Touchbase

MAY 2006

In This Issue

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Railroad Updates

CSX Demurrage Rates to Increase July 1

New CSX tariff demurrage rates effective July 1

During this time of sharply heightened demand for rail transportation and services, the CSX realizes how important it is to increase the available supply of empty cars and with the high capital costs of rolling stock, the CSX believes that efficient utilization of the existing car fleet is the most effective way of increasing available cars for their customers.

CSX operations have focused on executing the "One Plan" for service improvements and they believe its working. Service improvements have resulted in significantly improved velocity and dwell in recent weeks. Service improvements are increasing equipment availability across the railroad, but other measures will also help increase car fleet capacity.

On July 1, 2006, CSX will increase some of their tariff demurrage rates to encourage the prompt loading and unloading of railcars.

- The daily demurrage rate for Railroad owned cars will be increased to $90.00 effective July 1, 2006, to promote the timely handling of cars.
- The daily demurrage rate for refrigerated cars will be increased to $150.00 effective July 1, 2006. In addition to improving the availability of this equipment for shippers everywhere, the increase also helps to compensate CSXT for high car hire costs incurred when unloading delays occur on their line. Every effort is being made to provide customers with a seamless method of transporting perishable goods.

CSX believes that these changes will result in improved car availability and lower total demurrage expense for customers.

Visit the CSX at:
www.csx.com

New UP Bill of Lading Requirements

Effective May 15, the UP will invoke rights to hold shipments

Effective May 15, 2006 the Union Pacific will formally invoke its right to hold shipments if :

1. The Send Freight party listed has a history of credit issues or
2. The Send Freight information is not provided on the Bill of Lading, and either the Shipper, Consignee, or Account-Of party have had a history of credit issues with Union Pacific.

Providing accurate Send Freight information at the time of billing will help avoid unnecessary holds placed on shipments. Shipments affected by this process may be held until the UP receives payment, confirmation of a viable payment plan, or a bill correction with a new Send Freight party. The normal reconsignment fee (currently $95 per car) will apply.

In the near future, failure to include accurate Send Freight information at time of billing may result in the holding of cars until UP receives the Send Freight information and/or payment.

Corrections can be made to a bill of lading as long as the rail car has not been reported as pulled from industry. Customers also have the option to correct a bill of lading on the UP website, or submit the change manually.

The UP will continue to provide hold information in their Secured Trace application

The UP will continue to provide hold information in their Secured Trace application and other car status reports. Additionally, UP will make every attempt to send an e-mail or fax notifying you that they are holding a car.

Visit the UP at:
www.up.com

AAR Updates

Implementation of Interchange Rule to ensure accurate cost recovery

As part of the freight rail industry's continuing effort to promote the Advanced Technology Safety Initiative (ATSI), the Arbitration and Rules Committee has been working on developing a proposal to allow for more accurate cost recovery for repairs made on line-of-road to ensure that the guidelines are adequately capturing the time to perform repairs on line-of-road where the nature of the condition does not permit the continued operation of the train safely. The rule recognizes that when repairs must be undertaken under such conditions there are cost implications that differ from those occurring when repairs are made at a traditional repair location. A key element of this proposal is to ensure that when calculating the cost for repairs made on line-of-road that double accounting for such work is not permitted.

Rule recognizes line-of-road cost implications

With respect to the task of properly defining and accounting for the costs associated with an AAR condemnable defect that causes a train delay on line-of-road, the following three components were identified and studied:

1. The costs associated with a train delay. The time was identified as 81 minutes for the average train delay
2. The costs associated with setting a car out and picking it up. The time identified was 31 minutes for the set out/pick up sequence.
3. The costs associated with jacking the car on line-of-road. It has been identified that it takes approximately 1.7 hours to safely jack the car on line-of-road.

On average, this could mean an additional charge of about $450 to the normal component repair cost. To implement this concept, the Committee has decided that the development of a new Interchange

Rule 91, titled Service Interruption, which will include the addition of two new definitions and one revision in Appendix A and a series of revisions to Rule 75 will be effective.

Comments are solicited for the implementation of Rule 91

In accordance with the provisions of Rule 123, comments are herein solicited. All comments received within 30 days of this letter will be considered by the sponsoring Committee. Comments may be directed by email to **tstahura@aar.org**.

For more information on this new Interchange Rule, please contact us or visit the AAR at:
http://www.aar.org

Railroad Traffic

March carload freight traffic up 0.1 percent from same time last year

The AAR reported that U.S. railroads originated 1,695,044 carloads of freight in March 2006, up 0.1 percent from March 2005. U.S. intermodal rail traffic, which consists of trailers and containers on flat cars and is not included in carload figures, totaled 1,139,074 units in March 2006, up 7.8 percent compared with March 2005.

For the first three months of 2006, total U.S. rail carloadings were up 0.7 percent while intermodal traffic was up 5.6 percent. Total volume was estimated at 429.5 billion ton-miles, up 1.9 percent from 2005.

"The rail traffic gains in March reflect continued growth in freight transportation demand," noted AAR Vice President Craig F. Rockey. "Railroads are expanding their capacity, and additional investments will be needed to handle additional traffic growth expected in the next few years. Policymakers can help by taking steps that assist — and, just as importantly, not taking steps that hinder — railroads in creating the substantial new capacity our growing economy will need."

Crushed stone, sand and gravel, motor vehicles and equipment, metals and metal products up

U.S. rail traffic in March 2006 was paced by crushed stone, sand, and gravel (up 9.4 percent); motor vehicles and equipment (up 4.9 percent), and metals and metal products (up 4.3 percent). Carloads of coal fell 0.4 percent in March 2006, while carloads of chemicals fell 3.9 percent. All told, 10 of the 19 major commodity categories tracked by the AAR saw carload gains in March 2006 compared with March 2005.

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

Industrial Inside

Barley acres down 5 percent from 2005

Barley producers are starting to seed the 2006 crop as field conditions permit, and according to Steven Edwardson, executive administrator of the North Dakota Barley Council, there is mixed news from both public and private information sources that are providing some interesting perspectives for barley.

“The USDA Crop Planting Intentions Report on March 31 estimated

2006 expected to be lowest planted barley acreage on record

April supply of barley estimated at 128 million bushels

If Canada has a normal quality barley crop, sellers are expecting strong exports to U.S. Markets

that barley acres will be 3.667 million acres, down five percent from the 3.875 million acres planted in 2005," Edwardson said. "If those figures are realized, this will be the lowest barley planted acreage on record."

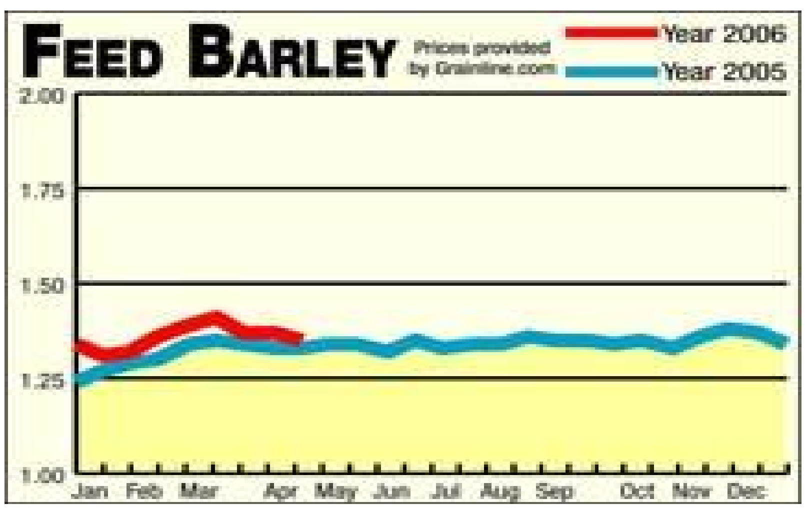
Barley acreage is expected to remain stable in North Dakota in 2006, at 1.2 million acres, but this will tie 2005's figures as the lowest planted acreage of barley in the state since records began in 1926.

Edwardson also mentioned that other major barley producing states are indicating a decrease in acres for 2006 as well. Those states include:

- Idaho - 600,000 acres, down five percent from 2005
- Montana - 800,000 acres a decline of 11 percent
- Washington - 205,000 acres, down five percent
- Minnesota - 85,000 acres, 32 percent less than 2005.

In the April grain stocks report, the USDA estimates the supply of barley is 128 million bushels, which is unchanged from the March report. The USDA is projecting ending stocks at 105 million bushels at the end of the marketing year, which is 23 million bushels lower than the 2004/2005 marketing year.

"There is still a significant carryover supply that is causing farmers to carefully evaluate planting intentions, and is likewise causing buyers to be cautious in their malt barley contracting programs," Edwardson said. "Growers will be carefully monitoring market opportunities in wheat and other crop enterprises."



In looking to the north, Edwardson said Canada reports a generally improved outlook for barley in the Prairie Provinces, large due to the potential decrease in U.S. barley plantings. Western Canada has a fairly large carryover supply of barley, and he predicts it will take time before prices respond to increasing demand and decreased stocks.

"If Canada has a normal quality barley crop, sellers are expecting strong exports to U.S. markets," he said.

Spring barley planting conditions could result in strengthening prices

Edwardson said at the present time local elevator prices in North Dakota remain fairly flat. Feed barley prices are ranging from $1.25 to $1.45 per bushel. Cash malting barley prices have strengthened modestly in recent months, with prices ranging from $1.85 to $2.30 per bushel.

“Spring planting conditions, coupled with the rate at which buyers continue to consume carryover stocks, could result in strengthening of prices,” he said.

A check of local elevator board prices on the website smallgrains.org indicated malting barley prices were steady to up a nickel or a dime in some cases. Spot cash prices for malting barley fell in a narrow range of $2.11 to $2.35 a bushel.

Read more at:
http://www.farmandranchguide.com/articles/2006/04/28/ag_news/markets/market03.txt

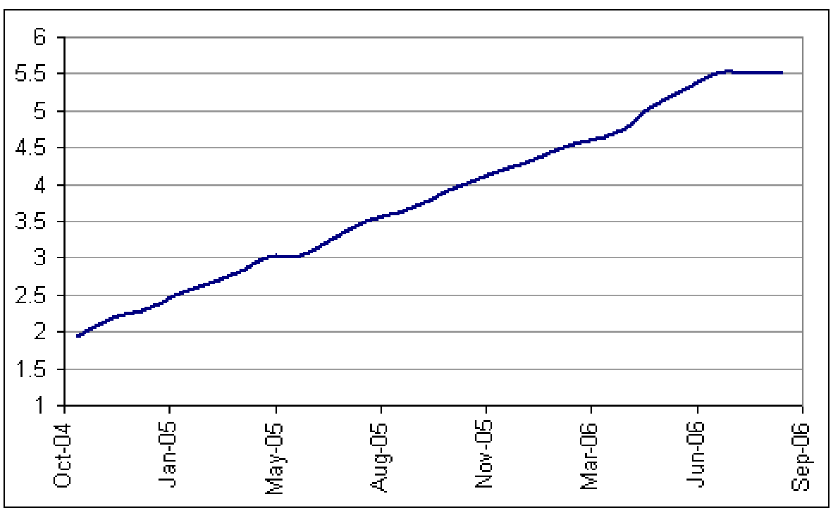
Financial Focus

Federal funds quarter-point rate hike likely

In response to brisk economic growth and continued inflation pressures, a survey of top U.S. economists shows that another interest rate hike is likely when the Federal Reserve Bank meets again May 10, which will raise the current 4.75% rate to 5.0%. This expectation is a change from a January survey in which the economists predicted the Fed would pause after its March 28 meeting.

Interest rate could be at 5.0 percent after May 10 meeting

"All the data is pointing to a lot of momentum, and if (the Fed) wants to slow down the economy, why stop in May?" says Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University, who expects the Fed to raise rates in May and June.



Energy prices biggest threat to 2006 economy

The central bank, as expected, raised rates in March to 4.75% from 4.5% to keep inflation under wraps. A run-up in energy prices was seen as the biggest threat to the economy through the end of 2006, while concerns about a housing slowdown ran second.

"A lot will depend on how weak housing gets, in terms of whether we go into a real soft patch or not. That's the key here," says Nariman Behravesh of Global Insight.

Learn more at:
http://www.usatoday.com/money/economy/survey/2006-04-27-econ-survey-usat_x.htm

Graph offered at:
http://www.forecasts.org

The Edge

Spring has sprung across the country. It's certainly nice to have a little more moderate weather, particularly for us northern folks. Spring also brings a slew of activity in the rail industry.

In our April newsletter we related that Class I Railroads are spending in excess of $8 billion in capital and many regional and short line railroads are spending large sums of capital for infrastructure improvements as well. We here at Tealinc have a number of rail expansion projects under way so it appears growth is eminent from the rail shipping to the rail receiving community and everywhere in between. As you see this capital infrastructure being employed, be aware of the fact that with long term gain comes short term pain. To adequately plan, install and refurbish track and infrastructure, there will some delays in key rail operating corridors. Key rail operating corridors are where a significant portion of this $8 billion will be spent. This will not help railroad cycle time in the near term but should make significant improvements in the long term.

Most Class I railroads will communicate to you their maintenance and improvement plans. If you're running traffic in a high volume corridor and there's a major capital program going on or planned for that corridor you'd best plan transportation alternatives or increase your short term rail car capacity to haul your goods to market.

We continue to see significant shortages of railcars and locomotives being available in the market place which won't help alleviate the short term pain of corridor improvements. Overall the improvements signify confidence of the rail sector and their investors in the transportation program underway in the industry which in turn is healthy for our country.

If we can be of assistance in helping you evaluate your operating situation for the upcoming spring and summer season don't hesitate to give us a call.

We look forward to earning your business!