Touchbase

August 2006

In This Issue

- Railroad Updates
- AAR Updates
- Railroad Traffic
- Industrial Inside
- Financial Focus
- The Edge

Visit us at:
www.tealinc.com

UP to provide service at industrial park only with valid Track Agreement

"Peak Season" Service plans should assist freight rail users in planning for the upcoming season

Railroad Updates

The Union Pacific to Implement New Track Agreement

Effective August 1, 2006, Union Pacific will begin the process of formally invoking its right to provide rail service at an industrial track, whether privately or railroad-owned, only if the UP has an active and valid Track Agreement with the rail-served customer indicated on the Bill of Lading as the shipper, consignee or care of party.

In their initial implementation, the UP will actively enforce this requirement for all shipments to and from a new location. Union Pacific defines a new location as:

1. A customer who is shipping or receiving freight for the first time on Union Pacific
2. An existing customer shipping to/from a location on Union Pacific for the first time

Both definitions include shipments to or from either a new or existing facility that may have been served by Union Pacific in the past. The UP anticipates phasing in this requirement for all Union Pacific customer locations in the future.

To read the entire notice, go to:
http://www.uprr.com/customers/ind-dev/track_agreement.shtml

STB Releases Railroads' 2006 "Peak Season" Service Plan

Surface Transportation Board Chairman W. Douglas Buttrey released the responses of the Class I railroads (the Nation's largest) to his June 28, 2006 letter requesting information on the railroads' "peak season" service plans.

Buttrey's June 2006 letter to the chief executive officers of the seven largest railroads and to the American Short Line and Regional Railroad Association (ASLRRA) asked the railroads to inform the STB of their plans to ascertain the demand for, and to prepare for, the provision of peak-season service; their performance goals for the remainder of 2006 and their plans for achieving those goals; and their plans to communicate their service goals and plans with customers.

Chairman Buttrey said:

> "…the information in these responses should assist freight rail users in planning for the peak season… In the current climate of rapidly increasing demand for rail service, the railroads indicate that they expect to handle this year's peak season with reasonable efficiency. In this regard, the railroads report significant capital investments in facilities and equipment, focused operational planning to enhance their performance

metrics, increased hiring and training of employees, and regular communication with customers."

Visit the STB for a link to all the Peak Season at:
http://www.stb.dot.gov/PeakLetters1.nsf/2006?OpenPage

AAR Updates

Freight traffic expected to increase 67 percent in the next 15 years

A bill introduced in the Senate on July 26 will help expand freight rail capacity and begin to prepare the nation's transportation infrastructure for the coming surge in freight traffic, predicted to increase 67 percent in the next 15 years.

The bipartisan "Freight Rail Infrastructure Capacity Expansion Act," introduced by Senators Trent Lott (R-MS) and Kent Conrad (D-ND), would provide a 25 percent tax credit for any business investing in new rail track, intermodal facilities, rail yards, locomotives or other rail infrastructure expansion projects. Railroads, ports, shippers, trucking companies and other transportation-related businesses would be eligible for the credit.

Legislation proposed to provide a 25 percent tax credit to any business investing in new rail track, Intermodal facilities, rail yards, and infrastructure expansion projects

"We must expand our transportation capacity to keep our nation's competitive edge in today's global economy. We can no longer build our way out of this problem by expanding highways. Freight rail must be included in the public policy solution." Edward R. Hamberger, president and CEO of the Association of American Railroads said.

"The highway system is increasingly congested, and the social, economic and environmental costs of adding new highway capacity are prohibitively high in many areas," states the AASHTO report, which found the benefits of rail infrastructure tax incentives would far exceed the cost. "Making these investments and realizing these benefits will require a new partnership among the railroads, the states, and the federal government."

"Unless we want to see our nation's highways get more congested than they already are, we have to find a way to move more freight on rail, and this legislation will go a long way toward accomplishing that goal," said Hamberger.

Read the entire article at:
http://www.aar.org/Index.asp?NCID=3801

Railroad Traffic

With coal and intermodal traffic again leading the way, U.S. railroads reported strong traffic gains in June

Rail performance regarding coal traffic was highlighted by AAR Vice President Craig F. Rockey in July. "By transporting more coal in June and the second quarter of 2006 than any prior month or quarter on record, railroads have successfully enabled electric utilities to both meet the surge in demand for coal-fired generation (due in large part to high natural gas prices) and, at the same time, return utility stockpiles to more robust levels after they had been systematically reduced by utilities over prior years."

Overall, U.S. railroads originated 1,381,947 carloads of freight in June 2006, up 47,167 carloads (3.5 percent) from June 2005. U.S. railroads also originated 979,501 intermodal units in June 2006, an increase of 68,130 trailers and containers (7.5 percent) over June 2005.

June loadings of coal, grain, metal products up; non-metallic minerals, metallic ores, and chemicals down.

Nine of the 19 major commodity categories tracked by the AAR saw carload increases in the U.S. in June 2006 compared to June 2005, led by coal (up 7.8 percent). Other increases included grain (up 9.9 percent and metal products (up 15.9 percent). Commodities showing carload declines in June 2006 included nonmetallic minerals (down 19.5 percent); metallic ores (down 14.9 percent); and chemicals (down 2.9 percent).

For the first half of 2006, total U.S. rail carloads were up 1.5 percent as year-over-year increases in coal (up 4.2 percent) and crushed stone, sand, and gravel (up 6.0 percent), among other categories, offset declines in nonmetallic minerals (down 22.6 percent) and chemicals (down 2.5 percent), among others.

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

Industrial Inside

Spring wheat production likely will fall below USDA projection

According to the Supply and Demand Report released by the USDA on July 12, production for 2006-07 spring wheat and durum crops decreased from a year ago.

Recent price strength offers an opportunity to make additional sales of 2006 spring wheat and some 2007 spring wheat. Spring wheat prices are in the upper part of the historical price range, exceeding the relatively strong 2002 highs.

According to a June 30 USDA acreage report, farmers planted 5 percent more spring wheat acres than March intentions and 4 percent more than a year ago while winter wheat-planted acres were up 2 percent from a year ago, but harvested acres were down 8 percent The spring wheat yield was pegged at 32.9 bushels per acre versus 37.1 last year.

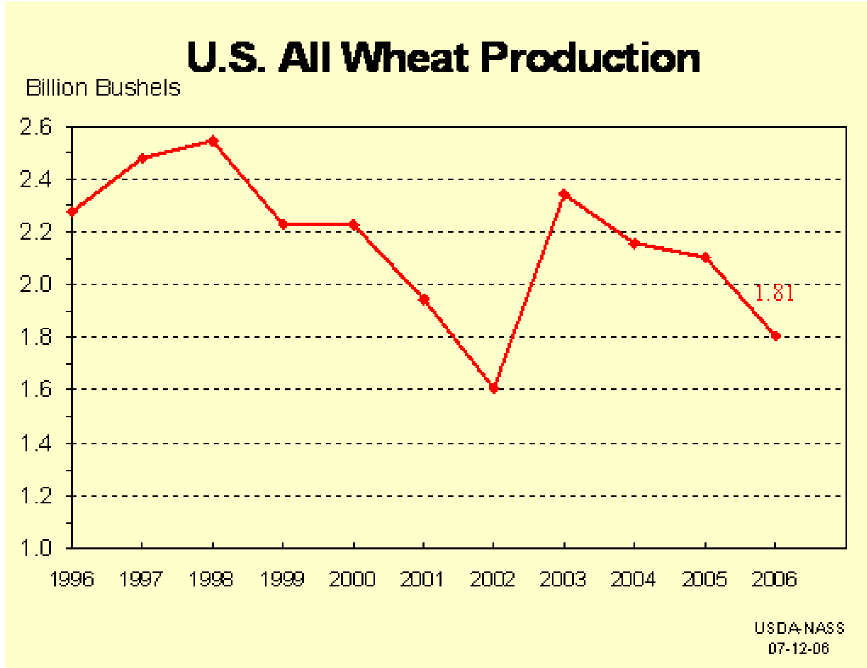
Domestic use and wheat exports projected to be down from 2005

While domestic use of all wheat was reduced 5 million bushels from last month and 13 million from a year ago, wheat exports were projected to be down 104 million bushels from a year ago (same as last month), soft red winter exports were projected to be up 44 million but spring wheat exports may be further reduced if production decreases.

Hot and dry conditions will likely further reduce crop size

Expect production and use of wheat to fall further as the summer heat is realized by many farmers

Economic growth significantly slower in second quarter 2006



http://www.nass.usda.gov/Charts_and_Maps/Field_Crops/awprod.asp

On a worldwide scale, ending stocks of wheat for 2006-07 have increased 5 million metric tons (mmt.) from a month ago and are expected to be 12 mmt. below a year ago. The drop largely reflects a decrease in production of 17 mmt. Other changes relative to a year ago include carryover that was down 6 mmt and domestic use that was down about 11 mmt. Ukraine's production was up 2 mmt from a month ago, but was still 30 percent below last year. China's production was up 7.5 mmt from a month ago, which was about the same level as a year ago.

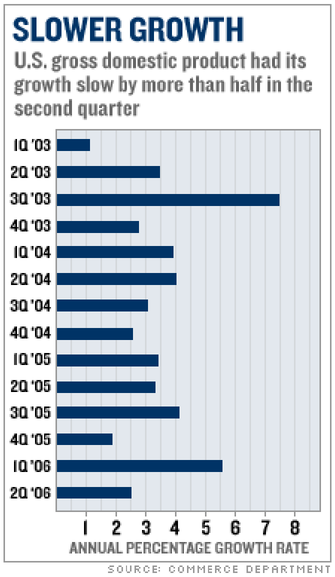
Hot and dry conditions will likely further reduce crop size, especially for spring wheat. Expect production and use to fall further as the summer heat is realized by many farmers.

For more information visit:
http://www.farmandranchguide.com/articles/2006/07/24/ag_news/markets/market08.txt

Financial Focus

According to a government's report, the nation's economic growth slowed significantly in the second quarter of 2006, raising expectations that the Federal Reserve won't raise interest rates again at its August 8th meeting.

The gross domestic product, the broad measure of the nation's economic activity, grew at a 2.5 percent annual rate in the three months ended in June, according to the Commerce Department's initial reading for the period. That's down from the 5.6 percent growth rate in the first quarter. The GDP report included some closely watched inflation measures. The overall price deflator rose at a 3.3 percent



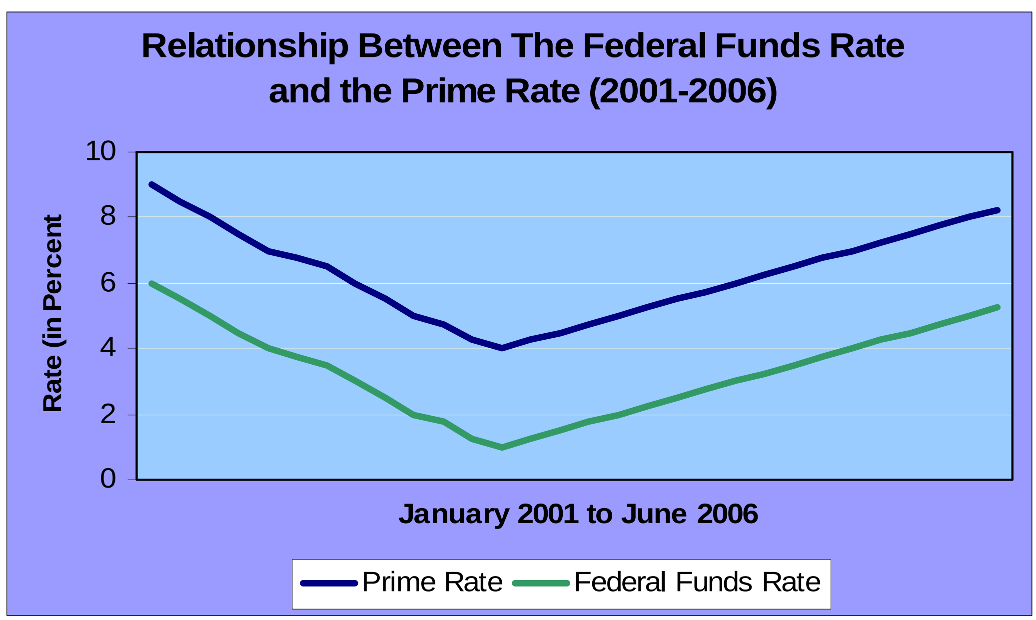
August 8th Federal Reserve Meeting with undoubtedly affect many business activities

annual rate, up from the 3.1 percent reading in the first quarter, but below forecasts of a 3.4 percent rise.

Still there are concerns about inflation that could keep the Fed raising rates to keep prices in check. Economist Bob Brusca of FAO Economics said that he believes inflationary pressures in the report are high enough to keep the Fed hiking rates. He said that weak business spending on capital investment is greatly responsible for the weaker than expected results, and that with corporate earnings staying strong, that is likely to bounce back.

"What you have right now is a technical slow down. It's a strong first quarter followed by weaker second quarter," said Brusca. "The core PCE is nearly 50 percent over the top of their inflation limit. It's clear Bernanke would like to pause, but I don't see how they can and still keep their credibility."

Undoubtedly, the Fed's decisions to stay still or to raise rates again in the August meeting will affect your businesses bottom line. On June 29, 2006 the Federal Open Market Committee (FOMC) of The Federal Reserve raised its target for the benchmark Federal Funds Rate by 25 basis points (0.25 percentage point) to 5.25% and to reflect this rate hike, the Wall Street Journal Prime Rate (the U.S. Prime Rate) was raised to 8.25%. The relationship between the Federal Funds Rate and the Prime Rate is worth knowing considering that rates raised in the coming year will affect how you conduct many aspects of your business.



Watch for news on the Federal Reserves next meeting to see where the Prime Rate is headed.

Learn more at:
www.money.cnn.com/2006/07/28/news/economy/gdp/index.htm

The Edge

Revise your transportation models and re-evaluate the inputs!

Here at Tealinc we like to do mid-year evaluation of our business and the industry as they are benchmarked against where we thought we should be as well as where we thought the industry should be at this time of year.

Our conclusions are probably like many people reading this newsletter.

> *The cycle of high railcar and locomotive lease and purchase prices have continued longer than we thought.
> *Rail transportation rates continue to climb higher and quicker than we thought as more contracts move to either tariff or quotes.
> *Service is as we expected- not good, not bad but with localized hot spots of excellent to down right poor occurrences yet, believe it or not, we are seeing positive movement whereby shippers and railroads (in certain instances) are becoming more strategically aligned in their goals and objectives.

We're not sure what your 2006 beginning-year models are saying, but with the macro swings that are underfoot in the transportation industry we advise everyone to revise their transportation models and re-evaluate the inputs. Take a hard look at any long term contract rates that you have expiring in the next 12-18 months and expect them to go up 10-40%. Railcar and locomotive lease rates are up 20 – 100% depending on the railcar and locomotive type condition and general market demand. Railroads are also tightening up accessorial charges so review your capital expenditure programs and take a hard look at those capital improvements that expedite loading or unloading of your commodity and the movement of railcars in your yard. Last continue to work on strategic alignments.

We've helped in numerous cases where shippers, receivers and railroads have reach consensus and allowed a piece of business to survive profitably for all. This isn't always the case but win-win really works (we didn't say happy-happy, usually everyone is equally dissatisfied.)

If we can be of assistance please don't hesitate to call on us.

We look forward to earning your business!