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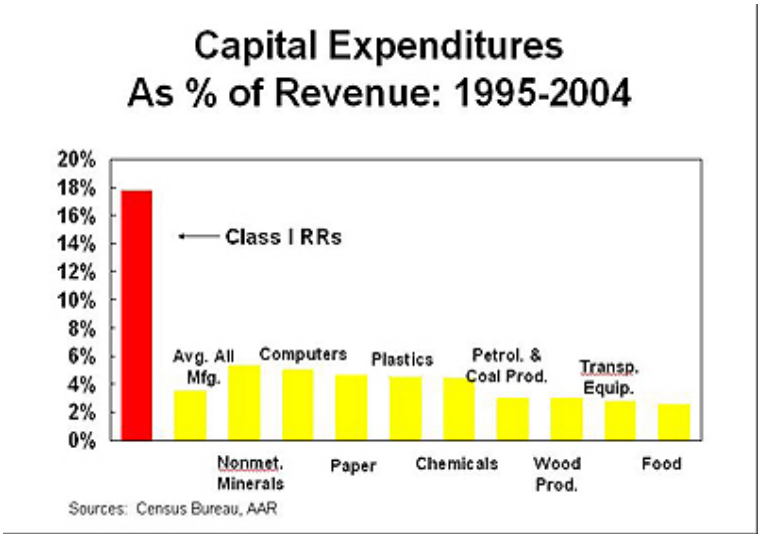
Major Freight Railroads to Invest $8 Billion in Infrastructure

U.S. Class I freight railroads (BNSF, CSX, CN, CPR, KCS, NS, and the UP) will spend more than $8 billion in 2006 laying new track, buying new equipment and improving infrastructure, the Association of America Railroads (AAR) announced. The industry's capital expenditures budget is a 21% increase from last year and shatters the previous record for infrastructure spending in one year.

"These massive investments by the Class I railroads will translate into jobs, increased productivity for the railroads, additional capacity and better service for our customers," said Edward Hamberger, president and CEO of the AAR. "A growing economy means more freight traffic on the highways, on the waterways and on the rails. These investments are critical to keep pace"



Read the entire article:
www.aar.org/Index.asp?NCID=3582

Congress to Address Perceived Lack of Rail Competition

Congress is considering measures to address a perceived lack of competition throughout the rail industry -- particularly for rural customers who have access to only one railroad.

U.S. Sen. Craig Thomas and Rep. Barbara Cubin, R-Wyo., each are co-sponsoring bills aimed at preventing rail monopolies and unreasonable shipping rates that disadvantage "captive customers." Thomas is supporting S. 919, the "Railroad Competition Act." Cubin is a co-sponsor of HR 2047, the "Railroad Competition Improvement and Reauthorization Act."

In addition to S. 919 and HR 2047, the Railroad Antitrust and

Growing concern about limited rail competition

Competition Act seeks to strip away antitrust exemptions for railroads. Concern about limited rail competition seems to be growing among representatives of rural utilities and agricultural regions, but it's unclear how well the support for the proposed bills will measure up to the historic superpower of the railroad lobby.

"In the interest of the railroad, the cost of idle train time is greater if you're loading and unloading trains for a relatively short distance," Price said. "On the other hand, if you load a train and it ends up in Topeka, Kansas then you're using the rail relatively efficiently."

Watch for Congress to make decisions accordingly.

Article Adapted from:
http://railroadnews.net/news/3-21.html

Standard Operation Procedure for Installation of Remote Monitoring Equipment

The installation design and location of any RME must be approved by the E.E.C.

On April 1, 2006, the AAR will adopt S-2045, a standard that will establish requirements for the identification, location and installation of remote monitoring equipment (RME) on rail cars and/or their lading. The goal of this standard is to provide guidance for the placement of remote monitoring equipment on the exterior of a vehicle, load, or lading in the least conspicuous location as practicable in order to minimize undue concern to train crews, shipper personnel, consignees, emergency responders and the general public, while meeting the rail industry's goals of safe and secure transportation.

UMLER/EMIS registration of mounted remote monitoring device is mandatory.

In this standard, the term Remote Monitoring Equipment (RME) applies to any device applied to a railcar or its lading that transmits a signal or records data that can be received by a remote receiver or retrieved at a later time by a carrier, shipper or other entity. This may be data related to ride quality, geographic location, temperature/condition of the load, load/empty status, etc.

This standard applies to all railcars and/or their lading in interchange service. Only equipment installations that meet this standard may be used in interchange service.

Equipment attached to freight cars (car body, truck, or other appurtenances) or to open top loads are included. This includes devices attached, installed, or utilized inside freight cars or on the car body or structure.

A request for approval of installation design and location must be submitted to the AAR. Results must be presented in an organized manner for review by a qualified engineer appointed by the Equipment Engineering Committee.

Contact the AAR for more information at:
www.aar.org

STB Updates

STB to Hold Hearing on Fuel Surcharges

The Surface Transportation Board has announced that the agency will hold a public hearing May 11 on the subject of fuel surcharges collected by railroads.

The agency will hold the hearing to provide a forum for the expression of views by rail shippers, railroads, and other interested persons, on the manner in which fuel surcharges are calculated and charged by railroads.

The cost of fuel is a significant component of the operating costs of providing rail service, and railroads can reasonably be expected to devise methods to collect increases in those costs from their shippers, the STB said. But, it added, some rail shippers have claimed that recent fuel surcharges collected by railroads are designed to recover amounts over and above increased fuel costs.

Read the entire article:
www.aar.org/Index.asp?IACID=3584

STB Adopted 2006 User Fee Schedule

STB user fee effective April 19

The Surface Transportation Board (STB) recently adopted its 2006 user fee update schedule for processing various transportation financial transactions and other proceedings. Effective April 19, the 2006 update enables the board to offset expenses and reflect changes to overhead costs.

STB fees to cover a portion of its budget

The 2006 update maintains the same 127 fee or sub-fee items from the STB's 2005 user fee update. However, 67 items will increase, ranging from a 10 cent hike for one fee item and $1 for seven items to a $38,600 hike for processing a maximum coal case under the coal-rate guidelines and a $40,700 increase for major financial transactions. Of the 67 items, 28 will increase $100 or less and 39, by more than $100.

The 2006 update complies with a congressional directive included in the FY2006 transportation appropriations legislation that the STB raise $1.25 million in fees to cover a portion of its budget.

Read the entire article at:
http://www.stb.dot.gov/decisions/readingroom.nsf/WebDecisionID/36775?OpenDocument

Railroad Traffic

Total rail volume for the first ten weeks of 2006 was up 2.0 percent from last year.

The Association of American Railroads (AAR) reported that Intermodal traffic on the nation's railroads was up 8.8 percent while Carload volume was down 1.5 percent during the week ended March 11 in comparison with the corresponding week last year while total freight volume for the week was estimated at 33.1 billion ton-miles, down 0.3

Crushed stone, sand & gravel, and food products showed increased carload gains in February

percent from last year.

In February, commodities showing carload gains included crushed stone, sand, and gravel (up 5.7 percent; metals and metal products (up 2.7 percent); and food products (up 4.0 percent).

Commodities showing carload decreases in February included nonmetallic minerals (down 30.9 percent); motor vehicles and equipment (down 7.4); coal (down 1.1 percent), and coke (down 16.8 percent). Carloads of grain fell 1.3 percent and carloads of chemicals fell 1.8 percent.

Railroads are working hard to keep their operations fluid and reliable

"February 2005 was a particularly strong month for rail traffic, making it a tough month to beat even without the winter storms that negatively affected rail traffic in February 2006," noted AAR Vice President Craig F. Rockey. "Railroads are working hard to keep their operations fluid and reliable in preparation for continued traffic growth."

Visit the AAR at:
http://www.aar.org

Industrial Inside

Sand and Gravel output increased 1.6 percent in 2005

Domestic sales of industrial sand and gravel in 2005 increased by about 3 percent, compared with 2004, citing "a robust construction sector of the U.S. economy" as the reason. The estimated output of construction sand and gravel in the 48 conterminous states that was shipped for consumption in the first nine months of 2005 was about 941 million metric tons, a slight increase from the revised total for the same period in 2004.

Specific to the aggregates industry, construction sand and gravel output increased to about 1.26 billion tons, about 1.6 percent more than that of 2004. An estimated 3,900 companies from approximately 6,300 operations throughout the United States produced construction sand and gravel, valued at $7.2 billion. About 53 percent of the 1.26 billion tons was for unspecified uses.

2006 domestic production and consumption expected to increase to 1.28 billion

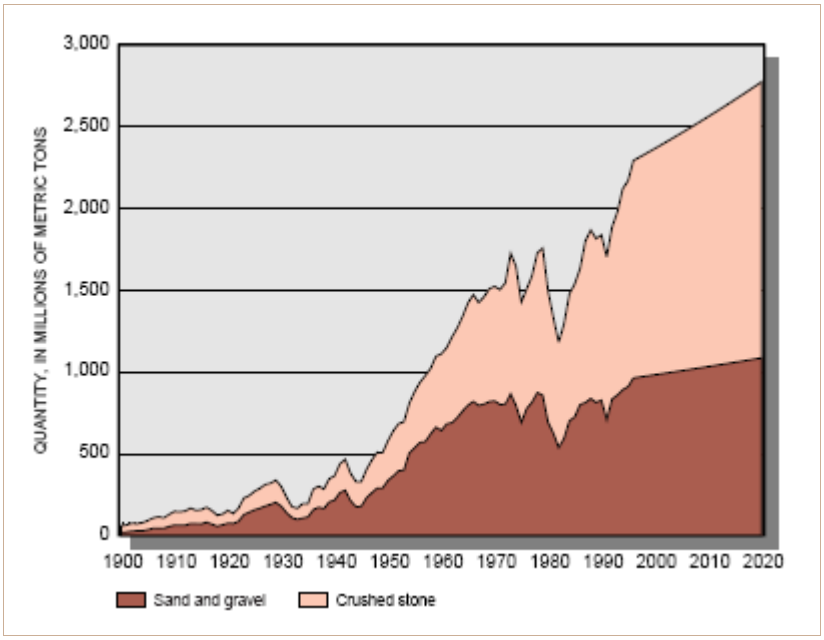
The U.S.G.S. estimates that 2006 domestic production and U.S. apparent consumption will increase slightly to about 1.28 billion tons each. Aggregate consumption is also expected to continue to grow slowly in response to a growing economy and outlays for road and other construction. "Most areas of the country will likely experience increased sales and consumption of sand and gravel." And although most areas of the United States will likely experience increased sales and consumption of sand and gravel, crushed stone has been replacing natural sand and gravel, especially in more densely populated areas of the Eastern United States.

During the past 25 years, production of crushed stone has increased at an average annual rate of about 3.3 percent. Production of sand and gravel, which until 1974 exceeded that of crushed stone, has increased

Production of crushed stone expected to increase more than 20 percent by 2020

at an annual rate of less than 1 percent. By using very conservative assumptions, projected trends in the production of crushed stone and sand and gravel are at an average annual growth rate of 1 percent and 0.5 percent respectively.

Based on these assumptions, by 2020 U.S. production of crushed stone, which is expected to increase by more than 20 percent, will be about 1.6 billion metric tons, while production of sand and gravel will be just under 1.1 billion metric tons, an increase of 14 percent.

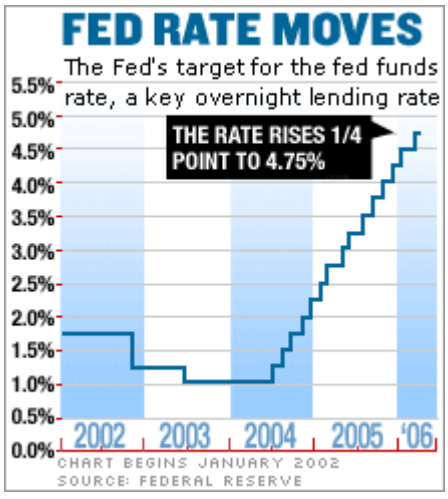


Credit: U.S. Geological Survey

Article Adapted from:
http://www.pitandquarry.com/pitandquarry/article/articleDetail.jsp?id=312696
and **http://nationalatlas.gov/articles/geology/a_aggregates.html#two**

Financial Focus

Federal funds rate highest its been in 5 years at 4.75 percent



The Federal Reserve raised a key short-term interest rate a quarter of a percentage point March 28 for the fifteenth consecutive time since June 2004.

The target for the federal funds rate is now 4.75 percent, the highest in five years. This overnight bank lending rate affects rates consumers pay on auto and home-equity loans, as well as other types of debt.

In its widely watched statement, the Fed indicated that more rate hikes may be necessary in the next few months. "Some further policy firming may be needed to keep the risks to the attainment of both sustainable

Federal funds rate expected at 5.25 percent by June

economic growth and price stability roughly in balance," the central bank's policy-makers said in their statement.

Another Fed rate hike in May is widely expected, and some economists are saying the central bank will raise short-term rates yet again when its policy-makers meet in June, taking its key short-term rate target to 5.25 percent.

We'll continue to watch the feds as the decision they make influence the decisions that businesses make.

Learn more at:
http://money.cnn.com/2006/03/29/news/economy/economy_outlook/index.htm

The Edge

I recently ordered my Railroad Ten-Year Trends 1995 – 2004 from the Association of American Railroads to get a better feel of how the industry has changed over the past decade. In reviewing the trends, I learned a few things that I'd like to share with you. The intent of this article is to simply set the stage of how the railroad industry has changed over the past ten years on a macro basis as well as to provide you with a feel of how those trends are playing out so that you may be better prepared for the future.

To start, take a look at overall freight revenue growth from a macro basis. When one looks at the early years, one can easily notice what Wall Street was complaining about. Growth of the top line paled for many years with very little overall increase year over year resulting in a very stagnant top line. Only until recently have the railroads kicked it in gear and started significantly increasing their pricing position.

Freight Revenue

Year	Class I	Regional	Shortline	Switch	Total
1995	$31,356	$ 1,550	$ 812	$ 624	$34,342
1996	$31,889	$ 1,542	$ 809	$ 663	$34,903
1997	$32,322	$ 1,611	$ 852	$ 564	$35,349
1998	$32,247	$ 1,586	$ 856	$ 606	$35,295
1999	$32,680	$ 1,765	$ 860	$ 588	$35,893
2000	$33,083	$ 1,743	$ 822	$ 634	$36,282
2001	$33,533	$ 1,576	$ 884	$ 586	$36,579
2002	$34,110	$ 1,303	$ 915	$ 593	$36,921
2003	$35,413	$ 1,352	$ 906	$ 597	$38,268
2004	$39,131	$ 1,410	$ 984	$ 635	$42,160

* millions

After observing the early years in freight revenue growth and than adding in originated carloads, one can easily tell that early on the game was one of market share. Although carload growth wasn't rampant, it's evident that there was a struggle with who was going to handle the traffic at rates of more for less. Also evident is the trend for Regional, Shortline and Switch carriers; the beginning of the hook and haul transition for Class I Railroads.

Carloads Originated

Year	Class I	Regional	Shortline	Switch	Total
1995	23,726	1,972	1,710	1,269	28,677
1996	24,159	2,039	1,603	1,510	29,311
1997	25,016	1,953	1,642	1,309	29,920
1998	25,705	2,173	1,849	1,722	31,449
1999	27,096	2,152	1,897	1,280	32,425
2000	27,763	2,174	1,712	1,352	33,001
2001	27,205	1,924	1,698	1,123	31,950
2002	27,901	1,729	1,749	1,050	32,429
2003	28,870	1,610	1,715	1,081	33,276
2004	30,095	1,399	1,775	1,102	34,371

* thousands

Now take a look at the dollars per originated carload statistic. What's interesting here is the early on erosion of dollars per originated carload for a significant time period. One can also see the advent of unit train pricing versus carload pricing.

Dollar (s) per Originated Carload

Year	Class I	Regional	Shortline	Switch	Total
1995	1.32	0.79	0.47	0.49	1.20
1996	1.32	0.76	0.50	0.44	1.19
1997	1.29	0.82	0.52	0.43	1.18
1998	1.25	0.73	0.46	0.35	1.12
1999	1.21	0.82	0.45	0.46	1.11
2000	1.19	0.80	0.48	0.47	1.10
2001	1.23	0.82	0.52	0.52	1.14
2002	1.22	0.75	0.52	0.56	1.14
2003	1.23	0.84	0.53	0.55	1.15
2004	1.30	1.01	0.55	0.58	1.23

* thousands

However to get a complete picture you also need to take a look at how railroad ownership has changed. What we're seeing in the Miles of Road Owned chart is the railroad rationalization model at work.

Miles of Road Owned

Year	Class I	Regional	Shortline	Switch	Total
1995	105,441	12,662	14,316	4,223	136,642
1996	103,340	13,837	14,577	4,361	136,115
1997	99,516	14,643	14,844	4,358	133,361
1998	97,932	14,509	15,045	4,324	131,810
1999	88,849	14,473	14,142	4,563	122,027
2000	88,485	13,904	14,029	4,532	120,950
2001	87,360	13,200	14,308	4,302	119,170
2002	89,912	10,663	13,404	3,744	117,723
2003	88,954	11,411	13,075	3,827	117,267
2004	95,111	11,428	13,338	3,471	123,348

* thousands

The next interesting phenomenon is how pricing overall has changed from a density perspective. The rationalization of lower producing rail lines and concentration on dense

corridors has resulted in steady freight revenue per mile of owned road increasing steadily over the past decade. What is interesting is the steady and mostly continuous growth in this statistic.

Freight Revenue per Mile of Owned Road

Year	Class I	Regional	Shortline	Switch	Total
1995	$297.38	$ 122.41	$ 56.72	$147.76	$251.33
1996	$308.58	$ 111.44	$ 55.50	$152.03	$256.42
1997	$324.79	$ 110.02	$ 57.40	$129.42	$265.06
1998	$329.28	$ 109.31	$ 56.90	$140.15	$267.77
1999	$367.82	$ 121.95	$ 60.81	$128.86	$294.14
2000	$373.88	$ 125.36	$ 58.59	$139.89	$299.98
2001	$383.85	$ 119.39	$ 61.78	$136.22	$306.95
2002	$379.37	$ 122.20	$ 68.26	$158.39	$313.63
2003	$398.10	$ 118.48	$ 69.29	$156.00	$326.33
2004	$411.42	$ 123.38	$ 73.77	$182.94	$341.80

* thousands

The overall trends, as best I can tell, are better aligned for railroad stock holders than ever before. My take on this set of statistics is that railroads are being tasked (and rewarded) for growing volume strategically, increasing rates on volume based movements to the point they'll still move but are now more reflective of all available market differentials, investing wisely in corridors that best fit the traffic patterns that will support these objectives and continuing to rationalize infrastructure that will best meet their overall plan.

We look forward to earning your business!