.

Studying their shoes. On the train last week we got to talking about why it is that when you say "railroad" so many people think you're talking about a dead industry. So imagine their surprise when you add that if they'd plunked down $16 a share for GWR last May they'd have doubled their money by now. Or go back to Sep 04 for a BNI double.

It is generally agreed the rails can do a lot better job selling themselves to the general public. Tell your seat-mate on an airplane ride that you're in railroads and the conversation either dies or the response has to do with the death of the railroads. Those of us on the inside know better, of course. Here's how one long-time WIR reader who is an investment professional puts it.

“A couple of nights ago I turned on the TV (I think it was the Discovery Channel) and there was a program on Shell oil rig workers trying to get the largest sea platform damaged by Hurricane Katrina back on line. It was an hour show and it just covered how they lifted the damaged drilling rig off the platform. At the end of the show they basically said that they had a long way to go to get the platform on line.

“The Discovery Channel and others like the History Channel and TLC do a very good job of presenting industries that do not get a lot of press coverage otherwise. But I kept thinking about how quickly the railroad companies in the New Orleans region recovered. It was a tremendous feat -- nothing short of miraculous. Railroads prepared themselves for the impending disaster, formulated a game plan and executed it. All levels of the government, infrastructure and utilities took so long to get things like highways, electricity, water etc up and running.

“Railroads have a story that needs to be told. The way that CSX, UP and the rest of the railroads moved men and machinery into the area and really attacked to get their infrastructure up and running. Not just disasters, either -- how about the BNSF maintenance blitzes on their mainline track? Closing down a mainline track for a small period of time to literally rebuild the track is American pride and ingenuity at its best. Everything is planned all the way down to the bottled water for the workers.

“The Discovery Channel and others have programs on machinery, especially American-made machinery. There are segments on locomotives, but American railroad equipment and machinery are the best in the world. There could be whole programs on modern railroad equipment and machinery, from hotbox detectors to track laying machines to dispatching centers.

“There are whole shows on railroad disasters and wrecks where they make it seem like it is an everyday occurrence and the conclusions always seems like railroad companies need to invest more. Railroads as an industry invest billions per year into their infrastructure. We have the best freight railroad system in the world. And the world is pretty competitive.

“I will get off my soapbox now. It is just that the railroad industry has many wonderful stories to tell. I invest heavily in railroad and railroad related industries. I look at things like operating ratios, cash flow, return on investment etc. But for me at the end of the day I invest because of the intangibles that don't show up on balance sheets and income statements, like the pride, dedication, and ingenuity of a BNSF or UP MOW worker, or the pride and craftsmanship of a car builder at Trinity Industries or Freightcar America. The dedication of these men and women are what drives profits and in turn stock prices. Other American industries like the auto industries continue to lose ground. But the railroad industry continues to improve.”

Last week’s paper barriers thread sparked some lively responses, as expected. What follows is a sampling from writers who know the industry and situation first-hand; none of this is from shortliners. To begin: “The colonies involved an investment by England. The short lines are the result of a *disinvestment* by the class Is. By ‘protecting’ the existing traffic for themselves through the use of paper barriers, the line-selling Class I ties an anchor around the neck of their business partner, and maybe around their own necks.”

Or “The rail industry will be better served in the long run if it dumps protectionism (translation: we don't want to have to compete for the business) and the age-old margin mentality that goes along with it. Competition won't kill the class Is, it will make them stronger and their artificial attempts through paper barriers and other means to lessen or avoid competition are in the long run, self-destructive.

And “The solution to the problem is for the class Is name their price to sell branch lines. That price must assume that the seller may indeed have to compete for the business in the future. Nobody can have their cake and eat it too. Moreover, the STB needs to take more draconian measures, insisting that there can be only one price for shortline sales and the price includes ‘freedom.’ I believe that the tracks are indeed a franchise and involve rights that must be safeguarded but the traffic does not belong to the class I; the traffic is not what is being sold because it is not the class Is’ to sell.”

Finally, “The most appalling point in your article isn’t so much that paper barriers exist as is the response of the ASLRRA. Is this group so afraid of the Class Is that they will make excuses for them? We aren’t talking about prized properties here. The railroads have done their due diligence and have decided the properties aren't worth keeping. If they were financially viable, these lines wouldn’t be for sale. So let’s get over the ‘diamond in the rough’ theories. Left to the Class I, the line would eventually be abandoned.”

And “How does either buyer or seller benefit in the long run by restraint of trade? If the buyer is to develop new business in areas where the Class I could not, he/she needs all the flexibility possible - not restrictive agreements. In this day and age, given the railroads’ haughty attitude toward customers, that means having competitive access to more than one Class I carrier. It seems to me that if a short line can build new business, the opportunity is greater for the selling Class I to have a shot at that business than not.”

Another makes the point that a new business enterprise on any shortline “could have been located, instead, on a competitor's line and the selling road never have seen it. Let the market determine who gets the business. Look at the success of roads like California’s MET. Shortlines as a group are the Class Is’ single biggest customer. They need to start acting like it.”

Thus one can see the paper barrier argument is just getting started. The Class I approach to “new business” as defined by the joint AAR-ASLRRA Railway Industry Agreement and amplified by the Railway Industry Working Group varies by Class I and by commodity group within the Class I. My feeling remains that these matters ought to be resolved in private between the parties but for that to happen there needs to be stronger leadership on all fronts.

Shortline car counts always seem to increase at a faster rate than on Class Is, and aggressive customer advocacy is one reason. Once again, let me turn to my friends at Pennsylvania’s North Shore Rail Group. The photo below shows what can be done with a good understanding of a customer’s supply chain needs.

Marketing Director Todd Hunter writes, “The NSHR Track gang has started construction of the new switch off of the NSHR main line that will connect the existing spur into Brand Mills on the opposite end. This will provide for not only additional car capacity for Brandt Mills siding, but make switching operations much more flexible for NSHR train service. This is a PA DOT RFAP funded project. Brandt transloads inbound wheat at this location. Photo is looking west.

“As a flour mill, Brandt Mills has had significant growth over the years. They started out with a simple farm tractor-powered conveyor and team track transload operation with a sixth of today’s volume. Now it has grown into the modern enclosed facility in the background of the photo. Another concrete pad is available for yet another storage bin at this facility. They bring in different kinds of wheat (red, spring, winter, etc.) from eastern Canada, the Dakotas, and other locations that are sources of wheat.

“Car counts have more than doubled since 2000 and CP access to eastern Canada has been a plus for this customer. Once this new siding extension is done and the new yard track is built (or re-installed rather) in Berwick yard using our CMAC grant in hand, NSHR will be able to handle large blocks of 25 cars or more at one time for this customer.”

Readers will note that much if this week’s letter is reader-written. There’s a reason for it. You usually get opinion and feedback filtered through my eyes, ears and fingers. But on topics like paper barriers I think it’s better to give as good as I get. Paraphrasing takes out the original writers’ passion for the topic and what’s the benefit in that? None, as far as I can tell.

New switch and siding extension at Brandt Flour Mills transload facility in Lime Ridge, PA on NSHR. MP 181.7.