Touchbase

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In This Issue

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

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Railroad Updates

BNSF Introduces New Private Equipment Registration System, Effective January 2

On November 13, 2006, the BNSF Railway introduced a new Private Equipment Registration System. This system is being implemented to ensure that all private cars meet railroad safety standards and to allow for planning of future infrastructure needs. Effective January 2, 2007, the registration will also serve as the OT-5 authority for those cars which are subject to OT-5.

- All owners/lessees/shippers of private cars will be required to register their private cars by using a newly developed web-based registration system. Registration is required for equipment loading on the BNSF.
- As a condition of registration, BNSF will request basic car information to ensure all cars are in compliance with AAR and BNSF safety and mechanical standards. Registration will not be accepted on any car not meeting these standards and this equipment will not be allowed to move on BNSF property.
- The registration process will allow BNSF to better plan for future capacity expansion and additional resources that may be needed to provide the best possible service to our customers.

Click here to learn more

UP Announces Price Changes to Ensure an Acceptable Generation of Return on Investments

Union Pacific Announces Transportation Rate Adjustments

UP continues to invest heavily in its rail network in order to provide "reliable and efficient service" to their customers and are on track to invest $2.8B in capital for 2006 and expect to increase their capital spending by 14% in 2007 to a record level of $3.2B. Because these are record levels of capital investment, the UP recognizes that it must review and adjust their transportation rates to ensure that they generate an acceptable level of return on their investments so that they are able to maintain and expand their extensive infrastructure. As a result, on November 20, the UP announced that price changes in the following categories will become effective January 1, 2007.

- Metals
- Minerals & Construction Products
- Paper
- Other Business

To learn more, visit:
http://dx01.my.uprr.com/pubdir/inetbull.nsf/03add01b67805d4406256450007c1934/0d6b4fd65f0728e88625722c006a7217?OpenDocument

AAR Updates

Early Warning-Inspection & Removal of Suspect Wheel Sets

Early Warning EW-5183 was issued December 3, 2001 after a member road found several out-of-gage wheel sets over an 18-month period. The railroad conducted extensive investigations and had narrowed the suspect wheel sets to certain CJ-36 2-wear wheels produced in its system wheel shop. The railroad chose a proactive approach by requesting the issuance of EW-5183 to inspect and or remove the subject wheel sets in tank cars (approximately 5000 cars of various ownerships). Upon further investigation, the railroad requested issuance of a Maintenance Advisory to remove wheel sets, when on shop or repair track, on other car types (approximately 9400 cars) for a 21-month production period. The tank cars from EW-5183 reported to the Early Warning System with Activity Code MR (Car inspected, return car to service) were reinstated under Maintenance Advisory MA-74, originally issued February 19, 2002, for handling when on shop or repair track. An ad n date as well as revise the handling of wheels at wheel shops. Additional date range for the MA was added, for a total 35 month production period. Supplement No.1 was issued July 31, 2006 to provide a new expiratio

Wheel Shops Required to Check Every Wheel Set Arriving at Their Facility

Supplement No. 2 contains a new expiration date of December 31, 2009, more detailed instructions for the disposition of removed wheel sets, and an expanded date range for the subject wheel sets.

This Maintenance Advisory is assigned Severity Code 06 - AAR Defined- and includes instructions for the following:

1. Instructions for how handling carriers and repair shops should proceed
2. Cars inspected and *not* equipped with MA period 4/1998 â€“ 2/2001 wheels
3. Cars inspected and found equipped with MA period 4/1998 â€“ 2/2001 wheels
4. Wheel Shop Instructions â€“ Any 36â€ CN PU 4/1998 â€“ 2/2001 Wheels

Wheel shops are required to check every wheel set arriving at their facility (whether it has the orange marking or not). Any wheel sets from the MA period (4/1998 â€“ 2/2001), must be handled per the directions below.

The AAR Believes There Are 6,360 Cars Remaining To Be Handled Under MA-74.

Any wheel sets from CN PU with a mounting date of 04/1998 to 02/2001 inclusive are NOT to be turned NOR re-issued with new or reconditioned roller bearings.

Re-usable components (bearings, wheel blanks, axles) must be removed from the wheel sets and can be re-used in the manufacture of other wheel sets. To be clear, unlike some other wheel advisories which require scrapping the material, the blanks from these wheel sets can be turned and reused on other axles provided all dimensions etc. meet existing AAR MSRP Section G-II Rules. Likewise the axles can re-qualified per the AAR Wheel & Axle Manual Rules and reused.

Click here to contact the AAR

AAR Clarification: Billing For a Car With Damage Covered By An Endorsed JIC

At the last meeting of the Arbitration and Rules Committee a proposal to add language similar to that which exists in Office Manual Rule

102.D.9 to Rule 103 was reviewed and approved. The purpose of the added text shown below is to clarify billing for a car having damage covered by an endorsed JIC and the owner elects to retire the car.

Clarification: Billing For a Car Having Damage Covered By An Endorsed JIC

Approved Rule 103.C.16:
When car owner is in possession of car that has an endorsed JIC, and owner elects to retire instead of repair car and/or rack, charge may be made for material and labor as would have been required for repairing and renewing items actually listed on the endorsed JIC. Labor and material for undamaged associated parts must be excluded from charge, unless charges are for R&R of associated parts.

a. Bill must be rendered within the time limits stipulated in Rule 112.E.2, whether or not car has been physically dismantled.
b. Total bill must not exceed the AAR settlement value of car and/or rack, plus authorized additional costs, as specified in Rule 107.

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http://www.aar.org

Railroad Traffic

Carload and Intermodal Freight Up For October

The AAR reported in November that during the month of October, both carload and intermodal freight increased compared to 2005.

Railroads originated 1,355,091 carloads of freight in October 2006, up 24,116 carloads (1.8 percent) from October 2005. Intermodal volume of 1,006,812 intermodal units represented an increase of 18,913 trailers and containers (1.9 percent) over last year.

Coal, Grain and Chemicals Up; Motor Vehicles and Equipment, Stone, Clay and Glass, Lumber and Wood Products Down

Nine of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in October 2006 compared to October 2005. Commodities showing carload gains in October 2006 included coal (up 7.3 percent); grain (up 6.8 percent); and chemicals (up 2.6 percent).

Commodities showing carload decreases in October 2006 included motor vehicles and equipment (down 9.5 percent); stone, clay, and glass products (down 11.1 percent); and lumber and wood products (down 18.9 percent).

For the first 10 months of 2006, total U.S. rail carloads were up 1.4 percent as year-over-year increases in coal (up 4.5 percent); metals and metal products (up 8.7 percent); and grain (up 3.9 percent), among other categories, offset declines in nonmetallic minerals (down 17.6 percent); motor vehicles and equipment (down 4.9 percent); and metallic ores (down 7.5 percent), among others.

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was up 564,852 trailers and containers (5.9 percent) for the first 10 months of 2006 to 10,210,287 units.

Total volume through the end of October was estimated at 1.44 trillion ton-miles, up 2.7 percent from a year earlier.

"Coal and intermodal continue to post strong volume gains - the top 5 coal months in history have all occurred since May of this year, and the top 10 intermodal weeks ever have all occurred since the end of July of this year," noted AAR Vice President Craig F. Rockey.

Railroad Traffic Slightly Down During Thanksgiving Week

Thanksgiving Week Traffic

The AAR reported on November 30, that U.S. railroad freight traffic was off slightly during the week ending November 25 in comparison with the corresponding week last year. Both this year's week and the comparison week from last year included the Thanksgiving holiday.

Total volume of an estimated 29.9 billion ton-miles was 0.3 percent lower than during the comparable week last year while intermodal volume of trailers or containers was up 2.0 percent from last year while container volume rose 6.9 percent and trailer volume declined by 11.8 percent.

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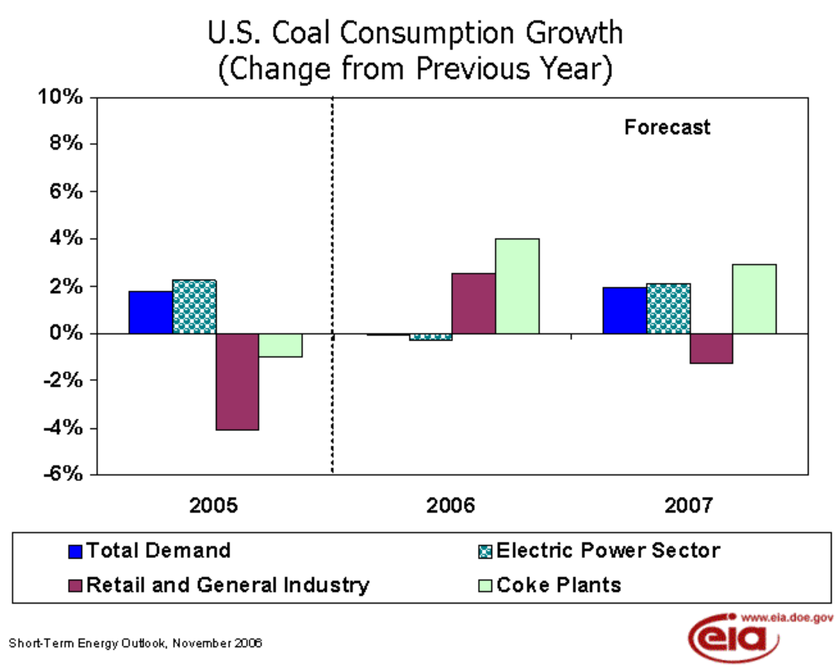
Industrial Inside

Coal Consumption to Remain Flat In 2006 and Increase By 1.9 Percent in 2007

The Energy Information Association (EIA) reported in November that total U.S. coal consumption is expected to remain flat in 2006 and increase by 1.9 percent in 2007. The EIA also reported that coal consumption in the electric power sector is likewise expected to be flat in 2006, but grow by 2.1 percent in 2007.



Platts, the world's leading provider of energy information, published a report in November underscoring the importance of coal to Class I railroads' financial prospects. In their report, Platts acknowledged that a BNSF Railway official said that coal presents "by far the biggest

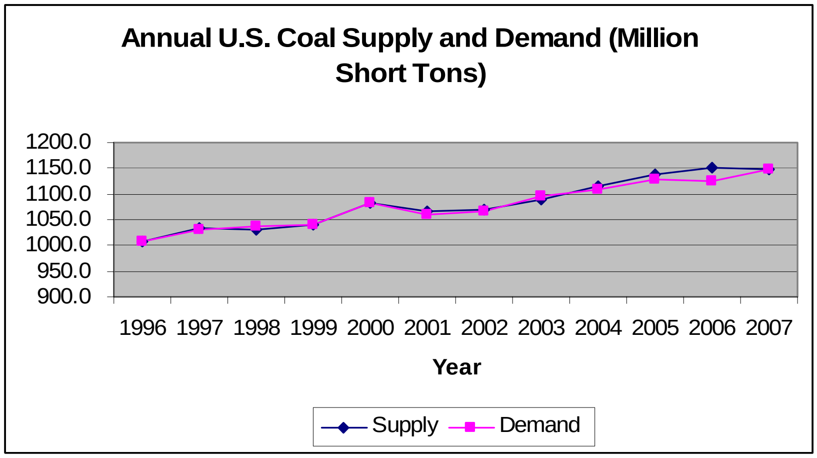
Importance of Coal To Class I Railroads' Financial Prospects High

Coal Presents "By Far The Biggest Opportunity" For The Railroad to Increase Revenues through Rate Increases

Demand For Coal Continues To Increase in Response to Higher Natural Gas and Oil Prices

Inflation Remains a Threat; Fed May Raise Interest Rates in 2007

opportunity" for the railroad to increase revenues through rate increases as long-term contracts come up for renewal.



Power sector demand for coal continues to increase in response to higher natural gas prices as well as higher oil prices. U.S. coal production is projected to grow by 2.7 percent in 2006 and by 1.2 percent in 2007. The price of coal to the power sector is projected to rise throughout the forecast period, although at a slower rate than in 2005. In the electric power sector, coal prices are projected to rise by an average 7.0 percent in 2006 and by an additional 2.8 percent in 2007, increasing from $1.54 per million Btu in 2005 to $1.70 per million Btu in 2007.

Read more at:
http://www.eia.doe.gov/

Financial Focus

Federal Reserve Chairman Ben Bernanke painted a relatively healthy picture of the economy in a speech November 28, indicating that weakness in the housing market may not put a significant dent in growth.

But the head of the nation's central bank also maintained that inflation remains a threat, a possible sign that the Fed is more likely to raise interest rates next year instead of lowering them.

Speaking at a lunch in New York City hosted by the National Italian American Foundation, Bernanke indicated that the economy would likely grow at a moderate pace in the fourth quarter and early 2007 but that growth would pick up over the course of next year.

Bernanke added that the worst may be over for the slumping housing market. "Although residential construction continues to sag, some indications suggest that the rate of home purchase may be stabilizing, perhaps in response to modest declines in mortgage rates over the past few months and lower prices in some markets," he said.

"**The Fed is right to sit where they are for awhile but don't ignore what the Fed is saying. Don't rule out a rate hike.** "

Congress Has Given The Fed a Dual Mandate to Seek Both Price Stability and Full Employment

He also said the Fed is keeping a close eye on inflation, particularly since the job market is improving. With unemployment relatively low and wages on the rise, Bernanke said the central bank is concerned about what may happen if corporations do not absorb the increased labor costs and start charging higher prices for goods as a result.

Many investors had been hoping for a rate cut sometime soon after 17 straight hikes from June 2004 through June 2006. The Fed has held its key short-term rate steady at 5.25 percent at its past three meetings, and it's looking increasingly likely that the central bank's policy-makers will leave rates unchanged when they meet Dec. 12 - and perhaps for several meetings beyond that.

In fact, one Fed watcher said it's possible interest rates could head higher sometime next year if inflation remains a threat.

Fed Chairman Ben Bernanke believes adopting an explicit target would help the U.S. central bank anchor inflation expectations. But some other Fed policymakers have voiced concern that it might also deny them important policy flexibility, including influential Vice Chairman Donald Kohn.

Democrats, who retook control of Congress in Nov. 7 elections for the first time in 12 years, have also expressed worry that any target may be bad news for job growth while congress has given the Fed a dual mandate to seek both price stability and full employment.

We'll have to wait until the December 12 meeting to see what decisions the Federal Reserve will make concerning the federal funds rate.

Learn more at:
http://money.cnn.com/2006/11/28/news/economy/fed_bernankereaction/index.htm?postversion=2006112816

The Edge

Merry Christmas, Happy Hanukkah and Blessed Holidays! We appreciate the opportunity to say thanks to all our customers, past, present and future.

The year of 2006 has been an interesting one. We've seen all sectors of the industry run up at dramatic but different paces. Intermodal has set continuous records and is even surpassing significant amounts of boxcar traffic as the world gets flatter and companies look at a world wide integrated supply chain. Basic commodities used to heat our homes and offices and to feed and cloth the masses continue to move at significant paces by rail.

As the year progressed we noticed a financial storm coming that caused the economy to hesitate and slightly slow the pipeline of goods that supports housing starts and general real estate. In response, some bulk commodity railcars found themselves going from the manufacturer to the storage track. In other cases the strength of the rail transportation demand outstripped the supply ability of the railroads and we found artificial caps put on the ability to deliver coal via the parking of new aluminum coal cars awaiting turn-backs of steel sets.

Railroads, wisely on their parts, continue to optimize their yield management programs through pricing, corridor and commodity selection investments and duopolistic pricing where and when possible while still managing to keep somewhat of an eye on new development and industrial growth.

What do we see for 2007? Some of the same but not entirely the same. When one looks at the most recent economic indicators there is still somewhat of a concern of inflation run-up. This causes activities in the money policy arena that result in increased costs of money; hence, we see pressure on certain industries that may not be readily apparent from a global viewpoint.

Railroads will continue to wisely push pricing on not only rates but accessorial and surcharges that will allow them to optimize their yield programs. Railroads appear to be getting better at providing notification of their intentions which is necessary from a customer planning perspective. It would be worth your time to pursue the web sites of your major carriers for the commodities you are involved in to see what's forth coming.

Planning for the long and short term will be even more critical in 2007 than it was before. Understanding how you fit in a railroads network and transportation plan is very important to your success as a company. Utilization of assets (rolling stock and fixed) will continue to be a focus area of the railroads in 2007.

We appreciated the opportunity to communicate and work with you this year and wish you the best in 2007.

If we can be of assistance, please do not hesitate to call on us.

We look forward to earning your business!