The Challenges Facing Ontario's Short Lines

One of the key challenges for Ontario's short lines today is the need to upgrade their tracks to accommodate the North American main line standard of 130,000 kg. for loaded rail cars. This standard is employed by the Class I railways with which Ontario's short lines must connect and interchange cars moving to and from local shippers on their lines.

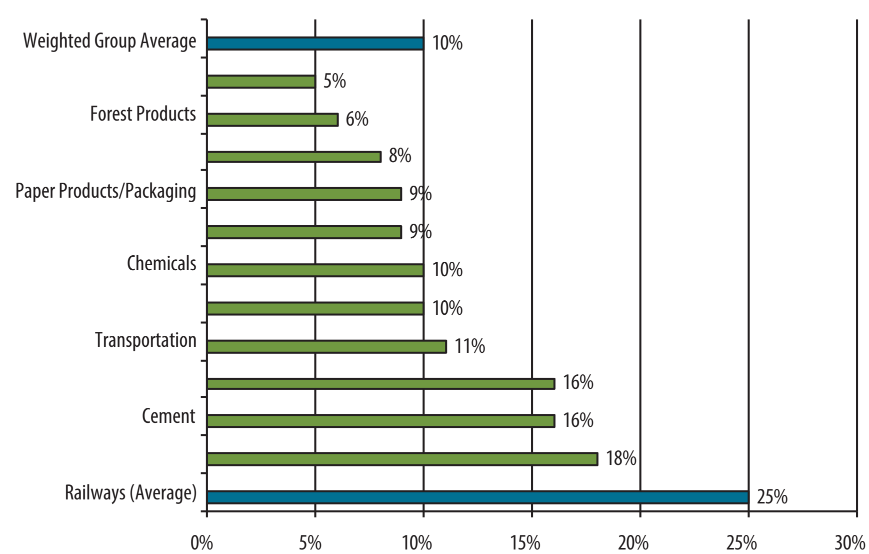
The light rails and bridges on these short lines are holdovers from the days when these lines were low-density components of the Class I rail systems. This results in weight restrictions that require cars to be loaded to less than their full limits, thus leading to the use of more cars than necessary and imposing operational and economic inefficiencies on the short lines and their shippers.

Ontario's short lines are currently at an economic disadvantage compared to other forms of transportation. Rail is one of the most capital intensive industries in Canada. On average, the industry allocates 20 per cent of revenue to capital spending and renewal.

As opposed to trucking and other forms of transportation that enjoy considerable indirect support through access to publicly-funded infrastructure for non-compensatory user fees, Ontario's short line railways are fully responsible for their own financing and construction, maintenance, security and operations. They also pay taxes on their rights-of-way, which they must maintain through the profits they generate.

Due to light traffic and revenues, as well as large operating expenditures, Ontario's short lines have operating ratios of 92 per cent, leaving only 8 per cent of revenues for capital replacement and the generation of a return on investment. This is less than one-third of the 25 per cent required to ideally meet the entire rail industry's normal level of capital expenditures.

PERCENTAGE OF CAPITAL SPENDING TO REVENUES



Source: Globe & Mail

Despite these high operating ratios, Ontario's short lines have invested heavily in restoring the deteriorated lines they purchased or leased from the Class I railways, which had deferred maintenance on these light-density lines for many years prior to their sale or lease.

Maintaining and improving this infrastructure is costly and many short lines are routinely facing costs of \$200,000 to more than \$5 million annually just to keep rolling. New ties can cost \$65 or more apiece. Replacing the light rail inherited in the takeover of these lines, which will not accommodate 130,000-kg freight cars, can easily cost half-a-million dollars per kilometre.

Simply maintaining the infrastructure for current operations – let alone capacity expansion to handle the heavier rolling stock – is beyond the financial capabilities of some short lines. One result is a reduction in their operating speeds. Lower speeds hinder overall performance and have subsequent effects on the whole supply chain, which has negative implications for rail-dependent industries and Canada's economic competitiveness.

The inability of many short lines to commit the full funding from revenues that would allow them to decisively bring their infrastructure up to the new North American standards is jeopardizing their long-term viability and that of the industries they serve. Several short line-served Ontario industries have stated they would have to reconsider the location of their facilities if they were deprived of their rail service, which contributes to their cost competitiveness.