Touchbase

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Railroad Updates

CSXI's fuel surcharge to rise; UP's to hold steady in October

On Monday, October 1st CSXI will implement an October surcharge of 23 percent vs. September's 21 percent and August's 21.5 percent fuel surcharges.

CSXI adjusts its surcharge the first Monday of each month based on the difference between the U.S. Department of Energy's (DOE) price index the previous Monday (in this case, Sept. 24) and $1.10. CSXI calculates the percent difference between the DOE's "Retail Diesel Fuel Price Index" and $1.10, multiplies the figure by 10 percent and then again by 100. On Sept. 24, the DOE reported a diesel retail price of $3.03 per gallon.

If the U.S. National Average Fuel Index equals or exceeds $2.79 per gallon, CSXI increases its fuel surcharge 0.5 percent for every four-cent increase in fuel price.

CSXI's drayage-only fuel surcharge for October will be 29 percent.

Meanwhile, Union Pacific Railroad's carload rate-based fuel surcharge will hold steady at 16.5 percent in October, then rise to 17.5 percent in November. The railroad's rate-based standard Highway Diesel Fuel surcharge program is based on the DOE's U.S. average on-highway diesel fuel price.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=11448

CN to acquire 'major portion' of Elgin, Joliet & Eastern

Canadian National Railway Co. announced it reached an agreement with United States Steel Corp. to acquire a major portion of the Elgin, Joliet and Eastern Railway Co.

Three weeks after Canadian Pacific Railway announced plans to acquire the Dakota, Minnesota & Eastern Railroad Corp., CPR's Canadian Class I counterpart has revealed an acquisition deal involving another major U.S. regional.

The Canadian National Railway Co. announced it reached an agreement with United States Steel Corp. to acquire a major portion of the Elgin, Joliet and Eastern Railway Co. (EJ&E) for $300 million. Known as "Chicago's Outer Belt," the 198-mile regional operates a mainline encircling the Windy City, reaching Waukegan, Joliet and South Chicago, Ill., and Gary, Ind.

The deal calls for U.S. Steel's Transtar subsidiary to retain ownership of railroad assets and equipment, and continue employing workers at a Gary Works site in northwest Indiana, which will become the Gary Railway. CN would acquire the remainder of EJ&E's operations.

The transaction is subject to Surface Transportation Board approval. Pending regulatory review, the deal could close in mid-2008.

“This acquisition is good news for railroading in Chicago … [which] is essential to CN’s rail operations…”

The acquisition wouldn’t cause any shippers to lose direct rail competition or adversely effect rail competition

“This acquisition is good news for railroading in Chicago … [which] is essential to CN’s rail operations, yet presents us with major operational challenges,” said CN President and Chief Executive Officer E. Hunter Harrison in a prepared statement. “This transaction will improve rail operations on the CN system and the rest of the Chicago rail network by moving CN trains out of the urban core to EJ&E lines on the outskirts of the Chicago metropolitan area.”

The deal also will provide CN what had been a missing link to connect the eastern, western and southern regions of the Class I’s network, said CN Senior Vice President-Southern Region Gordon Trafton.

The acquisition wouldn’t cause any shippers to lose direct rail competition or adversely effect rail competition, CN said. The Class I would keep gateways open and honor trackage rights agreements with all connecting carriers, which include CPR, BNSF Railway Co., CSX Transportation, Norfolk Southern Corp. and Union Pacific Railroad.

CN plans to invest about $100 million to integrate the regional, build connections, improve infrastructure and expand capacity on the EJ&E, which moves steel, petroleum and chemical products, coal, and other bulk commodities and finished goods. The regional employs 700 people.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=11442

AAR Updates

New Billing Repair Card (BRC)… expected to improve the network efficiency of the rail industry by promoting more efficient business exchanges among railcar owners, freight car repair companies and railroads

Considerable effort has been extended over the past 4 years by the Arbitration and Rules Committee as well as the Car Repair Billing Committee to promote efficiency improvements in the AAR Car Repair Billing (CRB) System so it seems appropriate to point out a few of the recent key events in moving towards the goal of "paperless" billing.

The Billing System was recently redesigned to enhance the exchange of car repair billing data. Published circulars announced:

1. The adoption of a 500 Byte Data Exchange Format on January 1, 2006
2. Changes to Rule 103 promoting electronic exchange of Joint Inspection Certificates.
3. Rule changes to facilitate electronic exchange of Counter Billing Authorities
4. AAR Data Exchange System as the method of invoicing for repairs to be implemented

Through the efforts of Railinc and the Car Repair Billing Committee, the new Billing Repair Card (BRC) module allows small repair shops, short line and regional railroads to report repairs, automatically price them against the AAR Price Master and send the repair data directly into Railinc's Data Exchange improving the network efficiency of the rail industry by promoting more efficient business exchanges among railcar owners, freight car repair companies and railroads.

It has been recognized that January 1, 2008 might be a bit ambitious in mandating the concept all at once so the sponsoring Committees have chosen to move in a more deliberate fashion toward the goal. Shown below is a synopsis of some of the significant changes to the current rules. Look for the track change feature, bolds and underlines to locate the changes in the attachments.

AAR soliciting comments for the implementation

The AAR is soliciting comments for this action. Comments received within 30 days will be considered prior to the targeted implementation date of January 1, 2008. Comments should be directed to the undersigned at the address shown below or by email to **tstahura@aar.org**.

If you need additional information or would like to learn more you may contact us directly.

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

Railroad Traffic

U.S. railroads' traffic totals in August weren't encouraging. The roads originated 1.7 million carloads, down 1 percent, and 1.2 million trailers and containers, down 4.2 percent compared with traffic in August 2006, according to the Association of American Railroads (AAR).

Eight months into 2007, U.S. roads' traffic volume still trails 2006

Although carloads of coke, grain and chemicals increased 20 percent, 5.8 percent and 2.3 percent, respectively, 11 other commodities posted declines, including metallic ores (12.1 percent), pulp and paper products (11.1 percent), and metals and metal products (10.9 percent).

Coke, grain and chemicals up; metallic ores, pulp and paper products, metals and metal products down

However, there's at least one sign that railroads' traffic fortunes could turn in the third quarter. "Last week's announced preliminary GDP figure of 3.4 percent for the second quarter of 2007, up from 0.6 percent during the first quarter, is a hopeful signal of a return to a more solid [economic] expansion" said AAR Vice President Craig Rockey in a prepared statement.

During 2007's first eight months, U.S. railroads originated 11.4 million carloads, down 3.5 percent, and 8 million intermodal loads, down 1.9 percent compared with traffic from the same 2006 period.

That being said, intermodal volume on U.S. railroads reached its highest level so far this year during the week ended September 15, the Association of American Railroads (AAR) reported September 20.

A total of 252,283 trailers and containers were loaded during the week, making it the seventh highest weekly total ever. However, the total was down 2.0 percent from the comparable week last year, which was the busiest week in history for intermodal. For the week, container volume

Intermodal volume on U.S. railroads reached its highest level so far this year during the week ended September 15

was down 0.2 percent while trailer loadings were off 8.3 percent from last year.

Cumulative originations for the first 37 weeks of 2007 on the Canadian railroads totaled 2,872,475 carloads, down 1.1 percent from last year, and 1,709,428 trailers and containers, up 2.9 percent from last year.

The AAR also reported that carload freight on the Mexican railroad Kansas City Southern de Mexico (KCSM) during the week ended September 15 totaled 10,324 cars, down 14.1 percent from last year. KCSM reported intermodal volume of 4,836 trailers or containers, up 11.5 percent from the 37th week of 2006. For the first 37 weeks of 2007, KCSM reported cumulative volume of 400,958 cars, down 4.2 percent from last year, and 166,384 trailers or containers, up 13.9 percent.

Visit the AAR at:
http://www.aar.org and
http://www.progressiverailroading.com/prdailynews/news.asp?id=11332

Industrial Inside

Cement and steel companies, hard-hit by the housing downturn, could see demand improve over the next couple of years

Cement and steel companies, hard-hit by the housing downturn, could see demand improve the next couple of years in the wake of the deadly August collapse of Minnesota's Interstate 35W bridge.

"Unfortunately, this is a timely event that will push people looking at (the bridge problem) to give us some answers," said Heather Brown, director and associate professor of the concrete industry management program at Middle Tennessee State University.

That doesn't mean bridge construction contracts will start being handed out even this year although Congress is trying to fast-track federal funding for repairs to Minnesota's damaged bridge. In September it was announced that the Senate passed a $104.6 billion Fiscal Year 2008 DOT appropriations bill and although the bill is subject to a White House veto, the bill passed after the Senate agreed to add an extra $1 billion for the federal bridge replacement and repair program.

Senate passed a $104.6 billion Fiscal Year 2008 DOT appropriations bill

The House passed its version of the bill on July 24. The two bills would provide similar overall spending levels — $104.4 billion in the House compared with the Senate's $104.6 billion. Both bills propose funding core highways at $40.2 billion in accordance with SAFETEA-LU. On the flip side, both bills are about $4 billion more than the White House requested.

After bridge inspections are completed, it still likely would be up to two years before government contracts would be issued, says Ed Sullivan, chief economist at the Portland Cement Association, an industry group based in Skokie, Ill.

"Demand would be ramping up at a time when industry can meet it," Sullivan said, because companies had already implemented production increase plans for next year and beyond in hopes of a housing rebound.

"Demand would be ramping up at a time when industry can meet it"

Mired in a slump since record consumption and spending in 2005, the U.S. cement industry last year embarked on an expansion effort and plans to invest $5.5 billion to increase domestic capacity 20 percent by 2010, Sullivan said. There were 122.5 million metric tons of cement consumed in 2005, a number expected to drop to 116.5 million this year, before surging to 128.9 million in 2010.

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Focused on the steel industry, more than 7 million tons of steel plate produced last year was used in bridges and the bridge market usually represents about 5 percent of the yearly total although it has risen since increased federal funding was approved in 2005 and even if demand from bridge repair and construction doubled, Boring said he is "completely confident on the material side, capacity would not be an issue."

Charles Bradford, a steel analyst with Bradford Research/Soliel Securities, urged caution on the industry's ability to keep pace. It is recognized that meeting demand in the steel industry could be an issue because the same steel used for bridges is also used in office buildings, and the nonresidential market is booming, Bradford said. Still, even if that market cools a bit and public bridge projects ramp up, steel companies' would benefit.

Meeting demand in the steel industry could be an issue

Investors seem optimistic about the bridge industry. The American Society of Civil Engineers estimates the cost of repairing U.S. bridges rated structurally deficient at more than $188 billion over 20 years and although these projects tend to take "forever," the 2005 federal highway bill included hundreds of billions of dollars for bridge repairs

2005 federal highway bill included hundreds of billions of dollars for bridge repairs

Learn more at:
http://news.moneycentral.msn.com/ticker/article.aspx?Feed=AP&Date=20070803&ID=7278242&Symbol=LR and
http://www.pitandquarry.com/pitandquarry/News+Watch/News-Week-of-Sept-24/ArticleStandard/Article/detail/459551

Financial Focus

The Federal Reserve cut the target on a key short-term interest rate by half of a percentage point on September 18 to 4.75% in a bold acknowledgement that the central bank is concerned the mortgage meltdown plaguing Wall Street and Main Street could hurt the economy.

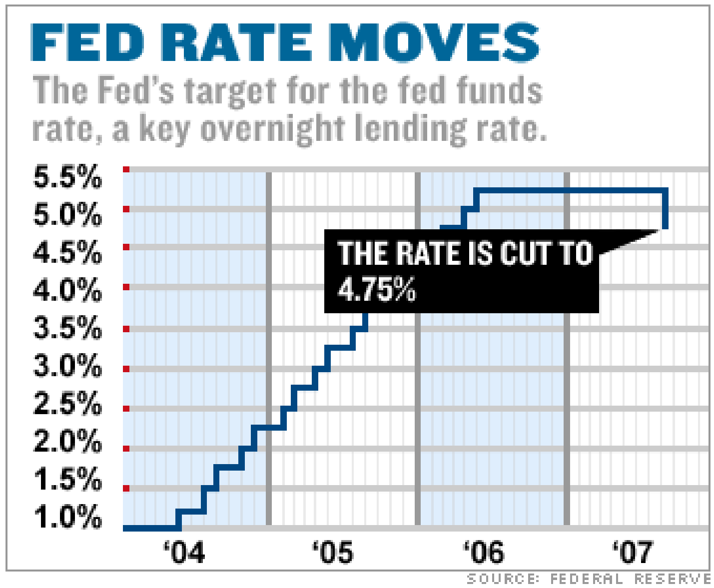
The Fed also indicated that more rate cuts could be on the way, news that investors cheered. "This took some investors by surprise. It's like the Christmas present you really wanted but weren't really expecting," said Gary Webb, chief executive officer of Webb Financial Group, a Bloomington, Minn.-based independent investment advisory firm with

Federal Reserve cut the target on a key short-term interest rate by half of a

percentage point on September 18 to 4.75%

about $120 million in assets under management.

The cut to the federal funds rate, the first since June 2003, was widely anticipated by investors and followed a surprise cut to the Fed's discount rate on Aug. 17. The only question was whether the Fed would lower the federal funds rate by 25 basis points or 50 basis points. (There are 100 basis points in a full percentage point.)



The cut to the federal funds rate, the first since June 2003, was widely anticipated by investors

On Tuesday, the Fed also cut its discount rate by another half of a point to 5.25 percent. The central bank said that the vote to lower rates was unanimous.

Some investors had thought that Fed chair Ben Bernanke would take a more cautious approach and not cut rates by such a large margin, because a half-point cut could signal the Fed was acting out of desperation to save the economy.

"This is not a magical elixir that solves our subprime problems overnight, but it is a big step in the right direction to keep the economy growing"

Alan Skrainka, chief market strategist with Edward Jones in St. Louis, disagreed with that interpretation. He said Wall Street was cheering the rate cut because it proves the Fed is willing to take any moves necessary to ensure the economy is not derailed by problems in the subprime mortgage market, loans made to consumers with less-than-perfect credit.

"We're having champagne and cookies," Skrainka said. "This is not a magical elixir that solves our subprime problems overnight, but it is a big step in the right direction to keep the economy growing. The Fed is sending a strong message that it won't get behind the curve," he added.

The Fed said that "the tightening of credit conditions has the potential to intensify the housing correction and to restrain

The federal funds rate, an overnight lending rate that banks charge each other, is important since it influences the amount of interest consumers must pay for various types of debt, such as credit cards, home equity lines of credit and auto loans. The rate cut should help some beleaguered home borrowers who are set to see monthly payments on adjustable rate mortgages rise later this year.

economic growth more generally"

Fed's expected to cut interests rates another quarter of a percentage point during their October 31 meeting

In its statement, the Fed said that "the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally" and that the rate cut "is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time."

Chris Probyn, chief economist with State Street Global Advisors in Boston, said that with oil prices rising, consumer confidence sinking and the job market starting to show signs of weakness, the Fed made the right move to reassure investors.

Analysts say the rate cut was a "bold step" and that he expected the Fed to cut interest rates at least one more time, probably by just a quarter of a percentage point though, before the end of the year.

The Fed's next monetary policy decision is scheduled to take place at the end of a two-day meeting on Oct. 31 and its last meeting of the year is set for Dec. 11.

Learn more at:
http://money.cnn.com/2007/09/18/news/economy/fed_rates/index.htm

The Edge

Current events in the rail industry have really picked up lately.

*The Canadian National is in the process of buying the EJ&E and the Canadian Pacific is in the process of buying the DM&E. Both strategic long term plays in the north American rail transportation arena may provide additional competitive alternatives to select bulk and intermodal commodity transportation.

*One railcar builder announces a new plant opening while another announces a potential closing if they don't get union worker concessions.

*Railroad carload originated traffic is off by some 2.2% for the year, being effected by the housing market (forest products shipments) and somewhat of a leveling out of the ores & metals market for a high point in 2006.

Meanwhile the shipper community, which is sometimes on the outside looking in, tries to make sense of it all.

Here at Tealinc, we complete a lot of development work for shippers by assisting our customers with rail, truck and barge transportation infrastructure as well as operations and development of logistical product flow efficiencies. We usually are brought into the process after the business decision has been made and in most cases, though transportation plays a key role, it is not a key decision point when considering a facility and/or operations siding.

Consider this: according to data from the Surface Transportation Board and our involvement in working with shippers and receivers, the rail rate difference between building on a site with no rail alternatives compared to a site with rail alternative (e.g. more than one rail carrier) results in between fifteen percent to twenty percent in rail transportation costs. That's significant when you're in a competitive product environment.

Even more interesting is the difference in the type of a facility. Railroads continue to push larger trains and more efficient loading and unloading practices. It's worth your time (and money) during the planning process to consider the infrastructure cost difference between stockpile, carrying costs and transportation cost advantages. Pay attention to where you locate a siding and just how efficient it is and save more money in the long run than you ever imagined.

Planning ahead can mean the difference between having stockpiles and having money in the bank. Don't forget that fall happens and closer to home remember that we have Thanksgiving and Christmas holidays fast approaching. This is the time of year when everything slows down and these key holidays can put you days, even weeks, behind. Plan ahead during the next 30-45 days to rest assured that your year end shipments will make it to your customer's door.

We look forward to earning your business!