“The New Reality”

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Central PA Rail Freight Summit  
Lewisburg, PA  
November 16, 2007
Backdrop Today
Rail Slow Down

- **Economy Slowed** in First Half of 2007, Predicted to Pick Up Late Next Year
- **Housing Starts Down**: 1.85M – March 2005; 1.95M – March 2006; 1.5M – March 2007
- **Auto Production**: Down from 2006
- **Durable Goods Orders Down**: $219B as of June 2006, $213B as of June 2007
- **Exports** Jumped; **Imports** Dropped – International Dollar Value
- **Class I Carloads** First Half 2007 versus First Half 2006 – Down 4.1%
- **Short Line and Regional Carloads** Same Period – Down 7.1%
- **But, Still as Good as 2005**

* (source: AAR, U.S.-based Class I's only) ***(source: RMI Rail Connect Index)
Rail Slow Down (Cont'd)

- Democratic Congress . . . New Ideas
- Presidential Run-Up . . . New Focus in 2008
- Foreign Conflicts . . . Dominating Time, Agendas of Congress and Money
- Security Concerns . . . Government, Corporate, Communities, Public
- Rail Adverse Legislative / Regulatory Initiatives . . . Potential Impacts on Rail Industry

*(source: AAR, U.S.-based Class I's only)  **(source: RMI Rail Connect Index)
The Feds
New Federal Legislation Being Considered

- If Just a Few are Passed This Year Railroads Will Feel the Impact
  - HR 1401 Rail & Public Transportation **Security Act** 2007
  - HR 2095 Federal Railway **Safety Improvement Act** 2007
  - HR 2125 Railroad **Competition and Service Improvement Act** of 2007
  - HR 2422 Requires **Notifying Emergency Responders** Prior to HazMat Transport in their Jurisdictions - 2007
New Federal Legislation Being Considered Cont'd

- **HR 3920 Trade and Globalization Act of 2007**
- **HR 1584 & S 881 Short Line Railroad Investment Act of 2007**
- **S 1438 Railroad Crossing and Hazardous Materials Transport Safety Act of 2007**
- **S 1889 Railroad Safety Enhancement Act of 2007**
- **S 953 Competition and Service Improvement Act of 2007**
- **S 772 Railroad Antitrust Enforcement Act of 2007**
FRA – Rail Safety Advisory Committee

- Human Factors / Operating Rules – DRAFT NPRM
- Medical Standards for Railroaders – WIP
- Roadway Worker Protection – DRAFT NPRM
- Continuous Welded Rail Inspections – IFR Published
- Locomotive Safety Standards – Final Rules on Sanders Published – Continuing Review on Inspection Standards
- *New FRA Attention Concerning the Safety of Railroad Bridges

* ASLRRA and FRA Teaming to Assess Short Line Bridge Conditions
STB Recent Involvement

- **Cost of Capital Calculations** – STB is Proposing a Change in Determining Revenue Adequacy for Railroads.

- **Cost of Capital Investments** – STB Proposed a New Method for Calculating the Cost of the Railroad Industry's Capital Investments. This Impacts How Much Railroads are Allowed to Earn when their Prices are Subject to Review by the Government.

- **Paper Barriers** – Revised Final Rules have been issued. Requires New Disclosure Requirements for Advanced Regulatory Scrutiny for Proposed Line Sales or Leases to Class II and Class III Railroads. And, Old Paper Barriers can be challenged.

- **Small Rate Cases** – Revised Final Rules have been issued. Will Result in More Rate Cases Filed at STB and some Small Railroads may be Affected. Class I's have filed petition for review by Federal Courts.
STB Recent Involvement  (Cont'd)

- **Common Carrier Entitlements** – STB "Invited" NS Petition for Rulemaking to Require More Information from Common Carrier Applicants. ASLRRRA Supports an Examination of the Issue so long as No Additional Burden on Existing or Future Small Railroads Results.

- **Fuel Surcharges** – Final Ruling on Jan. 25, 2007 Eliminated Rate Based Fuel Surcharges.

- **Preemption Issues** – Decision in New England Transrail was a compromise: STB Accepted Jurisdiction Over Trash Hauling Railroad but found Some Activities Not Preempted from Local Regulation. STB Commissioner Mulvey Filed Strong Dissent Arguing Trash Hauling Rail Activities Are Not Preempted At All.
TSA Security Requirements

- TSA + DOT Final Rules in Fall 2007
- TIH Unattended Cars in High Threat Urban Areas (HTUA)
- High Threat Urban Area Security Plans
- 27 Voluntary Security Actions Endorsed by TSA Now in Effect – AAR Wants Regulations! ASLRRRA Believes Regs Not Needed
- New Rail Industry Master Security Plan Being Developed
EPA - Locomotive Emissions Standards

- New Federal Locomotive Emissions Standards - Tiers 3 and 4
- Significant State and Federal "Green" Interest for Locomotives, Terminals and Yards
Federal Communications Commission (FCC) is Developing **New Frequency Spectrums and Channel Assignments** for All Railroads

Current 25MH Railroad Frequency **Will Change to 12.5MH Starting in 2010; 25MH Will Phase Out Entirely by 2013**

Then, at Some Point After 2013 the **Frequency Spectrum Will Change Again to 6.25MH** for All Railroads – This is the FCC End State

**Question:** Why Not Go to 6.25MH and skip 12.5MH Stage?

**Answer:** **Analysis Underway Now**, Available Technology, Costs, Timing, Manufacturers Capacity, Phase-In Period, Other Industry Frequency Issues are All Being Considered and **May** Lead to Skipping 12.5MH Stage

And, **New Railroad Channel Assignments** Will Also Be Established

Decision and Steps to Implement Rail Industry Final Plan Expected in Spring 2008
RRIF – Under Attack

- **Railroad Rehabilitation and Improvement Financing** is Facing an Uncertain Future – $35B Program

- **Federal Office of Management and Budget** Opposes the RRIF Program

- **US DOT** is Leaning in the Same Direction as OMB through New Guidelines for Applicants

- Result Could be a Hard Process that is Even Harder
Truck Size and Weights

- **Coalition Against Bigger Trucks (CABT)** is Challenged to Contain State Initiatives to Increase Truck Size and Weights

- New Challenges Anticipated from ATA to get **Federal Legislation to Permit Double and Triple Trailer Trucks** in 2010

- **Bigger Trucks Would Strike at the Core of Short Line Business** – Less than 500 Mile Movements (This Range Also Impacts Class I's)

- **ASLRRRA and CABT Have Partnered** to Confront This Threat
The HazMat Crisis

- 152 Short Lines Transport 43.5K TIH Cars Each Year
- Appropriate Insurance Coverage is Costly for Short Lines
- Cannot Refuse Movement of TIH as Common Carriers, and therefore Risk their Companies each time they Transport these Substances

Answer:

- **Producers, Carriers, End Users and the Federal Government** (Price-Anderson) Collaborate to Share the Exposure for Big and Small Railroads
  - ASLarra / AAR Produced DRAFT Legislation for Railroads Being Considered now by Congressional Staffs – **Hard Sell** . . .
Good News
More Than 465% Route Miles Growth Over the Course of 25 Years . . .

Due to the Creation of 172 Short Lines – 31% Growth – Totaling 556
Class II / III Operating Profile

- Short Line / Regional Railroads: 556
- Total Miles Operated: 48K
- Total Number of Cars Handled: 10.6M
- Total Intermodal Units Handled: 2.1M
- Total TIH Units Handled: 43,500
- Total Facilities Served: 12K (+) – **1.5M Employees**
- Total Bridges on the Network: 15,876
Class II / III Financial Slice

- Revenue > $3.2 Billion
- Capital Expenditure > $433M Annually
- Maintenance Expenditure > $397M Annually
- Infrastructure & Equipment Investments
  - RRIF Loans $761.45M ( $50M Ethanol ); 17 Approved, 3 Loans Pending
  - Federal Tax Credits $250M through 2006
- Employees – 22K
- Railroad Retirement Board Contributions – $19M
Class II / III Business Piece

- **Originate and/or Terminate** 1 Out of Every 4 Carloads Moved in the U.S.
- 50% Class II / III Railroads Handle HazMat
- Provide Customers with **Rates that are 20 – 50% Less** Than Comparable Truck Transportation
- **Account for 15 – 25% of Class I Revenues**
- Carloads Down 7.1% - from 2006 – about the Same as 2005 – But Still A Good Year !
- **Top Commodities:**
  1. Coal
  2. Farm Products
  3. Non Metallic Minerals
  4. Lumber & Wood Products
  5. Pulp, Paper & Related Products
  6. Food Products
  7. Chemicals
     * Ethanol
## Class II / III Safety Performance

### January – December

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee Hours</th>
<th>Categories*</th>
<th>Fatalities</th>
<th>Severity Index</th>
<th>Rate</th>
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<td>2005</td>
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<td>40,134,336</td>
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<td>343</td>
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*Categories:
1 = Non severe and non life-threatening injuries
2 = More severe; amputations, concussions, loss of sight, hearing, etc.
3 = Fatality

** Through July 2007
Short Line Federal Tax Credit

- **Current Short Line Tax Credit Expires December 31, 2007.** We are Attempting to Extend it for Another 3 Years ($250M in 2005 & 2006; $100M-200M for 2007)

- **ASLRRRA Now Has 238 House and Senate Sponsors** for our House and Senate Bills Extending the Short Line Tax Credit (HR 1584 & S 881)

- To Date More than **1,000 Short Line Shippers are Members of "Save Our Service"** and are Lobbying Strongly on Behalf of Short Lines

- **There is a Chance for Success this Year!**
Ethanol Production and Impacts on Short Lines-Hottest Emerging Market

- 2007 Production Will Exceed Mandated 7.5B Gal
- 75% of Ethanol Production is Moving by Rail
- 81 Refineries and 8 Expansions Under Construction Now in 23 States = 6B Gal.
- Ethanol Demand Will Impact Corn Requirements, Feed Stocks, Ethanol Rail Car Orders, Rail Construction, etc.
New Rail Investors

- **Equity / Hedge Funds**
  - Rail America
  - Florida East Coast
  - Class I's

- **Significant Investors**
  - New Large Class I Stock Owners Have Now Entered the Rail Industry
  - BNSF, UP, NS are the Favorites

- Railroad Stock Values Bumped Upward as a Result

- Expect HF’s and Big Investors to Exert Pressure for Better Performance and Increased Revenues from Class I Railroads and Holding Companies

- This May Drive Change – that could be Good; or Create Demands that Might Be Difficult in the Long Run
Outcomes
Potential Real Change

Changes Could / or Will Be In:

- **Regulatory** – Operations, Safety, Security, Environmental
- **Legislative** – Operations, Safety, Security
- **Costs** – Will Increase to Comply:
  - RRIF Loan Loss (?)
  - Class I Adjustments (?)
  - Tax Credit Expiration / Extension (?)
  - Diesel Emissions Reductions (?)
  - Safety Bill Provisions (?)
  - Litigation (?)
# Short Line Focus

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<th>Service</th>
<th>Safety</th>
<th>Business Development</th>
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<tr>
<td>Know Customer</td>
<td>Market Your Strengths</td>
<td>Recognize New Environment</td>
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<td>Class I Partners are the Key</td>
<td>Adapt to the New Reality</td>
<td>Stalk Opportunities</td>
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ASLRRA Meeting Dates

- Alcohol and Drug Seminar, New Orleans – Nov. 27, 2007
- Engineer Certification, New Orleans, LA – Nov. 28, 2007
- ASLRRA Annual Meeting, San Antonio, TX – May 4-6, 2008
American Short Line and Regional Railroad Association

The Voice of America’s Independent Railroads