Touchbase

June 2006

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www.tealinc.com

Railroad Updates

UP Announces New Steel Gondola Cleaning Web Option

The UP is rolling out web-based capabilities to ensure steel gondola customers have the chance to load a car suitable for use. Effective June 1, 2006, the UP is implementing the following policy for Steel gondola shippers and receivers.

For shippers who receive a "dirty" car, you will have the option to report the condition of the car by a web option. UP defines a "dirty" car as one released empty with dunnage, banding, debris, or any other material which is not part of the car after unloading. This option will provide the ability to report a car's "dirty" status immediately to UP. With timely information and relevant pictures, the UP will identify the last party unloading the car and send a cleaning charge of $600 to that unloader.

Once you take this action, you are then free to clean the car and load it immediately. Although cleaning and disposal costs are your responsibility, this speeds your ability to load your product and reach your marketplace. Of course, you retain ability to reject a car, particularly if it is beyond your safety or cleanliness standards. If a car is rejected, UP will replace it as soon as possible based on equipment availability.

For receivers, it is your responsibility to fully unload equipment as identified in UP 16 Item 53. Releasing an empty car identifies it as clean and ready to be used by the next shipper.

Please police released cars to ensure you return them clean and ready to load. The UP will investigate reports of unclean cars and assess the standard $600 car-cleaning charge where warranted.

Click on the link to use this web option.
https://c02.my.uprr.com/myu/secure/index.jas

Additional comments on CN's new "Straight Plan"

Canadian National's Asset Use (Demurrage) Policy

As previously outlined in our May Newsletter, the CN is implementing a new "straight plan" asset use program that is expected to be a much simpler and focused way of managing assets. This will eliminate the current debit/credit averaging system. The CN believes that the straight plan will improve asset utilization, simplify the reconciliation of invoices and reduce payment disputes. This straight plan will apply universally to all of our customers, both shippers and receivers of freight. The following are some updates that CN users should be aware of:

- In simple terms, customers will have one "free day" for the use of railroad equipment for loading and/or unloading. This free day will begin at 00:01 (midnight) the day after the railcar is made available. After that, a fee will apply for the use of the

Visit the CN website for additional information on this new policy effective July 1.

assets. The daily per railcar fee is being reduced from the current $75 per day to $60 per day for railroad equipment.

- Customers using private railcars (loaded or empty), including those with private empty railcar storage agreements at Edmonton and Sarnia, will also join the straight plan program. The daily per railcar fee is being reduced from the current $50 per day to $40 per day for private railcars.
- Customers with assigned pools of railcars will retain four free days for use of the equipment before fees will apply. Customers with assigned auto parts pools of railcars will retain five free days for loading, starting when the car is constructively placed. As we fine-tune the asset use program, the number of free days will be re-assessed.
- The fees for loaded railcars containing hazardous materials/dangerous goods will remain exactly the same as in the past.

The eDemurrage tool is easy to use and allows you to review your asset use charges on a regular basis. With this tool, and ongoing dialogue with your Customer Support Representative, the CN assures you that CN service issues, which may impact your fees, will be taken into consideration. Their goal is to implement a simple and fair policy.

Visit the CN for additional guidance at:
www.cn.ca

AAR Updates

Changes made to the "Why Made" billing code to ensure correct installation of car valves

According to AAR Circular number C-10319, during the April, 2006 meeting of the Arbitration and Rules Committee a proposal from the Braking Systems Committee (BSC) to add Why Made Code 08 to the following job codes; 1277 - ABDX, 1279 â€“ ABDXR, 1281 â€“ DB-20, 1283 â€“ ABDX-L, 1285 â€“ ABDXR-L and 1287 - DB-20-L to enable the billing of a car owner for a change out of misapplied emergency portions was considered. In some cases long car emergency portions are wrongly applied to cars requiring short car valves, and vice versa. Currently a repair track has no recourse but to contact the car owner for permission to install the correct valve when discovered.

During service brake applications, the misapplication of these valves can cause local over reduction of brake pipe pressure when a long car valve is on a short car and under reduction of brake pipe pressure when a short car valve is applied to a long car. If a small number of cars with misapplied valves are together in a train, then there is an increased potential for either a UDE or a slowdown of service brake propagation.

Effective July 1, why made code 08 for these job codes will enable the car to be properly equipped, the car owner will be billed, and then the car owner can charge the shop that made the wrong repair.

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

Railroad Traffic

Intermodal traffic on U.S. railroads was up, but carload volume was down during April compared to last year, the Association of American Railroads (AAR) reported.

April Intermodal traffic up while carload volume down

U.S. railroads originated 1,354,749 carloads of freight in April 2006, down 13,086 carloads (1.0 percent) from April 2005. U.S. railroads also originated 945,511 intermodal units in April 2006, an increase of 60,226 trailers and containers (6.8 percent) over April 2005, the Association of American Railroads (AAR) reported today.

Six of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in April 2006 compared to April 2005. Commodities showing carload gains in April 2006 included coal up 1.5 percent; metal products up 6.4 percent; and grain up 2.7 percent.

Commodities showing carload decreases in April 2006 included nonmetallic minerals down 24.2 percent; motor vehicles and equipment down 5.3 percent; and chemicals down 2.6 percent.

Coal, metal products, grain up; nonmetallic minerals, motor vehicles, chemicals down.

For the first four months of 2006, total U.S. rail carloads were up 0.3 percent, as year-over-year increases in coal, up 1.7, and crushed stone, sand, and gravel, up 6.1 percent, among other categories, offset declines in nonmetallic minerals, down 25.9 percent, and chemicals, down 2.7 percent among others.

“Difficulties within the automotive industry have negatively affected rail traffic of motor vehicles and vehicle parts, and the sharp decline in nonmetallic mineral traffic in April and the year to date is largely a function of reduced international demand for phosphate rock for fertilizer,” noted AAR Vice President Craig F. Rockey. “With higher coal volumes in April, railroads are working hard to supply coal-fired power plants in anticipation of the summer cooling season. Railroads expect to haul more coal in 2006 than any previous year.”

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

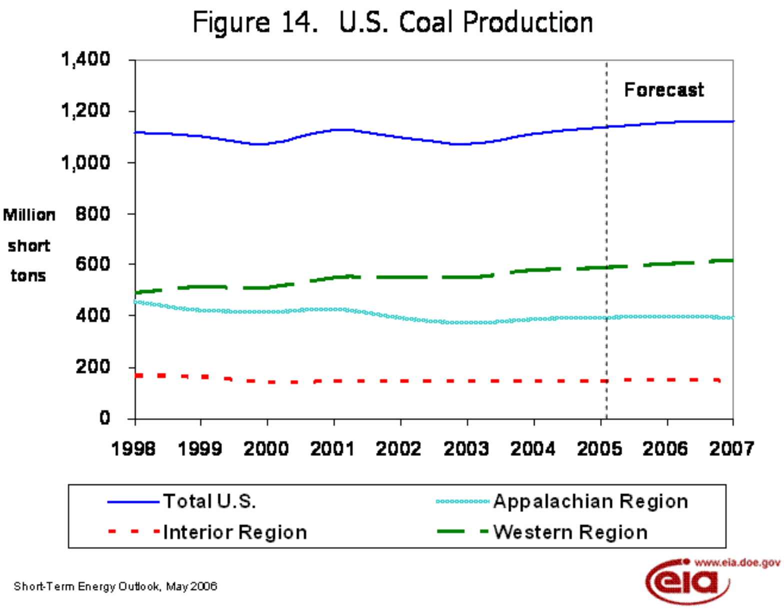
Industrial Inside

More than half of U.S. coal companies responding to a National Mining Association (NMA) annual survey predict a record year for domestic coal production in 2006. In the association's annual Coal Producer Survey released May 23, 53 percent of respondents expect production in 2006 will better the 1.13 billion short ton record set last year for U.S. coal production, while 28 percent of respondents expect level production. None expect production from the nation's coal mines to be lower in 2006.

"The findings reflect the continuing importance of coal for a steadily

Survey predicts another record year for coal production

growing, technology-driven economy," said NMA President and CEO Kraig R. Naasz.



Coal Executives See Continued Record Production

Last year's record production marked an increase of 21.2 million short tons over 2004 and 5.6 million tons higher than the previous record set in 2001 while U.S. coal consumption also set a record in 2005. The 1.12 billion tons consumed was 1.9 percent more than 2004, with 92 percent going to electricity generation. Coal maintained its 50 percent share of the electricity generation market in 2005, fueling a record 2.01 billion KWh, an increase of 1.8 percent over the prior year.

Exports climbed by nearly 2 million tons in 2005 to almost 50 million tons, a 4 percent increase over 2004. International demand for coking coal used in steel manufacturing again drove export demand, as metallurgical coal prices soared by 28.2 percent. Strong demand from Europe more than offset modest declines from Asia.

Electric Utilities in Good Shape for Summer, Coal Experts Say

While consumption is heavy, reports by a government energy agency as well as leading coal experts and coal publications report that Electric utilities are in good shape for upcoming summer months when the demand for electricity is at its highest, and have adequate coal stockpiles that are continuing to grow,.

The Federal Energy Regulatory Commission (FERC) – a branch of the U.S. Department of Energy -- released a report stating that "coal stockpiles are well above last year's levels," and "while worth watching staff's view is that coal stockpiles are likely to continue building" while the Platt's Coal Trader, a leading trade publication, reported that "utilities have good stockpile levels of around 30 days," and noted that many utilities have stopped buying coal on the spot market, due to strong inventory and the drop in natural gas prices.

North America's freight railroads delivered 72 percent of the coal used by the nation's coal-fired utility plants in 2005, more coal that ever

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The joint BNSF-UP Powder River Basin Joint Line in Wyoming went into service May 16 adding an additional 19-mile of track

The central bank's Fed Funds Rate now stands at 5 percent, the highest since March 2001

before. And in 2006, the railroads are on track to set yet another coal-delivery record.

The North American Electric Reliability Council – an organization of electric utilities – stated clearly that railroads are delivering enough coal to meet summer demand. "Coal delivery limitations do not appear to present a reliability problem this summer," said NERC in its 2006 Summer Assessment.

Edward R. Hamberger, President and CEO of the Association of American Railroads, told the committee that between 2000 and 2005, electric utilities began to invest heavily in expanding capacity to burn natural gas instead of coal, sending a signal to the rail and coal industries that demand for coal was on the wane.

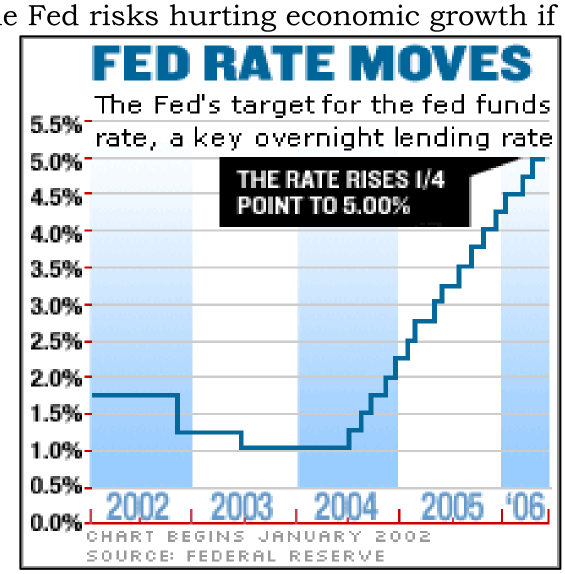
"To help ensure that adequate coal-carrying capacity is available to meet future coal transportation needs, railroads are taking a variety of actions," he said. "These include building new tracks, purchasing new locomotives, increasing tonnage per train and per car, improving the flow through terminals, and hiring more workers."

In order to increase capacity, the joint BNSF-Union Pacific Powder River Basin Joint Line in Wyoming went into service May 16 adding an additional 19-mile of track. Until work on crossovers and signal cutovers is completed in September, trains will operate over the entire 19 miles in one direction at a time

Read articles at:
http://www.aar.org/Index.asp?IACID=3740

Financial Focus

The Federal Reserve raised a key interest rate another quarter-point to 5 percent May 10th - the 16th straight increase. The central bank has been hiking rates for 22 months in a bid to keep inflation at bay. But despite concerns about rising energy prices, as well as signs that the economy is still healthy, there is a growing feeling among some economists and investors that the Fed risks hurting economic growth if it keeps boosting rates.



David Joy, chief market strategist with money manager RiverSource Investments, said the second part of the sentence was interesting. He thinks it proves that the Fed would prefer to not have to raise rates again in June. "Basically, they're saying two things. Future action is data dependent and that they may very well pause in June in order to buy themselves some time. This

In response to the federal funds rate hike, prime lending rate now around 8 percent

The Fed's next policy meeting is on June 28 and 29

increases the likelihood of a pause in June and is about as explicit as they will allow themselves to be," Joy said.

In response to the federal funds rate hike, several banks reported that they were increasing their prime lending rate to 8 percent after the Fed's announcement.

In its statement, the Fed said that "economic growth has been quite strong so far this year" but that growth "was likely to moderate to a more sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices."

Learn more at:
http://money.cnn.com/2006/05/10/news/economy/fed_rates/index.htm

The Edge

Another 10 Years of Life by January 2007

Railcar interchange life appears to be closely narrowing the gap on Ponce de Leon's search for the Fountain of Youth. Proposed in S-2046 (one of two options for extending railcar interchange life) states, "Office Manual Rule 88 establishes a railcar's life span to be 50 years from the original date built. However, there are many services that railcars could endure for longer periods of time. Office Manual Rule 88 addresses this issue:

> *Units built on or after January 1, 1964 are eligible to continue in interchange service beyond 50 years from the original date built, provided that proof of compliance with the following requirements is provide for verification by the Equipment Engineering Committee…*

Thus, for car bodies, Rule 88 provides a process (including this test specification) for obtaining AAR approval of Increased Life status, which permits operation beyond 50 years."

AAR Circular C-10303 (Rule 88 Increased Life) is anticipated to be approved by the AAR Equipment Engineering Committee sometime this year and if so approved will become effective no later than January 2007. The implications of this proposed rule are very far reaching. Considering that the economy is booming, railroads continue to push private railcar ownership and, despite high rail transportation costs for long haul alternatives, rail transportation for the most part is still less expensive than the next best alternative. When one looks at a well maintained railcar that has an economic utility value to the shipper where only a good used railcar can make the transportation numbers work, this proposed rule can possibly help smaller to medium sized and non-mainstream shippers – ship.

Most critical are those cars running up against their interchange life in 2007, e.g. those built in 1967 continuing to the current 50 year rule cars built on or after July 1, 1974.

We'll continue to monitor the progress of this proposed rule and report back in this column as we see progress. In the meantime if you need some help with an economic evaluation of whether you should consider Rule 88 Increased Life for your older railcars give us a call.

We look forward to earning your business!