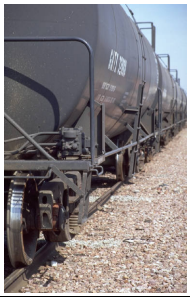
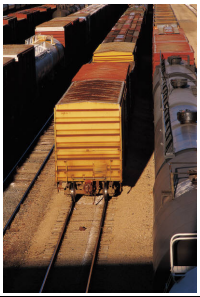


BIGGS APPRAISAL
PROVIDING VALUATION AND TRANSPORTATION SERVICES TO THE RAIL INDUSTRY

Subjects of Value

The Inspection and Appraisal of Rail Equipment



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MEMBER OF THE AMERICAN SOCIETY OF APPRAISERS

Oh No! The New Push for Increased Weight Limits on Trucks

If you were on vacation in the middle of August you might have missed the Wall Street Journal article about the coalition of 150 companies that are lobbying Congress to allow truck gross weights to be increased by 20%. You might have missed the article but I am sure that if you were on the Interstate Highways you most certainly saw that there are already too many trucks on the highways and this in a soft economy.

As an appraiser of rail equipment, the move to higher truck weight capacities will, I believe, have a very negative effect on the value of many rail cars. I would expect that 70 ton and some of the heavier 100 ton capacity equipment will become rapidly obsolete, even those cars that are sized right for the load. Once you remove the cost savings part from the truck vs. rail comparison the trucks are very competitive on time. That, just in time benefit for the shipper, allows them to have less actual inventory on hand and lower inventory costs as well.

As a frequent interstate driver, I have not a lot to say about professional drivers other than to say the unsafe ones are on the increase. What do I mean about the unsafe ones? These are the lane changers without looking, the passing on a hill types and other road blocking maneuvers that put increasingly smaller cars

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Rail Cars in Storage – How Many will actually go back to work?

An article in the August 16th Marketplace section of the Wall Street Journal, "Supersizing Hits the Freight World", prompted this article. While it was news to the reporter that the rail industry was Supersizing, the article brought out some good points that will impact that portion of the fleet that is not gainfully employed or stored.

The term stored can mean different things to different people. Generally, a railroader considers a car that is not either under load, ordered in for loading or returning from a load a car in storage. A leasing company may look at off lease cars as stored equipment. Most everybody looks at stored equipment as non productive assets or a problem. We have seen the storage problem erode away as more and more equipment goes back into service.

The question is, at what point do we reach the bottom of the stored cars barrel and start to see shortages of cars that will require either new cars or a substantial capital infusion into existing cars to bring them up to modern 286,000 pound gross rail load standards?

The bottom of the barrel is closer than might be readily apparent. If you divide the stored cars into neat little compartments you will have: 1) Serviceable modern weight standard for their type (a relatively small group), 2) Serviceable late model older weight standard cars, 3) Bad order cars, and 4) Functionally obsolete cars.

It will not take much more time as measured in months to have the balance of most of the Serviceable modern weight standard for their type cars back in service including bad order cars of that group. The surge fleet of Serviceable late model older weight standard cars may or may not be pulled back into service. It is important at this juncture to get a bit closer to the data for a particular commodity type. If you look at coal, the utility coal side has almost completely moved to 286K standard capacity. My salesman friends say the utilities have said you would have to pay them to use 263K equipment. Is it likely that late model 263K aluminum coal gondolas will go back into service in any appreciable numbers? I doubt it and there are large quantities of these cars stored and that will be heading to storage as leases expire. These are cars that range in age from as young as 15 to about 22 years old. These are prime candidates for upgrade conversion if the economics work.

A classic example of how few cars in a class of

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Rail Cars in Storage – How Many will actually go back to work?

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car will potentially stay in service or come out of storage is the Q Class of Lighter Weight Low Profile Intermodal cars. In January of this year there were 25 types of Q cars in the fleet comprising 15,514 units. This count was down by 7 car types and over 2,000 units since January of 2007. The problem is these are a single stack car in a double stack world. Yes, you cannot stack trailers so you either have to put the trailers on conventional TOFC flat cars or Lighter Weight Cars. However many Q cars will not handle the modern 53' trailer. The trailer on flat car part of Intermodal has been shrinking rapidly as more and more double stack routes have opened. Is this all gloom and doom for the Q cars? I expect that the Q car fleet will be reduced by as much as 75% in the next few years. Why such a high number? Most of the Q cars were designed to handle 40' to 48' trailers and containers. The overseas traffic in 40' containers is primarily moving in double stacks, the domestic 48' containers have morphed into 53' containers to stay competitive with the over the road 53' trucks. Many of the Q cars were stack stored off the rail prior to the economic meltdown and will be cut in place rather than reassembled. If this problem really existed as much as three years ago, why were these cars not scrapped when scrap prices were at their peak? Timing is everything; many of these cars were in 20 plus year leases and have only begun to come off lease. Is there another life for these "Q" cars? The potential of municipal solid waste (MSW) by rail moves is enormous and could use large quantities of these cars. At one time the railroads encouraged this "No Loss and Damage" high volume business, but it appears from current rates that is not currently the case. Maybe a stretch program and other modifications could capture some of the now over the border over the road non intermodal trailer traffic out of Mexico. This is a potentially very big market if you can get AAR to modify some of its Intermodal trailer requirements to allow non "Z" trailers on flatcars to be supported so that both the King Pin areas and rear doors area's have protection from typical railroad loads. I suspect it would be an easier and quickly solution to expand intermodal business into and out of Mexico via pricing in double stack 53' containers. The "Q" cars are only one example of what will not easily be coming out of storage. The Q type is likely a worst case scenario.

Car owners that have stored cars that are out of favor, need to assess the potential future for their cars and make a decision to either scrap the cars, offer the cars for sale at reality based pricing or be willing to put a capital infusion into the cars to bring it back into a desirable car status. Some out of favor cars, with proper marketing, can continue to work in their current configuration. There are many railroads with short on line moves that can use a supply of cars to make moves work. There are many industries that can use a clean dry box in large quantities as storage. There are many small railroads that load considerable numbers of cars that had older cars pulled from them to be scrapped when scrap prices were high. Many of those older cars were not replaced because demand fell off during the recession. Signs of demand are increasing and in some situations older lower capacity cars work just fine. Will all of these out of favor cars find a new home? Not Likely. I believe it is safe to say that the number of stored railcars that will potentially come out of storage to fulfill a modern loading requirement is much smaller than most people believe. It is time to look at new car building before the escalations for parts shortages and materials increases get added into the new car price.

Oh No! The New Push for Increased Weight Limits on Trucks

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at risk. In my travels I have seen quite a few accidents between cars and trucks and also just trucks that have drifted off the highway as the drivers fell asleep. My concern is that as part of this push for increase weight is that there is also a Congressional lobby push for increased length of the rigs by 19 Western State Governors. So the potential for magnitude of danger and hazards to the driving public will increase as well.

As a railroader, I kind of like that intermodal thing, where trucks and containers increasingly move by rail and are not tearing up the highways and bridges. We already know that a large percentage of the bridges in the United States are structurally deficient and now we see a push to increase the stress on them. Did we not learn a lesson from the Minneapolis Interstate Bridge Failure?

What to do? There is power in your pen and phone. Forget the internet, twitter and all those fast media devices. Congress is manned and womaned by a large number of older people who put more stock in a flood of calls and letters from their constituents. As a railroad, I have to imagine that given the right tools and motivation, your employees might get on board to protect their jobs. What kind of tools? Take a lesson from the Million Dad's movement on making it easy to get the message to the legislators both state and federal. Remember your people travel a lot and have little time for this kind of stuff so the operative word is "Very" easy. It is not hard as a citizen to get behind the idea of fewer trucks on the highways is a good thing. Certainly I am deathly afraid of these increasingly larger trucks that barrel down the highways with little regard for my small car even with my headlights on. I am afraid that our wonderful highway system will rapidly decline. I do not want to worry on every bridge that I cross will I wind up in the river. Why should truck weights increase when there is already an existing very effective solution. Railroad Intermodal can handle the heavies of weights efficiently and at increasingly faster door to door delivery times.

Railroads have done a commendable job with advertising to get railroads back into the mind of public in the past few years. This might be a good time to step up the pace on the intermodal benefits of rail. Not just with catchy slogans but with real numbers. This train took 200 trailers off the highway from LA to Atlanta. Remember your audience need to be educated or reacquainted about the benefits of rail. Rail and railroad related suppliers should tout Railroads as the growing employer. Help and empower your people to get the message out. Increasing Over- the-Road Truck weights is not good for America.

[1]Wall Street Journal, Marketplace, Jennifer Levitz, August 16,2010

It is the civilized way to travel.

Long distance high speed travel is on the lips of many these days. Everybody wants to put their hands in the honey pot of financial largess that is purportedly in the works out of the fantasy land we call DC. Having traveled in Europe where you can take High Speed Rail and zip between city centers on fast trains sure is a civilized way to travel. Being able to get up stretch and walk to a café car or dining car is great. Sadly at this time and in most places in the United States, this really does not make a lot of sense.

What does make sense is to build upon and improve the relatively high speed rail that we currently have in a "Hub and Spoke" fashion as the airlines have proven works. In order to justify the expense and very high cost to maintain high speed rail, you need either lots of people traveling or deep pockets in the form of subsidy money to make it work.

At the risk of being politically incorrect, oh gosh!... I have never been accused of being politically correct. We all know Politically Correct is synonymous, these days, with lying, cheating and stealing. It is a fool's errand to create little segments of disconnected high speed rail (HSR) that does not serve very high density corridors. Can you imagine taking a long distance train for a 20 plus hour trip to change trains at the end of the trip to HSR for the last 30 minutes? Would you want to pay the premium to do that, especially knowing that the same long distance train will be in the same place an hour or so later? You already loose that much time going from one airline gate to another on flight connections. Why would you fly to point A when your actual vacation is at point B? Just to ride the HSR? I don't think so.

I am all for high speed rail in the places where the most people will get the best possible advantage for the huge bucks that will have to be spent on it. I would like to see the dream of really high speed trains running on the North East Corridor achieved in my lifetime. This unfortunately is not the thing of headlines. This is the pragmatic replacement of 1900's catenary wiring with the modern high speed catenary and equipment that will allow the existing High Speed Acela Train and other trains to achieve their designed speeds.

I am encouraged to see the political sands shifting away from highways and towards rail. We as railroader voters need to steer the politically inept to projects that are sustainable and successful so that additional connections and projects that are useful and needed will make it off the drawing board. Allowing foolish projects to be built and fail will play right into the hands of the highway boys who would pave over America one additional lane at a time. We simply cannot allow that to happen on our watch.

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What We Need Are Longer Trains

Union Pacific Railroad had the audacity to successfully run a 3.4 mile long train on its right of way. California safety regulators were alarmed that long trains might block railroad crossing for safety vehicles. Officials were more alarmed that the railroad conducted its own business on its own right of way without notice to the government. I think Union Pacific Railroad is on the right track with longer trains. In fact, it would be good for railroads nationwide to give the appropriate notice that trains will be getting longer. It would also be appropriate for the railroad industry to develop a book of cookie cutter plans for easy to build overpasses that are railroad engineering department approved, in essence, shovel ready plans for application for stimulus, highway trust fund and any other pocket that has loose change in it. This approach will satisfy the Federal Railroad Administrations mandates to reduce grade crossing, increase public safety and eliminate roadblocks to further railroad efficiencies. If railroads proactively offer to help cash strapped local communities match funds to get corridor projects done. This could be a very targeted way to build local support for the railroad while jump starting grade separation projects that will reduce accidents and improve line velocities.

The SD70M

In North America the six axle locomotives of 3,800 to 4,400 horsepower are the main stay of long drags of coal, merchandise freight and intermodal trains. The SD 70M at 4,000 horsepower is a very popular horsepower for any type of heavy freight operation. The SD 70's were the first production type to feature the EMD patented HTCR steerable high-adhesion radial truck. The radial truck (HTCR-II) is a revolutionary advancement in locomotive suspension, adhesion, and extended component life and ride quality. In addition the HTCR truck is said to allow the locomotives to negotiate tighter curves.
The Union Pacific Railroad is currently operating approximately 88% of the SD 70M locomotives that were built between 1992 and 2004. The SD 70M features as standard the North American wide cab design for increased visibility. Sitting in the SD 70M's cab is like being in an office with a constantly changing panoramic view. It is easy to see why these units are well liked by the train crews, rail road management and maintenance forces. While these units are currently rated as EPA Tier 1 compliant, they are the right kind of unit to tweak to meet a higher Tier rating. I expect that these units will have a life that could exceed the that of the venerable SD 40-2's.