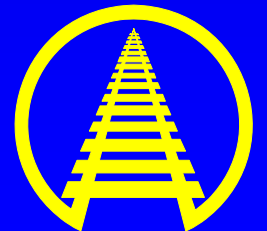
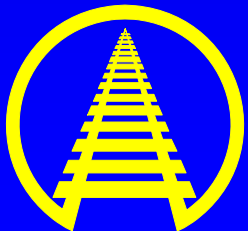


2008 Ethanol Logistics Conference

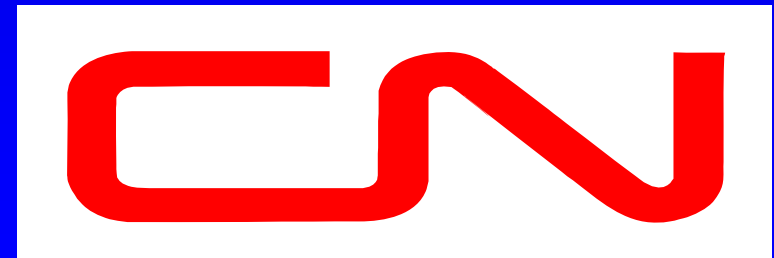
John F. Wetzel

Vice President, Congressional Affairs

Association of American Railroads



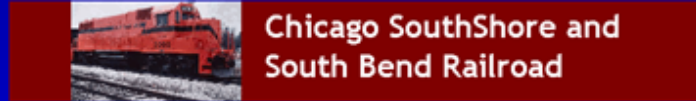
The Seven Class I Railroads Account for Most U.S. Rail Traffic...



...But Hundreds of Non-Class I Railroads Are Critical Too

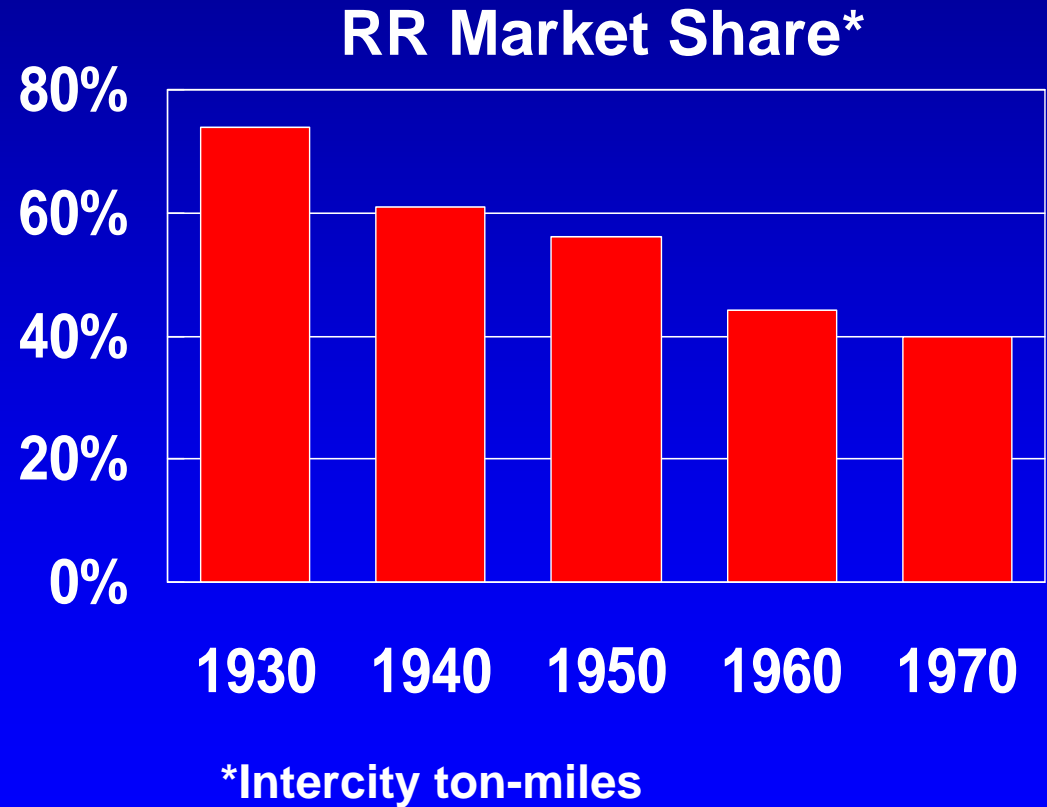


*Wheeling & Lake Erie
Railway*



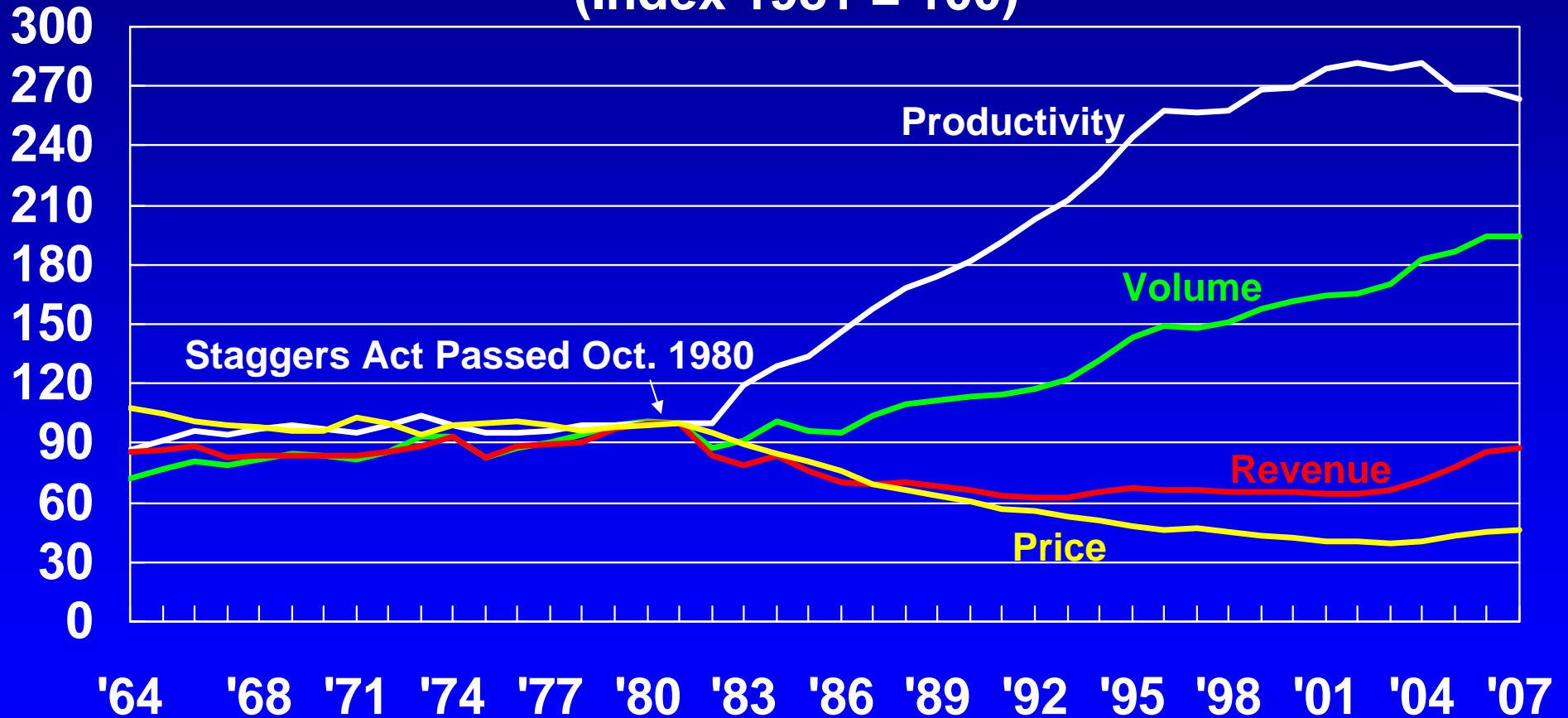
Prior to 1980, the U.S. Rail Industry Was Near Collapse

- 20% of mileage in bankruptcy
- 2% return on investment
- 50,000 miles under slow orders
- Up to \$20 billion in deferred maintenance
- Declining service and market share



The Staggers Act Led to the Rail Industry's Transformation

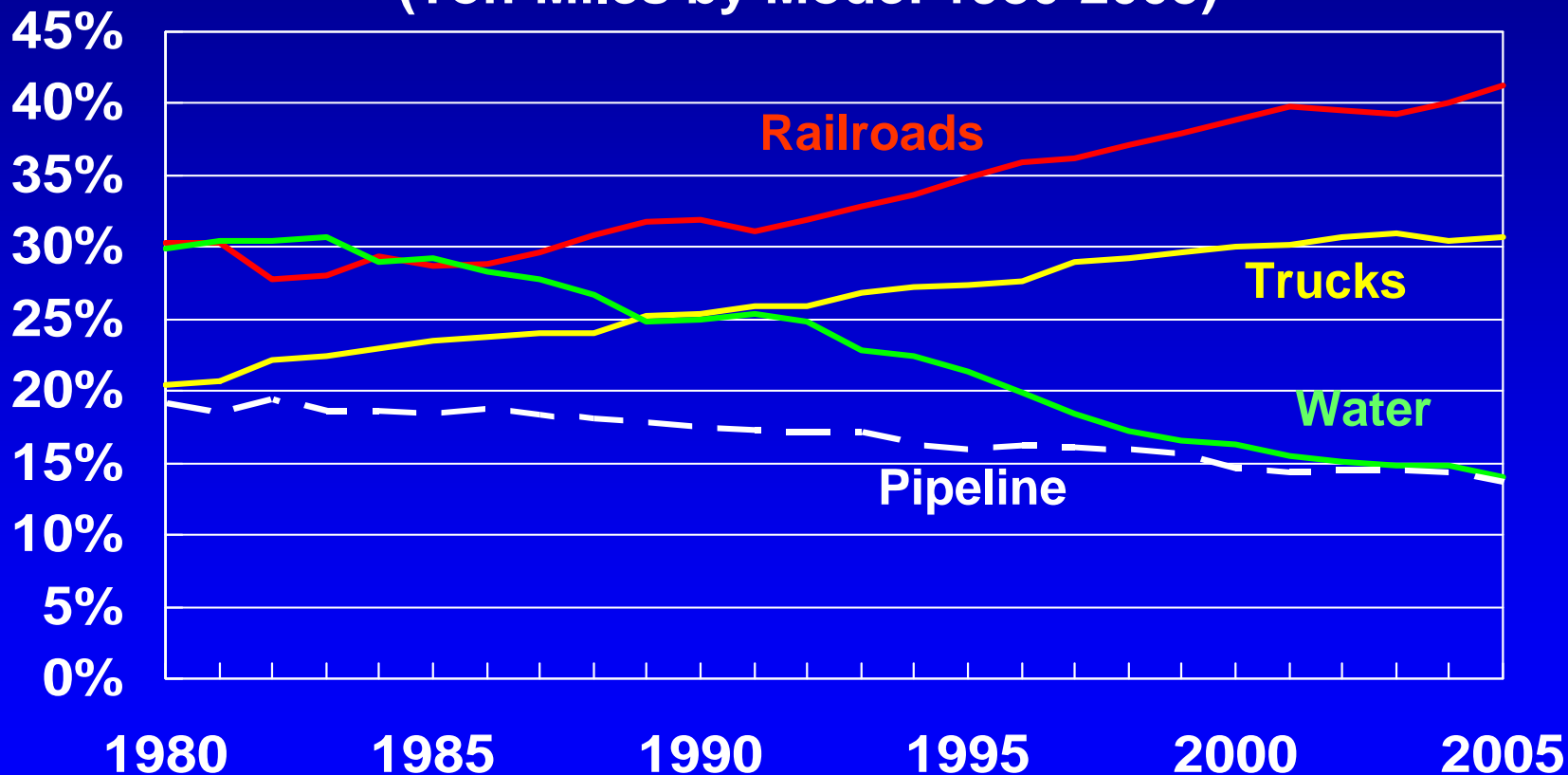
(Index 1981 = 100)



Source: AAR

Railroads Have Higher Freight Volume Than Any Other Mode

(Ton-Miles by Mode: 1980-2005)



Pipeline does not include natural gas. Source: U.S. DOT – Bureau of Transportation Statistics

Railroads Move Just About Everything (Class I Originations in 2007)



**Intermodal:
12.0 million
trailers and
containers**



**Coal:
850 million tons**



**Farm products:
152 million tons**

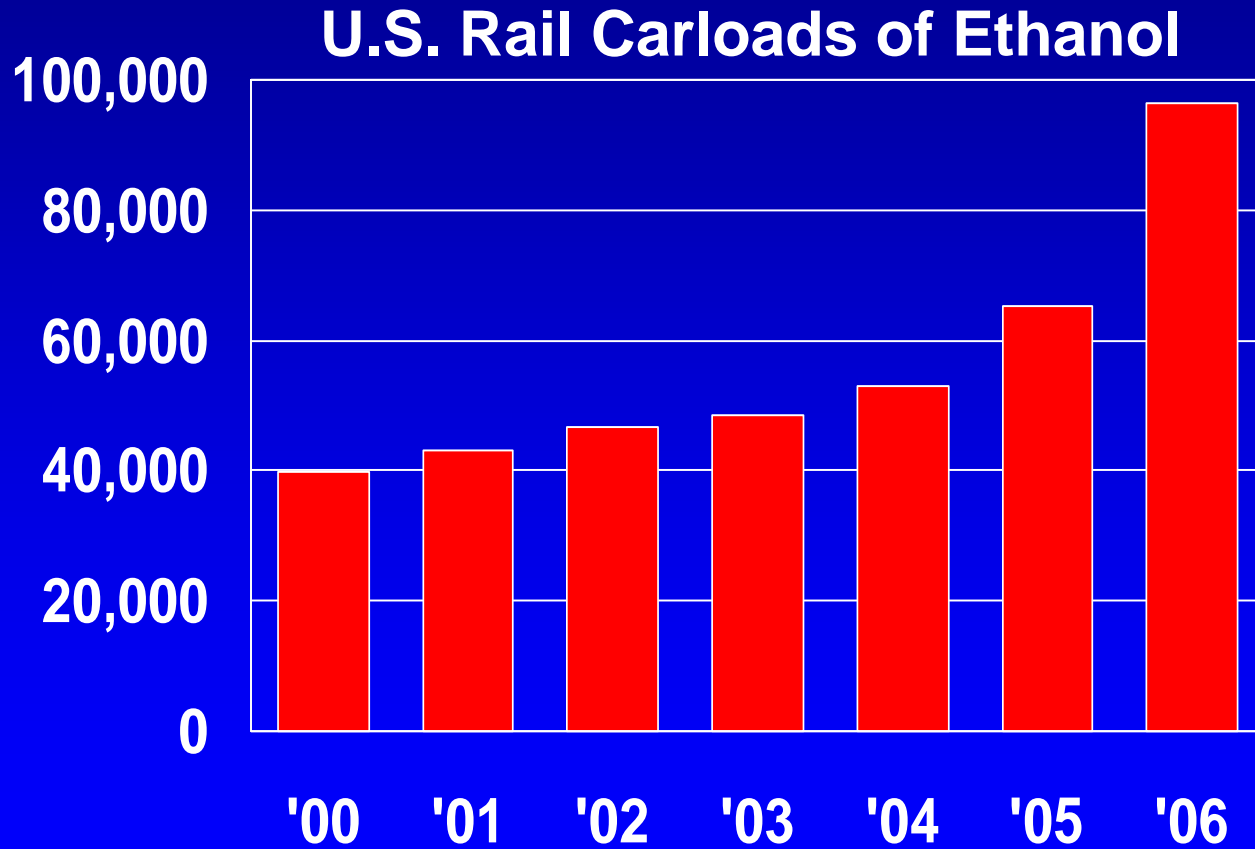


**Chemicals:
176 million tons**

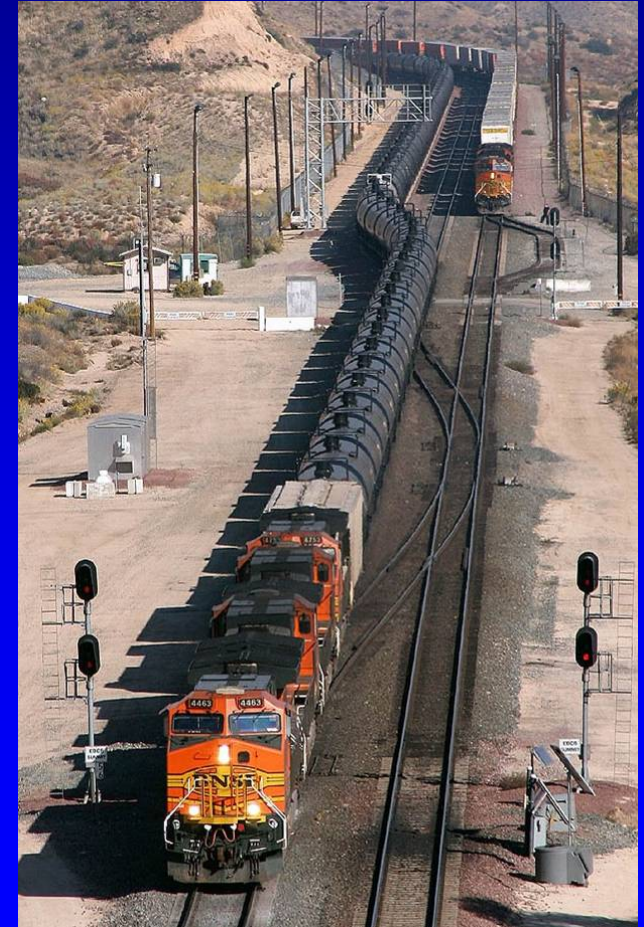
**Stone, sand,
gravel:
138 million tons**



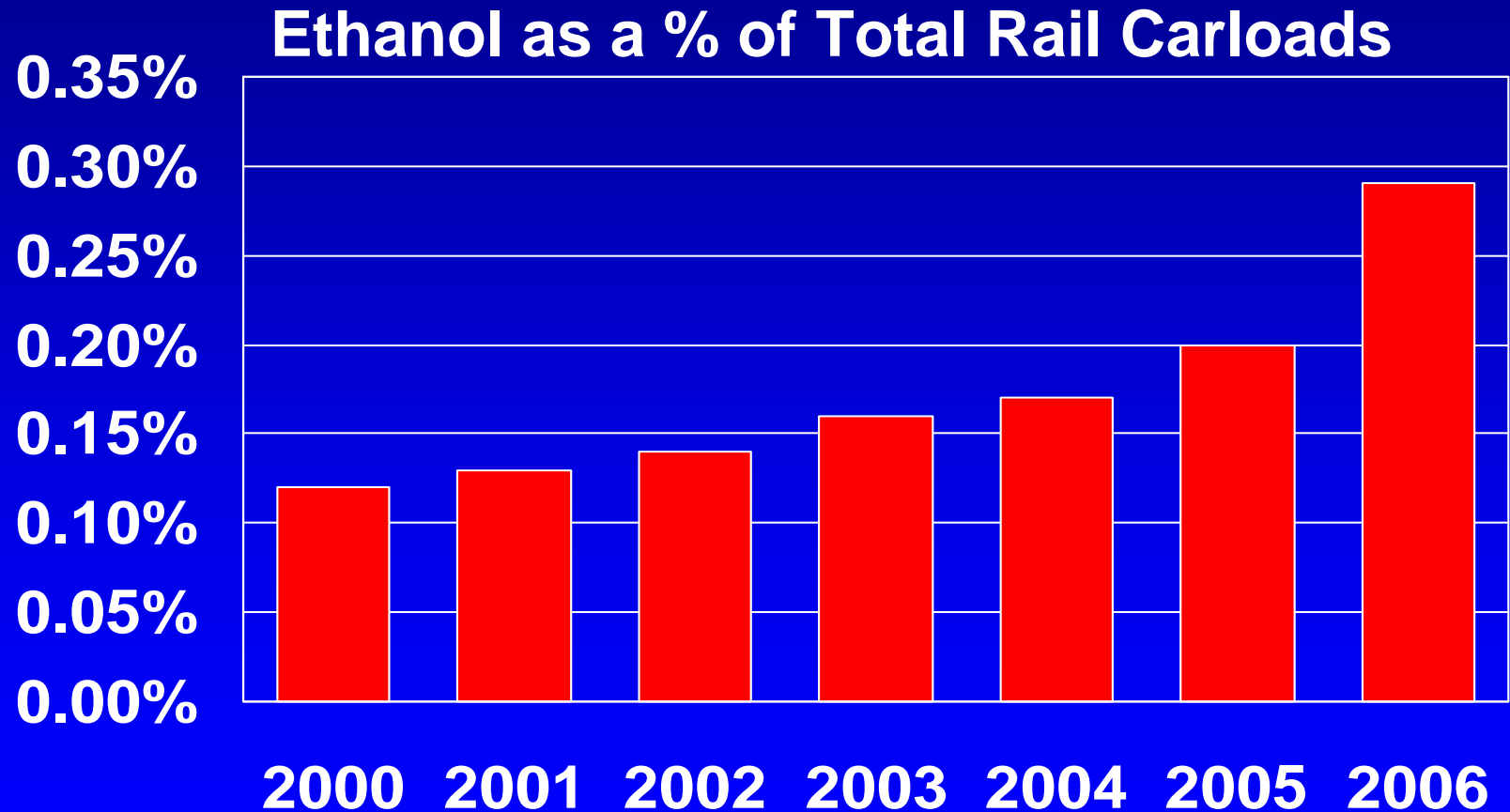
Ethanol is a Rapidly Growing Commodity for Railroads



Source: STB Waybill Sample

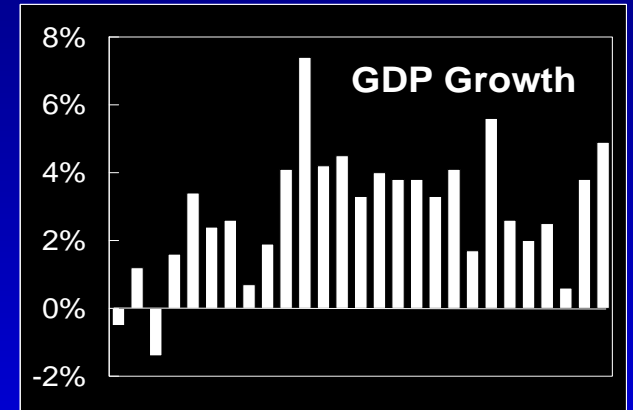


Ethanol Will Remain a Small Portion of Total Rail Traffic



Source: STB Waybill Sample

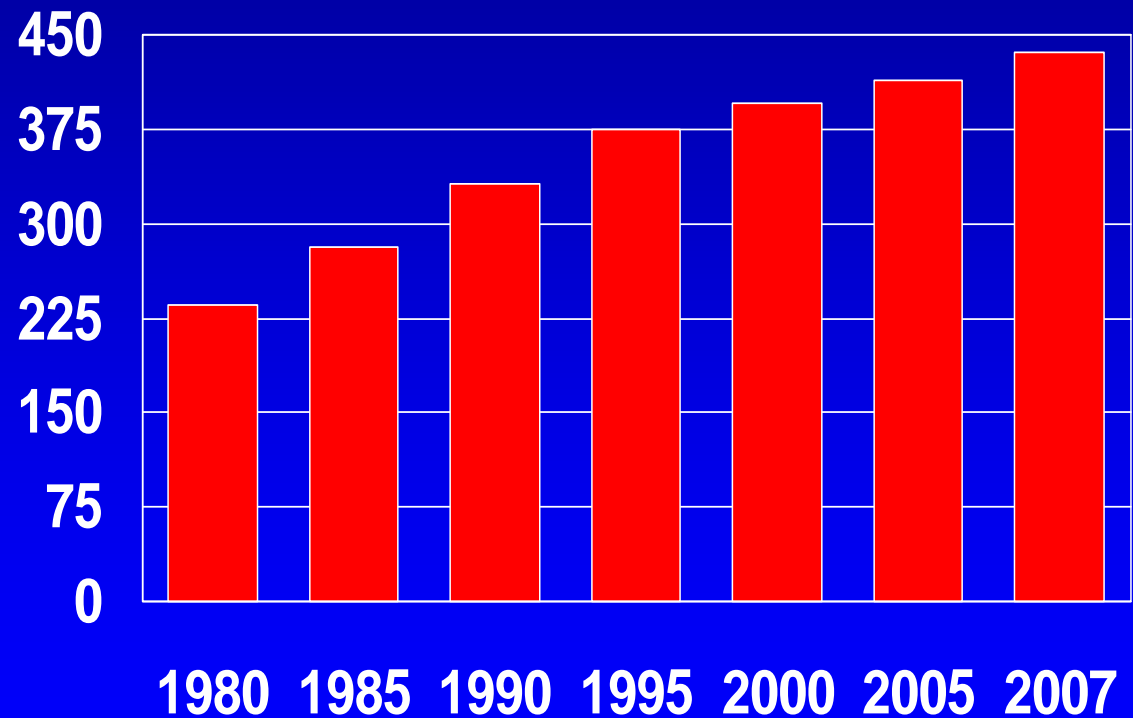
A Variety of Forces are Pushing Freight to Railroads



Freight Rail Saves Fuel

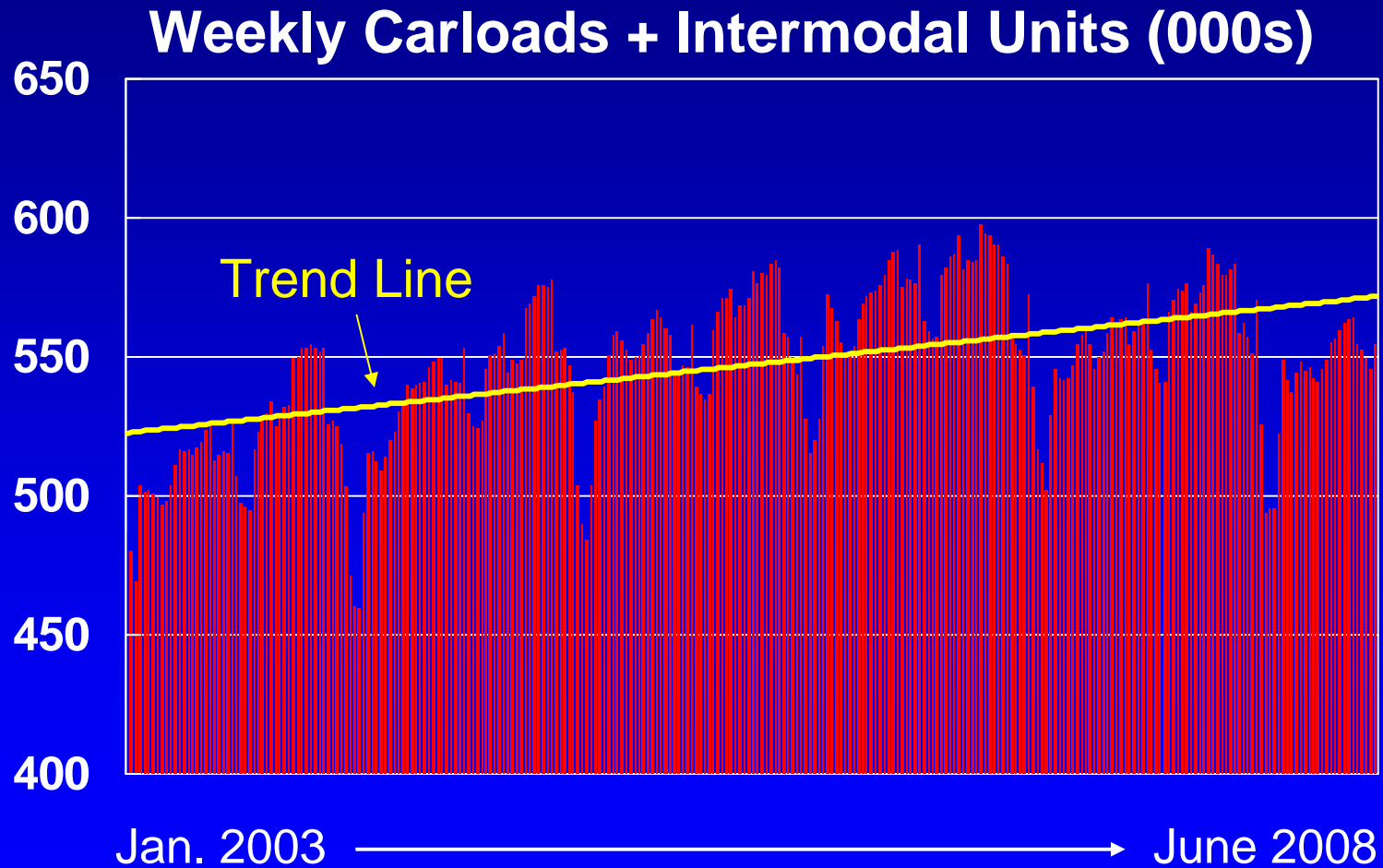
- On average, a train moves a ton of freight 436 miles per gallon of fuel.
- Trains are three or more times more fuel efficient than trucks.
- That means lower greenhouse gas emissions.

**Railroad Fuel Efficiency
(Ton-Miles Per Gallon Consumed)**



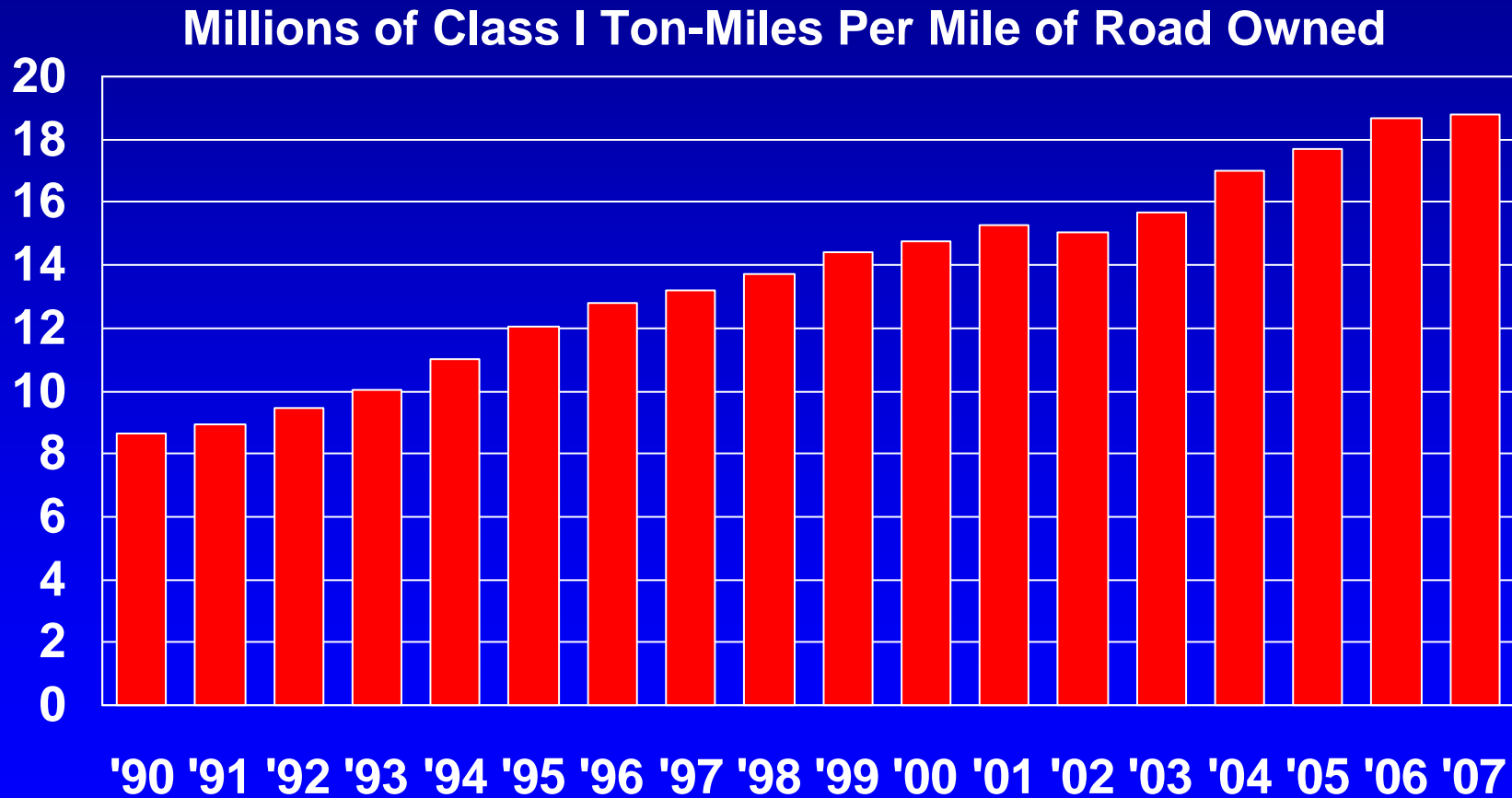
Source: AAR

An Upward Trend in Rail Traffic



Excludes U.S. operations of Canadian railroads. Source: AAR Weekly Railroad Traffic

One Result of Traffic Growth: Tight Capacity on Parts of the Rail Network



Source: AAR

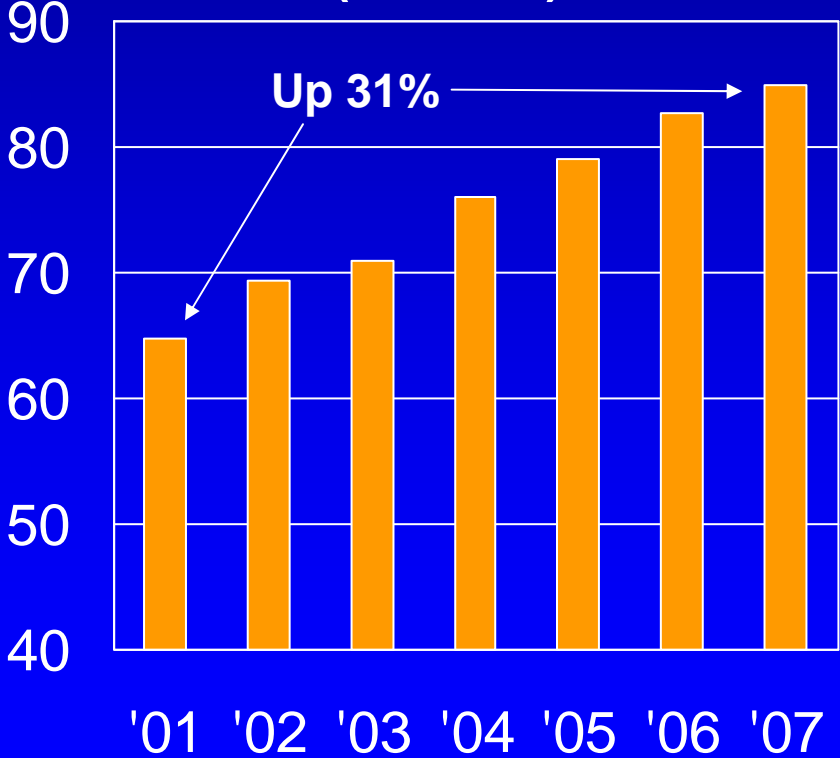
What Are Railroads Doing to Increase Capacity?

- Massive equipment and infrastructure investment
- New hires
- New operating plans
- Cooperative alliances
- Working with customers
- Technology



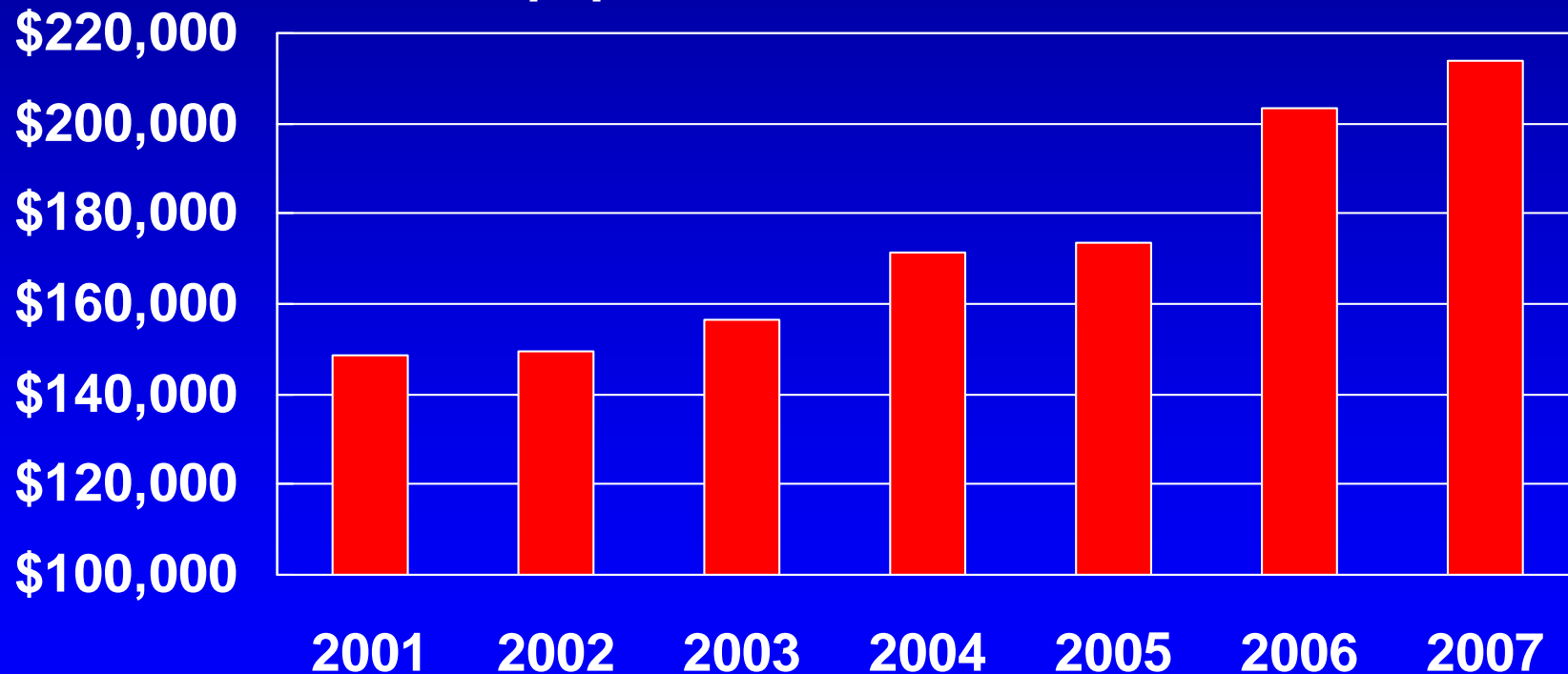
More - and More Powerful - Locomotives

Aggregate Horsepower of U.S. Locomotive Fleet (millions)



Massive Investments Increase Capacity and Capability

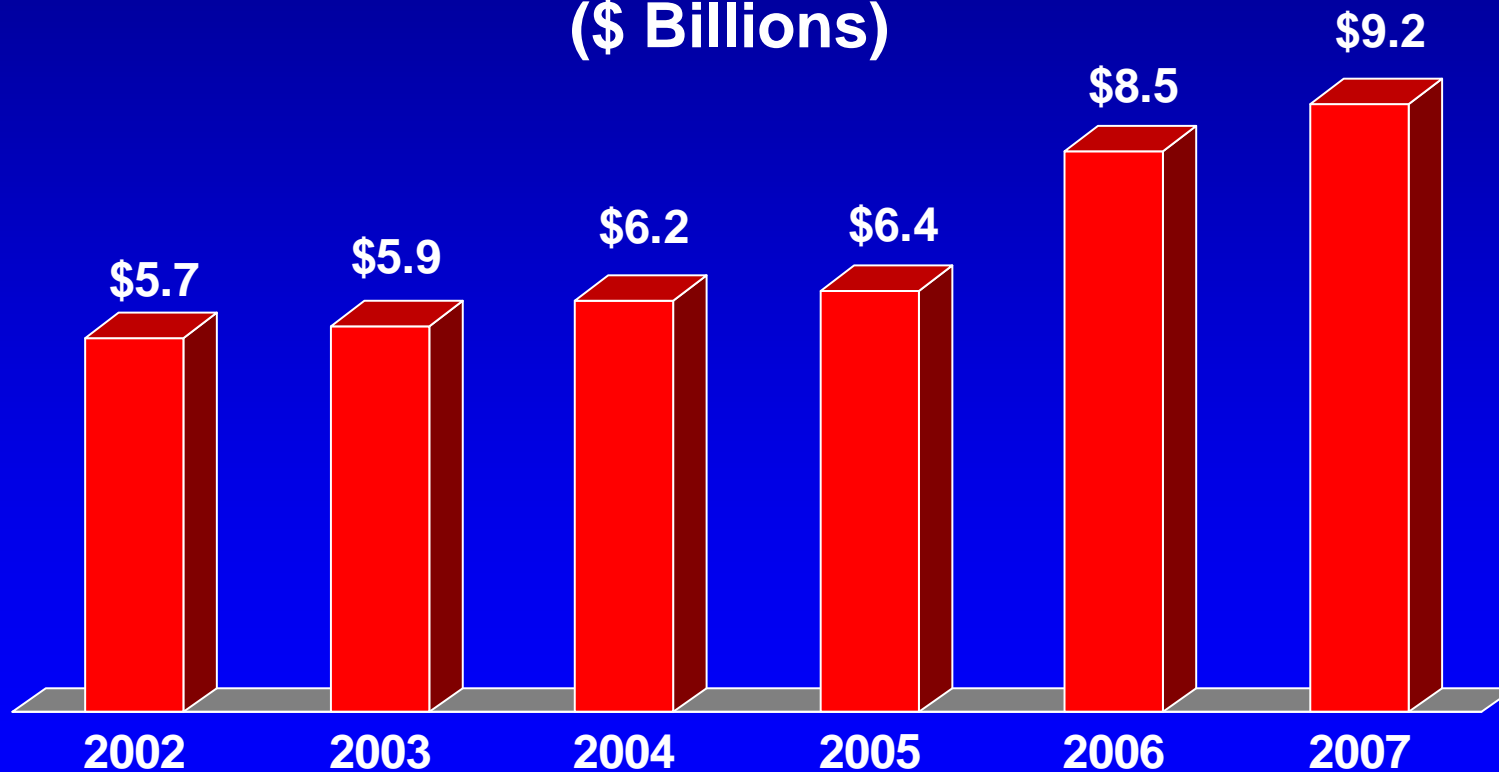
Class I RR Spending on Infrastructure and Equipment Per Mile of Road Owned



Source: AAR

Record Capital Spending

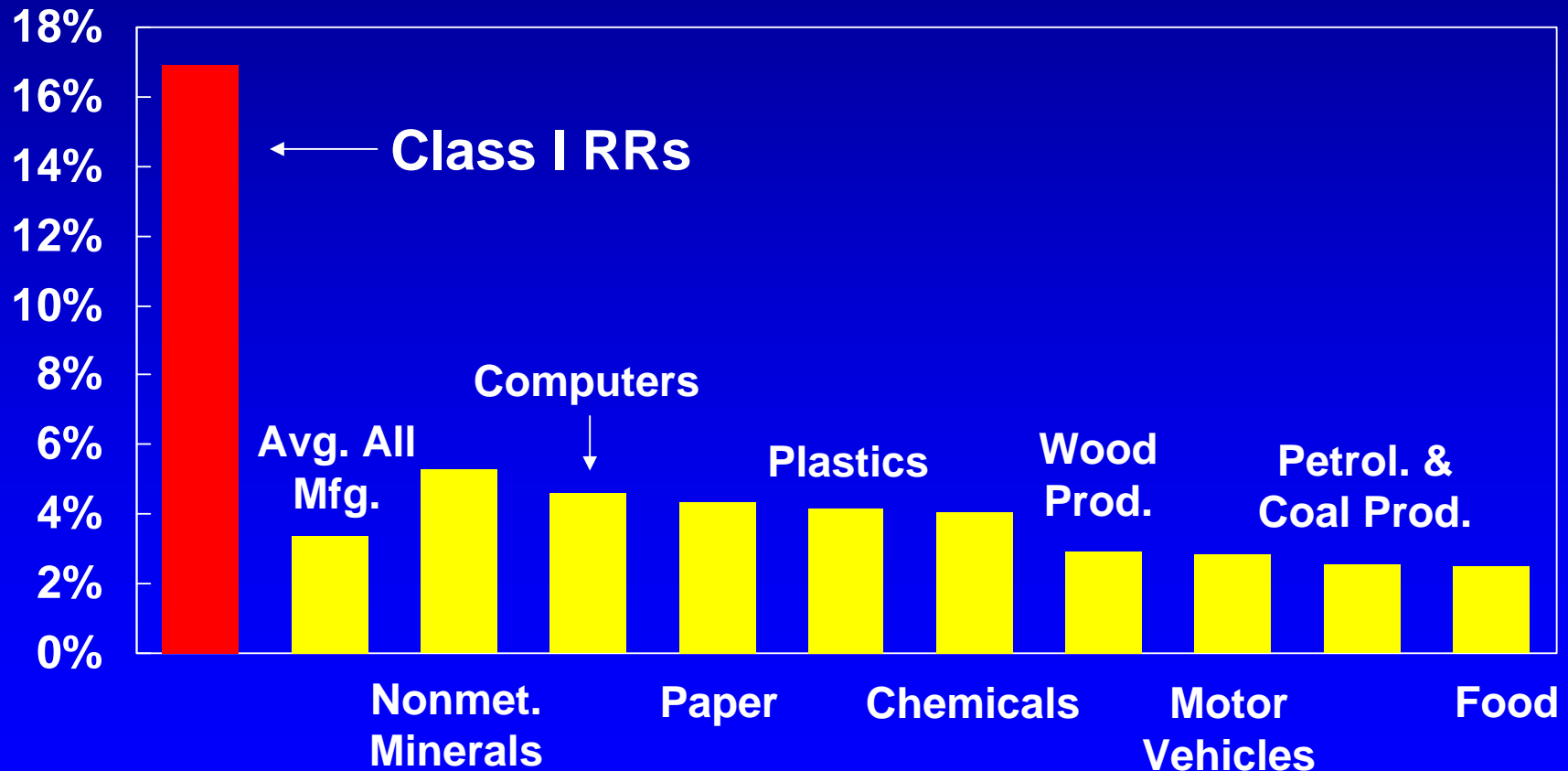
Class I RR Capital Spending (\$ Billions)



Source: AAR

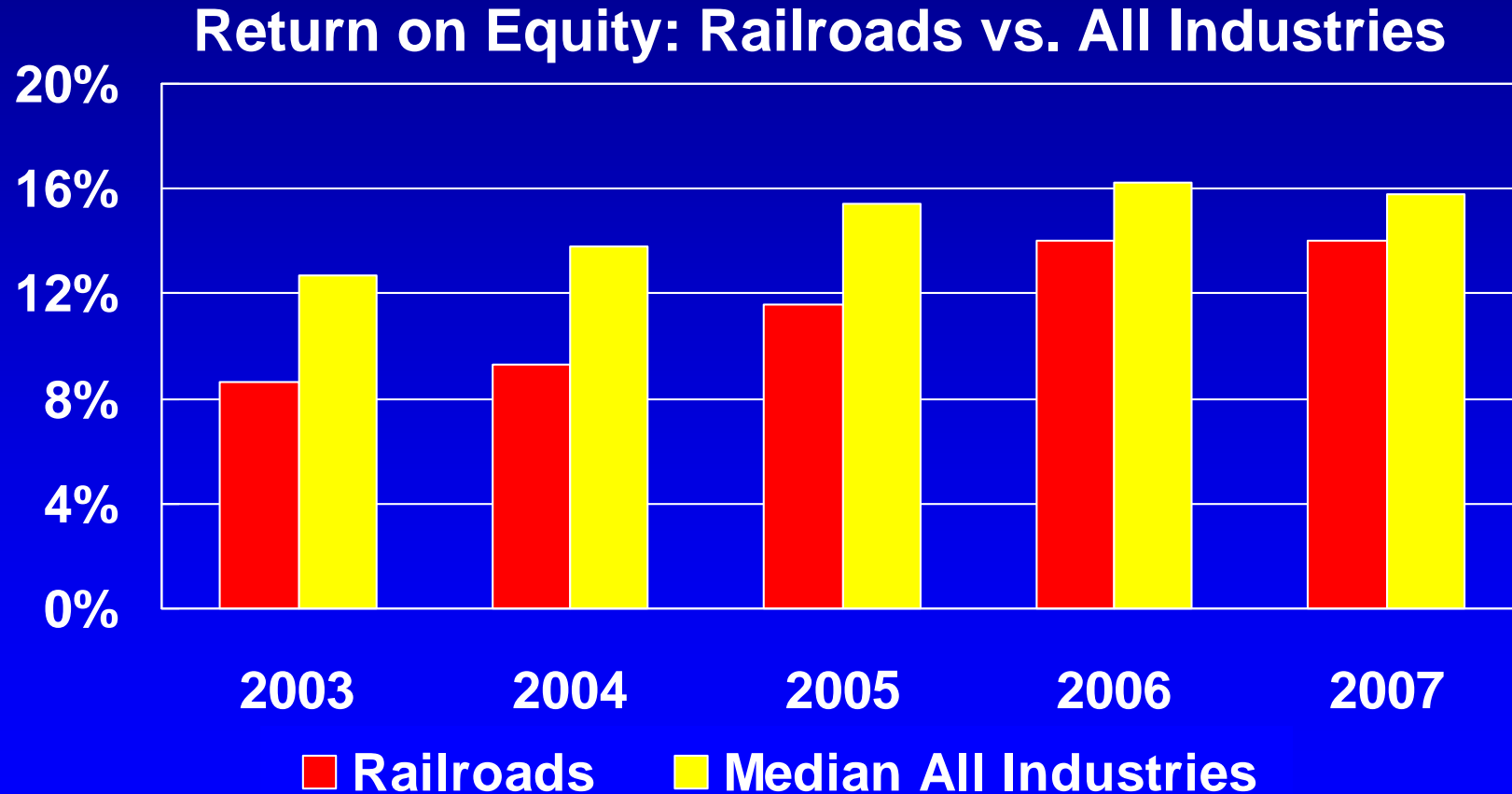
RRs Have Far Higher Capital Intensity Than Most Other Industries

Capital Expenditures as a % of Revenue: Avg. 1997-2006



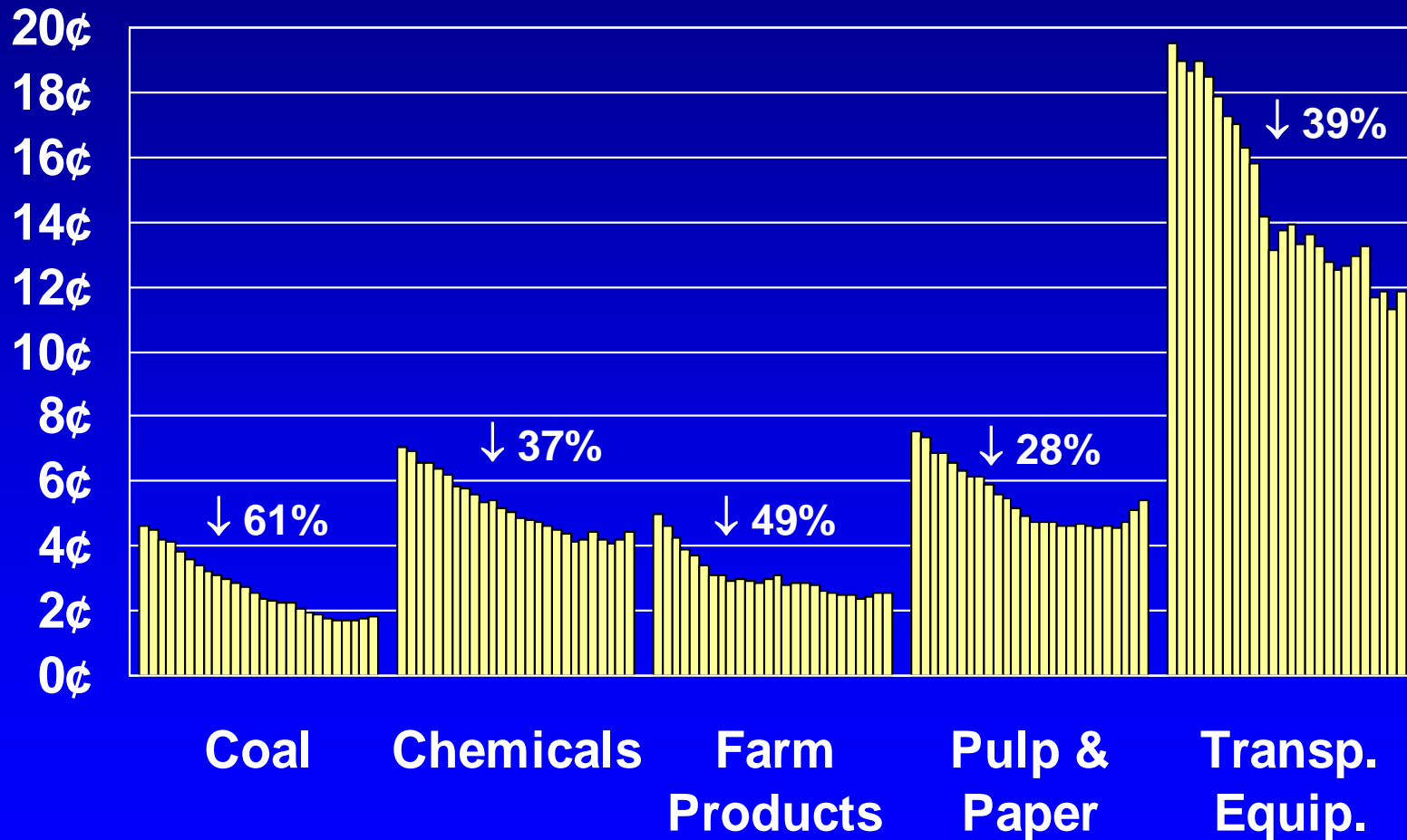
Sources: U.S. Census Bureau, AAR

RR Profitability is Consistently Below Average, Even in Era of “Record Profits”



Source: Value Line

Rail Rates Are Down For Most Commodities*



*Inflation-adjusted revenue per ton-mile, 1981-2006 Source: STB Carload Waybill Sample

Freight Railroad Investment Challenge

- Rail investment must grow sharply over the next 20 years just to maintain the current rail share of freight traffic.
- AASHTO, the Transportation Research Board, and others report that freight railroads are unlikely to be able to make the necessary investments on their own.



National Rail Freight Infrastructure Capacity and Investment Study



National Rail Freight Infrastructure Capacity and Investment Study

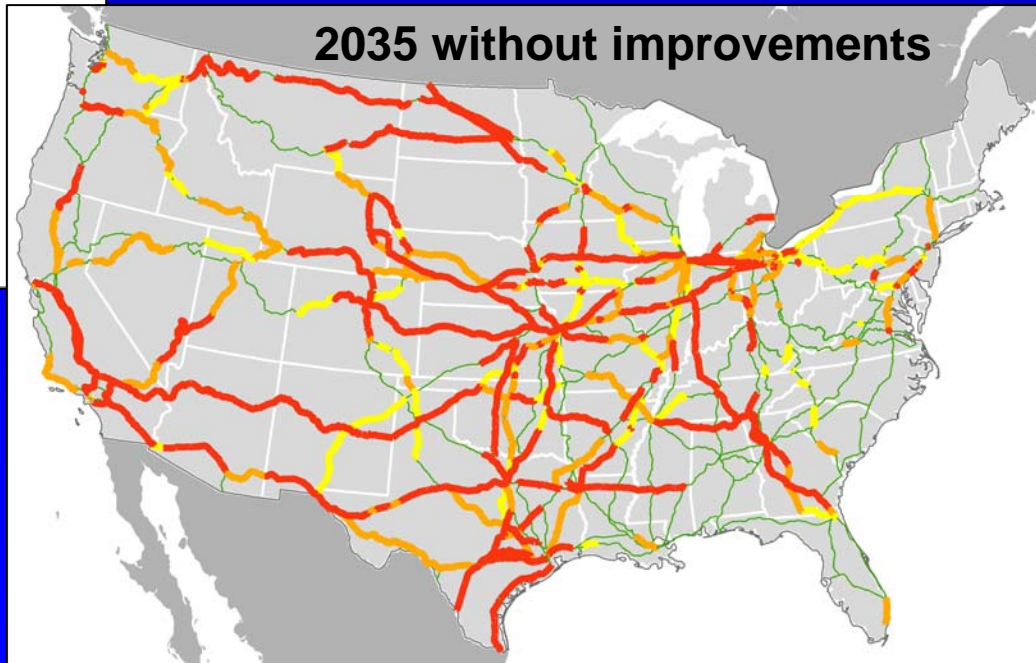
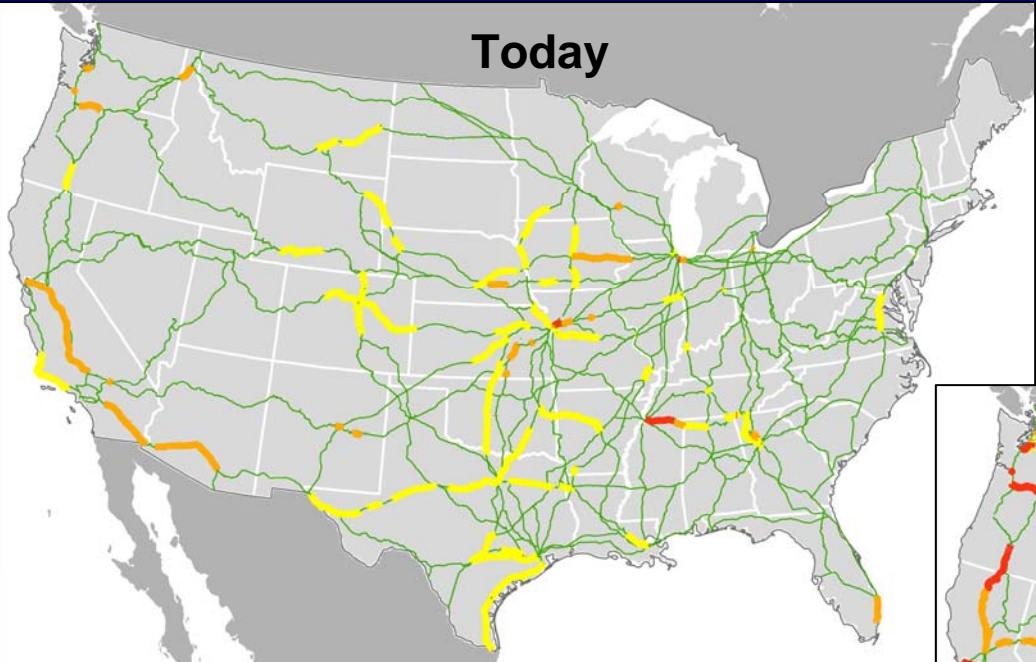
prepared for
Association of American Railroads
by
Cambridge Systematics, Inc.





September 2007

www.camsys.com
CAMBRIDGE
SYSTEMATICS

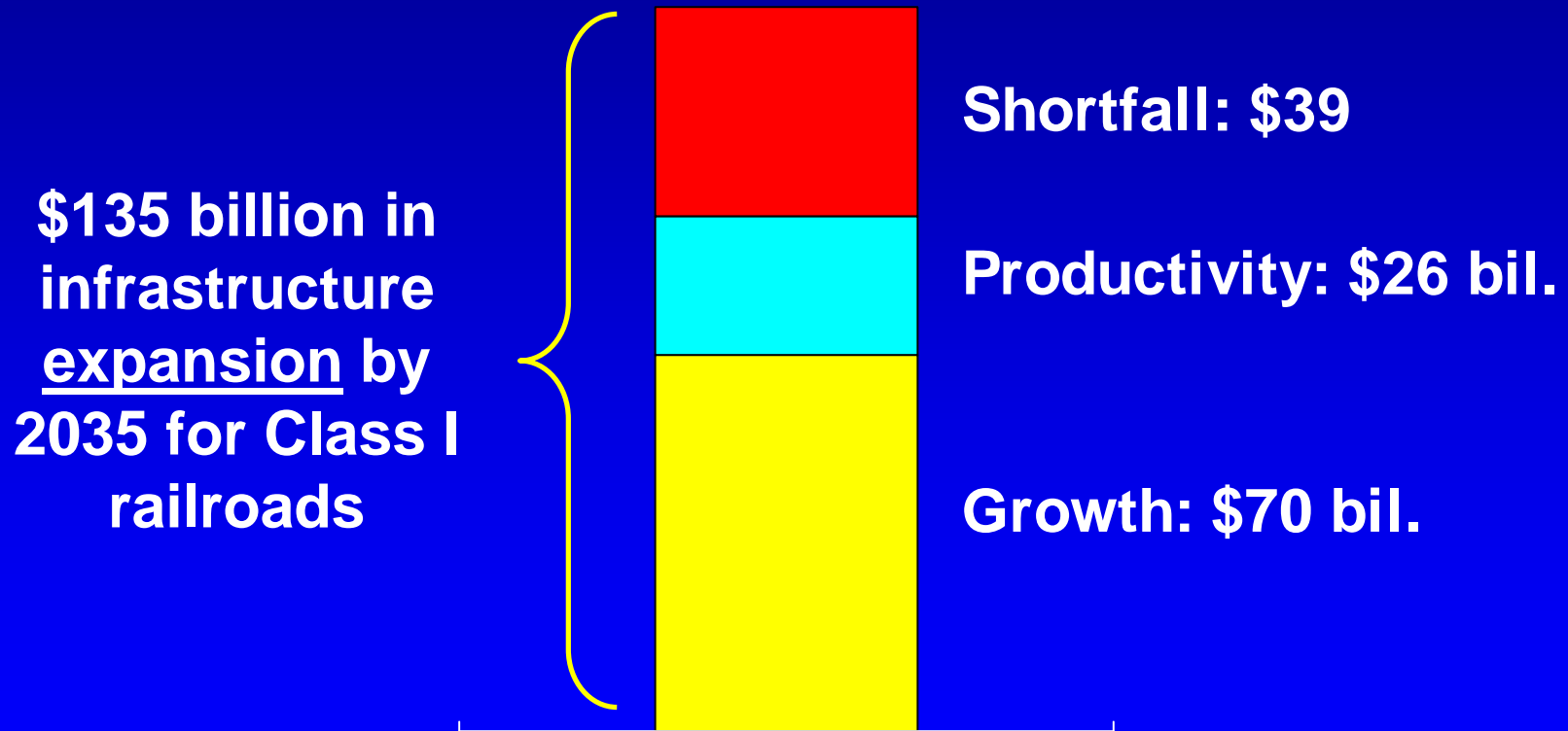
- Prepared for the National Surface Transportation Policy and Revenue Study Commission.
- First effort of its kind involving the freight railroads.
- Objective: estimate cost to expand rail infrastructure to handle traffic forecast by DOT for 2035

Future Rail Traffic Will Rise Substantially, Creating Severe Capacity Issues



-  Below capacity
-  Near capacity
-  At capacity
-  Above capacity

\$39 Billion Gap Between What RRs Can Afford and the Capacity We Need



Source: Cambridge Systematics

Tax Incentives For Freight Rail Infrastructure Expansion



- 25% tax credit for projects that expand rail capacity
- Expense other infrastructure capital expenditures
- Leverage private investment
- Short line investment credit renewal

Reregulation Would Mean Reduced Capacity and Service

- Goal = lower rail rates for certain shippers
- Result = lower rail revenue, capital drain, disinvestment.
- Would mean less rail capacity and capability when we need more.



“Without a doubt, rates have decreased for most shippers, and most shippers are better off in the post-Staggers environment than they were previously. This outcome suggests that widespread and fundamental changes to the relationship between the railroads and their customers are not needed.”

Government Accountability Office (GAO),
October 2006

Adequate Profits to Pay for Needed Investment are Essential

“As demand increases, the railroads’ ability to generate profits from which to finance new investments will be critical. Profits are key to increasing capacity because they provide both the incentives and the means to make new investments.”

– *Congressional Budget Office (Jan. 2006)*

The Dangers of Reregulation

“In the beginning, there would be short-term benefit [from reregulation] for captive shippers through lower rates. However, instant gratification usually comes with a headache the next morning, and there would be no Advil strong enough for the long-term damage associated with railroad re-regulation...[O]ver the long-term, everyone would share in the hangover: shareholders, customers, railroads, the entire transportation system, the U.S. and global economies.”

– John Barnes, Deutsche Bank (Jan. 2004)

