Touchbase

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Railroad wins in coal dust-up

BNSF Railway will impose a new tariff for coal dust suppression

Suppressing coal dust from loaded trains is a matter of national security

Railroad Updates

Powder River Basin coal customers will eventually have to kick in an extra few million dollars per year to help control coal dust from loaded trains leaving Wyoming.

According to Platts reporter Peter Gartrell, BNSF Railway will impose a new tariff for coal dust suppression. The pending tariff comes after a March 2011 ruling by the U.S. Surface Transportation Board that nullified one previously proposed by BNSF. That ruling was the latest in a years-long battle between the railroad and utilities over just who is responsible to pay for dust suppression along thousands of miles of rail used to connect the Powder River Basin to coal-fired power plants across the U.S.

Last year, Arkansas Electric Cooperative Corp., which challenged the tariff, estimated the annual cost at $100 million. But no matter how the estimated $100 million in annual coal suppression is eventually divided between utilities and the railroad, it still adds to the overall cost of Powder River Basin coal.

Before you roll your eyes thinking this is another ploy by environmentalists to poke Big Coal in the eye, consider this; suppressing coal dust from loaded trains is a matter of national security.

In 2005, back-to-back derailments in the southern Powder River Basin temporarily cut more than 20 million tons of expected deliveries, throwing utilities into a panic as their stockpiles shrank to a little more than a week's supply in some cases. At the time, mines in the Powder River Basin supplied about 40 percent of the nation's coal, putting at risk more than 20 percent of the nation's electrical generation. Utilities were forced to buy coal and natural gas on the daily market, resulting in millions of dollars of unexpected costs to their customers.

The cause of the derailments: coal dust from loaded trains had accumulated on the rail bed preventing proper water drainage during the wet 2005 spring.

Of course, coal dust is a human health and environmental issue, too. According to a recent column in the Seattle Post Intelligencer, coal dust blowing into an aquatic reserve is among a long list of concerns by opponents of the proposed Gateway Terminal, which would export Powder River Basin coal to China and other Asian countries.

Wyoming coal producers Arch Coal Inc. and Peabody Energy (and others) intend to push hard for this project and other West Coast coal port expansions to serve a lucrative Asian market. And they won't have to battle for it alone. The potential new export market represents a huge opportunity for BNSF Railway, which stands to gain new contracts to ship coal from

Wyoming to West Coast ports.

While the railroad is careful to make sure utilities bear their fair cost of transportation, it has a clear interest in keeping coal trains rolling.

BNSF and UP decided in 2005 to invest about $1 billion to modernize and expand their coal networks

The 2005 coal-dust derailments forced BNSF Railway and Union Pacific to decide their future partnership with the Powder River Basin coal industry, and their response was to invest about $1 billion to modernize and expand their coal networks, focusing on their Powder River Basin routes — clearly an intent to keep coal flowing from northeast Wyoming for a long time to come.

Read more at: **http://wyofile.com/2011/05/railroad-wins-in-coal-dust-up/**

US Customs and Border Protection (CBP) Reporting of Residual Goods Update

In 2012, residue remaining in cars unloaded in Mexico will need to be classified, entered and manifested in order to cross the border into the US

U.S. Customs and Border Protection (CBP) has announced that it will require, probably beginning in 2012, that residue remaining in cars unloaded in Mexico be classified, entered and manifested in order to cross the border into the US. Failure to comply with this requirement could subject the party tendering the car for movement to fines by CBP and charges for extra services by the railroad. KCS and KCSM encourage shippers to seek advice from their customs counsel or broker on compliance with these anticipated changes to CBP practices. This update provides background information on this issue.

On August 20, 2008, CBP published a notice under Customs Bulletin Vol. 42 No. 35. The bulletin proposed to modify the ruling letter HQ113129 dated July 12, 1994 associated to customs requirements for cross border shipment of residue empty cars in order to ensure cargo safety and security. On July 17, 2009, in Customs Bulletin Vol. 43 No. 28, CBP issued the notice of modification for ruling letter HQ 113129. This modification mandates that instruments of international traffic (IIT) containing residue may not be manifested and entered as empty containers, and that residue in these containers must be classified, entered, and manifested prior to entering the U.S. For more detail, see pages 138 - 149 of the U.S. CBP Decisions Bulletin Vol. 43 No. 28

KCS and KCSM encourage shippers to seek advice from their customs counsel or broker on compliance with these anticipated changes to CBP practices

Due to this modification, it will be necessary to declare to CBP the last remaining content and weight of residue moving in rail equipment prior to the equipment entering the U.S. and/or in transit to Canada, likely beginning sometime in 2012. If the residue in the rail equipment is no more than 7 percent of the equipment's load capacity, KCS will obtain an automatic release according to 19 U.S.C. 1321. If the residue in the equipment exceeds 7 percent, then the equipment needs to be declared as a load and manifested with an entry for U.S. Customs or in agreement with any other federal agency process according to the U.S. Trade Act 2002. For more information, please refer to the Bulletin Frequently Asked Questions (FAQs) issued by the CPB dated May 3, 2011.

If the residue in the equipment exceeds 7%, then the

Kansas City Southern and Kansas City Southern de Mexico are working to adapt to the new rule by providing customers with an automated

equipment needs to be declared as a load and manifested with an entry for U.S. Customs

application that meets the requirements set by authorities. KCS and KCSM will keep customers informed of the progress regarding this system enhancement and work closely with you throughout the implementation process

Read the article at: **http://www.kcsouthern.com/en-us/Customers/Pages/ServiceStatusUpdates.aspx?update=293**

AAR Updates

Cars moving to scrap have been repaired excessively and overage cars moving to scrap were stopped from interchange

At the April, 2011 meeting of the Arbitration and Rules Committee, a proposal to better define the criteria for handling cars moving to be dismantled was discussed. There have been instances in the past where cars moving to scrap were repaired "excessively" in the owners' opinion and overage cars moving to scrap were stopped from interchanging. The Arbitration Committee chartered a Technical Advisory Group (TAG) to update the rules to facilitate efficient movement of freight cars to dismantlers. The result of the TAG's efforts and the Committee's subsequent review and endorsement available on the AAR website.

The AAR is soliciting comments for this proposal. Comments should be sent by email to **tstahura@aar.org**. All comments received will be considered by the Committee prior to the targeted implementation date of July 1, 2011.

You can learn more by contacting Tealinc direct or by obtaining the AAR Circulars at: **http://aar.org**

Mechanical Brief with Steve Christian

This month we welcome a new addition to our monthly newsletter written by our very own Steve Christian.

WABL committee continuous maintenance and improvement standards has increased repair cost for short term

Over the years, the Association of American Railroads (AAR) has established several Technical Committees made up of industry experts that are responsible for the development and maintenance of industry standards. One of the committees that have been very active over the last several years is the Wheels, Axles, Bearings, and Lubrication Committee, (WABL). The WABL Committee is tasked with establishing, improving, and maintaining wheel, axle, bearing and lubrication system interchange standards and rules and certifying and monitoring the performance of new equipment. The WABL Committee has continually raised the bar on the quality of the wheel, axle and bearing population in service on the railroads and reconditioning standards at wheel and bearing shops have gradually been increased and detection systems are progressively being improved. While these actions have increased the repair cost of mounted wheel sets for the short term, the overall cost of railcar operation should be reduced with fewer derailments, less wear on other railcar components, better railcar performance, and better overall railcar utilization.

WABL Committee actions should reduce derailments, create less wear on railcar components, lead to better

In May 2011, updates to AAR Circulars 11426 to 11429 reflected the WABL Committee's continued proactive measures in improving the level of mounted wheel sets that are out in interchange service. The WABL

railcar performance and overall railcar utilization

Committee continues to recommend and make changes that tighten the standards and end product of wheel and bearing shops in the railroad industry.

You can learn more by contacting Tealinc direct or by obtaining the AAR Circulars at: **http://aar.org**

Contact Steve Christian at Tealinc for further mechanical advice

Steve Christian is the Manager Value Creation-Railcar Performance Manager for Tealinc, Ltd. Mr. Christian's career includes positions as Vice President & General Manager of DTE Rail, Regional Manager PRB for Progress Rail and a wide variety of railcar mechanical experience from Carman on the Burlington Northern Railroad to Assistant Shop Superintendent on the Rock Island Railroad. He holds a Bachelor of Science degree from the University of Nebraska-Lincoln. Mr. Christian has 40 years of railroad mechanical experience. You may contact Steve directly out of our Nebraska office at (308) 675-0838 or via email at ***steve@tealinc.com****.*

Railroad Traffic

U.S. rail carloads in April 2011 decreased 0.2% compared with the same month last year

The Association of American Railroads (AAR) reported on May 9th, that U.S. rail carloads in April 2011 decreased 0.2 percent compared with the same month last year, to 1,177,277 carloads. According to AAR's monthly Rail Time Indicators report, intermodal traffic in April increased 9 percent compared with April 2010 to 914,518 trailers and containers. On a seasonally adjusted basis, carloads were down 2.5 percent and intermodal traffic was up 1.2 percent compared with March 2011.

The latest railroad employment data shows the addition of 1,340 employees in March 2011, the largest since September 2010, bringing the industry to 155,842 employees nationwide.

"April's carload decline is the first year-over-year monthly decline since February 2010," said AAR Senior Vice President John Gray. "April 2010 was a relatively strong month and therefore a difficult comparison, and coal traffic was down for the first time since July 2010. April's carload decline was offset by continued intermodal growth. Rail traffic deserves a close watch over the next several months because it's a useful gauge of the strength of the economy."

Nine of 20 commodity categories saw carload gains on U.S. railroads in April 2011 compared with April 2010

Overall, nine of 20 commodity categories saw carload gains on U.S. railroads in April 2011 compared with April 2010. Traffic gains were led by grain, up 13.6 percent (11,377 carloads); metallic ores, up 19.4 percent (5,005 carloads), and motor vehicle and parts, up 9.6 percent (4,713 carloads). Coal carloads were down 2.9 percent (15,225 carloads). Other commodity groups with carload declines included crushed stone, sand, and gravel, down 5.6 percent (4,203 carloads); waste and nonferrous scrap, down 14.2 percent (2,140 carloads), and primary forest products, down 26.4 percent (1,910 carloads).

Despite the mixed results in April, there are still positive signs of growth. Year-over-year chemical carloads have risen for 18 straight months. In addition, cumulative volume for the first four months of the year is also positive with U.S. rail carloads up 3.8 percent (180,791 carloads) and intermodal loadings up 8.8 percent (304,702 trailers and containers) compared with the same period in 2010. Intermodal loadings in April 2011 averaged 228,630 units, the second highest average for any April in history, behind only April 2006.

As of May 1, 2011, 276,228 freight cars, or 18.2 percent of the fleet, were in storage. This represents a decrease of 7,421 cars from April 1, 2011.

Learn more at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/05/09-RTI.aspx**

Industrial Inside

Railroads aim to tap Bakken Shale's vast traffic potential

The lyrics to the theme song from vintage television series "The Beverly Hillbillies" included "black gold, Texas tea," which described the Lone Star State's lucrative crude-oil production. For several North American railroads, the lyrics could be updated to "black gold, North Dakota tea" or "black gold, Saskatchewan tea" to describe the traffic-generating and moneymaking potential of crude-oil production in the Bakken Formation. More commonly called the Bakken Shale, the 200,000-square-mile formation covering parts of Montana, North Dakota and Saskatchewan contains large oil reserves, which only a few years ago became more economical to tap because of horizontal drilling and other modern extraction techniques. Today's historically high foreign oil prices also help make crude produced from a shale more competitive to produce and sell domestically.

Rail transport is significantly cheaper than truck and more flexible than pipelines to move crude long distances and an economical way to deliver inbound materials

As more oil companies establish wells in the Bakken, railroads stand to transport more inbound carloads of frac sand, drilling pipe and other materials used to build wells or horizontally drill. And as more crude oil is extracted, the roads figure to transport lots of it to refineries and other end users thousands of miles away in the Gulf Coast, California, Oklahoma or points in Canada. Rail transport is significantly cheaper than truck and more flexible than pipelines to move crude long distances, and an economical way to deliver inbound materials, so it's starting to become oil producers' mode of choice.

By 2011's end, about 1,800 new wells, each requiring 23 carloads of rail-delivered materials during construction, are projected to join the thousands already operating in the Bakken. At 2010's end, daily production had exceeded 300,000 barrels, outstripping available transportation capacity and hastening the need for more rail infrastructure.

Oil companies are expediting plans to build or expand terminals that can load or transload 95- to 118-car unit trains

Oil companies are expediting plans to build or expand terminals that can load or transload 95- to 118-car unit trains, which can transport 60,000 to 68,000 barrels per trip.

Daily oil production might reach 700,000 barrels by 2013 and 1 million barrels by 2015. BNSF Railway Co. and Canadian Pacific could collectively capture 20 percent to 25 percent of outbound traffic because of their extensive Bakken-area networks and market reach, says BNSF Vice President of Industrial Products Marketing Denis Smith.
"The Bakken is a big play for us. It's an opportunity to do something

similar to what we did in grain, in coal and in intermodal," he says. "It's new, and it needs to be moved in unit trains."
Read the entire article at:
hhttp://www.progressiverailroading.com/pr/article/Railroads-aim-to-tap-Bakken-Shale39s-vast-traffic-potential--26587

Financial Focus

Fed's Kocherlakota lowers forecast for economic growth, urges tightening

Federal Reserve Bank of Minneapolis President Narayana Kocherlakota trimmed his forecast for U.S. economic growth and raised his outlook for unemployment slightly while reiterating his call for higher interest rates this year.

Unemployment will be "close to 8.5 percent" at year's end, Kocherlakota said in a speech in Rochester, Minnesota, an estimate contrasting with "between 8 percent and 8.5 percent" in a May 11 speech. Economic growth will be "around 3 percent," compared with "between 3 percent and 3.5 percent."

"Given the depth of the recession that we experienced, this rate of growth is disappointing," Kocherlakota said.

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The policy-making Federal Open Market Committee is discussing how quickly to begin tightening policy after completing the purchase of $600 billion in U.S. Treasuries by the end of June. They are also considering a strategy for how to remove stimulus, with a majority favoring ending the policy of reinvesting proceeds from maturing securities first before raising interest rates or selling assets, minutes of their April 26-27 meeting showed.

Kocherlakota repeated his call for an increase in the target federal funds rate by 0.5 percentage point under his forecast, following St. Louis Fed President James Bullard who said the central bank may need to tighten policy this year. In contrast, New York Fed President William C. Dudley said the recovery is trailing the Fed's goals, and opposed a policy response to a temporary rise in food and energy prices.

'Modest Amount'

"Under my baseline forecast, it would be desirable for the FOMC to raise the fed funds target interest rate by a modest amount toward the end of 2011," Kocherlakota said.

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In response to audience questions, Kocherlakota said he doesn't expect the European debt crisis to have much of an impact on U.S. growth.

"The direct linkages from Europe are relatively small," though "fear" and uncertainly have the potential to provoke volatility in U.S. markets, he said.

Congress should reverse the growth in U.S. debt and deficits, which may prove to be a long-term threat to the Fed's ability to keep inflation low and stable, the Minneapolis Fed chief said.

Economic growth will pick up to 3.3% in the second quarter and 2.7% for the year

"It is critical for the U.S. to get into a viable debt and deficit position," he said. "Otherwise, it will conflict with our ability to carry out our price stability mandate."

'Headwinds' for Economy

"Headwinds in the U.S. economy" include increased savings by households seeking to restore net worth "in response to past and possibly future falls in residential land prices," he said. A focus by banks on loan problems rather than on making new loans also inhibits the recovery, he said.

Regarding the labor market, Kocherlakota said he expects to "see conditions improving slowly."

The economy grew at a 1.8 percent pace in the first quarter of 2011, according to Commerce Department data. Growth will pick up to 3.3 percent in the current quarter and 2.7 percent for the year, according to the median of 67 economists surveyed this month by Bloomberg News.

Read the article at: **http://www.bloomberg.com/news/2011-05-25/fed-s-kocherlakota-lowers-forecast-for-economic-growth-urges-tightening.html**

The Edge

April Showers Bring May… Freight Delays?

James Taylor's famous lyrics "I've seen fire and I've seen rain" stand true to most of the U.S. looking back at April and May weather throughout the country. While much of the west and south endured extreme drought and fire conditions, the rest of the country seemed to be plagued by heavy rains, severe storms (a record was set in April 2011 with a preliminary count of approximately 681 tornados spotted) and a faster snow melt than normal. I think we stand to see 2011 spring severe weather season, albeit we're not yet out of the woods, as one of the most deadly and economically devastating seasons in U.S. recorded history.

Flood conditions along the Mississippi River, which has experienced one of the worst floods since 1927, has also significantly impacted barge traffic carrying grains, coal, timber and iron and has forced logistics planners to divert shipments by other means such as over the road trucks and available rail lanes.

The economic impact from the flooding has yet to be fully realized as cost to repair damaged road and rail networks and the possible refortification and inspection of levees up and down the river will be assessed over the coming months. We expect the calendar over the summer will be scheduled full with rail lanes in a repair status as flood waters recede and the true damage of this spring's storms are realized by Class I railroads, shortline railroads and even within customer yards. Our advice to you is that you think of this when you order in equipment. A recent AAR circular reminds us of the importance of checking for water damage on railcar appurtenances and we advise that you take a close look at your own equipment as it's pulled out of wet conditions.

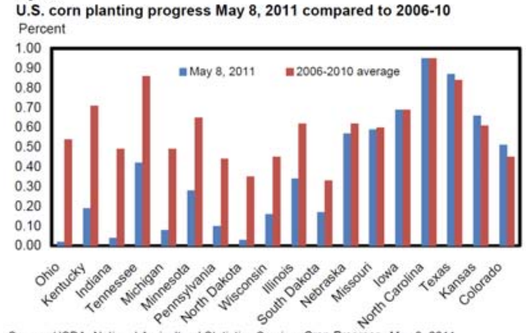
We believe we all owe a pat on the back and a little well deserved credit to our national rail infrastructure as we've heard minimal customer complaining of slower rail service through the heavily impacted areas although many Class I Railroads, specifically the UP and the NS have commented that their May freight volume estimates are approximately 1% lower than average but still not overly dramatic given the current circumstances.

So what's in store for the rest of 2011?

Our industry knowledge, research and customer relationships lead us to believe the 3rd and 4th quarter 2011 will run something like this:

1) The 2011 winter wheat crop is currently rated dramatically lower than it was in 2010 at this time. An ever-present lack of moisture (believe it or not) is blamed for a lower rated quality of 2011 winter wheat where drought conditions in Texas, Oklahoma, Colorado and Kansas have created a very poor rating. In contrast, the flooded south/ southeastern states such as Arkansas, Missouri, Illinois, Indiana, North Carolina and Ohio were, until recently showing far better crops. Our thoughts are with farmers as they tend to their crops and we hope to see some relief and balance restored by Mother Nature.
2) Influenced by extreme wet weather, as of May 8, 2011, only 40 percent of the 2011 corn crop has been planted, down from the 5-year average of 59 percent. Despite late plantings, the 2011/ 2012 U.S. corn crop is projected at a record 13,505 million bushels, up more than 1 billion bushels from 2011 due in part to an increased planting area.

Figure 3
U.S. corn planting progress May 8, 2011 compared to 2006-10



Source: USDA, National Agricultural Statistics Service, *Crop Progress*, May 9, 2011.

3) Steel pricing will remain flat and near current levels with minor changes both positive and negative due to impacts created by the earthquake and tsunami in Japan in March 2011 as well as slower automotive production.
4) Sluggish home building numbers forecasted for the remainder of 2011 won't help stimulate the economy. A continued weak housing demand is expected for the remainder of 2011 as the number of mortgage delinquencies and foreclosure statistics remain high and cheaper properties sit idle on the market luring sensible investors on the hunt for a good deal. An increase of (or at least more of the same) private nonresidential and home improvement spending is expected which may account for the demand of landscaping material and home furnishings to show a slight uptick. Beyond residential building, construction figures still remain low. Commercial construction seems to be struggling along as stimulus money (the debate is still on if it was ever truly realized) dwindles.
5) The intense heat sparked by frac sand demand may suffer slightly as areas within the Bakken oil fields suffer unimaginable flooding. The Minot Daily News recently reported that muddy roads and reserve pit flooding has severely hampered work and production in the Bakken oil fields. We expect to see a lag in the delivery of frac sand as well as in the movement of covered hoppers moving sand to these destinations. The anticipation is that much of this work will resume business as usual but at an escalated pace once the ground dries out. We question what repercussions to equipment and pits will be met though when work does resume.

We wish you continued success in your business as summer gets underway. As you tweak your current business model to best succeed in today's market, we look forward to lending a hand in your transportation planning. Whether you require assistance in obtaining private rail equipment, exploring options involved in your rail expansion or are just getting introduced to rail, we're excited to be your transportation partner.

We look forward to earning your business!